case study 1.2 solution

How sustainable is Telecom NZ’s financial performance?

Telecom Corporation of New Zealand Limited (Telecom NZ) is listed on the New York Stock Exchange. One of many obligations under United States legislation arising from this listing is the disclosure of the nature of forward-looking statements made in the financial statements (Telecom NZ Annual Report 2013, pp. 169–170). Forward-looking statements provide investors with the management’s stance of future developments that might have an effect on the financial performance and position of the company. See the next pages for this document.

Question

A SWOT analysis is a tool to visualise the strengths, weaknesses, opportunities and threats of a business on a matrix. It is often used as a management planning tool. However, it can also be used to analyse a company’s potential to generate sustainable performance from an investor’s perspective.



Develop a SWOT matrix for Telecom NZ based on the disclosure on forward-looking statements and any other information you may find on Telecom NZ. Based on your findings, discuss how sustainable Telecom NZ’s financial performance is. The model answer for this begins on p. 3, after the Telecom document.





Strengths

• The efficiency of Telecom’s transformation strategy and Telecom’s ability to successfully implement such strategy – from a traditional fixed and mobile infrastructure company to a future-orientated, competitive provider of communication entertainment and IT services.

• Telecom’s network and infrastructure development.

• Telecom’s 2014 outlook for the group’s adjusted EBITDA, depreciation and amortisation and adjusted net earnings after tax, and expectations for Telecom’s future performance generally.

• The target dividend payout.

• Cash flow from operations.

• Performance of investments, including dividends from Southern Cross.

* Telecom’s ability to comply with regulations.

• Network performance and quality.

Weaknesses

• The impact of legal proceedings and investigations involving Telecom.

• Uncertainties regarding operating new systems and technologies.

* Uncertainties regarding fibre uptake.
* Uncertainties regarding Telecom’s ability to secure spectrum for its 4G LTE network.

• Technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service.

• Significant changes in market shares for Telecom and its principal products and services.

Opportunities

• Capital expenditure and investment plans.

• The performance of the Australian subsidiary AAPT and its ability to achieve sustainable and profitable revenue growth and reduction in operating costs.

• Cash flow from operations and existing cash and available borrowings are sufficient to fund Telecom’s expected capital expenditure, working capital and investment requirements.

• The performance of investments, joint ventures and acquired businesses; growth of, and opportunities available in, the communications, IT services, information and entertainment sectors and Telecom’s positioning to take advantage of those opportunities.

• The convergence of technologies and growth and opportunities to offer new wave products and services revenues.

• Plans for the launch of new products and services and Telecom’s ability to grow its products, including traditional products and services revenue and core and new wholesale products.

* Telecom’s network and infrastructure development plans, including 4G LTE.

Threats

• Competition in the markets in which Telecom operates and the entrance of new competitors to these markets, particularly in the New Zealand market for mobile phone services.

• The impact of the Undertakings and the government’s national broadband initiative.

• The impact of further regulation regarding Telecom’s telecommunications service obligations (TSO) under New Zealand law.

• Rapid technological changes and convergence of telecommunications, information services, and media markets and technologies.

• Decreasing revenues from traditional services owing to mobile and other substitution and competitive pressures.

• Network or system interruptions owing to natural disasters and other events such as fire, terrorism or sabotage, affecting key facilities, software faults, viruses, and power supply loss or overloading.

• Uncertainties around acquisitions and investments.

• General economic conditions within the countries in which Telecom operates.

Based on the above SWOT analysis a student should come to the realisation that Telecom is in a good financial position and its performance is relatively strong. A student’s SWOT analysis will differ depending on the extent of research and analysis undertaken and information available on the Telecom New Zealand website: www.telecom.co.nz.