SingPost's Q4 and FY16/17 Results Analyst Briefing, 12 May 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 (Assistant Vice President, Investor Relations):

Good evening. Welcome to SingPost's results briefing for the fourth quarter and FY2016/17. I am Jason from Investor Relations. I apologise for the delay in the call. With me today is Deputy GCEO (Corporate Services) and GCFO Mr Mervyn Lim. I'll now hand over the session to Mervyn, who will bring you through the results.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Good evening and thank you for joining us today. In FY2016/17, revenue rose 17.1% with the inclusion of our US eCommerce subsidiaries.

For the financial year ended 31 March 2017, the Group recorded exceptional items of negative S$88.7 million, due largely to impairment charges for TradeGlobal, partially offset by a revaluation gain on SingPost Centre. We will share more details on these in a later slide. For the same period last year, the Group recorded exceptional gains for DataPost, Novation Solutions and GD Express. Due to the exceptional items, net profit declined 86.6% to S$33.4 million.

Underlying net profit, which represents the recurring earnings of the Group, declined 24.7% from S$153.6 million to S$115.6 million.

This was largely due to: the impact of planned investments in building out our eCommerce Logistics platform such as the Regional eCommerce Logistics Hub and associates which are investing for growth; higher losses in the US eCommerce business; and a decline in Postal operating profit.

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

In the Postal segment, revenue rose 1.5% with growth in International mail revenue driven by higher cross-border volumes, in particular from the Alibaba Group. Logistics revenue rose 1.7%, led by increased eCommerce deliveries at Couriers Please, our Australian subsidiary. eCommerce revenue rose with the inclusion of TradeGlobal and Jagged Peak from November 2015 and March 2016 respectively.

Expenses rose 22.5% with the consolidation of acquisitions and change in business mix.

We have invested and built capacity in our network, and are in the process of growing volumes in order to derive cost synergies. Labour and related expenses were higher with additional headcount from new subsidiaries.

Volume-related expenses are largely driven by the growth in International Mail and eCommerce Logistics. Traffic and related expenses rose 9.9%, led by higher International mail terminal dues. Outsourcing services & delivery expenses rose 61.2% due largely to cost of sales and outsourced services related to TradeGlobal and Jagged Peak respectively.

Depreciation and amortisation expenses were higher due to the Regional eCommerce Logistics Hub. Finance expenses rose as we had recorded favourable non-trade related forex translations in the same period last year.

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

Postal operating profit declined 4.2% due to the drop in Domestic mail operating profit in line with lower letter mail volumes, partially mitigated by growth in International eCommerce deliveries.

Logistics operating profit declined 39.2%, reflecting costs from planned investments in the Logistics network such as the Regional eCommerce Logistics Hub, as well as pricing and competitive pressures in the eCommerce Logistics space.

In eCommerce, operating losses was S$33.8million, due largely to losses at TradeGlobal, which was impacted by higher costs and challenges in the US market.

This slide shows the P&L statement for the fourth quarter.

Revenue rose 2.0% with the inclusion of a full quarter of Jagged Peak's revenue. With the exceptional items recognised during the quarter, the Group registered a loss of S$65.2 million.

Excluding the one-off exceptional items, underlying net profit was S$21.4 million, a decline of 32.8% due to: the impact of planned investments in the eCommerce Logistics network; associates which are investing for growth; and higher losses in the US eCommerce business.

In this slide, we detail the factors that led to the decline in underlying net profit for the full year and the quarter ended 31 March 2017.

Underlying net profit declined largely due to investments in transformation. The US eCommerce business is currently incurring operating losses.

In the Logistics segment, we are bearing additional costs related to the completion of the new Regional eCommerce Logistics Hub. For our associates and JV, 4PX is incurring higher depreciation cost due to business expansion in anticipation of greater volumes, mainly from the Alibaba Group.

In the Property & Others segment, we have a temporary loss of rental income as we redevelop SPC retail mall, which will almost double our retail space when completed. Lastly, the Postal segment operating profit declined with the drop in domestic letter mail volumes.

Let me now share some highlights on our Cash flow and Balance sheet.

Operating cash flow before working capital changes remains strong at S$194.0 million. We recorded positive changes in working capital due to lower receivables and higher trade and other payables largely for settlement of terminal dues. As a result, net cash provided by operating activities rose 52.2% to S$200.1 million.

With lower capital expenditure recorded in FY16/17 due to completion of the eCommerce Logistics Hub, the Group returned to positive free cash flow of S$0.3 million for the year.

As detailed in the previous slide, cash from operating activities rose to S$200.1 million.

Cash used for investing activities in FY16/17 included capital expenditure, which was partially offset by proceeds of about S$86 million from the sale of a 34% stake in Quantium Solutions International to the Alibaba Group.

Cash flow for financing activities includes proceeds of about S$183.6 million from issuance of new SingPost shares to the Alibaba Group. As a result, cash and cash equivalents increased by S$240.0 million during the financial year.

We now move to the balance sheet and financial indicators. Our cash and cash equivalents amount to S$366.6 million as at 31 March 2017. This includes proceeds from Alibaba to be used in accordance with the investment agreements to strengthen the Group's network.

Borrowings rose to S$364.0 million mainly from short-term funds utilised for committed capital expenditure for the Logistics Hub and SPC retail mall. With the higher cash balance, we entered into a net cash position of S$2.6 million as at 31 March 2017. Excluding one-off gains and losses, our interest coverage ratio remains strong at 21.6 times.

We will now move on to the segmental results.

Postal segment revenue rose 1.5%. Domestic mail revenue continued to decline with more companies implementing e-statements. This was mitigated by the increase in International mail volumes, largely driven by cross-border eCommerce-related deliveries from the Alibaba Group.

Post office products and services revenue declined by 18.3%, reflecting the shift to alternative online options such as internet bill payments. Operating profit declined 4.2%, largely due to the decline in contribution from Domestic mail.

The decline in margins to 27.7% reflects the shift in mix from Domestic mail to lower margin International transhipment mail. Despite the decline, our Postal margins are still one of the highest compared to other postal organisations, which demonstrates the efficiency of our postal operations.

For the postal segment, the factors for the quarter largely tracks that for the full year.

In the Logistics segment, revenue rose 1.7% for the year, driven by increased eCommerce deliveries at Couriers Please, partially offset by a decline in Quantium Solutions due to competitive pressures.

Operating profit declined 39.2%, reflecting costs of planned investments such as the new Regional eCommerce Logistics Hub, as well as pricing and competitive pressures in the eCommerce Logistics space.

In Q4, Logistics revenue declined 7.7%, as growth from Couriers Please and SP Parcels was offset by decline at Quantium Solutions due to competitive pressures, and Famous Holdings due to depressed industry freight rates and volumes.

The decline in Operating profit reflects: the impact from planned investments such as the Regional eCommerce Logistics Hub and network expansion at Couriers Please; intense pricing and competitive pressures in the eCommerce Logistics space; and depressed freight rates and volumes in the freight forwarding industry.

eCommerce revenue rose with the inclusion of US acquisitions TradeGlobal and Jagged Peak. While SP eCommerce and Jagged Peak performed well, TradeGlobal faced continuing challenges with the loss of key customers and recorded higher operating losses.

Operating losses for the eCommerce segment rose to $33.8 million. More details will be shared in slide 21.

The factors for the quarter largely track that for the full year.

eCommerce segment operating losses in Q4 also included a one-time write-off of receivables at TradeGlobal arising from customers' bankruptcy, and a one-off amortisation expense at Jagged Peak post the completion of the purchase price allocation exercise.

The Group recorded some exceptional items in the quarter ended March 2017. Let me now share some details on these with you.

Further to the announcement in the Q3 results of the risk of significant impairment, the management of SingPost has reviewed the carrying value of SingPost's investments and assets.

The valuation process involved a review of the FY16/17 performance and a detailed evaluation of the underlying assumptions of future business plans for each of the businesses.

Given the extent of the impairment to SingPost's investment in TradeGlobal, SingPost had also appointed FTI Consulting, an independent global business advisory firm, which has verified that the impairment provision was properly calculated following an appropriate review process and that the assumptions adopted were reasonable.

Total impairment charges, net of tax, amount to S$208.6million. This is made up of: TradeGlobal at S$185.0 million; Postea at S$20.5 million; and Toh Guan building at S$9.3 million. This is net of a write-back of deferred tax liability of $6.4 million in relation to the impairment of intangible assets of TradeGlobal.

TradeGlobal has significantly underperformed the business case which supported the investment. For Postea, the carrying value of the investment was no longer supported by the value-in-use as Postea's management had made material changes to its business projections. For Toh Guan building, we are reflecting the current market valuation against the purchase price.

The Group also recorded a fair value gain on investment properties of S$108.7 million, largely from the SPC Building. Including other items of negative S$3.2 million, total exceptional items net of tax is S$82.2 million.

The principal issue is that TradeGlobal has significantly underperformed the business case which supported the investment. Instead of a projected profit of $9.4 million for FY16/17, TradeGlobal incurred a significant loss of $25.8 million.

TradeGlobal has experienced both operational and structural challenges. Operational difficulties included a surge in labour costs during the recent peak season, delays in warehouse automation which impacted productivity, as well as management changes.

Measures have been put in place to improve TradeGlobal's operating performance, particularly during the peak season.

Key structural challenges which will impact the business moving forward include: Disruption in the US fashion retail industry which is adversely affecting key customers; loss of two large key customers which accounted for 30% to 40% of revenue; and sustained cost pressures arising from labour shortage in the Cincinnati area.

A turnaround business plan is being executed by management. In the plan, TradeGlobal's prospects have been rebased given the structural changes.

Management will focus on extracting post acquisition synergies from the network and capabilities of SingPost's eCommerce units. Under financial reporting standards, the value-in-use computation for purpose of impairment testing has not included these potential synergistic benefits.

eCommerce remains an important part of SingPost's strategy and provides us with the capability to offer end-to-end eCommerce Logistics solutions for customers.

Following the announcement of the risk of significant impairment in the Q3 quarterly results, the Board formed an independent committee to conduct a thorough review of the circumstances surrounding SingPost's consideration and approval of the TradeGlobal acquisition.

To assure stakeholders of the independence of the review, the committee comprises Ms Elizabeth Kong, Mrs Fang Ai Lian and Mr Bob Tan, independent directors all appointed to the Board after the acquisition of TradeGlobal.

The committee has engaged WongPartnership as legal counsel to assist and advise it on the review of the TradeGlobal acquisition. It has also engaged FTI Consulting to assess the adequacy of the financial and commercial due diligence performed in relation to the transaction.

The Board will update shareholders on the outcome of the review, and will seek legal advice on appropriate actions, if any, to be taken arising from the findings of the committee.

The review is expected to be completed and the findings released before the Annual General Meeting in July 2017.

Next, we will go through some business and corporate updates. Now, let me share some highlights in FY2016/17.

The Regional eCommerce Logistics Hub was officially opened on 1 November 2016 and further enhanced our warehousing and parcel sorting capabilities through the use of automated systems.

Our partnership with Alibaba remains strong. Alibaba took a 34% stake in Quantium Solutions International and increased their shareholding in SingPost to 14.4% in October 2016 and January 2017 respectively.

The new mall at SingPost Center is expected to be ready in the second half of this year with an NLA of about 175,000 square feet. CapitaLand has been appointed as the retail mall manager, which will help optimise yields.

We're also pleased to share that SingPost's Postal Licence was renewed by the IMDA with effect from 1 April 2017 for a period of 20 years. Lastly, we have implemented new policies to strengthen our Corporate Governance practices.

We now move to the summary and outlook.

In FY16/17, revenue rose with the inclusion of US eCommerce acquisitions. Underlying net profit declined largely as a result of investments in business transformation – namely: the impact of planned investments in building out our eCommerce Logistics platform such as the Regional eCommerce Logistics Hub and associates which are investing for growth; higher losses in the US eCommerce business; and a decline in Postal operating profit due to lower domestic letter mail volumes.

We have a strong cash flow and balance sheet position: net cash from operating activities rose to $200.1m, up from $131.4m the previous year; the Group returned to positive free cash flow of $0.3m after two years of high capital expenditure; and entered into a net cash position of $2.6m due to higher cash balances.

The Board has proposed a final dividend of 0.5 cents per share, bringing the total payout for the year to 3.5 cents. The total dividends of 3.5 cents represents 66% of underlying net profit for the financial year.

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

Domestic letter mail volumes continue to decline, with increasing migration towards e-statements. The impact is expected to be partially offset by growth from International mail volumes due to higher cross-border eCommerce deliveries.

The International mail transhipment market remains highly competitive, and margins are relatively low. Changes in the international terminal dues system will take effect from 1 January 2018 and the Group is assessing the potential impact. With the shift in mix towards lower margin International mail, blended Postal margin is expected to decline.

The Group will continue to focus on improving productivity and efficiency to mitigate margin pressures while maintaining service quality. We will upskill our workers and deploy technology to drive innovative solutions such as automated self-service machines or SAMs, and the POPStation smart locker system.

The Group is expected to benefit from growing eCommerce trends. We will seek to grow our customer base, and develop collaborations and alliances with strategic partners to increase volumes.

Quantium Solutions International (QSI), the joint venture between SingPost and Alibaba, will be used as a platform to develop and enhance eCommerce Logistics capabilities in Southeast Asia and Oceania.

Operating leverage will be derived from economies of scale as the Group grows volumes and increases utilisation of existing infrastructure such as the Regional eCommerce Logistics Hub.

The industry is likely to continue to experience tight operating margins and intense competition. It will take time for the Logistics segment to grow its profit contribution while it executes on its plans.

The eCommerce business forms a vital part of the Group's end-to-end eCommerce logistics growth strategy. eCommerce revenue remains robust and will continue to contribute significantly to the Group's revenue.

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

The retail mall at the new SingPost Centre is expected to open in the second half of the year. SingPost has appointed CapitaLand as the retail mall manager which will help optimise returns from this asset. The Group will begin to progressively recognise rental income from the second half of FY2017/18 onwards.

Capital expenditure for FY2017/18 is expected to be lower than FY2016/17, as the majority of development projects had been completed. With lower capital expenditure, free cash flow is expected to improve in FY2017/18.

That ends my presentation. The rest of the deck consists of supplementary slides provided for additional information. I will now hand you back to Jason.

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

Thanks, Mervyn. We will now proceed to Q&A. We also have with us another member of management, Mr. Sam Ang, the CEO of Quantium Solutions, Famous Holdings and SP Parcels. Operator, please.

Q&A

Operator:

Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask questions, please press *1 on the telephone and wait for your name to be announced. If you wish to cancel your request, please press the '#' key. We have our first question from the line of Joshua Lee from Deutsche Bank. Please ask your question.

Mr Joshua Lee (Deutsche Bank):

Good evening, I have three questions. The first relates to your Slide 18 – operating profit of $15 million loss. I'm just wondering whether is it possible to give a breakdown of the expenses on how the eCommerce segment has made such a huge loss? Second question relates to TradeGlobal. Is it fair to say that there's no more goodwill for TradeGlobal post the impairment? And third question relates to Slide 16, Quantium Solutions revenue of $25.8 million, is this a sustainable run rate going forward? Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Yes, Joshua. The first item, operating profit, we do not give a breakdown of operating profit by entities. However, what we have given, Joshua, is on the right side that the eCommerce segment operating losses in Q4 did include a one-time write-off of receivables at TradeGlobal. This arose again from one of the customers that has gone bankrupt. In particular, we made an announcement in Q3 that it was The Limited and a one-off amortisation expense at Jagged Peak. This is in respect of the purchase price allocation exercise that was completed. So it's a catch-up of amortisation expense.

Mr Joshua Lee (Deutsche Bank):

Mervyn, all this one-off, how much does it amount to?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

We can't disclose that, Joshua. I'm sorry.

Mr Joshua Lee (Deutsche Bank):

OK, noted.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Thank you, Joshua. Now the second question, Joshua, could you repeat that question please?

Mr Joshua Lee (Deutsche Bank):

Post impairment of TradeGlobal, would there be any more goodwill for this entity?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Yes. The $185 million impairment charge has been applied to two items within intangibles. The first item is goodwill – the first item is customer relationship and the second item is goodwill. A definite answer or a clear answer to your question is, yes, there will still be some residual goodwill left after the impairment is applied.

Mr Joshua Lee (Deutsche Bank):

Is it fair to say that it's lesser than, say, $20 million?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

There will be a smaller, a much smaller amount, Joshua, but it would – I can't disclose the exact amount. But certainly, I think, if you can understand, $185 million and we have within our goodwill numbers, $176 million, as well as in our customer relationship number, $40 million, you'll be able to surmise how the split is done in some way. The bulk of it is going towards goodwill. What's the third question, Joshua? Yes, could you repeat the question, please, on Quantium?

Mr Joshua Lee (Deutsche Bank):

Quantium Solutions revenue of $26 million, is this going to be the run rate going forward?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

I will ask Sam to answer that question.

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

Alright Joshua, Sam Ang here. Quantium Solutions, the answer is yes. Because we have the sustainable – because we have contract that is progressively coming in, and I think we are making good progress, and you see that the downturn in Q4 was primarily because of the depressed…North Asia depressed cross-border eCommerce rate that is depressed. That's why we have registered a downfall in terms of the rates on the fourth quarter. But moving forward, I can see what we are progressing in terms of the customers coming online and implementations of their contracts – yes, positively that the budget will sustain.

Mr Joshua Lee (Deutsche Bank):

Thank you very much, Sam, Mervyn and team. Good evening to all of you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Thank you, Joshua.

Operator:

We have our next question from the line of Sachin Mittal from DBS. Please ask your question, sir.

Mr Sachin Mittal (DBS):

Thank you for the opportunity, a couple of questions. Firstly, we saw some decline in the Logistics revenue, so trying to understand what is the disconnect between the volume and the price? Could you give some indication on what kind of price decline are we seeing here? And why – because just now I think we heard that it might improve, so what is the underlying reason that in one quarter or two quarters it could change? I understand it's North Asia phenomenon, but are you changing – are you focusing on a different geography now? That's question number one.

Secondly, same on Logistics. I recall 40% to 50% was the breakeven for the eCommerce Logistics Hub. Now, given the price decline, the 40% to 50% capacity utilisation – is it the same utilisation which is required now or no; we need 80%, 90% utilization given the lower pricing to achieve breakeven?

Now thirdly, the question is on the Mail segment. Understand that International is partially offsetting the Domestic but not fully able to offset, especially the operating margins. Under what scenario or under what strategy can this stabilise? Or this is something which is kind of a structural decline and is bound to continue? That's the third question and the fourth is on your mall. What kind of – do we expect 80% to 90% of your – some numbers you could share? Half of the mall could be leased out by next quarter or by the end of the year? Could you share some statistics on how the progress is going on on your SPC Mall redevelopment in terms of what could we expect for the next 6 months? Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Thank you, Sachin. I will get Sam to answer the first two questions, and I'll take the next two questions. Sam, please?

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

Hi. Yes, on the first questions on the decline that I mentioned earlier to Joshua's question earlier, the decrease primarily for the fourth quarter is because of North Asia’s decreasing competition; the rates have become very low and that is for cross-border eCommerce. When you talk about Quantium, we have more than cross-border; we have order fulfilment and the order fulfillment part of it as I mentioned earlier – some of the major customers are coming on board. There was a delay in implementation so they are coming on board for the next few quarters. So I'm confident that the growth rate will be sustained.

Now on the second point – we mentioned about 40% to 50%. But that is not so much on Quantium, that is on the sorting machine, which is under SP Parcels. And if you look at SP Parcels, SP Parcels has been doing extremely well. So to your question, the margin erosion has not taken a big impact on our SP Parcels operation.

Mr Sachin Mittal (DBS):

What is the utilisation on the eCommerce Logistics Hub now?

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

You see, the eCommerce Logistics Hub – there are two portions to it; one is the warehousing, the Quantium part of it, order fulfillment. Now, the other part on 40% to 50% is the utilisations of our sorting machines. So if you look at SP Parcels, the revenue-wise, you can see that they have not gone down. In fact, they have gone up in the fourth quarter. So it is progressing very well on the sorting machines.

Mr Sachin Mittal (DBS):

OK, and on the second part?

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

Which second part are you talking about?

Mr Sachin Mittal (DBS):

You are saying there are two parts to the utilisation, right?

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

Yes, OK. On the eCommerce Logistics Hub there are two parts – one is the sorting machine, the other one is warehousing, order fulfilment, pick-and-pack sorting; that is the Quantium part of it which I mentioned earlier, we have a few customers who are coming on board and the full implementation. There have been a bit of delay the last couple of months but across our next two quarters, most of the customers are coming on board and going on full steam.

Mr Sachin Mittal (DBS):

So no change to 50% to 40% capacity utilisation as a breakeven? I mean, there is no change?

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

40% to 50% – that is for the sorting machines.

Mr Sachin Mittal (DBS):

OK.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Essentially, Sachin, our eLog Hub is divided into two broad parts. The first level is where SP Parcel is and that's where the parcel sorting machines are, and that's where Sam is addressing the 40% to 50% question. The second and third level is where Quantium Solutions is and that is the warehousing fulfillment area, and that's the pick-and-pack area. So essentially, two parts in the eLog Hub.

Mr Sachin Mittal (DBS):

Got it.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Thank you, Sachin.

Going to the third question. The question here, if I understand it correctly, is that International mail is perhaps not adequately offsetting the decline in Domestic mail, and when would we be able to see that offsetting taking effect? International – it is a challenge in terms of the dynamic difference between margins at Domestic and International. As I've shared with all of you, International mail has a significantly lower margin than Domestic mail, and so what would make the difference would be how fast we can drive volumes on the network and drive more transhipment volumes through International mail. We have to work doubly hard because margins are much thinner than the margins we get on Domestic mail and so it's very much a function of volumes and revenues driven through the transhipment postal option. Until then, we will see blended margins still coming down as it stabilises itself toward the tipping point. The tipping point has not yet been reached but certainly, I think postal companies around the world, and in SingPost in particular, we have felt quite aggressively the effects of instruction coming from financial institutions mainly in e-statements. So this is affecting letters, statements, et cetera and therefore, the tipping point is still in progress. We have not reached that point yet.

Mr Sachin Mittal (DBS):

Is it a question of two, three years or is it a question of five, six years? So it's not at this point clear right, where the tipping point is? It may take five years, six years – we have no clue right?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Well, it is a dynamic change, and I cannot offer a specific time line as to when the offsetting will stabilise. Coupled with that and one of the reasons in our outlook we place there is so that you have enough information on hand, on what is to come. We said that in January 2018 there will be a change in the terminal due structure, so that again is something that management is assessing in terms of the impact. So that will again affect the speed or the time taken for the stabilisation of the revenue mix in postal pillar.

Mr Sachin Mittal (DBS):

OK, understand.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Sachin, the fourth question, I think you wanted to know on the mall. Is it the occupancy?

Mr Sachin Mittal (DBS):

That's right. Any kind of metric you can share with us? Any kind of operating metric which you're comfortable?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Well, we can't share with you other than what we have made in public statements which I'm sure you're aware of – in terms of our three key clients. But aside from that, what is new is that we have appointed in March, Capital Mall Asia, as our retail mall manager to manage the preopening activities, amongst them being to help source for good and correct clients or tenants; correct meaning that it forms a very much complementary nature to our omnichannel, O-squared concept of online-offline. So Capital Mall Asia is helping us to fill up the mall with these very relevant clients or relevant tenants.

Mr Sachin Mittal (DBS):

Got it. Since I'm not a property analyst, just to understand, such malls can take a couple of months to reach full potential or no, sometimes it can take a very long time? I just want to understand the dynamic in this kind of business.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Then perhaps it's easier for you to understand when we intend to open the mall. We will be opening the mall something like in Q3 to Q4 of this fiscal year, but we'll be opening it out in a number of stages and so these are all goodies that we have in the pipeline which CMA or Capital Mall Asia is helping us out. So just watch this space, there should be some goodies or freebies in the pipeline.

Mr Sachin Mittal (DBS):

That means we should expect the new rental income in Q3 and Q4 only, is it?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

I'm sorry?

Mr Sachin Mittal (DBS):

So the new rental income should start to flow from Q3 to Q4 time frame? Is it a fair assumption?

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

Sachin, in our outlook statement we say that the income will be recognised from the second half of the FY2017/18, so that is from September this year onwards. Typically, different malls open at different sort of occupancy rates depending on their locations and attractions, and progressively ramp it up towards full occupancy. So if you look at the industry, anything from three to six months after they open to reaching full occupancy. I think you can check with your property analyst for more colour on that as well.

Mr Sachin Mittal (DBS):

OK, great. Thank you.

Operator:

We have our next question from the line of Roshan Behera from Bank of America. Please ask your question, sir.

Mr Roshan Behera (Bank of America):

Hi, thanks for the opportunity. Three questions – first one on capex figure for FY2017/18 if you could give us the absolute number? Any directional guidance for profit this year – higher, lower, stable, something along those lines? Second is given the likely losses at TradeGlobal in FY201718, have you considered divesting this asset either at management or board level? And if not, is that something which you consider in future and under what circumstances? Third question is, I understand your partnership is still evolving with Alibaba, but in the meantime, they have gone around and done some similar deals perhaps with other postal operators in the region. So where do you really see an opportunity for SingPost to offer a pan-ASEAN or Southeast Asia kind of logistics platform for Alibaba, if it ends up doing these partnerships with the local postal players? And big picture level, do you see a risk that Singapore eventually may not actually emerge as a regional eCommerce hub; It could just be a local eCommerce location? Those are the three questions.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

OK, thank you, Roshan. Let me take the first one, Roshan. Any guidance on capex? I guess the word “guidance” is taboo here, we can't give guidance but having said that, looking at capex, I could give you things that perhaps could help you out a bit. The residual committed capex that we talked about in the past remains to be in the two areas but the amounts are, of course, significantly less. The first of course, is our eLog Hub, which has been TOP in April and officially opened in November. So what we have there is essentially residual capex more related to the retention monies that we are holding for the contractor according to normal standards, so that's small. And the other one would be the residual committed capex on the SPC Mall, which has obtained – in fact, TOP already. And so as we move towards the final opening date, you will find that there will be residual capex there but again, much lower than last year.

In addition to that, we will have always the normal numbers that we have shared with all of you, and that is the $60 million maintenance capex to maintain the network. So that would be essentially the guidance for FY2017/18 in terms of capex. Having said that, obviously, whether we invest in any additional capex in certain territories within the Quantium Solutions network will very much be dependent on both Alibaba as well as SingPost , because the monies that they have put in is very much ring fenced around strengthening the infrastructure, so that is taken on its own. But as far as SingPost is concerned, that will be essentially the position on the residual capex. The second item on profit guidance, all I can give to you Roshan, is in the outlook statement. So if there are any things in the outlook statement that we have brought that is not clear, please ask me. Otherwise, I can't go beyond what is in the outlook statement. I will stop there for a while, Roshan. If you are happy, then I'll go to the third question.

Mr Roshan Behera (Bank of America):

Yes, yes. I’m OK with those two.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Thank you, Roshan.

In the third point – in terms of FY2017/18, do you think that we would consider divesting TradeGlobal? We will, like all investments, continue to monitor and review and take appropriate action. And hence, TradeGlobal is no exception to this. In the last question, Roshan, Alibaba collaboration, the market is very big as far as postal is concerned, and so perhaps, I would ask Sam to lend some colour to this area.

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

When you realise that – for the eCommerce business, there's a huge difference between the peak and the lull, and during the peak period, no one operator can handle all and Alibaba would need all the support from all postal organisations where they're exporting to the country to help to do the last-mile delivery where possible, and especially on the custom clearance and cross-border custom clearance. So you are correct that Alibaba is tying up with most of the postal companies, that is actually to address the situations of…because Alibaba uses both commercial as well as postal networks to effect their shipments. Now, pertaining to where SingPost plays here, the fact that Alibaba invested in Quantium is a clear sign that they are confidence of the collaboration they're working with; not just Alibaba itself but Alibaba group of companies, to be able to take on competition because certain companies are good in certain geographies, certain companies are good in certain part of the supply chains. For example, some are good in last-mile delivery, but SingPost for example, we have from the line haul to order fulfillment right up to last-mile delivery. So this is one area that Alibaba and its group of companies can capitalize on our strength. So back on the fact that one of the biggest challenges for Alibaba is how to address the peak because it is very disruptive to the disruption that we are creating because the difference between the peak and lull is so big that you need all the help you can get, and the pipes are very big.

Mr Roshan Behera (Bank of America):

OK, Sam, thanks for that. Just trying to understand, have you started any sort of joint initiative with Alibaba on the ground in Southeast Asia? Some examples you could share with us?

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

Actually, we have already even before their investment into us. Progressively, we are going into various initiatives with Alibaba group of companies, whether it's in the line haul, whether it is in the hybrid solutions; which means a combination of the commercial and a postal network to penetrate into countries at the most competitive rates, and also through certain initiatives to negotiate with respective carriers, whereby to also capitalise on the volume SingPost has with the different carriers in different geographies.

So there are various initiatives there where we are working together. And I think that over the last couple of months and moving forward, there will be even more of these collaborations. The market will be able to observe more collaborations because the eCommerce market is growing very fast.

Mr Roshan Behera (Bank of America):

I see. Thank you, Sam. If I may add just one question, what sort of impact, perhaps for Mervyn – for the terminal dues which will likely change in January 2018, what sort of range of impact should we expect from that?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Roshan, we have stated clearly in the announcement that we are currently reviewing the impact of the terminal dues structure. It's still too early to say anything.

Mr Roshan Behera (Bank of America):

OK. But anything you could share with us from your past experience?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

No, not at this moment, Roshan.

Mr Roshan Behera (Bank of America):

OK, thank you so much.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Thank you, Roshan.

Operator:

Thank you, gentlemen. We have our next question from the line of Jessalynn Chen from CIMB Research. Please ask your question, ma'am.

Ms Jessalynn Chen (CIMB):

Hi Mervyn, thanks so much. I just have a couple of questions. Firstly, I was wondering if you could share the assumptions behind the impairment amount at TradeGlobal. Previously, I guess, the average cash flow growth rate assumption of 23% and terminal growth rate of 3%. Just wondering where are those numbers now? And secondly, was wondering if you could share more concrete plans to turn around the U.S. business. Third question relates to the spike in selling expenses this quarter, just trying to understand what drove that? And lastly, going back to an earlier question that was raised on the eCommerce Logistics Hub. Last quarter, you mentioned that the utilisation rate was 18%. Just wondering what is the figure this quarter? Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

So Jessalynn, the first one, the CAGR of 23% and the terminal growth rate of 3% – yes, that were the two assumptions used at the time of the acquisition. Where we are now on that, certainly, we have reviewed the assumptions, and FTI also has reviewed the assumptions with us together with PwC in coming up with this impairment provision. And so the assumptions are slightly different from the time that they were made at that time. Certainly, in terms of the CAGR of 23%, that was made at that time on a very different basis, that's why we said, and we used the word "rebase". Rebase is because the size of the company now is of a different level since we have lost two of our key customers and we have stated that to help you identify the extent of that. I think that is between 30% to 40%, we did not make that in the Q3 statement but to help you guys, we have put 30% to 40% to indicate the extent of the drop.

So certainly on that basis, you can assume that the CAGR is less than 23% as a basis of how we have computed the impairment provision. More importantly, we have appointed Paul Demirdjian as the interim U.S. CEO in order to lead the turnaround plan in TradeGlobal. And as part of that plan, he has come up with his own business plan together with the management of TradeGlobal. And therefore based on that business plan, the projections or the impairment testing has been done on those revised projections based on the way in which the business is proceeding over the next three to five years.

In terms of the terminal growth rate of 3%, this is very much used at that time last year, which has been, again, adjusted and adjusted purely to reflect benchmarks so we have used the benchmark as the GDP of the United States. And that is of course, in a downward direction from 3%. So it is lower than 3%. Is that OK on that first question, Jessalynn?

Ms Jessalynn Chen (CIMB):

Yes, thank you very much.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Thank you so much. The second question is a turnaround plan. What does that entail? Did I get you right? So the turnaround plan essentially looks at two areas. The first, our operational areas that we have already commenced taking action on; these are the obvious areas that we can immediately reap benefits, such as productivity, such as warehouse automation synergies and things like that. The second part will be the structural challenges which we have indicated, I think it's on Page 21 which is TradeGlobal. And if you go to that page, the three structural changes that we have highlighted that changes the way in which TradeGlobal is going to operate going forward has been led by the disruption in the U.S. fair fashion retail industry. You can see the large shakeout of the U.S. retail industry apparently, and that has of course, affected a number of TradeGlobal's key customers. Of course, the loss of two key customers, which contributed 30% to 40%. And the last of course, would be a sustained position of high cost pressures in terms of labour shortage which we attempt to address through productivity, through less reliance on labour and through the scalability of the eCommerce platform in TradeGlobal. This would help us to be less reliant on expensive labour in that area. What is the third question, please, Jessalynn?

Ms Jessalynn Chen (CIMB):

I was wondering on the selling expenses this quarter. I've noticed that there was a quite a big jump. Just wondering what drove that?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Selling expenses. Yes, 52.6% increase. Jessalynn, there are a number of factors that contribute to the increase, all variable in nature. What I would suggest is Jason would take this offline with you. Is that okay, Jessalynn?

Ms Jessalynn Chen (CIMB):

Sure, thanks very much.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

What's the fourth question, Jessalynn?

Ms Jessalynn Chen (CIMB):

Just wanted to get an update on the utilisation rate at the eCommerce Logistics Hub. So I guess, just now you shared the portion on the sorting equipment. But as for the other part, the order fulfillment part of the Logistics hub – I guess last quarter, you mentioned that the utilisation rate was 18%. Just wondering what is that figure this quarter?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

OK, I'll let Sam take this question.

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

OK, as mentioned, there are two parts to it. On the order fulfillment part of it – actually has been growing very, very strong. And progressively, I think over the last couple of months, it has grown very strongly. On the order fulfilment it's about warehouse space. We are now talking about 45% on the warehouse space from a low of where we come from. And don't forget that our eLog hub was only commissioned in November so that space is now getting up to about 45%, and we have very strong customers coming on board and I am optimistic that we are making very good progress on that line.

Similarly for the sorting machines. For example, you see one of the differences in the sorting machines is because the eCommerce is between the peak and the lull, and in fact the differential is very high when we come to the peak. So to do an average would not be an accurate figure but we have definitely seen very encouraging progress for both the sorting machines as well as the order fulfillment warehouse part of it.

Ms Jessalynn Chen (CIMB):

Ok, thank you.

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

Thank you.

Operator:

Thank you. We have our next question from the line of Eric Lin from UBS Securities. Please ask your question.

Mr Eric Lin (UBS):

Hi, good evening Mervyn and team. Actually, most questions are taken already but just a few quick short follow-up. Just now that number given – 45% for the warehouse for the eLog Hub is not the same concept as the 18% we heard in the previous quarter, am I correct? Am I understanding correctly? So that is my question.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Hold on, Eric.

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

Yes, as I said, there are two parts. One is the parcel sorting machine, which is under SP Parcels and the other one is the Quantium, which is order fulfillment, where you do the pick-and-pack, where you do the, picking of SKU whereby you're sorting. So there are two parts to it. When we talk about the 45%, you're talking about the utilisation of the second and third floor, the space for utilisation. Whereas when you talk about the sorting machines…the whole machine or the whole track is down there occupying the whole area, so it depends on how many parcels go through the machine, so two parts to it.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

So Eric, the 45% relates to the filling up of the warehouse side which is Quantium Solutions, and the 18% relates to the 100,000 parcels a day. That is the first level, which is for SP Parcels.

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

SP Parcels.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Is that okay, Eric?

Mr Eric Lin (UBS):

Yes, that's clear. Thank you. The first – sorry, the second one, just want to clarify, investment property revaluation; are you going to do that quarterly going forward, or that will be still annually?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

This is part of our yearly audit process, where we revalue all our properties, whether it be property plan equipment, whether it be investment properties, we'll do the property revaluation exercise. In the case of investment properties, it comes under IFRS 40 and so we adhere to IFRS 40 standards.

Mr Eric Lin (UBS):

I see, my last question is around TradeGlobal. I'm recalling the previous quarter I think, there was some discussion about trying to get remedies by looking for some new revenue opportunities to cover the loss. So may I hear the latest progress and of course, inflation – that is right now we know about 30% to 40% of the revenue was lost. So how are we going to rebase our expectation in terms of how much this 30% will come back because of new customers in the next year or so. Just want to hear any colour on that. Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Yes, Eric. There are two things that Paul Demirdjian is doing with his commercial team. The first would be to relook at every contract that was signed in the past to make sure that during the renegotiation process, we will be able to improve the terms, pricing terms of these contracts, so that's the first that we're taking up. For those perhaps where the pricing terms, are not as favourable and in the renewal period, Paul Demirdjian and his team, may decide not to renew the contract with them because it's better that we take contracts with excellent gross margins rather than contracts which are just not worth in terms of quality of earnings to carry on in the next few periods.

The second part is that Paul has also embarked on trying to find new growth in terms of new sale opportunities and in this respect, his Jagged Peak sales team is also helping the TradeGlobal sales team. So there is some sharing of networks and customer base between the two companies in order to try and find new revenue sources or new brands or new clients. Suffice to say that we have got about two or three new clients, but I can't disclose, of course, the identity of these clients but TradeGlobal has made good progress for new clients, which have very good pricing –price points.

Sorry, Eric. I just also need to say that it would take time to fill the gap created from the loss of these two clients because we're not going so much for quantity now, we're going for quality in terms of clients that can give us good bottom line rather than growing the topline. So you may not see the size of TradeGlobal the way it was in terms of revenue; perhaps smaller, but perhaps more resilient to fluctuations in the volatility of the retail market in the United States.

Mr Eric Lin (UBS):

I see. My final question, just a follow-up also on TradeGlobal. Can you just very broadly speaking, for your existing customers, what industry are they operating in?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Fashion.

Mr Eric Lin (UBS):

Still mainly fashion? OK, understand.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Yes, Eric. Thank you, Eric.

Mr Eric Lin (UBS):

Thank you, OK. That's it from me, thanks.

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

Sorry, we have crossed one hour so I think we just have time for just one last question from one of the analysts, please. Operator, please?

Operator:

Ladies and gentlemen, if you wish to ask questions, please press *1 on the telephone and wait for your name to be announced. We have a question from the line of John Cheong from Maybank. Please ask your question.

Mr John Cheong (Maybank Kim Eng):

Hi, just a follow-up question on TradeGlobal. So from what you shared just now, seems like you are looking at scaling down the operations and all that. I mean, can you share a little bit more – are you going to trim down the staff and cut off excess cost? Are you in the process of doing this exercise?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

John, we have used the word in the slide deck “rebasing” the company because of the size. The turnaround strategy comprises a number of action plans that are in place and currently being executed, others will be executed going forward. I can't give you the granular details of those plans. Suffice to say that there'll be a rebasing of TradeGlobal but in particular as I've mentioned early on, we may not want all contracts that don't give the relevant contributions that we're looking for. For example, if a brand or a customer comes to us in TradeGlobal and says, you want my business, you need to perhaps invest a certain amount of capital expenditure in warehousing, racking, et cetera, we may say sorry, but unless you're willing to fund the cost we're not willing to do that for you; you just need to use whatever we have. So one of the key action plans we're going into is to allow customers to scale up our existing platform. Having our platform to be scalable helps to, in this case, reduce the asset heaviness of our structure. And of course, that adds to the improvement to the bottom line.

Mr John Cheong (Maybank Kim Eng):

OK, thanks.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Thank you, John.

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

Thanks, everybody, for dialing in. I'll still be around at my desk so if you have any other further questions, please feel free to contact me. And on behalf of management, I'd just like to say good night. Thank you. Have a good weekend.

Mr Sam Ang (CEO, Quantium Solutions, Famous Holdings and SP Parcels):

Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and Group CFO):

Thank you.

Operator:

Ladies and gentlemen, thank you for dialling in to this briefing. You may all disconnect.

End of transcript

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