

MITA No. 010/06/2008

6 April 2009

# StarHub Limited

Maintain

## BUY

Previous Rating: BUY

### S\$2.02

### Fair Value: S\$2.88

Stock Code: STAR.SI  
 Reuters: CC3  
 ISIN Code: CCH3  
 Bloomberg: STHSP

Event: Update

#### General Data

Issued Capital (m)	1,712
Mkt Cap (S\$m/US\$m)	3,458/2,297
Major Shareholder	Temasek Hldg (57.2%)
Free Float (%)	32.3
NTA per share (S\$)	NM
Daily Vol 3-mth ('000)	2,015
52Wk High (S\$)	3.140
52Wk Low (S\$)	1.760

## Wins NBN OpCo Bid

**Wins NBN OpCo Bid.** StarHub announced Friday that it has been selected by the Infocomm Development Authority of Singapore (IDA) to build and manage the OpCo (Operating Company) for the Next Generation National Broadband Network (NBN). StarHub plans to invest S\$100m to set up a wholly-owned subsidiary Nucleus Connect (NC) to design, build and operate the active infrastructure of the NBN. In addition, NC, which is expected to start commercial operations in 1Q10, is also committed to attracting overseas online service providers to host their content in Singapore.

**S\$1b investment over 25 years.** According to StarHub, NC expects to spend about S\$1b for the active network over the 25-year period of the license, or around S\$40m per year. However, NC is eligible for the government grant of up to S\$250m from IDA to defray part of the investment, which we understand will also be dispersed to NC over a period of time. Based on our estimates, we do not believe that StarHub will have any issues funding the S\$100m NC investment using its internal funds.

**Wholesale pricing ranges from S\$21-121 per user.** Meanwhile, the IDA has revealed that one of the key factors behind StarHub's victory was its "attractive" wholesale pricing. Media reports quoted the IDA as saying NC will charge companies (RSPs or Retail Service Providers) S\$21 a month for a 100Mbps residential Internet connection and S\$121 for a 1Gbps link; a 100Mbps non-residential connection is priced at S\$75 a month. The IDA added that NC's proposed wholesale pricing cannot be raised for the first six years but it can be brought down. Earlier, the NetCo (Network Company) - won by a consortium that includes rival SingTel - said it would offer wholesale prices of S\$15 per month per residential fibre connection and S\$50 per month per non-residential fibre connection to operating companies.

**No near-term impact.** In the near-term, we do not see any impact on its earnings - we expect meaningful OpCo contribution to come in from 2011 onwards; we raise our FY10 estimates by less than 0.5%. We also do not expect any change in its capex spending this year although we can expect an increase of S\$30m from 2010 onwards; and we can expect a small increase in debt funding somewhere down the road. Nevertheless, based on our DCF valuation model, the win is positive for StarHub and that bumps up our fair value from S\$2.78 to S\$2.88. Maintain **BUY**

#### Carey Wong

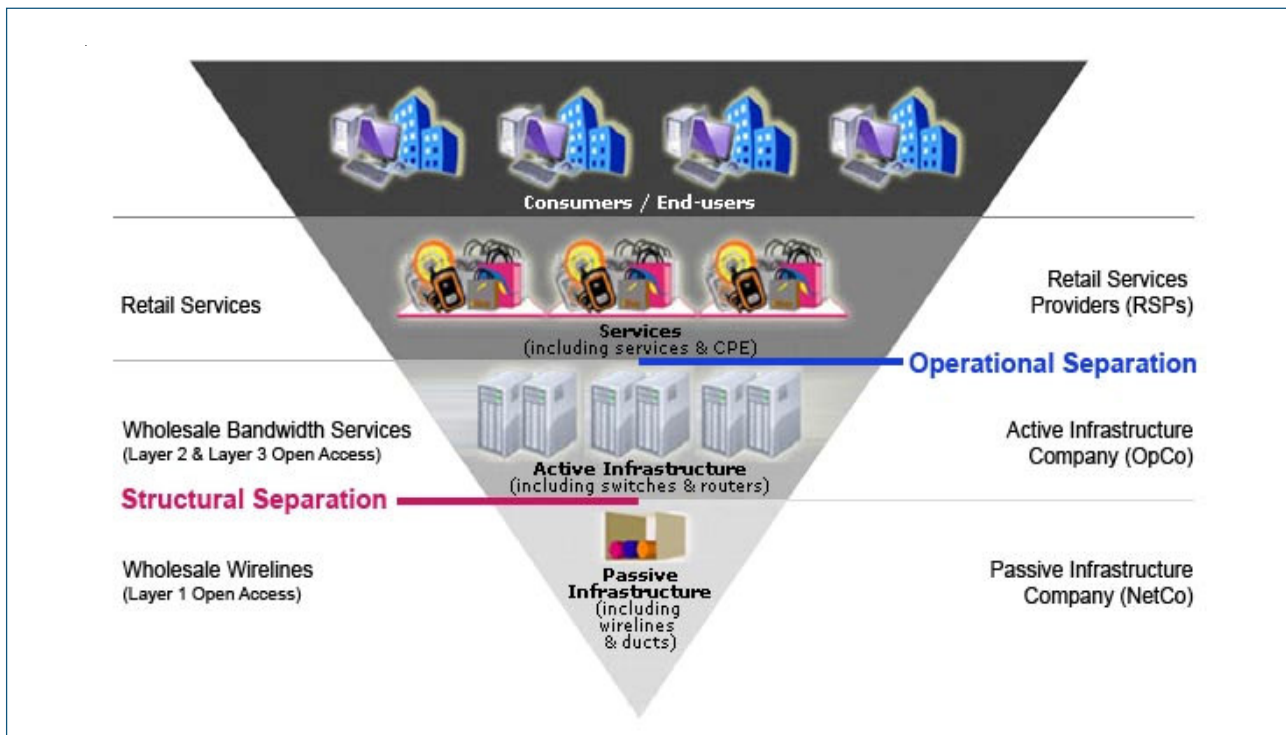
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Year to 31 Dec	Turnover (S\$m)	Pre-tax Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	2,013.7	393.5	330.4	18.7	-3.7	10.8	7.9
FY 08	2,127.6	382.7	311.3	18.3	-2.4	11.1	8.9
FY 09F	2,146.7	380.4	315.8	18.5	1.4	10.9	8.9
FY 10F	2,273.3	389.1	322.9	19.0	2.3	10.7	9.2

Please refer to the important disclosures at the back of this document.

Exhibit 1: NBN Operating Structure



Source: IDA

StarHub's Key Financial Data

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Operating Revenue	2,013.7	2,127.6	2,146.7	2,273.3
Operating Expenses	-1,597.0	-1,718.4	-1,741.1	-1,840.4
Other Operating Income	0.0	0.0	0.0	0.0
<b>Profit from Operations</b>	<b>416.7</b>	<b>409.2</b>	<b>405.6</b>	<b>432.9</b>
Interest Income	3.0	0.8	0.8	0.6
Interest Expenses	-26.2	-27.3	-25.9	-44.4
<b>Pre-Tax Profit</b>	<b>393.5</b>	<b>382.7</b>	<b>380.4</b>	<b>389.1</b>
Tax	-63.1	-71.5	-64.7	-66.1
<b>Net profit</b>	<b>330.4</b>	<b>311.3</b>	<b>315.8</b>	<b>322.9</b>
Net Margin	-0.1	-0.1	-0.1	-0.1
Earnings per share (cents)	18.7	18.3	18.5	19.0
Fully diluted earnings per share (cents)	18.7	18.2	18.4	18.9

<b>BALANCE SHEET</b>				
<b>As at 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Cash	138.0	128.3	69.7	58.8
Other current assets	243.7	281.2	268.8	277.4
Fixed assets	894.0	845.7	862.1	916.1
Other long term assets	443.9	406.1	406.1	406.1
Total assets	1,719.5	1,661.3	1,606.6	1,658.4
Current liabilities less debt	595.1	590.0	599.4	624.6
Debt	968.0	913.7	868.0	888.0
Other long term liabilities	48.7	49.5	49.5	49.5
Total liabilities	1,611.8	1,553.2	1,516.9	1,562.1
Shareholders equity	107.7	108.1	89.8	96.2
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	1,719.5	1,661.3	1,606.6	1,658.4
NTA per share (cents)	-13.8	-15.5	-16.5	-16.1
Book value per share (cents)	6.1	6.1	5.1	5.5

<b>CASH FLOW</b>				
<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Operating profit before working cap. changes	664.4	669.3	642.8	676.4
Working capital changes	31.5	-73.1	21.7	16.7
Interest and tax	-19.1	-26.2	-89.8	-43.8
Net cash from operations	676.8	570.0	574.8	649.3
Capex	-212.9	-219.8	-236.1	-280.1
Other investing flows	2.1	0.1	-23.5	-66.1
Investing cash flow	-210.8	-219.7	-259.6	-346.2
Change in equity	-447.7	7.9	0.0	0.0
Net change in debt	335.0	-54.3	-45.7	20.0
Dividends paid	-265.9	-307.7	-328.1	-334.1
Others	0.4	-5.8	0.0	0.0
Financing cash flow	-378.3	-359.9	-373.7	-314.1
Forex adjustments	0.0	0.0	0.0	0.0
Net cash flow	87.8	-9.6	-58.6	-10.9
Cash at beginning of year	50.2	138.0	128.3	69.7
Fixed deposits pledged	0.0	0.0	0.0	0.0
Cash at end of year	138.0	128.3	69.7	58.8

**Key Ratios**

PER (x)	10.8	11.1	10.9	10.7
Price/NTA (x)	-14.6	-13.1	-12.2	-12.5
EV/EBITDA (x)	-2.8	-2.5	-2.5	-2.4
Dividend yield (%)	7.9	8.9	8.9	9.2
ROIC (%)	30.7	30.5	33.0	32.8
ROE (%)	306.9	288.0	351.8	335.6
Net gearing (%)	7.7	7.3	8.9	8.6
PE to growth (x)	-2.9	-4.6	7.5	4.7

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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