SingPost’s Q3 & 9M FY19/20 Results Briefing, 7 February 2020

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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 & Financial Analysis):

Good morning everyone. Welcome to SingPost’s results briefing for the third quarter and nine months of FY2019/20.

I am Jason from Investor Relations.

With me today is our Group CEO Mr Paul Coutts, Group CFO Mr Richard Lai and CEO of Postal Services and Singapore Mr Vincent Phang.

Before we start the session, I’ll just like to reiterate what we shared last quarter.

With Jagged Peak & TradeGlobal having filed for relief under Chapter 11 of the US Bankruptcy Code, the Group had deconsolidated their financials.

The income statement is now presented as “Continuing Operations”, which excludes the U.S. Subsidiaries.

Losses from the U.S. Subsidiaries for the period prior to deconsolidation are presented as a single line item - “Discontinued Operations”.

Let me just start the presentation.

Revenue for Q3 FY2019/20 was lower by 2.0%. In spite of record revenue of close to S$150m for International Post & Parcel, this was insufficient to offset the decline in domestic letter mail, as well as lower freight forwarding revenue from a slowdown in global trade.

Consequently, profit on operating activities declined 24.6%. Share of associated companies & JV was flat as we have ceased equity accounting for 4PX and disposed of our stake in Indo Trans Logistics. Under exceptional items, we had a gain last year of S$31.8 million which was largely due to gain on dilution of interest in 4PX, partly offset by fair value losses on GDExpress warrants.

Loss from discontinued operations was zero as we had deconsolidated the US subsidiaries. In Q3 last year, the U.S. Subsidiaries incurred a $12.8 million loss. Without these items in this financial period, net profit attributable to shareholders declined 39.3% to S$30.5 million.

Excluding exceptional items, underlying net profit declined by S$1.7 million to S$31.2 million. The absence of losses from the U.S. Subsidiaries compared to the same period last year, was offset by lower profit for Post and Parcel due to lower domestic letter volumes.

Let me now move on to Expenses.

Despite benefits delivered by our cost savings actions, taken in anticipation of a declining mail environment, operating expenses rose 3.5% due to significant investments to improve service levels, as well as the impact of higher terminal dues for the International Postal business. Labour and related expenses rose 3.9%, with additional postmen hired for the Singapore postal operations, as well as higher remuneration for the postmen.

From 1 April 2019, the Group adopted SFRS (I) 16 as required by accounting standards. This involves putting leases on to our balance sheet. Operating lease commitments are now recognised as right-of-use assets as well as lease liabilities on the balance sheet. There is a reduction of rental costs (under Admin & others) and increase in depreciation costs (under D&A) as well as an increase in Finance expenses.

Largely as a result of the above, Admin, selling and other expenses declined 13.2% to S$29.7 million; Depreciation and amortisation expenses rose 75.3% to S$16.9 million; and Finance expenses rose to S$3.1 million, from S$2.3 million in Q3 last year.

We now move on to the overview of the various segments' contribution to Group revenue and profit on operating activities. The Post & Parcel segment remains the largest contributor to Group revenue, followed by the Logistics segment. For Profit on operating activities, Post & Parcel is the largest contributor, followed by the Property segment. The Logistics segment turned from a S$0.5 million profit to a S$0.7 million operating loss position, largely due to losses at Couriers Please in December, which was impacted by the bushfires in Australia. We will provide more details on the performance of each of the segments in the next few slides. Under the Others segment, expenses rose to S$9.9 million, from S$7.1 million in Q3 last year, largely due to a one-off settlement of professional fees, and higher provision for doubtful debt.

Let me now move on to the Cash flow and Financial indicators. For the nine months ended 31 December 2019, operating cash flow before working capital changes was S$160.3 million, largely stable compared to S$159.0 million last year. Working capital movement for 9M was negative S$65.9 million due largely to an increase in trade receivables, as a one-time change in contracting party for eCommerce deliveries from China led to a timing difference in payments received. As such, net cash inflow from operating activities declined to S$54.8 million, compared to S$99.3 million in 9M last year.

Since the close of the period ended 31 December 2019, about S$51 million payment in respect of these trade receivables have been received. Free cash flow in 9M was S$44.4 million. Taking into account the S$51 million received after the quarter, free cash flow would be higher.

We now move on to the financial indicators. Cash and cash equivalents was lower at S$259.1 million compared to March 2019 due to payment of dividends, timing of receivables in respect of International eCommerce deliveries, as well as net repayment of a bank term loan. As a result, the cash position declined to S$42.9 million as at December last year.

EBITDA for 9M was S$162.7 million. EBITDA to finance expense stands at to 15.8 times compared to 25.2 times last year, due to adoption of SFRS(I) 16 Leases. Adjusted to exclude the impact of SFRS(I) 16 Leases, EBITDA to finance expense would be 22.3 times for 9M.

Let me move on to dividends.

The Board has declared an interim dividend of 0.5 cent per share, same as last year - bringing the total year to date dividend to 1.5 cents. The book closure date is on 20 February, and payment date is on 28 February. Our dividend policy remains unchanged – based on a payout ratio ranging from 60% to 80% of underlying net profit for each financial year.

We will now move on to the segmental results.

In the Post & Parcel segment, revenue remained largely stable in Q3. International revenue rose to a record of close to S$150 million on the back of higher cross-border eCommerce-related deliveries, and this helped make up the decline in Domestic revenue.

Domestic eCommerce-related volumes registered strong double-digit percentage growth during the quarter, but was insufficient to offset an accelerated decline to double-digit percentage in letter mail volumes, which continues to form the majority of revenue and volume.

For 9M, Post & Parcel revenue rose 1.6%, led by growth in International.

Profit on operating activities declined 19.9% for Q3 and 16.7% for 9M. Domestic earnings declined as growth from eCommerce-related deliveries was insufficient to offset an accelerated decline in letter volumes and the partial cessation of advertising mail volumes.

In addition, higher costs were incurred to improve service quality standards, such as hiring of additional postmen to provide for the additional workload associated with increasing eCommerce deliveries, as well as enhancement of their remuneration.

In the Logistics segment, revenue was lower by 1.9% in Q3 and 2.2% for 9M, due to a decline in freight forwarding revenue, as well as depreciation of the Australian dollar against the Singapore dollar. For Q3, there was an additional impact of the bushfires.

Quantium Solutions continued to deliver good operational momentum as revenue rose 25.6% in Q3 with the addition of new customers in Singapore and North Asia.

Losses on operating activities stood at S$0.7 million for Q3, compared to S$0.5 million profit in Q3 last year. This was largely due to losses at Couriers Please in December, which was impacted by the bushfires in Australia. For 9M, losses were S$3.4 million compared to S$1.2 million in 9M last year.

While Quantium Solutions' financial performance improved with improved operating leverage, this was offset by onboarding costs for eCommerce customers in Asia Pacific underSP eCommerce, as well as lower freight forwarding profit due to lower volumes from the slowdown in global trade under Famous Holdings, and to a lesser extent, the Q3 negative impact from Couriers Please.

Property segment revenue, which comprises commercial property rental and the self-storage business, remained largely stable for Q3 and 9M, with SingPost Centre retail mall and office remaining at close to full occupancy. Profit on operating activities was stable for both Q3 and 9M.

Let me hand back over to Richard for the Outlook.

Mr Richard Lai (Group CFO):

Thank you, Jason.

In Singapore, domestic letter mail volume has shown an accelerated decline, while eCommerce-related packet and parcel volumes continue to grow.

The Group has invested significantly to improve service quality, which has done well over the peak season. The above are expected to result in lower blended margins and lower operating cashflows if this were to persist.

International mail continues to grow on the back of cross-border eCommerce deliveries. However, higher terminal dues has taken effect from 1 January 2020. We will continue to manage our traffic mix in order to mitigate the impact of the increases.

The Property segment is expected to remain largely stable, and a significant contributor to the Group operating profit for the financial year.

The novel coronavirus issue has not had a material impact to the Group results so far. However, if this situation persists or worsens, it might create further macroeconomic headwinds.

With that, I believe we can start with the Q&A session.

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 Rachael from UBS. Please ask your question.

Ms Rachael Tan (UBS):

Hi, good morning and Happy New Year. I have a couple of questions on your Domestic Post & Parcel business. Could you explain what are the differences in yield between the domestic eCommerce and domestic letter mail on the postal network?

And the second question would be, you talked about a double digit increase in eCommerce parcels. Did the growth come from Speedpost or was it coming from the domestic postal network? Thanks.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Hi Rachael. Morning, this is Vincent and Happy New Year to you. So the two questions were about the Domestic Post & Parcel business – about the yields between the mix and also the relative proportion of increases – so let me try and give some colour.

The vast majority of our volumes are actually in letter mail and the yield from the letter mail, the margins from the letter mail will obviously be – not just from a profitability standpoint but from a total aggregate standpoint that will certainly be the largest contributor.

I can't give you the exact split; that's not what we do but I can give some colour around the cost structure we have discussed previously around delivering letter mail to letterboxes versus larger sized items that would probably necessitate a doorstep delivery. So from there you can sort of figure out the relative contribution of the various traffic mix that we have. From a proportion standpoint, that also sort of answers the question. While we have seen very strong eCommerce logistics growth in double-digit numbers, the base from which it is growing is a lot smaller than the total volume of letter mail that we have, and letter mail as we have announced – we have seen an accelerated decline in this quarter – we have seen that last quarter, we see that happening again this quarter so that drop is very significant compared to what we can make up from an eCommerce growth standpoint.

So hopefully that gives you some colour, if you'd like more detail please let me know.

Mr Richard Lai (Group CFO):

Rachael, is your question relating to what we mentioned just now about the record revenue on the International mail side? Because the eCommerce-related stuff that has done very well came through the International mail side, not so much the Domestic side; The Domestic side had some, but as you know a lot of the eCommerce stuff are coming through the transhipment basis so the inbounds are actually quite a small portion that was way too low to even talk about trying to offset the decline in Domestic mail.

Ms Rachael Tan (UBS):

OK, and for the decline in Domestic mail, which sectors do you see the most retrenchment from or was it primarily relating to admail which came off?

Mr Vincent Phang (CEO, Postal Services and Singapore):

Actually, the largest proportion of drop was from the corporate customers so we are talking financial institutions, telcos and insurance companies – that sort of customers.

Ms Rachael Tan (UBS):

OK, thank you.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

Thanks, Rachael.

Operator:

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

Ms Ngoh Yi Sin (CGS-CIMB):

Hi morning guys, Happy New Year. I just have a question on – we noted that there were some service disruption arising from the coronavirus, want to ask where is the exposure for SingPost in terms of both postal and the logistics segments so as to have a better gauge on what could be the potential impact.

Mr Richard Lai (Group CFO):

Yi Sin, we didn't say that there was any disruption as a result of the coronavirus. The statement we made was in respect to – well, there has been no impact for this quarter. Of course, if the coronavirus outbreak continues or gets worse, then we would expect there to be stronger macroeconomic headwinds which would likely impact everyone, so that's what we meant.

Ms Ngoh Yi Sin (CGS-CIMB):

No as in not in this financial results but from the website. A few days ago there were some announcements on postal services being disrupted in Hong Kong, Macau and China.

Mr Vincent Phang (CEO, Postal Services and Singapore):

It hasn't affected us, thanks for your concern. We are watching the situation very closely and we obviously have our own BCP plans on the postal service, so we do not have any impact as of now. Clearly, the situation could be seen as deteriorating and we are on top on it and watching how this could affect us.

Ms Ngoh Yi Sin (CGS-CIMB):

OK, maybe remind us where is the current exposure? Say for example, in International mail I think transhipment is about 50%?

Mr Paul Coutts (Group CEO):

It's Paul here, Yi Sin. Maybe I'll just take a stab at giving you a view in terms of potential impact, so this is a kind of broader commentary around where I think it would affect the whole of the logistics industry. Obviously we have come through Chinese New Year and coronavirus has been obviously heading us through the Chinese New Year period. Chinese New Year has been pretty quiet; in terms of manufacturing out of China, China is still today probably 70% - 80% of the world's global manufacturing. So you've seen the news and obviously the holiday period was extended and manufacturing facilities continue to be closed down. There is some speculation that that may be extended further, and obviously if that happens then the end result is that there is less manufacturing coming out of China which affects our international eCommerce business and will affect the whole logistics industry.

So it's something that we are watching obviously quite cautiously and carefully, and we will have to adjust as we see how that develops.

Ms Ngoh Yi Sin (CGS-CIMB):

OK, then how about for Logistics segment. I noted that there was improvement in Quantium Solutions right? Could you give us a bit more colour and given what's going on, should we be expecting negative impact in subsequent quarters?

Mr Paul Coutts (Group CEO):

For Quantium Solutions, we've talked about it quite a bit in the last couple of years that we are repositioning and we took a step about two years ago and it took us about a year and a half to come through that – offloading, exiting from a number of loss-making customers – so having gone through that process, we have turned our energies at the same time to generating new businesses at Quantium and focusing on three core products consistently across the Quantium organisation.

I think we are seeing the result of that change in strategy coming through and the revenue growth for Quantium was very healthy for the quarter, so we are delighted about that. We are also seeing an improvement in terms of the operating leverage that we get from that revenue so in other words, losses that we were experiencing before have started to slow down and we have made improvements in the financial performance of the business. We certainly expect that to continue for the foreseeable future but obviously we need to wait and see what happens with coronavirus because there could be some impact there, putting those types of factors which are uncontrollable to the side. The pieces that we are in control of are actually improving so we are pleased about that.

Ms Ngoh Yi Sin (CGS-CIMB):

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. Thanks for the presentation and Happy New Year. I have two questions – the first question is actually to continue on the line of impact from coronavirus issue. I think we are hearing from some China sources that actually the whole Cainiao network has kind of broken down as they are not able to find delivery men. So just wanted to ask if we are seeing any kind of slowdown in terms of international delivery that is coming through Singapore in that sense, because the network in China is kind of breaking down. Because if they are not able to find enough delivery men as well as helpers in the warehouse, then there should be an impact on international delivery per se.

Second question relates to – could you share more colour regarding the higher terminal dues that are coming in through January 2020 and the possible impact on the group? Thank you.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Hi Rui Wen, good morning. This is Vincent, Happy New Year. The two questions you asked are about our international business potentially being affected by the slowdown in China and whatever is happening over there, and the second one on terminal dues. Let me take the first one first.

You know that the Chinese have extended their festivities or rather the Chinese New Year period and return to work till over this weekend, so we are cautiously watching whether the return to the factory supply chains start firing up coming Monday. There are signs that the situation is deteriorating in China so obviously we are concerned. Our problems aren't as associated with the lack of Chinese delivery men, I think our problems are more about will there be products and supplies that originate from China either through factories or through merchants or through warehouses, through the network that we have built. We are watching this very cautiously, we are watching it very intently over the weekend to see if the supply comes back online.

That said, from a year-on-year point of view, this being the – today is the 14th day of the Lunar New Year – typically by the 10th day the supply will start coming. We are already four, five days into it in a sense that year-on-year from a comparison standpoint, year-on-year we are already four or five days delayed, so you can sort of imagine what kind of impact that could potentially be – as Paul mentioned, to the entire global supply chain not just ours. So I guess your guess is as good as mine, that we keep watching this and see what happens come Monday.

On your second question on terminal dues, it's not something that is new. We have this impact as you know – every January there is a reset – we have to deal with this. It's not that we get to – start of the year, we start to think about the measures to improve or to mitigate the impact of terminal dues; this is an on-going process that we deal with day-in day-out through the year. It's like I said, every year the impact is there, it's unfortunate that those dues will continue to go up based on the UPU arrangements and we continue to strive towards making sure we can react to that. The track records that we have suggest that we have to do that in a pretty consistent manner, you can see that revenue continues to grow. Clearly, the margin contribution will continue to be under pressure given the higher cost and this we treat as a volume-related cost that we can or cannot pass through to our customers so we just have to react to that. But I guess from track records, we have consistently delivered higher revenues by being able to give that kind of benefit to our customers.

International volumes through Singapore on transhipment basis, we would like to think about it as not just being a cost issue. There are a bunch of other issues, factors that lead to supply chains slowing this way, chief among those would be the connectivity of Singapore, what Singapore offers as a transhipment hub; those factors continue to be in our favour and we continue to work very closely with all the stakeholders in the ecosystem to generate this advantage for such a supply chain. So hopefully that gives you some colour around the two questions you asked.

Ms Lim Rui Wen (DBS):

Thank you.

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 management and Happy New Year. I have got several questions starting with the domestic business. On the Domestic mail business, can you give a little bit of colour on – I am sure the business has been seeing lots of decline for the last few years and based on your internal assessment, how much decline do you foresee if you go by industry-wide because I am sure some of the financial companies would have already done, telcos would have already done, so how much decline do you still see over the next two or three years? Wherein you can see or foresee some optimistic mail decline? Anything on that front would be helpful.

Secondly on the price increase that you have taken, the price adjustment that you have done – what sort of impact are you witnessing in this quarter and for the next few quarters? Either change in shifts in terms of eCommerce volumes or any colour would be helpful.

Thirdly on the Domestic eCommerce, I know you said you don't give details but if any colour, how much of the Post & Parcel's domestic side of the business is still contributed by domestic eCommerce? What I mean was including both the home to delivery and the mail side. So as a whole, is it fair enough to say that over the next three, four years the crossover would happen between the normal mail segment and domestic eCommerce? Any colour on that would be helpful.

Fourthly, just want to understand when you had the U.S. eCommerce business, you were using some of the IPs of the business. So what has happened after that de-merger and bankruptcy? And if the other entity has taken over, how are you using that IP? That would be helpful to understand.

And the fifth on the broader strategy. Now you are looking more focused on Southeast Asia, how are you looking over the next two to three years given some of the new logistics companies have come across in the eCommerce side? How being a late entrant on that front in terms of making investments – how do you see it and perceive getting market share on that front for Southeast Asia eCommerce? Thank you.

Mr Vincent Phang (CEO, Postal Services and Singapore):

OK Varun, thank you. Vincent here, I will take a stab at the domestic issues first and then I will hand over to my colleagues to talk about the U.S. and the broader industry questions you have.

I think it's fair to say the questions you raised about the domestic business – those weigh heavy on our minds – and rather than address those one by one as you said, perhaps I will give you a narrative of where we think where our business is going and how we see this pan out over the last few months, past two quarters and going forward. So from a market share point of view for eCommerce, we believe we made inroads; we have grown our market share based on our estimates and the traffic that has been attributed to us. As you know, our advantage is in pretty much the letterbox deliveries so we continue to make significant inroads in growing that market share and that has been very beneficial. But as we said previously, the growth while strong – if we are just an eCommerce logistics company I think we would be pretty happy with the kind of growth that we have had in Q3 year-on-year, given the double-digit performance, the majority of which has gone into letterbox deliveries as I said. But the base of that growth is small, it is smaller by quite a bit of magnitude compared to the letter volume that we have; we are a traditional letter mail volume player.

So your question on how that has declined and when we expect a crossover in that is an extremely difficult one to answer, it all depends on the rate of decline, it all depends on what kind of substitution will continue to happen. So we have seen an acceleration in the substitution for some of our corporate customers as you mentioned, we still have a large base of letter mail that comes from other stakeholders, government is another big client of ours in terms of the letter mail volumes. So it's extremely difficult to answer this question but we perhaps can take a leaf out of international peers and what they have been seeing and this is open information if you would like to check on that – I'm sure you have – you'll be seeing high single-digit, low double-digit kind of declines from most of our industrialised peers, companies or countries that are probably equivalent to our stature in terms of where we are in our development of technology, penetration and we would expect that our declines going forward wouldn't be too far off those numbers that you see with our international peers. Projecting when this would crossover is an extremely, extremely difficult thing to say, I would not want to provide that kind of guidance because it's just –too many assumptions involved in this. So hopefully that gives some perspective. I know it's a difficult question to answer and I know that you may want a little bit more detail but that is something we are not able to give right now.

Mr Richard Lai (Group CFO):

On the other question, I think you are referring to the EDGE that we used to talk about. So with the successful sale of the two businesses in the U.S., albeit it was through a Chapter 11 process, we have made a transitional arrangement with the buyers to continue using the EDGE for our customers who are currently on it, but it will be with the view to transition out of it onto another platform. When we were making that decision whether to exit the U.S. or not, we had actually taken a very long, hard look at the EDGE and what does it mean to our customers and we came to the conclusion that it will lead to a short term sort of inconvenience for some of our customers, but it's not an issue in terms of finding a substitute for the longer run.

So for example we have our own software that we have built in the past, we just need to think about whether to upgrade it to a certain level and how much that might involve in terms of dollars and cents; or we could actually buy something off the shelf and with a bit of customisation, get it to a point that works for our customers as well. So that's currently what we are doing; there are not too many that are affected so as a result it should not have a significant impact whatsoever to our numbers going forward.

With respect to the broader strategy, I think we have articulated in the past that with the exit of the U.S. we are going to refocus ourselves in Asia Pacific – that remains true – so with that in mind, we are looking at organic and inorganic sort of ideas as to how we are going to achieve the sort of scale that we would like to see ourselves having in the next five years in Asia Pacific. So we are looking at all across Asia Pacific and obviously as you know we have got a sizeable business in Singapore but we also got businesses elsewhere in Asia Pacific including, if you remember, we do have a fairly sizeable business in Australia so we are taking a very close look at this at this point in time. When we are ready we will make further announcement on this matter. Paul, do you want to add on anything?

Mr Paul Coutts (Group CEO):

It's Paul here and again, thanks for your questions. Let me just add a couple of dimensions to this. I think in terms of Southeast Asia, just going back to the earlier question on Quantium, we are seeing a significant organic improvement in our business in Thailand, in Malaysia as well as Singapore and Indonesia so I think in terms of Southeast Asia we are certainly seeing some improvement in our revenue growth and in our financial performance through Quantium.

However, we also realise that we are not where we need to be in terms of size and scale. Therefore as Richard mentioned, we need to look at all options in terms of our strategy and we may be in a position to talk about that a bit more in a few months' time. We should also not forget – we are definitely not forgetting that Australia is a key eCommerce market and we already have infrastructure in play there. Australia is an attractive market, it has got high penetration – I think it's the third or fourth highest in the world in terms of eCommerce penetration – and it continues to grow double-digit every year.

We should also come back to what we talked about in the last call as well which was around we do believe there's an opportunity and we can see a convergence of supply chains of B2B2C and that opens up some good opportunities for us to actually grow our eCommerce product by bolting on a

B2B solution at the front-end for the B2C product and that's again something that we have been developing a plan and so again we will talk a bit more on that when we get to the right point.

So we are still pretty much focused on Southeast Asia, we have seen significant progress through our Quantium business and we will continue to improve there but that's not necessarily going to give us the size and scale that we believe we need either in Southeast Asia or indeed in the Australia market. So it's more of a "Watch this space".

Mr Vincent Phang (CEO, Postal Services and Singapore):

Varun, maybe I can add a bit more narrative going back to the domestic issues. I would like to think that it is less something we are concerned about on things we can't control versus the things that we can absolutely control. So what we do know going forward is that there will be this convergence, there will be this tipping point. What we do know is that we have a fantastic network of delivery through our postal network reaching every single postal code in Singapore, and a lot of it is relatively fixed as the cost is inelastic but what can we do to turn that into a true advantage for us?

The steps that we have been taking over the last few months or quarters even – you have seen us release a new tracked package product designed to provide a customer experience to the letterbox at a price point that is competitive and allows us to mitigate that kind of doorstep delivery required in a very urban setting – you will see that we will continue to refine our product set to leverage on such advantages. So I think my point is it's far more important for us to design a system that is agile, to get to that point where you said a crossover, how do we deliver letter mail efficiently and productively now and use that same advantage to design a system that allows us to deliver eCommerce items just as productively and just as efficiently, so a lot of our efforts are focused on doing that. We have talked a bit about the Future of Post programme previously; those efforts continue to be on track, we are getting traction and I think that would be something the company and stakeholders around should be watching. That is our way of building for the future.

Mr Varun Ahuja (Credit Suisse):

Thank you for the detailed answers.

Operator:

Your next question comes from the line of Terry Ho from One Hill Capital. Please ask your question.

Mr Terry Ho (One Hill Capital):

Hi gentlemen, thank you for the presentation today. I think I have just one main bucket of questions today for Vincent because I think so far there hasn't really been a lot shared about the new initiatives in terms of the product mix and the pricing that was announced in October, and I think it started in early December. So just wanted to see since that has already ran for at least two months until now, is there a bit of colour the team can share about how the consumers have been responding to this new initiative in terms of the new packaging as well as the pricing for airmail? Has this affected volumes in any sense in terms of changing consumer preferences, because now airmail is pricier and people are posting less? Or is it still maintaining the same kind of volume?

And then the other question is more in terms of the transfer – because ultimately terminal dues is a key concern that a lot of us have and the thing is that I guess the airmail change of pricing is one of the steps the team has taken to try to pass on the cost. So is there any colour that you guys can share in terms of how often can we expect such price changes to happen going forward?

Mr Vincent Phang (CEO, Postal Services and Singapore):

Hi Terry, morning. Can I just clarify what you mean by airmail? Did you say airmail?

Mr Richard Lai (Group CFO):

I think he's referring to the international mail increase, the postage rates that went up.

Mr Vincent Phang (CEO, Postal Services and Singapore):

That's the second question right? On your first question, I didn't catch it. Did you say admail or airmail or?

Mr Terry Ho (One Hill Capital):

Airmail, the international mail.

Mr Vincent Phang (CEO, Postal Services and Singapore):

OK, I will give you some colour anyway about the product that we have launched and if this is off the mark let me know and I can clarify again and explain.

So yes, we have announced the new product in October – actually it came in on 2 December actually – so from a Q3 point of view, it was just about a month of contribution so you wouldn't see that. Now two months into it, we are seeing a little better uptake, the conversion has been to our satisfaction. More importantly is that the customer experience has actually been pretty good. Let me give an explanation of how this product works. If you go buy a retail product from a post office and say that you want to deliver this by some form of tracking and it's bigger than a document so it's some kind of merchandise – meaning eCommerce – and you would like to send it by registered mail to the doorstep, we would convert that into a tracked package product and that actually goes to the letterbox and it has accompanying features of security and tracking and photographs taken, notifications are sent to the recipients so it's a highly secured product that actually doesn't need to have a doorstep delivery.

Customers have been finding that very helpful, very useful. In fact, one of the reasons we designed this is because customers have been saying "Don't send it to my door, I am not at home so I'd rather have it sent in a very secured way to the letterbox." The price point is also something that we have been very carefully designing and the reason behind all that is as I explained previously in the previous question – how do we transition as many of doorstep products into an infrastructure that we could be really effective in delivering to, meaning the letterboxes, and to leverage on that productivity as you can imagine – so that effort continues and you will see that there will be a few more announcements coming out over the next few months on further product extensions beyond this one. And once again, it is the same motivation, it is the same intent, it's to move as much of the doorstep product to a letterbox.

Well, we have said last quarter when we released this that the benefits that we expect would generally be a cost benefit, more so than a revenue benefit to start with. We do believe that once this experience and this product has traction – we believe that there will be more convergence from a platform point of view so we are working with our customers, the platforms, the eCommerce customers in moving products into a package that can be delivered in a secured manner to a letterbox rather than to a doorstep at a price point that is more competitive, but you can imagine the challenges. Obviously, a lot of sellers actually don't know how big their items are so it takes time to work through this process saying we can get this product out but we have to be clear that the products that come from the sellers, the merchants, from the platforms can fit the letterbox size. So this is a matter of maybe partly education, partly campaigning, partly sales so we are working through with our partners to get this going. So hopefully that gives you some idea of what we are talking about; I'm not sure it's an airmail thing so if you are talking about International then it's a different discussion. Coming in from overseas will take a longer time because we will have to influence the merchants and sellers from overseas on something that is letterbox size.

Now the next question on the terminal dues and the cost, so as I have explained previously, the impact is an annual affair. We continue to see these changes come through and I take it that you are asking for a bit more details, a bit more colour around what exactly are those mitigation measures we are working towards.

Supply chains are run in a way – in this case we are talking about westbound products right? So eCommerce items coming out from the east, generally China, and how do we get them across to the importing countries like U.S. and Europe for example. The transhipment model that we have, we continue to use it to our advantage through the postal network. But clearly as the terminal dues kick in, in order to protect these revenues we have to start to think about different options beyond just the postal network and we are looking at commercial models, commercial options. At the same time, we are looking at perhaps alternate transhipment locations, we'll be looking at a range of different options to strip out as much costs as we possibly can without having to pass this on.

The eCommerce market is extremely, extremely price-sensitive as you can imagine so this terminal dues increase is really not a vote for postal system in shipping eCommerce products, but we would just have to try to react to get our advantages as much as we can. And as I have mentioned, the track record that we have presents maybe a little bit of comfort to everyone that we continue to extend revenue quarter-on-quarter; Q3 this year is our biggest quarter ever yet so you can see that we continue to make inroads there. So let me know Terry, if this was what you were asking, certainly happy to share a bit more details.

Mr Terry Ho (One Hill Capital):

You've definitely answered my questions but a follow-on question that I have is in terms of how often would the team be reviewing prices right? Because for example, this time you guys hiked by like 20 cents right? Is it like on an annual review basis where you guys would think about whether you should pass the cost on?

Mr Vincent Phang (CEO, Postal Services and Singapore):

Terry, are you talking about the domestic postage or international postage?

Mr Terry Ho (One Hill Capital):

International postage.

Mr Vincent Phang (CEO, Postal Services and Singapore):

International postage we passed it on, in a sense we managed to get the international rates reviewed and that was announced and we have these discussions with our regulator; it's a regulated product by the way, so this is not something that we can unilaterally just progress. And as with any interaction with regulators, we have to provide the evidence, provide the data and work through the details so all I can say is if you look at our previous track records, it has always been in intervals of a few years before any changes take place. I'm just quoting facts but that doesn't stop us from speaking with the regulator and giving them the evidence and data.

That said, I just want to be cautious because those rates only affect the outbound from Singapore to overseas. You can imagine that volume isn't a lot and by far, our transhipment volume is many, many times – different orders of magnitude compared to what we generate for outbound Singapore. So hopefully that also gives you some explanation.

Mr Terry Ho (One Hill Capital):

OK sure, thanks Vincent. Is it possible for me to ask another question to Paul? More on a strategic level, as a follow-on to your response to Varun earlier on. So is it right for us to then think that moving forward, the focus will be more on Southeast Asia and Australia? And there wouldn't have to be more funny expansion plans into other geographies?

Mr Paul Coutts (Group CEO):

Yes. So look, I think we want to make it clear that for us if we are going to invest anywhere it's going to be in the Asia Pacific arena and let's be clear in terms of what that means. So for us, it's Singapore first. Obviously as we've said we're focused on Southeast Asia and we are going to continue to grow our business in Southeast Asia. It's not as if we are walking away from North Asia either; Hong Kong is still a very important transhipment point for us so Hong Kong will remain in play, Japan also remains in play – it's a good market for us – and we have operations in places like Taiwan and the Philippines.

The other key one for us is Australia and we talked earlier about the reasons why Australia is quite critical for us. We do have business in places like The Netherlands, in places like the U.K. Those businesses will continue to operate and the freight forwarding business sits under Famous, and we also have good potential opportunities as well as current business which is coming out of Europe into Asia and we see more of that opportunity coming through from large eCommerce platform players in Europe looking for an Asian delivery infrastructure, so we got a part to play there as well. So geographically, definitely the key focus is Asia Pacific, Singapore is at the forefront of our investment strategy but we will be looking to invest in other markets as well within the Asia Pacific region. And as I said earlier as well, let's not forget that we do see the opportunity for a B2B2C play which again, we can see can be bolted onto our already comprehensive B2C network. We think that will also provide synergy benefits and value for us.

Mr Terry Ho (One Hill Capital):

OK. Thank you, Paul.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

Thanks, Terry. Operator, I think we have time for just one last question. Can we have the last question please?

Operator:

There are no further questions at this time. Please continue.

Mr Jason Lim (Vice President, Investor Relations & Financial Analysis):

OK, that’s it. Thanks everybody for dialling in. Once again, Happy New Year, stay healthy.

Mr Paul Coutts (Group CEO):

Thanks everybody, thanks for joining us.

Mr Richard Lai (Group CFO):

Thank you.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Thank you.

End of transcript