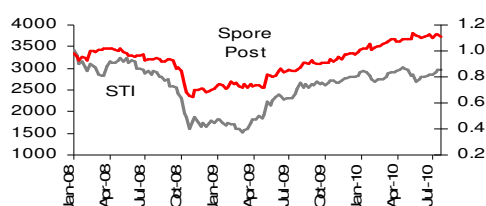


29 July 2010

Maintain

HOLD

Previous Rating: HOLD

Current Price: S\$1.13
Fair Value: S\$1.16


Singapore Post Ltd

Cautiously optimistic on its outlook

1QFY11 results in line with expectations. Singapore Post (SingPost) reported a 13.5% YoY rise in revenue to S\$138.2m and a 3.2% increase in net profit to S\$40.7m in 1QFY11, just 1% shy of our estimates. Annualised results were also in line with the street's estimates. Revenue growth was due to higher contributions in the mail (+11.4%) and logistics (34.4%) segments. The latter segment was boosted by the consolidation of Quantum Solutions for the full quarter compared to two months in 1QFY10. Recall that the acquisition was completed on 6 May 09. Rental and property income rose slightly by 1.6% YoY to S\$10.1m. Excluding one-off items such as benefits from the Jobs Credit Scheme and amortisation of deferred gain on IP rights, underlying net profit rose 1% to S\$37.3m.

Funds ready to be deployed. SingPost took advantage of the low interest environment in March to issue S\$200m worth of fixed rate notes. We understand that the group has invested about S\$38m in higher yielding financial instruments comprising mainly equity-linked notes (ELNs) and other bonds. The ELNs are related to dividend-yielding Singapore blue-chip companies and management explained that this is a temporary measure to generate better returns from idle funds before the group uses them in M&A activities.

Cautiously optimistic. The group is seeing an increase in business activities with an improving economy, but remains "cautiously optimistic" as it continues to face challenges in its industry, such as e-substitution and competition. As such, management reiterated its aim to grow its non-mail contributions and regional business for diversification and growth. More specifically, SingPost will push for regional growth through Quantum Solutions, especially in e-commerce logistics. Meanwhile, the group is also expanding in-country distribution networks in the region, especially in India.

Maintain HOLD. It has been about half a year since the group's CEO left, and the search for a new CEO is still ongoing. We continue to like SingPost's stable and resilient business but transformational growth is unlikely to happen overnight, given that the group aims to leverage on its core competencies, and the fact that the top position is still vacant. As expected, an interim quarterly dividend of S\$0.0125/share has been declared. Given limited upside potential to our DCF-based fair value estimate of S\$1.16, we maintain our **HOLD** rating on SingPost.

Reuters Code	SPOS.SI
ISIN Code	S08
Bloomberg Code	SPOST SP
Issued Capital (m)	1,928
Mkt Cap (S\$m/US\$m)	2,179 / 1,593
Major Shareholders	
Sing Tel	25.6%
Free Float (%)	74.2%
Daily Vol 3-mth ('000)	4,103
52 Wk Range	0.875 - 1.170

(S\$ m)	FY09	FY10	FY11F	FY12F
Revenue	481.1	525.5	541.8	558.1
EBITDA	205.0	213.0	225.5	228.5
P/NTA (x)	8.7	10.7	8.7	7.4
EPS (cts)	7.7	8.6	8.6	8.9
PER (x)	14.6	13.2	13.1	12.7

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Spore Post's Key Financial Data

Spore Post Results Year Ended 31 Mar (\$\$ m)	1Q11 (\$\$m)	1Q10 (\$\$m)	% Chg (YoY)	4Q10 (\$\$m)	% Chg (QoQ)
Revenue	138.2	121.8	13.5%	133.8	3.3%
EBITDA	45.8	44.6	2.7%	39.2	16.7%
Depreciation & amortisation	-7.1	-7.5	-5.5%	-7.1	0.3%
Net interest expense	-3.2	-1.9	65.5%	-1.8	75.8%
Associates	-0.1	1.4	NM	-0.1	NM
Others	14.3	10.9	31.1%	15.2	-5.7%
Pre-tax profit	49.3	47.4	4.1%	45.4	8.7%
Tax	-8.5	-7.9	8.0%	-4.2	102.3%
Minority interests	-0.2	-0.1	31.3%	-0.3	-38.9%
Net profit att to shareholders	40.7	39.4	3.2%	40.9	-0.6%

SingPost's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Mar (\$\$m)	FY09	FY10	FY11F	FY12F	As at 31 Mar (\$\$m)	FY09	FY10	FY11F	FY12F
Revenue	481.1	525.5	541.8	558.1	Cash and cash equivalents	139.5	390.2	407.1	462.1
Operating expenses	-309.5	-352.9	-357.7	-373.0	Other current assets	75.7	94.9	98.3	101.2
EBITDA	205.0	213.0	225.5	228.5	Property, plant, and equipment	457.3	450.3	443.4	433.4
EBIT	178.6	183.2	199.3	203.0	Total assets	770.2	1,074.9	1,098.2	1,137.1
Net interest expense	-7.2	-7.5	-11.8	-11.5	Debt	303.0	503.0	503.0	503.0
Associates	7.8	1.0	0.2	1.0	Current liabilities excluding debt	194.4	241.2	223.9	229.6
Pre-tax profit	179.1	194.8	195.7	200.7	Total liabilities	514.0	776.4	753.6	755.0
Tax	-29.6	-29.0	-29.2	-28.1	Shareholders equity	251.4	292.9	338.4	375.5
Minority interests	-0.7	-0.8	-0.5	-0.5	Total equity	256.2	298.5	344.5	382.1
Net profit att to shareholders	148.8	165.0	166.0	172.1	Total equity and liabilities	770.2	1,074.9	1,098.2	1,137.1

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Mar (\$\$m)	FY09	FY10	FY11F	FY12F		FY09	FY10	FY11F	FY12F
Op profit before working cap. chang	205.5	223.0	224.6	237.4	EPS (S cents)	7.7	8.6	8.6	8.9
Working cap, taxes and int	-35.2	-14.5	-42.0	-22.9	NTA per share (cents)	13.0	10.6	12.9	15.2
Net cash from operations	170.3	208.5	182.6	214.5	EBITDA margin (%)	42.6	40.5	41.6	40.9
Purchase of PP&E	-14.5	-12.4	-14.5	-14.1	Net profit margin (%)	30.9	31.4	30.6	30.8
Other investing flows	6.6	-17.2	-16.0	4.2	PER (x)	14.6	13.2	13.1	12.7
Investing cash flow	-7.8	-29.6	-30.5	-9.8	Price/NTA (x)	8.7	10.7	8.7	7.4
Financing cash flow	-127.1	71.8	-135.2	-149.7	EV/EBITDA (x)	11.4	10.7	10.1	9.7
Net cash flow	35.4	250.7	16.8	55.0	Dividend yield (%)	5.5	5.5	5.5	5.5
Cash at beginning of year	104.1	139.5	390.2	407.1	ROE (%)	59.2	56.3	49.1	45.8
Cash at end of year (incl ODs)	139.5	390.2	407.1	462.1	Net gearing (%)	0.6	0.4	0.3	0.1

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst's immediate family owns shares in the above security.

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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Carmen Lee
Head of Research

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