

19 September 2019

ComfortDelGro (CD SP)

Near-Term Headwinds Persist

Transport | Road & Rail

Neutral (Maintained)

Target Price (Return) SGD2.55 (+4%)
 Price: SGD2.45
 Market Cap: USD3,859m
 Avg Daily Turnover (SGD/USD) 19.7m/14.3m

• **Reiterate NEUTRAL and SGD2.55 TP, 4% upside.** While contribution from acquisitions and organic growth in ComfortDelGro's public transport business should drive earnings, we remain cautious in the near term amidst weakening metrics for its taxi business, and the expected increase in operating costs for the rail business. A sustainable c.4% dividend yield should provide support to share price. Trading at 17.1x 2020F P/E (5-year average: 15x), the stock looks fairly priced.

• **Taxi business to remain a near-term drag.** Based on data provided by the Land Transport Authority (LTA), CD's taxi fleet has declined by 9.4% during the first seven months of 2019 to 11,200. This, along with loss of drivers to ride-hailing players, have pushed the idle rate for the company's Singapore taxi fleet to c.4% from 2.5%. Management guided that the replacement of older Hyundai Sonata taxis with hybrid cars, which has helped in offsetting some weakness from declining fleet size, is also being delayed due to a supply shortage.

We expect competitive pressure in the taxi business to persist, given the increase in private car rental fleets in Singapore. CD could forgo some EBIT margin in its taxi business (17.8% EBIT margin in 2Q19) by offering higher incentives to retain drivers. It also expects to end the year with a slightly lower taxi fleet size. Taxi business accounted for 35% of operating profit in 2018.

• **Headwinds for public transport business.** New bus contracts in Singapore (Seletar and Bukit Merah packages), acquisitions, and lower losses from its rail business (amidst an increase in fares) have been driving growth for the public transport business. Earlier this month, Singapore's Public Transport Council noted that fares could increase by up to 7% as a part of the 2019 fare review exercise ([news](#)). While this may assist in improving the profitability of rail operations, we believe that the positive impact could get partially negated by expected cost increases. CD expects cost pressures in the coming quarters due to higher maintenance costs related to mid-life refurbishments to be undertaken at the North-East Line.

• **Upside potential from acquisitions and turnaround of rail business.** CD undertook SGD479m worth of acquisitions in 2018. New acquisitions, which have been earnings accretive, offer EBIT margins that are higher than that of its existing businesses. At a net gearing of 30%, CD should have access to c.SGD800m of funding to support further acquisitions of earnings-accretive businesses. A further upside could also come from the turnaround of its rail business, especially the Downtown Line, which has lost c.SGD125m in last three years ([news](#)).

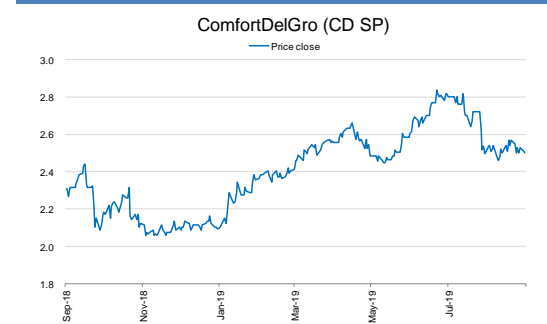
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.0	(1.6)	(5.8)	(0.4)	4.3
Relative	3.2	1.7	(2.2)	(1.4)	0.9
52-wk Price low/high (SGD)				2.07 – 2.90	



Source: Bloomberg

Forecasts and Valuations	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	304	332	358
Recurring net profit growth (%)	(8.0)	2.2	2.0	9.1	8.0
Recurring P/E (x)	18.1	17.8	18.7	17.1	15.8
P/BV (x)	2.0	2.3	2.3	2.1	2.0
P/CF (x)	8.2	7.1	5.9	6.6	6.3
Dividend Yield (%)	4.2	4.3	3.8	4.1	4.4
EV/EBITDA (x)	6.7	6.9	7.1	6.7	6.3
ROE (%)	9.4	9.8	9.8	10.3	10.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	37.9	38.5	34.8	37.7	40.5

Source: Company data, RHB

19 September 2019

Transport | Road & Rail

Financial Exhibits

Singapore	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Transport	Recurring EPS (SGD)	0.14	0.14	0.14	0.15	0.17
ComfortDelGro	DPS (SGD)	0.10	0.11	0.10	0.11	0.12
CD SP Equity	BVPS (SGD)	1.21	1.09	1.14	1.22	1.30
Neutral	ROE (%)	9.4	9.8	9.8	10.3	10.5
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Our TP is derived by using DCF of CD's FCF.	Recurring P/E (x)	18.1	17.8	18.7	17.1	15.8
	P/B (x)	2.0	2.3	2.3	2.1	2.0
	FCF Yield (%)	8.2	7.1	5.9	6.6	6.3
	Dividend yield (%)	4.2	4.3	3.8	4.1	4.4
	EV/EBITDA (x)	6.7	6.9	7.1	6.7	6.3
	EV/EBIT (x)	13.3	13.0	13.2	11.9	10.8
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 pay-outs;	Gross profit	-	-	-	-	-
iii. Contributions from acquisitions;	EBITDA (adj.)	813	828	825	859	895
iv. Fare increases boosting its train business;	Depreciation & amortisation	(409)	(394)	(380)	(376)	(377)
v. Pause in taxi fleet contraction;	Operating profit	409	439	445	482	518
vi. Favourable regulations supporting the taxi industry.	Net interest	(11)	(11)	(13)	(13)	(13)
	Pre-tax profit	416	434	451	492	531
	Taxation	(77)	(81)	(90)	(98)	(106)
	Net profit	292	298	304	332	358
	Recurring net profit	292	298	304	332	358
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	(146)	(55)	144	(0)	1
ii. Increased competition from ride-hailing players leading to lower daily rental rates for taxis;	Cash flow from operations	572	669	879	760	789
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)	(364)	(328)	(354)
	Dividends paid	(225)	(225)	(240)	(223)	(242)
	Cash flow from financing activities	(507)	(29)	(183)	(235)	(254)
	Cash at beginning of period	779	596	586	918	1,115
	Net change in cash	(193)	(10)	332	197	181
	Ending balance cash	586	586	918	1,115	1,296
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 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.	Total cash and equivalents	596	586	918	1,115	1,296
	Tangible fixed assets	2,610	2,350	2,471	2,642	2,825
	Total investments	39	30	30	30	30
	Total assets	4,828	5,137	5,323	5,511	5,712
	Short-term debt	114	90	90	90	90
	Total long-term debt	677	691	687	703	722
	Total liabilities	1,790	2,110	2,175	2,191	2,210
	Total equity	3,038	3,027	3,148	3,319	3,503
	Total liabilities & equity	4,828	5,137	5,323	5,511	5,712
	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	1.9	9.1	8.0
	Gross margin (%)	-	-	-	-	-
	Operating EBITDA margin (%)	22.7	21.8	21.3	21.5	21.7
	Net profit margin (%)	8.2	7.8	7.8	8.3	8.7
	Capex/sales (%)	11.0	9.3	9.0	8.8	9.2
	Interest cover (x)	37.9	38.5	34.8	37.7	40.5

Source: RHB, Company data

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