

# StarHub (STH SP)

Communications - Telecommunications

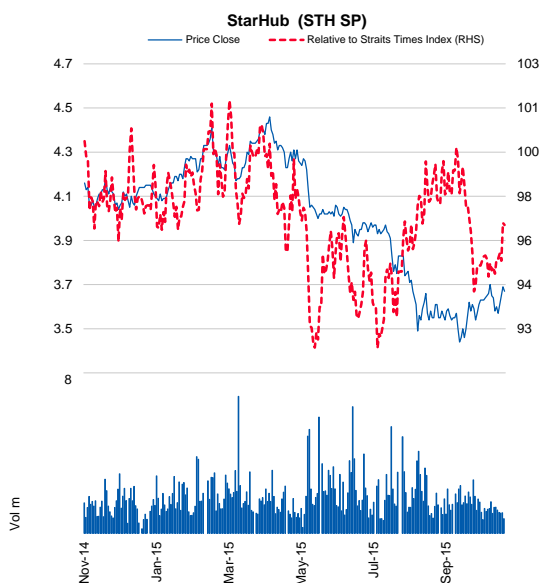
Market Cap: USD4,498m

**Neutral** (Maintained)

 Target Price: **SGD4.00**

 Price: **SGD3.67**

## Fixed Network Services Claim Second Spot

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	6.10m/4.34m
Cons. Upside (%)	2.2
Upside (%)	9.0
52-wk Price low/high (SGD)	3.44 - 4.46
Free float (%)	33
Share outstanding (m)	1,728
<b>Shareholders (%)</b>	
Temasek Holdings	56.6
NTT Communications	10.0
Citibank Nominees	7.1

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.6)	3.1	(4.2)	(13.9)	(11.8)
Relative	(1.1)	(0.8)	1.6	(0.9)	(3.3)

StarHub's 9MFY15 core earnings were in line with RHB/consensus estimates. Maintain NEUTRAL, with a DCF TP of SGD4.00 (9% upside) as valuations are fair and supported by the >5% dividend yield. While the FNS business is the bright spot, concerns remain on its stagnating mobile business and competitive risks for its pay-TV segment. StarHub's strong bundling proposition and its diversified earnings base should, however, mitigate the threat from a new mobile entrant.

- ◆ **Within expectations.** 3Q15 core earnings (stripping out a SGD15m gain from the deconsolidation of MediaHub) of SGD104m (+6.1% YoY, +4.6% QoQ) brought 9MFY15 core earnings to SGD276.5m (+0.1% YoY), making up 74-76% of consensus/RHB forecasts. Despite the marginal 0.7% service revenue growth QoQ, EBITDA expanded 2.3%, as the higher next generation national broadband network (NGN) (+27% QoQ) adoption grant offset the 3% growth in opex. 9MFY15 EBITDA margin of 33.6% is on track to meet its guidance of 32% (FY15F: 33%) on seasonally stronger 4Q15 subscriber acquisition cost (SAC). An expected 5-cent interim DPS was declared (YTD: 15 cents per share).
- ◆ **Operational highlights.** Mobile revenue slipped a marginal 0.1% QoQ (YTD: flat) as postpaid revenue growth was not sufficient to offset the extended erosion in prepaid revenue, which continued to suffer from weaker usage. Its prepaid subscribers (subs) net addition has, however, grown for the second consecutive quarter. The telco's broadband revenue grew the fastest in three quarters (+4.3% QoQ) after bottoming out in 1Q15 on steady competition, while pay-TV revenue eased 0.6% on some revenue seasonality. Fixed network services (FNS) revenue remains the key growth driver (+3% QoQ, +3.4% YTD) as it gained further traction in the enterprise space and the NGN fibre rollout.
- ◆ **Forecast.** We make no change to our forecast. Risks to earnings are: i) stronger-than-expected competition, and ii) higher-than-expected capex.
- ◆ **Maintain NEUTRAL.** Starhub's share price has performed in line with the market after bottoming out in September. Valuations are fair, at +1SD above its historical EV/EBITDA mean, supported by the dividend yield of over 5%. Our DCF TP is SGD4.00 (WACC: 7%, TG: 1.5%).

Forecasts and Valuations	Dec-12	Dec-13	Dec-14	Dec-15F	Dec-16F
Total turnover (SGDm)	2,422	2,370	2,387	2,473	2,629
Reported net profit (SGDm)	359	380	371	371	381
Recurring net profit (SGDm)	359	380	371	371	381
Recurring net profit growth (%)	13.9	5.6	(2.4)	0.2	2.5
Recurring EPS (SGD)	0.21	0.22	0.22	0.22	0.22
DPS (SGD)	0.20	0.20	0.20	0.20	0.20
Recurring P/E (x)	17.5	16.6	17.0	16.9	16.5
P/B (x)	145	76	42	36	31
P/CF (x)	5.85	7.55	7.49	8.43	8.36
Dividend Yield (%)	5.4	5.4	5.4	5.4	5.4
EV/EBITDA (x)	9.25	9.00	8.96	8.87	8.47
Return on average equity (%)	1087.1	601.4	319.8	231.1	202.2
Net debt to equity (%)	835.6	479.6	272.4	204.9	144.4
Our vs consensus EPS (adjusted) (%)				3.1	4.2

Source: Company data, RHB

## Key Takeaways From Results Call

StarHub's 3Q15 and 9M15 results call was hosted by its CEO, Tan Tong Hai, with chief commercial officer Kevin Lim, Dennis Chia (CFO) and chief marketing officer Howie Lau in attendance. Key takeaways were: i) talks with *Netflix* are ongoing, with details on a collaboration shared in due course. StarHub believes the penchant for local content by Asian viewers should mitigate the impact on its pay-TV business, ii) there is still significant room for the FNS segment to grow. It is prepared to invest in the business for the long haul, especially in growing its dedicated fibre network (not NGN fiber) to more effectively serve corporates. The FNS segment overtook the pay-TV business to be the second largest revenue contributor in 3Q15, iii) management expects growth over the next 12 months to be supported by the rationalisation of its cost structure and stronger postpaid mobile growth, supported by the enterprise mobility solutions. It sees the "hubbing" strategy as a core value proposition which should minimise the threat from the potential fourth mobile entrant, and iv) the SGD15m from the deconsolidation of MediaHub will not be returned as a special dividend as the sum had subsequently been re-invested.

Figure 1: Results review table

FYE Dec (SGDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
<b>Revenue</b>	<b>592.0</b>	<b>589.5</b>	<b>603.1</b>	<b>2.3</b>	<b>1.9</b>	<b>1,739.9</b>	<b>1,810.5</b>	<b>4.1</b>	Stronger FNS and broadband revenue growth QoQ
Service revenue	552.7	554.3	558.2	0.7	1.0	1,648.3	1,652.9	0.3	Driven largely by the FNS segment (+3.4% YTD)
<b>EBITDA</b>	<b>190.8</b>	<b>194.6</b>	<b>199.1</b>	<b>2.3</b>	<b>4.4</b>	<b>555.4</b>	<b>555.7</b>	<b>0.1</b>	Supported by higher NGN adoption grant QoQ, offsetting higher opex
Depreciation	(67.8)	(70.1)	(68.1)	(2.9)	0.4	(203.1)	(206.3)	<b>1.6</b>	
<b>EBIT</b>	<b>123.0</b>	<b>124.5</b>	<b>131.0</b>	<b>5.2</b>	<b>6.5</b>	<b>352.3</b>	<b>349.4</b>	<b>(0.8)</b>	
Service EBITDA Margin (%)	34.5	35.1	35.7			33.7	33.6		Expect a weaker EBITDA margin from higher SAC in 4Q15
Net interest expense	(3.9)	(4.0)	(3.7)	(7.5)	(5.1)	(12.8)	(11.3)	(11.7)	
Associates	0.0	0.0	(0.2)	-	-	0.0	(0.2)	-	30% share of MediaHub acquired in Jul 2015
El/Others	0.0	0.0	15.0	-	-	0.0	15.0	-	
<b>Pretax profit</b>	<b>119.1</b>	<b>120.5</b>	<b>142.1</b>	<b>17.9</b>	<b>19.3</b>	<b>339.5</b>	<b>352.9</b>	<b>3.9</b>	
Pretax Margin (%)	119.1	120.5	142.1			19.5	19.5		
Tax	(21.4)	(21.4)	(23.4)	9.3	9.3	(63.3)	(61.4)	(3.0)	
Effective tax rate (%)	<b>(21.4)</b>	<b>(21.4)</b>	<b>(23.4)</b>			18.6	17.4		Excluding the gain from the deconsolidation of MediaHub, ETR is 18%
Minority Interest	0.0	0.0	0.0	-	-	0.0	0.0	-	
<b>Net Profit</b>	<b>97.7</b>	<b>99.1</b>	<b>118.7</b>	<b>19.8</b>	<b>21.5</b>	<b>276.2</b>	<b>291.5</b>	<b>5.5</b>	
<b>Core Profit</b>	<b>97.7</b>	<b>99.1</b>	<b>103.7</b>	<b>4.6</b>	<b>6.1</b>	<b>276.2</b>	<b>276.5</b>	<b>0.1</b>	In line with RHB and consensus estimates

Source: RHB

Figure 2: Key operational metrics

FYE Dec (SGDm)	3Q14	2Q15	3Q15	QoQ chg (%)	YoY chg (%)	Comments
<b>Revenue breakdown</b>						
Mobile	310.9	310.8	310.6	(0.1)	(0.1)	Extended prepaid revenue weakness from lower usage
Pay-TV	97.4	97.8	97.2	(0.6)	(0.2)	Steady revenue QoQ
Broadband	49.2	49.0	51.1	4.3	3.9	Strongest growth in three quarters on steady competition
Fixed network	95.2	96.7	99.3	2.7	4.3	Gaining traction in the enterprise space via fibre offerings and corporate solutions
<b>Service revenue</b>	<b>552.7</b>	<b>554.3</b>	<b>558.2</b>	<b>0.7</b>	<b>1.0</b>	Expect flat service revenue in FY15
Sale of equipment	39.3	35.2	44.9	27.6	14.2	Expect to ramp up in 4Q15
<b>Total revenue</b>	<b>592.0</b>	<b>589.5</b>	<b>603.1</b>	<b>2.3</b>	<b>1.9</b>	
<b>% of overall revenue</b>						
Mobile revenue	52.5%	52.7%	51.5%	-1%	-1%	
Pay-TV	16.5%	16.6%	16.1%	0%	0%	
Broadband	8.3%	8.3%	8.5%	0%	0%	
Fixed Network	16.1%	16.4%	16.5%	0%	0%	Overtook the pay-TV segment to be the second largest revenue contributor
Sale of equipment	6.6%	6.0%	7.4%	1%	1%	
Capex	73.0	62.0	67.0	8.1	(8.2)	
Capex/sales	12%	11%	11%	1%	-1%	In line with capex/sales guidance of 13% as 4Q15 spending will be higher
<b>Key Mobile Metrics</b>						
Prepaid subs ('000)	929.0	849.0	857.0	0.9	(7.8)	
Prepaid-net adds ('000)	(120.0)	3.0	8.0	166.7	(106.7)	Second consecutive quarter of growth in subscriber additions
Postpaid subs ('000)	1,254.0	1,313.0	1,320.0	0.5	5.3	
Postpaid-net adds (000s)	11.0	12.0	7.0	(41.7)	(36.4)	
Postpaid ARPU (SGD)	69.0	70.0	71.0	1.4	2.9	ARPU uplift from more subs on tiered plans and the earlier re-pricing of plans
Prepaid ARPU (SGD)	18.0	18.0	18.0	0.0	0.0	
Prepaid MOU (mins)	313.0	289.0	274.0	(5.2)	(12.5)	Data cannibalisation
Postpaid MOU (mins)	257.0	224.0	228.0	1.8	(11.3)	Data cannibalisation
% postpaid subs on tiered plans	59%	63%	63%	0.0	6.8	
% postpaid subs exceeding bundle	22%	22%	22%	0.0	0.0	
Fiber subs (000s)	n.a.	217.0	245.0			Comprising both residential and enterprise fibre customers
Fiber-adds (000s)	n.a.	24.0	28.0			
<b>Pay -TV</b>						
Total subs (000s)	539.0	545.0	542.0	(0.6)	0.6	
Net-adds (000s)	4.0	0.0	(3.0)	n.m.	n.m.	Due to some seasonality
ARPU (SGD)	51.0	52.0	51.0	(1.9)		
<b>Broadband</b>						
Total subs (000s)	461.0	475.0	477.0	0.4	3.5	
Net-adds (000s)	5.0	2.0	2.0	0.0	(60.0)	
ARPU (SGD)	35.0	33.0	34.0	3.0	(2.9)	Price competition has subsided
<b>Fixed network services</b>						
Data & Internet	80.3	83.0	85.0	2.4	5.9	Higher take-up of fibre services
Voice	15.0	13.7	14.3	4.4	(4.7)	Competition and lower IDD revenue

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-05-18	Neutral	4.00	4.26
2015-02-26	Neutral	4.20	4.31
2014-11-06	Neutral	4.20	4.16
2014-08-06	Neutral	4.20	4.18
2014-05-08	Neutral	4.60	4.17
2014-02-07	Neutral	4.60	4.24
2013-11-08	Neutral	4.55	4.29
2013-05-20	Neutral	4.18	4.34
2013-02-08	Neutral	4.18	3.93
2012-11-05	Neutral	3.40	3.68

Source : RHB, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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