

Research Update:

Singapore Post Ltd. 'BBB' Rating Placed On CreditWatch Negative Over Strategy Reset

December 4, 2024

Rating Action Overview

- The loss of a key earnings driver introduces uncertainty over the future strategy of Singapore Post Ltd. (SingPost), in our view.
- The repayment of Australian dollar-denominated debt will provide immediate relief to its leverage profile.
- On Dec. 5, 2024, S&P Global Ratings placed its 'BBB' long-term issuer credit rating on SingPost and 'BB+' issue rating on the Singapore dollar (S\$) 250 million subordinated perpetual securities that the company guarantees on CreditWatch with negative implications.
- 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.

Rating Action Rationale

SingPost's proposed sale of its Australia business, Freight Management Holdings Pty Ltd., will be transformative and clouds its future strategy, in our view. Over the past four years, SingPost has invested into the logistics industry in Australia to mitigate the structural decline in the postal sector. Australia has been a key contributor to the company. For the first half of fiscal 2025 (ending March 31, 2025), it accounted for 58% of total revenue.

The loss of a 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 business from earnings in structural decline and build a second-home base. The strategic backtracking highlights the uncertainty over the future direction of the company, and calls into question the consistency and execution of the company's stated strategy.

The remaining business is likely to be narrower with significantly reduced scale and diversity. This includes Singapore and international segments. They broadly refer to letters and printed papers, e-commerce, freight forwarding, and property, including rental income derived from the SingPost Centre. Once the sale is completed (expected by the end of March 2025), management will review and reset the company's strategic plan.

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We expect SingPost's balance sheet to materially strengthen following the debt repayment.

The transaction is expected to generate a net gain on disposal of S\$312.1 million. SingPost will use the proceeds to pay down its Australian dollar-denominated debt. The company expects to receive cash proceeds of S\$682.8 million, against its outstanding Australian dollar-denominated debt of S\$544.9 million. A portion of the remaining proceeds is likely to be earmarked for a special dividend. As such, we do not assume the remainder to be used 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 earlier projections 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. This will depend on the company's future business strategy, which could require further investment and time. SingPost's longer-term leverage tolerance is also unclear.

While the company continues to work on divesting other noncore assets, the uncertainty around the use of proceeds remains. A potential sale of SingPost Centre could provide significant financial flexibility to the company and could further reshape the business. Should a sale occur, the way in which SingPost reallocates 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.

Company Description

SingPost is a postal and e-commerce logistics provider in 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.

Issue Ratings – Subordination Risk Analysis

Capital structure

As of Sept. 30, 2024, SingPost had S\$892 million in reported borrowings. This includes 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 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) because they meet our criteria of permanence and subordination. The deferability of distribution payment also reflects cash conservation quality.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Watch Neg/--
Business risk:	Fair
Country risk	Low Risk
Industry risk	Low Risk
Competitive position	Fair
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bb+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Positive (+1 notch)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	bbb

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, 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

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- 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

- 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 List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Singapore Post Ltd.		
Issuer Credit Rating	BBB/Watch Neg/--	BBB/Negative/--
SingPost Group Treasury Pte. Ltd.		
Junior Subordinated	BB+/Watch Neg	BB+

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