

# ComfortDelGro Corp Ltd

Oversold and earnings to bottom this year



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## SINGAPORE | TRANSPORT SERVICES | 2Q17 RESULTS

- 2Q revenue in line with our forecast
- 2Q PATMI exceeded our forecast by 13% on lower than expected operating expenses
- 1H17 interim dividend of 4.35 cents, higher than 1H16's 4.25 cents
- 75%-owned subsidiary, SBST, reported a strong set of results
- Upgrade to Buy from Accumulate; lower target price of \$2.78 (previously \$3.02)

### Results at a glance

(SGD mn)	2Q17	2Q16	YoY	Comments
Revenue	987	1,022	-3.4%	\$18.2mn erosion from foreign currency translation and \$16.9mn lower due to weaker underlying business
EBIT	112	123	-9.0%	2.7% lower OpEx. Actual S\$8.4mn decrease in OpEx was aided by S\$16.8mn favourable foreign currency translation
PATMI	79.4	85.2	-6.8%	

Source: Company, PSR

### The positives

- + 75%-owned subsidiary, SBST, contributing positively.** SBS Transit's (SBST's) Public Transport Services segmental 2Q17 EBIT improved to \$7.26 mn from \$435,000 loss a year ago. The improvement was due to the transition to the Bus Contracting Model (BCM). Consequently, SBST's 2Q17 NPAT grew 75% YoY to \$12.7 mn, thus mitigating impact from foreign currency translation and weaker underlying business for the Group.
- + Higher interim dividend, mirroring SBST.** 3.65 cents interim dividend at SBST is higher compared to the 2.35 cents a year ago. SBST's payout ratio over 1H17 and 1H16 EPS is comparable, at 49.5% and 47.4% respectively. ComfortDelGro's payout ratio over 1H17 and 1H16 EPS is 58.7% and 57.8% respectively.

### The negatives

- Singapore Taxi business continues to be challenged by private hire vehicles.** Comfort and CityCab 2Q17 combined taxi fleet is -3.1% QoQ and -8.9% YoY. 2Q17 idle rate was 5%, compared to the 3.0%-3.5% in 1Q17. Taxi bookings are -20% YoY. We believe Singapore Taxi EBIT-margins are likely to be eroded to single-digit, from historical low-teens, and now contributing an estimated 10%-15% of Group EBIT, from historical 20% of Group EBIT.
- Higher losses at DTL, dragging down Rail segment.** Costs at Downtown Line (DTL) were higher sequentially, in preparation for DTL3 revenue service commencing on 21 October. Fixed costs for DTL should be peaking and the higher revenue from ridership should largely flow through to profits despite the higher variable costs (electricity & maintenance). North East Line remains profitable with 1.4% YoY ridership growth.

### Outlook

The outlook is positive. Although immediate-term earnings are weighed down by weaker Singapore Taxi business and foreign currency translation effects, there are several visible developments in the pipeline: (1.) opening of DTL3 to contribute positively from 4Q17, (2.) full year impact of BCM in 2017, (3.) Seletar bus package contribute positively from 1Q18. Consequently, we see PATMI bottoming this year. Positive catalyst if ComfortDelGro is awarded the contract to operate the Thomson-East Coast Line.

### Upgrade to Buy from Accumulate; lower target price of \$2.78 (previous: \$3.02)

Made some tweaks to our assumptions. FY17e/FY18e revenue is -0.4%/-0.9% from previous and PATMI is +3.1%/+1.2% from previous. We also have a higher WACC of 7.8% (previously: 7.5%). Our target price represents an implied 20.6x FY17e forward P/E multiple, compared to the Straits Times Index twelve-month forward P/E multiple of 14.7x.

14 August 2017

### Buy (Upgrade)

LAST CLOSE PRICE	SGD 2.31
FORECAST DIV	SGD 0.043
TARGET PRICE	SGD 2.78
TOTAL RETURN	22.2%

### COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN):	2,163
MARKET CAP (USD mn / SGD mn):	3669 / 4996
52 - WK HI/LO (SGD):	2.98 / 2.2
3M Average Daily T/O (mn):	8.93

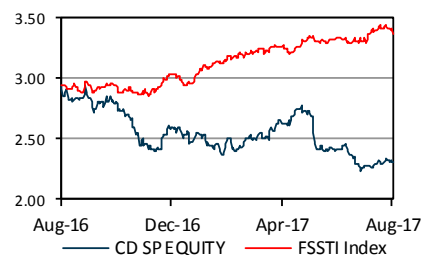
### MAJOR SHAREHOLDERS (%)

BLACKROCK	6.0%
SCHRODERS PLC	5.0%
SCHRODER INVESTMENT MGMT GROUP	3.1%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	13	(15.4)	(18.7)
STIRETURN	3.1	3.3	19.5

### 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	3,926	4,015
NPAT, adj (SGD mn)	302	317	292	326
EPS, adj. (cents)	14.1	14.7	14.0	15.1
P/E, adj. (x)	20.6	19.7	17.1	15.3
BVPS (cents)	140	148	153	159
P/B (x)	2.1	2.0	1.5	1.5
DPS (cents)	9.00	10.30	10.30	10.60
Div. Yield (%)	3.1	3.6	4.5	4.6

Source: Company Data, PSR est.

### VALUATION METHOD

DCF (WACC: 7.8%; Terminal g: 10%)

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## Revenue by Business Segments

(SGD mn)	2Q17	2Q16	YoY	Comments
Public Transport Services	586	578	1.4%	Actual increase partially eroded by unfavourable foreign currency translation from weaker GBP, offset by stronger AUD
Taxi	304	340	-10.7%	Increased competition and unfavourable foreign currency translation from weaker GBP and RMB offset by stronger AUD
Bus Station	6.6	7.0	-5.7%	
Automotive Engineering Services	46.8	52.0	-10.0%	Reduction in repairs and maintenance of taxis and lower volume of diesel sold due to smaller taxi fleet
Inspection & Testing Services	24.8	26.1	-5.0%	Lower business volumes
Car Rental & Leasing	8.9	9.2	-3.3%	
Driving Centre	10.3	9.9	4.0%	

Source: Company, PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	4,051	4,112	4,060	3,926	4,015
EBITDA	796	840	858	818	821
Depreciation & Amortisation	(354)	(389)	(396)	(410)	(380)
EBIT	442	451	462	408	441
Net Finance (Expense)/Inc	(10)	(3)	(1)	9	10
Associates & JVs	4	5	5	5	6
Profit Before Tax	436	452	467	422	457
Taxation	(92)	(88)	(88)	(74)	(80)
Profit After Tax	344	364	378	349	376
- Non-controlling interest	61	62	61	46	51
PATMI, reported	284	302	317	303	326
PATMI, adj.	284	302	317	292	326

### Per share data (cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	13.29	14.07	14.72	14.04	15.11
EPS, adj.	13.29	14.07	14.72	13.52	15.11
DPS	8.25	9.00	10.30	10.30	10.60
BVPS	132.7	140.1	148.0	152.8	158.7

### Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	436	452	467	422	457
Adjustments	262	253	291	396	364
WC changes	24	(23)	9	(10)	7
Cash generated from ops	722	682	766	808	828
Others	(83)	(82)	(63)	(74)	(82)
Cashflow from ops	639	600	703	734	746
CFI					
CAPEX, net	(471)	(388)	(388)	(198)	(203)
Divd from associates & JVs	3	3	3	4	4
Others	(16)	13	14	18	14
Cashflow from investments	(485)	(372)	(371)	(177)	(185)
CFF					
Share issuance, net	23	18	13	-	-
Loans, net of repayments	(62)	(190)	(209)	(169)	(80)
Dividends	(198)	(214)	(230)	(246)	(248)
Others	74	117	106	(11)	(6)
Cashflow from financing	(163)	(269)	(321)	(426)	(334)
Net change in cash	(8)	(41)	10	132	227
Effects of exchange rates	3	3	(19)	-	-
CCE, end	826	788	779	911	1,138

### Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
PPE	2,895	2,909	2,887	2,675	2,498
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>3,663</b>	<b>3,489</b>
Inventories	72	75	82	79	81
Accounts Receivables	117	139	237	230	235
Prepayments	197	277	153	148	151
Cash	826	788	779	911	1,138
Others	27	1	-	-	-
<b>Total current assets</b>	<b>1,239</b>	<b>1,280</b>	<b>1,251</b>	<b>1,367</b>	<b>1,605</b>
<b>Total Assets</b>	<b>5,231</b>	<b>5,216</b>	<b>5,122</b>	<b>5,030</b>	<b>5,094</b>

### LIABILITIES

Short term loans	243	126	169	80	80
Accounts Payables	837	833	771	746	763
Others	178	177	171	170	169
<b>Total current liabilities</b>	<b>1,258</b>	<b>1,137</b>	<b>1,112</b>	<b>997</b>	<b>1,012</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>1,735</b>	<b>1,671</b>

### EQUITY

Non-controlling interest	649	678	717	739	764
<b>Shareholder Equity</b>	<b>2,190</b>	<b>2,335</b>	<b>2,476</b>	<b>2,556</b>	<b>2,660</b>

### Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	20.0	20.6	19.7	17.1	15.3
P/B (X)	2.0	2.1	2.0	1.5	1.5
EV/EBITDA (X), adj.	7.0	7.1	6.8	5.2	4.8
Dividend Yield (%)	3.1%	3.1%	3.6%	4.5%	4.6%

### Growth & Margins (%)

<b>Growth</b>					
Revenue	8.1%	1.5%	-1.3%	-3.3%	2.3%
EBITDA	4.2%	5.6%	2.2%	-4.7%	0.3%
EBIT	3.7%	1.9%	2.6%	-11.7%	8.0%
Net Income, adj.	7.7%	6.5%	5.0%	-8.0%	11.8%
<b>Margins</b>					
EBITDA margin	19.6%	20.4%	21.1%	20.8%	20.4%
EBIT margin	10.9%	11.0%	11.4%	10.4%	11.0%
PBT margin	10.8%	11.0%	11.5%	10.8%	11.4%
Net Profit Margin	7.0%	7.3%	7.8%	7.4%	8.1%

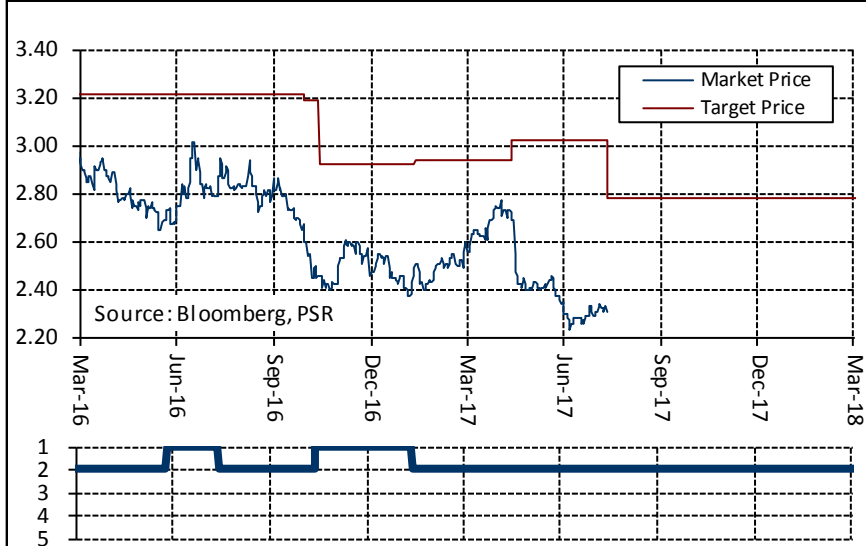
### Key Ratios

ROE (%)	13.1%	13.3%	13.2%	11.6%	12.5%
ROA (%)	5.5%	5.8%	6.1%	5.7%	6.4%
Net Debt or (Net Cash)	-89	-229	-434	-735	-1,042
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company Data, PSR est.

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

## 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

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