

Singapore Land Transport

Analyst

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Fare Review 2019 could see increase of up to 7%

- PTC has commenced its annual Fare Review Exercise; maximum allowable increase is 7%
- Implementation likely to be in December, based on 2018 timeline
- A mild positive for rail operations, but no impact on buses
- Maintain HOLD on CD; public transport improvement could be negated by taxi fleet contraction and currency translation

What's New

Fare Review Exercise 2019 could see fares increase by up to 7%. The Public Transport Council (PTC) announced on 3 September 2019 that it has commenced the annual Fare Review Exercise (FRE) for 2019. Based on the fare formula that is applicable from 2018-2022, the current maximum allowable fare adjustment quantum will be 7%. The Public Transport Operators will have to submit their applications by 23 September 2019, and the PTC will announce its decision in 4Q19.

This follows on from a 4.3% increase in 2018, but there was a cumulative 8.3% deduction from 2015-2017 arising from lower energy costs.

What's next? Based on the previous year's timeline, a decision is likely to be announced in late October or early November, with the implementation likely in late December. In the 2018 review, the 4.3% proposed increase was fully implemented.

Our views:

Positive for rail operators. In our estimates, we had previously penciled in a conservative 2% fare increase for FRE 2019 (with benefits flowing into FY20). Based on our rough estimates, assuming a full 7% increase in fares, this could **add on about 2-3% to our forecasts in FY20F**, assuming all else being constant.

That said, we note that there are various moving parts, given that North East Line is now on the New Rail Financing Framework (NRFF), with a cap-collar and cost-revenue sharing formula. For Downtown Line, under the terms of Licence for Rail Services, a Fixed Licence Charge is payable from 2019, while a Revenue Share Charge could be payable if operating surplus exceeds a certain amount.

No direct positive impact on bus operations given current operating model. The fare review will have no impact on bus operations by the transport operators as these are on a contracting model.

Remain neutral on CD. While the fare increase should lead to an improvement in its rail operations, this could be partially negated by the challenges it currently faces in its taxi operations. CD's taxi fleet continues to contract and now stands at c.11,500 (as at June 2019), below our assumption of 12,100 average fleet we have imputed for FY19F. The total number of private rental vehicles continue to expand and stood at above 72,000 as at July 2019, which could further pressure taxi operations.

In addition, the continued GBP weakness would also lead to lower contribution from its UK operations when translated into SGD. We are maintaining our forecasts and recommendation. **CD: HOLD, TP: S\$2.59.**



Fare computation formula

Annex

COMPUTATION OF 2019 FARE FORMULA OUTPUT

Fare formula to be applied from 2018 to 2022

Fare Formula Output³ = 0.5 cCPI + 0.4 WI + 0.1 EI – 0.1% + NCF
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Index	2018 Value	Weightage	Value in Fare Formula
Core Consumer Price Index	1.7%	50%	0.9%
Wage Index	3.5%	40%	1.4%
Energy Index	32.3%	10%	3.2%
Productivity Extraction	-	-	-0.1%
Network Capacity Factor			1.6%
Quantum Carried-over from the 2018 Exercise			-
2019 Fare Formula Output			7.0%

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- cCPI = Year-on-year change in **core Consumer Price Index**;
 - WI = Year-on-year change in **Wage Index** measured by the Average Monthly Earnings (National Average), adjusted for any change in the employer's CPF contribution rate;
 - EI = Year-on-year change in **Energy Index** which is a composite index derived from diesel price and electricity tariff;
 - NCF = Year-on-year change in **Network Capacity Factor** which measures capacity provision relative to passenger demand for the entire public transport system; and
 - 0.1% = **Productivity Extraction Factor** component that is based on half of the productivity gain achieved by the public transport operators.

Source: Public Transport Council

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

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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