

COMPANY RESULTS

NetLink NBN Trust (NETLINK SP)

1QFY24: Results In Line, With Upcoming IMDA Review On The Horizon

Driven by higher revenue contributions across most business segments, Netlink's 1QFY24 net profit (+2.1% yoy) is within our expectations, forming 25% of our full-year forecast. The next regulatory review, which we believe may be on an uptrend, is expected to be completed by 2QFY24 and implemented by 4QFY24. In view of the company's stable revenue streams and operating cashflows, we continue to like Netlink as a high-yielding, safe haven stock. Maintain BUY with the same target price of S\$1.05.

1QFY24 RESULTS

Year to 31 Mar (S\$m)	1QFY24	qoq % chg	yoy % chg	Remarks
Revenue	103.9	0.3	6.2	Broad-based growth across most segments.
EBITDA	75.2	0.1	3.1	
EBITDA Margin (%)	72.4	(0.1ppt)	(2.2ppt)	Dragged by higher operating costs.
Profit After Tax	28.2	2.9	2.1	
Net Margin (%)	27.2	0.7ppt	(-1.1ppt)	

Source: NetLink, UOB Kay Hian

RESULTS

- 1QFY24: Steady results in line.** For 1QFY24, NetLink NBN Trust (Netlink) reported higher revenue (+0.3% qoq, +6.2% yoy), EBITDA (+0.1% qoq, +3.1% yoy) and net profit (+2.9% qoq, +2.1% yoy), forming 24-25% of our full-year forecasts. The stable yoy growth in top-line was driven by higher broad-based revenue growth across most segments, specifically Ancillary Project and Central Office, but offset by lower ducts and manholes services revenue. On a sequential basis, 1QFY24 revenue was also slightly higher qoq, driven higher sequential connections growth. Due to higher operating costs, both EBITDA (-0.1ppt qoq, -2.2ppt yoy) and net margins compressed yoy (+0.7% qoq, -1.1ppt yoy) in 1QFY24.
- Dragged by higher finance costs.** With elevated interest rates, Netlink's 1QFY24 net finance charges surged 37.8% yoy as the group's effective average interest rates increased to 2.6% (1QFY23: 1.8%, 4QFY23: 2.1%). Similar to 4QFY23, 69.4% of Netlink's S\$735m borrowings are hedged at fixed rates.
- Steady 1QFY24 segmental performance as connections rise.** Ancillary Project and Non-Building Address Points (NBAP) connections were the clear outperformers, with segmental revenue growing 58.1% yoy and 25.7% yoy respectively, supported by higher project completions and increased demand for point-to-point connections. Revenue from residential connections also increased 1.4% yoy, given the higher number of connections. For 1QFY24, connections for residential (+0.3% qoq, +1.3% yoy), non-residential (+0.8% qoq, +3.3% yoy), NBAP (+1.9% qoq, +11.2% yoy) and segment (+5.6% qoq, +38.4% yoy) grew.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	378	403	418	430	440
EBITDA	275	291	300	309	316
Operating profit	107	120	134	147	158
Net profit (rep./act.)	104	109	119	131	143
Net profit (adj.)	116	109	119	131	143
EPS (S\$ cent)	3.0	2.8	3.1	3.4	3.7
PE (x)	28.9	30.7	28.1	25.5	23.5
P/B (x)	1.2	1.3	1.3	1.4	1.4
EV/EBITDA (x)	14.1	13.4	12.9	12.6	12.3
Dividend yield (%)	6.0	6.1	6.2	6.4	6.5
Net margin (%)	27.5	27.1	28.6	30.5	32.5
Net debt/(cash) to equity (%)	18.9	20.2	21.8	22.8	23.7
Interest cover (x)	26.3	17.4	15.0	14.4	14.7
ROE (%)	3.8	4.1	4.6	5.2	5.9
Consensus net profit	-	-	108	110	115
UOBKH/Consensus (x)	-	-	1.11	1.19	1.25

Source: NetLink NBN Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.86
Target Price	S\$1.05
Upside	+22.3%

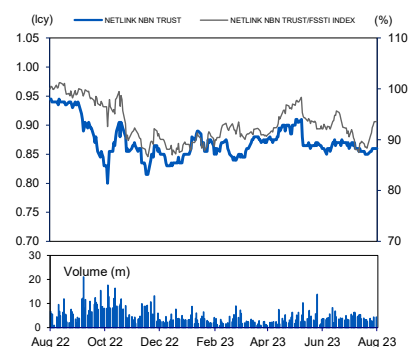
COMPANY DESCRIPTION

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 (S\$m):	3,351.4			
Market cap (US\$m):	2,468.6			
3-mth avg daily t'over (US\$m):	2.6			
Price Performance (%)				
52-week high/low	S\$0.945/S\$0.800			
1mth	3mth	6mth	1yr	YTD
(1.1)	(2.8)	(1.7)	(8.0)	3.6
Major Shareholders	%			
Singapore Telecommunications Limited	24.8			
M&G Plc	6.9			
-	-			
FY24 NAV/Share (S\$)	0.65			
FY24 Net Debt/Share (S\$)	0.14			

PRICE CHART



Source: Bloomberg

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REVENUE BY SEGMENT

	1QFY24	qoq % chg	yoy % chg
Revenue Breakdown ('000):			
Residential connections	61,530	0.6	1.4
Non-residential connections	8,211	(0.9)	4.8
NBAP and Segment connections	4,677	0.5	25.7
Installation related revenue	5,509	6.3	6.2
Ancillary project revenue	6,964	(17.4)	58.1
Co-location revenue	5,612	2.2	6.2
Total Fibre Business Revenue	92,502	(0.8)	6.2
Ducts and manhole service revenue	6,756	4.8	(2.8)
Central Office revenue	4,677	18.8	22.5
Total Ducts, Manholes and Central	11,433	10.1	6.2
Total Revenue	103,935	0.3	6.2

Source: NetLink, UOB Kay Hian

STOCK IMPACT

- Regulatory review delayed.** Results for the upcoming IMDA regulatory review were not announced in the latest 1QFY24 business update, but Netlink noted that it would be expected latest by end-23 (3QFY24), with 3Q23 (2QFY24) a more likely timeline. Management noted that discussions were still ongoing and that the delay was not disadvantageous to the group. As a recap, Netlink mentioned that the group has been investing in its network assets to cater to the growing end-user demand for residential, non-residential, NBAP and Segment connections. These investments would in turn increase its regulatory asset base. At this juncture, we expect the next return on the regulatory asset base to be slightly higher, in view of the unprecedented elevated interest rates environment and expected higher cost base from inflationary pressures.
- Safe haven; attractive 6.2% 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 (23.6% 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.

EARNINGS REVISION/RISK

- We make no changes to our earnings estimates.
- Potential downside may come from higher operating costs from inflationary pressures.

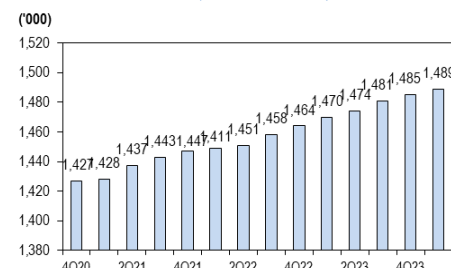
VALUATION/RECOMMENDATION

- Maintain BUY with the same DCF-based target price of S\$1.05.** (WACC: 6%, terminal growth: 1%). At our target price, the stock trades at around 16x FY24 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

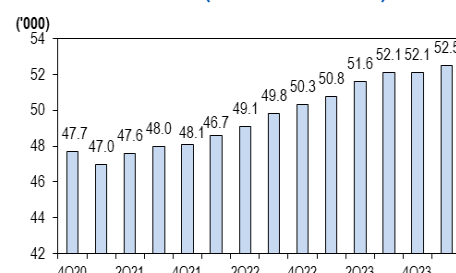
- Key catalysts include:** a) Netlink being a 5G beneficiary – more opportunities arising from mobile operators' fibre network densification demand, b) growth in demand for NBAP connections with the rollout of 5G/Smart Nation initiatives, c) investors seeking defensive yield from Netlink's resilient,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

FIBRE CONNECTION (RESIDENTIAL)



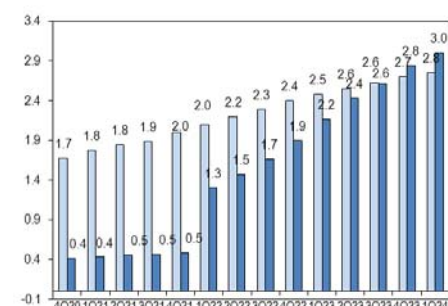
Source: NetLink, UOB Kay Hian

FIBRE CONNECTION (NON-RESIDENTIAL)



Source: NetLink, UOB Kay Hian

NON-BUILDING ADDRESS POINT AND SEGMENT CONNECTIONS¹



¹ 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)	2023	2024F	2025F	2026F
Net turnover	403.5	417.8	429.9	439.8
EBITDA	290.7	300.3	308.9	316.1
Deprec. & amort.	170.6	166.7	162.0	157.7
EBIT	120.1	133.6	146.9	158.4
Total other non-operating income	5.9	5.9	5.9	5.9
Net interest income/(expense)	(16.7)	(20.0)	(21.5)	(21.5)
Pre-tax profit	109.2	119.5	131.3	142.8
Tax	0.0	0.0	0.0	0.0
Net profit	109.3	119.5	131.3	142.8
Net profit (adj.)	109.3	119.5	131.3	142.8

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	285.7	281.7	288.0	295.4
Pre-tax profit	109.2	119.5	131.3	142.8
Tax	n.a.	n.a.	n.a.	n.a.
Deprec. & amort.	171.5	166.8	162.1	157.8
Working capital changes	10.5	(1.5)	(1.3)	(1.1)
Other operating cashflows	(5.5)	(3.1)	(4.1)	(4.1)
Investing	(96.7)	(100.2)	(86.0)	(88.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(96.7)	(100.2)	(86.0)	(88.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Financing	(138.1)	(204.2)	(208.3)	(213.4)
Distribution to unitholders	(202.3)	(204.2)	(208.3)	(213.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	225.0	0.0	0.0	0.0
Loan repayment	(156.0)	0.0	0.0	0.0
Others/interest paid	(4.8)	0.0	0.0	0.0
Net cash inflow (outflow)	50.9	(22.7)	(6.2)	(6.0)
Beginning cash & cash equivalent	149.8	200.7	178.0	172.8
Changes due to forex impact	0.0	0.0	1.0	1.0
Ending cash & cash equivalent	200.7	178.0	172.8	167.8

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,760.0	2,693.5	2,617.5	2,547.8
Other LT assets	943.6	943.6	943.6	943.6
Cash/ST investment	200.7	178.0	171.8	166.8
Other current assets	108.4	112.1	115.1	117.6
Total assets	4,012.8	3,927.2	3,848.0	3,775.9
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	141.9	145.2	148.1	150.7
LT debt	732.0	732.0	732.0	732.0
Other LT liabilities	507.0	507.0	507.0	507.0
Shareholders' equity	2,631.8	2,543.0	2,460.9	2,386.1
Total liabilities & equity	4,012.8	3,927.2	3,848.0	3,775.9

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	72.1	71.9	71.9	71.9
Pre-tax margin	27.1	28.6	30.5	32.5
Net margin	27.1	28.6	30.5	32.5
ROA	2.7	3.0	3.4	3.7
ROE	4.1	4.6	5.2	5.9
Growth				
Turnover	6.8	3.6	2.9	2.3
EBITDA	5.5	3.3	2.9	2.3
Pre-tax profit	9.8	9.4	9.9	8.7
Net profit	5.4	9.4	9.9	8.7
Net profit (adj.)	(5.9)	9.4	9.9	8.7
EPU	(5.9)	9.4	9.9	8.7
Leverage				
Debt to total capital	21.8	22.4	22.9	23.5
Debt to equity	27.8	28.8	29.7	30.7
Net debt/(cash) to equity	20.2	21.8	22.8	23.7
Interest cover (x)	17.4	15.0	14.4	14.7

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