

Land Transport Sector

TDVLs issued maintains its growth trajectory



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SINGAPORE | TRANSPORT SERVICES | UPDATE

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OVERWEIGHT (Maintained)

- Maintain Overweight on the Land Transport sector, on the positive industry restructuring and the worst being over for the Taxi industry
- Maintain Accumulate on [ComfortDelGro](#); unchanged target price of \$2.69

What is the news?

- Toyota Motor Corp will invest US\$1 billion in [Grab](#). Direct impact to its ride-hailing business appears to be limited for now, as the investment will go towards improving Grab's capabilities in online to offline (O2O) services, such as GrabFood and GrabPay.
- Land Transport Authority has published motor vehicle population and Taxi Driver Vocational Licence (TDVL) data for May 2018.

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

Y/E Dec	May-18	May-17	YoY	Dec-17	YTD	Apr-18	MoM
Taxi	21,237	26,172	-18.9%	23,140	-8.2%	21,436	-0.9%
Rental cars	68,341	61,732	10.7%	68,083	0.4%	68,496	-0.2%
Valid TDVL holders	96,090	98,839	-2.8%	96,085	0.0%	95,895	0.2%
	May-18	May-17	YoY	5M18	5M17	YoY	
TDVL issued	307	194	58.2%	1,675	832	101%	

Source: Bloomberg, LTA, PSR

- Deadline for attaining Private Hire Car Driver's Vocational Licence (PDVL) has lapsed and only about 22,000 drivers or 51% of applicants have passed the test.
- The Competition and Consumer Commission of Singapore (CCCS) has determined the [Grab-Uber merger to be in breach of competition laws](#).

How do we view this?

The Positives

- Taxi population continues to contract, but the rate of decline shows sign of bottoming.** YoY contraction has remained about -19% 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.
- Rental cars YoY growth continues to taper down, and population remains stagnant.** In fact, the population has contracted -0.2% MoM. Recall that some unhired cars from Lion City Rentals had been put up for sale in the used-car market recently – evidence that the Rental cars population had grown too quickly, and there is an oversupply.
- Measures by CCCS expected to have limited impact, as the 51% of private-hire drivers passing the PDVL appears to be the bottleneck instead.** In addition, the lower number of actual PDVL holders is likely to exacerbate the oversupply of Rental cars. We expect the Rental cars population to contract in the coming months.
- Momentum for TDVL issued has been maintained.** Each of the first five months of 2018 saw growth in TDVL issued of at least 22% YoY. The total number of TDVL issued for the 5M18 period has been able to offset the natural attrition of licence expiries, resulting in the number of valid TDVL holders remaining unchanged YTD.

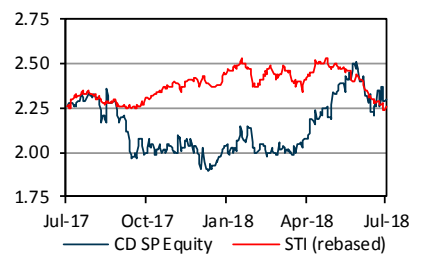
The Negatives

- Grab is likely to maintain its dominant position in the ride-hailing space, thus exerting credible competition to the Taxi industry.** New entrants to the ride-hailing space will also face an uphill battle to gain market share due to the existing network effect enjoyed by Grab.
- What would make us turn negative on the sector?** With new ride-hailing players coming to the market, we are cautious over a resurgence of cheap fares and more driver incentives, which would negatively impact the demand from Taxi hirers and passengers. Further regulatory action that undermines the nascent recovery in the Taxi industry would also make us turn negative on the sector.

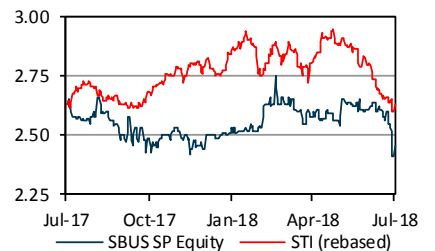
STOCK & INDEX PERFORMANCE (%)

	1M TH	3M TH	1YR
COMFORTDELGRO	(7.3)	13.1	7.6
SBS TRANSIT	(7.3)	(5.1)	(5.6)
STIRETURN	(8.0)	(6.0)	2.3

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 \$2.69.

Our previous Land Transport sector [report](#) was published on 18 June.

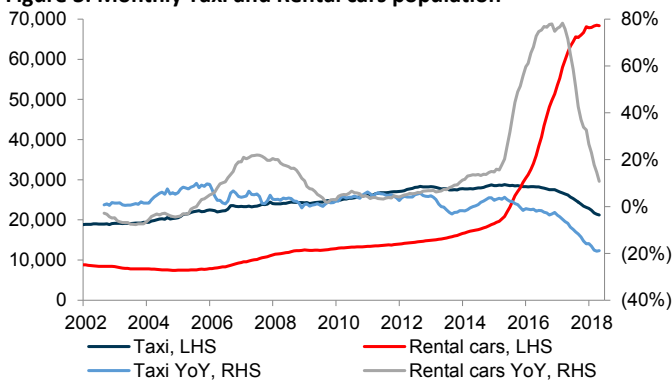
Appendix

Figure 2: CCCS's Proposed Directions

Proposed remedies	Our view
a. The removal of exclusivity obligations, lock-in periods and/or termination fees on all drivers who drive on Grab’s ride-hailing platform and/or who rent from Grab Rentals, Lion City Rentals or rental partners of Grab so as to increase choices for drivers and riders and improve market contestability;	Fair.
b. The removal of Grab’s exclusivity arrangements with any taxi/CPHC fleet in Singapore so as to increase choices for drivers and riders and improve market contestability;	Fair.
c. The maintenance of Grab’s pre-Transaction pricing algorithm and driver commission rates until competition is revived in the market so as to alleviate the adverse pricing effects on riders and drivers arising from the Transaction;	Onerous. Grab should not be expected to continue providing its service at an artificial price-point that is not sustainable.
d. Requiring Uber to sell Lion City Rentals (or all or any part of Lion City Rentals’ assets) to any potential competitor who makes a reasonable offer and preventing Uber from selling Lion City Rentals (or all or any part of Lion City Rentals’ assets) to Grab without CCCS’s prior approval. This prevents Grab and Uber from aligning Lion City Rentals with Grab to the disadvantage of Grab’s potential competitors, and will facilitate a new entrant’s access to a vehicle fleet.	Irrelevant. Proposed remedy "a." removes exclusivity obligations between drivers and rental car companies. Also, there are no hurdles preventing a potential new entrant from buying a fleet of vehicles elsewhere.

Source: CCCS, PSR

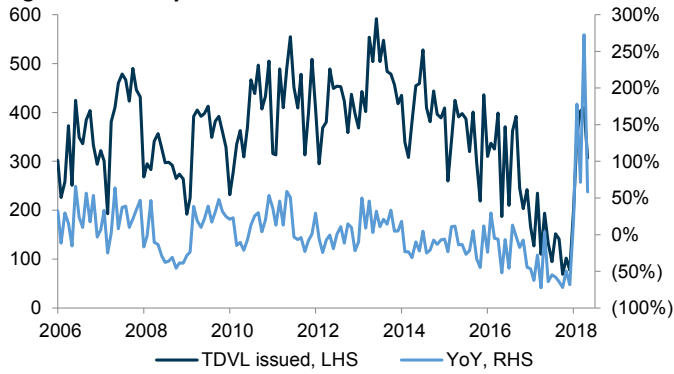
Figure 3: Monthly Taxi and Rental cars population



Source: Bloomberg, LTA, PSR

- Taxi population continues to contract, but YoY contraction shows sign of bottoming
- Rental cars YoY growth continues to taper down, and population remains stagnant

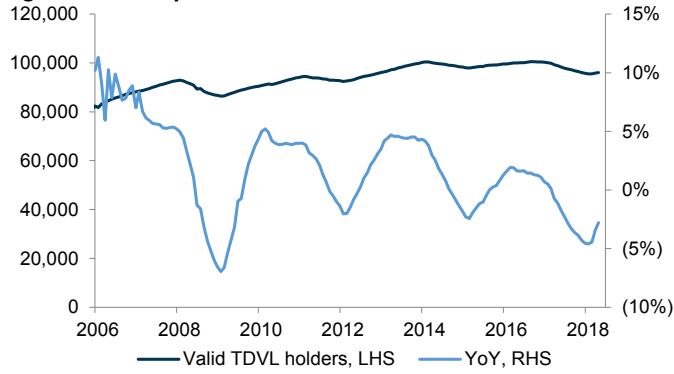
Figure 4: Monthly No. of TDVL issued



Source: LTA, PSR

- Sustained spike in TDVL issued

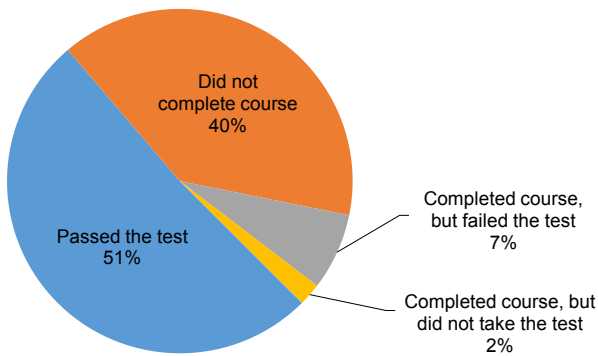
Figure 5: Monthly total No. of valid TDVL holders



Source: LTA, PSR

- Number of valid TDVL holders YTD remain unchanged

Figure 6: Status of 42,900 PDVL applicants



Source: LTA, PSR

- Only about 22,000 drivers or 51% of applicants have passed the test and attained their PDVLs

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