

ComfortDelGro Corp Ltd

Earnings to bottom out in FY17e



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SINGAPORE | TRANSPORT SERVICES | UPDATE

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- Earnings to bottom in FY17e due to three factors: 1.) Recognition of higher bus revenue, 2.) Narrowing of DTL losses and 3.) Strategic alliance with Uber.
- Maintain Buy; unchanged target price of \$2.63

Earnings for ComfortDelGro (CD) over the last few quarters had been eroded by competition from ride-hailing apps, start-up costs for Downtown Line Stage 3 (DTL3) and negative currency impact. In this report, we highlight the three swing factors which in our view will lead to FY18e earnings growth.

How do we view this?

Bus: Recognition of higher revenue in FY18e

Service quality incentives for bus services performed in FY17 under the bus contracting model (BCM) to be recognised in FY18e, which we estimate to contribute an additional \$9mn to CD's FY18e PATMI. SBS Transit will also take-over the Seletar package in 1Q 2018, and we estimate this to contribute an additional \$4.2mn to CD's FY18e PATMI. Bear in mind that SBS Transit is 75%-owned by CD and only 75% of SBS Transit's NPAT flows to CD's PATMI.

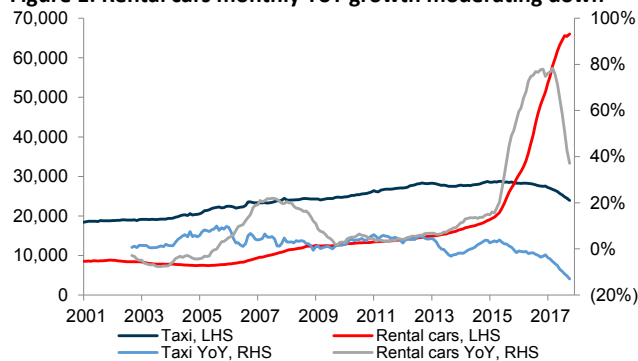
Rail: Operating losses estimated to narrow by ~70% YoY in FY18e

This comes on the back of the commencement of DTL3 on Oct. 21, 2017. We are expecting 47% YoY higher revenue in FY18e for DTL, with corresponding higher variable opex – specifically electricity costs. Staff costs in FY18e should remain comparable with the start-up phase seen in FY17e. While DTL will remain loss-making in FY18e, we are expecting \$18.9mn YoY higher PATMI contribution for CD, due to the narrowing of DTL operating loss.

Taxi: Rental cars growth moderating; tie-up with LCR is a near-term positive

Monthly data from the Land Transport Authority shows that Rental cars population growth rate had peaked and stagnated from mid-2016 to mid-2017, and has since moderated downwards. On the acquisitions front, we are of the view that the strategic alliance with Uber through Lion City Rentals (LCR) should bring near-term respite, with the profitable LCR operations partially offsetting the lower Taxi earnings. We currently estimate \$13mn YoY lower PATMI from Singapore Taxi business in FY18e.

Figure 1: Rental cars monthly YoY growth moderating down



Source: Bloomberg, LTA, PSR

Maintain Buy; unchanged target price of \$2.63

Pending the outcome of the public consultation, our forecast does not include the impact of the proposed ComfortDelGro-Uber strategic alliance. We have a "Buy" on the stock, as we see earnings bottoming in FY17e and the dividend yield of 5.2% is attractive.

BUY (Maintained)

LAST CLOSE PRICE	SGD 2.02
FORECAST DIV	SGD 0.103
TARGET PRICE	SGD 2.63
TOTAL RETURN	35.3%

COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN):	2,163
MARKET CAP (USD mn / SGD mn):	3287 / 4370
52 - WK HI/LO (SGD):	2.8 / 1.89
3M Average Daily T/O (mn):	10.00

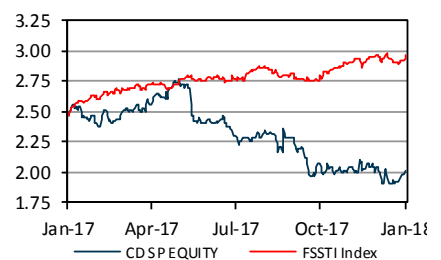
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(15)	(3.4)	(15.1)
STIRETURN	(0.4)	5.5	23.0

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	3,940	3,892
PATMI, adj (SGD mn)	302	317	304	313
EPS, adj. (cents)	14.1	14.7	14.6	14.5
P/E, adj. (x)	20.6	19.7	14.3	13.9
BVPS (cents)	140	148	153	159
P/B (x)	2.1	2.0	1.3	1.3
DPS (cents)	9.00	10.30	10.30	10.40
Div. Yield (%)	3.1	3.6	5.1	5.1

Source: Company Data, PSR est.

VALUATION METHOD

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

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Swing factors to FY18e earnings

Bus: Double joy of quality incentives and commencement of Seletar package

Assuming a 2% quality incentive

According to an early [media release on Oct 3, 2014](#) by the LTA for the first bus package, bus operators under the BCM are subject to service quality incentives or penalties of up to 10% of the annual service fee. We are currently assuming a 2% incentive for SBS Transit for bus services performed in 2017.

Potentially adding \$14.5mn quality incentive to revenue in FY18e

Based on our assumptions of 2% incentive and \$724mn contract revenue for eight packages, we estimate \$14.5mn quality incentives to be recognised in 2018 at the revenue and operating profit level, for the services performed in 2017. Note that public bus services transitioned to the GCM in September 2016, but we have assumed 12 months of incentives.

Accounting for 17% corporate tax and 25% minority interest in SBS Transit, results in ~\$9mn PATMI to CD from the service quality incentive.

Take-over of Seletar bus package, potentially an additional \$4.2mn of PATMI in FY18e

Contract values for the individual negotiated packages were not disclosed, but we make estimates for each of them using the total contract values of \$5,322mn and \$1,865mn for SBS Transit and SMRT Buses respectively, that were disclosed by the LTA in a [media release on 11 August 2016](#). Our revenue estimates for each of the packages are based on the number of services and duration (years); they do not account for other factors such as route length and service frequency.

For FY18e, we have estimated \$84.1mn revenue for the Seletar package based on 10.5 months operations (assuming commencement in the middle of 1Q 2018). Assuming an 8% operating margin and 17% tax, this would contribute ~\$6.7mn to EBIT and ~\$4.2mn PATMI.

Back-of-the-envelope estimates for the 14 packages under Bus Contracting Model

Package Name	Services	Operator	Duration (years)	Contract value disclosed by LTA (\$ mn)	PSR estimate of contract value (\$ mn)	PSR estimate of ANNUAL revenue (\$ mn)
Packages tendered through competitive bidding						
Bulim	26	Tower Transit Singapore	5	556		111
Loyang	25	Go-ahead Singapore	5	498		100
Seletar	26	SBS Transit	5	480		96
Negotiated packages						
Bukit Merah	18	SBS Transit	2	5,322	133	66
Sengkang - Hougang	30		5		554	111
Bedok	24		7		620	89
Tampines	27		8		798	100
Jurong West	26		8		768	96
Serangoon - Eunos	23		9		765	85
Clementi	24		9		798	89
Bishan - Toa Payoh	24		10		886	89
Sembawang - Yishun	23	SMRT Buses	4	1,865	371	93
Choa Chu Kang - Bukit Panjang	32		7		902	129
Woodlands	21		7		592	85

Source: LTA, PSR estimates

Rail: Operating losses estimated to narrow by ~70% YoY in FY18e

- **Accumulated loss estimated at \$135mn by end of FY17e**

We used the SBS Transit balance sheet to deduce the accumulated losses and quarterly loss for DTL. DTL has always been loss-making every quarter since 1Q 2012. The accumulated loss for DTL stood at \$133mn as at 3Q 2017 and we estimate it to come up to \$135mn as at end of FY17e.

- **Assumed to reach breakeven in 3Q 2019 from FY17e \$35mn loss**

Following the commencement of DTL3 on Oct. 21, 2017, management expects DTL to breakeven in early 2019. We have assumed breakeven occurs in 3Q 2019. Hence, we are expecting FY19e to remain loss-making, and full year profit only from FY20e onwards. We have estimated \$10mn loss in FY18e and \$1mn loss in FY19e, narrowing from the estimated \$35mn loss in FY17e.

- **Revenue does not scale directly with ridership**

This is due to fare adjustments and the non-fare (advertising) component of revenue. Recall that there is a -2.2% fare adjustment effective Dec. 29, 2017.

Back-of-the-envelope estimates for Downtown Line

	FY12	FY13	FY14	FY15	FY16	FY17e	FY18e	FY19e
Average daily ridership ('000)	-	-	62	76	220	291	461	499
Ridership YoY growth				23%	189%	32%	58%	8%
Revenue (\$ mn), estimate				33	72	89	131	143
Cost (\$mn), estimate				(63)	(100)	(123)	(141)	(144)
DTL profit/(loss) (\$ mn)	(6)*	(16)*	(21)*	(30)*	(28)*	(35)	(10)	(1)
Accumulated profit/(loss) (\$ mn)	(6)*	(22)*	(43)*	(73)*	(101)*	(135)	(145)	(146)

Source: Company, PSR estimates

* Deduced from SBS Transit's balance sheet equity

Taxi: On the lookout for equilibrium between PHV and Taxis

- **Rental cars growth has started to moderate**

Rental cars population continues to grow, but at a slower clip. The moderation in monthly YoY growth rate could indicate a saturation in the Rental cars population; and equilibrium with Taxi population could be near.

- **Estimated \$13mn PATMI erosion from Taxis in FY18e, but less than the incremental PATMI from Bus and Rail**

Based on our estimates for Singapore Taxi in FY17e and FY18e, we expect about \$13mn YoY lower PATMI from Taxi in FY18e. However, this erosion is less than the incremental PATMI from the Bus and Rail segments.

- **LCR is profitable, so that is a positive for CD**

While Uber is loss-making, LCR is profitable. So the value proposition for CD in the recently announced strategic alliance with Uber through LCR is CD will be acquiring a stake in a profitable, albeit asset-heavy business model. In the immediate term, we view this as palatable, compared to engaging in the loss-making asset-light aspect of the PHV market.

Back-of-the-envelope estimates for Singapore Taxi

	FY17e	FY18e	YoY	Comments
Average taxi fleet (Comfort & CityCab)	15,500	14,000		14,306 as at Oct 2017
Idle rate	4.3%	1.0%		YoY lower idle rate as fleet size is rationalised
Average daily rate (\$)	110	100	(10.0)	Competitive pressure
Rental revenue (\$ mn)	596	506	(89.7)	
Revenue from cashless transactions (\$ mn)	300	280	(19.7)	In line with lower fleet leased out
Total revenue (\$ mn)	896	786	(109.4)	
EBIT margin	9%	8%		Historically ~12%
EBIT (\$ mn)	80.6	62.9	(17.7)	
Net profit (\$ mn)	66.9	52.2	(14.7)	
PATMI (\$ mn)	59.0	46.0	(13.0)	53.5% interest in CityCab

Source: Company, LTA, PSR estimates

Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	4,051	4,112	4,060	3,940	3,892
EBITDA	796	840	858	835	819
Depreciation & Amortisation	(354)	(389)	(396)	(410)	(380)
EBIT	442	451	462	425	439
Net Finance (Expense)/Inc	(10)	(3)	(1)	9	7
Associates & JVs	4	5	5	5	6
Profit Before Tax	436	452	467	439	452
Taxation	(92)	(88)	(88)	(78)	(81)
Profit After Tax	344	364	378	361	372
- Non-controlling interest	61	62	61	46	59
PATMI, reported	284	302	317	315	313
PATMI, adj.	284	302	317	304	313

Per share data (cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	13.29	14.07	14.72	14.61	14.51
EPS, adj.	13.29	14.07	14.72	14.10	14.51
DPS	8.25	9.00	10.30	10.30	10.40
BVPS	132.7	140.1	148.0	153.3	158.9

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	436	452	467	439	452
Adjustments	262	253	291	396	367
WC changes	24	(23)	9	(9)	(4)
Cash generated from ops	722	682	766	825	816
Others	(83)	(82)	(63)	(78)	(82)
Cashflow from ops	639	600	703	748	734
CFI					
CAPEX, net	(471)	(388)	(388)	(198)	(203)
Divd from associates & JVs	3	3	3	4	4
Others	(16)	13	14	18	11
Cashflow from investments	(485)	(372)	(371)	(177)	(188)
CFF					
Share issuance, net	23	18	13	-	-
Loans, net of repayments	(62)	(190)	(209)	(169)	(80)
Dividends	(198)	(214)	(230)	(246)	(252)
Others	74	117	106	(11)	(6)
Cashflow from financing	(163)	(269)	(321)	(426)	(338)
Net change in cash	(8)	(41)	10	145	208
Effects of exchange rates	3	3	(19)	-	-
CCE, end	826	788	779	925	1,133

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	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
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
Total non-current assets	3,991	3,937	3,871	3,663	3,489
Inventories	72	75	82	79	78
Accounts Receivables	117	139	237	230	228
Prepayments	197	277	153	148	146
Cash	826	788	779	925	1,133
Others	27	1	-	-	-
Total current assets	1,239	1,280	1,251	1,382	1,585
Total Assets	5,231	5,216	5,122	5,045	5,074

LIABILITIES

Short term loans	243	126	169	80	80
Accounts Payables	837	833	771	749	740
Others	178	177	171	170	169
Total current liabilities	1,258	1,137	1,112	999	989
Long term loans	494	432	176	96	16
Others	640	635	643	643	643
Total non-current liabilities	1,134	1,067	818	738	658
Total Liabilities	2,392	2,204	1,930	1,738	1,647

EQUITY

Non-controlling interest	649	678	717	739	768
Shareholder Equity	2,190	2,335	2,476	2,568	2,659

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	20.0	20.6	19.7	14.3	13.9
P/B (X)	2.0	2.1	2.0	1.3	1.3
EV/EBITDA (X), adj.	7.0	7.1	6.8	4.3	4.1
Dividend Yield (%)	3.1%	3.1%	3.6%	5.1%	5.1%

Growth & Margins (%)

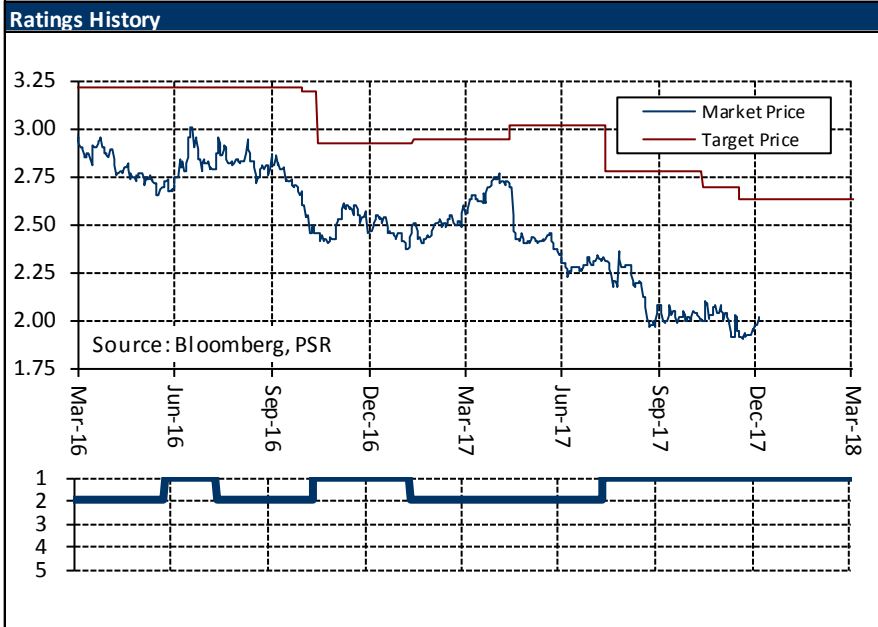
Growth					
Revenue	8.1%	1.5%	-1.3%	-3.0%	-1.2%
EBITDA	4.2%	5.6%	2.2%	-2.7%	-1.8%
EBIT	3.7%	1.9%	2.6%	-8.1%	3.5%
Net Income, adj.	7.7%	6.5%	5.0%	-4.1%	3.0%

Margins

EBITDA margin	19.6%	20.4%	21.1%	21.2%	21.1%
EBIT margin	10.9%	11.0%	11.4%	10.8%	11.3%
PBT margin	10.8%	11.0%	11.5%	11.1%	11.6%
Net Profit Margin	7.0%	7.3%	7.8%	7.7%	8.0%

Key Ratios

ROE (%)	13.1%	13.3%	13.2%	12.1%	12.0%
ROA (%)	5.5%	5.8%	6.1%	6.0%	6.2%
Net Debt or (Net Cash)	(89)	(229)	(434)	(748)	(1,036)
Net Gearing (X)					
	Net Cash	Net Cash	Net Cash	Net Cash	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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