6 December 2019

Transport | Road & Rail

ComfortDelGro (CD SP)

Neutral (Maintained)

Awaiting Re-Rating Catalysts

Target Price (Return)	SGD2.38 (-1%)
Price:	SGD2.40
Market Cap:	USD3,817m
Avg Daily Turnover (SGD/USD)	17.8m/13.1m

- **Maintain NEUTRAL with a DCF-derived SGD2.38 TP, 1% downside with c.4% yield.** While we continue to like the defensive nature of ComfortDelGro's public transport business earnings and the company's strong FCF generation capability, we remain cautious about the near term headwinds from rising operating costs for its rail business and weak taxi earnings. Despite our expectation for 7% earnings growth in 2020, the stock is trading at 17x 2020F P/E vs a 5-year average of 15x and it looks fairly priced. A healthy and sustainable dividend yield of c.4% should provide support to share price.
- **Re-rating catalysts could come from new acquisitions, a revival of taxi business or turnaround of its rail business.** With muted growth from existing business operations, revival of strong earnings growth will have to come from new acquisitions, improvement in the Singapore taxi business or reduction in rail losses. CD's recently completed acquisitions have offered EBIT margins that are higher than that of its existing businesses; CD continues to explore investment opportunities in public transport businesses overseas. A net gearing of 30% would give CD access to SGD640m of funds to undertake other earnings accretive acquisitions. A further upside could also come from the turnaround of its rail business, especially the Downtown Line, which lost c.SGD125m in last three years.
- **Public transport business to drive earnings despite headwinds.** Contribution from new bus contracts in Singapore (Seletar and Bukit Merah packages), acquisitions, and lower losses from its rail business (amidst an increase in fares) should continue to drive CD's growth in 2020. On the other hand, costs are also expected to remain elevated amidst higher operating and maintenance costs related to mid-life refurbishments to be undertaken at the North-East Line. The introduction of fixed licence charge related to operations of Downtown Line will also keep a check on public transport margins. The fixed licence charge, which is estimated at SGD15m for 2019, is expected to increase by SGD5m every year going forward.
- **Singapore taxi business remains a weak spot.** Although the competitive intensity from ride-hailing players has dropped recently with Grab reducing the incentives that it offers to its drivers, CD still seems to be struggling to stabilise its taxi fleet size and the idle rate. Based on latest available data from the Land Transport Authority (LTA), its fleet size has declined 10% in 2019 (till Sep 19). CD is offering strong incentives to its taxi drivers, which we believe will continue to impact its operating margins.
- **Further downside risks** could come from a continuing decline in taxi fleet size, a sharper-than-estimated decline in margins and loss of existing contracts for the public transport business.

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	286	306	319
Recurring net profit growth (%)	(8.0)	2.2	(4.1)	7.2	4.2
Recurring P/E (x)	17.8	17.4	18.2	17.0	16.3
P/BV (x)	2.0	2.2	2.1	2.0	1.9
P/CF (x)	8.0	6.9	5.4	6.3	6.1
Dividend Yield (%)	4.3	4.4	3.8	4.1	4.3
EV/EBITDA (x)	6.6	6.8	6.7	6.4	6.1
ROE (%)	9.4	9.8	9.3	9.5	9.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	37.9	38.5	23.1	24.2	25.1

Source: Company data, RHB

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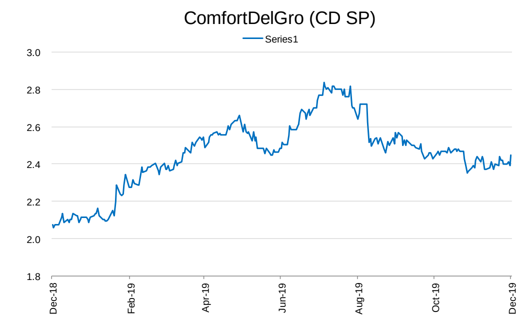
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.6	2.6	(3.6)	(3.2)	13.7
Relative	8.2	4.8	(4.5)	(4.3)	13.1
52-wk Price low/high (SGD)					2.07 – 2.90



Source: Bloomberg

Financial Exhibits

Singapore

Transport

ComfortDelGro

CD SP Equity

Neutral

Valuation basis

Our TP is derived through DCF.

Key drivers

i. More earnings-accretive acquisitions;
ii. Higher dividend pay-outs;
iii. Contributions from acquisitions;
iv. Fare increases boosting its train business;
v. Pause in taxi fleet contraction;
vi. Favourable regulations supporting the taxi industry.

Key risks

i. Continuing decline in taxi fleet size;
ii. Increased competition from ride-hailing players leading to lower daily rental rates for taxis;
iii. Sharper-than-estimated decline in margins for existing businesses;
iv. Loss of existing contracts for the public transport business.

Company Profile

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.

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (SGD)	0.14	0.14	0.13	0.14	0.15
DPS (SGD)	0.10	0.11	0.09	0.10	0.10
BVPS (SGD)	1.21	1.09	1.13	1.21	1.28
ROE (%)	9.4	9.8	9.3	9.5	9.5

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	17.8	17.4	18.2	17.0	16.3
P/B (x)	2.0	2.2	2.1	2.0	1.9
FCF Yield (%)	8.0	6.9	5.4	6.3	6.1
Dividend yield (%)	4.3	4.4	3.8	4.1	4.3
EV/EBITDA (x)	6.6	6.8	6.7	6.4	6.1
EV/EBIT (x)	13.0	12.7	12.6	11.7	11.1

Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	3,576	3,805	3,878	3,999	4,126
Gross profit	-	-	-	-	-
EBITDA (adj.)	813	828	810	828	844
Depreciation & amortisation	(409)	(394)	(380)	(376)	(377)
Operating profit	409	439	430	451	467
Net interest	(11)	(11)	(19)	(19)	(19)
Pre-tax profit	416	434	424	454	473
Taxation	(77)	(81)	(85)	(91)	(95)
Net profit	292	298	286	306	319
Recurring net profit	292	298	286	306	319

Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	(146)	(55)	147	3	4
Cash flow from operations	572	669	872	740	754
Capex	(394)	(353)	(350)	(350)	(380)
Cash flow from investing activities	(254)	(638)	(370)	(328)	(355)
Dividends paid	(225)	(225)	(233)	(207)	(219)
Cash flow from financing activities	(507)	(29)	(201)	(226)	(238)
Cash at beginning of period	779	596	586	887	1,073
Net change in cash	(193)	(10)	301	185	161
Ending balance cash	586	586	887	1,073	1,234

Balance Sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	596	586	887	1,073	1,234
Tangible fixed assets	2,610	2,350	2,455	2,612	2,771
Total investments	39	30	30	30	30
Total assets	4,828	5,137	5,292	5,468	5,650
Short-term debt	114	90	90	90	90
Total long-term debt	677	691	690	710	732
Total liabilities	1,790	2,110	2,159	2,179	2,202
Total equity	3,038	3,027	3,133	3,289	3,449
Total liabilities & equity	4,828	5,137	5,292	5,468	5,650

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	(4.2)	7.2	4.2
Gross margin (%)	-	-	-	-	-
Operating EBITDA margin (%)	22.7	21.8	20.9	20.7	20.5
Net profit margin (%)	8.2	7.8	7.4	7.7	7.7
Capex/sales (%)	11.0	9.3	9.0	8.8	9.2
Interest cover (x)	37.9	38.5	23.1	24.2	25.1

Source: RHB, Company data

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