

MITA No. 010/06/2008

8 May 2009

# StarHub Limited

Maintain

## BUY

Previous Rating: BUY

### \$S1.92

### Fair Value: \$S2.88

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

Event: Results

General Data	
Issued Capital (m)	1,712
Mkt Cap (S\$/US\$m)	3,287/2,233
Major Shareholder	Temasek Hldg (57.2%)
Free Float (%)	32.3
NTA per share (S\$)	NM
Daily Vol 3-mth ('000)	2,680
52Wk High (S\$)	3.010
52Wk Low (S\$)	1.760

## Commendable 1Q09 Results

**1Q09 results within expectations.** StarHub reported its 1Q09 results last night, with revenue down 0.8% YoY at S\$530.6m, almost smack on our S\$530.0m forecast, while net profit rose 3.1% to S\$82.6m, or shy of our S\$82.9m estimate; this included a tax credit of S\$0.8m due to the corporate tax rate cut from 18% to 17%. On a sequential basis, revenue fell 1.1%, reflecting the economic slowdown, while net profit declined by 5.6%. But we note that the sharper earnings QoQ decline was due to a lower effective tax rate in 4Q08; otherwise, pre-tax profit rose 2.5% to S\$101.5m, thanks to lower cost of sales and operating expenses. It also declared a dividend of S\$0.045/share.

**Drop in mobile revenue.** On its key business segment, mobile revenue came off 3.1% YoY and 2.8% QoQ to S\$264.7m, mainly due to lower revenue from its post-paid segment, which fell 4.8% YoY and 3.5% QoQ. Although it managed to grow its post-paid subscriber base by 9k users, we note that ARPU (average revenue per user) eased from S\$71 in 4Q08 to S\$67, hit by lower voice usage, IDD and outbound roaming services, while monthly usage also dropped from 469 to 442 minutes. A higher mix of customers on the discounted MaxMobile Data plans also had a diluting effect on post-paid ARPU. On the other hand, pre-paid revenue rose 2.7% YoY (down 0.5% QoQ), as the base grew by 40k to 914k users, though ARPU slipped from S\$25 in 4Q08 to S\$24. Mobile EBITDA margin improved from 36.6% in 1Q08 to 37.4%, thanks to lower acquisition cost and quantity of equipment sold.

**Guides for stable service revenue.** StarHub is guiding for stable service revenue (excludes non-core equipment sales), which management considers as "recurring revenue". Earlier, management guided for a low single-digit growth in total revenue. On the other hand, it has bumped up its service EBITDA margin from 31% to 32%. It has also kept its capex guidance to 11% of operating revenue. More importantly, based on its projected profitability and cash flow, StarHub intends to continue to pay S\$0.045/cen dividend every quarter, totalling S\$0.18 for the full year.

**Maintain BUY.** Overall, StarHub posted a pretty commendable set of results, despite the economic slowdown. As 1Q09 results were well within expectations, we are leaving our FY09 estimates intact; we may see room for upward revision should the economy recovers faster than expected. Maintain **BUY** with S\$2.88 fair value.

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Year to 31-Dec	Turnover (S\$m)	Operating Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	2,013.7	416.7	330.4	18.7	-3.7	10.3	8.3
FY 08	2,127.6	409.2	311.3	18.3	-2.4	10.5	9.4
FY 09F	2,146.7	405.6	315.8	18.5	1.4	10.4	9.4
FY 10F	2,273.3	432.9	322.9	19.0	2.3	10.1	9.7

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

**StarHub's Key Financial Data**

<b>StarHub Results</b> Year Ended 31 Dec (S\$ m)	<b>1Q08</b> (S\$m)	<b>1Q09</b> (S\$m)	<b>% Chg</b> (YoY)	<b>4Q08</b> (S\$m)	<b>% Chg</b> (QoQ)
Operating Revenue	534.9	530.6	-0.8%	536.7	-1.1%
Operating Expenses	-426.8	-423.1	-0.9%	-431.6	-2.0%
<b>Profit from Operations</b>	<b>108.1</b>	<b>107.5</b>	<b>-0.6%</b>	<b>105.1</b>	<b>2.3%</b>
Interest Income	0.4	0.2	-50.0%	0.2	0.0%
Interest Expenses	-7.8	-6.2	-20.5%	-6.3	-1.6%
<b>Pre-Tax Profit</b>	<b>100.7</b>	<b>101.5</b>	<b>0.8%</b>	<b>99.0</b>	<b>2.5%</b>
Tax	-20.6	-18.9	-8.3%	-11.5	64.3%
<b>Net profit</b>	<b>80.1</b>	<b>82.6</b>	<b>3.1%</b>	<b>87.5</b>	<b>-5.6%</b>
Net Margin	15.0%	15.6%		16.3%	
<b>EBITDA</b>	<b>167.7</b>	<b>167.9</b>	<b>0.1%</b>	<b>165.2</b>	<b>1.6%</b>
EBITDA Margin	31.4%	31.6%		30.8%	

<b>Operating Revenue (S\$m)</b>	<b>1Q08</b>	<b>1Q09</b>	<b>% YoY</b>	<b>4Q08</b>	<b>% QoQ</b>
Mobile	273.2	264.7	-3.1%	272.2	-2.8%
Cable TV	97.2	102.0	4.9%	100.5	1.5%
Broadband	64.1	62.4	-2.7%	64.2	-2.8%
Fixed Network Services	72.65	79.1	8.9%	77.6	1.9%
Total Services Revenue	507.15	508.2	0.2%	514.5	-1.2%
Sale of Equipment	27.75	22.4	-19.3%	22.2	0.9%
Total	534.9	530.6	-0.8%	536.7	-1.1%

**EARNINGS FORECAST**

<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
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

**BALANCE SHEET**

<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

**CASH FLOW**

<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	128.4	69.7	58.8

**Key Ratios**

PER (x)	10.3	10.5	10.4	10.1
Price/NTA (x)	nm	nm	nm	nm
EV/EBITDA (x)	-2.6	-2.4	-2.4	-2.3
Dividend yield (%)	8.3	9.4	9.4	9.7
ROIC (%)	30.7	30.5	33.0	32.8
ROE (%)	306.9	288.0	351.8	335.6
Debt/EBITDA (%)	129.1%	121.9%	127.7%	125.7%
PE to growth (x)	-2.8	-4.4	7.1	4.5

Source: Company data, OIR estimates

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