

Singapore Company Guide

ComfortDelGro

Version 20 | Bloomberg: CD SP | Reuters: CMDG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

31 Mar 2020

HOLD

Last Traded Price (30 Mar 2020): S\$1.48 (STI : 2,416.24)

Price Target 12-mth : S\$1.55 (5% upside) (Prev S\$2.26)

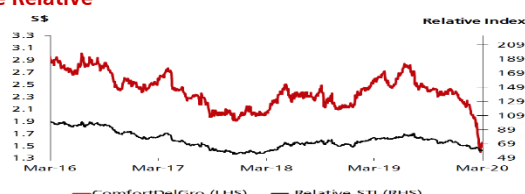
Analyst

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What's New

- Extension of S\$46.50 per day taxi rental rebate till Sep
- Estimated to cost c.S\$80m, and push taxi ops into the red; slashed FY20F/21F earnings by 19%/ 11%
- Share price has tumbled 38% YTD, and at 12.5x FY21F PE may have priced in dire outlook but uncertainties prevail
- Maintain HOLD, TP lowered to S\$1.55

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2018A	2019A	2020F	2021F
Revenue	3,805	3,906	3,774	4,016
EBITDA	833	869	758	821
Pre-tax Profit	439	407	328	376
Net Profit	303	265	224	257
Net Pft (Pre Ex.)	303	265	224	257
Net Pft Gth (Pre-ex) (%)	0.6	(12.6)	(15.6)	14.7
EPS (S cts)	14.0	12.2	10.3	11.8
EPS Pre Ex. (S cts)	14.0	12.2	10.3	11.8
EPS Gth Pre Ex (%)	1	(13)	(16)	15
Diluted EPS (S cts)	14.0	12.2	10.3	11.8
Net DPS (S cts)	10.5	9.79	7.00	8.30
BV Per Share (S cts)	121	120	120	125
PE (X)	10.6	12.1	14.3	12.5
PE Pre Ex. (X)	10.6	12.1	14.3	12.5
P/Cash Flow (X)	4.8	5.3	4.9	4.2
EV/EBITDA (X)	4.3	4.2	4.8	4.1
Net Div Yield (%)	7.1	6.6	4.7	5.6
P/Book Value (X)	1.2	1.2	1.2	1.2
Net Debt/Equity (X)	CASH	0.0	CASH	CASH
ROAE (%)	11.6	10.2	8.6	9.7
Earnings Rev (%):			(19)	(11)
Consensus EPS (S cts):			14.3	14.8
Other Broker Recs:		B: 8	S: 1	H: 5

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Further rebates to push taxi into the red

Further drag from taxi rental rebates, cut to TP; valuations seem low but uncertainties prevail. With increasing taxi rental rebates and prompts by the authorities for social distancing to combat the spread of COVID-19, ComfortDelGro (CD) has warned that its taxi operations could slip into losses for the year. The group has indicated that it will match the Government's Special Relief Fund (SRF) till Sep 2020 of S\$10/day/taxi as well as extend its S\$26.50 rebate till then, which is estimated to cost about S\$80m. After the c.38% share price retreat YTD, the stock is trading at 12.5x FY21F PE (c.-1.5 SD below average) and may have priced in the dire outlook, but there are limited re-rating catalysts at this juncture. Maintain HOLD, TP lowered to S\$1.55. The situation remains fluid, and we are looking for an easing of the current situation before turning positive.

Where we differ: Lower range of consensus. We have cut our FY20F/21F earnings by 19%/11%, which are now at the low end of consensus. We believe consensus has yet to factor in the rental rebates and the impact from the pandemic.

Potential catalysts: In the immediate term, a receding in the severity of COVID-19 would help to improve market and economic sentiment. An expansion in its taxi fleet, and/or changes in ride hailing/taxi industry dynamics could lead to earnings upgrades. Inorganic growth acquisitions could also support its growth profile.

Valuation:

We have revised our methodology and now pegged our TP to 15x FY20F PE, which is -0.5 SD below its historical mean, from average of PE/ DCF given the uncertain outlook.

Key Risks to Our View:

Further deterioration in the pandemic situation could present downside risks, while upside could arise from the situation easing, further stimulus and/or government subsidies. Heightened and prolonged irrational competition from private hire companies leading to further contraction in taxi fleet, loss of bus contracts, changes in regulations on operations. Upside risks could arise from acquisitions.

At A Glance

Issued Capital (m shrs)	2,166
Mkt. Cap (S\$m/US\$m)	3,205 / 2,250
Major Shareholders (%)	
Blackrock Inc	7.0
Capital Group Companies	6.0
Free Float (%)	87.0
3m Avg. Daily Val (US\$m)	16.9
GIC Industry : Industrials / Transportation	



Live more, Bank less

WHAT'S NEW

Taxi ops to slip into the red with extension of rental rebates

Further drag from taxi rental rebates, TP lowered to S\$1.55; valuations seem low but uncertainties prevail. On the back of the current outlook arising from uncertainties surrounding COVID-19, and the extension of taxi rental rebates till Sep 2020, we **cut our FY20F/21F earnings by 19%/11%**. While share price has tumbled by c.38% YTD, and valuation looks low at 14.3x/ 12.5x FY20F/ 21F PE (post earnings cut), we believe there are too many uncertainties for the share price to re-rate. On the back of our earnings cuts, we have revised our TP down to S\$1.55, based on 15x FY20F earnings. We project earnings to dip by 16% y-o-y in FY20F, to S\$224m before rebounding 15% in FY21F.

Extension of taxi rental rebates to Sep 2020 to cost about c.S\$80m, pushing taxi operations into losses. After several rounds on extending rental rebates to its taxi hirers, CD has indicated that it will extend the current rebates till end September, subject to prevailing conditions. The rental rebates are likely to cost the group about **S\$80m in total**; and

CD has warned that this would cause its taxi operations to slip into losses.

Daily rental rebate now at S\$46.50. With the onset of COVID-19, the first rental rebate was announced on 14 Feb 2020. Since then, there were three additional rounds of revisions/ extensions to rental rebates given the deteriorating situation and economic impact. In total, we estimate these rebates work out to more than S\$7,800 per taxi over this period (Feb to Sep 2020) assuming it is fully implemented.

Taxi segment accounted for c.25% of group operating profits. In FY19, the Taxi segment accounted for c.17% and 25% of group operating profits. Of this, we estimate that about 70% came from its Singapore operations. As of Dec 2019, it had an operating fleet of 10,700 taxis. With the current challenging situation facing taxi hirers, we expect this could have shrunk. We project that **contribution from taxi operations could shrink to c.4% of group operating profit in FY20F**.

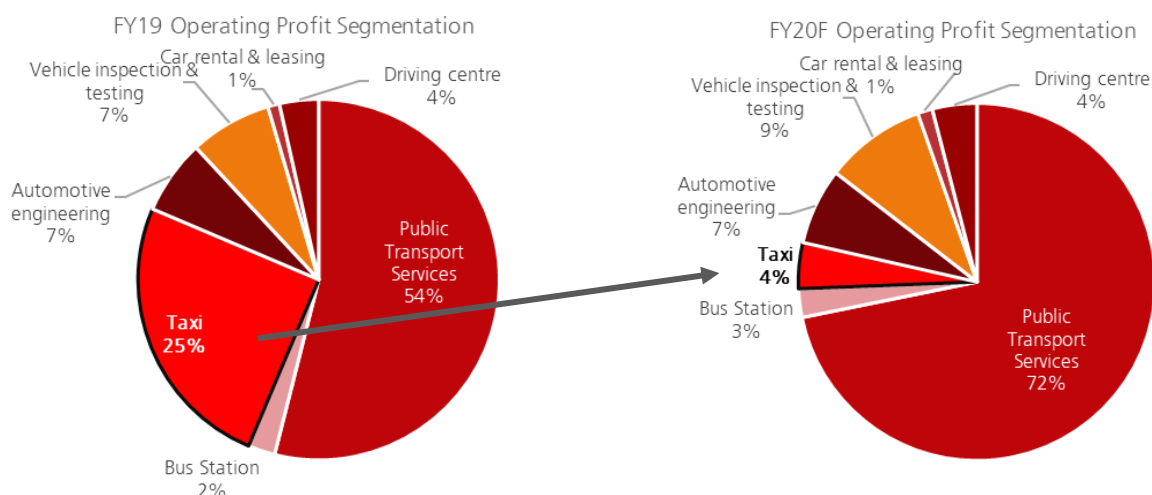
Taxi Rental Rebate measures announced since Feb 2020

Date	Description	Est. Total Costs*	Cost per taxi S\$	From S\$/day per taxi	Till 31-Mar	30-Apr	13-May	30-Sep
14-Feb-20	\$20/day rental rebate per day from 15 Feb for 3 months.	\$9m	\$900	15-Feb	\$20	\$20	\$20	na
20-Feb-20	Additional S\$16.50 rental rebate per day from 21 Feb to 31 Mar, on top of \$20/day rebate given earlier. To step down to \$30/day rebate in April and \$20/day rebate till 13 May.	\$10m	\$960	21-Feb	\$36.5	\$30	\$20	na
25-Mar-20	Additional S\$10 rental rebate per day, and extending total rental rebate of S\$46.50 per day till 30 April (original was \$30/day for April). No mention of changes for May.	\$5.5m	\$555	25-Mar	\$46.5	\$46.5	\$20	na
30-Mar-20	Total rental rebate of S\$46.50 rental rebate per day, extended till Sep, of which S\$36.50 is given by the company and \$10 by the government	\$80m	\$6,680	30-Mar	\$46.5	\$46.5	\$46.5	\$46.5

*assuming 10,000 taxi fleet, est costs as per announced/ estimated, and could be inclusive of earlier rebates

Source: Company, DBS' estimates

Taxi contribution to group to shrink in FY20F; public transport to remain relatively resilient



Source: Company, DBS Bank

Rail ridership has also suffered, though impact likely to be less serious. With increasing calls for limited movements, social distancing and employees to work from home (WFH), there has been a decline in rail ridership. According to media reports in early March, Mr Khaw Boon Wan, Singapore's Transport Minister indicated that rail and public transport ridership has fallen by 20% due to the reduced tourist arrivals. With the situation having deteriorated since then, we believe the figure would be worse. Anecdotally, there are more companies instituting WFH arrangements which would lead to lower rail ridership with lesser need for commute.

Valuation

Cut FY20F/21F earnings by 19%/ 11%. Factoring the various rounds of taxi rental rebates announced, and assuming this is carried through till Sep 2020, we have cut FY20F/21F earnings by 19%/ 11%. We have also assumed lower rail ridership, offset partially by Singapore Government's stimulus package under the Jobs Support Scheme. With the earnings revision, we expect group earnings to dip by 15.6% y-o-y in FY20F, before rebounding 15% in FY21F. We have also

trimmed our dividend expectations to 7 Scts per share for FY20F, equating to a lower payout ratio of c.68%.

Maintain HOLD, TP cut to S\$1.55. Post earnings revision, we have accordingly lowered our TP to S\$1.55 based on 15x FY20F PE, pegged to -0.5 standard deviation below historical average. Our previous TP of S\$2.26 was based on average of PE and DCF valuation. In light of the current situation, which is likely to remain volatile, we have revised our valuation to use pure PER methodology, given the uncertainty on outlook and focus on near term earnings at this juncture.

When would we turn positive? Look out for easing of health advisories as a first step. CD is currently trading at around -1.5 SD below its historical average, and in our view, may have priced in the dire situation. That said, the uncertainties surrounding the current situation remains relatively fluid. We asked ourselves what would make us turn positive on the stock. At this juncture, we believe it would be **event driven**, and we would look out for easing of health advisories for locals, reversion from work from home arrangements, followed by eventual lifting of travel restrictions.

ComfortDelGro historical PER trading band



Source: ThomsonReuters' DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

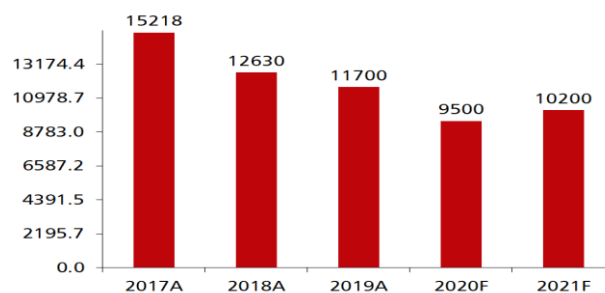
Taxis' hired-out rates and competition from private-hire vehicles. Taxi operations contributed about 25% of group operating profit in FY19, with Singapore operations accounting for the majority (estimated at around two-thirds). The total taxi industry fleet has shrunk, arising from competition by private hire rental car companies. CD's total fleet size has recently shrunk to about 10,700 (as of December 2019) from about 16,800 taxis (in December 2016), with market share at around 60%. A key share price driver would be the bottoming-out of taxi-fleet contraction and/or an improving operating environment. We continue to take the stance that private cars for hire and taxis would co-exist over the longer term.

Public transport operations in Singapore and overseas. The Public Transport Services segment accounted for c.74% and c.54% of group revenue and operating profit respectively in FY19. The major profit contributors were Singapore, Australia, followed by the UK. Within these areas of operations, revenue and earnings drivers are based on tenders for routes, coupled with CD meeting the service requirements set forth by the authorities. Over in Singapore, the model has transited to the Bus Contracting Model since 1 September 2016, under which the fare revenue risk has been transferred to the government, save for its rail operations.

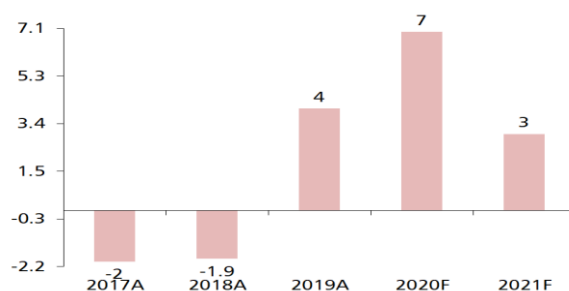
Overseas presence through acquisitions. Since 2003, revenue contribution from overseas has increased from 35% to 45% (as of end-2014), but that dialed back to 42% in 2019 partly due to translation effects and stronger contribution from its public transport services in Singapore. Operating profit contribution stood at 34% as of 2019 (from 26% a decade ago). Management had previously indicated a target of further increasing contribution of overseas revenue to an even mix with Singapore. This is likely to be achieved through organic growth (winning of tenders) and inorganic sources, such as bite-sized acquisitions.

Earnings for FY20F to take a step back; not factoring further acquisitions. CD's earnings growth has been stable, posting an average CAGR of 6% from 2011-2016. Arising from challenges in the taxi industry, earnings dipped by 5% in FY17, followed by a marginal improvement of 1% in 2018. This has had an impact on share price. We are projecting core earnings to contract in FY20F (FY19 had an impairment provision of \$27.3m) arising from rental rebates and a smaller fleet due to current outbreak of coronavirus. We are currently not factoring in acquisitions which could supplement growth.

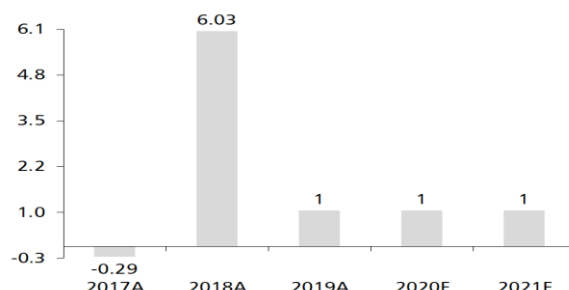
SGP avg taxi fleet (#)



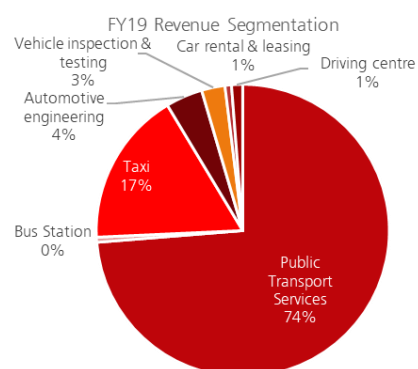
SGP fare chg (%)



Chg in staff strength (%)



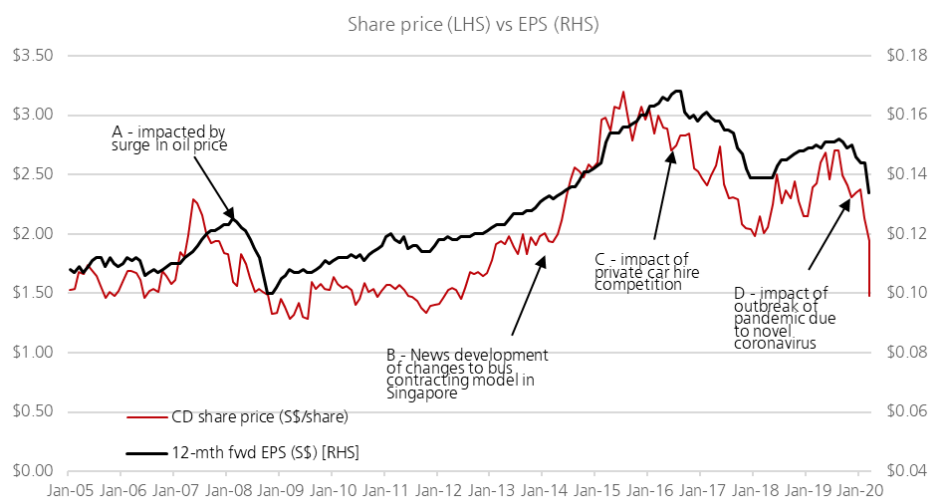
Country Geographical contribution



Source: Company, DBS Bank

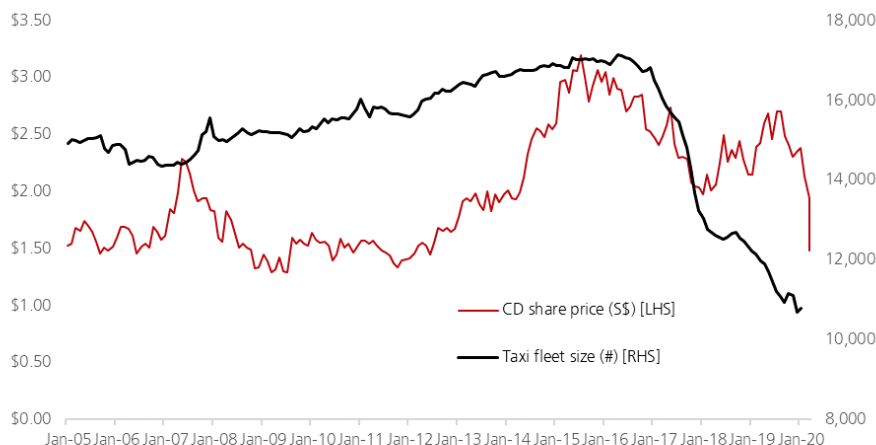
Appendix 1: A look at Company's listed history – what drives its share price?

CD's share price vs 12-month forward EPS



Source: ThomsonReuters, DBS Bank

CD's share price (\$\$/share) [LHS] vs Comfort/ CityCab total taxi fleet in Singapore [RHS]



Source: LTA, DBS Bank

Balance Sheet:

Low gearing provides opportunities for inorganic growth. CD's balance sheet remains strong with gross debt-to-equity at c.0.2x while net debt-to-equity hovers near zero. This provides CD with ample headroom for overseas acquisitions to supplement growth and further diversify its geographical exposure out of Singapore.

Share Price Drivers:**Abating taxi competition, equilibrium operating landscape.**

Based on our critical factors study, the challenging taxi business has weighed on its share price. We believe a turnaround in the fleet size could help to re-rate its share price.

Acquisitions. CD has successfully diversified its operations outside of Singapore over the past decade through bite-sized acquisitions. Further accretive acquisitions to leverage its strong balance sheet could provide further catalysts to its share price.

Key Risks:

Prolonged irrational competition from private-hire car apps/disruptive technologies. There have been concerns about the taxi industry being impacted by the aggressive competition from private-car operators. A further increase in the competitive landscape and funding of its loss-making businesses could raise concerns about the profitability of taxi operations.

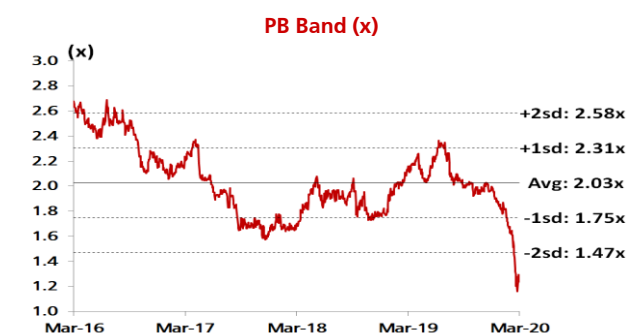
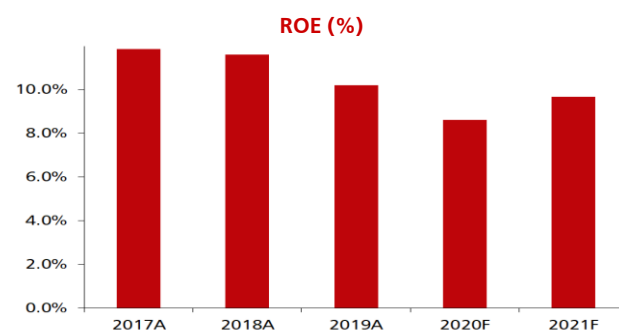
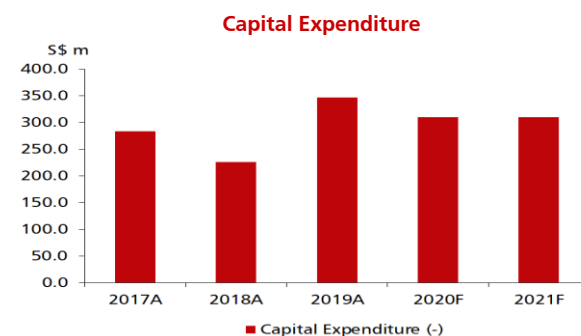
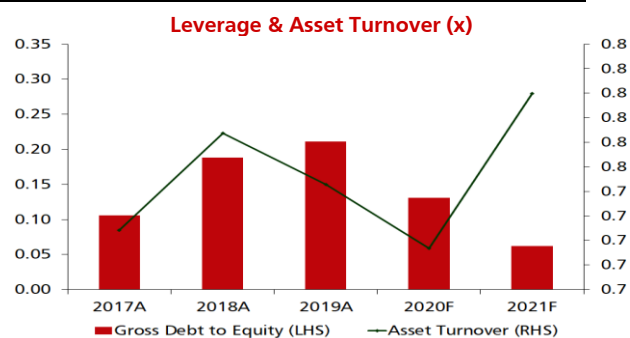
Regulatory risks, government budget cuts. Lower-than-expected fare hikes and/or changes in regulations on operations and government budget cuts may impact our forecasts.

Environment, Social, Governance:

CD published its fourth Sustainability Report for FY18 and reiterated its commitment to sustainability. Being in the public transportation business, impact on environment is key, and the Group has set a short-term target to reduce its carbon emissions by 1-3% over the next one to three years. In Singapore, it expects to phase out diesel usage in its taxi operations by 2024.

Company Background

ComfortDelGro Corporation Limited (CD) is a land transport service company. Its business includes bus, taxi, rail, car rental and leasing, automotive engineering services, testing services, etc. Besides being a market leader for buses and taxis in Singapore, its business spans other geographies such as the UK, Australia, China, Vietnam, and Malaysia.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
SGP avg taxi fleet (#)	15,218	12,630	11,700	9,500	10,200
SGP fare chg (%)	(2.0)	(1.9)	4.00	7.00	3.00
Chg in staff strength (%)	(0.3)	6.03	1.00	1.00	1.00

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (\$\$m)					
Public Transport Svc	2,401	2,711	2,879	2,961	3,069
Taxi	805	727	669	461	593
Automotive Engr	171	166	159	154	154
Vehicle Inspection	101	108	101	102	102
Others	99.0	94.1	97.9	95.7	97.2
Total	3,576	3,805	3,906	3,774	4,016

EBIT (\$\$m)

Public Transport Svc	179	217	224	227	237
Taxi	135	129	104	13.8	94.9
Automotive Engr	33.9	25.3	27.8	23.2	21.6
Vehicle Inspection	32.6	39.8	30.6	30.6	30.6
Others	28.6	27.8	28.9	39.8	(6.8)
Total	409	439	416	334	377

Taxi profit to be hit by rental rebates arising from COVID-19 outbreak

EBIT Margins (%)

Public Transport Svc	7.5	8.0	7.8	7.7	7.7
Taxi	16.8	17.8	15.6	3.0	16.0
Automotive Engr	19.8	15.2	17.5	15.0	14.0
Vehicle Inspection	32.4	37.0	30.3	30.0	30.0
Others	28.9	29.5	29.5	41.5	(7.0)
Total	11.4	11.5	10.6	8.8	9.4

Income Statement (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	3,576	3,805	3,906	3,774	4,016
Other Opng (Exp)/Inc	(3,167)	(3,366)	(3,490)	(3,440)	(3,639)
Operating Profit	409	439	416	334	377
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	4.60	0.10	0.0	0.0	0.0
Net Interest (Exp)/Inc	11.6	0.40	(9.2)	(6.1)	(1.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	425	439	407	328	376
Tax	(76.5)	(80.5)	(88.4)	(63.9)	(73.3)
Minority Interest	(47.4)	(55.5)	(53.1)	(40.1)	(46.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	302	303	265	224	257
Net Profit before Except.	302	303	265	224	257
EBITDA	823	833	869	758	821

Includes \$27m impairment on taxi segment

Growth

Revenue Gth (%)	(11.9)	6.4	2.6	(3.4)	6.4
EBITDA Gth (%)	(4.7)	1.3	4.3	(12.7)	8.3
Opg Profit Gth (%)	(11.5)	7.2	(5.2)	(19.7)	12.9
Net Profit Gth (Pre-ex) (%)	(4.9)	0.6	(12.6)	(15.6)	14.7

Margins & Ratio

Opg Profit Margin (%)	11.4	11.5	10.6	8.8	9.4
Net Profit Margin (%)	8.4	8.0	6.8	5.9	6.4
ROAE (%)	11.8	11.6	10.2	8.6	9.7
ROA (%)	6.1	6.1	5.0	4.3	5.0
ROCE (%)	8.2	8.7	7.5	6.1	7.1
Div Payout Ratio (%)	74.6	75.0	80.0	67.9	70.2
Net Interest Cover (x)	NM	NM	45.2	55.1	373.1

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$5m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	1,017	947	981	979	999
Other Oper. (Exp)/Inc	(897)	(840)	(866)	(870)	(914)
Operating Profit	120	107	115	109	84.5
Other Non Opg (Exp)/Inc	2.80	3.40	2.40	2.90	(8.7)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(3.6)	(5.5)	(5.4)	(5.3)	7.00
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	119	105	112	107	82.8
Tax	(19.9)	(22.0)	(21.9)	(23.1)	(21.4)
Minority Interest	(16.0)	(12.9)	(14.2)	(13.4)	(12.6)
Net Profit	83.5	70.4	75.9	70.0	48.8
Net profit bef Except.	83.5	70.4	75.9	70.0	48.8
EBITDA	224	217	224	217	212

Growth

Revenue Gth (%)	5.1	(6.9)	3.5	(0.2)	2.0
EBITDA Gth (%)	4.7	(3.5)	3.5	(3.3)	(2.3)
Opg Profit Gth (%)	6.0	(10.6)	7.1	(5.3)	(22.4)
Net Profit Gth (Pre-ex) (%)	6.4	(15.7)	7.8	(7.8)	(30.3)

Margins

Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	11.8	11.3	11.7	11.1	8.5
Net Profit Margins (%)	8.2	7.4	7.7	7.2	4.9

Balance Sheet (\$5m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	2,723	2,691	2,706	2,592	2,458
Invts in Associates & JVs	9.00	0.90	0.70	0.70	0.70
Other LT Assets	930	1,167	1,353	1,390	1,427
Cash & ST Invts	607	586	594	459	529
Inventory	114	139	151	146	155
Debtors	251	275	319	307	326
Other Current Assets	195	277	256	256	256
Total Assets	4,828	5,137	5,379	5,149	5,151
ST Debt	114	90.4	227	100	100
Creditor	677	691	670	651	692
Other Current Liab	154	228	219	191	200
LT Debt	208	480	407	300	100
Other LT Liabilities	637	621	847	847	847
Shareholder's Equity	2,618	2,614	2,595	2,607	2,711
Minority Interests	420	414	414	454	500
Total Cap. & Liab.	4,828	5,137	5,379	5,149	5,151
Non-Cash Wkg. Capital	(271)	(228)	(164)	(133)	(155)
Net Cash/(Debt)	284	16.2	(40.0)	58.6	329
Debtors Turn (avg days)	24.9	25.2	27.8	30.3	28.8
Creditors Turn (avg days)	92.3	84.0	81.8	79.9	76.7
Inventory Turn (avg days)	12.9	15.5	17.4	17.9	17.2
Asset Turnover (x)	0.7	0.8	0.7	0.7	0.8
Current Ratio (x)	1.2	1.3	1.2	1.2	1.3
Quick Ratio (x)	0.9	0.9	0.8	0.8	0.9
Net Debt/Equity (X)	CASH	CASH	0.0	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	0.0	CASH	CASH
Capex to Debt (%)	88.0	39.7	54.6	77.5	155.0
Z-Score (X)	3.4	3.1	3.3	3.4	3.4

Balance sheet projected to remain healthy despite challenges at its taxi operations.

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	425	439	407	328	376
Dep. & Amort.	409	394	453	424	444
Tax Paid	(72.0)	(82.1)	(89.5)	(91.7)	(63.9)
Assoc. & JV Inc/(loss)	(4.6)	(0.1)	0.0	0.0	0.0
Chg in Wkg.Cap.	(146)	(55.0)	(144)	(2.8)	12.7
Other Operating CF	(30.1)	(27.6)	(16.2)	0.0	0.0
Net Operating CF	582	669	610	658	769
Capital Exp.(net)	(284)	(226)	(347)	(310)	(310)
Other Invt.(net)	0.0	(419)	(28.3)	(50.0)	(50.0)
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	6.80	0.0	0.0	0.0	0.0
Other Investing CF	22.9	7.00	8.20	13.0	13.0
Net Investing CF	(254)	(638)	(367)	(347)	(347)
Div Paid	(225)	(225)	(231)	(212)	(152)
Chg in Gross Debt	(51.5)	216	31.3	(234)	(200)
Capital Issues	12.2	3.90	1.30	0.0	0.0
Other Financing CF	(243)	(23.3)	(31.6)	0.0	0.0
Net Financing CF	(507)	(29.0)	(230)	(446)	(352)
Currency Adjustments	(4.1)	(12.0)	(5.5)	0.0	0.0
Chg in Cash	(183)	(10.1)	8.10	(136)	70.0
Opg CFPS (\$ cts)	33.6	33.4	34.8	30.4	34.8
Free CFPS (\$ cts)	13.8	20.4	12.2	16.0	21.1

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 May 19	2.52	2.59	HOLD
2:	14 Aug 19	2.51	2.59	HOLD
3:	14 Nov 19	2.32	2.48	HOLD
4:	05 Feb 20	2.14	2.45	BUY
5:	17 Feb 20	2.09	2.26	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Andy SIM, CFA

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

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*

Completed Date: 31 Mar 2020 08:43:20 (SGT)

Dissemination Date: 31 Mar 2020 09:09:50 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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