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Royal Mail PLC

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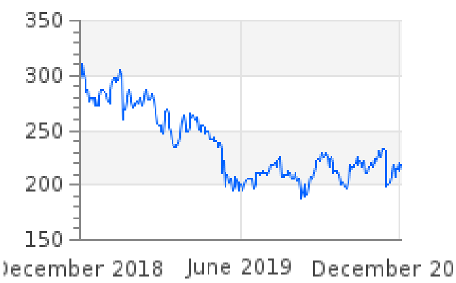
Royal Mail plans 40% dividend cut to pay for next stage of turnaround

Price: 218.5

Market Cap: £2.19 billion

1 Year Share Price Graph



Share Information

Code:		RMG
Listing:		LSE
52 week	**High**	**Low**
	313.8	**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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Royal Mail PLC (LON:RMG) will trim its dividend 40% to pay for a new "turnaround and grow" strategy after a year when profits fell by 30%.

On revenues up 2% to £10.58bn in the 53 weeks to end-March, adjusted profit before tax dwindled to £398mln versus £565mln the year before, even though transformation costs came in at £133mln versus expectations of around £150mln. Operating profits of £376mln were, however, much better than the £355mln expected by analysts after October's profit warning.

READ: Amazon's recent delivery expansion is bad news for Royal Mail, says UBS
The UK parcel and letters division, UKPIL, generated flat sales of £7.6bn as parcel revenue rose 7% on volumes up 8%, offset by letter revenue falling 6% as volumes declined 8%, which was in line with reduced guidance from earlier in the year.

International parcels arm GLS increased revenues 8% to £2.9bn on volume growth of 5%, with operating profit down 9% amid cost pressures in Europe and tough competition in the US.

Presenting the group's "refreshed" five-year strategy, chief executive Rico Back said: "Our ambition is to build a parcels-led, more balanced and more diversified international business, delivering adjusted group operating profit margin of over 4% in 2021-22, increasing to over 5% in 2023-24."

After softening the blow slightly with these growth targets and a 4% increase in the 2018-19 dividend to 25p per share, he said the new policy from 2019-20 will be for a full year dividend of 15p per share with potential additional payouts in years where there is "substantial excess cashflow".

This will allow investment in the business, including in rolling out 1,400 parcel postboxes by the end of the new trading year and introducing a second daily parcel delivery service for next-day orders to help Royal Mail compete with more nimble rivals.

CEO Back said: "The investment in the UK, and expected lower cash flow in the early years, means we are rebasing the dividend and changing our dividend policy. This is not a decision we have taken lightly as we know how important the dividend is to our shareholders. We have sought to find an appropriate balance between sustainable shareholder returns, and investing in the future."

Mixed reaction
Broker Liberum said the results were in line with market consensus with guidance for 2020 consistent with current consensus.

"Our view on the new strategic plan is mixed. There appears to be more emphasis on revenue growth than cost control than we believe is deliverable or desirable, although we accept that management's options are constrained."

Analysts said their overall initial reaction was that "punches have been pulled" as avoiding major job cuts was "understandable given the risk of an adverse union reaction, but with staff costs circa 70% of UKPIL costs this would seem to be dodging the main issue".

Russ Mould, investment director at AJ Bell, said Royal Mail had not flagged its dividend cut, unlike some of its FTSE 350 peers, though its recent dividend yield of almost 12% looked too good to be true.

"The cut is therefore another timely reminder to investors to think about how much risk they are taking with their capital when they look for income. The yield was so high because the market was - politely - suggesting that earnings and dividend forecasts were too optimistic and therefore demanding a very high yield in compensation for the risks associated with holding the paper."

Royal Mail shares were up more than 6% to 225.3p by Wednesday afternoon.

-- Adds broker comment and share price --