

Singapore Company Guide

Singapore Post

Version 7 | Bloomberg: SPOST SP | Reuters: SPOS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Jul 2018

BUY

Last Traded Price (13 Jul 2018): S\$1.34 (STI : 3,260.35)

Price Target 12-mth: S\$1.55 (16% upside)

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What's New

- Five-year transformation journey begins
- Leveraging on existing network to capture new growth areas, such as medicine, food, and grocery delivery
- Medicine delivery in Singapore has strong growth potential
- Reiterate BUY, TP of S\$1.55

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2017A	2018A	2019F	2020F
Revenue	1,348	1,464	1,581	1,700
EBITDA	202	199	227	248
Pre-tax Profit	55.0	146	163	184
Net Profit	33.4	126	130	147
Net Pft (Pre Ex.)	122	112	130	147
Net Pft Gth (Pre-ex) (%)	(10.8)	(8.3)	16.4	12.8
EPS (S cts)	1.52	5.59	5.75	6.49
EPS Pre Ex. (S cts)	5.57	4.94	5.75	6.49
EPS Gth Pre Ex (%)	(12)	(11)	16	13
Diluted EPS (S cts)	1.52	5.59	5.75	6.49
Net DPS (S cts)	3.50	3.50	4.00	4.00
BV Per Share (S cts)	62.0	62.0	63.7	66.2
PE (X)	87.9	24.0	23.3	20.6
PE Pre Ex. (X)	24.1	27.1	23.3	20.6
P/Cash Flow (X)	14.7	15.3	19.6	13.6
EV/EBITDA (X)	16.5	16.8	14.8	13.2
Net Div Yield (%)	2.6	2.6	3.0	3.0
P/Book Value (X)	2.2	2.2	2.1	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.6	9.2	9.2	10.0

Earnings Rev (%): -
 Consensus EPS (S cts): 5.70
 Other Broker Recs: B: 7 S: 2 H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Opportunities abound!

Opportunities abound, reiterate BUY with TP of S\$1.55.

Singapore Post (SPOST) has embarked on a five-year "LEAP23 strategy" as it outlines its transformation execution strategy. SPOST is also exploring new opportunities such as food, medicine and grocery delivery. We project 14% earnings CAGR over FY18-20F as (i) the worst may be over in the Postal segment due to the introduction of terminal dues in 4Q18 with mitigation measures in place; (ii) narrowing losses in the eCommerce segment due to TradeGlobal's transformation with projected breakeven in FY20F; and (iii) recovery in the Logistics segment from market share gains in Singapore. SPOST eCommerce-related revenue grew 27% y-o-y in 4Q18 and formed c.60% of total revenue. With c.3% yield, SPOST is a unique play on e-commerce-logistics growth in Asia.

Where we differ: We believe that SPOST, being the dominant player locally with low cost of capital, is well-positioned to establish market leadership in Singapore's fragmented eCommerce logistics sector (~20% market share in parcels).

Potential catalyst: In the near term, any turnaround at SPOST's eCommerce and Logistics segments would be a major catalyst for its share price. In the medium term, we believe that new areas of opportunities, such as food, grocery, and medicine delivery, as well as the potential divestment of SPC mall could be catalysts.

Valuation:

Maintain **BUY**, TP of S\$1.55. We use DCF valuation (WACC 6%, terminal growth rate 3%) to derive our TP of S\$1.55. The stock offers a yield of c.3% at the current share price.

Key Risks to Our View:

Impact of higher terminal dues (increase in international small packets postage rates cannot negate rise in terminal dues) and further escalation of eCommerce losses could depress SPOST's bottom line in the medium term. The opening of Alibaba's regional logistics hub is also a downside risk for SPOST.

At A Glance

Issued Capital (m shrs)	2,263
Mkt. Cap (\$m/US\$m)	3,033 / 2,221
Major Shareholders (%)	
Temasek Holdings Private Ltd	21.9
Alibaba Investment Ltd	14.5
Free Float (%)	63.6
3m Avg. Daily Val (US\$m)	4.6
ICB Industry : Industrials / Industrial Transportation	

WHAT'S NEW

Opportunities abound!

The LEAP23 strategy – a five-year transformation journey.

Under its CEO, Mr Paul Coutts, SPOST's five-year roadmap (LEAP23 strategy) outlines its transformation execution strategy. Notably, SPOST has established a Group Transformation Office to coordinate and drive transformation initiatives within the group, and a global conference in April 2018 saw the gathering of 400 leaders across the group. We believe SPOST is in a good position to establish its market leadership in Singapore's eCommerce logistics sector, one of the four themes of its strategic review.

New opportunities abound. We believe that SPOST is well-positioned to capture the opportunities in new areas of growth in food, medicine and grocery delivery services, as it shifts its focus towards e-commerce and becoming a "last-mile" logistics powerhouse. Medicine delivery would be feasible while leveraging on its existing delivery network (and potentially earnings accretive), while food and grocery delivery might require some investments in logistics infrastructure. We highlight our thoughts on medicine delivery specifically below:

Medicine delivery has room for growth in Singapore.

According to our channel checks in the industry, hospitals and polyclinics have started offering medication delivery and pick-up services in the last year. The delivery provider varies across different hospitals and polyclinics, and we believe that SPOST is able to offer an attractive value proposition for medicine delivery by utilising its existing delivery network. Our channel checks show that this segment is largely unconsolidated with a mix of small and big players, and different logistics partners charging a wide range of rates for home delivery. From our channel checks, medicine delivery has been gaining traction especially for patients on long-term prescriptions who need timely refill of medicine. Patients will benefit from not having to travel and queue to collect their medications. We feel that the delivery service will gain relevance in Singapore, where an increasing number of chronic patients are on long-term medication.

Existing medicine delivery landscape in Singapore – selected hospitals and polyclinics

	National Healthcare Group*	SingHealth Group	National Heart Centre Singapore
Service	Delivery to selected lockers or home delivery	Pick-up at selected polyclinics ¹ or home delivery	Home delivery
Charges per service	Locker: \$2 Home delivery: \$4	Pick-up: \$1 Home delivery: Free till 31 Dec 2018	From \$8 onwards
Service provider	Locker: TA-Q-BIN	N/A	N/A

* National Healthcare Group Polyclinics and National University Polyclinics

¹ Via Prescription In Locker Box, PILBOX

Source: National Healthcare Group, SingHealth Group, National Heart Centre Singapore

POPStations remain the dominant parcel locker network.

Locally, we believe that SPOST's POPStations remain the dominant parcel locker network in Singapore, with presence in 160 locations. Competitors which have emerged in the last two years include bluPort, which has over 70 locations which can be commonly found within convenience stores, shopping malls, among other places. Ninja Box has also 20 locations across Singapore as of May 2018.

Common parcel locker network –positive for SPOST. SPOST will also be running a one-year pilot in Punggol under Info-communications Media Development Authority (IMDA)'s nationwide common parcel locker system program where 39 locker sites will be located within 250m of HDB residential blocks. Locker stations will also be made available at MRT stations. We understand that the current POPStations, across 160 locations, are seeing healthy utilisation and believe that in the long run, such locker networks will benefit SPOST as this is not capex intensive and would help to address operational and cost issues of having to redeliver parcels (at SPOST's cost) should consumers not be able to receive the delivery.

Outlook and recommendation

Continue to monitor mail margins. We remain watchful on mail margins as some of the international terminal dues changes have yet to be implemented. We believe that with the roll-out of the various mitigating measures which includes bilateral negotiations of terminal dues among others, SPOST may see another one to two quarters of volatility in postal operating profit before it stabilises.

Reiterate BUY with TP of S\$1.55. We reiterate our BUY call on SPOST with TP of S\$1.55 as SPOST is in a good position as it regains its focus on Singapore, leveraging on its existing network as it implements its strategic plans. Going forward, execution will be a key determining factor of its transformation success. Our estimates have yet to factor in the potential new areas of growth for SPOST.

CRITICAL DATA POINTS TO WATCH

Critical Factors

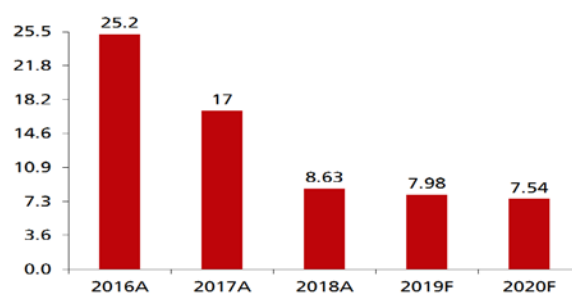
Terminal dues impact start to kick in; mail segment's profitability may be bottoming out. SPOST's domestic mail volumes are declining, which is limiting revenue performance of the mail segment. Though higher international mail volumes, due to cross-border eCommerce, is offsetting most of the decline, lower margins of international mail, compared to domestic mail, is causing margin compression in the segment. As a result, mail segment's profitability has remained relatively stagnant. This is likely to continue for the next 12 months. However, potentially faster growth in cross-border eCommerce, following the completion of its eCommerce logistics hub, could provide some support to the mail segment's profitability. Margin compression accelerated in FY17 and may have bottomed out in the last quarter (4Q18) at 20.5% as the impact of terminal dues kicked in. SPOST has embarked on mitigating measures to help to offset the rise in terminal dues.

eCommerce segment's turnaround. eCommerce operating income is a critical driver of SPOST's share price (see Appendix 1). Operating losses widened in 3Q17 due to foreign acquisitions, TradeGlobal and Jagged Peak. Jagged Peak has lost a couple of key customers in the US, impacting revenue and profitability. In addition, labour shortages and higher wage costs have also impeded profit improvements. Due to the disappointing results, SPOST took a S\$185m impairment on TradeGlobal in 4Q17. Ongoing cost concerns and revenue losses could also have a negative impact in the medium term. As seen during FY18, we believe losses are narrowing on a y-o-y basis and turnaround is in place.

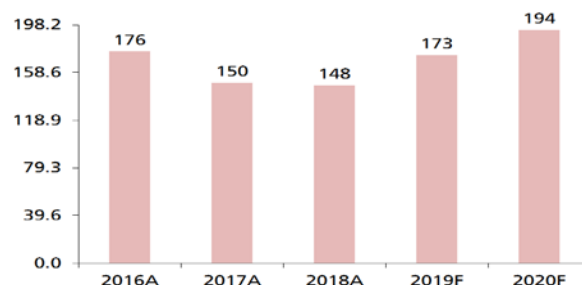
Logistics may continue to face headwinds due to competition. We note that SPOST's logistics business is currently facing tight operating margins and intense competition in Hong Kong, and see this trend continuing in the short term. However, SPOST's eCommerce logistics hub started operations in November 2016, and utilisation has been healthy which has helped SPOST in terms of cost management through automation during periods of peak demand. Management pointed out that there will be limited immediate savings through the project, with synergies realised only with scaling up. SPOST has seen healthy utilisation for both its warehouse space (from 45% when it first started to 96% currently) and parcel-sorting machine (21% utilization to xx% currently).

Singapore Post Centre (SPC) mall rentals to supplement earnings in FY18/19. The redeveloped SPC mall will have a net lettable area of ~176,500sqf. Full rental income contribution for the mall will kick in come FY19. We estimate the mall to generate ~S\$19m per annum at the operating profit level.

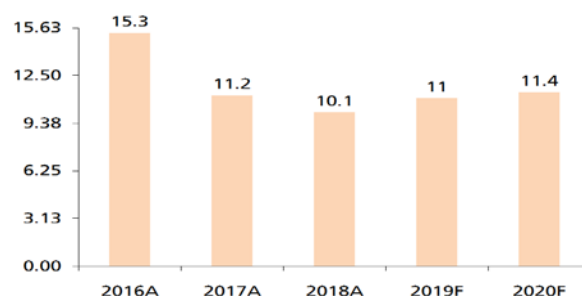
Sales growth



EBIT



EBIT margin



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

Operating income as critical factor



Source: Bloomberg Finance L.P., DBS Bank

Remarks

Historically, operating income (excluding one-offs) has been useful to explain share price direction and movements.

While rental income would supplement earnings from FY18 with the completion of SPC mall's redevelopment, we believe that going forward, ability to establish market leadership in Singapore's eCommerce logistics sector and impending turnaround of SPOST's eCommerce and logistics segments, would be the key catalysts for SPOST's share price.

SPOST's share price movement

We note that SPOST's businesses have undergone transformation since 2013 as it embarks on diversification plans on top of its core mail business.



Source: Bloomberg Finance L.P., DBS Bank

Balance Sheet:

Conservative balance sheet management. Following a 3-year period of capex and acquisitions, SPOST is likely to see muted investments and M&A activity in FY19 with an emphasis on scaling up its existing businesses. The management has also revised its dividend policy to better reflect the transitional period the company is going through. At present, SPOST has relatively minimal net gearing, following the recent share issue to Alibaba. As a result, with a lower dividend payout, we are likely to see a stronger balance sheet for SPOST in the near term.

Share Price Drivers:

Lower dividend payments weigh on share price. SPOST has revised its dividend policy from a stable dividend payment to one based on a payout ratio of 60-80% of earnings, paid quarterly. Management has cited ongoing investments in eCommerce and other growth projects as the reason for the change. Based on muted earnings growth in the next 12-18 months, dividend payment for FY19 could come close to 4 Scts based on our projections.

Potential growth due to Alibaba. SPOST issued 107.55m new shares to Alibaba, as agreed in 2015 strategic partnership, increasing Alibaba's interest in SPOST to 14.41% for S\$187m. Alibaba also acquired 34% in Quantum Solutions International (SPOST's subsidiary), for S\$86.2m in October 2016. Despite delays, the investment indicates that SPOST's strategic partnership with Alibaba is starting to move forward. This could indicate a potential improvement in SPOST's volumes due to Alibaba as the eCommerce platform looks to expand its regional presence.

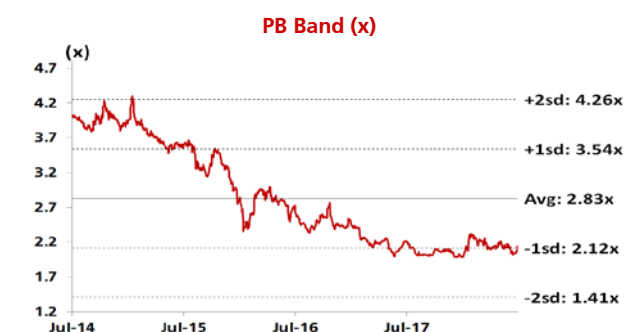
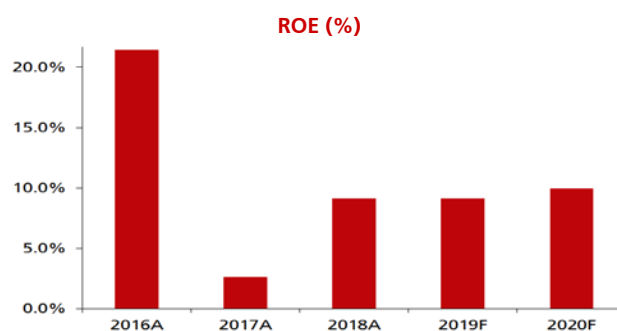
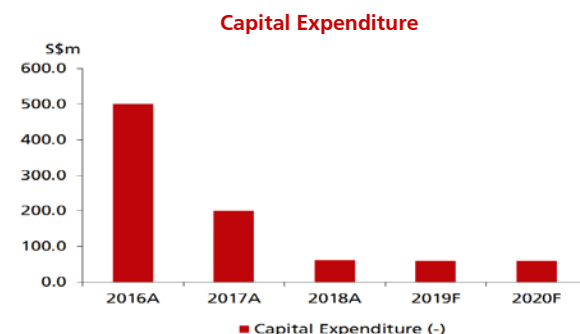
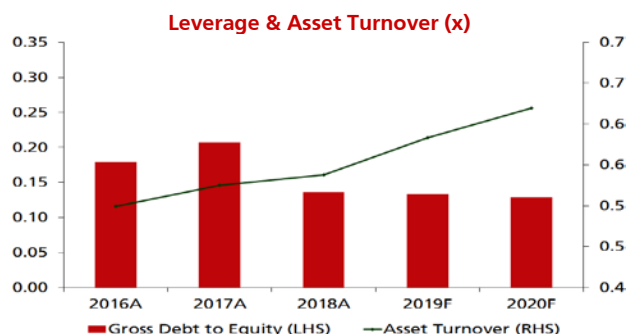
Key Risks:

Competition could hamper logistics growth. The logistics segment's profit growth is dependent upon increasing volumes, and tough competition in the logistics segment due to international logistics players could potentially hamper logistics and profit growth in the near term.

Further escalation of eCommerce losses. The eCommerce segment is facing losses following the acquisitions of Jagged Peak and TradeGlobal. Further escalation of losses in these businesses could depress SPOST's bottom line in the medium term.

Company Background

Singapore Post Limited (SPOST) is the national postal service provider in Singapore. Besides providing domestic and international postal and courier services, the company also offers end-to-end eCommerce logistics solutions.



Source: Company, DBS Bank

Key Assumptions

FY Mar	2016A	2017A	2018A	2019F	2020F
Sales growth	25.2	17.0	8.63	7.98	7.54
EBIT	176	150	148	173	194
EBIT margin	15.3	11.2	10.1	11.0	11.4

Segmental Breakdown

FY Mar	2016A	2017A	2018A	2019F	2020F
Revenues (\$\$m)					
Postal	536	544	626	727	829
Logistics	626	637	664	679	697
E-commerce	98.4	266	266	274	280
Others	(109)	(99.5)	(91.3)	(98.6)	(106)
Total	1,152	1,348	1,464	1,581	1,700
Operating Profit (\$\$m)					
Postal	157	151	145	145	157
Logistics	38.8	23.6	10.4	13.6	13.9
E-commerce	(7.3)	(33.8)	(16.7)	(7.0)	3.00
Others	95.4	31.1	19.7	21.5	19.9
Total	*284	*172	*158	173	194
Operating Profit Margins					
Postal	29.3	27.7	23.1	20.0	19.0
Logistics	6.2	3.7	1.6	2.0	2.0
E-commerce	(7.4)	(12.7)	(6.3)	(2.6)	1.1
Others	0.0	0.0	0.0	0.0	0.0
Total	24.7	12.7	10.8	11.0	11.4

* includes exceptional items

Income Statement (\$\$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Revenue	1,152	1,348	1,464	1,581	1,700
Cost of Goods Sold	(1,024)	(1,244)	(1,375)	(1,473)	(1,573)
Gross Profit	128	104	89.4	108	127
Other Opng (Exp)/Inc	48.5	46.4	58.9	65.5	67.2
Operating Profit	176	150	148	173	194
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	9.07	(1.2)	(3.1)	(1.0)	(1.0)
Net Interest (Exp)/Inc	(10.4)	(5.7)	(13.4)	(9.8)	(9.8)
Exceptional Gain/(Loss)	112	(88.7)	14.5	0.0	0.0
Pre-tax Profit	287	55.0	146	163	184
Tax	(34.2)	(25.2)	(30.7)	(32.6)	(36.7)
Minority Interest	(4.1)	3.69	10.9	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	249	33.4	126	130	147
Net Profit before Except.	137	122	112	130	147
EBITDA	217	202	199	227	248
Growth					
Revenue Gth (%)	25.2	17.0	8.6	8.0	7.5
EBITDA Gth (%)	(3.9)	(7.1)	(1.6)	14.0	9.2
Opg Profit Gth (%)	(4.7)	(14.7)	(1.5)	17.1	12.0
Net Profit Gth (Pre-ex) (%)	(10.3)	(10.8)	(8.3)	16.4	12.8
Margins & Ratio					
Gross Margins (%)	11.1	7.7	6.1	6.8	7.5
Opg Profit Margin (%)	15.3	11.2	10.1	11.0	11.4
Net Profit Margin (%)	21.6	2.5	8.6	8.2	8.6
ROAE (%)	21.5	2.6	9.2	9.2	10.0
ROA (%)	10.8	1.3	4.6	4.8	5.4
ROCE (%)	8.2	3.8	5.3	6.4	7.0
Div Payout Ratio (%)	60.6	229.6	62.7	69.5	61.6
Net Interest Cover (x)	17.0	26.5	11.1	17.8	19.9

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Mar	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	324	354	355	413	368
Cost of Goods Sold	(405)	(328)	(338)	(382)	(342)
Gross Profit	(81.7)	25.7	17.0	30.3	25.2
Other Oper. (Exp)/Inc	16.1	17.5	14.3	16.8	16.0
Operating Profit	(65.6)	43.2	31.3	47.1	41.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.9)	(2.8)	4.92	0.95	(6.2)
Net Interest (Exp)/Inc	(5.4)	(3.9)	(2.8)	(3.1)	(3.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	(72.8)	36.5	33.3	44.9	31.4
Tax	1.77	(8.4)	(8.5)	(2.9)	(10.9)
Minority Interest	5.55	2.85	3.59	1.02	3.40
Net Profit	(65.5)	31.0	28.5	43.0	24.0
Net profit bef Except.	(65.5)	31.0	28.5	43.0	24.0
EBITDA	(42.0)	55.1	51.3	63.1	50.1

Includes exceptional items of S\$8.6m

Growth

Revenue Gth (%)	(12.4)	9.4	0.2	16.4	(11.0)
EBITDA Gth (%)	nm	nm	(6.9)	23.2	(20.7)
Opg Profit Gth (%)	(272.1)	(165.9)	(27.6)	50.7	(12.6)
Net Profit Gth (Pre-ex) (%)	(308.9)	(147.3)	(8.1)	51.1	(44.3)

Margins

Gross Margins (%)	(25.2)	7.2	4.8	7.3	6.9
Opg Profit Margins (%)	(20.2)	12.2	8.8	11.4	11.2
Net Profit Margins (%)	(20.2)	8.7	8.0	10.4	6.5

Balance Sheet (\$\$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	517	566	532	538	544
Invt in Associates & JVs	146	118	115	114	113
Other LT Assets	1,384	1,426	1,451	1,451	1,451
Cash & ST Invt	127	367	314	318	391
Inventory	4.50	4.45	0.96	0.96	0.96
Debtors	210	199	272	233	251
Other Current Assets	26.2	37.6	40.0	40.0	40.0
Total Assets	2,416	2,717	2,725	2,695	2,791
ST Debt	71.1	149	23.5	23.5	23.5
Creditor	386	395	526	463	498
Other Current Liab	44.0	43.2	46.9	40.3	44.4
LT Debt	209	215	221	221	221
Other LT Liabilities	144	157	118	118	118
Shareholder's Equity	1,550	1,706	1,750	1,789	1,846
Minority Interests	11.1	51.6	40.4	40.4	40.4
Total Cap. & Liab.	2,416	2,717	2,725	2,695	2,791
Non-Cash Wkg. Capital	(189)	(197)	(260)	(229)	(251)
Net Cash/(Debt)	(154)	2.63	70.1	74.1	147
Debtors Turn (avg days)	59.3	55.4	58.7	58.3	52.0
Creditors Turn (avg days)	135.8	119.6	127.2	127.2	115.6
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.5	0.5	0.5	0.6	0.6
Current Ratio (x)	0.7	1.0	1.1	1.1	1.2
Quick Ratio (x)	0.7	1.0	1.0	1.0	1.1
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	178.8	54.9	25.5	24.6	24.6
Z-Score (X)	2.9	2.6	2.8	3.1	3.1

Reduced debt position in FY18

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	287	55.0	146	163	184
Dep. & Amort.	31.9	53.2	54.2	54.2	54.2
Tax Paid	(30.6)	(30.5)	(31.2)	(39.2)	(32.6)
Assoc. & JV Inc/(loss)	(9.1)	1.18	3.10	1.00	1.00
Chg in Wkg.Cap.	3.52	9.73	58.4	(24.2)	17.3
Other Operating CF	(152)	112	(32.5)	0.0	0.0
Net Operating CF	131	200	198	155	224
Capital Exp.(net)	(501)	(200)	(62.1)	(60.0)	(60.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	29.5	84.9	0.52	0.0	0.0
Div from Assoc & JV	2.17	2.58	0.93	0.0	0.0
Other Investing CF	12.5	22.7	11.9	0.0	0.0
Net Investing CF	(457)	(89.6)	(48.8)	(60.0)	(60.0)
Div Paid	(167)	(120)	(45.4)	(90.5)	(90.5)
Chg in Gross Debt	41.2	84.0	(119)	0.0	0.0
Capital Issues	17.4	190	0.0	0.0	0.0
Other Financing CF	(23.5)	(24.5)	(37.8)	0.0	0.0
Net Financing CF	(132)	130	(202)	(90.5)	(90.5)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(458)	240	(52.6)	4.03	73.0
Opg CFPS (\$ cts)	5.94	8.69	6.18	7.90	9.11
Free CFPS (\$ cts)	(17.2)	0.01	6.01	4.18	7.23

Expect capex to come down post completion of SPC Mall

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Jul 17	1.34	1.26	HOLD
2:	04 Aug 17	1.32	1.26	HOLD
3:	10 Oct 17	1.28	1.26	HOLD
4:	16 Nov 17	1.30	1.23	HOLD
5:	04 Dec 17	1.28	1.23	HOLD
6:	02 Feb 18	1.38	1.61	BUY
7:	05 Mar 18	1.33	1.61	BUY
8:	14 May 18	1.37	1.55	BUY
9:	05 Jul 18	1.27	1.55	BUY

Source: DBS Bank

Analyst: Rui Wen LIM

Sachin MITTAL

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 16 Jul 2018 17:57:23 (SGT)

Dissemination Date: 16 Jul 2018 17:59:35 (SGT)

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