

Singapore

ADD (no change)

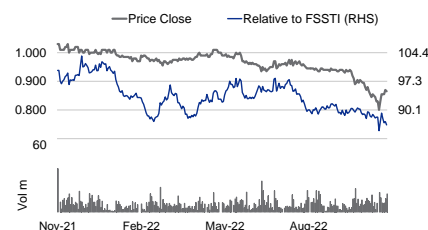
Consensus ratings*: Buy 5 Hold 4 Sell 0

Current price:	S\$0.865
Target price:	S\$0.92
Previous target:	S\$1.04
Up/downside:	6.4%
CGS-CIMB / Consensus:	-6.3%
Reuters:	NETL.SI
Bloomberg:	NETLINK SP
Market cap:	US\$2,388m
	S\$3,371m
Average daily turnover:	US\$5.26m
	S\$7.40m
Current shares o/s:	3,897m
Free float:	75.2%

*Source: Bloomberg

Key changes in this note

- FY23-25F EPS lifted by 0.2%-0.8%.
- FY23-25F DPU lifted by 0.5%-1.0%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.4	-9.9	-14.4
Relative (%)	-4.7	-6.9	-11.6

Major shareholders	% held
Singapore Telecommunications Ltd.	24.8

Analyst(s)



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Netlink NBN Trust

Built for the tough times

- NLT's 1H23 results were in line; core net profit/DPU at 52%/50% of our FY23F forecast. DPU growth reaccelerated to +2.3% yoy (1H23: 2.62 Scts).
- Ancillary project revenue the key driver for 1H topline growth. NLT continued to see healthy connection growth across all three fibre connection segments.
- ICO review likely to only be completed in 1HCY23. Reiterate Add with lower TP of S\$0.92 on higher cost of equity assumptions.

1HFY3/23 results in line with expectations

Netlink NBN Trust's (NLT) 1HFY3/23 core net profit of S\$54.6m (+3.9% yoy) was in line with expectations, at 52%/54% of our/Bloomberg consensus FY23F estimates. Topline grew 6.2% yoy to S\$199.6m, driven by higher ancillary project revenue and connections revenue, though partially offset by lower central office revenue. Core EBITDA grew 4.7% yoy, in tandem with the higher revenue, reflecting good cost control by NLT. DPU grew 2.3% yoy to 2.62 Scts, in line at 50% of our/Bloomberg consensus forecasts.

Stronger revenue growth aided by construction recovery

Boosted by a recovery in construction activities, ancillary project revenue surged 157% yoy to S\$11.8m. Project pipeline remains healthy for 2H, mainly relating to infrastructure projects driven by Land Transport Authority (LTA). NLT also continued to see growth across all three fibre connection segments in 2QFY23, with residential/non-residential/NBAP and segment connections growing 1.6%/5.1%/35.9% yoy. Interconnection offer (ICO) pricing review for the next review period (2023-2027) with Infocomm Media Development Authority (IMDA) is still ongoing. NLT expects the review to only be completed in 1HCY23 (slightly delayed), mainly due to more time required for IMDA to complete the consultation process with various stakeholders on changes in certain non-price terms and conditions. Management believes that adjustments to rates, if any, will only be implemented with a few months' lag once the final decision is announced.

Robust balance sheet, with net gearing at 18.6%

Net gearing stood at 18.6% as at end-Sep, providing good debt headroom for inorganic growth opportunities; NLT continues to explore opportunities to invest in telecoms infrastructure businesses overseas that are likely to generate stable cashflows. As of 1HFY23, NLT's effective average interest rate stood at 1.9%, with 74% of its debts hedged into fixed rates (till Mar 2026). We estimate that every 50bp increase in weighted average interest rate costs could negatively impact EPS by 2.9%.

Reiterate Add with lower TP of S\$0.92

We fine-tune our FY23-25F DPU estimates but tweak down our DDM-based TP to S\$0.92 with a higher cost of equity assumption of 6.85% (vs. 6.10% previously). We continue to like NLT as a defensive play amid the macro uncertainties, given its strong earnings visibility and stability. Potential re-rating catalysts include earnings-accretive acquisitions and stronger-than-expected growth in NBAP connections as NLT benefits from telcos' 5G rollout. Downside risks include lower-than-expected ICO pricing in the upcoming review.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (S\$m)	368.5	377.6	391.8	390.9	397.8
Operating EBITDA (S\$m)	270.7	267.3	287.4	284.7	289.6
Operating EBITDA Margin	73.5%	70.8%	73.4%	72.8%	72.8%
Net Profit (S\$m)	94.8	91.3	106.2	104.1	108.7
Core EPS (S\$)	0.025	0.027	0.027	0.027	0.028
Core EPS Growth	3.06%	7.56%	2.43%	(1.97%)	4.43%
FD Core P/E (x)	34.98	32.52	31.75	32.39	31.01
DPS (S\$)	0.051	0.051	0.052	0.053	0.054
Dividend Yield	5.87%	5.93%	6.05%	6.16%	6.26%
EV/EBITDA (x)	14.28	14.53	13.47	13.68	13.54
P/FCFE (x)	16.93	18.89	13.85	15.85	15.88
Net Gearing	17.6%	18.9%	19.1%	20.8%	22.8%
ROE	3.38%	3.76%	3.98%	4.05%	4.41%
% Change In Core EPS Estimates			0.80%	0.40%	0.20%
CGS-CIMB/Consensus EPS (x)			1.05	1.07	1.07









SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Mar (S\$ m)	1HFY23	1HFY22	yoy % chg	2HFY22	hoh % chg	FY23F	FY22	yoy % chg	Prev FY23F	Comments
Revenue	199.6	187.9	6.2	189.7	5.2	391.8	377.6	3.7	387.1	
OpEx	(53.5)	(61.2)	(12.5)	(49.2)	8.9	(104.3)	(110.3)	(5.4)	(102.4)	
EBITDA	146.1	126.8	15.2	140.5	3.9	287.4	267.3	7.5	284.7	
EBITDA margin	73.2%	67.5%		74.1%	(1.2)	73.4%	70.8%		73.5%	
Depreciation and amortisation	(84.7)	(84.8)	(0.0)	(85.0)	(0.2)	(168.9)	(169.7)	(0.5)	(168.2)	
EBIT	61.3	42.0	46.0	55.6	10.3	118.5	97.6	21.5	116.5	
EBIT margin	30.7%	22.3%		29.3%	4.9	30.3%	25.8%		30.1%	
Interest expense	(7.6)	(5.3)	42.8	(5.2)	47.2	(14.2)	(10.5)	35.5	(13.2)	
Pretax profit	53.7	36.7	46.5	50.4	6.6	104.3	87.1	19.8	103.3	
Tax	0.8	3.4	(75.3)	0.8	8.7	1.9	4.2	(55.4)	2.0	
Tax rate (%)	-1.6%	-9.3%		-1.5%	2.0	-1.8%	-4.8%		-2.0%	
Net profit	54.6	40.1	36.1	51.2	6.6	106.2	91.3	16.3	105.3	
Core net profit	54.6	52.5	3.9	51.2	6.6	106.2	103.7	2.4	105.3	1H23 made up 52% of our FY23F forecast
DPU	2.62	2.56	2.3	2.57	1.9	5.23	5.13	2.0	5.21	1H23 made up 50% of our FY23F forecast

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: Revenue breakdown

	 Residential Connections	 Non- Residential Connections	 NBAP & Segment Connections	 Ducts & Manholes Service Revenue	 Installation Related Revenue	 Ancillary Project Revenue	 Co-Location & Other Revenue	 Central Office Revenue
	RAB REVENUE				NON-RAB REVENUE			
% of H1 FY23 Revenue	61.0%	8.0%	3.9%	7.0%	5.1%	5.9%	5.3%	3.8%
Recurring, predictable cash flows	✓	✓	✓	✓	-	-	✓	✓
Long-term contracts / customer stability	✓	✓	✓	✓	-	-	✓	✓
Regulated revenues	✓	✓	✓	✓	✓	-	✓	-
Creditworthy customers	✓	✓	✓	✓	✓	✓	✓	✓


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Earnings revision

	FY23F			FY24F			FY25F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	387.1	391.8	1.2%	387.8	390.9	0.8%	395.5	397.8	0.6%
EBITDA	284.7	287.4	1.0%	283.3	284.7	0.5%	288.9	289.6	0.3%
Net profit	105.3	106.2	0.8%	103.7	104.1	0.4%	108.5	108.7	0.2%
Core net profit	105.3	106.2	0.8%	103.7	104.1	0.4%	108.5	108.7	0.2%
EPS (Scts)	2.7	2.7	0.8%	2.7	2.7	0.4%	2.8	2.8	0.2%
DPS (Scts)	5.2	5.2	0.5%	5.3	5.3	0.7%	5.4	5.4	1.0%

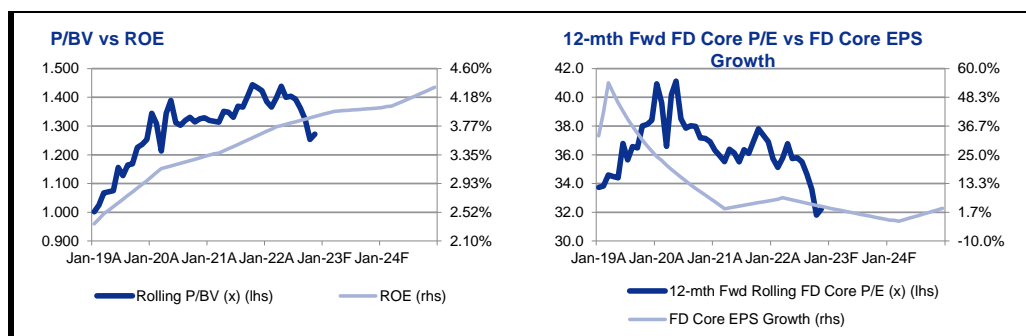
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Key downside risks for Netlink Trust include lower-than-expected ICO pricing in the upcoming review, which is expected to be concluded by the IMDA by 1HCY23 (delayed slightly vs. previous expectations). Any changes to the WACC assumptions or other key assumptions in which this pricing is derived could have an adverse impact on the financial performance of Netlink Trust. Other risks include higher-than-expected interest rate environment further raising cost of equity (thereby impacting valuations).

		Refinitiv ESG Scores					
ESG in a nutshell		C- ESG Score	A+ ESG Controversies Score	C- ESG Combined Score	D ESG Environment Pillar Score	D ESG Social Pillar Score	B+ ESG Government Pillar Score
<p>Netlink NBN Trust (NLT) adopts the Global Reporting Initiative (GRI) Standards as a benchmark to measure its ESG efforts and has recorded zero incidents of non-compliance of laws and regulations, as well as zero incidents of corruption, underscoring its commitment to ESG causes. In FY21, NLT maintained a low scrap rate of 1.35% in its fibre cable business. NLT managed to achieve an employee turnover rate of 6.6% in FY21 (a three-year low), much lower than the high-tech industry's rate of 12.6%. NLT also maintained 100% island-wide fibre coverage and network availability of 99.99% in Singapore as of FY21.</p>							
<p>Keep your eye on</p> <p>As of FY21, NLT maintained 100% island-wide fibre coverage and network availability of 99.99% in Singapore.</p>	<p>Implications</p> <p>NLT is required by the IMDA to meet certain minimum quality of service (QoS) standards. The failure to meet certain QoS standards may result in fines and penalties, negatively impacting earnings.</p>						
<p>ESG highlights</p> <p>NLT has set a target of reducing its scope 1 and 2 emissions by 50% by FY30 (using FY22 as a baseline) and achieving net zero by 2050. Some planned initiatives to achieve this goal include 1) replacing diesel vehicles with electric vehicles, 2) upgrading existing cooling systems to higher energy efficiency models and using more environmentally friendly refrigerants, and 3) future offices will be designed in accordance with BCA's Green Mark Standards.</p>	<p>Implications</p> <p>We view this positively as it underscores NLT's commitment to ESG causes.</p>						
<p>Trends</p> <p>NLT's employee turnover rate was 13.5% in FY19 and 17.7% in FY20 but improved to 6.6% in FY21.</p>	<p>Implications</p> <p>As NLT operates a business that requires human capital to lay fibre cable and perform installation works, a high employee turnover rate may result in labour shortage, potentially causing the company to fall short of IMDA's targets under the QoS standards, leading to fines and penalties, which will negatively impact earnings.</p>						

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	368.5	377.6	391.8	390.9	397.8
Gross Profit	368.5	377.6	391.8	390.9	397.8
Operating EBITDA	270.7	267.3	287.4	284.7	289.6
Depreciation And Amortisation	(167.8)	(169.7)	(168.9)	(167.4)	(165.8)
Operating EBIT	102.9	97.6	118.5	117.3	123.8
Financial Income/(Expense)	(11.3)	(10.5)	(14.2)	(15.5)	(16.5)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	91.6	87.1	104.3	101.8	107.3
Exceptional Items					
Pre-tax Profit	91.6	87.1	104.3	101.8	107.3
Taxation	3.2	4.2	1.9	2.3	1.4
Exceptional Income - post-tax					
Profit After Tax	94.8	91.3	106.2	104.1	108.7
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	94.8	91.3	106.2	104.1	108.7
Recurring Net Profit	96.4	103.7	106.2	104.1	108.7
Fully Diluted Recurring Net Profit	96.4	103.7	106.2	104.1	108.7

Cash Flow

(\$m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	270.7	267.3	287.4	284.7	289.6
Cash Flow from Inv. & Assoc.					
Change In Working Capital	8.0	(11.1)	23.3	1.2	0.3
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	9.3	13.8	0.0	0.0	0.0
Net Interest (Paid)/Received	(16.4)	(7.2)	(14.2)	(15.5)	(16.5)
Tax Paid	(7.1)	(3.9)	1.9	2.3	1.4
Cashflow From Operations	264.5	258.7	298.4	272.7	274.8
Capex	(60.2)	(73.9)	(80.0)	(90.0)	(90.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow					
Cash Flow From Investing	(60.2)	(73.9)	(80.0)	(90.0)	(90.0)
Debt Raised/(repaid)	(5.2)	(6.4)	25.0	30.0	27.5
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(197.2)	(199.1)	(203.9)	(207.5)	(211.1)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(202.4)	(205.6)	(178.9)	(177.5)	(183.6)
Total Cash Generated	1.9	(20.7)	39.5	5.2	1.2
Free Cashflow To Equity	199.1	178.4	243.4	212.7	212.3
Free Cashflow To Firm	221.2	192.5	232.6	198.2	201.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	171	150	189	195	196
Total Debtors	45	66	48	48	49
Inventories	5	4	4	4	4
Total Other Current Assets	31	35	35	35	35
Total Current Assets	252	255	277	282	284
Fixed Assets	2,927	2,831	2,763	2,692	2,622
Total Investments	0	0	0	0	0
Intangible Assets	827	823	817	811	805
Total Other Non-Current Assets	122	108	108	108	108
Total Non-current Assets	3,877	3,761	3,688	3,610	3,534
Short-term Debt	509	156	156	156	156
Current Portion of Long-Term Debt					
Total Creditors	59	55	61	62	63
Other Current Liabilities	47	66	66	66	66
Total Current Liabilities	615	277	283	284	285
Total Long-term Debt	156	508	533	563	590
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	43	46	46	46	46
Total Non-current Liabilities	198	554	579	609	636
Total Provisions	507	485	485	485	485
Total Liabilities	1,320	1,315	1,346	1,377	1,406
Shareholders' Equity	2,804	2,716	2,619	2,515	2,413
Minority Interests					
Total Equity	2,804	2,716	2,619	2,515	2,413

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(0.47%)	2.48%	3.75%	(0.23%)	1.77%
Operating EBITDA Growth	4.06%	(1.27%)	7.54%	(0.96%)	1.75%
Operating EBITDA Margin	73.5%	70.8%	73.4%	72.8%	72.8%
Net Cash Per Share (S\$)	(0.13)	(0.13)	(0.13)	(0.13)	(0.14)
BVPS (S\$)	0.72	0.70	0.67	0.65	0.62
Gross Interest Cover	9.12	9.31	8.35	7.57	7.51
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	209%	219%	192%	199%	194%
Accounts Receivables Days	44.87	53.44	53.26	45.17	44.61
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	2.61%	2.53%	3.16%	3.21%	3.47%
ROCE (%)	2.55%	2.49%	3.10%	3.12%	3.36%
Return On Average Assets	2.54%	2.50%	3.02%	3.04%	3.25%

Key Drivers

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Residential fibre connections ('000)	1,446.8	1,464.2	1,483.5	1,508.1	1,532.8
Non-residential fibre connections ('000)	48.1	50.3	52.3	53.9	55.5
NBAP connections ('000)	2.0	2.4	2.8	3.0	3.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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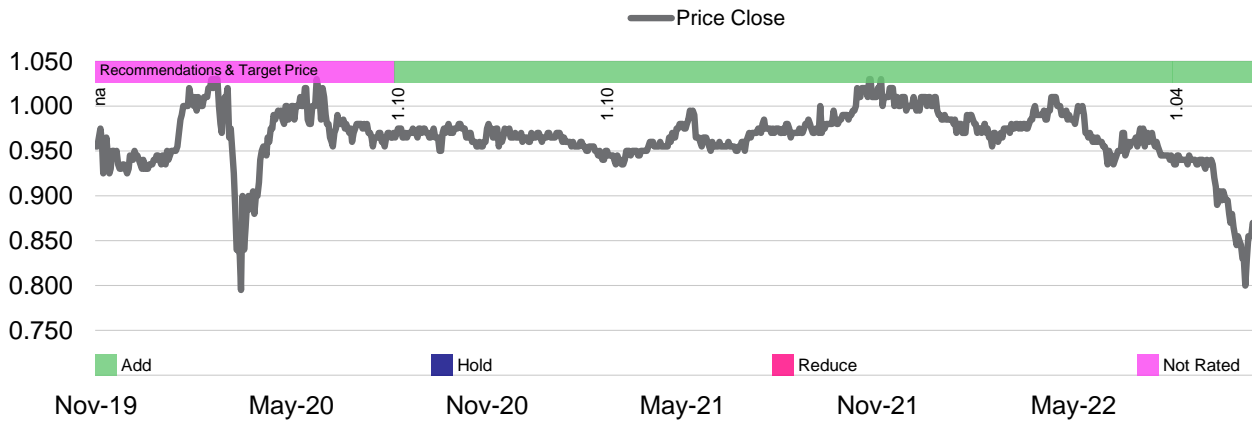
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646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

Netlink NBN Trust (NETLINK SP)



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Add The stock's total return is expected to exceed 10% over the next 12 months.

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