

COMPANY UPDATE

Singapore Post (SPOST SP)

Becoming More Expensive to Send Letters

Due to a secular decline in postal volumes and increased operating costs, SPOST is set to increase postal rate rates by 64.5% starting Oct 23. We reckon that the DPP segment is set to bottom out in 1HFY24 and recover close to breakeven for FY24. However, we do expect postal volumes to continue falling as more mail users switch to online alternatives. Maintain HOLD with a higher PE-based target price of S\$0.515.

WHAT'S NEW

- Long-awaited postage rate hike.** To combat rising operating costs and declining domestic letter & mail volumes, Singapore Post (SPOST) announced changes to its domestic postage rates with the rate for standard regular mail increasing by 64.5%/20 S cents to 51 S cents starting 9 Oct 23 (early-3QFY24). The last increment was implemented nine years ago and has been kept largely constant since then. This announcement was made after SPOST initiated a strategic review of its domestic postal & parcel (DPP) segment after posting its first ever annual operating loss of S\$15.9m in FY23 and around S\$15m loss in 1QFY24. SPOST noted that the group continues to work with IMDA to conduct a structural review of the postal business and formulate a longer-term strategy.
- Return to profitability.** The postal rate hike is in line with our earlier expectations as we opined that the 1-3% postal rate increase in Jan 23 was insufficient to cover elevated operating costs driven by inflationary pressures. With the postal rate hike, we now reckon that the DPP segment has reached a bottom. Based on our FY24 estimates, we now expect the DPP segment to breakeven for FY24. In our view, the additional revenue from the hike would likely flow down to the bottom line, given no incremental increase in operating costs. Assuming a 10% yoy secular decline in domestic postal volumes for FY24 and no sharp increase in operating costs, we now expect the DPP segment to recover close to breakeven for FY24, implying S\$22m-25m operating profit in 2HFY24.
- Double-edged sword.** The postal rate hike follows global industry trends whereby national postal carriers have done multiple basic postal rate hikes to combat declining volumes. Some examples include the UK's Royal Mail (around 30% increase in two years), the United States Postal Service (about 32% increase since 2019, 10% increase in the last six months) and the NZ Post (around 30% hike in 2023). We initially expected SPOST to follow suit and implement gradual 5-8% rate increases. We reckon that the sharp 64.5% hike may be too aggressive, likely hastening postal volume decline as mail users cut down on higher mailing costs. It was reported that Singapore businesses account for more than 80% of mail users, with the average user sending less than one letter a month. Given the short time frame (2-3 weeks) to adjust to the rate hike, we think that businesses would be quick to jump to greener and online alternatives. We expect to see a sharper decrease in mailing volumes for 2HFY24, partially offsetting additional revenue from the rate hike.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,666	1,872	1,746	1,865	1,972
EBITDA	182	172	199	250	280
Operating profit	105	89	113	165	197
Net profit (rep./act.)	83	25	55	85	105
Net profit (adj.)	88	32	55	85	105
EPS (S\$ cent)	3.9	1.4	2.4	3.8	4.6
PE (x)	12.8	34.5	20.5	13.1	10.7
P/B (x)	0.9	1.0	1.0	1.0	0.9
EV/EBITDA (x)	6.8	7.2	6.2	4.9	4.4
Dividend yield (%)	3.6	1.2	2.0	2.8	3.6
Net margin (%)	5.0	1.3	3.1	4.6	5.3
Net debt/(cash) to equity (%)	18.1	9.3	6.1	3.2	(2.6)
Interest cover (x)	27.8	7.6	28.8	30.1	77.3
ROE (%)	5.7	1.8	3.9	6.1	7.3
Consensus net profit	-	-	45	74	89
UOBKH/Consensus (x)	-	-	1.21	1.15	1.19

Source: SPOST, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.495
Target Price	S\$0.515
Upside	+4.0%
(Previous TP)	S\$0.440

COMPANY DESCRIPTION

Singapore Post (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.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SPOST SP
Shares issued (m):	2,250.0
Market cap (S\$m):	1,113.7
Market cap (US\$m):	816.3
3-mth avg daily t'over (US\$m):	1.0

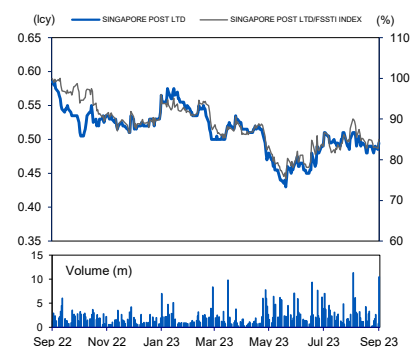
Price Performance (%)

52-week high/low	S\$0.585/S\$0.430			
1mth	3mth	6mth	1yr	YTD
79.9	34.7	64.9	(17.7)	(7.4)

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

- **Next steps.** Assuming that the upcoming postal rate hike is insufficient, we do expect additional postal rate adjustments to stem the decline in DPP profitability. Postage rates are still expected to increase by 1-2 cents in Jan 24 from an earlier postal adjustment announced in Dec 22. We also expect SPOST to consolidate its postal branches and multiple sorting centres, achieving greater economies of scale and lower overhead costs. Management noted that there would be no relaxation of postal service standards which would have reduced operating costs.
- **No nationalisation.** In our view, a divestment of its letter & mail postal business to the Singaporean government is still unlikely in the near to medium term. Similar to global national postal peers, postal rate adjustments have been used globally as a first step in addressing the secular decline in letter & mail delivery volumes and ensuring profitability for their respective letter & mail segments. SPOST has not adjusted rates since 2014 and is only now catching up.

EARNINGS REVISION/RISK

- **We increase our FY24-26 PATMI estimates**, on the back of the upcoming postal rate adjustment while lowering overall margin assumptions from higher operating costs. We now forecast FY24-26 PATMI at S\$54.5m (S\$46.5m previously), S\$85.1m (S\$73.3m previously) and S\$104.9m (S\$94.5m previously) respectively.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher PE-based target price of S\$0.515 (S\$0.440 previously)**, pegged to the same PE 21.3x multiple, SPOST's average long-term mean PE, to FY24 PATMI estimates. Despite a near-term solution to SPOST's mailing segment woes, we are still uncertain over the success of the postal rate hike given the sharp increase in mailing costs, coupled with the lack of clarity over SPOST's group strategic review.
- However, based on our SOTP valuation, we value SPOST at S\$0.78, 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 volumes.

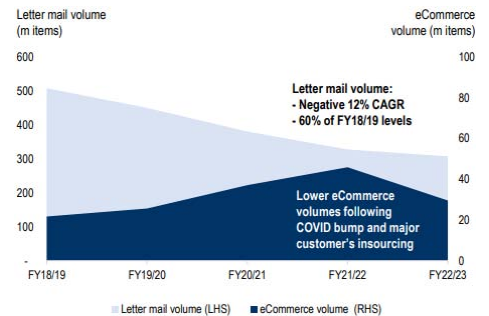
PREVIOUS DOMESTIC POSTAL RATES

LOCAL POSTAGE RATES (inclusive of prevailing GST)				
Weight Step Up to	Basic		Tracked ²	
	Mail (Letter / Postcard ¹ / Printed Paper ²)			
	Registered Service (Singapore): An optional sign-for service Fee: \$2.27 + Prevailing postage rate Available for Basic Mail (Singapore) only.			
	Standard Regular (C5, C6 & DL size envelope)	Standard Large (Up to C4 size envelope)	Non-Standard	Mail (Letter / Postcard ¹ / Printed Paper ²)
20g	\$0.31		\$0.60	\$2.60
40g	\$0.36	\$0.60	\$0.60	\$2.65
100g			\$0.90	\$2.90
250g		\$0.90	\$1.15	\$3.20
500g		\$1.15	\$1.70	\$3.45

Size	Maximum Dimensions	Maximum Weight	Basic Package	Tracked Package
Package	324 x 229 x 65mm	2kg	\$1.55	\$2.00

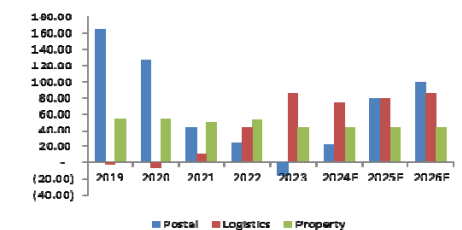
Source: SPOST, UOB Kay Hian

DECLINING E-COMMERCE AND LETTER MAIL VOLUMES



Source: SPOST, UOB Kay Hian

SEGMENTAL OPERATING PROFIT BREAKDOWN (\$M)



Source: Bloomberg, UOB Kay Hian

NEW DOMESTIC POSTAL RATES

	Domestic Delivery Rates (inclusive of prevailing GST)		
	Untracked	Tracked	Tracked Letterbox (Mail/Packages)
Standard Regular (Mail)	Standard Large (Mail)	Tracked Letterbox (Mail/Packages)	
Maximum Dimensions and Weight	500g	500g	2kg
Delivery Rate	\$0.51	\$0.80	\$2.00

Source: SPOST, UOB Kay Hian

SOTP VALUATION

Business	Valuation (\$M)	Value ps (\$)	Remarks
Mail	254.9	0.11	5.7x FY24F EV/EBITDA
Logistics	952.2	0.42	7.9x FY24F EV/EBITDA
Property	880.0	0.39	Cap rate of 5.0%
Gross value	2,087.0	0.93	
Less: Net debt (cash)	81.7		
Less: Perpetuals	251.5		
Less: Minority stake	(4.5)		
Net value	1,758.2		
No. of shares	2,249.6		
Target price (\$)	\$0.78		

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Net turnover	1,872.3	1,746.1	1,865.3	1,971.8
EBITDA	171.5	198.7	249.6	279.6
Deprec. & amort.	82.4	86.1	84.2	82.3
EBIT	89.1	112.6	165.4	197.3
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)	(6.9)	(8.3)	(3.6)
Pre-tax profit	68.0	100.7	157.1	193.7
Tax	(29.2)	(43.3)	(67.6)	(83.3)
Minorities	(14.1)	(2.9)	(4.5)	(5.5)
Net profit	24.7	54.5	85.1	104.9
Net profit (adj.)	32.4	54.5	85.1	104.9

CASH FLOW

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Operating	115.7	155.8	158.5	192.1
Pre-tax profit	68.0	100.7	157.1	193.7
Tax	(32.8)	(43.3)	(67.6)	(83.3)
Deprec. & amort.	82.6	86.1	84.2	82.3
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	(8.2)	5.4	(23.5)	(4.2)
Non-cash items	6.1	6.9	8.3	3.6
Investing	(27.2)	(44.7)	(43.4)	(42.0)
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	6.6	8.0
Financing	126.8	(39.9)	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	(17.3)	103.1	(26.4)
Net cash inflow (outflow)	215.3	71.2	186.7	83.0
Beginning cash & cash equivalent	280.4	495.7	566.9	753.5
Ending cash & cash equivalent	495.7	566.9	753.5	836.5

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	566.9	753.5	836.5
Other current assets	267.8	248.6	263.0	275.8
Total assets	2,837.8	2,853.6	3,020.5	3,084.1
ST debt	1.4	1.4	1.4	1.4
Other current liabilities	718.5	704.7	695.5	704.2
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	1,382.0	1,405.4	1,454.8
Minority interest	(7.4)	(4.5)	(0.0)	5.5
Total liabilities & equity	2,837.8	2,853.7	3,020.5	3,084.1

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	9.2	11.4	13.4	14.2
Pre-tax margin	3.6	5.8	8.4	9.8
Net margin	1.3	3.1	4.6	5.3
ROA	0.9	1.9	2.9	3.4
ROE	1.8	3.9	6.1	7.3
Growth				
Turnover	12.4	(6.7)	6.8	5.7
EBITDA	(5.8)	15.9	25.6	12.0
Pre-tax profit	(36.7)	48.0	56.0	23.3
Net profit	(70.3)	120.9	56.0	23.3
Net profit (adj.)	(63.0)	68.3	56.0	23.3
EPS	(63.0)	68.3	56.0	23.3
Leverage				
Debt to total capital	31.2	32.1	36.2	35.4
Debt to equity	45.2	47.1	56.9	54.9
Net debt/(cash) to equity	9.3	6.1	3.2	(2.6)
Interest cover (x)	7.6	28.8	30.1	77.3

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