COMPANY UPDATE

Singapore Post (SPOST SP)

Expect A Strong Performance For 1HFY25

Due to an ongoing shift to digital alternatives and declining letter mail volumes, SPOST has closed 12 post offices in Singapore. The strategic review of SPOST's Australian business is still underway and is expected to be completed by end-4Q24/early-1Q25. For 1HFY25, we expect strong group operating and net profit growth yoy, largely driven by the consolidation of Border Express and the postage rate hike in 3QFY24. Maintain BUY with the same SOTP-based target price of S$0.61.

WHAT'S NEW

- **Rationalisation of post offices.** Singapore Post (SPOST) has closed 12 domestic post offices in the past two years as the group continues to combat declining letter mail volumes and the ongoing secular shift to digital alternatives. These closures were to ensure that the postal services segment remained cost-effective and relevant. With 44 remaining post offices, SPOST is now focusing on other customer service touchpoints such as its POPStation network. As mentioned in our earlier reports, the rationalisation of the post offices was within our expectations as we expected the group to consolidate its postal branches and multiple sorting centres, lowering overhead costs. Moving forward, we expect the group to continue consolidating its post offices, albeit at a slower pace which would support segmental margins.

- **Strategic review still ongoing.** As a recap, SPOST initiated a strategic review of its Australian business to explore options to drive growth and maximise shareholder value. Some options include near-term partnerships, providing equity to deleverage debt, M&A opportunities and seeking future liquidity options. In our view, we expect the strategic review to be completed around end-4Q24/early-1Q25 and reckon that the most likely outcome would be a strategic partnership stake sale.

- **Market talk of a potential sale.** It was reported that several prominent private equity firms such as Brookfield Corporation, Blackstone Inc and Kohlberg Kravis Roberts (KKR) have allegedly shown interest in SPOST's portfolio of Australian assets with potential bids incoming within the next few weeks. These assets primarily include CouriersPlease and Freight Management Holdings (FMH) and is in line with the group's strategy to seek strategic partnerships and M&A opportunities. In our view, we expect that confirmation of any potential deal would be announced only after the group's strategic review of the Australian business has been completed. Based on our estimates, the touted A$1b valuation of SPOST's Australian portfolio is largely within our expectations, implying a roughly 6-7x EBITDA multiple. We opine that the market is severely undervaluing SPOST's businesses (see table overleaf), given that SPOST's current market cap is around S$1.17b as compared to the S$844m and S$914m valuations for its property and logistics segments respectively.

KEY FINANCIALS

Year to 31 Mar (S$m)	2023	2024	2025F	2026F	2027F
Net turnover	1,872	1,687	1,976	2,065	2,165
EBITDA	172	163	203	212	223
Operating profit	89	80	119	130	142
Net profit (rep./act.)	25	78	71	81	91
Net profit (adj.)	32	42	71	81	91
EPS (S$ cent)	1.4	1.8	3.1	3.6	4.0
PE (x)	35.9	28.0	16.4	14.3	12.8
P/B (x)	1.0	1.0	1.0	1.0	1.0
EV/EBITDA (x)	9.0	9.4	7.6	7.2	6.9
Dividend yield (%)	1.1	1.4	2.5	2.9	3.3
Net margin (%)	1.3	4.6	3.6	3.9	4.2
Net debt/(cash) to equity (%)	9.3	25.3	24.2	17.9	11.5
Interest cover (x)	7.6	9.0	20.0	32.9	49.0
ROE (%)	1.8	5.7	5.1	5.8	6.3
Consensus net profit (S$m)	-	-	71	83	92
UOBKH/Consensus (x)	-	-	1.00	0.98	0.98

Source: SPOST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$0.515
Target Price	S$0.61
Upside	+18.4%

COMPANY DESCRIPTION

Singapore Post (SPOST) is the national postal service provider in Singapore. The company provides domestic and international postal and courier services including end-to-end integrated mail solutions covering data printing.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SPOST SP
Shares issued (m):	2,250.0
Market cap (S$m):	1,158.8
Market cap (US$m):	888.2
3-mth avg daily t'over (US$m):	2.4

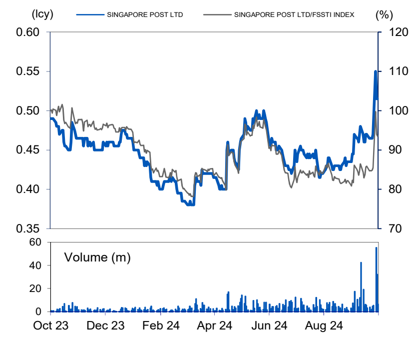
Price Performance (%)

52-week high/low S$0.555/S$0.37

1mth	3mth	6mth	1yr	YTD
18.4	14.4	22.6	5.1	8.4

Major Shareholders	%
Singtel	22.0
Alibaba Group	14.6
-	-
FY24 NAV/Share (S$)	0.51
FY24 Net Debt/Share (S$)	0.15

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Singapore: To stay profitable in 1HFY25.** For 2QFY25, we expect the Singapore business to grow yoy, largely driven by the postal delivery business benefitting from the postal price hike in 3QFY24. As a recap, the Singapore delivery business recorded a profit in 1QFY25 as e-commerce volumes rose (+2.9% yoy), offset by the secular decline in letter mail and printed paper volumes (-8.1% yoy). However, similar to 1QFY25, we reckon that the postal office network would remain unprofitable in 2QFY25, dragged by inflationary pressures. Based on our estimates, we expect 1HFY25 operating profit for the Singapore business (including the postal office network) to be around S$7m. Moving forward, we expect the rationalisation of the postal office network to continue in 2HFY25, reducing operating costs and improving profitability. Potential downside may come from lower-than-expected letter mail and domestic e-commerce volumes.

- **International: Headwinds persist.** We expect a weak macroeconomic environment and a strong Singapore dollar against the Chinese yuan to dampen cross-border postal volumes in 2QFY25. As a recap, the international business was profitable in 1QFY25 and we do expect 2QFY25 to post a small profit as well, driven by implemented cost-efficiency initiatives and the group's focus on managing profitability and ensuring a stable operating margin. We reckon that air conveyance costs would likely continue trending downwards and the higher-margin commercial cross-border operations would help support margins. We opine that earnings from the international business would bottom out in 1HFY25 and grow moving into 3QFY25. Based on our estimates, 1HFY25 operating profit is at S$4m.

- **Australia: Inorganic growth to come through.** We expect revenue and operating profit to grow in 2QFY25/1HFY25, largely driven by the consolidation of Border Express (BEX). Excluding BEX, we expect 2QFY25 operating profit from the Australian business to grow yoy, on the back of organic volume growth from its 4PL business but offset by the 3PL business and the strong Singapore dollar against the Australian dollar. Also, we expect BEX to deliver a strong performance in 2QFY25. Based on our estimates, 1HFY25 operating profit is likely around S$35m with S$15m coming from BEX. Moving forward, we expect BEX to significantly boost segmental annual operating profit in FY25, coupled with organic growth from the Australian business.

- **Famous Holdings: Correction underway.** In line with falling sea freight rates, we expect 2QFY25 revenue and operating profit to decline but still post a small profit for the quarter. Based on our estimates, 1HFY25 operating profit is roughly around S$4m. Earmarked as a non-core asset in our view, we reckon that the divestment of Famous Holdings is likely in the short to medium term.

- **Property: Expect stable performance.** We expect 2QFY25 overall occupancy rates at SingPost Centre to remain stable or improve from the 96.0% overall occupancy rate in 1QFY25. Based on our estimates, 1HFY25 operating profit would be around S$20m.

EARNINGS REVISION/RISK

- **We maintain our earnings estimates.** For 1HFY25, we expect overall group operating profit of around S$58m (including S$12m in corporate overhead costs) and underlying net profit of around S$30m, implying yoy growth rates of 84.7% and 123.9% respectively.

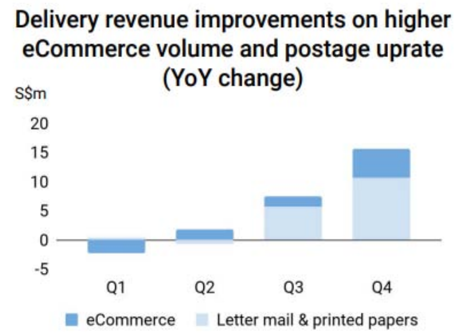
VALUATION/RECOMMENDATION

- **Maintain BUY with the same SOTP-based target price of S$0.61.** Based on our SOTP valuation, we value the property, logistics and postal segments at S$844m, S$914m and S$245m respectively. Given that SPOST's current market cap is around S$1.17b, we think that the market is severely undervaluing SPOST's businesses. At our target price, SPOST trades at 19x FY25F PE, at -0.5SD to its long-term mean.

SHARE PRICE CATALYST

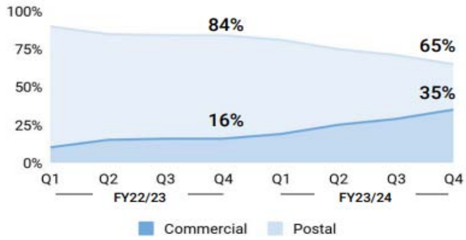
- Potential stake sale of its Australian business.
- Divestment of non-core businesses.

POST & PARCEL SEGMENT'S PERFORMANCE



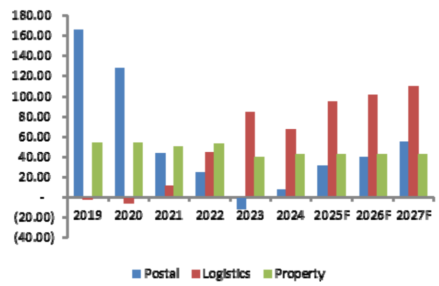
Source: SPOST, UOB Kay Hian

IPP: COMMERCIAL VS POSTAL REVENUES



Source: SPOST, UOB Kay Hian

SPOST'S SEGMENTAL OPERATING PROFIT BREAKDOWN (S$M)



Source: Bloomberg, UOB Kay Hian

SOTP VALUATION

Business	Valuation (S$m)	Value ps (S$)	Remarks
Mail	244.6	0.11	5x FY25F EV/EBITDA
Logistics	914.4	0.41	7x FY25F EV/EBITDA
Property	844.0	0.38	Cap rate of 5.0%
Gross value (S$m)	2,003.0	0.89	
Less: Net debt (cash)	337.0		
Less: Perpetuals	251.5		
Less: Minority stake	41.2		
Net value (S$m)	1,373.3		
No. of shares	2,249.9		
Target price (S$)	$0.61		

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S$m)	2024	2025F	2026F	2027F
Net turnover	1,686.7	1,976.2	2,065.4	2,165.0
EBITDA	163.3	203.2	212.4	222.6
Deprec. & amort.	83.0	84.2	82.3	80.3
EBIT	80.3	119.0	130.1	142.3
Total other non-operating income	2.4	(5.0)	(5.0)	(5.0)
Associate contributions	(1.5)	0.0	0.0	0.0
Net interest income/(expense)	(18.1)	(10.2)	(6.5)	(4.5)
Pre-tax profit	99.9	103.9	118.7	132.8
Tax	(18.4)	(29.1)	(33.2)	(37.2)
Minorities	(3.1)	(3.7)	(4.3)	(4.8)
Net profit	78.3	71.0	81.2	90.8
Net profit (adj.)	41.5	71.0	81.2	90.8

BALANCE SHEET

Year to 31 Mar (S$m)	2024	2025F	2026F	2027F
Fixed assets	454.3	420.1	387.8	357.5
Other LT assets	1,920.6	1,920.6	1,920.6	1,920.6
Cash/ST investment	476.7	471.0	552.4	587.3
Other current assets	284.3	270.5	281.3	293.3
Total assets	3,135.9	3,082.2	3,142.2	3,158.7
ST debt	10.3	10.3	10.3	10.3
Other current liabilities	687.7	637.8	661.1	687.2
LT debt	816.8	797.7	797.7	745.8
Other LT liabilities	200.1	200.1	200.1	200.1
Shareholders' equity	1,383.5	1,395.1	1,427.5	1,465.1
Minority interest	37.5	41.2	45.5	50.3
Total liabilities & equity	3,135.9	3,082.2	3,142.2	3,158.7

CASH FLOW

Year to 31 Mar (S$m)	2024	2025F	2026F	2027F
Operating	93.4	133.0	186.7	194.5
Pre-tax profit	99.9	103.9	118.7	132.8
Tax	(31.0)	(29.1)	(33.2)	(37.2)
Deprec. & amort.	81.0	84.2	82.3	80.3
Associates	1.5	0.0	0.0	0.0
Working capital changes	(34.9)	(36.1)	12.5	14.0
Non-cash items	(23.3)	10.2	6.5	4.5
Investing	(145.9)	(45.3)	(44.9)	(44.3)
Capex (growth)	(55.2)	(50.0)	(50.0)	(50.0)
Investments	(123.5)	0.0	0.0	0.0
Proceeds from sale of assets	21.0	0.0	0.0	0.0
Others	11.8	4.7	5.1	5.7
Financing	33.6	(93.5)	(60.3)	(115.4)
Dividend payments	(13.1)	(29.3)	(33.9)	(38.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	46.6	(64.2)	(26.4)	(77.0)
Net cash inflow (outflow)	(19.0)	(5.8)	81.5	34.8
Beginning cash & cash equivalent	495.7	476.7	471.0	552.4
Ending cash & cash equivalent	476.7	471.0	552.4	587.3

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	9.7	10.3	10.3	10.3
Pre-tax margin	5.9	5.3	5.7	6.1
Net margin	4.6	3.6	3.9	4.2
ROA	2.6	2.3	2.6	2.9
ROE	5.7	5.1	5.8	6.3
Growth				
Turnover	(9.9)	17.2	4.5	4.8
EBITDA	(4.8)	24.4	4.5	4.8
Pre-tax profit	46.9	4.0	14.3	11.9
Net profit	217.4	(9.3)	14.3	11.9
Net profit (adj.)	28.1	71.2	14.3	11.9
EPS	28.1	71.2	14.3	11.9
Leverage				
Debt to total capital	36.8	36.0	35.4	33.3
Debt to equity	59.8	57.9	56.6	51.6
Net debt/(cash) to equity	25.3	24.2	17.9	11.5
Interest Cover (x)	9.0	20.0	32.9	49.0

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