

Land Transport Sector

Taxi stabilising & fare increase for public transport



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SINGAPORE | TRANSPORT SERVICES | UPDATE

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OVERWEIGHT (Maintained)

- Maintain Overweight on the Land Transport sector due to positive industry restructuring and the worst being over for the Taxi industry
- PTC says that fare increase will be up to 4.3%
- Maintain Accumulate on [ComfortDelGro](#); unchanged target price of \$2.78
- Keeping our target price for now, until exact quantum of fare increase is announced (our current model assumes 0% change in Rail fares)

STOCK & INDEX PERFORMANCE (%)

	1M TH	3M TH	1YR
COMFORTDELGRO	10	(6.4)	9.0
SBS TRANSIT	3.4	11	7.1
STIRETURN	(5.2)	(8.4)	0.7

What is the news?

- The Land Transport Authority (LTA) has published motor vehicle population and Taxi Driver Vocational Licence (TDVL) data for July 2018.

Figure 1: Taxi and Rental cars population, Taxi Driver Vocational Licence (TDVL) data

Y/E Dec	Jul-18	Jul-17	YoY	Dec-17	YTD	Jun-18	MoM
Taxi	21,176	25,325	-16.4%	23,140	-8.5%	21,164	+0.1%
Rental cars	67,892	64,401	+5.4%	68,083	-0.3%	68,817	-1.3%
Valid TDVL holders	97,002	97,854	-0.9%	96,085	+1.0%	96,336	+0.7%
	Jul-18	Jul-17	YoY	7M18	7M17	YoY	
TDVL issued	301	95	+217%	2,320	1,060	+119%	

Source: Bloomberg, LTA, PSR

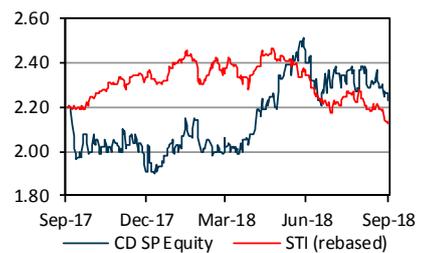
- The Public Transport Council (PTC) has commenced the annual 2018 Fare Review Exercise. Public transport operators may submit their fare applications by Oct. 1, and the PTC will announce its decision on the fare adjustment quantum in 4Q18.

How do we view this?

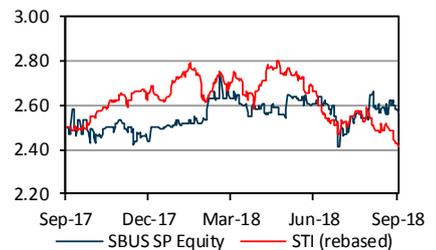
The Positives

- + **Marginal +0.1% MoM growth in taxi population.** Comfort Taxi was the only operator whose fleet grew MoM (+69 taxis). This is on the back of the recent announcement to purchase a total of 1,200 taxis (replacement and expansion capex). All other operators' fleets contracted MoM. The Singapore taxi fleet has a net MoM increase of +12 taxis.
- + **Rate of YoY decline in taxi population continues to show sign of bottoming.** YoY contraction had peaked in April 2018 at -19%, and the pace of contraction has slowed down for three consecutive months. We believe the worst is over for the Taxi industry, in view of the positive impact following the exit of Uber and resultant restructuring of the ride-hailing industry. However, unlikely to see YoY growth by the end of 2018.
- + **Rental cars YoY growth continues to taper; second consecutive month of single-digit growth from double-digit growth since December 2013.** Rental cars population has contracted MoM and YTD. We were expecting population to start contracting, on the basis of earlier media reports of unhired cars from Lion City Rentals (LCR) being put up for sale in the used-car market. In addition, only 51% of private hire chauffeurs had passed the Private Hire Car Driver's Vocational Licence (PDVL) by the June 30 deadline. This is a material negative impact to the available pool of licenced drivers able to rent cars to offer private hire chauffeur service.
- + **Momentum for TDVL issued has been maintained.** The total number of TDVL issued for 7M18 YTD has doubled YoY. This has been sufficient to offset the natural attrition of licence expiries. The number of valid TDVL holders remains flat at +1.0% YTD. We maintain our view that a sustained average of about 400 new TDVLs issued monthly would be sufficient to sustain growth in number of valid TDVL holders.
- + **SBS Transit's Rail segment will benefit from higher fares.** Direct impact will be an earlier breakeven for Downtown Line (DTL). Recall that the full DTL commenced operations in October 2017. DTL breakeven is expected in 2Q19 or 3Q19. Note that fare increase does not affect SBS Transit's Bus segment revenue, as it is on the tendered government bus contracting model (BCM).

COMFORTDELGRO VS. STI



SBS TRANSIT VS. STI



Source: Bloomberg, PSR

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Investment Action

We maintain Overweight on the Land Transport sector, on the **positive industry restructuring** following the exit of Uber and the **worst being over for the Taxi industry**. We maintain our Accumulate rating on ComfortDelGro, with unchanged target price of \$2.78.

Our previous Land Transport sector [report](#) was published on July 30.

Appendix

Background to the fare formula

▪ New fare formula announced on March 22, 2018

Recall that the PTC had announced the [revision to the existing fare formula](#) on March 22, 2018. The new fare formula would include a Network Capacity Factor (NCF). The revised fare formula, to be applied from **2018 to 2022**, is:

$$\text{Maximum Fare Adjustment} = 0.5 \text{ cCPI} + 0.4 \text{ WI} + 0.1 \text{ EI} - 0.1\% + \text{NCF}$$

cCPI = Year-on-year change in core Consumer Price Index;

WI = Year-on-year change in Wage Index measured by the Average Monthly Earnings (National Average), adjusted for any change in the employer's CPF contribution rate;

EI = Year-on-year change in Energy Index which is a composite index derived from diesel price and electricity tariff; and

NCF = Year-on-year change in Network Capacity Factor which measures capacity provision relative to passenger demand for the entire public transport system;

0.1% = Productivity Extraction Factor component that is based on half of the productivity gain achieved by the PTOs.

▪ Previous formula was proposed and accepted in November 2013

The previous formula from 2013 to 2017 was:

$$\begin{aligned} \text{Maximum Fare Adjustment} &= \text{Price Index} - \text{Productivity Extraction} \\ &= (0.4 \text{ cCPI} + 0.4 \text{ WI} + 0.2 \text{ EI}) - 0.5\% \end{aligned}$$

Under the previous formula, there was a cumulative 8.3% fare reduction in the previous three consecutive years. This was mainly due to the lower energy costs.

Figure 2: Fare adjustments under previous fare formula

Effective date	Fare adjustment
Apr. 6, 2014	+3.2%
Dec. 27, 2015	-1.9%
Dec. 30, 2016	-4.2%
Dec. 29, 2017	-2.2%

Source: PTC, PSR

▪ Prior formula since 2005 did not have an Energy Index component

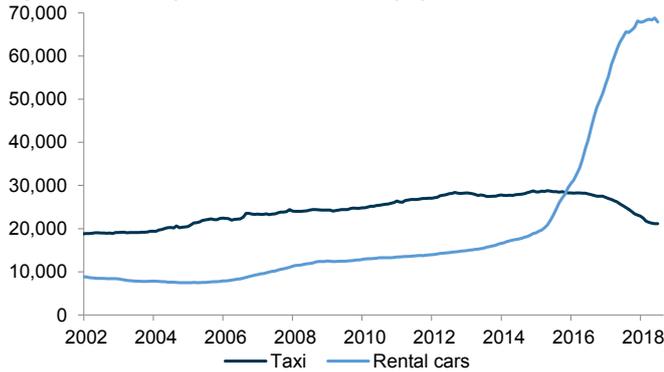
Prior to 2013, the fare formula proposed in 2005 was:

$$\begin{aligned} \text{Maximum Fare Adjustment} &= \text{Price Index} - \text{Productivity Extraction} \\ &= (0.5 \text{ CPI} + 0.5 \text{ WI}) - 1.5\% \end{aligned}$$

The [Fare Review Mechanism Committee Report](#) cited the change in cost structure of the public transport operators between 2005 and 2011. Fuel costs had increased disproportionately more than other costs. That resulted in the Energy Index being included in the 2013 revision to the fare formula.

LTA industry data points

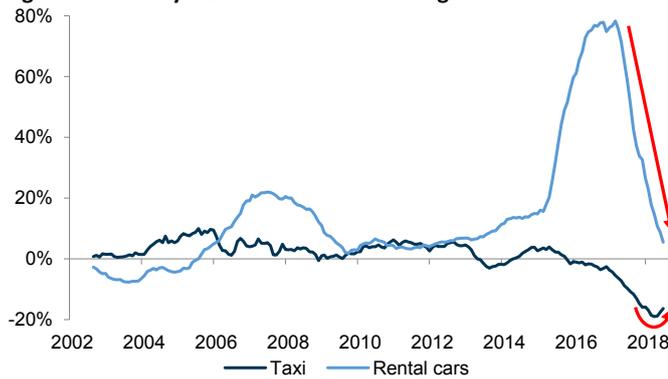
Figure 3: Monthly Taxi and Rental cars population



Source: Bloomberg, LTA, PSR

- Decline in Taxi population is stabilising
- Rental cars population stagnating

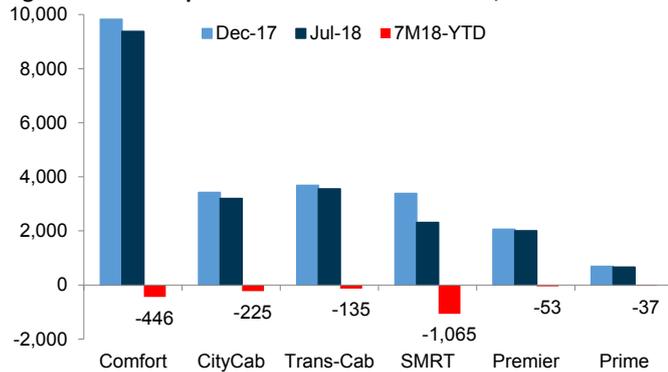
Figure 4: Monthly Taxi and Rental cars YoY growth



Source: Bloomberg, LTA, PSR

- Taxi population YoY contraction shows sign of bottoming
- Rental cars YoY growth continues to taper down, to single-digit growth rate

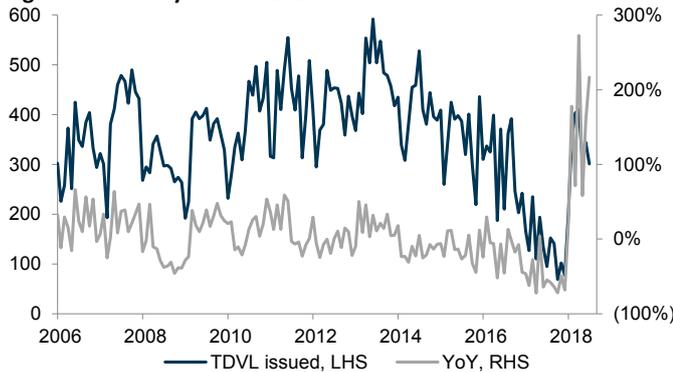
Figure 5: YTD comparison of individual taxi fleets, Dec-17 vs. Jul-18



Source: LTA, PSR

- All fleets declined during 7M18-YTD
- Taxi population contracted -8.5% YTD

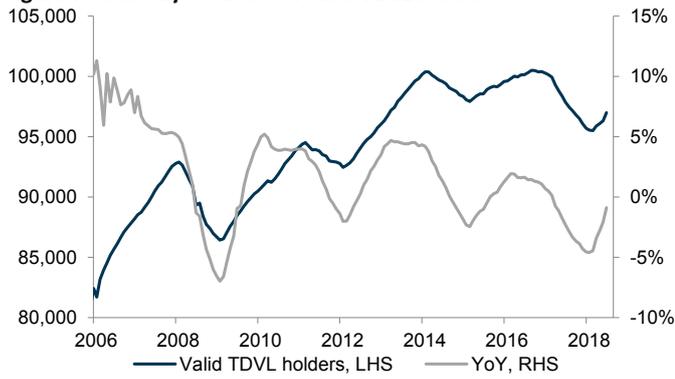
Figure 6: Monthly No. of TDVL issued



Source: LTA, PSR

- Spike in TDVL issued has been sustained

Figure 7: Monthly total No. of valid TDVL holders



Source: LTA, PSR

- Number of valid TDVL holders grew +1.0% YTD

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