SingPost's Q2 & H1 FY18/19 Results Analyst Briefing, 2 November 2018

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Operator:

Ladies and gentlemen, thank you for holding. We are now ready for the briefing. I shall now hand over to the management of SingPost to begin the briefing. Thank you, please go ahead.

Mr Jason Lim (Vice President, Investor Relations):

Good morning. Welcome to SingPost's results briefing for the second quarter and half year of FY2018/19. I am Jason from Investor Relations. With me today is our Group CEO Mr Paul Coutts, as well as our Group CFO Mr Richard Lai, joining us for the first time.

I'll now hand over the session to Richard.

Mr Richard Lai (Group CFO):

Thank you, Jason. Good morning and welcome to our results briefing. Let me first share an overview of our Q2 results. Group revenue was up 2.2% to S$368.7 million. We recorded strong growth in profit from operating activities, up 33.5% year-on-year to S$40.0 million. Due to negative contribution from associates, with 4PX continuing to invest for growth, underlying net profit rose a little lower by 0.4% to S$28.1 million. Having said that, we have just announced that 4PX has completed the issuance of additional shares to Cainiao. With that, our stake will be diluted to 19.75%, and we will cease to equity account for 4PX as an associate going forward. The Board has declared an interim Q2 dividend of 0.5 cent per share, same as last year. This brings total dividends for the year to 1.0 cent so far.

We shall now move on to a more detailed analysis of the P&L statement. The revenue growth of 2.2% was mainly due to higher contribution from International mail and Property. Growth in Profit on operating activities was driven by higher contribution from the Post & Parcel, Logistics and Property segments. Associates and JV recorded a loss of S$3.6 million, due largely to 4PX which continues to invest to handle the growth in cross-border eCommerce volumes from the Alibaba Group.

In Q2, the Group recorded an exceptional loss of S$2.9 million due mainly to fair value loss on warrants from an associated company, compared to a fair value gain of S$0.9 million last year. Consequently, reported net profit declined 12.9%. Notwithstanding the exceptional items, we managed to maintain the underlying net profit.

Operating expenses declined 0.4% in Q2, demonstrating the success of our cost management initiatives. Excluding volume-related expenses, operating expenses would have declined 7.4%. Volume-related expenses remain the largest cost component for the Group, and rose 4.9% in Q2 in line with the higher volumes. Labour and related expenses declined by 6.2%, as our productivity enhancement and cost management initiatives led to lower contracted labour services as well as lower staff costs. Administrative, selling and other expenses declined 11.1%, as higher property-related expenses relating to the new retail mall were offset by lower professional fees.

Let me share some operating highlights for the quarter. We have made significant progress in Winning in our home market. Parcel sorting volumes at the Logistics Hub rose 38% year-on-year to 21,000 parcels daily. Utilisation was 21% compared to 15% last year. With respect to Extracting full value from our investments, Quantium Solutions' losses narrowed significantly compared to last year. As announced, 4PX has completed the issuance of new shares to Cainiao. This will deepen the business integration between 4PX, Alibaba Group and SingPost for cross-border eCommerce volumes. Under our Drive to cost leadership initiative, we have successfully reduced operating expenses by 0.4% for the quarter, even as revenue rose 2.2%.

eCommerce related revenues now make up 51.3% of Group revenue. For Q2, eCommerce-related revenue rose 2.2% year-on-year, driven by higher eCommerce deliveries on our postal and parcel networks. This was partially offset by revenue decline at our eCommerce business segment.

This chart shows the impact of various segments on underlying net profit. Profit on operating activities from the Logistics, Property and Post & Parcel segments rose. However, these were offset by negative contributions from the eCommerce segment as well as from Associates & JV. Consequently, underlying net profit rose slightly by 0.4% in Q2.

Let me now move on to the Cash flow and Balance sheet. For the half year ended 30 September 2018, Operating cash flow before working capital changes rose 11% to S$105.1 million, from S$94.7 million last year. Working capital movement was negative S$76.0 million in the first half of the year due to the timing of out-payments in respect of international mail terminal dues. As a result, net cash inflow from operating activities for the half year ended 30 September 2018 declined to S$11.8 million, from S$50.5 million last year.

Capital expenditure declined to S$18.8 million for the quarter, compared to S$38.9 million last year, due to the completion of the SingPost Centre retail mall redevelopment. Consequently, free cash flow was negative S$7.0 million, due largely to the timing difference in out-payments. Since the close of the period ended 30 September 2018, the Group has received payments amounting to about $50 million, which will be recorded in the cash flow statement for the period ending 31 December 2018.

We now move to the balance sheet and financial indicators. Cash and cash equivalents stood at S$285.2 million as at 30 September 2018. Total borrowings rose to S$293.7 million as at 30 September 2018, as the Group switched from an intercompany loan for a foreign subsidiary, to an external loan for better matching of currency. The group was in a net debt position of S$8.5 million as at 30 September 2018, due largely to timing differences in receipt and collections of payments. EBITDA excluding exceptional items rose slightly to S$100.8 million for H1. Notwithstanding the increased debt, interest coverage ratio stands at 20.8 times for the first half of the year, compared to 17.4 times last year.

We will now move on to the segmental results and for this I will hand you over to Jason.

Mr Jason Lim (Vice President, Investor Relations):

The next slide provides an overview of the various segments' contribution to Group revenue and operating profit performance for the quarter. For Operating revenue, the Post and Parcel segment remains the largest contributor, followed by the Logistics and eCommerce segments. In terms of Profit on operating activities, Post and Parcel is also the largest contributor at S$42.1 million, followed by the Property segment at S$13.3 million.

The Logistics segment reported a positive contribution of S$0.3 million for Q2, compared to a S$9.0 million loss last year, which had included a doubtful debt provision of S$5.2 million. eCommerce segment losses widened to S$11.2 million due to challenges in the U.S Businesses. Next, we will take a closer look at each of the segments.

In Post & Parcel, revenue rose 1.6% in Q2 and 3.6% in H1, as higher international mail revenue from cross-border eCommerce deliveries helped offset the impact of lower domestic letter volumes. The Group is starting to reap operating synergies from the ongoing integration of our last mile delivery capabilities in the post and parcel divisions. Profit on operating activities rose 5.1% in Q2 and 0.5% in H1. This was driven by higher margins from our domestic last mile eCommerce-related deliveries.

In the Logistics segment, revenue rose slightly in Q2, driven by the freight forwarding business under Famous Holdings. This was offset by revenue decline at Quantium Solutions, which lost some customers amid an ongoing review of unfavourable contracts in order to improve profitability. For H1, Logistics revenue declined 1.0% due to lower revenue from Quantium Solutions. The segment registered profit on operating activities of S$0.3 million in Q2 and S$0.4 million in H1, compared to operating losses last year. This was largely due to a reduction in losses at Quantium Solutions.

In the eCommerce segment, revenue declined 0.5% in Q2 and 2.4% in H1. The U.S businesses were impacted by pricing pressures due to competitive intensity, which also led to certain customer contracts being renewed at lower rates. This was exacerbated by an increase in costs due to ongoing initiatives to integrate TradeGlobal and Jagged Peak, as well as investments in automation. As a result, operating losses rose to S$11.2 million in Q2 and S$20.5 million in H1. The Group is executing on the business plan, and we remain focused on growing volumes and managing costs in the upcoming peak season.

Property segment revenue, which comprises commercial property rental and the self-storage business, rose 20.7% in Q2 and 26.5% in H1. This was due largely to the SingPost Centre retail mall which re-opened in October 2017. Committed occupancy for the mall improved to 99.1% as at 30 September, up from 96.7% as at 30 June. Boosted by rental income from the retail mall, profit on operating activities rose 54.1% in Q2 and 60.3% in H1.

With that, we conclude our presentation. Thank you.

We're now ready for Q&A session. Operator, please.

Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press *1 on the telephone and wait for your name to be announced. If you wish to cancel your request, please press the '#' key. Your first question comes from the line of Azita Nazrene from Macquarie. Please ask your question.

Ms Azita Nazrene (Macquarie):

Hi, I did notice that your parcel sorting volumes is up 38.0% year-on-year, however for SP Parcels the revenue is down 2.5%. Could you kindly explain that? Thank you.

Mr Paul Coutts (Group CEO):

So Azita, thanks for the question. One of the things that we talked about previously is that we are kind of moving away from talking about postal and parcel in Singapore and talking more about last mile delivery and last mile infrastructure and capabilities that we have in Singapore. What that means is that from a business perspective, we are collaborating a lot more closely in terms in that postal and parcel divisions which had previously been two separate units, so we are bringing those closer together. One of the synergy benefits that we have gained from that is that we have actually injected a lot of that parcel volumes through into our postal business, and that's where you will see in terms of our domestic postal numbers – we can see that the decline is slowing. Part of the reason for that is the benefit that we are getting by injecting those parcels into our postal network.

Ms Azita Nazrene (Macquarie):

OK I understand, thank you so much.

Operator:

Your next question comes from the line of Varun Ahuja from Credit Suisse. Please ask your question.

Mr Varun Ahuja (Credit Suisse):

Hi, good morning everyone. Thanks for the opportunity. I just wanted to check on the International mail – it continues to be pretty weak compared to what we have seen last year, just want to hear management's commentary. How should we think about this now? Obviously this was supposed to be growth. Is this still related to the terminal dues structure or competition? So more clarity and reasons for this subdued performance and how should we think about this in the next 12 months or next year? I know SingPost does not provide any guidance but any colour – should volume pick up or it should remain at this level would be helpful.

Number two, the Logistics business clearly has shown improvement this year but I am just wondering is there anything that may lead to this business turning into losses again? Like what we have seen in the U.S business, is the trade war or anything that may be of concern that we should watch out for in the Logistics segment that would again start making losses, or is this turnaround for real? Anything that worries you on this business – that would be helpful.

Thirdly, U.S business has been a disappointing set of numbers for the last six months. Wondering here if the management has been able to get to the root of the problem? What is it that you understand now? Do you have more clarity because last quarter the discussion was suggested that you still need to watch out? Now that six months have passed, any more colour on this business and what is happening?

Fourthly again taking to the U.S business, do you think this is critical or how does management see this business as a whole of SingPost? Whether is it significant to the whole company? It has been loss making; it has gone through impairment losses – do you think it will enhance shareholder value if you sell this business? It will give a bit more support to the earnings given the stock is a bit depressed because of the loss it has been incurring from the U.S business? That is from my side, thank you.

Mr Jason Lim (Vice President, Investor Relations):

OK Varun, I think we will just tackle the questions one by one. The first will be on volumes in International mail.

Mr Paul Coutts (Group CEO):

Maybe I can try and answer that, Varun. Thanks for the series of questions, we will go through them one at a time. We have been really pretty clear when the terminal dues were increased that it's obviously going to take some time for us to kind of wash through, for us to be very clear in terms of what the true impact is – not only for SingPost but also for the industry. We have also made it clear that we want to focus in areas where we believe we can add value but also get value in return, so we are not going to go for growth just for growth's sake.

I think the temptation when you are in the eCommerce space is to simply go after market share and simply go after volume. We have seen that with a lot of our competitors that is a very dangerous space to play in; it's not one that we are going to play in. We are going to be clear in terms of our strategy in the sense that we want to make sure that the International mail business that we go after is truly going to be profitable and accretive to our earnings. So we have taken a conscious decision to step away from some of those volumes which would have been unprofitable for us and it is part of our mitigating measures to make sure that we are managing our profitability. We are carefully managing not only the volume mix itself but also the product mix, the weight profile and mix, the geographic mix whilst continuing to watch how we manage the EBIT.

The other thing is that from an industry perspective we certainly see some early indicators of slowdown in terms of Chinese outbound eCommerce volumes. I think in terms of the terminal dues increases – what I do believe has happened is that we see a bit of a structural shift perhaps taking place because those increases may have made it unsustainable for a lot of lower value products to be sold on the platforms by the merchants and that's perhaps contributing to the slowdown that's taken place in China outbound eCommerce volumes. So we are being selective; we are trying to make sure that we still have a volume increase but the volume increase that we are getting has to make sure that that is value accretive to our business and that's where we are focused.

Mr Jason Lim (Vice President, Investor Relations):

The second question will be on Logistics. Is there any improvement in the turnaround story.

Mr Paul Coutts (Group CEO):

Again, good question. It's obviously a challenge in terms of the Quantium business which we know has been a challenge for a few years – last few years it has been a loss making territory. We declared the losses last year, we also talked about the fact that we had a turnaround plan in place to kind of re-engineer the business and actually reduce those losses. I think we are gaining traction in a number of areas in terms of Quantium; we have re-engineered the cost base reasonably significantly and some of that re-engineering continues to take place. We have talked in the previous quarters as well about the fact that we are reviewing a lot of our customer contracts which were unprofitable when we had to either achieve price increases which would take it to profit or we had to make decisions to exit from some of those customer contracts. We have done that and also we have had to take decisions to exit from some customers, hence the reason why you see the revenue probably is a bit more depressed than you would normally expect but there is also a benefit to it in terms of P&L. At the same time, as you know some of those contracts have been exiting, we have also been onboarding new businesses and new revenue streams and continue to do so. So we are going through a bit of a transition period; that is the focus for us in terms of continuing with our turnaround plan.

With regards to whether we will continue to see that improvement, obviously we are very focused on that; the turnaround plan has not stopped, we are still on with it. We also have to be conscious of the fact that the macroeconomic environment is changing very quickly; we are seeing that in various parts of the world. We have to be agile enough to be able to adjust, that's where we are focused on – making sure that we are monitoring and measuring any impact of some of those significant changes that are taking place, and adjusting accordingly so that's where we are at.

Mr Jason Lim (Vice President, Investor Relations):

So with regards to the U.S, what is the root of the problem and whether it is integral to our operations?

Mr Paul Coutts (Group CEO):

Yes, so can I just go back to the Logistics because I think there are a couple of points that I would sort of make. Famous continues to perform well within Logistics and it is important to recognise that; there has been a general increase in freight rates through the course of the end of Q1 going into Q2 which has also led to improved revenue and earnings. I think the airlines and the shipping lines in particular have been managing their space better and getting higher utilisation which is also helping getting freight rates up, so that's good for the industry. The main contributors to our business in Famous which is Japan and the Netherlands have seen also good increases in their ocean freight consolidation volumes of 6% and 11% respectively, so Famous continues to perform well and we continue to integrate CouriersPlease into our group Logistics network to drive synergies and improve the returns.

I can continue now with the U.S, not forgetting to move on to question three. So a couple of things – we have talked in the last quarter about the fact that we certainly saw that the U.S have had a bit of a speed bump and we quickly identified over the course of the weeks after that that we had to adjust our plan, and that meant that we had to kind of reshape some pieces of the U.S turnaround plan and put more emphasis on some key areas in restructuring it. We have been working on that in the last few months or so and we will continue to do that.

We are upgrading our sales pipeline, we have put in more automation prior to the peak season; we have now got robotics up and running in our warehouse there which lessens our dependency on labour. As you know, labour is actually a big part of the cost base for us. We are also going through a contract review process and have been for the last six months or so in terms of the customers and making sure again that those customers are profitable. We are continuing to apply those rate increases and margin improvements as part of an overall yield improvement plan. We have talked about the realignment of the cost structure and the cost leadership programme that we have in place and tackling some of those areas a bit more aggressively. Also, we are as I said, reshaping and putting more emphasis on some of the key parts. A couple of things which I have said is that having been in a situation – a number of things throughout my career, turnarounds are not a linear business. You are going to be thrown off track as you go through that process by some things that are unforeseen and you have to readjust accordingly. Turnarounds take a bit of time and if you look at many eCommerce businesses in particular, it's either taking a long time for them to have a sustainable model, or it's taking them a long time for them to turnaround; we are very firmly in the execution mode but we have been in execution mode for our turnaround for about 12 months now, and we continue to monitor that. We continue to work very closely with our U.S team and the other thing that is happening in the background that we should explain as well is there definitely has been intense competition in the industry and also we have had a number of RFQs that we have had to react to for our existing customers. That has meant margin compressions in some of those customers and again we are planning to readjust the business so that we can offset those with increases in other areas or start going after the cost base a bit more aggressively to compensate.

And perhaps just to finish off, to recap – just want to make sure everybody is clear. When we talk about the U.S, when we talk about our turnaround, it's important that we are going through tackling those challenges and perhaps the structural shift again in terms of what is happening with eCommerce. We are doing all of that in context with an ongoing system integration of TradeGlobal and Jagged Peak to reposition the TradeGlobal business. We are obviously continuing to develop our management team there, we are driving our cost leadership as I mentioned earlier and also having to manage business as usual at the same time as we are planning for peak period. Just to cap it on the peak period, our planning has gone very well for the peak period. We will get into execution mode; peak starts in the next 10 days or so in the U.S; we are well-prepared for it and we just need to execute well and then we will move on from there.

In terms of the U.S, is it critical – I think there was a question about selling off in terms of enhancing shareholder value? That's not our intention, as I said we are focused on the turnaround plan, we want to make sure that we deliver on that turnaround plan and get the business to profit. We are not setting a timeline on that, we are working our way through that; we do believe that there are a lot of again, synergy benefits for the wider group business by bringing U.S customers to Singapore and Southeast Asia and the rest of the overseas market and the same in return. We already have a good case study in terms of one of those U.S customers that we have recently migrated in Q2 to Australia and we have launched that customer successfully in Australia, so it shows that the strategy can work and now we need to accelerate it.

Mr Varun Ahuja (Credit Suisse):

Thanks for the detailed answers, just want to sneak in. Sorry for this, there was a recent news article suggesting that the U.S may withdraw from the terminal dues structure. What do you think about it? Any impact on your business? Thank you.

Mr Paul Coutts (Group CEO):

Very pertinent and timely question again Varun. I think it's a bit too early to tell. We understand obviously that U.S has given their notice but that will take one year to fully withdraw from the UPU. In the meantime, the UPU is working with member countries including Singapore and doing that quite intensively within the next year for a solution that will be acceptable to all countries including the U.S.

In the event that the U.S does eventually pull out from the UPU, we do have the opportunity to negotiate a bilateral agreement with the U.S Postal Service that will be outside of a standard UPU agreement; it's not unusual, we have had that in the past with USPS and we have it with other postal providers so that door is always open to us. At the same time however, we are also working on some other contingency plans and looking at other alternatives and that may be commercial injections into the U.S which would bypass the UPU network and actually go direct into the U.S and inject into the USPS with their agreement. So it's a bit too early to tell but we are working our way through, so we will give you an update on that as we go through the next couple of quarters.

Mr Varun Ahuja (Credit Suisse):

Thanks a lot.

Operator:

Your next question comes from the line of Rachael Tan from UBS. Please ask your question.

Ms Rachael Tan (UBS):

Hi, just a couple of questions to sort of run through one by one. First in terms of the U.S side, how do you see the impact of Amazon raising the workers' wages on your business? And going into the peak season, are you confident that with the automation that you have put in place you can turn a profit – because last year you weren't able to do that.

Mr Paul Coutts (Group CEO):

Sorry, do you have a third question or that's the two questions you have? Just to be clear.

Ms Rachael Tan (UBS):

That's just for the U.S.

Mr Paul Coutts (Group CEO):

OK, so in terms of Amazon – obviously Amazon announced that it is increasing its minimum wage to $15 for all full-time, part-time, temporary and seasonal employees across the U.S effective 1 November 2018. There is a huge amount of what I would call hype and publicity around that announcement. It's important to be really clear here that when you start to get below the covers, $15 actually refers to the basic minimum wage and what wasn't as highly profiled was the fact that Amazon is also phasing out the incentive pay components that they previously have in place for those staff. So in essence, the actual total salary might not actually change that much.

We believe what we are paying our workers in the Cincinnati area is competitive relative to Amazon. In the Cincinnati area there has always been pressure on manual labour costs, so it's not particularly new. And knowing that in the last two years, a key part of our turnaround has been putting a lot of focus in improving process flows, improving productivity and reducing reliance on manual labour, that has improved our throughput per unit labour cost – that's how we measure productivity – by 24% over the last two years. So if you compare Q2 FY2018/19 with Q2 FY2016/17, you will see that 24% productivity improvement. As I mentioned earlier, we also have already implemented additional automation to drive further improvements and also for the first time we have gone live with robotics within the warehouse. We are confident that the planning that we have put in place is robust and we confident that we are well-prepared; we have been working with our customers in terms of their forecast for the peak season, and we are confident that we will be able to handle the additional volumes well and get through the peak season well if we execute well. That's what we are focused on and obviously we have got eight weeks of fairly intense pressure that we need to get through; we need to get through that successfully.

Ms Rachael Tan (UBS):

OK, so in terms of the progress of the – changing the processes and implementing, on a scale from one to hundred in terms of your existing plans how much would you say you have implemented?

Mr Jason Lim (Vice President, Investor Relations):

On a scale from one to hundred, how much have we implemented in terms of automation?

Ms Rachael Tan (UBS):

In terms of your current plans – there is always room for improvement.

Mr Richard Lai (Group CFO):

In terms of the current plans, do you mean the turnaround plan or are you talking about automation?

Ms Rachael Tan (UBS):

Automation on the U.S side.

Mr Paul Coutts (Group CEO):

Look, for me it's a bit of a woolly question because it goes across dozens and dozens of separate initiatives so you can't average an average, all you can say is we are on the plan and also we are confident that the elements of the plan that we have in place – it's a right plan and we will execute that and if we need adapt accordingly we will.

Ms Rachael Tan (UBS):

OK thanks, my next question will be on Quantium Solutions. Just wondering how many more unprofitable contracts you have that you plan to renegotiate and the newer contracts that you onboarded, are they able to offset the decline in revenue?

Mr Paul Coutts (Group CEO):

Sorry, did you say offset the decline in revenue in the last piece?

Ms Rachael Tan (UBS):

Yes.

Mr Paul Coutts (Group CEO):

So in terms of the number of contracts that might still be unprofitable, we are not going to go there, we have got a review process in place and we are working our way through that. Some of the contracts that we have in place you will understand – our contracts are with time-defined periods, so we also need to wait for those time-defined periods to expire before we get into the next round of negotiations. And you can imagine there is a lot of sensitivity around this particular area and so we want to make sure that we work through that in a fair and reasonable way with our customers, so we shouldn't get too far ahead of ourselves; we will do that in a steady process. In terms of the customers, we saw that the revenues have gone up, customers that we have onboarded – again, a lot of the lead time in onboarding new customers in the logistics sector, it's no secret, the lead time is around six to twelve months so it's not something where we say "OK, we have taken up X so we need to replace X on customers", doesn't quite work that way. We have taken a customer by customer basis, we are continuing to, as we mentioned, to onboard new business; that new business is coming in a profitable way so we are encouraged by that, we are not replacing loss making business with more loss making businesses so it's coming in profitably.

With regards to how long it takes us to replace some of the revenues that are lost, it's obviously something that we are conscious of but it is also something that we are just continuing to be focused on executing the plan, and we are taking that quarter by quarter.

Ms Rachael Tan (UBS):

OK. And then you mentioned you have kind of like an end-to-end eCommerce provider plan which involves leveraging on EDGE technology at Jagged Peak. Just wondering for the new contracts that you are signed on for Quantium, have you started implementing that technology or are you still running on the existing platform?

Mr Paul Coutts (Group CEO):

Some of the customers continue to run on the existing platform because you can understand from a technology perspective, migration takes some time and what we don't want to do is we don't want to be trying to force a solution onto our customers and when they do not necessary have the resources to be able to extricate themselves from one software solution and integrate into a new software solution, so it's a customer by customer solution and discussion. What I can tell you is that the new customers that we are bringing on board – at some point we will be able to talk about some of those – we are bringing those on with the EDGE technology.

Ms Rachael Tan (UBS):

OK, that's pretty good news. I guess a final question from me. When you talked about renegotiating and renewing client contracts, how long does the average duration last or your time-defined period last?

Mr Paul Coutts (Group CEO):

So, it's a bit of a movable feast; different customer by customer. I can tell you in one of those customers I was reasonably heavily involved in the start of discussions at in December last year and we concluded the first part of discussions around May of this year, so that took about five to six months. The second part of the discussions has actually just concluded within the last few weeks or so, so again we have to tie it to – whatever we do we want to exit in a way that we have done it professionally and that we have done it sensitively with regards to the customer; we are not pushing customers out the door, it's a negotiation, it's also a collaboration in terms of how we exit. That's where our key focus is.

Ms Rachael Tan (UBS):

OK, thank you very much.

Operator:

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

Ms Low Pei Han (OCBC):

Hi, I just have a question on Alibaba. Just wondering what is the level of collaboration between both parties now and are you still looking at ways to intensify the level of collaboration between both parties?

Mr Paul Coutts (Group CEO):

The simple answer is yes, absolutely and thanks again for your question. So with regards to Alibaba, we continue to have regular dialogues – not just with Alibaba, just to be certain – but also on an even more regular basis with Cainiao, the logistics enterprise of Alibaba. We are in Hangzhou regularly doing reviews with the Cainiao team not only in terms of preparations for the Double Eleven which is coming up; what that entails but also in terms of the ongoing programme. Getting back to what I was talking about earlier in terms of the International mail revenue slowdown in growth, I have talked in previous quarters about the fact that a lot of our International mail growth over the last few quarters have been fuelled by AliExpress, that continues by the way, so it continues to be fuelled by AliExpress. We have also again had to work with Cainiao and AliExpress in terms of what particular volumes that we think we can best add value to and also that we can get value from, so it's very much in collaboration with them. So we have gone through that challenge, we have worked through that challenge very well with them and we've also re-engineered some of that supply chain solution with Cainiao as well which we think will actually bring us closer in terms of the integration of the business processes. It continues to be a very strong relationship so we are happy with that; where we are playing, we will continue to move forward with them.

Ms Low Pei Han (OCBC):

OK, thank you.

Operator:

Your next question comes from the line of Lim Rui Wen from DBS. Please ask your question.

Ms Lim Rui Wen (DBS):

Hi, good morning everyone. I have two questions. One, just on the parcel volumes, some commendable efforts there but would you say that you are growing in line with the kind of volumes that we are seeing in the Singapore market or kind of above that? Second question, could you remind us what is the percentage of transhipment mail versus outbound mail for your International mail? And how much of the slowdown in growth would you attribute to either category? Thank you.

Mr Paul Coutts (Group CEO):

Sorry I missed the last question. What was the last question?

Ms Lim Rui Wen (DBS):

Could you remind us on the percentage of International mail between transhipment and outbound? Which segment has more percentage right now and how much of the slowdown in growth in International mail you see would be attributed to either of the category?

Mr Jason Lim (Vice President, Investor Relations):

Maybe I will take the transhipment piece first before Paul goes onto the parcel volumes. Because of how fast transhipment has grown relative to the normal inbound, outbound, transhipment now is by far more than 50% of our International mail volumes. So if you look at the slowdown or rather the slowdown in growth, because outbound, inbound is a pretty stable business, it declines or rises at low single digit. So the slowdown in growth actually largely comes from slowdown in transhipment. Is that OK?

Ms Lim Rui Wen (DBS):

Yes, thanks.

Mr Paul Coutts (Group CEO):

In terms of the parcel volumes, we believe that our growth rate is above market. We estimate that the market is growing somewhere around 25% per annum so with our growth obviously in the high 30s, we do believe we are gaining market share.

Ms Lim Rui Wen (DBS):

Thank you.

Operator:

Your next question comes from the line of Ngoh Yi Sin from CIMB. Please ask your question.

Ms Ngoh Yi Sin (CIMB):

Hi, thanks for taking my questions. Two questions, one on the sale of Indo Trans Logistics Corporation and Shenzhen 4PX, just wondering if these are more opportunistic or can we expect more divestments or rationalisation of investments to come? And also could you comment on the performance of other associates? Second question on the U.S eCommerce side, given the amount of investments that the business has put in, is there a volume growth target especially for the peak holiday season to better manage the losses there? Thank you.

Mr Richard Lai (Group CFO):

On your first question, the 4PX dilution is what we just recently announced so with the dilution, going forward we ought to see an improvement from the contribution from associates. The declassification of 4PX as an associate will mean that going forward we don’t equity account it into our books, it will remain on our books as a cost of investment and any fair value gains or losses in the future will go into our other comprehensive income, so it basically goes into our balance sheet.

With that in mind, having said that, bulk of the performance of the negative contribution from the associates has been contributed by 4PX, so I think you more or less can gather from there, from our results.

Whether we sold it opportunistically or not, I think this has been a discussion that we have had for quite a while with Cainiao arising from our close relationship with Alibaba and so forth, and I think they definitely have a lot of plans to grow the volumes going through 4PX and so forth. So I think it's not something that is just purely opportunistic but I think it is something that we worked out together. That's basically what I would like to say and conclude about that.

Mr Paul Coutts (Group CEO):

I think the other thing I would say just to underpin what Richard just said which is very accurate is that if you think about it, we tend to be a recipient of the volumes coming through from 4PX, so we are kind of a supplier to 4PX as well as a shareholder. Cainiao is actually the party who is driving those volumes, it's more important for them to have an increased investment because they are the ones driving the volumes through the investment. For us it's more about a case of making sure that obviously – that we are connected through our strategic partners, invested through those strategic partners but in actual fact we are a recipient of the volumes that are being moved and the supplier for moving these volumes. So this kind of changes the emphasis in terms of the supply chain flows and more accurately reflects that in a shareholding perspective.

I think just to answer your question on the U.S eCommerce and again on the peak, I think the question was around if we set targets for our people in terms of volumes coming through the peak season and where that will take us to in terms of financials. Obviously we have, we set those forecast in advance and also we make sure that in all aspects of the business it's not just about the volumes, it's also about the margins, it's also about the product mix, it's also about the productivity, it's a bit of labour costs; so it cuts right across the whole operations and we are obviously not going to talk about all those financial targets there because that would be disclosing the forecast. Our focus is really as I say, on making sure that we execute well and if we execute well, we'll come out reasonably well.

Ms Ngoh Yi Sin (CIMB):

Thank you. Sorry, just to follow up, when you say perform reasonably well, are we expecting an improvement quarter on quarter for the losses? Or I don't think the management is expecting a turnaround in the coming Q3 right?

Mr Paul Coutts (Group CEO):

It'll be dependent on how well we execute; we'll see what improvement we actually make to Q3 but that's Q3 and as I said, this is part of an overall journey. Depending on what comes up, Q3 we'll see if and how we need to adjust for Q4 and going into Q1 next year to get us toward our ambition to be profitable and sustainable in the U.S quarter on quarter. So let's get through the peak and we can come back and talk again.

Ms Ngoh Yi Sin (CIMB):

Ok, thank you.

Mr Jason Lim (Vice President, Investor Relations):

Since there are no more questions, I think we have reached the end of the call. Thank you for your time in dialling in. If you have got any follow up, you can always reach me on my phone. Thank you.

Mr Paul Coutts (Group CEO):

Thanks everyone for joining us.

Mr Richard Lai (Group CFO):

Thank you.

End of transcript