

5 December 2018

Transport | Road & Rail

ComfortDelGro

Neutral (Maintained)

Go-Jek To Start With Price Competition

Maintain NEUTRAL, unchanged SGD2.35 TP, 11% upside plus 5% FY19F yield as we believe investors can wait until the likely effect on CD's taxi business (30% of its EBIT) from the rise in competition between Go-Jek and Grab in Singapore becomes clear. While Go-Jek could focus on improved product offering and better user experience in the long term, we believe it will, in all likelihood, resort to price competition initially. Grab's response to Go-Jek's promotions will determine the nature and intensity of price competition.

Beta launch to ensure Go-Jek gets it right. Go-Jek launched a beta version of its app in Singapore late last month. The service is initially available only in the eastern and southern parts of Singapore. As part of Go-Jek's partnership with DBS, DBS/POSB customers received priority access to Go-Jek's services. We view this beta launch as Go-Jek's strategy to ensure that it irons out app related issues and balances its service capabilities to match the demand before the app becomes available to everyone in early 2019.

Price competition seems the obvious start. We believe that in a bid to gain initial market share, Go-Jek will entice users with promotion codes. At present, DBS/POSB customers receive SGD5 credits for each of their first two rides. We could see more of such discounts after Go-Jek's full launch next year. The fare structure seems competitive as well. Go-Jek levies a base fare of SGD2.70 and SGD0.65/km charge with an overall minimum fare of SGD6. The lowest fare structure for taxis is a base fare of SGD3.20 and SGD0.55/km for the first 10km and SGD0.63/km thereafter. Taxis also have a time charge of SGD0.22 for every 45 seconds of waiting or less. While its website mentions dynamic pricing, Go-Jek has excluded "surge pricing" during the first few weeks of the beta app launch. In comparison, taxis have peak hour surcharges (25% of metered fare) and location-based surcharges. In our initial use, we found Go-Jek offering the lowest fare when compared with CD and Grab.

Product offering could gain focus once critical mass is achieved. We believe the eventual implementation of dynamic pricing could narrow the gap between Go-Jek and taxi fares over time. Moreover, [Channel NewsAsia](#) quoted Mr Andre Soelistyo, Go-Jek's president, saying that price promotions might not be as aggressive as during the days when Grab and Uber started off in Singapore. Go-Jek will eventually focus on building and offering a differentiated product over gaining market share. We inadvertently ended up gaining access to Go-Jek's Indonesian app while trying to install its beta Singapore app on our phone. We noticed that Go-Jek's app was more refined, had better product offerings and all products worked seamlessly in a single app as compared to Grab's app, which requires different apps to be installed for different products.

It now depends on how Grab responds to new competition. Grab has already started stepping up its offerings to fend off competition from Go-Jek. It has started the pilot of a monthly subscription programme, *GrabClub*, which aims to give users savings on services like rides and food delivery. While current offers focus purely on food delivery, its *All-Access Pass* will combine ride and food discounts. This pass will be rolled out officially in 1Q19.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	4,060	3,971	3,728	3,861	3,975
Reported net profit (SGDm)	317	302	307	341	366
Recurring net profit (SGDm)	317	302	307	341	366
Recurring net profit growth (%)	5.0	(4.9)	1.8	11.1	7.2
Recurring EPS (SGD)	0.15	0.14	0.14	0.16	0.17
DPS (SGD)	0.10	0.10	0.09	0.11	0.12
Recurring P/E (x)	14.4	15.2	14.9	13.5	12.5
P/B (x)	1.7	1.8	1.7	1.6	1.5
P/CF (x)	6.0	7.0	5.5	5.5	5.3
Dividend Yield (%)	4.9	4.9	4.5	5.4	5.8
EV/EBITDA (x)	5.6	5.5	5.8	5.7	5.4
Return on average equity (%)	10.2	9.7	9.9	10.5	10.7
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, RHB

Target Price:	SGD2.35
Price:	SGD2.12
Market Cap:	USD3,362
Bloomberg Ticker:	CD SP

Share Data

Avg Daily Turnover (SGD/USD)	18.1m/13.26m
52-wk Price low/high (SGD)	2.51 - 1.89
Free Float (%)	99.6
Shares outstanding (m)	2,165
Estimated Return	11%

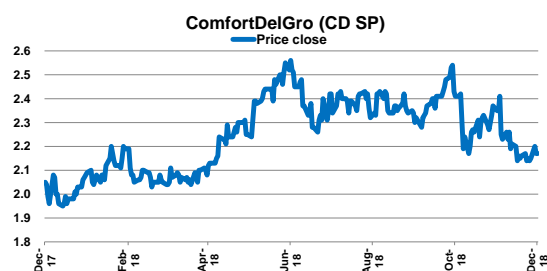
Shareholders (%)

Blackrock	7.0
Schroders	5.0
Vanguard	2.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.1	(7.8)	(5.8)	(15.5)	6.0
Relative	14.0	(11.3)	(6.1)	(6.5)	13.9

Source: Bloomberg



Source: Bloomberg

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