Dominant Telstra's investment strategy lifts investor spirits; CLOSING BELL

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Body

The big result | There's a little bit of Commonwealth Bank in the strategic shift announced by Telstra yesterday, which will have the telco prioritise capital investment in its mobile business by pumping another $800 million into the latest hardware and software under a new deal with Ericsson.

Like CBA, Telstra is a dominant player in the Australian telecom market, and in the December half, it increased its mobile handset customers by 2.45 per cent to 14.6 million. But like CBA boss Matt Comyn, Telstra chief Vicki Brady wants to hammer home her leadership through investment in technology. The new Ericsson kit will increase the speed, efficiency and reliability of Telstra's 5G network.

Combining increased investment in the company's profit engine is what investors want to see. But doing this while lifting the interim dividend by 5.6 per cent and announcing a $750 million share buyback suggests Brady is handling Telstra's eternal juggling act - between customers, shareholders, regulators, staff and the broader community - pretty well. The stock surged 5.3 per cent, the best jump on reporting day in almost seven years.

Telstra was arguably the bluest of the cavalcade of blue chips reporting yesterday, including Wesfarmers, Transurban, ***Fortescue*** and Rio Tinto. Overall, Super Thursday continued the broad theme of reporting season: resilient but unspectacular earnings, cautiously optimistic guidance statements and mixed performance on dividends - Telstra's capital management clearly pleased the market, but lower commodity prices are weighing on capital returns at ***Fortescue*** and Rio.

The next question for investors is where Brady will go next. When she was appointed in September 2022, she inherited the T25 strategy set out by her predecessor Andy Penn; in the next few months, Brady will get the chance to lay out her own big, five-year strategy.

Expect evolution rather than revolution. And if you think about how much the world of technology has changed in the past five years, Telstra will need to remain agile.

Chart of the day:

Whitehaven Coal

It can be easy to overlook Australia's second-biggest export, coal. The big coal miners don't get the attention they used to, even though they've printed big profits in recent years.

Part of that is ESG-related - investing in coal isn't for everyone, particularly thermal coal used in power stations.

Big thermal coal miner Whitehaven Coal, which owns mines in NSW and Queensland, went in to bat for itself at its results yesterday. It pointed out how much more energy-rich its coal was compared with other Australian miners and other parts of the world. If you're going to burn coal - and the world needs to for power - then you may as well burn the good stuff.

Sell-side surprise

Tabcorp shares have quietly gained 80 per cent since last September, and rose another 4 per cent yesterday after chief executive Gillon McLachlan delivered a result that showed he could swing the axe; earnings came in just ahead of market expectations, thanks to aggressive cost-cutting McLachlan also unveiled his long-awaited strategic refresh yesterday, but there wasn't exactly a lot of meat on the bones, and UBS analyst Bradley Beckett quite rightly put him on the spot by asking which of Tabcorp's assets would be the big profit driver in the next two years.

McLachlan hedged his bets, declaring that all the group's assets held promise, with the near-term growth likely to arise from new omnichannel offerings and "structural change" in the retail business, which is likely to materialise in the coming months. The market will wait for more detail, but Tabcorp's share price suggests investors are expecting some corporate action in the not-too-distant future.

What caught our eye

Wesfarmers: You'd be hard-pressed to find a more passionate advocate in Australian business for reform, deregulation and productivity growth than Wesfarmers chief executive Rob Scott. But while he continues to push for change at a national level, he's using these same big themes to make the group more efficient and profitable.

In its all-conquering Bunnings division, it is pouring investment into technology, rostering and supply chain initiatives to reduce costs.

In the Kmart Group, the systems and processes of the Kmart and Target chains have been integrated and digitised to lower costs. In the chemicals division, work goes on to de-bottleneck the group's nitric acid plant to lift ammonia nitrate production. And across the business, Scott is hunting for improvements for what he calls decision forums, so Wesfarmers can move faster. "I'd say that's a form of deregulation - we're letting people just get on and do the job," he said, before politely deflecting our suggestion that he could become Australia's answer to Elon Musk. Scott's work on productivity improvements was well received by investors and the stock was back near its record levels.

But with Wesfarmers trading on an eye-watering multiple of 89 times forward earnings, it's the group's growth prospects over the next five years that matter. Scott says the conglomerate's health business, its budding retail media business and the nascent (and currently loss-making) lithium business can provide the next phase of growth.

Transurban: CEO Michelle Jablko is trying to turn the notion that Transurban is "ex-growth" on its head. Just because it's 3 years between big road acquisitions, and just because Transurban is under political pressure in its three Australian markets, that doesn't have to mean Transurban's earnings and distributions will stop growing. Her tool - and it was laid out neatly in one slide in yesterday's half-yearly result - is population growth.

She says the population within 15 minutes of Transurban's Sydney, Melbourne and Brisbane roads will increase by 16 per cent to 17 per cent in the coming decade. If that brings more congestion to roads, and it's not a stretch to imagine it will, Transurban should be able to increase traffic by at least that much. Meanwhile, she's on a mission to drive home to customers how much time they save by paying Transurban $6/$7/$8 or more to use the roads.

Jablko's been working this population growth/value angle for 12 months now - it's not step-change growth in the way that buying WestConnex/Queensland Motorways was in the past, but can still be solid. The actual half-year result was strong - costs fell 3 per cent versus expectations of a 5 per cent increase.

Fortescue: Australia's third force in iron ore bit the bullet at its new Iron Bridge project in the Pilbara, confirming it wold not hit full nameplate capacity production by September. ***Fortescue*** Metals boss Dino Otranto told investors the nameplate capacity (22 million tonnes) wasn't under review, just when it would get there. He said the problem was with the air classification circuit and downstream aerobelt conveyor - "a key part of the process plant" containing a dozen separate units.

"It has taken a bit longer to get up to where we want," he said on the investor call. ***Fortescue*** shipped 97.1 million tonnes of iron ore in the six months to December - whether it gets to nameplate at Iron Bridge this year or next, it will be OK. However, there was a fair bit of analyst interest in it on the call - this hasn't been an easy project for ***Fortescue*** to get up and running. ***Fortescue*** shares sold off heavily (more than 5 per cent), as the result missed profit and EBITDA expectations for the first half. The 50¢ a share dividend was also less than the 54¢ analysts expected.

Magellan Financial Group: Losing a big-name fund manager is never good for business - Magellan knows that better than anyone. So watch what happens to its listed infrastructure strategy, which will lose long-time boss Gerald Slack in July. You'd have to think some money follows him out the door. Is there any sign of it yet?

At the half-year results yesterday, Magellan boss Sophia Rahmani told investors that was not the case, although her team was aware of the risks and had been talking to clients and consultants to keep them invested. It's important because the well-regarded Slack and his team have gone from being a nice little money-spinner to an important contributor to Magellan's bottom line in the past three years. They now account for more than 40 per cent of its assets under management - more through the global equities strategy shrinking than their own growth.

Up next: tomorrow | Guzman y Gomez; Jumbo Interactive; Superloop

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