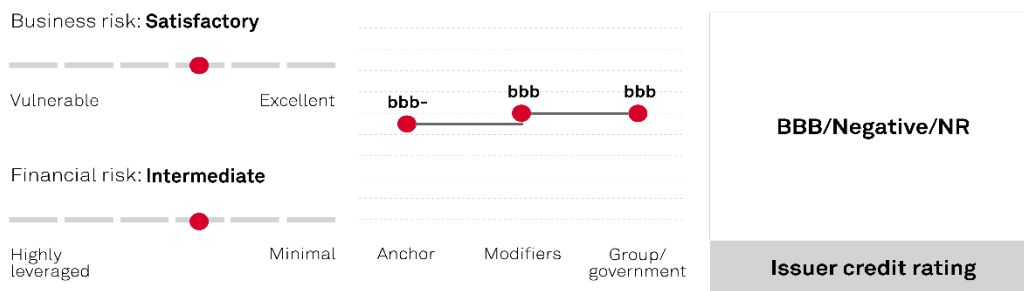


# Singapore Post Ltd.

March 6, 2024

## Ratings Score Snapshot



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## Credit Highlights

### Overview

Key strengths	Key risks
Established position in the postal service industry in Singapore.	Limited rating headroom due to accelerated investments.
Diversification to Australia mitigates concentration risks in home country.	Earnings risks from volatile freight rates in the logistics business and a more competitive Australia business.
Some margin stability, driven by the property segment.	Structural decline in postal industry.

**The outcome of the ongoing strategic review could influence Singapore Post's (SingPost) earnings mix and overall competitiveness.** The Singapore-based postal operator is currently working through a strategic review. It expects to complete the review in the fiscal 2024 (year ending March 31, 2024). We believe that its earnings profile has not stabilized, and its business mix could see further changes from the strategic review. In our view, the outcome of the strategic review could have a material bearing on its future portfolio and earnings mix.

## Singapore Post Ltd.

SingPost's current portfolio includes post and parcel, logistics, and property. The post and parcel segment includes the traditional post and parcel business in Singapore and overseas. The logistics segment comprises Freight Management Holdings Pty Ltd. (FMH), CouriersPlease, the freight forwarding business and the Quantium Solutions eCommerce logistics business. The property segment provides some earnings stability, with the flagship asset, SingPost Centre, maintaining a healthy occupancy rate of 96.3% as of Dec. 31, 2023.

**BEX acquisition adds scale at a cost.** The acquisition of BEX Group will add incremental scale to SingPost's presence in Australia. BEX Group is a national transport and distribution services company and will join the other third-party logistics companies currently under FMH's umbrella. SingPost completed the acquisition on March 1, 2024. In our base case, the deal will provide full-year contribution in fiscal 2025. We estimate SingPost's ratio of debt to EBITDA will be 3.1x-3.5x in fiscal 2025, before improving to below 3x in fiscal 2026.

**Uptick in postage rates to provide some earnings relief.** The postage adjustment in October 2023 of about 65% will help the domestic postal and parcel segment on the pathway to profitability. In the third quarter of fiscal 2024, the domestic post and parcel segment was profitable. This was also supported by improvement in e-commerce volume. Management continues to work with Infocomm Media Development Authority (IMDA) to conduct a structural review of the postal business and work toward commercial sustainability.

## Outlook

The negative rating outlook on SingPost reflects the risk of a downgrade from persistent weakness in the company's post and parcel business, and its shifting portfolio mix.

### Downside scenario

We may downgrade SingPost if we expect the business composition and earnings mix to skew toward business segments with higher competitive pressures and reduced overall profitability. This could arise if the company is unable to arrest the downward trajectory of its loss-making post and parcel segment.

A downgrade could also occur if we expect the debt-to-EBITDA ratio to remain above 3x on a sustained basis.

### Upside scenario

We may revise the outlook to stable if SingPost demonstrates its ability to enhance profitability and strengthen its overall competitive position. The outlook revision would also be predicated on the debt-to-EBITDA ratio improving to below 3x on a sustained basis.

## Our Base-Case Scenario

### Assumptions

- Singapore real GDP to expand by 2.6% in 2024, and 2.7% in 2025, from 1.1% in 2023. Stable economic growth will support consumer consumption, and consequently e-commerce transactions. Economic growth will also support consumer spending, in turn supporting tenant sales and rental conditions at SingPost Centre.

- Australia real GDP to grow by 1.4% in 2024, and 2.3% in 2025, from 1.8% in 2023. This will support steady growth in SingPost's logistics business.
- Revenue growth of 18%-22% in fiscal 2025, as we factor in full-year contribution from the acquisition of BEX Group. In fiscal 2026, we assume revenue growth of 1%-5%.
- EBITDA margin of 10%-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. This reflects an improvement from fiscal 2023's 9.4%.
- Annual capital expenditure of Singapore dollar (S\$) 20 million-S\$30 million over the next two years.
- Dividends, including preferred dividends, to be S\$35 million-S\$55 million over the next two years.

## Key metrics

### Singapore Post Ltd.--Forecast summary

Period ending (Mil. S\$)	Mar-31-2022 2021a	Mar-31-2023 2022a	Mar-31-2024 2023e	Mar-31-2025 2024f	Mar-31-2026 2025f
Revenue	1,666	1,872	1,712	2,070	2,114
EBITDA	184	175	156	207	232
Funds from operations (FFO)	131	115	108	147	168
EBIT	119	102	91	131	154
Interest expense	30	26	36	41	40
Cash flow from operations (CFO)	64	95	48	149	169
Capital expenditure (capex)	24	28	30	25	25
Free operating cash flow (FOCF)	40	66	18	124	144
Dividends	27	47	37	48	52
Discretionary cash flow (DCF)	(337)	19	(19)	76	91
Debt (reported)	517	624	800	807	739
Plus: Lease liabilities debt	99	109	109	109	109
Plus: Pension and other postretirement debt	1	2	2	2	2
Less: Accessible cash and liquid Investments	(231)	(397)	(367)	(360)	(366)
Plus/(less): Other	257	227	154	154	154
Debt	644	565	698	711	637
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	3.5	3.2	4.5	3.4	2.8
FFO/debt (%)	20.3	20.4	15.4	20.7	26.4
FFO cash interest coverage (x)	5.5	5.2	4.0	4.6	5.2
EBITDA interest coverage (x)	6.0	6.6	4.4	5.1	5.8
CFO/debt (%)	9.9	16.8	6.8	20.9	26.5
FOCF/debt (%)	6.2	11.7	2.5	17.4	22.5
DCF/debt (%)	(52.4)	3.4	(2.7)	10.7	14.3
EBITDA margin (%)	11.0	9.4	9.1	10.0	11.0
Return on capital (%)	6.9	5.7	4.8	6.6	7.8

## Company Description

Founded in 1819, SingPost has three key business segments: postal and parcel, logistics, and property. SingPost operates internationally with key operations in Singapore and Australia. It is listed on the Singapore stock exchange, with Singapore Telecommunications Ltd. (Singtel) holding a 22% stake and Alibaba Investment Ltd. 15%.

### Singapore Post Ltd.--Financial Summary

Period ending	Mar-31-2018	Mar-31-2019	Mar-31-2020	Mar-31-2021	Mar-31-2022	Mar-31-2023
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	S\$	S\$	S\$	S\$	S\$	S\$
Revenues	1,464	1,323	1,314	1,405	1,666	1,872
EBITDA	236	280	215	151	184	175
Funds from operations (FFO)	177	217	148	92	131	115
Interest expense	31	31	28	26	30	26
Cash interest paid	29	32	31	24	29	27
Operating cash flow (OCF)	212	163	159	195	64	95
Capital expenditure	62	31	27	22	24	28
Free operating cash flow (FOCF)	150	132	132	173	40	66
Discretionary cash flow (DCF)	89	23	52	134	-337	19
Cash and short-term investments	316	399	502	508	288	496
Gross available cash	316	399	502	508	288	496
Debt	445	459	399	348	644	565
Common equity	1,443	1,314	1,295	1,325	1,142	1,249
<b>Adjusted ratios</b>						
EBITDA margin (%)	16.1	21.2	16.4	10.8	11	9.4
Return on capital (%)	7.3	10.3	8.6	4.9	6.9	5.7
EBITDA interest coverage (x)	7.7	9.2	7.8	5.8	6	6.6
FFO cash interest coverage (x)	7.2	7.7	5.8	4.8	5.5	5.2
Debt/EBITDA (x)	1.9	1.6	1.9	2.3	3.5	3.2
FFO/debt (%)	39.7	47.2	37.1	26.4	20.3	20.4
OCF/debt (%)	47.7	35.6	39.9	56	9.9	16.8
FOCF/debt (%)	33.8	28.7	33.1	49.7	6.2	11.7
DCF/debt (%)	20	5	13.1	38.5	-52.4	3.4

### 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-31-2023									

## Reconciliation Of Singapore Post Ltd. Reported Amounts With S&amp;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
Company reported amounts	624	1,382	1,872	176	93	20	175	116	51	28
Cash taxes paid	-	-	-	-	-	-	(33)	-	-	-
Cash interest paid	-	-	-	-	-	-	(22)	-	-	-
Lease liabilities	80	-	-	-	-	-	-	-	-	-
Incremental lease liabilities	29	-	-	-	1	1	(1)	(1)	-	-
Intermediate hybrids (equity)	126	(126)	-	-	-	5	(4)	(4)	(4)	-
Postretirement benefit obligations/deferred compensation	2	-	-	0	0	0	-	-	-	-
Accessible cash and liquid investments	(397)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	8	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(15)	-	-
Noncontrolling/minority interest	-	(7)	-	-	-	-	-	-	-	-
Debt: Contingent considerations	29	-	-	-	-	-	-	-	-	-
Debt: Put options on minority stakes	73	-	-	-	-	-	-	-	-	-
Total adjustments	(59)	(133)	-	(0)	9	7	(60)	(21)	(4)	-
<b>S&amp;P Global Ratings adjusted</b>	<b>Debt</b>	<b>Equity</b>	<b>Revenue</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Funds from Operations</b>	<b>Operating cash flow</b>	<b>Dividends</b>	<b>Capital expenditure</b>
	565	1,249	1,872	175	102	26	115	95	47	28

## Environmental, Social, And Governance

Environmental factors are a neutral consideration in our 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.

To meet its emission reduction goal, SingPost plans to replace its domestic postal delivery fleet with electric vehicles by 2026. Because the shift will be gradual, we do not expect sizable annual capital expenditure on this over the next one to two years.

## Singapore Post Ltd.

Governance factors are a moderately negative consideration in our credit rating analysis. Frequent changes in the company's management could disrupt its strategic direction and operational oversight.

While SingPost has been improving its service quality, transparency, and governance practices over the past five years, it remains to be seen how the company will navigate the industry's structural decline, changes in leadership, and pursue its growth strategy simultaneously.

Social factors are also a moderately negative consideration in our credit analysis of SingPost. The pandemic has eroded SingPost's profitability in the postal and parcel industry, given disruption in air traffic. In addition, the lasting impact of the pandemic could permanently alter consumer behavior with regard to the use of commercial and office space. The latter could result in pressures on occupancy rates. This would hinder the growth in SingPost's property business, which has been compensating for the structural decline in the postal industry. That said, overall occupancy rate at SingPost Centre was 96.3% as of Dec. 31, 2023.

In our view, prolonged margin erosion could narrow SingPost's rating headroom. The company will have to step up its efforts to protect its margins and adapt to changing industry conditions.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

As of Dec. 31, 2023, SingPost had S\$675.6 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 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.

## Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BBB/Negative/NR</b>
<b>Local currency issuer credit rating</b>	<b>BBB/Negative/NR</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Intermediate</b>
Cash flow/leverage	Intermediate
<b>Anchor</b>	<b>bbb-</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Moderately Negative (no impact)
Comparable rating analysis	Positive (+1 notch)
<b>Stand-alone credit profile</b>	<b>bbb</b>

## Related Criteria

- 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 | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Tear Sheet: Singapore Post Ltd., Nov. 15, 2023
- Bulletin: Singapore Post's Proposed Acquisition Will Delay Deleveraging, Nov. 3, 2023
- Research Update: Singapore Post Downgraded to 'BBB' from 'BBB+' On Weakening Business Prospects; Outlook Negative, May 23, 2023
- Singapore Post Limited, March 24, 2023
- Bulletin: Singapore Post's Accelerated Acquisition Eases Put-Option Uncertainty, Jan. 13, 2023
- Research Update: Singapore Post Outlook Revised To Negative On Structurally Weak Post And Parcel Business; 'BBB+' Rating Affirmed, Dec. 13, 2022

### Ratings Detail (as of March 06, 2024)\*

#### Singapore Post Ltd.

Issuer Credit Rating BBB/Negative/NR

#### Issuer Credit Ratings History

23-May-2023 BBB/Negative/NR

12-Dec-2022 BBB+/Negative/NR

09-Nov-2016 BBB+/Stable/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.



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