

COMPANY RESULTS

NetLink NBN Trust (NETLINK SP)

1HFY24: Stable Results, Upcoming IMDA Review Expected By End-3QFY24

Despite higher yoy revenue and EBITDA, 1HFY24 PATMI (-3.1% yoy) was just below our expectations, dragged by higher finance costs, and accounted for 44% of our full-year forecasts. The next regulatory review is expected to be completed by end-3QFY24 and implemented by 1QFY25. Given its stable revenue streams and operating cashflows, we continue to like Netlink as it is a high-yielding, safe haven stock. Maintain BUY with a lower target price of S\$1.01.

1HFY24 RESULTS

Year to 31 Mar (S\$m)	2QFY24	qoq % chg	yoy % chg	1HFY24	yoy % chg
Revenue	101.4	(2.5)	(0.3)	205.3	2.9
EBITDA	73.9	(1.8)	1.8	149.1	2.4
EBITDA Margin (%)	72.9	0.5ppt	1.5ppt	72.6	(0.3ppt)
Profit After Tax	24.6	(12.7)	(8.4)	52.9	(3.1)
Net Margin (%)	24.3	(2.9ppt)	(2.2ppt)	25.8	(1.6ppt)

Source: NetLink, UOB Kay Hian

RESULTS

- 1HFY24: Stable results. In line with expectations.** Netlink NBN Trust (Netlink) reported higher revenue (+2.9% yoy) and EBITDA (+2.4% yoy), each accounting for 49% of our full-year forecasts and driven by higher connections revenue across all segments. However, dragged by higher finance costs (+43.8% yoy), 1HFY24 PATMI was slightly lower at -3.1 yoy and accounted for 44% of our full-year forecasts, just below our expectations. For 2QFY24, revenue was slightly lower (-0.3% yoy, -2.5% qoq), largely due to lower ancillary project and co-location revenue. Similar to 1HFY24, 2QFY24 PATMI also softened (-8.4% yoy, -12.7% qoq) from higher finance costs.
- Higher dividend.** Netlink declared a slightly higher 1HFY24 interim dividend of 2.65 S cents/unit (1HFY23: 2.62 S Cents / unit), accounting for 49.5% of our full-year forecasts and in line with expectations. This implies an annualised FY24 dividend yield of 6.3%.
- Increased interest costs.** Netlink's 1HFY24 net finance costs surged 30.2% yoy as effective average interest rates increased to 2.64% (1HFY23: 1.92%, 1QFY24: 2.60%). Similar to 1QFY24, 69.4% of Netlink's S\$735m borrowings remain hedged at fixed rates.
- Mixed segmental performance.** Despite higher connections for all segments, 2QFY24 segmental performance was mixed. Installation and Non-Building Address Point (NBAP) connections were the clear outperformers, with segmental revenue growing 48.2% yoy and 19.3% yoy respectively. Revenue from residential connections also increased 1.4% yoy, given the higher number of connections. However, revenue from ancillary projects and co-location both fell 41.1% yoy and 19.9% yoy respectively. For 2QFY24, connections for residential (+0.2% qoq, +1.2% yoy), non-residential (+0.2% qoq, +1.9% yoy), NBAP (+2.4% qoq, +10.4% yoy) and segment connections (+7.2% qoq, +32.4% 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	123	135	144
Net profit (rep./act.)	104	109	108	119	129
Net profit (adj.)	116	109	108	119	129
EPS (S\$ cent)	3.0	2.8	2.8	3.0	3.3
PE (x)	28.2	30.0	30.4	27.5	25.4
P/B (x)	1.2	1.2	1.3	1.3	1.4
EV/EBITDA (x)	13.8	13.1	12.7	12.3	12.0
Dividend yield (%)	6.1	6.2	6.3	6.5	6.6
Net margin (%)	27.5	27.1	25.8	27.6	29.3
Net debt/(cash) to equity (%)	18.9	20.2	21.9	23.0	24.1
Interest cover (x)	26.3	17.4	14.2	14.4	14.7
ROE (%)	3.8	4.1	4.2	4.8	5.4
Consensus net profit	-	-	108	111	115
UOBKH/Consensus (x)	-	-	1.00	1.07	1.12

Source: NetLink NBN Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.84
Target Price	S\$1.01
Upside	+20.7%
(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 (S\$m):	3,273.5
Market cap (US\$m):	2,425.9
3-mth avg daily t'over (US\$m):	2.7
Price Performance (%)	

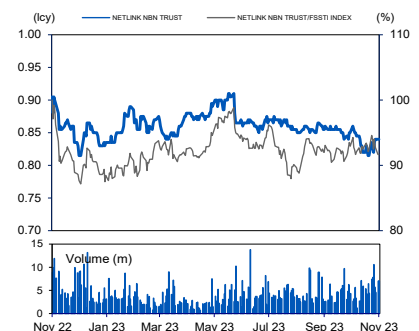
52-week high/low S\$0.910/S\$0.815

1mth	3mth	6mth	1yr	YTD
(1.2)	(1.8)	(5.6)	(5.6)	1.2

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

	2QFY24	qoq % chg	yoy % chg	1HFY24	yoy % chg
Revenue Breakdown ('000):					
Residential connections	61,865	0.5	1.4	123,395	1.4
Non-residential connections	8,214	0.0	2.1	16,425	3.5
NBAP and Segment connections	4,767	1.9	19.3	9,445	22.4
Installation related revenue	7,426	34.8	48.2	12,935	26.8
Ancillary project revenue	4,329	(37.8)	(41.1)	11,292	(4.0)
Co-location revenue	4,243	(24.4)	(19.9)	9,855	(6.9)
Total Fibre Business Revenue	90,845	(1.8)	0.2	183,347	3.1
Ducts and manhole service revenue	6,795	0.6	(4.4)	13,551	(3.6)
Central Office revenue	3,741	(20.0)	(4.0)	8,418	9.1
Total Ducts, Manholes and Central	10,536	(7.8)	(4.2)	21,969	0.9
Total Revenue	101,381	(2.5)	(0.3)	205,316	2.9

Source: NetLink, UOB Kay Hian

STOCK IMPACT

- **No announcement of IMDA review.** Results for the upcoming IMDA regulatory review were not announced in the latest 1HFY24 business update. However, the group gave a timeline and expects the review to be completed by this calendar year (end-23). Netlink has also been investing in its network assets to cater to the growing end-user demand across residential, non-residential, NBAP and segment connections. These investments, in turn, would increase its Regulated 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 6.3% 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 (21.5% 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.

EARNINGS REVISION/RISK

- **We cut our FY24-26 earnings estimates,** on the back of higher interest costs. We now forecast FY24-26 PATMI at S\$107.6m (S\$119.5m previously), S\$118.8m (S\$131.3m previously) and S\$128.8m (S\$142.8m previously) respectively.
- Potential downside may come from higher operating costs from inflationary pressures.

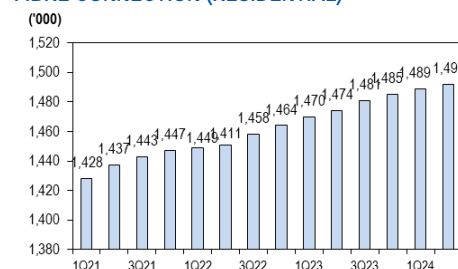
VALUATION/RECOMMENDATION

- **Maintain BUY with a lower DCF-based target price of S\$1.01 (S\$1.05 previously).** (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

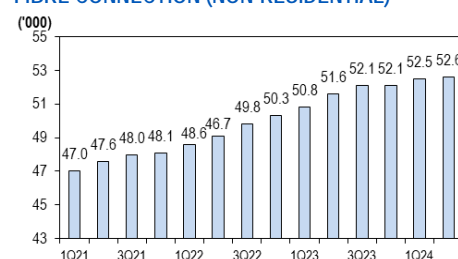
- **Key catalysts include:** a) 5G beneficiary – more opportunities arising from mobile operators' fibre network densification demand, b) growth in demand for NBAP connections with the rollout of 5G/Smart Nation initiatives, c) investors seeking defensive yield from Netlink's resilient, predictable,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

FIBRE CONNECTION (RESIDENTIAL)



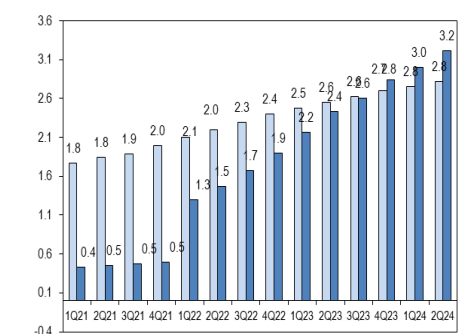
Source: NetLink, UOB Kay Hian

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	403.5	417.8	429.9	439.8
EBITDA	290.7	300.3	308.9	316.1
Deprec. & amort.	170.6	177.3	174.4	171.7
EBIT	120.1	123.0	134.5	144.4
Total other non-operating income	5.9	5.9	5.9	5.9
Net interest income/(expense)	(16.7)	(21.2)	(21.5)	(21.5)
Pre-tax profit	109.2	107.6	118.8	128.8
Tax	0.0	0.0	0.0	0.0
Net profit	109.3	107.6	118.8	128.8
Net profit (adj.)	109.3	107.6	118.8	128.8

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	285.7	281.7	286.8	295.4
Pre-tax profit	109.2	107.6	118.8	128.8
Tax	n.a.	n.a.	n.a.	n.a.
Deprec. & amort.	171.5	177.4	174.5	171.8
Working capital changes	10.5	(1.5)	(1.3)	(1.1)
Other operating cashflows	(5.5)	(1.9)	(5.3)	(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)	(207.1)	(213.4)
Distribution to unitholders	(202.3)	(204.2)	(207.1)	(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	2,682.9	2,594.4	2,510.7
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	3,916.6	3,824.9	3,738.8
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	2,532.4	2,437.8	2,349.0
Total liabilities & equity	4,012.8	3,916.6	3,824.9	3,738.8

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	25.8	27.6	29.3
Net margin	27.1	25.8	27.6	29.3
ROA	2.7	2.7	3.1	3.4
ROE	4.1	4.2	4.8	5.4
Growth				
Turnover	6.8	3.6	2.9	2.3
EBITDA	5.5	3.3	2.9	2.3
Pre-tax profit	9.8	(1.5)	10.4	8.4
Net profit	5.4	(1.5)	10.4	8.4
Net profit (adj.)	(5.9)	(1.5)	10.4	8.4
EPU	(5.9)	(1.5)	10.4	8.4
Leverage				
Debt to total capital	21.8	22.4	23.1	23.8
Debt to equity	27.8	28.9	30.0	31.2
Net debt/(cash) to equity	20.2	21.9	23.0	24.1
Interest cover (x)	17.4	14.2	14.4	14.7

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