

Telstra and its dividend outlook



**Comment by Hugh MacNally,
Chairman and Founder of
Private Portfolio Managers**



PPM has held the view that Telstra is very well placed in the Australian telecommunications industry as it moves to the new 5G technology. The company is held in our portfolios.

The comments made by Vodafone's Australian CEO, reported in the Australian today, indicate how much pain is being suffered by Vodafone (and we believe Optus). Telstra the dominant player with 50% mobile share has an enormous advantage in such a high capex business. Add to this they have had the luck to not use the banned Huawei equipment which Optus and Vodafone (and TPG) use.

The Vodafone CEO, Inaki Berroeta, made some interesting comments about the amount of capital required and the declining revenue per customer. This is the nub of the problem for Optus and Vodafone, the return on capital is unsustainably low and for Vodafone it is almost non-existent. There is only one solution to their problem and that is to raise prices so they can make an adequate return on capital; Mr. Berroeta said as much.

PPM has been of the view that this is an inflection point for Telstra, as it was when 4G came in in 2011, and that dividends will start to rise when rational competition appears – Mr. Berroeta seems to be making a plea for that to happen.

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