

# NetLink NBN Trust

## Fibre connections modestly weaker

### SINGAPORE | TELECOMMUNICATIONS | 1Q22 UPDATE

- 1Q22 revenue and EBITDA within expectations, at 25%/19% of our FY22e forecasts.
- Residential fibre connections increased by 2.3k this quarter, below our annual estimate of 25k. We expect a rebound in the latter part of FY22 with renewed home construction.
- No change in our estimates. ACCUMULATE rating and DCF TP of S\$1.03 (WACC 5.9%) unchanged. Yields of 5.2% supported by monthly recurring revenue from more than 2mn fibre connections in homes and businesses. Regulatory review of fibre rates expected in mid-2022, likely implemented at end-2022.

#### Results at a glance

SGD '000	1Q22	1Q21	YoY	4Q21	QoQ	Comments (1Q22 vs 1Q21)
Revenue	93,420	88,962	5.0%	95,754	-2.4%	
- Residential	59,976	59,160	1.4%	59,586	0.7%	
- Non-Residential	7,567	7,384	2.5%	7,876	-3.9%	
- Ducts & manhole	7,007	7,384	-5.1%	7,096	-1.3%	Less use of ducts for copper lines.
Residential ('000's)	1,449	1,428	1.5%	1,447	0.2%	Slower than modelled.
EBITDA	69,495	68,764	1.1%	60,322	15.2%	Excl. grants EBITDA will rise 5%.
Profit before tax	69,495	22,548	208.2%	21,111	229%	

Source: Company, PSR

#### The Positive

**+ Non-residential connections highest in six quarters.** Non-residential connections rose around 490 to 48.6k, the biggest increase in six quarters. The improvement came from higher take-up by small-medium enterprises. Non-residential is stable, around 8% of revenue.

#### The Negatives

**- Run-rate of residential connections below our model.** We are expecting 25k new residential connections in FY22e. 1Q22 new connections were only 2.3k. We expect improvements in 2HFY22 as HDB construction gathers pace. The 25k net additions represented a 1.7% increase to 1.44mn.

**- Ducts and manholes remained weak.** Revenue from ducts and manholes declined 5% YoY to S\$7mn. The weakness could persist as major customer SingTel (ST SP, ACCUMULATE, TP S\$2.52) will have less use of these ducts for copper-wire installations.

#### Outlook

FY22e should be a stable year for earnings and cash flows, supported by a large installed base of fibre connections. A 5-year regulatory review of prices will take place next year. There is limited visibility at present but fibre price charges may be moderately lower due to a decline in WACC and a higher base of connections. Offsetting this would be NetLink's larger regulatory base and lower capex. Both should keep FCF at around S\$200mn to sustain dividends.

#### Maintain ACCUMULATE and TP of S\$1.03

NetLink's key attribute is stable dividend yields backed by monthly recurring revenue from more than 2mn fibre connections in homes and businesses.



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30 August 2021

#### ACCUMULATE (Maintained)

CLOSING PRICE	SGD 0.970
FORECAST DIV	SGD 0.0510
TARGET PRICE	SGD 1.030
<b>TOTAL RETURN</b>	<b>11.4%</b>

#### COMPANY DATA

BLOOMBERG CODE:	NETLINK SP
O/S SHARES (MN):	3.897
MARKET CAP (USD mn / SGD mn):	2809 / 3780
52 - WK HI/LO (SGD):	1 / 0.94
3M Average Daily T/O (mn):	7.21

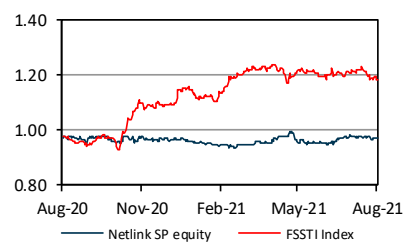
#### MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	25.4%
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#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(1.5)	10	5.4
STI RETURN	(0.7)	(15)	26.4

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Mar, SGD mn	FY20	FY21	FY22e	FY23e
Revenue	370.2	368.5	370.9	374.3
EBITDA	258.4	270.2	265.3	267.9
Net Profit	78.1	94.8	85.4	85.1
Distribution Yield	5.2%	5.2%	5.3%	5.3%
DPU (cents)	5.05	5.08	5.10	5.12
ROE	2.7%	3.4%	3.2%	3.3%
ROA	1.9%	2.3%	2.1%	2.2%

Source: Company, PSR

#### VALUATION METHOD

DCF (WACC: 5.9%, 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>370,896</b>	<b>374,293</b>
Operating Profit	86,400	85,828	93,979	93,672	94,076
<b>EBITDA</b>	<b>247,876</b>	<b>258,425</b>	<b>270,237</b>	<b>265,336</b>	<b>267,873</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>96,381</b>	<b>96,819</b>
Net Finance Inc/(Exp)	(19,126)	(20,504)	(11,281)	(18,581)	(19,348)
Profit before tax	69,750	71,869	91,642	79,545	79,216
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>85,445</b>	<b>85,116</b>

### Per unit data (SGD Cents)

Y/E Mar	FY19	FY20	FY21	FY22e	FY23e
EPU, reported	1.99	2.00	2.43	2.19	2.18
DPU	4.88	5.05	5.08	5.10	5.12
BVPU	77.7	74.6	71.9	69.0	66.1

### 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>79,545</b>	<b>79,216</b>
Adjustments	180,143	203,401	187,805	185,791	188,657
WC changes	2,303	4,811	8,586	(1,638)	14
Cash generated from ops	252,196	280,081	288,033	263,698	267,887
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>245,092</b>	<b>248,514</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)	(198,356)	(199,135)
Others	-	-	-	-	-
<b>Cashflow from financing</b>	<b>(176,376)</b>	<b>(166,984)</b>	<b>(202,354)</b>	<b>(174,010)</b>	<b>(177,224)</b>
Net change in cash	(17,828)	20,003	1,912	(8,918)	(3,710)
<b>CCE, end</b>	<b>148,621</b>	<b>168,624</b>	<b>170,536</b>	<b>161,618</b>	<b>157,908</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	51,205	48,286
Cash	148,621	168,624	170,536	161,618	157,908
Inventories	4,738	4,302	5,161	5,196	4,963
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>249,304</b>	<b>242,442</b>
PPE	3,124,527	3,026,656	2,927,436	2,838,481	2,742,427
Others	923,744	930,929	944,484	944,484	944,484
<b>Total non-current assets</b>	<b>4,048,271</b>	<b>3,957,585</b>	<b>3,871,920</b>	<b>3,782,965</b>	<b>3,686,911</b>
<b>Total Assets</b>	<b>4,281,801</b>	<b>4,208,771</b>	<b>4,123,455</b>	<b>4,032,269</b>	<b>3,929,353</b>
<b>LIABILITIES</b>					
Accounts payables	56,023	58,502	58,687	63,736	60,597
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>619,825</b>	<b>616,686</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>1,341,477</b>	<b>1,352,580</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>2,690,792</b>	<b>2,576,773</b>

### Valuation Ratios

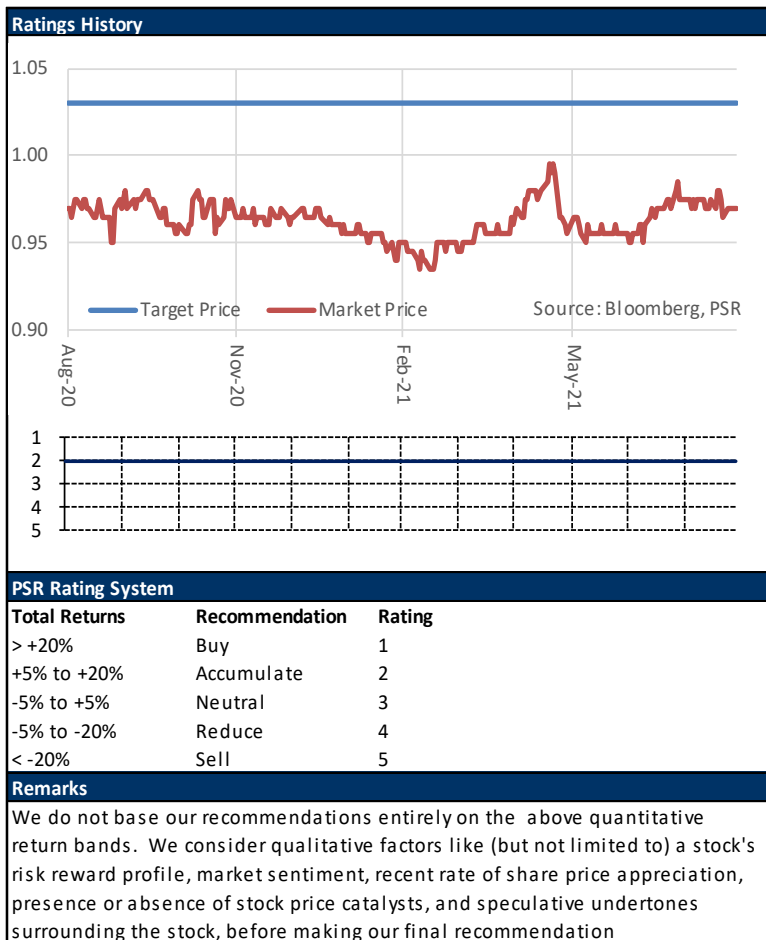
Y/E Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	48.9	48.4	39.9	44.2	44.4
P/B (X)	1.2	1.3	1.3	1.4	1.5
EV/EBITDA (X)	17.2	16.0	15.2	15.6	15.6

### Growth & Margins

<b>Growth</b>					
Revenue	54.7%	4.7%	-0.5%	0.7%	0.9%
EBITDA	48.2%	4.3%	4.6%	-1.8%	1.0%
EBIT	57.0%	4.1%	13.0%	-5.9%	0.5%
Net profit, adj.	54.9%	1.0%	21.4%	-9.9%	-0.4%
<b>Margins</b>					
Gross margin	24.4%	23.2%	25.5%	25.3%	25.1%
EBITDA margin	70.1%	69.8%	73.3%	71.5%	71.6%
EBIT margin	24.6%	24.5%	27.8%	26.0%	25.9%
Net profit margin	21.9%	21.1%	25.7%	23.0%	22.7%

### Key Ratios

ROE	2.6%	2.7%	3.4%	3.2%	3.3%
ROA	1.8%	1.9%	2.3%	2.1%	2.2%
Distribution yield	5.0%	5.2%	5.2%	5.3%	5.3%
Net debt/EBITDA (X)	2.6	2.0	1.9	2.0	2.1



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