

COMPANY UPDATE

Singapore Post (SPOST SP)

3QFY22: Robust Quarter, Spearheaded By E-commerce

SPOST reported strong operating profit of S\$38m, in line with our expectations and driven by e-commerce. Domestic e-commerce volumes surged due to growing mass adoption. Australian operations remained steady despite Omicron outbreaks. We become more optimistic about international post as elevated air freight rates start to soften. Upgrade to BUY with a higher target price of S\$0.78.

3QFY22 BUSINESS UPDATE

Year to 31 Mar (S\$m)	3QFY22	yoy % chg	qoq % chg	9MFY22	yoy % chg	Remarks
Domestic Post & Parcel						
- Letters & printed papers (m items)	108	(9)	8	310	(10)	Continued letter mail decline due to electronic substitution.
E-commerce related						
- Domestic Post & Parcel E-commerce (m items)	16	50	23	39	36	Domestic e-commerce volumes continue strong growth yoy.
- International Post & Parcel (m kg)	5	(21)	(4)	12	(25)	Lower international post and parcel volumes due to elevated air freight rates.
- No. of consignments (mil)	8	7	0	21	9	Added volume from the consolidation of FMH's volume in Dec 21.
Revenue	437	24	15	1,169	10	
Group Expenses	(400)	(23)	(15)	(1,083)	(9)	Driven by volume-related expenses, in line with revenue growth.
Operating Profit	38	46	20	89	35	
Operating Profit Margin (%)	10	2ppts	1ppts	8ppts	1ppts	

Source: SPOST, UOB Kay Hian

WHAT'S NEW

- **Strong quarter, aided by year-end seasonality.** Singapore Post (SPOST) released its 3QFY22 business update with group revenue (+24% yoy) and operating profit (+46% yoy) surging in line with expectations, forming 79.8% and 80.0% of our FY22 full-year forecasts respectively. The outperformance was largely contributed by Famous Holdings, e-commerce growth and the consolidation of Freight Management Holdings (FMH) in 3QFY22. Also, 3Q is historically SPOST's seasonally strongest quarter.
- **Cost efficiency helped boost profitability.** Despite the absence of S\$6.1m in government relief from Singapore's Job Support Scheme, operating profit grew 46% yoy as elevated sea freight rates, better cost efficiency and lower tenant rental rebates helped expand overall margins. International Post and Parcel (IPP) profit also grew despite lower revenue.
- **Health balance sheet.** SPOST remains in a healthy net cash position at S\$111m as of 3QFY22 (S\$179m at 4QFY21). The drop in net cash is largely due to the FMH acquisition.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	1,314	1,405	1,464	1,572	1,622
EBITDA	208	140	167	186	208
Operating profit	139	70	103	123	147
Net profit (rep./act.)	91	48	76	94	114
Net profit (adj.)	100	60	76	94	114
EPS (S\$ cent)	3.8	2.0	2.7	3.5	4.4
PE (x)	16.8	31.7	23.3	18.2	14.5
P/B (x)	1.1	1.1	1.1	1.1	1.1
EV/EBITDA (x)	5.9	8.8	7.4	6.7	5.9
Dividend yield (%)	4.3	1.7	3.9	4.7	4.7
Net margin (%)	6.9	3.4	5.2	6.0	7.0
Net debt/(cash) to equity (%)	(8.0)	(11.0)	(14.6)	(18.9)	(22.8)
Interest cover (x)	68.0	32.4	51.5	117.1	2,964.2
ROE (%)	5.7	3.0	4.7	5.7	6.9
Consensus net profit	-	-	79	96	114
UOBKH/Consensus (x)	-	-	0.96	0.98	1.00

Source: SPOST, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$0.635
Target Price	S\$0.78
Upside	+22.8%
(Previous TP:	S\$0.75)

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):	2,249.6
Market cap (S\$m):	1,428.5
Market cap (US\$m):	1,055.6
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

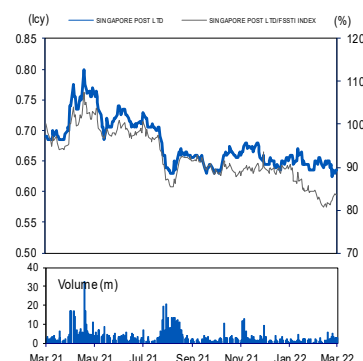
52-week high/low S\$0.900/S\$0.580

1mth	3mth	6mth	1yr	YTD
0.0	(2.3)	(3.1)	(9.9)	(2.3)

Major Shareholders

Shareholder	%
SingTel	22.0
Alibaba Group	14.5
FY22 NAV/Share (S\$)	0.57
FY22 Net Cash/Share (S\$)	0.11

PRICE CHART



Source: Bloomberg

ANALYST(S)

Llalleythan Tan
+65 6590 6624
yirong@uobkayhian.com

- Domestic Post: Next growth driver.** Domestic e-commerce volumes rose (+50% yoy, +23% qoq) in 3QFY22 due to the peak shopping season and increasing adoption in e-commerce. Domestic letters and printed papers continued their yoy decline (-9% yoy) but increased 8% qoq due to the seasonal peak. Growth in e-commerce revenue has already offset letter mail decline and is expected to be SPOST's main revenue driver moving forward.
- IPP: Costs remain elevated but improving.** Although Singapore has been steadfast in reopening its international borders, the IPP segment continues to be impacted by limited freight capacity. However, management has noted that air freight rates have improved gradually since the reopening but are still at elevated levels when compared to pre-COVID-19 levels. We estimate that air conveyance costs are down from 197% of pre-COVID-19 levels to 160-170% of pre-COVID-19 levels. Historically, these costs make up 75-80% of volume-related expenses and 40-50% of total operating costs. While the group has reduced IPP volume flows to manage costs, we reckon that the full opening of Singapore's borders would help soften air freight rates closer to pre-COVID-19 levels by 1HFY23.
- Logistics: Higher volumes down under.** In spite of Omicron outbreaks in 3QFY22, consignment volumes grew 7% yoy, largely contributed by new volume from FMH. CouriersPlease, the last mile delivery business in Australia, performed resiliently in spite of work disturbances with volumes remaining stable yoy. Famous Holdings continued to benefit from higher volumes and sea freight rates amidst ongoing supply chain disruptions.
- Property: Occupancy rates remain stable.** 3QFY22 occupancy rates at SingPost Centre remained stable as the retail segment maintained its full occupancy while the office segment softened slightly to 95.7% from 97.6% in 2QFY22. Management has noted that they are in the process of securing new tenants for their offices. Occupancy rates for the Others segment remain high at 98.4%.

EARNINGS REVISION/RISK

- No changes to our estimates.**

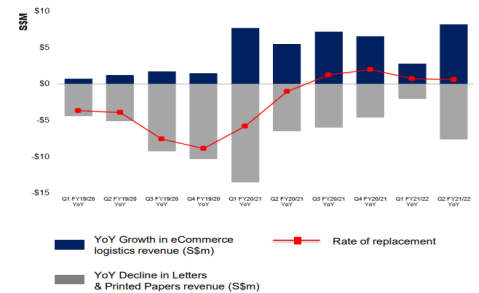
VALUATION/RECOMMENDATION

- Upgrade to BUY with a higher SOTP-based target price of S\$0.78 (previously: S\$0.75).** We value: a) the mail business at 12x FY22F PE (10x FY22F PE previously), b) logistics business at 8.0x FY22F EV/EBITDA, both in line with peers' average, and c) property at a cap rate of 5%.
- We reckon that SPOST is on the verge of a strong recovery, driven by the growth in e-commerce. E-commerce in both domestic and overseas markets has outperformed and is expected to continue for 4QFY22 and beyond. Also, with the return of international flights into Singapore, air freight rates are expected to moderate as flight capacity increases. Once air freight rates reach an optimal level sometime in 1HFY23, we expect SPOST to ramp up IPP volumes, helping boost overall revenue. Therefore, with an expected inflection point approaching and trading at slightly above -1SD of its five-year mean PE, we opine that SPOST has significant potential upside at current attractive price levels.

SHARE PRICE CATALYST

- Pick-up in air travel volume.
- Lower-than-expected decline in domestic postal.
- M&As.

GROWTH IN E-COMMERCE LOGISTICS REVENUE HAS OFFSET LETTER MAIL DECLINE FOR FOUR STRAIGHT QUARTERS



Source: SPOST, UOB Kay Hian

FORWARD PE



Source: Bloomberg, UOB Kay Hian

FORWARD P/B



Source: Bloomberg, UOB Kay Hian

SOTP VALUATION

Business	Valuation (S\$m)	Value ps (S\$)	Remarks
Mail	341.6	0.15	12.0x 2022F PE
Logistics	552.5	0.25	8.0x 2022F EV/EBITDA
Property	1,076.9	0.48	Cap rate of 5.0%
Gross value (S\$m)	1,970.9	0.88	
Less: Net debt (cash)	(178.9)		
Less: Perpetuals	346.8		
Less: Minority stake	47.8		
Net value (S\$m)	1,755.1		
No. of shares	2,249.6		
Target price (S\$)	\$0.75		

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Net turnover	1,404.7	1,464.2	1,572.5	1,622.1
EBITDA	140.2	167.4	186.1	208.1
Deprec. & amort.	70.6	64.2	62.6	60.9
EBIT	69.6	103.1	123.5	147.2
Total other non-operating income	6.5	(3.2)	(3.2)	(3.2)
Associate contributions	1.0	0.0	0.0	0.0
Net interest income/(expense)	(4.3)	(3.2)	(1.6)	(0.1)
Pre-tax profit	60.3	96.7	118.7	143.9
Tax	(13.3)	(21.3)	(26.1)	(31.7)
Minorities	0.6	1.0	1.2	1.5
Net profit	47.6	76.4	93.8	113.7
Net profit (adj.)	60.1	76.4	93.8	113.7

BALANCE SHEET

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Fixed assets	405.4	437.7	409.8	383.6
Other LT assets	1,622.9	1,591.2	1,581.5	1,571.8
Cash/ST investment	501.2	548.2	568.0	587.0
Other current assets	192.2	173.0	183.9	188.9
Total assets	2,721.8	2,750.1	2,743.2	2,731.3
ST debt	9.5	51.9	51.9	51.9
Other current liabilities	585.4	621.6	656.7	667.0
LT debt	312.8	258.3	206.5	154.6
Other LT liabilities	142.7	142.7	142.7	142.7
Shareholders' equity	1,623.6	1,628.6	1,639.8	1,670.9
Minority interest	47.8	46.9	45.7	44.2
Total liabilities & equity	2,721.8	2,750.1	2,743.2	2,731.3

CASH FLOW

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Operating	215.4	198.4	180.9	178.5
Pre-tax profit	60.3	96.7	118.7	143.9
Tax	(35.5)	(21.3)	(26.1)	(31.7)
Deprec. & amort.	68.7	64.2	62.6	60.9
Associates	(1.0)	0.0	0.0	0.0
Working capital changes	109.3	55.5	24.1	5.3
Non-cash items	13.5	3.2	1.6	0.1
Investing	(67.5)	(19.8)	(19.4)	(19.2)
Capex (growth)	(21.9)	(25.0)	(25.0)	(25.0)
Investments	(59.4)	0.0	0.0	0.0
Proceeds from sale of assets	9.9	0.0	0.0	0.0
Others	3.9	5.2	5.6	5.8
Financing	(139.7)	(131.7)	(141.6)	(140.3)
Dividend payments	(38.2)	(56.4)	(67.7)	(67.7)
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	(51.9)	(51.9)	(51.9)
Others/interest paid	(101.5)	(23.4)	(22.0)	(20.7)
Net cash inflow (outflow)	8.2	47.0	19.8	19.0
Beginning cash & cash equivalent	493.0	501.2	548.2	568.0
Ending cash & cash equivalent	501.2	548.2	568.0	587.0

KEY METRICS

Year to 31 Mar (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	10.0	11.4	11.8	12.8
Pre-tax margin	4.3	6.6	7.5	8.9
Net margin	3.4	5.2	6.0	7.0
ROA	1.7	2.8	3.4	4.2
ROE	3.0	4.7	5.7	6.9
Growth				
Turnover	6.9	4.2	7.4	3.2
EBITDA	(32.8)	19.4	11.2	11.9
Pre-tax profit	(53.1)	60.4	22.7	21.3
Net profit	(47.7)	60.4	22.7	21.3
Net profit (adj.)	(40.0)	27.1	22.7	21.3
EPS	(47.0)	36.0	28.2	25.3
Leverage				
Debt to total capital	16.2	15.6	13.3	10.7
Debt to equity	19.9	19.0	15.8	12.4
Net debt/(cash) to equity	(11.0)	(14.6)	(18.9)	(22.8)
Interest cover (x)	32.4	51.5	117.1	n.m

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W