SingPost H1 FY24/25 Results Briefing, 6 Nov 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 H1 Results Presentation.)

Selena Chong, VP (IR)

Good morning. Welcome to the first half results briefing for FY24/25. Today we have our group CEO Vincent Phang and CFO Vincent Yik who will be bringing us through the presentation before we open up for Q&A. The session will take about an hour. I'll hand over now to the CEO.

Vincent Phang, Group CEO

Slide 3: Key Highlights for H1 FY24/25

Good morning everyone and thanks for joining us today.

I'd like to begin by just touching a little bit on our results. You've read some of the headlines already. I'll also give a bit of colour on the strategic initiatives that we are pursuing. But this being the first time we are announcing the results in the format that you've seen, the new segments that we've talked about for a while, I think I would like Vincent to focus a little bit more on the financials, so that we can give a bit more clarity and colour on how we report the numbers moving forward.

So today's focus will probably be more on that and I'll let Vincent do all the heavy lifting later. So in terms of the headline numbers, Group revenue grew 20% over last year. We are quite happy with this, given the softness in the respective markets we are operating in. Group operating profit has increased 63%. With this stronger operating performance, underlying net profit has grown 88%; and we are also pleased to announce a higher interim dividend payout as a result.

Slide 4: Key Highlights for H1 FY24/25, Outlook

Moving on to the key highlights and outlook, since we laid out the key thrusts in the strategic review outcome in March, we have been making significant progress in the initiatives.

Australia

In the Australia business, we have been consolidating and integrating the newly acquired Border Express business as well as the CouriersPlease business we always had into the FMH group. So this process has started to get the integration benefits, driving revenue and operational synergies. Potential synergies have been identified for extraction over the next couple of years across a range of revenue initiatives, procurement and property consolidation, so the benefit will start to come through.

The strategic review specifically on the Australia business that started in June is expected to conclude shortly and we will update accordingly. As announced previously, this review focuses on developing potential options for the business going forward.

Singapore

On the Singapore business, we have said that further efforts are needed to safeguard the long term commercial viability of postal services. You've seen the numbers come through based on the turnaround that we see. We're glad to update that we are finalising an operating model with the authorities for the sustained viability of postal services. So we're not quite done with what we need to do at this point. This will focus on optimising consumer touchpoints and transitioning select post office services to alternate touchpoints.

In the meantime, we have been working to expand the availability of postal services in the community. In the last few months, we've formed partnerships with the transport operator SMRT as well as a supermarket chain. This effort is to leverage these networks and to extend our postal services to the public through all these customer touch points.

International

On the International front, the global eCommerce landscape remains challenging and difficult. In the first quarter, we had indicated that we were reviewing the returns of the International business, and we've since taken actions to enhance operational efficiency.

The International operations are being rationalised and optimised. We are focused on the core postal capabilities and leveraging the Singapore hub, while streamlining the regional footprint. In that light, we are disposing our minority investment holdings in regional logistics companies.

The divestment process for these various assets is moving forward and we will update when appropriate.

This is all I have for the moment until the Q&As to come, so this moment, I'll pass, handover to Vincent to bring you through the financials.

Vincent Yik, GCFO

Slide 5: Key FY24/25 Financial Highlights

Good morning everyone.

Resilient performance
As Vincent has pointed out, trading conditions across our markets have been difficult in the first half. The Group's business performance has been resilient, with growth in all the underlying profit numbers. In Australia, Border Express, which as you know was acquired in March, has done well and is in line with our expectations and accretive to the Group.

Change in segment reporting with reorganisation of Group
With the Group's reorganisation, you'll see the new segment reporting format of Australia, International and Singapore that we're adopting from this financial year.

So I'll spend a little bit of time to go through the segment and what it means and also reference back to our prior years as well. We had provided this preliminary view, proforma view previously where we announced our strategic review and having finalised the structure, we have now refined it and have incorporated our two businesses - which is the freight forwarding and property, into their respective segments, rather than as part of Corporate Center. You can see that later on.

Slide 6: H1 FY24/25 Segment Revenue

Now let me bring you through the details. This slide here lays out new and old segment tables for our revenue.

So the new segment table on the left, you can see that the International segment includes two businesses - the International cross-border business and the freight forwarding business. Then in the Singapore segment, there is the Singapore postal and logistics business as well as the property business.

Revenue growth in the Australia and Singapore segments outweighed the softer International performance, with the International cross-border business being the only one showing a dip.

This is quite consistent with market and general economic conditions.

So we showed the original segment for your… we also show you the original segments for your reference, as well. Here, you can see the growth across Logistics and Property, with Post and Parcel reflecting the drop in the cross-border business.

Slide 7: H1 FY24/25 Segment Operating Profit

Moving on to the next slide, similarly for the operating profit breakdown, in the original segments, we see improvements across the board.

In the new segments, as with the revenue performance, Australia and Singapore outweighed the lower International contribution, and I'll provide a little bit more colour on these individual segments over the next few slides.

Slide 8: Australia Segment

Australia did well both organically and inorganically in a very difficult market. Over the last few quarters, the Australian economy has slowed down and there has been a contraction in both the B2B as well as the B2C volumes across the industry. However our Australia business has maintained its organic volumes at relatively steady levels.

Overall, revenue grew 44% and operating profit was up 30% YoY. Border Express has not just been a strategic addition but has also been performing well and has been accretive from the start, with its revenue growing 3% and operating profit up 23% YoY.

The Australia business has been consolidating and integrating all its businesses into one single operating platform, and is working towards driving revenue and operational synergies with benefits starting to be realised.

Slide 9: International Segment

Moving on to the International segment. On this slide 9 we have the International cross-border business.

In this table, the logistics line comprises mainly the cross-border delivery of eCommerce volumes, which makes up about 87% of the revenue, as well as the traditional letter mail which makes up the remaining portion of International deliveries. The Others line is mainly from our warehousing and fulfilment services.

The global eCommerce market has been challenging with contraction in volumes, as well as conveyance cost fluctuations and increased competition. Revenue and volumes have declined against this backdrop.

As mentioned by the CEO earlier, we are rationalising and optimising the operations and network, to drive efficiency in the business. This has helped with the profitability in the first half.

Slide 10: Singapore Segment

The next slide shows the Singapore postal and logistics business.

Revenue has increased with the benefit of the postage uprate in October last year. Letter mail revenue was higher despite the continued decline in volume. eCommerce revenue once you exclude the one-off ART kit delivery from last year was also better.

The Others line comprises our other services such as mailroom management, financial services etc. This has declined as we streamlined and rationalised some of these services and product offerings.

We have also provided the breakdown for operating profit to provide a better understanding of the few key drivers. I'd like to call out a few key points here.

- As you can see firstly, the delivery business has turned around from the loss last year and is now profitable in this first half.
- However, the post office network continues to remain unprofitable. On this front, as Vincent shared, we are finalising an operating model for the postal services to enable the business as a whole to be commercially viable.
- And you see the transformation costs. So in addition, we continue to invest into this business so that's quite important. This is some of the one-off transformation costs, investments, upgrades in some of the legacy systems that we put in in this first half.

Slide 11: Property, Freight Forwarding

Moving on to the next slide, there are two business here -

The Property business did well with higher rental income from SingPost Centre. This was due to positive rental reversions as well as improved occupancy rates.

In the Freight Forwarding business, there continues to be uncertainty in the industry. Sea freight rates have increased during this period and while revenue has also improved, the higher sea freight costs and competition have led to margin compression as well as lower profits.

Slide 12: Financial Position, Dividend

Moving to my final slide.

The Group's financial position remains strong and steady. Operating cash flow was higher compared to last year with the improved operating performance. The changes in investing and financing cash flows were largely due to payments of the deferred considerations for Border Express, as well as additional borrowings.

Finally, on interim dividend, we are proposing a 0.34 cents per share, which is 30% of underlying net profit, which is consistent and similar to the interim payout over the last 2 years. With the improved profitability, the payout is about, close to 90% higher than last year on a cash basis.

That's all I have to cover. So I'll hand this time back to Selena for Q&As.

Selena Chong (VP, IR): I will open the floor for Q&A. If you have a question, please indicate by raising your hands.

Chin Meng Tee (OCBC Global Treasury): So is there any update on the… I think three parties are acquiring your Australian asset. It's on the news. Do you have any update on this?

Vincent Phang (Group CEO): We recognise that there's a lot of press on this. The strategic review in Australia is still ongoing, so the official word from us is it's still ongoing. We have to be patient to wait out the outcome of it. It is finalising soon. That's all I can say. Before the end of the calendar year for sure, I believe we will have something to update to the market. Like I say there's quite a fair bit of rumours out there in terms of what the press is saying. We just have to be patient to wait out what is the actual outcome.

We have said before that in terms of our strategic review, we are not fixated on any specific outcome. We are awaiting what the market is informing us. There are a range of options and possibilities for us. It is not limited to a sale of the business as a whole. So I think I'm quite excited with what the outcomes can be from what the market can inform us, what our advisors can tell us and then there certainly is considerable interest, that part I can confirm, on actually the various options around whether it's partnerships or any other discussions that we have with potential players out there.

Jarick Seet (Maybank): Hi Vincent, just to follow up on the question. So basically I think earlier in the presentation you mentioned that you're looking to sell minority stakes. Does this also just apply to the Australia business or could it be a majority stake? I mean like, if it's a majority, then it'll be all?

Vincent Phang (Group CEO): What I mean is that we do have minority investments, quite a few investments that we picked up along the years in Southeast Asia especially. So we are looking to generate some options for us. I mean those are relatively small stakes. We're just cleaning up and rationalising the international footprint that we have.

Jarick Seet (Maybank): Understand. So for the Australian business, there's a lot of rumors about it in the papers. Will you be open to a major 100% sale based on the offers that you have or…?

Vincent Phang (Group CEO): It depends on what comes back. That's my point. We haven't had that opportunity to review what are the options coming back to us, so I can't give more colour on it. So we just have to be patient for the exercise to complete, then we can have a discussion around what's best for us to undertake. So the options could be, like I say, they range from one end to the other. It all depends on what they are at this point. I just can't talk about it because I don't have that. It's not been concluded.

Jarick Seet (Maybank): Understand. And then one two quarters back, we were talking about Famous Holdings that is supposed to be likely for sale as well. How's the process ongoing for that? Because I could see that there's a lot of treasury shares transfer here and there. The process of that sale - is it still ongoing or…? I saw there was some shares transferring here and there in the announcements.

Vincent Phang (Group CEO): So there are two parts to this. The first part is we've always had a longstanding litigation with… it's a legacy heritage issue that we have. So that part has completed. It's quite technical. So basically once this litigation case is completed, we have a full and final settlement, then there's no confusion around the 100% ownership that we have on the business. We never had doubt on that. It's just that while the case was ongoing, it was always going to be a bit difficult. So there's no more distraction because this is absolutely clear.

As for the process, Famous, I can also confirm it's one of those that we are looking at, and once again the process is still ongoing, so we're just awaiting the conclusion of that process. Then we can update them.

Jarick Seet (Maybank): This process is different from the Australia business one; it's a separate one, right? And that one you are looking also to conclude by year end, is it?

Vincent Phang (Group CEO): Hopefully soon, hopefully by year end.

Jarick Seet (Maybank): Then I've got one last question for Vincent. Your finance cost right for the first half is about $24.5 million which is quite high as compared to previously I think the guidance was around 3.5% finance cost. But if I was to annualise this or, I mean is it okay to annualise this? If I were to annualise this, then your finance cost is about 5.5% which is way above the 3.5% overall blended finance cost. So just want to check why is there such a big increase in the finance cost.

Vincent Yik (Group CFO): The 3.5% is a Singdollar bond, the notes that we issued. The higher interest cost is primarily from the acquisition of Border Express as well as the upstake in FMH, so those were funded by Aussie dollar loans onshore in Australia. Those were typically at a higher interest rate; clearly Australian loans are at a higher rate as well.

Jarick Seet (Maybank): What rates are those? Roughly?

Vincent Yik (Group CFO): Ranges. It should be anything between slightly north of 5%.

Jarick Seet (Maybank): But now your total blended is about 5.5.

Vincent Yik (Group CFO): Between… depending on which tranche, it should be between 5 to 6% thereabouts.

Jarick Seet (Maybank): Yeah, but let's say even if I take 6% right, now your blended total effective cost is about 5.5% if I were to annualise the first half based on the $900 million debt you have right. So you take 40, I mean $24.5 (million) times 2 is $49 (million); $49 (million) divided by $900 (million) is what 5.5%. So it's still on the high side. It doesn't explain why, it don't make sense, know what I mean?

Vincent Yik (Group CFO): Sounds a bit too high.

Jarick Seet (Maybank): Yeah. Yeah. But you see your finance cost in the first half is about $24.59 (million) as reported. So your debt is $500 (million); let's say I just round it off to $900, eight nine plus, right? So if I were to annualise, this is $49 million interest expense a year. It's still a bit too high.

Vincent Yik (Group CFO): $49 million over $100 million, so it's just about 5%, slightly north of 5% is about right. Perpetuals is not under interest income; perpetuals will be under distribution… Yeah. It's about right. So I have a variety of loans. Predominantly, in fact the Aussie dollar loan is more than the Singdollar loan.

Jarick Seet (Maybank): So the Aussie dollar loan is roughly how many percent of the total loan?

Vincent Yik (Group CFO): The proportion should be about 65:35 thereabouts.

Jarick Seet (Maybank): Then also wrong because if I look at 65:35, let's say 65% is at 6%, I give you the maximum 6% and 35% is at, let's say, 3.5%. Your blendage used to be about 4 plus percent.

Vincent Yik (Group CFO): Your Singdollar should be a little bit lower than, should be about 3%.

Jarick Seet (Maybank): Then it's worse. So let's say 35%, I take 3%; 65% I take 6%. Just do a simple math, it's only about 4, 4.5 and below. Is there some facility upfront, some cost upfront.

Vincent Yik (Group CFO): Yeah there is some also, there's upfront amortisation of the fees, you're right.

Jarick Seet (Maybank): So we annualise this number for finance cost, is it correct for the full year?

Vincent Yik (Group CFO): Correct, just north of about 5% is correct. The fully loaded cost is 5 to 5.5%.

Joel Siew (DBS Credit Research): Just curious about the Australia business. I thought that was actually part of your core business given that you keep acquiring in that area. I'm just wondering are there core businesses that you can't or won't divest because it seems like I thought the strategy was growing in Australia but now there's some thoughts of divestment.

Vincent Phang (Group CEO): Yeah, which is why I answered the question earlier. We haven't concluded on what are the strategic options we will take. That's the reason for the exercise. So I think we cannot at this moment rule out that there are other possibilities. You will have seen from the way we segmentise and we report in Singapore, Australia, International; these are the markets that we consider core to us and these are important to us. So you can't link one to the other to say that just because there's a strategic review that's ongoing then that we've made our minds on what we want to do.

Let's say, like I say, having an idea of what the near-term options and strategic pathways are available to us is illuminating. Whether it's by way of a partnership, whether it's by way of a minority stake divestment or if you take it to the other end it's a full divestment, it all depends on what is the value that such an asset can generate for us, what options are available for us. So once again, I'll just say we need to have the patience to let the process conclude itself before we can have a discussion around what are the best outcomes for us in terms of taking it forward.

Joel Siew (DBS Credit Research): Are there stuff that you actually can't divest. I'm just wondering, Singapore, partially is your name and partially would be government regulations.

Vincent Phang (Group CEO): I think we've been quite specific last time we had this discussion around what we consider non-core, and if it's non-core, then once again the definition of our business is going forward we like to shape ourselves as a pure play logistics operator. So anything that's outside of it goes, non core. Then again even in the sense of what's our core strength? Our core strength has always been postal which means a strong C element, a strong delivery element so we want to focus our energies on making sure that is supported. So that sort of gives a bit of colour around what we would consider maybe on the periphery of our business and those are the non-core assets that we will start to look at. And that will explain a couple of the decisions and even in the short discussion we had, we talked about potentially freight forwarding, potentially all the minority investment holdings that we have.

Joel Siew (DBS Credit Research): Is 4PX on it?

Vincent Phang (Group CEO): 4PX is a different discussion all together, right. And 4PX as you know is a partnership that we have with a far bigger partner; we are only in a minority position. So, that has a journey on its own that has a strategic outcome that will probably be pursued by the major shareholder. That's something that I guess is driven by those kind of strategic considerations.

Joel Siew (DBS Credit Research): I think there's a put?

Vincent Yik (Group CFO): Not so much. I think we have already announced the option together with Cainiao.

Joel Siew (DBS Credit Research): The put is on your end?

Vincent Yik (Group CFO): Put and call.

Joel Siew (DBS Credit Research): I just had some additional questions.Just wondering what was the ecommerce growth excluding the one-off, year on year excluding one off COVID delivery.

Vincent Yik (Group CFO): I think in terms of absolute number year on year, it has been relatively steady. So there has not been significant growth year of year in terms of the SG ecommerce if you take out the one off.

Joel Siew (DBS Credit Research): So revenue should be roughly flat?

Vincent Yik (Group CFO): Revenue is not, revenue is up. So the reason why that's up is because for each delivery we have been able to be a little bit more competitive with our pricing, be more aggressive in our pricing. So that has been helpful. The postage uprate obviously has brought the level up across all the products as well. So for every delivery, we can price a little bit more aggressively as well. So revenue is up while volume is relatively flat.

Joel Siew (DBS Credit Research): I see. My last question is regarding forwarding. Just wondering, how much control do you have over the costs? Noting that your revenue actually rose but your margins.

Vincent Yik (Group CFO): The biggest chunk of the costs is of course the conveyance cost. The shipping rates are up significantly over the last, or it has moderated a little bit in the second… recently, but has been quite elevated in the first quarter.

Joel Siew (DBS Credit Research): Just wondering how does this… do you go to the shipper first then advertise those rates to your customers or?

Vincent Yik (Group CFO): A little bit of both. It depends on which country and which part of the business. So there are some which we buy in bulk and then we consolidate for the customers. There are some we ship for the customers then we go and contract for space. So a bit of both. Yeah. So depending on which market, which country and which part of the business, there's a little bit of both. So it's not only one type.

Joel Siew (DBS Credit Research): Probably from the demand side then you look for cost that's why the margins come off.

Vincent Yik (Group CFO): Both. So what we have seen is both demand and supply are under pressure as well. While volume has declined, there's also an issue with capacity. So depending on which lines they are as well - certain lines there are excess capacity; certain lines because of all the geopolitical issues while there may be capacity, the cost has gone quite a lot higher as well. Generally in most cases we have been able to pass on these costs to the customers so our spreads are pretty consistent year on year. So generally we can pass on this cost. But there's usually a lag so you can't pass on immediately so if there's a short-term spike generally, we have to be a bit more careful. So you will see that come through but it usually normalises over the rest of the year.

Joel Siew (DBS Credit Research): My last question is regarding the US elections, it’s on everyone's mind. Will tariffs affect you and are there opportunities or threats in this situation?

Vincent Phang (Group CEO): Definitely there are changes and all the stuff that you see going on with our business as we get global is all these effects that come through. So the effect that comes through and affects us.

So if I speak generally, for example, why is it that the international cross-border ecommerce business is facing some headwinds. Because countries are putting up tariffs , they're removing the demands, for example all these import taxes, and you may have read this in the papers, the US is quite aggressive with these things, and that will affect the kind of inbound volumes that companies like us can move right.

So as I said earlier, our core strength I suppose is delivery on a unit basis, right - we deliver individual parcels, we deliver through the network that we have. We are of course on a sea freight business, a freight forwarding business. We have a small part in moving things by containers but these are completely different supply chains as you can imagine, so if tariffs hit the import charges of individual parcels, then the supply chain will morph and evolve into a more prepositioning - put up a warehouse in the country where you intend to distribute. So it will not be as, well, that's not our core strength right, that's not what we do in this game. That will then change the kind of volumes and the revenue mix that you can start to see. So those are some of the impacts that we believe will hit us.

In terms of the other geopolitical or macroeconomic issues that will challenge us significantly, going to the point on debt and interest rates. At the start of the year, we did think and we did at that point in time had a strong belief that perhaps the Australian interest rate environment would moderate far quicker. It hasn't, so you can see that in a lot of markets the numbers are pulling back. Australia hasn't started yet so we wait in anticipation for that. So those are the key needle movers that can change the results very significantly in a positive way.

The issues in the Middle East continue to challenge shipping rates and our ability to pass on to customers. We're watching this peak with some anticipation, this year-end peak. There's some talk within the industry that it could be quite soft just because of excess inventory and also people's buying power being affected by all these years of high interest rate burdens. It all remains to be seen what happens in the US very very soon.

So a mixed bag of positives and negatives for us. We just have to see. In terms of a more globalised, a more diversified business does provide us with a bit more opportunity to be resilient, I suppose. So you can look at the numbers of what we have.

If you allow me to talk a bit about the Singapore business. It is a bit softer. I don't know if you all feel the same. Personally, I feel that maybe people are just buying less because, why? There was a report today in the papers, Business Times, that show the digital economy in Southeast Asia is also moderating year on year. You can also see the ecommerce aspect of the digital economy; it is not shrinking but it's not growing as rapidly as it has been through the COVID years and post the COVID years.

There's certainly a little bit of a, I wouldn't say contraction but moderation in terms of growth expectations. Most players are switching to yield focus rather than just growth at all cost. Same for us. We want that. That explains the volumes.

Our average selling price, glad to report, has improved. As Vincent mentioned, our floor is always the postal postage rate, letters. If letters don't increase, then everything else is on top of it - parcels and packages and all that. So the fact that this floor has been raised has enabled us to make certain changes with our rate structure for the unregulated parcels and ecommerce space.

So we're looking at yield, we're also looking at a better return managing our capacity, just pursuing what is meaningful rather than casting it too wide. So those are all the changes that we are… we continue to make in our supply chain just be more focused on getting a better yield than anything. So that kind of explains a bit more color than you asked but thanks for the question.

John Cheong (UOB KayHian): Can I follow up slightly on the question with those divestments. Assuming you receive like say $500 million for a divestment, what will you use these proceeds for, like pay down your debt, and then you got shareholder… what kind of priorities or allocation?

Vincent Phang (Group CEO): I can speak generally about it because we haven't had… I guess the board will have to speak about how we deploy the proceeds. But as you can see from our balance sheet, and we take everybody back to say a couple years back, through COVID we had a very fundamental change to the makeup of the business - the volumes, the cost structure, letter volumes, our traditional business being heavily impacted and clearly we had some firepower we needed to redeploy the resources and try to build a more resilient business.

Fast forward a few years, Australia, which is the market that we put focus and interest into, has generated a significant return to the business and we are now, say, top four of any logistics providers in Australia so we're quite happy about. But it did come at a cost right and especially with the interest rate environment, we did take on a fair bit of debt to achieve that scale, so we're always very mindful of that ratio that we have. So I guess if there's any proceeds that we can get from any of these divestments, first order of the day would be to pare down the debt that we have. Hopefully at the same time the interest rate environment will moderate and will be helpful but still it's a burden that we want to remove as soon as we can. So I speak generally that will certainly be one of our priority areas.

If there's any significant return from any proceeds that we generate, I mean clearly as any company would do that, we will look at, the board will certainly look at some distribution. I'm sure that will be on the cards. That will be something to be discussed in time.

Jarick Seet (Maybank): Will the split be 50:50 or what's in the mind of the board?

Vincent Phang (Group CEO): First of all it depends on how much money there is, proceeds and we still have a heavy debt burden that we want to square off. In any way, I think that, the fact is directionally it certainly returns value to shareholders one way or the other right. Either you trim off the interest or you trim off any other liabilities it'll be also accretive to shareholders, not just as a distribution.

Jarick Seet (Maybank): So just on the Australia debt right, it's floating rate or is it fixed?

Vincent Yik (Group CFO): Mostly fixed.

Jarick Seet (Maybank): For one year or …?

Vincent Yik (Group CFO): No, for three years.

Jarick Seet (Maybank): So even if the rates come down, it won't really impact you all?

Vincent Yik (Group CFO): So the Australian rates typically is just north of 5% generally. We've been able to price it relatively well. We've been able to get most of the loan (unclear). Can be redeemed if opportunity comes out, it can be redeemed but bear in mind that we also use the Australian loans to provide a FX hedge to…(unclear)... risk of the underlying assets as well so you want to keep that in place to make sure that you don't lose out. So we have seen quite a fair bit of exchange volatility over the last few years. It's been stable the last one year but prior to that we have seen that up down quite a bit so our loan is actually quite useful to offset against that. That was a good hedge against FX movement.

Jarick Seet (Maybank): Currently your cash is about $400 over million. So if your interest expense, your interest income is less than that of your Australia debt, then why are you still keeping so much cash on the balance sheet? Because it's about more than half of your debt.

Vincent Yik (Group CFO): So there are a few things… from a currency carry perspective, it was actually positive until quite recently, so that has narrowed a little bit. Another reason for the cash also because we do have short-term liabilities… for example the FMH upstakes, we were able to fund from cash as well. So we can't just fully deploy or leave all credit. There's a current ratio that we also look at…to make sure that you have sufficient current assets to pay off.

So there are a few things, and in any case, to this point, when we look at debt, we always look at net debt so that's quite useful.

Peggy Mak (Beansprout): Three questions from me. One, is Famous Holdings profitable?

Vincent Yik (Group CFO): Yes it is.

Vincent Phang (Group CEO): That's the freight falling business.

Peggy Mak (Beansprout): Is it less profitable or…?

Vincent Yik (Group CFO): So this year, due to the, you can see, due to the compression, it has come down this year, so margins have compressed this year. It has been more competitive.

Now this is coming off a couple of really pretty outstanding years from COVID. So through COVID, two things happened. So generally we have a pretty good spread over, we can charge a good spread over the cost. So basically whatever we can charge, we can pass on. That has narrowed a little bit post COVID. During COVID, we could charge a premium so that was well. Now the second thing about COVID is rates in itself have increased significantly. So you are paying, let's say, 10 10x of what you would have normally paid, so while the spread remains the same, the absolute number was a lot higher. So that has eased off post COVID, so this has normalised. Not quite back to pre COVID, we are probably relatively close to pre-COVID level but easing off. So the two or three years of COVID was really quite outstanding.

Peggy Mak (Beansprout): It's all from Famous?

Vincent Yik (Group CFO): Mostly, yes, all from Famous.

Peggy Mak (Beansprout): Second question, is company level balance sheet is that all your Singapore business? Whatever you cross under Singapore, is that all represented?

Vincent Yik (Group CFO): Company level, not necessarily. Because you will have other investment SPVs that is not part of this group, not part of the company level.

Peggy Mak (Beansprout): Next question is, because when we follow your FY24 annual report, the classification is still in the old format, so would you be able to provide us with your FY24 classification according to what the new classification is, so we know the breakdown?

Vincent Yik (Group CFO): In terms of balance sheet or in terms of P&L? The balance sheet shouldn't have changed. P&L? The analyst slides, if you go to (slide 7), is this the one? You're talking about this one? Yeah.

Peggy Mak (Beansprout): Can we have the full year numbers so that we can…

Ong Khang Chuen (CGS International): For the new segment breakdown because currently you only provide the first half.

Vincent Yik (Group CFO): So you want the full year segment for prior year. Okay, I think we can.

Lleyleythan Tan (UOB KayHian): Just one question. The Australian business, the operating profit, if you stripped out Border Express, did it grow? Are you able to share what's the quantity?

Vincent Yik (Group CFO): So if you strip out Borders Express, just on organic, you look at it from two components. You got to split what is the 4PL or coordination business versus what is 3PL linehaul services. The 4PL business was relatively, relatively flat year on year, slight growth. But the 3PL business has declined primarily from pressures in the market. So it was a pretty challenging B2B or in fact it's more challenging B2C so that has come down quite a fair bit as well in the overall market. But otherwise, overall it is slightly down year on year.

Lleyleythan Tan (UOB KayHian): But are you able to share how much is it from Border Express?

Vincent Yik (Group CFO): In terms of Border Express numbers…

Lleyleythan Tan (UOB KayHian): Just for the operating profit. Just curious what's the breakdown. Maybe just a ballpark percentage, maybe that's better. Do you have it?

Vincent Yik (Group CFO): I have it but because we have not shared this so not quite sure.

Lleyleythan Tan (UOB KayHian): Because last year, you shared the full year. So we can estimate one, if I estimate from what we were given last year, it seems like quite a big fall for the organic business instead of…

Vincent Yik (Group CFO): The organic business from the 3PL, the 3PL did come down.

Jarick Seet (Maybank): You don't have to roughly percent of how much it came down by? Maybe easier then.

Vincent Yik (Group CFO): In terms of percentage, you just let me work through mentally what are the numbers.

Lleyleythan Tan (UOB KayHian): Does that mean that, the next question, will next half be better? Is there seasonality like the postal business from the Australia side?

Vincent Phang (Group CEO): I mean generally, the business is seasonal in nature, So, generally the seasonality continues to be there, right. So, all things equal, the second half generally is a bit more positive for us. We have this third quarter that is peak, hopefully that holds. But like I said earlier that there is concern that the peak may not be big and this industry wide right, this is not just hitting us alone. It's just, some markets are technically in recession, we just don't know about it. And one of the markets that we are concerned about is, although it's been very resilient, the Australian market is showing some signs of consumer pullback.

Vincent Yik (Group CFO): Yes, coming back to breakdown, I'll give you a percentage terms. So in terms of the 4PL business year on year, it is up roughly 15% for first half this year versus first half last year, just under 15%. If I look at 3PL business, in totality it is up by about 55% year on year; that includes Border Express. So if you remove the impact of Border Express, it is down close to 20 ought percent, close to 30%. OP.

Lleyleythan Tan (UOB KayHian): But forex, I guess the exchange is the same?

Vincent Yik (Group CFO): Yeah, relatively flat year on year. Aussie dollar this year has been quite high.

Paul Chew (Phillip Capital): Can I ask, you separated out the post and parcel, and you have this post office network. What revenue is, can you actually get from the post office or is it just a cost centre?

Vincent Phang (Group CEO): Good, let me give a bit more colour, and that's the reason why we wanted to show this slide and to offer you the breakdown here. So what is the post office. How many of you have been to a post office?

Paul Chew (Phillip Capital): Collect passport.

Vincent Phang (Group CEO): Collecting passport is not a postal service. So if I may… So through the years, we've always had these post offices around the country. As of now as we speak, we have been target, on a targeted manner, reducing where we think we can combine. So if there are a couple in the neighborhood, maybe we just consolidate. So we are up to 40 over post offices. You can see that comes through in the numbers, it’s improved.

But there's no reason for the post office network to have lesser losses unless we operate less of them. Every single post office is a loss leader. What do we offer there? The regulated postal services that we must provide are stamps, letters, registered letters, parcels on the postal network, stuff like that. What's not regulated? A lot of the periphery things like you mentioned passport, that's not regulated, that's not required. But through the years we have obviously offered, the fact that we have counter services, to bill payments to passports, a range of different services, and people tend to get a little bit confused with whether that is required from the postal business or not.

So we've been very decided in making sure these are clearly marked out - what's an obligation and what is a periphery that we pick up, and then with that lens we can then start to see whether the periphery business actually adds to the overall financials or not, and then we can take some decisions there. So we've been respectful and sensitive to what the public has come to expect of us, and clearly in managing this change, we would like to seek alternate touch points. That's why we said the, finalising the new operating model of post offices requires us to demonstrate a number of alternate touch points that we can support the rest of the community with. And this is not all postal services. Some of it is all this periphery stuff that we've offered all this time along the way. So that is the reason for this.

You can see that from a revenue standpoint, and you look at the loss, you can see very clearly, the delivery business is our core business. We deliver stuff. The post office exists. I guess through time it has always been there because it is the touch point for postal deliveries. You buy stamps. Going forward, there are less of those. Going forward, you also have alternatives to buy stamps through our kiosk. You do not actually need to go to post office. So once we have all those alternate touch points being set up, then we can start to be, I guess, a bit more decided in reducing the number of post offices without affecting the service that we provide to the community. So going forward, I think this number is the one that we need to watch. This number will continue to reduce. It will have to reduce and not be a burden on the delivery business otherwise.

Paul Chew (Phillip Capital): The 40 that you… how much is rented, how many do you actually own?

Vincent Phang (Group CEO): So there are three types of post offices we have. The first is the very traditional SLA properties. Those are dedicated to utilities and we had them all this time, so those are owned. You may see that in some of these SLA properties, we also have periphery activities like lease out space to operators of childcare centres. Another type is HDB post offices on the ground floor, void deck type of HDB shophouses. Those are majority owned by us. And then finally we have a bunch of leased post offices and those could be malls or any other commercial setups.So there are three types of post offices.

Jarick Seet (Maybank): Do you have the breakdown of the number of each of those three types that you mentioned?

Vincent Yik (Group CFO): Slightly more than half are owned. More than half are owned.

Paul Chew (Phillip Capital): Is there a fixed assets amount in the balance sheet from that? Do you separate?

Vincent Yik (Group CFO): Typically most of those properties are under PPE, it's under the fixed asset line.

Jarick Seet (Maybank): Do you mark it to market price or book value?

Vincent Yik (Group CFO): Generally it's at cost.

Jarick Seet (Maybank): Cost. And will you be looking to realise or sell some of these assets in the near term?

Vincent Phang (Group CEO): Once again if we don't need them, the first order of day is do we actually need 50 or 40 something, right, or less, right. The finalised operating model will give clarity on what is this number. I expect that number to be significantly smaller and once that number is achieved and agreed upon with the rest of the touchpoints that we can offer a lot more cost effectively, for example, our tie-ups with all these supermarkets and all, then we can release the properties. So, if there are leases that we no longer need, then we will discontinue them. If there are owned properties we don't need, then clearly, we deal with it.

Vincent Yik (Group CFO): Also bear in mind that a lot of those SLA properties are designated postal for postal use. So they are not commercial properties, certainly not residential. So there is the limitation in terms of the valuation uplift.

Jarick Seet (Maybank): Can it be converted?

Vincent Yik (Group CFO): Well, you got to pay an addition if you need to, so that's one consideration and also depends on what is the ultimate use for that area. So you may not also readily be able to sell. But that is only for the SLA properties and it's not consistent across all. It’s really very specific to individual properties. So there's no one thing. Every property needs to be assessed. But that is different from the HDB properties - HDB properties are pure commercial. So because it's pure commercial, it's readily available for sale, easy to trade.

Jarick Seet (Maybank): So for example the one at Tanglin, right. That one has like mixed development.

Vincent Yik (Group CFO): That is commercial. Tanglin is commercial.

Vincent Phang (Group CEO): Killiney for example. Those are the more iconic ones.

Vincent Yik (Group CFO): Killiney is postal use but with a change of use for a portion of the property so it's a good example. Killiney technically is postal use but a portion of that property has been converted to commercial so we pay a land premium on that portion that has been for the period that is leased out.

Jarick Seet (Maybank): So for example, what's the rough premium you pay to convert?

Vincent Yik (Group CFO): It depends on the market price. So for that particular property, it's paid by the tenant.

Jarick Seet (Maybank): Is it a big amount?

Vincent Yik (Group CFO): A big amount. Because it's a differential, it's a land differential between commercial and postal use.

Jarick Seet (Maybank): Then for this SingPost Centre, is designated for postal use or is more like a… For example, let's say you want to sell SingPost Centre, right, then the next person who buys it, let's say if a REIT buys it, it will probably be looking at doing some asset EI to improve floor space or whatever. So for this building, for example this property is there any percentage that is for…?

Vincent Yik (Group CFO): So strictly speaking the title for this property is commercial. It's commercial with postal use. So there is a higher chance of converting. But this building has got … is commercial but there's three different land use. So there is a commercial which is about 400 ought thousand square feet. There is about a portion that is about 250 (thousand square feet) that is retail and another 400 that is industrial. So the industrial one is at the moment designated as postal use. So there are different use in this property.

Jarick Seet (Maybank): So assuming that you were to sell this property in the future, how will it be priced then? Let's say, the commercial unit, you can sell the commercial…

Vincent Yik (Group CFO): Can sell everything. Can sell the whole building.

Jarick Seet (Maybank): But then the buyer will have to then reapply the logistic use to be converted to something else or don't need to? Or can just be logistic but for other logistic use not just for postal.

Vincent Yik (Group CFO): Yeah, I think at the moment…the commercial and the retail, no issue. It's the industrial part that is not so clear. So the industrial part at the moment is postal use. So if there's going to be other use for it, then they have to apply for a change of use. Not strictly change of use as it is industrial. You can't convert it to a commercial for example. But you'll have to apply to use for another industrial property.

Vincent Phang (Group CEO): I guess the relevant question is, do we need this property? The relevant question to all that you're asking, if I may, is do we really need these properties to do what we need to do. So if we need, then what we need is part of the operating asset, it performs operating function. If we do not need, for example, post office, we don't need, then it will be available and then we will decide what we want to do with it, either we let it out and top up the premium, let it out for some other commercial use or we divest it, right.

The same for this building. So the relevant question is do we really need this building to perform the logistics function that we perform. And bear in mind we do have another asset in Tampines which is more geared towards the ecommerce space. This asset has always been for mail and for those who have had a chance to visit, I don't know whether you have, these are all the mail sortation machines which is just downstairs from us. With the reduction in the amount of mail deliveries, we can certainly downsize that footprint to an extent that I think you have heard us talk about the postal and logistics business is increasingly a synergised business. We're delivering the same thing through the same network. So it does make sense for the properties to be consolidated at some point in time. So the question is do we consolidate here or do we consolidate there? So if we consolidate there, then this becomes, answers the question, it becomes available. It becomes available then we'll seek the necessary approvals for divestment, seek the necessary approvals for, for example topping up the premium. I can imagine, whoever buys it will probably want to get the assurance that the authorities approve the sale so we move out then this one can be redesignated for something else. So I think that will be the journey forward if at all.

Jarick Seet (Maybank): So once you formalise the thing with the government, then you will be able to do all this, right?

Vincent Yik (Group CFO): There's quite a fair bit of options. So for example, even currently we have part of the building that is actually designated industry use but we have been able to convert it to commercial use by paying a premium and then therefore able to increase the leasable space.

Jarick Seet (Maybank): The valuation for this building is about one plus B right?

Vincent Yik (Group CFO): $1.1 (billion).

Jarick Seet (Maybank): And the debt is fully paid out?

Vincent Yik (Group CFO): There's no debt that's assigned to this building.

Joel Siew (DBS Credit Research): $1.1 (billion) doesn't include the postal, right, at one side.

Vincent Phang (Group CEO): It's just this building.

Joel Siew (DBS Credit Research): How big is the mail part as a percentage? I mean size wise.

Vincent Yik (Group CFO): So hang on. In terms of valuation, the $1.1 (billion) is the whole thing, including the mail portion.

Vincent Phang (Group CEO): That means the commercial, the retail and the industrial.

Vincent Yik (Group CFO): $1.1 (billion) is the whole building.

Joel Siew (DBS Credit Research): The industrial is how many percentage of total size, the floor size?

Vincent Yik (Group CFO): It is roughly 40:40:20. So 40% industrial, 40% commercial, 20% retail.

Joel Siew (DBS Credit Research): So assuming this 40% industrial can be converted into commercial or anything then uplift could be quite significant.

Vincent Yik (Group CFO): Not likely you can convert the entire 40% to commercial. You can convert probably a portion of it but not the whole. So at the moment we have only converted the portion that we were leasing for the period of the lease.

Vincent Phang (Group CEO): So part of the uplift you see in our property improvement is we have a major tenant that moved in. We converted five years, and the land use changed and then on top of it, that rental. So it was still beneficial, you can see that there's a certain reason to do it.

Jarick Seet (Maybank): But based on valuation of property then the retail and the commercial segment will be more the majority of the valuation of property, because the pricing is very different.

Vincent Yik (Group CFO): So just for comparison's sake, industrial in this area you probably get anything between $2.50 to $3 per square foot for industrial use here, depending of course the (unclear), the cheaper one is $1.80. But commercial can go anything between $5.50 to $6 to $7 depending on where and what, so you can see the differential. The premium you add on to it is typically about 60, 70% of the difference so there is an uplift.

But more importantly because our commercial in this building is almost 96, 97% leased out so we don't have a lot of space left. Where else the industrial, as the volume reduces, we free up more space. So then whatever is vacant, we can then try to convert. The only challenge we have is because the postal area is generally restricted area, so we cannot allow public access so there are logistical issues to try to sort out. So it's not as if we convert everything at one go. So you just need to be very careful, certain areas you can progressively convert which we always try to do to maximise yield.

Nicholas Yon (LimTan Research): If eventually you fully move out right, can you in theory convert the whole thing into become…

Vincent Yik (Group CFO): That's a discussion to be had.

Nicholas Yon (LimTan Research): Because this location, doesn't make sense to use as industrial. It's so near to the MRT, it's a waste of space.

Jarick Seet (Maybank): I also got one question is how much, if you were to convert from industrial to commercial, what's the top up fee per square foot that you have to pay?

Vincent Phang (Group CEO): Case by case. You'll have to go back to URA.

Vincent Yik (Group CFO): There's a Bala's table that you can check. It's now called the land betterment charge. It's called the differential premium.

Vincent Phang (Group CEO): But what's been helpful is the consequential benefit, because with the major tenant, not small, roughly another thousand people in here, the tenants of the retail mall and then that is the benefit to us. Then on the rental reversions, we can also get a better share from it.

Vincent Yik (Group CFO): It's a visible difference when you come for lunch and try to get parking.

Jarick Seet (Maybank): Parking is actually more tough now.

Peggy Mak (Beansprout): So sorry. For the Singapore postal business, after the rates were raised last year, the delivery business is profitable?

Vincent Phang (Group CEO): So you see that the last line, right, logistics. So we don't break out the operating profit for mail and ecommerce. We break up the revenue, you can see. But OP, because it's run on the same network, it's not sensible to break out. So the number is a combined number. But you see last year, the figure was negative $5.8 (million), so that was a loss. But the postage adjustment plus the benefit of the increased average selling price for ecommerce, that has come close, so it's $9.1 (million), profitable, profit.

Vincent Yik (Group CFO): It's quite significant, you can see the revenue uplift.

Peggy Mak (Beansprout): This just a follow up question on that one. So if I look at slide 7, on this right hand side, Post and Parcel, because for full year last year, it was a loss of, it was a profit of $7.5 million. So it looks like second half last year was a very sharp jump in profitability.

Vincent Yik (Group CFO): It's because of the postage uprate. The postage uprate was on October the third or fourth.

Peggy Mak (Beansprout): So this first half is actually a smaller than last year's second half? Is it seasonal?

Vincent Yik (Group CFO): Yes, of course. our second half is typically much stronger than our first half.

Peggy Mak (Beansprout): Very very strong.

Vincent Yik (Group CFO): Because you have all the peak coming through the second half from black Monday to, Black Friday to Cyber Monday to Christmas to eleven eleven. So, it's typically a lot stronger in the second half. Although we did say just now that market outlook, you need to probably be quite careful around it. We are starting to see a fairly muted peak coming through. So wait and see.

Selena Chong (VP, IR): So we have time for maybe just one last question.

Ong Khang Chuen (CGS International): I'd like to follow up on my question last quarter regarding the synergies that you are looking to derive from your Australian operations. So wondering if you can share more this time round on what you're hoping to derive in terms of synergies both on the revenue and cost front, and timeline for it.

Vincent Phang (Group CEO): I'll have a stab at it and Vincent can add a bit more colour. So the first order of day is to integrate Border Express, CouriersPlease. Let me give some background to what that means.

At the core of the Australia business is the 4PL business or we call the Managed Services business. So put another way, it's the traffic controller. They go out there, it's an asset light business, we get contracts with customers and then we direct the traffic to the partners that we have, not owned by us. So we have two hundred over partners, trucking companies, so on and so forth. And we divert the traffic to all these partners to get the job done.

Once we integrate our own 3PL, our own 3PL network will constitute a small fraction of the entire network where we have access to the partnerships and Border Express is quite significant to it. It gives us an opportunity to then divert some of the traffic to our own businesses liek Border Express and the 3PL business that we have.

The other part is also CouriersPlease, our B2C network. So for the first time we now are able to offer a singular solution to our customers, whether you want to get something sent to your shops nationwide in Australia or you want a portion of it to be delivered to someone at home. So we can offer that as a one-stop shop solution to our customers. So that's on the revenue front. How do we make sure that we get the revenue benefits from these.

And the second part is also the cost part, which is the sensible things around leases, warehouses. Now that we got this network, consolidate, those will be timed accordingly to the lease expiries. There will also be cost opportunities. It could be as simple as buying vehicle tires for the entire group now because now we are a few hundred vehicles because there are 20 here, 50 there, right? So you start to get some group purchasing benefits as a result.

So the low hanging fruits of those things that we can address we are starting. For the broader benefits of switching up the back office, so many different teams that we can try to consolidate, those will take a little bit more time. But what I can say is for the first half, we have been maybe a bit more cautious with the approach of trying to force fit things and to get synergy so quickly.

So we have achieved the target we want but the target is quite modest. It's not a huge target. We expect that to ramp up within in the second half and ultimately in the next year the numbers will have to go up. So we are identifying all those opportunities. I want to be cautious now so I won't give you exactly how much that is but what I can say as a narrative is, for a business that's now $1.4 billion Aussies in revenue right, clearly the synergies cannot be one or two million. There must be something in it but just to be cautious I won't give you an exact number yet.

But we are working on the timeline to get all that achieved. Part of it is also the strategic discussion, the strategic view that we are looking at. So how do we look at all the puzzles of synergies, how do we extract them, how do we aggregate them, and what are those options for us in terms of strategic outcomes, like what can we do? So once again I ask for your patience, once we are done with the whole exercise, we have a bit more color to provide to the market. Anything you want to add?

Vincent Yik (Group CFO): I suppose in terms of the numbers coming through here, the numbers from the synergy are still very small. It is expected to be a hockey stick, to come through over the next three years.

But what we do see, it's a lot easier to move revenue synergies immediately. So that's quite useful. Other than common customers, there's also sharing of customers, multiple dips of the same customers. The other one is capacity. So we have been able to move very quickly, volumes that were otherwise … move volume to external parties, now we can very easily pick that up and do it internally which we never had pre Border Express. But more importantly, we can now load more into each truck as well so that is straight through to the P&L. So that one I think we've been able to pick up fairly quickly in terms of revenue uplift.

So that was actually very helpful for Border Express' business. It has done remarkably well first half although the synergy from savings, the cost savings, is not there yet because we're running two sets of costs. But in terms of revenue synergies, that has been quite good.

Ong Khang Chuen (CGS International): So in terms of revenue synergies in Australia, should we be thinking about, for example, Border Express revenue growth over the next three years as you continue to drive through? So what can the potential uplift be over the next three years, when I think about Border Express' revenue growth?

Vincent Phang (Group CEO): Without going to the numbers, you can see some of that growth in Border Express alone since our acquisition has to do with us sending traffic that way. So that benefit is really coming through. Once again, it's a good question, your question is spot on because that was the investment thesis. We invested in Border Express precisely because we saw the revenue benefit, the synergy benefit that we can get out of this and, high level, I can say, it's tracking to our investment thesis at this moment. There has been some softness in the rest of the 3PL that was perhaps unavoidable but where we could try to hit the mark in terms of sharing some of these revenues with the acquired we have, so we hit the mark in the first half.

I think we forgot to mention as well there were some dual run costs in our Australia business as a result of, because of the growth, right, we had to make some decisions around, for example, warehousing, depots. So there were some dual costs that were embedded in the numbers here. It goes straight to the P&L but I guess through time that will (unclear) because maybe a spike in cost due to the growth, it was just necessary.

So the next few years, we should be on track with all those synergies. Given what we've identified, we have a team that's set up specifically to get synergies, incentivise to maximise the synergies. So that's what we are focused on.

Ong Khang Chuen (CGS International): Just one more question on Singapore. With the plans to modernise the postal network, optimise branch network as well as potentially also merging your assets from SingPost Centre to Tampines, what is the estimated opex or capex that you are to put in over the next couple of years?

Vincent Phang (Group CEO): That's being decided at the moment. It all depends on the overall game plan we are doing. I think what are the capex expectations from our side. The big capex potential outlays will be automation. So as we seek to get this benefit, certainly need to modernise and automate the whole sortation a little bit more. It will also give us capacity increases as a result of the sortation capability, so that's one thing that we look at. The other one is the perennial one, which is our fleet enhancement, fleet replacement. So that, there's a usual cost of business as well, more maintenance type.

The numbers, I cannot give you the actual numbers now because we are still deciding on what exactly is the move. But we project, any of these projects need to get a yield not just in the fact that we automate and reduce the number of headcount that we have, it increases the capacity and hence address the market into the future. And we expect that must be very accretive to ROE, otherwise we won't do it. And then we will have to come from the consolidation and the freeing up of real estate for example.

Jarick Seet (Maybank): Sorry, I got two last quick questions on my end. Okay, so if I look at your results overall, I think your results is quite hampered by mainly your finance cost. It was higher than expected. But if I were to look at your cash, right, your cash is generating 3% return on your interest income, but your finance cost is 5.5% on expense. So I understand on the current ratio and all these things, but currently I think your cash is still quite a lot, not used as efficiently as it could be. So is there anything that you can do in the second half that could help to narrow this gap because you're really losing out a lot. Your interest cost is already $9 million, 1% is $9 million a year, right. Your profit is $22 million, is more than half of that. Your cash could be used to pay down some debt, that will help to bump up profitability because of the gap. So is there anything you can do on that in the second half, so that's my first question.

Vincent Yik (Group CFO): So the short answer is yes. We are looking at that.

Jarick Seet (Maybank): Any more that you can share, like what could be done and stuff.

Vincent Yik (Group CFO): I mean certainly you look at all the potential divestments coming through. So they are obviously going to have more cash coming through as well. If the divestment happens, when that happens, then we have firepower to pare down the debt and reduce the interest.

Jarick Seet (Maybank): Currently you have $400 million. So with that alone, you should be able to pare down some debt. Or do you want to keep that cash.

Vincent Yik (Group CFO): So let's put it this way. The current outstanding loan, the Singdollar portion is relatively cheap. So we are averaging between 2 to 3%. The Australian interest rate is more expensive. It's probably around just slightly north of 5% at this point. So to his point, there are some amortisations, right. So if you look at that perspective, the current differential between the borrowing cost and my FD rate is pretty low, for Singdollar, still manageable.

But the moment if I use it to pare down the Australian debt, you will then create an FX exposure on the Australian dollar. I would imagine if you look at the Australian property, there is quite a fair bit need to understand because other than the FX exposure, there is an interest, tax differential as well. So bearing in mind that a local Aussie dollar tax rate that is taken in

Australia, taxed at a significantly higher rate than Singapore, so you do want the tax differential to be able to be claimable in Australia as well.

Jarick Seet (Maybank): So you have to sell Australia assets, only then you can pare down the Australia debt. So that's the only way because of tax difference.

Vincent Yik (Group CFO): Tax difference and FX. Typically you want to do that.

Jarick Seet (Maybank): Understand. And then following on your divestment, right. So I would assume that your bankers would have updated you on a weekly basis or at least on a monthly basis on how is the current situation looking like, or the landscape looking like. So just want to understand more on the landscape. I know you cannot really comment on your decision but more on the landscape. Currently are the leaders more looking at a stake, a minority stake? Or are they more looking at taking the whole thing private and then, because normally for PE funds which is a lot that is quoted on the newspaper on AFP, is that most PE funds, they prefer to take down the whole thing and then release it three to five years down the road, right to get that return. So that is on my own view but I just wondering whether from your talk with your bankers, I'm not saying that what your decision will be, but what's the current landscape or what are the current PE funds they're looking for logistic players, like what do they want?

Vincent Phang (Group CEO): The interest from them is positive for us in the sense … my main concern is have, what we feel in Australia - is it attractive, is it sensible, is the investment thesis that we have, the synergies that we say we're going to extract - is that what people see in terms of opportunity and value. So the conversation has always been focused around the strategic benefit of doing something, we're fourth largest in a market that is Australia where there are a couple of big players, how do we fare, what's the comparative element and so on, and so forth. A lot of the focus is on that.

We go back to the genesis of this project. I've said this before, it's good for us to also illuminate this value. What exactly is and whether it's worth 100% or worth 20%, it gives me a (unclear)... And back to your other point earlier, we are also mindful of the debt burden so anything that we do, we have that as **a** priority. How do we pare down some of the debt whatever options we choose, whether it's a part sale or not right, it gives us some firepower to try to reduce the debt burden and also illuminate value on this. So to us, most importantly is debt.

Then we also need to decide, this value hence seen by the market, how do we best achieve it, do we achieve it in time or do we maybe want to crystallise some so those are all outstanding questions to be discussed and we haven't had that chance to speak to all the parties involved. So I just want once again we just need to be patient a little bit, to be patient with me right, the soonest we have any clarity on how we decide, certainly we'll inform the market.

Jarick Seet (Maybank): A follow up on that, they quoted one B for your Australian business. Is that valuation something that is in line or something that is going out of the, any pluck out of the sky kind, or is it in line with what is the current market condition?

Vincent Phang (Group CEO): I say there's a lot of market rumors on what the value is. If they believe the value is 1 billion then okay, at least we have illuminated some number, right if that is indeed the number that is…

Jarick Seet (Maybank): Is it in line with your own personal expectations?

Vincent Phang (Group CEO): The value is whatever value market sees. We believe that we built something credible. We believe that we have been able to focus on strategy and to build value through strategic, programmatic, very systematic acquisitions. And the thesis as I explained earlier is the synergies that with step, every Lego block that we put together, it completes a better picture, and in that light, you can see the value progressing accordingly. When we first got involved in Australia, if you recall, it was just CouriersPlease $100 million. Then when we took the first 28% stake in FMH, it was a much smaller company, it was for another hundred million dollars. Then we slowly ramped up. I don't think we spent a billion dollars for sure, we never did spend a billion dollars and even whatever amount we spent, half of it was debt, more than half was debt, which leads to this other issue that we will address right. But from a leverage standpoint, we will be looking through that lens, how that turns out for us.

Jarick Seet (Maybank): Do you agree with the market valuation of 1B?

Vincent Phang (Group CEO): I can't comment yet because… You can read all this in the press but we need the process to get the actual return from the market.

Jarick Seet (Maybank): And that process I mean the (unclear) completion is end of the year roughly?

Vincent Phang (Group CEO): We should be in a good position, hopefully soon, can conclude this and we can talk.

Jarick Seet (Maybank): For the bankers will just ask them to tender bids, but the bids, is it for minority stake or majority stake? How do they, they just open to everything, is it?

Vincent Phang (Group CEO): That's more confidential so will need the bankers to advise.

Jarick Seet (Maybank): Okay got it thank you so much.

Selena Chong (VP, IR): Thank you everyone for your questions and thanks for joining us today. So we'll come to the end of the session. Thank you.

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