

# FINANCIAL REVIEW

**HD**      **Choppy waters ahead for HMAS NBN**

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Chanticleer

Bill Morrow and Malcolm Turnbull planned to go sailing on Sydney harbour last weekend but they opted for lunch on dry land instead due to heavy rain. The NBN Co chief executive and the federal Communications Minister have been spending a lot of time together since Morrow took on one of the toughest jobs in the country two weeks ago. They know they need to work closely to ensure the economic viability of the country's biggest infrastructure project does not go the same way as their boating trip. The fact the two talk every day, usually starting with an early morning text from Turnbull, underpins the priority given to untangling the mess both men have inherited.

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The NBN's latest financial results released on Wednesday make for grim reading but do not mean much at this early stage of the project's life. It reported a \$1.1 **billion** loss for the first nine months of the financial year with revenue of \$70 **million**. More important are the numbers that demonstrate NBN Co's appalling performance when it comes to actually connecting homes and businesses to broadband services because it has been too focused on building the actual network. There were 166,642 premises with an active service at March 31 even though the network had passed 512,659 premises. It also said 94,883 homes and businesses could not get a service because they were in apartment buildings that had not been connected.

This is an issue on Morrow's long to-do list. The previous emphasis on "premises passed" rather than the number of homes the network actually connects provided an incentive to take short cuts to meet targets. The former Vodafone chief talks a lot now about not trading "time for value". The challenge of selling the NBN Co

He also needs to transform an ineffectual internal culture that made even the most bureaucratic of government departments look good. This will involve changes to the **company's** organisational structure and staff. He also lists addressing the needs of retail service providers, infrastructure competition from the likes of TPG, and renegotiating its contract with Telstra as priorities. Morrow cannot sign off on anything until the outcome of the Vertigan review which is due mid-year, although this could be delayed. While Telstra is unlikely to settle for anything less than it has already, Morrow says he will not be backed into a corner. The challenge Morrow and Turnbull now face is selling the NBN as a commercial proposition. It is a critical time for the new management team, which must roll out the project with the right packaging as well as the right economics. There is only so long the electorate will look on the NBN as a failure of the previous government.

Morrow points out the whole premise of building a national broadband network was to ensure all Australians had the same quality of broadband coverage for the same price no matter they lived. This means people in the city must subsidise those living in the bush where it is less profitable to provide services. He says this model is under threat if a competitor like TPG is allowed to offer its own broadband connections to 500,000 premises in inner-city high-rises. NBN wants the government to look at imposing a levy on competitors like TPG or introducing a tax subsidy to ensure people in the bush get the same access to services. If TPG can use a loophole in the system to cherry-pick the most accessible customers, NBN Co argues it will have a domino affect and encourage other operators to do the same.

This pushes up the cost of operating an NBN even further. Getting customers connected before TPG can cut its lunch is one way of staying ahead of its competitors.

NBN Co is now asking contractors to install **lead**-ins and connection boxes to premises while fibre is being laid in the street. This was previously done separately.

In the longer term, NBN also faces the challenge of delivering a service which can cover its costs. Everything will be on the table when it looks to plug the gap between the \$29.5 **billion** the government has committed and the \$41 **billion** cost of the project. This could involve things like sharing infrastructure with other telcos like Optus and Vodafone such as wireless towers, or selling and leasing back infrastructure such as satellites. Morrow says it is premature to dwell too long on these options though as they are three years away. While there is a lot of confidence around Morrow's abilities as a telecoms turnaround specialist, there is no guarantee that even he can transform NBN Co from a subsidised start-up into a cost-effective entity.

Fears about a **China** slowdown and more unrest in Ukraine are fuelling predictions of a possible sharemarket crash. But local brokers are not too worried by the doomsayers as they head into the four-day Easter break. **Equity** strategists are tipping the Australian benchmark index will gain around 10 per cent in 2014. Credit Suisse is tipping the ASX 200 to close at 5800 points. The slump in tech stocks, **China** and the Ukraine have spooked some high-profile commentators in Europe and the United States, although it is worth noting there is nothing like a headline predicting a 1987-like market crash to promote a book or a broking **firm**. While the four banks and key resource stocks look fully priced, brokers say there is still value to be found in high-quality companies.

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Michael Smith

Tony Boyd is on leave

**CO** nbnaus : NBN Co Limited

**IN** ibrdbi : Broadband Infrastructure | i3302 : Computers/Electronics | i3303 : Networking | i7902 : Telecommunications | icomp : Computing | itech : Technology

**RE** austr : Australia | sydney : Sydney | apacz : Asia Pacific | ausnz : Australia/Oceania | nswals : New South Wales

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