8th October 2019

Calamatta Cuschieri
INVESTMENT ADVISORS & STOCKBROKERS

MaltaPost p.l.c.

Executive Summary:

"We are upgrading our recommendation on MaltaPost plc ("MTP" or "the Company") to a Hold from a Sell recommendation, with an updated 12-month price target of €1.32 from our previous target of €1.03. Our improved price target reflects the recent increase in rates for the domestic single and bulk mail as approved by the Malta Communications Authority (MCA) in end of May 2019.

We expect the upward revision in the rates for the domestic single and bulk mail, combined with the improved rates on the local and foreign registered mail (as from January 2019) to positively contribute to the Company's revenues and profitability. Albeit, we remain cautious that MTP is experiencing a decreasing letter mail volume. Furthermore, the fact that MTP operates in a labour intensive industry presents the Company with significant challenges due to the difficult labour market conditions at present, resulting in the Company experiencing additional pressure on its wage costs. We note that MTP's scope for revenue growth is limited to the boundaries of the local market.

Our Hold recommendation is based on the current attractive net dividend yield of 3.0%, which based on our valuation is sustainable. We are of the opinion that there is limited foreseeable downside to the Company's profitability given the strategic position of MaltaPost in the local context.

Our valuation does not capture any potential growth that MTP may benefit by entering in the life insurance business or any other revision of rates moving forward, which based on historical data in unlikely to occur given that the latest tariff revision dates back to 2012/2013."

Company Overview:

MaltaPost plc is Malta's leading postal services company and the sole Universal Service Provider (USP) of postal services on the Maltese Islands under the Postal Services Act. The Company operates through its network of 39 post offices situated throughout Malta and Gozo, complemented by 30 sub-post offices as per the 2018 financials.

The mail division provides comprehensive services for collecting, sorting, transporting and distributing domestic and international mail including a registered and insured postal service and bulk mail. MaltaPost, through its SendOn service, offers a logistical solution to receive items from international suppliers who do not ship to Malta. In 2016, SendOn was further complemented by Easipik, which allows customers to pick-up received items from parcel lockers located around Malta and Gozo.

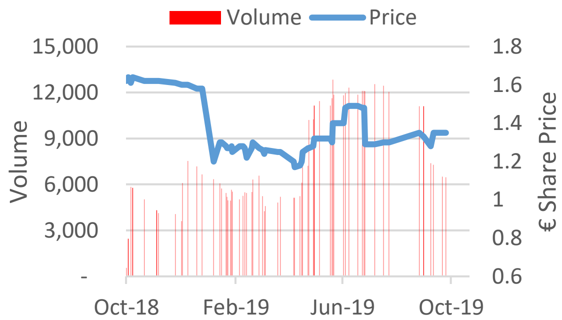
Stock Rating Hold
Price target (1Yr) €1.32

Country	Malta
Industry	Postal Services
Ticker Symbol	MTP
Price (as at 07/10/2019)	€1.35
Price Target (1 Year)	€1.32
Upside / Downside to PT	-2.2%
Market Cap	€50.83 million
Shares Outstanding	37.65 million
Free Float	28.5%
Net Dividend Yield *	3.0%
Current P/E *	28.6x
Forward P/E **	26.6x

* Based on the last twelve months (LTM) as of 31 Mar 2019
** CC estimates

1-Year Range: Price Movement and Volume Movement (20-day moving average)

Exchange: MSE
Lowest Price: €1.17
Highest Price: €1.64



Source: Bloomberg

Market Research

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Other non-postal services include bill payments, money transfers and the sale of philatelic items and stationery. Through its fully owned subsidiary Tanseana Limited, MaltaPost provides document management services including; scanning, printing, shredding, storage and retrieval of digital/physical documents.

Lombard Bank Malta plc, through its wholly owned subsidiary Redbox Limited, is the majority shareholder of MaltaPost plc with a 71.5% shareholding.

Dividends - The board of directors of MaltaPost recommend the payment of a net dividend of €0.04 per share (2017: €0.04 per share) for the year ended 30 September 2018, which amounts to €1.5 million (2017: €1.5 million).

SWOT Analysis

Strengths

- ✓ Incumbent position within the postal services market in Malta being the sole USP and having the largest retail postal network on the Maltese Islands.
- ✓ eCommerce is experiencing a strong growth as business organisations and consumers turn to the Internet to carry out transactions.[1]
- ✓ Last April 2018, the MCA has approved an increase in rates on the local and foreign registered mail with one delivery attempt, which came into place form the beginning of this year.
- ✓ Recently the MCA has also approved a 2-yr increase in rates for the domestic single and bulk mail as from 30 May 2019, which should boost revenues given that the latest tariff revision dates back to 2012/2013.
- ✓ Diversification of the business thanks to the document management arm and the offer of other non-postal services, which is experiencing growth.
- ✓ Constant dividend distribution.

Weaknesses

- × Prices of services falling within the USP are determined by the MCA and are amongst the lowest in the European Union.
- × Use of traditional postal services such as addressed letters are continuously decreasing.
- × The Company operates in a labour intensive industry, with labour costs constantly increasing.
- × MTP is restricted to the local market and its growth potential is limited.

Opportunities

- o Additional revenue streams can be generated as a result of the growth in eCommerce transactions.
- o The majority shareholding of Lombard Bank offers expansion opportunities in terms of products offer and network.
- o MTP can further diversify its revenue through the setting up of a life insurance business, where, as announced last June, the Company has entered into an agreement with APS Bank plc, Atlas Insurance PCC Ltd and GasanMamo Insurance Limited

Threats

- ! Regulatory burden within the Universal Service Obligation.
- ! Price and timely delivery competition from other courier services, including competition on specific services such as SendOn by other entities involved in the transportation industry.
- ! Rates are practically fixed given that the most recent revision of rates prior to that of this year was in 2013. This can negatively affect MTP with the incessant growth of operational costs.

[1] Reference is made to Malta Communications Authority website - eCommerce

Investment Stance

We are upgrading our recommendation on MaltaPost plc ("MTP" or "the Company") to a Hold from a Sell recommendation, with an updated 12-month price target of €1.32 from our previous target of €1.03. Our improved price target reflects the recent increase in rates for the domestic single and bulk mail as approved by the Malta Communications Authority (MCA) in end of May 2019.

We expect the upward revision in the rates for the *domestic single and bulk mail,* combined with the improved rates on the local and foreign registered mail (as from January 2019) to positively contribute to the Company's revenues and profitability. Albeit, we remain cautious that MTP is experiencing a decreasing letter mail volume. Furthermore, the fact that MTP operates in a labour intensive industry presents the company with significant challenges due to the difficult labour market conditions at present, resulting in the Company experiencing additional pressure on its wage costs. We note that MTP's scope for revenue growth is limited to the boundaries of the local market.

Our Hold recommendation is based on the current attractive net dividend yield of 3.0%, which based on our valuation is sustainable. We are of the opinion that there is limited foreseeable downside to the Company's profitability given the strategic position of MaltaPost in the local context.

MTP's valuation was also positively affected by a reduced discount rate of 7.4% from our previous discount rate of 8.1%. This is a reflection of the current low interest environment, where risk free securities are yielding zero or negative returns, which is effectively boosting up equity valuations.

Our valuation does not capture any potential growth that MTP may benefit by entering in the life insurance business, given that to date no public developments were issued in this respect. The model does not also factor any other revision of rates moving forward, which based on historical data in unlikely to occur given that the latest tariff revision dates back to 2012/2013.

Foreign mail volume decreased considerably in the first half of 2019, consequently MTP registered a decrease of €7.2 million or 29.6% in its revenue generation on a comparative basis with 2018. The decrease in revenue was counterbalanced by a decrease of €7.8 million or 51.2% in other expenses, which effectively resulted in MaltaPost improving its profitability for LTM 2019 compared to FY 2018.

MaltaPost is currently trading at price to earnings (P/E) ratio of 28.6x based on LTM 2019 earnings and at a forward 26.6x multiple on FY2019 forecasted earnings. Moving forward we expect the Company to be trading at a lower P/E multiple in view of the expected improvement in earnings.

Valuation

Our one-year price target is €1.32. The price target is calculated using a Free Cash Flow to Equity model with a cost of equity of 7.4% and accounts for an improved financial situation for MaltaPost as a result of the change in rates effective from 1 January 2019.

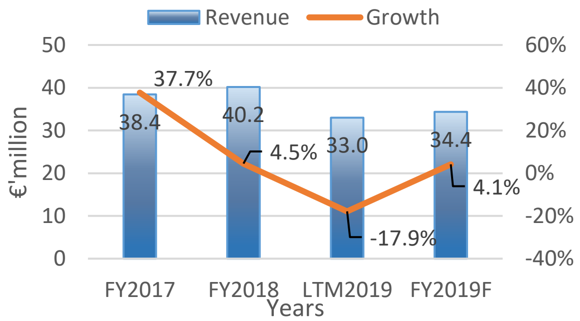
MTP Financials - €'000s (unless otherwise indicated)	FY2017	FY2018	LTM2019	FY2019F	FY2020P	FY2021P
	€	€	€	€	€	€
Revenue	38,438	40,167	32,986	34,351	36,745	38,414
Employee Benefit Expense	(13,830)	(14,745)	(15,303)	(15,802)	(16,645)	(17,094)
Other Expenses	(20,910)	(21,986)	(14,142)	(14,771)	(15,800)	(16,518)
EBITDA	**3,698**	**3,436**	**3,541**	**3,779**	**4,299**	**4,802**
Depreciation & Amortisation	(789)	(964)	(1,003)	(1,013)	(1,056)	(1,102)
EBIT	**2,909**	**2,472**	**2,538**	**2,766**	**3,243**	**3,700**
Finance income	145	164	176	180	180	180
Profit Before Tax	**3,054**	**2,636**	**2,714**	**2,946**	**3,423**	**3,880**
Income tax expense	(1,041)	(908)	(939)	(1,031)	(1,198)	(1,358)
Net Income	**2,013**	**1,728**	**1,775**	**1,915**	**2,225**	**2,522**
Earnings Per Share – in (€)	0.053	0.046	0.047	0.051	0.059	0.067

Ratio Analysis:	FY2017	FY2018	LTM2019	FY2019F	FY2020P	FY2021P
Revenue Growth (YoY)	37.7%	4.5%	-17.9%	4.1%	7.0%	4.5%
EBITDA Margin	9.6%	8.6%	10.7%	11.0%	11.7%	12.5%
Net Margin	5.2%	4.3%	5.4%	5.6%	6.1%	6.6%

Source: Audited Financial Statements and CC Estimates

Investment Thesis Variables

- **Revenue -** As per the LTM 2019 results, revenue decreased to €33.0 million from €40.2 million in FY 2018, representing a decrease of 17.9%. This is mainly due to a reduction in foreign mail. As per June 2019 interim financials, the revenue from parcels, registered letters and document management services continued on an upward trend. It is worth mentioning that the increase of 37.7% for FY 2017 is misleading as the Company changed the way it accounts for revenue and this resulted in the increase in revenue to be offsetted by the proportional increase in operating expenses.



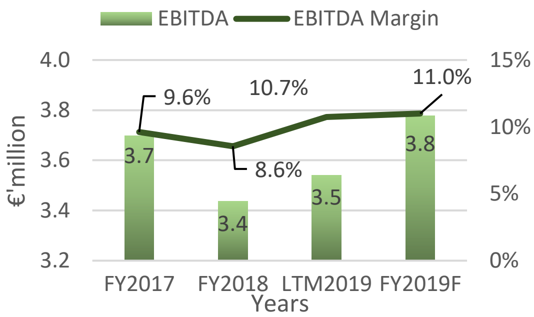
Source: Financial Statements / CC Workings

MTP's revenue consists of postal services, document management services and philatelic services representing 87.8%, 11.2% and 1.0%, respectively of the total FY 2018 revenue. Following the recent reduction in foreign mail revenue, we expect this sector to marginally increase (1%-2%) during our valuation period. Local postal services is expected to be positively affected by the change in rates in both the domestic single and bulk main (as from 30 May 2019), and the local and foreign registered mail (as from 1 Jan 2019). The former will see local rates increase on a 2-year program, with a possible increase in rates in the 3rd year should the MCA deem fit. Consequently, we expect the local mail to increase by 4% in FY 2019 compared to FY 2018, and experience an increase of 8.0% and 4.0% in FY 2020 and FY 2021, respectively.

Document management services revenue has been on an upward trend in the last four years and we expect this to continue with our valuation factoring a 10% year-on-year growth from FY 2019 to FY 2021. Revenue from philatelic services is not material to MTP and we expect this to remain stable throughout the valuation period, based on historical data.

Total revenue is expected to increase by 4.1% in FY 2019 from the LTM 2019. We anticipate the revenue growth to increase to 7.0% in FY 2020, as a result of capturing the full year effect of the change in rates, and the growth to decrease to 4.5% in FY 2021.

- **EBITDA -** MTP's EBITDA stood at €3.5 million for the LTM 2019, experiencing a growth of 3.1% or €0.1 million when compared to €3.4 million as generated in FY 2018. This was a result of a higher decrease in 'other expenses' amounting to €7.8 million, when compared to the decrease in revenue of €7.2 million, which consequently resulted in improved EBITDA generation. 'Employee benefit expense' increased by around €0.6 million, reflecting the €0.1 million improvement registered in the LTM 2019 EBITDA.

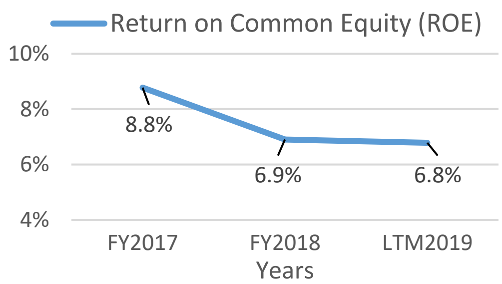


Source: Financial Statements / CC Workings

The improved performance in LTM 2019 transposed to a higher EBITDA margin of 10.7% compared to 8.6% in FY 2018. During the valution period we expect 'other expenses' to grow in line with revenue growth. MTP's labour intensive industry, coupled with the local labour shortage constantly put pressure on wage costs. This is substantiated by the latest H1 2019 results, where 'employee benefits expense' increased by 7.7% when compared to H1 2018. We expect wage expenses to increase by 7.2% in FY 2019 when compared to FY 2018. The labour cost growth is expected to decline in line with the limited growth prospects of the Company, as a result wage costs are expected to increase by 5.3% and 2.7% in 2020 and 2021, respectively.

- **Depreciation and Amortisation -** The Company operates in a labour intensive industry and as such, the depreciation and amortisation expense is on the low side and is generally around €1 million. Moving forward we expect the depreciation charge to increase marginally to around the €1.4 million level, which in our model represents the recurring maintenance capital expenditure required by MTP to continue its operations.

- **Net Income and Earnings per share (EPS) -** For the LTM 2019 net income amounted to €1.8 million, an increase of 2.7% from FY 2018, where net income amounted to €1.7 million. We expect net income to increase to €1.9 million in FY 2019 mainly as a result of the change in rates. It is anticipated that net income will increase to €2.2 million and €2.5million in FY 2020 and FY 2021, respectively.



Source: Financial Statements / CC Workings

The Return on Common Equity (ROE) is a powerful tool for shareholders to gauge the return on their investment. As the Company's net income has experienced declines in recent years, the ROE as shown in the graph above has declined. As at LTM 2019, the return on equity was of 6.8%. Our model assumes that the change in rates will positively affect the Company and this should result in an improved return on equity in projected year 2019.

- **Dividends -** The Company has distributed roughly the same level of dividends for the last four years, which stood at around €1.5 million each year, which translates to a net dividend per share of €0.04. Our model valuation shows that MTP will be able to increase its dividend payout ratio to 90%, which based on our FY 2019 earnings translates to a forward dividend yield of 3.4%. It is pertinent to note that MTP has an excess deposit of €4.2 million, which we added separately to the valuation given it classifies as a non-operating asset.

Key Financial Indicators

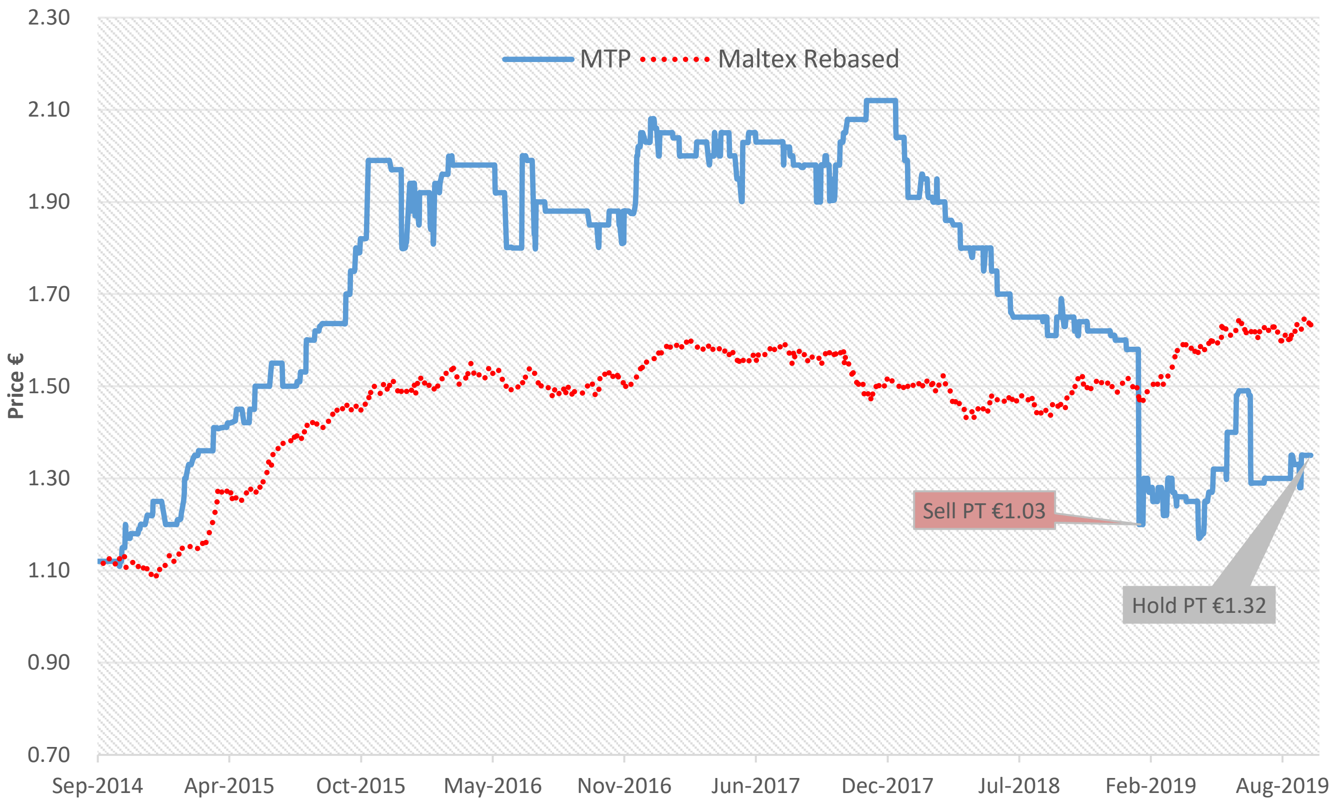
MTP Financials €'Millions(unless otherwise indicated)	Sep-2017	Sep-2018	LTM 2019[2]
Income Statement			
Revenue	38.44	40.17	32.99
Growth in Revenue (YoY)	37.7%	4.5%	-17.9%
EBITDA	3.70	3.44	3.54
EBITDA Margin (EBITDA / Revenue)	9.6%	8.6%	10.7%
Operating Profit (EBIT)	2.91	2.47	2.54
Operating (EBIT) Margin (EBIT / Revenue)	7.6%	6.2%	7.7%
Net Income	2.01	1.73	1.78
Net Margin (Net Income / Revenue)	5.2%	4.3%	5.4%
Earnings per Share (EPS)	0.053	0.046	0.047
Growth in EPS (YoY)	-2.4%	-16.2%	-11.8%
Dividend per Share (Net Dividends / Shares Outstanding)	0.040	0.040	0.040
Growth in Dividends (YoY)	1.8%	1.8%	0.0%
Sustainable Growth Rate in Dividends	2.2%	0.9%	1.0%
Dividends Yield as at Year-end (Dividend per Share / Share Price)	2.0%	2.4%	3.0%
Balance Sheet			
Inventory	0.76	0.61	0.70
Cash and Cash Equivalents	8.85	12.57	5.99
Current Assets	22.90	25.95	20.63
Non-Current Assets	18.61	21.98	22.75
Total Assets	41.51	47.93	43.38
Current Liabilities	15.05	18.52	14.62
Non-Current Liabilities	2.82	2.99	2.85
Total Equity	23.64	26.42	25.91
Shares Outstanding	37.65	37.65	37.65
Cash flow			
Cash Flow from Operating Activities (CFO)	1.76	9.34	6.54
Capex	(1.57)	(1.85)	(2.00)
Free Cash Flow (FCF)	0.18	7.50	4.53
Cash Flow from Investing Activities	(1.44)	(4.13)	(3.53)
Cash Flow from Financing Activities	(0.24)	(1.50)	(1.50)
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)	8.8%	6.9%	6.8%
Return on Assets (Net Income / Total Assets)	4.8%	3.6%	4.1%
Solvency			
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	43.1%	44.9%	40.3%
Current Ratio (Current Assets / Current Liabilities)	1.5x	1.4x	1.4x
Quick Ratio (Acid Test Ratio)	1.5x	1.4x	1.4x
Cash from Operations / EBIT	0.6x	3.8x	2.6x

Source: Audited Financial Statements/Interim Results and CC Workings

[2] LTM 2019 is calculated by adding the interim results (H1) of 2019 with the audited results of financial year 2018, less H1 2018.

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
MTP MV	8.10.2019	€1.35	€1.32	Simon Psaila & Rowen Bonello	Hold
MTP MV	18.01.2019	€1.20	€1.03	Simon Psaila & Rowen Bonello	Sell



Source: Bloomberg

Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Company/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Company's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Company/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at statement of financial position date.
Growth in EPS (YoY)	This represents the growth in Earnings per Share (EPS) when compared with previous financial year.
Dividends Ratios	
Net Dividends	Net dividends represent the net amount of dividends in respect of a Group's/Company's fiscal year.
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at statement of financial position date.
Growth in Dividends (YoY)	This represents the growth in dividends when compared with previous financial year.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Company/Company and the respective level of dividends distribution.
Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
Cash Flow Statement	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Company/Company.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Company/Company.

Capex	Represents the capital expenditure incurred by the Company/Company in a financial year.
Free Cash Flows (FCF)	The amount of cash the Company/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Assets	What the Company/Company owns which can de further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.
Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.
Total Liabilities	What the Company/Company owes which can de further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Current Liabilities	Obligations which are due within one financial year.
Shares Outstanding	Outstanding shares refer to the Company/Company stock currently held by all its shareholders.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio Gearing Ratio Level 1 Gearing Ratio Level 2	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. Is calculated by dividing Net Debt by Total Equity. Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Company/Company to refinance its debt by looking at the EBITDA.
Cash from Operations / EBIT	This ratio measures the ability of the Company/Company to convert its earnings into cash.

Explanation of Equity Research Ratings

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, we do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

Disclaimer