

Superloop Ltd

Now for operating leverage from key infrastructure

Superloop Ltd (ASX:SLC) is an owner/operator of telco fibre infrastructure in more than 450 “on-net” data centres and buildings with high interconnection density, together with 370 built- and operated- fixed wireless towers throughout Australia. The group has also built and operates an independent backhaul network to all 121 NBN points of interconnection (POIs). SLC was founded in 2014 with a view to building a purpose-built network for cloud connectivity relative to the legacy incumbent networks of the time. The group listed on the ASX in June 2015 raising \$17.5m at \$1.00/share with no operating history and a market cap of \$90m. SLC has since raised ~\$300m in five tranches between December 2015 and June 2021 to build this network and make complimentary acquisitions. The latest acquisition was Exetel, the largest independent Internet Service Provider (ISP) in Australia with ~110k subscribers. ~\$90m of funds raised since listing was invested into fibre cables across Singapore and Hong Kong. A proposal to sell these assets for \$125m net cash (a 30% premium to carrying value) was announced in October 2021 and due for completion in Q1 CY22. This sale is expected to result in surplus cash for acquisitions or capital management. The SLC story from here is one of better utilising existing assets and delivering operating leverage, as the investment into infrastructure is largely complete, while extracting synergies at the gross margin level from the Exetel acquisition. The Australian fibre network had ~31.5% utilisation as at June 2021, offering significant operating leverage.

Business model

SLC derives revenue from offering the provision of high-speed connectivity to telco infrastructure across Australia. The business operates three distinct divisions: consumer, business and wholesale. Consumer is typically NBN/mobile services to households and is now dominated by the acquired Exetel customers. Business is the provision of a range of services to the medium-large corporate space. Wholesale is the provision of fibre connectivity, wholesale broadband, and fixed wireless to other telcos and ISPs.

Key synergies expected H2 FY22

SLC reported revenue growth of 125% including a first-time contribution from Exetel in H1 FY22, with organic growth estimated at 18%. Despite this growth, underlying EBITDA increased 12% (to \$9.1m), with the gross margin down 1,350bps to 32.7%, mostly due to mix (the Exetel/consumer business is lower margin than the business and wholesale divisions) but also some pressures within the consumer and business segments. Business has been impacted by the lack of Wi-Fi student accommodation. FY22 EBITDA guidance was maintained at \$23m-\$25m and premised on the bulk of Exetel synergies being extracted in H2 FY22. The Hong Kong/Singapore sale remains due for completion by March 2022.

A number of listed infrastructure telco peers

Peers for SLC will have a “sunken cost” in the form of infrastructure and rely on asset utilisation in the form of customer activity/subscribers to generate an adequate return from that investment. Such peers are not necessarily competitors and could even be customers. In the ASX-listed space Macquarie Telecom (ASX:MAQ), Megaport (ASX:MP1), NextDC (ASX:NXT), Spirit Technology Solutions (ASX:ST1) and Uniti Group (ASX:UWL) fit the bill.

Historical earnings and ratios (In A\$m unless otherwise stated)

Year end	Revenue	EBITDA Adj.*	NPAT Adj.	NPAT Rep.	EPS Adj. (c)	EPS Rep. (c)	EV/Revenue (x)^	EV/EBITDA (x)^
06/18a	118.16	30.60	1.32	1.32	0.03	0.01	3.97	15.34
06/19a	119.06	8.50	(21.69)	(72.06)	(0.09)	(0.29)	3.94	55.23
06/20a	106.68	13.50	(41.09)	(41.09)	(0.12)	(0.12)	4.40	34.78
06/21a	110.52	18.20	(31.41)	(31.96)	(0.09)	(0.09)	4.25	25.80

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items ^calculated from current enterprise value

Telecommunication Services

11th March 2022

Share Details

ASX code	SLC
Share price	\$0.85
Market capitalisation	\$464.0M
Shares on issue	483.4M
Net debt at 31-Dec-2021	\$58.6M
Free float	83.97%

Share Performance (12 months)



Upside Case

- Increase utilisation rate from FY21's 31.5%
- Utilise under-geared balance sheet via an acquisition or capital management
- Challenger telco customers increase market-share

Downside Case

- Under-utilised network
- Increased price competition
- Rising bond yields (infrastructure valuations)

Catalysts

- Confirmation of HK/SG asset sale
- FY22 result (late August)

Comparable Companies (Aust/NZ)

Macquarie Telecom (ASX:MAQ), Megaport (ASX:MP1), NextDC (ASX:NXT), Spirit Technology (ASX:ST1), Uniti Group (ASX:UWL)

Board and Management

Peter O'Connell	Non-Executive Chair
Paul Tyler	Managing Director/CEO
Drew Kelton	Non-Executive Director
Stephanie Lai	Non-Executive Director
Vivian Stewart	Non-Executive Director
Tony Clark	Non-Executive Director

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FINANCIAL SERVICES GUIDE

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AFSL 456663

Effective Date: 6th May 2021

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- how we are paid, and
- complaint processes

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