SingPost's Q4 FY17/18 Results Analyst Briefing, 11 May 2018

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 fourth quarter and FY2017/18. I am Jason from Investor Relations. With me today is our GCEO Mr Paul Coutts, as well as our Deputy GCEO (Corporate Services) and GCFO Mr Mervyn Lim.

I'll now hand over the session to Mervyn.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Good morning and welcome to our results briefing. For FY2017/18, revenue rose 8.6%, driven by eCommerce-related activities. Rental and property-related income grew 29.9%, boosted by the rental income from SingPost Centre retail mall which opened in October 2017. Last year, we incurred exceptional losses largely in relation to impairment charges. With the absence of exceptional losses this year, net profit for FY2017/18 rose 278.4% to S$126.4 million. Excluding exceptional and one-off items, underlying net profit declined 9.2% due largely to lower Logistics contribution.

Allow me to now share some highlights of the Group's revenue performance for the year.

In the Postal segment, revenue rose 15.0% on strong growth in International mail revenue, which rose 37.4% year-on-year, driven by cross-border eCommerce deliveries. Logistics revenue increased 4.3%, due to increased last-mile deliveries across Singapore and Australia, and higher freight forwarding volumes. These were partially offset by lower revenue from Quantium Solutions Hong Kong. eCommerce revenue was stable despite the loss of two major customers as previously disclosed, as TradeGlobal added new customers over the year.

Operating expenses rose 11.1% for the year. Labour and related expenses were stable as a result of our cost management initiatives. Volume-related expenses rose 15.8%, attributed to higher International mail terminal dues and air conveyance costs in line with higher volumes. Admin and others increased 7.2% due to higher professional fees. Depreciation and amortisation expenses rose 19.1%, mainly due to depreciation costs at the Regional eCommerce Logistics Hub, and shortening of amortisation period for intangible assets of TradeGlobal. Finance expenses rose mainly due to unfavourable non-trade related foreign exchange differences.

We now share some highlights of the Group's Operating profit before exceptional items.

Postal operating profit declined 4.0% due to a decline in Domestic mail letter volumes, partially offset by higher contribution from International cross-border eCommerce deliveries. Logistics operating profit declined 56.0% due to lower contribution from Quantium Solutions, which faced intense competitive pressures in Hong Kong, as well as a doubtful debt provision in Q2 for a key customer. In eCommerce, operating losses narrowed as TradeGlobal executed in line with the turnaround business plan and delivered good cost controls over the peak season. Property operating profit rose 16.8% with rental income from SingPost Centre retail mall.

In this slide, we show the movement in underlying net profit for FY2017/18. There were improved contributions from eCommerce and Property segments. However, these were offset by declines in Postal and Logistics operating profit. As a result, underlying net profit declined 9.2% to S$105.0 million.

We now share some highlights of the Group's performance for the quarter. Revenue rose 13.5% with growth across all three segments. Operating profit before exceptional items rose strongly, up 18.0% against the same period last year. This was, however, offset by lower contributions from associates which continued to invest for growth, as well as higher tax provision. As a result, underlying net profit for the quarter declined 28.6 per cent to S$15.3 million.

Operating profit before exceptional items rose 18.0% for the quarter. Property operating profit rose 101.8% with rental income from SingPost Centre retail mall. Logistics operating profit rose 108.7% on increased volumes for last-mile deliveries and freight forwarding. In the Postal segment, operating profit declined 9.8%. International mail margin was impacted as the industry went through a period of adjustment with the new terminal dues system taking effect during the quarter. In eCommerce, operating losses narrowed as TradeGlobal executed in line with the turnaround business plan. The Others category was impacted negatively by higher professional fees and lower gains on trade-related foreign exchange differences compared to the same period last year.

This chart shows the underlying net profit trend for Q4. Contributions from the eCommerce, Property and Logistics segments rose. However, these were offset by a decline in associates' contribution, largely due to investments at 4PX. In Q4, there was a negative impact from the Others category mainly due to higher professional fees, as well as a negative tax impact as a result of higher provision and lower government tax incentives. As a result, underlying net profit for the quarter declined 28.6% to S$15.3 million.

Let me now move on to the Cash flow and Balance sheet.

Cash from operating activities was stable for FY2017/18. Capital expenditure was lower at S$62.1 million with the completion of the Regional eCommerce Logistics Hub and SingPost Centre retail mall. As such, free cash flow improved significantly to S$136.1 million. Cash and cash equivalents decreased by S$52.6 million in FY17/18, due largely to a net repayment of short-term borrowings of S$118.9 million, compared to net inflow from borrowings last year. Last year, the Group also recorded proceeds from issuance of ordinary shares and partial divestment of interest in a subsidiary to the Alibaba Group.

We now move to the balance sheet and financial indicators. Our cash and cash equivalents stood at S$314.1 million as at 31 March 2018. Borrowings declined to S$244.0 million with partial repayment of short-term bank loans. The group was in a net cash position of S$70.1 million as at 31 March 2018. Our interest coverage ratio remains strong at 25.2 times.

We will now move on to the segmental results.

Postal revenue rose 15.0% for the financial year. International mail revenue rose 37.4% with higher cross-border eCommerce deliveries, in particular for the Alibaba Group. This helped offset the decline in Domestic mail revenue, which was down 6.6%. Operating profit declined 4.0%, as higher contribution from International mail was not sufficient to offset the decline in Domestic mail operating profit.

For the quarter, Postal revenue rose 18.2%. Despite the new terminal dues system taking effect, International mail revenue rose 38.8%. Margins for International mail were impacted as the industry went through a period of adjustment during the quarter. As a result, Postal operating profit declined 9.8% in Q4. Mitigating measures had helped reduce the adverse impact, and the full extent of these measures will come into effect progressively over the next few quarters.

For the Logistics segment, revenue increased 4.3% for the full year, driven by higher last-mile eCommerce delivery volumes in Singapore and Australia for SP Parcels and Couriers Please respectively, as well as higher freight forwarding volumes for Famous Holdings. Operating profit declined 56.0%, impacted by the competitive pressures that Quantium Solutions faced in Hong Kong over the course of the year, as well as a doubtful debt provision in Q2 for a key customer.

For the quarter, Logistics revenue increased 2.0%, driven by SP Parcels and Famous Holdings. Operating profit rose 108.7%, which reflects improved contributions from our last-mile entities, SP Parcels and Couriers Please, as well as higher earnings from Famous Holdings.

In the eCommerce segment, the US businesses' performance improved as management executed on the turnaround business plan for TradeGlobal, which grew revenue and demonstrated good cost controls, in particular over the peak period. As a result, the eCommerce segment's operating losses narrowed significantly by 50.6% to S$16.7 million for the full year. Revenue from Jagged Peak's merchant of record ('MOR') service is presented on a net basis for the quarter and full year ended 31 Mar 2018, compared to a gross basis previously. Figures for prior periods have been adjusted to be consistent with the current presentation.

In Q4, eCommerce revenue rose 15.7%. Despite the loss of two major customers as disclosed last year, TradeGlobal registered revenue growth of 38.5% in Q4 through the addition of new customers. Operating losses for the segment narrowed by 61.3% to S$5.8 million.

Next, we will go through some business and corporate updates.

For Q4, eCommerce-related revenue rose 27.0% year-on-year, driven by higher eCommerce deliveries across our network, such as international cross-border mail, as well as Singapore parcel deliveries. eCommerce-related revenues now represents 56.8% of total Group revenue.

Next, I shall share some key operating indicators. At the Regional eCommerce Logistics Hub, our utilisation for the warehousing floors stood at 96%. For the parcel sorting machine, average daily utilisation during the March quarter was 21%, up from 14% from the same period last year. For the SingPost Centre retail mall, committed occupancy stood at 95.6% as at March 2018.

I shall now move on to our dividend slide. The Board of Directors is recommending a final dividend of 2.0 cents per share. This would bring the total dividend for the financial year to 3.5 cents per share, representing a payout ratio of 76% per cent of underlying net profit. The proposed dividend is subject to shareholders' approval at the AGM in July 2018.

We shall now move to the summary. In FY17/18, revenue rose 8.6%, driven by eCommerce-related activities. Net profit was up 278.4% due to absence of impairment charges recorded in the same period last year. Underlying net profit declined 9.2% due largely to lower operating profit from the Logistics segment. Free cash flow improved to S$136.1 million with lower capital expenditure, while net cash position improved to S$70.1 million as at 31 March 2018. The Board has proposed a final dividend of 2.0 cents per share, bringing total dividend for the year to 3.5 cents per share.

To conclude, I would like to reiterate the key themes of our strategy, which we will execute over the new few years to take us forward in our transformation journey. These are – Winning in our home market, Igniting future growth engines and Extracting full value from investments.

Underlying all of these is our commitment to drive cost leadership, and optimise our cost base in our transition from a higher margin postal business to the more competitive eCommerce logistics business.

That ends my presentation. Thank you. I shall now hand it back to Jason, Jason please.

Mr Jason Lim (Vice President, Investor Relations):

Thank you, Mervyn. We are now ready for the Q&A session, operator please start the session.

Operator:

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 Rui Wen Lim from DBS. Please ask your question.

Ms Rui Wen Lim (DBS):

Hi, good morning. Thanks for the presentation, I have five questions. The first question is on the Postal numbers. Could you elaborate what went on in the industry that caused the margins to drop down and going forward, what kind of mitigation measures are we taking and how long would the mitigation measures take to effect? Would you expect the operating profit in the next year to stabilise or see a downward trend from here?

The second question relates to Logistics, I understand there is some irrational competition in the regional warehousing and logistics space. Could you share with us the progress on Quantium Solutions, how is the situation right now and what kind of outlook are we expecting for the next 12 months?

The third is that in the eCommerce segment I noticed that operating losses have kind of expanded for the second quarter consecutively, is there some changes in cost structure that we are seeing and do you expect to see some small operating profit in the next 12 months?

Mr Jason Lim (Vice President, Investor Relations):

Sorry Rui Wen, we are taking a lot of questions, maybe we just tackle the first three questions first then we move on to the last two? We didn't hear the third question completely.

Ms Rui Wen Lim (DBS):

Third question is about eCommerce operating losses, kind of widened in the last two quarters. Are there any changes that we should expect a small operating profit in the next 12 months? Thanks.

Mr Paul Coutts (Group CEO):

Rui Wen, thank you very much for your questions. Let me just try and address the three questions so far. What's up with the postal sector – the key thing in terms of the impact on our postal business was particularly in Q4 which we previously signposted that the terminal dues would increase on 1 Jan 2018. That's introduced not just for Singapore Post but in actual fact for the whole postal community that sits under the Universal Postal Union umbrella. For the terminal dues increase on 1 Jan 2018 we did have mitigation measures in place which we actually executed as planned. However, moving forward it will take some time for those measures to fully come into effect and we will obviously be monitoring that very, very closely.

On a positive front, we did see that International mail revenues had actually continued to grow quite strongly which was a positive. We again saw growth rate of 38.8% for the quarter and that is encouraging. Obviously in terms of the margins, as we have said we have put the mitigation measures in place; they need some time to fully take effect. We are obviously going to be monitoring that quarter by quarter, but I think the strong International mail revenue growth is testament that SingPost remains competitive even under the new terminal dues system and we expect to continue to grow.

Our mitigating measures, just to give you some examples, what we are doing is around making sure that we have price increases in certain segments, in certain products, in certain geographies to offset the terminal dues increases. We have also increased our bilateral negotiations with other postal entities on specific products, on specific weight breaks, on specific geographies and that will also help reduce the adverse impact of the higher costs. One has to understand this is quite a sizeable structural cost change for the industry and so the entire industry is actually in a state of flux, and it's quite a complex view.

Just one example – while we have put in place price increases into the market, it took time for some of those price increases to be fully passed through and accepted by our customers because we obviously have to get into negotiations with all our customers. We also had some impact because several of our postal competitors did not introduce price increases until midway or later during the quarter; some going for the increase only from 1 April 2018. Through all of those circumstances we obviously saw the impact in Q4, but we are focused on improving the result and we will be monitoring that quarter by quarter.

If I could turn to the Logistics sector, I think in terms of the question around Quantium Solutions in particular, we have flagged in previous quarters about the competitive intensity in Hong Kong that is likely to continue to be sustained in the near future – that has proved to be the case. However, we have also signposted that we have mitigation plans, we are getting into new products, we are getting into new streams of opportunities for our business and we are making progress in that particular area. So we are pleased with the progress that we are making, however it is going to take some time; we did signal this before, it will take some time for that to come through in Hong Kong.

In terms of the mitigating measures that we are putting in place for the Quantium group, we are re-engineering our cost base and optimising our costs within the group. We have also already started conducting a review and we are renegotiating pricing on some key customers contracts. That potentially, in the future might lead to some exits from some customer contracts where we are losing money – that's obviously a decision that we may have to take but hopefully not. We are going through a renegotiation in pricing but also at the same time, we are building new businesses, new revenue streams for the organisation.

The other thing I would say is that Quantium Solutions very much forms a key component of our strategic theme of igniting our future growth engines which includes strengthening our capabilities in Southeast Asia to serve customers such as Alibaba and its extended associates. We will be repositioning Quantium Solutions, utilising Jagged Peak's EDGE technology as the front-end in differentiating us and providing end-to-end integrated solutions to Singapore, Southeast Asia market – in fact, all markets in which Quantium Solutions operates in today.

The other conclusion on Quantium Solutions I would say is the Regional eCommerce Logistics Hub in Singapore – we saw warehousing and fulfilment activities rising with continued addition of new customers. We have also seen expansion for our existing customers, our warehouse utilisation rate rose to 96% as at March 2018 so that's also very encouraging.

We have also added several brands onto our regional warehousing and fulfilment platform and serving those brands on an end-to-end basis across several countries in Southeast Asia such as Thailand, Malaysia and Indonesia, and there are plans to further expand the footprint of those brands so we are positive about Quantium Solutions.

Also just overall on Logistics, SP Parcels, CouriersPlease, Famous Holdings businesses continue to contribute well on higher volumes and we saw strong growth in last-mile delivery volumes for SP Parcels on increased collaboration with some of the top eCommerce market-places in Singapore in the region.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Paul. Rui Wen, the third question that you asked concerning the quarter on quarter comparison for eCommerce performance – that it appears to be widening. Basically the eCommerce business is seasonal, it is difficult to compare it on a quarter on quarter basis. For example the costs and challenges of delivering during our peak period which is the Q3 period of our fiscal year cannot be compared against a non-peak period. I think would be more relevant here to compare Q4 results this year against Q4 results last year so when we do that, you would see a significant narrowing of losses. On a Q4 basis losses would have narrowed 61%, and on a full year basis losses would have narrowed by 50% so a very good performance there; a large part of it coming from the execution of the turnaround business plan of TradeGlobal being on target.

Most of the improvement, as I have mentioned to you, came from the narrowing of losses at TradeGlobal although other entities also contributed towards this improvement. We cannot give specifics on forward guidance on operating profit or for that matter even breaking even going forward. We are continuing to execute on the turnaround business plan, certainly we have made significant progress with TradeGlobal thus far and as long as we execute well on our initiatives we would expect to continue to make progress.

Mr Paul Coutts (Group CEO):

I think the other thing that we should keep in mind on the eCommerce side is when we talk about that particular segment, the whole area of eCommerce also feeds other parts of our business such as the International mail element of business which we say is growing very successfully with revenue growth in the last quarter of almost 39%.

Mr Jason Lim (Vice President, Investor Relations):

Rui Wen, can we have the other two questions please?

Ms Rui Wen Lim (DBS):

My fourth question relates to parcel sorting. Utilisation has been at around 20% for the last few quarters, is there any progress in this area such as tie-ups with say, market-places that particularly provides a lot of parcels?

The fifth question relates to – under the segmental breakdown you mentioned that professional fees actually contributed to some of the variances in operating losses. Just want to make sure that – is it one-off loss or do we expect such fees to continue into the next quarter? Thanks.

Mr Paul Coutts (Group CEO):

Let me touch on the parcel sortation piece then Mervyn can deal with the professional fees, Rui Wen. So again, looking at the parcel sortation, for Q4 we are looking at utilisation levels at 21% and that again it is difficult for you to compare that with a peak season against Q4 parcel sortation utilisation when it is more appropriate to use the same period last year to see what the increase is.

If you go back to Q4 FY2016/17, based on the first calendar quarter for FY2016/17 we were 14% utilisation at that point in time. In Q4 this year we were at 21%, so you can see a real increase there. We continue to be very excited about the opportunity that that provides us to continually push more volumes through and as we get closer to other customers either crunch sales periods - as we get closer to the peak period, I think that's where we see the biggest benefit coming from the sortation; to be able to handle those huge spikes in volumes without deterioration in service levels and with a controlled cost. So we are comfortable as to where we are but we are continuing to push to grow our market share in our home market and that will obviously have a benefit in terms of volumes throughput for the sortation system in the future.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Concerning the second question on the professional fees, these are not one-off fees; it is part and parcel of our operations going forward. As we transform, at times we do need additional help from third parties and that's where we will engage professionals to supplement the knowledge that we will need in order to execute and that is more of an on-going position – as and when we need it we will incur it.

Mr Jason Lim (Vice President, Investor Relations):

Thanks Rui Wen. Operator, can we have the next question?

Operator:

Your next question comes from the line of Eric Lin from UBS. Please ask your question.

Mr Eric Lin (UBS):

Hi, good morning Paul, Mervyn and Jason. This is Eric from UBS, I have three questions. First of all if I may ask you to help me to quantify how much cost or extra cost you paid in the last quarter as a result of higher terminal dues? That is my first question; my second question is on Quantium Solutions Hong Kong. I would like to know – has the progress been up to your expectation so far? If not or in the long run, is a complete exit of this business a plan B you have in mind?

And my third question actually comes to the associate, 4PX. Just want to know what is going on in that particular area and what is the game plan? Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Good morning Eric, Mervyn here. The terminal dues effect as we have signposted in the past is something that would take effect in Q4; it has been effective since January 2018. We have also said that the effect is complicated and it would take time for us to assess it. Certainly we have indicated and put in place mitigation measures, these mitigation measures are still on-going, the effects will progressively be felt over the next few quarters so as we speak now they are still being assessed in the light of mitigation measures that are being put in place. Suffice to say that those that have been put in place have managed to reduce the impact of the terminal dues which otherwise would have been much higher, so we are quite happy with that performance. On top of that, you can see the healthy increase in International mail revenue – going up 38.8% in Q4 and 37.4% for the full year.

Mr Paul Coutts (Group CEO):

Thanks Eric, do you have a follow-up question for that one?

Mr Eric Lin (UBS):

Yes, actually I am just trying to – the reason for asking that is to help a bit of modelling going forward. Probably if I ask in another way, I assume that these expenses are all captured under the volume-related expenses on the accounts and having seen Q4 year on year growth jump from mid-teens earlier on to 22%, am I right to assume that all these are coming primarily from the higher terminal dues? Is that a fair assumption?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Yes, much clearer. You are right. If you look at the operating expenses line Eric, a large chunk of that 11.1% increase in operating expenses for the full year comes from volume-related expenses which are 15.8%, and a large chunk of that volume-related expenses comes from outpayments which relate to terminal dues.

Mr Eric Lin (UBS):

OK, on the Postal margin outlook and I assume if I have to make a projection on the back of that, it seems to me that the Postal margin has hit bottom and I would say with the mitigation measures coming through we are actually expecting the margin to gradually recover. Is that something you can comment on?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

We can't give forward guidance Eric, but suffice to say that the dynamic change in mix will continue and the blending will continue, and certainly the mitigation effects will help in those terminal dues increases; where it will land, we cannot give guidance on that. Suffice to say that we are still much higher than benchmark rates of 12% amongst postal companies of the world today.

Mr Eric Lin (UBS):

Sure, understood. Thanks.

Mr Paul Coutts (Group CEO):

Eric if you are OK with that, let me try and answer the Quantium Solutions Hong Kong question. Your question was really about whether we are comfortable with the progress we are making in terms of reshaping our business in Hong Kong; the answer to that is yes. I am a scorpion so I am naturally impatient I am afraid, by nature. But I think in terms of our people have done there in terms of coming up with the strategy for the way ahead, it is clear; we think it is definitely a path to success. We are getting on with the execution and I am comfortable with that. We are also very committed to Hong Kong because it is a very important postal transhipment market so it helps feed our postal transhipment business and therefore it serves as quite a critical gateway particularly not only Hong Kong but also Southern China, so we are committed to Hong Kong as part of our Quantium enterprise.

In terms of 4PX – the 4PX situation is mainly about 4PX continuing to invest in anticipation of higher volumes from Alibaba and Cainiao so 4PX as you know, cross-border parcel express operator out of China that handles a lot of the AliExpress products and you read everyday not only on the significance of that business but also in terms of the growth rate of AliExpress. They are obviously clearly – not only in a geographical area but in a business segment that is booming and that is China eCommerce. It is essential that they continue to invest ahead of the curve to be positioned for growth. Just to give you a quick example, volumes during the Double 11 event obviously surged considerably and 4PX would not have coped with the increase without additional investments in infrastructure and capabilities. The positive side is they have actually reaped benefits from those investments and have seen revenue growth year on year around 31% and it should also be noted that growth in 4PX volumes also helps feed the volume growth for our International mail business which we indicated have grown 38.8% in Q4. So it has definitely got a very strategic part to play.

Mr Eric Lin (UBS):

I see. Aside from volumes, are you seeing intensifying competition putting pressure on pricing and margin for 4PX?

Mr Paul Coutts (Group CEO):

Not necessarily. China as a market is of course extremely intense on an on-going basis; we haven't seen increased competition there and again 4PX has a fairly clear strategy. We have collaborated with 4PX on that strategy; Cainiao and Alibaba have collaborated because we are all shareholders of 4PX so we have collaborated on the strategy. It's more about making sure that we execute our strategy as a path to success, that's the key focal point for us.

Mr Eric Lin (UBS):

Got it, thank you.

Mr Paul Coutts (Group CEO):

Thanks, Eric.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Eric.

Operator:

Your next question comes from the line of Daniel Lim from Credit Suisse. Please ask your question.

Mr Daniel Lim (Credit Suisse):

Hi guys, just two questions from me. One is on the higher terminal dues this year, could you talk a bit more about what you guys saw on a month on month basis over January, February, March so we have a bit more colour on that? Second question is – there is a slight upward revaluation on the investment properties, just wondering if there are any cap rate changes there? Thanks.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Yes, Daniel. Concerning the first question, while I understand where you are coming from, unfortunately we cannot give that breakdown. Suffice to say however, that the effects of our mitigation measures have not in any way tarnished the growth in International mail which shows that 38.8% increase in Q4. We are still again, addressing whatever we can in the volume increases coming in from International mail and how that impact terminal dues. This is an on-going position with our mitigation strategies and we will be very mindful in terms of the impact to our bottomline in terms of the terminal dues effect.

The valuation increases Daniel, that you see in our investment properties – is that your question on investment properties?

Mr Daniel Lim (Credit Suisse):

Yes, that's right.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

OK, so where we are there is that normally for investment properties take a valuation on all our properties. As one of our properties – building of our SPC mall being just newly completed you will find that when you look at our investment bit it has gone up and that increase in investments by I think about S$43 million to S$44 million from the corresponding period. A large chunk of that was capital expenditure addition rather than fair value increases and the capital expenditure additions came from the completion of the SPC mall and so capital expenditure drives the value up. At the same time of course, on an on-going basis we do have small fair value gains that are recorded in the books across all our properties as part of our accounting standard requirements.

Mr Paul Coutts (Group CEO):

If I could just add as well Daniel in respect to your earlier question, Mervyn's right in what he says. The other thing I would add to that is that is it kind of difficult to look at each month independently and try to make any kind of judgement because the first two weeks in January you have got a lot of flow of the reverse logistics taking place; a lot of returns coming back through from the Christmas peak and all those customers returning goods et cetera which has obviously got an influencing effect on volumes and costs. In February – and also in January last year I think with Chinese New Year that moves to February this year which again distorts the views year on year. That is why we prefer to have a look on the quarter on quarter results to get a bit more of a balance in terms of where we are, and then we move forward from there in terms of the mitigation plans.

Mr Daniel Lim (Credit Suisse):

OK, thanks guys.

Mr Paul Coutts (Group CEO):

Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Daniel.

Operator:

Your next question comes from the line of Sachin Mittal from DBS. Please ask your question.

Mr Sachin Mittal (DBS):

Hi, thank you. My question is on the operating profit from the Others segment; it has gone up almost 300% from a loss of S$3.4 million to S$12.9 million. Now the question is – is this a new base? I mean even if you are saying that it is professional fees and everything, it is a large increase. Is there a seasonal component there or is this a new base we should think about? Because it seems to be a pretty large increase. In fact if I do a simple math, if I take out the operating profit from all other – rental, Property, Logistics, eCommerce; it's all wiped out by this operating loss. So are you doing something to bring this cost item under control? Just some colour on this would be very useful.

Mr Paul Coutts (Group CEO):

So Sachin, thanks for your question. There was at a crack and we just missed the front end of your question. We have got the rest of it, could you give us the context of the first starting point?

Mr Sachin Mittal (DBS):

The first point is talking about the Others operating cost of S$12.9 million loss. That's 280% increase from S$3.4 million last year; this is a very large increase. My concern is – is this a new base? This is a significant increase which we kind of didn't expect and what are you going to do about this cost increase?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Yes Sachin, thank you for repeating your question; very clear. That increase comes mainly from two items. The first would be professional fees in relation to the earlier question and that professional fees as a result of us executing our transformation, are professional fees incurred as and when required. The second chunk comes from our foreign exchange gains; we recorded quite high in FY2016/17 when Singapore dollar was very strong against the U.S dollar at that time as compared to where it is now which is fairly flat against the previous year, and so we have much less foreign exchange gains this period compared to the last period. So these are the two main reasons that contributed towards that increase from S$3.4 million to S12.9 million.

Mr Sachin Mittal (DBS):

Mervyn, my question is can we do something about it or no, it is beyond your control and this kind of cost will keep coming up and hurt profits?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Do understand that our foreign exchange position has to be determined by whether it is a transaction or translation position; we do not hedge translation, these are more changes in volatilities of the interest rates or foreign exchange rates. So on that basis, it will still be volatile as and when the exchange rate varies, so unfortunately no, we do not take a position on hedging translation changes.

Mr Sachin Mittal (DBS):

OK, thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Sachin.

Operator:

Your next question comes from the line of Joshua Lee from Deutsche Bank. Please ask your question.

Mr Joshua Lee (Deutsche Bank):

Hi, good morning SingPost team. This is Joshua from Deutsche Bank, I have two questions. The first relates to what Paul mentioned on exiting some customer contracts in Hong Kong. Just wondering whether would such exits lead to impairment? That's my first question.

Second question relates to your parcel sorting utilisation rates. I am trying to get a sense of the earning sensitivity if the utilisation increases, so any colour on that would be appreciated; such as say, 10% increase in utilisation rate, could it increase EBIT by say, half a million dollars? I am trying to get a sense of that sort of sensitivity. Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Joshua, let me address the first one on whether it has any impact on impairment. So your question on the first item concerning contracts which may be lost or which we may give up, we have not specified that they are contracts that could be within Hong Kong but generally we review such contracts in all our businesses and Quantium Solutions is no exception. And so if we do exit a contract in a certain geography within Quantium Solutions' footprint, the impact on cash flows must of course be considered in the light of the pipeline. As part of our projections in mitigating any loss of contracts, we will of course get new onboarding of customers to take over from those that are lost and assuming that those we give up are loss-making, then it is in that sense a blessing because we would be improving our EBIT which in turn improves our EBITDA position and therefore that strengthens our cash flow. Therefore if anything, it would improve our value versus the carrying value, so the VIU would in fact go above the carrying value which would give us the headroom. Hope that addresses that first question.

Mr Joshua Lee (Deutsche Bank):

Thank you, Mervyn.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you. Second question – if you can Joshua, can you just repeat or if I can just say that you are asking if there is a correlation in terms of the utilisation of the parcel sorting with the EBIT? So if parcel sorting utilisation goes up by from 10% to 11% or 21% to 22%, how would that impact the EBIT line?

Mr Joshua Lee (Deutsche Bank):

Yes, that's a fair way to say it.

Mr Paul Coutts (Group CEO):

Thank you for the question, Joshua. Let me just try and answer that. When you look at Q4 this year versus the same quarter last year, we saw the utilisation number obviously increase from 14% to 21%. What is encouraging about that is the 21% is what we would say – is a much lower seasonal quarter than obviously Q3 which tends to be peak season but the actual average actually crept up, so that's encouraging. We did see that as a big opportunity for us going forward. The more volume we can put through the parcel sortation system, obviously we get better economies of scale; the unit cost then reduces. As we have talked about before, because it is fully automated it is one touch in, one touch out so we don't need a huge amount more of labour and therefore labour costs, to be able to handle increased volumes and therefore we expect a lot of that incremental revenues that we are actually bringing on board through the sortation system will fall through to the bottomline. So that's what we are working on; we are not just looking, we are executing plans on an on-going basis for the last six months or so to continually drive volumes and drive our market share in the local market to sweat the assets and get the benefits from it.

Mr Joshua Lee (Deutsche Bank):

Thanks Paul for the explanation. So maybe just to simplify things, mainly you mentioned that the cost is mostly fixed and to make the question maybe a bit simpler – if utilisation increases say, to 100%, how much EBIT are we looking at? Are we looking at S$1.0 million increase or S$10.0 million increase? I am trying to get a rough gauge of the sensitivity to your earnings.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Understand Joshua, where you are coming from. Certainly it is a case of having our overhead cost per unit coming down as our scale goes up in terms of the denominator, so mathematically you will find that synergies kicking in as operating leverage. However, if we were to give exact sensitivity, curve or calculations for that it's going to be extremely difficult because we will be more or less giving you guidance as to how we see the value proposition going forward, so I don't think we can give that to you but suffice to say that our focus right now is to drive volumes; our infrastructure is already built, our cost as you rightly said is there, fixed cost is there. We are now trying to put more cars on the expressway so to speak so that we reduce our overhead cost per unit of our investments.

Mr Joshua Lee (Deutsche Bank):

Noted, thanks. Thank you, team.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thanks, Joshua.

Mr Paul Coutts (Group CEO):

Thank you.

Operator:

Your next question comes from the line of Gerald Wong from Credit Suisse. Please ask your question.

Mr Gerald Wong (Credit Suisse):

Hi, good morning. I have got two questions. The first question relates back to the increase in the Others expenses to S$13.0 million in Q4. Maybe just to ask in another way, you said that most of it relates to professional fees that you had to incur. Maybe you can just describe where you are along the restructuring phase – are we almost at the tail end of it or do you see that there is a need for these professional fees to be incurred for potentially another few years?

Second question relates to Quantium Solutions. Given the challenges you described in the business, why did you not see a need to be taking potential writedowns in Q4? Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Gerald, for the first question – professional fees, do we see more in the future? Suffice to say that right now we have acquired for the moment what we need, but again whether we will need additional investments or acquisitions along the way to strengthen certain geographies as part of our strategy, again that is part of execution. The focus here is execution and if it is decided at the appropriate time that certain geographies that we want to expand into require investment in the structure, in the company or in the associates, then certainly professional fees will naturally come in as part and parcel of due diligence. Our due diligence incorporates both financial and operational and therefore these various items must go through every purchase. Suffice to say therefore that you will see professional fees incurred as and when we decide to grow and expand and strengthen certain parts of our strategy.

In terms of the Quantium Solutions bit, I think your question was with the competitive pressures would there be impairment. Is that correct?

Mr Gerald Wong (Credit Suisse):

More of why did you not see a need to be taking impairments in Q4 given the competitive pressures that you are describing in the business?

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Understand, thank you Gerald. Do understand also that Quantium Solutions has a footprint in many countries, Hong Kong being just one of them and there are other key countries that Quantium Solutions is located in. So overall when we do an impairment test it is not by geography, it is by entity; that is the cash generating unit or what we call in accounting terms, CGU. CGU is by Quantium as an entity and therefore the overall cash flow is being projected forward is also because of our increased collaboration with Alibaba and therefore we are seeing benefits going forward as part of our Southeast Asia strategy where Paul has indicated that Quantium Solutions is a very important entity in our Southeast Asia strategy as well as with collaboration with the Alibaba group in this area. One of the things that we see benefits from, moving away from the pressures in Hong Kong, would be of course Singapore where we are seeing very good improvement in our warehouse utilisation going up to 96% from 87% in December, and that is on account of Lazada moving their operations in mid of last year and that includes warehousing as well as fulfillment. So we find that there are a number of synergies in that area, also how we can get customers in to even utilise our systems in other countries within the Quantium group from the US. So these are various ways where we are improving our pipeline, growing our pipeline. And on top of that looking at our cost optimisation drive, how we re-engineer costs and overall based on that our auditors and ourselves have taken a position at the end of the quarter that certainly there is no impairment risk at all in view of the projected cash flows of the business.

Mr Gerald Wong (Credit Suisse):

Thank you.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you, Gerald.

Operator:

There are no further questions at this time, speaker please continue.

Mr Jason Lim (Vice President, Investor Relations):

If there are no further questions, I think we can end the session here. I am available for any follow-up if you need. Thank you for dialing in.

Mr Mervyn Lim (Deputy GCEO (Corporate Services) and GCFO):

Thank you.

Mr Paul Coutts (Group CEO):

Thanks, everyone.

Operator:

Thank you for dialling in to this briefing.

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