



Company report

AmInvestment Bank
www.amequities.com.my
03-2036 2240

POS MALAYSIA

(POSM MK EQUITY, PSHL.KL)

27 Oct 2020

A freeze on new courier service licence

HOLD

Price: RM0.88
Fair Value: RM0.90

Rationale for report: Company update

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue	1,682.5	2,230.8	2,352.7	2,566.0
Core net profit (RM mil)	(119.2)	(89.7)	(23.5)	30.7

Source: AmInvestment Bank Bhd

Quick Take

- The Malaysian Communication and Multimedia Commission (MCMC) has announced a two-year moratorium on the issuance of courier service licence, effective 14 September 2020 until 15 September 2022.
- During the enforcement period, it will not accept any new licence application for all categories of courier services.
- It will also draft a new action plan via the National Postal and Courier Industry Laboratory (NPCIL) to support the strategic development aspirations of the new postal and courier industry, and shall publish the report at the end of November. This will give more clarity on the future prospect of the segment moving forward.
- We believe the latest development is mildly positive for all existing courier service players including Pos Malaysia, as it puts a stop to the entry of new players. However, aspiring players could still gain entry via the acquisition of existing players. Meanwhile, in the absence of a major consolidation, the playing field remains crowded with 109 courier service licensees in Malaysia.
- We maintain our HOLD recommendation, forecasts and fair value of RM0.90 for Pos Malaysia based on its historical P/B of 0.51x.
- We believe the new norms (accelerated digitalization, social distancing, proliferation of online shopping, etc.) in the aftermath of the Covid-19 pandemic are positive to the parcel delivery segment (of which Pos Malaysia is one of the top three players in Malaysia). However, this is offset by an overly crowded playing field with cut-throat competition resulting in razor-thin margins, as mentioned.
- Also, postal service providers around the global, Pos Malaysia included, are fighting a losing battle in the dying snail mail business. In order to survive, they need to: (1) cut cost; and (2) reinvent. We believe Pos Malaysia's hands are tied given its unionised workforce. Meanwhile, its courier segment could be considered a "reinvention" (and it has an advantage over its competitors given its extensive legacy post office network). However, the segment is weighed down by cut-throat competition as mentioned.

TABLE 1 : VALUATION MATRIX

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue	1,682.5	2,230.8	2,352.7	2,566.0
Core net profit (RM mil)	(119.2)	(89.7)	(23.5)	30.7
FD Core EPS (sen)	(0.6)	(0.1)	(0.0)	0.1
FD Core EPS growth (%)	(0.5)	(0.8)	(0.7)	(3.2)
Consensus Net Profit (RM mil)	-	(53.0)	(0.8)	(17.2)
DPS (sen)	-	-	-	-
PE (x)	nm	nm	nm	9.0
EV/EBITDA (x)	nm	nm	nm	5.5
Div yield (%)	-	-	-	-
ROE (%)	(14.4)	(5.2)	(1.4)	3.0
Net Gearing (%)	23.2	20.3	23.5	23.7

Source: Company, AmInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad ("AmInvestment") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.