

2 June 2020

Transport | Road & Rail

## ComfortDelGro (CD SP)

**Buy** (from Neutral)

### Known Negatives Are Priced In; Upgrade To BUY

Target Price (Return): SGD1.65 (+15%)  
 Price: SGD1.43  
 Market Cap: USD2,195m  
 Avg Daily Turnover (SGD/USD) 32.8m/21.9m

- **Upgrade to BUY from Neutral, new SGD1.65 TP from SGD1.45, 15% upside with c.5% FY20F yield.** ComfortDelGro has priced in the soft earnings for 2Q20F and its exclusion from the MSCI Singapore index. With the swift reopening of Singapore's economy and additional cash flow support from the latest Fortitude Budget, 2H20 earnings could be better than Street's estimate. Our FY20F profit is 17% above Street's. With its 1-year forward P/E below the historical average, investors should start accumulating ahead of the expected strong rebound in FY21 earnings.
- **Weak 2Q20 earnings and exclusion from MSCI Index now priced in.** In line with our expectation of CD continuing to offer driver incentives, last week, it announced a 50% reduction in taxi rental rates for June. This will further worsen its taxi business losses for 2020. CD was also removed from the MSCI Singapore Index on 29 May. The rebalancing undertaken by index funds led to a 4% decline in its share price. While there could have been some spillover selling from last Friday, weakness in its share price on 1 Jun could also be due to the stock going ex-dividend. In terms of price action, we believe CD has already factored in the known negatives, which also includes a likely 30% lower DPS for FY20F. Its FY20F dividend yield now matches the yield offered by the STI.
- **Positives to come from improved public transport revenue and cash flow support from government budgets.** On the positive front, with the swift reopening of Singapore's economy, we expect ridership of buses and trains to improve as we head towards 4Q20. This should translate to a QoQ improvement in public transport revenue. In addition, the extension of job support schemes for an additional month, as well as a higher percentage support to cover monthly wages for rail operators and point-to-point transport operators – announced under the latest Fortitude Budget – should enable CD to weather through the next two reporting quarters. We also believe that the company could leverage on its net cash balance sheet of SGD26.4m and available facilities of SGD700m to undertake an earnings-accretive acquisition.
- **Lower than historical average valuation, reasonable yield, and strong earnings recovery in 2021 supports our BUY rating.** Our DCF-based TP rises to SGD1.65, implying 15.5x FY21F P/E, in line with the stock's 10-year average forward P/E. Barring the risks of delays in opening the economy in 2H20, a second wave of COVID-19 infections, or a material decline in margins for the public transport business leading to weaker-than-estimated earnings, we believe CD's current share price, which offers a c.5% yield, provides a solid downside support and a good entry point for investors to start accumulating the stock ahead of the 26% growth in FY21F earnings.

#### Analyst

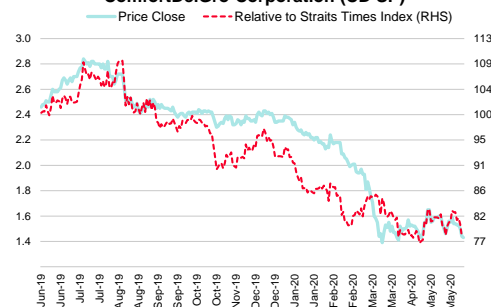
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(39.9)	(13.3)	(26.7)	(39.2)	(41.9)
Relative	(17.8)	(9.0)	(10.1)	(17.8)	(22.4)
52-wk Price low/high (SGD)	1.39 – 2.84				

#### ComfortDelGro Corporation (CD SP)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,805	3,906	3,752	3,908	4,081
Recurring net profit (SGDm)	297	286	183	230	266
Recurring net profit growth (%)	1.2	(3.6)	(36.0)	25.5	15.5
Recurring P/E (x)	10.42	10.81	16.90	13.47	11.66
P/B (x)	1.2	1.2	1.2	1.2	1.1
P/CF (x)	4.63	5.08	4.12	4.71	4.44
Dividend Yield (%)	7.3	6.8	4.7	5.6	6.4
EV/EBITDA (x)	7.96	8.29	11.55	8.96	7.54
Return on average equity (%)	11.6	10.2	7.1	8.8	9.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Singapore	Recurring EPS	0.14	0.13	0.08	0.11	0.12
Transport	DPS	0.11	0.10	0.07	0.08	0.09
<b>ComfortDelGro</b>	BVPS	1.21	1.20	1.20	1.23	1.27
CD SP	Return on average equity (%)	11.6	10.2	7.1	8.8	9.8
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
DCF	Recurring P/E (x)	10.42	10.81	16.90	13.47	11.66
	P/B (x)	1.2	1.2	1.2	1.2	1.1
	FCF Yield (%)	10.2	8.5	15.4	10.0	10.9
	Dividend Yield (%)	7.3	6.8	4.7	5.6	6.4
	EV/EBITDA (x)	7.96	8.29	11.55	8.96	7.54
	EV/EBIT (x)	7.96	8.29	11.55	8.96	7.54
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. More earnings-accretive acquisitions;	Total turnover	3,805	3,906	3,752	3,908	4,081
ii. Higher dividend payouts;	Gross profit	3,805	3,906	3,752	3,908	4,081
iii. Contributions from acquisitions;	EBITDA	439	416	277	344	395
iv. Fare increases boosting its train business;	Operating profit	439	416	277	344	395
v. Pause in taxi fleet contraction;	Net interest	(11)	(21)	(16)	(16)	(16)
vi. Favourable regulations supporting the taxi industry.	Pre-tax profit	439	407	278	349	404
	Taxation	(81)	(88)	(58)	(73)	(85)
	Reported net profit	303	265	183	230	266
	Recurring net profit	297	286	183	230	266
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. Continuing decline in taxi fleet size;	Change in working capital	1	(86)	0	0	0
ii. Increased competition from ride-hailing players leading to lower daily rental rates for taxis;	Cash flow from operations	669	610	751	658	697
iii. Sharper-than-estimated decline in margins for existing businesses;	Capex	(353)	(347)	(275)	(350)	(360)
iv. Loss of existing contracts for the public transport business.	Cash flow from investing activities	(638)	(367)	(257)	(329)	(336)
	Dividends paid	(236)	(274)	(188)	(160)	(186)
	Cash flow from financing activities	(29)	(230)	(204)	(175)	(202)
	Cash at beginning of period	596	586	594	884	1,038
	Net change in cash	2	14	290	154	159
	Ending balance cash	586	594	884	1,038	1,198
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
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.	Total cash and equivalents	586	594	884	1,038	1,198
	Tangible fixed assets	2,691	2,706	2,579	2,533	2,503
	Total investments	31	25	25	25	25
	Total assets	5,137	5,379	5,436	5,570	5,727
	Short-term debt	90	199	199	199	199
	Total long-term debt	480	331	331	331	331
	Total liabilities	2,110	2,370	2,395	2,412	2,437
	Total equity	3,027	3,009	3,041	3,158	3,291
	Total liabilities & equity	5,137	5,379	5,436	5,570	5,727
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	6.4	2.6	(3.9)	4.1	4.4
	Recurrent EPS growth (%)	1.0	(3.6)	(36.0)	25.5	15.5
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	11.5	10.6	7.4	8.8	9.7
	Net profit margin (%)	8.0	6.8	4.9	5.9	6.5
	Dividend payout ratio (%)	75.0	80.0	80.0	75.0	75.0
	Capex/sales (%)	9.3	8.9	7.3	9.0	8.8
	Interest cover (x)	38.5	19.6	17.4	21.7	24.9

Source: Company data, RHB

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## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-26	Neutral	1.45	1.53
2020-04-02	Neutral	1.54	1.47
2020-02-17	Neutral	2.25	2.09
2020-02-03	Neutral	2.38	2.13
2019-09-19	Neutral	2.55	2.45
2019-07-22	Neutral	2.65	2.80
2019-05-15	Take Profit	2.65	2.52
2019-02-14	Buy	2.65	2.43
2018-12-05	Neutral	2.35	2.11

Source: RHB, Bloomberg

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