REPL::ANNUAL GENERAL MEETING::VOLUNTARY

Issuer & Securities

Issuer/ Manager

NETLINK NBN MANAGEMENT PTE. LTD.

Security

NETLINK NBN TRUST - SG1DH9000006 - CJLU

Announcement Details

Announcement Title

Annual General Meeting

Date &Time of Broadcast

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Submitted By (Co./ Ind. Name)

Eunice Hooi

Designation

Company Secretary

Financial Year End

31/03/2024

Event Narrative

Narrative Type	Narrative Text
Additional Text	NetLink NBN Trust's Annual General Meeting to be held on 23 July 2024 - Please see attached responses to substantial and relevant questions.

Event Dates

Meeting Date and Time

23/07/2024 14:00:00

Response Deadline Date

21/07/2024 14:00:00

Event Venue(s)

Place

Venue(s)	Venue details
Meeting Venue	Stephen Riady Auditorium, NTUC Centre No. 1 Marina Boulevard, Level 7 One Marina Boulevard Singapore 018989

Attachments

NetLink_NBN_Trust_-_Responses_to_Substantial_and_Relevant_Questions.pdf

Total size =201K MB

Related Announcements

Related Announcements

27/06/2024 06:36:05

NetLink NBN Trust

(a business trust constituted on 19 June 2017 under the laws of the Republic of Singapore and registered under the Business Trusts Act 2004 of Singapore (Registration Number: 2017002))

(Managed by NetLink NBN Management Pte. Ltd.)

NETLINK NBN TRUST ANNUAL GENERAL MEETING TO BE HELD ON 23 JULY 2024 RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

The Board of Directors of NetLink NBN Management Pte. Ltd. ("**Board**"), as Trustee-Manager of NetLink NBN Trust, ("**NetLink**"), would like to thank Unitholders and the Securities Investors Association (Singapore) ("**SIAS**") for submitting questions ahead of NetLink's Annual General Meeting to be held on 23 July 2024.

The Board's responses to the questions from Unitholders and SIAS are set out in Appendix 1 and Appendix 2 respectively, and also published on NetLink's website at https://www.netlinknbn.com/agm2024.html. The Board's responses to the questions from SIAS can also be found on SIAS' website at https://sias.org.sg/qa-on-annual-reports/.

Please also refer to the following documents which can be found on NetLink's website at https://www.netlinknbn.com/agm.html:-

(a) NetLink's Annual Report 2024;

(b) NetLink's Notice of Annual General Meeting ("**AGM**") dated 27 June 2024; and

(c) the accompanying announcement released via SGXNet on 27 June 2024 setting out, inter alia, the arrangements for participation at the AGM.

By Order of the Board

NetLink NBN Management Pte. Ltd.
(Registration Number: 201704783K)
(as trustee-manager of NetLink NBN Trust)

Eunice Hooi
Company Secretary
17 July 2024

NetLinkNBN
the fibre of a smart nation

Appendix 1

1. NetLink's NAV decreases yearly. NetLink pays more DPU than it's EPS. Is this a concern?

NetLink's response

NetLink's net profits are lower than operating cash flows primarily due to significant non-cash depreciation and amortisation expense. This is a common characteristic in capital-intensive infrastructure business.

NetLink is a business trust. One of the key advantages of the business trust structure is that it allows NetLink to pay distributions from its cash flow and is not limited by profit or retained earnings. Hence, EPS is not an indication of the DPU that can be declared to unitholders.

Investors should focus on NetLink's ability to generate cash flow to make distribution payments. A declining NAV is a concern only if this affects the ability of the entity to continue to generate a healthy level of cash flow going forward. This is not the case for NetLink as: (1) our business is expected to continue to generate a healthy level of cash flow to support distribution; (2) we continue to invest in our network and this investment will translate to higher revenue in accordance with the Regulated Asset Base framework; and (3) we prudently fund our growth through a combination of internally generated cash flow as well as our balance sheet strength to borrow.

2. Is NetLink's distribution sustainable over the long term?

NetLink's response

Over 90% of NetLink's revenue is regulated, with over 70% coming from fibre connections to end-users. We expect continued growth in the number of fibre connections in the years to come. NetLink's business model is therefore resilient and is well-supported by these predictable revenue streams.

Barring unforeseen circumstances, our operating cash flow is expected to remain stable to support our distribution to investors going forward.

3. What are the threats to the network business of NetLink from 5G mobile?

NetLink's response

NetLink is in the business of providing fibre connections. The rollout of 5G networks has provided NetLink with opportunities to offer fibre connections to the Mobile Network Operators.

Fixed fibre broadband and mobile broadband have co-existed for a long time. Both have continued to evolve to meet the needs of end-users and the ever-increasing data intensity. Most end-users use both fixed fibre broadband and mobile broadband. We do not see this pattern of usage changing. We see 5G mobile as complementary rather than as a threat to NetLink's business.

4. What are the growth opportunities for NetLink?

NetLink's response

The Enterprise and NBAP (non-building address point) segments offer significant growth potential. NetLink is committed to support our telco partners to meet the needs of end-users within these segments. NetLink works with our telco partners to facilitate the deployment of IoT devices and other sensors on street furniture such as traffic lights, lamp posts, and bus stops. NetLink also continues to expand its network coverage to ensure that most outdoor locations are fibre-ready or close to the nearest fibre node.

In addition, NetLink continues to explore investment opportunities in the digital infrastructure space

5. What is the size of NetLink's Central Office and Colocation business? Does NetLink see Data Centre business as a growth area?

NetLink's response

In FY24, Central Office and Colocation revenues made up 8.6% of NetLink's total revenue.

Apart from managing its colocation space to serve Internet Service Providers providing fibre broadband services to end-users in Singapore, NetLink currently has no plans to enter into new data centre business.

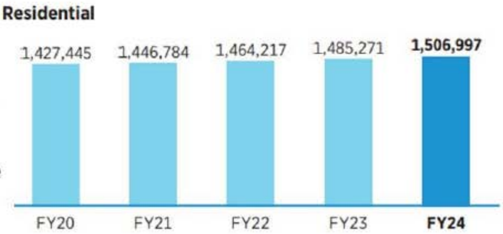
Appendix 2

1. **The number of residential connections increased to 1,506,997 as at 31 March 2024, up from 1,485,271 a year ago. The annual increases have ranged from approximately 17,400 to 21,700, averaging about 20,000 per year over the past four years.**

   The group's network stands as Singapore's only fibre network offering nationwide residential coverage.

Residential Connections

Residential connections were the largest single contributor to our business. As at 31 March 2024, the number of residential connections grew 1.5% to 1,506,997, from 1,485,271 in the previous year. This resulted in an increase of $3.3 million in revenue generated over the previous year, to $247.5 million in FY24.



(Adapted from 2024 annual report)

i. **Given NetLink's position as the sole provider with nationwide fibre network coverage, how does the company acquire new customers in the residential segment? Does NetLink benefit from residential customers signing up for its services through (external) broadband sellers?**

   NetLink's Response

   NetLink acquires new residential end-users through the Internet Service Providers (ISPs).

   The ISPs offer various broadband packages to residential customers.

   Once a residential customer signs up for a home broadband package, the ISP will lease a fibre from NetLink to provide its services to the residential unit. NetLink charges the ISP a one-time service activation charge of $56.00 and a monthly recurring fee of $13.50 for each residential fibre connection.

ii. **How does management maintain and improve operational efficiency in the residential network segment given that there are not direct competitors to benchmark against? What key operational and service-level metrics are tracked and monitored by management and the board?**

   NetLink's Response

   NetLink tracks a range of operational metrics, comparing them against internal benchmarks and industry best practices. These include network availability, mean-time-to-repair, call centre performance metrics, and health and safety indicators. Management will address any deviations from the benchmarks to improve operational performance.

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In addition, NetLink's operation is governed by Quality of Service (QoS) standards set by the IMDA which NetLink must meet or face financial penalties. The QoS performance is part of management's corporate KPI and is reported to the Board monthly.

iii. Is growth in the residential segment heavily dependent on the number of new private and public housing units completed and handed over to new owners? What strategic levers are available to the group to increase revenue from the residential segment if growth in the residential sector slows down?

NetLink's Response

The residential end-user connection segment is dependent on the growth of private and public housing units. We expect the number of connections to grow annually in line with the growth in new housing units.

As NetLink's business is regulated by IMDA under a Regulated Asset Base framework, if the growth in residential connections slows down substantially and is below what was projected, NetLink could request a review of its residential end-user connection price under this framework.

iv. With the current network capable of supporting transmission speeds of 10Gbps, what is the risk of obsolescence now that the Singapore government is shifting to a 10Gbps nationwide broadband network as the standard? Will significant capital investments be required/expected for the development of a "next-next-generation" network with speeds of 100Gbps or better?

NetLink's Response

The existing fibre network could support newer passive optical network technologies with a transmission speed of 10Gbps and beyond. The risk of the existing fibre network becoming obsolete is therefore very low.

IMDA had on 21 February 2024 announced that it will invest up to $100 million to upgrade the Nationwide Broadband Network (NBN) from 1Gbps to 10Gbps. This initiative, which is in line with the Digital Connectivity Blueprint, entails NetLink working closely with the ISPs to upgrade the NBN from now to 2028, which will form the backbone of future applications and innovation, at speeds up to 10 times faster than today. The level of capex that NetLink has to incur in support of this initiative is manageable and has been taken into account in our budget plan.

At this stage, it will be far too early to assess the level of investments required for further upgrades beyond 10Gbps.

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2. In the section titled "In-Conversation with the C-Suite" (pages 10 to 15 of the annual report), the trust's CEO, CFO and COO answered several questions, including key priorities for FY25 which are:

- **Growing non-building address point and segment connections**
- **Support digitalisation of small and medium enterprises**
- **Enhance co-location facilities**
- **Complete and operationalise the eleventh central office**
- **Execute on sustainability initiatives**

i. Has the board set a target on the revenue share from the segments of non-residential, non-building address points and segments? In FY2024, revenue from residential connections accounted for 60.2% of the group's total revenue (FY2023: 60.5%). What growth rate and market share targets has the board set for these segments?

NetLink's Response

The Board has set various KPIs for the management team. These include operational KPIs (e.g. fibre roll-out) and financial KPIs (e.g. EBITDA). We do not disclose specific segment targets for competitive reasons.

ii. Can management elaborate on the potential revenue and profit contributions from central offices and co-location facilities/services? Are these segments expected to grow into major contributors for the group? Does the group have market leadership in these areas?

NetLink's Response

The central office revenue is derived from the leasing of space in some of the Central Offices to Singtel. Co-location services are meant to host the optical network equipment of the ISPs and will grow steadily when the ISPs acquire more broadband customers.

The revenue contribution from co-location and central offices is expected to remain stable.

NetLink is the sole provider of co-location services to ISPs offering fibre broadband services over the NBN.

iii. Can management provide detailed insights into the key sustainability metrics tracked by the trust? How are these metrics integrated into the group's overall performance evaluation, reporting and remuneration framework? Separately, has the trust considered or implemented sustainability-linked financing options, such as green bonds or sustainability-linked loans? How do these financing mechanisms support the trust's sustainability objectives?

NetLink's Response

The key sustainability metrics tracked by NetLink are set out on pages 90 to 92 of our Annual Report, with further details set out in subsequent pages. We are pleased to report that NetLink has met all its targets set for FY24.

Sustainability is an integral aspect of our business strategy and operations at NetLink. NetLink has an established governance structure to provide oversight on our sustainability efforts and ensure that our growth is sustainable in the long run.

The Sustainability Steering Committee (SSC), meeting at least quarterly, discusses sustainability initiatives and tracks NetLink's performance against key ESG targets. To promote greater accountability and ownership of NetLink's sustainability, relevant ESG targets have been incorporated into the corporate performance scorecard and remuneration of SSC members and Heads of Department.

The Group has three Sustainability-Linked Loan (SLL) facilities as at 31 March 2024.

The SLL includes several ESG-related targets which if achieved will result in a reduction in our interest margin. Hence, although there are no penalties for missing these targets – there is a financial incentive for us to achieve them.

SLL performance targets include: (1) reduction of GHG emissions intensity; (2) waste management target; and (3) occupational health and safety metrics.

We have continually met our targets to date and achieved a reduction in our margin.

3. **The 5-year financial summary can be found on page 42 of the annual report. The group's net assets have decreased from $2.91 billion in 2020 to $2.52 billion in 2024.**

	Group				
	Financial Year Ended 31 March				
	2024 $'000	2023 $'000	2022 $'000	2021 $'000	2020 $'000
Income Statement					
Revenue	**411,276**	403,460	377,611	368,466	370,192
EBITDA	**292,399**	294,979	266,941	270,237	258,425
EBITDA Margin (%)	**71.1**	73.1	70.7	73.3	69.8
Profit after tax	**103,209**	109,253	91,262	94,812	78,113
Cash Flow					
Cash flow generated from operating activities	**288,612**	285,692	258,731	264,512	262,518
Cash flow used in investing activities	**(127,630)**	(96,733)	(73,865)	(60,246)	(75,531)
Cash flow used in financing activities	**(178,772)**	(138,073)	(205,584)	(202,354)	(166,984)
Balance Sheet					
Total assets	**3,916,567**	4,012,780	4,031,892	4,123,455	4,208,771
Total liabilities	**1,393,902**	1,380,949	1,315,446	1,319,752	1,301,833
Total borrowings (gross)	**765,000**	735,000	666,000	666,000	666,000
• Fixed rate borrowing	**600,000**	510,000	510,000	-	636,000
• Floating rate borrowing	**165,000**	225,000	156,000	666,000	30,000
Net assets	**2,522,665**	2,631,831	2,716,446	2,803,703	2,906,938
Net debt	**582,086**	534,296	516,182	495,464	497,376
Key Financial Indicators					
EBITDA Interest cover	**14.0x**	18.6x	29.8x	14.8x	13.4x
Net debt/EBITDA	**2.0x**	1.8x	1.9x	1.8x	1.9x
Effective average interest rate (%)	**2.75**	2.32	1.34	2.57	2.96
Distribution per unit (cents)	**5.30**	5.24	5.13	5.08	5.05

(Source: 2024 annual report)

For FY2024, the trust will distribute 5.3 cents per unit to unitholders, reflecting a steady increase in the distribution per unit (DPU) since its listing in 2017.

The gearing ratio has risen from 20.3% last year to 23.1% this year. Net debt has increased substantially over the past three years, reaching $582 million in 2024, up from around $495-500 million in 2020-2021 and $425 million at the end of FY18.

i. **How sustainable is the current financial strategy? Are distributions funded through higher borrowings? If so, does this indicate that, at some point in the future, a change in strategy might be necessary?**

NetLink's Response

NetLink's financial strategy is prudent and sustainable. The Group's current debt level is relatively low as evidenced by a healthy net debt to EBITDA ratio of 2.0 times, and a net gearing ratio of c.23% as at 31 March 2024. The weighted average debt maturity is approximately 2.4 years and given the Group's strong liquidity position, there is limited or no debt service risk.

NetLink's distribution is not funded by borrowings. It is funded by our operating cash flow. NetLink uses a combination of operating cash flow and borrowings to fund its capex. Over time this will lead to a higher level of borrowing, but our balance sheet is expected to remain strong with a conservative net debt to EBITDA ratio. At present, we do not anticipate any change in our financial strategy.

ii. With the EBITDA margin ranging between 69.8% and 73.3%, how can management further improve this margin and enhance the cash flow generative ability of its assets?

NetLink's Response

The EBITDA margin for FY24 was 71.1%. Since NetLink's IPO in 2017, the Group has consistently maintained an EBITDA margin of around 70%. This demonstrates the resilience of NetLink's business. Even as the EBITDA margin remains stable, the operating cash flow has increased over time in line with the increase in revenue. Management's focus will be on enhancing the revenue of the Group, while managing costs, so as to maintain a stable EBITDA margin going forward.

iii. The effective average interest rate has increased from 2.32% to 2.75%. The group has used interest rate swaps to convert variable interest rates on bank loans into fixed rates for a total notional principal amount of $600 million, hedging 78% of the group's bank borrowings. What are the maturity dates of these swaps? As the swaps reach expiration, will the effective interest rate converge towards the SORA rate, currently around 3.5%? Does this place additional strain on the trust's ability to maintain its distribution to unitholders?

NetLink's Response

The swap for $510 million will mature in approximately two years, while the swap for the remaining $90 million in about three years. NetLink has therefore substantially hedged its interest rate exposure. Management will monitor the situation and look for opportunities to hedge our interest rate exposure further.

NetLink's revenue is largely recurring, and its cash flow is stable. Gearing level is low and interest paid in FY24 accounted for only 6.2% of cash generated from operation. As such, barring unforeseen circumstances, an increase in interest rate is not expected to negatively impact NetLink's ability to pay distribution.