

Telstra needs to undercut net

APRIL 27, 2006 TELSTRA shares could gain in value by almost a quarter if it successfully fought new internet phone technology, otherwise it risked further declines in revenue, an analyst said yesterday. A telecoms analyst at UBS, Simon Smiles, said voice over internet protocol (VoIP) could materially affect Telstra's earnings.

Mr Smiles said if Telstra was to successfully fight the VoIP competition, its share price could rise to as high as \$4.65, from its current levels of about \$3.80.

Telstra has experienced a recent decline in fixed-line revenue because of increased competition and a rise in mobile phone use.

VoIP involves sending voice in real time over the internet. There are a number of telcos offering deals that are as low as 10c for untimed calls anywhere in Australia.

"We believe that the optimal strategy for Telstra is to aggressively cut its fixed calling pricing to reduce VoIP's value proposition," Mr Smiles said. "This would materially impact near-term earnings but should increase Telstra's medium and long-run fixed calling volumes, market share and shareholder value."

He said cutting Telstra's fixed calling pricing could be done by either bundling fixed calls, or cutting headline retail rates or national calling rates.

This would also increase Telstra's long-term competitive position.

Mr Smiles said Telstra's share price could rise to about \$4.65 if it was to successfully implement a number of strategic changes.

These included decreasing fixed line yields by half in 2006-07 and doubling forecasts of termination revenue.

Telstra shares closed yesterday 6c higher at \$3.82.

The telco has about eight million retail and about two million wholesale fixed line customers, representing about 95 per cent of the fixed line market.

Meanwhile, Telstra announced that it had clocked up one million ADSL broadband customers for its BigPond internet service, as user numbers doubled in less than 12 months. BigPond group managing director Justin Milne said demand for BigPond broadband services was strong because more people were recognising and using the benefits of high-speed internet connections.

"The first 500,000 ADSL services took almost six years to achieve, and we've signed up the subsequent 500,000 in less than 12 months," Mr Milne said.

Telstra also has more than 250,000 cable broadband customers and also has satellite and wireless broadband customers.

Rival Optus had signed about 500,000 broadband customers as at December 31 last year.

Telstra launched its broadband service in August 2000 and has since enabled almost 2200 exchanges nationwide.

Telstra said ADSL (asymmetric digital subscriber line) broadband was available to 88 per cent of homes.

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