

# ComfortDelGro (CD SP)

## Bumpy ride, BUY on dips

### 1HFY20 net loss, as expected; BUY on weakness

ComfortDelGro issued a profit warning. BUY on weakness. 1HFY20 losses were likely due to impairment in its taxi division. We had already factored in operation weakness into our forecasts. Structural growth is intact, while CDG remains a key beneficiary from rising ridership as Singapore emerges from the lockdown. Maintain DCF-based SGD1.98 TP. 2QFY20 results in mid-Aug. Downside risk: negative operating leverage.

CDG is expecting a 1HFY20 net loss due to: i) significant impact of Covid-19 on its operating regions; and ii) the possibility of impairment of investments in certain local and overseas subsidiaries. We think impairment could come from its taxi business, which is bearing the brunt of Covid-19. This was expected and we have built in substantial weakness in our FY20E tax EBIT. Going forward, we do not expect further material rental reliefs for taxis given Singapore's Phase 2 re-opening.

### Impairment could be from taxi business

CDG did not indicate which division is subject to impairment but we think it is likely the taxi business from COVID-19 pressure and idle fleets. The Group took an earlier impairment charge of SGD27.3m in FY19 for taxis in Singapore and China given competition from private-hire players. This was 0.5% of FY19 total assets. A similar charge off now would imply an impairment of SGD26.2m - a 17% downside to our FY20E EPS (Fig.1).

### Losses for taxi division factored in

CDG had already previously warned that its taxi division could face losses since Mar-20 due to the substantial amount of taxi rental reliefs (-SGD117m) given to taxi drivers amid Covid-19. We have already built such weakness into our model. We expect tax EBIT margin to drop sharply to 2% in FY20E, from 15.6% in FY19. But with Singapore's Phase 2 re-opening since 1 June, we do not expect further substantial rental rebates going forward, which may offset some of the downside from impairment charges.

### Structural growth and recovery play unchanged

We believe investors should BUY on price weakness as CDG continues to focus on expanding its stable, non-volatile bus contracting model, which accounted for 63% of FY19 revenue. Meanwhile, as mentioned, CDG will be a key beneficiary as economic activities resume in Singapore. CDG's share price rebounded by 75% and 90% in 8-10 months following SARS and GFC. Even with an impairment charge of SGD26.2m, our conservative FY20E DPS of SGD0.043 (based on 60% payout ratio vs 73% 5-year average) is still well supported by FCF.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,805	3,906	3,606	3,834	3,882
EBITDA	833	869	724	820	841
Core net profit	303	265	155	244	254
Core EPS (cts)	14.0	12.2	7.1	11.2	11.7
Core EPS growth (%)	0.6	(12.9)	(41.5)	57.4	4.0
Net DPS (cts)	10.5	9.8	4.3	6.7	9.3
Core P/E (x)	15.3	19.5	21.3	13.5	13.0
P/BV (x)	1.8	2.0	1.3	1.2	1.2
Net dividend yield (%)	4.9	4.1	2.8	4.4	6.2
ROAE (%)	11.6	10.2	6.0	9.2	9.2
ROAA (%)	6.1	5.0	2.9	4.5	4.5
EV/EBITDA (x)	6.0	6.5	4.8	4.2	4.0
Net gearing (%) (incl perps)	net cash	1.3	net cash	net cash	net cash
Consensus net profit	-	-	157	246	263
MKE vs. Consensus (%)	-	-	(1.2)	(0.6)	(3.3)

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# BUY

Share Price	SGD 1.52
12m Price Target	SGD 1.98 (+30%)
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.

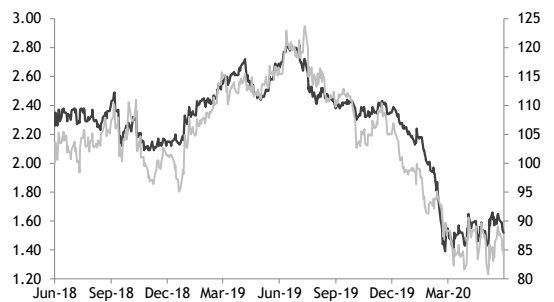
### Statistics

52w high/low (SGD)	2.84/1.39
3m avg turnover (USDm)	30.8
Free float (%)	98.5
Issued shares (m)	2,167
Market capitalisation	SGD3.3B
	USD2.4B

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	1	(43)
Relative to index (%)	(3)	(4)	(28)

Source: FactSet

# 1. Focus Charts

Figure 1: EPS sensitivity to impairment

% to MarFY20 total asset	Estimated impairment charge (SGD'm)	FY20E EPS Change
0.25%	13.08	-8%
0.50%	26.15	-17%
0.75%	39.23	-25%
1.00%	52.30	-33%

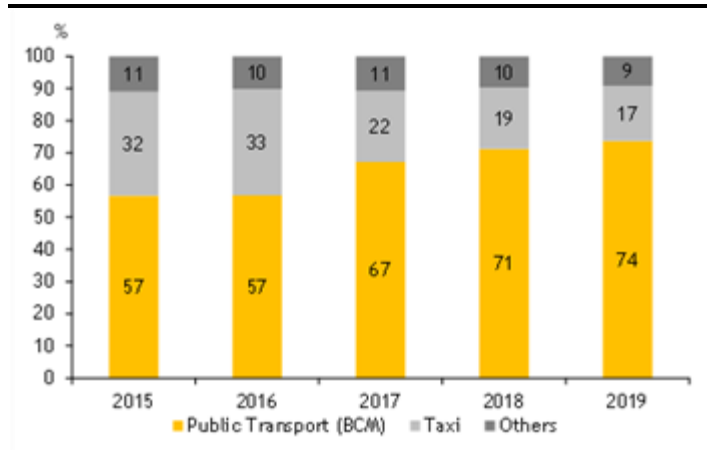
Source: Maybank Kim Eng

Figure 2: MKE vs consensus

End-Dec, SGD m	2020E	2021E	2022E
Revenue (MKE)	3,605	3,833	3,881
EBITDA (MKE)	724	820	841
EBIT (MKE)	273	380	391
Net Profit (MKE)	155	244	254
Revenue (Consensus)	3,534	3,773	3,899
EBITDA (Consensus)	596	737	780
EBIT (Consensus)	210	361	396
Net Profit (Consensus)	157	246	263
Revenue (MKE/consensus)	2%	2%	0%
EBITDA (MKE/consensus)	21%	11%	8%
EBIT (MKE/consensus)	30%	5%	-1%
Net Profit (MKE/consensus)	-1.3%	-0.8%	-3.4%

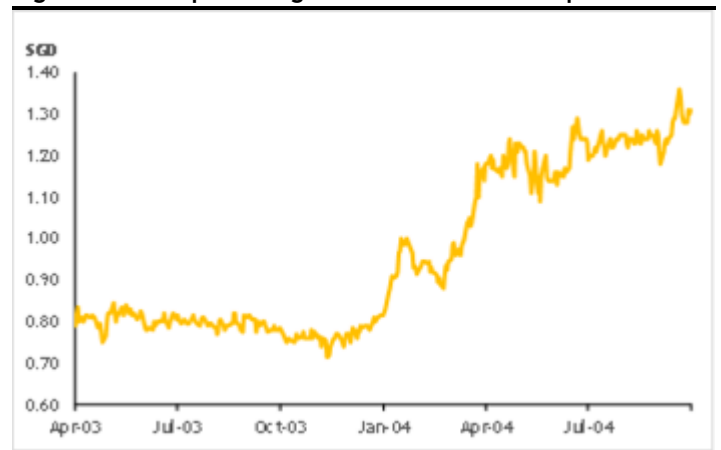
Source: Maybank Kim Eng

Figure 3: 63% of FY19 revenue comes from bus contracting model



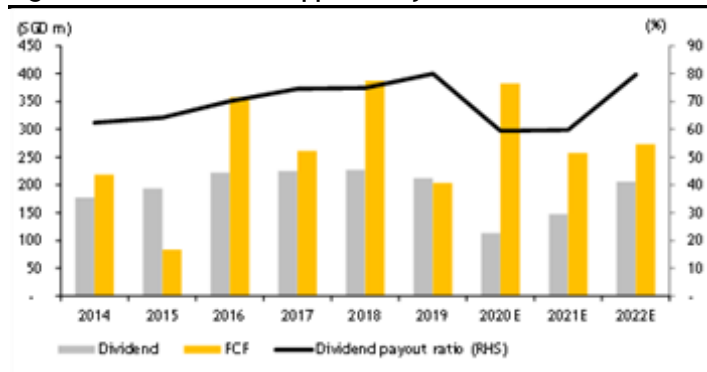
Source: Company data, Maybank Kim Eng

Figure 4: Share price surged 75% in 9-10 months post SARS



Source: Factset

Figure 5: Dividend well supported by FCF



Source: Company data, Maybank Kim Eng

Figure 6: Historical P/B: trading at 2SD away from historical mean

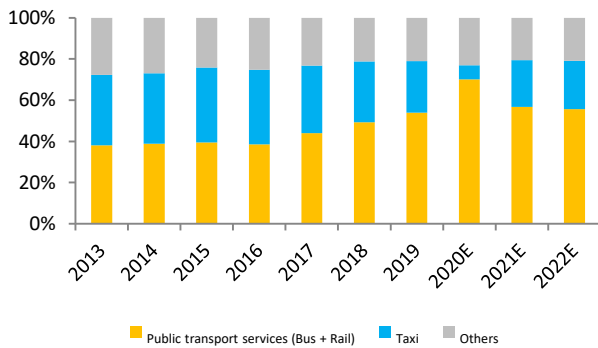


Source: Factset, Maybank Kim Eng

## Value Proposition

- Land-transport conglomerate with business in public transports and taxis across Singapore, Australia, 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

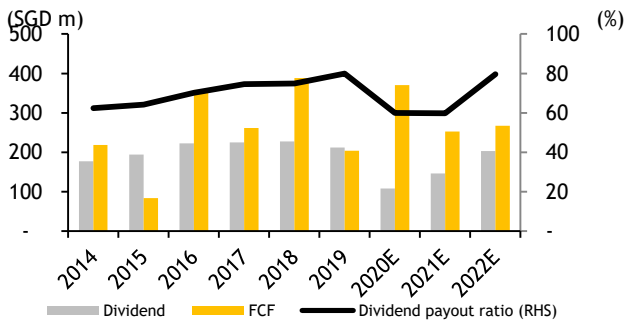


Source: Company data, Factset

## 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 ratio.

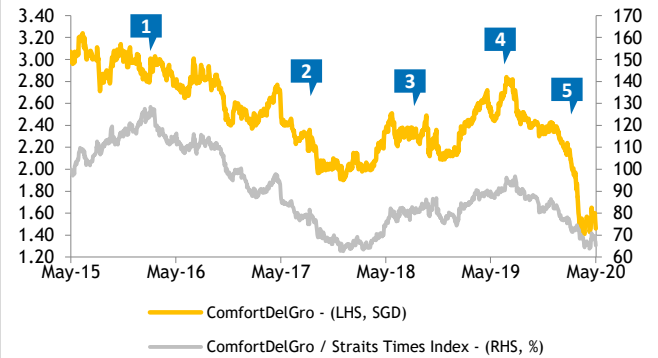
### Consistent dividend payouts from healthy cashflows



Source: Company data, Factset

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

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.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Metrics</b>					
P/E (reported) (x)	15.7	20.2	21.2	13.5	13.0
Core P/E (x)	15.3	19.5	21.3	13.5	13.0
P/BV (x)	1.8	2.0	1.3	1.2	1.2
P/NTA (x)	2.7	3.0	1.9	1.8	1.7
Net dividend yield (%)	4.9	4.1	2.8	4.4	6.2
FCF yield (%)	8.3	4.0	10.8	7.5	8.1
EV/EBITDA (x)	6.0	6.5	4.8	4.2	4.0
EV/EBIT (x)	11.5	13.5	12.8	9.0	8.7

**INCOME STATEMENT (SGD m)**

Revenue	3,805.2	3,905.7	3,606.3	3,833.9	3,882.1
Gross profit	833.1	868.8	724.1	819.7	841.5
EBITDA	833.1	868.8	724.1	819.7	841.5
Depreciation	(394.3)	(453.0)	(450.6)	(439.8)	(450.5)
EBIT	438.8	415.8	273.4	379.9	391.0
Net interest income / (exp)	0.4	(9.2)	(10.3)	(5.0)	(3.2)
Associates & JV	0.1	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	439.3	406.6	263.1	374.8	387.8
Income tax	(80.5)	(88.4)	(52.6)	(75.0)	(77.6)
Minorities	(55.5)	(53.1)	(55.3)	(55.6)	(56.1)
Reported net profit	303.3	265.1	155.2	244.3	254.2
Core net profit	303.3	265.1	155.2	244.3	254.2

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	586.1	594.2	865.0	959.5	1,021.1
Accounts receivable	552.4	574.2	520.1	553.0	559.9
Inventory	138.7	150.7	137.3	143.6	144.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
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
<b>Total assets</b>	<b>5,136.7</b>	<b>5,379.0</b>	<b>5,391.6</b>	<b>5,580.8</b>	<b>5,695.7</b>
ST interest bearing debt	90.4	227.0	227.0	227.0	227.0
Accounts payable	898.9	813.6	812.7	849.9	857.3
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
<b>Total Liabilities</b>	<b>2,109.6</b>	<b>2,370.0</b>	<b>2,369.1</b>	<b>2,406.3</b>	<b>2,413.7</b>
Shareholders Equity	2,613.6	2,595.0	2,583.6	2,710.7	2,792.9
Minority Interest	413.5	414.0	438.9	463.9	489.1
<b>Total shareholder equity</b>	<b>3,027.1</b>	<b>3,009.0</b>	<b>3,022.5</b>	<b>3,174.6</b>	<b>3,282.0</b>
Perpetual securities	0.0	0.0	1.0	1.0	1.0
<b>Total liabilities and equity</b>	<b>5,136.7</b>	<b>5,379.0</b>	<b>5,391.6</b>	<b>5,580.8</b>	<b>5,695.7</b>

**CASH FLOW (SGD m)**

Pretax profit	439.3	406.6	263.1	374.8	387.8
Depreciation & amortisation	394.3	453.0	450.6	439.8	450.5
Adj net interest (income)/exp	(0.4)	9.2	10.3	5.0	3.2
Change in working capital	(55.0)	(144.0)	66.5	(1.9)	(0.8)
Cash taxes paid	(82.1)	(89.5)	(52.6)	(75.0)	(77.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	713.0	670.3	737.9	742.8	763.2
Capex	(325.0)	(466.3)	(381.2)	(495.5)	(495.5)
Free cash flow	388.0	204.0	356.8	247.3	267.7
Dividends paid	(225.1)	(230.7)	(166.6)	(117.2)	(172.0)
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)	(30.6)	(29.0)
Effect of exch rate changes	(12.0)	(5.5)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>1.6</b>	<b>19.7</b>	<b>149.5</b>	<b>94.5</b>	<b>61.6</b>

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	6.4	2.6	(7.7)	6.3	1.3
EBITDA growth	1.8	4.3	(16.7)	13.2	2.7
EBIT growth	7.2	(5.2)	(34.2)	38.9	2.9
Pretax growth	3.3	(7.4)	(35.3)	42.5	3.5
Reported net profit growth	0.6	(12.6)	(41.5)	57.4	4.0
Core net profit growth	0.6	(12.6)	(41.5)	57.4	4.0
<b>Profitability ratios (%)</b>					
EBITDA margin	21.9	22.2	20.1	21.4	21.7
EBIT margin	11.5	10.6	7.6	9.9	10.1
Pretax profit margin	11.5	10.4	7.3	9.8	10.0
Payout ratio	74.6	79.9	59.8	59.8	79.7
<b>DuPont analysis</b>					
Net profit margin (%)	8.0	6.8	4.3	6.4	6.5
Revenue/Assets (x)	0.7	0.7	0.7	0.7	0.7
Assets/Equity (x)	2.0	2.1	2.1	2.1	2.0
ROAE (%)	11.6	10.2	6.0	9.2	9.2
ROAA (%)	6.1	5.0	2.9	4.5	4.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(41.0)	(32.4)	(29.0)	(32.1)	(32.4)
Days receivable outstanding	47.2	51.9	54.6	50.4	51.6
Days inventory outstanding	15.3	17.2	18.0	16.8	17.1
Days payables outstanding	103.5	101.5	101.6	99.3	101.1
Dividend cover (x)	1.3	1.3	1.7	1.7	1.3
Current ratio (x)	1.3	1.2	1.4	1.4	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	2.3	2.3	2.3	2.4
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	26.5	75.4	122.1
Debt/EBITDA (x)	0.7	0.7	0.9	0.8	0.8
Capex/revenue (%)	8.5	11.9	10.6	12.9	12.8
Net debt/ (net cash)	(16.2)	40.0	(230.8)	(325.3)	(386.9)

Source: Company; Maybank

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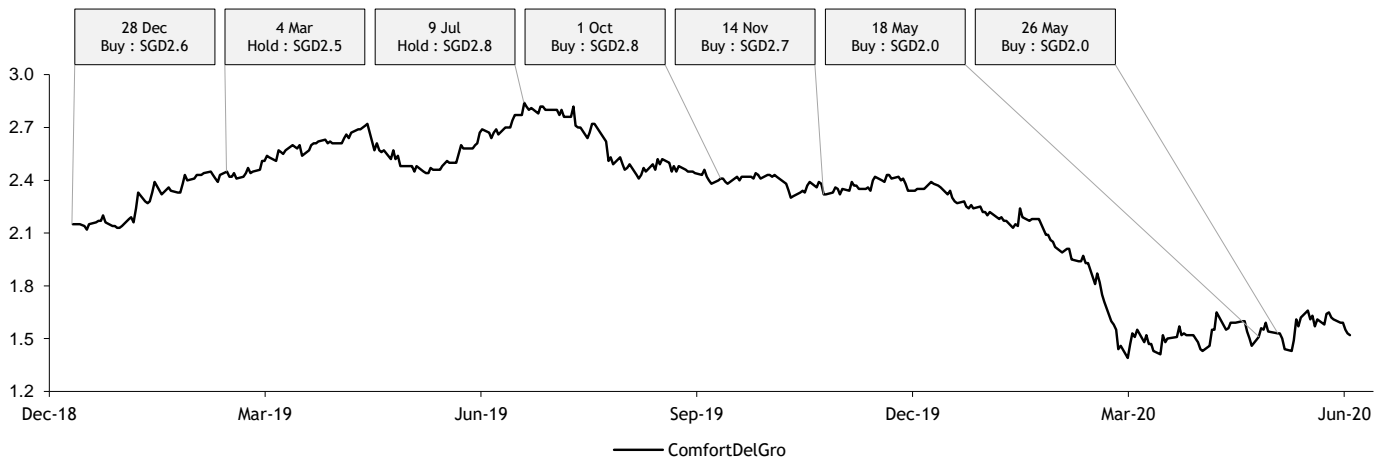
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