

# SMRT Corporation Ltd

## Poor earnings outlook

Bloomberg | Reuters | POEMS  
MRT.SP | SMRT.SI | SMT.SG  
Industry: Land Transport

Phillip Securities Research Pte Ltd

1 February 2012

### Report type: Results

#### Company Overview

SMRT is a multi-modal land transport operator with exposures to various modes of operations, including rail, bus & taxi services. A significant part of its profits are generated from its ancillary businesses, such as advertising & rental of commercial spaces.

- 3QFY12 profits in line with estimates
- Expect expenses associated with train disruptions in coming year
- Cut estimates by 6.4-10.2% for the next 3 years
- Maintain Sell with revised target price of S\$1.38

#### What is the news?

SMRT reported a decent set of results for 3QFY12. While revenue increased by 10% due to higher contribution across most business segments, net profits declined by 14%y-y due to higher operating expenses. SMRT's outlook statement has a negative tone as management guided that the profitability of its train operations would be impacted by consequential costs arising from the MRT disruptions in December. Furthermore, there could be impairment charges to the goodwill associated with its Bus business (S\$22mn on B/S), if diesel prices remain high.

Fig.1. Results Summary

Income Statement				
(Extract)	3QFY11	3QFY12	y-y (%)	Comments
<b>(S\$'mn)</b>				
Revenue	243.9	268.2	10.0%	Broad based growth
EBITDA	82.8	81.3	-1.7%	Increase in OPEX
EBIT	52.1	46.4	-11.0%	Higher depreciation exp.
<b>Net Income</b>	<b>43.0</b>	<b>37.0</b>	<b>-13.9%</b>	<b>Sharp decline expected</b>

Source: Company, PSR

#### How do we view this?

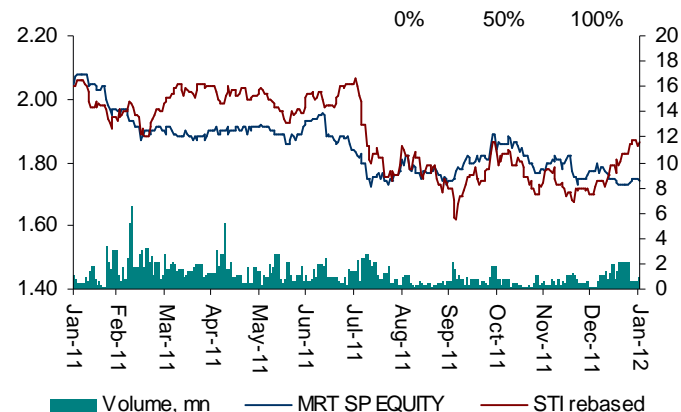
While profits declined significantly in the quarter, the margin pressures were within expectations with fleet expansion, higher energy prices and opening of CCL. However, the weak profit outlook, potential goodwill impairment charges and consequential expenses arising from the recent rail disruption presents downside risks to earnings over the next year. We cut our estimates by 6.4-10.2% for the next 3 years to account for all these factors.

#### Investment Actions?

Our target price is revised down to S\$1.38 following adjustments to our earnings estimates and assignment of a lower P/E multiple (15.0X from 18.0X) to the stock. We maintain our Sell recommendation as we believe that structural issues and uncertainties associated with the disruptions present significant risk to investors.

#### SMRT Corp. Ltd

<b>Rating</b>	<b>5</b>	<b>Sell</b>
- Previous Rating	5	Sell
<b>Target Price (SGD)</b>	<b>1.38</b>	
- Previous Target Price (SGD)	1.68	
Closing Price (SGD)	1.74	
Expected Capital Gains (%)	-20.7%	
Expected Dividend Yield (%)	4.9%	
<b>Expected Total Return (%)</b>	<b>-15.8%</b>	
Raw Beta (Past 2yrs weekly data)	0.39	
Market Cap. (USD mn)	2,113	
Enterprise Value (USD mn)	2,072	
3M Average Daily T/O (mn)	0.7	
52 week range (SGD)	1.68 - 2.09	
Closing Price in 52 week range		



#### Major Shareholders

	(%)
1. Temasek Holdings Pte Ltd	54.8
2. Capital Research Global Investor	3.4

#### Key Financial Summary

FYE	03/11	03/12F	03/13F	03/14F
Revenue (SGD mn)	970	1,052	1,118	1,153
Net Profit, adj. (SGD mn)	161	134	142	154
EPS, adj. (SGD)	0.11	0.09	0.09	0.10
P/E (X),adj.	16.4	19.7	18.6	17.1
BVPS (SGD)	0.53	0.53	0.54	0.56
P/B (X)	3.3	3.3	3.2	3.1
DPS (SGD)	0.09	0.09	0.09	0.09
Div. Yield (%)	4.9%	4.9%	5.0%	5.2%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

Blended Valuation: DCF (COE: 7.2%; terminal g: 0%), 15X P/E (FY12/13E)

#### Analyst

**Derrick Heng**

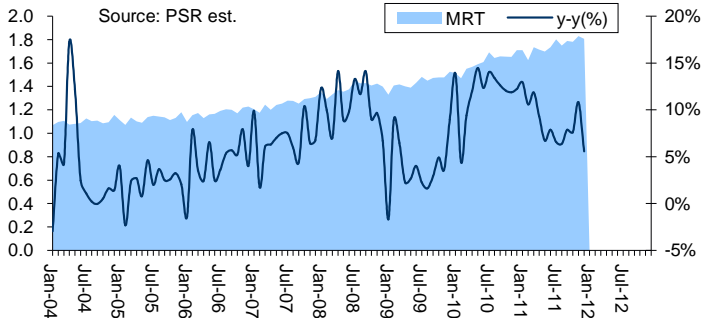
derrickhengch@phillip.com.sg

+65 6531 1221

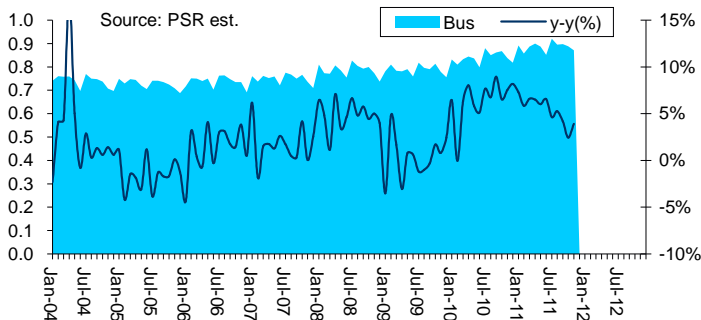
### Operating Statistics for the quarter

Despite the train disruptions, average daily ridership increased by 5.6%y-y in the month of December. We remain positive on ridership growth on the MRT system due to the progressive build up of ridership on CCL. For the quarter, CCL ridership appears to have stagnated sequentially at average weekday ridership of 300k.

**Fig.2. MRT ridership**



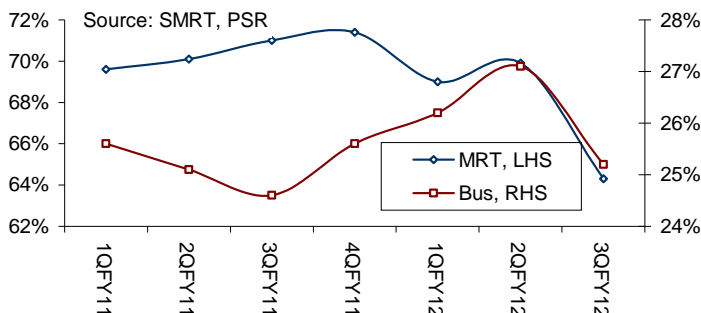
**Fig.3. Bus ridership**



### More space on trains & buses

With the ongoing capacity expansion by the company to the rail and bus network, load factors eased off significantly in the quarter. In particular, CCL stage 4 & 5's opening had injected a significant amount of capacity into the network, driving down load factors by 5.6ppt. Less packed trains & buses implies that growth in operating expenses would likely outpace growth in revenue collection.

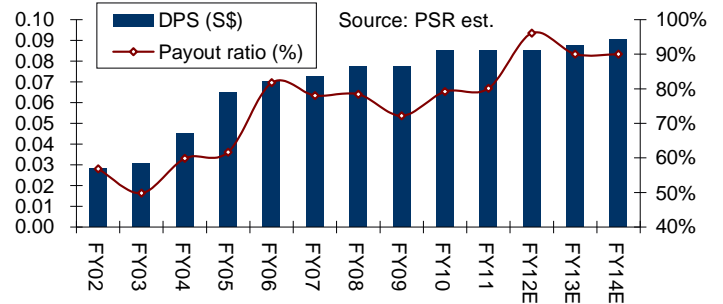
**Fig.4. Loading on MRT & Bus declined**



### Dividend payout to be maintained

Due to the significant cash outflow from higher CAPEX this year, we were concerned that dividend payout could be cut. However, management guided that the company would aim to maintain its absolute level of dividend distribution to shareholders. This can be achieved by raising the debt levels of the company, which is currently still in a net cash position. However, we estimate that in order to maintain its absolute dividend distribution, the company's payout ratio would need to be lifted to >90% over the next 3 years.

**Fig.5. Dividend & payout ratio**



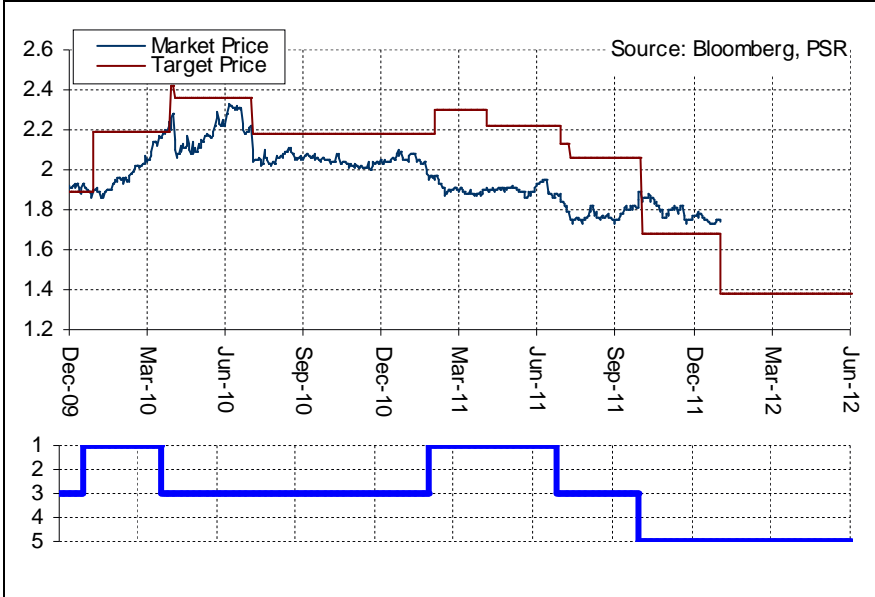
FYEMar	FY10	FY11	FY12F	FY13F	FY14F
<b>Valuation Ratios</b>					
P/E (X), adj.	16.2	16.4	19.7	18.6	17.1
P/B (X)	3.4	3.3	3.3	3.2	3.1
EV/EBITDA (X), adj.	8.1	8.2	8.8	7.5	7.0
Dividend Yield (%)	4.9%	4.9%	4.9%	5.0%	5.2%
<b>Per share data (SGD)</b>					
EPS, reported	0.11	0.11	0.09	0.09	0.10
EPS, adj.	0.11	0.11	0.09	0.09	0.10
DPS	0.09	0.09	0.09	0.09	0.09
BVPS	0.51	0.53	0.53	0.54	0.56
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	1.8%	8.3%	8.5%	6.2%	3.2%
EBITDA	7.3%	-1.9%	-6.3%	17.5%	6.2%
EBIT	8.0%	-4.1%	-15.7%	8.6%	8.4%
Net Income, adj.	0.1%	-1.1%	-16.6%	5.7%	8.8%
<b>Margins</b>					
EBITDA margin	35.9%	32.5%	28.0%	31.0%	31.9%
EBIT margin	22.8%	20.2%	15.7%	16.0%	16.8%
Net Profit Margin	18.2%	16.6%	12.8%	12.7%	13.4%
<b>Key Ratios</b>					
ROE (%)	21.8%	20.5%	16.8%	17.5%	18.6%
ROA (%)	10.6%	10.1%	7.6%	7.3%	7.8%
Net Debt/(Cash)	(76)	(126)	305	202	109
Net Gearing (X)	Net Cash	Net Cash	0.38	0.25	0.13
<b>Income Statement (SGD mn)</b>					
<b>Revenue</b>	<b>895</b>	<b>970</b>	<b>1,052</b>	<b>1,118</b>	<b>1,153</b>
<b>EBITDA</b>	<b>321</b>	<b>315</b>	<b>295</b>	<b>346</b>	<b>368</b>
Depreciation & Amortisation	(117)	(119)	(130)	(167)	(174)
<b>EBIT</b>	<b>204</b>	<b>196</b>	<b>165</b>	<b>179</b>	<b>194</b>
Net Finance (Expense)/Income	(6)	(5)	(5)	(11)	(10)
Other items	(7)	0	0	0	0
Associates & JVs	1	1	2	2	2
<b>Profit Before Tax</b>	<b>192</b>	<b>192</b>	<b>161</b>	<b>170</b>	<b>186</b>
Taxation	(29)	(31)	(27)	(28)	(31)
<b>Profit After Tax</b>	<b>163</b>	<b>161</b>	<b>134</b>	<b>142</b>	<b>154</b>
Non-controlling Interest	0	0	0	0	0
<b>Net Income, reported</b>	<b>163</b>	<b>161</b>	<b>134</b>	<b>142</b>	<b>154</b>
<b>Net Income, adj.</b>	<b>163</b>	<b>161</b>	<b>134</b>	<b>142</b>	<b>154</b>

Source: PSR

FYEMar	FY10	FY11	FY12E	FY13E	FY14E
<b>Balance Sheet (SGD mn)</b>					
PPE	1,037	998	1,457	1,379	1,305
Intangibles	35	35	35	35	35
Associates & JVs	66	64	65	67	68
Investments	0	0	0	0	0
Others	13	10	10	10	10
<b>Total non-current assets</b>	<b>1,151</b>	<b>1,108</b>	<b>1,568</b>	<b>1,491</b>	<b>1,419</b>
Inventories	50	54	43	44	44
Accounts Receivables	54	65	69	73	76
Investments	2	4	4	4	4
Cash	326	376	245	348	441
Others	0	1	1	1	1
<b>Total current assets</b>	<b>432</b>	<b>499</b>	<b>362</b>	<b>470</b>	<b>566</b>
<b>Total Assets</b>	<b>1,583</b>	<b>1,607</b>	<b>1,929</b>	<b>1,961</b>	<b>1,985</b>
Short term loans	0	100	100	100	100
Accounts Payables	292	312	342	371	378
Others	26	28	28	28	28
<b>Total current liabilities</b>	<b>318</b>	<b>441</b>	<b>470</b>	<b>500</b>	<b>506</b>
Long term loans	250	150	450	450	450
Others	245	217	205	195	185
<b>Total non-current liabilities</b>	<b>495</b>	<b>367</b>	<b>655</b>	<b>645</b>	<b>635</b>
Non-controlling interest	0	0	0	0	0
<b>Shareholder Equity</b>	<b>770</b>	<b>799</b>	<b>804</b>	<b>817</b>	<b>844</b>
<b>Cashflow Statements (SGD mn)</b>					
CFO					
PBT	192	192	161	170	186
Adjustments	147	145	134	177	182
Cash from ops before WC changes	338	336	295	346	368
WC changes	6	(14)	35	24	4
Cash generated from ops	344	322	330	370	372
Taxes paid, net	(10)	(32)	(27)	(28)	(31)
Interest paid	(7)	(7)	(7)	(13)	(13)
<b>Cashflow from ops</b>	<b>327</b>	<b>283</b>	<b>296</b>	<b>329</b>	<b>327</b>
CFI					
CAPEX, net	(51)	(103)	(600)	(100)	(110)
Dividends from associates & JVs	0	0	0	0	0
Dividends/Interest from Investments	2	2	2	2	3
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	(79)	(3)	0	0	0
Others	0	0	0	0	0
<b>Cashflow from investments</b>	<b>(127)</b>	<b>(104)</b>	<b>(598)</b>	<b>(98)</b>	<b>(107)</b>
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	(1)	0	300	0	0
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(118)	(129)	(129)	(129)	(128)
Others	0	0	0	0	0
<b>Cashflow from financing</b>	<b>(119)</b>	<b>(129)</b>	<b>171</b>	<b>(129)</b>	<b>(128)</b>
<b>Net change in cash</b>	<b>81</b>	<b>51</b>	<b>(131)</b>	<b>103</b>	<b>93</b>
Effects of exchange rates	(0)	(1)	0	0	0
<b>CCE, end</b>	<b>326</b>	<b>376</b>	<b>245</b>	<b>348</b>	<b>441</b>

Source: PSR

**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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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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**Contact Information (Singapore Research Team)**

---

**Chan Wai Chee**  
CEO, Research  
Special Opportunities  
+65 6531 1231  
yebo@phillip.com.sg

**Magdalene Choong**  
Investment Analyst  
SG & US Financials, Gaming  
+65 6531 1791  
magdalenechoongss@phillip.com.sg

**Nicholas Low, CFA**  
Investment Analyst  
Commodities, Offshore & Marine  
+65 6531 1535  
nicholaslowkc@phillip.com.sg

**Lee Kok Joo, CFA**  
Head of Research  
S-Chips, Strategy  
+65 6531 1685  
leekj@phillip.com.sg

**Go Choon Koay, Bryan**  
Investment Analyst  
Property  
+65 6531 1792  
gock@phillip.com.sg

**Travis Seah**  
Investment Analyst  
REITS  
+65 6531 1229  
travisseahhk@phillip.com.sg

**Joshua Tan**  
Strategist  
+65 6531 1249  
joshuatan@phillip.com.sg

**Derrick Heng**  
Investment Analyst  
Transportation, Telecom.  
+65 6531 1221  
derrickhengch@phillip.com.sg

**Peter Lee**  
Research Assistant  
General Enquiries  
+65 6531 1240 (Phone)  
+65 6336 7607 (Fax)  
research@phillip.com.sg



**Contact Information (Regional Member Companies)**

---

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 37, 530 Collins Street,  
Melbourne, Victoria 3000, Australia  
Tel (613) 96298380  
Fax (613) 96148309  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel (86-21) 51699200  
Fax (86-21) 63512940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005