

Royal Mail PLC

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Royal Mail upgraded to 'hold' by Liberum on "improved" strategy, but broker cautions on execution risks

Royal Mail PLC (LON:RMG) has been upgraded to 'hold' from 'sell' by analysts at Liberum Capital after the broker said the FTSE 100 firm's turnaround plan, unveiled with its full year results on Wednesday, was an "improved strategic direction" but cautioned that the execution risks would be significant.

The analysts also cut their target price for the FTSE 250-listed firm to 185p from 240p, saying there could be more downside risk to the shares in the short term.

READ: Royal Mail plans 40% dividend cut to pay for next stage of turnaround. In a note to clients, the analysts said the turnaround of the firm's UK parcels, international and letters division (UKPIL) was the "most crucial" element of the strategy, although the need to potentially cut jobs in order to reap the required productivity improvements could lead to issues with trade unions.

They added that plans for three new hubs to improve deliveries was a "substantial" endeavour and the operational changes carried execution risk.

However, Liberum's analysts said that if the turnaround was successful there was upside potential in the shares, though things would get worse before they got better.

"Royal Mail is at the beginning of another major multi-year transformation project in its UK operations. While the group has a strong track record of constant reinvention, the challenges and execution risks it faces are substantial. The pain is front end loaded, while many of the gains are back end loaded," they added.

The analysts also said that despite its cautious outlook, Royal Mail shares now seem "fairly valued" given the risks, justifying its upgraded rating.

In early trading on Friday, Royal Mail shares were up 3% at 203.8p.

Price: 218.8p

Market Cap: £2188M

1 Year Share Price Graph



Share Information

Code: RMG

Listing: LSE

52 week High Low
499.10p 192.00p

Sector: Support 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.

Author:

Proactive Investors Ltd

+44 (0)207 989 0813

action@proactiveinvestors.com

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

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