Coronavirus: plenty of misses but a few hits

The list of businesses knocked by coronavirus is long, but some including Telstra may emerge stronger than before.

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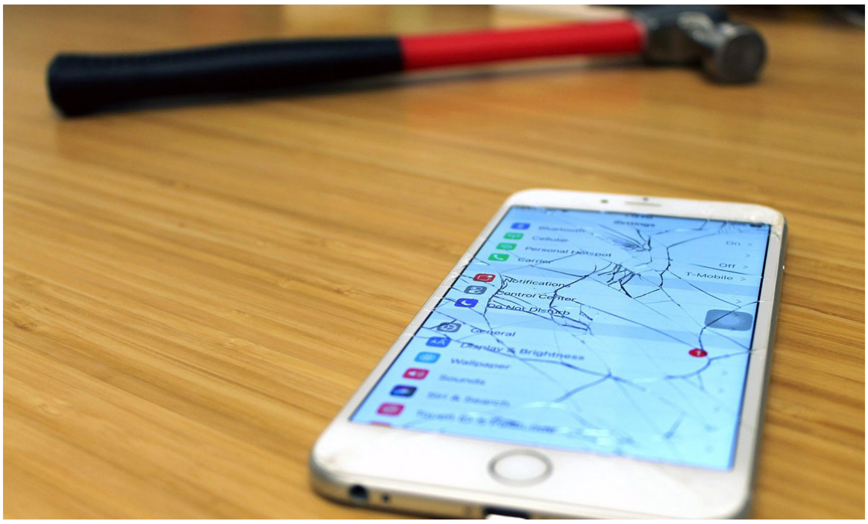
Nicki Bourlioufas is a Morningstar contributor.. Any Morningstar ratings/recommendations contained in this report are based on the full research report available from Morningstar. This is a financial news article to be used for non-commercial purposes and is not intended to provide financial advice of any kind.



While most companies have been slammed by the coronavirus, with reduced demand and government restrictions on trading, a small number are benefiting from increased business and are hiring more staff, according to an official survey by the Australian Bureau of Statistics.

Some 66 per cent of Australian businesses reported their turnover or cash flow had reduced as a result of COVID-19 during the week commencing 30 March 2020.

And 64 per cent also reported lower demand for their goods or services, according to results from the ABS survey on Business Impacts of COVID-19.

Related to that, 48 per cent of businesses experienced reduced cash flow as a result of government restrictions. Social distancing measures had the greatest impact in accommodation and food services: almost all businesses in that industry reported a reduction in turnover or cash flow.

An overwhelming majority of businesses, 84 per cent, pinned the trading pause on the government's coronavirus measures. The pandemic also prompted nearly half of businesses surveyed to make changes to their workforce.

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The ABS data reveals that a temporary reduction in staff work hours was reported by businesses of the following sizes:

- 25 per cent of those with 19 or fewer employees
- 41 per cent of businesses with between 20 and 199 employees
- 34 per cent of businesses with 200 or more employees

Yet a small number of businesses, about 4 per cent, have flourished and increased turnover or cash flow in response to the coronavirus pandemic, the ABS survey reveals.

Around one-quarter of the Australian economy is severely impacted, says AMP Capital chief economist Shane Oliver.

Those most affected include discretionary retailers, tourism operators and those in the hospitality sector including accommodation providers and operators of cafes, clubs, bars and restaurants.

The demand for businesses involved in property and various personal services also dipped. Oliver also predicts a flow-on effect for the construction, manufacturing and housing sectors.

However, "about 20 per cent of the economy—communications, healthcare and public administration - will really get a boost," Oliver says.

Some big companies like **Telstra** (ASX: TLS) and **Woolworths** (ASX: WOW) have reported rising demand and are hiring more staff—including many of those stood down by Australia's flagship airline **Qantas** (ASX: QAN).

The ABS data reveals that staffing capacity increases in response to the coronavirus crisis were most commonly reported by businesses with 200 or more employees, including some businesses which temporarily increased staff hours (10 per cent) and hired additional employees (9 per cent).

Telstra may emerge stronger

Morningstar telecommunications analyst Brian Han says **Telstra** (ASX: TLS) is an example of a big company which is much busier as a result of the pandemic.

"Their revenue is holding up well compared to other sectors of the economy because we are consuming more data, whether we are bingeing on Netflix, or working from home and making more calls or videoconferencing," says Han.

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Australia's largest telecoms company said last month it would bring forward $500 million of capital expenditure from fiscal 2021 to increase network capacity during the pandemic and accelerate the rollout of its 5G network.

Telstra also committed to hiring 1000 temporary employees to help staff its call centres and has put a six-month halt on planned staff cuts given the surge in demand for communication services.

"Telstra may even come out of this crisis in a stronger position as it has brought forward capital investment Into this calendar year to help handle the increase in demand for its services and to speed up the roll out of its 5G network," Han says.

He also suggests Telstra may actually grow its market share in the current environment, by investing in its network at a time when competitors are unlikely to be doing this.

"But on the cost side, Telstra is hiring staff and ramping up its capacity to cater to increased deman, so its profitability could come under pressure."

Business customers too may cancel major IT projects, consumers may become more frugal in their mobile/broadband spending and move to cheaper options or providers. These are all risks which could cause telecommunications company revenues to fall if the pandemic persists.

But overall, the balance sheets of telecommunications companies are well-equipped to weather the current coronavirus-inflicted mayhem.

"The resilience of telecom earnings is likely to shine amidst widespread guidance withdrawals and uncertainties elsewhere," says Han.

"If our view that the virus will be contained within this year proves correct, there is value in narrow-moat-rated Telstra ($4.40 fair value), **Vocus** (ASX: VOC, $3.20 fair value) and **TPG Telecom** (ASX: TPM, $8.50 fair value)," Han says.

These fair value estimates were correct as of Thursday 9 April 2020.

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