FOR A BETTER TOMORROW

MSWG Questions & Answers

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Question 1 (1/2)

The Group embarked on a business transformation plan in August 2021 and is now accelerating towards Phase 4. (page 14 of AR 2024)

a) What milestones or major achievements have been made under the various phases of the Group's business transformation plan, considering that the Group has continued to incur annual losses for at least the past five years?

Answer 1 (1/2)

Since the launch of our transformation journey in August 2021, Pos Malaysia has made significant and measurable progress despite structural industry challenges. Our approach has been phased and deliberate:

Phase 1: Fix the Basics

We focused on stabilising operations and restoring service reliability. Service levels improved significantly from 57%* to 93% for Parcels, and 51%* to 93% for Mail, while driving substantial cost optimisation across the business. (* as at August 2021).

Phase 2: Transform The Core

We invested in culture transformation, digitalisation initiatives, operational efficiencies and productivity improvement, better asset deployment and environmental, social and governance (ESG) programmes.

Phase 3: Growth Initiatives

We launched three new growth businesses:

- Pos Shop – 50 modernised outlets with improved retail formats.
- Pos Fulfill – an end-to-end logistics offering for SMEs.
- Redly – our international courier service now serving 48 destinations.

Answer 1 (1/2)

However, it’s important to acknowledge that structural issues beyond our control continue to weigh heavily on financial performance. These include:

- The Universal Service Obligation (USO) cost burden;
- Ongoing volume decline in traditional mail and retail, driven by digitalisation – a global postal trend; and
- A distorted domestic parcel market, with pricing suppressed by e-commerce platform monopolies and unsustainable practices.

To address these structural challenges, we are now accelerating into Phase 4 - focused on restoring financial sustainability through USO reform with the Malaysian Communications and Multimedia Commission (MCMC), market transparency for ‘choice’ via the Association of Malaysian Express Carriers (AMEC) and Malaysia Competition Commission (MyCC) with regards to 'unmasking', mandated floor pricing, and a renewed business model - one that delivers a significantly better bottom line, powered by the best people, a great service, and exceptional customer experience.

Question 1 (2/2)

b) When is Phase 4 scheduled to commence and targeted for completion, and what are the key initiatives and targets that the Board hopes to achieve to expedite the Group's turnaround to profitability?

Answer

Phase 4 – Delivering a Better Tomorrow Pending regulator and stakeholder approval, will start later part of 2025.

Initiatives will be shared once relevant approvals have been obtained.

The Board is committed to driving this transformation to reposition Pos Malaysia as a financially sustainable national service provider, balancing its USO mandate with commercial viability. While structural headwinds remain, this phase is designed to chart a path to improve profitability over the medium term, with progress monitored closely through operational key performance indicators (KPIs) and regulatory milestones

Question 2

	FY2020	FY2021	FY2022	FY2023	FY2024
Profit / (Loss) Before Tax (RM' million)	(303.5)	(331.4)	(169.8)	(140.7)	(180.2)
Total Equity (RM' million)	1,143.4	811.6	646.3	499.5	297.6
Current Ratio (Times)	0.9	0.9	0.8	0.7	0.6

(page 30 of AR2024)

The Group has incurred losses before tax annually over the past five (5) financial years, leading to a deteriorating or worsening trend in both total equity and the current ratio.

What were the most important factors for the continuing losses, and which are the critical or compelling areas or business segments the Board can focus on to address these losses and increase profitability?

Answer 2
Key contributing factors to continued losses (FY2020–FY2024)

1. Structural Decline in Mail Volumes

- Mail volumes declined by 9% year-on-year in FY2024, continuing a multi-year industry trend due to digitalisation and electronic communication.
- Mail revenues reduced from RM550.1 million (FY2023) to RM527.5 million (FY2024).

2. Intense Competition and Predatory Courier Pricing by Competitors

- E-commerce platforms' in-house logistics and foreign-backed courier players contributed to an intensely competitive parcel market.
- Predatory pricing and masking practices significantly narrowed the addressable market, affecting Pos Malaysia's courier revenues and volumes.

3. High Operating Costs

- Staff costs keep increasing due to annual increments under the Collective Agreement (CA) with our employee unions (employment cost: RM988.7 million in FY2024).

Answer 2

4. Regulatory Constraints

- The Group is also burdened by the Universal Service Obligation (USO) stipulated under the Postal Services Act 2012 without commensurate compensation.
- Lack of industry courier pricing controls allowed aggressive undercutting until the Reference Price Guideline (RPG) was introduced in December 2024.

5. Losses in Key Segments

- Logistics segment reported a loss before tax of RM27 million in FY2024 despite efforts to restructure.

Critical areas and business segments Management will focus on

1. Courier Business (High Potential but Highly Competitive)

- Leverage its nationwide network and electric vehicle (EV) fleet to differentiate on sustainability and service quality.
- Focus on securing more business-to-business (B2B) clients and high-margin delivery categories.
- Work with the regulators to ensure the industry follow the Reference Price Guideline (RPG) to curb predatory pricing and restore rational competition.

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Answer 2

2. Digital and Fulfilment Services

- Expansion of Pos Fulfill (eight warehouses) and Redly Express (48 international destinations) opens revenue diversification avenues.
- Continue investment in AI, automation, and tracking systems to improve service and cost efficiency.

3. Aviation and Ar-Rahnu Segments (Profitable and Stable)

- Aviation contributed RM20.2 million in profit before tax (PBT); growing cargo handling and in-flight catering offer scalable opportunities.
- Pos Ar-Rahnu achieved RM26.3 million PBT and is a consistent profit driver.

4. Sustainability Initiatives as Cost-Saving & Brand Differentiation

- EV fleet expansion, solar energy savings (RM545k/year), and waste reduction contribute to long-term cost control and ESG appeal.
- Monetise Pos Hijau Carbon Emissions Report as a Scope 3 tracking tool for corporate clients.

5. Active Engagement with Regulators

- Management will continue to actively engage the regulators to enhance the sustainability of the overall Malaysian courier industry and to address the USO related costs.

Question 3 (1/2)

To strengthen its position, Pos Logistics will focus on high-value niche sectors, namely automotive logistics, specialised industrial haulage and commodity logistics. In preparation for the Special Economic Zone (SEZ) impact, Pos Logistics is renewing the land lease in Pasir Gudang to gain a strategic foothold in the region. (page 45 of AR 2024).

a) Do the automotive logistics, specialised industrial haulage and commodity logistics sectors currently contribute significant revenue? Are they operating at a profit or a loss? Has the Group set any growth targets?

Answer

Pos Logistics' automotive logistics business contributes to about 40% of total revenue Pos Logistics' revenues.

The automotive business was highly competitive with thin margins due to the low completely-knocked-down (CKD) contract rates. Pos Logistics has negotiated for new rates for the CKD contracts and from May 2025, the automotive business should register better results.

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Question 3 (2/2)

b) How has the current land lease contributed to the Group's financial performance? What is the duration for its renewal? Please elaborate on the prospects and the positive SEZ impact.

Answer

The land lease for Pos Logistics Southern comes with a much cheaper lease compared to the previous lease that expired in November 2023.

With the current lower lease, PLB's savings are expected to be around 52% and the new lease tenure is for 30 years from 12 November 2023 to 11 November 2053.

The SEZ is already drawing substantial investments in the manufacturing, data centre, education, healthcare and other high value industries mainly due to the SEZ's proximity to Singapore, its transportation infrastructure and the fiscal benefits provided by the Government. Accordingly, these industries will require the services of logistics providers to enable the movement of goods to and from the SEZ. This will benefit logistics players such as Pos Logistics in the longer term when the industries in the SEZ reach critical mass.

Question 4 (1/2)

In 2024, Pos Aviation strengthened its foundation for long-term growth, leveraging global cargo expansion and rising regional air freight demand to strengthen its cargo handling, in-flight catering and engineering services. Increased flight frequencies and new airline partnerships fuelled its market expansion, while strategic investments in infrastructure, technology and service innovation enhanced efficiency and competitiveness. (page 47 of AR 2024).

a) The aviation segment is facing tailwinds and has many positive catalysts. What are the headwinds, challenges or negative factors, and how does the Group address or mitigate them?

Answer 4 (1/2)

Market Landscape:

- Pos Aviation holds about 60% market share in Malaysia's aviation ground handling sector.
- However, Pos Aviation is facing increased competition, especially in servicing foreign airline carriers, as new service providers have entered the market.
- Expansion is challenged by market saturation and aggressive competitor strategies (e.g. pricing, partnerships, enhanced services).

Growth Strategy:

- Increase annual revenues through:
  - I. Customer retention initiatives;
  - II. Acquisition of new airline clients;
  - III. Enhancements across core service offerings.

General Cargo Sales Agent (GCSA) Service Expansion:

- Focus on gaining more GCSA customers.
- Provide end-to-end cargo sales solutions by connecting airlines with freight forwarders.
- Support cargo revenue optimisation, service differentiation, and revenue diversification.

Answer 4 (1/2)

External Challenges:

- Global geopolitical tensions and tariff measures impact trade flows and cargo demand.
- Risk of reduced cargo flight activity.
- Pos Aviation is mitigating risks by pursuing new airline partnerships in both commercial and cargo segments.

Internal Constraints:

- Aging infrastructure and old Ground Service Equipment (GSE) limits service efficiency.
- Airlines demand faster turnaround, seamless baggage handling, and advanced tech integration.
- Legacy systems pose risks to on-time performance and service quality.

Operational Improvement:

- Strategic CAPEX planned for FY2025 to:
  I. Upgrade GSE assets; and
  II. Modernize facilities.
- Reinforce commitment to operational excellence and sustainable airline partnerships.

Question 4 (2/2)

b) What type and estimated amount of capital expenditure or investment does the Group plan to incur in 2025 to grow the aviation segment further?

Answer

While Pos Aviation has consistently achieved good On-Time Performance (OTP) surpassing the industry average, further improvement remains a priority. To this end, the company is allocating strategic capital expenditure (CAPEX) of 10% of its total revenue in FY2025 to upgrade key GSE assets and modernize its facilities.