

Deutsche Post

Industrial Goods & Services

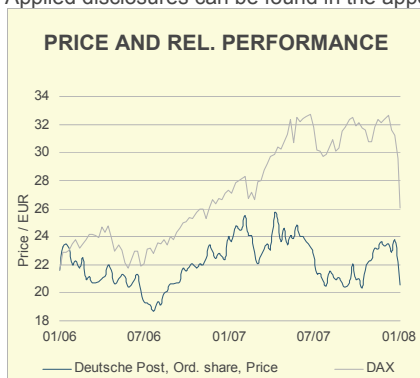
2008-01-24

Applied disclosures can be found in the appendix

Strong buy

Fair Value EUR28.00

Price EUR20.53 (Closing price as of 2008-01-23)



GETTING MORE CONFIDENT ON US EXPRESS ACTION

ASSESSMENT

- In yesterday's trading statement, the most important topic was to read between the lines of what the scenarios are for US Express. In the IR release, the major statement to discuss is the meaning of: "... we are committed to maintaining a significant presence in the U.S. market, which remains of strategic importance to the Group". On a first glance, this might be taken as a hint of just a continuation strategy, rather than taking major action.
- We think that "maintaining a significant presence" means that a substantial US Express downscaling is a major option, and it might even go back to the exposure it had before buying Airborne, i.e. roughly to a sales level of some €1bn, from currently above €4bn. In that scenario, DHL would only keep its business in some 20 to 30 major US towns and regions. For this substantial downscaling – which we think is the preferred option – DPW would need a partner to take over parts of the current DHL business.
- Neither UPS nor FedEx are the obvious strategic partners, but the United States Postal Service (USPS) would be a good fit for a cooperation. United States Postal Service would benefit from DPW's leading parcel and express franchise in Asia and Europe, while its own cross border express market share out of the US is only some 4%. In addition, both companies might cooperate also in the global cross border mail market in which they are the top two players. Our impression is that yesterday's board meeting got to the conclusion to monitor this type of major downsizing. We do not have the impression that it already had talks with potential partners. In case USPS was not ready to go for a cooperation, the alternative option would be to team up with local partners, which in terms of managing such a cooperation with a number of local heroes would be a challenge, but might be doable.
- In our opinion, the market yesterday focused too much on the messages that DPW confirmed full year 2007 guidance in terms of the underlying business, and that it will take a non-cash €600m write-down on US Express. Cost savings of some €140m p.a. is an additional good message.

MARKET DATA

| | |
|----------------|----------|
| Reuters | DPWGn.DE |
| Bloomberg | DPW GR |
| Market cap €bn | 24.6 |
| Free float % | 70.0 |

| KEY DATA | | | |
|-----------------------|------|-------|-------|
| Yr.end 12/31 | 2006 | 2007e | 2008e |
| Revenues bn | 60.5 | 64.0 | 67.1 |
| Net profit bn | 1.9 | 2.0 | 2.1 |
| Adj. EPS | 1.60 | 1.70 | 1.72 |
| PER | 13.3 | 13.4 | 11.9 |
| EV/EBIT | 9.4 | 10.1 | 8.5 |
| EBIT mgn. % | 6.4 | 6.1 | 6.1 |
| EPS CAGR 06-09e: 12 % | | | |

NEXT EVENTS

VALUATION

- An exit of the major part of US Express would not only be a major move for sentiment, but also looks to be value-enhancing. After some asset disposals, we think that a NPV calculation of weighing future potential losses and negative value spreads in US Express against close-down costs would be a major positive figure. This is not yet reflected in our SOTP and DCF/EVA calculation.

CONCLUSION

We remain confident that, besides Mail remaining close to a monopoly, Logistics is still doing well; solving the US Express issue by taking action and a Postbank disposal are major triggers for the stock. The latter two might work even before the AGM in May.

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| Deutsche Post - P&L (Total Costs) | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| EURm (Yr. end: 12/31) | 2005 | 2006 | 2007e | 2008e | 2009e |
| Sales | 44,594.0 | 60,545.0 | 64,019.7 | 67,082.7 | 70,856.3 |
| Cost of material | -23,689.0 | -34,349.0 | -35,787.0 | -37,365.1 | -39,466.9 |
| Personnel costs | -14,337.0 | -18,616.0 | -19,846.1 | -20,795.6 | -21,965.4 |
| Other operating income/expenses (net) | -1,342.0 | -1,937.0 | -2,703.0 | -2,812.6 | -2,456.9 |
| EBITDA | 5,226.0 | 5,643.0 | 5,683.6 | 6,109.4 | 6,967.0 |
| thereof: Depreciation | -1,471.0 | -1,771.0 | -1,792.6 | -2,012.5 | -2,125.7 |
| EBIT | 3,755.0 | 3,872.0 | 3,891.0 | 4,097.0 | 4,841.3 |
| Interest result | -702.0 | -1,030.0 | -985.0 | -940.0 | -880.0 |
| Profit or loss on ordinary activities | 3,053.0 | 2,842.0 | 2,906.0 | 3,157.0 | 3,961.3 |
| EBT | 3,053.0 | 2,842.0 | 2,906.0 | 3,157.0 | 3,961.3 |
| Taxes | -605.0 | -560.0 | -371.5 | -625.1 | -792.3 |
| Profit / loss for the year (cont. operations) | 2,448.0 | 2,282.0 | 2,534.5 | 2,531.9 | 3,169.0 |
| Discontinuing operations (net) | 0.0 | 0.0 | 5.0 | 10.0 | 15.0 |
| Minority interest | -213.0 | -366.0 | -500.0 | -475.0 | -513.0 |
| Net profit | 2,235.0 | 1,916.0 | 2,034.5 | 2,056.9 | 2,656.0 |
| Adjusted net profit | 2,235.0 | 1,916.0 | 2,034.5 | 2,056.9 | 2,656.0 |
| Key ratios and figures | | | | | |
| EURm (Yr. end: 12/31) | 2005 | 2006 | 2007e | 2008e | 2009e |
| Valuation | | | | | |
| PER | 10.1 | 13.3 | 13.4 | 11.9 | 9.2 |
| P/BV | 2.1 | 2.3 | 2.2 | 1.8 | 1.7 |
| Dividend yield % | 2.6 | 3.3 | 3.3 | 4.4 | 5.1 |
| EV/Sales | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 |
| EV/EBITDA | 5.7 | 6.4 | 6.9 | 5.7 | 4.7 |
| Sustainable FCF yield % | 19.0 | 15.3 | 16.1 | 19.7 | 23.3 |
| Data per share | | | | | |
| Weighted avg. number of shares | 1,192.60 | 1,196.20 | 1,196.20 | 1,196.20 | 1,196.20 |
| EPS (reported) | 1.87 | 1.60 | 1.70 | 1.72 | 2.22 |
| adj. EPS | 1.87 | 1.60 | 1.70 | 1.72 | 2.22 |
| Dividend | 0.70 | 0.75 | 0.90 | 1.05 | 1.20 |
| Book value per share | 8.98 | 9.38 | 10.33 | 11.15 | 12.32 |
| Sustainable FCFPS | 4.4 | 4.2 | 4.9 | 5.5 | 6.2 |
| Growth rates % | | | | | |
| Sales | 3.3 | 35.8 | 5.7 | 4.8 | 5.6 |
| EBITDA | 8.4 | 8.0 | 0.7 | 7.5 | 14.0 |
| EBIT | 11.4 | 3.1 | 0.5 | 5.3 | 18.2 |
| Net profit | 12.8 | -14.3 | 6.2 | 1.1 | 29.1 |
| adj. EPS | 5.2 | -14.5 | 6.2 | 1.1 | 29.1 |
| Margins % | | | | | |
| Gross | 46.9 | 43.3 | 44.1 | 44.3 | 44.3 |
| EBITDA | 11.7 | 9.3 | 8.9 | 9.1 | 9.8 |
| EBIT | 8.4 | 6.4 | 6.1 | 6.1 | 6.8 |
| Net profit | 5.0 | 3.2 | 3.2 | 3.1 | 3.7 |
| Expense ratios % | | | | | |
| Personnel cost to sales | 32.2 | 30.7 | 31.0 | 31.0 | 31.0 |
| Cost of material to sales | 53.1 | 56.7 | 55.9 | 55.7 | 55.7 |
| Depreciation to sales (Total Cost) | 3.3 | 2.9 | 2.8 | 3.0 | 3.0 |
| Tax rate | 19.8 | 19.7 | 12.8 | 19.8 | 20.0 |
| Other ratios | | | | | |
| Interest cover | -7.4 | -5.5 | -5.8 | -6.5 | -7.9 |

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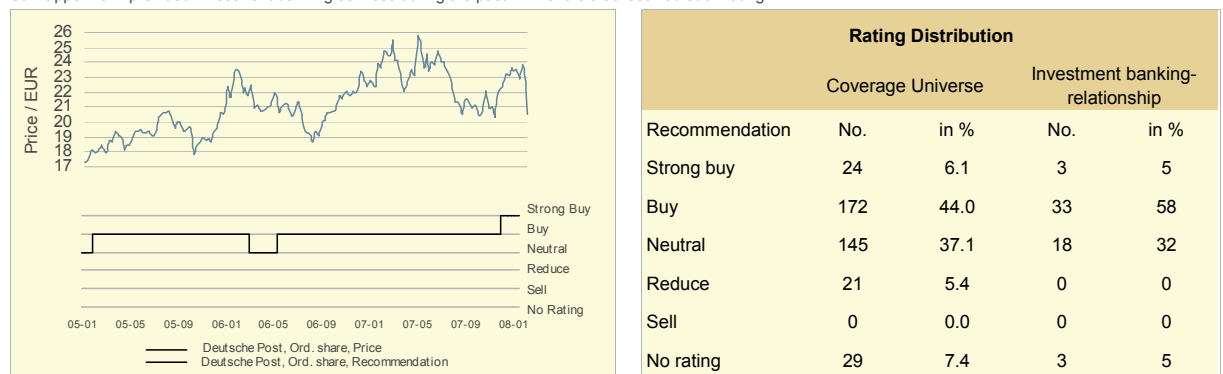
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