



NetLink NBN Trust

Waiting for tariff review

SINGAPORE | TELECOMMUNICATIONS | 1Q24 UPDATE

- Results were within expectations. 1Q24 revenue and EBITDA were 25%/25% of our FY24e forecasts. Core residential fibre revenue was up 1.4% YoY to S\$61.5mn.
- 1Q24 EBITDA was up 3% YoY to S\$75mn excluding the 38% surge in interest expense to S\$4.3mn. Residential connections during the quarter was 4,023, below our trendline growth of 5,500 per quarter.
- No change to our FY24e forecast and DCF target price of S\$0.87. Our NEUTRAL rating is unchanged. The new fibre rates NetLink can charge its customers is expected to be announced soon. Our base case is that fibre rates will see a modest decline. The distribution yield is sustainable from stable operating cash-flows from 1.48mn subscribers and access to financing.

Results at a glance

SGD '000	1Q24	1Q23	YoY	Comments
Revenue	103,935	97,892	6.2%	
- Residential	61,530	60,693	1.4%	
- Non-Residential	8,211	7,831	4.8%	
- Central office	4,677	3,818	22.5%	
Residential (000's)	1,489	1,470	1.3%	Net adds +4.0k (1Q22: +5.6k).
EBITDA	75,221	72,962	3.1%	
Finance charges	(4,575)	(3,320)	37.8%	Avg. interest rate rose from 1.8% to 2.6%.
Profit after tax	28,241	27,647	2.1%	

Source: Company, PSR

The Positive

+ **Opportunity in higher broadband bandwidth.** As 10Gbps broadband speeds become more available over the next few years, there will be more demand from telcos at Netlink central offices. Demand is for larger space, more cooling and increased power supply in the central office. The timeline to roll out more 10Gbps will ultimately depend on customer end demand and use cases.

The Negatives

- **Slower than expected residential connections.** Residential connections increased by 4,023 in 1Q24, the slowest in four quarters. The weakness is caused by delays or time taken to renovate and move into the vacant units.

- **Continued rise in interest expenses.** Although the borrowings at a fixed rate is stable at 69.4%, the effective average interest rate in 1Q24 rose by 0.8% points YoY to 2.6%, driving interest expense up.

Outlook

We expect the regulatory review to conclude soon with the new tariff rates applicable for the next five years. Implementation of the new tariff is likely three to six months after the announcement.

Maintain NEUTRAL with an unchanged target price of S\$0.87



22 August 2023

NEUTRAL (Maintained)

CLOSING PRICE	SGD 0.850
FORECAST DIV	SGD 0.0528
TARGET PRICE	SGD 0.870
TOTAL RETURN	8.6%

COMPANY DATA

BLOOMBERG CODE:	NETLINK SP
O/S SHARES (MN):	3,897
MARKET CAP (USD mn / SGD mn):	2445 / 3312
52 - WK HI/LO (SGD):	0.95 / 0.79
3M Average Daily T/O (mn):	4.08

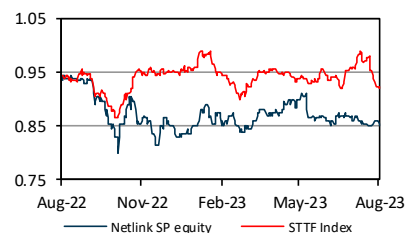
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	24.8%
M&G Plc	6.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.6)	(2.2)	6.1
STTF	(1.9)	0.4	0.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGD mn	FY22	FY23	FY24e	FY25e
Revenue	377.6	403.5	418.4	432.6
EBITDA	266.9	295.0	296.1	302.6
Net Profit	91.3	109.3	96.5	103.1
Distribution Yield	6.0%	6.2%	6.2%	6.3%
DPU (cents)	5.13	5.24	5.28	5.36
ROE	3.4%	4.2%	3.8%	4.3%
ROA	2.3%	2.7%	2.5%	2.7%

Source: Company, PSR

VALUATION METHOD

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

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Financials

Income Statement

Y/E Mar, SGD '000	FY21	FY22	FY23	FY24e	FY25e
Revenue	368,466	377,611	403,460	418,362	432,623
Operating Profit	93,979	94,362	120,086	119,047	122,985
EBITDA	270,237	266,941	294,979	296,102	302,563
Depreciation & Amortisation	-167,792	-169,723	-170,617	-173,872	-176,252
EBIT	102,445	97,218	124,362	122,230	126,311
Net Finance Inc/(Exp)	-11,281	-10,479	-16,725	-29,316	-27,850
Profit before tax	91,642	87,078	109,217	93,515	99,061
Taxation	3,170	4,184	36	3,000	4,000
Net profit, reported	94,812	91,262	109,253	96,515	103,061

Per unit data (SGD Cents)

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
EPU, reported	2.43	2.34	2.80	2.48	2.64
DPU	5.08	5.13	5.24	5.28	5.36
BVPU	71.9	69.7	67.5	64.8	62.1

Cash Flow

Y/E Mar, SGD '000	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	91,642	87,078	109,217	93,515	99,061
Adjustments	188,377	193,964	188,874	202,587	203,502
WC changes	8,014	-11,133	10,518	10,975	-3,464
Cash generated from ops	288,033	269,909	308,609	307,077	299,098
Tax paid	-7,085	-3,929	-9,533	-900	-1,200
Others	-16,436	-7,249	-13,384	-28,716	-27,250
Cashflow from ops	264,512	258,731	285,692	277,462	270,649
CFI					
CAPEX, net	-60,246	-73,879	-96,739	-85,000	-85,000
Others	-	14,000	6,000	-	-
Cashflow from investments	-60,246	-73,865	-96,733	-85,000	-85,000
CFE					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	0	0	69,000	0	0
Distributions	-197,186	-199,135	-202,253	-204,981	-207,319
Others	-	-	-	-	-
Cashflow from financing	-202,354	-205,584	-138,073	-204,981	-207,319
Net change in cash	1,912	-20,718	50,886	-12,519	-21,670
CCE, end	170,536	149,818	200,704	188,185	166,515

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD '000	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Accounts receivables	44,554	66,020	67,936	61,549	66,111
Cash	170,536	149,818	200,704	188,185	166,515
Inventories	5,161	4,100	6,762	5,569	5,942
Finance lease receivables	233	201	211	211	211
Total current assets	251,535	255,285	309,100	289,001	272,265
PPE	2,927,436	2,830,678	2,760,040	2,671,168	2,579,916
Others	944,484	945,929	943,640	943,640	943,640
Total non-current assets	3,871,920	3,776,607	3,703,680	3,614,808	3,523,556
Total Assets	4,123,455	4,031,892	4,012,780	3,903,809	3,795,821
LIABILITIES					
Accounts payables	56,395	55,368	60,042	63,437	64,908
Deferred revenue	21,405	26,473	36,921	36,921	36,921
Tax payable	23,285	37,287	43,312	43,312	43,312
Total current liabilities	612,484	277,164	141,910	145,305	146,776
Long term loans	506,540	507,890	732,016	732,016	732,016
Deferred tax liabilities	155,587	484,638	468,832	464,932	459,732
Total non-current liabilities	707,268	1,038,282	1,239,039	1,235,139	1,229,939
Total Liabilities	1,319,752	1,315,446	1,380,949	1,380,444	1,376,715
Unitholders' funds					
Unitholders' funds	2,803,703	2,716,446	2,631,831	2,523,365	2,419,107

Valuation Ratios

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (X)	34.9	36.3	30.3	34.3	32.1
P/B (X)	1.2	1.2	1.3	1.3	1.4
EV/EBITDA (X)	13.5	13.8	13.0	13.0	12.8

Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	-0.5%	2.5%	6.8%	3.7%	3.4%
EBITDA	4.6%	-1.2%	10.5%	0.4%	2.2%
EBIT	13.0%	-5.1%	27.9%	-1.7%	3.3%
Net profit, adj.	21.4%	-3.7%	19.7%	-11.7%	6.8%
Margins					
Gross margin	25.5%	25.0%	29.8%	28.5%	28.4%
EBITDA margin	73.3%	70.7%	73.1%	70.8%	69.9%
EBIT margin	27.8%	25.7%	30.8%	29.2%	29.2%
Net profit margin	25.7%	24.2%	27.1%	23.1%	23.8%

Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE	3.4%	3.4%	4.2%	3.8%	4.3%
ROA	2.3%	2.3%	2.7%	2.5%	2.7%
Distribution yield	6.0%	6.0%	6.2%	6.2%	6.3%
Net debt/EBITDA (X)	1.9	1.9	2.5	2.5	2.4



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