

29 April 2014

ComfortDelGro Corp. Ltd.

Record FY2013 Revenue and Net Profit



SINGAPORE | TRANSPORT SERVICES | RE-INITIATION

Rating: **Accumulate**

(Upgrade to "Accumulate")

- Record Revenue and Net Profit of S\$3.75bn and S\$263mn respectively for FY13.
- One of the world's largest land transport operator, with diversified range of businesses spanning across 7 countries.
- Significant exposure to profitable businesses overseas.
- Estimated dividend yield of 3.7% for FY14F.
- Re-initiate with "Accumulate" rating and TP of S\$2.34 based on DCF (WACC: 6.6%, Terminal g: 1.0%).

Target Price (SGD)	2.34
Forecast Dividend (SGD)	0.075
Closing Price (SGD)	2.11
Potential Upside	10.9%

Following a change of analyst, we **re-initiate coverage on ComfortDelGro Corp. Ltd. (CD)** with Company Background attached in the Appendix of this report. For **Market Structure** and **Industry Analysis**, investors may refer to our accompanying [Singapore Land Transport Sector report](#).

What is the news?

- Full Year FY13 (FYE Dec) results released on 13 Feb 2014.
- 4Q Revenue and Operating Profit grew 3.6% and 4.2% y-y respectively.
- Full Year FY13 Revenue and Operating Profit grew 5.7% and 3.4% y-y respectively.
- Record Net Profit of S\$263 million, 5.7% y-y growth.
- Total DPS of S\$0.07 for FY13, 56.5% payout ratio.

How we view this

CD posted a set of strong set of full year results on the back of its Buses and Taxi businesses which grew 8.9% and 3.6% y-y respectively, both in Revenue and Operating Profit. Buses account for 50%, while Taxi, 32% of total Revenue. This is positive for CD as Buses is the largest revenue generator for CD and it showed the strongest growth among all its business segments.

Investment Actions

We are positive on CD, due to: (1) Its significant exposure to overseas land transport businesses with margins superior to its domestic Fare businesses, (2) Expanding bus operations in UK and Australia, (3) Market leader in Singapore Taxi business, (4) Largest foreign taxi operator in China, (5) EPS and DPS y-y growth. We re-initiate coverage on CD, upgrading to "Accumulate" rating with TP of \$2.34.

Key Financial Summary

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (SGD mn)	3,411	3,545	3,748	4,044	4,207
NPAT, adj. (SGD mn)	236	249	263	279	283
EPS, adj. (SGD)	0.11	0.12	0.12	0.13	0.13
P/E (X),adj.	12.8	15.7	15.9	16.1	15.9
BVPS (SGD)	1.19	1.25	1.31	1.39	1.47
P/B (X)	1.2	1.5	1.5	1.5	1.4
DPS (SGD)	0.06	0.06	0.07	0.08	0.08
Div. Yield (%)	2.8%	3.0%	3.3%	3.6%	3.6%


Source: Bloomberg, PSR est.

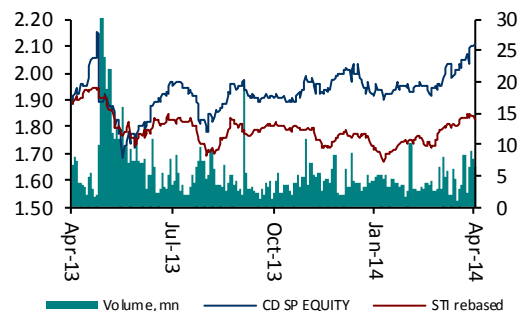
*Forward multiples & yields based on current market price;
historical multiples & yields based on historical market price.

Company Description

ComfortDelGro Corp. Ltd. ("CD") is a land transport conglomerate with businesses across various business segments and geography. The bus and taxi businesses are the largest profit contributors for the Group.

Company Data

Raw Beta (Past 2yrs weekly data)	0.75
Market Cap. (USD mn / SGD mn)	3581 / 4496
Ent. Value (USD mn / SGD mn)	4066 / 5108
3M Average Daily T/O (mn)	3.87
Closing Px in 52 wk range	1.70  2.21



Major Shareholders

	(%)
1. Capital Group Companies Inc.	6.3
2. Blackrock	6.0
3. Silchester Intl Investors	4.9

Valuation Method

DCF (WACC:6.6%, Terminal g: 1.0%)

Analyst

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Re-initiation of coverage

Following a change of analyst, we re-initiate coverage on ComfortDelGro Corp. Ltd. (CD) with **Company Background** attached in the Appendix (Page. 11) of this report. Investors unfamiliar with the full business spectrum of CD may want to read the Appendix first.

4Q13 & FY2013 Results

Results at a glance

(SGD mn)	4Q13	4Q12	y-y (%)	3Q13	q-q (%)	Comments
Revenue	990.1	904.2	9.5%	978.4	1.2%	Newly acquired Metroline West, UK.
EBITDA	181.6	179.4	1.2%	206.7	-12.1%	
EBIT	95.4	96.0	-0.6%	122.4	-22.1%	
Net Income	59.9	57.6	4.0%	76.7	-21.9%	

Source: Company, PSR

Results by Business (SGD mn)

Revenue	4Q13	4Q12	y-y (%)	3Q13	q-q (%)	Comments
Bus	501.2	431.0	16.3%	505.4	-0.8%	
Bus Station	5.8	4.7	23.4%	8.1	-28.4%	Addition of Metroline West, UK.
Rail	42.5	39.0	9.0%	42.0	1.2%	
Taxi	316.6	297.5	6.4%	300.3	5.4%	More licences and newer taxis.
Automotive Engineering Services	78.8	88.2	-10.7%	78.0	1.0%	
Inspection & Testing Services	26.5	24.6	7.7%	26.3	0.8%	
Car Rental & Leasing	8.8	8.8	0.0%	9.0	-2.2%	
Driving Centre	9.9	10.4	-4.8%	9.3	6.5%	

Operating Profit/(Loss)

Bus	32.9	31.9	3.1%	51.5	-36.1%	
Bus Station	2.5	1.7	47.1%	3.4	-26.5%	
Rail	(0.1)	3.2	-1016%	0.1	n.m.	Start-up costs for DTL.
Taxi	33.0	32.8	0.6%	41.6	-20.7%	
Automotive Engineering Services	13.8	13.6	1.5%	13.1	5.3%	
Inspection & Testing Services	8.9	8.1	9.9%	8.4	6.0%	
Car Rental & Leasing	2.2	2.3	-4.3%	2.3	-4.3%	
Driving Centre	2.1	2.4	-12.5%	2.1	0.0%	

Source: Company, PSR

Results at a glance

(SGD mn)	FY13	FY12	y-y (%)	Comments
Revenue	3,748	3,545	5.7%	Full Year up 5.7% to a record S\$3.75 bn.
EBITDA	764	735	3.9%	
EBIT	426	412	3.4%	
Net Income	263	249	5.7%	Full Year up 5.7% to a record S\$263.2 mn.

Source: Company, PSR

Results by Business (SGD mn)

Revenue	FY13	FY12	y-y (%)	Comments
Bus	1,861	1,710	8.8%	Newly acquired Metroline West, UK.
Bus Station	29	26	11.3%	
Rail	165	153	7.5%	
Taxi	1,198	1,130	6.0%	
Automotive Engineering Services	317	355	-10.8%	Divested Suzhou Toyota dealership.
Inspection & Testing Services	106	98	8.1%	
Car Rental & Leasing	35	36	-0.8%	
Driving Centre	38	38	0.0%	
Operating Profit/(Loss)				
Bus	157	145	8.9%	Newly acquired Metroline West, UK.
Bus Station	12	11	8.8%	
Rail	5	14	-66.4%	
Taxi	146	141	3.6%	
Automotive Engineering Services	53	51	2.9%	
Inspection & Testing Services	35	33	8.0%	
Car Rental & Leasing	9	9	2.2%	
Driving Centre	9	8	3.7%	

Source: Company, PSR

- CD announced record full year Revenue and Net Income, with major contributions from Bus and Taxi businesses.
- The UK Bus business remains the single largest contributor to CD's overseas bus revenue. CD saw higher Bus revenue contribution due to the newly acquired Metroline West in the UK, which was acquired in July 2013.
- Taxi revenue in Singapore and China grew due to newer fleet and fleet expansion.
- Revenue from Rail grew, but tough operating environment and one-off start-up costs for Downtown Line resulted in a first ever quarterly operating loss, whereby profits from Advertisements and Rental were unable to offset losses.
- Proposed final DPS of S\$0.07, with 56.5% payout ratio.

Investment merits

- One of the world's largest land transport operator, diversified across business types and geography.
- Strong overseas land transport operations with profitable margins.
- Management that seeks out inorganic accretive opportunities where CD can have majority control.
- Market leader for taxi in Singapore with about 60% market share.
- Foothold in Australia and UK Bus business, and strong contender if and when new routes are opened up.
- EPS and DPS y-y growth with sustainable payout ratio arising from positive operating cash flow.

Outlook for CD Singapore Businesses

Rail – Impacted in the recent quarter due to start up costs for the Downtown Line (DTL). Though start-up costs are a one-time expense, but we think that DTL will continue to be a drag until the rest of the line is opened, in which time the benefits of scale can be realised. DTL is currently operating under-capacity as the line is not fully constructed. Only 6 stations have been opened, with 12 and 16 more to come in Stage 2 and 3 respectively. We expect to see some improvements once passenger numbers pick up on the DTL.

There is still room for growth in the ridership numbers for the Sengkang and Punggol Light Rail Transit (SPLRT) network, because most of the surrounding housing developments are still work-in-progress. Ridership numbers should pick up once the housing projects are completed and occupancy increases.

Bus – We believe that the Bus business in Singapore continues to look bleak, until a sustainable model is implemented by the Regulator. At present, Fare-revenue is not able to meet operating costs and SBS Transit (SBST) of which is a 75%-owned subsidiary of CD has been reporting losses in its Bus business since 2Q11. We forecast SBST's Bus operations to continue being unprofitable until a new bus model is implemented in Singapore by the Regulator. (Currently, losses from SBST's Fare-business are offset by profits from the ancillary businesses of Advertisements and Rental, resulting in net profit.)

On the other hand, CD's subsidiary ComfortDelGro Bus Pte Ltd, which provides chartered services, continues to be running profitably, albeit at a thin margin of only 6.7% and accounting for only 0.5% of total revenue in FY2013.

Taxi – Management guided a higher than usual Capex in FY15 to renew their fleet. CD had previously deferred purchase of new taxis due to the high COE levels. A newer taxi fleet translates to higher taxi revenue as CD can hire out their new taxis at a higher fee. Hence, we are expecting revenue growth for the Singapore taxi business, after the acquisition of the new taxis. We believe that CD will continue to see growth in taxi bookings, due to its leading position in the market. Cashless transactions will continue to lift profits for this segment as well.

Automotive Engineering Services – Management guided that revenue is expected to be maintained. This business segment would continue to support its vast fleet of buses and taxis in Singapore.

Inspection and Testing Services – Barring an economic slowdown, high COE premiums are here to stay. The Inspection and Testing Services business by VIACOM should continue to see a steady stream of vehicle owners unwilling to replace their vehicles, and thus sending their vehicles for inspection.

Driving Centre – This should continue to see a stable enrolment numbers. Management guided that revenue is expected to increase.

Car Rental & Leasing – Management guided that revenue is expected to be maintained.

Outlook for CD Overseas Businesses

Bus

- UK Bus business would see a jump in Full Year FY14 results, from the addition of Metroliner West in 3Q13.
- Australia Bus business would see a drop in Full Year FY14 results, due to the loss of services in Region 1 and 3.

Bus Station – The Bus Station in Guangzhou has the highest margins among all of CD's business, but contributed only 2.9% to Operating profits in FY13. Management guided that revenue is expected to be maintained.

Taxi – Management guided that revenue is expected to be maintained. China operations will see some increase, as the Group had managed to increase the number of taxi licences. This should offset the muted UK operations, while the Australia Taxi business is maintained.

Driving Centre – CD has two driving centres in China. CD has increased its stake in the Chengdu centre from 51% to 95%, despite the weak results from the segment. Management expressed the belief that the Group will be able to turn the business segment around, which is driven by urbanisation and rising middle class affluence in China. The driving centres currently do not make a significant contribution to Group Operating Profit.

Inspection & Testing Services – CD has two centres in China and one in Malaysia. These businesses do not make a significant contribution to Group Operating Profit, and Management guided and increase in Revenue for the segment.

Car Rental and Leasing – Management guided that revenue is expected to be maintained.

**CHART
13**

Outlook : Cost pressures will continue to be felt. The Group will continue to focus on managing its businesses prudently

<u>Segments</u>	<u>Revenue Expectation</u>
Bus	Singapore : Increase UK : Increase Australia : Decrease
Rail	Increase
Bus Station	Maintain
Taxi	Singapore : Increase UK, China, Australia and Vietnam : Maintain
Automotive Engineering Services	Maintain
Driving Centre	Increase
Inspection & Testing Services	Increase
Car Rental and Leasing	Maintain

COMFORTDELGRO

Source: CD FY2013 Results Presentation, 13 February 2014

Key downside risks for CD

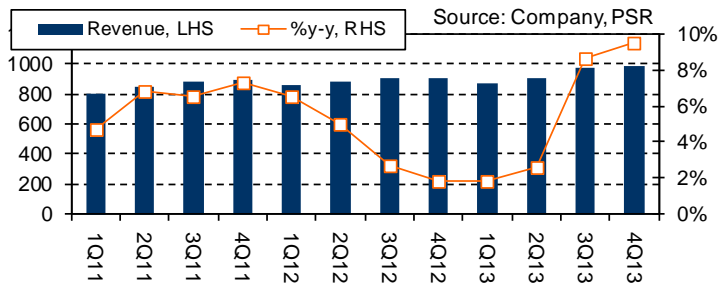
- Unsuccessful in renewing any of its Rail, Bus or Taxi operator licenses.
- Protracted negotiations with Regulator, prolonging unprofitable Rail and Bus models in Singapore.
- Heavy fines imposed by Regulator due to rail disruption, crippling profitability.
- Exposure to currency risks, due to significant overseas operations in six countries.

Future price catalysts to the upside

- Change in Bus model in Singapore to the contracts model.
 - Better operating margins (estimated about 10%).
 - Open to contestability and may possibly erode market share; in exchange for a sustainable and profitable model.
- M&A opportunities in UK and Australia bus operations, or successful tender of new routes.
 - Bus operations are on the contracts model and are profitable.
- Successful tender of more taxi licences in China.
- More corporate bookings in UK and Australia, and more drivers joining the taxi circuit.
- Winning the tender to operate the new MRT lines that are currently under construction/planning.
 - Leading to higher EPS, as the new lines would be operated under the new Rail Financing Framework.

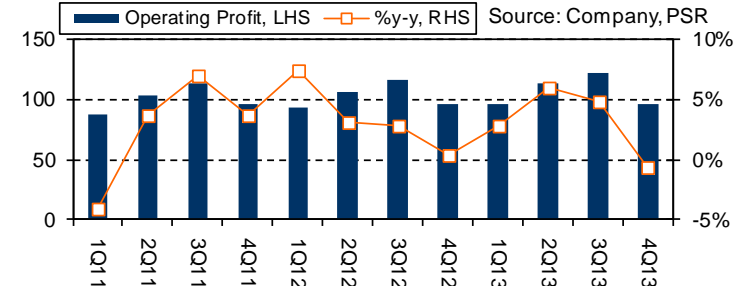
Quarterly Revenue and Profitability data

Fig 2. Revenue (\$\$ mn)



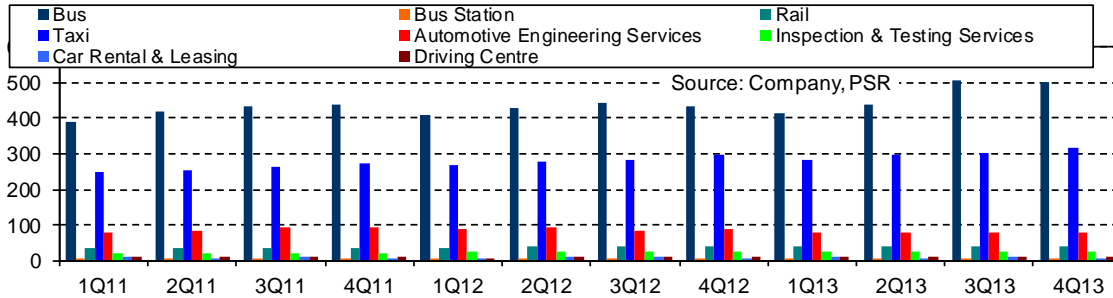
Remarks: y-y Revenue growth.

Fig 3. Operating Profit (\$\$ mn)



Remarks: 4Q13 first ever y-y decline in 11 quarters.

Fig 4. Revenue by Business (\$\$ mn)



Remarks: Bus (50%) and Taxi (32%) Business are the highest revenue sources.

Revenue Segmentation for YTD FY13

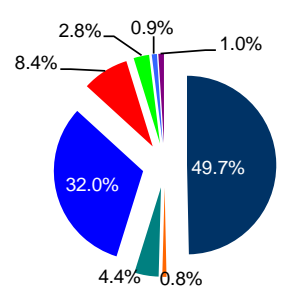
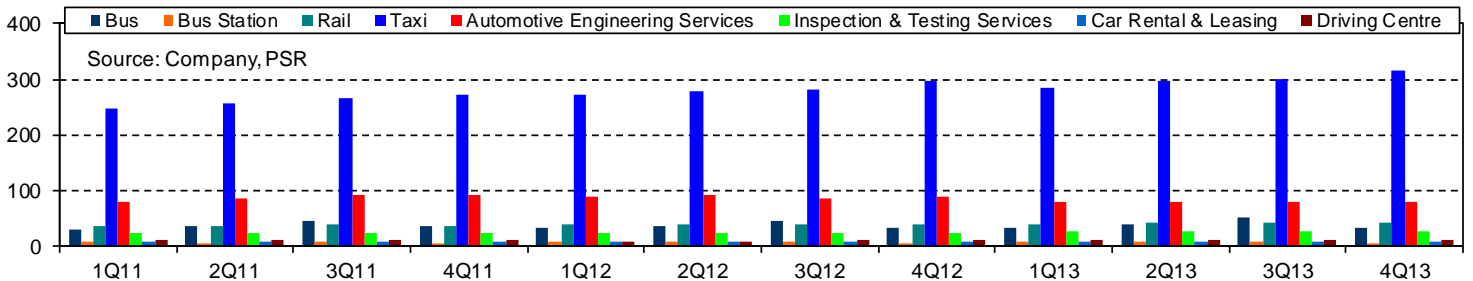
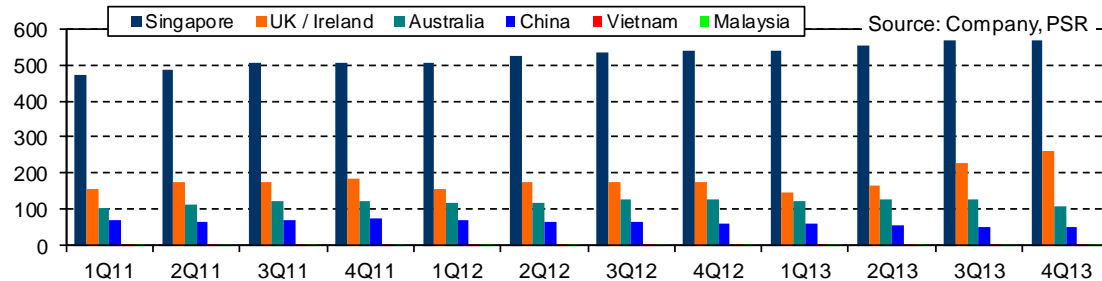


Fig 5. Operating Profit by Business (\$\$ mn)



Remarks: Highest operating profits come from Bus and Taxi Businesses.

Fig 6. Revenue by Geography (\$\$ mn)



Remarks: More than half of revenue is from Singapore operations.

Revenue Segmentation for YTD FY13

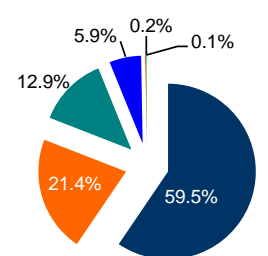
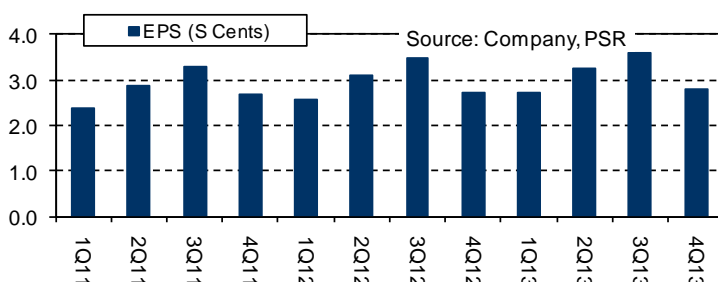


Fig 7. Shareholder Returns



Remarks: EPS shows seasonality, 3Q usually strongest.

Quarterly Financial Indicators

Fig 8. Operating Margin

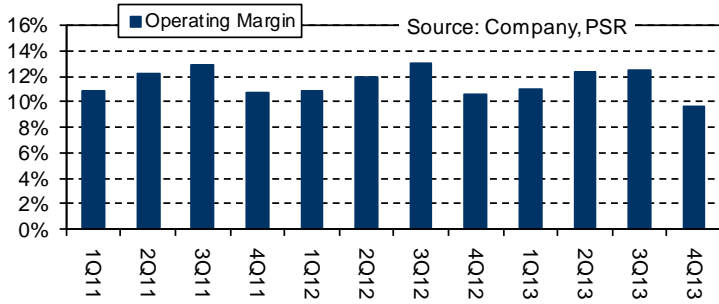
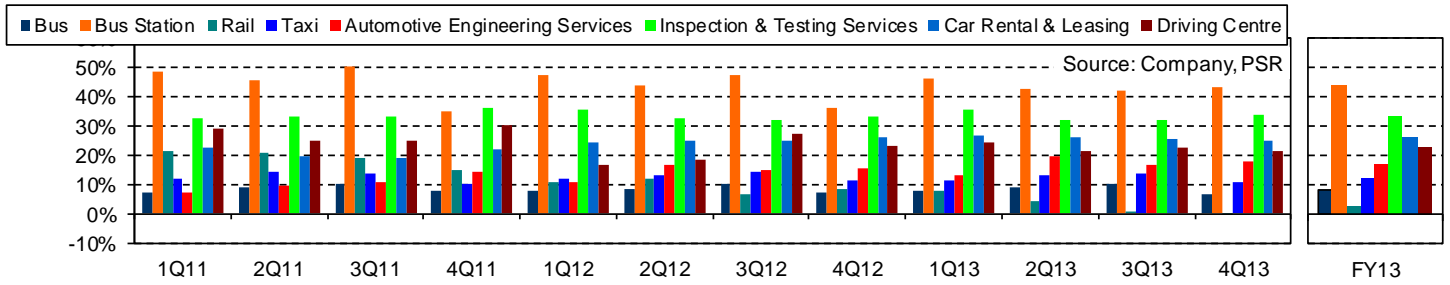


Fig 9. Operating Margin by Business

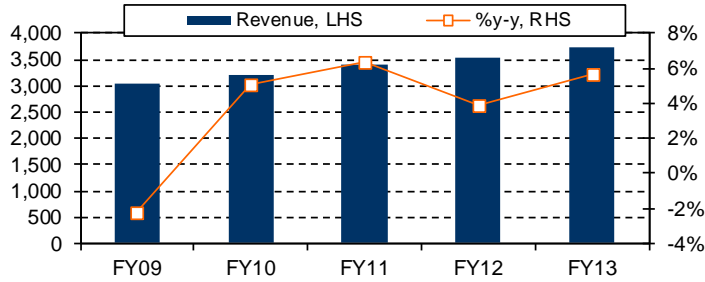
Operating Margin for YTD FY13



Remarks: Bus Station and Inspection & Testing Services give the best EBIT Margins, but they make up about 4% of revenue.

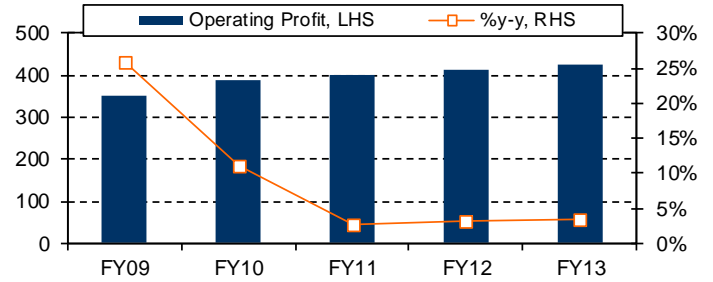
Full Year Revenue and Profitability data

Fig 10. Revenue (S\$ mn)



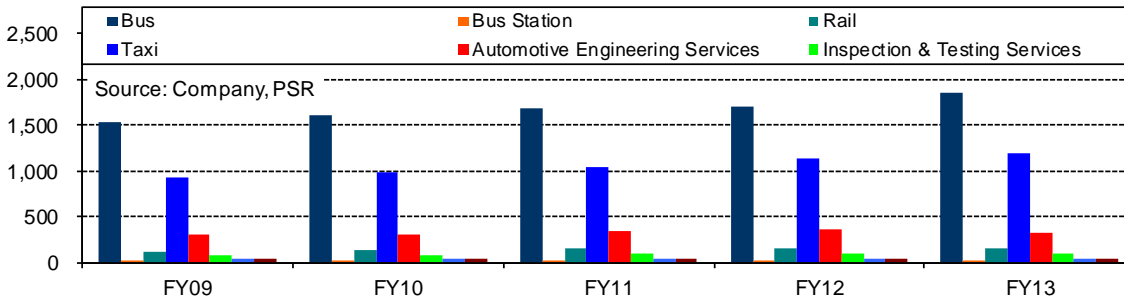
Remarks: Record revenue

Fig 11. Operating Profit (S\$ mn)



Remarks: Record Operating Profits

Fig 12. Revenue by Business (S\$ mn)



Remarks: No change in revenue mix composition.

Revenue Segmentation for Full Year FY13

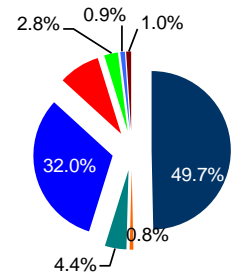
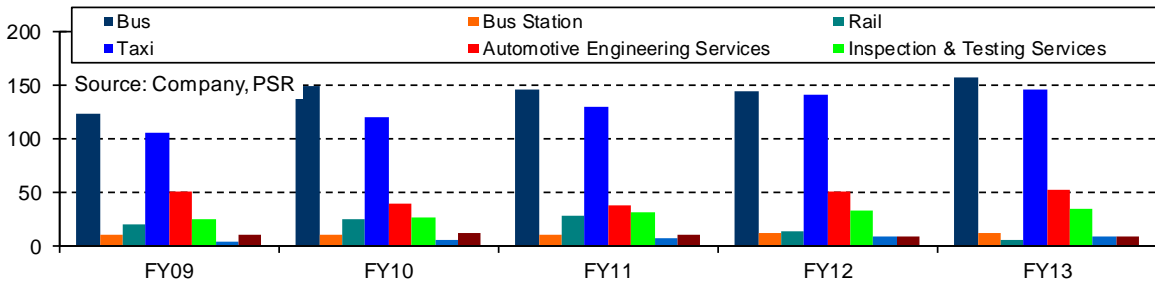


Fig 13. Operating Profit by Business (S\$ mn)



Remarks: No change in operating profit composition.

Operating Profit Segmentation for Full Year FY13

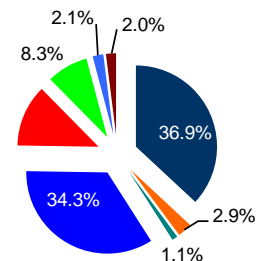
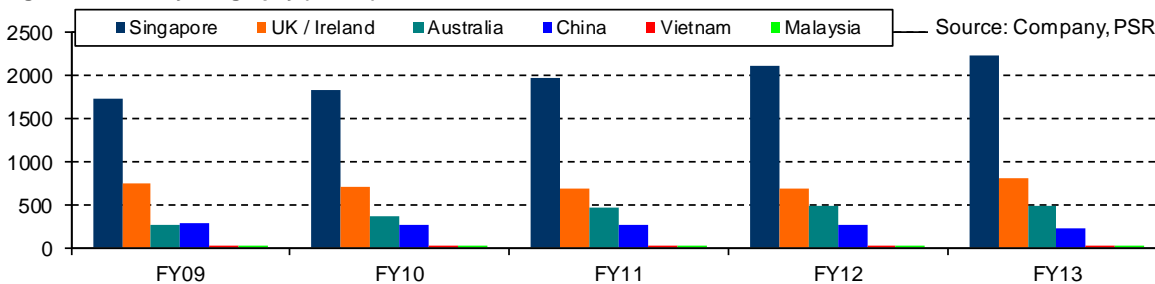


Fig 14. Revenue by Geography (S\$ mn)



Remarks: No change in geography mix.

Revenue Segmentation for Full Year FY13

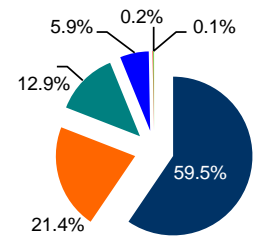
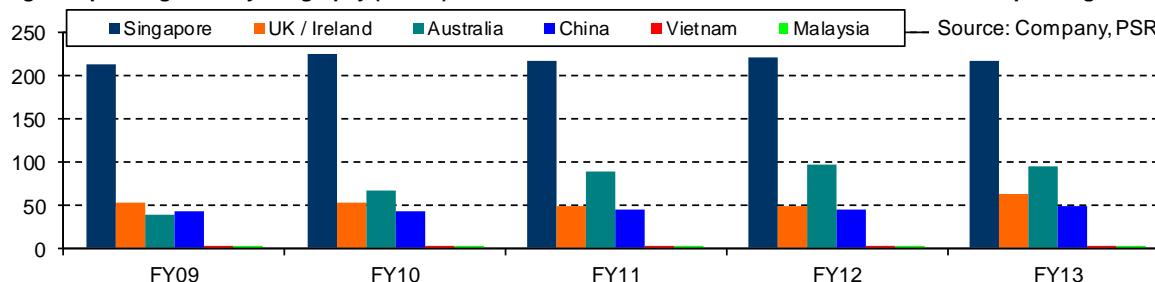
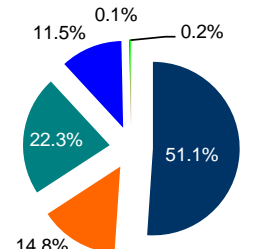


Fig 15. Operating Profit by Geography (S\$ mn)



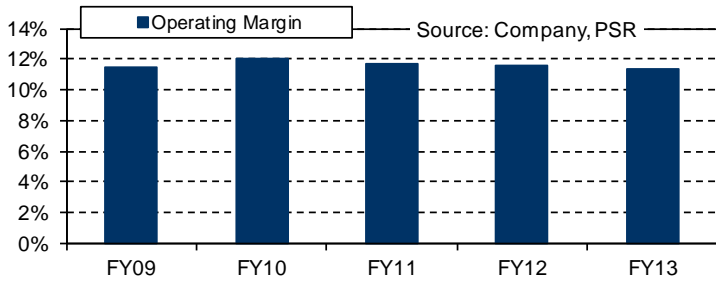
Remarks: Majority of Operating Profit comes from Singapore.

Operating Profit Segmentation for Full Year FY13



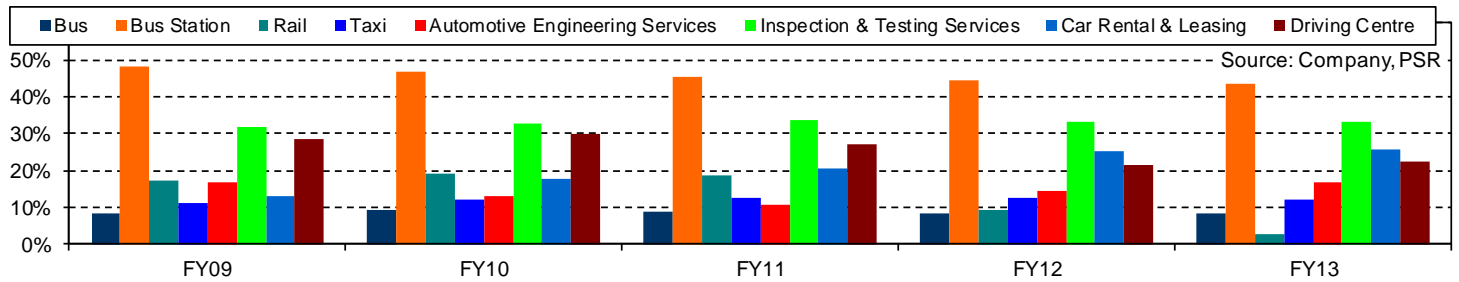
Full Year Financial Indicators with Historical Performance

Fig 16. Operating Margin



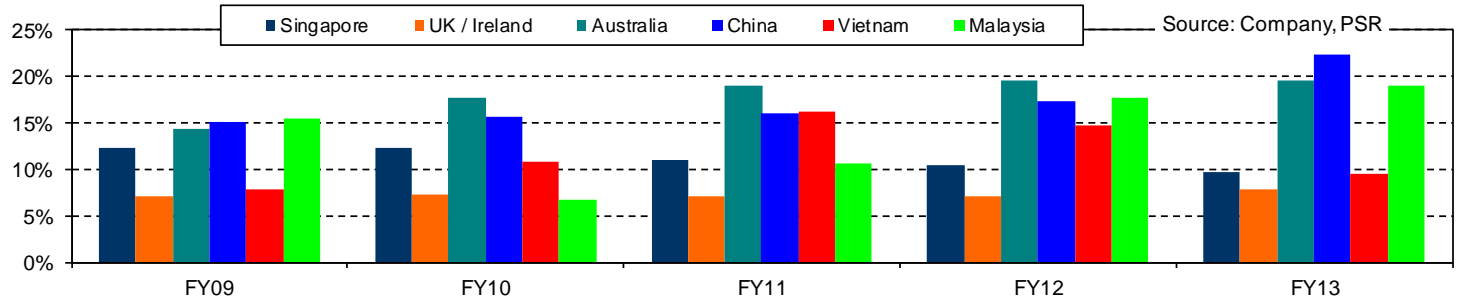
Remarks: Holding steady at about 11.4%.

Fig 17. Operating Margin by Business



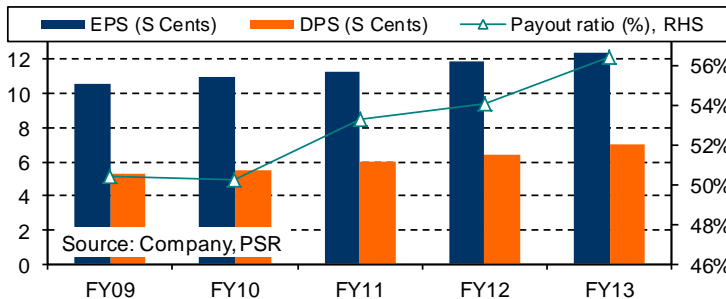
Remarks: Operating Margins holding steady or improving, except for Rail (Singapore MRT /LRT).

Fig 18. Operating Margin by Geography



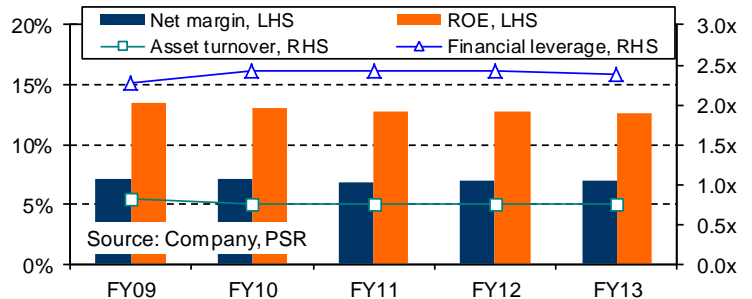
Remarks: Highest operating margin of 22.4% comes from China operations, and accounts for 11.5% of Group EBIT.

Fig 19. Shareholder Returns



Remarks: Rising EPS and DPS; with sustainable Payout Ratio.

Fig 20. Dupont Analysis



Remarks: ROE held steady to 12.6% in FY13.

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Income Statement (SGD mn)					
Revenue	3,411	3,545	3,748	4,044	4,207
EBITDA	736	735	764	804	824
Depreciation & Amortisation	336	323	337	348	364
EBIT	399	412	426	456	460
Net Finance (Expense)/Inc	(25)	(20)	(16)	(18)	(17)
Other items	0	0	0	0	0
Associates & JVs	5	4	4	4	4
Exceptional items	0	0	0	0	0
Profit Before Tax	379	396	414	442	448
Taxation	(82)	(86)	(87)	(93)	(94)
Profit After Tax	298	311	327	349	354
- Non-controlling interest	62	62	64	70	71
Net Income, reported	236	249	263	279	283
Net Income, adj.	236	249	263	279	283

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Per share data (SGD)					
EPS, reported	0.113	0.119	0.124	0.131	0.133
EPS, adj.	0.113	0.118	0.124	0.131	0.133
DPS	0.060	0.064	0.070	0.075	0.075
BVPS	1.19	1.25	1.31	1.39	1.47

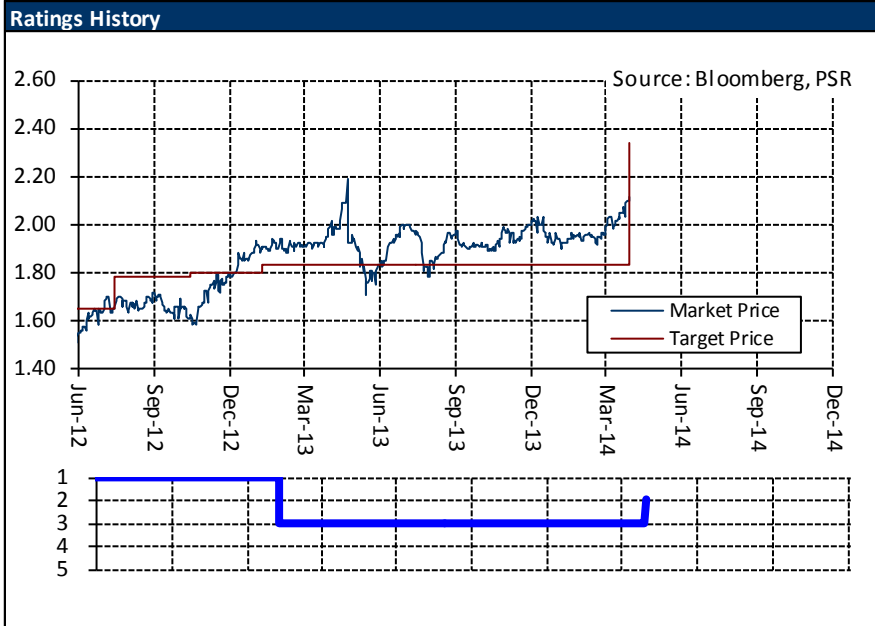
FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Cashflow Statements (SGD mn)					
CFO					
PBT	379	396	414	442	448
Adjustments	344	347	356	366	377
WC changes	99	20	6	18	11
Cash generated from ops	822	764	776	826	836
Others	(44)	(76)	(78)	(85)	(90)
Cashflow from ops	778	687	698	740	747
CFI					
CAPEX, net	(490)	(484)	(415)	(447)	(500)
Divd from associates & JVs	6	4	2	3	4
Others	(2)	(30)	(119)	7	13
Cashflow from investments	(487)	(510)	(532)	(437)	(484)
CFF					
Share issuance, net	6	51	35	0	0
Loans, net of repayments	(120)	87	120	150	80
Dividends	(142)	(163)	(166)	(183)	(197)
Others	(34)	(30)	(27)	(32)	(35)
Cashflow from financing	(290)	(56)	(38)	(65)	(152)
Net change in cash	2	121	128	238	111
Effects of exchange rates	9	(3)	8	0	0
CCE, end	577	695	831	1,068	1,179

Source: Company Data, PSR est

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Balance Sheet (SGD mn)					
PPE	2,604	2,707	2,777	2,899	3,039
Intangibles	553	569	687	683	679
Receivables	373	384	302	302	302
Associates & JVs	6	5	6	7	8
Investments	86	83	64	64	64
Others	7	4	8	8	8
Total non-current assets	3,629	3,752	3,845	3,963	4,100
Inventories	57	58	71	70	74
Accounts Receivables	133	129	111	142	142
Prepayments	154	174	192	196	209
Investments	0	0	5	5	5
Cash	577	695	831	1,068	1,179
Others	40	39	30	42	41
Total current assets	960	1,094	1,240	1,522	1,649
Total Assets	4,589	4,846	5,085	5,485	5,749
Short term loans	198	96	218	218	218
Accounts Payables	615	634	665	723	750
Others	182	187	179	191	196
Total current liabilities	996	917	1,063	1,133	1,164
Long term loans	434	608	590	740	820
Others	680	684	638	652	647
Total non-current liabilities	1,113	1,292	1,228	1,391	1,467
Total Liabilities	2,109	2,209	2,290	2,524	2,631
Non-controlling interest	583	629	640	676	710
Shareholder Equity	1,897	2,008	2,155	2,285	2,409

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.	12.8	15.7	15.9	16.1	15.9
P/B (X)	1.2	1.5	1.5	1.5	1.4
EV/EBITDA (X), adj.	5.0	6.2	6.3	6.3	6.1
Dividend Yield (%)	2.8%	3.0%	3.3%	3.6%	3.6%
Growth & Margins (%)					
Growth					
Revenue	6.4%	3.9%	5.7%	7.9%	4.0%
EBITDA	8.3%	0.0%	3.9%	5.2%	2.5%
EBIT	2.8%	3.3%	3.4%	7.0%	0.9%
Net Income, adj.	3.1%	5.6%	5.7%	6.1%	1.2%
Margins					
EBITDA margin	21.6%	20.7%	20.4%	19.9%	19.6%
EBIT margin	11.7%	11.6%	11.4%	11.3%	10.9%
Net Profit Margin	8.7%	8.8%	8.7%	8.6%	8.4%
Key Ratios					
ROE (%)	12.7%	12.7%	12.6%	12.6%	12.0%
ROA (%)	5.3%	5.3%	5.3%	5.3%	5.0%
Net Debt/(Cash)	55	9	(23)	(111)	(141)
Net Gearing (X)	2.2%	0.3%	Net Cash	Net Cash	Net Cash



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

APPENDIX

Company Background

ComfortDelGro Corp. Ltd. (CD) was formed in March 2003 after the merger of Comfort Group and DelGro Corp., which were domestic players in the Singapore Land Transport sector. Today, CD is a global player in land transport. It has expanded its international footprint, spanning across the globe in seven countries and a fleet size of about 46,000 vehicles. CD operates in UK, Ireland, China, Vietnam, Malaysia, Australia, and last but not least, Singapore. In Singapore, CD provides multi-modal public transport by operating Mass Rapid Transit (MRT) and Light Rapid Transit (LRT) systems, buses, as well as rental of taxis. CD also has businesses in Automotive Engineering Services, Vehicle Inspection & Testing Services, Car Rental & Leasing and Driving Schools.

CD provides Fare-based land transport services in Singapore through its 75%-owned subsidiary SBS Transit (SBST), which is separately listed on the Singapore Stock Exchange. SBST operates the North East Line (NEL), Downtown Line (DTL) and Sengkang and Punggol LRT (SPLRT) network. Included within the operations of SBST is the leasing of commercial space at MRT stations and bus interchanges within their network; and leasing of advertising space within its network of MRT stations, bus interchanges, and on its fleet of trains and buses. SBST is a pure-play on the Singapore Land Transport landscape.

CD operates land transport services outside of Singapore through various subsidiaries. When growing inorganically overseas, CD has been specific in only investing in businesses where it can hold majority control. In the recently concluded FY13, 40.5% of its Revenue and 48.9% of Operating Profits came from its overseas operations. Management is targeting to increase Operating Profit from Overseas businesses to 60%.

Fig 21. Geographical representation of Revenue (FY13)

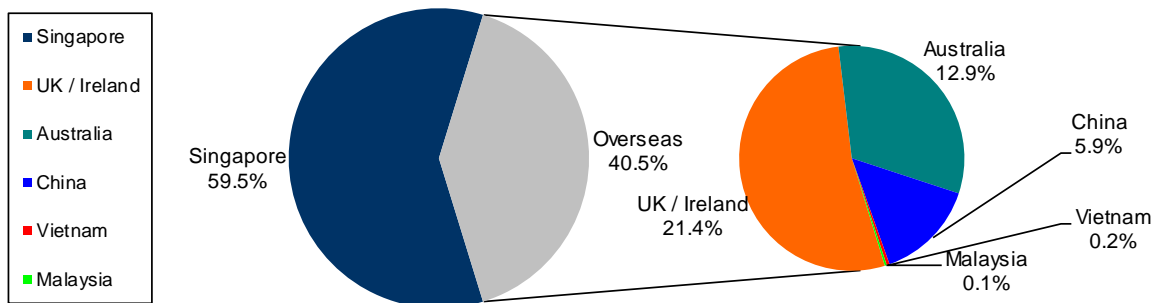
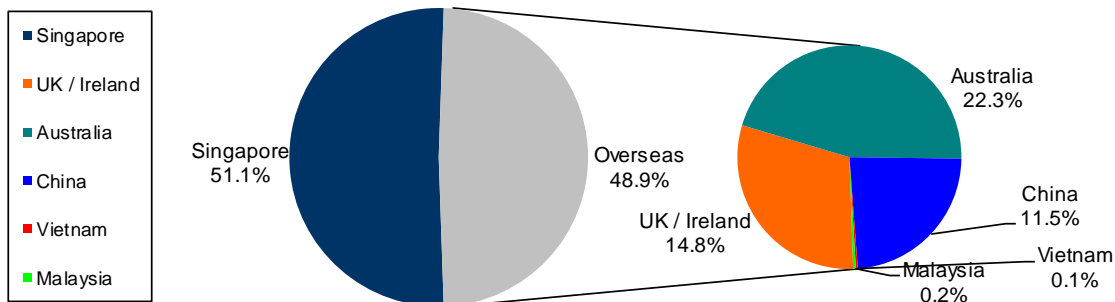
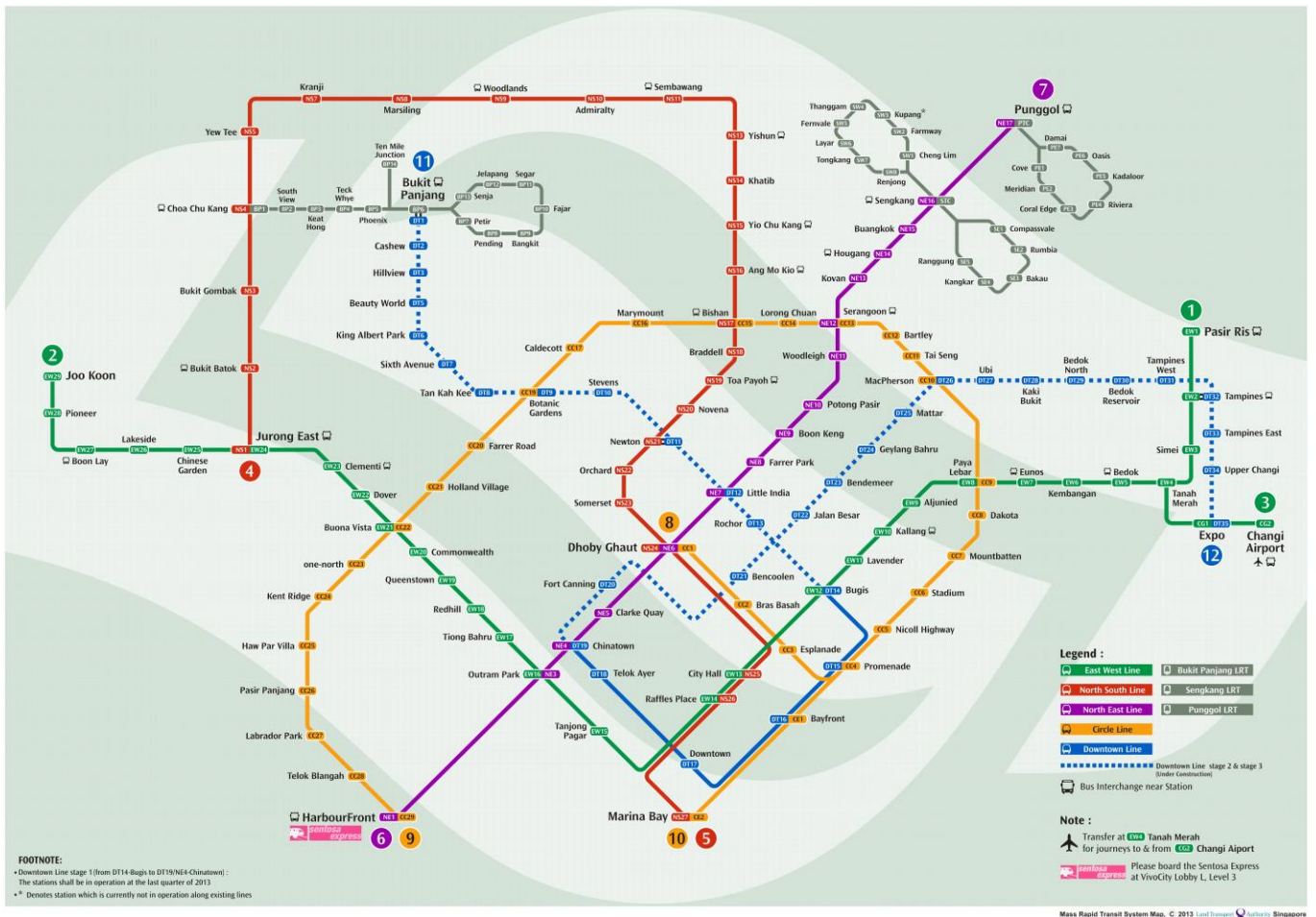


Fig 22. Geographical representation of Operating Profit (FY13)





MRT and LRT System map



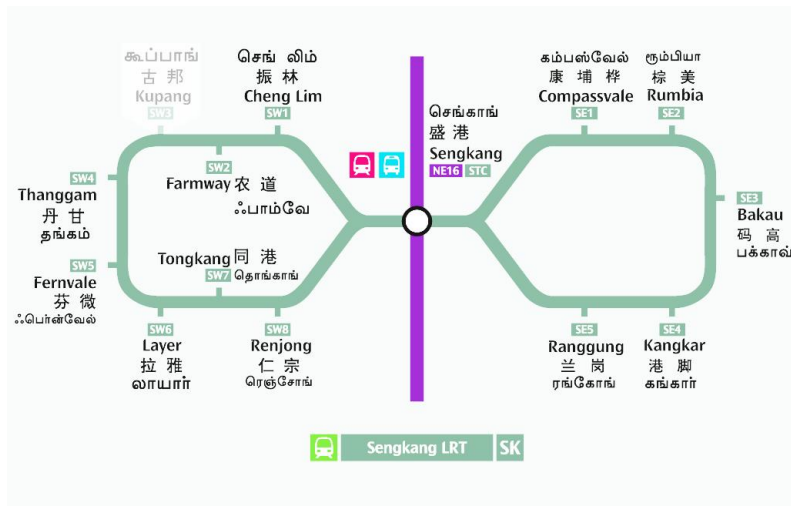
Source: Land Transport Authority Singapore

Group Structure and Business: Singapore

Rail – North East Line (NEL), Downtown Line (DTL) and Sengkang and Punggol Light Rail Transit (SPLRT)

SBST operates the NEL, DTL and SPLRT networks. The Rail business for SBST is Fare-revenue based and SBST had 22% market share of Rail ridership in Singapore for FY13.

- The NEL began operations in June 2003 and was opened up in stages. Today, it consists of 16 stations, stretching from Punggol to HarbourFront, with track length of 20km. The NEL connects to the Circle Line at Serangoon station, and connects to the North South Line at Bishan station. The NEL saw a 5.8% y-y growth in ridership to 175.4 million in FY2013.
- The DTL Stage 1 began operations in December 2013. It currently has 6 stations in operation between Bugis and Chinatown. Stage 2 and Stage 3 are scheduled to open in 2016 and 2017 respectively. When completed, DTL will have 34 stations and with track length of 42km.
- The Sengkang and Punggol LRT networks consist of 14 and 15 stations respectively, with track length of 20km. Both the LRT systems consist of East and West loops and are fully automated with driverless-trains. They serve as a feeder-service to connect Sengkang and Punggol residents to the NEL.



Source: SBS Transit

Buses

CD provides public bus services in Singapore through its 75% stake in SBST. SBST operates a fleet of about 3,300 buses and 255 bus services serving 17 bus interchanges island-wide. SBST has about 74% market share of bus ridership in Singapore. Revenue is earned through collection of bus fares. Ridership grew 3.1% in FY2013.

ComfortDelGro Bus Pte Ltd, a wholly-owned subsidiary of CD provides chartered bus services. ComfortDelGro Bus operates a fleet of 350 buses and it is the largest private bus chartering company in Singapore. It provides staff transport, school bus services, sightseeing tours, overland bus services to West Malaysia and premium bus services. ComfortDelGro Bus clinched a two-year contract in September 2013 for S\$1.06 million to run a City Direct service between Jurong West and the city. It also clinched another two-year contract in November 2013 to run City Direct services between Bukit Batok and Hillview to the city. ComfortDelGro Bus operates one Peak Period Short Service under the Bus Service Enhancement Programme.

Taxi

CD is one of six licensed operator of taxi services in Singapore. It provides taxi rental through its wholly-owned subsidiary, Comfort Transportation Pte Ltd ("Comfort"). Comfort had a fleet of 12,356 taxis as of end December 2013. CD enjoys good margins from this business through its scale. CD also sells diesel to the taxi hirers at a discounted rate. Revenue growth from taxi business comes about from rental of newer taxis and from contribution from cashless payments.

Additionally, CD also has a 54:46 JV with Singapore Technologies Kinetics, CityCab Pte Ltd ("CityCab"). City Cab had a fleet of 4,246 taxis as of end December 2013. Together, CD has a combined fleet of about 16,600 taxis through Comfort Transportation and CityCab. This is equivalent to about 60% market share of taxis in Singapore.

Automotive Engineering Services

CD provides Automotive Engineering Services via ComfortDelGro Engineering Pte Ltd, a wholly-owned subsidiary. This business is primarily a vehicle repair and maintenance service provider. The business offers car grooming, servicing of private cars, accident repair, and has a three-year contract to service Singapore Post's fleet of 600 vehicles. ComfortDelGro Engineering is also engaged to repair and maintain the buses and taxis within the CD Group, including assembly and refurbishment of SBST buses.

Vehicle Inspection & Testing Services

CD provides Vehicle Inspection & Testing Services through its 67%-owned subsidiary VICOM Ltd. VICOM is separately listed on the Singapore Stock Exchange and is the premier vehicle inspection and testing centre in Singapore. VICOM has 7 vehicle inspection centres in Singapore (Bukit Batok, Sin Ming, Changi, Yishun, Kaki Bukit, Ang Mo Kio, Pioneer). Apart from vehicle inspection, VICOM also provides ancillary services such as motor insurance, road tax renewal, in-vehicle unit (IU) maintenance, car evaluation, accident vehicle assessment and vehicle emission certification. Interestingly, this business segment saw record numbers of vehicles being inspected when Certificate of Entitlement (COE) premiums had risen sharply, as more car owners decided to keep their cars instead of scrapping them. VICOM inspected 519,000 vehicles in FY13 and claims to have 75% market share. VICOM also has a fully-owned subsidiary, Setsco Services Pte Ltd (SETSCO), which is engaged in testing, inspection, calibration and product certification services related to the construction, food, rail and shipyard industries. Overall, VICOM boasted an operating margin of 32% for FY2013. It is a profitable business, with EPS and DPS growth annually.

Car Rental & Leasing

CD has a car rental and leasing business through ComfortDelGro Rent-A-Car Pte Ltd, which is a wholly-owned subsidiary. It has a fleet of 1,112 cars of various makes and models to suit various budgets. It is the largest car rental and leasing operator for passenger vehicles in Singapore.

Driving Centre

ComfortDelGro Driving Centre Pte Ltd is a 90%-owned subsidiary of CD. The driving centre has 2 branches, located in Ubi and Kovan. The driving centre earns revenue through student enrolment and course fees. The driving centre also has institutional customers and provides vehicle training for emergency vehicles, mini buses and double-cabin lorries for both the Singapore Police Force and the Singapore Civil Defence Force.

Group Structure and Business: By Geography

China

CD operates in 12 cities in China (Beijing, Chengdu, Chongqing, Guangzhou, Hengyang, Jilin, Nanjing, Nanning, Shanghai, Shenyang, Suzhou, Yantai), across 6 businesses (Bus, Bus Station, Taxi, Car Rental & Leasing, Vehicle Testing Services, Driving Centre).

- CD is the **largest foreign Taxi operator** in China, operating in 9 cities. Revenue is earned through leasing of the taxis to the drivers.
 1. Beijing – 55%-owned subsidiary; third largest operator with 8.3% market share; fleet of 5,476 taxis.
 2. Jilin City – 97%-owned subsidiary; largest operator with 14% market share; fleet of 729 taxis.
 3. Shenyang – Operates two companies; third largest operator; fleet of 1,347 taxis.
 4. Yantai – 76%-owned subsidiary; fleet of 20 taxis.
 5. Chengdu – Wholly-owned subsidiary; second largest operator; fleet of 1,070 taxis.
 6. Shanghai – 51%-owned subsidiary; premium operator in the city; fleet of 485 taxis.
 7. Suzhou – 70%-owned subsidiary; fleet of 150 taxis.
 8. Nanjing – 70%-owned subsidiary; third largest operator; fleet of 642 taxis.
 9. Nanning – 80%-owned subsidiary; largest taxi operator with 17% market share; fleet of 804 taxis.
- CD operates two **Driving Centres** in China. They are located in **Chengdu** (95%-owned) and **Chongqing** (90%-owned). Revenue is earned through course enrolment fees.
- CD operates a **Bus Station** in **Guangzhou**. The Tianhe Bus Station is 60%-owned by CD, and it served 13.5 million passengers in FY2013. Revenue is earned mainly through the central ticketing sales commission. This Bus Station has the highest operating margin (43.4%) among all of CD's businesses, but accounts for only 0.8% of total Revenue.
- CD operates **Vehicle Testing Services** in **Beijing** (80%-owned) and **Chengdu** (51%-owned).
- CD has **Car rental & Leasing** services in **Chengdu** (wholly-owned; 150 vehicles) and **Nanning** (80%-owned; 26 vehicles).
- CD has a 25% stake operating 98 buses in **Hengyang**.

Australia

CD operates in 5 cities in Australia (Canberra, Melbourne, Perth, Queanbeyan, Sydney), across 3 businesses (Bus, Taxi, Outdoor Advertising).

- CD operates **scheduled bus services** in **Sydney** and **Melbourne** through its 51%-owned subsidiary ComfortDelGro Cabcharge Pty Ltd.
 - The public bus service in Australia is profitable and differs from the Singapore operations. Public bus operation in Australia is on the cost-plus model with contract indexation without ridership risk.
- CD operates **taxi** services through its wholly-owned subsidiary, Swan Taxis Pty Ltd, in **Perth**. It has 93% market share with 2,070 taxis as of FY2013. The business is a taxi circuit and revenue is earned through subscription from the drivers to the call centre.

UK

CD operates in 6 cities in the UK (Aberdeen, Birmingham, Edinburgh, Glasgow, Liverpool, London), across 4 businesses (scheduled Bus, Coach, Taxi Radio Circuit, Private Car Hire).

- The UK Bus business is the highest revenue contributor to the Overseas Bus business, with operating margin of about 8.4% in FY13.
 - CD operates public bus service in **London** through two subsidiaries, Metroline and Metroline West.
 - The public bus service in London is profitable and differs from the Singapore operations. Public bus operation in London is on the cost-plus model with contract indexation without ridership risk.
 - CD operates coach services out of **London** and **Glasgow**.
- CD operates taxi radio circuit in five cities in the UK. 1. **London**, 2. **Liverpool**, 3. **Birmingham**, 4. **Aberdeen**, 5. **Edinburgh**.
 - Market leader in London with 2,093 taxis.
 - Market leader in Liverpool with 339 taxis.
 - 114 taxis in Birmingham.

- 510 vehicles in Aberdeen and Edinburgh serving corporates and individuals.
- Taxi radio circuit in the UK differs from the Singapore taxi business model, in that (1) Taxi drivers own their own taxis, and do not rent the taxis from the operator. (2) The taxi drivers pay a subscription to the circuit operator to have access to the call centre and client bookings. (3) Revenue is generated from the subscription fees and charges from corporate bookings.
- CD offers **airport transfers**, **executive cars** and **chauffeur-driven cars** in **London**, through its subsidiary Flightlink International Limited.

Ireland

CD operates in 4 cities in Ireland (Clifden, Cork, Dublin, Galway), providing **Inter-City Express Coach**.

- CD provides **inter-city coach service** through a full-owned subsidiary, linking Galway to Dublin, Dublin Airport, Cork and Clifden.

Vietnam

- CD provides **taxi services** in **Ho Chi Minh City** through two companies, Vietnam Taxi Co. Ltd (70%-owned) and ComfortDelGro Savico Taxi Company (60%-owned).
- Management commented that despite the low revenue contribution from the operations in Vietnam, but it is strategically important as it can serve as a springboard for the Group for expansions within Indochina.

Malaysia

- **Car Rental** – Operating in **Kuala Lumpur**, offering car leasing and rental services with a fleet of 228 vehicles.
- **Inspection and Testing Services** – Provides civil engineering and non-destructive inspection and testing services, based in **Puchong**.

The following tables summarise CD's operations and operating margins across Businesses and Geography.

Table 1. Operating matrix for CD across Businesses and Geography (FY13)

	Singapore	UK / Ireland	Australia	China	Vietnam	Malaysia
Bus	SBS Transit, public bus routes ComfortDelGro Bus , private charter	London, Glasgow, Clifden, Cork, Dublin, Galway	Sydney, Melbourne	Hengyang	Nil.	Nil.
Bus Station	Nil.	Nil.	Nil.	Guangzhou	Nil.	Nil.
Rail	SBS Transit: NEL, DTL	Nil.	Nil.	Nil.	Nil.	Nil.
Taxi	Comfort Transportation, CityCab	London, Liverpool, Birmingham, Aberdeen, Edinburgh	Perth	Beijing, Jilin City, Shenyang, Yantai, Chengdu, Shanghai, Suzhou, Nanjing, Nanning	Ho Chin Minh City	Nil.
Automotive Engineering Services	ComfortDelGro Engineering	Nil.	Nil.	Nil.	Nil.	Nil.
Vehicle Inspection & Testing Services	VICOM	Nil.	Nil.	Beijing, Chengdu	Nil.	Puchong
Car Rental & Leasing	ComfortDelGro Rent-A-Car	Nil.	Nil.	Chengdu, Nanning	Nil.	Kuala Lumpur
Driving Centre	ComfortDelGro Driving Centre	Nil.	Nil.	Chengdu, Chongqing	Nil.	Nil.

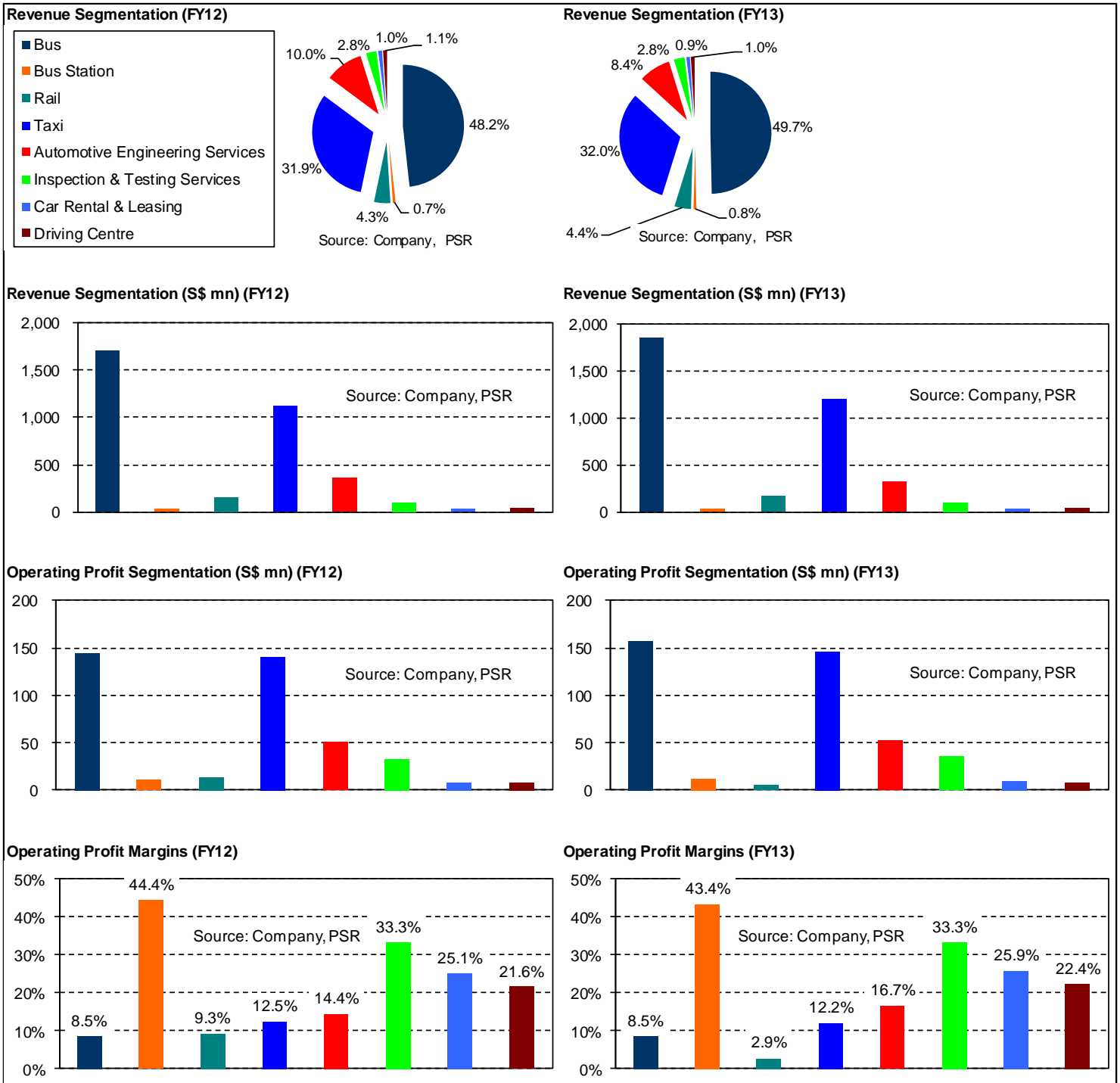
Source: Company, PSR

Table 2. Operating margins for CD across Businesses and Geography (FY13)

	Singapore	UK / Ireland	Australia	China	Vietnam	Malaysia
Bus	1.7%	8.4%	19.2%	n.m.	Nil.	Nil.
Bus Station	Nil.	Nil.	Nil.	43.4%	Nil.	Nil.
Rail	2.9%	Nil.	Nil.	Nil.	Nil.	Nil.
Taxi	10.8%	4.5%	28.4%	23.7%	9.5%	Nil.
Automotive Engineering Services	12.5%	Nil.	Nil.	0.0%	Nil.	Nil.
Vehicle Inspection & Testing Services	32.8%	Nil.	Nil.	32.4%	Nil.	10.0%
Car Rental & Leasing	30.2%	Nil.	Nil.	12.6%	Nil.	27.3%
Driving Centre	32.4%	Nil.	Nil.	-53.3%	Nil.	Nil.

Source: Company, PSR est.

Fig. 23 Comparison of Performance across FY12 and FY13



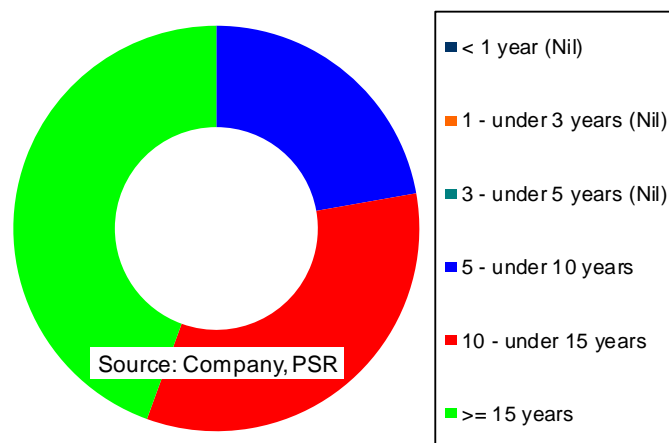
Key observations:

- No change in revenue mix across FY12 and FY13.
- Bus and Taxi continue to be highest sources of Revenue and Operating Profits.
- Weakened margin for Rail business (MRT and LRT), due to one-off start-up costs for Downtown Line.
- Bus Station business in Guangzhou has the highest margin, but contributes only 0.8% to Revenue.

Management Quality

- We present the profile of the Senior Managers from the Singapore Business Units. There are 18 of them listed in the FY2012/13 Annual Report.
- CD has a very experienced team of Senior Managers. Three-quarters of them have at least 10 years experience within the CD Group, and all of them have at least 5 years experience within the Group.
- Strategic direction of Management has been to actively seek out profitable operations overseas, where CD can have majority control.
- Currently, 40.5% of Revenue and 48.9% of Operating Profits are from overseas, and management has guided that the target is to achieve 60% of Operating Profits from overseas.

Fig 23. Length of service profile, CD Senior Management



Licence Condition for Rail Services

North-East Line (NEL) and; Sengkang and Punggol Light Rail Transit (SPLRT)

- SBST holds the licence to operate the NEL and SPLRT for a period of 30 years from 15 January 2003.
- SBST may request LTA to extend the licence for another 30 years.
- Operating assets and infrastructure currently owned by LTA and leased to SBST.
- SBST may apply to LTA for asset replacement grants for eligible operating assets.

Downtown Line (DTL)

- SBS Transit DTL Pte. Ltd. (wholly-owned subsidiary of SBST) holds the licence to operate the DTL for a period of 19 years from 20 December 2013.
- Operating on the new Rail Financing Framework.
- Operating assets and infrastructure owned by LTA and are leased to SBS Transit DTL.

Market structure and industry analysis

For market structure and industry analysis, refer to our Singapore Land Transport Sector report.
(The link to our Singapore Land Transport Sector report is provided on the first page of this report.)

Porter's Five Forces Analysis for Public Transport Operators (PTOs)

For Porter's Five Forces Analysis for PTOs, refer to our Singapore Land Transport Sector report.
(The link to our Singapore Land Transport Sector report is provided on the first page of this report.)

SWOT Analysis

Strengths

- Dominant taxi operator in Singapore through its two subsidiaries Comfort and CityCab; with combined 60% market share.
- Dominant bus operator in Singapore through its subsidiary SBST, with 74% market share.
- Largest foreign taxi operator in China.
- Experienced team of Senior Managers with track-record of seeking out earnings accretive businesses overseas.
- Strong financial position: net-cash position; able to expand through inorganic growth

Weaknesses

- Land transport business subject to regulations.
- Inability to set train and bus fares in Singapore, as fares are controlled by the Regulator, thus putting a ceiling on the revenue.

Opportunities

- Population growth leading to the opening of new MRT stations and bus routes to new residential / commercial areas.
- Well-positioned in Australia and UK in Bus business, and strong contender if and when new routes are opened up.

Threats

- Loss of licence to operate any of its services.
- No revamp to Singapore Bus model by Regulator, resulting in continued loss-making core Bus business in Singapore.
- Heavy fines imposed by Regulator when there is service lapse in Rail business. (up to 10% of revenue)
- Foreign currency risks arising from extensive overseas operations.

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