SingPost's Q1 FY19/20 Results Analyst Briefing, 2 August 2019

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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. Thank you, please go ahead.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

Good morning. Welcome to SingPost's results briefing for the first quarter of FY2019/20.

I am Jason from Investor Relations.

With me today is our GCFO Mr Richard Lai and CEO of Postal Services and Singapore Mr Vincent Phang.

I'll now hand over the session to Richard to bring you through our results.

Mr Richard Lai (Group CFO):

Thank you, Jason and thank you everyone for joining us today.

Allow me to go through the results that we have just announced earlier this morning.

Revenue for Q1 FY2019/20 rose marginally, with higher International post & parcel revenue from cross-border eCommerce deliveries. Profit on operating activities declined 9.9% largely due to lower contribution from Domestic post & parcel. We will share more details on that in the later slides.

As announced before, we have ceased equity accounting for 4PX and disposed of our stake in Indo Trans Logistics. As such, share of associated companies & JV improved significantly, to a S$0.3 million loss as opposed to a S$3.5 million loss last year. Last financial year, the Group sold the GD Express warrants that it held and utilised the proceeds to increase its direct shareholding in GD Express. As such, we no longer have to recognise any fair value losses or gains that may arise from the warrants. The absence of such exceptional losses led to a 37.2% increase in net profit attributable to equity holders.

Excluding exceptional items, underlying net profit rose 3.9% to S$25.6 million due to improved results from associated companies and JV.

Let me now move on to Expenses.

Operating expenses rose 2.5%, driven by higher volume-related expenses, which rose 7.6%. Excluding volume-related expenses, operating expenses would have declined 5.1% on cost management initiatives. The growth in Volume-related expenses reflects costs in relation to higher revenues at International post and parcel, as well as the U.S. businesses. Labour and related expenses rose 0.9%, with additional postmen hired for the Singapore postal operations, offset by lower labour expenses in the U.S.

From 1 April 2019, the Group adopted SFRS (I) 16 as required by accounting standards. This involves putting leases on to our balance sheet. Operating lease commitments are now recognised as right-of-use assets as well as lease liabilities on the balance sheet. There is a reduction of rental costs (under Admin & others) and increase in depreciation costs (under D&A) as well as an increase in Finance expenses. Largely as a result of the above, Admin, selling and other expenses declined 25.4% to S$30.4 million; Depreciation and amortisation expenses rose 20.0% to S$17.2 million; and Finance expenses rose to S$3.6 million, from S$2.4 million in Q1 last year.

This slide provides an overview of the various segments' contribution to Group revenue and profit on operating activities. The Post & Parcel segment remains the largest contributor to Group revenue, followed by the Logistics segment. For Profit on operating activities, Post & Parcel is also the largest contributor, followed by the Property segment. The Logistics segment remains in a small operating loss position. As previously announced, the Board has decided to exit the U.S. businesses and we are in the midst of a sale process. We will provide more details on the performance of each of the segments in the next few slides. Under the Others segment, costs rose to S$6.4 million, from S$5.5 million in Q1 last year, due largely to higher corporate costs related to public communications.

Let me now move on to the Cash flow and Financial indicators. For the quarter ended 30 June 2019, operating cash flow before working capital changes was S$51.3 million, largely stable compared to S$52.2 million last year. Working capital movement for the quarter was negative S$19.1 million due largely to timing of receivables in respect of cross-border eCommerce deliveries, which are experiencing strong growth in China. In the same period last year, there was a positive S$20.4 million working capital movement due largely to favourable timing for payables in respect of international postal settlements. As a result, net cash inflow from operating activities was S$31.1 million for the quarter, compared to S$71.3 million in Q1 last year. Capital expenditure declined to S$4.1 million, compared to S$9.2 million last year, as certain capex items were deferred to later quarters in FY19/20. Consequently, free cash flow in Q1 amounted to S$27.0 million.

We now move to the financial indicators. Cash and cash equivalents were higher at S$412.1 million as at 30 June 2019, due to cash generated from operations. Total borrowings were stable at S$290.7 million. The group's net cash position improved to S$121.4 million as at 30 June 2019, compared to S$101.3 million as at 31 March 2019.

EBITDA rose to S$52.3 million for Q1. This is substantially due to the SFRS (I) 16 Leases adoption.

EBITDA to finance expense declined to 14.7 times compared to 18.6 times last year. However, if you adjust out the impact of SFRS(I) 16 Leases you will find that the EBITDA to interest expense is 17.5 times.

Let me move on to dividends. The Board has declared an interim dividend of 0.5 cent per share, same as last year. The book closure date is on 20 August, and payment date is on 30 August. Our dividend policy remains unchanged – based on a payout ratio ranging from 60% to 80% of underlying net profit for each financial year.

We will now move on to the segmental results. I shall now hand you over to Jason.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

Thank you, Richard.

In the Post & Parcel segment, revenue rose marginally as International revenue rose 5.2% on the back of higher cross-border eCommerce-related deliveries. This was partially offset by a 6.7% decline in Domestic due to continued letter mail decline, as well as a suspension of ad-hoc admail volumes in order to improve service quality. Profit on operating activities declined 8.9% with lower earnings from Domestic as the growth from eCommerce-related deliveries was insufficient to offset the decline from letter mails and admails. In addition, costs rose with hiring of additional postmen and enhancement of their remuneration.

In the Logistics segment, revenue was lower by 2.2%. Freight forwarding revenue rose 3.3% with higher volumes at the Rotterdam operations. However, eCommerce logistics revenue declined 7.4% due we exited certain customer contracts at Quantium Solutions, as well as due to the depreciation of the Australian dollar against the Singapore dollar for Couriers Please. Without depreciation of the Australian dollar, Logistics segment revenue would have been largely stable compared to Q1 last year.

Loss on operating activities widened to S$1.8 million. Freight forwarding profit on operating activities remained stable despite the global slowdown in trade activities. eCommerce logistics losses widened due to compensation payments received from a customer last year, which has since exited. Excluding this, losses would have been largely stable year-on-year.

Property revenue, which comprises commercial property rental and the self-storage business, remained largely stable at S$29.8 million. The marginal decline in revenue was due to pre-agreed incentives on an office anchor tenant's option to extend its lease. Profit on operating activities declined 2.3% due to higher depreciation from improvement works for the self-storage business.

In the U.S. Business segment, revenue rose 7.9%, due to higher freight revenues. However, outsourced expenses to third party vendors for deliveries rose disproportionately, and contributed negatively to the business. Losses on operating activities narrowed year-on-year to S$6.9 million, from S$8.8 million in Q1 last year. This was due to the absence of depreciation and amortisation expenses, as property, plant and equipment, and intangible assets had been written down to zero since the close of the previous financial year.

Let me now hand over back to Richard for the Outlook.

Mr Richard Lai (Group CFO):

Thank you, Jason.

With eCommerce volumes expected to continue to grow strongly, in particular in Asia Pacific, SingPost remains well-positioned to benefit over the long term.

In Singapore, while eCommerce-related deliveries are expected to grow, the full benefits are being mitigated by a decline in letter mail and advertisement mail volumes.

The Group will continue to drive operational synergies and productivity gains with the integration of its postal and parcel delivery capabilities.

While International revenue has grown with increased cross-border eCommerce deliveries, transhipment competition is intense with volumes and margins continuing to come under pressure, especially with higher terminal dues.

The Group has stepped up investment to improve service quality, and is also reviewing ways to improve the design of our postal system to drive long-term benefits in a parcel-centric environment.

The Property segment is expected to remain largely stable, and a significant contributor to Group operating profit for the financial year.

As announced earlier, the Group has decided to exit the U.S. businesses TradeGlobal and Jagged Peak, and is in the midst of a sale process. The Group will make further announcements as appropriate.

With that, I conclude my presentation.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

We are now ready for Q&As, operator please.

Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, 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 Siward Ludin from Goldman Sachs. Please ask your question.

Mr Siward Ludin (Goldman Sachs):

Hi team, thanks for opening up my questions. I have three questions here so first is could you give us the split of traditional versus eCommerce sales between your Domestic and International revenue? And second and third questions on your postmen hiring – the first one is on your postmen hiring in Singapore, have you finished all the hiring this quarter and is it already reflected in your current numbers or will there be more expenses in the second quarter? And excluding the additional postmen hiring, how would your operating profit trend year-on-year for Post and Parcel? Thank you.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

Hi Siward, Jason here. With respect to the specific split between the traditional versus the eCommerce sales in postal, it's not something that we have disclosed in terms of the split, but in terms of the trends, what we have seen is that the eCommerce has actually grown 34% while in terms of the traditional letter mail decline we are seeing around 8% decline – around that mark.

We have said before it's the mix of the different volumes that have resulted in the Post and Parcel operating profit that we see. The growth in eCommerce because off a lower base, has not been sufficient to offset the decline in the letter mails.

So the second question is on postmen hiring?

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

I'll take that one, this is Vincent. As we said, the priority that we have is certainly to improve our service quality and we have over the last quarter, taken on quite a few of the postmen that we hired and we are quite pleased with the result of that recruitment exercise. It's hard to say whether that's all to it. As you said, the priority certainly is to look at our service quality; we've seen improvements, we're cautiously optimistic that what we have done has addressed some of the service quality issues that we've seen in the past, but all I can say is we continue to look at what we need to do to make sure that we continue this service in the right way and if we need to make adjustments again, we will continue to do so.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

Siward, can you repeat the third question please?

Mr Siward Ludin (Goldman Sachs):

Some housekeeping here – excluding the additional postmen hiring, how would your operating profit trend year-on-year for Post and Parcel?

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

This is Vincent again, let me take that. There are some steps that we have taken from a service quality standpoint to address the issues that we face. One of them is the hiring of additional postmen, the other one is on the stepping down of the admail service as you are aware. So if you exclude those impacts, we are continuing to see a decline in our traditional postal volume which is kind of in line with the expectations that we've been seeing all this time. There are some early signs perhaps – we are cautiously looking at whether that decline in the traditional mail volume is picking up. We did have some institutional customers over in the first quarter deciding to switch to e-bills so we continue to look at that a bit cautiously. But if you exclude those effects, I would say performance is largely in tandem and in line with last year's performance.

Mr Siward Ludin (Goldman Sachs):

OK, got it. Thank you.

Operator:

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

Mr Sachin Mittal (DBS):

Thank you, I have three questions. If I look at Post and Parcel, could you elaborate whether the transhipment mail volumes or international mail, is it really just a revenue headwind or besides revenue headwind there's also a margin pressure? Or is it a combination of both which you are speaking at the moment due to higher terminal dues? Secondly on the Logistics segment, what needs to happen for the losses to dissipate in the Logistics segment? Is it something – macro environment only which needs to change or there are some fundamental changes required at the company level? That's question number two; lastly when I look at the Property segment, your Property income has been inflated due to reclassification and elimination. Could you explain the rationale behind this move? What is the intent for this kind of reclassification especially in the Property side? Thank you.

Mr Richard Lai (Group CFO):

Sorry Sachin, this is Richard here. What do you mean by reclassification at the Property level?

Mr Sachin Mittal (DBS):

Because if I look at Property income, it has risen substantially due to reclassification and some elimination; inter-segmental elimination has risen a lot. I want to know the intent behind this.

Mr Richard Lai (Group CFO):

No, there is no change in our treatment. All you are seeing now is we have not separately classified it and disclosed it. This is something that has been intercompany eliminations, something that we always do and we have to do simply because that's what the accounting standards expect of us. Any dealings with your internal party you have to eliminate. It's just that in the past we may not have separately disclosed it for your benefit.

Mr Sachin Mittal (DBS):

What about rental? Whatever rental SingPost pays today for the property rental that's now included and then withdrawn? Is this the way to think about it?

Mr Richard Lai (Group CFO):

No, because at the group level any intercompany transaction – not just rental – any intercompany transaction gets eliminated for group consolidation purposes. So we don't actually end up double counting any income from there. Let's go back to your other question, you were asking whether there's a revenue headwind with respect to international mail, am I right?

Mr Sachin Mittal (DBS):

Yes, and whether is it margin pressures and whether it's a combination of both.

Mr Richard Lai (Group CFO):

I think certainly with the global economy slowing and that's not a surprise to everybody, obviously we would expect some headwinds on the international mail from and with the increasing terminal dues obviously that doesn't help with the margin erosions as well. So on both fronts you're right, we do see some headwinds but in spite of the headwinds we've been able to still grow that business. I think what would happen is that over time, your postal network is still the cheapest mode of transporting and moving these small eCommerce packets and parcels. What you could see however, is in the face of increasing slowdown and things like that, that value in terms of what's put through postal might actually increase as people start to move more expensive items through the postal system. I would say that that would probably mean that we would continue to see international mail business continuing to move along in its current trajectory but in terms of margins, well, that's another thing. We will have to see where that terminal dues increase goes because of the fact that as you are well aware, there are also issues happening on the UPU front with the U.S. having signalled their intent to exit the UPU. So that throws up another uncertainty that nobody at this point in time will know where that lands.

For us, we see that as an opportunity even if U.S. were to leave the UPU simply because we are one of those countries that have a lot of bilateral agreements with a lot of different countries, and that will mean that even if the U.S. were to leave the UPU we should be well-positioned to able to carry on the business. In fact, for a period of time after that it might actually be better for us because of the fact that you're going to get other posts which have to piggyback off SingPost's bilateral agreements while they negotiate their own bilateral agreements. So there are a lot of uncertainties, obviously, going forward to the future, we do see some headwinds but at this juncture the headwinds haven't quite overwhelmed us.

Now on the question on Logistics – what would it take? Very good question. Well I don't think we have announced this but internally we have definitely announced it; we have put a Group CEO for our Logistics business now, previously that was handled by Paul himself but as you can imagine Paul has his attention spread over quite a number of different issues. So Jui-I who was our Chief Transformation Officer is now heading up Quantium Solutions and all the logistics business that comes under there. So what would it take? It would require Quantium Solutions or I should say, Logistics broadly speaking, to build up scale and one of the problems we have with the business currently is that while it has presence in several different countries, it lacks scale in those countries. So what you will be seeing is that there will be quite a fair bit of effort being put in this financial year to actually build up scale in that area of the business. So I will leave it as such for now; there are plans, we have ideas as to what we need to do to build that scale but I am not at liberty to divulge anything further at this point in time.

Mr Sachin Mittal (DBS):

OK, just a follow-up question because so far you have been trying to exit the unprofitable business in the Quantium business right? And now the hunt is on scale again, but the question is, is that scale coming to the profitable business? We were in the wrong geographies earlier and are you focusing on the right geographies now?

Mr Richard Lai (Group CFO):

Fair point. We spent most of last year in exiting all the unprofitable contracts, one of these contracts was one of our largest customers for Quantium so obviously to replace that takes a bit of time. But having done all the fixing last year, what we need to do now is to build scale and we don't have an issue about the countries we are now in; what we need to do now to bring the different synergies that we can get from the different countries in order to build up the scale so for that you need the right products and you need to be able to synergise your different countries. I think that one of the problems that we had previously was the fact that each of the countries are doing different things and as a result of each of the countries doing different things, offering different products, we weren't able to get any synergies out of that. Without saying too much, obviously one of the action plans is to harmonise the product offerings and harmonise it to where we believe the growth trajectory should be.

So there's a bit of product harmonisation, there's a bit of geography harmonisation in terms of getting the different countries to work together so that we can build up the scale on that. And of course it should come with profitability because one of the issues is that if you have a small operation you still need to have x number of people and that operation is currently not being optimised – you need to scale up a little bit more in order to really turn it more profitable and in this day and age, if you are going to be small, winning contracts are also not so easy. So it all comes in their own cyclical manner that we need scale so that's we are working on and that also includes working with Cainiao, Alibaba side on it.

Mr Sachin Mittal (DBS):

OK, understand. Thank you very much.

Operator:

Your next question comes from the line of Ngoh Yi Sin from CIMB. Please go ahead.

Ms Ngoh Yi Sin (CIMB):

Hi good morning, I have three questions here. One, relating to Post and Parcel, just wanted to get a sense if there are further initiatives to improve service quality so that we can know whether there would still be continuing margin pressures from this quarter's numbers. And also when would management be expecting the business to be steady enough to turn on the tap again for the ad-hoc admail. Secondly on Logistics, just wanted to know – because we saw quarter-on-quarter improvement, wanted to get a sense whether there are new customers on-boarded? And lastly for U.S. businesses, I wanted to get an update on the sale process.

Mr Richard Lai (Group CFO):

Vincent, maybe you want to take the first one.

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

I will take the first one. Thanks for the question Yi Sin. We have actually announced quite a few of the service quality initiatives as you probably are aware through the press and the media, so those are currently underway. We do have a few more that have been slated for the second part of the year. One of the early feedback that we've got from the "My Postman" programme that we've actually launched has actually been pretty positive in terms of the outreach to the community. So just a quick description, we basically have provided a channel for residents of two estates – Yishun and Bukit Timah – those have been launched for coming up to three weeks now and we have got some early feedback from the residents who have been able to give direct feedback to the particular postman or postwoman who serve them. The early feedback have been very encouraging, we have generally got experience scores of 4.5 stars if you were to use the star rating as an example of how things work. The compliments, the feedback have been pretty encouraging for the work that we do so I think part of what we are doing now is not just on the physical side of things where we launch a slew of initiatives to try to improve what we are doing, but at the same time also from an outreach point of view giving our customers an avenue and a channel to give us some feedback very directly.

There will be additional initiatives that we are in discussions with the authorities and hopefully once those are approved – as you are aware, this is a regulated service so part of what we are doing with servicing the customers better will involve some of the approvals required from the authorities which we are optimistic that these will come through and these will be beneficial for our service quality going forward.

Your other question on admail – so we are revamping the admail service in a sense that with a better understanding of our volumes and capacity through the next few months, now that we've settled down, bedded down the new recruits that we have in the system, we'll be slowly opening the admail service again and we'll be deliberate about it in a sense that we will load the admail volume accordingly with the available capacity that we have. Not trying to get too technical but basically we should get some upside from the admail service that we will start to launch this quarter, so hopefully that gives you some colour.

Ms Ngoh Yi Sin (CIMB):

So just to clarify in terms of the timeframe at the ad-hoc admail, we should see some benefit for this financial year whereas the initiatives slated for second half, these are like more medium term kind of initiatives right?

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

Yes, correct.

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

OK, thank you. So on Logistics and U.S.?

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

Yi Sin, so for the quarter-on-quarter Logistics improvement, if you look back at our Q4 disclosures we actually said that there's some one-off costs of about S$2 million in the Logistics segment which are sort of relocation costs, staff redundancy and so on, so you have to eliminate that S$2 million on a quarter-on-quarter basis. The other point on improvement is actually for Famous; we actually in Q4 had a pretty weak quarter in terms of earnings. I think we shared that there were some front loading in the December quarter which led to the March quarter earnings being low but Famous in the June quarter had caught up to a more normal run rate so in terms of moving, as we move from March to June the difference is because of the absence of the one-offs and the improvement in Famous earnings, and also a little bit of improvement in CouriersPlease earnings as well.

Mr Richard Lai (Group CFO):

You got that Yi Sin?

Ms Ngoh Yi Sin (CIMB):

Yes.

Mr Richard Lai (Group CFO):

OK. With respect to your last question on the U.S. businesses, we are still in the midst of it so we can't really discuss very much about it at this point in time but we are hoping that we could come to a decision on it sometime in the near future. But as you would imagine, there are a lot of things to consider. So at this point in time I can't comment where we're going to land on that but I certainly can say that the Board has made a decision to exit the U.S. businesses so we are considering all options and we will let you all know in due course.

Ms Ngoh Yi Sin (CIMB):

OK, so to sum it up everything is still going on track with management's expectations?

Mr Richard Lai (Group CFO):

Yes.

Operator:

Your next question comes from the line of Ahmad Maghfur Usman from Nomura. Please go ahead.

Mr Ahmad Maghfur Usman (Nomura):

Hi, good morning. I just want to check with regards to your transhipment. May I know whether there has been a re-renegotiation with regards to the contracts, whether it has been revised down? Because from my observation on the SATS results, it suggests that there has been a decline in ASPs so I am just keen to know whether that is the case with your arrangement with SATS. Thank you.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

Ahmad, we can't actually comment specifically on the contract terms with SATS or the average selling prices. In terms of transhipment specifically, as we move from the March quarter to the June quarter I would say that the terms and the business conditions have been largely similar. We have not especially negotiated any lower transhipment rates as we move from the March to the June quarter.

Mr Ahmad Maghfur Usman (Nomura):

OK, understood. The second question I wanted to ask and follow-up was on the U.S. but that has already been asked so that is probably all from my side. Thank you.

Mr Richard Lai (Group CFO):

Thank you.

Operator:

Your next question comes from the line of Varun Ahuja from Credit Suisse. Please go ahead.

Mr Varun Ahuja (Credit Suisse):

Hi, good morning management. Thanks for the opportunity, first I just want to go back to the Logistics segment. So the thesis is that the eCommerce should grow much, much faster than the traditional mail but it's the opposite which is happening and I know there are some one-offs and negotiations. But if you look at the last couple of years, this eCommerce business hasn't materialised as a growth driver for SingPost which was expected to be a transition from a postal business to an eCommerce business. So how should we think about it for the next two to three years? And I heard your commentary about Quantium leading scale, but what do you think in terms of competitive dynamics? A lot of start-ups have come up, trying to capture market share in terms of eCommerce logistics deliveries. How do you compete with that? Do you think you have to burn cash again given the transition hasn't been that successful with the U.S. acquisition, now you are scaling back to Asia looking to grow that business in Asia? You may have lost some time which you could have invested in Asia, I just want to understand how management thinks about this business.

Mr Richard Lai (Group CFO):

Well, whatever has happened in the past is in the past; it doesn't really make a difference to what is present and going forward to the future. We don't think that it's too late in respect to ASEAN, we think that the eCommerce market here is in a rather nascent stage compared to the U.S. market which is by far a lot more saturated. The movement between – and this is the part where I think we're trying to get people to also understand – we operate within the eCommerce universe, it's around us, it flows right through us and so forth. So there is this notion that we will have mail distinct from eCommerce. In actual fact, a lot of what mail does now has eCommerce packets that run through it as well. That distinction is made however between the mail business more from the last mile delivery in Singapore, versus logistics which does more fulfilment and warehousing work with some order management system to create that stickiness and that is being done substantially outside of Singapore although we do some of that in Singapore. And I think your question is more like what's happening in Logistics, it seems like it's taking forever to turn around and so forth.

So I have to go back to this point I said earlier; we have been operating with a rather dysfunctional system for the Logistics segment meaning Quantium Solutions and so we had to fix quite a fair bit of things to get it right and we are obviously encouraged by the fact that we have fixed quite a fair bit of things. It's still an on-going process because now that we have put in place new management, new heads and we are aligning the products and so forth, we still have to invest into technology, we still have to invest into systems and so forth to be able to get that scale that I am talking about. So it's not a journey that's done overnight and it's not something that you can snap your fingers and it's there; it takes time and commitment to get to it but we are quite pleased by the encouraging on-boarding of new customers that we have been able to capture. We do think that we need more of it so we do need to scale up the business, substantially more.

The start-ups that you are referring to usually exist in two spheres in particular. One is more in terms of cross-border and two maybe in the case of some of the last mile delivery, you might be referring to the likes of Ninjavan and so forth, and I will leave that to Vincent to explain a little bit more on what our thoughts are about those things. And in respect to the ones that are overseas, cross-border and so forth, what we are offering is a complete end-to-end solution so it's not something that start-ups will be able to do at the beginning; our competition on those fronts are actually more with respect to your traditional big boys so we need to scale up to be able to compete with them. Vincent?

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

Varun, thanks for the questions, maybe I'll just share a bit of colour. Closer to home, mail is our traditional stronghold but that's in decline and no surprise, we are declining at rates that are seen amongst all the rest of our global peers. We are not doing any worse, we are not doing any better, it is just how it's going to be and we do know that for some time.

Fair to say that the future for us is certainly going to be delivering other things, not just mail. And clearly with the opportunity in eCommerce and with the low penetration here at home in Singapore, that still offers a huge amount of growth opportunities.

So I see that what we are doing right not is firstly – no small task by the way – to engineer a system that has over the years been optimised and perfected for mail delivery, into one that is capable of doing both mail and eCommerce meaning packages and other items, parcels and all that, and to extract the synergy between the two is no small task. It is a huge enterprise-wide re-engineering of our systems, our processes but we are focusing on what's truly important which is the customer experience because the customers these days don't really care if it's mail or parcels, the experience has to be seamless.

We see SingPost as being in a fantastic position to offer that seamless experience to our customers; we are after all the only organisation at this point in time that touches every home, touches every door and we have the access to nationwide network to deliver mail and increasingly parcels. So the trick is obviously how we deal with the competition that's out there. Yes, it is a crowded environment, everybody wants to vie for some piece of the pie but I still believe that our scale, our network gives us the best advantage. We do have the intensity that nobody else has.

Our eCommerce volumes continue to grow. You have heard the narrative, it has grown year-on-year in double digits once again and we believe we probably command slightly shy of 50% of the eCommerce market here in Singapore. A lot of there does come through our mail flow so fortunately or unfortunately that works well for us but obviously you can sense that if you try and put something that's bigger through a network that's engineered for something that's smaller, you do get all these service quality issues that have since popped up and that's the reason why we are taking steps to address this, not just with more people but also re-engineering the system to make sure that we can comfortably and sustainably deliver both mail and parcels to people at home or to their letterboxes or to some kind of infrastructure that allows them to get that convenience. So it's a huge enterprise, I'm not belittling the task, it is humongous. The whole company is behind this plan to re-engineer what we have to do but we are very focused, we know what we are supposed to do. The re-engineering is not going to take just months or quarters, it will be some time but we do believe that at the end of it we will be in the best position to stake our claim on the parcel delivery here in Singapore. So at least on the Singapore front there is a bit of focus that we are very clear of the asset base that we have, the competitive advantage and we intend to maximise that.

Mr Varun Ahuja (Credit Suisse):

Thank you, Richard and Vincent. Now I just want to go back to Richard, I understand that past is past but as an investor how should I think about the future? Where do you want to be in Logistics? Which are the markets that you want to focus on in ASEAN, do you still have a Hong Kong base and also how should we think about the turnaround? This Logistics – how much market potential, what are the management thinking, any insights that will be helpful?

Mr Richard Lai (Group CFO):

We remain focused in Asia Pacific area, Varun. I think we have never really wavered from that so that remains to be the case. How long is the turnaround going to take? Well, it takes as long as it needs to take. I think to us we are a lot more excited about the delta so I think the important thing that we are observing now is the delta and the improvement. Hopefully it will be sooner than later for it to return or turn into profitability. I don't think it ever was in profitability so yes, we are looking forward to have that turn into a profitable position sooner rather than later but it's going to take a lot of effort. It's not going to come easily so as you can imagine we are working quite hard on different fronts.

I'll tell you one of the reasons why it has to be Asia Pacific as well. Logistics, fulfilment, it's all about flows right? And it's moving things from where it's being manufactured to where it's being sold to where it's being consumed. To exist in only one market in itself, you are therefore only tackling one aspect of that logistics value chain which sometimes works well for small companies; doesn't work so well if you want to become a bigger player in it. For us, the former can't be the case because we certainly have shareholders expecting more from us than dabbling in it bit by bit. So yes, we 've got to do some significant things – that's all I can say.

Mr Varun Ahuja (Credit Suisse):

OK, thank you.

Operator:

We have a follow-up question from the line of Ahmad Maghfur Usman from Nomura. Please go ahead.

Mr Ahmad Maghfur Usman (Nomura):

Hi, just a few follow-up questions. I'm just trying to understand what you mean by scaling up? So scaling up can come in the form of whether it's revamping the cost structure to improve the leverage or whether it's more of boosting the revenue pie or also through some price adjustments. So amongst those three, where can you define by order?

Mr Richard Lai (Group CFO):

I would say that we have been looking at the cost structure and we've been working on the right organisation and that sort of thing. Just now I talked about getting harmonisation of products and things like that, all these is with a view of driving revenue, driving top line, helping the team on the ground to be able to go out there and get new business. That's what we are looking at more when we talk about scaling up. Obviously there's still opportunity to further reduce costs and so that's an on-going thing that will never end but I think there's only so much you can do about reducing costs. There's lot more that we need to do in respect to growing the top line, so a lot of focus will come in that respect.

Mr Ahmad Maghfur Usman (Nomura):

OK, and back on the Logistics segment. May I know whether CouriersPlease and SP eCommerce are improving year-on-year?

Mr Richard Lai (Group CFO):

CouriersPlease has actually done well, it's only because of Australian dollar. If you were to look in Australian dollar terms, they have actually fared better although they are operating in a market that is, for a lack of a better word, maybe I would say is quite saturated as well so it's not like an ASEAN market where the penetration rates are still relatively low. So I would say given the fact that it's a fairly mature market and it has continued to grow in that market is quite a positive thing.

On SP eCommerce, it's more Singapore at this moment. SP eCommerce itself, we are reviewing how it's going to fit in with the rest of Logistics. Going forward, we are going to be assimilating it into the broader Logistics framework that we have and one of the things that they have been doing quite a fair bit of is to provide that order management system which we have been using to bring about some stickiness for our customers. So I won't say that SP eCommerce will feature heavily going forward, it will just probably be melted in or merged into one of the existing businesses, whether it's Quantium or a new business. So I would focus more on CouriersPlease and Quantium as the revenue generators, and of course Famous.

Mr Ahmad Maghfur Usman (Nomura):

OK. Famous is also improving year-on-year on the operating performance?

Mr Richard Lai (Group CFO):

Yes, and Famous we have to recognise that they are coming under quite a fair bit of pressures with all these on-going trade spats that's not going to help their business so although for now they continue to grow and continue to contribute very healthy profits to us, I am under no illusion that they will not be spared from all these trade wars between U.S. and China.

Mr Ahmad Maghfur Usman (Nomura):

OK. So on a Singapore dollar basis for CouriersPlease, is it a meaningful – is it a significant drag to the 89.5% decline in operating profit for the Logistics segment?

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

Ahmad, the exchange rate is not a significant factor in the drop. The percentage drop that you mentioned which is about S$900,000 on a year-on-year basis is not driven by the exchange rate at CouriersPlease. It's mainly driven again, by the compensation amount we've mentioned at Quantium Solutions.

Mr Ahmad Maghfur Usman (Nomura):

I see, OK understood. That's all from my side, thank you.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

OK, good that we have managed to answer all questions. If you have any other follow-up, you know how to reach me. Thank you for being on the call today.

Mr Richard Lai (Group CFO):

Thank you very much everybody, until the next quarter.

End of transcript