

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!

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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) Telegraph and Telephone company.

CTT was privatized through an IPO in December 2013 where the Portuguese 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 its 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.

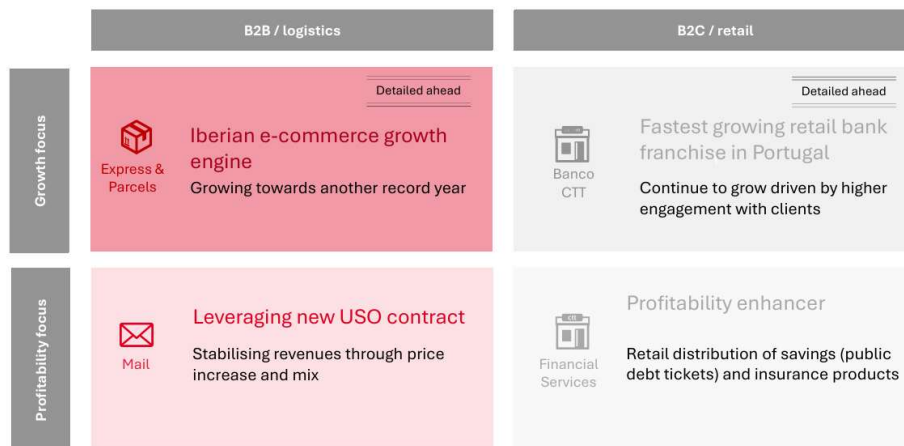
- 1) The traditional mail delivery business (Mail)
- 2) An express and parcels business (E&P)
- 3) Et retail bank (Banco CTT)
- 4) A financial services segment (FSS)

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.

A balanced and highly synergic portfolio



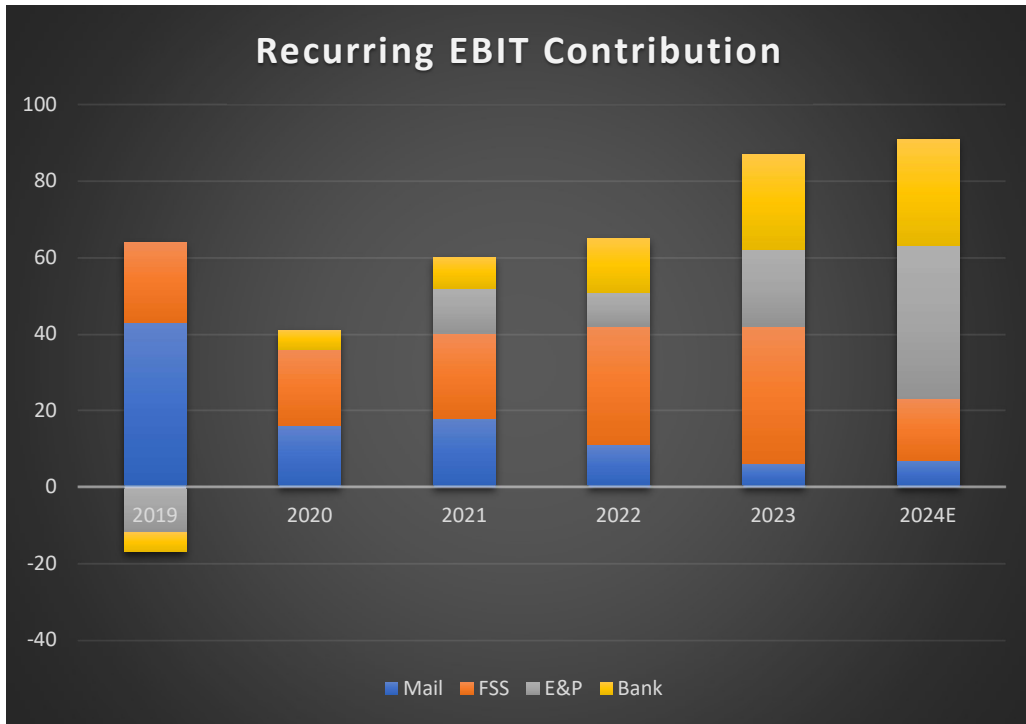
CTT IN A NUTSHELL



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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.



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 profits will come from E&P and bank profits, while the mail business will only be slightly profitable.

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

² Symmetry

E&P:

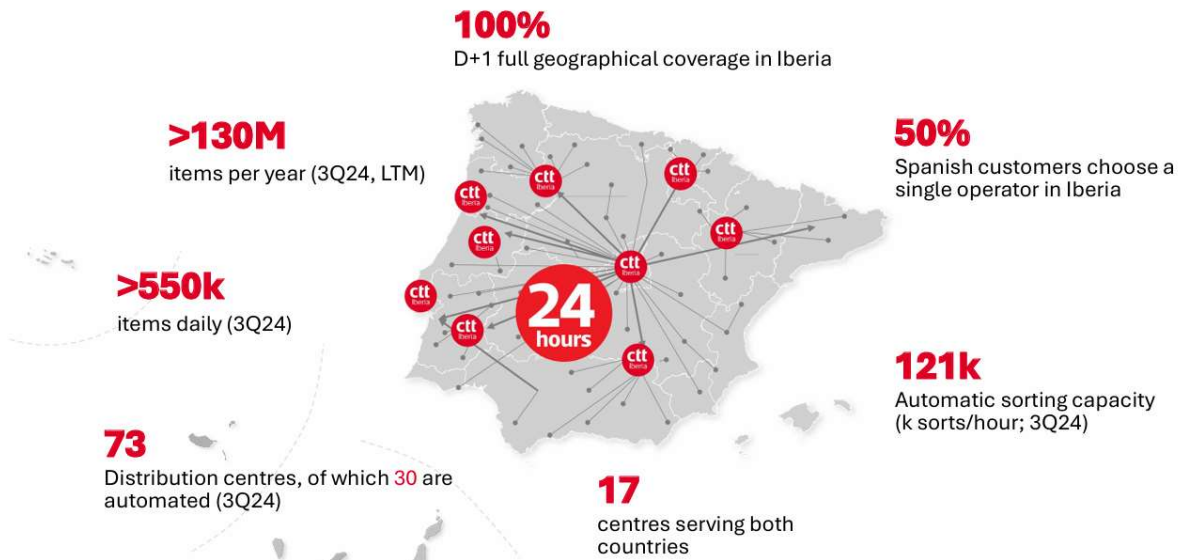
The most important segment of CTT is the Express & Parcels (E&P) business. E&P act as the picks and shovels for the Iberian E-commerce industry.

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

Comprehensive Iberian coverage in Express & Parcels



EXPRESS & PARCELS



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 ecommerce 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).

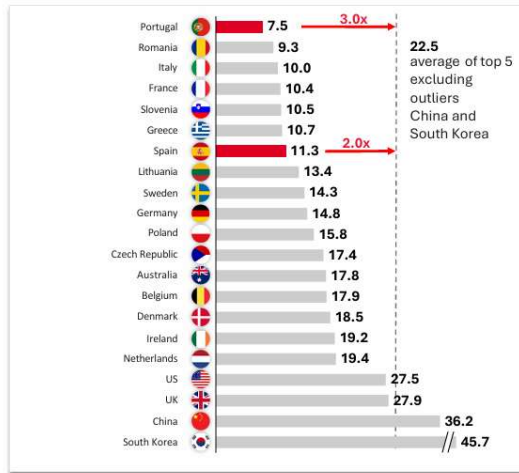
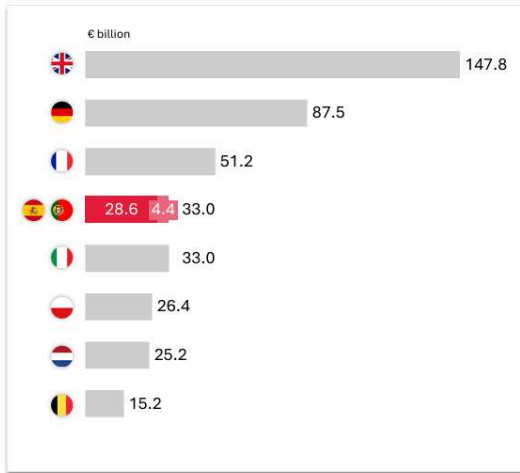
Iberian e-commerce is a sizeable market with high growth potential



EXPRESS & PARCELS

Iberia is the 4th largest e-commerce market in Europe¹

... but e-commerce² penetration is still low, 2023
e-commerce share of total retail, %



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 Correios is the Spanish postal operator – but highly loss making – also in parcels – they are problem – low price and low quality and loss making – irrelevant 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):

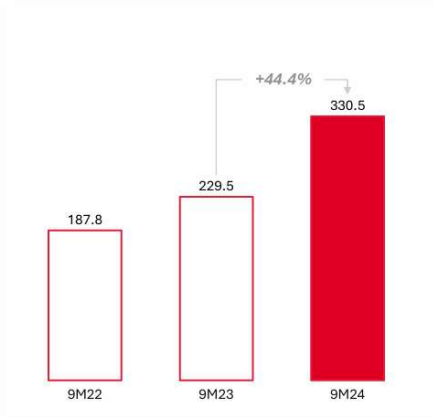
Growth is driving scale and margin expansion



EXPRESS & PARCELS

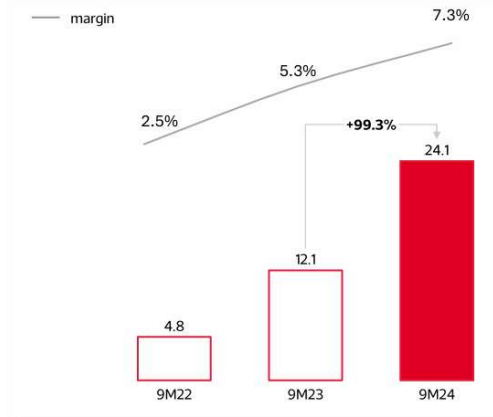
E&P | Revenues

€ million; % change y.o.y.



E&P | Recurring EBIT

€ million; % change y.o.y.



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.

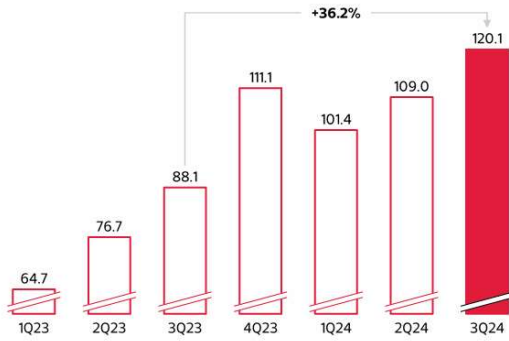
Growth is driving scale and margin expansion



Express & Parcels

E&P | Revenues

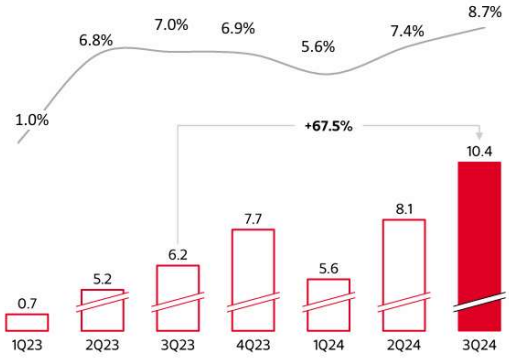
€ million; % change y.o.y.



E&P | Recurring EBIT

€ million; % change y.o.y.

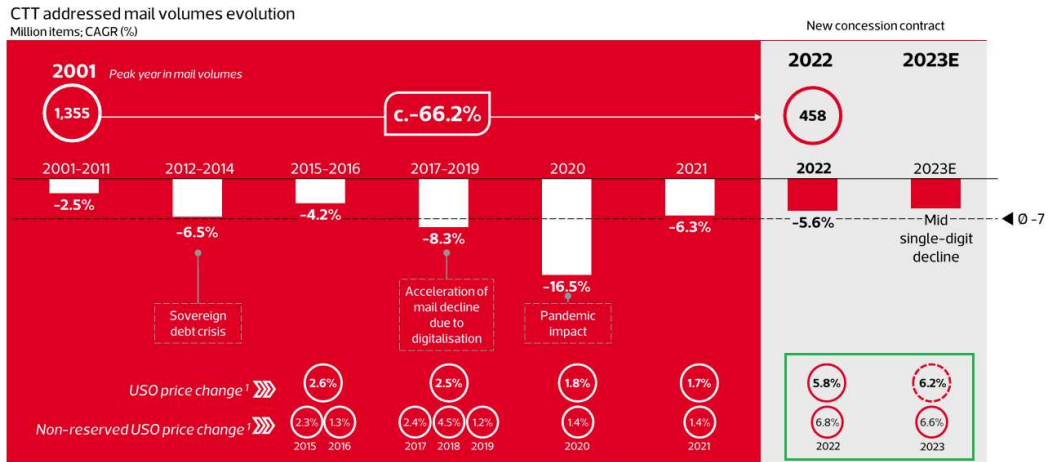
— margin



Volume growth underpinning operational leverage

Mail & Other:

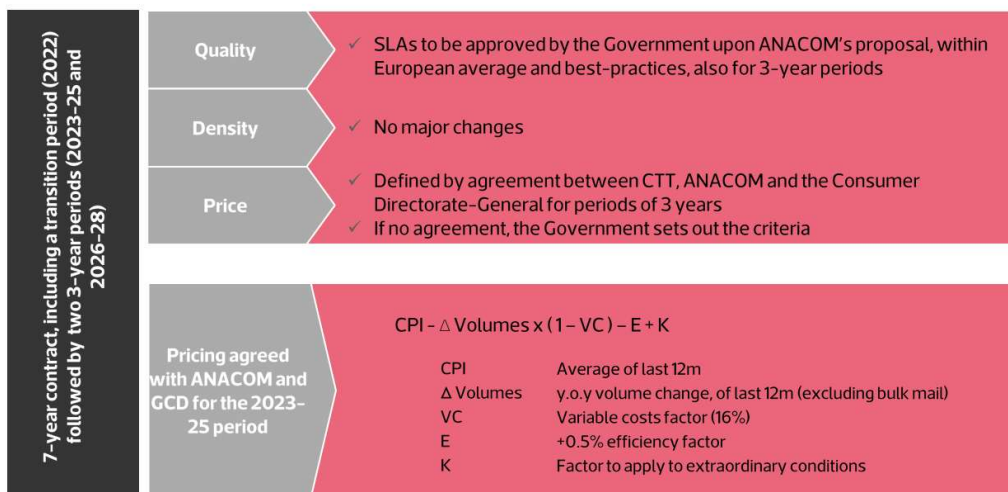
The mail segment of CTT is the legacy business segment of receiving and sending out letters. As in many other countries around the world this is a slowly dying business. CTT operates this business without any direct state subsidies – but as they have a de facto monopoly and distribute a lot of letters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



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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.

New mail concession agreement providing visibility and stability




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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.



- Universal mail service contract for 2022–28 with high pricing predictability and with clear and more rational quality objectives
- Aiming at stabilising revenue profile, through price, commercial activity and business services, while reducing costs to improve profitability

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

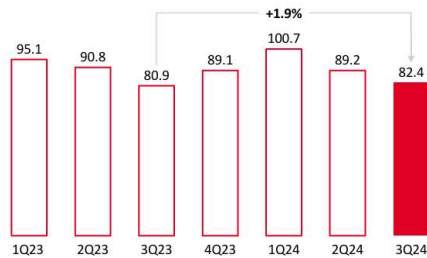
Another factor is that it still only costs around 60 cents to send a letter in Portugal vs. 2 EUR in Italy for example. As such, there should be rooms for decades of price increases before the business loses critical mass effects.

3Q24 impacted by increased backlog from public admin

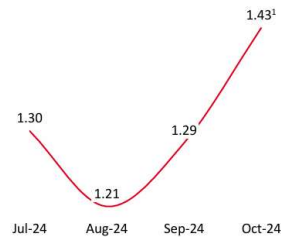


Mail & Other

Addressed mail revenues
C million



Addressed mail revenues per working day
C million



We are observing a recovery in volumes in October

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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.

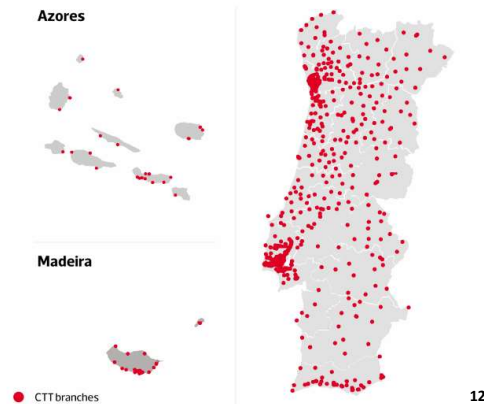
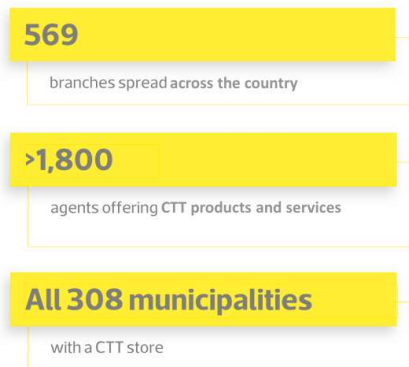
¹⁰ CTT CEO at EKF

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.

We have a unique network capillarity across the country that we are refocusing on services



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.



Capillary network, associated with customer proximity, present with own shops in all municipalities



Leveraging existing in-person traffic with 65k unique client visits / day, as well as **increasingly available digital / self-service functionalities**



Solving for **customers' convenience and daily service requirements** and **eliminating pain-points**

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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.

Focus on the portfolio of services...

... while transforming our in store experience



Savings
In-store and online distribution
Strong dynamics drive walk-ins



Non-life insurance
Auto
Home
Travel
Health



Money transfer services
Western Union direct-to-bank corridors
Payshop and postal agents networks



Payment Services
Pensions
Tax payments
Toll Payment
Utilities
Aerial Transport subsidy



Strengthening the self-service and digital approach
Expansion of the Locker network
Implementation of self-service kiosks
Reinforcement of omnicanality



In-store process redesign
Opening more self-service convenience spaces 24/7
Layout re-evaluation and redesign
Waiting areas with improved digital experiences and information

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In our heads we 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:



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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 future¹⁶

The by far biggest profit driver within the stores is public debt placements. When the public issues debt certificates 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.

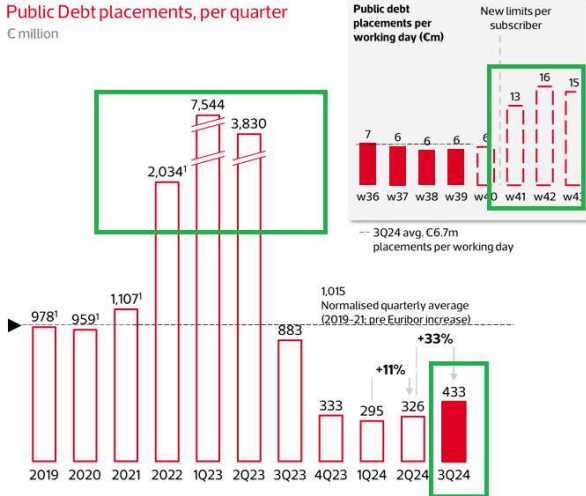
In 2022 and 2023 CTT saw a huge spike in placing volume as the interest rates came up. As banks did not raise the interest rates on savings accounts it made it much more attractive to buy public debt. CTT those saw a huge spike in subscriptions. As the government did not want to place so much debt at high interest rates they put caps on how much individual accounts could subscribe 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.

Increase in ceilings driving strong recovery in public debt placements



Financial Services

Public Debt placements, per quarter
C million



- Limits per subscriber doubled from €50k to €100k as from 7 October onwards
- CTT online platform for subscription of debt certificates with strong adoption
- Marketing campaigns to highlight the attractiveness of public debt certificates, which is improving vis-a-vis deposits
- In line with expectations, recent trends are pointing towards a normalisation of placement levels

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.

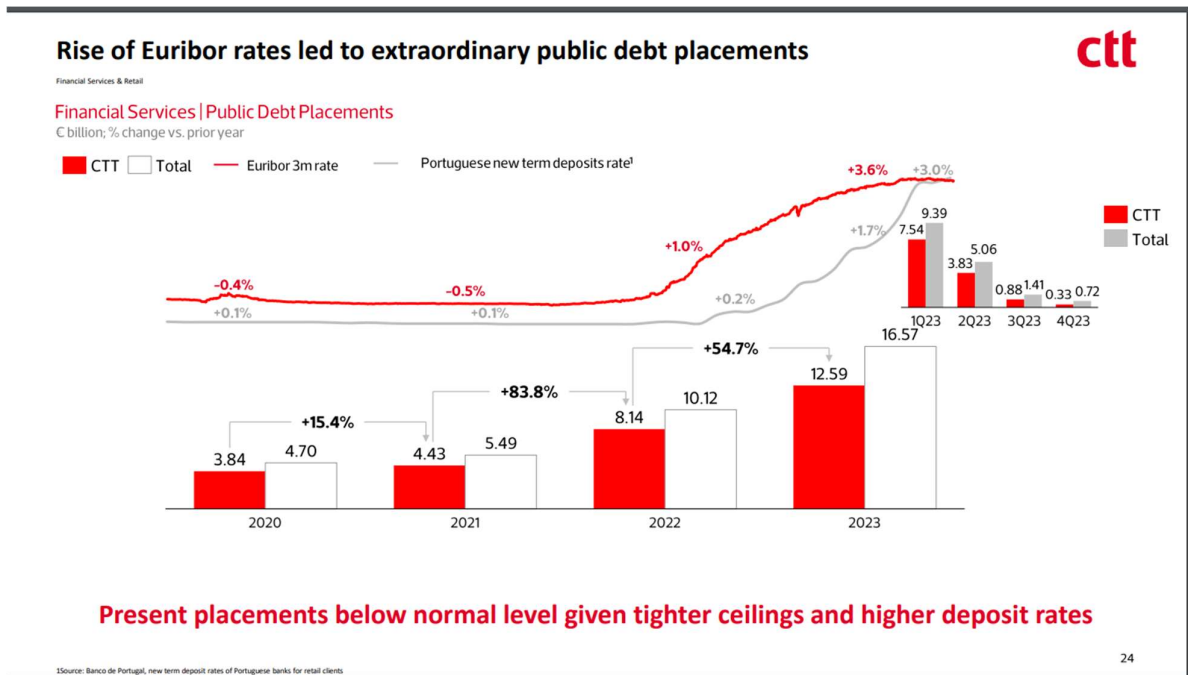
¹⁶ Guidepoint interview with former COO

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

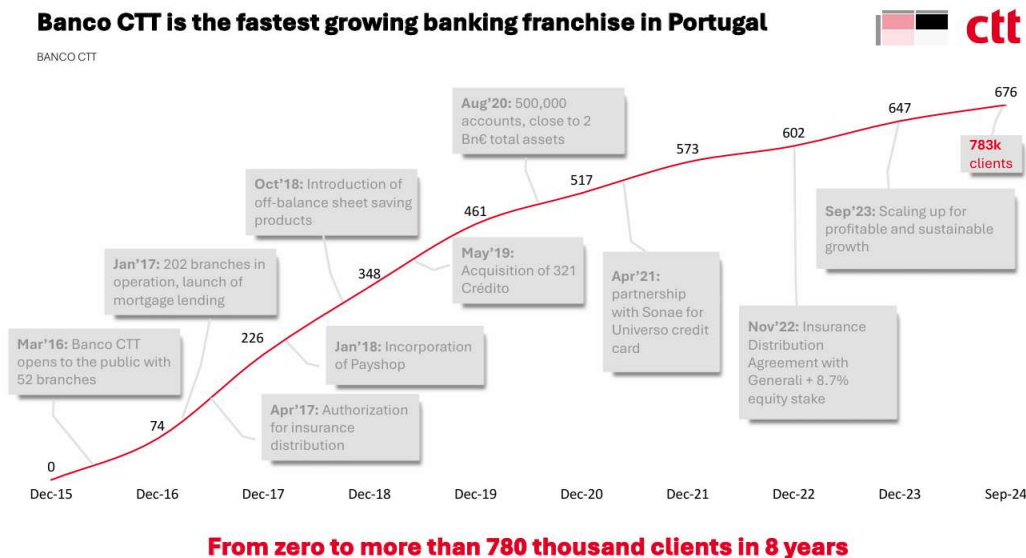


¹⁸ https://www.ctt.pt/application/themes/pdfs/grupo-ctt/investidores/CTT_a_transformation_story-AESE_Breakfast_June_2024.pdf

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.



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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

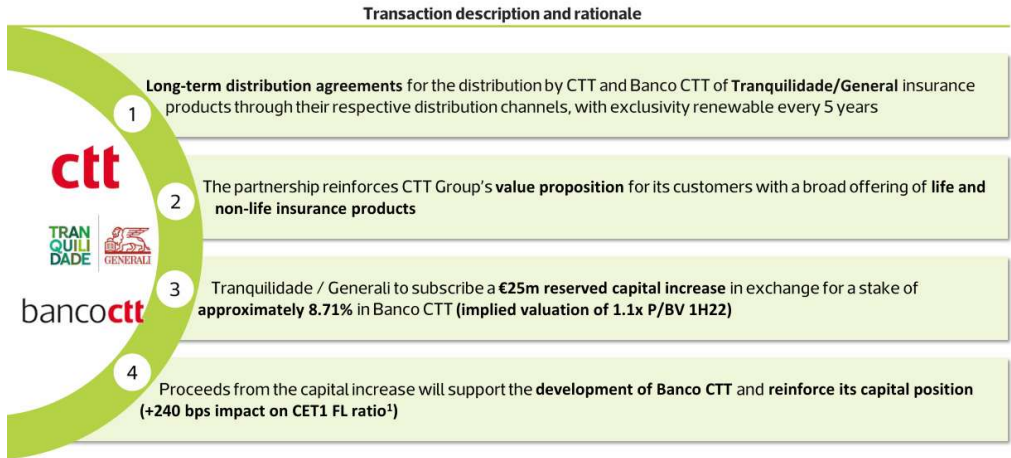
Banco CTT today is mostly a savings bank with a lot of deposits that CTT invests at the central bank or short-term bonds capturing a net interest income spread.

¹⁹ CTT presentation

²⁰ CTT CEO at EKF

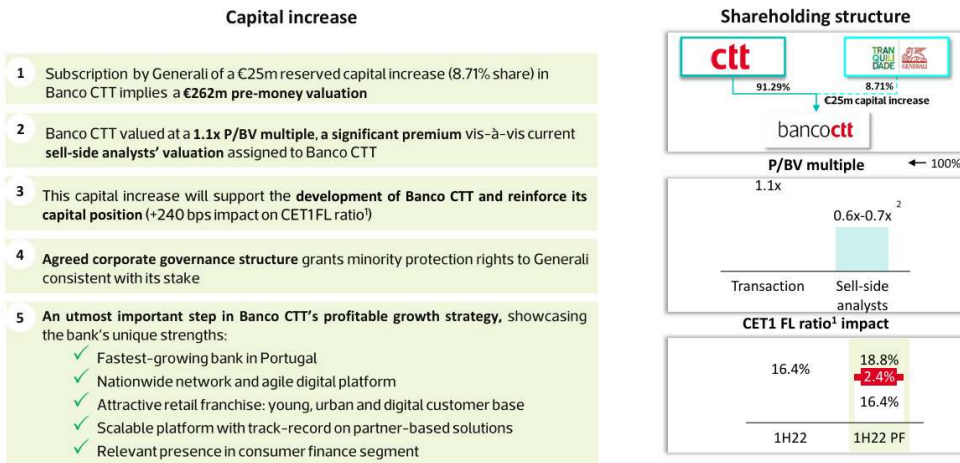
After attracting a lot of new customers CTT looked for more ways to earn more money withing banco CTT. One of these was to start insurance distribution. CTT announced a strategic deal with Generali Seguros where CTT can sell and earn commission on Generali insurance. The attractive part here is that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

Strategic partnership between CTT, Banco CTT and Tranquilidade/Generali Seguros 



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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.



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²¹ CTT presentation

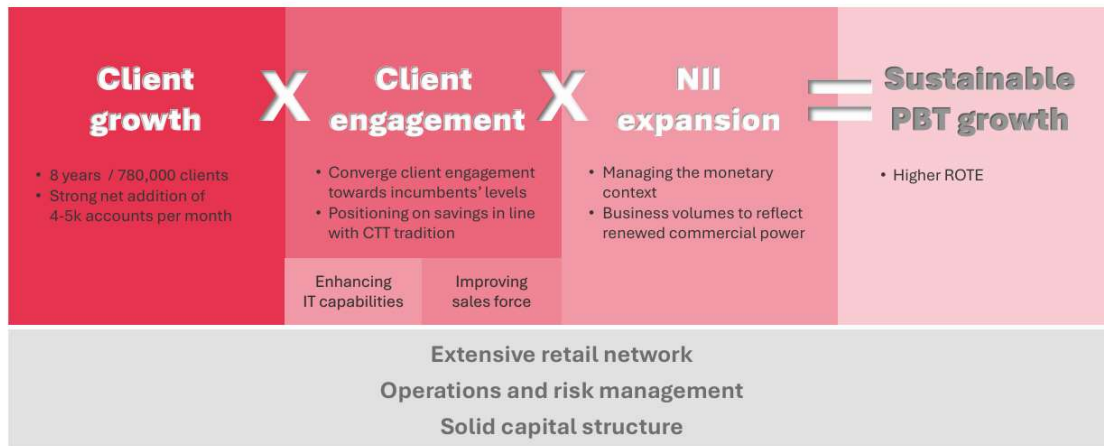
²² CTT presentation

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 products²³

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

Focused on client growth and doubling-down efforts on engagement 

BANCO CTT



Business volumes and increased engagement enable growth

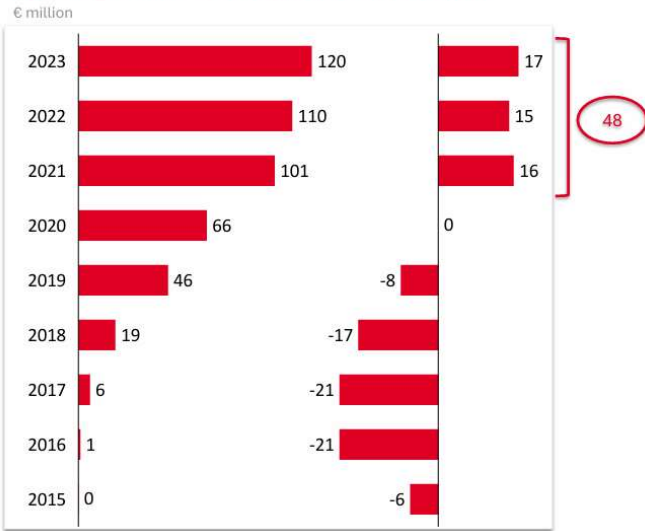
²³ Guidepoint interview with former COO

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

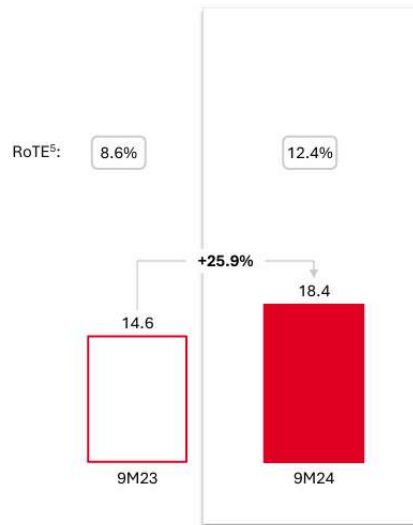
We think there is a lot of opportunities to make more money within the bank. Currently the vast majority of profits just comes from the net interest margin they earn on the savings customers. As they upsell more products (like pension products, insurance etc.) and earn more transaction fees etc. they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

Operating Income^{1,2} and Net Income¹ of Banco CTT



Profit before Taxes³

€ million; % change vs. prior year



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One of the things we were worried about was CTT having too 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

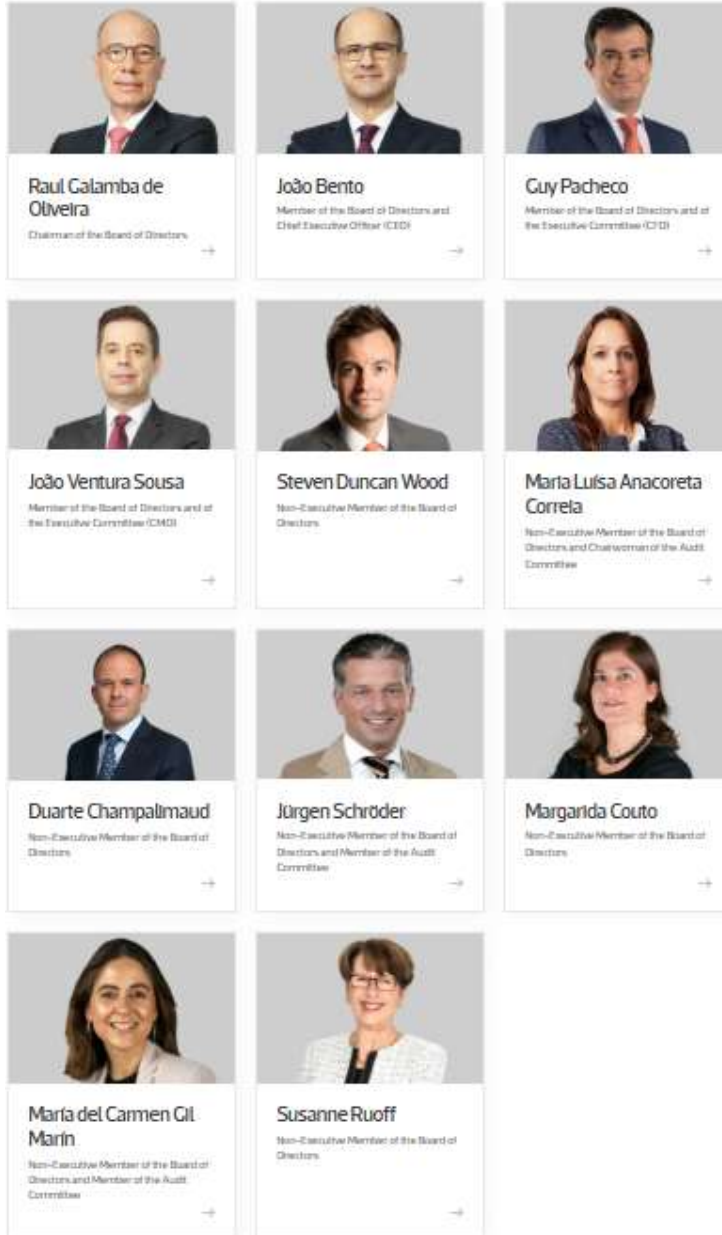
	Shares	% Share Capital
Global Portfolio Investments, S.L. ⁽¹⁾	21,609,052	15.61%
Manuel Champalimaud, SGPS, S.A. ⁽²⁾	19,747,000	14.26%
Green Frog Investments Inc	13,500,000	9.75%
GreenWood Builders Fund I, LP ⁽³⁾	9,777,400	7.06%
CTT, S.A. (own shares)	3,461,309	2.50%
Other shareholders	70,345,239	50.81%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

*“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 become 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.



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 management team is clearly incentivized 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.

Capital allocation priorities



OUTLOOK AND CAPITAL ALLOCATION

1. Investment in business growth



Organic growth: transformation, technology, capacity and maintenance capex

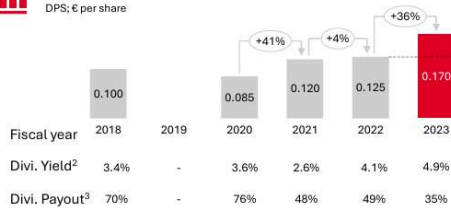


Inorganic growth: M&A opportunities in e-commerce logistics related assets

2. Attractive shareholder remuneration



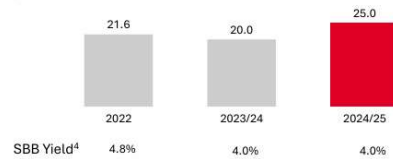
Recurrent dividends¹
DPS; € per share



- ✓ Dividend of €0.17 per share proposed for the AGM of April 2024
- ✓ Fulfilling pay-out target: between 35% and 50% of net profit



Opportunistic share buyback
€ million



- ✓ SBB of €25m in execution (~30% already completed)
- ✓ SBB of €20m executed in 2023/24; 5.475 m shares acquired and cancelled
- ✓ SBB of €21.6m carried out in 2022; 6.085m shares acquired and cancelled

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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.

Acquisition of Cacesa, a significant step in exposure to e-commerce logistics

TRANSACTION HIGHLIGHTS

- 1 Compelling transaction rationale, fully aligned with CTT's strategic roadmap of becoming a full-fledged e-commerce logistics player**
 - Increase CTT's presence in cross-border e-commerce flows
 - Strengthen CTT's foothold in customs clearance through a well-established player
 - Reinforce CTT's value proposition for its customers, with a highly complementary service offering increasing loyalty
 - Expand CTT's geographical footprint across Europe
 - Visible revenue synergies and cost savings
 - Accelerate CTT's business transformation, with logistics and CEP becoming the largest contributors to the Group

Detailed ahead
- 2 Key financial terms**
 - €91m Enterprise Value¹ equivalent to a multiple of 5.5x EV/EBIT¹ (as of 30 June 2024, LTM)
 - Transaction to be financed with debt
 - Proforma leverage ratio to stand below 2.5x² upon closing
- 3 Significant value creation**
 - Strong value creation for shareholders through expected visible synergies (>€5m run-rate at EBIT level) with low execution risk
 - + c.20% EPS and FCFPS accretion by 2026E including expected run-rate synergies (+12% excluding synergies)
- 4 Next steps**
 - The transaction is subject to customary closing conditions, including applicable regulatory approvals
 - The transaction is expected to close in March/April 2025

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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.

Complementary to CTT’s service portfolio

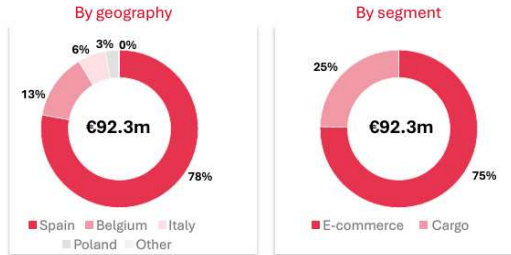


CACESA AT A GLANCE

Description

- Founded in 1987 by Iberia, Cacesa is a well-established Iberian **provider of B2C cross-border e-commerce customs solutions** from China to Europe providing services across the entire value chain:
 - **E-commerce:** well-established player in cross-border customs clearance in Spain with relevant position across European markets enhancing customer relationships through supplementary last-mile delivery services
 - **Freight forwarding:** wide range of supplementary freight forwarding services including air, sea and road transportation for general cargo, express shipping and special cargo handling
- It employed 276 people in 2023 and has presence in over 15 countries (with the core of its operations in Spain), where it provides asset-light e-commerce services leveraging on its proprietary technological software

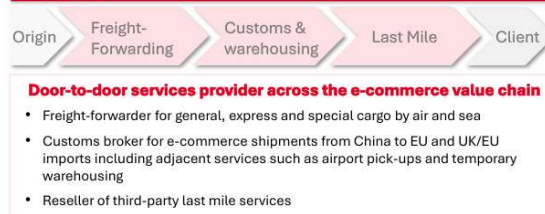
Revenue breakdown (2023)



Financial and operating metrics (2023)



Strategic positioning in the value chain



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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.

Significant exposure to e-commerce to enhance CTT's offering



CACESA'S E-COMMERCE BUSINESS

Business description

		Customs	Last Mile
Offering		<ul style="list-style-type: none"> Customs broker for e-commerce shipments Adjacent services: airport pick up, sorting, transport, temporary warehousing 	<ul style="list-style-type: none"> Cacesa acts as reseller of last-mile services
Business model		Asset light — Asset heavy	Asset light — Asset heavy
Brands			
Business mix (% of total)	Revenues (2023)		
	Gross Margin (2023)		

Key figures as of 2023 (e-Commerce)

€70m revenues	e-Commerce revenues have been growing at a c. 33% CAGR since 2021
€38m gross margin	e-Commerce gross margin at or above >50% consistently since 2021
160m shipments 7m parcels ¹	Customs and last-mile deliveries have grown at c.10% CAGR since 2021

Cacesa's value added



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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.

Stable cargo/forwarding business



CACESA'S CARGO/FORWARDING BUSINESS

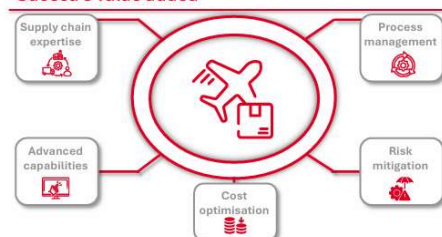
Business description

		Air freight	Express	Other services (incl. ALAER)
Offering		<ul style="list-style-type: none"> Traditional forwarding from Spain Well-established in courier services from Spain to LatAm 	<ul style="list-style-type: none"> Express air courier from Spain Very well-positioned in Madrid-Canary Islands and Ceuta & Melilla 	<ul style="list-style-type: none"> Sea freight forwarding from Spain and customs for non-e-commerce goods Airport logistics and handling in Madrid
Business model		Asset light — Asset heavy	Asset light — Asset heavy	Asset light — Asset heavy
Brands				
Business mix (% of total)	Revenues (2023)			
	Gross Margin (2023)			

Key figures as of 2023 (Cargo/Forwarding)

€23m revenues	Cargo/forwarding revenues have been relatively stable since 2021
€7m gross margin	Air freight business has been growing at a c.30% CAGR since 2021
8m kilograms ¹	Shipped cargo has grown at a c.7% CAGR since 2021

Cacesa's value added



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³⁴ CTT M&A IR presentation

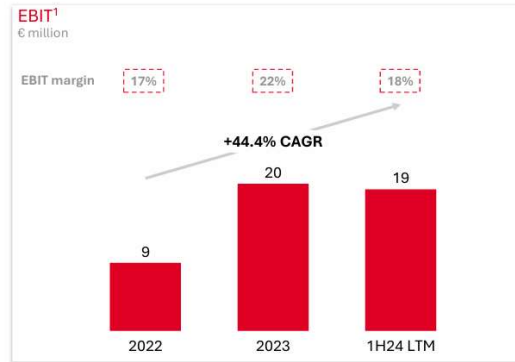
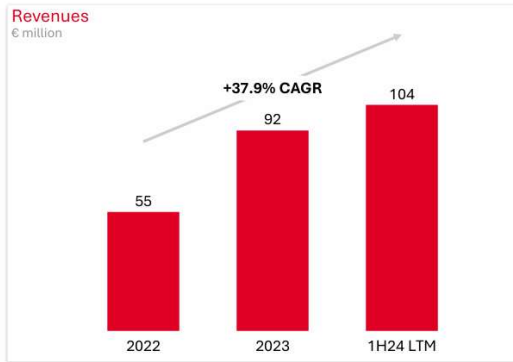
³⁵ CTT M&A IR presentation

Cacesa has strong business fundamentals and enjoying strong secular 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.

Successful growth story underpinned by cross-border e-commerce flows



CACESA'S KEY HISTORICAL FIGURES



- 🌱 Strong organic growth driven by internationalisation and transformation into a cross-border e-commerce customs provider
- 🔧 Highly profitable business leveraging on its proprietary IT and an asset light approach, supporting strong cash flow generation

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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.

Compelling transaction rationale fully aligned with CTT's strategic roadmap



KEY TRANSACTION BENEFITS

	<p>Increase CTT's presence in cross-border e-commerce flows</p> <ul style="list-style-type: none"> Cross-border e-commerce customs market is expected to grow double-digit for the next 3-5 years Well-established position in a dynamic market
	<p>Strengthen CTT's foothold in customs clearance through a well-established player</p> <ul style="list-style-type: none"> Clearance is critical in cross-border fulfilment Limited number of customs clearance players
	<p>Reinforce CTT's value proposition for its customers , with a highly complementary service offering increasing loyalty</p> <ul style="list-style-type: none"> Improve CTT's stickiness with clients, and grow share of wallet Integrated service offering, highly complementary to CTT's Leverage on Cacesa's capabilities to fuel growth in fulfilment and forward inventory
	<p>Expand CTT's geographical footprint across Europe</p> <ul style="list-style-type: none"> Expansion into new cross-border e-commerce markets on customs services Optionality to capitalise on international opportunities in the Last Mile segment by targeting high margin and high return routes
	<p>Visible operational synergies</p> <ul style="list-style-type: none"> Revenue synergies from: (i) last-mile delivery services; (ii) integration with CTT's customs processes while improving client loyalty through service differentiation; and (iii) capture of new international clients leveraging on Cacesa's footprint Cost savings from: i) increased efficiencies in customs handling operations; and ii) elimination of overhead duplicities
	<p>Accelerate CTT's business transformation, with logistics and CEP becoming the largest contributors to the Group</p> <ul style="list-style-type: none"> CEP and e-commerce logistics to become the largest EBIT contributors to the Group Further differentiates CTT's e-commerce competitive position in Spain by reducing delivery times for clients

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³⁶ CTT M&A IR presentation

³⁷ CTT M&A IR presentation

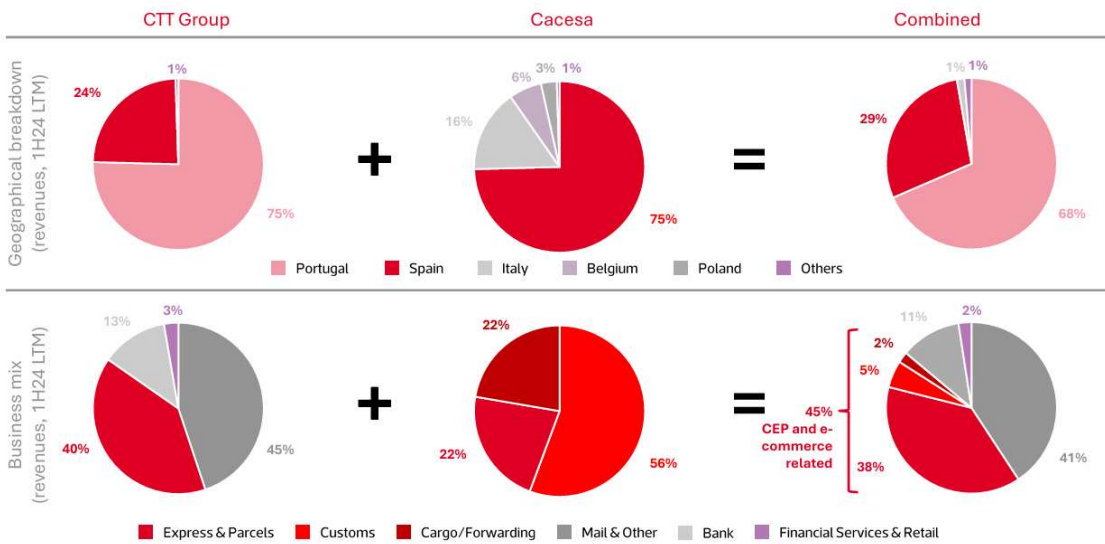
Another reason that the acquisitions is so attractive is that it makes CTT able to bundle customs clearing and last mile delivery withing one solution. It's a significant benefit to customers as they can use only one provider and get a faster and cheaper service. Here is what the CEO said on the conference 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 together³⁸

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.

Cacesa provides geographical diversification and business complementarity **ctt**

CTT PROFORMA POST ACQUISITION



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 extent 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).

Partnering with DHL in Iberia to fuel further growth in e-commerce logistics



TRANSACTION HIGHLIGHTS

1	Transformational milestone in becoming a full-fledged e-commerce logistics player <ul style="list-style-type: none">• JV with aiming to lead last mile in Iberia with more than €1.25B¹ in revenues (2024E) and daily capacity of >1m shipments• Access to additional cross border import and export flows originating from DHL's bet in consolidating the <i>day defined products</i> market• Combination of Tier1 brand with competitive B2C operation will fuel penetration in large Iberian accounts• Full suite intercontinental offer• DHL B2B business in Iberia (~€300m/year, 75% of total sales) will enable a natural source of diversification as CTT is primarily exposed to B2C
2	Key financial terms <ul style="list-style-type: none">• Implicit valuations are aligned with Transaction Multiples and DCF of both companies• CTT Expresso valued at €482m enterprise value, DHL Parcel Iberia at €106m and DHL Parcel Portugal at €12m• Value levers for CTT and DHL, not included in the Enterprise Value, with a net amount of €15m, to be paid by CTT in favour of DHL• Cash contribution from DHL, for Phase I transaction amounts to c.€69m¹ assuming debt free/cash free basis• Post completion of this Transaction², CTT will have a leverage ratio (measure by net debt to EBITDA) below 2.0x
3	Significant value creation <ul style="list-style-type: none">• Strong value creation for shareholders through visible synergies (>€35m run-rate at EBIT level)• The proposed transaction structure aligns incentives to execute the Business Plan and protects CTT from the execution risk
4	Next steps <ul style="list-style-type: none">• The transaction is subject to customary closing conditions, including applicable regulatory approvals• The transaction is expected to close in 2H25• Both Parties will grant each other options to increase, in the future, their mutual shareholdings in the respective companies up to a stake of 49%

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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.

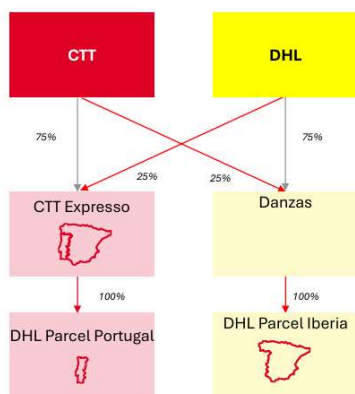
DHL will buy 25 % of CTT Expresso valuing it at 482 million EUR (same value as whole CTT market cap when deal was announced).

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

Partnership structure to maximise focus on execution



TRANSACTION STRUCTURE



Structure

- Acquisition of 100% of DHL Parcel Portugal by CTT Expresso
- Acquisition of 25% indirect stake in DHL Parcel Iberia by CTT, through its sole shareholder Danzas
- Acquisition of 25% of CTT Expresso by DHL group

Operating model of the joint venture

- CTT Expresso
 - operates B2C and B2B in Portugal
 - operates B2C in Spain
- DHL Parcel Iberia operates B2B in Spain

Valuation

- DHL Parcel Portugal valued at an Enterprise Value of €12 million
- DHL Parcel Iberia valued at an Enterprise Value of €106 million
- CTT Expresso valued at an Enterprise Value of €482m
- Value levers for CTT and DHL, not included in the Enterprise Value, with a net amount of €15m, to be paid by CTT in favour of DHL
- Cash contribution from DHL, for Phase 1 transaction amounts to €69'm assuming debt free/cash free²**

Call Option scheme (exercise following close of FY27 accounts)

- CTT and DP International are granted options, upon the fulfilment of certain conditions³ related with operational performance, to increase their minority stakes up to 49%.

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

Complementary and synergic business models to underpin profitability



BUSINESS OVERVIEW

CTT Espresso	DHL Parcel Portugal	DHL Parcel Iberia (Spain)
Competitive B2C e-commerce operation with full geographic D+1 coverage of Iberia >130m parcels delivered per year (3Q24 LTM)	Trusted specialist for domestic and international parcel delivery with exposure mainly to B2B ~50m parcels delivered	



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But DHL and CTT has identified 35 million EUR in synergies spread between CTT Espresso 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 Espresso 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 espresso) 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 Espresso. 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



STRATEGIC RATIONALE

Value levers	
Cross border	<ul style="list-style-type: none"> ✓ 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	<ul style="list-style-type: none"> ✓ 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	<ul style="list-style-type: none"> ✓ 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

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

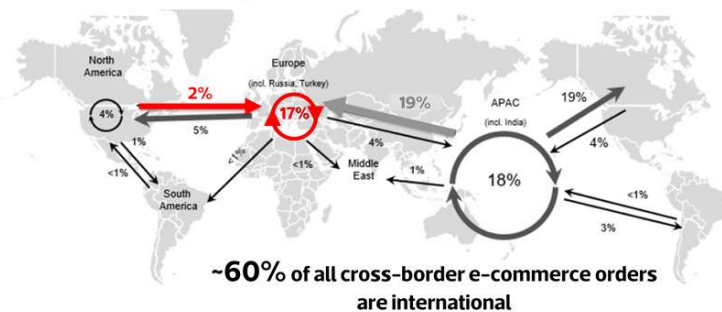
It will for once diversify away the dependence on the Chinese e-commerce players that CTT still to some extent has today.

Doubling the market opportunity with access to new cross-border flows



STRATEGIC RATIONALE

~8.2bn orders annually



- On top of Asia to Europe (19% of total)
- Intra-Europe is one of the largest flows (17%)
- Potential growth in US to Europe (2%)

→ Percent of total trade

48

⁴⁶ CTT M&A IR presentation

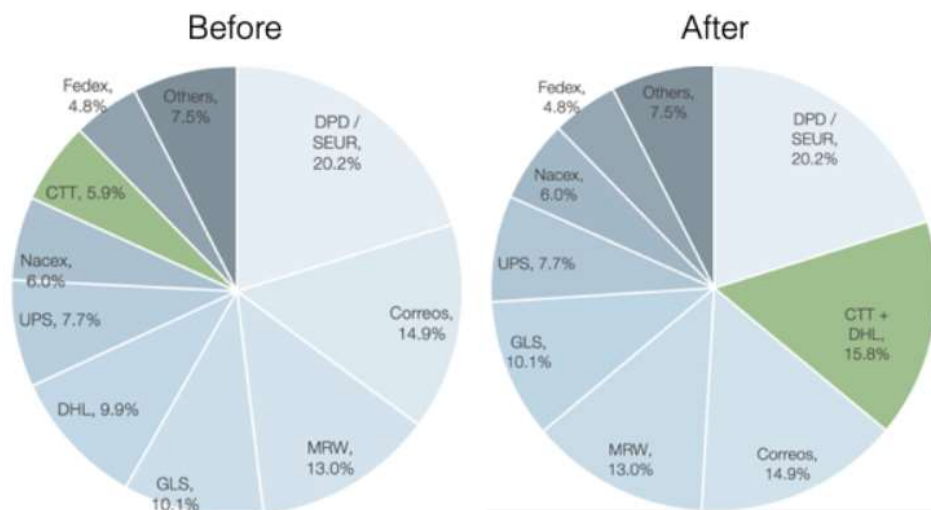
⁴⁷ CTT CEO on M&A conference call

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



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

⁴⁹ Greenwood Investors 2024 year end letter

New cross border opportunity to be a key growth driver



STRATEGIC RATIONALE



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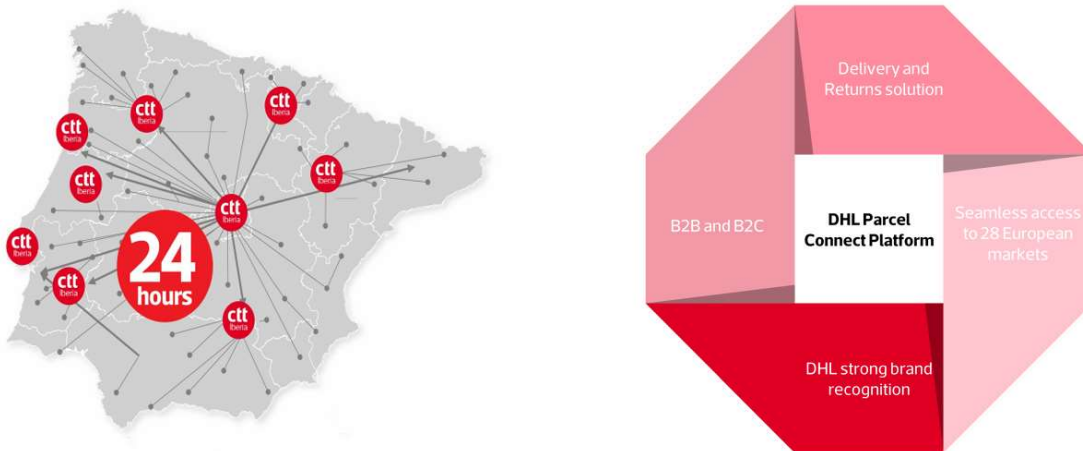
There is a lot of volume DHL could important to Iberia they said no to before because they did not have good B2C – they can accept that now and drive the revenue synergies⁵¹

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.

Competitive last mile operation with Tier1 brand



STRATEGIC RATIONALE



Operating efficiency combined with global footprint

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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.

2 strategies for 2 different portfolios to maximize value

Real Estate

Yield Assets | Portfolio optimization

Transaction concluded




398 assets
€138m of market value

- €101m book value
- Improve utilization of vacant spaces (around 25%)

- **363 of 398 assets were incorporated into CTT Imo Yield**
- **Sonae Sierra** and other investors acquired¹ **26.3% of capital for €32.45m.**
- Sonae Sierra appointed¹ as manager of the assets and of the entity

Development Assets | Asset by asset optimization

Development ongoing



10 assets
€50-60m of market value

- with €26m of net book value
- Includes land owned by CTT
- Logistic assets that may be reformulated

- Establish plans to release assets
- Initiated analysis of urbanisation potential
- Organize portfolio within an "activity branch"

¹Transaction concluded on 4 January 2024

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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 Espresso	130	13	1690
			2380
49 % minority stake in CTT Espresso			-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 Espresso – 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 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.