SingPost's Q2 FY17/18 Results Analyst Briefing, 15 November 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. Thank you, please go ahead.

Mr Jason Lim (Vice President, Investor Relations):

Good morning everyone and thank you for dialling in. Welcome to SingPost's results briefing for the second quarter and half year of FY2017/18. My name is Jason from Investor Relations.

With me today is our Group CEO Paul Coutts, as well as our Group CFO Mr Mervyn Lim. I'll now hand over the session to Mervyn.

Mr Mervyn Lim (Group CFO):

Good morning and welcome to our results briefing.

In Q2 FY2017/18, revenue rose 10.2% led by growth in the Postal and Logistics segments. In the corresponding period last year, we recorded an exceptional gain of S$4.4 million due to a gain on dilution of interest in an associated company. As such, net profit attributable to equity holders declined 9.5%. Excluding the one-off exceptional items, underlying net profit rose 1.9% to S$27.6 million. This was driven by improved performance from Postal, eCommerce, associates and joint ventures.

Allow me to now share some highlights of the Group's revenue performance for the quarter. In the Postal segment, revenue rose 16.9% with strong growth in International mail revenue on the back of higher cross-border eCommerce deliveries. Logistics revenue rose 7.6%, driven by higher last-mile eCommerce deliveries across Singapore and Australia, as well as higher freight forwarding volumes respectively. eCommerce revenue declined marginally as TradeGlobal's revenue declined with the loss of two large customers as previously disclosed, partly offset by revenue growth at Jagged Peak.

Operating expenses rose 14.7%, as the Group seeks to grow volumes to benefit from economies of scale from operating leverage. Labour and related expenses rose due to higher temporary and contract staff to support growth in the business. Volume-related expenses rose 15.9%, largely driven by the growth in International Mail terminal dues and conveyance costs.

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. Selling expenses were higher mainly due to doubtful debt provision. Finance expenses rose as we recorded unfavourable non-trade related foreign exchange translation differences.

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

Postal operating profit rose 5.3% as higher International mail operating profit helped offset the decline in Domestic mail contribution. Logistics recorded an operating loss of S$4.2 million due mainly to doubtful debt provision for a key customer of Quantium Solutions Hong Kong. Excluding the provision, operating profit would have been about S$1.0 million.

In eCommerce, operating loss narrowed to S$2.9 million as management continues to execute on the turnaround business plan for TradeGlobal. For Property and others, operating profit declined largely due to pre-opening expenses incurred for the SPC Retail mall.

In this slide, we show the movement in underlying net profit, which was up 1.9% to S$27.6 million. This was led by higher contributions from the Postal and eCommerce segments. Our share of results from Associates and joint ventures also rose due to improved performance from Indo Trans Logistics, our integrated logistics associate in Vietnam.

The improved performance in these segments was partially offset by declines in the Logistics and Property & Others segment – which were impacted by doubtful debt provision and pre-opening expenses for the SPC retail mall respectively. The retail mall opened on 9 October 2017 and we will begin to progressively recognise rental income.

We now share some highlights of the Group's half year performance.

Revenue rose 8.2% led by growth in the Postal and Logistics segments. Net profit attributable to equity holders declined 11.7% and underlying net profit declined 13.2% largely due to lower operating profit in the Logistics segment.

Let me now move on to Cash flow and the Balance sheet.

Cash from operating activities was S$50.5 million for H1 FY2017/18, lower compared to S$99.9 million last year. This was largely due to negative movement in working capital with higher receivables arising from a timing difference in receipts. This has since been reduced in October, post the close of the quarter.

With the completion of the Regional eCommerce Logistics Hub last year, the Group recorded lower capital expenditure. As such, free cash flow improved to S$11.6million.

Cash flow for financing activities included a net repayment of short term bank loans, compared to loan proceeds in the same period last year. As a result, cash and cash equivalents decreased by S$84.3 million during the period.

We now move to the balance sheet and financial indicators.

Our cash and cash equivalents amount to S$282.3 million as at 30 September 2017. Borrowings declined to S$306.9 million with partial repayment of short term bank loans.

While borrowings were lower, cash and cash equivalents declined with net payment of bank loans and negative movements in working capital. As such, the group was in a net debt position of S$24.6 million as at 30 September 2017. Our interest coverage ratio remains strong at 22.0 times.

We will now move on to the segmental results.

Postal revenue rose 16.9%. International mail revenue rose 45.2% on the back of higher cross-border eCommerce deliveries, in particular with higher volumes from the Alibaba Group. This helped offset the decline in Domestic mail, which reflects continued migration towards electronic statements and bills.

Operating profit rose 5.3%, the first in five quarters. The Postal segment had benefitted from higher International mail operating profit, which helped offset the decline from Domestic mail.

The revenue trends for H1 are similar to that for Q2.

In H1, although International mail operating profit rose, this was not sufficient to offset the impact of the decline in Domestic mail operating profit. Consequently, Postal operating profit declined.

Logistics revenue increased 7.6% in Q2 as SP Parcels, Couriers Please and Famous Holdings contributed to revenue growth, with higher last-mile eCommerce deliveries across Singapore and Australia, as well as higher freight forwarding volumes respectively.

These were partially offset by the revenue decline at Quantium Solutions due largely to competitive pressures at its Hong Kong operations, which negated the improved performance in Singapore from higher utilisation at the Regional eCommerce Logistics Hub.

The Logistics segment registered an operating loss of S$4.2 million due mainly to doubtful debt provision for a key customer of QS Hong Kong. Excluding the provision, OP would have been about S$1.0 million.

The decline against S$5.0 million last year was largely due to lower contribution from QS with intense pricing competition in HK resulting in the loss of business. It also reflected costs from planned investments such as the Regional eCommerce Logistics Hub.

For H1, the revenue trends are similar to that for Q2. Due to the operating loss recorded in Q2, operating profit for H1 was significantly lower compared to last year.

In the eCommerce segment, revenue declined marginally in Q2, as TradeGlobal's revenue decline was offset by growth at Jagged Peak with higher volumes and addition of new customers.

The segment operating loss of S$2.9 million in Q2 was due largely to TradeGlobal. The loss had narrowed on a quarter-on-quarter basis compared to S$4.2 million in Q1, as management continues to execute on the turnaround business plan for TradeGlobal.

For the half year, the factors are largely similar to that shared for the quarter.

Next, we will go through some business and corporate updates. For Q2, eCommerce-related revenue rose 22.3% year-on-year. It now represents 53.6% of total Group revenue. The increase was driven by increased transhipment volumes on our international mail network.

The SingPost Centre retail mall opened on 9 October 2017, after 2 years of redevelopment. SingPost Centre aims to enable next generation retail in a Smart Nation, and also houses SingPost's General Post Office and retail philatelic store. The retail floor area doubled from pre-redevelopment, housing up to 130 stores over a net lettable area of 178,000 square feet. Committed occupancy as at 30 Sep 2017 was 80.4%, on the back of strong endorsement from tenants as well as our partnership with CapitaLand.

Technology-enabled innovations bring fresh experiences and convenience to shoppers including

Golden Village's first all-laser cineplex with award-winning Smart Laser projectors, NTUC FairPrice's SCAN2GO system that allows customers to scan purchases with a personal handheld scanner as they shop and "FairPrice@SingPost" mobile app that helps locate products within the store with in-store navigation and provides personalised promotions.

SingPost is also working closely with Lazada and CapitaLand to finalise the details for a 'click and collect' service at the mall. This service will enable shoppers the convenience of collecting or returning online purchases at a dedicated lounge.

On the same day, we officially opened our General Post Office. This is the flagship of a new Smart Post Office network that will serve postal needs in the digital age.

The GPO is SingPost's largest post office at 5,328 sq ft. It is the first Smart Post Office, in which traditional brick-and-mortar outlets are augmented by a digital network. An enhanced self service area offers 24/7 access to the award-winning new generation SAM kiosks with a re-designed modern interface, new capabilities including a weighing scale that helps senders determine the postage required and a self-service posting box for registered articles, a first in Singapore. The self service area will also house the largest POPStation to date, with 143 smart lockers.

Opposite the GPO is SingPost's first dedicated philatelic retail store, which offers a wide range of philatelic products and limited edition collectors' items.

Next, I would like to share an update on the Regional eCommerce Logistics Hub - our integrated parcel sorting and warehousing facility.

The 2nd and 3rd floors are our warehousing facilities which utilises automated picking systems. These are linked to the fully automated parcel sorting facility on the 1st floor with a capacity of up to 100,000 parcels a day. These are sorted into 291 chutes, with 150 loading bays for direct loading of parcels.

The Log Hub will process parcels for delivery within Singapore and those to be shipped to destinations worldwide. Since opening on 1 November last year, our warehousing utilisation has ramped up to 79%. The parcel sorting utilisation is currently just under 20%. The capacity allows us to grow volumes on our network as we aim to increase volumes over the peak season.

We shall now move to the strategic review section. I shall hand over this part of the presentation to Paul. Paul, please.

Mr Paul Coutts (Group CEO):

Thank you, Mervyn. Good morning and thank you everyone for joining us.

As announced in August 2017, the leadership team and I have been working with the Board to review and update SingPost's strategy, and deliver a roadmap to improve the Group's performance.

We are now ready to provide an update on our progress. A few things I would say before we go into the actual key themes.

SingPost's strategic vision of transforming from a postal provider to an eCommerce logistics player remains relevant and in the right direction. The next phase is to build upon the existing foundation, leverage our assets and strengths, and build new capabilities. SingPost is committed to connecting communities in an eCommerce world. Let me share the key themes of our strategy in the next slide.

Firstly, we are going to focus on winning in our home market. We will strive to be the leading eCommerce logistics player in Singapore, building on our strong infrastructure backbone and harnessing technologies to serve the urban logistics needs of a smart nation. There is a strong revenue opportunity in Singapore with the eCommerce market forecasted to grow rapidly, and we believe SingPost has the capabilities and infrastructure to increase market share from our current position.

Secondly, we aim to deliver full value from our overseas investments. This includes the integration of our various operations across geographies. We will continue to work towards a TradeGlobal turnaround, and also to realise the full potential of our overseas investments.

Third, we will ignite our future growth engines. We aim to capture global cross-border eCommerce volumes by strengthening our strategic collaboration with customers, and with Alibaba and its associated companies. We will build out our eCommerce logistics capabilities in Southeast Asia.

Lastly, we are embarking on a drive towards cost leadership. We will optimise costs and re-engineer our operations to enhance competitiveness and provide best value for customers.

To achieve our goals and to achieve the four pillars, we have identified some key enablers.

We want to capture synergies across our businesses, through aligning our operating model, our organisation and our culture. We will maximise value from partnerships and relationships - including seeking more ways to work with existing partners, as well as establishing new collaborations as we build our network.

It is also important that we enhance our IT capabilities, and deploy seamless technology solutions for our customers. People are the key to all of these pillars, and I am focused on developing our people to their full potential and our full potential.

We are confident that with the above roadmap, we will drive improved performance for SingPost going forward. I shall now hand you back to Mervyn.

Mr Mervyn Lim (Group CFO):

Allow me to summarise. In Q2 FY17/18, revenue rose 10.2% with growth in Postal and Logistics segments. Underlying net profit rose 1.9% year-on-year largely due to improved performance from Postal, eCommerce and associates and joint ventures.

Compared to S$26.9million recorded in Q1, underlying net profit rose 2.4% on a quarter-on-quarter basis. Free cash flow improved with lower capital expenditure, while cash and cash equivalents declined mainly due to net repayment of bank loans.

The Board has declared an interim dividend of 0.5 cent per share. This will be paid on 8 December 2017.

That ends my presentation. Thank you. I shall now hand it back to Jason.

Mr Jason Lim (Vice President, Investor Relations):

Thank you, Mervyn. We shall now begin the Q&A session.

Operator:

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 Sachin Mittal from Merrill Lynch. Please ask your question.

Mr Sachin Mittal (DBS):

Hi, thanks for the opportunity. Just two very simple questions – Firstly, the Logistics segment has been a little bit erratic. Q4 was weak, Q1 recovered then this quarter again weak. Where is that change coming from? Where exactly – because I think Hong Kong has been always competitive, so why did we see these sudden changes in the Logistics operating margin? I understand there was a one-off because of one of the customers in Q2 but still it was quite low. Just want to understand the volatility on this segment because competition continues to be tough throughout all seasons right? That's question number one.

Number two, what is the delta in the overall strategy? I understand most of the things look like the same which were there in the past. So, could you just shed some light on any key changes which have come up in the strategy review? Thank you.

Mr Mervyn Lim (Group CFO):

Yes Sachin, I will take the first question from a financial perspective; the second question, Paul will answer that question on strategy.

In terms of financial aspects of Logistics performance for Q2, yes – it shows in fact it dipped in the performance into a negative margin of 2.5%. This has been largely due to a provision of doubtful debt for a key customer in Hong Kong that went into financial difficulties. If we were to disregard the provision for doubtful debt, we would actually see that that margin of negative 2.5% would be about 0.6% positive. And if we were to again normalise that position at the OP level, we would actually be seeing a profit of S$1.0 million versus S$5.0 million profit in the corresponding period.

Therefore, in a profit position from S$5.0 million to S$1.0 million, again reflects the continued intensity competition wise in North Asia, in particular Hong Kong, which has pressured our margins and volumes.

This of course, has been coupled with a position of planned investments that we have shared with you in the past in terms of continued costs on our network as we have built the infrastructure, and this therefore lends the rationale as to why we need to drive scale and volumes onto the network in order to realise synergies from operating leverage.

Mr Sachin Mittal (DBS):

Just a little follow up on that, eCommerce providers – some of them are actually quite small in size, so how to avoid these bad debt issues? Because some of these eCommerce players are not profitable, and if you have exposure to them – it may not be one-off event right? Or is it something that can be taken care of?

Mr Mervyn Lim (Group CFO):

Well Sachin, the recognition of bad debts or even providing of doubtful debts – the Group views it as part of its normal credit policy; Group credit policies. These are reviewed regularly by region; our regional controllers go through all our aging for our customers on a monthly basis and where necessary, a provision is made. So this is really business as usual in terms of regularising our aging processes, making sure that they stick to terms of trade, monitoring the days still outstanding and things like that.

Mr Sachin Mittal (DBS):

Does it mean there could be a possibility of write-back at a later point in time?

Mr Mervyn Lim (Group CFO):

Of course, if we do recover any amounts of the debts that have been provided, there would be a recognition of other income in terms of recoverability.

Mr Sachin Mittal (DBS):

OK.

Mr Paul Coutts (Group CEO):

Sachin, it's Paul here. Thanks for your questions, if you are happy with the answers to the first question I'll move on to the second one.

The thing that we talked about as we have gone through the front end of the discussion – we certainly believe that the strategic vision of transforming from a postal provider to an eCommerce logistics player remains relevant; it is in the right direction, it is consistent.

I do think that there are some differences in terms of the strategy. I think there is greater emphasis in a number of key areas. If we look at the home market for instance, for those we believe there is still a very large opportunity within the Singapore market to capture the leading share of the Singapore parcel market. Parcel volumes are obviously growing exponentially; globally. There are a number of studies that continue to say that eCommerce is going to continue to be the key driver for global trade. In particular with regards to Singapore, we believe that the Singapore market will at least double in the next five years or so. And also we have done some initial research that tells us that our market share here in this market is 20%, so we believe that there is a big opportunity there in the market that is going to double to increase market share.

We can do that significantly, building on not only our postal but also our Speedpost infrastructure. The last-mile postal network complemented by POPStations, by our Speedpost network, by the state-of-the-art parcel processing capabilities that we have invested in at the eCommerce Logistics Hub – gives us the infrastructure and the backbone that we need to go and actually grow our market share aggressively over the course of the next few years or so.

So, we do see that as being a key difference for us, a key opportunity for us in the market. I also believe in our ability to be able to ignite those future growth engines has broadened since we set out the initial strategy plan. So we are not only talking about Alibaba as we have done in the past, we are also talking with other key partners and potential partners such as Lazada, such as Cainiao, such as 4PX, and we believe there is a big opportunity to actually elevate the discussions to a more strategic level and creating more of a strong strategic alliance which will actually help all of the organisations in the market in which they operate and we will help to bring volumes into our network.

We have also handled Double 11 and all of you would have seen the Alibaba success in terms of Double 11. We are delighted to be part of that in conjunction with Alibaba's logistics arm, Cainiao, and we have successfully handled three to five times the increase of normal volumes through the spike from that programme, which again just shows that priority of eCommerce in business today.

And as you know, we have also raised our stake in 4PX in2016 which is obviously a Chinese cross-border, best parcel operator – very, very close cooperation that we have with that organisation which also helps to feed out network.

So I do think there is greater emphasis on the first two points. I think in terms of delivering value for investments, we continue on track with TradeGlobal to deliver against our turnaround plan. We are on track – we are pleased to say after several months of the turnaround plan, but we are continuing to watch very carefully to make sure that we manage that on a day-by-day, week-by-week basis. I have made several trips to the U.S to meet with the management team. They are certainly very buoyant and very excited about the future. They are headed now by Paul Demirdjian, the former Jagged Peak CEO who is now the CEO of Jagged Peak and TradeGlobal businesses. We have brought in new customers not only on the Jagged Peak side, but also on the TradeGlobal side. We have onboarded several new customers in the last few months, our service levels are up; we have automated the processes in TradeGlobal so we are improving our productivity, our efficiency, our service levels are there, we are meeting the service agreements that we have with our customers and we will continue to ensure that we migrate the technology also from Jagged Peak to be the front end for TradeGlobal. So again, we are very focused on making sure that we maximise the potential of our overseas assets and plug those into the strengths of our capabilities here in Southeast Asia; the opportunities here.

I think the final point I will mention is that I think there is much greater emphasis in driving the cost leadership programme; we do believe we are the cost leader in the market Singapore, but there is a lot more we could do to optimise our cost base and re-engineer our cost operations. Particularly in the logistics businesses, you will know as the experts in your field. The logistics business does come with lower margins, that means that we have to be at an optimal level in terms of our processes and productivity and efficiency, so we need to be continually re-engineering and to be investing in that re-engineering we need to be even increasing our investments in areas such as robotics, warehouse robotics and artificial intelligence to try and improve our productivity and efficiency, and lower our unit cost in our organisation, so I think there is a much greater emphasis for those.

We have also a very big opportunity in terms of procurement. As an organisation, procurement has very much been kept at the business unit level; we are starting to change our emphasis on that and will drive a lot more centralised procurement to again leverage some of the efficiencies that you get by consolidating and getting scale.

The themes may be similar, but I think those are certainly some very key differences and greater emphasis in many areas which we believe will drive the performance of our organisation for the foreseeable future. And the final thing is across all of that, we will have a much, much greater emphasis on executing that for the few years ahead.

Operator:

Your next question comes from the line of Low Horng Han from CLSA. Please ask your question.

Mr Low Horng Han (CLSA):

Hi, morning everyone at SingPost. I have three quick questions – the first question here is on Logistics again. If you look at the quarter, almost every subsidiary in Logistics did well, they registered double-digit year-on-year revenue growth with the exception of Quantium Solutions. But if you look at the group operating profit for this segment, SingPost delivered S$1.0 million out of S$166.0 million revenue. Is it because Quantium Solutions is loss making or is it because margin across every sub segment has just collapsed?

The second question here is, could you give us some update on the collaboration – the joint venture with Alibaba for Quantium Solutions? How is that progressing? Are there some details in terms of timeline, the areas of geographical focus or any volume that you could share with us?

Third one would be on eCommerce. Any way you can give us some operating profit breakdown between Jagged Peak and TradeGlobal? And specifically for TradeGlobal, with the loss of two key customers, do you think you can generate sufficient revenue in the December quarter to reach profitability? And do you foresee costs in the U.S to be an issue again? Thank you so much.

Mr Mervyn Lim (Group CFO):

Thank you, Horng Han. On the three questions you have asked, I will address the first and third; Paul will come in on the second one concerning the collaborative efforts currently in motion.

In terms of the first question on the Logistics position – yes, as I have mentioned to Sachin in the earlier question, the performance for Logistics, particularly this quarter, has been "distorted" by that provision of doubtful debts. But if we were to disregard that we still see a weakening in the Logistics sector and that which is apple to apple so to speak of S$5.0 million against S$1.0 million is largely due to the competitive pressures that we are currently facing, more specifically in Hong Kong.

In terms of the particular areas that Quantium Solutions is addressing would be the mitigation measures in North Asia of how we can address those competitive pressures, which we at this stage would continue on in the near term.

At the same time, coupled with the second item which is again something that we have already expected and that is the impact of the long term investments that we are making for the future, and this will take time before we actually see results coming out from these investments, purely because the investment costs have been fairly large, and we would see the continued pressure on our bottom line which will grow less. As we continue to build volume and scale on our network, that is where we will get our synergies coming in from operating leverage.

The third question if I may address it now then I will put it to Paul for the second question.

Third question on eCommerce operating profit breakdown, it has fallen by 0.8% in terms of revenue and that fall has largely been attributed to TradeGlobal's loss of two key customers, but since the execution of the turnaround business plan, the local team has been onboarding new customers and so the gap has somewhat closed off at the revenue level , and of course Jagged Peak continues to drive volumes on the network in terms of revenue growth.

In terms of the bottom line at OP level, you do understand of course that we do not give a segmental breakdown at OP level. And so just looking at the position down there, you would be able to see and do that on Q2 against Q2 or H1 against H1 for comparative, or even Q1 against Q2 you would see a common trend that the loss is narrowing. And so the narrowing of the loss is a function of the execution of our turnaround business plan.

We have however, indicated in our previous results briefing that we will continue to expect TradeGlobal to make a loss for financial year ending March 2018 and that is purely because it take time for these business and operating initiatives which have been put into place to have direct effects, but we are already executing on these plans.

Mr Paul Coutts (Group CEO):

Perhaps I can move in on the second question, Horng Han, around the Alibaba collaboration et cetera. I think in terms of volumes – on the back, to give you some of key indicators that we gave you earlier, obviously volumes from Alibaba are significantly contributing to our business.

We talked about the fact that the handling of Double 11 which is also a key indicator of the volumes that can actually drive through the network. It will be fair to say that we obviously service Alibaba all year round, and we wouldn't be in a position to service the Double 11 because it is so important unless we are doing a good job for Alibaba. So I think that is recognised and the fact that we are the key partner for them. You know, as I said we have also successfully handled three to five times the increase in our normal volumes because of the spike from Double 11.

I think one other indicator that I will give you is if you look at our international postal business which has obviously seen significant growth and the top line – what I can tell you is that Alibaba is the major driver of that volume increase so that may give you some indication as to what it means.

Alibaba is obviously a very fast-growing organisation, but it is important to also stress that we are not just relying of course on Alibaba; we are out there everyday, obviously targeting large customers in terms of eCommerce and eCommerce logistics parcel businesses to drive volumes.

In terms of the Quantium Solutions business which was the specific question you were talking about, the Lazada organisation is obviously also a key partner for us, a key customer for us. They are also a significant customer at the eCommerce Logistics Hub here in Singapore, and they are also a customer in terms of our last-mile delivery; they are also a very fast-growing customer. The relationship is good, the relationship is strong, we are continuing to grow exponentially with Alibaba, Lazada, and all the partners. So not only are they significant customers today, they are significant customers tomorrow and increasingly so.

And also we have stressed that from an Alibaba perspective, the opportunity is also a bit broader; I think we can tap into Alibaba's IP strengths, expertise and other areas including data analytics, artificial intelligence and smart payments through Alipay solutions and I have talked about the area on warehouse robotics, the areas where Alibaba, Cainiao have invested significantly over the last few years or so, and also an opportunity for SingPost to leverage off that key strategic partnership to import, migrate some of that best demonstrated practices into our organisation.

Mr Low Horng Han (CLSA):

OK, I just want to round up these three questions there. If I look in terms of the different divisions within the Logistics side, it does seem like the weak link today, Quantium Solutions – the competitive pressures will continue for a while and some of the operating leverage that you enjoy and what you see in Famous, SP Parcels, Couriers Please, they are being net off or eroded by Quantium Solutions?

Just from the landscape wise, do you see any changes where Quantium Solutions could re-position itself? It could be cost structure, it could be in terms of more volume coming from Alibaba such that the losses that you have in the second quarter could be, I think, the worst? Do you think this is going to continue for a bit more time to come, Paul?

Mr Paul Coutts (Group CEO):

I think in terms of the pressures that we have faced in Hong Kong, the margin pressures that we have faced there – I think we have been clear that we certainly for the near future would expect that to continue; that is the headwind that we are facing. However, we are also looking at new revenue streams in the Hong Kong and North Asia business for Quantium Solutions but that will take some time to develop.

I would also say, having come obviously a reasonably strong logistics background over the number of years, the business we have today is a good business but it's a very tough market, it's a very tough competitive market; we are not hiding from that. I think one of the things that we said when we set out with the eCommerce Logistics Hub is that we were investing for the future but it would take some time to realise that future.

I do think that there is a bright future ahead for Quantium Solutions, I do think that there are bigger opportunities within our key partners as we mentioned – Alibaba and Lazada and Cainiao, and that can certainly help Quantium.

I think also we should recognise that we have had some success in onboarding new customers into the Quantium business in the last few months or so, but that will take some time for it to come through in terms of the numbers. But we are pretty positive about where Quantium sits and we believe some of the leverage we can still apply to get the rewards that we think are there from the investments that we have made in the Quantium platform.

Mr Low Horng Han (CLSA):

OK, thank you so much Paul.

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 for the opportunity, I have a few questions. First I think for Mail, do you expect the current level of 45% – high double-digit levels of growth rates to continue? And please share some colour on the margin for International mail; how has it trended and how is the outlook?

At the same time for the Domestic side, should we expect high single-digit level of decline and what is happening to the margins at Domestic side? That would be helpful.

Second, moving to Quantium Solutions, who are your competitors in North Asia? I am just struggling to understand why would anyone come to partner outside the Alibaba group when Alibaba has a stake in this asset. And going back to the earlier point on the quality of customers that you might be getting outside the Alibaba group, there could be an on-going issue that some of them actually have this bad debt issue on an on-going basis so I am not fully clear that quality customers are actually coming to Quantium Solutions for logistics support. That's on Quantium Solutions.

Third on strategic review, is it done or is it still on-going? And is there some sort of quantitative milestone that you could share for the different initiatives that you are undertaking? For example in eCommerce Logistics in Singapore, could you indicate your current market share and where do you intend to reach in the next few quarters or few years, and what could get you there? I believe from an infrastructure point of view you already have all these capabilities, so what is missing and how do you address that?

Similarly in terms of the logistics capabilities, you talked about investing on the ground – any progress so far? And how does the outcome look like? Thank you.

Mr Mervyn Lim (Group CFO):

Roshan, if I may address the first and part of the second question concerning Mail first and then Quantium Solutions; Mail in terms of margins – so if we look at the margins in terms of the operating profit level for Postal, quarter-on-quarter or H1 comparative, we would see that coming down from 26% to 23% and 28% to 24% respectively. That fall in margins still, nevertheless, puts us way above at what other global postal companies are doing which is high single digit.

Notwithstanding, you will still continue to see the dynamic change in revenue mix where International margins still would be much higher in volumes as you have rightly said. Looking at quarter, you see a 45.6% increase as against 36.4% increase at half year level, so revenue has very steeply increased – International mail largely from cross-border transhipment, meaning from Aliexpress. So International mail continues to drive the volumes but the margins are still much lower than Domestic; we have indicated that they are about one-third thereabouts to Domestic mail. Domestic mail continues, of course, to be very high margin even though those margins are coming down slightly but nevertheless significantly higher than other global postal companies around the world.

And in addition to International mail, good for us to understand also that there is still a dynamic change in the mix within the International mail. You have the transhipment mail which commands a much lower margin and you have of course the outgoing volume from China to Singapore which command significantly higher margin.

So all in all that dynamic change within International mail is also in motion as we drive the revenue mix within International mail and across, between International mail and Domestic mail. So overall it is a complex process where we see the OPM being a very much blended position across and within each particular sub sector of Mail.

In terms of Quantium Solutions, the competitors in North Asia, if I may just give that across to Paul to answer, but before he steps in, just to close off the other financial question on the difficulty that we face or may face with the customers that we do business with in Quantium Solutions – the particular customer that we provided a doubtful debt on was a good customer and the customer had been giving good business to the company for many years, but unfortunately the customer went into financial difficulties; have been making payments in the past but only recently the payments have deteriorated because of the difficulties that the customer has faced.

So all in all, we do still have that very strict process of onboarding customers, of evaluating customers' credit rating to do essentially the "know your customer" process or due diligence process before onboarding any particular customer. Paul?

Mr Paul Coutts (Group CEO):

Yes, I think just to add some colour for that as well, Roshan – I think the question was obviously about the quality of customers that we have within the Quantium business, so what I would say is that the Quantium business is mainly dominated by global brand names that you would recognise on an on-going basis. So a good, sweet portfolio or a good brand name which customers recognise as being a good organisation, good in integrity, good in governance and so on. But we also have some small to medium enterprises which you should have in terms of a balanced portfolio for your business, and that's where we have the bad debt in this particular situation. So I think it would be a wrong assumption to just use that and say we are in the wrong customer mix; the bulk of our customers is actually in the global brand names.

I think in terms of the strategy as we talked about, we have obviously shared the four key pillars of our revised strategy and we have talked about some of the things that we will be doing. We are obviously not going to go into a lot of specifics; there is no point in giving out competitor intelligence in terms of what we are going to be doing, but I think the key thing for us as mentioned are the areas – our estimate share is 20% of the parcel market here in Singapore and that parcel market of course is dominated in terms of the growth from eCommerce and we believe that with our infrastructure and capabilities in this area, it's an opportunity for us to actually go and grow our market share.

We are not going to give you forward projections in terms of targets et cetera, but obviously if we are 20% today there is a reasonable amount for us to go after. As a good business, we will set KPIs that will track our progress as we move through the execution of the strategy.

Due to the dynamic nature of the business, we need to be agile and ready to implement any strategic changes as we see fit and as we start to shape our execution plan. That strategic plan does encompass financial targets including revenue, net profit targets, volume growth and so on, and we have KPIs for each of the business unit on an on-going basis and they are obviously being updated to reflect the execution of the strategy.

Mr Roshan Behera (Bank of America):

Alright, that's helpful. Thank you, Paul and Mervyn.

Mr Paul Coutts (Group CEO):

Thanks, Roshan.

Operator:

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

Ms Azita Nazrene (Macquarie):

Good morning, I have a few questions. First is on the financials on the share of associates of S$4.9 million – can you just give better details on how the Vietnam associate has done better, and was there any one-off in terms of that? And then a follow-up question would be how should we think of where shares will be if it is a new base?

Second question would be on the utilisation of the eCommerce Logistics Hub. You mentioned that warehouse is about 79% but parcel sorting under 20%. What's the breakeven level for the Log Hub and if you do achieve warehouse – say 90%, would that push your parcel sorting utilisation up higher?

My last question is on the market share – you mentioned you have about 20%. Do you have a rough estimate of who the leading player is and a rough estimate of what his market share is? And what is your general kind of strategy to win in Singapore? Thank you.

Mr Mervyn Lim (Group CFO):

Azita, just to initially cover off the first question and Paul will add on the strategy concerning the associate. It concerns Indo Trans Logistics which is our integrated logistics associate in Vietnam that deals with air freight, sea freight, contract logistics, last-mile delivery and express service delivery. The performance of ITL has been good and I will perhaps ask Paul to elaborate a bit more about ITL.

Mr Paul Coutts (Group CEO):

Sure, thanks again for the question Azita. We have a number of key partners in key markets; ITL is one of them in Vietnam, we also have GD Express in Malaysia. We have talked about 4PX, obviously in China; we have Morning Express in Hong Kong. Those partners are key to – not only in terms of our capabilities and operations today to fulfill services to customers to those key markets and from those key markets, but they are also going to be strategically important to us as we build our Southeast Asia infrastructure and footprint.

Mr Mervyn Lim (Group CFO):

The second and third questions – I think Paul you want to answer that? On the utilisation of Log Hub, how we see the future going and the breakeven point.

Mr Paul Coutts (Group CEO):

Sure. In terms of the key thing – in terms of the breakeven point, we are not going into that detail today but what we would say is that we always knew that when we invested in the eCommerce Logistics Hub it is a with 10-year view in mind in terms of what we want to try and achieve. So obviously the first year – the first few years because we opened in November last year, and certainly in terms of the warehouse space that we have filled within the eCommerce Logistics Hub we are comfortable with that; we think there is probably still some room for re-engineering, some room for growth.

The key area is really in the sortation system which we talked about probably somewhere around 20% utilisation today. We don't see that as a challenge, we see that an opportunity, a big opportunity for us, so we are pretty positive about the immediate volumes that we think are there for us to go after and bring in and get full utilisation of that parcel sortation system.

I think the other thing to factor is that almost every single parcel that we put into that system gives us incremental bottom line improvement because we don't need a lot of manual labour; it is automated so therefore there are only two touch points – one in the way in, one in the way out, and we don't need a lot of increased labour to be able to handle a lot more parcels so that's a significant opportunity for us.

In terms of the market share, the 20% estimate that we have, even that 20% we would say from our perspective – that's a very strong leadership position within the Singapore market today. The market is very fragmented, Azita. It's a mix of some very large players including the Fedexes, the DHLs, UPSes of the world but it is also a plethora of smaller mom-and-pop type businesses and also some startups sort of come up in the last few years or so. In particular, we are obviously talking about the Ninja Vans of the world, so they are playing in the market as well. It is quite a spread in terms of the players in the market; it is reasonably fragmented.

Ms Azita Nazrene (Macquarie):

Just to follow-up on that, what is the general strategy to win market share in Singapore? The price, cost or customer related kind of strategy for you?

Mr Paul Coutts (Group CEO):

Well, we believe we have already got a cost advantage in the market with our infrastructure et cetera on a unit cost basis, but it is not about the price for us. It is not about going out and making ourselves the cheapest, it is certainly not my intention to make us the cheapest in the market; we are not going to be the cheapest in terms of price. We are going to be the best value for money for our customer base and that is where the key target is for us, and that will be a combination of obviously service and price for the organisation but it is also about some of the other value streams that we actually bring to our customer base – it's about web creation and design, it's about creating a marketplace for our customers, creating digital services. It's about having an order management system that customers can use on an off-the-shelf basis which reduces their costs, it's about having a warehouse management system within our Quantium business to be able to do the automated fulfillment and distribution for these customers, it's about our last-mile; even call centres we are operating on behalf of some customers to ensure that they are able to service their customers on an on-going basis with regards to their transactions that they are making on the eCommerce platform. So combining all of those, actually we think it will actually give us the ability to grow our market share.

Ms Azita Nazrene (Macquarie):

OK, thank you so much.

Operator:

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

Mr John Cheong (Maybank Kim Eng):

Hi, I have three questions. First question is on the International mail segment, can you share a bit more on International mail operating margin? Did it decline and how do we actually see this International growth trajectory moving forward? Are we at a reasonably high base after this 45% growth?

Second question is on the pre-opening expenses of SingPost Centre mall. Will there be any more expense in Q3, and when do you start recognising the full rental revenue for this mall, and what is the current occupancy rate?

And the third question is on the International terminal dues, do you have any update on that?

Mr Mervyn Lim (Group CFO):

Thank you, John. Allow me to address the questions.

In terms of International mail, again going backwards towards perhaps the overall position – firstly Postal going down from 26.2% to 23.6% and 28.6% to 23.9% respectively for Q2 and H1 on OPM level, going up now to International mail as one of the key components of Postal, again as I have mentioned, the rough approximate relationship of margins between International and Domestic is about one-third. That remains to be the position and as articulated to one of the earlier persons on the call, within each particular sub sector we also see a dynamic change in the mix. In particular for International mail, two main areas within International mail – the first would be transhipment mail which commands a lower margin and the second would be the outgoing volumes or point to point volumes from China to Singapore which commands a relatively higher margin. And so within that International mail sector you would see that blending of margin there and so the outcome of how those margins will play out at International mail level is on-going; it will be a dynamic change but we see that the transhipment volume especially as Paul has articulated earlier on, could progress in the Double 11 position of 39% increase as reported in the newspapers – would certainly benefit SingPost being one of the key beneficiaries of this and so we would see transhipment mail growing going forward and benefitting from the increase in eCommerce volumes on Double 11.

In terms of the pre-opening expenses for SPC mall, we have reported there that there is a pre-opening expense of approximately S$1.7 million. This has been booked in Q2 and obviously the word "pre-opening" indicates that there will be no more expense of that nature in Q3 as the mall opened in 9 October. We do however see some recognition of rental in Q2 but very minimal and this is part of the revenue recognition policy in place, but the ramp up of revenues from SPC mall will commence officially in fact from Q3. So in Q3 you should see very nice numbers in the P&L, no indication of what those numbers are except to say that you can roughly surmise base on what we have indicated in the corporate updates where the net lettable area in SPC mall has doubled to 178,000 square feet, noting that if we were to apply a commercial market rate at your end – assumptions, you would be able to surmise the NPI for the year noting that at 9 October you should then truncate that to six months, and also noting that at 30 September the occupancy rate that we have disclosed was 80.4%. We will try of course, to get that up to high 90s by next year – but again whether we do that or not, the future will hold it up. And so that roughly would be the position as far as the SPC mall is concerned.

In terms of terminal dues, the terminal dues effect is complex. We have not quantified the numbers yet except to say that mitigation plans have been put in place already.

Mr John Cheong (Maybank Kim Eng):

Thank you.

Mr Mervyn Lim (Group CFO):

Thank you, John.

Operator:

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

Mr Eric Lin (UBS):

Hi. Good morning Paul, Mervyn and Jason, I am Eric from UBS. I got three questions, actually most of them are follow-ups.

The first one is going back to the eCommerce Logistics Hub, can you please tell me the latest occupancy for the warehousing space, and do you have any target when you will be achieving 100%? So that is my first question on the eCommerce Logistics Hub.

Secondly on the terminal dues. When I look at the operating breakdown, there is some S$30 million increase in traffic & related for the second quarter this year compared to the second quarter last year. How much of that is coming from the higher terminal dues? So that is my second question.

The third question is on the U.S – I recall the same time around last year, there were some labour cost issues resulting in margin pressures for the U.S businesses. So may I have some colour on how you are doing for this year as you go into the peak season? Thank you.

Mr Mervyn Lim (Group CFO):

In terms of the eCommerce Logistics Hub as we have also indicated in the press release and the presentation slides, we are currently at 79% occupancy level – when we will achieve 100% occupancy level, Paul would you like to comment on that one?

Mr Paul Coutts (Group CEO):

Sure, I mean in terms of the occupancy rates of the logistics facilities Eric, it is very, very rarely that you will get to 100% levels. Even an 80% occupancy rate within a warehouse environment is pretty optimal. We can squeeze 5% or 10% more through re-engineering but we also have to leave some space there to give the opportunity for some of our customers to grow and build out the space, so that is one of the things we have to keep in mind particularly in terms of peak, obviously at certain points of the year. The one that we know is a classic example of peak season, we simply have to have the ability to be able to flex. So a 100% occupancy is not our target, it's about making sure that we have an efficient warehouse and obviously that we have customers that are filling up the majority of that space that we have. We wouldn't be getting to 100%, I don't think anybody else is getting to 100% occupancy within a warehouse environment; obviously you need the ability to flex.

The second thing is in terms of the terminal dues, the increase that you see there is not due to the increase that you referenced earlier. Any increase in terminal dues is actually not scheduled until 1 January next year, so the increases that you saw are directly volume-related increases and you can marry that against the volume increase and revenue increase that you have seen in the International mail side of the business. But as Mervyn mentioned, the terminal dues will increase on 1 January but we already have mitigation plans in place to hopefully offset all of those and if not all of those, certainly majority of those increases.

The last thing around the labour costs – you are absolutely right. Last year there was a blowout in terms of the labour costs and we have learnt a lot of lessons from that; we have built it into the turnaround plan for this year so we'll be planning for the peak season well in advance for our customers. We have put in a lot more automation into our operations in Cincinnati in the last twelve months or so, we have stress tested that automation with large volumes going through on a building basis from August into September, into October. The real peak for TradeGlobal is actually this month, it starts this week actually so we have seen a gradual increase through the course of October into the first week of November. But the real ramp up is actually over the course of the next four to five weeks. What I can tell you is we have a weekly operational call with the team and a weekly trading call with the U.S management team. Certainly their confidence level is high that we will get through the peak period, we will get through that well and as I said, we have put a number of plans in place; we have executed those plans to make sure that we don't have the same impact as we had last year. We need to get through every single week and we are doing that on a week by week basis until we get through the peak season. So, too early to tell but we are certain we will come back obviously an update you at the next quarterly results but so far so good, we are on track.

Mr Eric Lin (UBS):

I see. Actually back to the eCommerce Logistics Hub question, I should have asked the question a little bit better. The 79% occupancy rate – are they actually contract customers? My question I other words is, this number will remain pretty steady going forward and we should not expect any volatility in the occupancy rate if these customers are contract, am I correct?

Mr Paul Coutts (Group CEO):

Sorry, Eric. We are just trying to clarify, it was a bit broken up there. We didn't capture your full question so Jason is just trying to clarify.

Mr Jason Lim (Vice President, Investor Relations):

Eric, are you asking if there is going to be volatility in the occupancy rate for warehousing going forward?

Mr Eric Lin (UBS):

My question is actually about the warehousing occupancy rate. I know that it is 79%, my question is, is this 79% going to be very steady because your customers are on contract? You see what I mean? So for this warehousing space that is already contracted out, we should actually expect this to be stable, am I correct?

Mr Paul Coutts (Group CEO):

Let me try and answer that, Eric. When we onboard customers, there are a couple of elements to the agreement with the customers. One is the space that they need to take up to be able to fulfill their requirements, and secondly it is also around the unit price that we are going to charge for the processing within the facility, so two different pieces of the transaction. That space that we contract or that we have an agreement on has to be fluid as mentioned earlier in terms of coping with peak season; we need to have flex et cetera built into that. But we can use the 79%, if we have a 79% today that effectively becomes our base for the business but we continue to adjust that as the demand of customer changes. We are in a very dynamic, very fast-moving, fast-changing part of global trade which is in eCommerce so we have to be very, very agile and that has implications on us in terms of warehousing space. That's where we have to be prepared to move quickly as our customers' demand changes.

Mr Eric Lin (UBS):

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):

Good morning SingPost team, I have two questions. First question is a follow-up on TradeGlobal queries from the previous analyst. Can you share with us more in detail how SingPost would turnaround TradeGlobal? Would it be in terms of top line growth, would it be in terms of focusing on the bottom line? How are you going to grow scale? How is the marketing cost going to be? So on and so forth.

The second question relates to SingPost Centre. I noticed a lot of F&B outlets across the entire mall, I am just wondering whether is this a temporary sort of façade before more permanent eCommerce vendors move in?

These are my two questions, thank you.

Mr Paul Coutts (Group CEO):

It's Paul here, Joshua, and thanks for your questions. If I can maybe take the last one and Mervyn can talk about the other one.

I think in terms of TradeGlobal as we mentioned, in operation we are certainly on track but it doesn't stop there for us, we do want to move TradeGlobal from being a labour intensive business to a technology driven business model, almost similar to the like of Jagged Peak, and we are using Jagged Peak's technology as the front-end in terms of repositioning the TradeGlobal organisation.

Again, we have made progress in that area, we touched areas and quantified that we have onboarded some new customers into TradeGloba over the last few months or so. I can tell you that the solutions that we have sold to those customers have been front-ended by the Jagged Peak technology, so that's good progress and we continue to work with the rest of our existing customers and also make sure that we try to reposition those customers for the future along with our technology drive.

So for us it is about how we reposition our TradeGlobal business and how we combine web creation and design, how we combine marketplace and digital services, how we combine last-mile and merchant of eCommerce services for some customers; in other words selling a total end-to-end supply chain but an end-to-end supply chain that is technology driven which Jagged Peak has created within the TradeGlobal environment and we believe that gives us the foundation for us to move our U.S businesses onto the next level, both in terms of growth and profitability.

Mr Joshua Lee (Deutsche Bank):

Paul, just to clarify. When you mentioned all these movement into technology and so on, these are for existing customers or are these to attract customers predominantly?

Mr Paul Coutts (Group CEO):

It's both, Joshua, so we are already doing that for existing customers within the Jagged Peak environment and we are bringing new customers to TradeGlobal which is also offering this portfolio and suite of services that we talked about and using the EDGE technology which is Jagged Peak technology at the front-end. And for existing customers within the TradeGlobal environment, it's a bit more of a gradual process because a lot of those businesses are on contract with a specific scope of services and service level agreements so we are in discussion with those, but some of those we have to wait until the actual contract comes out for renegotiation before we can renegotiate the scope of the agreement.

Mr Mervyn Lim (Group CFO):

Joshua, if there are no further questions on the first part I will move to the second question concerning the SPC mall. So the mall opened on 9 October, the key challenge that management faced of course in SPC mall would be the yields of tenancy mix and this is a dynamic change or a dynamic combination of fashion, non-fashion tenants coupled with the fact that the property market is extremely soft.

So with the softness in the property market, the yields become an important driver as to what kind of tenants would give the correct yields while at the same time seeing how SPC mall can complement our infrastructure in terms of the backend support which is eCommerce logistics. We have therefore driven the tenancy mix on yields while at the same time seeking to partner people who are able to give us the O^2 online, offline concept by partnering them because they are into this position already; they are doing a great job of it and so we partner them and this is very much part of the collaboration that we talked about with Lazada and CapitaLand in terms of the 'click and collect' programme rather than creating one ourselves.

We are able therefore to get the better of both worlds which is good, respective yields through a mix of non-fashion and fashion; you see more food related items but rest assured that we are governed by a certain percentage not to exceed a certain amount of the net lettable area and so what you see there is based on areas that have been allowed and given to us to fill with F&B outlets.

In terms of those other areas, these will be the education, the lifestyle, the fashion related areas that you see. Of course, we have highlighted intentionally on page 20 of the presentation slides the areas that complement the eCommerce logistics area, the O^2 area such as NTUC Fairprice's SCAN2GO, such as the mobile app, such as the 'click and collect' service – these are things that we view as distinguishing ourselves from the brick-and-mortar standard kind of retail mall around the vicinity. No need to mention but of course you understand there are also developments that are coming up in a year's time or so and so we have that first mover advantage, and we have been able to clinch the tenants by virtue of us coming into play on 9 October at the much earlier stage.

Mr Joshua Lee (Deutsche Bank):

Great. Paul and Mervyn, thank you very much.

Mr Mervyn Lim (Group CFO):

Thank you, Joshua.

Mr Paul Coutts (Group CEO):

Thank you, Joshua.

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 for the opportunity. Just one more question with regards to Lazada and Southeast Asia eCommerce, have you done anything on the ground in terms of either investing in warehouses or delivery fleet or something different than what you have done in the past?

Mr Paul Coutts (Group CEO):

Hi Roshan, it's Paul here. Thanks for your question, can you clarify? Are you talking specifically about Southeast Asia?

Mr Roshan Behera (Bank of America):

Yes, Southeast Asia, there happens to be eCommerce opportunities here. Have you sort of taken any incremental steps on the logistics side?

Mr Paul Coutts (Group CEO):

Yes, we already have either partners or infrastructure in all of the key markets in Southeast Asia. One of the key things that we have talked about as we have gone through the strategy plan is that it is where we actually need to enhance the infrastructure and capabilities that we have in the key markets.

So when we talk about Southeast Asia, as we keep reminding ourselves and everybody else, it is not actually one place – each country has its own dynamics and own environment so we need to make sure that we have a market by market play in each of those countries. We are reasonably clear on the strategy on what we need on both footprint and infrastructure capability, we obviously know that it takes partners or own operations that we need to have and also we have done the gap analysis. We certainly have very some strong partners; we talked about some of them earlier, we have GD Express in Malaysia, ITL in Vietnam which are very good examples of that.

And also we are continually looking at how we build that Southeast Asia network out to actually deliver our strategy, so the gap analysis has been done and that is one of the pieces that we will be working our way through over the course of the next few months.

Mr Roshan Behera (Bank of America):

That's helpful. Could you share how much of that S$80 million investment done by Alibaba and Quantium Solutions – how much of that has already been deployed?

Mr Mervyn Lim (Group CFO):

Roshan, we can't share the specifics but we can however lead you to the fact that the money has been ringfenced around strengthening of the network in selected geographies as part of the collaboration between Alibaba and ourselves.

Mr Roshan Behera (Bank of America):

OK, thank you so much.

Mr Paul Coutts (Group CEO):

I think the key thing about that, Roshan, is that this is obviously not about what we have today; it's about building for the future and with the volume expectation that we project for our business in Southeast Asia which is going to be a major driver of the increase in global trade in eCommerce.

Mr Roshan Behera (Bank of America):

Thank you.

Mr Mervyn Lim (Group CFO):

Thank you, Roshan.

Operator:

Your next question comes from the line of Low Pei Han from OCBC. Please ask your question.

Ms Low Pei Han (OCBC):

Hi, thanks for the opportunity. I just have a question on Hong Kong – Quantium Solutions there was impacted by intense pricing competition, just wondering when did this intense pricing competition start? Was it in the last quarter and who are the main competitors who have been lowering prices and driving this price pressure? Just that.

Mr Mervyn Lim (Group CFO):

Pei Han, thank you for your question. The impact on North Asia on Quantium Solutions has been articulated even in Q1. The price pressures in North Asia affecting volumes and margins has been something that Quantium has been faced with, and we do see this competitive intensity being sustained in the near future. Paul has spoken about some of the things that we are doing as a team to address these competitive pressures, but they will remain.

Ms Low Pei Han (OCBC):

OK, so who are the main competitors who who have been lowering prices and driving this pressure?

Mr Paul Coutts (Group CEO):

The business traditionally – throughout Quantium business in Hong Kong has been international postal transhipment business and that's obviously an open market and we are completely solely against the key postal operators who operate out of Hong Kong and North Asia. There is a whole suite of competitors there including La Poste, including Swiss Post, including Bpost, including Royal Mail, Hong Kong Post; it's obviously their home territory as well, China Post, so we actually have a plethora of competitors that we are actually competing with on an on-going basis out of North Asia. What we would say is that obviously we see the competition coming from some of those key players.

Ms Low Pei Han (OCBC):

OK, thank you.

Operator:

There are no further questions at this time, please continue.

Mr Jason Lim (Vice President, Investor Relations):

OK, I think we have reached close to one and a half hours of the call. I hope the extended timeframe is useful for you. We have another five minutes left, is there any last question for the day?

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, could you give us some colour on staff churn levels over the last few quarters?

Mr Paul Coutts (Group CEO):

Sorry I was just trying to understand so Jason just clarified – you are talking about the staff churn Roshan?

Mr Roshan Behera (Bank of America):

Correct.

Mr Paul Coutts (Group CEO):

Our staff churn levels have remained pretty consistent. We are not going to talk about numbers today; they have remained pretty consistent, it is also very, very clear that SingPost has gone through some challenges in terms of leadership over the last two years or so and that has continued as we went through the first six months of the year with some key people.

I think there is always going to be a certain amount of staff churn happening within an organisation and when you have a leadership – a leadership churn as well. What I am pleased to say is that we are making a lot of progress and selling those key positions. I think it is interesting for me, relatively as a newcomer coming into SingPost. I was very excited by the opportunities ahead for SingPost; aware of some of the challenges obviously before I came on board and also what pleases me is that when we do have a position that is open - we are actually seen as being an attractive employer, we are seen as being a company who has good ambitions, a trusted player within the Singapore market who has an exciting strategy ahead of them.

We have pulled a number of people in from – particularly from within the broader logistics industry in the last few months and who have brought another dimension to SingPost with their experiences, but they have also been very complementary in terms of what SingPost already has so I am pleased to say that certainly SingPost is seen as an attractive employer not only for the current but for the future.

I think another thing I see is outside of the leadership environment we should never forget that are 80% to 90% of our people are actually people who are seeing our customers every single day of the week. The churn rates of the people who have seen those customers actually are relatively low and I think that is a positive for the organisation and any time I face the people at the ground level – I can tell you that the energy levels and the loyalty and commitment that exist within our workforce are very high, so that's very pleasing for me as I said those are people who are seeing customers every single day, multiple times a day and that has to be a positive there for us, so hopefully that answered your question.

Mr Roshan Behera (Bank of America):

Thank you very much, Paul.

Operator:

There are no further questions at this time, please continue.

Mr Paul Coutts (Group CEO):

Sorry, maybe I can just add one final thing to Roshan's question as well on the leadership position as well.

One of the leadership position that we have decided not to fill for the foreseeable future is the Logistics CEO which was vacated some months ago by Sam, so everybody knows that we made the announcement that Sam has reached the time and age and decided to retire. We also announced at the same time that that I would hold that particular portfolio for the immediate future and so I just wanted to reiterate that still my intention is to fill the position and continue to drive the Logistics enterprise for the organisation as well as the broader group for the foreseeable future.

Mr Jason Lim (Vice President, Investor Relations):

Thank you, Paul. I think we have reached the end of the session. Thank you all for dialling in, please drop me a line if you have any other follow-up questions.

Operator:

Thank you for dialling in to this briefing. You may now all disconnect.

End of transcript