

COMPANY RESULTS

Singapore Post (SPOST SP)

FY22: Results Above Expectations, Only Getting Better Moving Forward

SPOST reported robust growth for both revenue and PATMI, driven by the logistics segment. Domestic e-commerce volumes grew strongly but are expected to soften in the short term. Domestic letter & mail continues its decline while international post still faces elevated air freight costs, but is set to improve as outbound flight movements increase. The logistics segment was the sole outperformer, backed by the completion of a majority stake acquisition in FMH. Maintain BUY. Raise target price to S\$0.90.

FY22 RESULTS

Year to 31 Mar (\$m)	FY22	yoy % chg	2HFY22	yoy % chg	Remarks
Domestic Post & Parcel					
- Letters & printed papers (m items)	413	(10)	211	(11)	Continued letter mail decline due to increasing adoption of emails and going paperless.
E-commerce related					
- Domestic Post & Parcel E-commerce (m items)	46	24	23	19	Domestic e-commerce continues to trend upwards.
- International Post & Parcel-Outbound (m kg)	13	(25)	6	(24)	Air freight costs remains high as more narrow body aircraft flew to tourist destinations.
Revenue	1,665.6	18.6	934.2	34.0	
- Postal	622.3	(16.3)	296.8	(15.0)	Drop in domestic letter and mail along with lower international post & parcel volumes.
- Logistics	998.5	61.6	619.0	90.3	Driven by the consolidation of majority stake in FMH
- Property	114.9	(0.5)	55.1	(8.2)	Lower revenue due to divestment of General Storage Company in Dec 21.
Group Expenses	(1,560.2)	16.9	877.6	32	Driven by higher logistics delivery volumes.
Operating Profit	112.1	41.3	61.0	54.2	
Operating Profit Margin (%)	6.9	1.0ppt	6.5	0.8ppt	
Core PATMI	83.1	74.5	48.1	188.1	
Core PATMI Margin (%)	5.3	1.0ppt	5.1	2.7ppt	

Source: SPOST, UOB Kay Hian

RESULTS

• **Robust revenue and above-expectation earnings.** For FY22, Singapore Post's (SPOST) revenue and PATMI grew to S\$1,665.6m (+18.6% yoy) and S\$83.1m (+74.5% yoy), forming 112% and 106% of our full-year expectations respectively. Final dividend increased to 1.3 S cents (2HFY21: 0.6 S cents), implying a 50% earnings payout ratio and bringing FY22 full-year dividend to 1.8 S cents (FY21: 1.1 S cents). FY22 operating profit surged 41.3% yoy to S\$112.1m, largely driven by higher operating profit from the logistics segment as Freight Management Holdings (FMH) became a subsidiary in Nov 21, along with lower overall corporate overhead expenses.

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	202	219	235
Operating profit	70	105	146	164	181
Net profit (rep./act.)	48	83	105	120	134
Net profit (adj.)	60	88	105	120	134
EPS (\$ cent)	2.7	3.9	4.7	5.3	6.0
PE (x)	26.5	18.2	15.1	13.2	11.8
P/B (x)	1.2	1.2	1.2	1.2	1.2
EV/EBITDA (x)	11.8	9.1	8.2	7.6	7.1
Dividend yield (%)	1.6	2.6	3.4	4.3	5.7
Net margin (%)	3.4	5.0	5.6	6.2	6.7
Net debt/(cash) to equity (%)	(11.0)	18.1	(7.0)	(6.0)	(6.1)
Interest cover (x)	32.4	27.8	35.5	60.0	80.6
ROE (%)	3.0	5.7	7.3	7.6	8.4
Consensus net profit	-	-	90	106	-
UOBKH/Consensus (x)	-	-	1.16	1.14	-

Source: SPOST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.705
Target Price	S\$0.90
Upside	+27.7%
(Previous TP:	S\$0.86)

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 eCommerce logistics solutions.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SPOST SP
Shares issued (m):	2,249.6
Market cap (\$m):	1,586.0
Market cap (US\$m):	1,135.5
3-mth avg daily t'over (US\$m):	2.1

Price Performance (%)

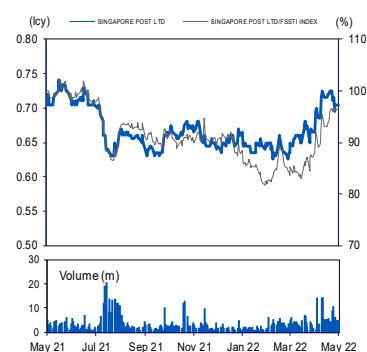
52-week high/low	S\$0.740/S\$0.625			
1mth	3mth	6mth	1yr	YTD
5.2	9.3	4.4	0.0	8.5

Major Shareholders

SingTel	22.0
Alibaba Group	14.0

FY23 NAV/Share (\$)	0.59
FY23 Net Cash/Share (\$)	0.05

PRICE CHART



Source: Bloomberg

ANALYST(S)

Llleythan Tan
+65 6590 6624
yirong@uobkayhian.com

- Postal: Expect margin compression.** Overall postal revenue (-16.3% yoy) and operating profit (-42.9% yoy) for FY22 fell, dragged by declining letter and mail along with lower International post & parcel (IPP) volumes. This was within our expectations as we expected revenue and operating profit to fall 11.0% yoy and 42.3% yoy respectively. However, excluding Job Support Scheme rebates in FY21, operating profit actually grew 3.5% yoy. For the domestic postal segment, revenue from domestic e-commerce grew 24.1% yoy as the increased adoption of e-commerce continues to boost volumes (+24% yoy). However, management has noted that e-commerce volumes after the pandemic may soften in the short term as physical malls reopen, but long-term upward trajectory remains intact. For domestic letters and mail, revenue (-16% yoy) and volume (-10% yoy) continued its downtrend, dragging down overall domestic postal revenue. Looking forward, SPOST plans to invest in and upgrade existing postal infrastructure, increase cost-efficiency and improve margins, especially for domestic e-commerce.

- IPP: Air freight costs remain high.** With elevated air freight costs and lower outbound volumes, FY22 IPP revenue (-24% yoy) and volumes (-25% yoy) shrunk. Despite Singapore reopening its borders in 4QFY22, air freight costs remains elevated at 230% of pre-pandemic levels. This is largely due to the majority of flights out of Changi Airport being narrow-bodied aircrafts, coupled with these planes flying to tourist destinations instead of SPOST's target markets. However, as flight capacity continues to recover to pre-pandemic levels, management is optimistic that air freight costs would eventually soften. Changi Airport's status as a regional air logistics hub, along with lower air freight costs, would help boost SPOST's IPP revenue moving forward.

- Logistics: Outperformance.** Logistics revenue (+61.6% yoy) and operating profit (+293.5% yoy) surged in FY22, beating our previous growth expectations of +25.7% and +266.5% yoy respectively. The outperformance was driven by the completion of a majority stake in FMH (S\$178.7m revenue contribution in 4QFY22), along with soaring sea freight rates that led to record-high profitability. Freight forwarding revenue from Famous Holdings grew 69.6% yoy in FY22 while revenue from the Australian businesses (FMH and CouriersPlease) grew 89.5% yoy. SPOST has plans in place to ramp up consignment volumes and drive synergies in Australia, capitalising on the growing logistics market down under. Also, for FY23, we expect sea freight rates to remain elevated, caused by ongoing supply-chain disruptions amid the Ukraine-Russia conflict.

- Property: Back to pre-pandemic levels.** Occupancy rates at SingPost Centre (SPC) remain high with its retail segment having full occupancy while its office space softened slightly from 95.7% to 93.5% occupancy. Management has noted that it is in the process of securing new tenants for these office spaces. For FY22, property revenue (-0.5% yoy) and operating profit (+5.7% yoy) have reached pre-COVID-19 levels, in line with expectations, backed by higher footfall and tenant sales as social distancing measures ease off. The yoy drop in revenue was due to the divestment of General Space Company in Dec 21. Management has indicated no plans to divest its interest in SPC.

EARNINGS REVISION/RISK

- We increase our FY23 and FY24 earnings forecasts by 10.6% and 2.8% respectively while adding our FY25 forecasts,** on the back of a higher full-year earnings contribution from FMH while decreasing our postal segmental forecasts.

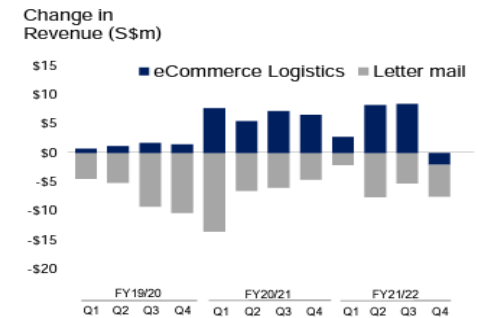
VALUATION/RECOMMENDATION

- Maintain BUY with a higher SOTP-based target price of S\$0.90 (S\$0.86).** 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 2HFY23/1HFY24, we expect SPOST to ramp up IPP volumes, which will help to boost overall revenue. Therefore, with an expected inflection point approaching and trading below -1SD (15.1x FY23F PE) of its five-year mean PE (18.8x), we opine that SPOST has significant potential upside at current attractive price levels.

SHARE PRICE CATALYST

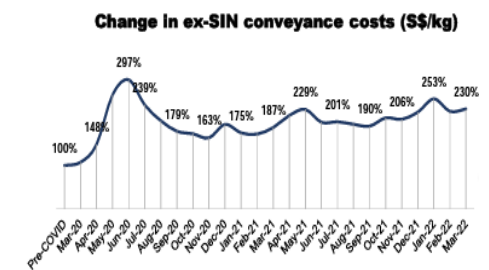
- a) Pick-up in air travel, and b) lower-than-expected decline in domestic postal services.

DOMESTIC POST & PARCEL REVENUE



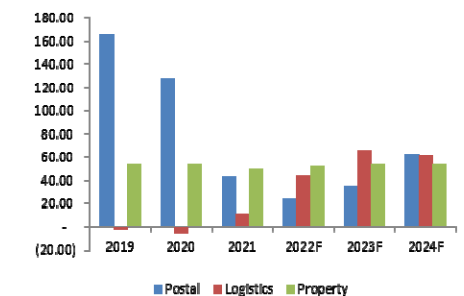
Source: SPOST

ELEVATED CONVEYANCE COSTS



Source: SPOST

SPOST SEGMENTAL OPERATING PROFIT BREAKDOWN (\$M)



Source: Bloomberg, UOB Kay Hian

SOTP-BASED VALUATION

Business	Valuation (\$m)	Value ps (\$)	Remarks
Mail	294.3	0.13	10.0x FY23F PE
Logistics	621.0	0.28	8.0x FY23F EV/EBITDA
Property	1,078.0	0.48	Cap rate of 5.0%
Gross value (\$m)	1,993.3	0.89	
Less: Net debt (cash)	(111.1)		
Less: Perpetuals	250		
Less: Minority stake	(159.4)		
Net value (\$m)	2,013.8		
No. of shares	2,249.6		
Target price (\$)	\$0.90		

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	201.7	219.2	234.6
Deprec. & amort.	76.6	55.4	55.1	53.2
EBIT	105.4	146.4	164.1	181.4
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)	(5.7)	(3.7)	(2.9)
Pre-tax profit	107.4	135.8	155.6	173.6
Tax	(19.6)	(24.8)	(28.4)	(31.7)
Minorities	(4.6)	(5.9)	(6.7)	(7.5)
Net profit	83.1	105.1	120.4	134.4
Net profit (adj.)	87.7	105.1	120.4	134.4

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	412.5	407.1	401.9	398.8
Other LT assets	1,702.7	1,702.7	1,702.7	1,702.7
Cash/ST investment	280.4	490.0	422.6	374.0
Other current assets	283.8	334.9	340.5	352.9
Total assets	2,679.4	2,934.7	2,867.8	2,828.4
ST debt	77.5	77.5	77.5	77.5
Other current liabilities	753.9	870.6	826.3	817.2
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	1,578.2	1,600.9	1,614.9
Minority interest	(165.3)	(159.4)	(152.7)	(145.2)
Total liabilities & equity	2,679.4	2,934.7	2,867.8	2,828.4

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	89.5	237.6	136.0	176.5
Pre-tax profit	107.4	135.8	155.6	173.6
Tax	(24.0)	(24.8)	(28.4)	(31.7)
Deprec. & amort.	74.4	55.4	55.1	53.2
Associates	(4.8)	0.0	0.0	0.0
Working capital changes	(55.5)	65.6	(50.0)	(21.5)
Non-cash items	(7.8)	5.7	3.7	2.9
Investing	(53.3)	(46.1)	(45.4)	(46.0)
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	4.6	4.0
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)	209.6	(67.4)	(48.7)
Beginning cash & cash equivalent	501.2	280.4	490.0	422.6
Ending cash & cash equivalent	280.4	490.0	422.6	374.0

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	10.9	10.7	11.4	11.7
Pre-tax margin	6.4	7.2	8.1	8.6
Net margin	5.0	5.6	6.2	6.7
ROA	3.1	3.7	4.2	4.7
ROE	5.7	7.3	7.6	8.4
Growth				
Turnover	18.6	13.6	2.0	4.3
EBITDA	29.8	10.8	8.7	7.0
Pre-tax profit	78.1	26.5	14.6	11.6
Net profit	74.5	26.5	14.6	11.6
Net profit (adj.)	45.8	19.9	14.6	11.6
EPS	45.8	19.9	14.6	11.6
Leverage				
Debt to total capital	31.2	21.1	18.4	15.8
Debt to equity	39.5	24.0	20.4	17.0
Net debt/(cash) to equity	18.1	(7.0)	(6.0)	(6.1)
Interest cover (x)	27.8	35.5	60.0	80.6

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