COMPANY NOTE

Target | Estimate Change

Belgium | Industrials | European Postal Operators

7 January 2019

Jefferies

EQUITY RESEARCH EUROPE

bpost (BPOST BB)

Mounting Cost Pressures Risking Dividend

HOLD

Price target €8.00
(from €14.00)
Price €7.93^

Key Takeaway

bpost is faced with mounting cost pressures to improve working conditions, further eroding sector-high productivity and profitability to sector-average levels, putting the stable dividend at risk. We have cut EPS estimates by 24%-36% and the dividend by 60% to a sector-average yield. We stick with a Hold rating ahead of the implementation of the new operating model for mail and any recovery signs from Radial from 28% customer churn post acquisition.

Mounting Cost Pressures. bpost is faced with mounting cost pressures of around €80m this year, mainly to improve working conditions through the hiring of 1,000 additional FTE's (adding 3% to headcount), as bpost's productivity is 1/3 above the sector average, and related to increasing inflation and some one-off costs. We have cut EPS estimates by 24%-36% and now estimate FY19E EBIT will fall 28% to €308m, vs. previous guidance for a relatively more stable result of around €390m at last summer's CMD. As a result, we estimate bpost's EBIT margin will fall to 8.0% this year, in line with the average of the European postal sector, versus >20% only two years ago. Beyond FY19E, we are projecting a gradual 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.

Stable dividend policy unsustainable. The stable FY18E dividend of €1.31 with a yield of 16.5% does not look sustainable in view of an estimated free cash flow cover in the range of 55%-75%. As a result, we assume the dividend will be cut by 60% this year, based on a pay-out ratio of 75% of free cash flow, resulting in a sector-average yield.

Upcoming catalysts. 4Q18E results on March 19th are expected to reflect a steep 30% EBITDA recovery, after an 18% decrease in 9m18, driven by (Radial) seasonality and cost phasing effects, as well as a €7.9m book gain on the sale of the old Brussels X sorting centre for €25m on December 21st.

Above sector-average equity FCF yield. bpost shares fell 70% in 2018, underperforming the European postal sector by 30%, on the back of unprecedented Radial customer churn, increasing letter volume pressure and mounting cost pressures. The shares now offer a 7.7% FY19E equity FCF yield, vs. 5.7% for the sector, and a 6.8% dividend yield, versus 7.5% for the sector. We stick to our Hold rating, with a lowered DCF-based of €8.0 PT (vs. €14.0 previously). If the targeted earnings recovery of Radial does not materialise, we arrive at a DCF-based fair value of €5.0 in our downside Long View scenario.

EUR	*Prev.*	2017A	*Prev.*	2018E	*Prev.*	2019E	*Prev.*	2020E
Rev. (MM)	--	3,023.8	*3,801.3*	3,820.9	*3,761.8*	3,798.4	*3,836.7*	3,847.4
EBITDA (MM)	*552.5*	597.9	*549.5*	560.0	*544.4*	445.5	*551.0*	415.6
EBIT (MM) Adjusted	*447.5*	492.9	*396.1*	429.2	*387.8*	308.2	*406.3*	271.4
EPS Adjusted	--	1.38	*1.35*	1.36	*1.30*	0.98	*1.46*	0.93
DPS								
FY Dec	--	1.31	--	1.31	*1.31*	0.54	*1.31*	0.67

Financial Summary

Book Value (MM):	€773.5
Book Value/Share:	€3.87
Net Debt (MM):	€292.3
Pension Deficit (MM):	€326.9
Dividend Yield:	6.8%

Market Data

52 Week Range:	€28.30 - €7.22
Total Entprs. Value:	€2.2B
Market Cap.:	€1.6B
Insider Ownership:	51.0%
Shares Out. (MM):	200.0
Float (MM):	97.9
Avg. Daily Vol.:	709,591

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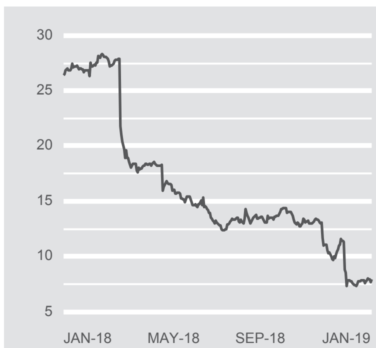
Price Performance



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

Please see analyst certifications, important disclosure information, and information regarding the status of non-US analysts on pages 11 to 15 of this report.

bpost

Hold: €8.0 Price Target

Scenarios

Base Case

- Mail volume decline of 5.8% for FY18E, increasing to 9.0% by FY22E, partly offset by price & mix effects of >50% of the volume decline
- Parcel volume growth of 25% for FY18E and 15% p.a. longer-term, partly offset by price & mix effects of 4% p.a.
- EBIT margin excl. Radial falling from 13.7% in FY18E to 8.0% by FY23E, due to increasing mail volume pressure
- Radial EBITDA recovery from the projected $20m through for FY19E to $80m by FY22E, based on new sales initiatives and cost savings
- DCF fair value of €8.0, implying a target multiple of 9.2x FY19E EV/EBIT, at a 20% discount to the postal sector

Upside Scenario

- Mail volume decline of 5.8% for FY18E, increasing to 7.0% by FY22E, partly offset by price & mix effects of >50% of the volume decline
- Relatively higher parcel volume growth of 20% p.a., partly offset by negative price & mix effects of 4% p.a.
- EBIT margin excl. Radial falling from 13.7% in FY18E to 12.9% by FY23E, due to more limited mail volume pressure
- Radial EBITDA recovery from the projected $20m through for FY19E to $120m by FY22E, based on new sales initiatives and cost savings
- DCF fair value of €13.0, implying a target multiple of 11.8x FY19E EV/EBIT

Downside Scenario

- Letter post volume declines of 9% p.a. partly offset by price & mix effects of >50% of the volume decline
- Relatively lower parcel volume growth of 10% p.a., partly offset by negative price & mix effects of 5% p.a., reflecting increasing competition
- EBIT margin excl. Radial falling from 13.7% in FY18E to 5.6% by FY22E, due to steeper mail volume pressure
- Radial EBIT stable at depressed level of $20m going forward, reflecting increased competition from Amazon and omnichannel technology vendors
- DCF fair value of €5.0, implying a target multiple of 8.0x FY19E EV/EBIT

Investment Thesis / Where We Differ

- bpost is faced with mounting cost pressures to improve working conditions, further eroding sector-high productivity and profitability to sector-average levels, putting the stable dividend at risk. We stick with a Hold rating, with an €8.0 price target, ahead of the implementation of the new operating model for mail and any recovery sings from Radial from 28% customer churn post acquisition.

Catalysts

- 4Q18E results on March 19th are expected to reflect a 30% EBITDA recovery, after an 18% decrease in 9m18, driven by seasonality and cost phasing effects, as well as a €7.9m book gain on the sale of the old Brussels X sorting center for €25m on December 21st.

Long Term Analysis

Long Term Financial Model Drivers

LT EBIT CAGR	**-12.0%**
Organic Revenue Growth	5.5%
Acquisition Contribution	0.0%
Operating Margin Expansion p.a.	-95bps

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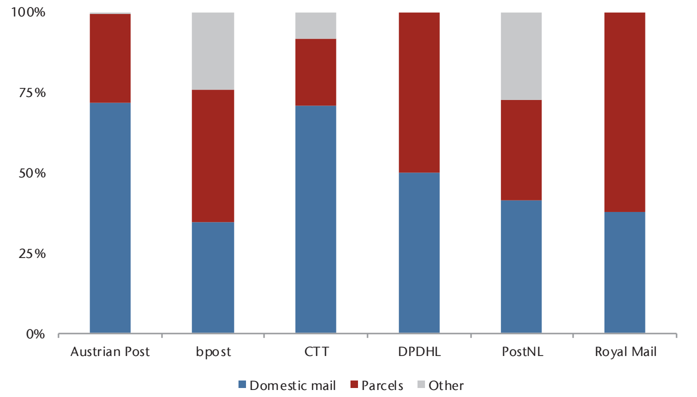
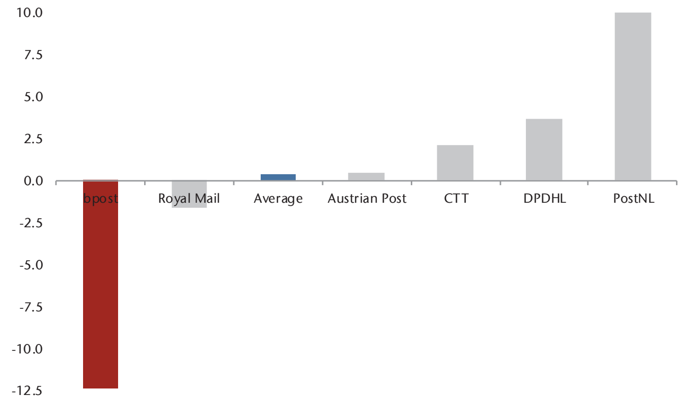
Postal Operators in Pictures

Exhibit 1: Revenue breakdown by segment (%)



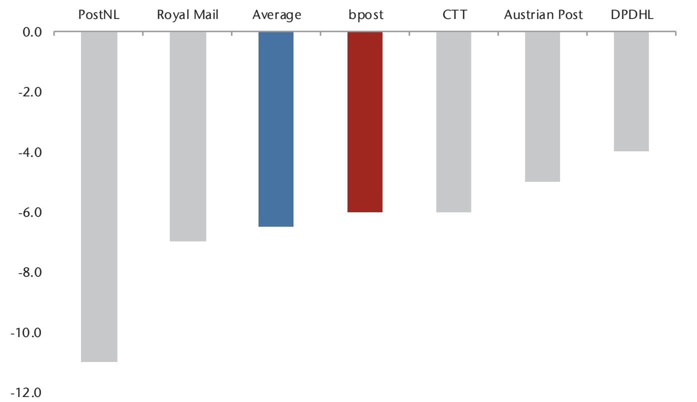
Source: Company data, Jefferies estimates

Exhibit 2: Projected postal EBIT growth (CAGR %)



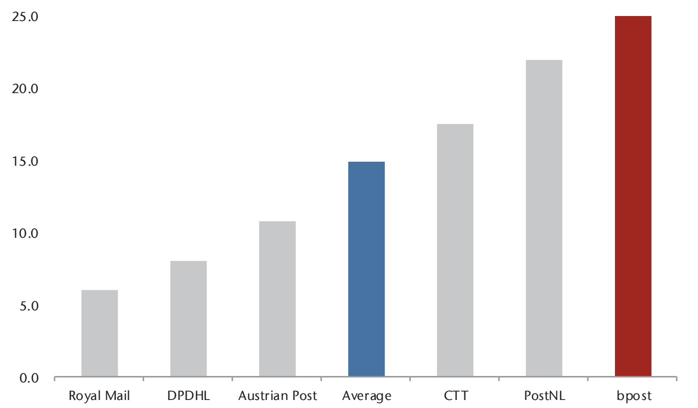
Source: Company data, Jefferies estimates

Exhibit 3: FY18E expected mail volume decline (%)



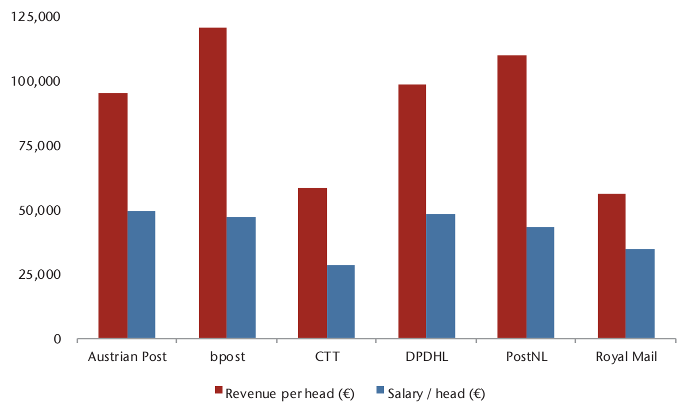
Source: Company data, Jefferies estimates

Exhibit 4: FY18E expected parcel volume growth (%)



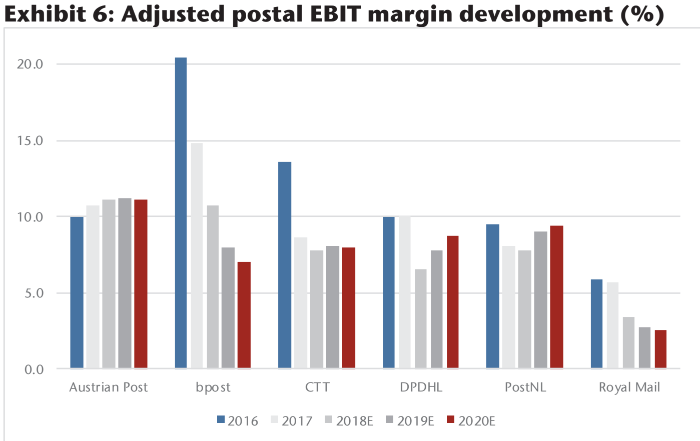
Source: Company data, Jefferies estimates

Exhibit 5: FY18E labour productivity comparison (€)



Source: Company data, Jefferies estimates

Exhibit 6: Adjusted postal EBIT margin development (%)



Source: Company data, Jefferies estimates

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Summary & Investment Case

Additional cost pressures of around €80m to improve working conditions this year...

bpost is faced with mounting cost pressures of around €80m this year, mainly to improve working conditions through the hiring of 1,000 additional FTE's (adding 3% to headcount), as bpost's productivity is 1/3 above the sector average (Exhibit 5) and related to increasing inflation and some one-off costs. We have cut EPS estimates by 24%-36% and now estimate FY19E EBIT will fall 28% to €308m, versus previous guidance for a relatively more stable result of around €390m at last summer's CMD. As a result, we estimate bpost's EBIT margin will fall to 8.0% this year (Exhibit 6), in line with the average of the European postal sector, versus >20% only two years ago. Beyond FY19E, we are projecting a gradual 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.

...making stable dividend policy unsustainable

The stable FY18E dividend of €1.31 with a yield of 16.5% does not look sustainable in view of an estimated free cash flow cover in the range of 55%-75%. As a result, we assume the dividend will be cut by 60% this year, based on a pay-out ratio of 75% of free cash flow, resulting in a sector-average yield (Exhibit 7).

Exhibit 7: European postal sector valuation

	Share price (local)	Market cap (€ m)	Net debt (€ m)	Pension deficit (€ m)	Lease obligations (€ m)	Enterprise value (€ m)	FY19E EV/EBITDA (x)	FY19E EV/EBIT (x)	FY19E P/E (x)	FY19E Equity FCF yield (%)	FY19E Dividend yield (%)	Price target (local)	*upside* (%)	Rating
Austrian Post	30.72	2,075	-274	179	40	2,021	5.8	9.3	12.8	6.5	7.0	43.5	*41.6*	Buy
bpost	7.93	1,586	476	308	554	2,928	5.2	9.1	8.1	7.7	6.8	8.0	*0.9*	Hold
CTT	3.05	457	-122	194	12	542	5.8	9.6	11.9	1.8	6.3	-	-	Restricted
Deutsche Post DHL	24.40	29,992	4,246	4,450	9,612	50,573	6.7	12.2	11.2	3.1	5.1	34.5	*41.4*	Hold
PostNL	1.97	907	124	371	136	1,541	3.6	5.9	5.3	9.1	11.7	4.00	*102.7*	Buy
Royal Mail	2.87	3,256	270	0	989	4,180	4.5	12.8	13.8	6.2	8.4	2.90	*1.1*	UNPF
Total / average		**38,274**	**4,721**	**5,503**	**11,343**	**61,786**	**5.3**	**9.8**	**10.5**	**5.7**	**7.5**		**37.5**	

Source: Jefferies estimates

Remaining relatively cautious with a Hold rating and lowered DCF-based €8.0 price target...

bpost shares fell 70% in 2018, after reaching an all-time high level last February, underperforming the European postal sector by 30%, on the back of unprecedented Radial customer churn, increasing letter volume pressure and mounting cost pressures. Based on our further lowered estimates, bpost shares are now trading at 9.0x FY19E EV/EBIT (Exhibit 7), implying an unchanged 7% discount to the sector, and offer a 7.7% FY19E equity FCF yield, versus 5.7% for the sector, and a 6.8% dividend yield, versus 7.5% for the sector. We stick with a Hold rating ahead of the implementation of the new operating model for mail and any recovery signs from Radial from 28% customer churn post acquisition. We have lowered our DCF-based price target €8.0 (Exhibit 8), versus €14.0 previously, implying a valuation at 9.2x FY19E EV/EBIT at price target, implying a 20% discount to the sector.

...ahead of the implementation of the new operating model for mail and any recovery signs from Radial

Key risk factors include execution risk around the implementation of the new operating model for mail, with fewer delivery days, as most volume is expected to shift to the slower mail product, and the targeted sales-driven recovery of Radial beyond FY19E from unprecedented customer churn of 28% post acquisition. If the targeted recovery of Radial would not materialise, we arrive at a DCF-based fair value of €5.0 in our downside Long View scenario.

Implied 4Q18E EBITDA recovery looking relatively challenging

The next catalyst will be the release of 4Q18E results on March 19th, with recently confirmed FY18E guidance implying 4Q18 EBITDA recovers by 30%, after an 18% decrease in 9m18, driven by seasonality and cost phasing effects, as well as a €7.9m book gain on the sale of the old Brussels X sorting centre for €25m on December 21st. Furthermore, Radial is expected to realise >80% of its earnings in 4Q18E, with an accompanying seasonal working capital increase.

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Exhibit 8: bpost DCF valuation (€ m)

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Continuing value
Revenues	3,820.9	3,798.4	3,847.4	3,897.1	3,954.6	3,954.6	3,954.6	3,954.6	3,954.6	3,954.6	
EBIT - adjusted	429.2	308.2	271.4	265.0	256.2	250.2	244.3	238.4	232.4	226.5	
margin (%)	*11.2*	*8.1*	*7.1*	*6.8*	*6.5*	*6.3*	*6.2*	*6.0*	*5.9*	*5.7*	
Working capital	-87.8	-32.4	-4.2	-4.2	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	
Provisions	-15.7	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	
Taxation	-164.0	-84.3	-62.3	-60.8	-58.7	-57.3	-55.8	-54.3	-52.8	-51.3	
Depreciation & amortisation	153.5	137.3	144.2	151.4	158.9	158.5	158.5	158.5	158.5	158.5	
Capex	-120.5	-170.0	-160.0	-150.0	-150.0	-158.5	-158.5	-158.5	-158.5	-158.5	
Free cash flow	**133.2**	**143.8**	**179.2**	**191.4**	**191.5**	**178.1**	**173.6**	**169.2**	**164.8**	**160.3**	**1,603.4**
change y/y (%)	*172.3*	*8.0*	*24.6*	*6.8*	*0.1*	*-7.0*	*-2.5*	*-2.6*	*-2.6*	*-2.7*	
Discounted free cash flow	121.1	118.8	134.6	130.7	118.9	100.5	89.1	78.9	69.9	61.8	618.2

PV projected free cash flow	1,024.4			
Continuing value	618.2			
Enterprise value	**1,642.5**			
Net debt FY17E	-292.3			
Acquisitions FY18E	-12.2			
Equity value	**1,338.0**			
Nr of shares (m)	200.0	12 month PT	Assumptions	
Equity value per share (€)	**6.6**	**8.0**	WACC (%)	10.0
Upside (%)	*-11.7*	*6.6*	Continuing growth (%)	0.0

Source: Jefferies estimates

Challenging FY18E Guidance

Confirmed FY18E EBITDA guidance implies 4Q18E recovers 30%

bpost confirmed FY18E guidance for normalised EBITDA at the bottom-end of the €560m-€600m range on December 3rd, implying 4Q18E EBITDA will recover by 30%, after an 18% decrease in 9m18, driven by relatively larger election effects, a relatively larger pricing impact, improved productivity in the new Brussels X sorting centre, cost savings under the Accelerate Program and cost phasing effects, with increasing seasonality, due to strong parcel volume growth, as well as a €7.9m book gain on the sale of the old Brussels X sorting centre for €25m on December 21st. We are projecting a mail volume decline of 5.8% for FY18E, better than guidance for a decline of up to 7.0%, based on a 6.2% decline in 4Q18E.

Stable dividend unlikely to be sustainable

Stable FY18E dividend yield of 16.5% unlikely to be sustainable

bpost paid a stable interim dividend of €1.06 on December 10th, based on an increased pay-out ratio of 92.3% of net profit under Belgian GAAP (versus target >85%) over the first 10 months until October, which decreased by 8% y/y to €229.6m. bpost is targeting a stable dividend at 1.31 per share for FY18E, with the final dividend of €0.25 dependent on net profit in November and December. Under a potential scenario of a weaker than expected peak season for Radial, leading to increasing impairment risk, the final FY18E dividend could be paid from distributable reserves of €173m at the end of FY17. Note that a stable divided of €1.31 per share would imply a dividend yield of 16.5%, double the average in the European postal sector, but is unlikely to be sustainable in view of an estimated free cash flow cover in the range from 55% -75% for the next five years. We have cut our dividend estimates by 60% for FY19E, based on a pay-out ratio of 75% of free cash flow, resulting in a sector-average yield.

Mounting FY19E Cost Pressures

FY19E operating costs are now expected to be €80m higher than at last summer's CMD

For FY19E, bpost expected EBIT to be at the lower-end of the €390m-€440m range, versus the lower end of the €400m-€440m range for FY18E, reflecting increasing mail volume pressure and a relatively stable, low result for Radial, before a targeted recovery by $80m-$100m beyond FY19E. However, bpost now expects FY19E operating costs to be around

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€80m higher than earlier expected, caused by increasing costs to improve working conditions after the recent labour dispute, which reflected the worst industrial action in ten years. This would imply FY19E EBIT is now expected to fall to around €310m.

The additional cost factors include:

- Accelerated labour cost indexation, with an earlier than expected 2% increase in August FY19E, after a 2% increase last October (versus a 2% increase in April 2020 in the earlier plan), leading to an additional 1% cost increase for FY19E compared to the earlier plan, corresponding to additional costs of around €15m in FY19E.
- Increased costs of around €20m per annum for the 2019-2020 labour agreement signed on December 20th, related to the hiring of 1,000 additional FTE's (adding 3% to headcount), including 100 permanent FTE's to tackle workload in bottleneck areas and 900 FTE's related to the year-end peak season. Note that bpost's productivity is the highest in the European postal sector (Exhibit 5), 1/3 above the sector average.
- Any planned productivity improvements are delayed as part of the labour agreement. Productivity improvements were expected to yield savings of €30m for FY19E under the earlier plan, based on a targeted 5% headcount reduction in mail of around 750 FTE's earning an average salary of €40,000 per year.
- Relatively higher one-off costs of up to €15m compared to the earlier plan, related to the accelerated implementation of the new distribution model, with relatively fewer delivery days, after the introduction of the Prior and Non Prior stamps on 1 January 2019. The majority of volume is expected to eventually shift towards the slower product, expected to contribute to accelerated e-substitution. However, this is expected to be partly offset by efficiency improvements in the medium term, by reducing collection frequency and transport costs and increasing sorting efficiency and drop density. At the CMD last summer, bpost anticipated an accelerated FTE reduction of 5% per annum (vs. 3.5% historically), largely through natural attrition.
- Note that the relatively higher one-off costs of up to €15m are expected to be offset by an expected book gain of >€20m on the sale and lease back of the bpost head office in Brussels, but which was already incorporated in bpost's earlier projections.
- The average stamp price will increase by 4.6% in FY19E, in line with the 4.7% increase last year, based on a 7.4% price increase on the small user basket, accounting for 40% of domestic mail revenue, including a prior stamp for €0.97 for next day delivery within Belgium, 15% above the current stamp price for next-day delivery, and a Non Prior stamp for €0.92 for delivery within three days, 10% above the current stamp price for next-day delivery. According to a bpost market study, 94% of consumers and 92% of business customers are willing to accept a longer delivery term, provided the current next day delivery offering remains available.

Cutting EPS estimates by 24% for FY19E and by 36% for FY20E

We have cut our bpost EPS estimates by 24% for FY19E and 36% for FY20E (Exhibit 9), after expected further cost increases and investments in better working conditions. We are now projecting FY19E EBIT will fall 28% to €308m, followed by a gradual further decline in EBIT beyond FY19E, 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. bpost's profitability is projected to fall from >20.0% in FY16 to only 8.0% in FY19E (Exhibit 10), a level in line with the average of the European postal sector, and 7.0% in FY20E. Excluding Radial, with below average profitability, we estimate bpost's profitability would be 10.0% in FY19E and 9.0% in FY20E.

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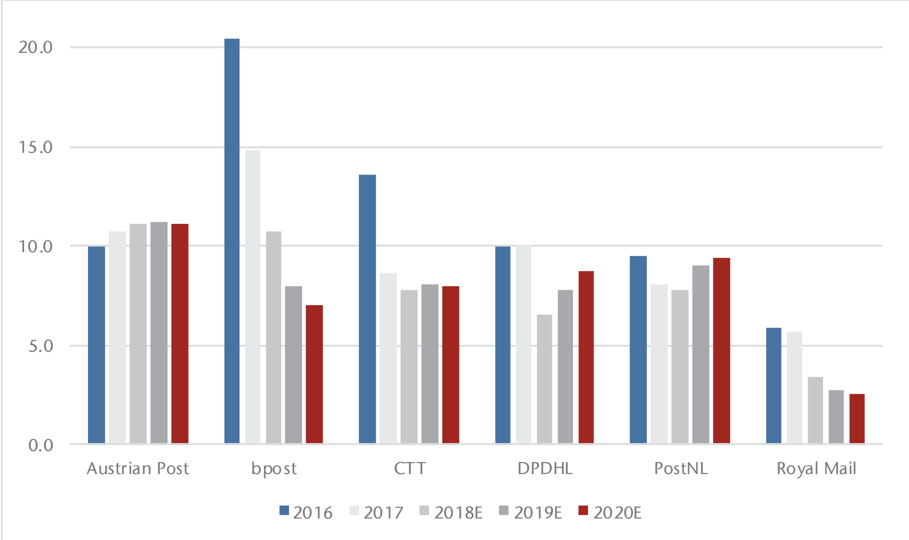
Exhibit 9: bpost forecast summary changes

Forecasts (€ m)	FY18E New	FY18E Old	% Chg	FY19E New	FY19E Old	% Chg	FY20E New	FY20E Old	% Chg
Sales	3,821	3,801	*0.5*	3,798	3,762	*1.0*	3,847	3,837	*0.3*
Normalised EBITDA	560	560	*-0.1*	445	544	*-18.2*	416	551	*-24.6*
Normalised EBIT	429	407	*5.5*	308	388	*-20.5*	271	406	*-33.2*
EPS - adjusted	1.36	1.35	*1.0*	0.98	1.30	*-24.4*	0.93	1.46	*-36.0*
Drivers of Change	Resetting earnings expectations based on further cost increases and investments in better working conditions								

Source: Jefferies estimates

Exhibit 10: Adjusted postal EBIT margin development (%)



Source: Jefferies estimates

Risk remains to the downside

Risks remain to the downside in view of the implementation of a new operating model and a sales-driven Radial recovery

We believe the risks remain to the downside in view of execution risk in the transformation towards a new operating model with fewer deliveries and a sales-driven Radial recovery in the medium-term from unprecedented 28% customer churn post acquisition. Furthermore, after the expected additional cost increases for FY19E, bpost's medium-term EBIT guidance of €390m-€440m issued at last summer's CMD (vs. €502m in FY17) will have to be lowered. The guidance assumed increasing mail volume pressure of up to 9% would be offset by a targeted Radial recovery of $80m-$100m.

- **E-substitution has passed the tipping point.** bpost sees a fundamental change in appetite for mail, expected to lead to mail volume pressure of up to 9% by FY22E (Exhibit 11), driven by e-substitution by large corporates (and no longer limited to the banking and telco sectors), as well as by the Belgian State, rising competition in advertising mail and a further shift to digital in newspapers and magazines. bpost aims to compensate with relatively larger stamp price increases of >50% of the mail volume decline, facilitated by the new postal law, and a new operating model, after the introduction of a slower D+3 product, expected to attract most mail volume, alongside the existing D+1 offering. Note that the introduction of a slower D+3 product is also expected to accelerate e-substitution.

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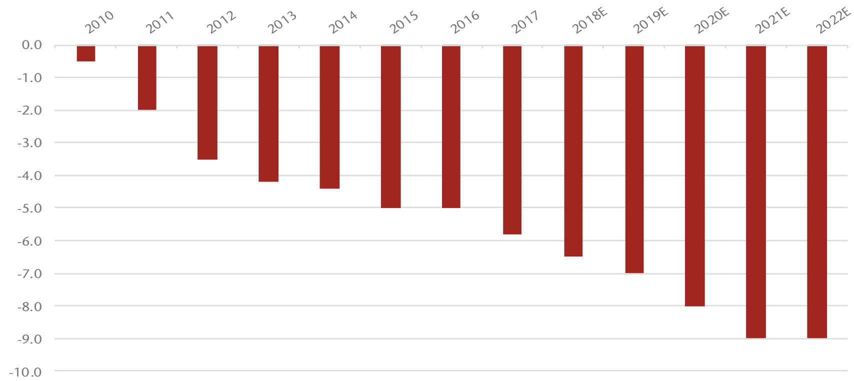
Exhibit 11: Underlying domestic mail volume decline (%)



Source: Company data, Jefferies estimates

- **Surging customer churn delaying Radial recovery.** Radial EBITDA is expected to remain at a relatively low level of around $20m this year (Exhibit 12), after unprecedented customer churn of 9% in FY17, expected to have increased to 19% in FY18E (versus a historical rate of 3%-5%), mainly caused by bankruptcies, explaining 5% (Toys R Us), insourcing trends (7%), poor fit with client needs (2%) and a lack of innovation, poor problem resolution and lack of data integrity (4%). Other factors include the webstore phase-out, with an expected negative effect of $5m this year and a negative impact of $35m-$40m from the repricing of key clients. Beyond FY19E, Radial EBITDA is targeted to recover by $80m-$100m by FY22E, driven by top-line growth initiatives, as well as by productivity improvements and overhead cost reductions, including IT and medical cost reductions. As a result, we estimate Radial will be earnings accretive by FY21E, but with a ROIC of only 4%, projected to further recover to 6% by FY23E. bpost management had earlier indicated that the target for net earnings accretion by FY20E would be delayed by 1-2 years.

Exhibit 12: Radial estimates ($ m)

				Excl Europe										
	2016	***% chg***	**2017**	**2017**	***% chg***	**2018E**	***% chg***	**2019E**	***% chg***	**2020E**	***% chg***	**2021E**	***% chg***	**2022E**
Webstore phase-out						-23.0		-5.0						
Churn						-139.0		-99.0						
Re-pricing contract						0.0		-40.0						
Same-store revenue growth						84.0		90.0						
New clients						12.0		*24.7*						
Revenue	**976.0**	***11***	**1,082.0**	**1,042.0**	***-6***	**976.0**	***-3***	**946.7**	***5***	**994.1**	***5***	**1,043.8**	***5***	**1,095.9**
Webstore phase-out						-23.0		-5.0						
Churn						-52.0		-37.0						
Medical costs						-9.0		0.0						
Re-pricing contract						0.0		-40.0						
Same store revenue growth						31.0		37.0						
Productivity & cost improvements						12.0		*42.0*						
EBITDA	**61.0**	***-7***	**57.0**	**64.0**	***-64***	**23.0**	***-13***	**20.0**	***104***	**40.9**	***56***	**63.8**	***22***	**77.9**
EBITDA margin (%)	*6.3*		*5.3*	*6.1*		*2.4*		*2.1*		*4.1*		*6.1*		*7.1*
Depreciation & amortisation			-52.5	-52.5		-52.5		-52.5		-35.0		-31.3		-32.9
% of revenue			*4.9*	*5.0*		*5.4*		*5.5*		*3.5*		*3.0*		*3.0*
EBIT			**4.5**	**11.5**	-	**-29.5**	-	**-32.5**	-	**5.9**	***452***	**32.5**	***39***	**45.1**
EBIT margin (%)			*0.4*	*1.1*		*-3.0*		*-3.4*		*0.6*		*3.1*		*4.1*
Tax charge						0.0		0.0		0.0		-1.6		-4.9
NOPAT						-29.5		-32.5		5.9		30.9		40.1
ROIC (%) - based on $820m takoeover price						***-3.6***		***-4.0***		***0.7***		***3.8***		***4.9***
Working capital						-50.0		-50.0						
Capex	-46.0		-35.0	-35.0		-34.2		-33.1		-34.8		-36.5		-38.4
% of revenue	*4.7*		*3.2*	*3.4*		*3.5*		*3.5*		*3.5*		*3.5*		*3.5*
Free cash flow	**15.0**	***47***	**22.0**	**29.0**	-	**-61.2**	-	**-63.1**	-	**6.1**	***322***	**25.7**	***35***	**34.7**

Source: Company data, Jefferies estimates

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Exhibit 13: bpost Earnings Forecasts (€m)

	2015	% chg	2016	% chg	2017	% chg	2018E	% chg	2019E	% chg	2020E
Domestic mail	1,464.1	*-3*	1,414.3	*-4*	1,353.4	*-1*	1,335.3	*-3*	1,297.3	*-4*	1,241.2
Parcels	340.8	*11*	379.3	*110*	796.0	*100*	1,589.4	*1*	1,611.0	*7*	1,721.0
Other revenue sources	589.0	*2*	600.1	*39*	831.5	*5*	876.1	*-1*	870.1	*-1*	865.1
Corporate	13.7		31.4		42.9		20.0		20.0		20.0
Total revenues	**2,407.6**	***1***	**2,425.1**	***25***	**3,023.8**	***26***	**3,820.9**	***-1***	**3,798.4**	***1***	**3,847.4**
EBITDA - adjusted	**583.6**	***1***	**586.9**	***2***	**597.9**	***-6***	**560.0**	***-20***	**445.5**	***-7***	**415.6**
EBITDA margin %	*24.2*		*24.2*		*19.8*		*14.7*		*11.7*		*10.8*
Operating costs	-1,824.0	*1*	-1,838.2	*32*	-2,425.9	*34*	-3,260.9	*3*	-3,352.9	*2*	-3,431.8
Depreciation & amortisation	-89.1		-90.3		-105.0		-130.8		-137.3		-144.2
EBIT - adjusted	**494.4**	***0***	**496.5**	***-1***	**492.9**	***-13***	**429.2**	***-28***	**308.2**	***-12***	**271.4**
margin %	*20.5*		*20.5*		*16.3*		*11.2*		*8.1*		*7.1*
Non-recurring items	-28.4		0.0		0.0		-22.8		0.0		0.0
EBIT reported	**466.0**	***7***	**496.5**	***-1***	**492.9**	***-18***	**406.4**	***-24***	**308.2**	***-12***	**271.4**
margin %	*19.4*		*20.5*		*16.3*		*10.6*		*8.1*		*7.1*
Associates	10.2		9.9		9.6		8.0		5.7		5.0
Interest income	0.9		0.3		0.1		6.4		4.4		5.0
Interest costs	-0.2		-0.2		-0.7		-21.2		-26.4		-26.4
Net interest	**0.7**		**0.1**		**-0.6**		**-14.8**		**-22.0**		**-21.4**
Other finance income	0.9		0.5		0.6		0.0		0.0		0.0
Other finance costs	-3.4		-2.2		-7.1		0.0		0.0		0.0
Pension costs	0.6		-18.7		-6.0		-6.0		-6.0		-6.0
Foreign currency result	-4.3		3.2		-0.7		0.0		0.0		0.0
Net finance costs	**-5.5**		**-17.1**		**-13.8**		**-20.8**		**-28.0**		**-27.4**
Profit before tax	470.7	*4*	489.3	*0*	488.7	*-19*	393.6	*-27*	285.9	*-13*	249.0
Profit before tax - adjusted	**499.1**	***-2***	**489.3**	***-9***	**443.3**	***-10***	**397.1**	***-29***	**280.9**	***-11***	**249.0**
Taxation	-161.4		-143.2		-165.8		-125.0		-84.3		-62.3
Tax rate (%)	*34.2*		*33.8*		*38.1*		*31.5*		*30.0*		*25.0*
Minority items	-2.2		-2.5		2.0		0.7		0.0		0.0
Net profit	307.1	*12*	343.6	*-5*	324.9	*-17*	269.3	*-25*	201.6	*-7*	186.8
Net profit - adjusted	**326.0**	***-1***	**321.4**	***-14***	**276.5**	***-1***	**272.8**	***-28***	**196.6**	***-5***	**186.8**
net margin (%)	*13.5*		*13.3*		*9.1*		*7.1*		*5.2*		*4.9*
EPS (€)	1.54	*12*	1.72	*-5*	1.62	*-17*	1.35	*-25*	1.01	*-7*	0.93
EPS - adjusted (€)	**1.63**	***-1***	**1.61**	***-14***	**1.38**	***-1***	**1.36**	***-28***	**0.98**	***-5***	**0.93**
Dividend (€)	1.29	*2*	1.31	*0*	1.31	*0*	1.31	*-59*	0.54	*25*	0.67
Pay-out (%)	*89.8*		*85.0*		*90.1*		*107.6*		*61.1*		*83.1*
Avg nr of shares (m)	200.0	*0*	200.0	*0*	200.0	*0*	200.0	*0*	200.0	*0*	200.0

Source: Company data, Jefferies estimates

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Exhibit 14: bpost Cash Flow Statement (€ m)

	2015	2016	2017	2018E	2019E	2020E
EBIT - adjusted	494.4	496.5	330.3	387.2	303.2	271.4
Depreciation & amortisation	89.1	90.3	105.1	153.5	137.3	144.2
Change in provisions	-0.7	-13.1	-15.2	-15.7	-10.0	-10.0
Taxation	-179.1	-130.4	-125.2	-164.0	-84.3	-62.3
Working capital	35.4	-41.3	-124.7	-87.8	-32.4	-4.2
Other	5.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	**444.1**	**402.0**	**170.3**	**273.2**	**313.8**	**339.2**
% change	*-9.3*	*-9.5*	*-57.6*	*60.4*	*14.9*	*8.1*
Interest paid	-5.5	-17.1	-13.8	-20.8	-22.0	-21.4
Dividend	-254.0	-260.0	-262.0	-262.0	-107.9	-134.4
Cash flow before capex	**184.6**	**124.9**	**-105.5**	**-9.6**	**183.9**	**183.4**
Capex in property, plant & equipment	-67.0	-72.7	-96.7	-120.5	-170.0	-160.0
Acquisition of intangible assets	-13.9	-12.3	-24.7	-19.5	0.0	0.0
Acquistion of subsidairies	-13.6	-89.0	-666.6	-61.4	0.0	0.0
Disposals	49.4	27.2	24.0	49.2	50.8	35.0
Other	0.0	-12.0	12.0	0.0	0.0	0.0
Net investing cash flow	**-45.1**	**-158.8**	**-752.0**	**-152.2**	**-119.2**	**-125.0**
Treasury shares	0.0	0.0	0.0	0.0	0.0	0.0
Share buybacks	0.0	0.0	0.0	0.0	0.0	0.0
Third party interest	0.0	-2.0	-2.0	-0.3	0.0	0.0
Change in interest-bearing debt	-9.8	-8.1	678.8	121.5	0.0	0.0
Other	0.0	0.0	0.0	-21.5	0.0	0.0
Financing cash flow	**-9.8**	**-10.1**	**676.8**	**99.7**	**0.0**	**0.0**
Movement in cash	129.7	-44.0	-180.7	-62.1	64.7	58.4
Free cash flow	**363.2**	**317.0**	**48.9**	**133.2**	**143.8**	**179.2**
free cash flow (%)	*15.1*	*13.1*	*1.6*	*3.5*	*3.8*	*4.7*
% change	*-8.9*	*-12.7*	*-84.6*	*172.3*	*8.0*	*24.6*

Source: Company data, Jefferies estimates

Exhibit 15: bpost Balance Sheet (€ m)

	2015	2016	2017	2018E	2019E	2020E
Property, plant & equipment	548.5	561.6	710.3	699.8	732.5	748.3
Intangible assets	89.6	224.4	910.6	919.9	919.9	919.9
Investment property	6.5	6.2	5.7	5.7	5.7	5.7
Investment in associates	375.0	373.7	329.2	329.2	329.2	329.2
Other non-current assets	5.4	4.3	10.0	10.0	10.0	10.0
Deferred tax assets	47.2	48.2	31.5	31.5	31.5	31.5
Inventories	11.1	36.7	39.1	49.4	62.4	63.2
Trade receivables	382.6	443.3	628.9	816.5	832.5	843.3
Other current receivables	30.3	41.1	92.1	92.1	92.1	92.1
Cash & cash equivalents	615.7	550.9	466.0	403.9	468.6	527.0
Total assets	**2,111.9**	**2,290.4**	**3,223.4**	**3,357.9**	**3,484.4**	**3,570.1**
Equity	694.8	776.3	773.5	780.8	874.5	926.9
Non-controlling interests	0.0	3.1	4.3	4.3	4.3	4.3
Employee benefits provision	346.2	356.7	326.9	326.9	326.9	326.9
Other non-current provisions	29.2	31.6	24.2	24.2	24.2	24.2
Deferred tax liabilities	1.3	1.1	12.3	12.3	12.3	12.3
Long-term debt	56.2	47.7	58.4	179.9	179.9	179.9
Other non-current liabilities	61.7	40.3	45.2	45.2	45.2	45.2
Short-term debt	9.8	10.3	699.9	699.9	699.9	699.9
Trade payables	185.7	311.6	466.6	575.7	572.4	579.7
Other current provisions	35.0	27.1	21.2	21.2	21.2	21.2
Other current liabilities	692.0	684.6	790.9	687.5	723.6	749.6
Total liabilities	**2,111.9**	**2,290.4**	**3,223.4**	**3,357.9**	**3,484.4**	**3,570.1**
Working capital	208.0	168.4	201.4	290.2	322.6	326.8
% of revenues	*8.6*	*6.9*	*6.7*	*7.6*	*8.5*	*8.5*
Net debt (cash)	-549.7	-492.9	292.3	475.9	411.2	352.8
Net debt / EBITDA (x)	*-0.9*	*-0.8*	*0.5*	*0.8*	*0.9*	*0.8*
Net debt / equity (%)	*-79.1*	*-63.5*	*37.8*	*61.0*	*47.0*	*38.1*

Source: Company data, Jefferies estimates

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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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Investment Recommendation Record

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

Recommendation Published	January 6, 2019 , 20:17 ET.
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Company Specific Disclosures

Jefferies is sellside adviser to Cabot Square Capital on the sale of 321 Credito to CTT.

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Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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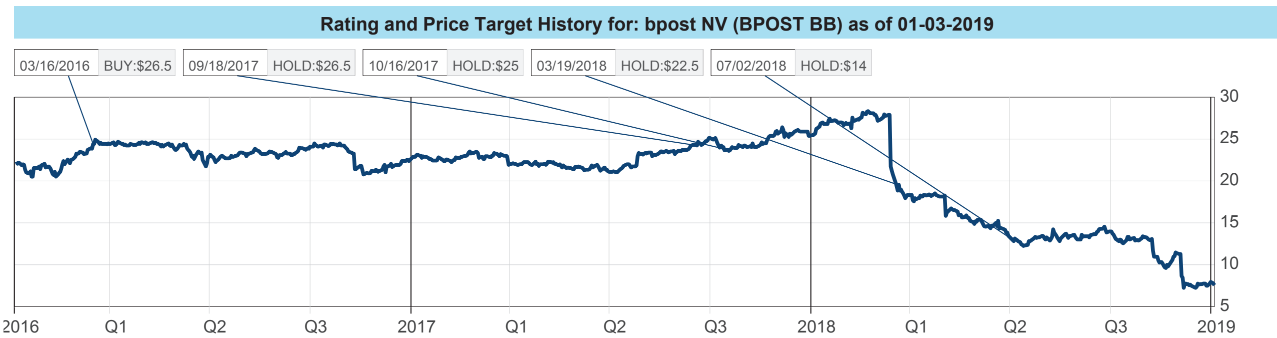
- bpost NV (BPOST BB: €7.93, HOLD)
- CTT - Correios de Portugal SA (CTT PL: €3.05, RESTRICTED)
- Deutsche Post DHL (DPW GR: €24.41, HOLD)
- PostNL NV (PNL NA: €1.97, BUY)
- Royal Mail Group Limited (RMG LN: p286.90, UNDERPERFORM)



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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent	JIL Mkt Serv./Past 12 Mos. Count	JIL Mkt Serv./Past 12 Mos. Percent
BUY	1169	56.39%	93	7.96%	10	0.86%
HOLD	776	37.43%	14	1.80%	1	0.13%
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