

COMPANY UPDATE

Singapore Post (SPOST SP)

Leaving Australia While Creating Shareholder Value

Upon completing its strategic review, SPOST announced that it has entered an agreement to completely divest its Australian business by end-FY25. The group plans to use cash proceeds to deleverage its balance sheet which would result in significant interest cost savings and turn the group into a net cash position. The group also noted that a special dividend is in consideration in the near term. Maintain BUY with a higher SOTP-based target price of S\$0.72, implying a 1.0x FY26F PB.

WHAT'S NEW

- Full divestment.** As a recap, Singapore Post (SPOST) initiated a strategic review of its Australian business to explore options to drive growth and maximise shareholder value. Upon completion of the strategic review, SPOST recently announced that it has entered a sales and purchase agreement with Pacific Equity Partners (PEP) for the complete sale of its Australian business. The Australian assets include Freight Management Holdings (FMH), CouriersPlease and the recently acquired Border Express. PEP shall acquire the Australian business at an enterprise value of A\$1.02b including around A\$220m of debt (~S\$897m, around 7-8X EV/EBITDA based on our estimates) whereby SPOST would acquire A\$776m (~S\$683m) in cash and post an expected one-off gain on disposal of around S\$312m upon completion. Pending approval, the transaction is expected to be completed by end-Mar 25 (end-FY25). Also, given that PEP is headquartered in Australia and is reported to be the country's largest private equity firm with multiple domestic investments across different industries, the transaction is unlikely to be rejected by the Australian authorities in our view.
- Stronger balance sheet and potential special dividend.** The group noted that around half of the A\$776m (~S\$683m) cash proceeds would be used to repay its Australian Dollar-denominated debt of A\$362m (~S\$321m), which has a higher interest rate of 5% versus the S\$350m Singapore Dollar-denominated debt of 3% remaining on the group's balance sheet. Also, after accounting for future funding needs, the group mentioned that a special dividend would be considered in due course. Although no timeline was given, we do not expect a special dividend in FY25 for now, in our view.
- Slightly surprised.** In our view, this transaction was a surprise given that we expected a strategic minority stake sale versus a complete sale of the Australian business, given that this segment was the group's only significant growth driver. Valuation wise, the transaction was slightly above our expectations as we previously valued the logistics business (including Famous Holdings) at around S\$861m (~7x EV/EBITDA multiple). Assuming a S\$130m valuation for Famous Holdings, the transaction price of S\$897m is above our expectations. Moving forward, we expect Famous Holdings to be next in line for divestment.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2023	2024	2025F	2026F	2027F
Net turnover	1,872	1,687	2,033	865	885
EBITDA	174	173	189	115	117
Operating profit	91	90	101	60	64
Net profit (rep./act.)	25	78	347	35	39
Net profit (adj.)	32	41	62	35	39
EPS (S\$ cent)	1.4	1.8	2.7	1.6	1.7
PE (x)	40.8	31.8	21.4	37.6	33.9
P/B (x)	1.2	1.2	0.9	0.9	0.9
EV/EBITDA (x)	4.5	4.6	4.2	6.9	6.8
Dividend yield (%)	1.0	1.3	1.9	1.9	1.9
Net margin (%)	1.3	4.6	17.1	4.1	4.4
Net debt/(cash) to equity (%)	9.3	25.3	(33.7)	(32.4)	(29.0)
Interest cover (x)	7.0	6.2	12.7	9.9	11.4
ROE (%)	1.8	5.7	22.7	2.1	2.3
Consensus net profit (S\$m)	-	-	62	-	-
UOBKH/Consensus (x)	-	-	1.00	-	-

Source: SPOST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.585
Target Price	S\$0.720
Upside	+22.3%
(Previous TP:	S\$0.610)

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):	1,316.3
Market cap (US\$m):	978.5
3-mth avg daily t'over (US\$m):	4.1

Price Performance (%)

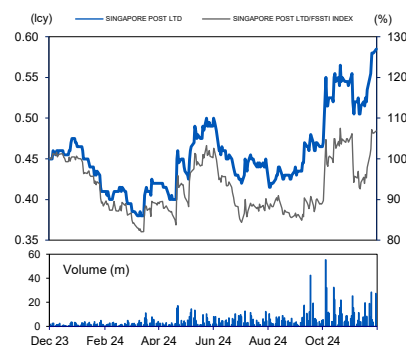
52-week high/low S\$0.60/S\$0.37

1mth	3mth	6mth	1yr	YTD
8.3	36.0	19.4	30.0	23.2

Major Shareholders

Major Shareholders	%
Singtel	22.0
Alibaba Group	14.6
-	-
FY25 NAV/Share (S\$)	0.63
FY25 Net Debt/Share (S\$)	0.25

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Better earnings profile and balance sheet but...** With the total deleveraging of SPOST's A\$615m (~S\$545m, S\$220m from FMH + S\$321m on balance sheet) Australian Dollar-denominated debt, we expect a better earnings profile for the group given that interests costs would drop sharply. Based on our estimates and assuming a 5% blended interest rate, this translates to an interest cost savings of around S\$27-28m. As a recap, SPOST's FY24 annual profit before tax (PBT) excluding one-offs was S\$63m, which would imply a yoy increase of 42%. Furthermore, if the group decides to pay off the remaining S\$350m Singapore Dollar-denominated debt with the remaining S\$362m cash proceeds (S\$683m-S\$321m), this will likely result in a further annual interest costs savings of S\$9-10m based on a 3% interest rate. Assuming that SPOST repays all of its total outstanding debt, a S\$36-38m of annual interest costs savings would replace a significant portion of the PBT loss from the divestment of the Australian business (S\$40-45m). As our base case, we assume that SPOST would not pay off the remaining S\$350m Singapore Dollar-denominated debt and would instead utilise the remaining cash proceeds for M&A opportunities.
- ... at the expense of future growth.** Without the Australian business driving growth, we see limited earning drivers for SPOST as both the postal and freight forwarding businesses face secular and macroeconomic headwinds while the stable property segment has limited upside potential. As our base case, we reckon that SPOST would prioritize the remaining S\$362m cash proceeds for future growth opportunities such as M&A investments into new/existing businesses, which likely implies that there would be lesser cash that could be used to pay off the S\$350m Singapore Dollar-denominated debt or even for the proposed special dividend. Management did not indicate which sectors or businesses the group was looking into for future growth opportunities.
- Potential special dividend.** It was noted that the group is considering a special dividend and would update the market in due course. Based on our estimates, assuming that all of the remaining S\$362m cash proceeds was used for the special dividend, this would lead to a special dividend of around S 16 cents/share and a dividend yield of 27%. However, as mentioned earlier, we opine that the group would prioritise future growth opportunities/deleveraging its balance before a large special dividend. Using S\$100m of the remaining S\$362m cash proceeds would result in a special dividend of around S 4.4 cents/share and a dividend yield of 8%. As our base case, we assume that SPOST would minimally maintain its FY25 dividend for FY26-27 via special dividends.
- Next steps.** In our view, as the group continues its monetisation of non-core assets and businesses, we maintain our expectations that Famous Holdings would be the next non-core asset to be divested in the short-medium term. Assuming a 5x EV/EBITDA multiple, we value Famous Holdings at around S\$130m. Also, we value the SingPost Centre at close to S\$1b and opine that any divestment/sale would likely be a minority stake sale.

EARNINGS REVISION/RISK

- We adjust our FY25-27 core PATMI earnings estimates,** according to our base case and the divestment of the Australian business in end-FY25. We now forecast FY25-27 core PATMI at S\$61.9m (unchanged), S\$35.1m (S\$69.2m previously) and S\$38.9m (S\$78.5m previously) respectively.

VALUATION/RECOMMENDATION

- Maintain BUY with a slightly higher SOTP-based target price of S\$0.72 (S\$0.61 previously),** as we roll over EV/EBITDA multiples to FY26F. Despite the recent run-up in share price performance, we reckon that there is still potential upside at current price levels, given that the group has yet to monetise both Famous Holdings and the SingPost centre which could further unlock shareholder value. Also, further clarity on the group's strategy moving forward would be a re-rating catalyst for the stock, in our view. Our target price implies a 1.0x FY26F PB.

SHARE PRICE CATALYST

- Divestment of non-core businesses. Larger-than-expected special dividend.

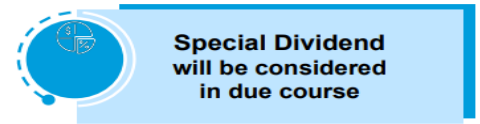
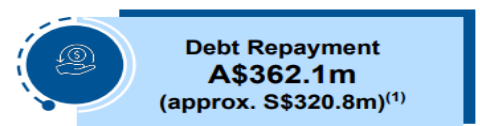
PROCEEDS OF THE TRANSACTION



Enterprise value of **A\$1.02bn (S\$897.6m)**
Gain on disposal of **S\$312.1m**

Source: SPOST, UOB Kay Hian

USE OF PROCEEDS FROM THE TRANSACTION



Source: SPOST, UOB Kay Hian

ESTIMATED TIMELINE

2 Dec 2024	Announcement of Proposed Divestment
Around 28 Feb 2025	EGM to be convened
End March 2025	Completion of transaction

Source: SPOST, UOB Kay Hian

SOTP VALUATION

Business	Valuation (\$m)	Value ps (\$)	Remarks
Mail	275.6	0.12	5x FY26F EV/EBITDA
Logistics	131.7	0.06	5x FY26F EV/EBITDA
Property	960.0	0.43	Cap rate of 5%
Gross value (\$m)	1,348.8	0.61	
Less: Net debt (cash)	(540.8)		
Less: Perpetuals	251.5		
Less: Minority stake	37.5		
Net value (\$m)	1,619.0		
No. of shares	2,250		
Target price (\$)	\$0.72		

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Net turnover	1,686.7	2,032.5	865.2	885.1
EBITDA	173.3	188.9	114.6	116.6
Deprec. & amort.	83.0	88.2	54.3	52.3
EBIT	90.4	100.7	60.3	64.3
Total other non-operating income	39.2	285.2	0.0	0.0
Associate contributions	(1.5)	0.0	0.0	0.0
Net interest income/(expense)	(28.2)	(14.9)	(11.6)	(10.2)
Pre-tax profit	99.9	371.0	48.8	54.1
Tax	(18.4)	(24.0)	(13.7)	(15.1)
Minorities	(3.1)	0.0	0.0	0.0
Net profit	78.3	347.0	35.1	38.9
Net profit (adj.)	41.5	61.8	35.1	38.9

CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Operating	93.4	1,027.4	68.9	34.6
Pre-tax profit	99.9	85.8	48.8	54.1
Tax	(31.0)	(24.0)	(13.7)	(15.1)
Deprec. & amort.	81.0	88.2	54.3	52.3
Associates	1.5	0.0	0.0	0.0
Working capital changes	(34.9)	16.5	(23.0)	(58.2)
Non-cash items	(23.3)	861.0	2.5	1.6
Investing	(145.9)	(43.0)	(41.0)	(41.3)
Capex (growth)	(55.2)	(50.0)	(50.0)	(50.0)
Investment	(123.5)	0.0	0.0	0.0
Proceeds from sale of assets	21.0	0.0	0.0	0.0
Others	11.8	7.0	9.0	8.7
Financing	33.6	(546.0)	(51.3)	(44.8)
Dividend payments	(13.1)	(24.8)	(24.8)	(24.8)
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	(521.2)	(26.4)	(20.0)
Net cash inflow (outflow)	(19.0)	438.4	(23.4)	(51.5)
Beginning cash & cash equivalent	495.7	476.7	915.1	891.7
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	476.7	915.1	891.7	840.2

BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	454.3	316.1	311.8	309.5
Other LT assets	1,920.6	1,452.8	1,452.8	1,452.8
Cash/ST investment	476.7	915.1	891.7	840.2
Other current assets	284.3	338.3	248.6	235.9
Total assets	3,135.9	3,022.3	2,905.0	2,838.4
ST debt	10.3	10.3	10.3	10.3
Other current liabilities	687.7	758.2	645.4	574.5
LT debt	816.8	340.7	340.7	345.8
Other LT liabilities	200.1	200.1	200.1	200.1
Shareholders' equity	1,383.5	1,675.5	1,670.9	1,670.1
Minority interest	37.5	37.5	37.5	37.5
Total liabilities & equity	3,135.9	3,022.3	2,905.0	2,838.4

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	10.3	9.3	13.2	13.2
Pre-tax margin	5.9	18.3	5.6	6.1
Net margin	4.6	17.1	4.1	4.4
ROA	2.6	11.3	1.2	1.4
ROE	5.7	22.7	2.1	2.3
Growth				
Turnover	(9.9)	20.5	(57.4)	2.3
EBITDA	(0.2)	9.0	(39.3)	1.8
Pre-tax profit	46.9	271.4	(86.9)	10.9
Net profit	217.4	342.9	(89.9)	10.9
Net profit (adj.)	28.1	48.8	(43.2)	10.9
EPS	28.1	48.8	(43.2)	10.9
Leverage				
Debt to total capital	36.8	17.0	17.0	17.3
Debt to equity	59.8	20.9	21.0	21.3
Net debt/(cash) to equity	25.3	(33.7)	(32.4)	(29.0)
Interest cover (x)	6.2	12.7	9.9	11.4

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