

Singapore Post Ltd (SPOST SP)

FY18 Annual Report Insights

BUY

Share Price SGD 1.26
 12m Price Target SGD 1.50 (+19%)
 Previous Price Target SGD 1.50

Better alignment with shareholder interests

We glean a few insights from SingPost's recently released FY18 annual report which showed 1) an improvement in alignment of Directors' remuneration with the company's performance, 2) an improvement in its debt structure, net gearing and interest cover, 3) potential for further rationalisation of its investments of recent years, and 4) some lingering residual risk of goodwill impairment. Overall we remain positive on SingPost being a prime beneficiary of robust ASEAN e-commerce growth. Maintain BUY and DCF TP of SGD1.50 (WACC 7.6%, LTG 1.0%).

Recent Board revamp a positive

After a major Board revamp over the past 18 months following shareholder criticism over certain acquisitions and a subsequent Special Audit, we find that the Boards' remuneration structure is better aligned with the company's underlying performance, reversing the growth trend as a percentage of underlying profit for the prior four years. As a % of underlying net profit it fell by 0.06% in FY18. In absolute terms, Board remuneration fell 14% YoY and was down 27% from FY16 levels. Also the ratio of independent director's increased YoY from 50% to 60%.

Improvement in debt structure

SPOST's debt structure at end-FY18 improved notably: 1) total indebtedness fell 33% YoY, 2) current borrowings dropped significantly and 3) EBITDA interest cover rose to 9.8x from 8.2x in FY17. The lion's share of borrowings now is long-term, providing some protection against a rising interest rate environment. Our sensitivity analysis indicates every 1% increase in interest rate will reduce FY19E EPS by 0.3%.

Residual issues with investments and goodwill

There is potential for several non-core assets to be divested in our view, especially the self-storage businesses that we believe have little synergy with SPOST's core business. Also, its headquarters, SingPost Centre, could potentially be divested as the recent refurbishment could help realise better market values. On the other hand, we believe some goodwill impairment risks still exist even after the FY17 haircut, especially so for units like Quantum Solutions that still carry substantial goodwill and are still underperforming.

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	105	129	145	175
Core EPS (cts)	5.1	4.6	5.7	6.4	7.7
Core EPS growth (%)	(28.5)	(8.8)	23.2	12.4	20.3
Net DPS (cts)	3.5	3.5	4.0	4.5	5.4
Core P/E (x)	29.3	28.2	22.1	19.6	16.3
P/BV (x)	2.5	2.1	2.0	2.0	1.9
Net dividend yield (%)	2.4	2.7	3.2	3.6	4.3
ROAE (%)	2.6	9.2	9.1	10.1	11.9
ROAA (%)	4.5	3.9	4.7	5.2	6.1
EV/EBITDA (x)	15.6	14.7	12.4	11.1	9.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	130	145	167
MKE vs. Consensus (%)	-	-	(0.3)	(0.1)	4.6

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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)	4.8
Free float (%)	62.7
Issued shares (m)	2,275
Market capitalisation	SGD2.9B USD2.1B

Major shareholders:

Singapore Telecommunications Ltd.	21.7%
Alibaba Investment Ltd	14.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(8)	(5)
Relative to index (%)	4	(4)	(5)

Source: FactSet

Directors' remuneration in FY18 was more aligned with performance as total remuneration as a percentage of underlying net profit fell for the first time in five years from 1.24% in FY17 to 1.18% in FY18. The ratio of independent directors as a percentage of total has also increased YoY to 60% from 50%.

Another point to note after the Board revamp in the past 18 months is that nine-out-of-ten directors now have a service tenure of less than five years; a big positive in our view. Followers of the company might recall that prior to FY17, the Board suffered from the issue of a number of Independent Directors being entrenched in their positions for periods as long ranging as 10-18 years (obviously raising the question of the true degree of 'independence' the previous Board had).

We also note that CEO total remuneration as a percentage of underlying net profit has reduced significantly in FY17 and was stable for FY18.

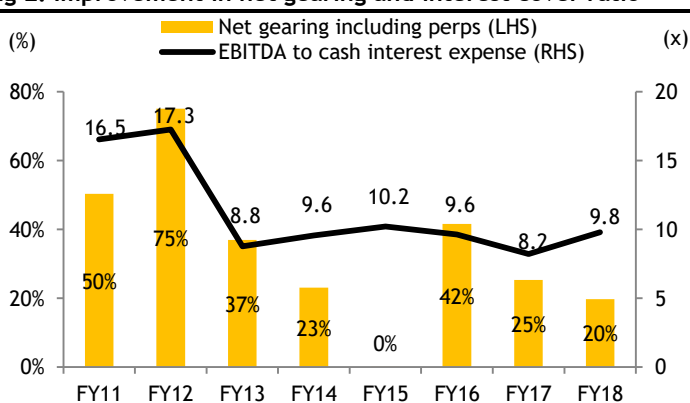
Fig 1: Directors' remuneration lower after major revamp in FY17 where 8 directors left

(SGD '000)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Chairman's remuneration	127	328	752	451	181	223	309	316	199	256
Other directors' remuneration	518	577	628	590	754	816	1,182	1,385	1,239	980
Total directors' remuneration	645	905	1,380	1,041	935	1,039	1,491	1,701	1,438	1,236
Underlying net profit	147,265	147,745	149,556	135,403	140,960	149,450	157,188	153,568	115,612	104,951
Directors' remuneration as a % of underlying net profit	0.44%	0.61%	0.92%	0.77%	0.66%	0.70%	0.95%	1.11%	1.24%	1.18%
No. of Directors	9	10	10	9	9	10	12	12	11	10
No. of ED	1	1	1	1	1	1	1	1	1	1
No. of INED	6	7	7	6	6	6	8	7	6	6
INED as a % of Board	67%	70%	70%	67%	67%	60%	67%	58%	55%	60%
Remarks		1 left	2 left	1 left		1 left			8 left incl CEO	1 left
CEO's remuneration	825	822	-	853	1,233	1,282	1,434	2,783	1,444	1,312
As % of underlying net profit	0.56%	0.56%	0.00%	0.63%	0.87%	0.86%	0.91%	1.81%	1.25%	1.25%

Source: Company, Maybank Kim Eng

We observe that SPOST's debt structure has improved. FY18 current borrowings as a percentage of total dropped from 41% in FY17 to 10%, which will alleviate refinancing pressures this year. Net gearing including perpetual securities fell from 25% in FY17 to 20% in FY18 whilst EBITDA interest expense cover rose from 8.2% to 9.8%. Around 90% of SPOST's debt is long-term in nature with the earliest refinancing in Mar 2020.

Fig 2: Improvement in net gearing and interest cover ratio



Source: Company, Maybank Kim Eng

Fig 3: Debt structure has improved

All figures are in SGD		
	FY18	FY17
Current borrowings	24m	149m
Non-current borrowings	221m	215m
Total borrowings	244m	364m
Current borrowings as a % of total	10%	41%
	Debt	Int. rate
Perpetual debt	350m	4.25%
10-year Fixed Rate Notes issued in Mar 2010	200m	3.50%
Other borrowings	44m	0.88-3.50%
Impact of 1% increase in interest rates to FY19 EPS	(0.44m) or 0.3% decline for FY19 EPS	

Source: Company, Maybank Kim Eng

We believe there could be potential upside from divestments of what we believe are non-core operations in self-storage businesses and property.

Fig 4: SingPost key investments and acquisitions in recent years

Key investments	Announcement date	Remarks
TradeGlobal	Oct-15	US B2C fashion retail industry brands
Jagged Peak	Oct-15	US B2B B2C enterprise clients, warehousing and logistics
Store Friendly self-storage	Sep-15	Self-storage sites in Singapore
Rotterdam Harbour B.V.	Jul-15	Freight forwarding services in Rotterdam Harbour
Couriers Please	Dec-14	Australia last mile delivery services
F.S. Mackenzie	Jul-14	Freight forwarding services in UK
The Store House Ltd entities	Jul-14	Self-storage sites in Hong Kong
Axis Plaza	Dec-13	Industrial park near KL, Malaysia
Famous Holdings	Jan-13	Sea and air freight management in Asia Pacific
General Storage	Dec-12	Self-storage sites in Singapore
Dash Logistics	Aug-12	Delivery and inventory management and analysis system
Indo Trans Logistics	Jun-11	Freight forwarding in Vietnam
Shenzhen 4PX Express	Jul-11	Warehousing, logistics, software and e-commerce in China

Source: Company, Maybank Kim Eng

Additionally SPOST could also potentially divest or spin-off its headquarters, a mixed-use commercial and retail building, into a REIT. It has recently reopened after a major renovation.

Fig 5: SPOST investment properties

(SGD'000)	FY18	FY17
Building for commercial and retail (Singapore Post Centre)	859,250	814,132
Building for commercial and retail (10 properties)	98,969	100,386
Building for warehousing and storage space - Singapore	41,335	41,697
Warehousing - Malaysia	12,277	11,365
Total	1,175,617	967,580

Source: Company, Maybank Kim Eng

We think that the balance sheet still carries some risk of further goodwill impairment charges. Total intangible assets made up c.14% of total assets in FY18 with most of its goodwill arising from acquisitions. What stands out from the list of assets carrying goodwill is Quantum Solutions as it has been underperforming as indicated in recent results.

Fig 5: Goodwill from acquisitions

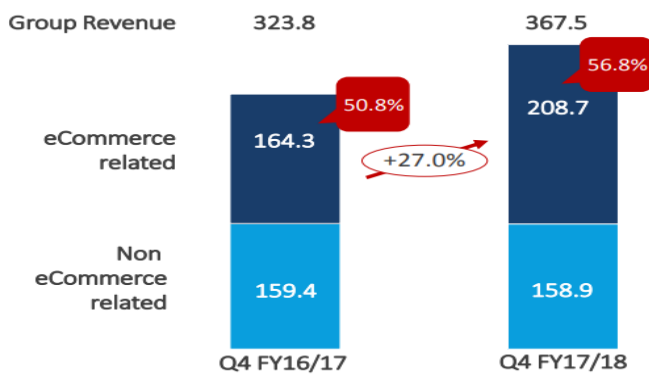
(SGD'000)	FY18	FY17
Quantum Solutions International	77,858	77,858
Courier Please Holdings	74,145	78,521
Famous Holdings	59,908	59,908
Jagged Peak	20,499	21,860
Rotterdam Harbour Holding	17,113	15,812
L+S Self Storage	10,646	10,646
The Store House	10,456	11,264
TradeGlobal	8,961	9,556
General Storage Company	6,857	6,857
Trans - Inter Co	2,339	2,369
FS Mackenzie	5,241	4,952
Famous Pacific Shipping (NZ)	5,361	5,515
Total	299,384	305,118

Source: Company, 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 8.0%. Expect expansion from FY3/18 on revenue growth and cost synergies. FY19E ROIC of 8.4% vs WACC of 7.6%.

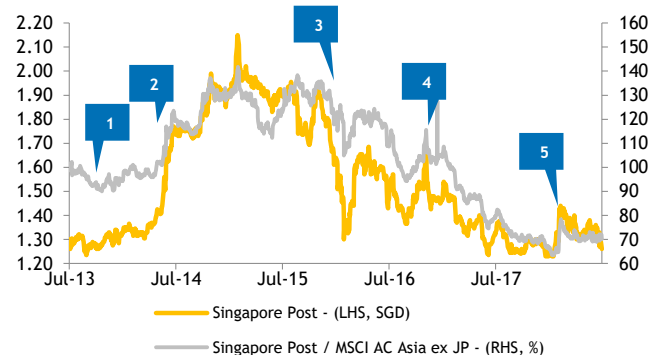
Transforming into an e-commerce logistics provider



Source: Company

Price Drivers

Historical share price



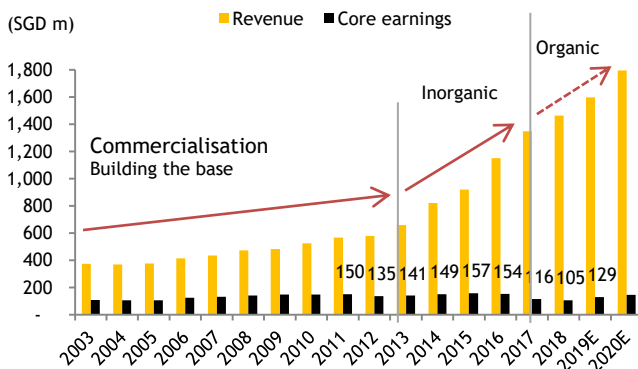
Source: Bloomberg, Maybank Kim Eng

1. Re-rated in 2012-2014 after acquiring e-commerce logistics outfits, which bumped up its revenue growth.
2. 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.
3. Dec 2015 - Jan 2016: CEO resigned, as well as disclosure a director's interest was not declared.
4. Oct 2016 - Alibaba's second investment in SingPost was approved by regulator allowing it to acquire a 30% stake in SingPost's subsidiary.
5. Feb 2018 - Key segments including international mail, US e-commerce and property recorded turnaround in earnings.

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)	101.3	23.4	22.1	19.6	16.3
Core P/E (x)	29.3	28.2	22.1	19.6	16.3
P/BV (x)	2.5	2.1	2.0	2.0	1.9
P/NTA (x)	3.5	2.9	2.7	2.7	2.6
Net dividend yield (%)	2.4	2.7	3.2	3.6	4.3
FCF yield (%)	0.8	5.2	5.1	6.2	6.9
EV/EBITDA (x)	15.6	14.7	12.4	11.1	9.7
EV/EBIT (x)	20.9	20.7	16.7	14.5	12.2
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)	14.5	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	54.9	146.2	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	126.4	129.3	145.3	174.7
Core net profit	115.6	105.0	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	146.2	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)	166.1	11.9	17.0	19.5
Reported net profit growth	(86.6)	278.4	2.3	12.4	20.3
Core net profit growth	(24.7)	(9.2)	23.2	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	10.0	10.2	10.7	11.4
Payout ratio	238.3	62.7	70.0	70.0	70.0
DuPont analysis					
Net profit margin (%)	2.5	8.6	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	9.2	9.1	10.1	11.9
ROAA (%)	4.5	3.9	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	1.6	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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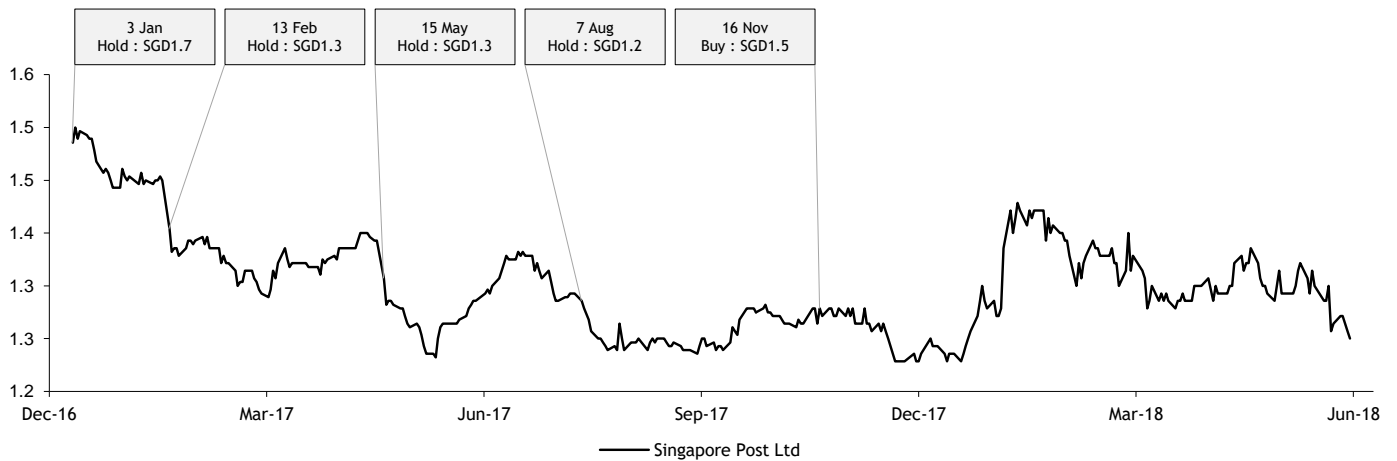
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