

# ComfortDelGro Corp Ltd

Taxi in decline, Public Transport Services to mitigate

## SINGAPORE | TRANSPORT SERVICES | RESULTS

13 February 2017

- FY16 S\$4.060bn revenue in line with consensus expectation of S\$4.129bn; and in line with our forecast of S\$4.051bn
- FY16 S\$317.1mn PATMI in line with consensus expectation of S\$324.2mn; and in line with our forecast of S\$319.4mn
- Final dividend of 6.05 cents proposed, higher than last year's 5.0 cents
- Full year dividend of 10.3 cents (70.1% payout) higher than FY15: 9.0 cents (64.1% payout)

The year ended with 5.0% bottom line growth for ComfortDelGro Corp, in spite of revenue headwinds. In this reporting season, SBS Transit changed its reporting disclosure, lumping both the domestic Bus and Rail segments together under "Public Transport Services". In line with its 75%-owned subsidiary, ComfortDelGro Corp had also lumped its *global* Bus business together with domestic Rail business under the same segment of "Public Transport Services". While the Taxi business faces pressure, there are still positives to look forward to: the transfer from the fare revenue model to the government Bus Contracting Model, and the opening of Downtown Line Stage 3 (DTL3) by the end of the year.

### Results at a glance

(SGD mn)	FY16	FY15	yoy (%)	Comments
Revenue	4,060	4,112	↓(1.3)	Actual increase of \$72.4mn eroded by unfavourable foreign currency translation of \$124.4mn
EBIT	462.2	450.7	↑ 2.6	S\$48.4mn increase in OpEx fully offset by favourable foreign currency translation of S\$111.9mn; Actual EBIT increased by 5.3% in local currency terms
PATMI	317.1	301.9	↑ 5.0	Higher EBIT and lower financing cost, resulted in better net margin of 7.8% from 7.3%

Source: Company, Phillip Securities Research (Singapore)

### Bus: Benefitting from the government BCM

FY17 will be an even better year for the Singapore Bus business, as it will have a full year contribution under the government Bus Contracting Model (BCM), compared to only four months in 2016. Higher revenue for Australia Bus segment is expected in FY17, as more services are being put up by the government. Management is expecting lower revenue for the UK Bus segment, due to continued foreign exchange weakness of GBP and a cutback in services.

### Taxi: Singapore business to continue facing pressure from Rail and private-hire cars

Overall Taxi revenue for the group is expected to be lower in FY17, mainly due to foreign exchange effects. In Singapore, the average FY16 idle rate was 1.4%, suggesting that the idle rate in 4Q FY16 was higher than the first 9M's 1%. Diesel volume sold to the taxi hirers in FY16 was c.10% lower than in FY15. This was mainly due to the more fuel efficient i40 taxis in the fleet, but also partially due to fewer number of trips done. Clearly, the Singapore Taxi business has been affected by private-hire cars. Regulations to level the playing field between private-hire cars will take effect by the middle of this year, and will likely have a positive effect on the Taxi business. Management outlined a strategy to slow down fleet renewal and to extend the lifespan of the taxis to eight years, to keep the rental low and retain hirers. We believe that the Singapore Taxi business will continue to come under pressure as the Public Transport network improves. In particular, the expanding Rail network is in direct competition with taxis for passengers.

## Accumulate (Downgraded)

LAST CLOSE PRICE	SGD 2.51
FORECAST DIV	SGD 0.043
TARGET PRICE	SGD 2.94
TOTAL RETURN	18.8%

### COMPANY DATA

O/S SHARES (MN) :	2,157
MARKET CAP (USD mn / SGD mn) :	3811/ 544
52 - WK HI/LO (SGD) :	3.05 / 2.37
3M Average Daily T/O (mn) :	8.28

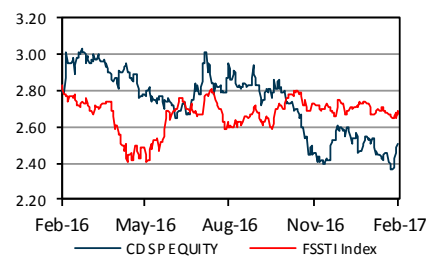
### MAJOR SHAREHOLDERS (%)

BLACKROCK	6.0%
CAPITAL GROUP COMPANIES INC	4.8%
SCHRODERS PLC	2.9%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(12)	2.0	(8.3)
STI RETURN	3.3	10.0	24.9

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Revenue (SGD mn)	4,112	4,060	4,068	4,070
NPAT, adj (SGD mn)	302	317	320	324
EPS, adj. (cents)	14.1	14.7	14.9	15.0
P/E, adj. (x)	20.6	19.7	16.9	16.7
BVPS (cents)	140.1	148.0	153.9	159.8
P/B (x)	2.1	2.0	1.6	1.6
DPS (cents)	9.00	10.30	10.40	10.50
Div. Yield (%)	3.1	3.6	4.1	4.2

Source: Company Data, PSR est.

### VALUATION METHOD

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

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### Rail: DTL still a drag, but will be the next source of earnings growth once normalised

Cost build-up for Downtown Line Stage 3 (DTL3) should be tapering off as most of the start-up hiring and costs have been incurred. While DTL is still unprofitable, a turnaround is in sight with the scheduled opening of DTL3 by end-2017. The Land Transport Authority (LTA) projects daily ridership of 500,000 for DTL – more than double of FY16 average ridership of 220,000 – when the full DTL is operational. Potential catalyst for the Rail segment could come from winning the tender to operate the Thomson-East Coast Line (TEL). LTA should be calling for tender by the end of 1QFY17, with the outcome to be known by the end of the year.

### Downgrade to "Accumulate" with higher target price of S\$2.94 (Previous: S\$2.92)

Our target price represents an implied 19.8x FY17e forward P/E multiple (historical average: 20.2x).

#### Results at a glance

(SGD mn)	FY16	FY15	yoy (%)	Comments
Public Transport Services	2307.3	2332.5	↓(1.1)	Actual increase of \$75.4mn completely eroded by unfavourable foreign currency translation of S\$100.8mn from weaker GBP and AUD
Taxi	1340.8	1326.8	↑ 1.1	Actual increase of \$35.2mn partially eroded by unfavourable foreign currency translation of S\$21.2mn from weaker GBP, RMB, AUD and VND
Bus Station	26.9	29.0	↓(7.2)	Lower passenger volumes due to competition from expanding rail network
Automotive Engineering Services	204.8	238.5	↓(14.1)	Lower selling prices and volume of diesel sold
Inspection & Testing Services	103.7	107.5	↓(3.5)	
Car Rental & Leasing	36.3	38.3	↓(5.2)	
Driving Centre	39.7	38.9	↑ 2.1	
<b>Revenue</b>	<b>4,060</b>	<b>4,112</b>	<b>↓(1.3)</b>	<b>Actual increase of \$72.4mn eroded by unfavourable foreign currency translation of \$124.4mn</b>
EBIT	462.2	450.7	↑ 2.6	S\$48.4mn increase in OpEx fully offset by favourable foreign currency translation of S\$111.9mn; Actual EBIT increased by 5.3% in local currency terms
<b>PATMI</b>	<b>317.1</b>	<b>301.9</b>	<b>↑ 5.0</b>	<b>Higher EBIT and lower financing cost, resulted in better net margin of 7.8% from 7.3%</b>

Source: Company, Phillip Securities Research (Singapore)

## Financials

### Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	4,051	4,112	4,060	4,068	4,070
EBITDA	796	840	858	865	861
Depreciation & Amortisation	(354)	(389)	(396)	(404)	(402)
EBIT	442	451	462	461	459
Net Finance (Expense)/Inc	(10)	(3)	(1)	2	8
Other items	-	-	-	-	-
Associates & JVs	4	5	5	5	6
Exceptional items	-	-	-	-	-
Profit Before Tax	436	452	467	468	473
Taxation	(92)	(88)	(88)	(88)	(89)
Profit After Tax	344	364	378	379	383
- Non-controlling interest	61	62	61	59	60
PATMI, reported	284	302	317	320	324
PATMI, adj.	284	302	317	320	324

### Per share data (Cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	13.29	14.07	14.72	14.86	15.01
EPS, adj.	13.29	14.07	14.72	14.86	15.01
DPS	8.25	9.00	10.30	10.40	10.50
BVPS	132.7	140.1	148.0	153.9	159.8

### Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	436	452	467	468	473
Adjustments	262	253	291	397	388
WC changes	24	(23)	9	1	0
Cash generated from ops	722	682	766	865	861
Others	(83)	(82)	(63)	(88)	(89)
Cashflow from ops	639	600	703	777	772
CFI					
CAPEX, net	(471)	(388)	(388)	(386)	(386)
Divd from associates & JVs	3	3	3	4	4
Others	(16)	13	14	11	12
Cashflow from investments	(485)	(372)	(371)	(371)	(370)
CFF					
Share issuance, net	23	18	13	-	-
Loans, net of repayments	(62)	(190)	(209)	(169)	(80)
Dividends	(198)	(214)	(230)	(253)	(255)
Others	74	117	106	(11)	(6)
Cashflow from financing	(163)	(269)	(321)	(433)	(340)
Net change in cash	(8)	(41)	10	(27)	61
Effects of exchange rates	3	3	(19)	-	-
CCE, end	826	788	779	753	814

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	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
PPE	2,895	2,909	2,887	2,869	2,853
Intangibles	686	673	645	648	649
Receivables	307	268	241	241	241
Associates & JVs	8	10	11	13	15
Investments	74	52	63	63	63
Others	22	25	24	24	24
<b>Total non-current assets</b>	<b>3,991</b>	<b>3,937</b>	<b>3,871</b>	<b>3,856</b>	<b>3,844</b>
Inventories	72	75	82	82	82
Accounts Receivables	117	139	237	238	238
Prepayments	197	277	153	153	153
Investments	-	-	-	-	-
Cash	826	788	779	753	814
Others	27	1	-	-	-
<b>Total current assets</b>	<b>1,239</b>	<b>1,280</b>	<b>1,251</b>	<b>1,225</b>	<b>1,287</b>
<b>Total Assets</b>	<b>5,231</b>	<b>5,216</b>	<b>5,122</b>	<b>5,081</b>	<b>5,130</b>

### LIABILITIES

Short term loans	243	126	169	80	80
Accounts Payables	837	833	771	773	773
Others	178	177	171	171	171
<b>Total current liabilities</b>	<b>1,258</b>	<b>1,137</b>	<b>1,112</b>	<b>1,024</b>	<b>1,025</b>
Long term loans	494	432	176	96	16
Others	640	635	643	643	643
<b>Total non-current liabilities</b>	<b>1,134</b>	<b>1,067</b>	<b>818</b>	<b>738</b>	<b>658</b>
<b>Total Liabilities</b>	<b>2,392</b>	<b>2,204</b>	<b>1,930</b>	<b>1,763</b>	<b>1,683</b>

### EQUITY

Non-controlling interest	649	678	717	745	774
<b>Shareholder Equity</b>	<b>2,190</b>	<b>2,335</b>	<b>2,476</b>	<b>2,574</b>	<b>2,673</b>

### Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	20.0	20.6	19.7	16.9	16.7
P/B (X)	2.0	2.1	2.0	1.6	1.6
EV/EBITDA (X), adj.	7.0	7.1	6.8	5.6	5.5
Dividend Yield (%)	3.1%	3.1%	3.6%	4.1%	4.2%

### Growth & Margins (%)

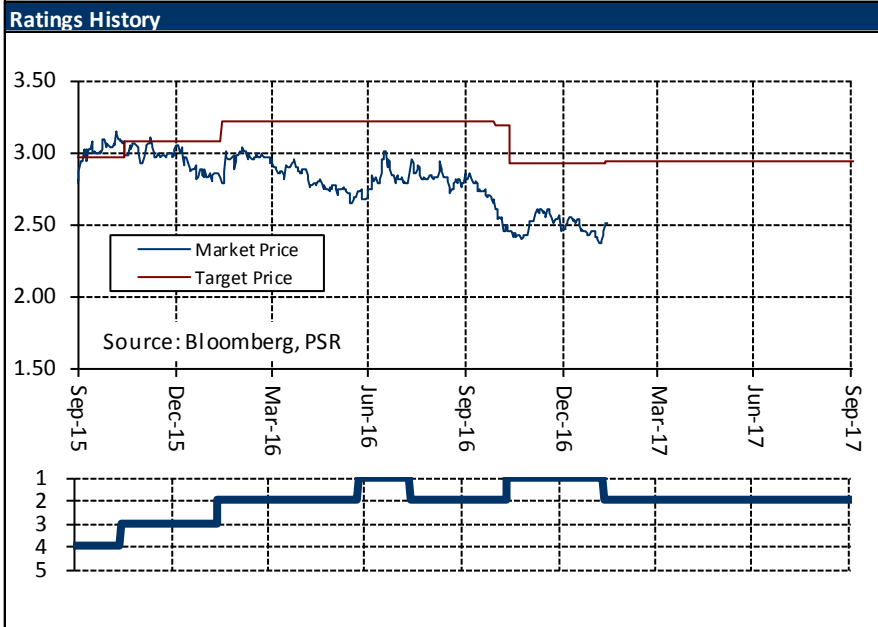
<b>Growth</b>					
Revenue	8.1%	1.5%	-1.3%	0.2%	0.0%
EBITDA	4.2%	5.6%	2.2%	0.8%	-0.5%
EBIT	3.7%	1.9%	2.6%	-0.4%	-0.3%
Net Income, adj.	7.7%	6.5%	5.0%	1.1%	1.0%

### Margins

EBITDA margin	19.6%	20.4%	21.1%	21.3%	21.2%
EBIT margin	10.9%	11.0%	11.4%	11.3%	11.3%
PBT margin	10.8%	11.0%	11.5%	11.5%	11.6%
Net Profit Margin	7.0%	7.3%	7.8%	7.9%	8.0%

### Key Ratios

ROE (%)	13.1%	13.3%	13.2%	12.7%	12.3%
ROA (%)	5.5%	5.8%	6.1%	6.3%	6.3%
Net Debt or (Net Cash)	(89)	(229)	(434)	(576)	(718)
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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