

15 August 2022

Industrials | Road & Rail

## ComfortDelGro (CD SP)

**Buy** (Maintained)

### Sequential Improvement Continues; BUY

Target Price (Return): SGD1.75 (+20%)  
 Price (Market Cap): SGD1.46 (USD2,307m)  
 ESG score: 3.56 (out of 4)  
 Avg Daily Turnover (SGD/USD) 8.81m/6.36m

- BUY, new SGD1.75 TP from SGD1.77, 20% upside with c.3% yield.** ComfortDelGro's 1H22 core profit was slightly below our estimate. The one-off gain from the sale of its Alperton property in London was paid to investors as special dividends. While we remain upbeat on its earnings recovery, there could be a near-term share price overhang as investors assess: i) The impact of the amended service fee from 1 Sep onwards, for five public bus contracts in Singapore; and ii) whether CD extends the taxi rental rebates beyond end-Sep 2022.
- 1H22 core profit was a tad below expectations, but operating profit continued to improve.** CD reported 1H22 revenue of SGD1.8bn (+7% YoY, 50% of our full-year estimate) and net profit of SGD119m (+30% YoY, 61% of our FY22 projection). However, net profit included a one off gain of SGD37.2m (post-tax gain of SGD30.5m) from the disposal of a property in London. Excluding this gain, core net profit of SGD88m (-3% YoY) accounted for 46% of our full-year estimate. Nevertheless, the operating metrics continued to improve, as EBIT (excluding the one off gain and government relief) increased 68% YoY to SGD51m – aided by improving economic activity in Singapore and the UK as COVID-19 related restrictions have been relaxed.
- A surprise special dividend for investors.** CD announced an interim DPS of 2.85 SG cents, which implies a payout ratio of 70% excluding the exceptional gain from the sale of the Alperton property in London. On top of that, the one-off gain from the sale of the London property was paid to investors as 1.41 SG cents of a special DPS.
- Tweaking earnings forecasts; valuations are still reasonable.** We have lowered our 2022-2024F profits by 2-4%. Our DCF-derived SGD1.75 TP implies 17.7x 2023F P/E. While this is higher than CD's 10-year average of c.16x, it seems reasonable – in view of its ongoing earnings recovery. This stock is trading at 14.7x 2023F P/E. Our TP also includes a 12% ESG premium over the SGD1.56 fair value, based on our proprietary in-house methodology.
- Downside risks:** i) Extension of rental rebates to Singapore taxi drivers beyond Sep 2022; ii) continuing decline in its taxi fleet size; iii) lower-than-estimated Singapore bus revenue amidst amended bus contracts; iv) lower margins for key businesses; and v) the UK witnessing a sharp decline in economic growth.

#### Analyst

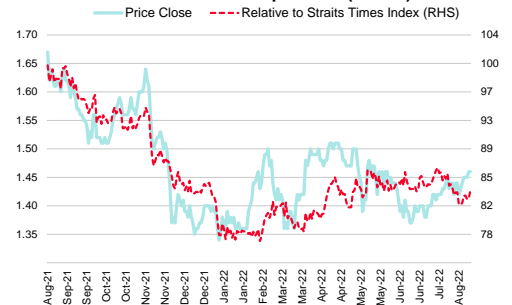
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#### Share Performance (%)

|                            | YTD         | 1m    | 3m  | 6m  | 12m    |
|----------------------------|-------------|-------|-----|-----|--------|
| Absolute                   | 4.3         | 2.8   | 5.0 | 0.0 | (9.3)  |
| Relative                   | (0.4)       | (1.1) | 1.7 | 4.7 | (12.0) |
| 52-wk Price low/high (SGD) | 1.34 – 1.67 |       |     |     |        |

#### ComfortDelGro Corporation (CD SP)



Source: Bloomberg

#### Overall ESG Score: 3.56 (out of 4)

##### E: GOOD

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

##### S: EXCELLENT

CD aims to have zero workplace fatalities and workplace injury rates below the national averages in its operations – which it achieved in 2020. It also had 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, 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 which are independent (90%). Women account for 30% of the board. It 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-20   | Dec-21   | Dec-22F  | Dec-23F  | Dec-24F  |
|---------------------------------|----------|----------|----------|----------|----------|
| Total turnover (SGDm)           | 3,243    | 3,538    | 3,801    | 3,944    | 4,082    |
| Recurring net profit (SGDm)     | 106      | 155      | 193      | 214      | 229      |
| Recurring net profit growth (%) | (63.0)   | 46.3     | 24.6     | 11.0     | 6.8      |
| Recurring P/E (x)               | 29.87    | 20.43    | 16.39    | 14.76    | 13.82    |
| P/B (x)                         | 1.2      | 1.2      | 1.1      | 1.1      | 1.1      |
| P/CF (x)                        | 6.54     | 4.79     | 3.91     | 4.78     | 4.65     |
| Dividend Yield (%)              | 1.0      | 2.9      | 3.5      | 3.4      | 3.6      |
| EV/EBITDA (x)                   | 6.14     | 4.93     | 3.96     | 3.63     | 3.36     |
| Return on average equity (%)    | 4.1      | 5.8      | 7.1      | 7.6      | 7.8      |
| Net debt to equity (%)          | net cash | net cash | net cash | net cash | net cash |

Source: Company data, RHB

15 August 2022

Industrials | Road &amp; Rail

## Financial Exhibits

| Asia   | Financial summary (SGD)             | Dec-20        | Dec-21        | Dec-22F        | Dec-23F        | Dec-24F        |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Singapore  | Recurring EPS                       | 0.05          | 0.07          | 0.09           | 0.10           | 0.11           |
| Industrials  | DPS                                 | 0.01          | 0.04          | 0.05           | 0.05           | 0.05           |
| <b>ComfortDelGro</b>   | BVPS                                | 1.20          | 1.25          | 1.27           | 1.33           | 1.38           |
| CD SP  | Return on average equity (%)        | 4.1           | 5.8           | 7.1            | 7.6            | 7.8            |
| Buy  |                                     |               |               |                |                |                |
|  | <b>Valuation metrics</b>            | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| <b>Valuation basis</b>   | Recurring P/E (x)                   | 29.87         | 20.43         | 16.39          | 14.76          | 13.82          |
| DCF  | P/B (x)                             | 1.2           | 1.2           | 1.1            | 1.1            | 1.1            |
|  | FCF Yield (%)                       | 9.0           | 13.7          | 14.5           | 8.3            | 8.8            |
|  | Dividend Yield (%)                  | 1.0           | 2.9           | 3.5            | 3.4            | 3.6            |
|  | EV/EBITDA (x)                       | 6.14          | 4.93          | 3.96           | 3.63           | 3.36           |
|  | EV/EBIT (x)                         | 27.16         | 14.36         | 9.33           | 8.06           | 7.22           |
| <b>Key drivers</b>   | <b>Income statement (SGDm)</b>      | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
| i. More earnings-accretive acquisitions;   | Total turnover                      | 3,243         | 3,538         | 3,801          | 3,944          | 4,082          |
| ii. Higher dividend payouts;   | Gross profit                        | 3,243         | 3,538         | 3,801          | 3,944          | 4,082          |
| iii. Contributions from acquisitions;  | EBITDA                              | 538           | 612           | 690            | 722            | 744            |
| iv. Fare increases boosting its train business;  | Depreciation and amortisation       | (417)         | (402)         | (397)          | (397)          | (398)          |
| v. Pause in taxi fleet contraction;  | Operating profit                    | 122           | 210           | 293            | 325            | 346            |
| vi. Favourable regulations supporting the taxi industry.   | Net interest                        | (15)          | (11)          | (12)           | (13)           | (13)           |
|  | Pre-tax profit                      | 161           | 230           | 292            | 324            | 346            |
| <b>Key risks</b>   | Taxation                            | (24)          | (45)          | (61)           | (68)           | (73)           |
| i. Continuing decline in taxi fleet size;  | Reported net profit                 | 106           | 155           | 193            | 214            | 229            |
| ii. Increased competition from ride-hailing players leading to lower daily rental rates for taxis;   | Recurring net profit                | 106           | 155           | 193            | 214            | 229            |
| iii. Sharper-than-estimated decline in margins for existing businesses;  |                                     |               |               |                |                |                |
| iv. Loss of existing contracts for the public transport business.  | <b>Cash flow (SGDm)</b>             | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
|  | Change in working capital           | (73)          | (22)          | 0              | 0              | 0              |
| <b>Company Profile</b>   | Cash flow from operations           | 484           | 661           | 809            | 662            | 680            |
| 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. | Capex                               | (199)         | (228)         | (350)          | (400)          | (400)          |
|  | Cash flow from investing activities | (110)         | (204)         | (342)          | (391)          | (389)          |
|  | Dividends paid                      | (144)         | (107)         | (138)          | (102)          | (111)          |
|  | Cash flow from financing activities | (241)         | (287)         | (150)          | (115)          | (124)          |
|  | Cash at beginning of period         | 594           | 743           | 919            | 1,237          | 1,393          |
|  | Net change in cash                  | 133           | 170           | 318            | 156            | 167            |
|  | Ending balance cash                 | 743           | 919           | 1,237          | 1,393          | 1,560          |
|  | <b>Balance sheet (SGDm)</b>         | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
|  | Total cash and equivalents          | 743           | 919           | 1,237          | 1,393          | 1,560          |
|  | Tangible fixed assets               | 2,620         | 2,431         | 2,384          | 2,386          | 2,389          |
|  | Total investments                   | 23            | 29            | 31             | 33             | 35             |
|  | Total assets                        | 5,309         | 4,955         | 4,973          | 5,149          | 5,335          |
|  | Short-term debt                     | 110           | 24            | 24             | 24             | 24             |
|  | Total long-term debt                | 353           | 317           | 317            | 317            | 317            |
|  | Total liabilities                   | 2,280         | 1,819         | 1,745          | 1,767          | 1,790          |
|  | Total equity                        | 3,029         | 3,136         | 3,229          | 3,383          | 3,545          |
|  | Total liabilities & equity          | 5,309         | 4,955         | 4,973          | 5,149          | 5,335          |
|  | <b>Key metrics</b>                  | <b>Dec-20</b> | <b>Dec-21</b> | <b>Dec-22F</b> | <b>Dec-23F</b> | <b>Dec-24F</b> |
|  | Revenue growth (%)                  | (17.0)        | 9.1           | 7.4            | 3.8            | 3.5            |
|  | Recurrent EPS growth (%)            | (63.0)        | 46.2          | 24.6           | 11.0           | 6.8            |
|  | Gross margin (%)                    | 100.0         | 100.0         | 100.0          | 100.0          | 100.0          |
|  | Operating EBITDA margin (%)         | 16.6          | 17.3          | 18.2           | 18.3           | 18.2           |
|  | Net profit margin (%)               | 3.3           | 4.4           | 5.1            | 5.4            | 5.6            |
|  | Dividend payout ratio (%)           | 29.3          | 58.8          | 57.0           | 50.0           | 50.0           |
|  | Capex/sales (%)                     | 6.1           | 6.4           | 9.2            | 10.1           | 9.8            |
|  | Interest cover (x)                  | 8.28          | 18.58         | 24.56          | 25.42          | 27.07          |

Source: Company data, RHB

## Recommendation Chart

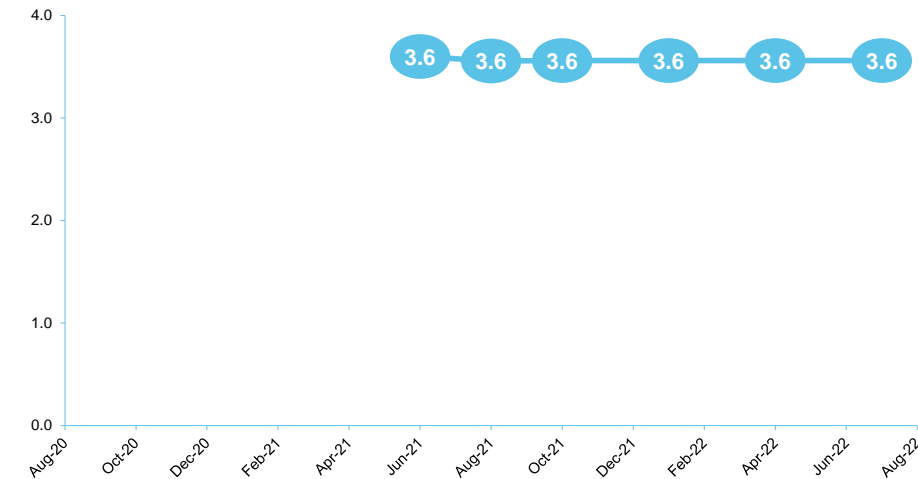


Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2022-03-22 | Buy            | 1.77         | 1.42  |
| 2022-02-28 | Buy            | 1.77         | 1.41  |
| 2021-12-15 | Buy            | 1.90         | 1.40  |
| 2021-10-14 | Buy            | 2.10         | 1.58  |
| 2021-09-06 | Buy            | 2.03         | 1.62  |
| 2021-08-29 | Buy            | 2.03         | 1.63  |
| 2021-05-19 | Buy            | 2.00         | 1.61  |
| 2021-04-23 | Buy            | 2.10         | 1.77  |
| 2021-02-16 | Buy            | 1.90         | 1.57  |
| 2020-12-07 | Buy            | 1.90         | 1.66  |
| 2020-11-13 | Buy            | 1.70         | 1.54  |
| 2020-09-15 | Buy            | 1.70         | 1.49  |
| 2020-08-17 | Buy            | 1.55         | 1.42  |
| 2020-07-02 | Buy            | 1.65         | 1.47  |
| 2020-06-02 | Buy            | 1.65         | 1.49  |

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

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

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