

SMRT Corporation Ltd

Mounting Cost Pressure

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

Phillip Securities Research Pte Ltd

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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.

- Sharp fall in profits a surprise.
- Staff cost rose to an all time high.
- Lower than expected share of rail CAPEX is the only positive development.
- Maintain Sell with revised target price of S\$1.41.

What is the news?

SMRT reported a sharp fall in net profit to S\$25.5mn (-31%y-y) in the quarter. While energy expenses remained stable, staff cost rose to a record high of S\$98.5mn (+18.2%y-y, +5.6%q-q). Management guided that the group's profitability in the next 15 months will deteriorate due to higher operating costs. Specifically, staff costs, depreciation expenses and repair & maintenance costs are likely to increase further.

Fig 1. Results Summary

Income Statement				
(Extract)	3QFY12	3QFY13	y-y (%)	Comments
(S\$'mn)				
Revenue	268.2	281.7	5.0%	
EBITDA	81.3	71.0	-12.7%	Higher staff cost
EBIT	46.4	32.0	-30.9%	
Net Income, adj.	37.0	25.5	-31.2%	Negative Surprise

Source: Company, PSR

How do we view this?

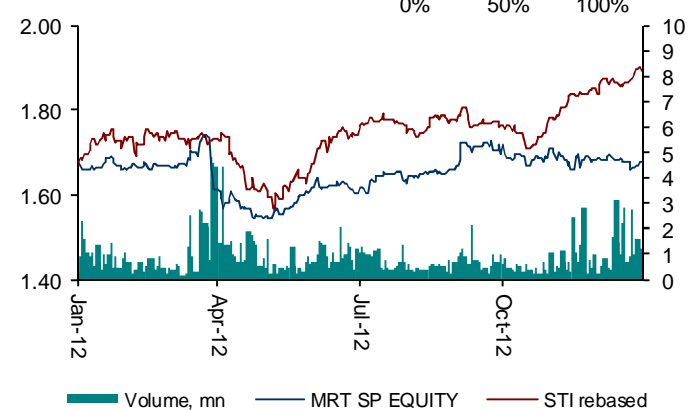
SMRT's results for this quarter surprised on the downside. Operating losses at the bus segment of S\$7mn continued to be a drag on the group's profits. Higher staffing levels for maintenance work also led to a significant fall in profits for the rail business. The only positive development is the lower than expected share of CAPEX to be borne by SMRT for the upgrading of rail assets.

Investment Actions?

We believe that SMRT would suffer from structurally lower profitability at its core fare based business. While healthy contribution from the ancillary businesses would provide some buffer, we expect unexciting earnings in the near term with the mounting cost pressure at the core business. Our target price is revised up to S\$1.41 (previous: S\$1.35) as the lower than expected rail CAPEX led to higher FCF projections. With the stock trading at a hefty 21X FY14E P/E, we see no reason to own this stock. Maintain Sell.

SMRT Corp. Ltd

Rating	5	Sell
- Previous Rating	5	Sell
Target Price (SGD)	1.41	
- Previous Target Price (SGD)	1.35	
Closing Price (SGD)	1.68	
Expected Capital Gains (%)	-15.8%	
Expected Dividend Yield (%)	4.2%	
Expected Total Return (%)	-11.6%	
Raw Beta (Past 2yrs weekly data)	0.33	
Market Cap. (USD mn / SGD mn)	2058 / 2548	
Enterprise Value (USD mn / SGD mn)	2082 / 2576	
3M Average Daily T/O (mn)	0.8	
52 week range (SGD)	1.6 - 1.84	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Temasek Holdings Pte Ltd	54.3
2. Capital Research Global Investor	3.4

Key Financial Summary

FYE	03/12	03/13F	03/14F	03/15F
Revenue (SGD mn)	1,057	1,135	1,180	1,220
Net Profit, adj. (SGD mn)	120	126	123	130
EPS, adj. (SGD)	0.079	0.083	0.081	0.085
P/E (X),adj.	21.2	20.3	20.8	19.6
BVPS (SGD)	0.521	0.531	0.539	0.550
P/B (X)	3.2	3.2	3.1	3.0
DPS (SGD)	0.075	0.070	0.075	0.075
Div. Yield (%)	4.4%	4.2%	4.4%	4.4%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

Blended Valuation: DCF (WACC: 5.6%; terminal g: 0%), 15X P/E (FY13/14)

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Cost pressures to intensify

Despite record high levels of staff and maintenance expenses in the quarter, management guidance seems to indicate that cost pressures would intensify over the next 15 months. Headcounts are expected to increase from the existing 7,350 to 7,700 by the end of the year. Furthermore, upwards adjustments to wages will keep overall staff cost elevated. Depreciation expenses are also likely to increase due to a larger fleet size and the takeover of certain operating assets from LTA.

Fig 2. Structurally higher staff cost

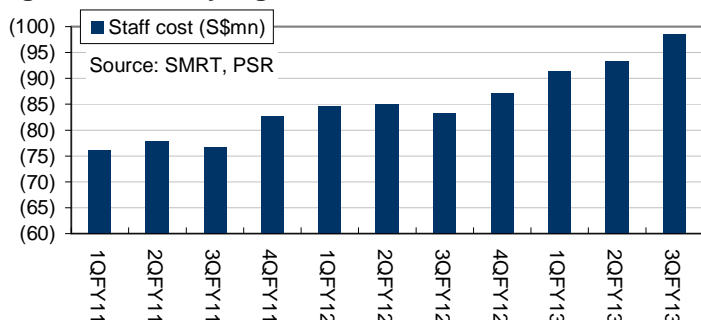
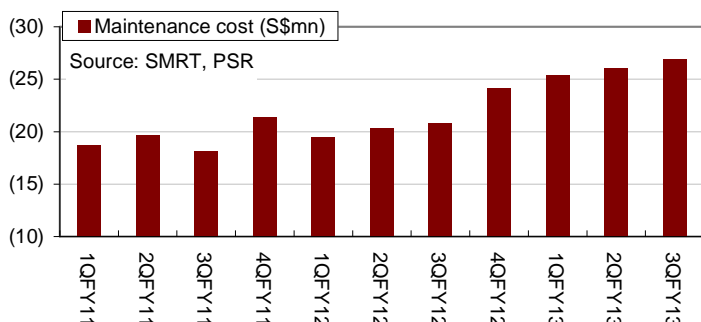


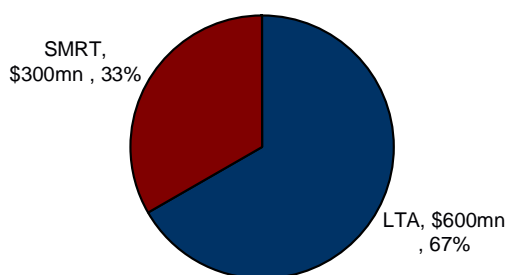
Fig 3. Elevated maintenance expense likely to stay



Lower than expected share of rail upgrading CAPEX

During the results conference call, Management guided that of the S\$900mn rail upgrading CAPEX, S\$600mn would be incurred by the LTA. SMRT is required to fund the remaining S\$300mn for the upgrading of its signaling system (c.S\$250mn) and other miscellaneous works (c.S\$50mn). The portion of rail upgrading CAPEX to be incurred by SMRT is significantly lower than our earlier assumption of 75% and is a positive takeaway from the conference call.

Fig 4. CAPEX split between LTA & SMRT

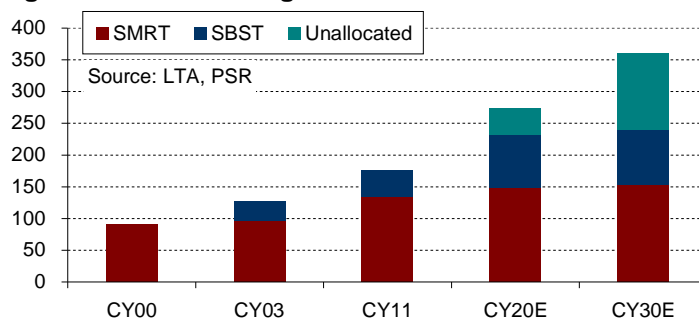


Source: SMRT

Opportunities from the growing rail network

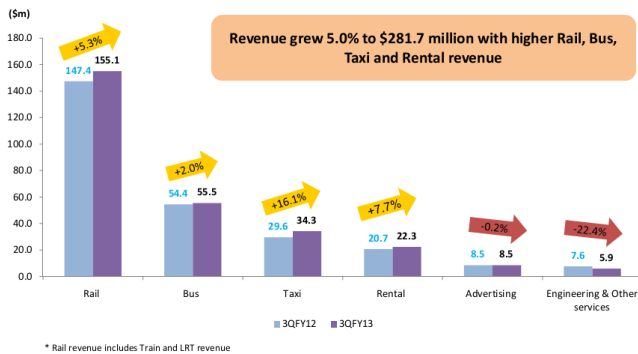
As part of the Land Transport Masterplan 2013, LTA recently highlighted plans to double Singapore's rail network to 360km by 2030. By our estimates, approximately 34% of the rail network in 2030 remains unallocated to either operator. Hence, we believe that any award of concessions to operate the future rail lines would be a positive development for SMRT.

Fig 5. Rail Network to grow



Source: LTA, PSR

Revenue Growth

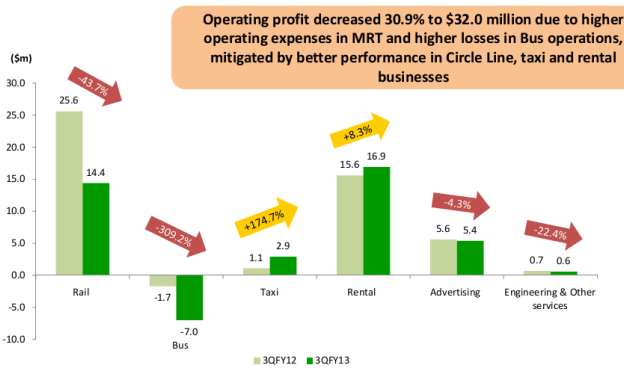


Fare Business

	TRAIN			LRT			BUS		
	3Q13	3Q12	% chg	3Q13	3Q12	% chg	3Q13	3Q12	% chg
Total Ridership (million)	174.3	166.1	4.9	4.7	4.5	2.9	82.5	79.3	4.0
Average Fare (cents)	87.5	87.3	0.3	55.2	53.9	2.3	62.7	64.4	(2.6)
Revenue (\$m)	152.6	144.9	5.3	2.6	2.4	5.3	55.5	54.4	2.0
EBIT (\$m)	14.7	25.7	(42.7)	(0.3)	(0.1)	(227.2)	(7.0)	(1.7)	(309.2)

- Fare Revenue up 4.4% to \$210.7 million, EBIT down 69.1% to \$7.4 million
- Lower Train operating profit due to higher staff costs, repairs and maintenance and electricity expenses
- Higher Bus operating loss due to higher staff costs, depreciation of a larger fleet and repairs and maintenance, partially offset by lower diesel costs

Operating Profit



Rental & Advertising Business

	Rental			Advertising		
	3Q13	3Q12	% chg	3Q13	3Q12	% chg
Average lettable space (sqm)	34,863	34,487	1.1	-	-	-
Revenue (\$m)	22.3	20.7	7.7	8.5	8.5	(0.2)
EBIT (\$m)	16.9	15.6	8.3	5.4	5.6	(4.3)

- Higher Rental EBIT due to increased spaces following new and redevelopment of commercial spaces at various stations in the network
- Lower Advertising EBIT due to higher operating expenses as revenue remained flat

FY2013 Outlook

Group Operating Expenses

Staff Cost ↑ Higher headcount and market wage adjustments for Bus and Train operations

Depreciation R&M cost ↑ Enlarged train fleet, taking over of certain operating assets from LTA and continuing efforts to enhance the service and reliability of an aging fleet and rail network

FY2013 Capex Revised FY13 capex to \$350-400 million, from initial \$500 million estimates, as some projects are rescheduled to FY14

Taxi & Engineering Businesses

	Taxi			Engineering & Other Services		
	3Q13	3Q12	% chg	3Q13	3Q12	% chg
Holding Fleet (as at end period)	3,494	3,133	11.5	-	-	-
Revenue (\$m)	34.3	29.6	16.1	5.9	7.6	(22.4)
EBIT (\$m)	2.9	1.1	174.7	0.6	0.7	(22.4)

- Taxi EBIT rose to \$2.9 million due to higher revenue with a newer and larger hired out fleet
- EBIT from Engineering and Other Services dropped 22.4% due mainly to lower external fleet maintenance revenue

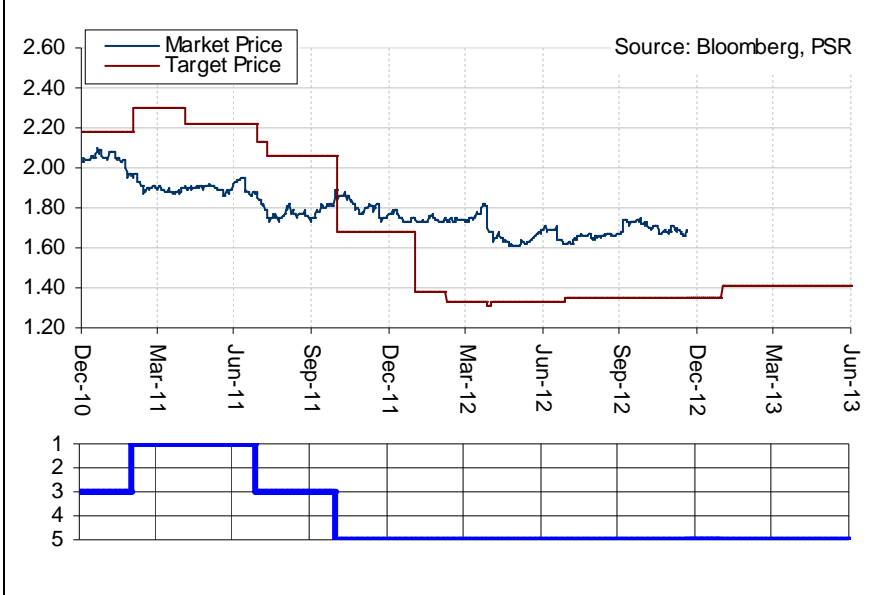
FYEMar	FY11	FY12	FY13F	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.	15.8	21.2	20.3	20.8	19.6
P/B (X)	3.2	3.2	3.2	3.1	3.0
EV/EBITDA (X), adj.	8.2	8.6	8.3	7.7	7.3
Dividend Yield (%)	5.1%	4.4%	4.2%	4.4%	4.4%
Per share data (SGD)					
EPS, reported	0.106	0.079	0.083	0.081	0.085
EPS, adj.	0.106	0.079	0.083	0.081	0.085
DPS	0.085	0.075	0.070	0.075	0.075
BVPS	0.526	0.521	0.531	0.539	0.550
Growth & Margins (%)					
Growth					
Revenue	8.3%	9.0%	7.3%	4.0%	3.3%
EBITDA	-1.9%	-4.7%	3.4%	7.3%	6.5%
EBIT	-4.1%	-12.9%	-7.3%	-1.1%	5.9%
Net Income, adj.	-1.1%	-25.6%	4.8%	-2.4%	6.0%
Margins					
EBITDA margin	32.5%	28.4%	27.3%	28.2%	29.0%
EBIT margin	20.2%	16.1%	13.9%	13.2%	13.6%
Net Profit Margin	16.6%	11.3%	11.1%	10.4%	10.7%
Key Ratios					
ROE (%)	20.5%	15.1%	15.7%	15.1%	15.7%
ROA (%)	10.1%	7.1%	6.8%	6.4%	6.7%
Net Debt/(Cash)	(126)	(45)	451	535	494
Net Gearing (X)	Net Cash	Net Cash	0.56	0.65	0.59
Income Statement (SGD mn)					
Revenue	970	1,057	1,135	1,180	1,220
EBITDA	315	300	310	333	354
Depreciation & Amortisation	(119)	(130)	(152)	(176)	(189)
EBIT	196	170	158	156	165
Net Finance (Expense)/Income	(5)	(4)	(6)	(9)	(10)
Other items	0	(22)	0	0	0
Associates & JVs	1	3	(1)	1	1
Profit Before Tax	192	147	151	148	156
Taxation	(31)	(27)	(25)	(25)	(26)
Profit After Tax	161	120	126	123	130
Non-controlling Interest	0	0	0	0	0
Net Income, reported	161	120	126	123	130
Net Income, adj.	161	120	126	123	130

Source: PSR

FYEMar	FY11	FY12	FY13F	FY14F	FY15F
Balance Sheet (SGD mn)					
PPE	998	1,346	1,559	1,644	1,612
Intangibles	35	14	14	14	14
Associates & JVs	64	68	67	67	68
Investments	10	15	15	15	15
Others	0	0	0	0	0
Total non-current assets	1,108	1,443	1,654	1,739	1,708
Inventories	54	54	59	58	60
Accounts Receivables	65	64	68	71	74
Investments	4	0	0	0	0
Cash	376	195	149	65	106
Others	1	0	0	0	0
Total current assets	499	313	276	194	240
Total Assets	1,607	1,756	1,930	1,933	1,948
Short term loans	100	0	0	0	0
Accounts Payables	312	566	285	285	293
Others	28	38	38	38	38
Total current liabilities	441	604	323	323	331
Long term loans	150	150	600	600	600
Others	217	210	200	190	180
Total non-current liabilities	367	360	800	790	780
Non-controlling interest	0	0	0	0	0
Shareholder Equity	799	791	808	820	837
Cashflow Statements (SGD mn)					
CFO					
PBT	192	147	151	148	156
Adjustments	145	175	159	185	198
Cash from ops before WC changes	336	322	310	333	354
WC changes	(14)	11	(291)	(1)	3
Cash generated from ops	322	332	19	332	357
Taxes paid, net	(32)	(43)	(25)	(25)	(26)
Interest paid	(7)	(7)	(7)	(10)	(10)
Cashflow from ops	283	282	(13)	297	320
CFI					
CAPEX, net	(107)	(234)	(375)	(271)	(166)
Dividends from associates & JVs	0	0	0	0	0
Dividends/Interest from Investments	2	2	1	1	0
Purchase/sale of investments	(1)	(2)	0	0	0
Investments in subs & associates	(1)	(7)	0	0	0
Others	0	0	0	0	0
Cashflow from investments	(104)	(234)	(374)	(271)	(166)
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	0	(100)	450	0	0
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(129)	(129)	(109)	(110)	(113)
Others	0	0	0	0	0
Cashflow from financing	(129)	(229)	341	(110)	(113)
Net change in cash	51	(181)	(47)	(84)	41
Effects of exchange rates	(1)	(0)	0	0	0
CCE, end	376	195	149	65	106

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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