

### COMPANY RESULTS

## NetLink NBN Trust (NETLINK SP)

9MFY24: Stable Results As Connections Grow

**Netlink posted higher 9MFY24 overall revenue (+3.2% yoy) and PATMI (+4.0% yoy) which were in line with our expectations, driven by higher connections and installation-related revenue. Armed with stable revenue streams and operating cashflows, Netlink is a high-yielding, safe haven stock. Maintain BUY with the same target price of S\$1.01.**

### 9MFY24 RESULTS

Year to 31 Mar (S\$m)	3QFY24	qoq % chg	yoy % chg	9MFY24	yoy % chg
Revenue	104.1	2.7	3.9	309.4	3.2
EBITDA	79.4	7.4	6.8	228.5	3.9
EBITDA Margin (%)	76.2	3.3ppt	2.1ppt	73.8	0.5ppt
Profit After Tax	32.2	30.7	18.3	85.1	4.0
Net Margin (%)	30.9	6.6ppt	3.8ppt	27.5	0.2ppt

Source: NetLink, UOB Kay Hian

### RESULTS

- 9MFY24: Stable results.** Netlink NBN Trust (Netlink) reported higher 9MFY24 revenue (+3.2% yoy), EBITDA (+3.9% yoy) and PATMI (+4.0% yoy), forming 74%/74%/79% of our FY24 full-year forecasts respectively and in line with expectations. The strong top-line performance was driven by higher connections revenue across all segments and larger yoy installation-related revenue. For 3QFY24, overall revenue (+3.9% yoy, +2.7% qoq), EBITDA (+6.8% yoy, +7.4% qoq) and PATMI (+18.3% yoy, +30.7% qoq) were also higher, on the back of higher overall revenue and a one-off reversal of disputed operating costs. The one-off reversal of disputed power charges was about S\$6m.
- Margins expected to soften sequentially.** As a result of the one-off reversal, 3QFY24 EBITDA (+2.1ppt yoy, +3.3ppt qoq) and net margins (+3.8ppt yoy, +6.6ppt qoq) expanded. Excluding the S\$6m, 9MFY24 EBITDA and PATMI would have formed 73% and 74% of our full-year forecasts respectively and more in line with our expectations. Moving forward, we expect 4QFY24 EBITDA and net margins to soften back to historical averages of around 72% and 26% respectively.
- Robust segmental performance.** The installation and ancillary project segments were the outperformers, with 3QFY24 segmental revenue growing 30.4% yoy and 18.2% yoy respectively. Revenue from residential connections also increased 1.2% yoy, given the higher number of connections. For 3QFY24, connections for residential (+0.6% qoq, +1.4% yoy), non-residential (+1.1% qoq, +2.1% yoy), non-building address point (NBAP) (+3.4% qoq, +11.3% yoy) and segment connections (+5.6% qoq, +30.2 yoy) grew.
- Higher interest costs.** Netlink's 9MFY24 net finance costs surged 22.8% yoy as effective average interest rates increased to 2.64% (9MFY23: 2.03%, 2QFY24: 2.64%). Similar to 2QFY24, 69.4% of Netlink's S\$735m borrowings remain hedged at fixed rates.

### KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	378	403	418	426	436
EBITDA	275	291	298	304	311
Operating profit	107	120	126	132	142
Net profit (rep./act.)	104	109	112	117	126
Net profit (adj.)	116	109	112	117	126
EPS (S\$ cent)	3.0	2.8	2.9	3.0	3.2
PE (x)	28.4	30.1	29.5	28.2	26.1
P/B (x)	1.2	1.3	1.3	1.3	1.4
EV/EBITDA (x)	14.0	13.2	12.9	12.6	12.4
Dividend yield (%)	6.1	6.2	6.2	6.3	6.5
Net margin (%)	27.5	27.1	26.7	27.4	29.0
Net debt/(cash) to equity (%)	18.9	20.2	21.8	22.9	23.9
Interest cover (x)	26.3	17.4	14.7	14.1	14.5
ROE (%)	3.8	4.1	4.3	4.7	5.3
Consensus net profit	-	-	109	109	114
UOBKH/Consensus (x)	-	-	1.03	1.07	1.11

Source: NetLink NBN Trust, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.845
Target Price	S\$1.01
Upside	+19.1%

### 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):	3,292.9
Market cap (US\$m):	2,451.2
3-mth avg daily t'over (US\$m):	3.2

### Price Performance (%)

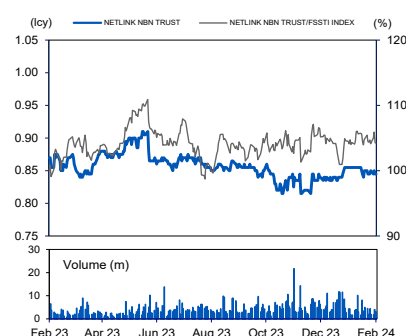
52-week high/low S\$0.910/S\$0.815

1mth	3mth	6mth	1yr	YTD
(1.2)	0.0	(1.2)	(2.3)	0.6

### Major Shareholders

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

### ANALYST(S)

**Chong Lee Len**  
+603 2147 1992  
leelen@uobkayhian.com

**Llalleythan Tan Yi Rong**  
+65 6590 6624  
yirong@uobkayhian.com

### REVENUE BY SEGMENT

	3QFY24	qoq % chg	yoy % chg	9MFY24	yoy % chg
<b>Revenue Breakdown ('000):</b>					
Residential connections	61,964	0.2	1.2	185,359	1.3
Non-residential connections	8,640	5.2	6.5	25,065	4.5
NBAP and Segment connections	5,099	7.0	11.4	14,544	18.3
Installation related revenue	6,251	(15.8)	30.4	19,186	28.0
Ancillary project revenue	6,656	53.8	18.2	17,948	3.2
Co-location revenue	4,689	10.5	(11.6)	14,544	(8.5)
<b>Total Fibre Business Revenue</b>	<b>93,298</b>	<b>2.7</b>	<b>4.1</b>	<b>276,646</b>	<b>3.4</b>
Ducts and manhole service revenue	6,873	1.1	(0.9)	20,424	(2.7)
Central Office revenue	3,960	5.9	7.6	12,378	8.6
<b>Total Ducts, Manholes and Central</b>	<b>10,833</b>	<b>2.8</b>	<b>2.1</b>	<b>32,801</b>	<b>1.3</b>
<b>Total Revenue</b>	<b>104,131</b>	<b>2.7</b>	<b>3.9</b>	<b>309,447</b>	<b>3.2</b>

Source: NetLink, UOB Kay Hian

### 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 FY24 DPU and FY25-26 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 (24.3% 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 increase our FY24 PATMI estimates slightly**, on the back of better operating margins while fine-tuning our FY25-26 PATMI estimates. We now forecast FY24-26 PATMI at S\$111.5m (S\$107.6m previously), S\$116.7m (S\$116.3m previously) and S\$126.4m (S\$126.2m previously) respectively.

- Potential downside may come from higher operating costs from inflationary pressures.

### VALUATION/RECOMMENDATION

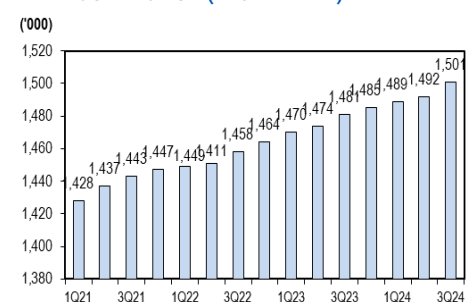
- **Maintain BUY with the same DCF-based target price of S\$1.01.** (WACC: 6%, terminal growth: 1%). At our target price, the stock trades at around 13x FY24 EV/EBITDA.

- 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

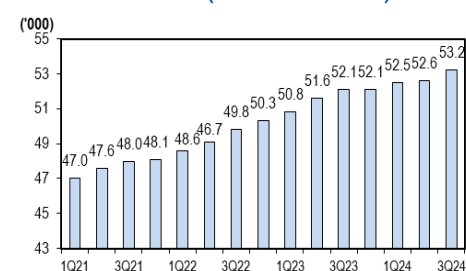
- **Key catalysts include:** a) 5G beneficiary – more opportunities arising from mobile operators' fibre network densification demand, b) growth in demand for NBAP connections with the rollout of 5G/Smart Nation initiatives, c) investors seeking defensive yield from Netlink's resilient, predictable,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

### FIBRE CONNECTION (RESIDENTIAL)



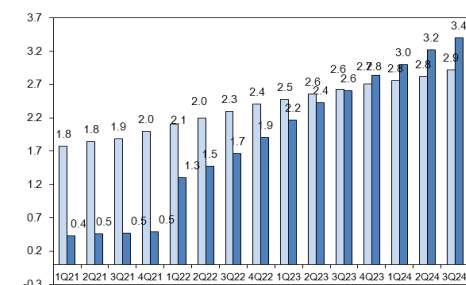
Source: NetLink, UOB Kay Hian

### FIBRE CONNECTION (NON-RESIDENTIAL)



Source: NetLink, UOB Kay Hian

### NON-BUILDING ADDRESS POINT AND SEGMENT 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)	2023	2024F	2025F	2026F
Net turnover	403.5	417.8	426.3	436.2
EBITDA	290.7	297.5	304.4	311.4
Deprec. & amort.	170.6	171.6	172.0	169.4
EBIT	120.1	125.9	132.4	142.0
Total other non-operating income	5.9	5.9	5.9	5.9
Net interest income/(expense)	(16.7)	(20.2)	(21.5)	(21.5)
Pre-tax profit	109.2	111.5	116.7	126.4
Tax	0.0	0.0	0.0	0.0
Net profit	109.3	111.5	116.7	126.4
Net profit (adj.)	109.3	111.5	116.7	126.4

### CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	285.7	281.7	285.4	290.8
Pre-tax profit	109.2	111.5	116.7	126.4
Tax	n.a.	n.a.	n.a.	n.a.
Deprec. & amort.	171.5	171.7	172.1	169.5
Working capital changes	10.5	(1.5)	(0.9)	(1.0)
Other operating cashflows	(5.5)	(0.1)	(2.5)	(4.0)
Investing	(96.7)	(100.2)	(85.3)	(87.2)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(96.7)	(100.2)	(85.3)	(87.2)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Financing	(138.1)	(204.2)	(205.3)	(208.8)
Distribution to unitholders	(202.3)	(204.2)	(205.3)	(208.8)
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)	(5.1)	(5.2)
Beginning cash & cash equivalent	149.8	200.7	178.0	173.9
Changes due to forex impact	0.0	0.0	1.0	1.0
Ending cash & cash equivalent	200.7	178.0	173.9	169.6

### BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,760.0	2,688.6	2,601.9	2,519.7
Other LT assets	943.6	943.6	943.6	943.6
Cash/ST investment	200.7	178.0	172.9	168.6
Other current assets	108.4	112.1	114.2	116.7
<b>Total assets</b>	<b>4,012.8</b>	<b>3,922.3</b>	<b>3,832.6</b>	<b>3,748.7</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	141.9	145.2	147.6	150.2
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	2,538.1	2,446.0	2,359.4
<b>Total liabilities &amp; equity</b>	<b>4,012.8</b>	<b>3,922.3</b>	<b>3,832.6</b>	<b>3,748.7</b>

### KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	72.1	71.2	71.4	71.4
Pre-tax margin	27.1	26.7	27.4	29.0
Net margin	27.1	26.7	27.4	29.0
ROA	2.7	2.8	3.0	3.3
ROE	4.1	4.3	4.7	5.3
<b>Growth</b>				
Turnover	6.8	3.6	2.0	2.3
EBITDA	5.5	2.3	2.3	2.3
Pre-tax profit	9.8	2.1	4.6	8.3
Net profit	5.4	2.1	4.6	8.3
Net profit (adj.)	(5.9)	2.1	4.6	8.3
EPU	(5.9)	2.1	4.6	8.3
<b>Leverage</b>				
Debt to total capital	21.8	22.4	23.0	23.7
Debt to equity	27.8	28.8	29.9	31.0
Net debt/(cash) to equity	20.2	21.8	22.9	23.9
Interest cover (x)	17.4	14.7	14.1	14.5

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Analyst Certification/Regulation AC**

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W