

4 February 2020

Transport | Road & Rail

ComfortDelGro (CD SP)

Neutral (Maintained)

Near-Term Concerns Remain; Stay NEUTRAL

Target Price (Return): SGD2.38 (12%)
 Price: SGD2.13
 Market Cap: USD3,379m
 Avg Daily Turnover (SGD/USD) 18.4m/13.6m

- Maintain NEUTRAL, DCF-derived SGD2.38 TP, 12% upside.** ComfortDelGro's share price has depreciated 11% this year amidst concerns of the negative impact on its taxi and public transport businesses from the outbreak of the Wuhan coronavirus, which has spread beyond China to other countries where CD has a business presence. CD's strong FCF generation, its relatively healthy FY20F yield of c.4.6%, and P/E being in line with the 5-year average seems exciting – but we remain cautious on near-term earnings growth headwinds.

- Expect weak 4Q19 earnings.** CD will be reporting its 4Q19 and FY19 results on 14 Feb. We expect it to record SGD70m in recurring PATMI for 4Q19, marking a 11% YoY decline from 4Q18's SGD78.4m. Taxi earnings should remain weak, amidst CD's efforts to increase incentives and retain the drivers from switching over to ride-hailing players.

- Downside risks to 2020 estimates.** In China, as instructed by authorities, CD has suspended all operations at its Nanjing driver training centre from 28 Jan. While it continues to operate the driving centre at Chengdu, CD has informed students that they can defer all confirmed test dates in February for a full refund if they so wish. The company's 60%-owned bus station in Guangzhou, Tianhe Bus Station, has also seen a reduction of about 15% in the number of bus trips operated for the Chinese New Year period compared to the same period last year. It has also seen a drop in demand for its taxi services in China. With the sharp decline in travel and tourism within Asia, we believe there could be a negative impact on its Singapore taxi business as well.

- Re-rating catalysts could come from new acquisitions, a revival of the taxi business, or a turnaround in its rail business.** With the near-term negative earnings impact from the outbreak of the Wuhan coronavirus, a revival of strong earnings growth will have to come from:

- New acquisitions;
- A material improvement in the Singapore taxi business; or
- A reduction in rail losses.

CD's recently-completed acquisitions have offered EBIT margins that are higher than that of its existing businesses. The company continues to explore investment opportunities in public transport businesses overseas. A net gearing of 30% will give it access to SGD640m of funds to undertake other earnings-accretive acquisitions. Further upside could also come from the turnaround of its rail business, especially the Downtown Line, which lost c.SGD125m in the last three years.

Analyst

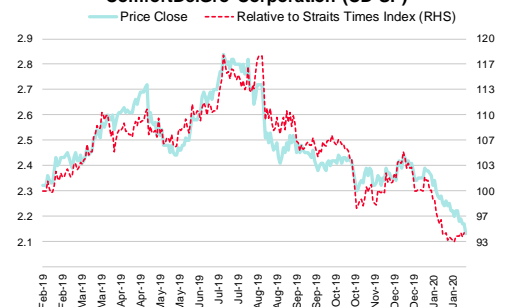
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.5)	(9.8)	(7.8)	(21.1)	(10.9)
Relative	(8.3)	(7.2)	(5.4)	(17.8)	(9.8)
52-wk Price low/high (SGD)	2.13 – 2.84				

ComfortDelGro Corporation (CD SP)



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	3,576	3,805	3,878	3,999	4,126
Recurring net profit (SGDm)	292	298	286	306	319
Recurring net profit growth (%)	(8.0)	2.2	(4.1)	7.2	4.2
Recurring P/E (x)	15.77	15.46	16.14	15.06	14.45
P/B (x)	1.8	1.8	1.7	1.7	1.6
P/CF (x)	8.04	6.89	5.29	6.24	6.12
Dividend Yield (%)	4.9	4.9	4.3	4.6	4.8
EV/EBITDA (x)	11.57	11.41	11.19	10.38	9.81
Return on average equity (%)	11.5	11.4	10.8	11.3	11.3
Net debt to equity (%)	(9.4)	(0.5)	(8.5)	(13.7)	(17.8)
Interest cover (x)	37.91	38.49	23.08	24.22	25.08

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore	Recurring EPS	0.14	0.14	0.13	0.14	0.15
Transport	DPS	0.10	0.11	0.09	0.10	0.10
ComfortDelGro	BVPS	1.21	1.21	1.23	1.28	1.32
CD SP	Return on average equity (%)	11.5	11.4	10.8	11.3	11.3
Neutral						
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
DCF	Recurring P/E (x)	15.77	15.46	16.14	15.06	14.45
	P/B (x)	1.8	1.8	1.7	1.7	1.6
	FCF Yield (%)	3.9	6.9	11.3	8.4	8.1
	Dividend Yield (%)	4.9	4.9	4.3	4.6	4.8
	EV/EBITDA (x)	11.57	11.41	11.19	10.38	9.81
	EV/EBIT (x)	11.57	11.41	11.19	10.38	9.81
Key drivers	Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. More earnings-accretive acquisitions	Total turnover	3,576	3,805	3,878	3,999	4,126
ii. Higher dividend payouts;	Gross profit	3,576	3,805	3,878	3,999	4,126
iii. Contributions from acquisitions;	EBITDA	409	439	430	451	467
iv. Fare increases boosting its train business;	Operating profit	409	439	430	451	467
v. Pause in taxi fleet contraction;	Net interest	(11)	(11)	(19)	(19)	(19)
vi. Favourable regulations supporting the taxi industry	Pre-tax profit	416	434	424	454	473
	Taxation	(77)	(81)	(85)	(91)	(95)
	Reported net profit	292	298	286	306	319
	Recurring net profit	292	298	286	306	319
Key risks	Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Continuing decline in taxi fleet size;	Change in working capital	57	1	0	(0)	0
ii. Increased competition from ride-hailing players leading to lower daily rental rates for taxis;	Cash flow from operations	572	669	872	740	754
iii. Sharper-than-estimated decline in margins for existing businesses;	Capex	(394)	(353)	(350)	(350)	(380)
iv. Loss of existing contracts for the public transport business	Cash flow from investing activities	(254)	(638)	(370)	(328)	(355)
	Dividends paid	(283)	(236)	(233)	(207)	(219)
	Cash flow from financing activities	(507)	(29)	(201)	(226)	(238)
	Cash at beginning of period	775	596	586	887	1,073
	Net change in cash	(189)	2	301	185	161
	Ending balance cash	592	586	887	1,073	1,234
Company Profile	Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
ComfortDelGro, one of largest land transport companies in the world, is a market leader in Singapore. It has a significant overseas presence. Its businesses include bus, taxi, rail, car rental & leasing, automotive engineering services, testing services, driving centre, insurance broking services, outdoor advertising, and car dealerships.	Total cash and equivalents	607	586	887	1,073	1,234
	Tangible fixed assets	2,723	2,691	2,661	2,635	2,638
	Total investments	38	31	31	31	31
	Total assets	4,828	5,137	5,292	5,468	5,650
	Short-term debt	114	90	90	90	90
	Total long-term debt	208	480	531	531	531
	Total liabilities	1,790	2,110	2,159	2,179	2,202
	Total equity	3,038	3,027	3,133	3,289	3,449
	Total liabilities & equity	4,828	5,137	5,292	5,468	5,650
Key metrics	Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Revenue growth (%)	(11.9)	6.4	1.9	3.1	3.2
	Recurrent EPS growth (%)	(8.3)	2.0	(4.2)	7.2	4.2
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	11.4	11.5	11.1	11.3	11.3
	Net profit margin (%)	8.2	7.8	7.4	7.7	7.7
	Dividend payout ratio (%)	77.1	76.2	70.0	70.0	70.0
	Capex/sales (%)	11.0	9.3	9.0	8.8	9.2
	Interest cover (x)	37.9	38.5	23.1	24.2	25.1

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-12-06	Neutral	2.38	2.42
2019-11-14	Neutral	2.38	2.32
2019-09-19	Neutral	2.55	2.45
2019-08-14	Neutral	2.55	2.51
2019-07-22	Neutral	2.65	2.80
2019-06-18	Neutral	2.65	2.60
2019-05-15	Take Profit	2.65	2.52
2019-04-03	Take Profit	2.65	2.58
2019-02-14	Buy	2.65	2.43
2018-12-05	Neutral	2.35	2.11

Source: RHB, Bloomberg

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