COMPANY UPDATE

Singapore Post (SPOST SP)

Expanding Down Under

SPOST announced that the group plans to acquire another 37% stake in FMH, increasing its stake to 88% and expanding its operations in Australia. To combat higher operating costs, the group has also increased postage rates across its DPP segment. China's relaxation of its COVID-19 policies provides favourable tailwinds for its IPP segment that has faced depressed volumes. We maintain HOLD with a slightly higher target price of S$0.58 (S$0.52 previously).

WHAT'S NEW

- **Increased stake.** Singapore Post (SPOST) announced that the group has entered into a sale and purchase agreement to acquire an additional 37% stake in Freight Management Holdings (FMH), taking its total stake to approximately 88% post-acquisition. This is in line with SPOST's key strategy to expand its overseas logistics operations and accelerates the group's plan for eventual full ownership of FMH. Pending SGX approval, the acquisition deal would be completed in 4QFY23 (1Q23), at a consideration of A$175.4m (about S$161.5m) which would be fully funded by internal cash reserves/bank loan facilities. Given the robust operating profit growth that FMH possesses, the acquisition is expected to be earnings accretive and would help boost SPOST's profitability from 1QFY24 onwards.

- **Higher postage fees.** To combat elevated operating costs and the recent GST increase, SPOST has increased delivery postage rates for most of its services from the domestic post and parcel (DPP) segment. Starting 1 Jan 23, postage rates for its products and services such as basic mail letterbox delivery to Speedpost delivery have increased by 1-3% and are set to increase again by another 1-3% from 1 Jan 24 onwards. Facing inflationary pressures, the higher postage rates are expected to support compressing margins that the DPP segment has been facing. However, in our view, we reckon that the higher postage rate increases are insufficient to cover rising costs, given that domestic headline inflation is estimated at 6.5-7.0%/5.5-6.5% for 2022/2023 respectively.

- **IPP to see better days.** China ended most of its nationwide Zero-COVID policies in a bid to boost its economy and transition into COVID-19 endemicity. After three years of self-isolation, China lifted restrictions on its international borders whereby inbound travellers are now able to enter the country quarantine-free. Although China's borders remain closed to tourists for now, we expect China to eventually fully reopen from 1H23, which is positive for SPOST's international post and parcel segment. Without sporadic COVID-19 lockdowns in key manufacturing hubs, outgoing international post and parcel (IPP) postage volumes are expected to recover, given China being SPOST's largest IPP contributor. However, there is currently limited international flight capacity in and out of China which we reckon may take two-three quarters before flight capacity returns to pre-COVID-19 levels as travel demand recovers.

KEY FINANCIALS

Year to 31 Mar (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,405	1,666	1,976	2,208	2,300
EBITDA	140	182	151	180	199
Operating profit	70	105	81	110	131
Net profit (rep./act.)	48	83	14	53	76
Net profit (adj.)	60	88	44	63	76
EPS (S$ cent)	2.7	3.9	1.9	2.8	3.4
PE (x)	19.9	13.7	27.2	19.1	15.7
P/B (x)	0.9	0.9	0.9	0.9	0.9
EV/EBITDA (x)	7.8	6.0	7.2	6.1	5.5
Dividend yield (%)	2.1	3.4	1.1	1.4	1.9
Net margin (%)	3.4	5.0	0.7	2.4	3.3
Net debt/(cash) to equity (%)	(11.0)	18.1	3.4	(1.7)	(6.3)
Interest cover (x)	32.4	27.8	23.2	37.3	61.0
ROE (%)	3.0	5.7	1.0	3.4	4.9
Consensus net profit	-	-	63	83	81
UOBKH/Consensus (x)	-	-	0.70	0.76	0.94

Source: SPOST, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S$0.53
Target Price	S$0.58
Upside	+9.0%
(Previous TP	*S$0.52)*

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):	2,249.7
Market cap (S$m):	1,192.4
Market cap (US$m):	895.9
3-mth avg daily t'over (US$m):	0.7

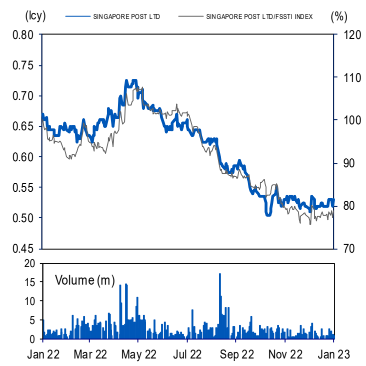
Price Performance (%)

52-week high/low S$0.725/S$0.505

1mth	3mth	6mth	1yr	YTD
2.9	(0.9)	(19.7)	(20.9)	1.9

Major Shareholders	%
SingTel	22.0
Alibaba Group	14.5
-	-
FY23 NAV/Share (S$)	0.57
FY23 Net Cash/Share (S$)	0.02

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **DPP: Unlikely to stem decline.** Despite 1-3% higher postage rates, we reckon that it is insufficient to cover rising costs and normalising DPP volumes. Based on our estimates, DPP letters & printed paper quarterly volumes would continue posting single-digit yoy declines, while normalising ecommerce demand would also drag overall DPP segmental revenue. We estimate that FY23 DPP ecommerce and letters & printed paper volumes should fall by about 25% yoy and about 3% yoy respectively. However, 3QFY23 may see a qoq increase in DPP volumes, being SPOST's seasonally strongest quarter. Despite higher postage rates being positive, additional postage rate hikes are needed to help support compressed margins and sliding DPP volumes, in our view.

- **IPP: Travel is back.** Air conveyance costs are poised to drop in 3QFY23, backed by the holiday season and elevated travel demand. Flight capacity coming into Changi Airport is near 75% of pre-pandemic levels and is expected to improve further with China's international borders reopening a strong catalyst. Before the pandemic, air travel between Singapore and Mainland China was the second largest contributor to Changi Airport's passenger volume, forming 10.9% of the total in 2019. Currently near 5% of pre-pandemic levels, we expect flights capacity between China and Singapore to gradually recover moving forward, boosting IPP volumes. However, in the short term, we opine that more narrow-bodied passenger aircrafts, instead of cargo planes, would be transiting at Changi Airport to cater to overwhelming travel demand, resulting in lesser belly hold cargo space that SPOST uses for its IPP postage. We estimate a ramp up in IPP volumes in 2HFY24 once flight capacity from China returns to near pre-pandemic levels.

- **Logistics: Revenue growth engine.** With SPOST's stake increasing from 51% to 88%, the increased stake in FMH would boost our current FY24 revenue and net profit estimates by 11% and 106% respectively. Furthermore, the recurring redemption liability charge that SPOST incurs for the minority shareholders in FMH is set to decrease given SPOST's larger stake after the acquisition. We estimate that the redemption charge would drop from $35m-40m in FY23 to S$5m-10m in FY24. Famous Holdings is set to post robust revenue in FY23 although potential downside may come from the normalisation of sea freight rates.

- **Property: Occupancy rates remain stable.** As Singapore reopened its borders and entered COVID-19 endemicity, we expect footfall and tenant sales to remain robust. Occupancy rates at SingPost Centre have been stable as the retail segment maintains its near-full occupancy (99.7% in 1HFY23) while the office segment improved slightly to 95.5% in 1HFY23.

EARNINGS REVISION/RISK

- **We increase our FY24-25 revenue and net profit forecasts,** accounting for the new increased stake in FMH. We now forecast FY24-25 revenue at S$2,208.3m (S$1,995.4m previously) and S$2,299.0m (S$2,065.8m previously) respectively, while increasing our PATMI forecasts to S$52.7m (S$25.2m previously) and S$76.4m (S$64.8m previously) respectively. We leave our FY23 forecasts unchanged.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a slightly higher PE-based target price of S$0.58 (S$0.52 previously).** We have pegged our PE multiple to the same 21.3x multiple, SPOST's average long-term mean PE, to SPOST's average PATMI forecasts for FY23-25. This is to account for SPOST's gradual recovery in earnings.

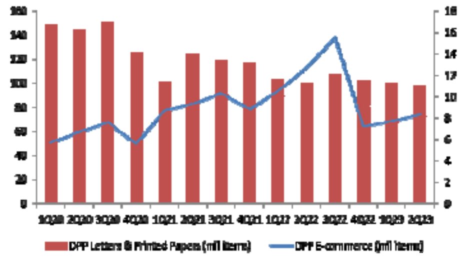
- However, based on our SOTP valuation, we value SPOST at S$0.70, with the logistics and property segments valued at about S$1.6b. Given that SPOST's market cap is at around S$1.2b, we think that the postal segment is being undervalued by the market. Any potential reversal in postal earnings could lead to valuation upside.

SHARE PRICE CATALYST

- Change in China's COVID-19 policy.

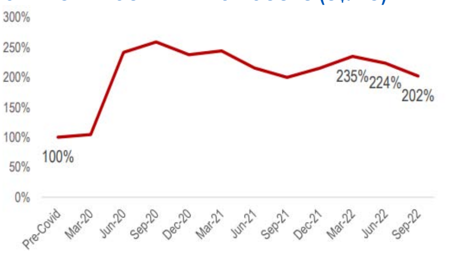
- Lower-than-expected decline in domestic postage.

DPP LETTER AND MAIL / ECOMMERCE VOLUMES



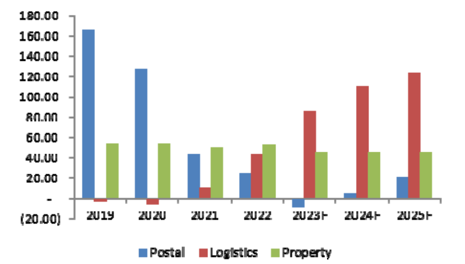
Source: SPOST, UOB Kay Hian

CHANGE IN CONVEYANCE COSTS (S$/KG)



Source: SPOST, UOB Kay Hian

SEGMENTAL ANNUAL OPERATING PROFIT FORECAST (S$M)



Source: Bloomberg, UOB Kay Hian

SOTP VALUATION

Business	Valuation (S$m)	Value ps (S$)	Remarks
Mail	107.5	0.05	4.9x FY24F EV/EBITDA
Logistics	700.5	0.31	6.4x FY23F EV/EBITDA
Property	914.4	0.41	Cap rate of 5.0%
Gross value (S$m)	**1,722.4**	**0.77**	
Less: Net debt (cash)	52.3		
Less: Perpetuals	250.0		
Less: Minority stake	(154.3)		
Net value (S$m)	**1,574.4**		
No. of shares	2,249.6		
Target price (S$)	**$0.70**		

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S$m)	2022	2023F	2024F	2025F
Net turnover	**1,665.6**	**1,975.8**	**2,208.3**	**2,299.9**
EBITDA	182.0	151.0	180.0	198.9
Deprec. & amort.	76.6	70.4	70.1	68.2
EBIT	105.4	80.6	109.9	130.8
Total other non-operating income	1.8	(1.9)	(1.9)	(1.9)
Associate contributions	4.8	0.0	0.0	0.0
Net interest income/(expense)	(6.5)	(6.5)	(4.8)	(3.3)
Pre-tax profit	**107.4**	**72.2**	**103.2**	**125.6**
Tax	(19.6)	(17.3)	(24.8)	(30.1)
Minorities	(4.6)	(11.0)	(15.7)	(19.1)
Net profit	**83.1**	**13.9**	**52.7**	**76.4**
Net profit (adj.)	87.7	43.9	62.7	76.4

BALANCE SHEET

Year to 31 Mar (S$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	326.6	353.1	373.7
Other current assets	283.8	288.2	316.3	327.4
Total assets	**2,679.4**	**2,709.6**	**2,744.0**	**2,757.5**
ST debt	77.5	77.5	77.5	77.5
Other current liabilities	753.9	690.9	755.9	778.4
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	1,527.7	1,533.4	1,557.1
Minority interest	(165.3)	(154.3)	(138.6)	(119.5)
Total liabilities & equity	**2,679.4**	**2,709.6**	**2,744.0**	**2,757.5**

CASH FLOW

Year to 31 Mar (S$m)	2022	2023F	2024F	2025F
Operating	**89.5**	**34.4**	**180.2**	**178.4**
Pre-tax profit	107.4	72.2	103.2	125.6
Tax	(24.0)	(17.3)	(24.8)	(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)	(67.4)	36.8	11.5
Non-cash items	(7.8)	(23.5)	(5.2)	3.3
Investing	**(53.3)**	**(47.0)**	**(46.6)**	**(46.4)**
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	3.0	3.4	3.6
Financing	**(257.0)**	**58.7**	**(107.1)**	**(111.4)**
Dividend payments	(24.7)	(13.5)	(16.9)	(22.6)
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	(232.3)	72.3	(90.2)	(88.9)
Net cash inflow (outflow)	**(220.8)**	**46.2**	**26.5**	**20.6**
Beginning cash & cash equivalent	**501.2**	**280.4**	**326.6**	**353.1**
Ending cash & cash equivalent	**280.4**	**326.6**	**353.1**	**373.7**

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	10.9	7.6	8.2	8.7
Pre-tax margin	6.4	3.7	4.7	5.5
Net margin	5.0	0.7	2.4	3.3
ROA	3.1	0.5	1.9	2.8
ROE	5.7	1.0	3.4	4.9
Growth				
Turnover	18.6	18.6	11.8	4.2
EBITDA	29.8	(17.0)	19.2	10.5
Pre-tax profit	78.1	(32.7)	42.8	21.8
Net profit	74.5	(83.3)	278.7	44.9
Net profit (adj.)	45.8	(49.9)	42.8	21.8
EPS	45.8	(49.9)	42.8	21.8
Leverage				
Debt to total capital	31.2	21.6	19.0	16.1
Debt to equity	39.5	24.8	21.3	17.7
Net debt/(cash) to equity	18.1	3.4	(1.7)	(6.3)
Interest cover (x)	27.8	23.2	37.3	61.0

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