

Netlink NBN Trust (NETLINK SP)

Foundation of stability

1Q25 review: Stable on the surface

1Q25 earnings fell by 9% YoY, whereas revenue and EBITDA declined by 3%/2% YoY. Revenue decline was mainly owing to lower low-margin and often bumpy ancillary projects revenue whereas its key regulated asset base (RAB) revenue was stable despite the lower regulatory pricing kicking in from Apr'24. EBITDA decline was mainly due to the absence of one-off gain of SGD1.1m, which lifted 1Q24 EBITDA. We estimate adjusted EBITDA fell by just 1% YoY. Maintain BUY on Netlink Trust.

Operating metrics - mild surprises but not concerning

Netlink posted stable RAB revenue YoY despite reduction in its regulated pricing from Apr'24. Residential connections increased by a strong 17,375 vs a run rate of ~6,000 in previous quarters. Management attributed this to telcos' promotions of 10Gbps fibre offerings and WiFi7 router offerings, which might have attracted new take-ups without terminating existing lower speed contracts (to avoid termination penalties). Management is unsure how many more such upgrades could happen in coming quarters (which in turn could lead to increase in connections/revenue). On the other hand, NBAP (non-building address point) connections surprisingly fell 1% QoQ. Management expects the rise in residential connections to reverse and expects growth momentum in NBAP connections to resume.

Maintain TP and BUY; Key beneficiary of interest rate downcycle

We trim our FY25-26 earnings forecasts by 1-3% to factor in FY24 results, mainly on the back of our higher D&A assumption by imputing higher FY24 capex while our EBITDA forecasts remain relatively unchanged. While revenue/EBITDA are expected to slightly decline due to downward revision in the regulated pricing, management underscored dividend stability and consistency. We see Netlink as a bigger beneficiary as and when the interest rate cycle turns (refer to [link](#)). The stock has 71% negative correlation to the 10-year US bond yield while its 6% dividend yield remains highly visible and stable. Maintain BUY and DDM-based TP of SGD0.97.

FYE Mar (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	403	411	418	424	430
EBITDA	291	286	291	295	298
Core net profit	109	103	107	109	111
Core EPS (cts)	2.8	2.7	2.8	2.8	2.8
Core EPS growth (%)	19.7	(5.5)	4.0	2.0	1.2
Net DPS (cts)	5.2	5.3	5.0	5.1	5.4
Core P/E (x)	30.6	32.2	30.8	30.2	29.9
P/BV (x)	1.3	1.3	1.4	1.4	1.5
Net dividend yield (%)	6.0	6.2	5.9	6.0	6.4
ROAE (%)	4.1	4.0	4.3	4.5	4.7
ROAA (%)	2.7	2.6	2.8	2.9	3.0
EV/EBITDA (x)	13.3	13.6	13.4	13.1	13.0
Net gearing (%) (incl perps)	20.2	23.0	23.5	24.1	24.9
Consensus net profit	-	-	107	113	na
MIBG vs. Consensus (%)	-	-	0.1	(2.8)	na

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BUY

Share Price	SGD 0.85
12m Price Target	SGD 0.97 (+14%)
Previous Price Target	SGD 0.97

Company Description

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

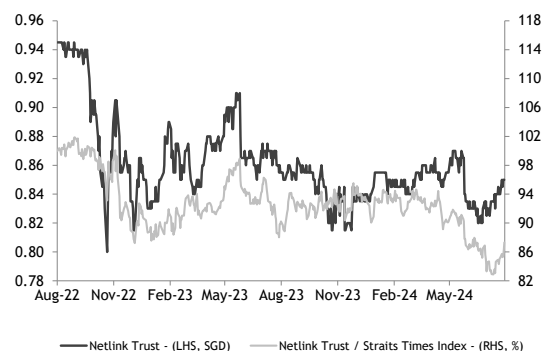
Statistics

52w high/low (SGD)	0.87/0.82
3m avg turnover (USDm)	3.2
Free float (%)	75.2
Issued shares (m)	3,897
Market capitalisation	SGD3.3B
	USD2.5B

Major shareholders:

Singapore Telecommunications Ltd.	24.8%
M&G Investment Management Ltd.	2.8%
The Vanguard Group, Inc.	1.9%

Price Performance



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

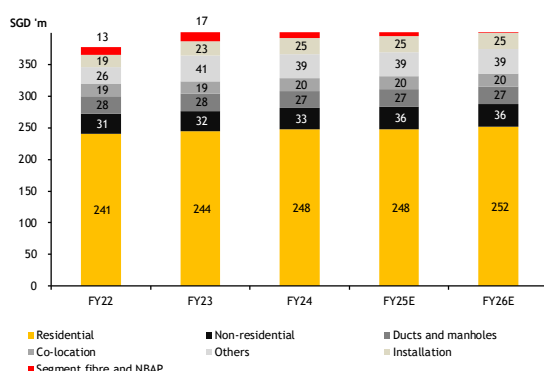
Source: FactSet

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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 tariff regime based on a 7% pre-tax WACC. Tariffs are set over a five-year period with the current rate lasting until Mar 2029. ICO pricing review is currently underway and the new pricing will be reflected by April 2024.
- 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.

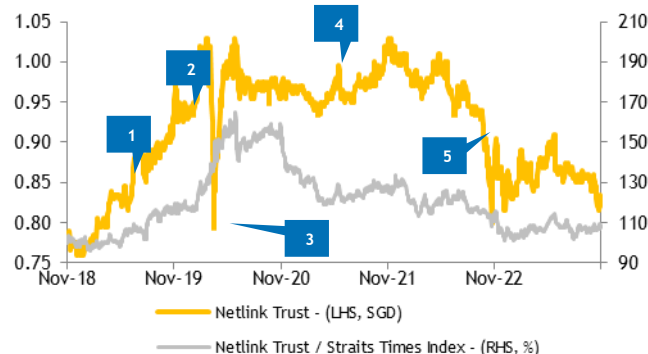
Revenue breakdown (SGD m) - residential matters the most



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



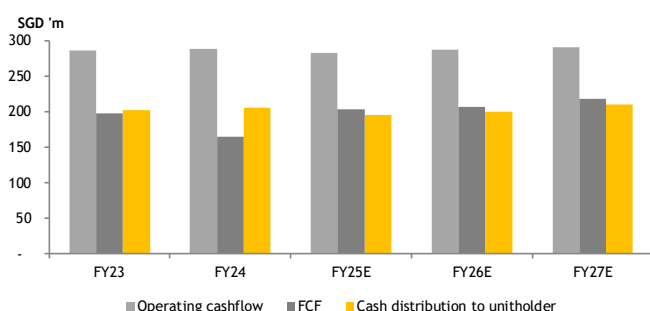
Source: Company, Maybank IBG Research

- FY18 profit was 6% below the prospectus estimate due to shortfall in installation revenue.
- FY19 profit above prospectus forecasts.
- Share price plunged due to market sell-down amid COVID-19 outbreak.
- 4Q20 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
- 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 SGD140m in FY23, management guided FY24E capex is in the range of SGD140-150m. We assume that this will be the run rate until FY26E.

Free cashflow to support DPU



Source: Company, Maybank IBG Research

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 (Updated: 01 Apr 2022)	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 their 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.
- 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 facilities 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.

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).

Quantitative Parameters (Score: 28)						
	Particulars	Unit	2020	2021	2022	Singtel (ST SP, FY22)
E	Scope 1	tCO2e	NA	NA	619	6,000
	Scope 2	tCO2e	NA	NA	344	490,000
	Total	tCO2e	NA	NA	963	496,000
	Scope 3	tCO2e	NA	NA	33,372	7,300,000
	Total	tCO2e	NA	NA	34,335	7,796,000
	Scope 1 emission intensity	tCO2e/ revenue m	NA	NA	NA	0.0077
	Green energy share of capacity	%	NA	NA	NA	22.5%
	Net water consumption	m m ³	NA	NA	NA	0.933
	Total Hazardous and Non-Hazardous Waste	tons	266	214	487	3,952
	Fibre scraps	tons	NA	19.2	17	NA
Recovered fibre cables	tons	NA	194.8	470	NA	
Percentage of fibre waste generated in proportion to total fibre cable issued	%	0.92%	1.35%	1%	NA	
S	% of women in workforce	%	30%	29%	31%	54.4%
	% of women in management roles	%	25%	25%	25%	32%
	Number of reported work injuries	number	0	0	0	0.3
G	CEO salary as % of net profit	%	1.17%	1.55%	1.98%	0.18%
	Top 5 Management salary as % of profit	%	0.65%	2.92%	3.38%	0.71%
	Independent director on board	%	50%	63%	63%	85%
	Women directors on board	%	25%	25%	25%	31%

Qualitative Parameters (Score: 83)	
a) Is there an ESG policy in place and is there a standalone ESG Committee or is it part of the Risk committee?	<i>Yes, the group has established a Board Sustainability Committee chaired by the CEO. This is supported by the Group Sustainability Council comprising of pillar heads. There are KPIs, business objectives, governance enablers and risks for each of the segments.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Netlink Trust has various waste-reduction initiatives, such as: a) keeping fibre scrap within 2.5% of the total fibre cables issued for the year; b) maintain good cable practice to limit the amount of fibre scraps; and c) reduction of the use of packaging.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 80)		
Particulars	Target	Achieved
50% reduction in Scope 1 and 2 GHG emissions by 2030	50%	0%
Maintain 100% island wide coverage	100%	100%
Zero incidents of significant non-compliance with laws and regulations	0	0
Limiting the percentage of fibre scraps disposed to total fibre issued to less than 2.5%	2.5%	1.0%
To maintain zero work-related incidents	0	0
Impact		
NA		
Overall Score: 55		
As per our ESG matrix Netlink Trust (Netlink SP) has an overall score of 55		

ESG score	Weights	Scores	Final Score
Quantitative	50%	28	14
Qualitative	25%	83	21
Target	25%	80	20
Total			55

As per our ESG assessment, Netlink Trust has established sustainability policies and time-bound targets. The company has quantitative disclosures on 'E' parameters on emissions, resource usage as well as 'S' parameters on workforce and management diversity. Netlink's overall ESG score is 55, which makes its ESG rating above average in our view (average ESG rating = 50).

Fig 1: Summary of 1Q25 results

(end-Mar, SGD 000)	1QFY24	4QFY24	1QFY25	YoY	QoQ
Revenue	103,935	101,829	100,915	-3%	-1%
EBITDA	75,221	63,925	73,380	-2%	15%
Margins	72.4%	62.8%	72.7%		
D&A	-43,149	-43,291	-43,835	2%	1%
Finance costs	-4,575	-4,595	-4,495	-2%	-2%
NPAT	28,241	18,103	25,663	-9%	42%

Source: Maybank IBG Research, Company, Bloomberg

Fig 2: Operating details

Operating Stats	1QFY24	4QFY24	1QFY25	YoY	QoQ
Residential connections (000)	1,489	1,507	1,524	2%	1%
Non-Residential connections (000)	52.5	53.5	53.4	2%	0%
NBAP	2,757	2,979	2,944	7%	-1%
Segment connections	3,003	3,542	3,646	21%	3%

Source: Maybank IBG Research, Company, Bloomberg

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	32.4	32.3	30.8	30.2	29.9
Core P/E (x)	30.6	32.2	30.8	30.2	29.9
P/BV (x)	1.3	1.3	1.4	1.4	1.5
P/NTA (x)	1.3	1.3	1.4	1.4	1.5
Net dividend yield (%)	6.0	6.2	5.9	6.0	6.4
FCF yield (%)	5.9	4.9	6.1	6.3	6.6
EV/EBITDA (x)	13.3	13.6	13.4	13.1	13.0
EV/EBIT (x)	32.3	34.4	33.8	33.1	32.7

INCOME STATEMENT (SGD m)

Revenue	403.5	411.3	417.9	424.4	430.1
EBITDA	290.7	286.5	290.7	294.7	297.8
Depreciation	(170.6)	(172.9)	(175.8)	(177.7)	(179.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	120.1	113.5	114.9	117.0	118.3
Net interest income / (exp)	(16.7)	(21.8)	(20.7)	(20.7)	(20.7)
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	5.9	9.3	9.3	9.3	9.3
Pretax profit	109.2	101.1	103.5	105.6	106.9
Income tax	0.0	2.1	3.9	3.9	3.9
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	109.3	103.2	107.4	109.5	110.8
Core net profit	109.3	103.2	107.4	109.5	110.8
Preferred Dividends	0.0	1.0	2.0	2.0	2.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	200.7	182.9	200.1	217.4	234.7
Accounts receivable	95.8	80.5	81.8	83.1	84.2
Inventory	6.8	4.3	4.4	4.5	4.5
Property, Plant & Equip (net)	2,734.3	2,679.1	2,583.2	2,485.6	2,378.6
Intangible assets	903.5	898.0	898.0	898.0	898.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	71.8	71.7	71.7	71.7	71.7
Total assets	4,012.8	3,916.6	3,839.3	3,760.2	3,671.8
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	60.0	54.3	55.3	56.5	57.6
LT interest bearing debt	732.0	763.1	773.1	783.1	793.1
Other liabilities	589.0	576.0	576.0	576.0	576.0
Total Liabilities	1,380.9	1,393.9	1,404.9	1,416.1	1,427.2
Shareholders Equity	2,631.8	2,522.7	2,434.4	2,344.2	2,244.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,631.8	2,522.7	2,434.4	2,344.2	2,244.7
Total liabilities and equity	4,012.8	3,916.6	3,839.3	3,760.2	3,671.8

CASH FLOW (SGD m)

Pretax profit	109.2	101.1	103.5	105.6	106.9
Depreciation & amortisation	170.6	172.9	175.8	177.7	179.4
Adj net interest (income)/exp	16.7	21.8	20.7	20.7	20.7
Change in working capital	1.9	12.0	(0.3)	(0.2)	(0.1)
Cash taxes paid	2.1	3.9	3.9	3.9	3.9
Other operating cash flow	(18.8)	(22.5)	(18.7)	(18.7)	(18.7)
Cash flow from operations	281.8	289.1	284.9	289.0	292.2
Capex	(88.6)	(124.3)	(80.0)	(80.0)	(72.5)
Free cash flow	197.1	164.3	202.9	207.0	217.7
Dividends paid	(202.3)	(205.4)	(195.7)	(199.7)	(210.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	67.4	29.9	10.0	10.0	10.0
Other invest/financing cash flow	0.0	0.0	0.0	0.0	0.0
Effect of exch rate changes	0.0	1.0	2.0	2.0	2.0
Net cash flow	58.4	(9.6)	21.2	21.3	21.4

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.8	1.9	1.6	1.6	1.3
EBITDA growth	10.1	(1.5)	1.5	1.4	1.0
EBIT growth	27.3	(5.4)	1.2	1.8	1.2
Pretax growth	25.4	(7.5)	2.4	2.0	1.3
Reported net profit growth	19.7	(5.5)	4.0	2.0	1.2
Core net profit growth	19.7	(5.5)	4.0	2.0	1.2
Profitability ratios (%)					
EBITDA margin	72.1	69.7	69.6	69.4	69.2
EBIT margin	29.8	27.6	27.5	27.6	27.5
Pretax profit margin	27.1	24.6	24.8	24.9	24.9
Payout ratio	184.9	198.8	182.0	182.2	189.6
DuPont analysis					
Net profit margin (%)	27.1	25.1	25.7	25.8	25.8
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.6	1.6	1.6	1.6
ROAE (%)	4.1	4.0	4.3	4.5	4.7
ROAA (%)	2.7	2.6	2.8	2.9	3.0
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	85.4	77.1	69.9	69.9	70.0
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)	2.2	2.0	2.1	2.2	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.9	2.8	2.7	2.7	2.6
Net gearing (%) (incl perps)	20.2	23.0	23.5	24.1	24.9
Net gearing (%) (excl. perps)	20.2	23.0	23.5	24.1	24.9
Net interest cover (x)	7.2	5.2	5.6	5.7	5.7
Debt/EBITDA (x)	2.5	2.7	2.7	2.7	2.7
Capex/revenue (%)	22.0	30.2	19.1	18.8	16.9
Net debt/ (net cash)	531.3	580.2	573.0	565.7	558.4

Source: Company; Maybank IBG Research

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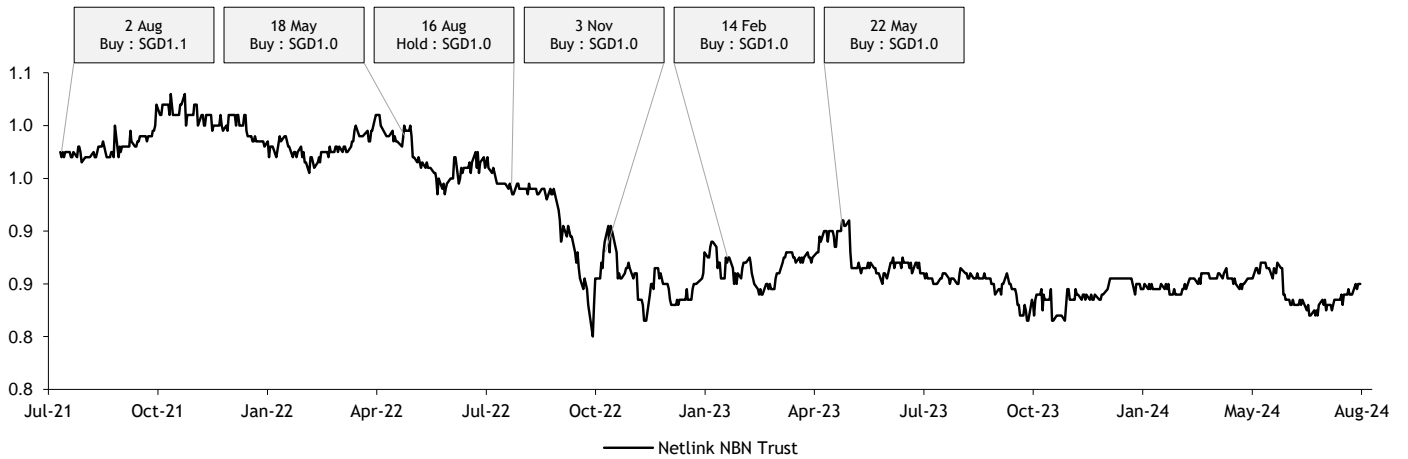
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