

29 January 2020

# Pos Malaysia

## Commercial Postage Rates Hike

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Pos Malaysia Berhad (POSM) will be raising postage rates for registered mails, commercial mails and small parcels following Government's approval, effective 1 February 2020. The last postage rates revision was in 2010 and we expect its share price to open higher following the announcement. We now forecast a FY20 Net Profit of RM84m instead of loss of RM54m. TP is raised from RM1.25 to RM1.95 based on 18x FY20 EPS. Upgrade from Underperform to Outperform.

**Tariff raised for commercial postage rates.** POSM will be raising postage rates for registered mails, commercial mails and small parcels of <2kg following the approval by the Government on the new rates, effective 1 February 2020. The last postage rates revision was in 2010. The revised commercial postage rates include: (i) commercial stamp rate raised 70 sen to RM1.30, (ii) commercial registered mail tariff hiked by 90 sen to RM3.10, (iii) commercial private letter box raised by RM150 to RM200, and (iv) non-commercial registered mail increased by 20 sen to RM2.40. Pos Malaysia's commercial clients represent 95% of all mail users in Malaysia with only 5% comprising individual mail users. Besides domestic postage rates, international postal services saw an increase in last mile delivery cost of up to 30% for small parcels below 2kg, beginning January 2020. This reflects the recent decision by the Universal Postal Union (UPU) from the Geneva Extraordinary Congress in September 2019, affecting postal operators globally. As such international postage rates for parcels of <2kg will be raised by 30%.

**Ballpark figure since difficult to quantify.** Given that the actual breakdown of mail volumes by their respective categories is not available, we are unable to assess in detail the impact of the increase in postal tariffs on POSM's earnings. Furthermore, it is difficult to quantify any potential decline in mail volumes, which is a reasonable possibility, due to the hike in stamp prices. Back-on-our-envelope calculation, assuming the following: a 3% decline in volume, commercial registered at 10%, non-commercial registered at 50% and commercial stamp at 40% of the overall 95% commercial clients of all mail users in Malaysia, our FY20E earnings is now expected to register a net profit of RM84m.

**Short-term reprieve.** The upward revision in postal rates is a positive to POSM. 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 a 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.

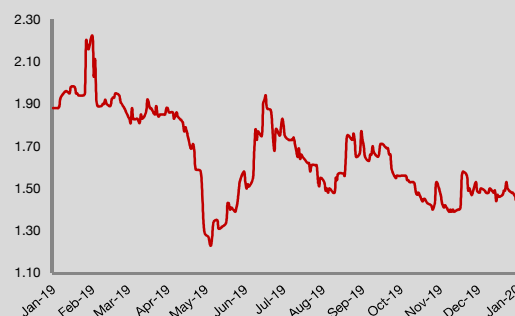
**Upgrade from UP to OP.** Raise FY20 earnings from Net Loss of RM54m to Net Profit of RM84m due to the tariff hike. Our TP is also raised from RM1.25 to RM1.95 based on 18x FY20 EPS (previously based on 0.6x FY20E BVPS due to loss-making position). Upgrade from Underperform to Outperform.

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

**OUTPERFORM** ↑

Price : **RM1.44**  
Target Price : **RM1.95** ↑

### Share Price Performance



KLCI 1,551.64  
YTD KLCI chg -2.3%  
YTD stock price chg -2.7%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker POSM MK EQUITY  
Market Cap (RM m) 1,127.2  
Shares Outstanding 782.8  
52-week range (H) 2.26  
52-week range (L) 1.22  
3-mth avg daily vol: 1,712,325  
Free Float 29%  
Beta 1.3

### 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	2019E	2020E
Revenue	2,355.1	2,182.9	2,301.9
Profit Before Tax	-158.4	-69.9	112.3
<b>Net Profit/(loss)</b>	<b>-165.7</b>	<b>-52.6</b>	<b>84.0</b>
<b>Core Net Profit/(loss)</b>	<b>-82.1</b>	<b>-52.6</b>	<b>84.0</b>
Consensus CNP (NL)	-	-58.9	-36.4
Earnings Revision	-	-	>100%
Core EPS (LPS) (sen)	(10.5)	(6.73)	10.7
CNP growth (%)	-188.1	-35.9	NM
DPS (sen)	4.0	4.0	4.0
BVPS (RM)	2.19	2.16	2.21
Core PER (x)	NM	NM	13.4
Price/BV (x)	0.7	0.7	0.7
Net Gearing (x)	0.14	0.11	0.0
Div. Yield (%)	2.8	2.8	2.8

^2019A refer to FYE Mar

\*2019E is based on 9 months

Commercial Postage Rates Hike

# REVISED COMMERCIAL POSTAGE RATES WILL NOT AFFECT THE RAKYAT

## Applies to Commercial Entities\* only

With effect from 1 February 2020.

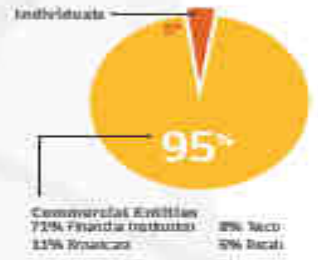


**RAKYAT**  
Stamp Rate  
**RM0.60**  
**NO CHANGE**

**COMMERCIAL**  
Stamp Rate  
**RM1.30**  
▲ RM0.70

Other Categories:

<b>COMMERCIAL PRIVATE LETTER BOX</b> RM200 ▲ RM150	<b>COMMERCIAL REGISTERED MAIL</b> RM3.10 ▲ RM0.90	<b>NON-COMMERCIAL REGISTERED MAIL</b> RM2.40 ▲ RM0.20
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**Commercial Entities\* Make Up 95% of Mail Users**

\* Includes all entities in business or non-business, including public sector organizations, government institutions, and non-profit organizations.

## International postage rates for parcels less than 2kg will increase up to 30%

- Following the UPU Extraordinary Congress in Geneva, international postal services saw an increase in last mile delivery cost of up to 30% for small parcels below 2kg, beginning January 2020.
- Last mile delivery costs in the U.S. will further increase by approximately 210% in July 2020.



Source: Company, Kenanga Research



29 January 2020

## 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	0.930	2,831.9	Y	12/2019	-14.3%	4.8%	22.0%	0.9%	18.5	15.1	15.0	0.3	0.3	1.9%	1.6%	0.970	MP
POS MALAYSIA BERHAD	1.44	1,127.2	Y	12/2019	-7.3%	5.5%	-156.1%	62.6%	NM	NM	13.4	0.7	0.7	-3.1%	2.8%	1.95	OP
WESTPORTS HOLDINGS BHD	4.00	13,640.0	Y	12/2019	11.4%	8.2%	15.2%	11.0%	25.2	21.9	19.7	5.6	5.8	26.1%	3.4%	4.15	MP
<b>Simple Average</b>					-3.4%	6.2%	-39.6%	24.8%	21.8	18.5	16.0	2.2	2.2	8.3%	2.6%		

Source: Bloomberg, Kenanga Research

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29 January 2020

**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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