International Post Corporation

SingPost revenue rises 17.1 per cent for the full year, net profit falls 86.6 per cent on impairment charges

15-05-2017

Singapore Post Limited (â€œSingPostâ€☐) today announced its results for the full year ende 31 March 2017. Revenue for the year rose 17.1 per cent to S$1.35 billion, mainly from the inclusion of SingPost's US eCommerce subsidiaries.

- Revenue rose 17.1 per cent to S$1.35 billion for the full year ended 31 March 2017
- Underlying net profit was down 24.7 per cent on transformation investments and domestic mail decline
- Impairment charges of S$208.6 million recorded, offset by a S$108.7 million fair value gain related largely to SingPost Centre
- Final dividend of 0.5 cent per share proposed

Singapore Post Limited ("SingPost") today announced its results for the full year ended 31 March 2017.

Revenue for the year rose 17.1 per cent to S$1.35 billion, mainly from the inclusion of SingPost's US eCommerce subsidiaries.

Net profit attributable to equity holders decreased 86.6 per cent to S$33.4 million, reflecting a 24.7 per cent decline in underlying net profit and exceptional items.

Underlying net profit fell from S$153.6 million to S$115.6 million on operating losses at TradeGlobal, lower contributions from associated companies, the impact of planned investments to build out a regional eCommerce logistics platform such as the Regional eCommerce Logistics Hub, as well as continued decline in Postal operating profit.

The fair value of the Group's investment properties saw a gain of S$108.7 million. This is related largely to SingPost Centre, where the redevelopment of the retail section of the building is nearing completion.

The gain was offset by impairment charges of S$208.6 million, mainly S$185.0 million for TradeGlobal, S$20.5 million for Postea Inc., and S$9.3 million for an industrial property at 3B Toh Guan Road East.

Mr Mervyn Lim, Covering Group Chief Executive Officer, said: "As part of our ongoing transformation, we continue to build out our eCommerce logistics platform to create new revenue streams and embed sustainable growth. This is fundamental to our strategy. The journey will take time as our investments are for the long term and will not benefit the bottom line immediately."

Impairment of TradeGlobal

Following the announcement in the Q3 quarterly results of the risk of significant impairment, the carrying value of SingPost's investments and assets has been reviewed. The valuation process involved a review of the FY16/17 performance and a detailed evaluation of the underlying assumptions of future business plans for each of the businesses. Given the extent of the impairment to SingPost's investment in TradeGlobal, SingPost also appointed FTI

Consulting, an independent global business advisory firm, which has verified that the impairment provision was properly calculated following an appropriate review process and that the assumptions adopted were reasonable.

Mr Simon Israel, Chairman of SingPost, said, “It is unfortunate that such a significant impairment to the TradeGlobal acquisition has to be made so soon after the transaction. A turnaround plan is being executed with the objective of recovering as much value as possible for shareholders.”

The principal issue is that TradeGlobal has significantly underperformed the business case which supported the investment. Instead of a projected profit of S$9.4 million for FY16/17, TradeGlobal incurred a significant loss of S$25.8 million.

TradeGlobal is experiencing operational and structural challenges. Operational difficulties include a surge in labour costs during the recent peak season, delays in warehouse automation which impact productivity, and management changes. Key structural challenges that will impact the business moving forward include:

- Disruption in the US fashion retail industry which is adversely affecting key customers;
- Loss of two large customers which accounted for between 30 per cent and 40 per cent of revenue; and
- Sustained cost pressures arising from labour shortage in the Cincinnati area.

Independent committee appointed

Following the announcement of the risk of significant impairment in the Q3 quarterly results, the Board formed an independent committee to conduct a thorough review of the circumstances surrounding SingPost’s consideration and approval of the TradeGlobal acquisition. To assure stakeholders of the independence of the review, the committee comprises Ms Elizabeth Kong, Mrs Fang Ai Lian and Mr Bob Tan, independent directors who were all appointed to the Board after the acquisition of TradeGlobal.

The committee has engaged WongPartnership as legal counsel to assist and advise it on the review of the TradeGlobal acquisition. It has also engaged FTI Consulting to assess the adequacy of the financial and commercial due diligence performed in relation to the transaction.

The Board will update shareholders on the outcome of the review, and will seek legal advice on appropriate actions, if any, to be taken arising from the findings of the committee. The review is expected to be completed and the findings released before the Annual General Meeting in July 2017.

Mr Israel said: “No transformation is easy and the past year has been a challenging one for SingPost. But we should not allow it to overshadow the progress of our transformation, notably the strong performance of US-based Jagged Peak and Singapore-based SP eCommerce – and the build out of our eCommerce logistics platform through our joint venture with Alibaba. We expect our progress to accelerate under the leadership of Mr Paul Coutts, who commences as SingPost’s Group CEO on 1 June 2017.”

Developing new revenue streams while managing margin pressures

Domestic mail revenue for the year continued to slide as more companies switched to electronic statements. This was offset by higher international eCommerce-related deliveries, buoyed by increased volumes from the Alibaba Group. The shift in the revenue mix towards the lower margin international mail business saw Postal operating profit decline 4.2 per cent to S$150.7 million. This trend is expected to continue. Innovation of new products, as well as productivity and efficiency measures are being undertaken to mitigate margin pressures. Changes in the international terminal dues system will take effect from 1 January 2018 and the potential impact from this is being assessed.

Logistics revenue rose 1.7 per cent as CouriersPlease benefitted from increased eCommerce-related activities. Operating profit decreased from S$38.8 million to S$23.6 million, reflecting costs from planned investments to build out SingPost's eCommerce logistics network, intense competitive pressures in the eCommerce logistics space, and depressed industry freight rates and volumes in the freight forwarding industry. SingPost is developing its business with Alibaba to drive volumes on its commercial logistics network. Efforts are also underway to expand the customer base, and develop collaborations and alliances with strategic partners to further increase volumes and economies of scale. As the industry is expected to continue experiencing tight operating margins amid intense competition, it will take time for these initiatives to translate materially into earnings.

The eCommerce business is key to SingPost's end-to-end eCommerce logistics growth strategy and the inclusion of US subsidiaries TradeGlobal and Jagged Peak drove a 171.4 per cent rise in eCommerce revenue to S$267.1 million. Jagged Peak and SP eCommerce performed well. However, underperformance by TradeGlobal led the eCommerce division into an operating loss of S$33.8 million. As part of the turnaround plan, measures have been put in place to improve TradeGlobal's operating performance, particularly during the peak season. But TradeGlobal is not expected to be profitable for the financial year ending 31 March 2018. Management will continue to focus on extracting post acquisition synergies from the networks and capabilities of SingPost's eCommerce units.

The new retail mall at SingPost Centre is expected to open in the second half of the year. CapitaLand has been appointed as the retail mall manager, which will help optimise returns from this asset. The Group has foregone rental income during the development of the mall, and will begin to progressively recognise rental income from the second half of FY17/18 onwards as occupancy ramps up towards a steady state.

Total expenses of the Group increased 22.5 per cent as new subsidiaries were consolidated. Expenses rose due to higher terminal dues paid for increased international mail volumes, as well as higher cost of sales and outsourced services related to TradeGlobal and Jagged Peak respectively.

eCommerce-related revenues from across the Postal, Logistics and eCommerce segments increased from S$412.4 million to S$680.2 million, making up 50.4 per cent of Group revenue. Overseas revenues rose correspondingly to make up 50.5 per cent of Group revenue, up from 43.9 per cent the previous year.

For the fourth quarter ended 31 March 2017, revenue rose 2.0 per cent to S$324 million, while underlying net profit was down 32.8 per cent.

Return to positive free cash flow

Net cash from operating activities for the financial year rose to S$200.1 million, from S$131.4 million the previous year. The Group returned to a positive free cash flow position after two years of high capital expenditure.

As at 31 March 2017, SingPost's cash and cash equivalents stood at S$366.6 million, up from S$126.6 million as at 31 March 2016. The Group recorded a net cash position of S$2.6 million.

Final dividend

SingPost's dividend policy is based on paying out between 60 per cent and 80 per cent of underlying net profit for the financial year. This excludes the impact of one-off items such as impairment charges and fair value adjustments.

For the fourth quarter of FY 16/17, the Board of Directors is recommending a final dividend of 0.5 cent per ordinary share (tax exempt one-tier). This would bring the annual dividend for the financial year to 3.5 cents per share, representing a payout ratio of 66 per cent of underlying net profit. The proposed final dividend is subject to shareholders' approval at the Annual General Meeting in July 2017.

Source: [SingPost]