

Aussie Broadband Ltd

Surfing on the NBN

Aussie Broadband Ltd (ASX: ABB) has grown to become the fifth largest provider of nbn (NBN) services in the internet service provider (ISP) sector. The company is now implementing a strategy to improve margins and expand the addressable market to include business and services providers and upgrade capacity to manage strong growth. By 31st December 2020, the company had reached 342,634 customers with 31% customer growth in the six months. ABB was established in 2008 following the merger of two regional Victorian telecommunications providers and listed on the ASX in October 2020. There has been strong growth in customers over the three years to 2020, assisted more recently by pressure from COVID-induced demand. Funds raised in the IPO will be used to maintain the strong revenue growth rate through: higher marketing spend to take advantage of current heightened opportunities, reducing long term costs by replacing leased fibre with ABB's own backhaul network, expanding network capacity past 500,000 customers, and expanding customer service capacity to maintain high service levels. With ~12% of revenues from business customers in H1 FY21, ABB is working on expanding this segment further.

Predictable and stable underlying revenue.

ABB sells access to broadband telecommunications services delivered via the NBN (National broadband Network). The company has a predominantly fixed monthly subscription fee structure with some longer-term business contracts. The NBN provides wholesale internet services to telecommunications retailers on a fee for access basis set at each point of network interconnect (POI). All competitors connecting at a POI are offered the same price scale for the service. ABB has been successful by maintaining strong locally based customer service and technical assistance. More recently the company has offered innovative products to business and managed service providers which - along with competitive pricing - have proved attractive and driven sales.

Strong 2020 customer growth

Aussie Broadband raised guidance (relative to prospectus) at the December half year result announcement. COVID has generated a tailwind for broadband internet access and ABB's new products have been well positioned to benefit, resulting in new guidance for full year revenue to be between \$345m and \$355m (prospectus \$338m) and a significant rise in expected customer numbers. ABB is also relaunching a mobile service as a mobile virtual network operator and building its own fibre network to replace existing leased connections as customer numbers increase.

Growing strongly and starting to generate positive cashflow

ABB is growing faster than peers in its first year as a listed company. Using a forecast sales multiple ABB is cheaper than peers while on an EBITDA multiple it appears more expensive. Given the rate of revenue growth sales multiples seem more relevant in the short term.

Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA Adj.* (A\$m)	NPAT Adj.* (A\$m)	NPAT Rep.	EPS Adj.*(c)	EPS Rep. (c)	EV/Sales (x)	EV/EBITDA (x)
06/18a	49.3	0.0	(1.1)	-1.1	-0.01	-0.01	12.4	n.a.
06/19a	99.7	(2.4)	(4.9)	-4.9	-0.03	-0.03	6.2	n.a.
06//20a	190.5	3.1	(12.3)	-12.3	-0.05	-0.06	3.2	197.8
06//21f	338.1	12.7	0.5	0.5	0.00	0.00	1.8	48.3

Source: Company data, FY21 is the Prospectus forecast

Telecommunications

12th March 2021

Share details

ASX Code	ABB
Share price	\$2.96
Market Capitalisation	\$563.4M
Shares on issue	190.34M
Net cash at 31/12/2020	\$50.0M
Free float	49.6%

Share performance (since listing)



Upside Case

- Continued market share gains based on service
- Gains in share of business customers with new products
- Strong customer demand from WFH etc.

Downside Case

- Access to chipsets constrains sales
- NBN pricing changes impact negatively
- Competition intensifies with price pressure

Catalysts/upcoming events

- Success of dark fibre sales and backhaul build
- Final FY21 results - August 2021

Comparable companies (Aust/NZ)

TPG Telecom Ltd (ASX: TPG), Uniti Group Ltd (ASX: UWL), Macquarie Telecom Group (ASX: MAQ), 5G Networks (ASX: 5GN), Vocus Group (ASX: VOC), Telstra (ASX: TLS)

Top 5 shareholders

Digital Interworks (Phillip Britt)	10.27%
Intertubes (John Reisinger)	10.27%
Regal Funds Management	9.29%
Challenger Managed Investments	7.03%
Lennox Capital Partners	6.38%

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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