

## Earnings Review: Singapore Post Ltd (“SPOST”)

### Recommendation

- With SPOST’s capex commitments largely done, SPOST’s future performance will be driven by balancing its steadily declining domestic postal business versus the faster growing (but less lucrative) international postal business. The turnaround in its Logistics and eCommerce segments remain nascent but promising. The trend in credit profile improvement has been sustained after a difficult FY2017 with upside risk to our Neutral (3) Issuer Profile.
- Between the SPOST’20s and the SPOST-perp, we prefer the latter given the higher carry for still relatively short duration, particularly given that the SPOST-perp is ranked Senior Unsecured like the SPOST’20s. Call risk for the perp is low as it resets to 10Y SDSW + 370bps.

### Relative Value:

Bond	Maturity/Call date	Net Gearing	Ask Yield	Spread
SPOST 3.5% ‘20s	30/03/2020	net cash	2.3%	31bps
SPOST 4.25%-PERP	02/03/2022	net cash	3.5%	117bps

Indicative prices as at 11 May 2018 Source: Bloomberg  
Net gearing based on latest available quarter

### Issuer Profile: Neutral (3)

Ticker: **SPOST**

### Background

Singapore Post Ltd (“SPOST”) is the incumbent mail operator in Singapore and was granted the Public Postal License in 1992. Other business segments SPOST participates in include logistics and e-commerce solutions. Through Singapore Telecom Ltd and a few other corporations, Temasek Holdings has an indirect ownership of ~22% of SPOST. Alibaba Group Holdings is the 2<sup>nd</sup> largest shareholder with ~14% of SPOST.

Nick Wong Liang Mian, CFA

+65 6530-7348

[NickWong@ocbc.com](mailto:NickWong@ocbc.com)

### Key Considerations

- Postal segment drove revenue growth...:** SPOST reported 4QFY2018 / full-year FY2018 results for the quarter ending March 2018. For FY2018, revenue was up 8.6% y/y to SGD1.46bn. The Postal segment drove the bulk of revenue growth (+15.0% y/y to SGD625.9mn), with growth in international mail revenue (+37.4% to SGD369.0mn) due to cross-border eCommerce deliveries mitigating the structural decline seen in domestic mail volumes (-6.6% y/y to SGD229.4mn). The drift towards international mail revenue contribution continues, with the international/domestic split at 62%/38% versus 52%/48% just a year back. Performance at Logistics was modest (+4.3% y/y to SGD663.9mn) with revenue contribution from Couriers Please (+5.9% y/y) and SP Parcels (+16.6% y/y) benefitting from higher last-mile eCommerce delivery volumes, helping to mitigate competition-driven weakness at Quantum Solutions (-15.4% y/y). Higher freight forwarding volumes also drove Famous Holdings performance (+8.8% y/y) supporting segment revenue. eCommerce performance remained disappointing (-0.3% y/y to SGD265.6mn) given that these companies were previously acquired for their growth potential. TradeGlobal reported a 3.7% y/y increase in revenue while Jagged Peak saw revenue decline 2.7% y/y to 103.8mn.
- ...as well as the bulk of profits:** Operating profit before exceptional items (“OPBEI”) fell 2.4% y/y to SGD143.5mn, with the Postal segment providing most of profits. Even then, Postal OPBEI declined 4.0% y/y to SGD144.6mn on shifting product mix from the lucrative domestic postal business to the less lucrative international postal business. Logistics OPBEI plunged 56.0% y/y to SGD10.4mn on competitive pressures in Hong Kong as well as provisions on doubtful receivables. eCommerce continues to generate an operating loss of SGD16.7mn, though losses have been reduced y/y from SGD33.8mn. The weakness seen across SPOST’s core OPBEI was only mitigated by the 16.8% y/y increase in OPBEI contribution from Property, due to the opening of SingPost Centre retail mall in October 2017.
- Recent improvements seen at Logistics and eCommerce:** 4QFY2018 trends were similar (revenue increased 13.5% y/y to 367.5mn), except that eCommerce revenue saw some recovery, growing 15.7% y/y to SGD65.3mn. The recovery was supported by TradeGlobal growing 38.5% for the quarter via the addition of new customers. Logistics OPBEI doubled for the quarter, though segment operating margin remained tight at 3.4%. Margin compression trends at Postal persisted, with operating margins at 20.5% (4QFY2017: 26.9%) due to the secular decline seen at the domestic postal business driving shifts in product mix.

Looking forward, though structural issues may continue to pressure Postal margins, segment revenue growth may help sustain profit levels. Nascent improvements seen at the Logistics and eCommerce segments could potentially be sustained as well, though only time will tell.

- **Strong cash generation and credit profile:** Operating cash flow (including interest service) generation remains resilient, with SPOST reporting SGD191.8mn for FY2018 (FY2017: SGD190.4mn). With capex trending lower to SGD62.1mn (FY2017: SGD199.8mn) due to the completion of SingPost Centre retail mall and SPOST's regional logistics hub, free cash flow was strong at SGD129.7mn. Cash generated was used to pay down debt, with SPOST now holding SGD70.0mn in net cash. Near-term borrowings of SGD23.5mn can easily be met. The more consistent cash generation has led to SPOST declaring a final dividend of SGD0.02 per share (versus SGD0.005 per share seen in 4QFY2017) though on a full year basis total dividends declared is flat at SGD0.035 per share (or SGD79.1mn in dividends to be paid per annum).

<b><u>OCBC Global Treasury</u></b>	
<p><b><u>Treasury Advisory</u></b>  <b>Corporate FX &amp; Structured Products</b>            Tel: 6349-1888 / 1881  <b>Interest Rate Derivatives</b>            Tel: 6349-1899  <b>Investments &amp; Structured Products</b>            Tel: 6349-1886</p> <p><b><u>GT Institutional Sales</u></b>            Tel: 6349-1810</p>	<p><b><u>Credit Research</u></b>  <b>Andrew Wong</b>            +65 6530 4736  <a href="mailto:WongVKAM@ocbc.com">WongVKAM@ocbc.com</a></p> <p><b>Nick Wong Liang Mian, CFA</b>            +65 6530 7348  <a href="mailto:NickWong@ocbc.com">NickWong@ocbc.com</a></p> <p><b>Ezien Hoo, CFA</b>            +65 6722 2215  <a href="mailto:EzienHoo@ocbc.com">EzienHoo@ocbc.com</a></p> <p><b>Wong Hong Wei</b>            +65 6722 2533  <a href="mailto:wonghongwei@ocbc.com">wonghongwei@ocbc.com</a></p>

#### Explanation of Issuer Profile Rating / Issuer Profile Score

**Positive (“Pos”)** – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

**Neutral (“N”)** – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

**Negative (“Neg”)** – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

#### Explanation of Bond Recommendation

**Overweight (“OW”)** – The performance of the issuer’s specific bond is expected to outperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

**Neutral (“N”)** – The performance of the issuer’s specific bond is expected to perform in line with the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

**Underweight (“UW”)** – The performance of the issuer’s specific bond is expected to underperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

#### Other

**Suspension** – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

**Withdrawal (“WD”)** – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

#### Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

#### Disclaimer for research report

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, “**Relevant Materials**”) to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a “**Relevant Entity**”) in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) (“**MiFID**”) and the EU’s Markets in Financial Instruments Regulation (600/2014) (“**MiFIR**”) (together referred to as “**MiFID II**”), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W