Deutsche Post DHL Group meets earnings guidance for 2018 and confirms targets for 2020

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Deutsche Post DHL Group, the world's leading mail and logistics company, continued to grow in the financial year 2018. Group revenue was up by 1.8% to EUR 61.6 billion. After adjusting for currency effects and portfolio changes, the revenue increase was even greater at 6.0%. All four Group divisions contributed to the positive trend. Growth was driven by the ongoing boom in e-commerce as well as sustained growth in international trade flows. The Group's operating profit (EBIT) came to EUR 3.2 billion and thus reached the adjusted earnings target communicated in June 2018.

"2018 was a challenging year for Deutsche Post DHL Group, which we closed with a successful Christmas business. Despite rising geopolitical uncertainties, global trade continued to register growth. This benefitted our DHL divisions in particular. In our German post and parcel business, we initiated measures to secure the division's long-term EBIT growth - and we consciously accept that this comes with a short-term burden on EBIT," said Frank Appel, CEO of Deutsche Post DHL Group. "We have thus created the conditions for reaching our 2020 targets and for continuing to grow profitably in the years thereafter."

Outlook: significant EBIT increase expected in 2019, financial targets for 2020 reaffirmed

Deutsche Post DHL Group is projecting an increase in operating profit to EUR 3.9 to 4.3 billion in 2019. Structural and operating improvements in all Group divisions are expected to contribute to the increase. The measures initiated to raise profitability in the German post and parcel business are expected to be one of the main factors having a notably positive impact on earnings in the current financial year.

Among the measures implemented were the changes made to the structure of Deutsche Post DHL Group effective 1 January 2019. The previous Post - eCommerce - Parcel (PeP) division was split into two separate divisions: The new Post und Paket Deutschland (P&P) division focuses on the mail and parcel business in the domestic market, while the Group's international parcel and e-commerce activities have been combined to form the new DHL eCommerce Solutions division.

The P&P division is expected to contribute between EUR 1.0 to 1.3 billion to the Group's projected EBIT for 2019. In the DHL divisions, of which there are now four (Express; Global Forwarding, Freight; Supply Chain; eCommerce Solutions), the Group anticipates total EBIT to grow to EUR 3.4 to 3.5 billion. Group EBIT is projected to rise to at least EUR 5.0 billion in 2020.

Dividend: Group proposes stable dividend at EUR 1.15 per share

The challenges addressed in the past financial year are reflected in the Group's net profit for the year. Consolidated net profit after non-controlling interests came to EUR 2.1 billion (2017: EUR 2.7 billion). Basic earnings per share dropped accordingly to

EUR 1.69, down from EUR 2.24 in the previous year. The more substantial decrease in net profit compared with Group EBIT was due to a lower financial result which, in turn, was attributable to transitioning to the new IFRS 16 accounting standard. Since the application of IFRS 16, the interest expense on lease liabilities is included in the financial result.

For financial year 2018, the Board of Management and Supervisory Board will propose an unchanged dividend of EUR 1.15 per share to the Annual General Meeting on 15 May. The Group would then pay out a total dividend of around EUR 1.4 billion, subject to shareholder approval. In view of the net profit after adjustment for one-time effects, this translates into a payout ratio of 55% - which is within the range of 40% to 60% communicated in the Group's finance strategy which has been in place since 2010.

Strong cash flow growth with continued high investments

Deutsche Post DHL Group invested heavily in profitable future growth once again in 2018. As planned, a total of EUR 2.6 billion (+16.8%) was spent on investments across all four divisions. The company expanded and modernized its domestic parcel infrastructure and invested in the vehicle fleet as well as in expanding production of the StreetScooter, among others. In the Express division, the Group upgraded its hubs in Brussels, Madrid and Hong Kong and expanded and modernized the aircraft fleet. The Group is planning to increase capital expenditure to around EUR 3.7 billion in 2019. This includes EUR 1.1 billion Euro for the debt-financed renewal of the Express aircraft fleet announced last year.

The increase in capital expenditure led to higher cash outflows in the past financial year. Free cash flow decreased to EUR 1.1 billion (2017: EUR 1.4 billion). For 2019, Deutsche Post DHL Group is forecasting free cash flow of more than EUR 500 million, including EUR 1.1 billion for the debt-financed renewal of the Express aircraft fleet.

The Group's net debt amounted to EUR 12.3 billion as of the December 31, 2018 reporting date. This figure is not comparable with the prior-year figure of EUR 1.9 billion due to the initial application of IFRS 16 and the related impact on accounting for leases. In view of the Group's available liquidity and its balanced maturity structure, Deutsche Post DHL Group continues to enjoy a very solid financing position.

Post - eCommerce - Parcel: 1.5 billion parcels transported within Germany

The Post - eCommerce - Parcel division reported revenue growth of 1.7% to EUR 18.5 billion in 2018. The upward trend was primarily attributable to higher revenue in the eCommerce - Parcel business unit. Parcel Germany, for example, posted a revenue increase of 7.1%. In full-year 2018, PeP delivered 1.5 billion parcels in Germany, an increase of 7.5% compared to 2017 as well as a new record.

Revenue at DHL eCommerce climbed by 6.9%, adjusted for negative currency effects even by 12.0%. Parcel Europe reported an increase of 10.6%. These dynamic trends reflect Deutsche Post DHL Group's strong positioning in international e-commerce. The Group intends to use its new DHL eCommerce Solutions division headed up by Ken Allen to take even better advantage of the potential offered by the e-commerce market.

In the Post business unit, revenue dropped below the prior-year figure of EUR 10.0 billion to EUR 9.7 billion, as expected. The decrease was the result of structural volume declines in Mail Communication and Dialogue Marketing. However, the volume declines remained within the range of the long-term projections. In 2017, revenue and volumes had been positively impacted by elections in Germany.

EBIT for the PeP division came to EUR 656 million in the past financial year (2017: EUR 1.5 billion). The one-time expenses incurred to secure the EBIT growth projected for the coming years were the main factor contributing to the decrease. Announced in mid-2018, the steps planned are primarily intended to improve productivity, reduce indirect costs and drive active yield management in the post and parcel business. All in all, EUR 502 million was spent, as planned, on restructuring the division in the past financial year.

Express: continued strong growth in revenue and earnings

The longstanding upward revenue and earnings trend continued in the Express division in 2018. Revenue climbed by 7.3% to EUR 16.1 billion. The increase was even greater on an organic basis at 11.0%. Particularly encouraging was the fact that the division again registered growth across all regions. This dynamic performance was once again driven by strong growth in the international time-definite (TDI) delivery business, where daily volumes rose by 7.4% compared with the prior-year period.

The volume increase has enabled the division to utilize its unique global express network even more efficiently. Operating profit increased by 12.7% to EUR 2.0 billion on the back of strict yield management and continuous improvements in the network. The operating margin rose to 12.1%, up from 11.5% in the prior year.

Global Forwarding, Freight: gross profit margin improved significantly

The Global Forwarding, Freight division can look back on a successful year in 2018. The division increased revenue by 3.4% to EUR 15.0 billion despite focusing on only high-margin business. Adjusted for negative currency effects, revenue improved by an even more substantial 6.7%. Gross profit, which is an important performance indicator for Global Forwarding, Freight, also performed strongly with an increase of 3.9% over the prior year to EUR 3.6 billion. The division registered gross profit margin improvements in both air and ocean freight. Road and rail transport in Europe also showed a positive development.

As in the first nine months, the division succeeded in translating its upward trend in gross profit into a significant EBIT increase. Operating profit surged 48.8% to reach EUR 442 million in the full year 2018, thus demonstrating that the initiatives to improve cost efficiency are taking effect.

Supply Chain: continued strong trend in new business

Revenue in the Supply Chain division came in at EUR 13.4 billion in the past financial year (2017: EUR 14.2 billion). In addition to negative currency effects, the revenue decline mainly reflects the sale of the subsidiary Williams Lea Tag. After adjusting for those factors, revenue for the division increased by 4.3%. DHL Supply Chain continued to generate additional new business, closing additional contracts worth EUR 1.3 billion with both new and existing customers in financial year 2018.

Operating profit amounted to EUR 520 million, down from EUR 555 million in the previous year. The decline was attributable to one-time negative effects of EUR 50 million from customer contracts and EUR 42 million from pension obligations. Adjusted for these factors and the one-off effect resulting from a write-down of customer relationship assets in the previous year's result, EBIT improved by 4.3%.

Fourth quarter: strong end to the year

In the fourth quarter, Deutsche Post DHL Group registered an increase of 5.1% in total Group revenue to EUR 16.9 billion. All four divisions contributed to the improvement in revenue. Operating profit declined by 4.0% to EUR 1.1 billion, due above all to restructuring costs at PeP. Consolidated net profit after non-controlling interests decreased by 2.9% to EUR 813 million, mainly as a result of the lower EBIT at PeP and the implementation of IFRS 16. Basic earnings per share fell to EUR 0.66 in line with the decline in net profit.

Source: [Deutsche Post DHL]