Pos Malaysia

Losses Narrowed in 2QFY20

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MARKET PERFORM ↔

Price : RM0.90

Target Price : RM0.90 ↔

1HFY20 net loss narrowed to RM68m compared to our full-year net profit estimate of RM66m and consensus net loss of RM53m. We expect a stronger 2H considering that the narrowing losses in 2QFY20 and postal returning to the black are encouraging signs of the group turning around. TP is RM0.90 based on 10x FY21E EPS. Reiterate MP.

Results' highlights. QoQ, 2QFY20 net losses narrowed to RM19m compared to RM49m in 1QFY20 due to postal services returning to the black but was offset by higher losses at aviation (mainly due to loss of revenue from ground handling and in-flight catering pursuant to flight cancellations in the wake of COVID-19 pandemic where international borders were mostly closed) and logistics.

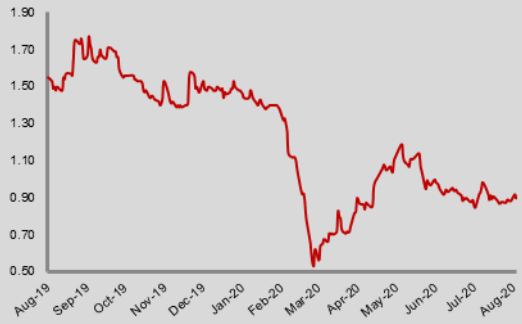
YoY, 1HFY20 postal segment's revenue was largely contributed by courier business (45%) followed by mail business (32%). The high parcel volume pursuant to the stronger demand from e-commerce and online marketplace contributed positively to its courier business. Furthermore, the postage rates revision effective 1 February 2020 also impacted positively on the postal segment revenue. However, its aviation division suffered losses due to loss of revenue from ground handling and in-flight catering pursuant to flight cancellations in the wake of COVID-19 pandemic where international borders were mostly closed. As such, 1HFY20 losses narrowed to RM68m compared to RM156m in 1H 2019 (Jan – June) largely due to the postage tariff revision in Feb 2020.

Outlook. Meanwhile, POS' inability to close down post offices, coupled with its unionised workforce could well mean profitability at its postal services segment is capped. The courier business will continue to operate in a competitive environment pressured by price and cost challenges. The group is continuing with its efforts to manage cost whilst increasing operating efficiency. The Integrated Parcel Centres (IPC) in Shah Alam and a newly completed facility in KLIA has increased its processing capacity by 77% from 300,000 to 530,000 parcels per day.

Reiterate MP. Our TP is RM0.90 based on 10x FY21E EPS. The saving grace is a 4% dividend yield.

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

Share Price Performance



KLCI	1,554.96
YTD KLCI chg	-2.1%
YTD stock price chg	-39.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	POSM MK EQUITY
Market Cap (RM m)	704.5
Shares Outstanding	782.8
52-week range (H)	1.80
52-week range (L)	0.52
3-mth avg daily vol:	4,703,797
Free Float	32%
Beta	1.4

Major Shareholders

Hicom Holdings Berhad	31.4%
DRB-Hicom Bhd	22.1%
Employees Provident Fund	7.7%

Summary Earnings Table

FYE Dec (RM m)	2019A*	2020E	2021E
Revenue	1,682.5	2,261.9	2,640.3
Profit Before Tax	-241.9	87.9	94.1
Net Profit/(loss)	**-215.8**	**65.7**	**70.3**
Core Net Profit/(loss)	**-93.1**	**65.7**	**70.3**
Consensus (CNP)	-	-53.0	-0.8
Earnings Revision	-	-	-
Core EPS (LPS) (sen)	-27.6	8.4	9.0
CNP growth (%)	162.7	NM	7.0
DPS (sen)	4.0	4.0	4.0
BVPS (RM)	1.85	1.90	1.94
Core PER (x)	NM	10.7	10.0
Price/BV (x)	0.5	0.5	0.5
Net Gearing (x)	0.3	0.2	0.1
Div. Yield (%)	4.4	4.4	4.4

**2019E is based on 9 months*

Results Highlights

FYE Dec (RM m)	2Q FY20	1Q FY20	Q-o-Q % chg	6M* FY19	6M FY20	Y-o-Y % chg
Revenue	606.1	558.5	8.5%	1,167.6	1,164.6	-0.3%
Profit/(loss) from operations	(2.0)	(35.2)	-94.2%	(131.4)	(37.2)	-71.7%
Profit/(loss) before tax	(13.8)	(46.7)	-70.5%	(149.2)	(60.5)	-59.5%
Net profit / (loss)	(19.0)	(49.2)	-61.4%	(156.2)	(68.2)	-56.3%
Core net profit (loss)	(19.0)	(49.2)	-61.4%	(156.2)	(68.2)	-56.3%
Operating margin	-0.3%	-6.3%		-11.2%	-3.2%	
PBT margin	-2.3%	-8.4%		-12.8%	-5.2%	
Net margin	-3.1%	-8.8%		-13.4%	-5.9%	
Core net margin	-3.1%	-8.8%		-13.4%	-5.9%	
Effective tax & zakat rate	-37.8%	-5.6%		-4.7%	-12.8%	

Source: Company, Kenanga Research
^change in FYE from FY Mar 2019 to FY Dec 2019
**Jan to June 2019*

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	0.740	2,253.3	Y	12/2020	-5.1%	2.2%	8.8%	2.5%	11.2	10.3	10.0	0.2	0.2	2.3%	5.4%	0.695	MP
POS MALAYSIA BERHAD	0.900	704.5	Y	12/2019	34.4%	16.7%	-20.0%	7.0%	N.A.	10.7	10.0	0.5	0.5	4.5%	4.4%	0.900	MP
WESTPORTS HOLDINGS BHD	3.80	12,958.0	Y	12/2020	2.5%	4.1%	-3.0%	4.4%	20.1	20.7	19.9	5.1	4.8	23.7%	3.7%	3.65	MP
Simple Average					**0.0%**	**10.5%**	**-224.3%**	**14.3%**	**15.9**	**23.1**	**14.6**	**1.5**	**1.4**	**-1.6%**	**2.9%**		

Source: Bloomberg, Kenanga Research

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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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