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# iiNet holds shares, market in suspense

Speculation about the reasons behind iiNet's current suspension of share trading is rife, **Tony Boyd** writes.

The last time iiNet, Australia's third-largest internet service provider, suspended its shares from trading, the company was negotiating an $85 million, fully underwritten equity placement at $3.05 a share.

That placement, in February last year, was used to help fund the $110 million cost of buying OzEmail and rolling out the company's own broadband switching equipment in Telstra exchanges.

At that time, iiNet was upbeat about the prospect of dramatically lifting its revenues by switching customers from Telstra resale lines onto its own network equipment and offering bundles of services including voice and broadband.

Just over a year later, iiNet's shares are again in suspension — but at a last-traded price of $1.75, about 40 per cent below the February 2005 placement.

The suspension, which began last Thursday after a two-day trading halt, is due to end this week but iiNet has given no indication of the reason.

Speculation from analysts and fund managers runs to a profit downgrade, a large writedown of the company's $220 million in goodwill, privatisation, an acquisition or a merger.

It's also believed iiNet has been in discussions with its bank, Westpac, to which it owes about $70 million, but chief executive Michael Malone said the suspension had nothing to do with solvency concerns.

If iiNet is forced to undergo a refinancing, many observers believe it will be partly attributable to the pressure placed on its operations by Telstra's toughened stance toward its wholesale customers.

Under former chief executive Ziggy Switkowksi, Telstra had a co-operative and supportive approach to wholesale customers such as iiNet, but that changed when Sol Trujillo took over last July.

It took some time for Telstra's new aggression to flow through, but by November last year the transformation was obvious. iiNet shares plunged from more than $2.50 to just above $1.50 as Telstra raised prices and stepped up its campaign for a more favourable regulatory outcome.

"All the Telstra resellers had their margins squeezed by Telstra," said Justin Braitling, portfolio manager at Wilson Asset Management, and iiNet is now facing the prospect of having its copper wire infrastructure assets stranded by a deal between Telstra and the competition regulator on a new fibre-to-the-node network.

Mr Braitling said it was unfortunate for iiNet that Telstra's aggression towards competitors had not been reined in by the Australian Competition and Consumer Commission, but a limp regulator and a tougher Telstra are not the only problems facing iiNet.

Throughout its 13-year history, iiNet has prided itself on customer service but that reputation was severely battered late last year when the OzEmail integration went wrong.

iiNet couldn't handle the volume of calls from customers, some of whom were kept waiting for more than an hour, and were able to leave for other ISPs easily because of iiNet's policy of not locking customers into long-term contracts.

Those problems continued in 2006, but some fund managers are convinced iiNet will get through the pain and show the benefits of its 680,000-strong subscriber base.