



Securities Investors Association (Singapore)

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Business Trust: NetLink NBN Trust

(Trustee-Manager: NetLink NBN Management Pte. Ltd.)

Stock code: CJLU

Meeting details:

Date: 20 July 2022

Time: 2.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. For FY2022, revenue increased 2.5% to \$377.6 million, mainly driven by higher revenue from the residential, non-building address point (“NBAP”) and segment connections segments. The number of residential connections increased by 1.2% to 1.464 million and segment revenue increased by 2.5%.

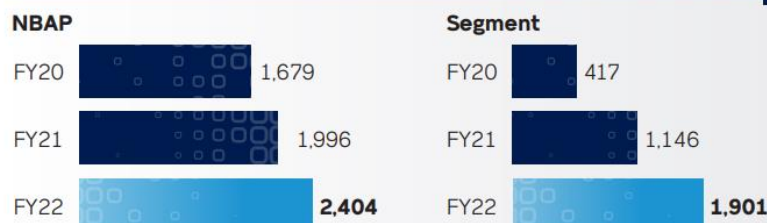
Non-Residential End-User Connections



The number of Non-Residential End-User Connections grew by 4.5% despite the headwinds from the COVID-19 safe management measures.

The growth was partly contributed by the success of our adoption drive programmes, where we established customised agreements with service providers to bundle our Non-Residential Connections with their broadband services. Our promotional pricing for Non-Residential Connection Service that aimed to reduce fibre broadband cost for small and medium enterprises also yielded some results.

NBAP and Segment Connections



The NBAP and Segment Connections saw an increase of 20.4% and 65.9% respectively. Demands for NBAP and Segment Connections were fuelled by point-to-point connections that support mobile network rollout and other projects requiring high resiliency.

REVENUE

	Group		
	FY22 S\$'000	FY21 S\$'000	Variance (%)
Fibre business revenue:			
Residential connections	240,730	237,963	1.2
Non-residential connections	30,923	30,395	1.7
NBAP and Segment connections	12,994	8,876	46.4
Installation-related revenue	19,277	16,624	16.0
Ancillary project revenue	10,059	8,775	14.6
Co-location and Other revenue	19,376	19,024	1.9
Total Fibre Business Revenue	333,359	321,657	3.6

(Source: annual report)

Revenue for the non-residential connections segment increased by 1.7% despite an increase in the number of connections by 4.5% during the year to 50,278 end-users.

- (i) **Could management provide unitholders with some clarity on the less-than-proportionate increase in non-residential connections revenue given that number of connections increased strongly?**

- (ii) **How competitive is the non-residential connections segment? Does the trustee-manager have an estimate of the trust's market share? Will the trust be competing on pricing to gain market share? Will the promotional pricing lead to an industry-wide decline in prices for non-residential connections?**

The trust achieved strong increases in NBAP and Segment connections of 20.4% and 65.9% in the financial year, albeit from a low base.

- (iii) **How sustainable is the growth? How much of the increases can be attributed to COVID-induced demand?**
- (iv) **How will the NBAP and Segment connections segment be impacted with the gradual relaxation of COVID restrictions and the further opening up of the economy?**

At the AGM scheduled to be held on 20 July 2022, the trust is proposing to amend and restate the trust deed after having done so in July 2018, September 2020 and July 2021. The proposed amendment will expand the investment mandate of the trust to remove the requirement that its infrastructural support of telecommunications service providers and others is limited only to their provision of telecommunication services. The appendix to unitholders in relation to the proposed trust deed amendments can be found here:

[https://links.sgx.com/FileOpen/NetLink NBN Trust - Appendix to Unitholders in relation to the proposed Trust Deed Amendments.ashx?App=Announcement&FileID=721637](https://links.sgx.com/FileOpen/NetLink%20NBANTrustAppendixtoUnitholdersinrelationtotheproposedTrustDeedAmendments.ashx?App=Announcement&FileID=721637)

- (v) **What is management's approach and the progress made in identifying new businesses since the expansion of the investment mandate to include the infrastructure business in 2020?**
- (vi) **Will the 2020 changes and the proposed changes lead to the lowering of the investment criteria for the trust? What is the impact on the trust from a risk management perspective if it is venturing further away from its core competence as it further expands its investment mandate?**

Separately, the group has awarded Accenture Pte Ltd a contract in the region of \$40 million to design and implement new generation business support systems and operation support systems.

- (vii) **What is the level of involvement by the board/Project Governance Committee?**
- (viii) **What are the targeted efficiency and productivity gains from these new IT systems when they become operational in ~2 years' time?**

Q2. The trust was listed on the Main Board of the Singapore Exchange Securities Trading Limited on 19 July 2017 and will be marking its 5th year of listing in July 2022.

- (i) What is the total return for unitholders who had invested in the trust and had reinvested the distributions since the IPO 5 years ago?**
- (ii) What areas has the trust delivered beyond initial expectations and in what areas had remain work-in-progress?**
- (iii) Will future growth of the trust be mainly driven by acquisitions? How much more runway is there to grow the trust organically?**

The trust operates under the regulatory framework of the Infocomm Media Development Authority (IMDA) and the pricing of the trust's services is prescribed in the NetCo Interconnection Code and the Interconnection Offer ("ICO"). The last price review by IMDA was completed in May 2017.

Currently, a review of the trust's services (including prices) is being carried out under the ICO with the IMDA and the regulatory review is expected to be completed by early 2023.

In the ICO framework, prices are determined using the Regulatory Asset Base ("RAB") model. The RAB model provides for the recovery of the (a) return of capital deployed (i.e. depreciation), (b) return on capital employed and (c) operating expenditure. Details of the RAB model can be found on page 19 of the annual report.

- (iv) What is the progress of the current RAB review? What is the trustee-manager's level of involvement in the review?**
- (v) Is each RAB review/new pricing schedule fixed at a 5-year period, i.e. a new five-year cycle from January 2023 until December 2027? Is there flexibility in the ICO framework for a mid-term step-up/adjustment?**
- (vi) How does the inflationary environment affect the pre-tax weighted average cost of capital ("WACC") derived using the Capital Asset Pricing Model ("CAPM") approach in the RAB model?**
- (vii) What is the impact of high inflation on the group's operating expenditure, its revenue and, ultimately, the distributable income to unitholders?**
- (viii) Separately, how is the quantum of the capital expenditure reserve fund ("Capex Reserve Fund") determined? What is the projected amount for FY2023?**

Q3. As shown in the performance highlight (page 9 of the annual report), the effective average interest rate in FY2022 was 1.11% (FY2021: 2.48%).

Key Financial Indicators			
Interest cover	29.8x	14.8x	13.4x
Gross debt/EBITDA ²	2.5x	2.5x	2.6x
Effective average interest rate ⁴	1.11%	2.48%	2.83%

(Source: annual report)

The trust uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The trust had entered a series of pay-fixed-receive-floating interest rate swaps to convert the variable interest rate swaps on its bank loan into fixed interest rates, for a total notional principal amount of S\$510.0 million (FY21: Nil). Accordingly, interest on 76.6% (FY21: Nil) of the group's existing bank loans had been hedged.

- (i) **Can the trustee-manager help unitholders better understand the reasons for the significantly lower effective average interest rate of 1.11% for FY2021? What were the nominal average interest rates (before interest rate swaps) and what was the impact on the effective interest rates due to the swaps in the past 3 FYs?**
- (ii) **How effective has the trust's interest rates hedging been over the years?**
- (iii) **What is the trustee-manager's view of the interest rate trend going forward?**
- (iv) **Given the rising interest rates and hence higher financing costs, what are the trust's plans and strategies to mitigate rising borrowing costs?**

Currently, a principal amount of \$156 million, corresponding to the existing loan under the S\$210 million three-year revolving credit facility ("RCF"), is unhedged.

- (v) **Will the trust be hedging the remaining loan amount of \$156 million?**
- (vi) **Is the trust in the process of refinancing the existing loan amount under the RCF?**

[^]On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
 (<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extended beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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