ComfortDelGro Corp Ltd

Organic and inorganic growth to drive a better 2H18

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SINGAPORE | TRANSPORT SERVICES | 2Q18 RESULTS

- 2Q18 revenue 4.0% higher than estimated; 2Q18 PATMI within our expectation
- 1H18 revenue and PATMI met 51% and 46% respectively of our full year FY18 estimate
- Expect 2H18 PATMI to be stronger than 1H18, due to full 6-month contribution from Seletar bus package, ramp-up of DTL ridership and new subsidiaries
- 4.35 cents/share interim dividend declared, same as last year
- Maintain Accumulate; new target price of S$2.78 (previously $2.69) after tweaking our assumptions for contribution from acquisitions

Results at a glance

(SGD mn)	2Q18	2Q17	YoY	Comments
Revenue	941	893	+5.4%	**About 47% of the increase attributable to recent acquisitions. Actual underlying increase of S$46.2mn was further aided by favourable currency translation of $1.8mn**
EBIT	110	112	-2.1%	6.5% higher opex. Actual $48.7mn increase in opex compounded by $1.7mn unfavourable currency translation
PATMI	75.0	79.4	-5.5%	**Higher non-controlling interests from higher SBS Transit profit**

Source: Company, PSR

The Positives

+ **Public Transport Services segment benefitted from 52.9% YoY higher profit by SBS Transit.** This was underpinned by the commencement of the Seletar bus package in March 2018, operation of bridging shuttle services for early closure and late opening of the East-West MRT Line and higher ridership on Downtown Line (DTL).
+ **Taxi segment stabilised with a more rational competition landscape.** The fleet idle rate of 2% in 2Q18 was lower than the 3%-5% during FY17, as older taxis were scrapped, thus matching supply with demand. This also aided to rationalise cost for the Singapore Taxi business. The combined Comfort and CityCab fleet of 12,535 taxis as at end-June is 19.4% lower YoY.
+ **Absolute level for dividend maintained at 4.35 cents/share, despite the lower YoY EPS.** Consequently, payout ratio of 67% over 1H18 EPS is higher than last year's 58%. The Group's ability to maintain the absolute level of dividend despite lower EPS is underpinned by the strong cash-generating nature of the business. The Group generated 10.1 cents/share of free cash flow in 1H18 vs. 1H17: 5.3 cents/share.

The Negatives

– **Increase in opex outpaced the increase in revenue, resulting in YoY margin compression from 12.5% to 11.6%.** Management alluded this to transitional integration costs for the new acquisitions. We believe the transition of North-East Line, Punggol LRT and Sengkang LRT to the new rail financing framework (NRFF) effective April 1 also contributed to the margin compression. The NRFF has a profit cap and collar structure which limits EBIT margin at 5%, compared to the mid- to high-teen margin under the legacy licence condition. Higher non-controlling interest attributable to SBS Transit also weighed against PATMI.
– **Goodwill on balance sheet increased 16.4% YTD as a result of acquisitions.** Consequently, goodwill now accounts for 10.5% of total assets, compared to 10-year historical average of 5.5%. The increase in goodwill is an effect of inorganic growth, and we estimate it to reach 11.7% of total assets by the end of FY18, in line with the Group's aggressive acquisition strategy.
– **Inventory build-up could lead to negative surprise of higher than expected maintenance-related expenses.** Inventory by percentage of total assets has crept up to 2.7% – almost double of the 10-year historical average of 1.5%. Inventory build-up has been for mid-life maintenance of buses and rolling-stock.

13 August 2018

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 2.38
FORECAST DIV	SGD 0.104
TARGET PRICE	SGD 2.78
TOTAL RETURN	21.2%

COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN) :	2,165
MARKET CAP (USD mn / SGD mn) :	3758 / 5153
52 - WK HI/LO (SGD) :	2.51/ 1.89
3M Average Daily T/O (mn) :	8.90

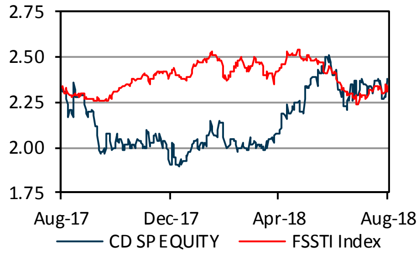
MAJOR SHAREHOLDERS (%)

BLACKROCK	6.0%
SCHRODERS PLC	5.0%
VANGUARD GROUP INC	2.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	3.5	4.4	6.6
STI RETURN	5.1	(5.0)	3.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (SGD mn)	4,060	3,971	3,724	3,847
PATMI, adj (SGD mn)	317	290	306	329
EPS, adj. (cents)	14.7	13.4	14.1	15.2
P/E, adj. (x)	19.7	15.3	16.8	15.7
BVPS (cents)	148	140	144	149
P/B (x)	2.0	1.5	1.6	1.6
DPS (cents)	10.3	10.4	10.4	10.4
Div. Yield (%)	3.6	5.1	4.4	4.4

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 8.3%; Terminal g: 1.0%)

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Outlook

The outlook is positive. Expect 2H18 to be stronger than 2H18 due to organic and inorganic growth. Public Transport Services segment will recognise full 6-month contribution from Seletar bus package and DTL loss continue to moderate. Taxi business to stabilise, with the worst being over, following the consolidation in the ride-hailing industry. Sources of inorganic growth which started contributing in 2Q18 are National Patient Transport (non-emergency ambulance), AZ Bus (bus charter), Tullamarine Bus Lines (public bus) and Dial-a-Cab (taxi circuit). Other sources of inorganic growth expected to start contributing in 3Q18 are Western Sydney Repair Centre, Nanjing ComfortDelGro Qixia Driver Training, Ric-Tat Travel & Coach Services (bus charter) and FCL Holdings (public bus).

Maintain Accumulate; new target price of $2.78 (previously $2.69)

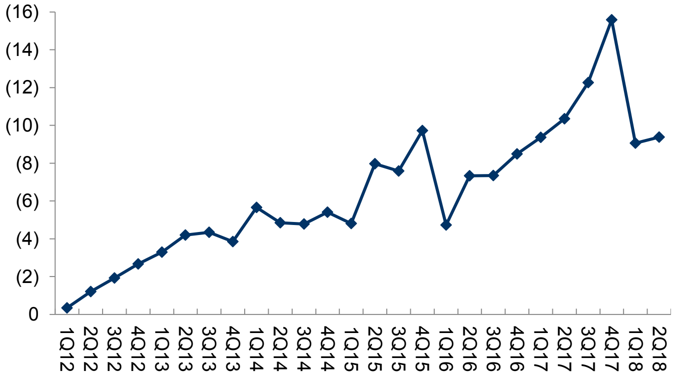
Tweaked our assumptions for contribution from acquisitions. Our FY18e/FY19e revenue is +3.7%/+5.8% from previous estimate, and PATMI is -0.7%/+2.4% from previous estimate. Our new target price gives an implied FY18e forward P/E multiple of 19.7 times. The 10.4 cents full year dividend is sustainable, supported by positive free cash flow.

Appendix

Rail: Ridership growth and DTL breakeven schedule within our expectation

- **Rail ridership grew 24% YoY in 2Q18**
  This was mainly due to the 81% YoY increase in ridership on DTL to 437,000, following the commencement of DTL3 service in October 2017.
- **DTL loss continues to moderate, following the opening of DTL3**
  2Q18 DTL loss of S$9.38mn is 9.3% YoY lower, underpinned by the increase in DTL average daily ridership. However, QoQ loss is marginally higher, due to the calendar effect of lower ridership in 2Q compared to 1Q.

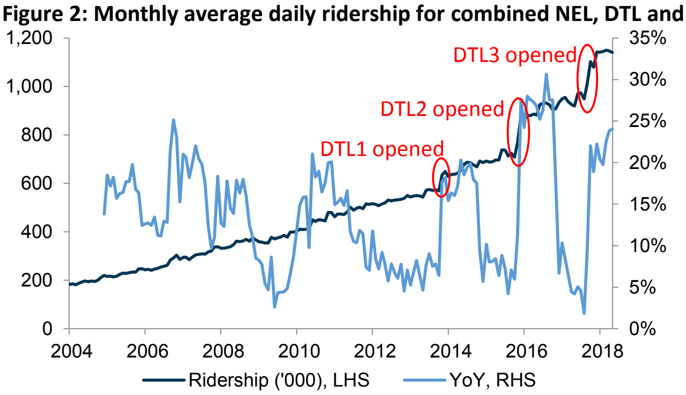
Figure 1: Quarterly DTL loss (S$ mn)



Source: Company, PSR estimates

- **New guidance on DTL breakeven around 2Q19 or 3Q19**
  This a change from previous guidance of breakeven in early 2019; and does not come as a surprise to us. Based on our own estimates on ridership, revenue and costs, we had been using the assumption of the breakeven occurring in 3Q19 since our update report earlier this year (4 January 2018). With the breakeven occurring only in 3Q19, we expect DTL to remain loss making for full years FY18 and FY19; and only turning a full year profit from FY20.
- **Maintain our view that average daily Rail ridership to reach 1.2 million by end-2018**
  We had articulated that in our previous report (8 June 2018). Average daily Rail ridership for 2Q18 is currently 1.15 million. Our estimates for 3Q18 and 4Q18 are 1.19 million and 1.23 million respectively.

Figure 2: Monthly average daily ridership for combined NEL, DTL and SPLRT*



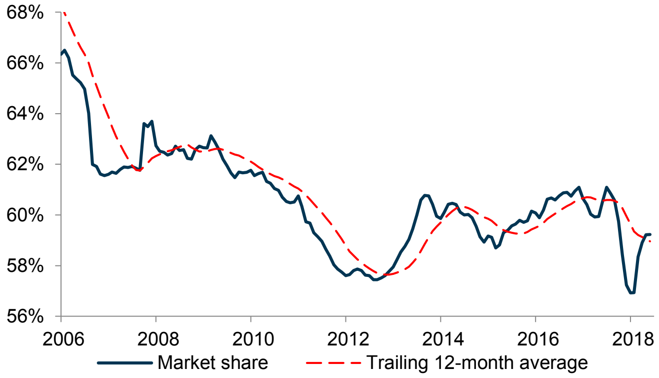
Source: CEIC, SBS Transit, PSR

*NEL: North East Line, DTL: Downtown Line, SPLRT: Sengkang-Punggol LRT

Taxi: Business stabilising and taxi fleet to find a bottom within months

- **Market share for Comfort and CityCab has remained stable**
  Average market share for combined fleet has hovered between 58% and 61% in the last five years. We expect their market share to remain stable, in view of the equilibrium that has been reached by the industry.

Figure 3: Monthly market share of taxis for combined Comfort and CityCab fleet



Source: LTA, PSR

- **Despite new taxi capex, fleet size expansion is not expected to be meaningful**
  The Group will be taking delivery of 200 new hybrid taxis by August 2018, and another 1,000 to be delivered by 2019. Most of which is to replace aged taxis, with a net increase in taxi fleet of 300-400 taxis. As such, we would not be surprised to see further contraction of the taxi fleet in the coming months, before the taxi fleet bottoms.
- **New entrant, HDT Singapore Taxi, not likely to have a significant impact to the competitive landscape on account of its size**
  HDT will operate 800 taxis within four years, rolling out 200 taxis each year over the next four years. Total Taxi population is 21,164 as at end-June, and the 800 taxis would increase that by 3.8%.

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Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	**4,112**	**4,060**	**3,971**	**3,724**	**3,847**
EBITDA	**840**	**858**	**818**	**811**	**860**
Depreciation & Amortisation	(389)	(396)	(409)	(387)	(390)
EBIT	**451**	**462**	**409**	**425**	**470**
Net Finance (Expense)/Inc	(3)	(1)	12	9	(4)
Associates & JVs	5	5	5	4	3
Profit Before Tax	**452**	**467**	**425**	**438**	**470**
Taxation	(88)	(88)	(77)	(82)	(87)
Profit After Tax	**364**	**378**	**349**	**356**	**382**
- Non-controlling interest	62	61	47	50	54
PATMI, reported	**302**	**317**	**302**	**306**	**329**
PATMI, adj.	**302**	**317**	**290**	**306**	**329**

* FY17 has <u>not</u> been restated for SFRS(I) 15.

Per share data (cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	14.1	14.7	14.0	14.1	15.2
EPS, adj.	14.1	14.7	13.4	14.1	15.2
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	438	470
Adjustments	253	291	374	373	390
WC changes	(23)	9	(146)	(6)	4
Cash generated from ops	682	766	654	805	864
Others	(82)	(63)	(72)	(82)	(87)
Cashflow from ops	**600**	**703**	**582**	**723**	**776**
CFI					
CAPEX, net	(388)	(388)	(284)	(360)	(322)
Divd from associates & JVs	3	3	7	6	5
Others	13	14	23	(181)	7
Cashflow from investments	**(372)**	**(371)**	**(254)**	**(535)**	**(311)**
CFF					
Share issuance, net	18	13	12	-	-
Loans, net of repayments	(190)	(209)	(52)	-	-
Dividends	(214)	(230)	(283)	(263)	(269)
Others	117	106	(184)	(11)	(11)
Cashflow from financing	**(269)**	**(321)**	**(507)**	**(273)**	**(280)**
Net change in cash	**(41)**	**10**	**(179)**	**(85)**	**186**
Effects of exchange rates	3	(19)	(4)	-	-
CCE, end	**788**	**779**	**596**	**511**	**697**

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	2,909	2,887	2,723	2,746	2,678
Intangibles	673	645	640	791	791
Receivables	268	241	238	238	238
Others	87	98	61	59	58
Total non-current assets	**3,937**	**3,871**	**3,662**	**3,834**	**3,765**
Inventories	75	82	114	123	127
Accounts Receivables	139	237	251	272	281
Prepayments	277	153	195	201	208
Cash	788	779	596	511	697
Others	1	-	-	-	-
Total current assets	**1,280**	**1,251**	**1,156**	**1,107**	**1,312**
Total Assets	**5,216**	**5,122**	**4,817**	**4,941**	**5,078**
LIABILITIES					
Short term loans	126	169	114	114	114
Accounts Payables	833	771	677	708	731
Others	177	171	154	154	154
Total current liabilities	**1,137**	**1,112**	**945**	**975**	**999**
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**	**1,820**	**1,844**
EQUITY					
Non-controlling interest	678	717	420	432	442
Shareholder Equity	**2,335**	**2,476**	**2,608**	**2,689**	**2,792**

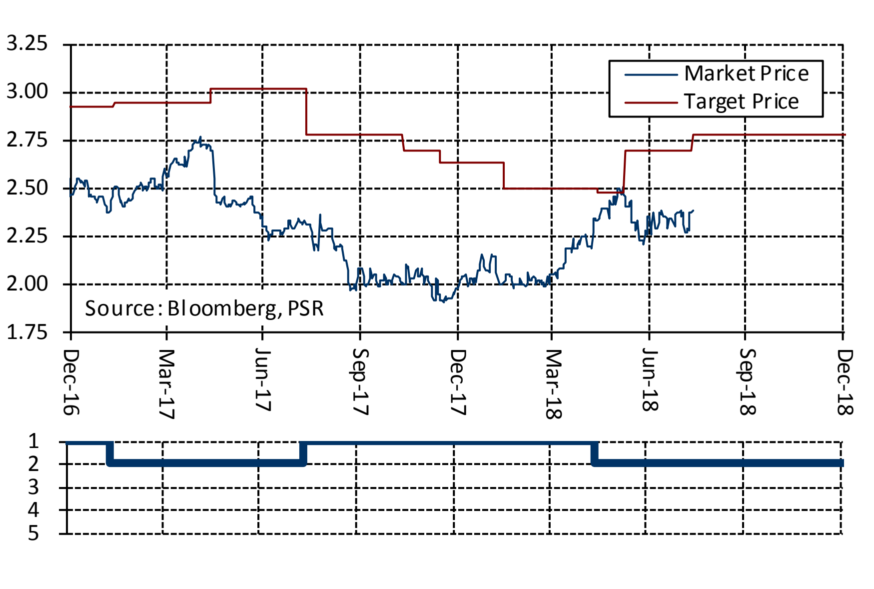
Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x), adj.	20.6	19.7	15.3	16.8	15.7
P/B (x)	2.1	2.0	1.5	1.6	1.6
EV/EBITDA (X), adj.	7.1	6.8	5.1	6.1	5.6
Dividend Yield (%)	3.1%	3.6%	5.1%	4.4%	4.4%
Growth & Margins (%)					
Growth					
Revenue	1.5%	-1.3%	-2.2%	-6.2%	3.3%
EBITDA	5.6%	2.2%	-4.7%	-0.8%	6.0%
EBIT	1.9%	2.6%	-11.5%	3.8%	10.7%
Net Income, adj.	6.5%	5.0%	-8.4%	5.3%	7.5%
Margins					
EBITDA margin	20.4%	21.1%	20.6%	21.8%	22.4%
EBIT margin	11.0%	11.4%	10.3%	11.4%	12.2%
PBT margin	11.0%	11.5%	10.7%	11.8%	12.2%
Net Profit Margin	7.3%	7.8%	7.3%	8.2%	8.5%
Key Ratios					
ROE	13.3%	13.2%	11.4%	11.5%	12.0%
ROA	5.8%	6.1%	5.8%	6.3%	6.6%
Dividend Payout	64.0%	70.0%	74.6%	73.6%	68.4%
Net Debt or (Net Cash)	(229)	(434)	(274)	(189)	(375)
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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