

Bulletin:

Singapore Post's Planned Disposal Of U.S. E-commerce Assets Would Refocus Resources On Core Asia-Pacific Operations

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SINGAPORE (S&P Global Ratings) April 8, 2019--S&P Global Ratings said today that Singapore Post Ltd.'s (SingPost; BBB+/Stable/--) proposed disposal of its U.S. e-commerce subsidiaries TradeGlobal and Jagged Peak is mildly credit positive. The move would enable the company to refocus its resources and efforts on its more established Asia-Pacific operations. At this stage, we do not expect SingPost to realize material disposal proceeds.

In our view, SingPost's divestment would lift its consolidated EBITDA. It would also free up resources and management attention for the Asia-Pacific operations, where the company has a more natural competitive advantage than in the U.S.

SingPost acquired TradeGlobal and Jagged Peak in 2015 as part of its strategic efforts to transform itself into a global e-commerce player, given its traditional line of business shows a structural erosion in volumes. As early as fiscal 2017 (ended March 31), SingPost booked a Singapore dollar (S\$) 185 million impairment charge on its investment in TradeGlobal (bought for US\$ 167 million, S\$236 million equivalent) based on TradeGlobal's loss of S\$26 million in that year, instead of an anticipated profit of S\$9 million.

We believe TradeGlobal and Jagged Peak still operate at breakeven at best. In the nine months to Dec. 31, 2018, SingPost generated EBITDA of S\$166 million of which the contribution of the e-commerce segment was negative with operating loss of S\$34 million. We estimate TradeGlobal and Jagged Peak accounted for the lion's share of these losses.

The valuations of the sales remain uncertain, given the divestment process is still at an early stage. Assuming very negligible disposal proceeds, the transaction would still benefit SingPost's leverage, which would have been 1.8x in terms of debt-to-EBITDA ratio on Dec. 31, 2018, pro forma for the disposals. This compared to an actual ratio of debt to EBITDA of 1.9x on that date.

In parallel to slightly higher consolidated earnings, we believe SingPost's capital expenditures could moderate after the deconsolidation of Jagged Peak and TradeGlobal. On a preliminary basis, we now forecast SingPost's adjusted debt to EBITDA at 1.5x in fiscal 2020, pro forma for the disposals, and 1.3x in 2021. This compares to our previous estimate of 1.7x and 1.4x in 2020 and 2021, respectively.

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