

Royal Mail PLC

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Royal Mail sickly as GLS business heavily exposed to Italian coronavirus outbreak

Royal Mail PLC (LON:RMG) is facing yet more misery as its GLS parcel business finds itself acutely exposed to any disruption caused by an outbreak of coronavirus in Italy.

The outbreak in the Mediterranean nation has so far claimed five lives and infected around 200, with the government having quarantined several towns that are home to 50,000 people.

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Most the cases are concentrated in the regions of Lombardy and Vento, an economically important region close to Milan which accounts for around a third of Italy's economic output.

For Royal Mail, the outbreak poses a significant challenge to its GLS business, which counts Italy is its second biggest market.

Analysts at Peel Hunt said in a note on Monday that the "significant exposure" GLS has to the Italian market could leave the stock "vulnerable to a further decline" as Royal Mail continues to struggle with a turnaround plan and deteriorating relations with its workforce, with the Communications Workers Union (CWU) scheduled to ballot its members for a postal strike due to take place next month.

Analyst warns of "outside impact" on profits
Peel Hunt's view was echoed by Berenberg analyst William Fitzalan Howard, who said any impact of the company's Italian operation "could be very big" if the infection was not quickly contained.

Howard added that GLS was currently the only part of Royal Mail that was making money in contrast to its struggling UK business and that in the context of the wider group the outbreak will cause an "outside impact" on profits and provide the company with "less room to manoeuvre on cash flow", which he said was "unhelpful" given its other issues.

While he did not personally expect the outbreak in Italy to push Royal Mail towards a dividend cut, Howard said the market will "begin pricing in" the higher probability of a reduced payout, which in turn would push down the share price.

"That is what has already happened to an extent, but I think it could go further on this basis", he said.

Shares in Royal Mail dropped 2.9% to 173.2p in mid-afternoon trading on Monday.

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Price: 176.35

Market Cap: £1.76 billion

1 Year Share Price Graph



Share Information

Code: RMG

Listing: LSE

52 week High Low
258.6 118.856

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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