**TELSTRA COMPANY ANALYSIS**

**Name of Student**

**Name of Institution**

**Overview of company**

Telstra is the leading telecommunications company working in Australia. It offers a full range of communication services to the customers including retail mobile services, retail fixed bundles and standardized data services. The company sees the future in the hands of those countries who have every aspect connected through a single provider of communication services. The company has an international presence in more than 20 countries. The global aspect of the business provides sales and management of contracts to the customers. Operations department of the company provides the overall development of networks and information technology solutions. The wholesale segment provides various networking services to other carriers and service providers (Reuters, 2019).

**Analysis of Industry**

For the industry analysis, we will use the Porter’s five forces model. In the lines below, we will discuss all the forces related to the communication industry of Australia.

**Bargaining power of Buyers**

The buyers are generally demanding a large number of services. They want to have the best deal offered to them by paying as low price as possible. This puts pressure on the company and its profitability in the long run. A smaller customer base will have very strong bargaining power because the company is bound to sell the products to these customers. This strong base of customers is in a better position to negotiate discounts with the company (Fernfort universtiy, 2018).

**Bargaining power of suppliers**

A large number of suppliers is available to the company to buy the raw materials. If suppliers are in a dominant position, they can affect the profits that company earns. The strong suppliers will take away a major chunk of the incomes of companies. Overall profitability of the companies will be affected by the presence of strong suppliers. The company must develop an efficient supply chain with multiple suppliers so that it does not have to rely on one supplier. The company should try to make new products from some new raw materials. This will allow the company to reduce reliance on a single raw material.

**Threat of substitutes**

Threat of substitutes is higher in the communication industry as the speed with which technology is changing is very fast. Every new product that comes up with some new form of technology reduces the profit margin of Telstra company. The threat of substitute is high if it provides some unique benefit that is not already available in the market. The company must be service oriented instead of being product oriented in order to survive in the market. The company must invest in the marketing research aspect so that core need of the customers can be accessed through better and improved products. When company will be providing good quality products, this will increase the switching costs for the customers and they will stick to company’s products.

**Competitive rivalry**

The intensity of rivalry in any industry would mean that there will be a decrease in prices and overall profitability of the companies. The telecommunication market in Australia is highly competitive. This nature of the market also affects Telstra company in cutting down the profits. The company can compete successfully in the competitive market by introducing such products that allow them to build a sustainable differentiation. The company can also compete by achieving the economies of scale by increasing production. Main competitors of the company are Vodafone, virgin mobile and Optus. Among these competitors the strongest one is Vodafone which is also one of the biggest providers of cellular services across the world.

**Entry Barriers**

There are low entry barriers in this industry because the technology is changing very fast and any company that can handle latest technology can enter the market. Telstra will come across many challenges especially those entrants that can reduce costs and provide new value to the customers at the same time. The company must come up with new and improved products so that both new and old customers will buy the products. The company must also continue to spend huge amounts of money in the research and development aspects so that it can come up with new products.

**Internal and external sources of finance**

In order to analyze the capital structure of the company, we will calculate certain ratios that will help us to analyze the current state of the company’s equity. In this regard the most common ratio that is used is the debt to equity ratio. This ratio is calculated for the company in the year 2018 by the following formula

Debt Ratio = Total Debt / Total equity

=16951/15014

= 1.12

Thus, the company has already taken loans that are more than the equity that it has.

If we calculate the equity ratio for the company, the following formula will be used

Equity ratio = Total Equity / Total assets

Putting values,

Equity ratio = 15014/42870

= 0.35

This ratio shows the amount of assets that have been financed by the equity, we see that only 35% assets have been financed by equity and the rest have been financed by debt.

After calculating these two ratios, we have come to know that the company has taken a huge amount of debt. In the lines below, we will discuss the relative pros and cons of the debt and equity financing and then conclude the discussion with some measures to improve the situation.

If we consider the debt financing, the first advantage of this type of financing is that the control of the business does not have to be sacrificed. The only obligation other than the repayment of loan is the interest payment that has to be made after some fixed time interval. The lender cannot tell the way in which the company has to be run. The lenders will not have any part of the profit to be paid to them. The companies which use an aggressive growth strategy can use the debt financing. This will allow the company to retain the control. In case of the failure, the company will lose only some of its assets. The company under consideration is in the telecommunication industry which is capital intensive and requires that the company continues to improve itself. For this kind of industry, a higher proportion of debt as compared to equity is justified.

The interest payments made by the business can be deducted as a business expense and the same are deductible for the purpose of tax calculations. Thus, debt financing saves certain amount of taxes for the company. The company under consideration will be benefitting more by this provision because of the huge amounts of loan required and attained.

The companies that take huge amount of debt are able to develop a good reputation regarding their credit worthiness. This will help them borrow more funds much easily. Telstra is a big company and the amount of loan that has already been taken by it shows that it has developed very good credit worthiness in the market.

The major drawback of the debt financing is that the company has to pay back the principal as well as the interest amount. In some cases, the companies have to keep some assets as collateral security with the lender. This is especially true with the loans that are taken from banks and other financial institutions. Thus, the company fully justifies the amount of loan taken by the company and the current capital structure of the company.

**Profitability elements**

The profitability will be studied with the help of operating margins of all parts of the group summarized in the following table.

|  |  |
| --- | --- |
| Year | Operating margin |
| 2018 | 12.9% |
| 2017 | 12.2% |

The analysis of the above table shows that the company has improved the profitability over the time span of one year. This is possible by reducing the operating expenses over the specified period of time. The company has successfully controlled the expenses that have resulted in an increase in profits. This aspect has been discussed because the operational efficiency is very important to the companies like Telstra.

The company has not reported any even after the date of annual report and there was no change in the accounting policies as well.

**Property, plant and equipment**

**Carrying amount**

|  |  |  |
| --- | --- | --- |
| **Class** | **Value in $M** | **Impaired Assets** |
| Freehold Land | 49 |  |
| Buildings | 79 |  |
| Leasehold Improvements | 402 | 1 |
| Plant and Equipment | 412 |  |
| Aircraft and engine | 10749 | (13) |
| Aircraft spare parts | 909 | (14) |
| Aircraft deposits | 665 | 1 |

**Accounting Policy for PPE**

The company applies the accounting standard 16 to value the property, plant and equipment. This applies that the items of property, plant and equipment are expected to bring in some economic benefits to the company in future. Secondly the cost of each of the above assets can be measured with reliability. The above values are net book values at the time of reporting of 2018 financial results (IFRS, 2017).

**Intangible Assets**

The intangible assets for the company are as under

|  |  |  |
| --- | --- | --- |
| **Assets** | **Value** | **Impairment** |
| Goodwill | 207 | 1 |
| Software | 757 |  |
| Brand names and trademarks | 26 | 1 |
| Customer contracts | 1 |  |

The above table shows intangible assets of the company. The two most important assets in this regard are the software and the brand names and trademarks. This is because both of these are directly associated with the operations of the company. The company follows the AASB 138 for the valuation of intangible assets. The above amounts are carrying amounts which are calculate after deducting any amortization that is accumulated (AASB, 2014).

**Impaired Assets**

There are some assets that are impaired both in the property, plant and equipment category and the intangible assets category. The impairment loss is the difference between the current value of the asset and the amount that can be recovered by selling the asset at a given point in time (Deloitte, 2019). The value of these losses for property, plant and equipment are $ 25M and in case of intangible assets, the value is $ 2.

**Sustainability Aspects**

The first priority of the company is the safety of its customers as well as the employees. The integrated management systems put in place by the company ensures that there is an environment that satisfies all the regulatory and legislative requirements related to safety. The safety aspect is further divided into operational safety and people safety. Saving the data in a secure manner also comes under the safety aspects adhered by the company (Telstra Company, 2019).

**News related to Telstra**

The company has been taken to the court by several civil rights organization. The issue is an installation of new pay phones along with large advertising screens. These payphones were considered low impact equipment by the company. The legal representative of the company took the matter to the Federal courts which will allow that there is a single verdict for the whole country. The company was accused that the advertisements that were run on the screens were anti-competitive. The company stated that the cities are becoming more and more busy and these screens will provide certain communication facilities to the people going past them (Costin, 2019).

**The case for corporate social responsibility**

While considering the social responsibility, the company takes into account the community by donating enormous amount of money for various social projects. One example is the donations made by the employees to the Asian Tsunami fund. The company also has a strong network of volunteers which donated considerable amount of time towards 251 community projects (Telstra, 2018). The company also plays its part in helping transportation of seriously ill babies and children in some specific areas of the country. This truly shows the commitment of the company towards the safety of the people in the society. As far as the employees are concerned, the company constantly introduces programs for the benefits of the employees. These programs include the efforts to raise the awareness about mental health of the employees. The main aspect of these programs is to provide the support to the employees in the workplace. Both the aspects discussed here are directly related to the safety aspect set as priority by the company.

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