HD **Time to push into Asia**

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DAVID Thodey has the Telstra mother-ship running in fine fettle, reliably producing circa $4 billion in free cashflow.

The latter have just begun in earnest and it is, of course, a family affair with former Telstra boss Ziggy Switkowski chairing the NBN Co and former Telstra executive JB Rousselot leading the negotiations with Telstra's Tony Warren.

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It is a good-natured affair with the ground rules already clear, even though Communications Minister Malcolm Turnbull is yet to settle his policy once the government's review into the NBN, led by from Michael Vertigan, reports mid-year.

The upside for Telstra working on Thodey's capital-lite approach is potentially meaningful, and includes providing the engineering brains to the fibre rollout and collecting more rent to compensate for the use of its copper and HFC network under the proposed multi-technology model. Thodey would like the company to earn more than 20 per cent of its income from Asia, which is four times what it is now, and 58 per cent of revenues will disappear when Hong Kong mobile unit CSL disappears.

Analysts are sceptical, looking at Asia as a sideshow but Thodey is talking about the need to be there so much he is setting a tough benchmark against which he will be measured.

The company will directly employ another 250 people in its Philippines call centre, in part to bring them in house and also to establish a brand name in the country from which it can grow other services.

Thodey is building out points of presence in Asia to boost its network coverage but is also talking up joint ventures, with a string of Asian carriers providing either intellectual property or, better still, engineering expertise based around its own ability on mobile networks.

It's an evolutionary change, like the talks to form a joint venture with its Indonesian equivalent, but slowly and surely it works in Asia.

The advantage he has is an absolute stranglehold on the local market, which will only get better through the NBN negotiations.

In mobiles, the company has market-leading EBITDA margins of 39 per cent and has increased market share to 50 per cent against 30 per cent at Optus and 16 per cent at Vodafone.

Telstra has added 739,000 mobile customers over the last half while Optus dropped 66,000 on a contract loss.

Like Ian Narev at CBA, who also has an impressive market position, Thodey needs to keep hammering the productivity message lest it be lost as the company continues to build profits.

Telstra was keen to point out that the $230 million in benefits in productivity savings recorded this half -- below the run rate, given there is a promised $1bn for the full year -- were explained by timing differences.

Indeed, the full year will tell the difference but it is hard to throw stones at a company improving returns on capital by 1.7 per cent to 15.2 per cent, even with an albeit small fall in returns on equity to 26.8 per cent.

The half-a-cent increase in dividends can now be locked in for life, and CFO Andy Penn has made clear capital management, when it is stepped up, will be by way of dividend hikes rather than big buybacks. Given many treat Telstra like a car **park**, somewhere to leave your car while you do something fun, Thodey can afford to celebrate his five years on the job with a more expansive push into his growth targets in Asia and network applications and services.

Spilt Coke

NEXT week Coca-Cola Amatil will report a profit of about $510m for 2013, showing Joe Hockey was right to say it could afford to invest in its SPC division.

The $480m SPC **acquisition** about 10 years ago was not outgoing boss Terry Davis's finest hour, based on the belief he could grow sales by leveraging the Coke distribution network.

Yesterday he flagged another writedown on the division but the welcome $78m investment and promised revamping of its marketing is at least a sign of hope.

Davis managed to get Victorian taxpayers to kick in some funds but in reality it is his mess to fix.

SPC is not the only troubled food **company**, when you consider Lion yesterday wrote down the value of its **dairy** operation by $338.8m or 23 per cent to $1.2bn from the original value at $3.7bn. This was based in part on the loss of 17 per cent of its **milk** sales, with Coles preferring Murray Goulburn.

The **company** said in a statement it was committed to its 9.9 per cent **stake** in Warrnambool **Cheese** and **Butter**, which means Saputo won't get 100 per cent control quite yet. Now the Saputo offer for WCB has closed talks can start with Lion over a **commercial** deal, which will allow Lion to sell its holding to Saputo.

ACCC versus Pfizer

THE ACCC case against drug giant Pfizer will be a welcome test to its section 46 abuse-of-market-power armoury and revives a long-running debate in the anti-trust community on the interaction between patents and the law.

Patents provide monopoly rights, which is an anathema to the anti-trust brigade; and Pfizer among others have in Italy and elsewhere run foul of the law for their behaviour when patents are about to expire.

In this case, the ACCC is alleging it abused its market power in cholesterol drugs when its best-selling Lipitor **brand** was coming off patent.

The complainant was a rival generic drug supplier, upset that it allegedly couldn't get its product on the shelves. In a claim lodged in the Federal Court the regulator claimed prior to the loss of patent protection the **company** approached chemists offering a deal on its own generic cholesterol product, provided they took up 12 months' supply of the product.

Lipitor was one of the most popular cholesterol drugs, used by about one **million** Australians, with sales of more than $700m.

The Pfizer matter is due to go the Federal Court for a directions hearing on March 18.

DJs' King Paul

ARISE your Royal Highness Paul Zahra of David Jones, the newly anointed tsar of high-end fashion retailing who yesterday presided over a creditable 2.1 per cent rise in second-quarter sales to the due applause of some key shareholders.

As expected, King Paul kept his options wide open on just how long he would run the same public **company** he wanted to quit just four months ago.

King Paul did confide that "it's not about me" when pressed on whether the sales figures might persuade him to stay.

At least he is right on that point, because there is a team at DJs doing a very good job.

Zahra has emerged all-powerful because a **group** of ginger shareholders has backed him against some **board** members, who by all accounts were not supportive.

Those same directors of course showed poor judgment in buying shares ahead of a sales release, even though the **purchases** were merely intended to show faith in the **company** after Zahra had spat the dummy.

 

The **purchases** were discussed by the whole **board** and ran past the **company** secretary and in-house legal counsel, but they were delayed for over a week.

As has now magically appeared, in that week a proposal came in from Myer to talk about a nil-premium merger. That much is now history.

Zahra is not committing to staying because he wants to know whether he can work with the new **board**. That makes sense and, after all, he is now all-powerful and can basically do what he wants. The shareholders who anointed the man, like Crispin Murray at BT, Dion Hershan at Goldman Sachs and Perpetual, along with fellow travellers like Paul Xirades at Ausbil and Simon Marais at Allan Gray, who just want decent takeover talks, of course must now wear either the pain or the gain that follows from their actions.

This was their call.

Goldman Sachs is advising Myer on its proposed talks with DJs. King Paul did confide yesterday that while sales were OK margins would fall due to heavy discounting. This year there is also a $25m profit fall in the wake of the Amex deal but management has won and the DJs **board** is now in disarray.

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