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SE MarketWatch

HD **Telco hits $1bn mark, ends buying spree**

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M2 Telecommunications (MTU) $6.83 AT the risk of making a premature proclamation, the not-so-junior telco's restless acquisitive spirits have been quelled and may stay so for some time.

M2 has made no fewer than 20 acquisitions in its 15-year life. The last — and biggest — was the $250 million purchase of Dodo and Eftel in March last year.

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"We always said we would wait a year (before making another acquisition), but this was the year we actually waited,'' quips strategy head Vaughan Bowen.

Hitting the $1 billion revenue mark for the first time, M2 yesterday reported a $67m net full-year profit on its engorged customer base, up 53 per cent.

Chief executive Geoff Horth says that, with earnings expected to grow 15 per cent to 20 per cent organically this year, it would be hard to find a purchase that achieves similar accretion.

"It would be the cream of the cake and the cake is pretty sweet at the moment,'' he said. "It's rising beautifully.'' Some analysts, though, would like to see a touch more bicarb of soda, with one dubbing the guidance as overly conservative.

If M2 does buy something it's likely to be in the energy retailing sector, where it has a fledgling presence via Dodo.

The purchase of the down-market Dodo — seen by some as at odds with M2's small business bent — drove net customer growth of 121,000 services in operation, up 121 per cent.

Dodo offers a $39.90-a-month internet deal, but by the time you got off the phone you have usually been talked into a $20 home-phone add-on.

M2's trade secret is punters have to provide their credit card details, which mitigates the risk of delinquencies.

Of course, more customers mean more snafus, which became apparent this month when Dodo's network was outed for a day across four states. For the first time, M2 reveals average revenue per unit, with energy customers reaping $116 a month compared with $41 for voice or broadband customers.

The vagaries of wholesale power prices can play merry hell with energy retailers, so M2 needs to get its ducks right on hedging as its energy retailing presence grows. We rated M2 as a buy in February and taper this perfectly priced sponge to a hold.

Caltex (CTX) $27.45 THE fuel retailer and lapsed refiner's latest operational review is dubbed Tabula Rasa — Latin for "clean slate" — and, ipso facto, 350 more heads are out the door.

Management says the review is not just a “cost out” exercise, but whatever the case the quid pro quo of spending $130m-$155m will be $80m-$100m of annual savings.

While the pain is across the **board**, it’s a flow-on result of Caltex’s exit from refining and Kurnell’s conversion to a petrol- import facility.

Behind all the messy conversion distractions, Caltex offset a 2.2 per cent decline in petrol sales (a trend in line with the market) with higher sales of premium, jet-fuel and diesel. The latter reflects still-strong **mining** volumes.

The next step is a capital management initiative, and that’s why the shares found favour yesterday.

With Caltex shares at $18 last November, we urged investors to “carpe diem” with a long-term **buy**. With the stock bounding 7 per cent to seven-year highs, we won’t fill ’er up. Avoid.

BlueScope Steel (BSL) $5.32 THE 13 per cent selldown that greeted the steelmaker’s results yesterday was well at odds with management’s perky outlook.

Still, BlueScope’s impressive underlying earnings turnaround was still well short of expectations: analysts on average chalked in earnings before interest and tax of $284m and it came in at $250m.

Chief steel-fixer Paul O’Malley highlighted the core Australian coated and industrial products arm, which posted its first underlying profit in four years: “Many people never thought it would return to the black.’’ BlueScope is surfing the housing boom and has also improved margins through products such as its new improved Colorbond.

On the supply side, the lower Aussie dollar has burnt off import competition and anti-dumping measures have helped as well.

BlueScope has also benefited from marginal **Chinese** steelmakers curtailing marginal output in synch with a state-sanctioned attack on pollution.

O’Malley is also bullish about the US, which is “powering ahead” and — perennial Thai coups aside — Asia. BlueScope’s myriad earnings sensitivities include the Aussie dollar and the hot-rolled coil price (which has held up OK).

An unusual one is falling **milk** prices, which affect BlueScope’s NZ customers. Criterion had BlueScope as a long-term **buy** at $6.30 after February’s first-half results. We maintain the call, but steel ourselves for more short-term weakness.The Australian accepts no responsibility for stock recommendations. Readers should contact a licensed financial adviser. The author does not have an interest in the stocks mentioned.

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