

COMPANY RESULTS

NetLink NBN Trust (NETLINK SP)

2QFY25: A Slight Miss As Margins Compress

Despite higher 2QFY25 revenue (+2.5% yoy), Netlink posted lower EBITDA (-5.1% yoy) and PATMI (-7.4% yoy), slightly below our expectations. The softer-than-expected bottom line results were largely due to higher operating costs and one-off expenses. However, with its stable revenue streams and operating cash flows, we continue to like Netlink as a high-yielding, safe-haven stock. Maintain BUY with the same target price of S\$0.98.

2QFY25 RESULTS

Year to 31 Mar (S\$m)	2QFY25	2QFY24	yoy % chg	1HFY25	yoy % chg
Revenue	103.9	101.4	2.5	204.8	(0.2)
EBITDA	70.1	73.9	(5.1)	143.5	(3.8)
EBITDA Margin (%)	67.5	72.9	(5.4ppt)	70.1	(2.5ppt)
Profit After Tax	22.8	24.6	(7.4)	48.5	(8.3)
Net Margin (%)	22.0	24.3	(2.3ppt)	23.7	(2.1ppt)

Source: NetLink, UOB Kay Hian

RESULTS

- 1HFY25: Slight miss as margins dropped.** For 1HFY25, NetLink NBN Trust (Netlink) reported lower revenue (-0.2% yoy), EBITDA (-3.8% yoy) and PATMI (-8.3% yoy), forming 49%/47%/45% of our full-year forecasts respectively. The lower yoy revenue was due to lower revised prices, offset by growing overall connections. The weaker EBITDA and PATMI were largely due to higher operating costs, a S\$1.1m one-off gain in 1QFY24 and a S\$1.9m asset write-off in 2QFY25. Excluding the one-offs, both 1HFY25 EBITDA and PATMI would have dropped by around 2% respectively and more in line with our full-year forecasts.
- Mixed quarter.** Despite lower prices, 2QFY25 revenue (+2.5% yoy, +3.0% qoq) was higher on the back of increased overall connections. However, 2QFY25 EBITDA (-5.1% yoy, -4.4% qoq) and PATMI (-7.4% yoy, -11.1% qoq) were lower, dragged by higher operating costs and the S\$1.9m asset write-off as mentioned previously.
- Higher dividend.** Netlink declared a higher 1HFY25 final dividend of 2.68 S cents/share (1HFY24: 2.65 S cents/share), forming 50% of our full-year forecast and in line with our expectation. This implies an annualised dividend yield of around 5.9%.
- Lower interest rate.** Netlink's effective average interest rate was largely stable at 2.7% (1QFY25: 2.69%, 2QFY24: 2.76%) while the group also increased its borrowings to S\$810m (1QFY25: S\$790m) with 74.1% (1QFY25: 75.9%) now on fixed rates. With additional interest rate cuts expected in FY25, management is positive about refinancing opportunities. We maintain our expectation that Netlink would lower its effective average interest rate moving forward.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2023	2024	2025F	2026F	2027F
Net turnover	403	411	416	426	437
EBITDA	291	286	290	298	305
Operating profit	120	114	114	119	127
Net profit (rep./act.)	109	103	100	105	113
Net profit (adj.)	109	103	100	105	113
EPS (S\$ cent)	2.8	2.6	2.6	2.7	2.9
PE (x)	32.5	34.4	35.5	33.7	31.5
P/B (x)	1.3	1.4	1.5	1.5	1.6
EV/EBITDA (x)	14.4	14.7	14.5	14.1	13.8
Dividend yield (%)	5.8	5.8	5.9	6.0	6.0
Net margin (%)	27.1	25.1	24.1	24.7	25.8
Net debt/(cash) to equity (%)	20.2	23.0	27.0	30.5	32.3
Interest cover (x)	17.4	13.2	12.6	12.7	13.0
ROE (%)	4.1	4.0	4.1	4.5	5.0
Consensus net profit	-	-	104	109	118
UOBKH/Consensus (x)	-	-	0.96	0.97	0.95

Source: NetLink NBN Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.91
Target Price	S\$0.98
Upside	+8.8%

COMPANY DESCRIPTION

NetLink NBN Trust 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):	3,546.2
Market cap (US\$m):	2,691.0
3-mth avg daily t'over (US\$m):	3.2

Price Performance (%)

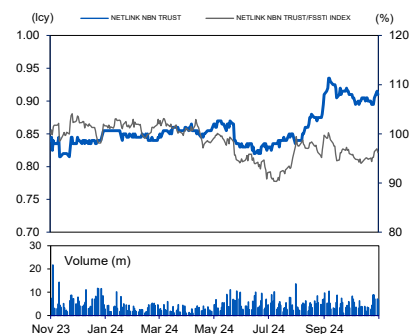
52-week high/low S\$0.940/S\$0.810

1mth	3mth	6mth	1yr	YTD
0.0	9.0	6.4	8.3	8.3

Major Shareholders

	%
Singtel	24.8
-	-
FY25 NAV/Share (S\$)	0.62
FY25 Net Debt/Share (S\$)	0.17

PRICE CHART



Source: Bloomberg

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REVENUE BY SEGMENT

	2QFY25	qoq % chg	yoy % chg
Revenue Breakdown ('000):			
Residential connections	61,960	1.0	0.2
Non-residential connections	8,320	(1.8)	1.3
NBAP and segment connections	4,885	3.0	2.5
Installation related revenue	7,780	18.6	4.8
Ancillary project revenue	4,460	19.4	3.0
Co-location revenue	5,300	3.0	24.9
Total Fibre Business Revenue	92,705	3.0	2.0
Ducts and manhole service revenue	6,551	(0.1)	(3.6)
Central Office revenue	4,674	7.7	24.9
Total Ducts, Manholes and Central	11,224	3.0	6.5
Total Revenue	103,929	3.0	2.5

Source: NetLink, UOB Kay Hian

- Stable segmental performance.** Despite lower prices, 2QFY25 regulated asset base (RAB) revenue inched higher (+0.8% qoq, +1.3% yoy) while non-RAB revenue (+15.6% qoq, +9.1% yoy) surged from increased installation-related and central office revenue. It was noted that the sequential drop in non-residential connections revenue was due to less connections from increased churn and the consolidation of two Requesting Licensees. For 2QFY25, residential connections grew 1.9% yoy but softened slightly by 0.3% qoq largely due to the delayed termination of lower-speed broadband plans by users who had earlier upgraded to higher-speed broadband plans. Connections for non-residential (-0.4% qoq, +1.1% yoy) also dropped slightly qoq while both non-building address points (NBAP) (+2.3% qoq, +6.7% yoy) and segmental (+3.5% qoq, +17.3% yoy) connections grew.

STOCK IMPACT

- Safe haven; attractive 5.9% dividend yield.** As Netlink is 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 (25.3% 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. The group is also well-positioned to support IMDA and its customers in their technology upgrade to deliver a 10Gbps-enabled national broadband network (NBN).

EARNINGS REVISION/RISK

- We slash our FY25-27 PATMI estimates by 7-8%,** on the back of higher operating cost assumptions. We now forecast FY25-27 PATMI at S\$100.0m (S\$108.1m previously), S\$105.1m (S\$115.0m previously) and S\$112.7m (S\$122.9m previously) respectively.

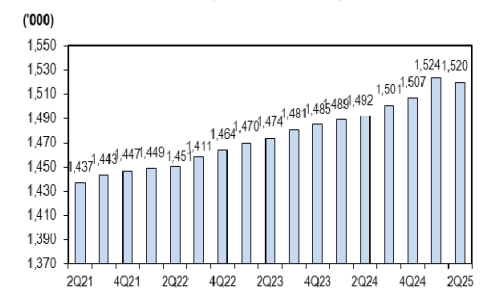
VALUATION/RECOMMENDATION

- Maintain BUY with the same DCF-based target price of S\$0.98** (WACC: 5%, terminal growth: 1%). At our target price, the stock trades at around 14x FY25 EV/EBITDA, its long-term mean 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

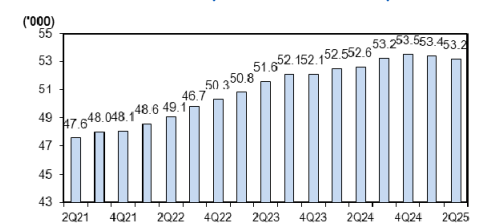
- Key catalysts include:** a) 5G beneficiary – more opportunities arising from mobile operators' fibre network densification demand, b) growth in demand for NBAP connections with the rollout of 5G/Smart Nation initiatives, c) investors seeking defensive yield from Netlink's resilient, predictable, transparent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

FIBRE CONNECTION (RESIDENTIAL)



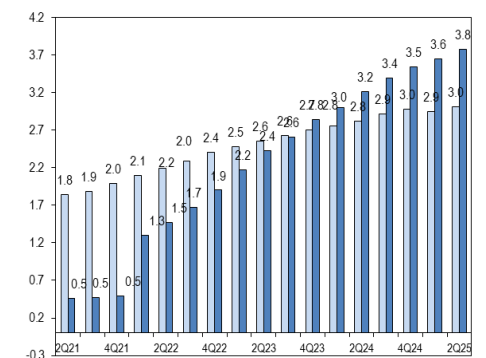
Source: NetLink, UOB Kay Hian

FIBRE CONNECTION (NON-RESIDENTIAL)



Source: NetLink, UOB Kay Hian

NON-BUILDING ADDRESS POINT AND SEGMENT CONNECTIONS¹



¹Segment 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)	2024	2025F	2026F	2027F
Net turnover	411.3	415.5	426.1	436.9
EBITDA	286.5	289.6	297.8	305.0
Deprec. & amort.	172.9	175.9	178.5	178.1
EBIT	113.5	113.7	119.3	126.9
Total other non-operating income	9.3	9.3	9.3	9.3
Net interest income/(expense)	(21.8)	(23.0)	(23.5)	(23.5)
Pre-tax profit	101.1	100.0	105.1	112.7
Tax	2.1	0.0	0.0	0.0
Net profit	103.2	100.0	105.1	112.7
Net profit (adj.)	103.2	100.0	105.1	112.7

BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	2,679.1	2,661.1	2,610.4	2,519.8
Other LT assets	963.7	963.7	963.7	963.7
Cash/ST investment	182.9	149.3	96.0	87.7
Other current assets	90.9	91.3	92.3	93.4
Total assets	3,916.6	3,865.4	3,762.5	3,664.6
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	137.4	158.2	161.3	164.4
LT debt	763.1	800.0	800.0	800.0
Other LT liabilities	493.4	493.4	493.4	493.4
Shareholders' equity	2,522.7	2,413.8	2,307.8	2,206.8
Total liabilities & equity	3,916.6	3,865.4	3,762.5	3,664.6

CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Operating	288.6	294.0	283.4	290.2
Pre-tax profit	101.1	100.0	105.1	112.7
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	172.9	176.0	178.6	178.2
Working capital changes	14.9	19.3	0.8	0.9
Other operating cashflows	(0.3)	(1.2)	(1.9)	(1.5)
Investing	(127.6)	(99.7)	(93.7)	(87.4)
Capex (growth)	4.7	0.0	0.0	0.0
Capex (maintenance)	(132.3)	(99.7)	(93.7)	(87.4)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Financing	(178.8)	(169.7)	(208.9)	(211.1)
Distribution to unitholders	(205.4)	(206.5)	(208.9)	(211.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	30.0	36.9	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(3.4)	0.0	0.0	0.0
Net cash inflow (outflow)	(17.8)	(33.6)	(53.3)	(8.3)
Beginning cash & cash equivalent	200.7	182.9	149.3	96.0
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	182.9	149.3	96.0	87.7

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	69.7	69.7	69.9	69.8
Pre-tax margin	24.6	24.1	24.7	25.8
Net margin	25.1	24.1	24.7	25.8
ROA	2.6	2.6	2.8	3.0
ROE	4.0	4.1	4.5	5.0
Growth				
Turnover	1.9	1.0	2.5	2.5
EBITDA	(1.5)	1.1	2.8	2.4
Pre-tax profit	(7.5)	(1.0)	5.1	7.2
Net profit	(5.5)	(3.1)	5.1	7.2
Net profit (adj.)	(5.5)	(3.1)	5.1	7.2
EPU	(5.5)	(3.1)	5.1	7.2
Leverage				
Debt to total capital	23.2	24.9	25.7	26.6
Debt to equity	30.3	33.1	34.7	36.3
Net debt/(cash) to equity	23.0	27.0	30.5	32.3
Interest cover (x)	13.2	12.6	12.7	13.0

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