FINANCIAL REVIEW AND OUTLOOK

FINANCIAL REVIEW

GROUP	Financial Year ended 31 March 2017 S$'000	2016 S$'000 (Restated)	Change %
Revenue	1,348,502	1,151,542	17.1
Operating profit	58,357	284,259	(79.5)
Share of (loss)/profit of associated companies and joint ventures	(1,177)	9,066	N.M.
Net profit	33,403	248,910	(86.6)
Exceptional items, net of tax [(1)]	82,209	(95,342)	N.M.
Underlying net profit [(2)]	115,612	153,568	(24.7)
Basic earnings per share (S cents)	0.85	10.86	(92.2)
Underlying earnings per share (S cents)	5.28	7.13	(26.0)

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.

Group revenue grew 17.1% for the full year ended 31 March 2017, largely due to the inclusion of the US eCommerce subsidiaries.

REVENUE	Financial Year ended 31 March 2017 S$'000	2016 S$'000 (Restated)	Change %
Postal	544,141	536,236	1.5
Logistics	636,801	625,972	1.7
eCommerce	267,082	98,423	171.4
Inter-segment eliminations	(99,522)	(109,089)	(8.8)
	1,348,502	1,151,542	17.1

In the Postal segment, Domestic mail revenue continued to decline with more companies implementing e-statements. This was offset by growth in International mail revenue which was driven by higher crossborder eCommerce deliveries, especially with higher volumes from the Alibaba Group. Consequently, Postal revenue rose slightly for the full year.

FINANCIAL REVIEW AND OUTLOOK

The deepening collaboration with Alibaba has increased transhipment volumes in the Postal segment. SingPost is working towards developing its business with Alibaba on its commercial network within the Logistics segment.

Logistics revenue rose 1.7%, driven by higher contribution from CouriersPlease from increased eCommerce-related activities, offset by a decline in Quantium Solutions.

eCommerce revenue rose with the inclusion of US subsidiaries, TradeGlobal from 14 November 2015 and Jagged Peak from 8 March 2016.

Other Income

Rental and property-related income decreased 7.1%. This was due to lower retail rental revenue with the redevelopment of Singapore Post Centre (“SPC”) retail mall.

Miscellaneous other income was a gain of S$9.8 million for the full year, compared to S$12.0 million last year. The differences were mainly attributed to trade-related translation differences.

Total Expenses

Total expenses increased by 22.5%, as a result of the inclusion of new subsidiaries. Labour and related expenses were higher mainly due to additional headcount from new subsidiaries.

The increase in volume-related expenses reflects the change in business mix as part of the Group’s transformation, with higher International mail terminal dues as well as higher cost of sales and outsourced services related to TradeGlobal and Jagged Peak respectively.

Administrative and other expenses rose 9.4% from property-related expenses such as warehouse rental costs from new subsidiaries.

Depreciation and amortisation expenses were higher due largely to depreciation cost from the Regional eCommerce Logistics Hub, which attained TOP in April 2016.

Finance expenses declined S$4.7 million for the full year due to favourable non-trade related foreign translation differences.

FINANCIAL REVIEW AND OUTLOOK

OPERATING PROFIT	Financial Year ended 31 March 2017 S$'000	Financial Year ended 31 March 2016 S$'000 (Restated)	Change %
Postal	150,707	157,324	(4.2)
Logistics	23,596	38,812	(39.2)
eCommerce	(33,790)	(7,300)	@
Property & Others	6,497	81	@
Operating Profit before exceptional items	147,010	188,917	(22.2)
Exceptional items	(88,653)	95,342	N.M.
Operating Profit	58,357	284,259	(79.5)

N.M. Not meaningful.
@ Denotes variance exceeding 300%.

Operating profit declined for full year, mainly due to exceptional items.

Postal operating profit declined 4.2% for the full year, largely due to the decline in contribution from Domestic mail, and the shift in mix towards lower margin international transhipment mail.

In Logistics, operating profit decreased 39.2% for the full year. The decline reflects a combination of three factors: i) costs arising from planned investments to build out our eCommerce logistics network, such as depreciation and running expenses related to the new Regional eCommerce Logistics Hub, and network expansion at CouriersPlease; ii) intense pricing and competitive pressures in the eCommerce Logistics space; and iii) depressed freight rates and volumes in the freight forwarding industry.

Operating losses from eCommerce segment were S$33.8 million for the full year. While SP eCommerce and Jagged Peak performed well, TradeGlobal faced continuing challenges with the loss of key customers and recorded higher operating losses.

“Property & Others” includes the provision of commercial property rental and corporate costs of the Group not allocated to the reportable operating segments. For the full year, operating profit improvements under “Property & Others” were largely due to trade-related translation gains and lower corporate costs.

FINANCIAL REVIEW AND OUTLOOK

Exceptional items

Further to the announcement in the Q3 quarterly results of the risk of significant impairment, the management of SingPost has reviewed the carrying value of SingPost's investments and assets. The valuation process involved a review of the FY2016/17 performance and a detailed evaluation of the underlying assumptions of future business plans for each of the businesses.

Given the extent of the impairment to SingPost's investment in TradeGlobal, SingPost had also appointed FTI Consulting, an independent global business advisory firm, which verified that the impairment provision was properly calculated following an appropriate review process and that the assumptions adopted were reasonable.

The total impairment for FY2016/17 is S$208.6 million, comprising largely TradeGlobal (S$185.0 million), Postea (S$20.5 million) and Toh Guan building (S$9.3 million). This is net of a write-back of deferred tax liability of S$6.4 million in relation to the impairment of intangible asset of TradeGlobal. The impairment was partially offset by a fair value gain on investment properties of S$108.7 million largely for SingPost Centre.

Impairment of TradeGlobal

The principal issue is that TradeGlobal has significantly underperformed the business case which supported the investment. Instead of a projected profit of S$9.4 million for FY2016/17, TradeGlobal incurred a significant loss of S$25.8 million.

TradeGlobal has experienced both operational and structural challenges. Operational difficulties included a surge in labour costs during the recent peak season, delays in warehouse automation which impacted productivity as well as management changes.

Measures have been put in place to improve TradeGlobal's operating performance, particularly during the peak season.

Key structural challenges which will impact the business moving forward include:

- Disruption in the US fashion retail industry which is adversely affecting key customers;
- Loss of two large key customers which accounted for 30% to 40% of revenue; and
- Sustained cost pressures arising from labour shortage in the Cincinnati area.

A turnaround business plan is being executed by management. In the plan, TradeGlobal's prospects have been rebased given the structural changes.

FINANCIAL REVIEW AND OUTLOOK

Management will focus on extracting post acquisition synergies from the network and capabilities of SingPost's eCommerce units. Under financial reporting standards, the value-in-use computation for purpose of impairment testing has not included these potential synergistic benefits.

eCommerce remains an important part of SingPost's strategy and provides us with the capability to offer end-to-end eCommerce Logistics solutions for customers.

Other impairment

The Group also recorded an impairment for Postea of S$20.5 million. The carrying value of the investment was no longer supported by the value-in-use as Postea's management had made material changes to its business projections.

Fair value gain/loss on investment properties, and property, plant & equipment (PPE)

The Group recorded fair value gains on investment properties of S$108.7 million, mainly for SingPost Centre, where redevelopment of the retail section of the building is nearing completion.

The Group recorded an impairment charge of S$9.3 million on an industrial property at Toh Guan Road, reflecting the decline in current market valuation of the property against its carrying value.

Independent committee appointed

Following the announcement of the risk of significant impairment in the Q3 quarterly results, the Board formed an independent committee to conduct a thorough review of the circumstances surrounding SingPost's consideration and approval of the TradeGlobal acquisition. To assure stakeholders of the independence of the review, the committee comprises Ms Elizabeth Kong, Mrs Fang Ai Lian and Mr Bob Tan, independent directors all appointed to the Board after the acquisition of TradeGlobal.

The committee has engaged WongPartnership as legal counsel to assist and advise it on the review of the TradeGlobal acquisition. It has also engaged FTI Consulting to assess the adequacy of the financial and commercial due diligence performed in relation to the transaction.

The Board will update shareholders on the outcome of the review, and will seek legal advice on appropriate actions, if any, to be taken arising from the findings of the committee. The review is expected to be completed and the findings released before the Annual General Meeting in July 2017.

FINANCIAL REVIEW AND OUTLOOK

Other exceptional items

The Group recorded a gain on dilution of interest in 4PX of S$4.9 million and a fair value gain on warrants from GD Express of S$16.0 million.

Share of profit of associated companies and joint ventures

Share of profit of associated companies and joint ventures declined, largely due to share of losses from 4PX, which is incurring higher depreciation and other expenses as a result of business expansion.

Share of profits from GD Express declined due to a lower equity shareholding percentage following a partial divestment last year.

Net Profit and Underlying Net Profit

Net profit attributable to equity holders declined 86.6% to S$33.4 million for the full year as a result of exceptional items.

Excluding exceptional items, underlying net profit declined 24.7% from S$153.6 million to S$115.6 million for the full year. The decline were due to the impact of planned investments in building out our eCommerce Logistics platform such as the Regional eCommerce Logistics Hub, associates which are investing for growth, as well as higher losses in the US eCommerce business and a decline in Postal operating profit.

	Financial Year ended 31 March		
CASH FLOW	**2017 S$'000**	**2016 S$'000**	**Change %**
Net cash provided by operating activities	200,066	131,433	52.2
Net cash used in investing activities	(89,599)	(457,087)	80.4
Net cash provided by/(used in) financing activities	129,507	(131,846)	N.M.
Net increase/(decrease) in cash and cash equivalents	239,974	(457,500)	N.M.
Cash and cash equivalents at beginning of year	126,640	584,140	(78.3)
Cash and cash equivalents at end of year	366,614	126,640	189.5
Free cash flow	299	(148,309)	N.M.
Cash capital expenditure as a percentage of revenue	14.8%	24.3%	

N.M. Not meaningful.

FINANCIAL REVIEW AND OUTLOOK

Operating activities

Net cash inflow from operating activities for the full year amounted to S$200.1 million, compared to S$131.4 million last year. Operating cash inflow before working capital changes was down S$8.0 million while working capital improved S$76.6 million due to lower receivables and higher trade and other payables largely for settlement of terminal dues.

Investing activities

Net cash outflow for investing activities was S$89.6 million, compared to S$457.1 million last year. Capital expenditure of S$199.8 million in the period comprised committed capital expenditures for the ongoing redevelopment of SPC retail mall and the construction of the Regional eCommerce Logistics Hub. This was partially offset by proceeds from the partial divestment of Quantium Solutions International.

Financing activities

Net cash inflow from financing activities was S$129.5 million, compared to net cash outflow of S$131.8 million last year, largely due to net proceeds from Alibaba Investment Limited for additional stake in SingPost and net proceeds from bank loans which have a positive carry.

Free cash flow

For the financial year ended 31 March 2017, the Group's free cash flow (operating cash flow less capital expenditure) was an inflow of S$299,000 versus an outflow of S$149.3 million in the previous financial year, as a result of lower capital expenditure in the financial year ended 31 March 2017.

FINANCIAL REVIEW AND OUTLOOK

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		
	2017	2016	Change
Group Debt And Perpetual Securities	S$'000	S$'000	%
Total debt	363,985	280,272	29.9
Net (cash)/net debt	(2,629)	153,632	N.M.
Total debt plus perpetual securities*	710,811	627,098	13.3
Net debt plus perpetual securities*	344,197	500,458	(31.2)
Net debt plus perpetual securities to ordinary shareholders equity (%)*	25.3%	41.6%	
EBITDA to interest expense (number of times)	13.3	42.1	

* Presented for comparative purposes.

Total borrowings increased from S$280.3 million as at 31 March 2016 to S$364.0 million as at 31 March 2017. Interest coverage ratio has fallen to 13.3 times compared to 42.1 times last year, largely due to the decline in earnings caused by exceptional items. Excluding exceptional items, interest coverage ratio for financial year ended 31 March 2017 was 21.6 times.

FINANCIAL REVIEW AND OUTLOOK

DIVIDEND

The Board of Directors is recommending a final dividend of 0.5 cent per share for the financial year ended 31 March 2017. Together with the interim dividend payments for the first three quarters totaling 3.0 cents per share, the annual dividend in respect of the current financial year would amount to 3.5 cents per share, which represents a payout ratio of 66% of underlying net profit.

	cents per share
Interim Q1	1.50 cents
Interim Q2	1.00 cents
Interim Q3	0.50 cent
Proposed final	0.50 cent
Total dividends paid and proposed in relation to FY 2016/17	3.50 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

In FY2017/18, the Group plans to grow revenue and volumes through new business opportunities, integrating past acquisitions and extracting synergies, as well as leveraging the strategic partnership with Alibaba and its subsidiaries.

Postal

In the Postal segment, Domestic letter mail volumes continue to decline, with increasing migration towards e-statements. The impact is expected to be partially offset by growth from International mail volumes due to higher cross-border eCommerce deliveries.

The International mail transhipment market remains highly competitive, and margins are relatively low. Changes in the international terminal dues system will take effect from 1 January 2018 and the Group is assessing the potential impact. With the shift in mix towards lower margin International mail, blended Postal margin is expected to decline.

FINANCIAL REVIEW AND OUTLOOK

The Group will continue to focus on improving productivity and efficiency to mitigate margin pressures while maintaining service quality. We will upskill our workers and deploy technology to drive innovative solutions such as automated self-service machines or SAMs, and the POPStation smart locker system.

Logistics

In the Logistics segment, the Group is expected to benefit from growing eCommerce trends. We will seek to grow our customer base, and develop collaborations and alliances with strategic partners to increase volumes.

Quantium Solutions International (QSI), the joint venture between SingPost and Alibaba, will be used as a platform to develop and enhance eCommerce Logistics capabilities in Southeast Asia and Oceania.

Operating leverage will be derived from economies of scale as the Group grows volumes and increases utilisation of existing infrastructure such as the Regional eCommerce Logistics Hub.

The industry is likely to continue to experience tight operating margins and intense competition. It will take time for the Logistics segment to grow its profit contribution while it executes on its plans.

eCommerce

The eCommerce business forms a vital part of the Group's end-to-end eCommerce logistics growth strategy. eCommerce revenue remains robust and will continue to contribute significantly to the Group's revenue.

TradeGlobal is facing operational and structural challenges. Management is executing a turnaround business plan.

It will take time for these measures to deliver results. While business and cost initiatives are being put in place to improve performance, TradeGlobal is not expected to be profitable for the financial year ending 31 March 2018.

Property & Others

In the Property and Others segment, the retail mall at the new SingPost Centre is expected to open in the second half of the year. SingPost has appointed CapitaLand as the retail mall manager which will help optimise returns from this asset.

The Group had foregone rental income during the period of re-development, and will begin to progressively recognise rental income from the second half of FY2017/18 onwards as occupancy ramps up towards a steady state.

FINANCIAL REVIEW AND OUTLOOK

Capital Expenditure and Cash flow

Capital expenditure for FY2017/18 is expected to be lower than FY2016/17, as the majority of development projects had been completed.

In FY2017/18, there will be residual capital expenditure committed for the remainder of the SPC retail mall redevelopment works, in addition to the regular maintenance capital expenditure.

With lower capital expenditure, free cash flow is expected to improve in FY2017/18.

SingPost continues to build its capabilities to transform from a Singapore postal company into a leading eCommerce Logistics provider. This will lay a foundation for long term sustainable growth. However, it will take time for the investments to contribute materially to earnings.