

SHARIAH GEMS VIRTUAL CONFERENCE TAKEAWAYS

Singapore Post (SPOST SP)

Australia Earmarked As The Next Growth Engine

SPOST's management provided more updates about the group's current operations. Domestic letter and mail volumes are expected to drop further while e-commerce volumes will suffer a temporary dip as Singapore reopens. Air freight costs remain high with more narrow-bodied aircraft transiting at Changi Airport and ongoing China lockdowns dragging postal volumes. The logistics segment is set to grow due to the full-year consolidation of FMH. Maintain BUY with a lower target price of S\$0.87.

WHAT'S NEW

- **Domestic letter and mail: No floor in sight.** Volumes for domestic letter and mail are expected to moderate further with no floor in sight, largely because going paperless is becoming a secular trend. However, management noted that the decline in volumes is not severe enough to result in a redesign of delivery networks and current letterbox allocations. Coupled with lower volumes, Singapore Post (SPOST) is facing higher operating costs due to inflation, and these are set to compress margins and drag down profitability. This is in line with our previous expectations. Moving forward, SPOST has implemented cost-savings initiatives such as new sorting machines and new initiatives to digitise this business.
- **Domestic e-commerce: Short-term pullback.** In line with our expectations, volumes for domestic e-commerce are poised to soften slightly in the near term as Singapore has relaxed most of its COVID-19 restrictions. Discretionary spending on e-commerce may also drop slightly as inflation hits. Management noted that they are optimistic about the long-term upward trajectory of e-commerce as increasing adoption ramps up, given that online penetration in Singapore is lower compared to other industrialised countries. They re-iterated that growing revenue from domestic e-commerce is expected to mitigate the decline from domestic letter and mail over the medium-long term. Competitors have also not raised prices even as higher costs from inflation impact margins.
- **International Post & Parcel (IPP): Elevated air freight rates.** Even as Singapore fully reopened its international borders on 26 Apr 22, SPOST is still facing elevated air freight rates, albeit improving slightly since end-Mar 22, according to management. This is largely 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, ongoing lockdowns in China have depressed outgoing IPP postage volumes with China being SPOST's largest IPP contributor. Although we expected some recovery from the Singapore's reopening, we opine it is still early days. Air freight rates should continue to soften gradually as global travel recovers, reaching near pre-pandemic levels sometime in 1HFY24 (vs our previous expectations of 2HFY23/1HFY24).

KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,405	1,666	1,893	1,930	2,012
EBITDA	140	182	207	225	241
Operating profit	70	105	137	155	172
Net profit (rep./act.)	48	83	98	113	128
Net profit (adj.)	60	88	98	113	128
EPS (\$ cent)	2.7	3.9	4.3	5.0	5.7
PE (x)	25.2	17.3	15.4	13.3	11.9
P/B (x)	1.2	1.2	1.1	1.1	1.1
EV/EBITDA (x)	11.3	8.7	7.6	7.0	6.6
Dividend yield (%)	1.6	2.7	3.6	4.5	6.0
Net margin (%)	3.4	5.0	5.2	5.9	6.3
Net debt/(cash) to equity (%)	(11.0)	18.1	(7.8)	(7.2)	(7.9)
Interest cover (x)	32.4	27.8	36.8	64.3	89.7
ROE (%)	3.0	5.7	6.8	7.2	8.0
Consensus net profit	-	-	103	119	133
UOBKH/Consensus (x)	-	-	0.96	0.96	0.96

Source: SPOST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.67
Target Price	S\$0.87
Upside	+29.9%
(Previous TP)	S\$0.90)

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. SPOST also offers end-to-end e-commerce logistics solutions.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SPOST SP
Shares issued (m):	2,249.6
Market cap (\$m):	1,507.2
Market cap (US\$m):	1,085.0
3-mth avg daily t'over (US\$m):	1.9

Price Performance (%)

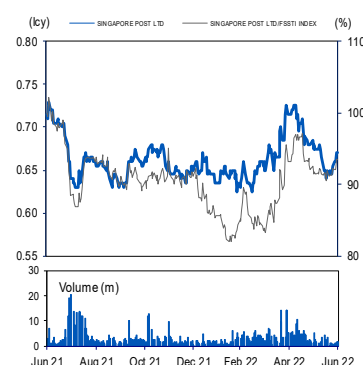
52-week high/low S\$0.730/S\$0.625

1mth	3mth	6mth	1yr	YTD
(1.5)	2.3	2.3	(5.6)	3.1

Major Shareholders

	%
SingTel	22.0
Alibaba Group	14.6
-	-
FY23 NAV/Share (\$)	0.59
FY23 Net Cash/Share (\$)	0.05

PRICE CHART



Source: Bloomberg

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• **Logistics: Renewed focus on Australia.** In line with our expectations, management has earmarked Australia as SPOST's next pillar for growth, with its majority stake acquisition of Freight Management Holdings (FMH) set to increase and scale up the group's logistics network in the country. Also, a full-year contribution from FMH is expected to boost the segment's revenue and profitability significantly (\$\$178.7m revenue contribution in 4QFY22). The group also 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. Based on our estimates, we expect the logistics segment to post robust growths in revenue (+25.3% yoy) and operating profit (+47.3% yoy) for FY23. This is after impressive growths in FY22 where both revenue (+61.6% yoy) and operating profit (+293.5% yoy) surged.

• **Property: Back to pre-pandemic levels.** Not much was mentioned about the property segment. However, the fact that its retail segment is having full occupancy and its office space is high at 93.5% occupancy as at end-FY22 bodes well for the segment.

EARNINGS REVISION/RISK

• **We lower our FY22-24 PATMI estimates by 5-7%,** on the back of higher operating costs and longer-than-expected elevated air freight rates. Taking a conservative view, we now expect air freight rates to return near pre-pandemic levels in 1HFY24 instead of 2HFY23/1HFY24 previously.

VALUATION/RECOMMENDATION

• **Maintain BUY with a slightly lower SOTP-based target price of S\$0.87 (S\$0.90 previously).** In our view, SPOST is on the verge of a strong recovery, driven by the growth in e-commerce and logistics. Also, once air freight rates reach an optimal level sometime in 1HFY24, we expect SPOST to ramp up IPP volumes, which will help to boost overall revenue. Hence, with an expected inflection point approaching and trading below -2SD (15.4x FY23F PE) of its five-year mean PE (21.3x), we opine that SPOST has significant potential upside at current attractive price levels.

SHARE PRICE CATALYST

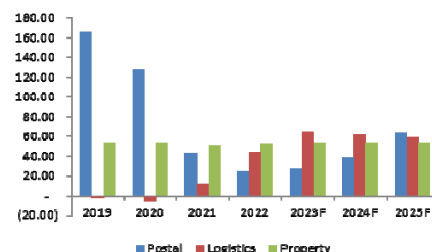
- Pick-up in air travel.
- Lower-than-expected decline in domestic postal services.
- Earnings-accretive acquisitions.

PEER COMPARISON

Company	Price @ 29-Jun-22 (1cy)	Market Cap (US\$m)	PE 2022 (x)	PE 2023 (x)	P/B 2022 (x)	P/B 2023 (x)	ROE 2022 (%)	ROE 2023 (%)	EV/EBITDA 2022 (x)	EV/EBITDA 2023 (x)	Net Gearing (%)
Postal Services											
Royal Mail Plc	270	3,147	7.0	5.8	0.5	0.5	7.4	8.6	3.2	2.9	18.9
Deutsche Post Ag-Reg	35.91	46,844	8.7	9.0	2.1	1.9	25.0	21.8	4.8	4.9	65.7
Bpost Sa	5.71	1,202	6.3	5.8	1.1	1.0	19.5	19.1	2.9	2.8	53.1
Pos Malaysia Berhad	0.555	99	n.a.	n.a.	0.6	0.6	(13.8)	(4.2)	5.8	3.8	80.0
Postnl Nv	2.946	1,592	11.1	8.7	4.4	4.3	32.1	50.5	4.8	4.2	34.0
Oesterreichische Post Ag	27.45	1,952	14.9	14.1	2.9	2.8	19.4	20.8	5.7	5.5	9.8
Average			9.6	8.7	1.9	1.8	14.9	19.4	4.6	4.0	43.6
Logistics Services											
Yamato Holdings Co Ltd	2199	6,135	14.5	12.7	1.3	1.2	8.9	9.5	5.4	4.8	(22.9)
Seino Holdings Co Ltd	1106	1,687	9.7	9.2	0.4	0.4	4.7	4.8	3.1	3.0	(15.9)
Fedex Corp	240.09	62,226	10.5	9.6	2.1	1.7	21.1	20.1	7.8	7.3	121.5
United Parcel Service-CI B	179.92	157,208	14.1	13.6	8.1	6.2	66.2	52.9	10.0	9.7	83.5
Wice Logistics Pcl	12.9	239	13.6	12.2	4.6	3.6	37.4	32.5	9.1	8.1	(3.7)
Kerry Logistics Network Ltd	17.44	4,017	10.0	10.4	1.3	1.1	14.2	15.2	5.8	6.8	(0.1)
Sinotrans Limited-H	2.29	3,678	4.2	4.8	0.4	0.4	10.9	10.3	5.7	5.6	7.9
Average			11.0	10.3	2.6	2.1	23.4	20.8	6.7	6.5	24.3

Source: UOB Kay Hian, Bloomberg

SEGMENTAL OPERATING PROFIT BREAKDOWN (\$M)



Source: SPOST, UOB Kay Hian

HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

SOTP-BASED VALUATION

Business	Valuation (\$m)	Value ps (\$)	Remarks
Mail	230.1	0.10	10.0x FY23F PE
Logistics	621.0	0.28	7.0x FY23F EV/EBITDA
Property	1,078.0	0.48	Cap rate of 5.0%
Gross value (\$m)	1,929.1	0.86	
Less: Net debt (cash)	(122.7)		
Less: Perpetuals	250.0		
Less: Minority stake	(159.8)		
Net value (\$m)	1,961.6		
No. of shares	2,249.6		
Target price (\$)	\$0.87		

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	1,665.6	1,892.8	1,930.2	2,012.3
EBITDA	182.0	207.4	225.0	240.6
Deprec. & amort.	76.6	70.4	70.1	68.2
EBIT	105.4	137.0	154.9	172.4
Total other non-operating income	1.8	(4.9)	(4.9)	(4.9)
Associate contributions	4.8	0.0	0.0	0.0
Net interest income/(expense)	(6.5)	(5.6)	(3.5)	(2.7)
Pre-tax profit	107.4	126.5	146.5	164.9
Tax	(19.6)	(23.1)	(26.8)	(30.1)
Minorities	(4.6)	(5.5)	(6.3)	(7.1)
Net profit	83.1	97.9	113.4	127.6
Net profit (adj.)	87.7	97.9	113.4	127.6

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	501.6	441.5	400.4
Other current assets	283.8	334.9	340.5	352.9
Total assets	2,679.4	2,931.3	2,856.6	2,809.7
ST debt	77.5	77.5	77.5	77.5
Other current liabilities	753.9	874.8	830.1	820.7
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	1,571.1	1,586.7	1,593.9
Minority interest	(165.3)	(159.8)	(153.5)	(146.4)
Total liabilities & equity	2,679.4	2,931.3	2,856.6	2,809.7

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	89.5	249.2	143.1	183.8
Pre-tax profit	107.4	126.5	146.5	164.9
Tax	(24.0)	(23.1)	(26.8)	(30.1)
Deprec. & amort.	74.4	70.4	70.1	68.2
Associates	(4.8)	0.0	0.0	0.0
Working capital changes	(55.5)	69.8	(50.3)	(21.8)
Non-cash items	(7.8)	5.6	3.5	2.7
Investing	(53.3)	(46.1)	(45.3)	(45.8)
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	3.9	4.7	4.2
Financing	(257.0)	18.1	(157.9)	(179.2)
Dividend payments	(24.7)	(54.2)	(67.7)	(90.3)
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)	221.2	(60.1)	(41.1)
Beginning cash & cash equivalent	501.2	280.4	501.6	441.5
Ending cash & cash equivalent	280.4	501.6	441.5	400.4

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	10.9	11.0	11.7	12.0
Pre-tax margin	6.4	6.7	7.6	8.2
Net margin	5.0	5.2	5.9	6.3
ROA	3.1	3.5	3.9	4.5
ROE	5.7	6.8	7.2	8.0
Growth				
Turnover	18.6	13.6	2.0	4.3
EBITDA	29.8	14.0	8.5	6.9
Pre-tax profit	78.1	17.8	15.8	12.5
Net profit	74.5	17.8	15.8	12.5
Net profit (adj.)	45.8	11.7	15.8	12.5
EPS	45.8	11.7	15.8	12.5
Leverage				
Debt to total capital	31.2	21.2	18.6	16.0
Debt to equity	39.5	24.1	20.6	17.3
Net debt/(cash) to equity	18.1	(7.8)	(7.2)	(7.9)
Interest cover (x)	27.8	36.8	64.3	89.7

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