

Singapore Land Transport

Analyst

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Commencement of Fare Review Exercise

- PTC to commence fare review; maximum allowable increase is 4.3%
- Changes in fares likely to be implemented in Dec, as in previous years
- ComfortDelGro (CD)'s taxi fleet increased m-o-m in July, the first in the last 19 months
- Maintaining positive view on CD (BUY, TP: S\$2.59) on gradual turnaround in its taxi operations

What's New

Commencement of Fare Review, maximum allowable increase is 4.3%. The Public Transport Council (PTC) announced that it has commenced the annual Fare Review Exercise for 2018. Based on the new fare formula that is applicable from 2018 to 2022, and taking into account the carry-over quantum of -3.2% from previous year's (2017) fare review, the maximum allowable fare adjustment quantum for this current year's review is 4.3%. Public transport operators may submit their applications to the PTC by 1 Oct 2018. The PTC would announce its decision on fare adjustment in 4Q18.

Based on PTC's announcement, it is noted that fares were reduced by a total of **8.3% in the previous three consecutive years**, due largely to the dip in energy prices. In 2017, the fare reduction quantum was 5.4%, with a reduction of 2.2% implemented with the remaining reduction quantum of 3.2% carried over to the next review. Referring to previous years' timeline, we believe the PTC is likely to announce its decision in late Oct/ early Nov with the implementation of fare changes to take place in late Dec.

A fare increase bodes well, albeit modest. Overall, a fare increase bodes well for rail operators such as SBSTransit, the subsidiary of ComfortDelGro. The fare adjustment will not

have an impact on its bus operations given that it is already on the bus contracting model, where the Land Transport Authority (LTA) undertakes the revenue risks.

We have previously penciled in 2% decline in fares for rail operations. Therefore, assuming **a fare increase of 4%, our estimate suggests <1% accretion to FY19F earnings, all else constant.** In our view, the PTC tends to be guarded in its fare increase quantum, placing emphasis of its implications/ impact on daily expenses. Thus, we believe it could phase out the increase or effect a less-than maximum quantum.

We maintain our forecasts and BUY recommendation for CD. Our key thesis for CD is the bottoming out of its taxi fleet contraction, and looking towards fleet expansion on the back of a milder competitive environment. Furthermore, the group has been leveraging on its balance sheet to pursue inorganic growth opportunities to supplement growth.

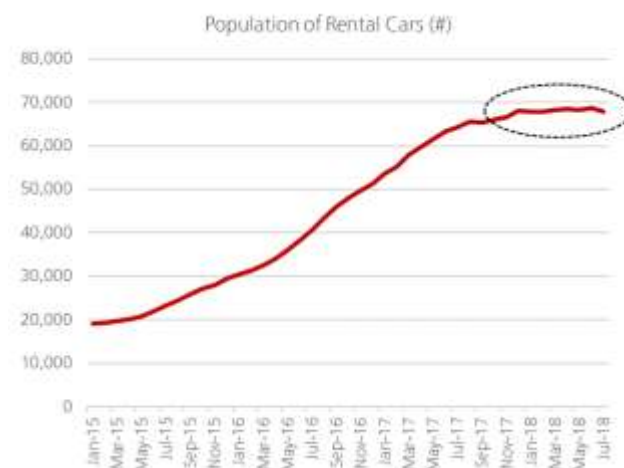
CD's taxi fleet shows small positive m-o-m increase, first in 19 months. Based on LTA statistics, CD's taxi fleet showed a positive m-o-m increase in July, the first in the last 19 months (since Dec 2016). While small, we believe this should point to signs that fleet contraction has passed and there is potential for its fleet to increase.

Rental cars posted m-o-m contraction in July. On the other hand, rental cars posted a m-o-m decline to 67,892 cars in July, a contraction of 925 cars from a month earlier. Our ground checks last week showed a number of private rental cars parked at a carpark in the western part of Singapore, which we estimated to be about 400 vehicles owned by Lion City Rentals. On the back of this, we believe there is a possibility that the rental car population has peaked, and likely to contract further.

CD's taxi fleet shows first m-o-m increase in 19 months



Rental cars population declined by 925 m-o-m in July



Fleet of rental cars at a carpark in western part of Singapore, estimated count ~400 vehicles



Note: While hard to see in the pictures, all the cars parked bear the "Private Hire" car label

Source: DBS, image of "Private Hire" label from Straits Times article

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FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

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Share price appreciation + dividends

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