

COMPANY UPDATE

Singapore Post (SPOST SP)

1QFY23: Weak Quarter, Dragged By Domestic Post & Parcel

SPOST reported strong 1QFY23 revenue (+34.7% yoy) but weak operating profit (-46.7% yoy). The Domestic Postal segment underperformed as postal volumes dropped while the International Postal segment saw elevated air freight costs. The Logistics segment saw higher consignment volumes due to the consolidation of FMH. The Property segment benefitted from the relaxation of social distancing measures. In view of strong headwinds, we downgrade to HOLD. Target price: S\$0.61.

1QFY23 BUSINESS UPDATE

Year to 31 Mar (\$m)	1QFY23	yoy % chg	qoq % chg	Remarks
Domestic Post & Parcel				
- Letters & printed papers (m items)	100	(2)	(2)	Secular trend of going paperless.
E-commerce related				
- Domestic Post & Parcel E-commerce (m items)	8	(26)	7	Loss of a major customer.
- International Post & Parcel (m kg)	3	(33)	(4)	Elevated air conveyance costs, ongoing China COVID-19 lockdowns.
- No. of consignments (mil)	7	30	39	Consolidation from FMH acquisition.
Revenue	475	35	(4)	
Group Expenses	466	40	(2)	Higher volume-related expenses.
Operating Profit	11	(47)	(54)	
Operating Profit Margin (%)	2.2	(3.9ppts)	(2.2ppts)	

Source: SPOST, UOB Kay Hian

WHAT'S NEW

- Weak quarter, dragged by lower volumes.** Singapore Post (SPOST) released its 1QFY23 business update, with higher group revenue (+35% yoy, -4% qoq) of S\$475.2m but soft operating profit (-47% yoy, -54% qoq) of S\$10.6m, forming 26.2% and 9.2% of our full-year forecasts. Revenue was in line with expectations as contributions from the consolidation of Freight Management Holdings (FMH) gave a boost to overall revenue. However, rising operating costs and lower volumes led to a drop in operating profit with operating margins falling to 2.2ppt (-3.9ppt yoy, -2.2ppt qoq).
- Lower volumes from industry headwinds.** Volumes for the domestic post & parcel (DPP) segment were lower yoy as volumes for both e-commerce (-26% yoy, +7% qoq) and letter & printed papers fell (-2% yoy, -2% qoq). International post & postal (IPP) volumes also moderated (-33% yoy, -4% qoq) due to sporadic lockdowns in China, coupled with elevated air conveyance costs. Consignment volumes in Australia were the only positive for 1QFY23 with volumes up (+30% yoy, +39% qoq) due to the consolidation of FMH.

KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,405	1,666	1,812	1,864	1,938
EBITDA	140	182	121	156	189
Operating profit	70	105	50	86	121
Net profit (rep./act.)	48	83	36	65	92
Net profit (adj.)	60	88	36	65	92
EPS (S\$ cent)	2.7	3.9	1.6	2.9	4.1
PE (x)	23.3	16.0	38.8	21.6	15.2
P/B (x)	1.1	1.1	1.1	1.1	1.1
EV/EBITDA (x)	10.5	8.1	12.2	9.4	7.8
Dividend yield (%)	1.8	2.9	3.9	4.4	4.8
Net margin (%)	3.4	5.0	2.0	3.5	4.8
Net debt/(cash) to equity (%)	(11.0)	18.1	(10.6)	(0.9)	(0.0)
Interest cover (x)	32.4	27.8	22.1	40.7	49.6
ROE (%)	3.0	5.7	2.6	4.3	6.2
Consensus net profit	-	-	85	102	117
UOBKH/Consensus (x)	-	-	0.43	0.63	0.79

Source: SPOST, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S\$0.62
Target Price	S\$0.61
Upside	-1.8%
(Previous TP:	S\$0.78)

COMPANY DESCRIPTION

SPOST is the national postal service provider in Singapore. The company provides domestic and international postal and courier services including end-to-end integrated mail solutions covering data printing, letter-shopping, delivery and mailroom management, and others. SPOST also offers end-to-end ecommerce logistics solutions.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SPOST SP
Shares issued (m):	2,249.6
Market cap (\$m):	1,394.8
Market cap (US\$m):	1,004.1
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

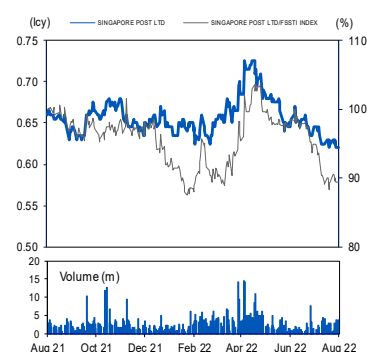
52-week high/low S\$0.725/S\$0.620

1mth	3mth	6mth	1yr	YTD
(2.4)	(8.8)	(4.6)	(6.1)	(4.6)

Major Shareholders

Shareholder	%
SingTel	22.0
Alibaba Group	14.5
FY23 NAV/Share (S\$)	0.57
FY23 Net Cash/Share (S\$)	0.11

PRICE CHART



Source: Bloomberg

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- DPP: Challenging outlook...** In line with expectations, volumes for SPOST's traditional letter & mail business continued to decline, given Singapore's secular trend of going paperless. It was noted that a major e-commerce customer (which we assume is Shopee) has insourced part of its own logistics, sharply decreasing SPOST's domestic e-commerce volumes for 1QFY23. With the loss of Shopee, along with the short-term normalisation of e-commerce volumes, we expect DPP profitability to take a sharp hit in FY23. Also, the segment is expected to experience margin compression as rising fuel, labour and utility costs eat into profitability. Based on our estimates, 1QFY23 operating loss for DPP is around S\$15m.

- ...with potential changes.** Management has noted that SPOST is in discussion with government regulators to increase postage rates which may help narrow operating losses. Regarding the possibility of SPOST forfeiting its postal license, in our view, it is unlikely given how SPOST leverages its postal infrastructure network for its e-commerce segment, a segment that SPOST is optimistic on in the long run. Furthermore, in the event of nationalisation/restructuring of SPOST's postal business, the incumbent would require SPOST to sell its existing postal infrastructure (unlikely as mentioned) or build a new postal infrastructure network which may be too capital intensive.

- IPP: Costs remain elevated but improving.** SPOST noted that air conveyance costs remain elevated for most of 1QFY23 but started to decline towards end-1QFY23, in line with expectations. We reckon this is due to more narrow-bodied passenger aircrafts, instead of cargo planes, transiting at Changi Airport, resulting in lesser belly hold cargo space that SPOST uses for its IPP postage. Also, the majority of these planes are headed towards tourist destinations which may not be SPOST's target markets. Continued lockdowns in China have depressed outgoing IPP postage volumes with China being SPOST's largest IPP contributor. Air freight rates should continue to soften gradually as global travel recovers, reaching near pre-pandemic levels in 1HFY24. Based on our estimates, 1QFY23 IPP operating profit is at breakeven level or at a small operating loss.

- Logistics: Higher volumes Down Under.** The segment benefitted from strong growth by CouriersPlease along with additional volume from the consolidation of FMH. A full-year contribution from FMH is expected to boost the segment's FY23 revenue (+21% yoy) and operating profit (+47% yoy) significantly. The group plans to focus its future capex spending on its Australian operations by ramping up consignment volumes and driving synergies in Australia, which would allow it to capitalise on the growing logistics market down under. Famous Holdings is still expected to benefit from elevated sea freight rates caused by global supply chain disruptions. 1QFY23 operating profit is around S\$16m.

- Property: Occupancy rates remain stable.** 1QFY23 occupancy rates at SingPost Centre remained stable as the retail segment maintained its near-full occupancy (99.2%) while the office segment improved slightly to 94.5% from 93.5% in 4QFY22. Management has noted that they are in the process of securing new tenants for their offices. 1QFY23 operating profit is around S\$10m, back at pre-pandemic levels.

EARNINGS REVISION/RISK

- We slash our net profit forecasts,** accounting for lower growth assumptions for the DPP segment, along with lower margin assumptions. We now forecast FY22-24 PATMI at S\$36.1m (S\$82.5m previously), S\$64.8m (S\$94.2m previously) and S\$92.1m (S\$108.5m previously) respectively.

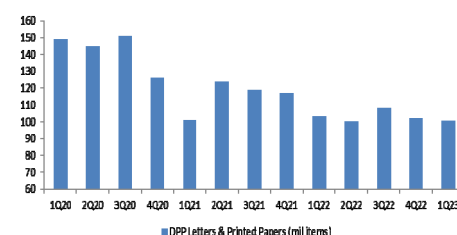
VALUATION/RECOMMENDATION

- Downgrade to HOLD with a lower PE-based target price of S\$0.61 (previously: S\$0.78).** We have pegged our PE multiple to 21.3x, SPOST's average long-term mean PE, to SPOST's average net profit for FY23-25F. This is to account for SPOST's gradual recovery in earnings. However, based on our SOTP valuation, we value SPOST at S\$0.79, with the logistics and property segments valued at ~S\$1.6b. Given that SPOST's market cap is at ~S\$1.5b, we think that the postal segment is being undervalued by the market. Any potential reversal in postal earnings could lead to valuation upside.

SHARE PRICE CATALYST

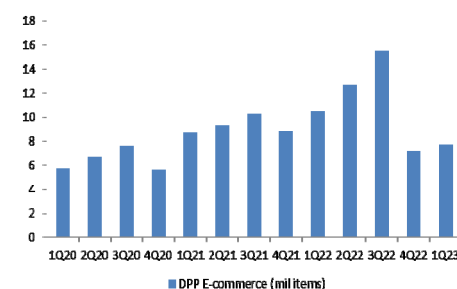
- Change in China's COVID-19 policy,** lower-than-expected decline in domestic postal volumes.

DPP LETTER AND MAIL VOLUMES



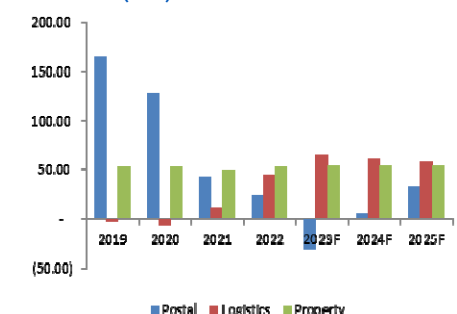
Source: Bloomberg, UOB Kay Hian

DPP ECOMMERCE VOLUMES



Source: Bloomberg, UOB Kay Hian

SEGMENTAL ANNUAL OPERATING PROFIT FORECAST (\$M)



Source: Bloomberg, UOB Kay Hian

SOTP VALUATION

Business	Valuation (\$M)	Value ps (\$)	Remarks
Mail	53.6	0.02	4.9x FY24F EV/EBITDA (rolled over from FY23F)
Logistics	576.6	0.26	6.5x FY23F EV/EBITDA
Property	1,078.0	0.48	Cap rate of 5.0%
Gross value (\$M)	1,708.2	0.76	
Less: Net debt (cash)	(159.6)		
Less: Perpetuals	250.0		
Less: Minority stake	(163.3)		
Net value (\$M)	1,781.1		
No. of shares	2,249.6		
Target price (\$)	\$0.79		

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	1,665.6	1,811.6	1,863.9	1,938.5
EBITDA	182.0	120.6	155.8	189.2
Deprec. & amort.	76.6	70.4	70.1	68.2
EBIT	105.4	50.2	85.7	121.0
Total other non-operating income	1.8	1.8	1.8	1.8
Associate contributions	4.8	0.0	0.0	0.0
Net interest income/(expense)	(6.5)	(5.4)	(3.8)	(3.8)
Pre-tax profit	107.4	46.6	83.7	119.0
Tax	(19.6)	(8.5)	(15.3)	(21.7)
Minorities	(4.6)	(2.0)	(3.6)	(5.1)
Net profit	83.1	36.1	64.8	92.1
Net profit (adj.)	87.7	36.1	64.8	92.1

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	412.5	392.1	371.9	353.8
Other LT assets	1,702.7	1,702.7	1,702.7	1,702.7
Cash/ST investment	280.4	538.5	340.0	275.4
Other current assets	283.8	232.1	330.6	341.8
Total assets	2,679.4	2,865.4	2,745.3	2,673.7
ST debt	77.5	77.5	77.5	77.5
Other current liabilities	753.9	874.2	828.6	809.5
LT debt	439.5	301.4	249.5	197.7
Other LT liabilities	266.4	266.4	266.4	266.4
Shareholders' equity	1,307.4	1,509.2	1,482.9	1,477.2
Minority interest	(165.3)	(163.3)	(159.7)	(154.6)
Total liabilities & equity	2,679.4	2,865.4	2,745.3	2,673.7

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	89.5	285.9	(1.7)	138.9
Pre-tax profit	107.4	46.6	83.7	119.0
Tax	(24.0)	(8.5)	(15.3)	(21.7)
Deprec. & amort.	74.4	70.4	70.1	68.2
Associates	(4.8)	0.0	0.0	0.0
Working capital changes	(55.5)	171.9	(144.0)	(30.3)
Non-cash items	(7.8)	5.4	3.8	3.8
Investing	(53.3)	(45.9)	(45.6)	(46.9)
Capex (growth)	(24.3)	(50.0)	(50.0)	(50.0)
Investments	(111.5)	0.0	0.0	0.0
Proceeds from sale of assets	78.8	0.0	0.0	0.0
Others	3.7	4.1	4.4	3.1
Financing	(257.0)	18.1	(151.1)	(156.6)
Dividend payments	(24.7)	(54.2)	(61.0)	(67.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(232.3)	72.3	(90.2)	(88.9)
Net cash inflow (outflow)	(220.8)	258.0	(198.4)	(64.6)
Beginning cash & cash equivalent	501.2	280.4	538.5	340.0
Ending cash & cash equivalent	280.4	538.5	340.0	275.4

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Growth				
Turnover	18.6	8.8	2.9	4.0
EBITDA	29.8	(33.7)	29.2	21.4
Pre-tax profit	78.1	(56.6)	79.5	42.2
Net profit	74.5	(56.6)	79.5	42.2
Net profit (adj.)	45.8	(58.8)	79.5	42.2
EPS	45.8	(58.8)	79.5	42.2
Profitability				
EBITDA margin	10.9	6.7	8.4	9.8
Pre-tax margin	6.4	2.6	4.5	6.1
Net margin	5.0	2.0	3.5	4.8
ROA	3.1	1.3	2.3	3.4
ROE	5.7	2.6	4.3	6.2
Leverage				
Debt to total capital	31.2	22.0	19.8	17.2
Debt to equity	39.5	25.1	22.1	18.6
Net debt/(cash) to equity	18.1	(10.6)	(0.9)	(0.0)
Interest cover (x)	27.8	22.1	40.7	49.6

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