

# NetLink NBN Trust

## Higher interest rates become a headwind

SINGAPORE | TELECOMMUNICATIONS | 3Q22 UPDATE

- 9M22 revenue and EBITDA were within expectations, at 75%/75% of our FY22e forecasts. 3Q22 revenue was down a modest 1.3% and EBITDA stable YoY.
- Residential connections rose 7,423 during the quarter, the highest in five quarters. Construction sector capacity has recovered but is still below pre-pandemic levels.
- We are maintaining our FY22e forecast. The DCF target price is lowered from S\$1.03 to S\$0.96 as we raised our WACC from higher a risk-free rate assumption. Our ACCUMULATE recommendation is downgraded to NEUTRAL. Higher interest rates will raise financing cost, lower valuations and reduce the appeal of bond-like equities. There is a risk that the upcoming regulatory review may lower prices and revenue. However, dividends can be maintained through lower CAPEX or additional financing.

### Results at a glance

| SGD '000            | 3Q22   | 3Q21   | YoY   | Comments                          |
|---------------------|--------|--------|-------|-----------------------------------|
| Revenue             | 93,621 | 94,814 | -1.3% |                                   |
| - Residential       | 60,190 | 59,726 | 0.8%  |                                   |
| - Non-Residential   | 7,821  | 7,401  | 5.7%  | Net adds of ~700 (3Q21: +330).    |
| - Ducts & manhole   | 7,029  | 7,241  | -2.9% |                                   |
| Residential (000's) | 1,458  | 1,443  | 1.0%  | Net adds of 7,243 (3Q21: +5,672). |
| EBITDA              | 70,299 | 70,181 | 0.2%  |                                   |
| Profit before tax   | 25,383 | 23,601 | 7.6%  | Interest expense declined S\$2mn. |

Source: Company, PSR

### The Positives

**+ Pick up in connections.** 3Q22 experienced a pick-up in residential and business connections. Residential connections during the quarter were up 7,243, the highest in five quarters and a 28% YoY jump. Non-residential, or business connections, similarly enjoyed an improvement in numbers. The additional 700 connections this quarter were the highest since 2Q19.

**+ Plunge in net finance charges.** 3Q22 finance charges dropped 46% to S\$2.3mn. The effective interest rate has declined from 2.4% to 1.1%. NETLINK has hedged the interest rate on half its S\$666mn gross debt. The remaining unhedged portion bears a SORA interest rate of 20-25 bps. The next upcoming debt due for renewal is a S\$156mn revolving credit facility, due in March 2023.

### The Negatives

**- Diversion revenue declined.** Diversion revenue was down 48% YoY to S\$2.0mn in 3Q22. The capacity and availability of contractors are still impacted by the shortage of workers. Margins are low for diversion revenue.

### Outlook

The regulatory review of fibre prices will be announced this year and will be effective 1 January 2023. We worry that prices may be under pressure due to lower interest rates compared with 2017 and the higher number of subscribers. However, the increase in the regulated asset base can minimize any downside to tariffs. Another lever to maintain dividends will be to raise borrowings or reduce capital expenditure.

### We downgrade our ACCUMULATE recommendation to NEUTRAL with a lower TP of S\$0.96

Rising interest rates are becoming a headwind for the share price through higher financing costs, lower valuations and a re-rating



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### NEUTRAL (Downgraded)

|               |            |
|---------------|------------|
| CLOSING PRICE | SGD 0.975  |
| FORECAST DIV  | SGD 0.0512 |
| TARGET PRICE  | SGD 0.960  |
| TOTAL RETURN  | 3.7%       |

### COMPANY DATA

|                               |             |
|-------------------------------|-------------|
| BLOOMBERG CODE:               | NETLINK SP  |
| O/S SHARES (MN):              | 3,897       |
| MARKET CAP (USD mn / SGD mn): | 2822 / 3800 |
| 52 - WK HI/LO (SGD):          | 103 / 0.94  |
| 3M Average Daily T/O (mn):    | 6.70        |

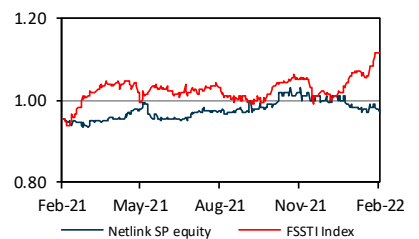
### MAJOR SHAREHOLDERS

|                          |       |
|--------------------------|-------|
| Temasek Holdings Pte Ltd | 25.4% |
| M&G Plc                  | 7.0%  |

### PRICE PERFORMANCE (%)

|            | 1M TH | 3M TH | 1YR  |
|------------|-------|-------|------|
| COMPANY    | (1.5) | (2.5) | 6.9  |
| STI RETURN | 4.4   | 6.3   | 20.8 |

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

| Y/E Mar, SGD mn    | FY20  | FY21  | FY22e | FY23e |
|--------------------|-------|-------|-------|-------|
| Revenue            | 370.2 | 368.5 | 375.7 | 380.0 |
| EBITDA             | 258.4 | 270.2 | 255.5 | 270.7 |
| Net Profit         | 78.1  | 94.8  | 75.6  | 88.0  |
| Distribution Yield | 5.2%  | 5.2%  | 5.3%  | 5.3%  |
| DPU (cents)        | 5.05  | 5.08  | 5.12  | 5.13  |
| ROE                | 2.7%  | 3.4%  | 2.8%  | 3.4%  |
| ROA                | 1.9%  | 2.3%  | 1.9%  | 2.2%  |

Source: Company, PSR

### VALUATION METHOD

DCF (WACC:6.3%, Terminal growth: 1%)

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## Financials

### Income Statement

| Y/E Mar, SGD '000           | FY19           | FY20           | FY21           | FY22e          | FY23e          |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>              | <b>353,580</b> | <b>370,192</b> | <b>368,466</b> | <b>375,667</b> | <b>379,997</b> |
| Operating Profit            | 86,400         | 85,828         | 93,979         | 83,803         | 96,855         |
| <b>EBITDA</b>               | <b>247,876</b> | <b>258,425</b> | <b>270,237</b> | <b>255,514</b> | <b>270,709</b> |
| Depreciation & Amortisation | (160,792)      | (167,782)      | (167,792)      | (168,955)      | (171,055)      |
| <b>EBIT</b>                 | <b>87,084</b>  | <b>90,643</b>  | <b>102,445</b> | <b>86,560</b>  | <b>99,655</b>  |
| Net Finance Inc/(Exp)       | (19,126)       | (20,504)       | (11,281)       | (18,581)       | (19,348)       |
| Profit before tax           | 69,750         | 71,869         | 91,642         | 69,724         | 82,052         |
| Taxation                    | 7,609          | 6,244          | 3,170          | 5,900          | 5,900          |
| <b>Net profit, reported</b> | <b>77,359</b>  | <b>78,113</b>  | <b>94,812</b>  | <b>75,624</b>  | <b>87,952</b>  |

### Per unit data (SGD Cents)

| Y/E Mar       | FY19 | FY20 | FY21 | FY22e | FY23e |
|---------------|------|------|------|-------|-------|
| EPU, reported | 1.99 | 2.00 | 2.43 | 1.94  | 2.26  |
| DPU           | 4.88 | 5.05 | 5.08 | 5.12  | 5.13  |
| BVPU          | 77.7 | 74.6 | 71.9 | 68.8  | 65.9  |

### Cash Flow

| Y/E Mar, SGD '000                | FY19             | FY20             | FY21             | FY22e            | FY23e            |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>CFO</b>                       |                  |                  |                  |                  |                  |
| <b>Profit before tax</b>         | <b>69,750</b>    | <b>71,869</b>    | <b>91,642</b>    | <b>69,724</b>    | <b>82,052</b>    |
| Adjustments                      | 180,143          | 203,401          | 187,805          | 198,191          | 188,657          |
| WC changes                       | 2,303            | 4,811            | 8,586            | (1,544)          | 32               |
| Cash generated from ops          | 252,196          | 280,081          | 288,033          | 266,371          | 270,741          |
| Tax paid                         | (6,061)          | (569)            | (7,085)          | (1,770)          | (1,770)          |
| Others                           | (16,493)         | (16,994)         | (16,436)         | (16,836)         | (17,603)         |
| <b>Cashflow from ops</b>         | <b>229,642</b>   | <b>262,518</b>   | <b>264,512</b>   | <b>247,765</b>   | <b>251,368</b>   |
| <b>CFI</b>                       |                  |                  |                  |                  |                  |
| CAPEX, net                       | (71,100)         | (75,535)         | (60,246)         | (80,000)         | (75,000)         |
| Others                           | 6                | 4                | -                | -                | -                |
| <b>Cashflow from investments</b> | <b>(71,094)</b>  | <b>(75,531)</b>  | <b>(60,246)</b>  | <b>(80,000)</b>  | <b>(75,000)</b>  |
| <b>CFE</b>                       |                  |                  |                  |                  |                  |
| Share issuance, net              | -                | -                | -                | -                | -                |
| Loans, net of repayments         | 45,000           | 30,000           | 0                | 24,346           | 21,911           |
| Distributions                    | (221,348)        | (193,290)        | (197,186)        | (199,135)        | (199,525)        |
| Others                           | -                | -                | -                | -                | -                |
| <b>Cashflow from financing</b>   | <b>(176,376)</b> | <b>(166,984)</b> | <b>(202,354)</b> | <b>(174,789)</b> | <b>(177,614)</b> |
| Net change in cash               | (17,828)         | 20,003           | 1,912            | (7,025)          | (1,246)          |
| <b>CCE, end</b>                  | <b>148,621</b>   | <b>168,624</b>   | <b>170,536</b>   | <b>163,511</b>   | <b>162,266</b>   |

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

| Y/E Mar, SGD '000                    | FY19             | FY20             | FY21             | FY22e            | FY23e            |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>ASSETS</b>                        |                  |                  |                  |                  |                  |
| Accounts receivables                 | 46,925           | 46,029           | 44,554           | 51,864           | 49,022           |
| Cash                                 | 148,621          | 168,624          | 170,536          | 163,511          | 162,266          |
| Inventories                          | 4,738            | 4,302            | 5,161            | 5,263            | 5,039            |
| Finance lease receivables            | 221              | 234              | 233              | 233              | 233              |
| <b>Total current assets</b>          | <b>233,530</b>   | <b>251,186</b>   | <b>251,535</b>   | <b>251,923</b>   | <b>247,611</b>   |
| PPE                                  | 3,124,527        | 3,026,656        | 2,927,436        | 2,838,481        | 2,742,427        |
| Others                               | 923,744          | 930,929          | 944,484          | 932,084          | 932,084          |
| <b>Total non-current assets</b>      | <b>4,048,271</b> | <b>3,957,585</b> | <b>3,871,920</b> | <b>3,770,565</b> | <b>3,674,511</b> |
| <b>Total Assets</b>                  | <b>4,281,801</b> | <b>4,208,771</b> | <b>4,123,455</b> | <b>4,022,488</b> | <b>3,922,122</b> |
| <b>LIABILITIES</b>                   |                  |                  |                  |                  |                  |
| Accounts payables                    | 56,023           | 58,502           | 58,687           | 64,556           | 61,521           |
| Deferred revenue                     | 21,989           | 19,028           | 21,405           | 21,405           | 21,405           |
| Tax payable                          | 1,696            | 6,927            | 23,285           | 23,285           | 23,285           |
| <b>Total current liabilities</b>     | <b>79,708</b>    | <b>602,634</b>   | <b>614,776</b>   | <b>620,645</b>   | <b>617,610</b>   |
| Long term loans                      | 634,554          | 524,863          | 506,540          | 530,886          | 552,797          |
| Deferred tax liabilities             | 536,907          | 155,377          | 155,587          | 147,917          | 140,247          |
| <b>Total non-current liabilities</b> | <b>1,172,241</b> | <b>699,199</b>   | <b>704,976</b>   | <b>721,652</b>   | <b>735,893</b>   |
| <b>Total Liabilities</b>             | <b>1,251,949</b> | <b>1,301,833</b> | <b>1,319,752</b> | <b>1,342,297</b> | <b>1,353,503</b> |
| <b>Unitholders' funds</b>            |                  |                  |                  |                  |                  |
| <b>Unitholders' funds</b>            | <b>3,029,852</b> | <b>2,906,938</b> | <b>2,803,703</b> | <b>2,680,192</b> | <b>2,568,618</b> |

### Valuation Ratios

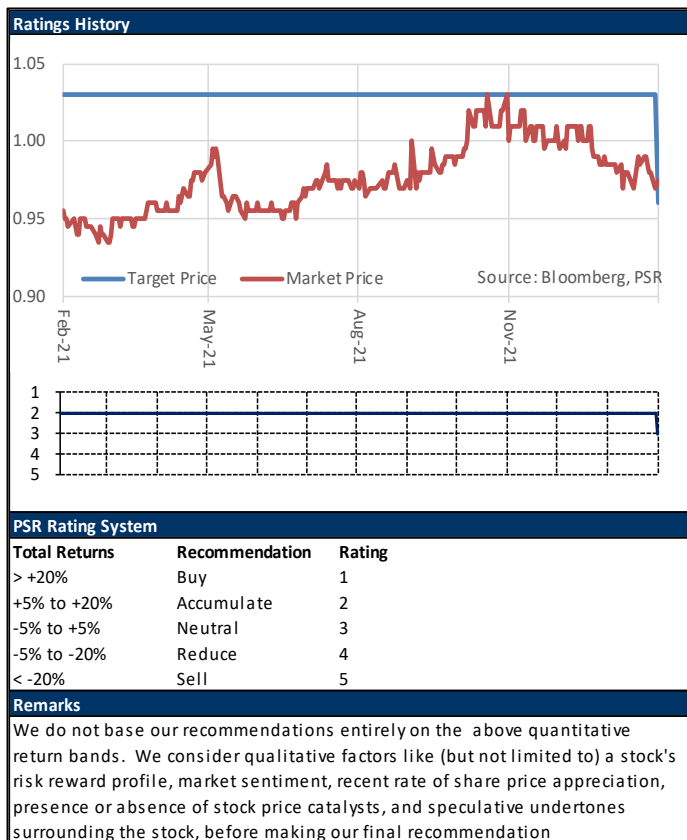
| Y/E Mar       | FY19 | FY20 | FY21 | FY22e | FY23e |
|---------------|------|------|------|-------|-------|
| P/E (X)       | 49.1 | 48.6 | 40.1 | 50.2  | 43.2  |
| P/B (X)       | 1.3  | 1.3  | 1.4  | 1.4   | 1.5   |
| EV/EBITDA (X) | 17.3 | 16.1 | 15.3 | 16.3  | 15.5  |

### Growth & Margins

| <b>Growth</b>     |       |       |       |        |       |
|-------------------|-------|-------|-------|--------|-------|
| Revenue           | 54.7% | 4.7%  | -0.5% | 2.0%   | 1.2%  |
| EBITDA            | 48.2% | 4.3%  | 4.6%  | -5.4%  | 5.9%  |
| EBIT              | 57.0% | 4.1%  | 13.0% | -15.5% | 15.1% |
| Net profit, adj.  | 54.9% | 1.0%  | 21.4% | -20.2% | 16.3% |
| <b>Margins</b>    |       |       |       |        |       |
| Gross margin      | 24.4% | 23.2% | 25.5% | 22.3%  | 25.5% |
| EBITDA margin     | 70.1% | 69.8% | 73.3% | 68.0%  | 71.2% |
| EBIT margin       | 24.6% | 24.5% | 27.8% | 23.0%  | 26.2% |
| Net profit margin | 21.9% | 21.1% | 25.7% | 20.1%  | 23.1% |

### Key Ratios

|                     |      |      |      |      |      |
|---------------------|------|------|------|------|------|
| ROE                 | 2.6% | 2.7% | 3.4% | 2.8% | 3.4% |
| ROA                 | 1.8% | 1.9% | 2.3% | 1.9% | 2.2% |
| Distribution yield  | 5.0% | 5.2% | 5.2% | 5.3% | 5.3% |
| Net debt/EBITDA (X) | 2.6  | 2.0  | 1.9  | 2.1  | 2.0  |



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