

PostNL (PNL NA)

A Welcome Letter from The Hague

Key Takeaway

Allowing consolidation in the Dutch postal market and a reduction of legislation stimulating competition are the most important recommendations from the Dutch Ministry of Economic Affairs, based on the conclusions from the recent postal dialogue. We think this will likely eventually lead to a merger of PostNL and Sandd and a lower adverse regulatory impact. Our Long View upside scenario arrives at a fair value of €6.0 per share in a consolidated postal market.

A welcome letter from The Hague. The Dutch Ministry of Economic Affairs published a letter from the State Secretary of Economic Affairs to the Dutch government on Friday 15 June 2018, with recommendations for changes of the Postal Law 2009, based on the recommendations from the recent postal dialogue. The key message is that further consolidation of postal operators will be allowed and legislation supporting competition, including significant market power, will be reduced, in order to keep the USO economically viable in a declining market with competition. If the postal law will be adjusted accordingly, we think this will likely lead to a merger of PostNL and Sandd and a lower adverse regulatory significant market power impact (vs. guidance of €50-70m p.a.). Intermediate measures are considered to support the postal market before a change in postal law is realised.

Merger between PostNL and Sannd. PostNL's view is that Dutch postal regulation must be amended as soon as possible and consolidation of postal market players is inevitable to facilitate an orderly and rational adjustment of the Dutch postal market to declining volumes. PostNL's main competitor Sandd now also welcomes consolidation in the Dutch postal market, after a relatively more offensive expansion strategy earlier. PostNL had already considered acquiring Sandd for €100-150m at the end of FY15 according to earlier reports in the Dutch financial press, potentially leading to cost savings of the order of €50-60m from the integration of networks, but was concerned the takeover would not be allowed. Sandd is PostNL's largest competitor, with a market share of 20%-25% of the Dutch postal market and pro-forma FY17 revenues of €195m. It is mainly focused on the non-time critical segment (delivering on Tuesday and Friday only), but after the recent acquisition of Van Straaten Post, it is also active in the 24-hour bulk market (partially relying on PostNL's network).

Lower adverse significant market power impact. PostNL has significant market power in the 24-hour bulk mail segment according to Dutch regulator ACM and must grant access to regional postal operators to its network against cost-based tariffs and conditions, which are subject to ACM approval. The related adverse regulatory impact was increased to €50-70m p.a. in February (from €30-50m), reflecting larger-than-expected volume and price pressure and increased complexity leading to higher-than-expected costs, after the implementation of the proposed price structure in early November. The Dutch regulator ACM published its final price proposal for consultation last month, which reflected final prices c10% below the temporary prices currently used by PostNL and c20% below the originally proposed prices by PostNL, implying further potential downside risk. If the current recommendations lead to a change in postal law, the adverse financial impact related to significant market power will likely be relatively lower.

Valuation / risk factors. PostNL shares are trading at 7.0x FY19E EV/EBIT, implying a 28% discount to the European postal sector. Our DCF-based €4.0 PT assumes a 10% Dutch regulatory discount and FY20E UCOI of €240m, at the bottom-end of the FY20E guidance range. [Further consolidation in the Dutch postal market provides upside to €6.0 per share in our Long View upside scenario.](#) Key risks include faster e-substitution, increasing competition from regional, as well as national competitors supported by the Dutch regulator.

BUY

Bloomberg NXT AM: PNL NA

Price target €4.00

Price €3.25^

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

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Company Description

PostNL

PostNL is the incumbent postal operator in the Netherlands. Its domestic mail activities generate 44% of revenues, with a market share of 75%-80% in letter post. The Dutch letter post market is expected to decline at a rate of 7%-9% per annum, among the fastest rates of declines in Europe. Furthermore, the Dutch letter post market is among the most competitive in Europe. The company's parcel business (28% of revenues) has a market share of 74% in the B2C segment of the parcel market in the Netherlands and a share of 15% in the B2B segment. The company is operating a separate network for parcels, alongside its letter post network. PostNL International (26% of revenues) comprises the operations in the postal markets in Germany (7%-8% market share) and Italy (15% market share).

Company Valuation/Risks

PostNL

Our DCF-based €4.0 PT assumes a 10% Dutch regulatory discount and FY20E UCOI of €240m, at the bottom-end of the guidance range. Further consolidation in the Dutch market provides upside to €6.0 in our Long View upside scenario. Key risks include faster e-substitution, increasing competition from regional, as well as national, competitors supported by the Dutch regulator.

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

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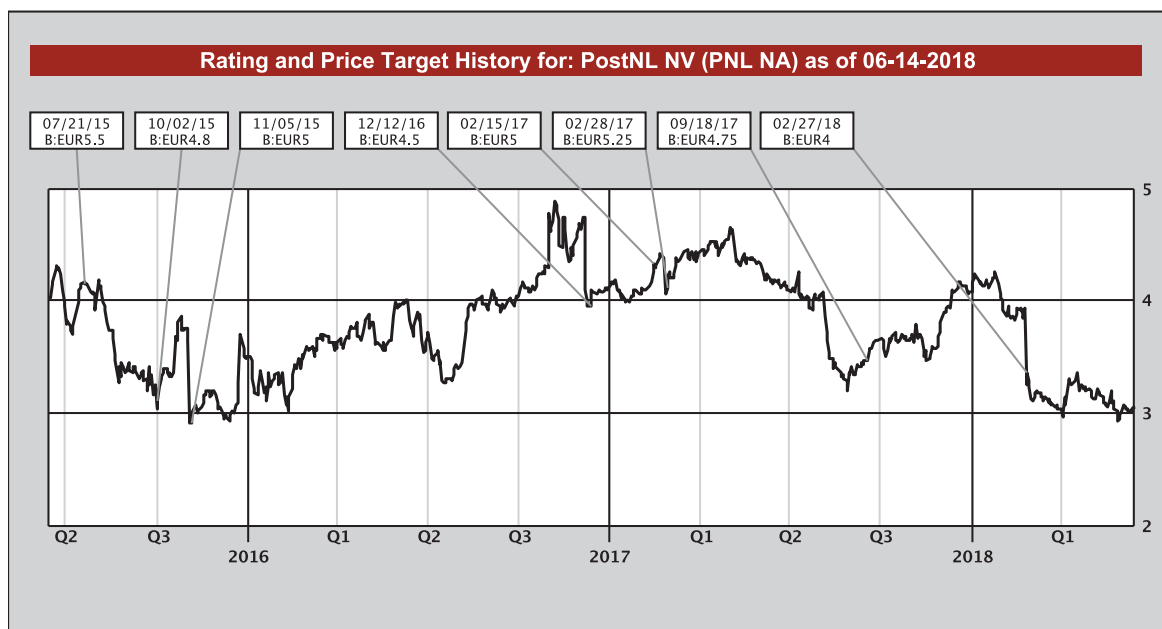
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