

Bulletin:

# Singapore Post's FMH Acquisition Narrows Rating Buffer

October 27, 2020

SINGAPORE (S&P Global Ratings) Oct. 27, 2020--S&P Global Ratings said today that Singapore Post Ltd.'s (SingPost; BBB+/Stable/--) acquisition of a 38% stake in Freight Management Holdings Pty. Ltd. (FMH) will complement SingPost's long-term strategy to build a second home base and enhance the company's existing supply chain operations in Australia.

In our opinion, our issuer credit rating on SingPost can accommodate the FMH acquisition. However, the debt-funded acquisition also coincides with a period of heightened earnings weakness. SingPost's margins have weakened given that limited international air traffic during the COVID-19 pandemic has raised operating costs for cross-border delivery.

We expect the company to have limited rating headroom after the transaction to weather industry troubles or any business underperformance over the next one to two years. In our base case, we forecast SingPost's debt-to-EBITDA ratio will be pushed above 2.5x in 2021 before subsiding to about 2.3x in 2022. The company's debt-to-EBITDA ratio was 2.0x in 2020.

We expect the FMH acquisition to be immediately earnings accretive. However, this will do little to revive SingPost's subdued near-term earnings outlook. The benefit of business integration and synergies will also take some time to materialize. Based on SingPost's 38% minority stake in FMH, our base case considers the potential for modest dividends from FMH of Singapore dollars (S\$) 2 million-S\$5 million annually.

Total acquisition costs will amount to S\$84.1 million. In the first tranche, SingPost will pay S\$58.2 million for 28% ownership by the end of its current fiscal year in March 2021. The second tranche of S\$25.9 million for the remaining 10% stake will be completed within 12 months of the first payment. SingPost also holds a call option, which allows the company to increase its stake to 51% within the next three years.

FMH is a fourth-party logistics services company incorporated in Victoria, Australia, providing integrated supply chain and distribution services to customers through its proprietary technology platform.

This report does not constitute a rating action.

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