CTT – Correios de Portugal SA

The picks and shovel winner from an Iberian E-commerce boom

3-year upside of 250 % or a 52 % yearly shareholder return

Summary:

- From a mail operator to the leading Express & Parcel operator in Iberia in less than 5 years
- Strong secular growth tailwinds support double digit growth going forward
- High barriers to entry and scale benefits supporting strong unit economics
- Strong shareholder base, board of directors and management
- History of good capital allocation and shareholder return focus
- Hidden assets and several value unlocking options near term
- Trading at 6x forward earnings
- Recent strategic transactions to significantly increase value
- **Fair value in 3 years of 20 EUR per share**
- We see 250 % upside for the stock within the next 3 years

A few years ago, we started doing research on an obscure small Portuguese mail operator called CTT. At that point most of the profits the company generated was from mail delivery – a slowly dying business. While the mail business did not attract us – the strategic direction a new board and management was transitioning the company into did– combined with a strong brand and a lot of hidden balance sheets assets, it was enough for us to dig deeper.

Over the last 2 years we slowly build a position in the company – last year we managed to spend a few days with most of the senior management team in Lisbon watching their facilities and stores and got to know the business even better. We kept increasing the position post the Q3 report as we thought the market failed to recognize the inflection happening in Q4 and into 2025.

Then in December 2024 – 2 days in a row – CTT announced 2 transformative M&A deals that we think are truly transformative for the future of the company. We estimate these 2 deals alone improved the intrinsic value by +50 % imminently with much more to come 2-3 years out as synergies are realized. With the stock only up slightly on the announcement of these deals – we decided to increase our position significantly. CTT today is one of our largest positions – in this report we hope we can share why!

Disclaimer

The report is written and published by Symmetry Administration ApS and contains Symmetry's own opinions, assumptions, and views. Symmetry does not guarantee the accuracy of the content in the report.

The content of the newsletter should in no way be considered as a recommendation to buy, hold, or sell stocks. Symmetry Administration ApS is authorized by Danish regulatory authorities to advise Kapitalforeningen Wealth Invest Symmetry. We are not authorized as investment advisors for other funds or individuals, and therefore this newsletter should in no way be interpreted as investment advice, but as journalistic research and our own views on the stock market and any mentioned stocks.

Symmetry is under no circumstances responsible for losses resulting from investments based on the use of the report. Symmetry may own shares in companies mentioned in the report and reserves the right to buy or sell shares in mentioned companies without further notice. Our views or target prices on stocks may change continuously after the publication of the report, which we are not obligated to update this.

The newsletter is distributed to the following parties:

- Our website www.symmetry.dk
- Fund managers or investment advisors around the world, as it is common for investment managers to share ideas.
- Subscribers to Symmetry's newsletter registered on our website.

Symmetry operates under Danish regulation and can only market our fund to Danish professional investors. Therefore, this report should in no way be interpreted as marketing for funds advised by Symmetry.

Investing in stocks includes the risk of capital loss, and we always recommend consulting an authorized investment advisor before making investments.

Images and other materials in this report may be protected by copyright and may not be redistributed.

Symmetry does not receive payments from any company mentioned in this report other than our returns on stock ownership in the mentioned companies.

Overview:

CTT Portugal is a 500 year old business – one of the oldest in europe as it's the legacy government owned postal operator established by King Manuel I. CTT was formerly both a mail, (Correios) Telepgraph and Telephone company.

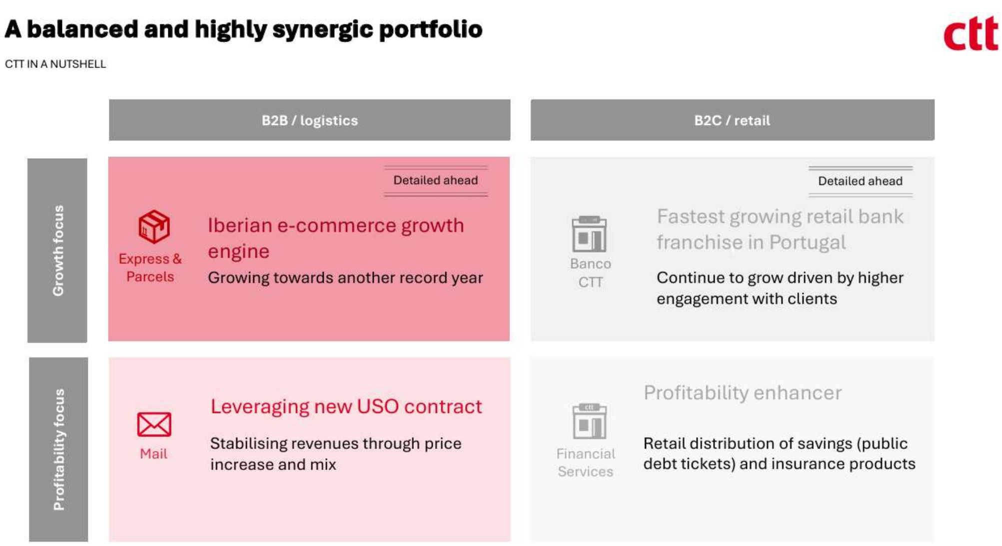
CTT was privatized through an IPO in december 2013 where the Portugese government sold an 68,5 % stake. The remaining 31,5 % was sold in september 2014.

Today CTT is owned by 4 large shareholders that has been building it stakes over the last several years (we will walk through later) that is controlling the board and drives the business forward.

Today CTT consists of 4 main segments.

1) The traditional mail delivery business (Mail)
2) An express and parcels business (E&P)
3) Et retail bank (Banko CTT)
4) A financial services segment (FSS)

CTT also owns other assets including a real-estate company they have established to monetize and sell down legacy real estate and some other smaller assets.

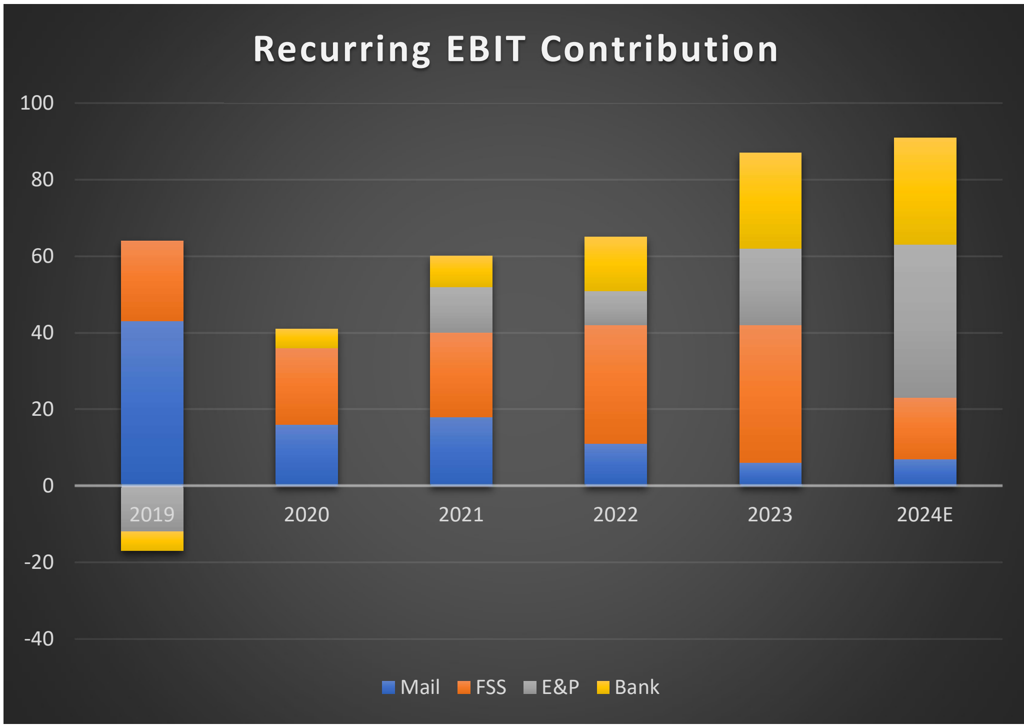


[1]

---

[1] CTT presentation

The current management team have spend the last several years transforming CTT from a pure mail delivery business to primarily an E&P business. Its this transformation that we think is still significantly underappreciated by the market.



[2]

Back in 2019 more than 100 % of the profits came from the legacy mail business and the financial services business (a volatile but profitable business handling public debt placements), while the two growth segments (E&P and the bank) was still unprofitable.

In 2024 this has turned upside down. Based on our estimates, in 2024 around 75 % of the profifts will come from E&P and bank profits, while the mail business will only be slighly profitable.

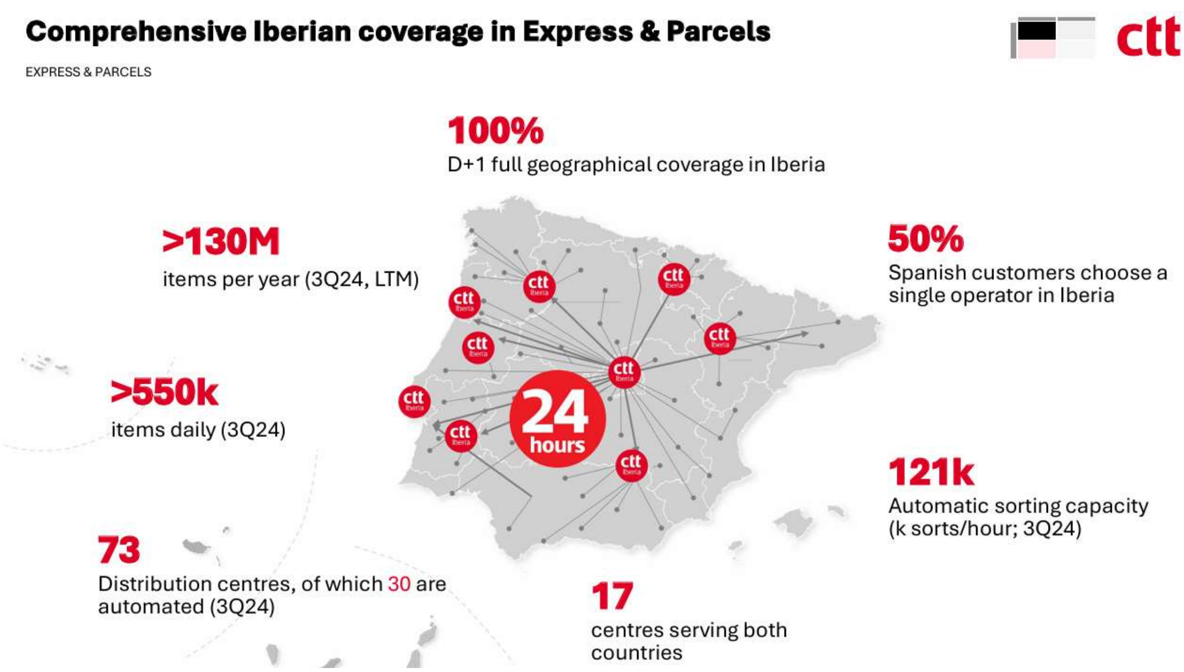
But despite this change in business mix the company still only trades at around 5x our 2025 EBIT estimates.

[2] Symmetry

E&P:

The most important segment of CTT is the Express & Parcels (E&P) business. E&P act as the picks and showels for the Iberian E-commerce industry.

They act as the by far largest last mile delivery firm in Portugal and quickly taking market share in Spain as well.

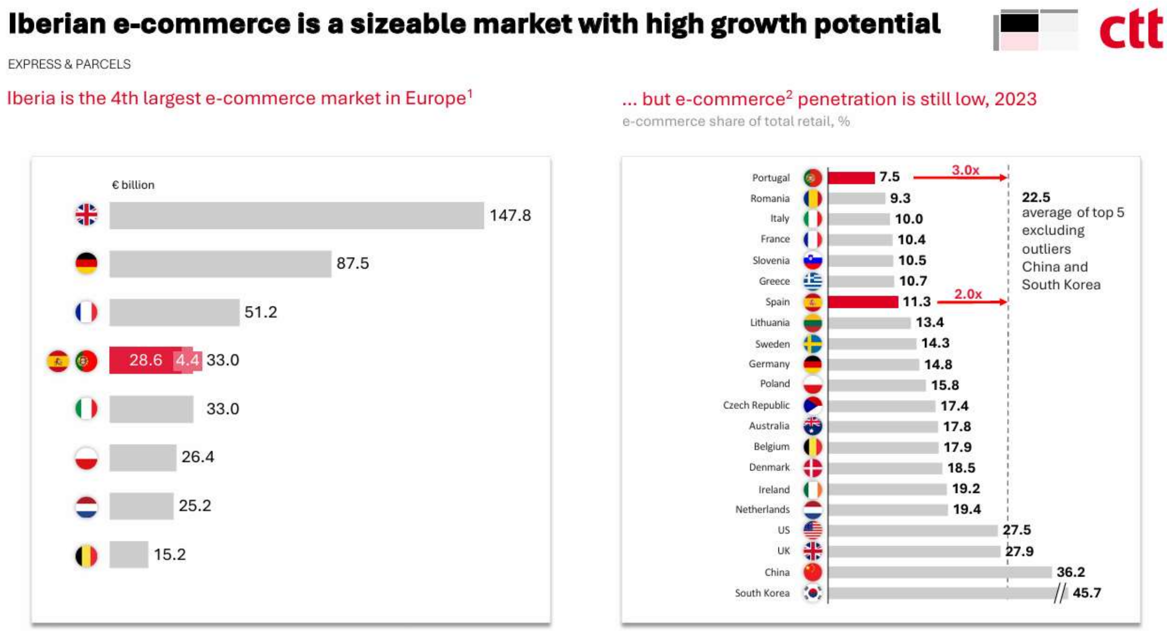


As ecommerce keeps growing at a fast pace in Iberia, CTT act as a structural growth driver riding this wave. CTT had a structural advantage in Portugal to begin with as they already did last mile distribution of letters. They those had a lot of facilities and distribution points needed as well. CTT has invested heavily behind this and is now by far the market leader with estimated +50 %[3] market share in Portugal. This is a business with economics of scale. Large clients (especially chinese ecommcerce players) prefers to work with CTT as they focus on service and reliability and helps with customs clearing as well – not only focus on price like smaller SME.

"We are around 8 % of market share in Spain – the largest is around 16-18 % - In Portugal we are by far the market leader"[4]

[3] Greenwood Investors 2024 year end letter
[4] CTT CEO at EKF

Why is this an attractive market? While ecommerce globally is still a structural growth business, Iberia still have a big catch up to achieve similar levels on penetration as with other similar countries. There is around 2-3x penetration upside for Iberia to reach US/UK levels (and these markets is still growing).



Another part where CTT uses their scale advantages to win the market is to install lockers around Portugal where customers can pick up parcels – instead of having them delivered directly to their house. You can only afford to spend money on lockers if you have the scale and distribution points as CTT has.

"We have 1.000 lockers Portugal cover 85 % of population – now rolling that out to Spain as well"[5]

Based on our research these lockers have been a large success and have grown 277% yoy from low levels and the company says costs are likely 20-30% cheaper vs home delivery. Even if its still at low levels and can achieve much more scale.

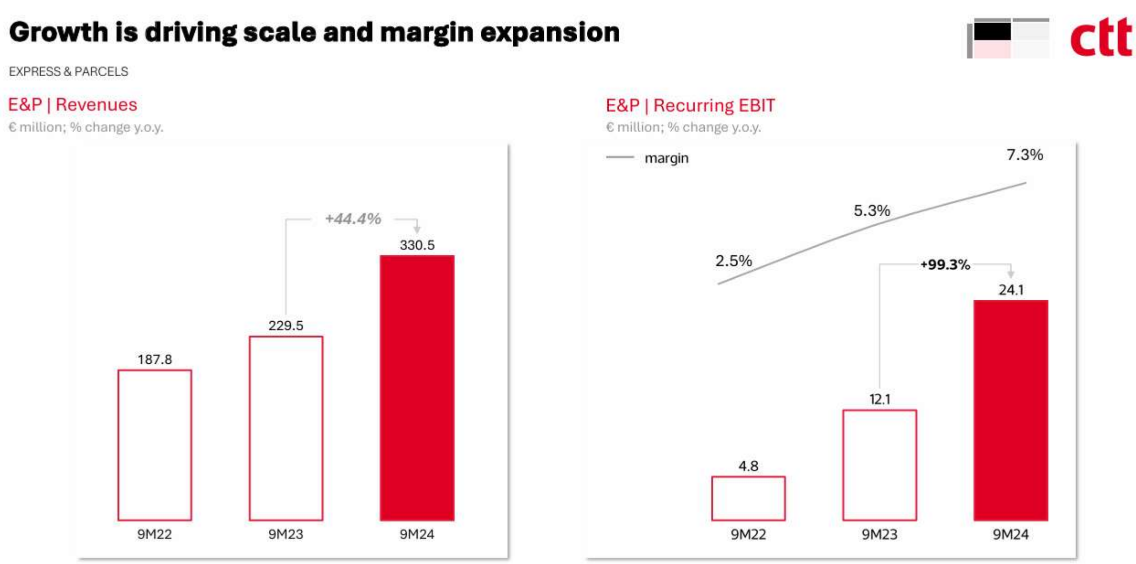
If one wants to understand how profitable the lockers can be – we just need to look at the financial results for Inpost in Poland. In the most recent Q3 2024 report Inpost posted a 46 % EBITDA margin.

[5] CTT CEO at EKF

In Portugal CTT is by far the market leader with structural advantages. In spain they are quickly catching up. Having grown from 1 % market share to now +16 % post the recent DHL deal.

> *"DHL is important player in Iberia – our partner for outbound as well – fierce competition in Spain – Spanish Correious is the Spanish postal operator – but highly loss making – also in parcels – they are problem – low price and low quality and loss making – irellevant now in Portugal - just gotten 4 billion state aid – we and others contest that in Brussell – why should a low price loss making company compete with private players with state money?*[6]

CTT also sees this growing scale in Spain in their reported numbers. As spain was loss making before, but now catching up, we see the consolidated EBIT margins expanding. In the first 9 month of 2024 EBIT from CTT Expresso grew 100 % YoY, despite still investing heavily in growth (44 % revenue growth):

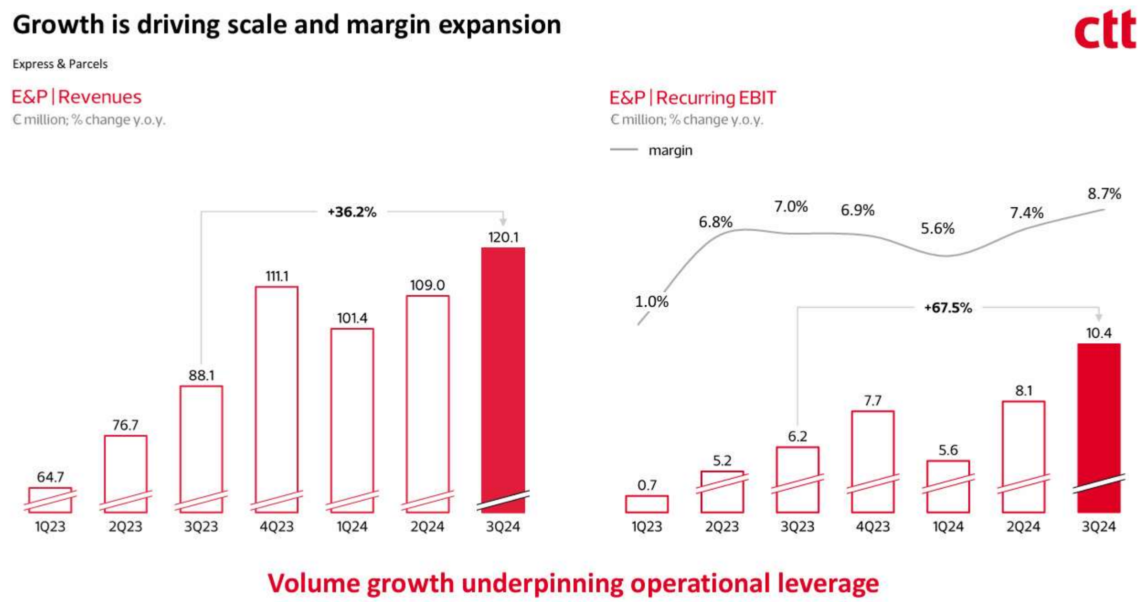


[7]

---
[6] CTT CEO at EKF

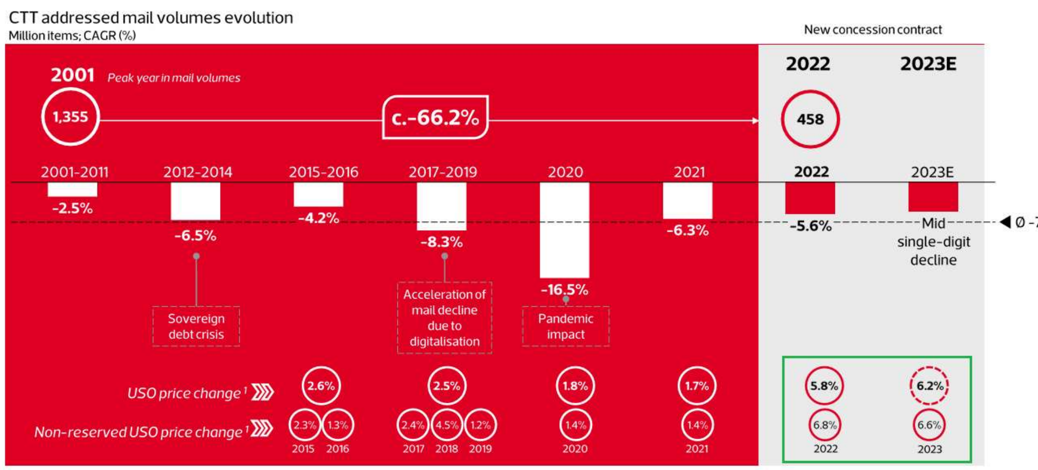
[7] CTT Investor presentation

The reported margin in Q3 2024 was at an all time high at 8,7 %. This despite the fact that Q3 is normally a seasonally low quarter. We expect Q4 to show around 10 % EBIT margins. Margins can expand further to up to 15 % in the coming years as they consolidate the 2 new M&A deals and realize synergies.



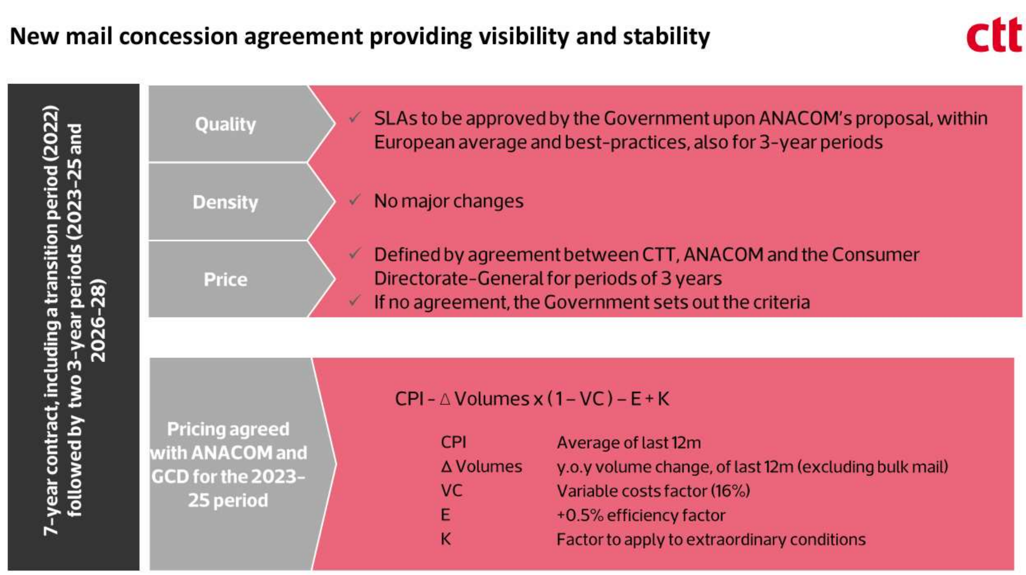
Mail & Other:

The mail segment of CTT is the legacy business segment of receiving and sending out letters. As in many other countries around the world this is a slowly dying business. CTT operates this business without any direct state subsidies – but as they have a de factor monopoly and distribute a lot of letters from public entities their pricing is regulated.



8

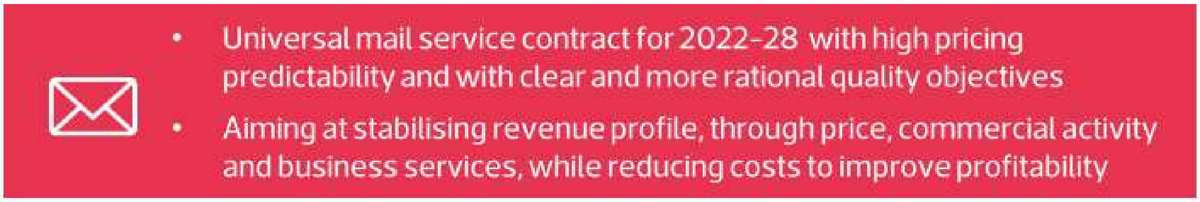
As can be seen above the volumes have declined by 66 % since 2001. In recent times including and post covid – the yearly decline has even accelerated. In the past CTT was not allowed to pass this on through price increases and could not cut costs fast enough leading to a declining EBIT. In 2019, before covid, the Mail segment delivered 40 million EUR in profits while in the last 2 years (2023-2024) its only slightly positive.



9

[8] CTT presentation
[9] CTT presentation

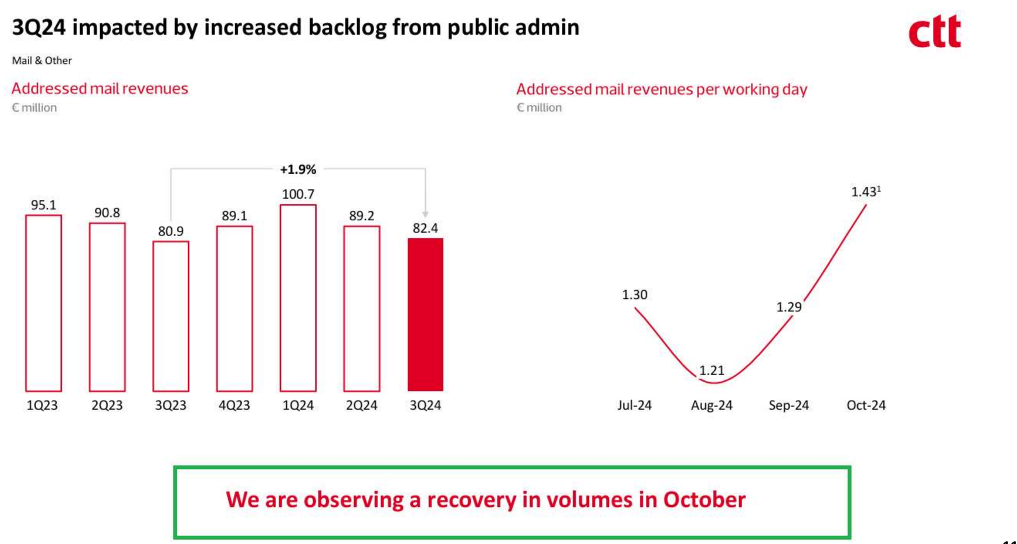
Since 2022, CTT has had a new 7-year deal with automatic price increases included. As shown on the previous page, CTT is now allowed to take the volume decline + cost inflation and pass that on as a price increase. This enables CTT to keep the segment slightly profitable going forward.



As both volume decline and inflation has been high the yearly price increases has also been steep from CTT. As there is a lag from these factors happening to price increases set in (and CTT can cut costs) we will only see the full benefits in 2025.

“Mail will never be a big contributor to profits in the future – but we don’t want it to lose money either – and with this concession contract – we have achieved this”[10]

Another factor is that it still only costs around 60 cents to send a letter in Portugal vs. 2 EUR in Italy for example. As such, there should be rooms for decades of price increases before the business looses critical mass effects.



[11]

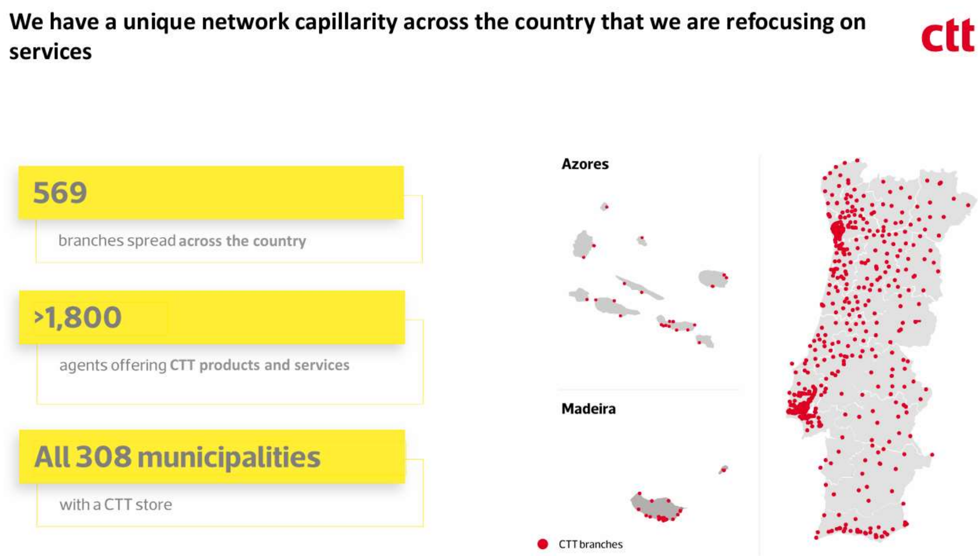
The last point to mention is that CTT actually expects a fairly strong Q4 2024 from the mail segments as Oktober looks strong (backlog of public admin) and Q4 has 6 % more working days that last year.

In the mail segment CTT also has other smaller business segments included such as a payments solution, a solution to SMB similar to Shopify and a money transfer business like Western union etc.

[10] CTT CEO at EKF
[11] CTT Presentation

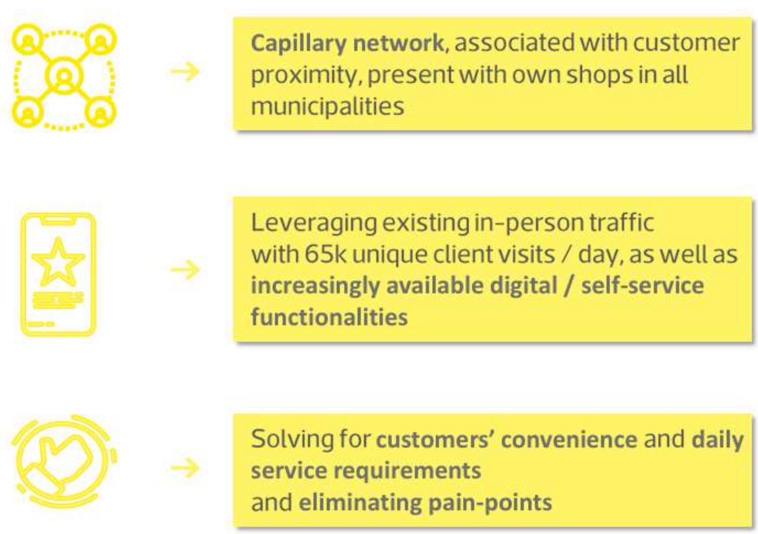
Financial services:

One of the outcomes of being the postal operator of the country is a big sunk cost investment to have a big network of branches spread across the country. CTT have 569 own branches + more than 1.800 agents offering their products.



[12]

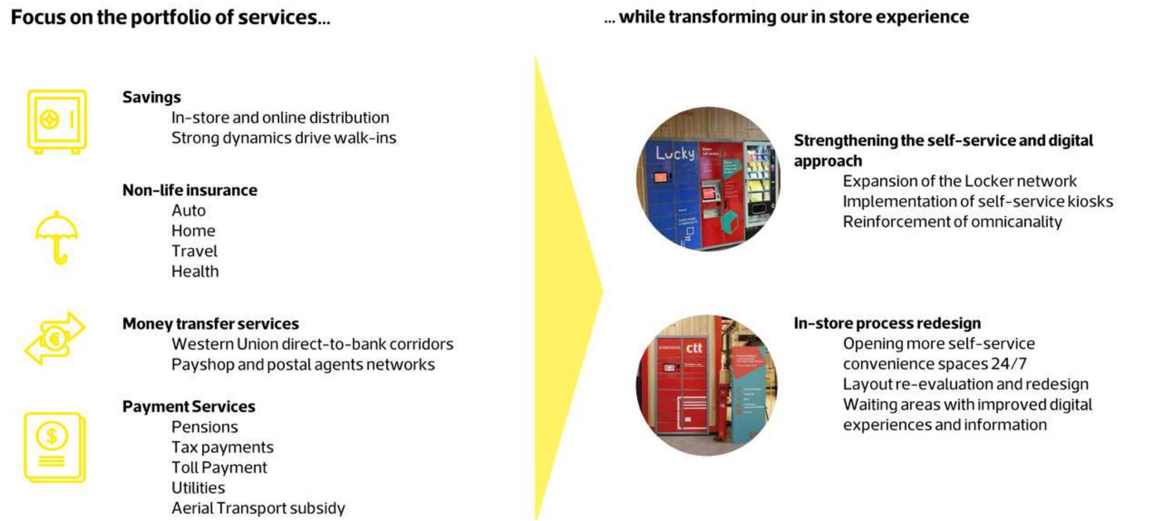
One unique asset of CTT is that they have managed to use this huge branch network as an advantage to sell other products and services. First and foremost its also used to receive and send packages for the E&P segment. It's used as a place to have lockers to handle packages. These branches have more than 65.000 unique visits every single day.



[13]

[12] CTT presentation
[13] CTT presentation

But CTT have also transformed the stores to vibrant and beautiful places where customers can buy other financial products, handle money transfers, pay bills etc.



[14]

In our heads vi envisioned big dusty places with people running in and out with packages etc. below is a picture we took during our trip to Lisbon of how it actually looks like:

[15]

You can see the “locky” lockers and self-service kiosks where people can handle different tasks. Then you have counters for Banco CTT where people can sign up or be in contact with the bank as well as counters handling debt placements.

---

[14] CTT presentation

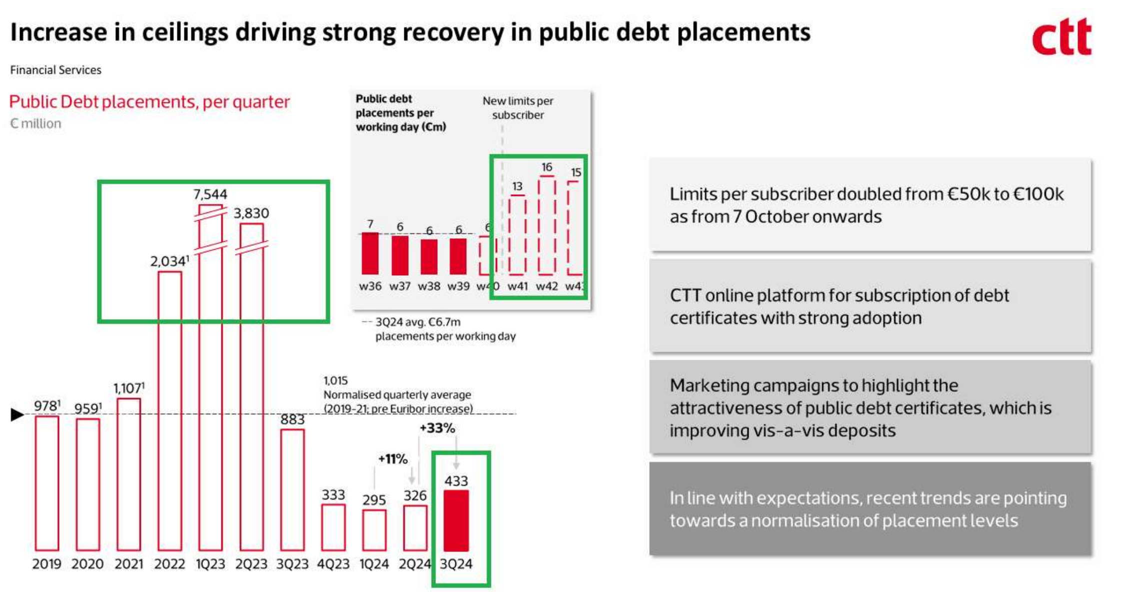
[15] Picture from our company visit to Lisbon

Let me just mention one thing. CTT has also been making a very significant investment in building open locker network. They operate under the name Locky. They probably have, I don't know the most current numbers, but probably more than 1,000 lockers installed in Portugal with plans to also expand in Spain. And the idea for this locker network is to — it's two goals, really. One, drive delivery efficiency for CTT, but it's also to be an open network that can be used by other delivery companies. That's why it was branded as a separate brand from CTT.

They try to automate the stores as much as possible to free up the staff at the desks to prioritise the most important customers and sales, as much as possible can be done in the front and you can start the process on the phone and they also educate the customers how to do it themselves on the app/online in the future[16]

The by far biggest profit driver within the stores is public debt placements. When the public issues debt certicates individuals can subscribe for these to earn interest income that's better than they can get in the bank. CTT estimates they have more than 80 % national market share for public debt placements. They can also now sell these online – a few other banks entering the space (before was only CTT and government) but CTT expects high market share.

In 2022 and 2023 CTT saw a huge spike in placing volume as the interest rates came up. As banks did not raise the interest rates on savings accounts it made it much more attractive to buy public debt. CTT those saw a huge spike in subscriptions. As the government did not want to place so much debt at high interest rates they put caps on how much individual accounts could subsribe for – down to as low as 50K per customer. At the same time banks slowly raised interest on savings accounts. This reduced the profits of the FSS segment dramatically for CTT in 2024.



[17]

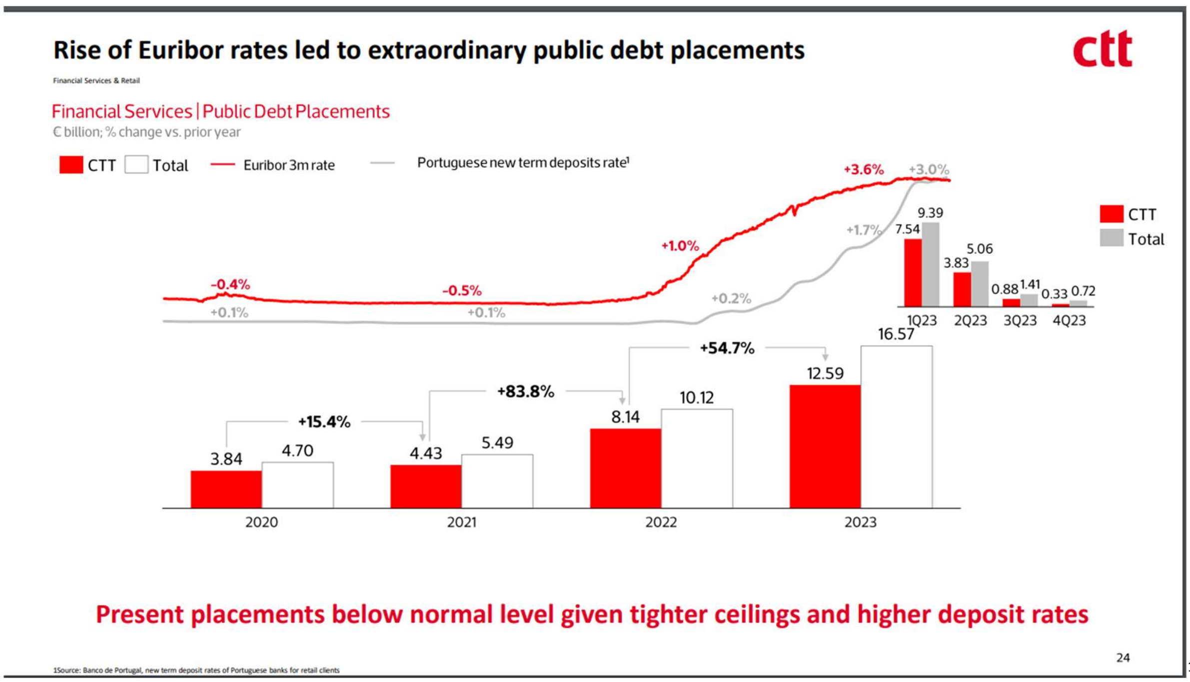
The good part is the government recently doubled the cap from 50K to 100K and expects to raise it even more again in 2025. As can be seen above, CTT already saw a significant increase in new placements in Q3 and then again in the first weeks of Q4 after the cap increase. As interest rates in banks comes down again, the caps are raised again and as subscriptions can now be made online, we expect the FSS segment profits to rebound significantly starting in Q4 2024 and going into 2025.

[16] Guidepoint interview with former COO
[17] CTT Q3 2024 presentation

The segment will always be volatile quarter to quarter – but over time it should contribute with a lot of cash flow – the margins is above 50 % and public debt placements is a structural thing for a government with a lot of debt like Portugal.

It is also worth mentioning that the spreads between governments bonds and deposit rates correlates with sales with CTT, the higher the spread the more attractive placements becomes, when there was a zero interest rate environment bonds offering say 2-3% were attractive but as interest came up sharply the spreads

narrowed and sales decreased for CTT, now interest rates have come down again and spreads are widening which will be positive for CTT, I think we could use this slide for example



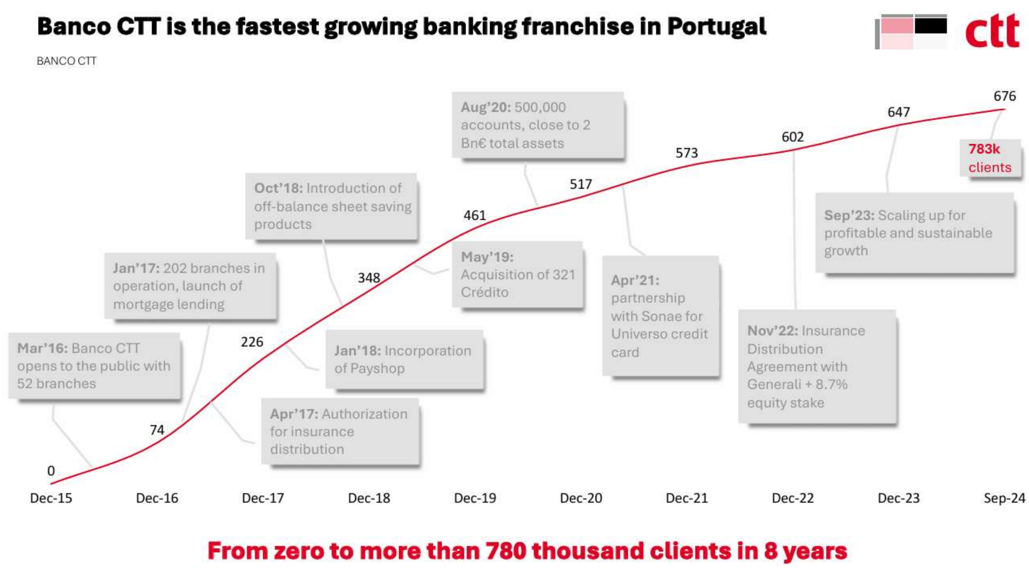
[18]

[18] https://www.ctt.pt/application/themes/pdfs/grupo-ctt/investidores/CTT_a_transformation_story-AESE_Breakfast_June_2024.pdf

Banco CTT:

Another idea for CTT to use the strong brand and stores was to create a retail bank. This idea was started by the former board and management team and based on our conversations with the current management team we find it unlikely they would have started a bank from scratch. But as they inherited a loss-making bank when they took over, they decided to get the best out of it.

They have managed to turn the bank profitable since 2021 and in 2024 and onwards it earns a good ROE on the capital employed.



[19]

As we mentioned in FSS segment – CTT already had the store network they could use for the bank. So instead of creating a new bank with a huge number of branches – they started a digital first bank with only small "pop-in branches" within the existing CTT stores. This makes the bank much more cost efficient.

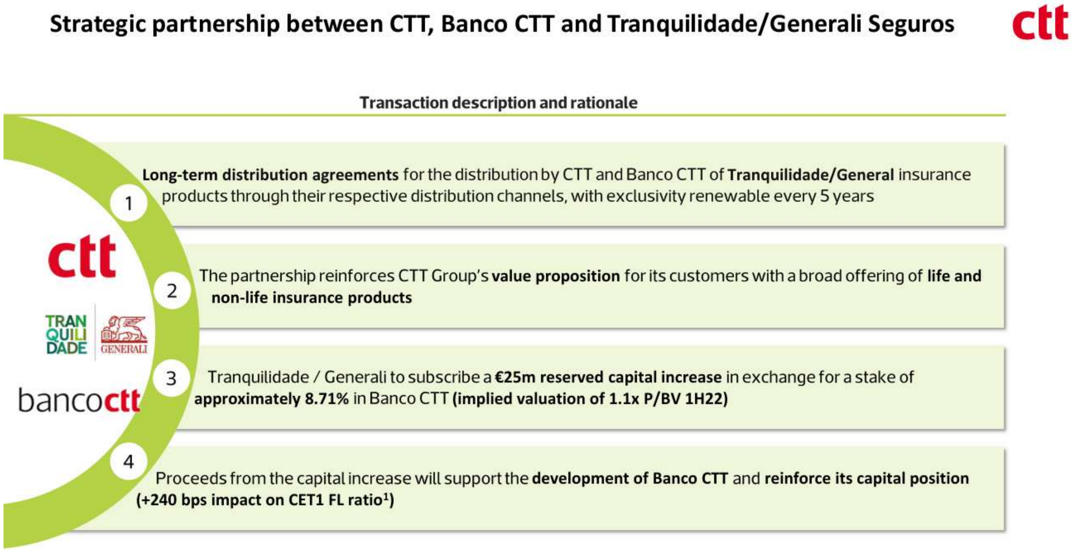
Banco CTT is still the fastest growing banking franchise in Portugal – using the CTT brand to capture a lot of retail customers.

"2/3 clients use the bank as the primary bank – and 82 % is digital only customers"[20]

Banco CTT today is mostly a savings bank with a lot of deposits that CTT invests at the central bank or short-term bonds capturing a net interest income spread.

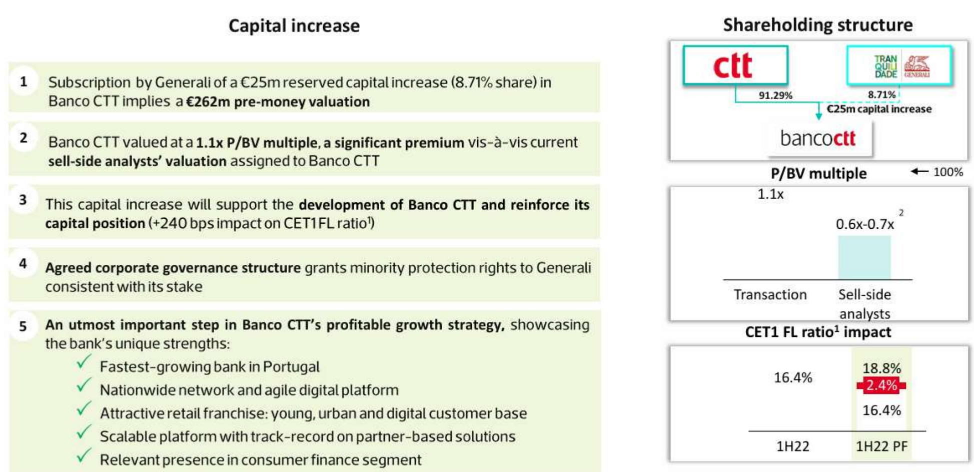
[19] CTT presentation
[20] CTT CEO at EKF

After attracting a lot of new customers CTT looked for more ways to earn more money withing banco CTT. One of these was to start insurance distribution. CTT announced a strategic deal with Generali Seguros where CTT can sell and earn commission on Generali insurance. The attractive part here is that CTT will earn recurring revenues from the insurance products sold – at high incremental margins.



[21]

As part of the deal Generali also bought an 8,7 % stake in CTT (equity deal finalized in Q4 2024) at a 1,1x book value valuation. As most sell side analysts value banco CTT below book value – selling equity stakes above book value is a way for CTT to increase shareholder value while limiting the CTT equity capital that is tied up within the bank.



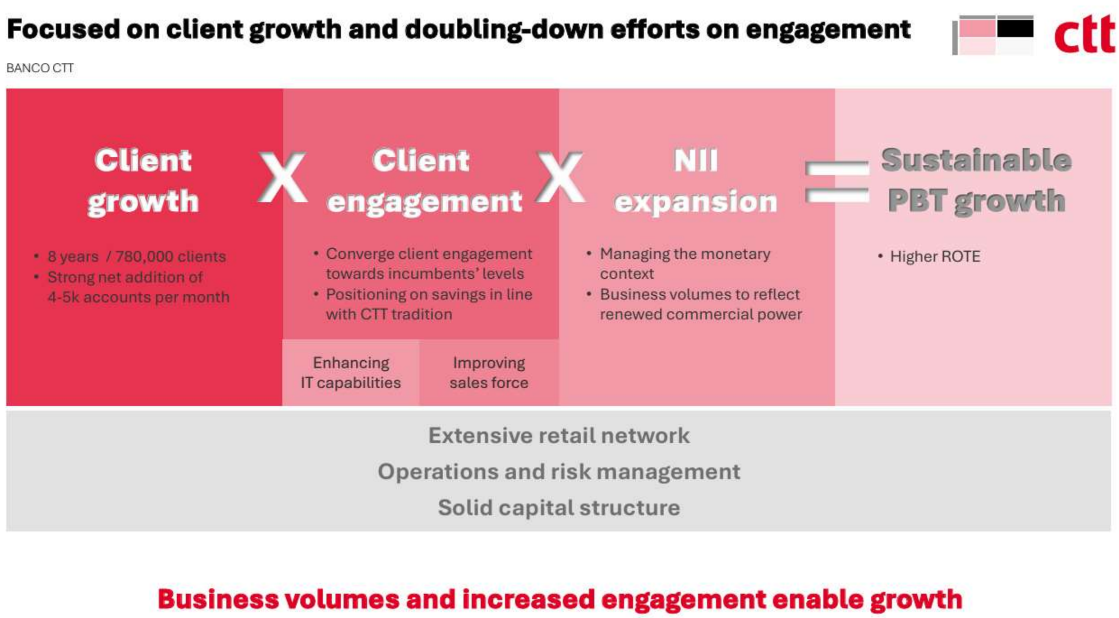
[22]

---

[21] CTT presentation
[22] CTT presentation

let me start with Generali. So Generali acquired Tranquilidade. Tranquilidade was an insurance company. It was formerly owned by the Spirit Cento Group. The Spirit Cento Group, they had a bank. The bank was intervened like 10 years ago or 12 years ago, and they had to sell several assets and they sold Tranquilidade, ok. Give me just a second. So Tranquilidade, they were sitting on a large insurance portfolio, and they have a very strong insurance mediators network, insurance brokers network, but they lost the link to a bank. So they didn't have a channel to distribute bancassurance products, ok. So this is really the rationale for Tranquilidade. And let me just — ok, page 37. So for Tranquilidade, the rationale is regain access to a bank network to distribute bancassurance products, ok. Now for CTT, first of all, CTT sees the bank as a relevant growth engine, but it's not our core. It's not the core of its business. So it made sense to start opening an equity stake to an industry player, which Generali clearly is. And with this, CTT and Banco CTT gains access to — in competitive conditions to a broad offering of life and non life insurance products. So it's probably more competitive conditions that CTT could get from an arm's length distribution agreement with a party that was not as committed to the bank as Generali is. So CTT doesn't have — they don't have product factories for insurance. So it is all insured by Generali and Banco CTT is really just the front end and the distribution channel for Generali products[23]

Banco CTT has spent the last 8 years growing from nothing to one of the largest savings banks in Portugal. Management focus now is changing from growth to profits as the company is looking for ways to monetize the large client base more

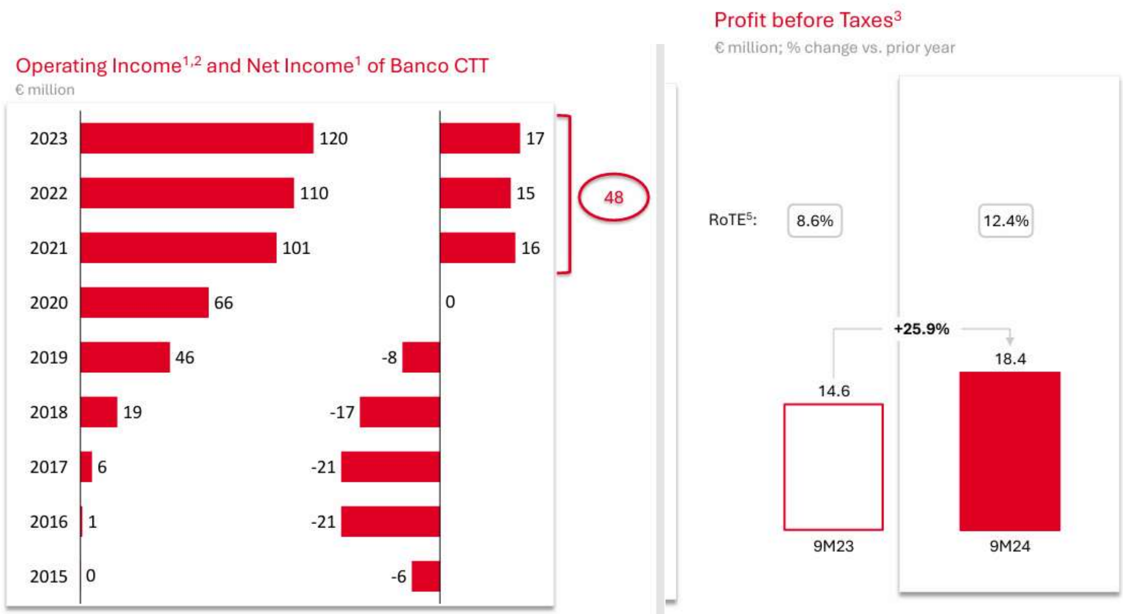


24

[23] Guidepoint interview with former COO
[24] CTT presentation

We still grow the banking clients – but now we focus on monetizing clients and get ROTE up… We recycled 1.100 people that was postal workers that's now "banking people" – they are good enough for that ***(Symmetry: ie. opening up accounts and signing up new savings customers****). Now hiring some banking people to be able to upsell more products.*[25]

We think there is a lot of opportunities to make more money within the bank. Currently the vast majority of profits just comes from the net interest margin they earn on the savings customers. As they upsell more products (like pension products, insurance etc.) and earn more transaction fees etc. they can become much more profitable.



[26]

One of the things we were worried about was CTT having to much of their equity tied up within the bank earning a low ROW. Also banks are generally not valued highly in the stock market. So far in 2024 CTT has managed to achieve double digit ROE in Banco CTT and have plans to expand that further in 2025 earning more adequate shareholder returns.

[25] CTT CEO at EKF
[26] CTT presentation

> *"Important question: why do we have a bank – if we see ourselves as an Iberian logistics player? "It's so easy to make bank grow and make it profitable and create value because of our brand – we like to do that for at least some time – as it does not require new capital to grow... We will dilute ourselves over time on bank ownership – one day we don't think we should be the majority owner of the bank… will be below 50 % ownership – our balance sheet is complicated when we own a bank – that's one of the reason I want to go below 50 % and deconsolidate the bank – being a significant but majority shareholder… Banking deposits grew 7 % in Portugal so far this year -we grow 46 % "*[27]

The CEO could not have said it more directly than in the above comment from EKF. CTT does not see themselves as the long-term owner of the bank. As long as the bank uses the CTT branches and use the CTT brand they probably want to maintain a minority stake. But slowly selling down their equity position in the bank to below 50 % would definitely create a lot of shareholder value.

---

[27] CTT CEO at EKF

Shareholders – board and management team:

One of the things that attracts us to CTT is the leadership team. It starts with the shareholder base with 4 large shareholders acting as active owners and setting the direction for the business. Manuel Champalimaud has 2 representatives on the board and GreenWood builders fund has their founder Steven Wood represented as well.

Updated: 12 December 2024

	Shares	% Share Capital
Global Portfolio Investments, S.L.(1)	21,609,052	15.61%
Manuel Champalimaud, SGPS, S.A. (2)	19,747,000	14.26%
Green Frog Investments Inc	13,500,000	9.75%
GreenWood Builders Fund I, LP (3)	9,777,400	7.06%
CTT, S.A. (own shares)	3,461,309	2.50%
Other shareholders	70,345,239	50.81%
TOTAL	138,440,000	100.00%

[28]

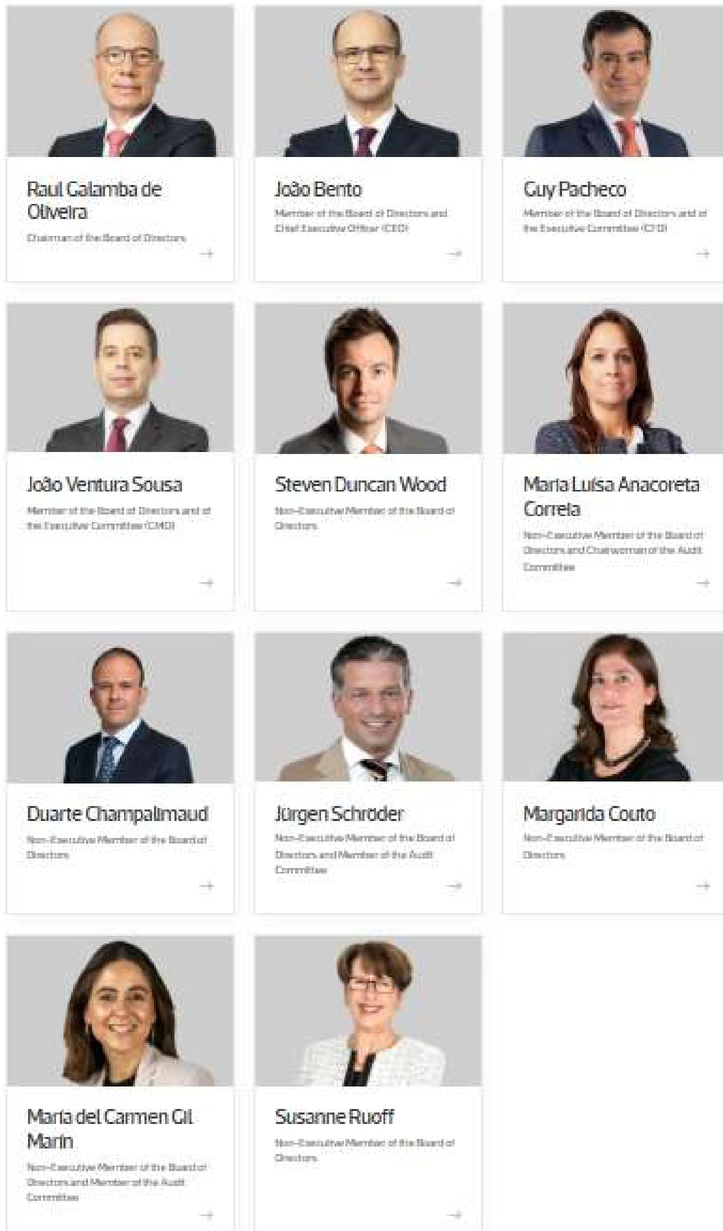
"I was also non-executive in the board representing large shareholder – I invited Steven Wood to join the board – he and myself and other 2 main shareholders decided me as CEO and we started to change – he is a positive activist on the board – challenging management and bringing good ideas – we have international board".[29]

---

[28] CTT Website

[29] CEO comment at EKF regarding the role of Steven Wood

The current CEO Joao Bento joined the board of directors in 2017 as a representative for large shareholder Manuel Champalimaud. He stepped down from the board in 2019 to became the CEO of the company and execute the new strategy the board was implementing. Together with other new senior leadership hires he has executed well on that strategic transformation over the last 5 years.



[30]

---
[30] CTT website

Another important factor to understand is management incentives. The current senior management team has a fairly large options program that expires 1/1 2026 with strike prices of 4, 6 and 8. So the mangement team is clearly incentives and focused on getting the stock higher throughout 2025 as well.

c. Each Participant will be entitled to receive three distinct tranches of Options, each with a different Exercise Price:

Tranche	Number of options per participant			*Strike Price*
	CEO	CFO	CCO	
1	1,166,667	833,334	833,334	€ 4.00
2	1,166,667	833,333	833,333	€ 6.00
3	1,166,666	833,333	833,333	€ 8.00

d. The exercise date of all options corresponds to 1 January 2026, taking into account the end of the 3-year term 2023/2025;

Capital allocation:

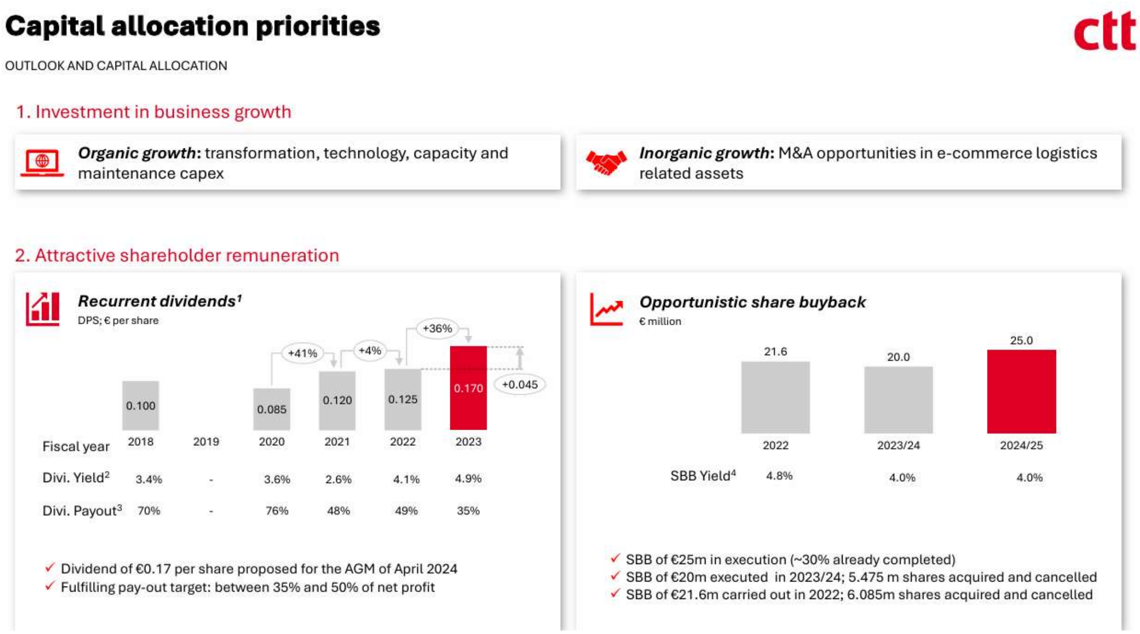
CTT also has a straight forward and shareholder friendly capital allocation framework. As the largest shareholders are represented in the boardroom there is a strong alignment of interests and focus on creating shareholder value

The business of course invests in organic growth. This is mainly withing the E&P segment where increasing volumes requires more sorting centers, delivery trucks, lockers etc. But as we will show later CTT earns high ROIC on these organic investments. As the bank is growing it also requires more solvency capital.

The company has not had a lot of activity within M&A over the last few years outside some small deals – but as we will explain in the next segment, this changed with two transformative deals announced in December 2024.

The last part of the capital allocation framework is to distribute excess cash to shareholders through a yearly dividend and topped with opportunistic share buybacks. Over the last few years, the dividend yield and the SBB yield combined has been around 8 % of the current market cap returned to shareholders per year.

As the stock only trades at 6x forward EBIT estimates and the balance sheet is strong we think this high shareholder returns can be sustained on top of growth investments.



[31]

[31] CTT presentation

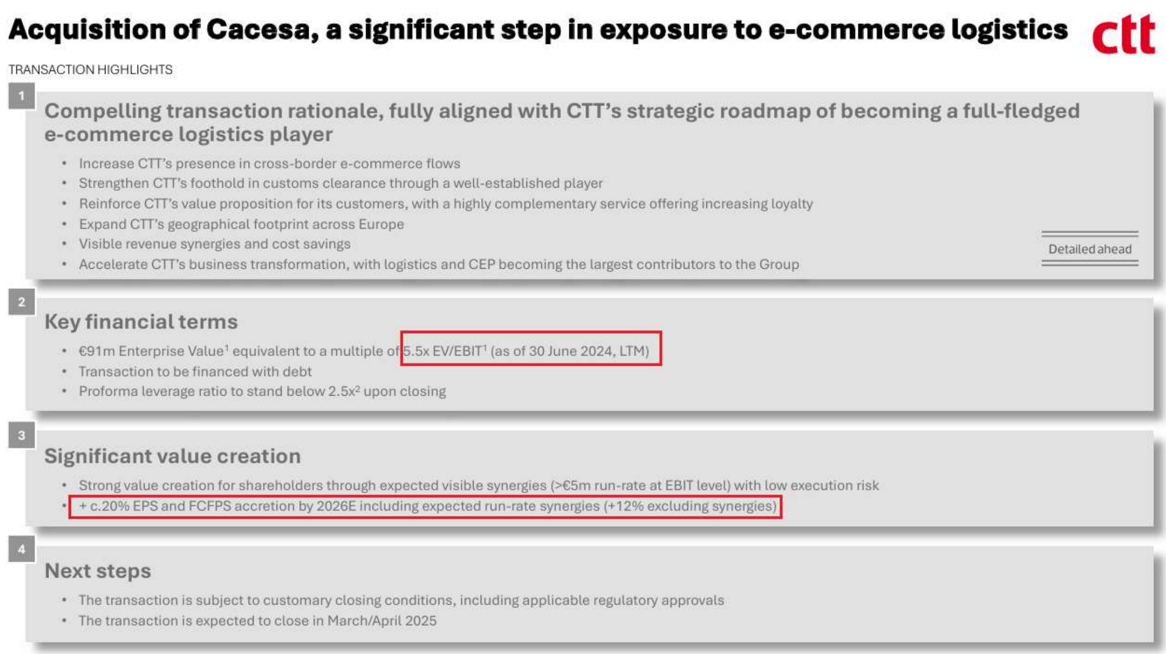
December 2024 transformational deals:

We were positive on CTT before December 2024 – but increased our position post 2 significant news from the company that came withing 2 days. We think both are transformational for the company and the market is yet to fully grasp how the company will look like a few years from now.

While we have already spent time discussing CTT as it was - we will now dive into both of these transactions and explain in detail why we think they are so supportive of the CTT case:

Cacesa:

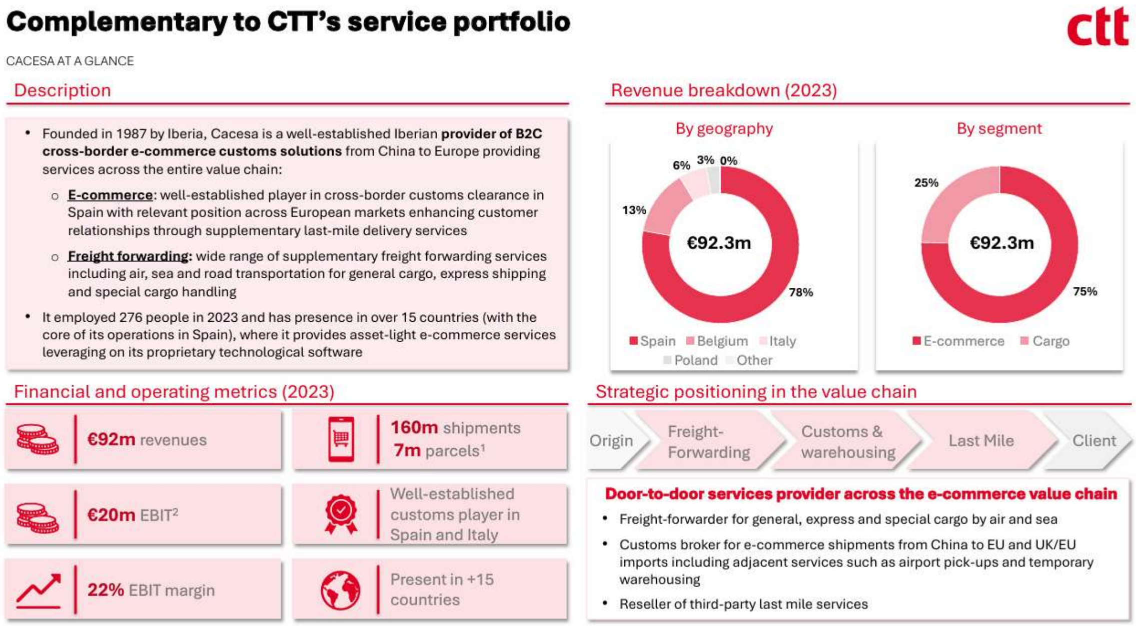
The first deal announced by CTT was for the acquisitions of 100 % of Cacesa. Just on the pure financial metrics it looks highly accretive being 12 % EPS accretive without synergies and 20 % if we include cost synergies. Then when we think about potential revenue upside and expansion of the moat, we think it's highly attractive. Its also worth pointing out that it's based on TTM (30/6 2024) numbers. On a going forward basis its an even cheaper deal.



[32]

[32] CTT M&A IR presentation

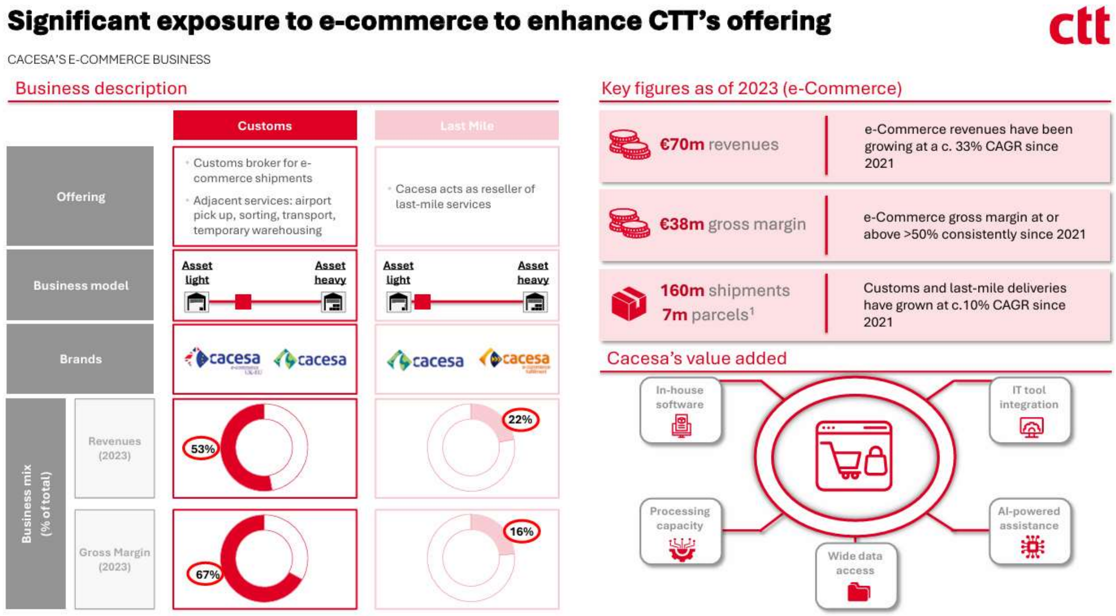
Cacesa is a well-established leader in Spain for cross border customs solutions ie. custom clearing, warehousing and sorting. This is an area CTT has been growing in itself over the last few years – but also an area where they needed a stronger foothold.



[33]

Cacesa is mainly an asset light business model with high returns on employed capital, thereby fitting well into the growth strategy employed by CTT expresso. Another important benefit of Cacesa is that the majority of revenue comes from Spain and thereby further diversifies CTT reliance on Portugal down but also creates a lot of synergies with CTT Expresso in Spain – where they are already expanding fast.

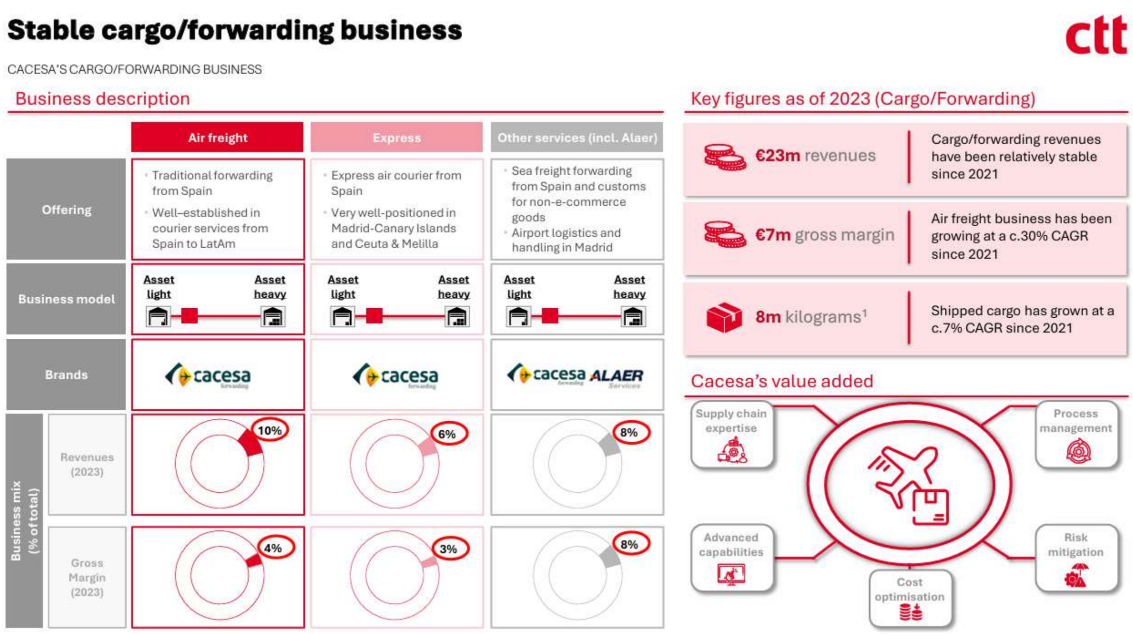
[33] CTT M&A IR presentation



34

The customs clearing part of Cacesa is a high margin business (67 % gross margins) positioned in an attractive end market that is growing 10 % in itself. The customs segment stands for around 53 % of revenue but the vast majority of profits for Cacesa

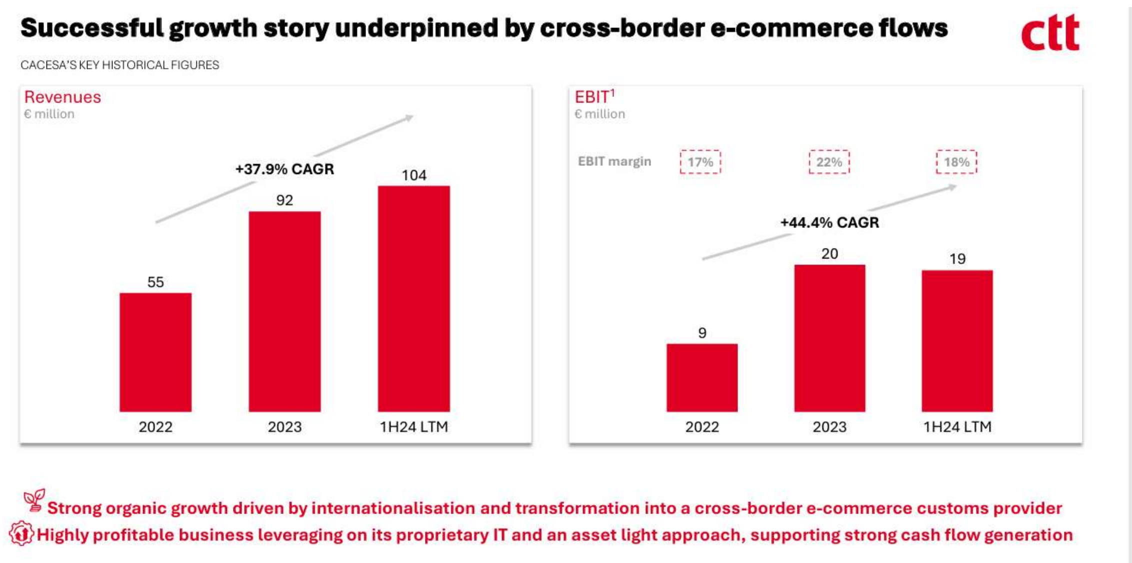
The others parts of Cacesa are a more traditional forwarding business where they act as the middle-men / reseller. This is a lower margin business with lower growth – but importantly again asset light and those a decent cash contributor to Cacesa.



35

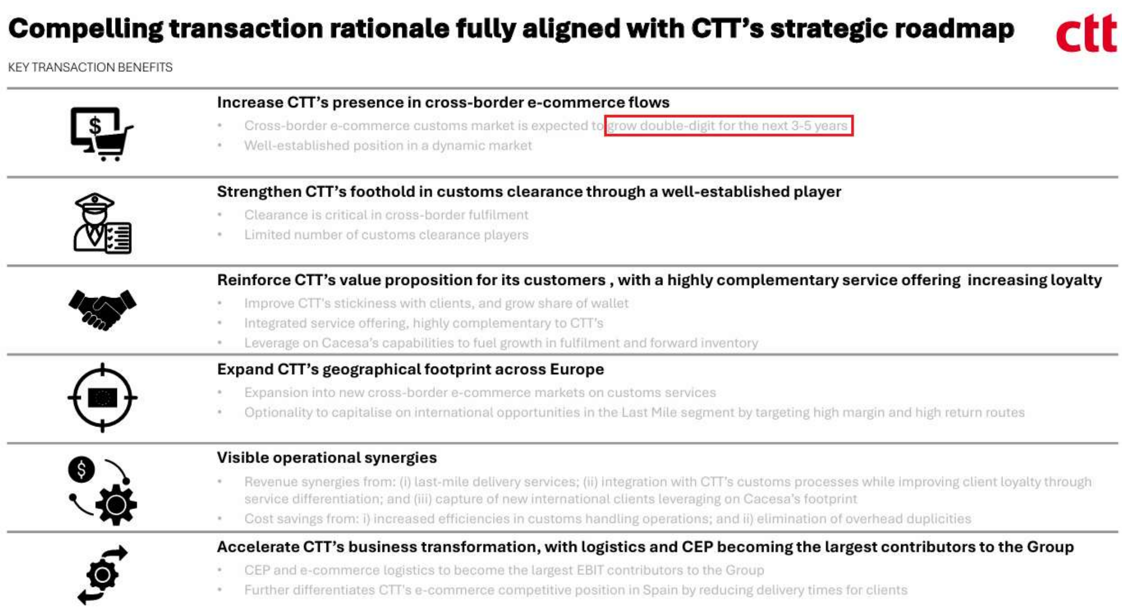
34 CTT M&A IR presentation
35 CTT M&A IR presentation

Cacesa has strong business fundamentals and enjoying strong seceular tailwinds from the growing Iberian e-commerce market (same trends that's benefitting CTT expresso). As can be seen from the graphs below, revenue has doubled in the last 2 years (38 % CAGR) and EBIT has grown even more. The EBIT margin was down slightly so far in 2024 mainly because of increased growth investments by Cacesa that should lead to even stronger growth and margins going forward.



[36]

CTT expects Cacesa should continue to grow the revenue double digit over the coming 3-5 years. We find it quite rare to find companies that make M&A deals where they can buy companies that is growing double digits at 5x EBIT with good synergies and net benefits.



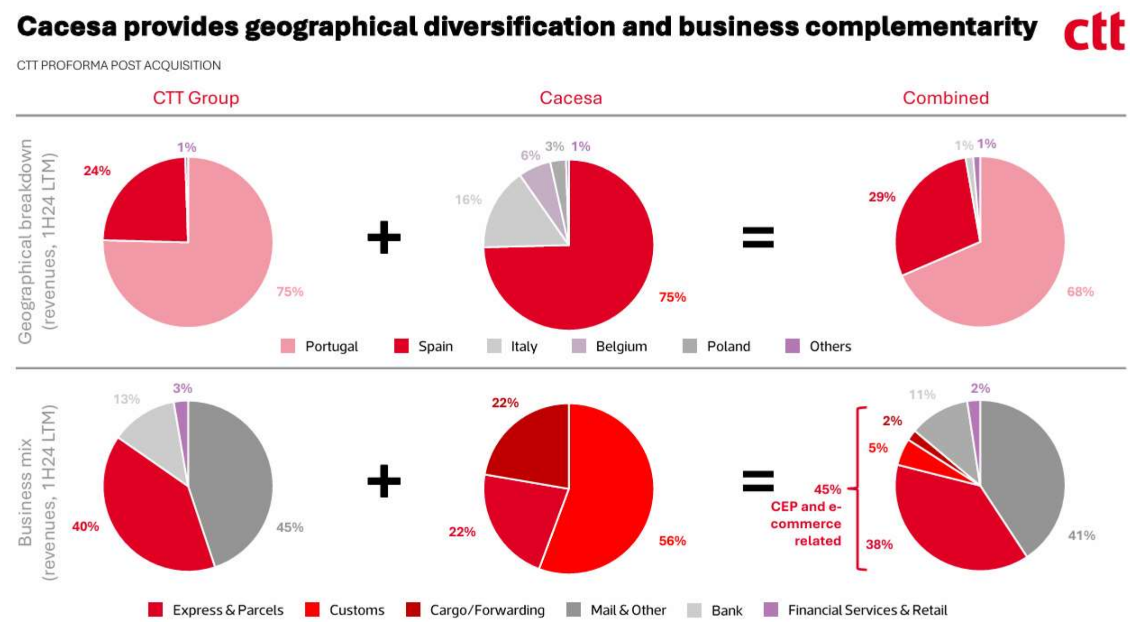
[37]

[36] CTT M&A IR presentation
[37] CTT M&A IR presentation

Another reason that the acquisitions is so attractive is that it makes CTT able to bundle customs clearing and last mile delivery withing one solution. It's a significant benefit to customers as they can use only one provider and get a faster and cheaper service. Here is what the CEO said on the conference call:

> *We expand a lot with custom clearance for the Chinese clients – we are increasing the stickiness and moat around them – much harder to change last miler now we do both last mile and custom clearance for them – and now as we can do both, we also do much better service to them. One less day delivery at lower cost together*[38]

Below it is illustrated how the combined business will see the revenue contribution from Portugal going from 75 % of revenue to 68 % post the deal and also diversifies revenue based on business areas.



[39]

[38] CTT CEO on conference call

[39] CTT M&A IR presentation

DHL JV:

The day after the Cacesa deal CTT announced and even more transformational deal by going into a JV with DHL across Iberia. DHL have been doing well within B2B in Spain but has been performing poorly withing B2C in both Portugal and Spain and to some extend with B2B in Portugal. This is the reason why CTT management convinced DHL to do a deal that we think are extremely beneficial for CTT (and to DHL as true win-win).

[40]

Why does this opportunity exist for CTT?

This is the smallest but fastest growing business part of DHL – they have poor performance in Iberia now – because they struggled setting up B2C – this is why the opportunity exists for us.[41]

---

[40] CTT M&A IR presentation

[41] CTT CEO on M&A conference call

The goal of the deal is to create a JV where CTT ultimately will own 51 % of CTT Expresso and 49 % of DHL Iberia and DHL the other 49 % and 51 %. Initially there will be 25 % transactions followed by call options to be exercised in 2028 following the 2027 accounts.

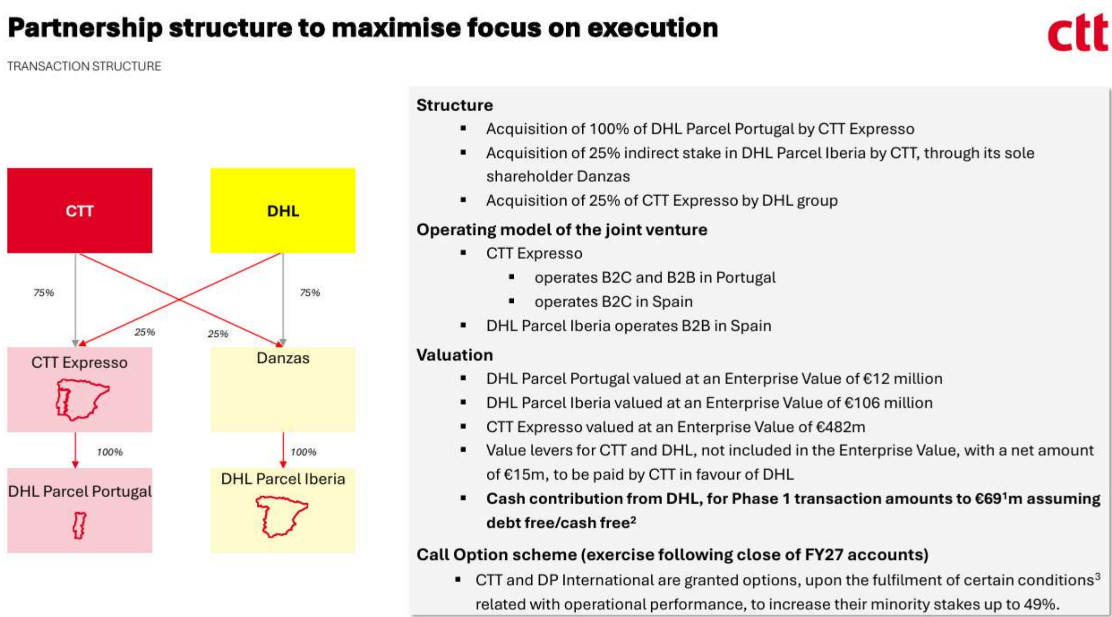
The goal of the deal is for CTT Expresso to own all of the Portuguese operations both B2C and B2B. They are already strong in both areas today – those the additional of DHL Portugal will create a lot of synergies and additional profits. As DHL is currently struggling in Portugal CTT will only pay 3 million EUR for that 25 % stake.

CTT Expresso will keep its B2C operations in Spain where they are doing well - growing fast and expanding margins. Current DHL Spain B2C activities will move to CTT Expresso.

DHL Spain will focus entirely on B2B business where they have a strong business. This segment is valued at 106 million EUR and CTT will initially pay 27 million for a 25 % stake.

DHL will buy 25 % of CTT Expresso valuing it at 482 million EUR (same value as whole CTT market cap when deal was announced).

The net effect if the transactions phase I is for DHL to pay CTT 69 million EUR upon closing



[42]

On top of that DHL will have to pay 25 % of the Cacesa purchase price as this is intended to be part of CTT Expresso:

DHL will have the option to enter CTT Expresso with Cacesa on same term as CTT bought Cacesa + expenses. DHL run now their diligence but will likely also enter it.[43]

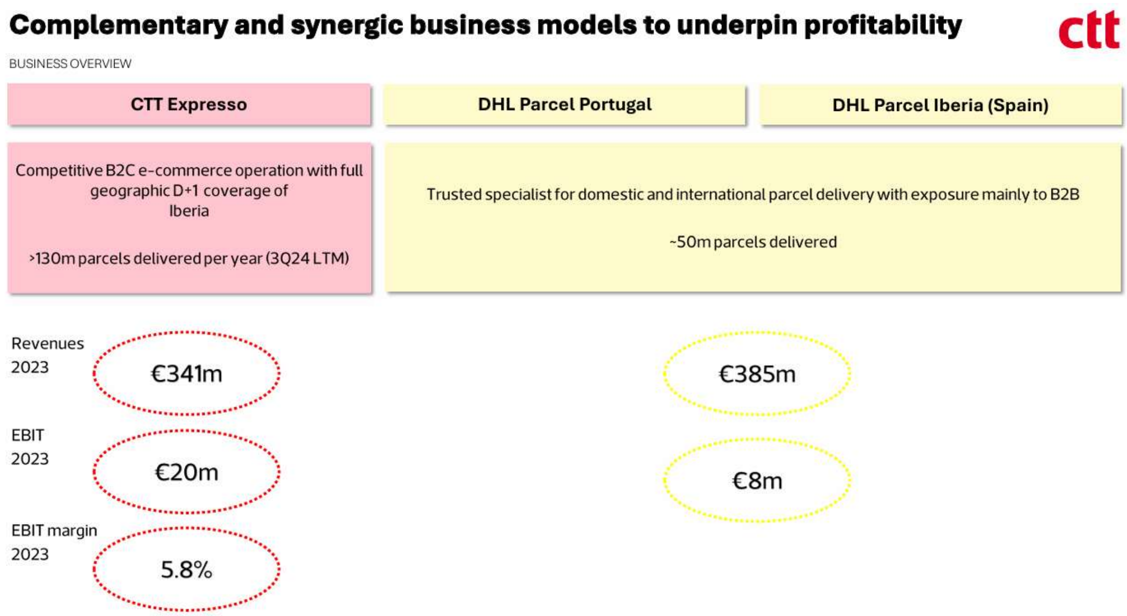
---

[42] CTT M&A IR presentation

[43] CTT M&A conference call

So why is the deal so attractive to CTT?

Because it is valuing CTT Expresso at 4x the price of DHL despite the two companies having similar 2024 revenue. CTT Expresso is valued higher because it has a much higher margin at the moment.



[44]

But DHL and CTT has identified 35 million EUR in synergies spread between CTT Expresso and DHL Iberia. This will lift both segment margins and create a lot of value. This will come by:

1) Moving DHL Portugal to CTT where CTT is market leader and DHL sub-scale
2) Having CTT Expresso focusing on B2C in Spain and DHL focusing on B2B with collaboration between them with. each company focusing on where its strong.

If (when) margins can be lifted in DHL Spain from current 2 % to +10 % (CTT expresso) levels it will create significant value for both CTT and DHL

Cost synergies and margin uplift in DHL Spain – and then a lot of synergies in getting DHL Portugal into CTT Expresso. DHL suffering from inefficient B2C – that's why they have low margins – they now transfer that to CTT – and can achieve great margins again as focus on B2B – also some one-time expenses in sorters for them. Expect rerating on their profitability margins going forward.[45]

Basically, CTT gets more revenue of what they are focused on and good at and DHL gets more revenue of what they are good at – and removes the loss-making parts they are struggling at. A true win-win.

[44] CTT M&A IR presentation
[45] CTT CEO on M&A conference call

By combining the 2 businesses – they truly create a 1+1 = 3 situation as they complement each other so well.

Creating the most comprehensive pick-up and delivery network in Iberia

ctt

STRATEGIC RATIONALE

Value levers	
Cross border	✓ Leverage inbound flows combining DHL's cross border expertise with CTT's wide Iberian e-commerce last mile network ✓ Increase share in the outbound flows using DHL international network ✓ Expanding full suite intercontinental offer ✓ CTT's sales force to push highly competitive outbound offer
Iberian B2C	✓ Combination of Tier1 brand with competitive B2C operation will fuel penetration in large Iberian accounts ✓ Large national and international accounts with presence in Spain and Portugal as key targets in short/mid term
High Complementarity	✓ DHL Parcel B2B revenues (~€300m/year, 75% of total sales) highly complementary to CTT's revenues which are mainly B2C ✓ Intra Europe cross border import and export volumes from DHL also complement CTT share on Asian cross border

[46]

DHL has the largest inter-European flow within Europe that we can now access – diversify away from China imports. [47]

It will for once diversify away the dependence on the Chinese e-commerce players that CTT still to some extend has today.

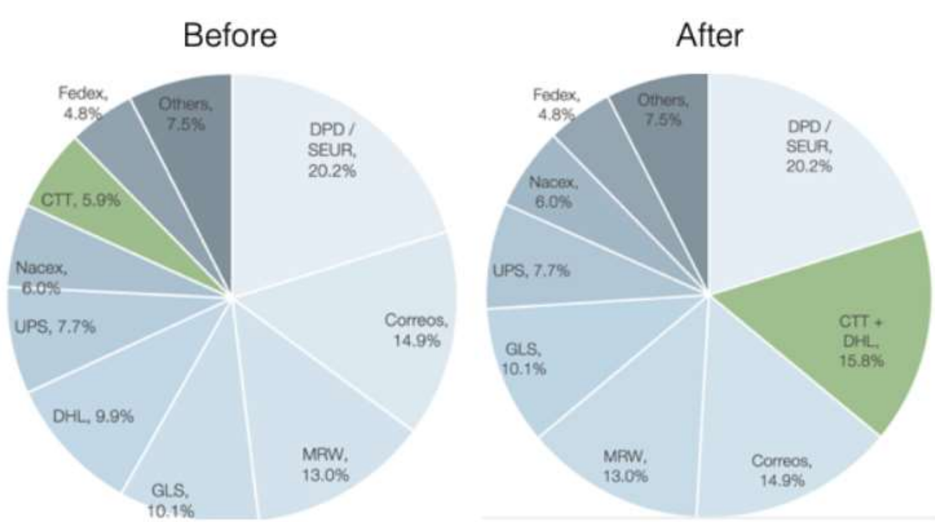
[48]

---

[46] CTT M&A IR presentation
[47] CTT CEO on M&A conference call
[48] CTT M&A IR presentation

One of the largest shareholders in CTT is Greenwood Investors, where the founder sits in the board. They wrote the following in their 2024-year end letter:

> But far more attractive than the accretion to the sum-of-the-parts is the market opportunity in front of the company. Having grown its Portuguese market share from <30% in 2019 to >50% today, the group has now grown its Spanish market presence from 1% to 15-16%. In a fragmented and money-losing market, that means with best-in-class quality of service, the two companies can now conquest market share and consolidate the Iberian market organically.
>
> *Exhibit 1: Spanish Parcel Market Share – Pre & Post-DHL Agreement*



[49]

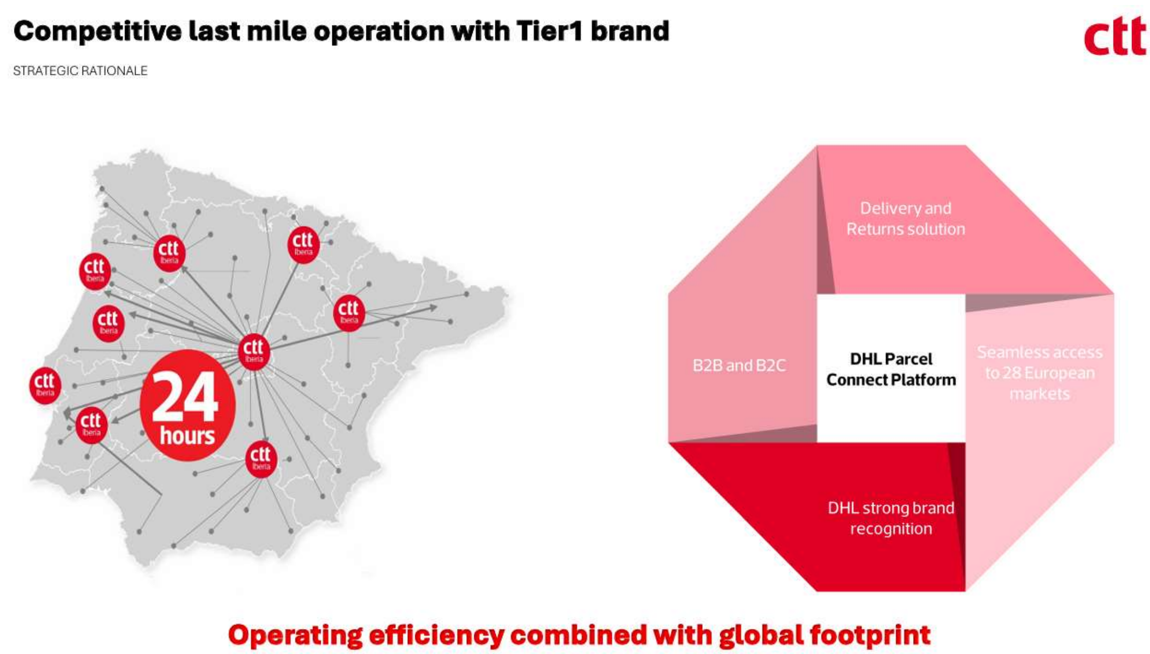
We fully agree with the points made by Greenwood here. CTT/DHL will be in a sweet stop to win the Spanish market on top of what they have done in Portugal so far.

[49] Greenwood Investors 2024 year end letter

[50]

There is a lot of volume DHL could important to Iberia they said no to before because they did not have good B2C – they can accept that now and drive the revenue synergies[51]

We think one of the most important parts beside the cost synergies is the potential revenue synergies that can be achieved especially in Spain. As DHL is the largest player across Europe, they get a lot of inbound requests that they for different reasons have had to say no to as they could not handle last mile. With the combined CTT/DHL offering they will be able to take on that revenue going forward.

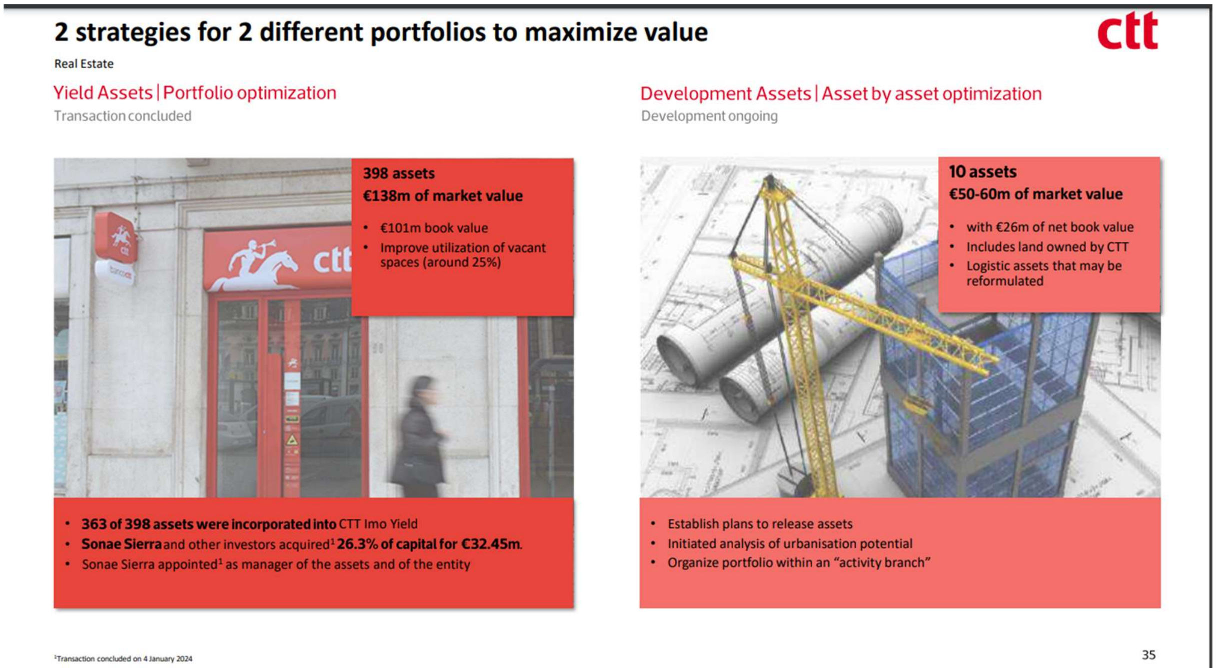


[52]

[50] CTT M&A IR presentation
[51] CTT CEO on M&A conference call
[52] CTT M&A IR presentation

Real estate:

As is the case with many old companies – there is often hidden assets on the balance sheets. This is also the case with CTT. This is especially true within real estate. As CTT have had prime real-estate around Portugal on the balance sheet for 100 years these assets are now worth much more than its on the book value for.



CTT has split these assets into 2 segments. The yield generating assets and some development assets. The company recently in 2024 sold a 26 % minority stake in their yield portfolio to real-estate partner Sonae Sierra that will manage the assets. It is the plan to keep selling the ownership down over time. The first sale was done at 40 % premium to book value.

The company also has development assets on the balance sheet for around 30 million EUR. This is primarily land or some logistic assets that they won't need any more that can be repurposed. Its often at quite prime real estate locations.

A few years ago, the company conservatively valued these at double the current book value. We think the upside is much bigger for a few reasons. One is the company have no incentives to promise more than they can deliver here. The company also pays taxes on the book value so has no incentive to mark them up. And the third is Portuguese land prices has sky-rocket over the last 10+ years especially around big cities like Lisbon.

CTT has no plan to develop the real-estate themselves – but they think they can achieve a lot more upside if they can get zoning, permissions etc. done before selling them as a potential real-estate developer can pay much more for the assets in that situation.

Financials:

With a company like CTT it's a little harder to make predictions as some of the segments are volatile. But as the stock is still insanely cheap, its better to be directionally right than precisely wrong.

We think the best way to fully value CTT is on a 2027 SOTP basis – below we have shown our financial expectations for the next 4 years compared to the current market cap of around 790 million EUR. I have included Cacesa and DHL into the numbers as well. As we can see the stock trades at a huge discount to fair value at only around 5x EBIT. The even more weird part is that they just sold a minority stake in the bank at 12x EBIT and a minority stake in CTT Expresso at 12,5. So clearly other market participants value the segments higher.

	2024	2025	2026	2027
Banco CTT	26	32	36	40
Mail	4	10	10	10
Financial services	15	32	40	40
CTT Expresso	40	76	106	130
EBIT	85	150	192	220
Market Cap/EBIT	9,3	5,3	4,1	3,6

Management themselves have had a hard time understanding why the business has traded so cheaply.

> *When we see shares of InPost trading at 21x operating income (17x forward), we wonder why the market views this business model more attractively than CTT's, which sports a ~7.3x operating income multiple using the bottom end of this year's €100-120 million range provided at the [2022 capital markets day](). [53]*

Another important topic is that CTT and DHL has agreed to pay out a minimum of 50 % of earnings as dividends from the JV's. This ensures that while CTT remain in control of CTT expresso with a 51 % ownership and DHL remains in control of DHL Iberia with 51 % ownership – the economics interest are fully aligned.

[53] Greenwood Investors 2024 year end letter

But as the method above does not take into account minority interest, balance sheet items etc. we think a SOTP is the best metric to value CTT.

As can be seen – we think the fair value of the stock at the end of 2027 should be around 20 EUR or 250 % more than it trades at today. This is total 3-year shareholder return of 52 % per year.

	2027 EBIT	Multiple	Valuation
Mail	10	5	50
Banco CTT	40	8	320
Financial Services	40	8	320
CTT Expresso	130	13	1690
			2380
49 % minority stake in CTT Expresso			-828
Cash proceeds from selling 24 % stake			390
49 % stake in DHL Iberia			225
Payment for 24 % stake in DHL Iberia			-82
Fair value of real Estate			200
9 % minority interest in Banco CTT			-29
Employee benefits			-130
Net cash			150
2025-2027 cash generated			400
Total fair value 2027			**2676**
Shares outstanding			134
Fair value per share			**20,0**
Current share price			5,7
Total 3 year upside			**250%**
Total 3 year CAGR			52%

While the above maybe seems complicated to do all the adjustments – we think the margin of safety here is so huge that its warranted. And some of the adjustments we have made could also have higher upside. As an example for DHL Iberia, we only factor in cost synergies and does not include any other partnership benefits in our estimates. We also think there is a good chance that both Banco CTT and the FSS segments can deliver even higher profits than the 40 million EUR we estimate in 2027.

Also we use a 13x multiple for CTT Expresso – the same as DHL/CTT have used in their internal transactions. We would argue a market leading business with strong growth and a strong moat could deserve a much higher multiple.

We have not factored in further accretive buybacks from CTT in our analysis. But over the last years CTT have bought back 3-5 % per year. If they would continue with that in the next 3 years (we would expect so) it will just make the upside even higher.

Risk segment:

As is the case with all investments there is also some risk tied to CTT investment.

The biggest one is the future of Chinese e-commerce in Europe. If there will be some tariffs or direct important bans etc. CTT says a few years ago the biggest customer was Alibaba, then it was Schein, Then its Temu now. So, they do not have specific customer focus but is good at capture whoever wins the market.

Another risk is the long-term durability of the financial services segment. It's a highly volatile segment so it's hard to predict the outcome. But as the government will need to keep issuing debt and CTT is diversifying into other segments like insurance we are not to concerned here.

The last risk we see is within the mail segment. While the profits from this segment is not a driver of the investment case – its also important that the segment does not suddenly turn loss-making and becomes a drag.
The current government contract protects that – so we don't worry around that in the short run.
But of course, things can change here in the future – there is also some fixed expenses that is allocated to the mail segment now – there has been strikes in the past due to layoffs etc. so if the mail segment suddenly sees even quicker volume declines and CTT can't cut costs fast enough it can have smaller spillover effects into the other segments.