



Dornbusch Partners

Stock of the Week

Telstra Corporation (TLS)

Date: 18 January 2012

Background

Telstra is the leading telecommunications company in Australia. It provides mobile, fixed line, fixed internet, IP and data access and Pay TV services. Mobiles is the largest division with \$7.3bn in revenue. Telstra floated in 2 tranches with many investors paying \$7.40 in T2 in 1999.

Outlook

The signing of the NBN deal last year removed some of the uncertainty surrounding TLS. The payments to Telstra span 20 years with the total payments from NBN Co to Telstra estimated at \$14.8bn by 2020. Telstra's dividend was under threat of being cut prior to the deal being finalised however has been reaffirmed at 28 cents per year for the next 2 years. There is also speculation that TLS will return between \$500m and \$1.5bn to shareholders by way of a special dividend of between 4c and 12c this year.

Sensis, TLS business that produces Yellow Pages in print and online has gone into free fall with revenues for FY12 expected to see double digit declines. This is not surprising considering the shift to alternative advertising mediums online.

Why Dornbusch Partners likes TLS.

Now that the NBN deal has been finalised and TLS have reaffirmed their dividend of 28 cents for the next 2 years, the risks with TLS have decreased. With Earnings forecast to increase over the next 2 years, TLS is an attractive company for income focused investors. With limited growth expected over the next few years, companies with increasing earnings and sustainable dividends are in focus.

Consensus Estimates

	2011	2012	2013
EPS (cents)	26.1	28.6	29.8
DPS (cents)	28.0	28.0	28.0
P/E	12.87x	11.7x	11.2x
Yield	8.3% ff	8.3% ff	8.3% ff



Snapshot	
Market Cap	\$41.8b
Share Price (as at 8.11.11)	\$3.36
12 mth high	\$3.42
12 mth low	\$2.57
Debt/equity	117%
Return on Equity	30%

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