

Singapore Flash Note

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DBS Group Research . Equity

4 Apr 2019

Singapore Post (SPOST SP) : HOLD

Mkt. Cap: US\$1,653m | 3m Avg. Daily Val: US\$1.9m

Last Traded Price (3 Apr 2019): S\$1.00

Price Target 12-mth: S\$0.92 (8% downside)

Analyst

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Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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Plan to exit the US business (near-term +ve)

- We are not surprised by SingPost's decision to commence the sale of its US eCommerce business
- A potential sale might uplift earnings by c.30%
- Two key challenges in the Asian business might slow down SingPost's earnings growth in the next 2-3 years.
- Maintain HOLD, unchanged TP of S\$0.92

Forecasts and Valuation

FY Mar (\$m)	2018A	2019F	2020F	2021F
Revenue	1,464	1,520	1,579	1,643
EBITDA	199	194	203	244
Pre-tax Profit	164	152	136	177
Net Profit	144	119	102	133
Net Pft (Pre Ex.)	112	96.5	102	133
Net Pft Gth (Pre-ex) (%)	(8.3)	(13.8)	5.9	29.9
EPS (S cts)	6.35	5.28	4.51	5.86
EPS Pre Ex. (S cts)	4.94	4.26	4.51	5.86
EPS Gth Pre Ex (%)	(11)	(14)	6	30
Diluted EPS (S cts)	6.35	5.28	4.51	5.86
Net DPS (S cts)	3.50	4.00	4.00	4.50
BV Per Share (S cts)	62.0	63.3	63.8	65.1
PE (X)	15.7	18.9	22.0	17.0
PE Pre Ex. (X)	20.1	23.3	22.0	17.0
P/Cash Flow (X)	11.4	16.0	13.5	10.9
EV/EBITDA (X)	12.9	13.3	12.6	10.3
Net Div Yield (%)	3.5	4.0	4.0	4.5
P/Book Value (X)	1.6	1.6	1.6	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.4	8.4	7.1	9.1

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

What's New

Commencement of the sale of the US business.

Singapore Post (SPOST) has announced that it will commence the process of sale of its US eCommerce business which comprises Jagged Peak and TradeGlobal. Losses at its US eCommerce businesses have continued to widen as competition remains high amid customer bankruptcies and high transformation costs. Timing of the sale is uncertain; SPOST is likely to be in the early stages of soliciting buyers, in our view.

Financial impact: May boost earnings c.30%

In 9M19, SPOST's US eCommerce business saw operating losses of \$33.9m. Assuming the sale of the businesses, SPOST's profit could immediately rise by c. 30% in our current estimates for FY20F (minus the losses). The book value is ~\$90-100m and one can't rule out one-off losses or gains on the sale of the US business.

Refocusing on the home market

Should the sale go through, SPOST would be able to concentrate its efforts on its Leap23 strategy to win in its home market Singapore, while continuing to increase global eCommerce flows into its existing network across the region



Flash Note

Two key challenges in the existing businesses

- 1) SingPost had local postal operational issues in the last few quarters and has pledged to increase its postmen headcount (one hundred more positions) to reduce the workload of existing postmen and redeploy drivers as full-time postmen. The company also plans to hike the salary of its ~1,000 postmen and reduce the "junk mail" business to enhance its service standards. SPOST is also working on several other initiatives including incentives for successful delivery as well as upgrading skills of workers to cope with eCommerce deliveries. We estimate that there could be **S\$5m-10m adverse impact on earnings** due to these changes.
- 2) International mail growth, which has been main driver for the post and parcel segment in the last few years, is likely to suffer from a hike in terminal dues. International mail business used to grow 25-30% in the past and is likely to grow 10-12% going forward due to the higher cost of using the postal network.

Valuation might look reasonable post-sale but not completely attractive.

Currently, SPOST is trading at 22x FY20F price/earnings ratio (PER) and if we were to raise FY20F earnings per share (EPS) by 30%, SPOST will be trading at ~17x FY20F PER, which is reasonable for a company likely to see mid to single-digit earnings growth. Some of its peers like Deutsche Post that is undergoing transformation is trading at 14x PER, while those struggling like PostNL of Netherland is trading at 7x PER. We will be prompted to upgrade our call on SPOST if the company shows the ability to meet its top-two challenges mentioned above and is on track to deliver high single-digit earnings growth in the medium-term.

Target Price & Ratings History



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

Source: DBS Bank

Analyst: Sachin MITTAL

Flash Note

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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

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