SingPost's Q4 and FY15/16 Results Analyst Briefing, 10 May 2016

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.

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

Hi everyone, I would like to apologize for the delay in the webcast. Welcome to SingPost's results briefing for fourth quarter and full year FY2015/16. My name is Jason from Investor Relations team. With me today is our Deputy Group CEO of Corporate Services and Group CFO, Mr Mervyn Lim. I'll now hand over the session to Mervyn, who will bring you through the results presentation, Mervyn please.

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

Thank you, Jason. A very warm welcome to everyone and I would like to reiterate our apologies for the delay in this announcement brief. Good evening and thank you for joining us today.

The Group achieved strong results for the FY ended 31 March 2016. Revenue rose 25.2% and crossed S$ 1 billion for the first time, with contributions from eCommerce related growth and the financial consolidation of acquisitions. Rental and property-related income declined 10.3%, as we commenced redevelopment of SPC Mall during the 3rd quarter. Miscellaneous income was boosted by one-off gains from divestments of subsidiaries, associates and Available-For-Sale investment.

We achieved a record annual net profit of $248.9 million, up 57.9% from last year. Underlying net profit was $153.6 million, down 4.1%. If you exclude the impact of loss of income from SPC mall redevelopment and the deconsolidation of DataPost & Novation Solutions after disposal, Underlying Net Profit would be stable.

Let's now look at the P&L for Q4. Revenue rose 27.7% from higher eCommerce related contributions and the financial consolidation of acquisitions. Net profit was boosted by one-off gains largely from the partial divestment of an associated company. Underlying Net Profit of $31.8 million declined 20.1% due largely to loss of income from the SPC mall redevelopment and higher finance expenses.

We now share some highlights of the Group's revenue performance. In the Mail segment, revenue was stable despite the divestment of Novation Solutions and DataPost. This has provided us with a firm foundation on which to focus our resources on eCommerce related businesses. Logistics revenue rose 34.7%, with increased eCommerce logistics activities as well as the inclusion of new subsidiaries. In Retail & eCommerce, revenue rose 74.6%, driven by the financial consolidation of TradeGlobal from November 2015 and Jagged Peak from March 2016 respectively.

We now move on to the Expenses slide. Expenses increased 31.0% due to growth in business volumes, and changes in the business mix. Volume related expenses increased in line with higher international traffic, and reflects the shift in business mix from mail to eCommerce logistics. Admin &

other expenses rose due to higher warehousing rentals in line with increased capacity and higher M&A related expenses. Finance expense rose due to interest expense on higher average borrowings, as well as unrealised foreign exchange translation differences.

Excluding one-off items, operating profit declined marginally to S$188.9 million. Operating profit from eCommerce Logistics rose from $32.6 million to $40.2 million due to increased volumes from development of the eCommerce Logistics network, as well as eCommerce customer acquisitions. Mail operating profit was driven by higher volumes from international eCommerce related deliveries, which helped offset the decline in traditional letter mail. With the loss of rental income from SPC mall, as well as increased corporate overheads, operating profit for the Others segment declined.

We now move to our cash flow and financial position. We generated steady Operating cash flow of $202.0 million for FY2015/16. Working capital movement was negative due mainly to higher receivables from growth in international volumes and a one-off receipt of S$58.0 million from a postassurance collaboration last year. Cash used for investing activities included the acquisition of TradeGlobal and Jagged Peak, as well as capital expenditure of about $280 million, largely for construction of the eCommerce Logistics Hub and SPC retail mall.

Cash for financing activities mainly reflects our quarterly dividend commitment to shareholders. As at 31 March 2016, the Group had an ending cash balance of $$126.6 million, and a net debt position of S$153.6 million. Total borrowings increased from S$238.3 million as at 31 March 2015 to S$280.3 million as at 31 March 2016. Funds were mainly utilised for the acquisition of subsidiaries and capital expenditure. Interest coverage ratio improved to 42.1 times, from 36.4 times last year. Net debt to total equity ratio stands at 9.8% as at 31 March 2016.

We will now share some highlights of our eCommerce related revenues. Our eCommerce related activities continued to grow at a good pace. For the full year, eCommerce related revenue rose 60% to $412 million, representing 35.8% of total Group revenue. This was up from 28.0% last year, largely driven by the Logistics and Retail & eCommerce segments. Mail now contributes 40% of eCommerce related revenues, with Logistics at 36%, and Retail and eCommerce at 24%.

SingPost continues to expand beyond Singapore. Overseas revenue now accounts for 43.9% of total revenue, mainly derived from the Logistics businesses of Quantium Solutions and Famous Holdings; as well as the US eCommerce companies TradeGlobal and Jagged Peak.

Next, we move into the segmental analysis. In Q4, Mail revenue rose 3.3% despite the cessation of revenues from Novation Solutions and DataPost. Excluding the divestment impact, Mail revenue would have grown 13.4% in Q4 and 6.7% for the full year. The performance was driven by increase in international mail volumes, due largely to increased volumes from collaboration with Alibaba. With the deconsolidation of subsidiaries divested during the year and the decline in domestic letter mails, operating profit dipped 5.0%. For the full year, mail revenue was stable while operating profit rose 2.6%, driven by contribution from the postage rate revision in October 2014, and higher international mail revenue.

In the Logistics segment - revenue rose by 23.0% for Q4, driven by increased eCommerce logistics activities as well as the inclusion of new subsidiaries. Operating profit more than doubled to $11.6 million. Margins rose to 6.9% due to improved operating efficiencies and synergies from post-merger integration. For the full year, Logistics revenue was up 34.7% and operating profit increased 75.0%, with the strong performance driven by growth in eCommerce logistics activities.

In the Retail and eCommerce segment, revenue for Q4 rose 142.3% with the inclusion of TradeGlobal and Jagged Peak. The US subsidiaries formed approximately 80% of eCommerce revenues. Operating profit was negative $3.2 million. This was due to lower contribution from agency services, and the expenses incurred to accelerate eCommerce customer acquisitions in the Asia Pacific and the US. For the full year, Retail and eCommerce revenue rose 74.6% while operating profit declined due to investments in eCommerce capabilities and lower contribution from agency services.

We will now provide some business updates. We will like to share some highlights of what we've achieved in FY2015/16. We've successfully connected the dots in building a global eCommerce logistics platform with our US acquisitions. We're now serving more than 100 mono-brands worldwide, generating more than US$4 billion in gross merchandise value transacted on our eCommerce sites. During the year, we further enhanced our infrastructure and capabilities with investments in the Regional eCommerce Logistics Hub, as well as more than 140 POPStation lockers nationwide. We also strengthened our eCommerce network and partnerships, growing business volumes via the Alibaba collaboration, and raised our stake in 4PX, one of China's top cross-border logistics players, to 35.9%. We are continually reviewing the yields on our assets. With our SPC Mall redevelopment offering a convergence of online & offline shopping, we will maximise the benefit from the rezoning of Paya Lebar as a commercial hub.

We would like to share a case-study of cross-selling synergies using SingPost's eCommerce ecosystem. Ironman is an endurance sports company which offers accessories and apparel through its webstores. Their webstores in the U.S. and Europe are being run by Jagged Peak. Recently, we were able to help Ironman expand into the Asia Pacific within a short timeframe of 4 weeks. This includes using Jagged Peak's Flexnet and EDGE Order Management Systems for front-end, the Quantium Solutions warehouse in Sydney for warehousing, and CouriersPlease for last-mile delivery. This is an example of how SingPost serves customers using our end-to-end eCommerce suite of services.

Next, we will provide an update on corporate matters. The Special Audit report was released on 3 May 2016, and we are committed to implement the recommendations together with, and as part of, the broader Corporate Governance or CG review. The CG review looks at matters such as Board composition and renewal, and is expected to be completed before the AGM in July 2016. On 11 May, we will welcome our new Chairman, Mr Simon Israel, who is currently also the Chairman of Singtel. Lastly, the GCEO search is progressing well and a number of candidates have been identified.

This slide shows our end-to-end eCommerce Logistics network, as well as the key management heading different pillars of the business. We will like to close off the presentation this evening with a summary and outlook for the next financial year.

In summary, the successful ongoing transformation has delivered a good performance for FY2015/16. Group revenue crossed S$1 billion, as we achieved a record full year net profit of S$248.9 million. With our continued momentum, eCommerce related revenues rose 60% and now make up around 36% of Group revenue. Excluding the impact of the loss of income from SPC mall and deconsolidation of DataPost & Novation Solutions, underlying net profit would be stable. The Board is recommending a final dividend of 2.5 cents per share. Together with the interim dividends of 1.5 cents per share for each of the first three quarters, total dividend for FY2015/16 would amount to 7 cents per share, same as last year.

I would like to share the Outlook for the following year. While the Group continues to face pressures of declining letter mails in the traditional postal business, it is making good progress on its transformation into a global eCommerce Logistics player. The acquisitions of TradeGlobal and Jagged Peak in the US enabled SingPost to expand its eCommerce presence globally. With the expansion of the Group's eCommerce Logistics network, eCommerce related revenues are expected to grow, while the shift in business mix will lead to a decline in margins on a blended basis. Under SingPost and Alibaba Investment Limited's Joint Strategic Business Development Framework, eCommerce volumes have increased as both parties continue to grow business collaboration.

The Group had entered into a conditional joint venture agreement with Alibaba Investment Limited where the latter will acquire a 34% stake in Quantium Solutions International Pte Ltd. Given business opportunities arising from related investments, both parties are working to finalise the joint venture by 31 October 2016. The Group had also announced a new share issue of 5% of its existing share capital to Alibaba Investment Limited. A longer time is required to fulfil the conditions precedent, hence the Group and Alibaba Investment Limited have mutually agreed in writing to extend the long-stop date to 31 October 2016.

The ongoing development of SPC Retail Mall is progressing well and is expected to be completed by mid-2017. The Regional eCommerce Logistics Hub has obtained TOP in April 2016 and is expected to be operational by July 2016. As the Group progresses with its transformation initiatives, it will continue developing a global eCommerce logistics ecosystem and extracting synergies from the recent acquisitions.

This brings us to the end of the presentation. Thank you folks, Jason please.

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

Thank you, Mervyn. We will now begin the Q&A section. Let me introduce the different management members on the panel. We have with us Mr Woo Keng Leong – CEO of Postal Services, Ms Goh Hui Ling – Deputy CEO of International Mail, Dr Sascha Hower – Group COO and CEO of Quantium Solutions, Mr Pranay Mehra – SVP of SP eCommerce. We are now ready to take questions, operator please.

Q&A

Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask questions, please press *1 on the telephone and wait for your name to be announced. If you wish to cancel your request, please press the '#' key. Our first question comes from the line of Sachin Mittal from DBS, please ask your question.

Mr Sachin Mittal (DBS):

Hi, thanks for the opportunity. A couple of questions, firstly I am always talking on a quarter-on-quarter basis sequential trend. I'm looking at the margins in the Logistics and instead of expanding it seems to have actually shrunk in this quarter versus what was in the last quarter – what was in the previous quarter. Any particular reason, especially we know that now that the regional logistics hub is kind of operating now. Is it due to that and that initial teething problems or something else we should be aware about? That's number one, number two, if we look at the Retail segment, Retail segment again on sequential basis it's stable but looks like you know, the profit it made in the 3Q has kind of disappeared and turned into a loss in 4Q. So again you know, any particular reason this doesn't seem to be going in the right direction in the 4Q? And lastly, you know some clarity on this – when it comes to delivery of products with your company – with your partner Aliabba, where are you? Are you – do you think whatever collaboration you could have done with Alibaba and you are trying to proceed, a large part of that collaboration has been done, or No, there is a lot of work to be done between two of you on that collaboration on delivery of eCommerce products – a lot of work needs to be done even now? Thank you.

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

Thank you, Sachin. Now let me try and recall the first question. The first question looks at Logistics on a quarter position and the second question is on operating margins, is that correct?

Mr Sachin Mittal (DBS):

That's right.

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

So if I look down here on slide 14, the operating profit margins increased from 3.6% to 6.9%, so your question is why it has increased, is it?

Mr Sachin Mittal (DBS):

Actually my – when I look at the slides, it was 7.6% in 3Q – sorry, give me a second, it was 7.5% in 3Q and it's 6.9% in 4Q. I'm looking at the slides which you gave us last quarter, so my – to Q4…

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

In terms of Q3 against Q4, the main reason is seasonality. But overall I think important to compare like for like, quarter against quarter, you will see that the traction in eCommerce logistics has taken a good advance here because we can see 3.6% to 6.9% for the quarterly basis, and if you look at the year to year basis you can also see 4.6% to 6.0%, so again it has gone up. So I think that perhaps give you a better feel of it by comparing apple to apple. If you look at Q3 then that is affected by seasonality.

In terms of Mail, just going to flip back to Mail, 5% - operating profit has declined by 5%. That's because of the cessation of revenues because of our deconsolidation of DataPost and Novation from our disposal during the year. So that has resulted in that certain fall in Q4.

Mr Sachin Mittal (DBS):

Actually when I look at your revenues, Q3 to Q4 for Logistics, they are kind of stable, slight increase in Q4 so wondering if the revenues are increasing, why are the margins going down? I mean – that's what my question is, Q3 to Q4.

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

Ok margins are going down generally because the trend here Sachin, is we always say and this is a factual trend globally, that letter mail is coming down. And as letter mail is coming down that attracts a higher margin generally, so we are losing revenue that has a higher margins towards revenues that have lower margins, and the lower margins are more in terms of international mail and transhipment mail. So that is coming up, so that's why we always brief our friends that at the end of the day the blended margins will dip slightly albeit the fact that the volumes will go up because we are changing our business mix as we transform ourselves into an eCommerce logistics ecosystem. So we're really not looking at pillar by pillar but more across as an eCommerce logistics player.

Mr Sachin Mittal (DBS):

Actually I'm not able to convey myself clearly. I thought I was talking about margins in the Logistics and I'm talking about the margins in the Retail. So when I look at the revenue trend listed in this table, when I look at the margins – they have come down from Q3 versus Q4. So that was my key question, but it's Ok, we can have it offline if there is any confusion.

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

So again when I look at the Logistics area, if you compare Q3 to Q4, my simple explanation here, Sachin, is seasonality, it's seasonality. You'll find certain changes so that's why I'm saying the better position is to compare quarter on quarter.

Mr Sachin Mittal (DBS):

Ok.

Dr Sascha Hower (Group COO, CEO of Quantium Solutions):

Sachin, this is Sascha. Maybe just let me – seasonality is basically all the events like Singles' Day from Alibaba, Black Friday, Cyber Monday, Christmas all fall into our Q3, so October to December versus a much lower volume period in January to March. Hence the – so you have the peak cost shared over more volume in the last three months of the year versus the first three months of the year. Hence you will see a different margin. But what Mervyn said is the one to look to, so we always would compare a high season to high season and a low season to low season. If you compare a high season to a low season, you would get to a wrong trend conclusion.

Mr Sachin Mittal (DBS):

Understand.

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

If I may also take it on the second question Sachin, I misread you. I think you were pointing to Retail eCommerce rather than Mail, so let me try and address that. So if we go to slide 16 which is I think where you wanted to ask your question on, the operating profit there fell Q4 FY14/15 against FY15/16 from S$2.5M to –S$3.2M and that fall was mainly caused by two things as we have note on the side. The first is agency services because our post office transactions came down and coupled with that our operating overheads or operating leverage as we call it, has gone up so agency services took a dip. The second part was that we are investing in the future in eCommerce and so in terms of our SP Commerce Inc. in the U.S as well as Singapore, we are investing in infrastructure in order to get more networks in, to get more customers in and so this is part and parcel of our costs involved in growing our network.

Mr Sachin Mittal (DBS):

Understand.

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

In the third area Sachin, Alibaba collaboration – perhaps just to point you to the statement that I have made on slide 25, let me give you a bit of elaboration on that particular brief concerning the Joint Venture. The reason why we have extended it to 31 Oct 2016 is because of business opportunities arising from related investments. Certainly you are right, we are developing our collaboration, there are a lot of exciting things that have come up since the last date. Some of these are for example TradeGlobal, which has now taken on a good traction, Jagged Peak, another good item which we have completed on 8 Mar, 4PX where we have increased our stake in there to over 35% and of course you have all read in the papers; Lazada vis-à-vis Alibaba. So these are all very, very important events that have taken place which sets the motion for Ali's position in Southeast Asia. So certainly we want to explore how we can tap on the synergies to further collaboration in this area, so we need a bit more time to max out, or maximize the potential of this Joint Venture.

Mr Sachin Mittal (DBS):

Oh great, very clear. Thank you.

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

Don't mention. Next question please.

Operator:

Thank you. Our next question comes from the line of Joshua Lee from Deutsche Bank. Please ask a question.

Mr Joshua Lee (Deutsche Bank):

Good evening SingPost team. I would like to understand more about TradeGlobal and Jagged Peak. If we take these two entities on a standalone basis, I'm just wondering on a revenue level, what is the growth year-on-year?

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

Thank you, Joshua. In terms of TradeGlobal, suffice to see at this moment that in TradeGlobal we completed transaction on 14 November 2015. In terms of Jagged Peak we completed transaction on 8 Mar 2016. Where I'm pointing to, Joshua, is that it's early days – early days and so what we can say now is that the performance that we have received today has been reflected within the financials. Both entities show profitable numbers as at 31 Mar 2016. Bottom line, as it stands now we need to see how we can gain more traction as a group, as eCommerce logistics because this is where eCommerce works in with the logistics area, because we are trying to create an ecosystem and so the front-end must work with the logistics warehouse.

Mr Joshua Lee (Deutsche Bank):

Thank you for your explanation, Mervyn. I'm just wondering on a standalone basis, with or without the acquisitions, how was TradeGlobal growth, revenue growth or I can phrase it, full year revenue growth for say, FY16, whether you want to tag it to December or March. I'm just wondering in terms of the full year growth for TradeGlobal and Jagged Peak.

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

Joshua, I think we've just started to consolidate the two entities so if you talk about SingPost's accounts on a year-on-year basis, there really isn't a basis for comparison for a year-on-year. So our consolidation only started, you know, we have just about five months for TradeGlobal and less than a month for Jagged Peak.

Mr Joshua Lee (Deutsche Bank):

I understand, I mean if we take it on a standalone basis, that means on a company level, TradeGlobal level, I'm just wondering in terms of revenue, that means even before the acquisition I'm just wondering for a full year, what is the revenue growth for TradeGlobal. Is it possible to disclose that?

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

We don't disclose that number and also due to the consolidation there is some change in accounting standards between IFRS and US GAAP so there's not really a same basis for comparison.

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

Joshua, if I may also add, I understand where you are coming from but we do appreciate in that we are also constrained because it's investment which we have just purchased. Also noting that we have just purchased it and we've not completed the full year, and of course the business has its seasonality too. So there are ups and downs and so looking at it just for a brief period may not give a correct picture coupled with other conversion processes from GAAP to IFRS, so all things said and done, it's early days Joshua.

Mr Joshua Lee (Deutsche Bank):

Sure. Thank you very much Mervyn and Jason.

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

Sorry about that. Thank you. Next question please.

Operator:

Thank you. Our next question comes from the line of Jessalynn Chen from CIMB Research. Please ask a question.

Jessalynn Chen (CIMB Research):

Hi, thanks for the opportunity. I have a couple of questions. The first one is pertaining to the share, what was the revenue and operating profit contribution from TradeGlobal and Jagged Peak in the fourth quarter please?

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

Jessalynn, give me a moment. We look at the TradeGlobal and Jagged Peak position once again. As much as I would like to give you some numbers, I'm just looking at the slide that we have given to you, we are looking at eCommerce once again as an entity by itself, Jessalynn. And once again I do understand that you and Joshua are quite interested in the performance of those two entities, but again it is still very much early days here and therefore again, we are looking at it as a group in terms of the U.S operations. The U.S operations comprise a number of entities, TradeGlobal and Jagged Peak being one of them, or two of them, and then we also have our marketing arm in the U.S and that works in with our Singapore team in logistics. So as I have mentioned to you and if I think I can point you back to that slide which is slide 6. What we did there is that we are trying to develop on slide 6 an ecosystem, and so we have stated in the second bullet that operating profit of eCommerce, not itself but eCommerce logistics, rose from S$32.6M to S$40.2M. This is due to the gross increased volumes from the development of the logistics network as well as eCommerce customer acquisitions. U.S subsidiaries form approximately 80% of eCommerce revenues.

Jessalynn Chen (CIMB Research):

Thanks Mervyn. Just to clarify the 80%, does that refer to the eCommerce revenue line, the S$43.3M in 4Q?

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

Yes, that is correct.

Jessalynn Chen (CIMB Research):

Ok, and I'm not sure if I heard you right earlier but can I just confirm that both TradeGlobal and Jagged Peak are profitable?

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

Again, it's early days at this moment and so while I said that it's profitable, it is early days because we need to look at it from a quarter by quarter basis. And so I just want you to be a bit careful in doing any financial modelling on those two companies for the moment. Just be patient with us and I think you'll be able to see a bit of clarity as we go forward in the next few quarters this year.

Jessalynn Chen (CIMB Research):

Ok, I have a couple more questions if you don't mind.

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

Sure.

Jessalynn Chen (CIMB Research):

So I was wondering if you could share your thoughts on IDA's – they plan to do a large scale deployment of parcel lockers and what are your thoughts on this, and how can you still maintain a competitive edge against your peers?

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

You're talking about the federated lockers that came out in the press?

Jessalynn Chen (CIMB Research):

Yes, that's right.

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

Ok I guess we – it's too early to say but I would like to perhaps allow my colleague, Dr Sascha, to share his views on this, Dr Sascha.

Dr Sascha Hower (Group COO, CEO of Quantium Solutions):

This is Sascha, thanks for the question. We welcome and are aligned with the new government – the initiatives. As the smart lockers increase, the customers, our end consumers have more delivery choices and hence improve the customer experience and fuel the eCommerce logistics ecosystem. Talking about our experience, there we have about 140 lockers on ground that's growing to 200, the densest network in the world and what we get as feedback from our customers is very good; flexible, secure, 24/7. So this is an initiative that will help fuel the eCommerce ecosystem in Singapore.

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

Thank you, Sascha.

Jessalynn Chen (CIMB Research):

And also, how should we view Alibaba's recent investment in Lazada? Just wondering if you have entered into any discussion to channel Lazada's volumes through your network?

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

Well, we can't speak for them except to say that Lazada is certainly one of the interesting opportunities that we spoke about earlier, that we would like to explore further to see how we can get some synergies out from that. And this is the collaboration that we were talking about with respect to the joint venture.

Jessalynn Chen (CIMB Research):

Ok. Just wondering with Indonesia, can you update us on your expansion plans? Are you looking at any acquisition plans to speed up your expansion, or is there a possibility of working with Alibaba to perhaps leverage on Lazada's network in Indonesia?

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

Well, first of all to say it is an important geography, but nevertheless with the limited bandwidth that we have, we are prioritising our position now in the geographies that we are represented in and that is the first focus we have right now, but we would not disregard or discount the expansion into that geography in the future.

Jessalynn Chen (CIMB Research):

Ok sorry, just one last question from me. So besides Ironman Australia, which other clients of TradeGlobal and Jagged Peak have you brought into Asia, and which markets have they expanded into?

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

Ok I guess for this it would be good for me to get Pranay to share with you, he's from eCommerce. Pranay please.

Mr Pranay Mehra (Senior Vice President, SP eCommerce):

Hi there, thanks for the question. So we've seen – we've already seen one big win which is Jagged Peak's customer, Nestle, which we managed to implement in Singapore. Given that we have just completed the acquisition in March, I would say that this is – this is quite nice and a quick win. We're working, also we've implemented Ironman and we're working with our friends at - with Jagged Peak and TradeGlobal for rolling out more customers into Asia Pacific and vice versa, we are looking at customers in Asia Pacific to roll them out into the U.S.

Jessalynn Chen (CIMB Research):

Just wondering on Nestle, what sort of collaboration is this?

Mr Pranay Mehra (Senior Vice President, SP eCommerce):

We're doing end-to-end for them so we've done the site, we're doing the delivery and we are basically running the site for them.

Jessalynn Chen (CIMB Research):

Ok, so for all of Nestle's products in Singapore?

Mr Pranay Mehra (Senior Vice President, SP eCommerce):

Not all of them to start with, just with one product line but as collaboration gets deeper, there'll be more opportunities.

Jessalynn Chen (CIMB Research):

Ok, thank you so much. That's all the questions I have.

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

Thank you, Jessalynn.

Operator:

Thank you. Our next question comes from the line of Eric Lin from UBS. Please ask a question.

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

Hi Eric.

Mr Eric Lin (UBS):

Hi. Good evening SingPost team, thanks for taking my question, which the first one is actually a follow up on the Mail operating margins. Actually I was of the impression when I saw your previous quarter, third quarter results where you have the operating margins up slightly. I was of the impression that it was starting to stabilise and then you have the fourth quarter when margins, you know – deteriorate again on a year-on-year basis. So I remember if you compare the two quarters, I think the factors like

Novation, DataPost, international mail outpacing domestic you know – they were all there in both quarters. Is there any additional reason leading to this, I would say, change in trend from 2.5% improvement year-on-year in the third quarter to a 5% point decline in the fourth quarter for the Mail margin?

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

Well again, I think that question is somewhat similar to Logistics. It is in some ways affected with the business mix. Letter mails come down, you have international mail going up and so that change in business mix will cause a slight fall in the business margins, and so we are looking at OP margin of a number of areas; domestic, international. Well, basically domestic, international because hybrid and philatelic is not significant, so it's more domestic and international that changes that mix, changes the margins and so the business mix is – causes that blended margin to dip slightly.

Mr Eric Lin (UBS):

If I'm looking the other way like, both third quarter and fourth quarter, international mail revenue growth was very strong like – I remember it was 20% in third quarter, 27% in fourth quarter. So that is already the case, would it be fair to say that even if you single out international mail, its own margin is also on a decline?

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

Well, now perhaps myself to introduce Mr Woo to answer this question, Mr Woo please.

Mr Woo Keng Leong (CEO, Postal Services):

Thanks. Eric, this is Woo Keng Leong here. For Quarter four we actually have seen the business mail dropping by almost over 3% and as you know business mail has a higher margin than as compared to say, international transhipment mail, so as a result the margin has dropped. You can see that the higher margin…Sorry, go ahead.

Mr Eric Lin (UBS):

Sorry I missed out, what did you mention about which is falling?

Mr Woo Keng Leong (CEO, Postal Services):

The domestic business mail, that means mail that are sent out by banks and all that. Those mail normally have higher margins than say, international eCommerce packages. So while you see the eCommerce packages increasing, the drop in business mail actually affects the blended margin.

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

So what we are saying here again is that we are losing volumes on higher margin items and offset by volumes in lower margin items, so you see that blended margin coming down slightly.

Mr Eric Lin (UBS):

Ok, and domestic business mail is classified as international mail in your revenue breakdown, is that correct?

Mr Woo Keng Leong (CEO, Postal Services):

No. Sorry, this is Woo Keng Leong again. This is under domestic mail, we are talking about the business mail sent out by banks, telcos, all that. Those are under domestic mail.

Mr Eric Lin (UBS):

Because the mail mix between domestic and international has been quite steady between quarter three and quarter four, so that's why I'm a bit surprised to see the margin decline.

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

Sorry, Eric. I think you have the same issue as the logistics quarter on quarter movement, because if you look at quarter – if you compare the December quarter to the March quarter, the mix within the segment itself was changed. The mix within domestic mail and the mix within international mail were changed because December is typically the peak in eCommerce parcels shipping. So if you move from quarter to quarter, again it's not really an apple to apple comparison for margins.

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

I guess there is also one additional complication Eric, and that if again the seasonality in terms of Q3 being the peak period so to speak, Christmas festive period and Q4. So it's really two particular areas; the seasonality as well as the change in business mix.

Mr Eric Lin (UBS):

So I thought you are talking about – even the mix within international mail is also changing, quarter-on-quarter is that correct?

Ms Goh Hui Ling (Deputy CEO, International Mail):

Hi Eric, this is Hui Ling here. So for changes, one of course we talked about the mix, blended mix between international mail volume and domestic mail volume and the decline as what Mr Woo said, one is letter mail itself has declined in quarter four but the other reason is, in last quarter four there was actually SG50 and there was the General Election postings of the Q4 of last financial year. So that comparison is not exactly comparable.

Mr Eric Lin (UBS):

Ok, that's helpful, thank you. And moving onto the second question, talking about looking at the balance sheet I think one thing that's standing out is the net debt position in the full year in March 2016 versus a net cash position previously. So does management have a target for the new year and on top of that, if you don't mind, I can ask also about the outlook for dividends for this year? Thank you.

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

The net debt position as at March is the result of lower cash that we have in the numbers. In the balance sheet you can see that our cash position has fallen from S$584.1 to S$126.6, our debt position has gone up from S$238 to S$280, so the result is that we have gone into a net debt as against a net cash position. That certain fall in cash by about over S$400M in the last fiscal year ended March 2016 was basically due to two things. The first was capital expenditure that we had to spend in order to develop out SPC mall as well as our eLog hub, these were the two main events. And in terms of the acquisition of subsidiaries, this mainly comprise TG and JP; TradeGlobal and Jagged Peak. So these will all show up in the cash flow numbers in the statutory – or in the SGX announcement. So that has caused our cash to go down.

Having said that, we have adequate banking lines so in the SGX announcement, we also indicated that we have committed banking lines, more than enough to cover any bridging or shortage of cash for whatever reasons, but notwithstanding that our operating cash flow before working capital remains status quo, very much stable. So we've got very robust cash flows for financial year 16/17, going forward we expect that cash flow to continue to be robust.

In terms of sustainability of dividends, we indicated there that we are proposing here for approval, 2.5 cents final dividend together with the 1.5 cents for the last three quarters gives a total of 7 cents, same as last year. Sustainability of that, we would have more than enough headroom in order to sustain that dividend payout of about S$150M to S$151M.

Mr Eric Lin (UBS):

Ok, thank you.

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

No worries. Next question please.

Operator:

Thank you. Our next question comes from the line of Low Horng Han from CLSA. Please ask a question.

Mr Low Horng Han (CLSA):

Good evening everyone, thank you for taking time to answer my questions. Just two questions here and I'm sorry to be a bit persistent on the Logistics, I know a number of analysts have asked. My question is, if we put aside the seasonality, we have seen year-on-year fairly strong improvement in logistics. My thinking here is that the 6.9%, the base that we should be looking at if we want to do the forecasting for the logistics side, given where things have changed if acquisitions have come through and seems like margins on a year-on-year basis we have two very nice quarters in terms of margin contribution from the logistics. Is that how – basically on a year-on-year comparison, is there anything that has changed that has led to such a strong up jump, uptake in margin and can we assume that this is quite sustainable to some extend?

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

Well, in this case I would say that if we look at the full year, year-on-year comparison Logistics, the revenue shows a sharp increase mainly because of increases from Quantium Solutions as well as Famous Holdings. So there are some acquisitions which have been recently acquired that caused the revenue to go up and we can therefore also see that operating margins have gone up from 4.6% to 6.0%. As to whether you can use 6.0% as an average OP margin to do your forecasting and now perhaps I would get Sascha to share his views on this.

Dr Sascha Hower (Group COO, CEO of Quantium Solutions):

Given that is forward-looking I won't share margins, sorry I think you know that answer. But what I can say is in line with Mervyn, like why we grow the businesses, both organically as well as the acquisitions. What we always say is we do two things; one is besides of course growing the revenue, improving the operating setup and looking into operational efficiencies and effectiveness, and secondly with the acquisition of take, CouriersPlease, and of course synergizing, getting the same operating platform across our entities, that clearly would be affecting the margin and that's why you see that the margin has gone up.

Mr Low Horng Han (CLSA):

Alright.

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

To add on, as we grow the ecosystem and as we get more volumes in from both North America and North Asia, this is as we shared with you earlier on, we have a very nice highway, we are now pushing more traffic onto that highway. As we fill up the capacity, we'll also see advantages coming in once that volume comes in.

Mr Low Horng Han (CLSA):

Sure, thank you so much. Now, my second question here is on the SPC mall. Can we have some sense in regards to the kind of e-merchants that you are canvassing, lobbying, talking to that could be participating in your mall? And the follow up question on this – what sort of logistics revenue subsequently can we assume? Is this going to provide you a little bit of a nice uplift in terms of your logistics and also margins, given that some of these are probably be last-mile deliveries in Singapore or maybe even into the region?

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

Horng Han, your questions are some things that perhaps while we want to help you in modelling, we can't, but what I could help you out, what is out already in the public domain, is that our SPC mall will increase our gross area to 26,000sqm, so that's double the floor area. And certainly the other reason why we did this which comes out in our other press releases is to increase the yields on our assets because of the rezoning of Paya Lebar. We spoke about the O-squared concept, convergence of offline and online shopping so I think that is something that will add on and will enhance our ecosystem, because while we speak of disruptive technology and how we can use new technology to create new marketplaces and new networks, this is something that we would ride on. In terms of convergence, both the brick-and-mortar business with perhaps customers who want to order offline in their homes and collect the packages in the mall, so this is a concept we are working on now, again early stages. The mall is due for completion sometime next year and we would be making announcements along the way as to when we can complete it next year specifically and also in terms of more information about the mall as we come to completion, but until then I think this is all that I can add on. I'm sorry about that.

Mr Low Horng Han (CLSA):

Alright, so probably we can't assume – can't expect any commentary with regards to the type of e-merchants that could be in your mall in one year's time.

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

Not for the moment Horng Han, let me give the rationale there. It's because it's very much part of the O-squared concept that we are developing with the team here and that is something still under development.

Mr Low Horng Han (CLSA):

Sure. Ok thank you so much, will be looking forward to that.

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

No worries, thank you Horng Han. Next question please.

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

Hi operator, I think we have time for just two last questions.

Operator:

Ok. Once again if you wish to ask a question, please press '*1' on your telephone and your name will be announced.

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

Ok, if there are no further questions we could actually end the call.

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

Before we end the call, once again folks I would like to apologize for the delay in this evening's broadcast and thank you so much for your support, and a very good evening to all of you. Thank you.

Operator:

Thank you for dialling in to today's briefing.

End of transcript