

Issuer Profile:

Neutral (3)

Ticker:

SPOST

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Singapore Post Limited (“SPOST”)

Summary

- We are **lowering SPOST to Neutral (3) from Positive (2) Issuer Profile** on the back of broad based weakness in its operating performance. We think the decline in domestic letter mail volume is structural as businesses move towards paperless options. On its eCommerce related deliveries, the market is competitive with new players who are backed by angel investors. SPOST appears to have neither an economic moat nor a significant market share. We think competition is largely on the price front which could translate to low margins for all parcel delivery service providers.
- While the Property segment is stable, operation has commenced for slightly over two years and we see little upside in the short term. We expect performance to be flat for the coming quarters. Logistics has been loss making throughout 9MFY2020 and continues to be weak.
- Therefore, even though SPOST’s credit metrics remain manageable, we think its business outlook is bleaker than anticipated despite the disposal of its US subsidiaries that were loss making. As such, SPOST now falls within a Neutral (3) Issuer Profile.

Recommendation

- We are **Neutral on the SPOST perpetual bond**. We think that the yield of 2.54% is not very enticing, though the likelihood of call remains high.

Bond	Outstanding Amount	Maturity / First Call	Adjusted net gearing	Ask Yield	Spread
SPOST 3.5% '20	SGD200mn	30/03/2020	18.6%	1.76%	19bps
SPOST 4.25% PERP	SGD350mn	0203/2022	18.6%	2.54%	98bps

*Indicative prices as at 10 Feb 2020 Source: Bloomberg
Aggregate leverage based on latest available quarter*

Background

- Singapore Post Ltd (“SPOST”) is the incumbent mail operator in Singapore and was granted the Public Postal License in 1992. Apart from postal and parcel delivery, SPOST also engages in logistics businesses – freight forwarding and eCommerce logistics, and the provision of commercial property rental and self-storage business.
- SPOST, listed on the SGX since 13 May 2003, has a market capitalisation of SGD1.9bn.
- Through Singapore Telecom Ltd and a few other corporations, Temasek Holdings has an indirect ownership of ~22% of SPOST. Alibaba Group Holdings is the 2nd largest shareholder with ~15% of SPOST.

Key Considerations

- **Post and Parcel dragged by higher operating cost:** SPOST has announced its third quarter results for the financial year ending March 2020 (“3QFY2020”). Revenue from Post and Parcel was down by 0.7% y/y to SGD211.6mn while that for 9MFY2020 was up 1.6% y/y to SGD584.9mn. Profit on operating Post and Parcel fell 19.9% y/y to SGD38.1mn, exacerbated by the higher costs incurred to improve service quality standards such as hiring of additional postmen and enhancement of their remuneration. Margin on the Post and Parcel front has fallen from 22.3% a year ago to 18.0% in 3QFY2020. This is the second consecutive quarter margin is below 20%. With the view that the higher staff cost is here to stay, we think it will be difficult for the margin to recover in the short term and expect it to remain compressed going forward.
- **Structural challenge for letter mail under Post and Parcel:** This segment is classified into to sub-segments Domestic and International. The Domestic sub-segment recorded a 13.8% y/y decline in revenue to SGD63.3mn. While Domestic eCommerce-related volume was up by

double-digit percentage, it was from an undisclosed small base and insufficient to offset the dip (double-digit percentage relative to last quarter) in Domestic letter mail volumes which make up the majority of the Domestic segment in terms of revenue and volume. We think the accelerated decline in Domestic letter mail volume is likely to be structural as it came from corporate customers such as financial institutions, telcos and insurance companies who have been offering their customers paperless options e.g. e-statements. The International segment on the other hand recorded 6.1% y/y increase in revenue to SGD148.2mn, on the back of higher cross-border eCommerce related deliveries. The quarter also saw higher terminal dues for the International Postal business.

- **Little economic moat in the eCommerce delivery space:** Although we saw eCommerce-related volume grow y/y for international and domestic deliveries, we think competition within the space is high. For letter mails, SPOST, having held exclusive right for 15-years, arguably has over the years form long term partnerships with local corporations and has an advantage over other incoming players. However, parcel delivery (within Singapore at least) is open to competition and does not require a licence from the government. Within Singapore alone, we are seeing many other delivery service providers such as Ninja Van, Pickup, Roadbull, Simplypost, Park N Parcel, Qxpressm Yojee, TaQbin, UParcel, Go Go Van, Lalamove and etc, with many of these players prioritising growth and funded by venture capital. While service standard matters, these service providers no doubt compete on price. At present, we think SPOST has neither the majority market share nor an economic moat on this front. The top two eCommerce websites in Singapore are Lazada and Qoo10. Lazada offers collection of parcel via SpeedPost (under SPOST), Ninja Van and SimplyPost. Qoo10 on the other hand appears to have a tie up with Qxpress, with shipping via Qxpress as the only option. Therefore, we expect the growth in revenues from eCommerce related volumes to continue to less than offset the decline in revenues from domestic letter mail volumes.
- **Logistics is loss making:** Revenue from the segment fell 1.9% y/y to SGD132.9mn. Within the segment lies eCommerce logistics (i.e. Quantum Solutions, Couriers Please and SP eCommerce) and Freight forwarding (i.e. Famous Holdings). eCommerce logistics recorded a 3.8% y/y gain in revenue on the back of addition of new customers in Singapore and North Asia. Freight forwarding though was down by 7.6% y/y in terms of revenue. Overall Logistics recognised a loss on operating activities of SGD0.7mn, as per management, Couriers Please was impacted by the bushfires in Australia. While bushfires are recurring (though seasonal), the 2019 season had been significantly more severe than usual. We note that this segment has been largely loss making even in quarters where there was no bushfires. For 9MFY2020, loss on operating activities was much more significant at SGD3.4mn (~2.8x of the losses recorded in 9MFY2019) due to on-boarding costs for eCommerce customers in Asia Pacific and lower volumes from the slowdown in global trade. In our view, this segment remains weak with no respite in sight.
- **Property is stabilising:** The SingPost Centre retail mall and office commenced operations in October 2017. It has been slightly over two years since and we think that performance of the property have stabilised. Revenue fell by 0.5% y/y in 3QFY2020 to SGD30.5mn while profit on operating activities was flat. Margin was 45.4%, slightly higher than 45.2% recorded a year ago. The occupancy at the mall remained close to 100%. While the expiry of leases at SingPost Centre was not disclosed, we think there is room for the Property segment to benefit from rental reversions via CapitaLand Ltd's (Issuer profile: Neutral (3)) active management of the property and the on-going development of the Paya Lebar urban regeneration, though not in the short term. Property contributes to 33.5% of the profit on operating activities of SPOST.
- **Manageable credit metrics:** As at 31 Dec 2019, gross debt-to-equity improved to 0.131x from 0.175x in the preceding quarter. Although 96.5% of its debt is short term (mostly the SGD bond that is coming due), we think it will be manageable for SPOST as it remains in a net cash position of SGD42.9mn (30 Sep 2019: SGD39.3mn). Adjusting net debt upwards for the perpetuums (which rank pari passu as unsecured debt at the SPOST holding company level), we

find adjusted net gearing somewhat stable at 0.186x (30 Sep 2019: 0.188x). While SPOST remains net cash, we are concerned about the accelerated decline in Domestic letter mail. The efforts to improve service quality have also weighed on the margins of SPOST.

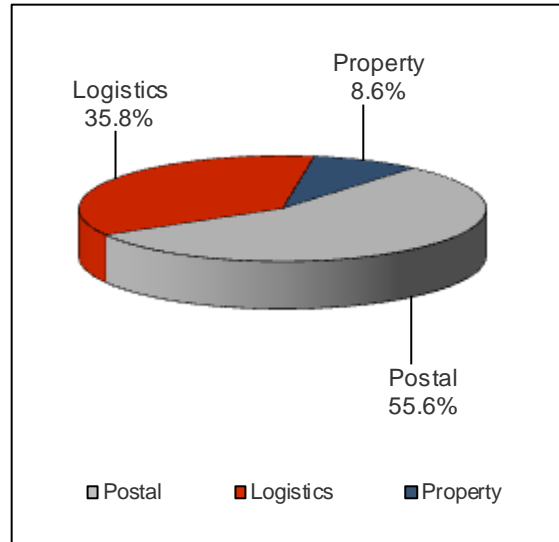
Singapore Post Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2018	FY2019	9M2020
Income Statement (SGD'mn)	SGD'mn	SGD'mn	SGD'mn
Revenue	1,513.4	1,556.7	1,001.6
EBITDA	205.0	192.8	167.7
EBIT	145.7	134.9	116.7
Gross interest expense	10.8	10.3	9.5
Profit Before Tax	155.3	54.7	106.8
Net profit	124.6	26.9	81.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	314.1	392.2	259.1
Total assets	2,684.1	2,619.2	2,573.8
Short term debt	23.5	281.8	231.0
Gross debt	244.0	290.9	301.8
Net debt	net cash	net cash	42.7
Shareholders' equity	1,746.2	1,660.5	1,656.0
Cash Flow (SGD'mn)			
CFO	198.2	152.2	54.8
Capex	62.1	31.3	10.4
Acquisitions	0.5	0.4	0.0
Disposals	9.3	37.8	0.1
Dividend	60.2	94.6	76.0
Free Cash Flow (FCF)	136.1	120.9	44.4
Key Ratios			
EBITDA margin (%)	13.54	12.39	16.75
Net margin (%)	8.24	1.73	8.16
Gross debt to EBITDA (x)	1.19	1.51	1.35
Net debt to EBITDA (x)	net cash	net cash	0.19
Gross Debt to Equity (x)	0.14	0.18	0.18
Net Debt to Equity (x)	net cash	net cash	0.03
Gross debt/total assets (x)	0.09	0.11	0.12
Net debt/total assets (x)	net cash	net cash	0.02
Cash/current borrowings (x)	13.38	1.39	1.12
EBITDA/Total Interest (x)	19.04	18.78	17.72

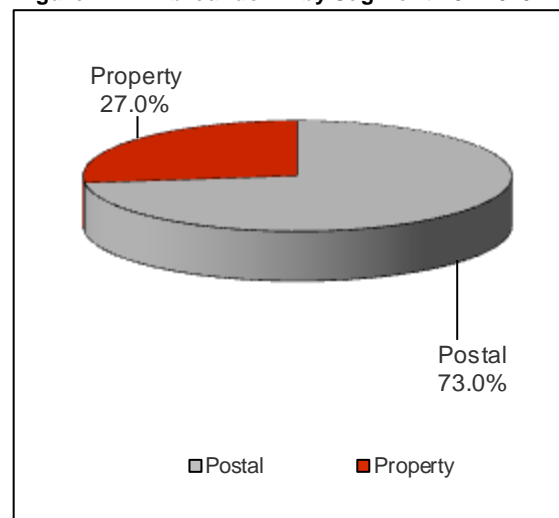
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 9M2020



Source: Company | Excludes Inter-segment eliminations

Figure 2: EBIT breakdown by Segment - 9M2020



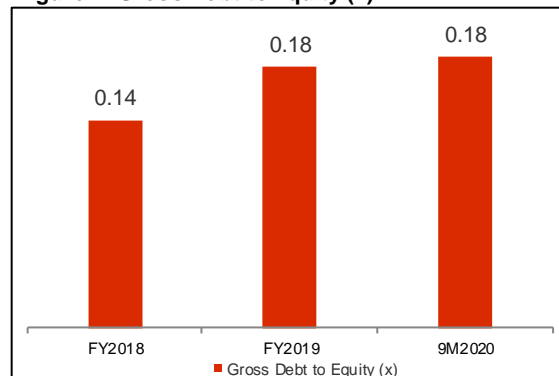
Source: Company | Excludes Others and Logistics

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/09/2019	% of debt
Amount repayable in one year or less, or on demand		
Secured	1.8	0.6%
Unsecured	229.2	75.9%
	231.0	76.5%
Amount repayable after a year		
Secured	7.6	2.5%
Unsecured	63.2	20.9%
	70.8	23.5%
Total	301.8	100.0%

Source: Company, OCBC estimates

Figure 4: Gross Debt to Equity (x)



Source: Company

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

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

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.

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