



SingPost's Q1 and FY16/17 Results Analyst Briefing, 4 Aug 2016

Operator:

Ladies and gentlemen, thank you for holding. We are now ready for the briefing. I shall now hand over to the management of SingPost to begin the briefing. Please go ahead.

Mr Jason Lim (Assistant Vice President, Investor Relations):

Good evening. Welcome to SingPost's results briefing for the first quarter of FY2016/17. I am Jason from the Investor Relations team. With me today is Covering GCEO and GCFO Mr Mervyn Lim. I'll now hand over the session to Mervyn, who will bring you through the results presentation.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Good evening and thank you for joining us today. The Group registered revenue growth of 30.9% for the first quarter ended 30 June 2016, with continued growth in cross-border eCommerce-related activities and the inclusion of our new US subsidiaries. Rental and property-related income declined 8.6% due to the redevelopment of SPC Mall. Miscellaneous income last year was boosted by one-off gains from divestment of Novation Solutions and DataPost Hong Kong. Accordingly, Operating Profit and Net Profit declined 14.5% and 23.0% respectively. Underlying net profit, which represents the recurring earnings of the Group, declined 11.2% due to investments in business transformation.

This was mainly due to the loss of rental income from SPC mall redevelopment, depreciation charges on the Regional eCommerce Logistics Hub and investments in eCommerce.

We now share some highlights of the Group's revenue performance. In the Mail segment, revenue rose 1.5% despite the deconsolidation of Novation Solutions and DataPost which were divested last year. This was driven by growth in International mail revenue. Logistics revenue rose 11.9% in Q1 with steady organic growth led by Quantum Solutions and Couriers Please together with the inclusion of a new subsidiary under Famous Holdings. eCommerce revenue rose with the consolidation of TradeGlobal and Jagged Peak from November 2015 and March 2016 respectively.

Expenses increased 33.6%, driven by the inclusion of new subsidiaries and growth in business volumes. Labour and related expenses were higher with additional headcount from new subsidiaries.

Volume-related expenses increased in line with higher business volumes, and I will elaborate on this in the next slide. Admin and other expenses increased mainly due to higher warehousing rentals with increased capacity. Depreciation and amortisation expenses were higher from depreciation on the Regional eCommerce Logistics Hub which attained TOP in April 2016, as well as amortisation of intangible assets from customer relationships in TradeGlobal. Finance expenses declined as a result of favourable non-trade related forex translations.

Let me share some details of our volume-related expenses. Volume-related expenses are largely driven by the growth in International Mail and eCommerce Logistics. There are two main components in volume-related expenses, namely Traffic and related, and Outsourced services. Traffic and related expenses rose 30.0%, largely due to International mail outpayments, as well as conveyance costs related to the freight forwarding business under Famous Holdings. Outsourcing services & delivery expenses rose 91.5% from S\$35.6 million to S\$68.2 million. The increase was largely due to outsourced services engaged by Couriers Please & Jagged Peak, and cost of sales related to the eCommerce business. The above changes reflect the change in the Group business mix.

As we continue to grow our eCommerce Logistics network, the change in business mix will lead to a decline in Group margins on a blended basis.

Excluding one-off gains, operating profit dipped 4.1% to S\$49.3 million. Postal operating profit remained steady in Q1 as the growth in International mail volumes led by eCommerce-related deliveries helped offset the decline in Domestic mail volumes and the deconsolidation of DataPost and Novation Solutions. Logistics operating profit increased 5.7% in Q1 with the ongoing integration of acquired subsidiaries. Property & Others operating profit declined 23.5% due to loss of rental income from the SPC retail mall redevelopment. In eCommerce, operating losses increased from S\$1.9 million to S\$3.5 million due to continued investments in IT and operational capabilities as part of integration efforts.

We now move to our cash flow and financial position. We generated steady operating cash flow of \$59.6 million, up 14% from \$52.3 million last year. Boosted by positive working capital movement, net cash provided by operating activities rose 33% to \$78.6 million. Cash used for investing activities included capital expenditure for construction of the eCommerce Logistics Hub and SPC retail mall.

With cash and short-term funds utilised for capital expenditure, borrowings rose to \$367.6 million.

Interest coverage ratio remains strong at 30.2x. The ratio in March of 42.1x was boosted by one –off divestment gains. Net debt to total equity ratio improved to 10.9% as at 30 June 2016.

Our eCommerce-related activities continued to grow at a good pace. eCommerce-related revenue now represents 49.3% of total Group revenue. This was up from 28.7% last year, and largely driven by the eCommerce segment. Postal now contributes 31% of eCommerce-related revenues, with Logistics at 29%, and eCommerce contributed 40%.

SingPost continues to expand beyond Singapore. Overseas revenue now accounts for 50.2% of total revenue or \$167.3m. 34% of overseas revenue was from the US eCommerce companies TradeGlobal and Jagged Peak. 28% was from our Australian business, largely from the parcel delivery entity Couriers Please. Asia accounts for 27% and Europe the remaining 11%.

We will now move on to the segmental results analysis. From 1 April 2016, we have reclassified the reporting of certain business units within the three business segments. These changes are in alignment with the Group's strategy and enhance tracking of performance. Postal comprises the core postal business of the Group. This includes both Domestic mail and International mail. From this quarter, Postal will include products and services transacted at the post offices. Logistics comprises the Logistics businesses of the Group, including Quantum Solutions, Couriers Please, SP Parcels, Famous Holdings and other logistics entities. eCommerce comprises the front-end related

eCommerce businesses: SP eCommerce in Asia Pacific and the US, as well as TradeGlobal and Jagged Peak.

Postal revenue rose 1.5% while Operating profit was stable. This was achieved despite the deconsolidation of DataPost and Novation Solutions. Excluding the impact of the divestments, Postal revenue and operating profit would have risen 7.8% and 2.0% respectively, driven by higher International mail revenue. Post office products and services revenue declined by 24.8%, reflecting the shift to alternative online options such as internet bill payments. We plan to launch new SAM kiosks with a simpler and faster interface designed for postal and other self-help services. This will help re-capture some of the shift towards online transactions.

In Logistics, revenue rose 11.9% with steady organic growth led by Quantum Solutions and Couriers Please, and further boosted by a new subsidiary under Famous Holdings. Operating profit rose 5.7% to \$7.2 million. Margins dipped to 4.6%, which reflects the depreciation expenses as well as one-off costs incurred for Quantum Solutions' move to the eCommerce Logistics Hub.

eCommerce revenue rose with the consolidation of TradeGlobal and Jagged Peak. Operating losses increased to \$3.5 million, from \$1.9 million last year. TradeGlobal & Jagged Peak together contributed to operating profit despite investments in IT and operational capabilities to prepare for the upcoming peak season. This was offset by investments in marketing and sales efforts in the US to build scale.

Next, I will share some brief highlights on our eCommerce Logistics network development. We have built a network that spans across the markets of USA, Australia, Asia and Europe. Our global eCommerce Logistics ecosystem includes 19 markets and about 50 fulfilment centres globally.

SingPost processes more than S\$5 billion of gross merchandise value a year across our eCommerce networks and provide end-to-end eCommerce solutions to more than 100 leading brands.

This slide shows our end-to-end eCommerce Logistics network, as well as the key management heading different pillars of the business. SingPost has appointed Sam Ang, as CEO of Quantum Solutions with effect from 15 July 2016. He also holds the position as CEO for Famous Holdings Group. With this appointment, Sam will lead both SingPost's eCommerce logistics arm, and freight forwarding operations as well as oversee SP Parcels. Sam brings with him 35 years of experience in the logistics sector that will help SingPost drive synergies and efficiencies as we build out our integrated network.

In summary, revenue growth in Q1 was driven by continued expansion of cross-border eCommerce-related activities, and the inclusion of contributions from new subsidiaries. Underlying net profit declined as a result of investments in business transformation – namely: Loss of rental income from redevelopment of SPC Retail mall; Depreciation charges incurred on Regional eCommerce Logistics Hub; and Investments in eCommerce IT and operational capabilities. For the first quarter of FY16/17, SingPost has declared an interim dividend of 1.5 cents per share.

We now come to the Outlook section. Domestic mail business remains under pressure with declining volumes but this was offset by growth from International mail volumes. The Group will continue to defend the core postal business, while growing its global end-to-end eCommerce Logistics network.

The acquisitions of TradeGlobal and Jagged Peak in the US have provided the Group with a foothold in one of the world's most important eCommerce markets. The business is highly seasonal and peaks in

November and December, leading into Christmas. The Group will maintain a sharp focus on execution over this upcoming period.

As SingPost continues its transformation into an eCommerce Logistics enabler, the Group will focus on integration and extracting synergies from its acquisitions. SingPost will be reviewing the dividend policy to ensure there is a clear link to underlying earnings. The dividend must be sustainable through the transformation of the business, and provide for future growth.

That ends my presentation and I will now hand you back to Jason.

Mr Jason Lim (Assistant Vice President, Investor Relations):

Thank you, Mervyn. We will now begin the Q&A section. Let me introduce the other management members on the panel. We have with us Mr Woo Keng Leong – CEO of Postal Services, Mr Kok Peet Leong – Deputy CEO of Quantum Solutions, Mr Pranay Mehra – SVP of SP eCommerce. We are now ready to take questions, operator please.

Operator:

Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask questions, please press *1 on the telephone and wait for your name to be announced. If you wish to cancel your request, please press the '#' key. Your first question comes from the line of Roshan Behera from Bank of America, please ask your question.

Mr Roshan Behera (Bank of America):

Hi, thanks for the opportunity. Two questions. First one, in terms of your outlook for the current year if you could quantify that and some level of colour on revenue as well as the profitability on EBIT margins levels for eCommerce, Postal and Logistics units; that will be very helpful. The second question is, you mentioned there is this on-going investment which is going on in the eCommerce business to market its capabilities. So could you help us with the amount of investments which has been done on a quarterly basis, and what sort of time frame will these investments continue? Thank you.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Good evening Roshan, thank you for the two questions. So in terms of the outlook, you wanted some quantification. This is an outlook statement so we try and avoid those kinds of numbers in the outlook statement, but I can perhaps suggest you...Roshan, which bullet are you looking at in outlook please, then I can perhaps focus on your question?

Mr Roshan Behera (Bank of America):

It's just – broadly speaking in terms of revenue, EBIT or profit, any sort of sense of where at this year...what could be the target for this year at the aggregate level and at the three units level. Some sort of colour there would be very helpful.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Understand, Roshan. At revenue level we can perhaps mention that Postal continues to remain the backbone, and so on that grounds it continues to be stable. And so in terms of revenue numbers and

profit numbers, if you can relate it to the point that Postal will still be stable because of the International mail volumes offsetting the decline in Domestic mail. The picture has not changed, will not change, this is part and parcel of our strategy.

In terms of Logistics, we are still in the process of - of course, integrating across the various pillars, developing our eCommerce logistics network and so it is still early days. Roshan, what we are seeing now are changes in the business mix and so when you look at our margins at Logistics level, you'll find that there's a slight decline in our OPM in our Logistics sector and we have attributed that slight decline to a one-off position, in terms of integrating and developing our network and that is in respect of depreciation on our eLog hub and the cost of moving to eLog hub. So eLog hub is the key part of that network which represents the distribution centre in Singapore representing the Southeast Asian footprint.

Mr Roshan Behera (Bank of America):

Thanks Mervyn.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

One more item perhaps, Roshan, that may be useful to you is to be mindful that our US businesses are all very much seasonal and therefore when you look at the performance of our US entities, there are two things that you should take note of, and that is our two entities are less than 8 months old in acquisition and second item is of course, being seasonal, the peak period has yet to come – November, December have yet to come.

Mr Roshan Behera (Bank of America):

Ok, thanks for that Mervyn. So maybe just broadly directionally, would it be possible to get a sense of the margins for Logistics for the full year – will it be kind of impacted by this investment and similarly for eCommerce full year should we expect a profit, loss or breakeven? Any colour there, will it be possible to get some colour there?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Let me try, Roshan. In terms of Logistics, the operating profit margin you see there represents Q1, not reflective of the full year and I would suggest that you wait it out till at least the major part of the year because when we look at Q4 for example, you saw margins on a full year basis which is the last discussion that we had with the analysts. So likewise here, you are only looking at Q1 and in particular you are looking at a slight decline because it comes within a position when we are actually in process of moving our team and operational capabilities across to eCommerce logistics hub, so you see a bit of aberration in that margin. In terms of the eCom position, we are continually looking at synergising and integrating the US units. So when you look at that \$3.5M loss, you're really looking at the combination – meaning that TradeGlobal and Jagged Peak together have shown a marginal contribution to operating profit, and the reason why they have shown a marginal contribution together is because, again, they are seasonal and it only represents Q1. And so again, it may not be reflective of the full year performance.

In term of the investment you are talking about, this is not in the nature so much of capex as it is in the nature of operational expenses that are invested in there in order to grow scale. We talked about scale and scale is one way we can get economies of scale coming in from our network, and so we are

continually investing from that point of view in two items – IT and capabilities to grow scale, and secondly in marketing and sales efforts to grow network, customer network.

Mr Roshan Behera (Bank of America):

Thank you so much, Mervyn.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

No issues, Roshan.

Operator:

Your next question comes from the line of Mr Joshua Lee from Deutsche Bank. Please ask your question.

Mr Joshua Lee (Deutsche Bank):

Hi, good evening SingPost team. If you don't mind, I have three questions. The first question relates to the question that Roshan just asked. I'm just wondering, on a quarter on quarter basis, OP margin dropped for Logistics business – it was 6.9% previously, would it be fair to say that it would rise to that level post the integration or the movement...the moving of your logistics hub to the new eCommerce hub in Singapore?

The second question is with regards to the eCommerce hub, what is the status right now? Any indications on utilisation and the third question relates to TradeGlobal and Jagged Peak. Just wondering on the quarter on quarter growth trend. Thank you.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Thanks Joshua. First question, quarter on quarter OPM. As I have mentioned to Roshan, I think we are looking at Q1 here which would not be reflective of the full year margins. When we look at the full year margins in Q4, we should look at the whole year, year to date, we were looking at something like 6.0% growing from – I think 4.6%, that kind of number. And so we are looking at four quarters there, here we are looking at one quarter. On top of that, we are looking at certain one-offs in terms of the move across to eLog hub, so you may not get a good feel on whether that would be the margin going forward into the full year. Where we are heading towards, certainly we are looking always towards improving the operating profit margin whether that would improve, I would say that as we kick off the integration of the eCommerce logistics network which is still early days, we would hope to see that improvement in OPM.

In terms of eLog hub, the status I can't give that to you right now because it's not public information and we have not officially opened the centre yet. It will be quite a big opening ceremony so I'm not actually allowed to disclose the details on the exact capabilities or the exact utilisation or whatever on eLog hub, because we have not launched it, it's not working fully yet. The opening will be something like the second half of this year, more into October towards the end of this year.

The third I think was – Joshua, was it TG, JP?

Mr Joshua Lee (Deutsche Bank):

Yes, just wondering on the quarter on quarter growth trend.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

What was your question around TradeGlobal and Jagged Peak please?

Mr Joshua Lee (Deutsche Bank):

I'm just wondering what were the revenue growth on a quarter on quarter basis.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Ok. So when you look at TradeGlobal and Jagged Peak, Joshua, you're looking again at less than 8 months. If I were to add up the two revenues together, that gives us \$56.2M – TradeGlobal and Jagged Peak, and as a percentage of our Q1 \$333.4M in operating revenue that accounts for 17%. Please be mindful again that this is again, before the peak period and so the peak period will of course be where most of the volumes will come in in November, December. And so we are now investing in expenses to prepare for that peak period such as labour, getting the necessary people and also the necessary preparedness in line with that peak period commencing November right into December.

Mr Joshua Lee (Deutsche Bank):

I'm just wondering for Q4 FY2015/16, what is the eCommerce revenue numbers if you consolidate both TradeGlobal and Jagged Peak, I mean it is possible to divulge?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

I think we disclosed it in Q4. I don't have it offhand, Jason would you have it? It was disclosed in our last pack, I don't have it with me Joshua, but Jason will come back to you on that. It was out in our investor pack when we did the Q4 announcement. I can't remember what the two revenue numbers were in TG, JP, but we can easily get it out for you.

Mr Joshua Lee (Deutsche Bank):

Sure, thank you very much Mervyn.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

No issues. Suffice to say of course, when you compare that to what we have now, it is significantly higher obviously.

Mr Joshua Lee (Deutsche Bank):

Great, thank you.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

No worries.

Operator:

Your next question comes from the line of Eric Lin from UBS Securities Asia. Please ask your question.

Mr Eric Lin (UBS):

Hi, good evening everyone. First of all, thanks for breaking down the revenue by entities which is really helpful. I actually have two follow up questions. Firstly, just focus on the appendix on page 23 of the presentation. Looking at the Logistics margins, surely there's a bit of fluctuation quarter by quarter. Will there be a good representation of the seasonality going forward, do you know about that? And secondly on dividends, so since the company is now going... on a blended basis...the margins or even the earnings could be a bit volatile than previously, so is the uniform dividend payout every quarter also being reviewed as well? So these are my two questions, thank you.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Thanks Eric. So we look at page 23 which we use, we put there as a guide for our folks out there to look at the trending. The first thing that you would see is that it certainly changes from quarter to quarter, and that again walks the talk that our businesses are seasonal. And so when you look at it being seasonal, you'll find that the margins do reflect that seasonality in the business.

In terms of the dividend policy that we have set out, it came out in the AGM by Chairman where he has already indicated that the dividend policy would be reviewed in order to ensure the sustainability of the business during the transformation while providing for growth. And so what that means is that essentially is that we are in a period of transformation, and so we must always make sure – as we have indicated in the Annual General Meeting that our shareholders are always focused on recurring earnings, underlying earnings, and so our guideline was always on the underlying net profit number that we have shown out. So what we are saying is that, whatever the dividend that we pay out must be sustainable during the transformation period and it also provides growth. Growth comes from retention and ploughing back into the business for growth, and so this together grows our total shareholder returns or TSR. TSR comprises both dividend yield and capital gains yield, capital gains yields come from increasing share price as a result of internal growth.

Mr Eric Lin (UBS):

I see, so basically the Logistics margins... Q3 being highest for the fiscal year and then dipping down in Q1, Q2 - that will be the trend going forward, am I correct?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Yes sir, and that typically is because Q3 is the peak.

Mr Eric Lin (UBS):

Got you, ok thanks.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Thank you, Eric.

Operator:

Thank you. Your next question comes from the line of Thai Wei Ying from UOB Kay Hian. Please ask your question.

Ms Thai Wei Ying (UOB Kay Hian):

Hi, thank you for taking my question. I just have two questions regarding the volume-related expenses. Maybe can you give me more colour on the 'Outsourced services'? My second question is, when can we expect enough volume to kick in to offset this expense?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

In terms of the 'Outsourced services', that relates typically again to our asset light strategy, so we outsource the services to business partners and so this is more peculiar to Jagged Peak and Couriers Please which are very much asset light, and so they engage partners to do part of its services for them and so you see the 'Outsourced services' fees going up.

Ms Thai Wei Ying (UOB Kay Hian):

Ok, so what about when do you expect enough International volume to kick in to offset this volume-related expense?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Ok, volume-related expenses are very much volume-related or variable in that sense, which means it grows and it should grow in tandem with revenue but of course if you see our revenue – it goes up by 30.9% but our expenses go up by 33.6% so it's not really in tandem. I think I shared with our folks out there last quarter that this is a result of us having excess capacity from a conscious angle that when we buy, we buy capacity because when we grow we need to have capacity. So right now, what our focus is, is really driving - again it has not changed from Q4 in the last quarter, in driving more cars on our network, and so when we get more cars on our network we get scale. That is why we have used the word in our narrative here; we are investing to build scale and scale is important because that's where we get the economies kicking in, and that's where you'll see the expense rate increase dropping down slightly to be more in tandem with revenue increases.

Ms Thai Wei Ying (UOB Kay Hian):

Very helpful, thank you.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Thank you.

Operator:

Thank you. Your next question comes from the line of Jessalynn Chen from CIMB. Please ask your question.

Ms Jessalynn Chen (CIMB):

Hi Mervyn, thanks so much for taking my question. My first question is just on the Mail side of the business, could you explain what's the reason for the improvement in operating margin quarter on quarter given that revenue is broadly flat?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Let me take a look at that. Now, when we go into slide 13, Jessalynn, we look at the margins for International mail and that in fact – if I can even back up one step, Jessalynn, and go into the OPM for

the whole pillar, and so on that ground the OPM is stable. It's stable and the reason why that is the case again, going back to our strategy which is on track, and that is where Domestic mail goes down and it's offset by International mail. But in terms of International mail increasing, that shows that the network is working in a sense that the customers are choosing the postal option over the commercial option and they are driving more business through International mail which comes from Ali and 4PX, and so you'll find that there's more traffic coming through in the cross-border transshipment and so you see good healthy increases in the International mail sector.

Ms Jessalynn Chen (CIMB):

Sorry, I am just wondering on a quarter on quarter basis...because in Q4 your operating margin for the mail business was 27.2% based on your slide 23. This quarter it was 30.7% but your revenue was broadly flat quarter on quarter?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

I think this reflects again that when you look at the tipping point where Domestic mail goes down – Domestic mail carries a much higher margin, International mail carries a slightly lower margin and so obviously with the change in business mix, the blended margin position also affects that overall OPM position, so again the changing in the mix within the Postal pillar.

Ms Jessalynn Chen (CIMB):

Ok, thanks. My question is on the one-off cost that you incurred this quarter for the moving into the eCommerce logistics hub, I was wondering if you share what was the amount of this one-off cost and should we expect more to come in the next quarter?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

No, we would not expect more to come. There's only one move, we don't have several moves, but I can't share that with you because that's something that we don't usually put out. So suffice to say the numbers are in the financials and so they are reflected in terms of the slight decline in the OPM for Logistics, suffice to say it comprises a mix of two items. The first would be the depreciation expense on the eLog hub which will be something that will recur because as the eLog hub takes on operational capabilities, you'll find that the depreciation will keep running on a matching basis with the revenues on that centre, and of course the second one is the one-off movement cost into eLog hub. Once everything is there, there will be no further movement cost.

Ms Jessalynn Chen (CIMB):

May I know where this one-off cost is reported in terms of the expense line?

Mr Jason Lim (Assistant Vice President, Investor Relations):

Jessalynn, the depreciation is more or less shared across the Logistics segment. The one-off cost will be under the 'Admin & others' expenses. I think there are some expenses there for one-off expenses for the move.

Ms Jessalynn Chen (CIMB):

Ok, thank you. Sorry, just one last question on eCommerce segment, how much more investments are required and when do you expect the segment to contribute positive operating profits? Thank you.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Yes Jessalynn. eCommerce – we have purchased whatever we need to; TradeGlobal, Jagged Peak...right now the bandwidth of management is sharply focused on reaping the synergies from those two entities, so that's our focus point now, not in buying more entities. But when we talk about investments, we are talking about investments more in expenses in order to grow scale based on what we already got, and so when we look for example, our go-to-market strategy in the U.S, this is where we invest in headcounts in order to grow our scale, our network, our customers, our brands in our GTM strategy. When we go into IT and operational capabilities, it's more investments to prepare for the holiday period to make sure that we are adequately prepared to take on the higher volumes coming in from November right through to end-December, first week of January.

So in terms of investments per se on buying stuff, no immediate investments in the future and when you look at our cash flow from investments in our cash flow report, you'll find that the markers are all there very clearly indicated. Our cash flow from investments has come down, our net debt position has improved, our free cash flow has improved, our cash & cash equivalents have improved. So in terms of our balance sheet and cash flow fundamentals, they have all strengthened.

Ms Jessalynn Chen (CIMB):

And in terms of positive operating profit from the segment? When do you expect that to happen?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

We can't guide you on that one, suffice to say that what you are looking at right now is the Q1 position - not a peak position, less than 8 months, next point - seasonal and third point - peak period not yet come. And so on that ground, going forward we would hope to see much better volumes coming in and of course that should benefit the bottom line. But right now, the combined contribution of TradeGlobal and Jagged Peak...it is not significant and it is offset from these investments for transformation, so this is where you see that net loss position occurring.

Jessalynn Chen (CIMB):

Ok, thank you. Thanks so much.

Mr Jason Lim (Assistant Vice President, Investor Relations):

Jessalynn, sorry, if I could take up your question on the quarter on quarter margin improvement in the Postal business. So other than Domestic and International mail, there's also now as you can see, a third product category called 'Post office products & services'. So this is typically a lower margin category, so as you move from quarter to quarter the revenue from this segment has decreased, so on a blended basis it actually helps overall Postal margin move up on a quarter on quarter basis.

Jessalynn Chen (CIMB):

I see. Ok, thanks so much.

Operator:

Once again, if you wish to ask a question please press '*1' on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the '#' key.

Your next question comes from the line of Roshan Behera from Bank of America. Please ask your question.

Mr Roshan Behera (Bank of America):

Hi, could you share some thoughts on the open parcel locker service? I believe it is open to parties outside the SingPost ecosystem? How's that trending and what sort of impact you expect to see from it over time? Second, just on the stake sale to Alibaba, the 5% being discussed...the price for that, is it kind of a firm price or is it subject to mutual agreement and hence open to negotiation before the deadline? Thank you.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Thanks Roshan. First item – open parcel locker system, we are fortunate and we are proud to be the first mover in developing this parcel system with the densest parcel network, and we are working with the government towards expanding this parcel system...on a federated system towards even the HDB estates. So this is a very good move and we are mindful that our first priority is to help promote this service to Singaporeans.

At the same time, we are also mindful that we are using this locker technology that we have got as a means of replicating it in our other countries and so we are doing that in Australia already, as part of Couriers Please – they are rolling out some of those lockers in those countries. So while we are helping and working with the government in this, we are also rolling our lockers elsewhere in other parts of the world.

In terms of the 5% Ali stake, the \$1.74 is contracted. Where we are on that is we are at SingPost working with Ali to meet the conditions precedent attached to the regulatory approval of the second investment. We are working towards the long-stop date of 31 October 2016.

Mr Roshan Behera (Bank of America):

Thank you, Mervyn. Just on your first response in Australia rolling out the lockers, is it fully funded by you or you are partnering someone locally as far as the capex is concerned for those lockers?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

It is fully funded by us. In fact, it's part of our platform synergies to share our technology with our other operations in countries like Australia as part of the last-mile extension. So this will be a very nice add-on with our newsagents which is another entity we have there as an enhancement to our last-mile delivery solution.

Mr Roshan Behera (Bank of America):

Thanks for that. Just one query on the outlook. For this year, what sort of capex should we be looking at, and any colour it's likely to trend next year and the year after?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

No change Roshan, from what we have shared in Q4 and that is that we don't have any major capex or major investments in the pipeline. What we have is adequate in order to work the network and so what we will spend going forward will be residual expenditure on committed capex, and this would be in two areas – the first would be eLog hub which as we have shared with our folks is about \$20M, and the second is SPC mall as we shared with our folks is about \$170M. So together \$190M, together with a recurring maintenance expenditure to keep our networks clean and in good order would be about \$60M, so all in all you could project about \$250M going forward. Once we expire this financial year, then you will see it drop further until you are at the running position of about \$60M going forward for just recurring.

Mr Roshan Behera (Bank of America):

Very helpful. Thank you, Mervyn.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

No worries.

Operator:

Your next question comes from the line of John Cheong from Maybank. Please ask your question.

Mr John Cheong (Maybank Kim Eng):

Hi Mervyn. Can I check for Jagged Peak and TradeGlobal, what is the year on year revenue growth for this entity?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

John, we don't have a year-on-year because we are less than 8 months. We purchased Jagged Peak on 8 Mar 2016 and we purchased TradeGlobal on 14 Nov 2015, so there is no year-on-year comparison.

Mr John Cheong (Maybank Kim Eng):

Ok, how about quarter on quarter?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

I don't have the Q4 numbers with me but they were in the slide deck. Jason will reach out to you separately on that as to what was the Q4 revenue for JP and TG. I know Jagged Peak is very low because we completed the acquisition on 8 Mar 2016 and our financial year was 31 March 2016, so he will come back to you separately on that.

Mr John Cheong (Maybank Kim Eng):

How about Couriers Please?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Couriers Please...Jason?

Mr Jason Lim (Assistant Vice President, Investor Relations):

John, I think we only start breaking up Couriers Please from this quarter for greater transparency and greater colour, so if you were to look back at Q4 last year, we also have disclosed the revised segment but we have not broken it down into the sub segments on a quarter on quarter basis.

Mr John Cheong (Maybank Kim Eng):

Ok, is there any update on the impairment test front? Did you guys do any test this quarter and any update on this side?

Mr Mervyn Lim (Covering Group CEO and Group CFO):

We do impairment test every quarter, John. As we have tested each particular investment, we always test it with reference to the business case and also with reference to the assumptions adopted at the time of the business case going forward. In the case of entities that are perhaps less than a year old, impairment is a bit difficult to have a yes or no because it is too early. You haven't even seen the full year of the investment and therefore to make a decision that the investment should be impaired is perhaps premature especially in the like of example, TradeGlobal and Jagged Peak which have yet to see the peak period. For other investments which have lifespans greater than a year since acquisitions, there are no impairment issues on those investments as at Q1. For anything less than a year, it's too early to say. What we are, however, saying is that we will focus attention on executing the investments that we have purchased.

Mr John Cheong (Maybank Kim Eng):

Thank you.

Operator:

Your next question comes from the line of Joshua Lee from Deutsche Bank. Please ask your question.

Mr Joshua Lee (Deutsche Bank):

Hi team again. Last quarter you highlighted Ironman and there was a case study on that; that involves Jagged Peak, Quantum Solutions and Couriers Please, so I'm just wondering revenues on that example – does it flow entirely to Jagged Peak, or is it separated?

Mr Jason Lim (Assistant Vice President, Investor Relations):

When you talk about revenue recognition, it's recognised at different segments. So because it uses the warehouse in Sydney, that will be recognised under Quantum Solutions. If the parcel is delivered by Couriers Please, then that revenue will be recognised under Couriers Please.

Mr Joshua Lee (Deutsche Bank):

I see, got it. Thank you.

Mr Jason Lim (Assistant Vice President, Investor Relations):

No problem.

Operator:

Your next question comes from the line of Roshan Behera from Bank of America. Please ask your question.

Mr Roshan Behera (Bank of America):

Hi, thanks. Just one more. Could you share some colour in terms of the number of customers you have increased at your eCommerce segment and over the last 8 months or so, how has that number changed? Any colour you could share there in terms of their profiles will be helpful.

And a related question is how sticky are these customers? Is it like they are out there looking for the cheapest option at any given season and they may not may not show up? Do they sign long term contracts with you in which case one could assume that the business that you get from them is kind of medium to long term? Thank you.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Hi Roshan, I wish I could give you more granularity on that question but again, it goes within the areas of business sensitivity. I can say to you however, that this is again an area of focus. If I can reflect back on our words used that we are investing in business transformation, one of that investment is actually again, our marketing and sales efforts to grow our customer network, to grow our number of brands.

I cannot even tell you any of those brands that we have acquired yet because they have not been publicised. They will be put into the public domain at the right time. I can tell you that we have acquired brands since the acquisition of TradeGlobal and Jagged Peak, we have – but at the appropriate time the announcement will be made, so until then I can't say those brands which are sensitive.

Mr Roshan Behera (Bank of America):

Thank you, Mervyn.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Thank you, Roshan.

Operator:

There are no further questions at this time. I would now like to hand the conference back to the presenter. Please go ahead.

Mr Jason Lim (Assistant Vice President, Investor Relations):

If there are no more questions, I think we have reached the end of the session. Thank you for participating in our conference call today.

If you have any further questions on today's results or anything else, please feel free to reach out to myself. On behalf of everyone here at SingPost, thank you and goodbye.

Mr Mervyn Lim (Covering Group CEO and Group CFO):

Thank you, everyone. Goodnight.

Operator:

Thank you for dialling in to this briefing.

End of transcript