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HD **Telstra's $4.7 billion payout**

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Telcos - Thodey unveils buyback and lifts dividend

Telstra will reward its almost 1.4 million shareholders for the second time this year with a $1 billion share buyback and a bigger dividend.

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Telstra chief executive David Thodey announced the return of cash to shareholders at the company's full-year result presentation on Thursday. He said that even after the payout, the company would be keeping a cash stockpile of up to $5.1 billion.

Telstra reported a 14.3 per cent increase in its full-year, after-tax profit to $4.28 billion. Revenue increased by 3.5 per cent to $25.3 billion, slightly better than analysts had expected.

"It's really important that we are continuing to invest in the business, return dividends and then looking at the long-term value creation for the business by share buyback. We think this is about the right mix for now," Mr Thodey said.

The market responded enthusiastically, sending Telstra shares up to a 12-year high of $5.58. They finished the day's trading 2.2 per cent higher, at $5.56.

This is the second dividend increase of Mr Thodey's tenure. The first was announced at the half-year result in February, which was the first increase in more than eight years. Telstra will pay a final dividend of 15¢, taking the total-year, fully franked dividend payment to 29.5¢.

The share buyback will be funded using the cash generated from the sale of a 70 per cent stake of directories business Sensis and Telstra's 74.6 per cent interest in Hong Kong mobile provider CSL. Mr Thodey said a contribution would also come from the the company's improving profit.

Through the dividend and buyback, Telstra will return $4.7 billion to investors. It still holds a free cash flow of between $4.6 billion and $5.1 billion.

Many analysts had expected Telstra to announce a buyback scheme worth as much as $2 billion because of stronger cash flows and a lack of acquisition targets.

"I think they'd like to take advantage of opportunities as, and when, they see them," Auscap Asset Management principal Tim Carleton said.

"They've got ambitions in Asia, but at the same time it's a balancing act.

"I suspect that if cash flow continues to strengthen over time that they will continue with these sorts of capital return initiatives."

Telstra added 937,000 mobile subscribers over the year, most of them in the first half, as customers have continued to switch from Optus and Vodafone. Telstra has 16 million mobile subscribers. Mobile revenue increased by 5.1 per cent to $9.7 billion.

Aiming to consolidate that competitive advantage, Mr Thodey said Telstra would invest $1 billion in the mobile network in the 2015 financial year.

Optus, whose parent companySingTel also reported on Thursday, lost 126,000 mobile subscribers in the last 12 months. Optus has 9.4 million mobile subscribers.

Uptake of mobile phones has slowed and many analysts say the Australian market has reached saturation point. Mr Thodey said he was confident that changes in technology would mean more devices coming online.

"You've now got to think about every PC in the country, which can become a tablet. You've got to think about every car; you've got to think about every bit of machinery, and suddenly the addressable base goes out to probably 80 or 90 million devices," he said.

Telstra's fixed-line business had its best result in five years, with a revenue fall of 7.5 per cent, Mr Thodey said.

Telstra said it expected low, single-digit income and earnings growth in the 2015 financial year to offset the loss of revenue from the sale of CSL. Capital expenditure is expected to be about 14 per cent of sales.

Cash payments from the national broadband network (NBN) make a nice buffer for earnings, as mobile growth and average revenue per user falls, Citi analyst Justin Diddams said.

Following the Coalition government's move to use a number of different technologies, including Telstra's copper network and wireless, for the NBN, Telstra has been renegotiating its $11 billion in contracts signed under the previous government, whose plan was for an all fibre-optic network.

Mr Thodey said an agreement had not been finalised.

"We have agreed the non-binding commercial framework around which revised agreements would be built, and are now working out the detail," he said.

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