

ComfortDelGro Corp Ltd

Demand for Taxis is returning



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SINGAPORE | TRANSPORT SERVICES | UPDATE

8 June 2018

- The worst appears to be over for Taxi business, signalled by growth in bookings and capex for new hybrid taxis
- Termination of strategic agreement with Uber's LCR
- Outlook for Rail is positive, with narrowing of DTL losses driven by ridership growth
- Maintain Accumulate; higher target price of \$2.69 (previously \$2.48)

What is the news?

- ComfortDelGro Taxi [announced](#) an uptick in bookings made through its call centre and phone app for the first five months of 2018. Taxi bookings grew almost 9% YoY for the month of May – the biggest YoY jump since September 2014. The recent growth in bookings was attributed to the exit of Uber and ComfortDelGro promotions given to passengers. The 4M-YTD bookings growth was not disclosed.
- Soon after the purchase of 200 new hybrid Hyundai Ioniq taxis in early May, ComfortDelGro called for a tender to supply 500 more hybrid taxis. The tender has closed on May 31.
- ComfortDelGro [announced](#) the termination of its strategic agreement with Uber, following the exit of Uber from the region. ComfortDelGro will no longer be acquiring the 51% stake in Lion City Holdings Pte Ltd, which operates Lion City Rentals (LCR), as the basis for the partnership is no longer relevant. Nonetheless, ComfortDelGro still maintains its intention to have a stake in the private hire vehicle (PHV) space.

How do we view this?

The Positives

- + **Purchase of new taxis and bookings growth are signalling the worst is over.** The 200 taxis purchased was the first capex in 1.5 years for new taxis. The 700 taxis (200 already purchased and 500 from tender) represents an additional +5.5% growth to the Comfort and CityCab fleet of 12,687 taxis as at end-March.

The Negatives

- **ComfortDelGro's involvement in the PHV space would be asset-heavy, by owning the cars and leasing them out.** Nonetheless, an asset-heavy model would leverage on the Group's core competency of fleet management and also bring about larger operational scale for the Automotive Engineering Services business. We think it could be possible for ComfortDelGro to explore buying Uber's unhired cars that have been put up for sale in the used-car market recently, in anticipation of its rumoured partnership with Go-Jek.

Outlook

The outlook is positive and improving. We discuss in our Land Transport sector [report](#) (8 June) the **positive industry restructuring** (Uber's exit from the market) and **regulatory action coming into effect which levels the playing field** (deadline for attaining Private Hire Car Driver's Vocational Licence). The purchase of new taxis and bookings growth are signalling the worst is over.

At the same time, we are confident of the narrowing of Downtown Line (DTL) losses, as ridership ramps up (discussed overleaf). This should positively mitigate the impact from the transition of North East Line (NEL) and Sengkang LRT and Punggol LRT (SPLRT) to the new rail financing framework (NRFF), which has an EBIT margin cap of 5%.

Maintain Accumulate; higher target price of \$2.69 (previously \$2.48)

We have tweaked our assumptions for Taxi revenue and capex, as well as Rail ridership. Our FY18e/FY19e PATMI is now +2.3%/+5.3% from previous estimates. Our target price gives an implied FY18e forward P/E multiple of 18.9 times. The 10.4 cents full year dividend is sustainable, supported by positive free cash flow.

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 2.46
FORECAST DIV	SGD 0.104
TARGET PRICE	SGD 2.69
TOTAL RETURN	13.6%

COMPANY DATA

BLOOM BERG CODE:	CD SP
O/S SHARES (MN) :	2,164
MARKET CAP (USD mn / SGD mn) :	3999 / 5323
52 - WK HI/LO (SGD) :	2.51 / 1.89
3M Average Daily T/O (mn) :	9.39

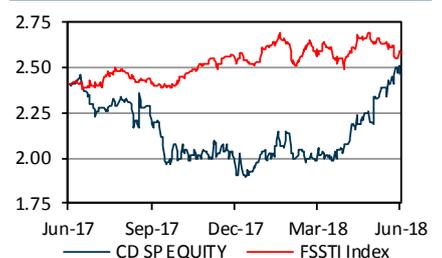
MAJOR SHAREHOLDERS (%)

BLACKROCK	6.0%
SCHRODERS PLC	5.0%
VANGUARD GROUP INC	2.5%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	12.3	27.5	7.4
STIRETURN	(17)	0.9	10.9

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	3,592	3,637
PATMI, adj (SGD mn)	317	290	308	321
EPS, adj. (cents)	14.7	13.9	14.2	14.9
P/E, adj. (x)	19.7	14.7	17.3	16.6
BVPS (cents)	148	140	144	149
P/B (x)	2.0	1.5	1.7	1.6
DPS (cents)	10.3	10.4	10.4	10.4
Div. Yield (%)	3.6	5.1	4.2	4.2

Source: Company Data, PSR est.

VALUATION METHOD

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

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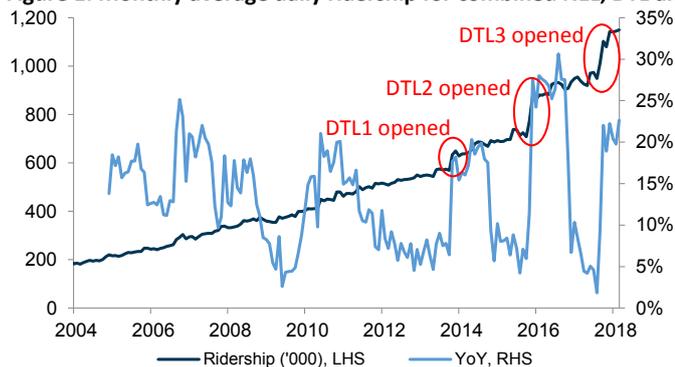
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Rail Outlook

- Past ridership growth for SBS Transit's Rail segment were attributable to DTL**
 Noticeable spikes in ridership were due to the commencement of service for DTL1, DTL2 and DTL3 in December 2013, December 2015 and October 2017 respectively.
- Opening of new lines has shown sustainable higher ridership, with propensity for ramp-up**
 Each spike in ridership has been sustainable, indicating an immediate change in travel pattern by commuters; as opposed to a novelty-effect of commuters experimenting on the new line. In addition, there has been a ramp-up in ridership, suggesting a gradual adoption as more commuters embrace the new transport infrastructure.
- Average daily ridership for SBS Transit's Rail segment to achieve 1.2 million by end-2018**
 DTL had 431k average daily ridership in 1Q 2018 and DTL is expected to achieve a stabilised average daily ridership of at least 500k by the end-2018. As such, we estimate that SBS Transit should achieve total average daily ridership (attributable to NEL, DTL and SPLRT) of 1.2 million by end-2018.

Figure 1: Monthly average daily ridership for combined NEL, DTL and SPLRT*, as at April 2018



Source: CEIC, SBS Transit, PSR

*NEL: North East Line, DTL: Downtown Line, SPLRT: Sengkang-Punggol LRT

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	4,112	4,060	3,971	3,592	3,637
EBITDA	840	858	818	811	840
Depreciation & Amortisation	(389)	(396)	(409)	(387)	(383)
EBIT	451	462	409	424	457
Net Finance (Expense)/Inc	(3)	(1)	12	9	(1)
Associates & JVs	5	5	5	4	3
Profit Before Tax	452	467	425	437	459
Taxation	(88)	(88)	(77)	(81)	(85)
Profit After Tax	364	378	349	356	374
- Non-controlling interest	62	61	47	48	52
PATMI, reported	302	317	302	308	321
PATMI, adj.	302	317	290	308	321

* 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	14.2	14.9
EPS, adj.	14.1	14.7	13.9	14.2	14.9
DPS	9.0	10.3	10.4	10.4	10.4
BVPS	140	148	140	144	149

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	452	467	425	437	459
Adjustments	253	291	374	373	381
WC changes	(23)	9	(146)	(10)	1
Cash generated from ops	682	766	654	800	841
Others	(82)	(63)	(72)	(81)	(85)
Cashflow from ops	600	703	582	719	756
CFI					
CAPEX, net	(388)	(388)	(284)	(360)	(293)
Divd from associates & JVs	3	3	7	6	5
Others	13	14	23	19	9
Cashflow from investments	(372)	(371)	(254)	(335)	(279)
CFF					
Share issuance, net	18	13	12	-	-
Loans, net of repayments	(190)	(209)	(52)	-	-
Dividends	(214)	(230)	(283)	(261)	(268)
Others	117	106	(184)	(11)	(11)
Cashflow from financing	(269)	(321)	(507)	(272)	(279)
Net change in cash	(41)	10	(179)	113	197
Effects of exchange rates	3	(19)	(4)	-	-
CCE, end	788	779	596	709	906

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	2,696	2,607
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	3,634	3,543
Inventories	75	82	114	119	120
Accounts Receivables	139	237	251	262	265
Prepayments	277	153	195	194	196
Cash	788	779	596	709	906
Others	1	-	-	-	-
Total current assets	1,280	1,251	1,156	1,284	1,488
Total Assets	5,216	5,122	4,817	4,917	5,032

LIABILITIES

Short term loans	126	169	114	114	114
Accounts Payables	833	771	677	682	691
Others	177	171	154	154	154
Total current liabilities	1,137	1,112	945	950	959
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	1,795	1,804

EQUITY

Non-controlling interest	678	717	420	432	441
Shareholder Equity	2,335	2,476	2,608	2,691	2,787

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	20.6	19.7	14.7	17.3	16.6
P/B (X)	2.1	2.0	1.5	1.7	1.6
EV/EBITDA (X), adj.	7.1	6.8	5.1	6.1	5.6
Dividend Yield (%)	3.1%	3.6%	5.1%	4.2%	4.2%

Growth & Margins (%)

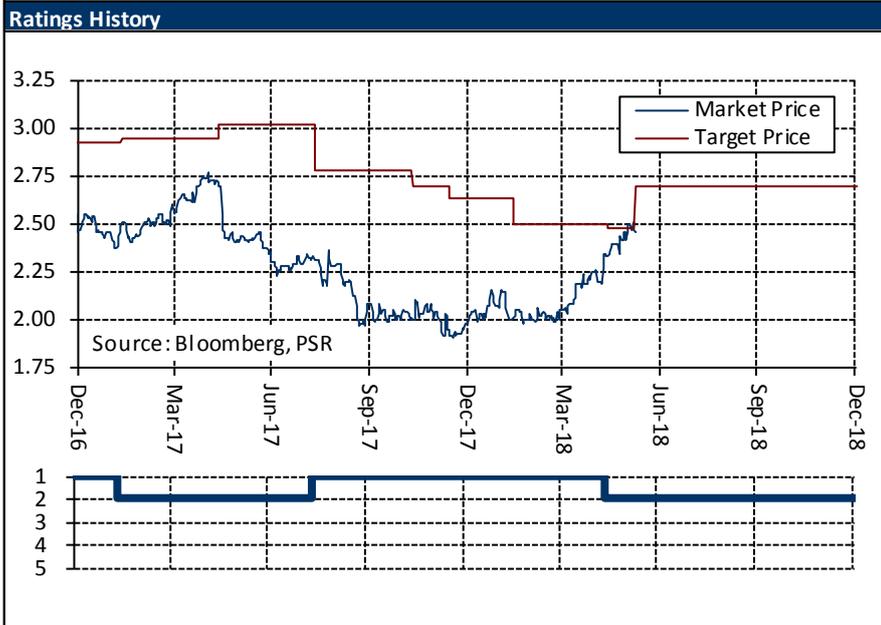
Growth					
Revenue	1.5%	-1.3%	-2.2%	-9.5%	1.3%
EBITDA	5.6%	2.2%	-4.7%	-0.9%	3.6%
EBIT	1.9%	2.6%	-11.5%	3.6%	7.8%
Net Income, adj.	6.5%	5.0%	-8.4%	6.0%	4.4%

Margins

EBITDA margin	20.4%	21.1%	20.6%	22.6%	23.1%
EBIT margin	11.0%	11.4%	10.3%	11.8%	12.6%
PBT margin	11.0%	11.5%	10.7%	12.2%	12.6%
Net Profit Margin	7.3%	7.8%	7.3%	8.6%	8.8%

Key Ratios

ROE (%)	13.3%	13.2%	11.4%	11.6%	11.7%
ROA (%)	5.8%	6.1%	5.8%	6.3%	6.5%
Net Debt or (Net Cash)	(229)	(434)	(274)	(387)	(584)
Net Gearing (X)	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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