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HD **Budget's NBN investment provides reason to be cheerful for Telstra shareholders**

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AMID the budget pain, one company will be smiling: Telstra. The telco is set to benefit from an upgraded $24.3 billion of government investment in the National Broadband Network by 2017-18, with yearly spending doubling between now and 2016-17.

Some of this — 20-30 per cent is our guess — will find its way to Telstra in an accelerating flow of cash as the government compensates it for the loss of its copper monopoly and the use of its pits, ducts and pipes. The half-cent lift in the interim dividend announced in February signals that this board is more confident about the NBN payments than before. It looks like the budget figures were public confirmation of what the board knew months ago.

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The budget was the first of two recent good news stories for Telstra. It also finalised the sale of its 76 per cent stake in Hong Kong mobile provider CSL for $US1.99bn, providing a profit of $561 million. This follows the sale of Telstra's 70 per cent holding in Sensis for $454 million in January.

The asset sales and growing NBN payments mean Telstra's 100 per cent-plus gearing, which has been a concern, is set to recede. This will reduce shareholders' risks from the coming rapid evolution of technology and competition, and give the company more financial headroom to respond. Ongoing reinvestment in the competitive network and service offering would drive sufficient sales volumes to support strong profitability and the popular high dividend payout ratio. The implications for profitability, risk and value of the new goal to lift Asian earnings to a third of total profits over the next five years are unclear, as the goal is aspirational with no detail yet. ANZ is a current and encouraging precedent.

It's a mystery why the mooted $11bn of contracted NBN payments are not capitalised as an asset on Telstra's balance sheet. Doing so would increase equity per share by 88c and justify a valuation of $5.40 assuming Telstra could reinvest most of the NBN payments at its existing return on equity. This compares with our existing valuation of $4.65.

David Walker is senior analyst at StocksInValue, a joint venture between Clime Asset Management and Eureka Report. Clime owns shares in Telstra.

To view a video of David Walker analysing Telstra, go to theaustralian.com.au/business

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