

ComfortDelGro Corp Ltd

Big ticket acquisition and fund investment



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SINGAPORE | TRANSPORT SERVICES | 3Q18 RESULTS

- Revenue and PATMI were within our expectation
- Proposed acquisition of Buslink (Australia) and set up of corporate venture capital fund
- Upgrade to BUY; new target price of S\$2.69 (previously \$2.78) as we raise our assumptions for staff, repair and maintenance costs

Results at a glance

(SGD mn)	3Q18	3Q17	YoY	Comments
Revenue	968	892	+8.5%	Higher Public Transport Services and new acquisitions. New acquisitions in PTS and Taxi contributed 45% of the increase
EBIT	113	112	+1.7%	9.5% higher opex outpaced revenue growth
NPAT	92.3	91.7	+0.7%	SBS Transit contribution to Group NPAT increased to 21% from 12%
PATMI	78.5	80.1	-2.0%	19% higher non-controlling interests; SBS Transit contribution to PATMI increased to 19% from 10%

Source: Company, PSR

The Positives

- Public Transport Services EBIT benefitted from 71% YoY higher SBS Transit EBIT.** This was from commencement of Seletar bus package in March 2018, operation of bridging shuttle services for early closure and late opening of the East-West MRT Line and higher ridership on Downtown Line (DTL) following the commencement of DTL3 in October 2018.
- Full 4.3% fare increase for Singapore is a welcome positive, but impact to the Group is limited.** Our model assumes 0% increase, and the 4.3% increase adds 1 cent to our target price. Impact is limited only to the Rail business segment of the Group. Fare revenue from Rail business segment contributed <7% to Group revenue for the quarter, by our estimate. Nonetheless, the fare increase would accelerate the turnaround for DTL, which is still loss-making.
- DTL loss has narrowed, in line with the 83% higher YoY ridership.** DTL loss for the quarter was ~\$8.6mn. That is 8% lower QoQ and 30% lower YoY. Current projection is for DTL turnaround in 2H 2019.

The Negatives

- Increase in opex outpaced the increase in revenue, resulting in YoY margin compression from 12.5% to 11.7%.** Pressure point came from +13% YoY higher staff costs (49% of opex), due to additional headcount for Seletar bus package. Margin compression was also due to only S\$2+mn contribution to EBIT from new acquisitions. Management attributed this to transitional effect of integration.
- Taxi 3Q profit 10% lower YoY.** This was mainly due to the 16.5% smaller Singapore (Comfort and CityCab) fleet. Consequently, the Singapore fleet idle rate remains low at ~2%. Nonetheless, overall Taxi profit has remained stable in all three quarters YTD, aided by acquisitions in UK (Dial-a-Cab) and Australia (Metro Taxis).
- Goodwill on balance sheet increased 31% YTD as a result of acquisitions.** Consequently, goodwill now accounts for 11.4% of total assets, compared to 10-year historical average of 5.5%. In our [previous report](#), we projected goodwill to reach 11.7% of total assets by the end of FY18. We now raise our estimate to 14% of total assets by the end of FY18, after factoring in the proposed acquisition of the Buslink Companies. We also expect the Group to move into a temporary net debt position, as cash is utilised for inorganic growth.

12 November 2018

BUY (Upgraded)

LAST CLOSE PRICE	SGD 2.18
FORECAST DIV	SGD 0.104
TARGET PRICE	SGD 2.69
TOTAL RETURN	28.2%

COMPANY DATA

BLOOM BERG CODE:	CD SP
O/S SHARES (MN):	2,165
MARKET CAP (USD mn / SGD mn):	3426 / 4720
52 - WK HI/LO (SGD):	2.51 / 1.89
3M Average Daily T/O (mn):	7.74

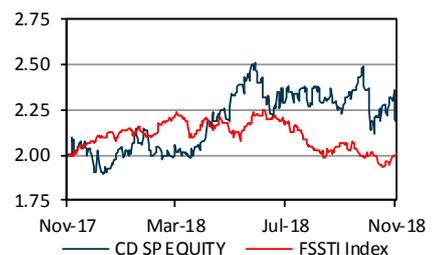
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(6.8)	(5.4)	15.2
STIRETURN	(2.7)	(6.2)	(6.2)

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	3,764	3,926
PATMI, adj (SGD mn)	317	290	303	311
EPS, adj. (cents)	14.7	13.4	14.0	14.4
P/E, adj. (x)	19.7	15.3	15.5	15.1
BVPS (cents)	148	140	144	149
P/B (x)	2.0	1.5	1.5	1.5
DPS (cents)	10.3	10.4	10.4	10.4
Div. Yield (%)	3.6	5.1	4.8	4.8

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 8.3%; Terminal g: 10%)

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Outlook

The outlook is positive. Our expectation in our previous report was for 2H18 to be stronger than 1H18 due to organic and inorganic growth. So far, YoY decline in PATMI has been narrowing and we expect YoY growth in 4Q18. 3Q18 PATMI (-2%YoY) is also comparatively better than 9M18 (-9.2%YoY). Recent and pipeline acquisitions to contribute positively to Group earnings.

Upgrade to BUY; new target price of \$2.69 (previously \$2.78)

Our lower target price is due to higher assumptions for staff, repair and maintenance costs. Our FY18e/FY19e revenue is +1%/+2% from previous estimate, and PATMI is -1%/-5% from previous estimate. Our target price gives an implied FY18e forward P/E multiple of 19.2 times. The 10.4 cents full year dividend is sustainable, supported by positive free cash flow.

Appendix

Acquisition of the Buslink Companies

- Acquiring Buslink Pty Ltd, Buslink Southern Pty Ltd and their corresponding depots at valuation of 7.9 times EBITDA
- Purchase consideration of A\$190.9 mn (S\$187.0mn), largest acquisition YTD
- The acquisition will allow ComfortDelGro to expand into two new states, viz. Northern Territory and Queensland, and further entrench itself in New South Wales and Victoria

Set up of US\$100 mn corporate venture capital fund

- The fund will be internally-managed as it is a wholly-owned subsidiary
- The fund will invest in start-up with a focus on mobility-related technologies
- No schedule was given on how the funds would be deployed, but Management commented that Group dividends should not be affected

Rail: Ridership growth and DTL breakeven schedule within our expectation

- **Rail ridership grew 26% YoY in 3Q18**
This was mainly due to the 83% YoY increase in average daily ridership on DTL to 472,000, following the commencement of DTL3 service in October 2017.
- **DTL loss continues to narrow**
DTL loss is 8% lower QoQ and 30% lower YoY.

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



Source: Company, PSR estimates

- **DTL breakeven expected in 2H 2019**
Management commented that breakeven for DTL would also require about 650,000 average daily ridership for breakeven in 2H 2019. We had previously estimated the breakeven to occur in 3Q19. As such, we expect DTL to remain loss-making in FY18 and FY19; and only turning a full year profit from FY20.

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	4,112	4,060	3,971	3,764	3,926
EBITDA	840	858	818	819	839
Depreciation & Amortisation	(389)	(396)	(409)	(387)	(396)
EBIT	451	462	409	433	442
Net Finance (Expense)/Inc	(3)	(1)	12	0	(1)
Associates & JVs	5	5	5	4	3
Profit Before Tax	452	467	425	437	445
Taxation	(88)	(88)	(77)	(82)	(83)
Profit After Tax	364	378	349	355	362
- Non-controlling interest	62	61	47	52	51
PATMI, reported	302	317	302	303	311
PATMI, adj.	302	317	290	303	311

* 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	14.0	14.4
EPS, adj.	14.1	14.7	13.4	14.0	14.4
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	445
Adjustments	253	291	374	382	394
WC changes	(23)	9	(146)	(5)	5
Cash generated from ops	682	766	654	815	844
Others	(82)	(63)	(72)	(82)	(83)
Cashflow from ops	600	703	582	733	761
CFI					
CAPEX, net	(388)	(388)	(284)	(360)	(321)
Divd from associates & JVs	3	3	7	6	5
Others	13	14	23	(394)	13
Cashflow from investments	(372)	(371)	(254)	(748)	(303)
CFF					
Share issuance, net	18	13	12	-	-
Loans, net of repayments	(190)	(209)	(52)	89	-
Dividends	(214)	(230)	(283)	(264)	(267)
Others	117	106	(184)	(12)	(14)
Cashflow from financing	(269)	(321)	(507)	(187)	(281)
Net change in cash	(41)	10	(179)	(202)	177
Effects of exchange rates	3	(19)	(4)	-	-
CCE, end	788	779	596	394	571

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	2,830	2,754
Intangibles	673	645	640	913	913
Receivables	268	241	238	238	238
Others	87	98	61	59	58
Total non-current assets	3,937	3,871	3,662	4,040	3,963
Inventories	75	82	114	124	130
Accounts Receivables	139	237	251	275	287
Prepayments	277	153	195	203	212
Cash	788	779	596	394	571
Others	1	-	-	-	-
Total current assets	1,280	1,251	1,156	996	1,199
Total Assets	5,216	5,122	4,817	5,036	5,162

LIABILITIES

Short term loans	126	169	114	203	203
Accounts Payables	833	771	677	715	746
Others	177	171	154	154	154
Total current liabilities	1,137	1,112	945	1,072	1,103
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	1,917	1,947

EQUITY

Non-controlling interest	678	717	420	433	441
Shareholder Equity	2,335	2,476	2,608	2,686	2,773

Valuation Ratios

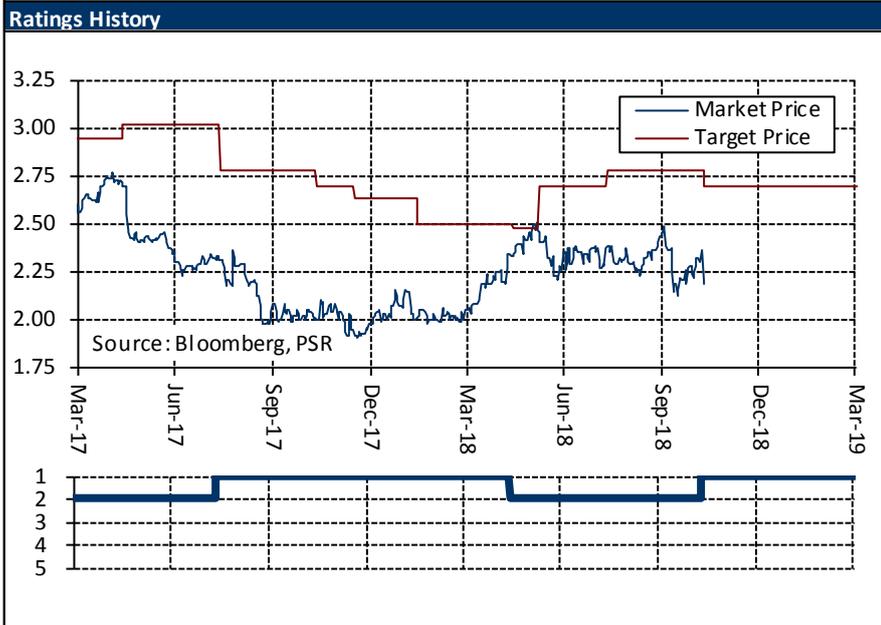
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x), adj.	20.6	19.7	15.3	15.5	15.1
P/B (x)	2.1	2.0	1.5	1.5	1.5
EV/EBITDA (X), adj.	7.1	6.8	5.1	5.8	5.4
Dividend Yield (%)	3.1%	3.6%	5.1%	4.8%	4.8%

Growth & Margins (%)

Growth					
Revenue	1.5%	-1.3%	-2.2%	-5.2%	4.3%
EBITDA	5.6%	2.2%	-4.7%	0.2%	2.3%
EBIT	1.9%	2.6%	-11.5%	5.8%	2.2%
Net Income, adj.	6.5%	5.0%	-8.4%	4.5%	2.6%
Margins					
EBITDA margin	20.4%	21.1%	20.6%	21.8%	21.4%
EBIT margin	11.0%	11.4%	10.3%	11.5%	11.3%
PBT margin	11.0%	11.5%	10.7%	11.6%	11.3%
Net Profit Margin	7.3%	7.8%	7.3%	8.1%	7.9%

Key Ratios

ROE	13.3%	13.2%	11.4%	11.5%	11.4%
ROA	5.8%	6.1%	5.8%	6.2%	6.1%
Dividend Payout	64.0%	70.0%	74.6%	74.2%	72.3%
Net Debt or (Net Cash)	(229)	(434)	(274)	17	(159)
Net Gearing (x)	Net Cash	Net Cash	Net Cash	0.6%	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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