4Q18 Results: Waiting For The Sun

20 March 2019

Key Takeaway

Mounting cost pressures

Recurring 4Q18 EBIT missed consensus by c6%, due to a larger than expected slowdown in parcel volume growth to 15.8% after strike effects of 5.3%, while FY19E EBIT is expected to be up to 20% lower y/y at >€300m, caused by mounting cost pressures to improve working conditions, likely triggering further mid-single digit consensus EBIT downgrades. The unchanged dividend policy would imply a yield of >9.0%, vs. postal peers 6.8%.

4Q18 recurring EBITDA recovered 18%, but was 9% below consensus

4Q18 normalised EBITDA increased 36% to €206.4m, but adjusted for positive one-off items of €37.0m (of which €7.9m was anticipated), recurring EBITDA increased 18% to €169.4m, 9% below consensus €186.7m. The key value drivers include a mail volume decline of 6.2%, vs. 5.7% in 9m18, reflecting continued e-substitution, rationalisation and a competitive advertising market. Parcel volume growth slowed to 15.8%, vs. 26.5% in 9m18, held back by strikes with an estimated volume impact of 5.3%. Radial 4Q18 EBITDA decreased to €17.9m, vs. JEFe €16.7m, and €16.9m for six weeks in 4Q17, driven by the phase-out of the webstore business, customer churn (of 19% expected at last year's CMD after 9% in FY17) and higher labour costs for the year-end peak. On the positive side, 4Q18 operating cash flow strongly improved to €129.4m before working capital and €223m after working capital, vs. €46.7m in 4Q17.

Mounting cost pressures

For FY19E, bpost is guiding for EBIT of >€300m, vs. consensus €321.2m, implying a 20% y/y decrease, excl. one-off items of €47.9m in FY18E, driven by increasing mail volume pressure of up to 7%, vs. 5.8% in FY18, partly offset by a 4.4% price increase, mid-teens parcel revenue growth and increasing cost pressures. We had already cut FY19E EBIT to €308m last January, after increasing cost pressures of around €80m to improve working conditions by the hiring of 1,000 additional FTE's (+3%), as labour productivity is 1/3 above the sector average, and related to increasing inflation and some one-off costs. This would result in an 8.0% EBIT margin, in line with the sector, vs. >20% two years ago. Beyond FY19E, we are projecting a further decline in EBIT, with increasing mail volume pressure of up to 9%, driven by accelerating e-substitution and the new operating model for mail, partly offset by a recovery of Radial's profitability beyond FY19E from 28% customer churn post acquisition.

Confirmed dividend policy implies yield of >9.0%

After a stable FY18 dividend of €1.31, implying a yield of 7.9%, bpost leaves its dividend policy unchanged, based on a payout of >85% of BGAAP net profit (€20m-€25m lower than IFRS). We estimate this implies a FY19E dividend of >€0.75, vs. consensus €0.93, with a yield of >9.0%.

Above sector-average equity FCF yield of 10%

bpost shares fell 70% in 2018, underperforming the postal sector by 30%, on the back of Radial customer churn, increasing letter volume pressure and mounting cost pressures. The shares now offer a 10.0% FY19E equity FCF yield, vs. 5.4% for the sector. We have a Hold rating with a DCF-based €8.0 price target, ahead of the implementation of the new operating model for mail and any recovery signs from Radial.

FLASH NOTE

RATING	HOLD
TICKER	BPOST BB
PRICE	€8.30^
PRICE TARGET (PT)	€8.00
MARKET CAP	€1.7B / $1.9B

^Prior trading day's closing price unless otherwise noted.

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Company Description

bpost

bpost is the incumbent postal operator in Belgium. The domestic mail activities generate 54% of revenues, with a 99% market share in letter post. The letter post market in Belgium is expected to decline by up to 7% in FY18E and up to 9% by FY22E, worse than the European average at c7%, partly offset by price increases of >50% of the volume decline. bpost's parcel & logistics operations account for 46% of revenues. The company has a leading market share of 50% in the B2C/C2X parcel segment in Belgium (20% of the parcel market) and a relatively limited 5% share of the B2B parcel segment (80% of the parcel market), giving an overall parcel market share of around 15%. With the recent acquisition of Radial in the US for $820m, bpost obtained a market share of around 4% of the SME e-commerce logistics market in the United States, second only to Amazon.

Company Valuation/Risks

bpost

Our DCF-based (WACC 10%; TG 0%) price target is €8.0 price target assumes FY19E EBIT falls 28%, resulting in sector-average profitability, followed by a gradual further decline beyond FY19E, with increasing mail volume pressure of up to 9% on the back of accelerating e-substitution, partly offset by a recovery of Radial's profitability beyond FY19E by $60m (versus $80m-$100m targeted at last summer's CMD). Key risk factors include execution risk around the implementation of the new mail operating model and the sales-driven Radial recovery beyond FY19E, accelerating e-substitution, increasing (parcel) competition, regulatory limitations, a unionised labour force, government share overhang and acquisition integration risks.

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(Article 3(1)e and Article 7 of MAR)

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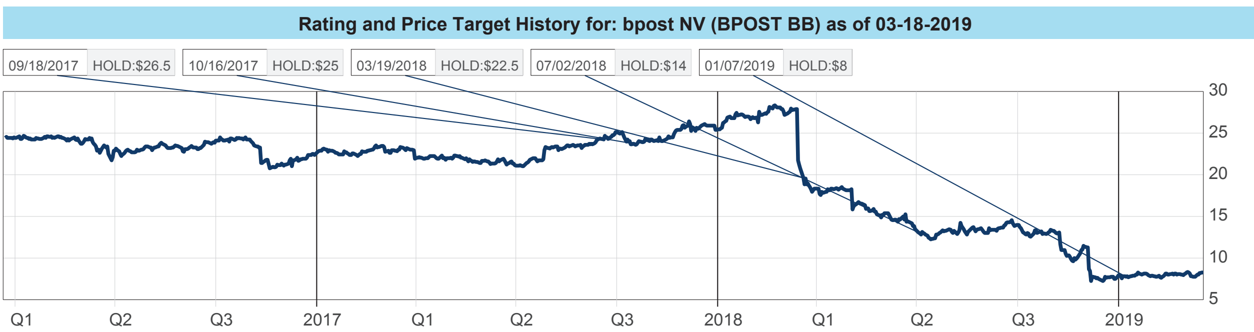

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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1150	55.29%	96	8.35%	13	1.13%
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