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Telstra Group (TLS)

Optionality provides upside

Recommendation
Hold (Initiation)
Price
$3.84
Target (12 months)
$4.15 (Initiation)

GICS Sector

Telecommunication Services

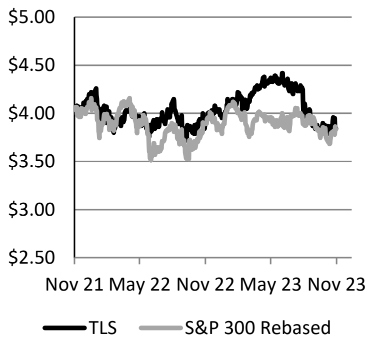
Expected Return	
Capital growth	**8.1%**
Dividend yield	**4.7%**
Total expected return	**12.8%**

Company Data & Ratios	
Enterprise value	**$58,787m**
Market cap	**$44,369m**
Issued capital	**11,554m**
Free float	**100%**
Avg. daily val. (52wk)	**$117.6m**
12 month price range	**$3.76 - $4.46**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	3.88	4.27	3.86
Absolute (%)	-1.03	-10.07	-0.52
Rel market (%)	-1.41	-6.85	1.17

Absolute Price



SOURCE: IRESS

Earnings growth outlook

The Mobile and Infrastructure businesses of Telstra together generated c.92% of underlying EBITDA in FY23 (note Infrastructure includes International, InfraCo Fixed and Amplitel). In our view this is a good thing as Mobile is growing (the company's aim is mid-single digit growth in service revenue to FY25) and Infrastructure is underpinned by an average 24 year contracted period with nbn (which includes annual CPI adjustments). The remaining c.8% of underlying EBITDA was generated by the Fixed business and while there are headwinds in this area – most notably in Enterprise – the contribution is not large enough to cause a significant drag on earnings. The overall outlook, therefore, is continued growth over the short to medium term and the guidance for underlying EBITDA is mid-single digit CAGR between FY21 and FY25.

Dividends also expected to grow

Our underlying EBITDA forecast of $8.3bn in FY24 is consistent with the guidance of $8.2-8.4bn and our forecast CAGR in underlying EBITDA between FY21 and FY25 is 6.8%. Our forecast CAGR in underlying EPS between FY21 and FY25 is much higher at 20.2% but note this is generally consistent with the guidance of "high teens". Telstra has said it aims to "maximise" the fully-franked dividend and "grow" it over time. On the back of these statements and the expected growth in EPS we forecast the fully-franked dividend to increase from 17.0c in FY23 to 18.0c in FY24 and 19.0c in FY25.

Investment view: $4.15 PT, Initiate with HOLD

Our price target for Telstra is $4.15 which is determined through a blend of four valuations: PE ratio, DCF, DDM and SOTP. This PT is a modest premium to the share price and, combined with the forecast yield of 4.7%, equates a total expected return of 12.8%. This is less than the required 15% or more for a BUY so we initiate with a HOLD recommendation. In our view the stock looks fairly valued on an FY24 PE ratio of c.21x with CAGR in underlying EPS between FY21 and FY25 in the high teens. Notably, the forecast yield of 4.7% is not dissimilar to current six to twelve month term deposit rates though the dividend is fully franked.

Earnings Forecast

Year end 30 June	2023	2024e	2025e	2026e
Total income (A$m)	23,245	23,839	24,480	25,021
Underlying EBITDA (A$m)	7,950	8,325	8,688	8,996
NPAT (A$m)	1,814	2,051	2,275	2,435
EPS (diluted) (A¢ps)	16.7	18.6	20.0	21.3
EPS growth (%)	16%	11%	7%	7%
PER (x)	23.0	20.6	19.2	18.0
Price/CF (x)	7.2	6.7	6.4	6.2
EV/Underlying EBITDA (x)	7.4	7.1	6.8	6.5
Dividend (A¢ps)	17.0	18.0	19.0	20.0
Yield (%)	4.4%	4.7%	4.9%	5.2%
ROE (%)	13.3%	14.6%	15.5%	16.3%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Investment Case

Telstra is a telecommunications and technology company that operates both in Australia and internationally. In Australia, the company provides a full range of communications services and competes in all telecommunications markets. Internationally, Telstra has a presence in over 30 countries with key focus on the Asia-Pacific region. The bulk of revenue and earnings, however, still comes from Australia (i.e. 90% or more).

Telstra's origins date back to 1901 when the Postmaster General's department was established by the Australian government to manage all domestic telephone, telegraph and postal services and to 1946, when the Overseas Telecommunications Commission was established by the Australian government to manage international telecommunications services. Telstra Corporation Limited was incorporated as an Australian public limited liability company in November 1991 and was listed on the ASX in November 1997. In 2022 there was a corporate restructure and Telstra Group is now the listed company.

Investment Thesis

We initiate coverage of Telstra with a HOLD recommendation. Our investment thesis is based on:

- **Looks fairly valued**: Our price target for Telstra is $4.15 which is determined through a blend of four valuations: PE ratio, DCF, DDM and SOTP. This PT is a modest premium to the share price and, combined with the forecast yield of 4.7%, equates a total expected return of 12.8%. This is less than the required 15% or more for a BUY so we initiate with a HOLD. In our view the stock looks fairly valued on an FY24 PE ratio of c.21x with CAGR in underlying EPS between FY21 and FY25 in the high teens.
- **Reasonable dividend yield**: We forecast the total dividend to increase from 17.0c in FY23 to 18.0c in FY24 which is consistent with the company's aim to both maximise and grow the dividend. The equates to a yield of 4.7% which is notably similar to current 6 to 12 month term deposit rates. The dividend, however, is fully franked so the grossed-up amount is 25.7c which equates to a yield of 6.7%.
- **Growth outlook**: Telstra has guidance for underlying EBITDA of mid-single digit CAGR b/w FY21 and FY25. The CAGR b/w FY21 and FY23 was 9.0% so this suggests some slowing in growth in FY24 and/or FY25. We forecast growth of 4.7% in FY24 and 4.4% in FY25 which generates a CAGR of 6.8% b/w FY21 and FY25 so is consistent with the guidance. Notably the guidance for CAGR in underlying EPS b/w FY21 and FY25 is much greater at "high teens" and our forecasts are also generally consistent with this.
- **Predictable earnings**: Telstra generated c.92% of underlying EBITDA in FY23 from just two businesses: Mobile and Infrastructure (which includes International, InfraCo Fixed and Amplitel). Mobile is still growing (the company's aim is mid-single digit growth in service revenue to FY25) and Infrastructure is underpinned by an average 24 year contracted period with nbn (which includes annual CPI adjustments). This means the earnings are quite predictable and the one area which is challenged – Fixed – is not significant enough to cause much of a drag.
- **Manageable debt**: At 30 June 2023 Telstra had net debt of $14.4bn which comprised $12.7bn in borrowings, $3.2bn in lease liabilities, $0.5bn in net derivative assets and $0.9bn in cash. This equated to a net debt-to-EBITDA ratio of 1.8x and gearing of 44.7% which are both consistent with or below the company's "comfort zones" of 1.5-2.0x and 50-70%. Notably Telstra is running InfraCo Fixed as a standalone business so has the option to potentially sell this business and reduce debt if it so chooses.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Focus on growth**: Telstra went through a transformation period as part of the T22 strategy and has now moved to a focus on growth as part of the T25 strategy. This change poses a level of inherent risk, including the design and delivery of products and services which may not sufficiently meet customers' needs. Telstra also operates in a competitive environment, and competitors may develop superior and/or differentiated products which compete more effectively.
- **Market and competition risks**: The telecommunications industry in Australia and internationally is competitive and subject to change (including accelerating technological change). The effect of competitive market conditions, including any decline in the pricing as well as the purchase and use of Telstra's products and services, may adversely impact earnings and assets.
- **Doing business responsibly**: "Doing business responsibly" is one of the key pillars in the T25 strategy and is also the foundation of Telstra's sustainability strategy. The risks with not conducting business responsibly include eroding community and customer trust in Telstra's standing as a responsible corporate citizen and damage its reputation with stakeholders through negative regulatory and financial implications.
- **People and culture**: People and culture are among the cornerstones of Telstra's T25 and sustainability strategies. There is risk of failing to attract, develop and retain the workforce required to achieve these strategic objectives, as well as the risk of failing to have effective leadership that develops the appropriate culture of simplicity, change, accountability and collaboration throughout the organisation.
- **Privacy, data and cybersecurity**: Data privacy, information security and cybersecurity are priorities for Telstra and failure in any of these areas may allow crime, espionage, data breaches and impacts on both Telstra's operations and those of its customers. Cyber attacks are a particularly significant risk due to the threat they pose to networks and critical infrastructure. They can also have a devastating impact from a privacy perspective with the potential breach of personal information and other sensitive data.
- **Data and AI**: Telstra is exploring ways it can leverage AI to better meet its customers' needs. AI also poses risks, however, in relation to data collection, standards and protection as well as the machine learning that underlies the potential of AI. The biggest risks today include threats to consumer privacy, biased programming, danger to humans, and unclear legal regulation.
- **Resilient networks and technology**: One of Telstra's key competitive advantages is the quality, scale, speed and resilience of its networks. Network congestion and outages, therefore, can significantly impact the company and potentially erode or diminish this competitive advantage.
- **Economic downside**: Key external macroeconomic uncertainties exist today including weaker than anticipated economic growth, persistent high inflation, a tight labour market and a decline in non-essential spending within households in response to living cost pressures. All these factors pose challenges or risks to Telstra and may negatively impact operating plans and/or budgets.
- **Compliance and regulatory obligations**: Telstra needs to comply with a broad range of legal and regulatory obligations and failure to do so may lead to adverse impacts to various stakeholders as to well as to its reputation more broadly.

Company Overview

Company Description

Telstra is a telecommunications and technology company that operates both in Australia and internationally. In Australia, the company provides a full range of communications services and competes in all telecommunications markets. Internationally, Telstra has a presence in over 30 countries with key focus on the Asia-Pacific region. The bulk of revenue and earnings, however, still comes from Australia (i.e. 90% or more).

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Network and Services

A summary of Telstra's network in Australia and overseas is shown below.

Figure 1 - Figure 1: Summary of Telstra's network in Australia and offshore

Australia's largest mobile network - around 1m square kilometres more coverage than nearest competitor	
250,000 km optical fibre network in Australia	Own or operate 400,000km of subsea cable and 2,000 POPs

SOURCE: COMPANY DATA

The key take-outs are:

- **Largest mobile network**: Telstra has the largest mobile network in Australia which reaches approximately 99.6% of the population. The network is being upgraded to 5G and is on track to cover 95% of the population by FY25 (c. 85% now).
- **Largest subsea cable network**: Telstra also has the largest subsea cable network in the Asia-Pacific which enables the company to provide a variety of network applications and services (such as managed networks, unified communications, cloud, etc.).

A summary of Telstra's services, customers and people is shown below.

Figure 2 - Summary of Telstra's services, customers and people

22.5m retail mobile services 2.0m wholesale mobile users	3.4m C&SB bundle and data services	160k Enterprise data and connectivity services
Employee engagement score of 80	Around 290 retail stores in Australia	Presence in >30 countries and territories outside Australia

SOURCE: COMPANY DATA

The key take-out is Telstra has the largest number of both mobile and data customers in Australia. These customers are spread across consumers, small business, large enterprise and government organisations.

Strategy

The current strategy of Telstra is clearly defined in what's called T25 and is a three-year plan that, as the name suggests, is scheduled to finish at the end of FY25. The key focus of the strategy is delivering growth after the previous strategy – called T22 – was more about transformation. There are six strategic pillars as part of T25 and these are shown below.

Figure 3 - Strategic pillars of T25 strategy

An exceptional customer experience you can count on	Leading network & technology solutions that deliver your future	Sustained growth and value for our shareholders
Excelling at new ways of workings	The place you want to work Accelerating digital leadership	Doing business responsibly

SOURCE: COMPANY DATA

These six pillars can be narrowed into four key objectives:

- Provide an exceptional customer experience;
- Provide leading network and technology solutions;
- Create sustained growth and value for shareholders; and
- Be an attractive place to work.

Telstra provided an update on T25 at both the FY23 result in August and the AGM in October and said the strategy is on track. The company said "we see the early results of our work" and Telstra is becoming "a simpler, more agile, more customer-focussed and digitised business".

Competitive Strengths/Advantages

The key competitive strengths of Telstra are its size and brand. The T25 strategy aims to maintain and even augment these strengths by providing leading network and technology solutions, providing an exceptional customer experience and doing business responsibly.

There are also other, perhaps less obvious, competitive strengths and advantages and these include:

- **Simplification**: A key purpose of T22 and now T25 has been to "make it simple" and this has resulted in a simplifying of products and services as well as pricing. This is providing a competitive advantage through product differentiation as well as improved customer experience. Importantly, the process also enables Telstra to make changes quickly and uniformly in areas like pricing and product specifications (e.g. bandwidth).
- **Annual price rises in mobile**: Following on from above, Telstra has flagged to postpaid mobile customers that the "price may increase annually in July by CPI". Such a price rise, for instance, was put through in early FY23 which helped drive a 5.4% increase in ARPU (along with higher international roaming). Interestingly, the price rises have been closely followed by the other mobile providers though Optus has yet to follow the most recent rise.
- **InfraCo underpinned**: InfraCo Fixed is underpinned by an average 24 year contracted period with nbn which provides both surety and visibility of future revenue. The agreement also includes annual CPI adjustments and, for instance, a 7.3% increase was applied from 1 January 2023.

Industry Overview

Domestic Market

Telstra's domestic businesses can be split into three broad categories: Mobile, Fixed and Infrastructure. An industry overview for each of these areas is below.

Mobile

The mobile market in Australia is dominated by three mobile network operators:

- Telstra;
- Optus (owned by SingTel); and
- TPG.

Telstra splits its services into a premium product (labelled Telstra) and a more budget offering (called Belong). Optus and Vodafone do not split their services but do have a number of resellers or MVNOs on their networks including Amaysim on Optus and Kogan, Lebara, felix and iiNet on Vodafone. Aussie Broadband and Macquarie Telecom were both resellers of Telstra but both have recently moved – Macquarie as an MVNO – to Optus as part of the upgrade to 5G.

The split in subscribers (both prepaid and postpaid as well as connected services) and annual revenue amongst the three mobile operators is shown below. Note the revenue includes hardware and connected as well as services revenue.

Figure 4 - Subscriber and revenue split amongst the three mobile operators

Mobile operator	Retail subscribers at 30 June 2023		Annual revenue
Telstra[1,2]		22.5m	$10,258m
Optus (SingTel)[3]		10.4m	$5,128m
TPG[4]			
Vodafone	4.1m		
Lebara, felix, Kogan	0.8m		
TPG, iiNet	0.4m	5.3m	$2,094m

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES
1 RETAIL SUBSCRIBERS INCLUDE POSTPAID AND BELONG, PREPAID, MOBILE BROADBAND AND INTERNET OF THINGS
2 REVENUE IS FY23
3 REVENUE IS 1H2023 ANNUALISED
4 REVENUE IS 1QFY24 ANNUALISED

The key take-out of the figure is Telstra is about twice the size of Optus – both in subscribers and annual revenue – and Optus is about twice the size of TPG. The difference in subscribers is in part due to network size and coverage with Telstra having the largest network and best coverage (particularly in rural areas). The difference in population coverage, however, is not that significant with, for instance, Telstra claiming to have coverage of 99.6% of the Australian population and Optus 98.5%.

The key change happening in mobile at present in Australia – and globally – is the upgrade to 5G. Telstra currently has c.85% population coverage and 41% on traffic on 5G – as at June – and expects these percentages to rise to 95% and >90% by the end of FY25. It also expects to close its 3G network in FY24.

Fixed

The fixed market refers to the provision of data and voice services but without necessarily having the infrastructure or networks to supply those services. The two key end markets for fixed services are:

- Consumer & Small Business (C&SB); and
- Enterprise.

C&SB

The key service provided to C&SB customers is nbn broadband and Telstra, like every telecommunications company that provides this service, does so on a reseller basis and is called a Retail Service Provider or RSP. Every RSP is effectively a price taker and, following a recent price rise, the nbn reseller margin is typically now in the mid to high single digits depending on product mix and cost management. Telstra's nbn reseller margin, for instance, was 8% in FY23 compared to 5% in FY22.

There are a reasonable number of RSPs in Australia and it is therefore a very competitive market. It is also difficult to differentiate given every company is effectively reselling the same product. Companies tend not to compete aggressively on price – given the already relatively low margins – and instead try to compete through bundled offerings and high average download speeds (which can be impacted by the level of purchased capacity).

The breakdown in market share of the top RSPs in Australia is shown below. The top four RSPs – Telstra, TPG, Optus and Vocus – collectively have an 84% market share.

Figure 5 - Top RSPs in Australia

RSP	Market share at 30 June 2023	
Telstra	42%	84%
TPG	22%	
Optus	13%	
Vocus	8%	
Others (Aussie Broadband, Superloop, etc.)	16%	

SOURCE: NBN WHOLESALE MARKET INDICATORS REPORT – JUNE 2023

Enterprise

The key services provided to Enterprise customers can be grouped into two key areas:

- **Network Applications & Services (NAS)**: Cloud, professional and managed services plus calling; and
- **Data and Connectivity (DAC)**: Includes Telstra Fibre or T-Fibre and nbn Enterprise Ethernet or nbn EE services.

The cloud, professional and managed services element of NAS is, in general, growing while the legacy calling part is in decline. NAS revenue for Telstra in FY23, for example, grew by 7% excluding calling and M&A. Telstra has made a few acquisitions in the space over the past year or so – Alliance Automation and Aqura Technologies in FY23 and more recently Versent which is expected to complete soon – and is now a leading provider through what's called the Telstra Purple technology services business.

DAC, however, is an area in gradual decline which is being driven by competition and technology change. DAC revenue for Telstra in FY23, for example, fell by 16%. There is some positive momentum in fibre and nbn EE subscribers – Telstra had a low single digit percentage increase in 2HFY23 – but this is being more than offset by renewals at lower rates due to the strong competition.

The key competitors in Enterprise are the same as in C&SB – Telstra, TPG, Optus and TPG – though no market share is readily available due to the variety and difference in services provided. Telstra would again, however, have the largest market share due to it having the largest fibre network in Australia and also now a market-leading reputation in cloud technology. Other providers across both NAS and DAC include Uniti Group, HyperOne and DGtek. There are also a reasonable number of NAS only providers but in general these tend to be small and, for instance, Versent was a market leader with annual revenue of c.$130m.

Infrastructure

Infrastructure refers to any physical network asset used to deliver a telecommunications service. Telstra puts most of its infrastructure assets into a standalone business called InfraCo Fixed (InfraCo). The only assets excluded are the mobile network (which includes the radio access network and mobile spectrum) and the mobile towers which are in a separate infrastructure business called Amplitel (which is now 51% owned by Telstra). The key assets in InfraCo are fibre assets, data centres and subsea cables. A brief overview of the domestic market for each of these assets is below.

Fibre Assets

Fibre assets predominantly comprise fibre optic cable, ducts and exchanges. The assets are used to deliver digital solutions to predominantly other service providers (like ISPs and resellers) and corporate/government customers in Australia. Telstra has the most fibre assets of any provider in Australia with approximately 250,000km of fibre optic cable, 370,000km of ducts and 10,000 exchanges. The company is currently investing in an inter-city project which will further increase its fibre network by up to 20,000km.

There are several other companies with fibre assets in Australia so the market is competitive. Some of these compete directly with Telstra (like TPG, Optus and Vocus) while others like Uniti differentiate themselves by focusing on specific areas of the market like greenfield housing. The key owners of fibre assets in Australia and the key characteristics are shown below.

Figure 6 - Key owners/operators of fibre assets in Australia

Company	Key features of fibre assets
Telstra	250,000km fibre optic cable, 370,000km ducts, 10,000 exchanges
TPG	28,000km of metro & inter-capital fibre, thousands of on-net fibre buildings
Optus	24,000km of metro fibre and 10,000km of inter-city fibre
Vocus	25,000km of fibre network across Australia and New Zealand
Uniti	No. 1 provider of fibre network infrastructure for greenfield housing
HyperOne	In process of buidling a national fibre backhaul network (c.20,000 km)
Dgtek	Melbourne CBD and south eastern suburbs only, passing >100k premises

SOURCE: COMPANY DATA

Data Centres

Data centres are physical facilities used to house applications and data. The data centre market in Australia is dominated by three key providers – AirTrunk, NextDC and CDC Data Centres – who together represent more than 50% of load capacity. Until recently Telstra used its data centres for its own internal purposes but now provides external access to two data centres – one in St Leonards, Sydney and the other at Clayton in Melbourne. Telstra is therefore only a small provider in the data centre market.

Subsea Cables

Subsea cables are used to connect Australia with the rest of the world and, in particular, the internet. There are currently around a dozen subsea cables connected to Australia – more are planned – and these can be solely owned (like the Australia-Singapore Cable or ASC by Vocus) but tend more to be jointly owned through a consortium. There are, therefore, a number of providers of subsea cable capacity in Australia and the market is competitive. Telstra has the largest subsea cable network of any provider in Australia with stakes making up around 400,000km of cable.

The key subsea cable network owners and operators in Australia are shown below as well as some of the key cables or stakes in cables they own. Note it is not just traditional telecommunications carriers who operate in the market but also cable specialists like SUBCO and even software companies like Google.

Figure 7 - Key subsea cable network owners and operators in Australia

Company	Key features of subsea cable networks
Telstra	Own or operate 400,000km of subsea cable in and out of Australia
Singtel	Owns stakes in INDIGO and SeaMeWe-3 cable systems
Vocus	Owns Australia Singapore Cable and has stake in Coral Sea cable system
AARNet	Owns stakes in INDIGO and Japan-Guam-Australia (JGA) cable systems
RTI JGA/Connectivity	Owns stakes in INDIGO and Japan-Guam-Australia (JGA) cable systems
SUBCO	Owns Oman Australia Cable (OAC) and has stake in INDIGO cable system
Google	Owns stakes in INDIGO and Japan-Guam-Australia (JGA) cable systems

SOURCE: COMPANY DATA

International Market

The International business of Telstra provides technology solutions and network applications and services to corporate, government, carrier and OTT customers outside of Australia. The business is focused on the Asia-Pacific region and the services are underpinned by Telstra's extensive subsea cable network. While it is predominantly a services business, Telstra often includes International as part of Infrastructure.

International is competitive and Telstra typically faces competition from other telecommunications companies – including the incumbent – and various service providers in each country it operates. A key differentiating factor is access to subsea cable networks as this provides certainty around connectivity, latency and availability. Telstra has one of the largest subsea cable networks in the Asia-Pacific but faces strong competition from other carriers like SingTel, China Telecom, PLDT, Tata Communications and NTT.

Digicel Pacific

Telstra acquired Digicel Pacific in July 2022 and this now forms part of the International business. Digicel is primarily a mobile operator and is the leading provider in PNG, Nauru, Somoa, Tonga and Vanuata and the number two provider in Fiji. Notably the acquisition was made with financial and strategic risk management support from the Australian Government and, for instance, a large portion of the US$1.6bn purchase price was funded through a debt facility with Export Finance Australia.

The majority of Digicel Pacific revenue is generated in PNG where it has a leading market position. The company also has a leading or strong position in several South Pacific countries. The key competitors in the region are Vodafone (who is the leading mobile operator in Fiji), Digitec Communications (the number two in PNG, trades as Vodafone PNG) and some government owned providers like TCC U-CALL in Tonga.

Segments

Telstra provides segment reporting by both business and product. The breakdown of each is shown below.

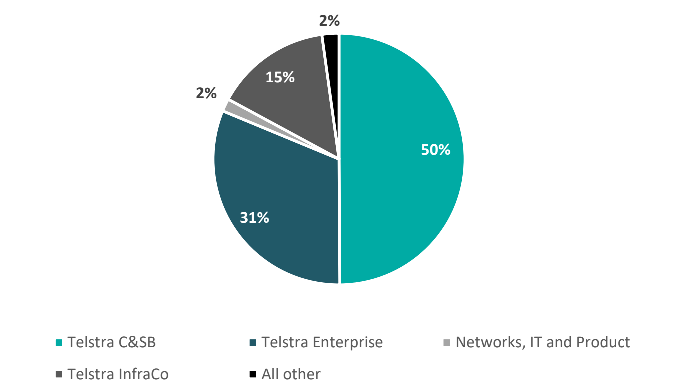
Figure 8 - Breakdown of segments by business and product

Business segments	Product segments	
Telstra Consumer and Small Business (C&SB)	Mobile	Mobile
Telstra Enterprise	Fixed - C&SB	Fixed
Network, IT and Product	Fixed - Enterprise	
Telstra InfraCo	Fixed - Active Wholesale	
All other	International	Infrastructure
	InfraCo Fixed	
	Amplitel	
	Other	

SOURCE: COMPANY DATA

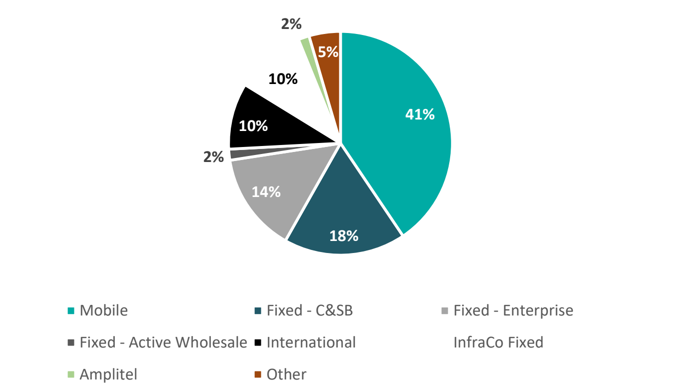
Telstra only provides revenue (or income) for each of the business segments but provides both revenue/income and EBITDA for each of the product segments. The revenue/income split by business is quite concentrated compared to the split by product as shown below.

Figure 9 - Revenue/income split by business in FY23



SOURCE: COMPANY DATA

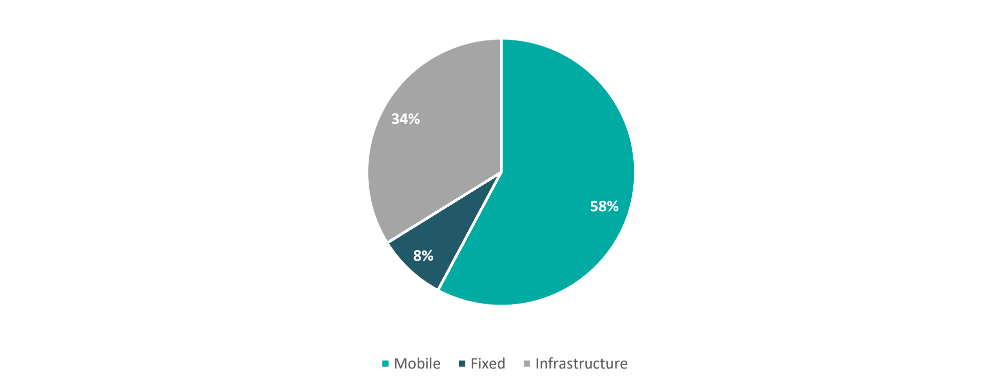
Figure 10 - Revenue/income split by product in FY23



SOURCE: COMPANY DATA

The product segments can be grouped into three categories: Mobile, Fixed (the three Fixed businesses) and Infrastructure (International, InfraCo Fixed and Amplitel). The EBITDA split of these three categories is also quite concentrated as shown below.

Figure 11 - EBTIDA split by product categories in FY23



SOURCE: COMPANY DATA

Financials

Historicals – Segments

The segment results by product over the past three years (FY21-FY23) is shown below.

Figure 12 - Historical segment results by product

Year end 30 June	FY21	FY22	FY23
Product income (A$m)			
Mobile	9,310	9,470	10,258
Fixed - Consumer & Small Business (C&SB)	4,736	4,486	4,457
Fixed - Enterprise	3,724	3,697	3,636
Fixed - Active Wholesale	591	477	403
International	1,496	1,501	2,429
InfraCo Fixed	2,569	2,456	2,556
Amplitel (Towers)	338	368	401
Other	622	700	1,076
Elimination	-1,512	-1,575	-2,043
Underlying income	**21,874**	**21,580**	**23,173**
One-off nbn DA and connection	1,050	378	72
Guidance adjustment	208	87	0
Reported income	**23,132**	**22,045**	**23,245**
Product EBITDA (A$m)			
Mobile	3,297	3,997	4,602
Fixed - Consumer & Small Business (C&SB)	139	55	135
Fixed - Enterprise	645	660	411
Fixed - Active Wholesale	231	159	117
International	336	387	713
InfraCo Fixed	1,673	1,655	1,663
Amplitel (Towers)	300	294	318
Other	68	44	-9
Underlying EBITDA	**6,689**	**7,251**	**7,950**
One-off nbn DA and connection	802	233	37
Restructuring/M&A	-211	-71	-91
Other guidance adjustments	164	-157	-34
Reported EBITDA	**7,444**	**7,256**	**7,862**
Margin			
Mobile	*35.4%*	*42.2%*	*44.9%*
Fixed - Consumer & Small Business (C&SB)	*2.9%*	*1.2%*	*3.0%*
Fixed - Enterprise	*17.3%*	*17.9%*	*11.3%*
Fixed - Active Wholesale	*39.1%*	*33.3%*	*29.0%*
International	*22.5%*	*25.8%*	*29.4%*
InfraCo Fixed	*65.1%*	*67.4%*	*65.1%*
Amplitel (Towers)	*88.8%*	*79.9%*	*79.3%*
Other	*10.9%*	*6.3%*	*-0.8%*
Underlying EBITDA margin	***30.6%***	***33.6%***	***34.3%***
Reported EBITDA margin	***32.2%***	***32.9%***	***33.8%***

SOURCE: COMPANY DATA

The key take-out is that, while underlying income or revenue has only had modest growth over the past couple of years (CAGR of 2.9% b/w FY21 and FY23), underlying EBITDA has had reasonable to strong growth (CAGR of 9.0% b/w FY21 and FY23). This has obviously been driven by a sizeable uplift in the underlying EBITDA margin from 30.6% in FY21 to 34.3% in FY23 which has been largely driven by an increase in the Mobile EBITDA margin from 35.4% in FY21 to 44.9% in FY23.

Historicals – Profit & Loss

The Profit & Loss of Telstra over the past three years (FY21 to FY23) is shown below.

Figure 13 - Historical Profit & Loss

Year end 30 June	FY21	FY22	FY23
Revenue (A$m)	21,558	21,277	22,702
Other income	1,574	768	543
Total income	**23,132**	**22,045**	**23,245**
Growth	*-11.6%*	*-4.7%*	*5.2%*
Expenses			
Labour	-4,012	-3,620	-3,967
Goods and services purchased	-8,318	-8,228	-8,511
Net impairment losses on financial assets	-160	-98	-90
Other expenses	-2,980	-2,812	-2,788
Total expenses	**-15,470**	**-14,758**	**-15,356**
as % of revenue	*-71.8%*	*-69.4%*	*-67.6%*
Share of net profit/(loss) from JVs and associates	-24	-31	-27
EBITDA (reported)	**7,638**	**7,256**	**7,862**
D&A	-4,646	-4,358	-4,470
EBIT	**2,992**	**2,898**	**3,392**
Net interest expense	-551	-417	-529
PBT	**2,441**	**2,481**	**2,863**
Income tax expense	-539	-667	-812
NPAT	**1,902**	**1,814**	**2,051**
Non-controlling interests	-45	-126	-123
NPAT after non-controlling interests	**1,857**	**1,688**	**1,928**
Growth	*2.1%*	*-9.1%*	*5.5%*
EBITDA margin	*35.4%*	*34.1%*	*34.6%*
Effective tax rate	*-22.1%*	*-26.9%*	*-28.4%*
Diluted EPS (reported)	15.6c	14.3c	16.7c
Diluted EPS (underlying)	**9.7c**	**14.3c**	**17.5c**
Interim dividend (cps)	5.0c	6.0c	8.5c
Final dividend	5.0c	7.5c	8.5c
Special dividends	6.0c	3.0c	0.0c
Total dividend	**16.0c**	**16.5c**	**17.0c**
Franking	*100%*	*100%*	*100%*
Payout ratio on reported basic EPS	*102%*	*115%*	*102%*

SOURCE: COMPANY DATA

The key take-outs are:

- **Modest reported growth**: The CAGR in reported income, EBITDA and NPAT b/w FY21 and FY23 has been modest at 0.2%, 1.5% and 1.9% respectively. The CAGR in reported EPS has been slightly higher at 3.4% due to the share buy-back in FY22.
- **Strong underlying growth**: The CAGR in underlying EPS b/w FY21 and FY23 has been strong at 34.3% and the large difference compared to the CAGR in reported EPS is largely due to the much lower underlying versus reported EPS in FY21. The reported EPS in FY21 was much higher due to the relatively large one-off nbn DA (Definitive Agreement) and connection income which had a very high margin.
- **Payout ratio >100%**: The payout ratio on the total dividend has been >100% the last three years and this includes the special dividends paid as a result of the one-off nbn DA and connection income.

Forecasts – Segments

Our forecast segment results by product over the next three years (FY24-FY26) is shown below.

Figure 14 - Forecast segment results by product

Year end 30 June	FY23	FY24e	FY25e	FY26e
Product income (A$m)				
Mobile	10,258	11,027	11,717	12,302
Fixed - C&SB	4,457	4,401	4,346	4,292
Fixed - Enterprise	3,636	3,618	3,618	3,582
Fixed - Active Wholesale	403	363	326	294
International	2,429	2,550	2,678	2,812
InfraCo Fixed	2,556	2,582	2,607	2,633
Amplitel (Towers)	401	421	442	464
Other	1,076	1,022	971	923
Elimination	-2,043	-2,145	-2,226	-2,281
Underlying income	**23,173**	**23,839**	**24,480**	**25,021**
One-off nbn DA and connection	72	0	0	0
Guidance adjustment	0	0	0	0
Reported income	**23,245**	**23,839**	**24,480**	**25,021**
Product EBITDA (A$m)				
Mobile	4,602	4,962	5,272	5,536
Fixed - C&SB	135	143	152	150
Fixed - Enterprise	411	362	362	358
Fixed - Active Wholesale	117	100	90	81
International	713	765	803	844
InfraCo Fixed	1,663	1,665	1,669	1,672
Amplitel (Towers)	318	333	345	360
Other	-9	-5	-5	-5
Underlying EBITDA	**7,950**	**8,325**	**8,688**	**8,996**
One-off nbn DA and connection	37	0	0	0
Restructuring/M&A	-91	-50	-50	-50
Other guidance adjustments	-34	0	0	0
Reported EBITDA	**7,862**	**8,275**	**8,638**	**8,946**
Margin				
Mobile	*44.9%*	*45.0%*	*45.0%*	*45.0%*
Fixed - C&SB	*3.0%*	*3.3%*	*3.5%*	*3.5%*
Fixed - Enterprise	*11.3%*	*10.0%*	*10.0%*	*10.0%*
Fixed - Active Wholesale	*29.0%*	*27.5%*	*27.5%*	*27.5%*
International	*29.4%*	*30.0%*	*30.0%*	*30.0%*
InfraCo Fixed	*65.1%*	*64.5%*	*64.0%*	*63.5%*
Amplitel (Towers)	*79.3%*	*79.0%*	*78.0%*	*77.5%*
Other	*-0.8%*	*0.0%*	*0.0%*	*0.0%*
Underlying EBITDA margin	***34.3%***	***34.9%***	***35.5%***	***36.0%***
Reported EBITDA margin	***33.8%***	***34.7%***	***35.3%***	***35.8%***

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The key take-outs are:

- **FY24 forecasts consistent with guidance**: The FY24 guidance is total income b/w \$22.8-24.8bn and underlying EBITDA b/w \$8.2-8.4bn. Both our total income and underlying EBITDA forecasts are around the middle of these ranges.
- **Mobile forecasts generally consistent with ambition**: Telstra has said its ambition in Mobile is “mid-single digit growth in service revenue to FY25”. Service revenue is typically around 75% or more of total Mobile revenue and our growth forecasts in the latter are 8%, 6% and 5% in FY24, FY25 and FY26.

Forecasts – Profit & Loss

Our forecast Profit & Loss for Telstra over the next three years (FY24 to FY26) is shown below.

Figure 15 - Forecast Profit & Loss

Year end 30 June	FY23	FY24e	FY25e	FY26e
Revenue (A$m)	22,702	23,323	23,990	24,543
Other income	543	516	490	478
Total income	**23,245**	**23,839**	**24,480**	**25,021**
Growth	*1.9%*	*2.6%*	*2.7%*	*2.2%*
Total expenses	**-15,356**	**-15,540**	**-15,822**	**-16,060**
as % of revenue	*-67.6%*	*-66.6%*	*-66.0%*	*-65.4%*
Share of net profit/(loss)	-27	-25	-20	-15
EBITDA (reported)	**7,862**	**8,275**	**8,638**	**8,946**
D&A	-4,470	-4,582	-4,696	-4,814
EBIT	**3,392**	**3,693**	**3,942**	**4,132**
Net interest expense	-529	-555	-583	-554
PBT	**2,863**	**3,138**	**3,359**	**3,578**
Income tax expense	-812	-863	-924	-984
NPAT	**2,051**	**2,275**	**2,435**	**2,594**
Non-controlling interests	-123	-126	-129	-132
NPAT after non-controlling interests	**1,928**	**2,149**	**2,306**	**2,462**
Growth	*14.4%*	*11.4%*	*7.3%*	*6.8%*
EBITDA margin	*34.6%*	*35.5%*	*36.0%*	*36.4%*
Effective tax rate	*-28.4%*	*-27.5%*	*-27.5%*	*-27.5%*
Diluted EPS (reported)	16.7c	18.6c	20.0c	21.3c
Diluted EPS (underlying)	**17.5c**	**18.9c**	**20.3c**	**21.6c**
Interim dividend (cps)	8.5c	9.0c	9.5c	10.0c
Final dividend	8.5c	9.0c	9.5c	10.0c
Special dividends	0.0c	0.0c	0.0c	0.0c
Total dividend	**17.0c**	**18.0c**	**19.0c**	**20.0c**
Franking	*100%*	*100%*	*100%*	*100%*
Payout ratio on reported basic EPS	*102%*	*97%*	*95%*	*94%*

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The key take-outs are:

- **Underlying EPS forecasts consistent with if not slightly higher than ambition**: Telstra has said in its T25 strategy that it aims to have CAGR in underlying EPS of "high teens" b/w FY21 and FY25 and our forecasts equate to a CAGR of 20.2%.
- **Growth in dividend**: Telstra has also said in T25 that its aim is to "maximise fully-franked dividend and seek to grow over time". We forecast a 1.0c increase in the fully-franked total dividend each year and for the payout ratio to drop just below 100% in each forecast period.
- **Capex consistent with guidance**: While not shown above, we forecast capex of $3.7bn which is at the top end of the $3.6-3.7bn guidance range. Note this figure includes strategic investment of around $300m for strategic investment (e.g. inter-city fibre and other infrastructure projects) but is before additional spectrum ($672m already flagged) and the recently announced acquisition of Versent ($267.5m consideration). Our forecast free cashflow after lease payments is $3.2bn which is also at the top end of the $2.8-3.2bn guidance range.

Valuation

We choose to apply three valuation methodologies to Telstra:

- PE ratio;
- Discounted cash flow (DCF);
- Dividend discount model (DDM); and
- Sum-of-the-parts (SOTP).

Note we choose not to use an EV/EBITDA valuation given the maturity of the business and we already use one relative valuation (PE ratio).

PE Ratio

PE ratio is a relative valuation approach that requires a group of listed comparable companies (comps) to provide a guide towards the appropriate multiple to apply to forecast earnings. In our view there are no close listed comps on the ASX to Telstra in the telecommunications sector as the only other companies of reasonable size – TPG Telecom (TPG) and Spark New Zealand (SPK) – are still much smaller (i.e. $10bn market cap or less versus >$40bn for Telstra) and are not even in the S&P/ASX 100 index. We therefore believe the closest comps for Telstra are other industrial stocks on the ASX of similar size in the S&P/ASX Top 50 index which also have strong market positions and a reasonable dividend yield. The stocks which meet these requirements and their PE ratios are shown below.

Figure 16 - PE ratios of comparable stocks to Telstra

	Ticker	Share price at 17-Nov-23	Market cap	Year end	PE ratio FY24e	PE ratio FY25e
Aristocrat Leisure	ALL	$40.23	$26.1bn	Sep	18.8x	17.1x
Coles Group	COL	$15.42	$20.6bn	Jun	20.4x	19.1x
CSL	CSL	$258.61	$124.9bn	Jun	27.2x	23.8x
Goodman Group	GMG	$23.13	$43.9bn	Jun	22.0x	20.2x
Wesfarmers	WES	$53.00	$60.1bn	Jun	24.1x	21.5x
Woolworths	WOW	$35.32	$43.1bn	Jun	23.4x	21.9x
Average					**22.6x**	**20.6x**

SOURCE: BLOOMBERG

The figure shows a fairly narrow range in the PE ratios which supports the stocks we have chosen. We choose to focus on the FY25 PE ratio given we are already in 2QFY24 and to be consistent with a one-year price target. In our view the appropriate multiple to apply to Telstra is a straight average of the PE ratios of the comps given the narrow range and there is not a strong argument for either a discount or premium to be applied.

The PE ratio valuation for Telstra is shown below.

Figure 17 - PE ratio valuation of Telstra

	FY25 EPS forecast	Average PE ratio	Per share valuation
PE ratio	20.3c	20.6x	**$4.18**

SOURCE: BELL POTTER SECURITIES ESTIMATES

DCF

DCF is an absolute valuation approach and is appropriate to consider in conjunction with a relative valuation. It is also appropriate given the strong free cash flows generated by Telstra and also the predictability of those cash flows.

Our DCF is shown below along with the calculation of the WACC we have used. The valuation is a year from now to be consistent with a one-year price target. We choose to use only five forecast periods given the relative maturity of the business.

Figure 18 - DCF valuation of Telstra

WACC calculation		Key assumptions	
Risk free rate	4.5%	Valuation as at	19-Nov-24
Market risk premium	5.5%	Terminal growth rate	3.0%
Beta	0.90		
Borrowing rate	7.5%		
Tax rate	30.0%		
Target gearing	15.0%		
Cost of equity	9.5%		
Cost of debt	5.3%		
WACC	**8.8%**		

	FY25e	FY26e	FY27e	FY28e	FY29e	Beyond
Free cash flow after leases (A$m)	**3,174**	**3,572**	**3,860**	**3,971**	**4,115**	**72,818**
Present value of cash flows	3,014	3,118	3,096	2,926	2,786	45,310
Sum of present values	**60,250**					
Market value of investments	708					
Net debt/(cash)	14,111					
Equity value	**46,847**					
Equity value per share	**$4.05**					

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows our DCF valuation is $4.05 which is only a modest discount to the PE ratio valuation and this provides support for both valuations as well as the assumptions we have applied.

DDM

A dividend discount model (DDM) is perhaps also an appropriate valuation to consider for Telstra given the consistency of dividends and the relatively high payout ratio. Telstra also has a stated policy to maximise the dividend and grow it over time.

We choose to use the traditional DDM given the predictability of Telstra's earnings and therefore the reasonable visibility of dividends over the medium term. Our DDM is below and we choose to use the same discount rate of 8.8% that we use in the DCF. Note we gross up the dividends to capture the value of the franking credits and in the final year of the DDM we also add the current share price.

Figure 19 - DDM valuation for Telstra

	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e*
Grossed up DPS (cps)	**27.1**	**28.6**	**30.0**	**31.4**	**32.9**	**418.3**
Present value of cash flows	25.8	24.9	24.1	23.2	22.2	260.2
Sum of present values (cps)	**380.4**					
Equity value per share	**$3.80**					

SOURCE: BELL POTTER SECURITIES ESTIMATES * CURRENT SHARE PRICE ADDED TO GROSSED UP DPS

The figure shows our DDM valuation is $3.80 which is a modest discount to the PE ratio valuation but this is perhaps to be expected given we forecast <100% payout ratio over the forecast period. As a cross-check, if we apply the Gordon growth model and apply a 2.0% or 2.5% growth rate to the dividend into perpetuity, the valuation is $3.76 or $4.05. This supports the DDM valuation of $3.80 if not makes it look slightly conservative.

SOTP

A SOTP is also an appropriate valuation to consider for Telstra given the clear distinction of the three broad businesses – Mobile, Fixed and Infrastructure – and also InfraCo is being operated as a separate company for a potential sale at some stage. There are also a couple of reference points which provide a guide towards appropriate multiples to apply:

- **Amplitel**: Telstra sold 49% of InfraCo Towers (now called Amplitel) in 2021 for $2.8bn which equated to an EBITDA multiple of c.19x; and
- **Digicel Pacific**: Telstra bought Digicel Pacific also in 2021 for $1.6bn which equated to an EBITDA multiple of 6-7x.

Our SOTP valuation for Telstra is below. Note we separate Amplitel from InfraCo and apply a similar but slightly lower EBITDA multiple of 15x to the remaining 51% of the business than what the original 49% was sold for. We apply a lower EBITDA multiple of 10x to the remaining Infrastructure businesses which is consistent with a mid to high single digit for International and a low teens multiple for InfraCo. We apply a 7.5x EBITDA multiple to Mobile given it is in a more competitive market than InfraCo and consistent with what was paid for Digicel Pacific (which is predominantly mobile). And we apply a 5x multiple for Fixed given the headwinds in that business.

Figure 20 - SOTP valuation for Telstra

	Forecast FY24 EBITDA	Multiple	Enterprise Value	Net debt	Equity value	Equity value per share
Business						
Mobile	$4,962m	7.5x	$37,217m			
Fixed	$605m	5.0x	$3,023m			
Infrastructure (excl. Amplitel)	$2,430m	10.0x	$24,302m			
Amplitel (51% interest)	$170m	15.0x	$2,545m			
Total			**$67,087m**	**$14,418m**	**$52,669m**	**$4.56**

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows our SOTP valuation is $4.56 which is a premium to the other three valuations. We believe the premium is due to the value in the infrastructure-based businesses – including Mobile – which is not fully captured in an earnings, cash flow or dividend based valuation. This also perhaps explains why Telstra is operating InfraCo as a standalone business and has flagged a potential sale down the track.

Price Target

We use a blend of the valuations generated by the four methodologies we have applied to determine our price target for Telstra and this is shown below. We apply an equal weighting of 25% to each valuation given validity of each approach in our view and there are no strong arguments for one over another. We acknowledge that the SOTP is the one outlier but we believe this deserves an equal weighting to the others given the potential of a sale on InfraCo at some stage.

Figure 21 - Price target calculation

	Valuation	% weighting	Price Target
Methodology			
PE ratio	$4.18	25.0%	$1.04
DCF	$4.05	25.0%	$1.01
DDM	$3.80	25.0%	$0.95
SOTP	$4.56	25.0%	$1.14
Total			**$4.15**

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows our PT for Telstra is $4.15 which is a modest premium to the share price.

Board and Management

The directors of Telstra are shown below.

Figure 22 - Board of directors

Name	Title
Craig W Dunn	Non-Executive Director and Chair
Vicki Brady	CEO and Managing Director
Eelco Blok	Non-Executive Director
Maxine Brenner	Non-Executive Director
Roy H Chestnutt	Non-Executive Director
Ming Long AM	Non-Executive Director
Bridget Loudon	Non-Executive Director
Elena Rubin AM	Non-Executive Director
Niek Jan van Damme	Non-Executive Director

SOURCE: COMPANY DATA

Key points:

- **Predominantly non-executives**: Eight of the nine directors are non-executives. A large majority of non-executives is perhaps to be expected in a mature, large and diversified company such as Telstra.
- **Close to even split of male/female directors**: There is close to an even split of male and female directors. The chair is male but the CEO and Managing Director is female.
- **Directors combined own 1.2m shares**: The directors combined own 1.2m shares which represents 0.01% of shares on issue. CEO and Managing Director Vicki Brady owns the most shares of the directors with 0.77m shares.

The key management of Telstra is shown below.

Figure 23 - Key management

Name	Title
Vicki Brady	Chief Executive Officer
Michael Ackland	Chief Financial Officer & Group Executive, Strategy & Finance
Kim Krogh Anderson	Group Executive, Product & Technology
David Burns	Group Executive, Enterprise
Nikos Katinakis	Group Executive, Global Networks & Technology
Brendaon Riley	CEO, Telstra InfraCo
Dean Salter	Group Executive, Global Business Services
Lyndall Stoyles	Group General Counsel and Group Executive, External Affairs & Legal
Kathryn van der Merwe	Group Executive, People, Culture & Communications
Brad Whitcomb	Group Executive, Consumer & Small Business

SOURCE: BELL POTTER SECURITIES ESTIMATES

Key points:

- **CEO appointed in September, 2022**: Vicki Brady became the CEO and Managing Director of Telstra on 1 September 2022. As the head of Telstra, she leads T25, Telstra's strategy for sustainable growth.
- **CFO also appointed in September 2022**: Michael Ackland became CFO on 1 September 2022 after leading Telstra's Consumer & Small Business for four years.

Telstra Group
as at 20 November 2023

Recommendation	Hold
Price	$3.84
Target (12 months)	$4.15

Table 1 - Financial summary

Telstra Group (TLS)

Share price:	**$3.84**	**Target price:**	**$4.15**
No. of issued shares:	**11,554m**	**Market cap:**	**$44,369m**

Profit & Loss (A$m)

Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Revenue	**21,277**	**22,702**	**23,323**	**23,990**	**24,543**
Other income	768	543	516	490	478
Total income	**22,045**	**23,245**	**23,839**	**24,480**	**25,021**
Growth	*-5%*	*5%*	*3%*	*3%*	*2%*
Total expenses	**-14,758**	**-15,356**	**-15,540**	**-15,822**	**-16,060**
% of revenue	*-69.4%*	*-67.6%*	*-66.6%*	*-66.0%*	*-65.4%*
Share of net profit/loss from JVs	-31	-27	-25	-20	-15
EBITDA (statutory)	**7,256**	**7,862**	**8,275**	**8,638**	**8,946**
D&A	-4,358	-4,470	-4,582	-4,696	-4,814
EBIT	**2,898**	**3,392**	**3,693**	**3,942**	**4,132**
Net interest expense	-417	-529	-555	-583	-554
Pre-tax profit	**2,481**	**2,863**	**3,138**	**3,359**	**3,578**
Income tax expense	-667	-812	-863	-924	-984
NPAT	**1,814**	**2,051**	**2,275**	**2,435**	**2,594**
Non-controlling interests	-126	-123	-126	-129	-132
NPAT after NCI	**1,688**	**1,928**	**2,149**	**2,306**	**2,462**
Growth	*-9%*	*14%*	*11%*	*7%*	*7%*

Cash Flow (A$m)

Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
EBITDA	7,256	7,862	8,275	8,638	8,946
Change in working capital	812	-127	-135	-98	-33
Gross cash flow	**8,068**	**7,735**	**8,140**	**8,540**	**8,913**
Income tax paid	-819	-933	-863	-924	-984
Operating cash flow	**7,249**	**6,802**	**7,277**	**7,616**	**7,929**
Payments for PPE	-2,176	-2,474	-2,950	-2,300	-2,350
Payments for Intangibles	-918	-1,396	-1,250	-1,250	-1,250
Payments for investments	-851	-2,595	-393	-100	-75
Proceeds from sale of PPE	155	201	100	100	100
Proceeds from sale of invest.	156	51	25	25	25
Distributions received	93	40	50	50	50
Receipts of finance leases	92	82	75	75	75
Government grants	24	58	25	25	25
Interest received	14	37	50	50	50
Other	16	45	0	0	0
Investing cash flow	**-3,395**	**-5,951**	**-4,268**	**-3,325**	**-3,350**
Proceeds/repayment of debt	-2,280	1,560	0	-500	-750
Payment of lease liabilities	-697	-675	-700	-725	-750
Finance costs paid	-534	-636	-605	-633	-604
Dividends paid	-1,988	-2,127	-2,022	-2,138	-2,253
Other	2,883	930	0	0	0
Financing cash flow	**-3,971**	**-969**	**-3,327**	**-3,996**	**-4,357**
Net change in cash	**-117**	**-118**	**-318**	**295**	**222**
Cash at start of period	1,125	1,040	932	614	909
Exchange rate impact	32	10	0	0	0
Cash at end of period	**1,040**	**932**	**614**	**909**	**1,131**

Balance Sheet (A$m)

Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Cash	1,040	932	614	909	1,131
Current receivables	4,074	4,216	4,198	4,198	4,295
Inventories	476	546	583	600	614
Other current assets	670	1,039	1,039	1,039	1,039
Non-current receivables	861	1,017	1,108	1,199	1,227
Investments	829	708	1,001	1,001	976
PPE	20,485	20,969	21,528	21,380	21,223
Intangibles	8,155	10,989	9,948	8,850	7,693
ROUA	2,926	2,825	2,825	2,825	2,825
Other non-current assets	2,112	1,788	1,788	1,788	1,788
Total assets	**41,628**	**45,029**	**44,632**	**43,789**	**42,810**
Current payables	4,209	4,365	4,315	4,318	4,418
Current provisions	827	1,011	1,011	1,011	1,011
Current lease liabilities	650	775	775	775	775
Current borrowings	3,180	3,110	3,110	3,110	3,110
Current other liabilities	1,482	1,606	1,606	1,606	1,606
Non-current provisions	251	311	311	311	311
Non-current lease liabilities	2,797	2,743	2,118	1,468	793
Non-current borrowings	8,292	10,013	10,013	9,513	8,763
Deferred tax liabilities	1,678	2,112	2,112	2,112	2,112
Non-current other liabilities	1,936	1,942	1,967	1,974	1,979
Total liabilities	**24,652**	**27,213**	**26,563**	**25,423**	**24,103**
Share capital	3,098	3,095	3,095	3,095	3,095
Reserves	2,333	2,196	2,196	2,196	2,196
Retained earnings	10,057	10,116	10,243	10,411	10,619
Non-controlling interests	1,488	2,409	2,535	2,664	2,797
Total shareholders' equity	**16,976**	**17,816**	**18,069**	**18,366**	**18,707**

Valuation data

Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
NPAT after NCI (A$m)	1,688	1,928	2,149	2,306	2,462
Diluted EPS (Ac)	**14.3**	**16.7**	**18.6**	**20.0**	**21.3**
Change	*-8%*	*16%*	*11%*	*7%*	*7%*
P/E ratio (x)	**26.8**	**23.0**	**20.6**	**19.2**	**18.0**
CFPS (Ac)	55.7	53.0	56.9	59.6	62.1
Price/CF (x)	**6.9**	**7.2**	**6.7**	**6.4**	**6.2**
DPS (Ac)	16.5	17.0	18.0	19.0	20.0
Yield	**4.3%**	**4.4%**	**4.7%**	**4.9%**	**5.2%**
Franking	100%	100%	100%	100%	100%
EBITDA (A$m)	7,256	7,862	8,275	8,638	8,946
Underlying EBITDA	**7,251**	**7,950**	**8,325**	**8,688**	**8,996**
EV/Underlying EBITDA (x)	**8.1**	**7.4**	**7.1**	**6.8**	**6.5**
NTA per share (Ac)	76.3	59.1	70.3	82.4	95.3
Price/NTA (x)	**5.0**	**6.5**	**5.5**	**4.7**	**4.0**

Performance ratios

Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
EBITDA margin	**34.1%**	**34.6%**	**35.5%**	**36.0%**	**36.4%**
EBIT margin	13.6%	14.9%	15.8%	16.4%	16.8%
Return on assets	4.4%	4.6%	5.1%	5.6%	6.1%
Return on equity	**11.7%**	**13.3%**	**14.6%**	**15.5%**	**16.3%**
ROIC	9.4%	10.5%	11.7%	13.0%	13.9%
Payout ratio	114.9%	101.8%	96.8%	95.2%	93.9%
Effective tax rate	-26.9%	-28.4%	-27.5%	-27.5%	-27.5%

Leverage ratios

Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Net debt/(cash) (A$m)	12,720	14,418	14,111	12,666	11,019
Net debt/equity	**75%**	**81%**	**78%**	**69%**	**59%**
Gearing	43%	45%	44%	41%	37%
Net debt/EBITDA (x)	1.8	1.8	1.7	1.5	1.2
Net interest cover (x)	6.9	6.4	6.6	6.8	7.5

Segmentals (US$m)

Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Product income (A$m)					
Mobile	9,470	10,258	11,027	11,717	12,302
Fixed - C&SB	4,486	4,457	4,401	4,346	4,292
Fixed - Enterprise	3,697	3,636	3,618	3,618	3,582
Fixed - Active Wholesale	477	403	363	326	294
International	1,501	2,429	2,550	2,678	2,812
InfraCo Fixed	2,456	2,556	2,582	2,607	2,633
Amplitel (Towers)	368	401	421	442	464
Other	700	1,076	1,022	971	923
Elimination	-1,575	-2,043	-2,145	-2,226	-2,281
Underlying income	**21,580**	**23,173**	**23,839**	**24,480**	**25,021**
One-off nbn DA and connection	378	72	0	0	0
Guidance adjustment	87	0	0	0	0
Reported income	**22,045**	**23,245**	**23,839**	**24,480**	**25,021**
Product EBITDA (A$m)					
Mobile	3,997	4,602	4,962	5,272	5,536
Fixed - C&SB	55	135	143	152	150
Fixed - Enterprise	660	411	362	362	358
Fixed - Active Wholesale	159	117	100	90	81
International	387	713	765	803	844
InfraCo Fixed	1,655	1,663	1,665	1,669	1,672
Amplitel (Towers)	294	318	333	345	360
Other	44	-9	-5	-5	-5
Underlying EBITDA	**7,251**	**7,950**	**8,325**	**8,688**	**8,996**
One-off nbn DA and connection	233	37	0	0	0
Restructuring/M&A	-71	-91	-50	-50	-50
Other guidance adjustments	-157	-34	0	0	0
Reported EBITDA	**7,256**	**7,862**	**8,275**	**8,638**	**8,946**

Interims (US$m)

Year end 30 Jun	**1HFY23**	**2HFY23**	**1HFY24e**	**2HFY24e**
Revenue	**11,305**	**11,397**	**11,543**	**11,781**
Other income	277	266	258	258
Total income	**11,582**	**11,663**	**11,800**	**12,039**
Growth	*6%*	*5%*	*2%*	*3%*
Total expenses	**-7,723**	**-7,633**	**-7,746**	**-7,793**
% of revenue	*-68.3%*	*-67.0%*	*-67.1%*	*-66.2%*
Share of net profit/loss from JVs	1	-28	-13	-13
EBITDA	**3,860**	**4,002**	**4,042**	**4,233**
Growth	*11%*	*6%*	*5%*	*6%*

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

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