

COMPANY UPDATE

Singapore Post (SPOST SP)

1QFY24 Was A Soft Quarter, Dragged By DPP And A Strong Singapore Dollar

SPOST reported stronger 1QFY24 operating profit (+11.8% yoy), driven by the Australian and IPP segments. The domestic postal segment continued to underperform as postal volumes dropped. The logistics segment saw flattish revenue growth yoy due to unfavourable currency movements while the property segment remained stable. We become more bullish on the IPP segment, driven by China's reopening. Given the mixed outlook, we maintain HOLD with a slightly lower target price of S\$0.44.

1QFY24 BUSINESS UPDATE

Year to 31 Mar (S\$m)	1QFY24	1QFY23	yoy % chg	Remarks
Revenue	404.1	475.2	(15.0)	Lower contributions from Famous Holdings and a stronger Singapore dollar.
Group Expenses	(391.9)	(466.3)	(16.0)	Driven by lower air conveyance costs and prudent cost management.
Operating Profit	11.9	10.6	11.8	Reported S\$16-17m operating profit on a constant currency basis, ~40% yoy increase.
Operating Profit Margin (%)	2.9	2.2	0.7ppt	Broad-based margin improvement in most segments.

Source: SPOST, UOB Kay Hian

WHAT'S NEW

- Soft quarter, below expectations.** Singapore Post (SPOST) released its 1QFY24 business update, reporting lower overall group revenue (-15.0% yoy) of S\$404.1m but higher operating profit (+11.8% yoy) of S\$11.9m, forming 20.0% and 10.4% of our full-year forecasts respectively. 1QFY24 revenue was largely in line with expectations given that 1Q has historically been SPOST's seasonally weakest quarter. The yoy drop in revenue was largely due to a moderation in revenue from Famous Holdings (~S\$50m of the yoy drop) along with weaker overseas contributions (~S\$20m of the yoy drop) from unfavourable forex impacts. However, 1QFY24 operating profit was still below our expectations, dragged by the Domestic Post & Parcel (DPP) segment and a stronger Singapore dollar. On a constant currency basis, 1QFY24 operating profit would have grown by ~40% yoy to around S\$17m, forming 15% of our full-year estimates which would have been closer and in line with our expectations. SPOST did note that most of the group's businesses were profitable in 1QFY24, excluding the DPP segment.
- Higher operating margins and increasing overseas exposure.** 1QFY24 operating margin was 0.7ppt higher yoy, on the back of lower air conveyance costs and prudent cost management. Also, 86% of group revenue is now generated internationally, up from 82% in FY22. As the group's international business exposure ramps up, we expect forex movements to have a more significant impact moving forward.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,666	1,872	1,724	1,809	1,909
EBITDA	182	172	176	213	246
Operating profit	105	89	89	129	164
Net profit (rep./act.)	83	25	46	73	94
Net profit (adj.)	88	32	46	73	94
EPS (S\$ cent)	3.9	1.4	2.1	3.2	4.2
PE (x)	12.9	34.9	24.3	15.4	11.9
P/B (x)	0.9	1.0	1.0	1.0	1.0
EV/EBITDA (x)	6.8	7.3	7.1	5.8	5.1
Dividend yield (%)	3.6	1.2	2.0	2.8	3.6
Net margin (%)	5.0	1.3	2.7	4.0	4.9
Net debt/(cash) to equity (%)	18.1	9.3	6.5	4.8	(0.2)
Interest cover (x)	27.8	7.6	59.9	503.1	n.a.
ROE (%)	5.7	1.8	3.4	5.3	6.7
Consensus net profit	-	-	49	73	90
UOBKH/Consensus (x)	-	-	0.95	1.00	1.05

Source: SPOST, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.50
Target Price	S\$0.44
Upside	-12.0%
(Previous TP)	S\$0.46

COMPANY DESCRIPTION

Singapore Post Limited (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.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SPOST SP
Shares issued (m):	2,250.0
Market cap (S\$m):	1,125.0
Market cap (US\$m):	829.2
3-mth avg daily t'over (US\$m):	1.0

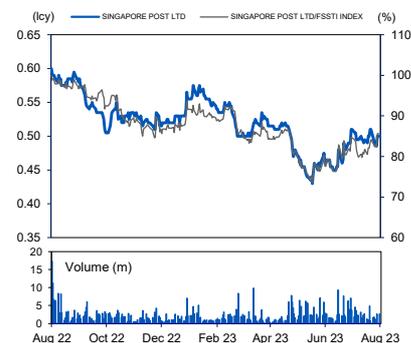
Price Performance (%)

52-week high/low	S\$0.620/S\$0.430
1mth	2.0
3mth	5.3
6mth	(9.1)
1yr	(20.6)
YTD	(3.8)

Major Shareholders

	%
Singtel	22.0
Alibaba Group	14.6
-	-
FY24 NAV/Share (S\$)	0.50
FY24 Net Debt/Share (S\$)	0.04

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- DPP: Headwinds continue.** Although no segmental numbers were published, SPOST noted that 1QFY24 revenue and volumes for SPOST's traditional letter & mail and ecommerce business continued to decline, with total volumes down 5.3% yoy. Despite additional volumes from new customer acquisitions, higher operating costs continue to plague the segment, with 1QFY24 registering an operating loss. E-commerce volume has continued to trend downwards post-pandemic but is expected to improve in the medium term. Based on our estimates, 1QFY24 operating loss for DPP is around S\$15m. Management also noted that SPOST is still in discussions with government regulators to increase postage rates, which may help narrow operating losses.
- IPP: Bottoming out.** 1QFY24 revenue and operating profit grew qoq as China reopened its international borders. As mentioned in our previous update, we reckon that IPP has hit a bottom, with 1QFY24 turning profitable as compared to 1QFY23. This was driven by lower conveyance costs (-37.0% yoy), better cost control and a favourable higher-margin revenue mix, offset by a weaker Chinese renminbi. It was also noted that higher volumes from the higher-margin commercial solutions business helped stabilise cross-border e-commerce volumes. Air freight rates continue to soften gradually as global travel recovers, which we reckon would reach near pre-pandemic levels in 1HFY24. Based on our estimates, 1QFY24 IPP operating profit is around S\$3m.
- Logistics (FMH Holdings & CouriersPlease): Organic growth.** Despite the Australian dollar weakening against the Singapore dollar by 9% yoy, management noted that revenue from the Australian business was flat yoy with operating profit growing close to 30% yoy, dragged by industry-wide weakness. On a constant currency basis, 1QFY24 revenue (+6.6% yoy) and operating profit (+34.4% yoy) was organically higher, driven by higher customer acquisitions and overall volume growth. The lower revenue growth as compared to operating profit growth was due to lower fuel surcharge fees that were passed through to customers, which only partially flowed down to operating profit, thus protecting margins. Also, management noted that there were stronger contributions from the higher-margin 4PL businesses as compared to the 3PL business, leading to higher margins. Based on our estimates, 1QFY24 operating profit is likely around S\$10m.
- Logistics (Famous Holdings & others):** Dragged by falling rates. As sea freight rates return to pre-pandemic levels, 1QFY24 revenue and operating profit declined accordingly. However, management noted that not only was Famous Holdings still profitable in 1QFY24, operating margins were largely stable, driven by stronger contributions from higher-margin consolidation and logistics solutions services. Based on our estimates, assuming a 7% operating margin, the S\$50m loss in quarterly revenue led to a S\$3m-4m fall in operating profit. 1QFY24 operating profit is likely around S\$3m.
- Property: Occupancy rates remain stable.** 1QFY24 occupancy rates at SingPost Centre remained stable at 98.2% as the retail segment was at full occupancy while the office segment was at 97.5%. We estimate 1QFY24 operating profit at S\$11m.

### EARNINGS REVISION/RISK

- We adjust our FY24-26 PATMI forecasts,** to account for weaker overseas contributions from the logistics segment. We now forecast FY24-26 PATMI at S\$46.5m (S\$48.5m previously), S\$73.3m (S\$77.5m previously) and S\$94.5m (S\$100.6m previously) respectively.

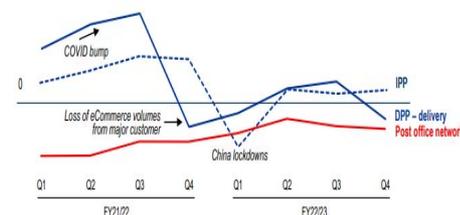
### VALUATION/RECOMMENDATION

- Maintain HOLD and a slightly lower PE-based target price of S\$0.44 (S\$0.46 previously),** pegged to the same PE 21.3x multiple, SPOST's average long-term mean PE, to FY24F PATMI estimates. However, based on our SOTP valuation, we value SPOST at S\$0.77, with the logistics and property segments valued at about S\$1.8b. Assuming a S\$1 valuation for the mailing segment, we would value SPOST at S\$0.67. We think that the market is severely undervaluing both the logistics and mailing segments given that SPOST's current market cap is only around S\$1.1b.

### SHARE PRICE CATALYST

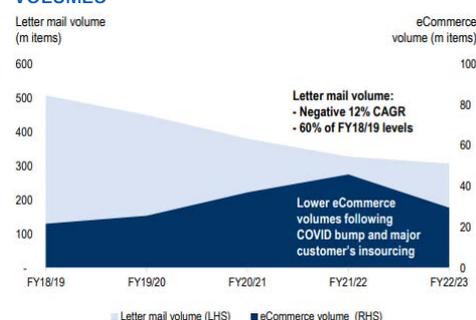
- Better-than-expected IPP volumes, lower-than-expected decline in domestic postal.**

### POST & PARCEL SEGMENT'S PERFORMANCE



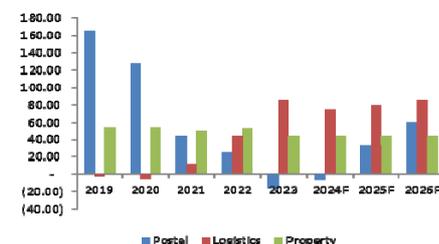
Source: SPOST, UOB Kay Hian

### DECLINING E-COMMERCE AND LETTER MAIL VOLUMES



Source: SPOST, UOB Kay Hian

### SPOST'S SEGMENTAL OPERATING PROFIT BREAKDOWN (\$M)



Source: Bloomberg, UOB Kay Hian

### SOTP VALUATION

Business	Valuation (\$m)	Value ps (\$)	Remarks
Mail	218.0	0.10	1.0x FY23 P/B
Logistics	964.2	0.43	8.0x FY24F EV/EBITDA
Property	880.0	0.39	Cap rate of 5.0%
<b>Gross value (\$m)</b>	<b>2,062.2</b>	<b>0.92</b>	
Less: Net debt (cash)	86.7		
Less: Perpetuals	251.5		
Less: Minority stake	(4.6)		
<b>Net value (\$m)</b>	<b>1,728.6</b>		
No. of shares	2,249.6		
<b>Target price (\$)</b>	<b>\$0.77</b>		

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Net turnover	1,872.3	1,724.4	1,809.1	1,909.3
EBITDA	171.5	175.5	213.1	245.9
Deprec. & amort.	82.4	86.1	84.2	82.3
EBIT	89.1	89.4	128.9	163.7
Total other non-operating income	9.3	(5.0)	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(22.7)	(2.9)	(0.4)	2.1
<b>Pre-tax profit</b>	<b>68.0</b>	<b>81.5</b>	<b>128.5</b>	<b>165.8</b>
Tax	(29.2)	(32.6)	(51.4)	(66.3)
Minorities	(14.1)	(2.4)	(3.9)	(5.0)
<b>Net profit</b>	<b>24.7</b>	<b>46.5</b>	<b>73.2</b>	<b>94.5</b>
Net profit (adj.)	32.4	46.5	73.2	94.5

### CASH FLOW

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>115.7</b>	<b>146.5</b>	<b>134.8</b>	<b>173.3</b>
Pre-tax profit	68.0	81.5	128.5	165.8
Tax	(32.8)	(32.6)	(51.4)	(66.3)
Deprec. & amort.	82.6	86.1	84.2	82.3
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	(8.2)	8.5	(27.0)	(6.3)
Non-cash items	6.1	2.9	0.4	(2.1)
<b>Investing</b>	<b>(27.2)</b>	<b>(44.7)</b>	<b>(43.5)</b>	<b>(42.3)</b>
Capex (growth)	(28.4)	(50.0)	(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	6.5	7.7
<b>Financing</b>	<b>126.8</b>	<b>(35.9)</b>	<b>79.5</b>	<b>(61.1)</b>
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	(13.3)	111.1	(20.4)
<b>Net cash inflow (outflow)</b>	<b>215.3</b>	<b>65.9</b>	<b>170.8</b>	<b>69.9</b>
Beginning cash & cash equivalent	280.4	495.7	561.6	732.3
Ending cash & cash equivalent	495.7	561.6	732.3	802.2

### BALANCE SHEET

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Fixed assets	386.9	350.8	316.6	284.4
Other LT assets	1,687.3	1,687.3	1,687.3	1,687.3
Cash/ST investment	495.7	561.6	732.3	802.2
Other current assets	267.8	246.0	256.2	268.3
<b>Total assets</b>	<b>2,837.8</b>	<b>2,845.7</b>	<b>2,992.5</b>	<b>3,042.2</b>
ST debt	1.4	1.4	1.4	1.4
Other current liabilities	718.5	705.2	688.5	694.3
LT debt	623.0	649.5	797.7	797.7
Other LT liabilities	120.6	120.6	120.6	120.6
Shareholders' equity	1,381.7	1,374.0	1,385.5	1,424.5
Minority interest	(7.4)	(4.9)	(1.1)	3.9
<b>Total liabilities &amp; equity</b>	<b>2,837.8</b>	<b>2,845.7</b>	<b>2,992.5</b>	<b>3,042.2</b>

### KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	9.2	10.2	11.8	12.9
Pre-tax margin	3.6	4.7	7.1	8.7
Net margin	1.3	2.7	4.0	4.9
ROA	0.9	1.6	2.5	3.1
ROE	1.8	3.4	5.3	6.7
<b>Growth</b>				
Turnover	12.4	(7.9)	4.9	5.5
EBITDA	(5.8)	2.4	21.4	15.4
Pre-tax profit	(36.7)	19.8	57.7	29.0
Net profit	(70.3)	88.2	57.7	29.0
Net profit (adj.)	(63.0)	43.4	57.7	29.0
EPS	(63.0)	43.4	57.7	29.0
<b>Leverage</b>				
Debt to total capital	31.2	32.2	36.6	35.9
Debt to equity	45.2	47.4	57.7	56.1
Net debt/(cash) to equity	9.3	6.5	4.8	(0.2)

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