

Pos Malaysia

1HFY19 In The Red; Usual Suspects

By Raymond Choo Ping Khoo | pkchoo@kenanga.com.my

1HFY19 (due to FYE changed from Mar to Dec) core net loss of RM44m compared to our/consensus full-year estimates of -RM41m/-RM43m, came below expectations. The variance to our estimate was due to weaker-than-expected performance in the postal services segment. Post-results, we forecast wider losses of RM52.6m for FY19E but keep our FY20E forecast unchanged. TP is RM1.25 based on unchanged 0.6x FY20E BVPS. Reiterate UP.

1HFY19 (due to FYE changed from Mar to Dec) core net loss of RM44m compared to our/consensus full-year estimates of -RM41m/-RM43m came in below expectations. The variance to our estimate was due to weaker-than-expected performance in the postal services segment. No interim dividend was declared in this quarter as expected.

Results' highlights. QoQ, 2QFY19 losses widened to RM29.3m from RM15.1m in 1QFY19 due to widening losses from international (+90%) and mail segment (+1%) albeit large base effect as a result of declining mail volumes, reflecting the increasing substitution of letters with electronics media and elevated opex to serve the Universal Service Obligation (USO). This is further exacerbated by lower profit from Courier (-33%) due to lower volume from walk-in customers while Aviation was hit by lower tonnage of cargo handled.

YoY, 1HFY19 core losses widened to RM44m compared to RM11.6m in 1HFY18 due to: (i) continuous structural decline in traditional mail volume largely on electronic substitution, (ii) higher losses at International which we believe was partly due to lower utilisation rate, and (iii) lower contribution at Logistics due to completion of a project.

Outlook. We believe POS is suffering from an environment of elevated opex at this juncture. Intensifying competition coupled with continued expansion efforts have led to stagnating margins, thus causing profit deterioration despite volume and revenue growth. Meanwhile, given POS' inability to close down post offices, coupled with its unionised workforce and losses in its postal services segment, losses are only expected to continue moving forward. The courier business continues to operate in a competitive environment pressured by price and cost challenges. The group is continuing with its efforts to manage cost whilst increasing operating efficiency. The Integrated Parcel Centres (IPC) in Shah Alam and newly completed facility in KLIA has increased the processing capacity by 77% from 300,000 to 530,000 parcels per day.

Forecast wider losses for FY19E, maintain FY20E earnings forecast. Due to the weak set of results, we now forecast wider losses of RM52.6m for FY19 after accounting for higher losses in its postal services segment.

Maintain UNDERPERFORM. Our UNDERPERFORM call is premised on earnings uncertainty going forward. TP is RM1.25 based on an unchanged 0.6x FY20E BVPS (-1.5SD below 5-year historical forward mean). We are using PBV methodology due to the uncertain and volatile quarterly earnings ahead.

Risks to our call include: (i) lower-than-expected losses in postal services and (ii) better-than-expected margins in its courier segment.

UNDERPERFORM ↔

Price : RM1.48
Target Price : RM1.25 ↔

Share Price Performance



KLCI 1,591.35
YTD KLCI chg -5.9%
YTD stock price chg -14.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	POSM MK EQUITY
Market Cap (RM m)	1,158.5
Shares Outstanding	782.8
52-week range (H)	2.42
52-week range (L)	1.22
3-mth avg daily vol:	1,473,833
Free Float	29%
Beta	1.3

Major Shareholders

Hicom Holdings Berhad	31.4%
DRB-Hicom Bhd	22.1%
Employees Provident Fund	8.0%

Summary Earnings Table

FYE Dec (RM m)	2019A	2019E	2020E
Revenue	2,355.1	2,182.9	2,301.9
Profit Before Tax	-158.4	-69.9	-72.0
Net Profit/(loss)	-165.7	-52.6	-54.2
Core Net Profit/(loss)	-82.1	-52.6	-54.2
Consensus (CNP)	-	-42.5	-17.9
Earnings Revision	-	-30%	-
Core EPS (LPS) (sen)	-10.5	-6.7	-6.9
CNP growth (%)	-188.1	-35.9	2.9
DPS (sen)	4.0	4.0	4.0
BVPS (RM)	2.19	2.16	2.12
Core PER (x)	NM	NM	NM
Price/BV (x)	0.7	0.7	0.7
Net Gearing (x)	0.1	0.1	0.1
Div. Yield (%)	2.5	2.7	2.7

[^]2019A refer to FYE Mar

^{*}2019E is based on 9 months



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Results Highlights

	2Q	1Q (Apr-Jun)	Q-o-Q	2Q	Y-o-Y	6M	6M	Y-o-Y
	FY Dec 19	FY Dec 19	% chg	FY18	% chg	FY18	FY19	% chg
FYE March (RM m)								
Revenue	550.0	573.0	-4.0%	588.7	-6.6%	1,179.2	1,123.0	-4.8%
Profit/(loss) from operations	(23.1)	(3.7)	NM	(13.1)	76.9%	5.4	(26.8)	NM
Profit/(loss) before tax	(35.5)	(14.7)	NM	(18.2)	94.9%	(4.4)	(50.2)	NM
Net profit / (loss)	(29.3)	(15.1)	94.3%	(16.6)	76.8%	(11.6)	(44.4)	NM
Core net profit (loss)	(29.3)	(15.1)	94.3%	(16.6)	76.8%	(11.6)	(44.4)	NM
EPS / (LPS)	(3.8)	(1.9)	94.3%	(2.1)	76.9%	(1.5)	(5.7)	NM
Operating margin	-4.2%	-0.6%		-2.2%		0.5%	-2.4%	
PBT margin	-6.5%	-2.6%		-3.1%		-0.4%	-4.5%	
Net margin	-5.3%	-2.6%		-2.8%		-1.0%	-4.0%	
Core net margin	-5.3%	-2.6%		-2.8%		-1.0%	-4.0%	
Effective tax & zakat rate	17.3%	-2.4%		8.8%		NM	11.5%	

Source: Company, Kenanga Research

^change in FYE from FY Mar 2019 to FY Dec 2019

*Based on FYE Mar 2019

Segmental Breakdown

	2Q	1Q	Q-o-Q	6M	6M	Y-o-Y
	FY Dec 19	FY Dec 19^	% chg	FY18	FY19	% chg
FYE March (RM m)						
<u>Postal Services</u>						
Revenue	146.5	147.5	-0.7%	333.4	294.0	-11.8%
Segmental profit	(57.3)	(54.5)	5.2%	(110.6)	(111.7)	1.0%
Segmental margins	-39.1%	-36.9%		-33.2%	-38.0%	
<u>Courier</u>						
Revenue	200.1	224.5	-10.9%	419.5	424.6	1.2%
Segmental profit	20.4	27.5	-25.9%	71.7	47.8	-33.3%
Segmental margins	10.2%	12.2%		17.1%	11.3%	
<u>International</u>						
Revenue	41.3	32.9	25.7%	68.4	74.2	8.6%
Segmental profit	(3.6)	(12.4)	-70.5%	(8.4)	(16.0)	90.1%
Segmental margins	-8.8%	-37.6%		-12.3%	-21.6%	
<u>Logistics and Aviation</u>						
Revenue	143.8	138.5	3.8%	306.6	282.3	-7.9%
Segmental profit	9.0	6.7	33.8%	28.8	15.8	-45.2%
Segmental margins	6.3%	4.9%		9.4%	5.6%	
<u>Others</u>						
Revenue	18.3	29.6	-29.6%	52.0	47.9	-7.9%
Segmental profit	6.3	14.0	-44.2%	15.1	20.4	35.2%
Segmental margins	34.7%	47.5%		29.0%	42.6%	

Source: Company, Kenanga Research

^change in FYE from FY Mar 2019 to FY Dec 2019

*Based on FYE Mar 2019

Peer Comparison

Name	Last Price	Market Cap	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price	Rating
	(RM)	(RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
CJ CENTURY LOGISTICS HOLDINGS	0.370	144.4	Y	12/2019	6.4%	4.6%	-194.3%	-230.6%	17.2	N.A.	N.A.	0.5	0.5	-2.6%	0.0%	0.300	N.R.
MMC CORP BHD	0.990	3,014.6	Y	12/2019	-14.3%	4.8%	22.0%	0.9%	19.8	23.6	22.5	0.3	0.3	1.9%	1.5%	1.10	MP
POS MALAYSIA BERHAD	1.48	1,158.5	Y	12/2019	-7.3%	5.5%	-156.1%	-97.0%	N.A.	N.A.	N.A.	0.7	0.7	-3.1%	2.7%	1.25	UP
WESTPORTS HOLDINGS BHD	4.24	14,458.4	Y	12/2019	11.4%	8.2%	15.2%	11.0%	26.7	23.2	20.9	6.0	6.1	26.1%	3.2%	4.15	MP
Simple Average					-1.0%	5.8%	-78.3%	-78.9%	21.2	23.4	21.7	1.9	1.9	5.6%	1.9%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

