Following a change of analyst, we re-initiate coverage on ComfortDelGro Corp. Ltd. and SMRT Corp. Ltd., with Market Structure and Industry Analysis of the Singapore Land Transport Sector attached in the Appendix (Page 4) of this report. In the Appendix, we also elaborate on some of the prevailing policies and initiatives shaping the sector. Investors unfamiliar with the Singapore Land Transport Sector may wish to read the Appendix first. Re-initiation reports for ComfortDelGro Corp. Ltd. and SMRT Corp. Ltd. are available separately.

Sector Overview
The Public Transport Sector in Singapore is a duopoly between ComfortDelGro Corp. Ltd. (CD) and SMRT Corp. Ltd. (SMRT). Both are multi-modal public transport operators (PTOs), providing Mass Rapid Transit (MRT), Light Rail Transit (LRT), buses and taxi services. CD provides fare-based public transport services in Singapore through its subsidiary, SBS Transit (SBST).

Outlook for the Sector
- Population growth to create a natural demand base for public transport.
- Government initiatives and regulations to make public transport more attractive through accessibility, connectivity and reliability.
- Aggressive Government action to dissuade car ownership and steer commuters to use public transport.
- New Fare Formula recommended by Fare Review Mechanism Committee, and new Fare increase of 3.2% announced by Public Transport Council to improve financial viability of PTOs.
- Heightened regulatory risk: carrot-and-stick for service standards.
- Impending changes to Rail and Bus operating models.

Our top pick: ComfortDelGro Corp. Ltd.
We prefer CD over SMRT due to its significant access to profitable overseas operations. Almost half of CD’s revenue is derived from its overseas operations, which currently has better operating margins than its domestic operations. CD is targeting to growing its overseas operating profits to account for 60% of its total operating profits. CD is also showing y-y EPS growth; with corresponding y-y DPS growth and sustainable payout ratio, arising from its strong operating cash flow.

Neutral on Singapore Land Transport Sector
- We are Neutral on the Singapore Land Transport Sector because despite evidence of continued growth in demand for public transport services, the current Bus and Rail models are not viable for the PTOs’ sustainability.
- We should see y-y revenue growth starting 2Q CY2014 from the new fare adjustment which kicked-in on 6 April, and improved inflation indexing with the newly introduced Energy Index component in the fare adjustment formula.
- Impending change in models for both Rail and Bus businesses will be game-changing for the PTOs and should lift the financial viability and sustainability of the fare-based public transport sector in Singapore.

Singapore Land Transport Sector

<table>
<thead>
<tr>
<th>Company</th>
<th>Rating</th>
<th>Price (SS)</th>
<th>TP (SS)</th>
<th>Upside</th>
<th>Mkt. Cap. (SS’mn)</th>
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<td>CD</td>
<td>Accumulate</td>
<td>2.11</td>
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<td>SMRT</td>
<td>Sell</td>
<td>1.27</td>
<td>0.86</td>
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</tbody>
</table>

Source: Bloomberg, PSR est.

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Outlook for the land transport landscape in Singapore

1. Demand for public transport is increasing, with growth in population and ridership numbers.
   - Introduction of new transport services around new residential and commercial developments.

2. Government spending to increase capacity to meet with demand.
   - MRT track length to double by 2030.
   - Buses to increase by 35% through the BSEP.

3. Government initiatives and regulations to make public transport more attractive through connectivity and reliability.
   - Targeting 75% of all trips during peak hours by public transport. (Up from 59% in 2008.)

4. Aggressive Government action to dissuade car ownership and steer commuters to use public transport.
   - Two-pronged approach: Cost-of-ownership & cost-of-use; with COE and ERP as tools.

5. Improved fare formula alleviates operating cost pressures faced by PTOs.
   - Introduction of new Energy Index component and roll-over mechanism.

6. Regulatory carrot and stick
   - Up to 10% penalty for rail disruptions.
   - New service standards for buses.

7. Overhaul to the Rail and Bus models in Singapore are long overdue, but it is in progress.
   - Trains – asset-light model.
   - Buses – contracts model or cost-plus model.

Our top pick: ComfortDelGro
We prefer CD over SMRT, as CD has exposure to overseas markets where they are already operating on the cost-plus model for their Bus service. For instance, the overseas Bus business for CD accounts for 34% of total operating profits, whereas its domestic bus service (operated by SBS Transit) has been loss-making since FY2011. Further information on CD can be obtained from our accompanying Company Report.

We see that SMRT had previously enjoyed a much higher Net margin compared to CD. We believe that this is attributable to SMRT’s larger network of MRT stations, where SMRT has been able to lease out commercial space with a higher margin yield. However, SMRT has embarked on massive repair and maintenance regimes and asset renewal programs in the recent years, and thus Net margin has fallen over the period, now better reflecting the true cost pressures of a PTO operating an aged fleet.

Meanwhile, CD’s Asset turnover has consistently been better than SMRT’s. This is possibly due to CD’s exposure to Australia and UK operations, where Bus operations are on the cost-plus model; and the taxis are owned by the drivers and not by CD.

Land Transport Master Plan (LTMP) 2013
We view the LTMP 2013 as a firm stance by the Government to overhaul the entire public transport network to make it the first choice mode of transport in Singapore. The Government has anticipated a growth in population and has already taken steps to expand the capacity of the network. The PTOs will see higher ridership numbers in the coming years and ultimately sustainable revenue growth.
Fare Review Mechanism Committee (FRMC) Report 2013

We think that the new formula is an improvement over the previous, as PTOs will benefit from the inclusion of the Energy Index, which better reflects the costs involved in providing public transport services. We expect to see an improvement in operating margins for the PTOs. We also view the two new recommendations of holding the fare review exercises annually and the new roll-over mechanism being introduced as beneficial to the PTOs. The annual exercise will result in fares being more responsive to costs and not lag too far behind, as they have over the last two years.

Public Transport Council (PTC): Train and bus fare review

PTC announced in January 2014 that train and bus fares to increase by 3.2% on 6 April 2014. As such, we have modelled a stronger y-y growth in revenue from Singapore Fare businesses, starting from 2Q CY14. (CD: 2Q FY14, SMRT: 1Q FY15)

Rapid Transit System (Amended) Bill

The PTO's operating margins for their Rail business are currently already less than 10%, so a single fine of 10% of revenue would wipe out all profits (if any). Our view is the maximum fines are indeed harsh and can severely impact the survivability of the PTOs and can possibly put them out of business. Hence, it is our belief that it is unlikely the Regulator would actually impose the maximum fine, even in the "most serious of incidents"; and neither is it in the Regulator’s interest to do so.

We believe that there is some extent of “regulatory capture” for the industry, as the Regulator is aware of the operating environment faced by the PTOs and at the same time recognise that they are providing a public good. To illustrate, the PTOs are allowed to collect revenue from leasing of commercial space within the public transport network (MRT stations and bus interchanges) to offset their loss-making core business. Some of the profits from advertising at bus shelters are also channelled to the PTOs, even though the bus shelters remain the property of LTA.

Lastly, under the Rapid Transit Systems Act (Chapter 263A) (RTSA), the LTA had set Operating Performance Standards for SMRT to meet. Failing which constitutes a default event which could lead to the cancellation of the NSEWL Operating Licence. SMRT has failed two out of the nine OPS for two years running since FY2012, yet their Operating Licence has not been cancelled.

Evidence of improvement in Rail reliability

Service Delays and Train Withdrawals are the two key indicators of train reliability that the LTA uses. Statistics from the LTA show that service reliability has improved over recent years. Incidents per 100,000km have dropped to their lowest levels for NSEWL and NEL. At the same time, Train Withdrawals have also dipped sharply in 2013. We take this as a sign that the infrastructure renewal program and preventive maintenance regime initiated have been effective in improving Rail reliability. Consequently, there will be a lower likelihood of a major Rail disruption, and corresponding lower likelihood of the PTOs being fined the maximum fines of 10% of Fare-revenue.

![Fig 1. Incidents per 100,000km (>5 min delay)](source)

![Fig 2. Normalised Train Withdrawals (per 100,000 train-km)](source)
APPENDIX

Market structure and industry analysis

Introduction

The public transport industry in Singapore has high barriers to entry, with operators of the various modes requiring a license to provide the service. Due to its nature of providing a public good, it is inevitable that public transport services are subject to various Government regulations to maintain affordability and minimum levels of service. Fares are regulated by the Public Transport Council (PTC), while the Land Transport Authority (LTA) has oversight on licensing and formulation of routes.

Across the board, the various modes of public transport are substitutes to each other, differentiating themselves through cost, speed, connectivity, convenience, reliability and comfort. In some instances, there is some form of substitution and competition within the same mode of transport.

Public transport is a consumer non-discretionary good, hence the transport sector is a defensive industry. Demand is not particularly sensitive to the economic cycles, though there tends to be seasonality in usage, brought about by the holiday periods. The Land Transport sector in Singapore is still evolving and has not reached full maturity yet. There is still growth in the sector as the Government is still expanding the network.

Trends in Singapore public transport landscape

1. Growing ridership numbers.

There are 4 modes of public transport in Singapore, namely, Mass Rapid Transit (MRT), Light Rail Transit (LRT), Buses and Taxis. Ridership on public transport has been on an uptrend, with ridership increasing sharply over the more recent years. The Government has acknowledged that capacity had not kept pace with demand, thus resulting in the overcrowding experienced. Hence, the Government is now aggressively injecting funds to improve capacity of the public transport network.

2. MRT gaining market share from Bus.

We examine the time-series of market share of the four modes of transport by ridership. MRT has been steadily capturing market share of ridership from Bus. Market concentration measured by HHI is about 0.39, indicating a high market concentration as it is more than 0.25. The declining HHI trend reflects the losing of ridership market share by Bus to MRT.
3. Positive correlation between ridership and population.
There is a positive correlation between the average daily ridership and the population size. Ridership increases as the population increases. However, the relationship is not linear. In fact, ridership had increased at a faster rate as population increases.

4. Higher ridership penetration within the population.
The average daily ridership divided by the Singapore population number serves as an indicator of the penetration of public transport ridership within the Singapore population.

The ridership per population had been declining until 2009; where there was a surge from 2010 onwards and it took only two years to not only reverse the past years of decline, but to surpass it as well. (1.30 in 2011, compared to 1.27 in 2001.)
An increase in this indicator means that there is higher ridership within the population. This comes about by a combination of either a larger percentage of the population making use of public transport, or existing commuters are each making more trips. The indicator has risen faster than its decline, and it is evidence of the trend of an increase in demand for public transport.

5. Car population growth slowing.
Lastly, we see that although car population has been growing over the last ten years, but the growth rate has been declining and has come to a stall, just hovering above 0% for 2013. This is attributed to the Government’s effective control over car ownership and car population growth in Singapore.
Rail

The Rail industry, comprising of MRT and LRT currently has only two players and the market structure is a duopoly between SMRT and SBS Transit (SBST) (ComfortDelGro has 75% ownership of SBST). SMRT operates the North-South East-West Line (NSEWL), Circle Line (CCL) and Bukit Panjang Light Rail Transit (BPLRT), while SBS Transit operates the North-East Line (NEL), Downtown Line (DTL), and Sengkang and Punggol Light Rail Transit (SPLRT). The three LRT services ply the new towns route and act as a feeder-service to transfer commuters to the main NSEWL and NEL.

The demand for train service has been increasing y-y, as seen by the ridership numbers presented in the figure on the right. SMRT is the clear market leader with 78% market share of ridership on MRT and LRT combined. Ridership numbers are set to grow further and the Government is injecting capital to fund new infrastructure to increase capacity. Total rail length is expected to double to 360km by 2030 from the existing 178 km under the LTMP 2013. One point to note is that despite the high market concentration by the market leader, the market leader does not have the ability to set prices, as fares are controlled by the Public Transport Council (PTC).

Barriers to entry to operate a train line are high. Firstly, operating the rail network requires a license from the regulator, and the license lasts for many years. Next, daily operations also require a sizeable workforce of skilled personnel to perform the various roles, such as station management, driving of trains, passenger service, engineering works on trains and infrastructure; and it takes time to train staff up. Hence, we believe that train operations will remain a duopoly for the foreseeable future, even if the industry shifts to the asset-light model. Running a train system is not a plug-and-play operation whereby the operator and manpower can be replaced easily.

SMRT is currently in discussion with the Regulator on the feasibility and implementation of an asset-light model for train operations. In the asset-light model, the Regulator owns all operating assets and infrastructure and leases them to the PTO. The implications are that the lease will be higher than the current existing licence fee that the PTOs are paying to the LTA, but the PTOs will be freed from lumpy capital expenditures. The newly-operational DTL that was launched in December 2013 is on the new asset-light model.

Future expansions for the Rail network are:
- Circle Line – Section between HarbourFront station and Marina Bay; expected to be completed by 2025.
- Downtown Line – Stage 2 and 3 currently under construction; expected to be completed by 2016, 2017 respectively.
- Thomson Line – Under construction; expected to be completed by 2021.
- Under planning – Eastern Region Line, Jurong Region Line, Cross Island Line.
Buses
Similar to the Rail industry in Singapore, there are only two players for public buses. The industry for public buses is a duopoly between SMRT and SBST. SBST is clearly the market leader by ridership with approximately 74% share of the market. As with the train industry, the market leader does not have any pricing power, as the fares are regulated by the PTC. SMRT’s bus operations connect the Western and North Western areas to the rest of Singapore; while SBST’s bus operations are spread across the rest of the island. SMRT has a fleet of about 1,140 buses (FY2013), while SBST has a fleet of about 3,330 buses (FY2013).

Bus routes have been centrally planned by LTA since 2009. Routes are planned in consultation with local communities and the two bus operators. According to the Ministry of Transport (MOT), the four key objectives in planning of the routes are: (1) improving journey quality, (2) optimal integration across modes of public transport, (3) strengthen current hub-and-spoke model, (4) ensure overall financial viability of the bus network.

Under the existing bus model, the two incumbents' bus operations are loss-making. The Government has indicated plans to shift towards a contracts model or cost-plus model, whereby operators will tender for routes. This would open up contestability in the industry and lead to price discovery. There is no firm indication on the exact timeline for full implementation of the new contracts model, but a few routes are already on the new model on a trial basis. Transport Minister has indicated that the model should at least be partially implemented before the current operating licences of the two operators expire in 2016. An implication of the contestability in the market is that market share erosion could occur, in exchange for a profitable business model.

The contracts model is intended to allow PTOs to earn a decent profit from providing the bus service, while the introduction of competition into the framework is to incentivise PTOs to manage their costs. We believe that in order to really introduce contestability to the landscape as intended, the playing field has to be levelled such as to encourage new entrants to bid in the tender process. Failure to garner critical mass would likely result in collusion between the two incumbent players when bidding for routes, with no incentives to manage their costs. However, it is a fine line between contestability and lowering of standards to level the playing field. If the requirements set out by the tender are excessively lowered to achieve contestability, it could lead to incapable operators being awarded the contract and eventually failing to deliver an acceptable level of service.

Train and bus fares in Singapore are distance based. In the latest fare formula, the Fare Review Mechanism Committee (FRMC) has recommended that fares on the bus-leg of a journey be given a higher weightage than the rail-leg. This was done in anticipation of the structural shift in the public transport network where more people will be using trains compared to bus; and to assist the bus operators in coping with operating costs. This underscores the earlier observation of the trend of train ridership capturing market share from bus ridership.
Singapore Land Transport Sector
29 April 2014

Taxis

There are 6 licensed taxi operators in Singapore, namely, Comfort, CityCab, Trans-Cab, SMRT, Premier and Prime. Hence the market structure is an oligopoly, which is characterised by having few players with high barriers to entry. The taxi rental industry is regulated and a licence is required to operate a taxi fleet. Additionally, even the taxi hirers are regulated. They require a Taxi Vocational Licence (TVL) that is issued by the LTA before they are allowed to ply the roads.

Comfort Taxi is wholly owned by CD. Additionally, CityCab is jointly owned by CD and Singapore Technologies Kinetics, with CD holding a 54% stake in CityCab. The HHI index for the 6-player market is 0.28 and this indicates a high concentration as it is above 0.25. CD is the clear market leader in terms of fleet size, capturing about 60% of the market share through Comfort and CityCab combined.

Between the taxi rental players, they offer equal substitutes to each other, with product differentiation only by make and model of the taxis and the fare rates. The operators generally do not compete with each other by lowering prices, but through value-add services including telephone booking and booking through smartphone apps instead. Although the taxi operators do not undercut each other, they do however, raise fares together, as seen recently over the 2H CY2013 period.

The accompanying infographic taken from The Straits Times illustrates the gamut of makes and models of taxis available and the complexity of the fare structure of the taxi industry.

Source: The Straits Times, 25 November 2013
Taxi operators have two groups of "consumers" to think of – the hirer and the passenger. Revenue to the taxi operator is directly driven by rental fees collected from the hirers; and indirectly driven by passenger demand. Hirer decision to switch between taxi operators can be based on the rental fee that the operator charges or the make and model offered in the rental fleet, with little switching costs. Consumer demand can be based on several factors such as taxi make and model, flag-down rate, and weather condition.

Demand for rental of taxi by hirers and demand for taxi service by passengers are sensitive to macro-economic conditions. Interestingly, anecdotal evidence suggests that they are negatively correlated to one another – with taxi rental demand increasing and passenger demand decreasing when the economy is soft and unemployment is high. Demand for taxi by geography and time is also difficult to measure, as it does not run on fixed routes like the trains or buses.

As earlier stated, the taxi rental industry is highly regulated. Examples of other regulations are: restrictions on where taxis can stop to pick up fares, Taxi Availability (TA) and Quality of Service (QoS) standards that operators have to meet (such as, minimum percentage of fleet on the road during peak periods, minimum percentage of fleet on the road during shoulder peak period, minimum daily mileage clocked, call centre responsiveness), and limit on taxi fleet growth to 2% per annum by the Regulator. The industry can be taken to be in a slowing growth stage of the life cycle, as the Regulator is restricting its growth.

Based on the latest data released by LTA, Prime Taxi has not been meeting the QoS (February 2014) and TA (December 2013) standards. Prime is currently the smallest taxi operator and likely does not enjoy the same level of economies of scale as the other operators. If Prime continues to fail the standards, we see a few possibilities in the future: (1) LTA cancels the taxi operator licence, (2) Prime Taxi consolidates with another player, or (3) Prime exits the market. We note that another taxi operator, SMART Cab, had recently exited the market in September 2013.

Another Government policy that affects taxi rental operators is the Certificate of Entitlement (COE). The COE is a tool used by the Government to control the vehicle population in Singapore. The taxi operators have to bid for a COE for their new taxis, and higher COE prices will affect their cost of doing business through higher fleet replacement costs.

Despite the numerous regulations to comply with, one aspect that the Government no longer regulates is the setting of fares. The taxi industry has proven to be very price sensitive. In 1985, the taxi fare was raised by the Government in an attempt to lower demand and raise availability. This resulted in a drop in taxi drivers' earnings despite the higher fares, because demand had dwindled. Today, the Government leaves the setting of fares to the taxi operators themselves. More recently in December 2007, the taxi operators replaced the flat $2 peak hour surcharge with a 35% peak hour surcharge over the metered fare. Taxi drivers' earnings again took a hit, because consumers avoided taking taxis. Taxi drivers had to resort to giving passengers a discount and not charge the 35% surcharge in order to get passengers into their taxis.

Source: The Sunday Times, 6 January 2008
**Porter’s Five Forces Analysis for Public Transport Operators (PTOs)**

**Threat of new entrants – low**

Historically, licences to operate the Rail and Buses lasted for up to 30 years and 10 years respectively, and there was almost no possibility of new entrants. Also, due to the scale of operations to run a transport network, a new player had virtually no chance of building up expertise to successfully bid for the license and convince the Regulator of their ability to operate the services.

In the future however, the situation for the public Bus service in Singapore could change, if it moves to the contracts model. It would open up contestability for the operating licence as quite possibly the tenders would be for packets of routes and not the entire network, thereby splitting the pie into bite-sized pieces for smaller operators to get a share. Moreover, operating licences will be granted for a shorter period in the model, thereby raising the threat of new entrants.

For the Rail segment, we do not expect to see any significant threat of new entrants, even if the industry moves to the asset-light model, as the Government has not indicated any intention to open up the segment to contestability. Moreover, we do not think that it is practical for the network to keep on changing hands between different operators, due to constraints from manpower and operational-know-how perspectives.

Threat of new entrants for the Taxi segment is low too. There are many barriers to entry, such as licencing requirements imposed by the Regulator and high start-up costs to own a fleet of taxis. We note that SMART Cab has exited the industry recently in September 2013, and that there are little barriers to exit.

**Threat of substitutes – low to moderate**

The various modes of public transport are substitutes to each other, differentiating themselves through trade-offs between cost, speed, connectivity, convenience, reliability and comfort. Although substitute modes of transport do exist, but as the Fare revenue segment of the public transport sector is a duopoly, the consumer could quite possibly end up using a mode of transport that is operated by the same operator anyway.

In some instances, there is some form of substitution and competition within the same mode of transport between the two operators. Specifically, the overlapping stretch of stations on CCL and DTL (Bayfront & Promenade).

**Intensit of rivalry – low**

Intensity of rivalry in public transport is generally low. There is little product differentiation within the same mode of transport. The two incumbent Rail and Bus operators are not directly competing with one another for market share, since routes are centrally planned by the Regulator. Nor are they competing on price, since fares are set by the Regulator. The only instance when the two operators compete with one another is when they tend to operate a Bus route, or MRT line.

The taxi rental operators are also not able to aggressively fighting for market share, as taxi fleet annual growth is capped by the Regulator at 2%. As highlighted earlier, Taxi operators are not competing on price either. In fact, they have a tendency to raise prices together. Taxi operators mainly compete through other service enhancements, such as call centre bookings and convenience-enhancers like phone apps for taxi bookings.

**Bargaining Power of suppliers – moderate**

The main inputs to the PTOs’ business are fuel and manpower. The two fuels used by the PTOs are diesel (for buses) and electricity (for trains). PTOs do not have any bargaining power over fuel costs and they do engage in fuel hedging activities. Under the new Fare Formula, some of the risk of rising fuel costs has been mitigated with the introduction of the Fuel Index component into the formula.

Illegal industrial action in Singapore is frowned upon by the Government and dealt with swiftly. Though the PTOs’ workforce are unionised, but sanctioned industrial action is usually “discouraged”. Hence bargaining power of staff is actually low.

**Bargaining Power of customers – high**

The majority of public transport users have virtually no bargaining power on prices. The only way to avoid public transport is either to walk, ride a bicycle or own a car. Although the bargaining power of customers is low and there is low customer concentration, but we highlight that PTOs do not have the ability to set prices either, as Fares are controlled by the Regulator. Consensus from speaking with Management from the PTOs is that if Fares are not kept affordable by the Regulator, the incumbent Government may risk facing political repercussions at the ballot-box. To summarise, customers of Fare based transport do not have the ability to directly influence prices on the PTOs, but indirectly through the Regulator.

Customers also have little bargaining power over taxi fares. When fares do increase, customers can change their spending pattern, but they have exhibited the tendency to eventually accept the new normal, and revert to their prior spending pattern.
Background to prevailing policies and initiatives

Land Transport Master Plan (LTMP) 2013

- Released in October 2013; previous LTMP was in 2008.
- LTMP 2013 highlights three key areas to work on:
  1. More connections
  2. Better service
  3. Liveable and inclusive society
- 63% of all trips during peak hours in 2012 was by public transport; up from 59% in 2008, and Government is aiming for 75% by 2030.
- LTMP expecting daily number of journeys to increase by 50% by 2030 due to population growth; and there are plans to double the size of the rail network from 178km to 360km.
- Commuters can look forward to seeing a new train line or line extension open every year until 2021.
- Key thrust of the Government is to shift commuters from private transport to public transport.

Reducing reliance on private transport

Roads currently account for 12% of land use in Singapore. To put things in perspective, 14% of land use is for housing. LTMP 2013 re-iterates the severity of land scarcity that was highlighted in LTMP 2008. As such, land use for roads will be judiciously controlled and prioritised to facilitate bus movement and connect new areas being developed. Hence, a slower growth of road networks in the future is to be expected. Car ownership will continue to be controlled, and a slower growth in vehicle population is also to be expected. The Government will continue to discourage car-use through the existing Electronic Road Pricing (ERP) system and improve on its effectiveness. Parking space within the city will also be gradually reduced.

More connections

- Plan for eight in ten homes to be within a 10-minute walk of a train station.
- Cross Island Line (CRL) – to span the length of the island from Changi to Jurong; completed by 2030; 50km in length.
- Jurong Region Line (JRL) – regional links around Jurong and Tengah; completed by 2025; 20km in length.
- Extension to Circle Line (CCL) – CCL Stage 6, loop will be closed between HarbourFront Station and Marina Bay Station; completed by 2025.
- Extension to Downtown Line (DTL) – DTL Stage 2 and 3.
- Extension to North East Line (NEL) – NEL to be extended by one additional Punggol North Station.
- Rapid Transit System (RTS) – between Iskandar Malaysia and Singapore; integrated with Thomson Line.
- Kuala Lumpur – Singapore High Speed Rail (HSR) – improving connectivity between Malaysia and Singapore by facilitating travel between KL and Singapore.

Better service

Rail services

- Adding more trains to every rail line.
- Enhancing Operating Performance Standards; enforcing more stringent maintenance and service reliability requirements.
- Replacement of signalling equipment and existing wooden sleepers.

Bus services

- Increasing the number of buses through the Bus Service Enhancement Programme (BSEP).
- Additional 30km of bus-lanes to the existing 180km.
- Introduction of Quality Incentive Framework.
Fare Review Mechanism Committee (FRMC) Report 2013

1. The price-cap model has been retained.
2. Fare formula now includes an Energy Index component, and replaces the CPI with core CPI.
3. New formula is better for PTOs as it takes into account energy costs and passes it on to commuters.

The FRMC was formed in June 2012 and tasked by Transport Minister to review the existing public transport fare review mechanism. Specifically, the committee was to review fare concessions, the fare adjustment formula and the fare mechanism. While formulating the new formula, the FRMC had two key thrusts in mind: (1) maintaining affordable public transport and (2) long-term viability of the industry.

Fare adjustment formula

The FRMC has recommended that the CPI be replaced by the core CPI (which excludes accommodation and private road transport) and the mean Wage Index will continue to be used. The committee had recognised that energy costs have increased faster than fares, thus putting a strain on the long-term financial viability of the industry. In fact, energy costs have taken up a larger proportion of the operating costs of the PTOs. Hence, an additional Energy Index component has been introduced. The Productivity Extraction component has been retained to pass on savings made by PTOs in productivity to commuters. In conclusion, the new revised formula is:

\[
\text{Fare Adjustment} = \text{Price Index} - \text{Productivity Extraction}
\]

where \( \text{Price Index} = 0.4 \times \text{cCPI} + 0.4 \times \text{WI} + 0.2 \times \text{EI} \)

- \( \text{cCPI} \) is the change in core Consumer Price Index.
- \( \text{WI} \) is the change in Wage Index.
- \( \text{EI} \) is the change in Energy Index
- and \( \text{Productivity Extraction} = 0.5\% \) (valid till 2017)

Fare review mechanism

The FRMC has recommended that fare review exercises should be held annually. The rationale for having a regular fare review is to keep fares responsive to cost changes, and so that changes in fares will be in smaller steps. The FRMC has also recommended a roll-over mechanism, such that when the full fare cap is not granted, the remaining adjustment can be rolled-over to the next year. This allows for flexibility in the implementation of fare reviews to take into account the impact on commuters during poor economic conditions or high employment; yet defer the fare increase to the PTOs in the following year. Previously, any fare adjustment not granted would be forfeited and there was not roll-over mechanism to compensate PTOs the following year.

We think that the new formula is an improvement over the previous, as PTOs will benefit from the inclusion of the Energy Index, which better reflects the costs involved in providing public transport services. We expect to see an improvement in operating margins for the PTOs. We also view the two new recommendations of holding the fare review exercises annually and the new roll-over mechanism being introduced as beneficial to the PTOs. The annual exercise will result in fares being more responsive to costs and not lag too far behind, like they have in the last two years. Also, PTOs would still be entitled to any fare adjustments not granted to them in the prevailing year, in the following year.

Bus Service Enhancement Programme (BSEP)

- First announced in March 2012 by Transport Minister and launched in September 2012.
- Objective: increase bus capacity and improve bus service levels.
- Identified three key areas to improve service levels: (1) shorten waiting times, (2) reduce overcrowding and (3) better connectivity through new services.
- Government will fund 550 buses, while public transport operators (PTOs) fund 250 buses.
- Total of 800 buses will be added within 5 years, increasing public bus fleet by 20%.
- Front-loaded capacity injection, with about 70% of new buses within the first 3 years.
- Government has set aside $1.1 billion for BSEP to fund the purchase and operating costs of the 550 buses for 10 years.
- Government will foot the bill on wages for the bus drivers, and other costs such as fuel and maintenance.
- One-year report-card as of September 2013 – 248 (of 550) buses added, 111 existing services improved, 14 new services introduced.
- Transport Minister announced on 6 Jan 2014: acceleration of the Programme and remaining 259 buses will be rolled out by end 2014, instead of 2016.
- As of end of February 2014, 320 (of 550) buses added; remaining 230 by end of 2014.
- Transport Minister announced on 11 March 2014: BESP to be expanded a further 450 buses from 2015 to 2017.
- BSEP now estimated to cost $2 billion.
### Bus Service Reliability Framework (BSRF)

- Announced in January 2014 by Transport Minister.
- Formerly known as Quality Incentive Framework.
- Existing Quality of Service (QoS) Standards measure bus departure or arrival at interchanges.
- BSRF will complement existing QoS and measure excess waiting time (EWT) at the bus-stops along the route instead.
- BSRF is to address the bunching of bus arrivals at bus-stops and prolonged waiting times by commuters at bus-stops.
- Incentive and penalty framework for outperformance or underperformance of EWT score.
- Two-year trial on 22 bus services began in February 2014.
- To allow PTOs time to adjust to the new system, incentives and penalties will only come into effect after May 2014.

### Rapid Transit System (Amended) Bill

- Announced by Transport Minister and passed in Parliament in February 2014.
- Maximum fine for each rail disruption was previously capped at S$1 million; new cap increased to 10% of annual revenue of the affected line or S$1 million, whichever is higher.
- Operating profit margins for PTOs are currently less than 10%, so a single maximum fine of 10% of revenue will wipe out any profits. (SMRT 9M FY14 MRT operating profit margin: 0.9%, SBST FY13 MRT operating profit margin: -3.9%)
- Revenue from each MRT line is already more than S$10 million, so maximum fine will consequently be more than S$1 million. NEL FY13 revenue: S$148 million, NSEWL FY12 revenue: S$490 million (est.), CCL FY12 revenue: S$121 million (est.)
- Transport Minister said that that the hefty fine is to "better reflect the severity of incidents and their impact on commuters."
- LTA has added that imposing the maximum fine will only be for "the most serious of incidents", and will consider other aggravating or mitigating circumstances when deciding on the fine.
- Fines will not be passed on to commuters as the fare formula does not include penalties paid by PTOs.
- New amended Bill also gives LTA powers to influence the composition of the board of directors of the PTOs; though it stops short of giving LTA powers to cut bonuses or remove senior management.

### Bloomberg TV: Interview with Transport Minister

Bloomberg TV published an interview with Transport Minister on 9 January 2014. The key points made by Transport Minister were:

- Government is determined to get more people off private transport and into public transport.
- Government is spending about S$60 billion; a massive injection of investment to achieve increase in capacity of the transport network.
- Spending should be seen as a commitment by the Government to shift demand from private transport to a high quality public transport system.
- Over the last 5 years, 5% of journeys have shifted from private to public transport; shifted from 58% to 63% of journeys and Government is targeting to achieve 70% of journeys by the end of the decade.
- Government will continue to impose constraints on the growth of private car ownership, through restriction of ownership (COE) and imposing cost-of-usage (ERP).
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