StarHub (STH SP)

All-share Merger With M1 At S$1.1b; Valuing M1 At 8.8x EV/EBITDA

Highlights

- StarHub has proposed a merger with M1 in an all-share deal, issuing up to 38% new shares. This values M1 at S$1,058m. Keppel will own 23% of the enlarged StarHub with a 12-month lock-up before a potential sell-down thereafter.
- Opex synergies are estimated at S$110m annually (from 2030) with a NPV of S$1.1b. In the near term, we see EPS dilution of 5%, with high integration costs dampening 2027-1H28 earnings.
- StarHub's existing shareholders will benefit from 6 S cents/share DPS for 2027 (excluding M1 shareholders), and this supports our HOLD call with a lowered DCF-based target price of S$1.10.

Analysis

- **Merger with M1 at an EV of S$1.058b.** StarHub has proposed a merger with M1 in an all-share deal with the issuance of 651.7m (or 38%) of new StarHub shares. StarHub is also exercising its option to buy Circles Life's Singapore mobile business and consolidate 5G JV Antina under 100% ownership. After the acquisition, StarHub will retain a 72.6% stake in the enlarged group while M1 shareholder (including Keppel) will own 27.4% equity stake. The deal is expected to be completed by 1H27.
- **Parity valuation.** The deal is close to parity ie M1 is valued at 8.8x trailing EV/EBITDA vs StarHub's 8.4x trailing EV/EBITDA. Pro forma net debt/EBITDA will rise to 2.9x (from 2.76x). In the meantime, StarHub will maintain its commitment to pay out 6 S cents net DPS to existing shareholders (excluding M1's shareholders) for 2027 via the proceeds from anticipated Ensign stake sale.
- **Opex savings of S$110m annually by 2030; NPV S$1.1b.** The proposed merger is expected to lead to an annual S$110m of opex synergies (from 2030 onwards) with a net present value (NPV) of S$1.1b. The four pillars of integration savings will come from: a) network - consolidation of mobile sites and infrastructure cost; b) IT – rationalisation of multiple stacks across both companies; c) marketing – reduction in retail footprint duplication; and d) operations – streamlining of staff force and introduction of greater automation in work processes.

Key Financials

Year to 31 Dec (S$m)	2024	2025	2026F	2027F	2028F
Net turnover	2,367.7	2,352.8	2,476.4	2,541.4	2,613.3
EBITDA	460.3	403.6	326.1	336.0	370.6
Operating profit	232.4	165.0	89.2	107.1	146.4
Net profit (rep./act.)	160.5	86.4	37.7	51.1	78.4
Net profit (adj.)	160.5	100.5	37.7	51.1	78.4
EPS	9.3	5.8	2.2	3.0	4.5
PE (x)	11.2	17.8	47.6	35.1	22.9
P/B (x)	3.0	3.6	4.1	4.7	5.0
EV/EBITDA (x)	4.3	5.8	7.7	7.5	6.8
Dividend yield (%)	6.0	5.8	5.8	5.8	5.8
Net margin (%)	6.9	4.9	1.5	2.0	3.0
Net debt/(cash) to equity (%)	31.0	106.3	162.1	187.3	199.2
Interest cover (x)	3.7	3.0	1.5	1.8	2.1
ROE (%)	26.4	20.1	8.7	13.4	21.9
Consensus net profit	n.a	n.a	36.0	70.2	78.4
UOBKH/Consensus (x)	n.a	n.a	1.0	0.7	1.0

Source: StarHub, Bloomberg, UOB Kay Hian

Analyst(s)

Chong Lee Len
leelen@uobkh.com
+603-21471992

HOLD (Maintained)

Share Price	S$1.04
Target Price	S$1.10
Upside	5.8%
Previous TP	*S$1.26*

Stock Data

Sector	Communication Services
Bloomberg ticker	STH SP
Shares issued (m)	1,726.0
Market cap (S$m)	1,795.8
Market cap (US$m)	1,390.7
3-mth avg daily t'over (US$m)	1.6

Price Performance (%)

52-week high/low				S$1.22/S$0.99
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(3.7)	(3.7)	2.0	(8.0)	(7.1)

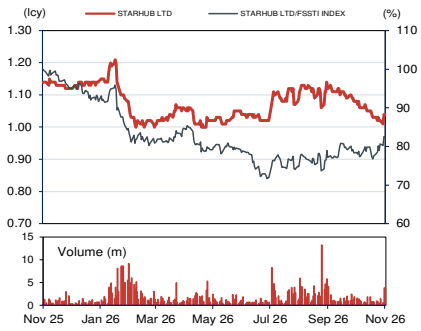
Major Shareholders (%)

Temasek	55.9
NTT Inc	9.9
Vanguard Group	1.4

Balance Sheet Metrics

FY26 NAV/Share (S$)	0.3
FY26 Net Debt/Share (S$)	0.4

Price Chart



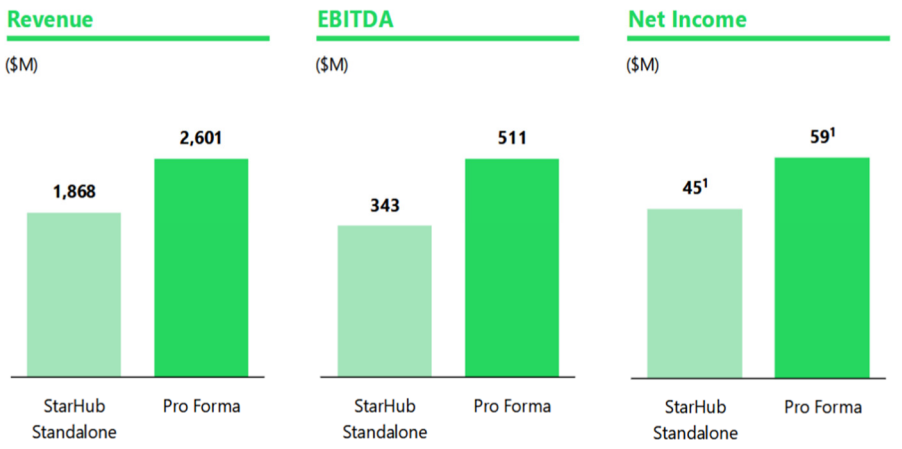
Source: Bloomberg

Company Description

StarHub Ltd is a telecommunications company offering a range of services such as mobile, pay-TV, broadband for consumer market, as well as ICT solutions for enterprise markets in Singapore.

- **Near-term negative; expect integration costs to hit in 2027.** While we acknowledge the long-term positive operating leverage of a merged entity, near-term 2027-1H28 net profit will be negatively impacted by early settlement costs, likely for leases for network infrastructure and potentially, early termination of IT, marketing and operational costs. The pain will have to happen before the enlarged group can reap the positive impact of integration in 2030 (of S$110m of opex synergies). A faster-than-expected integration process will be a key re-rating catalyst for the stock. In the meantime, we believe the regulator may request that StarHub keeps all consolidated brands and packages unchanged for a good 1-2 years, suggesting limited ARPU and revenue upside in the near term.
- **Pro forma EPS to drop to 5% given new share base.** Based on StarHub's pro forma revenue and net profit, the consolidation of M1's mobile business will lift revenue and net profit by 39% and 31% respectively. However, EPS will be diluted by 5% as a result of the 38% enlarged share base issuance.
- **2030 steady-state S$110m opex synergies.** Beyond the next 1-2 years of integration, the merger synergies can potentially lift EPS from 2.5 S cents/share to 6 S cents/share; this is a significant upside over a three-year horizon with a key focus on driving opex savings.

Pro Forma Financial Impact On A Consolidation Basis



Source: StarHub

- **In the longer term, market consolidation is positive for all players.** After the merger, the combined market share of StarHub-M1-Circles Life rises to 41% (from 20%). The consolidation of StarHub-M1 suggests a more rationale mobile market beyond 2027, allowing for lower market churns and better pricing avenues. Market repair and positive operating leverage will be a key re-rating catalyst for the sector.

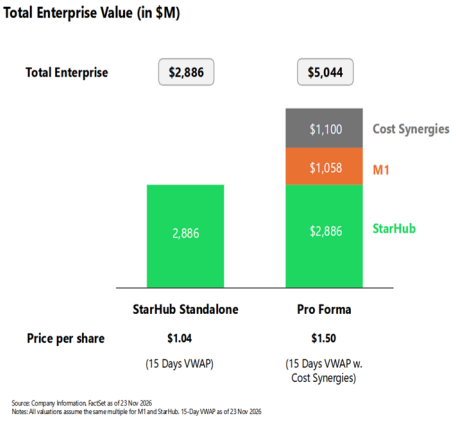
Valuation/Recommendation

- **Maintain HOLD with a lowered DCF-based target price of S$1.10, pencilling in synergies of S$110m in 2030 as well as the new share base.** We acknowledge the long-term positive outcome of market repair in Singapore's telco sector with this move. This however, is likely dampened by share overhang as Keppel's and M1's shareholders look to monetise or liquidate their shareholdings in StarHub beyond a 12-month lock-up period.

Earnings Revision/Risk

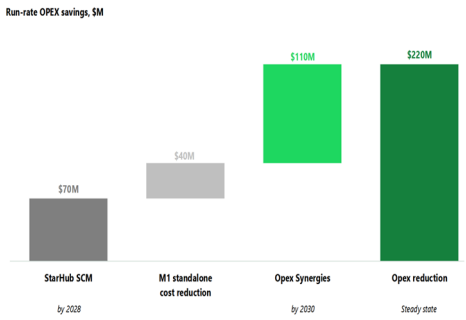
- No change to earnings.

M1 Enterprise Value of S$1,058m



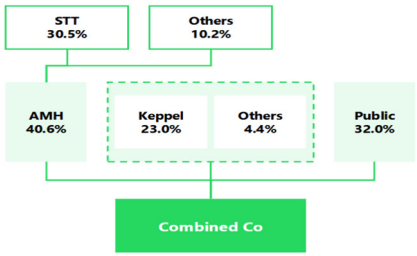
Source: StarHub

Opex Synergies Of S$110m p.a.



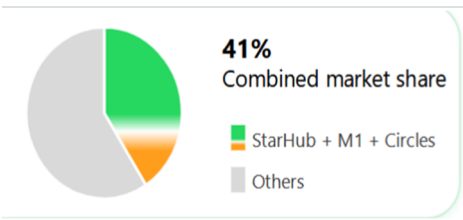
Source: StarHub

Keppel Ends Up With 23% Effective Stake In Enlarged StarHub Group



Source: StarHub

StarHub Market Share



Source: StarHub

Profit & Loss

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Net turnover	**2,353**	**2,476**	**2,541**	**2,613**
EBITDA	404	326	336	371
Deprec. & amort.	239	237	229	224
EBIT	165	89	107	146
Net interest income/(expense)	(38)	(34)	(34)	(45)
Pre-tax profit	**127**	**56**	**73**	**102**
Tax	(27)	(13)	(17)	(23)
Minorities	(5)	(5)	(5)	-
Net profit	**94**	**38**	**51**	**78**
Net profit (adj.)	101	38	51	78

Balance Sheet

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Fixed assets	616	750	725	710
Other LT assets	1,129	1,129	1,129	1,129
Cash/ST investment	857	694	702	728
Other current assets	529	547	557	567
Total assets	**3,605**	**3,595**	**3,587**	**3,608**
ST debt	26	26	26	26
Other current liabilities	1,267	1,307	1,327	1,352
LT debt	1,364	1,373	1,393	1,414
Other LT liabilities	308	308	308	308
Shareholders' equity	501	435	383	358
Minority interest	141	146	151	151
Total liabilities & equity	**3,605**	**3,595**	**3,587**	**3,608**

Cash Flow

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Operating	**354**	**336**	**329**	**361**
Pre-tax profit	119	56	73	102
Tax	(27)	(13)	(17)	(23)
Deprec. & amort.	239	237	229	224
Associates	8	-	-	-
Working capital changes	27	22	10	14
Other operating cashflows	(11)	34	34	45
Investing	**(365)**	**(359)**	**(191)**	**(197)**
Capex (maintenance)	(379)	(371)	(203)	(209)
Proceeds from sale of assets	4	5	6	7
Others	14	13	13	13
Financing	**327**	**(140)**	**(130)**	**(140)**
Dividend payments	(107)	(103)	(103)	(103)
Issue of shares	4	5	6	7
Proceeds from borrowings	662	9	20	21
Others/interest paid	(232)	(51)	(52)	(64)
Net cash inflow (outflow)	**316**	**(163)**	**9**	**25**
Beginning cash & cash equivalent	**535**	**851**	**687**	**696**
Changes due to forex impact	4	5	6	7
Ending cash & cash equivalent	**851**	**687**	**696**	**721**

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	17.2	13.2	13.2	14.2
Pre-tax margin	5.7	2.2	2.9	3.9
Net margin	4.9	1.5	2.0	3.0
ROA	2.8	1.0	1.4	2.2
ROE	20.1	8.7	13.4	21.9
Growth				
Turnover	(0.6)	5.3	2.6	2.8
EBITDA	(12.3)	(19.2)	3.0	10.3
Pre-tax profit	(42.1)	(53.2)	31.4	39.2
Net profit	(29.4)	(67.5)	35.8	53.3
Net profit (adj.)	(29.4)	(67.5)	35.8	53.3
EPS	(29.4)	(67.5)	35.8	53.3
Leverage				
Debt to total capital	0.6	0.6	0.6	0.6
Debt to equity	2.8	3.2	3.7	4.0
Net debt/(cash) to equity	1.1	1.6	1.9	2.0
Interest cover	3.0	1.5	1.8	2.1

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