GENERAL ANNOUNCEMENT::STANDARD & POOR'S RESEARCH UPDATE

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SINGAPORE POST LIMITED

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Please refer to the attachment.

The views and opinions expressed in this report are those of the authors and do not necessarily reflect the view and position of Singapore Post Limited.

Attachments

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S&P Global Ratings

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Research Update:

Singapore Post Ltd. 'BBB' Rating Affirmed On Financial Flexibility; Outlook Negative

June 4, 2024

PRIMARY CREDIT ANALYST

Hwee Yee Ong, CFA
Singapore
+65 6597-6193
hwee.yee.ong@spglobal.com

SECONDARY CONTACTS

Minh Hoang
Singapore
+ 65 6216 1130
minh.hoang@spglobal.com

Pauline Tang
Singapore
+ 6562396390
pauline.tang@spglobal.com

Rating Action Overview

- We believe Singapore Post Ltd. (SingPost) has the flexibility to reduce its indebtedness such that credit profile is commensurate with a 'BBB' rating.
- A strategic shift to a more competitive logistics industry outside of its home market has increased the Singapore-headquartered postal and logistics service provider's business risk. The potential sale of noncore assets may also reduce the company's business diversity.
- On June 4, 2024, S&P Global Ratings affirmed its long-term issuer credit rating on SingPost at 'BBB'. At the same time, we affirmed our 'BB+' issue rating on the Singapore dollar (S$) 250 million senior perpetual securities that the company guarantees.
- The negative rating outlook on SingPost reflects the risk of a downgrade owing to the company's elevated leverage profile due to past acquisitions and subdued business conditions.

Rating Action Rationale

We affirmed our ratings on SingPost because we believe the company has credible options to reduce its indebtedness such that the credit profile is commensurate with a 'BBB' issuer credit rating. This is despite a weakened business position, which stems from the company's shifting earnings mix.

Following SingPost's completion of a strategic review, we believe the company has options on hand to manage its leverage. In pivoting toward being primarily a logistics enterprise, the company intends to sell noncore assets and businesses over the next few years. With the reorganization of the group, segments will be split by regions--Australia, Singapore, and International. Noncore businesses will fall under Corporates, including SingPost Centre. We believe the company could allocate proceeds from divestments to reduce leverage.

As of March 31, 2024, SingPost's ratio of debt to EBITDA was 4.1x. Based on our sensitivity analysis, about S$250 million of divestments and debt reduction could bring the ratio to under 3x in fiscal 2025 (ending March 31, 2025). Over the next two to three years, we expect the debt-to-EBITDA ratio to fall below 2.5x, commensurate with a 'BBB' rating.

In our view, management's financial policy actions over the coming years could have a positive effect on SingPost's credit ratios beyond what is currently incorporated in our base case. The potential sale of SingPost Centre provides significant financial flexibility to the company, and could be transformative. Should a sale occur, the way in which SingPost reallocates capital could have a material bearing on both its business and financial profiles.

While the company's flagship property asset, SingPost Centre, provides a source of good underlying earnings stability, we believe a divestment could improve leverage materially, if SingPost uses some proceeds to reduce debt. The asset is valued at S$1.1 billion and maintains a healthy occupancy rate of 96.2% as of March 31, 2024.

We have reassessed our view of SingPost's business risk profile to reflect the company's strategic shift to a more competitive logistics industry outside of Singapore. Our downward revision of SingPost's business risk profile assessment reflects the company's limited scale and market share within a highly fragmented and competitive Australian logistics industry. It also reflects our view that the potential sale of the SingPost Centre would reduce its overall business diversity.

SingPost's logistics segment has grown to represent 67% of fiscal 2024's revenue, up from 38% in fiscal 2020. We believe this will be dominated by its exposure in Australia, where SingPost has invested over the past four years. SingPost has boosted its growing exposure to Australia with the acquisition of Border Express (BEX Group) in March 2024. BEX Group's delivery fleet will complement SingPost's existing Australian business, Freight Management Holdings Pty. Ltd. (FMH)--an integrated logistics business providing fourth-party logistics (4PL), third-party logistics (3PL), and other logistics services. BEX Group will enhance FMH's in-house logistics capabilities.

FMH holds a leading 4PL business in Australia, a subset of the broader integrated logistics market, which also provides outsourced supply chain management. The asset-light and technology-focused 4PL business is in a growth phase. It has demonstrated some resilience amid inflationary pressures and a challenging consumer market. FMH's 4PL business has been able to pass on costs more effectively to mitigate some of the inflationary pressures. The market conditions have posed some challenges for the 3PL business in Australia.

The integrated logistics industry in Australia is large and highly fragmented. The industry faces overcapacity and higher operating costs that can hurt SingPost's operations. In Australia, the company has a small market share and competes against larger and much more established players such as Australia Postal Corp., Toll Holdings Ltd., and Linfox Propriety Ltd. Australia Post has the added advantage of an existing postal network.

Nevertheless, SingPost also competes against numerous smaller participants that often focus on specific regions or end markets and have more limited financial resources. SingPost compares favorably to the smaller participants, in our view. Moreover, in a highly fragmented industry, the scope is greater for industry consolidation and potential gain of market share.

The domestic postal sector is no longer a drag. Unlike other postal peers in the region, SingPost is not directly owned by the Singapore government and does not receive any direct government support. Nevertheless, we recognize the constructive negotiations SingPost has maintained with the government. An about 65% increase in the postage rate in October 2023 and improving e-commerce volume brought the post and parcel segment back to profitability in the second half of fiscal 2024. Ongoing discussions around optimizing the postal infrastructure will help SingPost's postal business remain viable.

SingPost also holds the status as the sole public postal licensee, with a nationwide infrastructure network in Singapore. Compared to other pure-play logistics peers, we attribute some incremental benefit of leveraging its postal network and reputation to support e-commerce and other business growth opportunities.

Outlook

The negative outlook reflects our expectation that SingPost's credit metrics will remain weak for the current rating over the next 12 months and the uncertainty around when it will improve its credit metrics to levels we view as commensurate for the current rating on a sustained basis. We also expect that the company's plan to monetize noncore assets and businesses will support a material improvement in its debt-to-EBITDA ratio to less than 3x within the next 12 months.

Downside scenario

We may downgrade SingPost if the company fails to dispose of noncore assets in a timely manner, or if business conditions weaken such that we expect the debt-to-EBITDA ratio to remain above 2.5x on a sustained basis.

A downgrade is also possible if SingPost undertakes material asset sales such as SingPost Centre that weaken its business diversity without being offset by a material improvement in the company's financial position.

Upside scenario

We may revise the outlook to stable if we expect SingPost to improve its debt-to-EBITDA ratio below 2.5x on a sustained basis while still holding SingPost Centre.

Company Description

Founded in 1819, SingPost is a postal and logistics provider in Asia-Pacific. Its key markets are Australia and Singapore. It is listed on the Singapore stock exchange, with Singapore Telecommunications Ltd. (Singtel) holding a 22% stake and Alibaba Investment Ltd. 15%.

Our Base-Case Scenario

Assumptions

- Singapore real GDP to expand by 2.2% in 2024, and 2.5% in 2025. Stable economic growth will support consumer consumption, and consequently e-commerce transactions.
- Australia real GDP to grow by 1.4% in 2024, and 2.3% in 2025. This will support steady growth in SingPost's logistics business.
- Revenue growth of 24%-28% in fiscal 2025 and 4%-8% in fiscal 2026.
- EBITDA margin of 9%-11% over the next two years. This is driven by greater contribution from the logistics business and improving margins in the postal and parcel segment.
- Annual capital expenditure (capex) of S$95 million-S$105 million in fiscal 2025 and S$80 million-S$90 million in fiscal 2026.

- Dividends, including preferred dividends, to be S$25 million-S$35 million over fiscal 2025 and 2026.
- Our base case does not incorporate any potential sale of any noncore assets or businesses.

Key metrics

Singapore Post Ltd.--Forecast summary

Industry sector: Misc. transportation

	--Fiscal year ended March 31--				
(Mil. S$)	**2022a**	**2023a**	**2024e***	**2025f**	**2026f**
Revenue	1,666	1,872	1,687	2,152	2,327
EBITDA	184	170	168	201	240
Funds from operations (FFO)	131	110	102	142	175
EBIT	119	97	88	116	148
Interest expense	30	26	36	43	43
Cash flow from operations (CFO)	64	95	70	118	162
Capital expenditure (capex)	24	28	55	103	84
Free operating cash flow (FOCF)	40	66	15	15	78
Dividends	27	47	24	25	32
Discretionary cash flow (DCF)	(337)	19	(9)	(10)	46
Debt	644	565	686	763	710
Adjusted ratios					
Debt/EBITDA (x)	3.5	3.3	4.1	3.8	3.0
FFO/debt (%)	20.3	19.4	14.8	18.7	24.6

All figures include S&P Global Ratings adjustments' unless stated as reported. *Unaudited. a--Actual. e--Estimate. f--Forecast.

Liquidity

We view SingPost's liquidity as adequate. The company's sources of liquidity will likely cover needs by more than 1.2x over the 12 months to March 31, 2025. The company has well-established relationships with domestic and international banks and a solid standing in domestic capital markets. This leads to good funding access.

We expect SingPost to be able to absorb high-impact low-probability events without much need for refinancing. We forecast liquidity sources will exceed uses even if EBITDA declines by 15%.

Principal liquidity sources:

- Cash and equivalents of S$477 million as of March 31, 2024.
- Cash flow from operations of S$125 million-S$135 million in the 12 months to March 31, 2025.

Principal liquidity uses:

- Short-term debt maturity of S$10 million as of March 31, 2024.
- Annual capex of S$100 million-S$110 million in the 12 months to March 31, 2025.
- Dividends including cash distributions to perpetual securities' holders of S$25 million-S$35 million in next 12 months to March 31, 2025.

Environmental, Social, And Governance

ESG credit factors are neutral to our credit rating analysis of SingPost. On par with global environmental standards, the company aims to achieve net-zero for its operational emissions in Singapore by 2030, and for global emissions by 2050. SingPost tracks this performance in its annual sustainability reports.

We have revised our governance assessment to neutral from moderately negative. This follows the company demonstrating some track record and a greater level of consistency in management's strategy in recent years. In actively addressing structural decline in the postal sector, SingPost has pursued investments into logistics in Australia. The company has also responded well to the past operational stress, managing to negotiate a postage rate increase in October 2023 to help stabilize a business in structural decline.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2024, SingPost had S$827 million in reported borrowings. This included S$250 million of 10-year senior unsecured notes issued in November 2020 and S$100 million of five-year senior unsecured notes issued in March 2022.

In addition, SingPost has S$250 million in senior perpetual securities issued in April 2022.

Analytical conclusions

Our rating on SingPost's perpetual securities is two notches lower than the long-term issuer credit rating. This reflects the subordination of the securities and deferability of payments at the company's discretion.

We ascribe intermediate equity content to SingPost's perpetual securities (and account for the instrument as 50% equity and 50% debt) because they meet our criteria of permanence and subordination. The deferability of distribution payment also reflects cash conservation quality.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Negative/--
Business risk:	Fair

Country risk	Low Risk
Industry risk	Low Risk
Competitive position	Fair
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bb+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Positive (+1 notch)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	bbb

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Singapore Post Ltd.	
Issuer Credit Rating	BBB/Negative/--
SingPost Group Treasury Pte. Ltd.	
Junior Subordinated	BB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.