SingPost's Q3 FY17/18 Results Analyst Briefing, 2 February 2018

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. Welcome to SingPost's results briefing for the third quarter and nine months of FY2017/18. I am Jason from Investor Relations. With me today is our GCEO Paul Coutts, as well as our Deputy GCEO (Corporate Services) and GCFO Mervyn Lim. I'll now hand over the session to Mervyn.

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

Good morning and welcome to our results briefing. In Q3 FY2017/18, revenue rose 11.7% led by growth across all three segments driven by higher eCommerce-related activities. Rental and property-related income grew 52.9%, boosted by the rental income from SingPost Centre retail mall which opened in October 2017.

Net profit rose 37.2%, driven by improved performance from the Postal, eCommerce and Property segments, as well as a one-off adjustment of deferred tax. Excluding exceptional and one-off items, underlying net profit rose 11.9%.

Allow me to now share some highlights of the Group's revenue performance for the quarter.

In the Postal segment, revenue rose 15.8% as International mail revenue for the quarter rose 37.7% year-on-year and crossed S$100 million for the first time, driven by cross-border eCommerce deliveries. Logistics revenue increased 1.5%, due to increased last-mile deliveries across Singapore and Australia, and higher freight forwarding volumes. This was partially offset by lower revenue from Quantium Solutions Hong Kong. eCommerce revenue grew by 19.7% with strong growth in US eCommerce revenue led by higher volumes and new customers.

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 costs to support growth in the business. Volume-related expenses rose 13.9%, attributed to higher International mail terminal dues and air conveyance costs in line with higher volumes. Admin and others increased due to higher professional fees. Depreciation and amortisation expenses were higher, mainly due to higher equipment depreciation costs at the Regional eCommerce Logistics Hub, and shortening of amortisation period for intangible assets of TradeGlobal. Finance expenses rose mainly due to unfavourable non-trade related foreign exchange translation differences.

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

Postal operating profit rose 4.0% driven by higher operating profit for International mail on the back of higher cross-border eCommerce deliveries including collaboration with the Alibaba Group for the Double Eleven event in November. Logistics operating profit declined to S$4.9 million due largely to an increase in line haul and handling costs as well as lower contribution from Quantium Solutions. In eCommerce, operating loss narrowed as TradeGlobal executed in line with the turnaround business plan and delivered good cost controls over the peak season. Property operating profit rose 51.8% with rental income from SingPost Centre retail mall. The Others category comprises largely unallocated corporate overheads, and trade-related foreign currency translation differences – and this narrowed from negative $7.6million to negative $5.0million.

In this slide, we show the movement in underlying net profit, which was up 11.9% to S$35.2 million. This was led by higher contributions from the eCommerce, Property and Postal segments. Our share of results from Associates and joint ventures also rose. The improved performance in these segments was partially offset by a decline in the Logistics segment and from higher net finance expense.

For the nine months, revenue rose 9.5%. Underlying net profit declined 4.8%, due largely 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 largely stable for 9M FY2017/18. Capital expenditure was lower at S$52.9million with the completion of the Regional eCommerce Logistics Hub and SingPost Centre retail mall. As such, free cash flow improved to S$93.6million. Cash flow for financing activities included a net repayment of short term bank loans of S$127.7 million in 9M FY17/18. As a result, cash and cash equivalents decreased by S$82.3 million during the period.

We now move to the balance sheet and financial indicators. Our cash and cash equivalents stood at S$284.3 million as at 31 December 2017. Borrowings declined to S$235.3 million with partial repayment of short term bank loans. The group was in a net cash position of S$49.0 million as at 31 December 2017. Our interest coverage ratio remains strong at 24.6 times.

We will now move on to the segmental results.

Postal revenue rose 15.8%. International mail revenue rose 37.7%, as quarterly revenue crossed S$100 million for the first time. This helped offset the decline in Domestic mail revenue. Operating profit rose 4.0%, as higher International mail operating profit helped offset the decline in the Domestic mail business. The revenue trends for 9M are similar to that for Q3. In 9M, 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 marginally.

Logistics revenue increased 1.5% in Q3 as SP Parcels and Couriers Please's revenue rose with increased last-mile delivery volumes in Singapore and Australia respectively, while Famous Holdings' revenue grew in line with higher freight forwarding volumes. These were partially offset by a revenue decline at Quantium Solutions, which continues to face competitive pressures at its Hong Kong operations. This negated the improved performance in Singapore from higher utilisation at the Regional eCommerce Logistics Hub. Operating profit declined 44.8%, which reflects an increase in line haul and handling costs as well as lower contribution from Quantium Solutions. The revenue trends for 9M are similar to that for Q3. For 9M, operating profit declined 76% as it included a doubtful debt provision in Q2 for a key customer.

In the eCommerce segment, revenue increased 19.7% in Q3. Jagged Peak revenue rose 43.9% as volumes surged over the US peak shopping season of October to December while TradeGlobal overcame the loss of revenue from two major customers as previously disclosed and grew revenue marginally in Q3, aided by the addition of new customers. Operating losses narrowed significantly by 55.4% as TradeGlobal performed largely in line with the turnaround business plan and delivered good cost controls over the peak season in Q3. For 9M, revenue rose 7.1% while operating losses narrowed by 41.9% as TradeGlobal continues to execute on the turnaround business plan.

Next, we will go through some business and corporate updates. SingPost announced new international airmail rates for Small Packets from 2 January 2018. This serves to better track the costs associated with the processing and delivery of packets, and reflects the rise in international postal settlement rates between countries. International postal settlement rates, which determine what SingPost compensates other postal organisations for mail delivery in their country, were raised on 1 January 2018 by the Universal Postal Union or UPU.

For Q3, eCommerce-related revenue rose 26.4% year-on-year, driven by higher eCommerce deliveries across our network, such as international postal transhipment and local parcel deliveries. eCommerce-related revenues now represents 60% of total Group revenue.

Next, I shall share some key operating indicators. At the Regional eCommerce Logistics Hub, our utilisation for the warehousing floors stood at 87%. For the parcel sorting machine, average daily utilisation during the December quarter was 21%. During the peak season, we processed up to 33,000 parcels a day. For the SingPost Centre retail mall, committed occupancy stood at 85.9% as at 31 December 2017, up from 80.4% as at 30 September 2017.

We shall now move to the summary.

In Q3 FY17/18, revenue rose 11.7% with growth across all three segments. Underlying net profit rose 11.9% year-on-year largely due to higher operating profit from Postal, narrowed operating losses in eCommerce and improved contribution from Property. Free cash flow improved with lower capital expenditure. Net cash position also improved year-on-year to S$49 million as at 31 December 2017. The Board has declared an interim dividend of 0.5 cent per share. This will be paid on 28 February 2018.

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

Mr Jason Lim (Vice President, Investor Relations):

Operator, we are now ready for the Q&A session. Please proceed.

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 Rui Wen Lim from DBS. Please ask your question.

Ms Rui Wen Lim (DBS):

Hi, I have five questions. First question, how much of the growth that we see in the International Mail revenue this quarter is coming from the seasonal effect coming from the peak season? The second question, for the last-mile delivery in Singapore and Australia that have done well – how much was it due to seasonal effects? Number three, I noticed that the eCommerce losses have kind of increased slightly quarter on quarter, could you explain the reasons behind that? Number four, any gearing targets in the near term given that you have established a new multicurrency debt programme? Number five, terminal dues have actually started in January this year and do we see that the rise in postage rates have kind of mitigated the increased effects of terminal dues? Thank you.

Mr Paul Coutts (Group CEO):

It's Paul here, thanks for your questions, maybe I will try and take some of your five questions and I can get Mervyn to contribute as well for some of the colour in the numbers. I think in terms of trying to get an understanding in what kind of seasonal growth and what's tied to growth for other organic and strategies around our investments – it's very, very difficult. We obviously see seasonal uplifting across our business in Q3; it's encouraging and that's a result of a host of factors, one being the season itself, secondly in terms of investments that we have made in the key areas. I will give you one example of that. We obviously invested pretty heavily in terms of the eCommerce Logistics Hub back in 2016 and we saw volumes of the peak season increase from an average of around 20,000 parcels a day through our automated systems and that increased during the peak season, many days in excess of around 30,000 parcels a day; it is a substantial increase, so what we can say is that we managed to process those shipments with our automated facility without having huge backlogs and we did not have to recruit a lot of manual labour to cope with the increased volume because it's obviously one touch in, one touch out. So I think that is a clear indication of where our investments have actually helped us in dealing with the peak season, but how much is peak season and how much is a result of some of the strategies is always very difficult to determine.

And that is the case in last-mile delivery as well; there is no doubt that we have certain strategies in place – we have talked about the fact that we have four key themes in our strategic review, we have a strong focus on execution, we have very pragmatic plans and targets that are achievable and you have seen the quality of our results; we are seeing some of the results, we are on target from some of those efforts. But with any business plan there will be challenges ahead, you mentioned about the terminal dues and the rise in postage costs – that is a very complex picture and my view is that it will probably be the end of Q4 before we start to get some indication of what the true impact is of that complexity, so perhaps as we get towards the Q4 results we will be a better position to talk about some of the things that we see in terms of the impact of the business. So I think that dealt with questions one, two and five. Mervyn, maybe you could touch on three and four?

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

Yes. Rui Wen, allow me to touch on the gearing target question and after that if you could reiterate or repeat the eCommerce question – I didn't quite catch it. In terms of the gearing target question, we don't have a gearing target. The MTN that has been set up is a programme that has been set up to allow us to have financial flexibility; our gearing is always moving towards an optimal capital structure so as to minimise our weighted average cost position and hence that is an inverse position to the value proposition to our shareholders. So we always try and move towards an optimal capital structure and that is a very dynamic mix of pricing changes that take place in the market. Having said that, the MTN programme that was set up helps us to leverage upon these dynamic changes arising from pricing changes in securities and so as a facility, it is available there as and when there is a need to drawdown on funds – the facility is available.

Could you repeat the eCommerce question please, Rui Wen?

Ms Rui Wen Lim (DBS):

Hi Mervyn, the eCommerce question was on the losses that seem to have increased slightly quarter on quarter, so could you just elaborate a bit on that?

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

The losses as far as TradeGlobal is concerned – TradeGlobal is executed well on its turnaround business plan, it has done well during the peak period; we are continuing to execute on the turnaround plan although we have indicated that TradeGlobal will be making a loss for the financial year ended 31 March 2018. We are pleased with the performance of TradeGlobal thus far and we will continue to execute on that plan.

Ms Rui Wen Lim (DBS):

Thank you for taking the questions.

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

Thank you, Rui Wen.

Operator:

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

Mr Eric Lin (UBS):

Happy Friday SingPost team. This is Eric from UBS, I have three questions. The first one I would like to touch a bit on SP Parcels – I understand that you have invested a lot on the eCommerce Logistics Hub, just want to make sure that the investment itself and the momentum is sustainable. Have you done anything else like tapping into new revenue streams, new markets for SP Parcels so that this revenue growth can sustain going forward? That is my first question. Second question is actually on Jagged Peak, could you please elaborate a bit more on where the strong revenue growth is coming from in the last quarter? Maybe an example will help. And thirdly, again on the terminal dues – what I am more concerned about is whether this will negatively affect the operating profit for Mail in the next few quarters. So maybe help me to understand whether the new international rates for small packets will help to cover the higher the terminal dues? Whether it is fully passed through and whether there is any time lag for these parcels. That will be great, thank you.

Mr Paul Coutts (Group CEO):

So maybe I could deal with the third piece first Eric, thanks for your questions and maybe get Mervyn to talk more about point one and point two. In terms of the increase in international airmail rates and also the impact of terminal dues, I think I will reiterate that there are a lot of complexities, it is not just a particular price increase in one band; the terminal dues is actually by weight and also by destination. It’s split around some of the parcel flows that we have and the impact on the business, to our revenue and so on – we certainly had some time to put in place mitigating measures, not only the international small packets that you are referencing there, but we have also put in a lot of mitigating measures around cost structure and for the international mail flows. Mitigating measures have been implemented, have been executed but it will take some time for the entire industry to work through the potential impact, what I would say is that this particular change in terminal dues is a structure within the Universal Postal Union environment; it is global in nature and therefore it is going to take some time to wash through and maybe just to confirm what I said earlier, I think it's going to be the end of Q4 before we really start to have a clear indication of what the impact of that to the business is and taking the positives and potential negatives that exist there. We would not put any forward projections outside of that. We really need to get to the end of March and when we are talking about our Q4 results, we would give you a bit more colour on what we think the true impact of that is.

Mervyn, can I maybe ask you to deal with the first two questions around Jagged Peak and SP Parcels?

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

Thank you Paul, good morning Eric. In respect of the first question on SP Parcels, we are pleased that the volumes have grown during the peak period in particular; we have indicated in the analyst slide that the pick-up in terms of parcels have gone up to 33,000 parcels during the peak. Also, the operating indicators have shown that the utilisation has gone up to 21%, so in terms of the peak period that has certainly helped propel the progress in volumes in this area that has benefitted SP Parcels. Of course there are other collaborations that are on-going with the business team and amongst them being our collaboration with Lazada, as we seek to have more business with them not only in warehouse but also in fulfilment.

In terms of Jagged Peak, the revenue growth also has been strong and this is also partly attributed to the peak period that has given good volumes into Jagged Peak; Nespresso continues to be strong in terms of a key sticky customer for Jagged Peak. In addition to that, Paul Demirdjian who is the CEO down there continues to have new good brands, powerful brands that he has added to his table of existing brands.

Mr Eric Lin (UBS):

Thanks Mervyn, thanks Paul. Actually just a separate minor thing that I would like to clarify – regarding the U.S tax adjustment, was that just a credit against your income tax expense on the P&L? I am asking this because I am actually not seeing that being included in the exceptional items on page two of your SGXNet announcement, so just want to clarify that this is in fact just a credit against your income tax expense.

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

Yes Eric, I will take that question. Certainly it is, if you look at page three as you have rightly pointed out in the Underlying Net Profit Reconciliation Table, it does not show up within the exceptional items position but it shows up as adjustment of deferred tax which is S$6.927 million as appeared on page three of the SGXNet announcement, and that has taken in as you rightly said as a netting off effect to tax. So that item together with the exceptional item that you see in the SGXNet announcement of Q3 – S$9.25 million, would result in Underlying Net Profit so Underlying Net Profit would be a combination of your exceptional item element shown separately and the one-off element that has been netted off in tax. And if you add it together and adjust it from Net Profit, you would get the Underlying Net Profit number of S$35.1 million.

Mr Eric Lin (UBS):

Got it, very clear. Thanks guys.

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

Thank you, Eric.

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. For the full year, now you have already covered nine months – what sort of guidance should we have for the full year FY2017/18? And breaking it down by the segments, could you share some colour on how the full year would look like in terms of revenue and in terms of operating profit? That will be really helpful. I missed out the earlier part of the call so could you just remind us what sort of tax rate should we be using for this year and going forward? So those are the two questions, thank you.

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

Roshan, good morning. If I may address your questions, in terms of the first question on guidance, revenue and operating profit, unfortunately we do not give any guidance Roshan, so hence that is in respect of that first part. In terms of the second part certainly I can give you some clarification there. The tax rate that we are looking at here will be the new tax rate that has been enacted into law in the U.S as a result of the U.S tax reform bill that took effect on 22 December 2017 which reduces the corporate tax rate to 21%; our existing entities' tax rate that they are paying in the U.S compared to the 21% has given a positive delta which has indirectly therefore benefitted one-off in terms of a tax benefit, and that has been taken as an adjustment to deferred tax.

Mr Roshan Behera (Bank of America):

OK. Generally directionally speaking, could you share some colour on how one should look at the revenue momentum for the different segments? For example in Quantium Solutions, it continues to remains under pressure and this is despite having Alibaba as a partner in that asset, so any sort of clarity as to whether this current trend will continue at the group level or individual level or whatever ways to look out for? Some guidance will be very helpful.

Mr Paul Coutts (Group CEO):

Mervyn maybe I could talk about Quantium Solutions for the moment and also just to clarify, Roshan thanks for your questions. Just going back to what Mervyn said earlier, we are unable to provide forward guidance so what we would say is in terms of the revenue growth that we have seen for Q3; obviously we are comfortable with our revenue growth and also we have recently announced the key themes of our strategic review, there is a strong focus on execution of those themes and you will see within those themes that those are actually the particular growth strategies. We have set pragmatic plans and targets that are achievable and we are seeing some of the results of that coming through in our Q3 results, and also we are on track for the execution. For any business plan there are always challenges ahead that we need to navigate as we move towards on a quarter by quarter basis. We are confident that the overall roadmap will certainly drive long term performance for SingPost.

In terms of Quantium Solutions, we have been open in previous quarters about the fact that we are certainly facing increased competition within Hong Kong; operations in Hong Kong business within Quantium Solutions. That competitive intensity is likely to continue for the foreseeable future. However, we have also put in place mitigation measures for the Quantium group and for Hong Kong, we are including the optimisation of costs, the review of pricing for some of the customer contracts and we have also developed strategies for new products and new streams of revenue within that business. These will take time to come through. Quantium Solutions certainly forms a key component of our strategic theme around igniting our future growth engines which includes strengthening our eCommerce logistics capabilities in Southeast Asia, but also capturing more volumes from some of the overseas entities as well in Hong Kong especially in that network.

Mr Roshan Behera (Bank of America):

Thanks, Paul. The latter question I had was about the investment that Alibaba had made in Quantium Solutions – has it been sort of put into use in terms of any network development, warehousing fleet, anything? And on the cost item, sorry if I missed it earlier, selling expenses were pretty low this quarter – any one-offs or anything we should be looking for going forward?

Mr Paul Coutts (Group CEO):

Mervyn, can I leave you to deal with the last question from Roshan?

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

Yes, Paul. If I may address the second question first Roshan, selling expenses is lower – basically selling and promoting expenses, there are no one-offs in that trend. In respect of the first item, if I may also take that first question on investment by Alibaba. Certainly when we did the various investments with Alibaba, there were restrictions around the use of the money but those restrictions were to use the money to strengthen the eCommerce logistics network in selected geographies so the monies are still available as we execute on our strategy and as the strategy team identifies geographies that need to be extended upon, this is where the monies will be applied.

Mr Roshan Behera (Bank of America):

Thank you, Mervyn. Just a final question on the execution of the strategy. Big picture level, how should one look at it? Any major portion of the strategy already under execution and well within your control or you would say that the major portion of the strategy has yet to be executed and so the benefits or the impact would possibly take time to come through? How should one look at it?

Mr Paul Coutts (Group CEO):

Let me deal with that, Roshan. It's Paul here again and thanks for the question. In terms of the four key themes, some of the work streams and some of the strategies within the overall strategy for the organisation going forward, we are already in execution mode and as I said earlier, we have certainly seeing some of the benefits coming through in the Q3 numbers; we are on track as far as that is concerned.

The strategy itself is very comprehensive, we also think it is very pragmatic in its approach. We are getting on with the execution but bearing in mind we only announced the strategy in terms of the themes in the middle of November – it has been a very short period of time, we are obviously starting some of the actions for the strategy prior to November in terms of the work streams. We are working on the sales side and the turnaround plan for instance for TradeGlobal was in there as well which we are already on so it's pretty mixed but the plans are very comprehensive, and we are very focused on execution. We are going to make sure that we take those pragmatic plans and we execute them well and that accordingly we will achieve our targets, so that is the process we are working our way through.

Mr Roshan Behera (Bank of America):

OK, thank you. Thank you everyone.

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 Paul, Mervyn and Jason. Good morning, I have a couple of questions. I noticed that the cost is still growing faster than the revenue in this quarter – 15% versus 12%, so may I know when will this taper and you can actually enjoy the operating leverage? The second question, I noticed that you have shortened the amortisation of intangibles for TradeGlobal – is this a front loading of cost and we should expect TradeGlobal to perform better moving forward, and if possible, what is your outlook for TradeGlobal for FY2018/19? Is a clear turnaround possible in FY2018/19? And the final question is rental income, has it normalised in this quarter? Is this the rate we should be looking at for the future quarters?

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

Thank you, John. I will take all three questions. In terms of the cost increase of 14.7% being higher than the revenue increase of 11.7%, this is largely the result of volume-related expenses as well as labour related expenses and it's a function of the peak period which have grown significantly during the October, November, December period albeit the fact that margins are lower given the fact that it is eCommerce business that has contributed towards this increase, mainly.

We are still seeking to obtain synergies from operating leverage; this is an on-going position and as such in one of our four themes that we have shared with you in November – the fourth theme or the particular area that we have shared in the strategy is driving towards cost leadership which shows the need to drive towards a low cost model in line with a lower margin business, and so this is still on-going as we execute on the strategy.

In terms of the second question, we made that decision to reduce the amortisation life from 18 years to 7 years from 1 April 2017. This is not front loading, it's more in line with the assessment of our customer contracts. As we continue to assess these customer contracts, we therefore relook at the number of years that we should amortise customer relationships. In terms of the third question – rental income, whether this is a normalised number that you can take forward, just to indicate that in one of the operating indicators that we have given, the SPC mall occupancy rate has gone up very nicely from 80.4% to 85.9% Q2 against Q3. Of course as a result of that you see rental income going up, so whether you take this as a normal position I cannot guide you except to say that implicit in that rate of 85.9% we will be seeking to increase that further. And Capital Malls Asia being our retail office manager has been tasked to do it for us in selecting the right tenants in line with our tenant mix.

Mr John Cheong (Maybank Kim Eng):

OK, thank you. One more question on the eCommerce Logistics Hub, I noticed that the utilisation rate for the parcel sorting is still 21% – how do we see the growth in this segment because you only achieved 21% even in the peak period, so how can you further drive the utilisation rate for the parcel sorting side?

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

I will ask Paul to address this question.

Mr Paul Coutts (Group CEO):

Again, thanks for the question John. I think where we saw the benefit of the investment in the eCommerce Logistics Hub, particularly the automation that we have put in place there, was a spike through the peak season. If you go back to our previous quarterly results – quarter one, quarter two, we were talking then also that we had roughly about, approximately 20,000 parcels a day going through the automated facility. In that peak season programme and period, on many days we were handling over 30,000 parcels a day through the eCommerce Logistics Hub. That huge spike in volumes – I think it would be fair to say that if we didn't have the investment in the automated equipment, we would have certainly seen a substantial increase in our labour costs during that period. It may not have been so easy for us to cope with the volumes without having backlogs and keeping our service levels up so the automated equipment is certainly helping us achieve that; it's helping us handle larger volumes and don't forget those spikes are happening in a very, very compressed window so the automation is critical and helping us keep the customer supply chain flowing during that period in time. I think that's where we are seeing the biggest advantage for us.

There are two ways you can look at it – we built the eCommerce Logistics Hub as a long term investment, we knew that at the time and for the capacity to be up to 100,000 parcels a day. We have obviously seen during the peak what it can do and how that can help us. One of the key elements of the strategy is to win in our home market – that is about driving market share within the home market, particularly in the parcels segment so certainly we see that as a big opportunity for us as well as something that is adding real value to our business today.

Mr John Cheong (Maybank Kim Eng):

OK, one more question is on TradeGlobal. Will we see a clearer turnaround in FY2018/19 and currently can you share a bit more about TradeGlobal? I noticed that revenue has gone up slightly so what has been driving this performance?

Mr Paul Coutts (Group CEO):

So let me just talk about that to provide some colour for TradeGlobal. We have talked in the past obviously about the turnaround plan in and we have put in place measures and plans to particularly cope with the peak season; that was a critical point for us and we put in place a number of action items which came up in the last peak season where we had seen a blow up in labour costs – we didn't want to see that repeated this year so we invested in automation within our facility in Cincinnati, but also we had a lot of very careful and robust planning and forecasting of customer demand and also working through that on a more collaborative basis with our customers. We have come through the peak season well; we made disclosures at the end of the last financial year and again at the first quarter of this financial year that we had two customers that we had lost back then which accounted for somewhere around 40% of the business for TradeGlobal. So to see the revenues actually year on year coming back to where we were is a very positive sign, so the pleasing thing is that we have not only gone through that peak season, we have had a robust plan that has been executed well. We have also had a drive in terms of bringing in new customers and those new customers were onboarded as we were going through that peak season, and were onboarded well and successfully that's also pleasing.

I think the last thing I will say is that we have implemented Jagged Peak's proven technology which is EDGE, in many of TradeGlobal's operations and that has also helped us to win more customers and help in terms of some of that success on the growth. We always said that TradeGlobal's turnaround is not a short term turnaround, we want to make sure that we are doing the right things for the business, short, medium and long term, so we are on track with the execution. We have seen improvements in the financial and service performances year on year and that is encouraging in quarter three, but we continue to monitor on a quarter by quarter basis and month by month basis.

Mr John Cheong (Maybank Kim Eng):

OK, is it fair to say that costs have continued to probably increase and now you just need to scale up the revenue to reach a clear turnaround?

Mr Paul Coutts (Group CEO):

Mervyn, maybe you could take that?

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

Yes. In terms of the increase in costs which you see, that is largely due to volume-related expenses in line with the growth in volumes and revenue during the peak period, and a large part of that comes from the labour related position as well as expenses related to volume directly.

Mr John Cheong (Maybank Kim Eng):

OK, got it. Thanks a lot.

Mr Jason Lim (Vice President, Investor Relations):

Thank you, John. Operator, I think we have time for just one last question.

Operator:

Your next question comes from the line of Daniel Lim from Credit Suisse. Please ask your question.

Mr Daniel Lim (Credit Suisse):

Hi, just two questions from me. One is on Famous Holdings – during the first quarter and second quarter there was pretty strong year on year revenue growth, but that seems to have dipped quite a bit this quarter. Could you provide more colour on what's happening there? And second question is on Quantium Solutions, I was wondering if you could provide more colour on what's driving the headwinds in Hong Kong? Is it due to new entrants? Are they very aggressive with their pricing or is it something else? Thanks.

Mr Paul Coutts (Group CEO):

Mervyn, maybe I can deal with point two first then you could deal with point one. So Daniel, thank you very much for your questions. What I would say in terms of the Quantium Solutions business in Hong Kong and also we have talked about it obviously , an increase in competitive intensity over the last 12 months or so in terms of the Hong Kong market. That intensity is coming from some new players who have emerged during that time but it's also coming from other existing competitors and these are mainly postal companies, postal operators; they are also competing in that open market environment so that intensity has increased and again getting back to what we have talked about is we are really focused on ensuring that we put new strategies in place.

We think that competitive intensity in Hong Kong will be sustained, will be continuing in the near future; we are focused in making sure that we re-engineer our cost base and that we review the pricing of our customer contracts. Also we introduce new revenue streams and new products but that will take some time to develop and we have to wait until we see that come through.

Mervyn, do you want to talk about Famous Holdings and the question in terms of quarter one and quarter two?

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

Yes, Paul. Daniel, in respect of the Famous Holdings question, volumes have been somewhat lower in terms of Q3 as compared to Q1, Q2. Freight forwarding volumes have dipped slightly and this is a result of increasing market pressure in certain geographies. However, overall the S$62.1 million also has been fairly consistent between Q2 and Q3; fairly stable between Q2 and Q3.

Mr Daniel Lim (Credit Suisse):

Sure, got it. Thanks guys.

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

Thank you, Daniel.

Mr Jason Lim (Vice President, Investor Relations):

Operator, I think we have another eight minutes left so we can take another question.

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 am just wondering for FY18/19, one year from now, basically which would be the biggest segment that you think would mainly drive earnings? Would it be the cost reduction or is it more on the logistics side of narrowing eCommerce losses?

Mr Paul Coutts (Group CEO):

Sorry Pei Han, your volume was quite low. I couldn't quite hear you, could you repeat that please? Paul here.

Ms Low Pei Han (OCBC):

Sure, can you hear me? I was just wondering for FY18/19, one year from now, which would be the major factors that you think would drive earnings? Is it more cost reduction across the group as you integrate your operations or is it some better performing segments like Logistics or narrowing losses in eCommerce? Is there any one particular segment that probably will be the main factor driving earnings or is it just across the board?

Mr Paul Coutts (Group CEO):

Thanks for your question, Pei Han. I think the reality is that it's a mixture of all of the above. I think driving cost leadership is going to be essential for us, not only in terms of making sure that we re-engineer our cost base as we are migrating from higher margin Postal business into lower margin Logistics businesses through the strategy, so we need to make sure that we re-engineer our cost base to allow us to be more competitive in the market and also give us the ability to grow our market share. And the integration of our businesses that we have acquired over the last few years is going to be definitely very critical to us in terms of driving the synergy benefits out of those businesses as one SingPost.

We also emphasised our growth strategy, both in terms of winning in our home markets but also igniting our growth engines in Southeast Asia and also in conjunction with our partners and companies overseas. I think on the eCommerce side for the quarter we had about 60% of our total revenue coming from eCommerce, that's very, very encouraging – a lot of our eCommerce business is being driven by increased parcel volumes in the domestic market here in Singapore but also International mail.

At the same time, we know that we have got some challenges on the horizon – changes in terminal dues but obviously we'll have to wait till the end of Q4 to see the impact of that. In terms of our growth strategies, not only in terms of eCommerce but generally speaking around our products – I think that will also be material so I think it's really across the board. We are trying to focus on what we see at the end; four key themes, developing and making sure that we have robust, pragmatic plans for each of those themes and then a very strong focus on execution to make sure that we achieve the targets.

Ms Low Pei Han (OCBC):

OK, thank you.

Mr Jason Lim (Vice President, Investor Relations):

Thanks Pei Han. I think that brings us to the end of our results call, if any of you have any unanswered questions please reach out to me after this. Thank you everyone for dialling in.

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

Thank you so much.

Mr Paul Coutts (Group CEO):

Thanks a lot.

Disclaimer: The information contained in this transcript is a textual representation of the company's conference call and while efforts are made to provide an accurate transcription, there may be errors, omissions, or inaccuracies in the reporting of the substance of the conference calls. SingPost does not assume any responsibility for any investment or other decisions made based upon the information contained in this transcript.

End of transcript