

3 April 2019

Transport | Road & Rail

## ComfortDelGro (CD SP)

## Take Profit (from Buy)

### Getting Close To Fair Value; TAKE PROFIT

Target Price (Return)	SGD2.65 (+2%)
Price:	SGD2.59
Market Cap:	USD4,137m
Avg Daily Turnover (SGD/USD)	18.8m/13.9m

- **TAKE PROFIT, SGD2.65 TP**, 2% upside with 4% FY19F yield. We remain positive on ComfortDelGro's growth in the public transportation business, profit contributions from new acquisitions and likely improvement in taxi earnings amidst a lack of competition from ride-hailing players. However, after delivering +21% YTD returns, CD – now trading at 17.3x 2019 P/E (5-year average of 15.4x) – seems fairly priced. Investors could consider buying CD again, if the share price drops below SGD2.50. Additional earnings-accretive acquisitions offer upside risks.

- **Continue to like earnings growth from public transport business.** Despite continued losses at its rail business, we believe CD's public transport business will continue to be the key growth driver in the near term – thanks to organic growth in Singapore and contributions from acquisitions undertaken in Australia. CD's public transport business accounts for 70% of revenue and 40% of EBIT. While EBIT margins have been on a decline in Australia, CD highlighted that new acquisitions offer margins that are higher than the group's consolidated EBIT margins of 12-13%. With negligible downside risk for its bus business in Singapore, the reduction in losses from its rail business could support higher earnings growth over the next 2-3 years.

- **Renewal of fleet should support recovery in taxi business.** CD is looking to replace older diesel taxis with new hybrid ones, which fetch a higher average daily rental rate (c.SGD120) vs the taxis that are being phased out. This, we believe, should translate into improved taxi earnings – assuming no sharp rise in competition from ride-hailing players. Although Gojek has intensified efforts to gain market share and is offering higher incentives to drivers and discounts to passengers, we do not expect it to have a material impact on CD's taxi business.

- **Ample debt head room provides more inorganic growth opportunities.** Strong operating cash flow generation has enabled CD to maintain a net cash balance sheet. However, management suggested that it would be comfortable with a net gearing of 30%, if it had to undertake a large earnings-accretive acquisition. At 30% net gearing, CD could get access to additional SGD780m of funding. This compares with SGD479m worth of acquisitions it undertook in 2018

- **Stock price seems fairly priced, upside risk exists.** We deem it difficult for CD to continue outperforming the STI, as the stock is trading above +1SD from its 5-year mean P/E of 15.4x. While its dividend yield of 4% is still above the 10-year bond yield of 2.1%, it has fallen a tad below the STI's 4.1% dividend yield. While we moderate 2019-2021 earnings estimates to account for slower improvement in taxi earnings, we maintain that earnings-accretive acquisitions and higher-than-estimated improvements in its taxi business offer near-term upside risks.

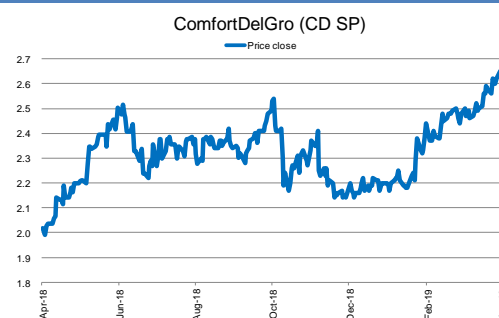
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	20.5	6.6	21.0	4.4	25.7
Relative	13.6	4.7	13.1	3.3	30.1
52-wk Price low/high (SGD)	2.02 – 2.62				

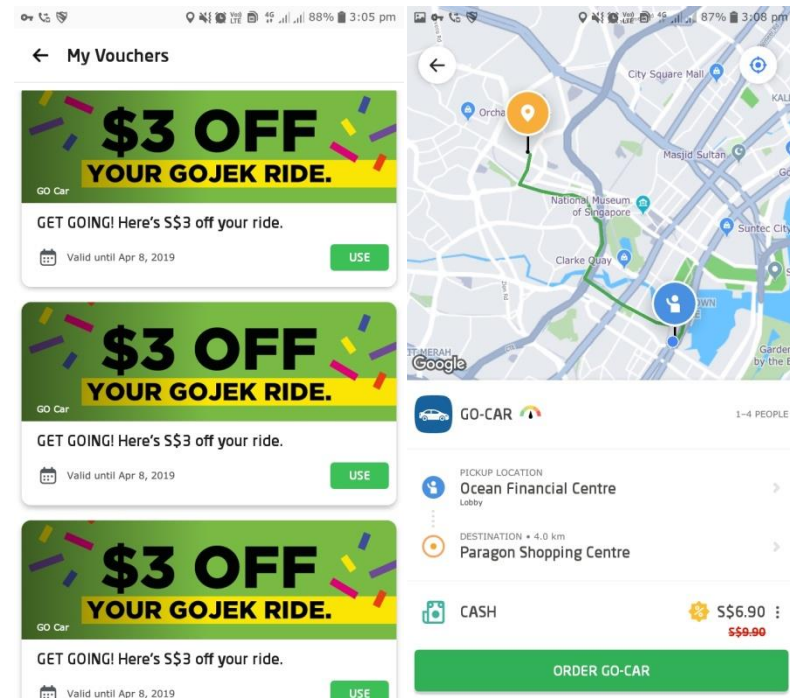


Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	3,576	3,805	3,869	3,988	4,112
Recurring net profit (SGDm)	292	298	323	348	371
Recurring net profit growth	(8.0)	2.2	8.5	7.5	6.8
Recurring P/E (x)	19.2	18.8	17.3	16.1	15.1
P/BV (x)	2.1	2.4	2.3	2.1	2.0
P/CF (x)	8.7	7.5	6.3	6.4	6.2
Dividend Yield (%)	4.0	4.1	4.0	4.3	4.6
EV/EBITDA (x)	7.1	7.2	6.8	6.4	6.0
ROE (%)	9.4	9.8	10.4	10.7	10.8
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	37.9	38.5	41.5	44.3	47.0

Source: Company data, RHB

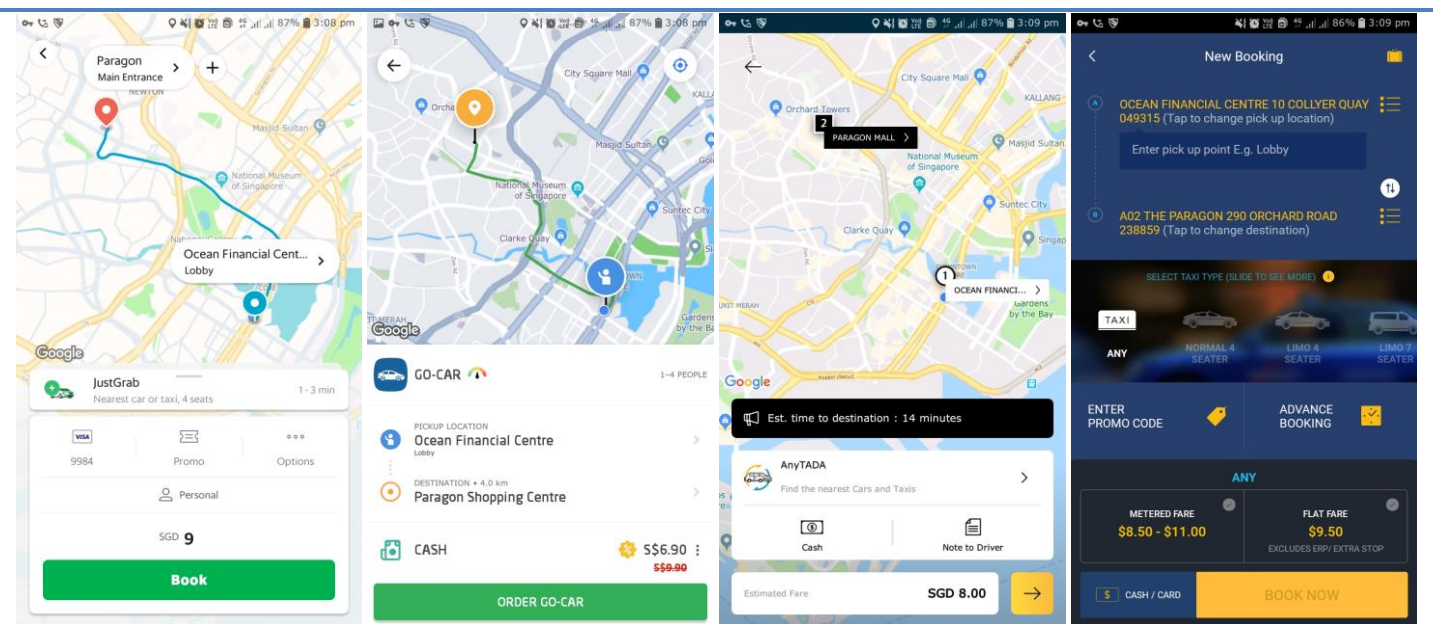
Figure 1: Gojek is offering discounts and voucher codes without any preconditions



- ◆ Gojek has intensified its efforts to gain market share. It is currently offering higher incentives to private hire car drivers and vouchers/discount codes to passengers. The vouchers/discount codes do not come with any precondition
- ◆ While we don't see this as an incentive for taxi drivers to consider driving for Gojek, it does enable passengers to opt for Gojek over taxis, if the fares are lower

Source: Bloomberg, RHB

Figure 2: Excluding the discounts offered by Gojek, off-peak period fares are comparable between private hire cars and taxis



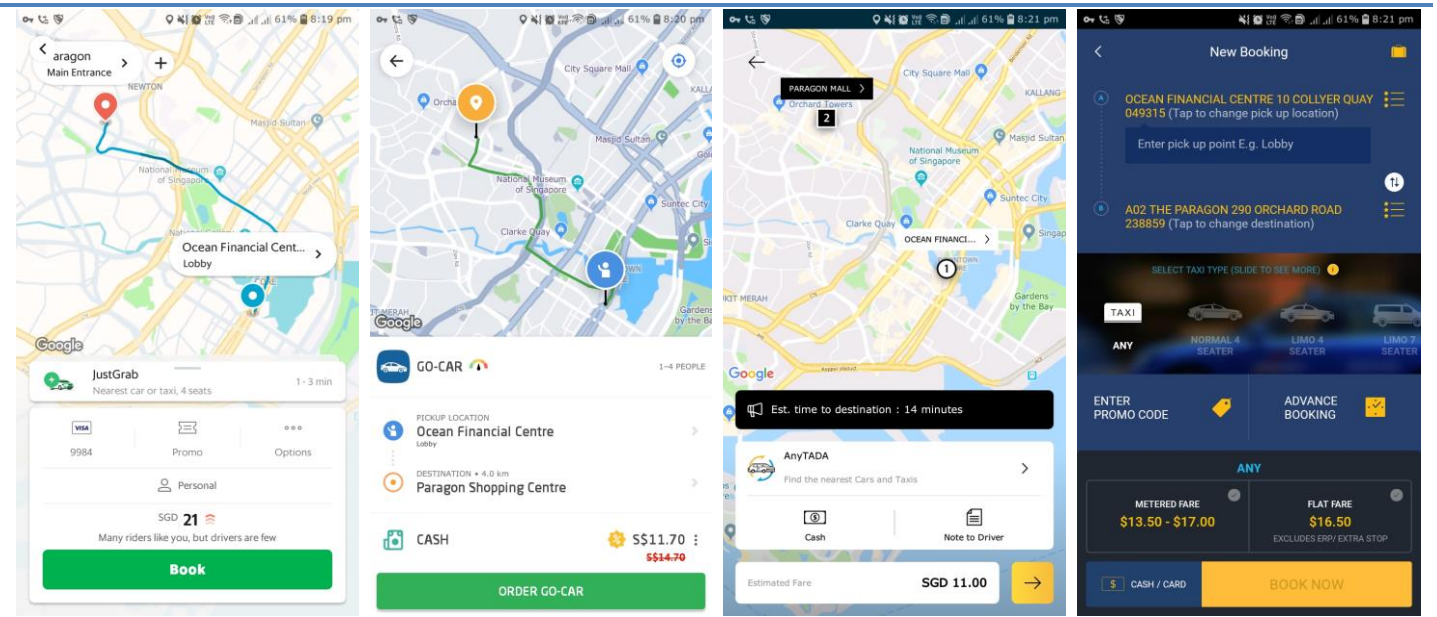
Note: Above images from left to right = Grab, Gojek, TADA and ComfortDelGro

Source: RHB

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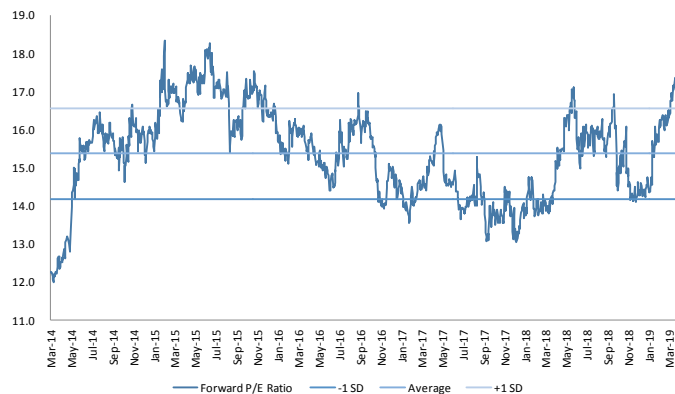
**Figure 3: While peak-period fares for some ride-hailing players seem lower, the availability of cars remains unreliable as most ride-hailing drivers are onboard with multiple service providers and choose the one that offers highest fares**



Note: Above images from left to right = Grab, Gojek, TADA and ComfortDelGro

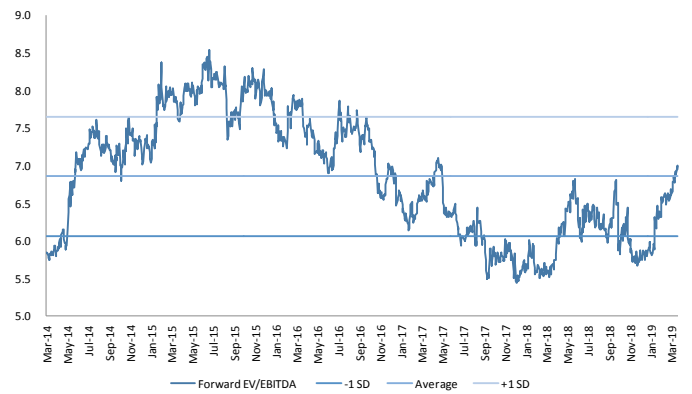
Source: RHB

**Figure 4: ComfortDelGro's 1-year forward P/E for the last five years**



Source: Bloomberg, RHB

**Figure 5: ComfortDelGro's 1-year forward EV/EBITDA for the last five years**



Source: Bloomberg, RHB



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