

COMPANY UPDATE

Singapore Post (SPOST SP)

Strategic Plan Crafts Roadmap For Growth And Unlocking Of Value

SPOST concluded its strategic review on 19 Mar 24, which began in May 23 to prioritise sustainable growth and maximise shareholder value. In this note, we outline five strategies management has introduced, to be implemented over the next three years. Through the strategies, SPOST expects to strengthen its position as a pure-play logistics enterprise focused on growth. As we await its execution and upcoming results release, we maintain BUY with an unchanged target price of S\$0.54.

WHAT'S NEW

- **Redefining business segments provides clarity.** To better demonstrate each individual market's growth, Singapore Post (SPOST) has announced changes to its segmental breakdown. Instead of the postal/logistics/property businesses, the group will be segmented into Singapore, Australia and international businesses as shown in the table below. The corporate segment relates to core financial assets that are held centrally by the group. As each market has varied growth potential and is exposed to different risks, we think that this reorganisation lends better understanding to SPOST's business performance.

NEW PROFORMA SEGMENTAL BREAKDOWN FOR FY23

Year to 31 Mar (S\$m)	FY23	Remarks
Revenue	1,872	
- Australia	838	FMH, Couriers Please and Border Express
- Singapore	235	Includes S\$25m revenue from post office network
- International	358	Cross-border e-commerce deliveries
- Corporate	441	Includes Famous Holdings (S\$418m), SingPost Centre (S\$55m) and Others (S\$32m loss)
Operating Profit	93	
- Australia	49	
- Singapore	(11)	Includes S\$21m loss from post office network
- International	(13)	
- Corporate	68	Includes Famous Holdings (S\$43m), SingPost Centre (S\$44m) and Others (S\$19m loss)
Operating Profit Margin (%)	5.0ppt	
- Australia	5.8ppt	
- Singapore	n.m.	
- International	n.m.	
- Corporate	15.4ppt	

Source: SPOST, UOB Kay Hian

- **Potential capital recycling; new dividend policy adopted.** SPOST aims to practice active capital management, with a list of non-core assets and businesses identified to be recycled when appropriate. The proceeds will be used to pay off debt, fund investments or reward shareholders. Additionally, from FY25, SPOST has committed to a dividend policy of 30-50% payout of underlying net profit (FY23: 40% payout ratio).

KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,666	1,872	1,712	1,951	2,042
EBITDA	182	172	166	203	232
Operating profit	105	89	70	118	150
Net profit (rep./act.)	83	25	36	70	94
Net profit (adj.)	88	32	36	70	94
EPS (S\$ cent)	3.9	1.4	1.6	3.1	4.2
PE (x)	10.4	28.2	25.2	13.1	9.7
P/B (x)	0.7	0.8	0.8	0.8	0.8
EV/EBITDA (x)	6.3	6.7	6.9	5.6	4.9
Dividend yield (%)	4.4	1.4	2.5	3.5	4.4
Net margin (%)	5.0	1.3	2.1	3.6	4.6
Net debt/(cash) to equity (%)	18.1	9.3	17.2	13.3	8.2
Interest cover (x)	27.8	7.6	24.0	24.6	65.2
ROE (%)	5.7	1.8	2.6	5.1	6.8
Consensus net profit	-	-	38	71	87
UOBKH/Consensus (x)	-	-	0.95	0.98	1.08

Source: SPOST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.405
Target Price	S\$0.54
Upside	+33.3%

COMPANY DESCRIPTION

Singapore Post (SingPost) 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 and deliveries.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SPOST SP
Shares issued (m):	2,250.0
Market cap (S\$m):	911.2
Market cap (US\$m):	678.4
3-mth avg daily t'over (US\$m):	0.6

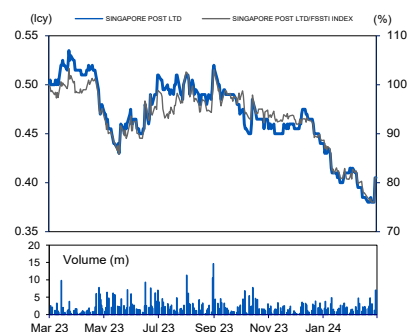
Price Performance (%)

52-week high/low	S\$0.535/S\$0.380			
1mth	3mth	6mth	1yr	YTD
(1.2)	(12.0)	(18.2)	(19.0)	(14.7)

Major Shareholders

	%
Singtel	22.0
Alibaba Group	14.6
FY24 NAV/Share (S\$)	0.50
FY24 Net Debt/Share (S\$)	0.10

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Singapore logistics and deliveries to see transformation?** After the postage rate hike, Singapore's traditional letter & mail segment had returned to profitability in 3QFY24. However, the post office segment continues to record a loss. Management shared that SPOST is still in discussions with government regulators and may innovate asset-light initiatives while maintaining its postal service obligations to the community. We reckon that the consolidation of postal office networks will help reduce operating costs for the domestic post & parcel segment.
- Growth plans for Australia.** According to IBISWorld, the integrated logistics market in Australia is projected to reach US\$129b by 2028 (1.3% annualised growth). With the recent acquisition of Border Express, SPOST is confident in capturing this growth opportunity in the region. Management had also shared Border Express' unaudited financials, which indicated S\$40m operating profit in FY23. While its performance is likely to moderate in FY24, we note that it is subject to less seasonality than Couriers Please given that it has a higher B2B component. We expect SPOST to effectively leverage on Border Express' network to strengthen its presence in Australia and bolster segmental earnings. Management also continues to seek partnerships and investments, as well as future liquidity options for expansion purposes.
- Reshaping e-commerce logistics.** SPOST's new international unit will serve cross-border e-commerce customers via an asset-light model and its 4PL tech platform, ARRIV, which was launched in 4Q23. Management aims to enhance its logistics capabilities by embracing digitalisation while keeping an eye out for synergistic partnerships and investments.

EARNINGS REVISION/RISK

- None.

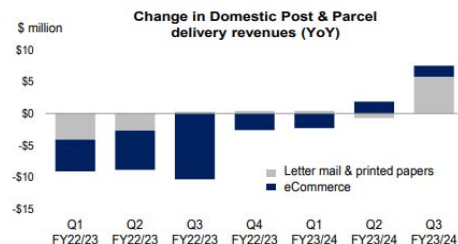
VALUATION/RECOMMENDATION

- Maintain BUY with an SOTP-based target price of S\$0.54.** Given that SPOST's current market cap is only around S\$911m, we think that the market is severely undervaluing the stock. As SPOST has redefined the business segments, we will adjust our SOTP valuation accordingly upon the next results release. At our target price, SPOST trades at 17x FY25F PE, slightly below -1SD to its long term mean.

SHARE PRICE CATALYST

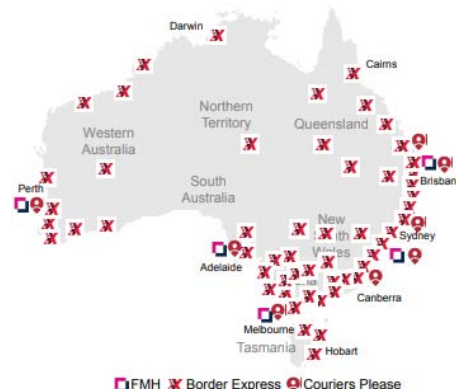
- Better-than-expected international post & parcel volumes.
- Lower-than-expected decline in domestic postal volumes.

POST & PARCEL SEGMENT'S PERFORMANCE



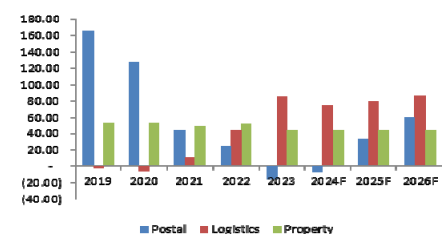
Source: SPOST, UOB Kay Hian

LOGISTICS NETWORK IN AUSTRALIA



Source: SPOST, UOB Kay Hian

SEGMENTAL OPERATING PROFIT BREAKDOWN (\$M)



Source: Bloomberg, UOB Kay Hian

SOTP VALUATION

Business	Valuation (\$m)	Value ps (\$)	Remarks
Mail	154.6	0.07	5x FY24F EV/EBITDA
Logistics	725.4	0.32	7x FY24F EV/EBITDA
Property	825.0	0.37	Cap rate of 5.0%
Gross value (\$m)	1,705.0	0.76	
Less: Net debt (cash)	234.6		
Less: Perpetuals	251.5		
Less: Minority stake	(4.2)		
Net value (\$m)	1,223.1		
No. of shares	2,249.7		
Target price (\$)	\$0.54		

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	1,872.3	1,711.9	1,951.1	2,042.1
EBITDA	171.5	165.7	202.5	232.4
Deprec. & amort.	82.4	96.1	84.2	82.3
EBIT	89.1	69.6	118.3	150.1
Total other non-operating income	9.3	(8.0)	(5.0)	(5.0)
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(22.7)	(6.9)	(8.2)	(3.6)
Pre-tax profit	68.0	54.7	105.1	141.6
Tax	(29.2)	(15.3)	(31.5)	(42.5)
Minorities	(14.1)	(3.1)	(3.7)	(5.0)
Net profit	24.7	36.2	69.9	94.2
Net profit (adj.)	32.4	36.2	69.9	94.2

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	115.7	155.2	172.4	175.9
Pre-tax profit	68.0	54.7	105.1	141.6
Tax	(32.8)	(15.3)	(31.5)	(42.5)
Deprec. & amort.	82.6	96.1	84.2	82.3
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	(8.2)	12.8	6.4	(9.0)
Non-cash items	6.1	6.9	8.2	3.6
Investing	(27.2)	(194.7)	(43.3)	(42.0)
Capex (growth)	(28.4)	(200.0)	(50.0)	(50.0)
Investments	(18.7)	0.0	0.0	0.0
Proceeds from sale of assets	9.1	0.0	0.0	0.0
Others	10.8	5.3	6.7	8.0
Financing	126.8	110.1	71.5	(67.1)
Dividend payments	(33.3)	(22.6)	(31.6)	(40.6)
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	160.1	132.7	103.1	(26.4)
Net cash inflow (outflow)	215.3	70.6	200.6	66.9
Beginning cash & cash equivalent	280.4	495.7	566.3	766.9
Ending cash & cash equivalent	495.7	566.3	766.9	833.8

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	386.9	490.8	456.6	424.4
Other LT assets	1,687.3	1,687.3	1,687.3	1,687.3
Cash/ST investment	495.7	566.3	766.9	833.8
Other current assets	267.8	244.5	273.4	284.4
Total assets	2,837.8	2,989.0	3,184.3	3,229.9
ST debt	1.4	1.4	1.4	1.4
Other current liabilities	718.5	708.0	743.3	745.4
LT debt	623.0	799.5	947.7	947.7
Other LT liabilities	120.6	120.6	120.6	120.6
Shareholders' equity	1,381.7	1,363.7	1,371.9	1,410.6
Minority interest	(7.4)	(4.2)	(0.6)	4.4
Total liabilities & equity	2,837.8	2,989.0	3,184.3	3,229.9

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	9.2	9.7	10.4	11.4
Pre-tax margin	3.6	3.2	5.4	6.9
Net margin	1.3	2.1	3.6	4.6
ROA	0.9	1.2	2.3	2.9
ROE	1.8	2.6	5.1	6.8
Growth				
Turnover	12.4	(8.6)	14.0	4.7
EBITDA	(5.8)	(3.4)	22.2	14.8
Pre-tax profit	(36.7)	(19.6)	92.2	34.7
Net profit	(70.3)	46.8	93.0	34.7
Net profit (adj.)	(63.0)	11.8	93.0	34.7
EPS	(63.0)	11.8	93.0	34.7
Leverage				
Debt to total capital	31.2	37.1	40.9	40.1
Debt to equity	45.2	58.7	69.2	67.3
Net debt/(cash) to equity	9.3	17.2	13.3	8.2

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