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TNT Express spotlight on Brazil and China; FedEx bides time

By Evie Burrows-Taylor and Heba Abdelrahman - January 25, 2013

Following the breakdown of UPS' [UPS US] takeover of TNT Express [TNTE NA], all eyes will be on the Dutch group's plans for its Brazilian and Chinese operations when it presents its revised corporate strategy.

Fabrice Seiman, chief of Lutetia Capital, hedge fund and activist shareholder in PostNL [PNL NA], which holds 30% of TNT Express, said the main issues for the company are Brazil and China. Seiman also said a sale to US rival FedEx [FDX US] in the next 18 months is a possibility and he would not rule out an approach sooner.

"It would be best for Fedex to get involved now, before a new CEO is appointed [at TNT Express] and the company sorts out its Brazilian and Chinese operations. A bidder will be expected to pay a premium once the company has sorted these things out," he said.

But a source familiar with FedEx's strategy played down the likelihood of an imminent bid, describing the US player as extremely disciplined when it comes to value. The source said FedEx would want to see at least a couple of quarters' trading results to review the "actual damage" the past year has had on the company, particularly in terms of customer retention and operating efficiency. He conceded that waiting could pose a risk for FedEx, particularly as the European economy starts to show signs of improvement, but said FedEx would rather pay more for actual value further down the line. "It would be foolish to walk into a deal now," the source said.

He added that despite the hit to TNT's share price after the collapsed UPS bid it was still not cheap relative to FedEx. TNT is currently trading at a price/EBITDA ratio of 7.28, compared to FedEx at 5.81, while UPS is trading at 11.06.

Seiman also said FedEx was not necessarily the only viable buyer for the whole of TNT Express; a private equity bidder could be interested, as well as La Poste's DPD, which was UPS' preferred buyer of remedy assets during the failed regulatory process.

PostNL CEO Herna Verhagen said she expected to sell the TNT stake "over the medium term" once stability returns to TNT Express. A source familiar with the situation said PostNL's

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options include a sale of the stake to a strategic buyer or an anchor investor or a gradual sell-down.

Lutetia Capital has urged PostNL, which is facing equity and pension issues, not to rush into selling its stake to realise maximum value for shareholders.

Brazil remains debatable

TNT's operations in Brazil are a "major bleeder" for the company and it is likely management will consider exiting the country altogether, Seiman said. In 2011, TNT's operations in the Americas (largely Brazil) were down 5.6% to EUR 474m and posted a negative operating income of EUR 360m over the same period. This compares to TNT's reported overall revenue growth of 2.8% for the same year at EUR 7.25bn.

Seiman conceded that Brazil could still prove to be "worthy of investment". A sector banker argued that if the company wants to remain strong it will have to regenerate its operations in a major growth market, like Brazil.

This banker said the EUR 200m break fee TNT is set to receive from UPS for terminating the merger should be invested in the company's Brazilian operations, "to ensure the integration of previous acquisitions is fully completed."

TNT Express entered Brazil in 2007 with the acquisition of Mércurio, an express market leader in the country, for an undisclosed amount, followed by the takeover of Araçatuba in 2009 for EUR 54m. TNT did not achieve its objective of breaking even in the country by 2012.

The banker and Seiman said the Chinese business was less compelling. "It is a challenge for TNT to grow Asian markets, they are either in these markets and need to invest now or get out," the banker said. TNT needs to exit China, where it is just "a drop in the ocean", Seiman added. TNT's Chinese operations suffered a negative operating income of EUR 76m in 2011, according to its annual report.

TNT had already stated its intention to seek partnerships in Brazil and China to reduce its financial exposure, in its 2011 annual report. Aside from its operations in Brazil, China and Europe, TNT operates in Chile, the Middle East and Africa.

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TNT declined to comment, saying that it will inform the market in due course. TNT is due to present its annual results on 18 February.

TNT Express shares were trading at EUR 5.48 on Friday morning, giving it a market capitalisation of EUR 2.98bn. The deal with UPS, had valued the company at EUR 5.5bn.