



Securities Investors Association (Singapore)

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Meeting details:

Date: 11 July 2018

Time: 2.30 p.m.

Venue: Suntec Singapore Convention & Exhibition Centre, Level 3, Summit 2, 1 Raffles Boulevard, Suntec City, Singapore 039593

Company Description

Singapore Post Limited, together with its subsidiaries, provides postal, ecommerce logistics, and retail services in Singapore, the United States, Australia, and internationally. The company operates through four segments: Postal, Logistics, eCommerce, and Property. The Postal segment offers services for collecting, sorting, transporting, and distributing domestic and international mail, as well as sells philatelic products. Its international mail service includes handling of incoming and outgoing international mail. This segment also provides ePost hybrid mail services, which integrate electronic data communication with traditional mail; and agency services and financial services. The Logistics segment offers a range of logistics solutions, including freight, warehousing, domestic and international distribution, and delivery services. Its services include ecommerce logistics, warehousing, fulfilment and distribution, and other value-added services; and parcel delivery, freight forwarding, and self-storage solutions and management services. The eCommerce segment provides front-end ecommerce solutions. The Property segment provides commercial property rental services. The company is also involved in the online sale of luxury products; provision of management and consultancy services to related entities, as well as business mail solutions and distribution of mail, and global sale and marketing services. In addition, it provides electronic platform and recyclable lockers for merchandise distribution, as well as customs brokerage and freight forwarding services; and acts as a trading company and purchases organization for ocean freight services. Further, the company is involved in the courier activities other than national post activities; and provision of freight collections transshipments, logistics management, and aviation services. Singapore Post Limited was founded in 1819 and is headquartered in Singapore. (Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=S08)

1. As noted in the Letter to Shareholders, even though revenue grew 8.6% to \$1.46 billion, the group's underlying net profit declined 9.2% to \$105.0 million (page 11 of the annual report). This was attributed to the decrease in the core domestic letter business and the change in the blended margins.

Would the board/management provide better clarity to shareholders on the following operational and financial matters? Specifically:

- (i) **Postal (Domestic mail):** In terms of operating profits, the postal segment remains the largest contributor to the group's operating profits, accounting for \$144.6 million, a decrease of 4% from a year ago. **Would management help shareholders understand the recent trends in the volume of domestic mail? Are there signs that the decline is accelerating as businesses and the government increasingly digitalise their services?**
- (ii) **Postal (International):** The new terminal dues system took effect in January 2018 and impacted the performance in the fourth quarter of FY2017/18, leading to a 10% drop in segment operating profit from \$36.8 million in Q4 FY2016/17 to \$33.2 million in Q4 FY2017/18. **What is the projected impact of the new terminal dues system on the group's earnings for FY2018/19?**
- (iii) **Logistics:** The group operates in different countries under different business units, namely SP Parcels, Quantum Solutions and CouriersPlease. **How synergistic are these business units that are operating in different countries? Are there economies of scale that the group can enjoy as the business scales up? Is there any value to having 1 unified brand across geographies?**
- (iv) **eCommerce:** As disclosed, Jagged Peak and TradeGlobal secured 28 new customers in the year from various industries and together they processed and shipped over 100 million units for all the customers, with transactions valued at over US\$1.5 billion (page 25). **How sticky are customers once they are signed up? How does the group ensure that the pricing is competitive enough to attract and secure new customers and still deliver appropriate level of returns to shareholders?**

2. Of the five key management personnel listed in the FY2016/17 Annual report, Mr Ang Sing Mein Sam (former Executive Vice President; also former CEO, Quantum Solutions; and former Group CEO, Famous Holdings), Mr Marcelo Wessler (former CEO, SingPost Commerce) and Mr Ramesh Narayanaswamy (former Group Chief Information Officer) have left the group. In addition, the company has announced the resignation of Mr Lim Sing Hok Mervyn (Group Chief Financial Officer, Deputy Group CEO (Corporate Services)) which will be effective 13 September 2018.

Going forward, only Mr Woo Keng Leong (Chief Executive Officer, Postal Services) remains in the group as a key management personnel.

- (i) Does the group currently have the management team required to lead the group in overcoming the challenges?
- (ii) How has the culture in the group evolved over the past 2-3 years?
- (iii) With the group's history and legacy in the postal business, how does the group achieve the agility required to compete with disruptive start-ups in the logistics and eCommerce segments?

3. A final dividend of 2.0 cents per share has been recommended for the financial year ended 31 March 2018. This was an increase from the final dividend of 0.5 cents per share for the previous financial year although the total dividends for the financial years FY2016/17 and FY2017/18 remain at 3.5 cents per share.

The group has a dividend policy of a payout ratio ranging from 60% to 80% of underlying net profit for each financial year (page 40).

As seen in the financial summary (page 35), the group's underlying net profit has been on the decline.

GROUP FIVE-YEAR FINANCIAL SUMMARY

	Financial Year ended 31 March				
	2018	2017	2016	2015	2014
		(Restated) *			
Income Statement (\$ million)					
Revenue	1,464.1	1,347.8	1,151.5	919.6	821.1
Operating profit ⁽¹⁾	158.0	58.4	284.3	186.4	227.5
EBITDA ⁽²⁾	215.7	118.1	326.6	229.0	263.7
Net profit ⁽³⁾	126.4	33.4	248.9	157.6	192.0
Exceptional items, net of tax ⁽⁴⁾	(21.4)	82.2	(95.3)	2.6	(42.5)
Underlying net profit ⁽⁵⁾	105.0	115.6	153.6	160.2	149.5

(Source: Company annual report)

With a proposed final dividend of 2.0 cents per share that brings the annual dividend to 3.5 cents per share, the group's total dividends for the financial year will be around \$79 million based on the 2.26 billion shares issued (less treasury shares). This translates into a dividend payout ratio of 75%, near the 80% upper limit of the payout ratio. While shareholders appreciate total dividend being maintained at 3.5 cents per share for FY2017/2018, the sustainability of the dividend will depend largely on the underlying net profit of the group.

It has been mentioned several times that the group's "blended margin is expected to decline with the change in mix" (page 40).



- (i) What are the board's/management's targets for the profitability of the Logistics and eCommerce segments in the next 2-3 years given the level of competition in the market?**

- (ii) What is the projected blended margin in the near term as the high-margin postal business continues to shrink?**

A copy of the questions for the Annual Report for the financial year ended 31 March 2016 could be found here:

https://sias.org.sg/index.php?option=com_qaannualreports&view=qareports&filter_company=2

The company's response could be found here:

https://sias.org.sg/media/qareport/company_responce/1468567226_Singpost-Responses-to-SIAS-questions.pdf