

Stance

Overweight

Country

Germany

Industry Class

Industrial

Company

Deutsche Post AG

Date

11th March 2014

Bloomberg

DPW GY

Company Update

Price	€26.01
Price Target	€28.42
52-week Range	€17.12 – €27.22
Dividend Yield	0.7%
P/E	18.12x
Market Cap	€31.45bln

Events

FY13 results out on 12/03/2014

Investment Thesis before FY13 Results

We expect the following from Deutsche Post's FY13 results:

- **Revenues** – we expect Deutsche Post to report a lower revenue figure for 2013 mainly due to currency headwinds. These headwinds worsened in Q413 so we expect further weakening in revenues in this period which will carry on throughout Q114. However, we see the situation improving in the second half of the year and revenues return to their normalised growth rates without having to factor in currency headwinds. We expect revenues to increase by 3%, 6% and 8% in 2014, 2015 and 2016 respectively.
- **Operating expenses** – We expect operating expenses to remain constant in 2013, in line with previous years.
- **Interest Charges** – for this line item we took the higher end from the Bloomberg consensus as our estimates were out of range.
- **Earnings Per Share** – we expect earnings to be affected negatively in 2013 and pick up from 2014 onwards

Deutsche Post is made up of four divisions being:

- **Mail (letters, parcels etc)** – We continue to be optimistic on this industry mainly due to the parcel business. Looking at e-commerce such as Ebay and Amazon for instance, we see these companies continue to increase their top line. Increase in sales from online stores increases the demand for parcels and this is how Deutsche Post benefits. Also we are forecasting an improvement in growth in Europe and the US as well as global growth in general.
- **Express (Courier service)** – Courier service is also positively correlated with the parcel business.
- **Global Forwarding (carries goods by rail, road, air and sea)** – This is the part of the business that is suffering due to businesses putting pressure to lower the price to be able to remain competitive. We expect this business to pick up in line with the global economy.
- **Supply Chain (logistic solutions)** – this segment is doing well. The company continues to win over business mainly in Asia Pacific/Middle East/Africa. Management is seeing growth in the automotive, life sciences, healthcare and technology industry. This is positively correlated with economic growth. We expect global growth to continue strengthening and therefore benefitting this business segment.

Furthermore;

Dividend/Share buyback –the Group continues to grow its free cashflow. There is a possibility that the Group will see an upgrade in its rating. This is not something management are seeking so it is possible that the Group will buy back shares or give out higher dividends in order to reduce cash from its balance sheet.

Group Targets

Management continue to expect consolidated EBIT to reach between €2.75bln and €3.00bln in financial year 2013 and a sales figure greater than €55.5bln. We are forecasting an EBIT figure of €2.87bln mainly due to currency headwinds and a sales figure of €55.7bln.

Positioning

We believe that Deutsche Post should be a core holding in a diversified portfolio. Add Deutsche Post on weakness and hold long term.

Valuation

We adjust our 1yr price target to €28.42. The price target is calculated using an Earnings Based Model with a forward PE of 20x and an Equity Risk Premium of 7.34%.

€'mln	FY 2016F	FY 2015F	FY 2014F	FY 2013F	FY 2012A	FY 2011A
Revenue	65,721	60,853	57,409	55,737	56,874	54,063
Operating Expenses	62,435	57,810	54,538	53,117	53,979	51,364
Operating Income	3,286	3,043	2,870	2,620	2,895	2,699
Interest charges	572.0	528.0	484.0	440.0	642.0	660.0
Foreign Exchange Losses (Gains)	0.0	0.0	0.0	43.0	37.0	36.0
Net Non-Operating Losses (Gains)	0.0	0.0	3.0	215.7	-22.0	344.0
Pretax Income	2,714	2,515	2,383	1,921	2,238	1,659
Income Tax Expense	679	629	596	488	458	393
Income Before XO Items	2,036	1,886	1,788	1,433	1,780	1,266
Xo Items net of tax						
Minority Interests	100.0	100.0	100.0	100.0	122.0	103.0
Net Income available to shareholders	1,936	1,786	1,688	1,333	1,658	1,163
Basic Weighted Avg Shares	1209.0	1209.0	1209.0	1208.5	1209.0	1209.0
Basic EPS	1.60	1.48	1.40	1.10	1.37	0.96

Source: Company's financial statements, Calamatta Cuschieri estimates

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
DPW GY	10.09.2013	€22.83	€28.00	Team Coverage	Overweight
DPW GY	03.10.2013	€24.42	€28.00	Team Coverage	Overweight
DPW GY	18.11.2013	€25.33	€27.00	Team Coverage	Overweight
DPW GY	11.03.2014	€25.88	€28.42	Team Coverage	Overweight

Disclaimer

This document is being issued by Calamatta Cuschieri & Co. Ltd ("CC") of 5th Floor, Valletta Buildings, South Street, Valletta VLT1103, Malta and bearing company registration number C13729. CC is licensed to conduct Investment Services in Malta by the Malta Financial Services Authority. This information is being provided solely for information purposes and should not be deemed or construed as investment advice, advice concerning particular investments, advice concerning investment decisions, tax, legal or any other ancillary regulatory advice. Similarly, any views or opinions expressed are not intended and should not be construed as investment, tax and/or legal recommendations or advice. CC has not verified and consequently neither warrants the accuracy nor the veracity of any information, views or opinions appearing on this document. CC does not accept liability for actions, proceedings, costs, demands, expenses, damages and losses suffered by persons as a result of information, views or opinions appearing on this document. No person should act upon any opinion and/or information in this document without first obtaining professional advice.