

Netlink NBN Trust (NETLINK SP)

Financial health is wealth

Yields & growth intact; BUY maintained

FY19 EPS beat MKE/consensus estimates by 11%/4%, from stronger-than-expected revenue. With this, we raise our FY20/21E revenue/EBITDA/EPS (Fig 1) and our DDM-based (COE 6%, LTG 0%) TP to SGD0.94. With a naturally-defensive residential fibre monopoly business and 6% sustainable yields, we continue to believe Netlink provides a haven during the current industry turbulence due to wireless competition and general economic uncertainties. Maintain BUY where any negative revisions to its regulatory regime are the key risk to our outlook.

Accelerated residential growth

FY19 revenue, EBITDA and EPS were above MKE/consensus forecasts (Fig 3). 4QFY19's 3% QoQ/11% YoY acceleration in residential connections was particularly marked, as households continued to migrate from cable broadband to fibre. Finance costs were also lower than our estimates and guidance. With cable migration expected to be nearly over by 1QFY20, we bring forward our residential-connection assumptions and raise FY20/21E revenue by 3%/1%.

Not all rosy but not a big problem

Non-residential or enterprise connections were slightly below our forecasts. Potential increased competition from incumbent telcos and SP Telecom which *aims to build out* its own non-residential fibre network temper our revenue-growth assumptions. The same goes for NBAP connections. But both only contribute less than 11% to revenue (Fig 4).

Broad guidance; long-term investment

Management guided for higher revenue and capex in FY20 without specifying growth rates. We have assumed an additional SGD20m capex to take FY20E spending to SGD80m. This should be funded by debt, given a sub-20% gearing level. Weighing just 0.4% on FY21E profits, we see its additional depreciation charges as part of management's preparations for the next round of rate review in FY23E for an expanded rate base from which returns are guaranteed.

FYE Mar (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	229	354	369	386	400
EBITDA	166	246	258	271	281
Core net profit	50	77	84	94	102
Core EPS (cts)	1.3	2.0	2.2	2.4	2.6
Core EPS growth (%)	(35.7)	55.3	8.7	11.3	8.7
Net DPS (cts)	3.2	4.9	4.8	5.1	5.4
Core P/E (x)	63.7	41.8	38.4	34.5	31.8
P/BV (x)	1.0	1.1	1.1	1.1	1.2
Net dividend yield (%)	4.0	5.9	5.8	6.1	6.5
ROAE (%)	1.6	2.5	2.8	3.3	3.7
ROAA (%)	1.2	1.8	2.0	2.3	2.5
EV/EBITDA (x)	21.6	15.1	14.5	13.8	13.3
Net gearing (%) (incl perps)	13.3	16.0	17.3	17.9	18.6
Consensus core profit	-	-	83	97	na
MKE vs. Consensus (%)	-	-	1.1	(3.1)	na

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BUY

Share Price SGD 0.83
12m Price Target SGD 0.94 (+13%)
Previous Price Target SGD 0.93

Company Description

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

Statistics

52w high/low (SGD)	0.84/0.74
3m avg turnover (USDm)	4.6
Free float (%)	74.3
Issued shares (m)	3,897
Market capitalisation	SGD3.2B
	USD2.4B

Major shareholders:

Singapore Telecommunications Ltd.	24.8%
The Vanguard Group, Inc.	2.0%
Veritas Asset Management LLP	1.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	3	2
Relative to index (%)	1	2	11

Source: FactSet

Terms/companies mentioned:

SP Telecom - Not Listed
NBAP - non-building address points

Figure 1: Forecast revisions

(end-Mar)	FY20E	FY21E
Revised revenue (SGD m)	369	386
Revised EBITDA (SGD m)	258	271
Revised core profit (SGD m)	84	94
Revised TP (SGD)	0.94	
Previous revenue (SGD m)	359	382
Previous EBITDA (SGD m)	254	270
Previous core profit (SGD m)	81	94
Previous TP (SGD)	0.93	
Change in revenue	2.8%	1.1%
Change in EBITDA	1.5%	0.4%
Change in core profit	3.5%	-0.4%
Change in TP	1.4%	

Source: Company data, Maybank Kim Eng

Figure 2: MKE vs consensus forecasts

(end-Mar, SGD m)	FY20E	FY21E
Revenue (MKE)	369	386
EBITDA (MKE)	258	271
Core profit (MKE)	84	94
TP (SGD / unit)	0.94	
Revenue (cons)	367	383
EBITDA (cons)	259	274
Core profit (cons)	83	97
TP (SGD / unit)	0.91	
MKE vs cons (Revenue)	0.6%	0.7%
MKE vs cons (EBITDA)	-0.5%	-1.3%
MKE vs cons (core profit)	1.1%	-3.1%
MKE vs cons (TP)	3.1%	

Source: Company data, Maybank Kim Eng, FactSet

Figure 3: Quarterly income statement

(end-Mar, SGD m)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ	YoY	4Q19 % of MKE FY19	YTD % of MKE FY19	YTD % of cons FY19E
Revenue										
Ducts and manholes	8	9	9	9	9	-1.5%	17.2%			
Central office	4	4	4	5	5	1.0%	3.2%			
Connection rev - Residential	49	50	51	52	54	3.6%	10.7%			
Connection rev - Non-residential	7	7	7	8	8	0.8%	5.7%			
Connection rev - NBAP	2	2	2	2	2	7.3%	7.2%			
Co-location	6	5	5	5	5	2.0%	-14.9%			
Installation	5	5	5	6	5	-23.8%	5.1%			
Diversion	-	3	7	2	1	-74.4%				
Total revenue	81	86	91	89	88	-1.3%	8.9%	26%	106%	102%
Operation and maintenance costs	(4)	(5)	(5)	(6)	(6)	0.1%	50.3%			
Staff costs	(5)	(5)	(6)	(6)	(7)	13.4%	50.3%			
Installation costs	(4)	(3)	(3)	(4)	(4)	-3.9%	-12.9%			
Management fee	(0)	(0)	(0)	(0)	(0)	29.3%	-2.3%			
Other opex	(11)	(12)	(16)	(10)	(9)	-15.5%	-17.1%			
EBITDA	57	61	61	63	62	-0.5%	9.2%	26%	104%	101%
Depreciation	(40)	(40)	(40)	(40)	(41)	1.2%	1.1%			
Amortization	-	-	-	-	-					
Operating profit	17	21	21	22	21	-3.5%	28.9%	26%	104%	
Finance costs	(4)	(5)	(5)	(5)	(5)	-2.1%	9.3%	24%	94%	
Other income	1	1	1	1	1	34.0%	50.6%			
Profit before tax	13	17	17	18	18	-2.2%	36.8%	28%	110%	
Income tax	2	2	2	2	2	52.0%	-1.7%			
Core profit	15	19	19	20	20	2.0%	30.9%	29%	111%	104%

Source: Company data, Maybank Kim Eng, FactSet

Figure 4: Quarterly revenue breakdown

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Return on asset base (RAB)					
Residential	60.4%	57.9%	56.1%	58.5%	61.4%
Ducts and manholes	9.8%	10.9%	10.2%	10.6%	10.6%
Non-residential	8.9%	8.5%	8.2%	8.5%	8.7%
NBAP/segment fibre	2.1%	2.0%	1.9%	1.9%	2.1%
Sub-total	81.3%	79.3%	76.5%	79.5%	82.7%
Non-RAB					
Co-location	7.6%	5.8%	5.4%	5.7%	5.9%
Installation	5.7%	6.0%	5.6%	7.1%	5.5%
Sub-total	13.2%	11.8%	11.0%	12.8%	11.4%
Non-regulated revenue					
Central office	5.5%	4.8%	4.6%	5.1%	5.2%
Diversion	0.0%	4.0%	7.9%	2.6%	0.7%
Sub-total	5.5%	8.9%	12.5%	7.7%	5.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data

Figure 5: Quarterly operating statistics

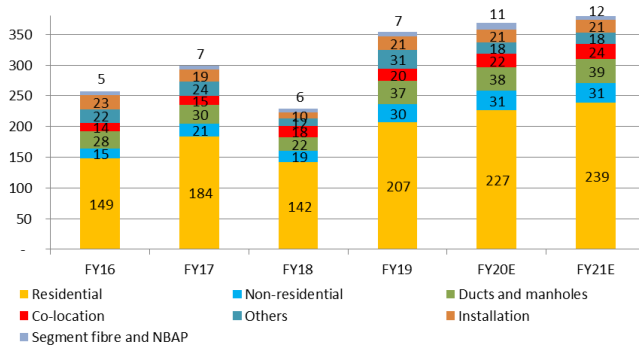
	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	QoQ	YoY
Residential (m)							
Homes passed	1.48	1.49	1.50	1.50	1.51	0.5%	1.6%
Homes reached	1.35	1.35	1.36	1.37	1.38	0.7%	2.5%
End-users	1.19	1.22	1.24	1.28	1.33	3.4%	11.3%
Non-residential (000)							
Buildings reached	0.03	0.04	0.03	0.03	0.03	0.6%	3.8%
End-users	0.04	0.04	0.05	0.05	0.05	1.0%	5.4%
Non-building address point (NBAP, 000)	0.84	1.13	1.28	1.46	1.59	14.2%	130.2%

Source: Company data

Value Proposition

- NetLink operates the sole passive backbone for the nationwide fibre network of Singapore with a mandated 100% of homes passed.
- With this virtual monopoly position, close to 80% of revenues fall 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 current rates set until Dec 2022.
- Residential connection revenue traditionally represents the bulk (c60%) of the business.
- Non-residential and duct and manhole connection revenues are the next largest revenue components at a combined c18% of total.

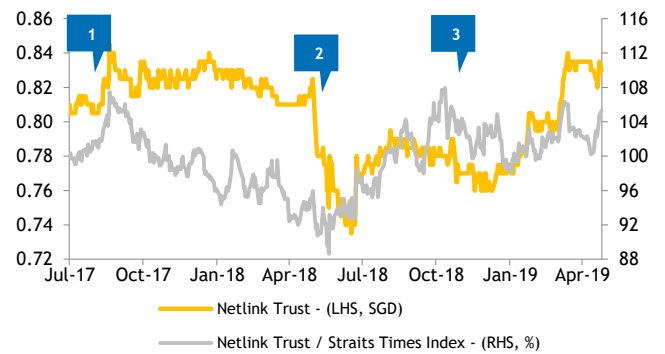
Revenue breakdown (SGD m) - residential matters most



Source: Company, MKE

Price Drivers

Historical share price trend



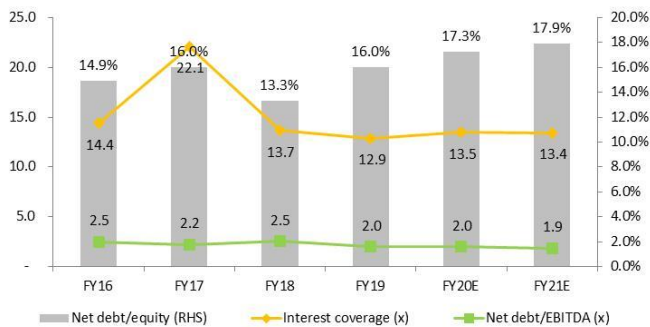
Source: Company, Maybank Kim Eng, Factset

- Share price stabilizing programme exercised until 17 Aug 2017.
- 4QFY18 profit 6% below prospectus estimates due to installation revenue shortfall.
- 1QFY19 above management forecasts for the period.

Financial Metrics

- NetLink's balance sheet is at an efficient level to support its policy of 100% payout of its cash available for distribution (i.e. essentially free cash flow).
- Management guidance for maintenance capex is at SGD40m-60m per year. For FY20E additional, non-maintenance capex is guided. MKE assumes SGD80m total capex in FY20E.
- We expect refinancing of loans as they mature in FY21E and for new capex to be financed with loans.
- Investments outside the current core business are unlikely and would require unit holder approval.

Healthy balance sheet to support DPU



Source: Company, MKE

Swing Factors

Upside

- Stronger-than-expected demand may enable an increase in regulated capex that will provide additional guaranteed returns.
- Increased business expansion outside the CBD could provide new non-residential connections in areas where NetLink is the virtual sole fibre provider.
- Market earnings risk-aversion cycles could boost interest in NetLink's stable returns.

Downside

- Any downward revision in the regulated returns during the next review period impacts long-term fair value.
- Pricing competition in the non-residential segment.
- Rising interest rate cycle would reduce the attractiveness of NetLink and similar stocks in the same asset class.

FYE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	64.3	39.4	38.4	34.5	31.8
Core P/E (x)	63.7	41.8	38.4	34.5	31.8
P/BV (x)	1.0	1.1	1.1	1.1	1.2
P/NTA (x)	1.4	1.1	1.1	1.1	1.2
Net dividend yield (%)	4.0	5.9	5.8	6.1	6.5
FCF yield (%)	nm	4.9	5.1	6.1	6.5
EV/EBITDA (x)	21.6	15.1	14.5	13.8	13.3
EV/EBIT (x)	66.0	43.5	39.8	36.0	33.5
INCOME STATEMENT (SGD m)					
Revenue	228.6	353.6	369.0	385.9	400.1
Gross profit	0.0	353.6	369.0	385.9	400.1
EBITDA	166.3	246.2	257.5	270.6	280.9
Depreciation	(111.8)	(160.8)	(163.6)	(166.8)	(169.2)
Amortisation	(3.2)	0.0	0.0	0.0	0.0
EBIT	54.5	85.4	93.9	103.8	111.6
Net interest income / (exp)	(12.2)	(19.1)	(19.1)	(20.2)	(20.5)
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	0.0	3.5	3.5	3.5	3.5
Pretax profit	43.8	69.8	78.2	87.1	94.6
Income tax	6.1	7.6	5.9	6.5	7.1
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	50.0	77.4	84.1	93.6	101.7
Core net profit	50.0	77.4	84.1	93.6	101.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	166.4	148.6	148.6	148.6	148.6
Accounts receivable	64.2	75.8	79.1	82.8	85.8
Inventory	3.9	4.7	4.9	5.2	5.4
Property, Plant & Equip (net)	3,210.7	3,124.5	3,040.9	2,934.1	2,824.8
Intangible assets	839.7	836.1	836.1	836.1	836.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	92.1	92.0	92.0	92.0	92.0
Total assets	4,377.1	4,281.8	4,201.7	4,098.7	3,992.7
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	15.1	56.0	58.1	60.2	62.2
LT interest bearing debt	588.7	634.6	654.6	654.6	654.6
Other liabilities	599.0	561.0	561.0	561.0	561.0
Total Liabilities	1,202.7	1,251.9	1,274.1	1,276.1	1,278.1
Shareholders Equity	3,174.4	3,029.9	2,927.6	2,822.6	2,714.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	3,174.4	3,029.9	2,927.6	2,822.6	2,714.6
Total liabilities and equity	4,377.1	4,281.8	4,201.7	4,098.7	3,992.7
CASH FLOW (SGD m)					
Pretax profit	43.8	69.8	78.2	87.1	94.6
Depreciation & amortisation	115.0	160.8	163.6	166.8	169.2
Adj net interest (income)/exp	(20.4)	18.3	19.1	20.2	20.5
Change in working capital	25.1	2.3	(1.4)	(1.8)	(1.2)
Cash taxes paid	11.5	0.0	0.0	0.0	0.0
Other operating cash flow	(22.2)	(24.3)	(13.3)	(13.6)	(13.4)
Cash flow from operations	158.5	226.8	246.3	258.6	269.8
Capex	(212.2)	(71.1)	(80.0)	(60.0)	(60.0)
Free cash flow	(53.7)	158.5	166.3	198.6	209.8
Dividends paid	0.0	(221.3)	(186.3)	(198.6)	(209.8)
Equity raised / (purchased)	2,334.7	0.0	0.0	0.0	0.0
Change in Debt	(1,019.5)	45.0	20.0	0.0	0.0
Other invest/financing cash flow	(1,074.7)	0.0	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	166.4	(20.6)	0.0	0.0	0.0

FYE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	(23.6)	54.7	4.3	4.6	3.7
EBITDA growth	(25.5)	48.1	4.6	5.1	3.8
EBIT growth	(31.8)	56.8	9.9	10.5	7.6
Pretax growth	(38.1)	59.2	12.2	11.3	8.7
Reported net profit growth	(37.1)	54.9	8.7	11.3	8.7
Core net profit growth	(37.1)	54.9	8.7	11.3	8.7
Profitability ratios (%)					
EBITDA margin	72.7	69.6	69.8	70.1	70.2
EBIT margin	23.8	24.2	25.5	26.9	27.9
Pretax profit margin	19.2	19.7	21.2	22.6	23.7
Payout ratio	nm	245.5	221.3	211.9	206.0
DuPont analysis					
Net profit margin (%)	21.9	21.9	22.8	24.3	25.4
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.4	1.4	1.4	1.5	1.5
ROAE (%)	1.6	2.5	2.8	3.3	3.7
ROAA (%)	1.2	1.8	2.0	2.3	2.5
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	94.5	71.3	75.6	75.5	75.8
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	0.4	0.4	0.5	0.5	0.5
Current ratio (x)	3.9	2.9	2.9	2.9	2.8
Leverage & Expense Analysis					
Asset/Liability (x)	3.6	3.4	3.3	3.2	3.1
Net gearing (%) (incl perps)	13.3	16.0	17.3	17.9	18.6
Net gearing (%) (excl. perps)	13.3	16.0	17.3	17.9	18.6
Net interest cover (x)	4.5	4.5	4.9	5.1	5.5
Debt/EBITDA (x)	3.5	2.6	2.5	2.4	2.3
Capex/revenue (%)	92.8	20.1	21.7	15.5	15.0
Net debt/ (net cash)	422.3	485.9	505.9	505.9	505.9

Source: Company; Maybank

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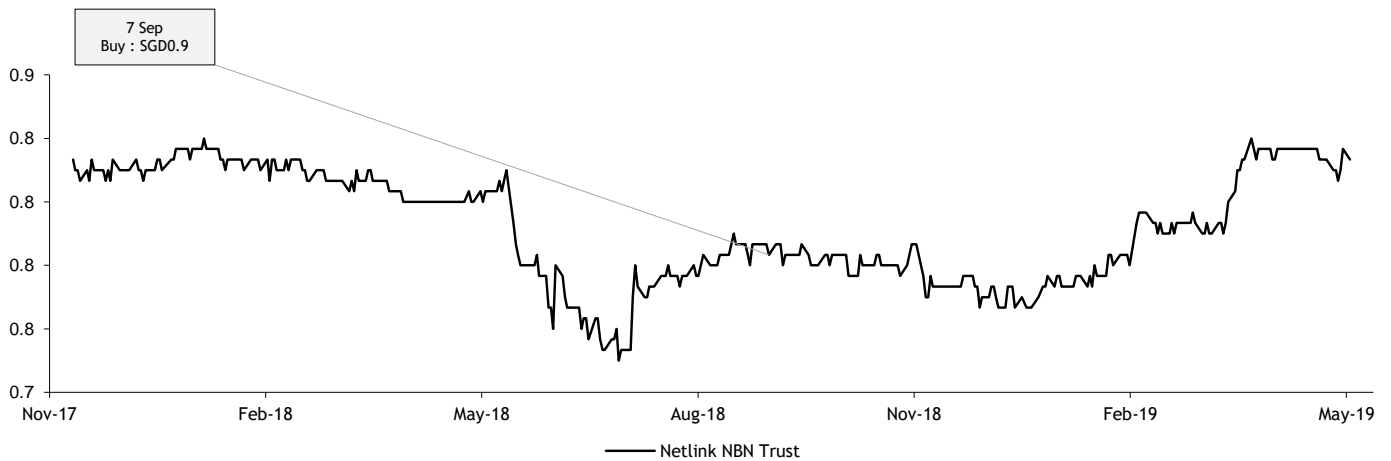
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