



Company report

POS MALAYSIA

(POSM MK EQUITY, PSHL.KL)

23 Feb 2021

*It's darkest before the dawn***BUY**

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Company results

Price	RM0.98
Fair Value	RM1.07
52-week High/Low	RM1.36/RM0.52

Key Changes

Fair value	⬇️
EPS	⬇️

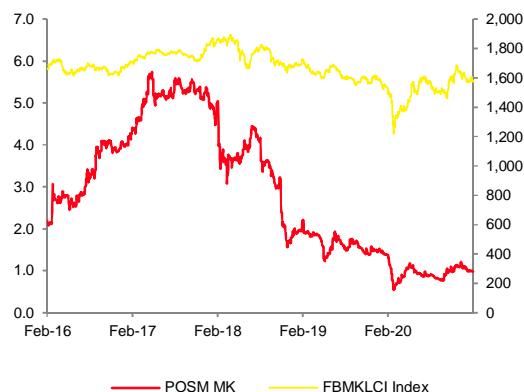
YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	2,332.3	2,531.3	2,701.4	2,875.6
Core net profit (RM mil)	(163.7)	(62.0)	52.1	78.5
FD Core EPS (sen)	(20.9)	(7.9)	6.7	10.0
FD Core EPS growth (%)	0.4	(0.6)	(1.8)	0.5
Consensus Net Profit (RM mil)	-	12.1	(4.3)	-
DPS (sen)	0.0	0.0	0.0	0.0
PE (x)	nm	nm	14.7	9.8
EV/EBITDA (x)	nm	nm	5.5	5.5
Div yield (%)	-	-	-	-
ROE (%)	(14.3)	(5.4)	4.6	6.9
Net Gearing (%)	30.8	32.9	30.7	30.6

Stock and Financial Data

Shares Outstanding (million)	782.8
Market Cap (RM mil)	771.0
Book Value (RM/share)	1.46
P/BV (x)	0.7
ROE (%)	(14.4)
Net Gearing (%)	30.8

Major Shareholders	Hicom Holdings(31.4%) DRB-Hicom(22.1%) KWAP(6.6%)
Free Float	27.2
Avg Daily Value (RM mil)	5.7

Price performance	3mth	6mth	12mth
Absolute (%)	(8.8)	11.3	(28.6)
Relative (%)	(7.4)	11.8	(30.4)



Investment Highlights

- We now project a FY21F net loss of RM62.0mil (vs. a RM0.9mil net profit previously) and a slightly higher FY22F net profit of RM52.1mil (vs. a RM51.1mil net profit previously). In line with our forecast of a turnaround in FY22F, we now use an earnings-based valuation method for Pos Malaysia, i.e. 16x revised FY22F EPS (vs. an asset-based valuation method, i.e. 0.75x P/B previously). Maintain BUY.
- Nonetheless, we cut our fair value (FV) by 20% to RM1.07 (vs. RM1.33 previously). At 16x forward earnings, we value Pos Malaysia at a discount to its peer Singapore Post's 19x to reflect Pos Malaysia's tougher competitive landscape in Malaysia.
- Pos Malaysia's FY20 results disappointed with wider-than-expected net loss of RM163.7mil vs. net loss forecasts of RM63.0mil of ours and RM55.3mil of market estimates.
- The variance against our forecast came largely from deeper-than-expected losses from: (1) postal services largely due to the temporary shutdown of its main parcel processing centre (70% of total capacity) in Oct–Nov 2020 on the back of the Covid-19 outbreak; (2) aviation due to a collapse in demand on border closure; and (3) logistics due to operational disruptions from the pandemic. In addition, there were one-off provisions comprising goodwill impairment (RM16.2mil) and staff right-sizing (RM41.6mil), offset by gains from the partial disposal of World Cargo Airline Sdn Bhd (RM79.3mil).
- On a brighter note, revenues from postal services rose 8% YoY as the positive impact from the postal tariff hikes effective 1 Feb 2020 more than offset the loss of parcel volume in 4Q as mentioned. The higher revenue from postal services helped to narrow operating loss by 70% to RM95.1mil in FY20 from RM315.4mil in FY19.
- Meanwhile, the logistics segment's revenue inched up by 3% YoY, mainly driven by higher demand for freight forwarding and haulages, and the rise in automotive production volume from Proton.
- The aviation segment's revenues dropped by 39% YoY, mainly due to a loss of revenue from ground handling and in-flight catering brought about by flight cancellations globally following the Covid-19 pandemic.

- We are cautious on Pos Malaysia's outlook in FY21F as it takes time for Pos Malaysia to recover market share loss due to the shutdown of its main process centre in Oct–Nov 2020 as mentioned, as well as for its operations to fully normalise/recover from the pandemic.
- However, looking beyond FY21F, the outlook for the parcel delivery segment (of which Pos Malaysia is one of the top three players in Malaysia) is positive underpinned by: (1) the structural and irreversible change in consumer preference towards online shopping; and (2) the freeze on new courier licences in Malaysia from Sept 2020 to Sept 2022 to ensure rational competition in the segment.

EXHIBIT 1: RESULTS SUMMARY

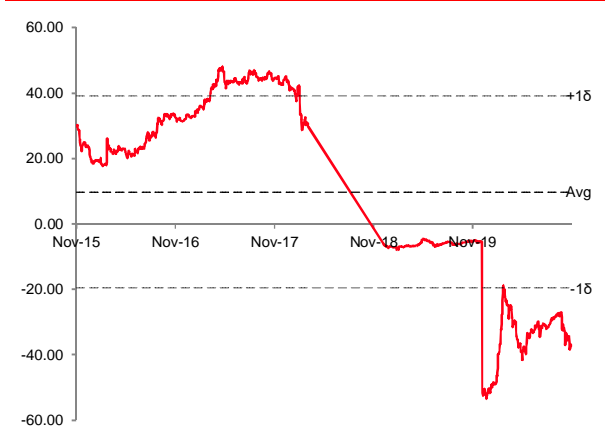
(RM 'mil)	4QCY19	3QFY20	4QFY20	QoQ	YoY	CY19	FY20	YoY
Revenue	559.6	623.0	544.6	-13%	-3%	2,277.2	2,332.3	2%
Cost of sales and operating expenses	(650.1)	(617.3)	(659.2)	7%	1%	(2,484.2)	(2,445.7)	-2%
Other income	19.5	4.9	87.8	1675%	351%	55.9	108.4	94%
Other expenses	(106.4)	(10.5)	(188.0)	1692%	77%	(180.9)	(246.8)	36%
Profit from operations	(177.5)	0.2	(214.7)	n.m.	21%	(331.9)	(251.8)	-24%
Finance costs	(12.9)	(10.2)	(16.7)	64%	30%	(43.1)	(50.2)	16%
Profit before zakat and taxation	(190.3)	(10.1)	(231.4)	2200%	22%	(375.1)	(302.0)	-19%
Zakat	(0.6)	(0.3)	(0.3)	-16%	-56%	(0.5)	(1.5)	n.m.
PBT	(191.0)	(10.4)	(231.7)	2127%	21%	(375.5)	(303.5)	-19%
Taxation	19.9	3.0	(0.6)	n.m.	n.m.	18.8	(4.5)	-124%
Net profit	(171.1)	(7.4)	(232.3)	3028%	36%	(356.7)	(308.0)	-14%
EI	90.7	2.8	128.0	4481%	41%	141.2	144.3	2%
Core net profit	(80.4)	(4.6)	(104.4)	2153%	30%	(215.5)	(163.7)	-24%
EPS	(21.9)	(0.9)	(29.7)			(45.6)	(39.3)	
Core EPS	(10.3)	(0.6)	(13.3)			(27.5)	(20.9)	
<u>Margins</u>								
EBIT	-32%	0%	-39%			-15%	-11%	
PBT	-34%	-2%	-43%			-16%	-13%	
Core net profit	-14%	-1%	-19%			-9%	-7%	
<u>Segmental breakdown</u>								
Revenue								
Postal services	381.6	473.8	396.1	-16%	4%	1,601.3	1,737.3	8%
Logistics	78.7	89.0	82.7	-7%	5%	305.1	313.9	3%
Aviation	74.6	31.3	37.6	20%	-50%	268.6	163.0	-39%
Others	24.6	28.9	28.2	-3%	14%	102.2	118.0	15%
Total	559.6	623.0	544.6	-13%	-3%	2,277.2	2,332.3	2%
Operating profit/(loss)								
Postal services	(118.2)	1.2	(50.6)	-4344%	-57%	(315.4)	(95.1)	-70%
Logistics	(1.0)	(3.2)	(55.2)	1638%	5622%	(5.4)	(80.5)	1404%
Aviation	15.7	(10.1)	(129.2)	1179%	-923%	31.7	(159.3)	n.m.
Others	2.5	6.7	(1.8)	-126%	-170%	43.2	31.4	-27%
Total	(100.9)	(5.4)	(236.8)	4311%	135%	(245.8)	(303.5)	23%
Operating margin by segment								
Postal services	-31%	0%	-13%			-37%	-5%	
Logistics	-1%	-4%	-67%			-2%	-26%	
Aviation	21%	-32%	-343%			12%	-98%	
Others	10%	23%	-6%			42%	27%	

Source: AmInvestment Bank, company

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



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.