

Singapore Post Ltd.

Primary Credit Analyst:

Pauline Tang, Singapore (65) 6239-6390; pauline.tang@spglobal.com

Secondary Contact:

Bertrand P Jabouley, CFA, Singapore (65) 6239-6303; bertrand.jabouley@spglobal.com

Table Of Contents

Rationale

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

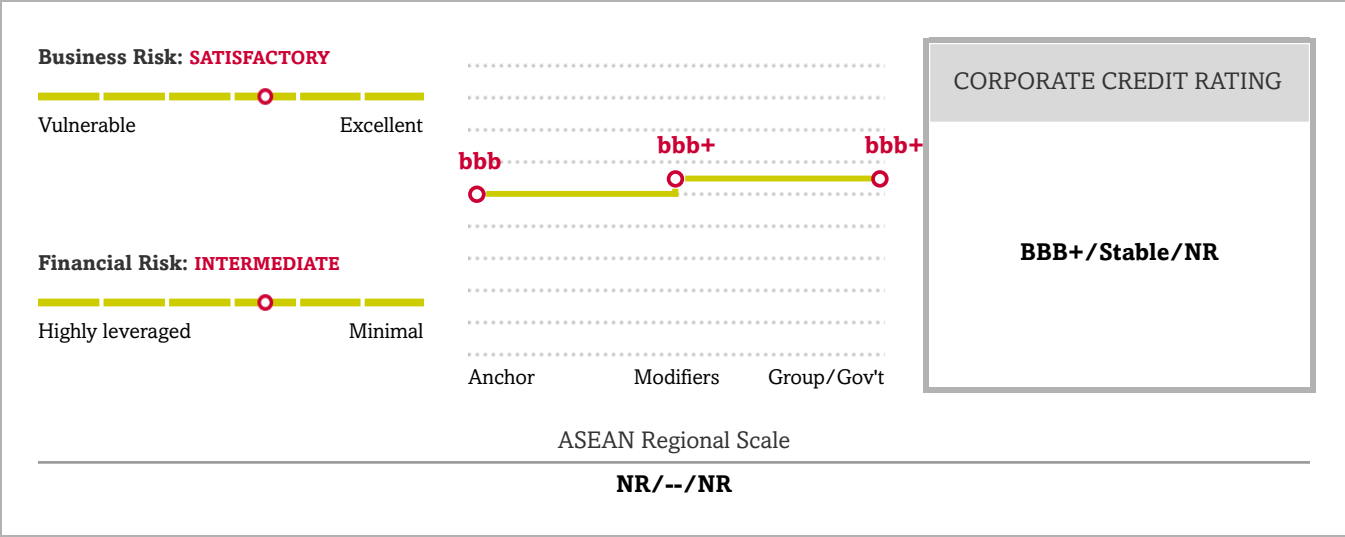
Ratings Score Snapshot

Issue Ratings--Subordination Risk Analysis

Reconciliation

Related Criteria

Singapore Post Ltd.



Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
<ul style="list-style-type: none"> • Dominant and efficient postal infrastructure in Singapore. • Strategic alliance with Alibaba, which should drive volumes. • Less established presence in e-commerce and logistics, compared to the postal business. • Declining and more volatile margins. 	<ul style="list-style-type: none"> • Reducing capital spending. • Sustained returns to shareholders.

Outlook: Stable

The stable outlook reflects our expectation that Singapore Post Ltd. (SingPost) will consolidate its operations in the logistics and express delivery markets in Asia-Pacific and the U.S. in the next 12 months. We anticipate that the Singapore-based postal and logistics services provider will manage its costs and logistics capacity to support earnings growth and control its profitability decline. We also expect SingPost to rein in large acquisitions, given the absence of meaningful rating headroom.

Downside scenario

We could lower the rating if SingPost's debt-to-EBITDA ratio increases beyond 2.5x on a sustained basis. This could happen primarily if the company faces more revenue and cost pressures in its mail business and fiercer competition in the non-mail business than we anticipate. This would be reflected by any early indications of unadjusted EBITDA being less than Singapore dollar (S\$) 180 million in fiscal 2019 (year ending March 31).

Upside scenario

An upgrade looks unlikely for SingPost over the next two years, given the company's exposure to declining mail volumes and the strong competitive pressures in the logistics and express delivery businesses. We may raise the rating if the company establishes a record of consistent governance and successful strategy execution. We would also expect to see a reduction in leverage, with the debt-to-EBITDA ratio permanently below 2.0x. In a remote scenario, a stronger contribution of logistics and e-commerce to operating profit, with limited dilution of margin, could cause us to reassess the company's earnings quality.

Our Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> Global GDP growth of 2.8% and 3.0% in 2018 and 2019, respectively. Singapore GDP growth of 3.0% in 2018 and 2.9% in 2019. Stable economic growth will support consumer consumption and consequently ecommerce transaction. Solid growth in revenues in the next 12-24 months as e-commerce activities continue to expand and contribute more to earnings. Adjusted EBITDA of about S\$250 million in 2018, increasing to about S\$260 million in 2019, on the back of marginal gains in logistics and lower loss in e-commerce. Annual capital expenditure of about S\$80 million in the next two to three years, given that the company has completed its major spending programs. Dividend policy of 60%-80% of underlying net profit. No meaningful acquisitions in the next 12-24 months. 				
		2018A	2019E	2020E
	EBITDA margin (%)	16.3	16.8-17.3	16.8-17.3
	DCF (mil. S\$)	106	80-85	80-85
	Debt/EBITDA (x)*	2.0	1.4-1.8	1.2-1.6
	<p>The fiscal year end is March 31. S&P Global Ratings' fully adjusted figures. A--Actual. E--Estimate. DCF--Discretionary cash flows. S\$--Singapore dollar.</p>			

Company Description

SingPost, founded in 1819, provides postal and logistics services in Singapore and internationally. For the financial year ended March 31, 2018, the company had revenues of S\$1.5 billion. Its postal business accounts for 42% of total revenue, logistics 40%, and e-commerce 18%. SingPost is listed on the Singapore Exchange, with Singapore Telecommunications Ltd. holding a 21.7% stake and Alibaba Investment Ltd. a 14.4% stake.

Business Risk: Satisfactory

The synergies with strategic partners, operational leverage from its efficient infrastructure, as well as business and geographical diversities will continue to drive SingPost's earnings quality. A structural decline in the postal industry and the highly competitive logistics and e-commerce segments will continue to erode the company's margins, but we believe the pace is stabilizing.

We expect SingPost to continue to leverage its efficient postal infrastructure and nationwide network to manage higher volumes, driven mostly by e-commerce-related deliveries. The company has further enhanced its operating efficiency through digitalization, such as its digital postal mailbox service and SmartPost Delivery Notification.

SingPost's e-commerce initiatives and partnership with Alibaba will be a main earnings driver amid the structural

decline in the postal industry, in our view. The company's position as Alibaba's logistics partner should increase cross-border volumes as e-commerce transactions grow. For instance, Alibaba's Lazada Group moved its operations into SingPost's Regional eCommerce Logistics Hub in Singapore.

The transformation into a global end-to-end e-commerce enabler exposes SingPost to highly competitive markets, where the company has much a less-established presence. Compared with other e-commerce and logistics leaders, SingPost's asset-light structure and reliance on partnership for deliveries outside Singapore minimizes capital expenditure, but it could compromise service standards and efficiencies. However, by leveraging on its unique blend of postal and commercial networks, SingPost has been able to compete with its offering of a low-cost range of e-commerce and logistics solutions.

In our view, SingPost's overall operating margin will remain subdued. Like other postal service providers, SingPost faces declining profitability in the postal business. We believe the increase in international settlement fee by the Universal Postal Union (UPU), starting in January 2018, could also have a negative impact. Profitability in the logistics and e-commerce solutions businesses is generally lower than in the postal business due to high competition and heavy reliance on e-commerce transactions, which lack earnings visibility. We expect the e-commerce business to continue to make losses, although at the lesser degree, after subsidiaries Jagged Peak Inc. and TradeGlobal Holdings Inc. added 28 new customers in fiscal 2018--compensating for the loss of two key customers in the previous year. SingPost has implemented operation enhancement plans (such as digitalization of the postal process, equipping employees with new skills, etc.) and cost management initiatives to preserve its margins, but these measures will take time to bear fruit.

Peer comparison

We chose Australian Postal Corp., New Zealand Post Ltd., Royal Mail PLC, and PostNL N.V. as SingPost's peers.

Postal providers are evolving into e-commerce and logistics enablers amid the postal industry's structural decline. Mail volume will continue declining by 11%-15% at Australian Postal and New Zealand Post, and by 4%-6% at Royal Mail. This is in contrast with the e-commerce-driven parcel volume growth of up to 9% across the board.

The postal industry's structural decline and the highly competitive e-commerce business hurt EBITDA margin. SingPost's EBITDA margin has retreated to below 20% in the past few years. While improving logistics and e-commerce business and volume-based variable cost structure will help stabilize SingPost's margins, its peers may continue to face industry challenges given their large fixed-cost base. For instance, Australian Postal has seen its reported EBITDA margin declining to around 7% from 8%-11% since 2014 while Royal Mail's EBITDA margin has been 4%-6% since 2015 from 20% in 2014. PostNL's profitability may continue to weaken given the recent regulatory change from the Dutch regulator, the Authority for Consumers and Markets.

SingPost and most of its peers can leverage their existing infrastructure and dominant market position in their home countries. We view that SingPost may benefit from stronger volume given its partnership with Alibaba.

SingPost is more geographically diverse than its peers, with a high proportion of overseas revenue from its subsidiaries in the U.S., Australia, and Hong Kong. PostNL shares this attribute as the Netherlands-based company expands its global network through partnership and enjoys continual growth in Italy and Germany. Other peers, on the other hand, benefit from population density in their home countries, which supports revenue generation.

SingPost has higher leverage than its peers, due to the large capital outlays in the past few years for building its Regional eCommerce Logistics Hub, redeveloping the SingPost mall, and establishing its footprint in logistics and e-commerce business. In our view, peers with some debt headroom such as Royal Mail and PostNL, whose debt-to-EBITDA ratios are 1.0x-1.5x, may eventually pursue growth through logistics and e-commerce to counter the decline in the postal business.

Table 1**Singapore Post Ltd. -- Peer Comparison****Industry Sector: Misc. Transportation**

	Singapore Post Ltd.	Australian Postal Corp.	New Zealand Post Ltd.	Royal Mail PLC	PostNL N.V.
	--Average of past three fiscal years--				
(Mil. \$)					
Revenues	979.2	4,933.5	699.7	13,048.3	3,852.6
EBITDA	178.4	355.2	73.9	1,083.1	484.9
Funds from operations (FFO)	134.6	281.2	48.5	1,075.8	349.9
Net income from continuing operations	101.7	(22.9)	72.2	375.5	223.6
Cash flow from operations	138.9	362.4	(3.6)	1,061.1	274.0
Capital expenditures	132.7	236.5	31.6	582.2	111.2
Free operating cash flow	6.2	125.9	(35.2)	478.9	162.8
Discretionary cash flow	(75.2)	113.1	(72.5)	179.9	146.8
Cash and short-term investments	202.2	355.0	195.8	467.7	611.8
Debt	409.3	847.5	151.9	1,458.6	633.9
Equity	1,004.4	1,486.1	953.2	6,096.4	60.5
Adjusted ratios					
EBITDA margin (%)	18.2	7.2	10.6	8.3	12.6
Return on capital (%)	8.7	(1.0)	3.2	5.4	41.6
EBITDA interest coverage (x)	7.4	6.0	3.1	10.5	6.3
FFO cash interest coverage (x)	9.3	12.8	0.5	39.9	6.8
Debt/EBITDA (x)	2.3	2.4	2.1	1.3	1.3
FFO/debt (%)	32.9	33.2	31.9	73.8	55.2
Cash flow from operations/debt (%)	33.9	42.8	(2.4)	72.8	43.2
Free operating cash flow/debt (%)	1.5	14.9	(23.2)	32.8	25.7
Discretionary cash flow/debt (%)	(18.4)	13.3	(47.8)	12.3	23.2

Financial Risk: Intermediate

Reduction in debts and capital spending will improve SingPost's cash flow position in the next two to three years, in our opinion. Sustained returns to shareholders could compromise a stabilization or reduction in the company's leverage.

We believe SingPost intends to prioritize the integration and broadening of its existing business segments over more acquisitions. Therefore, we anticipate capital spending will reduce to maintenance level of S\$60 million-S\$80 million at least in the next two to three years.

SingPost's discretionary cash flows will remain positive after being negative in the years of heavy capital spending. This will be on the back of reduced spending and higher operating cash flows as logistics and e-commerce segments gain momentum, and operating costs stabilize. We believe the company will have more cushion to withstand an unexpected seasonal downturn of the industry while remaining within its headroom.

In our view, SingPost's sustained returns to shareholders could weigh on its capital structure. The company maintained dividend payout ratios of 66% in fiscal 2017 and 76% in fiscal 2018 when net profits deteriorated. The change in dividend policy in the past year could provide more financial flexibility if the dividend payout ratio truly reflects the profitability. However, it is yet to be seen how Singpost implements the policy. We expect the company will maintain its high dividend payout ratio of 60%-80% regardless of its earnings.

Financial summary

Table 2

Singapore Post Ltd. -- Financial Summary					
	--Fiscal year ended March 31--				
	2018	2017	2016	2015	2014
(Mil. S\$)					
Revenues	1,464.1	1,348.5	1,151.5	919.6	821.1
EBITDA	238.2	233.8	251.4	235.4	236.3
Funds from operations (FFO)	175.7	176.1	194.2	180.7	178.3
Net income from continuing operations	126.4	33.4	248.9	157.6	192.0
Cash flow from operations	213.4	210.0	140.3	241.0	232.2
Capital expenditures	62.1	199.8	279.7	104.4	37.8
Free operating cash flow	151.2	10.2	(139.4)	136.5	194.4
Discretionary cash flow	105.9	(109.4)	(306.4)	8.4	75.7
Cash and short-term investments	316.0	370.9	134.8	606.0	410.9
Debt	472.9	551.7	635.7	214.5	338.1
Equity	1,443.1	1,410.9	1,214.7	1,120.9	767.6
Adjusted ratios					
EBITDA margin (%)	16.3	17.3	21.8	25.6	28.8
Return on capital (%)	7.1	7.5	12.0	14.8	20.4
EBITDA interest coverage (x)	6.5	7.4	8.5	8.9	9.2
FFO cash interest coverage (x)	10.0	8.5	9.6	9.4	7.5
Debt/EBITDA (x)	2.0	2.4	2.5	0.9	1.4
FFO/debt (%)	37.2	31.9	30.5	84.2	52.7
Cash flow from operations/debt (%)	45.1	38.1	22.1	112.3	68.7
Free operating cash flow/debt (%)	32.0	1.8	(21.9)	63.7	57.5
Discretionary cash flow/debt (%)	22.4	(19.8)	(48.2)	3.9	22.4

S\$--Singapore dollar.

Liquidity: Adequate

We view SingPost's liquidity as adequate because the company's sources of liquidity will likely cover needs by more than 1.2x in the 12 months to March 2019. We forecast liquidity sources will exceed uses even if EBITDA declines by 15%. SingPost's bonds do not have any financial covenants. Covenants for the company's bank facilities are mainly negative pledges.

We believe SingPost has the ability to absorb high-impact low-probability events with limited need for refinancing. The company has well-established banking relationships and a satisfactory standing in the capital markets, which should enable the company to raise funding if needed.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> Cash and equivalents of S\$316 million as of March 31, 2018. Cash flow from operations that we estimate at about S\$190 million in fiscal 2019. 	<ul style="list-style-type: none"> Short-term debt of S\$24 million. Minimum capital expenditure of about S\$65 million. Dividends including cash distributions to perpetual securities' holders of about S\$75 million in the 12 months to March 2019.

Debt maturities

Within 12 months: S\$24 million

In the next two years: S\$200 million

Beyond two years: S\$20 million

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/NR

Business risk: Satisfactory

- Country risk: Low
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Issue Ratings--Subordination Risk Analysis

Capital structure

As of March 31, 2018, SingPost has S\$244 million in reported financial debt. This comprises S\$200 million of 10-year fixed-rate senior unsecured notes issued in March 2010 and S\$44 million in bank loans, of which S\$25 million are secured. The company also has S\$350 million in senior perpetual securities, which we consider debt-like.

Analytical conclusions

We rate the company's S\$200 million notes at the same level as the issuer credit rating because SingPost's priority debt ratio--the ratio of secured debt at an issuer's level and unsecured debt issued by an issuer's subsidiaries to total debt--is less than 50%. However, we rate the perpetual securities down by one notch from the issuer credit rating because they present deferability of payments at the company's discretion.

Reconciliation

Table 3

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

--Fiscal year ended Mar. 31, 2018--

Singapore Post Ltd. reported amounts

	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Dividends paid
Reported	244.0	1,749.6	208.5	147.8	13.4	208.5	198.2	60.2
S&P Global Ratings adjustments								
Interest expense (reported)	--	--	--	--	--	(13.4)	--	--
Interest income (reported)	--	--	--	--	--	4.7	--	--
Current tax expense (reported)	--	--	--	--	--	(30.7)	--	--
Operating leases	118.4	--	38.8	8.3	8.3	30.5	30.5	--
Debt-like hybrids	346.8	(346.8)	--	--	14.9	(14.9)	(14.9)	(14.9)
Surplus cash	(237.0)	--	--	--	--	--	--	--

Table 3

Reconciliation Of Singapore Post Ltd. Reported Amounts With S&P Global Ratings Adjusted Amounts (Mil. S\$) (cont.)								
Share-based compensation expense	--	--	1.4	--	--	1.4	--	--
Dividends received from equity investments	--	--	0.9	--	--	0.9	--	--
Non-operating income (expense)	--	--	--	(2.7)	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(0.5)	--
Non-controlling Interest/Minority interest	--	40.3	--	--	--	--	--	--
Debt - Accrued interest not included in reported debt	0.6	--	--	--	--	--	--	--
EBITDA - Other	--	--	(11.3)	(11.3)	--	(11.3)	--	--
Total adjustments	228.9	(306.5)	29.7	(5.7)	23.2	(32.8)	15.1	(14.9)
S&P Global Ratings adjusted amounts								
	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid
Adjusted	472.9	1,443.1	238.2	142.0	36.6	175.7	213.4	45.4

S\$--Singapore dollar.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 4, 2018)

Singapore Post Ltd.

Corporate Credit Rating	BBB+/Stable/NR
<i>ASEAN Regional Scale</i>	NR/--/NR
Senior Unsecured	BBB
Senior Unsecured	BBB+

Corporate Credit Ratings History

09-Nov-2016	BBB+/Stable/NR
24-Feb-2016	A-/Stable/NR
06-Nov-2015	A/Watch Neg/NR
19-Feb-2014	A/Stable/NR
18-Aug-2017	NR/--/NR
09-Nov-2016	axA+/--/axA-1
24-Feb-2016	axAA/--/axA-1
06-Nov-2015	axAAA/Watch Neg/axA-1+

*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.

Copyright © 2018 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 acknowledgment 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 acknowledgment 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 non-public 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 (free of charge), and www.ratingsdirect.com and www.globalcreditportal.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.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.