23 March 2022

Industrials | Road & Rail

ComfortDelGro (CD SP)

Buy (Maintained)

Economic Reopening To Support Earnings; BUY

Target Price (Return):	SGD1.77 (+25%)
Price (Market Cap):	SGD1.42 (USD2,267m)
ESG score:	3.56 (out of 4)
Avg Daily Turnover (SGD/USD)	17.8m/13.2m

- **Maintain BUY and DCF-derived SGD1.77 TP, 25% upside with c.3% yield.** We maintain that the ongoing reopening of Singapore's economy and international borders will support ComfortDelGro's earnings recovery. Re-rating catalysts should stem from higher ridership for its rail business, the eventual discontinuation of rebates offered to Singapore taxi drivers, and higher earnings from overseas operations in Australia and the UK. While unlikely, there remains a small risk of lower earnings in the UK, if the entire European region sees a sharp decline in economic growth.
- **Succession planning in line with business restructuring and long-term growth objectives.** As part of a series of leadership changes aimed at preparing CD for its next stage of growth, SBS Transit CEO Cheng Siak Kian will be appointed as CD's deputy CEO, while continuing to serve as CEO of the latter company. Cheng will help to focus on CD's overseas businesses and its global expansion strategy. Last year, CD consolidated the taxi, private unscheduled bus and private hire and leasing businesses (ie all non-public transport businesses) under the Private Mobility Group (PMG) division, which is headed by Jackson Chia. The PMG unit may be further expanded to include the engineering and medical transport businesses, as well as overseas businesses in the same discipline.
- **Continues to make bite-sized acquisitions overseas.** CD announced that its Australian entity entered into an agreement to acquire the assets of Rothery's Coaches business in Rockhampton, Queensland, for a total consideration of AUD6.75m (SGD6.74m). Subject to regulatory approvals, the transaction will add a further 16 buses to CD's existing bus operations in Rockhampton, Queensland. While the acquisition will not have any material impact on earnings, we view this transaction positively, as it reinforces CD's effort to grow its overseas business.
- **Energy costs are a pass-through, taxi rental rebates could decline.** Except for its rail business (where it does not receive indexation benefits for electricity prices), pricing for most of CD's bus contracts in Singapore and overseas have fuel indexation benefits built in. Singapore bus contracts are adjusted monthly, for changes in fuel costs. CD offered a 15% rental relief to its taxi drivers in January and February. While it will extend this for another month, CD plans to gradually do away with the rental discounts. It is waiting to see the impact of its announced fare hike for taxi business (effective 1 Mar) on taxi drivers' earnings.
- **Earnings outlook remains promising.** Our DCF-derived SGD1.77 TP implies 19x 2022F P/E. This is higher than its 10-year average of c.16x, but seems reasonable – in view of its ongoing strong earnings recovery. Our TP includes an 12% ESG premium over the SGD1.59 fair value.

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	198	224	240
Recurring net profit growth (%)	(63.0)	46.3	28.0	12.9	7.1
Recurring P/E (x)	29.05	19.87	15.53	13.76	12.85
P/B (x)	1.2	1.1	1.1	1.1	1.0
P/CF (x)	6.36	4.66	3.82	4.68	4.55
Dividend Yield (%)	1.0	3.0	3.2	3.6	3.9
EV/EBITDA (x)	5.98	4.79	3.71	3.33	3.05
Return on average equity (%)	4.1	5.8	7.2	7.8	8.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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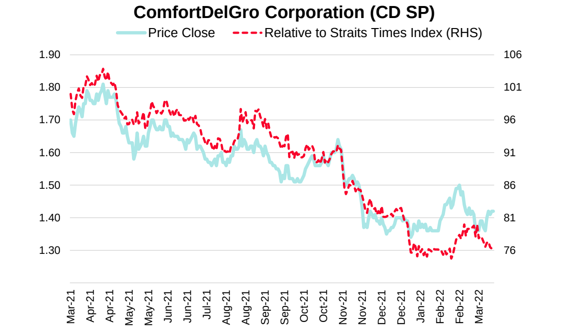
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.4	(3.4)	4.4	(6.6)	(16.5)
Relative	(5.9)	(1.9)	(4.1)	(16.5)	(23.6)
52-wk Price low/high (SGD)					1.34 – 1.81



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 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 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 which are independent (90%). Reflecting on gender diversity, 30% of the board is made up of females. 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

Financial Exhibits

Asia
Singapore
Industrials
ComfortDelGro
CD SP
Buy

Valuation basis

DCF

Key drivers

i. More earnings-accretive acquisitions;
ii. Higher dividend payouts;
iii. Contributions from acquisitions;
iv. Fare increases boosting its train business;
v. Pause in the contraction of its taxi fleet;
vi. Favourable regulations supporting the taxi industry.

Key risks

i. Continued decline in the size of its taxi fleet;
ii. Increased competition from ride-hailing players leading to lower daily rental rates for taxis;
iii. Sharper-than-estimated decline in margins for existing businesses;
iv. Loss of existing contracts for the public transport business.

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.

Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring EPS	0.05	0.07	0.09	0.10	0.11
DPS	0.01	0.04	0.05	0.05	0.06
BVPS	1.20	1.25	1.30	1.35	1.41
Return on average equity (%)	4.1	5.8	7.2	7.8	8.0

Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	29.05	19.87	15.53	13.76	12.85
P/B (x)	1.2	1.1	1.1	1.1	1.0
FCF Yield (%)	9.3	14.1	16.5	10.0	9.8
Dividend Yield (%)	1.0	3.0	3.2	3.6	3.9
EV/EBITDA (x)	5.98	4.79	3.71	3.33	3.05
EV/EBIT (x)	26.45	13.95	8.52	7.10	6.27

Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover	3,243	3,538	3,801	3,944	4,082
Gross profit	3,243	3,538	3,801	3,944	4,082
EBITDA	538	612	690	722	744
Depreciation and amortisation	(417)	(402)	(390)	(384)	(383)
Operating profit	122	210	300	338	361
Net interest	(15)	(11)	(12)	(13)	(13)
Pre-tax profit	161	230	299	338	362
Taxation	(24)	(45)	(63)	(71)	(76)
Reported net profit	106	155	198	224	240
Recurring net profit	106	155	198	224	240

Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Change in working capital	(73)	(22)	0	(0)	0
Cash flow from operations	484	661	806	657	676
Capex	(199)	(228)	(300)	(350)	(375)
Cash flow from investing activities	(110)	(204)	(291)	(340)	(363)
Dividends paid	(144)	(107)	(95)	(105)	(116)
Cash flow from financing activities	(241)	(287)	(107)	(118)	(129)
Cash at beginning of period	594	743	919	1,327	1,527
Net change in cash	133	170	408	199	184
Ending balance cash	743	919	1,327	1,527	1,711

Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total cash and equivalents	743	919	1,327	1,527	1,711
Tangible fixed assets	2,620	2,431	2,341	2,307	2,299
Total investments	23	29	31	33	35
Total assets	5,309	4,955	5,021	5,203	5,396
Short-term debt	110	24	24	24	24
Total long-term debt	353	317	317	317	317
Total liabilities	2,280	1,819	1,743	1,764	1,787
Total equity	3,029	3,136	3,278	3,439	3,609
Total liabilities & equity	5,309	4,955	5,021	5,203	5,396

Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	(17.0)	9.1	7.4	3.8	3.5
Recurrent EPS growth (%)	(63.0)	46.2	27.9	12.9	7.1
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	5.2	5.7	5.9
Dividend payout ratio (%)	29.3	58.8	50.0	50.0	50.0
Capex/sales (%)	6.1	6.4	7.9	8.9	9.2
Interest cover (x)	8.28	18.58	25.16	26.46	28.23

Source: Company data, RHB

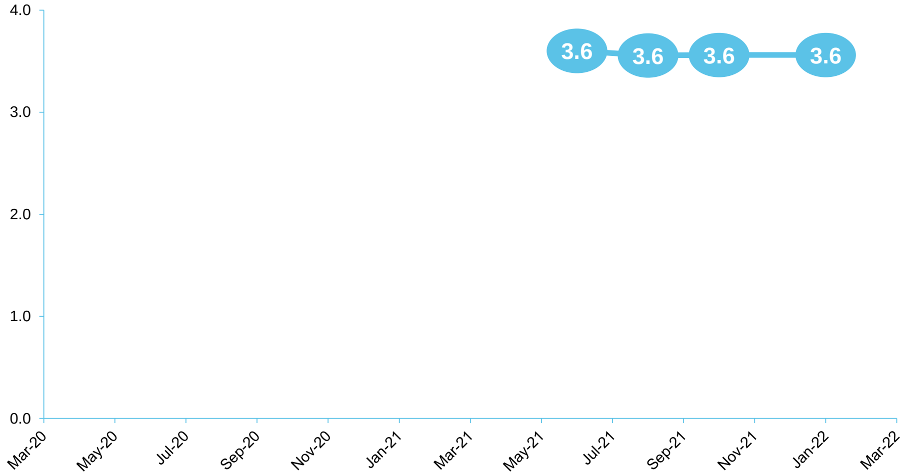
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-28	Buy	1.77	1.41
2021-12-15	Buy	1.90	1.40
2021-10-14	Buy	2.10	1.58
2021-08-29	Buy	2.03	1.63
2021-05-19	Buy	2.00	1.61
2021-04-23	Buy	2.10	1.77
2020-12-07	Buy	1.90	1.66
2020-09-15	Buy	1.70	1.49
2020-08-17	Buy	1.55	1.42
2020-06-02	Buy	1.65	1.49
2020-05-26	Neutral	1.45	1.53

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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