

Singapore Industry Focus

Telecom Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Jan 2020

Will 5G alter market structure?

- Share prices are likely to perform well in 1Q2020 on the back of bids for Nationwide 5G licences
- 2020 street projections adequately capture the risk of earnings erosion.
- Netlink is our top pick followed by Singtel and StarHub

Share prices are likely to perform well in 1Q2020. In our view, StarHub & M1 may bid jointly for a Nationwide 5G licence in late-Jan2020 and Singtel might go solo. We expect 5G licences to be awarded in mid-2020. Without a Nationwide 5G licence, TPG's network would not be future-proof as there will be 5G coverage across at least half of Singapore by the end of 2022. Separately, we project annual revenue of S\$36m at best (~1% revenue share) for TPG after 12 months of its commercial launch in mid-2020, leading to huge losses. We can't identify a reason for TPG to stay in a loss-making business with bleaker prospects in a 5G world.

2020 street projections adequately capture the pressure on earnings. As more people adopt cheaper SIM only plans (vs. 20-25% of postpaid users now), postpaid average revenue per user (ARPU) is likely to decline further over the next 1-2 years. For example, Singtel offers 20GB for S\$20 on SIM-only plans, well below Singtel's postpaid ARPU of S\$38. However, TPG is paying incumbent telcos a significant fee for access to in-tunnel equipment and discontinuation of operations by mobile virtual network operator (MVNO) – Zero Mobile in Dec 2019, shows that new players are struggling, and some of them may look to exit Singapore soon.

Netlink NBN (NLT) is our top pick followed by Singtel and StarHub. NLT offers 5% EBITDA CAGR over FY20-22F, premised on residential fibre penetration (94% currently) rising to 97%, annual growth of 2% in the number of households and growth in enterprise business from players like StarHub deploying more NLT fibre. NLT's ~5.9% FY20F yield is superior to an average yield of 5.2 % offered by industrial S-REITs despite (1) its longer asset life than S-REITs; (2) less than half of S-REITs' gearing; and (3) low correlation with the business cycle. We like Singtel for ~5% yield and 8% earnings CAGR over FY20F-22F after three years of earnings decline due to deepening losses at Bharti. The recent sharp tariff hikes in India have boosted our confidence about an earnings turnaround at Bharti in FY21F supporting Singtel's earnings growth. We also like StarHub for its ~6% dividend yield and catalyst from the joint 5G bid in Jan 2020, although earnings stabilisation might take longer if TPG stays in the game for another few years.

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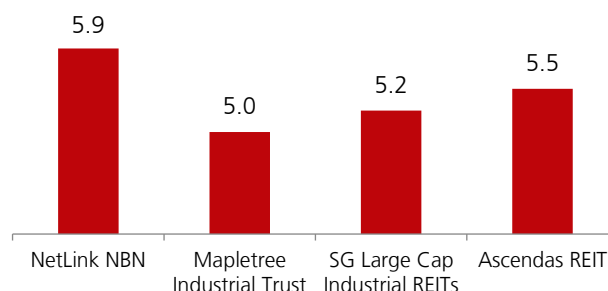
	Price S\$	Mkt Cap US\$m	12-mth Target Price S\$	Performance (%) 3 mth	12 mth	Rating
Singtel	3.40	41,287	3.60	7.7	15.0	BUY
NetLink NBN Trust	0.94	2,724	1.04	5.6	23.5	BUY
StarHub	1.42	1,829	1.43	10.1	(18.9)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

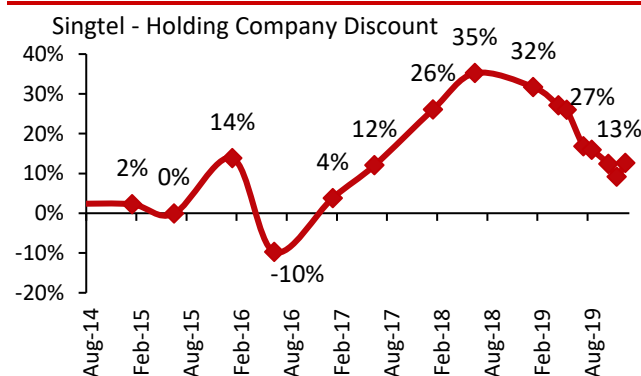
Closing price as of 2 Jan 2020

Netlink's yield vs. large-cap industrial S-REITs

FY21F Yield Differential - Netlink vs. SG Industrial REITs



Singtel to benefit from rise in associates' market value plus reduction in holding company discount below 10%



Source: DBS Bank



Live more, Bank less

Share prices of telecom players might perform well in 1Q20

Joint bid for Nationwide 5G licence in Jan 2020. In our view, StarHub-M1 may bid jointly for a Nationwide 5G licence in Jan 2020 and Singtel might go solo. Each 5G network may take S\$1bn plus in investments over the next 5-6 years almost double of an estimated S\$600m spent on 4G network by StarHub. Without a Nationwide 5G licence, there may be increased pressure on TPG to exit from Singapore as there will be 5G coverage across at least half of Singapore by the end of 2022. While TPG is likely to bid for one of the two Localised 5G licences, 26/28GHz spectrum available for Localised 5G will be inadequate for Nationwide 5G rollout and will cater to certain enterprise use case only. Nationwide 5G licences will come with both 3.5GHz spectrum and 26/28GHz spectrum. 3.5GHz spectrum is essential for Nationwide coverage. Licenses are expected to be granted by mid-2020 although the 3.5GHz licences required for the launch of the Nationwide networks are likely to be allocated only in 2021.

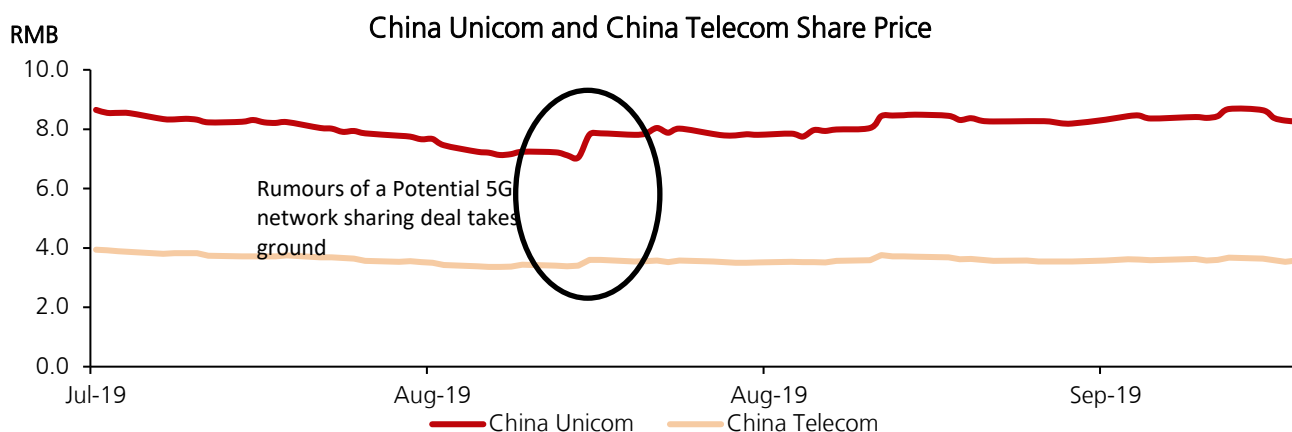
Two Localised 5G networks to create a faster enterprise centric roll-out. We believe that the smaller localised 5G networks will ensure that operators start providing 5G services to enterprises for use cases like Smart Factories from mid-2020 onwards as the roll-out of the Nationwide 5G network is likely to take till 2021.

TPG's business case is too weak for the company to survive.

TPG claims to have 300K free subscribers already (~5% subscriber share) but we believe many of these subscribers might churn out once TPG starts charging for the service in 1H20. Our base-case scenario assumes 200k subscribers paying S\$15 per month, implying S\$36m revenue (~1% revenue share) by 1H21. In our estimation, TPG needs S\$120m-150m revenue (5-6% revenue share) to cover its costs.

As of July 2019, TPG had spent A\$147m (S\$139m) in cumulative capex on its Singapore roll-out, or c. 46-70% of its planned S\$200-300 of capex. To put this into perspective, StarHub typically spends c. S\$200m plus annually to expand and upgrade its network. Hence, we do not expect TPG to be a disruptive force at the commercial launch of its services.

Chinese operators' share price surged with the announcement of 5G network sharing on 14 August 2019



Source: Reuters, DBS Bank

2020 street projections adequately capture the risk of earnings erosion in Singapore.

As more people adopt cheaper SIM only plans (vs. 20-25% of postpaid users now), postpaid average revenue per user (ARPU) is likely to decline further over the next 1-2 years. For example, Singtel offers 20GB for S\$20 SIM-only plans, well below Singtel's postpaid ARPU of S\$38.

TPG paid incumbent telcos a significant fee for access to in-tunnel equipment in 3Q19. TPG paid ~S\$9m to StarHub (S\$27m in total to all three telcos possibly) for the use of in-tunnel equipment. TPG is required to make payments for the use of in-tunnel radio equipment laid out by the incumbent operators in order to meet the 99% road tunnel coverage requirement by 1 January 2020, as set out by the regulator. The fee may decline gradually in 4Q19F and 2020F, as TPG

puts its own equipment incrementally in these tunnels with limited hours being available to install new equipment. However, to put things into context, with just S\$36m annual revenue potential over the next 12 months, the cost of accessing in-tunnel equipment seems prohibitively high to us.

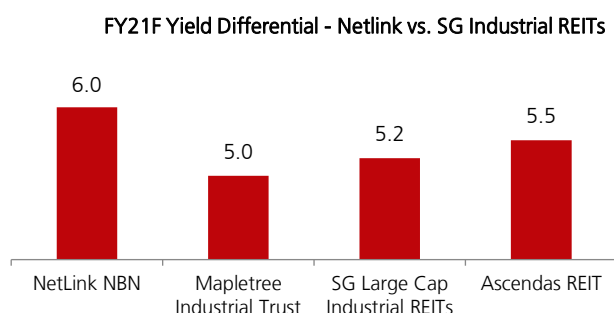
Zero Mobile – the second oldest Mobile virtual network operator (MVNO) – discontinued operations in Dec 2019.

Zero Mobile Virtual mobile telco Zero Mobile (also known as ZeroSG), which is headquartered in Australia, was rolled out in Singapore back in December 2017. It leases mobile network from Singtel and is the second virtual mobile telco to launch here after CirclesLife. Fast forward two years later, Zero Mobile has stopped offering mobile services in Singapore. Last month, it emailed its users to inform them that it will discontinue its Zero Xs and Zero X plans, which offered unlimited data at S\$49.95 and S\$59.95 per month respectively. According to the company, several individuals abused the service by using more than 600GB in a single month before defaulting on their account. There are ten players in the market including six MVNOs out of which only CirclesLife seems to be doing well. We think that a couple of MVNOs could face funding shortfalls in 2020 due to their unsustainable business model.

Netlink NBN (NLT) is our top pick followed by Singtel and StarHub in the order of preference

NLT offers much superior yield and growth with much lower risks. NLT offers ~5% EBITDA CAGR over FY20-22F, premised on rising residential fibre penetration (94% currently), 2% annual growth in the number of households and growth in enterprise business from players like StarHub deploying more NLT fibre. StarHub has lowered its capex guidance whereby it will use more NLT fibre for enterprise businesses rather than building its own fibre. NLT's ~5.9% FY20F yield is superior to an average yield of 5.2% offered by industrial S-REITs despite (1) its longer asset life than S-REITs; (2) less than half of S-REITs' gearing; and (3) low correlation with the business cycle due to the regulated nature of the business.

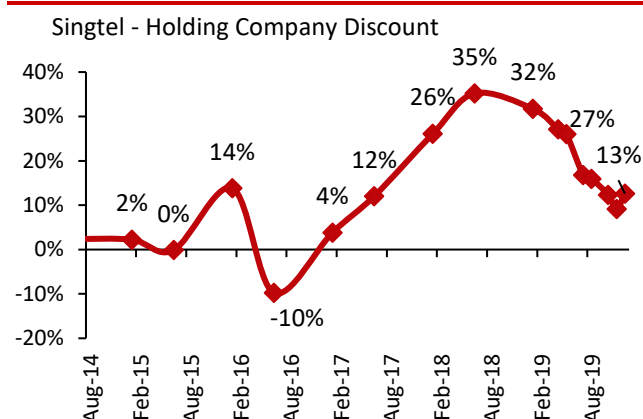
Netlink's yield vs. large cap industrial S-REITs



Source: DBS Bank

Singtel is likely to benefit from rise in associates market value and reduction in holding company discount below 10%. Our fair values for Bharti and Advanced Info Service are 10% and 25% higher than the respective market prices respectively, which if achieved will lead to a 7% upside for Singtel. On the other hand, there could be another 2-3% upside from a further reduction in holding company discount to below 10% from 13% currently. We like Singtel for its yield of ~5% and earnings CAGR of 8% over FY20F-22F after three years of earnings decline due to deepening losses at Bharti. The recent sharp tariff hikes in India have boosted our confidence about an earnings turnaround at Bharti in FY21F supporting Singtel's earnings growth.

Singtel to benefit from rise in associates' market value plus reduction in holding company discount below 10%



Source: DBS Bank

We also like StarHub for its ~6% dividend yield and catalyst in place. While StarHub's operating metrics remain weak, the share price may benefit from significant capex reductions over FY19/20F. New entrant TPG is struggling to fulfil its network roll-out obligations, as attested by TPG paying ~S\$9m to StarHub in 3Q19 for in-tunnel coverage, strengthening the case for consolidation in the sector. StarHub is working towards a joint bid for a Nationwide 5G licence in Jan 2020, which could serve as a share price catalyst.

Company Guides

Singapore Company Guide

NetLink NBN Trust

Version 9 | Bloomberg: NETLINK SP | Reuters: NETL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Nov 2019

BUY

Last Traded Price (4 Nov 2019): S\$0.955 (STI : 3,236.40)
Price Target 12-mth: S\$1.04 (9% upside) (Prev S\$0.95)

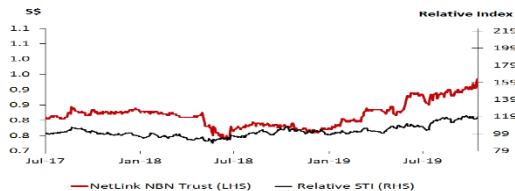
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What's New

- 2QFY20 results in line with expectations; 1HFY20 DPU of 2.52 Scts (+3.3% y-o-y) vs. our 2.48-Sct forecast
- Residential fibre connections at 1.41m (+2% q-o-q) were ahead, 94% fibre penetration and 2% annual growth in households imply some room for growth
- Maintain BUY with higher TP of S\$1.04

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2018A	2019A	2020F	2021F
Revenue	229	354	378	394
EBITDA	168	250	273	286
Pre-tax Profit	43.8	69.8	86.9	104
Net Profit	50.0	77.4	91.7	106
Net Pft (Pre Ex.)	50.0	77.4	91.7	106
Net Pft Gth (Pre-ex) (%)	(37.1)	54.9	18.6	15.7
EPS (S cts)	1.28	1.99	2.35	2.72
EPS Pre Ex. (S cts)	1.28	1.99	2.35	2.72
EPS Gth Pre Ex (%)	(37)	55	19	16
Diluted EPS (S cts)	1.28	1.99	2.35	2.72
Net DPS (S cts)	3.24	4.88	5.45	5.63
BV Per Share (S cts)	81.5	77.7	74.9	72.1
PE (X)	72.9	47.1	39.7	34.3
PE Pre Ex. (X)	72.9	47.1	39.7	34.3
P/Cash Flow (X)	23.0	15.9	11.6	13.6
EV/EBITDA (X)	24.1	16.5	15.2	14.5
Net Div Yield (%)	3.5	5.2	5.8	6.0
P/Book Value (X)	1.1	1.2	1.2	1.3
Net Debt/Equity (X)	0.1	0.2	0.2	0.2
ROAE (%)	1.6	2.5	3.1	3.7
Earnings Rev (%):			4	5
Consensus EPS (S cts):			2.20	2.30
Other Broker Recs:		B: 10	S: 0	H: 1

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

Rally to continue on good results

Netlink NBN Trust (NLT) continues to offer attractive yields. NLT is trading at c.5.8% FY20F yield, versus an average yield of 5.0 % offered by large-cap industrial S-REITs. We argue that NLT should trade at a lower yield than S-REITs as (1) NLT's asset life is much longer than S-REITs as it incurs annual capex of S\$55m-60m to replenish its regulated asset base (RAB); (2) NLT's gearing is less than half of S-REITs' with an ample debt headroom to fund future growth; and (3) NLT's distributions are largely independent of the economic cycle due to the regulated nature of its business.

Where we differ: We believe that NLT's share price will continue to perform well amidst a low interest rate environment. NLT's one unique advantage over REITs is that any rise in the cost of capital in the medium term, might lead to higher regulated returns (versus 7% now) from 2022 onwards, translating into higher distributions.

Potential catalysts: (i) FY20F-21F to benefit from StarHub's accelerated migration to fibre, (ii) NLT could use its debt headroom to invest in Smart Nation initiatives, not factored into our TP, and (ii) clarity on NLT's potential role in 5G rollout.

Valuation:

Maintain BUY, higher TP of S\$1.04. Our DCF valuation assumes 5.5% WACC and 1.2% terminal growth based on long-term household formation rate. Our change in TP is on the back of higher revenue forecast translating into +4%+5% FY20F/21F earnings revision and lower WACC (5.7% previously) to factor the reduced cost of debt

Key Risks to Our View:

Key risks to our view will be regulatory changes in 2022. 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.

At A Glance

Issued Capital (m shrs)	3,897
Mkt. Cap (S\$m/US\$m)	3,722 / 2,684
Major Shareholders (%)	
Temasek Holdings Pte Ltd	24.9
UBS AG / Singapore	5.6
Lazard Ltd	4.9
Free Float (%)	64.6
3m Avg. Daily Val (US\$m)	5.4
GIC Industry : Communication Services / Telecommunication Services	
Bloomberg ESG disclosure score (2018) [^]	19.4
- Environmental / Social / Governance	- / 31.6 / 51.8

[^ refer to back page for more information](#)



Live more, Bank less

WHAT'S NEW

2Q20 results as expected, higher DPU declared y-o-y

2Q20 results in line with expectations, higher DPU declared y-o-y. 2Q20's revenue and NPAT of S\$94.1m and S\$23.2m were up 4% y-o-y/2% q-o-q and 24% y-o-y/11% q-o-q respectively, in line with expectations. Broad-based revenue growth, especially higher residential connections and installation-related revenue, offset lower diversion revenue. EBITDA margin improved to 73.0% (2Q19: 72.3%) as expenses were down 3% y-o-y/1% q-o-q. DPU of 2.52 Scts has been declared for 1HFY20 (1HFY19: 2.44 Scts).

Residential fibre connections continue to grow strongly. As of 30 September 2019, NLT's residential connections grew 2.0% q-o-q to reach 1.411m connections, tracking well ahead of expectations of 1.39m connections. StarHub's cable migration constitutes a big portion of this q-o-q connection growth and the company has since postponed the shutdown of its cable network till 3QCY19.

Non-residential fibre and NBAP connections largely flat for the quarter. On the other hand, non-residential fibre connections grew 0.4% q-o-q, while NBAP connections and segment connections increased 4.3% and 9.4% q-o-q respectively.

Maintain BUY, higher TP of S\$1.04. Our DCF valuation assumes 5.5% WACC and 1.2% terminal growth based on long-term household formation rate. Our change in TP is on the back of higher revenue translating into +4%+5% FY20F/21F earnings revision and lower WACC (5.7% previously) to factor in the reduced cost of debt.

Quarterly / Interim Income Statement (S\$m)

FY Mar	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Revenue	90.6	92.0	94.1	3.8	2.2
Cost of Goods Sold	0.0	0.0	0.0	-	-
Gross Profit	90.6	92.0	94.1	3.8	2.2
Other Oper. (Exp)/Inc	(69.4)	(67.6)	(67.2)	(3.2)	(0.5)
Operating Profit	21.2	24.5	26.9	26.7	9.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(4.3)	(4.5)	(4.7)	(7.4)	(3.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	16.9	20.0	22.2	31.7	11.3
Tax	1.82	0.96	0.97	(46.9)	0.2
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	18.7	20.9	23.2	24.1	10.8
Net profit bef Except.	18.7	20.9	23.2	24.1	10.8
EBITDA	62.0	65.2	67.6	9.1	3.7
Margins (%)					
Gross Margins	100.0	100.0	100.0		
Opg Profit Margins	23.4	26.6	28.6		
Net Profit Margins	20.6	22.7	24.6		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Fibre broadband penetration set to rise from c.94% currently.

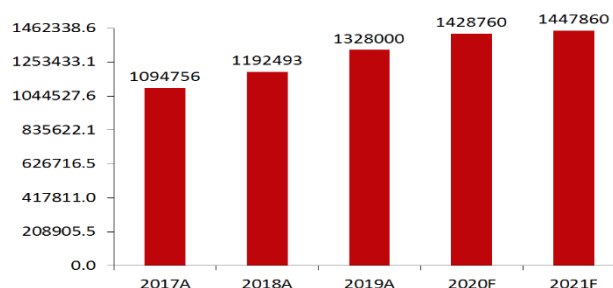
As of September 2019, NLT's network had passed 1.5m residential homes, while there were 1.41m residential end-user connections, representing c.94% of homes passed. NLT should benefit from StarHub's accelerated fibre migration over 1HFY20 which will have a full-year impact over FY21F. In the subsequent years, we expect NLT to benefit from (a) higher end-user fibre penetration from 94% currently, and (b) 2% growth in the number of new households.

Growing market share in non-residential fibre business. NLT expanded its market share from c.30% in FY17 to c.34% in FY18, having grown from zero in 2012. Growth in market share will be driven by an expanding SME market, which is mainly located outside of the Central Business District (CBD) and business parks where NLT faces lower competition from other fibre network providers due to its relatively extensive nationwide network coverage. 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.

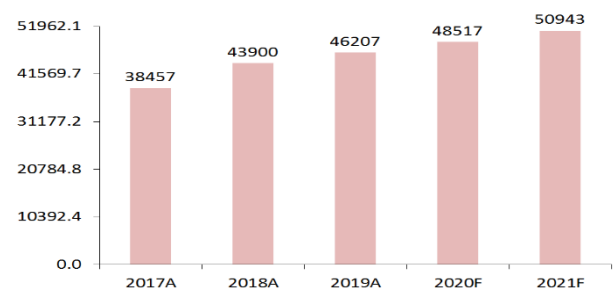
Opportunities in Non-Building Access Points (NBAP) segment.

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.

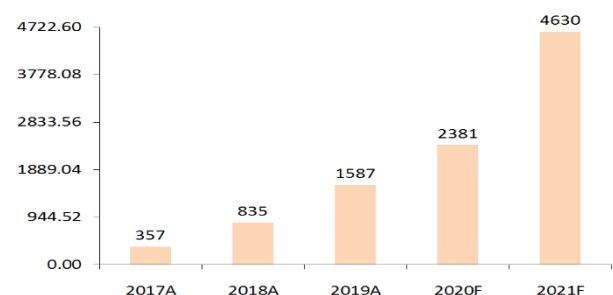
Residential end user connections



Non residential end user connections

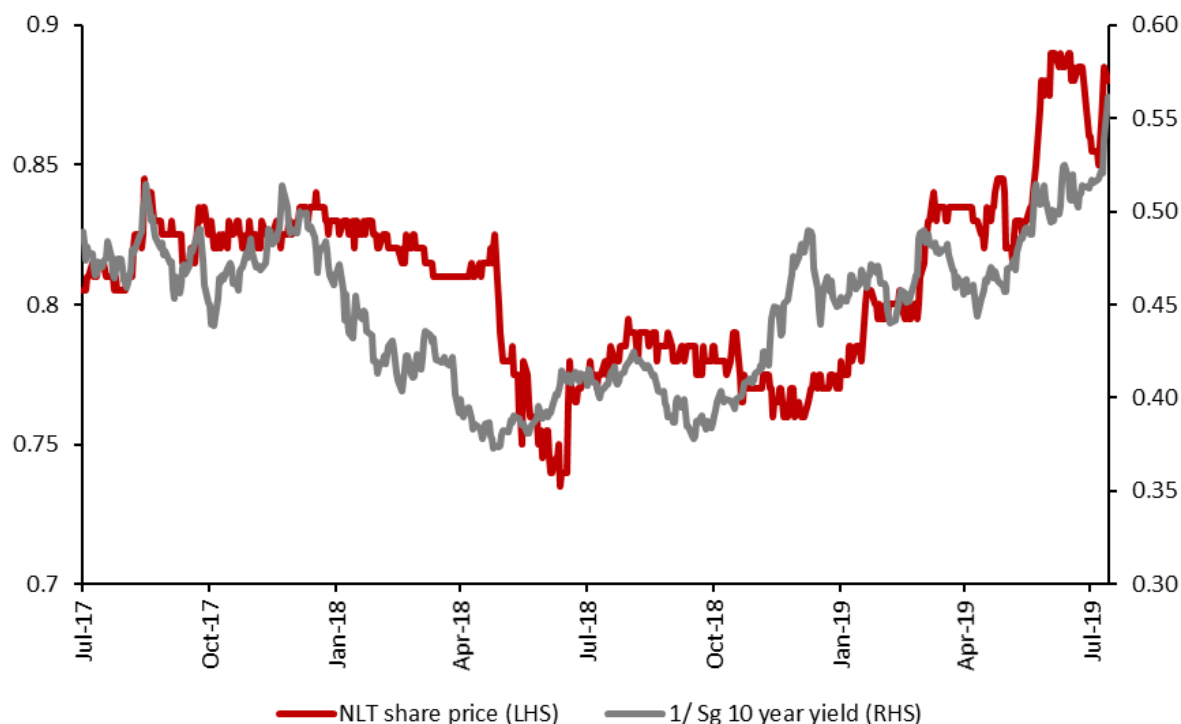


NBAP connections



Source: Company, DBS Bank

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



Source: Bloomberg Finance L.P., DBS Bank

NLT's share price correlates positively to the inverse of Singapore's 10-year benchmark government bond yield.

We believe NLT is being priced like a bond proxy due to its strong yield characteristics. In a lower-yield environment, NLT's share price should perform well as it continues to deliver DPU growth.

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). Total gross debt as of 31 March 2019 stood at S\$636m. Net debt-to-equity ratio for the Trust is 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) FY19-20F 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%.

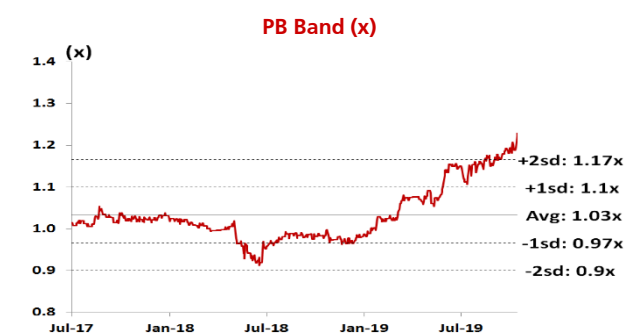
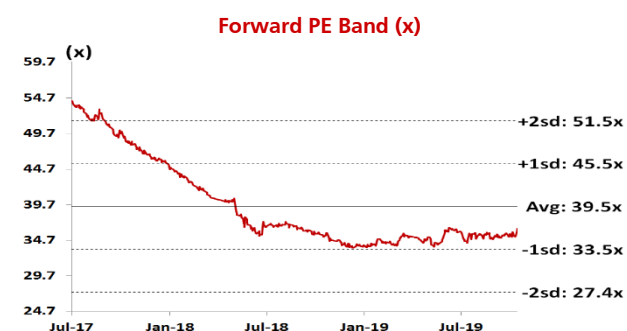
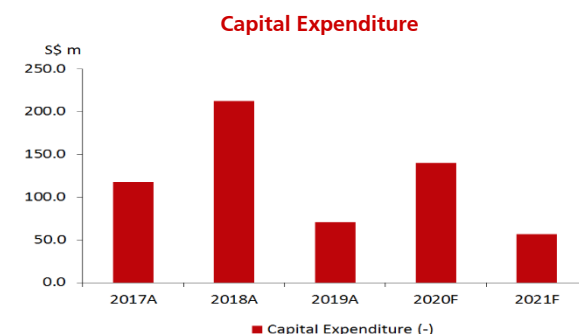
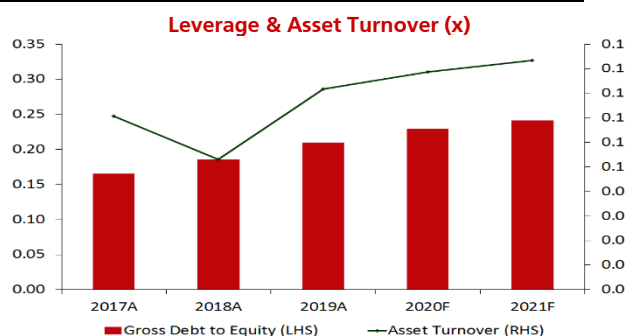
Technology risk. We note that NLT's unique "ring" and "star" topology schemes are considered as highly future-proof passive infrastructure. While wired fibre broadband remains the most efficient and effective technology today for the transmission of large amounts of data at high bandwidth with low latency from point-to-point directly and is often thought to be future-proof with limited substitution risk, there is risk of technology obsolescence with new technologies.

Environment, Social, Governance:

In FY19, NLT has determined its material environmental, social and governance aspects, as it continues to expand its business and network infrastructure while upholding various sustainability efforts. NLT has formed a Sustainability Steering Committee to monitor and manage sustainability approaches as well as various ESG risks and opportunities.

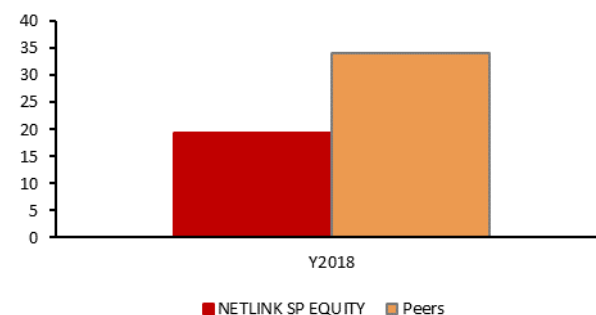
Company Background

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



Environment, Social, Governance

Bloomberg ESG Disclosure Score



Source: Company, DBS Bank

Key Assumptions

FY Mar	2017A	2018A	2019A	2020F	2021F
Residential end user	1,094,756	1,192,493	1,328,000	1,428,760	1,447,860
Non residential end user	38,457	43,900	46,207	48,517	50,943
NBAP connections	357	835	1,587	2,381	4,630

Segmental Breakdown

FY Mar	2017A	2018A	2019A	2020F	2021F
Revenues (\$\$m)					
Residential connections	184	196	207	233	238
Non-residential & NBAP	21.4	26.4	30.0	33.0	35.9
Ducts, manholes and CO	45.1	47.3	54.9	53.1	54.0
Others	48.6	(40.9)	62.0	59.5	65.6
Total	299	229	354	378	394

Income Statement (\$\$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Revenue	299	229	354	378	394
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	299	229	354	378	394
Other Opng (Exp)/Inc	(218)	(173)	(265)	(271)	(268)
Operating Profit	80.9	56.0	88.9	107	125
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)	(19.1)	(20.4)	(21.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	70.8	43.8	69.8	86.9	104
Tax	8.64	6.14	7.61	4.87	1.92
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	50.0	77.4	91.7	106
Net Profit before Except.	79.4	50.0	77.4	91.7	106
EBITDA	224	168	250	273	286
Growth					
Revenue Gth (%)	16.4	(23.6)	54.7	7.0	4.0
EBITDA Gth (%)	19.8	(24.9)	48.3	9.5	4.8
Opg Profit Gth (%)	109.7	(30.8)	58.7	20.7	16.8
Net Profit Gth (Pre-ex) (%)	97.2	(37.1)	54.9	18.6	15.7
Margins & Ratio					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margin (%)	27.0	24.5	25.1	28.3	31.8
Net Profit Margin (%)	26.6	21.9	21.9	24.2	27.0
ROAE (%)	2.6	1.6	2.5	3.1	3.7
ROA (%)	1.9	1.2	1.8	2.1	2.5
ROCE (%)	2.0	1.3	2.1	2.6	3.1
Div Payout Ratio (%)	100.7	252.8	245.8	231.6	206.6
Net Interest Cover (x)	8.0	4.6	4.6	5.3	5.9

Source: Company, DBS Bank

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

FY Mar	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Revenue	90.6	89.0	87.9	92.0	94.1
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	90.6	89.0	87.9	92.0	94.1
Other Oper. (Exp)/Inc	(69.4)	(66.4)	(65.8)	(67.6)	(67.2)
Operating Profit	21.2	22.6	22.1	24.5	26.9
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	(4.3)	(4.5)	(4.4)	(4.5)	(4.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	16.9	18.1	17.7	20.0	22.2
Tax	1.82	1.52	2.32	0.96	0.97
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	18.7	19.6	20.0	20.9	23.2
Net profit bef Except.	18.7	19.6	20.0	20.9	23.2
EBITDA	62.0	62.8	62.8	65.2	67.6

Growth

Revenue Gth (%)	5.2	(1.7)	(1.3)	4.8	2.2
EBITDA Gth (%)	1.6	1.4	0.0	3.8	3.7
Opg Profit Gth (%)	0.0	6.5	(2.3)	11.0	9.8
Net Profit Gth (Pre-ex) (%)	(1.8)	5.0	2.0	4.6	10.8

Margins

Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	23.4	25.4	25.1	26.6	28.6
Net Profit Margins (%)	20.6	22.1	22.8	22.7	24.6

Balance Sheet (\$\$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	3,060	3,211	3,125	3,098	2,994
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	1,098	928	924	924	924
Cash & ST Invt	15.9	167	149	157	160
Inventory	5.50	3.89	4.74	6.64	6.91
Debtors	55.5	63.5	75.8	71.6	74.5
Other Current Assets	3.12	4.28	4.34	4.34	4.34
Total Assets	4,238	4,377	4,282	4,262	4,163
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	87.2	48.4	56.0	123	128
Other Current Liab	15.5	12.5	23.7	23.7	23.7
LT Debt	508	589	635	670	678
Other LT Liabilities	556	553	538	525	523
Shareholder's Equity	3,071	3,174	3,030	2,920	2,811
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	4,238	4,377	4,282	4,262	4,163
Non-Cash Wkg. Capital	(38.6)	10.8	5.20	(64.3)	(66.1)
Net Cash/(Debt)	(492)	(421)	(486)	(512)	(517)
Debtors Turn (avg days)	63.5	95.0	71.9	71.1	67.7
Creditors Turn (avg days)	(217.5)	(220.2)	(118.5)	(196.9)	(284.7)
Inventory Turn (avg days)	(12.7)	(15.2)	(9.8)	(12.5)	(15.3)
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.8	3.9	2.9	1.6	1.6
Quick Ratio (x)	0.7	3.8	2.8	1.6	1.5
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	11.2	20.9	8.4
Z-Score (X)	1.8	1.9	1.8	1.8	1.8

Lower gearing compared to other business trusts

Source: Company, DBS Bank

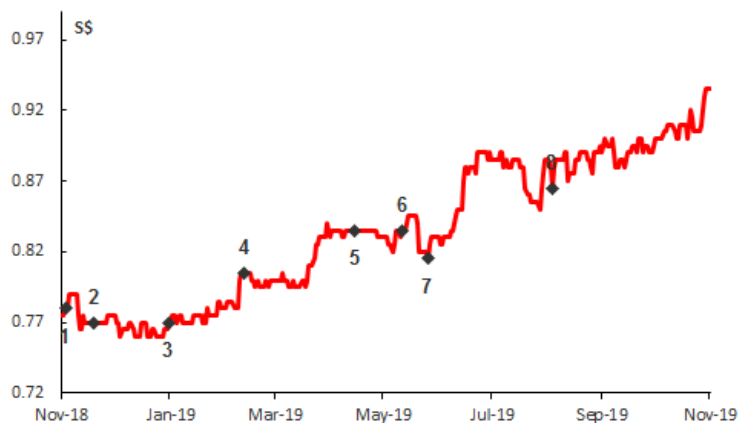
Cash Flow Statement (\$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	70.8	4.81	69.8	86.9	104
Dep. & Amort.	143	112	162	166	161
Tax Paid	(5.1)	(11.5)	(6.1)	(7.5)	0.0
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(13.8)	21.1	2.30	69.5	1.80
Other Operating CF	0.33	31.7	2.05	0.0	0.0
Net Operating CF	196	158	230	315	267
Capital Exp.(net)	(117)	(212)	(71.1)	(140)	(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	0.01	0.0	0.0
Net Investing CF	(117)	(1,307)	(71.1)	(140)	(57.0)
Div Paid	(80.0)	0.0	(221)	(201)	(216)
Chg in Gross Debt	0.0	(1,020)	45.0	35.0	8.00
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	(176)	(166)	(208)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(32.5)	166	(17.8)	8.58	2.23
Opg CFPS (\$ cts)	5.39	3.53	5.83	6.30	6.81
Free CFPS (\$ cts)	2.02	(1.4)	4.07	4.49	5.39

Higher capex in FY20F,
funded by capex
reserves and debt

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Nov 18	0.78	0.87	BUY
2:	21 Nov 18	0.77	0.87	BUY
3:	02 Jan 19	0.77	0.87	BUY
4:	14 Feb 19	0.81	0.87	BUY
5:	17 Apr 19	0.84	0.87	BUY
6:	14 May 19	0.84	0.90	BUY
7:	28 May 19	0.82	0.90	BUY
8:	06 Aug 19	0.87	0.95	BUY

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

Source: DBS Bank

Analyst: Sachin MITTAL

Rui Wen LIM

[^] Bloomberg ESG Disclosure Scores rate companies annually based on their disclosure of quantitative and policy-related ESG data. It is based on a scoring scale of 0-100, and calculated using a subset of more than 100 raw data points it collects on ESG. It is designed to measure the robustness of companies' disclosure of ESG information in their reporting/the public domain. Based on Bloomberg disclosures, as of 25 Jan 2019, the global ESG disclosure average score is 24.92 and 22.14, 28.26, 49.97 for Environmental, Social and Governance, respectively.

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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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 4 Nov 2019 20:45:53 (SGT)

Dissemination Date: 4 Nov 2019 20:55:55 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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Singapore Company Guide

Singtel

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Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Nov 2019

BUY (Upgrade from HOLD)

Last Traded Price (21 Nov 2019): S\$3.26 (STI : 3,192.21)

Price Target 12-mth: S\$3.60 (10% upside) (Prev S\$3.12)

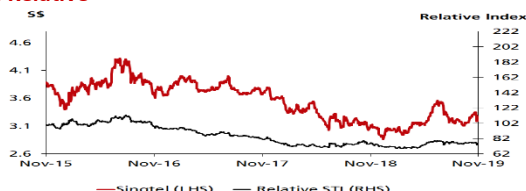
Analyst

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What's New

- Earlier-than-expected tariff hikes in India from December 2019 onwards turn us positive on Singtel
- Tariffs could be raised 10-20% in India over the next 12 months; we have modelled a 10% tariff hike benefitting Singtel's earnings by ~3%
- Upgrade to BUY with a revised TP of S\$3.60 as we raise our fair value for Bharti and AIS

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2019A	2020F	2021F	2022F
Revenue	17,372	17,613	18,078	18,643
EBITDA	6,255	6,340	7,084	7,422
Pre-tax Profit	3,746	2,004	3,969	4,165
Net Profit	3,095	1,226	3,041	3,148
Net Pft (Pre Ex.)	3,026	2,665	3,041	3,148
Net Pft Gth (Pre-ex) (%)	(15.8)	(11.9)	14.1	3.5
EPS (\$ cts)	19.0	7.51	18.6	19.3
EPS Pre Ex. (\$ cts)	18.5	16.3	18.6	19.3
EPS Gth Pre Ex (%)	(16)	(12)	14	4
Diluted EPS (\$ cts)	18.9	7.51	18.6	19.3
Net DPS (\$ cts)	17.5	17.5	16.8	17.4
BV Per Share (\$ cts)	183	173	175	177
PE (X)	17.2	43.4	17.5	16.9
PE Pre Ex. (X)	17.6	20.0	17.5	16.9
P/Cash Flow (X)	13.9	12.7	13.9	14.6
EV/EBITDA (X)	10.1	10.4	9.3	9.0
Net Div Yield (%)	5.4	5.4	5.1	5.3
P/Book Value (X)	1.8	1.9	1.9	1.8
Net Debt/Equity (X)	0.3	0.5	0.5	0.5
ROAE (%)	10.4	4.2	10.7	11.0
Earnings Rev (%)			2	-
Consensus EPS (\$ cts):		17.9	19.1	20.3
Other Broker Recs:		B: 12	S: 0	H: 8

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

Mobile tariffs in India to rise sharply

Earlier-than-expected tariff hikes in India turn us positive on Singtel. The stock has declined ~8% since our downgrade on 8 July 2019. On the back of proposed tariff hikes in India from Dec 2019 onwards, we are confident of a sharp rise in regional associates' profit contribution in FY21F which has been the most critical factor in Singtel's share price performance historically. Despite weakness in Singapore and Australia, we raise Singtel's FY21F underlying profit by 2% due to a healthier Bharti. Singtel offers annual earnings growth of 8% over FY20F-22F, coupled with over 5% yield. Upgrade to BUY with a revised TP of S\$3.60.

Where we differ: Post 2QFY20 results, the street has cut FY20F/21F earnings by 7% each, in line with our projections now. The cuts are largely on the back of weakness in Australia and Singapore, which we had flagged in our report on 17 October 2019. We do not see further earnings cuts as average revenue per user (ARPU) in India has ample room to rise after having declined 30% in total over the last three years.

Potential catalysts: Rise in associate contributions and monetisation of digital business. Potential rise in associate profit contributions and divestment of loss-making digital businesses over the next 12-month are key catalysts.

Valuation:

Upgrade to BUY with a higher TP of S\$3.60. We update our sum-of-the-parts (SOTP) valuation with fair value of (i) Bharti raised to Rs500 (Rs340 earlier), (ii) Advance Info System (AIS) to Bt266 (Bt222 earlier) and (iii) reduce holding company (HoldCo) discount to 10% from 15% previously to factor in a benign cycle of associates' growth. Regional associates comprise 68% of our SOTP valuation (vs 64% earlier)

Key Risks to Our View:

Bear-case valuation of S\$3.05. It assumes regulatory risks in emerging markets leading to 20% drop in associates' valuation and core EBITDA decline of 8% in FY21F (vs. 2% decline)

At A Glance

Issued Capital (m shrs)	16,329
Mkt. Cap (\$m/US\$m)	53,233 / 39,056
Major Shareholders (%)	
Temasek Holdings Pte Ltd	52.5
Free Float (%)	48.5
3m Avg. Daily Val (US\$m)	47.9
GIC Industry : Communication Services / Telecommunication Services	

Bloomberg ESG disclosure score (2018)[^] 51.9
- Environmental / Social / Governance 43.9 / 57.8 / 62.5

[^] refer to back page for more information



DBS
Live more, Bank less

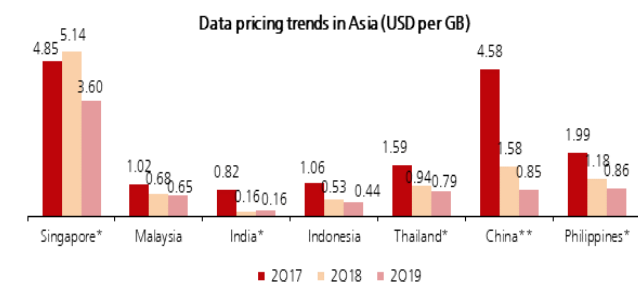
WHAT'S NEW

Bharti and tariff hike in India

Reliance Jio effected 10-14% tariff hike on 10 October after it became the No.1 player in revenue market share in 1QFY20. Tariffs have been declining in India since September 2016 when Reliance Jio entered the market, leading to sector consolidation. Jio became the No.1 player with ~32% revenue market share (RMS) in June 2019, followed by Bharti at ~30% and Vodafone-Idea Limited (VIL) at ~28%. Jio raised tariffs effectively from 10 October when it started charging users INR0.06 per minute for outgoing calls to other networks. This translates into 10-14% effective price hikes across its various price plans.

On 18 November 2019, Vodafone-Idea Limited (VIL) and Bharti announced plans to raise tariffs from December 2019 onwards to sustain their businesses after a huge regulatory levy of almost US\$6bn each on VIL and Bharti. Reliance Jio followed up by announcing plans to increase tariffs in the next few weeks without specifying the timeline. None of the players have dropped any hints on the magnitude of tariff hike.

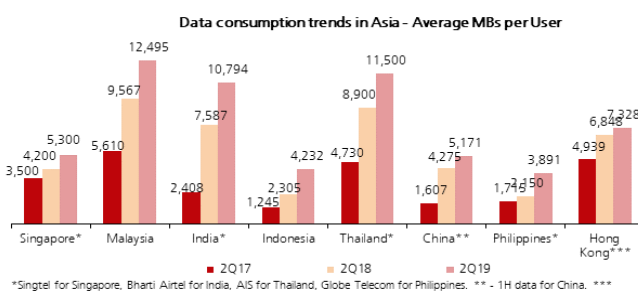
Indian data-pricing is less than 50% of pricing in Indonesia



All figures are in USD. Denotes the cost per GB

*Singtel for Singapore, Bharti Airtel for India, AIS for Thailand, Globe Telecom for Philippines ** - 1H data for China

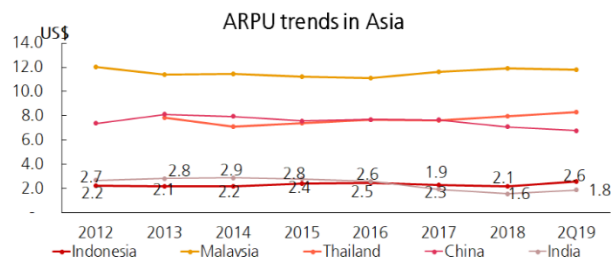
Monthly data-usage per user is one of the highest in India



*Singtel for Singapore, Bharti Airtel for India, AIS for Thailand, Globe Telecom for Philippines. ** - 1H data for China. *** - Data consumption per capita for Hong Kong

Source: Company, DBS Bank

Indian mobile ARPU is 30% lower than Indonesia



Source: Company, DBS Bank

Bharti's street projections are likely to be raised depending on the magnitude of the tariff hike

INR Mn	FY18	FY19	FY20	FY21	FY22
Revenue	836,879	807,802	847,937	917,492	1,013,704
y-o-y	-12%	-3%	5%	8%	10%
EBITDA	300,791	261,101	323,071	379,996	433,304
y-o-y	-15%	-13%	24%	18%	14%
Net income	18,921	-25,193	-36,414	1,047	32,657
	-62%	-233%			3019%

Source: Thomson Reuters

A 10% mobile tariff hike at Bharti may contribute an additional 3% earnings to Singtel. The street has modelled a 8% revenue growth for Bharti in FY21F. India Mobile contributes ~ 50% of Bharti's total revenue with expected revenue growth rate of ~20% mainly from 15-16% subscriber growth (those churning out from Vodafone) and ~5% ARPU rise. However, if tariffs were to be raised 10%, we estimate that mobile revenue could rise by another 5%, keeping in mind elasticity of demand. Assuming 80% of additional revenue flow to EBITDA, Bharti's EBITDA could rise by INR16.3bn or 4% while net profit could increase by INR12.2bn. Assuming 35% of additional net profit accrues to Singtel, it may contribute an additional S\$82m or 3% to Singtel's earnings. We think a 10-20% tariff hike is quite possible in India, given ~30% discount of Indonesia's ARPU despite much higher data-usage in India. Our Indian partner Emkay Global expects ~21% revision in mobile tariffs over the next 12-15 months.

Singtel

Mobile ARPU has declined 30% in India over the last 3 years, implying big room for revision

Sum-of-the-parts valuation of Singtel	Per share (\$S)
Equity value of the core business	1.15
Regional telco investments	2.46
Share value	3.61

Sources: Companies, DBS Bank

Details of sum-of-the-parts valuation for Singtel

	EV/EBITDA	Exchange	Ownership	Per Share (\$S)
Singapore	6.0	1.00	100%	0.75
Optus	6.0	1.00	100%	0.92
Digital Business				0.14
Debt				(0.67)
MI				0.00
Equity value of the core business				1.15
Regional telco investments	Share price	Exchange rate	Stake	Per Share (\$S)
Airtel	500.00	52.50	35%	1.03
AIS	266.00	22.05	23%	0.50
InTouch	64.00	22.05	21%	0.12
Globe*	1900.00	37.54	47%	0.19
Singpost	0.95	1.00	22%	0.03
	FY19F (March YE) PER	Exchange rate	Stake	
Telkomsel	16	10350.00	35%	0.87
Total				
Holding company discount (15%)				-0.27
Net investment holdings				2.46

Source: DBS Bank

We have (i) raised fair value of Bharti to Rs500 (based on the revised fair value of Bharti by our Indian partner Emkay Global) from Rs340 earlier, (ii) increased AIS' value by 20% as we updated our fair value to Bt266 from Bt222 earlier, (iii) reduced holding company discount to 10% from 15% to reflect upside potential of regional associates.

Regional associates are worth S\$2.46 versus S\$1.99 earlier. Bharti and Telkomsel comprise 26% and 22% of our SOTP valuation of Singtel. Overall, regional associates comprise 68% of our SOTP valuation with the core business in Singapore and Australia comprising just 32% now.

CRITICAL DATA POINTS TO WATCH

Critical Factors:

Critical Factors

Bharti's is set to lead associates' sharp growth in FY21F. Telkomsel is set to see a low single-digit growth over FY20F despite aggressive competition in ex-Java. AIS is likely to continue to record low- to mid-single-digit growth in contributions supported by amicable market conditions. Globe's operations are unlikely to come under heavy threat from the new entrants over FY20/21F. For Bharti, we expect losses to narrow in FY20F vs FY19 with potential refinancing of debt through the rights issue and Bharti's ongoing "War on Waste" programme. FY21F is likely to be a turning point for Bharti as we expect 10-20% tariff revision in India over the next 12 months. Associate profits should see a rebound towards the end of FY20F and accelerate in FY21F.

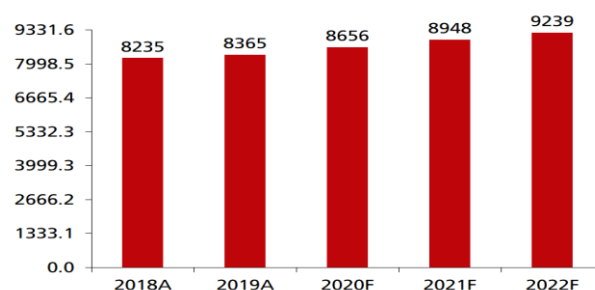
Associates' pre-tax profit contribution to see sharp growth in FY21F from Bharti's turnaround

Telkomsel	1,372	1,128	1,195	1,265	1,329
Bharti Airtel	216	-511	-474	245	510
AIS	347	343	357	365	384
InTouch	103	96	99	104	110
Globe	266	368	376	383	391
NetLink	82	52	53	54	55
Others including SingPost	68	60	51	52	54
Total	2,454	1,536	1,656	2,469	2,831
Growth	-17%	-37%	8%	49%	15%

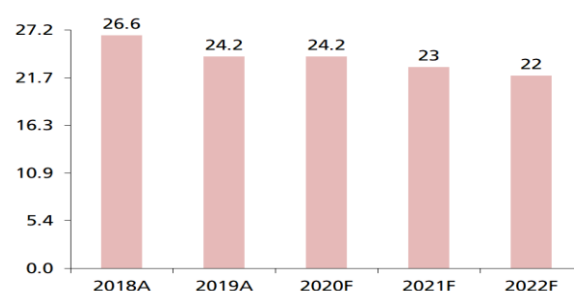
Source: DBS Bank

We project a 2% decline in core EBITDA in FY21F. We expect Singtel to record a ~2.1% y-o-y decline in core EBITDA, largely due to weakness of Group Enterprise which is seeing margin erosion as new ICT businesses command lower margins than legacy businesses. Stabilisation in the enterprise segment is also dependent on timing of government contracts in Singapore, which has been slow to come in the recent past. Ongoing depreciation of the AUD against SGD remains another key concern as the outlook for the Australian economy continues to weaken.

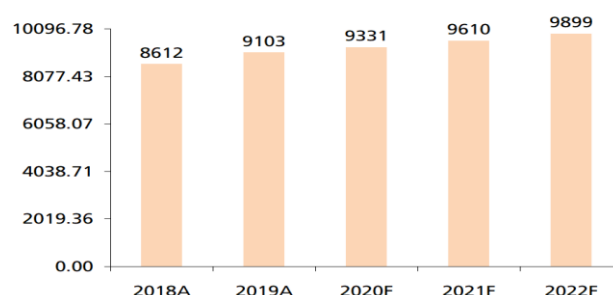
Singapore Revenue (\$m)



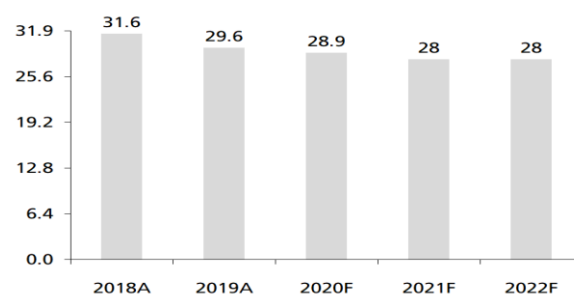
Singapore EBITDA Margin (%)



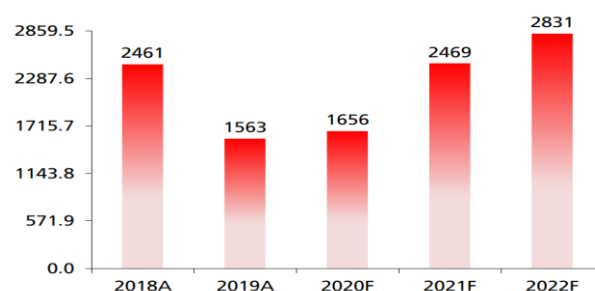
Optus Revenue (A\$m)



Optus EBITDA Margin (%)



Associate pre-tax earnings (\$m)

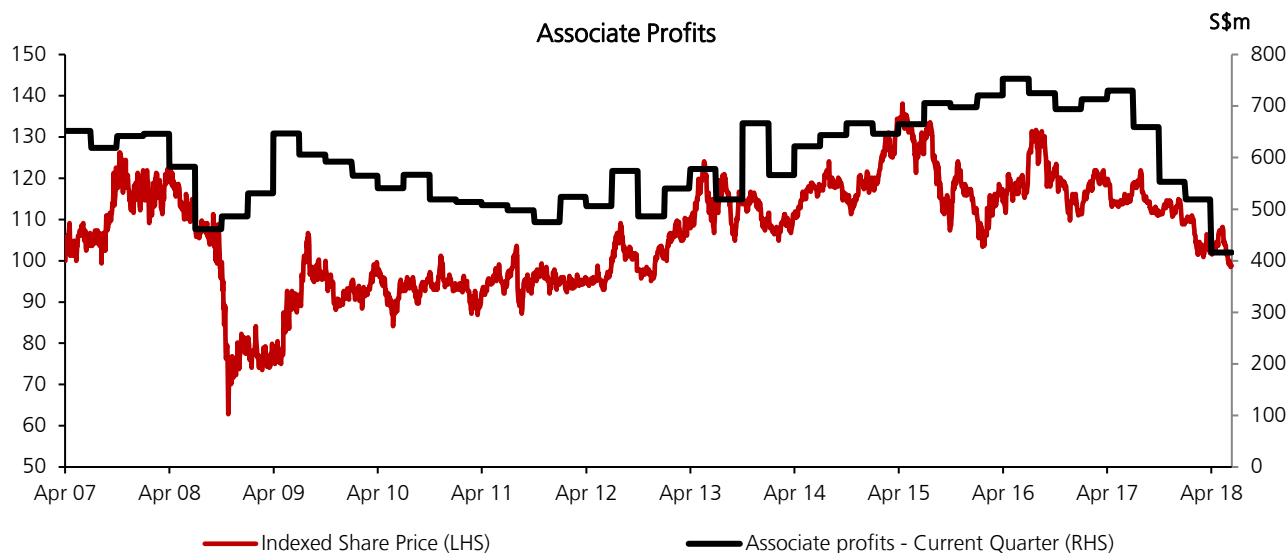


Source: Company, DBS Bank

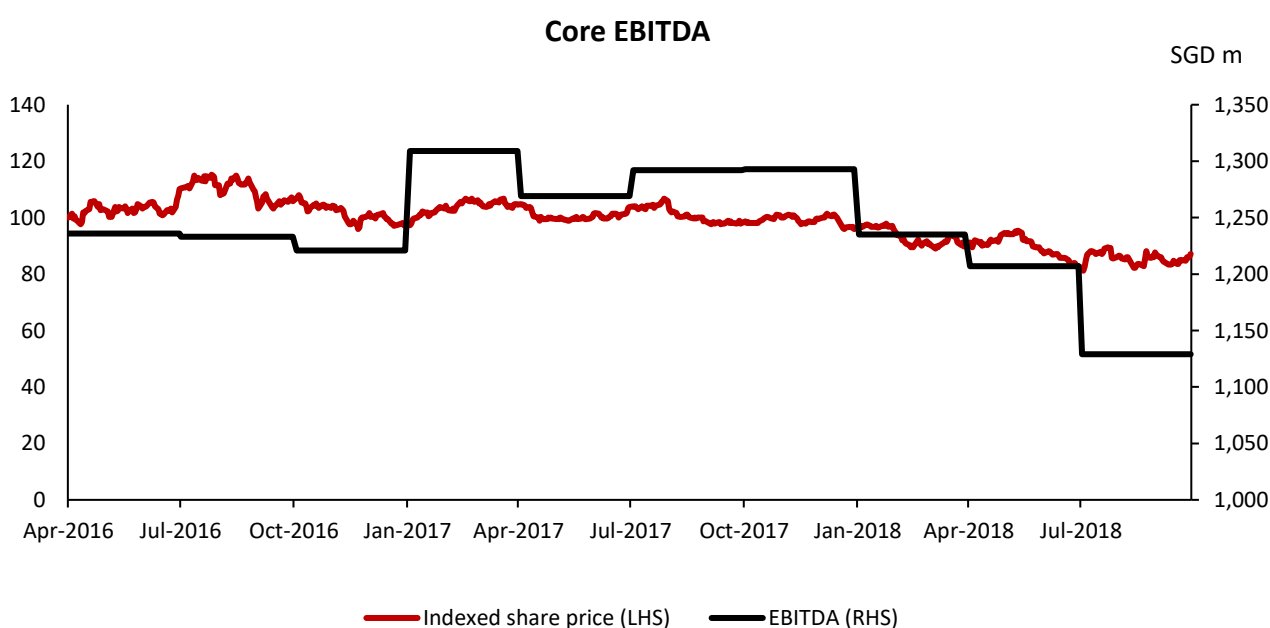
Appendix 1: A look at Company's listed history – what drives its share price?

Associate profits 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. Core EBITDA has also become an important metric to watch out for over the recent past, exhibiting a positive correlation of 0.6 with share price over the past 10 quarters.

Share price vs. current quarter associate profits

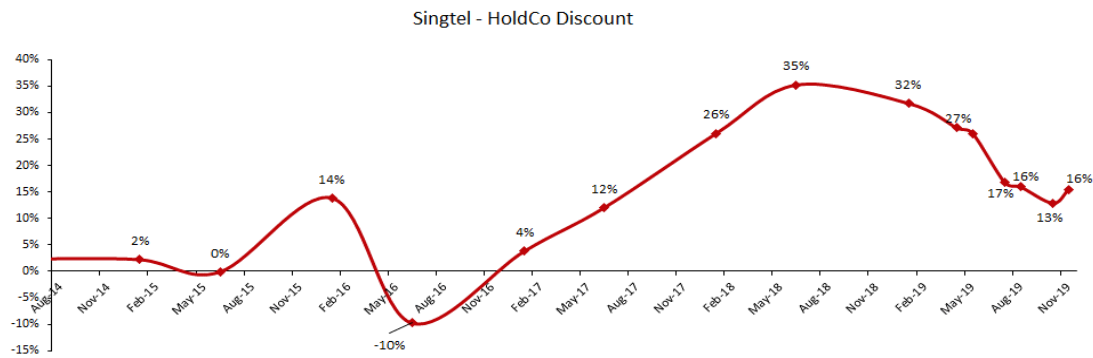


Share price vs. current quarter EBITDA



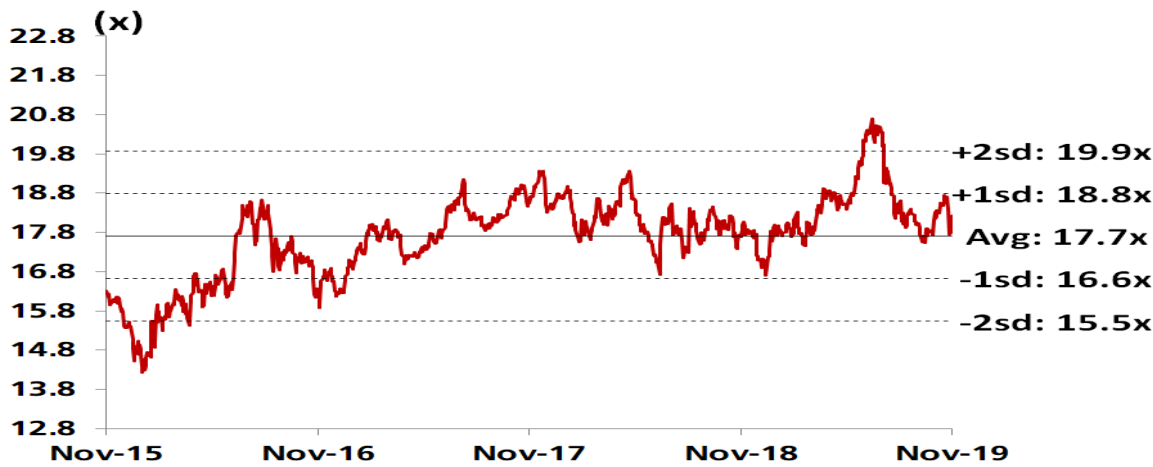
Source: DBS Bank, Company

Singtel's HoldCo discount is slightly above the historical average of 14%



Source: DBS Bank

Singtel's 12-month forward PE is near its historical average of 17.7x



Source: DBS Bank

Singtel

Balance Sheet:

Balance sheet would need to be managed carefully. Singtel's 1Q20 net debt-to-FY20F projected EBITDA adjusted for guided cash dividends from associates of S\$1.2bn stood at 2.02x, slightly above the 2x required by credit rating agencies. We believe that Singtel would need to manage its balance sheet carefully given that 5G capex would likely kick in by FY21F. A potential exit from Digital businesses over the next 2-3 years could further buttress cash flows.

Share Price Drivers:

Potential recovery in Associate contributions. Signs of lower losses from Bharti, due to improving tariffs and market conditions in India, would put an end to Bharti's troubles.

Potential exit from Digital businesses. Singtel is open to exit opportunities over the next three years for the digital businesses via a sale to a strategic investor or public listing.

Key Risks:

Bear-case valuation of S\$3.05. This assumes (i) 20% drop in valuation of core businesses in Singapore and Australia; (ii) 20% drop in Bharti's valuation and 10% drop in the valuation of regional associates including Telkomsel; and (iii) HoldCo discount of 15% vs. 10% under our base case.

Bull-case valuation is S\$3.80. This assumes (i) 10% higher valuation of core business; and (ii) improved valuation of Digital Life Segment. We have also assumed a 10% rise in Bharti's fair value and 10% improvement to Telkomsel's valuation.

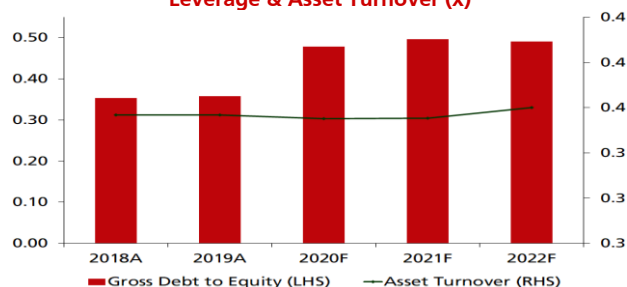
Environment, Social, Governance:

Singtel rewards management on various ESG KPIs. For example, the target is to reduce carbon emission intensity (kWh/TB) by 30% by 2020 and 50% by 2030, using 2015 as a baseline. At least 80% of waste generated within its operations is disposed via reuse, recycling or incineration with energy recovered. The company also set a community investment target of S\$100m to support vulnerable persons through various enabling and inclusion initiatives during 2016-2020.

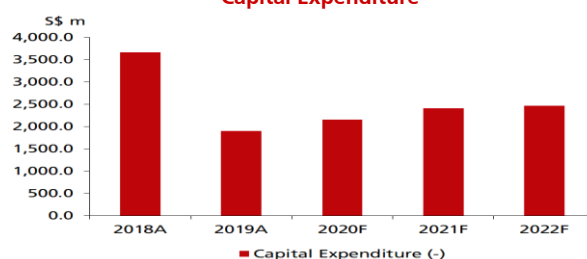
Company Background

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.

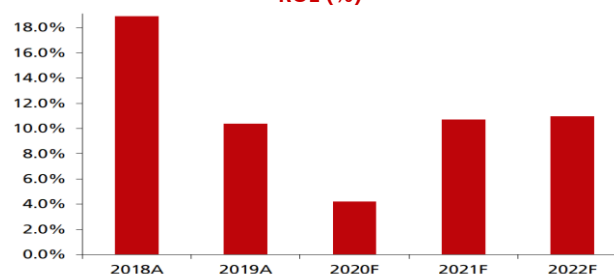
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Mar	2018A	2019A	2020F	2021F	2022F
Singapore Revenue (\$m)	8,235	8,365	8,656	8,948	9,239
Singapore EBITDA Margin	26.6	24.2	24.2	23.0	22.0
Optus Revenue (A\$m)	8,612	9,103	9,331	9,610	9,899
Optus EBITDA Margin (%)	31.6	29.7	28.9	28.0	28.0
Associate pre-tax earnings	2,461	1,563	1,656	2,469	2,831

Income Statement (\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Revenue	17,268	17,372	17,613	18,078	18,643
Cost of Goods Sold	(12,476)	(12,905)	(13,154)	(13,688)	(14,277)
Gross Profit	4,792	4,467	4,459	4,390	4,366
Other Opng (Exp)/Inc	(1,991)	(1,998)	(2,407)	(2,421)	(2,557)
Operating Profit	2,801	2,470	2,052	1,968	1,809
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	2,461	1,563	1,656	2,469	2,831
Net Interest (Exp)/Inc	(345)	(355)	(265)	(469)	(474)
Exceptional Gain/(Loss)	1,880	68.2	(1,439)	0.0	0.0
Pre-tax Profit	6,797	3,746	2,004	3,969	4,165
Tax	(1,344)	(675)	(802)	(953)	(1,041)
Minority Interest	21.0	23.4	24.4	24.4	24.4
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	5,474	3,095	1,226	3,041	3,148
Net Profit before Except.	3,594	3,026	2,665	3,041	3,148
EBITDA	7,512	6,255	6,340	7,084	7,422
Growth					
Revenue Gth (%)	3.3	0.6	1.4	2.6	3.1
EBITDA Gth (%)	(5.6)	(16.7)	1.4	11.7	4.8
Opg Profit Gth (%)	1.5	(11.8)	(16.9)	(4.1)	(8.1)
Net Profit Gth (Pre-ex) (%)	(7.5)	(15.8)	(11.9)	14.1	3.5
Margins & Ratio					
Gross Margins (%)	27.8	25.7	25.3	24.3	23.4
Opg Profit Margin (%)	16.2	14.2	11.6	10.9	9.7
Net Profit Margin (%)	31.7	17.8	7.0	16.8	16.9
ROAE (%)	18.9	10.4	4.2	10.7	11.0
ROA (%)	11.3	6.4	2.5	6.0	6.1
ROCE (%)	5.3	4.8	2.9	3.4	3.1
Div Payout Ratio (%)	61.1	92.3	232.9	90.0	90.0
Net Interest Cover (x)	8.1	7.0	7.7	4.2	3.8

Core businesses in Singapore and Australia may remain weak due to margin erosion across Group Enterprise

FY20F should benefit from lower losses from Bharti while FY21F should benefit from Bharti's earnings turnaround

Source: Company, DBS Bank

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

FY Mar	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Revenue	4,270	4,626	4,342	4,113	4,152
Cost of Goods Sold	(3,191)	(3,483)	(3,238)	(2,978)	(3,040)
Gross Profit	1,079	1,143	1,104	1,135	1,112
Other Oper. (Exp)/Inc	(504)	(507)	(498)	(595)	(591)
Operating Profit	575	636	606	540	521
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	330	371	419	359	442
Net Interest (Exp)/Inc	(94.0)	(98.0)	(93.0)	(51.0)	18.0
Exceptional Gain/(Loss)	(48.0)	143	76.0	(34.0)	(1,405)
Pre-tax Profit	763	1,052	1,008	814	(424)
Tax	(102)	(235)	(241)	(279)	(250)
Minority Interest	6.00	6.00	6.00	6.00	6.00
Net Profit	667	823	773	541	(668)
Net profit bef Except.	715	680	697	575	737
EBITDA	905	1,007	1,025	899	963

Provision made by Bharti

Growth

Revenue Gth (%)	3.3	8.3	(6.1)	(5.3)	0.9
EBITDA Gth (%)	(15.3)	11.3	1.8	(12.3)	7.1
Opg Profit Gth (%)	(11.9)	10.6	(4.7)	(10.9)	(3.5)
Net Profit Gth (Pre-ex) (%)	(2.6)	(4.9)	2.5	(17.5)	28.2

Margins

Gross Margins (%)	25.3	24.7	25.4	27.6	26.8
Opg Profit Margins (%)	13.5	13.7	14.0	13.1	12.5
Net Profit Margins (%)	15.6	17.8	17.8	13.2	(16.1)

Balance Sheet (\$\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	11,454	11,050	12,845	12,910	12,894
Invt in Associates & JVs	14,756	14,918	14,656	15,658	16,949
Other LT Assets	15,515	15,868	15,535	15,231	14,927
Cash & ST Invt	525	513	734	1,031	411
Inventory	397	418	405	416	429
Debtors	5,818	5,993	5,934	6,091	6,281
Other Current Assets	22.0	155	155	155	155
Total Assets	48,487	48,915	50,264	51,491	52,046
ST Debt	1,824	1,880	1,880	1,880	1,880
Creditor	5,371	5,817	5,478	5,623	5,799
Other Current Liab	1,235	1,097	1,644	1,795	1,883
LT Debt	8,668	8,784	11,579	12,231	12,231
Other LT Liabilities	1,709	1,527	1,527	1,527	1,527
Shareholder's Equity	29,706	29,838	28,208	28,512	28,827
Minority Interests	(26.0)	(28.1)	(52.5)	(76.9)	(101)
Total Cap. & Liab.	48,487	48,915	50,264	51,491	52,046
Non-Cash Wkg. Capital	(369)	(349)	(628)	(756)	(817)
Net Cash/(Debt)	(9,967)	(10,151)	(12,725)	(13,080)	(13,700)
Debtors Turn (avg days)	113.5	124.1	123.6	121.4	121.1
Creditors Turn (avg days)	183.7	191.1	195.9	183.5	181.3
Inventory Turn (avg days)	13.4	13.9	14.3	13.6	13.4
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	0.8	0.8	0.8	0.8	0.8
Quick Ratio (x)	0.8	0.7	0.7	0.8	0.7
Net Debt/Equity (X)	0.3	0.3	0.5	0.5	0.5
Net Debt/Equity ex MI (X)	0.3	0.3	0.5	0.5	0.5
Capex to Debt (%)	35.0	17.8	16.0	17.1	17.5
Z-Score (X)	3.1	3.0	2.7	2.7	2.7

Source: Company, DBS Bank

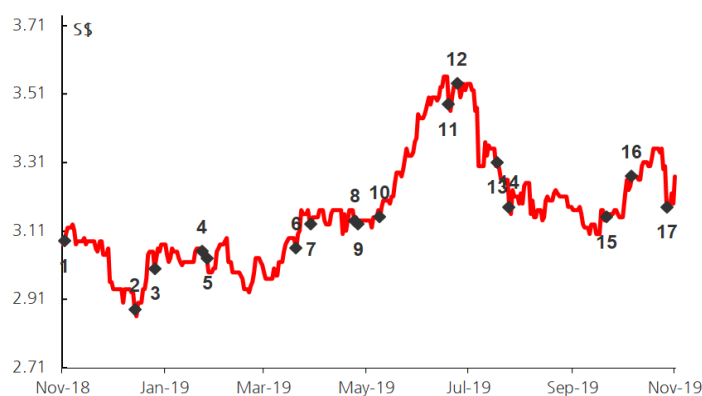
Cash Flow Statement (\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	6,797	3,746	2,004	3,969	4,165
Dep. & Amort.	2,250	2,222	2,632	2,646	2,782
Tax Paid	(608)	(680)	(255)	(802)	(953)
Assoc. & JV Inc/(loss)	(2,461)	(1,563)	(1,656)	(2,469)	(2,831)
Chg in Wkg.Cap.	(178)	(126)	(268)	(22.7)	(27.6)
Other Operating CF	(1,493)	219	1,722	496	508
Net Operating CF	4,308	3,819	4,179	3,817	3,644
Capital Exp.(net)	(3,667)	(1,897)	(2,148)	(2,407)	(2,463)
Other Invts.(net)	18.1	(422)	0.0	0.0	0.0
Invts in Assoc. & JV	606	6.00	(735)	0.0	0.0
Div from Assoc & JV	1,648	1,549	1,215	1,467	1,540
Other Investing CF	1,093	(15.4)	0.0	0.0	0.0
Net Investing CF	(303)	(780)	(1,668)	(940)	(922)
Div Paid	(2,862)	(2,862)	(2,856)	(2,737)	(2,834)
Chg in Gross Debt	(312)	222	850	652	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(835)	(416)	(283)	(496)	(508)
Net Financing CF	(4,009)	(3,056)	(2,289)	(2,581)	(3,342)
Currency Adjustments	(4.2)	4.20	0.0	0.0	0.0
Chg in Cash	(8.8)	(12.2)	221	297	(620)
Opg CFPS (\$ cts)	27.5	24.2	27.2	23.5	22.5
Free CFPS (\$ cts)	3.92	11.8	12.4	8.64	7.24

We have assumed that Singtel may switch to 90% payout ratio in FY21F versus 17.5-Sct commitment in FY20F

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	21 Nov 18	3.08	3.59	BUY
2:	02 Jan 19	2.88	3.59	BUY
3:	14 Jan 19	3.00	3.59	BUY
4:	11 Feb 19	3.05	3.50	BUY
5:	14 Feb 19	3.03	3.50	BUY
6:	08 Apr 19	3.06	3.55	BUY
7:	17 Apr 19	3.13	3.55	BUY
8:	13 May 19	3.14	3.55	BUY
9:	15 May 19	3.13	3.55	BUY
10:	28 May 19	3.15	3.55	BUY
11:	08 Jul 19	3.48	3.60	HOLD
12:	13 Jul 19	3.54	3.60	HOLD
13:	06 Aug 19	3.31	3.40	HOLD
14:	13 Aug 19	3.18	3.25	HOLD
15:	10 Oct 19	3.15	3.12	HOLD
16:	25 Oct 19	3.27	3.12	HOLD
17:	15 Nov 19	3.18	3.12	HOLD

Source: DBS Bank

Analyst: Sachin MITTAL

^ Bloomberg ESG Disclosure Scores rate companies annually based on their disclosure of quantitative and policy-related ESG data. It is based on a scoring scale of 0-100, and calculated using a subset of more than 100 raw data points it collects on ESG. It is designed to measure the robustness of companies' disclosure of ESG information in their reporting/the public domain. Based on Bloomberg disclosures, as of 25 Jan 2019, the global ESG disclosure average score is 24.92 and 22.14, 28.26, 49.97 for Environmental, Social and Governance, respectively.

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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 22 Nov 2019 08:31:22 (SGT)

Dissemination Date: 22 Nov 2019 8:38:46 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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¹ An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

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Singapore Company Guide

StarHub

Version 19 | Bloomberg: STH SP | Reuters: STAR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Nov 2019

BUY (Upgrade from HOLD)

Last Traded Price (5 Nov 2019): S\$1.32 (STI : 3,248.63)

Price Target 12-mth: S\$1.43 (8% upside) (Prev S\$1.30)

Analyst

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What's New

- 3Q19 earnings of S\$58m (+2% y-o-y, +47% q-o-q) ahead of our S\$36m estimate due to higher profit from equipment sales and payment from TPG.
- FY19F earnings lifted 6%; near term catalyst from joint bid for 5G in Jan 2020.
- Upgrade to BUY with a higher TP of S\$1.43 after factoring capex savings

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2018A	2019F	2020F	2021F
Revenue	2,362	2,299	2,254	2,273
EBITDA	579	610	578	575
Pre-tax Profit	245	196	190	179
Net Profit	202	165	156	147
Net Pft (Pre Ex.)	217	175	156	147
Net Pft Gth (Pre-ex) (%)	(20.9)	(19.3)	(10.7)	(5.9)
EPS (S cts)	11.6	9.52	9.02	8.48
EPS Pre Ex. (S cts)	12.5	10.1	9.02	8.48
EPS Gth Pre Ex (%)	(21)	(19)	(11)	(6)
Diluted EPS (S cts)	11.6	9.49	8.99	8.46
Net DPS (S cts)	16.0	9.00	7.21	6.78
BV Per Share (S cts)	20.3	20.8	22.6	24.3
PE (X)	11.3	13.9	14.6	15.6
PE Pre Ex. (X)	10.5	13.1	14.6	15.6
P/Cash Flow (X)	5.1	5.4	5.0	4.9
EV/EBITDA (X)	5.8	5.8	6.2	6.4
Net Div Yield (%)	12.1	6.8	5.5	5.1
P/Book Value (X)	6.5	6.3	5.8	5.4
Net Debt/Equity (X)	1.5	1.7	1.7	1.8
ROAE (%)	53.5	46.2	41.4	36.1
Earnings Rev (%):		6	0	(3)
Consensus EPS (S cts):		10.3	9.20	9.00
Other Broker Recs:		B: 3	S: 6	H: 11

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

Negatives in the price; catalysts in place

Good entry point with catalyst in place. While StarHub's operating metrics remain weak, the share price may benefit from significant capex reductions over FY19/20F. New entrant TPG is struggling to fulfil its network rollout obligations as reflected in TPG paying ~S\$9m to StarHub in 3Q19 for in-tunnel coverage, strengthening the case for consolidation in the sector. StarHub is working towards a joint bid for the nationwide 5G licence in Jan 2020, which could be a share price catalyst. The stock is cheap at 14.2x 12-month forward PE, near -2SD of its mean of 13.7x, with an attractive dividend yield of 6.8%/5.5% over FY19F/ FY20F. Superior free cash flow may lead to higher-than-projected dividends in FY20F. Upgrade to BUY

Where we differ: Our FY19F/20F earnings are now in line with street estimates. We raised FY19F earnings to reflect payments from TPG for usage of in-tunnel equipment and higher profit from equipment sales

Potential catalyst: Joint bid for nationwide 5G licence - A joint bid with another major telecom operator for the nationwide 5G licence in Jan 2020 could rekindle interest in the stock.

Valuation:

Upgrade to BUY with a higher TP of S\$1.43. We value StarHub at 6.0x EV/FY20F EBITDA, which is at a ~15% discount to the regional average of 7.2x, and derive a higher TP of S\$1.43 (from S\$1.30) as we factor in capex savings.

Key Risks to Our View:

Bear case valuation of S\$1.15 if cyber-security losses widen. StarHub could see an 8% drop in FY20F EBITDA under this scenario vs our base case scenario

At A Glance

Issued Capital (m shrs)	1,732
Mkt. Cap (S\$m/US\$m)	2,286 / 1,682
Major Shareholders (%)	
Temasek Holdings Pte Ltd	55.8
Nippon Telegraph	9.9
Blackrock	5.0
Free Float (%)	29.3
3m Avg. Daily Val (US\$m)	2.3
GIC Industry : Communication Services / Telecommunication Services	
Bloomberg ESG disclosure score (2017)^	46.5
- Environmental / Social / Governance	35.0 / 59.4 / 57.1

[^ refer to back page for more information](#)



Live more, Bank less

WHAT'S NEW

Earnings surprise despite weak revenue

3Q19 earnings of S\$58m (+2% y-o-y, +47% q-o-q) came above our estimate of S\$36m. 9M19 earnings came in at 90%/88% of ours and consensus expectations. The earnings surprise in 3Q19 stemmed from two key sources: i) S\$9m payment made by TPG for the use of in-tunnel equipments of the incumbent mobile operators – TPG is required to make payments for the use of in-tunnel radio equipment laid out by the incumbent operators in order to meet 99% road tunnel coverage requirement by 1 January 2020 as set out by the IMDA. ii) higher than expected handset profit of S\$17.7m recognised 3Q19. This may be due to StarHub offering lower retention bonus and subsidies compared to those offered in 1Q19. As a result, 3Q19 EBITDA expanded 16% y-o-y (+16% q-o-q) to S\$170.5m despite a 2% y-o-y drop (in total revenue. Depreciation and amortisation expenses increased 2% q-o-q owing to higher amortisation attached to recent acquisitions.

9M19 service revenue of S\$1,321m (-3.9% y-o-y) was marginally below our expectations of 3% drop. StarHub reported y-o-y declines across all business segments, except enterprise which reported healthy growth of 15% y-o-y in 9M19. Enterprise services reported 9M19 revenues of S\$420m with cyber security services contributing to majority of the growth. Mobile service revenues declined 8.8% y-o-y in 9M19, below our expectations of a 7% drop, largely driven by continued migration towards SIM-Only offerings, dragging Postpaid ARPU down by 10% in 9M19. StarHub lost 35,000 postpaid subscribers during the quarter as an enterprise customer in the hospitality segment wound up operations.

Pay TV revenues dropped 20% y-o-y in 9M19, driven by subscriber losses during the cable migration process, which came to an end in 3Q19. StarHub still lost ~27,000 subscribers in 3Q19 (76,000 in 9M19) while cable TV ARPU continued to worsen dipping 9% q-o-q (-13% in 9M19). StarHub however mentioned that its cable TV subscriber base is expected to be stable going forward without major churn and that the subscribers that have migrated are on 2-year contracts. Broadband also witnessed a marginal 3% y-o-y

contraction in the topline during 9M19, despite higher subscriber additions as StarHub rolled out aggressive promotions to facilitate the uptake of StarHub's offers to migrate. 9M19 service revenue came in at 74% of our expectations.

Cost transformation programme on-track with ~60% of cost savings already secured. StarHub revealed that ~60% of its S\$210m cost transformation plan (S\$126m cost savings) has already been executed with bulk of the savings (~39%) stemming from the staff reduction exercise executed in 2018. Cost savings from cable TV operations, primarily via reduction in the cost of content contributed ~18% while other operational efficiencies accounted for ~3% of savings. StarHub has reinvested ~17% of the savings realised back into the business, primarily for digitisation and investments in cyber-security, rendering net cost savings of ~S\$105m. The remaining 40% is expected to be accrued over FY20-21 primarily through operational efficiencies realised via digitalisation and further streamlining of StarHub's cable TV operations.

Capex guidance lowered with the shift in capital to more profitable business segments. StarHub revised its FY19F capex guidance to 8-9% of total revenue from 11-12% of revenue previously as it diverts capital towards the fast-growing fixed services segment by limiting investments in cable TV and broadband segments. Going forward StarHub would expand the usage of Netlink NBN Trust's fibre to serve enterprise customers rather than pulling its own fibre. StarHub is also optimising its 4G rollout given that 5G would be available in certain areas from 2021 onwards.

Raised FY19F earnings by 6%. We raised our FY19F earnings by 6% to reflect payments from TPG for in-tunnel equipment usage and higher than expected handset profit in 3Q19. We believe payments from TPG for in-tunnel usage might recur over the next 2-3 quarters although the magnitude will decrease as TPG incrementally installs its own equipments gradually.

StarHub is trading at an attractive valuation



Source: Reuters, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Revenue	582	553	573	(1.6)	3.6
Cost of Goods Sold	(435)	(407)	(411)	(5.6)	1.1
Gross Profit	147	146	162	9.9	10.4
Other Oper. (Exp)/Inc	(71.4)	(89.0)	(81.5)	14.1	(8.5)
Operating Profit	75.5	57.3	80.0	6.0	39.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	(0.2)	0.0	(0.7)	(250.0)	nm
Net Interest (Exp)/Inc	(6.5)	(9.7)	(9.3)	(43.1)	4.1
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	68.8	47.6	70.0	1.7	47.2
Tax	(10.9)	(8.2)	(13.5)	23.9	64.6
Minority Interest	(1.0)	0.10	1.40	nm	nm
Net Profit	57.0	39.5	58.0	1.8	47.0
Net profit bef Except.	57.0	39.5	58.0	1.8	47.0
EBITDA	147	146	170	15.7	16.0
Margins (%)					
Gross Margins	25.2	26.5	28.2		
Opg Profit Margins	13.0	10.4	14.0		
Net Profit Margins	9.8	7.1	10.1		

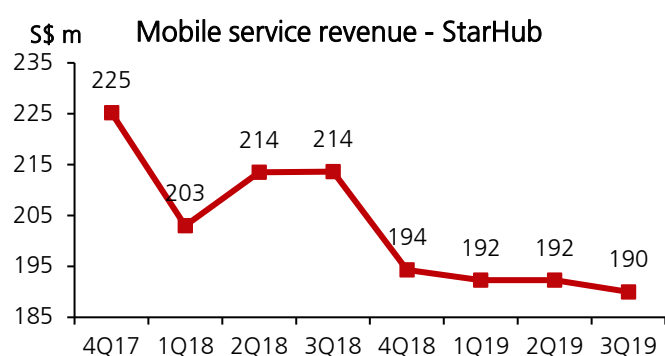
Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Mobile revenue to decline by 7% CAGR over FY18-20F 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 9M19 postpaid ARPU declined ~10% y-o-y with the rising uptake of SIM-only plans and growing uptake of low-value brands like Giga!. With declines in ARPU and pressure on subscriber additions, we project StarHub's mobile service revenues to decline by 7% p.a. over FY18A-20F.

StarHub's mobile segment showing signs of stabilising

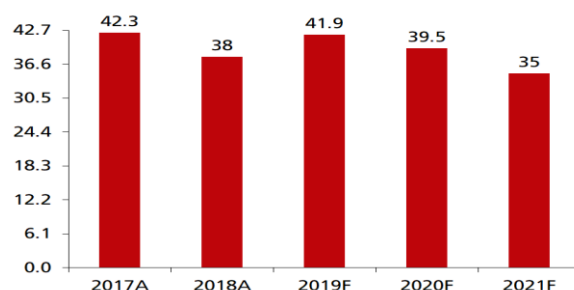


Source: Company, DBS Bank

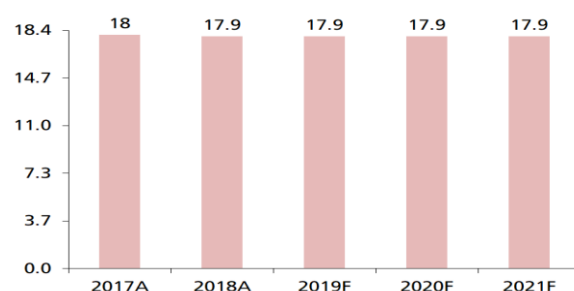
EBITDA likely to contract 5% in FY20F but stabilize in FY21F

StarHub is likely to report a ~5% y-o-y improvement in EBITDA in FY19F, driven by the classification of operating lease expenses to depreciation and improvements in Enterprise segment, the impact of which would be partially offset by lower Pay-TV revenues and higher fibre migration expenses. StarHub is likely to witness a 5% dip in EBITDA in FY20F, largely led by continued declines in mobile and Pay-TV segments. While the enterprise solutions segment would partially offset declines in the top line, the segment carries a lower margin profile than traditional mobile and legacy IT services, leading to a contraction in StarHub's margin profile in FY20F. We expect StarHub's EBITDA to stabilise y-o-y in FY21F, led by stabilisation of revenue and turnaround in the profitability of Pay-TV and cyber-security business.

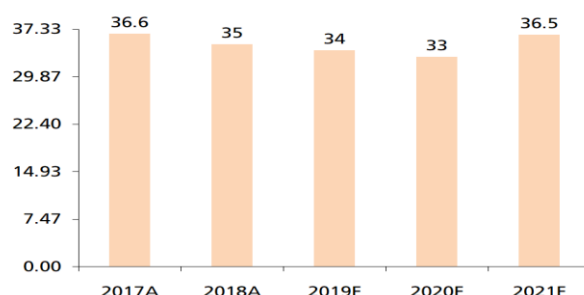
Mobile EBITDA Margins



CATV & Broadband EBITDA Margins



Fixed Network EBITDA Margins

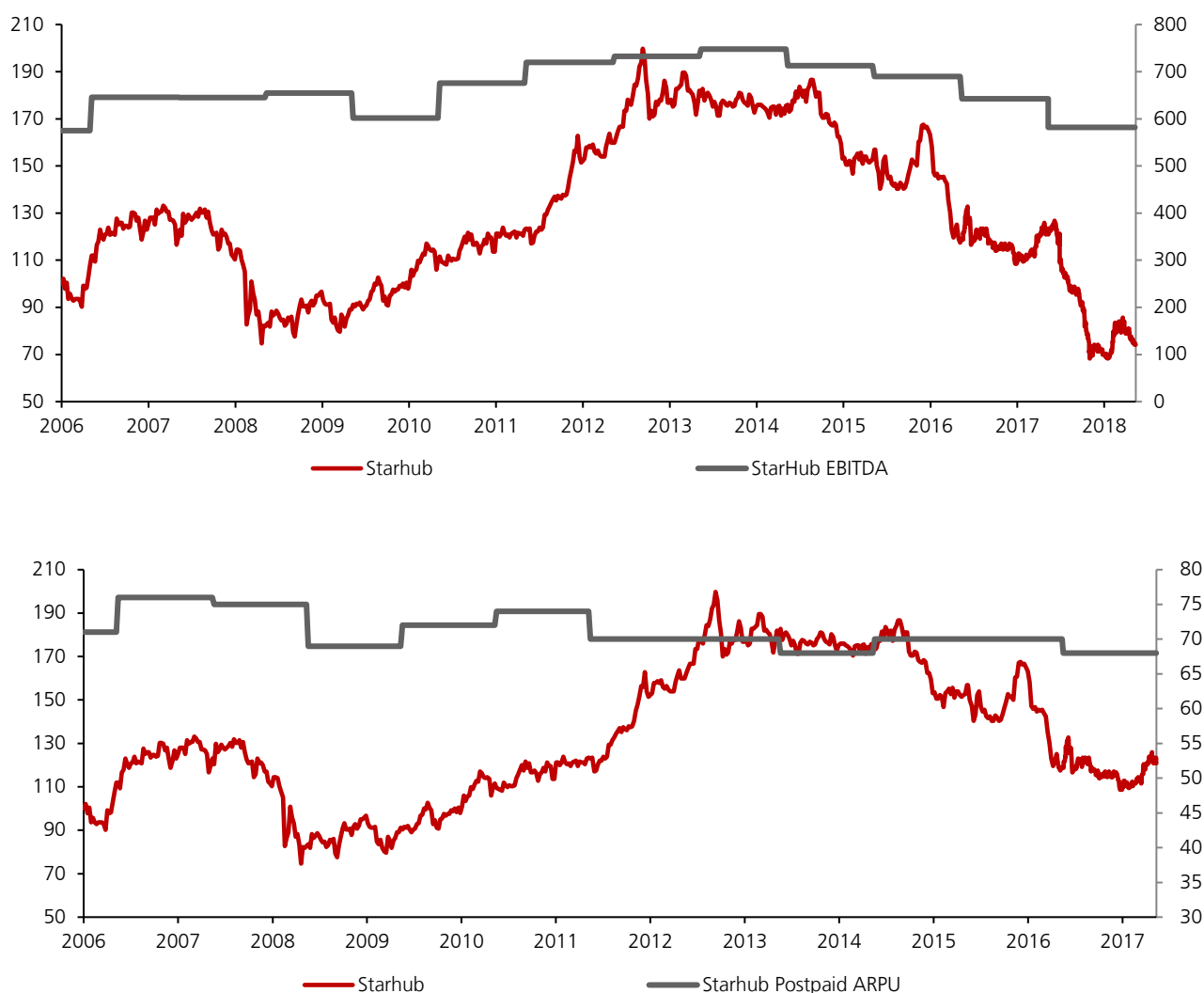


Source: Company, DBS Bank

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

Changes in postpaid ARPU and EBITDA 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 Postpaid ARPU and EBITDA to be good indicators of StarHub's share price performance. Changes in Postpaid ARPU exhibits a 0.53 correlation with StarHub's share price as Mobile service revenues account for over 40% of StarHub's service revenue. Changes in EBITDA also exhibit a correlation of 0.64 with StarHub's share price as EBITDA reflects StarHub's operational efficiency and effectiveness.

StarHub's stock price exhibits decent correlations with EBITDA and Postpaid ARPU



Source: StarHub, Reuters, DBS Bank

StarHub

Balance Sheet:

Balance sheet is strong enough to support dividends. Net debt to EBITDA of 1.6x is quite healthy and much below its listed peer Singtel's above 2x. We expect StarHub to borrow S\$100m in FY20F to fund S\$282m in spectrum payments and dividends. StarHub's recent reduction in capex over FY19/20 should further boost free cash flow to support expansion.

Share Price Drivers:

Stabilisation of Pay-TV revenues and clarity on cost savings initiatives. Signs of stabilisation in Pay-TV revenues and better clarity on StarHub's cost savings initiatives over FY20F would shed some light on the magnitude of a potential decline in StarHub's FY20F earnings.

Announcement of a joint bid for Nationwide 5G license.

StarHub's share price may see some uplift if a joint bid in collaboration with M1 for Nationwide 5G license is announced as it will reduce the capex obligations

Key Risks:

Bear case valuation is S\$1.15 if cyber-security losses expand. StarHub could see an 8% drop in EBITDA under this scenario vs our base case.

Network sharing and profits from cyber-security could lead to bull case valuation of S\$1.61. We project a TP of S\$1.61 in the event of lower-than-expected 5G capex and higher-than-projected EBITDA backed by a profitable cyber-security segment.

Environment, Social, Governance:

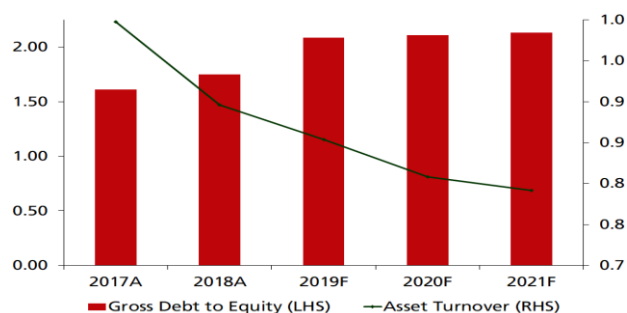
ESG responsibilities are driven by 13 sustainability goals.

StarHub's ESG responsibilities revolve around 13 sustainability goals covering areas such as supporting local communities, e-waste programmes addressing climate change and other environmental challenges, etc. As a part of this, in FY18, StarHub committed S\$827,000 to 16 voluntary welfare organisations and non-profit organisations to promote employability and essential life skills among underprivileged Singaporeans. By FY22, StarHub plans to increase its renewable energy capacity to 10%.

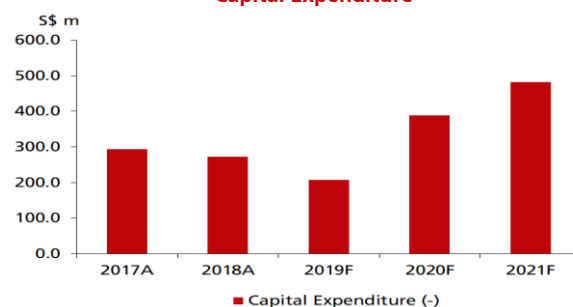
Company Background

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.

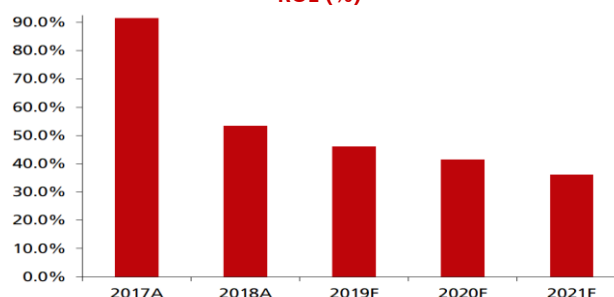
Leverage & Asset Turnover (x)



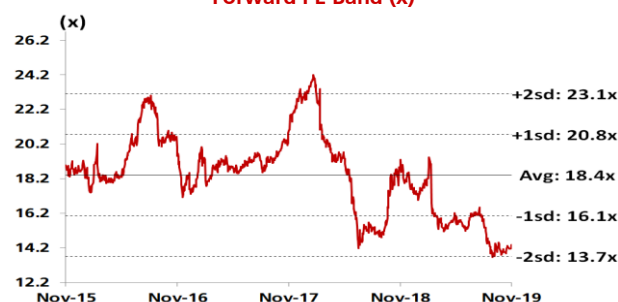
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2017A	2018A	2019F	2020F	2021F
Mobile EBITDA Margins	42.3	38.0	41.9	39.5	35.0
CATV & Broadband	18.0	17.9	17.9	17.9	17.9
Fixed Network EBITDA	36.6	35.0	34.0	33.0	36.5

Segmental Breakdown

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenues (\$m)					
Mobile	898	825	768	711	690
Cable TV & Broadband	540	497	437	402	394
Fixed Network	441	511	581	647	698
Equipment sale	532	530	512	495	491
Others					
Total	2,411	2,362	2,299	2,254	2,273
EBITDA (\$m)					
Mobile	380	313	322	281	241
Cable TV & Broadband	97.3	89.0	78.3	71.9	70.5
Fixed Network	161	179	198	213	255
Equipment sale	4.40	1.20	12.0	12.0	8.40
Others					
Total	643	582	610	578	575
EBITDA Margins (%)					
Mobile	42.3	38.0	41.9	39.5	35.0
Cable TV & Broadband	18.0	17.9	17.9	17.9	17.9
Fixed Network	36.6	35.0	34.0	33.0	36.5
Equipment sale	0.8	0.2	2.3	2.4	1.7
Others	N/A	N/A	N/A	N/A	N/A
Total	26.7	24.6	26.5	25.6	25.3

Mobile revenue to decline at 7% CAGR over FY18-20F with growing adoption of SIM-only plans.

Income Statement (\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	2,411	2,362	2,299	2,254	2,273
Cost of Goods Sold	(2,053)	(2,075)	(2,059)	(2,027)	(2,052)
Gross Profit	358	287	239	227	221
Other Opng (Exp)/Inc	4.40	1.20	12.0	12.0	8.40
Operating Profit	362	288	251	239	229
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(2.2)	(1.0)	(1.0)	(1.0)	(1.0)
Net Interest (Exp)/Inc	(26.2)	(27.1)	(44.4)	(47.9)	(49.3)
Exceptional Gain/(Loss)	(0.7)	(15.0)	(10.0)	0.0	0.0
Pre-tax Profit	333	245	196	190	179
Tax	(59.8)	(44.9)	(35.1)	(34.1)	(32.1)
Minority Interest	(0.5)	1.10	4.00	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	273	202	165	156	147
Net Profit before Except.	274	217	175	156	147
EBITDA	641	579	610	578	575
Growth					
Revenue Gth (%)	0.6	(2.0)	(2.7)	(1.9)	0.8
EBITDA Gth (%)	(7.0)	(9.7)	5.4	(5.2)	(0.5)
Opg Profit Gth (%)	(14.7)	(20.4)	(12.9)	(4.9)	(4.1)
Net Profit Gth (Pre-ex) (%)	(17.5)	(20.9)	(19.3)	(10.7)	(5.9)
Margins & Ratio					
Gross Margins (%)	14.9	12.2	10.4	10.1	9.7
Opg Profit Margin (%)	15.0	12.2	10.9	10.6	10.1
Net Profit Margin (%)	11.3	8.5	7.2	6.9	6.5
ROAE (%)	91.5	53.5	46.2	41.4	36.1
ROA (%)	11.3	7.6	6.1	5.6	5.1
ROCE (%)	19.2	13.3	10.7	9.5	8.7
Div Payout Ratio (%)	101.4	137.4	94.6	80.0	80.0
Net Interest Cover (x)	13.8	10.6	5.7	5.0	4.7

~5% dip in EBITDA over FY20F, largely led by continued declines in mobile and Pay-TV segments

Source: Company, DBS Bank

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

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	582	620	597	553	573
Cost of Goods Sold	(435)	(509)	(435)	(407)	(411)
Gross Profit	147	110	162	146	162
Other Oper. (Exp)/Inc	(71.4)	(80.4)	(89.7)	(89.0)	(81.5)
Operating Profit	75.5	29.9	72.2	57.3	80.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	(0.2)	0.40	0.0	(0.7)
Net Interest (Exp)/Inc	(6.5)	(7.7)	(9.4)	(9.7)	(9.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	68.8	22.0	63.2	47.6	70.0
Tax	(10.9)	(6.6)	(13.8)	(8.2)	(13.5)
Minority Interest	(1.0)	4.40	4.70	0.10	1.40
Net Profit	57.0	19.8	54.0	39.5	58.0
Net profit bef Except.	57.0	19.8	54.0	39.5	58.0
EBITDA	147	111	162	146	170

Growth

Revenue Gth (%)	(2.5)	6.4	(3.7)	(7.4)	3.6
EBITDA Gth (%)	(4.7)	(24.6)	46.8	(9.9)	16.0
Opg Profit Gth (%)	(10.3)	(60.4)	141.5	(20.7)	39.7
Net Profit Gth (Pre-ex) (%)	(9.1)	(65.3)	172.7	(26.9)	47.0

Margins

Gross Margins (%)	25.2	17.8	27.1	26.5	28.2
Opg Profit Margins (%)	13.0	4.8	12.1	10.4	14.0
Net Profit Margins (%)	9.8	3.2	9.0	7.1	10.1

Balance Sheet (\$\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	870	893	1,025	1,004	1,075
Invt in Associates & JVs	23.7	22.7	21.7	20.7	19.7
Other LT Assets	708	789	713	782	847
Cash & ST Invt	345	166	234	271	223
Inventory	71.9	75.2	73.2	71.8	72.4
Debtors	202	283	275	270	272
Other Current Assets	416	407	407	407	407
Total Assets	2,636	2,635	2,749	2,827	2,915
ST Debt	120	50.1	50.1	50.1	50.1
Creditor	625	575	559	548	553
Other Current Liab	269	247	163	162	160
LT Debt	858	978	1,187	1,266	1,345
Other LT Liabilities	159	197	197	177	155
Shareholder's Equity	602	552	561	592	621
Minority Interests	4.40	36.2	32.2	32.2	32.2
Total Cap. & Liab.	2,636	2,635	2,749	2,827	2,915
Non-Cash Wkg. Capital	(205)	(56.8)	33.4	38.5	38.8
Net Cash/(Debt)	(632)	(863)	(1,003)	(1,045)	(1,172)
Debtors Turn (avg days)	28.3	37.4	44.3	44.1	43.5
Creditors Turn (avg days)	137.3	122.7	121.7	119.8	117.9
Inventory Turn (avg days)	12.5	15.1	15.9	15.7	15.4
Asset Turnover (x)	1.0	0.9	0.9	0.8	0.8
Current Ratio (x)	1.0	1.1	1.3	1.3	1.3
Quick Ratio (x)	0.5	0.5	0.7	0.7	0.6
Net Debt/Equity (X)	1.0	1.5	1.7	1.7	1.8
Net Debt/Equity ex MI (X)	1.1	1.6	1.8	1.8	1.9
Capex to Debt (%)	30.1	26.5	16.7	29.5	34.6
Z-Score (X)	1.8	1.8	1.9	1.8	1.8

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	333	245	196	190	179
Dep. & Amort.	280	291	360	340	347
Tax Paid	(65.3)	(68.6)	(120)	(35.1)	(34.1)
Assoc. & JV Inc/(loss)	2.20	1.00	1.00	1.00	1.00
Chg in Wkg.Cap.	(240)	(142)	(5.8)	(4.1)	1.70
Other Operating CF	206	120	(10.0)	(30.7)	(31.8)
Net Operating CF	517	447	421	461	463
Capital Exp.(net)	(294)	(272)	(207)	(389)	(482)
Other Invt.(net)	(15.0)	0.0	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	(18.0)	(90.8)	0.0	0.0	0.0
Net Investing CF	(327)	(363)	(207)	(389)	(482)
Div Paid	(294)	(277)	(156)	(125)	(117)
Chg in Gross Debt	0.0	50.0	0.0	79.4	78.2
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	164	(36.4)	10.0	10.0	10.0
Net Financing CF	(130)	(263)	(146)	(35.4)	(29.2)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	60.1	(180)	68.4	36.9	(48.5)
Opg CFPS (\$ cts)	43.8	34.0	24.7	26.9	26.6
Free CFPS (\$ cts)	12.9	10.1	12.4	4.18	(1.1)

We expect StarHub to pay for \$282m in spectrum payments for 700 MHz spectrum over FY20F/21F

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Nov 18	1.98	2.45	BUY
2:	21 Nov 18	1.88	2.45	BUY
3:	14 Jan 19	1.77	2.45	BUY
4:	15 Feb 19	1.67	1.92	HOLD
5:	17 Apr 19	1.53	1.55	HOLD
6:	28 May 19	1.49	1.55	HOLD
7:	07 Aug 19	1.45	1.55	HOLD
8:	24 Oct 19	1.31	1.30	HOLD

Source: DBS Bank

Analyst: Sachin MITTAL

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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*

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**Share price appreciation + dividends*

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