

StarHub (STH SP)

Delivering On Restructuring

Unveils restructuring savings; maintain BUY

StarHub has unveiled manpower- and other cost-restructuring moves to prepare for future competition and industry trends. We raise our 2019-20E core EPS and DCF-based (WACC 5.7%, LTG -1%) TP by 11-15% and 13%, respectively. Maintain BUY based on these catalysts. Worse-than-expected wireless competition is a key risk to our outlook.

Phase 1: Staff cuts

Management will be cutting headcount by 300 or 12% of its 2,500 work force as part of its *digitalization and reorganization efforts discussed by its CEO* in Aug 2018. The staff affected are in non-customer-facing roles with notifications to be completed by end-October. The SGD25m restructuring cost has no impact on 2018E guidance as provisions were made in prior periods. Factoring in both SGD30m of annual staff reduction costs for 2019E onwards, we raise core EPS by 11-15%.

Next phases: SGD210m gross savings in 2019-21

Management also intends to rationalise procurement, leasing, repair & maintenance and distribution costs. Its target is to save SGD210m over 2019E-21E. Part of the savings will be re-channelled to new growth opportunities which will lessen the positive net cash flow impact. As such, we have only taken staff-cost savings in our new forecasts, pending more clarity on the other measures and potential new investments.

Heady upside from staff-cost savings alone

With staff-cost savings alone and no other changes in revenues or opex, our 2019-20E forecasts are already significantly raised. Admittedly, new competition from 4Q18 onwards and possible ownership changes at another competitor could affect the industry and StarHub's revenue outlook.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	2,397	2,401	2,363	2,324	2,253
EBITDA	690	613	588	593	566
Core net profit	341	259	224	230	190
Core FDEPS (cts)	19.7	14.9	12.9	13.3	10.9
Core FDEPS growth(%)	(8.2)	(24.3)	(13.4)	2.9	(17.7)
Net DPS (cts)	20.0	16.0	16.0	10.0	10.0
Core FD P/E (x)	14.3	19.1	14.5	14.1	17.1
P/BV (x)	24.9	14.5	11.2	9.4	8.9
Net dividend yield (%)	7.1	5.6	8.6	5.3	5.3
ROAE (%)	178.5	95.8	70.7	72.8	53.6
ROAA (%)	16.6	11.4	9.8	9.9	7.8
EV/EBITDA (x)	8.1	9.1	6.9	7.2	7.4
Net gearing (%) (incl perps)	360.3	181.0	290.6	299.7	267.0
Consensus core profit	-	-	212	195	173
MKE vs. Consensus (%)	-	-	5.5	18.1	9.3

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BUY

Share Price	SGD 1.87
12m Price Target	SGD 2.21 (+18%)
Previous Price Target	SGD 1.96

Company Description

StarHub is the second largest wireless service and largest pay TV operator in Singapore.

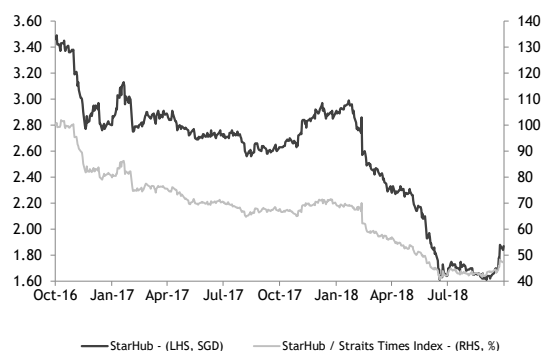
Statistics

52w high/low (SGD)	2.99/1.61
3m avg turnover (USDm)	4.0
Free float (%)	32.4
Issued shares (m)	1,722
Market capitalisation	SGD3.2B
	USD2.3B

Major shareholders:

Asia Mobile Holdings Pte Ltd	55.9%
Nippon Telegraph & Telephone Corp.	9.9%
BlackRock Fund Advisors	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	15	14	(29)
Relative to index (%)	14	14	(29)

Source: FactSet

Figure 1: Forecast revisions

YE Dec 31	2018E	2019E	2020E
Revenue (revised)	2,363	2,324	2,253
Revenue (previous)	2,363	2,324	2,253
Change	0.0%	0.0%	0.0%
EBITDA (revised)	588	593	566
EBITDA (previous)	588	565	536
Change	0.0%	5.0%	5.5%
Core profit (revised)	224	230	190
Core profit (previous)	224	207	165
Change	0.0%	11.4%	14.7%
Target price (revised)	2.21		
Target price (previous)	1.96		
Change	12.8%		

Source: Maybank Kim Eng

Figure 2: MKE vs FactSet consensus estimates

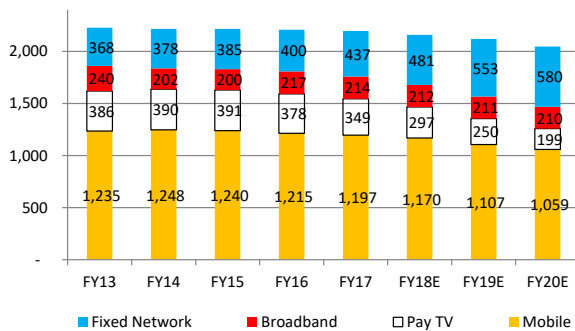
YE Dec 31	2018E	2019E	2020E
Revenues (MKE)	2,363	2,324	2,253
EBITDA (MKE)	588	593	566
EBITDA margin (MKE)	24.9%	25.5%	25.1%
Net profit (MKE)	224	230	190
Target price (MKE)	2.21		
Revenues (consensus)	2,352	2,317	2,295
EBITDA (consensus)	571.3	553.7	541.4
EBITDA margin (consensus)	24.3%	23.9%	23.6%
Net profit (consensus)	212.1	195.1	173.4
Target price (consensus)	1.93		
Revenues (MKE / consensus)	0.5%	0.3%	-1.8%
EBITDA (MKE / consensus)	3.0%	7.2%	4.5%
Net profit (MKE / consensus)	5.5%	18.1%	9.3%
Target price (MKE / consensus)	14.4%		

Source: Maybank Kim Eng, FactSet

Value Proposition

- Second-largest operator in a mature, high-income ASEAN economy. Entrant of fourth operator threatens market share, returns and cost of capital.
- Cyclical EBITDA margin within the calendar year due to smartphone launches and a largely postpaid-revenue-driven market that values equipment subsidies.
- Network management experience and breadth drives increased initiatives to tap private and public enterprise contracts.
- High dividend yield (6%) provides share price support. After reducing our absolute dividend assumption by 38% in 2019E, the payout is below 100% but we forecast it to increase to over 100% afterwards. Despite this, StarHub will remain in compliance with its loan covenants.

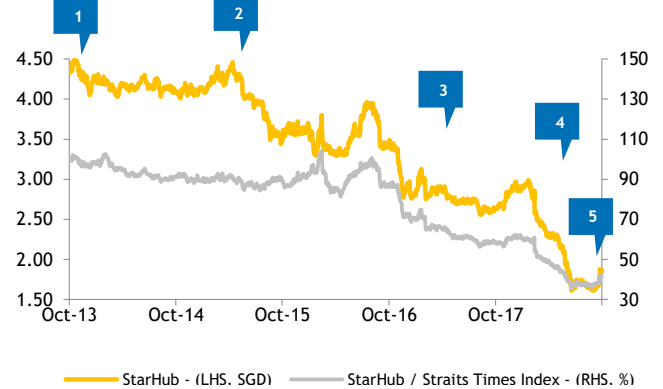
StarHub's fixed network services its main bright spot (SGD m)



Source: Company data, Maybank Kim Eng

Price Drivers

Historical share price trend

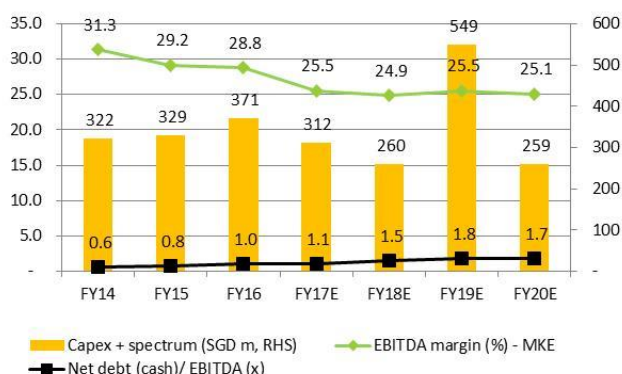


1. Industry re-rating on the launch of 4G services to help replace unlimited-data 3G plans to pay-as-you-use plans.
2. Consistent dividend payout kept share price generally stable.
3. Expectations of a new entrant initially with a Dec 2016 spectrum auction that led to TPG's entry. Also, dividend payout commitment cut by 20% to SGD0.16 per share.
4. Concerns emerge on weakest incumbent wireless revenue trends and pay TV viability.
5. Management outlines cost and organizational restructuring efforts.

Financial Metrics

- Under our revised DPS assumptions, gearing will remain within loan covenants.
- Gearing could come under pressure with spectrum payments and competition related capex in the coming months and years.
- Key financial/operating metrics we would be watching for in subsequent quarters are subsidy levels, mobile subscriber recontracting rates, and pay TV churn.

Leverage rising with margins weakening



Source: Company data, FactSet, Maybank Kim Eng

Swing Factors

Upside

- Potential source of new revenues from enterprise segment targeting, including government contracts revolving around the Smart Nation initiatives.
- A strong contribution from leasing fees from the MyRepublic MVNO deal.
- A muted entry by TPG is a potential upside to valuation and market sentiment.

Downside

- Re-contracting/retention costs rising on the back of new smartphone launches and defensive preparation against TPG's entry.
- Further wireless tariff package pressure on rates and/or data allocations possible due to new competition or from incumbents.
- Material investments in enterprise or content space that may have a lengthy gestation period before realizing returns.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	17.3	18.5	14.4	14.0	17.0
Core P/E (x)	14.2	19.0	14.4	14.0	17.0
Core FD P/E (x)	14.3	19.1	14.5	14.1	17.1
P/BV (x)	24.9	14.5	11.2	9.4	8.9
P/NTA (x)	(18.1)	(22.7)	(12.0)	(6.5)	(6.8)
Net dividend yield (%)	7.1	5.6	8.6	5.3	5.3
FCF yield (%)	3.8	4.2	2.8	nm	8.0
EV/EBITDA (x)	8.1	9.1	6.9	7.2	7.4
EV/EBIT (x)	13.1	16.7	13.6	13.8	16.0

INCOME STATEMENT (SGD m)

Revenue	2,396.7	2,400.7	2,363.0	2,323.9	2,252.9
EBITDA	690.1	613.2	588.2	593.4	565.8
Depreciation	(265.0)	(280.4)	(289.7)	(283.7)	(303.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	425.1	332.8	298.5	309.7	262.0
Net interest income / (exp)	(22.7)	(26.2)	(28.8)	(32.1)	(33.6)
Associates & JV	(1.6)	(2.2)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	410.3	304.4	269.7	277.6	228.4
Income tax	(68.9)	(54.8)	(45.8)	(47.2)	(38.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	341.4	258.6	223.8	230.4	189.5
Core net profit	341.4	258.6	223.8	230.4	189.5

BALANCE SHEET (SGD m)

Cash & Short Term Investments	285.2	345.2	140.8	84.3	152.6
Accounts receivable	384.4	201.5	342.6	337.0	326.7
Inventory	49.6	71.9	47.3	46.5	45.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	918.0	870.1	840.3	823.9	779.2
Intangible assets	463.8	557.6	557.6	839.6	839.6
Investment in Associates & JVs	25.9	23.7	23.7	23.7	23.7
Other assets	69.4	282.0	282.0	282.0	282.0
Total assets	2,196.3	2,352.0	2,234.3	2,436.9	2,448.8
ST interest bearing debt	10.0	120.0	120.0	120.0	120.0
Accounts payable	707.9	736.5	661.6	650.7	630.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	977.5	857.5	857.5	1,000.0	1,000.0
Other liabilities	306.0	293.0	307.0	321.0	336.0
Total Liabilities	2,001.4	2,007.1	1,946.4	2,091.4	2,086.5
Shareholders Equity	194.9	344.9	287.9	345.5	362.3
Minority Interest	0.0	4.4	0.0	0.0	0.0
Total shareholder equity	194.9	349.3	287.9	345.5	362.3
Total liabilities and equity	2,196.3	2,352.0	2,234.3	2,436.9	2,448.8

CASH FLOW (SGD m)

Pretax profit	410.3	304.4	269.7	277.6	228.4
Depreciation & amortisation	265.0	280.4	289.7	283.7	303.8
Adj net interest (income)/exp	22.7	26.2	28.8	32.1	33.6
Change in working capital	(63.7)	(32.3)	(191.4)	(4.5)	(8.2)
Cash taxes paid	(53.7)	(65.3)	(45.8)	(47.2)	(38.8)
Other operating cash flow	0.0	0.3	1.6	2.2	0.0
Cash flow from operations	550.7	517.2	351.0	541.7	518.8
Capex	(371.3)	(312.1)	(259.9)	(549.2)	(259.1)
Free cash flow	184.0	205.1	91.1	(7.6)	259.7
Dividends paid	(346.2)	(293.9)	(276.4)	(172.8)	(172.8)
Equity raised / (purchased)	(12.3)	199.6	0.0	0.0	0.0
Change in Debt	274.9	(10.0)	0.0	142.5	0.0
Other invest/financing cash flow	16.0	(40.8)	(19.1)	(18.6)	(18.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	111.8	60.0	(204.4)	(56.5)	68.4

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(1.9)	0.2	(1.6)	(1.7)	(3.1)
EBITDA growth	(3.2)	(11.1)	(4.1)	0.9	(4.6)
EBIT growth	(3.7)	(21.7)	(10.3)	3.7	(15.4)
Pretax growth	(6.8)	(25.8)	(11.4)	2.9	(17.7)
Reported net profit growth	(8.3)	(24.3)	(13.4)	2.9	(17.7)
Core net profit growth	(8.3)	(24.3)	(13.4)	2.9	(17.7)
Profitability ratios (%)					
EBITDA margin	28.8	25.5	24.9	25.5	25.1
EBIT margin	17.7	13.9	12.6	13.3	11.6
Pretax profit margin	17.1	12.7	11.4	11.9	10.1
Payout ratio	101.2	106.9	123.5	75.0	91.2
DuPont analysis					
Net profit margin (%)	14.2	10.8	9.5	9.9	8.4
Revenue/Assets (x)	1.1	1.0	1.1	1.0	0.9
Assets/Equity (x)	11.3	6.8	7.8	7.1	6.8
ROAE (%)	178.5	95.8	70.7	72.8	53.6
ROAA (%)	16.6	11.4	9.8	9.9	7.8
Liquidity & Efficiency					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	55.2	43.9	41.4	52.6	53.0
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	1.0	0.9	0.8	1.3	1.1
Current ratio (x)	0.9	0.7	0.6	0.5	0.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.1	1.2	1.1	1.2	1.2
Net gearing (%) (incl perps)	360.3	181.0	290.6	299.7	267.0
Net gearing (%) (excl. perps)	360.3	181.0	290.6	299.7	267.0
Net interest cover (x)	18.7	12.7	10.4	9.7	7.8
Debt/EBITDA (x)	1.4	1.6	1.7	1.9	2.0
Capex/revenue (%)	15.5	13.0	11.0	23.6	11.5
Net debt/ (net cash)	702.3	632.3	836.7	1,035.7	967.4

Source: Company; Maybank

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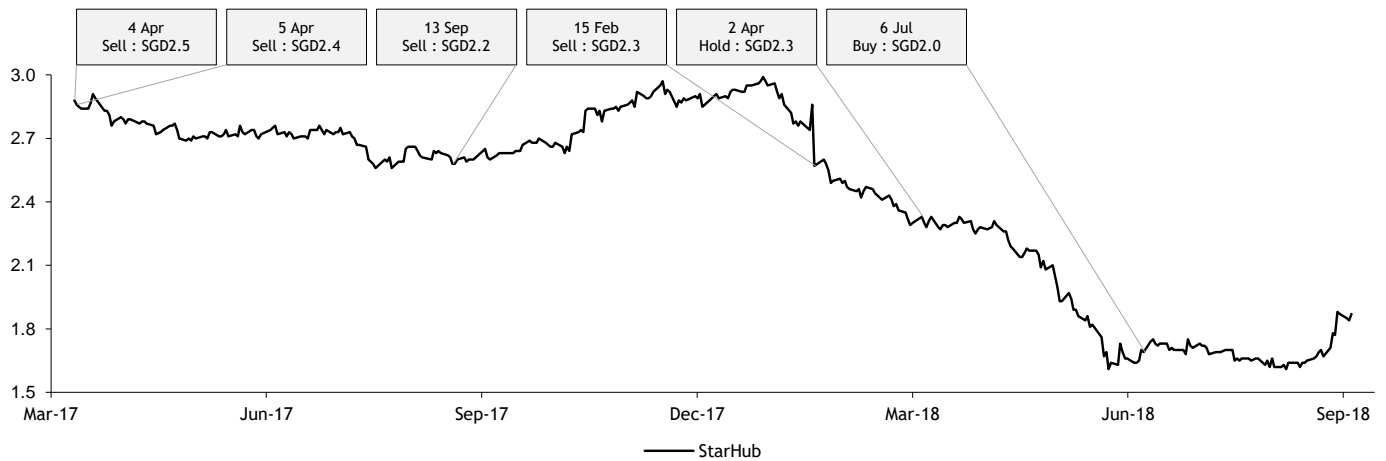
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