SingPost's H1 FY2021/22 Results Briefing, 3 November 2021

Operator:

Good morning ladies and gentlemen, welcome to Singapore Post's first half results briefing. We are ready to begin and I shall now hand over to the management of SingPost.

Mr Isaac Mah (Head, Strategic Investment & Investor Relations):

Good morning everyone. Welcome to SingPost's results briefing for the first half of FY2021/22. My name is Isaac Mah, Head of Strategic Investment and Investor Relations.

With me today we have our Group CEO Mr Vincent Phang and Group CFO Mr Richard Lai. I will now hand over to Richard to start the presentation. Richard, over to you please.

Mr Richard Lai (Group CFO):

[slide 4]

Good morning. Thank you Isaac and thank you everyone for joining us today.

SingPost delivered an improved set of results for the first half of FY2021/22, despite a difficult operating environment and the absence of significant support from government grants such as the Jobs Support Scheme.

Revenue rose 3.3%, led by growth in the Domestic Post and Parcel, Logistics and Property segments, supported by strong growth in eCommerce logistics. Together with the careful management of operating expenses, this led to a 28.4% increase in Group operating profit.

First half earnings were also boosted by contribution from Freight Management Holdings or FMH in Australia, which became an associate company in December 2020. After accounting for non-operating expenses and income tax, Group underlying net profit rose 18.8% to $37.4m in the first half.

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Let me now move on to Expenses.

Volume-related expenses rose 2.4% due to higher freight forwarding and eCommerce volumes. Labour and related expenses rose 0.6%, mainly due to higher labour costs in Australia in line with strong volume growth.

Admin and selling-related expenses were relatively stable, as we continued to carefully manage expenses, while depreciation and amortization expenses increased slightly due to addition of right-of-use assets. Overall, operating expenses increased by 1.8% compared to the first half last year but would have fallen slightly if we exclude the impact of government grants.

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We now move on to an overview of the various segments' contribution to Group revenue and operating profit.

The higher Group revenue was driven by strong growth in the Logistics segment, as well as growth in the Property segment. In the Post and Parcel segment, revenue fell largely due to the International business recording a decline in revenue as compared to a high base last year, where there was a surge in shipment volumes out of China prior to its border closure in early 2020. However, the decline was partially offset by strong growth in domestic eCommerce logistics revenue.

Turning to operating profit, the improvement was driven again by the Logistics and Property segments, as well as lower corporate costs. We will share more details on the operating profit for each segment in the next slide.

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Post & Parcel operating profit declined 52.6% in the first half, mainly due to the absence of government grants such as JSS and property tax rebates which totalled about $13m. Normalising for this, the underlying operating profit for Post and Parcel was relatively stable compared to last year, arresting the decline seen previously.

Operating profit for the Logistics segment more than doubled, driven by Famous Holdings which benefitted from higher freight forwarding volume and sea freight rates. Despite the disruptions to global supply chains, Famous was able to leverage strong supplier relationships to secure capacity for customers.

In Australia, CouriersPlease continued to perform well on the back of strong eCommerce growth, however higher labour costs were incurred due to disruptions caused by Covid-19 infections in the workforce.

Moving on, Property earnings grew by 13.5%, largely due to lower rental rebates given to tenants compared to last year, as well as due to higher footfall at SingPost Centre. In the Others segment, expenses fell 76.8%, mainly due to the reversal of share option costs as the performance conditions were not satisfied.

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Let me now move on to Cashflow and Financial Indicators.

Operating cashflow for the first half fell, mainly due to movements in working capital as there were large favourable one-off movements in trade receivables last year. Investing cashflow fell mainly due lower proceeds from the maturity of financial assets compared to last year, partially offset by lower Capex. Cash outflow from financing activities fell significantly, due to lower net repayment of bank loans. These movements led to a net decrease in cash of $20.7m in the first half of this financial year, an improvement compared to last year.

In addition to the above movements, $15.5m in cash was transferred to assets held for sale mainly due to the reclassification of Lock & Store, the self-storage business. If you add this back, our position in terms of cashflow is not materially different from last year.

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The Group remains in a net cash position as at September 2021, with a slight decline from March mainly due to the settlement of terminal dues and payment of dividends. The EBITDA to finance expense ratio was lower, due to an increase in finance expenses.

We will now go through the key business highlights for each segment. Let me hand you over to Vincent.

Mr Vincent Phang (Group CEO):

[slide 13]

Thank you Richard, and good morning everybody. Good to speak to everybody again.

I will first touch on the domestic business. Beginning with the Domestic Post and Parcel segment, I will talk about the letters and printed papers business which is the traditional regulated postal service. That business as expected continued to decline in the first half, with revenue and volume down by 15% and 10% respectively.

Despite that challenging situation, we continue to uphold high service standards, as can be seen in the improvement in service quality metrics in the latest quarter.

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Moving on, the domestic eCommerce logistics business on the other hand continued its strong growth as Richard mentioned earlier, with revenue and volume up 32% and 29% respectively. This business now accounts for 40% of domestic revenue in the first half, up from 32% last year.

Looking back at the growth trajectory over the past 18 months, as you can see on the chart on the right, we saw a normalised rate of growth following the initial acceleration of eCommerce adoption during the circuit breaker last year. But in recent months, there has been an uplift again, and this uplift in growth is partly due to some of the landmark national projects that we have undertaken, such as the distribution of ART test kits to every household. We are proud to serve and contribute to these initiatives, and we see an opportunity to collaborate with national agencies on more of such projects going forward.

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When you put both of those together, you see that the year-on-year growth in the eCommerce logistics segment has made up for the decline in letter revenue over the same period, indicating that we have likely turned the corner. We’ve had this impact for the last four straight quarters of getting this replacement rate. From an earnings perspective, the underlying performance of the domestic business has also stabilized, and this provides a foundation for this future growth that we expect.

Looking ahead, we will continue to drive growth in eCommerce volumes, focusing on the tracked letterbox service which delivers a higher margin. We will also continue to re-engineer postal infrastructure in line with our Future of Post strategy, and our smart letterbox PostPal is a key component of this.

Lastly, we recognize the importance of sustainability and we have certainly stepped up our efforts on this front. For example, we commenced pilots for fully electric scooters and vans in August, with a view to having this electric fleet fully deployed by 2026.

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I will now talk about our International Post and Parcel business.

The decline in first half revenue was in comparison to a high base effect last year, when during the early part of the Covid situation China closed its borders and quite a bit of volume came through to us. Meanwhile as shown in the charts, the flight capacity out of Changi Airport continues to be significantly reduced, and conveyance costs remain around double that of pre-Covid levels.

Under these challenging conditions, we have rationalised volumes to achieve a balance between retaining the business yet avoiding losses, and we have done this by carefully selecting trade lanes, optimising the routes and selecting partners to manage our costs.

With these measures in place, we are happy to say the business remains stable from an earnings perspective, but of course at the same time we continue to develop new income streams and diversify trade lanes beyond Singapore, to continue to build on synergies between International Post & Parcel and our Logistics business.

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I will move on now to our Logistics segment.

I will start with CouriersPlease in Australia. CouriersPlease continues to do well, with higher volume and revenue supported by accelerated eCommerce adoption and new business wins. As with everywhere else in the world and in our operations as well, CouriersPlease was affected by a number of Covid-19 infections in the workforce, and while there was minimal disruption to service, higher costs were incurred to hire temporary staff.

Given the strong growth over the past 18 months, we are expanding network capacity and capability to handle larger volumes, and upgrading technology to improve efficiency and customer service. Going forward as you heard from Richard, we are taking a bigger interest in FMH so CouriersPlease will also increase its collaboration with the FMH business that we are acquiring to better derive synergies.

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I will now touch on Quantium Solutions, which provides cross border and last mile transportation, as well as warehousing and fulfilment services across Asia-Pacific.

While QS saw some reduction in trade from cross border customers, the underlying performance continues to improve due to new business wins, cost management and process re-engineering efforts.

Warehouse utilisation rates have improved and is now close to full, and we are expanding capacity to better serve our customers. In the cross border and last mile transportation business, we are building resilience and strengthening capabilities, leveraging on the synergy with our International Post & Parcel business and collaborating with strategic partners.

Moving on to the freight forwarding business, Famous Holdings has done very well amid the disruption to global supply chains, and it has been able to leverage its strong network and relationships to secure capacity and capture new volume.

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A key pillar of our group strategy is to build a second home market in Australia.

Today, our Australian business comprises quite a few business units – CouriersPlease, Quantium Solutions and Famous, as well as FMH which became an associate company of SingPost Group in December 2020.

On 8 October, we announced revised terms that will accelerate our investment in FMH and bring them into the fold as a subsidiary. FMH is a leading 4PL business providing integrated, tech-enabled supply chain solutions, and by better combining FMH with our existing businesses, we will be able to offer customers the complete suite of end-to-end eCommerce logistics services.

I will now hand you back to Richard to cover the Property business. Richard over to you.

[slide 22]

Thank you Vincent.

Despite a soft leasing market, as at 30 September 2021 the SingPost Centre Mall was fully occupied and committed occupancy for the Office remained high at 97.6%.

In the Industrial segment of SPC, occupancy fell as the sole external tenant exited. We are in the process of sourcing for a new tenant, but we recognise that there are challenges given the accessibility for this particular space given that it is within the operations area for our postal service as well. With this additional 30,000 square feet of industrial space available for lease, the committed occupancy for SingPost Centre as a whole declined to 93.3%.

In the Others segment, which comprises smaller properties such as shophouses and the portion of delivery bases leased to external tenants, committed occupancy increased to 98.4% as new tenants were secured. With these movements, overall occupancy for Property stood at close to 95% in September 2021.

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Taking a look at SPC mall's performance, Footfall and Tenant sales were higher compared to last year, partly because the prior period coincided with the Circuit Breaker where many shops had to close. Footfall was up 11% while Tenant sales were up 33%, indicating higher spending per shopper.

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The majority of leases expiring in this financial year have been renewed or replaced – 77% for SPC mall, 60% for SPC office and 85% in the Others segment – and discussions are ongoing for the remaining unrenewed spaces.

Looking at the lease expiry profile as at September 2021, the majority of leases for SPC Mall and Office will only expire in FY23/24 and beyond. The lease expiry profile will continue to change as leases are renewed or replaced.

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Next let me cover the Group perspective. From a Group perspective, we have seen strong eCommerce revenue and volume growth in Singapore and Australia, but this was offset by lower revenue from International Post and Parcel.

Meanwhile, freight forwarding revenue grew significantly, driving up its contribution to Group revenue and demonstrating the benefits of having a diversified logistics business. With these movements, eCommerce related revenue accounted for around 55% of Group revenue in the first half.

With that I shall now hand you over to Isaac to cover the Segment results.

Mr Isaac Mah (Head, Strategic Investment & Investor Relations):

[slide 28]

Thank you Richard.

Both Vincent and Richard have covered a lot of the details, but just quickly going through the segmental results, in the Post and Parcel segment, revenue fell 17.5% in the first half. This was predominantly due to the International business which had a higher base comparison in the previous year due to the backlog relating to China that Vincent mentioned.

Domestic revenue rose, driven by eCommerce logistics which continues its strong growth trajectory. With lower revenue and the absence of government grants, operating profit fell by 53% roughly, but when you adjust for the grants and other subsidies last year the business is stable.

[slide 29]

Logistics revenue grew about 30% due to higher eCommerce logistics and freight forwarding revenue. Revenue from eCommerce logistics businesses rose 4% compared to last year, driven by CouriersPlease which continued to benefit from accelerated eCommerce adoption in Australia amid Covid-related lockdowns. Famous Holdings recorded strong revenue growth on the back of higher volume and sea freight rates, leading to the sharp rise in Logistics earnings.

[slide 30]

Property & Self-storage revenue increased by about 8%, mainly due to lower rental rebates given to tenants compared to last year. The Property business also benefitted from higher footfall and tenant sales, and revenue from Self-storage increased due to higher occupancy. Consequently, operating profit was 13.5% higher than last year.

I will now pass the presentation back to Richard to cover Outlook and Dividends.

Mr Richard Lai (Group CFO):

[slide 32]

Thank you Isaac.

As the Covid-19 pandemic continues to create disruptions across the global economy, the Group is actively adapting measures to navigate the current environment, including seeking new eCommerce growth opportunities in Singapore, Australia and the Asia-Pacific region.

Covid-19 has led to an acceleration of eCommerce adoption as consumer habits have changed, and this in turn has accelerated our plans to grow our eCommerce business. This can be seen in Australia, where we plan to accelerate our investment in FMH.

The International Post and Parcel business continues to be impacted by Covid-19. While the recent easing of travel restrictions is a positive step, the current scope is limited and therefore not expected to have a significant impact on business performance. As and when the scope of permitted travel expands more significantly, we would expect performance to gradually improve accordingly.

Even as we deal with the current impact of Covid-19, there is a need to address long term structural challenges, such as the decline in letter mail and the limitations of a small home market. To this end, we continue to be fully focused on executing our strategic initiatives, to reposition SingPost for long term success.

I will speak more about our strategy in the next slide.

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This slide shows the 3 pillars of our transformation strategy.

In Singapore, we continue to pursue the Future of Post initiative on the back of strong eCommerce growth. The Group will continue to be steadfast in re-engineering the domestic business to develop a smart urban logistics ecosystem, which will create value for the business, customers and residents in Singapore.

In July 2021, we extended the trial of PostPal to Punggol, marking the next stage of our smart letterbox development. We are also working on other initiatives to strengthen our domestic network and drive further eCommerce growth, and hope to share more details in the coming months.

Given the limitations of a relatively small domestic market, the second pillar of our strategy it to build a second home market in Australia. Australia is a large, attractive and developed eCommerce market that is structurally profitable, and we have been operating there for many years through CouriersPlease and Quantium Solutions. We will better integrate our Australian assets to achieve more synergies, and continue to look for more opportunities to build our business and capabilities there. This begins with the acceleration of our investment in FMH, which I will speak more about in the next slide.

Beyond Singapore and Australia, we have a strong and sizeable international logistics business including Quantium Solutions and Famous Holdings. The performance of these businesses continues to improve, helping to turn our Logistics segment from a loss making to a profitable one since the last financial year. We will build on the progress made thus far, and work towards improving efficiency and capabilities to drive further earnings growth.

Meanwhile, we continue to view Property as a key business enabler, and a source of relatively stable income as it has demonstrated through Covid-19.

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Let me touch on Freight Management Holdings.

FMH, as you heard from Vincent earlier, is an asset-light, technology driven 4th party logistics service company that serves over 500 businesses across Australia. As a ‘control tower’ business, FMH leverages its proprietary technology platform to match customers’ supply chain and distribution requirements with the optimal carrier, helping to increase efficiency, utilisation and profitability for both parties. Very ideal technology given the current disruption to global supply chains.

The performance of FMH in the last 12 months has been ahead of expectation, and this has given us the confidence to take this significant next step in accelerating our investment. With FMH being a subsidiary of SingPost Group, it will enable us to better derive synergies and build scale to further capitalise on the accelerated growth in eCommerce in Australia. The transaction will also be immediately earnings accretive upon completion.

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Finally, let me move on to dividends.

While the Group’s performance has improved, the International Post and Parcel business continues to be affected by Covid-19, and it remains unclear when the situation will improve more meaningfully.

As such, the Group will continue to adopt a prudent approach in managing cash flows and conserving cash, taking into account the ongoing execution of strategic initiatives.

For the half year ended 30 September 2021, the Board has announced an interim dividend of 0.5 cents per share.

This concludes our presentation. Thank you for joining us.

Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Once again, if you wish to ask a question, please press star one on your telephone. Our first question comes from Paul Chew from Phillips Securities. Please go ahead.

Mr Paul Chew (Phillips Securities):

Thanks for the presentation. I just have three questions. Firstly, just on domestic eCommerce, can you touch a bit on the profitability of this segment? Has it changed much with the increased volume and pricing? And also related to eCommerce, could you just share a bit of the timeline of your planned letterbox infrastructure? That's my first question.

My second question is just on international mail. On the competitiveness, is it just temporarily hurt by the high conveyance costs and the lack of flights out of Changi? Is it purely that, that's impacting your competitiveness or there's more to it?

My third and final question is just on freight forwarding. Could you just elaborate a little bit on how the profitability surged so much? Because you mentioned you leveraged this strong relationship et cetera. Could you just touch on this a little bit, maybe give an example. Is it because there's some shortage and you have been able to secure slots and better pricing? Thanks so much. These are my three questions. Thanks again.

Mr Vincent Phang (Group CEO):

Sure, thanks. This is Vincent. So thanks Paul for the questions. You were breaking up a bit, so I just want to make sure that I got your questions properly. But I will take the first two. I think the first question was about domestic eCommerce. You asked about margins, profitability. I think that was the question. The second question was about international mail and whether we see it as temporary or are there any other impact that we want to give colour to. And then your last question was about freight forwarding, which I will let Richard take that one. Paul, that's probably correct right? So these are your three questions?

Mr Paul Chew (Phillips Securities):

Yes, thank you.

Mr Vincent Phang (Group CEO):

Okay. So I am happy to share some thoughts there. So yes, domestic eCommerce has been really positive for us in the sense, you know that we have had this really tough job of trying to navigate this letter decline environment, right? So every year we are dropping double digit on the revenue, which due to the fixed cost of this operation, the high operating leverage that we have, it is a sizeable hit on our bottom line. And we are not at liberty to really make many of those changes as you are aware because of the regulated environment. It's a next day service. Well to put in plain English, the postman has to go out anyway. So if you have less stuff to deliver, the postmen are still there, they still have to go out. So what we have been really orientating is to try to fit as much as possible, orientating this capacity to address the eCommerce segment that is growing. So double digit decline on domestic mail, but then strong double digit growth in eCommerce, and we are starting to see the impact.

So firstly as we presented, from a revenue standpoint, it is more than covering for it. It is actually growing again. Four quarters in a row. That gives us the confidence that our strategies are right. The next that we are trying to do is to orientate as much as possible eCommerce items that can fit the profile of our deliveries best. So in that sense, I think SingPost is in a far better position delivering small items versus the large ones. And in the sense also, working with customers to see if we can deconsolidate those shipments rather than three or four items into a big parcel. Small items that can probably go individually or in packs of two. Letterbox size. That will be great for our network. So as you have heard from our presentation earlier, the tracked letterbox service, that's something that we have been pushing out quite aggressively. If it is fitting into our network, due to our high operating leverage that we have, we are in good positive territory as far as margins are concerned. I can't go into the specifics of it but I can share with you that that really is one of those - the signs of that is quite clear. We are stabilising the business from a margin standpoint. Not just turning the corner on revenue, but we see that we are turning the corner on margins as well.

The next question you have is on the timeline of the infrastructure rollout. So it is an associated question because the infrastructure play is how we see enhancing our operation, right? As we have discussed previously in previous calls, the current postal infrastructure isn't really geared for eCommerce items. It is always for letters. And that means even the backend, the posting boxes, the sortation machines, the processing algorithms. And then beyond that, the delivery systems, the letterboxes. 80% of us live in high-rise infrastructure, the letterbox infrastructure. All that doesn't really cater to do eCommerce items as well as they should. So that's part of the infrastructure upgrade.

We can't go about this unilaterally. Some things we can, but others we can't. We don't see this as in bits and pieces. The pieces that I talked about. It works in concert. This whole thing is a supply chain. And at the end of it, we are the national postal agent. We are the postal operator, we are regulated. And I can't comment beyond the trials that we have. We are working very closely with the regulators on pushing these out. There are multiple agencies involved, as you can imagine. But the work certainly has gained traction. The fact that we have been able to put out the trials, and they are garnering positive benefits to not just the customers from an experience standpoint, but also helping us fundamentally in shaping how those supply chains will change so that it is orientating to a more eCommerce future. I will say over the next two, three years, we hope to be able to rollout a more significant number of these. And with every single rollout, it helps us with our cost structure, with architecting for the future. And also from a labour standpoint, it helps us cut down on the footprint that we need. The number of postal delivery crew, couriers, for example.

Here, maybe I'll take an offshoot. There is a very green sustainability angle to this as well. We do believe that postal deliveries; the way I describe it is by far the most sustainable delivery from a carbon standpoint. Otherwise, as you can see from the whole industry, eCommerce delivery is about men with vans. They move to every doorstep. It's pretty much the same for everybody; the more you deliver, the more fleet you need, the more people you need. With infrastructure, it changes the game. So I think that's where we can see the positive benefit of something more sustainable.

Okay. Your question on international mail. The international mail service, we call it international mail but actually a lot of it is eCommerce items that come through the mail network. It was a growing segment. As you know, we have had strong CAGRs over the last 10 years. Until COVID hit, the trajectory was there. It really is the bandwagon called eCommerce cross-border supply chain. That industry is growing - the market is growing at 25%, 30% a year, and continues to grow that way. The reason why we flattened out, perhaps even pull back a bit is because we don't have the options as we did in the past to convey to every single part of the world. Changi was a fantastic hub, and that really benefited us. The fact that we have very, very limited flights at the moment has curtailed our ability to grow the business. And like I said, we have been treading very, very carefully in making sure the quality of the revenue is important because some of the places that we go to are extremely expensive because there just aren't any flights. So we have had to cut back on some of those.

We do see this as temporary. Clearly, the fortunes of this businesses is very much tied to the fortunes of air travel again. And we are seeing, hopefully some signs of that opening up in the next few months. Hopefully, this thing can get back on track. So, fingers crossed on that one. So it is a temporary impact. There aren't any other structural issues as of now. And clearly, if we keep going this way then something temporary can become a bit more prolonged, but hopefully with the restarting of flights, that issue will abate. So hopefully, that gives you some colour about the first two questions. And maybe I will ask Richard to comment on the last one.

Mr Richard Lai (Group CFO):

Thanks, Vincent. So with respect to Famous, I can appreciate the feeling as in why such a surge in profitability from Famous. But you need to understand that Famous' business in itself has quite a high operating leverage, so to speak. They don't need to increase a lot of headcount or things like that, just to move things. But where their skillset really comes in is the relationship with shippers and clients alike. They have to be able to find space on ship to move things. So nowadays in fact, the saying nowadays goes is that if you can find a container and grab it, and you can find space on a ship, you will just put it on, right? People won't even talk about how much they have to pay. They will pay whatever they need to pay. Now, to put things in context - what you used to pay for a 40 foot container prior to COVID was less than $2,000. And in the course of the last year or so, that has gone up to $10,000, or slightly above $10,000. So you can see the huge magnitude in movement, in terms of dollar value per 40 foot container. Now of course, we are freight forwarders here, so we don't have our own ships and things like that. So we obviously, you don't see a five times, that sort of growth in the numbers. But our freight forwarding side has done very well in terms of being able to benefit off this. And to benefit off this, you must be able to find the containers and find space on ship to ship these things.

So I think you have heard a lot in the news in recent times about this global supply chain disruption. To be honest, it is something that all of us in the industry have been observing and predicting for more than a year. It is only until the US side woke up to the fact that you might not have things arriving at your shops for Christmas. Actually Europe also reacted the same way. So now, all these has become a big issue. But in reality, this global supply chain disruption was going to happen one way or the other. It has been happening simply because if you consider the fact that ships have to be held away from port. If you go to China, you have to be at voyage for 21 days. And if you are shipping from somewhere nearer, you might get there within eight days, you had to wait out the balance until 21 days before you are allowed to offload your products. What does that mean? More congestions at port. It just means more things, more containers are required because they are sitting on ships.

The Suez Canal congestion didn't really help the world, but they helped us. Because the freight forwarding fraternity, if they are able to capitalise off the surge in pricing as a result of all that. This is what you get. You see it translated to dollars and cents in your bottom line. So I hope that helps address the question you have. A lot of Famous or the freight forwarding business, you will see the cost more in the volume related side of things. Because they had to pay for the shipping and so forth. So what the operating leverage translate to is that you don't see a corresponding jump in labour and related expenses there.

Mr Paul Chew (Phillips Securities):

Thanks. Can I just trouble you for a follow-up. In terms of freight forwarding, is it more of the increase in pricing? Because you are basically able to get slots which are not - I don't know. I don't think there are options now. Maybe you have been able to get slots, which are in such short supply so you can get some pricing power from it? Is it one basic way to kind of understand the improvement?

Mr Richard Lai (Group CFO):

So we had the benefit of both. We had the benefit of the pricing and the benefit of higher volumes, being able to ship higher volumes.

Mr Paul Chew (Phillips Securities):

Okay, thanks. Can I just ask another follow-up. Just in terms of domestic eCommerce, can I differentiate the model compared to three, four years ago where I know it was very unprofitable because you have to do this door-to-door delivery, but can you just do a little bit of contrast? Right now, you are only taking on the smaller parcels. And the next follow-up is on the infrastructure, is it exclusive to SingPost or you open up to all the other delivery companies? Thanks. These are my last follow-ups.

Mr Vincent Phang (Group CEO):

Thanks, Paul. So versus a few years back, I don't think eCommerce deliveries for SingPost was that significant. I think if say you rewind the clock a couple of years back, we are probably delivering one eCommerce item for every - I don't know - 20 letters. So, somewhat like 5% of total volume. And it made for a very difficult situation because the majority, the bulk of our business is really about delivering letter mail.

So the infrastructure, and when I say infrastructure, I mean the entire process that we have. Everything is engineered for mail, as you can imagine. So when it's a small percentage of volume that is eCommerce, perhaps we may have treated it as more incidental. Now it's different; situation is quite different, right? You can see that 40% of our revenue is made up of eCommerce items. I think every one in five, one in six items is actually an eCommerce item that we deliver. The situation is very different. We took really active steps in - I want to correct your perception, Paul. I didn't mean to say that we are not doing doorstep deliveries, we are only doing letterbox deliveries. We are doing all. But where we can, we are trying to work with our customers to ensure that a more efficient, a more sustainable solution called letterbox deliveries is being employed. So some of our customers have taken notice that why if it's small enough, why does it need to go to the door? Some have even thought about it that it's a better customer experience going to the letterbox because of the minimised chance of missed deliveries from not being at home. And we have also levelled up with some technology, so there is a tracked letterbox product. Coupled with the app that we have right now, it actually gives notifications to when the item is actually being delivered to the letterbox.

So there's a far better assurance than the normal run of the mill letters where you kind of fire and forget, you don't get any notifications. So this is a product category that we have innovated and we have put in place. And with this, it allows us the chance of okay, some eCommerce items that need authentication, perhaps the value is a bit higher. If the format fits the letterbox dimensions, we will work with customers to see if we can move that volume into letterbox. So that is an example of how—coupled with the scale, the much more pervasive nature of eCommerce, the backend work that we have done to streamline the processes, not treating it as incidental but treating it as core. And coming up with some other products, have helped the margins improve in aggregate.

I won't go into detail. I don't think you are asking as well about what is the split. For example, going to a letterbox versus going to doorstep. But you can figure this out, right? If I have to make a delivery to a letterbox versus making a delivery to the doorstep, the resource required is extremely different. I often say this. It's 6 seconds to deliver something to the letterbox, it is 6 minutes to deliver something to the doorstep. It's a 10X, 20X difference in efficiency. So where the postal service can come in and deliver this efficiently, I think this is where we make a very big difference. So hopefully that gives you a bit more colour.

Your other question on whether the infrastructure will be made public. I will answer it this way instead. I don't consider the infrastructure as we speak of, as just that letterbox infrastructure. The PostPal as we talked about. The infrastructure we talk about is the entire pipe. From the point you deliver something till the point it gets deposited into the letterbox. And it is very hard to try to imagine these in pieces because it's actually a supply chain. So we are open, certainly. And even as a letter mail delivery agent, we are open. Anybody is free to come to SingPost and lodge on a wholesale basis. On a wholesale basis, thousands and thousands of items coming to us, have an account, and then we deliver it through our process and our system. It is extremely difficult to open up bits and pieces for access separately. You know what I am trying to say? So in that sense, yes. On the wholesale access basis, it's open. In fact, we have been regulated to do that for letter mail. And I foresee in time to come, if this is a very attractive proposition for us to deliver nationally for eCommerce items to letterboxes. Then I believe the same rules will likely apply. Hopefully that makes sense as well.

Mr Paul Chew (Phillips Securities):

Yes, thanks so much for taking the time to answer my questions. Thanks. It's very clear. Thank you.

Mr Isaac Mah (Head, Strategic Investment & Investor Relations):

Thanks Paul for the questions. Operator, can we go to the next question please?

Operator:

Our next question comes from Chu Peng from OCBC. Please go ahead.

Ms Chu Peng (OCBC):

Hi, I have two questions. First one is on conveyance costs. So during the progress of reopening of borders in Singapore, do we foresee the cost to normalise next year? Or how long do we think that it will return to pre-Covid19 levels? The second question is on Australia. So as we expand in Australia, just wondering what's our market share in Australia now? Are we the key player there? Or just a small player still? Thanks.

Mr Vincent Phang (Group CEO):

Thanks Chu Peng. Good to speak to you again. So I will take the first question on the conveyance costs and our outlook of Changi. And perhaps, I will ask my colleagues, perhaps Isaac can take the second question on Australia, our market share and what we see of the competitive landscape. So yes, the difficult thing - a lot of friends ask me this question. Why is it that my parcel isn't going anywhere? And if I were to reply tongue in cheek, I would say if you can't find a flight to fly anywhere, neither can your parcel.

So part of the problem is we thrive on the IPP business, the traditional IPP business is built not on freighters, we are actually flying in the belly of passenger aircraft. And mail was a fantastic accompaniment to these kinds of volumes being shipped that way. It was always small enough. It was always a good filler. And when you couple that with the fact that Changi airport has hundreds and hundreds of options for us every day to reach 200 countries in the world. Pretty much, you can get to any country in the world in 36 hours. We either fly direct, or we fly to somewhere else, and we catch another flight somewhere else. That option was always there. So when you marry those two together, it was a business that was fantastic. And capacity was limitless to an extent. Prices were moderated. We were able to keep price down. We were able to make a fantastic margin out of it. The conveyance costs at this moment is a combination of lack of capacities, no flights. And even if there are flights, I can't get to point to point in 36 hours. I will be happy if I can get point to point in seven days, which means SLAs are a problem, right? So service levels are a problem for our customers. And this is the world of eCommerce. If you can't get it shipped in time, you better not do it. Otherwise, you get whacked with penalties. So, there are concerns that we have. That's why we are picking the lanes very, very carefully. Where we believe, and it's not a small job if you think about it. We have 200 countries to go to. Every day, it is like the stock market. The rates are going up and down, depending on whether people are opening up, people are not opening up. You can commit to a lane, and the next day if something happens on the other side and the airport is shut. So there are a lot of such dicey situations that we have to - the environment is just very, very tough for us to operate in.

Now, when do we expect this to normalise? Of course, when flights come back, so the VTL flights, maybe a bit of a breather. But then again, also not enough. Once there are more options for us to leave Singapore and to get to somewhere else more efficiently, we believe this should aid the recovery of this business. In my mind, it might not even be progressive. It could just tip over. You either open up or you don't open up. And the fact is at this moment, we still have a lot of challenges trying to get flights out. And we have tried using other multimodal options. We have as much as possible put stuff on ships. But as you heard from Richard earlier, ships are also congested. And the timings aren't great. eCommerce items, you buy something cross-border, you will expect, why isn't it arriving in seven days? Why isn't it arriving in five days? You put it on a ship, it will arrive in 21 days. And imagine how customers will feel. So the options for us become very limited. And where is this volume going to then? The volumes are going to of course, more expensive options versus what Changi used to do. Maybe people are flying through less efficient hubs. And they are making do with that because of the situation. When Changi is back to where we can; like I said, we can pretty much get to anywhere, half of the destinations in 24 hours, the rest of it in 36 hours. It's going to give a lot of confidence for the eCommerce customers to start to use this supply chain yet again. So we remain hopeful. Like I said, it's been six quarters. It's been very prolonged. We are watching this very closely, but if the volume starts coming back, the capacity starts coming back, we are hopeful this will aid our business. So hopefully, that gives you some clarity of how we feel about this. Isaac, you okay if you take the second question on Australia?

Mr Isaac Mah (Head, Strategic Investment & Investor Relations):

Yes, sure. Thanks, Vincent. So I think in terms of Australia, well, the landscape is quite an interesting one. Because in terms of the total kind of B2B2C logistics space that we are kind of looking at, or rather more focused on the couriers express and parcel space, the total space is about a $10 billion market. The interesting thing about the market is that there's actually two big players. And these two big players make up roughly about 50% of the market. And after the top 2, the competition is smaller. So, because of this, given our presence in Australia with the CouriersPlease, as well as FMH going forward once we complete this investment, we will actually be in the running to challenge the top three to four players. But of course, at this point it's still early days. We would still need to go and get the deal completed. But we do see the opportunity in the market to go in and gain market share. And I think given the performance at CP, which has been very encouraging, as well as what we have seen in FMH, we believe that this will be a very interesting time for us to accelerate our investment and push this forward.

Mr Richard Lai (Group CFO):

I think to add on to that. This is Richard here. I don't think there is anything like FMH currently in Australia, which is one of the reasons why we are quite keen on them. As for CP, CP is not a small player, so to speak. It is a predominant player in metropolitan areas of Australia. So you find them a lot in Sydney, Melbourne, to some degree Brisbane, Gold Coast area, and lesser so in the smaller towns. So if you were to travel to Sydney or Melbourne, you will find these yellow vans running around all over the place. It's just that we need to be able to develop better scale, and combining with FMH that will be most ideal, so that more volumes can be passed through them. At the same time with that assurance, we can then invest in greater degree of automation to allow them to get better operating leverage. So yes, wanted to just add on to that.

Mr Isaac Mah (Head, Strategic Investment & Investor Relations):

Thanks, Richard. Chu Peng, does that answer your question?

Ms Chu Peng (OCBC):

Yes, thank you. That's helpful.

Mr Isaac Mah (Head, Strategic Investment & Investor Relations):

Thank you. Operator, next question please.

Operator:

We have no further questions in queue. Once again, if you wish to ask a question, please press star one on your telephone.

Mr Isaac Mah (Head, Strategic Investment & Investor Relations):

Okay. Thanks everyone. Since there's no further questions, we will end the call today. Thank you for taking the time to hear out our presentation, as well as have this discussion. Thank you very much.

Mr Richard Lai (Group CFO):

Thank you.

Mr Vincent Phang (Group CEO):

Thanks, everybody. Bye-bye.

Operator:

Thank you. This does conclude today's conference call. Thank you all for joining. You may now disconnect.

[END OF TRANSCRIPT]