International Post Corporation

Deutsche Post DHL Group grows revenue and earnings in Q1 2019

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Deutsche Post DHL Group increased both revenue and operating profit in the first quarter of 2019 compared with the prior-year period. The company generated revenue of EUR 15.4 billion between January and March, an increase of 4.1% to the previous year. Operating profit (EBIT) was up 28.1% to EUR 1.2 billion. In particular, the earnings contributions from the DHL divisions were again encouraging - while the surge in earnings was driven by non-recurring income from completing the Supply Chain partnership with S.F. Holding in China initiated at the end of 2018. Previously announced restructuring costs at Supply Chain and in the new eCommerce Solutions division slowed EBIT growth.

"The first quarter played out as we expected. We achieved growth in all five divisions. This shows that we are very well positioned in attractive markets and that our fundamental growth drivers are intact. E-commerce continues to boom all over the world and although some momentum has been lost, global trade is still on the rise, just as we expected for 2019. We are therefore on track towards our target of generating more than EUR 5 billion in EBIT in the coming year," says Frank Appel, CEO of Deutsche Post DHL Group.

Outlook: 2019 and 2020 earnings forecasts confirmed

Deutsche Post DHL Group is maintaining its projection of an increase in operating profit to between EUR 3.9 and 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 Post & Parcel Germany division (P&P) are expected to be one of the main factors having a notably positive impact on earnings over the course of the current financial year.

The P&P division is expected to contribute between EUR 1.0 and 1.3 billion to the Group's projected EBIT for the current year. In the DHL divisions, the Group anticipates total EBIT growth of between EUR 3.4 and 3.5 billion. Group EBIT is projected to rise to more than EUR 5.0 billion in 2020. The P&P division is expected to contribute more than EUR 1.6 billion and the DHL divisions more than EUR 3.7 billion to that total.

P&P: parcel business pricing adjustments are

showing results

To enable sustainable profitable growth in the future, the Group split the former Post - eCommerce - Parcel (PeP) division into two separate divisions effective January 1, 2019, one for the Group's German operations and one for its international activities. Each division has a dedicated Board of Management leadership.

The Post & Parcel Germany division (P&P) now represents the Group's German post and parcel business. The division's long-term trend continued in the first quarter of 2019. While letter mail and dialogue marketing revenues remained in decline due to sustained volume decreases, the parcel business continued to see dynamic growth. All in all, the division reported slight year-on-year revenue growth of 0.7% to EUR 3.8 billion. It is seen as particularly encouraging that the pricing adjustments implemented in the parcel business are showing results, with parcel revenues rising faster than volumes.

Operating profit at P&P was down by EUR 178 million on the prior-year figure to EUR 227 million in the first quarter 2019. However, the previous year figure for operating profit was boosted by non-recurring income of EUR 108 million from the reassessment of pension obligations. Especially higher personnel expenses, on the other hand, had a detrimental impact. Moreover, the Group had decided, as part of the measures to realign the division, to invest up to EUR 150 million annually in continuing to automate and expand its mail and parcel infrastructure. Some of those expenses were recognized in the first quarter and thus also contributed to lower earnings at P&P.

eCommerce Solutions: new division started with strong growth

Since January 1, 2019, the Group's international parcel business and the eCommerce unit of the former PeP division have been operating as DHL eCommerce Solutions, a newly created division. In positioning these operations as an independent division, the Group is signaling its intention to take even better advantage of the growth potential of e-commerce all over the globe. Revenue in the new division improved by 8.9% to EUR 1.0 billion in the first quarter.

Operating profit was down on the prior-year figure to EUR -28 million in the first quarter (2018: EUR -14 million), mainly due to non-recurring restructuring expenses of EUR 23 million incurred in the course of realigning the Group's international parcel activities.

Express: sustained high profitability level

Revenue at DHL Express increased by 5.3% to EUR 4.0 billion in the first quarter. Operating profit declined slightly to EUR 453 million

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(2018: EUR 461 million) owing among other things to negative currency effects. In addition, earnings were negatively impacted by the decision made in the second half of 2018 to gradually reduce volumes of particularly heavy shipments. The division intends to focus on lighter-weight, higher-margin shipments in order to take even better advantage of its unique, global Express infrastructure and further increase profitability in the course of the year. The Express division's operating margin for the first quarter came to 11.4% (2018: 12.2%) and thus remains at an outstanding double-digit level.

Global Forwarding, Freight: another major step-up in profitability

In the first quarter of the year Global Forwarding, Freight sustained the previous quarter's upward trend in a weaker market environment. Revenue rose by 4.8% year on year to EUR 3.8 billion. The division continued to pursue its selective approach of concentrating primarily on high-margin business. Operating profit increased by 42.9% to EUR 100 million. The rollout of the new IT infrastructure continues to progress well. The division is thus well on the way to closing the profitability gap to its leading competitors in the medium-term.

Supply Chain: partnership in China brings in non-recurring income

The Supply Chain division increased revenue by 4.6% to EUR 3.3 billion in the first quarter. New business also continued to perform very well. The division concluded additional contracts with an annualized total volume of EUR 180 million in the first quarter. Operating profit surged to EUR 486 million (2018: EUR 55 million) due to non-recurring income. As a result of concluding the Supply Chain agreement entered into with S.F. Holding in China at the end of 2018, the division recorded a one-time positive EBIT effect of EUR 426 million. In addition, a portion of the funds generated from the S.F. transaction were reinvested into restructuring the Supply Chain business, mainly in the United Kingdom. Adjusted for one-off effects Supply Chain recorded an EBIT increase of 12.4%.

Seasonal cash outflow considerably less pronounced than usual in Q1

The Group's free cash flow came to EUR -256 million in the first quarter (2018: EUR -679 million). The cash outflow in the first quarter is a usual seasonal effect for Deutsche Post DHL Group among others due to the annual prepayment made at the beginning of each year to the Federal Post and Telecommunications Agency for civil servant pensions. The significant year-on-year improvement in free cash flow was mainly due to the cash proceeds of EUR 653 million from the completion of the Supply Chain transaction in China.

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With a view to its aspiration of being the world's innovation and technology leader in logistics, Deutsche Post DHL Group invested EUR 448 million in future profitable growth across all divisions in the first quarter of 2019 (2018: EUR around 327 million). Investments focused above all on expanding the German mail and parcel infrastructure and the international express network. The Group still plans to increase capital expenditure to approximately EUR 3.7 billion for full-year 2019, up from EUR 2.6 billion in 2018. This includes approximately EUR 1.1 billion for the renewal of the Express division's intercontinental aircraft fleet.

Bottom line shows significant increase in net profit

The significant increase in operating profit also led to a significant bottom line improvement in net profit for the period: in the first quarter of 2019, Deutsche Post DHL Group generated a consolidated net profit of EUR 746 million after non-controlling interests (2018: EUR 600 million). Basic earnings per share increased accordingly to EUR 0.60 (2018: EUR 0.49).

Source: Deutsche Post DHL

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