

COMPANY NOTE

Target | Estimate Change

Belgium | Industrials | European Postal Operators

19 March 2018

Jefferies

bpost (BPOST BB) Acquisition Strategy Not Yet Delivering

Key Takeaway

bpost's alternative M&A strategy for €1.0bn since the failed takeover of PostNL in 2016 has so far not yet delivered, with FY18E EBITDA expected to be around the FY16 level. Only six months after the \$0.8bn Radial acquisition, bpost is dropping targets for high-single digit revenue growth and EBITDA margin for Radial. In combination with accelerating e-substitution, we have cut bpost's EPS estimates by up to 18% and remain relatively cautious.

Radial working capital and costs ballooning. Earlier concerns about the strategic rationale of the \$0.8bn Radial acquisition in e-commerce logistics in the US have come back to the forefront. Radial FY17 revenues increased 11% to \$1,082m (vs. guidance c.\$1.0bn), but bpost's working capital ballooned by €77m in 4Q17. Radial EBITDA fell 7% to \$57m (vs. guidance \$65m-\$70m), reflecting operational issues in two fulfillment centers and higher costs for online credit card fraud. FY18E revenues are expected to remain stable (vs. 6%-8% growth previously), reflecting a clean up of the customer portfolio. FY18E EBITDA is expected to be equal to the €16.9m contribution in FY17 for six weeks after integration costs of \$28m, implying underlying EBITDA is expected to be 12% lower at \$50m, caused by higher than expected medical costs and inflation. bpost dropped targets for a high-single-digit EBITDA margin and earnings accretion by FY20E and will provide updated guidance at a CMD in 2Q18.

Accelerating e-substitution. bpost is guiding for mail volume declining by up to 7% for FY18E (vs. 5.8% in FY17 and 6.4% in 4Q17), reflecting a second wave of e-substitution in transactional mail in banking and telco sectors beyond e-invoicing. This will be partly offset by a relatively larger 4.7% price increase as of 1 March, with increased headroom under the new postal law (vs. 1.5% in FY17). FY18E EBITDA guidance of €560m-€600m is 10% below earlier consensus but includes Radial integration costs. We have cut EPS estimates by 13% for this year, 16% for next year and by 18% for FY20E.

Valuation/Risks

bpost shares fell 25% last week and are now trading at 9.0x FY19E EV/EBIT, in line with the European postal sector. The shares offer a FY18E dividend yield of 6.4%, vs. 6.0 for sector. Our lowered DCF-based €22.5 PT reflects lowered earning estimates. Key risk factors include accelerating e-substitution, increasing (parcel) competition, regulatory limitations, a unionised labour force, government share overhang and acquisition integration risks.

EUR	Prev.	2017A	Prev.	2018E	Prev.	2019E	Prev.	2020E
Rev. (MM)	2,870.8	3,023.8	2,895.1	3,872.5	2,928.7	3,936.2	2,972.2	4,011.8
EBITDA (MM)	--	574.8	--	605.3	--	620.2	--	638.0
EBIT (MM) Adjusted	495.4	469.7	517.7	458.7	535.8	470.7	584.5	500.5
EPS Adjusted	1.65	1.49	1.82	1.58	1.95	1.63	2.26	1.85
DPS								
FY Dec	1.32	1.31	1.38	1.34	1.44	1.36	1.52	1.42

HOLD

Price target €22.50
(from €25.00)
Price €21.24^

Financial Summary

Book Value (MM):	€773.5
Book Value/Share:	€3.87
Net Debt (MM):	€292.3
Pension Deficit (MM):	€326.9
Dividend Yield:	6.2%

Market Data

52 Week Range:	€28.30 - €20.95
Total Entprs. Value (MM):	€4,867.2
Market Cap. (MM):	€4,248.0
Insider Ownership:	51.0%
Shares Out. (MM):	200.0
Float (MM):	97.9
Avg. Daily Vol.:	337,143

David Kerstens *

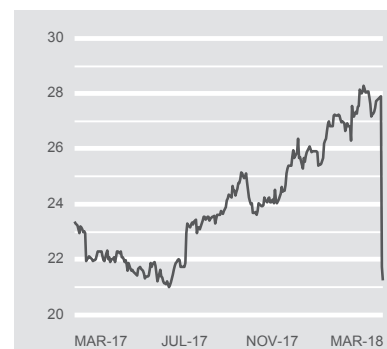
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Price Performance



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

Scenarios**Base Case**

- Letter post volume declines of 7% p.a. in line with guidance of up to 7% for FY18E, partly offset by price & mix effects of 3%-4% p.a.
- Parcel revenue growth of 10% p.a. with mid-teen volume growth, partly offset by price & mix effects of 3%-6% p.a.
- Radial revenue growth of 5% p.a. beyond FY18E, with an EBITDA margin recovery of 200bps to 6.6% by FY20E on the back of the turnaround program
- DCF fair value of €22.5, implying a target multiple of 9.6x FY19E EV/EBIT, at a 12% premium to the postal sector

Upside Scenario

- Letter post volume declines of 5% p.a., partly offset by price & mix effects of 3-4% p.a.
- Mid-teen parcel revenue growth, with relatively higher volume growth of 20% p.a. offset by negative price & mix effects of 3%-6% p.a.
- Radial revenue growth of 10% p.a. beyond FY18E, with an EBITDA margin recovery of 500bps to 9.6% by FY20E on the back of the turnaround program
- DCF fair value of €28.5, implying a target multiple of 10.5x FY19E EV/EBIT

Downside Scenario

- Letter post volume declines of 9% p.a. partly offset by price & mix effects of 3%-4% p.a.
- High-single digit parcel revenue growth, reflecting increased competition from B2B players and new entrants
- Stable Radial revenues, with a stable EBITDA margin at 4.6%, reflecting increased competition from Amazon and omnichannel technology vendors
- DCF fair value of €18.5, implying a target multiple of 8.5x FY19E EV/EBIT

Investment Thesis / Where We Differ

- bpost's alternative M&A strategy for €1.0bn since the failed takeover of PostNL in 2016 has so far not yet delivered, with FY18E EBITDA expected to be around the FY16 level. Only six months after the \$0.8bn Radial acquisition, bpost is dropping targets for high-single digit revenue growth and EBITDA margin for Radial. In combination with accelerating e-substitution, we have cut bpost's EPS estimates by up to 18% and remain relatively cautious.

Catalysts

- 1Q18 results on 2nd May 2018
- Capital Markets Day in Brussel at the end of 2Q18

Long Term Analysis**Long Term Financial Model Drivers**

LT EBIT CAGR	1.2%
Organic Revenue Growth	6.7%
Acquisition Contribution	6.2%
Operating Margin Expansion	-60bps

Exhibit 1: bpost acquisition track record 2016 - 2018

Company	Purchase Date	Purchase		Stake acquired (%)	FY17 Revenue (€ m)	Business description
		Consideration (€ m)				
IMEX Global Solutions	Jan-18	6.7		100	60.3	Third Party Logistics
M.A.I.L., Inc.	Jan-18	3.3		100	8.9	Mail and Parcel Logistics
Leen Menken Foodservice	Jan-18	3.7		100	-	Food Logistics
Parcify	Jan-18	0.3		49	-	Parcel Logistics
Radial	Nov-17	689.0		100	957.5	E-commerce logistics
Bubble Post	Aug-17	7.4		100	-	Food Logistics
Landmark Inc. and Landmark Trade Services Ltd	Mar-17	31.7		25	-	Parcel Logistics
Dynagroup	Jan-17	109.9		100	132.2	E-commerce logistics
CityDepot	Dec-16	5.6		52	-	Parcel Logistics
Ubiway	Nov-16	81.3		100	281.7	Parcel and Press Logistics
de Buren International BV	Sep-16	11.2		51	0.4	Parcel Logistics
Parcify	Aug-16	-		51	-	Parcel Logistics
Apple Express and Matt's Express	Jun-16	20.0		100	-	Parcel Logistics
FDM entities	Mar-16	21.6		100	-	Third Party Logistics
Landmark Inc. and Landmark Trade Services Ltd.	Jan-16	20.7		25	-	Parcel Logistics
Total		1,012.4			1,441.0	

Source: Company data, Jefferies estimates

Exhibit 2: European postal operators' valuation summary

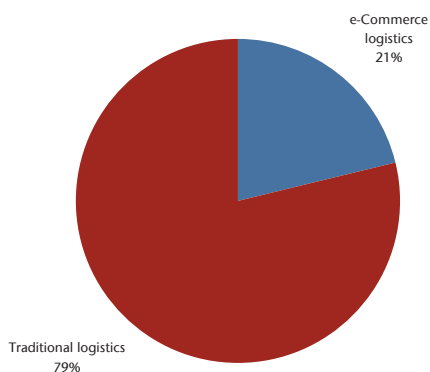
	Share price (local)	Market cap (€ m)	Net debt (€ m)	Pension deficit (€ m)	Lease obligations (€ m)	Enterprise value (€ m)	FY19E EV/EBIT (x)	FY19E P/E (x)	FY19E Equity FCF yield (%)	FY19E Dividend yield (%)	Price target (local)	upside (%)	Rating
Austrian Post	39.36	2,632	-285	187	59	2,593	9.6	16.7	5.3	5.4	36.5	-7.3	Hold
bpost	20.92	4,184	305	308	554	5,355	9.0	12.8	7.6	6.5	22.5	7.6	Hold
CTT	3.14	471	-130	194	12	548	7.5	10.4	3.2	8.7	3.25	3.5	Hold
Deutsche Post DHL	36.68	43,866	2,525	4,450	9,251	62,182	10.2	14.2	4.5	3.9	41.0	11.8	Hold
PostNL	3.13	1,411	101	312	136	1,964	5.9	8.1	0.0	8.0	4.00	27.8	Buy
Royal Mail	5.26	5,964	-115	0	1,004	6,499	11.3	20.5	3.6	4.4	3.00	-43.0	UNPF
Total / average		58,528	2,401	5,451	11,017	79,140	8.9	13.8	4.0	6.2		0.1	

Source: Jefferies estimates

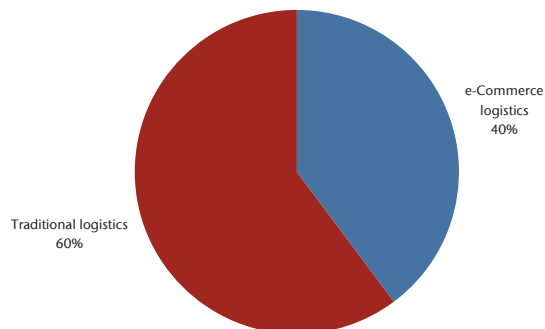
Exhibit 3: bpost DCF analysis (€ m)

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Continuing value
Revenues	3,872.5	3,936.2	4,011.8	4,099.7	4,200.7	4,200.7	4,200.7	4,200.7	4,200.7	4,200.7	4,200.7
EBIT - adjusted	458.7	470.7	500.5	502.3	505.9	493.3	480.7	468.1	455.5	442.9	442.9
margin (%)	11.8	12.0	12.5	12.3	12.0	11.7	11.4	11.1	10.8	10.5	10.5
Working capital	-56.5	-4.2	-5.0	-5.9	-6.7	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	-22.5	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxation	-132.4	-136.1	-122.8	-123.5	-124.7	-121.7	-118.6	-115.6	-112.5	0.0	0.0
Depreciation & amortisation	146.6	149.5	137.5	140.2	143.1	127.5	127.5	127.5	127.5	127.5	127.5
Capex	-140.0	-140.0	-140.0	-140.0	-140.0	-127.5	-127.5	-127.5	-127.5	-127.5	-127.5
Free cash flow	253.9	332.4	370.1	373.1	377.6	371.7	362.1	352.6	343.0	442.9	4,921.5
change y/y (%)	34.8	30.9	11.4	0.8	1.2	-1.6	-2.6	-2.6	-2.7	29.1	
Discounted free cash flow	232.9	279.7	285.8	264.3	245.4	221.6	198.1	176.9	157.9	187.1	2,078.9
PV projected free cash flow	2,249.8										
Continuing value	2,078.9										
Enterprise value	4,328.7										
Net debt FY17E	-292.3										
Acquisitions FY18E	-10.0										
Other adjustments	34.5										
Equity value	4,061.0										
Nr of shares (m)	200.0		12 month PT								
Equity value per share (€)	20.3		22.5								
Upside (%)	-2.9		7.7								
						<u>Assumptions</u>					
						WACC (%)		9.0			
						Continuing growth (%)		0.0			

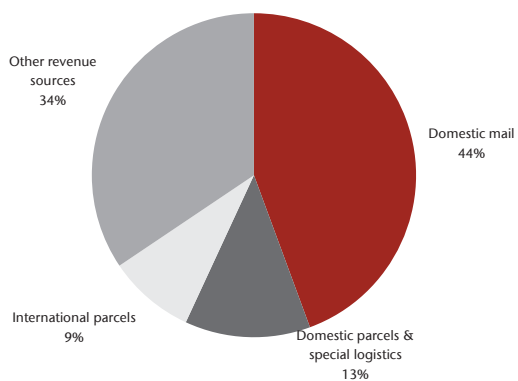
Source: Jefferies estimates

Exhibit 4: Exposure to parcel logistics before Radial

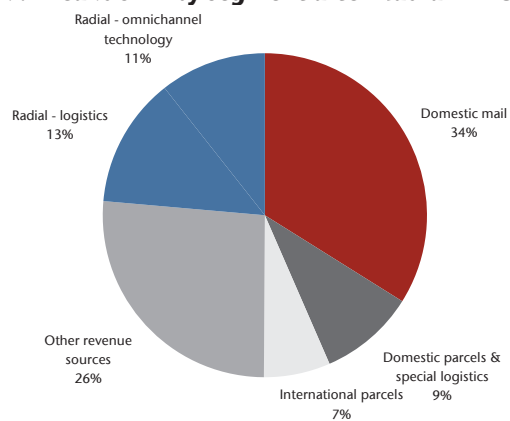
Source: Company data, Jefferies estimates

Exhibit 5: Exposure to parcel logistics after Radial

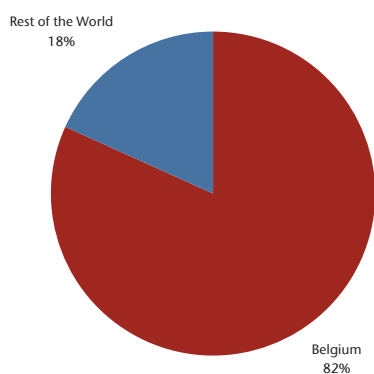
Source: Company data, Jefferies estimates

Exhibit 6: Breakdown by segment before Radial FY18E

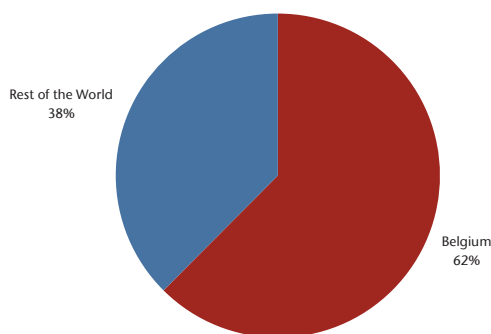
Source: Company data, Jefferies estimates

Exhibit 7: Breakdown by segment after Radial FY18E

Source: Company data, Jefferies estimates

Exhibit 8: Geographical exposure before Radial FY18E

Source: Company data, Jefferies estimates

Exhibit 9: Geographical exposure after Radial FY18E

Source: Company data, Jefferies estimates

Exhibit 10: bpost summary forecast changes

Forecasts (€ m)	FY18E New	FY18E Old	% Chg	FY19E New	FY19E Old	% Chg	FY20E New	FY20E Old	% Chg
Sales	3,872	3,797	2.0	3,936	3,894	1.1	4,012	4,005	0.2
Recurring EBITDA	605	660	-8.2	620	679	-8.6	638	713	-10.5
Recurring EBIT	459	518	-11.4	471	536	-12.1	500	585	-14.4
EPS - adjusted	1.58	1.82	-12.9	1.63	1.95	-16.5	1.85	2.26	-18.1

Drivers of Change

Cutting estimates for relatively steeper 7% mail volume decline and higher than expected costs for Radial

Source: Jefferies estimates

Exhibit 11: 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	-3	1,309.0	-4	1,253.9	-4	1,201.1
Parcels	340.8	11	379.3	110	796.0	104	1,624.4	7	1,731.7	7	1,846.9
Other revenue sources	589.0	2	600.1	39	831.5	8	896.1	1	907.8	1	920.9
Corporate	13.7		31.4		42.9		42.9		42.9		42.9
Total revenues	2,407.6	1	2,425.1	25	3,023.8	28	3,872.5	2	3,936.2	2	4,011.8
EBITDA - adjusted	583.6	1	586.9	-2	574.8	5	605.3	2	620.2	3	638.0
<i>EBITDA margin %</i>	24.2		24.2		19.0		15.6		15.8		15.9
Operating costs	-1,824.0	1	-1,838.2	33	-2,449.0	33	-3,267.2	1	-3,316.0	2	-3,373.8
Depreciation & amortisation	-89.1		-90.3		-105.1		-146.6		-149.5		-137.5
EBIT - adjusted	494.4	0	496.5	-5	469.7	-2	458.7	3	470.7	6	500.5
<i>margin %</i>	20.5		20.5		15.5		11.8		12.0		12.5
Non-recurring items	-28.4		0.0		23.2		-22.5		-7.5		0.0
EBIT reported	466.0	7	496.5	-1	492.9	-12	436.2	6	463.2	8	500.5
<i>margin %</i>	19.4		20.5		16.3		11.3		11.8		12.5
Associates	10.2		9.9		9.6		9.4		9.6		10.2
Interest income	0.9		0.3		0.1		4.6		4.9		5.7
Interest costs	-0.2		-0.2		-0.7		-19.1		-19.1		-19.1
Net interest	0.7		0.1		-0.6		-14.5		-14.2		-13.3
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		-20.5		-20.2		-19.3
Profit before tax	470.7	4	489.3	0	488.7	-13	425.1	6	452.7	9	491.4
Profit before tax - adjusted	499.1	-2	489.3	-5	465.5	-4	447.6	3	460.2	7	491.4
Taxation	-161.4		-143.2		-165.8		-132.4		-136.1		-122.8
<i>Tax rate (%)</i>	34.2		33.8		36.3		29.6		29.6		25.0
Minority items	-2.2		-2.5		2.0		1.8		1.6		1.5
Net profit	307.1	12	343.6	-5	324.9	-9	294.5	8	318.2	16	370.0
Net profit - adjusted	326.0	-1	321.4	-7	298.7	6	317.0	3	325.7	14	370.0
<i>net margin (%)</i>	13.5		13.3		9.9		8.2		8.3		9.2
EPS (€)	1.54	12	1.72	-5	1.62	-9	1.47	8	1.59	16	1.85
EPS - adjusted (€)	1.63	-1	1.61	-7	1.49	6	1.58	3	1.63	14	1.85
Dividend (€)	1.29	2	1.31	0	1.31	2	1.34	2	1.36	4	1.42
<i>Pay-out (%)</i>	79.1		81.5		87.7		84.3		83.7		76.6
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

Exhibit 12: bpost cash flow statement (€ m)

	2015	2016	2017	2018E	2019E	2020E
EBIT - adjusted	494.4	496.5	469.7	458.7	470.7	500.5
Depreciation & amortisation	89.1	90.3	105.1	146.6	149.5	137.5
Change in provisions	-0.7	-13.1	-15.2	-22.5	-7.5	0.0
Taxation	-179.1	-130.4	-125.2	-132.4	-136.1	-122.8
Working capital	35.4	-41.3	-124.7	-56.5	-4.2	-5.0
Other	5.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	444.1	402.0	309.7	393.9	472.4	510.1
% change	-9.3	-9.5	-23.0	27.2	19.9	8.0
Interest paid	-5.5	-17.1	-13.8	-14.5	-14.2	-13.3
Dividend	-254.0	-260.0	-262.0	-262.0	-267.2	-272.6
Cash flow before capex	184.6	124.9	33.9	117.4	191.0	224.2
Capex in property, plant & equipment	-67.0	-72.7	-96.7	-140.0	-140.0	-140.0
Acquisition of intangible assets	-13.9	-12.3	-24.7	0.0	0.0	0.0
Acquisition of subsidiaries	-13.6	-89.0	-666.6	-10.0	0.0	0.0
Disposals	49.4	27.2	24.0	20.0	15.0	15.0
Other	0.0	-12.0	12.0	0.0	0.0	0.0
Net investing cash flow	-45.1	-158.8	-752.0	-130.0	-125.0	-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	0.0	0.0	0.0
Change in interest-bearing debt	-9.8	-8.1	678.8	5.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Financing cash flow	-9.8	-10.1	676.8	5.0	0.0	0.0
Movement in cash	129.7	-44.0	-41.3	-7.6	66.0	99.2
Free cash flow	363.2	317.0	188.3	253.9	332.4	370.1
free cash flow (%)	15.1	13.1	6.2	6.6	8.4	9.2
% change	-8.9	-12.7	-40.6	34.8	30.9	11.4

Source: Company data, Jefferies estimates

Exhibit 13: bpost balance sheet (€ m)

	2015	2016	2017	2018E	2019E	2020E
Property, plant & equipment	548.5	561.6	710.3	735.9	726.4	728.9
Intangible assets	89.6	224.4	910.6	868.4	868.4	868.4
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	50.1	50.9	51.9
Trade receivables	382.6	443.3	628.9	805.4	818.7	834.4
Other current receivables	30.3	41.1	92.1	92.1	92.1	92.1
Cash & cash equivalents	615.7	550.9	466.0	458.4	524.3	623.5
Total assets	2,111.9	2,290.4	3,223.4	3,386.7	3,457.2	3,575.6
Equity	694.8	776.3	773.5	806.0	856.9	954.3
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	63.4	63.4	63.4
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	597.6	607.4	619.1
Other current provisions	35.0	27.1	21.2	21.2	21.2	21.2
Other current liabilities	692.0	684.6	790.9	785.7	795.5	804.8
Total liabilities	2,111.9	2,290.4	3,223.4	3,386.7	3,457.2	3,575.6
Working capital	208.0	168.4	201.4	257.9	262.2	267.2
% of revenues	8.6	6.9	6.7	6.7	6.7	6.7
Net debt (cash)	-549.7	-492.9	292.3	304.9	239.0	139.8
Net debt / EBITDA (x)	-0.9	-0.8	0.5	0.5	0.4	0.2
Net debt / equity (%)	-79.1	-63.5	37.8	37.8	27.9	14.6

Source: Company data, Jefferies estimates

Company Description

bpost is the incumbent postal operator in Belgium. Its domestic mail activities generate 58% of revenues, with a 99% market share in letter post. The letter post market in Belgium is expected to decline by 5%-6% in FY17E, in line with the average in Europe, after it has recently been among the most resilient in Europe. bpost's parcel operations are still relatively small, accounting for 16% 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%. Other revenue sources generate 27% of revenues and include Banking & Finance (8% of revenues) on behalf of bpost bank, a 50%/50% joint venture with BNP Paribas, International mail (7%), Value-added services (4%) and a number of smaller segments, combined accounting for 7% of revenues, including philately, retailer products and state compensation for services of general economic interest (SGEI).

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

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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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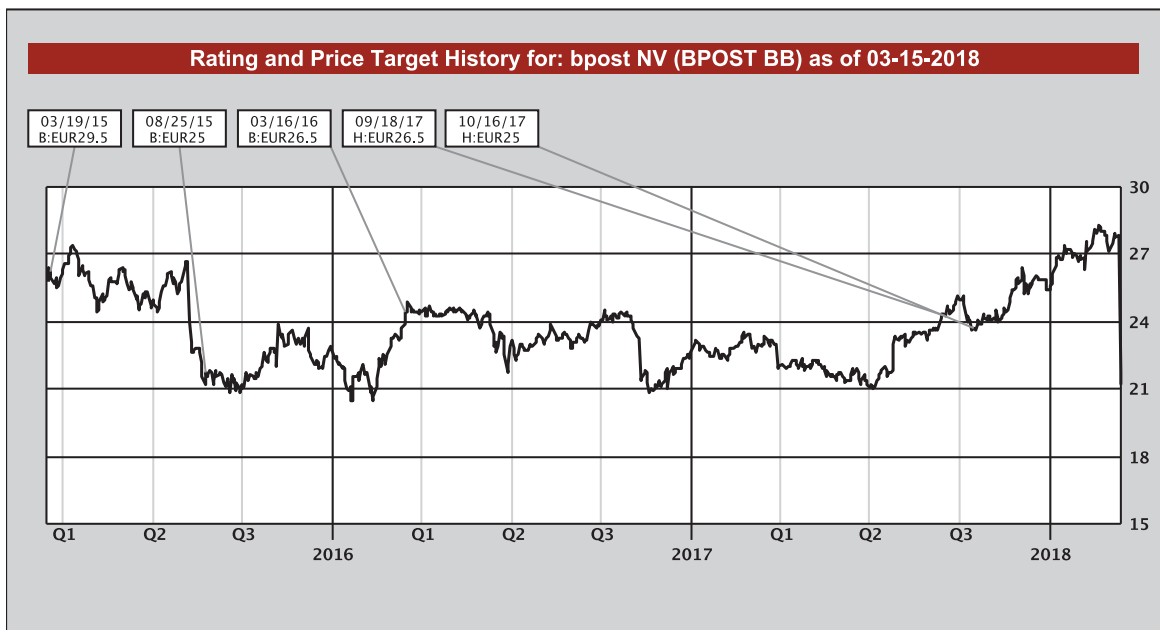
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Other Companies Mentioned in This Report

- Austrian Post AG (POST AV: €38.92, HOLD)
- CTT - Correios de Portugal SA (CTT PL: €3.12, HOLD)
- Deutsche Post DHL (DPW GR: €36.71, HOLD)
- PostNL NV (PNL NA: €3.11, BUY)
- Royal Mail Group Limited (RMG LN: p528.00, UNDERPERFORM)



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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			Count	Percent	Count	Percent
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