SingPost's FY2021/22 Results Briefing, 13 May 2022

SingPost Participants
Mr Vincent Phang – Group CEO
Mr Vincent Yik – Group CFO
Ms Michelle Lee – Head, Corporate Services & Sustainability
Ms Selena Chong – VP, Investor Relations

Start of Transcript

(This transcript may be read in conjunction with SingPost's FY2021/22 Results Presentation)

Selena Chong (VP, Investor Relations):

Good morning and welcome. We're glad to have you here with us today for this face-to-face briefing on the SingPost Group's results for the second half and full year ended 31 March 2022. This session is also webcast live and recorded. I'm Selena Chong from SingPost investor relations.

Allow me to introduce our management conducting the briefing today. Mr Vincent Phang, our Group CEO; Mr Vincent Yik, our Group CFO; and Ms Michelle Lee, Head of Corporate Services and Sustainability for the Group. We have a set of presentation slides that management will bring us through and we'll open the floor for questions after that. I'll now hand over the session to our Group CEO.

Vincent Phang (Group CEO):

[slide 3]

Thank you, Selena and good morning everybody. I'm glad to report a resilient operational performance in the year that's ended, despite a challenging landscape. Financials have improved with revenue up 18.6% and net profit significantly up against last year. All segments performed well compared to the previous year, with logistics being the standout.

Our recent Australian acquisition of the FMH Group has also delivered well and is contributing to the Group's results. This gives us the basis and confidence to continue our efforts in the Group's transformation, one that's grounded on and directed by our corporate purpose and sustainability principles.

We are committed to our Group's purpose that we launched earlier this year across the enterprise – "Making every delivery count for people and planet". Our transformation will extend us further into logistics, beyond our traditional business and our traditional markets. You will see that we are gaining traction in our efforts, and we will maintain the discipline in our execution.

I would like to give everyone a quick overview of what went on in our operations, what we're working on, before I hand over to our Group CFO, Vincent Yik, for the financial overview.

[slide 4]

We are positioning ourselves for growth by building on our markets, extending geographically, and diversifying our revenue. We have set some key priorities to help us achieve this. The first is to simplify and focus on our core purpose which will underpin all our business operations and guide our development.

We will combine and streamline our operations for synergies, cost efficiency, operational improvements, better service quality and also to build a global network. We will optimise the management of our capital, where we will deploy towards transformational initiatives and be disciplined to ensure execution.

Of course, we will be guided by our commitment to our sustainability targets. All this drives us towards the transformation of the Group, to a leading logistics solutions provider in the Asia Pacific, in order to create value.

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Over the last year we have enhanced our sustainability approach, guided by material factors identified in consultation with stakeholders. We manage sustainability by three pillars, cherishing our planet, collaborative partnerships and on a culture of trust balancing environment, social and governance issues.

Well, the first pillar on environmental aspects, we want to be responsible in the world we operate in. We've announced a net zero carbon emissions commitment for Singapore operations by 2030 for Scopes 1 and 2 and for our global operations by 2050, for Scopes 1, 2 and 3. We will also adopt the recommendations of the TCFD. This will enable us to gain visibility on opportunities and financial impacts of climate-related risks, so that we can adapt and be more resilient against these risks.

We have started on various decarbonisation initiatives, for example, the electrification of our delivery fleet, solar panel installations – we already have them at the eCommerce logistics hub and we will continue to explore other sites, and as a last mile delivery company in our packaging obviously, we have introduced a new Smartpac from recycled materials, which is recyclable as well.

ESG is integral to all that we do. Compensation of management and staff will also be tied to performance against sustainability targets, placed in the balanced scorecards of management and staff.

[slide 6]

A bit on strategy. We have organised our strategic pillars by markets: Singapore, Australia and International. In Singapore we will focus on establishing market leadership in eCommerce logistics, but there will be challenges as competition has certainly intensified.

We are building a smart and green urban logistics ecosystem for our home market. One that enables us to offer a higher service level, better customer experience, yet improve cost efficiency.

In Australia, we are now building a network through our two significant operations, FMH and CouriersPlease, to serve the large market there. As for International, we will reengineer our assets to connect globally and make a difference in global cross-border eCommerce.

[slide 7]

Let me touch on some key trends and challenges in our space. Firstly on eCommerce, expectations are that that will continue to grow, even post-pandemic, which has given us the opportunity to grow this part of our business given the structural change in our traditional business.

Second, events in the last two years have caused severe disruption to global supply chains and continue to present uncertainty. We expect continued volatility in freight and conveyance rates, with varying projections of recovery times, and we are taking steps to make our network more resilient.

Inflationary pressures have also increased. We expect inflation and wage pressures to continue for some time. We will focus on productivity and sustainability, which in the long term is the only answer to these issues.

SingPost has been around for 160 years, and we want to be here for another 160 years or more, certainly, this guides us in our sustainability agenda. There is increased expectation from investors, customers, employees, regulators, and our markets that we operate in.

[slide 8]

Specifically on eCommerce, and there was an article in The Business Times this morning that kind of reflects that, post-pandemic consumer spending will moderate in the short term, but the long-term trajectory remains positive as consumer spending habits have changed through the pandemic. There is good opportunity for us to position the Group well, in order to capture this growth, and this is a growth trajectory that we see for the few years to come.

[slide 9]

I'll provide some updates on the markets that we have. So, firstly for Singapore, a year in review. Full year eCommerce logistics volumes grew 24% and now represents 40% of domestic revenue. This time last year it was 32%. Our service levels continue to go up with improvement in service quality over the year. We are delivering at a high delivery assurance level, as you can see from the slide.

As the national delivery partner able to reach every household islandwide, we have supported COVID-19 efforts, distributing ART kits, mouth gargles for the Ministry of Health, Temasek Foundation for example, amongst our other national initiatives. We were able to do this because of our extensive network and infrastructure, which is really not easy to maintain, and we will have to make better use of our assets in the face of intense competition in the eCommerce logistics space.

Looking at eCommence logistics, we have seen strong uptick through the pandemic, as you can see from the chart over there, the last one on the right. But with the economy reopening, the pace has certainly slowed, and we are starting to see some of that pull back.

Specifically for Q4 and you'll see the numbers over there, let me give a bit of colour around that. There was certainly strong growth in the preceding quarters and the year prior and we are coming off a very high base. Our focus now is to maintain service quality and to enhance customer experience amidst a highly competitive market.

Our tracked letterbox product which delivers a better customer experience, better productivity and margins, has also more than doubled over the last three years and we intend to grow this even further. That takes me to the next slide over here, to explain what we're trying to do.

[slide 10]

We want to deliver higher value tracked services that provide a better experience for customers and improve on our productivity and efficiency. This is part of our transformation initiative, a smart and environmentally sustainable urban logistics ecosystem that allows us to achieve cost efficiency, competitive pricing and better service quality and experience for our customers. So we will continue to invest in this infrastructure space.

The PostPal smart letterbox trial is still ongoing. This is a longer-term project with more to be done and you will hear more of that in time to come. – testing and reviewing and discussions with authorities.

We are replacing our delivery fleet with electric vehicles, and we will do that by 2026. Besides reducing carbon emissions, the new three-wheeler scooters provide better operational efficiency and also lower maintenance costs.

We are extending our parcel locker network further and we are also happy to report that we have added a network into condominiums through our Parcel Santa acquisition in April this year. The SingPost mobile app has also been enhanced to partner this infrastructure effort and we have over 110,000 active users right now.

[slide 11]

On the second strategic pillar, which is Australia, it's a large logistics market with significant logistic spend. Our presence in this market over the last few years were through CouriersPlease and Quantium Solutions. We now have an enlarged footprint with FMH as a subsidiary.

Through the year CouriersPlease handled more volume, despite challenges from the pandemic and floods in eastern Australia. FMH has performed well since our initial acquisition of the first 28% in December 2020 and we have since increased our stake to 51% in November 2021.

The consolidation of FMH as a subsidiary has contributed strongly to the Group's performance, giving us a basis to collaborate and create synergies in Australia. We will share more details on FMH performance in the results segment.

[slide 12]

I would like to share a little bit of what FMH actually does. It is a 4PL operator focused on the B2B logistics market, using a technology platform to provide visibility and choices to customers. This platform allows FMH to aggregate supply chain information to enable supply chain efficiency.

The network is about 800 employees, 17 facilities across the country and over 150 partner carriers. Through strategic additions, FMH is now expanding its network and building out end-to-end capabilities in Australia.

On the other hand, CouriersPlease focuses on last mile delivery in metro cities, and we have a wide network with over 90% coverage of the population. So, we can see that our plan for the Australian market is to build scale, develop this whole thing end-to-end, between B2B and B2C with the aim of becoming a significant operator in the market and a major contributor to the Group.

[slide 13]

On the International pillar, over the last two years this has certainly been a business that was massively disrupted by COVID. We have been adapting measures to counter the significant challenges faced by the business as a result. We've rationalised volumes, we're focused on cost management, margin management, and have been able to manage this business fortunately at minimal margin, despite the decline in volumes over the year.

I know there's much interest in this area of the business, even the recovery that we hear about in air capacity. I would like to say that recovery will take a bit of time and while there may be increased flights following the easing of travel restrictions, these are largely narrow body aircraft for now flying to tourist destinations, not quite working for us and hence less appropriate for the volumes that we ship in the IPP business. So it will still take some time before the recovery comes to bear.

The freight forwarding business, on the other hand, has provided this rather natural hedge to the Group during this period and we have seen improved performance in the year, as a result of higher sea freight rates and volumes arising from the disruption of the supply chains.

[slide 14]

We remain focused on our international business. Our customers are global. We have an international reach with an access to 220 markets and have continued to serve them through the pandemic, through this worst of times, but it has certainly been very challenging.

We are taking the opportunity to reengineer our network to build resilience and deliver consistent customer experience. So, this will drive synergies and cost efficiencies with the assets that we have, the footprint that we have, and enable us to create competitive one stop cross-border solutions for our customers.

The international business has been our largest business, one of our three key pillars. As we reengineer the network, we will be in a strong position to ride the rising tide of economic and eCommerce growth post-pandemic.

I've come to the end of the section on strategic overview and updates, and I'll now have our Group CFO, Vincent Yik, to take us through the financials. Vincent was appointed in December last year. He has extensive experience in Australia and Singapore and I'm glad to have him join us to drive our strategies going forward. So, over to you, Vincent.

Vincent Yik (Group CFO):

[slide 16]

Thanks Vincent and good morning everyone. Good to see everybody here in person again. I'll just quickly run through the performance of the Group and then after that we will open the floor up for questions.

SingPost has delivered an improved set of results for this current financial year despite the very challenging operating environment as well as the absence of very significant support from JSS and other government grants.

Revenue rose 19%, our operating profit also rose 41%, leading to an increase of 35% in underlying net profit up to S$81.3 million. This growth was supported by the acquisition of a majority stake in FMH in November 2021, as well as higher freight forwarding and delivery volumes in our logistic segment.

This was partly offset by declines in IPP and the domestic letter mail business as we expected and as our CEO highlighted earlier. In the self-storage business, we deconsolidated our GSC business, our Lock & Store business, following the divestment in December last year.

[slide 17]

This was the trend in the second half, quite consistent, with improved performance driven by the acquisition of the stake in FMH, as well as Logistics. Second half revenue increased 34% and underlying net profit was up by 53%.

[slide 18]

In this slide you can see we are making progress in our transformation journey and growing our business beyond just Singapore. Australia accounted for 28% of our revenue, up from 18% last year, with the acquisition of FMH and the continued growth of our CouriersPlease business.

The international business comprising Quantium Solutions and Famous Holdings, now accounts for 29% of revenue, compared to 23% last year. This is mainly due to higher freight forwarding revenue.

Going forward, we can see contributions from our Australia and our international business continue to grow as we consolidate the FMH figures for the full year next year and as we continue to reengineer our international business as part of our Group strategy.

In Singapore, we continue to be the market leader and while we expect revenue to be stable, Singapore's relative contribution to Group revenue is expected to reduce.

[slide 19]

This slide shows the business segments. Business segment revenue and operating profit contributions are shown here. Revenue growth was driven by Logistics, which of course includes FMH for the first time. This helped to buffer the decline in Post and Parcel revenue which is mainly due to the decline in volume in the IPP business.

On operating profit, the improvement was driven by Logistics, as well as the FMH acquisition, and significant cost savings from corporate overheads. Expenses under the Others segment fell 61%

compared to last year mainly due to cost control as well as some reversal of costs. I'll share a little bit more about each specific segment in the next few slides.

[slide 20]

Post and Parcel segment delivered a rather resilient performance despite some challenges. So, despite the drop in revenue, the segment recorded growth in operating profit – up 23% for the second half and up 4% for the full year, after we exclude the benefit of the one-off Jobs Support relief and other government grants in the previous year.

The decline in revenue was due to our IPP business, which saw a 22% drop in the second half and a 24% decline for the year, as a significant result from the impact of air freight constraints. So, we took active steps to try to manage the business, cut costs and kept the business at minimal margin.

The domestic business revenue was stable. Decline in letter mail continues, while the eCommerce logistics volume has helped to offset the decline during the year, though this market is growing increasingly competitive.

[slide 21]

Over to Logistics. In Logistics, revenue rose 90% in the second half and 62% for the full year, mainly driven by strong international freight forwarding volume growth and the acquisition of FMH. Famous Holdings continued to benefit from the higher sea freight volume and rates on the back of the global supply chain logistic disruptions, growing revenue by 75% in the second half and 70% in the full year.

The Australia business is comprised of CouriersPlease and now FMH. CouriersPlease continued to grow on the back of higher eCommerce adoption in Australia but incurred higher costs due to COVID-19 related disruptions, as well as floods across the country.

Meanwhile, revenue from other logistic businesses, such as Quantium Solutions, was lower. Quantium Solutions' north Asia business was impacted by customer down trade and lockdowns in China and Hong Kong. But this was partly offset by higher transportation and warehousing revenue from Quantium Solutions Australia. Overall Logistics operating profit grew to S$44.3 million, up from S$11.3 million the year before.

[slide 22]

Let me share a little bit about FMH, which is now a 51% owned subsidiary since November last year. FMH contributed S$179 million to the Group revenue in the period from December to March this year, so FMH continues to do well.

Consignment volume has grown through new business wins, and it has expanded its warehouse footprint to support future growth. So as a leading 4PL player in Australia, FMH is looking to expand its network and strengthen its service offering to customers. To this end, FMH has acquired several small to medium sized logistics companies in the last 18 months, and will continue to look for opportunities to build its network.

[slide 23]

On the last segment, Property. Despite a rather challenging leasing market, occupancy in SingPost Centre retail mall and office remain high at 100% for the retail mall and almost 94% for the office at the end of the financial year.

Office occupancy has declined mainly due to the slowdown in leasing activity due to all the restrictions from COVID-19. Nevertheless, we see pickup in leasing activity and are in the process of securing new office tenants. Similarly, there's a slight drop in footfall compared to last year, as expected; however, we also expect this to recover with the measures now being relaxed since April this year.

Our self-storage revenue fell as the business was divested in December last year. So, for the full year, revenue was stable as the divestment was offset by lower rental rebates given to the tenants. So correspondingly, operating profit was stable in the second half and grew 6% year on year.

[slide 24]

Moving on to some updates on capital management. We reduced our balance sheet financing costs and provided more headroom to support our transformation journey. We redeemed our S$350 million perpetual securities in March this year and issued new senior notes in March and perpetual securities after that in April.

The new perpetual securities were the first such issuance in 2022 and were structured to allow the securities to benefit from equity credit from the rating agencies. In line with the Group's priority to simplify and focus on the core business, the self-storage business divested, and proceeds were redeployed into our transformation initiatives.

We will continue to review our asset portfolio to assess the strategic fit, to fit our core business and then to invest in strategic initiatives that will support our long-term growth.

[slide 25]

The Group was in a net debt position as at 31 March 2022, largely due to a timing difference between the redemption of the outstanding perpetual securities in March and the issue of new securities in April this year. So, on a pro forma basis, the Group returned to a net cash position following the new issuance. The Group's EBITDA to finance expense ratio improved due to higher EBITDA performance which offset the higher finance expenses.

Now turning to cash flow. Operating cash flow fell mainly due to working capital movements. Cash outflow for investing activities stood at S$53 million, mainly due to investment in FMH, as well as property, plant and equipment and partly offset by proceeds from our GSC divestment. Cash outflow from financing activities was S$256 million and that's mainly due to the redemption of the securities mentioned earlier.

[slide 26]

Now let me move on to dividends. The Group continued to take a very prudent approach to managing cash flow and to conserve cash, taking into account our transformative initiatives. For the financial year ended 31 March 2022, the Board has proposed a final dividend of 1.3 cents per ordinary share.

Including the proposed final dividend, the total dividends for the financial year will be 1.8 cents. This represents a payout ratio of about 50% of our underlying net profit, an increase from 40% last year. Of course, the dividend is subject to shareholders' approval at the upcoming AGM.

[slide 27]

Now let me give a little bit on the outlook. Geopolitical tensions, pandemic lockdowns in some countries have caused disruption in global supply chain logistics. And inflationary cost pressures have increased across a number of our markets.

In Singapore, the eCommerce logistics markets continue to be highly competitive. We will remain focused on our strategic initiatives to reposition ourselves for the long term, while remaining prudent in managing costs and liquidity. We will continue to review our assets, to assess strategic fit with our core business, and to invest in strategic initiatives that will support our long-term growth.

I've come to the end of my presentation, and we'll open the floor for questions.

Selena Chong (VP, Investor Relations):

We will take questions now. If you would like to pose a question, please raise your hand and we will pass you the mic. May we have the first question.

Rachael Tan (UBS):

Hi, good morning this is Rachael from UBS. I have a question on your dividend policy. Could you remind us of what your dividend policy is and as regards to how you intend to balance it vis-a-vis your Capex spending. Could you comment on that as well? Thanks.

Vincent Yik (Group CFO):

The Group dividend policy according to the annual report, is a payout between 60% to 80% of our underlying net profit for the year. So, we have looked at it and had an extensive discussion around it. There's still quite a fair bit of uncertainty across the operating environment.

In being prudent, as well as rewarding our shareholders, we have increased our dividend payout vis-a-vis last year, but just a little bit under the policy for this year. This is also taking into account the capital requirements as we continue to grow the business.

Rachael Tan (UBS):

Just to follow on that. So this is 50% against your policy of 60% to 80%, so how should we consider your dividend policy going forward. Will you look to change it? Thanks.

Vincent Phang (Group CEO):

Thanks for the question again. I'd like to think that we are going through a transition period where clearly our transformation plans have yielded some traction and some benefit as you can see. We've talked about it for a number of years, what this transformation really is about, and hopefully through the results this time around we can see that it's gaining traction.

So, there is growth certainly in areas that are non-traditional to our business. All this requires capital expense, it requires investment in resources, in capital, especially with some of the work being done as you can see overseas. As Vincent mentioned, we are in a period of managing with discipline our capital requirements across all our markets, taking stock of all the growth opportunities that we have, the fair bit of commitment that we want to make to this, and as we discussed extensively with the Board, yes, we do have a policy band of 60% to 80%, and we are coming off a recovery, but I'd also like to remain cautiously optimistic. We were coming off a pretty bad patch that was quite low.

So, we are seeking the recovery obviously from the financial standpoint, but we are also looking to make sure that we share in the rewards to all our shareholders, so it's a balance between the two. Just balancing what we need to do in the future. I can't comment on the policy for now. I think it's more worthwhile to discuss what is in store for us, the things that we are committed to doing, the investments that are forthcoming, and ROI from those investments. Hopefully that gives some colour around our thinking about the dividend.

Wong Hong Wei (OCBC):

Hi, Hong Wei from OCBC Credit Research here. Just a couple of questions. Following up from the questions on the capital management side of things, just wondering, given that you are on this transformative cycle, what kind of acquisitions will you still be interested in looking at?

My follow up question on that would be, given that you have already invested quite a bit into FMH and so on, how much more Capex will you be looking to enhance and further this rollout?

Vincent Phang (Group CEO):

Okay, thanks for the question. In terms of acquisitions, we have just made a sizable one in FMH as we have talked about. That's our primary focus and commitment. We want to make sure that we really bed down this acquisition well. So far, the traction is there. We have been very prudent in the way we manage it, going from an initial 28% to a step up to 51%. We do have continued options to take that to full ownership. We're working on managing that process.

At the same time, FMH itself is a company that, together with CouriersPlease our business in Australia, the total combined revenue of those two businesses isn't small in the country of Australia, in the market of Australia.

As we put that together, we'll also be looking at additional opportunities where we can roll up some acquisitions. I won't comment too much. It all depends on opportunities that come, but as you see historically that FMH has made some small acquisitions as well, small to medium size ones. All to bolt on, all to roll up, all to make sure that we can provide more synergies across the network that we build. So, we will probably see a bit of strategy developing on that front as we try to organise the Australia market even more successfully for us. We remain very focused on that part for now.

John Cheong (UOB):

Hi, this is John from UOB. Can I check, is there any plan on SingPost Centre, because it's a pretty stable mall now, occupancy has been quite stable, and it looks like it's really pretty mature. Recently, I saw that you have signed some agreement between the three malls around here, the Paya Lebar Central Partnership. Is there any plan to unlock value of the property? Because holding it through an investment holding company may not be as efficient as holding it through a REIT, which can fully unlock the value of the property?

Vincent Phang (Group CEO):

Thanks, John, I know that there is a lot of interest around the SingPost Centre. Maybe let me give a bit of clarity on what this building is. It also is our current mail operation mothership, so there's a large industrial part of it that we're actually physically sitting in right now. That remains our centre of gravity for the operational business. Of course, the more public side of it is the commercial and the retail mall that is more accessible to the public. Yes, there's considerable interest in what we can do here.

I would say that we are first of all coming through this COVID cycle where rentals have been a bit depressed, and there is some stress in the real estate part of our business, but I think we weathered it pretty well. We are also taking stock of the infrastructure plans in the Singapore business, as we spoke about. We have intention to invest further into the infrastructure side, where we're re-architecting our network in Singapore. There are plans for us to consider whether the mail operations mothership continues to be here in SingPost Centre or not, and we do think that there are some opportunities for us to reconsider this.

As part of that whole re-architecting, there is that possibility that SingPost Centre might be an asset that we could re-develop. I won't rule out all the possibilities we have here. I think it's certainly something we've got to look into, but it’s also tied to the operational plan that we have. We should be able to give more colour, more updates in the next few quarters as the COVID situation stabilises and we move forward with the plans for our Singapore network. That maybe gives you a bit of colour for now.

But we're not oblivious to the fact that this part of town is becoming very vibrant. As you made your way to SingPost Centre, you might have seen the developments around the PLQ area, Paya Lebar Square and all that. This part is very vibrant. There are two MRT lines that connect to Paya Lebar, so there's significant interest in terms of what we can develop out of this from a regional standpoint. That, I guess, is the backdrop to what we should be starting to think about, in terms of, as we re-architect our network, what opportunities can we bring. More on that in time to come.

Llelleythan Tan (UOB):

Hi, Llelleythan Tan from UOB here. I have a question about Post and Parcel. I'm looking at the second half, and I see the operating profit is actually higher on a half-on-half basis. The first half is S$11 million, but this half is S$13.5 million. I'm just thinking, what has driven the growth in operating profit? Just assuming that IPP is about the same operating profit, so is it due to eCommerce overtaking the loss in - the decline in operating profit in domestic mail? Can you explain what is driving the growth in operating profit?

Vincent Phang (Group CEO):

Thanks for the question. Indeed, eCommerce has had a huge spike through the last few quarters, barring Q4 that just ended. I would maybe like to give a bit of colour around it. As I mentioned in my presentation that there's been five or six quarters of very strong growth as a result of what's happened, online shopping, eCommerce really penetrating a little bit more into the Singapore retail habits. We've seen that, so that growth has come along.

There's a replacement effect on the letter mail, which continues to decline by the way. Last year we closed the year at 16% negative for letter mail. I guess from now on, that's just a fact of life. So for us, the revenue replacement from eCommerce is crucial. We're riding on the infrastructure advantage that we have in the postal operation, and that has certainly yielded a very strong advantage for us, in terms of making eCommerce deliveries.

We've also been, I guess, fortunate in a sense. We maintain our service levels at a pretty high level as you have seen. We're very proud of the fact that through the worst of times, our teams have continued to deliver to a pretty high standard. We monitor this on a daily basis. It's generally 98%, 99%. In fact, I think most of the time it was 99%, even through the peak season in November and December. I think that is an important aspect of what we do, because not only is there the network impact and the infrastructure leverage that we have on using postal for these deliveries, it's also a reason for confidence because the postal network is actually very resilient and very strong. We can deliver at that kind of high assurance rate, that is the reason why we could deliver for the country.

In the second half, we all received ART test kits. We did that delivery a couple of times over, and all these national initiatives came about, I suppose, on the back of the assurance that we can give the country, in terms of the service levels that we can provide. We're proud of that. I think the team did very well. That explains some, I suppose, of fortunate one-offs that came into the business.

Now, offering a bit more outlook going into the future, because maybe that's where you are leading to, with your question. In Q4, we did see a pullback, that there is some slowing down - maybe even take a poll here, maybe all of us have bought a little less eCommerce items now that the malls are reopened, you are out shopping a little bit more. There's a bit of that impact, we see that, and certainly there's a pullback. On a year-on-year perspective, it certainly looks like there is a pullback.

Long-term wise, I think that trajectory is going to be strong. Consumer habits have probably all somewhat permanently changed, so we can count on that trajectory going forward. But in the short term, there will be some readjustments. I have to be a bit more cautious about it in the sense that we did come off a very strong growth, a very high number of deliveries, especially in Q2 and Q3 quarters. Q4 showed a bit of that pullback, there may be some softness as a result of these market behaviours. Maybe that gives you a bit of colour around what's to come.

Llelleythan Tan (UOB):

Yes, thanks. That was clear. The second question is about IPP. From the slides, I can see that the cost is still quite high, compared to pre-pandemic. I'm just wondering, what is Singapore's biggest market for IPP? I'm assuming it's China, and China now is going through a zero-COVID policy. Assuming that it's prolonged and conveyance costs don't go down, I'm assuming it would take a while before IPP will recover. Other markets are doing well, maybe the US, Australia, maybe that could help offset some of decline from China? Basically, the market in China is doing badly, maybe you could share some colour on that.

Vincent Phang (Group CEO):

Let me give maybe a bit more understanding to everybody about the international business, the IPP business. As an eCommerce industry, the majority of items ship globally, or rather 60% or 70% of all eCommerce items is, from the statistics that we have, actually global. That means it moves cross-border, and the balance is obviously in-country purchases and originating within the country itself. So, about two-thirds are coming out cross-border.

By and large, the biggest market that does all the exports is China. The impact on China is because it's the outbound country, it's the origin of a lot of our eCommerce shipments. Through most of COVID, China seemed relatively unscathed, but I think that there are some impacts now to the supply chain, originating in China, and we are seeing a bit of that impact. Yes, there will be cost pressures as a result of this. There will be service level issues as well, and the impact to revenues is that people will just cancel the order, they buy it elsewhere, or they switch to other alternative purchasing. We have to watch that impact of continued supply chain disruptions originating from China.

The general air capacity recovery for the region, and especially for Singapore, we are very dependent on Changi Airport, because most of our shipments actually transit Singapore, and that's always been a traditional strength, because Changi Airport offers that global connectivity to the rest of the world. Imagine our supply chains coming in from China, and we're re-despatching it to over 200 countries in the world, overnight from Changi Airport, that was the great advantage. Never the cheapest, but always the most effective. Through COVID, that evaporated because we couldn't get any flights out. In line with what I said, the global markets that we serve are Europe, North America, everywhere that buys eCommerce.

The recovery in air capacity, which is led by tourist destinations, does not actually help us. We do need to see more sustained growth and opening of all the lanes to the major markets that we have, and then get the rates down to a point that our margin can start to make sense again. We've been very cautious about that impact - maybe from this point onwards, we may have some gradual opening. We're also very cautious about the other issues that are happening around the world. While the impact isn't to any trade lanes in particular, the general inflationary pressures are higher. Fuel is going up, aviation fuel rates are going up, which means that at some point in time the carriers are going to pass it to us, in fact they have already.

Also, generally, just wage inflation issues with a small country like ours. As we reopen, there is also very significant pressure on labour. People have choices, and everybody's eager to open up, and everybody needs manpower. Those are all issues that we have to contend with in the short term. Hopefully that gives a bit of colour around the international business. We see continued headwinds, it's not like smooth sailing from this point onwards. It's not so straightforward that COVID's abating and we can start to see the recovery. There are some other macroeconomic factors, geopolitical issues that we have to be mindful of.

Llelleythan Tan (UOB):

Thanks very much. I think have one more follow up. The past two years, we've been through COVID and the whole supply chain issue. I was just thinking, the exporters from China, if they can't come through Changi Airport, I'm pretty sure they found a way, a cheaper way to deliver their goods. Let's say going into the next few quarters, wouldn't they just remove Singapore from their delivery routes? So instead of going from China, Singapore to US, maybe they just go straight to the US. I'm pretty sure they must have found a way to do it cheaper. Also, moving forward, my question is, is there a secular trend where SingPost or Singapore Changi Airport is being removed from the equation? This is my last question.

Vincent Phang (Group CEO):

Thanks, great question. I think it's a question that will confront us as a country. It's not necessarily just SingPost alone. I think we're all concerned about Changi's connectedness to the rest of the world, or relevance to the rest of the world as we come out of this, whether trade lanes or logistics networks have been re-adjusted through the pandemic. I think there's interest, led by the government, in opening up Changi as soon as possible, because we all understand this impact that can be very significant for us. Our reputation that we've built, the kind of effectiveness that we've had, and yet it's gone into cold storage for the last two years. Opening that up is a national effort, I suppose.

I guess I can say we are well-plugged into that effort in reopening, playing our own small role in that. There are certainly lanes that have been re-routed through COVID. People fly direct, bypassing Singapore. I guess the whole point is how we optimise this to provide more resilience without depending entirely on this otherwise very trustworthy hub called Singapore. We need to reclaim that reputation, I suppose.

That's one of the reasons why, through the COVID issues, our IPP business, we've been very careful, very deliberate about managing what we can do best, without overpromising. It's a lot more complicated than just presenting what is the revenue, how come we didn't make much margin out of it. It's really about careful margin management to continue to uphold a certain reputation where we can do the job, and to put it very bluntly, without going into a loss situation.

So, we have to pick the lanes, we've got to pick which customers we're going to serve and where we can go to without actually running a negative business. But at the same time, giving us enough baseload to make a comeback when it is reopened, and gives us an opportunity. I won't say it's easy. We will be looking at re-engineering our network so that it provides a bit more resilience. We also need to be part of the narrative.

Maybe as a last comment, I harbour hopes as a logistician having been in this space for quite a number of years, I think that logistics is all about hub and spoke. It's not just so plainly, I want to go from point A to B, I just get on a flight and go point A to B. It's about cost-effectiveness, it's about co-loading opportunities, it's about hub and spoke, picking where it makes most sense from a volume standpoint, lane standpoint. That will always come, and as long as we present ourselves as country, a hub, a network that offers that opportunity for others, being integrated and connected to 200 other countries in the world, pretty much overnight, I'm optimistic of that being re-established.

Selena Chong (VP, Investor Relations):

We have time for maybe the last two questions.

Toh Su N (OCBC):

Hi, I'm Su N from OCBC Credit Research. I was wondering if there are any updates on the re-positioning of the industrial space where your sole tenant has moved out. At the previous briefing, I think there was a mention of a plan to re-position.

Vincent Yik (Group CFO):

At the moment, the space has still not been filled. We have taken it back, we are looking to re-position, to re-optimise it as part of what we discussed earlier.

Vincent Phang (Group CEO):

That space is not very material in the sense of how big it is, and the business that was here and then vacated was also something that is in the mail space and as we said, mail has a continued trajectory towards decline, so it's not surprising that there was an impact. That's all part of what I mentioned earlier about how we are going to review our footprint, whether there's all this requirement for space, how do we reposition our network and the operational mothership, and that forms part of the discussion.

Peggy Mak (SAC Capital):

Thank you for the opportunity. I'd just like to ask about non-controlling interests, that S$4.7 million for the year, is that mainly from the 49% of FMH?

Vincent Yik (Group CFO):

Yes, it is.

Peggy Mak (SAC Capital):

What about, in the past years, you used to have subsidiaries which had losses. Which one is the most problematic one for you right now? Which of the subsidiaries that you don't own 100% is giving you a bit of an issue right now? That means that they give you a positive minority interest.

Vincent Yik (Group CFO):

Are you looking at the balance sheet?

Peggy Mak (SAC Capital):

The P&L.

Vincent Yik (Group CFO):

I think so far, all the material subsidiaries are doing relatively well, those that have non-controlling interest. The largest, of course, is FMH, and that obviously is doing very well. The biggest impact from that, the biggest part of that is actually FMH.

Peggy Mak (SAC Capital):

Actually the profit is a bit of a challenge this year, right, after taking out the S$32.4 million of exceptional gain that you booked in the second half, versus the second half last year, the decline in profitability was a bit more obvious. Is that a right statement, or is there something that I missed?

Vincent Yik (Group CFO):

For the second half operating profit, if you take off exceptional items, is that what you are saying?

Peggy Mak (SAC Capital):

Yes.

Vincent Yik (Group CFO):

The exceptional items for the second half was about S$4 million nett. From an operating perspective, I think we have highlighted previously the key benefits of our logistics business that is doing well. That is still continuing to deliver. Post and Parcel is slowing down, as Vincent also highlighted, largely due to reasons that are known, so from an operating perspective, I think it is quite in line with expectations.

Peggy Mak (SAC Capital):

I was just trying to identify whether there's any one-off items affecting you this year that will not recur in the future.

Vincent Yik (Group CFO):

The exceptional items would be the one-off items.

Peggy Mak (SAC Capital):

Thank you very much.

Selena Chong (VP, Investor Relations):

Perhaps one last question.

Ong Khang Chuen (CIMB-CGS):

Thanks for taking my question. I noticed that this time around you are sharing your focus on how you reposition yourself into these three key pillars, compared to previously where more entities are operating more on a silo basis. Maybe you can share more about what some of the key synergies that we can hope to see with all these entities working together. That's my first question.

My second question is actually more on the margins. In view of balancing recovery as well as a lot of these macro challenges like your wages, inflation, higher conveyance costs in the near term, would this actually derail margin recovery in this upcoming financial year? Thanks.

Vincent Phang (Group CEO):

Thank you. Yes, in fact, that's very relevant to where I mentioned about the execution, to the discipline and to the strategy that we have. You are right, and hopefully, you also get a sense that in our presentation today, the tone that we are taking is less of the entity view, more of what we are trying to make of the markets, and where our assets actually play in the markets. There has been a decided change within the business, we are looking at it from that standpoint. We will move away from a construct of who runs which entity, it's more of how do we build a network out of this.

The synergies are obvious. When you look at the international business where we have a sizable International Post and Parcel business that goes around the world, we have an origin market of interest called China, and we have some key destination markets. We also have Southeast Asia as a key market for us, and we have a footprint across these markets via different entities, for example Quantium Solutions and Famous. We will look at the opportunities to see where we can position some of these assets to facilitate that the flow of trade and supply chains, so that's an example of what we're going to do.

In Australia, it's also quite obvious that we have a B2C business that was always in the last-mile space. We always felt that the last mile B2C deliveries is a very good way of maybe influencing the B2B logistics development. Once you put the two together, you can start to see the benefits of not just moving things to a warehouse or to a shop or to a mall, but you start to see the omnichannel opportunities that come along, because we can offer those services to our customers. Whether you want to ship it to a store or you want to ship it to somebody's home, we can do that for you altogether. You start to see that synergies are being built over there.

That will guide our development going forward, in terms of how that will work out, maybe the next time we meet, we can share a bit more of how that's panning out. But that's certainly the desire and the ambition.

Margin recovery is the million-dollar question. To be frank, I think coming out of COVID, we certainly expect the re-opening to impact positively our largest business, which is the IPP business. It has suffered greatly through the impact of the last two years, and we are certainly looking forward to that being on the path to recovery.

I won't play down the sudden impact from the two issues that we talked about, the conflict that's happening in Russia and Ukraine, the disruptions that come about as a result, the inflation pressures for that reason, and also the continuing lockdowns in some cities in China, which we did not see in the start of COVID but is starting now to become a more ever-present problem. That will disrupt our supply chains. I won't play down these two impacts. We have to see how we react to it, because it's still early days where that leads us. But we can certainly feel it.

And locally as well, with all this re-opening, there's going to be a lot of pressure for manpower, a wage crunch, which we also have to react to and I did talk about it earlier. That's why I say, while the recovery from this year's result looks sound, I think we want to be approaching this with some caution, not just being very optimistic about what's to come. We did come off a low. The other thing is, can we continue to sustain this trajectory, we certainly hope that all the actions that we are putting together can yield the benefits, and in the long term I think certainly there will be, but short-term wise, there continues to be some of these headwinds.

Vincent Yik (Group CFO):

The only thing I will add to that is, that’s the whole purpose of why we are trying to diversify the business so we are not talking to just one country, one business. I think that gives us a little bit of comfort and a little bit of flexibility across the different businesses as well. So we try to manage the ability to move between countries and businesses. Hopefully that helps to buffer some of those pressures as well.

Vincent Phang (Group CEO):

Thanks so much for the interest, and thanks for spending the time with us this morning. I know you have other briefings you could have gone to, so really appreciate it. Feel free at any time to reach out to the IR team if you have any other queries. Thanks very much.

Selena Chong (VP, Investor Relations):

Thank you. This marks the end of our session. Thank you everyone.

End of Transcript