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SINGAPORE POST LIMITED

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Please refer to the attachment.

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Attachments

SPS_SPGlobalRating.pdf

Total size =112K MB

SINGAPORE POST LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 199201623M)

Singapore Post Limited ("SingPost") refers to the announcement by S&P Global Ratings dated 23 May 2023 (attached).

SingPost is transforming into a global logistics enterprise and is well positioned in high-growth markets with the scope for further transformational investment and long-term growth. SingPost's financial position and balance sheet remain strong, and we are committed to maintaining its investment grade corporate rating.

Research Update:

Singapore Post Downgraded To 'BBB' from 'BBB+' On Weakening Business Prospects; Outlook Negative

May 23, 2023

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Rating Action Overview

- The commercial viability of Singapore Post Ltd.'s (SingPost) post and parcel segment, and the composition of its business portfolio, remain uncertain pending the outcome of a strategic review.
- A greater concentration in the competitive logistics industry, despite the challenging conditions in the post and parcel segment, could weigh on our view of the Singapore-headquartered postal and logistics service provider's competitive position.
- On May 23, 2023, S&P Global Ratings lowered its long-term issuer credit rating on SingPost to 'BBB' from 'BBB+'. At the same time, we lowered our issue rating on the Singapore dollar (S$) 250 million senior perpetual securities guaranteed by the company to 'BB+' from 'BBB-'.
- The negative outlook indicates that we could lower the ratings further if the company is unable to arrest the downward trajectory of its post and parcel segment. It also reflects the risks in the changing portfolio mix.

Rating Action Rationale

Our downgrade on SingPost reflects our view that the company's business mix is increasingly weighted toward logistics and that weakness in the post and parcel segment is more prolonged than we had previously anticipated.

In our view, SingPost is pivoting toward a more competitive Australia-focused logistics segment. SingPost has been accelerating its strategic expansion into logistics to diversify away from its traditional postal business, which is in structural decline. This investment has put pressure on SingPost's financial profile; its debt-to-EBITDA ratio remained elevated at 3.1x in the fiscal year ended March 31, 2023. We expect the debt-to-EBITDA ratio to improve to less than 3x by fiscal 2025.

In line with its transformation into a global logistics player, SingPost has increased its stake in Freight Management Holdings Pty. Ltd. (FMH) over the past three years--to 88% in March 2023 from 28% in December 2020. Fiscal 2023 marks the first full year of contributions from FMH.

SingPost's logistics segment has grown to represent 70% of fiscal 2023 revenues, up from 38% in fiscal 2020.

SingPost has been intensifying its focus on the Australian logistics market, with its businesses carried out through FMH and CouriersPlease. We view this market as having more competitive dynamics compared with its traditional postal operations, given its fragmented nature and SingPost's still nascent market share. FMH and CouriersPlease do not have dominant shares of the respective sub-markets they operate in.

To remain relevant in a competitive space, we believe SingPost may need to make further investments. Further growth ambitions could increase its leverage profile. Growing exposure to the logistics segment could introduce more execution and integration risk. FMH made a few small bolt-on acquisitions of less than S$10 million to strengthen its market position and service offerings in fiscal 2023.

That said, FMH's efm, the fourth-party logistics (4PL) arm has performed well and is one of the top players in the niche 4PL market. FMH has also increased revenue from existing customers by 16% and increased revenue from new customers by 66% in fiscal 2023. We expect the logistics segment to remain profitable, with further growth potential and EBIT margin in mid-single digits.

The weakness in the post and parcel segment could be prolonged, absent any positive developments from the strategic review. The historically strongly performing segment recorded an operating loss for fiscal 2023. Although the post and parcel segment eked out a small operating profit in the second quarter of fiscal 2023, it was not maintained through the rest of fiscal 2023. The weak performance was underpinned by the decline in volumes and inflationary pressures.

SingPost expects the segment to remain loss-making for fiscal 2024. This is contrary to our earlier expectations for the segment to recover in fiscal 2024. Management has announced that it is reviewing the commercial sustainability of the domestic postal business. The outcome of this review may further affect profitability and result in changes to the portfolio mix.

The outcome of the ongoing strategic review could sway SingPost earnings mix and overall competitiveness. We factored SingPost's relatively nascent logistics business and its growing proportion of group revenues and earnings into our view of its business risk profile. However, we believe that SingPost's earnings profile has yet to stabilize and its business mix could see further changes from the strategic review. In our view, the outcome of the strategic review could have a material bearing on its future portfolio and earnings mix. This would likely have an impact on our view of SingPost's business risk profile.

SingPost's current portfolio includes post and parcel, logistics, and property. The post and parcel segment includes the traditional post and parcel business based in Singapore. The logistics segment comprises FMH, CouriersPlease, the freight forwarding business and the Quantium Solutions eCommerce logistics business. The property segment provides some earnings stability, with the flagship asset, SingPost Centre, maintaining a healthy occupancy rate of 98.2% as of March 31, 2023.

Outlook

The negative outlook reflects the risk of a downgrade from persistent weakness in SingPost's post and parcel business, and its shifting portfolio mix.

Downside scenario

We may downgrade SingPost if we expect the business composition and earnings mix to skew toward business segments with higher competitive pressures and reduced overall profitability. This could arise if the company is unable to arrest the downward trajectory of its loss-making post and parcel segment.

A downgrade could also occur if we expect the debt-to-EBITDA ratio to remain above 3x on a sustained basis.

Upside scenario

We may revise the outlook back to stable if SingPost demonstrates its ability to enhance profitability and strengthen its overall competitive position. A revision back to stable would also be predicated on the debt-to-EBITDA ratio improving to below 3x on a sustained basis.

Company Description

Founded in 1819, SingPost has three key business segments: postal and parcel, logistics, and property. SingPost operates in Singapore, Australia and internationally. It is listed on the Singapore stock exchange, with Singapore Telecommunications Ltd. (Singtel) holding a 22% stake and Alibaba Investment Ltd. holding 15%.

Our Base-Case Scenario

Assumptions

- Singapore real GDP to expand by 2.0% in 2023, 3.2% in 2024, and 3.0% in 2025. Stable economic growth will support consumer consumption, and consequently e-commerce transactions. Economic growth will also support consumer spending, in turn supporting tenant sales and rental conditions at SingPost Centre.
- Australia real GDP to grow by 1.6% in 2023, 1.7% in 2024, and 2.5% in 2025. This will support steady growth in SingPost's logistics business.
- Annual revenue growth of 1%-5% over the next three years.
- Adjusted EBITDA of S$170 million-S$180 million in fiscal 2024 and S$200 million-S$220 million in fiscal years 2025 and 2026.
- Annual capital expenditure of S$20 million-S$30 million in over the next three years.
- Dividends, including preferred dividends, to be S$35 million-S$55 million over the next three years.

Key metrics

- Debt-to-EBITDA ratio of 3.0x-3.5x in fiscal 2024, 2.3x-2.8x in fiscal 2025, and 1.8x-2.3x in fiscal 2026.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2023, SingPost had S$624.4 million in reported borrowings. This included S$250 million of 10-year senior unsecured notes issued in November 2020 and S$100 million of five-year senior unsecured notes issued in March 2022.

Additionally, SingPost has S$250 million in senior perpetual securities issued in April 2022.

Analytical conclusions

Our rating on SingPost's perpetual securities is two notches lower than the long-term issuer credit rating. This reflects the subordination of the securities and deferability of payments at the company's discretion.

We ascribe intermediate equity content to SingPost's perpetual securities (and account for the instrument as 50% equity and 50% debt) because they meet our criteria of permanence and subordination. The deferability of distribution payment also reflects cash conservation quality.

Ratings Score Snapshot

Issuer Credit Rating	**BBB/Negative/--**
Business risk:	Satisfactory
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	bbb

ESG credit indicators: E-2, S-3, G-3

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments , April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings , March 28, 2018
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry , Feb. 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers , Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology , Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions , Nov. 19, 2013
- General Criteria: Methodology: Industry Risk , Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities , Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Singapore Post Limited, March 24, 2023
- Bulletin: Singapore Post's Accelerated Acquisition Eases Put-Option Uncertainty, Jan. 13, 2023
- Research Update: Singapore Post Outlook Revised To Negative On Structurally Weak Post And Parcel Business; 'BBB+' Rating Affirmed, Dec. 13, 2022

Ratings List

Downgraded

	To	From
Singapore Post Ltd.		
Issuer Credit Rating	BBB/Negative/--	BBB+/Negative/--
SingPost Group Treasury Pte. Ltd.		
Junior Subordinated	BB+	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.