HOT STOCKS

Analysts embrace SingPost's e-commerce goals despite impairment risk

But shares retreat after it flags risk of "significant" impairment in carrying value of US e-commerce business

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ONLY last month, a Deutsche Bank research report on Singapore Post with the sweetest word in stock speak – a "buy" call – had reckoned that the postal company was unlikely to make "significant" impairments "unless assumptions vetted by auditors are wrong or business deteriorates significantly".

Those assumptions turned into biting reality late last Friday after SingPost released its third-quarter results and flagged the risk of a "significant" impairment to the carrying value of its US e-commerce business TradeGlobal on the back of a feeble showing.

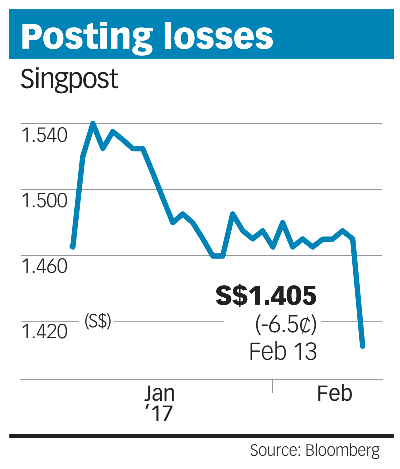
Not all analysts were of like mind. UOB-Kay Hian had nailed it earlier when it projected that SingPost could do a kitchen-sinking exercise and write-down goodwill that did not match up to the group's growth assumptions.

The company's warning led Deutsche Bank analyst Joshua Lee to backtrack, although he has kept intact the buy rating and 12-month target price of S$1.70 on the stock. "We were overly optimistic on auditor assumptions, management feel of leading indicators, and timing of potential impairments," he admitted in a note issued over the weekend.

Investors followed suit by retreating from the counter on Monday, pulling SingPost down 6.5 Singapore cents or 4.4 per cent to finish at S$1.405 after hitting an intraday low of S$1.365 with some 51 million shares worth S$71 million done.

The extent of the impairments on its 2015 investments into TradeGlobal is anybody's guess but one need only wait for next quarter's earnings season as the national postal firm with big e-commerce aspirations said this would be reflected in its full financial year ending March 2017 report card. The issue of whether SingPost ought to book impairment losses on some of the assets it had perceivedly overpaid for including TradeGlobal was a hot button topic last year after the firm found itself at the centre of a

Posting losses



governance storm soon after the departure of its top man.

Deutsche Bank, for one, doesn't think that the impairments will cover the entire goodwill amount of S$169 million related to TradeGlobal that was recorded in FY2016. But if it does, it would wipe out the group's earnings for FY2017, warns John Cheong of Maybank Kim Eng based on his earnings estimates.

Indeed, TradeGlobal's state of affairs, already hit by rising cost pressure amid a tight labour situation and slipping margins led by bursting competition, was dealt a bigger blow by two of its top 10 customers – one had opted to go on its own with its logistics operations while insolvency knocked on the other one's door.

With that, the US e-commerce unit, which is being restructured, suffered a significant loss for the third-quarter "peak season" contrary to upbeat projections that it would turn in profits.

The challenging e-commerce climate in the US aside, there are other anaemic spots too while SingPost muscles up scale and productivity gains to reach the worthy goal of being a big-time player in e-commerce logistics.

For the three-month period, SingPost posted a 28 per cent drop in net profit to S$31.4 million. Revenue rose 17 per cent to S$369.4 million.

Its largest business segment, the mail business, is waning due to lower domestic mail volumes owing to the push towards e-statements and unfavourable margin mix as it shifts to international mail.

Integration headwinds with assets it has added under its belt to transform into an e-commerce stalwart is another challenge while higher costs related to the new Regional eCommerce Logistics Hub that was officially opened last November is also weighing on its financials.

Call it growing pains.

SingPost covering group chief executive officer Mervyn Lim himself says so:"We are building out our capabilities, broadening and deepening our eCommerce logistics network...There are challenges along the journey and it is going to take a number of years for our investments to contribute."

Fortunately for the postal and e-commerce firm, there are analysts holding out for that story to unfold.

"We still believe strongly in the principal story of SingPost having the scale, infrastructure and leverage to become a formidable player in the regional e-commerce logistics segment," said Nomura Research which has cut its earnings forecasts for FY17-FY19 and target price from S$1.90 to S$1.75 and retained a buy on the counter.

There are others too who appear unfazed by these blips.

"We continue to like SingPost for its growth potential in e-commerce logistics following its joint venture with Alibaba. It also has the potential to divest non-core assets (such as self-storage, retail mall)," said CIMB Research which maintains an "add" rating on the counter but has since cut its DCF-based (discounted cash flow) target price from S$1.76 to S$1.62.

Richard Li's PCCW is expected to be more active in M&A.
PHOTO: BLOOMBERG

PCRD up 15% on news of associate's stake sale

Singapore

PACIFIC Century Regional Developments (PCRD) shares went up 14.7 per cent, or five cents, to close at 39 Singapore cents on Monday, after its Hong Kong-listed associate PCCW said that it would sell its stake worth HK$8.53 billion (S$1.8 billion) in HKT Trust & HKT Ltd (HKT), Hong Kong's largest telecoms company.

In a strategic shift towards core media and solutions businesses, billionaire Richard Li's PCCW will sell 840.7 million shares of HKT for HK$10.15 apiece, 8.4 per cent lower than the last closing price. Mr Li is also chairman of Singapore-listed PCRD. Last year, telecom services accounted for approximately 82 per cent of PCCW's revenue.

After the sale, PCCW will hold 51.97 per cent of HKT, down from 63.07 per cent previously, in a deal arranged by Goldman Sachs.

PCCW is expected to recognise approximately HK$7.6 billion from the stake reduction. The placing is not expected to have any impact on PCRD's earnings per share for the current financial year ending Dec 31, 2017, as the credit to the PCCW group will be recognised directly through its reserves. Net tangible assets per share of PCRD is expected to go up by 29.6 per cent as at Dec 31, 2016.

In a note by Morgan Stanley, analysts said that PCCW would be more active in mergers and acquisitions in its media and solutions businesses. One week ago, Mr Li, the youngest son of Hong Kong's richest man Li Ka-Shing, sold UK Broadband to his father's CK Hutchison Holdings on Feb 7 for £300 million (S$535 million). PCCW expects to post a gain of about HK$1.3 billion from the sale.

Both the stocks of PCCW and HKT closed lower in Hong Kong; PCCW fell 6 per cent to HK$4.57, while HKT dropped 7.4 per cent to HK$10.26.

HPH Trust dives on dismal outlook, ratings downgrades

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UNITS of Hutchison Port Holdings Trust (HPH Trust) dived on Monday, after sentiment for the counter was hurt by its downbeat outlook when it released its fourth-quarter results and rating downgrades by brokerages.

The counter fell by as much as 6.8 per cent to 41 US cents on Monday. At closing, it was down 5.7 per cent from last Friday's close to 41.5 US cents after 88.29 million shares changed hands.

HPH Trust had on Friday guided in its earnings conference call for fiscal 2017 dividend to be in the range of 20-23 Hong Kong cents, representing a 25-35 per cent decline from the 30.6 Hong Kong cents declared in fiscal 2016 and below Citi's prior estimate of 26 Hong Kong cents.

It flagged "high level of uncertainty" on the policy stance of the US administration, even as outbound cargoes to the United States escalated in the fourth quarter of 2016, and continued weak consumer sentiment and high unemployment rate to impede the speed of economic recovery in Europe and the pickup of European trade this year.

"In addition to the economic performances of the US and Europe, HPH Trust's performance is also impacted by the outcomes of the structural consolidation within the container shipping industry," HPH Trust said.

The port operator's cautious outlook on global trade came against the backdrop of lower distribution per unit (DPU) at 16.6 Hong Kong cents for the period, down 11 per cent from a year ago.

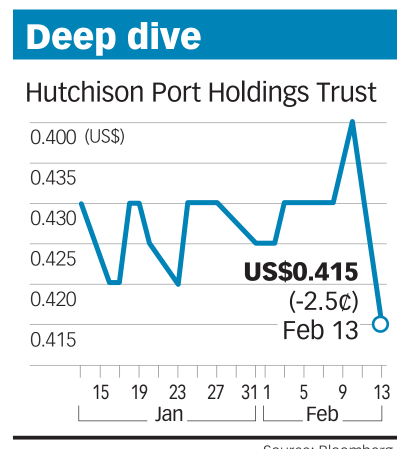
This was due to a 27.7 per cent fall in quarterly net profit, amid weaker revenue and the absence of a one-off gain. Net profit for the three months ended Dec 31, 2016, stood at HK$386 million (S$71 million), down from HK$533 million a year ago.

Its full-year DPU was 30.6 HK cents, 11 per cent below 2015's, as full-year net profit slipped 1.8 per cent to HK$1.7 billion.

DBS and OCBC downgraded their rating on the counter to "hold" from "buy", while Citi cut its rating on HPH Trust to "sell" from "neutral", citing weaker fiscal 2016 earnings, significant cut to fiscal 2017 dividend and gloomy trade outlook.

"Given the likelihood of another two to three US Fed rate increases this year, management is focused on paying down a portion of its US$4 billion in floating rate debt (each 25 basis points increase in rates equates to an additional annual interest expense of HK$80 million or 6 per cent of FY16 earnings)," said Citi analyst Michael Beer, who lowered the target price to

Deep dive



US$0.37 from US$0.42.

DBS analyst Paul Yong, who revised the target price for HPH Trust to US$0.42 from US$0.48, said the trimmed DPU forecast of 20-23 Hong Kong cents for 2017 is underwhelming.

"Amid the deteriorating shipping environment, the formation of new shipping alliances (such as Ocean Alliance which is due to commence operations in April 2017) that are increasingly focused on efficiency could put further pressure on transshipment volumes – which are purely viewed as costs to shipping lines," he said.

OCBC analyst Deborah Ong noted that while existing business relationships with shipping liners under alliances are likely to remain intact, pricing will be under pressure as shipping liners will negotiate for the lowest rates offered to other members in the alliance.

HPH Trust is trading at a fiscal 2017 yield of 6.8 per cent, she said. Based on dividend-discount model, Ms Ong adjusted the fair value to US$0.45 from US$0.46. "We encourage investors to collect HPH Trust at US$0.41 and below."

ST Telemedia adds to its data centre portfolio

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ST Telemedia's wholly owned subsidiary, ST Telemedia Global Data Centres, (STT GDC), announced on Monday the addition of three colocation facilities in Singapore, following the completion of the second phase of its strategic joint venture partnership with Tata Communications.

This deal, under STT Tai Seng, a joint venture between STT GDC and Tata Communications, adds to STT GDC's portfolio of data centres in Singapore, including STT Defu and STT MediaHub.

Speaking to *The Business Times*, Bruno Lopez, STT GDC's CEO, said that the completion of the transaction is an "important milestone" as STT GDC will now be "one of the largest and geographically diversified data centre companies in Singapore, enhancing the quality and choices in the data centre business segment in Singapore". It has five facilities totalling over 540,000 square feet in Singapore.

> STT GDC will now be "one of the largest and geographically diversified data centre companies in Singapore".
>
> **Bruno Lopez, STT GDC chief executive**

"Combined with STT GDC's strong presence in two of the fastest-growing economies – China and India – and in Europe's key data centre hub – London, this transaction will help support and strengthen STT GDC's ambition to build a strong data centre platform in Asia and globally," he added.

Last May, STT GDC and Tata Communications entered into definitive agreements whereby STT GDC would acquire a 74 per cent stake in Tata Communications' data centre business in India and Singapore, made up of 14 data centres in key cities across India and three facilities in Singapore. Tata Communications remains as a strategic partner holding a 26 per cent stake in the businesses. The India data centre joint venture transaction was completed last October.

According to Mr Lopez, since the May announcement, both companies have been working closely to ensure a smooth transition for existing customers and employees into the broader STT GDC platform.

"The full completion of the transaction seals the strategic partnership between both companies, which look to draw on each other's complementary capabilities and experience to accelerate growth in the vibrant data centre markets in Singapore and India," he said.

STT GDC has rapidly expanded through both organic growth and via acquisitions and strategic partnerships since August 2014. It has built a significant presence in key markets and manages a portfolio of 45 data centres across major economic centres in Singapore, India, China and the United Kingdom.

In a related development, Mapletree Industrial Trust (MIT) announced on Monday that its subsidiary Mapletree Singapore Industrial Trust, had entered into a "novation agreement" with Tata Communications and STT Tai Seng whereby the latter would be a substitute tenant at 35 Tai Seng Street instead of Tata Communications and will occupy the same space with rent, lease expiry date and security deposit quantum remaining unchanged.

Manulife US Reit's Q4 DPU 3.6% above forecast

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MAINBOARD-LISTED Manulife US Reit will distribute 1.54 US cents per unit for the fourth quarter, and expects its portfolio to benefit from US President Donald Trump's pro-business policies.

The distribution per unit (DPU) of 1.54 US cents was 3.6 per cent above its own forecast of 1.49 US cents, the Reit announced on Monday. Net property income for the three months ended Dec 31, 2016 was US$12.4 million, above the US$12.3 million forecast by 0.2 per cent due to higher rental and other income, and lower property expense, partially offset by lower recovery revenues.

The forecast figures for Q4 and the financial year from May 20, 2016 to Dec 31, 2016 were derived by pro-rating the forecast figures for the period from May 1 to Dec 31, 2016 as the Reit was listed on the Singapore Exchange on May 20 last year.

Manulife US Reit's CEO Jill Stewart said at a briefing: "Trump is pro-business so we think that the likelihood is the economy is going to be good for commercial property."

The Reit, which is the first US office Reit to be listed in Asia, is also confident that the US Federal Reserve interest rate hikes, expected to happen twice or thrice this year, would not impact its operations.

After the US interest rate hike in December last year, the Reit's current borrowings were not impacted as all borrowings are at fixed interest rates with no refinancing required until 2019.

During the briefing, chief investment officer Jeffrey Wolfe highlighted the changing landscape of downtown Los Angeles. He said that the "influx of millenials" to the area, more companies are relocating to cater to the needs of these individuals. Manulife US Reit's Figueroa building has an occupancy rate of 97.5 per cent.

On new acquisitions, Ms Stewart said that all will be revealed "in good time".

Manulife US Reit

	Q4 FY16* ACTUAL	Q4 FY16* FORECAST	% CHNG
	(US$ MILLION)		
Gross revenue	19.3	19.7	(2.1)
Net property income	12.4	12.3	0.2
Distributable income	9.7	9.4	3.6
DPU (US¢)	1.54	1.49	

*No comparative figures for Q4 2015 as the Reit was listed on May 20, 2016

Manulife US Reit's gross revenue was US$19.3 million, a slight drop of 2.1 per cent from its forecast of US$19.7 million. This was attributed to lower recovery revenues.

Distributable income of US$9.7 million was ahead of the US$9.4 million forecast by 3.6 per cent, largely due to lower interest expenses.

The Reit's finance expense of US$2 million was lower than the forecast by 11 per cent, largely due to lower interest cost on refinanced loan facilities and lower amortisation of financing costs.

In its portfolio, 67.8 per cent of leases are expiring in 2022 and beyond.

The distribution of 3.55 US cents per unit for the period May 20 to Dec 31 will be paid out on March 30 this year.

Manulife US Reit closed unchanged at US$0.860 on Monday.

Metro Q3 net hit by lower contributions from associates

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PROPERTY and retail group Metro Holdings' Q3FY17 bottom line was hit by lower contributions from associates, prompting profits to plunge 63.3 per cent year-on-year to S$20.49 million.

Share of associates' results fell to S$9.03 million from S$57.65 million due to lower contributions from the recognition on handover of sales of properties of the Nanchang project of S$37.8 million. In addition, the group's share of Top Spring's results declined by S$10.1 million as Top Spring also handed over, and recognised significantly fewer properties year on year.

Revenue fell 9 per cent to S$37.3

Metro Holdings

	Q3 FY17	Q3 FY16	Y-O-Y CHANGE (%)
	(S$ MILLION)		
Revenue	37.3	41	(9)
Net profit	20.49	55.86	(63.3)
EPS (S¢)	2.5	6.7	

million as the Metro City Square department store was closed by the retail division in mid 3QFY16. Revenue for the property division fell from S$1.93 million to S$1.61 million due to the weaker renminbi. Meanwhile, revenue from the retail division fell from S$39.08 million to S$35.7 million.

Overall, the occupancy rate for Metro's three investment properties – GIE Tower in Guangzhou as well as Metro City and Metro Tower in Shanghai – was 91.1 per cent as at Dec 31.

Earnings per share for the quarter under review fell to 2.5 Singapore cents, from 6.7 cents a year ago.

During the quarter, other income rose from S$3.99 million to S$14.75 million in Q3FY17 mainly due to unrealised exchange gains on bank balances of S$9.3 million, versus unrealised exchange losses of S$3.9 million a year ago.

Changes in fair value of short-term investments led to an unrealised fair value loss of S$4 million compared to an unrealised fair value gain of S$0.7 million in Q3FY16; these were related to the group's portfolio of short-term equity investments in Reits held by the property division.

In addition, general and administrative expenses fell to S$6 million from S$11.9 million a year ago due to the absence of overhead costs incurred previously.

Rental income of its three properties in China is expected to remain stable; however, sales of the residential project, The Crest at Prince Charles Crescent in Singapore, remain slow, said Metro.

"With two thirds of its property inventory completed and handed over – including almost all its residential property inventory – the future contribution from our associate in Nanchang will be principally from the recognition of the pre-sales of office and retail space," the group also said. "Gross margins of the office component are significantly below those previously achieved for Nanchang's residential properties."

Shares in Metro closed at S$1.16 on Monday, up 1.5 cents.