

SMRT Corp. Ltd.**Asset renewal is on track, but still no evidence of improving fundamentals yet****SINGAPORE | TRANSPORT SERVICES | RE-INITIATION****Sell**

Rating:

(Maintain at "Sell")

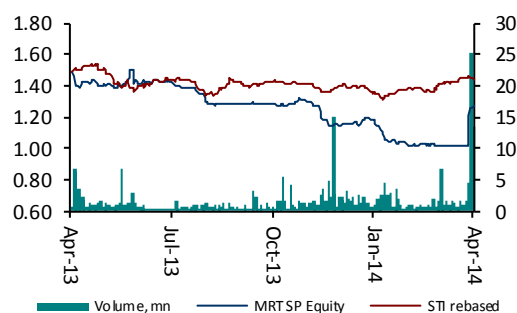
Target Price (SGD)	0.860
Forecast Dividend (SGD)	0.014
Closing Price (SGD)	1.27
Potential Upside	-32.3%

Company Description

SMRT Corp. Ltd. ("SMRT") is a multi-modal land transport operator in Singapore. SMRT operates two Mass Rapid Transit (MRT) Lines, the Bukit Panjang Light Rail Transit (BPLRT) system, buses and taxis. A significant part of its profits come from its ancillary businesses of Rental & Advertising. SMRT also has a stake in Shenzhen Zona Transportation, a land transport operator based in Shenzhen.

Company Data

Raw Beta (Past 2yrs weekly data)	0.28
Market Cap. (USD mn / SGD mn)	1539 / 1932
Ent. Value (USD mn / SGD mn)	1936 / 2433
3M Average Daily T/O (mn)	2.03
Closing Px in 52 wk range	1.01 - 1.53



Major Shareholders	(%)
1. Temasek Holdings Pte Ltd	54.2
2. Capital Group Companies Inc	1.7
3. Norges Bank	0.5

Valuation Method

FY16F 17.9x P/E

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- Government policy to spur growth in ridership numbers, supporting Revenue growth.
- Unsustainable Rail and Bus models, resulting in deteriorating EPS and DPS.
- Accelerated infrastructure renewal time-table, signalling earlier than expected topping of Capex.
- Re-initiate coverage on SMRT, maintaining at "Sell" rating with new two-year horizon TP of S\$0.860 based on FY16F forward 17.9x P/E valuation.

Following a change of analyst, we **re-initiate coverage on SMRT Corp. Ltd. (SMRT)** with Company Background attached in the Appendix (Page. 10) of this report. For **Market Structure** and **Industry Analysis**, investors may refer to our accompanying [Singapore Land Transport Sector report](#).

What is the news?

- 3Q FY14 (FYE Mar) results released on 28 Jan 2014.
- 3Q FY14 Revenue grew 5.3% y-y on the back of Rail and Bus ridership growth; but EBIT and Net Profit both down 37% y-y and 44% y-y respectively.
- Rail business (MRT and LRT combined) first ever quarterly loss, 9M FY14 Bus losses widen, underlining SMRT's unsustainable models for the core Fare businesses.
- Revenue growth in Rental and Advertising with profit margins maintained, offsetting the operating losses from the Fare businesses.

How we view this

- SMRT's core Fare business (MRT, LRT and Bus) will likely remain unprofitable, unless Regulatory changes come about.
- After new Fare adjustment, losses from Fare businesses unlikely to outpace profits from Rental and Advertising, but diminishes the impetus for Regulator to expedite the implementation of new Rail and Bus models.
- Future prospects for SMRT hinges on Regulator changing Rail and Bus models.

Investment Actions

Ridership numbers and Revenue will see growth, but there is still no evidence of improving fundamentals for SMRT. Upside catalyst only when new Rail and Bus models are implemented by Regulator. However, we believe that the accelerated infrastructure renewal time-table should lead to earlier than expected topping of Capex, thus improving valuation within two years. We re-initiate coverage on SMRT, maintaining our "Sell" rating with new two-year horizon TP of \$0.860.

Key Financial Summary

FYE Mar	FY12	FY13	FY14F	FY15F	FY16F
Revenue (SGD mn)	1,057	1,119	1,166	1,231	1,267
NPAT, adj. (SGD mn)	142	101	61	61	73
EPS, adj. (SGD)	0.092	0.066	0.040	0.040	0.048
P/E (X),adj.	19.1	22.9	31.9	31.6	26.4
BVPS (SGD)	0.515	0.507	0.522	0.547	0.581
P/B (X)	3.4	3.0	2.4	2.3	2.2
DPS (SGD)	0.075	0.025	0.015	0.015	0.018
Div. Yield (%)	5.9%	2.0%	1.2%	1.2%	1.4%

Source: Bloomberg, PSR est.

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

Re-initiation of coverage

Following a change of analyst, we re-initiate coverage on SMRT Corp. Ltd. (SMRT) with Company Background attached in the Appendix (Page. 10) of this report. Investors unfamiliar with the full business spectrum of SMRT may want to read the Appendix first.

3Q14 Results

Results at a glance

(SGD mn)	3Q14	3Q13	y-y (%)	2Q14	q-q (%)	Comments
Revenue	293.3	281.7	4.1%	296.3	-1.0%	
EBITDA	63.3	71.0	-10.8%	62.8	0.9%	
EBIT	20.1	32.0	-37.2%	20.0	0.5%	Rail first ever quarterly loss; Bus losses widen.
Net Income	14.2	25.5	-44.1%	14.4	-1.2%	

Source: Company, PSR

Results by Business (SGD mn)

Revenue	3Q14	3Q13	y-y (%)	2Q14	q-q (%)	Comments
MRT	156.3	152.6	2%	160.5	-3%	
LRT	2.5	2.6	-2%	2.7	-8%	
Bus	57.3	55.5	3%	58.4	-2%	
Taxi	32.9	34.3	-4%	32.4	2%	
Rental	24.8	22.3	11%	24.2	3%	
Advertising	10.8	8.5	27%	8.6	26%	
Engineering	8.6	5.9	47%	9.5	-9%	

Operating Profit/(Loss)

MRT	0.4	14.7	-97%	1.0	-60%	
LRT	(0.6)	(0.3)	92%	(0.4)	35%	First ever quarterly loss on MRT & LRT combined.
Bus	(8.9)	(7.0)	26%	(7.0)	26%	Bus continue to be unprofitable.
Taxi	1.5	2.9	-49%	2.1	-29%	
Rental	18.5	16.9	9.2%	18.6	-1%	
Advertising	6.9	5.4	29%	4.8	46%	
Engineering	0.4	0.6	-22%	0.4	21%	

Source: Company, PSR

Operating Statistics for SMRT

	3Q14	3Q13	y-y (%)	2Q14	q-q (%)	Comments
MRT Ridership (mn)	178.1	174.3	2.2%	182.2	-2.3%	
LRT Ridership (mn)	4.5	4.7	-4.3%	5.0	-10.0%	
Bus Ridership (mn)	86.7	82.5	5.1%	89.1	-2.7%	
Average Taxi Fleet	3,295	3,499	-5.8%	3,228	2.1%	
Average Lettable Space ('000 sqm)	36.8	34.9	5.5%	36.7	0.3%	Opening of Woodlands Xchange.

Source: Company, PSR

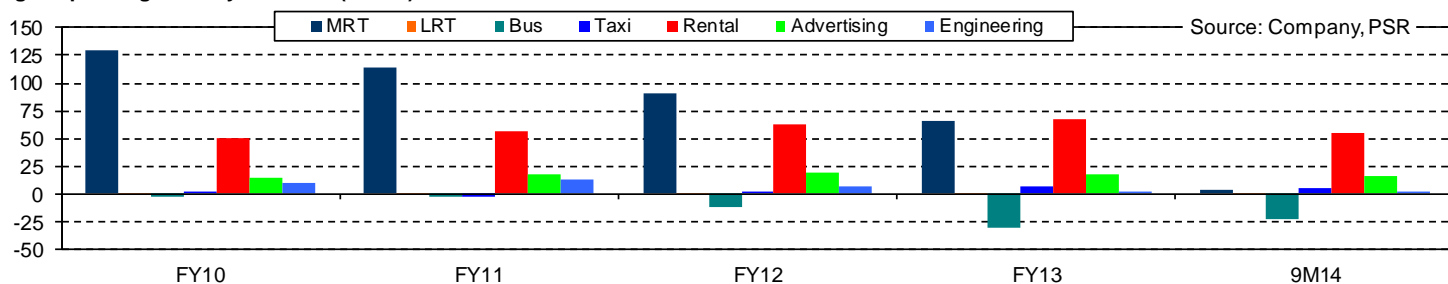
- Rail operations (MRT & LRT combined) recorded first ever quarterly loss of S\$0.17mn, due to worsening profitability of MRT business.
- Bus operations continued with losses at S\$8.9mn, despite its 3.3% y-y growth in Revenue.
- This highlights the unsustainable Rail and Bus models in Singapore.
- With both Rail and Bus operations now recording losses on a quarterly basis, expect Fare business to record first ever full year loss in FY14.

Comments on recent spike in price for SMRT

- SMRT experienced a price spike on 24 April, gaining 21% with heavy volume to close at \$1.215. SGX had queried SMRT on the unusual trading, and SMRT responded to say that they were not aware of any undisclosed material information that would explain the trading. SGX subsequently issued a "Trade with Caution" note to investors, in view of the circumstances.
- We think that the most likely game-changing development for SMRT would be the full transition of North-South East-West Line (NSEWL) to the Rail Financing Framework. **We spoke to SMRT Management on 24 April, and were told that there had not been any recent in-roads pertaining to the transition.**
- **Until such a transition is made known publicly by the Regulator or SMRT, it is our view that the price of SMRT is not supported by fundamentals, and that the earnings do not justify the current market price.**

Outlook for SMRT by business segments

Fig 1. Operating Profit by Business (\$\$ mn)



Remarks: (1) Profitability of MRT business severely impaired over 9M14. (2) Bus remains loss-making.

Fare business

Rail – We see an increase in ridership for MRT & LRT fuelled by population growth in conjunction with Government policy steering commuters to utilise public transport instead of private car ownership. Revenue from 1Q15 onwards should see modest growth aided by the fare adjustment which came into effect on 6 April 2014. In addition, we believe that the elevated Capex may start tapering off sooner than expected, due to the accelerated infrastructure renewal program. However, SMRT's Rail operations in Singapore remain unsustainable, until a change in model for its NSEWL is implemented by the Regulator.

Bus – Bus operations have been loss-making since FY09 and continue to look bleak. Losses are expected to continue, until the new contracts model is implemented. If and when the model is implemented, bus operations should reverse and become profitable, with estimated margins of 10% thereabouts. While the transition is already on-going, there is no firm indication however, from the Regulator on the timeline for full implementation of the model.

Although the new model would reverse the loss making situation of the public bus operations in Singapore, but the trade-off is the introduction of contestability in the market. SMRT may possibly lose its already smaller (compared to SBS Transit) market share to new entrants. Ultimately, the benefit of a profitable new Bus model outweighs the possible loss in market share of a loss-making business.

Non-fare business

Taxi – We expect the taxi business to be maintained, in view of the 2% cap in taxi fleet growth imposed by the Land Transport Authority (LTA), and higher Certificate of Entitlement (COE) premiums. Revenue growth will arise from renewal of taxi fleet to newer vehicles.

Rental & Advertising – We forecast SMRT to continue to deriving profits from the leasing of commercial and advertising space within its network, offsetting the losses incurred by the Fare businesses.

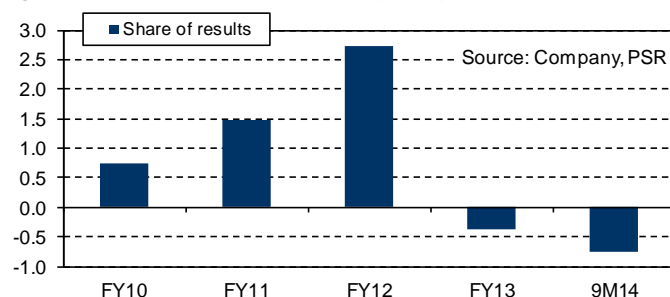
Engineering – Engineering makes up 3% of total revenue. We forecast this business to be maintained.

Overseas associate

Shenzhen Zona – This associate based in Shenzhen provides public bus services and taxi rental. It was acquired in October 2009 for S\$68.4 million and SMRT has a 49% stake in it. SMRT incurred an impairment of interest of S\$17.3mn in 4Q13.

Losses have extended further into 9M14 and we see a trend of unprofitable bus operations in China. This is reflected by SMRT's peer competitor, which had experienced similar loss-making bus operations in China and has divested its various bus operations in China. Hence, we are sceptical of a turnaround to profitability for Shenzhen Zona, and forecast it to remain unprofitable.

Fig 2. Share of results of Shenzhen Zona (\$\$ mn)



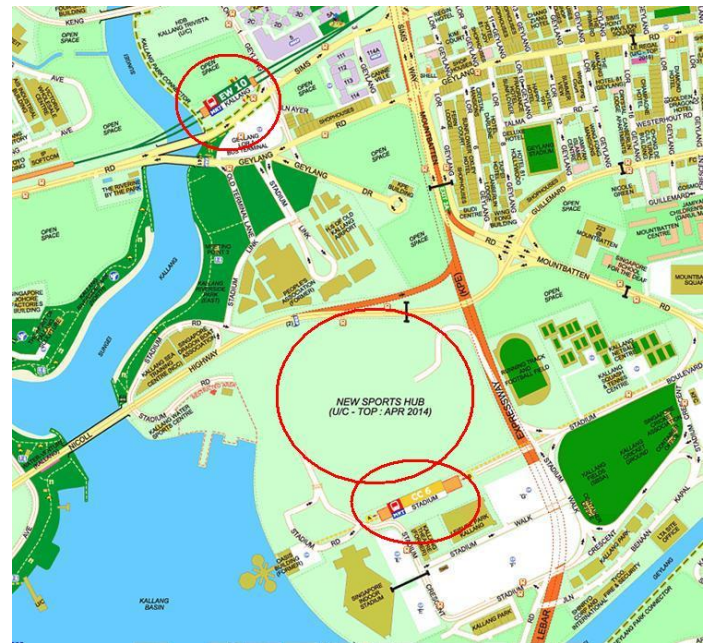
Remarks: Losses extending further into 9M14.

During the 3Q14 results briefing in January 2014, SMRT Management said that they are in discussions with the Management of Shenzhen Zona and watching them. We remind investors that other than exerting influence, there is little else SMRT can do as it has a 49% stake in Shenzhen Zona and does not have effective control. It is our view that SMRT will eventually have to divest this investment if it continues to be non-performing.

Sports Hub Retail Mall (SHRM)

Management did not give guidance on revenue or margins expected for SHRM, but said during the 3Q14 earnings briefing that occupancy take up rate is within expectations and they would reveal more information in the next quarter. We wish to bring to the attention of investors that the SMRT Alpha JV will be leasing the space from Singapore Sports Council; hence margins for this venture will not be as high as SMRT's existing Rental business.

We are positive on SHRM for SMRT, as we expect the margins from rental of this commercial space to be higher than its core Fare business (but lower than existing Rental business). Moreover, the nearest MRT station to SHRM is Stadium, which is on the CCL and the nearest MRT station to SHRM on the NSEWL is Kallang; both of which are operated by SMRT. Hence **SMRT is expected to monopolise the Fare revenue collection from commuter traffic travelling to the SHRM by MRT.**



Source: streetdirectory.com

Evidence of improvements in service reliability

Service Delays and Train Withdrawals are the **two key indicators of train reliability that the LTA uses**. Statistics from the LTA show that service reliability on the NSEWL and CCL, both operated by SMRT, have improved. The number of Incidents per 100,000km (>5 min delay) has noticeably decreased and are at their lowest in five years. The number of Train Withdrawals also came down sharply in 2013. We view this favourably for SMRT for the following reasons:

- Infrastructure renewal program has been effective in improving Rail reliability, and should be completed soon; therefore implying an easing of elevated Opex/Capex levels.
- Improved service reliability lowers the likelihood of a major Rail disruption, thereby avoiding hefty fines under the new Rail Transit System Bill.

Fig 3. Incidents per 100,000km (>5 min delay)

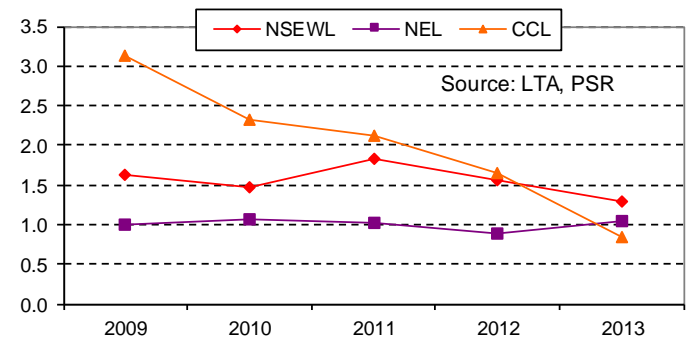
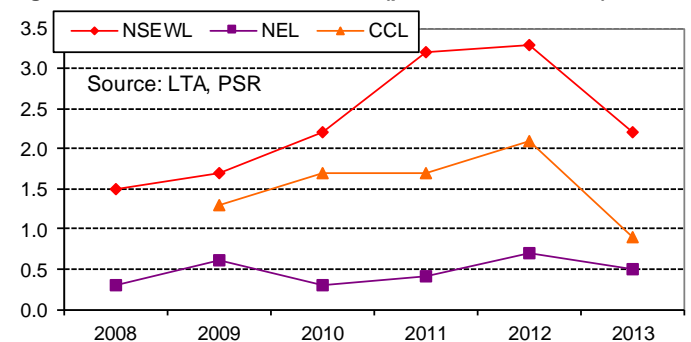


Fig 4. Normalised Train Withdrawals (per 100,000 train-km)



Impact of Downtown Line (DTL)

We currently do not make any estimates on cannibalisation by DTL from the existing NSEWL for the following reasons:

- **The DTL is a different configuration from the NSEWL.** NSEWL is a six-car configuration, while the DTL is three-car configuration. Hence, DTL's capacity is lower than the NSEWL, assuming equal train service intervals.
- **"Network externalities" may raise ridership throughout the MRT network due to addition of DTL** and it would be difficult to predict change in consumer behaviour.

Transfer of NSEWL assets from SMRT back to LTA under Rail Financing Framework (RFR)

As per the FY2012/13 SMRT annual report, carrying value of operating assets attributable to MRT was S\$1.129 billion. This consists of operating assets such as rolling stock, signalling equipment and MRT stations exclusively attributable to NSEWL, since there has not been any takeover of assets for CCL. At present, the details of the transfer of NSEWL assets back to LTA remain unclear, with Management guiding the following factors in play: (1) agreement on the valuation of assets, (2) adjustments due to previous grants received used to purchase the assets, (3) mechanism of how to return the cash to SMRT.

We wish to elaborate to investors that carrying value (historical costs less accumulated depreciation) of the operating assets can differ from the net realisable value (actual amount that the assets can be sold for). Hence, both SMRT and LTA have to come to a mutual agreement on how to value the assets. As SMRT had previously received a grant of S\$480 million for the purchase of the NSEWL operating assets, we estimate the actual amount that would be returned to SMRT could be closer to S\$350 million, after adjusting for the grant received and repayment of some of SMRT's long-term debt. This works out to an estimated S\$0.23 per share being available to equity holders. However, we think it is unlikely that the cash would be returned directly to shareholders; as disbursement of public funds to a listed company is already a contentious issue with the electorate, let alone disbursement to shareholders. Hence ambiguity remains on how to return the funds to SMRT without raising the ire of the electorate, thus contributing to the prolonged transition to the RFR.

Analyst Visit to Bishan and Kim Chuan depots

SMRT recently hosted an Analyst Visit on 3 April 2014, where we toured the Bishan and Kim Chuan depots. During the visit, we were shown the engineering capabilities of SMRT on;

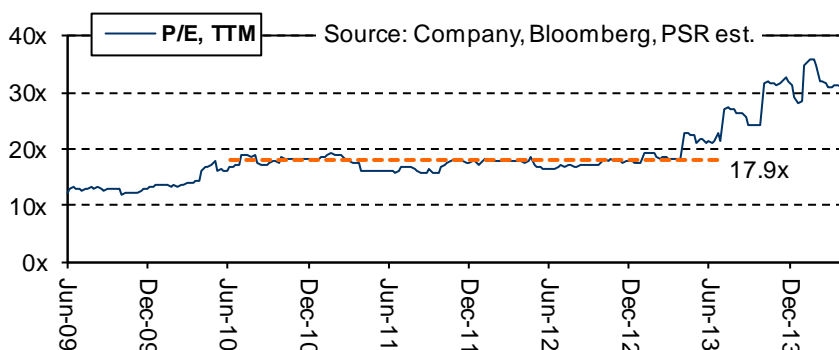
- **Preventive maintenance regime:** Monitoring of the third rail condition and track inspections for the NSEWL,
- **Operations, maintenance and incident recovery:** Command centre and train maintenance facilities for CCL,
- **Expertise in designing customisable fare-gates:** Supplying to the Tuas extension as well as marketing to overseas customers.

During the visit, **CFO SMRT expressed his belief that SMRT is under-rated, and guided that SMRT is at a key junction** with the following to look forward to: (1) Revenue to see sustainable growth, (2) Opex to taper off, (3) Capex is topping out and will start to decline and stabilise to be in-line with Revenue. CFO SMRT also guided that SMRT will be taking on additional debt in FY15, raising to S\$900mn from existing S\$600mn.

P/E Valuation

We value SMRT using the historical P/E range between June 2010 and June 2013. We see that the market had priced the SMRT stock to an average P/E of 17.9x over the period, which we feel better represents a more normalised operations. We make use of the two-year forward FY16F earnings of S\$0.048, instead of the one-year forward FY15F earnings, as we believe that most of the asset renewal programs and operational issues to be stabilised within the next two years, which gives us a TP of S\$0.860.

Fig 5. SMRT 5-year Historical PE, TTM



Key downside risks for SMRT

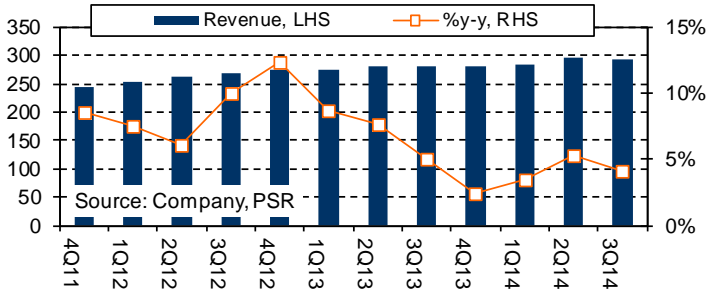
- Unsuccessful in renewing any of its Rail, Bus or Taxi operator licenses.
- Protracted negotiations with Regulator, prolonging unprofitable Rail and Bus models.
- Heavy fines imposed by Regulator due to rail disruption, crippling profitability.

Future price catalysts to the upside

- Potential change in Rail model in Singapore to asset-light model.
 - NSEWL and CCL to swap over to the new Rail Financing Framework that the Downtown Line is already on.
 - Higher lease payable to Regulator, but SMRT will be freed from lumpy Capex.
- Potential change in Bus model in Singapore to the contracts model.
 - Better operating margins (estimated about 10%).
 - Open to contestability and may possibly erode market share; in exchange for a sustainable and profitable model.
- Accelerated infrastructure renewal programme.
 - Earlier than expected topping of Capex, leading to positive valuation surprise and better yield for shareholders.
- Winning the tender to operate the new MRT lines that are currently under construction/planning.
 - Leading to higher EPS, as the new lines would likely be operated under the new Rail Financing Framework.

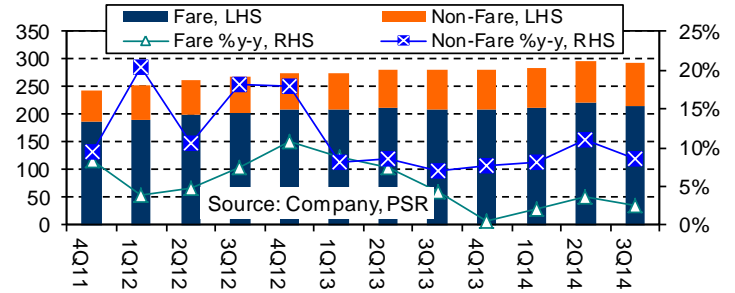
Quarterly Revenue and Profitability data

Fig 6. Revenue (\$\$ mn)



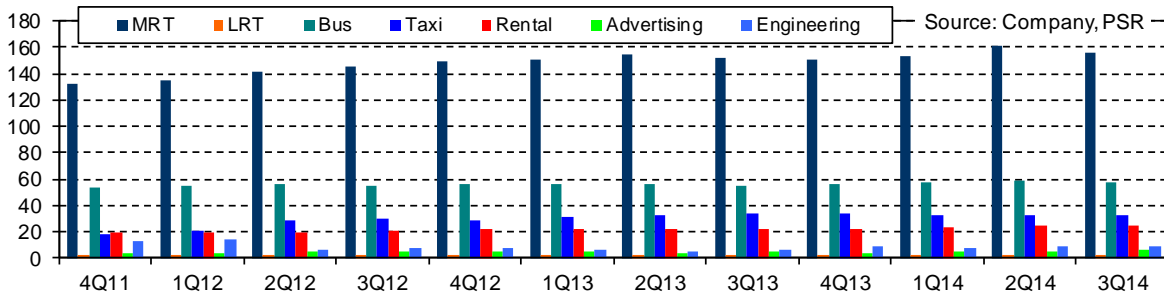
Remarks: Revenue is growing y-y.

Fig 7. Revenue by Fare/Non-Fare Business (\$\$ mn)



Remarks: y-y Revenue growth for both Fare and Non-Fare.

Fig 8. Revenue by Business (\$\$ mn)



Remarks: Highest two revenue sources are MRT fares and Bus fares.

Revenue Segmentation for YTD 9M14

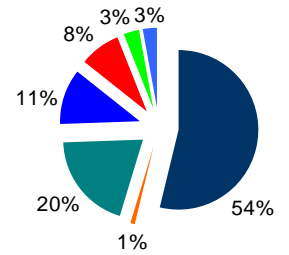
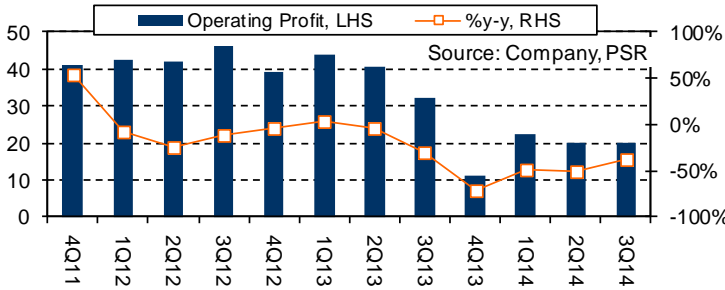
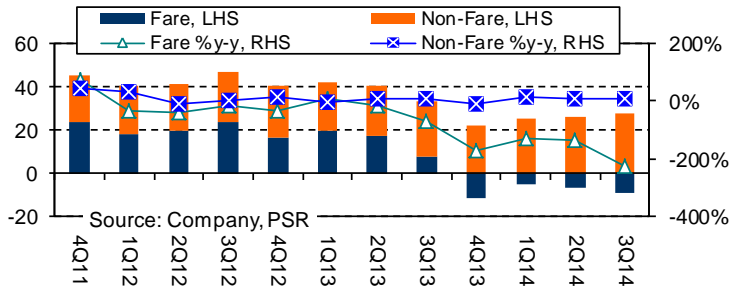


Fig 9. Operating Profit (\$\$ mn)



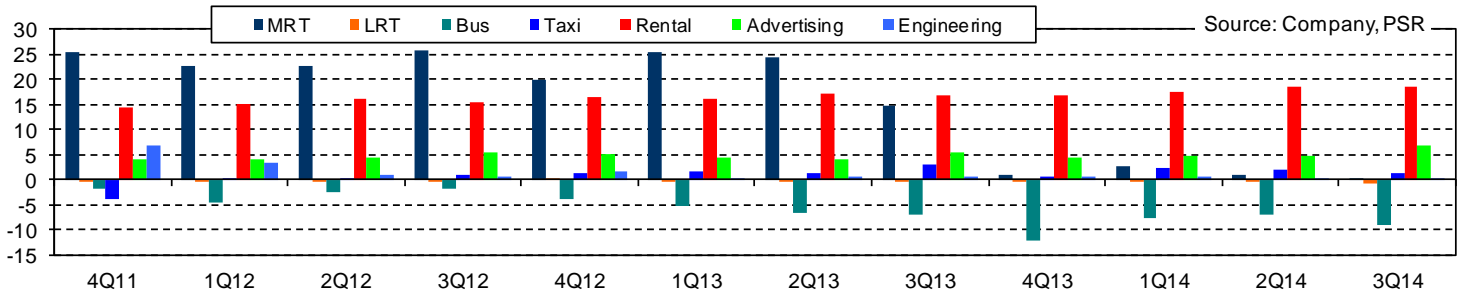
Remarks: Higher R&M expenses in 4Q13.

Fig 10. Operating Profit by Fare/Non-Fare Business (\$\$ mn)



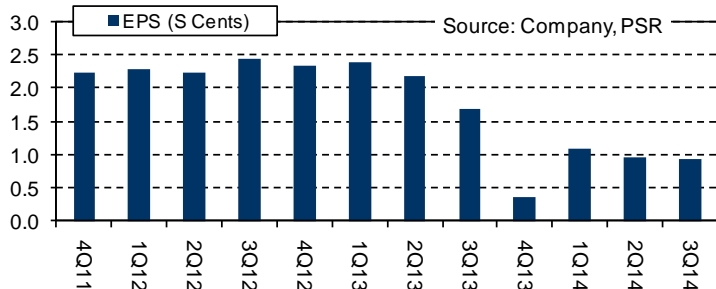
Remarks: Non-fare profits offsetting Fare losses since 4Q13.

Fig 11. Operating Profit by Business (\$\$ mn)



Remarks: (1) Fare businesses (MRT, LRT and Bus) are not performing; first ever Rail loss in 3Q14. (2) Highest EBITs come from Rental, then Advertising.

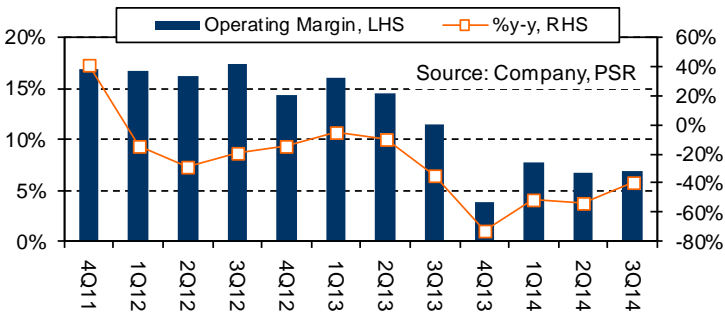
Fig 12. Shareholder Returns



Remarks: Deteriorating shareholder returns measured by EPS.

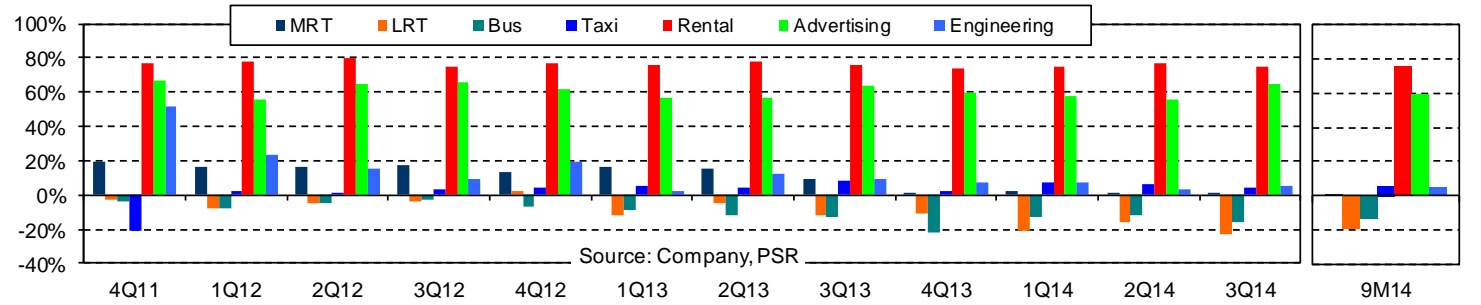
Quarterly Financial Indicators

Fig 13. Operating Margin



Remarks: Higher R&M expenses in 4Q13.

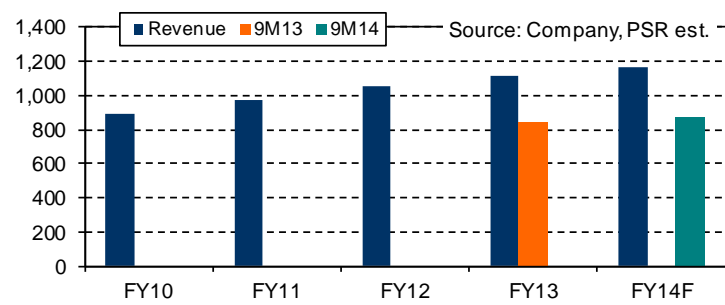
Fig 14. Operating Margin by Business



Remarks: (1) Rental and Advertising give the best Operating Margins, but account for only 11% of revenue. (2) LRT and Bus are loss-making.

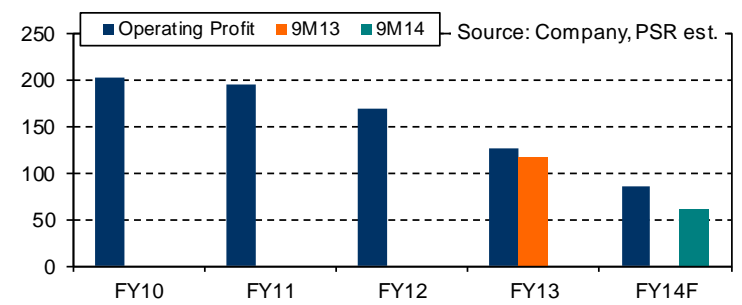
YTD 9M14 performance with Historical performance

Fig 15. Revenue (\$\$ mn)



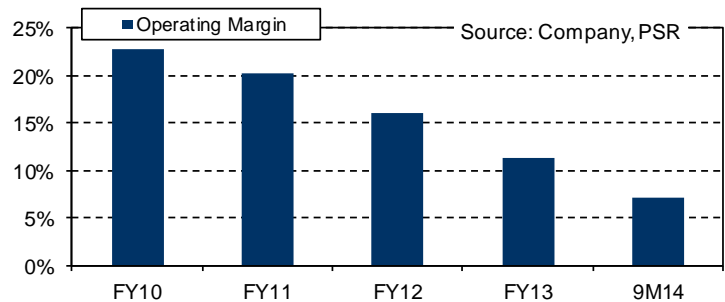
Remarks: 9M14 revenue growth of 4.3% y-y over 9M13.

Fig 16. Operating Profit (\$\$ mn)



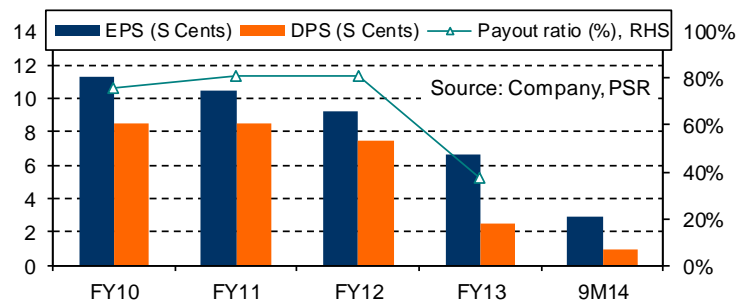
Remarks: 9M14 EBIT 47% y-y decline from 9M13.

Fig 17. Operating Margin



Remarks: Deteriorating Operating Margin.

Fig 18. Shareholder Returns



Remarks: Falling EPS and DPS. Expect FY14 to under-perform FY13.

FYE Mar	FY12	FY13	FY14F	FY15F	FY16F
Income Statement (SGD mn)					
Revenue	1057	1119	1166	1231	1267
Other operating income	22	36	40	42	43
EBITDA	300	278	249	267	288
Depreciation & Amortisation	(130)	(151)	(163)	(175)	(183)
EBIT	170	127	86	92	105
Net Finance (Expense)/Inc	(4)	(5)	(9)	(14)	(12)
Other items	0	0	0	0	0
Associates & JVs	2.7	(0.4)	(1.0)	(0.2)	(0.5)
Exceptional items	(22)	(17)	0	0	0
Profit Before Tax	147	105	76	77	92
Taxation	(27)	(22)	(16)	(16)	(19)
Profit After Tax	120	83	60	61	73
- Non-controlling interest	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net Income, reported	120	83	61	61	73
Net Income, adj.	142	101	61	61	73

FYE Mar	FY12	FY13	FY14F	FY15F	FY16F
Per share data (SGD)					
EPS, reported	0.078	0.055	0.040	0.040	0.048
EPS, adj.	0.092	0.066	0.040	0.040	0.048
DPS	0.075	0.025	0.015	0.015	0.018
BVPS	0.515	0.507	0.522	0.547	0.581

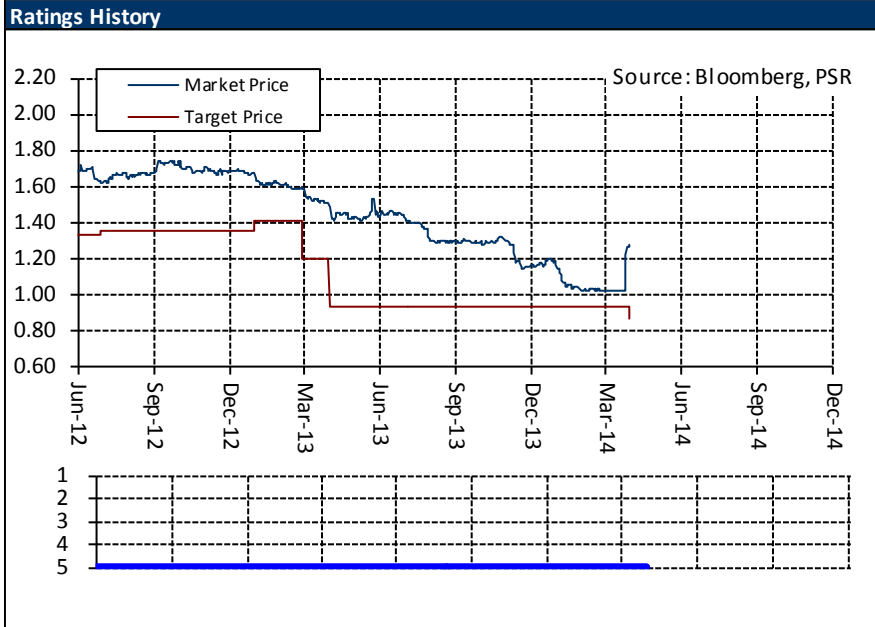
FYE Mar	FY12	FY13	FY14F	FY15F	FY16F
Cashflow Statements (SGD mn)					
CFO					
PBT	147	105	76	77	92
Adjustments	175	193	187	195	202
WC changes	11	(19)	11	10	5
Cash generated from ops	332	279	275	283	300
Others	(50)	(19)	(26)	(31)	(35)
Cashflow from ops	282	260	248	251	265
CFI					
CAPEX, net	(234)	(248)	(638)	(294)	(223)
Divd from associates & JVs	0	0	0	0	0
Others	(0)	(14)	3	1	3
Cashflow from investments	(234)	(262)	(635)	(293)	(219)
CFF					
Share issuance, net	0	1	0	0	0
Loans, net of repayments	(100)	460	19	300	0
Dividends	(129)	(109)	(38)	(23)	(22)
Others	0	2	16	16	16
Cashflow from financing	(229)	353	(3)	294	(6)
Net change in cash	(181)	351	(389)	252	39
Effects of exchange rates	(0.0)	(0.1)	0.0	0.0	0.0
CCE, end	195	546	157	409	449

Source: Company Data, PSR est

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

FYE Mar	FY12	FY13	FY14F	FY15F	FY16F
Balance Sheet (SGD mn)					
PPE	1,346	1,436	1,610	1,718	1,747
Intangibles	14	14	14	14	14
Associates & JVs	68	51	50	49	49
Investments	15	32	31	31	31
Others	0	0	0	0	0
Total non-current assets	1,443	1,532	1,704	1,812	1,841
Inventories	54	60	63	65	67
Accounts Receivables	64	86	90	95	98
Investments	0	0	0	0	0
Cash	195	546	157	409	449
Others	0	0	0	0	0
Total current assets	313	692	310	569	613
Total Assets	1,756	2,224	2,014	2,382	2,454
Short term loans	0	2	5	5	5
Accounts Payables	546	577	316	333	343
Others	58	54	56	56	56
Total current liabilities	604	633	377	395	405
Long term loans	150	607	623	923	923
Others	210	216	219	231	243
Total non-current liabilities	360	823	842	1,154	1,166
Total Liabilities	965	1,456	1,220	1,549	1,571
Non-controlling interest	0.0	0.3	0.1	0.1	0.1
Shareholder Equity	791	768	794	832	883

FYE Mar	FY12	FY13	FY14F	FY15F	FY16F
Valuation Ratios					
P/E (X), adj.	19.1	22.9	31.9	31.6	26.4
P/B (X)	3.4	3.0	2.4	2.3	2.2
EV/EBITDA (X), adj.	8.9	8.5	9.6	9.2	8.4
Dividend Yield (%)	5.9%	2.0%	1.2%	1.2%	1.4%
Growth & Margins (%)					
Growth					
Revenue	9.0%	5.9%	4.2%	5.6%	2.9%
EBITDA	-4.7%	-7.3%	-10.4%	7.0%	8.1%
EBIT	-12.9%	-25.1%	-32.6%	6.5%	14.8%
Net Income, adj.	-12.1%	-28.9%	-39.9%	1.2%	19.6%
Margins					
EBITDA margin	28.4%	24.8%	21.4%	21.7%	22.7%
EBIT margin	16.1%	11.4%	7.4%	7.4%	8.3%
Net Profit Margin	11.3%	7.4%	5.2%	5.0%	5.8%
Key Ratios					
ROE (%)	17.8%	12.9%	7.7%	7.5%	8.5%
ROA (%)	8.4%	5.1%	2.9%	2.8%	3.0%
Net Debt/(Cash)	(45)	63	471	519	480
Net Gearing (X)	Net Cash	8.2%	59.4%	62.4%	54.3%



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

APPENDIX

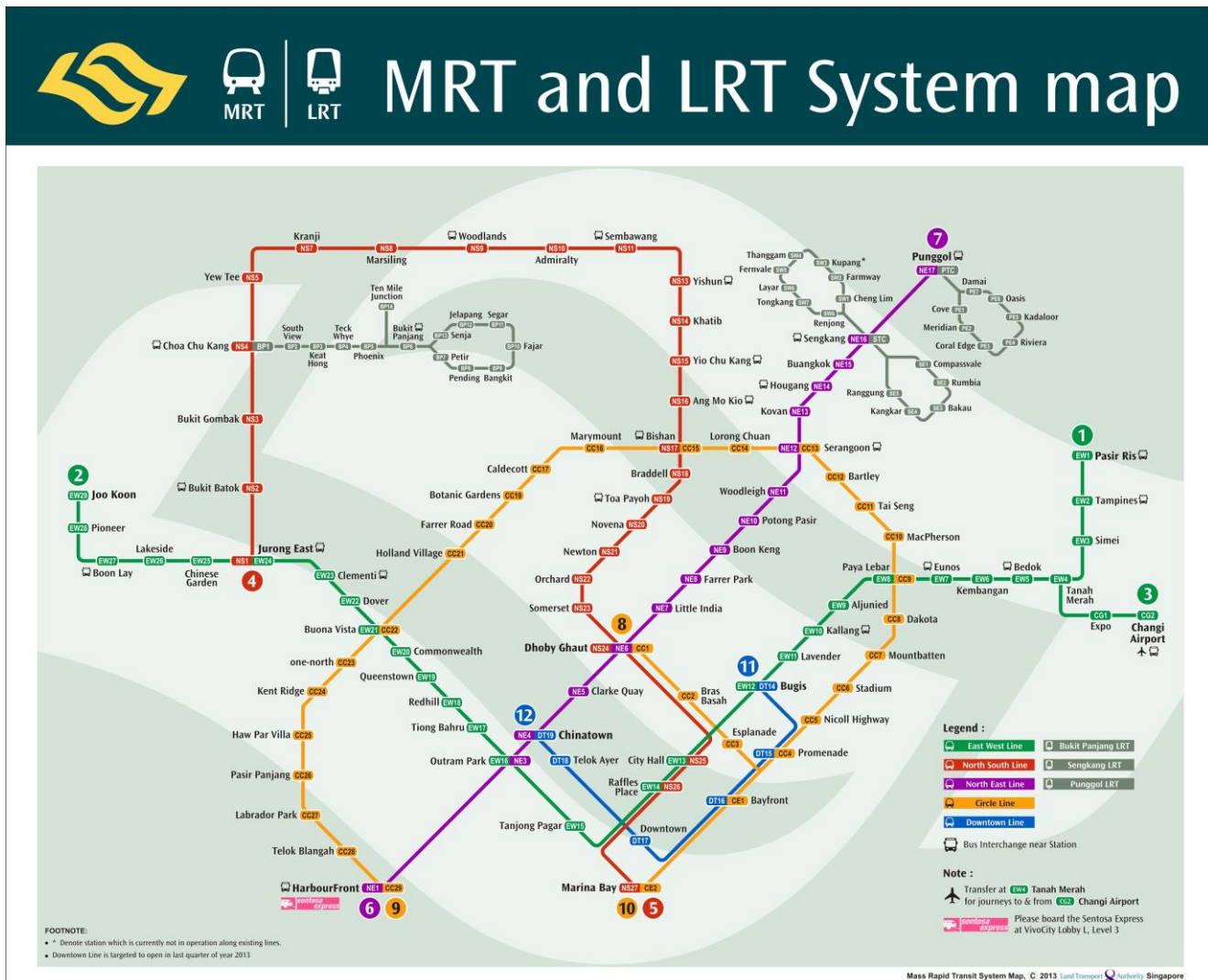
Company Background

SMRT Corp. Ltd. ("SMRT") provides multi-modal public transport in Singapore, by operating the Mass Rapid Transit (MRT) and Light Rapid Transit (LRT) systems, buses, and rental of taxis. SMRT also leases commercial space at MRT stations and bus interchanges. SMRT leases advertising space within its network of MRT stations and bus interchanges, as well as fleet of trains, buses and taxis. Much of its operating profit currently comes from its rental income arising from the leasing of commercial space. In October 2009, SMRT acquired a 49% equity stake in Shenzhen Zona Transportation, which provides public bus service and taxi rental.

Singapore MRT was established in 1987 when the North-South and East-West Lines (NSEWL) began operations. Singapore LRT Pte Ltd was set up in 1997 and started operating Singapore's first LRT system in Bukit Panjang (BPLRT) in 1999. SMRT was incorporated in March 2000 and listed on the Singapore Exchange Mainboard in July 2000.

Today, SMRT Trains Ltd, "SMRT Trains"(formerly Singapore MRT Ltd) and SMRT Light Rail Pte Ltd, "SMRT Light Rail" (formerly known as Singapore LRT Pte Ltd) are wholly owned subsidiaries of SMRT. SMRT started operating public bus services when it acquired SMRT Road Holdings (formerly TIBS Holdings Ltd) in December 2001. SMRT Buses Ltd, "SMRT Buses" and SMRT Taxis Pte Ltd, "SMRT Taxis" are wholly owned subsidiaries of SMRT Road Holdings. With these acquisitions, SMRT became Singapore's first multi-modal land transport operator, offering MRT, LRT, bus and taxi services.

SMRT manages its Properties and Media businesses through its wholly owned subsidiary SMRT Investments Pte Ltd ("SMRT Investments"). SMRT has a wholly owned subsidiary, SMRT Engineering Pte Ltd ("SMRT Engineering") which provides engineering consultancy and project management as well as operations and maintenance services, locally and internationally.



Source: LTA

Group Structure and Business

MRT

SMRT is the pioneer and dominant Mass Rapid Transit operator in Singapore for the last 27 years. SMRT is licensed to operate the North-South East-West Line (NSEWL) and Circle Line (CCL). The NSEWL consists of 53 stations while the CCL consists of 30 stations. Within the NSEWL network, the North-South Line has 25 stations, while the East-West Line has 31 stations. There are three interchange stations within the NSEWL network for transfers between the North-South Line and East-West Line. Five stations within SMRT's network are interchange stations between CCL and NSEWL. The total route length of SMRT's train network is 128.6km. SMRT's train network is connected to its LRT system on the North-South Line; and is connected to SBS Transit's train network at 7 stations. Fare revenue from MRT operations contributed 54% of revenue in FY13 with ridership at 690.9 million.

LRT

SMRT operates the Bukit Panjang LRT (BPLRT). There are 14 stations on the BPLRT and its track is 7.8km in length. The BPLRT acts as a feeder-service in the Bukit Panjang area and transfers commuters to the NSEWL through the Choa Chu Kang station. Fare revenue from LRT operations contributed 1% of revenue in FY13 with ridership at 19.4 million.

Buses

SMRT provides scheduled public bus services connecting the Western and North-Western areas to the rest of Singapore. SMRT operated a fleet of 1,140 buses and 97 bus services as of end FY13. SMRT also offers a chartered bus service known as Bus-Plus, which provides direct connections between residential areas and the Central Business District (CBD) during the morning and evening peak hours on weekdays. Revenue from Bus operations contributed 20% of revenue in FY13 with ridership at 335.1 million.

Taxi

SMRT operates a fleet of about 3,450 taxis and has about 13% market share of taxis in Singapore as of December 2013. Revenue is earned through the rental of taxis, provision of taxi services and sales of diesel to taxi hirers. Capital expenditure of the taxi business is affected by Certificate of Entitlement (COE) premiums. The cost of renewing their taxi fleet goes up when the COE premium is high.

Rental

SMRT leases out commercial space and kiosks at various MRT stations and bus interchanges. Commercial space includes shop space and event space. SMRT provides shopping and dining choices, with a good mix of products and services, ranging from convenience stores, food and beverage outlets, banks, beauty and medical services, supermarkets as well as fashion boutiques. The Rental business has the highest operating margin of 76% among all the businesses for FY13. SMRT has about 36,800 sqm of lettable space as of end December 2013.

Advertising

SMRT leases advertising space at MRT and LRT stations as well as in trains, and on buses and taxis. Advertising within trains include train panels, window stickers and train hangers. Advertising within MRT stations include print panels on the walls, stickers on platform screen doors, pillars, floors, fare gates and along escalators and digital panels on walls. The Advertising business for SMRT had the second highest operating margin at 59% for FY13.

Engineering

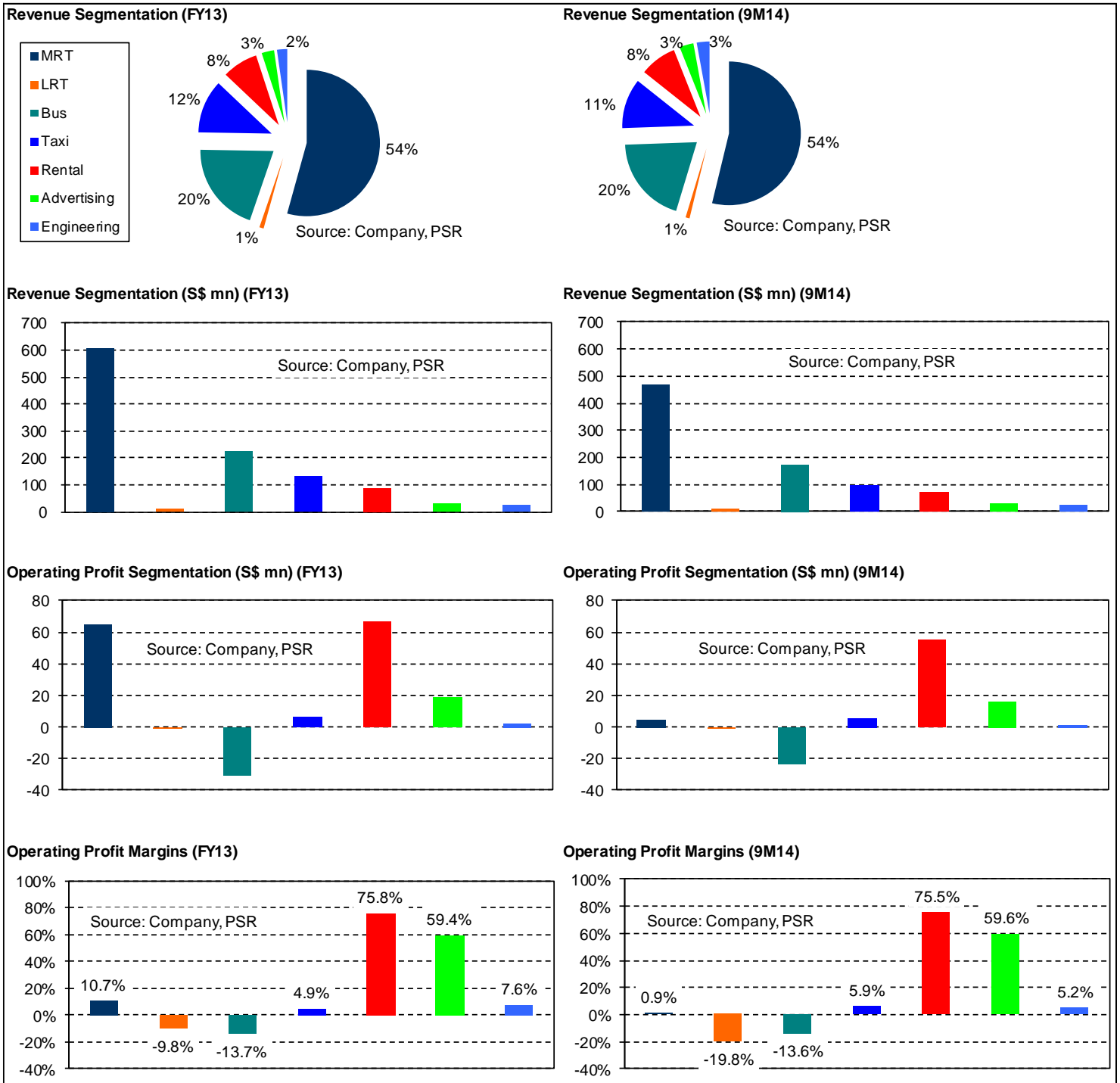
The Engineering business provides consultancy, project management services, leasing of fibre optic cables and repair & maintenance services. SMRT Engineering has contracts both in Singapore and internationally. Locally, SMRT Engineering has contracts to install fare collection gates and leasing of fibre optic cables. Outside of Singapore, SMRT Engineering is providing technical consultancy in Mauritius, China (Dalian) and India (Mumbai); and operates the Personal Rapid Transit (PRT) system in United Arab Emirates (Masdar City). SMRT Engineering has also developed its own proprietary route map information system and fare gates, which are suitable for use at theme parks and by other transport operators.

In the pipeline for SMRT

Sports Hub Retail Mall (SHRM)

SMRT Alpha Pte Ltd was incorporated in October 2012. It is 70:30 JV between subsidiaries of SMRT and NTUC Fairprice respectively. It won the bid to lease and operate SHRM for 12 years. The retail mall covers more than 41,000 sqm of retail space. To give a sense of scale to the size of SHRM, SMRT's current lettable floor space is about 36,800 sqm. The floor space of SHRM is larger than the lettable floor space in SMRT's network of MRT stations and bus interchanges.

Fig. 19 Comparison of Performance across FY13 and 9M14



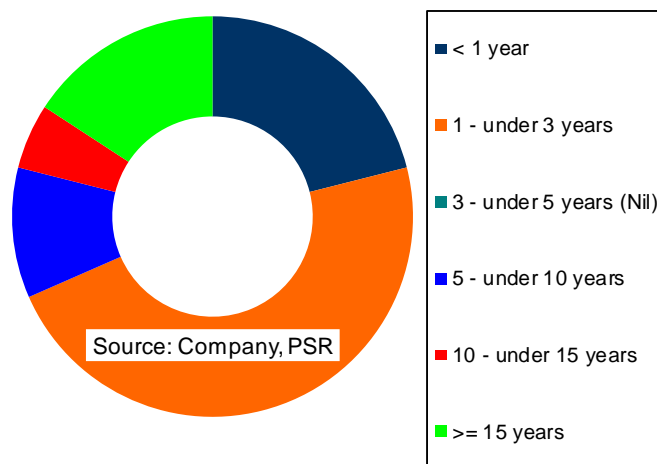
Key observations:

- No change in revenue mix across FY13 and 9M14.
- Profitability of MRT business severely impaired, expecting a y-y decline in operating profit from MRT business for FY14.
- Bus business continues to be loss-making, with operating margin holding steady.
- Net Operating Profit in FY14 will primarily be attributable to Rental business.
- Rental and Advertising give the highest margins; but they are not the core business, accounting for only about 11% of Revenue.

Management Quality

- There are 19 Senior Managers (CEO, CFO, VP, Executive VP, SVP) in charge of running the various aspects of SMRT. A review of the past Annual Reports from recent years reveals that there is a high turnover of Senior Managers in SMRT. Among the current team of Senior Managers, about two-thirds of them have less than 3 years' experience within SMRT.
- We have interacted with CEO SMRT and CFO SMRT. Despite their relative inexperience in the industry (compared to their nearest industry competitor), we believe that they have an adequate understanding of the industry landscape and the challenges that SMRT faces.

•
Fig 18. Length of service profile, SMRT Senior Management



Regulatory Framework

Trains, North-South East-West Line (NSEWL)

- SMRT Trains holds the licence to operate the NSEWL for a period of 30 years from April 1998.
- SMRT Trains may request LTA to extend the licence for another 30 years.
- SMRT Trains had purchased the operating assets for the NSEWL from LTA in April 1998 for about \$1.2 billion.
- The operating assets include trains, permanent way vehicles, power supply equipment and cabling, supervisory control system, escalators and lifts, platform screen doors, environmental control system, electrical services and fire protection system, signalling system, communication system, automatic fare collection system and depot workshop equipment.
- The infrastructure (tunnels, tracks, viaducts and station structures) of the NSEWL however, remains the property of LTA and is leased to SMRT Trains.
- SMRT is responsible for the maintenance, repair, replacement, renewal or refurbishment of all operating assets and infrastructure of the train system.
- SMRT may apply to LTA for asset replacement grants for eligible operating assets, and may request LTA to fund major replacement or renewal works to the infrastructure.
- Upon expiration or cancellation of the licence, SMRT Trains is to surrender all parts of the NSEWL owned by LTA.

Trains, Circle Line (CCL)

- SMRT Trains holds the license to operate the CCL for a period of 10 years from May 2009.
- Licence may be extended a further 30 years, at LTA's discretion.
- SMRT Trains is required to purchase the operating assets of the CCL System from LTA at book values on 4 May 2019.
- Infrastructure (tunnels, tracks and station structures) of the CCL system remains the property of LTA and is leased to SMRT Trains.

Light Rail Transit (LRT), Bukit Panjang Light Rail Transit (BPLRT)

- SMRT Light Rail is licensed to operate the BPLRT until 31 March 2028.
- May request LTA to extend the licence for another 30 years, subject to LTA approval.
- LTA owns all the operating assets and infrastructure of the BPLRT system.
- SMRT Light Rail is required to purchase the operating assets of the LRT System from LTA at book values by 25 October 2015.

Buses

- SMRT Buses is licensed to operate bus service for 10-years until September 2016.
- Required to comply with Quality of Service (QoS) standards.
- Quality Incentive Framework undergoing trials.

Market structure and industry analysis

For market structure and industry analysis, refer to our Singapore Land Transport Sector report.
(The link to our Singapore Land Transport Sector report is provided on the first page of this report.)

Porter's Five Forces Analysis for Public Transport Operators (PTOs)

For Porter's Five Forces Analysis for PTOs, refer to our Singapore Land Transport Sector report.
(The link to our Singapore Land Transport Sector report is provided on the first page of this report.)

SWOT Analysis for SMRT

Strengths

- Dominant market share of combined MRT and LRT ridership (78%); Rail ridership is gaining market share of public transport ridership.
- Control over the majority of MRT stations, with the ability to benefit from the good margins derived from the leasing out of commercial space.

Weaknesses

- New management team grappling with persistent operational issues.
- Labour-intensive business that is sensitive to rising wage costs.
- Inability to set train and bus fares in Singapore, as fares are controlled by the Regulator, thus putting a ceiling on the revenue.
- Will face higher wage costs as it beefs up its technical workforce.

Opportunities

- Population growth leading to opening of new MRT stations and bus routes in new residential and commercial areas.
- Government targeting eight in ten homes to be within a 10-minute walk of a train station by 2030. (Ref. Land Transport Master Plan 2013)
- Changing Land Transport landscape whereby MRT and LRT are capturing ridership market share from Buses.
- Partnership opportunities in neighbouring developing countries embarking on MRT/LRT development.

Threats

- Loss of licence to operate any of its services.
- Delayed revamp to Bus model or Rail model by Government, resulting in continued loss-making core Rail and Bus business.
- Higher costs incurred to meet minimum service standards.
- Heavy fines imposed by Regulator when there is service lapse in Rail business. (up to 10% of revenue)

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