

Royal Mail PLC

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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.

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"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: 208

Market Cap: £2.08 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.

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