18 June 2019

Transport | Road & Rail

# ComfortDelGro (CD SP)

## Neutral (from Take Profit)

## Positive On Long-Term Outlook; NEUTRAL

| | |
|---|---|
| Target Price (Return) | SGD2.65 (+3%) |
| Price: | SGD2.58 |
| Market Cap: | USD4,076m |
| Avg Daily Turnover (SGD/USD) | 18.17m /13.25m |

- **Upgrade to NEUTRAL, SGD2.65 TP, 3% upside with 4% yield.** We remain confident over ComfortDelGro's (CD) earnings growth recovery, aided by contributions from recent acquisitions and its public transport unit's growth. The stock looks fairly priced now, ie trading at 17.3x 2019 P/E (5-year average: 15x). While we like the defensive nature of its earnings, investors should consider buying at a lower price (c.SGD2.40). Increased competition in the taxi business present downside risks, while earnings-accretive acquisitions offer upside risks.
- **Public transport remains the key earnings drivers.** We maintain that CD's public transport business will be its key earnings growth driver in the near term, aided by organic growth in Singapore and contributions from acquisitions undertaken in 2018. Based on its latest quarterly results, CD's public transport business accounts for 70% of revenue and 50% of EBIT. In addition to organic growth from its bus operations in Singapore, the reduction of losses for its rail business, which has witnessed an increase in ridership and higher average fares, should also support earnings growth for its public transport business in Singapore.
- **Downside risk as taxi fleet continues to contract.** During its recent quarterly results announcement, CD lowered its revenue guidance for the taxi business to "decrease" from "maintain", amidst weak operations in China and expectations of growing competition from ride-hailing players in Singapore. While its taxi fleet idle rates have increased, management expects higher rentals from the replacement of older taxis with new hybrid cars to offset some of the revenue decline. We believe that the continuing decline in taxi fleet size, as evident from latest industry statistics (Figure 1), could pose as a downside risk to CD's taxi earnings, which account for 30% of its EBIT.
- **New acquisitions are potential re-rating catalysts.** 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%, a level that management is comfortable with, CD would have access to c.SGD800m of funding to support further acquisitions of earnings-accretive businesses.
- **Maintain forecasts; our estimates slightly ahead of Street projections.** The stock has outperformed the STI by about 20% YTD and now trades at stretched valuations (Figures 2 and 3). We highlight that our FY20-21 profit estimates are 5-8% ahead of the Street's. Barring downside revisions to earnings, we note that its 4% dividend yield – which we believe is sustainable – should provide downside protection to its share price.
- **Key upside risks** are additional earnings-accretive acquisitions and a pause in its taxi fleet contraction. Downside risks are increased competition from ride-hailing players, and a sharp decline in margins for existing businesses.

| Forecasts and Valuations | 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) | 19.1 | 18.7 | 17.3 | 16.1 | 15.0 |
| P/BV (x) | 2.1 | 2.4 | 2.2 | 2.1 | 2.0 |
| P/CF (x) | 8.7 | 7.4 | 5.6 | 6.3 | 6.1 |
| Dividend Yield (%) | 4.0 | 4.1 | 4.1 | 4.4 | 4.7 |
| EV/EBITDA (x) | 7.0 | 7.2 | 6.7 | 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*

**Analyst**

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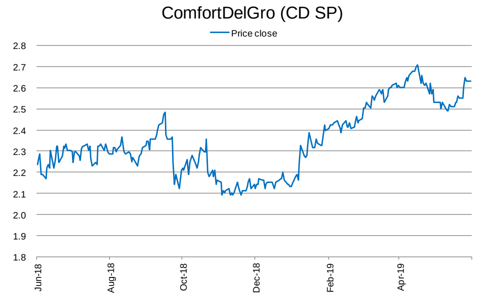
**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 20.0 | 4.0 | 5.3 | 20.6 | 11.2 |
| Relative | 15.5 | 4.0 | 5.1 | 17.6 | 15.6 |
| 52-wk Price low/high (SGD) | | | | | 2.07 – 2.73 |




*Source: Bloomberg*

# Financial Exhibits

**Singapore**
Transport
ComfortDelGro
CD SP Equity
Neutral

**Valuation basis**
Our TP is derived by using DCF of free cash flows

**Key drivers**
i. More earnings-accretive acquisitions;
ii. Higher dividend payouts;
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**
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 dealership.

| Financial summary | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|---|---|---|---|---|---|
| Recurring EPS (SGD) | 0.14 | 0.14 | 0.15 | 0.16 | 0.17 |
| DPS (SGD) | 0.10 | 0.11 | 0.10 | 0.11 | 0.12 |
| BVPS (SGD) | 1.21 | 1.09 | 1.15 | 1.23 | 1.32 |
| ROE (%) | 9.4 | 9.8 | 10.4 | 10.7 | 10.8 |

| Valuation metrics | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 19.1 | 18.7 | 17.3 | 16.1 | 15.0 |
| P/B (x) | 2.1 | 2.4 | 2.2 | 2.1 | 2.0 |
| FCF Yield (%) | 8.7 | 7.4 | 5.6 | 6.3 | 6.1 |
| Dividend yield (%) | 4.0 | 4.1 | 4.1 | 4.4 | 4.7 |
| EV/EBITDA (x) | 7.0 | 7.2 | 6.7 | 6.4 | 6.0 |
| EV/EBIT (x) | 14.0 | 13.6 | 12.1 | 11.1 | 10.2 |

| Income statement (SGDm) | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|---|---|---|---|---|---|
| Total turnover | 3,576 | 3,805 | 3,869 | 3,988 | 4,112 |
| Gross profit | - | - | - | - | - |
| EBITDA (adj.) | 813 | 828 | 853 | 881 | 913 |
| Depreciation & amortisation | (409) | (394) | (380) | (376) | (377) |
| Operating profit | 409 | 439 | 473 | 505 | 536 |
| Net interest | (11) | (11) | (11) | (11) | (11) |
| Pre-tax profit | 416 | 434 | 480 | 515 | 551 |
| Taxation | (77) | (81) | (96) | (103) | (110) |
| Net profit | 292 | 298 | 323 | 348 | 371 |
| Recurring net profit | 292 | 298 | 323 | 348 | 371 |

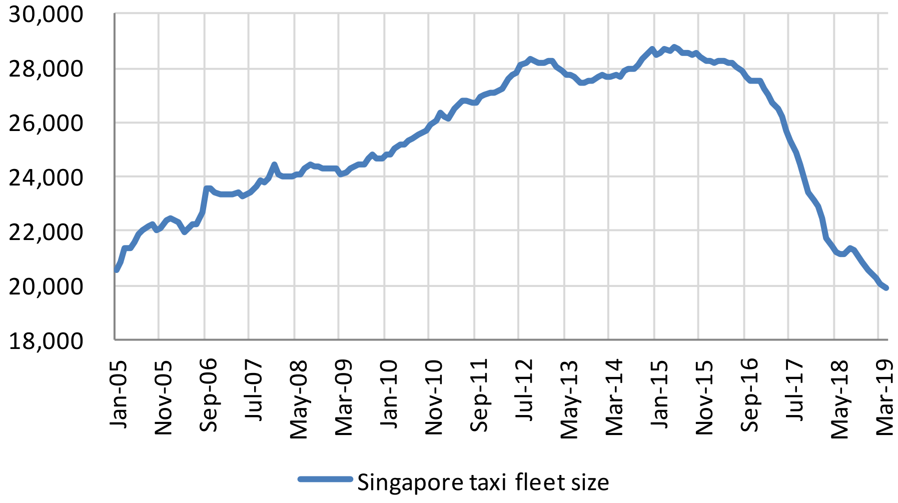
| Cash flow (SGDm) | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|---|---|---|---|---|---|
| Change in working capital | (146) | (55) | 138 | 1 | 1 |
| Cash flow from operations | 572 | 669 | 895 | 779 | 804 |
| Capex | (394) | (353) | (350) | (350) | (380) |
| Cash flow from investing activities | (254) | (638) | (332) | (328) | (354) |
| Dividends paid | (225) | (225) | (246) | (235) | (252) |
| Cash flow from financing activities | (507) | (29) | (258) | (246) | (263) |
| Cash at beginning of period | 779 | 596 | 586 | 891 | 1,096 |
| Net change in cash | (193) | (10) | 305 | 204 | 187 |
| Ending balance cash | 586 | 586 | 891 | 1,096 | 1,282 |

| Balance Sheet (SGDm) | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|---|---|---|---|---|---|
| Total cash and equivalents | 596 | 586 | 891 | 1,096 | 1,282 |
| Tangible fixed assets | 2,610 | 2,350 | 2,487 | 2,664 | 2,853 |
| Total investments | 39 | 30 | 30 | 30 | 30 |
| Total assets | 4,828 | 5,137 | 5,262 | 5,457 | 5,665 |
| Short-term debt | 114 | 90 | 90 | 90 | 90 |
| Total long-term debt | 677 | 691 | 679 | 697 | 715 |
| Total liabilities | 1,790 | 2,110 | 2,098 | 2,115 | 2,134 |
| Total equity | 3,038 | 3,027 | 3,164 | 3,342 | 3,531 |
| Total liabilities & equity | 4,828 | 5,137 | 5,262 | 5,457 | 5,665 |

| Key metrics | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|---|---|---|---|---|---|
| Revenue growth (%) | (11.9) | 6.4 | 1.7 | 3.1 | 3.1 |
| Recurrent EPS growth (%) | (8.3) | 2.0 | 8.4 | 7.5 | 6.8 |
| Gross margin (%) | - | - | - | - | - |
| Operating EBITDA margin (%) | 22.7 | 21.8 | 22.0 | 22.1 | 22.2 |
| Net profit margin (%) | 8.2 | 7.8 | 8.4 | 8.7 | 9.0 |
| Capex/sales (%) | 11.0 | 9.3 | 9.0 | 8.8 | 9.2 |
| Interest cover (x) | 37.9 | 38.5 | 41.5 | 44.3 | 47.0 |

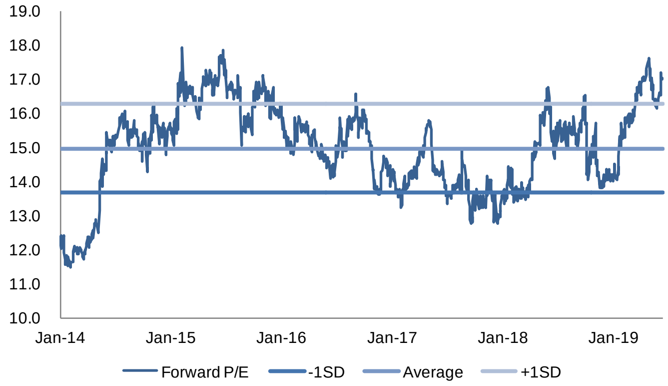
*Source: RHB, Company data*

**Figure 1: Singapore taxi fleet continues to decline**



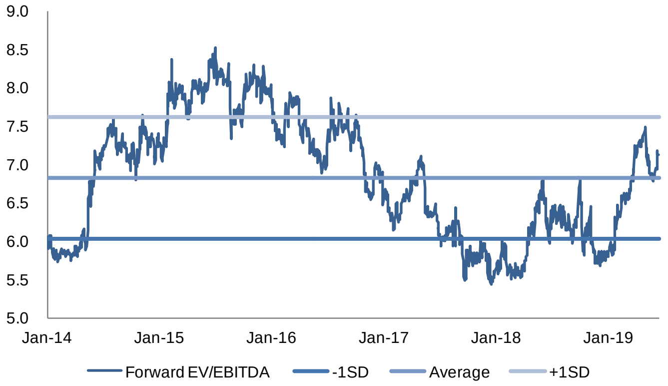

*Source: Land Transport Authority*

**Figure 2: ComfortDelGro's 1-year forward P/E for the last five years**




*Source: Bloomberg, RHB*

**Figure 3: ComfortDelGro's 1-year forward EV/EBIDTA for the last five years**




*Source: Bloomberg, RHB*

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| | |
|---|---|
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| **Trading Buy:** | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
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| **Not Rated:** | Stock is not within regular research coverage |

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