SingPost's H2 FY2022/23 Results Briefing, 11 May 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 H2 FY2022/23 Results Presentation)

Selena Chong (VP, Investor Relations):

Welcome to the results briefing for SingPost this FY. This session is webcast live and will be recorded for playback purposes.

Let me introduce the management on the panel today. We have Vincent Phang, our Group CEO. On his right, Group CFO, Vincent Yik and Michelle Lee, Head of Corporate Services and Sustainability. On Vincent Phang's left is Ms Neo Su Yin, CEO for Singapore; Li Yu, CEO for International and Lee Eng Keat, our Head of Strategy.

I will hand over to Vincent to start the session.

Vincent Phang (Group CEO):

(Slide 3)

Thank you and good morning, everyone. Welcome to our results briefing, I'm glad you can join us. For those who are here physically, good to see you again.

Coming out of the pandemic over the last year, our theme for the year was always about growth and positioning ourselves for the future, while addressing the continued challenge of postal decline. Some key highlights for the year.

I think we didn't introduce our Australian colleagues, just to cover off, that's Simon Slagter, who's the CEO of FMH and Richard Thame, CEO of CouriersPlease. They're joining us from Melbourne and Sydney respectively.

Let me carry on, so some key highlights for the year. On the financials, you will see that our diversification has given us new revenue streams in Australia and logistics, and on that basis, record revenue for the year. Post and Parcel recorded its first ever full year loss after many years of decline.

Operationally, we have structured the organisation for the future. We are building our networks and markets, enhancing our technology abilities and strengthening our sustainability practices.

We have successfully executed the first phase of our transformation to diversify the business, expanding in Australia and focusing on cross-border e-commerce logistics. This now gives us optionalities for the next phase of our transformation.

Slide 6: SingPost's Transformation Journey

SingPost has evolved over the years and today we are in a stronger position. Our diversification into logistics and overseas markets has yielded results, positioning us for growth. The impact of the structural decline in letter mail was always inevitable and we had to make plans for that.

We are leveraging technology for growth. In Australia, we are already the leading digitally enabled 4PL operator. We will continue to build on the digital core across our organisation and business.

Our corporate purpose has guided us, which is making every delivery count for people and planet. We continue to raise the bar on our governance and environmental responsibilities.

Slide 7: Growing Logistics, Going Global

SingPost is certainly a different company now. Logistics revenue has continued to grow from 60% to 71% over the year. This has become our largest business segment.

86% of our Group's revenue was generated internationally, with Australia being our biggest contributor and we expect this to continue to increase as we grow internationally. If you compare that with just a few years ago, our financial performance was then predominantly driven by postal and property and that is the result of our successful execution of our growth strategy, as we meet the challenge of the structural postal decline head-on.

Slide 8: Transformation Achievements in FY22/23

We made good headway in our strategic initiatives. I'll cover our achievements broadly in these three areas:

First, we are repositioning for growth. We have structured our organisation differently as we move ahead. Second, digitally enabled logistics networks are at our core and we continued to enhance our technology capability.

Third, on ESG, we continue to strengthen our practices. We have seen good progress towards our goal.

Slide 9: Repositioning for Growth

As the Group evolves into a global logistics enterprise, we have restructured resources to align with the expanded business portfolios and geographies. This ensures that our strategic business pillars, namely Australia, international and Singapore, are rightsized and equipped with the resources they need to succeed. You will see us reorganising into these three strategic pillars and we will start to provide more colour in this view.

We have strengthened our management bench to ensure that we have the right talent to drive growth and create value. This has involved both bringing in external talent and developing our existing employees to take on more significant roles through the organisation.

We have divested several non-core assets as we reviewed our portfolio for strategic fit and returns and reinvested into growth initiatives.

Slide 10: Business Strategy at a Glance

Across our markets, we've been building, transforming and scaling our networks.

Australia
We further strengthened our position in the Australian logistics market.

We raised our shareholding in FMH from 51% to a supermajority of 88% in the year. FMH has performed well since our initial investment. We continue to expand this business. Besides growing the 4PL business, we have been building a 3PL network as well, bolting on another acquisition during the year.

At CouriersPlease, our last mile delivery business, we implemented initiatives that have significantly improved operational efficiency. This included reviews and changes in line-haul management, fleet efficiencies and manpower planning.

Our Australia businesses have collaborated well for cost savings and business potential. For instance, the utilisation of FMH's tech platform by CouriersPlease. This drive for revenue and cost synergies will continue with greater pace this year.

International
In the International business, a substantial amount of work has gone into reengineering the networks. This is a markedly different business from what it was pre-COVID and I'll elaborate later.

Singapore
In Singapore, we continued to focus on our infrastructure strategy and enhanced our network, increasing operational and carbon efficiency. Utilisation of our tracked letterbox services has increased and we saw 38% growth in monthly volumes over the year. New initiatives have been rolled out, such as our electric fleet and eCommerce service counters at post offices. We continue to provide best-in-class service quality

in our delivery and we are glad to have been awarded Last Mile Partner of the Year at the Supply Chain Asia Awards.

Slide 11: Continued Diversification of Revenues

On the business front, we saw good traction in Australia and encouraging signs in the international business.

Australia

In Australia, the 4PL business grew strongly through COVID disruptions. The advantage of the logistics ecosystem that we offer enterprise customers not only ensures certainty of fulfilment during those uncertain times, but also greater control over visibility of and service quality.

Post-COVID, leakage has been minimal. We continue to acquire new enterprise customers onto our B2B network, with annualised new business revenues last year amounting to over A$75 million.

International

In the cross-border business, the supply chain disruptions over the last three years have significantly affected our conveyance costs and volumes. We are seeing signs of improvement though. Conveyance costs have declined 34% year-on-year as at March and volumes appear to be bottoming out. The declines in volumes have levelled off, from over 30% year-on-year in Q1 to about 8% in Q4.

Singapore

In Singapore, our eCommerce volumes declined 36% for the year, largely due to the loss of volumes from a major eCommerce customer that insourced its logistics. Nevertheless, we pushed ahead to grow our eCommerce logistics business. Despite the normalising of eCommerce activities post-COVID, volumes from our top five eCommerce customers were up 19%.

The Post and Parcel segment, as mentioned, recorded its full year loss for the first time.

Let me provide more specific detail on the international and postal business in the next two slides.

The supply chain disruption through COVID was significant, as we shared previously, with the elevated conveyance costs and extremely limited air capacity, reducing the volumes that we could deliver. Revenue from International Post and Parcel, or IPP, has fallen to just 60%, under 60% of the high we saw in FY19.

We had to relook at our cross-border strategy and make substantial changes. Our network and business is now more commercial. We have diversified our service offerings, plus we are using increasing commercial arrangements in addition to postal deliveries. For instance, we've created additional routing options for our trade links on the back of new partnerships in markets such as the US and Australia and also leveraging Quantium Solutions' network.

We have shifted from a single transhipment hub in Singapore before the pandemic to a multimodal network. We now have additional transit hubs and new operations in key markets for greater resilience and alternatives.

Operationally, we are significantly more agile in line-haul cost management through new initiatives such as chartering of flights during the year to manage our conveyance costs.

As a result of these new and stronger capabilities, we now have cross-border commercial solutions that are not only more cost effective and faster for customers, but also higher margin for us.

This shift from postal to more commercial offerings is seeing early signs of success and the business is showing improvement, although it will still take some time to recover to pre-pandemic levels.

We will invest in technology to enable this business, much like the 4PL operation in our Australia market.

Slide 13: Commercial Sustainability of the Postal Operation

Let me now speak about the domestic postal operation.

This year we celebrate our 165th anniversary of the postal service. Through the years, this public utility has constantly adapted and transformed with the times. Today we continue to provide this essential service at the highest of its quality, exceeding regulatory requirements. We also scored the highest in reliability in the UPU rankings with this performance. Through COVID, the postal service served the nation with deliveries of essentials such as ART kits and masks to all households.

We have invested in our people, in innovation, automation and productivity improvements that has made us one of the most efficient postal operators, with one of the lowest postage rates worldwide.

Our situation is not unlike all postal operators around the world, as we all face the structural decline in letters. Through the last few years, while letters continued their relentless decline, we actively grew eCommerce logistics deliveries to offset the drop in letter mail and increasing operating costs. Through COVID, this helped to cushion the postal business.

Costs have now increased significantly, especially in the inflationary environment. Letter mail volumes are now just 60% of levels pre-COVID and with reduced eCommerce volumes, have resulted in a stark loss in operating leverage.

Post and Parcel recorded its first ever operating loss for the year and we are reviewing the commercial sustainability of the domestic postal business.

Slide 14: Digital & innovation

Moving to our other strategic initiatives for growth, the future of our logistics is technology driven. We are enhancing our technology capabilities for the organisation to be more operationally and cost efficient and to better serve customers.

In Australia, we have in FMH a cutting edge digitally enabled platform that has underpinned the strong growth of the 4PL business over the last few years. We are rolling out upgraded capabilities, such as greater analytics insights and more tools for operational excellence.

Similarly, we see the future for the international cross-border business powered by this platform, much like what we see in Australia.

In Singapore, our focus is on a smart urban logistics ecosystem that is carbon friendly and operationally efficient. We intend to serve customer needs by transforming the traditional post office.

Slide 15: Sustainability

There have been significant achievements in our sustainability pillars, which you can see on the next slide.

We made significant progress towards our environmental goals, with 30% carbon emission savings for Singapore operations from baseline levels towards our net zero target that has been laid out. We are advancing on our TCFD journey and have incorporated ESG performance through remuneration and incentives for senior management and into the organisational balance.

We continue to enhance the culture of trust. SingPost was ranked seventh out of 489 companies in the 2022 Singapore Governance and Transparency Index.

In the aspect of our collaborative partnerships, collaboration with customers to promote carbon efficient delivery options is good testament to our efforts. Our staff continue to be well recognised, with about 100 receiving the National Excellent Service Awards last year.

Slide 16: Outlook

Now moving on to what lies ahead.

First, the economic outlook remains weak and operating costs have risen across all our markets. The eCommerce market growth has reverted to pre-pandemic trajectories post-pandemic. There are opportunities for cross-border eCommerce with China's reopening and recovering exports market.

The normalisation of supply chains and greater air capacity has continued to lower air and sea freight rates. We expect the IPP business to continue improving, but the freight forwarding business likely to decline.

We expect the Post and Parcel segment to continue to be loss making in FY23/24.

Finally, the Board has initiated a strategic review of the Group.

Slide 17: Strategic review

Through the transformation of the business, we have reviewed our business models and capabilities and the diversity of markets we operate in and repositioned ourselves for growth. The transformation to date has now delivered us opportunities to pursue further.

SingPost is transforming into a global logistics enterprise and is well-positioned in high growth markets with the scope for further transformational investment. The Board has initiated a strategic review of the

Group's portfolio of businesses, with a view to enhancing shareholder returns and ensuring that the Group is appropriately valued.

We will make further announcements on the Group's strategic review as appropriate.

With this, I will hand over to our CFO, Vincent Yik, to bring you through our results.

Vincent Yik (Group CFO):

Thank you, Vincent. Good morning, everyone, good to see you all again. I'll start with the key highlights for the financial year, followed by results for the second half.

Slide 19: Key Performance Highlights – FY22/23

Last year was a significant year for SingPost. The Group's transformation has yielded results. Revenue grew 12.4% to a record $1.87 billion for the full year. The important highlight is that this was underpinned by growth in new business areas in Australia and Logistics.

Logistics revenue increased 32.4% to $1.3 billion, while Logistics operating profits increased 91% to $84.7 million and that includes the consolidation of FMH for the full year for the first time.

As shared earlier, Post and Parcel registered a loss of $15.9 million.

Slide 20: Key Performance Highlights – H2

Moving on to the second half highlights.

For the second half growth in Australia helped partially offset the decline in freight forwarding, and Post and Parcel revenue. The second half net profit improved to $34.6 million compared to a net loss of $9.9 million in the first half.

Logistics operating profit continued to grow, increasing 54% to $43.2 million. Post and Parcel incurred a net loss of $3.8 million for the second half. While still in a net loss, this has improved significantly over our first half results.

Slide 21: Shift in Revenue and Profit Mix

Moving on to revenue and profit mix.

The revenue and profit mix has changed significantly, which validates the transformation and the diversification that the Group has undertaken over the past couple of years. The majority of our revenue and profit now is now generated internationally. Australia makes up 45% of Group revenue and just over half of our operating profits. This has increased from 26% of revenue and 9% of profit last year.

In the segments, we see Logistics revenue outsizing Post and Parcel. We are transforming into a global logistics enterprise. Our growth in Logistics has helped to offset the decline in Post and Parcel. The

Property segment showed a lower revenue profit, largely due to the sale of our self-storage business last year.

Slide 22: Logistics - H2 & FY22/23 Performance

Going into the segments.

In Logistics, the growth in revenue was attributed with the Australia business. The revenue from FMH and CouriersPlease nearly doubled from $413 million to $815 million for the full year. For the second half, revenue from Australia business was up roughly 41%.

FMH's B2B business continued to perform strongly, driven by increased volume from customers, as well as new acquisitions of new customers. There was also a strong inorganic contribution from strategic acquisitions. This helped to offset lower revenue for CouriersPlease due to the drop in eCommerce delivery and volume post-COVID. But despite its lower revenue, CouriersPlease has improved its margin from operational restructuring measures.

Famous Holdings has recorded exceptional revenue through the pandemic. Since then, sea freight rates as well as volume has started to normalise and revenue has moderated down this year, but still contributing strongly to the Group.

Overall, operating profits are strong, growing 91.3% for the year and 52% for the second half, largely contributed by both FMH and Famous Holdings.

Slide 23: Post & Parcel - H2 & FY22/23 Performance

Moving to the post and parcel segment.

The revenue for Post and Parcel was lower, due to the decline in both the DPP and IPP businesses. Overall, the segment made an operating loss of $12.1 million in the first half and $3.8 million in the second half.

If you look at the chart on postal performance, you can see the direction of the various businesses in this segment.

First in the DPP segment, which comprises the two lines that you can see, the dark blue line and the red line, this is our delivery and our post office network. DPP has benefited from the COVID-induced eCommerce spike in the previous couple of years. However, the loss in eCommerce volumes from a major customer and the continued letter mail decline over the past few quarters has affected our operating leverage. Costs such as labour, utilities, fuel also increased as inflation has increased. This has impacted the cost of operating the post office network as well.

In IPP, which is represented by the dotted line, the business was affected by pandemic-related lockdowns in China, particularly in Q1, as you can see. This reduced its cross-border eCommerce logistics volumes, particularly you can see the drop there in the first quarter. However, we have been actively managing margins by first shifting away from high cost trade lanes, which resulted in lower revenue. Over the past year it's really about managing margins. With the decline in air conveyance costs, IPP is starting to show some improvements.

Slide 24: Strong Financial Position

Moving to the financial position, the Group ended FY2022/23 with strong operating cash flow and with cash holdings of close to $500 million.

We have moved to divest certain non-core assets over the last two years and recycled some of this capital.

As we invest in our strategic initiatives, we continue to remain very prudent in our capital management.

Over 99% of the Group's borrowings in the medium to long term, with about 93% locked in at fixed rates to mitigate any further interest rate hike in the near term.

Slide 25: Dividends

Finally, on to the proposed dividend, the Board has recommended a final dividend of 0.40 cents per share, so together with the interim dividend of 0.18 cents, the total dividend for the year will be 0.58 cents. And this amounts to a payout of 40% of underlying net profit for the year.

The proposed dividend will put up for the shareholders' approval for the AGM.

That makes the end of our presentation, back to you, Selena

Q&A

Selena Chong: We will open the floor for Q&A. We will pass the mic to you if you could raise your hand.

Khang Chuen Ong (CGS-CIMB Securities): Thank you for taking my question. My first question is on the postal side. I think two interesting commentaries that you made in the presentation: (1) that you are expecting continued loss for Post and Parcel segment in the upcoming financial year. Can we confirm if this is mainly for the domestic post and parcel business, or are you referring to domestic plus international combined? Can you elaborate a bit more on your thoughts around this?

The second question is I guess also regarding this segment. You mentioned you are reviewing commercial sustainability for domestic post and parcel. Can you share a bit more on your latest thoughts around this? Thanks.

Vincent Phang: Thanks, KC, good questions. On your first one, we do expect continued loss for principally the domestic postal part of the business. That's related to the high cost; environmental inflationary cost over the last few quarters has been quite significant. The cost of running the postal network in Singapore as well is also a very high cost item for us. That, coupled with the near-term eCommerce pullback, as we talked about, we do expect that to continue to grow. It's not to say that it won't grow, it's just that the rate of that growth relative to the rate of the continued decline in letters versus the cost that we see will present a very big challenge for the domestic postal service.

In the IPP segment, I believe we've covered that in the presentation somewhat. We feel that the signs are improving. We are cautiously optimistic of how this will go. Over the last two quarters, the margins have significantly improved; still a long way from what we used to see in IPP. As we continue to architect this business, it will be increasingly commercial rather than postal in terms of the kinds of services and products that we bring to the market. That settles the first question hopefully.

On the second question, on commercial sustainability, we have been working all these years to manage the costs and to make sure that the operating leverage that we have with the postal network is adequately oriented towards making eCommerce [unclear]. You saw the steps that we provided earlier. Through COVID perhaps is a view of the future, if you see it that way.

When there is that replacement of revenue, the eCommerce revenue replacing the decline in letters, you could see that narrow and it cushioned the business for a while. The letters business is really going through this massive structural decline, as has been happening over the last few years. It's not unlike any other postal organisation in the world, so we are facing the same issues. There is no real underlying revenue support in that letters part of the business, so naturally it has to come from eCommerce deliveries.

We have to review the sustainability of this business in the sense of what are the levers we have, to ensure that we can continue to run this as efficiently as possible. We're also recognising the postal obligations that we have for the country and we take that very seriously.

However, we do feel that despite all these commercial levers that we have on our side, which we will certainly do the due diligence to review. There may be a need for us to also consider other structural changes in time. So those are things that are going to form part of the strategic review that we talked about and once we get through with a bit more detail, we will be happy to share with everybody.

KC, hopefully that answers the question.

Khang Chuen Ong (CGS-CIMB Securities): Maybe just a follow-up on the IPP business. I notice based on your chart on slide 23, the IPP performance for 2023 remains lower compared to the previous financial year, despite I guess China reopening and you mentioning that the conveyance cost has come off compared to last year. Can you help us to understand this relatively lower performance for IPP, despite all these trends? What more can we do to see better recovery in the coming year?

Vincent Phang: The international conveyance for eCommerce global deliveries, cross-border deliveries, has been profoundly impacted as a result of the COVID situation. If I take us back in time, prior to the pandemic, we were managing this business through a postal transhipment model. So generally, the volumes that originate from the market, that is typically China, will flow to Singapore with the transhipment hub and we manage this business. Certainly, this has been massively disrupted with the air freight disruptions and the airport being closed. We didn't have those opportunities as much as we did before the pandemic.

So this business has to be restructured. The margin structures have to change. The business itself has fundamentally been altered with various… I guess the landscape adapting to this new reality. So there’s a lot more direct shipment options from the source market out to the destination market.

As we said earlier, our focus now is to develop the multimodal network. Part of the development is in the investment of making sure that we have all these alternative options. Part of the investment is to ensure that we understand what is this new margin structure going forward. We also, as Vincent mentioned, we have been managing margins as a priority, more so than revenues.

A combination of revenues, volumes and margins will ultimately yield the performance, so I think this a game about scale. Firstly, we have to get this supply chain back again on its feet, serving our customers with some resilience. We have the multimodal network, we need to have the options beyond, alternatives beyond just the old way of doing business through Singapore. That will all take time to recover.

That will give you a bit of colour behind how we intend to revitalise the business, reengineer and I think we never broke up out the detail in terms of specific margins and specific operations for good reasons. But this chart itself (slide 23) is meant to give you an indication of how we see the business in terms of the trends, how once all those strategies, all those activities have come together, the lines should improve and there is some growing confidence that that is improving.

Paul Chew (Phillip Capital): Just three parts to my question. The first on IPP, if we assume the air flights all return back to pre-pandemic, does it matter, because when you mentioned something fundamentally has changed, I just wondered, is it because flights have not returned? Or even if they do return, that something has fundamentally changed? That is my first question.

The second question is just on FMH. Could you give us some colour on what was the organic growth in the second half 2023? I know we can do some back-of-the envelope computation, but if you have the exact numbers that will be helpful, just to understand the growth trajectory. Also on FMH, what are some of the usual operating stats that is enhancing the platform in general?

My last question, sorry, on the restructuring for the domestic letters, what are some of the models that you've seen that look interesting with inverted commas? Or you're moving to new structures that maybe we're not seeing anywhere else, I guess, thanks.

Vincent Phang: Okay, good questions, thank you. I'll take a stab at the three. I just want to clarify your question on FMH, the second part of it, is enhanced platform…

Paul Chew (Phillip Capital): Sorry, because FMH is meant to be a platform, in any platform the two-sided market, whether your getting more suppliers or more buyers, just some colour on the operating, enhances the so-called platform of FMH.

Vincent Phang: How the whole business is run?

Paul Chew (Phillip Capital): Not so much, but in any platform, there's chicken and egg, what is growing? What are, maybe there are more truckers on the platform, more buyers on the buyers side or on the sellers side?

Vincent Phang: I'm going to get my colleagues to all chime in, but let me just - so IPP, I'll say a few words and then maybe Li, you can give a bit of additional clarity on what fundamentally has changed. Simon, maybe you want to prepare yourself to take the questions on organic growth, as well as how you see that platform being enhanced, driving business. And Su Yin, maybe you can also speak a bit about the models.

So fundamentally, what IPP has changed is that a lot of that revenue is now served - what we used to do, that revenue is now served through alternative means so people have started to go direct. So we used to offer a universal service globally with our postal options. It is now challenged. As you can imagine people flying out their wares directly out from China to the rest of the world, bypassing Singapore. Part of it is getting the flights and the capacity back in Singapore to generate that volume.

That said, you need to get it back because people have found alternatives to do this. So that's what we offer to do now, is we have a range of options, so if don't want to come through Singapore, there will be other ways that we can do so commercially. So that's one of the options that we have.

Li, do you have anything you want to add to this?

Li Yu: Yes, I was going to say, to add on to Vincent's point, throughout the pandemic period, you see the disruption of supply chain caused the cross-border volume to structurally decline due to the fact that there's no capacity or air capacity at all. So that's why it takes a certain level of time for the supply chain resilience to come back. Also the traditional way of leveraging the postal solution through one model of transportation to deliver the product across the border has changed and accelerated by the pandemic towards multimodal.

This means that there's a structural decline on the cross-border volumes, so that takes time for it to come back. Therefore, we are cautiously optimistic, at the same time with more flights and to your point, with more flights and the capacity coming back, it will help us to bring those volumes back with more volumes across the border.

Vincent Phang: Hopefully that gives you a bit of clarity.

Lee Eng Keat: The IPP solution is a postal route. As mentioned, there are good commercial options, so the numbers may not flow into the IPP but we will still get the revenue, just to get that clarification right.

Paul Chew (Phillip Capital): If you can hit back scale if flights resume, then maybe your routes will be more competitive than if they do direct. Is that one fair way to assess the whole situation?

Vincent Phang: What we can say, I think the important point is there is still a growing commercial cross-border space. That continues to grow through the years, with growth rates well supported.

It's not for lack of volume and opportunities, it's the fact that over the last two years through the pandemic we didn't really have the means to do it properly. And part of it is structural, part of it is the circumstance of Singapore being in, Changi being in lockdown to a certain extent. So we have taken steps to address those. So maybe in the next one or two quarters I feel maybe we'll have a bit more colour to share how this journey has been.

Okay, Simon, very roughly would you like to maybe have a comment on how you see FMH organic growth and what you see makes the platform successful?

Simon Slagter: Yes, certainly. I don't have the exact numbers in front of me, but we definitely had a stronger first half in terms of, in growth terms, year-on-year, as you would expect, given that the previous year we were obviously in those lockdowns in Victoria and New South Wales.

I think it's the organic growth in the second half of the year certainly slowed when you're comparing year-on-year to circa 15%-odd versus, when we look at the overall full financial year, your organic growth's sitting around 28%, 29%. So definitely the first half there was significant momentum and we were having record week upon record week in terms of growth rates, which really carried a lot of momentum for us for the full financial year.

I just think that there was a significant amount of pent-up demand, or I don't think, I know there was a significant amount of pent-up demand that once the markets opened up, there was a lot of activity specifically in retail, which really commenced around that Easter period last year and then kind of carried on right through to Christmas.

But as you'd expect with interest rate rises the first three months of this calendar year, things have cooled in the markets and it's quite freely available in the press in terms of what's happening in the market shows it's common across the rest of the globe.

But we definitely have also benefited off the back of a cooling economy, it has meant that a lot of shippers of freight have looked for additional or more cost effective transport solutions. So we're seeing a significant amount of new business coming on, so that's the great kind of cycle of our business - that when times are good, you kind of ride the wave of increased volumes from your existing customers, that when the economy cools, you pick up a lot of new business. That's kind of how we're seeing it, so whilst the growth rates have cooled, there's still significant obviously growth in the underlying customer base.

Your second question around the platform, I think what you are - in terms of the model that you're referencing, obviously I understand that model quite well because that's typical of what happens in the US, where essentially, they've got business development individuals actually looking for new suppliers to bring on to their platforms.

From our perspective, typically what we will do is, we will - it's not as, I guess, transient as that - we will identify carriers that are required to meet a customer's logistics solution and then we will onboard them. But it's quite a rigorous and onerous onboarding process, so whilst we deal with circa 200-odd different carriers, only about 150 of them would be common and regular. And we don’t look to grow those unless we absolutely need to. Because of the safety aspects that go with managing a carrier panel, we don't necessarily want to be bringing on additional carriers unless we absolutely have to. So certainly from a platform perspective, the activity, the significant activities on that customer side, where you're bringing on customers across each different segment as often as you possibly can because that obviously drives growth, so it’s slightly different.

I think our broader future plan will be to obviously open up the network to include more transient carriers like your subcontractors and your owner-drivers and the like. But at this point in time, we don't have the requirement to do that, because I guess our existing carrier panel can meet all of our existing requirements. Does that answer your question?

Because I think what you're referencing is the US model, where effectively they're bringing online more providers, because the broker or 4PL model there typically is to address customers less than truckload and truckload requirements, as opposed to parcel and priority requirements. It's very different in Australia, where we provide an exclusive multimodal solution, where we're doing every different service that a customer could require. But there's a lot of volume in that, so it's not optimal to be bringing on carriers willy-nilly, because there's so much admin that goes with it and so many safety aspects that need to be managed. Does that make sense, Paul?

Vincent Phang: I think in my discussion with Simon as well, I think we are pleasantly surprised with the strength of the business even after coming out from COVID. I think we do recognise that there was a period of time through COVID that because of the disruptions, how we could get into the act and support our customers with their resilience. Because we just have on the other side so many different options for our customers, that was a huge plus point for customers to be on board with us.

And on the other side of the pandemic, now coming out, they continue to see us as a partner that helps them, I guess, manage their costs, because we do have all these options still. So I think on both sides, on the resilience front and as well as the cost front, we are adding value to our customers.

The rest of it, as Simon mentioned, is just managing the utilisation, making sure that the partners that we have as well are effectively utilised and everybody gains from it. I guess that’s the power of the 4PL, and in a way, if I can just allude to it, is that's how we see our brand and logistics growing as well.

So in the international space there ought to be a way, so rather than using a postal solution throughout, like what we used to do pre-pandemic, it is going to be a lot more about integration with partners, different opportunities, getting the products across and then having alternatives to have those delivered at any one time.

On that note, maybe I'll ask Su Yin to comment on what you see about the models going forward for postal in domestic.

Neo Su Yin: I think there are three parts to this.

Primarily the first part will be what we do within the business itself right now. There are obviously still opportunities for us to continue to grow the eCommerce piece. I think the market in Singapore and the landscape, given that the cost is continuing to rise, it will affect all other players in the market. So I think that we have an opportunity, given our strong infrastructure and infrastructure strategy, I see opportunities for cost optimisation, cost management, which will give us a lot more efficiencies and higher productivity. And hopefully it will be more profitable compared to some of our competitors. From an eCommerce perspective, I think we are still very optimistic about how that could continue to grow in terms of our share wallet and even the market share within Singapore.

On the postal business side, I think there are definitely opportunities in the regulated business to look at some of the structural changes that can be taken in terms of costs. This is something that we are going to reference, so my second point would be we reference some of the other postal organisations in the world. Seemingly we're not the only ones that are in this situation right now. Royal Mail, Australia Mail, have all spoken up quite fervently about the decline in postal, Malaysia Post as well. So I think these are good opportunities for us, interactions with the other postal organisations, to understand what are the challenges and how they are also looking at restructuring their businesses.

I think we also have some view on that but I think that will have to involve relevant discussions with stakeholders to see how that can be supported moving forward in terms of the overall structural change. So at this point in time, I think it's still fairly early for us before we land on a fixed model, but I think there are definitely avenues for us to discuss with the relevant stakeholders on what are some of these models moving forward.

I would say that if you look at some more developed countries, I think there are very few that are in our situations, where they are listed. But we do understand that there are multiple models, so one is we could be looking at potentially what it would cost to deliver an item. Now we pay fairly cheap postage rates, as Vincent highlighted, that could also be an opportunity. But that would have to be discussed with the relevant stakeholders.

Chu Peng (Bank of Singapore): I understand that conveyance costs actually declined year-on-year, but how does it compare to pre-COVID levels? Do we ever expect it to return to the pre-COVID levels, or it's likely to be higher?

Vincent Phang: I have a tongue in cheek way to answer your question. Air tickets are still quite expensive, right? Well, it's anybody guess when it will come down. I think capacities are still not quite where they should be. I think from what I read, probably about, at best 70% or 80% of capacity has been restored, so there's still some ways to go before we get back to pre-pandemic kind of air capacities.

A lot of our work that we do relies on a combination of belly space and cargo flights. Cargo flights have pulled back since the coming out of pandemic. Belly space has increased but not quite back to where it used to be. So there's still going to be a little bit of time before we get to all that capacity being restored. I think it's still elevated compared to what we used to see.

Li, do you know what the number is? How do you see it right now compared to pre-pandemic numbers, or what numbers you expect going forward?

Li Yu: To answer your point, I think we're around 70% in terms of where we are, in terms of air capacity. So therefore, still a long way to go, but cautiously optimistic that we can see some breathing air towards the Q3 of this year would be good ideally. But you can see the overall freight forwarding supply chain market is largely not recovered yet from the supply chain side. So there also looking to the trend of this, but to answer your question, I think getting the air capacity back to normal will be one of the key areas that we can benefit from.

Chu Peng (Bank of Singapore): I think last time the number was almost double the pre-COVID levels, so now should be lower than that right, 1.5?

Vincent Phang: Probably around there, it's not back previous but it's not double, but it's come off. That's been helpful and shows the trajectory, I suppose, but it's still elevated, probably 1.4, 1.5 times.

Chu Peng (Bank of Singapore): Okay, thank you. Then also could you also comment on the eCommerce trend, what opportunities are you seeing or what trend are you seeing now?

Vincent Phang: Do you mean locally or globally?

Chu Peng (Bank of Singapore): Maybe both locally and internationally.

Vincent Phang: I will, maybe to add a little bit more colour, I'll invite my colleagues to also chime in. Maybe Su Yin, you can comment about the domestic piece, Li and maybe Richard, if you want to have a stab at how you see things developing in Australia, which is a very big market for us.

Generally, everybody saw a huge bump through COVID - stores were closed, online options became the way people were buying things off their mobile phones and eCommerce platforms. That has certainly come off, so that huge bump has gone away with stores opening. That certainly has been the way it has turned out.

The other issue is consumer sentiment. All around the world it's a big challenge, so I think discretionary spending is lowered and everybody is a bit more cautious with how they spend their money.

That said, there is this long-term trend line that if you go back to pre-pandemic, there is that line. The COVID bump was this anomaly that came about over the last two or three years, but the long-term trend line continues to be there. Estimates are that globally it should be say 15%, 20% type of CAGRs that we see for the next few years. So that's a general viewpoint from me.

Maybe I'll just ask Su Yin if you want to comment a bit on how you see it in Singapore.

Neo Su Yin: I think domestically where we've observed and as Vincent earlier pointed out, you do see the eCommerce volumes softening, but I think the trajectory is still on the up, on the uptrend. When you regress this to the pre-COVID period, we do see the growth continuing actually on a fairly double-digit kind of trajectory.

I think where it's interesting now is that obviously with social commerce coming in fairly strongly with platforms like TikTok and all, we do see a change in the way buying behaviour takes place. So I think that is obviously a new market within the eCommerce within Singapore that we see is growing. I think that's also quite prevalent in Southeast Asia, so that is also one possible new avenue.

The other one is actually reverse logistics. I think where we come in quite strong with reverse logistics for eCommerce here in Singapore is our infrastructure strategy. Quite a lot more customers now are looking for return options. I think the buying behaviour over COVID has changed the way people look at buying things online, which means there's always a quick opportunity for you to return something. This is where we also see an opportunity based on our current strategy that we could expand our eCommerce offerings to.

Li Yu: Just to add on, I think globally we are seeing, and we're building a stronger commercial network, so globally the eCommerce trajectory is still going to grow. Multiple marketing researchers were talking about 20% to 25% CAGR growth in the next six to seven years, so that's a long-term stretch that Vincent's talking about. Where we are focusing on are on the areas of China and North Asia market, Southeast Asia market and working with our Australian partners on growing Australia together.

So these are the areas that we traditionally have a clear synergy in terms of our business model, to enable that cross-border shipment among those key areas and continue to capture that growth. The long-term outcome for the eCommerce growth is still going to be there.

Vincent Phang: Richard, do you have a comment for Australia?

Richard Thame: Yes, we're certainly seeing similar trends in the Australian market and I think to Su Yin's point, what we have noticed in the last 12 months or so is just an enormous shift in consumer behaviour. There's certainly additional foot traffic going back into traditional shopping centres, but the one standout thing for us is the rise of the subscription economy here in Australia.

What I mean by that is that traditional staple items that people would have bought on a regular basis, things like pet food, for example, they now don't want to carry home themselves and they would rather have that delivered on a regular basis. So we see that as something that's going to significantly underpin that double-digit growth that we expect to see in the eComm market here. There's no doubt that the market has settled back down to pre-COVID levels, but we're reasonably confident that we'll see it continue.

Certainly consumer confidence here in Australia has been impacted by 11 interest rate increases in the last 12 months, but interestingly we've had our national budget here in Australia this week and already economists are talking about interest rates dropping again. So we're reasonably buoyant about demand into the future, but I think what we have seen is a change in buyer behaviour that will become a sustained change.

Chu Peng (Bank of Singapore): Thank you. My last question is on the labour. Are we still facing any labour shortages in Australia and Singapore?

Vincent Phang: Labour shortage? Labour challenges? Okay, maybe Su Yin and Richard and Simon, if you want to chime in please.

Neo Su Yin: Yes, I think post-COVID we do see the labour market, especially the foreign labour market, being compressed somewhat. We don't see as many Malaysians coming across, I think that's been a change in their lifestyle somewhat. But I think the labour challenges are really focused on the Singapore labour market. It continues to be challenged because I think getting local domestic labour to do the kind of work we do is, continues to be, difficult.

I think where this is challenging the team here in Singapore is to review probably the job portfolio. I think it's very similar to if you look at in the past - bus drivers, then we providing the nature of work, or we providing the name of the titles help attract hopefully more local talent. I think we are also taking this opportunity to look at upskilling our people, introducing innovation, transformation, digitalising our workspaces, I think to attract more domestic labour to join our workforce as we transform what used to be a traditional postal organisation to one that's a logistics company.

Richard Thame: If I can add from an Australian point of view, I think there are two aspects of the labour challenge here. There's certainly been a shortage of labour, just access to people and that's obviously a consequence of lockdowns through COVID. There have been government announcements here in Australia that will see work visas extended to more than a million people over the next couple of years, so certainly that will help address that chronic shortage of labour.

I think the other aspect is the cost of labour. It's been incredibly expensive to get people and throughout COVID, people had different expectations about the type of work that they want to do.

I guess one of the things that is worth pointing out is how we are uniquely, somewhat uniquely positioned in the Australian market. One of the points of difference here in our delivery business is that we are a franchise model. Franchise businesses typically do better and find it easier to attract people during tough economic times, and we expect this time around to be no different. So in that sense, we are finding people that want to invest, come into the business, invest in a business, because they do see it, for all the reasons that we've just described, as a growth industry and an opportunity. So I think that is a nice point of difference for us in that business to consumer space, particularly with the increases that we expect to see long term in eCommerce volumes.

Vincent Phang: Thanks, if I can just add a bit more to what my colleagues have said and I note your questions about eCommerce. So here's what I feel about our three different markets. Clearly the three different markets have very different challenges in terms of their eCommerce networks.

Starting with Singapore, we've always said this, we have the best operating leverage, we have the infrastructure advantage on our side. There is a structural issue in a sense, that is always meant to address the postal delivery system and postal revenues are challenged as a result of the continued decline. We have been putting it to good use in the sense of putting eCommerce volumes through it. And as we saw in the past with that, that with sufficient volume it can be done.

So there is a near term pullback, there's the customer who decided to insource. I think the challenge for us is to still grow on market and wallet share with customers. As Su Yin has mentioned, we have grown outside of this one customer, we have grown wallet share, market share with the rest. That will have to be the way we see meeting this challenge head-on. There's a range of competitors in the field, this is quite a fragmented market and we continue to offer what we believe will be the best experience and the best cost efficiency, effectiveness, doing delivery. So that is the challenge and that is how we will address that.

In the International business, we talked about it, it's about having alternative avenues, alternative channels, not being wedded to what we used to do in the past, and bringing those alternatives to create value for our customers.

In Australia, just to complement what Richard said, our eCommerce deliveries in Australia, we are not a big player, so we are still relatively small, we are an entrant. So we have, Richard, is it 4%, 5% of the market at best? I think there's a lot more we can do.

So if you think about the international business coupling with Singapore and Australia business, bringing volumes through the network so that it's delivered by our own businesses in Singapore and Australia. Those will be our core markets. We define them as our primary markets. That will be one way to make sure that we pump the volume through. Richard's been getting a big bunch of things from Li's business we deliver in Australia, so that's how we see ourselves cooperating.

Selena Chong: We have time for maybe one more question.

Khang Chuen Ong (CGS-CIMB Securities): Thanks for taking my question again. If we look at the logistics segment in terms of EBIT performance on a half and half basis, it seems pretty flattish. Can you help us break it down in terms of your three business segments, Australia business, freight forwarding and other logistics, how this has trended on a half-on-half basis? Because I imagine that freight forwarding would have come off, but that is offset by the other two.

Vincent Yik: You're looking at, the three businesses within…

Khang Chuen Ong (CGS-CIMB Securities): Within logistics, on a half-on-half basis, do you have the breakdown, how the EBIT looked like?

Vincent Yik: By individual businesses half-on-half?

Khang Chuen Ong (CGS-CIMB Securities): Yes.

Vincent Phang: From an operating profit EBIT standpoint?

Khang Chuen Ong (CGS-CIMB Securities): Yes.

Vincent Phang: As I mentioned earlier, we don't break down in terms of OP specifically for numbers, we never show it that way, but we can add a bit of colour in terms of the narrative.

So yes, the freight forwarding business, Famous Holdings, has a huge exceptional revenue and profits the year before. For the most part of this last year that has just closed, it continued to contribute very strongly. But towards the tail end of the year, say maybe Q3 onwards, second part of Q3, there has been a normalising. We see the numbers coming off, both from a revenue standpoint as well as from an earnings standpoint. So while the full year still had a huge benefit coming from the first half of the freight forwarding business, the second half has certainly not, moderated down. So you see the contribution accordingly.

You know from this chart, you'll see that revenues have come off, $271 million in H2 last year, where it's $183 million, so that's really showing us a 30% drop in terms of revenue. Maybe that gives a bit of clarity. I'm not sure if that was your question.

Khang Chuen Ong (CGS-CIMB Securities): Would the EBIT perform for FF be bigger compared to the revenue drop in second half?

Vincent Yik: Generally as a business, the freight forwarding business margin is relatively stable. For every dollar we make, the margins are relatively stable. The decline is essentially rates and volume, so as rates come down, as volume comes down, you will see the same flowthrough effect with the EBIT numbers.

Khang Chuen Ong (CGS-CIMB Securities): With the rising costs that you mentioned, can you help us understand a bit better across your three different eCommerce lines, what's the possibility of us passing on this cost pressure via cost increases? I think in Singapore you're quite capped because there's a regulatory requirement, but for the other two markets, is it possible to raise unit prices?

Vincent Phang: Different markets have different challenges and structures, I suppose.

For us here in Singapore, eCommerce is less a regulated issue than it is a function of the competition. We do note that customers have started to - when I say customers, I mean, say like platforms and marketplaces. They have been in the past, I think - and Su Yin, correct me if I'm wrong - in the past, pricing has always been a very, very big driver. In this market it's all about the concept of, this notional free delivery. You will start to see that in your purchases, start to see it's not really free anymore. You generally have to pay something, a dollar or $0.99 or something, or $1.49 or something. If you make a certain basket and you make enough, then maybe you can get a coupon and then the voucher is issued, the free delivery.

So we see pricing not really being the number 1 driver now. It's still high, it's still an important consideration, but service quality and resilience and being able to serve customers, I think some of the decision-making has veered towards making sure that there is some form of longevity, there's some form of service quality.

It's really a very fragmented market and you never know what you're going to get. So I see that changing, hopefully through time that means that we have better ability to move on pricing, but it is still rather fragmented in that sense. Su Yin, I think you will agree on that.

Neo Su Yin: Yes.

Vincent Phang: For international, it is a scale play, so if someone else can get an aeroplane for cheap to fly from China straight out to say Europe while we continue to offer only opportunities to Singapore, we will never be competitive.

I think in a sense, it's the cost structure that needs to be rationalised, the moves that we're making in the market to create other opportunities for us. That will be significant to lowering cost. But pricing is still a big factor for some of the decision-making there.

I think in Australia, and if I can invite both Simon and Richard to chime in if you've got a comment or two, I think in Australia the market tends to be a bit more rational. It's the concept of paying for service, especially in logistics, that's always been in the case. For example, our deliveries here would be $2, $2.50, $3, but Richard will be charging A$5, A$6 to do something. So I think there is a different willingness to accept that level. I think we've had some track records of passing on a few surcharges onwards to customers.

Richard, can I invite you to say something? Then Simon, if you want to say something.

Richard Thame: Yes, sure and I think the sheer geography in Australia and the vast distances that need to be covered means that that's become absolutely necessary. Your point, Vincent, about fuel surcharges is a terrific example of that, given those distances, enormous parcel volumes, particularly through COVID, the markets had no choice. I think there's been also a general acceptance by consumers who've certainly seen and been impacted personally by those fuel prices as well, so they understand that.

But I think there is certainly a price service trade-off. It's still incredibly competitive and again, we're very much in the eCommerce space as the challenger brand here in Australia. But I think the market is certainly starting to normalise and I think better understanding of the cost of doing business. There's an enormous focus here on inflation across the broader business community as well and I'm sure, Simon, you're seeing that as well in the FMH business.

Simon Slagter: Yes, when the industry is benefiting off very little capacity in their networks, it is a lot easier to be passing on cost increases and that's kind of the period we've been in for the last two to three years. I think as capacity becomes more available, there's going to become more options on the market, so it'll become more competitive.

But if your service is good, I do still believe that it's important to customers that their product gets to market. It's more important than obviously saving a couple of dollars, because if shelves are empty, they don't sell their products. So I think as long as your service is appropriate, you can definitely still pass on increases but maybe not to the extent that we've been able to over the last two to three years.

Richard Thame: I think the other thing that's maybe worth noting is that there are a lot of players in the Australian market, but just to truly service enterprise customers, the way that they require the service to be provided, there's really only still a few players that have the network depth, breadth and scale to be able to achieve that.

Vincent Phang: I hope that answers, KC.

Khang Chuen Ong (CGS-CIMB Securities): Yes, maybe just squeeze in one last question on the international front. I think Eng Keat just now brought a pretty interesting point which is that for the international part, we can't look so much at just purely postal. Going forward, it's a combination of postal and commercial arrangements. Going forward, should we be looking at IPP and Quantium together, are there closer working relationships between the two? And how are you going to change your financial breakdowns in terms of reporting to address that, I guess?

Vincent Phang: I'll ask Li to comment a bit about how he intends to integrate the businesses. I did allude earlier that the way we see our business developing is markets are represented. So understandably all this time we try not to move away from the segmental reporting because it's just confusing for everybody. So there's Post and Parcel, there's Logistics and there's Property.

But the way we see ourselves is we're not – we deal with the simple things first – we're not really a property business, so in a sense the properties exist to support the operation. Because we do have some investment properties here and there, it's always helpful to have a bit of annuity coming from that. But it's not really a business focused area.

As for Post and Parcel, it's increasingly less postal, it's increasingly a lot more commercial and eCommerce. So in our minds we really are logistics and if you look at our numbers presented, 86% of the business is logistics and sourced internationally. So I think it makes it a bit strange for us to then still be presenting ourselves as Post and Parcel, Logistics.

But we want to do it in a way that helps everybody understand us better. That's not how we operate at this moment, it's how we report it but that's not how we operate it. You've seen the feedback from the CEOs, they're responsible for their own markets – Singapore, international and Australia. We will progressively move towards that operating model and hence all the assets that we have will be aligned to those areas. These businesses have their own strategies and Australia's may - they're all linked right at the top, but individually these businesses have their own strategies and they pursue their own actions in their own markets.

So you'll see possibly, to your point, we don't see International business just being IPP. Increasingly it will be more commercial and the Quantium network that we have is a fantastic addition to making this work for us. That's why it''s less IPP versus Quantium which is a logistics business, IPP is Post and parcel. Rather it will be one under a banner called international business. So maybe at this point, I'll ask Li to share some of his thoughts.

Li Yu: Yes, I think, Vincent, you covered it all, but just to add on, traditionally we've always looked at IPP as the key foundation of driving international cross-border volumes. Throughout the pandemic, we realised there should be a multimodal approach on this one, so therefore more emphasis on the commercial piece, leveraging the Quantium Solutions network. So in the future we are always diversifying our volume towards both IPP and commercial. IPP itself represents the postal solution that we can always leverage, which is the foundation.

But on top of that, we are developing more commercial solutions across the different lines to drive more multimodal approach. So therefore, to Eng Keat's earlier point, ultimately all the eCommerce volumes coming into Singapore, to Australia and across the globe delivered by SingPost will be driven by postal and commercial solutions, and more focus will be on the commercial side.

Vincent Phang: Thank you. Selena.

Selena Chong: We've come to the end of this session. I want to thank everyone for joining us and also to our viewer online, thank you.

End of Transcript