

12 January 2024

Industrials | Road & Rail

ComfortDelGro (CD SP)

Buy (Maintained)

Upbeat On Recent Developments; Keep BUY

Target Price (Return): SGD1.60 (+14%)
 Price (Market Cap): SGD1.41 (USD2,295m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (SGD/USD) 7.41m/5.55m

- **BUY, new SGD1.60 TP from SGD1.50, 14% upside with 5% 2024F yield.** ComfortDelGro recently announced two developments that should strengthen its earnings ahead: i) It plans to acquire 90.75% of A2B Australia (A2B) at AUD1.45/share (c.SGD150m); and ii) its Singapore taxi booking commission rate has risen to 7%. The A2B acquisition and higher commission rate should lift FY24-25 earnings by 2-4% and 4-5%. Our positive outlook is on: Stronger overseas public transport earnings, robust Singapore rail ridership numbers and higher Singapore taxi earnings.

- **Acquisition of the remaining stake in A2B Australia.** The announced transaction values A2B, a company that primarily facilitates taxi bookings, trips, and payments, at AUD182m or SGD163.3m (on a fully diluted basis). The acquisition will be funded through existing cash and bank facilities. We assume 75% of the value will be funded by debt, and the transaction – which requires multiple approvals – will only be completed by the end of 1H24. A2B, which is listed on the ASX, has two core revenue streams: Fixed monthly fees from taxi operators for facilitating taxi bookings and payment processing fees for non-cash taxi payments. The company has seen steady improvement in profit with a FY22 (Jun) EBITDA of AUD20m, which is still well short of the AUD36m EBITDA reported before the pandemic.

- **Increase in Singapore taxi commissions.** Effective 1 Jan 2024, CD has increased the commission rate on taxi bookings from 5% to 7%. To help the drivers offset the impact of the higher commission rate, CD has made the 10% rental waiver permanent as of 1 Jan 2024. In addition, from 1 Jan to 31 Mar 24, it has waived commissions for bookings with fares of SGD9 and lower. Despite the rate hike, CD's commissions are lower compared to its rivals, Grab and Gojek. While TADA and Ryde have opted for a commission-free model for drivers, we don't think this is sustainable, given their smaller operations. We estimate that every 1% increase in commissions could increase earnings by 2-3%. The increase will be partially offset by the permanent extension of 10% rental waiver.

- **We remain positive on CD.** We increase FY24-25F earnings by 3% each. We also maintain our positive outlook for CD, as we believe it should continue to see growth in 2024, aided by i) Overseas public transport earnings; ii) Singapore rail ridership staying robust; and iii) strong taxi earnings amidst the increase in fares and commission rates, as well as the introduction of a new fee for bookings on the Zig platform. As CD's ESG score of 3.4 is above the country median, our TP includes a 6% ESG premium to its fair value.

Analyst

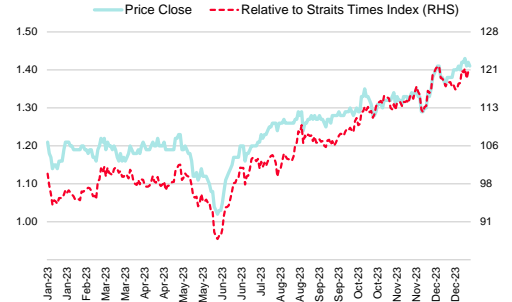
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-----|-------|-----|------|-------------|
| Absolute | 0.7 | 2.2 | 6.0 | 17.5 | 16.5 |
| Relative | 2.6 | (0.7) | 6.4 | 17.0 | 19.3 |
| 52-wk Price low/high (SGD) | | | | | 1.02 – 1.43 |

ComfortDelGro Corporation (CD SP)



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 a sustainability framework. It set clear goals and targets for greenhouse gas emissions reduction, improvements in energy efficiency, 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 – targets that it achieved in 2020. It also achieved a zero fatality rate for passengers/commuters in countries where it has public transport operations. To ensure that its transport services are accessible to all regardless of age or ability, CD has ensured that 100%, >90% and >57% of its buses in Singapore, the UK, and Australia 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 women. CD engages with governments and regulators on different levels, to help shape public policy and regulations that support the land transport sector. It also participates in ESG ratings, such as S&P, Sustainalytics, MSCI and CDP, to disclose its ESG performance and efforts to shareholders.

| Forecasts and Valuation | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---------------------------------|----------|----------|----------|----------|----------|
| Total turnover (SGDm) | 3,538 | 3,781 | 3,829 | 3,951 | 4,048 |
| Recurring net profit (SGDm) | 155 | 173 | 171 | 219 | 242 |
| Recurring net profit growth (%) | 46.3 | 11.7 | (1.2) | 27.8 | 10.7 |
| Recurring P/E (x) | 19.73 | 17.66 | 17.86 | 13.97 | 12.62 |
| P/B (x) | 1.1 | 1.2 | 1.2 | 1.1 | 1.1 |
| P/CF (x) | 4.62 | 5.07 | 5.44 | 5.31 | 4.95 |
| Dividend Yield (%) | 3.0 | 3.3 | 3.9 | 5.0 | 5.5 |
| EV/EBITDA (x) | 4.75 | 4.48 | 4.62 | 4.05 | 3.77 |
| Return on average equity (%) | 5.8 | 8.0 | 6.6 | 8.2 | 8.8 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

Source: Company data, RHB

12 January 2024

Industrials | Road & Rail

Financial Exhibits

| Asia | Financial summary (SGD) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Singapore | Recurring EPS | 0.07 | 0.08 | 0.08 | 0.10 | 0.11 |
| Industrials | DPS | 0.04 | 0.05 | 0.06 | 0.07 | 0.08 |
| ComfortDelGro | BVPS | 1.25 | 1.19 | 1.22 | 1.26 | 1.29 |
| CD SP | Return on average equity (%) | 5.8 | 8.0 | 6.6 | 8.2 | 8.8 |
| Buy | | | | | | |
| | Valuation metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| Valuation basis | Recurring P/E (x) | 19.73 | 17.66 | 17.86 | 13.97 | 12.62 |
| DCF | P/B (x) | 1.1 | 1.2 | 1.2 | 1.1 | 1.1 |
| | FCF Yield (%) | 14.2 | 9.8 | 7.7 | 8.2 | 7.9 |
| | Dividend Yield (%) | 3.0 | 3.3 | 3.9 | 5.0 | 5.5 |
| Key drivers | EV/EBITDA (x) | 4.75 | 4.48 | 4.62 | 4.05 | 3.77 |
| i. More earnings-accretive acquisitions and winning new public transport tenders; | EV/EBIT (x) | 13.84 | 10.41 | 10.07 | 7.63 | 6.90 |
| ii. Pause in taxi fleet contraction; | | | | | | |
| iii. More rational competition in the P2P transport segment. | | | | | | |
| | Income statement (SGDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| Key risks | Total turnover | 3,538 | 3,781 | 3,829 | 3,951 | 4,048 |
| i. Higher-than-estimated operating costs; | Gross profit | 3,538 | 3,781 | 3,829 | 3,951 | 4,048 |
| ii. Weak taxi earnings from a failure to gradually phase out rental rebates. | EBITDA | 612 | 627 | 588 | 657 | 700 |
| | Depreciation and amortisation | (402) | (357) | (318) | (308) | (317) |
| | Operating profit | 210 | 270 | 270 | 349 | 383 |
| | Net interest | (11) | (13) | (13) | (18) | (18) |
| | Pre-tax profit | 230 | 310 | 273 | 349 | 387 |
| | Taxation | (45) | (54) | (57) | (73) | (81) |
| | Reported net profit | 155 | 210 | 171 | 219 | 242 |
| | Recurring net profit | 155 | 173 | 171 | 219 | 242 |
| 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 dealerships. | | | | | | |
| | Cash flow (SGDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Change in working capital | (22) | 17 | 0 | 0 | (0) |
| | Cash flow from operations | 661 | 602 | 562 | 576 | 618 |
| | Capex | (228) | (302) | (325) | (325) | (375) |
| | Cash flow from investing activities | (204) | (251) | (310) | (308) | (355) |
| | Dividends paid | (107) | (171) | (101) | (133) | (161) |
| | Cash flow from financing activities | (287) | (275) | (114) | (42) | (179) |
| | Cash at beginning of period | 743 | 919 | 967 | 1,104 | 1,329 |
| | Net change in cash | 170 | 77 | 137 | 226 | 83 |
| | Ending balance cash | 919 | 967 | 1,104 | 1,329 | 1,413 |
| | Balance sheet (SGDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Total cash and equivalents | 919 | 967 | 1,104 | 1,329 | 1,413 |
| | Tangible fixed assets | 2,431 | 2,038 | 2,045 | 2,062 | 2,120 |
| | Total investments | 29 | 33 | 35 | 37 | 39 |
| | Total assets | 4,955 | 4,701 | 4,695 | 4,957 | 5,114 |
| | Short-term debt | 24 | 27 | 27 | 27 | 27 |
| | Total long-term debt | 317 | 265 | 265 | 375 | 375 |
| | Total liabilities | 1,819 | 1,701 | 1,581 | 1,700 | 1,712 |
| | Total equity | 3,136 | 2,999 | 3,114 | 3,257 | 3,401 |
| | Total liabilities & equity | 4,955 | 4,701 | 4,695 | 4,957 | 5,114 |
| | Key metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Revenue growth (%) | 9.1 | 6.9 | 1.3 | 3.2 | 2.5 |
| | Recurrent EPS growth (%) | 46.2 | 11.7 | (1.2) | 27.8 | 10.7 |
| | Gross margin (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| | Operating EBITDA margin (%) | 17.3 | 16.6 | 15.4 | 16.6 | 17.3 |
| | Net profit margin (%) | 4.4 | 5.6 | 4.5 | 5.5 | 6.0 |
| | Dividend payout ratio (%) | 58.8 | 47.5 | 70.0 | 70.0 | 70.0 |
| | Capex/sales (%) | 6.4 | 8.0 | 8.5 | 8.2 | 9.3 |
| | Interest cover (x) | 18.6 | 20.3 | 20.5 | 19.3 | 21.2 |

Source: Company data, RHB

Emissions And ESG

Trend analysis

ComfortDelGro's total emissions declined over 2019–2022. It also pared down its GHG emissions intensity in 2022 (240 tCO₂e/SGDm) from 2019 levels (290 tCO₂e/SGDm). The stock was included in the Dow Jones Sustainability Asia/Pacific Index for a fourth year in 2022. It was also included in the S&P Global Sustainability Yearbook 2023.

Emissions (tCO₂e)

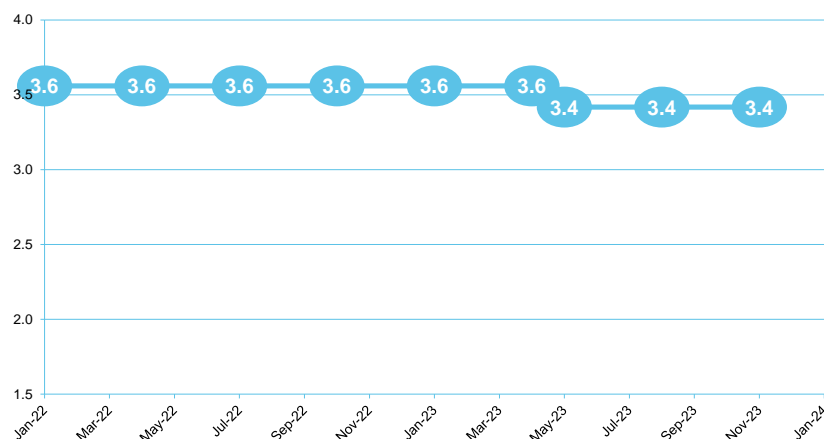
| | Dec-20 | Dec-21 | Dec-22 |
|-----------------|-----------|-----------|-----------|
| Scope 1 | 756,097 | 744,805 | 718,810 |
| Scope 2 | 183,173 | 192,982 | 188,322 |
| Scope 3 | 482,202 | 550,095 | 494,545 |
| Total emissions | 1,421,472 | 1,487,882 | 1,401,677 |

Source: Company data, RHB

Latest ESG-Related Developments

- ComfortDelGro 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 the baseline year of 2019.
- In 2022, 65% of its total car fleet globally was composed of cleaner energy vehicles. It aims to transition 90% of its total car fleet across all 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.
- ComfortDelGro 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 |
|------------|----------------|--------------|-------|
| 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 |
| 2022-08-15 | Buy | 1.75 | 1.47 |
| 2022-03-22 | Buy | 1.77 | 1.42 |
| 2022-02-28 | Buy | 1.77 | 1.41 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| 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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| Sell: | Share price may fall by more than 10% over the next 12 months |
| Not Rated: | Stock is not within regular research coverage |

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