

Singapore Industry Focus

Singapore Telecom Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Nov 2018

TPG may not disrupt, attractive yield and valuations

- TPG's abysmal capex so far implies room for positive surprises in 2019
- Netlink is our top pick for 6.6 yield and front-loading of revenue from StarHub's accelerated fibre migration
- We like StarHub for its 5.6% yield, -2SD valuation and potential upside to consensus FY19F/20F earnings. We also like Singtel for its assured DPS of 17.5 Scts (5.7% yield) and -1SD valuation

TPG's abysmal capex spend may bring reprieve to telcos. TPG has so far spent A\$66.7m (S\$65.7m) in cumulative capex on its Singapore rollout, or ~22-32% of its planned S\$200-300m of capex. At the current level of capex spend, TPG's network at commercial launch in 2Q19 is unlikely to pose a major threat to the incumbents, in our view, due to potential network quality issues. Network quality issues would make it difficult for TPG to lure low-end subscribers, who already enjoy much better network quality and coverage through Mobile Virtual Network operators (MVNOs) that ride on the incumbents' mobile networks.

We model annual contraction of 5% for the mobile sector in 2019. We estimate that mobile service revenues declined ~4.5% over 9M18 vs our projection of a 4% decline over FY18. Declines were largely driven by postpaid ARPU due to SIM-only plans and contractions in legacy usage. We expect the mobile industry to contract ~5% over 2019, driven by the adoption of SIM-only plans (12-13% of postpaid user base currently vs 25% in 2-3 years) and commercial launch of TPG's services in 2Q19. However, if TPG faces serious network quality issues, incumbents may not hesitate from raising prices, in our view, thus implying room for positive surprises.

Netlink (NLT) is our top pick in the sector and is attractive for its 6.6% yield. We argue that NLT should trade at a tighter spread than S-REITs and is likely to benefit from front-loading of revenue from StarHub's accelerated fibre migration. We like StarHub for its 5.6% yield, -2SD valuation and 6%/27% upside potential to consensus FY19F/20F earnings. We also like Singtel for its assured DPS of 17.5 Scts (5.7% yield) and -1SD valuation.

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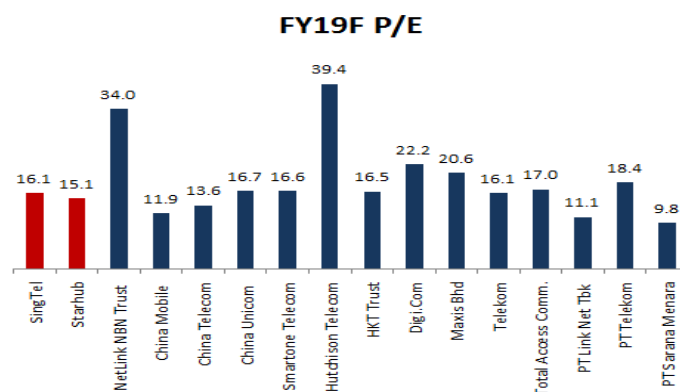
STOCKS

	Price S\$	Mkt Cap US\$m	12-mth		Rating
			Target Price S\$	Performance (%) 3 mth 12 mth	
Netlink NBN Turst	0.77	2,183	0.87	(1.9) (6.1)	BUY
Singtel	3.07	36,467	3.59	(0.3) (16.6)	BUY
StarHub	1.86	2,342	2.45	12.7 (34.3)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 20 Nov 2018

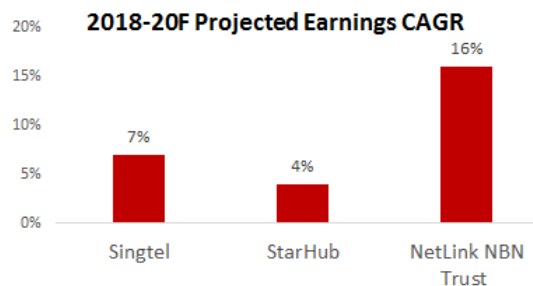
Sing-telcos trading at ~20% discount to 19x regional avg



*FY20F (March YE) for Singtel and Netlink NBN Trust

Source: DBS Bank

Cost-cutting to help telcos grow earnings going forward



Source: DBS Bank



Mobile Sector

TPG to launch services in 2Q19 but will it cause major disruption?

TPG's low capex spend and launch delays bring reprieve to telco incumbents. TPG has so far spent A\$66.7m (S\$65.7m) in cumulative capex on its Singapore rollout, or ~22-32% of its planned S\$200-300 of capex. The telco revealed that its production network covers ~90% of outdoor areas during its FY18 results briefing and mentioned that is on track to meet the nationwide coverage requirement by December 2018, as set forth by IMDA. TPG has delayed the commercial launch of its services to 2Q19 from late-2018, citing delays in negotiating access to the jointly built common antenna systems of the incumbents and network testing. TPG is slated to launch 4G trials in 4Q18, followed by a commercial launch of services in 2Q19.

At the current level of capex spend, TPG's network at commercial launch is unlikely to pose a major threat to the incumbents, in our view. We estimate that StarHub, the second largest operator in Singapore, is likely to have spent over S\$600m on its 4G network since 2013, almost 10x of the current capex spend of TPG on its 4G network. We are of the view that to become a disruptive market player in Singapore, TPG would need to significantly ramp up its rollout capex to provide ubiquitous coverage. For instance, Reliance Jio in India, spent almost US\$20bn over six years to build its 4G network from ground up before its commercial launch, spending ~US\$3.3bn annually. This is nearly 4x the average annual capex Bharti Airtel had spent over the past five years on expanding its mobile coverage in India. (The average 5-year annual capex spend by Bharti on mobile services in India is ~US\$900m after assuming 40% of capex is spent on network maintenance. INR/US\$ = 60).

While TPG is likely to meet the outdoor coverage requirements by 2018, the quality of the outdoor network is likely to be poor with patchy and inadequate coverage inside buildings and MRTs given its current capex spend. This would make it difficult for TPG to lure low-end subscribers, who already enjoy much better network quality and coverage through Mobile Virtual Network operators (MVNOs) that ride on the incumbents' mobile networks.

Not meeting coverage requirements could lead to penalties or forced industry consolidation. We believe TPG would need to significantly boost its capex spend and network rollout over 2019, in order to meet IMDA's road tunnel and in-building

coverage requirements by December 2019. TPG would also need to negotiate access to common antenna systems of the incumbents, given the limited availability of space for deploying antennas in key sites. Any potential delays in TPG's network ramp-up or negotiating access to the incumbents' network could lead to TPG failing to meet the coverage deadlines set by IMDA. While this is likely to result only a fine (S\$5,000-S\$50,000) in the first few instances, continued failure to meet coverage requirements, particularly owing to issues in securing funding for capex, could prompt the regulator to mediate a forced consolidation of the industry or push TPG to dispose of its spectrum assets to an incumbent.

TPG is likely to offer unlimited data plans in Singapore to capture subscriber market share. With its forthcoming launch in Singapore, TPG is likely to enter the telco battlefield with aggressive promotions to attract subscribers and drive up scale. We base our argument on TPG's strategy in Australia where TPG announced plans of this nature before its merger with Vodafone. In Australia, initial subscribers of TPG were entitled to free unlimited mobile data for six months, and customers who stay with the plan after the initial six-month period are to pay A\$9.99 per month with no lock-in contract. Under the terms of the daily unlimited data plan, the first 1GB is supplied at 4G LTE speeds, after which speed is capped at 1Mbps for the remainder of the day.

It is likely that TPG will follow a similar pattern in Singapore. In March 2018, TPG revealed plans to offer free mobile data plans (3GB, local voice) for the first 24 months to the elderly, a segment largely ignored by the incumbents, when it kicks off its operations. However, given that the greenfield operator is likely to have an inferior network at least till the end of 2021, the unlimited data plans may not be as enticing as it sounds to induce the low-end subscribers to switch operators.

Mobile Virtual Network Operators (MVNOs) march on with their aggressive expansion plans. Against a backdrop where TPG was expected to enter Singapore in 2H18, each incumbent operator partnered with MVNOs takes the total number of mobile service providers in the country to seven from 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.

MVNOs such as MyRepublic and Circles.Life, with their low-cost model, superior network quality (as they leverage on the network assets of established players) and convenient customer service (100% app based), may attract a substantial number of customers, especially the low-income segments, in shifting to cheaper SIM-only plans. As the majority of MVNOs' revenues will flow back to their telco partners, telcos are better off losing revenue share to MVNOs than TPG by offering

flexible wholesale pricing to their MVNOs. TPG is likely to compete on cheaper pricing but will be challenged by MVNOs that offer superior network quality and differentiated services. As MVNOs are already disrupting the Singapore telco market, we do not expect a major disruption from TPG in 2H19 when it launches its services in Singapore.

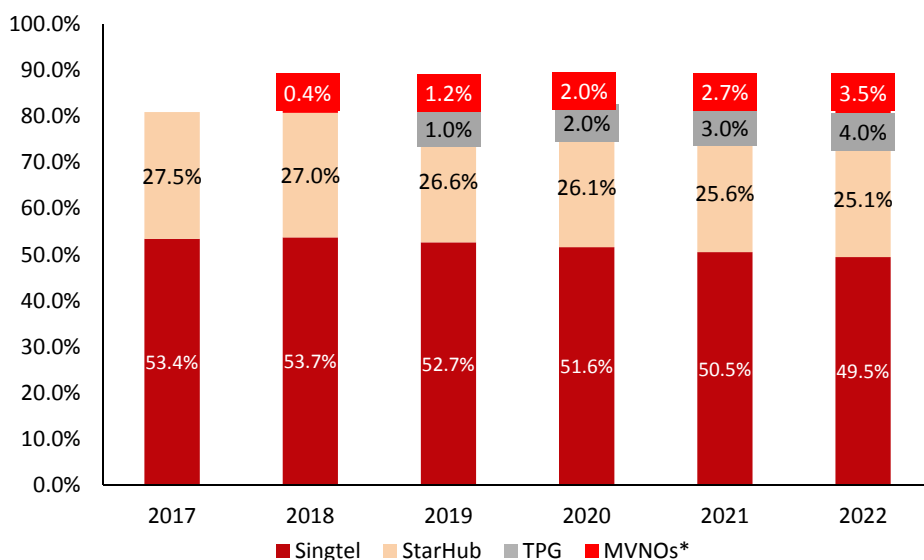
MVNOs in Singapore

	Circles.Life		Zero Mobile		Zero1	MyRepublic	
Plans	Base	Flexi	Zero X	Zero MAX	Zero1	Smart35	Xtra85
-Price	S\$28	S\$0	S\$69.95	S\$49.95	S\$29.99	S\$35	S\$85
-Data	6GB	1GB	Unlimited	24GB	3GB*	9GB	30GB
-Voice (mins)	100	30	Unlimited	500	200	1000	1000
MNO Partner	An operator		Singtel		Singtel	StarHub	
Launch Date	2016		2017		2018	2H18	

*Unlimited data at reduced speeds once the data quota is over

Source: Companies, DBS Bank

3.5% and 4% revenue share grab by MVNOs and TPG, respectively, by 2022 under our base-case scenario



*We have assumed that 65% of MVNO revenue will flow back to their telco partners

Source: Companies, DBS Bank

SIM-only plans to continue weighing on ARPU. Both Singtel and StarHub witnessed y-o-y declines of 10% and 8% in postpaid ARPUs over 3Q18, respectively, largely owing to the growing adoption of SIM-only plans. We believe SIM-only plans will rise in popularity over the medium term, with lengthening smartphone replacement cycles, which could further incentivise subscribers to move away from bundled plans. The growing adoption of SIM-only plans presents a challenge to operators, with potential declines in mobile service revenues, dilution of ARPU and profitability. Customer spend over the life of SIM-only contracts tends to be substantially lower than handset plans, and SIM-only plans

remain less profitable than handset plans, even after taking handset subsidies into consideration.

Our industry checks indicate that SIM-only plan adoption among Singapore postpaid customers grew from 8-9% in 1Q18 to 12-13% by 3Q18. Judging from Australia's experience, where SIM-only plans constitute ~25% of the total postpaid plans, Singapore is likely to see a leap in these plans. Customer spend on SIM-only plans vis-à-vis handset plans tends to be substantially lower and growing uptake would negatively impact mobile service revenues and dilute industry ARPU going forward.

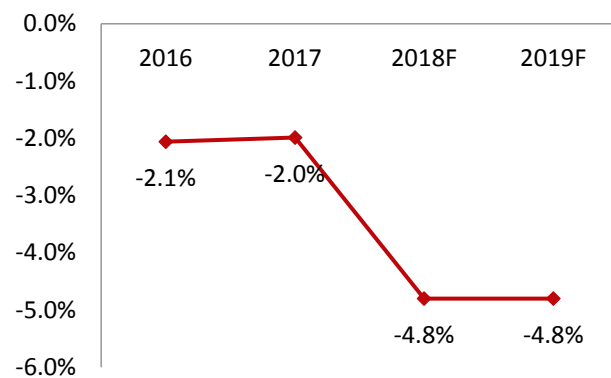
SIM-only plans translate to lower net revenue for operators (for iPhone XS devices)

	Singtel		StarHub	
	SIM-Only plan with 5GB	Combo -3 Handset plan with 5GB	XS SIM-Only plan	4Gb "S" plan
Monthly Contract Price	20.0	68.9	24.0	68.0
Upfront fee on handsets		878.0		878.0
Total customer spend over 24-months	480.0	2,531.6	576.0	2,510.0
Handset cost*		(1,484.1)		(1,484.1)
Net revenue over 24-months	480.0	1,047.5	576.0	1,025.9

* - Assumed to be at a 10% discount to the listed price of an iPhone XS in Singapore
Sources Companies, Apple Singapore, DBS Bank

We project annual contraction of 5% for the mobile sector in FY19F. We estimate that mobile service revenues declined ~4.5% over 9M18 vs our projection of a 4% decline over FY18. Declines were largely driven by postpaid ARPU due to SIM-only plans and contractions in legacy usage. We expect the mobile industry to contract ~5% over 2019, driven by the adoption of SIM-only plans (12-13% of postpaid user base currently vs 25% in 2-3 years) and commercial launch of TPG's services in 2Q19. However, if TPG faces serious network quality issues, incumbents may not hesitate from raising prices, in our view, thus implying room for positive surprises.

Mobile Service Revenue Growth



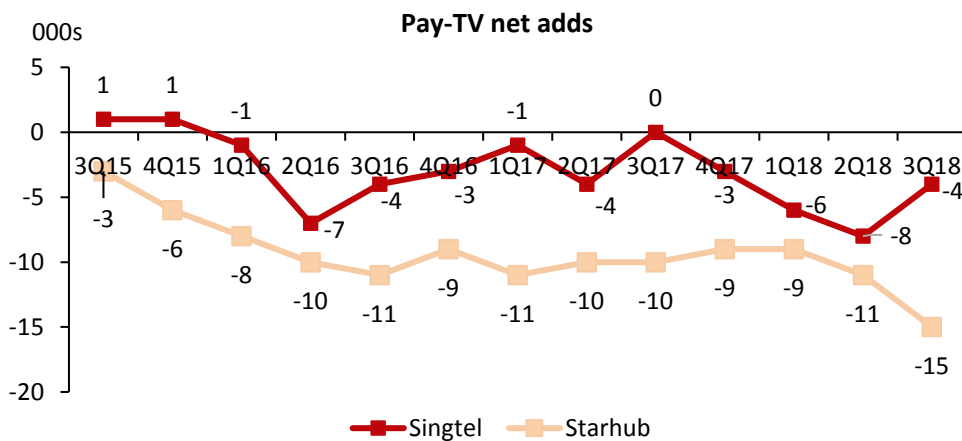
Source: DBS Bank

Pay-TV Segment

Pay-TV market should continue to shrink due to the impact of Internet-based distribution. The pay-TV market in Singapore has shrunk by ~8.5% y-o-y YTD with ~65k subscriber losses over 9M18, as subscribers continue to cut the cord, opting for cheaper OTT alternatives. We believe that pay-TV subscriber losses will likely to continue through FY19 with the industry topline contracting ~5-6% over FY19.

Pay-TV business model to change with content-cost to be linked to subscriber base. StarHub’s pay TV business has not been profitable for some years now and the current business model where content-cost is fixed would have to evolve to a variable-cost model. StarHub’s management is re-negotiating contracts to make payments based on the number of subscribers as and when they come up for renewal. Content-providers are reaching subscribers directly and are more open to variable-cost contracts than in the past.

Pay-TV subscriber additions continue to decline



Source: Companies, DBS Bank

Enterprise Segment

Expansion of StarHub and other operators to the enterprise segment puts pressure on Singtel. StarHub managed to expand revenues from the enterprise segment by 13% y-o-y in 3Q18, largely driven by the consolidation of Accel Systems and D’Crypt. Additionally, in 3Q18, StarHub entered into 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. The joint venture should further augment StarHub’s ICT service portfolio, which continues to drive the telco’s enterprise segment. As such, we believe the enterprise segment would remain a key driver of StarHub’s topline going forward.

With the entry of StarHub and other mobile operators into the enterprise services segment, Singtel’s pricing premiums in the enterprise segment have come under pressure. The Singapore enterprise segment, which accounts for ~58% of Singtel’s Singapore operations, has continued to contract on a y-o-y basis over the past four consecutive quarters, largely owing to the declining usage of legacy services and contraction of ICT revenues due to the lack of order wins, which in the past had adequately offset any declines in legacy services. Singtel’s management also reiterated that the managed services, is getting crowded due to the aggressive expansions of incumbents. We believe Singtel would continue to remain under pricing pressure in the enterprise segment, as operators like StarHub continue to expand their reach in this segment.

Resumption of Smart Nation contracts to benefit Singtel and StarHub. As the government accelerates new Smart Nations projects, Singtel and StarHub's investments in fields such as cybersecurity is expected to bear fruit over the next few years. StarHub's joint venture partner Certis Cisco has strong ties with the Singapore government, with its executive team comprising several former government officials from the Ministry of Home Affairs and Singapore Armed Forces. The company has also managed the Cyber-Watch Centre of the Singapore government since 2007, providing round-the-clock monitoring of the government's IT systems and networks. This should make StarHub's cybersecurity division a likely candidate for clinching future government cybersecurity contracts pertaining to Smart Nation projects.

Singtel is also set to benefit from the resumption of Smart Nation projects, and might benefit from a rebound in ICT revenue with ~S\$300m of additional ICT revenue over 2H19F (March YE) vs 1H19 largely stemming from Smart Nation contracts.

Stock Picks & Valuations

Netlink NBN Trust (NLT) is trading at c.6.6% FY19F yield, similar to large-cap industrial S-REIT's average yield. We argue that NLT should trade at a tighter spread than S-REITs as (1) NLT's distributions, due to the regulated nature of its business, are largely independent of the economic cycle, and (2) NLT's gearing is less than half of S-REITs' with an ample debt-headroom to fund future growth. NLT has hedged its interest rates till March 2021 and NLT's one unique advantage over REITs and Business Trusts is that the potential rise in the cost of capital might lead to higher regulated returns from 2022 onwards, thus translating into higher distributions.

Catalyst for Netlink would be StarHub's accelerated migration to fibre. StarHub intends to migrate 100% of its subscribers from co-axial cable to fibre by July 2019 vs earlier expectations of 2020. There were ~78,000 co-axial cable broadband subscribers by the end of 1H18 and slightly more cable TV subscribers who will migrate to fibre. Beyond FY20F, Netlink should benefit from ~2% growth in the number of households and Singapore's household wired broadband penetration rising towards 100% from ~92% in FY20F and ~90% currently.

StarHub is attractive for its -2SD valuation and potential upside to the street's FY19F/20F earnings. The street's FY19F earnings are likely to be raised by at least S\$10m in the absence of S\$10-15m amortisation cost for 700MHz spectrum. Consensus is also ignoring ~S\$30m savings on operating lease expenses in FY20 with the shutdown of StarHub's co-axial cable network. The street's FY19F earnings are edging up and we expect to see more upward revisions going forward. StarHub's valuation is attractive, trading close to -2SD of its historical EV/EBITDA and PE averages, and offers sustainable yields that exceed ~5.5%. We expect the street to raise FY19F/20F EPS by 6%/27% over the next few months.

Singtel is attractive for its -1SD valuation and rebound in Singtel's associate contributions from FY20F (Mar YE) onwards. Associate profit contributions, which have been a critical factor for Singtel's share price, are expected to rebound in FY20F – led by Telkomsel, AIS and Globe, despite the delay in Bharti's recovery. Singtel is trading at 16x FY20F PE, 1SDs below its historical average of 17x, despite offering an FY19F-21F EPS CAGR of 7% and an assured annual DPS of 17.5 Scts (5.7% yield) over FY19F-20F.

Singapore Company Guide

NetLink NBN Trust

Version 5 | Bloomberg: NETLINK SP | Reuters: NETL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Nov 2018

BUY

Last Traded Price (20 Nov 2018): S\$0.77 (STI : 3,026.99)

Price Target 12-mth: S\$0.87 (13% upside)

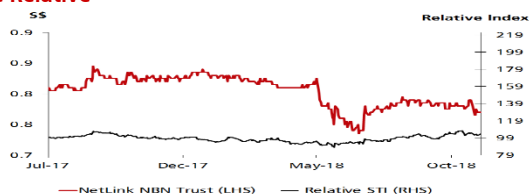
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What's New

- Netlink trades at FY20F yield of 6.6% versus average yield of 6.4% offered by large-cap industrial S-REITs
- We argue that NLT should trade at 80 -100 basis points lower yield than industrial S-REITs due to its regulated revenues, lower gearing, and longer asset life
- Maintain BUY with unchanged TP of S\$0.87

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2018A*	2019F	2020F	2021F
Revenue	229	347	370	400
EBITDA	168	253	273	294
Pre-tax Profit	43.6	67.2	82.9	102
Net Profit	49.7	77.4	88.4	104
Net Pft (Pre Ex.)	49.7	77.4	88.4	104
Net Pft Gth (Pre-ex) (%)	(37.4)	55.7	14.3	17.7
EPS (S cts)	1.28	1.99	2.27	2.67
EPS Pre Ex. (S cts)	1.28	1.99	2.27	2.67
EPS Gth Pre Ex (%)	(38)	56	14	18
Diluted EPS (S cts)	1.28	1.99	2.27	2.67
Net DPS (S cts)	3.24	4.93	5.08	5.30
BV Per Share (S cts)	81.5	77.7	75.0	72.5
PE (X)	60.4	38.8	33.9	28.8
PE Pre Ex. (X)	60.4	38.8	33.9	28.8
P/Cash Flow (X)	18.9	10.3	11.9	10.9
EV/EBITDA (X)	20.4	13.7	12.7	11.7
Net Div Yield (%)	4.2	6.4	6.6	6.9
P/Book Value (X)	0.9	1.0	1.0	1.1
Net Debt/Equity (X)	0.1	0.2	0.2	0.2
ROAE (%)	1.6	2.5	3.0	3.6
Earnings Rev (%)	-	-	-	-
Consensus EPS (S cts)		1.80	2.10	2.30
Other Broker Recs:		B: 11	S: 0	H: 2

*for period 19 Jun 17 to 30 Mar 18

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

Attractive 6.6% yield amid healthy outlook

Netlink (NLT) should trade at lower yield than industrial S-REITs.

NLT is trading at c.6.6% FY20F yield, versus an average yield of 6.4% offered by large-cap industrial S-REITs. We argue that NLT should trade at 80-100 basis points lower yield than S-REITs as (1) NLT's distributions, due to the regulated nature of its business, are largely independent of the economic cycle; (2) NLT's gearing is less than half of S-REITs' with an ample debt-headroom to fund future growth; and (3) NLT's asset life is much longer than S-REITs as NLT incurs annual capex to replenish its depreciated asset base.

Where we differ: Market is concerned that rising interest rates may lead to a search for higher yields. NLT's one unique advantage over REITs and Business Trusts is that a potential rise in the cost of capital might lead to higher regulated returns from 2022 onwards, translating into higher distributions. NLT has also hedged its interest rates till March 2021 and growth in distributions should translate into higher yields.

Potential catalysts: (i) FY19F-20F to benefit from StarHub's accelerated migration to fibre, (ii) NLT could use its debt headroom to invest in Smart Nation initiatives, which we have not factored into our target price, and (ii) More clarity on 5G rollout and NLT's potential participation.

Valuation:

Maintain BUY, TP unchanged at S\$0.87. Our DCF valuation assumes 6% WACC and 1.2% terminal growth based on long-term household formation rate.

Key Risks to Our View:

Bear case valuation of S\$0.68 if interest-rate hike is too sharp.

NLT could trade at S\$0.68 or 7.5% yield if Singapore's 10-year bond yield in the last quarter of 2019 rises to 3.4% versus our expectations of 2.9% (2.45% currently) and yield-spread stays at 4.1% versus our expectations of 3.0% (4.1% currently).

At A Glance

Issued Capital (m shrs)	3,897
Mkt. Cap (S\$m/US\$m)	3,001 / 2,183
Major Shareholders (%)	
Temasek Holdings Pte Ltd	25.0
UBS AG Singapore	5.6
Lazard Ltd	4.9
Free Float (%)	64.5
3m Avg. Daily Val (US\$m)	2.6

ICB Industry : Technology / Software & Computer Services



Live more, Bank less^{Page 7}

CRITICAL DATA POINTS TO WATCH

Critical Factors

Fibre broadband penetration set to rise from c.80% currently.

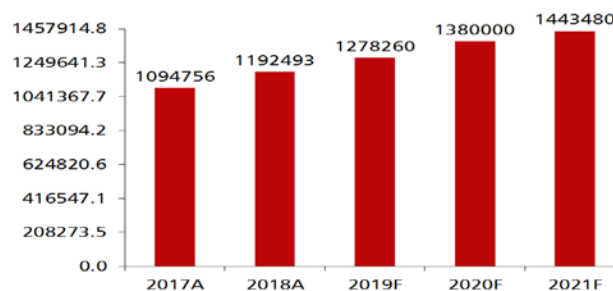
As of 30 Sep 2018, NLT’s network had passed 1.36m residential homes out of 1.50m estimated residential homes in Singapore, implying 90% rate. There were 1.24m residential end-user connections, representing c.91% of homes-passed. Continued migration of end-users from older technologies like Asymmetric Digital Subscriber Line (ADSL) and Hybrid Fiber-Coaxial (HFC) to fibre will continue to lead the growth in residential end-user connections. StarHub intends to migrate an estimated 70-100K of its HFC customers to fibre by July 2020 and shut down its HFC platform. NLT should benefit from StarHub’s accelerated fibre migration, and end-user connections could grow by 9% over the next 12 months. In the subsequent years, we expect NLT to benefit from (a) home-passed penetration rising towards 100% versus 90% now, and (b) 2% growth in the number of new households.

Growing market share in non-residential fibre business. NLT has expanded its market share from c.30% in FY2017 to c.34% in FY18, having grown from zero in 2012. Growth in market share will be driven by the expanding SME market, which is mainly located outside of the Central Business District (CBD) and business parks where NLT faces lesser competition from other fibre network providers due to its extensive nationwide network coverage compared to the networks of its competitors. Key strategies include (1) deploying fibre within selected non-residential buildings, and (2) extending network footprint into new major developments such as the Greater Southern Waterfront project

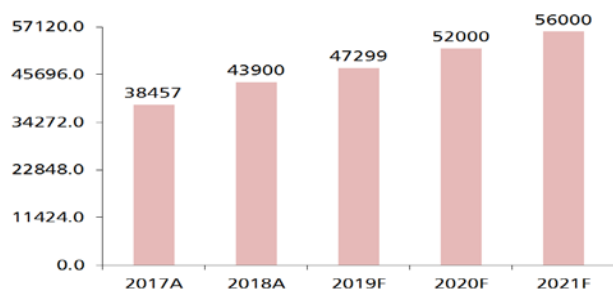
Opportunities in Non-Building Access Points (NBAP) segment.

Growth opportunities could arise from the Smart Nation Programme, which requires the deployment of a network of sensors and monitoring equipment across Singapore to support applications such as autonomous vehicles, high-definition surveillance cameras, parking space management and weather data collection. NLT continues to support the Requesting Licensees and government agencies on the rollout of Smart Nation initiatives.

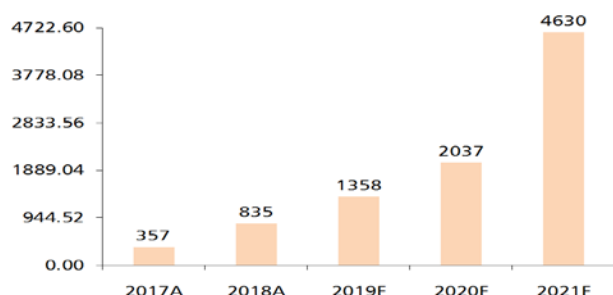
Residential end user connections



Non residential end user connections



NBAP connections



Source: Company, DBS Bank

NetLink NBN Trust

Balance Sheet:

Prudent capital structure. NLT has in place a prudent capital structure, with a S\$510m term loan plus two revolving credit facilities totalling S\$300m (S\$90m + S\$210m). Net debt-to-equity ratio for the Trust will be low, at around 0.2x. More importantly, the Trust's total debt/EBITDA ratio is expected to hover around 3.0x at the end of FY20 according to our forecast, and this is quite conservative compared to other listed utility/infrastructure companies and Business Trusts.

Low gearing allows for opportunistic acquisitions, developments. Current gearing is low, with net debt-to-equity ratio at c.0.2x. The Manager has ample headroom for opportunistic acquisitions and developments.

Share Price Drivers:

We identify several catalysts for NLT's share price: (i) FY19F-20F to benefit from StarHub's accelerated migration to fibre (ii) Wider scope of Smart Nation initiatives as NLT could use its debt headroom to invest in those initiatives, leading to a healthy growth in distributions in the long term, and (iii) More clarity on NLT's potential participation if at all in the 5G rollout programme that is expected closer to 2020.

Key Risks:

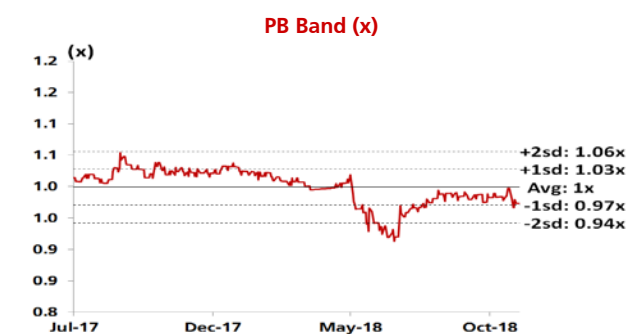
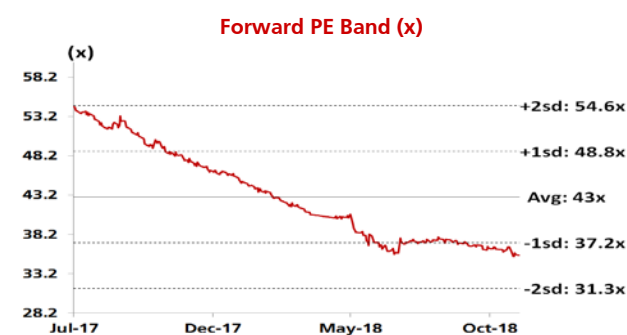
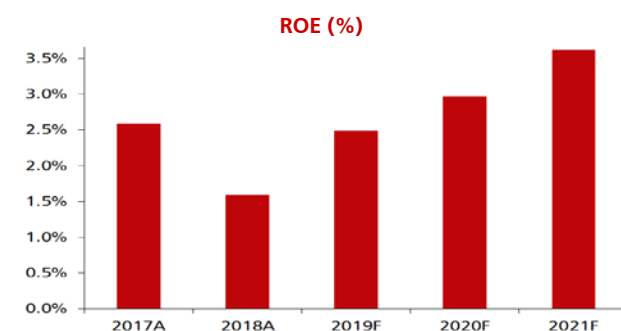
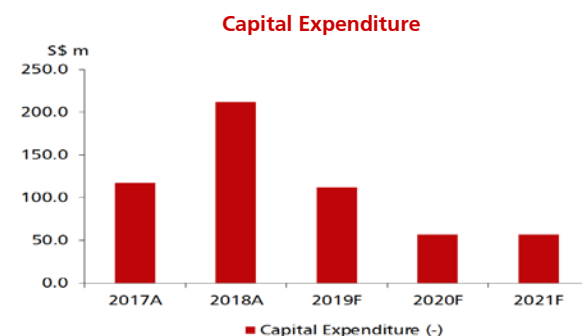
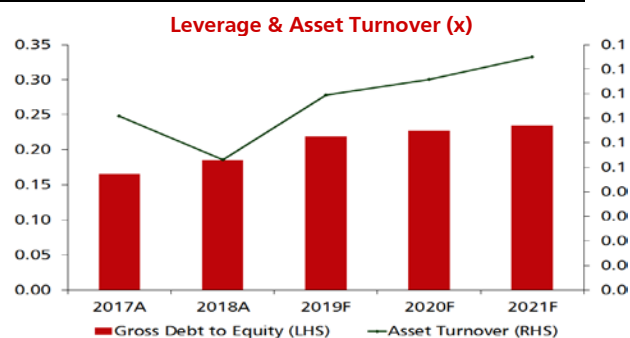
Regulatory changes. As ~80% of the revenue is regulated under the RAB model, any changes in nominal pre-tax WACC from 2022 onwards may lead to changes in Interconnection Offer (ICO) pricing. The pre-tax WACC for the current review period is currently set at 7%.

Bear case valuation of S\$0.68 if interest-rate hike is too sharp.

NLT could trade at S\$0.68 or 7.5% yield if Singapore's 10-year bond yield in the last quarter of 2019 rises to 3.4% versus our expectations of 2.9% (2.45% currently) and yield-spread stays at 4.1% versus our expectations of 3.0% (4.1% currently). NLT has minimised this risk as 100% of NLT's S\$510m bank loan has been hedged with all-in blended fixed interest rate of 2.91% per annum till March 2021.

Company Background

NLT designs, builds, owns and operates the fibre network infrastructure which is the foundation of Singapore's Next Generation Nationwide Broadband Network.



Source: Company, DBS Bank

NetLink NBN Trust

Key Assumptions

FY Mar	2017A	2018A	2019F	2020F	2021F
Residential end user	1,094,756	1,192,493	1,278,260	1,380,000	1,443,480
Non residential end user	38,457	43,900	47,299	52,000	56,000
NBAP connections	357	835	1,358	2,037	4,630

Segmental Breakdown

FY Mar	2017A	2018A	2019F	2020F	2021F
Revenues (\$\$m)					
Residential connections	184	196	205	220	234
Non-residential & NBAP	21.4	26.4	31.1	34.3	38.6
Ducts, manholes and CO	45.1	47.3	47.7	48.5	49.4
Others	48.6	(40.9)	63.8	67.2	78.6
Others					
Total	299	229	347	370	400

Room for more growth as the number of households in Singapore stood at 1.5m as at Sep 2018

Income Statement (\$\$m)

FY Mar	2017A	2018A	2019F	2020F	2021F
Revenue	299	229	347	370	400
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	299	229	347	370	400
Other Opng (Exp)/Inc	(218)	(173)	(259)	(265)	(276)
Operating Profit	80.9	55.7	88.3	105	124
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(10.1)	(12.2)	(21.1)	(22.3)	(22.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	70.8	43.6	67.2	82.9	102
Tax	8.64	6.14	10.2	5.55	2.33
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	79.4	49.7	77.4	88.4	104
Net Profit before Except.	79.4	49.7	77.4	88.4	104
EBITDA	224	168	253	273	294
Growth					
Revenue Gth (%)	16.4	(23.6)	51.9	6.6	8.2
EBITDA Gth (%)	19.8	(25.3)	51.2	7.8	7.7
Opg Profit Gth (%)	109.7	(31.1)	58.4	19.2	18.0
Net Profit Gth (Pre-ex) (%)	97.2	(37.4)	55.7	14.3	17.7
Margins & Ratio					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margin (%)	27.0	24.4	25.4	28.4	31.0
Net Profit Margin (%)	26.6	21.7	22.3	23.9	26.0
ROAE (%)	2.6	1.6	2.5	3.0	3.6
ROA (%)	1.9	1.2	1.8	2.1	2.5
ROCE (%)	2.0	1.3	2.1	2.5	3.0
Div Payout Ratio (%)	100.7	254.0	248.4	223.7	198.4
Net Interest Cover (x)	8.0	4.6	4.2	4.7	5.6

Source: Company, DBS Bank

NetLink NBN Trust

Quarterly / Interim Income Statement (\$5m)

FY Mar	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019
Revenue	64.8	83.4	80.7	86.1	90.6
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	64.8	83.4	80.7	86.1	90.6
Other Oper. (Exp)/Inc	(50.4)	(59.3)	(63.7)	(64.9)	(69.4)
Operating Profit	14.3	24.1	17.0	21.2	21.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(3.4)	(4.2)	(4.1)	(4.1)	(4.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.9	20.0	12.9	17.1	16.9
Tax	2.07	1.71	2.36	1.95	1.82
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	13.0	21.7	15.3	19.0	18.7
Net profit bef Except.	13.0	21.7	15.3	19.0	18.7
EBITDA	46.8	63.2	57.3	61.0	62.0

Growth

Revenue Gth (%)	N/A	28.8	(3.2)	6.7	5.2
EBITDA Gth (%)	nm	35.0	(9.2)	6.4	1.6
Opg Profit Gth (%)	nm	68.5	(29.4)	24.6	0.0
Net Profit Gth (Pre-ex) (%)	nm	66.9	(29.4)	24.4	(1.8)

Margins

Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	22.1	28.9	21.1	24.6	23.4
Net Profit Margins (%)	20.1	26.0	18.9	22.1	20.6

Balance Sheet (\$5m)

FY Mar	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	3,060	3,211	3,168	3,067	2,964
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	1,098	928	918	908	898
Cash & ST Invts	15.9	167	200	200	217
Inventory	5.50	3.89	6.09	6.49	7.02
Debtors	55.5	63.5	65.7	70.0	75.7
Other Current Assets	3.12	4.28	4.28	4.28	4.28
Total Assets	4,238	4,377	4,361	4,256	4,165
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	87.2	48.4	113	120	130
Other Current Liab	15.5	12.5	12.5	12.5	12.5
LT Debt	508	589	664	664	664
Other LT Liabilities	556	553	543	537	534
Shareholder's Equity	3,071	3,174	3,029	2,923	2,825
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	4,238	4,377	4,361	4,256	4,165
Non-Cash Wkg. Capital	(38.6)	10.8	(49.4)	(52.1)	(55.7)
Net Cash/(Debt)	(492)	(421)	(464)	(464)	(447)
Debtors Turn (avg days)	63.5	95.0	67.9	66.9	66.4
Creditors Turn (avg days)	(217.5)	(221.3)	(178.4)	(253.9)	(269.4)
Inventory Turn (avg days)	(12.7)	(15.3)	(11.0)	(13.7)	(14.5)
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.8	3.9	2.2	2.1	2.1
Quick Ratio (x)	0.7	3.8	2.1	2.0	2.1
Net Debt/Equity (X)	0.2	0.1	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.2	0.1	0.2	0.2	0.2
Capex to Debt (%)	23.1	36.0	16.9	8.6	8.6
Z-Score (X)	1.6	1.6	1.6	1.6	NA

Room to raise debt and invest in growth initiatives

Source: Company, DBS Bank

NetLink NBN Trust

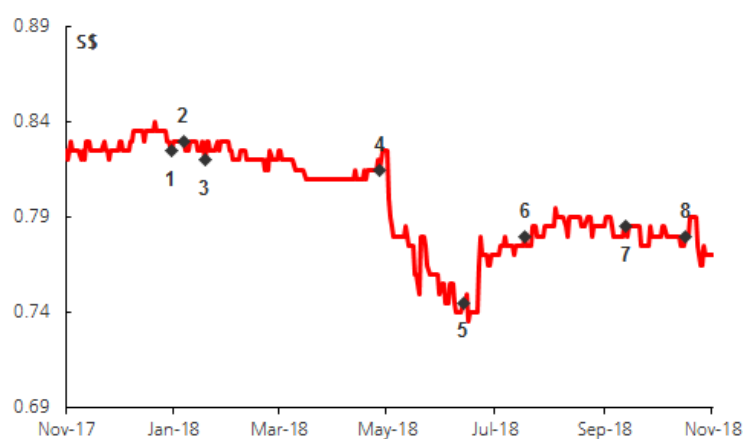
Cash Flow Statement (\$m)

FY Mar	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	70.8	4.81	67.2	82.9	102
Dep. & Amort.	143	112	165	168	170
Tax Paid	(5.1)	11.5	0.0	(0.8)	0.0
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(13.8)	4.68	60.2	2.73	3.59
Other Operating CF	0.33	25.1	0.0	0.0	0.0
Net Operating CF	196	158	292	253	275
Capital Exp.(net)	(117)	(212)	(112)	(57.0)	(57.0)
Other Invt.(net)	0.0	(1,095)	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	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(117)	(1,307)	(112)	(57.0)	(57.0)
Div Paid	(80.0)	0.0	(222)	(195)	(202)
Chg in Gross Debt	0.0	(1,020)	75.0	0.0	0.0
Capital Issues	0.0	2,335	0.0	0.0	0.0
Other Financing CF	(30.8)	0.0	0.0	0.0	0.0
Net Financing CF	(111)	1,315	(147)	(195)	(202)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(32.5)	166	33.1	0.51	16.0
Opg CFPS (S cts)	5.39	3.95	5.96	6.41	6.97
Free CFPS (S cts)	2.02	(1.4)	4.63	5.02	5.60

Normalised capex after
3 years of large capex

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Jan 18	0.83	0.95	BUY
2:	25 Jan 18	0.83	0.95	BUY
3:	06 Feb 18	0.82	0.97	BUY
4:	16 May 18	0.82	0.97	BUY
5:	02 Jul 18	0.75	0.87	BUY
6:	06 Aug 18	0.78	0.87	BUY
7:	02 Oct 18	0.79	0.87	BUY
8:	05 Nov 18	0.78	0.87	BUY

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

Source: DBS Bank

Analyst: Sachin MITTAL

Rui Wen LIM

Singapore Company Guide

Singtel

Version 7 | Bloomberg: ST SP | Reuters: STEL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Nov 2018

BUY

Last Traded Price (20 Nov 2018): S\$3.07 (STI : 3,026.99)

Price Target 12-mth: S\$3.59 (17% upside)

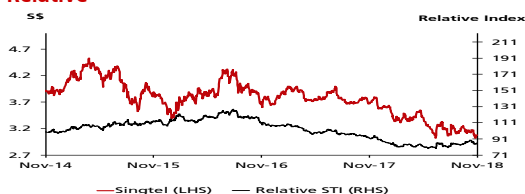
Analyst

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What's New

- Assured annual DPS of 17.5 Scts (5.7% yield) for FY19F-FY20F, is not reliant on earnings.
- Growth businesses to comprise 70% of revenue in five years vs 43% now; EBITDA growth in core markets to accelerate to 5-6% in FY21F vs flat EBITDA now
- Reiterate BUY with TP of S\$3.59

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2018A	2019F	2020F	2021F
Revenue	17,268	17,314	17,849	18,384
EBITDA	7,512	6,739	7,041	7,380
Pre-tax Profit	6,797	4,099	4,354	5,007
Net Profit	5,474	3,013	3,156	3,526
Net Pft (Pre Ex.)	3,594	3,013	3,156	3,526
Net Pft Gth (Pre-ex) (%)	(7.5)	(16.2)	4.7	11.7
EPS (S cts)	33.5	18.5	19.3	21.6
EPS Pre Ex. (S cts)	22.0	18.5	19.3	21.6
EPS Gth Pre Ex (%)	(7)	(16)	5	12
Diluted EPS (S cts)	33.5	18.5	19.3	21.6
Net DPS (S cts)	20.5	17.5	17.5	17.5
BV Per Share (S cts)	182	180	182	186
PE (X)	9.2	16.6	15.9	14.2
PE Pre Ex. (X)	13.9	16.6	15.9	14.2
P/Cash Flow (X)	11.6	11.1	13.3	13.7
EV/EBITDA (X)	8.0	8.9	8.6	8.1
Net Div Yield (%)	6.7	5.7	5.7	5.7
P/Book Value (X)	1.7	1.7	1.7	1.7
Net Debt/Equity (X)	0.3	0.3	0.3	0.3
ROAE (%)	18.9	10.2	10.7	11.8
Earnings Rev (%):	-	-	-	-
Consensus EPS (S cts):	20.4	21.9	23.6	
Other Broker Recs:	B: 16	S: 1	H: 6	

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

Negatives are in the price; safe dividend

Assured annual DPS of 17.5 Scts (5.7% yield) with FY19-21F EPS CAGR of 7%. Associates' profit contribution has been a critical factor for Singtel's share price historically. A potential rebound in associate contributions in FY20F led by Telkomsel, AIS and Globe despite a weak Bharti, could prompt the market to re-rate the counter. Singtel is attractive, trading at a 12-month forward PE of 16x, -1SD of its historical average of 17x, and offers 7% EPS CAGR over FY19F-21F and 5.7% yield.

Where we differ: Street is ignoring the shift in EBITDA growth potential in core markets from transformation. We project growth businesses to comprise ~70% of revenue in five years vs 43% last year, and only 17% five years ago. A larger base of growth businesses should accelerate revenue growth to 7-8% in FY21F vs 2-3% now, leading to ~5-6% growth in EBITDA vs flattish EBITDA in the core markets currently.

Potential catalysts: Improved 3Q19F & 4Q19F results. Two key drivers in 2H19F would be (i) rebound in Infocomm Technology (ICT) revenue with ~S\$300m of additional revenue vs 1H19 from Smart Nation contracts; and (ii) S\$300m of cost savings in 2H19F vs S\$193m savings in 1H19.

Valuation:

BUY with an unchanged TP of S\$3.59. We maintain our sum-of-parts (SOP) valuation at S\$3.59 and reiterate our BUY call on the back of a rebound in associate contributions in FY20F, attractive valuations, and ~5.7% dividend yield.

Key Risks to Our View:

Base-case valuation of S\$2.65 suggests 9% downside risk including 5.7% yield. This assumes (i) a 20% drop in the valuation of Singapore and Australia business due to EBITDA decline vs stable EBITDA, (ii) a 20% drop in valuations of Bharti and Telkomsel, and a 10% drop in the market cap of other associates; and (iii) a 15% holding company discount vs 5% under our base case.

At A Glance

Issued Capital (m shrs)	16,329
Mkt. Cap (S\$m/US\$m)	50,131 / 36,467
Major Shareholders (%)	
Temasek Holdings	49.8
Central Provident Fund	5.2
Free Float (%)	45.0
3m Avg. Daily Val (US\$m)	43.9
ICB Industry : Telecommunications / Fixed Line Telecommunications	



Live more, Bank less Page 13

Singtel

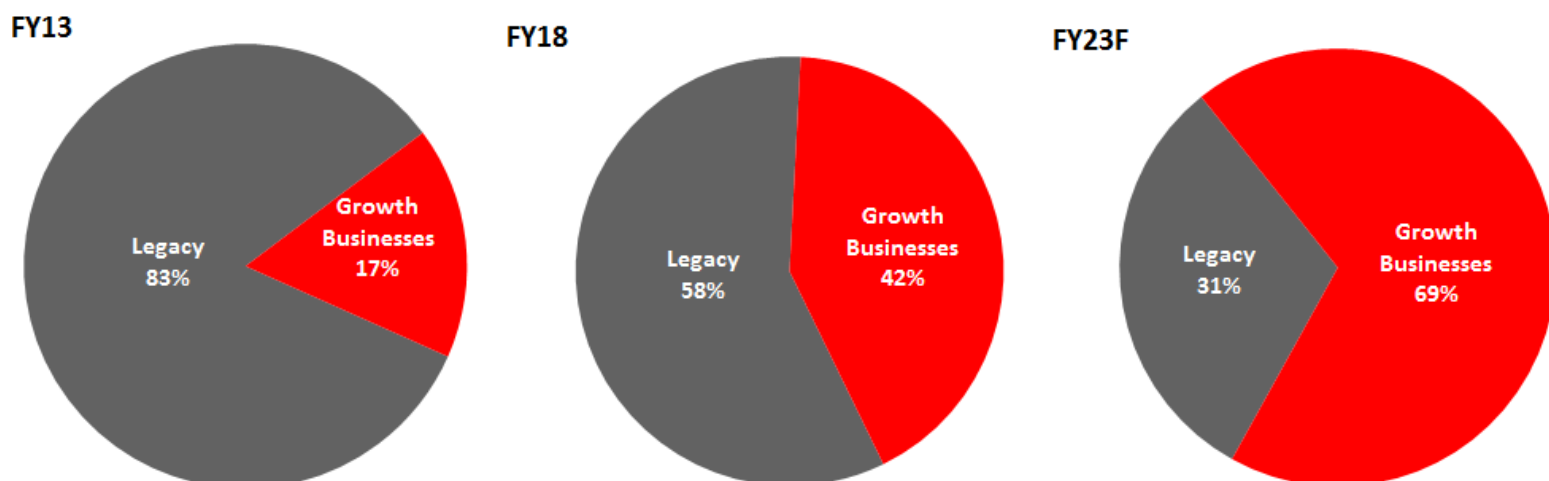
Longer-term outlook - Growth businesses may comprise ~70% of the total business in 5-years vs 43% last year

Revenue growth is likely to accelerate from FY21F onwards due to change in mix. Its growth businesses comprise mobile Internet, digital advertising and over-the-top (OTT) video, cybersecurity and the provisioning of IT corporate solutions. Its growth businesses made up ~42% of the total revenue in FY18. We expect contribution from the growth businesses to overtake the legacy business in FY20F and comprise ~70% of the topline in five years. We assume the growth businesses to record a CAGR of 15% over FY17-23F (vs 19% CAGR over FY13-18) while legacy services to decline at an average annual

rate of ~8%, as seen over FY13-18. Overall, we think that revenue growth could jump from 3-4% to 7-8% from FY21F onwards with growth businesses comprising 55-60% of total revenue.

With higher revenue growth, EBITDA could start to grow by 5-6% from FY21F onwards vs flat EBITDA now. Firstly, sub-scale businesses like digital advertising and cyber-security are likely to report better EBITDA. Secondly, with operating expenses at ~\$12.7bn in FY18, we expect Singtel to increase its productivity by ~4-5% each year or achieve about \$500m in cost savings annually with increasing automation.

Evolution of Singtel's Revenue Mix – Past, Present and the Future



Legacy revenues – Mobile voice and SMS, National and International telephone calls, Equipment sales, Pay-TV, Data and Internet Services, Other managed services and other revenues

Growth Businesses – Mobile internet, Business solution services, Cybersecurity and Digital businesses

We have assumed legacy services to continue to decline at an average annual rate of ~8% as seen over FY13-18, through to FY23F with growth segments recording a CAGR of 15% (vs. 19% CAGR over FY13-18) over the same period.

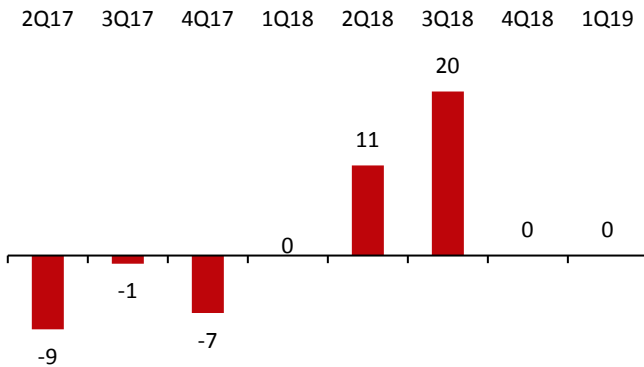
Amobee is already making marginal contributions to EBITDA. Amobee, Singtel's digital advertising arm that accounts for the lion's share of its digital businesses, recorded breakeven EBITDA in 1Q18 with the acquisition of Turn, a complementary rival of Amobee. Since then, Amobee has made marginal positive contributions to EBITDA over 2Q/3Q18, supported by scale and cost efficiencies. Management expects Amobee to be EBIT positive over the next 5-6 quarters, affirming that Amobee is likely to start recording consecutive quarters of positive EBITDA going forward.

HOOQ likely to reach EBITDA breakeven on revenue of US\$100m. HOOQ, the regional OTT video service of Singtel, is presently investing heavily to ramp up scale and acquire content to lure subscribers to the platform, which has resulted in heavy EBITDA losses from the service. Management expects HOOQ to reach EBITDA breakeven with revenues of ~US\$100m (vs. ~FY18 revenues of US\$17m from the digital life segment). While HOOQ could take a few more years to reach breakeven EBITDA, we expect to see narrowing losses from the service as management intends to shift the bulk of the content spend towards localised, Asian content, which is significantly cheaper than Hollywood content. This should support lower losses in EBITDA from digital life excluding Amobee, in our view.

Singtel

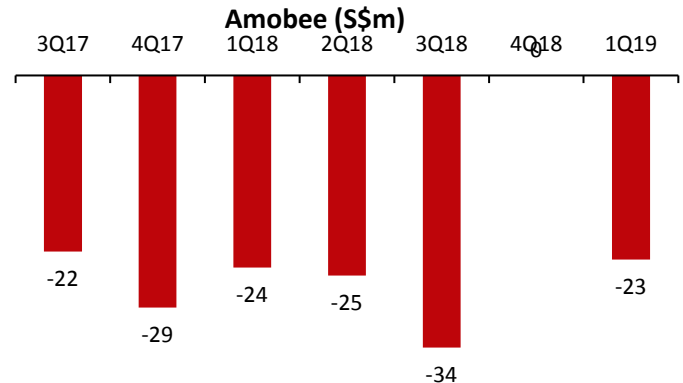
Digital life segment likely to record positive EBITDA supported by Amobee by FY21F

Amobee EBITDA (\$m)



Source: Singtel, DBS Bank

EBITDA of Digital Life businesses ex. Amobee (\$m)

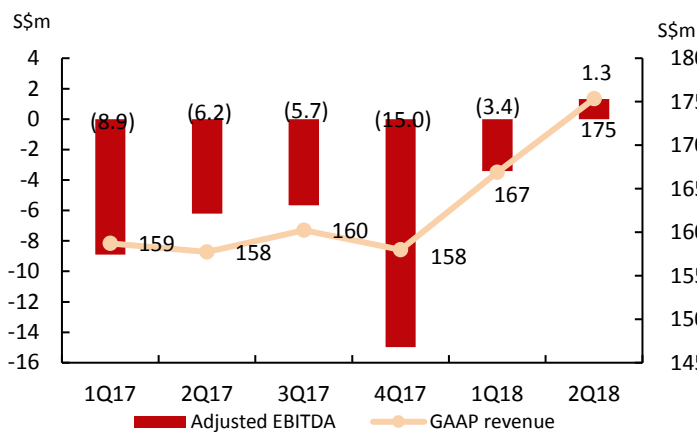


Source: Singtel, DBS Bank

Cybersecurity business should turn EBITDA positive with scale. Cybersecurity remains a low-margin business, as acquiring and training cyber-security talent and managing security operations centres (Singtel has 10 security operation centres) is a cost-intensive affair. The business also requires continuous investments in research, thus pushing down margins even further. Hence, acquiring scale remains pivotally important to reaching positive EBITDA for its cybersecurity business, in our view. We take cues from Secureworks, a managed security service provider based in the US. Secureworks recorded its first

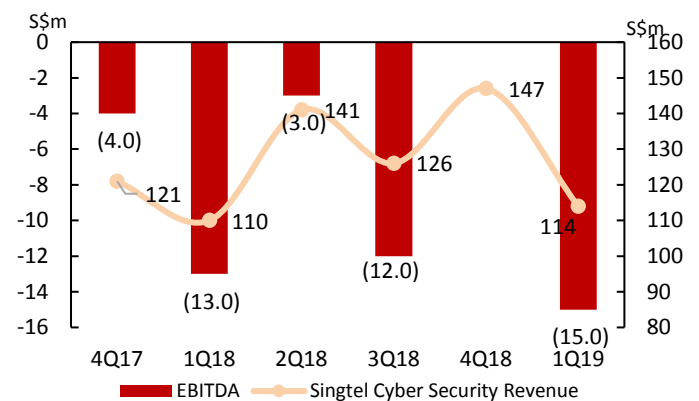
adjusted EBITDA in 2Q18 (July 2018), on a quarterly revenue of ~\$175m (US\$ 128m), the highest revenue recorded by the company after its listing in April 2016. Singtel's cybersecurity business remains smaller in size relative to its peers but with cybersecurity revenues expanding in the low teens, Singtel should be able to secure sufficient scale required to deliver positive EBITDA from its cybersecurity operations over the next 2 years, in our view.

Secureworks revenue and EBITDA



Source: Companies, DBS Bank




Singtel Cyber Security Revenue and EBITDA






Source: Companies, DBS Bank

Singtel

Digitisation should allow digital leaders like Singtel to maintain stable margins despite the growing proportion of low-margin businesses

	2020		
	 Digital Leader	 Digital Navigator	 Digital Laggard
EBITDA margins on Telecom services	38%	36%	33%
EBITDA margin on new revenue sources	15%	15%	15%
Contribution of telecom services to revenues	85%	92%	100%
Contribution of new revenue sources to revenues	15%	8%	0%
Overall EBITDA margin	35%	35%	32%

Changes in operating expenses of telecom services through digitisation

	Marketing, Sales, and Distribution (15% of Opex)	-20%	-10%	+10%
	Customer care (5% of Opex)	-40%	-20%	+10%
	General Administration Expenses (40% of Opex)			+5%

Source: Digital Prism by DBS Bank

Singtel

Singapore and Australia businesses are valued at 7x EV/EBITDA each

Singtel's valuation	Value (S\$ m)	Per share (S\$)
Singapore core business	15,056	0.90
Australia core business	20,000	1.20
Digital Business	2,211	0.13
Debt	-10,278	-0.61
MI	3	0.00
Equity value of the core business	26,993	1.61
Regional telco investments		1.98
Share value		3.59

Associate valuation based on their market prices

Regional telco investments	Share price	Exchange rate	Stake	Value (S\$ m)	Per Share (S\$)
Airtel	305.00	53.50	40%	9,002	0.54
AIS	184.00	23.70	23%	5,378	0.32
InTouch	52.50	23.70	21%	1,492	0.09
Globe*	1828.00	39.24	47%	2,902	0.17
Singpost	1.01	1.00	22%	501	0.03
	FY19F (March YE) PER	Exchange rate	Stake	Value (S\$ m)	
Telkomsel	18x	11,042	35%	15,551	0.93
Total				34,825	
Holding company discount (5%)				-1,741	-0.10
Net investment holdings				33,084	1.98

Source: Company, DBS Bank

Singtel

CRITICAL DATA POINTS TO WATCH

Critical Factors

Associates' contribution is expected to grow in FY20F. FY20F growth will be led by high-single-digit growth at Telkomsel, Globe and AIS despite a weak Bharti showing while FY21F should be led by a significant recovery at Bharti. Telkomsel is recovering after the fiasco in 4Q19 and 1Q19, while AIS and Globe are also doing well. Meanwhile, Bharti is likely to go through with some more pain for another two years. Bharti is facing earnings headwinds due to competitive pressures and voice/SMS cannibalisation. Bharti is likely to record a loss in FY19 as competitive pressures in India remain tight.

Telkomsel's recovery in 2Q19 bodes well for Singtel in FY20F

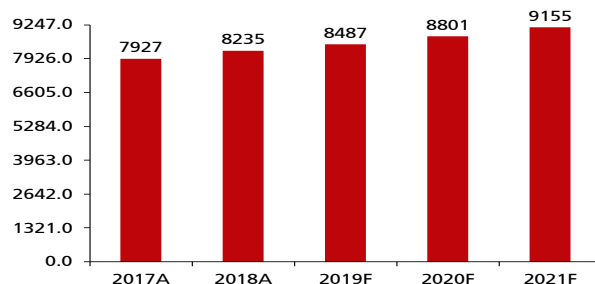
Post-tax earnings contribution S\$m	2Q19	1Q19	2Q18
Telkomsel	216	177	279
AIS & Intouch	84	100	91
Globe	60	66	62
Bharti	-6	19	30

Source: Company, DBS bank

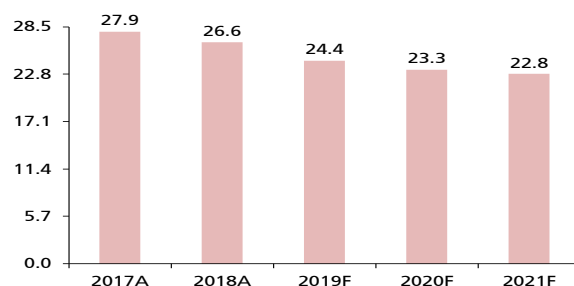
Guidance for stable FY19F EBITDA in core business despite 1% y-o-y drop in 1H19, implies a pick-up in 2H19F. The guidance assumes AUD/SGD of S\$1.05 vs S\$1.00 now and excludes the National Broadband Network (NBN) migration fee in Australia. Three key drivers in 2H19F would be (i) rebound in Infocomm Technology (ICT) revenue with ~S\$300m of additional ICT revenue vs 1H19 from Smart Nation contracts; (ii) S\$300m of cost savings in 2H19F vs S\$193m cost savings in 1H19; and (iii) Narrowing losses at the digital life segment, supported by growth of Amobee.

TPG's capex spend too low to pose a threat. TPG has so far spent A\$66.7m (S\$65.7m) in cumulative capex on its Singapore rollout, ~22-32% of its planned S\$200-300m of capex. The telco revealed that its production network covers ~90% of outdoor areas during its FY18 results briefing and mentioned that it is on track to meet the nationwide coverage requirement by December 2018, as set forth by IMDA. TPG is likely to delay the commercial launch of its services to 2Q19 from late 2018, citing delays in negotiating access to the jointly built common antenna systems of the incumbents and network testing. At the current level of capex spend, TPG's network at commercial launch is unlikely to pose a threat to the incumbents, in our view.

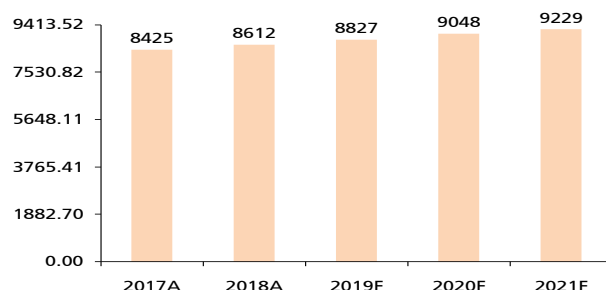
Singapore Revenue (S\$m)



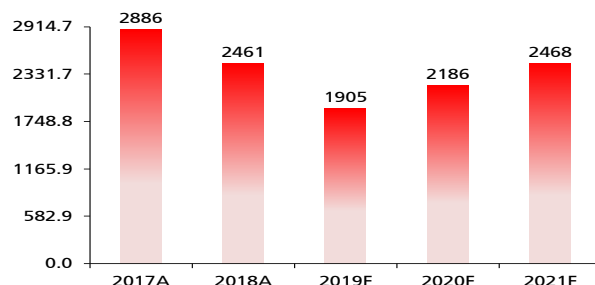
Singapore EBITDA Margin (%)



Optus Revenue (A\$m)



Associate pre-tax earnings (S\$m)



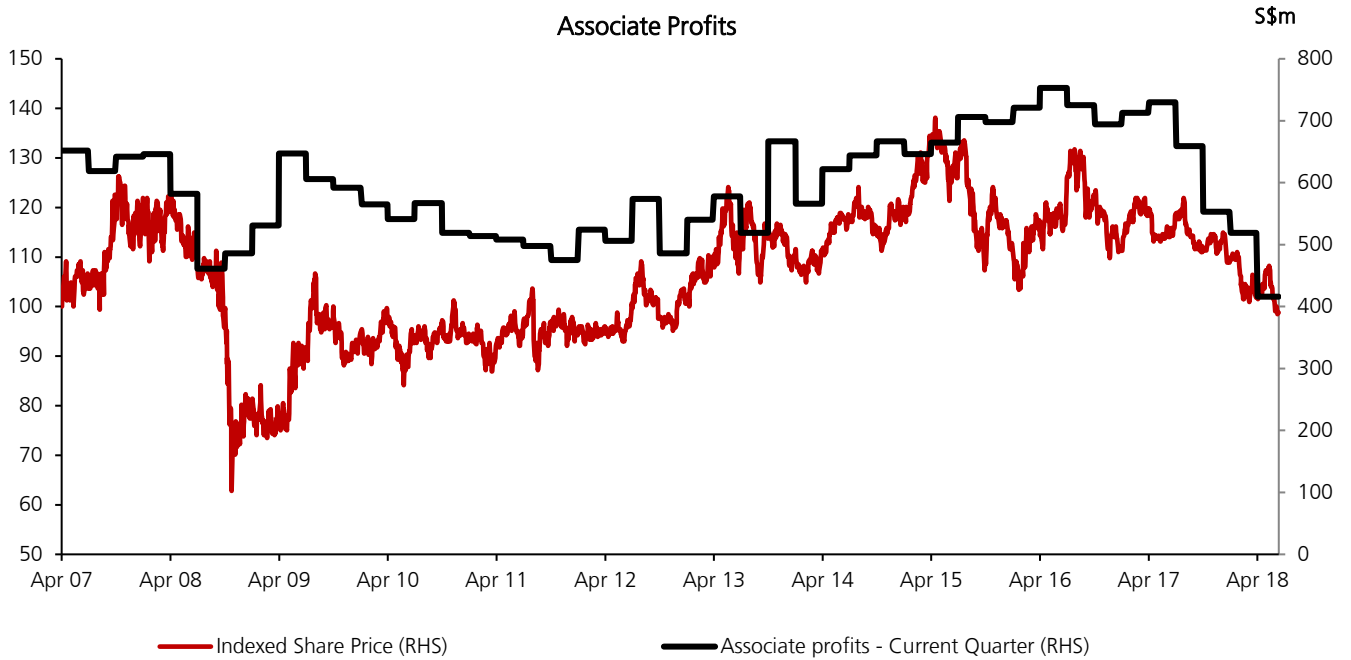
Source: Company, DBS Bank

Singtel

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

Associate profit is the most critical factor followed by EBITDA. In the critical factor analysis which we conducted for the past ~10 years, Singtel's share price seems to follow its current quarter associate profits. Singtel's share price had a positive correlation of 0.62 with its associate profits.

Share price vs. current quarter associate profits



Sources: Reuters, Companies, DBS Bank

Singtel

Balance Sheet:

Strong balance sheet to allow gearing up if required. FY18's net debt-to-EBITDA (after pre-tax profit contributions of associates) stood at only ~1.3x, giving ample room to Singtel to invest in new business opportunities and/or raise its earnings payout ratio from 70-75% now. If Singtel were to leverage to 2x net debt-to-EBITDA, it implies the company could potentially borrow another S\$5bn. In our view, Singtel should be able to sustain its dividends at the current level even if earnings were to decline for any reason.

Share Price Drivers:

Rebound in 2Q19F earnings could be a catalyst. Singtel is likely to record 2Q19F core earnings of ~S\$811m (+11% q-o-q), driven by a strong rebound from Telkomsel, growth in contributions from other associates, and the absence of a one-off withholding tax expense in 1Q19. The rebound in Telkomsel affirms our assumption of Singtel's earnings bottoming out in 1Q19 and further validates our projection of associate contributions returning to a growth trajectory in FY20F, led by Telkomsel, AIS and Globe despite a delay in Bharti's recovery. Current quarter associates' profit contribution has been a critical factor for Singtel's share price historically and signs of a rebound in associate contributions could prompt the market to re-rate the counter, in our view. Singtel looks attractive, trading at a 12-month forward PE of 16x, -1SD of its 17x historical average and offers a 6% EPS CAGR over FY19F-21F and 5.5% yield

Key Risks:

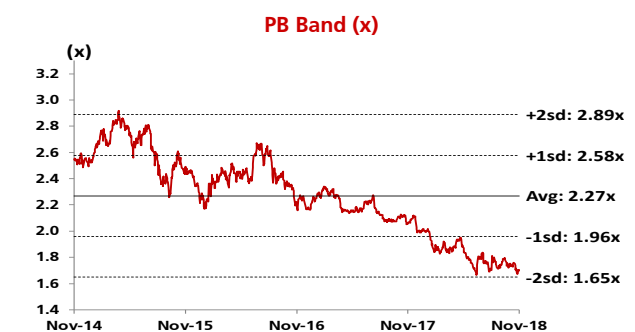
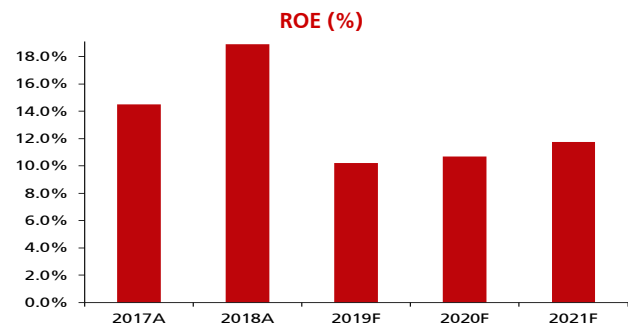
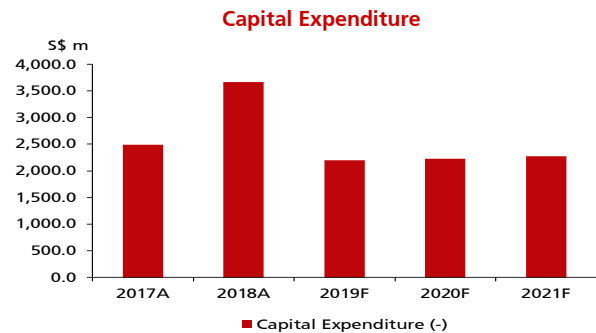
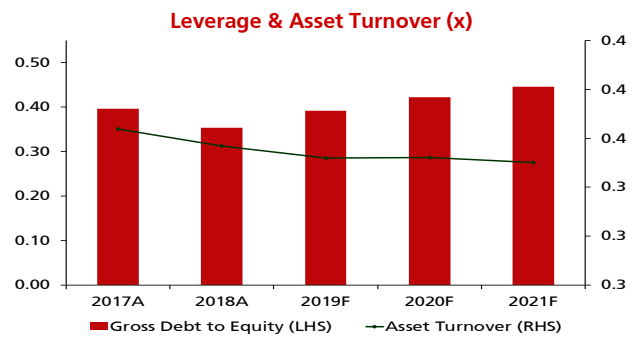
Bear-case valuation of S\$2.65 suggests 9% downside risk.

This assumes (i) 20% drop in the valuation of Singapore and Australia business due to EBITDA decline vs stable EBITDA; (ii) a 20% drop in valuations of Bharti and Telkomsel, and a 10% drop in market cap of other associates; and (iii) a 15% holding company discount vs 5% under our base case.

Bull-case valuation for Singtel is S\$4.05. In our bull case, we have assumed core EBITDA to grow by 5% p.a. over FY18A-20F despite new mobile entrants in Singapore and Australia. We have also projected that Bharti's market value will increase 20% along with 20% growth in Telkomsel's earnings for FY18F. Under our bull-case scenario, our fair value could rise to S\$4.05.

Company Background

Singtel is the largest telecom operator in Singapore and its Australian subsidiary Optus is the second largest operator in Australia. Singtel also has substantial stakes in telcos in the region – Telkomsel in Indonesia, Bharti Airtel (Bharti) in India, AIS in Thailand and Globe in the Philippines.



Source: Company, DBS Bank

Key Assumptions

FY Mar	2017A	2018A	2019F	2020F	2021F
Singapore Revenue (\$m)	7,927	8,235	8,487	8,801	9,155
Singapore EBITDA Margin	27.9	26.6	24.4	23.3	22.8
Optus Revenue (A\$m)	8,425	8,612	8,827	9,048	9,229
Optus EBITDA Margin (%)	0.0	0.0	0.0	0.0	0.0
Associate pre-tax earnings	2,886	2,461	1,905	2,186	2,468

Income Statement (\$m)

FY Mar	2017A	2018A	2019F	2020F	2021F
Revenue	16,711	17,268	17,314	17,849	18,384
Cost of Goods Sold	(11,929)	(12,476)	(12,740)	(13,252)	(13,732)
Gross Profit	4,782	4,792	4,575	4,596	4,653
Other Opng (Exp)/Inc	(2,024)	(1,991)	(2,067)	(2,096)	(2,114)
Operating Profit	2,759	2,801	2,508	2,500	2,539
Other Non Opg (Exp)/Inc	77.4	0.0	0.0	0.0	0.0
Associates & JV Inc	2,886	2,461	1,905	2,186	2,468
Net Interest (Exp)/Inc	(337)	(345)	(314)	(332)	0.0
Exceptional Gain/(Loss)	(31.9)	1,880	0.0	0.0	0.0
Pre-tax Profit	5,353	6,797	4,099	4,354	5,007
Tax	(1,522)	(1,344)	(1,107)	(1,219)	(1,502)
Minority Interest	21.7	21.0	21.0	21.0	21.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	3,853	5,474	3,013	3,156	3,526
Net Profit before Except.	3,885	3,594	3,013	3,156	3,526
EBITDA	7,961	7,512	6,739	7,041	7,380
Growth					
Revenue Gth (%)	(1.5)	3.3	0.3	3.1	3.0
EBITDA Gth (%)	1.5	(5.6)	(10.3)	4.5	4.8
Opg Profit Gth (%)	(3.7)	1.5	(10.5)	(0.3)	1.5
Net Profit Gth (Pre-ex) (%)	1.9	(7.5)	(16.2)	4.7	11.7
Margins & Ratio					
Gross Margins (%)	28.6	27.8	26.4	25.8	25.3
Opg Profit Margin (%)	16.5	16.2	14.5	14.0	13.8
Net Profit Margin (%)	23.1	31.7	17.4	17.7	19.2
ROAE (%)	14.5	18.9	10.2	10.7	11.8
ROA (%)	8.4	11.3	6.1	6.2	6.7
ROCE (%)	4.9	5.3	4.3	4.2	4.0
Div Payout Ratio (%)	74.2	61.1	94.8	90.5	81.0
Net Interest Cover (x)	8.2	8.1	8.0	7.5	NM

Associate profits to rebound in FY20F led by Telkomsel, AIS and Globe despite the delayed recovery of Bharti

Source: Company, DBS Bank

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

FY Mar	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019
Revenue	4,268	4,583	4,262	4,134	4,270
Cost of Goods Sold	(3,066)	(3,333)	(3,089)	(2,992)	(3,191)
Gross Profit	1,202	1,250	1,173	1,142	1,079
Other Oper. (Exp)/Inc	(529)	(482)	(504)	(489)	(504)
Operating Profit	673	768	669	653	575
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	659	553	519	416	330
Net Interest (Exp)/Inc	(91.0)	(81.0)	(87.0)	(70.0)	(94.0)
Exceptional Gain/(Loss)	1,940	10.0	(51.0)	98.0	(48.0)
Pre-tax Profit	3,181	1,250	1,050	1,097	763
Tax	(332)	(299)	(282)	(271)	(102)
Minority Interest	6.00	8.00	2.00	5.00	6.00
Net Profit	2,855	959	770	832	667
Net profit bef Except.	915	949	821	734	715
EBITDA	1,332	1,321	1,188	1,069	905

Growth

Revenue Gth (%)	2.7	7.4	(7.0)	(3.0)	3.3
EBITDA Gth (%)	(6.3)	(0.8)	(10.1)	(10.0)	(15.3)
Opg Profit Gth (%)	(2.7)	14.1	(12.9)	(2.4)	(11.9)
Net Profit Gth (Pre-ex) (%)	0.7	3.7	(13.5)	(10.6)	(2.6)

Margins

Gross Margins (%)	28.2	27.3	27.5	27.6	25.3
Opg Profit Margins (%)	15.8	16.8	15.7	15.8	13.5
Net Profit Margins (%)	66.9	20.9	18.1	20.1	15.6

Balance Sheet (\$\$m)

FY Mar	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	11,893	11,454	11,705	11,956	12,232
Invts in Associates & JVs	14,235	14,756	15,385	16,108	16,924
Other LT Assets	16,249	15,515	15,140	14,764	14,389
Cash & ST Invts	534	525	1,419	2,187	3,376
Inventory	352	397	398	410	423
Debtors	4,924	5,818	5,834	6,014	6,194
Other Current Assets	107	22.0	22.0	22.0	22.0
Total Assets	48,294	48,487	49,903	51,460	53,559
ST Debt	3,134	1,824	1,824	1,824	1,824
Creditor	4,922	5,371	5,385	5,552	5,718
Other Current Liab	1,216	1,235	1,991	2,103	2,386
LT Debt	8,052	8,668	9,668	10,668	11,668
Other LT Liabilities	2,756	1,709	1,709	1,709	1,709
Shareholder's Equity	28,191	29,706	29,373	29,673	30,342
Minority Interests	22.4	(26.0)	(47.0)	(68.0)	(89.0)
Total Cap. & Liab.	48,294	48,487	49,903	51,460	53,559
Non-Cash Wkg. Capital	(755)	(369)	(1,122)	(1,209)	(1,466)
Net Cash/(Debt)	(10,652)	(9,967)	(10,073)	(10,305)	(10,116)
Debtors Turn (avg days)	101.5	113.5	122.8	121.1	121.2
Creditors Turn (avg days)	179.3	183.7	188.5	183.2	181.1
Inventory Turn (avg days)	12.7	13.4	13.9	13.5	13.4
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	0.6	0.8	0.8	0.9	1.0
Quick Ratio (x)	0.6	0.8	0.8	0.9	1.0
Net Debt/Equity (X)	0.4	0.3	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	0.4	0.3	0.3	0.3	0.3
Capex to Debt (%)	22.2	35.0	19.2	17.9	16.8
Z-Score (X)	2.8	2.8	2.7	2.7	NA

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Mar	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	5,353	6,797	4,099	4,354	5,007
Dep. & Amort.	2,239	2,250	2,326	2,355	2,373
Tax Paid	(834)	(608)	(351)	(1,107)	(1,219)
Assoc. & JV Inc/(loss)	(2,886)	(2,461)	(1,905)	(2,186)	(2,468)
Chg in Wkg.Cap.	(492)	(178)	(2.3)	(26.1)	(26.2)
Other Operating CF	279	(1,493)	350	382	0.0
Net Operating CF	3,659	4,308	4,517	3,772	3,666
Capital Exp.(net)	(2,488)	(3,667)	(2,202)	(2,230)	(2,273)
Other Invts.(net)	40.4	18.1	0.0	0.0	0.0
Invts in Assoc. & JV	(2,410)	606	0.0	0.0	0.0
Div from Assoc & JV	1,656	1,648	1,275	1,464	1,653
Other Investing CF	26.1	1,093	0.0	0.0	0.0
Net Investing CF	(3,177)	(303)	(926)	(767)	(620)
Div Paid	(2,821)	(2,862)	(3,346)	(2,856)	(2,856)
Chg in Gross Debt	1,158	(312)	1,000	1,000	1,000
Capital Issues	1,602	0.0	0.0	0.0	0.0
Other Financing CF	(362)	(835)	(350)	(382)	0.0
Net Financing CF	(422)	(4,009)	(2,696)	(2,238)	(1,856)
Currency Adjustments	11.9	(4.2)	0.0	0.0	0.0
Chg in Cash	72.0	(8.8)	894	767	1,189
Opg CFPS (S cts)	25.4	27.5	27.7	23.3	22.6
Free CFPS (S cts)	7.17	3.92	14.2	9.45	8.54

Operating cash flows to support higher capex going forward

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Jan 18	3.59	4.30	BUY
2:	25 Jan 18	3.62	4.30	BUY
3:	08 Feb 18	3.40	4.30	BUY
4:	07 May 18	3.50	3.85	BUY
5:	17 May 18	3.44	3.85	BUY
6:	18 Jun 18	3.19	3.70	BUY
7:	26 Jun 18	3.12	3.70	BUY
8:	08 Aug 18	3.20	3.70	BUY
9:	24 Oct 18	3.14	3.64	BUY
10:	01 Nov 18	3.18	3.64	BUY
11:	08 Nov 18	3.08	3.59	BUY

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

Source: DBS Bank

Analyst: Sachin MITTAL

Singapore Company Guide

StarHub

Version 15 | Bloomberg: STH SP | Reuters: STAR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Nov 2018

BUY

Last Traded Price (9 Nov 2018): S\$1.94 (STI : 3,077.97)

Price Target 12-mth: S\$2.45 (26% upside) (Prev S\$2.45)

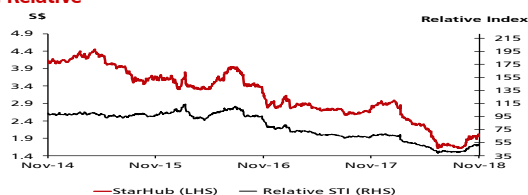
Analyst

Sachin MITTAL +65 66823699 sachinmittal@db.com

What's New

- 3Q18 earnings of S\$57m (-13% y-o-y, -9% q-o-q) was 4-5% ahead of consensus and our expectations on lower than expected cost of services
- Street's FY19/20F EPS likely to be revised up by 6%/27% in the coming months
- Maintain BUY with unchanged S\$2.45 TP

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2017A	2018F	2019F	2020F
Revenue	2,401	2,322	2,285	2,257
EBITDA	612	585	570	615
Pre-tax Profit	304	270	263	289
Net Profit	250	221	216	237
Net Pft (Pre Ex.)	250	221	216	237
Net Pft Gth (Pre-ex) (%)	(24.6)	(11.6)	(2.4)	9.8
EPS (S cts)	14.4	12.8	12.5	13.7
EPS Pre Ex. (S cts)	14.5	12.8	12.5	13.7
EPS Gth Pre Ex (%)	(25)	(12)	(2)	10
Diluted EPS (S cts)	14.4	12.7	12.4	13.7
Net DPS (S cts)	16.0	16.0	10.6	11.0
BV Per Share (S cts)	8.13	4.93	6.80	9.54
PE (X)	13.4	15.2	15.5	14.2
PE Pre Ex. (X)	13.4	15.2	15.5	14.2
P/Cash Flow (X)	6.5	7.3	7.2	6.5
EV/EBITDA (X)	6.9	7.3	7.7	7.2
Net Div Yield (%)	8.2	8.2	5.5	5.7
P/Book Value (X)	23.9	39.4	28.5	20.3
Net Debt/Equity (X)	1.8	2.4	2.5	2.4
ROAE (%)	148.8	195.9	7	167.7
Earnings Rev (%)		10	(6)	5
Consensus EPS (S cts)		12.4	11.1	9.90
Other Broker Recs:		B: 5	S: 5	H: 12

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

Street FY19F/20F earnings set to rise

Stronger than expected earnings rebound in FY20F. We have lowered our FY19F earnings by 6% as StarHub is frontloading fibre migration expenses with its plans to shut-down the co-axial cable network by July 2019. However, we expect the rebound in earnings for FY20 to be even stronger now, with earlier than expected recognition of ~S\$30m annual savings in operating lease expenses. The street's FY19F earnings are edging up and we expect to see more upward revisions going forward. StarHub's valuation is attractive, trading close to -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 6%/27% over the next few months. The street's FY19F earnings are likely to be raised by at least S\$10m on the absence of S\$10-15m amortisation cost for 700MHz spectrum. Consensus is also ignoring ~S\$30m savings on operating lease expenses in FY20 with the shutdown of StarHub's co-axial cable network, absence of repair and maintenance costs of its co-axial network and potential savings through digitisation of customer care, marketing & distribution costs.

Potential catalyst: News on TPG's launch, network sharing and the transformation programme. Official confirmation of delay in TPG's commercial launch to 2Q19, more clarity on network sharing and quarterly updates on the transformation programme could rekindle more interest in StarHub.

Valuation:

Maintain BUY with TP unchanged at S\$2.45. We use DCF (WACC 7%, terminal growth 0.5%) to derive our TP and project FY19F dividend yield of 5.5%.

Key Risks to Our View:

Bear case valuation is S\$1.75 if TPG causes severe disruption. StarHub could see a 6% drop in FY19F EBITDA under this scenario vs 2.5% under our base case.

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)	3,358 / 2,435
Major Shareholders (%)	
Temasek Holdings	55.8
NTT	9.9
Blackrock	5.0
Free Float (%)	29.3
3m Avg. Daily Val (US\$m)	4.4
ICB Industry : Telecommunications / Fixed Line Telecommunications	



WHAT'S NEW

Strong rebound expected in FY20F

Service revenue of S\$460m (-2% y-o-y, -2% q-o-q) in line with our expectations. Mobile service revenue of S\$213.6m (-4% y-o-y, stable q-o-q) was driven by wholesale revenues from MyRepublic, which launched services in June 2018, and the recovery of international roaming revenues, partially offsetting the impact of growing adoption of Sim-Only plans and subscriber losses in the prepaid segment. Revenues from Pay TV services dipped 12% q-o-q (-14% y-o-y) with the loss of ~15,000 subscribers after the football World Cup season, the highest q-o-q loss of subscribers StarHub has recorded to date. Enterprise segment continued its growth momentum, expanding 2% q-o-q (+13% y-o-y) driven by StarHub's growing portfolio of managed services, offsetting declines in the enterprise data and internet and voice segments. Equipment sales edged down 6% q-o-q (+24% y-o-y) on lower sales of bundled plans and smart home equipment, bringing total revenues to S\$582m (+3% y-o-y, -3% q-o-q). 9M18 revenues represented 75% of our FY18 full year forecast.

3Q18 earnings of S\$57m (-13% y-o-y, -9% q-o-q) was 5% ahead of our expectations on lower than expected content costs possibly. Cost of sales edged down 1% q-o-q (+15% y-o-y) supported by lower equipment sales and content costs, which drove down cost of services, despite growth in enterprise services and higher fibre migration expenses. StarHub only renews any agreement with content-providers if they agree to switch from fixed-cost to variable cost structure based on the number of subscribers. Traffic expenses however, shot up 37% q-o-q on growing take up of international roaming services, which partially offset the lower cost of services. Marketing expenses edged up slightly possibly on the back of accelerating fibre migrations, bringing EBITDA to S\$147m (-10% y-o-y, -5% q-o-q).

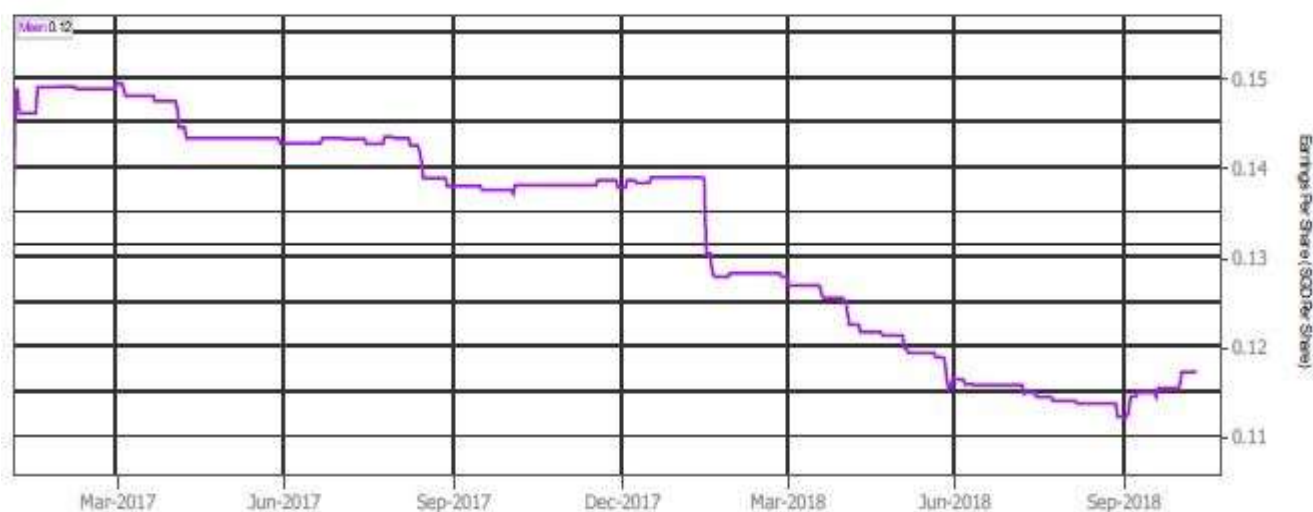
According to StarHub's management, the workforce reduction exercise, a part of StarHub's S\$210m cost transformation program, has been completed in October and staff cost savings will start materialising from 4Q18F onwards. The management also reported that the one-off S\$25m restructuring expense was already accounted for in 2017 and restructuring expenses will not have an impact on earnings for FY18. We have taken staff cost reductions for FY18F into account but revise our FY18F earnings down by 2% on higher traffic expenses for international roaming and absence of the tax shield on S\$25m restructuring expense, which we had previously accounted for.

Frontloading of migration costs to lead to even bigger rebound in FY20F. In November 2018, StarHub announced plans to cease providing broadband and Pay-TV services using its Hybrid Fibre Coaxial (HFC) Network by June 2019, ahead of the earlier proposed date of disconnection in 2020. Accordingly, all existing Pay-TV and broadband subscribers on the HFC Network would be transitioned to the National Broadband Network (NBN) by June 2019, and StarHub would decommission its HFC network in the nine months after June 2019. Based on 3Q18 results, StarHub has ~70,000 (15% of the total broadband subscriber base) broadband subscribers on the HFC network and we estimate that ~80,000-90,000 Pay-TV subscribers are currently on HFC due to the convenience of multiple cable TV socket points in the home.

We expect to see a sharp rise in StarHub's cost of services in FY19F as migrations to NBN accelerate. Assuming StarHub pays S\$13.80 per month for each fibre line for 80,000-90,000 subscribers, StarHub is likely to incur ~S\$13-15m in annual fibre leasing costs over FY19. Marketing expenses are also likely to edge up as StarHub advertises aggressively to lure subscribers to migrate. Accordingly, we have factored in ~S\$16m net increase in opex, after accounting for potential savings on repairs and maintenance of the HFC network over 2H19, and revised down our FY19F earnings by S\$13m (6% cut to our previous forecasts).

Earlier than expected lease savings to further strengthen the rebound in FY20F. StarHub would benefit from savings of ~S\$25m in lease expenses on the HFC network in FY20F, ahead of our previous expectation of FY21, followed by ~S\$30m savings each year. We have raised our FY20F earnings by S\$12m (5% increase from our current forecasts), after conservatively factoring in ~S\$15m in savings on operating lease expenses. We expect StarHub's earnings to rebound ~10% in FY20 supported by cost savings, after four consecutive years of decline.

Consensus FY19 forecasts have started to edge up



Source: ThomsonReuters

Quarterly / Interim Income Statement (\$m)

FY Dec	3Q2017	2Q2018	3Q2018	% chg yoy	% chg qoq
Revenue	565	597	582	3.0	(2.5)
Cost of Goods Sold	(405)	(442)	(435)	7.4	(1.5)
Gross Profit	160	155	147	(8.1)	(5.3)
Other Oper. (Exp)/Inc	(71.5)	(71.0)	(71.4)	(0.1)	0.6
Operating Profit	88.4	84.2	75.5	(14.6)	(10.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	(1.5)	(0.3)	(0.2)	86.7	(33.3)
Net Interest (Exp)/Inc	(6.3)	(6.6)	(6.5)	(3.2)	1.5
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	80.6	77.3	68.8	(14.6)	(11.0)
Tax	(15.0)	(14.6)	(10.9)	(27.3)	(25.3)
Minority Interest	0.0	0.0	(1.0)	-	-
Net Profit	65.4	62.7	57.0	(12.8)	(9.1)
Net profit bef Except.	65.4	62.7	57.0	(12.8)	(9.1)
EBITDA	161	155	147	(9.1)	(5.4)
Margins (%)					
Gross Margins	28.3	26.0	25.2		
Opg Profit Margins	15.6	14.1	13.0		
Net Profit Margins	11.6	10.5	9.8		

Source of all data: Company, DBS Bank

StarHub

Critical Factors

ARPU dilution likely with growing adoption of SIM-only plans.

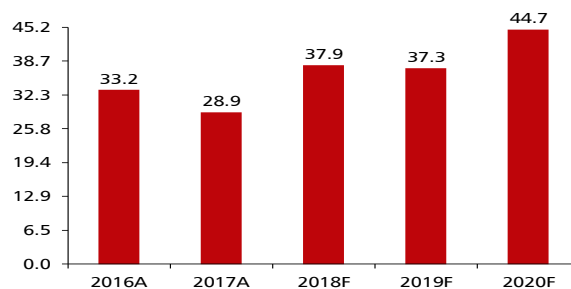
We believe SIM-only plans will rise in popularity over the medium term, with lengthening smartphone replacement cycles and aggressive promotions by MVNOs. StarHub’s 3Q18 postpaid ARPU declined ~8% y-o-y with the rising uptake of SIM-only plans and higher uptake of unlimited weekend data plans. We expect 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. 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 by 13% y-o-y in 3Q18, largely driven by the consolidation D’Crypt and growing revenues from StarHub’s managed services portfolio. Additionally, in 3Q18, StarHub entered into 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.

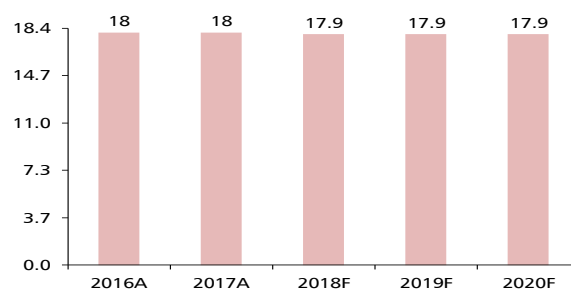
Cost transformation to support earnings stabilisation despite weak top-line growth.

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. We believe the cost transformation initiative 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.

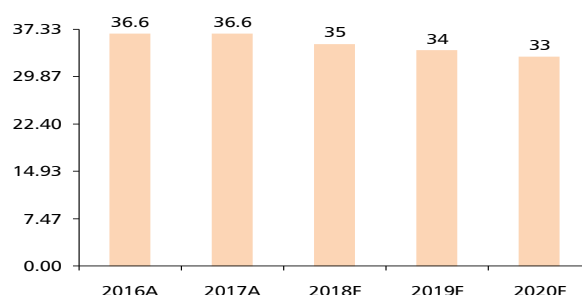
Mobile EBITDA Margins



CATV & Broadband EBITDA Margins



Fixed Network EBITDA Margins



Source: Company, DBS Bank

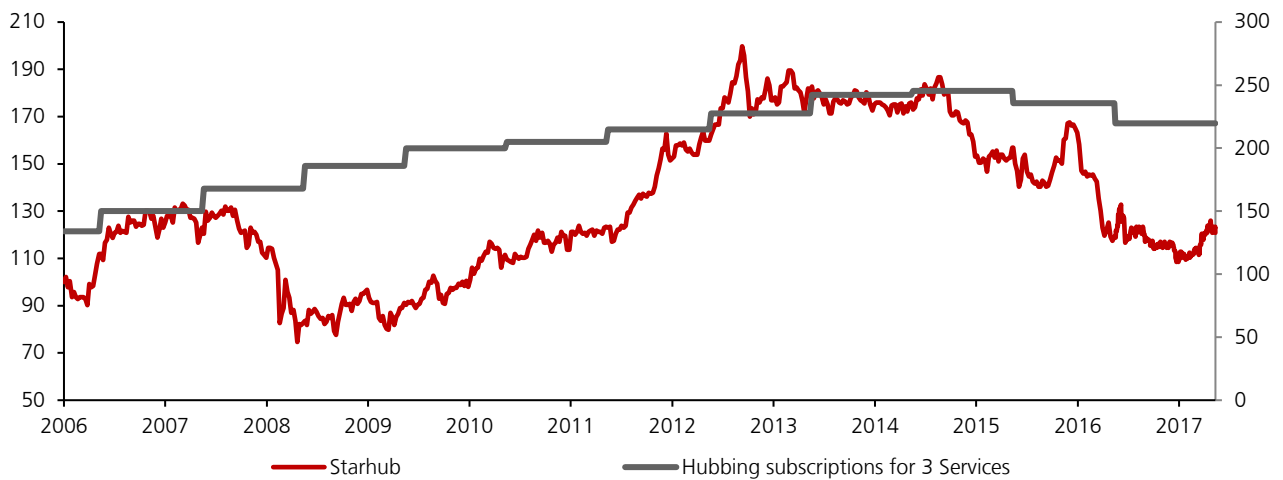
StarHub

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 that 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

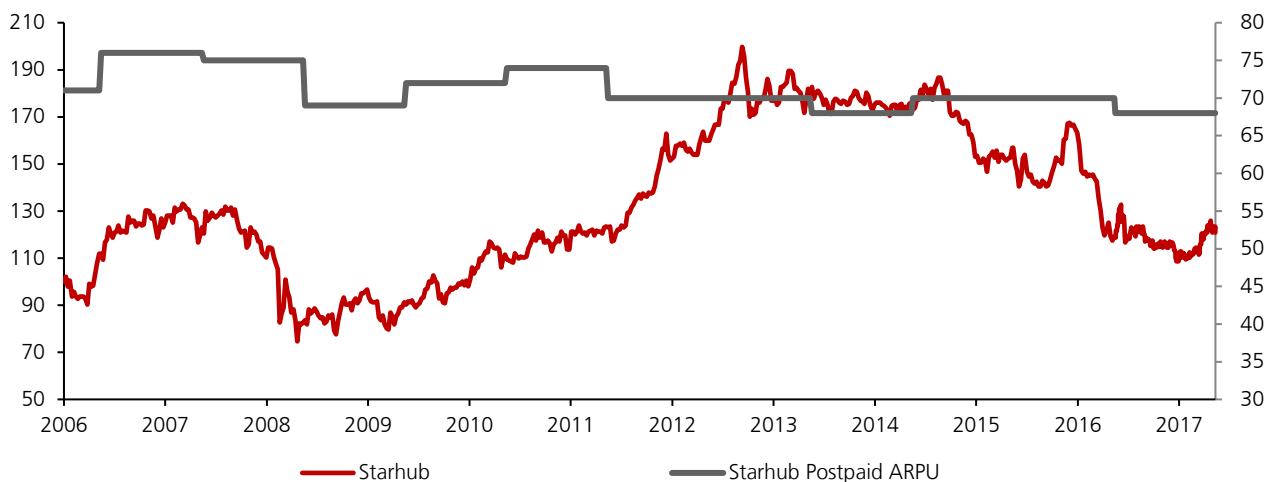
to develop subscriber base loyal to the Starhub brand. Hence, changes in Hubbing subscribers (with subscriptions to all three services), which exhibits a correlation of 0.58 with Starhub's share price, provides valuable cues on the effectiveness of Starhub's strategy to investors. Changes in postpaid ARPU, an indicator of topline and subscriber growth, exhibits 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, ThomsonReuters, DBS Bank

StarHub

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:

A stronger than expected rebound in FY20. We have cut our FY19F earnings by 6% as StarHub is frontloading fibre migration expenses with its plans to close the co-axial cable network by 1H19. However, we expect the rebound in earnings for FY20 to be even stronger now, with the earlier than expected recognition of ~S\$30m savings in operating lease expenses. The street’s FY19 earnings are now edging up and we expect to see more upward revisions going forward as the street’s forecasts still underestimate the potential cost savings over FY19-20. StarHub’s valuation is attractive, trading near -2SD of its historical EV/EBITDA and PE average and offers sustainable yield exceeding ~5.5%

Key Risks:

Bear case valuation is S\$1.75 if TPG causes severe disruption. StarHub could see a 6% drop in FY19F EBITDA under this scenario vs our base case of a 2.5% dip in 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.

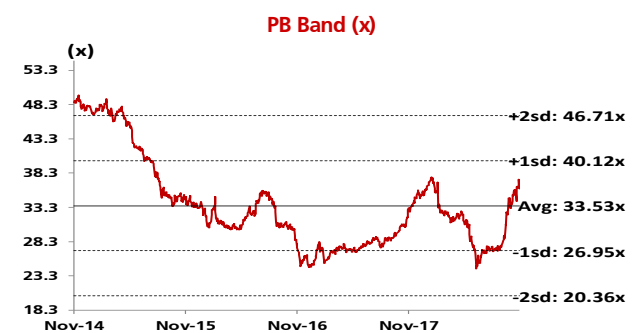
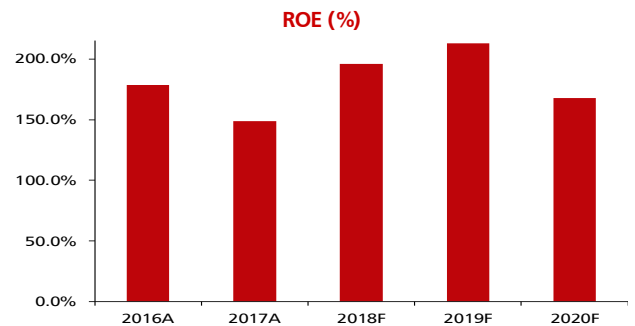
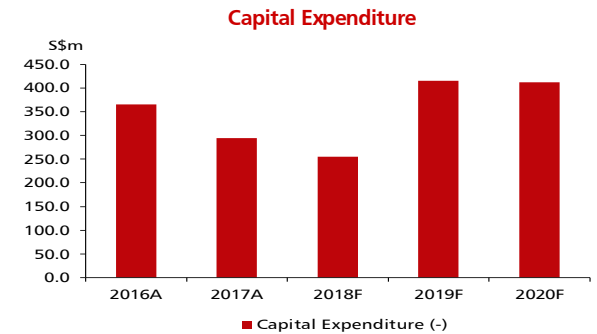
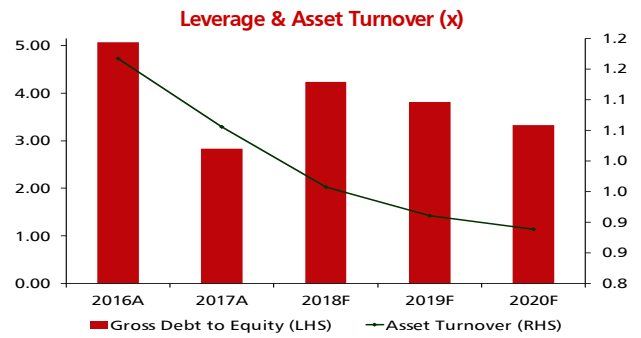
Company Background

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



Source: Company, DBS Bank

StarHub

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
Mobile EBITDA Margins	33.2	28.9	37.9	37.3	44.7
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
Revenues (\$\$m)					
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
Total	2,397	2,401	2,322	2,285	2,257
EBITDA (\$\$m)					
Mobile	403	346	319	296	332
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
Total	689	612	585	570	615
EBITDA Margins (%)					
Mobile	33.2	28.9	37.9	37.3	44.7
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
Total	28.7	25.5	25.2	24.9	27.3

Mobile segment would continue to remain under pressure

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)	(1,979)	(1,926)
Gross Profit	393	329	304	306	331
Other Opng (Exp)/Inc	32.2	4.40	0.0	0.0	0.0
Operating Profit	425	334	304	306	331
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)	0.0	0.0	0.0
Pre-tax Profit	410	304	270	263	289
Tax	(68.9)	(54.8)	(48.6)	(47.4)	(52.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	341	250	221	216	237
Net Profit before Except.	332	250	221	216	237
EBITDA	689	612	585	570	615
Growth					
Revenue Gth (%)	(1.9)	0.2	(3.3)	(1.6)	(1.3)
EBITDA Gth (%)	(3.4)	(11.2)	(4.4)	(2.5)	8.0
Opg Profit Gth (%)	(3.7)	(21.5)	(8.7)	0.6	8.1
Net Profit Gth (Pre-ex) (%)	(7.1)	(24.6)	(11.6)	(2.4)	9.8
Margins & Ratio					
Gross Margins (%)	16.4	13.7	13.1	13.4	14.7
Opg Profit Margin (%)	17.7	13.9	13.1	13.4	14.7
Net Profit Margin (%)	14.2	10.4	9.5	9.4	10.5
ROAE (%)	178.5	148.8	195.9	213.0	167.7
ROA (%)	16.6	11.0	9.1	8.6	9.3
ROCE (%)	29.9	19.3	15.8	14.9	15.7
Div Payout Ratio (%)	101.4	110.8	125.1	85.0	80.0
Net Interest Cover (x)	18.7	12.7	9.4	7.5	8.3

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Dec	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018
Revenue	565	649	561	597	582
Cost of Goods Sold	(405)	(553)	(409)	(442)	(435)
Gross Profit	160	96.1	152	155	147
Other Oper. (Exp)/Inc	(71.5)	(70.4)	(69.9)	(71.0)	(71.4)
Operating Profit	88.4	25.8	81.9	84.2	75.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.5)	(0.3)	(0.2)	(0.3)	(0.2)
Net Interest (Exp)/Inc	(6.3)	(6.2)	(6.4)	(6.6)	(6.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	80.6	19.3	75.3	77.3	68.8
Tax	(15.0)	(4.9)	(12.5)	(14.6)	(10.9)
Minority Interest	0.0	(0.3)	0.0	0.0	(1.0)
Net Profit	65.4	14.1	62.8	62.7	57.0
Net profit bef Except.	65.4	14.1	62.8	62.7	57.0
EBITDA	161	96.6	152	155	147

Growth

Revenue Gth (%)	(0.3)	14.8	(13.6)	6.5	(2.5)
EBITDA Gth (%)	(5.7)	(40.1)	57.3	2.0	(5.4)
Opg Profit Gth (%)	(16.0)	(70.8)	217.4	2.8	(10.3)
Net Profit Gth (Pre-ex) (%)	(18.1)	(78.4)	345.4	(0.2)	(9.1)

Margins

Gross Margins (%)	28.3	14.8	27.1	26.0	25.2
Opg Profit Margins (%)	15.6	4.0	14.6	14.1	13.0
Net Profit Margins (%)	11.6	2.2	11.2	10.5	9.8

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	531	408	332
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
Total Assets	2,196	2,352	2,499	2,519	2,563
ST Debt	10.0	120	120	120	120
Creditor	708	737	712	701	692
Other Current Liab	138	136	113	112	117
LT Debt	978	858	1,108	1,108	1,108
Other LT Liabilities	168	157	157	157	157
Shareholder's Equity	195	341	285	317	365
Minority Interests	0.0	4.40	4.40	4.40	4.40
Total Cap. & Liab.	2,196	2,352	2,499	2,519	2,563
Non-Cash Wkg. Capital	(390)	(385)	(347)	(339)	(338)
Net Cash/(Debt)	(702)	(632)	(697)	(819)	(896)
Debtors Turn (avg days)	24.8	28.4	31.2	30.9	30.8
Creditors Turn (avg days)	146.4	147.2	152.4	150.6	155.2
Inventory Turn (avg days)	10.9	12.4	14.9	14.7	15.1
Asset Turnover (x)	1.2	1.1	1.0	0.9	0.9
Current Ratio (x)	0.9	0.8	1.1	0.9	0.9
Quick Ratio (x)	0.5	0.6	0.8	0.6	0.6
Net Debt/Equity (X)	3.6	1.8	2.4	2.5	2.4
Net Debt/Equity ex MI (X)	3.6	1.9	2.4	2.6	2.5
Capex to Debt (%)	37.1	30.1	20.8	33.8	33.5

Spectrum payments and dividends may require StarHub to raise funds in FY18-19

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	410	304	270	263	289
Dep. & Amort.	265	280	283	266	287
Tax Paid	(53.7)	(65.3)	(71.6)	(48.6)	(47.4)
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)
Net Operating CF	551	517	458	466	515
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
Net Investing CF	(389)	(327)	(255)	(415)	(412)
Div Paid	(346)	(294)	(277)	(183)	(190)
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
Net Financing CF	(49.6)	(130)	(16.6)	(173)	(180)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	112	60.0	186	(123)	(76.4)
Opg CFPS (S cts)	35.4	30.2	27.4	27.4	30.1
Free CFPS (S cts)	10.7	12.9	11.7	2.93	5.96

Dividend cutback likely in FY19

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Jan 18	2.97	2.20	FULLY VALUED
2:	19 Feb 18	2.60	2.20	FULLY VALUED
3:	07 May 18	2.26	2.05	FULLY VALUED
4:	26 Jun 18	1.73	1.42	HOLD
5:	08 Aug 18	1.69	1.42	HOLD
6:	06 Sep 18	1.64	1.42	HOLD
7:	04 Oct 18	1.95	2.45	BUY
8:	16 Oct 18	1.89	2.45	BUY
9:	02 Nov 18	1.98	2.45	BUY

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

Source: DBS Bank

Analyst: Sachin MITTAL

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 21 Nov 2018 17:13:31 (SGT)

Dissemination Date: 21 Nov 2018 17:18:28 (SGT)

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8. Nihal Vijaya Devadas Kaviratne CBE, a member of DBS Group Holdings Board of Directors, is a Director of StarHub as of 30 Sep 2018.


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