

NetLink NBN Trust

Residential connections normalising

SINGAPORE | TELECOMMUNICATIONS | 1Q23 UPDATE

- 1Q23 revenue and EBITDA were within expectations, at 25/27% of our FY23e forecasts. Revenue rose 4.8%, supported by a sharp rebound in diversion revenue. Central office remains a drag as customers surrender more equipment space.
- Residential fibre connections rose 5,598 in 1Q23 (1Q22: +2,292). Last year was impacted by lockdowns and movement restrictions.
- Interest rate risk is well hedged, with 76% of the debt fixed at 1% until May 2026. Regulatory review of fibre prices is ongoing. Recent inflationary pressures and higher interest rates are positives. The planned capital expenditure (or regulated asset base) and WACC under consideration will be higher. No change to FY23e forecast. Our NEUTRAL recommendation and DCF target price of S\$0.96 is maintained.

Results at a glance

SGD '000	1Q23	1Q22	YoY	Comments
Revenue	97,892	93,420	4.8%	
- Residential	60,693	59,976	1.2%	Connections +1.4% YoY.
- Non-Residential	7,831	7,567	3.5%	
- Central office	3,818	4,391	-13.0%	Major customer surrendered space.
Residential (000's)	1,470	1,449	1.4%	
EBITDA	72,962	69,495	5.0%	
Profit before tax	27,306	23,927	14.1%	

Source: Company, PSR

The Positive

+ Rebound in construction and installation activity. Residential connections are normalising post-pandemic. In the past two quarters, net connections were 11,842, triple the 3,946 a year ago. The rebound in construction and installation post-pandemic increased diversion revenue by S\$1.8mn or 136% YoY. Customers in diversion include HDB and LTA.

The Negative

- Central office revenue sliding. Major customer Singtel is renting less space as less telecommunication equipment is housed in Netlink's seven central offices. Netlink will look to alternate users for their central office space.

Outlook

On the regulatory review, we expect a mild decline in the fibre price for residential connections. It is unlikely to impact dividend payout. Higher borrowings or lower capital expenditure can tide through any near-term shortfall, in our opinion.

Our NEUTRAL recommendation is maintained with an unchanged TP of S\$0.96

The modest growth in DPU reduces the attractiveness of NetLink as an income-yielding investment. NetLink's dividend spread over bond yields and other interest-yielding assets has not widened since interest rates started to climb this year.



StocksBnB.com

17 August 2022

NEUTRAL (Maintained)

CLOSING PRICE	SGD 0.945
FORECAST DIV	SGD 0.0515
TARGET PRICE	SGD 0.960
TOTAL RETURN	7.0%

COMPANY DATA

BLOOMBERG CODE:	NETLINK SP
O/S SHARES (MN):	3,897
MARKET CAP (USD mn / SGD mn):	2671 / 3683
52 - WK HI/LO (SGD):	1.03 / 0.93
3M Average Daily T/O (mn):	8.07

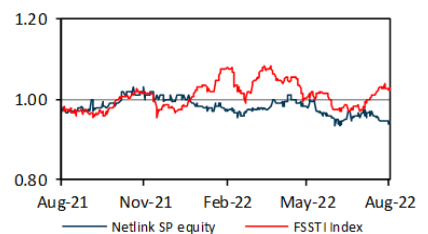
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.1)	(1.5)	2.6
STI RETURN	6.3	3.3	7.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGD mn	FY21	FY22	FY23e	FY24e
Revenue	368.5	377.6	384.2	392.1
EBITDA	270.2	266.9	272.6	278.0
Net Profit	94.8	91.3	96.3	98.7
Distribution Yield	5.4%	5.4%	5.4%	5.5%
DPU (cents)	5.08	5.13	5.15	5.18
ROE	3.4%	3.4%	3.7%	3.9%
ROA	2.3%	2.3%	2.5%	2.6%

Source: Company, PSR

VALUATION METHOD

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

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Financials

Income Statement

Y/E Mar, SGD '000	FY20	FY21	FY22	FY23e	FY24e
Revenue	370,192	368,466	377,611	384,217	392,101
Operating Profit	85,828	93,979	95,378	98,875	102,070
EBITDA	258,425	270,237	266,941	272,601	277,974
Depreciation & Amortisation	-167,782	-167,792	-169,723	-170,883	-172,983
EBIT	90,643	102,445	97,218	101,717	104,991
Net Finance Inc/(Exp)	-20,504	-11,281	-10,479	-10,666	-11,681
Profit before tax	71,869	91,642	87,078	91,452	93,709
Taxation	6,244	3,170	4,184	4,800	5,000
Net profit, reported	78,113	94,812	91,262	96,252	98,709

Per unit data (SGD Cents)

Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
EPU, reported	2.00	2.43	2.34	2.47	2.53
DPU	5.05	5.08	5.13	5.15	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
CEO					
Profit before tax	71,869	91,642	87,078	91,452	93,709
Adjustments	203,401	188,377	193,964	181,149	184,265
WC changes	4,811	8,014	-11,133	16,045	-852
Cash generated from ops	280,081	288,033	269,909	288,646	277,122
Tax paid	-569	-7,085	-3,929	-1,440	-1,500
Others	-16,994	-16,436	-7,249	-10,266	-11,281
Cashflow from ops	262,518	264,512	258,731	276,940	264,340
CFI					
CAPEX, net	-75,535	-60,246	-73,879	-75,000	-75,000
Others	4	-	14.00	-	-
Cashflow from investments	-75,531	-60,246	-73,865	-75,000	-75,000
CFF					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	30,000	0	0	0	0
Distributions	-193,290	-197,186	-199,135	-200,304	-201,084
Others	-	-	-	-	-
Cashflow from financing	-166,984	-202,354	-205,584	-200,304	-201,084
Net change in cash	20,003	1,912	-20,718	1,636	-11,744
CCE, end	168,624	170,536	149,818	151,454	139,710

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD '000	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Accounts receivables	46,029	44,554	66,020	53,099	54,727
Cash	168,624	170,536	149,818	151,454	139,710
Inventories	4,302	5,161	4,100	4,792	4,799
Finance lease receivables	234	233	201	201	201
Total current assets	251,186	251,535	255,285	244,692	234,583
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
Total non-current assets	3,957,585	3,871,920	3,776,607	3,680,724	3,582,741
Total Assets	4,208,771	4,123,455	4,031,892	3,925,416	3,817,324
LIABILITIES					
Accounts payables	58,502	56,395	55,368	59,184	59,967
Deferred revenue	19,028	21,405	26,473	26,473	26,473
Tax payable	6,927	23,285	37,287	37,287	37,287
Total current liabilities	602,634	612,484	277,164	280,980	281,763
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
Total non-current liabilities	699,199	707,268	1,038,282	1,032,042	1,025,542
Total Liabilities	1,301,833	1,319,752	1,315,446	1,313,022	1,307,305
Unitholders' funds					
Unitholders' funds	2,906,938	2,803,703	2,716,446	2,612,393	2,510,019

Valuation Ratios

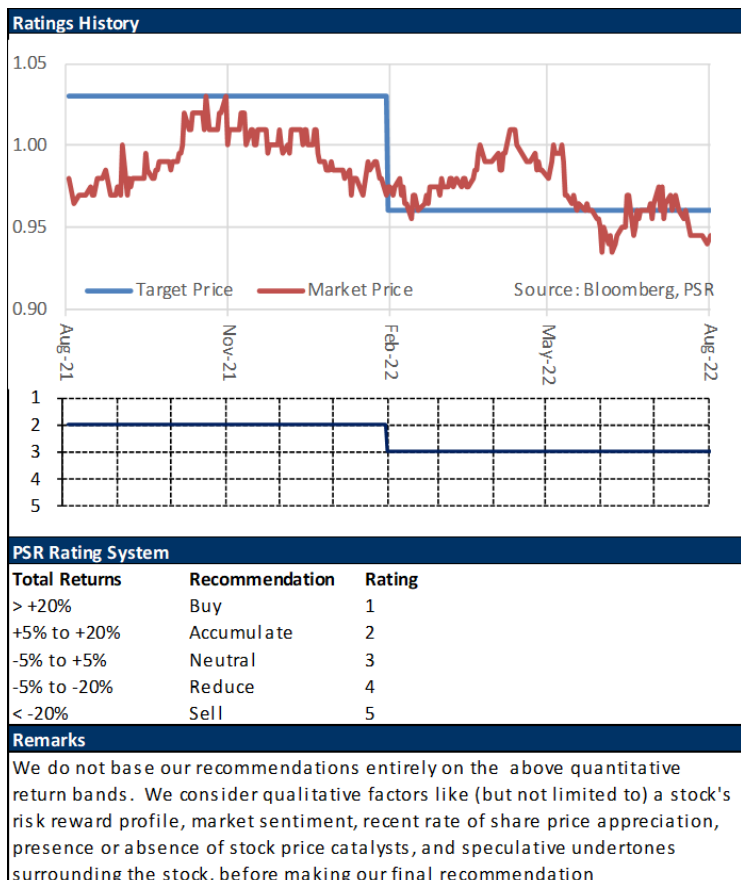
Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (X)	47.1	38.8	40.4	38.3	37.3
P/B (X)	1.3	1.3	1.4	1.4	1.5
EV/EBITDA (X)	15.6	14.9	15.1	14.8	14.6

Growth & Margins

	FY20	FY21	FY22	FY23e	FY24e
Growth					
Revenue	4.7%	-0.5%	2.5%	1.7%	2.1%
EBITDA	4.3%	4.6%	-1.2%	2.1%	2.0%
EBIT	4.1%	13.0%	-5.1%	4.6%	3.2%
Net profit, adj.	1.0%	21.4%	-3.7%	5.5%	2.6%
Margins					
Gross margin	23.2%	25.5%	25.3%	25.7%	26.0%
EBITDA margin	69.8%	73.3%	70.7%	70.9%	70.9%
EBIT margin	24.5%	27.8%	25.7%	26.5%	26.8%
Net profit margin	21.1%	25.7%	24.2%	25.1%	25.2%

Key Ratios

	FY20	FY21	FY22	FY23e	FY24e
ROE	2.7%	3.4%	3.4%	3.7%	3.9%
ROA	1.9%	2.3%	2.3%	2.5%	2.6%
Distribution yield	5.3%	5.4%	5.4%	5.4%	5.5%
Net debt/EBITDA (X)	2.0	1.9	1.9	1.9	1.8



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