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3G network deal seen to favour Hutch; The \$2.4b pact puts Australia's Telstra ahead of its rivals, but critics question whether the price was too high

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Companies in Australia's fiercely competitive telecommunications market rarely cosy up. But last week arch rivals Telstra and the 3G arm of Hutchison Australia announced a plan to share the country's only high-speed wireless network.

Telstra will buy a 50 per cent stake in the H3GA from Hutchison for A\$450 million (HK\$2.47 billion).

Both companies will use the network to operate competing services ranging from high-speed music and video streaming to location-based direction provision and video-conferencing.

Both sides are characterising the pact as a win-win deal. Telstra gets a head start on its competitors and Hutchison will benefit from the cash injection into its costly network.

In the wake of the announcement, Telstra chief executive Ziggy Switkowski said: "Our engineers will talk but our marketers will not."

Market watchers questioned whether the co-operation was truly beneficial to both sides.

Usha Haley, a professor of management at the University of New Haven in Connecticut and author of *The Chinese Tao of Business*, which includes interviews with senior Hutchison managers and covers 3G, portrayed the deal as "win-lose"

She said Hutchison boss Li Ka-shing had probably come out ahead.

"Li Ka-shing's timing and speed are legendary. Hutchison appears to have gotten top dollar for the deal, just as it did with selling Orange to Mannesmann at the peak of the telecom boom. It does seem like he's reduced his operational risks in this business."

She said rival Optus thought that Telstra had overpaid. "I do, too, because 3G remains untried."

Nonetheless, she said, Telstra had "stolen a march on consolidating its position", which it needed to do because the fairly small Australian market has four major players - Telstra, Hutchison, Optus and Vodafone.

"So, yes, Telstra has gained too."

Macquarie Equities telecoms analyst Scott Ryall said the deal was "a clear positive" for Hutchison, which would gain "increased financial and operational flexibility" from going Dutch with its rival.

The deal also gave Hutchison a credible partner with whom to advance 3G, he said. It should benefit from Telstra pushing awareness of 3G services in Australia, particularly once Telstra launched its 3G service in the middle of next year.

Hutchison stood to gain the most but he saw no minuses for Telstra, Mr Ryall said, hailing the company's decision to strike the deal as strategically and financially sound.

It gave Telstra a clear edge over Optus and Vodafone on network build-out.

"[The rival firms] have yet to build out their networks and will likely have teething problems," he said.

Independent telecoms analyst Paul Budde said Telstra had much to gain from colonising an established network.

"It's an infrastructure upgrade that allows greater network efficiency rather than an application-based network with all those gizmos on that nobody wants."

Changing from 2G to 3G would increase network efficiency and let Telstra lower its call charges, he said. As a result, Telstra would be able to compete more effectively with Optus, which he described as "an absolute champion and winner".

Mr Budde said Telstra badly needed "to pull up its pants" to keep pace with Optus. Instead of buying its own network in accordance with the dictates of corporate ego, Telstra had sensibly responded to financial reality.

The H3GA network alone, however, would not be enough to push Telstra ahead of its competitor, he said.

"I think Optus has proven to be an incredibly strategic company."

Optus, a subsidiary of Singapore Telecommunications, boosted net profit in the first quarter by 51 per cent to A\$151 million.

"There's no doubt that Optus is well organised to compete with Telstra," Mr Budde said.

"This clearly means full competition."

He warned that the sharing arrangement between Telstra and Hutchison would mean they would have to fight hard to differentiate themselves from one other. Each member of the odd couple would have to establish a particular "flavour".

Telstra, he said, would profit from its established "big brand" status but could also flounder because it was not seen as thrusting and innovative. That, apparently, was Hutchison's role.

Hutchison is the only company in Australia providing 3G. But it had notched up only 140,000 users, Mr Budde said.

Optus spokeswoman Cathy Knezevic said Optus had a well-developed 3G strategy that was in no way compromised by the Telstra-Hutchison alliance.

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