

Land Transport Sector

Demand from taxi hirers returning



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9 May 2018

SINGAPORE | TRANSPORT SERVICES | UPDATE

- ComfortDelGro ordering 200 new taxis – its first in 1.5 years
- CCCS investigation into Grab and Uber transaction not completed, and being overtaken by events as new entrants have already entered the market
- Taxi population contracted at an accelerated pace, while Rental cars population stabilises as growth moderates
- Maintain Overweight on the Land Transport Sector, and "Buy" rating on ComfortDelGro Corp with unchanged target price of \$2.50.

What is the news?

- ComfortDelGro Taxi on May 7 [announced](#) that it has placed an order for 200 new hybrid Hyundai Ioniqs – its first in close to 1.5 years.
- On the same day, Grab and Uber [proposed](#) Smith & Williamson LLP (S&W) to be the independent monitoring trustee, to monitor compliance with terms of the Interim Measures Directions (IMD) issued by the Competition and Consumer Commission of Singapore (CCCS). The CCCS approved S&W's appointment. There is a list of seven terms that S&W is to monitor.

How do we view this?

The Positives

- Worst could be over for Taxi: Purchase of new taxis a sign of recovering demand.** Takeaways from the Media Release from ComfortDelGro are: the 200 new taxis will be immediately leased out; there is a growing line of would-be hirers; the number of new hirers that signed on in April 2018 was close to double that from a year ago. However, the 200 new taxis will not have a material impact as it increases the Comfort & CityCab fleet by only 1.6%.

The Negatives

- Some IMDs appear onerous on Grab and unlikely to be in place after investigations are completed.** Specifically, term a. which requires Grab to maintain its (artificial) pre-merger pricing, and term f. which disallows Grab from taking over Uber's operational data. Lifting of these interim terms would be positive for Grab and work against Taxis.

Investment Action

We maintain Overweight on the Land Transport sector. We were Overweight on the sector on the basis of regulatory reviews and changes that address *profitability* and *sustainability*, which is a structural positive for the sector. The revival in demand for Taxis is a mid-term catalyst for re-rating the sector.

We have a "Buy" rating on ComfortDelGro Corp with a target price of \$2.50. We forecast earnings to have bottomed in FY17, with the Public Transport Services segment largely driving earnings going forward.

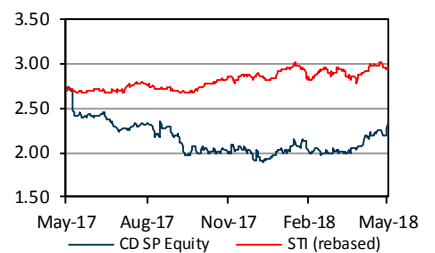
Note: ComfortDelGro Corp will be announcing its financial results for 1Q FY17 after trading hours on 11 May.

Overweight (Maintain)

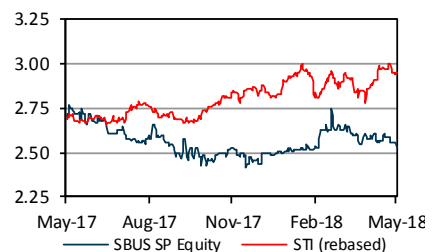
STOCK & INDEX PERFORMANCE (%)

	1M TH	3M TH	1YR
COMFORTDELGRO	12.1	14.9	(11.9)
SBS TRANSIT	0.8	2.3	(2.0)
STIRETURN	4.0	5.0	13.2

COMFORTDELGRO VS. STI



SBS TRANSIT VS. STI



Source: Bloomberg, PSR

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Taxi Outlook

- **The CCCS has yet to complete its investigation; and had put in place interim measures to "preserve and/or restore competition and market conditions"**

After the transaction between Grab and Uber was made public, the Competition and Consumer Commission of Singapore (CCCS) had issued Interim Measures Directions (IMD) to Grab and Uber, while it continued with its investigation. The shutdown of the Uber app was also extended twice with its final day of operation on May 7.

- **CCCS investigation being overtaken by events and losing relevance – competitors are already entering the market**

The objective of the CCCS's investigation is to determine whether the transaction between Grab and Uber would result in a substantial lessening of competition in Singapore. That was on the basis that Grab and Uber were a duopoly and hence had significant combined market share. The other concern was high barriers to entry which would impede new entrants to the ride-hailing space. However, we see that since Uber's exit, two other ride hailing apps, Jugnoo and Ryde, have already commenced operations. A third entrant after Uber's exit, Filo, is expected to start offering its service by the end of the month.

Figure 1: New entrants to the ride-hailing scene

Joining the fray

	Singapore launch date	Headquartered in	Unique feature
Jugnoo	May 1	India	Fare bidding system
Ryde	May 2	Singapore	Advance booking of up to seven days; 10 per cent driver commission
Filo	May	Singapore	12 per cent driver commission, capped at \$400 a month
Mass Vehicle Ledger (MVL)	End-July	Singapore	Drivers earn cryptocurrency incentives; Zero commission
Go-Jek	Next few months	Indonesia	Wide range of on-demand services from ride-hailing to food delivery
Dacsee	Q2, 2019	Malaysia	Blockchain technology

STRAITS TIMES GRAPHICS

Source: [The Straits Times](#)

- **Apart from losing relevance, the outcome of the CCCS investigation will likely be not meaningful**

The CCCS's mission is twofold – apart from creating choices for consumers it also has an interest not to impede innovative business models. Recall that Uber has already wound up. As such, enforcement action against an entity that no longer exists will be near impossible. That would leave any enforcement action to be directed at Grab. We think that early innovators should not be denied any first-mover advantage they have acquired. So, while Grab does have a significant market share in the private-hire car service space now, we do not think that anything meaningful will come out of the protracted investigation, just for the sake of levelling the playing field for new entrants.

We also point out that despite Grab having a significant market share in the private-hire space, the private-hire car service is not the sole point-to-point transportation available to riders – the legacy taxi is still the obvious alternative. Riders are not left at a disadvantage, nor coerced into continuing with private-hire car services by a lack of choice.

- **New entrants offering innovative pricing models to combat barriers to entry**

Barriers to entry exist due to the network effect. Drivers join an app because there are riders on the app, and riders join an app because there are drivers on the app. Supply and demand are matched quickly when there are participants on both sides. In order to gain a foothold, new entrants are offering innovative features, such as Jugnoo's reverse-bidding system where drivers bid on lower prices for jobs.

▪ **Reduction in user discounts and driver incentives were inevitable**

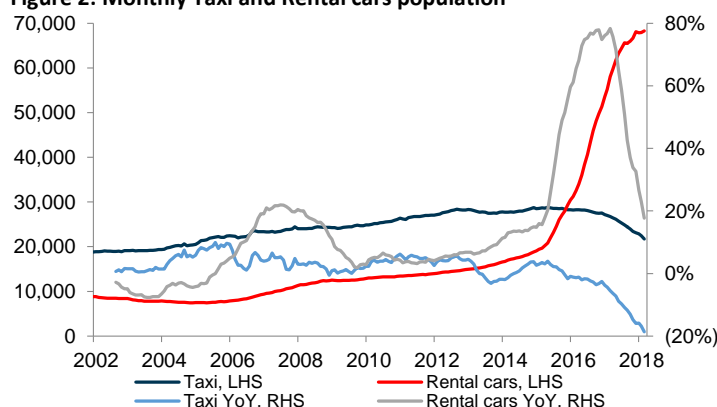
One of the IMDs requires Grab to maintain its pre-merger pricing. However, incentives and promotions were already "trending down" prior to the transaction, according to Grab, which now relies on a reward system of earning points to be exchanged for other goods and services. Through our anecdotal conversations with Grab drivers before the transaction was announced, the feedback that we received was the incentives were getting smaller and benchmarks to meet were getting higher.

The reduction in user discounts and driver incentives were inevitable because of the cash burn. In essence, investors in Grab and Uber were paying for the user discounts and driver incentives, in order to gain market share and this did not reflect the true economic cost of point-to-point transportation. This created an artificial demand and changed consumer behaviour. The cash burn with no profit was unsustainable.

▪ **March 2018: Rental car population YoY growth has moderated and Taxi contraction accelerated**

Monthly Rental car population YoY growth had peaked at high-70% in 4Q 2016 and tapered down during 2017. Rental car population had accordingly started to stagnate in 2H 2017. YoY growth for March 2018 has further moderated downward to 17.7%. Meanwhile Taxi population contracted 18.7% YoY.

Figure 2: Monthly Taxi and Rental cars population



Source: Bloomberg, LTA, PSR

▪ **3M-YTD: Taxi population contracted, while Rental cars stabilised**

In our previous report, we highlighted the Rental cars population had contracted -0.2% for 2M-YTD. However, there was YoY Rental car population growth in March, resulting in a 3M-YTD growth of +0.3%. Meanwhile, Taxi population contracted -6.0% YTD.

Singapore Taxi and Rental cars population

Y/E Dec	Mar-18	Mar-17	YoY	Dec-17	3M-YTD
Taxi	21,746	26,734	-18.7%	23,140	-6.0%
Rental cars	68,311	58,027	17.7%	68,083	0.3%

Source: Bloomberg, LTA, PSR

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