

COMPANY RESULTS

NetLink NBN Trust (NETLINK SP)

4QFY22: Above Expectation; Network Expansion Lifts Fibre Connections

NetLink's 4QFY22 core earnings came in at S\$25.5m (-22% yoy, -1% qoq) mainly on higher finance cost. Top-line growth remains robust at 4% yoy thanks to higher non-business access point connections. FY22 core earnings of S\$103.7m are above house's and street's estimates. The group declared S 2.57 cent DPU, translating to a 5% yield for FY22. The next regulatory review is expected for 2023. Maintain HOLD with a target price of S\$1.05.

4QFY22 RESULTS

| Year to 31 Mar (S\$m) | 4QFY22 | qoq % chg | yoy % chg | FY22 | yoy % chg |
|----------------------------|--------|-----------|-----------|-------|-----------|
| Revenue | 96.0 | 2.5 | 4.2 | 377.6 | 2.5 |
| EBITDA | 70.0 | (0.4) | 16.1 | 266.9 | (1.2) |
| EBITDA Margin (%) | 73.0 | (2.1) ppt | 7.5 ppt | 70.7 | (2.6) ppt |
| Adjusted EBITDA Margin (%) | 73.0 | (2.1) ppt | (0.5) ppt | 74.0 | (1.4) ppt |
| Profit Before Tax | 25.7 | 1.1 | 21.5 | 87.7 | (4.3) |
| Profit After Tax | 25.5 | (1.0) | 0.6 | 91.3 | (3.7) |
| Core PAT | 25.5 | (1.0) | (22.2) | 103.7 | 1.4 |

Source: NetLink, UOB Kay Hian

RESULTS

- 4QFY22: Above expectations.** NetLink NBN Trust (Netlink) reported a 4QFY22 core net profit of S\$25.5m (-22% yoy, -1% qoq), mainly due to higher finance cost (+24% qoq). Revenue, however, grew 4% yoy and 3% qoq on continuous growth in the overall fibre connections. This brings FY22 core net profits to S\$103.7m (+1.4% yoy), accounting for 106% and 110% of our and consensus full-year forecasts respectively – above estimates. The discrepancy from our end stems from better cost discipline.
- 5% dividend yield.** 2HFY22 DPU was declared at 2.57 S cents, bringing full-year DPU to 5.13 S cents – in line with our expectations. This would translate to a 5% dividend yield.
- Resilient top-line on continuous fibre connections growth.** NetLink continued to grow its fibre connections (residential, non-residential and Non-Building Address Point (NBAP)) at 1% yoy and qoq to 1.519m. NBAP connections rose 20% yoy and 5% qoq due to higher demand for point-to-point connections to support mobile network rollout, including 5G network in Singapore. This resulted in NBAP revenue rising 67% yoy and 11% qoq in 4QFY22. In addition, diversion income also rose 69% yoy and 76% qoq, attributable to more projects completed, in line with the reopening of more economic activities.

KEY FINANCIALS

| Year to 31 Mar (S\$m) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|------|------|-------|-------|-------|
| Net turnover | 368 | 378 | 382 | 391 | 398 |
| EBITDA | 261 | 275 | 272 | 276 | 280 |
| Operating profit | 93 | 107 | 108 | 117 | 126 |
| Net profit (rep./act.) | 95 | 104 | 101 | 106 | 111 |
| Net profit (adj.) | 102 | 116 | 101 | 106 | 111 |
| EPS (S\$ cent) | 2.6 | 3.0 | 2.6 | 2.7 | 2.9 |
| PE (x) | 37.4 | 32.9 | 37.6 | 35.9 | 34.3 |
| P/B (x) | 1.4 | 1.4 | 1.5 | 1.5 | 1.6 |
| EV/EBITDA (x) | 16.6 | 15.7 | 15.9 | 15.7 | 15.5 |
| Dividend yield (%) | 5.2 | 5.2 | 5.6 | 5.6 | 5.6 |
| Net margin (%) | 25.7 | 27.5 | 26.5 | 27.2 | 28.0 |
| Net debt/(cash) to equity (%) | 17.6 | 18.9 | 20.5 | 22.2 | 24.3 |
| Interest cover (x) | 23.1 | 26.3 | 18.7 | 16.6 | 15.4 |
| ROE (%) | 3.3 | 3.8 | 3.8 | 4.2 | 4.6 |
| Consensus net profit | - | - | 100 | 100 | - |
| UOBKH/Consensus (x) | - | - | 1.02 | 1.07 | - |

Source: NetLink NBN Trust, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

| | |
|--------------|----------|
| Share Price | S\$0.980 |
| Target Price | S\$1.05 |
| Upside | +7.1% |

COMPANY DESCRIPTION

NetLink NBN Trust (NLNBNT) 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): | 3,819.0 |
| Market cap (US\$m): | 2,755.0 |
| 3-mth avg daily t'over (US\$m): | 5.0 |

Price Performance (%)

52-week high/low S\$1.03/S\$0.950

| 1mth | 3mth | 6mth | 1yr | YTD |
|-------|------|-------|-------|-------|
| (1.0) | 1.0 | (3.0) | (0.5) | (2.0) |

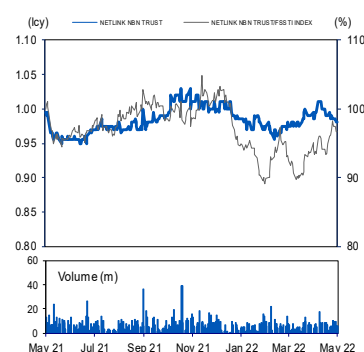
Major Shareholders

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

FY23 NAV/Share (S\$) 0.67

FY23 Net Debt/Share (S\$) 0.14

PRICE CHART



Source: Bloomberg

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REVENUE BY SEGMENT

| | 4QFY22 | qoq % chg | yoy % chg | FY22 | yoy % chg |
|--|---------------|------------|--------------|----------------|--------------|
| Revenue Breakdown ('000): | | | | | |
| Residential connections | 60,506 | 0.5 | 1.6 | 240,730 | 1.2 |
| Non-residential connections | 7,832 | 0.1 | 2.4 | 30,923 | 1.7 |
| NBAP and Segment connections | 3,701 | 11.4 | 67.3 | 12,994 | 46.4 |
| Co-location revenue | 4,733 | (4.4) | (1.2) | 19,376 | 0.7 |
| Installation related revenue | 4,634 | (8.1) | 11.7 | 19,277 | 16.0 |
| Diversion income | 3,582 | 76.0 | 69.0 | 10,059 | 17.6 |
| Total Fibre Business Revenue | 84,988 | 1.9 | 5.6 | 333,359 | 3.6 |
| Ducts and manhole service revenue | 6,858 | (2.5) | (4.6) | 27,978 | (2.6) |
| Central Office revenue | 4,165 | 28.4 | (7.8) | 16,274 | (10.0) |
| Total Ducts, Manholes and Central | 11,023 | 7.3 | (5.8) | 44,252 | (5.5) |
| Total Revenue | 96,011 | 2.5 | 4.2 | 377,611 | 2.5 |

Source: NetLink, UOB Kay Hian

STOCK IMPACT

- **Expect next regulatory review by 4Q22.** Netlink expects the next regulatory review to be carried out by the end of this year and to take effect from 2023 onwards. Netlink is currently in discussions with the Infocomm Media Development Authority (IMDA) and at this juncture, we expect the next return on regulated asset base (RAB) to be in line with the current 7% (pre-tax WACC) rate of return. This will depend on the assumption of the forward yield curve and debt premium.
- **Safe haven; attractive 5% 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. There is however, no fixed timeline in terms of M&A activities and Netlink's management may even consider a JV or consortium outfit in its acquisition strategy.

EARNINGS REVISION/RISK

- None.
- We project an annual DPU of 5.2 S cents for FY23-25. This translates to a sustainable 5.3% net dividend yield.

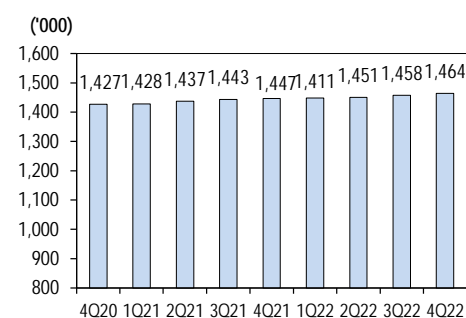
VALUATION/RECOMMENDATION

- **Maintain HOLD and a DCF-based target price of S\$1.05** (cost of equity: 6.3%, terminal growth: 1.8%), or 16x 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

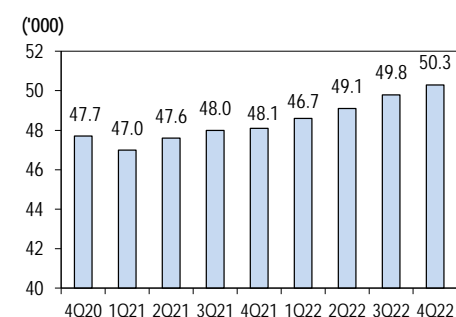
- **Key catalysts include:** a) being a 5G beneficiary – more opportunities arising from mobile operators' fibre network densification demand, b) growth in demand for NBAP connections with the rollout of 5G/Smart Nation initiatives, c) investors seeking defensive yield from Netlink's resilient, predictable,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

FIBRE CONNECTION (RESIDENTIAL)



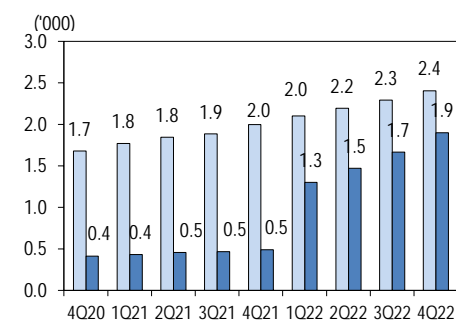
Source: NetLink, UOB Kay Hian

FIBRE CONNECTION (NON-RESIDENTIAL)



Source: NetLink, UOB Kay Hian

NON-BUILDING ADDRESS POINT AND SEGMENT CONNECTIONS¹



¹Segment 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) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|------|-------|-------|-------|
| Net turnover | 378 | 382 | 391 | 398 |
| EBITDA | 275 | 272 | 276 | 280 |
| Deprec. & amort. | 169 | 164 | 159 | 155 |
| EBIT | 107 | 108 | 117 | 126 |
| Total other non-operating income | 3 | 4 | 4 | 4 |
| Net interest income/(expense) | (10) | (15) | (17) | (18) |
| Pre-tax profit | 99 | 97 | 104 | 111 |
| Tax | 4 | 4 | 2 | 0 |
| Net profit | 104 | 101 | 106 | 111 |
| Net profit (adj.) | 116 | 101 | 106 | 111 |

CASH FLOW

| Year to 31 Mar (\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|-------|-------|-------|-------|
| Operating | 259 | 267 | 268 | 266 |
| Pre-tax profit | 99 | 97 | 104 | 111 |
| Tax | n.a. | n.a. | n.a. | n.a. |
| Deprec. & amort. | 170 | 164 | 159 | 155 |
| Working capital changes | (11) | (1) | (1) | (1) |
| Other operating cashflows | 0 | 6 | 6 | 0 |
| Investing | (74) | (75) | (76) | (80) |
| Capex (growth) | 0 | 0 | 0 | 0 |
| Capex (maintenance) | (74) | (75) | (76) | (80) |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Financing | (206) | (211) | (214) | (213) |
| Distribution to unitholders | (199) | (211) | (214) | (213) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 0 | 0 | 0 | 0 |
| Loan repayment | 0 | 0 | 0 | 0 |
| Others/interest paid | (6) | 0 | 0 | 0 |
| Net cash inflow (outflow) | (21) | (19) | (22) | (27) |
| Beginning cash & cash equivalent | 170 | 150 | 131 | 109 |
| Changes due to forex impact | 0 | 0 | 0 | 1 |
| Ending cash & cash equivalent | 150 | 131 | 109 | 83 |

BALANCE SHEET

| Year to 31 Mar (\$m) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 2,831 | 2,741 | 2,658 | 2,583 |
| Other LT assets | 946 | 946 | 946 | 946 |
| Cash/ST investment | 150 | 131 | 109 | 82 |
| Other current assets | 105 | 107 | 109 | 111 |
| Total assets | 4,032 | 3,925 | 3,822 | 3,722 |
| ST debt | 156 | 156 | 156 | 156 |
| Other current liabilities | 121 | 123 | 125 | 127 |
| LT debt | 508 | 508 | 508 | 508 |
| Other LT liabilities | 530 | 534 | 536 | 536 |
| Shareholders' equity | 2,716 | 2,604 | 2,497 | 2,395 |
| Total liabilities & equity | 4,032 | 3,925 | 3,822 | 3,722 |

KEY METRICS

| Year to 31 Mar (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 73.0 | 71.3 | 70.7 | 70.4 |
| Pre-tax margin | 26.3 | 25.5 | 26.7 | 28.0 |
| Net margin | 27.5 | 26.5 | 27.2 | 28.0 |
| ROA | 2.5 | 2.6 | 2.7 | 3.0 |
| ROE | 3.8 | 3.8 | 4.2 | 4.6 |
| Growth | | | | |
| Turnover | 2.5 | 1.2 | 2.3 | 1.9 |
| EBITDA | 5.7 | (1.1) | 1.4 | 1.5 |
| Pre-tax profit | 8.6 | (2.0) | 7.0 | 6.8 |
| Net profit | 9.3 | (2.1) | 4.7 | 4.8 |
| Net profit (adj.) | 13.6 | (12.6) | 4.7 | 4.8 |
| EPU | 13.6 | (12.6) | 4.7 | 4.8 |
| Leverage | | | | |
| Debt to total capital | 19.6 | 20.3 | 21.0 | 21.7 |
| Debt to equity | 24.4 | 25.5 | 26.6 | 27.7 |
| Net debt/(cash) to equity | 18.9 | 20.5 | 22.2 | 24.3 |
| Interest cover (x) | 26.3 | 18.7 | 16.6 | 15.4 |

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