

CTT – CORREIOS DE PORTUGAL, S.A.

POSTAL SECTOR

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COMPANY REPORT

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This initiating coverage of CTT proposes a price target of €6.47 as of December 2013, which represents approximately a 16% upside potential based on its current valuation. CTT's healthy cash flow generation and solid balance sheet provide an attractive investment proposition for the public markets.

- **The attractiveness of the market and positive environment** that has been generated by the regulatory authority. During 2013, Anacom has allowed CTT to increase by 2.9% the average mail prices, which are currently 18% below the European average.
- **CTT will take advantage of its two main key sources of revenues to boost its margins.** The first one is Express & Parcels (especially on the B2C segment) by improving and developing a higher penetration of e-commerce in Iberia, since it has been below the European peers' average. The second key driver is the Financial Services that would be focused mainly on increasing fees on the existing products, the possibility of being granted with a Postal Bank license and expanding existing products by leveraging its extended retail network.
- CTT has been involved in a **restructuring and optimization process focused on cost-cutting** mainly due to the decrease on mail volumes and the current underperforming situation of Tourline. It includes mainly headcount reduction, outsourcing and cost saving. This effort to maximize efficiency, along with price hikes that could be imposed, should lead to an increase on the EBITDA level and consequently boost Free Cash Flow, turning CTT into a very attractive company for investors.
- **Generous dividend payout** announced by the Group for the next years (c. 90%), which surpasses the ones presented by listed companies in Portugal (62.3%) and peers abroad (range from 40-85%).

Recommendation: BUY**Price Target FY13:** 6.47 €**Price (as at 31-Dec-13)** 5.59 €

Reuters: CTT.LS, Bloomberg: CTT PL

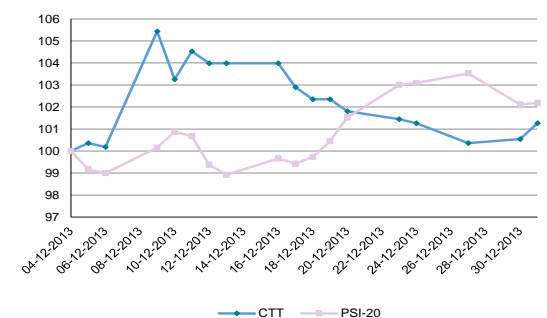
Range since IPO (€) 5.52-5.82

Market Cap (€bn) 0.84

Outstanding Shares (m) 150

Source: Bloomberg

CTT vs PSI-20



Source: Bloomberg

(Values in € millions)	2013	2014E	2015F
Revenues	705	698	704
EBITDA	122	133	147
Net Profit	61	64	75
EPS	0.41	0.43	0.50
Dividend yield (%)	7.16	5.72	6.46
ROE	0.22	0.23	0.25
ROIC (%)	0.4	2.3	2.6
EV/EBITDA	8.82x	8.44x	7.87x
EV/Revenues	1.53x	1.61x	1.64x
P/E	13.7x	15.7x	13.9x

Source: Analyst estimates

THIS REPORT WAS PREPARED BY "STUDENT'S NAME", A MASTERS IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS, EXCLUSIVELY FOR ACADEMIC PURPOSES. THIS REPORT WAS SUPERVISED BY ROSÁRIO ANDRÉ WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

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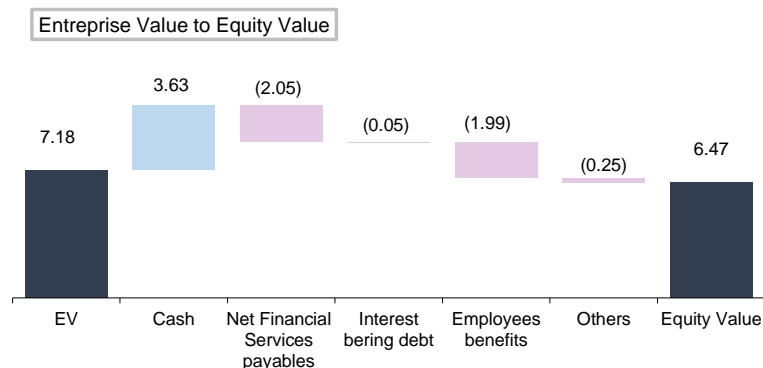
Executive summary

Portugal and Spain were some of the most affected countries by the European crisis. Due to the public deficits and high indebtedness level of these countries, the government had to reduce public expenses and increase taxes, which implies a decrease of annual income.

The reduction of the disposable income affects CTT by decreasing the traffic volumes and financial services, as it bears a negative impact on the amount of savings. However, CTT operates in an interesting niche market with a favorable regulation imposed by Anacom and also with an appealing restructuring process that is focused mainly on improving margins and easing labor cost structure.

Having this in mind, we estimated a DCF-based PT of €6.47, which roughly represents a potential upside of 16%. The upside potential might be driven from (1) expansion of the existing portfolio, (2) rigorous cost-cutting policy and (3) high dividend yield. Additionally, some value creation can arise from the improvement of the Portuguese Economy and the expansion of e-commerce. We believe that these prospects are reflected on the price target predicted.

CTT potential upside rely on: attractive high dividend yield, expansion of existing portfolio and rigorous cost-cutting policy



CTT cash flow generation is based on three pillars. The mail business segment, where CTT is the main provider in Portugal with very limited threat of competition, also supported by fee-based arising from financial services as well as express segment. All of these business lines are fully sustained by an extensive retail network operating in the Portuguese territory with a slight presence in Spain. The company generates a very tiny percentage of its revenues in Mozambique, through CORRE (Express mail provider).

CTT de-risked balance sheet and its healthy cash flow generation were crucial to create investor appetite.

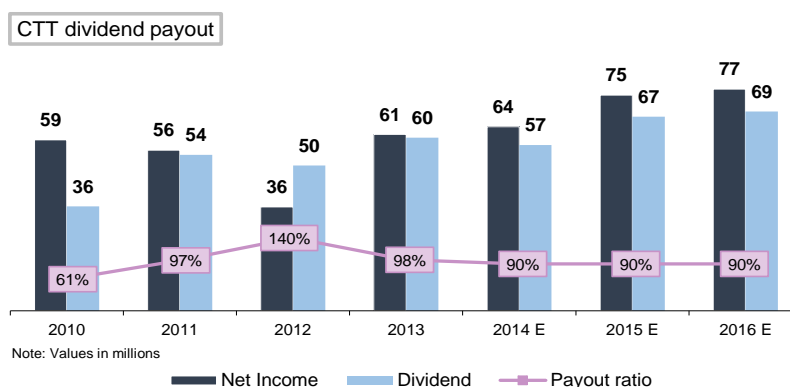
CTT under the leadership of Francisco Lacerda and his team, will attract significant investor appetite. The company holds several key elements that outstand it from its competitors, which will be crucial to convince investors. As previously mentioned, CTT is known for its solid and significantly de-risked balance sheet and its healthy cash flow generation. CTT's expert management team carries the ability to innovate and to exploit new opportunities in the changing mail industry. Furthermore, we stress for the group capability to generate cash.

CTT attractiveness relies basically on the following issues:

- High dividend payout announced by the company. During 2013, the management team disclosed a dividend payment of €60k to be paid in the end of May. We foresee a minimum dividend payout of 90% for the coming years, which exceeds the European peers.

Due to maturity of the postal sector, investors are looking to companies' capability to pay dividends. It can be considered as the main decision maker for investors. As at 31st December 2013, CTT dividend yield was 7.16% above 10y Portuguese Bond (6%) and in line with the most attractive investments like REN (7.8%) and EDP (7%) (Source: JP Morgan).

The high dividend yield was crucial to convince investors.



The positive environment between Anacom and CTT was crucial for CTT price strategy

- Investors are pleased with the unquestionably favorable environment demonstrated on countless occasions between ANACOM and CTT. ANACOM has been allowing CTT to increase the mail prices. During 2013, CTT increased the price of standard letters twice, on April and November. Furthermore, CTT has agreed with Anacom further increase on price for 2014. However, Anacom can create some restrictions to increasing prices and thereby impact the ability of CTT to smooth the declining volume trend. According to management team, they strongly believe that Anacom will not create any constraint since as we mentioned previously the price practiced by CTT is currently below peers.

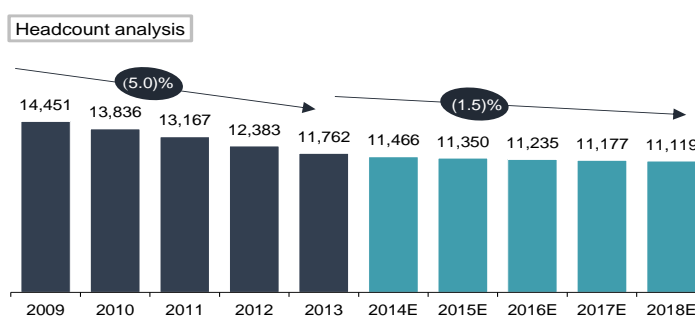
- As at 31 of December of 2013, the company reported an employee healthcare liabilities of €264m with the respective tax asset of circa €88m, which annually impacted CTT profit and losses account with €15m. The Company presented two possible solutions, on one hand and the most viable, transfer it to the state or as the second option move it from the balance so that CTT can take advantage of tax asset generated by those liabilities. This benefit was not taken into consideration during the valuation methodology due to its high degree of uncertainty when is going to be performed.

CTT among with Bpost are the post offices with higher EBITDA margins.

- In terms of reported EBITDA Margin, it is important to highlight that CTT has always presented strong and consistent margins, being one of the top performers amongst its peers. It has been highly profitable, since its operations have performed in a very efficient way and its cost structure has been adjusted according to the market conditions.

The majority of the headcount is allocated to the mail sector.

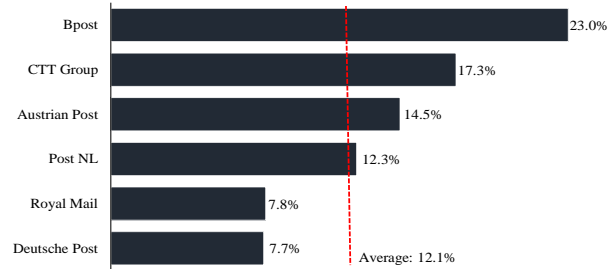
A good example of cost structure adjustment was that despite the volume growth rates remained above the European peers, the Company was taking several measures to offset the volume decline. The first of these measures was managing the headcount in the business. In the last years, CTT has reported a negative CAGR of 5% on its headcount from 2010-13, to face the decreasing mail volumes. However, due to the expectation of the economy recovery, we expect that this rate might start to slow to approximately 1% to 2% per year. The second measure relies on employee's replacement with a lower costs for example.



Source: Company Data, Nova estimates

According to the information provided by management team, the reduction of third party supplies has been focused mainly on external services and services costs. This reduction has been concentrated essentially in searching in-sourcing opportunities, process optimization, staff rationalization and integration between business segments (mail, express and financial services).

EBITDA Margin analysis



Source: Bloomberg

The e-commerce will be the main driver to boost the B2C segment.

Recent studies highlight that the e-commerce will report double digit growth in the next 5 years.

Financial services growth will rely essentially in the renegotiation of existing contracts as well as extend its current financial portfolio.

- Express mail and Financial Services can be seen as the future key business segments of CTT in the coming years. Express mail will depend on the E-commerce penetration (mainly the B2C segment) since it is underperforming when compared with its European peers. According to WIK Consult report, it is expected E-commerce in Iberia will be reporting double digit growth rates in the next 5 years. Furthermore, strategies as integration of mail and express business as well as creating economies of scale will allow CTT to smooth the effect of high competition faced under express segment in Portugal and Spain.

The growth in financial services segment will be supported essentially by the renegotiation of existing contracts with IGCP, Fidelidade and others. Also CTT targets to extend its financial services portfolio by offering to its clients solutions such as consumer credit, structured products or riskier insurance products and government services (providing social security documents, services concerning legal or tax issues and car licenses), where partnership with Portuguese Government for SGEI's plays an important role. The financial services business is a clear sign of how CTT can benefit from its extensive retail network by exploring opportunities for cross selling.

Investors have been expressing some concerns from structural volume decline faced by the mail sector, competition under the express business segment as well as whether there is room for further efficiency.

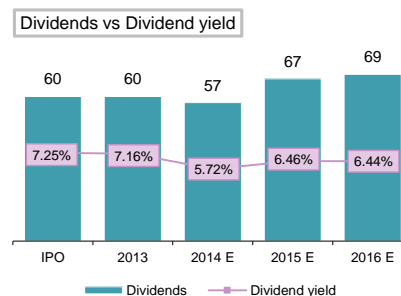
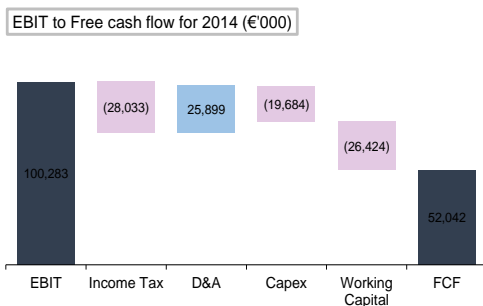
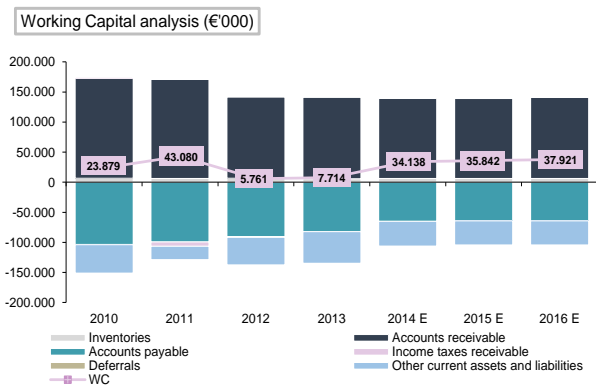
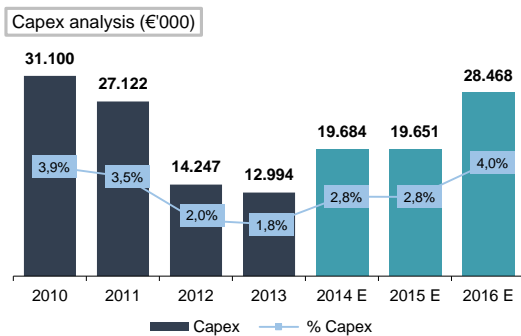
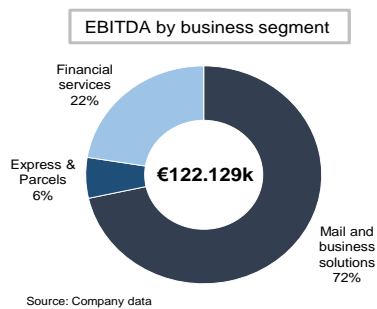
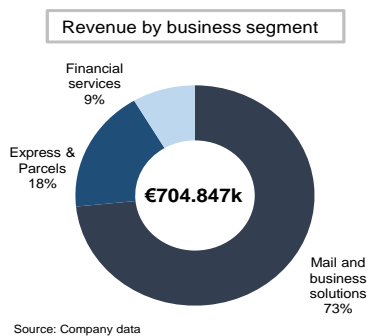
In order to mitigate structural volume decline, CTT will rely essentially on economy improvement due to its high correlation between GDP and mail volumes, increasing price strategy and initiatives to increase utilization post office (customized service, personalized support, and others).

To smooth the impact of competition on express sector, the Group will focus on the creation of economies of scale and at the same time constitute a network between mail and express sectors, which will imply cost reduction and outline the supply that consequently brings higher margins. Also the improvement of the Spain economy will impact positively the price charged by Tourline.

Although CTT reported strong and consistent margins, there is still margin for further improvements. For example through the renegotiation of some contracts, integration of mail and express sector and integration of human resources.

To sum up, CTT represents a highly compelling investment opportunity for the capital markets, with unique position providing end-to-end solutions under a “common chassis” in the Portuguese market, attractive exposure to growth in Express & Parcels services and Financial Services and with generous dividend policy. Moreover, it is predicted we see grater earnings and growth potential within the investment horizon.

CTT Snapshot



Source: Company data and Nova estimates

Company overview

Company description

Throughout its 500-year history, Correios de Portugal (CTT) has been considered one of the most prestigious brands in Portugal. It was able to design and implement a successful and trustworthy brand, while creating perhaps the most extensive retail network operating in the Portuguese territory.

CTT Group is composed by 11 subsidiaries, out of which 9 are totally held by CTT. The Mozambique postal office (CORRE) and EAD are the only ones not entirely possessed by CTT.

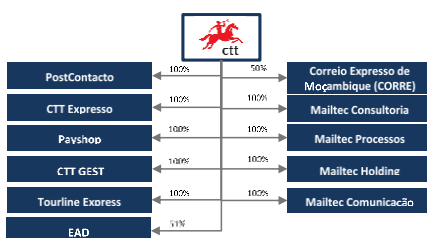
CTT provides its clients with a huge portfolio of services, which can be decomposed in three main business segments: (a) Mail and business solutions; (b) Express and Parcels; (c) Financial Services

The Mail business segment is offered by the following companies: CTT, SA, PostContacto, CTT Gest, Mailtec and EAD. The area of express and parcels include the activities of CTT Express (in Portugal), Tourline (in Spain) and CORRE (in Mozambique). Finally, the financial services are covered by CTT, S.A and Payshop.

CTT was granted with the Universal Service Operator (USO) concessionaire until 2020. Under this concession, CTT is responsible for providing unlimited access to postal services as well as stipulating tariffs charged. However, the tariffs need to be approved by the Regulatory Entity (Anacom).

The Company invested strongly in its infrastructures, creating a notable retail network composed by 625 own branches, 1893 partnerships and 3915 Payshops. CTT is the only business that can deliver the Universal Service throughout the Portuguese territory.

As at December 2013, CTT has been the dominant mail services provider in Portugal. Throughout the years, the company has been market leader in postal services, with a 95% domestic market share. In Express & Parcels, CTT is the main player with approximately 30% market share and securing also a significant presence in Spain (4%). CTT Financial Services includes savings and insurance as well as payments and transfers solutions. During FY13, 72% of the group's EBITDA was generated from mail and complementary services, 22% arising from financial services and the remaining 6% from Express & Parcels.



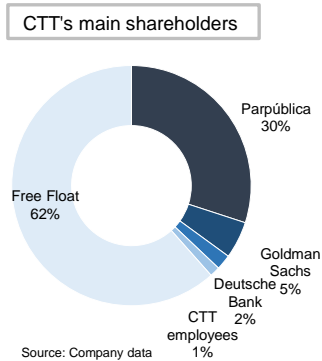
Company	Market Share
Grupo CTT	94,9%
Chronopost	1,0%
VASP Premium	0,7%
RANGEL II	0,6%
Noticias Direct	0,4%
Iberomail	0,3%
Other Companies	2,2%

Source: Anacom

Company	Market Share
CTT Expresso	27,9%
Chronopost	20,7%
Grupo Rangel	10,5%
Urbanos	5,5%
Lisespo (SEUR)	5,1%
DHL	4,5%
Other Companies	25,7%

Source: Anacom

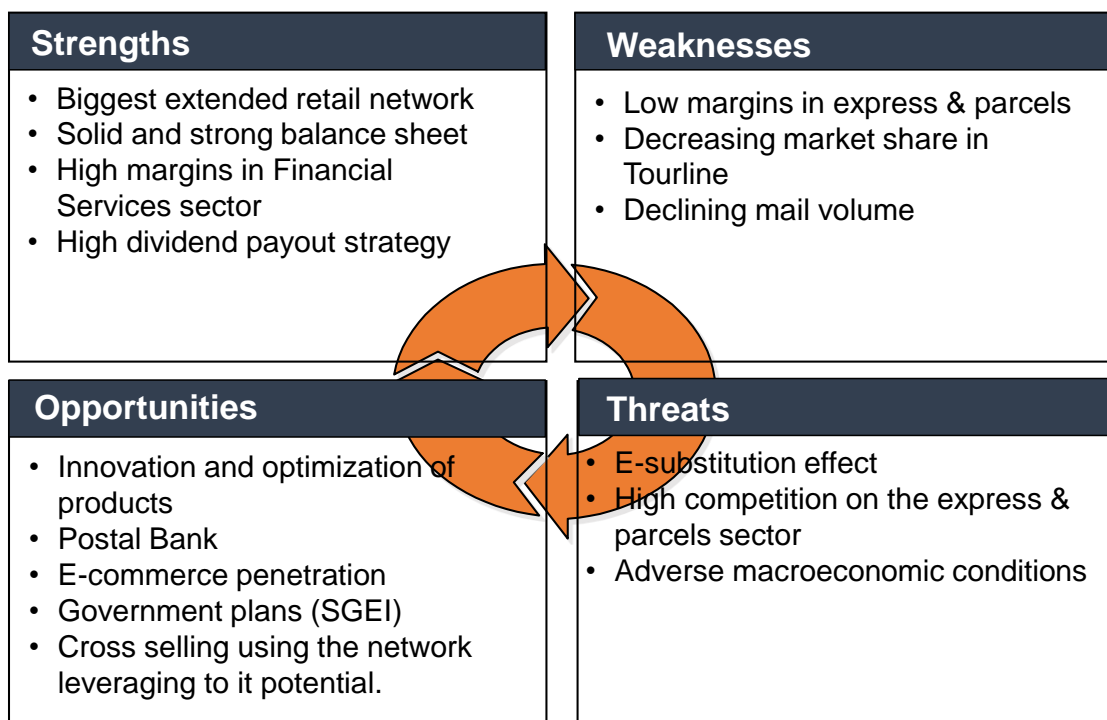
Shareholder structure



As at 31 December 2013, CTT's main shareholder is Parpública, which holds a 30% stake of the share capital but owns 36.36% of the voting rights. The remaining 70% belong to private shareholders. The major private shareholders are Goldman Sachs International and Deutsche Bank, owning circa of 5% and 2% respectively.

Under the privatization process of CTT, it was agreed that the CTT workers would have reserved up to 5% of CTT share capital (less than 2% were exercised). However, CTT employees are required to hold the amount of shares brought until the beginning of March 2014. As of 31 December 2013, CTT employees hold approximately more than 2 million shares.

SWOT Analysis

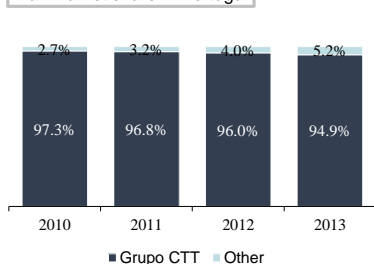


Business Segment

In 2013, in terms of revenues, the Mail and business solutions continued to be by far the most relevant business of CTT accounting for c. 73% of the total revenue, despite the clear expansion reported in previous few years in financial services (c. 9%) and express and parcels (c. 18%).

Mail and business solutions

Mail market share in Portugal



Source: Anacom

Throughout the years, CTT has been the leading postal services provider in Portugal. According to ANACOM, as of the 4th Quarter of 2013 the Company held a market share of approximately 95%. As the main company focused addressed mail market, currently CTT is facing a major risk: The declining trends in mail volumes.

The mail segment has the highest contribution to CTT’s revenues. In 2013, mail segment accounted for almost three quarters of CTT’s turnover. CTT offers to its clients a huge range of services from collecting to distributing mail items such as priority, subscriptions, advertising and registered volumes. Additionally, CTT’s Business Solutions work as complementary service to satisfy the most sophisticated needs of its clients. It offers finishing and printing solutions, document storage and management services. It represents roughly 3% of the total turnover of the group.

Mail Portfolio

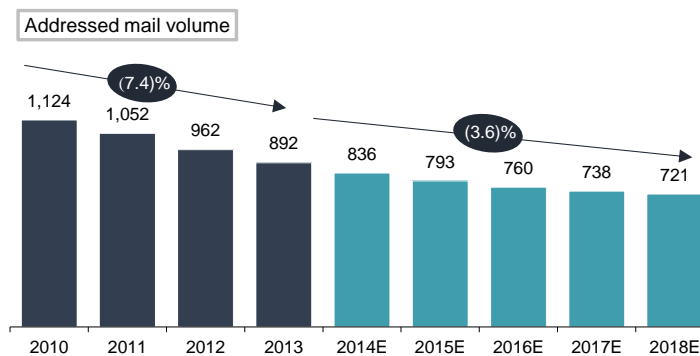
Transactional mail	It includes essentially ordinary mail items, such as registered and convenience mail, priority and non-priority mail and international mail.	USO Parcels	It refers to parcels that are not included under Express & Parcels caption, instead they are restricted by Universal Services Obligations and sent by individuals at local branches.
Advertising mail	CTT is responsible for generate advertising flyers, documents and a range of data for corporate customers with aim to reach a specific target audience.	Philately	CTT offers commemorative and standard stamps with Portugal denomination. This sub-business can incorporate printing stamps, postcards or books.
Retail	The retail sub division operates as support for the remaining business activities. Includes revenues from mail boxes, envelopes, lottery tickets, etc..	Others	It includes internal sales to other subsidiaries, such as packages or postal boxes.
Press mail	It covers mainly addressed mail that are distributed for a wide range of customers such as newspapers and magazines.	Business Solutions	It works as complementary service for mail clients and customers. This services is provided by EAD and Malitec

The mail sector relies on 8 sub-business, namely: transactional mail, advertising mail, press mail, USO parcels, retail, philately, business solutions and others.

Transaction mail may be highlighted as the most relevant sub-business, comprising around 73% of the mail turnover in 2013. The advertising mail and the sub-business others, account for 7% each of the mail turnover. The remaining sub-businesses consist of press mail, USO parcels, philately, retail and business solutions. These sub-businesses represent around 13% of the total mail turnover.

In the past years CTT have been affected by the declining trend in the mail volume. However, this is not an isolate case. Simultaneous to what has been happening to the other European peers, the traffic mail volume has been considerably under pressure by a substantial decline, which has accelerated in the last few years. We emphasize that the countries with higher volume decrease are the ones that have reported lower GDP grow rate. The main reasons lie essentially in the current challenging environment facing the European countries and in e-substitution, due to the continuous advances in technology (e-mail and social networks).

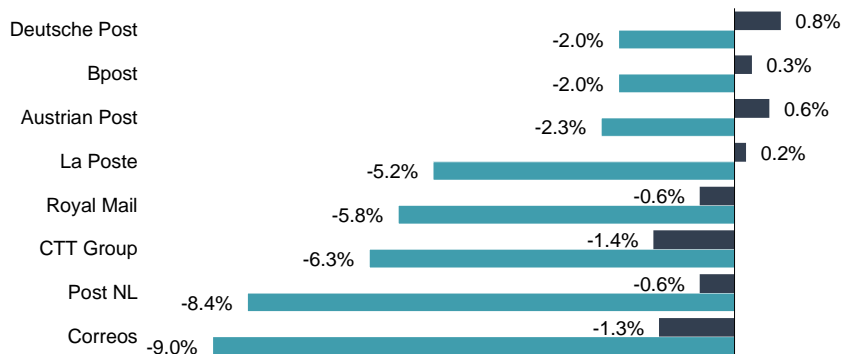
The economic improvement will smooth the decreasing mail volume trend.



Source: Company Data, Nova estimates

According to Portuguese and European historical information, the GDP growth rate has recorded a positive correlation with the level of postal traffic, which means that higher GDP recovery will imply moderately positive impact in the current mail volumes trend.

CAGR 09-12 mail volume/ GDP average gr%

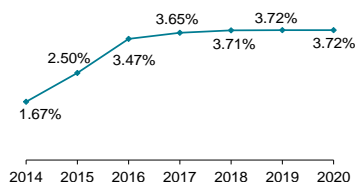


Source: Bloomberg

■ GDP average gr% ■ CAGR 09-12 mail volume

Due to the recent improvement faced by the Portuguese economy and the good future perspectives after the troubling economic cycle, it is estimated that this downward trend will start to slow down. So far, CTT’s mail volume has reported a CAGR -7.4% between 2010 and 2013.

Portuguese GDP growth rate forecast



Source: IMF

The GDP growth could impact positively the postal traffic in two major ways: Firstly, new businesses will see CTT as a viable and useful way to send transactional and advertising mail to other companies or clients. Secondly, due to the growth in internal demand, it is expected that sectors such as utilities, e-commerce and financial institutions will increase volumes in traditional mails and parcels. Additionally, it is also estimated that Portuguese State will increase its traffic.

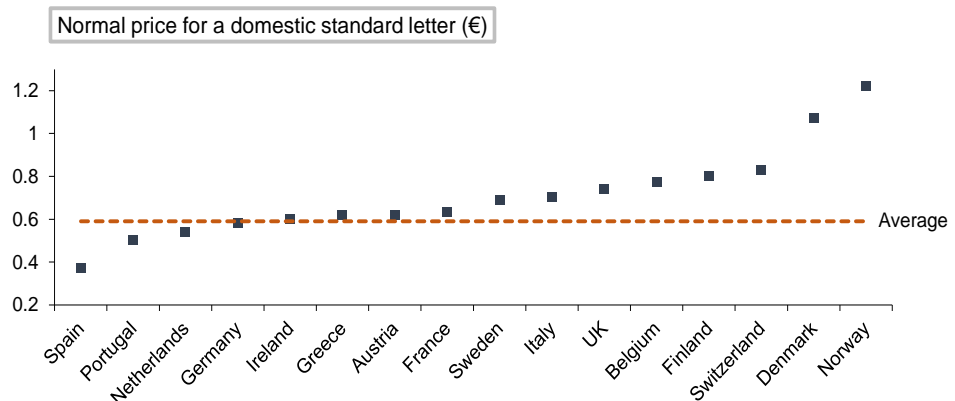
Since the negative volume trend took place due to the e-substitution and economic conditions, the pricing strategy implemented by the management team has become crucial to sustain the main top line of revenue. Since CTT cannot control the adverse macroeconomic conditions, the only way to mitigate the volume effect is by establishing a new price strategy, which has been applied by the European peers.

As agreed under USO concessionaire, ANACOM does not set directly the service prices, instead it just needs to approve the price suggested by CTT. This gives CTT a tremendous advantage to install its price strategy.

Universal Service Obligation			
Type of service	Requirements	Prices	Branches
Reserved services	<ul style="list-style-type: none"> Responsible for coordinate and install public mailboxes. Issue and sales stamps under Portuguese designation. 	The formula CPI + Adjustment factor (based on volume trends) – 0,4% defines the right methodology for the price computation	(1) It not stipulated the minimum amount of branches. (2) Currently CTT, is not receiving any subsidiary from the State. (3) At the end of the concession period the assets will not revert to the State.
Non reserved services	<ul style="list-style-type: none"> Delivery in Portugal parcels from UE (more than 20kg) Responsible for shipment/delivery of parcels (less than 10kg) Insured items 	CTT defines the prices, however they required the regulator approval roughly, 30 days before the implementation date.	

- According to “Jornal de Noticias”, the Company raised the prices 2.9% in average since April to offset the challenging environment facing the mail business. Is strengthened that is the first stirred in the CTT prices since 2010. It expected that the company continuo raise its price until converge to the European peers. Also it is important to stress that, according to Deutsche Post, the average price of mail volume of CTT is 18% below its peers, meaning that CTT have some margin to increase prices, thereby smoothing the effect of declining mail volume. We also highlight for inelastic demand for the mail sector due to lower unit price, which means increasing prices will not have further aggravation on decreasing volume trends.

CTT mail prices are 18% below the European average price.



Source: Deutsche Post

Regarding quality and first-time delivery, CTT has been able to maintain an outstanding performance providing some of the highest rates in the industry – a key success factor in defending market share.

	Minimum	Target	Score
Priority mail			
% Deliveries on the next day (Mainland)	93.5%	94.5%	95.1%
% Deliveries within two days (Madeira and Azores)	84.0%	87.0%	94.0%
% Deliveries up to ten days	99.8%	99.9%	99.8%
Ordinary mail			
% Delivered up to three days	95.5%	96.3%	97.6%
% Delivered within fifteen days	99.8%	99.9%	99.8%
Newspapers and Periodical Publications			
% Deliveries up to three days	95.5%	96.3%	97.9%
International Mail			
% Delivered up to three days	85.0%	88.0%	93.7%
% Delivered within five days	95.0%	97.0%	99.2%
Parcels			
% Deliveries up to three days	90.5%	92.0%	95.7%
Customers waiting time at post offices			
% Assisted in 10 minutes	75.0%	85.0%	90.8%

Source: Annual report consolidated accounts

As this table suggests, CTT capability to meet its objective clearly stands out, by performing better than its stipulated minimum and target level. It is also important to mention that the current situation of decreasing volumes didn't have impact on CTT's quality indicators.

CTT has three different types of clients' profile, which can be split into: Large Companies (which roughly correspond to 50% of the revenues arising from the mail business), mid-corporates (represent 15% of total revenues) and small business and individuals (correspond to the remaining 35%).

CTT has implemented a new strategy, by segmenting their customers according to its relevance, and adopted a specific service model for each one. CTT's business solutions plays a crucial role in adding value to CTT's supply chain. The business solutions segment accounts for 3% of the total revenues in 2012, and can be seen as complementary service to CTT's customers. It comprises Malitec (focused management of large volume of documents, printing, among others) and EAD (specialized in document management).

Express and parcels

Express & Parcels has been the second main source of revenues of CTT. In 2013 the company reported €129.521k, which represents roughly 18.4% of the total revenues. CTT's express and parcels are present in three different countries: In Portugal as CTT Espresso, and in Spain and Mozambique through Tourline and CORRE, respectively.

CTT Express companies are responsible essentially for express services focused on transportation, collection, treatment, and distribution of documents and goods in the national and international territory. It also combines its complementary logistics solutions and courier service, to satisfy the most sophisticated needs of its clients.

CTT strategy for the coming years for the Express & Parcels relies on three main pillars: Consolidate express & parcels services as a whole Iberian portfolio with the aim to increase efficiency, competitiveness and business integration by creating one of the biggest logistic operator in Iberia. Refocus on the possible synergies and cross-selling between the different business areas. Implement an international and national market plan by exploring of lack of e-commerce in the Portuguese and Spanish countries, since it is currently underperforming its European peers.

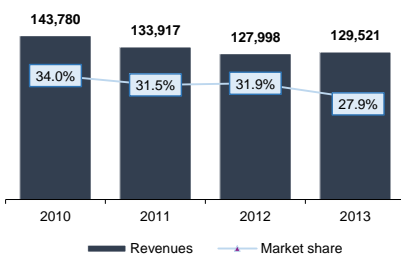
Along with mail postal services, CTT it is also the main provider of Express & Parcels in Portugal, securing circa 28% market share. Unlike mail business, CTT Express is facing some competition arising from big international groups such as Chronopost, Ragel Group and others. It is important to mention that CTT Express has been decreasing its market share throughout the recent years, however without jeopardizing significantly the CTT express revenues.

When it comes to the Spanish market, where CTT is represented through Tourline, it is much more fragmented than the Portuguese one. CTT have been holding a market share of approximately 4%, being a TOP 10 player of the express & parcels in Spain. The market leader has been MRW, which has been holding roughly more 9% when comparing with CTT.

In the end of 2013 Tourline hold 230 point sales, of which 184 are franchise stores, 30 own stores and 16 distributors. Additionally, Tourline, in order to increase the relation with customers, increased its physical presence by 46 collecting and delivery points in traditional shops.

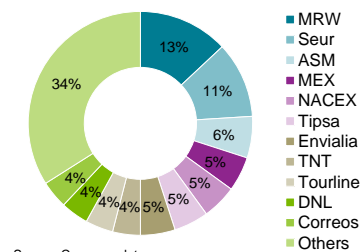
For the coming years, the management projects a series of investments on express & parcels business segment. It will start by analyzing the critical areas that should be explored and then opening the required own stores or even franchise stores according to the necessary needs. Also, CTT management have been developing a new technology upgrade that allows the customer to track each delivery in real time. Furthermore, it will allow to shorten delivery processes and increasing the reliability of each processes. Finally, Tourline are facing a restructuring process, and based on that the management team decided to

Revenues vs Market share



Source: Company data and Anacom

Tourline market share 2012

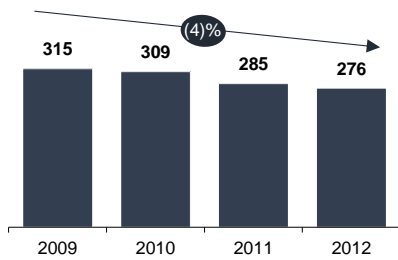


Source: Company data

implement a new commercial model focused on business catchment and maximizing efficiency through collection procedure and back-office. The majority of these initiatives intend to improve the supply for the B2C segment.

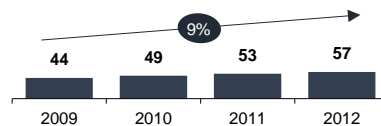
Express & Parcels represent one of the main drivers to boost CTT turnover in near future. This division is composed basically of: Business-to-business (B2B), which have been suffering a slight contraction due to the economy situation of Europe, business-to-consumers (B2C), which have registered a solid growth rate mainly driven by the increase of e-commerce in Iberian region, and finally consumer-to-all-parcels (C2X), where the demand has been quite weak throughout the last few years in Portugal and Spain and has lower contribution for CTT revenues.

B2B revenues in Portugal (€M)



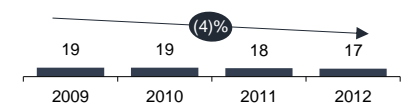
Source: Company Data

B2C revenues in Portugal (€M)



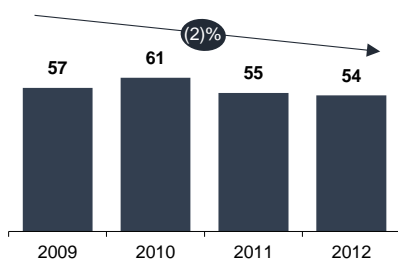
Source: Company Data

B2C revenues in Portugal (€M)



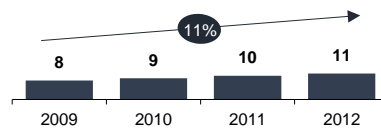
Source: Company Data

B2B volumes in Portugal (€M)



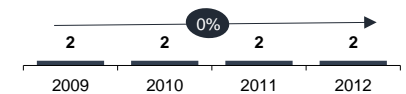
Source: Company Data

B2C volumes in Portugal (€M)



Source: Company Data

C2X volumes in Portugal (€M)

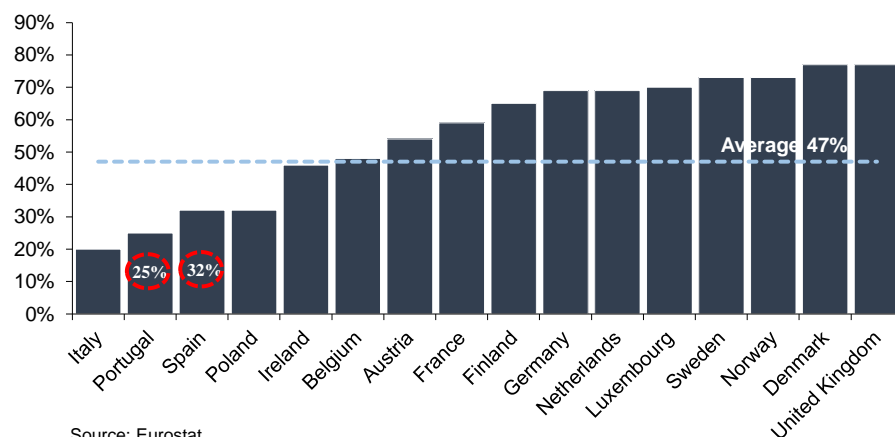


Source: Company Data

The graphs above refer to CTT express and parcels in Portugal. Despite the decreasing volumes reported under B2B segment, it is important to emphasize the growth rates reported by B2C. The e-commerce along with the improving macroeconomic conditions will boost considerably the B2C volumes as well as B2C, however in a smaller proportion. Between 2009 and 2012 CTT Express and Tourline registered turnover CAGR of 11% and 6%, respectively, which clearly highlights the importance of this segment for future profitability.

In 2012, B2B revenues accounted for circa 79% of the whole express and parcels turnover. On the other hand, B2C and C2X represented roughly 16% and 5% respectively. In the Spain market the breakdown was approximately the same, B2B secured 78%, B2C 14% and the remaining 8% was referent to C2X. The CTT main parcels activity, Express & Parcels, have been performing poorly in the last few years, mainly driven by the drop felt under the B2B segment. The B2B activity has been contracting due to the fragile macro environment facing Portugal and Spain. However, the cost restructuring along with the expected GDP recovery would push some increase in volume. Also, CTT will adopt new strategies, which include: (a) Creating an Iberian portfolio, (b) New pipeline sales and (c) Commercial approach.

Percentage of customers who made online purchase in 2013



Source: Eurostat

In the coming years, E-commerce will be the main driver of growth for express mail segment.

Besides the macro recovery, in the coming years B2C is expected to be the main driver of growth in the Express & Parcels segment, especially due to the increase in e-commerce since it has been presenting lower penetration on the Portuguese and Spanish market. We can conclude the Iberian countries are arguably below European average (47%), where countries such as UK and Denmark are reporting the higher percentages with 77% each. The potential development of the e-commerce in Iberia will be a crucial key trigger to increase volumes as it happened in some of the European markets. The potential maturation of e-commerce along with the extensive retail network and the existing expertise, can boost Express & Parcels revenues to a considerable level.

Finally, it is possible to mention a series of efficiencies that can be carried out by CTT Management team. Regarding CTT Express, the management group can take additional measures to increase the profitability of the second most important business segment. Optimize the distribution costs, rethink/improve current portfolio in order to capture a supplementary growth for the Portuguese speaking countries, develop low-cost processes to increase B2C market share (for example revise price policy), close the gap for more competitors by providing a unique portfolio (product and services) or an outstanding management/commercial approach and finally leverage cargo and logistic services to gain new clients.

When it comes to Tourline, the management team can focus its strategy on the following statements:

- (i) Grow through acquisition, is the easiest way to increase market share.
- (ii) Increase operational efficiency, since according to Company data information, Tourline in 2012 reported a EBITDA margin of 3.9%, significantly below the one reported by CTT Express (11%).
- (iii) Offer a combined portfolio with CTT Express in order to capture additional growth by entering in new markets.
- (iv) Due to the lower dimension of Tourline, when compared to CTT Express, it is acceptable to subcontract outsourcing services in case of increase the express mail volume or logistic services.

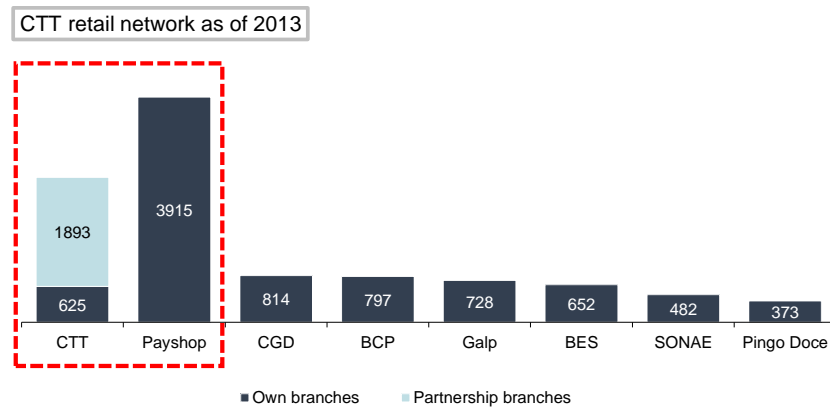
Financial services

In 2013, the proceeds arising from this business segment hit 60,9M€, which represents an increase of 7% when comparing with the previous year. This area includes the financial services provided by CTT, S.A. and the whole activity of Payshop.

It is important to highlight that the CTT financial services have been the most profitable business segment, if we compare the EBITDA margin of each segment. In 2013, financial services accounted for 9% and 22% of CTT's revenues and EBITDA, respectively.

CTT's main competitive advantage within the financial services segment relies on the large retail network, reliable brand and opportunity to provide a portfolio of complementary services.

CTT's large retail network has been crucial to increase share presence in rural areas, which turn out to be fundamental to increase the exposure to the financial services segment. The loyalty and the reliability of CTT brand consists in the most powerful competitive advantage of the company.



Source: Company data

It is important to emphasize that the 1893 partnerships are critical to offer a very competitive presence in the national territory and at the same time they don't carry risk for CTT, they simple act as an intermediary.

Financial services are composed by (a) Savings and insurance; (b) Payment solutions; (c) Money transfers and payshop network.

The Financial Services business is a clear sign of CTT's know-how in leveraging its retail network to create the opportunity of cross selling. This business segment is comprised of: (a) Savings and insurance; (b) Payment solutions; (c) Money transfers and payshop network

- Savings and insurance: Under this service CTT acts as a broker for third entities by selling their products/services. In exchange, CTT receives a fee, which once again bears no risk activity. Three main products are: Public debt through a government agency (IGCP); saving products that ranged between 6 month to 8 years; and lastly insurance products that cover personal accidents, housing etc. The three most important clients are Fidelidade (the largest insurer in Portugal), Portuguese Treasury Government Debt Agency (IGCP) and Mapfre (one of the biggest insurance companies in Spain), where CTT holds an exclusive partnership regarding retail savings products.
- Payment solutions: CTT offers this service mainly through Payshop (c. 70%), since it was the pioneer in developing this kind of solution. It provides leading method by offering the possibility for customers to pay a different range of services such as utilities bills, buy public transportation

tickets, e-shopping, charging phones, etc. Regarding CTT remuneration, fee is charged directly to the beneficiary of the transfer (Vodafone, PT...), with the customer free of charge. According to CTT's annual report, the average fee charged by transfer was €0.27 in 2012.

- Money transfers: It relies essentially in 3 agreements with Western Union (critical transfers), Universal Postal Union and Eurogiro (both non-critical transfers, which imply a lower price). With these three companies CTT financial services has a fully world coverage, to meet the customers' needs.

According to the management team, the company is seeking further expansion of the existing portfolio or the creation of new products/services by leveraging its retail network as possible. The target opportunities can arise mainly from:

Renegotiating current contracts is one of the approaches that will be used by CTT management team. Basically, it will rely on three main contracts: (a) Public savings contracts, which will start to be based on the value of subscriptions instead of being a fixed fee. We stress, that Portuguese government intend to sell around 3bn of saving products to the national citizens. If saving products will be placed by CTT, this will have a significant impact on CTT financial services revenues. (b) Savings and insurance, in particular Fidelidade, as CTT was able to renegotiate new long-term agreements, which will be based on higher fees and greater up-front fees. (c) Transfer, as throughout the years CTT has maintained a partnership with Western Union. A new contract agreement was established between these two entities, which will focus on an improvement fee split much more depending on volumes.

The expansion product range strategy is based on: (a) integrated payment management, which is basically a platform that complements payment activity with digital transactions; (b) new saving and insurance products, including for example consumer credit, structured products or riskier insurance products, where CTT will charge a higher fee due to the riskiness of this type of products. Although it is crucial that CTT keep receiving the fee from product owner for not being exposed to any sort of risk; (c) develop pre-paid cards to subsidize companies' workers meals or for social benefits payments for example.

The Portuguese Government pretends to create 1000 citizen shops. This type of shops aims to provide a completely different range of products such as social security documents, services concerning legal or tax issues and car licenses. CTT and the Portuguese Government already signed an agreement on New Services of General Economic Interest (SGEI), where CTT will be the main partner of this project using its 624 own stores. This new agreement would

continue to leverage on its extensive network by increasing turnover volumes and consequently boosting CTT returns.

Currently, Portuguese Post Office is seeking the opportunity of being licensed with a Postal Bank by Bank of Portugal. CTT's financial business segment will increase its product range by offering debit cards or even consumer credit as an intermediate and also will be able to capture savings directly from its customers. It is important to emphasize that the majority of the European Postal Services already holds this license. Furthermore, as it happened with SGEI this should be another way for CTT to continue to leverage on its unique network, boosting its division operations and minimizing the costs expenses. Moreover, the possibility of being granted with the Postal Bank license can highly benefit CTT due to its extensive retail network and obliging to bring forward efficiency to other level. In our point of view, Postal Bank should be very newsworthy scenario for CTT shareholders. However, there are some possible drawbacks, as the new regulatory obligations can possibly penalize part of the sales by risking some relationships with key customers.

Valuation

Based on our DCF approach we reached a price target of €6.47.

Based on our valuation, we foresee a price target of €6.47 for Correios de Portugal, SA., which roughly represents a 16% potential upside from the current stock market price (€5.59). Consequently, we recommend to hold a long position on Correios de Portugal, S.A.

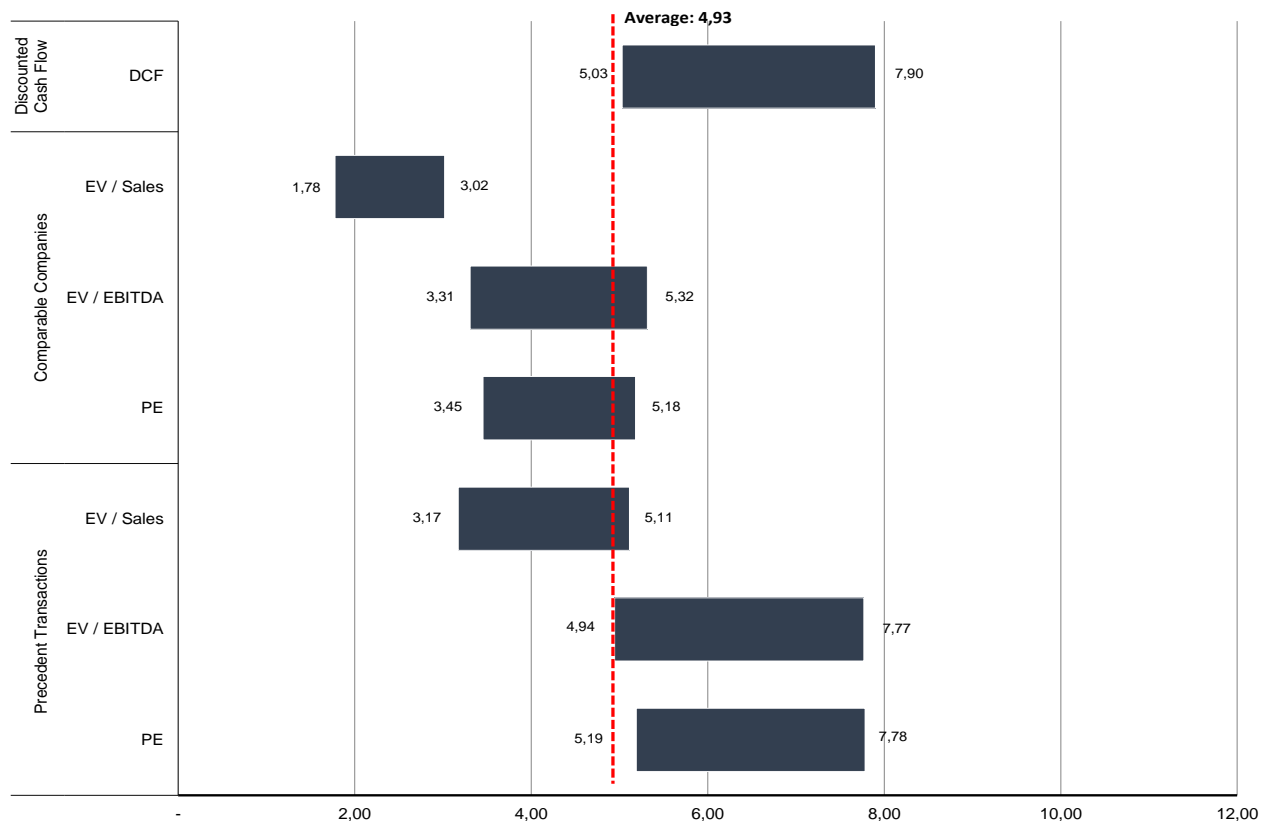
The valuation method used to obtain the "Market Value" of Correios de Portugal was the Discounted Cash Flow (DCF). In this case, we considered the DCF methodology the most appropriate as it takes into account the potential cash-flows to be generated by the company in the next few years.

The forecast period used was 7 years in order to reflect the business cycle of Correios de Portugal SA. and to be certain that when the terminal value is applied e the company had reach steady stage.

The DCF is based upon the value of the future cash flows that a company will generate from its operations. The first step is forecasting the future cash flows, which the company is expected to generate.

Under a DCF approach, the future forecast cash flows are discounted back to the valuation date in order to generate a net present value for the forecast cash flow stream of the business. A terminal value at the end of the forecast period is determined and that value is discounted back to the valuation date and added to the net present value of the forecast cash flow stream to give an aggregate value for the business.

To offer a feasible back up of the valuation result arisen from DCF approach, analysis was carried out on comparable companies and precedent transactions. Despite the drawback of these valuation methodologies, such as the inexistence of two exactly comparable entities or some company-specific issues not being captured by these methods, they stills provide a reasonable way to test our DCF results



WACC and growth assumptions

The rate at which future cash flows are discounted (“the discount rate”) should reflect not only the time value of the cash flows, but also the risks associated with the business future operations. The most commonly used discount rate is the WACC which results from a combination of factors such as the interest rate for an expansion risk-free long-term application, the risk premium that represents the additional return required by the investor to take the investment risk, the country risk, business risk and capital structure of the company, among others.

We estimated a weighted average cost of capital of 9.4% for the valuation purpose.

We reached a weighted average cost of capital (WACC) of 9.4% that we used to discount forecasted free cash flow. The WACC considers the rate of return required by shareholders (cost of equity), which derives from Capital Asset Pricing Model (“CAPM”). So to compute the cost of equity we used 10-year German Bond as the risk free rate (1.95%), and then we add the country risk premium (4.05%, it was calculated by subtracting the yield of the 10-year Portuguese Bond and the 10-year German Bond), finally we add the levered beta (measure the systematic risk of a specific asset in relation to the portfolio that bears all assets with risk) times the market risk premium (according to Damodaran is 5%). Unlevered Beta derived from the mean a set of comparable companies selected from Bloomberg, than re-levered using CTT capital structure. As for the cost of debt, we considered the 10-year interest rate swap (source: Financial Times) times an appropriate spread for this type of companies with corresponds to 4%.

Concerning the growth perspectives, we foresee good outlook for CTT. The cost cutting policy along with the increasing exposure of the financial services and development of the e-commerce in Iberia. We predict a slight increase on the revenues and considered boost on CTT EBITDA margins. We estimated a long term growth rate of 1.5%, which corresponds to the long term inflation.

WACC vs Long term growth rate

	7,9%	8,4%	8,9%	9,4%	9,9%	10,4%	10,9%	11,4%	11,9%
-0,5%	6,24	6,06	5,88	5,71	5,55	5,39	5,24	5,09	4,95
0,0%	6,46	6,27	6,09	5,91	5,74	5,58	5,42	5,27	5,12
0,5%	6,70	6,51	6,32	6,13	5,96	5,79	5,62	5,46	5,31
1,0%	6,97	6,77	6,57	6,38	6,20	6,02	5,85	5,68	5,52
1,5%	7,28	7,06	6,86	6,66	6,47	6,28	6,10	5,92	5,75
2,0%	7,62	7,40	7,18	6,97	6,77	6,57	6,38	6,20	6,02
2,5%	8,01	7,77	7,54	7,32	7,11	6,90	6,70	6,51	6,32
3,0%	8,46	8,21	7,96	7,73	7,50	7,28	7,07	6,87	6,67
3,5%	8,97	8,70	8,45	8,20	7,95	7,72	7,50	7,28	7,07

Despite the decreasing volumes on the mail segment, CTT still has some margin to increasing prices since it's currently below peers and at the same time Anacom is not creating any constraint for increasing price strategy. To sum up, it was assumed that the increase price strategy will be used by CTT management team to smooth the negative trend reported mail volumes.

Regarding express and parcels, its valuation relies essential in the e-commerce development to boost volumes, since its lacks when comparing to the majority of the other European Union. It expected that e-commerce will follow the trends of the European peers in the coming years.

Concerning financial services, the main drivers were the number of payshops agents, the amount of transfers received (debit and credit by Portuguese economy) and the increasing of disposal income as well as the improvement of the Portuguese economy.

Capex expenditures

Historical capex expenditures have remained in a range between 1.93% and 3.67%.

Based on our assumptions we predict a Capex/Sales ratio to range between 2.82% and 4.25%. In the last years, capex expenditures have been channeled to further improvement on the information systems and technologies and also to insure properly functioning of its activities the company has been reinvestment on its infrastructures. It was considered a reinvestment in the fleet along the projections so that the investment effort is staged. In our point of view and in the same line with CTT management team, after 2014 the company will incur in major Capex expenditures since the company pretends to consolidate its position on Iberia under the express and parcels business segment, which means offering a combine portfolio in order to capture additional growth by entering in new markets. Additionally, we estimated that the Capex will be financed in partially with new debt and the remaining 90% were fully financed by the cash flow generated by the business, similar to comparable companies. Also the new debt will have 3 years maturity.

Finally, is important to mention that the possibility of CTT being granted with Postal Bank was not taken into account during the valuation process due to its high degree of uncertainty.

Multiple Valuation

CTT multiples reported higher multiples than the average of its European peers. According to our estimate, CTT EV/Sales is 1,54x in 2013, which can be explained by the future growth projections (express & parcels and financial services) on a stable and reliable mature market. Taking into consideration EV/EBITDA, we forecasted 8.81x, which is clearly above the selected peers. It can be justified mainly by the cutting-cost policy carried out by management team, which have been boosting EBITDA margin considerably, this also aligned with the good growth perspectives for CTT.

Company	Ticker	Country	Curren- cy	EV / Sales			EV / EBITDA			PE		
				2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E
Deutsche Post	DPW GY Equity	Germany	EUR	0,62x	0,61x	0,57x	8,06x	7,78x	7,40x	15,32x	17,97x	17,04x
Austrian Post	POST AV Equity	Austria	EUR	0,90x	0,89x	0,88x	6,17x	7,24x	6,86x	19,11x	21,14x	19,08x
Post NL	PNL NA Equity	Netherlands	EUR	0,50x	0,52x	0,49x	3,94x	4,30x	4,14x	10,60x	9,82x	9,43x
Bpost	BPOST BB	Belgium	EUR	1,03x	1,01x	1,01x	4,50x	4,36x	4,31x	9,94x	17,85x	17,63x
Royal Mail	RMG LN	United Kigdom	EUR	0,66x	0,66x	0,58x	8,51x	8,31x	7,16x	9,70x	13,82x	13,99x
AVERAGE				0,7x	0,7x	0,7x	6,2x	6,4x	6,0x	12,9x	16,1x	15,4x
MEDIAN				0,7x	0,7x	0,6x	6,2x	7,2x	6,9x	10,6x	17,8x	17,0x

Source: Bloomberg

Risk factors

Risks such as declining volumes, e-commerce penetration, and regulatory authorities' environment can impact negatively CTT

According to the characteristics of the business we highlight that the Company can be exposed to the following risks:

Currently, the main volume has been struggling at a CAGR of 7.6% between 2010 and 2012, and there is a possibility that it will not recover with macroeconomic environment, meaning that the upcoming trends can differ from the assumptions used on the valuation model.

The penetration of E-commerce has been quite low in Iberian Peninsula, and there is still a risk that the Iberian population will not embrace the activity as the Nordic population did, which will imply that the business segment Express & Parcels will be unable to reach its potential.

Express & Parcels still only represent a small proportion of CTT's turnover, meaning that despite the potential of e-commerce, CTT has not yet demonstrated the ability to leverage on its potential.

Even though financial services segment throughout the valuation process has been considered one of the CTT key drivers, its impact is still quite uncertain. The potential contribution of new agreement between CTT and Portuguese government (SGEI) and the impact of the Postal Bank are still very blurry.

Tourline, CTT's Express & Parcels in Spain, has been reporting very low margins, which along with its lower market share (4%), are not enough to create significant profits. In order to become profitable and gain additional market share, CTT must incur in major capital expenditures. However, the impact of these on Tourline's profitability will still be uncertain.

Anacom, the regulatory entity, may reform the pricing strategy and this could affect CTT's capability to increase prices and smooth the impact of the volume decline. Another concern could be the concession renewal in 2020, however it is important to mention that CTT's assets in the end of the contract do not revert to the state in any circumstances.

Appendix

Balance Sheet

€'000	2012	2013	2014 E	2015 E	2016 E	2017 E
Balance Sheet						
<u>Non Current Assets</u>						
Tangible assets	259,077	225,364	219,149	214,209	219,801	228,501
Investment properties	1,369	21,762	21,762	21,762	21,762	21,762
Intangible assets	14,355	13,049	13,049	13,049	13,049	13,049
Goodwill	25,529	25,084	25,084	25,084	25,084	25,084
Investments in associated companies	690	711	711	711	711	711
Other investments	131	131	131	131	131	131
Other non-current assets	2,019	1,951	1,951	1,951	1,951	1,951
Deferred Taxes	102,229	103,645	103,645	103,645	103,645	103,645
	405,398	391,697	385,482	380,542	386,134	394,834
<u>Current Assets</u>						
Inventories	6,711	5,994	6,110	6,162	6,172	6,222
Accounts receivable	135,318	135,590	133,270	134,399	134,610	135,704
Income taxes receivable	-	-	-	-	-	-
Deferrals	5,595	4,875	5,023	5,065	5,073	5,114
Other current assets	20,856	17,102	16,743	17,174	16,796	16,442
Cash and equivalents	489,303	544,876	465,982	480,285	482,582	485,470
	657,783	708,437	627,128	643,086	645,233	648,953
Total Assets	1,063,180	1,100,134	1,012,610	1,023,628	1,031,367	1,043,786
<u>Equity</u>						
Share capital	87,325	75,000	75,000	75,000	75,000	75,000
Reserves	28,629	30,398	30,398	30,398	30,398	30,398
Legal Reserves	18,073	18,073	18,073	18,073	18,073	18,073
Other Reserves	10,556	12,325	12,325	12,325	12,325	12,325
Retained earnings	87,105	83,367	84,473	90,853	98,328	106,006
Other changes in equity	33,080	24,549	24,549	24,549	24,549	24,549
Net income	35,735	61,016	63,547	74,501	76,517	78,843
Non-controlling interests	1,608	1,604	1,604	1,604	1,604	1,604
	273,481	275,934	279,570	296,904	306,396	316,399
<u>Non-current liabilities</u>						
Medium and long term debt	4,561	3,282	4,614	5,304	6,192	6,219
Employee benefits	282,065	278,639	252,671	243,076	238,762	236,339
Provisions	36,596	38,502	36,950	37,263	37,321	37,624
Deferrals	11,323	8,837	10,771	10,862	10,879	10,967
Deferred tax	5,740	5,482	5,482	5,482	5,482	5,482
	340,285	334,742	310,487	301,987	298,636	296,632
<u>Current liabilities</u>						
Accounts payable	349,215	391,958	341,057	344,070	345,389	348,639
Employees benefits	21,251	19,904	19,027	18,304	17,980	17,797
Income taxes payable	862	94	-	-	-	-
Short term debt	6,857	3,717	637	1,293	1,954	2,901
Deferrals	4,369	4,104	4,199	4,235	4,241	4,276
Other current liabilities	66,859	69,682	57,634	56,835	56,772	57,143
	449,414	489,458	422,554	424,737	426,335	430,756
Total equity and liabilities	1,063,180	1,100,134	1,012,610	1,023,628	1,031,367	1,043,787

Income Statement

€'000	2012	2013	2014 E	2015 E	2016 E	2017 E
Income Statement						
Sales and services rendered	714,225	704,847	698,065	703,979	705,082	710,812
Cost of good sold	(18,543)	(16,906)	(16,619)	(16,760)	(16,786)	(16,922)
Gross profit	695,682	687,941	681,446	687,219	688,296	693,890
<i>Gross margin (%)</i>	97%	98%	98%	98%	98%	98%
Third party supplies	(246,416)	(242,059)	(235,171)	(237,254)	(238,201)	(240,465)
Staff costs	(333,319)	(313,072)	(303,713)	(294,190)	(292,568)	(294,078)
Other operating expenses	(11,608)	(10,681)	(9,098)	(9,177)	(9,204)	(9,286)
EBITDA	104,339	122,129	133,465	146,598	148,322	150,061
<i>EBITDA Margin (%)</i>	15%	17%	19%	21%	21%	21%
Depreciation and amortization	(24,636)	(25,715)	(25,899)	(24,771)	(22,822)	(20,586)
Impairments	(798)	(3,530)	(1,899)	(1,915)	(1,918)	(1,934)
Provisions	(21,934)	(5,648)	(5,384)	(5,429)	(5,438)	(5,482)
EBIT	56,971	87,236	100,283	114,483	118,145	122,060
<i>EBIT Margin (%)</i>	8%	12%	14%	16%	17%	17%
Net financial costs	(4,379)	(4,003)	(8,539)	(9,807)	(10,609)	(11,225)
Share of associates	240	21	91	91	91	91
EBT	52,832	83,253	91,834	104,767	107,626	110,926
<i>EBT Margin (%)</i>	7%	12%	13%	15%	15%	16%
Income tax for the year	(16,865)	(22,148)	(28,033)	(30,011)	(30,855)	(31,828)
<i>Tax rate (%)</i>	31.9%	26.6%	30.5%	28.6%	28.7%	28.7%
Net Income	35,967	61,105	63,802	74,755	76,772	79,098
<i>Net Income (%)</i>	5.0%	8.7%	9.1%	10.6%	10.9%	11.1%
Equity holders	35,735	61,016	63,547	74,501	76,517	78,843
Non-controlling interests	(232)	(89)	(255)	(255)	(255)	(255)

Cash Flow

€'000	2012	2013	2014 E	2015 E	2016 E	2017 E
Cash Flow Statement						
EBIT	56,971	87,236	100,283	114,483	118,145	122,060
Taxes	(16,865)	(22,148)	(28,033)	(30,011)	(30,855)	(31,828)
NOPLAT	40,106	65,088	72,250	84,472	87,290	90,232
Depreciation and amortization	24,636	25,715	25,899	24,771	22,822	20,586
Operating Free Cash Flow	64,742	90,803	98,149	109,242	110,112	110,817
Capex	(12,381)	(11,090)	(19,684)	(19,830)	(28,414)	(29,286)
Changes in Working Capital	37,319	(1,953)	(26,424)	(11,487)	10,602	12,567
Free Cash Flow to the Firm	89,680	77,760	52,042	77,925	92,299	94,099
Changes in Equity	(36,680)	(58,563)	(59,911)	(57,167)	(67,025)	(68,840)
Net financial costs	(4,379)	(4,003)	(8,539)	(9,807)	(10,609)	(11,225)
Financial services payables	10,819	51,403	(34,109)	12,082	(9,189)	(9,743)
Share of associates	240	21	91	91	91	91
Minority Interests	(232)	(89)	(255)	(255)	(255)	(255)
Non-Operating Assets	3,849	492	-	-	-	-
Financial Debt	309	(4,419)	(1,748)	1,346	1,549	975
Other Liabilities	(801)	(5,612)	(26,464)	(9,913)	(4,563)	(2,214)
Other Assets	239	(1,417)	-	-	-	-
Change in Cash	63,044	55,572	(78,894)	14,303	2,297	2,888
Cash Beggining of the year	426,259	489,304	544,876	465,982	480,285	482,582
Cash End of the year	489,304	544,876	465,982	480,285	482,582	485,470

Wacc calculation and Equity Value

WACC computation	
	Estimation
Risk free	1.95%
Country Risk Premium	4.05%
Gearing [D/(D+E)]	2.5%
D/E	2.5%
Beta unlevered (β_u) / Asset Beta	0.69
Beta Levered/Equity Beta	0.71
Market Risk Premium	5.0%
Tax Rate	24.5%
Alpha factor	0.0%
Ke	9.5%
Risk free (swap rate)	0.9%
Spread	4.0%
Kd	3.7%
WACC	9.4%

EV	1,077,268
(+) Cash and Equivalents	544,876
(-) Interest bearing debt	6,999
(-) Net Financial Services payables	308,058
(-) Employees benefits	298,543
(-) Provisions	38,502
(+) Investments	842
(-) Minorities Interests	89
Equity Value	970,795
Shares	150,000
Price per share	6.47

DCF approach

€'000	2013	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	2020 E	TV
DCF									
EBIT	87,236	100,283	114,483	118,145	122,060	128,948	134,842	142,571	
Income Tax	(22,148)	(28,033)	(30,011)	(30,855)	(31,828)	(34,114)	(35,547)	(38,198)	
IRC Standard		21,122	22,001	22,602	23,294	24,922	25,942	27,829	
Tax rate (%)		23.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	
Additional Local CIT		1,378	1,571	1,614	1,664	1,780	1,853	1,988	
Tax rate (%)		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	
Additional income tax I		180	180	180	180	180	180	180	
Limit		1,500	1,500	1,500	1,500	1,500	1,500	1,500	
Tax rate (%)		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Additional income tax II		1,375	1,375	1,375	1,375	1,375	1,375	1,375	
Limit		7,500	7,500	7,500	7,500	7,500	7,500	7,500	
Tax rate (%)		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Additional income tax III		3,978	4,884	5,084	5,315	5,857	6,197	6,826	
Limit		35,000	35,000	35,000	35,000	35,000	35,000	35,000	
Tax rate (%)		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
NOPLAT		72,250	84,472	87,290	90,232	94,834	99,295	104,372	
Depreciation and amortization		25,899	24,771	22,822	20,586	22,002	23,681	26,404	
Operating Free Cash Flow		98,149	109,242	110,112	110,817	116,836	122,976	130,777	
Capex		(19,684)	(19,830)	(28,414)	(29,286)	(30,399)	(31,489)	(32,679)	
Changes in Working Capital		(26,424)	(11,487)	10,602	12,567	(1,473)	(415)	(651)	
Free Cash Flow to the Firm		52,042	77,925	92,299	94,099	84,964	91,072	97,447	1,253,740
Discount Factor		0.91	0.84	0.76	0.70	0.64	0.58	0.53	0.53
Discounted FCF and TV		47,575	65,122	70,514	65,719	54,246	53,155	51,994	668,944

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Research Recommendations

Buy	Expected total return (including dividends) of more than 15% over a 12-month period.
Hold	Expected total return (including dividends) between 0% and 15% over a 12-month period.
Sell	Expected negative total return (including dividends) over a 12-month period.

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