

ComfortDelGro Corp Ltd

Higher dividends and a recovery underway



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SINGAPORE | TRANSPORT SERVICES | FY17 RESULTS

- FY17 revenue in line; PATMI came in 4.3% lower than our estimate, on higher than estimated opex in 4Q17
- 6.05 cents final dividend proposed (unchanged from previous year)
- FY17 10.4 cents total dividend (75% payout), higher than FY16 10.3 cents (70% payout)
- Maintain BUY; lower target price of \$2.50 (previously \$2.63)

Results at a glance

(SGD mn)	FY17	FY16	YoY	Comments
Revenue	3,971	4,060	-2.2%	Increasingly competitive environment for taxi business segment
EBIT	409.2	462.2	-11.5%	S\$35.6mn or 1.0% lower opex due to favourable foreign currency translation of S\$32.7mn and \$2.9mn underlying decrease
PATMI	301.5	317.1	-4.9%	FY17 includes \$11.1mn special dividends from Cabcharge Australia and lower interest expense

Source: Company, PSR

The Positives

- 50.3% YoY increase in SBST profit led by full year effect under the Bus Contracting Model.** CDG's 74.82% stake in SBS Transit (SBST) contributed 11.7% of FY17 PATMI, compared to 7.4% in FY16. SBST's profit is expected to increase in 2018 with full year contribution from DTL3 which opened on Oct 21, 2017. We expect a narrowing of operating losses. The takeover of the Seletar bus package on Mar 1, 2018 is expected to contribute positively also.
- DTL on track for 500k daily ridership by end-2018.** The Land Transport Authority stated in a [News Release](#) on Feb 10, 2018 that daily weekday ridership on DTL has grown from 300k to 470k since DTL3 opened. FY17 DTL average ridership was 279k, and we estimate 4Q average daily ridership to be about 371k.
- Higher full year dividend, despite lower profit.** Final dividend of 6.05 cents is unchanged from last year. The higher full year dividend arises from the 1H17 interim dividend of 4.35 cents compared to 4.25 cents in 1H16. Higher dividend payout ratio indicates that more cash has been made available, due to the lower capex for the Taxi business.

The Negatives

- 4Q17 was a weak quarter compared to historical.** Quarterly PATMI sank to S\$59.5mn, dipping below the most recent low of S\$59.9mn in 4Q13. On a YoY basis, 4Q17 revenue was flat at -0.6%, but a 1.2% increase in opex resulted in -16.9% EBIT. Operating margin in 4Q17 had compressed to 8.4% from 10.0% a year ago.
- 4Q17 Comfort & CityCab taxi fleet contracted 10.7% QoQ and 21.3% YoY.** Idle rate for the quarter maintained at a "low single digit", aided by fleet size rationalisation. Idle rate in the previous three quarters ranged between 3% and 5%.
- DTL loss in 4Q17 had widened QoQ, but should narrow from here on.** This is on the basis that the full DTL is now operating and no longer incurring start-up costs. However, it will take some time to turn profitable, due to ramp-up of ridership to normalised level.

Outlook

The outlook is stable. We see the rental car population growth moderating, and believe an equilibrium between taxi population and rental cars population being reached soon. Narrowing of the DTL losses and contribution from the Seletar bus package will contribute positively in 2018.

Maintain BUY; lower target price of \$2.50 (previously \$2.63)

We have re-modelled our assumptions, as we move into FY18. Our new target price gives an implied FY18e forward P/E multiple of 17.4 times. The 5.2% dividend yield is sustainable and attractive.

14 February 2018

BUY (Maintain)

LAST CLOSE PRICE	SGD 2.01
FORECAST DIV	SGD 0.104
TARGET PRICE	SGD 2.50
TOTAL RETURN	29.6%

COMPANY DATA

BLOOM BERG CODE:	CD SP
O/S SHARES (MN) :	2,163
MARKET CAP (USD mn / SGD mn) :	3287 / 4349
52 - WK HI/LO (SGD) :	2.8 / 1.89
3M Average Daily T/O (mn) :	1177

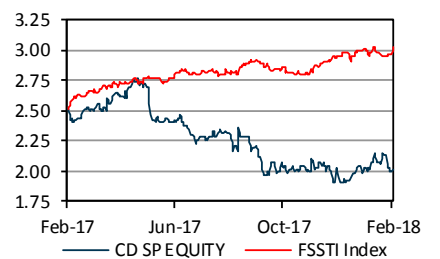
MAJOR SHAREHOLDERS (%)

BLACKROCK	6.0%
SCHRODERS PLC	5.0%
VANGUARD GROUP INC	2.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(10)	0.5	(16.5)
STIRETURN	(3.7)	(0.6)	12.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18e	FY 19e
Revenue (SGD mn)	4,060	3,971	4,073	4,093
PATMI, adj (SGD mn)	317	290	313	315
EPS, adj. (cents)	14.7	13.9	14.4	14.6
P/E, adj. (x)	19.7	14.7	13.9	13.8
BVPS (cents)	148	140	144	149
P/B (x)	2.0	1.5	1.4	1.3
DPS (cents)	10.30	10.40	10.40	10.40
Div. Yield (%)	3.6	5.1	5.2	5.2

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 8.4%; Terminal g: 10%)

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Revenue by Business Segments

(SGD mn)	FY17	FY16	YoY	Comments
Public Transport Services	2,391	2,307	3.6%	Actual underlying increase of \$110.2mn partially eroded by unfavourable currency translation of \$26.5mn from weaker GBP and offset by stronger AUD and EUR
Taxi	1,209	1,341	-9.9%	Increased competition. Underlying decrease of S\$124.8mn compounded by unfavourable foreign currency translation of \$7.3mn from weaker EUR offset by stronger AUD
Bus Station	25.6	26.9	-4.8%	Competition from expansion rail network
Automotive Engineering Services	171.1	204.8	-16.5%	Decrease in repairs and maintenance of taxis and lower volume of diesel sold due to smaller taxi fleet
Inspection & Testing Services	100.7	103.7	-2.9%	Lower business volume at Setsco
Car Rental & Leasing	31.4	36.3	-13.5%	Smaller fleet in SG and China
Driving Centre	42.0	39.7	5.8%	Higher student enrolment in SG and Chendu

Source: Company, PSR

Key Takeaways

Management shared some insights to some of the ongoing issues.

Strategy for Singapore Taxi business segment

- Rationalise fleet size according to utilisation; target is to keep the idle rate low
- Older Hyundai Sonata taxis will be being scrapped if necessary; and hirers may be asked to switch to the newer Hyundai i40 or Toyota Prius
- Should there be a turnaround in demand from taxi hirers, CDG is eligible to grow back the fleet at 2% p.a., having met the Taxi Availability standards. However, there is currently no intention to grow the fleet.

Strategic alliance with Uber

- Acquisition of 51% stake in Lion City Rentals (LCR) is pending regulatory approval.
- Acquisition of LCR is independent from the ongoing [UberFLASH](#) partnership. The UberFLASH partnership will continue, even if the LCR acquisition does not materialise.
- Revenue model for Uber is that it collects a fee for each ride processed through UberFLASH. At the same time, UberFLASH makes dynamic pricing model available to CDG taxi hirers. This is to improve earnings for hirers and improve retention for CDG.

Transition to the New Rail Financing Framework (NRFF)

- Negotiations with LTA are ongoing and nothing further was shared.
- Recall that under the Licence Condition for Rail Services, SBST is contractually obligated to purchase the operating assets for the North-East Line, Punggol LRT and Sengkang LRT from LTA. However this was put on hold due to SMRT's transition to the NRFF in 2016.
- Key concern is how the deal will be priced, relative to SMRT's.

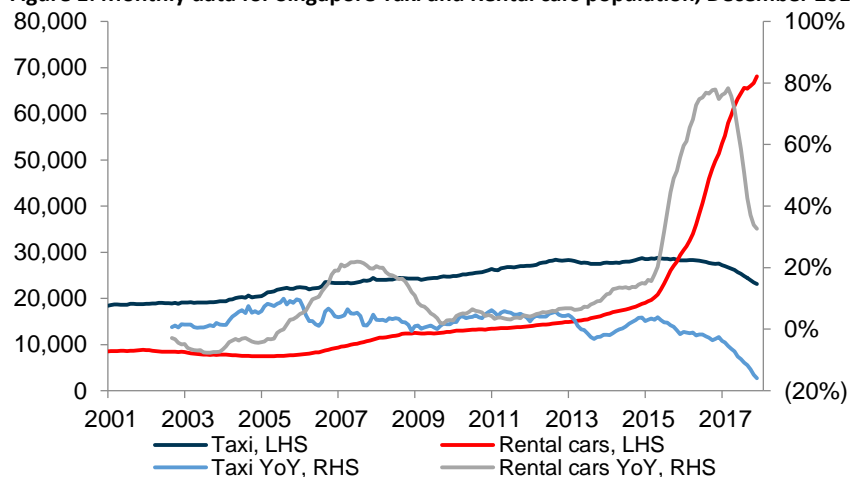
Turnaround for DTL expected in 2019

- DTL remains loss making with operating loss widening in 4Q17.
- Management's expectation of the turnaround in 2019 is contingent on average daily ridership achieving 500k and outcome of fare revision exercise. A fare reduction would delay the operational turnaround.

Capital management on M&A activity

- Management shared that it is not averse to gearing up the balance sheet from a net cash to net debt position if suitable acquisition opportunities arise, provided that an acceptable return on capital can be achieved.
- A possible level of gearing could be up to 30%.

Figure 1: Monthly data for Singapore Taxi and Rental cars population, December 2017



Source: Bloomberg, LTA, PSR

- Rental cars growth rate continues to moderate.
- At the same time, Taxi population continues to decline.

Figure 2: Merger & Acquisition Activities

2017 :

1. Acquired remaining 49% of shares in ComfortDelGro Corporation Australia Pty Ltd
2. Acquired remaining 49% of shares in CityFleet Networks Limited in United Kingdom
3. Acquired business assets of Metro Taxi with a fleet of 170 taxis in Perth, Australia
4. Alliance with Uber Technologies Inc (Pending regulatory approval)

Since close of 2017:

1. Acquisition of 217 Taxi Licences and Vehicles in Shenyang, China
2. Acquisition of 100% of shares in New Adventure Travel Group with a fleet of 117 buses and coaches in Wales, United Kingdom
3. Acquired remaining 51% shares in ComfortDelGro Insurance Brokers in Singapore

Source: Company FY 2017 Financial Results Presentation, 13 February 2018

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	4,112	4,060	3,971	4,073	4,093
EBITDA	840	858	818	803	809
Depreciation & Amortisation	(389)	(396)	(409)	(374)	(366)
EBIT	451	462	409	429	442
Net Finance (Expense)/Inc	(3)	(1)	12	9	(0)
Associates & JVs	5	5	5	4	3
Profit Before Tax	452	467	425	443	445
Taxation	(88)	(88)	(77)	(81)	(82)
Profit After Tax	364	378	349	361	363
- Non-controlling interest	62	61	47	49	48
PATMI, reported	302	317	302	313	315
PATMI, adj.	302	317	290	313	315

Per share data (cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	14.1	14.7	14.0	14.4	14.6
EPS, adj.	14.1	14.7	13.9	14.4	14.6
DPS	9.0	10.3	10.4	10.4	10.4
BVPS	140	148	140	144	149

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	452	467	425	443	445
Adjustments	253	291	374	359	364
WC changes	(23)	9	(146)	3	1
Cash generated from ops	682	766	654	804	809
Others	(82)	(63)	(72)	(81)	(82)
Cashflow from ops	600	703	582	723	727
CFI					
CAPEX, net	(388)	(388)	(284)	(300)	(294)
Divd from associates & JVs	3	3	7	6	5
Others	13	14	23	19	10
Cashflow from investments	(372)	(371)	(254)	(275)	(279)
CFF					
Share issuance, net	18	13	12	-	-
Loans, net of repayments	(190)	(209)	(52)	-	-
Dividends	(214)	(230)	(283)	(261)	(265)
Others	117	106	(184)	(11)	(11)
Cashflow from financing	(269)	(321)	(507)	(272)	(275)
Net change in cash	(41)	10	(179)	176	173
Effects of exchange rates	3	(19)	(4)	-	-
CCE, end	788	779	596	772	945

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	2,909	2,887	2,723	2,649	2,576
Intangibles	673	645	640	641	641
Receivables	268	241	238	238	238
Associates & JVs	10	11	9	7	6
Investments	52	63	29	29	29
Others	25	24	23	23	23
Total non-current assets	3,937	3,871	3,662	3,586	3,513
Inventories	75	82	114	117	117
Accounts Receivables	139	237	251	257	258
Prepayments	277	153	195	200	201
Cash	788	779	596	772	945
Others	1	-	-	-	-
Total current assets	1,280	1,251	1,156	1,346	1,521
Total Assets	5,216	5,122	4,817	4,932	5,034

LIABILITIES

Short term loans	126	169	114	114	114
Accounts Payables	833	771	677	695	698
Others	177	171	154	154	154
Total current liabilities	1,137	1,112	945	962	966
Long term loans	432	176	208	208	208
Others	635	643	637	637	637
Total non-current liabilities	1,067	818	845	845	845
Total Liabilities	2,204	1,930	1,790	1,807	1,811

EQUITY

Non-controlling interest	678	717	420	432	440
Shareholder Equity	2,335	2,476	2,608	2,693	2,783

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	20.6	19.7	14.7	13.9	13.8
P/B (X)	2.1	2.0	1.5	1.4	1.3
EV/EBITDA (X), adj.	7.1	6.8	5.1	4.9	4.6
Dividend Yield (%)	3.1%	3.6%	5.1%	5.2%	5.2%

Growth & Margins (%)

Growth					
Revenue	1.5%	-1.3%	-2.2%	2.6%	0.5%
EBITDA	5.6%	2.2%	-4.7%	-1.8%	0.7%
EBIT	1.9%	2.6%	-11.5%	4.9%	3.0%
Net Income, adj.	6.5%	5.0%	-8.4%	7.7%	0.7%
Margins					
EBITDA margin	20.4%	21.1%	20.6%	19.7%	19.8%
EBIT margin	11.0%	11.4%	10.3%	10.5%	10.8%
PBT margin	11.0%	11.5%	10.7%	10.9%	10.9%
Net Profit Margin	7.3%	7.8%	7.3%	7.7%	7.7%

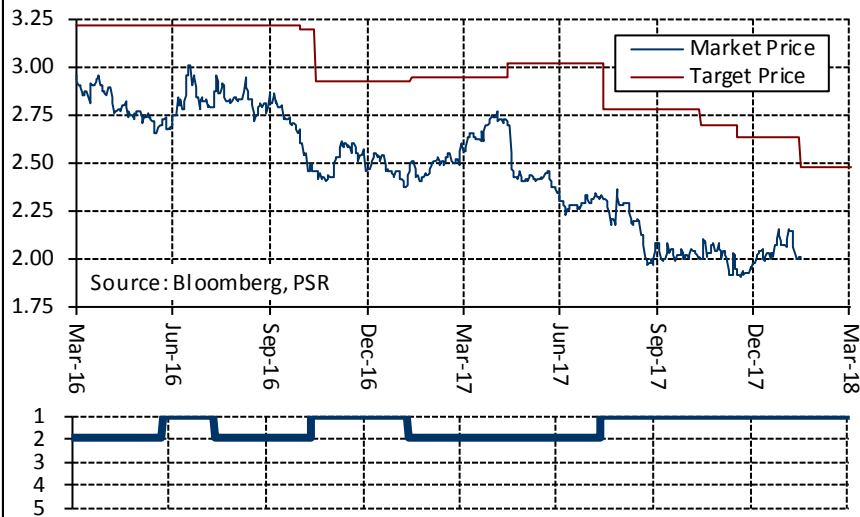
Key Ratios

ROE (%)	13.3%	13.2%	11.4%	11.8%	11.5%
ROA (%)	5.8%	6.1%	5.8%	6.4%	6.3%
Net Debt or (Net Cash)	(229)	(434)	(274)	(450)	(622)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company Data, PSR est.

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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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