

Pos Malaysia

Postage Hike To Lift Earnings In FY20

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FY19 (due to FYE changed from Mar to Dec) core net loss of RM93m compared to our/consensus full-year estimates of – RM53m/-RM7.7m, came below expectations. The variance to our estimate was due to weaker-than-expected performance in the postal services segment. However, due to the upward revision in postal rates for registered mails, commercial mails and small parcels following Government's approval, effective 1 February 2020, we keep our FY20E forecasts unchanged. TP is RM1.95 unchanged based on 18x FY20 EPS. Reiterate OP.

Results' highlights. QoQ, 3QFY19 Core Net Losses (CNL) excluding provision for re-delivery of aircraft (RM28.6m) and impairment loss of goodwill in Logistics and Aviation segments (RM93.9m) widened to RM48.6m from RM29.3m in 2QFY19 due to enlarged losses from mail segment 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 losses at Courier due to lower volume from walk-in customers.

YoY, FY19 CNL widened to RM93m compared to RM25m in 9MFY18 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.

Tariff hikes for commercial postage rates. The upward revision in postal rates is a positive to Pos Malaysia Berhad (POSM) which will be raising postage rates for registered mails, commercial mails and small parcels following Government's approval, effective 1 February 2020. However, we would have preferred for the tariff to be increased based on a schedule or formula possibly indexed to inflation or based on certain quantitative or even qualitative KPIs, as compared to the one-time adjustment. The key risk of this one-time adjustment includes the inability of POSM to fully accommodate its social and commercial responsibilities, especially if the hike in commercial postal rates potentially causes mail volumes to deteriorate even further from current levels. Meanwhile, given POSM's inability to close down post offices, coupled with its unionised workforce and losses in its postal services segment turning the postal division around will remain challenging. However, with the postal rate hike effective 1 Feb, we have pencilled in a lower loss for postal for FY20. 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.

Maintain OP. Our TP is RM1.95 based on 18x FY20 EPS. The upward revision in postal rates is a positive to POSM which will be raising postage rates for registered mails, commercial mails and small parcels following Government's approval, effective 1 February 2020.

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

OUTPERFORM ↔

Price : RM1.33
Target Price : RM1.95 ↔

Share Price Performance



KLCI 1,500.8
YTD KLCI chg -5.5%
YTD stock price chg -10.1%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker POSM MK EQUITY
Market Cap (RM m) 1,041.1
Shares Outstanding 782.8
52-week range (H) 2.26
52-week range (L) 1.22
3-mth avg daily vol: 2,125,429
Free Float 30%
Beta 1.2

Major Shareholders

Hicom Holdings Berhad 31.4%
DRB-Hicom Bhd 22.1%
Employees Provident Fund 7.9%

Summary Earnings Table

FYE Dec (RM m)	2019A*	2020E	2021E
Revenue	1,682.5	2,301.9	2,440.3
Profit Before Tax	-241.9	112.4	126.6
Net Profit/(loss)	-215.8	84.1	94.8
Core Net Profit/(loss)	-93.1	84.1	94.8
Consensus (CNP)	-	-7.7	31.2
Earnings Revision	-	-	-
Core EPS (LPS) (sen)	-27.6	10.7	12.1
CNP growth (%)	162.7	-139.0	12.6
DPS (sen)	4.0	4.0	4.0
BVPS (RM)	1.85	1.91	1.97
Core PER (x)	N.A.	12.4	11.0
Price/BV (x)	0.7	0.7	0.7
Net Gearing (x)	0.3	0.2	0.1
Div. Yield (%)	3.0	3.0	3.0

*2019A is based on 9 months



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Results Highlights

	3Q FY Dec 19	2Q FY Dec 19	Q-o-Q % chg	9M FY18	9M FY19	Y-o-Y % chg
FYE Dec (RM m)						
Revenue	559.6	550.0	1.7%	1,760.4	1,682.5	-4.4%
Profit/(loss) from operations	(177.5)	(23.1)	NM	(7.6)	(204.3)	NM
Profit/(loss) before tax	(190.3)	(35.5)	NM	(24.8)	(241.9)	NM
Net profit / (loss)	(171.1)	(29.3)	NM	(24.6)	(215.6)	NM
Core net profit (loss)	(48.6)	(29.3)	NM	(24.6)	(93.1)	NM
EPS / (LPS)	(21.9)	(3.8)	NM	(3.1)	(27.5)	NM
Operating margin	-31.7%	-4.2%		-0.4%	-12.1%	
PBT margin	-34.0%	-6.5%		-1.4%	-14.4%	
Net margin	-30.6%	-5.3%		-1.4%	-12.8%	
Core net margin	-30.6%	-5.3%		-0.2%	-1.6%	
Effective tax & zakat rate	10.1%	17.3%		-9.0%	10.3%	

Source: Company, Kenanga Research

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

Segmental Breakdown

	3Q FY Dec 19	2Q FY Dec 19	Q-o-Q % chg	9M FY18	9M FY19	Y-o-Y % chg
FYE Dec (RM m)						
<u>Postal Services</u>						
Revenue	152.5	146.5	4.1%	507.9	446.5	-12.1%
Segmental profit	(90.2)	(57.3)	57.4%	(147.5)	(201.9)	36.9%
Segmental margins	-59.1%	-39.1%		-29.0%	-45.2%	
<u>Courier</u>						
Revenue	194.5	200.1	-2.8%	626.6	619.1	-1.2%
Segmental profit	(33.2)	20.4	-263.0%	93.5	14.7	-84.3%
Segmental margins	-17.1%	10.2%		14.9%	2.4%	
<u>International</u>						
Revenue	34.6	41.3	-16.3%	107.6	108.8	1.1%
Segmental profit	1.1	(3.6)	-131.5%	(8.8)	(14.9)	69.6%
Segmental margins	3.3%	-8.8%		-8.1%	-13.7%	
<u>Logistics and Aviation</u>						
Revenue	153.4	143.8	6.7%	451.6	435.7	-3.5%
Segmental profit	14.7	9.0	63.5%	32.4	30.5	-5.8%
Segmental margins	9.6%	6.3%		7.2%	7.0%	
<u>Others</u>						
Revenue	24.6	18.3	-29.6%	66.7	72.5	8.7%
Segmental profit	2.5	6.3	-44.2%	(2.5)	22.9	NM
Segmental margins	10.3%	34.7%		-3.8%	31.6%	

Source: Company, Kenanga Research

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

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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)	
MMC CORP BHD	0.900	2,740.6	Y	12/2020	-5.1%	2.2%	-6.4%	2.3%	13.6	14.5	14.2	0.3	0.3	2.0%	1.7%	0.970	MP
POS MALAYSIA BERHAD	1.33	1,041.1	Y	12/2019	36.8%	6.0%	110.4%	12.7%	N.A.	12.4	11.0	0.7	0.7	5.7%	3.0%	1.95	OP
WESTPORTS HOLDINGS BHD	3.62	12,344.2	Y	12/2020	7.9%	4.1%	4.6%	4.5%	19.2	18.3	17.5	4.8	4.5	25.5%	4.1%	4.05	MP
Simple Average					13.2%	4.1%	36.2%	6.5%	16.4	15.1	14.2	1.9	1.8	11.1%	2.9%		

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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