## GENERAL ANNOUNCEMENT::STANDARD & POOR'S CREDIT HIGHLIGHTS

### Issuer & Securities

Issuer/ Manager

SINGAPORE POST LIMITED

Securities

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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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# Singapore Post Ltd.

**December 16, 2024**

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## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Established position in the postal service industry in Singapore. | Uncertainty over future strategy after sale of Australia business |
| Some margin stability, driven by the property segment. | Small scale relative to global and regional peers |

**Singapore Post Ltd.'s (SingPost) proposed sale of its Australia business, Freight Management Holdings Pty Ltd. (FMH), will be transformative and will cloud its future strategy, in our view.** The loss of SingPost's key earnings pillar introduces uncertainty over the future strategy and earnings contribution. It also unwinds management efforts over the past four years to diversify the company's portfolio and to build a second home base. Australia has been a key earnings contributor to SingPost. For the first half of fiscal 2025 (ending March 31, 2025), Australia accounted for 58% of SingPost's total revenue.

The strategic backtracking highlights the uncertainty over the future direction of SingPost as well as the consistency and execution of its stated strategy. The remaining business is likely to be narrower with a significantly reduced scale and diversity. This includes Singapore and international segments. This business broadly refers to letters and printed papers, e-commerce, freight forwarding, and property, including rental income from the SingPost Centre. Once SingPost completes the sale sometime by end-March 2025, management will review and reset the company's strategic plan.

**We expect SingPost's balance sheet to materially strengthen following the debt repayment.** The transaction could generate a net gain on disposal of S$312.1 million. The company expects to receive net cash proceeds of S$682.8 million which is net of debt at FMH of S$224.1 million. We anticipate that the company will repay the residual Australian dollar denominated borrowings amounting to S$320.8 million undertaken for its acquisition of FMH. Total Australian dollar-denominated debt amounted to S$544.9 million as of Sept. 30, 2024.

A portion of the remaining proceeds is likely to be earmarked for a special dividend. As such, we do not assume the use of the remainder for further debt reduction. Based on our estimates, the debt-to-EBITDA ratio will reduce to below 2x following the completion of the transaction, which is a material improvement from our previous projection of more than 3x for fiscal 2025 and 2026.

**SingPost's leverage policy and future capital allocation appear uncertain, in our view.** The improved leverage position may not be sustained through investment cycles. The company's future business strategy could require further material investments and time. SingPost's longer-term leverage tolerance is also unclear.

In addition, SingPost continues to work on divesting other noncore assets. This implies more disposals and, hence, cash inflows. The use of the proceeds remains uncertain. A potential sale of SingPost Centre could provide significant financial flexibility to SingPost at the expense of losing the asset that has created earnings stability for the company in the past seven years. Should the sale occur, it could further reshape SingPost's business. The way in which SingPost will reallocate its capital could have a bearing on both its business and financial risk profiles.

# CreditWatch

The CreditWatch placement reflects a heightened probability that we could lower our ratings by one notch following a strategy reset and the sale of its Australia business.

We aim to resolve this CreditWatch when details around the strategy are unveiled, which we expect in the first half of fiscal 2026.

# Our Base-Case Scenario

**Assumptions**

- Singapore real GDP to expand by 3.4% in 2024 and 2.5% in 2025, from 1.1% in 2023. Stable economic growth to support consumer consumption and consequently, e-commerce transactions.
- Revenue growth of 15%-17% in fiscal 2025, followed by a 57%-59% decline in fiscal 2026 due to the sale of the Australia business.
- EBITDA margin of 10%-12% for fiscal 2025 and 2026.
- Annual capital expenditure (capex) of S$60 million-S$70 million in fiscal 2025 and S$10 million-S$15 million in fiscal 2026.
- Dividends of S$20 million-S$30 million in fiscal 2025-2026, including preferred dividends
- Our base case includes the announced sale of the Australia business but not any sale of other noncore assets or businesses. As a portion of the remaining sales proceeds is likely to be earmarked for a special dividend, we do not assume the use of the remainder for further debt reduction. We assume the completion of the Australia business sale on March 31, 2025.

## Key metrics

**Singapore Post Ltd.--Forecast summary**

| Period ending | Mar-31-2023 | Mar-31-2024 | Mar-31-2025 | Mar-31-2026 | Mar-31-2027 |
|---|---|---|---|---|---|
| (Mil. SGD) | 2022a | 2023a | 2024e | 2025f | 2026f |
| Revenue | 1,872 | 1,687 | 1,964 | 824 | 848 |
| EBITDA | 170 | 168 | 204 | 90 | 93 |

| Singapore Post Ltd.--Forecast summary | | | | | |
|---|---|---|---|---|---|
| Funds from operations (FFO) | 110 | 101 | 128 | 63 | 66 |
| EBIT | 97 | 89 | 123 | 66 | 67 |
| Interest expense | 26 | 36 | 61 | 17 | 15 |
| Cash flow from operations (CFO) | 95 | 69 | 79 | 66 | 68 |
| Capital expenditure (capex) | 28 | 55 | 65 | 13 | 47 |
| Free operating cash flow (FOCF) | 66 | 14 | 14 | 53 | 21 |
| Dividends | 47 | 24 | 29 | 26 | 27 |
| Discretionary cash flow (DCF) | 19 | (10) | (14) | 27 | (6) |
| Debt | 565 | 695 | 175 | 160 | 176 |
| **Adjusted ratios** | | | | | |
| Debt/EBITDA (x) | 3.3 | 4.1 | 0.9 | 1.8 | 1.9 |
| FFO/debt (%) | 19.4 | 14.6 | 73.2 | 39.1 | 37.6 |

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. S$--Singapore dollar.

# Company Description

SingPost is a postal and e-commerce logistics provider in the Asia-Pacific. It is listed on the Singapore stock exchange, with Singapore Telecommunications Ltd. (Singtel) holding a 22% stake and Alibaba Investment Ltd., 11%.

The company announced the sale of its Australia business, Freight Management Holdings Pty Ltd., on Dec. 2, 2024.

# Peer Comparison

We select Australia Postal Corp., New Zealand Post Ltd. (NZ Post), And PostNL N.V. as SingPost's peers.

SingPost and its postal peers are commercially-run businesses that provide essential public services. They therefore hold dominant market positions in their home countries.

Unlike most of its postal peers, SingPost is not directly owned by the Singapore government. The company's largest shareholder is telecom company, Singtel. Consequently, SingPost has lower public obligations.

However, less public obligation means a more distant relationship with the Singapore government. As a result, we do not consider SingPost as a government-related entity. In contrast, NZ Post and Australia Post are government related entities and benefit from very high likelihood of government support.

Like the Netherlands-based PostNL, SingPost is geographically diverse. The company generates a high proportion of overseas revenue, notably from Australia. Other postal operators depend on population density in their home countries for revenue.

SingPost has higher leverage than peers except NZ Post following investments in Australia. NZ Post's deleveraging was hampered by shareholder-friendly actions in fiscal 2024. That said, SingPost's leverage will improve after the sale of the Australia business.

**Singapore Post Ltd.--Peer Comparisons**

| | Singapore Post Ltd. | Australian Postal Corp. | New Zealand Post Ltd. | PostNL N.V. |
|---|---|---|---|---|
| Foreign currency issuer credit rating | BBB/Watch Neg/NR | A+/Stable/A-1 | A-/Negative/A-2 | BBB/Negative/A-2 |
| Local currency issuer credit rating | BBB/Watch Neg/NR | A+/Stable/A-1 | A-/Negative/A-2 | BBB/Negative/A-2 |
| Period | Annual | Annual | Annual | Annual |
| Period ending | 2024-03-31 | 2024-06-30 | 2024-06-30 | 2023-12-31 |
| Mil. | S$ | S$ | S$ | S$ |
| Revenue | 1,687 | 8,219 | 947 | 4,618 |
| EBITDA | 168 | 552 | 60 | 371 |
| Funds from operations (FFO) | 101 | 502 | 36 | 290 |
| Interest | 36 | 50 | 24 | 26 |
| Cash interest paid | 35 | 50 | 24 | 29 |
| Operating cash flow (OCF) | 69 | 589 | 22 | 357 |
| Capital expenditure | 55 | 277 | 145 | 184 |
| Free operating cash flow (FOCF) | 14 | 312 | (123) | 174 |
| Discretionary cash flow (DCF) | (10) | 312 | (206) | 131 |
| Cash and short-term investments | 477 | 559 | 115 | 756 |
| Gross available cash | 477 | 559 | 115 | 756 |
| Debt | 695 | 1,027 | 362 | 815 |
| Equity | 1,295 | 1,958 | 494 | 293 |
| EBITDA margin (%) | 9.9 | 6.7 | 6.4 | 8.0 |
| Return on capital (%) | 4.7 | (0.7) | 0.2 | 12.7 |
| EBITDA interest coverage (x) | 4.6 | 11.0 | 2.5 | 14.1 |
| FFO cash interest coverage (x) | 3.9 | 11.0 | 2.5 | 11.0 |
| Debt/EBITDA (x) | 4.1 | 1.9 | 6.0 | 2.2 |
| FFO/debt (%) | 14.6 | 48.9 | 10.0 | 35.6 |
| OCF/debt (%) | 10.0 | 57.3 | 6.1 | 43.9 |
| FOCF/debt (%) | 2.0 | 30.4 | (34.0) | 21.3 |
| DCF/debt (%) | (1.4) | 30.4 | (56.8) | 16.1 |

# Financial Risk

**The proposed sale of the Australia business will provide immediate relief to SingPost's leverage profile.** The company invested in the logistics business in Australia in the past four years, to the tune of about Singapore dollar (S$) 600 million. This led to an elevated leverage profile. The company had a ratio of debt to EBITDA of 4.1x as of March 31, 2024, up from 1.9x as of March 31, 2020.

Following the proposed sale, we expect the ratio to drop below 2x, a material improvement from the 4.1x in fiscal 2024.

**Management's leverage policy and future capital allocations appear uncertain.** SingPost may not be able to maintain the improvement in its balance sheet from the sale through investment cycles. This will depend on the company's future business strategy, which could require further investments and time.

In addition, SingPost continues to work on divesting other noncore assets. This implies more disposals and, hence, cash inflows. The use of the proceeds remains uncertain. A potential sale of SingPost Centre could provide significant financial flexibility to SingPost at the expense of losing the asset that has created earnings stability for the company in the past seven years. Should the sale occur, it could further reshape SingPost's business. The way in which SingPost will reallocate its capital could have a bearing on both its business and financial risk profiles.

## Debt maturities

### Singapore Post Ltd.-- Debt Maturities*

| | Amount (Mil. S$) |
|---|---|
| Repayable within one year | 48 |
| Repayable after one year | 1,084 |
| Total | 1,132 |

*Includes lease liabilities. As of Sept. 30, 2024. S$--Singapore dollar.

**Singapore Post Ltd.--Financial Summary**

| Period ending | Mar-31-2019 | Mar-31-2020 | Mar-31-2021 | Mar-31-2022 | Mar-31-2023 | Mar-31-2024 |
|---|---|---|---|---|---|---|
| Reporting period | 2018a | 2019a | 2020a | 2021a | 2022a | 2023a |
| Display currency (mil.) | S$ | S$ | S$ | S$ | S$ | S$ |
| Revenues | 1,323 | 1,314 | 1,405 | 1,666 | 1,872 | 1,687 |
| EBITDA | 280 | 215 | 151 | 184 | 170 | 168 |
| Funds from operations (FFO) | 217 | 148 | 92 | 131 | 110 | 101 |
| Interest expense | 31 | 28 | 26 | 30 | 26 | 36 |
| Cash interest paid | 32 | 31 | 24 | 29 | 27 | 35 |
| Operating cash flow (OCF) | 163 | 159 | 195 | 64 | 95 | 69 |
| Capital expenditure | 31 | 27 | 22 | 24 | 28 | 55 |
| Free operating cash flow (FOCF) | 132 | 132 | 173 | 40 | 66 | 14 |
| Discretionary cash flow (DCF) | 23 | 52 | 134 | (337) | 19 | (10) |
| Cash and short-term investments | 399 | 502 | 508 | 288 | 496 | 477 |
| Gross available cash | 399 | 502 | 508 | 288 | 496 | 477 |
| Debt | 459 | 399 | 348 | 644 | 565 | 695 |
| Common equity | 1,314 | 1,295 | 1,325 | 1,142 | 1,249 | 1,295 |
| **Adjusted ratios** | | | | | | |
| EBITDA margin (%) | 21.2 | 16.4 | 10.8 | 11.0 | 9.1 | 9.9 |
| Return on capital (%) | 10.3 | 8.6 | 4.9 | 6.9 | 5.4 | 4.7 |
| EBITDA interest coverage (x) | 9.2 | 7.8 | 5.8 | 6.0 | 6.4 | 4.6 |
| FFO cash interest coverage (x) | 7.7 | 5.8 | 4.8 | 5.5 | 5.0 | 3.9 |
| Debt/EBITDA (x) | 1.6 | 1.9 | 2.3 | 3.5 | 3.3 | 4.1 |
| FFO/debt (%) | 47.2 | 37.1 | 26.4 | 20.3 | 19.4 | 14.6 |

**Singapore Post Ltd.--Financial Summary**

| | | | | | | |
|---|---|---|---|---|---|---|
| OCF/debt (%) | 35.6 | 39.9 | 56.0 | 9.9 | 16.8 | 10.0 |
| FOCF/debt (%) | 28.7 | 33.1 | 49.7 | 6.2 | 11.7 | 2.0 |
| DCF/debt (%) | 5.0 | 13.1 | 38.5 | (52.4) | 3.4 | (1.4) |

**Reconciliation Of Singapore Post Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. S$)**

| | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial year | Mar-31-2024 | | | | | | | | | |
| Company reported amounts | 827 | 1,383 | 1,687 | 166 | 85 | 30 | 168 | 93 | 29 | 55 |
| Cash taxes paid | - | - | - | - | - | - | (31) | - | - | - |
| Cash interest paid | - | - | - | - | - | - | (30) | - | - | - |
| Lease liabilities | 149 | - | - | - | - | - | - | - | - | - |
| Incremental lease liabilities | 8 | - | - | - | 0 | 0 | (0) | (0) | - | - |
| Intermediate hybrids (equity) | 126 | (126) | - | - | - | 5 | (5) | (5) | (5) | - |
| Postretirement benefit obligations/ deferred compensation | 1 | - | - | 0 | 0 | 0 | - | - | - | - |
| Accessible cash and liquid investments | (437) | - | - | - | - | - | - | - | - | - |
| Share-based compensation expense | - | - | - | 7 | - | - | - | - | - | - |
| Nonoperating income (expense) | - | - | - | - | 10 | - | - | - | - | - |
| Reclassification of interest and dividend cash flows | - | - | - | - | - | - | - | (18) | - | - |
| Noncontrolling/ minority interest | - | 37 | - | - | - | - | - | - | - | - |
| Debt: Contingent considerations | 13 | - | - | - | - | - | - | - | - | - |
| Debt: Put options on minority stakes | 8 | - | - | - | - | - | - | - | - | - |
| EBITDA: other | - | - | - | (6) | (6) | - | - | - | - | - |
| Total adjustments | (132) | (88) | - | 2 | 4 | 6 | (66) | (24) | (5) | - |
| **S&P Global Ratings adjusted** | **Debt** | **Equity** | **Revenue** | **EBITDA** | **EBIT** | **Interest expense** | **Funds from Operations** | **Operating cash flow** | **Dividends** | **Capital expenditure** |
| | 695 | 1,295 | 1,687 | 168 | 89 | 36 | 101 | 69 | 24 | 55 |

# 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 Sept. 30, 2025. The company has well-established relationships with domestic and international banks and a solid standing in domestic capital markets.

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$428 million as of Sept. 30, 2024.
- Cash flow from operations of S$45 million-S$55 million over the 12 months to Sept. 30, 2025.
- Net cash proceeds of S$683 million that we expect from the sale of the Australia business after paying down the debt at FMH.

### Principal liquidity uses

- Short-term debt maturities of S$5 million as of Sept. 30, 2024.
- Annual capex of S$35 million-S$45 million over the 12 months to Sept. 30, 2024.
- Dividends of S$25 million-S$35 million for the same period, including cash distributions to perpetual securities holders.
- Cash outflow of S$18 million that we expect for the acquisition of remaining 2.9% stake in FMH held by FMH management shareholders.
- Sale proceeds earmarked for debt repayment of borrowings undertaken for the acquisition of FMH of S$321 million.

# Environmental, Social, And Governance

Environmental, social, and governance 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. It tracks this performance in its annual sustainability reports.

# Issue Ratings--Subordination Risk Analysis

## Capital structure

As of Sept. 30, 2024, SingPost had S$892 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.

Additionally, SingPost had S$250 million in subordinated 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. This is because they meet our criteria of permanence and subordination. The deferability of distribution payment also reflects cash conservation quality.

## 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Research Update: Singapore Post Ltd. 'BBB' Rating Placed On CreditWatch Negative Over Strategy Reset, Dec. 5, 2024
- Singapore Post Ltd. 'BBB' Rating Affirmed On Financial Flexibility; Outlook Negative, June 4, 2024
- Singapore Post Ltd., March 7, 2024
- Singapore Post's Proposed Acquisition Will Delay Deleveraging, Nov. 3, 2023
- Singapore Post Downgraded To 'BBB' from 'BBB+' On Weakening Business Prospects; Outlook Negative, May 23, 2023

| Ratings Detail (as of December 16, 2024)* |
| --- |
| Singapore Post Ltd. |

| Ratings Detail (as of December 16, 2024)* | |
|---|---|
| Issuer Credit Rating | BBB/Watch Neg/NR |
| **Issuer Credit Ratings History** | |
| 04-Dec-2024 | BBB/Watch Neg/NR |
| 23-May-2023 | BBB/Negative/NR |
| 12-Dec-2022 | BBB+/Negative/NR |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.