

2 July 2020

Transport | Road & Rail

## ComfortDelGro (CD SP)

**Buy** (Maintained)

### Look Beyond Near-Term Weakness; BUY

Target Price (Return): SGD1.65 (11.5%)  
 Price: SGD1.48  
 Market Cap: USD2,298m  
 Avg Daily Turnover (SGD/USD) 40.9m/29.1m

• **Reiterate BUY with SGD1.65 TP, 12% upside and c.5% 2021F yield.** ComfortDelGro's share price reacted negatively after it announced expectations of a 1H20 loss and extended the 50% taxi rental waiver until 15 Jul. Even if there is a more gradual reopening of Singapore's economy, we believe CD should report QoQ profit improvement as we get to the end of 2020, and strong earnings growth in 2021. With its forward P/E below the historical average, we maintain that investors should use the current price weakness to accumulate the stock.

• **Negative share price reaction to profit warning should now be behind us.** Last week, CD announced that it expects to report a 1H20 net loss. While COVID-19's negative impact on its business was expected, the possibility of impairment in its investments caught investors by surprise. We will know more about the impairment when the company announces its 1H20 results by 15 Aug. Nevertheless, we lower our 2020 profit expectations by 13%, and our estimates are now close to Street's. Despite the impairment risk, CD continues to be well-funded and could still undertake an earnings accretive acquisition – should an opportunity arise. As at end-1Q20, CD had a SGD26m net cash balance, with access to an additional c.SGD700m worth of facilities.

• **Earlier this week, CD announced plans to extend the 50% taxi rental waiver** until 15 Jul to support taxi drivers' earnings as the economy moves towards a more gradual return to normalcy. We think there is a likelihood of CD extending the waiver again, as it looks to maintain its leadership in Singapore's taxi business, and arrest the taxi fleet size decline. Its taxi fleet declined by c.4% in 2020 to 10,282 by end-Apr. Our estimates for taxi revenue in 2020 already factors-in a much higher reduction in its fleet size.

• **Beyond 2020, CD seems set to deliver strong growth.** As we get closer to the end of 2020, a gradual recovery in ridership for CD's public transport business, and stabilisation of its taxi business should support strong earnings growth in 2021. We expect CD to deliver 40% profit growth next year. Street is more optimistic than us about CD's 2021 earnings. Based on its most bearish 2020 estimates, Street expects CD to deliver close to 100% earnings growth in 2021.

• **In addition to growth, below-average valuation and reasonable yield support our rating.** Our DCF-based SGD1.65 TP implies 16x 2021F P/E, which is marginally higher than the stock's 10-year 15.5x average P/E. Given the strong growth expectations, we believe the stock should trade at a much higher P/E multiple. Barring risks of a second wave of COVID-19 infections, we believe CD's share price provides a good entry point for investors to accumulate the stock.

#### Analyst

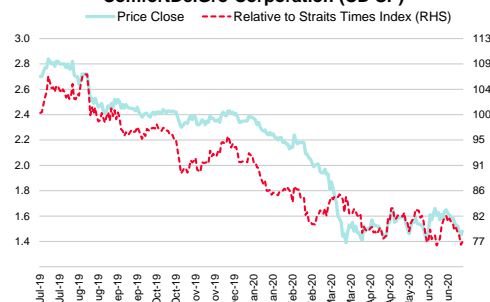
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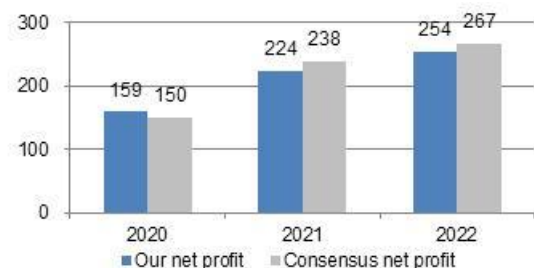
#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(37.8)	3.5	0.7	(37.8)	(45.2)
Relative	(18.8)	1.2	(6.3)	(18.8)	(22.6)
52-wk Price low/high (SGD)				1.39 – 2.84	

#### ComfortDelGro Corporation (CD SP)



Source: Bloomberg



Source: RHB, Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,805	3,906	3,724	3,925	4,082
Recurring net profit (SGDm)	297	286	159	224	254
Recurring net profit growth (%)	1.2	(3.6)	(44.5)	40.6	13.8
Recurring P/E (x)	10.79	11.19	20.17	14.34	12.61
P/B (x)	1.2	1.2	1.2	1.2	1.2
P/CF (x)	4.79	5.26	4.40	4.96	4.68
Dividend Yield (%)	7.1	6.6	4.0	5.2	5.9
EV/EBITDA (x)	8.21	8.55	13.80	9.56	8.18
Return on average equity (%)	11.6	10.2	6.1	8.6	9.5
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	0.07	0.10	0.12
Transport	DPS	0.11	0.10	0.06	0.08	0.09
<b>ComfortDelGro</b>	BVPS	1.21	1.20	1.19	1.22	1.26
CD SP	Return on average equity (%)	11.6	10.2	6.1	8.6	9.5
Buy						
	<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)	10.79	11.19	20.17	14.34	12.61
Our TP is derived through DCF	P/B (x)	1.2	1.2	1.2	1.2	1.2
	FCF Yield (%)	9.9	8.2	14.1	9.3	10.1
<b>Key drivers</b>	Dividend Yield (%)	7.1	6.6	4.0	5.2	5.9
i. More earnings-accretive acquisitions;	EV/EBITDA (x)	8.21	8.55	13.80	9.56	8.18
ii. Higher dividend payouts;	EV/EBIT (x)	8.21	8.55	13.80	9.56	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	3,724	3,925	4,082
i. Continuing decline in taxi fleet size;	Gross profit	3,805	3,906	3,724	3,925	4,082
ii. Increased competition from ride-hailing players, leading to lower daily rental rates for taxis;	EBITDA	439	416	240	335	379
iii. Sharper-than-estimated decline in margins for existing businesses;	Operating profit	439	416	240	335	379
iv. Loss of existing contracts for the public transport business.	Net interest	(11)	(21)	(16)	(16)	(16)
	Pre-tax profit	439	407	242	340	386
	Taxation	(81)	(88)	(51)	(71)	(81)
	Reported net profit	303	265	159	224	254
	Recurring net profit	297	286	159	224	254
	<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
CD, 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	729	647	685
	Capex	(353)	(347)	(275)	(350)	(360)
	Cash flow from investing activities	(638)	(367)	(257)	(329)	(336)
	Dividends paid	(236)	(274)	(178)	(147)	(179)
	Cash flow from financing activities	(29)	(230)	(194)	(163)	(195)
	Cash at beginning of period	596	586	594	871	1,026
	Net change in cash	2	14	277	154	153
	Ending balance cash	586	594	871	1,026	1,179
	<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	871	1,026	1,179
	Tangible fixed assets	2,691	2,706	2,579	2,533	2,503
	Total investments	31	25	25	25	25
	Total assets	5,137	5,379	5,418	5,560	5,709
	Short-term debt	90	199	199	199	199
	Total long-term debt	480	331	331	331	331
	Total liabilities	2,110	2,370	2,397	2,418	2,440
	Total equity	3,027	3,009	3,022	3,143	3,269
	Total liabilities & equity	5,137	5,379	5,418	5,560	5,709
	<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	(4.6)	5.4	4.0
	Recurrent EPS growth (%)	1.0	(3.6)	(44.5)	40.6	13.8
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	11.5	10.6	6.4	8.5	9.3
	Net profit margin (%)	8.0	6.8	4.3	5.7	6.2
	Dividend payout ratio (%)	75.0	80.0	80.0	75.0	75.0
	Capex/sales (%)	9.3	8.9	7.4	8.9	8.8
	Interest cover (x)	38.5	19.6	15.1	21.1	23.8

Source: Company data, RHB

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## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-06-02	Buy	1.65	1.49
2020-05-26	Neutral	1.45	1.53
2020-04-02	Neutral	1.54	1.47
2020-02-17	Neutral	2.25	2.09
2020-02-03	Neutral	2.38	2.13
2019-09-19	Neutral	2.55	2.45
2019-07-22	Neutral	2.65	2.80
2019-05-15	Take Profit	2.65	2.52
2019-02-14	Buy	2.65	2.43

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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