17 August 2020

Transport | Road & Rail

ComfortDelGro (CD SP)

Buy (Maintained)

Expect a Gradual Earnings Recovery; BUY

Target Price (Return):	SGD1.55 (11.5%)
Price:	SGD1.39
Market Cap:	USD2,195m
Avg Daily Turnover (SGD/USD)	39.9m/28.5m

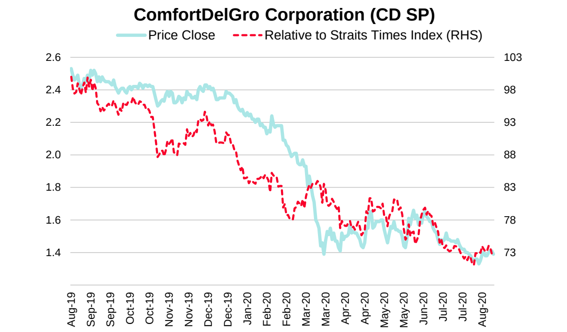
- **Reiterate BUY with new SGD1.55 TP from SGD1.65, 12% upside and 5.1% 2021F yield.** While ComfortDelGro's share price is expected to remain weak in the near term amidst poor 1H20 earnings, we note a gradual improvement in public transport ridership and MoM improvements in its taxi business. The winning of bus tenders in Singapore will be near-term positive. The weakness in its share price offers investors an opportunity to accumulate the stock – as, operationally, the worst may be behind it, and CD seems set to deliver strong growth in 2021.
- **Disappointments from 1H20 earnings.** As expected, CD reported its worst-ever results in 1H20. Amidst the current weak business environment, it made a provision of SGD30.8m for impairments on vehicles and goodwill in the mid-year review. It also expects to undertake a similar review at year's end. Excluding provisions for impairments and good will, the taxi business reported an operating loss amidst rental discounts being offered to taxi drivers. Lower ridership and impact from the fuel indexation pushed margins lower for the public transport business. Amidst the 1H20 loss reported, CD did not announce an interim dividend (1H19: 4.5 cents). It will maintain its dividend policy to pay out 50% of PATMI and will review the final dividend for 2020 at the end of 2H20.
- **The positives and re-rating catalysts.** The taxi business has seen MoM improvements since the relaxation of Circuit Breaker measures, and CD has lowered the taxi rental discount to 30% from 50% for the 15 Aug-15 Sep period. If the taxi business continues to improve, we expect CD to gradually reduce and eventually remove the rental discount by year's end. The COVID-19 government relief that helped CD report an operating profit in 1H20 will remain available in 2H20 as well. Near-term re-rating catalysts could also come from winning the Sembawang and Bulim bus contracts, the announcement of which is expected in the next 1-2 months. An earlier-than-estimated recovery in public transport ridership should be also positive for CD's share price.
- **On track for a strong growth in 2021.** Despite lowering 2020F profit by 21% and 2021F-2022F profit by 15-17%, we maintain that a gradual recovery in public transport ridership and stabilisation of its taxi business should support c.50% growth in 2021. Our SGD1.55 TP implies 17.6x 2021F P/E, which is slightly higher than the stock's 10-year average of 15.5x. Based on our estimates, CD is trading at 0.30x 2021F PEG.
- **Key risks.** The downside risks to earnings should come from delayed earnings recovery amidst a second wave of COVID-19 infections or a material and permanent decline in business margins.

Analyst

Shekhar Jaiswal
+65 6232 3894
shekhar.jaiswal@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(41.6)	(4.8)	(7.3)	(36.2)	(44.6)
Relative	(21.7)	(3.3)	(9.6)	(16.4)	(26.6)
52-wk Price low/high (SGD)					1.33 – 2.53



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,805	3,906	3,545	3,794	3,936
Recurring net profit (SGDm)	297	286	126	191	211
Recurring net profit growth (%)	1.2	(3.6)	(55.9)	51.3	10.5
Recurring P/E (x)	10.13	10.51	23.83	15.75	14.25
P/B (x)	1.2	1.2	1.2	1.1	1.1
P/CF (x)	4.50	4.94	4.36	5.19	4.86
Dividend Yield (%)	7.6	7.0	3.4	5.1	5.6
EV/EBITDA (x)	7.76	8.08	22.40	10.29	9.12
Return on average equity (%)	11.6	10.2	4.9	7.3	8.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Transport
ComfortDelGro
CD SP
Buy

Valuation basis

Our TP is derived through DCF.

Key drivers

i. Winning of bus packages;
ii. Gradual stabilisation and revival of the taxi business;
iii. More earnings-accretive acquisitions;
iv. Gradual improvements in public transport ridership.

Key risks

i. Continuing decline in taxi fleet size;
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

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.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.14	0.13	0.06	0.09	0.10
DPS	0.11	0.10	0.05	0.07	0.08
BVPS	1.21	1.20	1.20	1.21	1.23
Return on average equity (%)	11.6	10.2	4.9	7.3	8.0

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	10.13	10.51	23.83	15.75	14.25
P/B (x)	1.2	1.2	1.2	1.1	1.1
FCF Yield (%)	10.5	8.7	16.6	9.3	8.9
Dividend Yield (%)	7.6	7.0	3.4	5.1	5.6
EV/EBITDA (x)	7.76	8.08	22.40	10.29	9.12
EV/EBIT (x)	7.76	8.08	22.40	10.29	9.12

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	3,805	3,906	3,545	3,794	3,936
Gross profit	3,805	3,906	3,545	3,794	3,936
EBITDA	439	416	134	284	313
Operating profit	439	416	134	284	313
Net interest	(11)	(21)	(16)	(16)	(16)
Pre-tax profit	439	407	168	290	321
Taxation	(81)	(88)	(17)	(61)	(67)
Reported net profit	303	265	126	191	211
Recurring net profit	297	286	126	191	211

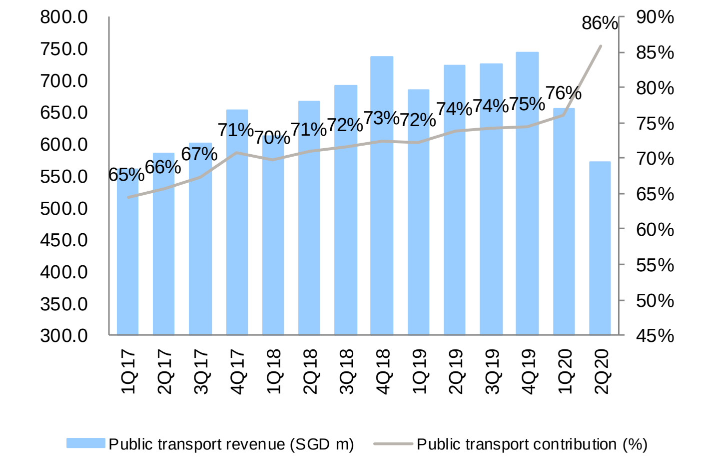
Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in w orking capital	1	(86)	0	0	(0)
Cash flow from operations	669	610	691	581	619
Capex	(353)	(347)	(190)	(300)	(350)
Cash flow from investing activities	(638)	(367)	(170)	(278)	(326)
Dividends paid	(236)	(274)	(115)	(178)	(161)
Cash flow from financing activities	(29)	(230)	(131)	(193)	(177)
Cash at beginning of period	596	586	594	984	1,093
Net change in cash	2	14	390	109	117
Ending balance cash	586	594	984	1,093	1,210

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	586	594	984	1,093	1,210
Tangible fixed assets	2,691	2,706	2,505	2,426	2,402
Total investments	31	25	25	25	25
Total assets	5,137	5,379	5,428	5,500	5,615
Short-term debt	90	199	199	199	199
Total long-term debt	480	331	331	331	331
Total liabilities	2,110	2,370	2,382	2,402	2,424
Total equity	3,027	3,009	3,046	3,098	3,191
Total liabilities & equity	5,137	5,379	5,428	5,500	5,615

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue grow th (%)	6.4	2.6	(9.2)	7.0	3.7
Recurrent EPS grow th (%)	1.0	(3.6)	(55.9)	51.3	10.5
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
Operating EBITDA margin (%)	11.5	10.6	3.8	7.5	7.9
Net profit margin (%)	8.0	6.8	3.6	5.0	5.4
Dividend payout ratio (%)	75.0	80.0	80.0	80.0	80.0
Capex/sales (%)	9.3	8.9	5.4	7.9	8.9
Interest cover (x)	38.5	19.6	8.4	17.9	19.7

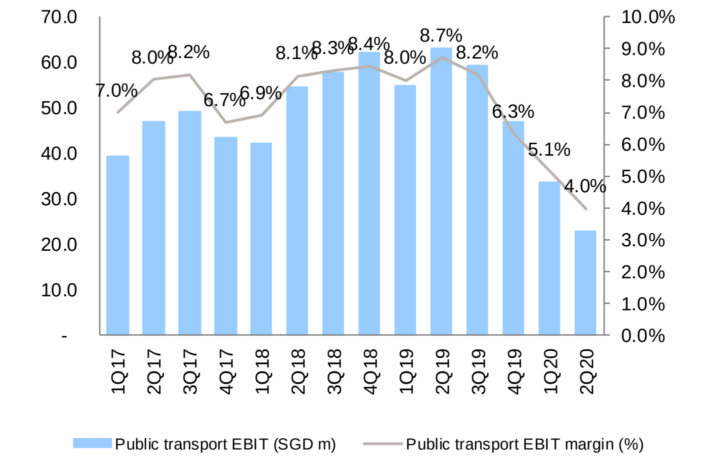
Source: Company data, RHB

Figure 1: Public transport revenue and contributions



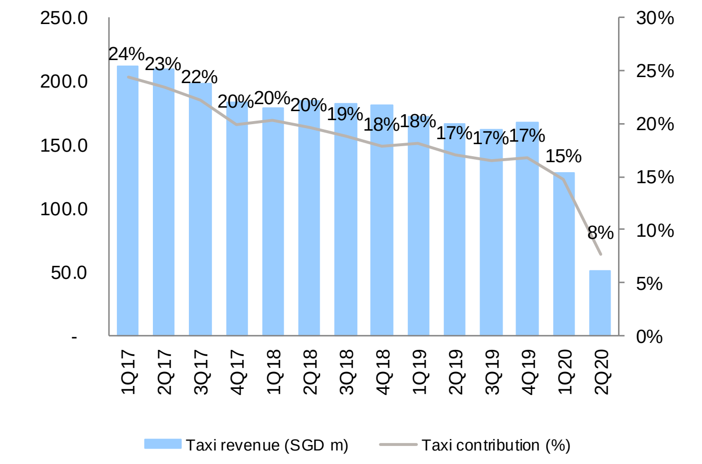
Source: Company data

Figure 2: Public transport EBIT and EBIT margins



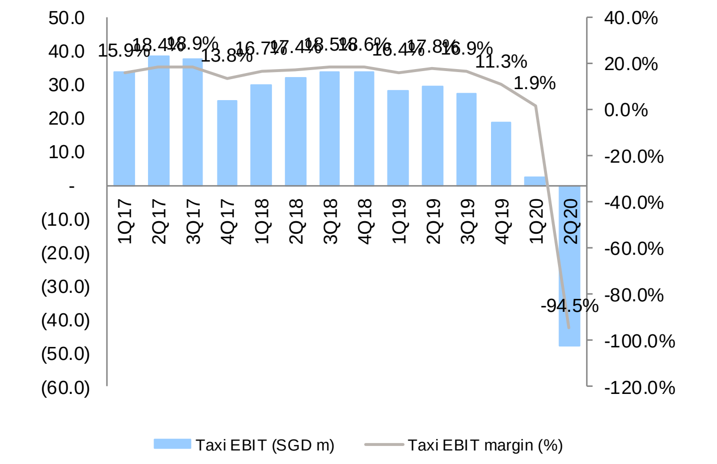
Source: Company data

Figure 3: Taxi segment revenue and contributions



Source: Company data

Figure 4: Taxi segment EBIT and EBIT margins



Source: Company data

Figure 5: CD's 2Q20 segments review

Segments (SGDm)									*2Q20 Growth (%)*	
Year-end Dec	**3Q18**	**4Q18**	**1Q19**	**2Q19**	**3Q19**	**4Q19**	**1Q20**	**2Q20**	**QoQ**	**YoY**
Revenue	**967.9**	**1,017.4**	**947.3**	**980.8**	**979.0**	**998.6**	**862.4**	**664.3**	**-23.0%**	**-32.3%**
Public transport	692.6	737.7	684.6	723.5	726.8	744.3	656.0	570.9	-13.0%	-21.1%
Bus station	6.3	4.5	6.0	5.7	5.5	4.6	3.5	3.3	-5.7%	-42.1%
Taxi	182.0	181.2	171.9	166.9	162.1	167.7	127.8	50.8	-60.3%	-69.6%
Automotive Engineering	43.7	43.4	41.7	41.1	39.5	36.8	31.5	14.8	-52.9%	-64.0%
Vehicle inspection	25.3	33.0	24.7	25.0	25.7	25.5	24.5	14.2	-42.1%	-43.2%
Car rental & leasing	6.7	6.6	6.8	6.8	6.9	7.5	7.1	6.8	-4.2%	0.0%
Driving centre	11.3	11.0	11.6	11.8	12.5	12.2	12.0	3.5	-70.8%	-70.3%
Operating profit	**113.4**	**120.2**	**107.4**	**115.0**	**108.9**	**84.5**	**55.9**	**(18.5)**	**na**	**na**
Public transport	57.6	62.2	54.9	63.0	59.4	47.0	33.6	22.7	-32.4%	-64.0%
Bus station	2.9	1.9	2.9	2.7	2.7	1.7	0.8	1.2	50.0%	-55.6%
Taxi	33.6	33.7	28.2	29.7	27.4	18.9	2.4	(48.0)	na	na
Automotive Engineering	6.0	4.6	8.7	7.0	6.0	6.1	5.6	2.1	-62.5%	-70.0%
Vehicle inspection	8.7	15.0	8.7	8.0	8.5	5.4	8.8	2.6	-70.5%	-67.5%
Car rental & leasing	1.2	0.6	0.9	1.1	0.9	1.4	1.0	1.0	0.0%	-9.1%
Driving centre	3.4	2.2	3.1	3.5	4.0	4.0	3.7	(0.1)	na	na
Operating profit margin	**11.7%**	**11.8%**	**11.3%**	**11.7%**	**11.1%**	**8.5%**	**6.5%**	**-2.8%**		
Public transport	8.3%	8.4%	8.0%	8.7%	8.2%	6.3%	5.1%	4.0%	-1.1 ppt	-4.7 ppt
Bus station	46.0%	42.2%	48.3%	47.4%	49.1%	37.0%	22.9%	36.4%	13.5 ppt	-11. ppt
Taxi	18.5%	18.6%	16.4%	17.8%	16.9%	11.3%	1.9%	-94.5%	-96.4 ppt	-112.3 ppt
Automotive Engineering	13.7%	10.6%	20.9%	17.0%	15.2%	16.6%	17.8%	14.2%	-3.6 ppt	-2.9 ppt
Vehicle inspection	34.4%	45.5%	35.2%	32.0%	33.1%	21.2%	35.9%	18.3%	-17.6 ppt	-13.7 ppt
Car rental & leasing	17.9%	9.1%	13.2%	16.2%	13.0%	18.7%	14.1%	14.7%	.6 ppt	-1.5 ppt
Driving centre	30.1%	20.0%	26.7%	29.7%	32.0%	32.8%	30.8%	-2.9%	-33.7 ppt	-32.5 ppt
Key contributors										
Revenue										
Public transport	71.6%	72.5%	72.3%	73.8%	74.2%	74.5%	76.1%	85.9%		
Taxi	18.8%	17.8%	18.1%	17.0%	16.6%	16.8%	14.8%	7.6%		
Automotive Engineering	4.5%	4.3%	4.4%	4.2%	4.0%	3.7%	3.7%	2.2%		
Vehicle inspection	2.6%	3.2%	2.6%	2.5%	2.6%	2.6%	2.8%	2.1%		
Operating profit										
Public transport	50.8%	51.7%	51.1%	54.8%	54.5%	55.6%	60.1%	na		
Taxi	29.6%	28.0%	26.3%	25.8%	25.2%	22.4%	4.3%	na		
Automotive Engg	5.3%	3.8%	8.1%	6.1%	5.5%	7.2%	10.0%	na		
Vehicle inspection	7.7%	12.5%	8.1%	7.0%	7.8%	6.4%	15.7%	na		

Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-02	Buy	1.65	1.47
2020-05-26	Neutral	1.45	1.53
2020-04-02	Neutral	1.54	1.47
2020-02-17	Neutral	2.25	2.09
2020-02-03	Neutral	2.38	2.13
2019-09-19	Neutral	2.55	2.45
2019-07-22	Neutral	2.65	2.80
2019-05-15	Take Profit	2.65	2.52

Source: RHB, Bloomberg

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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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Securities Singapore Pte Ltd.
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211