

# BRIEF: No surprises in Telstra's improved 1H25 results

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## Brief: No surprises in Telstra’s improved 1H25 results

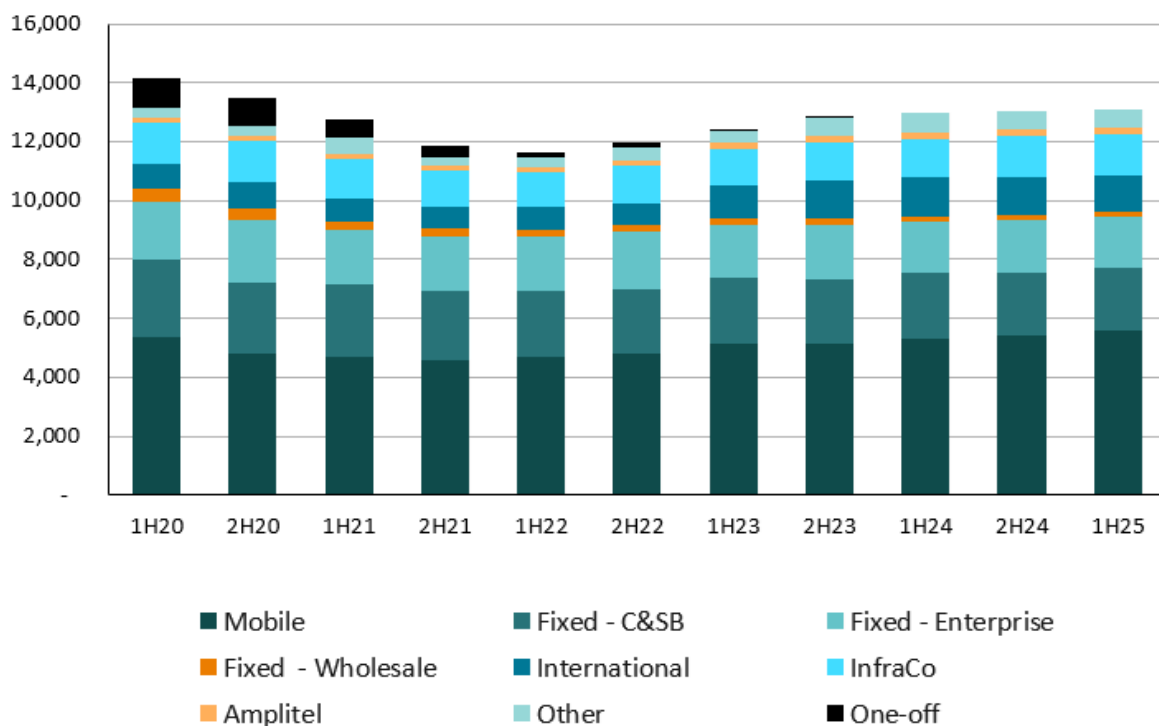
**Abstract:** Telstra’s 1H25 results were close to guidance. We see broadly stable trends in segment revenues, and a profitability boost from heavy cost cutting in response to last year’s slump. This has led to a recovery in profit margins which allows Telstra to justify ongoing network capex.

### Medium term trends play out in segment revenue growth

Telstra's latest results reflect earlier guidance, with no significant surprises. These results reflect the same underlying trends we have seen over the last year or two:

- In mobile, Telstra has seen both SIOs and ARPU rise, as demand for mobile services is unabated. This reinforces the importance of mobile for Telstra's growth.
  - MVNO wholesale revenue is booming as consumers seek out cheaper deals.
  - Mobile revenue now exceeds the sum of Fixed Consumer, Fixed Enterprise, Fixed Active Wholesale, and International combined.

**Figure 1. Telstra HY income results (\$m)**



Source: Telstra

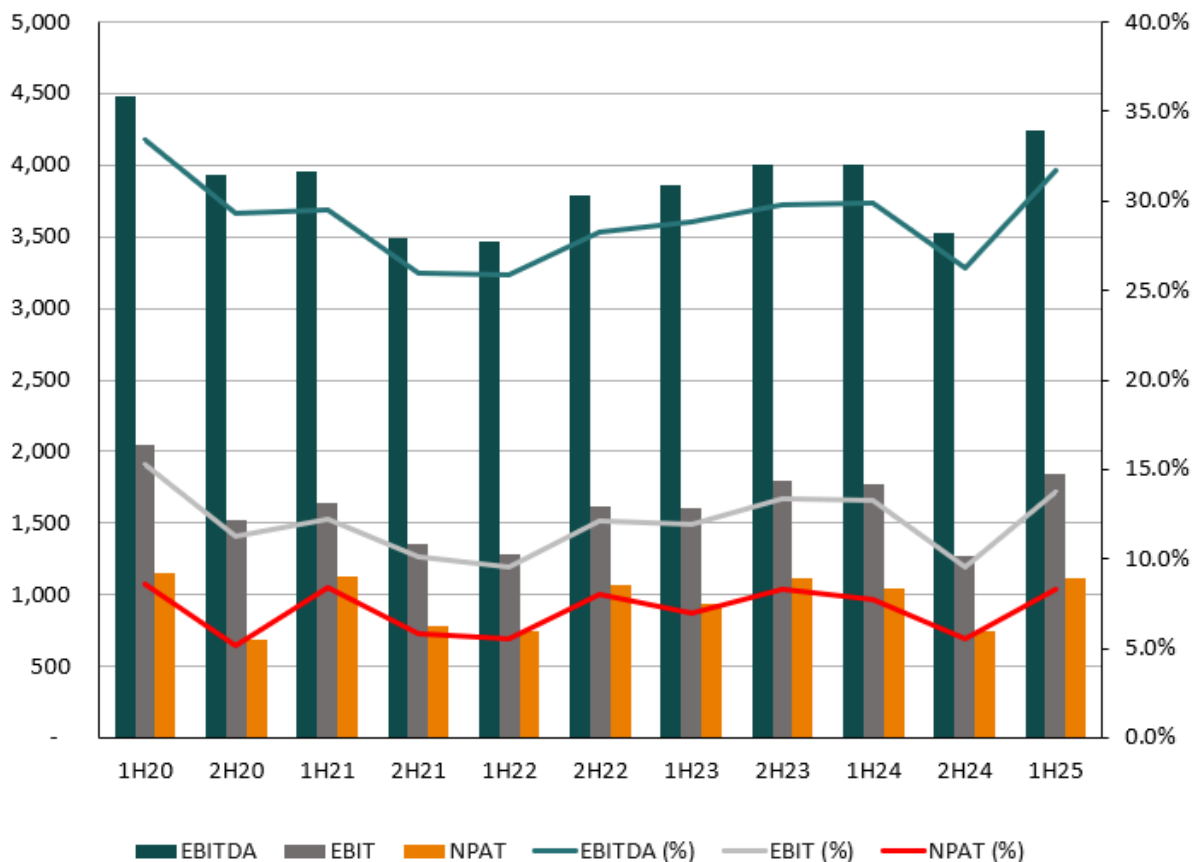
- In Fixed Consumer, Telstra continues to lose broadband SIOs faster than it has lifted ARPU. And some of this ARPU uplift will be consumed by higher NBN wholesale charges.

- Fixed wireless SIOs continue to rise, but linearly rather than exponentially, and have now broken through 100k to reach 105k. This seems likely to continue as Telstra seeks ways to monetise its 5G investments. Telstra's aim is steady, manageable growth that does not stress the mobile network, so we don't expect this trend to shift much.
- In Fixed Enterprise, Data and Connectivity (D&C) ARPU fell and the contraction of legacy SIOs (mainly MPLS) continued, shrinking D&C revenues (another long-term trend).
  - A highly competitive NAS market saw flattish revenues, an improvement on the last results.
- Telstra InfraCo also benefited from CPI-linked increases in prices under the nbn DA, which will add to nbn's costs.

### Cost cutting drives lift in profitability

Telstra's response to its problematic segments has been to accelerate its cost-out plans. This saw margins jump across all major segments, especially in Fixed Consumer and Fixed Enterprise where cost-out was focussed. We don't fully understand the details of these cuts, so we need to watch to see if any capacity issues might arise as a result.

Figure 2. Telstra HY profits and margins (\$m, %)



Source: Telstra

These cuts have undoubtedly lifted profits out of the slump seen in the previous half, matching or exceeding the peaks of 2H23. This is good, but also emphasises how bad the 2H24 half was compared to others.

Telstra capex for the half was \$1.6 billion, in line with guidance. Telstra now has over 91% 5G population coverage, and has targeted 95% 5G coverage by June 2025 as part of its T25 plan.

### **Why does this matter?**

Telstra remains the bellwether of incumbent telco in Australia. Its progress illustrates the rising levels of competition in consumer, small business and enterprise retail markets, and the need for continued cost discipline to maintain profitability in a challenging market. This is a message other established telcos have also received loud and clear.

Continued pressure on revenue means that cost cutting must continue to maintain investment incentives. The telecom industry is increasingly cutting labour and other operational costs to cover the large infrastructure investment needed to keep up with demand for networked services. Telstra succeeds in covering its cost of capital, but its competitors generally do not. In the long run, this raises policy questions about the sustainability of competitive infrastructure investment (especially fixed), and the viability of infrastructure-based competition itself.

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