SingPost H2 and Full Year Results Briefing, 10 May 2024

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SingPost Participants

Mr Vincent Phang – Group CEO
Mr Vincent Yik – Group CFO
Ms Selena Chong – VP, Investor Relations

Note: Portions of the transcript are not available or clear due to the audio quality of the webcast.

Start of Transcript

(This transcript may be read in conjunction with SingPost's H2 and Full Year Results Presentation.)

Vincent Phang, Group CEO

Welcome Address

Good Friday morning. Thank you for joining us, it's good to see everybody again. I suppose we met quite recently right after the Strategic Review announcement. And I really appreciate your time. To me, this is really a continuation of that discussion we had a few months back so it's a narrative of our continued transmission. That's the way I see it. And the near term results which are highlighted in H2 and the Full Year should give you some colour of how that transformation program continues. So I'll start.

Slide 4: H2 & FY23/24 Overview

Well, this year was really an important point in transformation into a global logistics enterprise as we said, and this allows us to recalibrate for our next phase of growth.

At the start of the year, we initiated the strategic review as you are aware and we said that we will be exploring transformative opportunities in Australia. We're building our international business coming out of the pandemic, and reviewing the viability of the Singapore postal business or the Singapore business in general, which has a large postal code. And in that regard, I believe we have delivered on all fronts.

Our transformation efforts are yielding results in these core businesses. And that really contributed to the performance for the year. I also like to make a note that globally there continue to be tons of challenges against the global trade slowdown, post-pandemic adjustments in the Logistics sector.

The group's net profit was significantly higher in the second half and as a result for the full year. In fact doubling for the year if you look at the numbers there. And clearly that benefited from exceptional gain from the higher valuation of the SingPost Centre, this building that you are currently at.

But more pleasingly is that I suppose the underlying net profit which excludes this exceptional gain, was up 28% at S$41.5 million. I will let Vincent speak on the set of financial results later so that you can have more color.

Allow me to talk through some of the businesses.

Slide 5: Delivering on Strategic Initiatives

As I said over the years, we successfully executed and delivered on quite a few of our strategic initiatives, and these are the several milestones that I would like to highlight.

First on the Strategic Review, which we announced in March that has laid the path forward to create, enhance and unlock shareholder value. It is our opinion that the share price has yet to fully reflect the intrinsic value of the group which we have said previously and we will continue to execute the strategies to unlock this value.

Here I would like to call out the transformation in our Australian business. The acquisition of Border Express, lately, is a real game changer. This has lifted our Australia business to the top five largest integrated logistics providers in this large market and we are now trying for the next phase of growth.

Another significant development was in the domestic business. The postal review that we took on was critical to resolve this drag on the group. So the structural issue that as we said, it requires a structural solution, and that will entail both near and longer term actions.

Since the announcement of our full year loss for the postal business one year ago, we worked closely and quickly with the regulator and obtained postage adjustment in five months. It was a necessary but substantial adjustment which has since stabilised our Singapore business, especially on the postal front.

Slide 6: Singapore Business

I'm pleased to report that the Singapore business has performed well, driven by significant eCommerce volume growth on top of the postage adjustment in the second half. Very pleased with the total eCommerce volumes that has grown 11% year on year and especially accelerated in the second half as you can see from the chart, that Q4 was a 32% jump as we acquired new customers and increased share of volumes from existing customers.

With eCommerce related revenue share of the business having grown to a significant size relative to letter mail, as you can see from that pie chart - at about 41% against 47%, which means we're close to one to one. Growth in eCommerce presents a tangible opportunity for the replacement of that letter mail revenue in the near term.

This year, we had a benefit of the postage adjustment which provided a revenue uplift to letter mail, offsetting the continued volume decline of about 6% year on year.

We are now adapting and optimising the infrastructure as the delivery profile shifts and we focus on eCommerce opportunities. To cater to the growth, we are expanding our eCommerce touchpoints that will now include POPStops at major transportation points as well as PopDrops at heartland areas. I've said this before, the physical post offices have been incurring losses given the high operating costs and declining demand for postal services. As announced previously, we continue to review and look to optimise the provision of Postal Services together with the regulator while maintaining the high service standards.

As part of the work on network optimisation, a key strategic thrust for the Singapore business over the next few years, we are reviewing the operations and infrastructure, looking into the networks for posting boxes, delivery bases and processing facilities for optimisation opportunities. So this will continue through the next few years.

Slide 7: Australia Business

Allow me to speak about Australia now. Both the FMH and CouriersPlease businesses performed well in the year amidst quite a challenging market as you're aware in Australia. Economic activity has slowed down with the high interest rate and inflationary environment while operating costs have certainly increased.

In the B2C space, we are pleased to report that CouriersPlease actually kind of bucked the industry trend, with volume increasing by 13% on year. As a challenger brand in the market, CouriersPlease has grown volumes with new customer acquisitions and a higher share of existing customer volumes.

On the B2B front, FMH was resilient. The 4PL business continued to do well, with onboarding from its strong business pipeline, which remains robust going into the new year. The 3PL space encountered a weaker market with higher operating costs, similar challenges faced by other operators.

During the year, FMH became a fully owned subsidiary, following the acquisition of the remaining 12% stake. So, you are aware, we are now 100% owner of FMH.

And not long after that, we made a pivotal acquisition of Border Express, which significantly elevated the size and scale of our entire Australian operation. I'll just make a note here that in our results, you will see that it actually reflects a one-month contribution of Border Express in the month of March.

With the growth and expansion of the Australian business over the last few years, both organically and inorganically, the focus is now centered on the integration and optimisation of the businesses to unlock value and synergies.

Let me give some colour of what synergies I'm referring to. There is a substantial amount of opportunities available in the near and long term from operations and network standards. As an illustration, in the area of procurement, we are looking at key spend areas such as vehicle fuel, tyres, waste management, stuff that you would associate with operations. With a fleet of about 600 trucks and trailers in the combined business, the size and scale of our operations present potential for significant savings. Further out on the horizon, there are opportunities in the group's operations, networks and facilities which we will be evaluating as we architect the next phase of growth.

As highlighted in the Strategic Review, we are set to explore partnerships and investments in Australia business to further the scale as well as potential future liquidity options to maximise shareholder value.

Slide 8: International Business

Moving on to the International business. We make good progress in announcing our market presence, innovating customer solutions and driving operational efficiency. In the last 12 months, we have established a series of strategic partnerships across various markets, including Indonesia, China, Vietnam and the UK.

The study on the eCommerce transshipment hub in Singapore is still ongoing. Such collaborations are critical in expanding the global footprint of our asset-like model, enhancing service offerings and growing cross-border volumes.

As shared previously, we've been developing and rolling out new hybrid postal/commercial solutions tailored for key trade lanes. Such options that cover both agile commercial solutions and the universal postal service gives us flexibility in meeting evolving customer demands. Additionally, we introduced our cross-border digital 4PL platform which adds value to our proposition, enhancing connectivity, service quality, and customer experience. With these initiatives, we continue to successfully reshape our revenue mix. You can see the chart on the right, commercial revenues more than doubling to 35%. As you remember, this business was really a postal supply chain. This has now evolved significantly. This allows us to enhance our product suite and customer experience.

As part of the re-engineering of the business for operational and cost efficiency, there were several actions taken. Hub operations and networks were restructured with the consolidation of operations and introduction of automation for mass sorting. Low-yielding activities in warehousing in various overseas operations were also phased out.

Linehaul management is a central component of cost efficiency for the cross-border business, obviously, and this was further strengthened to ensure a rigorous approach to manage our conveyance costs. Our air conveyance costs, I must add, are still about 30% higher than pre-COVID. The downward trend continues, and this year we saw a 13% decline in the overall air conveyance costs for the year.

All these efforts have contributed to the better profitability of the International business, despite the market weakness.

Slide 9: Sustainability Highlights

That's for the business. I will also like to touch on the sustainability highlights for the year.

We are progressing well towards the net zero targets that we have set. We haven't forgotten about this, obviously.

Beyond that, we are working through low-carbon ways to support our customers' reduction of their scope 3 emissions as more companies gear up for their net zero targets. We're quite pleased that we have done a life-cycle assessment of our services in Singapore. It showed that our ability to deliver to the letterbox or to PUDO points or Pick Up Drop Off stations, POPStops, POPDrops, as well as vehicle electrification, all these bring carbon delivery options to the market that are far more carbon efficient than doorstep deliveries that our competitors do.

Beyond carbon management, we continually adopt innovation for the business, with AI used to help improve operational efficiency, workplace safety, and customer experience. Cyber security is also a key focus. On this front, we are pleased to announce that we have achieved the Cyber Trust Mark certification this year. This was made possible with strategic alliances with technology partners, integrating logistics solutions with generative AI techniques.

I'll also talk a bit about our employees, which is an important stakeholder in the business. I'm happy that we are recognised as a Great Place to Work in our various markets this year through our engagement with Great Places to Work.

Safety is a fundamental corporate value in SingPost, and I'm glad to share that we continue to make improvements on our safety frameworks, and lost-time injury frequency rates have improved year on year across the Group.

Slide 10: Outlook

Now, finally, on the outlooks. Conditions across all our markets remain challenging, clearly it is a global issue. Economic growth is slow, there continues to be inflationary pressures, and add to that geopolitical tensions. All these have often popped up to present risks to our businesses.

Notwithstanding this, we are focused on executing the strategies that were laid out in the strategic review. Once again, I'd like to highlight what those are: the reorganisation and capital management focus at the corporate level; the strategic thrust at the individual businesses. I would encourage you to view our performance as we wrap up this financial year through that lens from this point, as you view us through the individual components of these strategies.

We are making headway on several fronts on the businesses as I have updated. Over the next three years, we will execute to deliver this blueprint as we transform the Group into a global logistics enterprise and create and unlock value for our shareholders.

Hopefully I've given you some colour of what the business is like, and now I'll hand over to Vincent to present the details on the financial results. Thank you.

Vincent Yik, Group CFO

Good morning, everyone. Good to see you all again. I suppose I can afford to be a little more positive.

Slide 12: H2 & FY23/24 Financial Highlights

Before I jump into the financials, I'd like to highlight a few key points first. I think the steps that we have taken over the last year or so have been starting to show some fruits, starting to show some results. Signs of, I guess, suppose moving in the right direction. Not quite there yet, but I think we are moving in the right direction.

So firstly, the Group did, I think, achieve a reasonably good set of results, given the very challenging business environment of slow economic growth, inflationary pressures, and a lot of geopolitical tensions throughout not only the region, but globally as well.

So, our core businesses in Singapore, Australia, International saw improvements, you can see that. For the other businesses, particularly our freight forwarding business, the post-pandemic contraction in the industry did have some impact on our Famous Holdings business. So nevertheless, I think we did achieve good earning growth and a higher final dividend has been proposed from the Group.

Slide 13: H2 & FY23/24 Profit & Loss Highlights

So, moving on to the P&Ls, I'd like to call out a few key items to highlight to the audience here.

While revenue did show a dip for the full year, this is largely due to the pullback in freight forwarding, and the adverse currency movement.

So operating expenses were down in tandem, so particularly in our volume-related expenses, which declined with lower average costs and sea freight rates and volume. So, in the second half, despite all these factors, the Group did do pretty well, recording an operating profit growth of 3.3%, notwithstanding the pullback in those two areas.

So, the second item I do want to call out is the exceptional gain. So, this is largely due to the fair value gain on SingPost Centre, as highlighted by CEO earlier. We did book a gain of about S$38.4 million this year, so bringing the valuation of SingPost Centre to about just over S$1.1 billion.

Slide 14: Segment Performance

So, moving on to the segment performance.

Now, FX will now always have an impact on the Group's consolidated performance given our expansion and our overseas to the overseas market. So over 80% of our revenue now are generated internationally.

Particularly, Singapore dollar has appreciated 6% to 7% against the Aussie dollar and the Chinese Yuan. So, the Australian business is now our largest business segment to the Group, so you expect the movement of the Aussie dollar will have some impact on these numbers.

For the full year, the estimated currency impact on revenue is about S$73 million, and on operating profit would have been S$14 million higher if we factored in constant currency.

From the chart here, you can also see how significant the contraction in freight forwarding has been. As we experienced throughout the sea freight sector, rates of volume have come off substantially post-pandemic, especially with the disruption in the Red Sea. So, you can see the Famous Holdings revenue and operating profit coming down 50%, 60% respectively.

Slide 15: Logistics

Moving on to logistics, which now include our core business of Australia, we've recorded lower revenue and profit, really through our freight forwarding decline.

So, the Australian business has been resilient. Revenue was flat, largely due to currency translation impact. The 4PL business and the B2C last mile delivery business continued to do well with new customer wins and higher volume. So that we have touched on earlier. There are some headwinds faced by the 3PL business that is consistent across the industry with high operating costs, lower fuel surcharges, and margin compression throughout the industry. These results here for the Australian business include the one-month consolidation of Border Express.

Freight forwarding contribution has come off significantly from over S$400 million to about S$263 million this year, resulting in the Logistics segment's lower revenue and profit.

Quantum Solutions has been re-engineered and is now part of the new International business segment. Besides driving operational efficiency, the low-yielding warehousing contracts have now all been phased out, or mostly been phased out. So, this has led to an improvement in its performance as well.

Slide 16: Post & Parcel

Moving on to Post & Parcel segment. Post & Parcel turned around from the loss of last year to post an operating profit of $7.5 million this year, largely due to improvement in the International business.

So as mentioned, the integration with our Quantum Solutions has created pretty good operational synergies and also rolled out new commercial cross-border solutions. With the moderation in air conveyance costs, tight cost management, especially in linehaul costs, the International business continued to improve profitability. So, this is despite the pullback and the decline in cross-border volumes in eCommerce that is seen globally.

The domestic business did grow its eCommerce business revenue as touched on. This is largely off the back of strong volume growth in the sector. Of course there was also the benefit of the postage adjustment in October.

Slide 17: Financial Position

Moving on to financial position. The Group's financial position and balance sheet remains healthy and strong. The cash position is steady at just under S$500 million. Borrowings were higher this time around, largely due to the acquisition of Border Express as well as the upstake in FMH.

As outlined in the strategic review announcement, capital management is a key focus. So, we continue to look at opportunities to recycle some of our assets, monetise some of the non-core assets and businesses, reduce debt, invest, prepare for investment in the future, and then potentially also return some back to shareholders as well.

Lastly, with regards to proposed dividends, the Board has recommended a final dividend of 0.56 cents per share. So together with the interim dividend of 0.18 cents, this gives a total dividend of 0.74 cents per share, so an increase of 28% over last year's payout.

So that's the end of our presentation. Thank you. I think we can now take questions from the audience.

Selena Chong, VP IR

We'll now open for Q&As, if you'd like to ask a question,, do indicate with a show of hands.

Jarick Seet (Maybank): I'll start first. Can I check with you for the one month for the Border Express, how much did it contribute, the top line and also operating profit.

Vincent Yik: Top line is about S$25 million, bottom line is about S$2.5 million.

Jarick Seet (Maybank): For one month?

Vincent Yik: For one month.

Jarick Seet (Maybank): Is every month quite consistent for the operating profit? Or is it seasonality?

Vincent Yik: There is seasonality in months, but it's not as - because it is mostly B2B, so it's not as wide a variance as the retail business. So, it's fairly consistent, but there is seasonality. I will also add to say that generally in the last quarter, it's usually a little bit slower as well.

Paul Chew (Phillip Securities): Just on the Australian business, in particular on FMH, you mentioned a lot on the macro conditions, so could you really elaborate a bit on how the macro conditions affect FMH business? Thanks.

Vincent Phang: There are two parts to our Australian business. There is clearly a very large 4PL business, and also, we are integrating and synergising our 3PL businesses. So, Border Express, for example, is a 3PL business, which will couple with the rest of the 3PL assets that we have in the

Australian business. So that's the two main parts. And of course, there's also the CouriersPlease business, which is a parcel delivery business, a more B2C business.

So how do the macro factors affect these three components? Clearly, from a cost-based standpoint, cost has been increasing, all the inflationary pressures. There's even talk that RBA might have - I don't know maybe you all can tell me, they are saying maybe one more hike. So hopefully that doesn't come, but there is all this cost that has flowed through the business over the last couple of years, and it's starting to hurt the industry at large.

There has been patchy success in the industry as a whole in passing on some of the costs to the customers, which means your margins are being compressed. So, in the 3PL space, there is that effect of costs being - eating into some of the margins. Through COVID, there was also a lot of investment by the industry in general. Not us, but generally in industry. Some players have doubled down on investment Capex [unclear] maybe a bit bullish and got carried away.

Some of that additional cost is now coming to roost. So, if volumes aren't there, and there's a lot of excess capacity, which means the market has also not been able to price, generally to price it as aggressively as they want. So that will certainly provide some downward pressure on our 3PL businesses. We are seeing, make no mistake, our 3PL business is facing a significant headwind, and on a year to year basis, it's been challenged.

However, half of our business is 4PL. And the 4PL is less exposed to all these cost pressures because we are really an orchestrator of supply chains, and we have the ability to pass on the costs a lot more effectively to our customers. In a way, if there is all these cost pressures around and the vendor base is pricing it lower, us being the go-between, we are less exposed to the immediate pressures on the cost. In fact, we are seeing the opportunity in our 4PL business to work and have that as an advantage instead. So, you will see that our 4PL business has actually grown and actually contributed significantly. So, the balance between the 4PL business and the 3PL business is, overall there is growth as a result. So, we are fortunate to have that construct, and we are very steadfast, very disciplined in making sure that we do not grow this business only on the 3PL front. We want to make sure there's a very healthy balance of the asset-light model that we have, so that wouldn't change things.

The third business, I'll just speak a little bit about the B2C business. That one is a matter of the retail habits. So retail is down in Australia. We are at this moment, as I mentioned earlier, a challenger brand, which means we aim to onboard market share. That business has continued to do well through the year. It has improved, it has grown bottom line-wise, and we have gotten more market share as a result. So, these are the three pillars.

So, in a way, the business itself in Australia is relatively diversified. It's not a single sector focus. Yes, it's logistics, but there are many different aspects in logistics that allow us to have a more balanced view of things. In general, as a result of this business setup that we have, it has been more than stable. It has improved, and we're very happy with the results so far.

Paul Chew (Phillip Capital): If I can just have a quick follow-up, when you said double down investment capacity, maybe can you elaborate, like what type of…

Vincent Phang: Our competitors, they may have bought more warehouses, trucks and fleet, more capacity.

Paul Chew (Phillip Capital): Just another quick follow-up. When you say 4PL, does it mean that because everyone has built up so much capacity, as a 4PL player, you can take advantage of this excess capacity? Is that one way to understand it?

Vincent Phang: The way a 4PL works is, the bigger the vendor base, the better it is for us. Because if there's less of a vendor base and with the balance between the customers and vendors, you have less to work with. So, I guess, in a way, you can almost imagine with the excess capacity, it could also be a benefit. So as long as we get to be smart about how we organise the vendor base and the solutions for customers. So far we've been able to, I suppose, benefit from that.

Hopefully that makes sense. If you need me to elaborate further, I can do it.

Paul Chew (Phillip Capital): Thank you.

Ong Khang Chuen (CGS International): Can I check for the past year, how's your performance for Australia on a constant currency basis if we exclude Border Express? Because I think in Singapore Dollars to me it looks quite flattish.

Vincent Yik: So, in terms of revenue, the 3PL business probably rolled back a little bit, maybe 15%, 10% in terms of revenue. In terms of revenue for the 4PL business, it's been relatively flat year on year. So, it's just down a little bit on the Aussie dollar term. In terms of operating profit, the 4PL business did do better. It's up by maybe about 12-13%. Then the 4PL business is down by maybe just about 15%. So, they kind of offset each other. So, it's been relatively flat in terms of operating profit numbers.

Ong Khang Chuen (CGS International): You mean 3PL down 15%?

Vincent Yik: Yes, roughly 15%. So, the 4PL operating profit was able to offset the decline in the 3PL business. So as a good Aussie dollar perspective, operating profit came in relatively flat year on year. Revenue did see a little bit of pullback, maybe about 5%-10%, just under last year's number on a constant currency basis.

Ong Khang Chuen (CGS International): Can you share more about how you expect Australian business profitability to perform this year, and in terms of - given your targets on synergies?

Vincent Yik: So, I think from Australian business perspective, there is quite a huge amount of opportunities that we can look at. In terms of - let's talk about a simple one, in terms of 3PL business, it is obviously in a very competitive market. We have a lot of capacity in the market.

The good thing about our 3PL business is probably two things. We are not that big in terms of how much we have invested. So, our capacity still remains relatively healthy. We are primarily also focused on the B2B space. So, there is a lot more consistency in terms of the revenue that we generate. So that is good.

The third thing that is good about this sector for us is that we are also in very lucrative and very specialised lanes and sectors. We focus on very specific areas of the 3PL market. So, we don't compete in the general market. So that gives us quite a good base to work with.

Then we talk about the 4PL business. 4PL business continues to be the driver and the opportunity for us. We continue to see a lot of upside in that. We are by far the largest. The margins have been very lucrative and very consistent throughout both pre- and post-COVID. So, we continue to see good uplift in that space. As we get more vendors in, as we get more customers that just continues to build. So, we see a lot of upside in terms of 4PL business.

Then in terms of synergies, we now have a group of maybe eight or nine different companies and different brands. Border Express being one of the larger 3PL businesses, not only in our portfolio but also in the country. So, we do see quite a fair bit of synergistic upsides across the group as well. So, synergies in terms of back offices. If now I have three or four different key back office functions, you consolidate that and that is an immediate synergy saving.

There is synergies in terms of revenue in two fronts. One is obviously sharing your customers. You have customers - different groups of customers engage in different business now. You bring them together and you can share the customer base. So that's one revenue uplift. Two, is you are able now to monetise a customer many times over. A customer that was on only 4PL, they used to go 3PL and now we can then offer them across the entire value chain. So that also helps us to in a sense, have value uplift from a single customer. We do see a lot of revenue upside in terms of synergy as well.

If we bring all of this together, I think we're certainly fairly optimistic this year. If we put our energy to do that properly, which is a key objective of this year, then I think there is quite a bit of upside for us in terms of synergies as well in this Australian business.

Ong Khang Chuen (CGS International): In terms of timeline, which one do you think is the lowest hanging fruit that we can see sooner?

Vincent Yik: I think what we are doing now is we are working on both fronts. So, there's a specific group of people that drive the value uplift from the revenue side, and there's a specific group of people that is driving the operational integration across the Group so that we can bring in the synergies from the consolidation of the businesses. So, I think we are targeting both, but in terms of quick wins, I think the revenue upside will probably be easier because you can connect the customers up very quickly and bring the value to them very quickly.

Vincent Phang: I think just to add to what Vincent said, there is an integration project that is being commenced. So, we've gotten very quickly to this. Since we acquired Border Express on 1 March, that project has already started. By about the end of this quarter, I think we should have a good inkling of what is the potential we can get out there. Just to add to what Vincent said, I don't think the potential is immaterial. It's going to be a relatively sizeable material synergy that we can try to target.

Analyst: Vincent, would you be able to quantify the amount of synergy?

Vincent Phang:: Unfortunately, I can't right now. That will be something that we will have better clarity by the end of the quarter, as I said.

Lleyleythan Tan (UOB KayHian): For the Post & Parcel for the second half, could you share the breakdown of the operating profit, so which one is from the domestic and which one is from cross-border solutions etc. So, I'm trying to understand, we're trying to map the growth in the second half.

Vincent Yik: So, if you go back to the slide, do we have a slide on the Post & Parcel? So out of the S$7.5 million, I think a big chunk of it came from the International business. So, the Singapore business, if I'm a bit more transparent here, was still reporting a loss in the first half, so if you recall. So, in the second half, we managed to reverse that. So, for the full year, the Singapore business is also profitable at this point. By far, the larger part is still in the International business.

Vincent Phang: We're happy with what the Singapore business did in the second half. On a full year basis, it is marginally profitable. So, nothing exciting about marginally profitable. I guess it's the second half performance that we should look at.

Analyst: So for the second half, would you say it's a half-half for the operating profit for both sides?

Vincent Phang: Well, it's still largely International.

Analyst: In terms of illuminating shareholder value, I think in your slides, you talk about it halfway - in terms of timeline, when can investors expect the first development in terms of shareholder value?

Vincent Phang: Okay. So, a lot of work is being focused on this. Hopefully the results also give you an inkling of what are the things that we've been working towards. So, the options are on the table. Clearly, there are specific projects that we are working towards in - let's say, just right at the top, the restructuring of the Group, some future optionality, some of the non-core divestments. We are looking at that quite intently. So, through the course of this year, I expect that there will be more that we can share on some of these potential capital management exercises.

As for the individual businesses, ongoing BAU businesses. Singapore business has to optimise the - I alluded to it earlier, the physical post offices continue to be a source of opportunity for us, if we can streamline that. So that's something that we will be working very progressively towards.

Australia, the integration of the business, the synergies extraction is number one. Beyond that, the continued growth of the business. At this moment, I would say, we want to digest what we have. That would probably be the right thing to do.

On the International side, it's just - continue to expand the networks and to work on the cost improvement as we continue to see the air freight cost come down.

So, I don't know whether that's a question you have, or are you looking at any specific projects in particular?

Analyst: In terms of divestments, because in the strategic review at the core, we carved out Famous as a non-core, and we also talked about for a while now, SPC, potential divestment restriction, SPC. So, in terms of timing, any update that you can provide?

Vincent Phang: In the strategic review, we said over the next three years, but I would say it's probably more front loaded than over the next three years.

Jarick Seet (Maybank): Sorry, there are a few more questions on my hand. In the strategic review for your International business, is the majority of the profit from International business?

Vincent Yik: Which income?

Jarick Seet (Maybank): The profit from the postal business, the S$7.5 million.

Vincent Phang: Yes, mostly from the International. So, the Singapore business, domestic business is just about breaking even.

Jarick Seet (Maybank): For this year, do you see improvement in the International business?

Vincent Phang: Yes, we do.

Jarick Seet (Maybank): What kind of improvement do you foresee in terms of scale and plan?

Vincent Phang: Well, for the year past, or the…

Jarick Seet (Maybank): For the upcoming, current year.

Vincent Phang: Upcoming year, it will be hard for us to make any projections at this time. It's all, certainly, it's a combination of the revenue improvements. That's afunction of how the market is. It is quite soft. So, we'll see how we can extend on that.

The other will be the cost improvement. Air freight continues to be a very big source of cost for us. So that's something that we need to continue to move. As I said earlier, the air freight cost has still not reverted to the pre-pandemic levels. Not quite there yet, right, so about still 30% higher than before the pandemic. That said, on year, it has improved 13%. So, we continue to see that kind of trajectory coming down. It's a big bucket of cost for us. It also continues to move. Then it's not a straight line, right? Then you have all these conflicts and then it goes all over the place. So, it's kind of patchy in terms of improvement. Hopefully, longer term, you can see that it will stabilise and continue.

Jarick Seet (Maybank): My next question is on Famous Holdings, on the freight rate. Basically, do you see the business bottoming, or do you think that this year there's still more downsides in terms of revenue and earnings?

Vincent Phang: If I can be candid, it was trading a bit stronger than I thought over this year, and part of it is because of some of the continued tensions around the world and freight forwarders. Some of these movements can impact our profitability, sometimes positively. So, it remains to be seen how this year is going to turn out. So, I think that our own projections is - there will be a softening across the entire industry. Every time something pops up and something happens, there could be an impact to that line. So once again, it's a bit patchy, but if the question is, do you see it going back to those numbers in the past, that was a pandemic boom that we experienced. So, it will never be that high.

Jarick Seet (Maybank): Also from last year?

Vincent Phang: We see that it will soften.

Jarick Seet (Maybank): [Unclear]. Then for the Australian business, how do you see the Australian logistics [unclear] year on year for this year, do you see [unclear] possible?

Vincent Phang: I can't comment on future, but I guess if you look at our track record, despite the conditions, we've been, I would say, more than stable. We have continued to even organically grow the business. Even when revenue has been tight, our bottom line has continued to grow because of the nature of the 4PL business. We have been able to extract certain cost benefits as a result of the vendor base being a bit different.

Now, with the addition of Border Express, suddenly there will be inorganic growth that you can see on top of what we had from last year. So, the Australian business is meant to grow. We certainly want to continue to grow the business. There's been a good track record of us growing the business, being very defensive about the volumes. Our customers' churn rate is very low, low single digit churn rates. So, if we continue to offer the kind of service that we have to our customers, I think we will continue to keep them, and then It's just about improving the yield that we have on that business.

Jarick Seet (Maybank): My last question will be on share buybacks because I think recently we also saw Seatrium trying to improve shareholder value and share price. So, I think they also came out with a share buyback program. I think that for yours, your capex is really not very high. Your cash situation is very comfortable. So arethere any plans for that or is not under consideration?

Vincent Phang: When we look at our capital management strategy, our preoccupation and the priority would be to review our debt position. We've expanded over the last couple of years. We have taken on a bit more debt to facilitate the expansion. So that's certainly top of mind. When the cash flow improves as we expect it to, so with improving earnings, that will be something that we'll be looking at. If there are divestments on the near horizon, those will also be a useful source of liquidity for us to pay down the debt. We've said this before. I think that will be our primary approach to capital management.

Vincent, is there anything else you want to add?

Vincent Yik: I suppose if you look at the strategic review, one of the comments is that we will look to return some value back to shareholders as well. So that will take a [unclear]. So certainly, something that we are also mindful of.

Analyst: Your cost of debt actually is quite low, right? So, if you intend to pay down debt rather than you take - the cost of equity is so high, right? So, it will be actually more prudent for you to keep the debt, especially when rates are coming down.

Vincent Yik: So certainly, the debt is useful for a number of things. So, the cost of debt is obviously going to be lower than the cost of equity. That is clear. Debt is also useful in terms of FX management, right? So, we do factor that in. There are many things that we look at in terms of capital management. So, one of the considerations will certainly be debt as well.

Ada Lim (Bank of Singapore): If I can just add on to Jareet's earlier question. You did mention that FMH [unclear] a bit of softening. I was wondering what are some of the catalysts that you might be looking out for both macro-wise in terms of the broader industry to determine whether conditions for that business have more or less bottomed?

Vincent Phang: Famous softening, not FMH softening. Do you mean Famous or FMH?

Ada Lim (Bank of Singapore): In terms of the 3PL business.

Vincent Yik: 3PL as in Australia?

Ada Lim (Bank of Singapore): Yes.

Vincent Phang: So, when I made the comment about softening, it was the freight forwarding business Famous, not the Australia business, not the 3PL business. That one, we have had a track record of growth. We have been very defensive. So, we continue to expect growth from that business. So, I don't know if I got your question correct.

Ada Lim (Bank of Singapore): I think more in terms of the 3PL business. I think so far you mentioned that there's quite a lot of macro headwinds against that particular aspect of the business. So, I was wondering whether what are some of the catalysts you would consider to see whether the conditions have really bottomed out for that part of the business?

Vincent Yik: I suppose one of the first indicators - because a lot of our business is actually - so we have two parts of the 3PL business. So, there's one part is the B2B. So, a good indicator of the B2B business is of course the market - general market activity. If that has picked up in terms of business investment, in terms of capital investment, if that has picked up, that shows the businesses are growing, volumes are up there. That helps B2B part of the business.

The primary weakness now in the Australian sector is the retail sector.There has been a lot of pressure on the retail sector, primarily from inflationary pressures and cost of living issues. So, we do see a fair amount of pullback in terms of retail spending. The impact of the retail spending pullback did have some impact on our B2C business, which is the CouriersPlease, last mile delivery.

But the good thing for us is, even in our last mile delivery business, we have been able to gain market share. We are a small player, we have at the moment only about 3% or 4% of the market share. We are a relatively challenger brand, a small market player. So, our focus has been driving volume, our focus has been improving efficiency, our focus has been service quality. That did help us to bring a fair amount of volume even through this declining period. What we have done well is we have increased our share of wallet, we have gained new customers from other competitors. So that particular market has been very, very challenged. The last mile delivery market has been very, very challenged.

Incumbents of course have a lot of issues on their own. The small players have a lot of issues on their own. We are somewhere in between, and we seem to have done relatively well. We have seen an increase in volume, we have seen an increase in profitability, we have seen an increase in service quality. So, I suppose if the retail market stabilises and picks up, then this is actually quite prime for our opportunities as well.

Ada Lim (Bank of Singapore): Thank you.

Vincent Phang: So, suppose from a macro standpoint, we have to look at the interest rate environment and how that is affecting the consumer sentiment. I think it is relatively sensitive to that. I think everybody is a bit cautious about how that pans out. If there is a more dovish approach to interest rates, I think it will certainly move the needle on retail and on spending. For us, customers buy stuff, there is more work for us. So, it is very clearly linked to that.

Paul Chew (Phillip Capital): Can I just clarify, on the International business, when the conveyancing or air freights cost comes down, and you say you will benefit, but won't the competition pass it on? Just trying to understand the dynamics.

What I mean is that if air freight comes down, won't competition also just pass it back to the customer? How does the mechanics work? If it comes down, it improves your cost, but won't competition pass on the air freight costs?

Vincent Phang: I guess if the whole industry experiences that, then it is a zero-sum game. I think that is what you are trying to say. Everybody benefits from it the same way. Maybe the overall industry will be uplifted because the cost of moving stuff cross-border is more sensible. So, there could be an uptick in the total volume traded, I suppose. So that could be one impact.

The second is, assuming everything is status quo, then there will be a better margin contribution as a result of the cost base going down. Because air freight is such a big part of our cost base.

We don't own any assets, so it is not like others in the space where we have planes or - we don't. So, we basically work on a very asset-light model. We will be - I suppose, quicker to realise some of that impact if the cost of air conveyance goes down. We are not running our own fleet.

Paul Chew (Phillip Capital): Does this help as a hub status if air freights get down?

Vincent Phang: Definitely. Because a lot of our volume passes through Changi. If the hub is effective because air freight is increasing, there is more air cargo, more flights being restored. That gives us a lot more options around moving our stuff around the world. So not just from a cost standpoint, but also from capacity and network options for us.

Vincent Yik: I suppose this is also the elasticity issue. So, the selling price is a little bit less elastic than buying price. At some point, you can't really drop price as quickly as the cost escalates. In some regards, we have had to be very careful in terms of margin protection. We have to maybe turn down some businesses because the margins are just way too thin. So, you can see that revenue pressures on our numbers as well. So, you can see while revenue has come down, profitability has improved, that is essentially what happened. We have to be quite careful what we pick up. So as the overall cost comes down, a lot more opportunities for us to then look at more profitable businesses as well.

Paul Chew (Phillip Capital): Like more routes?

Vincent Yik: Yes, more reach that we can open up, more opportunities for more businesses to pick up more volumes, open up more lanes. We can be a bit more progressive in terms of looking for businesses. So, when margins are very thin, you have to be very careful. You don't pick up businesses where every time you move something, you lose money. So essentially when that cost comes down, when margins improve, then a lot more opportunities as well.

Paul Chew (Phillip Capital): Maybe can you elaborate on - as you go deeper in this hybrid model, how does the commercial part help you competitively? I know you touched on it in the past, but as we move on deeper into it.

Vincent Phang: Our traditional strength has been moving things in the postal network. That performance across the whole world is sometimes very patchy. Some postal companies in some countries can do it better than others, and some are less effective in terms of some services, as in maybe the lead time is longer, maybe the statuses aren't as clear, maybe some don't provide scanning. It depends. We have 200 countries around the world. Certainly, the consistency of the service is not as tight.

So commercial options for us means we move away from just that sole source of using the network that we have in postal, allows us to have other options. Once there are options, we have choices. Once we have choices, we can have better service outcomes, better customer experience. We can have options around service levels. We can have options around tracking statuses. We can have options around costs. That just gives us a lot more resilience in what we do.

So, imagine you're the customer and you are procuring a service from us to deliver goods around the world. All you want is a consistent level of service across all the markets that we serve. As I said, with postal, sometimes we cannot achieve that. Once we have identified opportunities where in certain markets, not just postal, we have some commercial options, it gives better confidence for our customers that this is something we can do on a consistent basis.

Vincent Phang: Coming from a postal organisation, our view has always been it's a great advantage to continue to have that postal service as the baseline service. Put it bluntly, whatever you want to send around the world, it can be done. We don't have to stress about it. It can be done. May not be to the service level that is required, may not be to the price point or to the expectation as we heard, but it can be done.

If we continue to rely on that as the primary service, then that's not for the future. So, we've had a very - I guess - successful past on that basis. The pandemic has really created some changes in the market. We believe, see the challenges in continuing that old method of the supply chain, but also at the same time forces us to adopt the new commercial methodologies.

So, we're quite happy where we are. We say that on the slides, about 35%. The number continues to move. Today, the number is probably off of that now. That's for the full year. So, you can see that at some point in time, we will have a very good balance between the postal options versus the commercial options.

Lleyleythan Tan (UOB KayHian): So, am I right in saying that margin improvement is just solely due to this hybrid commercial solution and not the postal baseline service as you mentioned?

Vincent Phang: Postal will decline. The fact is, the way the world is, you will use less and less on postal options going forward. So why do we have that? Like I said, it's a baseline service, stock service, it's the economy class. You want to build on the other more premium services for your customers.

Lleyleythan Tan (UOB KayHian): So why not just focus on this business? I'm assuming this would be higher margin than just maybe go to 80% or 70% of [revenue] and not focus on the baseline business anymore. Seems like this is growing a lot. As you mentioned, I'm seeing that the growth is quite good.

Vincent Phang: Yes. Clearly, we are, but you can see that it takes time to organise this. It's not just about that one lane or two lanes. We could be pretty good at a couple of lanes that we have. If you want to do this really, really well, you need to address the entire region as well. What can we be good at?

We also acknowledge that we say we are a global cross-border network. That's not our starting point. We want to be known for certain key lanes, Southeast Asia perhaps. What we can do with our strength, which is the ex-China market. Beyond that, how do we create options that is not just the same old, same old, that we do.

Lleyleythan Tan (UOB KayHian): So just a final confirmation. So basically, the margin improvement was just basically due to this [unclear] business. Just to confirm again. Because as you said, the volume declined.

Vincent Phang: So, I know that going forward, we will have a better disclosure in terms of the segmentation that we will change. In this case, as Vincent said, Post & Parcel is made up of two parts. There's the domestic part and the international part. That's the way we've been presenting. I'm happy to maybe offer a bit more colour.

So, in terms of margin improvement between the two, the Singapore business has had significant margin improvement because of postage adjustment in the second half, plus growth in eCommerce, tapping on the same network and the same capacity that we have for postal. Basically, our postmen have more to deliver and there are more eCommerce items and letters.

That is now achieving a close to one-to-one in terms of revenue as I showed you earlier. So, in that business, first half was negative, second half was positive, net-net marginally positive for the full year. We're very happy with the margin improvement in that business. So, we've rectified a fundamental aspect of it.

Now, in the International business, the margins continue to improve. Part of it is because of the ability to bring on commercial solutions, which means the quality of revenue is better. At the same time, the cost base is lower because of the air freight costs that are becoming more affordable.

Ong Khang Chuen (CGS International): For the International business, despite your mix of commercial going up pretty nicely, the total volumes continue to see some shrinkage. I guess, does this mean that the ability for you to win new customers or encourage the shift towards commercial is still unable to offset the faster pace of decline in the postal? Given your expectations on lower cost this year, when do you think you'll pivot a bit more aggressively towards trying to regrow your volumes and revenues?

Vincent Phang: As I said, this business is still in progress. This year, we will have a lot more focus on this business. The fact is, if we hadn't done the commercial growth, the top line is still going to drop. The commercial piece is defensive in question.

It's the same way as maybe if you look at our domestic postal business. For a long time, we've met - we were trying to explain, the turnaround will come. That's because it wasn't that one-to-one. Now, it is a one-to-one, close to 40% each of the eCommerce and letters in terms of revenue. If you think about the numbers, one-to-one for the postal business domestically, and a letter is about S$0.50, eCommerce item is about S$2.50, so about five times the intensity in terms of revenue per item. At this moment, we're delivering about five letters for one packet, so one-to-one. At the same time, a 10% drop in letters can now be made up by a 10% increase in eCommerce. In the past, it was nowhere close. A 10% drop in letters will need a 50% increase in eCommerce, that was not going to happen. The moment it gets to a point where it's more one-to-one, then you can be a bit more aggressive with switching over.

I think it's the same story as this one. The postal channels that are coming down is about 65%: 35% right now. At some point in time, when it gets closer to one-to-one, then you can start to see the benefits coming.

Ong Khang Chuen (CGS International): It's more like second half of this year.

Vincent Phang: We continue to work in progress. We're going quite aggressively at these things. This is quite a competitive space. At the moment, in Singapore, we can probably consider ourselves a little bit more dominant in some of the things that we do. This one, we really need to architect a network. That's why all these partnerships in the various markets become very important.

Ong Khang Chuen (CGS International): Is it fair to assume for now, it's more of a cost management, trying to drive margin improvement until you see the mixed stabilising, half-half, then we should see the revenue starting to pick up more strongly.

Vincent Phang: Correct.

Ong Khang Chuen (CGS International): For your Singapore side, you mentioned eCommerce volumes grew quite well in the second half. Are there any new initiatives that you'd like to share? In terms of one of your key customers here, any updates in the latest quarter, given that they have done quite a sizeable reorg?

Vincent Phang: We are gaining our market share, that's what I know. The numbers speak for themselves. I think the eCommerce market last year grew about 9%. That's the latest figure right. Then we grew 11% for a year, which means we have not just been in line with market, we've done a little bit better than market. The last half - the second half was a lot more positive. We saw growth that was pretty reasonable high double-digit. So, if you look at the chart there, first quarter was still a little bit weak, but then the second half was very, very strong.

We have - in terms of strategy, we're not positioning ourselves as much to just the platforms. We've discussed this before. The Singapore eCommerce market is generally dominated by the platforms, the two big ones, and maybe Amazon. So, generally that's it.

If you think about it, your own spending patterns, because I did go and count, maybe three in four items you buy are from the platforms. The one in four you have bought from a brand.com directly or someone else, not those three. So, I think it works out that way. Our strategy is also to extend this long tail. So, it's not just about always just the platforms. We've brought on quite a few direct customers outside of the platforms. Some of these brands directly want to have relationships with us. So, we want to ensure that we are represented well in all the various customer segments. It's not just the platforms. Platforms also have far more purchasing power. So, we also want to make sure that we have a good balance with the rest.

So, in that regard, I think we did quite well, which is why Q4, that growth wasn't based on platform growth. That growth was based on direct brands, generally, that uptake there. Hopefully, that continues. So, we're quite excited that we're on some results. Hopefully, that continues and that will be the trajectory. Hopefully, that answers - give you a bit of colour.

Ong Khang Chuen (CGS International): On a Group level, how should we be thinking about Capex this year - coming financial year?

Vincent Yik: We continue to invest. I think what we want to be clear is whatever investment we make generates a return that is suitable. I think that that's always clear.

So, in terms of Capex, there will continue to be investment in Singapore in terms of re-engineering of our network. You will continue to see a merger of our eCommerce versus postal network. So, that will entail some investment in there. What we have been very careful over the last couple of years is a number of things. One, the investment needs to pay for itself. It must generate a return. Two, we want to ensure that it is sustainable before we put in any substantial Capex investment either way. So, I think the point where we can see that it is growing is fairly sustainable. So, it probably has a little bit of investment in there. So, there will be some. Is it going to be massive numbers? We don't think so.

There's going to be some replacement capex in there as well, both in Australia and Singapore in terms of the assets, mostly fleet. In that regard, for the Singapore fleet, the main focus in terms of the fleet replacement is twofold. One is the re-tooling of the network, so you move from more predominantly two and three wheelers into four wheelers. Two, is more on a sustainability basis. We will move away from combustion engines to EVs progressively.

So, those are the main part of the capex investment. We don't think there are going to be massive kind of capex investment over the next couple of years, but we will continue to invest. I think it's important.

Ong Khang Chuen (CGS International): Assuming you've managed to come into agreement regarding your plans for the postal office network, will there be some capex required to facilitate the switch towards more self-service?

Vincent Yik: Yes, there will be some. Probably, again, not going to be massive. There is probably going to be some costs in terms of the restructuring as well, which we will have to take in. Given the network, it should not be - there will be some, but it shouldn't be some massive number that we're looking at. What we do want to say is the whole purpose of doing this is to make the network a lot more pervasive, a lot more asset light.

Also, when we do that, it will free up - it will free up assets as well. So, there are assets that we own currently that potentially can be monetised as well. So, overall, the whole thing is meant to be self-funding.

Vincent Phang: I'll be a bit more candid. There are three businesses. I'll start with the big one first, Australia. At this moment, we are digesting. So, I won't say never, but at this moment, the priority is digesting it. So, will there be capexon the near horizon? If the good opportunity presents itself, maybe, but that's not the current priority.

The International business, now that it's in recovery, we can start to do some of the investments that we've always planned, but we put on hold. Targeted, improving process capability, improving automation. We're re-engineering some of our sortation machinery at a manageable amount of capex, so not significant.

The Singapore business is a huge business. So, there are commitments on winning the fleet. There will be a sizeable amount of capex, but to me, it's mobile assets. So, it's not so much the engineering. This one, because we are - the near-term uptake, if anything, this is - when we were unprofitable last year, all the plans that we wanted to invest into all the sortation machinery and to optimise our engineering resources, all that, we had to put on hold. Now, there is good traction. We are reviewing it, and we are activating it. I will go so far to say, the latest numbers based on Q3 and Q4 make us rethink that, maybe not enough. We need to maybe build more capacity in the future, so we are reviewing those plans. So, there will be some level of capex that will come into this Singapore business as well, given that the near-term trajectory has been very positive to the eCommerce front. I think that's it, those are the key capexitems.

Ong Khang Chuen (CGS International): In terms of your view on the parcel locker, whether it's community-based or individual city blocks, any change in view over the past three years? Now, you are pivoting more strongly into eCommerce.

Vincent Phang: So, we do have the local network, so that hasn't changed. We continue to look at plans to deploy those. Overall, we have a strategy to be more out of home. We call it out-of-home delivery options. We will try not to deliver to home if we can to physical addresses if we can. We will to lockers. We also have all these PUDO points.

So, if we open up all these touchpoints, it's going to be a lot more effective than just the lockers. So, it's two-pronged. Both the physical lockers that will continue to be developed, but also on the PUDO POPDrops and POPStops that we have. You will start to see a lot more.

Vincent Yik: Maybe I will extend that a little bit. If you look at our current infrastructure, we already have a network to every HDB block through the letterbox. So, it's a matter of making sure that we leverage that properly. So, at every HDB block, now we already have access to PUDO lockers through the letterbox. We already through our network have access to maybe 300-odd condos now through our Parcel Santa network. So, already we have quite pervasive access to some of these networks, which I think we will do well to leverage as well.

Jarick Seet (Maybank): So, in terms of the cost of debt, it's around 3% plus or minus currently.

Vincent Yik: It depends on currency, yes.

Jarick Seet (Maybank): I mean overall, based on a blended basis. Will this cost of debt stay stable for the next 1-2 years?

Vincent Yik: The largest, by far, a huge proportion of it is fixed. So, we have done what we can to hedge our interest rate exposure. So, every time we enter in over the last couple of years, we have managed to hedge it. So, it's been fixed for the tenure of the loan.

Analyst: So, roughly for the next two years, three years we won't see movement.

Vincent Yik: We have a small portion of Aussie dollar loan that is not fixed. That was with the view that we don't really want to fix it at the high point of the cycle. So, we did leave a little bit exposed so that we can benefit out of it. But vast majority of our FX goes to, I'll go to say, in excess of 80% - 90% is fixed.

Analyst: Your perps is also fixed?

Vincent Yik: Five more years,yes.

Analyst: When is the stepping up?

Vincent Yik: Four more years to go. Four and a half more years to go.

Analyst: Four and a half years?

Vincent Yik: The step up, I think, is five and a quarter from the time we did it. So, the beginning of last year. So, maybe about four years more.

Analyst: The step up will pegged to the market?

Vincent Yik: Yes, it'll be pegged to the market. I can't remember what's the step-up rate now, but it's four and a half more years to go, I think.

Selena Chong: If there's no more questions, we can end the session for today. Thank you, everyone, for joining us.

End of Transcript