MEDIA MONITORS
INCISIVE INSIGHT

Courier Mail
Monday 21/1/2008
Page: 27
Section: Business News
Region: Brisbane Circulation: 221,049
Type: Capital City Daily
Size: 604.69 sq.cms.
Published: MTWTFS-

Cable customers came, so Pipe will build it

Queensland Ink

IT is a venture that can make a company.

A fibre-optic cable stretching nearly 7000km across the floor of the Pacific Ocean, from the tiny Island of Guam past Papua New Guinea to Sydney, stands as the next major chapter in Australia's broadband "revolution".

More than a year after it first publicised aspirations to build "Pipe Pacific Cable-1", Brisbane's Pipe Networks, led by managing director Bevan Slattery, last week finally confirmed it had given the project the green light.

Viability of the whole thing hinged on its ability to lock in enough customers to break even before sending out survey ships to kick off a $200 million project.

It's a simple, smart piece of insurance and analysts like Simon Guzowski, of Wise-Owl.com, wonder why more operators don't do it.

The customers who went public were internet service providers including Primus, iiNet, and Internode — mid-tier telcos fed up with the current cost of overseas connections and happy to see a third wheel enter the market.

Australia's only direct undersea broadband link to the US — where resides the data that supposedly makes up 70 per cent of content sought online in Australia — is the Southern Cross Cable, owned by Optus and Telecom New Zealand among others.

Wholesale access via this link is understood to be 20 times more expensive than via the Japan-to-US link, which covers a similar distance.

ISPs are understood to be paying anywhere from $US200 ($A228) to $US250 a megabit coming down the eight-year-old Southern Cross Cable, whose capacity is a fifth of the 1.2 terabit-a-second PPC-1.

News last April that Telstra was also planning to sink $300 million into its own 9000km cable from Sydney to Hawaii had already raised expectations of lower wholesale prices.

And then this week Pipe Networks trumpeted the news that some of its customers would be paying roughly half their current charges under new contracts.

It will be "interesting" to see the impact the cable will have on retail broadband customers, Pipe Networks executive director Lloyd Ernst says.

"In some cases we are expecting it to reduce the cost of broadband but in the other cases what it's going to do is provide us with some decent download limits," he said.

"Those limits really need to be 200 gigabytes if you start to look at the new high-definition technology that people want to deploy, the new range of webcams that are coming out.

Continued P28 »

HANDS on ... Pipe Networks managing director Bevan Slattery gets to grips with some cable technology.


Business

Cable customers came, so Pipe will build it

Braced for pain

Courier Mail
Monday 21/1/2008
Page: 27
Section: Business News
Region: Brisbane Circulation: 221,049
Type: Capital City Daily
Size: 604.69 sq.cms.
Published: MTWTFS-

Customers came, so Pipe will build 7000km cable

» From P27

"All this requires greater bandwidth and it defeats the purpose if we can't provide a decent amount of data in their monthly broadband plan," Mr Ernst says.

Assuming Pipe has signed enough customers willing to pay upfront for 15 years of access (and more customers came knocking late last week, Mr Ernst says), there looks to be quite some upside to the project.

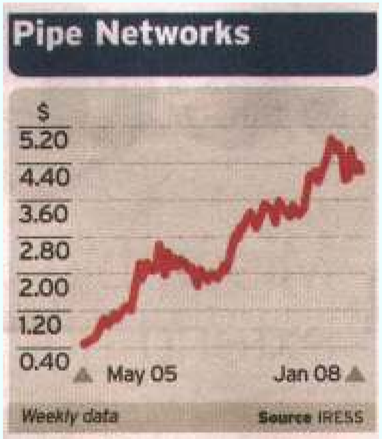
Pipe seems to have only had to sell 10 per cent of the cable's capacity to pay for the project, borrowing against the value of future customer contracts in an arrangement known as "construction finance".

Wise-Owl's Guzowski says: "I guess you imagine if that's going to cover costs and you've got 90 per cent to go, you've got a pretty profitable operation."

Pipe's existing business, providing high-speed fibre-optic links for ISPs, corporates and governments in metropolitan areas, also gives it a strong, growing cashflow.

This distinguishes it from other companies who would have trouble securing finance amid a credit crunch.

Pipe says its revenue this financial year will be between $33 million and $35 million, leaving profits of between $7 million and $7.4 million, more than 50 per cent up on the previous year.



With a share price that's risen more than eightfold since its 2005 listing, the Brisbane company remains a market darling for exposure to the telecommunications sector.

ABN Amro Morgans analyst Nick Harris calls it "a stellar business".

Wise-Owl's Mr Guzowski says Pipe is one of the few stocks that can "actually demonstrate it's going to keep growing earnings for quite a number of years — and quite quickly as well".

ABN Amro Morgans rates Pipe as a "buy" with a target price of $5.71 versus a Friday close of $4.25.

Pipe stands in contrast to many smaller telcos featuring technology-smitten entrepreneurs with an unfortunate propensity to "burn obscene amounts of investors' cash well before they even generate revenues or profitability", Mr Guzowski says.

"(Pipe) is one of the few players that's actually been quite business-savvy about the whole thing," he says.

"They've got that smart strategy; they're not going to bite off more than they can chew (and) they only do projects when they know they've got customers for them."

News of the cable project saw Pipe hit Merrill Lynch's radar on Wednesday, with the broker rating it as a "buy" with a target of $5.50.

In Pipe's favour, too, was the increased utilisation of its metro fibre links, Merrill Lynch said.

However, the risks to Pipe's fortunes were "limited liquidity" and the "scale of coming capital raising", indicating the investment bank wasn't convinced Pipe had sufficient customers paying upfront to bankroll the project.

But the possibility PPC-1, Pipe's first offshore venture, might be beset by some kind of technical difficulty or delay would seem the only real hitch, according to other analysts.

Harris and Guzowski agree Pipe has minimised the risk by partnering with the highly experienced VSNL, a multinational operator with experience of some 40 projects of this kind.

Josh Robertson