

# NBN Co Limited

11 April 2022

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## Issuer Outline

NBN Co Limited (NBN, the Company), together with its subsidiaries, designs, builds, and operates wholesale broadband access network to residential and business customers in Australia. The Company also provides services on its local access network to retail phone and internet providers. NBN Co Limited was incorporated in 2009 and is based in North Sydney, Australia.

The Company is wholly owned by the Commonwealth of Australia as a Government Business Enterprise (GBE), incorporated under the Corporations Act 2001, and operated in accordance with the Public Governance, Performance and Accountability Act 2013 (PGPA Act).

Sector: Corporate  
Sub-sector: Communications  
Country: Australia  
Ownership: Government

## Key Financials (AUDm)

LTM (31 Dec)	2021
Revenue	4,891
EBITDA	1,018
Net Interest Expense	1,534.0
Total Assets	36,126.0
Cash	73.0
Debt	35,858.0
Net Debt/EBITDA	24.7x
EBITDA/Interest Exp.	0.7x

Source: FIIG Securities, S&P Capital

## Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date
AU3CB0280634	AUD350m	Senior Unsecured	2.15%	Semi-Annual	2 March 2028	2 June 2028
AU3CB0276517	AUD400m	Senior Unsecured	2.20%	Semi-Annual	16 Sept 2030	16 December 2030
AU3CB0288397	AUD800m	Senior Unsecured	4.20%	Semi-Annual	14 Jan 2027	14 April 2027

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## NBN Co Limited

### Strengths

- **Strong government backing:** The NBN infrastructure network is regarded as an essential part of the Australian economy and hence, enjoys strong levels of support under the ownership of the Commonwealth Government. The Commonwealth Government executes a high degree of oversight of the Company's operations, investments, and financing strategies. The Government's level of support and expectation of support should continue throughout the life of NBN's operations, which so far includes AUD49 billion in equity and debt loans, a three-year debt maturity extension to 2024, and a supportive regulatory framework. The Federal Government has also guaranteed some of NBN's lease obligations. This, along with the fact that the rollout is now effectively complete and has almost been entirely funded by the Commonwealth Government, supports our expectation that support will continue to be provided if necessary.

The network enjoys support across both sides of the political spectrum. In April 2009, the Labor Government announced its intention to build a National Broadband Network to deliver significant improvements in broadband quality, to address the lack of high-speed broadband in Australia, particularly outside of the metropolitan areas, and to restructure the telecommunications sector. In September 2013, the Coalition Government won the election replacing the Labor Government, and after a strategic review concluded maintained support for the NBN. They have continued investment in the network throughout their term, pledging an additional AUD4.5bn to upgrade connections to high-speed fibre connections across regional and metropolitan Australia by 2023.

- **Mitigation of activation risk:** Once an area is declared ready for service, potential customers have 18 months to sign up to an NBN plan with a retail service provider of their choice. If they fail to do so, the existing line will be disconnected at the end of the 18 months. This forced disconnection is a benefit for the Company as it prevents a low level of NBN activations due to complacency, or because existing services are sufficient and cheaper (e.g. customers who are/were on Hybrid Fibre Coaxial HFC with an existing retail service provider).
- **Sufficient liquidity:** NBN has AUD73m of cash and approximately AUD2.5bn in committed available undrawn bank facilities as of 31 December 2021. NBN has no other debt maturities until the maturity of its loan from its 100% parent, the Australian government, in June 2024, with an additional AUD1.6bn due in the second half of 2024.
- **Market leader and protected from competition:** Under the Telecommunications Act 2011, any market entrant rolling out any fibre will be required to provide open access to their infrastructure. Under an open-access regime, the NBN benefits as the leading incumbent provider, given its network and the large capital outlay required to secure this market position. An additional 462,000 homes and businesses were connected to the NBN in the past 12 months up to 31 December 2021, bringing the total to 8.4 million premises.

### Risks

- **Highly leveraged credit profile:** On a standalone basis, NBN exhibits characteristics of a highly leveraged company, as evidenced by its debt to EBITDA well in excess of 20x. This is because of the very significant capital investment required for the roll-out and yet only a gradual take-up. As it stands, NBN still does not generate sufficient revenue to cover its operating and debt expenses. In its most recent report, Moody's Investors Service estimate that leverage (on a debt to EBITDA basis) will remain above 10x at least until FY23. Based on its current financial performance, NBN's rating (excluding the expectation of government support) would not be investment grade.
- **NBN Rating is largely driven by expected government support:** The rating for NBN is currently heavily weighted towards the rating agencies' expectation that the Commonwealth Government would support the company in the event of stress. This assessment is inherently subjective and a change of these views could result in a potential multi-notch downgrade of NBN's rating.
- **Refinancing risk:** The construction of NBN Co's network was financed through a combination of equity and debt, with the expectation that the government debt would be refinanced in the public markets upon completion of the network roll-out. This means that NBN has issued over AUD9.4bn of bonds since its inaugural issuance in November 2020, with an additional AUD7.9bn raised from domestic and international banks. NBN's maturity profile presents some level of maturity concentration (with no material maturity beyond 2032) and the timing of prior issuance (done during the pandemic when

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## NBN Co Limited

interest rates were at record lows) means that the company is facing the prospects of significant debt cost increases in the future. Further, while a significant portion of the Government debt has already been refinanced, NBN still needs to raise an additional AUD7.4bn prior to June 2024, excluding any additional debt required to fund its capital expenditure and operating cash flow deficits (after debt expenses).

- **Competition for wireless products:** The use of Fibre To The Node (FTTN), as well as Fibre To The Curb (FTTC) and Fibre To The Basement (FTTB) connections, has opened the NBN up to competition from 5G fixed wireless access (FWA) companies. The three incumbent Retail Service Providers (Telstra, Optus, and TPG) have all launched 5G FWA targeted at specific customers who may have NBN FWA, FTTN, FTTB, or FTTC arrangements and are not able to get the speeds that they want or need. Legislation and commercial arrangements which gives a level of protection for NBN from competition in the form of fixed line services do not limit competition for new wireless products, so there is the potential for these service providers to take market share.

However, the next phase of network investment has started, which will help reduce the 5G FWA substitution risk from a technology perspective. On 23 September 2020, NBN announced that it will allocate AUD3.5bn to network investments that will benefit homes and small businesses across the FTTN, FTTC, and hybrid fibre coaxial (HFC) networks, which will allow 75% of homes and businesses in the fixed-line footprint to have access to peak wholesale speed tiers of 500 Mbps to close to 1 Gbps.

- **Potential privatisation:** The National Broadband Network Companies Act sets out the ownership structure and circumstances under which the NBN may be privatised, which would remove the protection of Federal Government support. The conditions state that the NBN must remain in Commonwealth ownership until certain events have occurred: 1) the asset being “built and operational”, 2) an inquiry conducted by the Productivity Commission, 3) the Productivity Minister presenting to a parliamentary joint committee, 4) the Finance Minister declaring conditions are suitable to proceed, and 5) execution. There is a lengthy period of time (minimum 12 months) between when the terms of reference are set by the Productivity Commission report and when they are submitted to the Productivity Minister, before moving to the next stage. It will most likely be a multi-year journey for the government to undertake a privatisation process.

It should be noted that the notes include provisions enabling noteholders to require redemption of their notes (at par) in the event of a change of control (defined as the Commonwealth no longer exercising control over NBN) combined with a downgrade below investment grade. As discussed above, the rating construct for NBN factors in a significant uplift reflecting the expectation of extraordinary government support, which could be revised in the event of a partial privatisation and even though the Commonwealth retains control.

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