

Deutsche Post

Ticker Site BiG	DPW
Ticker BiGlobal Trade	DPW
Ticker BT24	DPW
Ticker BiG Power Trade	DPW
P/E Ratio 2019E	12.90
P/BV Ratio	2.59
EV/EBITDA	6.72

Source: Bloomberg;

Price and Performance (Values in EUR)

Price	28.55
52 week high	38.15
52 week low	23.36
YTD	19.4%
Average daily volume (un)	3,601,580
Market Capitalization (mn)	35,302
Beta	0.95
Dividend	1.15
EPS (Bloomberg Est.)	1.69

Source : Bloomberg;

Analysts Consensus (last 3 months)

Buy	20
Hold	8
Sell	1

Source : Bloomberg;

Financial Data

Sales (EUR mn)	61,550
EBITDA (EUR mn)	6,450
Number of Employees	547,459
D/E	46.5%
Dividend Yield	4.03%

Source : Bloomberg;

Notes:

All quotes were updated in Bloomberg at 11h45 of March 13th, 2019.

Relevant Information:

Use the following link to view our most recent publications:

<https://www.big.pt/InformacaoMercado/s/TradingIdeas/Index/-1>

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<https://www.big.pt/pdf/Newsletters/nld.pdf>

Deutsche Post (Ticker: DPW GY)

Description

Deutsche Post provides postal, delivery and logistic services. Around 34% of its EBIT is generated in postal services in Germany and parcels, 42% from express mail, 16.5% from its supply chain services and 7.5% from the ground, air and sea fleet (Global Forwarding & Freight). Its market share in global express TDI is around 38% vs 24% of FedEx and 22% of UPS.

Deutsche Post trades in Germany's stock exchange with a market capitalization of around EUR 35.3 bn and has more than 500,000 employees.

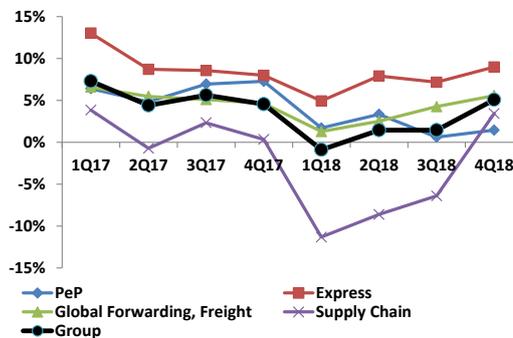
Investment Case

eCommerce Growth: Its strong market share in express allows it to benefit directly from the positive growth trends of eCommerce. In the 3rd quarter of 2018 the express segment grew +9.1% and DHL Global Forwarding & Freight +6.8%.

Supply Chain services: More companies are outsourcing their supply chain (storage, online sales management, deliveries and other services) and Deutsche Post has already achieved a 6.2% market share in this segment globally, being the leader at the moment. In this segment the company's objective is to secure an EBIT margin of 4% to 5%.

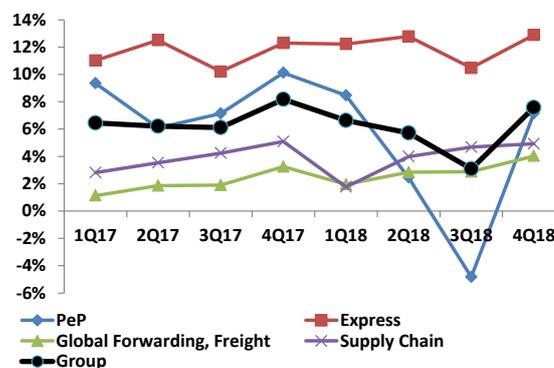
Growth in Asia: Deutsche Post has an agreement with SF in China to share revenues on logistic business in China, after selling this division to SF. However Deutsche Post still has the express, global forwarding and eCommerce business in China.

Revenue growth by segment YoY



Source: Deutsche Post

EBIT margin by segment



Source: Deutsche Post

Analyst:
João Calado, CFA

Research:
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Income Statement (EUR mn)	2018	2017
PeP	18344	18009
Post	9318	9587
eCommerce	8937	8336
Others	89	86
Express	15775	14693
Global Forwarding, Freight	14063	13689
Global Forwarding	10430	10080
Freight	3633	3609
Supply Chain	13201	13958
Others	2168	2234
Revenues	63551	62583
Salaries	20825	20072
Transport costs	21462	20381
Fuel	2275	1842
Others	12535	15076
Operational Expenses	57097	57371
Depreciation and Amortization	3292	1471
EBIT	3162	3741
Other income	201	89
Other spending	777	500
EBT	2586	3330
Taxes	362	477
Net Income	2224	2853
Earnings per share	1.66	2.15

Source: Company Data

Free Cash Flow (EUR mn)	2018	2017	2016
Operating	5796	3297	2439
Net Income	2224	2853	2781
Depreciation and Amortization	3292	1471	1377
Provisions	282	-940	-1799
Net working capital	-283	-121	-75
Others	281	34	155
Investments	-2777	-2091	-1643
Capex	-2707	-2434	-2322
Asset sales	165	576	838
Others	-235	-233	-159
Financing	-3039	-1087	-1233
Debt change	-971	603	905
Share buybacks	-44	-140	-845
Dividends	-1533	-1390	-1155
Others	-491	-160	-138
Change in FCF	-20	119	-437
FX effects	-98	-91	-64
Final cash and equivalents	3017	3135	3107

Source: Company Data

Balance Sheet (EUR mn)	2018	2017	2016
Assets	50470	38672	38295
Cash & Equivalents	3017	3135	3107
Receivables	8247	8218	7965
Property Plant & Equipment	19202	8782	8389
Inventories	454	327	275
Intangible Assets	11850	11792	12554
Other Assets	7700	6418	6005
Liabilities	36597	25769	26945
Short term Debt	2593	899	1464
Long term Debt	13869	5151	4571
Payables	7422	7343	7178
Pension benefit obligations	4348	4450	5580
Other liabilities	8365	7926	8152
Total Shareowner's Equity	13873	12903	11350
Total Equity and Liabilities	50470	38672	38295

Source: Company Data



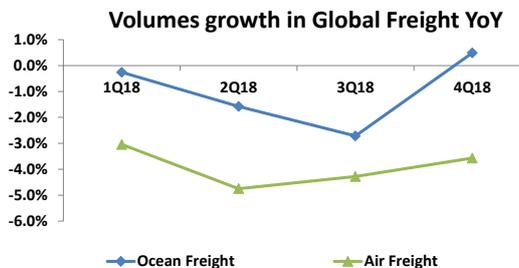
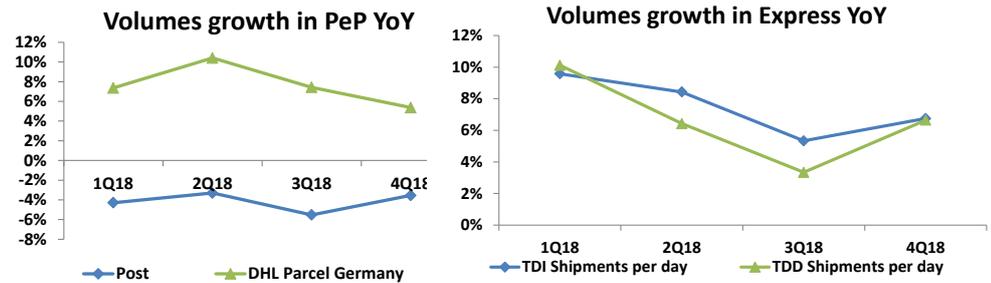
Source: Deutsche Post

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Income Statement

Mail in Germany represents 10% of total revenues so consequently its declining trends have a significant impact in the company's growth. On the other hand, Parcels, DHL eCommerce and Express have high growth rates but only represent 37% of revenues. Global Forwarding, freight and supply chain represent 45% of revenues but their growth has been declining. Salaries are the major company's cost, but recently Deutsche Post implemented an early retirement program in order to reduce headcount. It will become a much higher margin company if it successfully implements automation in order to reduce this cost. Fuel is an important cost but the company mitigates its impact by applying surcharges to customers.



Source: Deutsche Post

Free Cash Flow

The provisions related to funding the pension deficit have significantly impacted FCF of the company in 2016 and 2017. To enable Deutsche Post to pay dividends, management had to increase debt, however in 2018 there were no provisions and debt was reduced.

Balance Sheet

In Balance Sheet it is evident the high amount of intangible assets (EUR 11.8bn) which is almost double the amount of FedEx and UPS which are the direct comparables with similar sales and even bigger balance sheets. The pension benefit obligations of EUR 4.5 bn are another risk which has forced the company to constitute provisions in the past. In 2018 the company had to adopt to new IFRS16 regulation which demands that leases are included in the balance sheet as use of real assets and financial liabilities. This way, net debt increased from EUR 3bn in 2017 to EUR 13bn at end of 2018.

Management

Frank Appell (CEO): Frank has been Deutsche Post CEO since 2008 and his present mandate runs until 2022. Prior to joining Deutsche Post in 2000, Frank worked as a consultant in McKinsey since 1993. He is currently also in charge of the PeP division of the company.

In 2017 Frank earned EUR 9.9 mn in remuneration of which EUR 1.98mn in base salary, EUR 8.8bn in variable compensation and EUR 1bn in pension expense.

Comparative Analysis

Name	Country	Market Cap (mn)	Currency	P/E 2019E	P/E 2020E	Div. Yield	1 Yr. Price Δ	NetDebt/ EBITDA	Margin EBITDA
UNITED PARCEL SERVICE-CL B	UNITED STATES	93,774	USD	14.4	13.2	3.4%	-0.3%	1.9	12.8
FEDEX CORP	UNITED STATES	46,249	USD	11.1	9.9	1.5%	-29.3%	1.9	11.6
DEUTSCHE POST AG-REG	GERMANY	35,302	EUR	12.9	11.5	4.0%	-21.7%	2.1	10.5
Average exc. DPW				12.7	11.6	2.43%	-14.82%	1.9	12.2

Source: Bloomberg; BiG Research

Risks

Business cyclicality: Despite the growing trends of eCommerce and parcel delivery, the logistics business is highly cyclical and consequently if there is a slowdown of global growth, company's revenues are expected to slowdown also.

Foreign exchange: The exposure Deutsche Post has to foreign markets implies a negative impact in revenues from the depreciation of EUR. The company does its foreign exchange hedge selectively and ended the program of rolling hedge in 2017.

Germany regulation on postal services: Around EUR 3bn of mail revenues in Germany are limited by the regulators approval of price increases. The regulator announced a 4.8% increase in letter prices for the 1Q19, however as the underlying regulation will be changed the price increase was further delayed.

Brexit: The company has operations in UK so a hard Brexit will have an impact specially if it includes a hard closure of borders.

Trade Wars: Tension between China and US may have a negative impact in global trade which may lead to a decline in volumes in Deutsche Post.

Rating		
Agency	Rating	Outlook
Moody's	A3	STABLE
Fitch	BBB+	STABLE

Source: Bloomberg

Graph



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

Calendar

May 10th, 2019: First quarter of 2019 earnings

May 15th, 2019: Annual General Meeting

May 16th, 2019: Ex-date dividend

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 - Accumulate, expected absolute return between +5% and +15%;
 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
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PSI20 Notes in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75.0%
Keep/Neutral	0	0.0%
Reduce/Sell	1	25.0%
Total	4	100.0%

Source: BiG Research

Trading Ideas in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Profit Taking	11	61.1%
Stop Loss	6	33.3%
In Place	1	5.6%
Total	18	100.0%

Pair Trades in the last 12 months as of 30th of September of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

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