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# StarHub (STH SP)

# Tailwind from reopening

# Upgrade to BUY on reopening potential

We have introduced an enhanced ESG tear sheet for Starhub with an above-average overall score of 55, based on its aggregated quantitative/qualitative/ target-based metrics. Due to DARE+ transformation, we expect EBITDA margin to decrease further as opex continues to rise in 2H22. But with JOS SG/MY announcing full-year contribution coupled with improvement in roaming business from the expected re-opening in China, we think the stock has been oversold and transient risks are largely priced in. Upgrade from HOLD to BUY with unchanged DCF-based TP of SGD1.32, leaving 21% growth potential.

### Reduction in GHG emission is needed

Starhub has comprehensive sustainability policies in place, and its overall ESG score of 55 is above average on our ESG rating. Where it could perform better would be in GHG emission and energy intensity, which has been on the uptrend. Other areas that need to be addressed include chairman/management salary, which has increased over the past 2 years, as well as falling number of independent and women directors on the board.

### DARE+ costs start to build

With DARE+ underway, we expect opex to rise further in 2H22 from IT outsourcing, EPL content, software licensing and 5G wholesale cost. Unless roaming revenue gains further momentum or fresh revenue begins to contribute meaningfully, we think earnings will be sluggish in 2H22. We thus expect EBITDA margin to drop from 24.6% in 1H22 to 17.4% in 2H22.

### Well positioned to capture re-opening opportunities

We acknowledge that FY22E will be a transition year for StarHub to undertake the necessary investments into new growth areas under the DARE+. Starhub remains on track with its Infinity Play and Super App strategies that will see the creation of new revenue streams. Roaming revenue is improving and it would be in a good position to capture business opportunities from the re-opening of China's economy. We see any pullback as an opportunity to accumulate. The company is on track to beat its own guidance and continue to offer a 4% sustainable annualised dividend yield. Key risks include: higher inflation pressure and weaker-than-expected 2H22 earnings.

·	•				
FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,029	2,043	2,258	2,396	2,490
EBITDA	793	720	453	508	541
Core net profit	162	149	116	135	148
Core FDEPS (cts)	9.3	8.6	6.7	7.8	8.5
Core FDEPS growth(%)	(5.2)	(7.7)	(22.1)	15.7	9.7
Net DPS (cts)	5.0	6.4	5.0	5.0	6.0
Core FD P/E (x)	14.0	15.8	16.7	14.4	13.2
P/BV (x)	4.2	4.0	3.1	2.9	2.7
Net dividend yield (%)	3.8	4.7	4.5	4.5	5.4
ROAE (%)	14.3	6.9	5.0	7.5	6.4
ROAA (%)	5.7	4.8	3.6	4.1	4.4
EV/EBITDA (x)	4.1	4.3	6.4	5.7	5.3
Net gearing (%) (incl perps)	120.8	76.4	100.3	93.9	85.3
Consensus net profit	-	-	114	145	157
MKE vs. Consensus (%)	-	-	2.3	(7.2)	(5.7)

Kelvin Tan kelvin.tan1@maybank.com (65) 6231 5837 BUY

[Prior:HOLD]

SGD 1.32

Share Price SGD 1.12 12m Price Target SGD 1.32 (+21%)

#### **Company Description**

Previous Price Target

Starhub is the 2nd largest wireless service and largest pay TV operator in Singapore

#### **Statistics**

52w high/low (SGD)	1.38/1.12
3m avg turnover (USDm)	0.8
Free float (%)	34.2
Issued shares (m)	1,732
Market capitalisation	SGD1.9B
	USD1.4B

#### Major shareholders:

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Singapore Technologies Telemedia Pte Ltd	55.89
Nippon Telegraph & Telephone Corp.	9.99
The Vanguard Group, Inc.	0.89

#### Price Performance



	-1M	-3M	-12M
Absolute (%)	(8)	(9)	(8)
Relative to index (%)	(5)	(8)	(9)

-StarHub / Straits Times Index - (RHS, %)

Source: FactSet

-StarHub - (LHS, SGD)



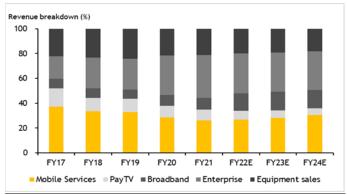
StarHub

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# **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 handset subsidies.
- Network management experience and breadth drives increased initiatives to tap private and public enterprise contracts.
- Dividend yield has been a key investment thesis. Despite reducing payout commitment (from SGD0.20 to SGD0.16), potential for DPS to exceed EPS remains; as in prior years.

#### Revenue breakdown by segment

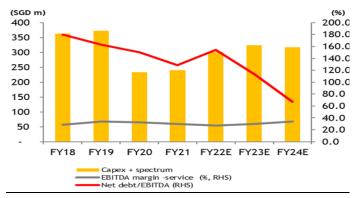


### Source: Company, Maybank IBG Research

# **Financial Metrics**

- Under our DPS assumptions, gearing will remain within loan covenants.
- ARPUs could come under pressure due to competition from MVNOs and the slow recovery of tourism.
- Key financial/operating metrics we would be monitoring in subsequent quarters are post-paid mobile ARPU, developments in the Entertainment business and growth of the enterprise division.

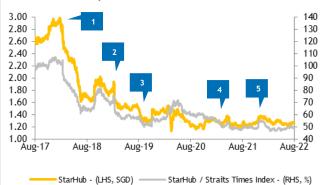
### Service EBITDA margin, capex and net debt/EBITDA



Source: Company

# **Price Drivers**

#### Historical share price trend



Source: Company, Maybank IBG Research

- Consistent dividend payout kept share price generally stable.
- 2. Expectations of a new entrant, initially with a Dec 2016 spectrum action that led to TP's entry. Dividend payout commitment was cut by 20% to SGD0.16 per share.
- 3. Weakness in wireless revenue and viability of Pay TV sparked concerns.
- 4. Management outlines cost and organisational restructuring efforts.
- Weak 1H20 results amid Covid-19, driven by declines in roaming, excess data usage and prepaid cards amid vapourisation of tourists and work-from-home arrangement.

# **Swing Factors**

# Upside

- Potential source of new revenues by targeting enterprise business, including government contracts linked to the Smart Nation initiatives.
- Market consolidation in the wireless segment.
- Higher-than-expected dividend payout commitment.

### Downside

- Further pressure on rates/data allocation of wireless tariff packages.
- Material investments in enterprise division that may have a lengthy gestation period before realising returns.
- Faster than expected shift in consumer preference towards Over-The-Top players such as Netflix and HBO GO

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Risk Rating & Score <sup>1</sup>	25.3			
Score Momentum <sup>2</sup>	-0.0			
Last Updated	03 Jul 2021			
Controversy Score <sup>3</sup> (Updated: 03 Jul 2021)	1 - Data Privacy and Security  Quality and Safety			

# **Business Model & Industry Issues**

- StarHub is most exposed to cyber security and personal-data-leakage risks given the nature of its business.
- That said, StarHub complies with all applicable laws, including the Cybersecurity Act and the Personal Data Protection Act, as well as sector specific cyber security requirements imposed by the Infocomm Media Development Authority. Audits are also performed to verify its compliance on an on-going basis.
- Internally, it has implemented cyber security and internal data protection frameworks, which govern how StarHub employees should protect systems against cyber threats and treat customer data.
- As StarHub is in the business of connectivity, it is supporting youths, social and digital inclusion. The telco has donated >SGD1m
  to 15 voluntary welfare organisations and non-profit organisations to support disadvantaged groups in the areas of digital
  inclusion and employability through community investment.
- StarHub displays no exceptional risks for telco operator for ESG and it's in line with other peers in tackling ESG issues.

## Material E issues

- Carbon tax was introduced in 2019 on large direct emitters, which indirectly led to an increase in StarHub's energy costs.
- As such, StarHub has been increasing its use of renewable energy to 4.6% of its energy consumption in 2020, and is on track to increase it to 10% by 2022.
- Achieved 18% reduction in direct fuel consumption from non-renewable sources.
- About 60,000 tonnes of e-waste (cables, mobile phones, laptops and CPUs) was generated in Singapore, resulting in loss of valuable resources and greenhouse gas emission.
- StarHub has initiated flagship e-waste recycling programme, RENEW, in 2012 to provide avenues for Singaporeans to recycle their electronic waste (e-waste). More than 171 tonnes of e-waste was collected in 2020.

### Material S issues

- In 2020, no incidents of discrimination were reported directly to StarHub or through Tripartite Alliance for Fair Employment Practices.
- It has also achieved zero workplace fatality in 2020.
- 25% of the board and 43% of the workforce are female. It also has a whistleblowing programme to escalate employee concerns.
- 16,857 hours of training were provided to 77% of its employees.
- In Mar 2020, StarHub has set up StarHub Cares Covid-19 and raised over SGD1m to fund various community support programmes. The initiatives supported went to a variety of community sectors such as healthcare, lower-income groups, education, migrant workers and its customers.

# Key G metrics and issues

- In 2021, StarHub was ranked Asia's most sustainable telco by Corporate Knights Global 100. It was ranked 38th out of 578 Singapore-listed companies in the Singapore Governance and Transparency Index 2020.
- Board consists of 11 independent & non-executive directors, of which 27% are females.
- Independent directors chair the nomination, audit, investment and remuneration committees.
- There were no corruption cases and legal actions taken against StarHub for anti-competitive behaviour in 2020.
- At the most basic level, StarHub complies with all applicable laws, including the Cybersecurity Act and the Personal Data Protection Act.
- Internally, it has implemented cyber security and internal data protection frameworks, which govern how StarHub employees should protect systems against cyber threats and treat customer data.

<u>Risk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>2Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>3Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).



	Quantitative parameters (Score: 18)							
	Particulars	Unit	2019	2020	2021	Singtel (ST SP, FY22)		
	Scope 1	mtCO2e	0.0017	0.0021	0.0014	0.006		
	Scope 2	mtCO2e	0.059	0.053	0.055	0.49		
	Total	mtCO2e	0.061	0.055	0.056	0.50		
	Scope 3	mtCO2e	0.013	0.009	0.01	7.3		
	Total	mtCO2e	0.074	0.064	0.066	7.80		
Ε	Scope 1 emission intensity	tCO2e/ revenue m	26.1	27.3	27.4	0.0077		
	Green energy share of energy consumption	%	1.96%	4.63%	6.18%	22.5%		
	Energy Intensity within organisation	GJ/million	225	245	254	132		
	Net water consumption	$m m^3$	0.0218	0.0097	0.0058	0.933		
	Water Intensity	m3/SGDm	9.34	4.76	2.84	62		
	Total Hazardous and Non-Hazardous Waste	tons	431	68.4	81.5	3,952		
	Customer E-waste Recycling	tons	387	49	73	41		
	% of women in workforce	%	42%	43%	42%	54.4%		
S	% of women in management roles	%	20%	20%	20%	32%		
-	Number of reported work injuries	number	3	2	0	0.3		
	Name of reported work injuries					0.0		
_	Chairman salary as % of net profit	%	0.18%	0.13%	0.18%	0.18%		
	Top 10 employees salary as % of profit	%	0.85%	0.87%	1.2%	0.71%		
G	Independent director on board	%	58%	50%	54%	85%		
	Women directors on board	%	25%	25%	23%	31%		

#### Qualitative parameters (Score: 83)

- a) is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee? Yes, the group has established a Board Sustainability Committee chaired by the CEO. This is supported by Group Sustainability Council comprising of pillar heads. There are KPIs, business objectives, governance enablers and risks for each of the segments.
- b) is the senior management salary linked to fulfilling ESG targets?

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- c) Does the company follow TCFD framework for ESG reporting?  $\underline{\textit{Yes}}$
- e) Does the company have a mechanism to capture Scope 3 emissions which parameters are captured?
- f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? Starhub has various waste reduction initiatives such as a) refurbishment of rental electronic devices, b) paperless processes and digital billing, and c) reduction of packaging
- g) Does carbon offset form part of the net zero/carbon neutrality target of the company?  $\underline{\textit{Yes}}$

Target (Score: 100)		
Particulars	Target	Achieved
50% reduction in Scope 1 and 2 GHG emissions by 2030	50%	8%
10% energy use from renewable sources by 2022 and 30% by 2030	10%	6%
Average PUE ratio to 1.70 by 2022	1.7	1.76
100% compliance with relevant ratio frequency (RF) radiation safety standards set by regulators	100%	100%
To recycle 100% of e-waste within the operations	100%	100%
Impact		
NA		
Overall score: 55		

As per our ESG matrix Starhub (STH SP) has an overall score of 55

ESG score	Weights	Score	Final score
Quantitative	50%	18	9
Qualitative	25%	83	21
Target	25%	100	25
Total			55

As per our ESG assessment, Starhub has developed a great sustainability framework with key priorities met. The company doubled down on efforts to meet their clean energy and greenhouse gas emissions targets in support of the Singapore Green Plan 2030. However, we believe that further disclosure in green energy and water consumption needs to be disclosed. STH's overall ESG score is 55, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

# Valuation and DCF parameters

Fig 1: DCF Valuation

YE Dec 31 (SGDm)		2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBITDA		476	413	448	481	526	560	592	626	669
Tax paid		(40)	(26)	(30)	(32)	(41)	(46)	(52)	(59)	(66)
Change in WC		78	(189)	5	3	4	4	3	4	4
Capex		(89)	(298)	(314)	(294)	(285)	(242)	(250)	(259)	(270)
Unlevered FCF		425	(99)	110	158	204	276	293	312	338
PV of FCF		397	(87)	90	121	146	184	183	182	184
Total PV of FCF	1,401									
Terminal value	4,852									
PV of Terminal Value	1,890									
Enterprise value	3,291									
Less: Net debt	1,015									

Source: Maybank IBG Research

Equity value /

share (SGD)

Fig 2: DCF Parameters

rig 2. Der rarameters	
Risk Free Rate (%)	2.5%
Market risk premium (%)	6.5%
Beta (x)	0.9
Cost of Equity (%)	8.6%
Cost of Debt (%)	3.6%
Debt to capital ratio	50%
WACC (%)	6.96%
Terminal Growth (%)	0.0%

2,276

1.32

Source: Maybank IBG Research

#### Appendix I

Methodology of our proprietary ESG scoring methodology.

We have evaluated the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%). For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all sub-parameters is divided by the total number of sub-parameter to receive the final score of that segment. The inputs of each sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	14.1	14.7	16.6	14.4	13.1
Core P/E (x)	14.0	15.7	16.6	14.4	13.1
Core FD P/E (x)	14.0	15.8	16.7	14.4	13.2
P/BV (x)	4.2	4.0	3.1	2.9	2.7
P/NTA (x)	(0.1)	(0.2)	(0.2)	(0.4)	(6.4)
Net dividend yield (%)	3.8	4.7	4.5	4.5	5.4
FCF yield (%)	14.6	20.6	nm	4.2	6.5
EV/EBITDA (x)	4.1	4.3	6.4	5.7	5.3
EV/EBIT (x)	6.4	6.5	12.7	10.6	9.8
INCOME STATEMENT (SGD m)					
Revenue	2,028.8	2,042.6	2,258.0	2,396.1	2,489.9
EBITDA	793.2	720.3	452.5	508.4	540.7
Depreciation	(281.1)	(244.2)	(225.6)	(236.2)	(247.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	512.1	476.1	227.0	272.3	293.1
Net interest income /(exp)	(38.9)	(45.0)	(48.5)	(51.5)	(56.5)
Associates & JV	0.5	3.4	3.4	3.4	3.4
Exceptionals Other protey income	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	192.6	190.3	141.9	164.1	180.0
Income tax	(32.7)	(40.1)	(25.5)	(29.5)	(32.4)
Minorities	2.1	0.8	0.8	0.8	1.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	162.0	149.4	116.3	134.6	147.6
Core net profit	162.0	149.4	116.3	134.6	147.6
Preferred Dividends	86.4	110.6	86.4	86.4	103.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	415.4	832.8	637.3	639.6	668.8
Accounts receivable	291.3	388.1	429.0	455.3	473.1
Inventory	79.8	50.0	74.0	78.5	81.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	755.0	694.7	767.5	844.9	891.2
Intangible assets	719.5	712.0	712.0	712.0	712.0
•					0.0
Investment in Associates & JVs Other assets	0.0 670.3	0.0 565.2	0.0 578.9	0.0 578.9	578.9
Total assets	2,931.3	3,242.8	3,198.7	3,309.2	3,405.5
ST interest bearing debt	8.7	226.2	226.2	226.2	226.2
Accounts payable	555.1	694.4	585.2	621.0	645.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,163.7	1,138.5	1,138.5	1,138.5	1,138.5
Other liabilities	577.0	488.0	523.0	551.0	580.0
Total Liabilities	2,304.8	2,546.7	2,473.1	2,536.8	2,589.6
Shareholders Equity	538.3	589.5	618.9	665.8	709.4
Minority Interest	88.2	106.6	106.6	106.6	106.6
Total shareholder equity	626.5	696.1	725.5	772.4	816.0
Total liabilities and equity	2,931.3	3,242.8	3,198.7	3,309.2	3,405.5
CASH FLOW (SGD m)					
Pretax profit	192.6	190.3	141.9	164.1	180.0
Depreciation & amortisation	281.1	244.2	225.6	236.2	247.6
•	38.9	45.0	48.5	51.5	56.5
Adj net interest (income)/exp	75.5	77.8		5.0	3.4
Change in working capital			(188.6)		
Cash taxes paid	(32.7)	(40.1)	(25.5)	(29.5)	(32.4)
Other operating cash flow	111.2	91.7	93.0	116.0	116.0
Cash flow from operations	522.2	657.1	172.8	394.4	419.3
Capex	(191.2)	(171.9)	(298.4)	(313.6)	(293.9)
Free cash flow	331.0	485.2	(125.5)	80.8	125.5
Dividends paid	(82.2)	(86.6)	(86.4)	(86.4)	(103.7)
	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)					
Equity raised / (purchased) Change in Debt	174.4	(1.6)	10.6	4.9	3.1
Change in Debt	174.4 (114.8)	(1.6) 114.0	10.6 (95.5)	4.9 (102.9)	
Equity raised / (purchased) Change in Debt Other invest/financing cash flow Effect of exch rate changes					3.1 (112.9) 0.0

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(12.9)	0.7	10.5	6.1	3.9
EBITDA growth	(15.7)	(9.2)	(37.2)	12.4	6.4
EBIT growth	(14.4)	(7.0)	(52.3)	20.0	7.7
Pretax growth	(11.9)	(1.2)	(25.5)	15.7	9.7
Reported net profit growth	(5.2)	(7.7)	(22.1)	15.7	9.7
Core net profit growth	(5.2)	(7.7)	(22.1)	15.7	9.7
Profitability ratios (%)					
EBITDA margin	39.1	35.3	20.0	21.2	21.7
EBIT margin	25.2	23.3	10.1	11.4	11.8
Pretax profit margin	9.5	9.3	6.3	6.9	7.2
Payout ratio	53.3	74.0	74.3	64.2	70.2
DuPont analysis					
Net profit margin (%)	8.0	7.3	5.2	5.6	5.9
Revenue/Assets (x)	0.7	0.6	0.7	0.7	0.7
Assets/Equity (x)	5.4	5.5	5.2	5.0	4.8
ROAE (%)	14.3	6.9	5.0	7.5	6.4
ROAA (%)	5.7	4.8	3.6	4.1	4.4
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	55.8	59.9	65.1	66.4	67.1
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.9	1.4	1.3	1.6	1.4
Current ratio (x)	1.5	1.5	1.5	1.5	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.3	1.3	1.3	1.3
Net gearing (%) (incl perps)	120.8	76.4	100.3	93.9	85.3
Net gearing (%) (excl. perps)	120.8	76.4	100.3	93.9	85.3
Net interest cover (x)	13.2	10.6	4.7	5.3	5.2
Debt/EBITDA (x)	1.5	1.9	3.0	2.7	2.5
Capex/revenue (%)	9.4	8.4	13.2	13.1	11.8
Net debt/ (net cash)	757.0	531.9	727.4	725.1	695.9

Source: Company; Maybank IBG Research

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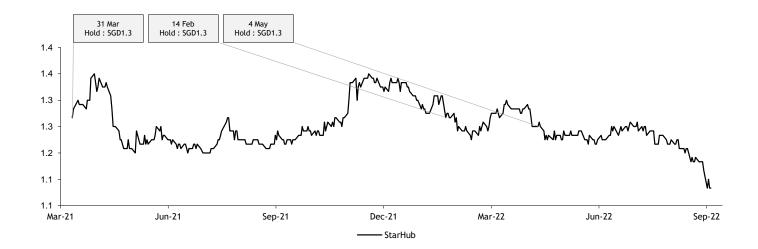
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