

ComfortDelGro Corp Ltd

Acquisition spree to bear fruit in 2H 2018



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SINGAPORE | TRANSPORT SERVICES | 1Q18 RESULTS

14 May 2018

- Revenue was 15% lower than our forecast, as the adoption of SFRS(I) 15 resulted in a change in how revenue and expenses is reported
- Key changes to reporting revenue and expenses are contract services (relates to cashless payments) and taxi drivers' benefits
- Our revenue forecast would have been an estimated 5% higher than actual, had our forecast was in accordance with SFRS(I) 15
- PATMI was 22% lower than our forecast, due to a combined effect of our aggressive revenue forecast and higher than expected opex
- Excluding one-off special dividend in 1Q17, recurring PATMI is -8.6% YoY lower
- Some positive one-offs for Bus during the quarter and Taxi outlook has improved
- Downgrade to Accumulate on the back of recent positive share price movement; lower target price of \$2.48 (previously \$2.50)

Results at a glance

(SGD mn)	1Q18	1Q17	YoY	Comments
Revenue	879	870	1.0%	Actual underlying increase by S\$3.8mn was further aided by favourable currency translation of \$5.2mn mainly from stronger GBP
EBIT	96	101	-4.8%	1.8% higher opex. Actual \$8.7mn increase compounded by \$5.1mn unfavourable currency translation mainly from stronger GBP
PATMI	66.3	82.5	-19.6%	1Q17 includes \$10mn special dividend from Cabcharge Australia; underlying PATMI -8.6% lower

Source: Company, PSR

The Positives

- + **SBST's 64% YoY higher NPAT exceeded our expectation due to Bus.** Higher Bus contribution was due to quality incentives for 2017 and 2018 under the government bus contracting model and "operating shuttle services for early closure and late opening of the East-West MRT Line".
- + **DTL loss narrowed QoQ off its high in 4Q17.** Quarterly loss for Downtown Line (DTL) peaked at \$(15.6)mn in 4Q17 and has narrowed to \$(9.1)mn (Figure 1 overleaf). We had stated in our previous results [report](#) (Feb. 14) to expect the loss to narrow going forward, on the basis that the full DTL is now operating and no longer incurring start-up costs. 1Q18 DTL average daily ridership has grown 76% YoY and 16% QoQ to 431k.

The Negatives

- **Comfort & CityCab taxi fleet contracted 21% YoY, contributing to 15% YoY lower Group Taxi revenue.** Comfort & CityCab fleet contracted 4% QoQ to 12,687 and the idle rate for the quarter was just under 3%. Single-digit idle rate has been maintained by fleet size rationalisation.

Outlook

The outlook is mainly positive. Recent consolidation of the private-hire car industry has resulted in pricing rationalisation, in turn resulting in some flow of drivers back to Taxi. The purchase of 200 new taxis signals the worst could be over, which we discussed in our recent Land Transport sector [report](#) (May 9). For the Public Transport Services segment, the narrowing of DTL losses to continue and contribution from the Seletar bus package will contribute positively in 2018. Recent acquisitions announced are expected to be completed by 2Q18 and contribute positively from 3Q18. Negative impact from the transition of North East Line (NEL) and Sengkang LRT and Punggol LRT (SPLRT) to the new rail financing framework (NRFF) since April 1, its margin will be capped at ~5% from previous estimated mid- to high-teens.

Accumulate (Downgrade)

LAST CLOSE PRICE	SGD 2.33
FORECAST DIV	SGD 0.104
TARGET PRICE	SGD 2.48
TOTAL RETURN	10.9%

COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN) :	2,164
MARKET CAP (USD mn / SGD mn) :	3782 / 5042
52 - WK HI/LO (SGD) :	2.67 / 1.89
3M Average Daily T/O (mn) :	8.20

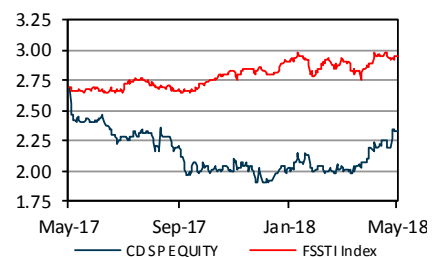
MAJOR SHAREHOLDERS (%)

BLACKROCK	6.0%
SCHRODERS PLC	5.0%
VANGUARD GROUP INC	2.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	14.0	19.7	(10.2)
STIRETURN	3.7	7.0	12.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (SGD mn)	4,060	3,971	4,073	4,093
PATMI, adj (SGD mn)	317	290	297	320
EPS, adj. (cents)	14.7	13.9	13.7	14.8
P/E, adj. (x)	19.7	14.7	17.0	15.8
BVPS (cents)	148	140	144	149
P/B (x)	2.0	1.5	1.6	1.6
DPS (cents)	10.30	10.40	10.40	10.60
Div. Yield (%)	3.6	5.1	4.5	4.5

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 8.4%; Terminal g: 10%)

Richard Leow, CFA, CFTe, FRM (+65 6212 1848)

Investment Analyst

richardleowwt@phillip.com.sg

Opportunity: Transport Minister in a recent [speech](#) suggested shortened train service hours in order to complete the five year power supply renewal project earlier. SBS Transit could be a beneficiary by providing the bridging bus services.

Downgrade to Accumulate; lower target price of \$2.48 (previously \$2.50)

We have re-modelled our revenue and cost assumptions, due to adoption of SFRS(I) 15. Our FY18e/FY19e PATMI is now -3.8%/-3.1% from previous estimates. (Change in revenue from previous assumption is not comparable due to different accounting standards applied.) Our new target price gives an implied FY18e forward P/E multiple of 17.8 times. The 4.5% dividend yield is sustainable and attractive.

90% of revenue came from the Public Transport Services (Bus & Rail) and Taxi segments

Revenue by Business Segments

(SGD mn)	1Q18	1Q17	YoY	Comments
Public Transport Services	611	561	8.9%	Actual increase of \$45.7mn aided by \$4.0mn favourable currency translation from stronger GBP offset by weaker AUD
Taxi	181	212	-14.8%	Increased competition, reduction in fleet. Actual decrease of S\$32.6mn partially offset by \$1.1mn favourable currency translation from stronger GBP and RMB offset by weaker AUD
Bus Station	6.9	7.5	-8.0%	
Automotive Engineering Services	38.6	45.0	-14.2%	Reduction in repairs and maintenance of taxis and lower volume of diesel sold due to smaller taxi fleet
Inspection & Testing Services	24.6	24.8	-0.8%	
Car Rental & Leasing	6.7	8.7	-23.0%	
Driving Centre	10.2	10.2	0.0%	

Source: Company, PSR

Key Takeaways

Management shared some insights to some of the ongoing issues.

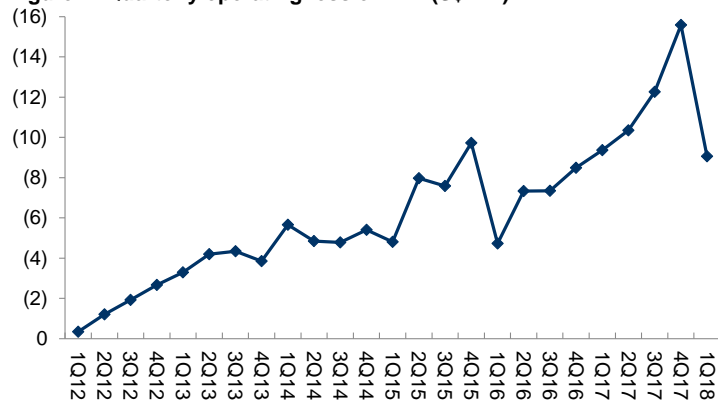
Strategy for private hire

- Lion City Rentals (LCR) deal still in negotiations, and there is uncertainty if it will proceed due to Uber's exit from Singapore
- Retail and larger shareholders gave feedback at recent AGM of not liking the LCR deal
- Management still wants to get into the private-hire space as a provider of cars to drivers, and will not be involved in the operations of the ride-hailing platform

Robust M&A pipeline

- \$123mn spent on M&A year-to-date, compared to \$166mn in the preceding five years
- The Group has been on an acquisition trail and has been approached on many deals
- Management maintained that it will utilise capital prudently and apply the necessary due diligence for each deal

Figure 1: Quarterly operating loss of DTL (S\$ mn)



Source: PSR estimates

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	4,112	4,060	3,971	3,569	3,586
EBITDA	840	858	818	796	802
Depreciation & Amortisation	(389)	(396)	(409)	(381)	(370)
EBIT	451	462	409	415	433
Net Finance (Expense)/Inc	(3)	(1)	12	9	(0)
Associates & JVs	5	5	5	4	3
Profit Before Tax	452	467	425	429	435
Taxation	(88)	(88)	(77)	(79)	(81)
Profit After Tax	364	378	349	350	355
- Non-controlling interest	62	61	47	49	50
PATMI, reported	302	317	302	301	305
PATMI, adj.	302	317	290	301	305

* FY17 has not been restated for SFRS(I) 15.

Per share data (cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	14.1	14.7	14.0	13.9	14.1
EPS, adj.	14.1	14.7	13.9	13.9	14.1
DPS	9.0	10.3	10.4	10.4	10.3
BVPS	140	148	140	144	148

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	452	467	425	429	435
Adjustments	253	291	374	368	367
WC changes	(23)	9	(146)	(12)	1
Cash generated from ops	682	766	654	785	803
Others	(82)	(63)	(72)	(79)	(81)
Cashflow from ops	600	703	582	706	722
CFI					
CAPEX, net	(388)	(388)	(284)	(300)	(294)
Divd from associates & JVs	3	3	7	6	5
Others	13	14	23	19	10
Cashflow from investments	(372)	(371)	(254)	(275)	(279)
CFF					
Share issuance, net	18	13	12	-	-
Loans, net of repayments	(190)	(209)	(52)	-	-
Dividends	(214)	(230)	(283)	(262)	(266)
Others	117	106	(184)	(11)	(11)
Cashflow from financing	(269)	(321)	(507)	(272)	(277)
Net change in cash	(41)	10	(179)	158	166
Effects of exchange rates	3	(19)	(4)	-	-
CCE, end	788	779	596	755	921

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	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	2,909	2,887	2,723	2,642	2,566
Intangibles	673	645	640	641	641
Receivables	268	241	238	238	238
Associates & JVs	10	11	9	7	6
Investments	52	63	29	29	29
Others	25	24	23	23	23
Total non-current assets	3,937	3,871	3,662	3,579	3,502
Inventories	75	82	114	102	103
Accounts Receivables	139	237	251	225	226
Prepayments	277	153	195	175	176
Cash	788	779	596	755	921
Others	1	-	-	-	-
Total current assets	1,280	1,251	1,156	1,257	1,426
Total Assets	5,216	5,122	4,817	4,837	4,928

LIABILITIES

Short term loans	126	169	114	114	114
Accounts Payables	833	771	677	609	612
Others	177	171	154	154	154
Total current liabilities	1,137	1,112	945	876	879
Long term loans	432	176	208	208	208
Others	635	643	637	637	637
Total non-current liabilities	1,067	818	845	845	845
Total Liabilities	2,204	1,930	1,790	1,721	1,724

EQUITY

Non-controlling interest	678	717	420	432	441
Shareholder Equity	2,335	2,476	2,608	2,684	2,764

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	20.6	19.7	14.7	16.8	16.5
P/B (X)	2.1	2.0	1.5	1.6	1.6
EV/EBITDA (X), adj.	7.1	6.8	5.1	5.8	5.5
Dividend Yield (%)	3.1%	3.6%	5.1%	4.5%	4.4%

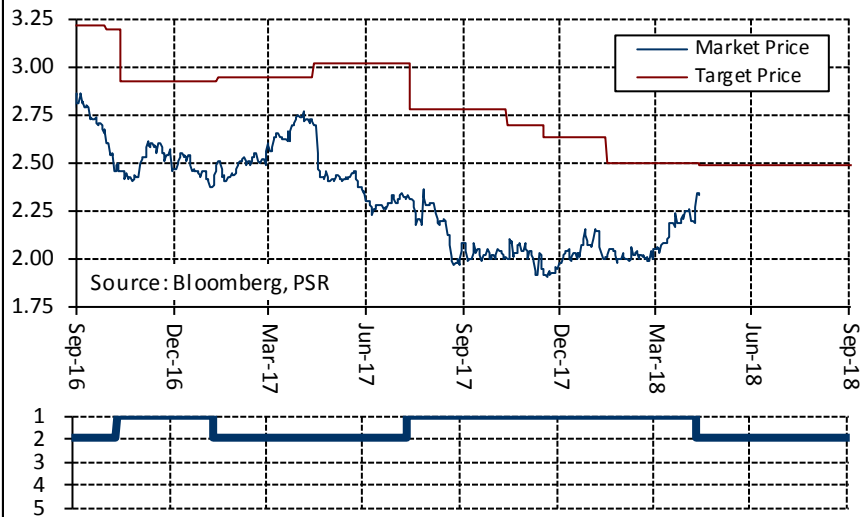
Growth & Margins (%)

Growth					
Revenue	1.5%	-1.3%	-2.2%	-10.1%	0.5%
EBITDA	5.6%	2.2%	-4.7%	-2.6%	0.7%
EBIT	1.9%	2.6%	-11.5%	1.5%	4.1%
Net Income, adj.	6.5%	5.0%	-8.4%	3.6%	1.4%
Margins					
EBITDA margin	20.4%	21.1%	20.6%	22.3%	22.4%
EBIT margin	11.0%	11.4%	10.3%	11.6%	12.1%
PBT margin	11.0%	11.5%	10.7%	12.0%	12.1%
Net Profit Margin	7.3%	7.8%	7.3%	8.4%	8.5%

Key Ratios

ROE (%)	13.3%	13.2%	11.4%	11.4%	11.2%
ROA (%)	5.8%	6.1%	5.8%	6.2%	6.2%
Net Debt or (Net Cash)	(229)	(434)	(274)	(432)	(599)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Ratings History



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

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Associate

Alvin Chia – alvinchiawy@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin – amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin – sohls@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Macro

Pei Sai Teng – peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow – richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan – tandh@phillip.com.sg

Technical Analysis

Jeremy Ng – jeremyngch@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Tara Wong – tarawongsj@phillip.com.sg

US Equity

Ho Kang Wei – hokw@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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