

ComfortDelGro Corp Ltd

Bottom line growth maintained

SINGAPORE | TRANSPORT SERVICES | RESULTS

- S\$1.015bn 3Q FY16 revenue in line with our forecast of S\$1.043bn
- S\$87.3mn 3Q FY16 PATMI exceeded our forecast of S\$78.7mn by 10.9%
- S\$3.033bn 9M FY16 revenue met 73.7% of our FY16 forecast of S\$4.117bn
- S\$245.9mn 9M FY16 PATMI met 81.9% our FY16 forecast of S\$300.4mn
- Achieved bottom line growth in spite of currency headwinds

Results at a glance

(SGD mn)	3Q16	3Q15	yoy (%)	Comments
Revenue	1,015	1,048	↓(3.1)	Would have increased by S\$15.5, if not for unfavourable currency translation of \$47.9mn
EBIT	127.2	129.0	↓(1.4)	Actual S\$12.4mn increase in OpEx was fully offset by S\$43.0mn favourable currency translation, resulting in 3.3% yoy lower OpEx
PATMI	87.3	85.2	↑ 2.5	

Source: Company, Phillip Securities Research (Singapore)

Bus: SBS Transit (SBST) is stable; some upcoming contract renewals in UK

SBST's Bus segment's quarter-on-quarter (qoq) profit was 2% lower due to loss of the Bulim Package. Operating margin held steady between 2Q FY16 and 3Q FY16 at 4.6% and 4.5% respectively. We continue to expect profit to be maintained, as the Bus Contracting Model (BCM) has commenced from 1 September.

An effect of the transition to the government BCM was the increase in trade receivables during the quarter, due to timing difference of fee payments. There was also a timing difference of fee payments in UK as well. Going forward, we are expecting 20 days in receivables instead of the 5-year historical average of 12 days.

Management shared that there will be some contracts up for renewal in the UK. While rates are expected to be lower, it will be offset by higher service frequency, thereby keeping revenue comparable.

Taxi: Some heat being taken off

There was no erosion in the Singapore taxi hire-out rate, with it remaining at 99%. The ongoing replacement of the Sonata fleet to i40 is expected to lift revenue through the higher rental of new taxis. Timing of fleet renewal and fleet expansion will be guided by Certificate of Entitlement (COE) prices and competition from private car hire services.

Management shared that the operating landscape in China is shaping better, as authorities in major cities are tightening rules for private car hire services and favouring incumbent taxi operators.

Rail: 4.2% fare reduction – so what? Do not miss the forest for the trees

Average daily ridership on Downtown Line (DTL) grew 199% yoy and 10% qoq to 234,000 passenger trips, with the commencement of DTL2 in December 2015. While DTL is still unprofitable, we are upbeat on the Rail segment as it has a visible pathway to revenue growth that will lead to profitability. DTL3 is scheduled to open in 2017 and the Land Transport Authority (LTA) projects daily ridership of 500,000 – more than double of current ridership – when the full DTL is operational. We are not unduly concerned over revenue loss from the recent 4.2% fare reduction announced, on account that ridership growth from the opening of DTL3 will outstrip it. Moreover, the fare reduction is in line with lower energy costs.

Upgraded to "Buy" with new lower target price of S\$2.92 (previous S\$3.19)

We have made revisions to several of our forecasts. New lower target price was effected by changes in revenue, cost structure and cash flow assumptions. Our target price represents an implied 19.7x FY16e forward P/E multiple (historical average: 20.6x).

14 November 2016

Buy (Upgraded)

LAST CLOSE PRICE	SGD 2.46
FORECAST DIV	SGD 0.095
TARGET PRICE	SGD 2.92
TOTAL RETURN	22.6%

COMPANY DATA

O/S SHARES (MN) :	2,157
MARKET CAP (USD mn / SGD mn) :	3758 / 5305
52- WK HI/LO (SGD) :	3.14 / 2.41
3M Average Daily T/O (mn) :	8.21

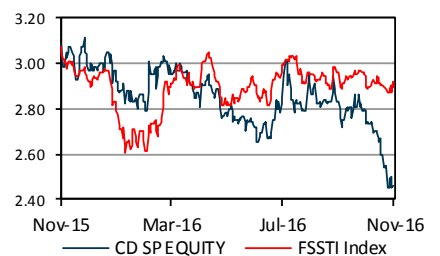
MAJOR SHAREHOLDERS (%)

BLACKROCK	6.0%
CAPITAL GROUP COMPANIES INC	4.8%
T ROWE PRICE INTERNATIONAL INC	1.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(12.1)	(15.4)	(17.5)
STI RETURN	(12)	(0.7)	(18)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 14	FY 15	FY 16e	FY 17e
Revenue (SGD mn)	4,051	4,112	4,051	4,065
NPAT, adj (SGD mn)	284	302	319	327
EPS, adj. (cents)	13.3	14.1	14.9	15.2
P/E, adj. (x)	20.0	20.7	16.6	16.2
BVPS (cents)	132.7	140.1	147.5	155.2
P/B (x)	2.0	2.1	1.7	1.6
DPS (cents)	8.25	9.00	9.50	9.75
Div. Yield (%)	3.1	3.1	3.9	4.0

Source: Company Data, PSR est.

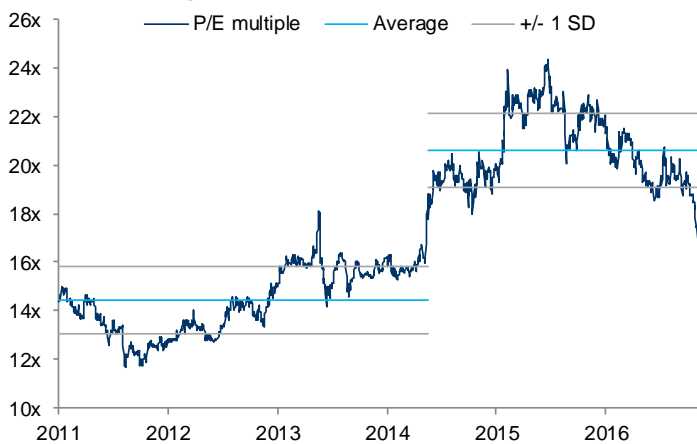
VALUATION METHOD

DCF (WACC: 7.5%; Terminal g: 10%)

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Historical P/E multiple



Source: Bloomberg, Phillip Securities Research (Singapore)

ComfortDelGro had re-rated after the government BCM was announced on 21 May 2014. The re-rating was due to the positive structural change in which the license to operate bus services in Singapore will be awarded; and the revenue risk would be taken on by the government. Average P/E multiple after the announcement is 20.6x. The current P/E multiple of 16.9x is lower than the -2 standard deviation multiple of 17.5x.

Results at a glance

(SGD mn)	3Q16	3Q15	yoy (%)	Comments
Bus	505.8	545.5	↓(7.3)	Loss of Bulim Package, loss of work for National Day Parade, weaker GBP
Bus Station	7.5	8.0	↓(6.3)	Weaker RMB
Rail	69.1	54.7	↑26.3	Higher ridership from DTL2, offset by lower average fares
Taxi	335.9	335.2	↑0.2	Actual increase of \$9.0mn partially eroded by unfavourable currency translation of \$8.3mn from weaker GBP and RMB
Automotive Engineering Services	51.9	59.1	↓(12.2)	Lower diesel selling prices and lower volume sold to taxi hirers
Inspection & Testing Services	26.0	25.6	↑1.6	Higher business volumes
Car Rental & Leasing	9.3	9.9	↓(6.1)	Weak corporate demand in SG and China
Driving Centre	9.9	9.8	↑1.0	Higher enrolment in SG
Revenue	1,015	1,048	↓(3.1)	Would have increased by S\$15.5, if not for unfavourable currency translation of \$47.9mn
EBIT	127.2	129.0	↓(1.4)	Actual S\$12.4mn increase in OpEx was fully offset by S\$43.0mn favourable currency translation, resulting in 3.3% yoy lower OpEx
PATMI	87.3	85.2	↑2.5	

Source: Company, Phillip Securities Research (Singapore)

Financials

Income Statement

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Revenue	3,748	4,051	4,112	4,051	4,065
EBITDA	764	796	840	873	894
Depreciation & Amortisation	(337)	(354)	(389)	(397)	(390)
EBIT	426	442	451	476	504
Net Finance (Expense)/Inc	(16)	(10)	(3)	(4)	3
Other items	-	-	-	-	-
Associates & JVs	4	4	5	6	8
Exceptional items	-	-	-	-	-
Profit Before Tax	414	436	452	479	514
Taxation	(87)	(92)	(88)	(93)	(100)
Profit After Tax	327	344	364	385	414
- Non-controlling interest	64	61	62	66	87
PATMI, reported	263	284	302	319	327
PATMI, adj.	263	284	302	319	327

Per share data (Cents)

Y/E Dec	FY13	FY14	FY15	FY16e	FY17e
EPS, reported	12.43	13.29	14.07	14.86	15.20
EPS, adj.	12.43	13.29	14.01	14.86	15.20
DPS	7.00	8.25	9.00	9.50	9.75
BVPS	131.5	132.7	140.1	147.5	155.2

Cash Flow

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
PBT	414	436	452	479	514
Adjustments	356	262	253	395	380
WC changes	6	24	(23)	(106)	1
Cash generated from ops	776	722	682	767	895
Others	(78)	(83)	(82)	(93)	(101)
Cashflow from ops	698	639	600	674	794
CFI					
CAPEX, net	(415)	(471)	(388)	(342)	(296)
Divd from associates & JVs	2	3	3	4	5
Others	(119)	(16)	13	10	7
Cashflow from investments	(532)	(485)	(372)	(329)	(284)
CFF					
Share issuance, net	35	23	18	-	-
Loans, net of repayments	120	(62)	(190)	(250)	(150)
Dividends	(166)	(198)	(214)	(226)	(249)
Others	(27)	74	117	(16)	(8)
Cashflow from financing	(38)	(163)	(269)	(493)	(407)
Net change in cash	128	(8)	(41)	(148)	103
Effects of exchange rates	8	3	3	-	-
CCE, end	831	826	788	640	743

Source: Company Data, PSR est.

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

Balance Sheet

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
ASSETS					
PPE	2,777	2,895	2,909	2,858	2,768
Intangibles	687	686	673	672	670
Receivables	302	307	268	268	268
Associates & JVs	6	8	10	13	16
Investments	64	74	52	52	52
Others	8	22	25	25	25
Total non-current assets	3,845	3,991	3,937	3,887	3,799
Inventories	71	72	75	72	72
Accounts Receivables	111	117	139	223	224
Prepayments	192	197	277	265	266
Investments	5	-	-	-	-
Cash	831	826	788	640	743
Others	30	27	1	1	1
Total current assets	1,240	1,239	1,280	1,201	1,305
Total Assets	5,085	5,231	5,216	5,088	5,104

LIABILITIES

Short term loans	218	243	126	26	26
Accounts Payables	665	837	833	796	799
Others	179	178	177	176	176
Total current liabilities	1,063	1,258	1,137	999	1,001
Long term loans	590	494	432	282	132
Others	638	640	635	635	635
Total non-current liabilities	1,228	1,134	1,067	917	767
Total Liabilities	2,290	2,392	2,204	1,916	1,768

EQUITY

Non-controlling interest	640	649	678	711	753
Shareholder Equity	2,155	2,190	2,335	2,461	2,584

Valuation Ratios

Y/E Dec	FY13	FY14	FY15	FY16e	FY17e
P/E (X), adj.	15.9	20.0	20.7	16.6	16.2
P/B (X)	1.5	2.0	2.1	1.7	1.6
EV/EBITDA (X), adj.	5.5	7.0	7.1	5.7	5.3
Dividend Yield (%)	3.6%	3.1%	3.1%	3.9%	4.0%

Growth & Margins (%)

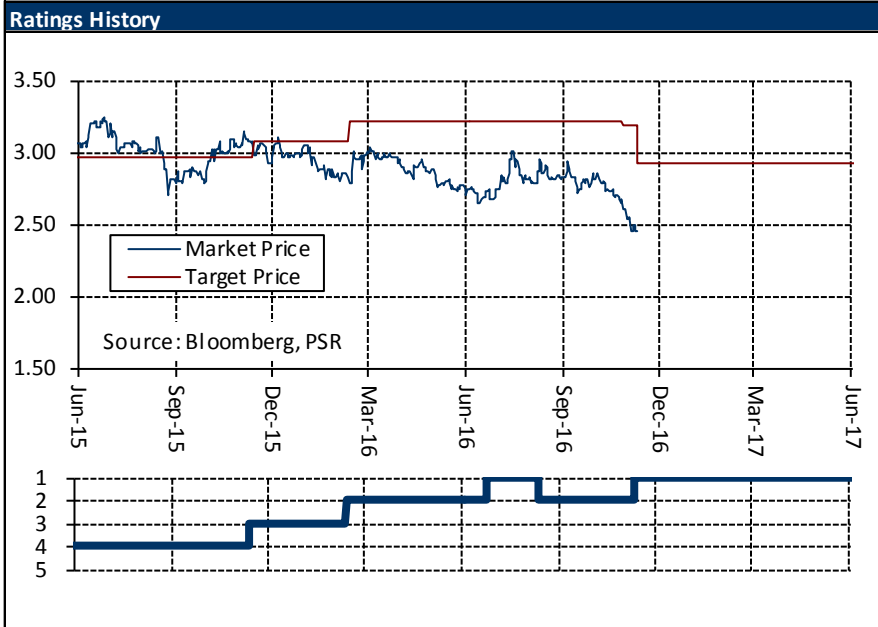
Growth					
Revenue	5.7%	8.1%	1.5%	-1.5%	0.3%
EBITDA	3.9%	4.2%	5.6%	4.0%	2.3%
EBIT	3.4%	3.7%	1.9%	5.7%	5.7%
Net Income, adj.	5.7%	7.7%	6.5%	5.8%	2.3%

Margins

EBITDA margin	20.4%	19.6%	20.4%	21.6%	22.0%
EBIT margin	11.4%	10.9%	11.0%	11.8%	12.4%
PBT margin	11.1%	10.8%	11.0%	11.8%	12.6%
Net Profit Margin	7.0%	7.0%	7.3%	7.9%	8.0%

Key Ratios

ROE (%)	12.6%	13.1%	13.3%	13.3%	13.0%
ROA (%)	5.3%	5.5%	5.8%	6.2%	6.4%
Net Debt or (Net Cash)	(23)	(89)	(229)	(332)	(584)
Net Gearing (X)	Net Cash	Net Cash	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

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