

CHINA
DEVELOPMENT
FINANCIAL

StarHub Ltd

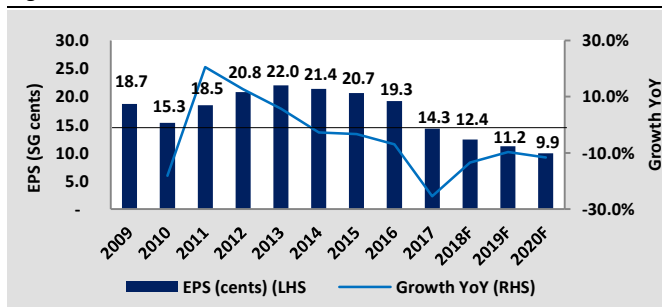
(STH SP/STAR.SI)

Wake up call for Singapore's telcos

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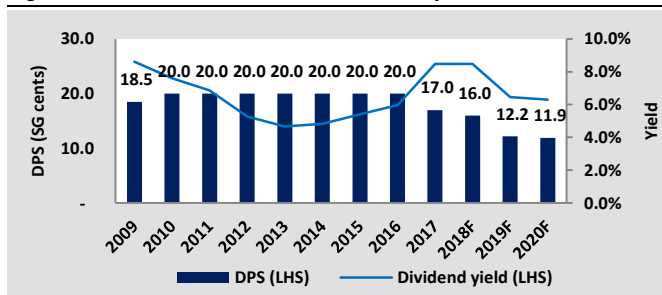
- StarHub's shares have gained 17% over the past four weeks, from S\$1.62 to S\$1.90. StarHub jumped 7% as of the publication of this report following the announcement that Keppel and SPH made a buyout offer for M1.
- Since the start of the year, StarHub's shares have declined 33%, reflecting an extremely competitive environment for telcos in the local market. Shares of the whole telco sector have been under intense pressure ahead of the entry of SG's fourth telco, TPG.
- We believe that the M1 offer could be a re-rating catalyst for the telco sector as they quickly change their business models and accelerate their digital transformation strategies.

Figure 1: EPS trend since 2009



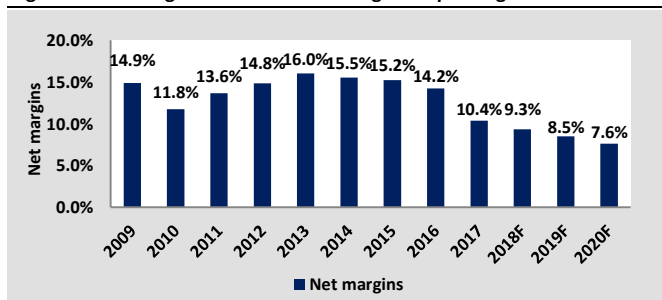
Source: Company Data, KGI Research

Figure 2: Not a safe defensive dividend stock anymore



Source: Company Data, KGI Research

Figure 3: Net margins have been declining since peaking in 2013



Source: Company Data, KGI Research

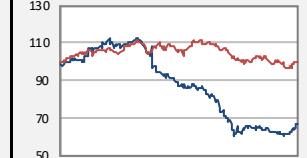
Not Rated

Price as of 27 Sep 18 (SGD)	1.88	Performance (Absolute)	
12M TP (\$)	-	1 Month (%)	15.3
Previous TP (\$)	-	3 Month (%)	4.8
Upside, incl div (%)	-	12 Month (%)	-23.6

Trading data

Mkt Cap (\$mn)	3,254
Issued Shares (mn)	1,731
Vol - 3M Daily avg (mn)	3.2
Val - 3M Daily avg (\$mn)	5.3
Free Float (%)	34.2%

Perf. vs STI Index (Red)



Major Shareholders

Temasek Holdings	55.8%
Nippon Telegraph	9.9%
Blackrock	5.0%

Previous Recommendations

	-	-
	-	-
	-	-

Challenged. Amid the competitive landscape, Starhub's EPS declined 34.8% since 2013, representing a -10.1% CAGR during the period. Net margins also reflect the same challenging environment, losing 5.6ppts from a high of 16.0% in 2013. While Starhub has maintained its DPS at 20.0 cents for seven years since 2010, it cut it by 3.0 cents in 2017 and consensus is expecting further declines to a low of 11.9 cents by 2020F.

Transformation strategy accelerated. Starhub announced, in September 2018, that it formed a JV with Temasek to set up Ensign InfoSecurity, a pure-play cybersecurity firm that will offer bespoke, end-to-end security solutions to enterprises and governments globally. We believe the bottom-line impact from its various business initiatives is minimal in the next 1-2 years. Instead, the entrance of TPG has been a wake-up call for the telcos to accelerate their transformation strategies.

Valuation & Action: With the recent jump in StarHub's share price, it is now trading at 7.4x FY2018F EV/EBITDA, which is comparable to M1's valuations based at S\$2.06 (offer price by Keppel). While StarHub offers a dividend yield of around 6.4% in FY2019-20F, SingTel may provide a better risk/reward at this juncture given that it is offering a dividend yield of 5.6% for FY2019-20F. Overall, we believe that as the telcos accelerate their digital transformations and leverage on partnerships with strategic shareholders, valuations may see an upward re-rating over the next few quarters.

Risks: Income contribution from new business segments may not be fast enough to offset declining margins in their core businesses.

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	KGI Securities Research's recommendations are based on an Absolute Return rating system.
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HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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