

Preview Note

24 July 2017

Buy

Recommendation unchanged

Share price: EUR 5.52

closing price as of 21/07/2017

Target price: EUR 6.90

Target Price unchanged

Upside/Downside Potential 25.1%

Reuters/Bloomberg

CTT.LS/CTT.PL

Market capitalisation (EURm) 827

Current N° of shares (m) 150

Free float 100%

Daily avg. no. trad. sh. 12 mth 822

Daily avg. trad. vol. 12 mth (m) 2,531.11

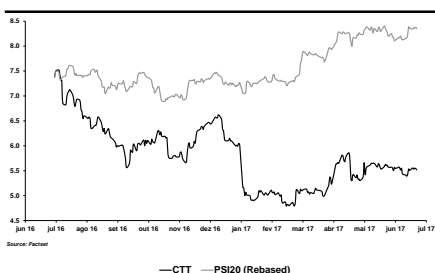
Price high/low 12 months 4.79 / 7.52

Abs Perfs 1/3/12 mths (%) -1.57/10.12/-24.93

Key financials (EUR)	12/16	12/17e	12/18e
Sales (m)	697	694	705
EBITDA (m)	102	128	127
EBITDA margin	14.6%	18.4%	18.1%
EBIT (m)	75	100	98
EBIT margin	10.7%	14.4%	13.9%
Net Profit (adj.)(m)	61	60	60
ROCE	20.0%	25.0%	25.1%
Net debt/(cash) (m)	(609)	(547)	(589)
Net Debt/Equity	-2.6	-2.5	-2.8
Net Debt/EBITDA	-6.0	-4.3	-4.6
Int. cover(EBITDA/Fin.int)	17.4	24.6	26.5
EV/Sales	0.5	0.4	0.3
EV/EBITDA	3.5	2.2	1.9
EV/EBITDA (adj.)	3.5	2.2	1.9
EV/EBIT	4.8	2.8	2.4
P/E (adj.)	15.8	13.7	13.8
P/BV	4.1	3.7	4.0
OpFCF yield	3.5%	5.1%	8.1%
Dividend yield	8.5%	8.7%	9.0%
EPS (adj.)	0.41	0.40	0.40
BVPS	1.56	1.48	1.38
DPS	0.47	0.48	0.50

Shareholders

Gestmin SGPS 10%; Allianz 5%; BNP Paribas 5%;

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2Q17 results preview: Mail EBITDA under pressure

The facts: CTT will publish its 2Q17 results on the 31th of July after the market close. The conference call with analysts will be held on the 1st of August at 9h Lisbon time (GMT). We anticipate revenues of EUR 172.0m, EBITDA of EUR 22.7m and net income of EUR 10.3m.

Our analysis: Consolidated revenues are expected to reach EUR 172.0m in 2Q17, declining on a QoQ basis (-2.8%) due to the Mail & Business (M&B) performance (revenues decreasing 4.4% QoQ). We are assuming that addressed mail volumes should have dropped 4.9% YoY, being partially mitigated by the price increase (+1.9%) implemented on the 4th of April. Please also recall that this quarter had the Easter effect which should negatively affect the M&B performance. Express & Parcels (E&P) revenues should improve both on a QoQ and YoY basis to EUR 30.6m, while Financial Services (FS) segment is expected to continue pretty much resilient in terms of revenues (EUR 17.4m). Banco CTT should present a EUR 1.7m contribution to consolidated revenues in 2Q17 but still with a negative EBITDA of EUR 6.7m.

Consolidated EBITDA is forecasted to reach EUR 22.7m in 2Q17 (-0.9% YoY and -8.6% QoQ), mainly pressured by the M&B segment which accounts for 86% of the consolidated EBITDA in 2Q17. Ongoing pressures in the price mix of mail together with a seasonal effect should lead to an EBITDA decline of 12.5% QoQ in this segment. We expect a recovery from the E&P's EBITDA to EUR 0.8m following a negative figure in the previous quarter, although staying below the level recorded in 2Q16. FS EBITDA is expected to reach EUR 9.1m in the quarter maintaining its resilient pattern (+19.8% YoY and +0.4% QoQ). Therefore, consolidated EBITDA margin should reach 13.2% (-0.2 p.p. YoY and -0.8 p.p. QoQ), once again pressured by the MB and Banco CTT's ramp-up costs.

Net income is forecasted to be at EUR 10.3m in 2Q17 (-7.8% YoY and -0.7% QoQ), with a profit margin of 6.0%.

EURm	2Q16	1Q17	2Q17e	Chg. % (YoY)	Chg. % (QoQ)
Revenues	171.5	177.0	172.0	0.3%	-2.8%
Mail & Business	133.0	137.0	130.9	-1.6%	-4.4%
Express & Parcels	29.8	30.0	30.6	2.6%	1.8%
Financial Services	15.7	17.4	17.4	11.3%	0.2%
Central Structure & Elim.	-7.0	-8.6	-8.6	22.2%	0.0%
Banco CTT	0.1	1.1	1.7	n.m.	50.1%
EBITDA Reported	22.9	24.9	22.7	-0.9%	-8.6%
Mail & Business	21.7	22.4	19.6	-9.4%	-12.5%
Express & Parcels	0.9	-0.1	0.8	-14.2%	n.m.
Financial Services	7.6	9.0	9.1	19.8%	0.4%
Banco CTT	-7.3	-6.5	-6.7	-8.1%	3.7%
EBITDA margin	13.4%	14.1%	13.2%	-0.2 p.p.	-0.8 p.p.
EBIT	16.5	17.6	15.6	-5.9%	-11.4%
EBIT margin	9.6%	9.9%	9.1%	-0.6 p.p.	-0.9 p.p.
Net Income	11.1	10.3	10.3	-7.8%	-0.7%
Profit margin	6.5%	5.8%	6.0%	-0.5 p.p.	0.1 p.p.

Conclusion & Action: CTT is one of the worst performers of PSI20, with an YTD devaluation of 14% (versus +13% of local index). This set of results should be pretty much in line with the previous one, showing a mail company with its main source of revenues losing steam, while struggling at the same time to recover the E&P business and consolidate a new bank activity. FS segment should be the only positive note in the 2Q17 results.

CTT : Summary tables

PROFIT & LOSS (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Sales	705	719	727	697	694	705
Cost of Sales & Operating Costs	-583	-523	-593	-595	-566	-577
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	122	196	135	102	128	127
EBITDA (adj.)*	122	196	135	102	128	127
Depreciation	-25.7	-21.4	-23.9	-27.5	-28.4	-29.1
EBITA	96.4	174	111	74.6	99.7	98.3
EBITA (adj)*	96.4	174	111	74.6	99.7	98.3
Amortisations and Write Downs	-9.2	-38.8	0.0	0.0	0.0	0.0
EBIT	87.2	135	111	74.6	99.7	98.3
EBIT (adj.)*	87.2	135	111	74.6	99.7	98.3
Net Financial Interest	-4.0	-7.5	-5.4	-5.9	-5.2	-4.8
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.1	0.1	0.2	0.0	0.0
Other Non Recurrent Items	0.0	0.0	0.0	0.0	16.0	0.0
Earnings Before Tax (EBT)	83.3	128	105	68.9	110	93.5
Tax	-22.1	-51.2	-32.5	-23.3	-25.2	-22.7
<i>Tax rate</i>	<i>26.6%</i>	<i>27.5%</i>	<i>25.5%</i>	<i>14.7%</i>	<i>27.5%</i>	<i>27.5%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.1	-0.3	0.0	-0.3	-0.1	-0.1
Net Profit (reported)	61.0	77.2	72.1	61.2	60.3	59.8
Net Profit (adj.)	61.0	77.2	72.1	61.2	60.3	59.8
CASH FLOW (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Cash Flow from Operations before change in NWC	88.4	138	96.8	73.0	89.4	90.2
Change in Net Working Capital	0.0	-20.1	18.3	2.8	-22.3	-0.6
Cash Flow from Operations	88.4	118	115	75.8	67.2	89.7
Capex	-31.0	-16.6	-32.3	-42.2	-25.0	-23.0
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	57.4	101	82.8	33.7	42.2	66.7
Dividends	-53.9	-60.0	-69.8	-70.3	-72.4	-74.6
Other (incl. Capital Increase & share buy backs)	-103	81.8	-78.3	-38.7	-45.3	-0.6
Change in Net Debt	-99.5	123	-65.3	-75.3	-75.5	-8.5
NOPLAT	63.2	98.2	80.3	54.1	72.3	71.3
BALANCE SHEET & OTHER ITEMS (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Tangible Assets	225	212	210	209	198	185
Net Intangible Assets (incl. Goodwill)	38.1	21.1	35.7	46.6	54.4	61.2
Net Financial Assets & Other	128	117	109	197	415	619
Total Fixed Assets	392	350	355	453	668	865
Inventories	6.0	5.8	5.5	5.4	5.4	5.5
Trade receivables	136	132	124	122	127	129
Other current assets	22.0	28.5	31.1	118	307	651
Cash (-)	-545	-665	-604	-619	-618	-618
Total Current Assets	708	831	765	864	1,057	1,403
Total Assets	1,100	1,181	1,119	1,317	1,725	2,268
Shareholders Equity	274	250	252	233	222	207
Minority	1.6	-0.3	0.2	-0.1	-0.1	-0.1
Total Equity	276	249	252	233	222	207
Long term interest bearing debt	3.3	1.9	1.0	0.4	61.9	20.6
Provisions	38.5	45.7	40.7	14.1	13.5	13.5
Other long term liabilities	293	267	251	255	254	254
Total Long Term Liabilities	335	314	293	269	329	288
Short term interest bearing debt	3.7	1.8	7.1	9.7	9.2	9.2
Trade payables	126	102	112	113	95.1	96.5
Other current liabilities	360	514	456	692	1,070	1,667
Total Current Liabilities	489	617	575	814	1,174	1,773
Total Liabilities and Shareholders' Equity	1,100	1,181	1,119	1,317	1,725	2,268
Net Capital Employed	69.5	-99.1	-52.1	-106	-58.0	-114
Net Working Capital	15.9	36.0	17.6	14.8	37.0	37.6
GROWTH & MARGINS	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
<i>Sales growth</i>	<i>n.m.</i>	<i>2.0%</i>	<i>1.2%</i>	<i>-4.2%</i>	<i>-0.4%</i>	<i>1.5%</i>
EBITDA (adj.)* growth	n.m.	60.2%	-31.2%	-24.2%	25.5%	-0.5%
<i>EBITA (adj.)* growth</i>	<i>n.m.</i>	<i>80.7%</i>	<i>-36.5%</i>	<i>-32.6%</i>	<i>33.6%</i>	<i>-1.4%</i>
<i>EBIT (adj.)* growth</i>	<i>n.m.</i>	<i>55.2%</i>	<i>-18.2%</i>	<i>-32.6%</i>	<i>33.6%</i>	<i>-1.4%</i>

CTT : Summary tables

GROWTH & MARGINS	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Profit growth	n.m.	26.5%	-6.6%	-15.1%	-1.4%	-0.9%
EPS adj. growth	n.m.	26.5%	-6.6%	-15.1%	-1.4%	-0.9%
DPS adj. growth	n.m.	0.0%	16.3%	0.8%	3.0%	3.0%
EBITDA (adj)* margin	17.3%	27.2%	18.5%	14.6%	18.4%	18.1%
EBITA (adj)* margin	13.7%	24.2%	15.2%	10.7%	14.4%	13.9%
EBIT (adj)* margin	12.4%	18.8%	15.2%	10.7%	14.4%	13.9%
RATIOS	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Debt/Equity	-1.9	-2.7	-2.4	-2.6	-2.5	-2.8
Net Debt/EBITDA	-4.4	-3.4	-4.4	-6.0	-4.3	-4.6
Interest cover (EBITDA/Fin.interest)	30.5	26.2	25.0	17.4	24.6	26.5
Capex/D&A	120.6%	77.5%	135.4%	153.5%	88.2%	79.0%
Capex/Sales	4.4%	2.3%	4.4%	6.1%	3.6%	3.3%
NWC/Sales	2.3%	5.0%	2.4%	2.1%	5.3%	5.3%
ROE (average)	44.5%	29.5%	28.8%	25.2%	26.5%	27.9%
ROCE (adj.)	22.6%	36.4%	30.5%	20.0%	25.0%	25.1%
WACC	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
ROCE (adj.)/WACC	3.2	5.1	4.3	2.8	3.5	3.5
PER SHARE DATA (EUR)***	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Average diluted number of shares	150.0	150.0	150.0	150.0	150.0	150.0
EPS (reported)	0.41	0.51	0.48	0.41	0.40	0.40
EPS (adj.)	0.41	0.51	0.48	0.41	0.40	0.40
BVPS	1.82	1.66	1.68	1.56	1.48	1.38
DPS	0.40	0.40	0.47	0.47	0.48	0.50
VALUATION	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
EV/Sales	0.4	0.8	1.0	0.5	0.4	0.3
EV/EBITDA	2.5	2.8	5.4	3.5	2.2	1.9
EV/EBITDA (adj.)*	2.5	2.8	5.4	3.5	2.2	1.9
EV/EBITA	3.1	3.1	6.6	4.8	2.8	2.4
EV/EBITA (adj.)*	3.1	3.1	6.6	4.8	2.8	2.4
EV/EBIT	3.4	4.0	6.6	4.8	2.8	2.4
EV/EBIT (adj.)*	3.4	4.0	6.6	4.8	2.8	2.4
P/E (adj.)	13.7	15.6	18.4	15.8	13.7	13.8
P/BV	3.1	4.8	5.3	4.1	3.7	4.0
Total Yield Ratio	7.2%	5.8%	5.3%	8.7%	9.0%	9.3%
EV/CE	1.1	2.0	2.8	1.3	1.0	0.8
OpFCF yield	6.8%	8.4%	6.2%	3.5%	5.1%	8.1%
OpFCF/EV	19.1%	18.7%	11.3%	9.4%	15.0%	27.9%
Payout ratio	98.4%	77.7%	96.8%	115%	120%	125%
Dividend yield (gross)	7.2%	5.0%	5.3%	8.5%	8.7%	9.0%
EV AND MKT CAP (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Price** (EUR)	5.59	8.02	8.85	6.45	5.52	5.52
Outstanding number of shares for main stock	150.0	150.0	150.0	150.0	150.0	150.0
Total Market Cap	839	1,203	1,328	967	827	827
Net Debt	-538	-661	-596	-609	-547	-589
<i>o/w Cash & Marketable Securities (-)</i>	<i>-545</i>	<i>-665</i>	<i>-604</i>	<i>-619</i>	<i>-618</i>	<i>-618</i>
<i>o/w Gross Debt (+)</i>	<i>7</i>	<i>4</i>	<i>8</i>	<i>10</i>	<i>71</i>	<i>30</i>
Other EV components	0	0	0	0	0	0
Enterprise Value (EV adj.)	301	542	733	358	280	239

Source: Company, Caixa-Banco de Investimento estimates.

Notes

* Where EBITDA (adj.) or EBITA (adj.) = EBITDA (or EBITA) -/+ Non Recurrent Expenses/Income and where EBIT (adj.) = EBIT -/+ Non Recurrent Expenses/Income - PPA amortisation

**Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

Sector: Industrial Transportation/Delivery Services

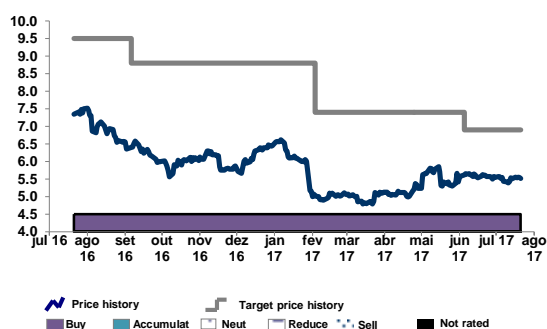
Company Description: CTT is Portugal mail company, operating in business areas such as Mail, Express&Parcels and Financial services. The company is present directly or through JV in Portugal, Spain and Mozambique. Banco CTT was created in November 2015, focusing its activity in the mortgage and consumer credit.

Recommendation history for CTT

Date	Recommendation	Target price	Price at change date
05-jun-17	Buy	6.90	5.61
03-fev-17	Buy	7.40	5.01
06-set-16	Buy	8.80	6.41
05-fev-16	Buy	9.50	7.79
08-out-15	Neutral	10.20	10.08
21-abr-15	Neutral	10.00	10.32
12-jan-15	Neutral	8.95	8.46

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows Caixa-Banco de Investimento continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
Current analyst: Artur Amaro (since 03/06/2015)



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The share price mentioned in the report is the closing price of the last trading day before the publication.

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Portuguese State (Parpública) has qualified participations in the following companies: Inapa and Galp Energia.

Portuguese State (Parpública) has non-qualified but relevant participations in the following companies: Portugal Telecom and Nos

The supervisory board chairman of CaixaBI is non-executive member of Galp Energia's board.

CaixaBI reports (equity research reports) are available in our website www.caixabi.pt by request.

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The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: Buy, Accumulate, Neutral, Reduce and Sell (in short: B, A, N, R, S).

Meaning of each rating or recommendation:

- Buy: the stock is expected to generate a total return of over 15% during the next 12-month time horizon;
- Accumulate: the stock is expected to generate a total return of 5% to 15% during the next 12-month time horizon;
- Neutral: the stock is expected to generate a total return of -5% to +5% during the next 12-month time horizon;
- Reduce: the stock is expected to generate a total return of -5 to -15% during the next 12-month time horizon;
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The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy (B)**, **Accumulate (A)**, **Neutral (N)**, **Reduce (R)** and **Sell (S)**.

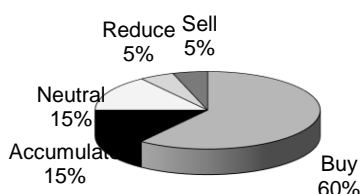
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Meaning of each recommendation or rating:

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- **Accumulate:** the stock is expected to generate total return of **5% to 15%** during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of **-5% to +5%** during the next 12 months time horizon
- **Reduce:** the stock is expected to generate total return of **-5% to -15%** during the next 12 months time horizon
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Caixa Banco de Investimento Ratings Breakdown



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