# Financial Review and Outlook

## FINANCIAL REVIEW

| Group | Financial Year ended 31 March 2019 S$'000 | 2018 S$'000 | Change % |
|---|---|---|---|
| Revenue | **1,556,690** | 1,513,427 | 2.9 |
| Profit on operating activities | **136,292** | 146,873 | (7.2) |
| Share of profit of associated companies and joint venture | **(7,061)** | (3,099) | (127.8) |
| Net profit | **18,958** | 135,497 | (86.0) |
| Exceptional items, net of tax [1] | **(81,148)** | 29,220 | N.M. |
| Underlying net profit [2] | **100,106** | 106,277 | (5.8) |
| Basic earnings per share (S cents) | **0.18** | 5.32 | (96.6) |
| Underlying earnings per share (S cents) | **4.43** | 4.68 | (5.3) |

**Note:**

[1] Exceptional items comprised one-off items such as asset impairment, fair value changes on investment properties, gains or losses on sale of investments and property, plant and equipment and M&A-related professional fees.

[2] Underlying net profit is defined as net profit before exceptional items, net of tax.

N.M. Denotes not meaningful.

For the full year ended 31 March 2019, Group revenue rose 2.9%, led by growth in the Post and Parcel and Property segments.

| Revenue | Financial Year ended 31 March 2019 S$'000 | 2018 S$'000 | Change % |
|---|---|---|---|
| Post and Parcel | **764,751** | 734,846 | 4.1 |
| Logistics | **496,137** | 497,436 | (0.3) |
| eCommerce | **248,904** | 249,776 | (0.3) |
| Property | **90,742** | 79,934 | 13.5 |
| Inter-segment eliminations | **(43,844)** | (48,565) | 9.7 |
| | **1,556,690** | 1,513,427 | 2.9 |

In the Post and Parcel segment, revenue rose 4.1% for the full year, driven by strong international mail revenue growth of 9.3% with higher cross-border eCommerce-related delivery volumes.

In the Logistics segment, revenue declined 0.3% for the full year. At Famous Holdings, the Group's freight forwarding business, revenue rose with higher freight rates. This was offset by revenue decline at Quantium Solutions following an exit of unfavourable customer contracts, as well as at CouriersPlease, our express parcel delivery service in Australia, which was impacted by the depreciation of the Australian dollar against the Singapore dollar.

In the eCommerce segment, revenue declined 0.3% for the full year as the Group continues to face challenges in the US in the midst of intensifying competitive and cost pressures and an increase in customer bankruptcies in the industry.

Property segment revenue, which comprises commercial property rental and the self-storage business, rose 13.5% for the full year. This was due to rental income from the SingPost Centre retail mall, which commenced operations in October 2017 after a period of redevelopment.

### Operating Expenses

Operating expenses rose 3.7% for the full year, driven by higher volume-related expenses.

Volume-related expenses, which remain the largest cost component for the Group, rose 7.2% for the full year. Traffic-related expenses, which are largely for mail conveyance, rose due to higher terminal dues. Further, outsourced services, which are largely incurred in the US for freight purposes, rose significantly faster than revenue for the US businesses.

Excluding volume-related expenses, operating expenses for the Group would have declined 1.5% for the full year on cost management initiatives.

For the full year, labour and related expenses declined 2.8%.

Administrative and other expenses increased 2.7% for the full year, largely due to higher property-related expenses arising from increased property activities.

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Depreciation and amortisation costs declined 2.2% for the full year, as some assets had been fully depreciated and written off respectively.

Selling-related expense rose 14.3% for the full year, attributable to higher costs related to international postal deliveries in line with higher volumes, as well as provisions for ongoing contractual disputes with eCommerce customers in the US.

The impairment gain/loss on trade and other receivables relate to the bad and doubtful debt provisions for the Group. Bad debt provision for the full year was S$2.2 million, largely due to the US businesses, while the provision last year was S$5.5 million, largely due to Quantium Solutions Hong Kong.

| | Financial Year ended 31 March | | |
|---|---|---|---|
| Profit on Operating Activities | **2019 S$'000** | 2018 S$'000 | Change % |
| Post and Parcel | **165,864** | 164,255 | 1.0 |
| Logistics | **(2,514)** | (10,574) | 76.2 |
| eCommerce | **(51,930)** | (19,602) | (164.9) |
| Property | **53,664** | 41,330 | 29.8 |
| Others* | **(28,792)** | (28,536) | (0.9) |
| Profit on operating activities | **136,292** | 146,873 | (7.2) |

* Others refer to unallocated corporate overhead items and trade-related foreign exchange translation differences.

Profit on operating activities declined 7.2% for the full year, due to higher losses for the US businesses under the eCommerce segment.

In the Post and Parcel segment, profit on operating activities rose 1.0% for the full year as the Group benefited from increased cross-border eCommerce-related deliveries, as well as operating synergies from the integration of its domestic Post and Parcel divisions.

In the Logistics segment, loss on operating activities narrowed from S$10.6 million to S$2.5 million for the full year, largely due to a reduction in losses at Quantium Solutions after the exit of unfavourable contracts and successful implementation of cost rationalisation. The corresponding period last year had included a doubtful debt provision of S$5.2 million for a key customer. Revenue and profit on operating activities for CouriersPlease rose in Australian dollar terms. However, earnings were impacted by the strengthening of the Singapore dollar, as well as a one-time cost incurred for the Cost Leadership Programme for which the benefits will only be recognised next financial year.

In the eCommerce segment, operating loss widened year-on-year to S$51.9 million for the full year due to the US businesses, as a result of competitive and cost pressures and higher expenses incurred for freight and outsourced services.

Under the Property segment, profit on operating activities rose 29.8% for the full year due to rental income from the SingPost Centre retail mall. Committed occupancy for the mall was 98.9% as at 31 March 2019, compared to 95.6% a year ago.

Under the Others segment, which comprises unallocated corporate overhead items and trade-related foreign exchange translation differences, expenses rose marginally by 0.9% for the full year due to unfavourable foreign exchange movements.

**Impairment of TradeGlobal and Jagged Peak**

Under financial reporting standards, the value-in-use computation has been adopted for the purpose of impairment testing. This excludes any cash flows expected to arise from future restructuring not yet committed, or plans to improve or enhance the asset's performance.

The Group has recorded a total impairment of S$98.7 million to the carrying value of TradeGlobal and Jagged Peak, comprising the balance S$67.6 million for goodwill and intangible assets, and the balance S$31.0 million for property, plant and equipment (PPE).

This means that the carrying value of the US businesses had been substantially impaired, save for working capital that may be recoverable.

**Exceptional items**

Total exceptional losses for the full year amounted to S$69.3 million, which included the below material items:

- Gain on dilution of interest in 4PX recorded in the third quarter of the financial year: S$42.7 million
- Fair value loss on GD Express warrants recorded over the year: S$15.5 million

### Share of Results of Associated Companies and Joint Venture

As previously announced, the Group has ceased equity accounting for 4PX and Indo Trans Logistics Corporation with effect from October 2018.

For the full year, the share of results was a S$7.1 million loss, largely due to 4PX's results recorded in the earlier part of the year.

*GD Express*

During the year, the Group completed the sale of all the GD Express warrants that it held, which was classified as a derivative financial instrument. Accordingly, the Group will no longer have to recognise fair value gains or losses on the warrants.

The Group utilised the sale proceeds to increase its direct shareholding in GD Express from 11.2% to 11.6%, which will continue to be classified as an associated company.

### Income Tax Expense

For the full year, income tax expense was S$27.8 million, a 9.4% decline compared to last year largely due to lower profit before tax.

### Net Profit and Underlying Net Profit

For the financial year ended 31 March 2019, net profit attributable to equity holders declined by 86.0% to S$19.0 million.

Excluding the impact of exceptional and other one-off items, underlying net profit declined 5.8% to S$100.1 million for the full year, due largely to higher losses from the US businesses.

| | Financial Year ended 31 March | | |
|---|---|---|---|
| **Cash Flow** | **2019 S$'000** | 2018 S$'000 | Change % |
| Net cash inflow from operating activities | **152,180** | 198,243 | (23.2) |
| Net cash provided by/(used in) investing activities | **12,349** | (48,757) | N.M. |
| Net cash used in financing activities | **(86,359)** | (202,050) | 57.3 |
| Net increase/(decrease) in cash and cash equivalents | **78,170** | (52,564) | N.M. |
| Cash and cash equivalents at beginning of year | **314,050** | 366,614 | (14.3) |
| Cash and cash equivalents at end of year | **392,220** | 314,050 | 24.9 |
| Free cash flow | **120,857** | 136,100 | (11.2) |
| Cash capital expenditure as a percentage of revenue | **2.0%** | 4.1% | |

N.M. Denotes not meaningful.

### Operating activities

For the full year, operating cash flow before working capital changes was S$186.8 million, compared to S$196.2 million last year.

Working capital movement for the year was negative S$3.3 million due to the timing of payables and receivables in respect of international postal settlements largely for eCommerce deliveries, which are experiencing strong growth from China.

After payment of income tax, net cash inflow from operating activities was S$152.2 million for the year, compared to S$198.2 million last year.

### Investing activities

Net cash inflow for investing activities for the year was S$12.3 million for the year, compared to outflow of S$48.8 million last year. This was due largely to proceeds from divestment of ITL, as well as lower capital expenditure of S$31.3 million compared to S$62.1 million last year, with the completion of the SingPost Centre retail mall redevelopment.

### Financing activities

Net cash outflow from financing activities for the year was S$86.4 million, compared to outflow of S$202.1 million in the same period last year. The difference was largely due to net receipts of bank borrowings this year, compared to net repayment of bank borrowings last year.

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**Free cash flow**

For the financial year ended 31 March 2019, the Group's free cash flow (operating cash flow less capital expenditure) amounted to S$120.9 million, compared to S$136.1 million in the previous financial year, due to the timing of payables and receivables in respect of international postal settlements largely for eCommerce deliveries.

## CAPITAL MANAGEMENT

The Group is committed to an optimal capital structure and constantly reviews its capital structure to balance capital efficiency and financial flexibility.

| | Financial Year ended 31 March | | |
|---|---|---|---|
| Group Debt And Perpetual Securities | **2019 S$'000** | 2018 S$'000 | Change % |
| Total debt | **290,876** | 243,978 | 19.2 |
| Net (cash)/net debt | **(101,344)** | (70,072) | (44.6) |
| Total debt plus perpetual securities* | **637,702** | 590,804 | 7.9 |
| Net debt plus perpetual securities* | **245,482** | 276,754 | (11.3) |
| Net debt plus perpetual securities to ordinary shareholders equity(%)* | **19.4%** | 20.4% | |
| EBITDA to interest expense (number of times) | **11.5** | 21.3 | |

* Presented for comparative purposes.

Total borrowings increased from S$244.0 million as at 31 March 2018 to S$290.9 million as at 31 March 2019. EBITDA to interest expense stands at 11.5 times, compared to 21.3 times for the corresponding period last year. Excluding exceptional items, EBITDA to interest expense for the year ended 31 March 2019 would be 18.2 times compared to 19.1 times last year.

## DIVIDEND

The Board of Directors is recommending a final dividend of 2.0 cents per share for the financial year ended 31 March 2019. Together with the interim dividend payments of 0.5 cent per share for the first three quarters, the annual dividend in respect of the current financial year would amount to 3.5 cents per share.

| | Cents Per Share |
|---|---|
| Interim Q1 | 0.5 cent |
| Interim Q2 | 0.5 cent |
| Interim Q3 | 0.5 cent |
| Proposed final | 2.0 cents |
| Total dividends paid and proposed in relation to FY 2018/19 | 3.5 cents |

The dividend policy is based on a payout ratio ranging from 60% to 80% of underlying net profit for each financial year, paid quarterly.

## OUTLOOK

The Post and Parcel business is expected to benefit from the continued growth in global eCommerce activities.

Although domestic letter mail volumes are expected to trend moderately downwards, the Group is integrating its postal and parcel delivery capabilities in Singapore to achieve operational synergies and benefits.

The Group will step up its investment to improve service quality in its home market in Singapore.

While international mail has grown due to cross-border eCommerce deliveries, transhipment competition is intense and volumes will continue to come under pressure, especially with higher terminal dues.

Meanwhile, the Property business is expected to remain stable.

The Group has commenced a sale process for its US businesses under the eCommerce segment, and will make further announcements as appropriate on the exit.

The Group expects to continue to account for operating losses of the US businesses until it completes an exit.