

# NetLink NBN Trust

## Stable may not be enough

### SINGAPORE | TELECOMMUNICATIONS | 1H23 RESULTS

- 1H23 revenue and EBITDA were within expectations, at 52/53% of our FY23e forecasts. 1H23 DPU was 2.62 cents, an improvement of 2.3% YoY.
- Residential fibre connections increased by 10,026 in 1H23 (1H22: +3,946). The jump follows the resumption of new home construction as restrictions were lifted. New connections are normalising to 20,000-25,000 p.a. in household formations.
- We nudged up our FY23e EBITDA by 2% to account for the higher diversion revenue. Regulatory review of fibre prices is still ongoing with possible completion by the middle of next year. Our base case is the regulatory review will have minimal impact on cash available for distribution as dividends. Our NEUTRAL recommendation is maintained. The DCF target price is lowered to S\$0.85 (prev. S\$0.96) as we raised our risk-free rate assumption.

#### Results at a glance

SGD '000	1H23	1H22	YoY	Comments
Revenue	199,595	187,930	6.2%	
- Residential	121,687	120,003	1.4%	Net connections 1H23: 10,026 (1H22: 3,946).
- Non-Residential	15,877	15,266	4.0%	
- Diversion	11,759	4,574	157.1%	
Residential (000's)	1,474	1,451	1.6%	
EBITDA	145,568	126,591	15.0%	Normalised is up 4.7% YoY excluding remeasurement loss of S\$12.4mn in 1H22.
DPU (cents)	2.62	2.56	2.3%	

Source: Company, PSR

#### The Positive

**+ Rebound in diversion revenue.** Diversion revenue picked up as construction activity returned especially for MRT and other infrastructure activity. Margin on diversion revenue is around 35% against the group EBITDA margin of 73%.

#### The Negative

**- Higher interest expenses and rates.** 1H23 finance cost jumped 42% to S\$7.6mn. The effective interest rate has risen to 1.9% (1H22: 1.1%). Around 74% of the loans have been hedged at a fixed interest rate, namely the 5-year term loan of S\$510mn was hedged at 1% till May 2026.

#### Outlook

Cash-flows will remain stable with residential connection revenue rising around 1 to 2% p.a. Regulatory review may lower fibre rates due to the expanded base of connections after the previous review. Nevertheless continued CAPEX and a high WACC could keep any price changes minimal.

#### Our NEUTRAL recommendation is maintained with a lower TP of S\$0.85 (prev. S\$0.96)

Limited growth in DPU will be a challenge in a rising interest rate environment. Investors will look towards a higher dividend yield as risk-free rates rise. NetLink dividend yield spread over 10-year risk free has averaged 3.5% historically. It is now narrowed to 2.4%.



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6 November 2022

#### NEUTRAL (Maintained)

CLOSING PRICE	SGD 0.890
FORECAST DIV	SGD 0.0525
TARGET PRICE	SGD 0.850
TOTAL RETURN	1.4%

#### COMPANY DATA

BLOOMBERG CODE:	NETLINK SP
O/S SHARES (MN):	3,897
MARKET CAP (USD mn / SGD mn):	2468 / 3468
52 - WK HI/LO (SGD):	1.03 / 0.79
3M Average Daily T/O (mn):	8.47

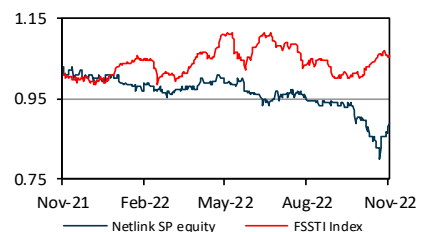
#### MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	24.8%
M&G Plc	7.9%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(1.7)	(6.3)	(9.0)
STI RETURN	(0.2)	(3.1)	1.2

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Mar, SGD mn	FY21	FY22	FY23e	FY24e
Revenue	368.5	377.6	392.6	401.0
EBITDA	270.2	266.9	274.2	279.7
Net Profit	94.8	91.3	97.8	100.4
Distribution Yield	5.7%	5.8%	5.9%	5.8%
DPU (cents)	5.08	5.13	5.25	5.18
ROE	3.4%	3.4%	3.7%	4.0%
ROA	2.3%	2.3%	2.5%	2.6%

Source: Company, PSR

#### VALUATION METHOD

DCF (WACC:7%, Terminal growth: 1%)

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## Financials

### Income Statement

Y/E Mar, SGD '000	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	<b>370,192</b>	<b>368,466</b>	<b>377,611</b>	<b>392,565</b>	<b>400,989</b>
Operating Profit	85,828	93,979	95,378	100,370	103,661
<b>EBITDA</b>	<b>258,425</b>	<b>270,237</b>	<b>266,941</b>	<b>274,179</b>	<b>279,654</b>
Depreciation & Amortisation	-167,782	-167,792	-169,723	-170,883	-172,983
<b>EBIT</b>	<b>90,643</b>	<b>102,445</b>	<b>97,218</b>	<b>103,295</b>	<b>106,670</b>
Net Finance Inc/(Exp)	-20,504	-11,281	-10,479	-10,666	-11,681
Profit before tax	71,869	91,642	87,078	93,030	95,389
Taxation	6,244	3,170	4,184	4,800	5,000
<b>Net profit, reported</b>	<b>78,113</b>	<b>94,812</b>	<b>91,262</b>	<b>97,830</b>	<b>100,389</b>

### Per unit data (SGD Cents)

Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
EPU, reported	2.00	2.43	2.34	2.51	2.58
DPU	5.05	5.08	5.13	5.25	5.18
BVPU	74.6	71.9	69.7	67.0	64.4

### Cash Flow

Y/E Mar, SGD '000	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
<b>Profit before tax</b>	<b>71,869</b>	<b>91,642</b>	<b>87,078</b>	<b>93,030</b>	<b>95,389</b>
Adjustments	203,401	188,377	193,964	181,149	184,265
WC changes	4,811	8,014	-11,133	16,074	-870
Cash generated from ops	280,081	288,033	269,909	290,252	278,783
Tax paid	-569	-7,085	-3,929	-1,440	-1,500
Others	-16,994	-16,436	-7,249	-10,266	-11,281
<b>Cashflow from ops</b>	<b>262,518</b>	<b>264,512</b>	<b>258,731</b>	<b>278,546</b>	<b>266,002</b>
<b>CFI</b>					
CAPEX, net	-75,535	-60,246	-73,879	-75,000	-75,000
Others	4	-	14.00	-	-
<b>Cashflow from investments</b>	<b>-75,531</b>	<b>-60,246</b>	<b>-73,865</b>	<b>-75,000</b>	<b>-75,000</b>
<b>CCF</b>					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	30,000	0	0	0	0
Distributions	-193,290	-197,186	-199,135	-202,253	-203,032
Others	-	-	-	-	-
<b>Cashflow from financing</b>	<b>-166,984</b>	<b>-202,354</b>	<b>-205,584</b>	<b>-202,253</b>	<b>-203,032</b>
Net change in cash	20,003	1,912	-20,718	1,294	-12,030
<b>CCE, end</b>	<b>168,624</b>	<b>170,536</b>	<b>149,818</b>	<b>151,111</b>	<b>139,081</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Mar, SGD '000	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
Accounts receivables	46,029	44,554	66,020	54,253	55,967
Cash	168,624	170,536	149,818	151,112	139,081
Inventories	4,302	5,161	4,100	4,896	4,908
Finance lease receivables	234	233	201	201	201
<b>Total current assets</b>	<b>251,186</b>	<b>251,535</b>	<b>255,285</b>	<b>245,608</b>	<b>235,304</b>
PPE	3,026,656	2,927,436	2,830,678	2,734,795	2,636,812
Others	930,929	944,484	945,929	945,929	945,929
<b>Total non-current assets</b>	<b>3,957,585</b>	<b>3,871,920</b>	<b>3,776,607</b>	<b>3,680,724</b>	<b>3,582,741</b>
<b>Total Assets</b>	<b>4,208,771</b>	<b>4,123,455</b>	<b>4,031,892</b>	<b>3,926,331</b>	<b>3,818,044</b>
<b>LIABILITIES</b>					
Accounts payables	58,502	56,395	55,368	60,471	61,326
Deferred revenue	19,028	21,405	26,473	26,473	26,473
Tax payable	6,927	23,285	37,287	37,287	37,287
<b>Total current liabilities</b>	<b>602,634</b>	<b>612,484</b>	<b>277,164</b>	<b>282,267</b>	<b>283,122</b>
Long term loans	524,863	506,540	507,890	507,890	507,890
Deferred tax liabilities	155,377	155,587	484,638	478,398	471,898
<b>Total non-current liabilities</b>	<b>699,199</b>	<b>707,268</b>	<b>1,038,282</b>	<b>1,032,042</b>	<b>1,025,542</b>
<b>Total Liabilities</b>	<b>1,301,833</b>	<b>1,319,752</b>	<b>1,315,446</b>	<b>1,314,309</b>	<b>1,308,664</b>
<b>Unitholders' funds</b>					
<b>Unitholders' funds</b>	<b>2,906,938</b>	<b>2,803,703</b>	<b>2,716,446</b>	<b>2,612,023</b>	<b>2,509,380</b>

### Valuation Ratios

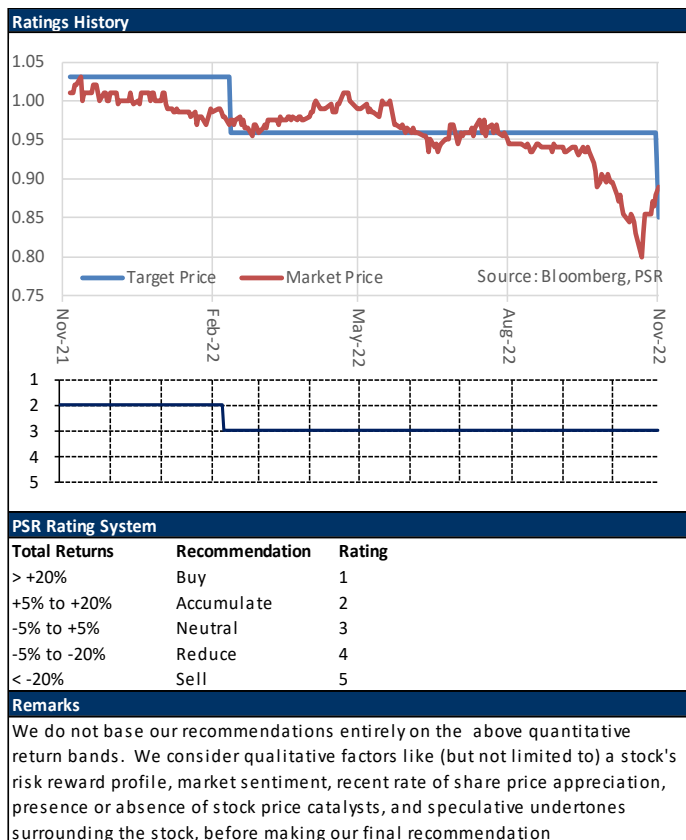
Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (X)	44.4	36.6	38.0	35.5	34.5
P/B (X)	1.2	1.2	1.3	1.3	1.4
EV/EBITDA (X)	14.8	14.1	14.3	14.0	13.7

### Growth & Margins

	FY20	FY21	FY22	FY23e	FY24e
<b>Growth</b>					
Revenue	4.7%	-0.5%	2.5%	4.0%	2.1%
EBITDA	4.3%	4.6%	-1.2%	2.7%	2.0%
EBIT	4.1%	13.0%	-5.1%	6.3%	3.3%
Net profit, adj.	1.0%	21.4%	-3.7%	7.2%	2.6%
<b>Margins</b>					
Gross margin	23.2%	25.5%	25.3%	25.6%	25.9%
EBITDA margin	69.8%	73.3%	70.7%	69.8%	69.7%
EBIT margin	24.5%	27.8%	25.7%	26.3%	26.6%
Net profit margin	21.1%	25.7%	24.2%	24.9%	25.0%

### Key Ratios

	FY20	FY21	FY22	FY23e	FY24e
ROE	2.7%	3.4%	3.4%	3.7%	4.0%
ROA	1.9%	2.3%	2.3%	2.5%	2.6%
Distribution yield	5.7%	5.7%	5.8%	5.9%	5.8%
Net debt/EBITDA (X)	2.0	1.9	1.9	1.9	1.8



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