GNAM Investment Competition

Top Investment Stock

Singapore POST

Team Members

Daisy Wu

Derek Sin

Elle Lim

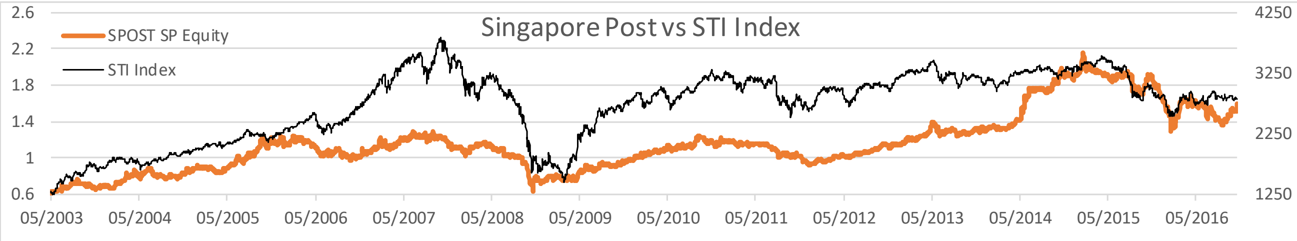
Jeffrey Schaeffer

Kenley Go

Zhao Bo

NUS National University of Singapore | NUS Business School

Executive Summary



Singapore Post Ltd (SingPost) is the country's postal service provider with over 150 years' history. It delivers trusted and Reliable mail and logistic services in 19 markets. Listed in SGX since 2003.

From local postal group to international e-commerce giant

SingPost is looking to take advantage of global shifts brought about by technology by moving from a play in traditional post and logistics, to one in the e-commerce space. Doing so allows the company to move from a flat postal industry, to an e-commerce market that is rapidly growing, especially in the ASEAN region. By offering integrated solutions, SingPost offers a service that transcends the common problems encountered by companies moving into the e-commerce space.

Next generation O2O shopping experience

In Q3 2015, SingPost started constructing the new retail mall, which will integrate e-commerce logistics solution by combining both online and offline shopping. The new mall will be the one and only integrated O2O solution for retail and e-commerce. It benefits both the consumer and the retailer. Consumer could purchase the product and arrange for delivery directly to their home without carrying bulky shopping bags around. The retailer could save on storage space and process order at the warehouse level. The new retail mall will reinforce the plan endorsed by the Urban Redevelopment Authority in 2008 and add more buzz into the Paya Lebar area by introducing the new O2O retail experience. The mall is scheduled to be completed in mid-2017 and we foresee e-commerce revenue increase significantly after that.

Perfect timing to capture growth at attractive valuation

We believe that the impact of recent events surrounding SingPost's corporate governance on the company is temporary rather than long-term. The relatively low share price presents an attractive buying opportunity. Our DCF valuation indicates a fair value of S$2.12, representing an upside of 34%. Now is the time to buy the stock at low valuation with significant upside to capture the company's enormous growth potential.

Oct 28, 2016

BUY

Target Price	S$ 2.12
versus: Current Price	S$ 1.59
12m total return forecast	**34%**

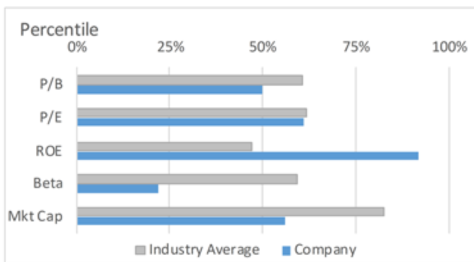
Key information

Market Cap. (m)	S$ 3,441 / USD 2,468
Avg daily turnover (m)	S$ 9.67
Avg daily vol. (m)	6.38
52-wk range (S$)	1.285-1.935
Free float (%)	66.8
Shares outstanding (m)	2,164
Exchange	SGX
Bloomberg ticker	SPOST SP
SGX code	S08
GICS Sector	Industrials
GICS Industry	Air Freight & Logistics
Top shareholder	SingTel 22.83% Alibaba 10.17%

Key financial highlights

Year ended 31 Mar (S$m)	FY15	FY16	FY17E	FY18E
Revenue	919.6	1,151.5	1,336.8	1,494.7
Operating expenses	727.7	871.8	1,150.2	1,275.3
EBITDA	221.4	217.3	230.3	259.4
EPS (cents)	6.8	10.8	7.3	8.3
EBITDA margin (%)	24.1	18.9	17.2	17.4
Net profit margin (%)	17.1	14.5	11.8	12.0
ROE (%)	15.2	20.2	11.2	12.3

Industry-relative metrics



Economy Outlook

Singapore is a bustling metropolis of over 5,000,000 inhabitants from all over the globe. Over the past 50 years the country has experienced a massive transformation, growing from a sleepy fishing town to one of the largest economic hubs in the region, and is now what many consider a gateway to Southeast Asia, a region with a population of almost 600 million people.

Singaporeans are considered to be among the most connected in the world, with each citizen owning around 11 devices that are connected to the internet and over 82% of the population is connected. Despite this fact, the e-commerce sector is still a budding industry.

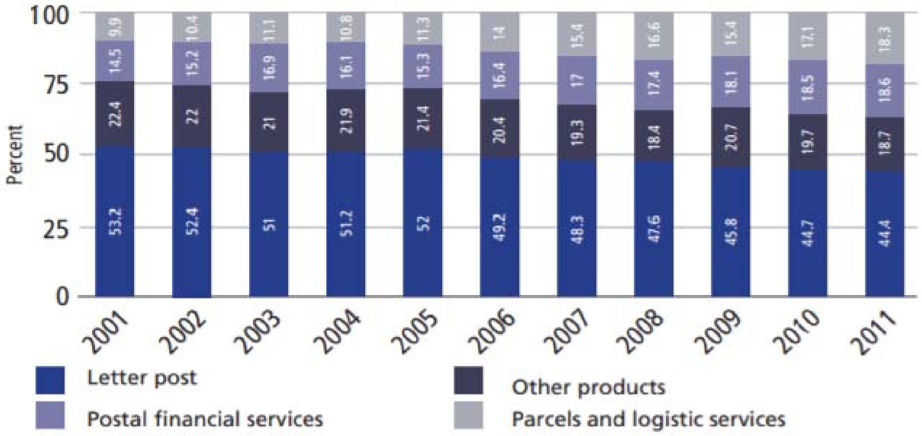
The country boasts some of the highest development indicators of anywhere in the world. Singapore has GDP per capita of $52,888.70, a value that has nearly doubled from 10 years ago. Although Singapore's GDP per capita is overtaken by United States in 2015, it is still ranked the 13th highest in the world.

The population of the country has also seen steady growth, as the population growth rate for Singapore has hovered around 2.5-3% over the past decade, which has beaten out the Asian Pacific average of around 1.5%. It also has an adult literacy rate of 96.8%, which is astounding in a country with four official languages. At 3.0% Singapore also has extremely low unemployment rate, and routinely beats out countries such as Germany, Japan, and the United Arab Emirates. Singaporeans also rank highly in monthly disposable income, where they are number 27 with approximately $2,800 extra to spend. And spend they do. The people of Singapore spend on average $ 17,523 on consumer goods, which puts them third overall in Asia. Behind only the Japanese and the inhabitants of Hong Kong (source: The World Bank). In fact, shopping has jokingly become a national pastime in Singapore, as almost 70% of the population admitted they either like or love shopping, with only 1% claiming that they did not enjoy it at all. They also have shown that they are lovers of bargains, as 20% reported that they made their last purchase because the item was on sale. This is one of the highest rates in the world. All of this bodes well for growth in the growing e-commerce sector.

Mail, Logistics and Digital E-Commerce Industry

Advances in technology have shaken up the industry in the past few years. On one hand, global letter post traffic has been in a decline, and yet this has been countered by an increase in parcel post traffic. The latter has been attributed to an increase in delivery from growing online e-commerce transactions. Such changes have presented some challenges, but also opportunities for the industry.

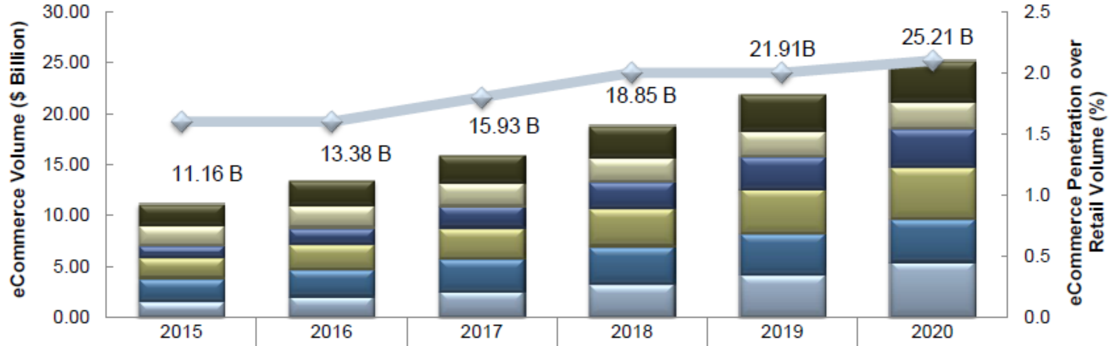
Distribution of global postal consumption expenditures
(domestic and international services combined, incumbents only, simple average)
from 2001 to 2011



Source: UPU Postal Statistics

The digital e-commerce industry, on the other hand, is posed to break out in the years to come, especially in South East Asia. In this region, transaction volumes are expected to increase, driven by the growth of the following factors: middle class population, internet population, adoption of smartphones, mobile penetration, and from the activation of the Trans Pacific Partnership Agreement. The e-commerce volume in ASEAN is expected to grow at an annual rate of 18% year on year, and is seen to exceed the $25 billion mark in 2020. Singapore, in particular, is seen to grow 5.7% annually.

eCommerce Market: Revenue Forecast, ASEAN-6, 2015–2020



	2015	2016	2017	2018	2019	2020
Thailand	2.11	2.44	2.79	3.18	3.61	4.08
Singapore	2.01	2.13	2.24	2.36	2.49	2.66
The Philippines	1.17	1.59	2.09	2.62	3.21	3.75
Indonesia	2.01	2.55	3.03	3.72	4.40	5.11
Malaysia	2.26	2.62	3.21	3.71	3.99	4.20
Vietnam	1.60	2.04	2.57	3.26	4.22	5.42
Penetration on Retail Volume	1.6	1.6	1.8	2.0	2.0	2.1

Year

*2016 to 2020's value are estimated

Source: Frost & Sullivan

Industry Trends

Complexity of Local Markets and Advantage of Local Players

The Asia Pacific e-commerce industry, however, is a very fragmented industry, with no single provider offering consistent products across all markets. The difference in each market's characteristics, thereby give an advantage to home developers who are more experienced with the local market. This causes multinational companies to fully outsource their entire operations to a local third-party. These services may range from simple hosting to fully-outsourced services - from IT services, online payment, logistics and warehousing, and to delivery.

With the dependence on cloud-based platforms, integrated services offer more flexibility for companies entering foreign markets. This is especially attractive to Small and Medium-sized businesses as it offers a cost-effective way to reach customers.

Increased Need for Service Differentiation

As the e-commerce industry matures and as more firms enter the industry, it is expected for these platforms to be increasingly competitive in terms of providing the best customer experience as a means for differentiation. To this end, the consistency and reliability of logistics services is crucial. And for this reason, multiple partnerships have been formed across the industry and especially across geographic locations.

Growth of Cross-Border Transactions

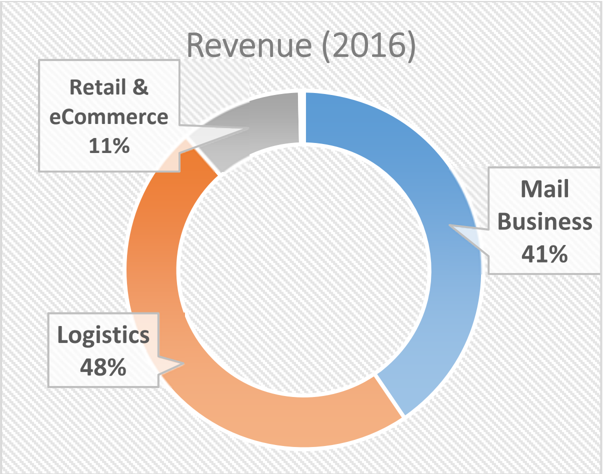
An efficient logistics integration is needed to drive the further growth of e-commerce. While Singapore has performed admirably on this aspect so far, this has not been the same in other countries, where the costs remains high. The high costs arise from underdeveloped air and sea transportation infrastructure, inefficient last-mile delivery platform and inconsistent customs regulations. This reverts back to the advantage of a local presence in the area.

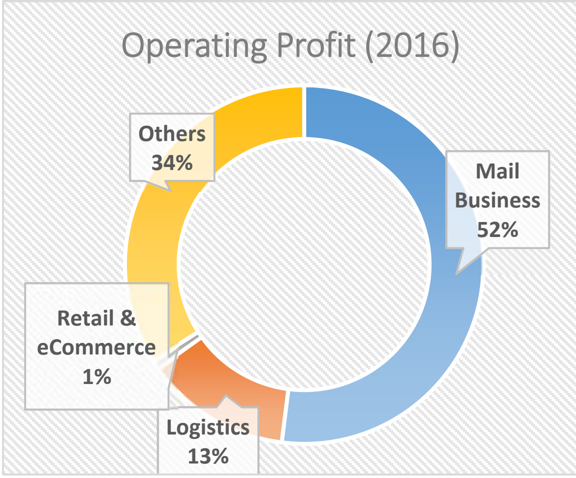
Currently, cross-border transactions offer a delivery experience that is much inferior to local transactions. Cross-border purchases are known to involve longer delivery times and hefty fees. However, it is estimated that 30% of cross-border purchases will match the experience of local e-commerce by 2020. This presents a challenge, but also an opportunity for the integration of the entire supply chain.

SingPost Business Overview

SingPost has been the country's national postal service provider since its inception over 150 years ago. It was listed in the Singapore Exchange in 2003. Today, SingPost has also pioneered into the e-commerce Logistics space and has operations in 19 markets worldwide.

As of March 2016, SingPost had a market capitalization of $3.53 billion and its revenue grew by 25.2% to $1.15 billion despite the economic slowdown. Of this $1.15 billion, 48% was generated from the Logistics business, followed by 41% generated by the Mail segment. However, the Mail segment still generates the highest proportion of Operating Profit at 52%. Others contributed 34% of Group Operating Profit due to one-off gains from divestment of subsidiaries and lower retail rental contributions due to the SPC retail mall redevelopment.





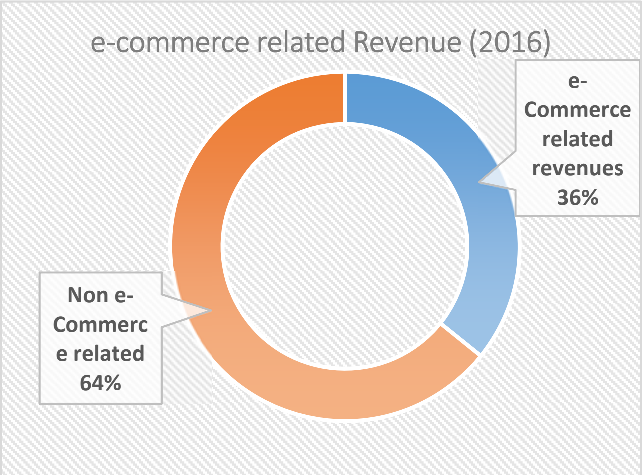
Our group strongly believes that profits will continue to be healthy for SingPost even after this one-time gain from divestment. For us, this is a positive signal that the corporation is actively revising its business strategy in order to focus on its core strengths and how to apply them to the next big growth opportunity.

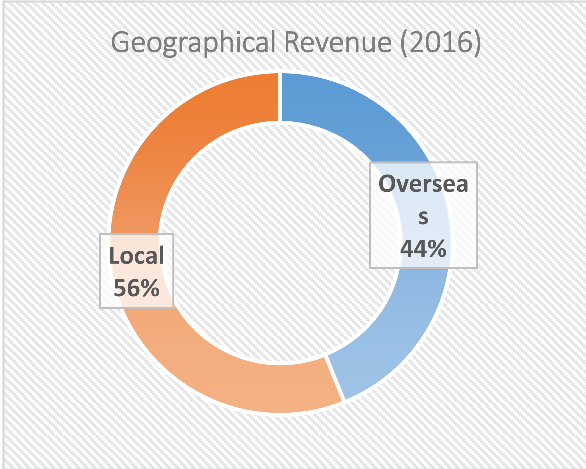
In recent years, SingPost has been breaking into the e-commerce logistics and digital mail solutions space in order to stay at the forefront of the competition in the rapidly expanding global e-commerce market. Specifically, SingPost Group Company acquired two e-commerce logistics companies in the United States and launched SP e-commerce , the first service provider in Asia Pacific that offers global brands with a seamless end-to-end solution on how to grow their digital presence and logistical operations in Asia. Currently, SP e-commerce has 22 distribution centres on top of its global centres in the US and UK.

To complement the group's entry into the e-commerce space, SingPost Limited is re-developing the retail mall experience in its Singapore Post Centre to consumers. Expected to finish in 2017, the newly developed mall combines offline and online shopping for consumers to enjoy browsing, trying on, and testing products and then having them delivered conveniently to their homes. This way, they can continue to shop, eat, or watch movies without having to carry their purchases along with them. This again is intended to spur further growth in the e-commerce sector.

Lastly, SingPost has increased its collaboration with e-commerce giants such as Alibaba in order to ramp up their global online presence and thereby increase the volume of its e-commerce -related deliveries. Specifically, the Group has entered into a conditional joint venture agreement with Alibaba Investment Limited where the latter will have 34% stake in Quantium Solutions International Pte Ltd, SingPost's logistics unit. In addition, on the evening of 27th October 2016, SingPost announced that it got regulatory approval for Alibaba to further increase its stake in SingPost from 10.2% to 14.4%. Share price of SingPost surged 5% right after the news. The Alibaba's S$187m additional investment in SingPost is expected to be completed by 28th Feb 2017.

Because of these initiatives, we can see 2016 overseas and e-commerce related revenues increase to 44% and 36% of Group Revenue respectively; and we expect these to continue to grow higher in the next few years.





Competitor Landscape

Because there is a limited number of companies comparable to SingPost listed on the Singapore Exchange, we have adopted international comparable companies to conduct relative analysis on the valuation and returns of SingPost.

SingPost's valuation is in line with international players in terms of 2016E Price-to-Earnings ratio (20.1x versus comparable average of 20.7x) and 2016E Price-to-Book ratio (2.2x versus comparable average of 2.4x). However, SingPost generates much higher returns in terms of Return on Equity (20.2% versus comparable average of 9.8%) and Return on Assets (7.3% versus comparable average of 5.6%). Its dividend yield also stands at 4.3%, outperforming the sector average of 2.7%.

	Country	Mkt Cap (SGD)	1-year Px chg (%)	2016E EV / EBITDA	2016E P/E (x)	2016E P/B (x)	ROE (%)	ROA (%)	Dvd Yld (%)
Singapore Post Ltd		**3,441**	**(16.5)**	**17.4**	**20.1**	**2.2**	**20.2**	**7.3**	**4.3**
Deutsche Post Ag-Reg	Germany	51,976	1.0	7.8	13.5	2.9	15.1	4.6	3.3
Pos Malaysia Berhad	Malaysia	1,049	12.2	14.2	30.1	1.9	5.6	3.6	4.3
Gulf Warehousing Company	Qatar	1,267	(6.6)	14.8	16.8	2.2	16.2	7.3	2.6
Oesterreichische Post Ag	Austria	3,253	(6.9)	6.5	13.9	3.2	10.6	11.0	5.8
Ctt-Correios De Portugal	Portugal	1,380	(42.3)	5.9	12.7	3.9	28.8	6.9	5.3
Yamato Holdings Co Ltd	Japan	12,997	6.0	8.1	24.0	1.7	7.1	3.7	1.2
Postnl Nv	Netherlands	2,855	10.5	4.6	9.1	na	na	8.2	na
Aramex Pjsc	UAE	2,068	20.0	9.9	14.1	2.4	14.4	9.4	4.7
XPO Logistics Inc	US	5,264	27.2	7.3	35.2	1.3	(11.5)	(0.1)	na
CJ Korea Express Corp	South Korea	5,922	4.8	17.4	38.0	1.7	2.0	1.0	na
Mean		**8,803**	**2.6**	**9.6**	**20.7**	**2.4**	**9.8**	**5.6**	**2.7**
Median		**3,054**	**5.4**	**7.9**	**15.4**	**2.2**	**10.6**	**5.8**	**3.0**

Qualitatively, SingPost is also one of the first postal companies in the world to extend its business lines into the rapidly growing e-commerce vertical. As such, it provides a much larger upside potential for equity investors compared to other comparable companies.

Valuation

SingPost presents a unique and attractive investment story and it generates high returns among its peers, but does the current valuation presents any upside? Here we examined the stock's valuation upside using a DCF model.

Future cash flows are estimated based on broker estimates and historical average growth rates. Forecasted revenues are expected to grow at a rate of 11-16% and EBITDA margins are expected to stay flat at 17% in the forecast period.

In Millions of SGD	Mar 15 A	Mar 16 A	Mar 17 E	Mar 18 E	Mar 19 E	Mar 20 E	Mar 21 E
Revenue	**920**	**1,152**	**1,337**	**1,495**	**1,663**	**1,901**	**2,148**
% YoY Growth	12%	25%	16%	12%	11%	14%	13%
EBITDA	**221**	**217**	**230**	**259**	**282**	**323**	**364**
% Margin	24%	19%	17%	17%	17%	17%	17%
Free Cash Flow	**109**	**(69)**	**33**	**141**	**173**	**132**	**162**
% Margin	12%	-6%	2%	9%	10%	7%	8%

We apply the perpetuity growth method in estimating the terminal value at Year 5 with a perpetuity growth rate of 2.1%, the average GDP growth rate of Singapore in the next three years. We then apply a WACC of 5.5% (calculated using the company's current capital structure as well as the cost of debt and cost of equity, using CAPM formula $R_e = R_f + (R_m - R_f) * Beta$) to the free cash flows to arrive at the enterprise value of the company. The estimated equity value per share is SGD 2.12, representing an upside of 34%.

Perpetuity Growth Method - Value per Share	
Free Cash Flow at Year 5	194
WACC	5.5%
Perpetuity Growth Rate	2.1%
Perpetuity Value at End of Year 5	5,811
Present Value of Perpetuity (@ 5.5% WACC)	4,452
(+) Present Value of Free Cash Flows (@ 5.5% WACC)	645
(=) Current Enterprise Value	**5,097**
Short Term Debt	71
(+) Long Term Debt	209
(-) Cash and Marketable Securities	135
(-) Current Net Debt	146
(-) Current Preferred and Minority Interest	358
(=) Equity Value	4,594
Shares outstanding	2,164
Estimated Value per Share (SGD)	**2.12**
Current Price (SGD)	1.59
Estimated Upside	**34%**

Perpetuity Growth Method	
Current Price (SGD)	1.59
Consensus Price Target	1.69
DCF Estimated Value per Share (SGD)	**2.12**
DCF Estimated Upside	**34%**

		Perpetuity Growth				
		1.1%	1.6%	2.1%	2.6%	3.1%
	4.5%	2.21	2.59	3.13	3.95	5.36
Discount	5.0%	1.89	2.17	2.54	3.07	3.87
Rate	5.5%	1.64	1.85	**2.12**	2.49	3.01
(WACC)	6.0%	1.44	1.61	1.81	2.08	2.44
	6.5%	1.28	1.41	1.58	1.78	2.04
		1.1%	1.6%	2.1%	2.6%	3.1%
	4.5%	39%	63%	97%	148%	237%
	5.0%	19%	36%	60%	93%	144%
	5.5%	3%	16%	**34%**	57%	89%
	6.0%	-9%	1%	14%	31%	53%
	6.5%	-19%	-11%	-1%	12%	28%

We further conducted sensitivity analysis of our results with respect to varying perpetuity growth rates and WACC, accounting for both more and less optimistic growth rates. Assuming the same WACC, even with a perpetuity growth rate of 1.6%, there is still upside of close to 16% in SingPost. On the other hand, a more favourable scenario of 3.1% perpetuity growth rate will result in an upside of nearly 89%.

This valuation exercise further confirms our buy recommendation for SingPost in addition to the strong investment case presented earlier.

Risk

Profit Sustainability Risk

34% of operating profits this year was caused by one-time gains from divestment of some of the group's subsidiaries. However, our group strongly believes that profits will continue to be healthy for SingPost even after this one-time gain. For us, this is a positive signal that the corporation is actively revising its business strategy in order to focus on its core strengths and how to apply them to the next big growth opportunities, which we have mentioned above.

Reputation Risk

It is important to acknowledge that SingPost Limited is currently undergoing a special audit carried out by the Accounting and Corporate Regulatory Authority to investigate whether the company has breached the Companies Act as a result of a potential board member's interest in a firm that advised the Group on its recent acquisitions. In light of this, SingPost has changed the Directors of its board committee, and promises to actively cooperate with the investigation as well as provide shareholders with updates regularly. Because of these active measures, our team believes that SingPost will come out of this challenge even stronger than it was before.

General Economy Risk

Although there is growth to be said in the Singapore economy, there are also economic forecasts calling for a massive slowdown of growth in the area, and some even predict a full blown recession within the next year or so. Estimates put the growth rate in the 1-2% range, which – while higher than the global average the IMF has forecasted – is hardly an impressive number. The unemployment rate in the country has almost doubled within the last year, and the GDP per capita has dropped nearly $4000 from 2014 to 2015. This constitutes one of the largest slides in the country's history, and surpasses the even the one seen during the 2008 financial crisis. Bad debts in the financial sector, tied with slumping oil prices overall have had a disastrous effect on the economy. Earnings forecasts by Singaporean businesses are falling the fastest in the world, while the country as a whole experienced a 4.1% contraction during quarter 1 of 2016. The Orchard area, Singapore's main shopping and tourism district, set 5 year high in vacancy rate during Q1 2016 (8.8%), only to be surpassed during Q2 (9.2%).

Although this amounts to a fairly large risk as such a consumer-focused strategy may fall flat in a recession due to lower consumer spending, our team believes that SingPost has addressed this concern by transforming into the e-commerce space, where products will be less expensive due to savings in logistics and rental space. We expect that consumers will be more inclined to purchase from cheaper online stores than traditional shopping centres in the near future.

GNAM Investment Competition

Portfolio Stocks

Global Logistic Properties

cordlife one chance, one choice.

Ezion Holdings Limited

RafflesMedical

Team Members
Daisy Wu
Derek Sin
Elle Lim
Jeffrey Schaeffer
Kenley Go
Zhao Bo

NUS National University of Singapore | NUS BUSINESS SCHOOL

Ezion Holdings

An operator of liftboats throughout the Pacific, Ezion Holdings operates a fleet that currently numbers 26 boats, which the company plans to increase to 35 by end-2017. Liftboats are construction vehicles that are used to aid offshore construction of oil rigs as well as electrical generating windmill farms.

The oil glut that has prevailed for the last few years has been unkind to liftboat companies, delaying construction plans for oil rigs and windmills alike. However, given recent OPEC news, we are confident that a rebound in oil prices increase the appetite for both drilling platforms and offshore alternative energy sources. China alone has delayed a huge 30 gigawatts offshore windmill plan and is now woefully behind schedule with only 2.5 gigawatts constructed (5 gigawatts had been planned to be installed by end-of-year 2015). Ezion has a recently signed a memorandum of understanding with Huadian Energy to supply liftboats in order to speed up the construction of the farms, which has the potential of keeping over half the fleet occupied over the course of the next 5 years.

The share price has dropped over 50% from its 52 weeks high of $0.69 in Oct 2015. However, the MACD showed upward crossover in the beginning of Oct 2016, indicating the price is expected to experience an upward momentum. We believe the fundamental of the company is still strong with its healthy asset, positive operating cash flow and decent cash balance. Our position on Ezion is BUY with 12-month target price of $0.55.

Global Logistic Properties

Global Logistics Properties Limited is a real estate company that invests, develops and manages modern logistics facilities with an approximate area of 52 million square meters. It logistics parks across China, Brazil, Japan and the United States. Its main customers include manufacturers, retailers and third party logistics companies. The company continues to expand, with a recent US$1.1b acquisition of a 15m sq ft. logistics portfolio in the United States. The said acquisition will increase the company's holdings in the United States to 187m sq. ft, cementing its position as the second largest logistics facilities owner and operator in the country.

The strong demand for logistics space has especially been fuelled by the rise of e-commerce demand, especially in the key markets where the company's investments are located. With the expected continued rise of e-commerce, Global Logistics is in a good position to take advantage of these trends, given its wide existing networks in key markets.

The share price, currently at $1.79, represents a 25% drop from its 52 weeks high of $2.39 in October 2015. This is owing to a lower profit due to foreign exchange losses. Its core business, however, remains strong with a growth of 7%. Global Logistic Properties is trading at a trailing P/E of 13.39x, compared to forward P/E of 30.33x, which is significantly higher, indicating the company is rapidly growing. We believe the optimistic forward P/E presenting the strong buy opportunity and to hold it until target price of $2.45.

Cordlife Group

Cordlife Group Limited is a company that provides cord blood and cord lining banking services in Asia, with a strong foothold on its markets located in Singapore, China, Hong Kong, India, Malaysia, Thailand, Indonesia and the Philippines. The company operates in a niche segment under the consumer healthcare industry, offering very specific products catering to the mother-child segment.

The company continues to bank on growth opportunities driven by favourable healthcare trends in the region, which offers a substantial population base, a rising middle class and growing penetration of cord blood banking services. The company expects to exploit these opportunities, especially in emerging markets such as Indonesia, China and the Philippines. In these markets, Cordlife has increased its reach through partnerships, acquisitions and the construction of local facilities.

The share price, currently traded at $1.14, comes back to its 52 weeks low level. Among the strong players in healthcare industry, Cordlife has high dividend yield of 1.65%, compared to industry average (0.76%), Q&M (1.1%) and ISEC (1.4%). Its payout ratio (294.44) is 11 times higher than industry average (25.67). The current low price presents buy opportunity and we foresee the price will rise to $1.67 within the next 12 months.

Raffles Medical Group

Raffles Medical Group is Singapore's largest private healthcare provider, boasting of high-quality medical products and services. As of Q2 2016, Raffles Medical Group announced 19.8% growth in revenue to $118.95 million, mainly from its Healthcare (36.3%) and Hospital Services (15.2%) divisions. This growth was mostly due to increased volume of patients, improved medical care and specialists, as well as gains from recently acquired SOS MC Holdings (MCH) Pte Ltd. Net Profit for the period grew by 4.5% and is reported at $16.7 million. The group also maintains a healthy cash position of $110.6 million for the period with negligible level of debt and long-term obligations, which puts it in a great position to explore further growth opportunities.

Currently, Raffles Medical Group already operates in 13 cities; however, the Group is not stopping there. Beyond the Medical and Retail Centre development in Holland Village and Raffles Hospital's expansion in Singapore, the Group currently has a hospital under development in China (where there is huge potential for healthcare developments) that is projected to be completed by 2018. Total project costs amount to around $600 million, of which over a third has already been paid for as of last reported financials.

The share price has remained high at $1.5 level since Mar 2016 due to the company's strong earnings. It is trading at high trailing P/E of 36.83x. Given the outstanding performance of the company and the rising prospect of healthcare sector, we recognize the buy opportunity to share the stable growth.