STARHUB LTD

BORROW TO PAY DIVIDENDS: A SLIPPERY ROAD

MARCH 2026

CORPORATE MONITOR LIMITED

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ACTIVISM+

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EXECUTIVE SUMMARY

StarHub delivered a disappointing result for 2025, without any mitigating good news.

Corporate Monitor Ltd ("CML") initiated a report on StarHub in July 2025, as we sought to understand the drivers of StarHub's Return on Equity ("ROE"), which, at more than 20% consistently in the past (except in 2022), was a standout among SGX-listed companies. We concluded that there was downside to the ROE as its profit margin continued to decline, due primarily to the relentless competition in the consumer telecom business. StarHub's enterprise businesses were growing at double digit rates, but operating margin was stuck at low single digits. In fact, the higher proportion of enterprise businesses in StarHub's revenue mix (from 41.8% in 2024 to 43.5% in 2025) only serves to dilute the Company's overall profit margin.

We were right about the lower profit, but the speed of the decline surprised us. Profit after tax for 2025 plunged by 45.6% year on year to S$91.5 million. The Mobile business, which accounted for 26.6% of service revenue, and was the most profitable division, continued to suffer. In fact, all of Mobile's operating metrics, from the number of subscribers, average revenue per user ("ARPU") and market share, all declined. The number of subscribers is now 2.2 million, down from 2.3 million in 2024. ARPU is now S$21 per user per month, compared to S$23 in 2024. Market share is now 22.3%, compared to 23.4% in 2024. While broadband revenue remained stagnant, mobile and entertainment revenues declined between 7%-8% year on year. Based on StarHub's earnings report, cybersecurity continued to be in breakeven mode (operating margin is less than 1%). Another negative surprise was that revenue for both the regional enterprise and cybersecurity businesses only grew by less than 5% year on year. The days of double-digit growth rates seem to have ended.

What CML was more concerned about was StarHub's free cash flow[1], which, as we predicted, turned negative. Free cash flow was negative S$24.7 million in 2025, compared to positive S$162.2 million in 2024. This is mainly due to the additional capital expenditure ("capex") of S$188 million spent on the 700 MHz spectrum rights. Although StarHub presented that free cash flow would have been positive if not for the capex on spectrum, we noted in our previous report that capex is not optional in the telco business. In a recent interview, StarHub's CEO Nikhil Eapen even alluded to more mergers and acquisitions, which will, of course, require more capex.

The worry is that as revenue and profit continue to face pressure, free cash flow could decline even further. StarHub guided that 2026 capex will be 13%-15% of revenue, which amounts to at least S$305 million per annum based on 2025's revenue of S$2.35 billion. Add to this the ~S$107 million of minimum dividend, and StarHub needs to generate at least S$412 million of operating

[1] Free cash flow is defined as operating cash flow less investing cashflow (mostly capex). A business can have lower free cash flow due to either lower operating cash flow or higher capex, or both. Unfortunately for StarHub, the negative free cash flow in 2025 was due to BOTH.

cash flow in the future. The telco fell short of this in 2025 with operating cash flow of S$354 million. There is downside risk to this in 2026.

To fund the negative free cash flow and dividend, StarHub added net debt of S$531.8 million in 2025. This brings StarHub's total debt to S$1.66 billion, a year-on-year increase of 46%. This compares to the "equity" of S$641 million, which includes S$200 million of perpetual debt[2]. Raising almost as much new debt as its equity base is a risky corporate finance decision. StarHub did so to "honour" its dividend policy, even in the face of negative free cash flow, as capex is an essential part of running the business. Management has a tough trade off to make but we think the decision is ill-advised. The consequence is a very high debt to equity ratio of 259%.

StarHub is stuck in a strategy that is not working. Pivoting to the enterprise business has brought in higher revenue but hardly any incremental profit. StarHub has been trying to defend its consumer telecom business with better technology. For example, it touted better internet speed, which caters to gamers in its entertainment business. This has not stopped the 7.1% year-on-year decline of its entertainment business revenue.

With M1 being sold to Simba, StarHub lost its chance to consolidate the sector, which it hoped would bring an end to the intense competition in the consumer telecom business. StarHub’s CEO is quoted as planning on more mergers and acquisitions. If this is the new strategy, StarHub should be upfront with the shareholders about the full implications. With its highly-leveraged balance sheet, the risks of new acquisitions are now amplified. StarHub's past acquisitions, for example in the regional businesses, have not materially lifted its performance. There is no guarantee that new ones will do well.

With the ROE at 13% in 2025, compared to close to 23% in 2024, StarHub has joined the vast majority of SGX companies that have low ROE. (To be fair, at face value, StarHub still has higher ROE than most of its SGX peers.) However, as we concluded in our previous report, StarHub's high ROEs in the past were due to high leverage. Now that ROE has declined and leverage has increased significantly, such ROE is a flashing amber light.

The chairman has consistently touted StarHub's commitment to shareholders' returns. While this is laudable, adding substantial new leverage to protect the dividend is a misguided move. CML is of the view StarHub should suspend its dividend. Shareholders do not need a pacifier. They need an honest assessment of the harsh conditions that StarHub is operating under, and a clear strategic plan on how to improve the business. The two strategic exercises of DARE and DARE+ have both failed. StarHub needs to rethink its strategy.

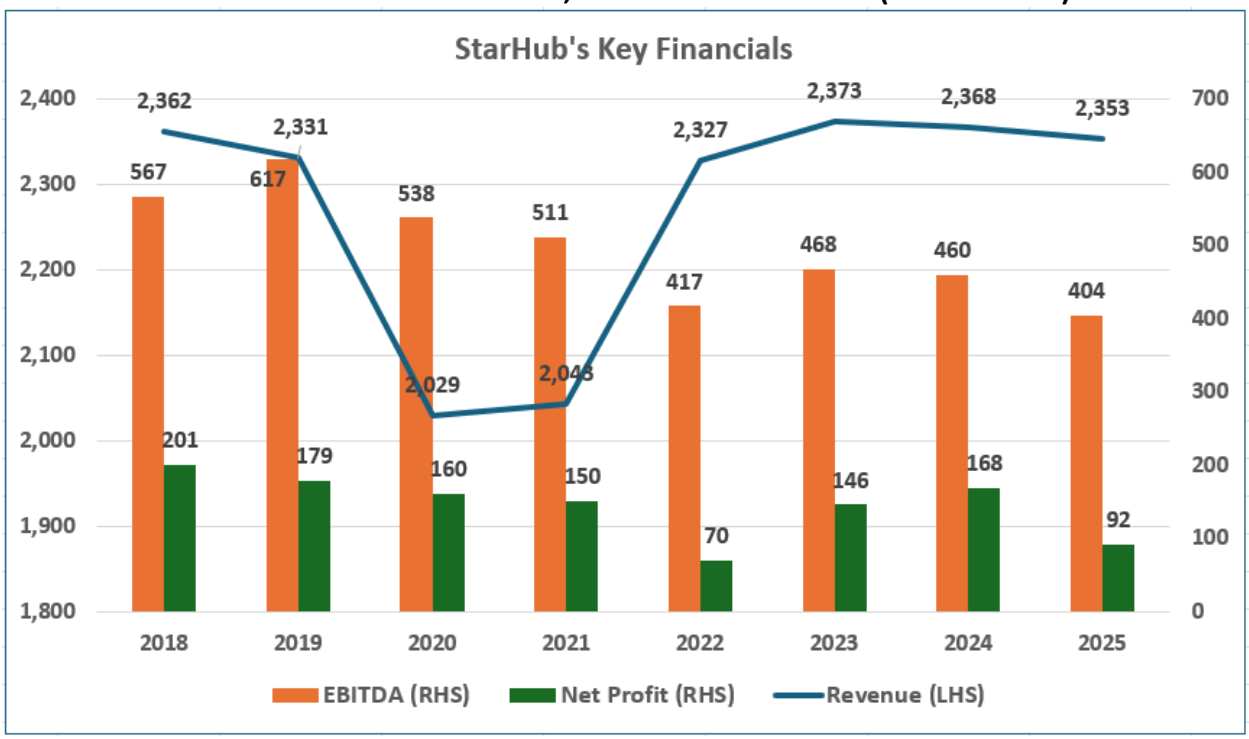
[2] Accounting rules allow such perpetual debt to be counted as equity. While the perpetual debt does not need to be repaid in theory, its interest cost goes up at some point. StarHub therefore will need to refinance this debt and hence runs the risk that it could not, and bear the consequence of higher interest expenses (note: StarHub just issued new perpetual debt at 3.35% per annum in 2025 to refinance its old one). So, the perpetual debt is therefore not as secure a funding source as equity.

1. LONG TERM DECLINE TREND CONTINUED IN 2025

1.1 Deteriorating financial performance

StarHub's 2025 financials just continued the long-term declining trend of EBITDA and net profit (**Exhibit 1** below).

Exhibit 1: StarHub's Revenue, EBITDA and Net Profit (2018 to 2025)



Although revenue has largely remained constant over the years, both EBITDA and net profit saw accelerated declines in 2025. Worse, operating expenses such as depreciation and interest have risen, with total operating expenses for 2025 rising by 3.2% year on year to S$2.2 billion. 2025's EBITDA is at its lowest since 2018, while net profit of S$92 million is only slightly higher than the 2022 low of S$70 million.

What's worrying is that StarHub has guided for even lower EBITDA for 2026. EBITDA for this year is projected to decline by between 20% to 25%, reflecting the "competitive intensity" of the Consumer business. Needless to say, net profit likely will suffer from a corresponding year-on-year decline.

1.2 Weak operating metrics for Consumer Division

StarHub's operating metrics remained weak. Its Mobile Services business saw the number of registered subscribers dip 5.4% year on year to 2.2 million, hovering around the same level as 2022. The problem is that subscribers are now using 52% more data in 2025 compared with 2021, yet StarHub's average revenue per user (ARPU) fell 8.7% year on year to S$21 per month for 2025, suggesting that StarHub cannot profit from this higher usage. Its postpaid churn rate is also the highest in 5 years at 1.3%, and market share stayed roughly the same for 2025 as in 2021, demonstrating no market share gains over the past 4 years. Please refer to **Exhibit 2** for details.

Exhibit 2: StarHub's Mobile Division Operating Metrics

Mobile Services	2021	2022	2023	2024	2025
Number of registered subscribers ('000)	1,952	2,156	2,162	2,332	2,205
ARPU (S$ per month)					
- Combined				23	21
- Postpaid	28	30	32	30	
- Prepaid	10	8	7	6	
Average smartphone data usage (GB)	12.8	13.7	16.9	19.1	19.5
Average monthly churn rate (postpaid)	0.9%	0.8%	0.8%	1.0%	1.3%
Market Share	22.5%	22.5%	22.5%	23.4%	22.3%

Source: StarHub

Moving on to Broadband services, the number of registered subscribers stayed flat since 2022 after an initial spike from 484,000 to 578,000. ARPU has also stabilised at between S$34 to S$35, suggesting that pricing pressures are capping any upside for this division (see **Exhibit 3**).

Exhibit 3: StarHub's Broadband Division Operating Metrics

Broadband Services	2021	2022	2023	2024	2025
Number of registered subscribers ('000)	484	578	580	578	568
ARPU (S$ per month)	32	34	34	35	35
Average monthly churn rate	0.8%	0.6%	0.6%	0.9%	0.8%

Source: StarHub

Entertainment Division saw the sharpest attrition rate (see **Exhibit 4**). The number of subscribers fell by 31% from 2021 to 2024 even though ARPU increased by 32.4% over the same period. The average monthly churn rate has also been steadily increasing to 1.2% from the low of 0.9% in 2022. StarHub declined to disclose its Entertainment Division's operating metrics for 2025.

Exhibit 4: StarHub's Entertainment Division Operating Metrics

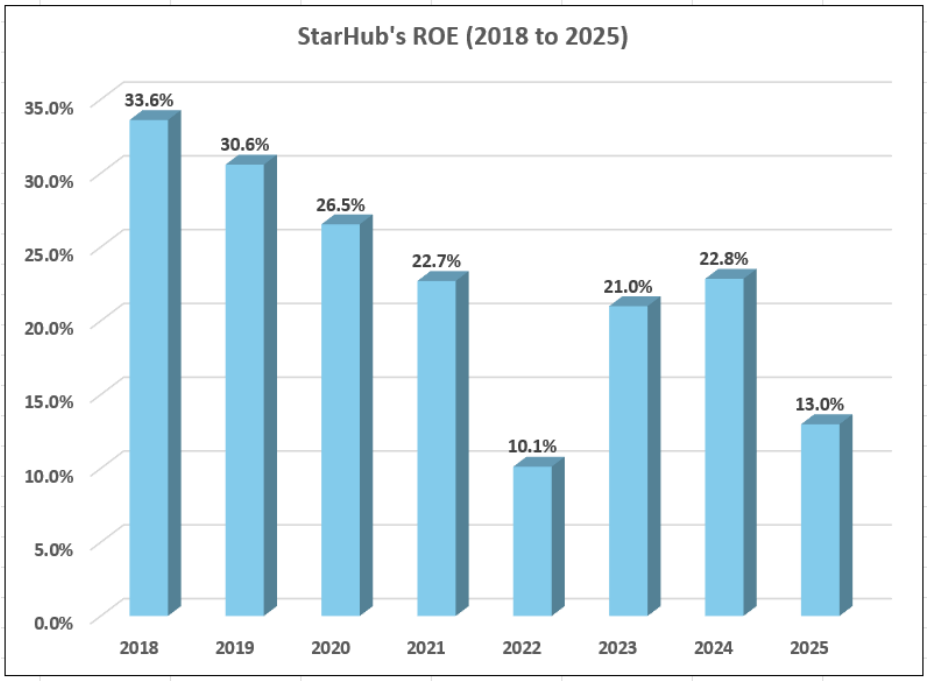
Entertainment Services	2021	2022	2023	2024	2025
					*
Entertainment subscribers ('000)	444	374	337	306	
ARPU (S$ per month)	34	41	44	45	
Average monthly churn rate	1.2%	0.9%	1.0%	1.2%	
*Not disclosed					

Source: StarHub

2. SHARPLY-LOWER RETURN ON EQUITY

StarHub's ROE saw a sharp decline to 13% in 2025 as net profit almost halved. **Exhibit 5** shows StarHub's ROE trend since 2018.

Exhibit 5: StarHub's ROE[3] (2018 to 2025)



This is a sharp drop from the ROE of 22.8% in 2024. The accelerated decline in StarHub's net profit is responsible for this. ROE may fall even further in 2026 with EBITDA and net profit both tipped to decline.

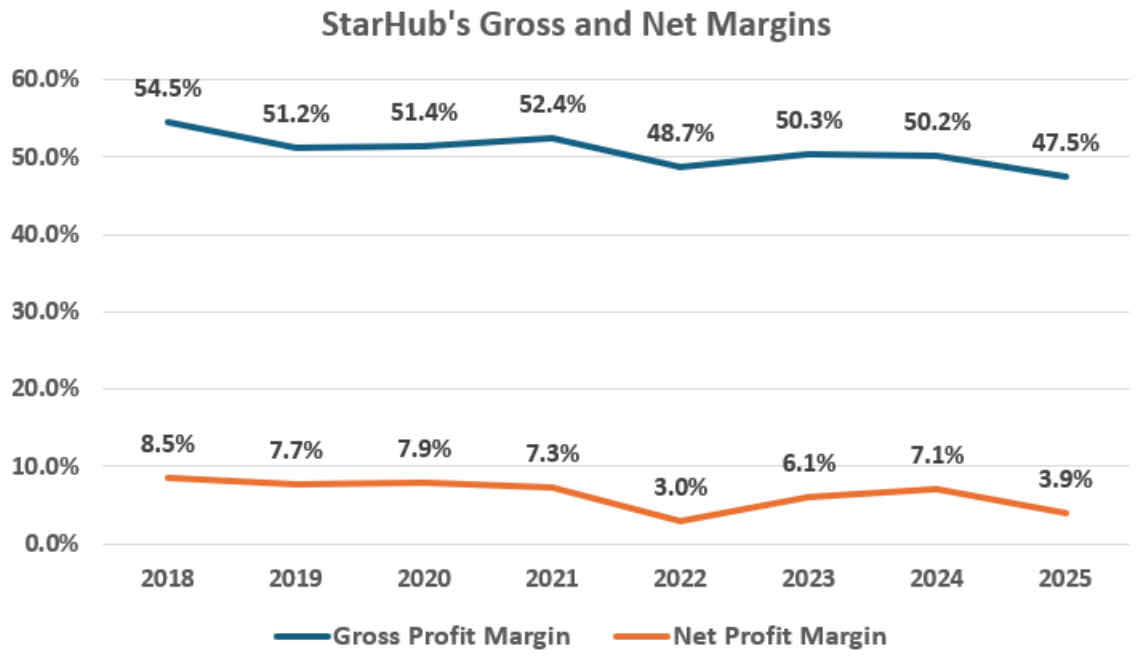
[3] ROE is computed using net income/average total equity

3. MARGIN EROSION CONTINUES

3.1 Group level margins

StarHub continued to see its gross and net profit margins decline in 2025. Gross margin hit an 8-year low of 47.5%. Net margin stood at 3.9%, only slightly higher than the 8-year low of 3% back in 2022 (see **Exhibit 6**).

Exhibit 6: StarHub's Gross and Net Margins

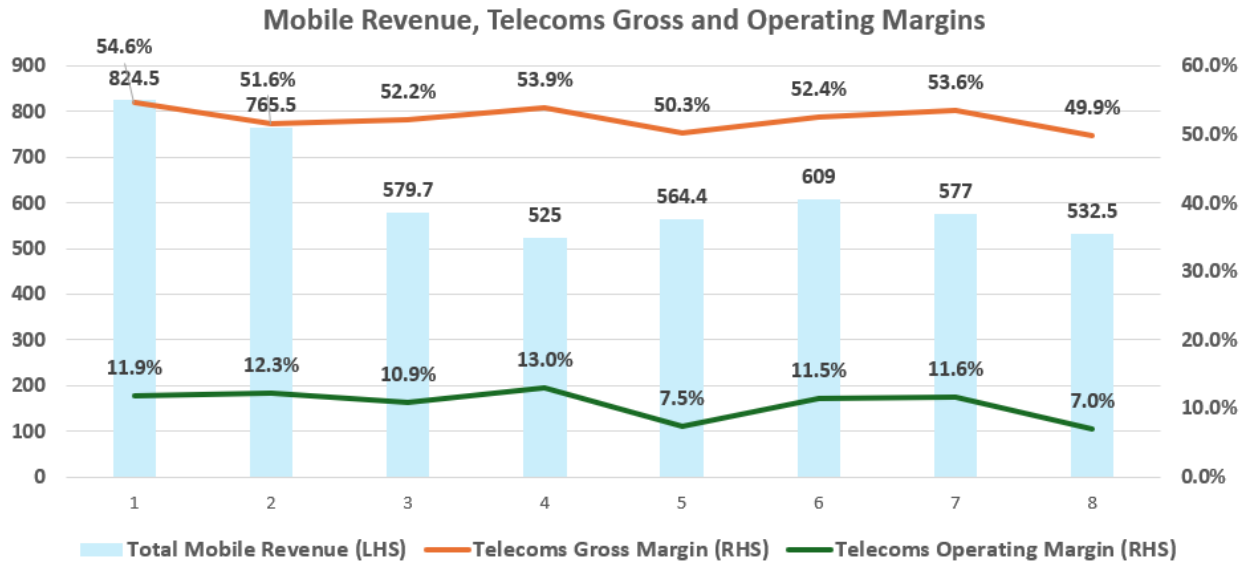


2025's gross margin is down significantly from the 54.5% logged in 2018, showcasing how the telco's margins got pressured over the years as costs increased, but it had to reduce its prices because of the competitive landscape, creating a double whammy for StarHub.

3.2 Telecoms division

StarHub's Mobile revenue, its key revenue generator, continued its decline after seeing a slight recovery in 2023. StarHub's key telecoms division is also seeing margin erosion, both at the gross and operating margin level. Gross margin continues to slip, falling below the 50% level, and is the lowest in the past 8 years. Operating profit for the telecoms division hit an 8-year low of just S$136 million, while the operating profit margin declined sharply to just 7% from 11.6% a year ago. These numbers reflect the ongoing tough conditions within the telco sector, which are unlikely to abate anytime soon. **Exhibit 7** shows this trend since 2018.

Exhibit 7: StarHub's Mobile Revenue, Telecoms Gross and Operating Margins

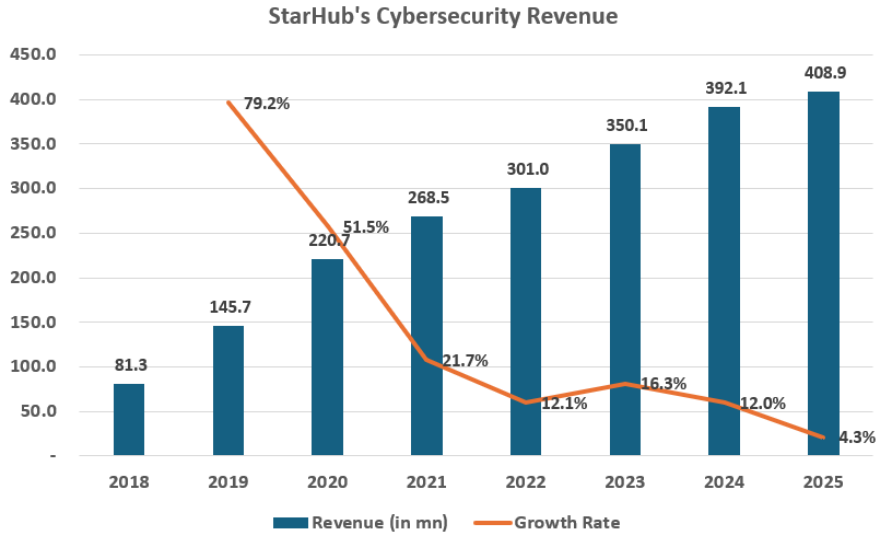


Source: StarHub

3.3 Cybersecurity division

StarHub has, in recent years, substantially grown its cybersecurity business to pivot away from reliance on its consumer business. The division enjoyed double-digit year-on-year revenue growth from 2019 to 2024, but in 2025, topline growth slowed to just 4.3% (see **Exhibit 8**). StarHub explained that this is due to revenue recognition, as this business is project-based. This is problematic as revenue can even decline in future, and certainly will be volatile.

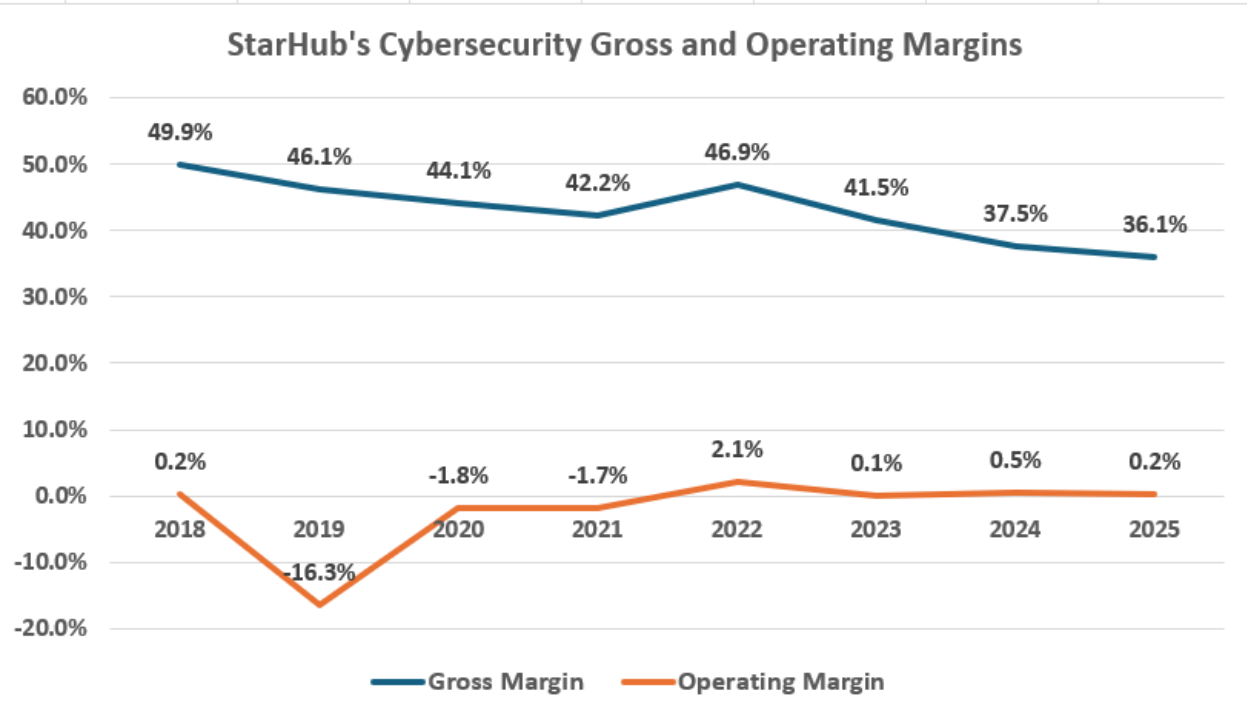
Exhibit 8: Cybersecurity Revenue



Source: StarHub

Worse, this business is suffering from low and declining gross margin (**Exhibit 9**). The cost of StarHub's project-based cybersecurity business is likely variable. It is thus hard to build economies of scale, making margin improvement difficult. The revenue volatility, along with low (and declining) gross margin, act as a double-whammy for this business. This is hardly a "get out of jail" card for StarHub.

Exhibit 9: Cybersecurity - Gross and Operating Margins

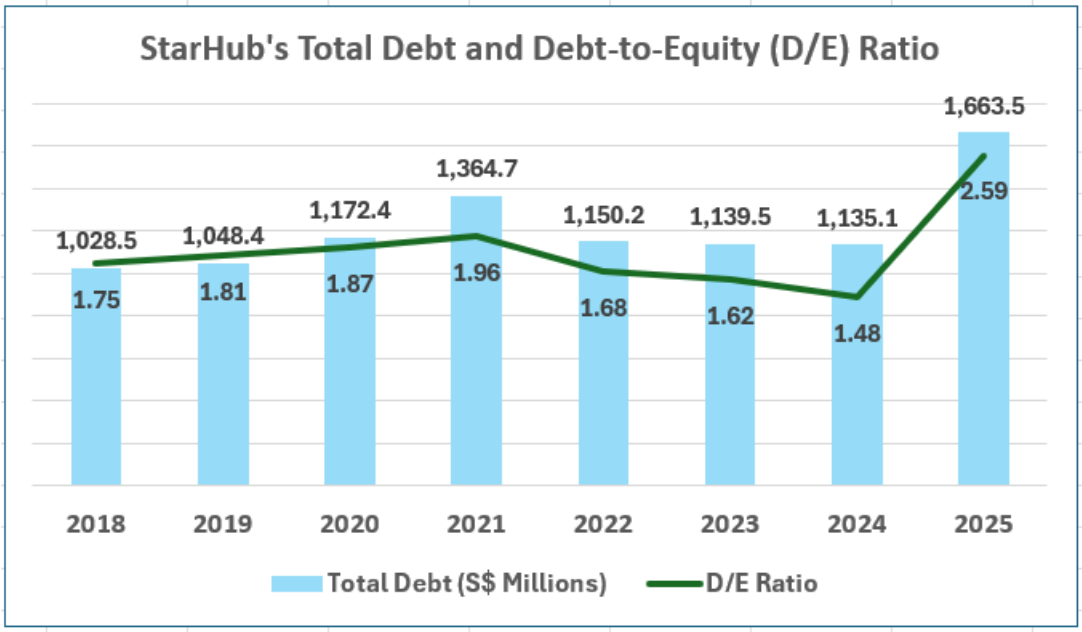


Source: StarHub

4. LEVERAGE MUCH HIGHER

StarHub's debt levels increased sharply in 2025 when compared with 2024. Total debt surged 47% year on year to S$1.66 billion from S$1.14 billion a year ago. Equity, on the other hand, declined by 16% year on year to S$642 million. This combination of higher gross debt and lower equity meant that StarHub's debt-to-equity (D/E) ratio shot up to nearly 2.6x, a sharp increase from 2024's 1.48x (see **Exhibit 10**).

Exhibit 10: StarHub's Debt-to-Equity Ratio



Source: StarHub

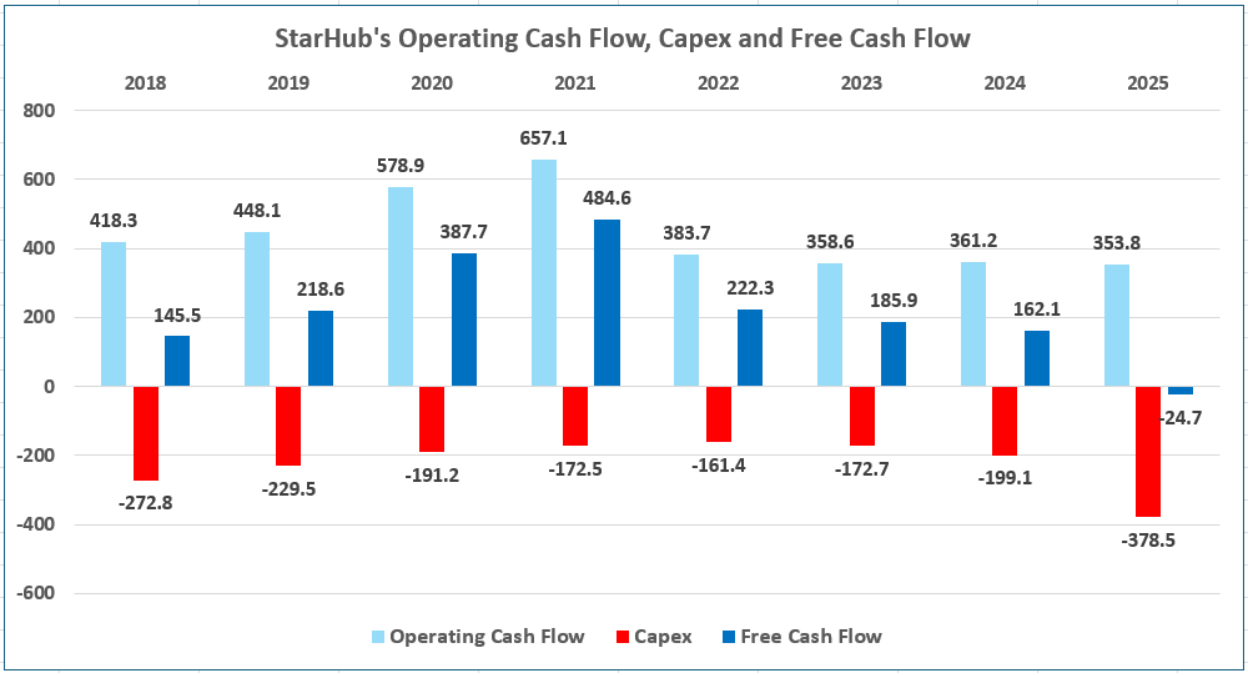
StarHub's 2025 net debt stood at S$806.4 million, and was 35.4% higher than the net debt of S$595.5 million for 2024.

5. FREE CASH FLOW & DIVIDENDS

5.1 Operating and free cash flow generation

StarHub's operating cash flow continued to decline. 2025's operating cash flow of S$353.8 million was the lowest in 8 years and this trend is likely to continue with StarHub's EBITDA and net profit set to continue falling. The picture wasn't much better when it came to StarHub's free cash flow generation. For 2025, free cash flow came in negative at minus S$24.7 million. However, part of the telco's capital expenditure (capex) of S$188 million was spent on acquiring the 700 MHz spectrum rights. Although StarHub considered this a "one-off" capex, CML argues that this spectrum is a necessary expense for a telco to remain competitive. Please refer to **Exhibit 11**.

Exhibit 11: StarHub's Operating Cash Flow, Capex and Free Cash Flow



Source: StarHub

For 2026, StarHub guided that capex will be 13% to 15% of its revenue, meaning that capex will at least be S$305 million or higher based on 2025's revenue of S$2.35 billion. This level of capex is a significant jump from the average annual capex of S$199 million (excluding spectrum rights) over the past 8 years, and was up sharply from just 6.7% of revenue for 2025. This higher capex is required for building up StarHub's 5G capabilities and also relates to IT, cybersecurity, and network purposes.

With operating cash flow looking to dip further, coupled with a higher level of capex for 2026, free cash flow may turn negative if StarHub cannot generate at least S$305 million of operating cash flow.

5.2 Dividend policy

StarHub has committed to paying out at least S$0.06/share of dividends per year, and for 2025, maintained the payout despite weaker profits and cash flows. CML is of the view that such dividend payment (of S$107 million) was ill-advised. With negative free cash flow, StarHub is, in effect, borrowing to pay its dividend. As we discussed in the earlier section, StarHub's leverage increased substantially as a result.

Given that operating cash flow is on the decline, and StarHub is planning for mergers and acquisitions, free cash flow will further decline. StarHub should conserve cash and suspend its dividends. Otherwise, StarHub might have to raise equity in future and dilute shareholders.

6. CONCLUSION

StarHub is unlikely to find any relief in 2026 as the long-term downtrend in revenue, margins, EBITDA, net profit, and operating cash flow continues. The consumer business is facing an inexorable attrition (as demonstrated by the deteriorating operating metrics), while the enterprise business is plateauing at very low operating margins. Cost-cutting is unlikely to arrest the decline. Meanwhile, capex is even projected to increase.

The very basic tenets of the DARE and DARE+ strategy of seeking new profitable growth have not materialised. In fact, now that free cash flow has turned negative, coupled with high leverage, StarHub finds itself in a precarious position. To continue paying dividends is not prudent and could set shareholders up for more pain when StarHub has to raise equity in future.

There are limited options for management given StarHub's high leverage, and acquisitions are not the hoped-for panacea that will lift the group's revenue and profits. The telco has limited options and needs to urgently deal with the cards it has been dealt with. It can start by focusing on repairing its balance sheet while suspending its dividend.