SingPost's Q1 FY17/18 Results Analyst Briefing, 4 August 2017

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.

Mr Jason Lim (Vice President, Investor Relations):

Good morning everyone. Welcome to SingPost's results briefing for the first quarter of FY2017/18. I am Jason from Investor Relations. With me today is our GCEO Paul Coutts, and our Deputy GCEO (Corporate Services) and GCFO Mr Mervyn Lim.

I'll now hand over the session to Mervyn, who will bring you through the results.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Jason and a very good morning to all.

Revenue rose 6.2% led by growth in the Postal and Logistics segments. With the exceptional items recognised during the quarter, the Group registered a net profit of S$31 million, down 13.6% from last year. Excluding the one-off exceptional items, underlying net profit was S$26.9 million, a decline of 24.7% due to lower domestic mail volumes, costs from planned investments as well as increased competition in the Logistics segment, losses in the US eCommerce business, and associates which are investing for growth.

Allow me to now share some highlights of the Group's revenue performance for the quarter. In the Postal segment, revenue rose 9.3% with growth in International mail revenue driven by higher cross-border volumes. Logistics revenue rose 6.1%, driven by higher contribution from SP Parcels, Couriers Please and Famous Holdings. eCommerce revenue declined due mainly to TradeGlobal, which was impacted by the loss of revenue from two large customers as previously disclosed.

Expenses rose 11.1%. We have invested and built capacity in our network, and are in the process of growing volumes in order to derive cost synergies.

Labour and related expenses were higher due to higher temporary and contract staff to support growth in the business. Volume-related expenses are largely driven by the growth in International Mail and eCommerce Logistics. Traffic and related expenses rose 27.4%, led by higher International mail terminal dues and conveyance costs. Outsourcing services & delivery expenses was stable, with lower outsourced services related to TradeGlobal.

Depreciation and amortisation expenses were higher, largely due to higher equipment depreciation costs at the Regional eCommerce Logistics Hub, and shortening of amortisation period for intangible assets of TradeGlobal. Finance expenses rose as we had recorded unfavourable non-trade related forex translations.

We now share some highlights of the Group's Operating profit performance before exceptional items.

Postal operating profit declined 13.7% due to the drop in Domestic mail operating profit in line with lower letter mail volumes, partially mitigated by growth in International eCommerce deliveries.

Logistics operating profit declined 39.3%, reflecting costs from planned investments in the Logistics network such as the Regional eCommerce Logistics Hub, as well as pricing and competitive pressures in the eCommerce Logistics space.

In eCommerce, operating losses increase 18.6%, due largely to operating losses at TradeGlobal.

For Property and others, operating profit declined due to pre-opening expenses incurred for the SPC Retail mall and lower occupancy at SingPost's investment properties.

In this slide, we detail the factors that led to the decline in underlying net profit for the quarter ended 30 June 2017.

Postal segment operating profit declined with the drop in domestic letter mail volumes. In the Logistics segment, we are bearing costs related to planned investments. The US eCommerce business is currently incurring operating losses. In the Property & Others segment, we have incurred pre-opening expenses for the SPC retail mall. For our associates and JV, 4PX is incurring higher depreciation cost due to business expansion in anticipation of greater volumes, mainly from the Alibaba Group.

Let me now share some highlights on our Cash flow and Balance sheet. Cash from operating activities was S$58.4 million for Q1 FY2017/18. The Group recorded lower capital expenditure with the completion of the Regional eCommerce Logistics Hub last year. As such, free cash flow improved to S$32.0 million. Cash flow for financing activities included a net repayment of bank loans, compared to net proceeds from bank loans in the same period last year. As a result, cash and cash equivalents decreased by S$2.3million during the period.

We now move to the balance sheet and financial indicators. Our cash and cash equivalents amount to S$364.4 million as at 30 June 2017. This includes proceeds from Alibaba to be used in accordance with the investment agreements to strengthen the Group's network.

Borrowings declined to S$331.6 million with partial repayment of bank loans during the quarter. Net cash position improved to S$32.7 million as at 30 June 2017 with repayment of debts during the quarter. Our interest coverage ratio remains strong at 23.0 times.

We will now move on to the segmental results. In the Postal segment, Domestic mail revenue continued to decline with more companies implementing e-statements. This was offset by strong growth in International mail revenue which was driven by higher crossborder eCommerce deliveries, especially with higher volumes from the Alibaba Group. Postal operating profit declined 13.7%, due to the decline in contribution from the Domestic mail business. Although International mail operating profit rose with higher international transhipment mail, this was not sufficient to offset the impact of the decline in Domestic mail operating profit.

In the Logistics segment, SP Parcels and Couriers Please recorded higher revenues driven by increased eCommerce deliveries in Singapore and Australia respectively, while Famous Holdings recorded higher revenue with higher contributions from its overseas operations.

The decline in operating profit reflects costs from planned investments to build out the eCommerce logistics network, non-recurring expenses related to the onboarding of major customers at the Regional eCommerce Logistics Hub during the quarter and pricing and competitive pressures, which impacted the North Asia operations of Quantium Solutions.

In the eCommerce segment, revenue declined mainly due to TradeGlobal, which was impacted by the loss of revenue from two large customers as previously disclosed. Jagged Peak rose as it added new customers and processed increased volumes. Operating losses from eCommerce segment were S$4.2 million compared to S$3.5 million a year ago. This was largely due to operating losses at TradeGlobal, which faced continuing challenges with the loss of key customers. Compared against the March 2017 quarter, eCommerce segment losses had narrowed as management continues to execute on a turnaround business plan.

Next, we will go through some business and corporate updates. Now, let me share some highlights in Q1 FY17/18. In June, Lazada Singapore moved its entire warehouse operations to SingPost's Regional eCommerce Logistics Hub.With investments by Alibaba in both companies, the move allows Lazada and SingPost to leverage on each other's strengths to meet rising eCommerce demand in Southeast Asia. This collaboration sees Lazada's eCommerce platform and SingPost's end-to-end logistics capabilities coming together and it will result in scale and efficiencies for both of us.

The General Post Office or GPO at the new SingPost retail mall commenced operations on 17 July 2017. It combines counter service with technology-enabled innovations such as POPStations and SAM Kiosks to allow postal and eCommerce logistics services outside normal working hours. It also houses a heritage corner where customers can enjoy a learning journey through SingPost's 150 year history.

We now move to the summary and outlook. Allow me to summarise.

In Q1FY17/18, revenue rose with growth in Postal and Logistics segments. Underlying net profit declined due to lower domestic mail volumes, costs from planned investments as well as increased competition in the Logistics segment, losses in the US eCommerce business and associates which are investing for growth.

We have a strong cash flow and balance sheet position – improved free cash flow due to lower capital expenditure and improved net cash position with repayment of debts during the quarter. The Board has declared an interim dividend of 0.5 cent per share. This will be paid on 31 August 2017.

In FY2017/18, the Group plans to grow revenue and volumes through new business opportunities, integrating past acquisitions and extracting synergies, as well as leveraging the strategic partnership with Alibaba and its subsidiaries.

The decline in domestic letter mail volumes accelerated in Q1 FY17/18, due to increasing migration towards electronic communication. While the decline is expected to continue, the Group is focused on growing the International mail segment to mitigate the drop in contribution from Domestic mail.

Changes in the international terminal dues system will take effect from 1 January 2018. This will affect not just SingPost but all crossborder eCommerce postal deliveries globally. The impact is being assessed. The International mail transhipment market remains highly competitive, and margins are relatively low. With the shift in mix towards lower margin International mail, blended Postal margin is expected to decline. The Group will continue to focus on improving productivity and efficiency to mitigate margin pressures while maintaining service quality.

While the Logistics segment is expected to benefit from growing eCommerce trends, the industry is likely to continue to experience tight operating margins and intense competition.Over the past few years, we have built out an eCommerce logistics network spanning 19 markets. Partly as a result of costs from planned investments in our network, Logistics margins have declined.

The focus for SingPost moving forward is to drive traffic and volumes onto our eCommerce logistics network and increase utilisation of existing infrastructure, so as to benefit from greater economies of scale and operating leverage. It will take time for the Logistics segment to grow its profit contribution while it executes on its plans.

In eCommerce, the Group has acquired technologies, customers and market knowhow which enables SingPost to scale its integrated solutions by offering an omni-channel experience that will drive volumes onto its logistics network.

TradeGlobal and Jagged Peak have a good portfolio of both US and global customers and brands which brings with it opportunities for synergy and growth.

While Jagged Peak is doing well, TradeGlobal faces operational and structural challenges. Management is executing on a turnaround business plan. It will take time for these measures to deliver results. While business and cost initiatives are being put in place to improve performance, TradeGlobal is not expected to be profitable for the financial year ending 31 March 2018.

The retail mall at the new SingPost Centre is expected to open in October 2017. The Group will begin to progressively recognise rental income from the second half of FY2017/18 as occupancy ramps up towards a steady state.

Capital expenditure for FY2017/18 is expected to be lower than FY2016/17, as the majority of development projects had been completed.

In FY2017/18, there will be residual capital expenditure committed for the remainder of the SPC retail mall redevelopment works, in addition to the regular maintenance capital expenditure. With lower capital expenditure, free cash flow is expected to improve in FY2017/18.

Over the course of the next few months, the Group CEO and the leadership team will be working with the Board to review and update SingPost's strategy, and deliver a roadmap focusing on improving the performance of the Group.

That ends my presentation and I shall now hand it back to Jason, Jason please.

Mr Jason Lim (Vice President, Investor Relations):

Thank you, Mervyn. We will now begin the Q&A session. Again, we have with us our GCEO, Mr Paul Coutts, on the call. We also have with us Mr Woo Keng Leong, CEO of Postal Services as well. In order for everyone to get a chance to ask questions, we'll like to request that each caller keeps to three questions please. We are now ready to take questions, operator please.

Q&A

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. The first question comes from the line of Roshan Behera from Merrill Lynch. Plase ask your question.

Mr Roshan Behera (Bank of America):

Hi, thanks for the opportunity. Three questions – First on eCommerce logistics, why is there so much competition and who are the players driving it? And in terms of the trend, when and under what conditions do you think pricing and competition will sort of stabilise in this segment?

Second, in terms of working with Amazon, be that in Singapore or around the region, do you see any opportunity to sort of partner them?

Third, on slide 12 where you have talked about investment, recent investment in logistics network – could you shed some colour on what have been some of the recent activities in the quarter, in particular, enhancing your network? Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Hi Roshan, Mervyn here. In terms of your first question, the eCommerce logistics players – we are seeing competition and in the United States, as we have shared with you some time back, there are competitors out there such as PFS Web. However, the landscape is changing very drastically. One of the key structural challenges that we shared in the past was that the accelerated disruption in the fashion industry and this has, in many ways affected some of TradeGlobal's key customers.

The competition pressures will accelerate, we envisage; when it will stabilise is anybody's guess. It's still going through, certainly, a disruptive mode in the U.S industry. As for the second question on Amazon, I will perhaps ask Paul to share that with us.

Mr Paul Coutts (Group CEO):

Sure, thank you for your question Roshan. In terms of Amazon's entry into the Singapore market, what we would see is that we see that as a positive; we believe that that will likely help grow the entire Singapore market and also the ecosystem, and will certainly help accelerate eCommerce growth here and across the Southeast Asia region.

We view any eCommerce growth as an opportunity and we believe that SingPost is ideally positioned with our network, our services, our geographical advantage and Singapore's strategic location as well to ride on the growth of eCommerce logistics in Southeast Asia and beyond.

In terms of any potential for us to collaborate or help Amazon as a customer, what we see here is that we are an open platform as SingPost; we are free to work with any customer and partner, and obviously Alibaba is also a very key player for us not only in this particular market, but in other markets as well throughout Asia and potentially other parts of the world. So we are happy to work with all our key customers and partners.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Paul. Roshan, if I can reflect back on your third question – correct me if I got it wrong, but I think you wanted to get some granularity on recent investments in the eCommerce logistics network, is that correct Roshan?

Mr Roshan Behera (Bank of America):

That's right, Mervyn.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

OK, so when we made this statement it was part of growing out our eCommerce logistics network. We have purchased all that we need to for the moment, the focus right now is on extracting post acquisition synergies across our network and so this is where we are right now.

We are, however, looking around at how we could strengthen certain geographies but that is going forward as part of our strategic review and update.

Mr Roshan Behera (Bank of America):

Thank you very much, Mervyn and Paul.

Operator:

Next question is from the line of Joshua Lee of Deutsche Bank. Please ask your question.

Mr Joshua Lee (Deutsche Bank):

Good morning SingPost team, thank you for the opportunity.

I have two broad questions – first is on eCommerce logistics hub utilization, I'm just wondering what's the rate right now? And with regards to what Lazada has utilized, do you have a number and is there guidance on utilization take up rate for the rest of the year?

My second question would be with regards to the strategic review. I'm just wondering what options are on the table and what it could encompass. I mean, just to throw an extreme example, would an exit from even one of your business segments be under review? Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Hi Joshua. So to your first question, the second question I will ask Paul to take that. First question on the eCommerce logistics hub utilization, we have ramped up that utilization number since Q4; in Q4 we have indicated 40% to 50% but with Lazada coming in and putting all their operations into the warehouse, we have ramped it up to 65%, so we are at a pretty good level now, 65%.

Paul, would you like to answer the second question on strategic review?

Mr Paul Coutts (Group CEO):

Sure. Again, thanks for the question Joshua. In terms of the strategic review, it is a very comprehensive strategy review hence the reason why we are obviously going to work through a process over the next few months or so.

Within that strategy review, we will certainly have a look at all parts of the business; we will identify in the process what we see as core, what we see as non-core. Within that we will also have a look at what additional investments we need to make and also potentially divestments that we make once we determine what the strategy is, so that will be part of the strategy review.

Mr Joshua Lee (Deutsche Bank):

Thanks for the reply, Paul. Is it fair to say that all options are on the table and to the extent of divesting even any of the business segments?

Mr Paul Coutts (Group CEO):

Well look, in terms of that, any business should always be looking at its portfolio and seeing where that portfolio fits with the strategy and determine for the business. And then the decision tends to (21:27)__ from that, so all options should be considered as you go through that process.

Mr Joshua Lee (Deutsche Bank):

Thank you, Paul and Mervyn.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Joshua.

Operator:

Your next question is from the line of Sachin Mittal of DBS. Please ask your question.

Mr Sachin Mittal (DBS):

Good morning. I have three questions – firstly, if you look at eCommerce, the much narrower operating losses from S$15 million operating losses now back to S$4 million. Could you share with us a little bit of details how this – narrowing of losses, what have you done over here, and are these temporary or sustainable efforts which mean that we should not see again losses spiking up, keeping in mind efforts here made already on eCommerce, that's question number one.

Secondly, you have indicated the changes in terminal dues. Could you share with us some more details – what kind of changes, remind us here, what kind of changes we should be expecting here and a little more details. I know you haven't done the impact assessment but some more colour here would be quite useful.

On a related question here actually, the quarter on quarter rebound in your mail segment is quite powerful and you mentioned is because of logistics – more business from Alibaba. I haven't seen this kind of rebound in the past quarters, so is there something significant happening in this quarter or is that sustainable or no, there is some kind of consolidation made at one end so that is how it benefited? Because quarter on quarter was quite significant in terms of the mail revenue. Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Sachin. For the first question on eCommerce losses, I will answer that, the second on terminal dues effects, Mr Woo will answer that and the mail rebound I will give some clarity and then Mr Woo will add in.

So in terms of the eCommerce losses, looking at the Q1 on Q1 position losses have slightly increased, however if we look at it between Q4 – reflect back our Q4 results against Q1, in fact our losses have tremendously or significantly reduced from a number like S$15 million that we reported in Q4 to S$4 million so the losses have come down significantly and one of the reasons of course is execution of the turnaround business plan for TradeGlobal. This would take time; business and cost initiatives have been put into effect, the focus right now is on extracting post acquisition synergies from the network and capabilities of SingPost's eCommerce units, so this is the stress or focus right now for the team.

In terms of the changes in the terminal dues structure, Mr Woo, would you like to give some points on that point?

Mr Woo Keng Leong (CEO, Postal Services):

Sure, thank you Mervyn. Hi Sachin, as we have already mentioned, there will be a new system from 1 January 2018. It's a very complex system. In a nutshell, it's that I think UPU is introducing what we call a eCommerce package rate for settlement between postal. So certain destinations, of course there will be increases and there will also be some changes to some other countries; it's a very complex system so we are still assessing the impact but we have already started working on all the mitigating measures and we are also exploring the opportunities arising from the changes. That's all for terminal dues.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Mr Woo. In terms of the third question Sachin, mail rebound – if we look at the quarter on quarter increase, certainly we are very pleased with the international mail increase by 28.5%. The increase is the result of cross-border transhipments and Mr Woo will give some additional points on that a bit later, but how it would affect or how would the trend be going forward we can't give those forward statements except to say that the terminal dues structure will change in January 2018 and the impact is currently being assessed. Mr Woo.

Mr Woo Keng Leong (CEO, Postal Services):

Thanks Mervyn. In Q1, I think the international transhipment traffic, especially from Alibaba, has gone up a lot. Basically, we are working very closely with the logistics arm of Alibaba which is Cainiao as Alibaba goes overseas, goes global, we also see more traffic from Alibaba covering more countries. Thanks.

Mr Sachin Mittal (DBS):

OK, thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Sachin.

Operator:

Your next question comes from Eric Lin of UBS. Please ask your question.

Mr Eric Lin (UBS):

Hi, good morning. Thanks for taking my question, actually two questions from me. The first one is a follow-up on the earlier one on international mail.

Just one the discussion was about we have picked up in volume from Alibaba, from Cainiao. My question in relation to that is – what about the international mail margin or maybe the average price for international mail, has it declined? Or more specifically, has it accelerated declined? That's my first question.

The second question is actually on Quantium Solutions. It has been a few quarters already that we faced competition and pricing pressure. Can you elaborate a little bit more on that and perhaps what can be done to turn around the situation for Quantium Solutions? Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Eric, this is Mervyn here. For international mail I will ask Mr Woo to answer that question.

Mr Woo Keng Leong (CEO, Postal Services):

Hi Eric, this is Woo from Postal. On the margin for international transhipment mail, as we always said, the international mail transhipment margin is relatively low as compared to domestic mail. I must say that the margin remains more or less stable. While we are working on finding the most cost-effective way as far as routing, as far as settlement rates are concerned. So it's more or less stabilized. Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

The second question on Quantium Solutions and the problems around it, I would perhaps reflect back on what we have said, Paul may want to add on on the North Asia strategy. But the basic reasons why Quantium Solutions has done not too well this particular quarter – we highlighted one of the reasons on slide 12 which is the non-recurring expenses related to the on boarding of major customers so these are one-off expenses which have affected Quantium Solutions' performance. The second one is the on-going reason that you are aware of, Eric, which is the eCommerce logistics hub depreciation cost that we have to bear in terms of the warehousing and sorting equipment, so that's a running position.

The third one would be, in the mean, the extremely competitive pressures in North Asia in particular, Hong Kong and Japan and so that's about it. If you have more questions, we can help out or Paul can help out, otherwise that is the main reason – the competitive pressures in North Asia. We are working out a commercial solution to address this.

Mr Eric Lin (UBS):

May I follow up on the non-recurring expenses? How big is that item?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

We do not give specifics on this, Eric, but it is a one-off item and so it is something that will not recur in future, that means one-off.

Mr Eric Lin (UBS):

And is it fair to say that for Quantium Solutions, the situation will probably last for a few more quarters, given competition would not go away? And for the commercial plan you are working out, it may take up a bit of time to work out, so it will remain a bit challenging for the next few quarters. Is it a fair comment?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Eric, we unfortunately can't make forward-looking statements on that but to say that the solution from a commercial standpoint is on-going. It will also be a large part of our strategic review and update sessions to look at North Asia as part of the larger geography that we operate within.

Mr Eric Lin (UBS):

Thanks, Mervyn.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Eric.

Operator:

Your next question is from Ahmad Maghfur Usman from Nomura. Please ask your question.

Mr Ahmad Maghfur Usman (Nomura):

Hi, thanks for the call. Just to follow up on Quantium Solutions in terms of geography contribution, what would be the biggest market after Singapore and how much does that roughly contribute on the top line?

And to follow up on TradeGlobal, I understand that you are facing labour shortage but there was a news article that I read recently that you actually laid off some of your staff; probably about a (31:08) hundredth workforce? So why is this contradicting your statement that you are facing labour shortage down at Cincinnati? Just two questions from my side, thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Ahmad. I think Jason will want to chime in on the first question.

Mr Jason Lim (Vice President, Investor Relations):

Hi Ahmad, we do not disclose the specific splits of the countries that make up Quantium Solutions revenues but the top three contributors in terms of geographies are actually Hong Kong, Australia and Singapore so that is the top three. In terms of revenue contribution, although you see North Asia being impacted, I think we also put down in SGXNet that actually Quantium Solutions Singapore is doing quite well with Lazada moving in. However, the decline in North Asia sort of negated the good performance that Singapore had.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Ahmad, the second question where you have asked about TradeGlobal – the issue on labour, as to the shortage relates more towards the temporary fulfilment labour that we need to take in towards the peak, and so this temporary fulfilment labour is something that forms one of the action plans where we are accelerating warehouse automation plans to have less reliance on the this temporary fulfilment labour where the rates are very high.

In terms of the laying off of staff that you said, this is very much part and parcel of the loss of two key customers that form between 30% to 40% as we have said in our previous results and as a result of that, we are looking and tidying up the business and so that is a natural component of adjusting the business model to fit the new size. So certainly, as one of the action plans in the turnaround business plan by Paul Demirdjian, this is one area that is being focused upon – increasing productivity, increasing automation, increasing technology to have less reliance on the higher rates from temporary labour.

Mr Ahmad Maghfur Usman (Nomura):

OK, just to follow up on that, can I roughly quantify that the recent layoffs would probably – because they come from about 30% to 40% of your revenue mix, would that be easily close to even two thirds, sorry one third of your workforce?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

I must say again, Ahmad, that we can't go down into specifics except to say that these right-sizing efforts that we have done in TradeGlobal is part and parcel of turnaround business plan. We can say that the turnaround business plan is on track.

Mr Ahmad Maghfur Usman (Nomura):

OK, alright. Thank you so much, Mervyn.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Ahmad.

Operator:

Your next question comes from Azita Nazrene of Macquarie. Please ask your question.

Ms Azita Nazrene (Macquarie):

I think the bulk of the questions that I had on Quantium Solutions have been asked but if I can just add further, I understand the cost part, cost increase for Quantium Solutions but I am a bit surprised with the revenue decline. May I just ask, how is the revenue model like for Quantium Solutions? That's all, thank you.

Mr Jason Lim (Vice President, Investor Relations):

Well Azita, I guess we can take it offline in detail but roughly Quantium Solutions is very much a warehousing and fulfilment company, so what we charge is for warehousing very much and for pick and pack, and for eCommerce parcels. And also there's a third part of business for Quantium Solutions which is the transhipment, which is cross-border shipment so typically we charge for warehousing, we charge for pick and pack then we charge for that cross-border transhipment business.

Ms Azita Nazrene (Macquarie):

OK, so I guess in the North Asia part you've been seeing decline in volume. Can I summarize in that? Is it the right deduction?

Mr Jason Lim (Vice President, Investor Relations):

Yes, one of the impact of the North Asia business is the cross-border transhipment part of the business.

Ms Azita Nazrene (Macquarie):

OK, that's all. Thank you.

Mr Jason Lim (Vice President, Investor Relations):

You're welcome.

Operator:

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

Mr Joshua Lee (Deutsche Bank):

Hi again. Two new questions – with regards to Lazada moving into eCommerce logistics hub, I'm just wondering whether Redmart has moved in as well, so that's my first question. Second question relates to something recent; if the LTA permits private hire vehicles or taxis to courier – courier as in general, how would it impact your business? Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

On the first question, Redmart has not moved in, Lazada has moved in. The second question, I will ask Paul to answer that.

Mr Joshua Lee (Deutsche Bank):

May I ask – would Redmart be moving in ultimately as well?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

No, it doesn't mean that if they have not moved in they will be moving in. It means that we are always looking out to collaborate with Alibaba's family group and Redmart is certainly part of the family. So we will continue to engage.

Mr Joshua Lee (Deutsche Bank):

Noted. Thank you.

Mr Paul Coutts (Group CEO):

Hi Joshua, it's Paul here. So I'm trying to address your second question. Obviously the LTA and the use of taxis as couriers is quite a recent development and we don't have a concrete decision today on that particular subject, but what we are doing is this is obviously quite fast-moving; we're including that in our strategy review and we'll continue to work out more options in terms of how we build our infrastructure, our network here in Singapore.

Mr Joshua Lee (Deutsche Bank):

Thank you, Paul.

Operator:

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

Mr John Cheong (Maybank Kim Eng):

Hi, thanks for taking my questions. Three questions – the international terminal dues impact, can you actually further elaborate in detail? Is it going to be a negative impact or the dues are probably going to fall? Second question, for SingPost Centre do you have the committed occupancy rate for the new mall and can you share whether there will be any rent-free period? And the third question for capex, do you have any guidance and is there a possibility where you will have any potential M&As in the pipeline as part of your strategic review?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Yes John, going through the three questions – the first one on international mail, the implications are complicated and the impact is currently being assessed. The second one which is SPC mall, we are on track in terms of driving up the occupancy levels towards our opening in October of this year. As you know, Capitaland Malls have been appointed as our retail mall manager and we are on target towards a good opening in October.

In terms of guidance capex wise, the numbers which we shared with you for purposes of your financial modelling don't change, we take about S$50 million to S$60 million running capex cost just to keep our capex or highways clean and workable. So roughly S$50 million to S$60 million is what you can put into your financial model. Certainly as what we have read out in the slide deck, most of our committed capex projects had been completed. The remaining one is SPC retail mall and after that will be maintenance capex, so you will definitely see capex coming down and therefore free cash flow improving.

Having said that, you also asked about any capex or other investments being made in the future, this is again something that is part of the strategic review and update, noting that Alibaba's monies given to us are all being subject to the investment agreement in strengthening the geographies for both parties. Thank you.

Mr John Cheong (Maybank Kim Eng):

Can I come back to the SingPost Centre? Do you have any committed occupancy rate that you can share now? Any financial indicators for the mall for financial modelling purpose and how many months' rent we can actually put into the model for FY18?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

I can't give you the committed numbers, John, although we certainly have it. Again, it is confidential but except to say that for the rent-free period you could take it that these are agreements that are all commercial so it should be part of a standard clause within the agreements.

Mr John Cheong (Maybank Kim Eng):

OK, thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, John.

Operator:

You have a follow up question from Sachin Mittal of DBS. Please ask your question.

Mr Sachin Mittal (DBS):

Actually my question is on the terminal dues. My understanding is that because a lot of postal operators are sending the eCommerce package as part of the normal mail, so in a way the UPU changes are to kind of mitigate those concerns right? Because to distribute different rates for those eCommerce packages compared to the letter and mail right? So in effect that means one should expect some rise in the cost which means probably lower margin in international mail. What are the gaps there actually? Is my understanding right – the reason why this has been changed? And then the question is – is it like a kind of increase in the cost for those eCommerce packages? Thank you.

Mr Woo Keng Leong (CEO, Postal Services):

Hi Sachin, this is Woo from Postal. Yes you are right that there will be a new eCommerce package rate and as we have been saying, it's actually a very complex system; it's not just to which country but also what is the weight there, what will be the item per kilogram, so it's actually very complex system.

But just like any other changes, there will always be challenges as well as opportunities so we are already working on the mitigating measures to mitigate the challenges. At the same time, we are actually exploring the opportunities; we are not just a postal company, we have our commercial network as well so we are actually trying to combine our strengths, leveraging the postal as well as the commercial network to face all these challenges. Thank you.

Mr Sachin Mittal (DBS):

So when you say complex, it is complex because increased – different countries but directionally it is an increase right for all the countries?

Mr Woo Keng Leong (CEO, Postal Services):

Overall yes, generally it's an increase in certain countries, but also depending on the weight steps as well as what country so that's why we are trying to find our niche market but although we have done well in the past as you may say, that may not be relevant anymore but we'll be exploring new countries, new weight steps. Thank you.

Mr Sachin Mittal (DBS):

OK, thank you.

Operator:

You next question comes from Roshan Behera of Merrill Lynch. Please ask your question.

Mr Roshan Behera (Bank of America):

Hi, thanks. Three questions again – first one for Paul, anything you could think of as low hanging opportunity or opportunities at SingPost? Second, at the group level, could you do something different to slow down the rate of decline in domestic mail? And third, is there sort of a deadline for sharing the outcome of your internal strategic review? Thanks.

Mr Paul Coutts (Group CEO):

Thanks, Roshan. In terms of the low hanging opportunities, what I would say are things that we still have a significant opportunity in Singapore. We obviously have a huge amount of infrastructure, we have a great network here, we have got great services and products in the Singapore market and I do believe that Singapore is well placed and has a geographical in terms of riding on the growth of eCommerce logistics and Southeast Asia; so I do believe there are some immediate opportunities (44:12)_____ demand, long term opportunities in that particular sector.

Then also we have low hanging opportunities in driving the synergy benefits that we would get through integrating the businesses and investments that we have made over the last few years, and also believe that we have some ability to be able to cross some of the customer streams that we have in our businesses to create more products for our customers and grow our revenue streams through organic growth.

In terms of the domestic mail, it's a really interesting question, it's something that we have been talking about as the leadership team we have been going through the strategic discussion; we have some ideas, we do believe some of those ideas have made it, we are currently exploring those and we'll continue to progress as we go through the strategy discussion.

And in terms of the strategic output – finalized, I hope you understand that we are obviously not going to go public with our complete strategy and give our competitors any information in terms of where we are headed, but there will be some themes that we will come and talk to the markets about when we have completed those strategy processes.

Mr Roshan Behera (Bank of America):

Thank you, Paul. So the last question – all I am looking for is some sort of broader guidance as in should we expect some updates from the strategic review by first half of the financial year or it's more likely to be the second half?

Mr Paul Coutts (Group CEO):

We are not going to put a time on it and the reason for that is we want to make sure that we do it comprehensively, we want to do it well; that's much, much more important for us than the timing. We already have a number of things that we're already working on, so in terms of integrating the investments – our focus is on integrating the investments we have made, updating our business strategy and applying good stewardship to our business.

Mr Roshan Behera (Bank of America):

OK, thank you very much Paul.

Mr Paul Coutts (Group CEO):

Thank you.

Mr Jason Lim (Vice President, Investor Relations):

Operator, I think we have time for just one last question if there is any.

Operator:

We have one last question from John Cheong of Maybank. Please ask your question.

Mr John Cheong (Maybank Kim Eng):

Hi, one question for Paul. For collaboration overseas, what is your direction and view in terms of the overseas operations?

Mr Paul Coutts (Group CEO):

Yes, thanks for your question John, so let me just try and address that. Because an area where I spent a lot of time in my career is actually global customers and collaborating across networks so certainly when I look at the strong brands in both the Jagged Peak business and the TradeGlobal business, and indeed some of our businesses elsewhere in Australia and all the parts of Asia, we have a – I think, a sizeable opportunity to basically migrate some of the best demonstrated practices that we are actually doing for those particular customers, the solutions that we are offering for those customers, and cross selling different products to those customers. So there is a cross selling opportunity and there's also a geographical expansion opportunity over there for those customers, and we are building an organizational structure which we'll like to focus on that leverage.

Mr John Cheong (Maybank Kim Eng):

Is there any new geographical location where you are particularly keen say, in the ASEAN – Indonesia, Vietnam also where Lazada has very strong presence. What kind of strategy would you be adopting in penetrating into these markets?

Mr Paul Coutts (Group CEO):

So again, John, thanks for the question. Again, I would relate back to the strategy – we are looking at those specific markets that you mentioned within our strategy review and again, once we've determined that we'll come back and talk to you about that.

Mr John Cheong (Maybank Kim Eng):

OK, alright. Thank you very much, Paul.

Mr Jason Lim (Vice President, Investor Relations):

Ok, thanks John. We have reached the end of the Q&A session. Before we sign off, I think we'll like to have Paul give some quick closing remarks please.

Mr Paul Coutts (Group CEO):

Thanks, Jason. Thank you very much and thanks to all of you joining us this morning as well and for your questions.

One thing I would like to leave with you is this: SingPost is on track to transform itself.

You have heard many times about the pressures our domestic mail service is facing and we have seen it and are going to see it in the numbers. Understanding this disruption, we have made a number of investments that will contribute to our future revenue and profitability but this will take a number of years to come to fruition.

The priority ahead for us is to integrate all the businesses we have acquired into a true network – a network that spans markets, products and geographies. We must work hard to extract synergy benefits from this network we are building. This is challenging but definitely achievable because SingPost has the people, the infrastructure and the technology to do this.

Thank you very much for being with us this morning and I look forward to catching up with you at some point.

Mr Jason Lim (Vice President, Investor Relations):

Thanks, Paul. So we have reached the end of the Q&A session, if you have any further questions please feel free to reach out to me later. On behalf of everyone in SingPost, we'll like to say thank you and goodbye.

Operator:

Thank you for dialling in to this briefing.

End of transcript

End of transcript