18th January 2019

Calamatta Cuschieri
INVESTMENT ADVISORS & STOCKBROKERS

MaltaPost p.l.c.

Stock Rating Sell
Price target (1Yr) €1.03

Executive Summary:

"We are issuing a Sell recommendation on MaltaPost, with a 12-month price target of €1.03." Our Sell recommendation is based on:

- Company's profitability margins have decreased despite the increase in revenues experienced in recent years
- MaltaPost, as the sole Universal Service Provider (USP) of postal services, is restricted on its price determination as the MCA controls its tariffs.
- The Company benefits from the growth in eCommerce, however the profitability of MTP has not improved due to lower margins.
- MTP's growth is restrained by the growth of the local market.
- The Company has continued to increase its dividends in spite of the declining net income recognised in the last four years.
- MTP is currently trading at 26.1x earnings, which is excessive compared to other European postal services companies that are currently trading at around 14x earnings.
- Our model assumes that MTP will be positively impacted by the upward change in tariffs on registered mail that went into effect from the beginning of this year.
- Our model accounts for a fair cost of equity, which reflects the risk of the local market.

Company Overview:

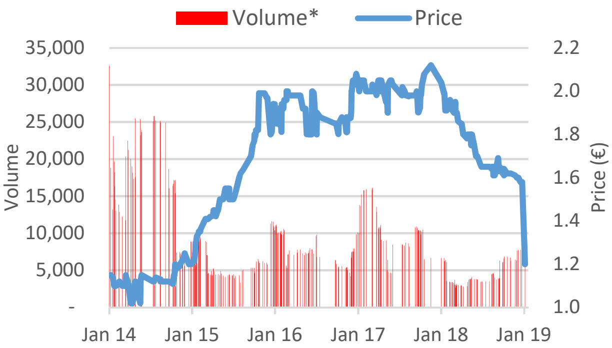
MaltaPost plc ("MTP" or "the Company") is Malta's leading postal services company and the sole Universal Service Provider (USP) of postal services on the Maltese Islands under the Postal Services Act. Since 2013, postal services that were reserved for the USP have been liberalised. The Company operates through its network of 40 post offices situated throughout Malta and Gozo complemented by 32 sub-post offices as at 2017.

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. Other non-postal services include bill payments, money transfers and the sale of philatelic items and stationery. Through its fully owned subsidiary

Country	Malta
Industry	Postal Services
Ticker Symbol	MTP
Price (as at 17/01/2019)	€1.20
Price Target (1 Year)	€1.03
Upside / Downside to PT	-14.2%
Market Cap	€45.19 million
Shares Outstanding	37.65 million
Free Float	28.5%
Net Dividend Yield *	3.3%
Current P/E *	26.1x
Forward P/E **	19.1x

* Based on the results for the year ended 30 September 2018
** CC estimates

Price and Volume Movement	Exchange: Malta Stock Exchange ("MSE")
5 year Range of Price	Min: €1.02 Max: €2.12



**Volume at a 20-day moving average*

Source: Bloomberg

Market Research

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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]
- ✓ Following MTP's request to the MCA last April 2018, the MCA has approved an increase in tariffs on local and foreign registered mail with one delivery attempt, which came into place form the beginning of this year. This should result in an increase of MTP's revenue.
- ✓ 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

- × Despite the Company experiencing an increase in its revenue for FY2018 the net income fell when compared to last year as the growth in operating expenses outpaced the growth in revenue, which resulted in a decrease of the profitability margins.
- × 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.

Opportunities

- Additional revenue streams can be generated as a result of the growth in eCommerce transactions.
- The majority shareholding of Lombard Bank offers expansion opportunities in terms of products offer and network.

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.
- ! Tariffs are practically fixed given that the most recent revision of tariffs prior to that of this year was in December 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 issuing a Sell recommendation on MaltaPost, with a 12-month price target of €1.03. Despite the increase in revenues experienced in recent years, the Company's profitability margins have decreased year on year. MaltaPost, as the sole Universal Service Provider (USP) of postal services, is restricted on its price determination as the Malta Communications Authority (MCA) controls its tariffs. Even though the growth in eCommerce benefits the Company, the profitability of MaltaPost has not improved. The Company's growth is restrained by the growth of the local market. Furthermore, MTP has continued to increase its dividends in spite of the declining net income recognised in the last four years. This is a concern as it indicates that in the short-term the Company does not have plans for capital projects, while concurrently the Company's shares are trading at 26.1x earnings, which is excessive compared to other European postal services companies that are currently trading at around 14x earnings.

The Company benefits from a monopolistic position, which should ensure constant revenue streams. Our model assumes that MTP will be positively impacted by the upward change in tariffs on registered mail that went into effect from the beginning of this year. Albeit, we are of the opinion that the Company is overvalued given the current market conditions.

MaltaPost is currently trading at 26.1x 2018 earnings and at a forecasted 19.1x earnings for 2019F. Moving forward we expect the Company to be trading at a lower price to earnings ratio taking into account that currently MTP has no major capital plans.

Valuation

Our one-year price target is €1.03. The price target is calculated using a Free Cash Flow to Equity model with a cost of equity of 8.1% and accounts for an improved financial situation for MaltaPost as a result of the change in tariffs effective from 1 January 2019. This translates to a forward PE of 19.1x earnings. The cost of equity is based on the local equity risk premium and caters for the monopolistic position that the Company benefits from.

€'000s unless otherwise indicated	FY 2016	FY 2017	FY 2018	2019F	2020P	2021P
	€	€	€	€	€	€
Revenue	27,916	38,438	40,167	43,786	45,810	47,412
Employee Benefit Expense	(12,333)	(13,830)	(14,745)	(15,449)	(16,086)	(16,725)
Other Expenses	(11,968)	(20,910)	(21,986)	(23,863)	(24,967)	(25,839)
EBITDA	3,615	3,698	3,436	4,474	4,757	4,848
Depreciation & Amortisation	(849)	(789)	(964)	(1,003)	(1,053)	(1,106)
EBIT	2,766	2,909	2,472	3,471	3,704	3,742
Finance income	168	145	164	164	164	164
Profit Before Tax	2,934	3,054	2,636	3,635	3,868	3,906
Income tax expense	(871)	(1,041)	(908)	(1,272)	(1,354)	(1,367)
Net Income	2,063	2,013	1,728	2,363	2,514	2,539
Earnings Per Share – in (€)	0.055	0.053	0.046	0.063	0.067	0.067

Source: Audited Financial Statements and CC Estimates

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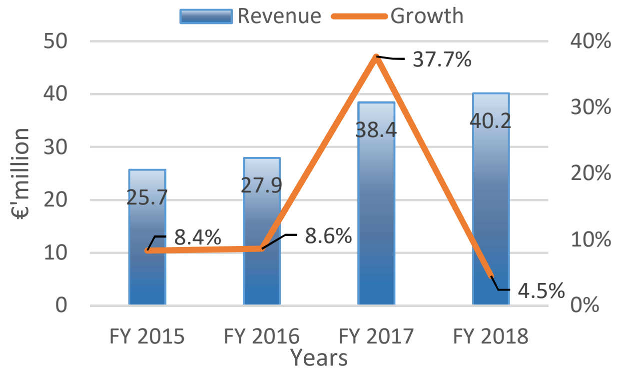
Investment Thesis Variables

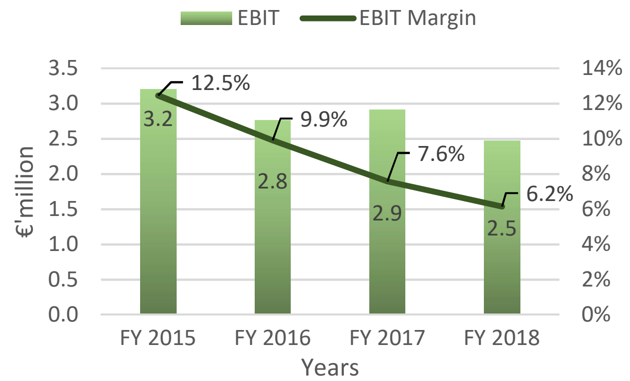
- **Revenue**
  Revenue increased by 4.5% in 2018 (€40.2 million) when compared to 2017 (€38.4 million) and is expected to increase to €43.8 million for 2019F from €40.2 million for the latest year-end as at 30 September 2018. This growth in revenue of 9.0% is expected following the increase in tariffs on local and foreign registered mail with one delivery attempt, which came into place form the beginning of this year that is 1 January 2019. It is worth mentioning that the increase of 37.7% for FY2017 is misleading as MTP changed the way they account 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

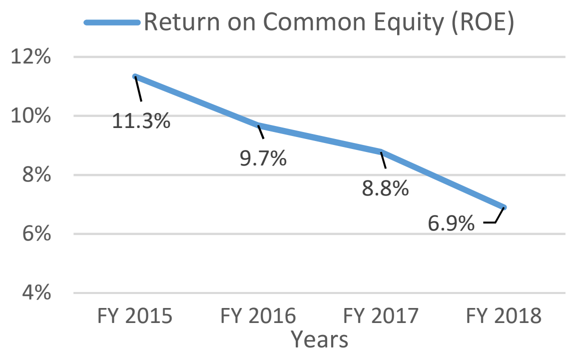
  Moving forward we expect that the growth in revenue will taper down to 4.6% and 3.5% in projected years 2020 and 2021 respectively. Revenue mainly comprises of three sectors being the postal services, philatelic services and other revenue, which primarily consists of revenue generated by the wholly owned subsidiary Tanseana Limited. The majority of revenue is generated from the postal services, which represents around 90% of total revenue. Other revenue accounts for roughly the remaining 10% of total revenue, with revenue recognised from philatelic services being insignificant to MaltaPost.

- **EBIT –** MaltaPost is experiencing declining EBIT margins, with the EBIT decreasing to €2.5 million in 2018 from €2.9 million in 2017. As shown in the adjacent graph, the EBIT margin has experienced continuous declines where in 2015 it stood at 12.5% and in 2018 it decreased to 6.2%. This is due to the upsurge in operating expenses, which historically have offsetted the increase in revenue. Subsequent to the change in tariffs as described above, we estimate that MTP will be able to grow its revenue in excess of the increase in expenses, resulting in the expected EBIT margin to be 7.9% for forecasted year 2019. Our valuation assumes that in the short-term the Company's EBIT margin will remain constant.



Source: Financial Statements / CC Workings

- **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.



Source: Financial Statements / CC Workings

- **Net Income and Earnings per share (EPS)** - The net income of MaltaPost has continuously declined from 2015 to the latest results for 30 September 2018. This reflects the Company's weakness in addressing the rise in costs due to the fixed prices that are controlled by the MCA. Albeit, FY 2019 we expect the net income to improve as a result of the change in tariffs as explained above. Consequently, net income is forecasted to increase to €2.4 million in 2019 from €1.7 million in 2018. For both projected years 2020 and 2021, the net income is anticipated to be at €2.5 million. The Return on Common Equity (ROE) is a powerful tool for shareholders to gauge the return on their investment. As MaltaPost net income has experienced declines in recent years, the ROE as shown in the graph above has declined. As at 30 September 2018, the return on equity was of 6.9%. Our model assumes that the change in tariffs 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. In our forecasts, we assume that the Company will maintain its historic dividend payout ratio of around 75%. Given that our model predicts a marginal increase in net income, the net dividend will also increase. This resulted in a net dividend of €1.7 million for forecasted year 2019 and a net dividend of €1.9 million for both projected years 2020 and 2021.

Key Financial Indicators

€'Millions unless otherwise indicated	Sep 2015	Sep 2016	Sep 2017	Sep 2018
Income Statement				
Revenue	25.71	27.92	38.44	40.17
Growth in Revenue (YoY)	8.35%	8.60%	37.69%	4.50%
EBITDA	4.16	3.62	3.70	3.44
EBITDA Margin (EBITDA / Revenue)	16.19%	12.95%	9.62%	8.55%
Operating Profit (EBIT)	3.20	2.77	2.91	2.47
Operating (EBIT) Margin (EBIT / Revenue)	12.45%	9.91%	7.57%	6.15%
Net Income	2.19	2.06	2.01	1.73
Net Margin (Net Income / Revenue)	8.52%	7.39%	5.24%	4.30%
Earnings per Share (EPS)	0.058	0.055	0.053	0.046
Growth in EPS (YoY)	21.68%	-5.76%	-2.42%	-16.24%
Dividend per Share (Net Dividends / Shares Outstanding)	0.039	0.039	0.040	0.040
Growth in Dividends (YoY)	2.91%	1.87%	1.81%	1.81%
Sustainable Growth Rate in Dividends	3.82%	2.74%	2.21%	0.89%
Dividends Yield as at Year-end (Dividend per Share / Share Price)	2.27%	2.09%	2.02%	3.33%
Balance Sheet				
Inventory	0.68	0.80	0.76	0.61
Cash and Cash Equivalents	7.00	8.79	8.85	12.57
Current Assets	17.71	18.06	22.90	25.95
Non-Current Assets	17.42	18.27	18.61	21.98
Total Assets	35.13	36.33	41.51	47.93
Current Liabilities	12.33	11.68	15.05	18.52
Non-Current Liabilities	2.41	2.42	2.82	2.99
Total Equity	20.39	22.23	23.64	26.42
Shares Outstanding	37.65	37.65	37.65	37.65
Cash Flow				
Cash Flow from Operating Activities (CFO)	3.77	3.23	1.76	9.34
Capex	(2.63)	(1.63)	(1.57)	(1.85)
Free Cash Flow (FCF)	1.14	1.60	0.18	7.50
Cash Flow from Investing Activities	(2.36)	(1.22)	(1.44)	(4.13)
Cash Flow from Financing Activities	(0.22)	(0.23)	(0.24)	(1.50)
Ratios				
Profitability				
Return on Common Equity (Net Income / Common Equity)	11.34%	9.68%	8.78%	6.90%
Return on Assets (Net Income / Total Assets)	6.23%	5.68%	4.85%	3.61%
Solvency				
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	41.96%	38.82%	43.05%	44.89%
Current Ratio (Current Assets / Current Liabilities)	1.44x	1.55x	1.52x	1.40x
Quick Ratio (Acid Test Ratio)	1.38x	1.48x	1.47x	1.37x
Cash from Operations / EBIT	1.18x	1.17x	0.60x	3.78x

Source: Audited Financial Statements and Interim Results

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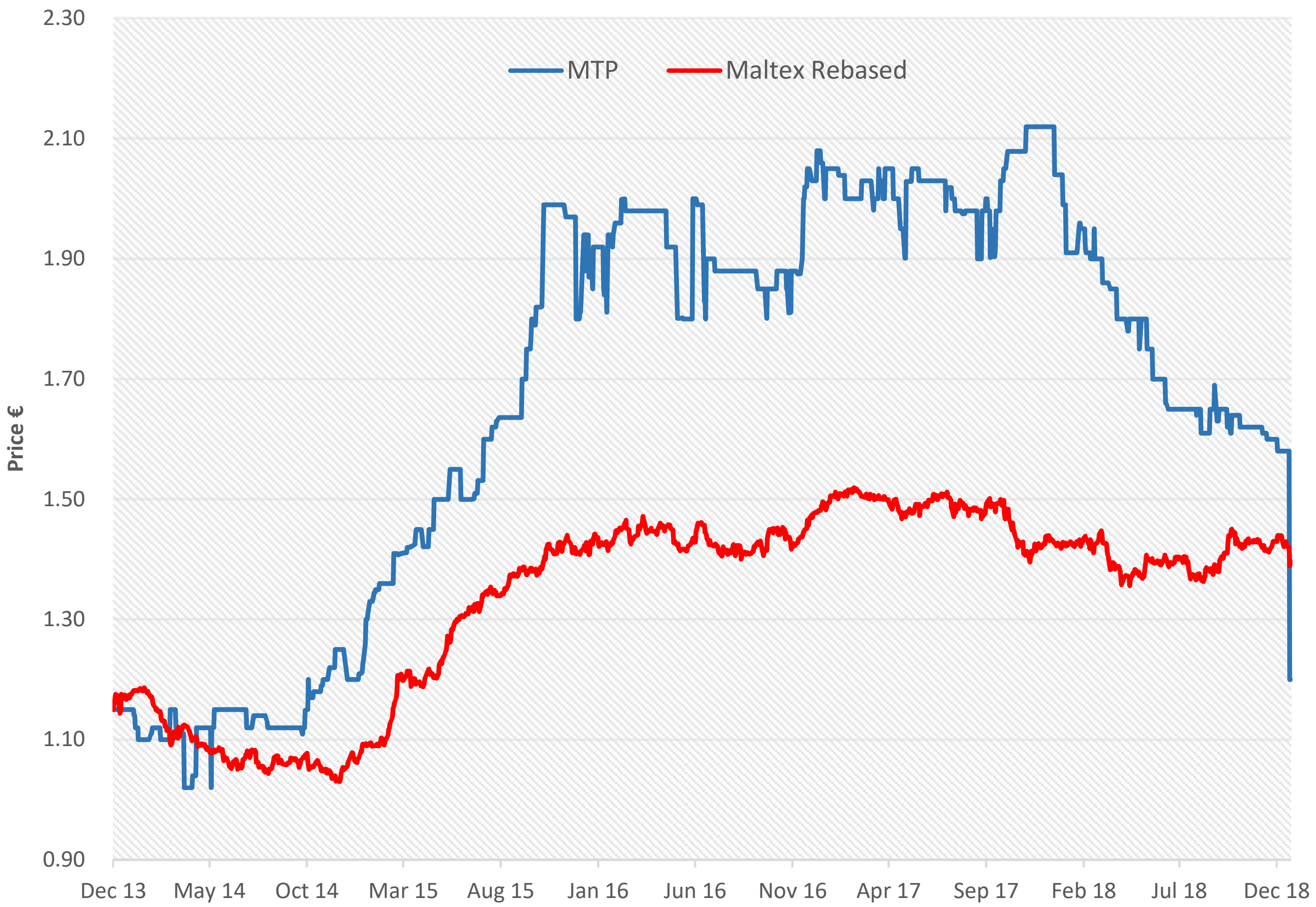
Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
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, 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.

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