May 18, 2022

Telecommunications

Singapore

Netlink NBN Trust (NETLINK SP)

Resilient Core Business

BUY

Share Price	SGD 0.99
12m Price Target	SGD 1.05 (+6%)
Previous Price Target	*SGD 1.13*

FY22 results slightly below expectation

FY22 PAT and EBITDA at SGD91.3m (-3.7% YoY) and SGD266.9m (-1.2% YoY) were below MIBG/consensus expectations, accounting for 83%/98% of our FY22 forecasts. This was mainly due to a re-measurement loss of SGD12.4m relating to finance lease receivables. Excluding this loss, we calculate EBITDA rose by 4.8% YoY. We think the current rising interest rate environment will raise operational costs, lower valuations and reduce the appeal of bond-like equities such as Netlink. We believe there is also risk that the upcoming regulatory revision may lower prices and revenue. However, dividends can be maintained through lower capex or additional financing. As such, we have reduced our FY23E earnings by 5.2% on higher interest costs assumptions. Maintain BUY with a 7% lower TP of SGD1.05 for potential total shareholder return upside of 12%.

Healthy growth in connections

Topline improved 2.5% YoY to SGD377.6m, mainly attributed to YoY growth in Non-building Address Points (NBAP) connection revenue (+46%) on the back of higher P2P connections with the rollout of the 5G network. This is partially offset by lower Central Office revenue (-10% to SGD18m) due to a drop in rental spaces that reduced rental income. Residential connection remained stable, growing 1% YoY as connections rose to 1.46m (+1.2% YoY). FY22 DPU was declared at SGD0.0513, meeting MIBG/street estimates and translating to a sustainable yield of 5.1%.

Greater focus on acquisition in FY23E

Moving into FY23E, key priority is to expand Netlink's residential network in new housing estates like Tengah and Yishun. It will also continue to work with telco players to acquire new non-residential and NBAP customers to support digitalisation projects and its 5G rollout plan. Management continues to seek inorganic growth with stable cashflow within the telecom infrastructure space. More importantly, Netlink will have sufficient headroom to fulfil its acquisition ambitions without compromising cash flow and dividends. Gross debt/EBITDA of 2.5x as at 31 Mar 22 provides ample room to increase group debt.

Safe haven with consistent yield

With a naturally defensive residential fibre monopoly business and 5.3% FY23E dividend yield, we believe Netlink provides a safe haven as compared to many yield plays despite rising operational costs due to the growing inflationary environment. Still, we acknowledge that there could be a slight overhang given uncertainty over the outcome of the regulatory pricing as it is largely depend on the assumption of the forward yield curve and debt premium.

FYE Mar (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	368	378	389	397	403
EBITDA	261	264	273	279	283
Core net profit	92	91	99	100	103
Core EPS (cts)	2.4	2.3	2.5	2.6	2.6
Core EPS growth (%)	18.2	(1.0)	8.0	1.5	2.9
Net DPS (cts)	5.1	5.1	5.3	5.4	5.6
Core P/E (x)	39.8	41.5	39.1	38.5	37.4
P/BV (x)	1.3	1.4	1.5	1.5	1.6
Net dividend yield (%)	5.4	5.2	5.4	5.5	5.6
ROAE (%)	3.2	3.3	3.7	3.8	4.1
ROAA (%)	2.2	2.2	2.5	2.6	2.7
EV/EBITDA (x)	16.0	16.3	16.1	15.8	15.6
Net gearing (%) (incl perps)	17.6	18.9	19.9	21.5	23.1
Consensus net profit	-	-	102	104	na
MKE vs. Consensus (%)	-	-	(3.4)	(3.9)	na

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Company Description

NetLink NBN Trust designs, builds, owns and operates the passive fibre network infrastructure of Singapore.

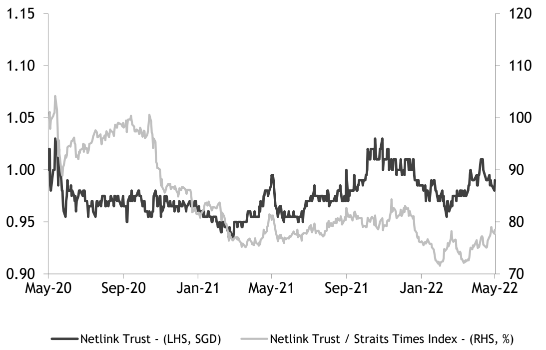
Statistics

52w high/low (SGD)	1.03/0.95
3m avg turnover (USDm)	4.6
Free float (%)	75.2
Issued shares (m)	3,897
Market capitalisation	SGD3.9B
	USD2.8B

Major shareholders:

Singapore Telecommunications Ltd.	24.8%
Matthews International Capital Managemen	2.7%
The Vanguard Group, Inc.	2.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	2	(1)
Relative to index (%)	3	9	(2)

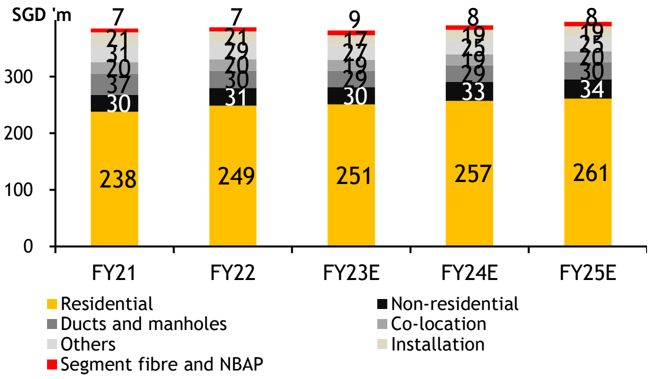
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- Netlink operates the sole passive backbone for Singapore's nationwide fibre network with a mandated 100% of homes passed.
- As it has a virtual monopoly, EBITDA margin is high at 70%.
- More than 90% of revenue falls under a return on asset base (RAB) tariff regime based on a 7% pre-tax WACC. Tariffs are set over a five-year period with the current rate lasting until Dec 2022.
- Residential connection revenue, which follows regulated rate structure, represents the bulk (~62.5%) of the business.
- Non-residential, NBAP, and ducts and manholes services (under RAB framework) are the next largest revenue components at 18.6% combined.

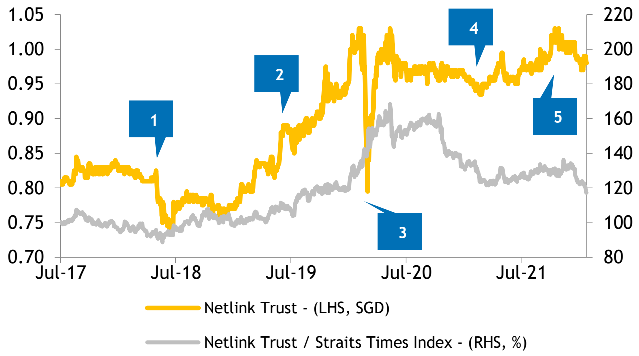
Revenue breakdown (SGD m) - residential matters most



Source: Company

Price Drivers

Historical share price trend



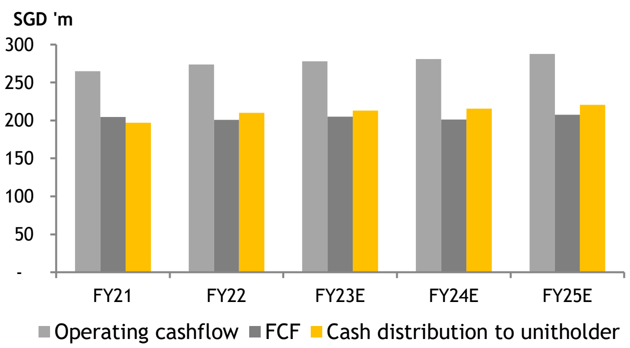
Source: Company, Maybank IBG Research

1. FY18 profit was 6% below the prospectus estimate due to shortfall in installation revenue.
2. FY19 profit above prospectus forecasts.
3. Share price plunged due to market sell-down amid COVID-19 outbreak.
4. Q4FY20 EBITDA declined 11.2% following a one-time write-off of capitalised project cost from a discontinued IT system replacement project, market responded with a sell off
5. Share price has appreciated 6% in the past three months, likely on the back of resilient top-line, good cost control and attractive dividend yield on a low interest rate environment

Financial Metrics

- Healthy balance sheet and free cashflow can support 100% payout of its cash available for distribution.
- Following capex of SGD73m in FY22, management guided FY23E capex is at the lower range of SGD70-80m. We assume SGD80m per year until FY25E.

Free cashflow to support DPU



Source: Company

Swing Factors

Upside

- Stronger-than-expected demand may enable NetLink to increase its regulated capex, which in turn provides additional guaranteed returns.
- Acceleration of office decentralisation from CBD area could provide growth in non-residential connections. Higher-than-expected residential household broadband penetration rate.
- Market risk-aversion could boost investment interest in NetLink given its defensive and stable business.
- Low interest rate environment could cause yield compression for NetLink.

Downside

- Reduction in the regulated returns for the next review period would impact long-term fair value.
- Pricing competition in non-residential segment.
- Rising interest rate cycle would reduce the attractiveness of dividend-yielding stocks such as NetLink.

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Risk Rating & Score[1]	27.0
Score Momentum[2]	-1.1
Last Updated	01 Apr 2022
Controversy Score[3]	0 - No reported incident

Business Model & Industry Issues

- NetLink provides fibre network services. This exposes it to environmental risks. In particular, energy is consumed to provide power to co-location rooms but NetLink has no direct control over energy consumed by its customers' equipment.
- Its densification of network within data centres exposes it to data centres' environmental risks, as many Singapore data centres, in the middle of its lifespan, were designed without sustainability and energy conservation in mind. That said, NetLink has no direct control over its customers' power consumption.
- The National Climate Secretariat under the Prime Minister's Office laid out a roadmap in 2014 to improve data centre sustainability by improving energy efficiency. SS564 aims to benchmark energy efficiency of data centres and provide the best practices for the industry. BCA-IDA Green Mark has also been implemented. It is a rating system to encourage the adoption of energy efficient data centre design.
- Likewise, NetLink will continue to roll out initiatives at its end to improve energy efficiency.
- In terms of governance, NetLink is adopting industry best practices, evidenced by its "Most Transparent REITs & Business Trust" award. Its constant disclosure and engagement with stakeholders helped the market to understand its opportunities and risks perception.

Material E issues

- Generated and disposed an average of 0.44% of fibre scraps (excess fibre too short to be reused) against fibre cables issued. This is below its 2.5% FY21 target.
- Recovered 391.4 tonnes of fibre cables from cable diversion. These recovered fibre cables cannot be reused and will be disposed of at National Environment Agency approved facility for incineration.
- In FY20, NetLink invested SGD0.85m to replace fan coil units in co-location rooms to improve energy efficiency of cooling system by 30%.
- Going forward, more initiatives will be rolled out across its co-location rooms to reduce energy consumption. One example is "blanking" project – reduce power consumed for cooling based on containment concept. This will be gradually implemented across all co-location rooms.
- Motion sensor/LED lights were also introduced in suitable rooms in central offices.

Material S issues

- Achieved 5,413 learning hours with an average of 15.4 learning hours per employee.
- Zero incidents of discrimination during FY19.
- Zero work-related incidents resulting in fatalities or permanent disabilities.
- Staff turnover rate of 17.7% is higher than high-tech industry's norm of 15.9%.
- NetLink aims to achieve annual employee turnover rate lower than industry norm in FY21 by investing in employees' skills development and building internal capabilities.
- 71:29 male to female employee ratio. Females make up 36% of "managers and executive" category.
- 64% of workforce is between 30 and 50 years old.

Key G metrics and issues

- Awarded "Most Transparent REITs & Business Trust" by SIAS 20th Investors' Choice Awards in 2019.
- The board consists of eight directors, of which one is executive director (CEO), one is non-executive, non-independent director and six are independent (75%). Two directors are female (25%).
- The nominating, audit and remuneration committees are chaired by independent directors.
- Seven directors have served on the board since 2017 and one since 2018.
- Professional background of independent directors includes accounting, banking, consultancy and law.
- Total remuneration of CEO and top five key management personnel amounts to SGD4.3m, or 5.5% of FY20 PAT and 15.5% of staff cost.
- Independent auditor is Deloitte & Touche LLP since listing in 2017.
- No material contracts were entered into by NetLink or subsidiaries that involved the CEO, any directors or controlling shareholders

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Focus Charts

Fig 1: MIBG vs consensus estimate

(end-Mar, SGD m)	FY23E	FY24E	FY25E
Revenue (MIBG)	389	397	403
EBITDA (MIBG)	273	279	283
Core profit (MIBG)	99	100	103
TP (SGD / unit)	**1.05**		
Revenue (cons)	384	384	398
EBITDA (cons)	275	273	280
Core profit (cons)	100	99	109
TP (SGD / unit)	**1.05**		
MIBG vs cons (Revenue)	1.3%	3.4%	1.2%
MIBG vs cons (EBITDA)	-0.9%	2.2%	1.1%
MIBG vs cons (core profit)	-1.1%	0.9%	-5.5%
MIBG vs cons (TP)	-0.4%		

Source: Maybank IBG Research, Bloomberg

Fig 2: Forecast revisions

	FY23E	FY24E	FY25E
Revised revenue (SGD m)	389	397	403
Revised EBITDA (SGD m)	273	279	283
Revised core profit (SGD m)	99	100	103
Revised DPU (SGD)	0.053	0.054	0.056
Revised TP (SGD)	1.05		
Previous revenue (SGD m)	388	397	401
Previous EBITDA (SGD m)	276	282	288
Previous core profit (SGD m)	104	105	108
Previous DPU (SGD)	0.055	0.055	0.055
Previous TP (SGD)	1.13		
Change in revenue	0.2%	0.0%	0.5%
Change in EBITDA	-1.3%	-1.1%	-1.7%
Change in core profit	-5.2%	-4.6%	-4.6%
Change in DPU	-2.6%	-2.1%	0.9%
Change in TP	-7.4%		

Source: Maybank IBG Research

Fig 3: Quarterly income statement breakdown

(end-Mar, SGD m)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY	% of MKE FY22	YTD % of cons FY22
Revenue												
Ducts and manholes	7	7	7	7	7	7	7	7	-3%	-1%	97%	
Central office	5	5	4	4	4	4	4	3	-17%	-22%	90%	
Finance lease income												
Service income and charges												
Connection revenue - Residential	59	59	60	60	60	61	60	61	1%	1%	96%	
Connection revenue - Non-residential	7	8	7	8	8	8	8	8	3%	3%	94%	
Connection revenue - NBAP and segment	2	2	2	2	3	3	3	4	26%	58%	161%	
Co-location	5	5	5	5	5	5	5	5	0.8%	1.6%	103%	
Installation	2	5	5	5	5	5	5	5	-2.1%	1.3%	102%	
Diversion	1	2	4	1	2	2	2	3	54%	146%	160%	
Total revenue	**89**	**92**	**95**	**92**	**93**	**95**	**94**	**96**	**1.8%**	**3.9%**	**98%**	**98%**
EBITDA	**69**	**71**	**70**	**60**	**69**	**58**	**70**	**70**	**0.0%**	**17%**	**98%**	**98%**
Core profit	**24**	**21**	**25**	**25**	**24**	**13**	**25**	**25**	**0.0%**	**-1%**	**83%**	**83%**

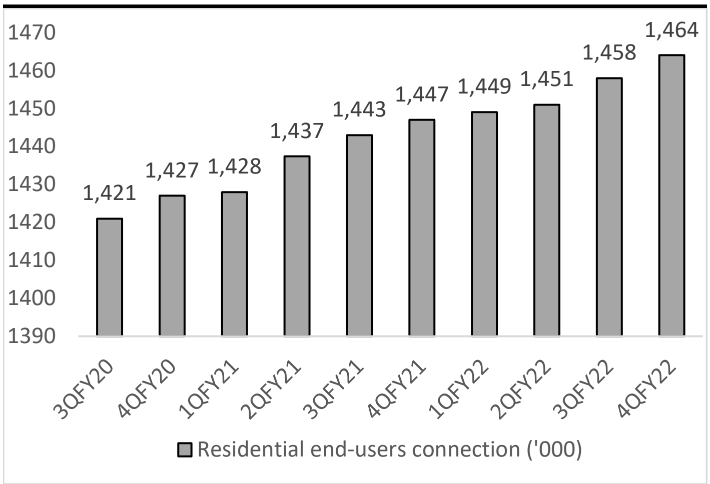
Source: Maybank IBG Research

Fig 4: Operating Statistics

Fibre connections	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	QoQ	YoY
Residential end-users (m)	1.428	1.437	1.443	1.447	1.449	1.451	1.458	1.464	0.4%	1.2%
Non-residential end-users (m)	0.047	0.048	0.048	0.048	0.049	0.049	0.050	0.050	1.0%	4.6%
NBAP	1,772	1,847	1,884	1,996	2,101	2,197	2,294	2,404	4.8%	20.4%

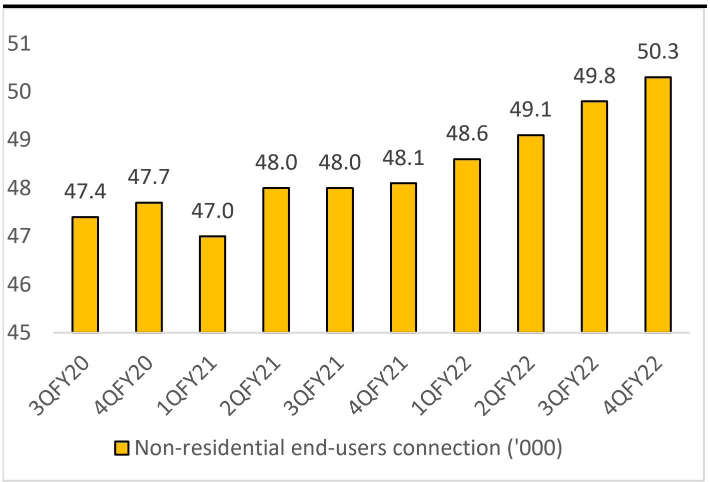
Source: Company

Fig 5: Fibre Connection (Residential)



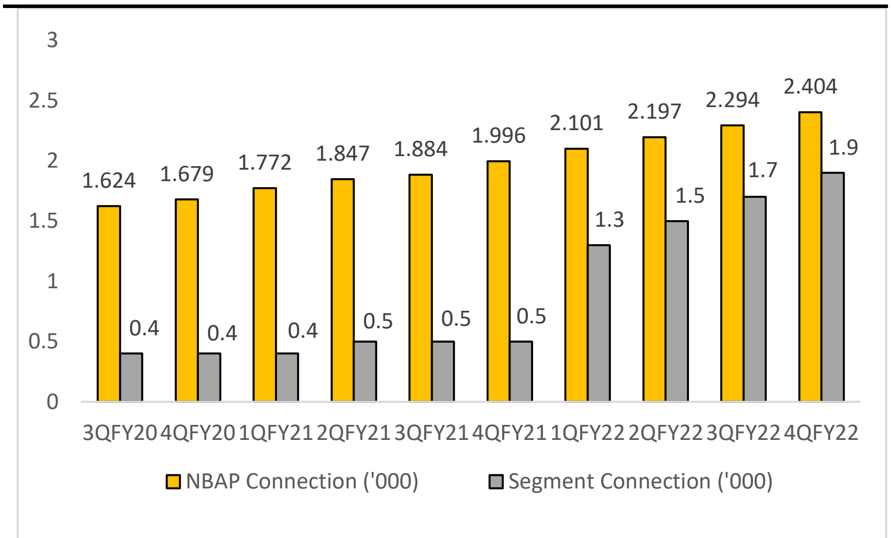
Source: Company

Fig 6: Fibre Connection (Non-Residential)



Source: Maybank IBG Research

Fig 7: Non-Building Address Point (NBAP) and Segment Connections



Source: Maybank IBG Research

Fig 8: Revenue breakdown by segments

Revenue breakdown	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Return on asset base (RAB) regulated revenue							
Residential	58.5%	62.5%	64.6%	63.8%	64.8%	65.1%	65.1%
Ducts and manholes	10.6%	8.2%	7.8%	7.4%	7.4%	7.4%	7.5%
Non-residential	8.5%	8.4%	8.2%	8.2%	8.8%	8.8%	8.7%
NBAP / Segment fibre	2.0%	2.0%	2.4%	3.4%	2.1%	2.1%	2.2%
NBAP							
Sub-total	**79.5%**	**81.1%**	**83.0%**	**82.8%**	**83.1%**	**83.4%**	**83.5%**
Non-RAB regulated revenue							
Co-location	5.7%	5.5%	5.2%	5.1%	5.1%	5.0%	5.0%
Installation	6.1%	5.5%	4.5%	5.1%	5.0%	4.9%	4.8%
Sub-total	**11.8%**	**11.1%**	**9.7%**	**10.2%**	**10.0%**	**9.9%**	**9.8%**
Non-regulated revenue							
Central office	4.9%	4.8%	4.9%	4.3%	4.2%	4.2%	4.2%
Diversion							
Total	**91.2%**	**92.2%**	**92.8%**	**93.0%**	**93.2%**	**93.3%**	**93.3%**
Others	**8.8%**	**7.8%**	**7.2%**	**7.0%**	**6.8%**	**6.7%**	**6.7%**

Source: Company

2. Valuation and Risk

Fig 9: DDM Valuation

(end-Mar, SGD m)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Cash distribution paid	208	211	216	220	223	227	231	235
PV of cash distribution	195	187	180	172	164	157	150	144
Total PV of cash distribution	1,350							
Terminal value	4,456							
PV of Terminal Value	2,726							
Equity value	4,076							
Equity value / share (SGD)	**1.05**							

Source: Maybank IBG Research

Fig 10: DDM Parameters

Parameter	
Risk Free Rate (%)	2.5%
Market risk premium (%)	6.5%
Beta (x)	0.59
Cost of Equity (%)	6.3%
Terminal Growth (%)	1.0%

Source: Maybank IBG Research

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	40.8	41.8	39.1	38.5	37.4
Core P/E (x)	39.8	41.5	39.1	38.5	37.4
P/BV (x)	1.3	1.4	1.5	1.5	1.6
P/NTA (x)	1.3	1.4	1.5	1.5	1.6
Net dividend yield (%)	5.4	5.2	5.4	5.5	5.6
FCF yield (%)	5.6	4.9	5.1	5.0	5.2
EV/EBITDA (x)	16.0	16.3	16.1	15.8	15.6
EV/EBIT (x)	46.1	45.7	43.9	42.5	42.3
INCOME STATEMENT (SGD m)					
Revenue	368.5	377.6	388.9	397.0	402.7
EBITDA	260.7	264.1	272.5	279.0	283.0
Depreciation	(170.3)	(169.7)	(172.7)	(175.6)	(178.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	90.4	94.4	99.8	103.4	104.2
Net interest income /(exp)	(11.3)	(10.4)	(10.4)	(12.4)	(10.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	10.0	3.2	3.2	3.2	3.2
Pretax profit	89.1	87.2	92.6	94.2	97.0
Income tax	3.2	4.2	6.0	6.0	6.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	92.3	91.3	98.6	100.2	103.0
Core net profit	92.3	91.3	98.6	100.2	103.0
Preferred Dividends	0.0	0.0	0.0	1.0	2.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	170.5	149.8	138.9	122.2	107.0
Accounts receivable	70.4	95.7	98.5	100.6	102.0
Inventory	5.2	4.1	4.2	4.3	4.4
Property, Plant & Equip (net)	2,927.4	2,830.7	2,731.0	2,635.4	2,536.6
Intangible assets	864.0	879.2	879.2	879.2	879.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	85.9	72.4	72.4	72.4	72.4
Total assets	**4,123.5**	**4,031.9**	**3,924.3**	**3,814.1**	**3,701.6**
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	58.7	55.4	56.7	57.6	58.4
LT interest bearing debt	664.7	663.7	663.7	663.7	663.7
Other liabilities	596.0	596.0	572.0	572.0	572.0
Total Liabilities	**1,319.8**	**1,315.4**	**1,292.5**	**1,293.3**	**1,294.2**
Shareholders Equity	2,803.7	2,716.4	2,631.8	2,520.8	2,407.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**2,803.7**	**2,716.4**	**2,631.8**	**2,520.8**	**2,407.4**
Total liabilities and equity	**4,123.5**	**4,031.9**	**3,924.3**	**3,814.1**	**3,701.6**
CASH FLOW (SGD m)					
Pretax profit	89.1	87.2	92.6	94.2	97.0
Depreciation & amortisation	170.3	169.7	172.7	175.6	178.8
Adj net interest (income)/exp	11.3	10.4	10.4	12.4	10.4
Change in working capital	2.3	(27.5)	(1.6)	(1.3)	(0.7)
Cash taxes paid	4.2	6.0	6.0	6.0	6.0
Other operating cash flow	(12.3)	(12.2)	(10.4)	(11.4)	(8.4)
Cash flow from operations	264.9	233.6	269.7	275.4	283.1
Capex	(60.2)	(73.9)	(73.0)	(80.0)	(80.0)
Free cash flow	204.8	184.9	196.7	194.4	201.1
Dividends paid	(197.2)	(199.1)	(207.6)	(211.2)	(216.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	(2.6)	0.0	0.0	0.0
Other invest/financing cash flow	0.0	0.0	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	1.0	2.0
Net cash flow	7.5	(42.0)	(10.9)	(14.8)	(11.2)

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(0.5)	2.5	3.0	2.1	1.4
EBITDA growth	3.2	1.3	3.2	2.4	1.5
EBIT growth	6.6	4.3	5.8	3.5	0.8
Pretax growth	24.0	(2.2)	6.3	1.6	3.0
Reported net profit growth	18.2	(1.0)	8.0	1.5	2.9
Core net profit growth	18.2	(1.0)	8.0	1.5	2.9
Profitability ratios (%)					
EBITDA margin	70.8	69.9	70.1	70.3	70.3
EBIT margin	24.5	25.0	25.7	26.0	25.9
Pretax profit margin	24.2	23.1	23.8	23.7	24.1
Payout ratio	213.4	217.8	210.2	210.6	209.8
DuPont analysis					
Net profit margin (%)	25.1	24.2	25.4	25.2	25.6
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.5	1.5	1.5	1.5
ROAE (%)	3.2	3.3	3.7	3.8	4.1
ROAA (%)	2.2	2.2	2.5	2.6	2.7
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	70.3	79.2	89.9	90.3	90.6
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	0.5	0.5	0.5	0.5	0.5
Current ratio (x)	2.4	2.1	2.0	1.9	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	3.1	3.0	2.9	2.9
Net gearing (%) (incl perps)	17.6	18.9	19.9	21.5	23.1
Net gearing (%) (excl. perps)	17.6	18.9	19.9	21.5	23.1
Net interest cover (x)	8.0	9.1	9.6	8.3	10.0
Debt/EBITDA (x)	2.5	2.5	2.4	2.4	2.3
Capex/revenue (%)	16.4	19.6	18.8	20.2	19.9
Net debt/ (net cash)	494.2	513.9	524.7	541.5	556.7

Source: Company; Maybank IBG Research

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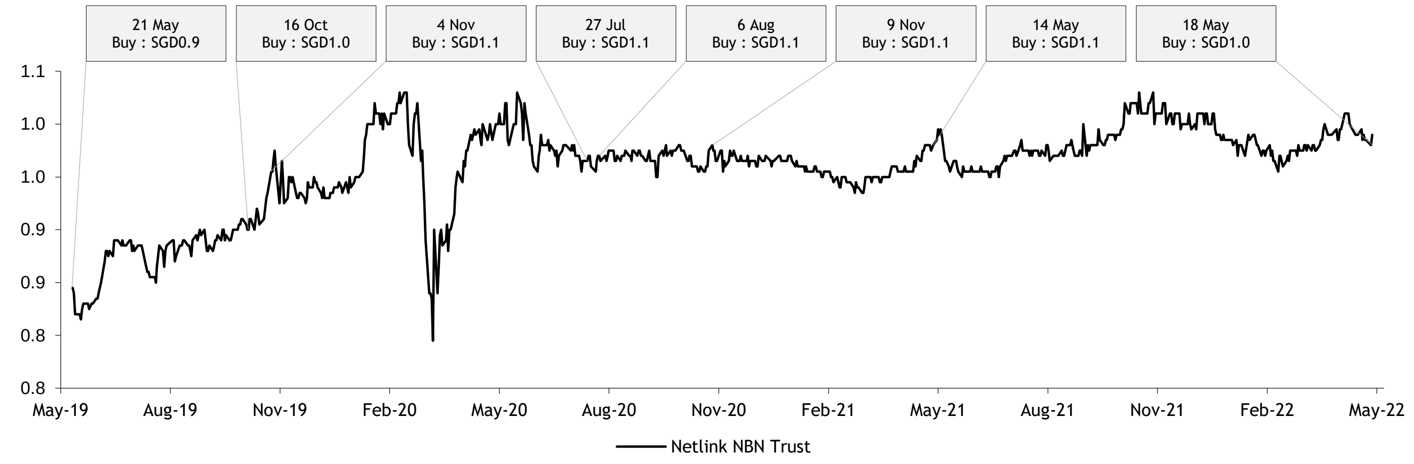

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