

26 May 2020

Transport | Road & Rail

## ComfortDelGro (CD SP)

**Neutral** (Maintained)

### 1Q20 Business Update; Keep NEUTRAL

Target Price (Return): SGD1.45 (-6%)  
 Price: SGD1.54  
 Market Cap: USD2,341m  
 Avg Daily Turnover (SGD/USD) 25.3m/17.9m

• **Keep NEUTRAL with new SGD1.45 TP from SGD1.54, 6% downside.** ComfortDelGro reported abridged financials for 1Q20 with PATMI accounting for 19% of our previous 2020F estimate. While COVID-19 mostly impacted overseas businesses negatively in 1Q20, its effect on Singapore businesses – 60% of revenue – will be visible in 2Q20. We cut FY20F-22F profits by 7%-14%. With expected near term earnings weakness and likely slow recovery in business to pre-COVID-19 levels, we see limited catalysts to turn positive on earnings and share price outlook.

• **COVID-19 pandemic impacted 1Q20 business.** CD reported 1Q20 PATMI of SGD36m (-26% QoQ, -49% YoY) amidst sharp decline in EBIT for its public transport and taxi businesses. Public transport EBIT fell 39% YoY to SGD33.6m; while taxi EBIT crashed 92% YoY to SGD2.4m. The company also reported operating losses for its UK and China businesses during 1Q20. While businesses in both countries were impacted by COVID-19, UK public transport business was affected by bad weather. During 1Q20, China taxi rentals were reduced to virtually rent-free in response to COVID-19 lockdowns.

• **Near-term outlook remains bleak.** CD noted that service fees received under Singapore's Bus Contracting Model is a function of mileage contracted. The decline in MRT ridership and some reduction in bus frequencies during the Circuit Breaker (CB) period should translate into lower earnings for Singapore public transport business in 2Q20. COVID-19 pandemic will likely also lead to lower earnings for overseas public transport business in 2Q20. The impact on taxi earnings from full rental waiver granted for Singapore taxi fleet in April and May 2020 will be visible in 2Q20. While some relief schemes for taxi drivers have been extended until Sep 2020, we believe CD will have to continue offering additional incentives to retain taxi drivers. 2Q20 earnings will see significant cost support from the Singapore Government's Job Support Scheme.

• **Net cash balance sheet can be put to good use.** While CD continues to renew and replace Singapore taxi fleet under the hybrid vehicles programme that was committed in 2019, overall capex declined sharply in 1Q20. It does not expect to undertake any new capex for the rest of 2020. We believe the company could leverage on its net balance sheet of SGD26.4m and available facilities of SGD700m to undertake an accretive acquisition.

• **Rich valuation and lack of re-rating catalysts.** CD's 2020F P/E of 17.3x is above its historical average P/E of 15.5x. In addition, expected weak near-term earnings, no near-term re-rating catalysts and likely lower dividends for 2020 support our NEUTRAL call.

#### Analyst

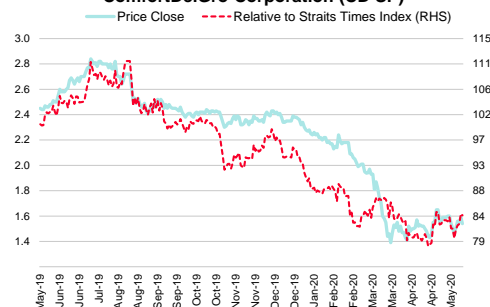
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(35.3)	4.1	(23.8)	(34.5)	(37.9)
Relative	(12.9)	6.1	(2.4)	(12.0)	(16.4)
52-wk Price low/high (SGD)					1.39 – 2.84

#### ComfortDelGro Corporation (CD SP)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,805	3,906	3,752	3,908	4,081
Recurring net profit (SGDm)	297	286	193	236	269
Recurring net profit growth (%)	1.2	(3.6)	(32.6)	22.1	14.1
Recurring P/E (x)	11.22	11.64	17.29	14.16	12.41
P/B (x)	1.3	1.3	1.3	1.3	1.2
P/CF (x)	4.98	5.47	4.48	5.07	4.79
Dividend Yield (%)	6.8	6.4	4.6	5.3	6.0
EV/EBITDA (x)	8.50	8.86	11.82	9.53	8.18
Return on average equity (%)	11.6	10.2	7.4	9.0	9.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Singapore	Recurring EPS	0.14	0.13	0.09	0.11	0.12
Transport	DPS	0.11	0.10	0.07	0.08	0.09
<b>ComfortDelGro</b>	BVPS	1.21	1.20	1.20	1.23	1.27
CD SP	Return on average equity (%)	11.6	10.2	7.4	9.0	9.9
Neutral						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	11.22	11.64	17.29	14.16	12.41
Our TP is derived through DCF	P/B (x)	1.3	1.3	1.3	1.3	1.2
	FCF Yield (%)	9.5	7.9	14.1	8.5	9.6
<b>Key drivers</b>	Dividend Yield (%)	6.8	6.4	4.6	5.3	6.0
i. More earnings-accretive acquisitions	EV/EBITDA (x)	8.50	8.86	11.82	9.53	8.18
ii. Higher dividend pay-outs	EV/EBIT (x)	8.50	8.86	11.82	9.53	8.18
iii. Contributions from acquisitions						
iv. Fare increases boosting its train business						
v. Pause in taxi fleet contraction						
vi. Favourable regulations supporting the taxi industry						
	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key risks</b>	Total turnover	3,805	3,906	3,752	3,908	4,081
i. Continuing decline in taxi fleet size	Gross profit	3,805	3,906	3,752	3,908	4,081
ii. Increased competition from ride-hailing players leading to lower daily rental rates for taxis	EBITDA	439	416	291	354	402
iii. Sharper-than-estimated decline in margins for existing businesses	Operating profit	439	416	291	354	402
iv. Loss of existing contracts for the public transport business	Net interest	(11)	(21)	(16)	(16)	(16)
	Pre-tax profit	439	407	293	358	408
	Taxation	(81)	(88)	(62)	(75)	(86)
	Reported net profit	303	265	193	236	269
	Recurring net profit	297	286	193	236	269
	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Company Profile</b>	Change in working capital	1	(86)	0	0	0
ComfortDelGro is one of largest land transport companies in the world, is a market leader in Singapore and 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.	Cash flow from operations	669	610	745	658	697
	Capex	(353)	(347)	(275)	(375)	(375)
	Cash flow from investing activities	(638)	(367)	(257)	(355)	(352)
	Dividends paid	(236)	(274)	(192)	(166)	(189)
	Cash flow from financing activities	(29)	(230)	(208)	(181)	(205)
	Cash at beginning of period	596	586	594	874	995
	Net change in cash	2	14	280	121	140
	Ending balance cash	586	594	874	995	1,135
	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	586	594	874	995	1,135
	Tangible fixed assets	2,691	2,706	2,594	2,583	2,573
	Total investments	31	25	25	25	25
	Total assets	5,137	5,379	5,441	5,577	5,735
	Short-term debt	90	199	199	199	199
	Total long-term debt	480	331	331	331	331
	Total liabilities	2,110	2,370	2,392	2,411	2,436
	Total equity	3,027	3,009	3,049	3,166	3,300
	Total liabilities & equity	5,137	5,379	5,441	5,577	5,735
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	6.4	2.6	(3.9)	4.1	4.4
	Recurrent EPS growth (%)	1.0	(3.6)	(32.7)	22.1	14.1
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	11.5	10.6	7.8	9.1	9.8
	Net profit margin (%)	8.0	6.8	5.1	6.0	6.6
	Dividend payout ratio (%)	75.0	80.0	80.0	75.0	75.0
	Capex/sales (%)	9.3	8.9	7.3	9.6	9.2
	Interest cover (x)	38.5	19.6	18.3	22.3	25.2

Source: Company data, RHB

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Figure 1: ComfortDelGro - 1Q20 segments review

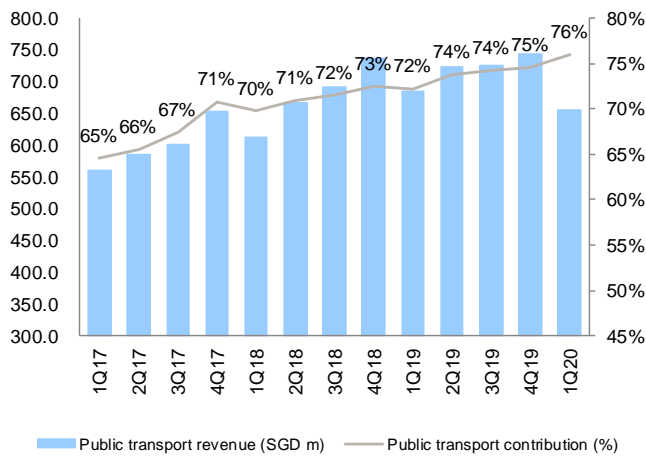
Segments (SGDm)									1Q20 Growth (%)	
Year-end Dec	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ	YoY
<b>Revenue</b>	<b>941.1</b>	<b>967.9</b>	<b>1,017.4</b>	<b>947.3</b>	<b>980.8</b>	<b>979.0</b>	<b>998.6</b>	<b>862.4</b>	<b>-13.6%</b>	<b>-9.0%</b>
Public transport	667.5	692.6	737.7	684.6	723.5	726.8	744.3	656.0	-11.9%	-4.2%
Bus station	6.4	6.3	4.5	6.0	5.7	5.5	4.6	3.5	-23.9%	-41.7%
Taxi	184.7	182.0	181.2	171.9	166.9	162.1	167.7	127.8	-23.8%	-25.7%
Automotive Engineering	40.4	43.7	43.4	41.7	41.1	39.5	36.8	31.5	-14.4%	-24.5%
Vehicle inspection	24.6	25.3	33.0	24.7	25.0	25.7	25.5	24.5	-3.9%	-0.8%
Car rental & leasing	6.7	6.7	6.6	6.8	6.8	6.9	7.5	7.1	-5.3%	4.4%
Driving centre	10.8	11.3	11.0	11.6	11.8	12.5	12.2	12.0	-1.7%	3.4%
<b>Operating profit</b>	<b>109.5</b>	<b>113.4</b>	<b>120.2</b>	<b>107.4</b>	<b>115.0</b>	<b>108.9</b>	<b>84.5</b>	<b>55.9</b>	<b>-33.8%</b>	<b>-48.0%</b>
Public transport	54.4	57.6	62.2	54.9	63.0	59.4	47.0	33.6	-28.5%	-38.8%
Bus station	2.9	2.9	1.9	2.9	2.7	2.7	1.7	0.8	-52.9%	-72.4%
Taxi	32.2	33.6	33.7	28.2	29.7	27.4	18.9	2.4	-87.3%	-91.5%
Automotive Engineering	7.5	6.0	4.6	8.7	7.0	6.0	6.1	5.6	-8.2%	-35.6%
Vehicle inspection	7.7	8.7	15.0	8.7	8.0	8.5	5.4	8.8	63.0%	1.1%
Car rental & leasing	1.5	1.2	0.6	0.9	1.1	0.9	1.4	1.0	-28.6%	11.1%
Driving centre	3.3	3.4	2.2	3.1	3.5	4.0	4.0	3.7	-7.5%	19.4%
<b>Operating profit margin</b>	<b>11.6%</b>	<b>11.7%</b>	<b>11.8%</b>	<b>11.3%</b>	<b>11.7%</b>	<b>11.1%</b>	<b>8.5%</b>	<b>6.5%</b>		
Public transport	8.1%	8.3%	8.4%	8.0%	8.7%	8.2%	6.3%	5.1%	-1.2 ppt	-2.9 ppt
Bus station	45.3%	46.0%	42.2%	48.3%	47.4%	49.1%	37.0%	22.9%	-14.1 ppt	-25.5 ppt
Taxi	17.4%	18.5%	18.6%	16.4%	17.8%	16.9%	11.3%	1.9%	-9.4 ppt	-14.5 ppt
Automotive Engineering	18.6%	13.7%	10.6%	20.9%	17.0%	15.2%	16.6%	17.8%	1.2 ppt	-3.1 ppt
Vehicle inspection	31.3%	34.4%	45.5%	35.2%	32.0%	33.1%	21.2%	35.9%	14.7 ppt	.7 ppt
Car rental & leasing	22.4%	17.9%	9.1%	13.2%	16.2%	13.0%	18.7%	14.1%	-4.6 ppt	.8 ppt
Driving centre	30.6%	30.1%	20.0%	26.7%	29.7%	32.0%	32.8%	30.8%	-1.9 ppt	4.1 ppt
<b>Key contributors</b>										
<b>Revenue</b>										
Public transport	70.9%	71.6%	72.5%	72.3%	73.8%	74.2%	74.5%	76.1%		
Taxi	19.6%	18.8%	17.8%	18.1%	17.0%	16.6%	16.8%	14.8%		
Automotive Engineering	4.3%	4.5%	4.3%	4.4%	4.2%	4.0%	3.7%	3.7%		
Vehicle inspection	2.6%	2.6%	3.2%	2.6%	2.5%	2.6%	2.6%	2.8%		
<b>Operating profit</b>										
Public transport	49.7%	50.8%	51.7%	51.1%	54.8%	54.5%	55.6%	60.1%		
Taxi	29.4%	29.6%	28.0%	26.3%	25.8%	25.2%	22.4%	4.3%		
Automotive Engg	6.8%	5.3%	3.8%	8.1%	6.1%	5.5%	7.2%	10.0%		
Vehicle inspection	7.0%	7.7%	12.5%	8.1%	7.0%	7.8%	6.4%	15.7%		

Note: Some 1Q20 segment revenue are estimates

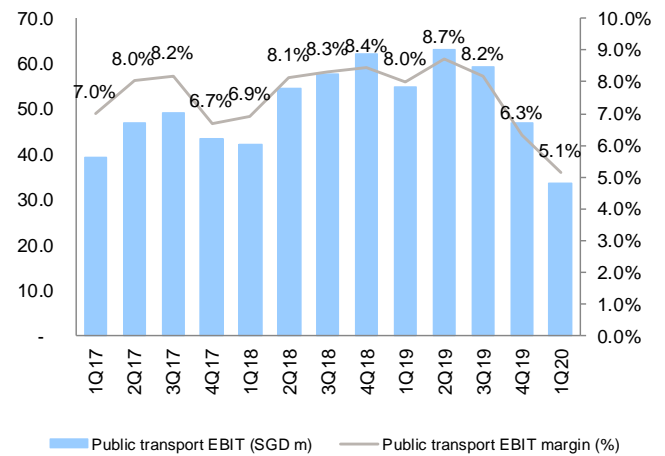
Source: Company data, RHB

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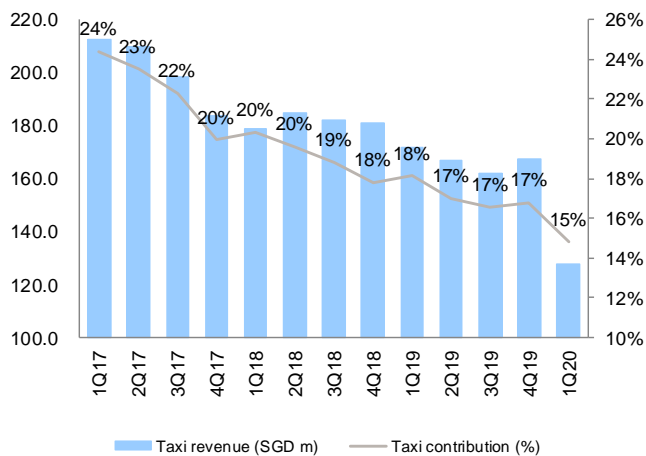
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**Figure 2: Public transport segment revenue and contribution**

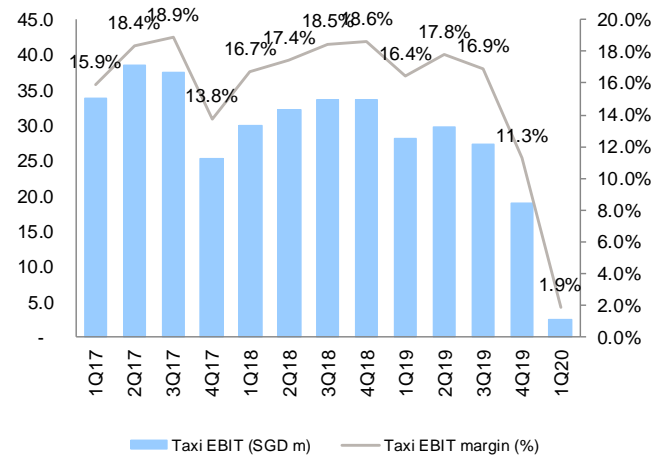
Source: Company data

**Figure 3: Public transport segment EBIT and EBIT margin**

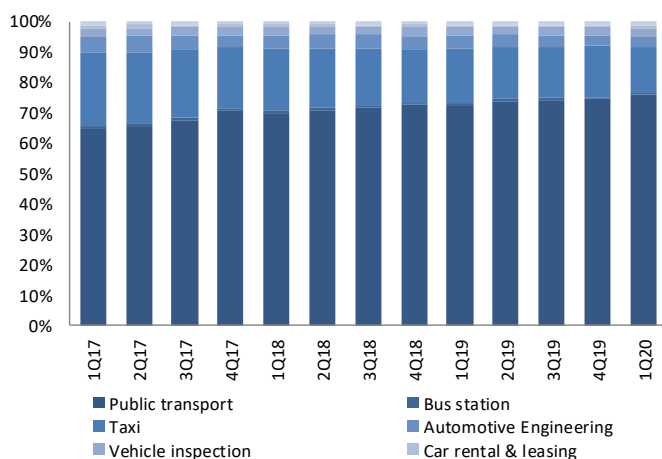
Source: Company data

**Figure 4: Taxi segment revenue and contribution**

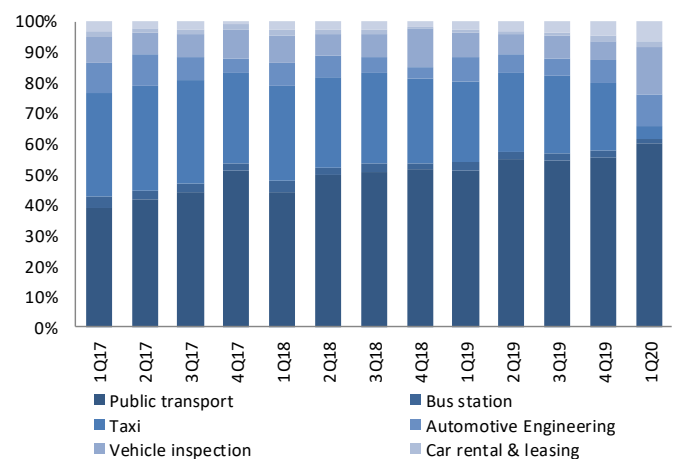
Source: Company data

**Figure 5: Taxi segment EBIT and EBIT margin**

Source: Company data

**Figure 6: Revenue contribution by business segment**

Source: Company data

**Figure 7: EBIT contribution by business segment**

Source: Company data

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## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-02	Neutral	1.54	1.47
2020-02-17	Neutral	2.25	2.09
2020-02-16	Neutral	2.25	2.18
2020-02-03	Neutral	2.38	2.13
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

Source: RHB, Bloomberg

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