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EQUITY RESEARCH
bpost NV (BPOST BB)

1Q19 Results: EBIT Ahead of Trend Despite Increasing Mail Volume Pressure

3 May 2019

Key Takeaway

1Q19 EBIT fell 15% to €95.8m, 6% ahead of consensus, despite larger than expected mail volume pressure of 9.2%, after an estimated 13% drop in March. Confirmed FY19E EBIT guidance for a decline of up to 20% to >€300m, due to mounting cost pressures to improve working conditions, is already reflected in consensus estimates. However, if mail volume pressure persists at the current rate, we estimate FY19E EBIT guidance would have to be cut by c€30m or 10%.

Increasing mail volume pressure of 9.2%

1Q19 EBIT fell 15% to €95.8m, 6% ahead of consensus €90.6m, and vs. FY19E guidance for EBIT up to 20% lower, despite larger than expected mail volume pressure of 9.2%, compared to 5.8% in FY18 (partly reflecting scope changes under the new reporting structure). Transactional mail declined 9.8%, due to an increased push for digitisation in the banking, telco and utilities sectors, and increasing acceptance of electronic invoicing. Advertising mail decreased 7.6%, driven by increasing volume pressure from large customers, questioning the return on investment, while press volume decreased 8.7%, reflecting increasing pressure on magazines. bpost said mail volume decline in Jan and Feb was in line with expectations (of up to 7% for FY19E), implying volume would have been c13% lower in March. Figures for April are not yet available, but will be closely monitored, as 1% of additional mail volume decline corresponds to c€15m in EBIT, other things equal.

Radial profitability further under pressure before an anticipated recovery from FY20E

Parcel volume growth in the Belgium and the Netherlands increased 16.9%, driven by growing e-commerce, including domestic parcel volume growth of close to 20%, vs. 23% in FY18, partly offset by negative price & mix effects of 6%. Radial EBIT losses increased by $10.6m to $15.2m, due to customer churn of 19% in FY18 and re-pricing, partly offset by cost savings. New business wins resulted in a strong pipeline for Radial for the remainder of he year, which is is expected to start contributing from FY20E, driving Radial's anticipated recovery.

Operating cash flow impacted by higher working capital at Radial.

Free cash flow fell 25% to €161.8m, reflecting a €41.0m working capital increase, mainly caused by Radial. Net debt increased by €467.4m to €613.1m, including €425.5m related to lease liabilities under IFRS 16.

Mounting cost pressures

For FY19E, bpost confirms its guidance for EBIT of >€300m, despite larger than expected mail volume pressure, vs. consensus €309m, implying a decrease of up to 20% y/y, excl. one-off items of €47.9m in FY18. The key drivers are increasing mail volume pressure of up to 7% (vs. 9.2% in Q19), partly offset by a 4.4% price increase, mid-teens parcel revenue growth and increasing cost pressures of around €80m to improve working conditions by the hiring of 1,000 additional FTE's (+3%) and related to increasing inflation and some one-off costs. If mail volume pressure persists at the current rate, we estimate FY19E guidance might have to be further lowered by c€30m or 10%.

FLASH NOTE

RATING	HOLD
TICKER	BPOST BB
PRICE	€10.82^
PRICE TARGET (PT)	€8.00
MARKET CAP	€2.2B / $2.4B

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

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Valuation premium, but attractive yield

bpost shares are trading at 12.0x FY20E EV/EBIT, implying a 12% premium to the European postal sector, and offer a dividend yield of 7.8%, vs. sector 6.6%.

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 of €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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Rating and Price Target History for: bpost NV (BPOST BB) as of 05-01-2019

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Distribution of Ratings						
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