Analysis: Big appetite paying off for AT&T

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Marriage seems to suit AT&T, if the latest earnings results from the telecommunications giant are any indication.

Since it was bought out by SBC in November 2005, AT&T has seen its financial position strengthen, and late Tuesday the company announced its net income for the second quarter rose more than 80 percent from the same period the previous year to $1.8 billion, while earnings soared nearly 60 percent to $2.3 billion, and cash from operating activities totaled $4.7 billion, up 24.1 percent from a year ago.

"Cingular (the company's cellular arm) generated solid subscriber growth and its best-ever churn. Enterprise trends continue to be encouraging.

Regional wireline revenues extended their growth record. Our SBC/AT&T merger integration projects are very much on plan, generating synergies and benefiting customers," said Chief Executive Edward Whitacre. What's more, he added that "these results demonstrate strong momentum as we look forward to the second half of the year and completion of our pending acquisition of BellSouth."

Indeed, last week AT&T shareholders voted overwhelmingly to press ahead with the acquisition of Atlanta-based BellSouth, which it hopes to make happen by this autumn. The potential buyout, however, depends on a number of approvals from both federal and state authorities. Still, according to the latest earnings results from BellSouth, buying out the company may well make good sense. After all, the Atlanta carrier reported earlier this week that it posted its third straight quarter of double-digit earnings growth, with its second-quarter earnings per share rising 14 percent from the same period a year ago to 49 cents, while income from continuing operations rose nearly 12 percent to $887 million.

"Now that the shareowner votes are complete, we plan to ramp up the share repurchase program we outlined in March," Whitacre said. "We expect to buy back $10 billion of our shares by the end of 2007, with approximately $2 billion to $3 billion coming this year."

Furthermore, the company raised its forecast for the full fiscal year and now expects its consolidated operating income margin to be 17 percent to 18 percent, up from the earlier outlook of 15 percent to 16 percent. In addition, the company said it expects to be able to save between $700 million and $900 million for the full year as a direct result of the merger with SBC, up from its initial expectation of savings reaching between $600 million to $700 million.

At the same time, some analysts cautioned that it was still too early for

AT&T to assume that making all the big-scale mergers will lead to instant profits.

Mergers have "the potential to be distracting and costly, although over time AT&T should be able to squeeze significant additional synergies out of the business, thanks to SBC's long track record in integrating acquisitions," said Jan Dawson, an analyst at London-based information-technology research group Ovum.

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