

Royal Mail PLC

11:16 11 Feb 2019

Amazon's recent delivery expansion is bad news for Royal Mail, says UBS

UBS has slashed its price target for Royal Mail PLC (LON:RMG) as competition from e-commerce giant Amazon.com Inc (NASDAQ:AMZN) keeps a lid on parcel prices.

Amazon's share of the UK delivery market has more than doubled over the past five years to 7% last year, up from 3% in 2013.

Last year it delivered 20mln more parcels than it did in 2017 and now has a similar UK coverage to other, more established delivery firms.

READ: Deutsche Bank cuts Royal Mail price target

"We believe part of the reason why UK parcel prices are not rising...is partly down to the number of competitors in the market," said a note from analysts on Monday.

The Swiss bank had expected parcel prices to at least stay the same over the next few years, although it now reckons they will fall 1% a year from 2020.

Separately, UBS also notes that Amazon's delivery service is much cheaper than Royal Mail for parcels over 2kg in weight.

"We believe that in order to become competitive with [Amazon] (and its peers) at heavier parcel weights RMG will need to find ways of reducing its cost of parcel fulfilment.

"How to do this is likely to be a key part of the strategy review underway and should be addressed in the Capital Markets Day to be held after its results in May."

Price target slashed

Despite this, the analysts highlight that Royal Mail still has the best reach of any UK delivery company: 99.9% of the population is within 30 minutes' drive of a Royal Mail delivery facility.

"For a truly universal service RMG remains a key operator and we would see Amazon remaining a key customer for the foreseeable future," UBS added.

Still, that wasn't enough for the analysts to maintain their previous price target, which they have chopped from a bullish 354p right down to 282p. They did repeat their 'neutral' stance, however.

Royal Mail shares were up 0.4% to 272.4p on Monday morning.

Price: 213.2

Market Cap: £2.13 billion

1 Year Share Price Graph



Share Information

Code: RMG

Listing: LSE

52 week High Low
308.5 186.803

Sector: Business & education services

Website: www.royalmail.com

Company Synopsis:

As the sole provider of the Universal Service in the UK, Royal Mail Group delivers a six-days-a-week, one-price-goes-anywhere postal service to more than 29 million addresses across the UK. Royal Mail is the preferred delivery company in the UK. We are a vital link connecting communities, businesses and customers.

action@proactiveinvestors.com

Proactive Investors facilitate the largest global investor network across 4 continents in 4 languages. With a team of analysts

journalists & professional investors Proactive produce independent coverage on 1000's of companies across every sector for private investors, private client brokers, fund managers and international investor communities.

Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

No investment advice

The Company is a publisher. You understand and agree that no content published on the Site constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable or advisable for any specific person. You understand that the Content on the Site is provided for information purposes only, and none of the information contained on the Site constitutes an offer, solicitation or recommendation to buy or sell a security. You understand that the Company receives either monetary or securities compensation for our services. We stand to benefit from any volume which any Content on the Site may generate.

You further understand that none of the information providers or their affiliates will advise you personally concerning the nature, potential, advisability, value, suitability or profitability of any particular security, portfolio of securities, transaction, investment, investment strategy, or other matter.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including Company-related products, and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior articles and opinions we have published. These references may be selective, may reference only a portion of an article or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.

The Site does not, and is not intended to, provide investment, tax, accounting, legal or insurance advice, and is not and should not be construed as providing any of the foregoing. You should consult an attorney or other relevant professional regarding your specific legal, tax, investment or other needs as tailored to your specific situation.