SingPost's Q4 & FY19/20 Results Briefing, 8 May 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 everybody. Welcome to SingPost's results briefing for the fourth quarter and FY2019/20.

This is Jason from Investor Relations. I hope everyone is staying safe and healthy. 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. I'll now hand over to Richard for the presentation. Richard, please.

Mr Richard Lai (Group CFO):

Thank you, Jason, and thank you everyone for joining us today. I'll take you through the financial highlights.

Revenue for Q4 FY2019/20 was lower by 2.7%. This was due to a 5.7% decline for the Post and Parcel segment. Profit on operating activities declined 30.6% largely due to lower contribution from the Post & Parcel segment.

Domestic Post & Parcel saw a double digit percentage decline in letter volumes whereas International Post and Parcel was impacted by the disruption of global supply chains due to Covid-19. For the first time in many quarters, the International business didn't register growth as revenue was flat compared to Q4 last year. Due to postal service suspensions and grounding of flights by airlines, we incurred higher conveyancing costs, while higher terminal dues also kicked in from 1 January 2020. The above were partly offset by improvement in the Logistics segment.

The Group recorded an exceptional loss of S$9.4 million in Q4 largely due to impairment losses on our overseas associates and a S$1.6 million fair value loss on properties. Income tax expense was S$3.2 million in Q4 compared to S$5.0 million in the same period last year, which included a capital gain tax on divestment of ITL last year. There were significant losses from U.S. Subsidiaries last year, which included impairment of S$101.6 million. With the absence of U.S. losses, underlying net profit rose 14.6% to S$16.6 million.

Next slide, now we move on to Expenses.

Volume-related expenses rose 3.5% in Q4. This was driven substantially by higher conveyance costs as a result of Covid-19 impact, as well as higher terminal dues for the international business, which came into effect from 1 January 2020.

Following the adoption of SFRS (I) 16 *Leases*, there was a reduction of rental costs (under Admin & others), and an increase in depreciation costs. Labour & related expenses declined due to Job Support Scheme relief of approximately S$5.2 million, which helped mitigate the impact of Covid-19. Accordingly, operating expenses declined 0.8% in Q4. Finance expenses rose 47.9% in Q4 due to the adoption of SFRS (I) 16 *Leases*. Details on the net impact from the adoption of SFRS (I) 16 *Leases* are provided in the Appendix.

We now move on to the overview of the various segments' contribution to the Group's revenue and profit on operating activities.

The Post & Parcel segment remains the largest contributor to Group Revenue and Profit on Operating Activities. Post & Parcel segment Profit on Operating activities declined with lower letter mails, and the impact of Covid-19. Logistics segment Profit on Operating activities registered a lower loss of S$2.2 million in Q4, compared to S$6.4 million loss in Q4 last year, while Property POA was stable. Under the Others segment, expenses declined by 27.4% or S$2.9 million, to S$7.7 million in Q4, largely due to lower professional fees and lower accrual of bonus compared to the same period last year.

Let me move onto the P&L for the financial year. Revenue was largely stable, in spite of the challenges faced in the fourth quarter. If we didn't have the impact of Covid-19 in Q4, we would have done better on revenue.

Profit on operating activities declined 21.3% largely due to lower contribution from Domestic Post & Parcel as a result of lower letter volumes, and International Post & Parcel due to disruption in global supply chains, as mentioned in the quarterly slide earlier. This was partly offset by improvement in Logistics segment.

The share of losses from associated companies & JV improved compared to last year, as the Group ceased equity accounting for 4PX and disposed of its stake in Indo Trans Logistics. Exceptional loss was at S$9.1 million, and we have shared the main reasons in the Q4 slide. Income tax expense declined 21.5%, from S$36.1 million to S$28.3 million, largely due to lower profit before tax and the capital gain tax that was recorded last year. Loss from discontinued operations declined 91.9% due to deconsolidation of the U.S. Subsidiaries from September 2019. As a result, net profit improved from S$19.1 million to S$91.9 million.

Excluding exceptional items, underlying net profit remained stable as the absence of U.S. losses was offset by lower domestic letter volumes.

Moving on to Expenses for the full year. Volume-related expenses rose 4.6% for the full year, largely in line with the 5.9% growth in International Post and Parcel revenue over the same period. Labour & related expenses was stable. This was in spite of additional postmen hired for the Singapore postal operations, as well as higher remuneration, as part of initiatives launched in Q4 last year to improve service levels.

Despite benefits delivered by our cost savings actions taken across the organisation in anticipation of declining letter volumes, operating expenses rose 2.7% due to investments to improve service levels, as well as the impact of higher terminal dues.

Similar to Q4, following the adoption of SFRS (I) 16 *Leases*, there was a reduction of rental costs, and an increase in depreciation and finance expense.

For the full year, Post & Parcel segment Profit on Operating activities declined with lower letter mails. Loss on operating activities from the Logistics segment narrowed to S$2.2 million as compared to S$6.4 million loss, largely due to improvement in Quantium Solutions. Property contribution remained stable. Under the Others segment, expenses rose by 8.6% or S$2.5 million, to S$32.0 million, largely due to negative trade-related foreign exchange differences, as well as higher corporate costs related to governance and compliance.

We will provide more details on the performance of each of the segments in the next few slides.

Now, let me now move on to the Cash flow and Financial indicators. On slide 10, for the financial year ended 31 March 2020, operating cash flow before working capital changes was higher at S$194.6 million. Working capital movement for the year was positive S$24.8 million, with the positive movement in payables for international postal settlements partly offset by the negative movement in trade receivables for eCommerce deliveries from China. Consequently, net cash inflow from operating activities for the year rose to S$183.2 million, compared against S$152.2 million in the corresponding period last year. Free cash flow improved to S$156.0 million.

We now move on to the financial indicators. Cash and cash equivalents was higher at S$493.0 million compared to March 2019 and this is as a result of cash from operations as well as net proceeds from a bank term loan. Borrowings were increased for greater flexibility in managing any uncertainty from Covid-19. With the higher growth in cash relative to borrowings, our net cash position improved to S$128.6 million.

EBITDA for the full year improved to S$191.3 million, with the absence of US losses. EBITDA to finance expense stands at to 14.2 times compared to 11.4 times last year. If we adjust this to exclude the impact of SFRS(I) 16 *Leases*, EBITDA to finance expense would have been 20.3 times.

Let me move on to the slide on dividends. The outlook remains challenging and highly uncertain due to the ongoing Covid-19 situation, and the Group needs to adopt a prudent approach in managing oru cash flows. For the financial year ended 31 March 2020, the Board of Directors has proposed a final dividend of 1.2 cents per ordinary share. Including the proposed final dividend, total dividend for the financial year would be 2.7 cents, which represents a payout ratio of 60% of underlying net profit, at the lower end of the dividend policy of 60% to 80% of underlying net profit.

We shall now move on to the segmental results and in this case I will pass you back to Jason.

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

Thank you, Richard.

On the Post & Parcel segment, revenue held steady for the full year. International revenue rose to a record of over S$500 million on the back of higher cross-border eCommerce related deliveries, which helped offset lower Domestic revenue. However, the above trends were impacted by Covid-19 disruptions in Q4.

In Domestic Post and Parcel, admail volumes declined in Q4 in line with a drop in business activities such as sale and promotional events, although we had successfully grown admail volumes up to February, prior to the Covid-19 crisis, since making improvements to the service quality.

Letter volumes continue to decline at double-digit percentage against last year, while Domestic eCommerce volumes continued on a growth trajectory, mainly in the Tracked Package service which wet launched in Dec 2019, which saw strong take-ups from eCommerce platforms. On balance, Domestic Post and Parcel revenue declined 15.4% for Q4. International Post and Parcel was impacted by the disruption of global supply chains and higher terminal dues, as Richard had shared earlier.

Due to the above reasons, profit on operating activities declined by 47.7% in Q4 to S$18.0 million. For the full year, profit on operating activities declined 23.2%, led by decline in Domestic letter volumes, as well as the impact of Covid-19 in Q4.

In the Logistics segment, revenue declined marginally by 0.7% for the full year, largely due to the depreciation of the Australian dollar against the Singapore dollar. If the exchange rate had remained stable, Logistics segment revenue would have rose 1%.

For Q4, Logistics delivered a resilient performance despite headwinds from Covid-19, with revenue higher by 5.3%. This was driven by growth in Quantium Solutions, which continued its strong operational momentum with revenue rising 28.5% in Q4 through the addition of new customers and higher revenue from existing customers in Southeast Asia and North Asia.

In addition, Couriers Please registered a recovery from the bushfires in Q3, and the floods in January, and returned to revenue growth. These helped offset a 2.0% decline in revenue from the freight forwarding business, which was impacted by the global slowdown in trade.

With the improvement in Logistics segment revenue, Profit on Operating Activities registered a lower loss of S$2.2 million in Q4, compared to S$6.4 million loss in Q4 last year, which had also included one-off costs of nearly S$2 million such as relocation and reinstatement costs.

Consequently, for the full year, Logistics segment loss was S$5.6 million compared to S$7.6 million last year.

Property segment revenue, which comprises commercial property rental and the self-storage business, remained largely stable for Q4 and the full year as the SingPost Centre retail mall and office remained at close to full occupancy as at 31 March 2020.

As the circuit breaker measures to contain the Covid-19 outbreak were implemented at the end of March 2020, there had been no material impact to our financial performance for Q4 and the full year.

While profit on operating activities remained stable for both Q4 and the full year, we expect a prolonged closure of businesses arising from the circuit breaker to negatively impact the Property segment moving forward.

Let me hand back over to Richard for the Outlook.

Mr Richard Lai (Group CFO):

Thank you, Jason. Next, I shall share our Outlook, starting with the Post and Parcel segment.

In FY19/20, the Post and Parcel segment contributed 56% of Group revenue. Post and Parcel operations, comprising Domestic and International businesses, are largely expected to continue given the Essential Service nature of the business. The segment is well-poised to capitalise on eCommerce growth opportunities once the pandemic is over and global economies recover.

While letter volumes continue to decline at a double-digit percentage, eCommerce growth volumes remain robust, albeit currently forming a relatively small part of the total revenue base. Measures such as Singapore's Circuit Breaker and Malaysia's Movement Control Order continue to impact costs, if not eased.

The International business will continue to target cross-border eCommerce flows. However, there remains uncertainty in how supply chains and trade flows would be affected, and how Singapore's position as a transhipment hub could be impacted.

Any continued international border closures and grounding of airlines would cause further increases in freight costs and service delays, while higher terminal dues are expected to continue to increase costs.

Let me now move on to the Logistics segment.

In FY19/20, the Logistics segment contributed 38% of Group revenue. As the Logistics segment is highly dependent on volumes and revenue, business might be further impacted by lower overall demand from an economic slowdown in the Asia-Pacific region. To mitigate this, we will increase its focus to capitalise on eCommerce growth trends in key markets.

As the international Logistics businesses largely operate under an asset light model, we will tap on our ability to flex the cost base in line with revenue movement.

I shall now move on to the Property segment.

In FY19/20, the Property segment contributed 6% of Group revenue. We had provided support via rental and property tax rebates to affected tenants who have to close temporarily due to Circuit Breaker measures, and the cost will be reflected in the new financial year.

Moreover, rental renewals will be become increasingly challenging if the situation continues. However, we remain well positioned in the mid-term due to its location in Paya Lebar, considered an emerging vibrant commercial hub with its recent transformation.

From an overall perspective, the Outlook remains uncertain, and our performance will be affected by factors beyond our control surrounding the global Covid-19 situation. The duration and extent of control measures undertaken by the Singapore Government – and that of other countries – will impact the global macro-economic environment and the performance of the Group.

Group earnings and operating cashflows will face headwinds from the Covid-19 operating environment. In this challenging climate, we are carefully managing operating and capital expenses.

As at 31 March 2020, we had completed refinancing of the S$200 million fixed rate notes and further strengthened our balance sheet. We have ample financial resources to meet all our current obligations. Amid near term challenges, the Group remains well-positioned to capitalise on growth opportunities, such as eCommerce volumes, once measures are lifted and over the long-term.

Before we end the presentation, we will like to share our longer term focus for the Group.

While we continue to face headwinds in its postal business with declining letter volumes, there are also opportunities arising from the strong growth of eCommerce logistics, in particular in the Asia Pacific region.

Part of this long-term strategy is the fundamental review of Postal operations, brought about by changes in Singapore's postal landscape. This Smart Urban Logistics initiative aims to reinvent a sustainable national mail delivery system, and along with it improve service standards, so as to drive long-term business performance and value creation.

Secondly, we intend to further strengthen and scale up its capabilities to build a strong, integrated network that fulfils both B2B and B2C requirements within Singapore and the wider Asian Pacific region.

Thirdly, the review of the postal operations as part of the Smart Urban Logistics project will subsequently free up industrial space for our Property portfolio for more efficient gains.

With that, I conclude my presentation.

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 Koh Miang Chuen from Goldman Sachs. Please ask your question.

Mr Koh Miang Chuen (Goldman Sachs):

Sure, good morning to all, a few questions here. Firstly is that the Post & Parcel profitability declined quite a bit in the quarter, just wondering what is the larger impact actually? Was it more the admail decline or was it more like International mail or was it from cross-border eCommerce? It sounds like the impact was largely in March and if so, is it fair that we will see similar sort of profit pressures persisting until the lockdown ends?

Second question is that the Domestic eCommerce clearly did well since Covid-19 and we can visually see that all across Singapore, but this appears more staples, groceries and certain categories like that. Wondering if SingPost was actually able to capture the domestic eCommerce growth considering the categories that were actually growing?

And last question also on eCommerce, wondering what additional steps across Asia that SingPost may be undertaking to further take advantage of the growth opportunities? Because in think some of the things that were mentioned like Smart Letterbox appears more Singapore specific. Those are my questions, thank you.

Mr Paul Coutts (Group CEO):

Hi Miang Chuen, and thanks everybody for joining us this morning. This is Paul Coutts here, so I would like to add that for this particular Q&A session, I would like to be the moderator in terms of who is going to respond. So maybe points one and two – if I could ask Vincent to respond to points one and two – and I will respond to point three with regards to the wider play for eCommerce in Asia Pacific?

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

Good morning, everybody. This is Vincent and thank you for the questions.

Post & Parcel profitability – it's a combination of factors. One of the big impacts you mentioned – admail – it's heavily dependent on business sentiment. In fact, for the admail segment if you recall, we took progressive steps to alleviate us of the admail volumes when we had a year ago some of the service issues that cropped up. Through the course of the financial year, we have actually steadily turned on the capacity again and we have actually restored to a pretty good volume for admail coming into Q3, only to see that it pretty much evaporated in Q4. Admail is a function of sales, a function of events and once those business activities went away, the admail volume was severely, severely impacted. That's one of the impacts that we've had.

We spoke about the rest of the impact to the business as well, both domestically and internationally. Let me give you a bit more colour on the domestic business. So clearly, if I can take a step back as well and highlight a few things that we have done in the domestic postal business – health and safety is our utmost consideration for our teams and it is quite a tribute to our people that we have actually operated in some of the most adverse conditions the Post & Parcel business has been put through in recent years, if not in its history. And I have paid tribute to the resilience of the teams who has managed to keep this essential service running.

Operating in such adverse conditions – what do I mean? We've had a massive lockdown situation that prevented our Malaysian staff from actually commuting and we took very progressive steps right on from the outset to have them housed in Singapore. So there certainly is an impact on the cost we have to bear in terms of this additional level of support for them. Locals as well have been put through very adverse conditions. With all that unprecedented protocols that we have in place, it has severely impacted our productivity as a result. You can imagine our operations are not really designed for such distancing measures, we have to make very, very significant changes to our operating tempo and the operating environment. Not to mention we've also had a few Covid-19 cases as you are aware and that has led to quite a significant number of quarantine cases that have been imposed across our business and we have had to adjust to that as well. So that was my little spiel about what has happened domestically.

The International business is a different story altogether, it's primarily the disruptions and these disruptions really started to come in – if you remember, the first Covid-19 case happened around Chinese New Year which was the end of January and coming out of the Chinese New Year golden week kind of situation – and we really measured from a lunar calendar point of view, the year before and the years before, production capacity ramped up significantly and shipments out of China started early like five, six, seven days after the first day of Lunar New Year. Well, in this case for this year it didn't and that restriction in production capacity, that shrinkage happened through February and March which means there was a significant amount of orders that were not met just because the factories wouldn't be able to produce and us being a cross-border movement service provider, was impacted severely and hence the volumes were down. So that was the first start of how it impacted us. Going beyond that, when the factories started to produce now is a matter of not getting the kind of flights and air cargo capacities with all the border restrictions and disruptions with flight schedules. That has added to the stress and for whatever volumes that we have managed to move, that came at a significant cost as Richard highlighted earlier – the conveyance cost of moving these volumes through our network has increased significantly. It's a demand and supply issue, there's so little air capacity for so many things to move through the entire system. That's what we have.

Your other question on whether this will persist till the end of lockdowns, well, we don't know. We are working very closely with authorities on both fronts so from a domestic point of view, the health and safety protocols that we put in place, the circuit breaker and moving forward in the next few weeks as we see some of the lifting of the restrictions – how will that change the operating tempo and the restrictions placed on us – will we have a bit of reprieve from the Malaysian workforce issue that we face, that remains to be seen. As for International business, there is going to be, in the foreseeable future anyway, for the next few weeks or months there will continue to be border restrictions and travel problems. If there are no flights, if you can't fly, neither can your mail nor eCommerce volumes get to your destinations, so I think that we can probably expect to see for another few weeks and it's extremely hard to predict what the actual consequence and impact of that is except operationally we do see that there will be continued disruptions. So hopefully that gives you a bit of colour on the questions.

On the second question – domestic eCommerce – yes, indeed there is a bright spark in our story through this Covid-19 crisis that eCommerce volumes continue to grow and growing sustainably. We have been pretty successful in extending the growth of eCommerce volumes in the smaller dimensions. Anything to letterboxes, anything like small packages, that has definitely been very positive for us and we continue to grow very sustainably in that sector; which means to your question on some of the more bulky items like groceries and all that, you probably have read it in the papers. I think it was a couple of days ago where there was a report that said it's causing quite a bit of headache for some of the logistics companies. The bulkier items, we have tried to be a bit more measured in that space given our Essential Services reputation and the capacity that we need to marshall for the kind of work that we do. We have also seen growth there but as I said it's a bit more sustainable. We have been able to capture most of the meaningful ones, the impactful ones that go into the smaller formats into letterboxes for example. That has been progressing well, so hopefully that gives you a bit of colour on this two questions that you asked. Over to you, Paul.

Mr Paul Coutts (Group CEO):

Yes sure. Thanks, Vincent. So maybe on that question number three with regards to the wider eCommerce play in Asia Pacific, I think the first thing I would say is that for those who have been tracking us for some time, we obviously had some real issue with Quantium Solutions business a few years where we were incurring considerable losses and our revenue growth was not so great, so we took a starting point back then of re-engineering Quantium and repositioning Quantium as well within its key markets in Asia Pacific. We have done that relatively well I would say and also we are starting to see not only the revenues really starting to ramp up – Jason and Richard both touched upon the fact earlier that revenue was up 28.3% in Q4 and we've seen that percentage gradually increase in the last few quarters – but we also saw the losses being narrowed, so I think there were some kind of early signs that we are definitely seeing that re-engineering and repositioning of Quantium is showing some rewards and we've got a lot more to do in that area so that's good. We continue to see healthy growth and volume coming out of Hong Kong, we also see good growth actually even in the last few weeks with regards to eCommerce. Miang Chuen, you mentioned the fact that eCommerce is obviously quite vibrant in Singapore, the same maybe even more so is in Australia which is a key market for us so again we have a good infrastructure in Australia for delivery of eCommerce product and over the last few weeks despite Covid-19, we have seen some reasonably healthy growth in the last few weeks. But at the same time, I would also just apply some caution. This is Covid-19, we never quite know what's around the corner and we have to continue to be agile and adapt accordingly. The final thing I would say is that getting volumes in eCommerce is not actually the issue most of the time, getting eCommerce and making sure that the product itself that you are offering is a viable, sustainable product that will actually be value accretive is the key challenge so we have to be focused on both those issues and therefore be very certain in where we play in eCommerce and that is something that we will continue to review and address.

Mr Koh Miang Chuen (Goldman Sachs):

Well, great. Thank you, Paul and Vincent for the comprehensive answers. That's all from me, thank you.

Mr Paul Coutts (Group CEO):

Thank you.

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

Thanks, Miang Chuen.

Operator:

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

Ms Lim Rui Wen (DBS):

Hi, good morning everyone. Thanks for the presentation, I have two questions. One is on International mail, in terms of demand, is it more of a problem that you are not seeing the kind of international eCommerce volumes resuming to pre-Covid levels? How has that come through in April up to first week of May? And in terms of International mail, is there a sense as to whether how much of it was demand led decline versus higher cost that you are seeing because of the flight cargoes and shipping issues, things like that?

My second question is relating to Singapore. How has SingPost actually tried to capture the kind of Covid related deliveries that are coming through platforms like say, Shopee, Lazada and it equivalents? What are plans to actually increase headwinds in such platforms? As I think your competitors be it NinjaVan, Q Express, Shunfeng – they have actually seemed to capture the door to door deliveries and courier deliveries during this time pretty well. Thanks.

Mr Paul Coutts (Group CEO):

OK thanks, Rui Wen for your questions. I think almost all of those land in Vincent's territory so I'll let Vincent lead off and I'll obviously add any colour as necessary. So Vincent, can you tackle Rui Wen's questions?

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

Morning, Rui Wen, seems like I am a popular guy today. The International demand, supply issue – from our assessment, there was a time where demand sort of shot up. I think when the lockdowns from various countries started coming in, there was this spike, there was a surge certainly and we did see supply not being able to catch up as I explained earlier. When we first started this crisis, we did see that there was absolutely nothing coming out from China and it was a tough time for us because we saw the orders but there was just no product. Then it quickly shifted into a case where the product started to flow but we had supply chain issues in trying to get product out of China and into any country, so till today we still get lots of queries, feedback about why is it that I have ordered stuff for three to four weeks and it's still not inbound, it's still stuck in origin and that's just a function of us not being able to get any kind of meaningful air cargo capacity out of the source countries. So it will toggle to and fro is what I see, and of course when that starts to happen, you start to see some of the demand fall off again just because consumers are not as confident with getting their supplies and cancel their orders. So there will be that shift and I think it remains to be seen how we reach that level of equilibrium in terms of what's a sustainable demand and what's a sustainable supply picture from the origin side.

As to what kind of commodities, we see a shift from discretionary spending to more essential spending so stuff that gets moved tend to be more of an essential nature. Interestingly, we see a lot of things that you wouldn't think that would be moved so much through the eCommerce logistics supply chain model, for example furniture. So there's stuff that's coming through that way and it's a lot less on the discretionary spend. Cosmetics, stuff like that would obviously be a lot less but things like nutrition might increase so the demand and supply issues continue to be something that we watch very closely; it's a hard question to answer because it all depends on the dynamic nature of how things are moving. Of late we also start to see that China is back to ramping up its air capacity again and there is volume that is moving, and we have been working very closely with our ecosystem, our authorities as well to make sure that here in Singapore we continue to be relevant.

Richard touched on earlier about this Covid crisis exposing some queries and questions about Singapore and all the air hub status that it is and how do we talk about our future as a viable air hub for moving air cargoes this way. So I hope that gives you a bit of clarity about the International Post & Parcel issues, so on and so forth.

On the Singapore question, you asked about Covid related deliveries so as Paul and I mentioned earlier, we are measured in how want to play, how we intend to play. We've been very clear about our target market so firstly, back to the core postal being our primary concern and the postal infrastructure, using that to our maximum abilities to leverage using that core infrastructure to make a meaningful contribution to the future. So we've been very focused on doing that which means clearly we've been working on through the course of the year – product streamlining, we've talked a lot more about letterbox deliveries, we've talked about new categories of products that we've put out, we've talked about new tariffs that we've had – and it actually was very helpful that we've had all those discussions and all those plans in place before the Covid-19 crisis hit because it came in very, very handy. So we've actually seen growth not just in terms of volume, but also growth in terms of unit rate as a result of the plans we've put in place ahead of the Covid-19 crisis so that has been very meaningful for us.

Now, back to where we intend to play. The heavier, bulkier items, doorstep deliveries, we have stated categorically stated that that a very fragmented market and we note that through the Covid crisis there has been a lot of interest in moving stuff to door. We remain cautious about overextending in some areas which may have a repercussion in terms of the rest of the deliveries that we have so we've been very, very disciplined. We have been playing to this narrative, the strategy that we have and working with our platforms – you asked about some of our customers like the online platforms – we are a primary supplier for them, we are very engaged with them in talking about helping with their deliveries. We are very focused on where we believe we make the best contribution to their operations as well in a sense – smaller packages, items, commodities that could be packed in a way that goes through to a letterbox type of infrastructure – that has been the focus that we have been driving, it has been a good discussion over the last few months leading up to the Covid crisis and once again, I say it's very helpful that we've had those discussions because those things are coming to bear the impact of that. We continue to have those discussions, we continue to talk about extending support into that space, we are talking about the potential of having singular deliveries rather than putting five or six items into a big carton to be sent to the door. If it ships in smaller quantities, we could move those into letterboxes so those are the kind of work streams that we have in approaching this discussion with some of our larger customers, so hopefully that gives you a bit of elaboration on what we have been working on. Paul, is there anything else you want to add?

Mr Paul Coutts (Group CEO):

No, I think you have answered the questions. Thanks, Rui Wen.

Operator:

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

Ms Rachael Tan (UBS):

Hi, two questions. The first would be you mentioned that you are having higher conveyance costs, are you able to pass these on to the end users? And second, maybe you could provide some colour on where you see the most pressure in terms of cash flows and working capital. Thanks.

Mr Paul Coutts (Group CEO):

OK, thanks very much Rachael for your questions. Perhaps on the first question, again I will get Vincent to talk about the higher conveyance costs and the second question I will get Richard to talk about the capital and liquidity et cetera. So Vincent, can you maybe touch on the higher conveyance costs? One thing I would say just to provide some context to the industry. Obviously, it's very well-known that the industry globally is very challenged currently and struggling with regards to the capacity that is available, and particularly as a result of airlines taking passenger aircrafts off. And to some extent, I think we are paying for decisions that the industry made 10 years ago to remove a lot of pure freighters from the network and at times like this where you are taking passenger aircrafts off, it obviously has a huge impact in terms of global supply chains. And also, I think to a certain extent in terms of our answer, we'll have to look at the wider context where there is a squeeze on supply, demand is ramping up in certain areas – you don't need to be a rocket scientist to look at what happens. Costs go up and there has been a lot of publicity around that, so Vincent maybe if you just want to add some specific colour from a SingPost perspective and then we can quickly move on for Richard to talk about cash flow?

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

Thanks, Rachael. So conveyance cost is a massive problem as you've heard from what Paul highlighted, so once again demand and supply. But in this case, for eCommerce deliveries it is a market that is very competitive so in a sense there's only this much we can do, and those conversations we obviously have on a daily basis about how we can continue to do our best for our customers in moving product cross-border but at the same time create value in a sense, just not passing on whatever cost to them; it just wouldn't make sense. So how do we push the boundaries? How do we continue to have that intellectual addition to their work and their outputs is complicated. Well, there are means. There are 200 countries that we ship to, you can imagine the complexities. We explore ocean freight as well as air freight – traditionally when it's BAU, most of these stuff is moved through air. Since the airports are closed and there are no flights that are flying, we have moved a significant amount of these volumes through ocean carriers as well. Lead times are obviously longer but better than getting stuck somewhere. At the same time, we are also cautious of the situations in the receiving countries, so there's no point flying items into a country at cost only for it to be stuck on the tarmac of the receiving country because the country is locked down.

It's 200 countries around the world that we look at on a daily basis on how we try to make the best decisions from a supply chain standpoint for our customers, for the consumers. We keep an eye on the SLAs required, we keep an eye on the costs and we continue to push the boundary on cost. That's what we have always been doing so over the years as you know, apart from the conveyance costs, the terminal dues is also something we have had to contend with and the UPU discussions of late, sound so long ago – given the Covid issues – but it hasn't been that long. It was only in August and September that we had a landing on some of these issues about the cost of terminal dues and the trajectory. So SingPost, we have always extended year-on-year, quarter-on-quarter our growth in eCommerce moving through cross-border, work that we've done successfully only because we continue to make these decisions in terms of cost, in terms of whether we pass it on to the customers – well, if we do that all the time then we wouldn't be growing all that revenues so quickly at the same time – so there's a lot that goes on behind the scenes and I am sure it doesn't do this justice over this two or three-minute explanation but that's where we stand with conveyance cost. So hopefully that gives you a bit of colour. Richard, over to you.

Mr Richard Lai (Group CFO):

Yes. Long and short of it if I might summarise what Vincent is trying to say is that we try. In some cases we can pass it on, in some cases we don't so it's not a clear-cut answer. But more to the point on cash flow now is that we have ample financial resources to meet our current obligations so we are not too concerned about it; if we were, we wouldn't be paying dividends at all but we are. We are paying 1.2 cents per share and that sums up to 2.7 cents per share for the entire year – yes, that is at the lower end of the dividend policy range of 60% - 80% of our UNP, but it is still I think, a very solid and a robust display of our ability to pay dividends in spite of a very challenging circumstance. So that should give you some comfort about how we see the future, at least for the next 12 months how that is going to look like in respect to our cash flow and our financial resources to be able to meet all our requirements. Hopefully that answers your question.

Mr Paul Coutts (Group CEO):

OK, thank you Rachael and thanks, Vincent and Richard. Next question.

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 everyone. Firstly, I would like to thank the SingPost team for tiding us through this current situation, definitely challenging times and we are happy to be on board. A few questions that I have today so please bear with me.

Firstly, a follow-up to what Vincent shared earlier on about how SingPost is paying for the Malaysian staff to stay in Singapore. If we were to strip this cost out, what kind of margins are we looking at for the Post & Parcel business, just to have a better sense. The second question is more on how the current Work From Home situation has impacted domestic mail, I am trying to get more colour on that being is it the case where there are more physical signed copies going around? Or are you guys seeing that everyone is going to e-signing as a result after we emerge from this Covid-19 we should expect domestic mail, particularly in terms of physical copies going around to decrease permanently? The third question is something that I believe has been asked in every call so far, but given the current uncertainty in the market right now, I think any added level of transparency would be much appreciated. So just trying to see if we can get more colour in terms of the actual breakdown for the Post & Parcel business? Because if we look internationally at all your international peers, they provide a lot more colour in terms of what goes into their business. So for example at Deutsche Post, they even go into the actual volumes that they are doing which I guess provides investors with a better see through to the business in trying to expect what's going to come next. And lastly, just a follow-up in the question on the smart letterbox pertaining to capex – what kind of capex should we be expecting for this moving forward and also is there any company level capex that we can try to have a gauge on for the next financial year? Thank you.

Mr Paul Coutts (Group CEO):

OK, thanks Terry and thanks particularly in terms of your recognition of our frontline troops who are out there everyday still as an Essential Service, delivering to the community. We appreciate that, thank you.

So again, a lot of the questions focused around Post & Parcel business here in Singapore so we are looking at Vincent pretty heavily today. Happy for Vincent to answer some of those questions.

So the first issue was around Singapore, SingPost obviously started paying for the hosting of the Malaysian staff that we have here in Singapore to continue their duties, the impact on margins, et cetera.

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

Thanks, Terry. So it's a hard question to answer and I think it's not something that we focus on so much. I think the operational impact is significant, we recognise that if we do not have the Malaysians here in Singapore and there obviously is a choice. From the outset, we have made a decision to have them in Singapore and just to be clear, it's not all of them that have put up their hands and volunteered. It is a tremendous sacrifice on their part to be here for weeks as a result. I think it is less meaningful for us to talk about what are the margins if we were to strip this out, I think it's just a need for us to continue this Essential Service, it is par for the course, it is the manpower choices that we've made. Going forward, a more meaningful question perhaps would be would this change how we feel and clearly we are looking at – the conversations that have been happening nationally around workforce, about how we start to look at some of these essential services and we will customise that along with the question that you brought up around smart letterbox. I think that's the part that gives us the opportunity to spear the conversation into how do we take out some of these vagaries and uncertainties in the choices that we make around Malaysian workforce or local workforce or foreign workforce, and could it be more capex dependent because it is infrastructure rather than opex and labour focused. So those are questions that we continue to debate, we are not ready to unveil what is the capex requirement for the smart letterbox. Certainly the plan continues to move on, we see an urgency in this given obviously the Covid issues and there is traction with various government agencies around trying to move things in a meaningful way.

You have a question on the decline trends and all we can say is that it's very lumpy and when large institutional customers or the industry sector say, banking or telcos, when they make a certain choice, it's a very lumpy movement. We saw quite a lot of that through the course of this year which is the reason why the numbers seem to have accelerated to double digit numbers and it's probably the worst year we've had in terms of decline. It used to be more in the mid-single digit range and so it has actually got to double digit now. We haven't seen any further changes in a sense through the Covid crisis, so we continue to be very cautious about that, but we hope that at some point in time this trend would maybe stabilise. Usually, in my assessment, it usually comes in stages so it's not like every year you will start to see this massive decline. It tends to be a bit lumpy so hopefully we've seen most of that through the course of the year. But that said, it shouldn't change how we plan for the future. We just have to make certain assumptions on how it's going to be and back to the point about using the infrastructure and using productivity drivers more effectively, how do we customise our operations. So hopefully that is a short answer to you and to give you some colour.

Mr Paul Coutts (Group CEO):

Thanks, Vincent. Just on question number three which is about providing more granularity in certain areas and you used the example of Deutsche Post DHL, in terms of the detail and their going to volumes and such like, thanks for that feedback Terry. We'll take that on board and we'll look at it in terms of the next series of financial results that we will obviously publish somewhere down the track and we'll take care of that then rather than answer it now. I think your question was in relation to smart letterbox and capex. I think I will just ask Richard to kind of give a general view around capex which may be of interest.

Mr Richard Lai (Group CFO):

Actually I was going to add on to what Vincent said earlier, to give a bit more colour to the question about capex and how are we going to be spending and so forth. I'd like to remind everybody that we still have about S$116 million of restricted cash that we have from Alibaba since the time that they first invested in SingPost. Any spending on the Future of Post will draw on this and the spending on FOP capex isn't a one-time thing – how much we spend on capex will depend heavily on how fast it gets rolled out, so it's an evolving number. So for that reason, it's very hard for us to give you a specific number today but rest assured, we have no plans of going out to the market to call for additional capital because based on our projections, we have sufficient to deal with it ourselves with our internally generated funds. So like I said earlier, we have ample financial resources to meet our current obligations. We also have sufficient financial resources left to meet some of our strategic initiatives, so I know it's not giving you the number answer that you are looking for but that's the best we can do at this time in time.

To the earlier question about stripping off the impact of the Malaysians, housing them and so forth, I think if you all go through the results you will come across this thing called the Jobs Support Scheme of S$5.2 million. So at this point in time, all the Covid-19 impact that we have experienced or I should say, materially the impact of Covid-19 has been mitigated by this S$5.2 million that we have recognised. So the result that you see, in fact you can say almost to the point that it has blunt or removed this issue of the Malaysians and so forth. Notwithstanding they are on different lines, Jobs Support Scheme is found in your labour related cost line but I guess you can say that if you take the whole entire operating expense as a line by itself, then it more or less mitigates each other so the margins haven't really changed that much as a result.

Mr Terry Ho (One Hill Capital):

Thanks for that.

Mr Paul Coutts (Group CEO):

Thanks, Terry.

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

Operator, I think we will just take one last question.

Operator:

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

Mr Varun Ahuja (Credit Suisse):

Hi, thank you for taking my questions. I am cognizant of the time so I'll just try to be as quick as possible. In fact, I want to make an observation from the time you held your conference call in February – the outlook on International business was a little bit weak so it looks like even to have a flattish revenue in International, March seems to be a much better quarter as you may have taken up the load off February to be on a year-on year flattish basis. Does this mean that you may have taken some of the low margins products also? Just want to understand given the margins have collapsed, I understand you mentioned about Malaysian support staff but would you have taken some of the low margin products in International mail segment?

Secondly, freight forwarding has also looked pretty resilient during the Covid time. How do you think about it? Are you seeing some decline because that's the segment that would be impacted given the border closures internationally so some colour on that would be helpful.

Thirdly and second lastly, you have been talking about this in domestic segment, decline in the mail segment, letter and volume, but you still mention that it is still a substantial portion. Any colour on how long that will continue? I think even the last quarter also but I guess this quarter if the decline continues then eCommerce volume would have grown right? So how far are we from that stage where eCommerce will overtake the mail segment?

That is third and lastly, you mentioned that eCommerce you see as a growth strategy now that you have detracted from U.S., you are obviously looking at Asia Pacific. Do you think at this stage if the valuation is a bit more reasonable you may look at some opportunities that may come across to expand your eCommerce presence? Because besides providing transhipment and some logistics support, your presence in Asia Pacific side is limited in terms of eCommerce capabilities. So just want to understand your vision in terms of eCommerce, thank you.

Mr Paul Coutts (Group CEO):

OK, so thanks Varun for your questions, and the clock is ticking at our end. I am going to probably shorten the answers for some of these, I'll take a couple and just pass one or two on.

So let me talk about your second question which is around the freight forwarding piece, particularly Famous. Obviously, the whole industry was actually challenged long before the Covid-19 with the global trade wars taking place between China and the U.S. and there was obviously an impact on a lot of other markets because of the supply chain interconnectivity and reliance. We, from a Famous perspective, I think have been pretty resilient through that time. In terms of the impact and when I say that – when you look at the revenues, although down year-on-year, and if you look at the freight forwarding industry as a whole, the decline is much lesser than the overall industry so it's been reasonably resilient and it still remains profitable which is good.

I think the challenge on Covid-19 is going to be that even the March numbers that we saw, are technically February's volumes and because a lot of the business is ocean freight and it arrives a month later and we account for it when it arrives, so therefore we will only see the Covid-19 impact from April and May so it's a bit early for us to tell the impact but so far it's been resilient which is good.

I think in terms of your other question around eCommerce for Asia Pacific, our plans are definitely to expand in Asia Pacific from an eCommerce perspective and we've talked a bit earlier that we've got some traction in Quantium. We want to keep that momentum going but again, we are going to have to wait to see on Covid-19. Our plans will be both considerations about organic growth strategy, but potential inorganic growth strategy. Perhaps on the inorganic side, Covid-19 might present some opportunities which might not otherwise be there, so we'll keep a very close eye on what's happening in the market and all the markets in which we operate for any opportunity and we'll continue to review that.

On the domestic mail segment, on the decline I think Vincent tried to address that earlier. You know we obviously had been a long time at single digit decline. It has accelerated into double-digit declines, there are months, recent months where it seem to have stabilised a bit but again, you know Covid-19 is very volatile, it's very uncertain and we are really tracking that on a day by day basis. So I wouldn't get too far ahead of ourselves on that one.

On the low margin and the area of margin you were talking about on the conference call in February, perhaps I'll just ask Richard to maybe make some comments on the margin side.

Mr Richard Lai (Group CFO):

So maybe you missed my last point – I was saying earlier that the margins as you see now actually is fairly reflective of our current business because whatever the impact you might have seen, if you take the operating expense as a single line, they have been mitigated by the Jobs Support Scheme of S$5.2 million that has gone toward the labour and related cost line. That line is the same line as where housing of the Malaysian and so forth are, but the impact to Covid-19 is over and above that right? There is also higher conveyance cost and so forth, so that line captures all the benefits that come in from the Jobs Support Scheme and so if you collapse the whole entire line into just the operating expense line, they do cancel out each other so that line is more or less as you would see the business without the Covid-19 implication.

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

Richard, maybe just let me jump in. What I heard from Varun was about the International Post & Parcel is moving more of the low margin product so specifically the answer is no, there is no shift in what we see. I think it also shows the resilience of the postal supply chain for this category of movement – cross-border – so it's purely a demand, supply issues that we see if you got some of the interpretation within the numbers but it has nothing to do with choices or moving more of the low margin stuff than the high margin stuff. So that shows the resilience of the revenues.

Mr Varun Ahuja (Credit Suisse):

Sorry, Vincent. Is this March volumes significantly higher than last year, month-on-month? Because February it was low because of Chinese New Year, when we spoke it wasn't happening in March so it looks like March – to be stable on a year-on-year basis or quarter – March would have to be substantially higher. Any colour on month by volume would be helpful. Thank you.

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

I think I can't give you the breakdown by month, we go by the quarters. Like I said, there's a lot of movement within the numbers because of the demand, supply issues. It's extremely hard to pin it down to a month, and I don't think it will be meaningful for us to discuss on a monthly basis so just think of it as an entire Covid-19 crisis that's going to be quite stretched out. We have obviously been on a growth path for International as you can see over the years, so from that point of view the expectation was clearly for it to be a lot higher and Covid-19 did put a dent to that kind of growth expectations. So I think that's the best I can give in terms of the narrative around what the volumes are, but to really split down to the weeks and months I don't think it's particularly meaningful and we may be drawing some wrong conclusions from there, so hopefully you understand.

Mr Varun Ahuja (Credit Suisse):

Thanks, Vincent.

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

Thanks, Varun. I think that's about all the time we have for the call today. Thanks everybody for dialling in, if you have any follow-up please reach out to me. Stay safe, stay healthy.

Mr Paul Coutts (Group CEO):

Stay safe, everyone.

End of transcript