SingPost's H2 and FY20/21 Results Briefing, 6 May 2021

Operator:

Good morning ladies and gentlemen, welcome to Singapore Post's results briefing for the second half and full year ended 31 March 2021. We are now ready for the results briefing. I shall now hand over to the management of SingPost to begin the briefing.

Mr Jason Lim (Head, Corporate Planning & Investor Relations):

Thanks, good morning everyone. Welcome to SingPost's results briefing for H2 and FY2020/21. My name is Jason Lim, Head of Corporate Planning & Investor Relations.

With me today are our Group CEO Mr Paul Coutts, Group CFO Mr Richard Lai, and our CEO of Postal Services and Singapore Mr Vincent Phang. I will now hand over to Richard to start the presentation. Richard, please.

Mr Richard Lai (Group CFO):

[slide 3]

Good morning and thank you for joining us today. SingPost delivered a resilient set of results for FY2020/21, amid a challenging operating environment. Revenue rose 6.9%, led by strong eCommerce volume growth in the Logistics and Domestic Post and Parcel segments.

Operating expenses rose 13.6%, due largely to increase in volume-related expenses as a result of Covid-19 disruptions, and eCommerce volume growth. We will share more details on that in the next slide. With the above increase in costs, profit on operating activities declined 44.8%. Consequently, underlying net profit declined 40%. This was due to Covid-19 related disruptions, partly offset by higher earnings contribution from the Logistics segment, as well as the absence of losses from discontinued operations.

[slide 4]

Moving to the next slide, volume-related expenses rose 18.5% due largely to a spike in per unit international conveyance costs and line haul costs as a result of Covid-19 disruptions. In addition, volume-related expenses rose as a result of higher eCommerce volumes at CouriersPlease in Australia and Domestic Post and Parcel in Singapore.

Labour and related expenses rose 7.7% due to increased eCommerce-related deliveries in line with volume growth, as well as higher costs to deal with Covid-19 disruptions such as health and safety arrangements, partially offset by the Jobs Support Scheme or JSS.

Admin, selling-related and other expenses rose 5.3%, largely due to the roll out of a new information system in Australia to improve customer experience and manage higher volumes. The above led to an overall increase in operating expenses by 13.6%. Finance expenses declined by 12.8% to $11 million.

[slide 5]

We now move on to an overview of the various segments' contribution to Group revenue and profit on operating activities. Revenue rose to $1.4 billion, driven by the Logistics segment, which rose to $619 million. Profit on operating activities declined to $79.3 million, largely due to a decline in Post and Parcel profit, offset by growth in the Logistics segment. In the next slide, we will share more details on the various segments' profit on operating activities.

[slide 6]

Post and Parcel profit on operating activities declined 63.7% to $43.5m during the financial year. The International business suffered from Covid-led conveyance cost impact and margins were largely eroded. The Domestic letter business continues to decline, as expected. There were also higher costs relating to Covid-19 disruptions. On the other hand, the Domestic eCommerce business has grown strongly, and points the way for us moving forward.

The Logistics segment recorded a strong turnaround into a profitable position, from higher adoption of eCommerce activities in Asia-Pacific. Our reengineering of processes also led to more customers coming on board, which led to improved revenue and economies of scale.

Property earnings declined 7.2% largely due to rental rebates provided for eligible tenants in the first half of the financial year, as well as lower car park and atrium sales revenue.

In the Others segment, expenses were higher by 3.5% largely due to reversals of one-off expenses recognised last year. Excluding this, the Others segment remained stable.

[slide 7]

Next, we will go through the half year results. Revenue rose 4.3% led by strong eCommerce volume growth in the Logistics and Domestic Post and Parcel segments, offset by lower International Post and Parcel revenue.

Notwithstanding the higher earnings contribution from eCommerce, Covid-19 related disruptions impacted profitability, leading to a 36.9% decline in Group profit on operating activities. Consequently, this led to a 40% decline in Underlying net profit. More details are provided in the following slides.

[slide 8]

Volume-related expenses rose 11.1% due to higher per unit line-haul and conveyance costs, as well as higher eCommerce volumes. Labour & related expenses rose 9% due to increased eCommerce-related deliveries in line with volume growth, as well as higher costs to deal with Covid-19 disruptions such as health and safety arrangements, partially offset by JSS.

Admin, Selling-related & other expenses rose 2.5%, largely due to the roll out of a new information system in Australia. These led to an overall increase in operating expenses by 9.5%. Finance expenses declined by 5.3% to $6.0 million.

[slide 9]

We now move on to an overview of the various segments' contribution to Group revenue and profit on operating activities in the second half of the financial year. Revenue rose to $696.9 million, driven by the Logistics segment. For profit on operating activities, the improvement in Logistics was offset by declines in Postal and Property, leading to a $39.5 million profit for the second half of FY20/21.

[slide 11]

Let me now move on to the Cash flow and Financial indicators. For the financial year ended 31 March 2021, operating cash flow rose to $215.4 million, largely due to positive movements in working capital. Investing cash outflow rose to $67.5 million, largely due to the Group's investment in FMH.
Financing cash outflow rose to nearly $140 million, due largely to a net repayment of bank term loans and fixed rate loans, compared to net proceeds last year. As a result, the Group recorded an increase in cash of about $8 million in FY20/21.

[slide 12]

Despite the challenges brought about by Covid-19, the Group has strengthened its financial position.
The Group remains in a net cash position as at 31 March 2021. With a higher cash position and lower borrowings, our net cash position improved to S$179 million, compared to S$129 million at the start of the financial year. EBITDA to finance expense ratio was lower at 12.4 times due to lower EBITDA generated during the year.

We will now provide an update on the contribution of eCommerce to the Group's business. For this segment I will hand you over to Vincent.

Mr Vincent Phang (CEO, Postal Services and Singapore):

[slide 14]

Good morning and thank you Richard. We've seen strong eCommerce volume growth across the Group in FY2020/21. Domestic Post and Parcel eCommerce continued to gain strong traction as volumes rose 45%, and we shipped a total of 37 million items.

CouriersPlease volumes also rose strongly, with consignment volumes rising 53%. Unfortunately IPP volumes declined, and as explained by Richard we had a slew of challenges. We carefully managed volumes amid a spike in air conveyance costs due to the flight disruptions out from Changi Airport.
At the Group level, eCommerce-related revenues are now estimated to drive around 65% of revenue for FY20/21.

[slide 15]

Going to the next slide, the contribution from eCommerce to our domestic business continues to grow. It now amounts to 34% of our domestic revenue, up from 21% last year. On the chart on the right you can see that while there was a spike in eCommerce volumes in the first half of the year due to acceleration of eCommerce adoption through the initial days of Covid, the Circuit Breaker and such, we have seen a normalization and that is along with the industry metrics that we see. However, the growth trajectory even in Q4 continues to be strong as you can see from the chart.

[slide 16]

I will move on to the next slide which shows a good depiction of how the Post and Parcel business is orientating. It shows the rate of eCommerce revenue growth compared to letter revenue decline, and as you can see there has been a strong uptick in recent quarters. The red line shows the rate of replacement.

I am happy to share that in the past two quarters and the second half of the year, the growth in eCommerce revenue has more than offset the decline from letters and printed papers. So this is the first time we are actually seeing this on a half year basis. This has led to a growth in DPP revenue in the second half, which has traditionally been in decline as you are aware.

[slide 17]

I will move on to the next slide, which gives more colour on the continued decline of our letter and printed papers business. This is as expected, and it was accelerated through Covid and both revenue and volume were down by 19% for FY20/21.

Despite this and the Covid crisis – Richard talked a bit about the impact that we had – we continue to focus on our service levels and have been meeting consistently high service standards through Covid, as you can see on the chart. These numbers continue to be reflected even in this latest reporting period, which covers the year end peak season.

[slide 18]

I will now talk about our International Post and Parcel business, which certainly has been a challenge for us through Covid. The slide that you see gives you some colour around the number of flights from Changi Airport that have been reduced significantly. We are finding it a big challenge to get our shipments on aircraft and as such the conveyance costs have surged, at times by up to 3 times and currently close to double the cost of pre-Covid days. These had the effect of largely eroding our profits at the International business.

We have put in place measures to work around this, including careful management of volumes in order to continue this service without going into a negative margin position, and we have been largely successful in defending the revenues. That said we have also proven to be fairly resilient in the majority of global lanes, and especially growing new intra-Asia volume. In particular, we have grown revenue in the higher service EMS product, and in second tier Asia cities. Thus, this is in line with the drop in revenue by about 2%, although the cost of doing business has increased dramatically.

Ultimately, the recovery of the international business will depend on how fast Changi Airport passenger flights resume given mail products are generally carried in the passenger fleet. We will now move on to the segmental results. I shall now hand you back to Jason.

Mr Jason Lim (Head, Corporate Planning & Investor Relations):

[slide 20]

Thanks Vincent. In this segmental slides we provide a slightly more detailed breakdown of the segments.

As you can see in the Post and Parcel segment, revenue declined 2.7% for the full year and 10.1% for H2. These were due to a decline in International revenue, as we managed volumes carefully. In the second half of the year, Domestic revenue rose 6.6%, driven by a 57.3% revenue growth from eCommerce related deliveries.

In terms of profit on operating activities, we shared that International margins were largely eroded. Coupled with Covid-19 related costs at the Domestic business, this led to a decline in profit on operating activities.

[slide 21]

In the Logistics segment, revenue rose 23.5% for the full year, and 26.6% for H2. The eCommerce logistics businesses, which are Quantium Solutions, CouriersPlease and SP eCommerce, benefited from increased eCommerce adoption across the Asia Pacific region.

The Freight forwarding business experienced higher volumes and higher sea freight rates, in particular for the second half of the year, leading to a strong 27% revenue growth. As such, the segment saw a strong turnaround to a profit of $11.3 million for the full year and $5.6 million for the second half.

[slide 22]

Property and Self-storage revenue declined 4.7% for the full year and 1.6% for the second half. As shared earlier, Property revenue declined largely due to rental rebates. Self-storage revenue declined marginally in line with the slower economic environment. Consequently, profit on operating activities was lower by 7.2% for the full year, and 3.1% for the second half.

I will now pass the presentation back to Richard to cover some Property operating indicators. Richard, please.

Mr Richard Lai (Group CFO):

[slide 23]

Thank you Jason. Despite a challenging leasing market, the SingPost Centre retail mall and office remained at a high occupancy, quite close to full occupancy in fact.

The reported committed occupancy as at 31 March 2021 was 94% for the mall and 96.6% for the office. It is a slightly lower number than where we began the year with, and a lot of this was firstly because about half of the retail segment was up for renewal during 2020. So you can imagine for us to keep the occupancy level at a high rate means that we have been successful in our renewal rates, and in fact it was as we hit over 90% in terms of our renewal rate and we still managed to find some new tenants to come in.

All in, I think generally it has been fairly resilient in spite of a rather challenging year. The reason why the retail occupancy is still on the low side at 94% versus 100% at the beginning of the year is because we are repositioning a fairly sizeable space of about 9,000 square feet that we have taken back from an F&B tenant. We already have tenants or prospective tenants signing up for it so we expect this space to be fully operational by the end of the first quarter of this new financial year.

Since the close of the financial year, we would expect the office occupancy rate to move up as well. There has been some additional space for which new tenants are in the process of documentation, so all things said and done we expect the occupancy level to be back up to close to full occupancy.

[slide 24]

As indicated in the prior slide, leases expiring in FY20/21 have been substantially renewed or replaced. There are ongoing discussions for the single unrenewed lease for the office space.

[slide 25]

In terms of Footfall and Tenant sales compared to the same period last year, Footfall and Tenant sales remain down year-on-year, largely due to the Circuit Breaker period when many shops had to close.

However, comparing the first half versus the second half of the year, it is clear that in the second half there has been a strong recovery sequentially. Footfall was up 37%, while tenant sales were up 47%, indicating higher spending per shopper. Tenant sales have now recovered to 85% of pre Covid-19 levels.

[slide 26]

The next slide shows the leases expiring moving forward. For the Retail mall, 29% of total NLA or 49,000 square feet will be expiring in FY21/22. For the Office and enrichment areas, 21% of NLA or 87,000 square feet will be expiring in FY21/22.

There are still challenges we have to face, but given that we had a bigger challenge during the pandemic year we are cautiously optimistic that we should be able to renew or replace these leases coming up. We will now move on to the Outlook section.

[slide 28]

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.

The Group's performance in certain business segments will continue to be affected by factors beyond its control, including the impact of higher international conveyance costs out of Changi Airport.

While the recovery of the International Post and Parcel business will largely be driven by any recovery in the number of flights departing from Singapore, the Group is also actively exploring different ways to improve the performance of the International Post and Parcel segment.

In Singapore, the Group is implementing the Future of Post initiative, which will reengineer the Postal business to capture the broader growing opportunities for smart urban logistics. Public trials have commenced for a key component of this ecosystem, called PostPal, the world's first-ever "Smart Letterbox".

On 31 December 2020, the Group completed the Tranche One acquisition of FMH, which is Freight Management Holdings, which will allow us to further scale our Business-to-Business-to-Consumer or B2B2C logistics capabilities as well as to make further inroads in the eCommerce market in Australia. This will further entrench Australia as a second home market for the Group.

The Group will continue to execute its transformation initiatives to reposition itself for the long term while carefully managing expenses, cashflow and liquidity in the near term.

[slide 29]

Let me move on to dividends. With an uncertain outlook due to the ongoing pandemic, the Group continues to adopt a prudent approach in managing cash flows, and conserving cash for the ongoing execution of transformation initiatives.

For the financial year ended 31 March 2021, the Board of Directors has proposed a final dividend of 0.6 cent per ordinary share. Including the proposed final dividend, total dividends for the financial year would be 1.1 cent, which represents a payout ratio of about 40% of underlying net profit.

The final dividend is subject to shareholders' approval at the AGM in July.

This concludes our presentation and thank you for joining us. Let me now hand you back to Jason.

Mr Jason Lim (Head, Corporate Planning & Investor Relations):

Thanks Richard. This is the end of our presentation, thank you for joining us.

We will now begin the Q&A session for the analysts. Operator, can you take over please?

Operator:

Thank you Jason, we will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone, to cancel your request please press the '#' key.

Your first question comes from Sachin Mittal from DBS Vickers Securities. Please ask your question.

Mr Sachin Mittal (DBS Vickers Securities):

Good morning, my question is on Post and Parcel. Could you enlighten us more, looking at the second half versus the first half of the year, there is a decline in the volume. Was it due to a deliberate effort to leave some business on the table which is unprofitable, or was it a downward movement in business trajectory in that segment? Secondly, if that was a deliberate effort, even then we see that the operating profit has come down in that segment. We were expecting a little bit of improvement in the second half versus first half, naturally because lockdown was over so profitability should have improved a little bit. If you could enlighten us more on the underlying trend here, thank you.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Thanks Sachin. I did not quite catch the first part, if you allow me to paraphrase, your question was on how H2 compared to H1, and did we leave any revenue on the table, and if that was the case what did it do to profitability.

If you can let me give you a bit of colour, the business through the last financial year went through two major impacts. The first was the continued structural decline of letter mail, so on a half year to half year perspective that trend continued, and you saw the numbers we presented it was about a 20% drop year on year. The cost of running a regulated service on this front is pretty much fixed as you are aware, so a 20% drop year on year, half on half and quarter on quarter, it just continues, and it is not seasonal. So we have to bear in mind that there is that impact of that continued decline all things equal, and this structural decline continues and in fact there may even be a bit of acceleration.

The second impact is the Covid impact on two fronts. Firstly the cost of doing business has increased throughout, even on the domestic front. We had a significant cost incurred to keep the labour – we have a significant number of colleagues who are from overseas, and we have been housing and supporting them in Singapore to make sure that our service levels continue to be there and we can try to do as much as we can for the domestic business. So that is one of the impact.

The major impact for us for the Post and Parcel business is that the freight environment going out of Changi continues to be very difficult and challenging. We can't get flights, and even if we do they are very expensive, so we've explained earlier about managing the volumes closely. In the International business we’ve been deliberately managing volumes to not incur any losses, and the profits were largely eroded, but we were disciplined to try and pick the lanes. We tried to make sure the work we continue to do is accretive despite the fact that there is almost no money to be made. So that explains why there was a drop in revenue, certainly we needed to make some choices.

Had we continued to be in those lanes I don’t think we would have been profitable and so we’ve elected to focus on some of the other work that we are doing which can continue to bring us a level of return, very marginal at the moment for IPP. So in a nutshell from a profitability standpoint because the top line has dropped the percentage profitability is actually slightly better in the second half versus the first half, and what I am trying to explain is that the impact on the International business continues.

In the second half we continued to see letter mail decline in the domestic business and that is structural, yet we are delivering a marginally better result compared to the first half. That is entirely because of the eCommerce volumes that we have been able to bring in, the eCommerce business has started to gain traction. Through the year we saw about 60% increase in eCommerce revenue and a 20% drop in letter mail volumes.

That change in eCommerce is very drastic, a 60% increase on year, and if that is a standalone business domestically it is a $72 million business as you saw on the chart earlier that Jason presented. At the same time, we have continued to drive unit price up from a domestic eCommerce delivery perspective. The strategies are starting to show traction, and it may not be seen so clearly in the numbers because a lot of it is masked by the International business given that the revenues are so big for the International business. That is probably one of the reasons why you can’t break out the number alone to see it. Hopefully that gives you an adequate explanation.

Mr Sachin Mittal (DBS Vickers Securities):

So it appears that International mail growth may offset the revenue decline for domestic mail, but the margins are very different for both businesses, so essentially Post and Parcel could continue to report lower operating profit right? That is another implication because looking at domestic mail, the revenue offset is not enough because it is a high margin business.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Not necessarily. Clearly the structure of the business is that this is a Postal business and it is optimised for letters, and letters are indeed declining at 20% year on year. A lot of the strategies you have read through the course of the year, we continue to put the right investments in the right way to give us that future, and we are orientating towards an eCommerce future. The strategies are there, they are starting to yield benefit, you see that the replacement rate of revenue is achieved in the second half. So we are actually growing and this is the first time in many years that the domestic business is growing in revenue and the results in the second half possibly show the way forward. Fingers crossed we are working hard to make sure this trajectory continues, but the strategies are yielding benefit.

As far as earnings are concerned, the scale of business is still very different. We are still delivering 10 to 12 letters for every eCommerce item, but that ratio will continue to change as we start to see continued growth, 60% growth I mentioned year on year. We believe and we do see the trend of the earnings picture coming into play in time, so I don’t think I agree that the operating profit will continue to decline for the domestic business. It is a period of adjustment and transition from a Postal business to an eCommerce business and for this half we see that for revenue we are starting to replace and grow again, and that will be followed by earnings hopefully soon.

Mr Sachin Mittal (DBS Vickers Securities):

Thank you. Just a follow up question on the Changi Airport side and how the flights are operating, are you seeing material improvement or no, is it still not good enough for your International mail business?

Mr Vincent Phang (CEO, Postal Services and Singapore):

That's a tough one, it is a rollercoaster ride for us. As you know every time it seems to get better and we hear about travel bubbles and that flights are coming back again – and specifically we are talking about passenger flights here not freighters – every time we get news of that something else comes along and those flights go away. There was the travel bubble with Hong Kong, that was something that led to quite a bit of excitement but went away again, so this rollercoaster continues.

You saw from the chart that we presented earlier that there's been some marginal improvement in terms of flights. We used to load more than 100 flights a day out of Changi, that was how efficient we were, that was how effective we were and when you have 100 flights to choose from you can imagine what it does to pricing. And when passenger fleets are flying it gives us a lot of options. We are now loading about 20 flights a day, so it is a 5 to 6 times drop and if we do get choices the rates are high, you see that the rates continue to be about twice compared to before Covid. So it starts and stops, I can't comment about the outlook. We are obviously hoping that Changi will start to fly again but I guess in this case our fortunes are probably tied to the carriers or the operators at Changi. If they start flying, we start to get options.

Mr Sachin Mittal (DBS Vickers Securities):

Got it, great thank you.

Operator:

Your next question comes from Chu Peng of OCBC Investment Research. Please ask your question.

Ms Chu Peng (OCBC Investment Research):

Hi, I have a question on the International conveyance cost. Just wondering if you are able to pass the higher costs to customers, and also are we seeing the cost stabilize at this kind of level or are we expecting it to decline as the number of flights at Changi resumes.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Hi Chu Peng, thanks. Maybe I will take the second question first which is a follow on to Sachin's question. The outlook continues to remain very uncertain, we used to load 5 to 6 times more flights than we do now, it hasn't really moved the needle in any way. It is a rollercoaster, we have always heard news that it might be opening but then there's no material improvement in air freight capacity on passenger fleets. So I think the outlook continues to be that way and I think it is the same with all the operators at Changi I suppose. Our fortunes are tied with that.

On the question regarding passing on the higher conveyance cost, clearly we have had to have discussions with customers around surcharges and occasionally we are able to. It is a very competitive world, but one of the key challenges for us is that as a Postal business, the transhipment operation actually happens through Singapore. Of course if it is through Singapore then we believe Changi during pre-Covid times, during BAU times offers us the best flexibility options and all the permutations to get it across the rest of the world within the next 24 hours.

Basically this was what our operations were doing, in and out within 24 hours, over 100 flights a day, but now it is not the case. Which means that once the price is higher and the service levels are not as great, the shipment sits around for a couple of days waiting for us to catch a flight, our customers have other options. They can choose not to come through Singapore and that is the structural part that we have to be concerned about, and that is the reason why we continue to defend the business as much as we can. Without the revenue I don't think we can ever be represented in this market meaningfully, so that was the strategic choice that the company has made. We will continue to defend the revenue as much as we can to stay represented without going into a negative margin position. Where we have been successful we have passed the costs on, but I just have to say it is an extremely competitive world and customers do have options, not coming through Singapore.

Ms Chu Peng (OCBC Investment Research):

Ok got it. I have another question on the Property segment. Just wondering what was the rental reversion for this year, and also do you see any changes in the lease structure or number of years for the leases.

Mr Richard Lai (Group CFO):

Chu Peng this is Richard here. We have low single digit negative reversions as you would expect in such an environment, but as you would have noticed in the results the negative reversion only led to a fair value loss of about $6.7 million for the entire SingPost Centre. So in the greater scheme of things it was quite minor, quite small negative reversions. What was your other question?

Ms Chu Peng (OCBC Investment Research):

For the renewals last year do you see any changes in the lease structure, or do you see tenants renewing with shorter leases?

Mr Richard Lai (Group CFO):

Actually it cuts both ways. Sometimes if the tenant wants a rather low rate in order to cope with the uncertain times then we as the landlord will also prefer a shorter lease, but if we are able to take a longer term view then we would sign them for longer term leases. Most of them signed up for 3 years back in 2017 and the majority of them renewed for 3 years, some 4 years or 2 years that sort of range, so nothing unusual.

Ms Chu Peng (OCBC Investment Research):

Ok got it. I have one last question on eCommerce. It was mentioned that SingPost is looking for new eCommerce growth opportunities in Singapore, Australia and APAC. May I know what kind of new opportunities are you looking at now?

Mr Richard Lai (Group CFO):

You are probably aware we invested in FMH, that is a deliberate intent of ours to further develop our market hold in Australia. For Australia in terms of its eCommerce structure, they are quite a profitable market so from our perspective it makes a lot of sense to leverage off our existing foothold there in the form of CouriersPlease, which incidentally did very well – they had about a 50% increase in revenue compared to last year. So we were leveraging off them to further expand and entrench ourselves there.

The acquisition of 28% in FMH, to be followed by another 10% this year, is what we describe as some of the means to further capitalise on the eCommerce opportunities in other parts of Asia outside of Singapore. We do think there are still a lot more opportunities in Australia so going forward we would probably be looking keenly at what else we can do to expand our foothold there. We do think there is a unique window of opportunity to do that at this point in time, but I think the main story there is that we are looking at not just relying wholly on Postal in Singapore to deliver and carry the heavy weight of delivering the numbers. We are also looking at other markets to do so and this is one good example.

Having said that, we have not forgotten about the rest of Asia, such as Indonesia, Thailand and so forth. Generally speaking the business for Quantium Solutions, which covers Northeast and Southeast Asia fulfilment, warehousing and cross border, has done a lot better than last year as well, just like CouriersPlease. However the markets in these areas are still relatively early stage, they are not as big compared to Australia and customers are not as willing to pay like in Australia. So there are reasons why we chose a more mature market to increase our foothold in the immediate term, it's because of that.

The other markets in Northeast and Southeast Asia are markets where we want to continue to invest in, but we have to recognise that the strategy for investment in those markets will be more organic than inorganic.

Ms Chu Peng (OCBC Investment Research):

Ok that's all for me, thanks.

Operator:

Your next question comes from Rachael Tan of UBS AG. Please ask your question.

Ms Rachael Tan (UBS AG):

Hi, thanks for taking my question. We saw the inflection in Post and Parcel revenue. When should we expect an inflection in DPP margins or operating profit, or what sort of steps do you need to take in order to see the OP start to improve again?

Mr Vincent Phang (CEO, Postal Services and Singapore):

Hi Rachael, thanks for the question, it's the million dollar question. Indeed that is one thing we are highly focused on. Before we get ahead of ourselves, the fact is we have been planning this for some time, the strategies are in place, I wouldn't want to play down the operational redesign we have to make to a traditional mail business in order for it to cater to eCommerce. It is not like we can just flip a switch.

What was highly optimised in terms of machines, in terms of the structure of the organisation, the teams, the postmen and what not, it takes some time for us to reorientate. I can say that I am pleased with how the second half has come about, we have reacted to it well, I think we have captured it. Once again, make no mistake, if this is a standalone business it grew 60% last year, notwithstanding the fact that the letter business dropped 20%. I also shared with you the ratio of the letters versus the eCommerce items, it is about ten to one, so it is not an easy feat.

I did think that Covid helped in a sense, we accelerated that revenue switch by 18 to 24 months in our reckoning. When we first started architecting this journey it would have taken a bit longer so this is a bit faster, a bit sooner, so this gives us the confidence to press on with some of the other things we are going to do to bring about that inflection for profit as well.

Clearly I can't give exact dates but you can imagine revenue would turn before earnings turns, that is the way it is going to be. The question is how long and what are the things we are putting in place. I do believe we have some headroom in terms of the product that we have, the pricing that we have. We still have a significant amount of eCommerce items that come to us through the traditional mail system which is more letter based, it is untracked, it is probably a lot cheaper, but moving to a tracked product which is what we have been continuously rolling out and the traction is there, the market is grabbing on to this.

There is headroom, we are talking about a significant price headroom once confidence is there that we continue to deliver to that kind of 99-plus percent SLAs that you saw. Service levels continue to be strong, revenues are there and we can turn this maybe sooner than we hope. I'm afraid I can't give you exact timelines but those are probably some of the strategies that we have to move this along sooner than later, but overall I am very excited that the trajectory for eCommerce revenue domestically has made that switch. That give us confidence.

Ms Rachael Tan (UBS AG):

You mentioned that you need to optimise the machines, the structure, organisation team and postmen. In terms of 0 being 100% traditional mail and 100 being a full reorientation, where would you say you are at in terms of processes, in terms of the reconfiguration.

Mr Vincent Phang (CEO, Postal Services and Singapore):

In terms of the thinking and the strategies, the embracing of the new operating model, the mapping and architecture of it, we are fairly well progressed, maybe a 7 or 8. It is all down to the execution, there is a lot that needs to be done now. There are things that have been accelerated by Covid, but unfortunately there are also things that have been set back back by Covid in terms of what we want to do. Going forward from this year onwards a lot of that transition is going to take place, where we actually put those strategies into execution.

If you are asking specifically what are we talking about, for example take fleet. We have always been more of a scooter fleet, but you will increasingly see that the fleet is going to get bigger, with more 3 and maybe 4-wheelers. That is a reflection of the kind of things we are delivering. It used to be a lot smaller, now it is starting to get bigger and a scooter gets filled up very quickly. So we need to reorientate the fleet, we need to get the people trained so that when they deliver letters, it is not just about placing it into the letterbox. Moving to a tracked letterbox product is about using technology to make the scan, to actually provide a complete customer experience. Hopefully we don't have to go to the doorstep as much because of the tracked letterbox product that I know you have heard of and I have mentioned this previously.

So some of these things are in progress, they are all the building blocks and if you have been following the things we have been saying over the last few quarters or last few investor calls, and certainly I would be happy to share more if there is a chance, you see that the building blocks are put in place specifically as strategies to get us to this point. And while those individually may not make sense, the fact is when the revenue and volume switch over to a replacement rate – internally we talk about whether we are at lift-off, are we at escape velocity – once we get to that point then how do we have the building blocks in place to support the cost structure for us to then drive that margin benefit. I think that's your question and that is absolutely the question, and like I say it is the million dollar question. We are focused on getting this part next as we see the confidence in eCommerce growing.

Ms Rachael Tan (UBS AG):

Ok thanks for that. Could you elaborate on your Future of Post plans and timelines? You mentioned that Postpal is one part of it, so what are the other parts. And you said that you have launched a pilot, do you have any realistic timeline in terms of how you can ramp it up, as well as potential capex that we are looking at.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Yes I can share some approximate timelines and certainly I can share the things that we have been working on behind the scenes that may not be so visible. Capex is less certain, it is something that we always have to discuss, for example we are still in discussions with regulators and various government agencies, so it is not something I can comment on.

For Postpal we have had about 4 months of the trial and the results are certainly very encouraging. The uptake is more than 90% in the two blocks in Clementi and might I just add that these are 36 year old HDB blocks and are not the demographics that you would expect to be of a high eCommerce content. The typical resident is of an older demographic. That said more than 90% have onboarded, they are using the app and are happy with it. We have done the latest round of customer surveys and the NPS scores have been very encouraging. The comments reflect that it takes some cultural and behavioural changes to accept that this is a different kind of infrastructure, and we have seen that movement, we have seen people get used to it and to embrace it, and we have got very encouraging comments about how it is great that customers can get a notification on their phones and know that everything is tracked even if it is a letter. They get the benefit in terms of customer experience. That's just one part of the trial which is the community trial, the acceptance of the technology and all that. That is progressing well.

Internally we are also looking at how this saves on productivity. The postman no longer has to dwell at the letterbox or make a doorstep delivery, all this will be executed through Postpal. And those productivity numbers are also very encouraging for us to then start thinking about the future, and what this kind of productivity means for the rejigging of our labour. So in a sense how do we make them more productive and effective, and how do we avoid the fact that we have to scale labour with increasing eCommerce deliveries. I do believe that probably with infrastructure like that we could make a difference. If not, then if it is just about going to the door then with more deliveries you would need more vans and more people, carbon wise it is not sustainable and in terms of labour that is not achievable in Singapore. So those are things that we are absolutely validating right now.

So how do we feed all that into the backend and how does the backend now get reengineered to support what is going on out there in the field. We have a lot of machines, the mechanisation is all geared towards optimised work for letters, and in this rapidly changing world there will come a time when we have parity in terms of letters versus eCommerce items. The trajectory continues. Two years ago the ratio was 1 to 20, now it is closer to 1 to 10 or 12, and we will get to parity and we will switch to an eCommerce delivery business.

How do we ensure that the machines are optimised the right way, that is the other aspect of the Future of Post which is not as visible because it is not in the community, it is on the shop floor. Those are things we are doing at the moment. The fact that we have got this new acceleration in eCommerce deliveries, our profile changes a lot more rapidly. Change is not an issue but we all recognise that the pace of that change has been brought forward. We have to very quickly get on to that change, not just the change in mindset and architecture but also the actual physical machines and the operating model. Hopefully that gives you some colour on what we have to do at the backend.

Ms Rachael Tan (UBS AG):

Sure. Maybe a final question from me, you said that you have many machines that are optimised for traditional letter mail. To handle the eCommerce products do you have to buy new machinery or is it possible to retrofit or reconfigure them to sort eCommerce items?

Mr Vincent Phang (CEO, Postal Services and Singapore):

We will reconfigure where we can, and reengineer where needed. Where it makes more sense we will also retire and acquire new machines. That is all part of what we need to do, and we do need to take a future view on things. Will eCommerce volumes grow at 60% year on year, probably not, the long term CAGR is not going to be 60%, but it will grow. And if we have to be represented in the market and be dominant then we need to be able to make sure that we are future proof in terms of these machines. Reengineering will get us some near term benefit but we do need to take a longer view on how, say 7 or 8 years out, how can we be meaningfully positioned for that market, rather than having to think about it every 2 or 3 years. So that is something we are working through right now.

Ms Rachael Tan (UBS AG):

Ok thank you so much.

Mr Jason Lim (Head, Corporate Planning & Investor Relations):

Operator, can we have the next question please.

Operator:

Thank you. Your next question comes from Paul Chew of Phillips Securities. Please ask your question.

Mr Paul Chew (Phillips Securities):

Thank you. In terms of your Logistics business, has the economics changed much and is there better pricing power, or is the rebound purely due to operating leverage? Just wondering if the revenue drops will the business swing back into a loss. That is my first question.

My second question is, as you said you are optimised for letters not parcels, so is the last mile solution going to be Postpal? Is that the way to resolve it and if you really do undertake a nationwide rollout are there some numbers so that we know how far you need to penetrate to get a meaningful impact.

And my last question is on the International business. You mentioned competition, what are the other hubs out there and are you skewed towards any popular or dominant routes, maybe China to Singapore to Europe, or is it quite widespread? Thanks so much.

Mr Richard Lai (Group CFO):

I can answer the first one. Let me paraphrase it another way, you are basically wanting to know how sustainable the growth in the Logistics business is. I would say that was the same concern we had when we saw the numbers growing as quickly as it did, and I would use the example of CouriersPlease which is our business in Australia. It started after the bushfires and floods in Australia, after that we saw the numbers starting to rise, and we were concerned whether the numbers were going to taper off when the Covid situation resolved itself.

Australia is one of those countries where you can say that they respond quite strongly to any new discovery of clusters, but generally speaking they have been quite free and open after they have dealt with the Covid situation. That is a very good example for other economies where if you recover from a Covid situation, are you going to see the numbers coming down. The answer to that is actually no. Some of this becomes structural and while there may be some tapering off, it does not translate to a drop in numbers but rather may translate to slower growth. That is what we have discovered.

What leads to the numbers coming down is not the shrinking back of people buying online, but often what leads to shrinkage in revenue has got more to do with whether the people doing the fulfilment can cope. Just like the IPP business, when you can't cope you either scale back yourself or people will take the business elsewhere anyway. That's what anecdotally we have observed so far.

So to answer your question, a lot of growth has partially got to do with the Covid situation and structural change in people's behaviour, and a lot of it has also got to do with the process reengineering we have done. We were fortunate to have been able to get it done before these things started to take place. The process reengineering allowed us to onboard customers a lot faster and that enabled us to capitalise on the growth in this particular area. If left to how we were maybe 2 years ago, even when there is this new business, we would not be able capitalise on it because we would not be able to onboard customers quickly enough. Hopefully that addresses your question.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Richard, I can take on the next two. Paul, thanks for the questions. Operating leverage is absolutely the reason for the infrastructure play that we are making. If we rewind the clock, the reason why Postal has always been so profitable and so dominant is because of operating leverage. There is a fixed route with the postman on the beat that is already there, the fixed cost is there, the volumes just run through the pipe and there you go. However we see that world changing because it is no longer letters, it is eCommerce and we need to avoid the future of us having to go to the door, there is no operating leverage if you go to the door. As I explained, the more you do this the more people you need. So infrastructure is the way for us to orientate this.

How are we going to deploy this? As part of the trial we are picking up data points and the good thing about the postal service is that we have so much data on a daily basis, millions of deliveries a day for us to map out where, which precinct and down to the block, what kind of profiles go to which block. So on an anonymised basis we have the data set to customise what we feel is the right application. Needless to say if it is an older area which does not have the right intensity, or if the demographics is not right, then we may not implement Postpal in that area. So that is where we will be moving towards in terms of Postpal implementation, hopefully that gives you some colour.

On the International business, since the early days the business has always been about China outbound volumes, and we built a tidy business out of moving eCommerce items that way. That continues to be one of our biggest lanes, and these items go to big consuming countries in the West, we are talking about Europe and North America, those are the routes.

Through the years we have had challenges with the UPU and terminal dues, and Covid presented the air freight challenge to this part of the world. There are competitors, and ways and means to move items from China to Europe without coming through Singapore. There are many logistics players who can do that, not through postal but other ways. There is an advantage for postal, but at the same time the advantage goes away once we cannot hit the service levels and we are not as fast because the connectivity is not there, and the cost is high. So that is what we are trying to defend, and I explained that before.

As for how we are doing in other areas, we have seen nice growth in other routes, not to the traditional big consuming blocs like Europe or North America. We have seen growth in intra-Asia volumes this year, that is one area that is very promising, and we have also started to do more business with source countries other than China. So in that sense we are building some resilience and agility around the rest of the volumes, but of course these will take time to materialise especially as we are going through a very challenging Covid situation. Maybe that gives you some colour as well.

I understand that we want to take one last question.

Operator:

Thank you. Your final question comes from Varun Ahuja of Credit Suisse. Please ask your question.

Mr Varun Ahuja (Credit Suisse):

Hi, thanks for the opportunity. I am cognisant of the time so I will quickly run through my 3 questions.

Number one, on the domestic eCommerce side can you give more colour, how much is the market share in terms of eCommerce delivery which is more skewed towards letterbox delivery versus big sizes. If you could give more colour, as you move towards Postpal in a bigger way, how much additional market share can you capture, more granularity will be helpful.

Secondly on the smart letterboxes or Postpal, have you had any discussions with the government on who will eventually own the infrastructure? Currently I believe the existing infrastructure is government owned so how will the transition be held, any colour on that front?

On the strategy side, you mentioned looking at Southeast Asia and this has been your aspiration for a long time. How do you want to do that is where I need more clarity. Is it mostly like Quantium Solutions doing fulfilment and warehousing, or do you want to approach the last mile delivery which is already very competitive? What is your view on that front because in the last 3 to 5 years, even after closing the U.S. business two years back, nothing much incrementally has happened on the Southeast Asia front so what is your strategy on that?

Thirdly on the International business, you said that you are choosing the profitable or rather less loss-making volumes. How do you think post-Covid that may impact your overall business? Will some of the competitors have taken that business and would that reduce your competitiveness?

Those are the 3 questions I have, thank you.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Thanks Varun. Richard, maybe I will take the first and third question and then you can sum up with the last question.

You had a few questions on domestic eCommerce market share and how Postpal would play to that, and how advanced are we in terms of discussions with the government. In terms of market share we keep a keen eye on what is being done through various sources, and you can verify this. Through various sources we believe the market at the moment is about 300,000 to 350,000 eCommerce items a day. That is on a typical day and on a peak day, for example an 11.11 type of situation, according to some sources it could go up to maybe double that. That is what we see so we have been measuring ourselves against that, and on a typical day I would say that we account for around half of those numbers.

The majority of those items would be the smaller formats, stuff that is cheaper, and as you know postal is the perfect way to ship things that are less than $10. You can buy something from a source market in Southeast Asia or China and get it delivered via postal, to you it is free but actually the price point is around $2 or $1.50, something like that. That is postal and we capture the bulk of that business, if not all of it. And of course this goes to the letterbox as much as possible, these items are small enough – 70% to 80% of eCommerce items that are being moved are small enough to fit in a shoebox, probably small enough to go into a HDB letterbox. From a domestic standpoint that is to our advantage.

How does Postpal play to this and does it allow us to capture more share? Just imagine, the customer experience of an untracked item is obviously going to be short lived. We have to progress in closing the gap so that anything that is being moved, and increasingly it will be eComemrce, will have to be tracked. And if it is tracked it means there will be a scan and a barcode, there will be a notification and there will be a lot more human intervention in making such a delivery. That necessitates a higher price point which is why I say there is some headroom, we can move that price point from $1 to $2 for example, so that headroom is significant, in exchange for a better product experience.

How do we make this sustainable? How do we avoid the cost of having more people do this versus what we have right now. So Postpal is one of the applications which allows us to do this, because we don't necessarily want the people to do more. If we can employ machines to do more, from a tracking and dispensing standpoint, because it is also secured – if it is not you, if it is not authenticated on the app then the item will not be released to you – that is the reason for postal.

How will that capture the market? The volume in the market is dominantly in postal, so it is about how we continue to keep it in postal and how we continue to ride the CAGR growth and increase in eCommerce, but at the same time also mitigating the cost that may end up being incurred if we move everything to eCommerce. We don't necessarily want to double our fleet or double our number of people to do this, so that is the reason for Postpal.

Of course when you understand the economics, going forward there will be quite a few questions on whether letters or eCommerce is going to be the way forward, and to whose benefit will that accrue. Those are some questions that we are discussing with the government and as an operator we have a keen interest to want to do this. We understand that it is public infrastructure that could well be controlled by the authorities, but there must be some middle ground where we can seek compromises. I won't comment too much on how we are progressing, but those talks are in place.

Clearly there are some precedents in the market, there are privately financed initiatives and there are public-private partnerships that have proven to be sensible as long as they are structured correctly. So we have those data, it is a data led discussion, it is a strategic discussion with the authorities and hopefully we will get somewhere very soon.

In terms of the International business which is your third question, yes the theme is margin protection and we want to remain engaged in the market and defend the revenues purely because of the post-Covid situation that we envisage. As long as we have the revenues and we do it somewhat sustainably right now, which means marginal profitability, don't go into the red for any lanes, don't distort the earnings picture. It is a cost equation. The demand is there and if we left any money on the table, as was the question earlier, it was by choice because it was always a cost problem, it was not a top line issue.

This service is required and the demand is there, so the moment the cost equalises because flights resume, the revenues are already there and the customers and relationships are there, the accounts and contracts are there, the earnings will come back. That is what we feel is the strategy we are undertaking. Clearly there is a whole host of competitors out there who will be looking at changing the structural status quo so that when we come out from a post-Covid situation perhaps the customers don't have to use postal, they don't have to come through Singapore, they have other options somewhere else. But I think we do have good solutions, we have proven that this IPP business was one that has been growing over the years. It is a good business and a good operation with good fundamentals, but it is just the cost that is currently out of whack. So once that equalises, we think the picture could change very quickly.

I will hand back over to Richard.

Mr Richard Lai (Group CFO):

Sure, thanks. On your question about how we plan to grow in Southeast Asia, we certainly do not intend to start up a last mile delivery in Southeast Asia. So similar to what we have done in Malaysia, we actually work with GDEX which is part of Malaysia's largest courier company, and they act as our last mile delivery partner. So likewise whether it is in Indonesia or Thailand, we work with last mile delivery partners, and where we have been quite successful is in warehouse and fulfilment side of things, as well as cross border.

For cross border of course they were affected by some degree by the shutdown of borders and things like that, but what we have been able to do since then was to actually have more of the volumes of our clients directly injected into different intermodal abilities to ship the products. You have got to remember also that the nature of the products are quite different. To some degree the products that go into postal have always been more of low value items, that is where it all started. For low cost items, you want to have a low-cost delivery and postal has traditionally been the cheapest way of shipping goods around the world. Whereas for Quantium Solutions, they can do higher value items so to speak, and for that you have different delivery channels you can use. For us at the moment, QS and Southeast Asia are still very much the theme of the day, and at this point in time it is still very much organic growth.

In terms of organic growth, we have been able to grow quite significantly even in markets such as Hong Kong and Taiwan which traditionally are very competitive markets. What we look at is not to compete headway with the likes of Shun Feng and so forth, but to look into other areas where, especially in the international routes, that is where we would like to be able to offer a little bit more than just the traditional way of doing cross border.

As for whether we will actually acquire somebody, it is always on the table, it is never really off the table, but we will not make acquisitions that are firstly loss-making. We have been bitten a few times in terms of buying something that is loss making on the promise that you can turn it profitable.

We also do not buy into something that is too highly priced. We do not have any problem acquiring into other platforms that can expand on our Southeast Asia strategy, but it has to be at a reasonable price, and for that reason you don't see us in the acquisition phase in Southeast Asia.

I hope with that it answers your question, Varun.

Mr Varun Ahuja (Credit Suisse):

Sure, it does. Thank you very much.

Mr Jason Lim (Head, Corporate Planning & Investor Relations):

Thanks, Varun. Thanks for all the questions.

We have reached the end of the call, but before we end off can we get Paul to close off with some remarks. Paul, please.

Mr Paul Coutts (Group CEO):

Sure, thank you everybody for attending today's call.

I'm not going to reiterate what we have already commented upon around the numbers, but just one thing is that we have to continue to remain not only vigilant but agile. We are not through Covid yet and we are obviously continuing to see how Covid is evolving in different markets and those different markets have either positive or negative impact on us. Therefore we have to be agile and continue to continue to adapt.

I would like to give credit to all of the people in our organisation for being able to adapt, being agile over the course of the last 12 to 14 months in adapting to the situation, the continuing dynamic situation that we face with Covid, and will continue to do so. And in doing so I do believe that we will continue to prove our resilience as an organisation. So I just want to finish by thanking all of the staff and all of our employees in SingPost not only here in Singapore but around the world, for helping us navigate successfully through the storm. We are not out of the storm yet but we have strengthened our position I believe in a number of key markets which will help us capitalise when we come out of the storm.

Thank you everybody for joining us today.

Mr Jason Lim (Head, Corporate Planning & Investor Relations):

Thanks Paul, and thanks to all the analysts for joining us today. If you have any follow up questions you can reach me or Jonathan.

Have a good day ahead. Stay safe everybody. Thank you.

Operator:

Ladies and gentlemen, this concludes today’s conference call. Thank you for participating, you may all disconnect.

End of transcript