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The Blenheim Report: The Telecommunications Numbers

March 2015

TELECOMMUNICATIONS ($'000)													
COMPANY	REVENUE FY15 HY01	REVENUE FY14 HY01	EBITDA FY15 HY01	EBITDA FY14 HY01	EBIT FY15 HY01	EBIT FY14 HY01	NPAT FY15 HY01	NPAT FY14 HY01	NPAT MARGIN FY15 HY01	NPAT MARGIN FY14 HY01	CAPITAL EXPENDITURE FY2015 HY1	CAPITAL EXPENDITURE FY2014 HY1
iiNET Ltd	546,999	493,150	96,638	95,343	n/a	n/a	29,065	29,101	5.1	5.9	27,300	24,300
M2 Group Ltd	546,214	505,956	86,100	75,800	n/a	n/a	38,500	31,039	7.0	6.1	13,900	9,700
- Consumer	324,439	280,198										
- Business	172,197	177,344										
- Wholesale	49,587	48,414										
Macquarie Telecom Group Ltd	95,100	99,700	11,800	13,300	-2,900	1,000	-2,529	387	-2.7	0.4	12,000	17,000
- Hosting	30,800	30,200	3,800	2,800								
- Telco	64,300	69,500	10,600	13,400								
Telstra Corporation Ltd	12,642,000	12,564,000	5,317,000	5,289,000	3,328,000	3,276,000	2,085,000	1,704,000	16.5	13.6	1,728,000	1,814,000
- Telstra Retail	8,628,000	8,154,000	4,705,000	4,614,000								
Global Enterprise and Services	2,623,000	2,528,000	1,212,000	1,230,000								
- Telstra Wholesale	1,244,000	1,155,000	1,152,000	1,043,000								

TELECOMMUNICATIONS ($'000)												
COMPANY	REVENUE FY15 HY01	REVENUE FY14 HY01	EBITDA FY15 HY01	EBITDA FY14 HY01	EBIT FY15 HY01	EBIT FY14 HY01	NPAT FY15 HY01	NPAT FY14 HY01	NPAT MARGIN FY15 HY01	NPAT MARGIN FY14 HY01	CAPITAL EXPENDITURE FY2015 HY1	CAPITAL EXPENDITURE FY2014 HY1
TPG Telecom Ltd	627,308	394,555	236,210	165,641	n/a	n/a	106,725	90,101	17.0	22.8	84,200	24,100
- Consumer Broadband	264,000	230,800	107,600	91,100								
- Consumer Mobile	41,500	39,000	8,700	8,000								
- Corporate	319,300	121,900	117,600	64,500								
Vocus Communications Ltd	62,744	44,300	47,705	13,410	n/a	n/a	26,215	5,124	41.8	11.6	12,900	9,300
- Internet	19,410	17,825										
- Fibre and Ethernet	25,238	13,212										
- Data Centre	11,429	9,231										
- Voice	5,351	3,878										

PROFIT GUIDANCE

Optus boosts mobile data allowances to fight Telstra, Vodafone Australia
The Sydney Morning Herald
7 APR 2015

Singtel Optus will offer all new customers much bigger mobile download allowances and new sharing plans as part of a new pitch at families, designed to fight off Telstra and Vodafone. The company will announce on Tuesday data upgrades for almost all its mobile plans, making them more generous than those of Telstra and low-cost Vodafone Hutchison Australia. These will apply only to new or re-contracting customers. The new approach comes at a critical time for Optus. Its fixed-line business is under threat from the potential $1.4 billion merger of TPG Telecom and iiNet while Telstra and Vodafone Australia attempt to tear chunks out of its mobile subscriber base with new offers.

Optus marketing and products managing director Vicki Brady said that while the number of customers breaking their phone call allowance was falling, the latest move would give all consumers peace of mind. Each mobile device bundled with a fixed-line plan will also get $10 off a month.

"They might have a random month where they do go over their voice inclusions, particularly in a family situation, when you've got kids sharing across the plans," she said. "The family is key … and we've seen quite a shift to consumers wanting one provider per family."

As part of the push to lock families into Optus plans, the telco has changed its shared data plans to allow several users to pool their download allowance. This could lead to parents sharing their unused data and keeping their data-hungry children happy. The latest push comes on top of Optus's aggressive $90 a month unlimited download plans for all fixed-line internet customers, which came bundled with free tablet devices, Fetch TV and a six-month subscription to video streaming service Netflix.

"We believe there are around one million households that would want to sign up for family sharing [and] the average household has 4.3 devices that families can share," Ms Brady said, citing internal research. "We're also very excited about the Netflix partnerships on some of our plans. "But we're always talking to our partners, so Netflix is the first of many more you'll see coming."

The new plans represent Optus's biggest revamp of its mobile plans since mid-2014, when it launched its MyPlan offers. Morgan Stanley analyst Mark Goodridge said that launch forced Telstra and other telcos to greatly improve their offers.

"Optus has been very aggressive in mobile pricing over the past five months," he told clients. "Telstra has responded to price competition for the first time in four years in the mobile market by increasing its data allowances. Mobile represents around 40 per cent of group financial year 2016 earnings before interest, depreciation and amortisation. Therefore, we expect the stock to react negatively to this news."

Companies typically try to lock families into contracts with special offers and discounts because it encourages life-long brand loyalty and reduces churn, which is the industry term for the number of customers leaving a brand. Cutting churn is vital for all of Australia's telcos because growth across the mobile and broadband market outside the NBN is slowing – making existing customers more important than ever before.

The increased data offering comes as Optus's new chief executive Allen Lew fights off several rising competitors, some of whom are willing to sacrifice short-term profit for long-term customers.

Telstra remains Australia's dominant telco with 16.4 million mobile subscribers, well ahead of second-placed Optus with 9.39 million users. But the Big T is refusing to stand still and recently increased its data allowances, despite analysts believing it could harm profits. While Optus is ahead of Vodafone Australia's 5.3 million mobile customers, Vodafone has pledged to increase its user base and complete its reputational turnaround by getting fewer complaints per customer than Telstra and Optus by the end of 2015. TPG's proposed $1.4 billion merger with iiNet would also create a telco powerhouse with 1.76 million fixed-line subscribers, which would relegate Optus to third place with its 988,000 subscribers.

http://www.smh.com.au/business/optus-boosts-mobile-data-allowances-to-fight-telstra-vodafone-australia-20150407-1mexzj.html

TPG Telecom to buy iiNet for $1.4b to become No. 2 in internet service delivery
The Australian Financial Review
13 MAR 2015

The competition watchdog has flagged a public inquiry into the proposed takeover of iiNet by TPG Telecom, a move that would create Australia's second-biggest fixed-line telecommunications company after Telstra.

TPG Telecom on Friday said it will acquire the Perth-based telco for $8.60 a share, in a friendly transaction that values iiNet at $1.4 billion. The news sent iiNet's shares up 26 percent to $8.61 at 12.24pm AEDT on Friday after earlier reaching $8.69.

The transaction would give the newly combined company about 1.7 million retail fixed-line internet subscribers, which would only trail telco giant Telstra's 3 million retail fixed broadband subscriber base. Analysts didn't rule out the chance of a counterbid that could push the purchase price even higher.

The Australian Competition and Consumer Commission has already flagged a public review of the takeover once both parties submit their proposals.

"We will call for submissions at that time and details will be posted on our public register," the ACCC said in a statement. "The ACCC reviews mergers and acquisitions which have the potential to raise concerns under the Competition and Consumer Act 2010. The CCA prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in a market."

The recommended deal would ensure that shareholders of record on March 16 would be entitled to receive the fully franked interim dividend of 10.5c, the companies said in a statement to the Australian Securities Exchange. The proposed deal was set at a 26.3 per cent premium to iiNet's Thursday closing price of $6.81, and at $8.60 was "the highest share price ever" for the Perth-based internet service provider, the statement said. iiNet founder and former chief executive Michael Malone still owns about 4 percent of the ISP. Under the $1.4 billion deal, Mr Malone's stake would be worth about $56 million.

Sydney-based TPG already owns 6.25 percent of iiNet. The transaction will see it acquire 100 per cent.

Last month, iiNet said its first-half net profit edged up 1 percent to $29.5 million as it zeroed in as a standalone company on Singtel-Optus for the title of the No.2 Australian fixed-line internet service provider after Telstra. In the first half, iiNet closed the gap between itself and Singtel-Optus to just 13,000 broadband subscribers. Its total broadband customer base reached 975,000 in December last year, compared with 988,000 customers at Optus. TPG, which is yet to report its half-year financial result, had 748,000 broadband subscribers as of the end of the 2014 financial year.

TPG executive chairman and chief executive David Teoh said the combined businesses will be well positioned to capitalise in an up scaling in the rollout of the national broadband network. "iiNet and TPG are highly complementary businesses in terms of geographic presence, market segments and corporate customer base," Mr Teoh said.

iiNet chairman Michael Smith said the board views the $8.60 offer as a reward for shareholders who have shown faith in the ISP. "The price of $1.4 billion is a very tangible measure of the value that the extraordinary people of iiNet have created through their innovation, brilliant service and capacity to add value," Mr Smith said.

Citi analyst Justin Diddams said the deal makes strong strategic sense, but also believed that Optus may be interested in the potential scale benefits of iiNet. "The current offer from TPG looks fair value, based on the implied multiples on the deal, albeit slightly below our target price of $9.00 per share," Mr Diddams said. "That said, it's not a premium price given the likely cost synergies, and we note TPG stated the deal is earnings per share accretive in year one. There's also scope for a counter offer from Optus, given the strategic importance of the iiNet customer base."

http://www.afr.com/technology/web/tpg-telecom-to-buy-iinet-for-14b-to-become-no-2-in-internet-service-delivery-20150313-142vm9

Will M2 Group Ltd report a profit upgrade?
The Motley Fool
19 FEB 2015

M2 Group Ltd (ASX: MTU) has been one of the best performing mid-cap stocks on the ASX over the past 12 months. Since hitting a low of $5.27 in April 2014, the share price has powered almost uninterrupted to today’s price of $9.43, a rise of nearly 80%. In the past, M2 has been able to grow its business through the acquisition of smaller players, which has seen net profit rise from just $1.8 million in 2005 to $67 million in 2014.

With the internet and telephone industry now thoroughly consolidated, M2 is under pressure to provide adequate organic growth from its stable of brands including Dodo, iPrimus and Commander. The company is forecasting revenue growth of between 8% and 9% and net profit after tax growth of 15% to 20% in the 2015 financial year (ending 30 June 2015).

M2 is unlike larger rivals Telstra Corporation Ltd (ASX: TLS), TPG Telecom Limited (ASX: TPM) and iiNet Limited (ASX: IIN) in that the group operates an extremely capital-light business model by on-selling Telstra and Optus (owned by Singapore Telecom (ASX: SPG)) internet and voice services under M2 brands.

Revenue and profit growth will be achieved through an improved performance from the business-focussed Commander brand and the launch of kiosks in major shopping centres aimed at selling bundled home telephone, internet and energy services. Bundled services improve customer retention and revenue per customer, both great for the company.

When M2 reports tomorrow, analysts and investors will be looking for evidence that the company is on track to deliver on its forecast. Analysts are expecting full-year net profit after tax between $98 million and $109 million, earnings per share between 54 cents and 60 cents, and dividends per share between 30 and 32 cents. Any deviation from a run-rate consistent with these numbers could see the share price fall back to earth, however, I personally doubt that M2 will disappoint having given guidance recently. There’s even a chance it could surprise to the upside.

http://www.fool.com.au/2015/02/19/will-m2-group-ltd-report-a-profit-upgrade/

Telstra delivers record H1 profit
The Sydney Morning Herald
12 FEB 2015

Telstra Corporation has reaffirmed its full-year earnings guidance and announced plans to reactivate its dividend reinvestment plan (DRP) after delivering another record half-year profit. In the six months to December 31, Telstra posted a net profit of $2.085 billion, a 22.4 percent increase on the $1.704bn posted in the previous corresponding period.

The result tops analysts expectations. Analysts surveyed by Bloomberg had tipped a net profit of $2.03bn.

Telstra shares dipped 0.62 per cent to $6.45 against a benchmark index fall of 0.44 per cent by the end of the day's trade.

Telstra's revenue from ordinary activities, excluding financial income, in the period was $12.72bn. Revenue from Telstra’s mobile business increased 9.6 percent to $5.3bn while fixed data revenue grew 7.8 percent.The increased number of customers moving onto bundled plans led to the lowest rate of decline in the fixed voice business for five years, with a revenue decrease of 6.9 per cent.

The telco will pay an interim dividend of 15c on March 27 to shareholders on the register on February 27.

As the telco decides how to spend its vast cash resources, there had been some chatter about another share buyback or a special dividend, but this morning neither came to fruition. Instead, Telstra chief executive David Thodey announced the reactivation of the group's dividend reinvestment plan (DRP).

“We have listened to our many shareholders who told us they would like to see the DRP return," he said. "The reactivation of the DRP will provide our shareholders with an easy and cost effective way to increase their shareholding."

The telco expects shares allocated to participants under the DRP for the final dividend to be sourced through an on-market purchase and transfer of shares to participating shareholders.

Mr Thodey reaffirmed Telstra's full-year guidance, saying the group still expects low single-digit income and earnings before interest, tax, depreciation and amortisation (EBITDA) growth to offset the absence of CSL operating revenue and EBITDA. Telstra sold its stake in CSL during 2014.

In December, Telstra opened its purse strings to acquire Pacnet, owner of the world's largest private submarine cable network, the highest-profile Asian deal struck by the telco. The $US697m purchase was a steal by some estimations, coming in well below previous speculation of a $US1bn deal.

Chief financial officer Andrew Penn said the company was balancing returns to shareholders with the company's long-term growth ambitions, which saw it make a number of acquisitions during the first half.

"I think we are delivering both. That's the bottom line," he told AAP. "On the one hand we are driving value and growth out of our core business at the same time we are creating the opportunities for growth in new businesses," he said.

"One of the things that is increasing our revenue is the quality of our network, which continued to be an important differentiator for us," he said. "At the same time as we are bringing the price of our data down we are actually increasing revenues because people are using more."

http://www.theaustralian.com.au/business/latest/telstra-delivers-record-h1-profit/story-e6frg90f-1227216798698

Vocus Communications Limited reports interim results: Should you buy?
The Motley Fool
20 FEB 2015

Internet services business Vocus Communications Limited (ASX: VOC) this morning posted an underlying net profit of $8.97 million on revenues of $62.75 million for the six months to December 31, 2014. The underlying profit and revenues are up 54% and 42% over the prior corresponding period (pcp).

The company also announced a fully franked interim dividend of 1.2 cents per share, up 50% over the pcp. A special dividend of 5.1 cents per share will also be payable on the condition that the merger with Amcom Telecommunications Limited (ASX: AMM) goes ahead as proposed.

The company's impressive growth is the result of its position in servicing the demand for high-speed internet and data centre services to businesses throughout Australia and New Zealand. Its fastest growing division is the fibre and ethernet business, which provides fibre optic cables companies effectively rent out to service their internet and communication needs. Vocus currently owns 687km of metropolitan fibre in Australia and 4,252km of inter-city fibre in New Zealand. Half-year revenues of $25.2 million (from renting out the fibre's transmission capacity) almost doubled over the pcp. Moreover, with a relatively fixed cost base and plenty more capacity, a high-margin growth outlook is plain to see.

The business has also been expanding its data centre services both organically and via acquisition with revenues of $11.4 million for the half year, up 24% over the pcp. Data centre management looks another growth area as businesses require more facilities of this type to store and manage the ever-increasing amounts of data they create.

The one disappointment was the soft performance of the Internet business, with revenues up 9% over the pcp. This result attributed in part to the performance of its newly acquired New Zealand-based business, FX Networks.

Vocus's position in the middle of the digital future means it remains an attractive growth business with potential to keep growing profits and shareholder returns long into the future. Competitive and technological risks remain, but the company's respected management team have kept it ahead of the game so far and have grand ambitions for its future development.

http://www.fool.com.au/2015/02/20/vocus-communications-limited-reports-interim-results-should-you-buy/

Vocus CEO sets the bar high for 2015
The Australian Financial Review
12 JAN 2015

Vocus Communications chief executive James Spenceley has set the ambitious goal of becoming bigger in the corporate telco market than SingTel-Optus after it completes a merger with Perth-based Amcom Telecommunications to create a company worth $1.2 billion. The deal is expected to be completed by April, and Mr Spenceley wants to have largely integrated his company with Amcom by July 1.

The combined entity would be one of Australia's biggest providers of telecommunications to the multibillion-dollar corporate and government market with the intent of toppling Optus from second place. It's a big call given Optus' Enterprise business reported revenue of $1.5 billion in the 12 months ending September 2014 whereas Vocus and Amcom combined had $307 million of sales in financial year 2014.

"In the early 2000s if you wanted to buy services from a competitive carrier then AAPT was your choice," Mr Spenceley said. "This has every chance of becoming another Optus or another AAPT from when they were in their prime. "If the shareholders sell out we're done. But this transaction allows them to share the upside and synergies of both, and I'd be very surprised if shareholders weren't really excited."

In his first sit-down interview since the deal got the backing of Amcom's board in December, Mr Spenceley said his goal was to inject an entrepreneurial spirit into the combined entity and becoming Telstra's main alternative for corporate and government customers. "The combined board is looking to have more drive and entrepreneurial spirit and . . . that's probably why I've got the nod," he said. "I think [Amcom] would've wanted to have been in the driver's seat and doing the approach but at the end of the day the result will be the same," he said. "This creates huge opportunities for shareholders and staff."

The combined company aims to be cheaper than Telstra and SingTel-Optus with a more fully formed corporate -offering than smaller rivals such as TPG Telecom and M2 Group. Mr Spenceley said he wanted both companies to combine their sales forces and product lists for customers by July 1 with a near-fully integrated telco by the end of calendar year 2015.

"We've already begun the integration and thought process to use the three or four months we've got before we own the business to see how we'll combine them," he said. "The cost-cutting will be easy because it's a spreadsheet and a plan. What's exciting is working out the strengths. They have a focus on the reseller channel, and that's something that will fit very well with our business... to help build our mid-tier client base."

Mr Spenceley said he was already thinking of which acquisitions and construction projects the combined entity could invest in to further expand the business but that it was too early to provide a timeline. The company is set to continue its program of connecting fibre-optic cables to office buildings but has ruled out owning the infrastructure that connects Australia's cities.

"There's certain things in this industry that no longer make sense and building [inter-capital city communications cables] doesn't today," he said. "There's a great business case for working with people who have them and all of us competitive guys such as iiNet or M2 Group compete by working together unlike Optus or Telstra, who have more infrastructure. Telstra is just so dominant, and if one person has 80 percent of the market's business then there's room for more players."

http://www.afr.com/business/telecommunications/vocus-ceosets-the-bar-high-for-2015-20150111-12m3hr blenheim partners

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