STARHUB LTD.

AN ANALYSIS OF THE RETURNS TO SHAREHOLDERS AND GOVERNANCE

JULY 2025

CORPORATE MONITOR LIMITED

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This report is based on the Annual Reports of respective firms and other publicly available information, and meetings with StarHub's investor relations.

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REPORT'S OBJECTIVE

StarHub has been awarded, for the second consecutive year, the "Highest Weighted Return on Equity ("ROE") Over Three Years" award in the Technology Equipment and Telecommunications Services sector at The Edge Singapore Billion Dollar Club Awards 2024.

CML noted that StarHub has a much higher ROE than those of its domestic and international peers, which is remarkable given that the telecommunications industry has been facing huge pressure in recent years with increased market competition and players. StarHub has been embarking on a transformation journey to move away from being a traditional Telco to a digital solutions company.

This report examines the following questions:

1) Why does StarHub have a much higher ROE than the industry? What are the key drivers?
2) Given that the business is changing with the strategic transformation plans ongoing, how will it impact each of the drivers of ROE, namely, profitability, asset turnover and financial leverage, and hence the ROE trend moving forward?
3) How does StarHub make corporate finance decisions holistically to address the interplay of capital expenditure, free cashflow, leverage and dividend policy?
4) What are the areas of improvement for StarHub's corporate governance?

EXECUTIVE SUMMARY

We commend StarHub for putting shareholder returns as a key priority; it is front and centre in its annual reports, and a significant portion of the CEO's compensation is tied to returns targets. This is certainly not common among SGX listed companies, many of which do not even have Return on Equity ("ROE") targets. In fact, less than 20% of SGX companies have 5-year average ROE of more than 10%, which is approximately the cost of equity for most companies. (The return metric StarHub uses is Total Shareholder Return ("TSR") and not ROE.)

StarHub's ROE, at 22.8% in 2024, is impressive, and one of the highest among SGX-listed companies. The intense competition in consumer business since the liberalization of the telecoms sector in Singapore in 2016 has driven ROE down, but StarHub has fared better than its peers. StarHub's ROE has <u>declined</u> (by 10.8 percentage points ("pp")), <u>less</u> than Singtel (15.6pp), Verizon (13.8pp) and Telstra (14.6pp), from 2018 to 2024.

There are 3 drivers for ROE, namely profit margin, asset turnover (defined by revenue divided by average total assets) and financial leverage (defined by average total assets divided by average total shareholder equity). Essentially a company will have high ROE if it earns a high margin, efficiently drives more revenue with less assets, and (prudently) use more debt instead of relying only on equity.

Our analysis concludes that StarHub has higher ROE than peers because it has higher asset turnover and asset to equity ratio (financial leverage). Its net margin however is the lowest. In fact, net margin trend explains most of the changes in StarHub's ROE in the recent 3 years, so it is the focus of our analysis.

Our main concern is the further decline in StarHub's margin. StarHub's strategy has been to (a) defend both revenue and profitability of its consumer business (mobile, broadband and entertainment) and (b) pivot to asset lighter enterprise business. However, intensifying competition continues to squeeze consumer business' profitability. On the other hand, enterprise business generates much lower margin. Cybersecurity business has grown rapidly, but it is only starting to break even in 2024, and StarHub has not guided on what levels of operating margin is possible, nor the timing for achieving such target margin. The regional ICT business reports low single digit operating margin with no visible uptrend. Taken together, as consumer business margin declines, and greater proportion of revenue is now contributed by lower margin enterprise business, StarHub's overall margin will see further downtrend.

Asset turnover is also unlikely to improve. StarHub has been shifting to greater asset efficiency in 2 ways. Firstly, by growing enterprise business which is more asset light. However, if the growth of enterprise revenue, for example the cybersecurity business, brings in little profit, it begs the question on the fundamental purpose of such strategy. Secondly StarHub set up a 50:50 joint venture with M1 to share the capital expenditure ("capex") on the 5G infrastructure. However, our research shows that this does not move the needle on asset turnover ratio, although we agree it lowers capex and depreciation.

StarHub's financial leverage is high, in our opinion. This is not just based on the ratio of total assets to total equity, which is much higher than peers'. StarHub's Net Debt to EBITDA (earnings before interest, tax, depreciation and amortization) is low, but EBITDA is not cashflow, because capex is not optional for telecoms companies. StarHub consistently guides that its capex will be 9-11% of revenues, or around S$200m per year and there are also one off capex needs like the S$282m payment for the 700MHz spectrum rights which is due by June 2025. Our concern is StarHub's declining free cash flow ("FCF"), which is operating cashflow after capex but before debt service and dividend. From S$485m in 2021, StarHub's FCF has declined to S$162m in 2024. In 1Q2025, FCF declined by 63% year on year.

Which brings us to StarHub's corporate finance decision. StarHub has committed a minimum dividend of 6.0 cents per share (or about S$104m). It also has a history of buying back shares. However, in the near future, StarHub's regular capex and spectrum rights payment could result in negative FCF. If StarHub wants to continue with its dividend payment, it would have to raise additional S$225m debt, based on our estimate. This amount should be seen in the context of S$770m refinancing of existing debt due before mid-2026, and the current net debt of S$596m.

Ironically, if StarHub raises more debt, its leverage will rise and mathematically help ROE offset likely decline in profit margin. This will heighten financial risk, considering declining FCF. In fact we think that the risk of more debt amidst declining cash flow outweighs concern to maintain ROE! To investors, leverage is not a "good" way to boost ROE. Warren Buffet, who uses ROE as his screening criterion for stock selection, would discount companies with high leverage.

StarHub's board currently has 12 directors, which is larger than most of its peers. This may hinder decision-making. Part of the reason is that it has four directors who are non-independent non-executive directors. Three of them are non-independent because they are associated with Temasek Holdings, its controlling shareholder, or its affiliates. Another appears to be non-independent because he has served more than 9 years. While it technically complies with recommended good corporate governance practices such as having an independent chairman and a majority of independent directors, the number of non-independent non-executive directors who are associated with the controlling shareholder may also raise concerns about whether decisions equally prioritise the interests of all shareholders.

We have two suggestions on StarHub's disclosures. Since 2019, StarHub has launched two strategic initiatives, DARE and DARE+, but has not articulated what operational or financial outcomes such initiatives aim to achieve. There are no overall revenue or margin targets, let alone the timetable for achieving them. In the case of DARE (which was completed), StarHub celebrated the achievements of S$273m of cost savings and S$340m of new revenue, but such claim is incomplete when overall revenue declined by S$320m and net profit declined by S$50m from 2018 to 2021. For DARE+, the only stated financial goals are gross profit growth of S$220m and cost savings of S$280m. Crucially there was no ROE target. There was also no guidance on what would be the revenue mix, profitability, growth rate, capex intensity, etc. that shareholders rightfully expect in a strategic transformation exercise.

There should also be more disclosure about the cybersecurity business, especially the expected profitability. Ensign is not a startup anymore, with a revenue of close to S$400m, or more than 15% of StarHub's total. StarHub should also disclose the mix of project-based versus recurring revenue, which has a strong bearing on revenue volatility and margin, as well as future value of this business. Another non-trivial issue is Temasek's assignment of the 20% stake in Ensign to StarHub. Such assignment expires in Oct 2025. Without such assignment, StarHub could not consolidate Ensign with just 40% stake. If the settlement results in a stake permanently sold to StarHub, a fair market value consideration has to be paid. How much and how does StarHub fund this has important bearing on StarHub's balance sheet, given the above discussion on cashflow and leverage.

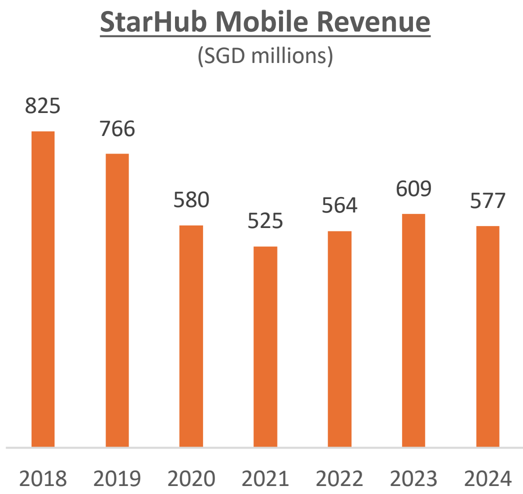
We commend StarHub for linking a significant part of CEO's remuneration, via share-based compensation, to StarHub's returns. StarHub demonstrates that its focus on shareholder return is not simply talk. More SGX-listed companies should follow StarHub's lead. That said, we suggest StarHub provide some specific disclosures on CEO compensation. Generally we find the compensation structure well thought out and implemented.

Overall, StarHub faces unenviable market competition in the consumer telecommunications business. The pivot to enterprise business has not produced convincing traction on profitability. StarHub needs to demonstrate that it has real competitive edge in enterprise business, otherwise revenue growth may be meaningless.

1. STARHUB: BACKGROUND

StarHub Ltd. ("StarHub") is a leading homegrown integrated telecommunications and digital services company that is known to every Singaporean. It has been listed on the Singapore Exchange since 2004.

Exhibit 1.1



2016 marked the end of the oligopoly in Singapore's telecom industry, which had long been shared between Singtel, StarHub, and M1. The industry was shaken up when Australian based TPG (now Simba Telecom) won the rights to become Singapore's 4th Telco. The first MVNO (Mobile Virtual Network Operator), Circles.Life, was also launched in Singapore.

The entrance of these new players resulted in tremendous pressure on the existing 3 big telcos, including StarHub, especially on mobile revenue, the biggest and most profitable contributor. **StarHub's mobile revenue has declined 30% since 2018.**

1.1 TRANSFORMATION FROM TRADITIONAL TELCO TO DIGITAL ECOSYSTEM PLAYER

Exhibit 1.2

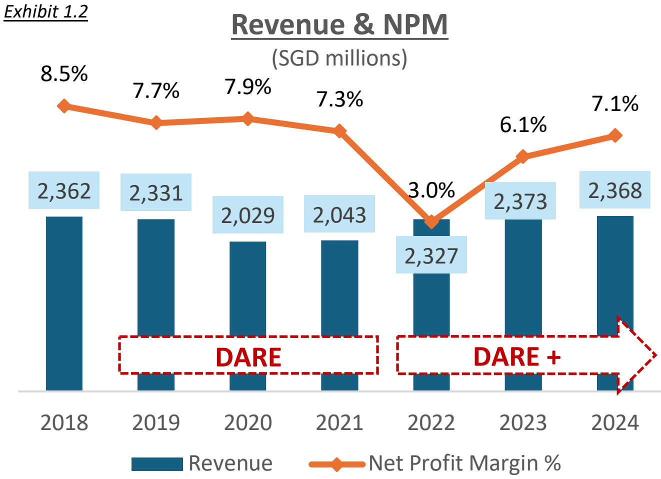
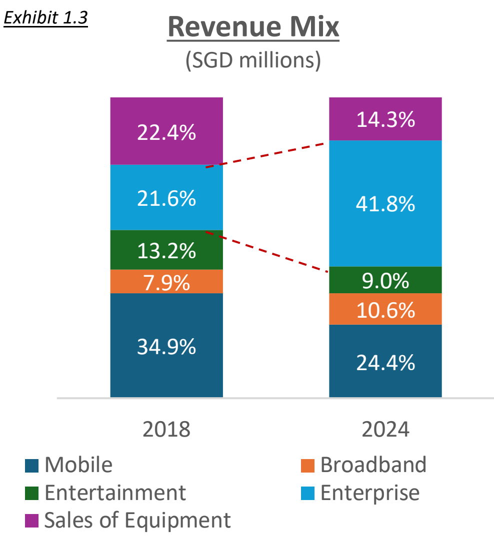
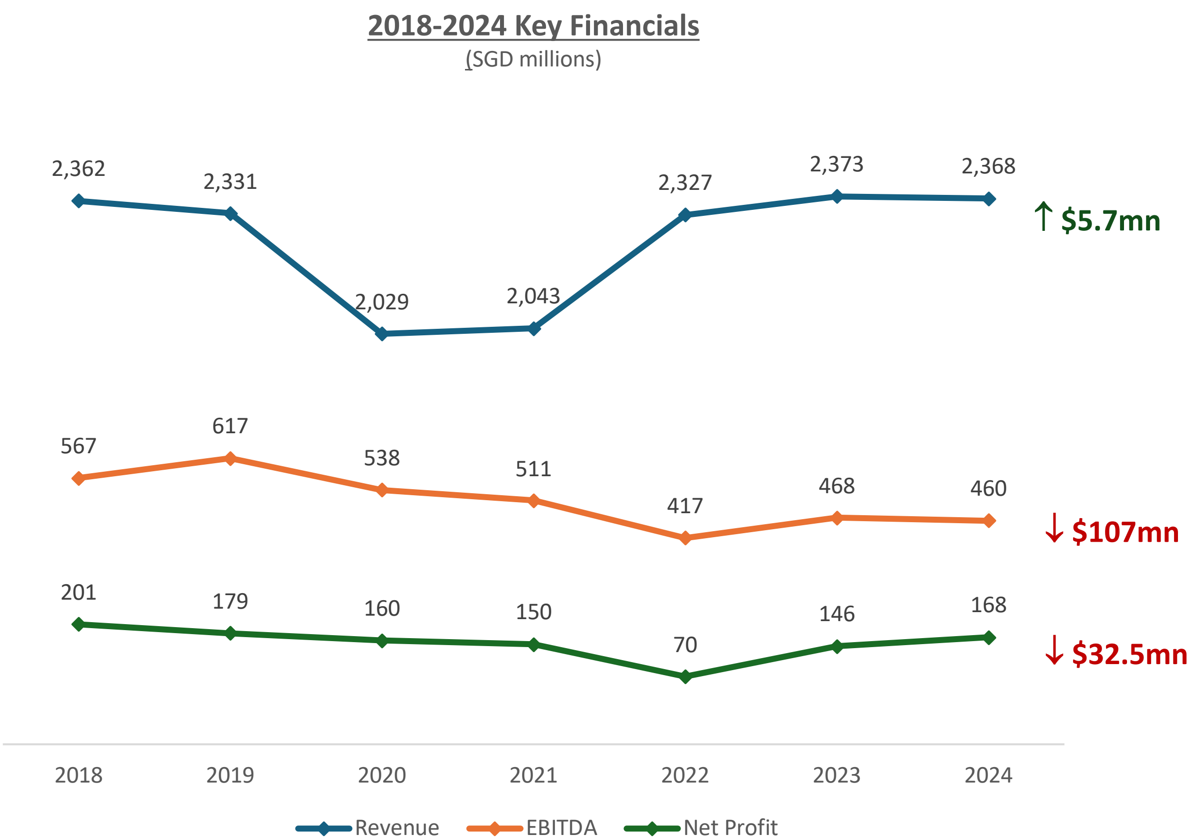


Exhibit 1.3



As competition in the telecommunications industry intensified from the end of 2018, StarHub launched its strategic transformation plan (DARE) to transform itself from a traditional telco to a digital ecosystem player. DARE ran from FY2019 to FY2011, and now StarHub has moved on to the next phase of transformation DARE+, which is to be executed from FY2022 to FY2027. **The focus of the transformation is on defending its consumer business while pivoting to its enterprise business, investing in digital and cost cutting to build back revenue margins.**

1.2 KEY FINANCIALS OVERVIEW



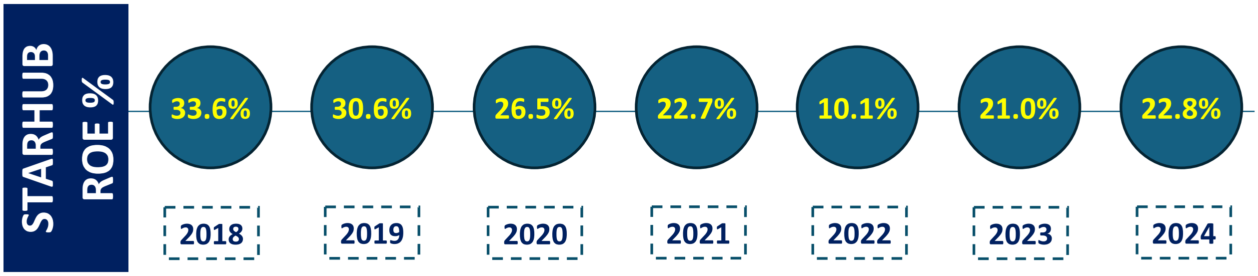
Revenue:

- Revenue has increased by a mere 0.2%, $5.7m, from 2018 to 2024.
- However, the revenue mix has shifted greatly during this period,
    - Consumer (Mobile + Broadband + Entertainment): Declined from S$1.3bn to S$1.0bn, a drop of 21.3%
    - Enterprise: Increased from $510.8mn to S$989.4mn, an increase of 93.7%

Profitability:

- EBITDA has declined by 18.9% from 2018 to 2024, by S$107mn.
- Net Profit has declined by 16.2% during the same period, by S$32.5mn.

2. HIGH ROE DRIVEN BY LEVERAGE; MAY NOT BE SUSTAINABLE



*****Note: ROE is computed using Net Income/Average Total Equity***

ROE is one of the most useful ratios for investors to sieve out potential companies for investment. It shows how good a company is at making money from shareholder's equity. (For example: 15% ROE for S$100 of equity would mean every S$100 invested generates S$15 of returns to the shareholder.)

StarHub's ROE has decreased significantly from 33.6% in 2018 to 22.8% in 2024. However, this remains higher than the Telecom's industry average of mature markets like US, which stands at 12%[1], and higher than its other regional peers.

In the following sections of the report, we will use the Dupont Analysis to dive deeper into the key drivers of StarHub's high ROE and analyze each component separately.

What is the DUPONT Analysis and what does it tell us?

ROE (Dupont Analysis)
= Net Profit Margin x Asset Turnover x Equity Multiplier

where:
Net Profit Margin = Net Profit / Revenue
Asset Turnover = Revenue / Average Total Assets
Equity Multiplier = Average Total Assets / Average Total Equity

Net Profit Margin: Measures how profitable the company is, how much of the revenue generated becomes profit

Asset Turnover: Measures how efficiently a company uses its asset to generate revenue

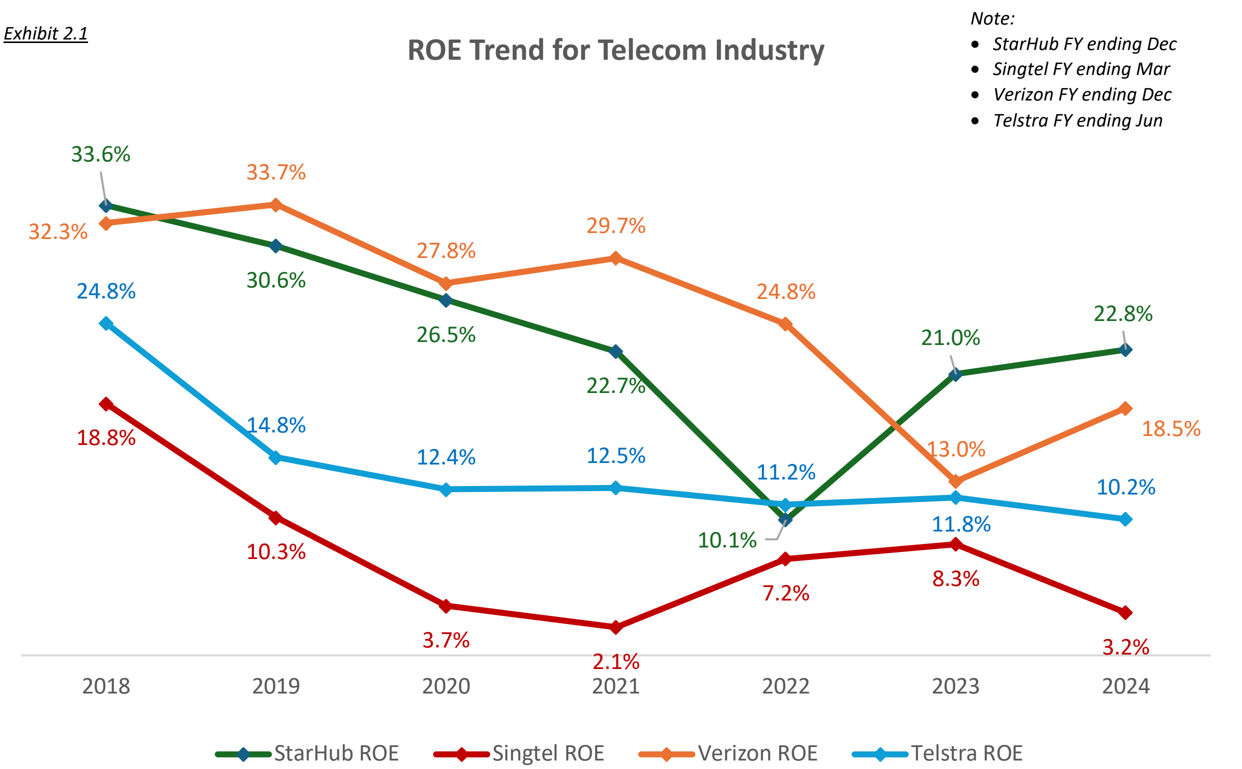
Equity Multiplier: An indirect analysis of a company's use of debt to finance its assets (the more the company borrows, the higher the ratio, measure of leverage)

(1) Source: Simply Wall St: Verizon Communications has a ROE of 11%, 23 Oct 2024

2.1 DUPONT ANALYSIS OF STARHUB'S ROE VS PEERS'

StarHub and its peers Singtel (Singapore), Verizon Communications (USA) and Telstra Group (Australia) have all experienced an erosion of their ROEs over the years.

Exhibit 2.1



ROE is computed using (Net Profit/Average Total Equity). All companies are computed using the same figures extracted from annual reports to ensure consistency.

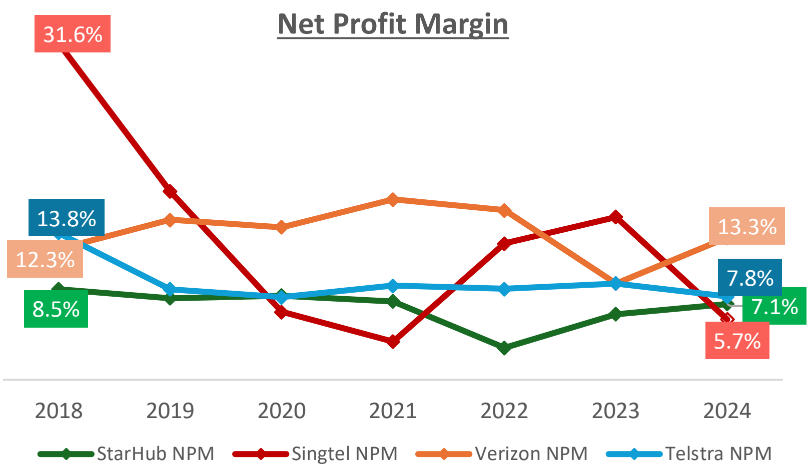
OVERVIEW OF INDUSTRY PLAYERS

SINGTEL: *Formed in 1992,* ***Singtel is the #1 telecom operator in Singapore with a mobile market share of 46.4%****. With a revenue of S$14.1bn in FY24 and market cap of S$62.5bn as of May 2025, Singtel offers mobile, fixed-line, pay-TV, enterprise ICT services (cloud, cybersecurity and data centres) and operates digital businesses.*

VERIZON: *Formed in 2000 (merger or Bell Atlantic and GTE),* ***Verizon is the #1 wireless carrier in the US with ~39% of market share.*** *With a revenue of US$134.8bn in FY24 and market cap of US$183.3bn as of May 2025, Verizon offers wireless services, broadband and fiber-optic internet, fixed-line services, enterprise networking, cloud, and security services, IoT solutions and 5G infrastructure development.*

TELSTRA: *Formed in 1975,* ***Telstra is the #1 telecom operator in Australia with a 56.5% share of the mobile market.*** *With a revenue of A$23.5bn in FY24 and market cap of A$51.5bn as of May 2025,Telstra offers mobile, fixed internet, phone services, wholesale network services, as well as enterprise tech solutions such as cloud, cybersecurity and managed services.*

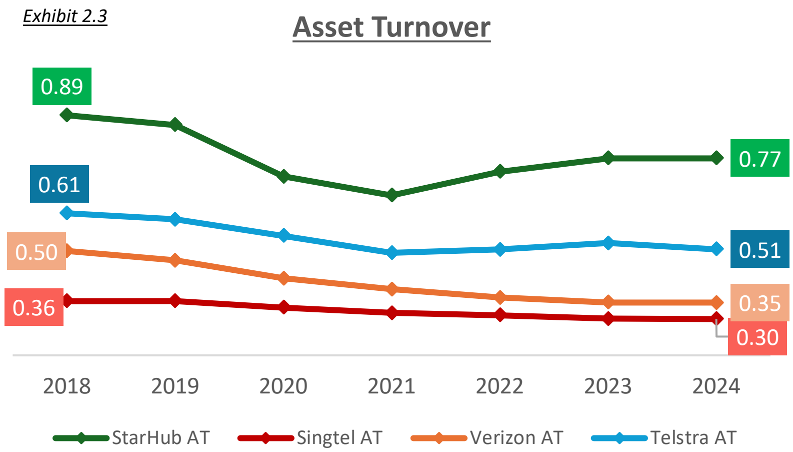
Exhibit 2.2



In terms of Net Profit Margin, StarHub has the lowest in 2018, hit a record low in 2022 but has managed to recover to 7.1% which is in line with its ROE increase.

Except for Verizon which managed to improve its NPM, all players have seen a decline in NPM over the years, especially a huge decline for Singtel and Telstra given the increased competition in the industry.

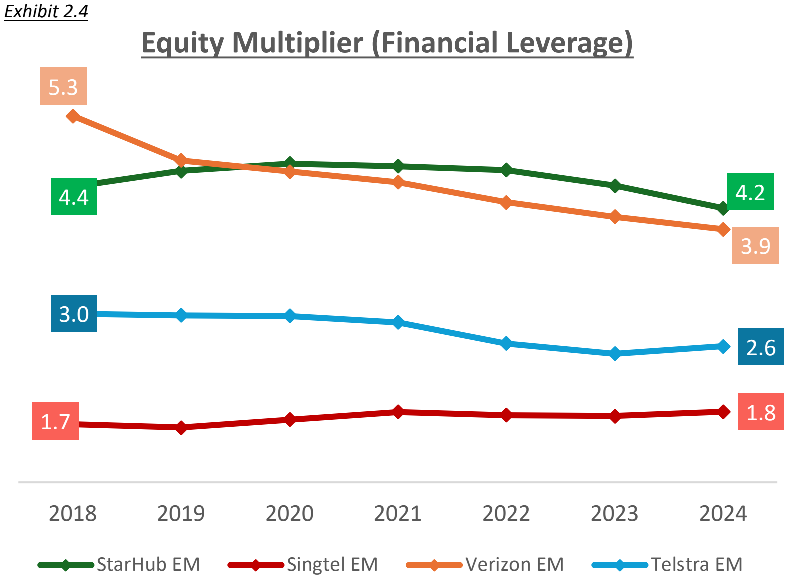
Exhibit 2.3



In terms of **the effective use of assets to drive revenue (Asset Turnover), StarHub has the best ratio compared to its peers.** Overall, all companies saw a drop in asset turnover over the years.

For StarHub, the recovery of its revenues and the shift from CAPEX to OPEX strategy helps to improve the ratio.

Exhibit 2.4



In terms of financial leverage, all players appears to have been deleveraging with the exception of Singtel.

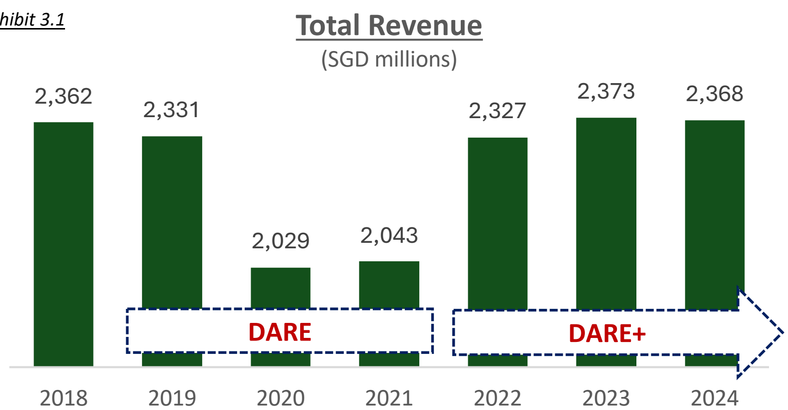
However, **StarHub has the highest financial leverage, 4.2x**, compared to the other players (~2x of Singtel, ~1.6x against Telstra).

Overall, it shows that despite lower margins, StarHub's ROE is clearly driven by its asset turnover as well as high financial leverage. Both ratios originated from StarHub's relatively small equity base.

3. PROFITABILITY POISED TO DECLINE THEREBY NEGATIVELY IMPACTING ROE

3.1 REVENUE MIX HAS SHIFTED FROM CONSUMER TO ENTERPRISE RESULTING IN LAGGING MARGINS RECOVERY

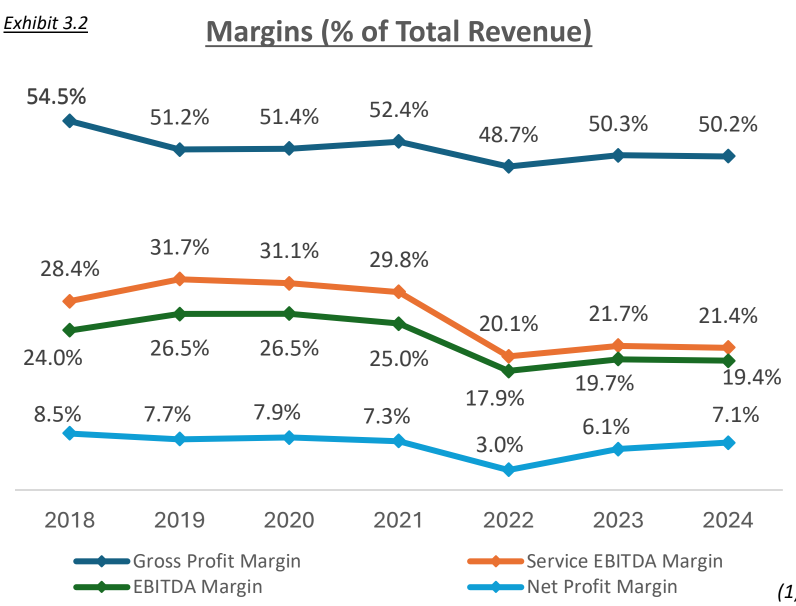
Exhibit 3.1



With the implementation of DARE and DARE+, it is evident that StarHub has managed to recover its revenue back to 2018 levels (prior to implementation). However, the revenue mix has completely shifted. Except for Enterprise and Broadband that has grown, all the other revenue channels' contributions have declined.

Consumer segment (Mobile, Broadband, Entertainment) used to contribute a total of 56%, now it is 43.9%, with a significant drop in both Mobile and Entertainment. Enterprise segment has almost doubled, from contributing 21.6% to 41.8%, becoming a major source of revenue.

Exhibit 3.2



Despite revenue recovering to 2018 levels, margins have significantly declined. Although the margins have started to show slight recovery post 2022, **the recovery back to 2018 levels will be tough due to the shift in revenue mix.**

GPM has fallen 4.3pp to 50.2%, EBITDA margin has fallen 4.6pp from 2018 to 19.4%, Service EBITDA margin[1] has fallen 7.0pp to 21.4%, whereas NPM has fallen 1.4pp to 7.1%.

(1) Service EBITDA = EBITDA less Equipment margin

Given intesifying market competition driving down Consumer revenue, and StarHub's growing Enterprise segment, **we expect that the revenue mix will continue to tilt towards enterprise business. However, based on our analysis, enterprise margins are very low, hence this revenue mix shift will continue to cause overall margins to fall.** Details are covered in the following sections.

3.2 MARGINS IMPACT

As discussed earlier on, margins (Gross Profit Margin, EBITDA margin, Service EBITDA margin, Net Profit margin) have all declined in 2024 compared to 2018 despite revenue recovering. Based on available data, this section will touch on the impacts on margins forward for the business segments **(divided into: Telecommunications - Mobile + Broadband + Entertainment + Network Solutions + Sale of Equipments, Cybersecurity, Regional ICT Services)** via their Gross Profit Margin (GPM) and Operating Profit Margin (OPM).

***Note: StarHub includes Regional ICT Services under Telecommunications, however we have separated it as it is a core segment.*

Exhibit 3.3

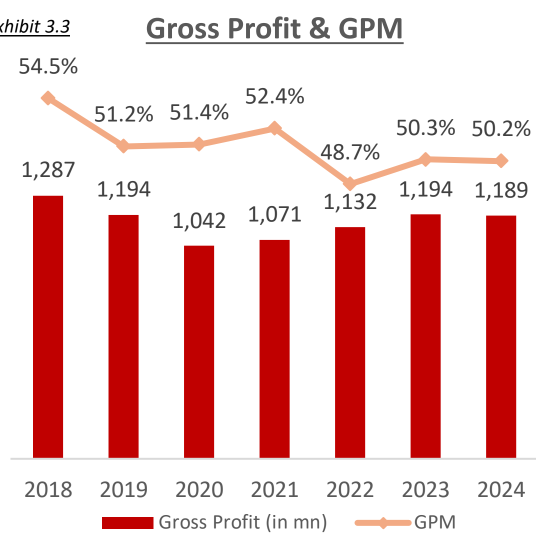
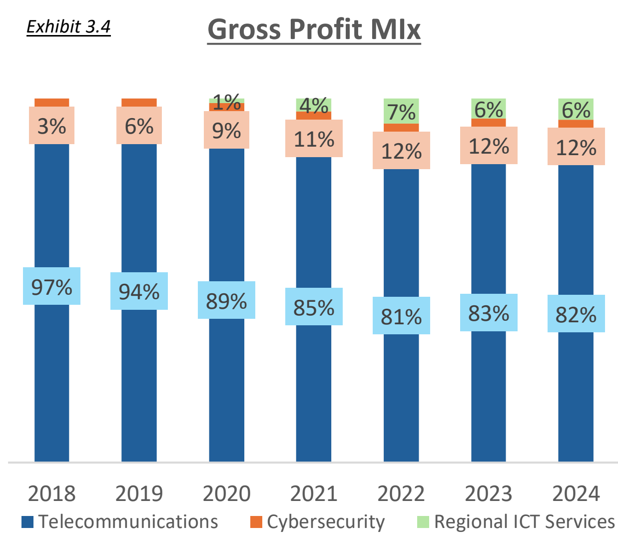
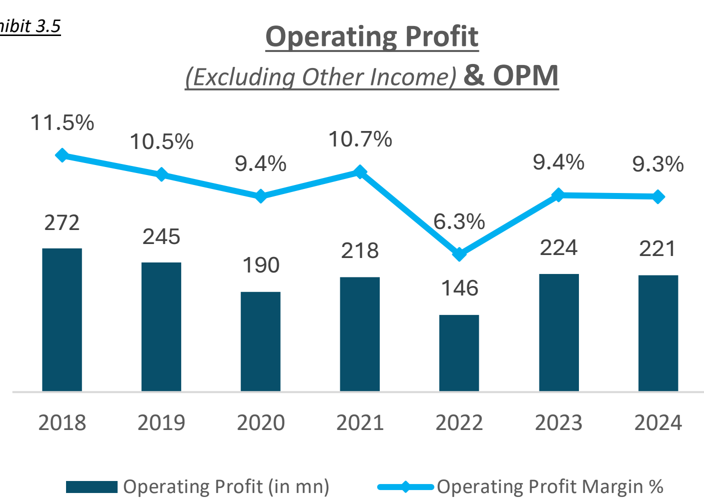


Exhibit 3.4



Total Gross Profit has declined by S$97.9m (7.6%) compared to 2018, with GPM falling by 4.3pp to 50.2% with the change in revenue mix. Contribution to Gross Profit from Telecommunications declined by 15pp to only 82%. The balance of the Gross Profit is contributed from Cybersecurity which has grown from 3% to 12%, and Regional ICT Services from zero contribution to 6%.

Exhibit 3.5



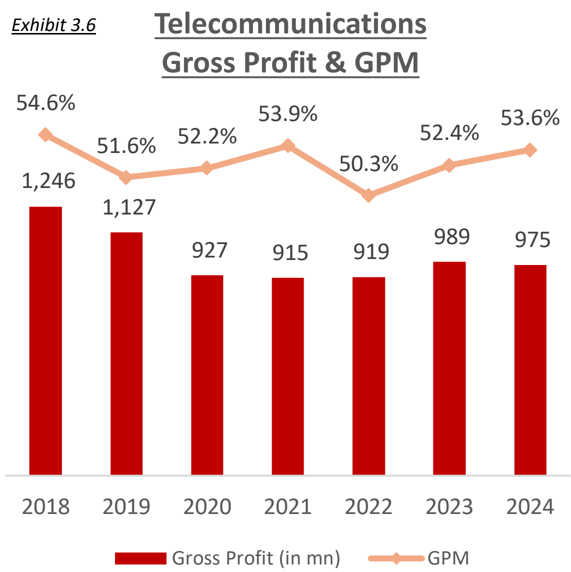
Stripping out Other Income (e.g. JSS scheme) from reported Operating Profit helps to reflect the real operating profit generated from actual business segments.

Compared to 2018, the decline in Operating Profit is S$51.2m (18.8%), with OPM falling by 2.2pp to 9.3%. The decline is less than the decline in GPM due to the cost saving initiatives implemented through DARE and DARE+.

3.2.1 TELECOMMUNICATIONS: MOBILE + BROADBAND + ENTERTAINMENT + NETWORK SOLUTIONS + SALE OF EQUIPMENT

StarHub includes Regional ICT Services in this Telecommunications segment on the grounds that Regional ICT Services exhibits similar economic characteristics. However, we exclude Regional ICT Services as a separate component to dive in deeper.

Exhibit 3.6



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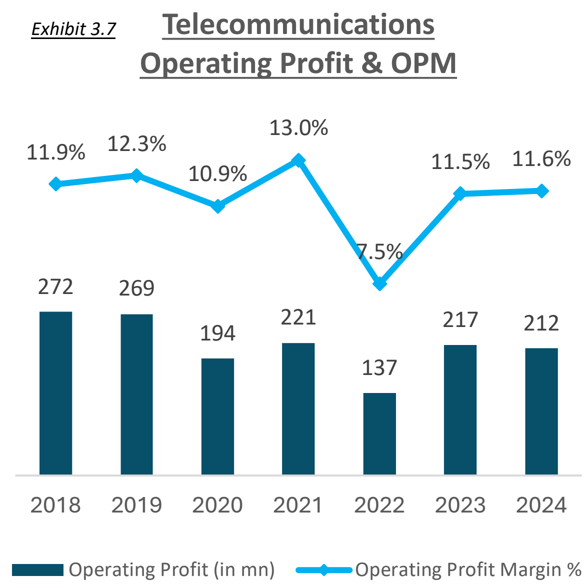
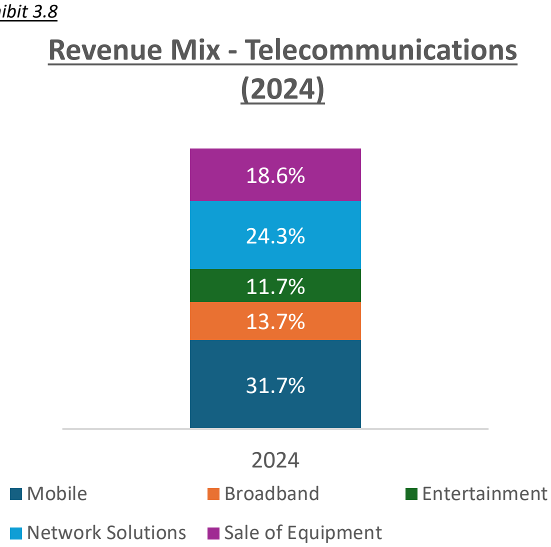


StarHub defended its telecommunications margins well. GPM decreased by 1.0pp to 53.6%, while OPM decreasing by 0.3pp to 11.6%. **Despite the decline, this segment has the highest GPM and OPM.** However, given the lower revenue of telecommunications business, Gross Profit declined by S$271m (21.7%) and Operating Profit declined by S$60.2m (22.1%) since 2018.

Exhibit 3.8



Total Revenue contributed by this segment fell from S$2,281m in 2018 to S$1,821m in 2024, a decline of 20.2% (S$460m). Except for Network Solutions (boosted by Managed Services), the outlook for Mobile, Broadband, Entertainment and Sale of Equipment (~75% of this segment) is not positive. (Detailed segment revenue analysis in appendix).

Given the continued decline in both the revenue and margins of the telecommunications segment, its contribution to absolute Gross Profit and Operating Profit will likely decline. It was 82% in 2024, versus 97% in 2018.

3.2.2 CYBERSECURITY

Exhibit 3.9

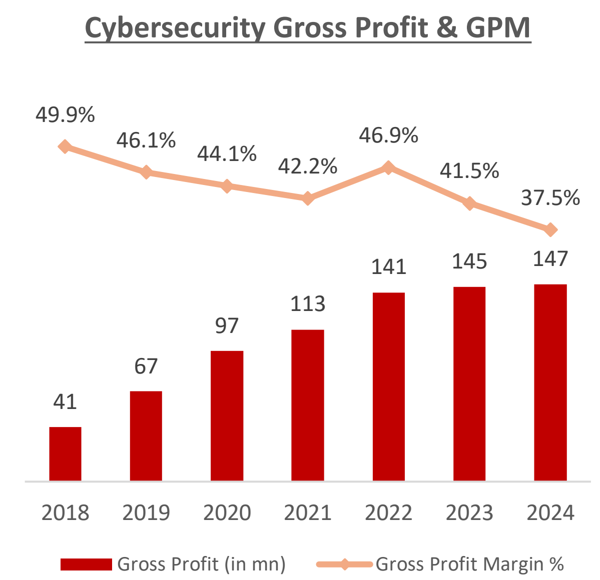
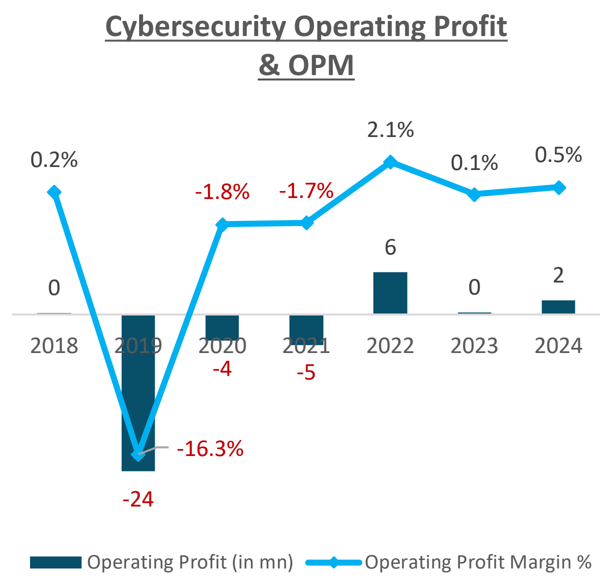


Exhibit 3.10



StarHub's Cybersecurity arm is **Ensign,** a joint venture between Temasek and StarHub. StarHub owns an effective interest of 55.73% today, but there is a question as to the status of the 20% interest that Temasek has assigned to StarHub. The assignment expires in Oct 2025. Our understanding is that Ensign operates as an independent entity in which StarHub has influence through the Board. Ensign's end to end offering spans from consulting services to implementation of solutions, so revenue is a mix of project based (which is majority of the revenue currently) and recurring. The breakdown is important because only a high proportion of recurring revenue will ensure the sustainability of the business, its future growth and profit margin. However, StarHub does not provide a specific breakdown here.

While the growth of Cybersecurity revenue, by 382% (S$310.8m) since 2018, is impressive, its Gross Profit has only grown by 263% (S$106.6m). This is due to the decrease in GPM by 12.4pp over the same period to reach 37.5% in FY2024. This raises key questions as to the business model and quality of growth.

Worse, Cybersecurity Operating Profit is too low, with OPM at only 0.5% as of FY2024. **With this segment growing quickly but yet generating only OPM of 0.5%, it is dilutive to the overall OPM of the group.** Furthermore, a declining GPM makes it harder to improve the OPM.

StarHub has not disclosed the profit potential of the Cybersecurity business. It is not uncommon for a business to reach profitability only after a certain critical revenue base. Much depends on the business model and cost structure. While the high revenue growth potential (refer to appendix for detailed revenue segment analysis) is good, StarHub needs to disclose more on the profitability outlook, to justify the strategic rationale of growing this business.

3.2.3 REGIONAL ICT SERVICES

Exhibit 3.11

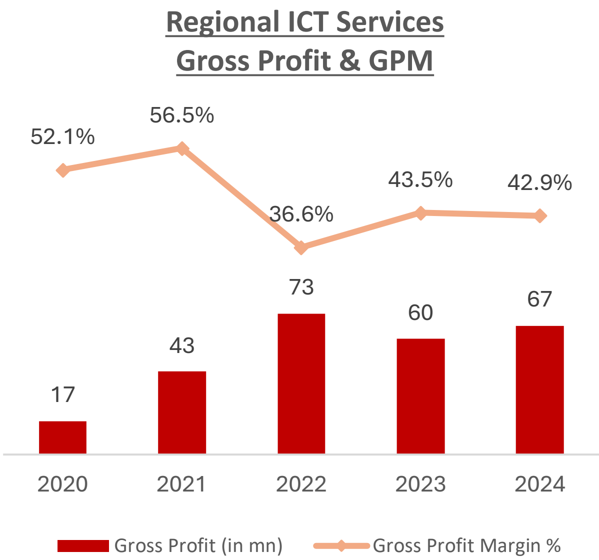
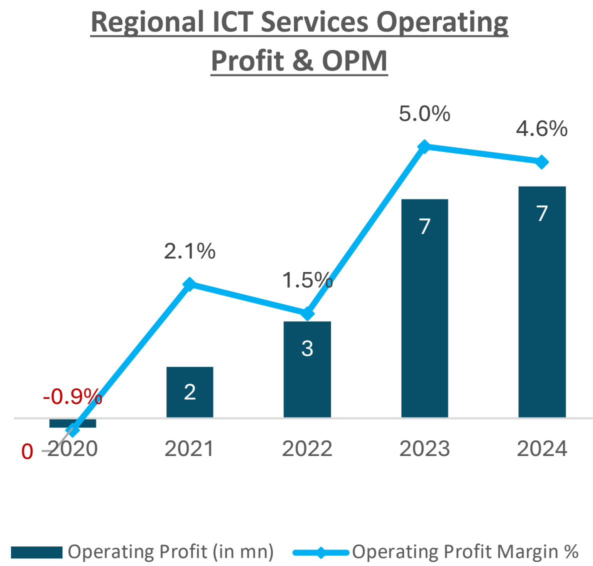


Exhibit 3.12



The Regional ICT Services currently consists of the subsidiaries JOS MY and Strateq. According to StarHub, the acquisition of these two companies has helped to increase the success rate of tenders since they are now able to offer a full suite of services (including hardware computing services through JOS), and also be able to go for regional tenders (through Strateq, especially in Malaysia as they have a very strong presence).

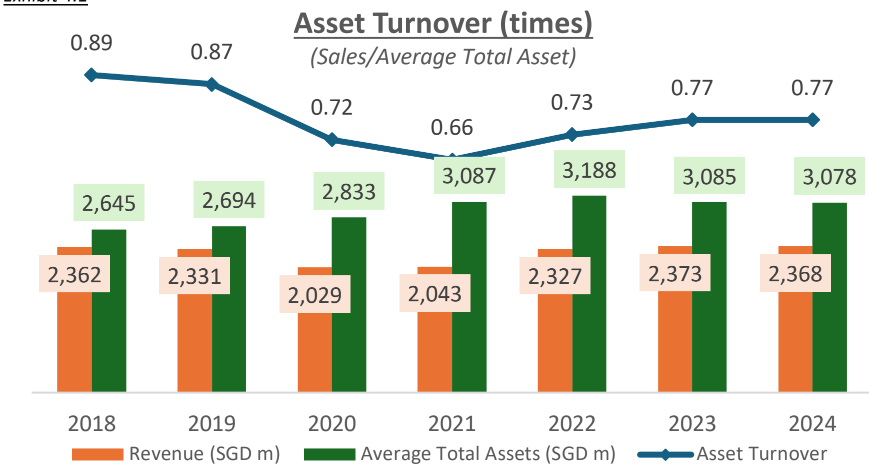
Regional ICT Services has grown by 366% (S$121.7m) in revenue since 2020 through the acquisitions of Strateq and JOS MY and JOS SG, but absolute Gross Profit has only grown by 284% (S$49.2m). The reclassification of JOS SG in 2023 into Network Services has contributed to the lower Gross Profit in FY2024. However, GPM has also decreased by 9.2pp over the same period to reach 42.9% in FY2024.

Relative to Cybersecurity, this new segment provides a healthier OPM which has been growing since inception, reaching 4.6% in FY2024. However, it still remains lower than the overall StarHub OPM and hence is also dilutive to the total operating profit. It is noted that in FY2024, both GPM and OPM have declined slightly compared to previous year. It remains to be seen if management is able to increase OPM. The declining GPM is not helpful.

Lastly, **the pace at which this segment's revenue will grow is unclear as revenue post-acquisition of JOS MY and JOS SG in Nov 2021 has remained relatively stable and flat (refer to Appendix for detailed analysis on revenue segment).** Moreover, the contribution of this segment to Gross Profit is still <10% and to Operating Profit is <5%. Since its contribution to margins is small, Regional ICT is unlikely to be able to move the needle if the Telecommunications segment continues to shrink in size.

4. SHIFT TO ASSET-LIGHT MODEL LIKELY TO KEEP ASSET TURNOVER HIGH BUT BENEFITS UNCLEAR

Exhibit 4.1



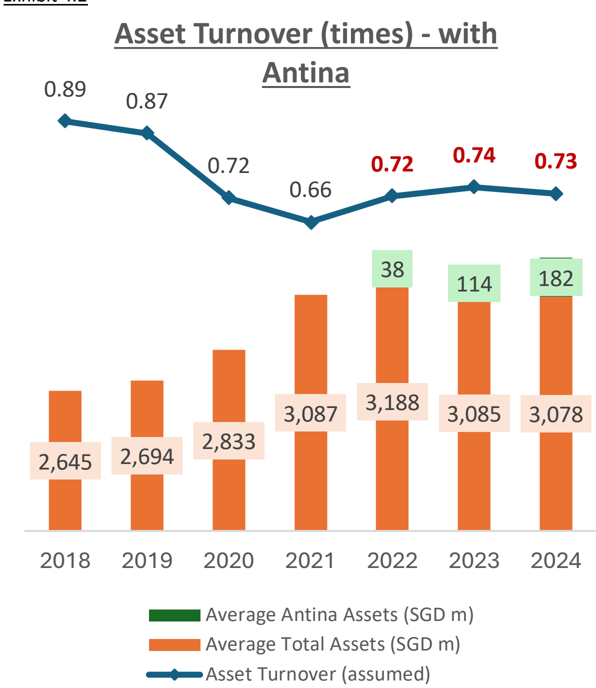
One of the key drivers for StarHub's high ROE is its higher than average asset turnover.

In 2024, the average asset turnover of the 3 peers Singtel, Telstra, Verizon is approximately 0.4x whereas StarHub's is at 0.77x.

4.1 SHIFT OF CAPEX TO OPEX STRATEGY

A key strategy of StarHub is to shift from being asset-heavy CAPEX model to asset-light OPEX model. The growth of the cybersecurity business, which is a mostly OPEX business, is certainly successful in growing revenue without incurring much CAPEX. If StarHub did not have the cybersecurity business, its revenue would have been S$392m lower (in 2024) and hence its asset turnover would have been 0.64x instead of 0.77x. The flip side of such pivot to the cybersecurity business, at least until now, is that such revenue has produced negligible operating profit. The high asset turnover is therefore only a mathematical advantage.

Exhibit 4.2



In the core Telecommunications business, we do not see meaningful impact on the asset turnover ratio by its Antina initiative, which is to share the 5G infrastructure cost with M1. (However we agree it does help to reduce capex and depreciation.)

Unlike Singtel which owned 100% of the 5G infrastructure, StarHub adopted a 50:50 JV model together with M1 to set up Antina, a JV company that owns all the 5G infrastructure, which in turn charges a wholesale cost to StarHub for its usage. **With that, asset is lowered on the books of StarHub.**

Assuming that StarHub owns 100% of its 5G infrastructure, the asset turnover would have been 0.73x (vs 0.77x) in 2024 and ROE would be slightly lower at 22.6% (vs 22.8%). So Antina is helpful but not material.

5. HIGH LEVERAGE IS MANAGEABLE BUT DECLINING CASH FLOWS BEARS WATCHING

Given that leverage is a major contributor to StarHub's high ROE, we review its ability to sustain its debt levels and whether it is prudent to maintain the current level of dividends.

5.1 STARHUB'S LEVERAGE

Exhibit 5.1

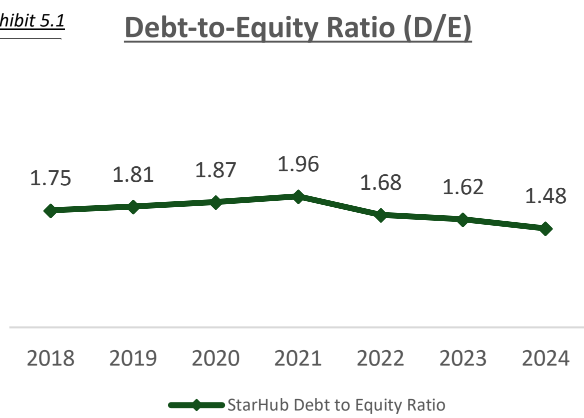
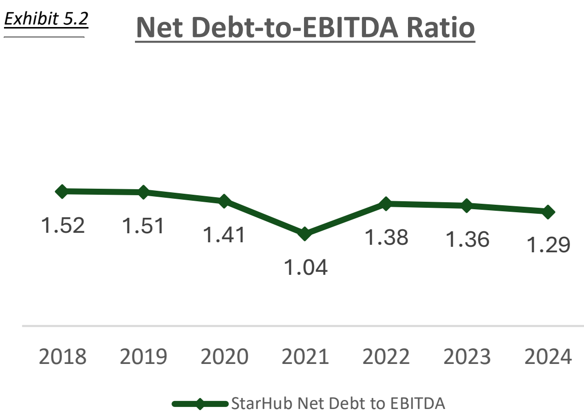


Exhibit 5.2

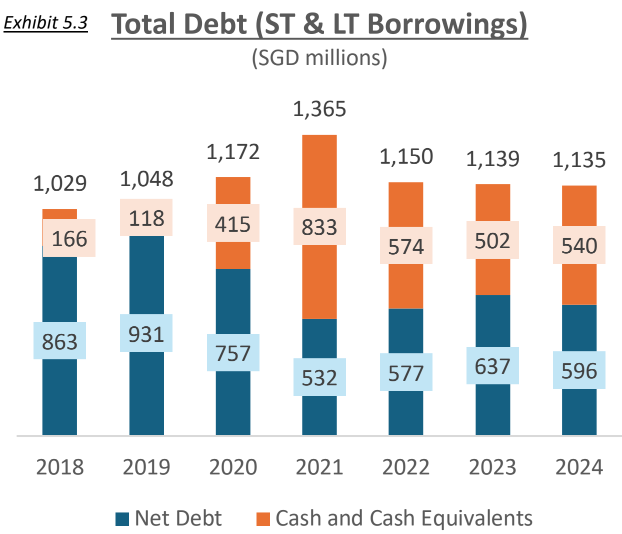


If we take the static view of leverage, meaning debt to equity ('D/E") ratio, then StarHub is highly leveraged, with D/E ratio at 1.48x in 2024. Many similar-sized companies have D/E ratio less than 1x, some substantially lower. Singtel's D/E ratio is less than 1x.

StarHub's preferred leverage ratio is Net Debt-to-EBITDA ratio, which is low and improving, hitting 1.29x compared to 1.52x in 2018. There is merit in using Debt to EBITDA ratio because it focuses on the company's ability to pay down debt. However, this argument is valid only if EBITDA is a good proxy to cashflow. We argue that this is not a valid argument for StarHub. We will explore this later in this section.

5.2 CAN STARHUB SUSTAIN ITS DEBT LEVELS?

Exhibit 5.3



StarHub's Total Debt remains largely unchanged in the last 3 years. However, a substantial portion of the debt is repayable in the next 1-2 years. Debt due by December 2025 is S$470.1m. There is another S$300m worth of medium-term notes that will be due in 2026. We have no doubt that StarHub can refinance its borrowings. It is a question of costs and terms.

However, it is StarHub's declining cashflows that should be addressed, and StarHub needs to make choices on how it uses its cash, specifically capex and dividend requirements.

Exhibit 5.4

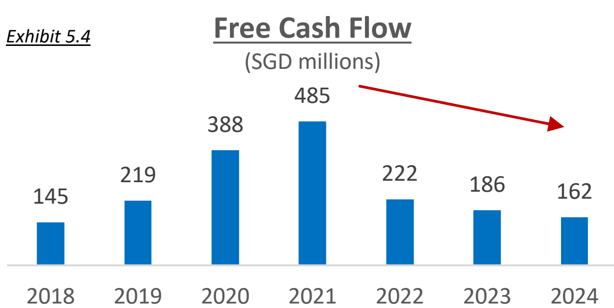
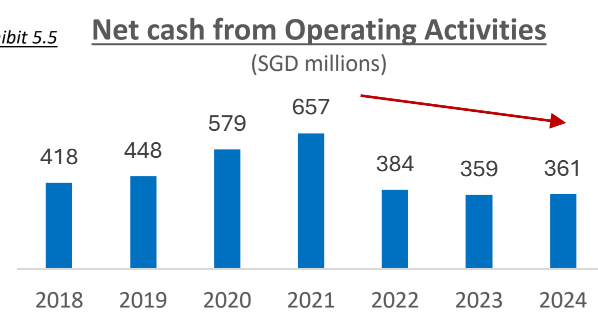
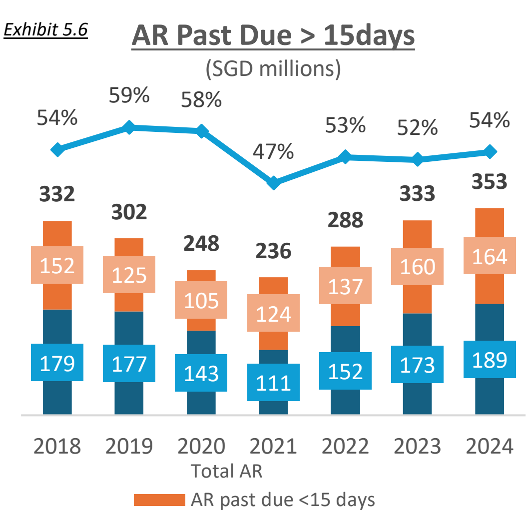


Exhibit 5.5



StarHub's Free cash flow (FCF) and net cash from operating activities (CFO) have been declining since 2021. Compared to 2021, net cash generated from operations is 45% lower, and Free Cash Flow is 66.5% lower. We note that FCF of S$162m in 2024 was only 37% of service EBITDA. In telecommunications business, capex is essential and not an option. Therefore only FCF is a reliable source of cash to repay debt. StarHub's emphasis on its still low net debt to EBITDA is correct only technically.

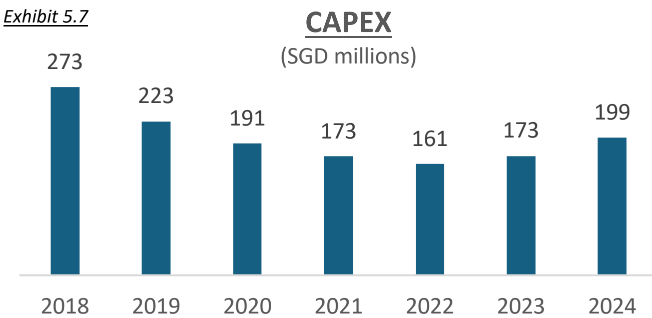
Exhibit 5.6



There are downside risks to CFO and FCF as well, given (a) the trend of changing revenue mix of higher Cybersecurity and Regional ICT businesses that carry lower, single digit, operating margin; (b) the mobile business has been seeing intensifying competition that drives down ARPU and profits; and (c) although it is not a significant item, **we note that overall AR has been increasing and the proportion of past due >15 days has also been increasing in the same time period.** According to StarHub's annual report footnote, weighted average loss rate for AR overdue for more than 15 days has increased from 25% to 28% in the 3 years to 2024. This is not a good reflection on the quality of revenue. It will also drive down CFO.

Even if we assume CFO can be maintained at current level of S$360m, increasing capex may result in negative FCF in 2025. StarHub can maintain its current level of dividend only by taking on more debt. (StarHub can of course use its current cash balance, but it will still result in the same increase in net debt.) At a time when StarHub also has to refinance S$770m+ of debt, taking on debt to pay dividend is not a prudent corporate finance decision.

Exhibit 5.7



Capex commitment for 2025 remains guided to be 9% to 11% of Total Revenue, **which at current levels will be in the mid-S$200m bucket.**

Also, In 2025, **StarHub is expected to invest another $282m for the 700MHz spectrum rights by June 2025. Hence ~S$400-500m expenditure is expected.**

Free Cash Flow Sensitivity Analysis *(S$m)*

Sensitivity of CFO *(Compared to 2025 Base of S$361m)*	**CFO**	**Capex** *(Guided to be 9-11% of 2025 Rev, mid-S$200m)*	**700MHz Spectrum Cost**	**FCF**	**Dividend** *(min. 6.0cts/share)*	**New Debt Required** *(Assuming existing cash is not utilized)*
-40%	216.6	200	282	**-265.4**	104	-369.4
-30%	252.7	200	282	**-229.3**	104	-333.3
-20%	288.8	200	282	**-193.2**	104	-297.2
-10%	324.9	200	282	**-157.1**	104	-261.1
0%	361	200	282	**-121**	104	-225
10%	397.1	200	282	**-84.9**	104	-188.9
20%	433.2	200	282	**-48.8**	104	-152.8
30%	469.3	200	282	**-12.7**	104	-116.7
40%	505.4	200	282	**23.4**	104	-80.6

Assuming that StarHub generates the same amount of CFO in 2025 (S$361m), FCF will be negative S$121m due to CAPEX and spectrum cost requirements. Based on StarHub's guidance, 2025 dividend will be the **higher of 6.0 cents per share or at least 80% of net profit attributable to shareholders**. Assuming it distributes the minimum of 6.0 cents, then **S$225m of new funding is needed for 2025/6** (this is on the assumption that StarHub does not use its cash balances)**.**

If StarHub chooses to raise S$225m new debt, **this will be on top of the refinancing of existing debt that is falling due, totalling S$770m (S$470.1m due by end 2025, and S$300m due in 2026).**

FCF in 1Q 2025 is 63% lower compared to 1Q2024. If this trend continues, the negative FCF will be larger. The table above provides a sensitivity analysis of the additional debt to finance dividends.

StarHub may have to pay for additional stake in Ensign. The 20% economic right that Temasek assigned to StarHub will expire in October 2025, after a 2-year extension. A fair market value was to be assessed at the time of expiration. StarHub has not disclosed the methodology for such fair market valuation determination. If StarHub has to pay for such Ensign stake, it will have greater funding needs.

6. NEAR-TERM ROE OUTLOOK EXPECTED TO BE POOR WITH DECLINING PROFITABILITY AND UNSUSTAINABLE HIGH FINANCIAL LEVERAGE

6.1 WHAT DOES STARHUB'S ROE OUTLOOK LOOK LIKE?

REVENUE OUTLOOK FORWARD SUMMARY:

Business Segment**	Revenue Outlook	Impact on Revenue
Mobile *[24.4% of Rev]*	• No. of Subscribers: ○ Postpaid: Continue to Increase ○ Prepaid: Continue to decrease ○ Blended: Continue to increase but slow due to offset • ARPU: ○ Postpaid: Continue to decline ○ Prepaid: Continue to decline ○ Blended: Continue to decline until the market stabilizes	**Negative**
Broadband *[10.6% of Rev]*	• No. of Subscribers: Continue to grow but slow • ARPU: Continue to increase as consumers switch to higher plans	**Positive**
Entertainment *[9% of Rev]*	• No. of Subscribers: Continue to decline • ARPU: Remain stable	**Negative**
Network Solutions (Enterprise) *[18.7% of Rev]*	• Data & Internet: Revenue expect to remain stable • Voice Services: Revenue expect to decline • Managed Services: Revenue driver for this segment, expect to increase and increase will offset decline in Voice Services	**Positive**
Cybersecurity (Enterprise) *[16.6% of Rev]*	• Expect to increase with strong growth	**Positive**
Regional ICT Services (Enterprise) *[6.5% of Rev]*	• Expect to increase steadily but high growth will be conditional on new M&A acquisitions	**Positive**
Sale of Equipment *[14.3% of Rev]*	• Expect to decline	**Negative**

**Note: Revenue, Gross Profit, Operating Profit used is as of FY2024

PROFITABILITY OUTLOOK FORWARD SUMMARY:

Business Segment**	Profitability Outlook	Impact on Profitability
Telecommunications (Mobile+ Broadband+ Entertainment+ Network Solutions+ Sale of Equipment) *[82% of Gross Profit]* *[95.8% of Op Profit]*	• GPM: Uptrend • OPM: Stabilizing • Overall: If GPM can continue to recover and OPM remains stable, profitability will then be contingent on revenue of this segment. ○ Mobile, Entertainment, Sale of Equipment (SOE) negative outlook for revenue (~60% revenue of this segment) ○ Broadband, Network Solutions (~40% revenue of this segment) positive outlook ○ As of 2024, Mobile, Entertainment, SOE registered a combined 7.4% YOY decline in revenue whereas Broadband, Network Solutions registered a 3.7% YOY growth ○ Hence in 2024, this segment had a decline in revenue and has the potential to persist on	**Slightly Negative**
Cybersecurity (Enterprise) *[12% of Gross Profit]* *[1% of Op. Profit]*	• GPM: Declining trend • OPM: Slightly positive, too low • Overall: GPM decline needs to be stemmed if not OPM will turn negative as there is only so much savings from cost efficiency	**Positive but minimum impact**
Regional ICT Services (Enterprise) *[6% of Gross Profit]* *[3.3% of Op. Profit]*	• GPM: Stabilizing • OPM: Stabilizing • Overall: Stability of margins needs to be observed further	**Positive but minimum due to small revenue contribution**

**Note: Operating Profit – Defined as Reported Operating Profit – Other Income
Revenue, Gross Profit, Operating Profit used is as of FY2024

REVENUE

Near Term: Stabilize
Medium Term: Increase but slow pace
Long Term: Increase

PROFITABILITY

Near Term: Decline
Medium Term: Increase but slow pace
Long Term: Increase

**Near Term: 0 – 1 year, Medium Term: 1 – 3 years, Long Term: 3 – 5 years (or more)

Assuming Equity to remain stable, ROE is expected to decline in the near term and slowly recover when profitability catches up.

7. CORPORATE GOVERNANCE AND DISCLOSURES

As CML reviews the corporate governance of StarHub, we noted a few areas that need improvement.

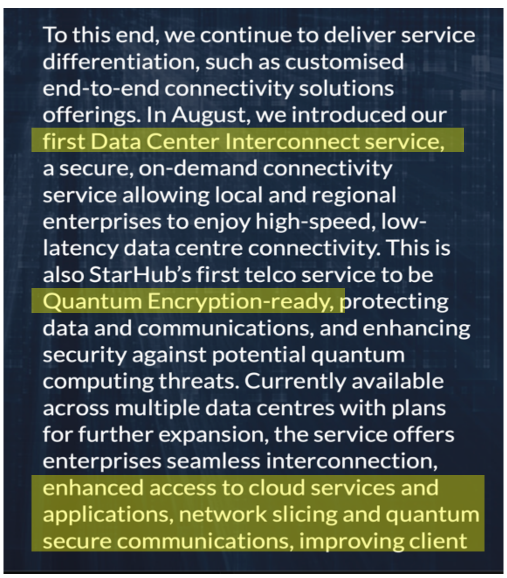
7.1 REDUCING BOARD SIZE AND NUMBER OF NON-INDEPENDENT DIRECTORS

StarHub's board currently has 12 directors, which is larger than most of its peers, including those which are significantly larger. Singtel, for example, has 11 directors, Telstra has 10, and Verizon has 10. This may hinder decision-making.

Part of the reason is that StarHub has four directors who are non-independent non-executive directors. Three of them are non-independent because they are associated with Temasek Holdings, its controlling shareholder, or its affiliates. Another appears to be non-independent because he has served more than 9 years. While it technically complies with recommended good corporate governance practices such as having an independent chairman and a majority of independent directors, the number of non-independent non-executive directors who are associated with the controlling shareholder may also raise concerns about whether decisions equally prioritise the interests of all shareholders.

7.2 STARHUB NEEDS TO IMPROVE ITS DISCLOSURE

7.2.1 ANNUAL REPORT – TECHNICAL TERMS



To this end, we continue to deliver service differentiation, such as customised end-to-end connectivity solutions offerings. In August, we introduced our first Data Center Interconnect service, a secure, on-demand connectivity service allowing local and regional enterprises to enjoy high-speed, low-latency data centre connectivity. This is also StarHub's first telco service to be Quantum Encryption-ready, protecting data and communications, and enhancing security against potential quantum computing threats. Currently available across multiple data centres with plans for further expansion, the service offers enterprises seamless interconnection, enhanced access to cloud services and applications, network slicing and quantum secure communications, improving client

Source: pg.49, StarHub 2024 Annual Report

The annual report could be more reader friendly, especially on the enterprise business, which has been growing to offset the loss of the consumer business revenue. While we appreciate that many of StarHub's enterprise businesses are by nature technical, StarHub should explain the businesses in ways that average shareholders could understand. Just browsing through page 49 of the 2024 annual report on the Enterprise Business, one is inundated with technical jargons like "connectivity", "modern digital infrastructure", "quantum encryption-ready", "data center interconnect" etc. This is not helpful to most investors. In addition, phrases like " With connectivity as the cornerstone of our offerings, we unlock value by offering services and solutions layered on top of our core services…" comes across as grand statements but means little to the readers.

7.2.2 STRATEGIC INITIATIVES

StarHub could also improve disclosure on the strategy transformation roadmap, and account for the financial success or failure. StarHub has launched two strategic initiatives, DARE and DARE+, but has not been very clear in articulating what operational or financial outcomes such initiatives aim to achieve. For example, in the 2018 annual report, the only financial metric StarHub disclosed for the DARE strategic initiative, which was to run from 2019 to 2021, was a S$210m cost savings. In the 2021 annual report, StarHub claimed that cost savings achieved was S$273m, or S$63m better than planned. StarHub also claimed that new revenue of S$340m was added. However, StarHub's revenue in fact decreased from S$2.36 billion in 2018 to S$2.04 billion in 2021. Operating expense did reduce by S$265m, but net profit had been on a consistent down trend, from S$200m in 2018 to S$179m in 2019, to S$160m in 2020 and S$150m in 2021. (Please see page 8.) It is a stretch to call DARE 1.0 a success.

It is the same with DARE+; other than S$280m of cost savings and S$220m of additional gross profit, there are no overall revenue or margin targets, let alone the timetable for achieving them. There was no projection of revenue mix, capital intensity and ROE, etc., metrics that shareholders rightfully expect in strategic transformation exercise. Instead, StarHub focuses on disclosing what it would DO rather than what it would ACHIEVE. Shareholders would be more interested in how StarHub would perform financially as a result of such initiatives. Furthermore, we noted that StarHub used to disclose a section in their annual report on the DARE+ progress, which includes the actual executed cost savings per year. However, since 2024, StarHub has removed the entire segment. After 3 years of DARE+, StarHub also should provide an interim accounting of what this strategic initiative has achieved, at the very least on the cost savings and gross profit targets mentioned above.

7.2.3 CYBERSECURITY – ENSIGN

StarHub should provide more disclosure on the fast growing cybersecurity business, whose revenue in 2024 was approximately 16% of StarHub's total. While StarHub discloses a lot of Ensign's technical capability on page 55 of the 2024 annual report, there is no mention of who are the customers, what exactly are the services provided by Ensign, and crucially what is the split between the project based versus the recurring revenue. This became important in Q1 2025, when the Cybersecurity revenue suffered a 13.1% decline year on year, the first in its history, due to the timing of project recognition. This is a surprise, as this business just posted a strong 26.2% growth in 2024, and the expectation was it would keep growing. It could be just a quarterly miss, but it highlights the volatility of project-based revenue, which is by nature lumpy and is harder to forecast. Worse, it may not be sustainable, but due to the lack of disclosure we do not know this. The share of project-based versus recurring revenue also has a strong bearing on how much the business is worth, even if it is still unprofitable. Investors prefer recurring revenue and Ensign's value will be higher if the share of recurring revenue is higher.

StarHub should also disclose the expected profitability of Ensign, which is barely breaking even. With a revenue of close to S$400m, and a history since at least 2018, it is not a startup anymore. Management has taken pride in creating organically an important business which is key to the strategic pivot. However shareholders deserve to know how this business could produce profits and cashflow, on which the dividends depend.

Another important issue is whether and when Temasek will permanently assign / transfer the 20% (or more) economic right in Ensign to StarHub. According to the 2018 StarHub media release on Ensign, the assignment would expire in 5 years, and Temasek could pay for and keep the assigned rights based on a fair market value to be determined. An extension was granted in 2023, with the assignment expiring in Oct 2025. Without such assigned rights, StarHub could not consolidate Ensign with just a 40% stake. If a stake is sold to StarHub, how much and how could StarHub fund such purchase has an important bearing on StarHub's balance sheet, given its cashflow and leverage.

7.3 MORE DISCLOSURE REQUIRED FOR CHIEF EXECUTIVE REMUNERATION TIED TO PERFORMANCE METRICS

CML believes that good performance should always be rewarded fairly, and to do so, the remuneration structure should be well designed and the performance metrics clearly thought out and disclosed. This helps to give comfort to shareholders on the targets for the CEO and how it is related to the strategy that the company is driving forward. We commend StarHub for an overall sound remuneration structure for the CEO, but more disclosure is required. We also think the return metric should be linked to both ROE and TSR and not TSR alone.

Table 4 (Remuneration of Chief Executive and Top 5 Key Management Personnel)

	Fixed[1] ($)	Variable[2] ($)	Benefits[3] ($)	Share-based Compensation[4] ($)	Total ($)
Chief Executive					
Nikhil Eapen	1,119,980	1,227,310	126,525	1,533,703	4,007,518
Total paid, including shares vested based on actual performance					3,172,426

Source: StarHub 2024 Annual Report

7.3.1 VARIABLE COMPONENT

Variable Cash Component

The variable cash component refers to the Annual Variable Bonus (AVB).

Annual Variable Bonus

The AVB is a cash-based incentive for the Chief Executive and key management personnel that is linked to the achievement of annual performance targets.

Individual performance objectives which are aligned to the overall strategic, financial and operational goals of the Group are set at the beginning of each financial year, and are cascaded down to a select group of key management personnel, creating alignment between the performance of the Group and the individual.

While the performance objectives are different for each executive, they are assessed on the same principles across the following broad categories of targets:

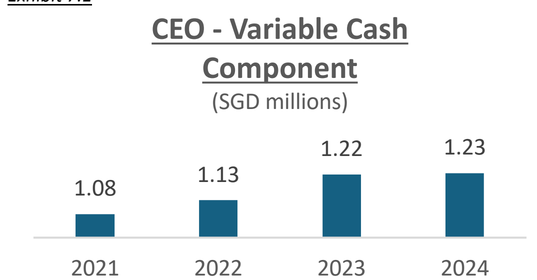
- Business outcomes (65% weightage); and
- Customer, Process and People outcomes (35% weightage).

The target AVB for the Chief Executive and key management personnel is pre-set at a fixed percentage of their annual base salary, and subsequently adjusted based on the Group's performance at the end of each financial year. The final AVB payout can range from 0 to 2.25 times of the target AVB.

Source: StarHub 2024 Annual Report

CML notes that other than the fixed salary, the variable cash component is high and typically equivalent or higher than the fixed salary and has been increasing over the years.

Exhibit 7.1



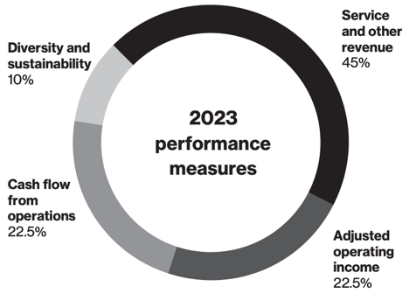
However, the disclosure on how the variable cash component is computed is very vague.

Based on the description on the left given in the annual report, the **performance objectives are loosely defined** as business outcomes and customer, process and people outcomes with overall weightage for each broad category, but **with no specific performance metrics and weightings for these metrics.**

Given that variable cash component is on a cash basis and linked to annual performance targets (short-term), clarity on how the CEO has performed for the year and how the variable cash component is computed, what KPIs are used etc. should be clearly disclosed.

The illustration below for Verizon, the top telecom operator in US, shows a good example of clear disclosure of how the annual variable remuneration is determined and disclosed to shareholders.

2023 Short-Term Plan performance measures and weightings



Why these performance measures?

The Committee selected service and other revenue, adjusted operating income, and cash flow from operations to reflect Verizon's strategic goals of encouraging profitable operations, growth and delivering best-in-class network experiences in a cost efficient manner. Consistent with prior years, the Committee also selected diversity and sustainability metrics to reflect Verizon's commitments to promoting diversity among our employees and our business partners and reducing the environmental impact of our operations.

> Clear indication of performance metrics and weightage, and reason why they are chosen

Service and other revenue — **Target range: $109.4 billion to $111.3 billion**

Service and other revenue is a measure that reflects the extent to which we have been successful in attracting and retaining customers, penetrating key markets with our products and services and creating high-quality growth. The Committee views this measure as an important indicator of Verizon's growth and success in realizing its strategic initiatives.

Adjusted operating income — **Target range: $30.6 billion to $32.1 billion**

Adjusted operating income is a measure that reflects operating profitability because it indicates how much profit we generate after subtracting operating expenses, including depreciation and amortization and the other costs of running the business, from total revenue. The Committee views this as an important indicator of how well our management is growing revenue while managing operating costs. Adjusted operating income excludes the effect of special items, which provides more comparable financial results from period to period.

Cash flow from operations — **Target range: $35.3 billion to $37.1 billion**

Cash flow from operations is a measure of the cash generated from our ongoing, regular business activities and is used to fund expansion and modernization of our networks, service and repay external financing, pay dividends and invest in new businesses and spectrum.

ESG metrics — **Targets: Workforce diversity of 60.6%, diverse supplier spend of $5.5 billion, and carbon intensity reduction of 16.0%**

> Clear definition of each performance metric and actual targets for the year disclosed

2023 adjusted company results[1]

The Short-Term Plan provides for performance measures to be adjusted to exclude the impact of certain types of events not contemplated at the time the performance measures were set, such as significant transactions, changes in legal or regulatory policy and other special items. The Committee did not make any adjustments in determining Verizon's performance against the performance measures.

$109.7B Service and other revenue	$31.1B Adjusted operating income	$37.5B Cash flow from operations
target range: $111.3B / **$109.7B** / $109.4B	target range: $32.1B / **$31.1B** / $30.6B	target range: **$37.5B** / $37.1B / $35.3B
60.3% U.S.-based workforce comprised of women and minorities (below target performance)	$6.1B annual supplier spend with, or directed to, diverse firms[2] (above target performance)	17.8% reduction in carbon intensity (above target performance)

> Disclosing the actual performance and comparing it against the targets

1 A reconciliation of non-GAAP measures to the most directly comparable GAAP measures may be found in Appendix B.
2 For the twelve-month period ended September 30, 2023 or November 30, 2023, depending on the tier of supplier.

2023 Short-Term Plan awards

Based on its assessment of Verizon's performance against the Verizon corporate measures and targets set forth above, the Committee approved a payout percentage for all of the employees participating in the Short-Term Plan of 109%.

The following table shows the actual Short-Term Plan award earned by each named executive officer based on the payout percentages detailed above.

Named executive officer	Target award	x	Payout percentage	=	Actual award
Mr. Vestberg	$ 3,750,000		109%		$ 4,087,500
Mr. Skiadas*	$ 987,500		109%		$ 1,076,375
Mr. Sampath	$ 1,575,000		109%		$ 1,716,750
Mr. Malady	$ 1,500,000		109%		$ 1,635,000
Mr. Silliman	$ 1,350,000		109%		$ 1,471,500
Mr. Ellis**	$ 1,425,000		109%		$ 517,750

* The dollar values shown for Mr. Skiadas's target award and actual award reflect Mr. Skiadas's total target award opportunity for 2023 after giving effect to the prorated increase to his target award percentage in April 2023.
** Mr. Ellis's actual award was prorated to reflect his involuntary separation from Verizon on April 29, 2023.

> Showing the actual target award and the payout percentage for each executive to compute actual paid

Source: Verizon - Proxy Statement 2024

7.3.2 SHARE-BASED REMUNERATION

Shared based remuneration, which consists of Performance Share Plan ("PSP") and Restrictive Stock Plan ("RSP"), amounted to S$1.5m in 2024 for the CEO and made up 38% of his total remuneration. However no breakdown of the two is disclosed in his 2024 compensation. This is important because there are different performance metrics and performance periods for the two plans. In FY2024, StarHub introduced a third share-based remuneration plan called the Transformation Incentive Plan ("TIP").

Overall, we think the use of different share-based plans is well thought out, with different objectives, performance metrics and performance/vesting periods. Together, they incorporate sound accounting-related metrics, shareholder return metrics, and environment-related metrics (GHG emissions). Disclosure of performance metrics and weightings for its share-based remuneration plans is generally good – and better than for its variable cash component. Further, there are indications of "stretch" targets as StarHub disclosed that pre-determined target performance levels for the PSP awards granted in FY2021 were not achieved and the resulting shares granted were adjusted accordingly. In the case of the RSP, the pre-determined target was achieved.

The objectives, performance metric, performance period and vesting schedule for the third share-based remuneration, the TIP, which was introduced in FY2024, are clearly explained.

StarHub should be mindful that the use of multiple plans do not result in excessive remuneration for senior management going forward.

8. CONCLUSION

While StarHub continues to report strong ROE, it has been declining and will likely continue to decline. Based on our analysis, out of the 3 drivers of ROE, profitability, asset turnover and financial leverage, the largest contributor to StarHub's high ROE is high financial leverage. We in fact have concerns about StarHub's leverage, given declining FCF, high regular capex, as well as deferred expenditures, both quantified (700 MHz spectrum rights) and unquantified (additional stakes in Ensign). At a time when StarHub has S$770m of existing debt to refinance and committed minimum dividend of more than S$100m.

The driver for StarHub's recent and future ROE is however profitability. Unfortunately, the outlook appears negative. The Consumer segment will continue to face headwinds due to increased competition. Mobile consumers are spoilt for choice given increasing options from traditional and virtual telcos. Switching operators has become fuss free with minimum cost, and this is reflected in StarHub's subscribers churn and ARPU, both are worse in 1Q 2025. Mobile revenue declined 4.1% in 1Q 2025. Even with the introduction of Infinity Play, revenue of the entertainment segment fell 7.8% in 1Q 2025 compared to a year ago.

On the other hand, the Enterprise segment has varying but generally lower profitability. StarHub indicated that the margins for managed services, is between system integrators (mid-teens) and telcos (80%+). However, managed services is only 17% of enterprise business. Out of the $989m enterprise revenue in 2024, 40% is contributed from Cybersecurity which has operating profit margin of 0.5% in 2024. Another 16% from Regional ICT Services which has operating profit margin of 4.6% in 2024. As these segments have operating profit margin that is lower than the overall operating profit margin of the whole business, it is therefore dilutive to the overall business. StarHub management has not disclosed how it will grow the profitability of Cybersecurity and Regional ICT services.

Is merger and acquisition a way forward? StarHub has been clear that it was keen to acquire, and M1 appears to be a logical target. This will make sense provided StarHub can acquire M1 at a reasonable valuation, and implement substantial cost synergies. A merger is unlikely to lead to higher pricing for telecoms services, as market competition is still strong. A merger will pose a tough choice for Keppel, which took M1 private in 2019 at an equity valuation of S$1.9b. Keppel has maintained this value, and not written down the S$988m goodwill, justified by discounted cashflow valuation with increasingly optimistic assumptions. In CML's report on M1 dated October 2024, we noted that M1's profit has been slipping, from S$139m in 2017 to S$75m in 2022. Since then Keppel has stopped disclosing M1's profit. In a merger scenario, Keppel may well have to crystallize a loss, unless StarHub pays a generous price for M1, which of course undermines the very merger rationale.

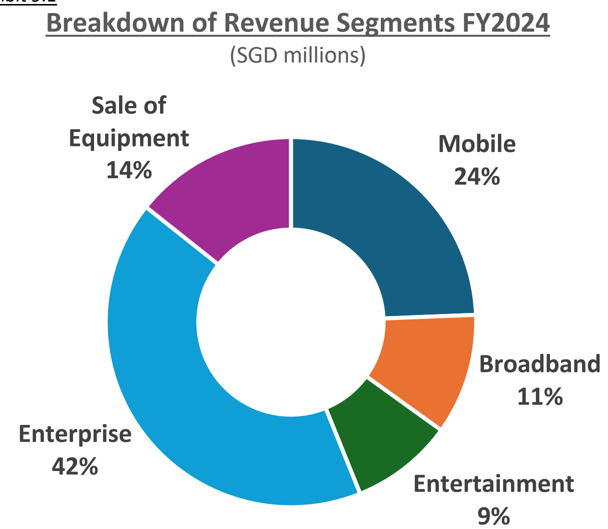
9. APPENDICES

9.1 STARHUB BACKGROUND INFORMATION

StarHub offers a comprehensive suite of services across mobile, broadband, entertainment and enterprise, serving the digital needs of consumers, business and government enterprises.

9.1.1 REVENUE MODEL

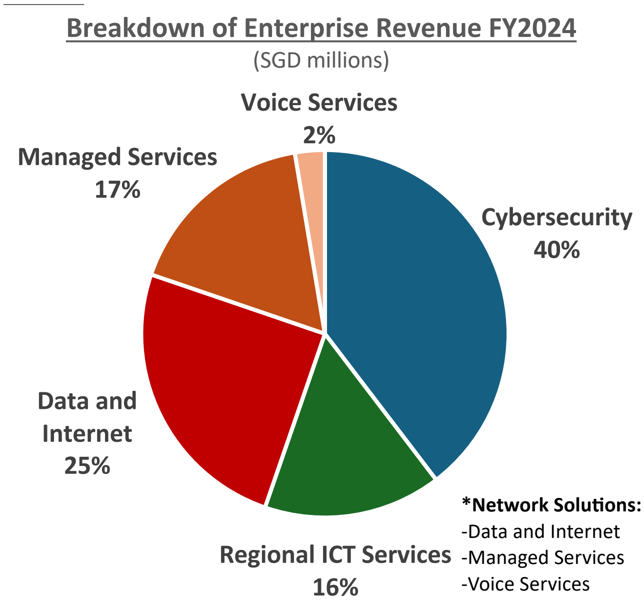
Exhibit 9.1



StarHub's revenue model comes from 5 main segments, Mobile, Broadband, Entertainment and Enterprise (of which are called "Service Revenue"), as well as Sale of Equipment. As of FY 2024, 86% of StarHub's revenue are Service Revenue.

Of the Service Revenue, consumer centric revenue contributes to 51% whereas business and government enterprises centric revenue contributes to 49%. This is a big shift compared to 72% versus 28% in 2018.

Exhibit 9.2



The shift is attributed to the growth in the Enterprise segment which is further broken down into 3 types of segment: Network Solutions, Cybersecurity, Regional ICT Services.

Network Solutions, (made up of Data and Internet, Managed Services and Voice Service), contributes to a total of 44% of Enterprise revenue (19% of StarHub Total Revenue), followed by Cybersecurity of 40% (17% of StarHub Total Revenue) and Regional ICT Services of 16% (7% of StarHub Total Revenue).

With that, the top 5 service revenue segments (% of Total Revenue FY2024) for StarHub are:

1) Mobile: 24%
2) Network Solutions (Enterprise): 19%
3) Cybersecurity (Enterprise): 17%
4) Regional ICT (Enterprise): 16%
5) Broadband: 11%

What are the different revenue segments?

<table>
<tr><th colspan="3">Revenue Segment</th><th>Description</th></tr>
<tr><td colspan="3">Mobile</td><td>This segment includes mobile voice, SMS, data plans (postpaid and prepaid), international roaming, and MVNO hosting. It also encompasses revenue from additional services like mobile apps or bundles.</td></tr>
<tr><td colspan="3">Broadband</td><td>Provides residential broadband plans (fibre/cable) for home internet access, including Wi-Fi mesh systems and services bundled with MyRepublic Broadband subscribers, where StarHub has a majority stake.</td></tr>
<tr><td colspan="3">Entertainment</td><td>Includes residential Pay TV, OTT (over-the-top) streaming content, commercial TV services, and advertising revenue. Offers content through set-top boxes and integrated app bundles.</td></tr>
<tr><td rowspan="5">Enterprise</td><td rowspan="3">Network Solutions</td><td>Data & Internet</td><td>Offers business-grade internet connectivity including IP VPN, international leased circuits, cloud connect services, MPLS, and IP transit. Supports hybrid cloud adoption for enterprises.</td></tr>
<tr><td>Managed Services</td><td>Covers enterprise IT outsourcing, data center services, cloud and analytics solutions, IT infrastructure management, and facilities management. Now includes JOS SG (reclassified from Regional ICT).</td></tr>
<tr><td>Voice Services</td><td>Provides traditional fixed voice services including SIP trunking, IP telephony (VoIP), and international voice. Primarily for SMEs and enterprise clients needing fixed-line solutions.</td></tr>
<tr><td colspan="2">Cybersecurity</td><td>Provides managed cybersecurity services through Ensign, including threat detection, advisory, penetration testing, SOC-as-a-service, and security product integration.</td></tr>
<tr><td colspan="2">Regional ICT</td><td>Encompasses system integration, application management, IT consulting, and outsourcing services delivered outside Singapore, mainly through subsidiaries like JOS MY and Strateq.</td></tr>
<tr><td colspan="3">Sale of Equipment</td><td>Involves the sale of hardware devices such as smartphones, routers, set-top boxes, broadband modems, and accessories. These are sold retail or bundled with service subscriptions (e.g., mobile plans or TV).</td></tr>
</table>

9.2 STRATEGIC TRANSFORMATION: DARE AND DARE+ OVERVIEW

2016 marked the end of the oligopoly in Singapore's telecom industry, which had long been shared between Singtel, StarHub, and M1. The industry was shaken up when Australian based TPG (now Simba Telecom) won the rights to become Singapore's 4th Telco. To add on to it, the first MVNO (Mobile Virtual Network Operator), Circles.Life was launched in Singapore. The entrance of these new players resulted in tremendous pressure on the existing 3 big telcos.

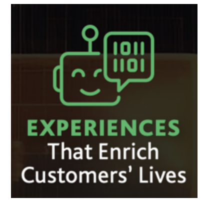
As competition in the telecommunications industry starts to intensify, at the end of 2018, StarHub launched their strategic transformation plan (DARE) to transform itself from a traditional telco to a digital ecosystem player. StarHub claims that DARE was successfully executed from FY2019 to FY2011, and now StarHub has moved on to the next phase of transformation DARE+, which is to be executed from FY2022 to FY2027.

9.2.1 KEY ACHIEVEMENTS OF DARE (FY2019 to FY2011)

DARE's focus was on restructuring the core telco business, cutting cost and going digital.

Delivering market-leading customer experiences	• Offered 5G standalone via joint network rollout with M1 via their joint venture Antina • Completion of cable to fibre migration • Shifting to new hybrid content delivery platform: StarHub TV+ with strong OTT portfolio and exclusive partnerships with Disney+, NIVIDIA GeForce NOW • Achieving YoY improvements in Net Promoter Scores
Accelerating value creation from core business	• Digitalization and simplification of processes to drive operational efficiencies • Conversion of content fees from fixed to variable cost model • Achieved $273m of cost savings (exceeding target of $210m by 30%) from FY2019 to 2021 • 29% reduction in Operating Expenditure compared to FY2018 (excluding expenses related to Cybersecurity and Regional ICT)
Realizing growth from new opportunities	• Accelerate Cybersecurity business through the new joint venture, Ensign, formed together with Temasek (Oct 2018) • Introduced new revenue segment "Regional ICT Services" through M&A of Strateq (2020) • In 2021 alone, Ensign and Strateq contributed to $340m of revenue (17% of Total Rev)
Enhancing efforts to transform digitally	• Enhancement of StarHub App • Enhance online touchpoints and migration towards online sales • Launching of Giga!, StarHub's digital brand focused on Mobile Postpaid SIM Only segment • Commenced multi-year IT & Digital Transformation programme

9.2.2 NEXT PHASE OF TRANSFORMATION: DARE+ (FY2022 to FY2027)



What are the financial goals of DARE+??

1) Generate over S$500m cumulative costs savings (S$280m) and gross profit growth (S$220m) between FY2022 to FY2027
2) Achieve stable state incremental Net Profit After Tax run rate of S$80m per annum from FY2027

WHAT IS DARE+ ABOUT?

DARE+ is the extension of DARE to transform StarHub into a platform-led digital services company. Key focus of DARE+ summarized as follows:

1 Shifting from asset-heavy CAPEX model to asset-light OPEX model

⇒ **Transition of IT infrastructure** (moving IT infrastructure and elements of Network infrastructure) across both consumer and enterprise business **to cloud and SaaS** (Software-as-a-service) which is of lower cost

⇒ **Outsourcing management of non-core IT systems** to trusted and reliable 3rd party players

⇒ **Core 5G network infrastructure is structured as an operating cost** and not CAPEX

- Formed a JV (Antina) with M1 to manage the physical 5G network infrastructure and Antina bills StarHub the cost

2 IT Transformation: Cloud SaaS Stack + Network Transformation and Cloudification

⇒ **Building of Cloud Infinity** (majority announced to be completed as of 1Q2025), which is **StarHub's hybrid multi-cloud architecture enabled with automation and artificial intelligence operations** (first of its kind in the world), by partnering with leading cloud providers and telco technology partners (such as AWS, Google Cloud, Nokia, Naver Cloud, Red Hat etc.).

- Allows StarHub to decommission legacy network and systems and **operate fully on cloud which is of lower cost, scalable and requires leaner operations**
- Allows StarHub to **launch products faster** to react to consumer needs
- **Common backend** for its' platforms ecosystem (e.g. Infinity Play)
- **Enable AI capabilities, data analytics and personalisation**

3 Expanding beyond Core Telco Services – Focus on Enterprise Business 3Cs

⇒ **Going big in the Enterprise business segment (3Cs – Connectivity, Cloud, Cybersecurity)**, **on the back of Cloud Infinity architecture**

⇒ Positioning StarHub as a **B2B digital solutions provider**

⇒ **Continue to scale regionally with M&A acquisitions** e.g. JOS MY and SG acquisition in 2022

⇒ Plans to launch in the future a secure cloud-brokerage marketplace Cloud-X where StarHub could offer sovereign cloud services to government agencies and enterprises, allowing them to utilise a cloud network that is custom-built to deliver security and data access that meets strict requirements on data-privacy and control

4 Elevating Customer Lifetime Value

⇒ **Building of Infinity Play**, which is a modular system (backed by Cloud Infinity architecture) that **allows customers to mix-and-match mobile, broadband, entertainment and lifestyle services under one unified experience**.

- Allows StarHub to offer its services as much as possible on a self-serve, zero-touch basis
- Offered through the new **StarHub's All-in-one app** (Launched in 2022)
- Allowing for **customized digital services** with flexible plans and subscriptions
- Allows StarHub to **leverage on data analytics to tailor and personalize customers' experience as well as to cross and upsell** Infinity Play products to enhance customer lifetime value and grow revenue
- **Offers 6 types of digital solutions (as of 2025):**

MOBILE	ENTERTAINMENT	BROADBAND
Offers a range of mobile services, including SIM-only plans, data boosters, roaming options, allowing customers to choose their own plans	Delivering variety of content through platforms like StarHub TV+, which includes access to popular OTT services like Disney+, Netflix, HBO Go etc.	Providing high speed internet connectivity solutions for homes and businesses, featuring various plans to accommodate different usage requirements
SAFETY SUITE	**GAMEHUB+**	**LIFEHUB+**
Includes offerings like CyberCover to provide coverage against online threats, and SmartSupport, a device care program that offers quick device replacements and tech support	A cloud gaming service developed in partnership with NIVIDIA GeForce NOW, which allows gamers to stream and play a vast library of games without the need of hardware	In partnership with Alexandra Hospital and ConnectedLife, offers access to digital healthcare service like telehealth consultations, wellness programs etc.

9.3 REVENUE HAS RECOVERED BACK TO 2018 LEVELS BUT PROFITABILITY IS LAGGING DUE TO SHIFT IN REVENUE MIX

Exhibit 9.3

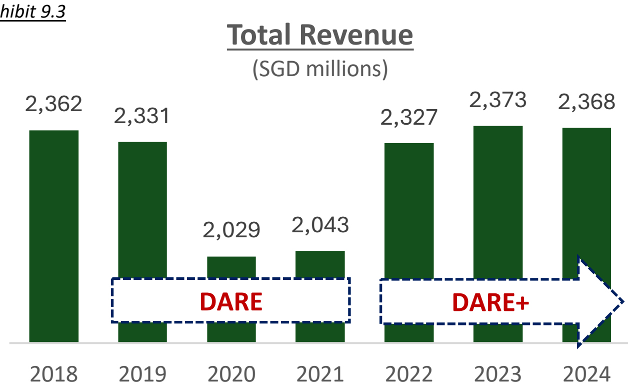
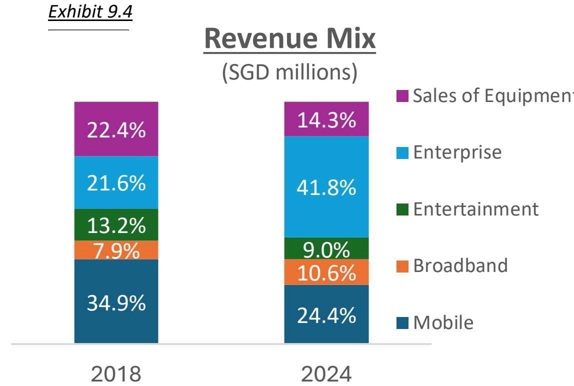


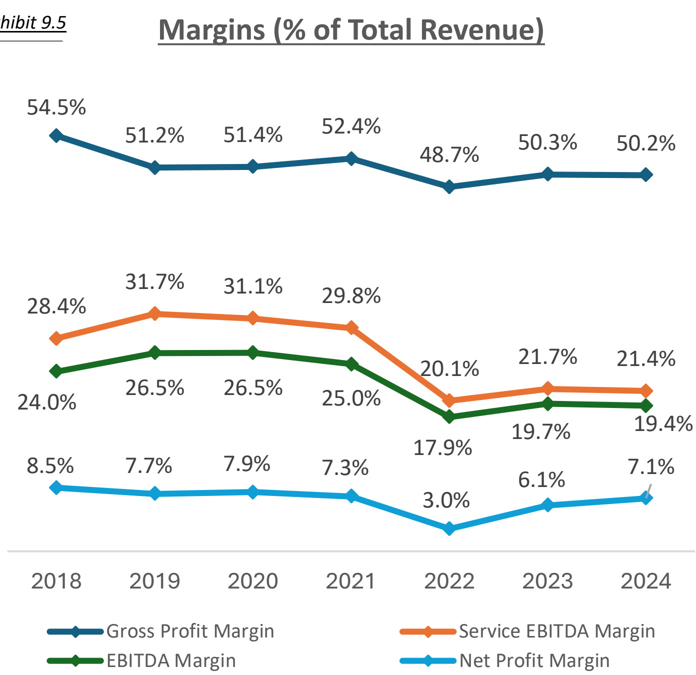
Exhibit 9.4



With the implementation of DARE and DARE+, it is evident that StarHub has managed to recover its revenue back to 2018 levels (prior to implementation). However the revenue mix have completely shifted. Except for Enterprise and Broadband that has grown, all the other revenue channels' contribution has declined.

Consumer segment (Mobile, Broadband, Entertainment) used to contribute to a total of 56%, now it is 43.9%, with significant drop in both Mobile and Entertainment. Enterprise segment has almost doubled, from contributing 21.6% to 41.8%, becoming a major source of revenue.

Exhibit 9.5

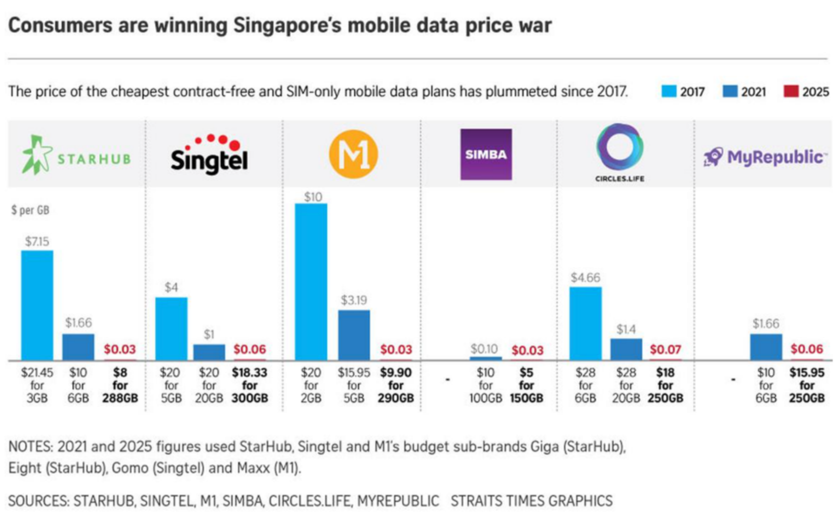


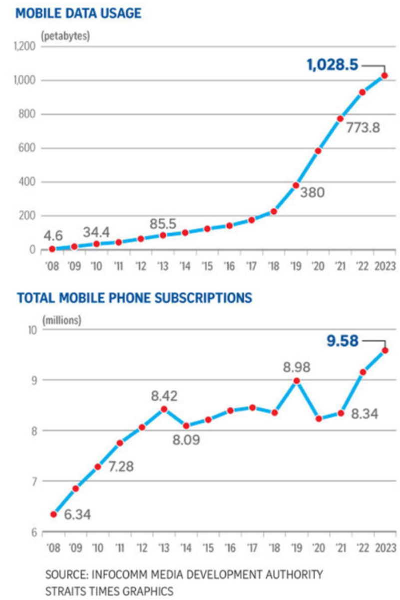
Despite revenue recovering to 2018 levels, margins have significantly declined. Although the margins have started to show slight recovery post 2022, **the recovery back to 2018 levels will be tough due to the shift in revenue mix.**

GPM has fallen 4.3pp to 50.2%, EBITDA margin has fallen 4.6pp from 2018 to 19.4%, Service EBITDA margin[1] has fallen 7.0pp to 21.4%, whereas NPM has fallen 1.4pp to 7.1%.

(2) Service EBITDA = EBITDA less Equipment margin

9.3.1 REVENUE IMPACT - MOBILE (CONSUMER SEGMENT)

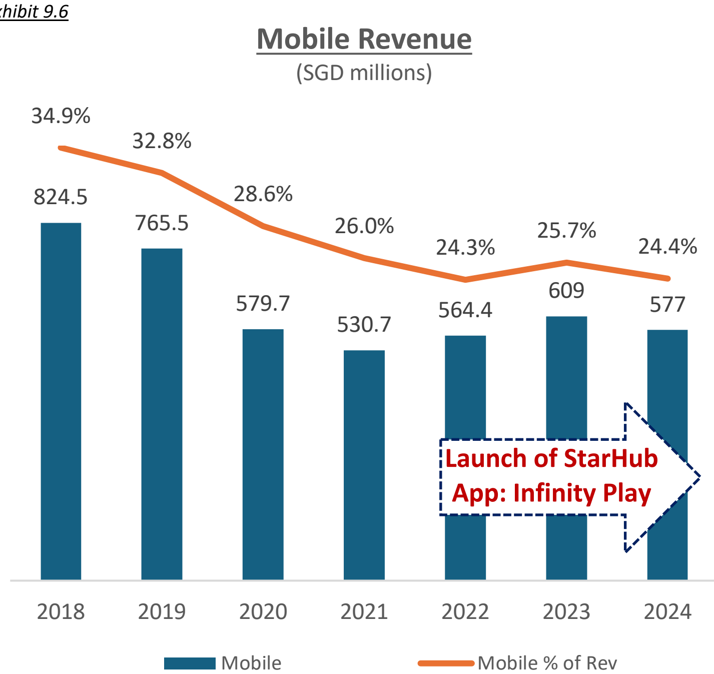




Source: "Singapore's mobile data price war: 'You lose out if you don't switch'" – article by Straits times, Mar 30, 2025

The mobile price war in Singapore has been going on for years, with price per GB of data plummenting, benefitting consumers and hurting Telcos, especially the Big 3 Telcos, including StarHub.

Exhibit 9.6



Although StarHub continues to maintain it's No.2 position, it continues to see decline in mobile revenue despite mobile subscriptions and data usage reaching a all time high as shown above.

Mobile Revenue declined by 30% compared to 2018, and Mobile's contribution to Revenue has fallen by more than 10% (34.9% to 24.4%).

The introduction of Infinity Play in 2022 appears to have stabilized and slightly increased revenue but if the price war continues, it is questionable if Infinity Play can continue to stem the decline in this segment.

Exhibit 9.7

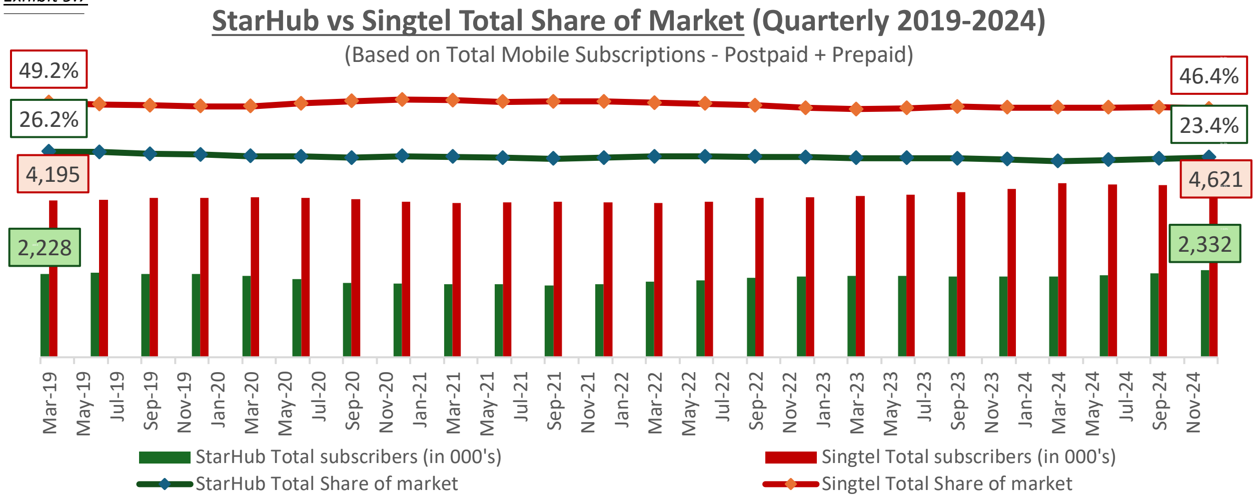


Exhibit 9.8

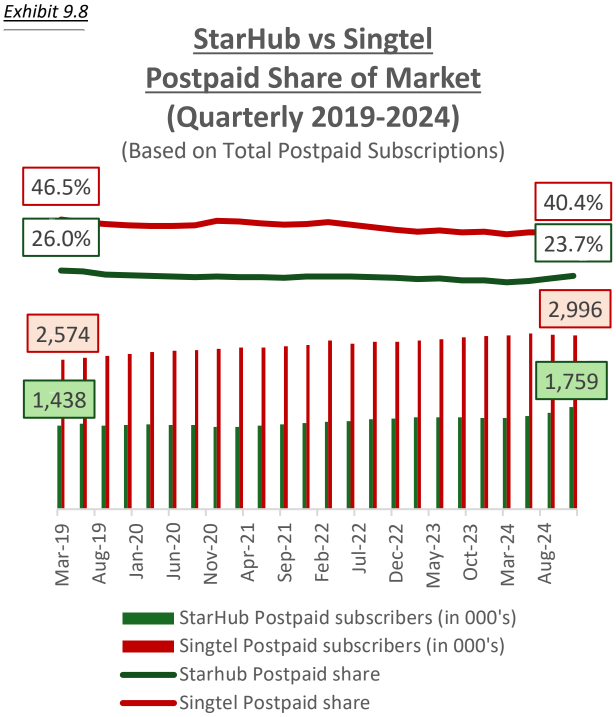
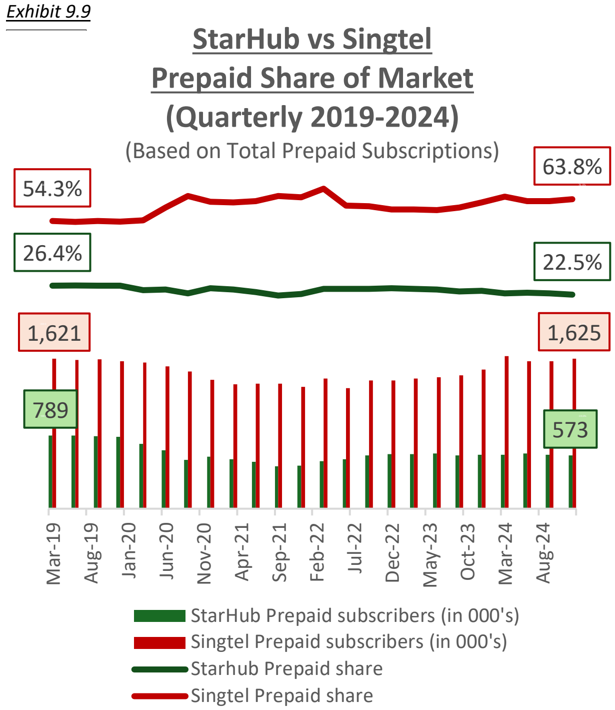


Exhibit 9.9



Revenue is a function of no. of subscribers and ARPU (Average Revenue per User). For StarHub, market share continues to drop erode due to new entrants, which is similar for Singtel. However, the **absolute number of subscribers increased only by 4.7% (104K) comparing 1Q2019 to 4Q2023, which is half of SingTel's growth of 10.2% (426K).**

The **lower growth is due to the decline in Prepaid Subscribers** of 27.4%, 216K (Singtel remained stable) which offsetted the growth in Postpaid Subscribers of 22.3%, 321K (vs. SingTel 16.4%, 422K).

Although the ARPU of Postpaid is way higher than Prepaid, StarHub appears to be losing substantial number of customers in Prepaid segment and hence to stem the drop in Mobile Revenue, the ARPU of Postpaid and number of Postpaid subscribers needs to increase significantly to make up for the shortfall.

Exhibit 9.10

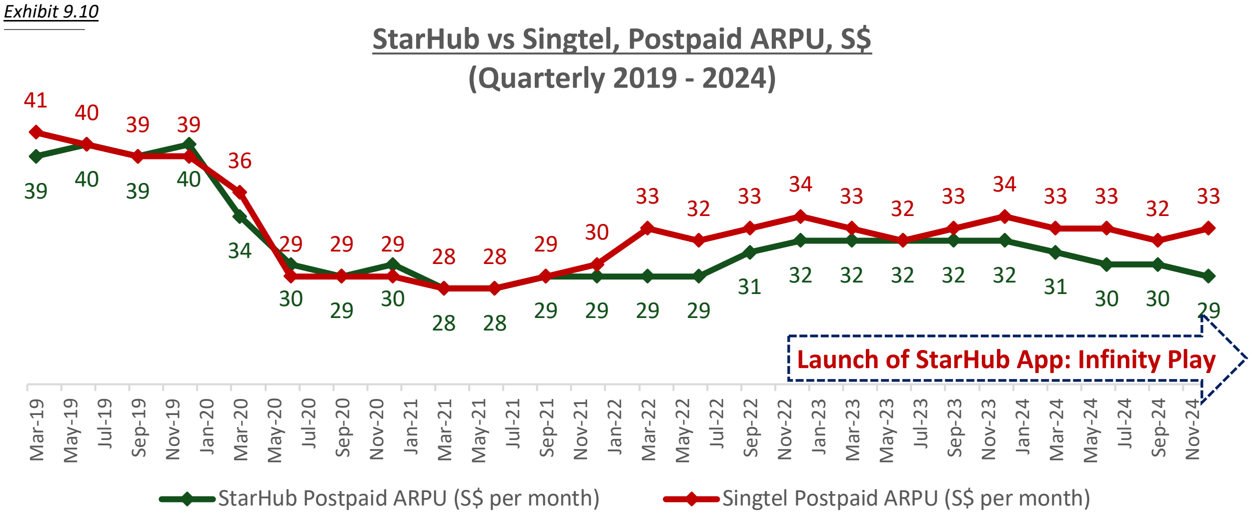
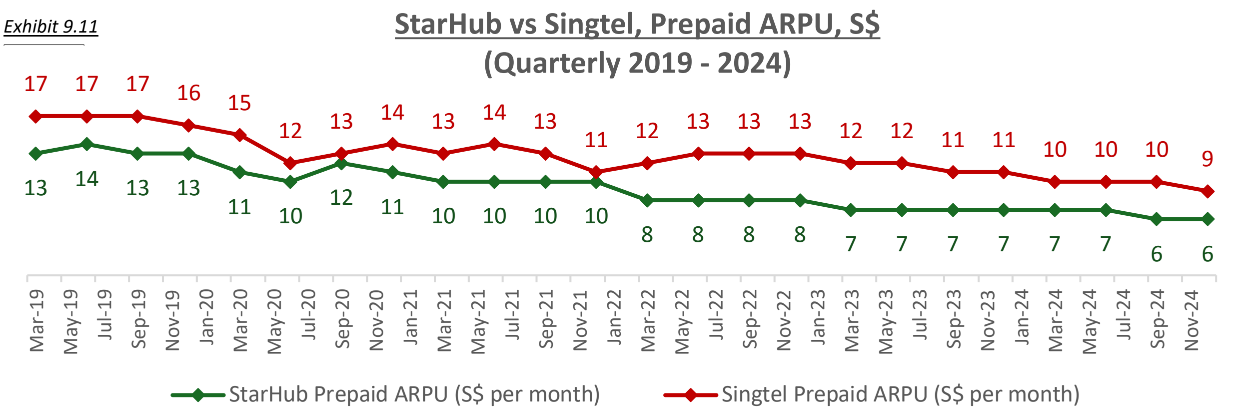


Exhibit 9.11



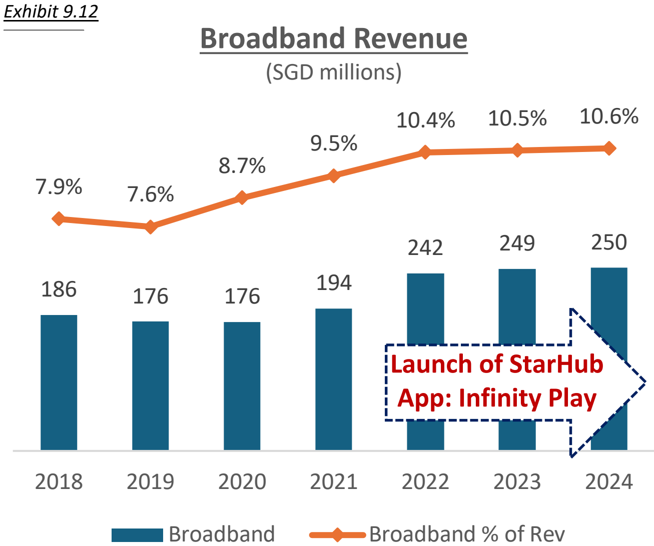
A close look at the ARPU shows that it continues to decline for both Postpaid and Prepaid for both StarHub and Singtel. For Postpaid, StarHub declined by S$10, 25.6% (vs Singtel of S$8, 19.5%) from 1Q2019 to 4Q2024, and for Prepaid, StarHub declined by S$7, 53.8% (vs Singtel of S$8, 47.1%).

Even with the introduction of Infinity Play (launched in Nov 2022 through StarHub App), which is a directionally good move, **ARPU for Postpaid still continued to decline from S$32 to S$29, 9.4% compared to Singtel that declined only 2.9%, same period.**

Overall, from 1Q2019 to 4Q2024, the ARPU of StarHub's postpaid declined by 25.6% which is more than the increase in Postpaid subscribers of 22.3%. Coupled with both decline in ARPU and Prepaid subscribers, and the continous falling of ARPU for postpaid in recent quarters despite the launch of Infinity Play, the outlook of Mobile does not seem positive.

9.3.2 REVENUE IMPACT - BROADBAND (CONSUMER SEGMENT)

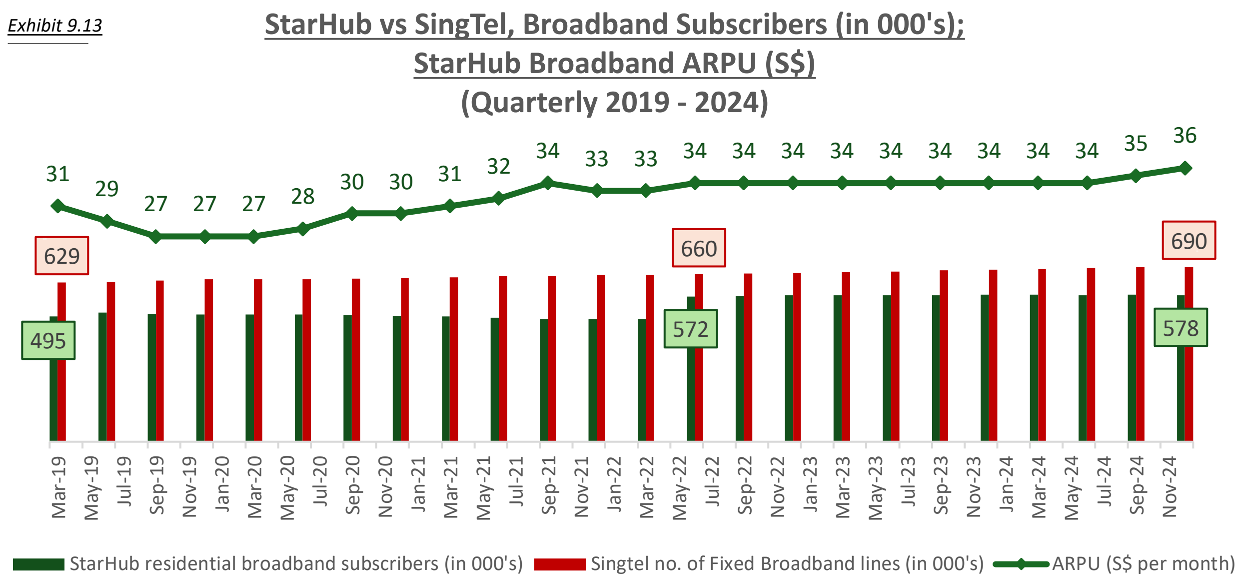
Exhibit 9.12



Broadband segment is the only consumer segment that has seen positive growth over the years. During Covid period, consumer stayed at home more often which contributed to the growth, but **the jump in 2022 was due to the acquisition of MyRepublic Broadband (50.1% stake) which was completed in March 2022.**

Since 2022, revenues has grown but only by 3.2%. Management has indicated that they see more shift of consumers to higher bandwidth plans and bundles and expects that to continue to grow the segment forward.

Exhibit 9.13

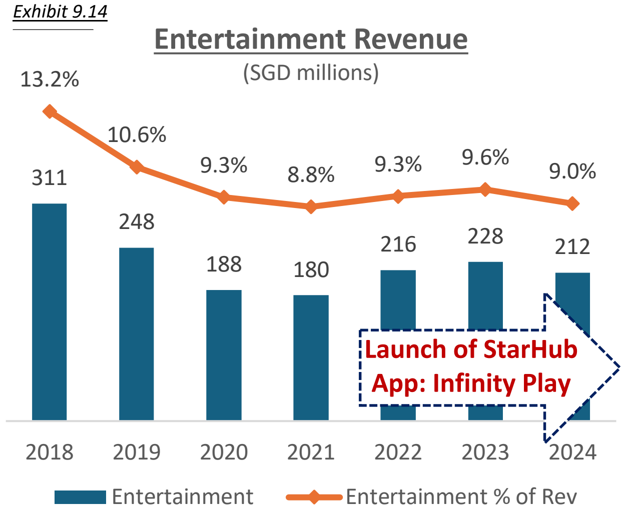


A deeper dive into the operating statistics shows some interesting analysis. From 1Q2019 to 4Q2024, the number of subscribers for StarHub has grown 16.8%, 83K (vs. Singtel 9.7%, 61K), fuelled by MyRepublic Broadband acquisition. **However, post-acquisition, from Jun 22 to Dec 23, StarHub subscribers has only grown 1.0%, 6K (vs. Singtel 4.5%, 30K).** In the same period of time, ARPU has grown by S$2, 5.8% to hit S$36.

With the launch of Infinity Play and higher bandwidth plans and bundles, the ARPU increase shows a positive sign but the low growth in subscribers compared to competitor raises the question of how Broadband, the only positive growth segment in Consumer business, can make up for the shortfall in Consumer segment resulting from the decline in Mobile and Entertainment.

9.3.3 REVENUE IMPACT - ENTERTAINMENT (CONSUMER SEGMENT)

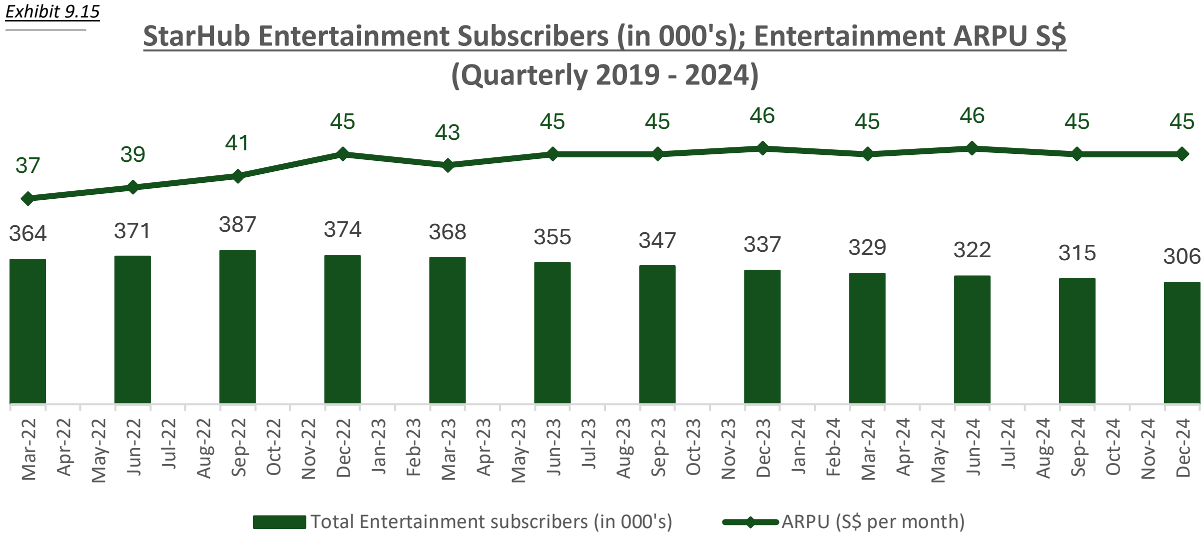
Exhibit 9.14



The rise of OTT (over-the-top) streaming services in the past few years (eg. Netflix and Viu launched in 2016 in Singapore) was a big hit for StarHub. Hence as part of the DARE strategy, Instead of competing, StarHub went into partnership with the big OTT platforms, migrated from cable to fibre, and became a content aggregator.

However, Entertainment sales continue to decline and contribution to revenue continues to shrink. Compared to 2018, revenue has fallen by 32% to $212m.

Exhibit 9.15



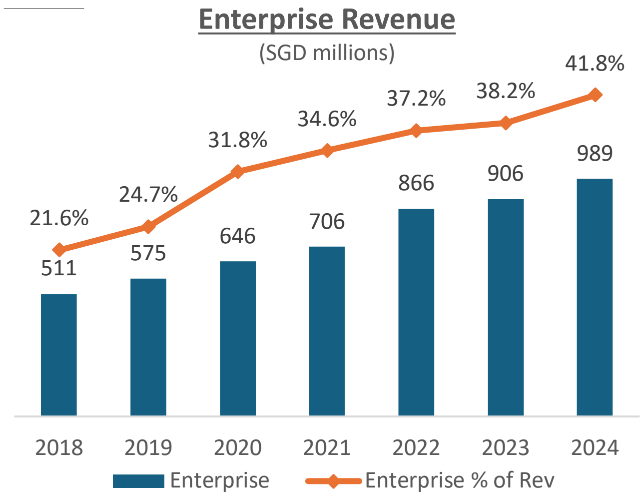
***NOTE: Due to StarHub changing the subscriber's definition, comparative operating statistics is only available from 1Q2022.*

A closer look at the operating statistics shows that since end 2022, ARPU has stabilized to approximately S$45. This coincides with StarHub entering into an exclusive agreement with the Premier League, allowing customers to view live match statistics, key highlights, full match replays etc, elevating the experience and capturing the football fans market, solidifying their market positioning as the Home of Sports.

However, the number of Entertainment subscribers continues to fall, from 1Q2022 to 4Q2024, by 15.9% to 306K. Over the same period, ARPU grew by 21.6% to $45. **Although currently the growth in ARPU exceeds the decline in number of subscribers, ARPU has appears to be stagnating and if subscribers continues to fall off, the Entertainment revenue will continue to keep falling. It is unclear if Infinity Play can help to increase both ARPU and number of subscribers but the current trends does not seem promising.**

9.3.4 REVENUE IMPACT - ENTERPRISE

Exhibit 9.16

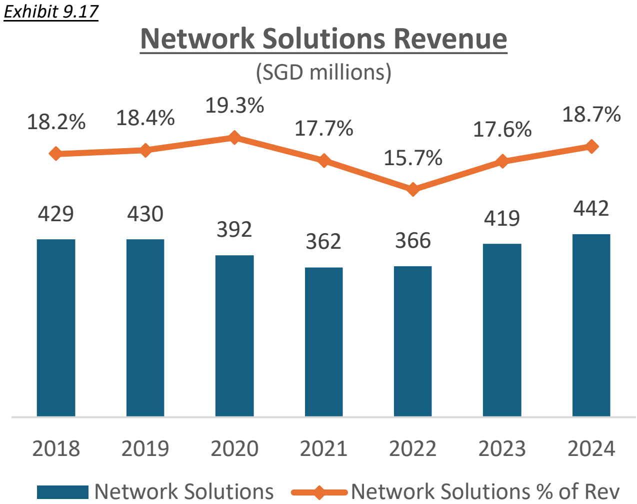


Enterprise revenue as a segment has grown 94% from 2018, hitting a high of S$989m and doubling contributing to >40% of Total Revenue. This reflects a CAGR growth of 11.6%.

All segments have contributed to the growth, of which majority came from Cybersecurity and Regional ICT. **Moving forward, growth is expected to come from Managed Services (under Network Solutions), Cybersecurity and Regional ICT.**

9.3.4.1 REVENUE IMPACT – NETWORK SOLUTIONS

Exhibit 9.17



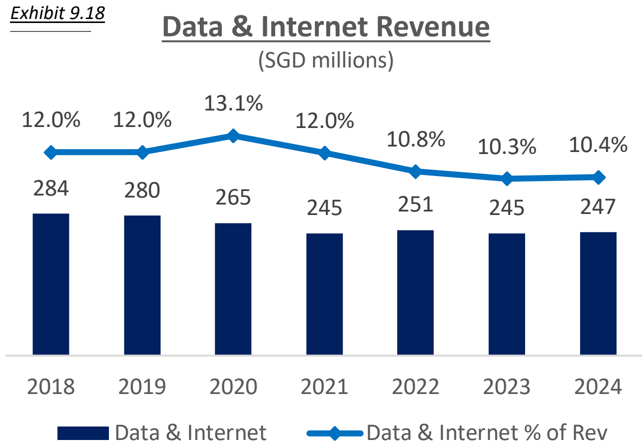
Network Solutions has 3 main components, Data & Internet, Voice Service and Managed Services. Revenue has grown by 3% from 2018 to hit S$442m.

Data & Internet: Offers business-grade internet connectivity.

Voice Services: Provides traditional fixed voice servies to enterprises.

Managed Services: Enterprise IT outsourcing, data center services, cloud and analytics solutions, IT infrastructure management and facilities management.

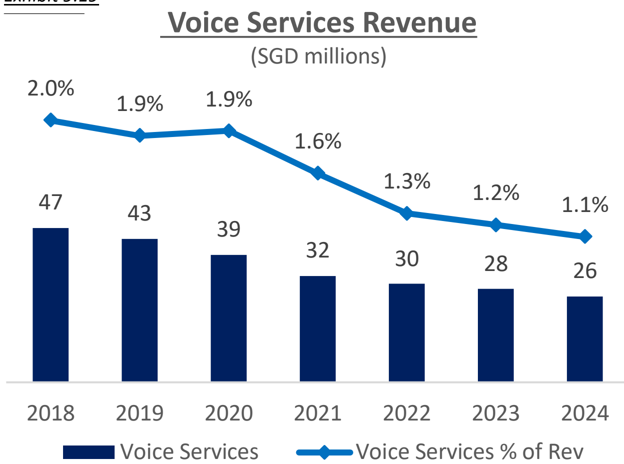
Exhibit 9.18



Data and Internet Revenue contributes to >10% of Total Revenue. This is a stable segment usually tied by B2B contracts.

This segment saw a decline mainly due to renewals at lower prices with increased competition in the market, but have since more or less stabilized.

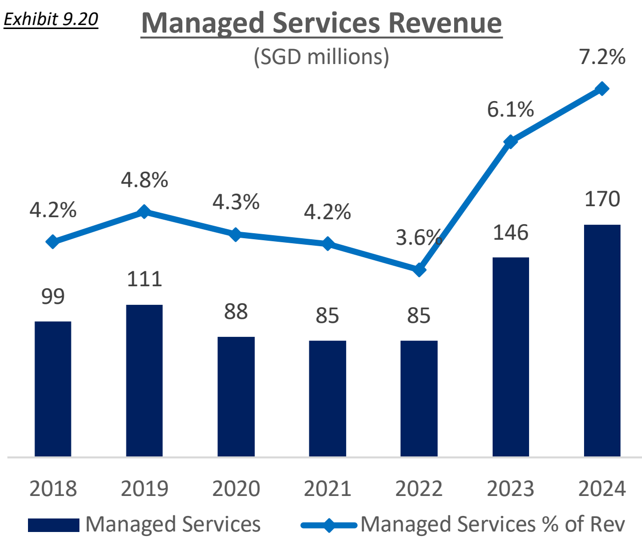
Exhibit 9.19



Voice services contributes <2% of Total Revenue and has almost halved since 2018. This is due to lower domestic voice and international voice traffic which was a result of the change in the way business communications are conducted due to Covid.

During Covid, when online meetings became the norm, this has become a business practice that is expected to continue moving forward as seen by the decline in this segment.

Exhibit 9.20



Managed Services is one of the key growth segments for Network Solutions and one that will be boosted by Cloud Infinity greatly. Some of the key growth areas includes Modern Digital Infrastructure solutions as well as data centre-related services.

With Cloud Infinity as the backbone, StarHub's Modern Digital Infrastructure continues to grow strongly and expected to grow even more once Cloud Infinity is fully commercialized.

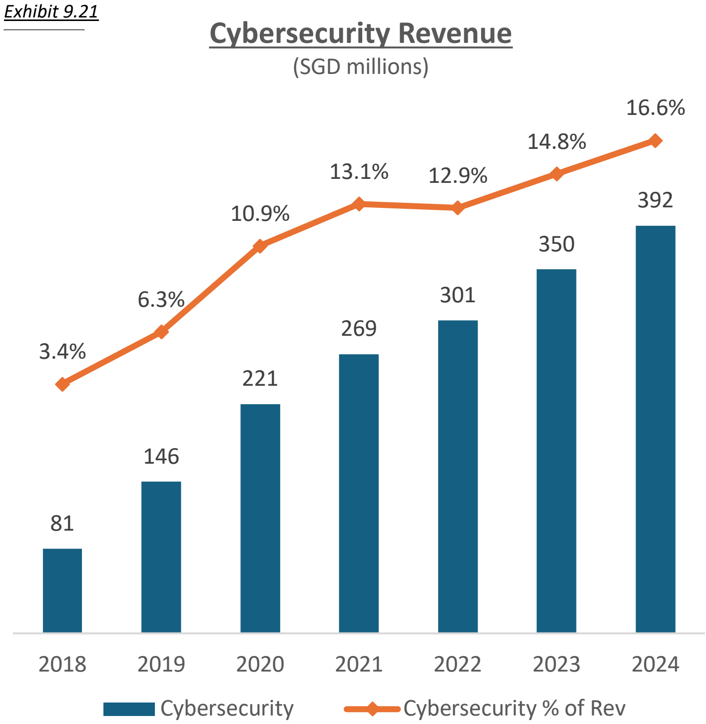
***NOTE: For 2023 and 2024, JOS SG was reclassified from Regional ICT Services to Managed Services.*

A good example, StarHub has been awarded a multi-year network servicing contract by JTC and will build an intelligent software-defined network integrated with 5G and network automation for data centre, campus and sub-systems network, for the upcoming Punggol Digital District ("PDD"). As part of Singapore's Smart Nation ambitions, PDD will be a microcosm of a Smart City with innovations in cybersecurity, smart living and estate management. This will be a great use case for Cloud Infinity.

This segment continues to generate high growth, growing from S$99m to S$170m, a 72% jump since 2018. However it is worth noting that in 2023 and 2024 figures, StarHub has reclassified JOS SG under this segment (JOS SG revenue for 2023 estimated at ~S$45.5m). Even if JOS SG revenue contributes to for example, S$50m in 2024, Managed Services would still have grown by over 20%. **Moreover, the direction for this revenue segment, combined with Cloud Infinity architecture makes this segment an exciting segment to look forward to.**

9.3.4.2 REVENUE IMPACT – CYBERSECURITY

Exhibit 9.21



This segment is driven by Ensign InfoSecurity, a joint venture set up with Temasek in Sep 2018, aimed at creating a leading cybersecurity firm in Asia.

Ensign is Asia's largest cybersecurity services company with an end-to-end offering. The end-to-end offering that Ensign provides starts from 1) consulting services to diagnose cyberposture of companies and comes up with proposed solutions, 2) implementation of the solutions (via. Managed services – project income, our understanding is that this is the biggest revenue contributor), 3) operating capabilities on behalf of the clients post implementation (recurring income).

Currently StarHub owns 55.73% effective economic interest in Ensign (actual shareholding of 40%). This includes assigned rights from Temasek which was originally set to expire in October 2023, but StarHub extended the rights to October 2025. StarHub has indicated that there is potential for it to retain the assigned rights beyond 2025 through further extension or negotiations with Temasek.

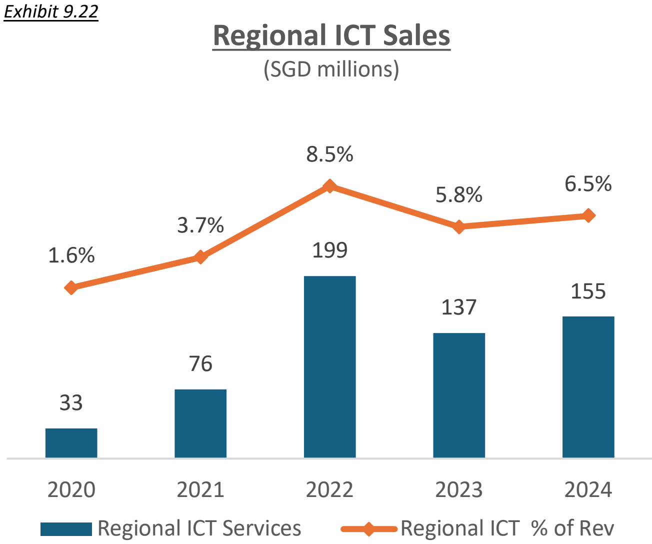
This segment is the fastest growing segment for StarHub in the past few years. Since 2018, it has grown by 382% (S$310.8m) to hit S$392m.

In Feb 2024, StarHub divested D'Crypt, which is Ensign's subsidiary focusing on hardware development for the defence sector, in a bid to optimise and channel Ensign's resources to business that will advance StarHub's DARE+ strategy. D'Crypt's revenue is estimated to be ~S$46.1m in FY2023. Excluding D'Crypt, the Cybersecurity segment still registered a 14.1% in revenue growth from FY2023 to FY2024.

This segment is continues to remain exciting with its strong growth potential.

9.3.4.3 REVENUE IMPACT – REGIONAL ICT SERVICES

Exhibit 9.22



This segment was a result of the DARE strategy, where StarHub acquired Strateq in July 2020 (88.28% stake) and JOS SG and JOS MY in Nov 2021 (60% stake) which was subsequently increased to 100% stake as of Aug 2023.

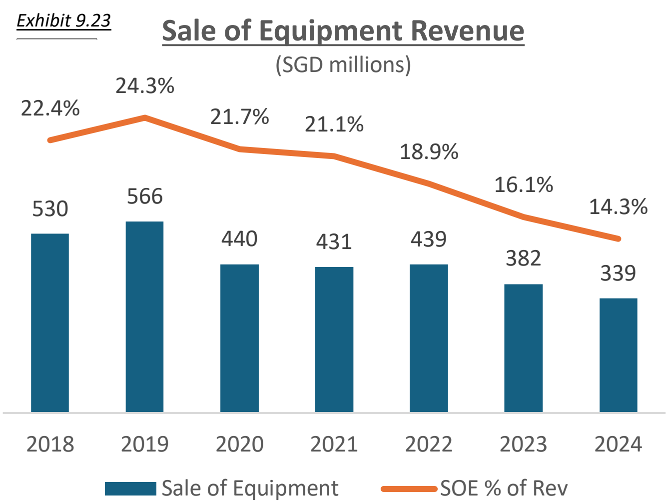
This segment **serves as StarHub's regional enterprise platform** with footprints in Singapore, Malaysia, Thailand, Hongkong, China etc via the subsidiaries. It is expected that with Cloud Infinity as the backbone, through its subsidiaries, StarHub will be able to extend its Enterprise 3Cs strategy to regional opportunities.

The decline in revenue in 2023 and 2024 was due to a reclassification of JOS SG into Managed Services under Network Solutions. (JOS SG revenue for 2023 is estimated to be ~S$45.5m). **Overall, this segment has grown by 366% to hit S$155m since 2020.** Assuming we strip out the same revenue for JOS SG in 2022, overall revenue from 2022 (~S$153.5m) to 2024 would have been relative stable.

Definitely exciting for the future, the rate of growth of this segment remains contingent on successful used cases of Cloud Infinity and the Enterprise 3Cs strategy which will run further into the future. However there is no doubt that the acquisitions have opened up more opportunities for StarHub to tender for bigger projects that requires full suite capabilities, and also regional projects. StarHub has also indicated that they will continue to seek further regional integration while concurrently exploring synergistic and accretive M&As to scale further in the ASEAN region.

9.3.5 REVENUE IMPACT – SALE OF EQUIPMENTS

Exhibit 9.23



Revenue from this segment has declined by 36% compared to 2018, and share of revenue has fallen by 8.1pp to only 14.3%.

This is due to the decrease in volume of handsets sold which is in tandem with the decline in consumer business. Other factors such as market saturation (high smartphone penetration rate of 99.4%[1] in 2023), extended device lifecycles also contributes to the decline. **It is likely that the downward trend will continue.**

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