

# RatingsDirect®

---

## Research Update:

# Singapore Post Ltd. Rating Lowered To 'A+' From 'AA-'; Outlook Negative

### Primary Credit Analyst:

Wee Khim Loy, Singapore (65) 6239-6303; wee\_khim\_loy@standardandpoors.com

### Secondary Contact:

Andrew M Wong, Singapore (65) 6239-6306; andrew\_wong@standardandpoors.com

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# Singapore Post Ltd. Rating Lowered To 'A+' From 'AA-'; Outlook Negative

## Overview

- SingPost's profitability is likely to weaken due the company's increasing shift toward the lower-margin logistics business, and a decline in its domestic mail business.
- We are lowering our long-term corporate credit rating and our issue rating on SingPost and its fixed-rate notes to 'A+' from 'AA-'. We are also lowering the rating on the Singapore-based postal and logistics services provider's perpetual securities to 'A' from 'A+'.
- At the same time, we are affirming our 'axAAA/axA-1+' ASEAN regional scale rating on SingPost, the 'axAAA' rating on the fixed-rate notes, and the 'axAA+' rating on the perpetual securities.
- The negative outlook reflects our expectation that SingPost's profitability and business risk profile could weaken over the next 12-24 months.

## Rating Action

On Feb. 20, 2013, Standard & Poor's Ratings Services lowered its long-term corporate credit rating and issue rating on Singapore Post Ltd. (SingPost) and its fixed-rate notes to 'A+' from 'AA-'. The outlook on the corporate credit rating is negative. We also lowered the rating on the Singapore-based postal and logistics services provider's perpetual securities to 'A' from 'A+'. At the same time, we affirmed our 'axAAA/axA-1+' ASEAN regional scale rating on SingPost, the 'axAAA' rating on the fixed-rate notes, and the 'axAA+' rating on the perpetual securities.

## Rationale

The downgrade reflects our expectation that SingPost's profitability is likely to weaken due to the company's increasing focus on the logistics business and the decline in its domestic mail business. The logistics business is more competitive and has lower margins than the mail business.

We revised our assessment of SingPost's business risk profile to "strong" from "excellent." The company has a dominant market position in the competitive domestic and international mail business in Singapore and its operating efficiency is high. Its financial risk profile is "modest."

We expect SingPost's EBITDA margin to weaken to about 30%-33% in the next 12-18 months from 37% in the fiscal year ended March 31, 2012. We estimate

that the company's logistics, retail, and e-commerce businesses will contribute 43%-45% of annual revenue in the next 12-18 months, compared with 42% in fiscal 2012. Our projections are based on the increased contributions from General Storage Co. and Famous Holdings Pte Ltd., both of which SingPost acquired recently.

In our base-case scenario, we expect SingPost to continue to focus on managing costs, which should partially offset the likely margin contraction. We anticipate a 5% increase in EBITDA in fiscal 2013 and a 3% growth in fiscal 2014, assuming margins of 33% in fiscal 2013 and 31% in fiscal 2014. The company's EBITDA declined by 7% in fiscal 2012.

We also expect SingPost's ratio of funds from operations (FFO) to adjusted debt to be at 50%-53% as of March 31, 2014, compared with 55% as of March 31, 2012. We adjusted debt with surplus cash. We assume that SingPost will redeem its Singapore dollar (S\$) 300 million bonds due in April 2013 and maintain about S\$150 million of cash for operational needs and future acquisitions. The projected ratio is within our range for a "modest" financial risk profile. The company's strong liquidity and excellent access to capital market also underpin its financial risk profile.

We expect SingPost's revenue to grow 10%-13% to about S\$650 million for fiscal 2013. A consolidation of newly-acquired subsidiary, Novation Solutions Ltd., and stronger e-commerce volume will support revenue growth. However, higher costs--particularly of labor, which forms a significant 40% of SingPost operating expenses--are likely to temper growth in operating profit.

## **Liquidity**

We consider SingPost's liquidity to be "strong," as defined in our criteria. We expect the company's liquidity sources to cover its uses over the next 12 months by more than 1.5x, even if EBITDA declines by 30%. Our liquidity assessment incorporates the following expectations and assumptions:

- As of Dec. 31, 2012, SingPost's liquidity sources include cash and equivalents of S\$694.0 million, committed unused credit lines of S\$85 million, and FFO, which we project at about S\$180 million.
- Liquidity uses include dividend payments of about S\$120 million annually, capital expenditure of about S\$60 million, and repayment of S\$300 million notes due in April 2013.

SingPost's bonds do not have any financial covenants that the company needs to adhere to.

## **Outlook**

The negative outlook reflects our expectation that SingPost's profitability and business risk profile could weaken over the next one to two years. The outlook also reflects uncertainty about the impact of the company's recent

mergers and acquisitions on its credit profile. Any acquisition that entails further debt-raising could negatively affect our rating on SingPost.

We could lower the rating on SingPost if any of the following occurs:

- The company aggressively expands into highly competitive and lower margin ventures.
- It provides aggressive shareholder returns, such as special dividends.
- SingPost's business risk profile weakens more than we anticipated, the influence of stronger competition exceeds our expectation, or the company's cost controls are inadequate, resulting in a further decline in EBITDA margins. The ratio of FFO to adjusted debt weakening below 50% on a sustained basis could trigger a downgrade.

We could revise the outlook on SingPost to stable if: (1) the company maintains its business risk profile and improves its profitability with meaningful acquisitions; and (2) it sufficiently expands its revenue base or improves its margins over the next two to three years, such that its ratio of FFO to adjusted debt is more than 50% on a sustainable basis.

## Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011

## Ratings List

### Downgraded

	To	From
Singapore Post Ltd.		
Corporate Credit Rating	A+/Negative/--	AA-/Negative/--
Senior Unsecured	A+	AA-
Senior Unsecured	A	A+

### Ratings Affirmed

Singapore Post Ltd.	
Corporate Credit Rating	
ASEAN Rating Scale	axAAA/--/axA-1+
Senior Unsecured	axAAA
Senior Unsecured	axAA+

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

*Research Update: Singapore Post Ltd. Rating Lowered To 'A+' From 'AA-'; Outlook Negative*

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

**McGRAW-HILL**