

19 May 2023

Pos Malaysia

Not-So-Good News in the Mail

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POS's 1QFY23 results disappointed, despite recovery in its logistics and aviation services. Its cost-cutting measures could not counter further deterioration at its postal segment on: (i) the decline in its courier volume as competitors cut prices, and (ii) accelerated in-sourcing of delivery function by e-commerce players. We widen our FY23F and FY24F net loss by 33% and 24% respectively, reduce our TP by 9% to RM0.42 (WACC: 6.5%; TG: 0%) from RM0.46, and maintain our UNDERPERFORM call.

1QFY23 core net loss of RM26.5m came in wider than expectations, at 49% and 40% of our full-year net loss forecast and the full-year consensus loss estimate, respectively. The key variance against our forecast came from steeper-than-expected deterioration of its postal business and courier volume (as competitors undercut while e-commerce players accelerated the in-sourcing of their delivery function).

YoY, 1QFY23 revenue came in flat, dragged by waning demand for its postal service (-13%), mitigated by the recovery in logistics services (+18%), aviation (+20%), and others services (+44%).

Its postal sales continued to be affected by the shifting of purchasing trend from online shopping back to bricks-and-mortar, worsened by lower demand from major e-commerce players shifting towards internal delivery capabilities (i.e. Shopee shifting toward its own Shopee Express).

Meanwhile, its logistics sales recovered strongly with the upliftment of the coal export ban imposed by Indonesian government in January 2022. Whereas, its aviation sales recovered on reopening of international borders especially the re-activation of umrah charter flights which drove in-flight catering higher.

Core net loss was lower at RM26.5m (-18%) mainly due to lower operating costs (-2%) driven by effective cost savings effort including a mutual separation scheme that started since 2021.

QoQ, 1QFY23 revenue rose 3% with positive growth across the board, i.e. postal service (+1%), logistics (+3%), aviation (+5%), and others services (+14%), on reopening of economies, especially China. 1QFY23 core net loss halved on better cost absorption as volumes recovered.

Forecasts. We widen our net loss forecast for FY23 and FY24 by 33% and 24%, respectively, to account for the deterioration of its postal business.

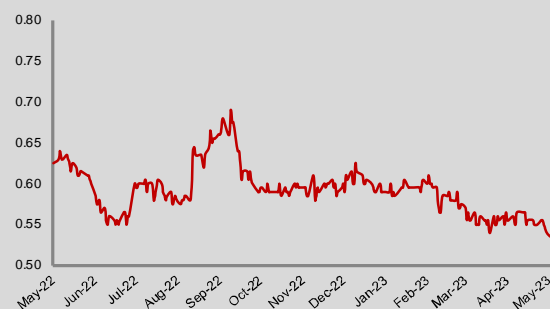
We reduce our DCF-derived TP by 9% to RM0.42 from RM0.46 based on a discount rate equivalent to a WACC of 6.5% and a terminal growth rate of 0%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **UNDERPERFORM**.

We are cautious on POS due to: (i) its struggling conventional mail business which is trying to stay relevant in the digital age, and we doubt that we have seen the bottom, (ii) its declining courier volume as incumbent POS has to face tremendous competition from new players such as J&T Express and Ninja Van that undercut aggressively on rates to grow their market shares, and (iii) its cost-cutting measures being insufficient to counter its weakening core business revenue.

UNDERPERFORM ↔

Price : RM0.54
Target Price : RM0.42 ↓

Share Price Performance



KLCI 1,428.04
YTD KLCI chg -4.5%
YTD stock price chg -11.6%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker POSM MK Equity
Market Cap (RM m) 418.8
Shares Outstanding 782.8
52-week range (H) 0.70
52-week range (L) 0.53
3-mth avg daily vol: 678,316
Free Float 34%
Beta 0.6

Major Shareholders

Hicom Holdings Berhad 31.4%
DRB-Hicom Bhd 22.1%
KWAP 5.1%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Revenue	1,960.8	1,830.6	1,732.9
Profit Before Tax	-169.8	-95.6	-26.4
Net Profit/(Loss)	-167.7	-71.9	-20.0
Core Net Profit/(Loss)	-101.1	-71.9	-20.0
Consensus (CNL)	-	-65.5	-3.1
Loss Revision	-	33%	24%
Core EPS (LPS) (sen)	-12.9	-9.2	-2.6
CNP growth (%)	-48.2	-28.9	-72.2
DPS (sen)	-	-	-
BVPS (RM)	1.04	0.99	0.98
Core PER (x)	-4.1	-5.8	-20.9
Price/BV (x)	0.5	0.5	0.5
Net Gearing (x)	0.5	0.6	0.6
Div. Yield (%)	-	-	-

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Risks to our call include: (i) the privatisation of POS at a premium over the market price, (ii) the return of profitability as cost rationalisation efforts finally pay off, and (iii) POS emerging stronger post the consolidation of the courier service segment after weak players are eliminated.

Result Highlight

FYE Dec (RM m)	1QFY23	4QFY22	QoQ	1QFY22	YoY	1QFY23	1QFY22	YoY
Revenue	482.3	467.2	3%	484.3	0%	482.3	484.3	0%
EBIT/ (LBIT)	(13.1)	(93.1)	-86%	(20.4)	-36%	(13.1)	(20.4)	-36%
PBT/(LBT)	(24.3)	(103.9)	-77%	(29.9)	-19%	(24.3)	(29.9)	-19%
PAT/ (LAT)	(27.7)	(98.4)	-72%	(30.4)	-9%	(27.7)	(30.4)	-9%
Core Net Profit/ (Core Net Loss)	(26.5)	(58.3)	-55%	(32.2)	-18%	(26.5)	(32.2)	-18%
EBIT Margin	N.M	N.M		N.M		N.M	N.M	
PBT margin	N.M	N.M		N.M		N.M	N.M	
Net margin	N.M	N.M		N.M		N.M	N.M	
Effective tax rate	N.M	N.M		N.M		N.M	N.M	

Source: Company, Kenanga Research

Segment Highlight

FY Dec (RM m)	1QFY23	4QFY22	QoQ	1QFY22	YoY	1QFY23	1QFY22	YoY
Postal	279.6	275.9	1%	320.7	-13%	279.6	320.7	-13%
Logistics	89.5	86.7	3%	75.8	18%	89.5	75.8	18%
Aviation	68.3	65.2	5%	56.8	20%	68.3	56.8	20%
Others	44.8	39.5	14%	31.0	44%	44.8	31.0	44%
Total Revenue	482.3	467.2	3%	484.3	0%	482.3	484.3	0%
Postal	(35.8)	(48.9)	-27%	(35.6)	1%	(35.8)	(35.6)	1%
Logistics	0.3	(60.3)	-100%	(5.2)	-106%	0.3	(5.2)	-106%
Aviation	(0.5)	(1.0)	-52%	3.7	-113%	(0.5)	3.7	-113%
Others	11.7	6.4	84%	7.2	63%	11.7	7.2	63%
Total PBT	(24.3)	(103.9)	-77%	(29.9)	-19%	(24.3)	(29.9)	-19%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	OP	5.00	6.00	20.00%	2,304.6	Y	12/2023	31.3	32.0	21.8%	2.2%	16.0	15.6	1.3	8.1%	17.4	3.5%
POS MALAYSIA BHD	UP	0.535	0.420	-21.50%	430.5	Y	12/2023	(9.2)	(2.6)	-171.1%	-127.8%	N.A.	N.A.	0.5	-9.1%	0.0	0.0%
SWIFT HAULAGE BHD	OP	0.470	0.970	106.38%	418.2	Y	12/2023	6.1	6.9	-4.7%	13.1%	7.7	6.8	0.6	8.0%	2.0	4.3%
WESTPORTS HOLDINGS BHD	MP	3.59	3.65	1.67%	11,969.1	Y	12/2023	20.6	21.7	9.3%	5.5%	17.4	16.5	3.5	20.9%	15.5	4.3%
SECTOR AGGREGATE					3,780.6					-36.2%	-26.8%	13.7	13.0	1.5	7.0%		3.0%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Services Quality & Safety	★	★	★		
	Cybersecurity & Data Privacy	★	★	★	★	
	Customer Experience	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★	★	
	Waste Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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