

COMPANY RESULTS

NetLink NBN Trust (NETLINK SP)

FY24: Soft Results From Higher Costs; Overall Connections Continue To Grow

Driven by higher overall connections, Netlink posted a higher revenue (+1.9% yoy) for FY24. However, FY24 EBITDA (-0.9% yoy) and PATMI (-5.5% yoy) were lower yoy, below our expectations. The soft bottom-line performance was due to a weak 4QFY24, dragged by an S\$8.8m one-off expense and higher operating costs. Armed with stable revenue streams and operating cashflows, we continue to like Netlink as a high-yielding, safe-haven stock. Maintain BUY with a lower target price of S\$0.98.

FY24 RESULTS

Year to 31 Mar (\$m)	4QFY24	qoq % chg	yoy % chg	FY24	yoy % chg
Revenue	101.8	(2.2)	(1.7)	411.3	1.9
EBITDA	63.9	(19.4)	(14.9)	292.4	(0.9)
EBITDA Margin (%)	62.8	(13.4ppt)	(9.7ppt)	71.1	(2.0ppt)
Profit After Tax	18.1	(43.8)	(34.1)	103.2	(5.5)
Net Margin (%)	17.8	(13.2ppt)	(8.7ppt)	25.1	(2.0ppt)

Source: NetLink, UOB Kay Hian

RESULTS

- FY24: Slightly below expectations.** NetLink NBN Trust (Netlink) reported higher FY24 revenue (+1.9% yoy) but lower EBITDA (-0.9% yoy) and net profit (-5.5% yoy), forming 98.4%/96.4%/92.5% of our full-year forecasts respectively. While higher connections drove revenue higher, the soft FY24 EBITDA and net profit were due to an S\$8.8m one-off write-off of decommissioned network assets in 4QFY24 and higher finance costs respectively. Excluding the one-off expense, FY24 EBITDA and net profit would have formed around 98% of our full-year forecasts and be within our expectations. As a result, both FY24 EBITDA and PATMI margins were 2.0ppt lower yoy.
- Weak quarter.** For 4QFY24, overall revenue (-1.7% yoy, -2.2% qoq), EBITDA (-14.9% yoy, -19.4% qoq) and net profit (-34.1% yoy, -43.8% qoq) were lower, on the back of lower ancillary project revenue recognition (-39.7% yoy, -23.6% qoq, -\$3.3m yoy), higher operating costs and the one-off expense as previously mentioned. Excluding the one-off expense, 4QFY24 EBITDA would have dropped around 5% yoy.
- Slightly higher dividend.** Netlink declared a higher 2HFY24 final dividend of 2.65 S Cents/share (2HFY23: 2.62 S cents/share), in line with expectations, taking FY24 total dividend to 5.30 S cents/share (FY23: 5.24 S cents/share) and forming 100% of our full-year forecasts. This implies an annualised dividend yield of around 6.2%.
- Higher interest costs.** Netlink's FY24 net finance costs surged 21.5% yoy as the group's effective average interest rates increased to 2.75% (3QFY23: 2.64%, FY23: 2.32%). Although the group increased its borrowings to S\$765m (3QFY23: S\$735m), 78.4% of the group's borrowings are now on fixed rates compared to 69.4% in 3QFY23.

KEY FINANCIALS

Year to 31 Mar (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	403	411	416	426	437
EBITDA	291	286	294	301	309
Operating profit	120	114	121	128	136
Net profit (rep./act.)	109	103	108	115	123
Net profit (adj.)	109	103	108	115	123
EPS (\$ cent)	2.8	2.6	2.8	3.0	3.2
PE (x)	30.9	32.7	31.2	29.3	27.4
P/B (x)	1.3	1.3	1.4	1.4	1.5
EV/EBITDA (x)	13.6	13.8	13.5	13.1	12.8
Dividend yield (%)	6.1	6.1	6.2	6.3	6.4
Net margin (%)	27.1	25.1	26.0	27.0	28.1
Net debt/(cash) to equity (%)	20.2	23.0	25.1	26.8	28.1
Interest cover (x)	17.4	13.2	13.1	13.4	13.8
ROE (%)	4.1	4.0	4.4	4.8	5.4
Consensus net profit	-	-	109	114	126
UOBKH/Consensus (x)	-	-	1.00	1.01	0.98

Source: NetLink NBN Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.865
Target Price	S\$0.980
Upside	+13.3%
(Previous TP)	S\$1.01)

COMPANY DESCRIPTION

NetLink NBN Trust (NLNNT) 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 (\$m):	3,370.9
Market cap (US\$m):	2,501.8
3-mth avg daily t'over (US\$m):	1.8

Price Performance (%)

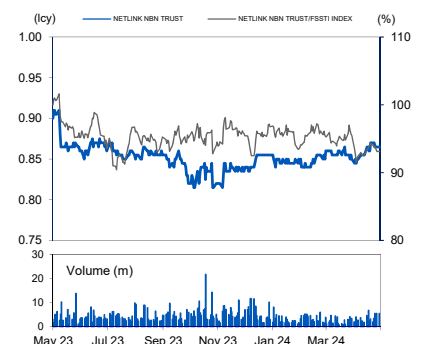
52-week high/low S\$0.910/S\$0.815

1mth	3mth	6mth	1yr	YTD
1.8	1.8	6.1	(2.3)	3.0

Major Shareholders

	%
Singtel	24.8
M&G Plc	6.9
-	-
FY25 NAV/Share (\$)	0.62
FY25 Net Debt/Share (\$)	0.16

PRICE CHART



Source: Bloomberg

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REVENUE BY SEGMENT

	4QFY24	qoq % chg	yoy % chg	FY24	yoy % chg
Revenue Breakdown ('000):					
Residential connections	62,229	0.4	1.7	247,588	1.4
Non-residential connections	8,248	(4.5)	(0.5)	33,313	3.2
NBAP and segment connections	5,197	1.9	11.7	19,741	16.5
Installation related revenue	5,902	(5.6)	13.9	25,088	24.4
Ancillary project revenue	5,084	(23.6)	(39.7)	23,031	(10.8)
Co-location revenue	5,197	10.8	(5.4)	19,741	(7.7)
Total Fibre Business Revenue	91,858	(1.5)	(1.5)	368,503	2.2
Ducts and manhole service revenue	6,721	(2.2)	4.3	27,144	(1.1)
Central Office revenue	3,251	(17.9)	(17.4)	15,628	1.9
Total Ducts, Manholes and Central	9,971	(8.0)	(4.0)	42,773	0.0
Total Revenue	101,829	(2.2)	(1.7)	411,276	1.9

Source: NetLink, UOB Kay Hian

- **Mixed segmental performance.** NBAP and segment connections and installation-related revenue were the outperformers, with 4QFY24 segmental revenue growing 11.7% yoy and 13.9% yoy respectively. Revenue from residential connections also increased 1.7% yoy, given the higher number of connections. For 4QFY24, connections for residential (+0.4% qoq, +1.5% yoy), non-residential (+0.6% qoq, +2.7% yoy), NBAP (+2.0% qoq, +10.1% yoy) and segment (+4.3% qoq, +24.6 yoy) grew.

STOCK IMPACT

- **Impending new rates.** As a recap from our previous note, Netlink announced the completion of Infocomm Media Development Authority's (IMDA) recent review of Netlink's interconnection prices in Nov 23, which resulted in slightly lower prices for residential end-user connections and NBAP connections, while prices for non-residential end-user connections remained the same. The revised prices are expected to take effect from 1 Apr 24 (at the start of 1QFY25) and we note that the new prices would not have a material impact on Netlink's FY25-27 DPU and earnings.
- **Safe haven; attractive 6.2% dividend yield.** Armed with predictable revenue streams, 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 has sufficient debt headroom (23.1% net gearing) 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 management may even consider a JV or consortium outfit in its acquisition strategy. Netlink sees growth opportunities arising from the digital economy, 5G rollout, connectivity into data centres and Singapore's Smart Nation initiatives. The group is also well-positioned to support IMDA and its customers in their technology upgrade to deliver a 10Gbps-enabled National Broadband Network (NBN).

EARNINGS REVISION/RISK

- **We reduce our FY25-26 PATMI estimates** on the back of lower margin assumptions while adding our FY27 PATMI estimates. We now forecast FY25-27 PATMI at S\$108.1m (S\$116.7m previously), S\$115.0m (S\$126.4m previously) and S\$122.9m respectively.

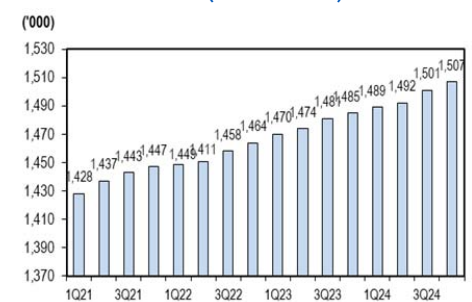
VALUATION/RECOMMENDATION

- **Maintain BUY with a lower DCF-based target price of S\$0.98 (S\$1.01 previously)** (WACC: 6%, terminal growth: 1%), as we roll over our DCF to FY25. At our target price, the stock trades at around 13x FY25 EV/EBITDA, its long-term mean EV/EBITDA. 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

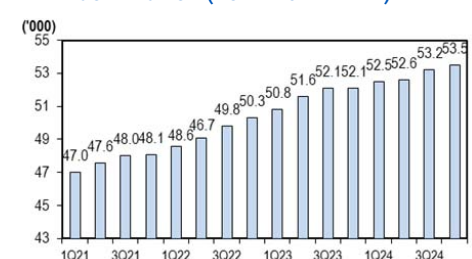
- **Key catalysts include:** a) 5G beneficiary – more opportunities arising from mobile operators' fibre network densification demand, b) growth in demand for NBAP connections with the rollout of 5G/Smart Nation initiatives, c) investors seeking defensive yield from Netlink's resilient, predictable,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

FIBRE CONNECTION (RESIDENTIAL)



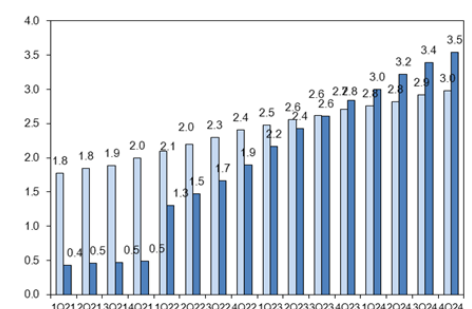
Source: NetLink, UOB Kay Hian

FIBRE CONNECTION (NON-RESIDENTIAL)



Source: NetLink, UOB Kay Hian

NON-BUILDING ADDRESS POINT AND SEGMENT 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)	2023	2024F	2025F	2026F
Net turnover	411.3	415.5	426.1	436.9
EBITDA	286.5	293.5	301.0	308.6
Deprec. & amort.	172.9	172.3	172.8	172.6
EBIT	113.5	121.2	128.2	136.0
Total other non-operating income	9.3	9.3	9.3	9.3
Net interest income/(expense)	(21.8)	(22.4)	(22.4)	(22.4)
Pre-tax profit	101.1	108.1	115.0	122.9
Tax	2.1	0.0	0.0	0.0
Net profit	103.2	108.1	115.0	122.9
Net profit (adj.)	103.2	108.1	115.0	122.9

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	288.6	279.3	286.4	294.4
Pre-tax profit	101.1	108.1	115.0	122.9
Tax	n.a.	n.a.	n.a.	n.a.
Deprec. & amort.	172.9	172.4	172.9	172.7
Working capital changes	14.9	0.1	0.3	0.4
Other operating cashflows	(0.3)	(1.2)	(1.9)	(1.5)
Investing	(127.6)	(99.7)	(93.7)	(87.4)
Capex (growth)	4.7	0.0	0.0	0.0
Capex (maintenance)	(132.3)	(99.7)	(93.7)	(87.4)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Financing	(178.8)	(206.5)	(208.8)	(211.8)
Distribution to unitholders	(205.4)	(206.5)	(208.8)	(211.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	30.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(3.4)	0.0	0.0	0.0
Net cash inflow (outflow)	(17.8)	(26.9)	(16.2)	(4.8)
Beginning cash & cash equivalent	200.7	182.9	156.0	139.8
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	182.9	156.0	139.8	135.0

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,679.1	2,606.5	2,527.4	2,442.3
Other LT assets	963.7	963.7	963.7	963.7
Cash/ST investment	182.9	156.0	139.8	135.0
Other current assets	90.9	91.3	92.3	93.4
Total assets	3,916.6	3,817.5	3,723.3	3,634.3
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	137.4	139.1	141.7	144.3
LT debt	763.1	763.1	763.1	763.1
Other LT liabilities	493.4	493.4	493.4	493.4
Shareholders' equity	2,522.7	2,421.9	2,325.1	2,233.5
Total liabilities & equity	3,916.6	3,817.5	3,723.3	3,634.3

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	69.7	70.6	70.6	70.6
Pre-tax margin	24.6	26.0	27.0	28.1
Net margin	25.1	26.0	27.0	28.1
ROA	2.6	2.8	3.1	3.3
ROE	4.0	4.4	4.8	5.4
Growth				
Turnover	1.9	1.0	2.5	2.5
EBITDA	(1.5)	2.5	2.5	2.5
Pre-tax profit	(7.5)	6.9	6.4	6.9
Net profit	(5.5)	4.7	6.4	6.9
Net profit (adj.)	(5.5)	4.7	6.4	6.9
EPU	(5.5)	4.7	6.4	6.9
Leverage				
Debt to total capital	23.2	24.0	24.7	25.5
Debt to equity	30.3	31.5	32.8	34.2
Net debt/(cash) to equity	23.0	25.1	26.8	28.1
Interest cover (x)	13.2	13.1	13.4	13.8

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