Maybank Kim Eng

ComfortDelGro (CD SP)

In the rearview mirror

Emerging out of the worst; Maintain BUY

Maintain BUY as the worst appears priced in and CDG's long-term structural growth is unchanged. CDG reported 1H20 net loss vs MKE/consensus of a FY20E profit. We cut our FY20E net profit by 48% to reflect slower recovery in rail ridership and compressed EBIT margins due to negative operating leverage. Lowering DCF-based TP to SGD1.76 from SGD1.98. CDG should recover as countries emerge from lockdown. Stock is trading at 1.2x P/B or 2SD away from historical mean. The key risk is a second lockdown.

It has been a bumpy ride due to the lockdown

Excluding impairment, CDG would have still missed MKE/consensus 1H20 profit estimates, albeit at 24-28% of FY20E due to high fixed cost. 2Q20 revenue fell 46% YoY to SGD664m as Singapore, Australia and the UK went into lockdown. Rail ridership and mileages for public transport services both fell. CDG waived taxi rentals and had fewer repairs and maintenance for the automotive engineering segment. Negative operating leverage and taxi impairment provision (SGD30.8m) resulted in 2Q20 net loss of SGD42m and 1H20 net loss of SGD6.6m. Singapore is most impacted by rail ridership, rental waiver and reduced service fees. As a result, we have cut our overall EBIT margin to 1.4% from 7.6% on compressed taxi and public transport margin.

Worst quarter over; slow U-turn

Since the 80% plunge in rail ridership during the circuit breaker in Singapore, it has recovered to -50% pre-COVID levels in Jul. Ridership should continue to recover as working-from-home (WFH) arrangements moderate. Bus-contracting model across Singapore and Australia remains fairly stable at topline and should continue. We think CDG is unlikely to offer further material rental waivers given MoM taxi fleet size saw slower pace of decline and drivers' net income has almost recovered to pre-COVID level (inclusive of government grants). CDG will scale back on their rental reliefs by year end. Further taxi impairment is not expected if there is no second lockdown.

Riding into FY21E; structural growth unchanged

Cessation of WFH remains a near-term catalyst. CDG will enjoy significant operating leverage in FY21E as ridership normalises. COVID-19 has made inflection point for recovery difficult to predict. That said, there is significant value as we think the worst is over. Share price rebounded 75% in 8-10 months following SARS. Long-term fundamentals are intact, as CDG continues to focus on expanding its global footprint through overseas business for a more diversified portfolio.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,805	3,906	3,402	3,712	3,764
EBITDA	833	869	500	779	813
Core net profit	303	265	(51)	211	230
Core EPS (cts)	14.0	12.2	(2.3)	9.7	10.6
Core EPS growth (%)	0.6	(12.9)	nm	nm	9.1
Net DPS (cts)	10.5	9.8	2.3	5.9	8.5
Core P/E (x)	15.0	19.5	nm	14.3	13.1
P/BV (x)	1.7	2.0	1.2	1.1	1.1
Net dividend yield (%)	5.0	4.1	1.6	4.2	6.1
ROAE (%)	11.6	10.2	3.2	8.2	8.6
ROAA (%)	6.1	5.0	(0.9)	3.9	4.2
EV/EBITDA (x)	5.9	6.5	6.5	4.1	3.9
Net gearing (%) (incl perps)	net cash	1.3	net cash	net cash	net cash
Consensus net profit	-	-	155	237	259
MKE vs. Consensus (%)	-	-	(132.7)	(10.7)	(10.8)

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BUY

Share Price SGD 1.39
12m Price Target SGD 1.76 (+27%)
Previous Price Target SGD 1.98

Company Description

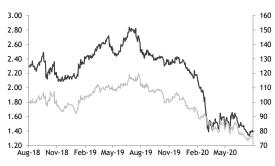
ComfortDelGro is a land transport conglomerate. Its diversified business includes interests in taxi, bus and rail globally.

Statistics

52w high/low (SGD)	2.53/1.33
3m avg turnover (USDm)	31.0
Free float (%)	98.5
Issued shares (m)	2,167
Market capitalisation	SGD3.0B
	USD2.2B

Major shareholders:
Blackrock Fund Advisors 7.8%
The Vanguard Group, Inc 2.9%
Capital Research & Management Co 2.5%

Price Performance



ComfortDelGro - (LHS, SGD) ——ComfortDelGro / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(5)	(7)	(45)
Relative to index (%)	(3)	(9)	(32)

Source: FactSet

2021E

2022E

Figure 1: MKE vs consensus

(End-Dec, SGD m)	2020E	2021E	2022E
Revenues (MKE)	3,402	3,708	3,758
EBIT (MKE)	49	339	362
EBIT margin (MKE)	1.4%	9.1%	9.6%
Core profit (MKE)	81	211	230
DPS (MKE)	0.037	0.097	0.106
TP (MKE)	1.76		
Revenues (cons)	3,511	3,773	3,897
EBIT (cons)	192	351	388
EBIT margin (cons)	5.5%	9.3%	9.9%
Core profit (cons)	140	236	260
DPS (cons)	0.063	0.083	0.089
TP (cons)	1.71		
MKE vs cons (Revenue)	-3.1%	-1.7%	-3.6%
MKE vs cons (EBIT)	-74.5%	-3.4%	-6.6%
MKE vs cons (EBIT margin)	-4.0%	-0.2%	-0.3%
MKE vs cons (Core profit)	-41.9%	-10.8%	-11.6%
MKE vs cons (TP)	3.1%		

(End-Dec, SGD m)

Figure 2: Forecast changes

Revenue (revised) 3,402 3,708 3,758 3,833 3,881 Revenue (previous) 3,605 Change -5.6% -3.3% -3.2% EBIT (revised) 49 339 362 EBIT (previous) 273 380 391 Change -82.1% -10.8% -7.4% Net profit (revised) 81 211 230 Net profit (previous) 155 254 244 Change -47.6% -13.6% -9.6% Target price (revised) 1.76 Target price (previous) 1.98 Change -11.1%

2020E

Source: Company data, Maybank Kim Eng

Source: Company data, Maybank Kim Eng

Figure 3: Quarterly income statement

FYE 31 Dec							
(SGD m)	2Q19	1Q20	2Q20	QoQ %	YoY %	1H20 % of MKE FY20E	1H20% of Cons FY20E
Revenue	979.0	862.4	664.3	-23.0%	-32.1%	45%	43.5%
Public Transport	726.8	656.3	542.2	-17.4%	-25.4%	44%	
Bus station	5.5	3.4	2.7	-23.0%	-51.7%	28%	
Taxi	162.1	127.6	46.4	-63.6%	-71.4%	43%	
Automotive Engineering	39.5	31.0	48.3	55.7%	22.4%	55%	
Vehicle Inspection/Testing	25.7	25.0	14.7	-41.3%	-42.9%	49%	
Car rental & leasing	6.9	6.9	6.8	-0.8%	-0.9%	58%	
Driving centre	12.5	12.1	3.2	-73.6%	-74.5%	45%	
EBITDA	221.7	158.0	88.8	-43.8%	-59.9%	49%	40.6%
D&A	(106.6)	(102.1)	(138.1)	35.3%	29.5%		
EBIT	115.1	55.9	(49.3)	-188.2%	-142.8%	13%	3.4%
Net profit	75.9	36.0	(42.0)	-216.7%	-155.3%		

Source: Company data, Maybank Kim Eng

Figure 4: Revenue breakdown by segment

	2Q19	1Q20	2Q20
Public transport services	73.8%	76.1%	81.6%
Bus Station	0.6%	0.4%	0.4%
Taxi	17.0%	14.8%	7.0%
Automotive Engineering	4.2%	3.6%	7.3%
Vehicle Inspection	2.5%	2.9%	2.2%
Car rental & leasing	0.7%	0.8%	1.0%
Driving centre	1.2%	1.4%	0.5%
Total	100.0%	100.0%	100.0%

Source: Company data

Figure 5: Geographical revenue breakdown

	2Q19	1Q20	2Q20
Singapore	57.3%	59.1%	51.3%
UK	22.3%	20.9%	24.3%
Australia	16.2%	17.0%	20.9%
China and others	4.2%	3.0%	3.5%
Total	100.0%	100.0%	100.0%

Source: Company data

Figure 6: EBIT breakdown by segments

	2Q19	1Q20	2Q20	QoQ %	YoY %
Total EBIT	115.1	55.9	(49.3)	-188.2%	-142.8%
Public transport services	63.0	33.6	0.0	-100.0%	-100.0%
Bus Station	2.7	0.8	1.2	50.0%	-55.6%
Taxi	29.7	2.4	(70.8)	-3050.0%	-338.4%
Automotive Engineering	7.0	5.6	2.1	-62.5%	-70.0%
Vehicle Inspection	8.0	8.8	0.6	-93.2%	-92.5%
Car rental & leasing	1.1	1.0	(0.2)	-120.0%	-118.2%
Driving centre	3.5	3.7	(4.9)	-232.4%	-240.0%

Source: Company data

Figure 7: Geographical revenue breakdown

	2Q19	1Q20	2Q20	QoQ %	YoY %
Singapore	562.0	508.8	341.6	-32.9%	-39.2%
UK	219.0	180.2	161.7	-10.3%	-26.1%
Australia	158.5	146.6	138.9	-5.3%	-12.4%
China and others	41.3	25.9	23.0	-11.2%	-44.4%
Total	980.8	861.5	665.2	-22.8%	-32.2%

Source: Company data

Figure 8: Geographical EBIT breakdown

	2Q19	1Q20	2Q20	QoQ %	YoY %
Singapore	72.4	33.0	(18.4)	-155.7%	-125.4%
UK	12.8	11.7	(17.7)	-251.4%	-238.4%
Australia	19.3	9.5	(1.0)	-110.6%	-105.2%
China and others	10.6	1.7	(10.5)	-727.4%	-199.4%
Total	115.1	55.8	(47.6)	-185.2%	-141.3%

Source: Company data

Maybank Kim Eng

Value Proposition

- Land-transport conglomerate with business in public transports and taxis across Singapore, UK/Ireland and China.
- Singapore is the largest EBIT contributor at 64%. UK/Ireland at 12%, Australia at 15% and China at 9%.
- Public transport is the largest EBIT contributor at 49%, with ~85% of revenue from regulated returns, followed by taxis at 30% and others at 21%.
- Taxi industry is showing signs of stabilisation with regulators levelling the playing fields of players, while ride-hailing companies (Grab and GoJek) are shifting their focus to other businesses.
- CDG seeking to expand its geographical exposure through overseas acquisitions, with overseas businesses taking a bigger proportion.

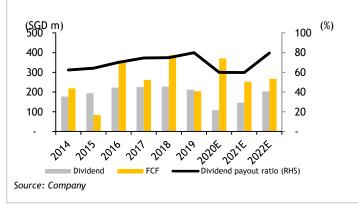
EBIT driven by public transport



Financial Metrics

- More defensive after Grab-Uber's consolidation in 2018, coupled with increased contribution from public transport and overseas expansion.
- Public transport business continues to be the key contributor, while taxis and overseas expansion provides incremental growth. Taxi utilisation is the key metric. Consistent cashflow generation to support 80% payout

Consistent dividend payouts from healthy cashflows



Price Drivers





Source: Factset

- 1. Uber entered Singapore market. Aggressive expansion seen as a threat to taxi business.
- 2. Taxi market share began to decline amid heightened competition from ride-hailing players. Lost tender for Thomson-East Coast Line.
- 3. Uber exited Singapore via merger with Grab seen as industry consolidation.
- 4. Entry of Gojek heightened risk perception of taxi business. Uber entered Singapore market. Aggressive expansion seen as a threat to taxi business.
- 5. Rental waiver given to taxi drivers amid Covid-19 outbreak in Singapore translates to revenue loss to the group.

Swing Factors

Upside

- Faster-than-expected stabilisation in taxi industry.
- Earnings-accretive acquisition overseas.
- Higher-than-expected passenger numbers for Singapore rails (NEL and DTL) or new bids for railway lines under contract model.

Downside

- Higher-than-expected operating cost for railways in Singapore.
- Decline in taxi utilisation or heightened competition (fares and for drivers) from ride-hailing players.
- Lower-than-expected ridership in Singapore.

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FYE 1 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics	45.7	20.0	37.1	14.2	12.1
P/E (reported) (x)	15.7 15.0	20.0 19.5		14.2 14.3	13.1 13.1
Core P/E (x) P/BV (x)	1.7	2.0	nm 1.2	14.3	1.1
P/NTA (x)	2.6	3.0	1.8	1.7	1.6
Net dividend yield (%)	5.0	4.1	1.6	4.2	6.1
FCF yield (%)	8.5	4.0	6.1	6.0	8.1
EV/EBITDA (x)	5.9	6.5	6.5	4.1	3.9
EV/EBIT (x)	11.2	13.5	66.5	9.5	8.8
INCOME STATEMENT (SGD m)					
Revenue	3,805.2	3,905.7	3,402.1	3,711.7	3,763.8
Gross profit	833.1	868.8	499.6	779.3	813.3
EBITDA	833.1	868.8	499.6	779.3	813.3
Depreciation	(394.3)	(453.0)	(450.6)	(439.8)	(450.5)
EBIT	438.8	415.8	49.0	339.4	362.9
Net interest income /(exp)	0.4	(9.2)	(10.3)	(5.8)	(4.7)
Associates & JV	0.1	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	132.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	439.3	406.6	170.7	333.6	358.2
Income tax	(80.5)	(88.4)	(34.1)	(66.7)	(71.6)
Minorities	(55.5)	(53.1)	(55.3)	(55.6)	(56.1) 230.5
Reported net profit Core net profit	303.3 303.3	265.1 265.1	81.3 (50.7)	211.3 211.3	230.5
core net pront	303.3	203.1	(30.7)	211.3	230.3
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	586.1	594.2	825.2	883.6	937.8
Accounts receivable	552.4	574.2	490.7	535.3	542.8
Inventory Poincurance assets	138.7 0.0	150.7 0.0	138.3 0.0	139.7 0.0	140.6 0.0
Reinsurance assets Property, Plant & Equip (net)	2,691.3	2,706.1	2,522.1	2,584.5	2,636.2
Intangible assets	896.4	848.7	841.9	835.2	828.5
Investment in Associates & JVs	0.9	0.7	0.7	0.7	0.7
Other assets	270.9	504.4	504.4	504.4	504.4
Total assets	5,136.7	5,379.0	5,323.3	5,483.5	5,591.0
ST interest bearing debt	90.4	227.0	227.0	227.0	227.0
Accounts payable	898.9	813.6	818.3	826.8	831.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	479.5	407.2	407.2	407.2	407.2
Other liabilities	641.0	922.0	922.0	922.0	922.0
Total Liabilities	2,109.6	2,370.0	2,374.7	2,383.2	2,388.3
Shareholders Equity	2,613.6	2,595.0	2,509.7	2,636.4	2,713.6
Minority Interest	413.5	414.0	438.9	463.9	489.1
Total shareholder equity	3,027.1	3,009.0	2,948.6	3,100.3	3,202.7
Perpetual securities Total liabilities and equity	0.0 5,136.7	0.0 5,379.0	1.0 5,323.3	1.0 5,483.5	1.0 5,591.0
		-,-,-,-		-, 100,0	2,271,10
CASH FLOW (SGD m)	420.2	407.7	470 7	222.4	250.0
Pretax profit	439.3	406.6	170.7	333.6	358.2
Depreciation & amortisation	394.3	453.0	450.6	439.8	450.5
Adj net interest (income)/exp	(0.4)	9.2	10.3	5.8	4.7
Change in working capital Cash taxes paid	(55.0) (82.1)	(144.0) (89.5)	100.7	(37.6) (66.7)	(3.3) (71.6)
•	0.0	0.0	(34.1) 0.0	0.0	0.0
Other operating cash flow Cash flow from operations	713.0	670.3	566.2	674.9	738.4
Capex	(325.0)	(466.3)	(381.2)	(495.5)	(495.5)
Free cash flow	388.0	204.0	185.0	179.4	242.9
Dividends paid	(225.1)	(230.7)	(166.6)	(84.6)	(153.3)
Equity raised / (purchased)	2.6	1.0	0.0	0.0	0.0
Change in Debt	215.5	3.7	0.0	0.0	0.0
Other invest/financing cash flow	(378.4)	44.7	(35.7)	(31.4)	(30.5)
Effect of exch rate changes	(12.0)	(5.5)	0.0	0.0	0.0
Net cash flow	1.6	19.7	(22.3)	58.4	54.1



FYE 1 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.4	2.6	(12.9)	9.1	1.4
EBITDA growth	1.8	4.3	(42.5)	56.0	4.4
EBIT growth	7.2	(5.2)	(88.2)	592.8	6.9
Pretax growth	3.3	(7.4)	(58.0)	95.4	7.4
Reported net profit growth	0.6	(12.6)	(69.3)	160.0	9.1
Core net profit growth	0.6	(12.6)	nm	nm	9.1
Profitability ratios (%)					
EBITDA margin	21.9	22.2	14.7	21.0	21.6
EBIT margin	11.5	10.6	1.4	9.1	9.6
Pretax profit margin	11.5	10.4	5.0	9.0	9.5
Payout ratio	74.6	79.9	60.0	60.0	80.0
DuPont analysis					
Net profit margin (%)	8.0	6.8	2.4	5.7	6.1
Revenue/Assets (x)	0.7	0.7	0.6	0.7	0.7
Assets/Equity (x)	2.0	2.1	2.1	2.1	2.1
ROAE (%)	11.6	10.2	3.2	8.2	8.6
ROAA (%)	6.1	5.0	(0.9)	3.9	4.2
Liquidity & Efficiency					
Cash conversion cycle	(41.0)	(32.4)	(26.9)	(34.2)	(32.5)
Days receivable outstanding	47.2	51.9	56.3	49.8	51.6
Days inventory outstanding	15.3	17.2	17.9	17.1	17.1
Days payables outstanding	103.5	101.5	101.2	101.0	101.2
Dividend cover (x)	1.3	1.3	1.7	1.7	1.3
Current ratio (x)	1.3	1.2	1.3	1.4	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.3	2.2	2.3	2.3
Net gearing (%) (incl perps)	net cash	1.3	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	1.3	net cash	net cash	net cash
Net interest cover (x)	na	45.2	4.8	58.4	77.6
Debt/EBITDA (x)	0.7	0.7	1.3	0.8	0.8
Capex/revenue (%)	8.5	11.9	11.2	13.3	13.2
Net debt/ (net cash)	(16.2)	40.0	(191.0)	(249.4)	(303.6)

Source: Company; Maybank

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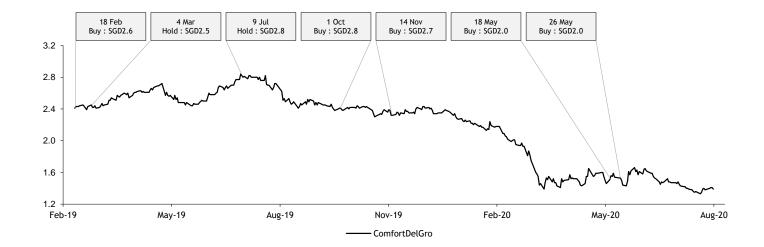
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