

12 September 2024

Industrials | Road & Rail

## ComfortDelGro (CD SP)

**Buy** (Maintained)

### Higher Public Transport Fares in Singapore; BUY

Target Price (Return): SGD1.65 (11.5%)  
 Price (Market Cap): SGD1.48 (USD2,459m)  
 ESG score: 3.4 (out of 4)  
 Avg Daily Turnover (SGD/USD) 8.42m/6.34m

- **BUY and SGD1.65 TP, 12% upside, and 5% FY24F yield.** The Public Transport Council (PTC) has announced a 6% fare increase effective 28 Dec - in line with our estimate. We expect ComfortDelGro's Singapore rail business, which operates under SBS Transit Rail (SBSR), to report a small profit in 2024. The announced fare hike and moderation in operating costs towards the end of 2024 should translate into SBSR reporting better profits in 2025. We keep our estimates unchanged and reiterate that CD should continue to report earnings improvement in 2H24 and 2025.
- **Fare adjustment.** The 2024 Fare Review Exercise (FRE) translated into a fare adjustment of 3.3%. After adding the deferred fare quantum of 15.6%, the maximum allowable fare adjustment quantum for the 2024 FRE comes up to 18.9%. However, to cushion commuters from sudden sharp rises in fares, the PTC decided to grant a fare increase of only 6%. This will reduce the deferred fare quantum to 12.9% for future years. To cover the difference, the Government will provide a subsidy of SGD250m (SGD300m in the previous FRE). While the fare adjustment is higher than the inflation rate, PTC noted that public transport fares remain affordable, as the monthly public transport expenditure accounted only for 2.4% of the household income for second-decile income group households in 2023.
- **Impact on SBSR.** PTC noted that both SBSR and SMRT Trains applied for a fare adjustment of 18.9% citing cost pressures. However, based on the announced fare adjustment, SBSR should see a revenue increase of SGD20.3m in 2025. Excluding the mandated contribution of SGD3.05m to the Public Transport Fund (15% of the expected increase in fare revenue), the net revenue increase would be SGD17.3m. Assuming no changes to the cost structure, the post-tax profit should be around SGD14.3m. CD's portion of the earnings for its 74.41% stake in SBSR would be SGD10.65m. However, it noted that the Singapore public transport business, especially the rail business, should see a moderation in operating costs towards end 2024, as existing electricity contracts are expected to be re-contracted at lower rates. While this could boost profit contribution, we do note that, at the public transport segment level, the increase will probably offset the lower Singapore bus earnings due to the loss of a bus package.
- **Maintain our investment thesis.** We expect CD to deliver strong growth in 2024. This is helped by contributions from the recently completed acquisitions and improved margins for its UK public transport business, which should experience a seasonally strong 2H24. We expect the improvements seen in 2Q24 for its taxi business to continue in 2H24. Our TP includes a 6% ESG premium to CD's SGD1.55 FV based on its 3.4 ESG score.

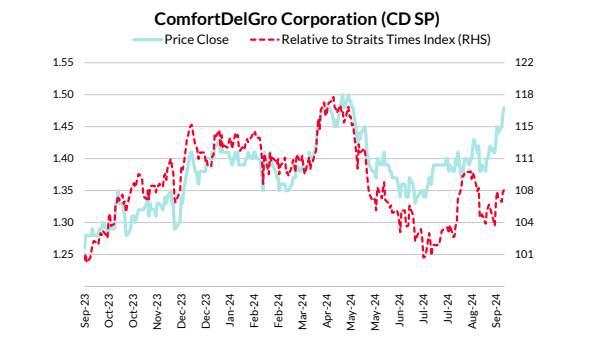
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.7	5.7	8.8	8.8	16.5
Relative	(3.3)	(2.6)	2.1	(3.7)	6.8
52-wk Price low/high (SGD)	1.26 - 1.50				



Source: Bloomberg

#### Overall ESG Score: 3.4 (out of 4)

##### E: GOOD

CD incorporated the creation of an energy-efficient transport system as one of its three key pillars of the sustainability framework. It set clear goals and targets for greenhouse gas emissions reduction, improvements in energy efficiency, the transition to green energy vehicles, and the use of renewable energy.

##### S: EXCELLENT

CD is aiming to achieve zero workplace fatalities and workplace injury rates below the national averages in its operations. To ensure that its transport services are accessible to all, regardless of age or ability, CD has ensured that 100% of its public buses and trains are wheelchair-accessible.

##### G: EXCELLENT

CD's board is made up of ten directors, nine of whom are independent (90%). Reflecting on gender diversity, 30% of the board is made up of females, a minimum percentage that it intends to maintain. CD engages with governments and regulators on different levels to help shape public policy and regulations that support the land transport sector. ESG considerations have been integrated into senior management compensation, with ESG targets making up 25% of their annual balance score card performance and 20% of the longer-term employee share award scheme.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	3,781	3,880	3,951	4,048	4,157
Recurring net profit (SGDm)	173	181	217	242	273
Recurring net profit growth (%)	11.7	4.3	20.1	11.4	12.9
Recurring P/E (x)	18.53	17.77	14.80	13.28	11.76
P/B (x)	1.2	1.2	1.2	1.2	1.1
P/CF (x)	5.33	7.14	4.48	5.16	4.83
Dividend Yield (%)	3.1	4.5	5.1	5.6	6.4
EV/EBITDA (x)	4.73	4.90	4.50	4.20	3.86
Return on average equity (%)	8.0	7.0	8.3	9.0	9.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Singapore	Recurring EPS	0.08	0.08	0.10	0.11	0.13
Industrials	DPS	0.05	0.07	0.08	0.08	0.09
<b>ComfortDelGro</b>	BVPS	1.19	1.20	1.22	1.26	1.29
CD SP	Return on average equity (%)	8.0	7.0	8.3	9.0	9.9
Buy						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	18.53	17.77	14.80	13.28	11.76
Our TP is derived through DCF	P/B (x)	1.2	1.2	1.2	1.2	1.1
	FCF Yield (%)	9.3	2.5	12.2	7.7	9.0
<b>Key drivers</b>	Dividend Yield (%)	3.1	4.5	5.1	5.6	6.4
i. More earnings-accretive acquisitions and winning of new public transport tenders;	EV/EBITDA (x)	4.73	4.90	4.50	4.20	3.86
ii. Pause in taxi fleet contraction and more rational competition in point to point or P2P transport segment.	EV/EBIT (x)	10.98	11.46	8.70	7.84	6.88
	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	Total turnover	3,781	3,880	3,951	4,048	4,157
i. Higher-than-estimated operating costs;	Gross profit	3,781	3,880	3,951	4,048	4,157
ii. Weak taxi earnings from a failure to gradually phase out rental rebates.	EBITDA	627	636	654	697	752
	Depreciation and amortisation	(357)	(364)	(316)	(324)	(330)
<b>Company Profile</b>	Operating profit	270	272	339	374	421
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.	Net interest	(13)	(23)	(16)	(16)	(16)
	Pre-tax profit	310	280	338	376	425
	Taxation	(54)	(55)	(68)	(75)	(85)
	Reported net profit	210	181	217	242	273
	Recurring net profit	173	181	217	242	273
	<b>Cash flow (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	17	(15)	0	(0)	0
	Cash flow from operations	602	449	716	621	664
	Capex	(302)	(368)	(325)	(375)	(375)
	Cash flow from investing activities	(251)	(331)	(312)	(359)	(358)
	Dividends paid	(171)	(212)	(163)	(172)	(193)
	Cash flow from financing activities	(275)	(224)	(179)	(188)	(209)
	Cash at beginning of period	919	967	857	1,082	1,157
	Net change in cash	77	(106)	225	75	98
	Ending balance cash	967	857	1,082	1,157	1,254
	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	967	857	1,082	1,157	1,254
	Tangible fixed assets	2,038	2,012	2,022	2,073	2,118
	Total investments	33	60	62	64	66
	Total assets	4,701	4,690	4,712	4,854	5,013
	Short-term debt	27	115	115	115	115
	Total long-term debt	265	235	235	235	235
	Total liabilities	1,701	1,676	1,591	1,603	1,616
	Total equity	2,999	3,014	3,121	3,251	3,398
	Total liabilities & equity	4,701	4,690	4,712	4,854	5,013
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	6.9	2.6	1.8	2.5	2.7
	Recurrent EPS growth (%)	11.7	4.3	20.1	11.4	12.9
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	16.6	16.4	16.6	17.2	18.1
	Net profit margin (%)	5.6	4.7	5.5	6.0	6.6
	Dividend payout ratio (%)	47.5	80.0	75.0	75.0	75.0
	Capex/sales (%)	8.0	9.5	8.2	9.3	9.0
	Interest cover (x)	20.3	11.9	21.5	23.7	26.7

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

CD's total emissions (Scope 1 + Scope 2 + Scope 3) have declined by 12% since the 2019 baseline assessment. It has also managed to reduce its greenhouse gas (GHG) emissions intensity in 2023 (275 tCO<sub>2</sub>e/SGDm of revenue) from 2019 (321 tCO<sub>2</sub>e/SGDm of revenue). The stock is now part of the iEdge-OCBC Singapore Low Carbon Select 50 Capped Index. It remained in the Dow Jones Sustainability Asia/Pacific Index for a fifth year in 2023 and for the second year in the S&P Global Sustainability Yearbook 2024

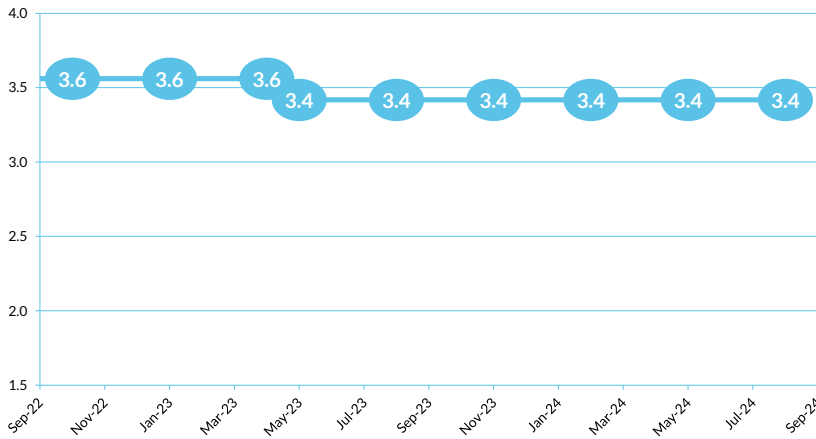
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	834,891	835,048	835,668
Scope 2	194,556	209,059	231,833
Scope 3	550,095	496,826	603,017
<b>Total emissions</b>	<b>1,579,542</b>	<b>1,540,933</b>	<b>1,670,518</b>

Source: Company data, RHB

## Latest ESG-Related Developments

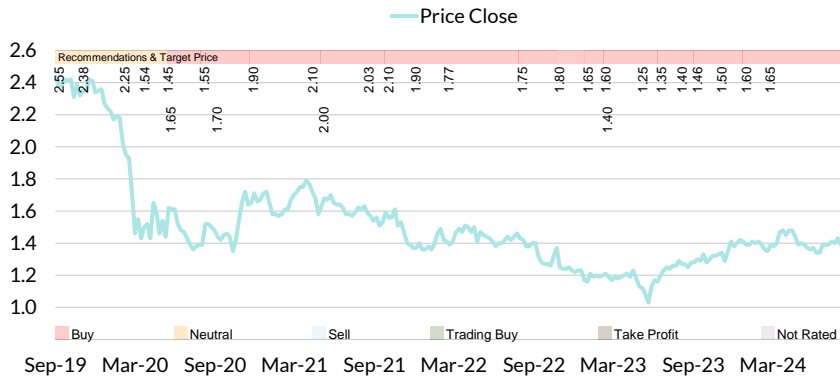
- CD aims to achieve: i) A 54.6% reduction in absolute Scope 1 and Scope 2 GHG emissions from its operations and ii) a 61.2% reduction in absolute Scope 3 GHG emissions from fuel and energy-related activities by 2032 from a baseline year of 2019.
- In 2023, 59% of CD's total car fleet and 13% of its total bus fleet globally was composed of cleaner energy vehicles. It aims to transition 90% of its total car fleet across all its operations globally to cleaner energy vehicles by 2030 and 100% by 2040. It also plans to transition 50% of its total bus fleet across all its operations globally to cleaner energy vehicles by 2030 and 100% by 2050.
- CD is also aiming to reach net zero timelines and targets for the transport sector, set by the countries that it operates in.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-05	Buy	1.65	1.47
2024-03-05	Buy	1.65	1.36
2024-01-11	Buy	1.60	1.41
2023-11-15	Buy	1.50	1.33
2023-09-21	Buy	1.46	1.28
2023-08-24	Buy	1.40	1.27
2023-08-16	Buy	1.40	1.29
2023-06-30	Buy	1.35	1.16
2023-05-18	Buy	1.25	1.12
2023-03-15	Buy	1.40	1.18
2023-02-27	Buy	1.40	1.22
2023-02-22	Buy	1.60	1.16
2023-01-13	Buy	1.65	1.17
2022-11-16	Buy	1.80	1.23
2022-11-08	Buy	1.80	1.35

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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