GENERAL ANNOUNCEMENT::STANDARD & POOR'S RESEARCH UPDATE ON SINGPOST

Issuer & Securities

Issuer/ Manager

SINGAPORE POST LIMITED

Securities

SINGAPORE POST LIMITED - SG1N89910219 - S08

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No

Announcement Details

Announcement Title

General Announcement

Date &Time of Broadcast

13-Dec-2022 17:37:18

Status

New

Announcement Sub Title

Standard & Poor's Research Update on SingPost

Announcement Reference

SG221213OTHRGECW

Submitted By (Co./ Ind. Name)

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Designation

Company Secretary

Description (Please provide a detailed description of the event in the box below)

Please refer to the attachment.

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Attachments

SnP_ResearchUpdate12122022.pdf

Total size =119K MB

Research Update:

Singapore Post Outlook Revised To Negative On Structurally Weak Post And Parcel Business; 'BBB+' Rating Affirmed

December 12, 2022

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Rating Action Overview

- Structural challenges and cyclical industry conditions in the post and parcel business are weighing down Singapore Post Ltd.'s (SingPost) earnings.
- Future deferred payment commitments associated with the acquisition of Freight Management Holdings Pty. Ltd. (FMH) add to SingPost's debt burden, and the quantum of payment commitments varies depending on FMH's performance.
- We revised the outlook on SingPost to negative from stable. At the same time, we affirmed our 'BBB+' long-term issuer credit ratings on the Singapore-based postal and logistics service provider. We also affirmed our 'BBB-' issue rating on Singapore dollar (S$) 250 million senior perpetual securities guaranteed by the company.
- The negative outlook reflects our expectations of weakening business prospects of SingPost's postal and parcel business and the likelihood that leverage will remain elevated in the next 24 months.

Rating Action Rationale

We revised our outlook on SingPost to negative from stable, reflecting our view of intensifying structural hindrances to its postal and parcel business and the potential for sustained earnings weakness. This coincides with the company's rating buffer being largely depleted following its acquisition of Australia-based FMH.

Challenging operating conditions and structural headwinds are intensifying for the post and parcel business segment. The pandemic has accelerated the structural decline in letter mail volumes in Singapore. Companies have moved toward online correspondence and reduced printed letter volumes. These behavioral changes persist post-pandemic. In addition, a labor shortage led SingPost to suspend its advertising mail services to focus on essential postal services early in the pandemic. For the first half of fiscal 2023 (year ending March 31, 2023), mail volumes continued to weaken by 2% year on year.

Elevated leverage will persist over the next three years. This is partially driven by segmental weakness. We forecast a debt-to-EBITDA ratio of 3.4x-3.8x in fiscal 2023, 2.9x-3.3x in fiscal 2024, and 2.4x-2.8x in fiscal 2025.

Exacerbating the structural declines were rising costs. This included high conveyance costs and operating expenses such as fuel and utilities. Moreover, the loss of a major customer in the domestic e-commerce business accentuated a difficult earnings condition. For the first half of fiscal 2023, the postal and parcel segment recorded an operating loss of S$12 million.

We expect profitability in the postal and parcel business to remain weak, with EBITDA margin at 1%-5% over the next one to two years. This is attributable to the changing composition of earnings drivers. The domestic mail business historically had higher margins as volumes were sufficient to offset the fixed infrastructure cost. However, the decline in domestic mail volume directly erodes margins. The rapid growth of e-commerce-based international volume also weighs down the overall segmental margins; this is because international volume generally yields lower margins than domestic mail volume.

The extent and timing of recovery is uncertain, in our view. The improving lockdown situation in China should provide some relief. Elevated air conveyance costs should normalize as air capacity resumes to the pre-pandemic level. SingPost has implemented measures to improve its cost structure. For instance, it is chartering flights to reduce reliance on air freight rates. The company has strengthened the network of locker stations in Singapore to reduce manpower needs and lower last-mile delivery costs. The postal and parcel segment eked out a small operating profit in the second quarter of fiscal 2023, which we expect may carry over to subsequent quarters in fiscal 2023.

Facing structural difficulties in its traditional postal business, SingPost is shifting its strategy and business mix toward e-commerce and logistics. To counter a structural decline and increasing challenges in the postal business, SingPost has been stepping up its strategic expansion into logistics. SingPost's acquisition of FMH, however, has depleted most of the rating cushion. This leaves limited capacity for additional significant investments.

While we forecast capital expenditure to be S$15 million-S$25 million in the next two years, the company plans to grow its market share in Australia through FMH. The Australian company made some small bolt-on acquisitions of less than S$10 million in the first half of fiscal 2023 to strengthen its service offering.

The overhang of a put option, which increases in accordance with the performance of FMH, places further stress on SingPost's balance sheet. Although strong performance at FMH contributed to SingPost's half-year earnings, higher valuation of the put option also stretches SingPost's balance sheet. Our calculation of SingPost's adjusted debt includes the value of put option; the put option enables SingPost to increase its holdings in FMH to 100% by the end of 2026. The value of the put option is based on FMH's future earnings performance; we estimate an aggregate value of S$300 million-S$350 million in future payment proceeds for the remaining stake in FMH.

In the first half of fiscal 2023, SingPost recorded a S$21 million fair value charge to the put option redemption liability on FMH due to stronger performance at FMH. Including the Australian business, SingPost's revenue in the logistics segment increased by 79% to S$681 million in the first half of fiscal 2023, as compared with a year prior.

We believe SingPost may have multiple levers to alleviate its constrained credit profile. SingPost has a record of undertaking initiatives to support its balance sheet. The company divested General Storage Co. in December 2021, resulting in about S$85 million of cash inflow. In addition, SingPost Group Treasury Pte. Ltd. issued S$250 million in perpetual securities in April 2022; we ascribe intermediate equity content (that is, 50% equity, 50% debt) to those perpetual securities. The company also has some flexibility to adjust its shareholder returns to accommodate balance sheet weaknesses. We expect SingPost to carefully balance its growth appetite, cost management, and balance sheet strength amid increasing industry uncertainty.

Outlook

The negative outlook reflects the heightened risk of a downgrade stemming from weakening business prospects in its postal and parcel business, continual structural changes, and our expectations that leverage could remain elevated beyond 2.5x. Uncertainty remains over the likelihood of recovery in earnings and credit metrics. The full-year earnings result will be crucial in signaling the company's earnings trajectory.

Downside scenario

We may downgrade SingPost if we expect earnings decline to continue, keeping leverage elevated. A downgrade could follow if we no longer expect debt-to-EBITDA ratio to continue its trajectory to below 2.5x. The rating could also be pressured by accelerating structural changes in its underlying business as SingPost repositions itself as a logistics player, such that profitability or leverage were to permanently weaken compared with industry peers.

Upside scenario

We may revise the outlook back to stable if SingPost demonstrates its ability to enhance profitability and strengthen competitive position such that it will counter the structural decline in the postal and parcel business. This will help the company's leverage to be more consistent with the 2.5x threshold commensurate with the 'BBB+' level.

Company Description

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

Our Base-Case Scenario

Assumptions

- Singapore real GDP to expand by 3.6% in 2022, 2.3% in 2023, and 3.0% in 2024. Stable economic growth will support consumer consumption, and consequently e-commerce transactions. Economic recovery will also support an increase in traffic at SingPost Centre mall, bolstering occupancy rate and solid lease renewal rate.

- Australia real GDP to grow by 3.9% in 2022, 1.7% in 2023, and 1.9% in 2024. This will support steady growth in SingPost's logistics business.
- Revenue growth of 12%-17% in fiscal 2023, supported by the consolidation of FMH. This is expected to normalize to 1%-5%.
- Adjusted EBITDA of S$165 million-S$175 million in fiscal 2023.
- Annual capital expenditure of S$15 million-S$25 million in fiscal 2023 and 2024 and S$40 million-S$50 million in fiscal 2025. Most of the spending goes toward upgrading its postal infrastructure in Singapore.
- Dividends, including preferred dividends, to be S$40 million-S$50 million over the next three years.

Key metrics

- Debt-to-EBITDA ratio of 3.4x-3.8x in fiscal 2023, 2.9x-3.3x in fiscal 2024, and 2.4x-2.8x in fiscal 2025.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Sept. 30, 2022, SingPost had S$465.6 million in reported borrowings. It mainly comprised 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. SingPost also had S$250 million in senior perpetual securities, which we consider to have intermediate equity content as they meet our criteria of permanence and subordination. The deferability of distribution payment also reflects cash conservation quality.

Analytical conclusions

The rating on SingPost's perpetual securities is two notches lower than the issuer credit rating, reflecting the subordination of the securities and deferability of payments at the company's discretion.

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: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Singapore Post Ltd.		
Issuer Credit Rating	BBB+/Negative/--	BBB+/Stable/--

Ratings Affirmed

SingPost Group Treasury Pte. Ltd.	
Junior Subordinated	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.