

28 October 2024

Industrials | Road & Rail

ComfortDelGro (CD SP)

Buy (Maintained)

Accretive UK Taxi Business Acquisition; Reiterate BUY

Target Price (Return): SGD1.70 (17.2%)
 Price (Market Cap): SGD1.45 (USD2,378m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (SGD/USD) 10.00m/7.65m

- **Reiterate BUY, new SGD1.70 TP from SGD1.65, 17% upside and 6% FY25F yield.** ComfortDelGro has acquired a 100% stake in Addison Lee – one of London’s largest private hire vehicles fleet operators – for GBP269.1m. We assess the acquisition as earnings accretive. Based on the cost of debt to fund the acquisition, it raises our 2025F earnings by 6-7%. We have conservatively increased our 2025F earnings by 4% and maintain that CD will see a better 2H24 amidst seasonality, contributions from recently completed acquisitions, and improving margins for its UK public transport business.
- **Addison Lee is London's biggest minicab firm** with >5,000 vehicles as per its 2023 financial statements. This includes 1,021 full EVs, 625 zero-emissions-capable hybrids, and >1,000 Ultra-Low Emissions Zone or ULEZ-compliant internal combustion engine or ICE vehicles. The business was started by founder John Griffin in 1975, who sold it to US private equity firm Carlyle Group in 2013 for a reported GBP300m. Cheyne Capital and Liam Griffin, son of John Griffin, regained control of the business in 2020. Addison Lee acquired London black cab operator ComCab in Jul 2021 and London private hire rival Green Tomato Cars in Jun 2023. During 2021-2024, the company’s net profit swung from a loss of GBP23.2m in 2021 (FYE August) to a profit of GBP7.7m in 2024. The adjusted EBITDA has grown from GBP7.9m to GBP35m during the same period.
- **Deal details.** CD is acquiring the business for GBP269.1m. The deal, which will be on an ex-cash and ex-debt basis, is expected to be completed in Nov 2024. As of the end of 2023, Addison Lee has debt of GBP150.4m, which we assess carries a borrowing cost of 10.9%. This debt will be fully repaid as part of the acquisition. Assuming the cash balance remains unchanged YoY, ex-cash the enterprise value of the acquisition stands at GBP236.7m. This implies a trailing EV/EBITDA of 6.8x. CD plans to fund the acquisition using SGD-denominated debt, which would accrue significantly lower borrowing costs. Based on the cost of debt to fund the acquisition, the acquisition would have increased our 2025F earnings by 6-7%.
- **Remain positive on the outlook.** We expect CD to deliver strong growth in 2024-2025, helped by contributions from the recently completed A2B, CMAC Group, and Addison Lee acquisitions. We anticipate improved margins for its UK public transport division, and expect the improvements seen in 2Q24 for its taxi business to be sustained.
- **Our TP adds a 6% ESG premium to CD’s fair value, which is based on its 3.4 ESG score vs the 3.1 country median.**

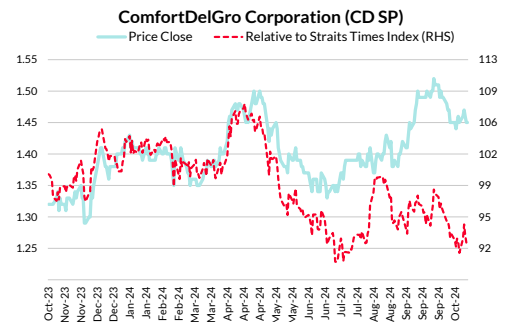
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.6	(3.3)	5.1	(2.0)	10.7
Relative	(7.3)	(3.3)	0.3	(11.3)	(6.0)
52-wk Price low/high (SGD)	1.29 – 1.52				



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	4,438	4,590
Recurring net profit (SGDm)	173	181	217	252	279
Recurring net profit growth (%)	11.7	4.3	20.1	16.3	10.7
Recurring P/E (x)	18.16	17.41	14.50	12.46	11.25
P/B (x)	1.2	1.2	1.2	1.2	1.1
P/CF (x)	5.22	7.00	4.39	4.79	4.65
Dividend Yield (%)	3.2	4.6	5.2	6.0	6.7
EV/EBITDA (x)	4.62	4.80	4.40	3.97	3.68
Return on average equity (%)	8.0	7.0	8.3	9.4	10.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.08	0.08	0.10	0.12	0.13
Industrials	DPS	0.05	0.07	0.08	0.09	0.10
ComfortDelGro	BVPS	1.19	1.20	1.22	1.26	1.30
CD SP	Return on average equity (%)	8.0	7.0	8.3	9.4	10.1
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	18.16	17.41	14.50	12.46	11.25
Our TP is derived through DCF	P/B (x)	1.2	1.2	1.2	1.2	1.1
	FCF Yield (%)	9.5	2.6	12.4	8.9	9.6
Key drivers	Dividend Yield (%)	3.2	4.6	5.2	6.0	6.7
i. More earnings-accretive acquisitions and winning of new public transport tenders;	EV/EBITDA (x)	4.62	4.80	4.40	3.97	3.68
ii. Pause in taxi fleet contraction and more rational competition in the point-to-point or P2P transport segment.	EV/EBIT (x)	10.74	11.22	8.51	7.27	6.50
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	3,781	3,880	3,951	4,438	4,590
i. Higher-than-estimated operating costs;	Gross profit	3,781	3,880	3,951	4,438	4,590
ii. Weak taxi earnings from a failure to gradually phase out rental rebates.	EBITDA	627	636	654	714	762
	Depreciation and amortisation	(357)	(364)	(316)	(324)	(330)
Company Profile	Operating profit	270	272	339	390	431
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	393	435
	Taxation	(54)	(55)	(68)	(79)	(87)
	Reported net profit	210	181	217	252	279
	Recurring net profit	173	181	217	252	279
	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	17	(15)	0	0	(0)
	Cash flow from operations	602	449	716	656	676
	Capex	(302)	(368)	(325)	(375)	(375)
	Cash flow from investing activities	(251)	(331)	(312)	(359)	(357)
	Dividends paid	(171)	(212)	(163)	(176)	(199)
	Cash flow from financing activities	(275)	(224)	(179)	(192)	(215)
	Cash at beginning of period	919	967	857	1,082	1,187
	Net change in cash	77	(106)	225	105	104
	Ending balance cash	967	857	1,082	1,187	1,291
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	967	857	1,082	1,187	1,291
	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	4,938	5,109
	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	1,678	1,700
	Total equity	2,999	3,014	3,121	3,260	3,409
	Total liabilities & equity	4,701	4,690	4,712	4,938	5,109
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	6.9	2.6	1.8	12.3	3.4
	Recurrent EPS growth (%)	11.7	4.3	20.1	16.3	10.7
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	16.6	16.4	16.6	16.1	16.6
	Net profit margin (%)	5.6	4.7	5.5	5.7	6.1
	Dividend payout ratio (%)	47.5	80.0	75.0	75.0	75.0
	Capex/sales (%)	8.0	9.5	8.2	8.4	8.2
	Interest cover (x)	20.3	11.9	21.5	24.8	27.3

Source: Company data, RHB

Figure 1: Addison Lee's historical financials

GBPm (August year-end)	2021	2022	2023	2024
Revenue	164.4	218.4	224.8	
Gross profit	43.4	57.2	65.3	
Operating profit	(8.9)	14.2	12.4	
Profit before tax	(23.2)	(2.3)	(2.1)	7.7
Net profit	(23.2)	(2.3)	6.5	
Adj. EBITDA	7.9	19.4	27.4	35.0
Cash balance	29.4	31.6	32.4	
Total debt	133.4	149.0	150.4	
Net debt	(104.0)	(117.4)	(118.1)	

Source: Company data, RHB

Figure 2: Addison Lee's acquisition multiple

	(GBPm)	(SGDm)
GBP/SGD	1.00	1.71
Purchase value	269.1	460.2
Cash on books (2023)	32.4	55.4
Ex cash purchase value	236.7	404.8
Adj. EBITDA	35.0	59.9
EV/EBITDA (x)	6.8	

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 tCO₂e/SGDm of revenue) from 2019 (321 tCO₂e/SGDm of revenue). CD 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

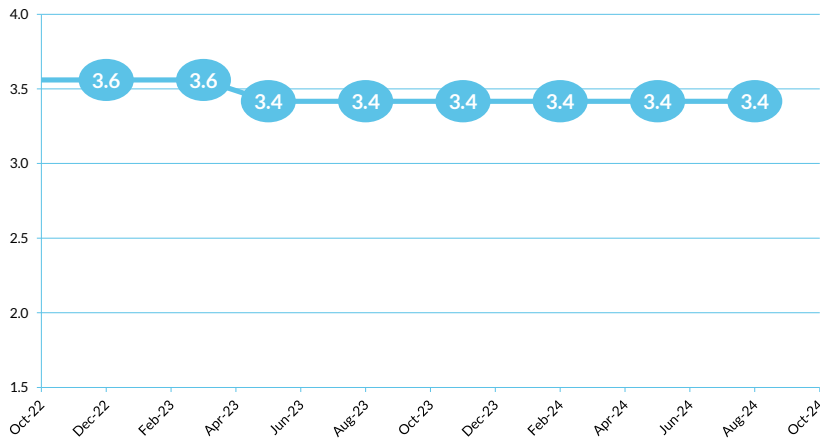
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	834,891	835,048	835,668
Scope 2	194,556	209,059	231,833
Scope 3	550,095	496,826	603,017
Total emissions	1,579,542	1,540,933	1,670,518

Source: Company data, RHB

Latest ESG-Related Developments

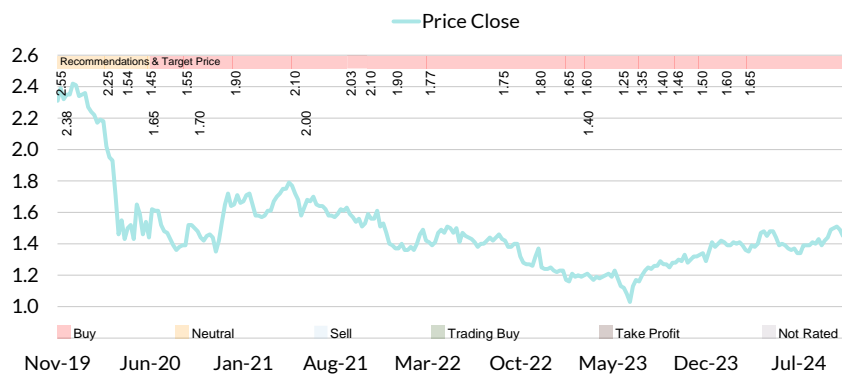
- CD aims to achieve a: i) 54.6% reduction in absolute Scope 1 and Scope 2 GHG emissions from its operations, and ii) a 61.2% reduction in absolute Scope 3 GHG emissions from fuel and energy-related activities by 2032 from a baseline year of 2019.
- In 2023, 59% and 13% of CD's total car and bus fleet globally comprised 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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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Analyst	Company
-	-

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