SingPost's H1 FY2023/24 Results Briefing, 2 November 2023

SingPost Participants

Mr Vincent Phang – Group CEO
Mr Vincent Yik – Group CFO
Ms Neo Su Yin – CEO, Singapore
Mr Li Yu – CEO, International
Mr Simon Slagter – CEO, FMH Group (virtual)
Mr Richard Thame – CEO, CouriersPlease (virtual)
Mr Lee Eng Keat – Head, Strategy, Communications & Property
Ms Selena Chong – VP, Investor Relations

Start of Transcript

(This transcript may be read in conjunction with SingPost's H1 FY2023/24 Results Presentation)

Selena Chong (VP, Investor Relations):

Selena Chong: I'm Selena from SingPost Investor Relations. Welcome to the results briefing for our first half of FY2023/24. Allow me to introduce management here today.

We have our Group CEO, Vincent Phang, Group CFO, Vincent Yik. Our CEOs for our businesses: CEO for Singapore, Neo Su Yin; CEO for International, Li Yu; our Australian colleagues: CEO for FMH, Simon Slagter, CEO for CouriersPlease, Richard Thame and also Head of Strategy, Lee Eng Keat.

This session is webcast live and will be recorded. So, I will just hand over to Vincent now to start the session.

Vincent Phang, Group CEO

Slide 4: H1 FY2023/24 Highlights

Good morning and thank you for joining us. I will start with some key highlights for the first half and update on our strategic developments. In a bit, I'll ask Simon to speak about the latest acquisition that we made before Vincent runs through the financial performance.

Strong operating performance in line with Group's transformation

First off, we continue to see the fruits of the Group's transformation with a strong operating performance in Australia and International cross-border businesses.

This was despite the headwinds in the operating environment, the post pandemic adjustments in the logistics sector worldwide. Volumes across logistics operators globally have been weak as trade flows moderated with the economic slowdown.

I would first like to provide some colour on two major movements so that you can have some context to reading our financials. The first is the slowing freight forwarding market and the second is the strength of the Singapore dollar given the globalised nature of our business.

So freight rates have continued to come off the highs during the pandemic, affecting everyone in this market, and no doubt us as well. This normalisation of sea freight rates has reduced our freight forwarding contributions.

With the Singapore dollar strengthening considerably against regional currencies, this has had a significant impact to our financials. It does not reflect as accurately the underlying strength of the business which is becoming more global as I said.

From a revenue standpoint, off the top line, we were impacted by about S$100 million and S$50 million respectively due to the softening freight rates and currency movements respectively. So you take that into consideration.

You will also have seen our underlying net profit coming in slightly above last year at S$13.4 million. But when adjusting for currency movements, we are pleased to report that underlying net profit will show an increase of 52% over the same period last year.

The financial results will be covered in greater detail by Vincent.

Accelerating our strategic initiatives

We are advancing well with our strategic plans for growth, with the acceleration of strategic initiatives across the Group. The strategic review that we commenced in May is in advanced stages, and the next slide provides a brief interim update of our key principles.

Slide 5: Strategic Review Update

Postage uprate a successful outcome of postal review

In our last results briefing in May, we said a review of postal services for commercial sustainability was necessary. The domestic postal business indeed recorded a loss in the first half. We have since announced a substantial adjustment of domestic postage rates, with effect from Oct 2023. This quantum of increase was necessary to put the domestic postal business on a stable footing. With this change, we expect that this business will be profitable barring unforeseen circumstances. The focus is now on charting a sustainable future for postal services. This is an important progress point for us.

Acquisition of Border Express a transformational initiative in Australia ambition
Exploring further acquisition opportunities and divestment of non-core business/assets identified

Over the last 4 years, we have transformed our business to focus on high growth logistics areas, specifically into Australia and the cross-border markets. We continue to build and drive the growth engines that we have put in place, and M&A remains integral to our strategy. The acquisition of Border Express announced yesterday is strategic to our drive to further build and scale in Australia.

Creating a structure for each business to succeed in their key markets

As we transform into a global enterprise with our portfolio of businesses, the corporate structure of the Group will also evolve. We have reorganised the businesses into the strategic pillars of Australia, Singapore and International, with each business expected to drive their own operational decisions with greater efficiency.

At the same, we are reshaping the corporate centre to add and drive value across the businesses, and maximise the performance and valuation of the group. At the same time, we will strive to be leaner and more effective.

We are investing heavily in digital transformation to reengineer operations across the businesses and functions, leveraging technology for efficiencies and underpinning our logistics offerings and services for growth. This entails harmonising our back-end systems, digitalising our customer experience, and implementing GenAI to facilitate business operations.

Finally, with the Group's transformation and changing business and market circumstances, we are reviewing the capital structure as part of our strategic planning. This will include capital recycling opportunities where appropriate.

I share these key guiding principles here to show the methodology behind the work that is done. Certainly, more details will be shared when the review is finalised.

Slide 6: Repositioning for Growth

The shift in the revenue and earnings profile over the last few years reflects the repositioning of the Group as a global logistics enterprise.

With the expansion into Australia over the last few years, and now with the inclusion of Border Express, revenues from Australia are expected to contribute more than half of the enterprise total.

The Singapore postal business brings to the table the reputation of excellent service standards and innovation. It is a utility business in a regulated environment providing a national essential service. As I have mentioned before, we fully expect this business to contribute a positive yield to the enterprise and must be commercially viable. From a financial contribution standpoint, as we grow to be a truly global enterprise, the Singapore business will remain important but will not be core to earnings. Most importantly, it cannot be a financial drag to the Group.

Slide 7: Singapore

With the financials stabilised, we are now working on a sustainable postal business model. We are working closely with the regulator on a fundamental review of Singapore's postal service, which includes a review of the costs and operations, such as optimising and automating post office services for greater cost effectiveness.

Meanwhile, there are some good results from our efforts to drive further eCommerce volumes onto the postal infrastructure. This remains our focus and strategy given the competitive advantage in urban Singapore. eCommerce volumes picked up in the second quarter with higher customer volumes and new customer accounts, offsetting the lower volumes in the first quarter.

As the logistics landscape becomes more eCommerce driven and more environmentally conscious, and customer experience remains key, we continue to innovate and transform the business. You would have heard about the POPDrop smart posting box and POPStop eCommerce stations We received good acknowledgement; this showcases our efforts, and we will continue to further digitalise services. We will partner the industry in progressing this new retail channel forward.

Slide 8: International

Moving onto International. Margins and profitability in the cross-border business have improved significantly with the decline in conveyance costs, new product offerings, new markets and customers:

- Conveyance costs were down 24% over the first half and 42% YoY as air freight rates continue to trend downwards. Still higher than pre pandemic but certainly coming down.

- The greater focus on commercial offerings vs postal solutions is showing results, with new revenue growth of nearly 60% YoY, offsetting the reduction in postal declines.

In the face of a slump in global demand which has resulted in China exports contracting over the last half year, with a sector-wide weakening in volumes, the business has been able to hold volumes steady on the back of new customer wins. So we're quite pleased with that.

In addition, we are growing complementary synergistic benefits between the International business and the Singapore and Australia markets where we run the last mile operations. For instance, over the first half, we have increased cross-border volumes into Australia by over 5 times year on year.

As we revamp the cross-border network, we have set up a new Shenzhen operation as part of the China hub to strengthen market activities on the ground. We continue to expand partnerships in various markets. Some of these announced previously include the MOU with SATS.

We are implementing a digitally enabled 4PL model. The intent is to offer a digitally enabled end-to-end value proposition for shippers and customers in a highly fragmented eCommerce world characterised by multiple markets, cross-border network points and partners. A cross-border 4PL digital platform is currently being built and tested, and we will share more subsequently.

Slide 9: Australia

Moving on to Australia where we have some recent news.

We continue to build and scale up our B2B2C integrated logistics network. The acquisition of Border Express, which we announced yesterday, for up to A$210 million, is a transformative effort. It is strategic to our Australia ambition and offers significant synergistic value to our business. This transaction is also immediately earnings accretive to SingPost.

At this juncture, I'll invite Simon to share more on the acquisition. Simon, would like to share a little bit about what we did yesterday?

Simon Slagter, FMH Group CEO

Thanks very much Vincent, and good morning everyone.

Yes, we are excited with this strategic move in our journey of growth. Border Express is the 6th largest express pallet and parcel distribution operator in the market with strong B2B capabilities. The company operates in every state and territory in Australia, enabling interstate distribution efficiency, and serving businesses in not just metropolitan areas but very importantly in remote regions as well. Infrastructure includes warehouses and regional centres, as well as its own fleet of vehicles.

The addition of Border Express significantly expands and adds scale to our network, providing nationwide coverage with a meaningful, sizeable footprint across the landscape.

The company generated revenues of about A$418 million in the recent financial year with a pre-tax profit of A$38 million. In a highly fragmented integrated logistics industry that is estimated at over A$120 billion, annual revenues of our combined Australia business would be over A$1 billion. This brings us up the league to be among the top 5 operators in the integrated logistics market.

We are confident about the multiple synergies that can be achieved from the combination of our capabilities, networks and services. There are significant customer synergies and opportunities for operational efficiency and cost savings – immediately to both FMH and Borders Express.

The pursuit for revenue and cost synergies will continue with greater pace, and we will focus on integrating all our B2B and B2C businesses to drive growth.

Thank you.

Vincent Phang, Group CEO

I just have two other points to make before I hand over to Vincent. First, I will give a quick update on sustainability.

Slide 10: Delivering Sustainable Outcomes Globally

We continue to advance on our sustainability goals with a balanced focus on all key aspects of EESG. These are core to our business operations, and we continue to embed our sustainability principles and efforts within the operations across our markets.

In Australia, for instance, we added another facility to achieve 5-star Green star ratings for a total of four such facilities.

Slide 11: Outlook, Summary

Finally moving on to the outlook and summary. I'll offer some comments to what we see going forward.

On the economic and business front, conditions across the markets continue to be challenging. The uncertainty in the Middle East situation may also present a risk to supply chain and conveyance costs.

While the strategic review is being finalised, and we will provide more updates when completed, we have our strategic plans for growth and continue to execute to them.

We are committed to growth and creating shareholder value with profitable businesses including a domestic postal business that offers sustainable returns, and growth in Australia and International.

Thank you, and over to you Vincent for the financials.

Vincent Yik, Group CFO

Slide 13: H1 FY2023/24 Highlights

Morning everyone. Good to see everyone again.

Strong operating performance in line with transformation

I am happy to report a strong set of operating numbers to you this morning. With the Group's pivot to logistics and to the overseas markets in the last few years, the shift in revenue and earnings mix has been significant. About 85% of revenues is now generated outside of Singapore, hence the increased currency impact on the financials now. While this has increased our currency exposure, it has also provided us with additional new and diversified engines of growth and you will see these new areas give us new opportunities and far outweigh the challenges.

The operating performances of our growth areas of Australia and International cross-border businesses are strong. The International cross-border business is back to profitability this half, following the loss last year due to supply chain disruptions from China's pandemic lockdowns and the Ukraine war.

Impact of sea freight normalisation, FX, domestic postal loss

There were a couple of factors that did impact our business. Aside from currency movements, the post-pandemic normalisation of freight forwarding revenue and profits was significant. This was expected and we did highlight this in our earlier briefings. In addition, there was a wider loss in the domestic postal business that has now been stemmed and you'd heard the CEO speak about this earlier.

Slide 14: H1 FY2023/24 Profit & Loss Highlights

I'd like to highlight a few lines in the Group's P&L.

While Group revenue and operating profit showed declines, the currency adjusted figures did increase and if we exclude the impact from the freight forwarding business, then our revenue would have increased by 2% and operating profit by 45%.

Exceptional loss was significantly lower compared to first half last year. You would recall that there was a S$21 million increase in the redemption liability on the FMH put options, so those arose with the higher valuation of FMH then, as a result of its stronger performance.

At the bottom line, we recorded net profit of S$11.5 million vs last year's loss. In constant currency terms, underlying net profit was up 52% -- and this is despite the decline in Famous Holdings earnings and a wider postal loss.

Slide 15: H1 FY2023/24 Segment Breakdown

So going into the segment breakdown now. The segment breakdown helps illustrate the significant impact of the freight forwarding revenue decline from Famous Holdings. The year-on-year swing here was about S$100 million. The freight forwarding business remains profitable, though earnings have also contracted in tandem with the revenue decline. Because of this impact, we have separately reflected this to give some colour to the strong underlying performance of the other businesses.

The currency impact amounts to approximately S$50 million to revenue, and about S$8 million to operating profit. The relevant key currencies here are the Australian dollar and the Chinese Yuan which have depreciated by about 8 to 9% against the Singapore dollar over the period.

Slide 16: Logistics H1 FY2023/24 Performance

Moving into the segments.

In constant currency terms, Logistics revenue and operating profit excluding the impact from the freight forwarding business would have been higher by 4% and 26% respectively.

Sea freight rates and volumes in the industry are undergoing a period of adjustment following the pandemic period, and this has had an impact on Famous Holdings which recorded exceptional revenues and profits in the last 2-3 years. Sea freight rates and volumes have fallen significantly year on year.

The operating performance of the Australia business continues to be strong despite some softening in the logistics market. There was revenue pressure from lower fuel surcharge following the decline in fuel levies across the logistics industry during the period, though this has reversed recently with the Middle East developments. With the new acquisition of Borders Express, we can expect this market to continue to show significant growth potential.

FMH continued to grow with new customer wins in the 4PL business, which helped to buffer the weaker performance in the 3PL segment. CouriersPlease also did well, outperforming the wider last-mile delivery market with good volume growth from new customer wins.

So now moving on to the Post & Parcel segment.

Slide 17: Post & Parcel H1 FY2023/24 Performance

The International business did deliver a nice comeback this half, as it recovered from a loss in the first half of last year and back to profitability this half. This would have been higher on a constant currency basis, as it was subject to some adverse currency movements, particularly the Chinese Yuan. Still, there was a strong improvement in the business. The improvement in margins and profitability was largely due to the decline in air conveyance costs which have fallen 42% year on year, and the shift in product mix to more commercial offerings, giving us better margins as an outcome.

This was offset by a wider loss in the domestic postal business. Volume of letter mail continued to decline, and which was down by another 3% in the first half. Operating costs of the postal infrastructure such as the post office network continues to be high and have dragged the domestic postal business into the red.

As mentioned earlier, with the postage uprate now implemented, the domestic business is expected to be profitable from the second half onwards.

Slide 18: Financial Position, Capital Management

Moving on to the financial position. The Group's financial position remains healthy. Liquidity ratios such as current and quick ratios are stable, and all businesses are generating positive cash flows.

As part of the strategic review, the capital structure and dividend policy are concurrently being reviewed at the same time as we continue to transform and to invest in our strategic initiatives. We will continue to explore capital recycling opportunities with potential divestments of non-core businesses and assets.

For the first half, the interim dividend is maintained at 0.18 cents, equivalent to 30% of underlying net profit, same as last year.

Thank you and I'll hand this time back to Selena.

Selena Chong, VP IR

Thank you. So, we will now open the floor for Q&As. If you have a question, please raise your hand, we will pass you the mic.

Ong Khang Chuen (Analyst, CGS CIMB): Thanks for the presentation and for taking my question. Just two from me. Firstly, can you help us understand the magnitude of operating profit changes in domestic Post and Parcel business on a year-on-year basis? How has the volume impact been since the implementation of new postage rates? How should we think about the overall Post and Parcel segment profitability in the second half?

Second question is on the acquisition of Border Express. How should we be thinking on the revenue and cost synergies here in Australia after the acquisition? Looking at this particular entity's margins level, it seems quite high, seemingly at high single-digit EBIT margins. Can you explain a bit more the business model here? Is this level of margins sustainable? Or is it boosted by COVID period?

Vincent Phang: I'll have Su Yin will take the first question and Simon, take the second one.

Neo Su Yin: We reported losses in H1. So, likelihood is based on the kind of uprate that we're seeing and without – based on some degradation of e-sub (e-substitution) as per CAGR in the last couple of years, we do see that this uprate will give us an uplift that will bring us into profitability.

The scale of that, I think at this point, is not for me to say. But what I want to just share with you is that we do all see ourselves at least minimally breaking even or at least becoming profitable next couple of – in next H, in H2.

I thin k what will also help is that the e-commerce business, based on the whole Post and Parcel business that we have put out as a strategy to attain financial sustainability. With the new customers coming on board that we have had in the last couple of months, I think this will also help to elevate some of the current e-sub decline that we have anticipated.

So, I think looking at H2 we do see a positive outlook for H2. I think what is important here is H2 is generally our stronger half, given this is the campaign season, especially for Q3. So, we do think that we will end off pretty strongly for H2.

Vincent Phang: As Su Yin highlighted, clearly, having a postage adjustment is not the be all and end all to the sustainability question we have around the postal business. There is much need to address the right cost of the business, and the ability to get the approval around such a large quantum of increase points to how important this is to us.

So, as Su Yin mentioned, it is a much-needed piece of relief for us on the postal side. We continue to work on costs levers that we have and the discussions continue with the government around the fixed cost network of running post offices – what else can we do to make these relevant and sensible for the population while addressing the cost effectiveness.

We also will be looking at the growth in the eCommerce segment which, as we came out of COVID last year, volumes were a bit soft. Hopefully this time round they will be better. So, making some inroads there with wallet share, market share. Hoping that will be more helpful for what we do in the second half.

So, a lot remains to be seen. But it's a show of the commitment, the desire to get to what I said before. This business can't be a drag, it must be financially sustainable. Doing everything we can to make sure that is the case. As we acknowledge, it's also is not just one sided; it's something we've got to work together, with the rest of ecosystem, government.

Simon, over to you.

Simon Slagter: Yes, okay. So, the question regarding Border Express was around obviously the synergies within the group. I think as a starting point we need to acknowledge that Border Express, stand alone, is a very successful business. It has really benefited from a strong management team that's extremely disciplined and has got deep expertise in the transport space. So, I think that's, when you look at the business, you know even without potential synergies across the remainder of the Group, it's still very attractive to us.

They could have sold their business, there were multiple parties that were interested in the business. But the founder is 93 years old, he obviously – his legacy is very important and he wanted to ensure that the business was left with or sold to a party that had a broader strategic plan that was going to take the business to the next level, and he really bought into our plan which is a lot of the reason why we were successful in the acquisition.

What it gives us and our strategic rationale behind why we are – have been interested in Border Express is, the 4PL business being asset light, as we continue to grow, we've always got two key risks that need to be managed.

One is – our technology obviously needs to be secure, and stable and scalable. Which obviously we've done, we've invested heavily behind that.

But secondly, as we continue to grow, we are soaking up capacity in this market. So, we definitely need to have a network where, in the event that any one of our existing carrier partners was to cease operations, go into administration, et cetera, et cetera, we've always got a place to put our volume so we can ensure that we're meeting our customers' KPIs, and Border Express gives us that – as I've mentioned, they're in every state and territory, deep regional capability, strong management team. So, it gives us this key risk mitigant.

But then there's obviously the synergies. So currently the 4PL business probably has about 2.5% of its volume with Border Express. We anticipate that – well strategically we never want more than 20% of volume in our existing transport companies to come from the 4PL business. They need to sustain in their own right. So, there's obviously quite a bit of growth there we can see, going from 2.5% to about 20%. That's obviously going to unlock quite a bit of synergies. So, we anticipate that can happen pretty quickly.

There's all the other obvious synergies across suppliers in tyres and fuel, et cetera, et cetera, et cetera. So, it's really quite exciting for us from that perspective. Yes, it's definitely going to be a very key part of our broader Group and how we grow moving forward.

Vincent Phang: Thanks Simon. Hopefully that give you some colour.

Ong Khang Chuen: (inaudible)

Vincent Phang: Yes, Simon did you get the question from KC? The question was about the margin from Border Express is really attractive right now and do you expect that to be like that going forward?

Simon Slagter: Yes, sorry, I missed out that one. So, from our perspectives, I mean we see that as appropriate, that margin for a well-run transport company, that's what we think is around benchmark. So, I think saying that it's very strong, I think is – I mean as I said it's probably on par with where well-run transport companies are.

Specifically, when you have regional capabilities, so capability into country, you can command a high yield and Border Express certainly has that. If anything, we will look to obviously improve upon that through leveraging [inaudible] spend across the Group, across suppliers as I mentioned. But we don't certainly see this as being something that's emerged out of COVID. This is just from a very well-disciplined management team that prices accordingly. It has great service and can charge for it.

Vincent Phang: So hopefully that gives some colour. So, if I can just add a few more comments to what Simon said.

Clearly the strategy for us in Australia isn't to buy just independent businesses and run it as they are. I mean clearly the strategy is to create and to integrate the businesses that we have.

The way we see it is, as Simon has eloquently mentioned, the Border Express piece is probably the biggest sizeable 3PL that we have acquired to date. That then allows us to look at the integration prospects across the Group. The synergies are, everywhere you look you'll see some synergies, not just the revenue synergies, there's cost synergies, even the procurement synergies when you run a fleet. It's upwards of $1 billion of combined revenue – it does give us a lot of ability to start to restructure some of the things that we do when they are otherwise run very independently. Moving forward there's a lot more of that prospect for us.

There's also this completeness of the supply chain capabilities across the whole value chain that we are starting to put together. As you can imagine, between the different formats of delivery, it's truck load, less than truck load, it is pallets, it is cartons, even down to even CouriersPlease. Now with the regional network that Border Express provides us that completes a really strong solution.

If I may, just to maybe give a bit more colour around how that even impacts say, CouriersPlease. If I can get Richard, do you want to say a few words, between now, how do you see Border Express and CouriersPlease creating those synergies as well, so as to give colour to everybody about what we're doing there.

Richard Thame: Yes, thanks Vincent. I think as Simon has identified, there are terrific synergies across the businesses that we've already got.

Specifically, that last point about being able to extract a better price and ultimately a better margin, delivering into regional areas, I think in the Australian market from a parcel perspective, that's certainly where Australia Post has been the default carrier and had that space for a long time. It gives us an opportunity to cost effectively expand our footprint into those areas and also leverage on the success that we've had in the first half in building share in the parcel market. We've seen a significant uplift in share and we're very keen to expand that footprint more nationally, into some of those regional areas where Border Express has already got a very good presence and a very good service.

Paul Chew (Analyst, Phillip Capital): Thank you for the presentation, just three questions from me. Just on the Border Express, were they an existing user or customer of the FMH platform?

Related to Border Express again, just from the customer's perspective, do they see this, oh is this going to help my business more, you can serve me better? Since you've mentioned you have the strategic acquisition, but just wanted the customer's perspective, how important is it or how helpful is it to them?

The other question is on Famous Holdings, can you just give some colour of the profitability compared to pre-pandemic, whether your cost structure is up so the weakness in profit may linger a bit longer or as revenue tapers down, just some sense of the trajectory? The last one is just on the non-core, where do I find the non-core on your balance sheet, just give some flavour, what kind of non-core related [inaudible]?

Vincent Phang: Thank you. I will have Simon speak to the question on the existing relationship that Border Express has with FMH and what customer value it brings to the offering. [Inaudible] and I'll cover the non-core. So, Simon, you want to go first?

Simon Slagter: Yes. Certainly, Border Express has been well known to our business for probably over a decade. We've had a great relationship with them as has CouriersPlease. They supply services across a myriad of customers, they supply regional services, so regional deliveries for the CouriersPlease business. So it's been a deep relationship over many, many years.

I think to your point about customer outcomes, that's definitely what we intend delivering on because we will put our technology into their customers and as a result we'll create better visibility across the supply chain, as well as more efficiency, which obviously we can then pass on appropriate amounts of that in terms of cost savings to our customers. Just because of the geographic dispersion of the Australian population, getting density in terms of any lane is pretty difficult, so the more scale you have, the easier that is to achieve. That makes you more efficient if you manage it properly, which obviously drives down your costs, which means that you can offer a price point which is more competitive. Then couple that with the technology, the visibility creates better service for customers. That's part of the plan, absolutely, you hit the nail on the head with that question.

Vincent Yik: The revenue is down almost half, so about down by 40%, so it's about $100 million. That is largely predicated on rates decline. At its peak I think moving container for about 10 times or 1,500 per tonne, it's now down to about 100, 150, so it's significantly down, it's down 90%. That is back to close to pre-pandemic level. The good thing working for us is two things: one, is we are continuing to see very strong volume, so we have been able to maintain the increased volume carried through from the pandemic. But that obviously meant that while we maintain volume, the absolute dollar amount we make is down, so we are impacted. While we maintain volume, we also maintain margin. For every container truck we typically, for every container we typically make $0.10 on a dollar, so we do maintain that margin throughout both pre, during, and after pandemic, but absolute number is now down.

In terms of absolute dollar terms, we are actually better off than pre-pandemic, so we do see that normalise back downwards, but it is still outperforming pre-pandemic levels. It's probably at the lower end of where we see it now already, so probably coming to normalising, stabilising.

There is probably a little bit more downward pressure but probably not going to be as significant as what we have seen over the last 12 months.

The volumes are better, the margins are constant, so our net returns compared to pre-pandemic are better off at this point, and we're seeing that stabilising.

Vincent Phang: Finally on your last question of the, what is non-core, so very clear that you will not find us sitting on core. But if we can ask everyone to maybe be a bit more patient with our strategic review, that will become quite obvious when we get to the end of it. However, as I shared today and I took the time to share a little bit about the key principles that guide us in the strategic review, some understanding and some colour of how we go. If you look at the [unclear] reporting that we are putting out, it is very clearly focused on the market that we're operating in for the international cross-border market and the Australia market, which is now very, very sizeable. That will be one key principle that guides us in how we define our logistics offering as we go forwards.

The second is our, the management team's commitment to working towards a network business. In a sense, as I alluded to earlier, the international cross-border business is looking very closely with the two key markets that we have, Singapore and Australia, to make sure that we flow goods through those markets. We are especially pleased with progress that we've made in Australia, in terms of the year on year volumes have grown 5x, now we are offering a lot more value through that network.

The way we see it, is how do we put the [unclear] of our capabilities together to form that network of what we want to be, going to the future. Clearly that expression, that definition, will come at the end of that strategic review, it will be a lot clearer. But you can start to see that, even within our Australia market, we do not intend to run these businesses that we have separately, that will be clearly an integration effort to get the pieces all come together and then we create all those revenues synergies, the cost synergies we spoke about, so that's how we intend to run our business.

In a sense we would like to be a pure play logistics company. So if that's the expression and that is – and I say once again a bit of the guiding principles I share here, but towards the end of the strategic review this becomes a lot clearer. Anything that's not within that universe will then be classified as non-core and then we will look at those divestment opportunities. Hopefully that gives some colour.

Chin Meng Tee (Analyst, OCBC Global Treasury): Hello management. How is the restructuring going on, especially for the property segment side, are you considering to dispose it?

Vincent Phang: Well, as I said earlier, when we get to the other end of the strategic review and we are very clear about what is core and non-core, then I think we [inaudible]. But it's all part of the consideration right now.

Chin Meng Tee: Just a very basic question, do you mind to explain very briefly on 3PL and 4PL, the biggest difference?

Vincent Phang: Given that the biggest 4PL business we have is in the Australian business, I will ask Simon to give his view of the 4PL business. Just as a description, what we have in Australia is a very large core business called the 4PL business, but at the same time we have a collection of 3PL businesses and the synergies between these, so I'll ask Simon to talk about it. After that, maybe I'll ask Li as well, maybe you can share a bit about your international cross-border business, how do you see 4PL that you're creating play to that advantage? Simon, over to you.

Simon Slagter: Perfect. I think I'll start with 3PL because that's pretty easy to understand. A 3PL operation is either a warehousing or a transport warehousing operator or a transport operator, that essentially services multiple customers through its facility. If you think about it in simple terms, if you've got a warehouse and you've got 20, 30 customers that you serviced out of one or multiple sheds, that would classify it as a 3PL, so third-party logistics, the same applies to transport operator.

When you're talking about a 4PL, a 4PL will use technology to essentially connect multiple 3PLs to a customer. Essentially you could have three, four, five, six different carriers or 3PLs, to use the other terminology, connected to a single shipper through a technology solution and that would be a 4PL.

Within the FMH Group, efM logistics is the 4PL, it's our core business – it's our biggest by revenue and profit. It has grown by doing exactly that, having deep expertise in terms of understanding the different carriers and warehouse providers in the market, integrating them from the technology perspective and then connecting them up to different customers, and then managing the service throughout in an asset-light manner. Does that answer the question?

Li Yu: Maybe I'll just add in to Simon's point about 4PL in the international scale. So 4PL in the international scale, based on what we do today, we're doing a lot of cross border ecommerce. And that means that we have to create a multi model way of transportation options for our customers to effectively and efficiently ship their products from destination point A to point B.

This allows us to actually think about what we have today with a lot of postal solutions on hand, plus some of the commercial offerings that connect the dots with the value proposition that we have, is to have the asset light transportation network created within Asia Pac and also with a global reach.

If you look at what we've been doing in the past half year, we are starting to create the multi modal hubs in Shenzhen and also leveraging the connectivity in Singapore, to create that push and pull effect and also one of our mandates is to actually inject the volumes from the Far East market and the rest of the world through the two whole markets in Singapore and Australia. In a sense, Australia and Singapore now is part of the 4PL network that was in our control.

So orchestration of the volume through origin to destination, leveraging multiple technology options and multiple vendors and partnerships throughout the network, using our own assets and also partnership with others, to create that 4PL network, is basically what we're doing internationally.

Vincent Phang: Services that we offer, compared to some of the competition, so pick one of the big three, the DHLs or the FedExes or UPS, those are 3PLs because they own their own assets, they provide their own solutions to customers. But we work with everyone, so in A sense the universe opens up, the network opens up for us to deliver that same consistent service to [unclear].

Lleythan Tan (Analyst, UOB KayHian): When is the Border Express acquisition expected to be completed, estimated timeline?

Simon Slagter: 30 November.

Vincent Phang: We are expecting to be completed by end of this calendar year, so it won't be outside of the [inaudible]. Simon, anything you want to add to that?

Simon Slagter: Well, no. I mean I think to your point we're targeting 30 November but based on some of the work that needs to be done to complete there's obviously a risk that it slips into December, but management are working hard to get it done by end of November.

Ong Khang Chuen (CGS CIMB): Can you take us through a bit more on the development in the IPP space. I noticed that the mix of commercial solution has gone up quite significantly over here. Maybe you can describe to us in more layman terms how this commercial solution differs versus the previous postal model? Is the growth here mainly coming from new customer wins or are you convincing some of the existing customers to switch in terms of this solution? And I noticed you mentioned digital 4PL here. Is it fully implemented on the IPP side of things already or are we still in the process of rolling this out?

Second question is on, I think you mentioned in the announcement yesterday that you are also going to raise your stake in FMH from 88% to 100%. Is this – what's that called, valuation-wise for the put option, is it already reflected in the first half and when can we expect this deal to be completed?

Vincent Phang: Li, do you want to take the first one on the IPP business, give a bit more colour about how you've been transitioning the IPP business and 4PL implementation.

Li Yu: I think certainly the IPP business has transitioned a lot to profitability in the first half of the year, with the costs being constantly going downtrading and us continuing to improve our overall offerings.

In terms of commercial versus postal, I would say traditionally if you looked at just the postal solution, everything needs to come through Singapore, that's one single way – leveraging Singapore as the origin. Put the postal label on and you ship global-wide, that's a traditional postal model. But commercially it allows us to actually open gates to various multi modal ways of transportation, including direct entry from point A to point B, without going through Singapore. It allows us to create a commercial solution for last mile delivery, compared to a traditional postal model. That's the difference between commercial and postal.

And I'm happy to report that if you look at the results, our commercial revenue continues to grow. Within the IPP world, that's 60% year on year and also the volume of converting those traditional postal lanes to commercial continues to happen. That means that we're not only acquiring new customers on new commercial solutions, existing customers leveraging previous postal solutions are also interested to try out new lanes leveraging commercial solutions. So the growth and also the margin improvement, comes from both ends – existing customer base as well as new customer acquisitions.

In terms of 4PL, we are on track, we actually will be introducing new type 4PL technologies and we have been doing that for the last six months, so more things will come. But obviously the 4PL system platform, combining with the processes that have been quite successful in Australia, is the role model that we're following, so more to come but certainly this is on track.

Vincent Phang: Besides the point that Li has made, so all this time and all these years, we used the term IPP – it's a postal product, it's a postal service that we have and that was pre-pandemic, that was the predominant way we managed all these cross-border commerce items. That's no longer the case. Through COVID clearly, we had a massive impact when the Changi air hub effectively shut and we had to pivot the business. So what we have now at this point in time is a postal core, I think that postal alliance that we have globally still provides that value in being able to open the doors and to enable that we ship to every country in the world.

However, we acknowledge that that may not be the best solution for every single country, every single lane. Case in point, postal services are probably superior if you skip to remote areas of a country, but in the metropolitan areas, that could well be other commercial service provider that is able to give better benefits, better service levels, better cost and maybe faster deliveries.

An example would be Australia and that's the reason why the volumes are flowing through CouriersPlease and we're using that metro network for deliveries to all the capital cities in Australia. It's not the only way we do run deliveries to cross borders.

I mean clearly, we work multiple sets, networks of providers, postal being one. If that's the case, then that 4PL model becomes highly critical because we need to build a dynamic choose, to make sure we get the best service levels from whoever is supporting us.

In the past it was just pretty much postal, you didn't need to have a 4PL, but as we transition to this world, it is highly critical that we are a lot more integrated with the networks, so this becomes a platform business. That's what Li has been pivoting towards, so you see the change in the profile. The numbers, they don't do justice to the kind of work that has been progressing and certainly, going forward, there will be more of that as the proportion of postal deliveries come down and the proportion of commercial vendors go up and there will be an increasing set of commercial vendors that we pick up along the way.
Not to mention the transmission methods right – multi modal, multi hub approach, now becomes possible, rather than always being a bit more reliant on Singapore as the base for that transfer.

Hopefully that gives a bit more colour. A lot more in there that I'm sure Li can share if there's interest. Vincent, you want to talk about the [unclear]?

Vincent Yik: First things first on the FMH option, the valuation methodology has really been pre agreed. [unclear] factored in the adjustments. So we've picked up the latest valuation, the latest performance, that has been accounted for in this set of results, so you should not see any further material changes to the P&L from this redemption liability and it's expected to complete within this calendar year as well.

Vincent Phang: [Inaudible] has always appeared in the balance sheet, so that's consistent, that has always been there. Once we're at 100% obviously, this now flushes out, so you won't see it going forward.

Ada Lim (Analyst, Bank of Singapore): Okay, a couple of questions on Border Express. Firstly, of the AUD210 million whether it's possible for you to share the proportion that is funded by cash and borrowings? Second, what kind of interest rates are we looking at in terms of the AUD bank borrowings and finally, whether we have a sense of what kind of market share FMH will hold in Australia post the acquisition? Thank you.

Vincent Phang: Vincent, do you want to take the question on the funding and Simon can speak a bit about the market share going forward, as you see for FMH.

Vincent Yik: First things first, there is a significant portion of it is funded by debt carried onshore. I should also highlight that at this current point FMH as a group, is very under leveraged, so it has very little debt. It only has a very small working cap line, so it is essentially almost debt free, so it makes a lot of sense for them to leverage up and utilise this. It is a cashflow positive business and it is anticipated that this is very accretive, so therefore it is quite comfortable for them to put a leverage on their books. So it's largely funded mostly by debt, a significant portion of it.

In terms of interest rate, obviously I won't go into a great length of detail, but I would like to say that it does benefit from us being the owner group. So it does have pretty good rates at this point. I would say very, very close, if not better than what you will typically get in the Australian network. We did fund a lot of our, we did leverage a lot of relationships out of Singapore as well.

Vincent Phang: Okay. Simon, would you like to talk a bit about how you see the business, in terms of market share and solutions offered to customers.

Simon Slater: Yes. No problem. As mentioned, it's AUD120 billion industry, so it's a pretty significant industry within the country, but highly fragmented. There's only one company that's got an excess of 5% market share and it's Australia Post, with their $9-odd billion in revenue. So I think as a combined Group we will be in excess of $1 billion, so if you do the math it's circa 1% odd of the market here, so there's still quite a bit of opportunity for us to take market share and grow pretty aggressively.

Chin Meng Tee So management, do you have any expected minimum credit rating because the acquisitions happen quite frequently, does it affect credit rating somewhat. I think currently it's triple B?

Vincent Yik: Our commitment is investment grade, so that's our intent and we certainly have been working towards that. We have been working actively to make sure that the acquisition is well-funded, the acquisitions are accretive. In all intents and purposes, it is meant to be a positive [unclear], so we do intend to add on additional debt [unclear]. In the short term it's probably going to be [unclear] probably going to be a little bit drag on the balance sheet but I think it's a very near term thing.

Vincent Phang: It's a function of I suppose [unclear] and last year, because of the circumstances, as we are aware, where we had one of the businesses in negative EBITDA position and that obviously weighs down on the [inaudible], but this is now, as we said, a commitment to get it to positive and the trajectory to get it to positive is done so it wouldn't be a drag anymore. I think the impact to the gearing, the impact to the ratings will be far less.

Any one last question?

Lleythan Tan (UOB KayHian): I just saw the slide about the review of dividend policy as part of the strategic review. I'm just curious if you can share more colour on that?

Vincent Phang: [Unclear] so you would also note that we yesterday just announced this deal right? So as we move along with what we intend to do, as part of the strategic review, as part of the guiding principles I spoke about earlier, there will be this transition, this pivot to logistics, this continued transformation, we will have to look at continued investments and acquisitions.

If we consider ourselves a logistics player, then we have to grow and we have to grow in that space, we have to invest, we have to continue to make sure we build scale and we will do it against the principles that we talked about. With all those investments in mind, with all those commitments to grow as part of the strategy, it should also be a consideration in terms of how do we work towards that revision in the dividend policy?

I don't want prejudge it because it's all part of the strategic review, at some point in time this is a discussion that the Board will have to have, and we will have to discuss this. But I think as far as guiding principles are concerned, quite clear that if you're going to be a growth play and you need to invest, then how do we position the dividend policy in a smart [unclear] that gives that balance.

Yes, Selena, thank you.

Selena Chong: Thank you all for joining us today. On behalf of the management, we wish you a good day and we also thank our viewers online.

End of Transcript