Issuer Profile:
Neutral (3)

Ticker:
STHSP

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StarHub Ltd ("StarHub")

Recommendation

- **2Q2019 results came in significantly weaker with revenue falling 7.4% y/y to SGD552.8mn. Without effects of accounting changes from SFRS(I) 16 Leases, we estimate that reported EBITDA would have fallen 17.5% y/y to SGD128.1mn.**
- **We think that the core segments, including mobile, pay TV and broadband may continue to see some pressure from competition. While Cyber security revenue has grown and is likely to continue growing significantly, we note it is loss-making as of 2Q2019.**
- **That said, we remain comfortable with StarHub's credit profile given its strong cashflow generation while EBITDA/Total Interest and Net Debt/EBITDA are healthy at 15.5x (1H2018: 21.2x) and 1.5x (1H2018: 1.2x) respectively as of 1H2019, though weaker y/y.**
- **The STHSP curve looks fair, except STHSP 3.95% PERP which we think trades too tight. For perpetuals, we prefer FHREIT 4.45% PERP which offer higher yield and shorter call date. Between StarHub and Singapore Telecommunications Ltd ("SingTel"), we prefer the former which offers significantly higher yields which we think more than compensate for the difference in Issuer Profile Rating.**

Relative Value:

Bond	Maturity / Call date	Issuer Profile	Ask YTW	Spread
STHSP 3.08% 2022	12/09/2022	Neutral (3)	2.75%	117bps
STHSP 3.55% 2026	08/06/2026	Neutral (3)	3.08%	148bps
STHSP 3.95% PERP	16/06/2022	Neutral (3)	3.58%	200bps
STSP 2.72% 2021	03/09/2021	Positive (2)	2.14%	53bps
STSP 2.895% 2023	07/03/2023	Positive (2)	2.39%	81bps
FHREIT 4.45% PERP	12/05/2021	Neutral (3)	3.78%	215bps

Indicative prices as at 19 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Background

- StarHub Ltd ("StarHub") is a Singapore communications company, providing various services for consumer and corporates including mobile, data, fixed telecommunication, pay television, internet and broadband services.
- Listed on the SGX with a market cap of SGD2.4bn, StarHub is 55.8% owned by Asia Mobile Holdings Pte Ltd, which is 75%-owned by STT Communications Ltd, which is in turn a wholly-owned subsidiary of ST Telemedia (a wholly-owned subsidiary of Temasek).

Key Considerations

- **Weaker performance from all core segments:** 2Q2019 results saw revenue fall 7.4% y/y to SGD552.8mn. Every segment (Mobile, Pay TV, Broadband, Network Solutions, Sales of equipment) saw a decline except Cyber security, which includes the consolidation of Ensign and D'Crypt. Due to weaker revenue, reported EBITDA fell 5.7% y/y to SGD146.4mn. Without the accounting changes from SFRS(I) 16 Leases, we estimate that reported EBITDA would have fallen by a larger 17.5% y/y to SGD128.1mn.

- **Mobile under pressure; selling more data at a cheaper price:** Mobile revenue fell 9.9% y/y to SGD192.3mn. While this is partly due to legacy products (e.g. IDD, voice, roaming, value-added services), we believe that the fall in revenue from data is likely the main driver. Overall, post-paid ARPU has declined to SGD40 per month (2Q2018: SGD45 per month) with StarHub citing lower excess data usage despite average smartphone data usage rising to 7.5GB (2Q2018: 5.5GB). We think this is due to larger data bundles at cheaper prices offered to customers (e.g. HelloChange). We expect mobile revenue to remain under pressure given intense competition. However, we think subsequent declines may be less sharp as (1) post-paid subscribers continue to grow strongly (+39k q/q to 1,477k) with StarHub maintaining market share at ~26%, (2) monthly churn rates remain stable at 1.1% which we think implies stickiness to StarHub and (3) we note that ARPU has increased SGD1 per month q/q (1Q2019: SGD39 per month), which StarHub attributes to the roll out of Giga! In May 2019 (SGD25 per connection), which is a new mobile plan.

- **Significant declines in Pay TV though this is not necessarily bad:** Pay TV revenue fell 23.6% y/y to SGD64.7mn with subscriber base falling y/y to 374k (2Q2018: 438k) with monthly churn rates spiking to 2.1% (2Q2018: 1.1%) while ARPU also declined significantly to SGD44 per month (2Q2018: SGD53 per month). This is likely due to alternative viewing options (e.g. Netflix). That said, we think the decline is largely credit neutral as Pay TV margins has been negative while StarHub mentioned that margins are better y/y. Meanwhile, StarHub has been renegotiating with content providers.

- **Broadband is relatively more stable though pressures may emerge:** Broadband revenue fell by a modest 2.2% y/y to SGD45.1mn. Despite the growth in customers to 509k (2Q2018: 471k), we note that ARPU has fallen to SGD29 per month (2Q2018: SGD32 per month). StarHub expects sustained competition for the segment and we note that the decline in ARPU has been due to promotional offers.

- **Not all rosy for the Enterprise Business:** Although Enterprise Business saw an increase of 14.6% y/y in revenue to SGD140.3mn, this is due mainly to the growth of Cyber security services (+161.4% y/y to SGD36.2mn). We note that Cyber security business made a loss of ~SGD0.8mn (2Q2018: profit of SGD4.0mn). Excluding Cyber security, the Enterprise Business (comprising Network solutions) fell 4.2% y/y to SGD104.1mn, likely due to pricing erosion with StarHub seeing contracts renewed at lower prices. That said, going forward, StarHub expects significant growth in the Cyber security segment and profitability from this to stabilise.

- **Cost cuts and reduction in dividend provides some cushion:** While revenue has come under pressure, we acknowledge that StarHub has undertaken cost cuts which have helped mitigate some of the pressure. Staff costs has declined 13.8% y/y to SGD54.9mn due to lower headcounts while operating leases (without effects of SFRS(I) 16) declined SGD1.7mn y/y in 2Q2019. Quarterly dividends have also been shaded down to SGD2.25cts per share in 2019 (2018: SGD4cts per share), which reduces cash outflow by ~SGD121mn p.a. Meanwhile, despite declining revenues, StarHub is maintaining capex at about 11%-12% of total revenue (excluding SGD282mn spectrum payment).

- **Credit metrics weaker but still manageable:** We calculate that EBITDA/Total Interest has weakened to 15.5x as of 1H2019 (1H2018: 21.2x) with net debt to EBITDA rising to 1.5x (1H2018: 1.2x). This is mainly due to the increase in debt as a result of changes in accounting due to SFRS(I) 16 Leases. However, if we exclude accounting changes, the main driver would likely be the fall in EBITDA as we estimate that the reported EBITDA would have fallen 17.5% y/y in 2Q2019 due to intense competition pressuring the performance of the various business segments. We hold StarHub at a Neutral (3) Issuer Profile despite intense competition and a not so rosy outlook due to its still healthy credit metrics.

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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