

### COMPANY RESULTS

#### NetLink NBN Trust (NETLINK SP)

3QFY22: In Line; Network Rollout Lifts NBAP Connections

NetLink's 3QFY22 core earnings grew 4% yoy to S\$25.7m (-7% qoq). NBAP connections continued to grow (+52% yoy) thanks to network and 5G rollout while residential connections remained stable. This brought 9MFY22 core earnings to S\$78.2m – in line. The next regulatory review comes into effect in 2023 as the company is currently in discussion with the government. We cut FY23 earnings by 4% on higher interest cost. Maintain HOLD with a lower target price of S\$1.05.

#### 3QFY22 RESULTS

Year to 31 Mar (S\$m)	3QFY22	qoq % chg	yoy % chg	9MFY22	yoy % chg
Revenue	93.7	(0.9)	(1.2)	281.6	3.6
EBITDA	70.3	23.1	0.2	196.9	(9.4)
EBITDA Margin (%)	75.1	14.6 ppt	1.1 ppt	69.9	(6.0) ppt
Adjusted EBITDA Margin (%)	75.1	1.5 ppt	1.1 ppt	74.5	(1.4) ppt
Profit Before Tax	25.4	99.2	7.6	62.1	(12.0)
Profit After Tax	25.7	68.3	4.1	65.8	(5.3)
Core PAT	25.7	(7.2)	4.1	78.2	12.6

Source: NetLink, UOB Kay Hian

#### RESULTS

- 3QFY22: Within expectations.** NetLink NBN Trust (Netlink) reported a 3QFY22 core net profit of S\$25.7m (+4% yoy, -7% qoq). The yoy increase was driven by lower finance cost (-46% yoy) and good cost discipline. The sequential weakness was impacted by lower revenue from diversion revenue (-21% qoq) and lower tax credit (-87% qoq). This brings 9MFY22 results to S\$78.2m (+13% yoy), accounting for 78% of our full-year forecast – in line, while topping consensus expectation (84% of full-year forecast).
- Top-line dragged slightly by lower diversion revenue...** Total revenue for 3QFY22 was lowered by 1% yoy and qoq, mainly due to a 17% yoy and 21% qoq reduction in diversion revenue.
- ...offset by growth in NBAP revenue.** Positively, Netlink recorded a 52% yoy growth (+5% qoq) in non-building address points (NBAP) connection revenue on the back of higher demand for point-to-point connections with the rollout of 5G network, and Central Office-diversity connections to support mobile network rollout. Additionally, residential connection revenue remained stable, growing 1% yoy as connections continue to rise to 1.458m (+1% yoy and qoq).

#### KEY FINANCIALS

Year to 31 Mar (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	370	368	373	381	390
EBITDA	253	261	264	271	276
Operating profit	85	93	108	111	120
Net profit (rep./act.)	78	95	100	100	108
Net profit (adj.)	94	102	100	100	108
EPS (S\$ cent)	2.4	2.6	2.6	2.6	2.8
PE (x)	40.4	37.0	37.9	37.7	35.0
P/B (x)	1.3	1.3	1.4	1.4	1.5
EV/EBITDA (x)	17.0	16.4	16.2	15.8	15.5
Dividend yield (%)	5.2	5.2	5.2	5.2	5.3
Net margin (%)	21.1	25.7	26.7	26.3	27.8
Net debt/(cash) to equity (%)	17.1	17.6	18.6	19.6	20.6
Interest cover (x)	12.3	23.1	13.7	12.8	13.0
ROE (%)	2.6	3.3	3.6	3.8	4.2
Consensus net profit	-	-	95	100	103
UOBKH/Consensus (x)	-	-	1.05	1.00	1.05

Source: NetLink NBN Trust, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	S\$0.970
Target Price	S\$1.05
Upside	+8.2%
(Previous TP)	S\$1.08)

#### COMPANY DESCRIPTION

NetLink NBN Trust (NLNBT) builds, owns and operates the passive fibre network infrastructure of Singapore's Next Gen NBN.

#### STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	NETLINK SP
Shares issued (m):	3,897.0
Market cap (S\$m):	3,780.1
Market cap (US\$m):	2,804.4
3-mth avg daily t'over (US\$m):	4.9

#### Price Performance (%)

52-week high/low S\$1.03/S\$0.935

1mth	3mth	6mth	1yr	YTD
(1.5)	(4.9)	(0.5)	1.6	(3.0)

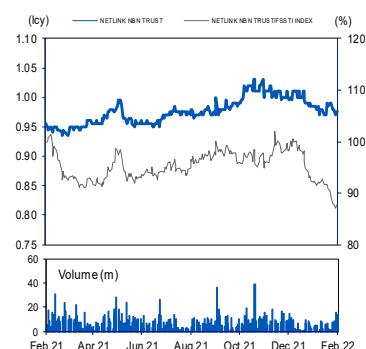
#### Major Shareholders

	%
Singapore Telecommunications Limited	24.8
Citibank Nominees Singapore Pte Ltd	22.2
DBS Nominees (Private) Limited	20.6

FY22 NAV/Share (S\$) 0.69

FY22 Net Debt/Share (S\$) 0.13

#### PRICE CHART



Source: Bloomberg

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### REVENUE BY SEGMENT

	3QFY22	qoq % chg	yoy % chg	9MFY22	yoy % chg
<b>Revenue Breakdown ('000):</b>					
Residential connections	60,221	0.3	(1.5)	180,224	0.3
Non-residential connections	7,825	1.6	0.6	23,091	0.3
NBAP and Segment connections	3,323	4.9	52.3	9,293	51.5
Co-location revenue	4,949	2.3	0.4	14,643	1.1
Installation related revenue	5,040	8.4	23.6	14,643	33.5
Diversion income	2,036	(20.9)	(17.4)	6,477	13.1
<b>Total Fibre Business Revenue</b>	<b>83,394</b>	<b>0.5</b>	<b>1.0</b>	<b>248,371</b>	<b>3.5</b>
Ducts and manhole service revenue	7,033	(0.7)	(6.1)	21,120	(4.3)
Central Office revenue	3,243	(27.5)	(31.6)	12,109	(15.0)
<b>Total Ducts, Manholes and Central</b>	<b>10,276</b>	<b>(11.1)</b>	<b>(16.0)</b>	<b>33,229</b>	<b>(8.5)</b>
<b>Total Revenue</b>	<b>93,670</b>	<b>(0.9)</b>	<b>(1.2)</b>	<b>281,600</b>	<b>1.9</b>

Source: NetLink, UOB Kay Hian

### STOCK IMPACT

- Expect next regulatory review by 4Q22.** With the last regulatory review (effective Jan-18), Netlink expects the next regulatory review to be carried out by the end of this year and take effect from 2023 onwards. Netlink is currently in discussion with the Infocomm Media Development Authority (IMDA) and alluded that the next return on regulated asset base (RAB) should be in line with the current 7% (pre-tax WACC). This will depend on the assumption of the forward yield curve and debt premium.
- Stable FY22 outlook.** Key priorities include connecting more residential homes that are not on fibre (especially low-income households) via the IMDA Home Access programme. Netlink guided that the IMDA will bear the two-year subsidised fibre broadband connectivity and Netlink's pricing would not be affected in this initiative. For non-residential and NBAP connections, Netlink will focus on adding more capacity to densify network and support 5G infrastructure. It also aims to deepen penetration on data centres' point-to-point connections. More importantly, Netlink reiterated that its business remains resilient amid market volatility.
- Safe haven; attractive 5.2% dividend yield.** Management remains cognisant of the company's profile as a high-yielding, safe haven stock. As such, key criteria of any potential new investment in the near horizon would have to include: a) country risk premium, and b) a preferably stable cash flow via an asset sale and leaseback model. Importantly, Netlink will have sufficient headroom to drive its acquisition ambition without compromising on cash flow and dividends. Gross debt/EBITDA of 2.6x as of 31 Dec 21 provides ample room to increase debt for the group.
- We project an annual DPU of 5.1 S cents for FY22-24. This translates to a sustainable 5.2% net dividend yield.

### EARNINGS REVISION/RISK

- We lowered FY23-34 earnings by 4%/2% respectively as we increased our interest cost assumption, in line with the rising rate environment.

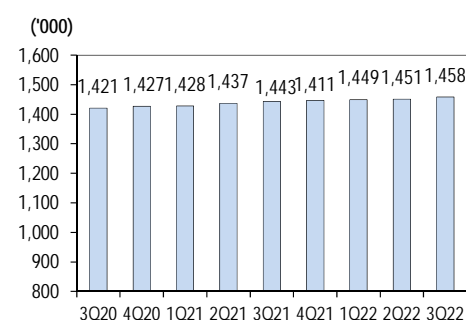
### VALUATION/RECOMMENDATION

- Maintain HOLD with a lowered DCF-based target price of S\$1.05** (cost of equity: 6.3%, terminal growth: 1.8%) in tandem with earnings downgrade. We also rolled over our valuation window to FY23. At our target price, the stock trades at 15x FY23F EV/EBITDA, (1SD above its four-year mean EV/EBITDA of 13.8x).
- We continue to see the stock as a good shelter amid market volatility given its strong earnings visibility, healthy balance sheet and cautious approach in terms of overseas/domestic acquisitions.

### SHARE PRICE CATALYST

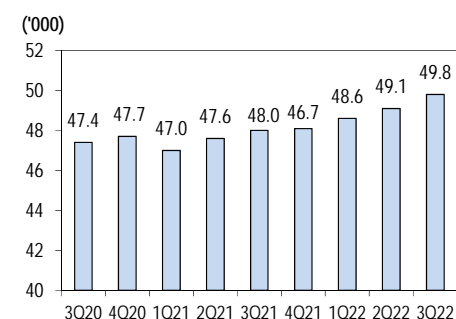
- Key catalysts include:** a) 5G beneficiary – more opportunities arising from mobile operators' fibre network densification demand, b) growth in demand for NBAP connections with the rollout of 5G/Smart Nation initiatives, c) investors seeking defensive yield from Netlink's resilient, predictable, transparent and regulated cash flow, and d) earnings-accretive M&As.

### FIBRE CONNECTION (RESIDENTIAL)



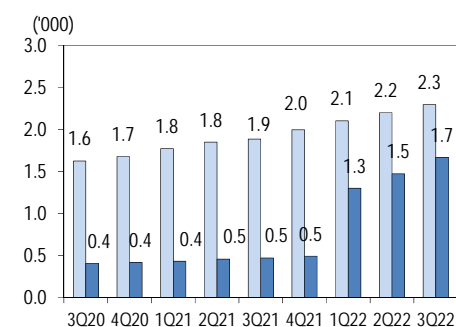
Source: NetLink, UOB Kay Hian

### FIBRE CONNECTION (NON-RESIDENTIAL)



Source: NetLink, UOB Kay Hian

### NON-BUILDING ADDRESS POINT AND SEGMENT CONNECTIONS<sup>1</sup>



<sup>1</sup>Segment connections comprise, inter alia, Central Office to Central Office fibre connections and Central Office to MDF room fibre connections provided to Requesting Licensees.

Source: NetLink, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Net turnover	368	373	381	390
EBITDA	261	264	271	276
Deprec. & amort.	168	156	160	155
EBIT	93	108	111	120
Total other non-operating income	10	4	4	4
Net interest income/(expense)	(11)	(19)	(21)	(21)
Pre-tax profit	92	93	94	103
Tax	3	7	6	5
Net profit	95	100	100	108
Net profit (adj.)	102	100	100	108

### CASH FLOW

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Operating	265	263	267	268
Pre-tax profit	92	93	94	103
Tax	n.a.	n.a.	n.a.	n.a.
Deprec. & amort.	169	156	160	156
Working capital changes	9	0	0	0
Other operating cashflows	(4)	14	13	10
Investing	(60)	(75)	(76)	(78)
Capex (growth)	0	0	0	0
Capex (maintenance)	(60)	(75)	(76)	(78)
Proceeds from sale of assets	0	0	0	0
Financing	(202)	(198)	(198)	(198)
Distribution to unitholders	(197)	(198)	(198)	(198)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(5)	0	0	0
Net cash inflow (outflow)	2	(9)	(8)	(8)
Beginning cash & cash equivalent	169	170	161	154
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	170	161	154	146

### BALANCE SHEET

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,927	2,846	2,764	2,689
Other LT assets	944	944	942	940
Cash/ST investment	171	161	154	146
Other current assets	81	82	84	85
<b>Total assets</b>	<b>4,123</b>	<b>4,034</b>	<b>3,944</b>	<b>3,861</b>
ST debt	509	509	509	509
Other current liabilities	106	107	109	111
LT debt	156	156	156	156
Other LT liabilities	549	556	562	567
Shareholders' equity	2,804	2,705	2,608	2,518
<b>Total liabilities &amp; equity</b>	<b>4,123</b>	<b>4,034</b>	<b>3,944</b>	<b>3,861</b>

### KEY METRICS

Year to 31 Mar (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	70.8	70.8	71.1	70.8
Pre-tax margin	24.9	24.9	24.7	26.5
Net margin	25.7	26.7	26.3	27.8
ROA	2.3	2.4	2.5	2.8
ROE	3.3	3.6	3.8	4.2
<b>Growth</b>				
Turnover	(0.5)	1.3	2.2	2.1
EBITDA	3.2	1.3	2.7	1.7
Pre-tax profit	27.5	1.3	1.5	9.5
Net profit	21.4	5.3	0.4	7.9
Net profit (adj.)	9.3	(2.4)	0.4	7.9
EPU	9.3	(2.4)	0.4	7.9
<b>Leverage</b>				
Debt to total capital	19.2	19.7	20.3	20.9
Debt to equity	23.7	24.6	25.5	26.4
Net debt/(cash) to equity	17.6	18.6	19.6	20.6
Interest cover (x)	23.1	13.7	12.8	13.0

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