

# Singapore Company Guide

## StarHub

Version 14 | Bloomberg: STH SP | Reuters: STAR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Oct 2018

### BUY

Last Traded Price ( 16 Oct 2018): S\$1.89 (STI : 3,034.31)

Price Target 12-mth: S\$2.45 (30% upside)

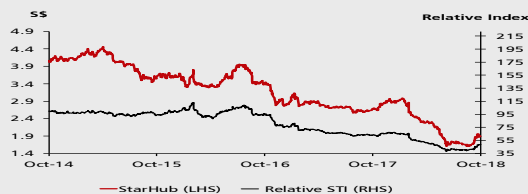
#### Analyst

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### What's New

- The street is factoring underestimating the cost savings over FY19-20; overly concerned about TPG's entry and profitability of Cybersecurity business
- We expect consensus to raise FY19F/20F EPS by 10%/20%; attractive valuation at -2SD of its historic EV/EBITDA and PE average
- Maintain BUY with an unrevised TP of S\$2.45

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2017A	2018F	2019F	2020F
Revenue	2,401	2,322	2,285	2,257
EBITDA	612	585	586	601
Pre-tax Profit	304	245	279	274
Net Profit	250	201	229	225
Net Pft (Pre Ex.)	250	226	229	225
Net Pft Gth (Pre-ex) (%)	(24.6)	(9.9)	1.4	(1.7)
EPS (S cts)	14.4	11.6	13.2	13.0
EPS Pre Ex. (S cts)	14.5	13.0	13.2	13.0
EPS Gth Pre Ex (%)	(25)	(10)	1	(2)
Diluted EPS (S cts)	14.4	11.6	13.2	13.0
Net DPS (S cts)	16.0	16.0	10.6	10.4
BV Per Share (S cts)	8.13	3.73	6.38	8.98
PE (X)	13.1	16.3	14.3	14.5
PE Pre Ex. (X)	13.1	14.5	14.3	14.5
P/Cash Flow (X)	6.3	7.6	6.7	6.6
EV/EBITDA (X)	6.7	7.2	7.3	7.3
Net Div Yield (%)	8.5	8.5	5.6	5.5
P/Book Value (X)	23.2	50.6	29.6	21.0
Net Debt/Equity (X)	1.8	2.7	2.6	2.5
ROAE (%)	148.8	195.5	261.5	169.3
Earnings Rev (%):	-	-	(2)	1
Consensus EPS (S cts):		12.4	11.1	9.90
Other Broker Recs:		B: 6	S: 5	H: 11

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

### What is the street missing out?

**Street FY19F/20F earnings projections have bottomed out.** The street is overly concerned about profitability of new businesses and under estimating the magnitude of cost savings over FY18-20. The street is also missing out on an annual cost savings of ~\$30m due to shutdown of StarHub's co-axial cable network after 2020. Besides, the street is not paying attention to potential network sharing which may further boost free cash flow. StarHub is attractive near -2SD of its historical EV/EBITDA and PE average and offers sustainable yield exceeding ~5.5%

**Where we differ: We expect the street to raise FY19F/20F EPS by 10%/20% over the next few months.** FY19F street earnings are likely to be raised S\$20m from (i) an absence of S\$10-15m amortisation cost for 700MHz spectrum (ii) additional S\$10-15m savings from staff and procurement costs. StarHub may ramp up hiring in the Cybersecurity business but the impact should be low given smaller size of the business. FY20F street earnings are likely to benefit from (i) digitisation of marketing & distribution, and (ii) lower maintenance & repair costs. We have not factored the impact of potential network sharing yet.

**Potential catalyst: News on TPG's launch, updates on network sharing and the transformation programme.** Official confirmation of delay in TPG's commercial launch from late 2018 to early 2019, more clarity on network sharing and quarterly updates on the transformation programme.

#### Valuation:

**Maintain BUY with an unrevised TP of S\$2.45.** We use DFC (WACC 7%, terminal growth 0.5%) to drive our TP and project FY19F dividend yield of 5.6%.

#### Key Risks to Our View:

**Bear-case valuation is S\$1.75 if TPG causes severe disruption.** StarHub could see a 3% drop in FY19F EBITDA under this scenario vs our base case of stable EBITDA.

**Network sharing among existing telcos could lead to bull-case valuation of S\$2.92.** StarHub could save ~20% of the projected capex from FY19F onwards under this scenario.

#### At A Glance

Issued Capital (m shrs)	1,731
Mkt. Cap (S\$m/US\$m)	3,271 / 2,376
Major Shareholders (%)	
Temasek Holdings	55.8
NTT	9.9
Blackrock	5.0
Free Float (%)	29.3
3m Avg. Daily Val (US\$m)	4.2
ICB Industry : Telecommunications / Fixed Line Telecommunications	

## WHAT'S NEW

## Deep dive into StarHub's cost savings

**700MHz spectrum unlikely to be available until 2H19.** StarHub acquired 30MHz of the 700MHz spectrum in the general spectrum auction held in 2017 for S\$282m. However, we do not think the 700MHz spectrum will be available before 2019 as Malaysia and Indonesia use this spectrum for Analogue TV, which will cause interference. To be conservative, we have modelled StarHub to pay half the auction fee in 2H19 and 2020 although this spectrum may not be available till 2020. As such, we have not factored in any amortisation of the 700MHz spectrum for FY19F.

**Staff cost reduction could save ~S\$30m annually from FY19F onwards but the street is factoring only S\$15m-20m** Total staff expenses stood at S\$282m in 2017. Workforce reductions will primarily affect backroom functions, with approximately 300 full-time employees out of an estimated 2,500. We estimate almost S\$30-35m in annual savings from staff reduction. There will be one-off cost of S\$25m in FY18.

- **New businesses may not have a significant adverse impact on staff cost savings.** StarHub is striving to expand its enterprise service portfolio, to compensate for declines in mobile and pay-TV businesses, with the addition of new ICT services such as Managed Security. The telco entered into a joint venture agreement with Certis Cisco in September 2018 to pool the duo's cybersecurity assets and expand their cybersecurity businesses together, leveraging the enterprise and government networks of both parties. While the addition of low-margin ICT services like cybersecurity should weigh on StarHub's margins, the new cybersecurity business has been profitable so far.
- Even under a bear-case scenario where StarHub must ramp up the hiring of cybersecurity professionals much before the actual revenue kicks in, the magnitude of such losses would not be material in our view. We take cues from Singtel's cybersecurity business, which has an annual revenue run rate of ~ S\$500m, almost 5x the projected revenues of StarHub's cybersecurity venture. Singtel's cybersecurity arm generated a negative EBITDA of S\$28m in FY18. StarHub's cybersecurity is quite regional in nature with just one monitoring centre versus multiple global monitoring centres for Singtel, implying low-cost structure. Assuming a similar margin profile, the losses of StarHub's cybersecurity venture are likely to be limited to S\$5-10m in the initial years of operation even in the worst case scenario.

- **We already project StarHub's mobile revenue to contract 5% annually over 2018-22 due to TPG's entry.** TPG, the fourth Mobile Network Operator (MNO) set to enter Singapore in 2H18 is speculated to delay the commercial launch to 1H19 due to integration issues. We project that the Singapore mobile industry would contract ~4% annually over 2018-22 under our base-case scenario with growing adoption of SIM-only plans and potential price wars between TPG and MVNOs.

TPG faces an uphill battle, amid the myriad of Mobile Virtual Network Operators (MVNO) the incumbents have partnered with. Each incumbent has partnered with at least one MVNO (StarHub with MyRepublic), with the market leader Singtel joining hands with two, taking the total number of mobile service providers in the country to seven from just three players at the end of 2015. By partnering with MVNOs, the incumbents are 1) making it difficult for TPG to succeed by stirring up competition in the SIM-only segments, which TPG is likely to target first, and 2) generating wholesale mobile revenues, offsetting any potential revenue impact in the low-end segments that is likely to be caused by TPG. TPG has already announced plans to offer unlimited voice and 3GB of data free of charge for 24 months to senior citizens in Singapore. The telco is also offering free unlimited data for six months (A\$9.99 thereafter) in Australia, where TPG entered as an MNO. We believe that TPG will likely adopt a similar strategy of offering free services at the initial stages of its entry into Singapore as well, possibly leading to price wars between operators.

However, under our base-case scenario of TPG grabbing ~4% mobile revenue market share, TPG could remain cash-flow negative till 2022, four years after its entry. Negative cash flow generation in Singapore, coupled with TPG's ongoing investments in deploying a mobile network in Australia, could weigh heavily on the telco's balance sheet, making TPG a potential acquisition target.

**~S\$30m savings annually in operating lease expenses from 2021 onwards.** StarHub presently leases part of its Hybrid Fibre Coaxial (HFC) network used to provide broadband and pay-TV services, from Singtel. The agreement, which is set to expire in FY20, is not expected to be renewed by either of the parties. StarHub is expected to migrate its co-axial customer base to National Broadband Network by 2020 (~83% of StarHub's broadband subscriber base is already on the fibre network). Hence, we do not expect the agreement to be

renewed after FY20 and this should allow StarHub to save an estimated S\$30m in operating lease expenses from FY21 onwards. Conservatively, we have projected cost savings of ~S\$23m in operating lease expenses from FY21F onwards.

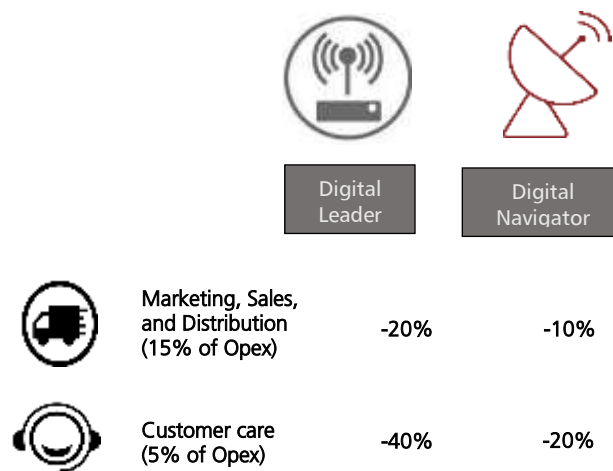
- **Rising cost of Fibre-broadband and enterprise services to be partially offset by lower content costs.** StarHub is likely to record rising cost of services as the telco continues to migrate its broadband customers to its fibre network and expand its enterprise services portfolio. However, on the Pay-TV front, amidst heavy pressure from OTT services and continued loss of subscribers, StarHub is cutting down its investments in content. The suite of channels from Discovery Networks' and Scripps Networks' Channels was discontinued in two phases, in June and August 2018 following unsuccessful negotiations between StarHub and the vendors on content licensing costs. StarHub is also powering up its Asian content line-up which commands a significantly lower cost compared to Western content. While content costs contributed to the 11% y-o-y growth in cost of services StarHub recorded in 1H18, we believe the rise was primarily attributable to the Football World Cup that took place in 2Q18 and is not representative of the long-term trend of StarHub's content strategy. We believe the cost savings on content would partially offset the rising expenses attached to broadband and other managed enterprise services.

#### Digitisation efforts to result in ~S\$20m annual cost savings.

Under the recently launched strategic transformation plan, StarHub will embark on digitisation initiatives to transform customer experience and slice sales and distribution costs. We believe digitising customer care and improvements in digital distribution channels such as the deployment of online shops should allow StarHub to save ~S\$20m annually in marketing and distribution costs with the savings kicking in from FY20 onwards.

Our research on digitisation of the telecom industry (please refer to the picture on the side) reveals that on the customer service front, the costs of implementing digital chats as a customer care tool is just ~56% of the cost of maintaining a call centre. As such we believe that with the use of digital chat as a customer care tool, there could be 30-40% savings in customer care costs for StarHub. Investing in digital distribution channels such as online shops and effective offline-to-online model, coupled with the use of data analytics, could lead to a 10-15% reduction in distribution costs for StarHub by our estimate. Our research also indicates that fully digitising internal processes could help telcos save ~18% of their current operating expenses, supported by lower expenses in customer service and distribution, reduced marketing spend supported by data analytics, and efficiency gains realised through automation.

#### Changes in Operating Expenses of Telecom Services through digitisation initiatives by FY20



Source: DBS Bank

Based on our research, we believe that StarHub's initiatives match that of a Digital Leader in the telco sphere with strategic initiatives taken to change the position in the value chain, investments carried out to enact digital transformation strategies, data driven product development strategies etc.

#### StarHub is expected to expedite infrastructure sharing.

StarHub signed a MOU with a major operator in Singapore in 2017 to study potential collaboration in mobile infrastructure sharing, with a focus on sharing radio access network, backhaul and access assets. While progress has been slow over the past year due to the challenging operating conditions, StarHub's new management plans to ink a commercial agreement for network sharing by 2019, if not earlier. The management expects financial benefits from the network sharing agreement to flow through from end-FY19.

Based on the previous MOU, StarHub was exploring the sharing mobile network radio elements (MORAN), which is the simplest form of network sharing where the operators share the RAN – including towers and base stations that are responsible for connecting individual devices to the network, while keeping Spectrum and other core networking infrastructure separate.

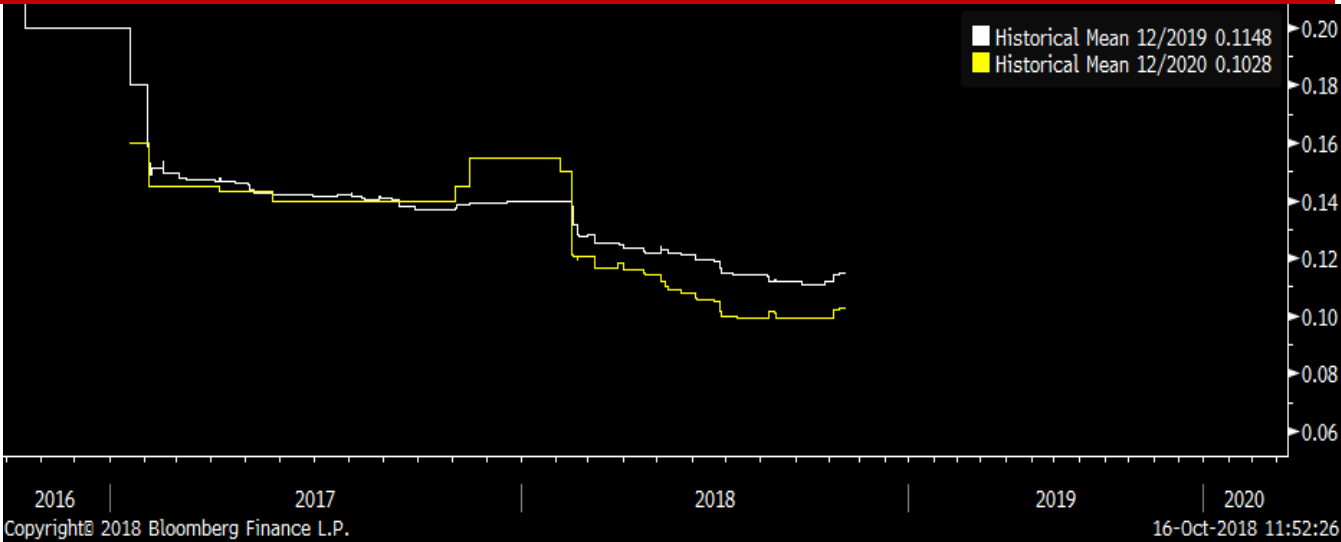
**Considerable benefits in network sharing:** A higher level of network sharing could eliminate significant amounts of equipment and installation cost duplication, thereby reducing overall capex, while achieving similar levels of coverage and capacity for multiple service providers. In addition, overall running costs of the networks can be reduced by removing certain operational costs relating to staff, maintenance, security, etc.

Expect capex to drop by 20% once network sharing kicks in:

According to Groupe Spéciale Mobile Association (GSMA), sharing part, or all, of the radio access network (RAN) could result in up to 20% increase in free cashflows for a typical European operator. Similarly, according to TMG, a consultancy specialising in telecommunications, RAN sharing can save 30–40% in costs. Given the considerable synergies, especially in capital expenditure, we believe network capex

could reduce by 20% as network sharing takes hold. However, we await better clarity on the prospective agreement to model in potential savings of capex from network sharing.

StarHub’s 2019 and 2020 consensus EPS projections are bottoming out and we expect them to rise now



## CRITICAL DATA POINTS TO WATCH

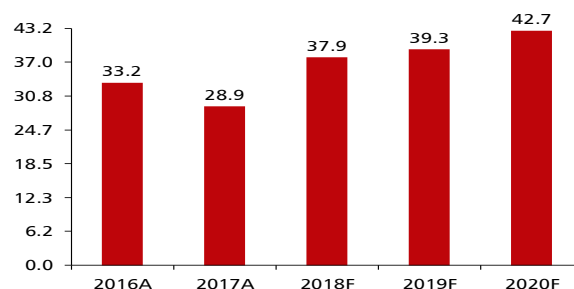
### Critical Factors

**ARPU dilution likely with growing adoption of SIM-only plans.** We believe SIM-only plans will rise in popularity over the medium term, with lengthening smartphone replacement cycles and aggressive promotions by MVNOs. StarHub's 2Q18 postpaid ARPU declined ~8% y-o-y with the rising uptake of SIM-only plans and higher uptake of unlimited weekend data plans. We expect StarHub's postpaid ARPU to contract ~3.5% annually over FY18-20F, reflecting the growing uptake of SIM-only plans and tightening price competition in the industry with the entry of TPG in 2H18. We project StarHub to record 5% annual contraction of mobile revenues over FY18-20F, in line with our industry base case.

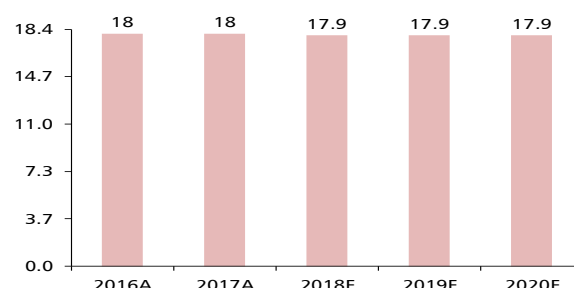
**Strengthening enterprise business is a positive.** StarHub managed to expand revenues from the enterprise segment 22% y-o-y in 2Q18, largely driven by the consolidation of Accel Systems and D'Crypt. Additionally, in 3Q18, StarHub entered in to a joint venture agreement with Certis Cisco, a wholly owned subsidiary of the Temasek Group, to pool the cybersecurity assets of StarHub and Certis to create Ensign, a pure-play cybersecurity service provider. Ensign is expected to have an annual revenue run rate of ~S\$100m with low- to mid-teen profit margins. The joint venture should further augment StarHub's ICT service portfolio, which continues to drive the telco's enterprise segment. Certis Cisco also maintains close relationships with government entities, which should pave the way for StarHub to capitalise on major government cybersecurity tenders pertaining to the ongoing Smart City projects. As such, we believe the enterprise segment would remain a key driver of StarHub's top line going forward. However, increasing contribution from low-margin ICT business would weigh on StarHub's EBITDA margins in the future.

**Cost transformation to support earnings stabilisation despite weak top-line growth.** Despite a projected 1.4% annual decline in revenues from FY18-21F we expect StarHub's earnings to stabilise over FY19/20 with potential for growth from FY21F supported by StarHub's cost transformation initiatives. StarHub has announced plans to save ~S\$210m in operating expenses over a period of three years, largely through reductions in staff expenses, procurement, leasing, maintenance and sales and distribution expenses. StarHub is expected to terminate ~300 full-time employees leading to annual cost savings of ~S\$30-35m along with digitisation and rationalisation of expenses in other categories supporting savings. As such, we have conservatively estimated for StarHub to save ~S\$175m over FY19-21m. We believe this would help the telco stabilise its earnings despite weak performance in mobile and pay-TV segments, with a potential return of earnings to a growth trajectory by FY21.

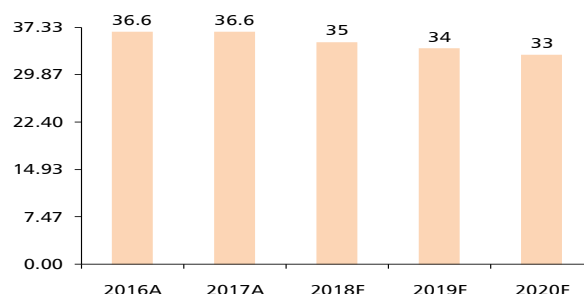
Mobile EBITDA Margins



CATV & Broadband EBITDA Margins



Fixed Network EBITDA Margins



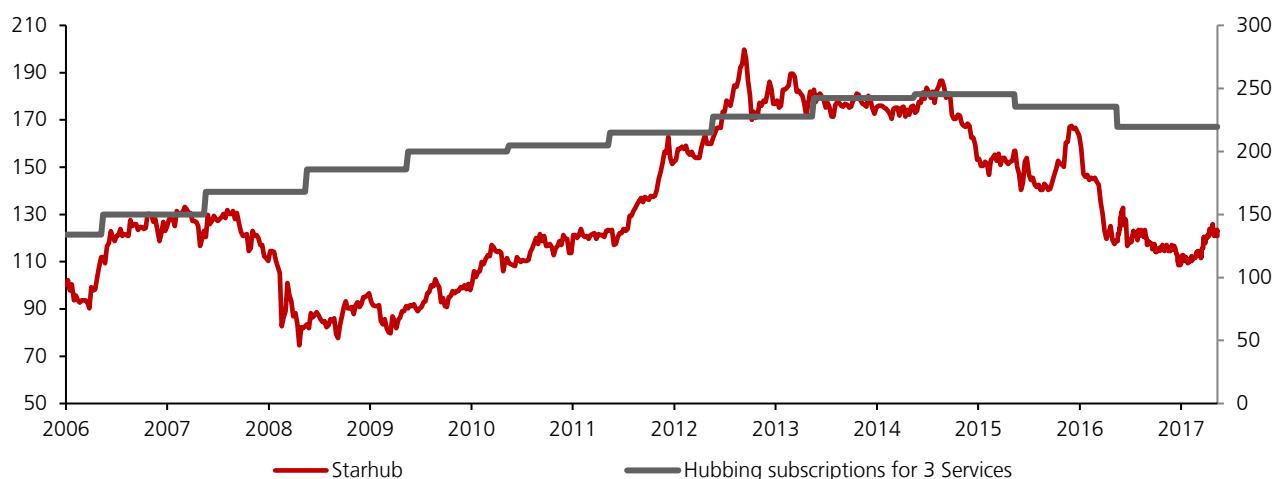
Source: Company, DBS Bank

### Appendix 1: A look at Company's listed history – what drives its share price?

**Hubbing households and changes in postpaid ARPU are key determinants of StarHub's share price.** In our critical factor analysis conducted to understand the share price drivers of Singaporean telcos over the past 10 years, we have identified StarHub's hubbing subscriber base to be an indicator of StarHub's share price performance. Hubbing, or the offering of Mobile, Broadband and Pay-TV services bundled together, was the go-to-market strategy of StarHub and allowed the

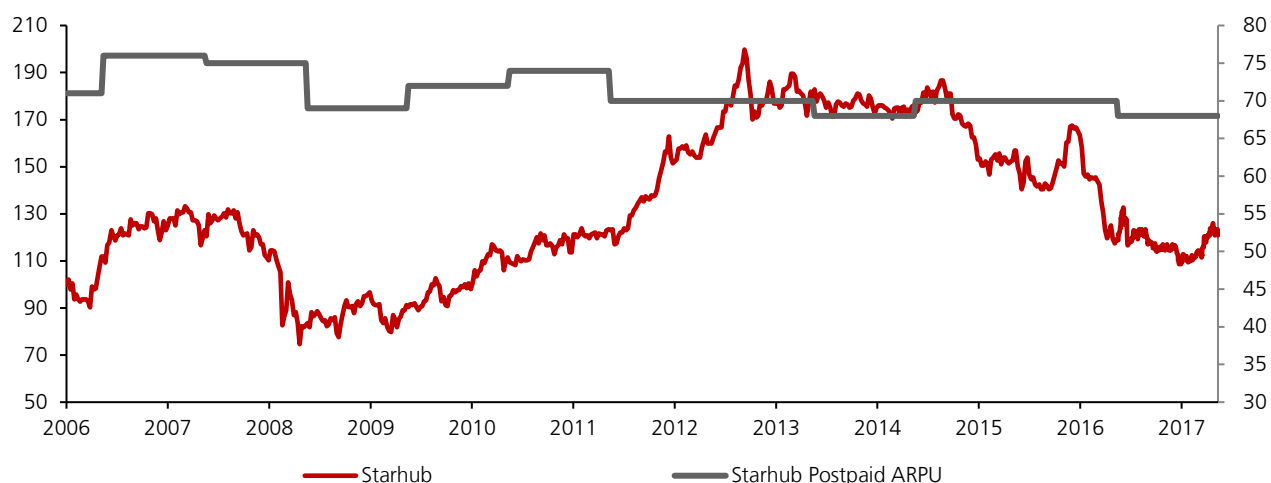
company to develop a subscriber base loyal to the StarHub brand. Hence, changes in hubbing subscribers (with subscriptions to all three services), which exhibit a correlation of 0.58 with StarHub's share price, provide valuable cues on the effectiveness of StarHub's strategy to investors. Changes in postpaid ARPU, an indicator of top-line and subscriber growth, exhibit a correlation of 0.55 with StarHub's share price.

### StarHub's stock price shows high correlation with number of hubbing households with three services



Source: StarHub, DBS Bank

### StarHub's stock price shows decent correlation with mobile postpaid ARPU



Source: Starhub, Reuters, DBS Bank

**Balance Sheet:**

Balance sheet will need to be managed carefully. StarHub raised S\$300m through medium-term notes in 2Q16. We assume another S\$250m of borrowings during FY18/19 to fund spectrum acquisitions. StarHub's annual DPS could be cut on a shift in policy from an absolute number to 80% payout ratio, in our view.

**Share Price Drivers:**

StarHub is likely to see stable EBITDA over FY17A-20F (versus -4% earlier) due to the cost savings. While StarHub has struck a partnership with MyRepublic, which could support the telco's contracting mobile business, we believe it could take at least 1-2 years before StarHub records any meaningful contributions from MyRepublic.

**News of delays in the launch of TPG would drive the counter up.**

News of delays in the commercial launch of TPG's services from late 2018 to 2019 or even further should rekindle investor interest in StarHub.

**Key Risks:**

Bear-case valuation is S\$1.75 if TPG causes severe disruption.

StarHub could see a 3% drop in FY19F EBITDA under this scenario vs our base case of stable EBITDA.

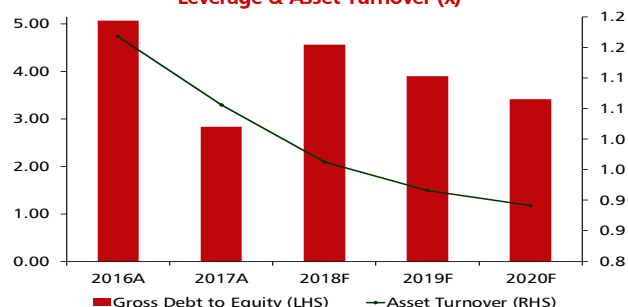
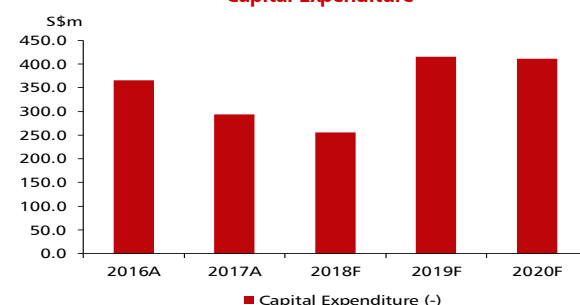
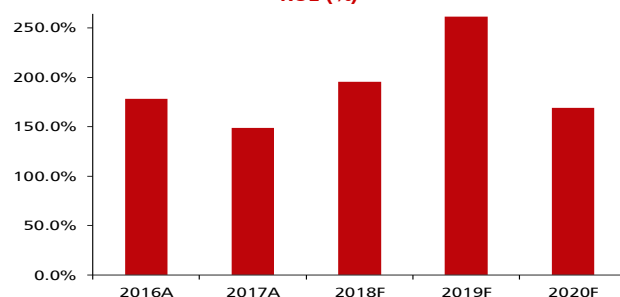
Network sharing among existing telcos could lead to bull-case valuation of S\$2.92. StarHub could save ~20% of the projected capex from FY19F onwards under this scenario.

**Company Background**

StarHub is the second largest of the three telecom operators in Singapore. The company provides mobile services, pay-TV, fixed broadband and fixed voice services, popularly known as quadruple play services.

**Forward EV/EBITDA Band**

Source: Company, DBS Bank

**Leverage & Asset Turnover (x)****Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, DBS Bank

## Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
Mobile EBITDA Margins	33.2	28.9	37.9	39.3	42.7
CATV & Broadband	18.0	18.0	17.9	17.9	17.9
Fixed Network EBITDA	36.6	36.6	35.0	34.0	33.0

## Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
<b>Revenues (\$\$m)</b>					
Mobile	1,215	1,197	840	793	742
Cable TV & Broadband	595	563	538	521	517
Fixed Network	400	437	485	532	580
Equipment sale	188	204	460	440	419

Mobile segment would continue to remain under pressure

<b>Total</b>	<b>2,397</b>	<b>2,401</b>	<b>2,322</b>	<b>2,285</b>	<b>2,257</b>
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## EBITDA (\$\$m)

Mobile	403	346	319	312	317
Cable TV & Broadband	107	101	96.3	93.2	92.5
Fixed Network	146	160	170	181	191
Equipment sale	32.2	4.40	0.0	0.0	0.0

<b>Total</b>	<b>689</b>	<b>612</b>	<b>585</b>	<b>586</b>	<b>601</b>
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## EBITDA Margins (%)

Mobile	33.2	28.9	37.9	39.3	42.7
Cable TV & Broadband	18.0	18.0	17.9	17.9	17.9
Fixed Network	36.6	36.6	35.0	34.0	33.0
Equipment sale	17.2	2.2	0.0	0.0	0.0

<b>Total</b>	<b>28.7</b>	<b>25.5</b>	<b>25.2</b>	<b>25.6</b>	<b>26.6</b>
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## Income Statement (\$\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	2,397	2,401	2,322	2,285	2,257
Cost of Goods Sold	(2,004)	(2,072)	(2,018)	(1,964)	(1,940)
<b>Gross Profit</b>	<b>393</b>	<b>329</b>	<b>304</b>	<b>322</b>	<b>316</b>
Other Opng (Exp)/Inc	32.2	4.40	0.0	0.0	0.0
<b>Operating Profit</b>	<b>425</b>	<b>334</b>	<b>304</b>	<b>322</b>	<b>316</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.6)	(2.2)	(2.2)	(2.2)	(2.2)
Net Interest (Exp)/Inc	(22.7)	(26.2)	(32.4)	(40.7)	(39.9)
Exceptional Gain/(Loss)	9.50	(0.7)	(25.0)	0.0	0.0
<b>Pre-tax Profit</b>	<b>410</b>	<b>304</b>	<b>245</b>	<b>279</b>	<b>274</b>
Tax	(68.9)	(54.8)	(44.0)	(50.2)	(49.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>341</b>	<b>250</b>	<b>201</b>	<b>229</b>	<b>225</b>
Net Profit before Except.	332	250	226	229	225
EBITDA	689	612	585	586	601

~\$175m in cost savings over FY19-21

## Growth

Revenue Gth (%)	(1.9)	0.2	(3.3)	(1.6)	(1.3)
EBITDA Gth (%)	(3.4)	(11.2)	(4.4)	0.2	2.6
Opg Profit Gth (%)	(3.7)	(21.5)	(8.8)	5.8	(1.7)
Net Profit Gth (Pre-ex) (%)	(7.1)	(24.6)	(9.9)	1.4	(1.7)

## Margins &amp; Ratio

Gross Margins (%)	16.4	13.7	13.1	14.1	14.0
Opg Profit Margin (%)	17.7	13.9	13.1	14.1	14.0
Net Profit Margin (%)	14.2	10.4	8.6	10.0	10.0
ROAE (%)	178.5	148.8	195.5	261.5	169.3
ROA (%)	16.6	11.0	8.3	9.2	8.9
ROCE (%)	29.9	19.3	15.9	15.7	15.1
Div Payout Ratio (%)	101.4	110.8	137.9	80.0	80.0
Net Interest Cover (x)	18.7	12.7	9.4	7.9	7.9

Source: Company, DBS Bank

## Quarterly / Interim Income Statement (\$m)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	579	580	649	561	597
Cost of Goods Sold	(399)	(407)	(553)	(409)	(442)
<b>Gross Profit</b>	<b>180</b>	<b>173</b>	<b>96.1</b>	<b>152</b>	<b>155</b>
Other Oper. (Exp)/Inc	(67.6)	(71.5)	(70.4)	(69.9)	(71.0)
<b>Operating Profit</b>	<b>112</b>	<b>102</b>	<b>25.8</b>	<b>81.9</b>	<b>84.2</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.9)	(1.5)	(0.3)	(0.2)	(0.3)
Net Interest (Exp)/Inc	(7.4)	(6.3)	(6.2)	(6.4)	(6.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>104</b>	<b>93.8</b>	<b>19.3</b>	<b>75.3</b>	<b>77.3</b>
Tax	(18.3)	(17.3)	(4.9)	(12.5)	(14.6)
Minority Interest	0.0	0.0	(0.3)	0.0	0.0
<b>Net Profit</b>	<b>85.7</b>	<b>76.5</b>	<b>14.1</b>	<b>62.8</b>	<b>62.7</b>
Net profit bef Except.	85.7	76.5	14.1	62.8	62.7
EBITDA	178	175	96.6	152	83.9

## Growth

Revenue Gth (%)	(1.6)	0.2	11.8	(13.6)	6.5
EBITDA Gth (%)	11.6	(2.0)	(44.7)	57.3	(44.8)
Opg Profit Gth (%)	20.6	(9.5)	(74.6)	217.4	2.8
Net Profit Gth (Pre-ex) (%)	18.5	(10.7)	(81.6)	345.4	(0.2)

## Margins

Gross Margins (%)	31.1	29.8	14.8	27.1	26.0
Opg Profit Margins (%)	19.4	17.5	4.0	14.6	14.1
Net Profit Margins (%)	14.8	13.2	2.2	11.2	10.5

## Balance Sheet (\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	918	870	906	970	1,020
Invt in Associates & JVs	25.9	23.7	21.5	19.3	17.1
Other LT Assets	511	626	562	647	723
Cash & ST Invt	285	345	506	404	319
Inventory	49.6	71.9	69.6	68.5	67.6
Debtors	172	202	195	192	189
Other Current Assets	234	214	214	214	214
<b>Total Assets</b>	<b>2,196</b>	<b>2,352</b>	<b>2,474</b>	<b>2,515</b>	<b>2,550</b>
ST Debt	10.0	120	120	120	120
Creditor	708	737	712	701	692
Other Current Liab	138	136	109	115	114
LT Debt	978	858	1,108	1,108	1,108
Other LT Liabilities	168	157	157	157	157
Shareholder's Equity	195	341	264	310	355
Minority Interests	0.0	4.40	4.40	4.40	4.40
<b>Total Cap. &amp; Liab.</b>	<b>2,196</b>	<b>2,352</b>	<b>2,474</b>	<b>2,515</b>	<b>2,550</b>
Non-Cash Wkg. Capital	(390)	(385)	(343)	(342)	(335)
Net Cash/(Debt)	(702)	(632)	(722)	(824)	(908)
Debtors Turn (avg days)	24.8	28.4	31.2	30.9	30.8
Creditors Turn (avg days)	146.4	147.2	152.4	152.0	153.8
Inventory Turn (avg days)	10.9	12.4	14.9	14.8	15.0
Asset Turnover (x)	1.2	1.1	1.0	0.9	0.9
Current Ratio (x)	0.9	0.8	1.0	0.9	0.9
Quick Ratio (x)	0.5	0.6	0.7	0.6	0.5
Net Debt/Equity (X)	3.6	1.8	2.7	2.6	2.5
Net Debt/Equity ex MI (X)	3.6	1.9	2.7	2.7	2.6
Capex to Debt (%)	37.1	30.1	20.8	33.8	33.5
Z-Score (X)	2.4	2.1	2.0	1.9	1.8

Spectrum payments and dividends would require StarHub to raise funds over FY18-19

Source: Company, DBS Bank

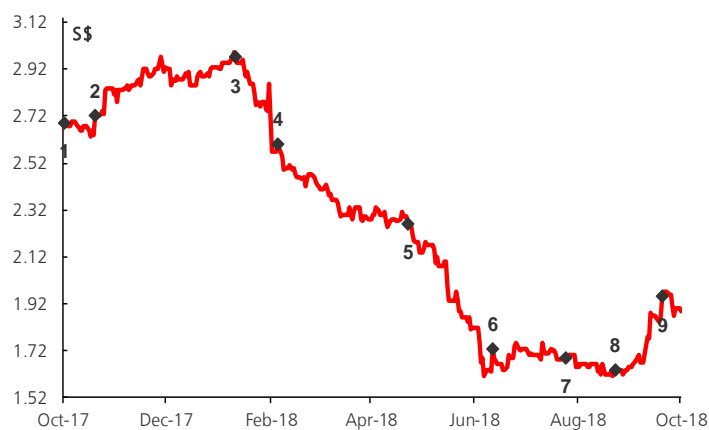
## Cash Flow Statement (S\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	410	304	245	279	274
Dep. & Amort.	265	280	283	266	287
Tax Paid	(53.7)	(65.3)	(71.6)	(44.0)	(50.2)
Assoc. & JV Inc/(loss)	1.60	2.20	2.20	2.20	2.20
Chg in Wkg.Cap.	(60.2)	(5.4)	(15.1)	(7.1)	(5.5)
Other Operating CF	(12.3)	0.90	(10.0)	(10.0)	(10.0)
<b>Net Operating CF</b>	<b>551</b>	<b>517</b>	<b>433</b>	<b>486</b>	<b>497</b>
Capital Exp.(net)	(366)	(294)	(255)	(415)	(412)
Other Invt.(net)	(18.0)	(15.0)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(5.4)	(18.1)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(389)</b>	<b>(327)</b>	<b>(255)</b>	<b>(415)</b>	<b>(412)</b>
Div Paid	(346)	(294)	(277)	(183)	(180)
Chg in Gross Debt	300	0.0	250	0.0	0.0
Capital Issues	(12.3)	0.0	0.0	0.0	0.0
Other Financing CF	8.90	164	10.0	10.0	10.0
<b>Net Financing CF</b>	<b>(49.6)</b>	<b>(130)</b>	<b>(16.6)</b>	<b>(173)</b>	<b>(170)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	112	60.0	161	(102)	(84.4)
Opg CFPS (S cts)	35.4	30.2	25.9	28.5	29.1
Free CFPS (S cts)	10.7	12.9	10.3	4.09	4.94

Dividend cutback likely in FY19

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Sachin MITTAL

## Regional Peer Valuations

Company	Mkt Cap (US\$m)	Price S\$ 15-Oct	12-mth Target Price LCL	% Upside	Rcmd	CAGR 17-19 (%)	17A	PE (x) 18F	19F	Dividend Yield (%) 17A	18F	P/BV 17A	18F	EV/EBITDA 17A	18F	19F
<b>China / Hong Kong</b>	<b>SHCOMP Index</b>	<b>2,568</b>														
China Mobile	200,184	76.60	102.00	33%	BUY	1	12.1	12.0	11.8	8.0%	4.0%	1.4x	1.3x	3.3x	3.1x	2.8x
China Telecom	6,837	3.86	5.00	30%	BUY	7	14.8	13.8	12.8	2.7%	3.0%	0.9x	0.8x	3.5x	3.2x	2.8x
China Unicom	34,172	8.75	15.70	79%	BUY	148	101.2	26.9	16.5	0.9%	1.3%	0.6x	0.8x	2.6x	2.5x	1.9x
Smartone Telecom	1,457	10.18	11.80	16%	BUY	-2	16.5	18.4	17.3	5.9%	4.0%	2.5x	2.4x	5.5x	5.6x	5.1x
Hutchison Telecom	1,821	2.96	3.10	5%	HOLD	-73	3.0	37.7	39.9	25.1%	2.0%	0.9x	0.9x	0.6x	3.3x	3.2x
HKT Trust	10,553	10.92	13.10	20%	BUY	0	16.2	16.8	16.3	5.9%	6.1%	2.1x	2.2x	9.3x	9.2x	8.9x
<b>Malaysia</b>	<b>KLCI Index</b>	<b>1,729</b>														
Digi.Com	8,215	4.39	4.20	-4%	HOLD	1	23.1	22.7	22.6	4.3%	4.4%	65.8x	65.8x	12.6x	12.4x	12.2x
Maxis Bhd	10,366	5.51	5.30	-4%	HOLD	-1	20.6	21.6	21.0	3.6%	3.6%	6.1x	5.8x	10.9x	11.2x	11.5x
Telekom	2,324	2.57	3.30	28%	HOLD	-20	11.2	17.2	17.4	8.4%	7.2%	1.2x	1.3x	4.5x	4.5x	4.6x
<b>Singapore</b>	<b>STI Index</b>	<b>3,046</b>														
NetLink NBN Trust	2,194	0.775	0.87	13%	BUY	-4	37.9	60.8	40.9	0.0%	4.2%	1.0x	1.0x	15.6x	20.5x	14.1x
SingTel	36,885	3.110	3.70	19%	BUY	-5	14.1	15.6	15.6	6.6%	5.6%	1.7x	1.7x	11.5x	8.3x	nm
Starhub	2,376	1.890	2.45	30%	BUY	-3	13.1	14.5	14.0	8.5%	8.5%	23.2x	50.6x	6.7x	7.2x	7.3x
<b>Thailand</b>	<b>SET Index</b>	<b>1,696</b>														
Advanced Info Service	17,848	196.00	233.00	19%	BUY	na	19.5	17.4	na	3.6%	4.0%	11.6x	9.5x	9.6x	8.8x	7.7x
Total Access Comm.	3,118	43.00	52.75	23%	BUY	68	50.6	65.1	18.0	0.6%	1.0%	3.5x	3.3x	4.2x	5.2x	6.0x
<b>Indonesia</b>	<b>JCI Index</b>	<b>5,727</b>														
Indosat	964	2,700	2,500	-7%	FV	nm	12.9	-59.9	-69.8	0.0%	0.0%	1.0x	1.1x	2.8x	3.3x	3.1x
PT Link Net Tbk	850	4,250	6,200	46%	BUY	14	12.5	11.1	9.6	4.0%	4.5%	2.8x	2.4x	6.0x	5.2x	4.5x
PT Telekom	24,241	3,660	3,600	-2%	HOLD	-1	16.4	18.0	16.6	4.6%	4.2%	3.9x	4.0x	6.0x	6.5x	6.0x
PT Sarana Menara	1,589	474	750	58%	BUY	2	10.1	10.2	9.8	2.9%	5.9%	3.4x	3.0x	6.7x	6.5x	5.8x

Singapore Telecom 18 & 19 forecast respectively  
Source: DBS Bank

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

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*Share price appreciation + dividends*

Completed Date: 16 Oct 2018 18:28:13 (SGT)

Dissemination Date: 17 Oct 2018 10:33:54 (SGT)

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