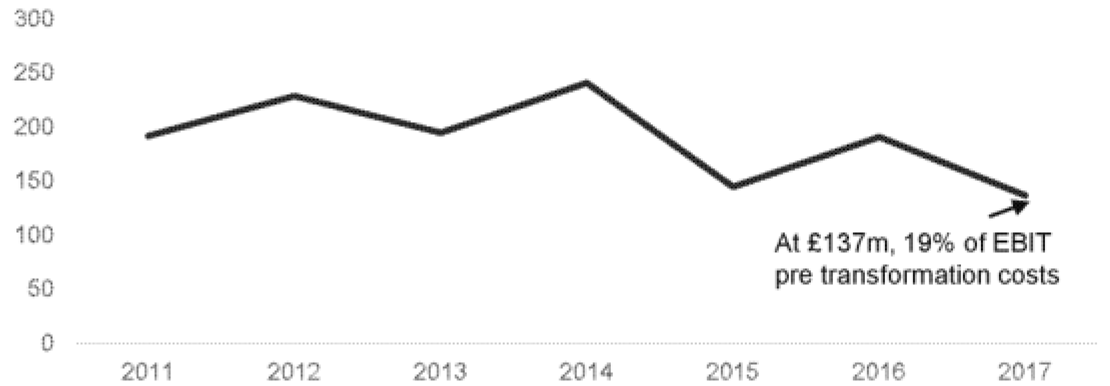
Deutsche Bank

31 Royal Mail – Andy Chu, SELL, close 454p, 359p tgt, 21% downside

- **It will be tougher to restructure in the coming twelve months.** Modernisation and cost cutting are essential, but this will be difficult with weak GDP growth, Brexit risk, high wage pressures and union negotiations.
- **Still in the early phases of transformation.** Postal and parcel network businesses are very complex, making restructuring very challenging.
  - Royal Mail lags behind Deutsche Post DHL by twenty years in terms of re-positioning the business to grow EBIT.
- Royal Mail's medium- to long-term strategy is not entirely clear. There is no clarity on the geographic/business mix on a 5-10 year view:
  - While M&A has been focused in GLS in Europe, there have also been bolt-on acquisitions in the US where we see few large-scale synergies.
- **FY Mar 18/19 profits could fall YoY.** Mid-single digit volume decline in addressed mail likely to offset strong growth in GLS and modest UK parcel growth.
- **Shareholders are not near the top of the stakeholder list.** Restructuring, employee wages and pensions and M&A are all greater priorities than shareholder return.
- **Dividend yield unattractive vs. peers.** The 5.6% dividend yield is above UK market but below Austrian Post and PostNL at 6.3%, both of which have been restructuring for far longer.
- Catalysts: further newsflow on union negotiations, trading update 18 January 2018

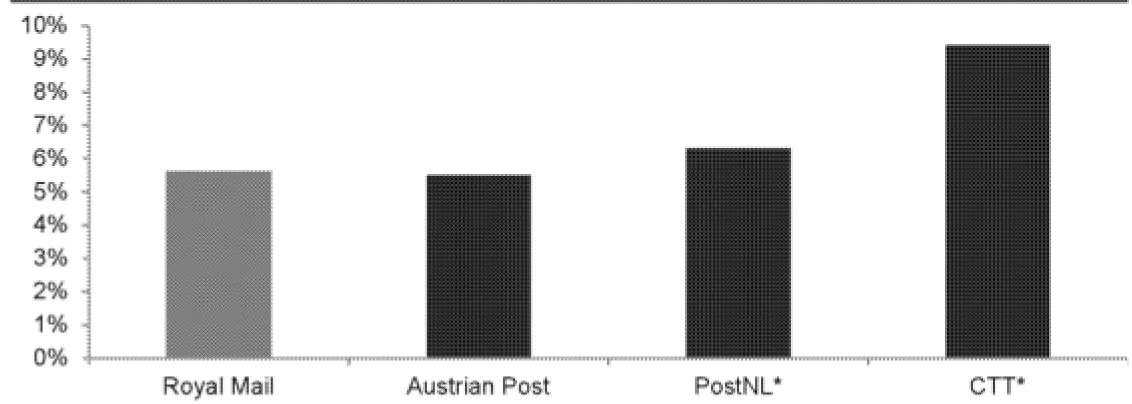
Related DB Research:
Royal Mail: Moving to SELL – Harder to restructure (Chu)
Transportation Outlook 2018: Going Places (Chu)

On-going transformation costs (FY P&L £'m) remain stubbornly high



Source: Company data

RMG dividend yield (CY18) looks less impressive vs. peers



Source: Deutsche Bank Research, * Factset consensus, as of 22/12/17