

Headline	Pos Malaysia to maintain net cash status		
MediaTitle	The Edge Financial Daily		
Date	15 Aug 2017	Language	English
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PR Value	RM 16,611		



Pos Malaysia to maintain net cash status

Pos Malaysia Bhd
(Aug 14, RM5.12)

Maintain underperform with an unchanged target price of RM4:

Pos Malaysia Bhd has signed a memorandum of agreement with Ratu Shipping Co SA for the acquisition of a second-hand Kamsarmax bulk carrier vessel, namely *Golden Trader 1*, and Trans Nanjing Shipping Ltd for the acquisition of a second-hand Post-Panamax bulk carrier vessel, namely *Trans Nanjing*, for a total purchase consideration of US\$32.9 million (RM141.14 million). The acquisition is expected to be completed latest by Dec 31, 2017.

Pos Malaysia was awarded with two contracts by TNB Fuel Services Sdn Bhd on July 19, 2016 to transport coal from various countries to ports in Malaysia. The contracts are cumulatively valued at US\$194 million, with a duration of 10 years. The acquisition of the two vessels was part of the requirements of the contracts awarded. Prior to the acquisition of the two vessels, Pos Malaysia had been utilising chartered vessels to transport coal.

As the acquisitions are expected to be completed by year end, their impact on financial year 2018 (FY18) earnings should be neutral. Likewise, given that the contracts were secured by KL Airport Services Sdn Bhd before Pos Malaysia's completed acquisition of the former in mid-September 2016, revenue generated from the contracts is also deemed to have already been factored in. With that said, capital expenditure (capex) incurred for the acquisitions is comparatively high, with Pos Malaysia only incurring capex of RM105 million to RM121

million per year for the past three years. However, assuming that the acquisitions will be funded entirely through borrowings, Pos Malaysia is still likely to maintain its net cash status, having being in a net cash position of RM536 million as at end-March 2017. Overall, we opt to maintain our forecasts for now, pending the release of its upcoming first quarter ended June 30, 2017 (1QFY18) results later this week.

The stock is currently trading at 34 times forward price-earnings ratio (PER), which is higher compared to global comparable peers, such as UPS with a PER of 19 times and Singapore Post Ltd 24 times. Likewise, Pos Malaysia's earnings are also expected to be dragged down by its loss-making postal services segment, which is not expected to return to the black any time in the foreseeable future.

Risks to our call include lower-than-forecast earnings from logistics operations and lower-than-expected losses from postal services.

— *Kenanga Research, Aug 14*

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Pos Malaysia's earnings are also expected to be dragged down by its loss-making postal services segment. Photo by Kenny Yap



Pos Malaysia Bhd

FYE MARCH (RM MIL)	2017A	2018E	2019E
Revenue	2,082.3	1,975.0	1,969.1
Ebit	142.9	175.8	198.9
PBT	133.9	171.7	180.7
Net profit (NP)	84.1	120.2	122.9
Core NP	84.1	120.2	122.9
Consensus (NP)	-	136.8	168.8
Core EPS (sen)	10.7	15.4	15.7
C EPS growth (%)	17.2	42.9	2.2
DPS (sen)	10.7	11.0	12.0
BVPS (RM)	2.5	2.5	2.6
Core PER (x)	48.1	33.7	32.9
P/BV (x)	2.1	2.0	2.0
Net gearing (x)	N cash	N cash	N cash
Net dividend yield (%)	2.1	2.1	2.3

Source: Kenanga Research