

## COMPANY UPDATE

### NetLink NBN Trust (NETLINK SP)

A Potentially Higher Rate Due To Rising Rates And Costs, Upgrade To BUY

The next regulatory review, which we believe may be on an uptrend, is expected to be completed by 1H23 and implemented by 2H23. Separately, 9MFY23 core earnings (+24.2% yoy) came in above expectations, forming 81% of our full-year forecasts. This prompted us to raise FY23-25 net profit by 7-15%. Given Netlink's stable revenue streams and operating cashflows, we continue to like it as a high-yielding, safe haven stock. Upgrade to BUY with a marginally lower target price of S\$1.02.

#### WHAT'S NEW

- **Expect next regulatory review by 1H23.** NetLink NBN Trust (Netlink) expects the next regulatory review to be completed by the end 1H23 and to take effect from 2H23 onwards. Netlink is currently in discussion with the Infocomm Media Development Authority (IMDA) and at this juncture, as our base case, we expect the next return on regulated asset base (RAB) to be slightly higher, in view of the unprecedented elevated interest rates environment and expected higher cost base from inflationary pressures.
- **Safe haven; attractive 6.4% dividend yield.** The stock offers a shelter amid market volatility, offering an attractive 6.4% dividend yield over FY23-25.
- **Still on the lookout for earnings-accretive M&As.** 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 (21.6% 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 Netlink's 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.
- **Key catalysts include:** a) growth in demand for non-building address points (NBAP) connections with the rollout of 5G/Smart Nation initiatives, b) investors seeking defensive yield from Netlink's resilient, predictable, transparent and regulated cash flow, and c) earnings-accretive M&As.

#### KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	368	378	398	412	423
EBITDA	261	275	284	291	298
Operating profit	93	107	119	132	143
Net profit (rep./act.)	95	104	108	119	128
Net profit (adj.)	102	116	108	119	128
EPS (\$ cent)	2.6	3.0	2.8	3.1	3.3
PE (x)	32.0	28.2	30.2	27.5	25.5
P/B (x)	1.2	1.2	1.3	1.3	1.3
EV/EBITDA (x)	14.5	13.7	13.3	13.0	12.7
Dividend yield (%)	6.0	6.1	6.4	6.5	6.5
Net margin (%)	25.7	27.5	27.3	28.9	30.3
Net debt/(cash) to equity (%)	17.6	18.9	19.3	20.5	21.7
Interest cover (x)	23.1	26.3	19.4	17.6	16.3
ROE (%)	3.3	3.8	4.1	4.6	5.2
Consensus net profit	-	-	107	100	104
UOBKH/Consensus (x)	-	-	1.01	1.18	1.24

Source: NetLink NBN Trust, Bloomberg, UOB Kay Hian

## BUY

(Upgraded)

Share Price	S\$0.84
Target Price	S\$1.02
Upside	+21.2%
(Previous TP)	S\$1.05)

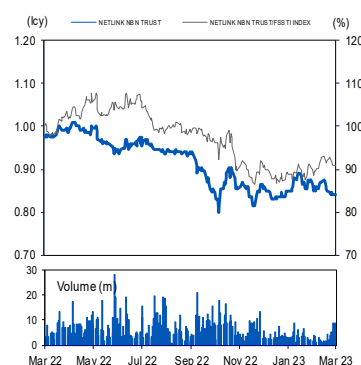
#### COMPANY DESCRIPTION

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):	3,273.5				
Market cap (US\$m):	2,437.8				
3-mth avg daily t'over (US\$m):	2.1				
Price Performance (%)					
52-week high/low					S\$1.01/S\$0.800
1mth	3mth	6mth	1yr	YTD	
(4.0)	(2.9)	(9.7)	(14.3)	1.2	
Major Shareholders					%
Singapore Telecommunications Limited					24.8
M&G Plc					7.9
-					-
FY23 NAV/Share (\$S)					0.67
FY23 Net Debt/Share (\$S)					0.13

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **We raise FY23-25 earnings estimates**, on the back of higher fibre connection assumptions across most segments, after the strong 9MFY23 business update. We now forecast FY23-25 PATMI at S\$108.4m (S\$101.5m previously), S\$118.9m (S\$106.2m previously) and S\$128.3m (S\$111.3m previously) respectively. Key risks to earnings include higher operating costs from inflationary pressures.
- **9MFY23: Above expectations.** Netlink's 3QFY23 business update saw the group reporting strong 9MFY23 revenue of S\$299.8m (+6.5% yoy) and net profit of S\$81.8m (+24.2% yoy). This is above our expectation, forming 78.5% and 80.6% of our full-year revenue and net profit forecasts. The increase in revenue was driven by higher ancillary project revenue, NBAP & segment connections and residential connections revenue, partially offset by lower Central Office revenue. 9MFY23 EBITDA grew by 11.7% yoy while EBITDA margins expanded 3.3ppt yoy due to higher revenue, lower operating expenses and the absence of a S\$12.4m one-off remeasurement loss recorded in 9MFY22. Excluding this loss, EBITDA would still have grown 5.0% yoy.
- **Effects from higher interest rates.** With elevated interest rates, Netlink's 9MFY23 net finance charges surged 47.6% yoy to S\$11.2m as the group's effective average interest rates increased to 2.0% from 1.1% at end-9MFY22. Currently, 73.9% of Netlink's S\$690m borrowings are now hedged at fixed rates as compared with 50.0% a year ago.
- **Stable 3QFY23 as connections rise.** Total 3QFY23 revenue (+7.0% yoy, -1.4% qoq) and net profit (+5.9% yoy, +1.0% qoq) were higher as fibre connections increased across most of Netlink's segments. The growth in revenue was largely driven by ancillary project revenue which surged 177% yoy to S\$5.6m in 3QFY23 due to the infrastructure projects, coupled with a 37.7% yoy growth (+14.5% qoq) in NBAP connection revenue, on the back of higher demand for point-to-point connections with the rollout of 5G network. Additionally, residential connection revenue continued its uptrend, growing 1.7% yoy (+0.4% qoq) as residential connections rose to 1.481m (+1.6% yoy and +0.5% qoq).

### REVENUE BY SEGMENT

Revenue Breakdown ('000):	3QFY23	qoq % chg	yoy % chg	9MFY23	yoy % chg
Residential connections	61,217	0.4	1.7	182,904	1.5
Non-residential connections	8,110	0.8	3.6	23,987	3.9
NBAP and Segment connections	4,577	14.5	37.7	12,294	32.3
Installation related revenue	4,793	(4.3)	(4.9)	14,992	2.4
Ancillary project revenue	5,632	(23.4)	176.6	17,391	168.6
Co-location revenue	5,306	0.1	7.2	15,892	8.5
<b>Total Fibre Business Revenue</b>	<b>89,635</b>	<b>(1.2)</b>	<b>7.5</b>	<b>267,460</b>	<b>7.7</b>
Ducts and manhole service revenue	6,934	(2.4)	(1.4)	20,989	(0.6)
Central Office revenue	3,679	(5.6)	13.5	7,715	(5.9)
<b>Total Ducts, Manholes and Central</b>	<b>11,002</b>	<b>(3.5)</b>	<b>3.3</b>	<b>21,770</b>	<b>(2.5)</b>
<b>Total Revenue</b>	<b>100,248</b>	<b>(1.4)</b>	<b>7.0</b>	<b>299,843</b>	<b>6.5</b>

Source: NetLink, UOB Kay Hian

### EARNINGS REVISION/RISK

- We increase our FY23-25 earnings estimates by 7-15%.
- Potential downside may come from higher operating costs from inflationary pressures.

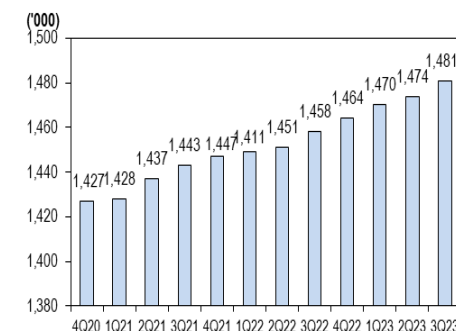
### VALUATION/RECOMMENDATION

- **Upgrade to BUY with a slightly lower DCF-based target price of S\$1.02 (S\$1.05 previously)** (WACC: 6%, terminal growth: 1% (2% previously)). At our target price, the stock trades at around 16x FY23 EV/EBITDA.
- Despite the recent share price weakness, 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

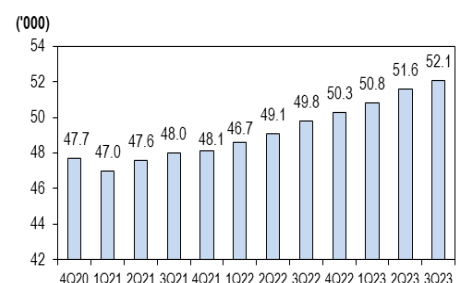
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### FIBRE CONNECTION (RESIDENTIAL)



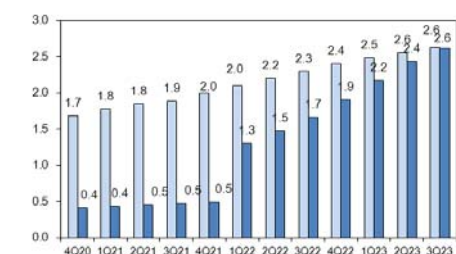
Source: NetLink, UOB Kay Hian

### 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)	2022	2023F	2024F	2025F
Net turnover	377.6	397.8	412.1	423.1
EBITDA	275.5	283.5	291.3	298.1
Deprec. & amort.	168.7	164.5	159.7	155.5
EBIT	106.8	119.0	131.5	142.6
Total other non-operating income	3.2	4.0	4.0	4.0
Net interest income/(expense)	(10.5)	(14.6)	(16.6)	(18.3)
Pre-tax profit	99.5	108.4	118.9	128.4
Tax	4.2	0.0	0.0	0.0
Net profit	103.7	108.4	118.9	128.4
Net profit (adj.)	116.1	108.4	118.9	128.4

## BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	2,830.7	2,744.0	2,664.9	2,594.1
Other LT assets	946.0	946.0	946.0	946.0
Cash/ST investment	149.8	159.6	146.9	134.3
Other current assets	105.5	84.0	86.1	87.8
<b>Total assets</b>	<b>4,031.9</b>	<b>3,933.6</b>	<b>3,843.9</b>	<b>3,762.1</b>
ST debt	155.8	155.8	155.8	155.8
Other current liabilities	121.4	125.2	128.1	130.5
LT debt	507.9	507.9	507.9	507.9
Other LT liabilities	530.4	530.4	530.4	530.4
Shareholders' equity	2,716.4	2,614.4	2,521.8	2,437.5
<b>Total liabilities &amp; equity</b>	<b>4,031.9</b>	<b>3,933.6</b>	<b>3,843.9</b>	<b>3,762.1</b>

## CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>258.8</b>	<b>299.0</b>	<b>278.5</b>	<b>283.5</b>
Pre-tax profit	99.5	108.4	118.9	128.4
Tax	n.a.	n.a.	n.a.	n.a.
Deprec. & amort.	170.2	164.6	159.8	155.6
Working capital changes	(11.1)	43.9	(0.0)	(0.0)
Other operating cashflows	0.2	(17.9)	(0.3)	(0.5)
<b>Investing</b>	<b>(73.9)</b>	<b>(77.8)</b>	<b>(80.6)</b>	<b>(84.6)</b>
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(73.9)	(77.8)	(80.6)	(84.6)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
<b>Financing</b>	<b>(205.6)</b>	<b>(211.3)</b>	<b>(210.5)</b>	<b>(211.5)</b>
Distribution to unitholders	(199.1)	(211.3)	(210.5)	(211.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(6.5)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>(20.7)</b>	<b>9.8</b>	<b>(12.6)</b>	<b>(12.6)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>170.5</b>	<b>149.7</b>	<b>159.6</b>	<b>146.9</b>
Changes due to forex impact	0.0	0.0	0.0	1.0
<b>Ending cash &amp; cash equivalent</b>	<b>149.8</b>	<b>159.6</b>	<b>146.9</b>	<b>135.3</b>

## KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	73.0	71.3	70.7	70.5
Pre-tax margin	26.3	27.3	28.9	30.3
Net margin	27.5	27.3	28.9	30.3
ROA	2.5	2.7	3.1	3.4
ROE	3.8	4.1	4.6	5.2
<b>Growth</b>				
Turnover	2.5	5.3	3.6	2.7
EBITDA	5.7	2.9	2.7	2.4
Pre-tax profit	8.6	9.0	9.7	7.9
Net profit	9.3	4.6	9.7	7.9
Net profit (adj.)	13.6	(6.6)	9.7	7.9
EPU	13.6	(6.6)	9.7	7.9
<b>Leverage</b>				
Debt to total capital	19.6	20.2	20.8	21.4
Debt to equity	24.4	25.4	26.3	27.2
Net debt/(cash) to equity	18.9	19.3	20.5	21.7
Interest cover (x)	26.3	19.4	17.6	16.3

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