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Singapore Post Limited

Corporate Monitor Ltd, a not-for-profit entity dedicated to objective and comprehensive research on SGX listed companies, has published a report on Singapore Post Limited ("SingPost"). This is not investment advice.

Corporate Monitor Ltd ("CML"), has been following SingPost for months, and is issuing this initial coverage on SingPost. While we note the 105% rise in Q1 operating profit for Financial Year ending March 2025, we retain our guarded view of the company. For a start, management attributed the rise in Q1 profit to consolidation of Border Express, an Australian logistics business, which SingPost acquired in March 2024. For a group that has relied on acquisitions to grow, such short-term accounting boost is common. Investors should focus on SingPost's long term growth prospects, which CML has strong reservations about.

SingPost has one of the most venerable businesses among the SGX-listed companies, its postal service having celebrated 165 years of continuous history recently. However, it is also the postal service that poses the greatest strategic challenge for SingPost, as technology led to an unrelenting decline in postal services. This was well known to SingPost, which in 2010 resorted to a blitz of overseas (mostly US) acquisitions to create a new engine of growth. Unfortunately, despite more than 20 acquisitions, the transformation failed badly. The new board and management, installed in 2021/22, employed the same acquisition playbook, this time in Australia. In Singapore, SingPost tried to grow the eCommerce delivery service to offset the sharp decline of the Post & Parcel business.

Today, SingPost has three businesses, all of which have little connection and synergies with each other. The acquired Australian businesses are doing fine but do not fully offset the decline of the Post & Parcel business, contributing only S$67m in operating profit in FY2024. (This is still substantially lower than the operating profits of S$166m that Singapore Post & Parcel business achieved back in 2019.) Moreover, the Australian business has a market share of 1%, despite being the number 5 player, in a highly fragmented market. In this business, growth is a necessity rather than an option, since scale is critical to service clients' needs, and to afford the technology investments. The Australian business requires financial resources that SingPost may not be able to provide, due to its highly leveraged balance sheet.

The Singapore Post & Parcel business went into a loss in 2023 and reported a small profit of S$7.5m in 2024 after the government agreed to a hike in the postal rate. The company acknowledged that significant growth in this business is challenging. Avoiding loss may be the best outcome. SingPost has tried to grow the e-commerce logistics business to compensate for the postal woes. However, this is facing severe market challenges. Large e-commerce clients are increasingly building in-house delivery logistics capabilities. As a result, SingPost's competitors in e-commerce logistics are resorting to price competition to cater to the remaining customers. The market leaders, J&T Express and NinjaVan, have seen their own losses widen. We doubt SingPost is able to buck the trend. So taken as a whole, this business is at best able to eke out marginal growth.

Property contributes close to 50% of SingPost's operating profits, but is designated non-core. SingPost revalued its flagship property, Singapore Post Centre ("SPC"), in FY2024 to S$1.1b, and recorded a valuation gain. While investors may see a tantalizing prospect of SingPost realizing the gain, such a sale is unlikely to result in meaningful distributions to shareholders. SingPost has a highly leveraged balance sheet, so proceeds from property sale will most likely go towards de-leveraging.

However, SingPost does not have the luxury of time to sell SPC. Firstly, if the losses on Post & Parcel business continue to widen faster than the growth of the Australian business, overall EBITDA will decline. The Debt to EBITDA ratio, which lenders and rating agencies focus on, will deteriorate in this scenario. This will expose SingPost to higher financial risks. A downgrade by rating agencies is not theoretical. Secondly, with a leveraged balance sheet, SingPost has very limited capacity for more mergers and acquisitions, which will mean its growth will be mostly organic. This is a challenge that the Australian business faces acutely. Without more financial support from SingPost, the Australian business may face a growth bottleneck.

In this context, it is no surprise that SingPost's management is exploring a separate IPO of the Australian business. This could inject more capital into the Australian business, while allowing SingPost to sell a partial stake, with the proceeds to deleverage its balance sheet. A separate listing of the Australian business reinforces the question of why SingPost should continue to be the holding company of these distinct and unconnected businesses. In fact, why should SingPost continue to be listed in SGX if the Australian business is listed on the Australian stock exchange? It is common for a conglomerate discount to apply if SingPost is merely a collection of businesses. It is sub-optimal for shareholder value, a theme we will return to shortly.

On 30 July 2024, The Australian Financial Review reported that Bank of America had been mandated to sell SingPost's Australian assets, and made "overtures to private equity types". In Australia, private equity firms typically look to buy controlling stakes, if not 100% of businesses. Rarely do they buy minority stakes. What is the strategic rationale to sell both SPC and the Australian business? The parallel with Singapore Press Holdings comes to mind. Under this scenario, proceeds from these sales could be brought back to reduce debt and allow a distribution of returns to shareholders. The Post and Parcel business could be restructured as part of SingPost's negotiation with the Singaporean government to find a structural solution.

Putting aside this drastic scenario, if SingPost continues to be the holding company of three distinct, separate and unconnected businesses, what is the role of the group management and Board? What value-add does the group management provide? The Australian business appears to be run just fine by the same local management which continued on after the sale to SingPost. Neither the Group CEO nor the Group CFO has any Australian experience. The Australian business' management may well ask themselves why they should remain in SingPost ownership. The Singapore Post & Parcel business is very challenged, due to regulatory and market issues. It is not a business SingPost management could do very much despite the best intentions and efforts. Mergers and acquisitions are largely out of the question too, given the leveraged balance sheet. So in conclusion, if the group management doesn't add value, it is just an additional layer of costs and possibly bureaucracy.

The Board of SingPost likewise does not appear to have much background in Australia or logistics. We note the appointment of a new board member with logistics experience, having worked at DHL. We would like SingPost to accelerate the board renewal in that direction, rather than continuing to make exceptions to its renewal policy. Instead of retiring after 6 years according to its renewal policy, 5 out of 9 directors have served more than 7 years. Two of them were re-elected in the recent AGM. SingPost would not explain exactly what are the critical skillsets that justified their re-elections.

Management of capital is one of the 5 strategic thrusts for SingPost, but it is here that the group has not fared well. Management has stated that the target return on equity (ROE) is in “the teens”. However, SingPost‘s ROE has been below that since 2017. Worse, SingPost didn’t even earn its cost of equity, which we conservatively estimate to be 9%. In the last 10 years, SingPost’s ROE only exceeded the cost of equity 3 times, and not since 2019. ROE fell to as low as 2% in 2023, and not much better in 2024, at 3.8% after stripping out the valuation gain (which is non-cash) of SPC. While reconstructing its reported ROE, we had also observed that SingPost had selected an approach that wholly excludes its perpetual securities, thus boosting the reported ROE. We would like SingPost’s management to articulate a more specific ROE target, and more importantly a road map and timeline to achieve that. Otherwise, talk of an ROE target in “the teens” rings hollow.

By not achieving ROE above its cost of equity, SingPost has been destroying shareholder value. Admittedly, this is largely due to the rapidly declining profitability of the Post & Parcel business, but management is ultimately responsible.

In conclusion, SingPost faces daunting strategic challenges that are inter-connected. The Post & Parcel business continues to be the root of SingPost’s problems. The Australian business is doing well but could not make up for the profit that Post & Parcel used to earn. There is no growth in the property business, which is non-core anyway. Finding growth is the biggest problem for the group. Without growth, balance sheet leverage will continue to be a problem and will expose SingPost to financial risks. Without growth, ROE will continue to be depressed. However, a leveraged balance sheet in turn constrains growth, as SingPost lacks the financial resources to fund the Australian business, which is the only one with realistic growth prospects.

The full SingPost report can be accessed at https://corporate-monitor.org/research/
