

Singapore Post Ltd (SPOST SP)

Management not yet delivering the e-commerce turnaround

Reduced forecasts due to continued postal weakness

FY18 core earnings missed consensus/our estimate by 6%/12%. This was due to weaker operating profit for the mail segment after the revised terminal dues started in Jan 2018 and unexpected losses for an associate. We cut our FY19-20E EPS by 5% but maintain our DCF-based TP of SGD1.50 (WACC 7.6%, LTG 1.0%). Operations for all the other sectors, including international mail, US e-commerce, property income and logistics, continued to perform well. Management remains positive on building the e-commerce logistics platform and expects its mitigating measures for revised terminal dues to deliver better results in the coming quarters.

Positive financials for all sectors and better FCF

All the key business units continued to deliver good progress in 4Q18. Specifically in the quarter: 1) continued robust revenue growth for international mail, 4Q18 revenue grew 37.4% YoY; 2) US e-commerce segment operating loss narrowed to SGD5.8m from SGD15.1m in 4Q17; 3) better property income from SingPost Mall, which grew 29% QoQ, to SGD11.6m; and 4) logistics segment 4Q18 operating profit grew 109% YoY as three out of four sub-segments delivered operating profit growth. Furthermore, FCF improved significantly, from SGD0 to SGD136m in FY18, due to lower capex after completing two projects.

Terminal-dues impact should be mitigated

Management is confident in managing the earnings drag from new terminal dues, as it has put in place several mitigating measures including a price revision, and has formed more bi-lateral agreements with other postal providers. The full extent of these measures will come into effect progressively over the next few quarters.

Continued to build e-commerce logistics businesses

The e-commerce logistics hub continued to show good progress, where the utilisation rate of warehousing has increased to 96% in 4Q18 from 87% in 3Q18. Management is seeking to tie-up with more players to grow the business for SP Parcels.

FYE Mar (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	1,349	1,464	1,599	1,795	2,006
EBITDA	201	209	233	255	287
Core net profit	116	90	129	145	175
Core EPS (cts)	5.1	4.0	5.7	6.4	7.7
Core EPS growth (%)	(28.5)	(21.4)	42.9	12.4	20.3
Net DPS (cts)	3.5	3.5	4.0	4.5	5.4
Core P/E (x)	26.7	34.0	23.8	21.2	17.6
P/BV (x)	2.3	2.2	2.2	2.1	2.1
Net dividend yield (%)	2.6	2.6	2.9	3.3	4.0
ROAE (%)	2.6	8.1	9.1	10.1	11.9
ROAA (%)	4.5	3.3	4.7	5.2	6.1
EV/EBITDA (x)	15.6	14.7	13.3	12.0	10.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	137	152	na
MKE vs. Consensus (%)	-	-	(5.5)	(4.2)	na

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BUY

Share Price	SGD 1.36
12m Price Target	SGD 1.50 (+11%)
Previous Price Target	SGD 1.50

Company Description

SingPost is a national postal provider that has branched into global e-commerce and fulfilment logistics services.

Statistics

52w high/low (SGD)	1.44/1.23
3m avg turnover (USDm)	6.1
Free float (%)	62.7
Issued shares (m)	2,275
Market capitalisation	SGD3.1B USD2.3B

Major shareholders:

Singapore Telecommunications Ltd.	21.7%
Alibaba Investment Ltd	14.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	(5)	(2)
Relative to index (%)	2	(9)	(10)

Source: FactSet

Fig 1: Revisions to estimates

FYE Mar (Fig in SGD m)	New FY19E	New FY20E	Old FY19E	Old FY20E
Revenue	1,599	1,795	1,641	1,844
% change	-2.6%	-2.7%		
Core net profit	129	145	136	152
% change	-4.9%	-4.6%		

Source: Company, Maybank Kim Eng

Fig 2: FY18 results summary

FYE Mar	4Q18 (SGD m)	3Q18 (SGD m)	4Q17 (SGD m)	QoQ Chg. (%)	YoY Chg. (%)	FY18 (SGD m)	FY17 (SGD m)	Change (YoY %)	MBKE FY18E	YTD as a % of FY17E
Revenue	367.5	412.8	324.0	(11.0)	13.4	1,464.1	1,348.5	8.6	1,475.8	99.2
Other income	16.0	16.8	16.1	(5.0)	(1.0)	58.8	46.4	27.0	54.0	109.0
Labour & related expenses	(80.0)	(102.4)	(84.1)	(21.8)	(4.8)	(328.2)	(345.1)	(4.9)	(376.3)	87.2
Volume related expenses	(210.8)	(223.6)	(169.6)	(5.7)	24.3	(816.1)	(688.7)	18.5	(779.2)	104.7
Admin & other expenses	(41.1)	(40.0)	(36.5)	2.6	12.6	(154.7)	(144.3)	7.2	(157.9)	98.0
Depreciation & amortisation	(15.7)	(15.3)	(16.0)	3.0	(1.7)	(60.7)	(51.0)	19.1	(60.8)	99.9
Selling expenses	(3.3)	(2.1)	(6.2)	57.9	(46.1)	(15.1)	(15.3)	(1.5)	(16.2)	92.8
EBIT	32.5	46.2	27.8	(29.7)	17.0	148.2	150.4	(1.5)	139.3	106.4
Exceptional items	8.7	0.9	(93.1)	838.4	(109.3)	14.5	(88.7)	(116.4)	-	n/a
Associates & JV	(6.2)	1.0	(1.9)	(748.6)	n/a	(3.1)	(1.2)	163.3	5.0	(62.0)
Finance costs	(3.6)	(3.1)	(5.4)	13.8	n/a	(13.4)	(5.7)	136.4	(10.6)	126.4
Profit Before Tax	31.4	44.9	(72.6)	(30.1)	(143.3)	146.2	54.9	166.1	133.7	109.4
Taxation	(10.9)	(2.9)	1.8	269.5	(715.9)	(30.7)	(25.2)	21.5	(26.7)	114.7
Net profit	20.5	42.0	(70.8)	(51.1)	(129.0)	115.5	29.7	288.9	107.0	108.0
Net profit after NCI	23.9	43.0	(65.2)	(44.3)	(136.7)	126.4	33.4	278.4	119.7	105.6
Core net profit	15.3	42.1	21.4	(63.7)	(28.6)	105.0	115.6	(9.2)	119.7	87.7
EPS (cts)	1.06	1.89	(2.87)	(44.1)	(136.9)	5.6	1.5	280.3	5.26	106.2
Recurring EPS (cts)	0.67	1.85	0.94	(63.5)	(28.2)	4.6	5.1	(8.8)	5.26	88.1
DPS (cts)	2.00	1.50	0.50	33.3	n/a	3.5	3.5	-	3.68	95.1
				Change (ppt)						
EBIT margin	8.8	11.2	8.6	(2.4)	0.3	10.1	11.2	(1.0)	9.4	
PBT margin	8.6	10.9	(22.4)	(2.3)	30.9	10.0	4.1	5.9	9.1	
Core net margin	4.2	10.2	6.6	(6.0)	(2.4)	7.2	8.6	(1.4)	8.1	

Revenue by segment

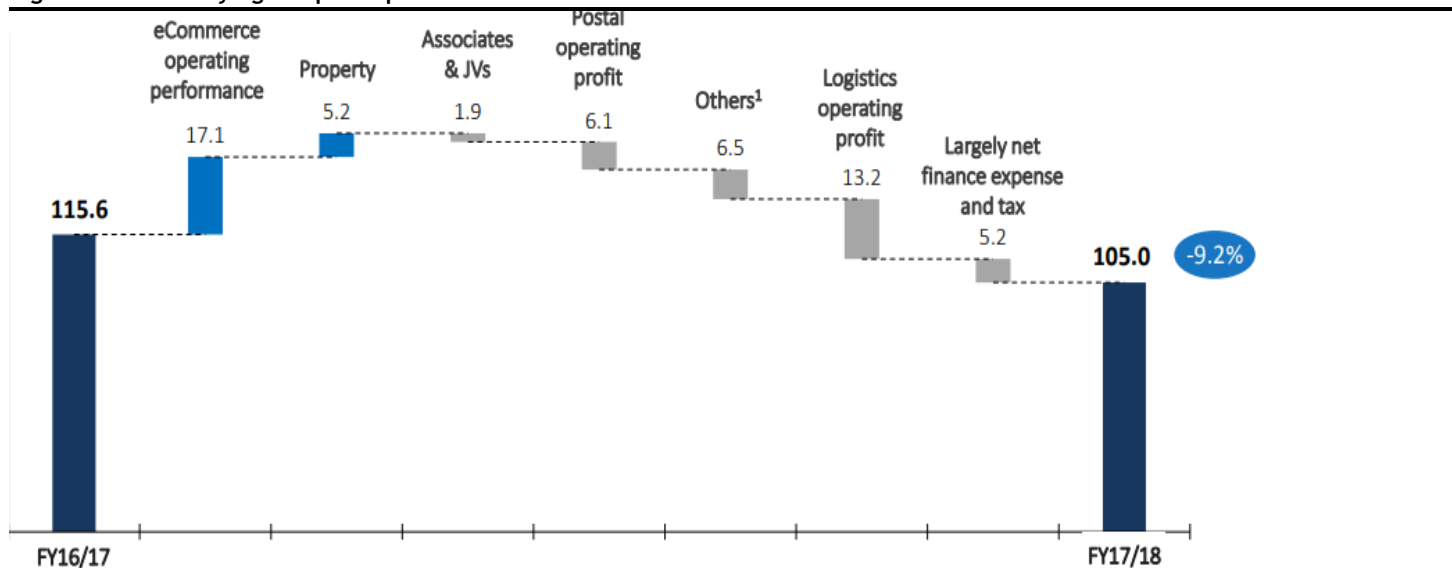
Mail	161.7	166.0	136.8	(2.6)	18.2	625.9	544.1	15.0
Logistics	157.9	173.9	154.7	(9.2)	2.0	663.9	636.8	4.3
E-commerce	65.3	97.1	56.7	(32.8)	15.2	265.6	266.3	(0.3)
Eliminations	(17.4)	(24.2)	(24.2)	(28.2)	(28.3)	(91.3)	(99.5)	(8.3)

Operating profit by segment

Mail	33.2	40.1	36.8	(17.3)	(9.8)	144.6	150.7	(4.0)
Logistics	5.3	4.9	2.6	9.3	108.7	10.4	23.6	(56.0)
E-commerce	(5.8)	(3.8)	(15.1)	55.9	n/a	(16.7)	(33.8)	(50.6)
Property	11.6	9.0	5.8	n/a	101.8	36.3	31.1	16.8
Others	(12.9)	(5.0)	(3.4)	n/a	279.9	(31.1)	(24.6)	26.6

Source: Company, Maybank Kim Eng

Fig 3: FY18 underlying net profit performance



Source: Company

Fig 4: DCF-based TP of SGD1.50 suggests 11% upside

FYE Mar (SGD m)	FY17	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
WACC	7.6%											
Cost of equity	8.7%											
Cost of debt (pre-tax)	4.0%											
Optimum Debt/Capital ratio	20.0%											
Risk-free rate	2.5%											
Beta	0.95	Our assumption of 0.95 is slightly higher than 2-yr beta of 0.80 to reflect higher volatility from changing business model and uncertainties relating to assets impairments.										
Market return	9.0%											
Terminal growth	1.0%											

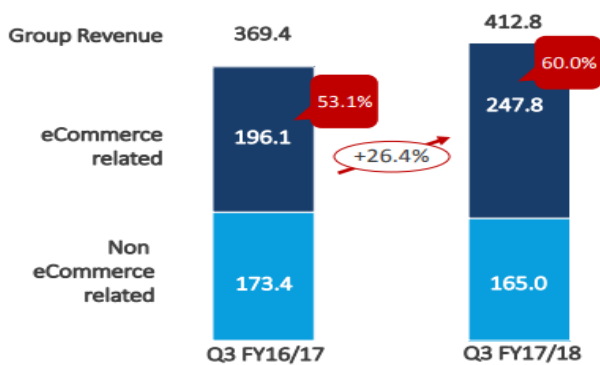
Revised forecast	Specific period forecast											Cash-cow phase (steady-state of 2% growth)			
	FY17-23E											FY24-27E			
	FY17	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY24E	FY25E	
Core earnings (SGD m)	116	105	129	145	175	207	235	211	216	220	224	229	216	220	
% YoY growth	(24.7)	(9.2)	23.2	12.4	20.3	18.5	13.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Non-cash adjustments	167	81	104	104	106	110	118	112	114	117	119	121	114	117	
Changes in working capital	34	33	16	32	31	36	45	37	38	38	39	40	38	38	
Income tax paid	(31)	(31)	(34)	(40)	(48)	(57)	(64)	(58)	(59)	(60)	(62)	(63)	(59)	(60)	
Net cash from operations	200	198	214	247	270	303	341	309	316	322	328	335	316	322	
Net capex	(173)	(49)	(70)	(70)	(72)	(72)	(72)	(72)	(72)	(72)	(72)	(72)	(72)	(72)	
FCFE	27	149	144	177	198	231	269	237	244	250	256	263	244	250	
Terminal Value															4,023
PV	27	149	144	164	171	186	201	165	157	150	143	2,217	157	150	
Total discounted FCFE	3,696														
Less: FY17E net debt incl perps	(277)														
Intrinsic value	3,419														
Value/ Share (SGD)	1.50														

Source: Maybank Kim Eng

Value Proposition

- National postal provider that has branched into global e-commerce and fulfilment logistics, helping retail customers to sell online faster and more efficiently.
- Under transformation from a highly cash generative, but declining mail business to high-volume, high-growth e-commerce logistics.
- Offers cheapest e-commerce deliveries at home. In ASEAN, has tied up with other national postal providers to offer commercial delivery services.
- The earliest impact from the expansions should be in FY3/19. Additional growth will come from Alibaba's (BABA US, HOLD, TP USD190) volumes, a new logistics hub, and new US customers.
- Recent ROEs about 8.5%. Expect expansion from FY3/18 on revenue growth and cost synergies. FY18E ROIC of 5.9% vs WACC of 7.6%.

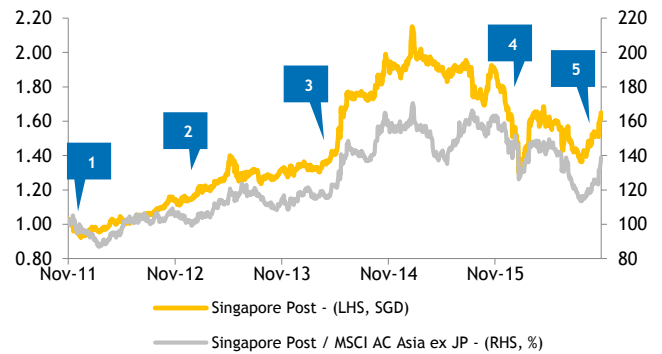
Transforming into an e-commerce logistics provider



Source: Company

Price Drivers

Historical share price



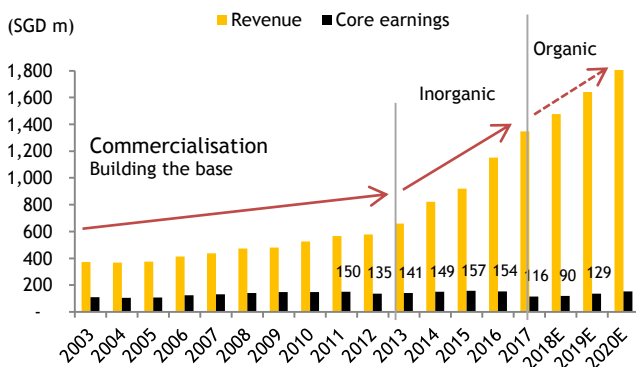
Source: Bloomberg, Maybank Kim Eng

1. Core mail volume declined in FY3/12 after growing 8% in FY11.
2. Re-rated in 2012-2014 after acquiring e-commerce logistics outfits, which bumped up its revenue growth.
3. Mar 2014: China's e-commerce juggernaut, Alibaba, took a 10% stake in SingPost and signed an MOU for a JV in international e-commerce logistics.
4. Dec 2015 - Jan 2016: CEO resigned, as well as disclosure a director's interest was not declared.
5. Oct 2016 - Alibaba's second investment in SingPost was approved by regulator allowing it to acquire a 30% stake in SingPost's subsidiary.

Financial Metrics

- Revenue CAGR of 12% the past five years, 10% for the next three years due to on-going digestion of M&As and declining traditional mail revenue.
- Expect profit growth in FY19E on turnaround of e-commerce segment, growth in mail segment and completion of mall refurbishment.
- FY19E total capex SGD70m, mainly for maintenance.
- ROE and FCF expected to grow, along with profits, from FY18E.

Profits should turn higher in FY19; 1st time since FY15



Source: Company, Maybank Kim Eng estimates.

Swing Factors

Upside

- Faster-than-expected turnaround of Trade Global, a newly acquired e-commerce enabler for fashion and lifestyle.
- Higher-than-expected revenue growth in e-commerce logistics, from more customers and services.
- Higher-than-expected margins for e-commerce logistics, from economies of scale and operating leverage.

Downside

- Inability to resolve corporate-governance conundrum, including independence of the board and inadequate disclosure.
- Failure to extract synergies and integrate its largest acquisition, Trade Global.
- Worse-than-expected deterioration in mail business before e-commerce logistics compensates.

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	nm	26.5	23.8	21.2	17.6
Core P/E (x)	26.7	34.0	23.8	21.2	17.6
P/BV (x)	2.3	2.2	2.2	2.1	2.1
P/NTA (x)	3.2	3.0	3.0	2.9	2.8
Net dividend yield (%)	2.6	2.6	2.9	3.3	4.0
FCF yield (%)	0.9	5.0	4.7	5.7	6.4
EV/EBITDA (x)	15.6	14.7	13.3	12.0	10.5
EV/EBIT (x)	20.9	20.7	18.0	15.6	13.2
INCOME STATEMENT (SGD m)					
Revenue	1,348.5	1,464.1	1,598.8	1,794.6	2,005.9
Gross profit	1,348.5	1,464.1	1,598.8	1,794.6	2,005.9
EBITDA	201.5	208.9	232.9	255.2	286.7
Depreciation	(51.0)	(60.7)	(60.3)	(59.7)	(59.4)
Amortisation	1.0	0.0	0.0	0.0	0.0
EBIT	150.4	148.2	172.6	195.5	227.3
Net interest income / (exp)	(5.7)	(13.4)	(11.5)	(9.0)	(6.5)
Associates & JV	(1.2)	(3.1)	2.5	5.0	8.0
Exceptionals	(88.7)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	54.9	131.7	163.6	191.5	228.8
Income tax	(25.2)	(30.7)	(34.4)	(40.2)	(48.0)
Minorities	3.7	10.9	0.0	(6.0)	(6.0)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	33.4	111.9	129.3	145.3	174.7
Core net profit	115.6	90.4	129.3	145.3	174.7
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	366.6	314.1	245.0	246.0	250.1
Accounts receivable	199.0	271.6	293.5	329.4	368.2
Inventory	4.5	1.0	1.0	1.0	1.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	565.6	532.3	624.5	634.8	647.4
Intangible assets	400.7	385.7	385.7	385.7	385.7
Investment in Associates & JVs	117.8	114.9	117.4	122.4	130.4
Other assets	1,062.5	1,105.2	1,105.2	1,105.2	1,105.2
Total assets	2,716.6	2,724.7	2,772.3	2,824.5	2,888.0
ST interest bearing debt	148.8	23.5	30.0	30.0	30.0
Accounts payable	395.1	525.8	556.7	624.2	694.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	215.2	220.5	200.0	150.0	100.0
Other liabilities	200.0	165.0	172.0	172.0	172.0
Total Liabilities	958.9	934.8	958.5	976.0	995.9
Shareholders Equity	1,359.3	1,402.7	1,426.6	1,455.3	1,492.9
Minority Interest	51.6	40.3	40.3	46.3	52.3
Total shareholder equity	1,410.9	1,443.1	1,467.0	1,501.7	1,545.2
Perpetual securities	346.8	346.8	346.8	346.8	346.8
Total liabilities and equity	2,716.6	2,724.7	2,772.3	2,824.5	2,888.0
CASH FLOW (SGD m)					
Pretax profit	54.9	131.7	163.6	191.5	228.8
Depreciation & amortisation	50.0	60.7	60.3	59.7	59.4
Adj net interest (income)/exp	5.4	3.9	11.5	9.0	6.5
Change in working capital	33.7	33.3	15.8	31.5	31.2
Cash taxes paid	(30.5)	(31.2)	(34.4)	(40.2)	(48.0)
Other operating cash flow	92.7	(4.9)	(2.5)	(5.0)	(8.0)
Cash flow from operations	200.0	198.2	214.3	246.5	269.8
Capex	(200.6)	(62.7)	(70.0)	(70.0)	(72.0)
Free cash flow	27.7	153.2	144.3	176.5	197.8
Dividends paid	(119.5)	(45.4)	(90.5)	(101.7)	(122.3)
Equity raised / (purchased)	189.6	(15.7)	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	167.2	(119.6)	(14.0)	(50.0)	(50.0)
Perpetual securities distribution	(14.9)	(14.9)	(14.9)	(14.9)	(14.9)
Other invest/financing cash flow	(182.0)	(51.5)	(81.5)	(79.0)	(78.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	240.5	(48.8)	13.4	1.0	4.1

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	17.1	8.6	9.2	12.2	11.8
EBITDA growth	(10.5)	3.7	11.5	9.6	12.3
EBIT growth	(22.1)	(1.5)	16.5	13.3	16.3
Pretax growth	(80.9)	139.7	24.2	17.0	19.5
Reported net profit growth	(86.6)	234.9	15.5	12.4	20.3
Core net profit growth	(24.7)	(21.8)	42.9	12.4	20.3
Profitability ratios (%)					
EBITDA margin	14.9	14.3	14.6	14.2	14.3
EBIT margin	11.2	10.1	10.8	10.9	11.3
Pretax profit margin	4.1	9.0	10.2	10.7	11.4
Payout ratio	238.3	70.8	70.0	70.0	70.0
DuPont analysis					
Net profit margin (%)	2.5	7.6	8.1	8.1	8.7
Revenue/Assets (x)	0.5	0.5	0.6	0.6	0.7
Assets/Equity (x)	2.0	1.9	1.9	1.9	1.9
ROAE (%)	2.6	8.1	9.1	10.1	11.9
ROAA (%)	4.5	3.3	4.7	5.2	6.1
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	54.6	57.9	63.6	62.5	62.6
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	0.4	1.4	1.4	1.4	1.4
Current ratio (x)	1.0	1.1	0.9	0.9	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.8	2.9	2.9	2.9	2.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	26.5	11.1	15.0	21.7	35.0
Debt/EBITDA (x)	1.8	1.2	1.0	0.7	0.5
Capex/revenue (%)	14.9	4.3	4.4	3.9	3.6
Net debt/ (net cash)	(2.6)	(70.1)	(15.0)	(66.0)	(120.1)

Source: Company; Maybank

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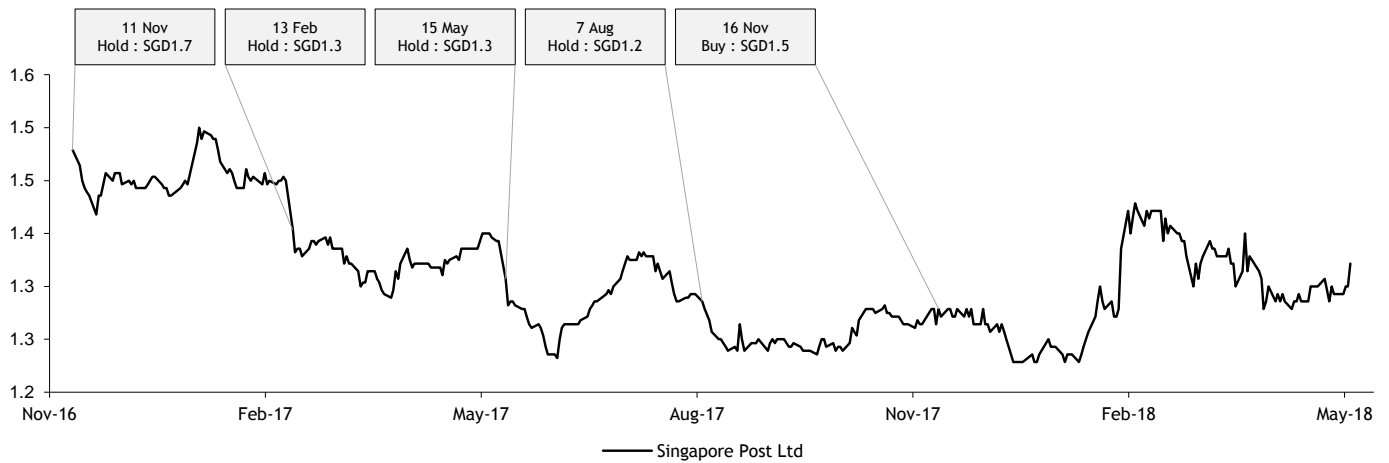
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