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HD **New NBN deal as good as the first**

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The profit result that Telstra chief executive David Thodey handed down on Thursday was solid, Telstra's dividend lift and $1 **billion** share buyback pleased investors, and the telco's guidance on earnings from continuing **operations** was unchanged.

What was more interesting however was a sign that Telstra is close to inking a new deal to co-operate with the Abbott government's revised broadband rollout - one that could underwrite more cash returns to shareholders in years to come.

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Telstra's share price has more than doubled from a low of $2.56 in November 2010 partly because Thodey has done a good job running the **company**, but it has also gone up because Telstra is a dividend-yield market darling.

The dividend yield has more than halved as Telstra's share price has risen. But it's still respectable at 5.3 per cent before franking credits, and Thursday's result contained some clues about Telstra's chances of retaining its "Yield Star" status.

Chief among them was a statement that there was no new windfall coming from the **sale** of its **copper** wire network to NBN Co as part of the Abbott government's reshaping of the national broadband network rollout. In its original deal with the NBN and the Labor government, Telstra agreed to progressively turn off its **copper** wire network as the NBN overran it. A new commercial framework for the deal that had been agreed therefore "does not contemplate any incremental value to be received by Telstra for the transfer of ownership", Telstra said.

That is a significant statement on two fronts. First, it shows that Telstra, NBN Co and the government have negotiated the commercial shape of the new deal. Talks were overseen by Thodey, Communications Minister Malcolm Turnbull and NBN Co chairman Ziggy Switkowski, with NBN Co's chief strategy officer, JB Rousselot, playing a key role at ground level.

It also confirms what Switkowski has been saying since he stepped in as chairman of NBN Co late last year. Telstra won't get a windfall payment for its **copper** network, because the **copper** is already a stranded asset. But it will be "kept whole", which was Thodey's baseline from day one. That underpins Telstra's dividend, and points to more cash return.The $1 **billion** buyback Telstra announced on Thursday will be conducted by tender and will probably be priced at a discount to Telstra's market price of between 6 per cent and 14 per cent. Shareholders who sell will get a capital return of $2.33 a share, and get the balance in the form of a fully franked dividend. The tax breaks that flow depend on each shareholder's circumstance, but should be attractive.

Pretty much everything that Telstra announced on Thursday was positive for the share price, which rose by 2.2 per cent to $5.56.

Professional investors and index-hugging share funds will sell into the buyback, and replace their shares on-market, pushing up the share price short-term.

Telstra's decision to boost annual dividend from 28¢ a share to 29.5¢ a share with a 1¢ higher final dividend of 15¢ also provides share price support, as does the 1.5 per cent tightening of its issued capital that the buyback produces.

Telstra has linked the buyback and the use of franked dividends as part-payment to two one-off events.

A government-ordered shift by Australian corporations from quarterly tax payments to monthly tax payments this year pulled an extra $258 **million** of franking credits into the June 2013 year.

Telstra also booked a cash windfall during the year. It received $2.4 **billion** from the **sale** of its CSL mobiles business in **Hong Kong** and most of its Sensis directories, and has used only about $500 **million** of it on new acquisitions.

The new NBN deal will be a source of cash for Telstra for many years if, as seems likely, the terms have changed but the value of the deal has not. Telstra put a net present value of $11 **billion** on the deal that is going to be replaced, but was actually due to be paid about $90 **billion** over three decades.

It landed on the $11 **billion** net present value after using a very aggressive discount rate of 10 per cent on cash flow in future years. A lower discount rate is logical because the NBN is 100 per cent government owned: if applied, it would inflate the present-day value of the deal that Telstra is poised to re-create.

The Maiden family owns Telstra shares.

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