FINANCIAL REVIEW

HD **Thodey's anniversary gift to shareholders**

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When Telstra's David Thodey marks his fifth anniversary as chief executive on Monday he could well contemplate the gift he will give shareholders later this year.

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The presents are likely to be heading the way of shareholders because of the combination of excess free cash flow of about $5 **billion** and the $2.1 **billion** in proceeds from the **sale** of **Hong Kong** mobile **company** CSL.

CSL was sold because of a view within Telstra that the **company**'s earnings had peaked and the regulatory settings in **Hong Kong** were about to get much tougher.

There is plenty of speculation about what Thodey will do with the $7.1 **billion** in cash. However, it is hard to see him using it to buy a business to replace the $700 **million** in annual earnings from CSL.

It is far more likely that he will distribute the cash by way of dividends or capital management. Some believe that this has already been factored into the Telstra share price, which is sitting near the highest level since 2002.

Bullish analysts such as Sameer Chopra at Bank of America Merrill Lynch reckon the stock has a long way to run. His share price target is $5.85.

The stock is a classic yield play. The grossed up yield is about 6 per cent including dividend imputation.

Telstra is a steady earner. There is a potential long term growth option in Asia through managing the telco networks of enterprises and governments.

Telstra is a world leader in that field and it makes sense to offer that service in Asian countries, particularly **China**, which is global player in telco equipment but not telco services.

At home, Telstra is set to receive $11 **billion** in net present value from the federal government's national broadband network transaction.

Also, it is likely to be the biggest winner from the revamped NBN deal because of its reach and its control of the **copper** linking homes to proposed fibre connection boxes on street corners.

Its star business has been mobiles.

Thodey can thank former CEO Sol Trujillo for that. Trujillo not only rolled out the 3G network on time and within budget, he made sure it covered more territory than any other network.

However, Trujillo's financial legacy was not a good one for shareholders.

A 10-year share price chart for Telstra shows how well Thodey has performed on behalf of shareholders. Also, it shows how much shareholders suffered before he arrived. The stock is up 67 per cent since he became CEO. It was down 35 per cent under Trujillo.

Thodey did not just deliver a higher share price and consistent dividend payouts, his stock price beat the market. Telstra shares out performed the S&P/ASX 200 by 71 per cent over the past five years. The stock is at or near its highest level since 2002.

The biggest obstacle to the IOOF Holdings takeover of financial planning group SFG Australia was fitting into the expansion by **acquisition** strategy of IOOF chief executive officer Chris Kelaher.

Kelaher is the serial acquirer in the financial services sector. He barely takes a breath before moving on to the next deal.

That is not to say that he is piling up problems in the back office from poor execution of the integration of each new business that is acquired.

But the advisers to SFG, Bank of America Merrill Lynch, had to wait in the queue to get a deal done with Kelaher because he was busy last year pursuing a transaction in the trust industry when the proposed merger of SFG and WHK collapsed.

IOOF's bid to take over Trust **Company** failed after it was bought by Perpetual. The SFG merger with WHK fell over because WHK's business was under pressure. The numbers did not stack up for the financial planners at SFG who control about 40 per cent of the issued capital.

It is a measure of their financial nous that the controlling shareholders of SFG abandoned the WHK deal and put their future personal wealth creation in a proven financial services industry leader in Kelaher.

The marriage of IOOF and SFG makes sense. The two businesses are complementary. Only 14 per cent of IOOF's revenue comes from financial advice whereas 49 per cent of SFG's revenue comes from that source.

IOOF gets 49 per cent of its income from its platform business while SFG gets 30 per cent of its revenue from portfolio management and administration.

The combined entity will be a powerful player with the third largest financial planning network after AMP and Commonwealth Bank of Australia.

The business is well placed to capitalise on the increasing complexity of the superannuation system, social security rules and personal taxation laws.

The deal comes at a difficult time for the financial planning industry. It has been collateral damage in the fight between the industry funds and retail funds over the Future of Financial Advice and the introduction of a mild form of competition to default funds in modern industry awards.

However, Kelaher is confident that rising professional standards in the industry will ensure the provision of quality advice will become the norm.

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