Maybank Kim Eng

Industrials

Singapore

ComfortDelGro (CD SP)

Recovery mode

BUY

Share Price	SGD 1.63
12m Price Target	SGD 1.88 (+15%)
Previous Price Target	*SGD 1.88*

1Q21 PATMI ahead of estimates; Maintain BUY

1Q21 PATMI of SGD56m (+56% YoY, +22% QoQ) came in ahead of MKE/consensus estimates. The recovery was driven by higher taxi operating profit and SGD33m Covid-19 relief. That said, CDG's operating performance is improving even with reduced government grants. Reiterate BUY and TP (WACC: 8.2%, LTG: 1%) of SGD1.88. We continue to like CDG as it offers exposure to domestic transport recovery. The impending review of Downtown Line financing framework and potential restructuring of its Australia bus assets remains a catalyst. Key risk includes further lockdowns in operating countries.

Operating leverage kicked in

PATMI of SGD56m (+56% YoY and 22% QoQ) came in at 31/27% of MKE/consensus estimate. 1Q21 revenue dipped 0.7% YoY to SGD856.3m. On a QoQ basis, all divisions were stable/ improving except for public transport (-5% to SGD665.6m) due to a decrease in UK public transport services as a result of nationwide lockdown. EBIT (+45% YoY, +12% QoQ) also continued to improve because of positive operating leverage, despite tapering government grants of SGD33.4m, which is expected to halve by 2Q21. Its cash position grew by SGD102m to SGD844m as operating cashflow improved. With a stronger balance sheet, management does not rule out resuming interim dividends.

Taxi division saw the most improvement

Taxi division EBIT margin continued to expand (15.5% with relief, 11.6% without relief). The turnaround was driven by China, which has recovered to pre-Covid levels, as well as lower rental rebates given to taxi drivers in Singapore. CDG expects Singapore fleet size to remain stable at 9.4k. Currently, taxi drivers are entitled to a daily rental rebate of SGD25 (SGD10 by CDG, SGD15 by government) till 30 Jun 2021. This amounts to SGD26m from CDG, we estimate. CDG will monitor the Covid-19 situation in Singapore closely to determine whether rental waivers need to be extended.

Unlocking value in Australia

CDG is exploring options to unlock value in Australia, either through a partial sale of its Australian assets or an IPO. That said, CDG has no plans to exit the Australia market and it's still in the early stage of reviewing its Australia portfolio. Management is also open to paying special dividends with the proceeds if any deal comes through.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,901	3,229	3,592	3,722	3,881
EBITDA	869	540	691	726	724
Core net profit	265	62	189	243	267
Core EPS (cts)	12.2	2.8	8.7	11.2	12.3
Core EPS growth (%)	(13.1)	(76.7)	208.1	28.5	9.6
Net DPS (cts)	9.8	1.7	5.2	9.0	9.9
Core P/E (x)	19.5	58.8	18.6	14.5	13.2
P/BV (x)	2.0	1.5	1.4	1.3	1.3
Net dividend yield (%)	4.1	1.0	3.2	5.5	6.0
ROAE (%)	10.2	2.4	7.4	9.2	9.8
ROAA (%)	5.0	1.2	3.6	4.4	4.7
EV/EBITDA (x)	6.5	6.8	4.7	4.1	4.1
Net gearing (%) (incl perps)	1.3	net cash	net cash	net cash	net cash
Consensus net profit	-	-	212	244	256
MKE vs. Consensus (%)	-	-	(10.6)	(0.0)	4.2

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Company Description

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

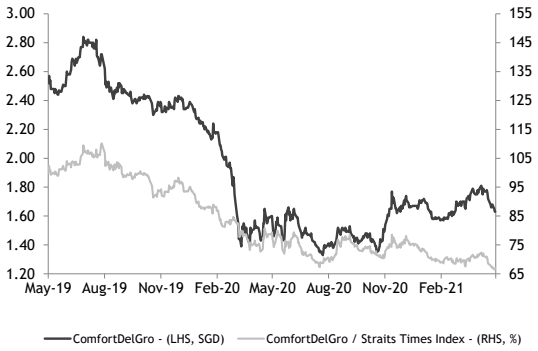
Statistics

52w high/low (SGD)	1.81/1.33
3m avg turnover (USDm)	16.5
Free float (%)	98.5
Issued shares (m)	2,167
Market capitalisation	SGD3.5B
	USD2.7B

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 (%)	(8)	4	6
Relative to index (%)	(7)	(3)	(13)

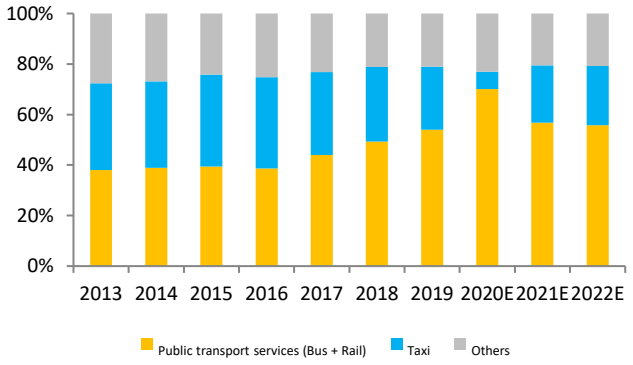
Source: FactSet

ESG@MKE
Tear Sheet Insert

Value Proposition

- Land-transport conglomerate with business in public transport 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.

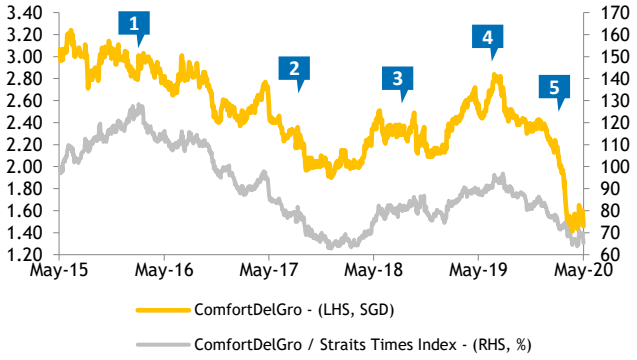
EBIT driven by public transport



Source: Company

Price Drivers

Historical share price trend



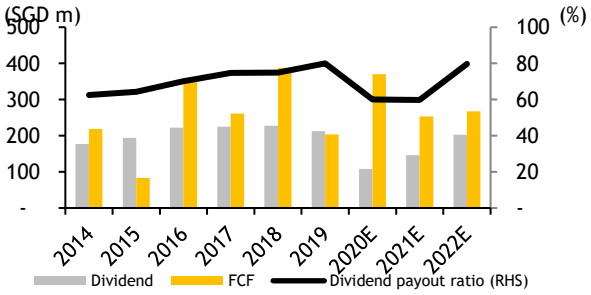
Source: Factset

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. 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.

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

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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Business Model & Industry Issues

- CDG is most exposed to environmental risks as public transport and taxi business drive the bulk of the revenue. That said, CDG is on track with its medium-term and long-term environmental goals.
- Overall, public transport still plays an important role in reducing use of private vehicles, which in turn helps cities to reduce air pollution and carbon emission.
- Its global operations expose it to corporate governance and business ethics risks. CDG has put in place processes to ensure impartiality, checks and balances.
- On social aspects, CDG has a history of helping its taxi drivers during crises. CDG cut rental rates and passed on government grants during both SARS and Covid-19.
- CDG displays no exceptional risks for a global land transport operator for ESG and is in line with other land transport peers in tackling environment issues by phasing out diesel vehicles and replacing them with hybrid/electric vehicles.
- Sustainable finance is a growing opportunity as CDG continues with its greener fleet replacement programme.

Material E issues

- Environmental risks. Aims to reduce its 2023 greenhouse gas emission by 20% and 50% by 2030 from 2015 levels through fleet replacement programme. CDG is on track to achieve its 2023 target, given its 5% reduction in emission in 2019.
- In Singapore, 50% of its diesel taxi fleet will be replaced by hybrids by 2020, and 100% by 2023. By 2030, CDG will increase hybrids for all other vehicles.
- Significant shift towards hybrid/electric vehicles since 2017. As of Dec 2019, 39% of fleet in Singapore (2017: 9.4%) are hybrid/electric, while that of UK & Ireland is 45% (2017: 20%) and Australia is 55% (2017: 41%).
- Bulk of its electricity consumption comes from its train operations, depots and workshops (23% increase between 2017 and 2019). That said measures such as energy-efficient train designs, energy-saving new stations & buildings, solar panels at depots and change in driving behaviour through training have been implemented to reduce power consumption.
- 50% of its buildings in Singapore will be Green Mark certified by 2023 and aim of 100% by 2030.
- Looking at increasing opportunities for sustainable financing to improve financial resilience and funding mix. Its Australian subsidiary secured an AUD25m green loan from OCBC Bank in 2018 to finance its hybrid bus fleet in Victoria.

Material S issues

- In 2019, it achieved zero workplace fatality and managed to keep injury rates below national averages.
- Partnered with the National Taxi Association to provide digital training for taxi drivers and started training drivers to handle autonomous vehicles.
- According to the Workplace Equality Report by Equileap, a leading organisation providing insights on gender equality, CD is ranked 24th out of 100 leading companies for gender equality in the Asia Pacific region, and 1st in the industrial sector in the region.
- Females account 14.4% of the Group. 40% of employees are over the age of 50.
- In 2019, 99% of buses are wheelchair accessible in Singapore and the UK, while that of Australia is 69%.
- History of supporting their drivers through crisis, evidently through rental waivers and passing on government grants to drivers during SARS and COVID-19.

Key G metrics and issues

- The board has 10 directors, of which one is the executive officer (MD/CEO), the remaining are non-executive & independent directors (including the chairman). 30% are female directors.
- The nomination, audit, investment and remuneration committees are chaired by independent directors.
- Key management/directors' compensation accounted for 0.28%/0.08% of total employee compensation in 2019.
- Governance risks: the group's auditor - Deloitte & Touche LLP – has not been changed since listing in 2003.
- Regulatory risks. The group's strategy calls for overseas expansion. Its wide global footprint may exposure the group to regulatory, bribery and corruption and compliance risks.
- CDG has in place a whistleblowing programme where cases are investigated through the chairperson of the audit and risk committee and the Group Chief Internal Audit Officer.
- There has been no corruption cases reported for the past three years.

1. Focus charts

Fig 1: 1Q21 income statement

Figure 1: Profit & loss FYE 31 Dec	1Q20 (SGD m)	1Q21 (SGD m)	Changes (YoY %)	FY21E (SGD m)	% of MKE	% of Cons
Revenue	862.4	856.3	-1%	3,592.0	24%	24%
EBITDA	159.5	181.1	14%	691.1	26%	26%
EBIT	55.9	81.3	45%	294.3	28%	27%
PATMI	36.0	56.2	56%	182.0	31%	28%

Source: Bloomberg, Maybank Kim Eng

Fig 2: Segmental performance

FYE 31 Dec (SGD m)	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ %	YoY %
Revenue	994.0	862.4	664.3	839.5	906.5	875.5	-3%	2%
Public Transport	745.2	656.3	542.2	640.8	700.5	665.6	-5%	1%
Bus station	4.6	3.5	3.3	4.5	4.4	3.8	-14%	9%
Taxi	167.7	127.6	50.8	109.0	115.6	119.7	4%	-6%
Automotive Engineering	36.8	50.2	31.9	39.1	42.2	42.0	0%	-16%
Vehicle Inspection/Testing	25.5	25.0	14.7	26.5	24.5	24.1	-2%	-4%
Car rental & leasing	7.5	6.9	6.8	6.5	6.6	6.4	-3%	-7%
Driving centre	12.2	12.1	3.2	13.1	12.7	13.9	9%	15%
EBITDA	213.7	158.0	88.8	164.8	187.6	181.1	-3%	15%
EBIT	84.5	55.9	(49.3)	44.0	72.5	81.3	12%	45%
Public Transport	47.0	33.6	22.7	33.6	35.6	44.3	24%	32%
Bus station	1.7	0.8	1.2	2.3	1.9	1.3	-32%	63%
Taxi	18.9	2.4	(70.8)	(10.8)	14.8	18.6	26%	675%
Automotive Engineering	6.1	5.6	2.1	4.4	6.0	3.0	-50%	-46%
Vehicle Inspection/Testing	5.4	8.8	0.6	8.2	9.0	7.6	-16%	-14%
Car rental & leasing	1.4	1.0	(0.2)	0.9	0.8	0.8	0%	-20%
Driving centre	4.0	3.7	(4.9)	5.4	4.4	5.3	20%	43%

Source: Company data

Fig 3: DCF valuation

(SGD 'm)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	266	371	391	394	397	398	398	395	395	395
Depreciation	397	357	336	345	362	376	388	397	405	412
WC changes	(12)	(2)	12	(0)	(2)	(2)	(2)	(1)	(2)	(1)
Operating cashflow	651	725	739	740	757	772	784	792	799	806
Taxes paid	(53)	(75)	(80)	(81)	(81)	(82)	(82)	(81)	(81)	(82)
Cashflow from ops	598	650	659	659	676	690	702	710	717	724
Capex	(154)	(228)	(387)	(437)	(437)	(437)	(437)	(437)	(437)	(437)
Dividends/Interest income	20	27	32	33	33	33	33	34	34	35
Free cashflow	444	422	272	221	238	253	265	273	280	287
Terminal value										4,041
PV of FCF and TV	411	361	215	162	161	158	153	146	2086	1974
Total discounted FCF	3852									
Add: FY19 net debt	191									
Equity value	4043									
Equity value/ Share	**1.88**									

Source: Maybank Kim Eng

Fig 4: DCF parameters

Cost of equity	8.8%
Cost of debt	3.0%
Debt/Capital ratio	20%
Tax rate	20%
Risk-free rate	2.5%
Beta	97%
Market return	9%
Terminal growth	1%
WACC	8.2%

Source: Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	20.0	57.3	18.6	14.5	13.2
Core P/E (x)	19.5	58.8	18.6	14.5	13.2
P/BV (x)	2.0	1.5	1.4	1.3	1.3
P/NTA (x)	3.0	2.2	2.0	1.9	1.8
Net dividend yield (%)	4.1	1.0	3.2	5.5	6.0
FCF yield (%)	4.0	9.9	13.5	12.1	7.7
EV/EBITDA (x)	6.5	6.8	4.7	4.1	4.1
EV/EBIT (x)	13.5	29.7	10.9	8.1	7.6
INCOME STATEMENT (SGD m)					
Revenue	3,901.1	3,228.6	3,592.0	3,721.9	3,881.4
EBITDA	868.8	539.9	691.1	725.7	724.0
Depreciation	(453.0)	(416.8)	(396.9)	(356.3)	(335.3)
EBIT	415.8	123.1	294.3	369.5	388.7
Net interest income /(exp)	(9.2)	(5.9)	(2.3)	5.0	9.9
Associates & JV	0.0	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	406.6	117.2	291.9	374.5	398.6
Income tax	(88.4)	(24.5)	(58.4)	(74.9)	(79.7)
Minorities	(53.1)	(30.9)	(44.1)	(56.1)	(52.1)
Reported net profit	265.1	61.8	189.5	243.5	266.8
Core net profit	265.1	61.8	189.5	243.5	266.8
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	594.2	1,004.2	1,381.6	1,631.5	1,681.4
Accounts receivable	574.2	466.2	518.7	537.4	560.5
Inventory	150.7	128.3	138.4	143.0	150.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,706.1	2,274.1	2,037.8	1,915.9	1,974.3
Intangible assets	848.7	841.9	835.2	828.5	821.9
Investment in Associates & JVs	0.7	0.7	0.7	0.7	0.7
Other assets	504.4	504.4	504.4	504.4	504.4
Total assets	**5,379.0**	**5,219.8**	**5,416.7**	**5,561.4**	**5,693.8**
ST interest bearing debt	227.0	227.0	227.0	227.0	227.0
Accounts payable	813.6	759.2	819.1	846.1	891.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	407.2	407.2	407.2	407.2	407.2
Other liabilities	922.0	922.0	922.0	922.0	922.0
Total Liabilities	**2,370.0**	**2,315.6**	**2,375.5**	**2,402.5**	**2,448.0**
Shareholders Equity	2,595.0	2,490.2	2,607.4	2,699.9	2,763.3
Minority Interest	414.0	414.0	433.8	459.1	482.5
Total shareholder equity	**3,009.0**	**2,904.2**	**3,041.2**	**3,159.0**	**3,245.8**
Perpetual securities	0.0	1.0	1.0	1.0	1.0
Total liabilities and equity	**5,379.0**	**5,219.8**	**5,416.7**	**5,561.4**	**5,693.8**
CASH FLOW (SGD m)					
Pretax profit	406.6	117.2	291.9	374.5	398.6
Depreciation & amortisation	453.0	416.8	396.9	356.3	335.3
Adj net interest (income)/exp	9.2	5.9	2.3	(5.0)	(9.9)
Change in working capital	(144.0)	(28.3)	(2.7)	3.6	14.8
Cash taxes paid	(89.5)	(82.7)	(58.4)	(74.9)	(79.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	670.3	549.5	630.1	654.5	659.1
Capex	(466.3)	(192.3)	(153.8)	(227.7)	(387.1)
Free cash flow	204.0	357.2	476.2	426.8	272.0
Dividends paid	(230.7)	(114.6)	(72.3)	(151.0)	(203.4)
Equity raised / (purchased)	1.0	1.1	0.0	0.0	0.0
Change in Debt	3.7	(147.4)	0.0	0.0	0.0
Other invest/financing cash flow	44.7	48.1	(21.6)	(20.8)	(13.8)
Effect of exch rate changes	(5.5)	15.8	0.0	0.0	0.0
Net cash flow	19.7	139.4	377.4	250.0	49.9

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.5	(17.2)	11.3	3.6	4.3
EBITDA growth	4.3	(37.9)	28.0	5.0	(0.2)
EBIT growth	(5.2)	(70.4)	139.0	25.6	5.2
Pretax growth	(7.4)	(71.2)	149.1	28.3	6.4
Reported net profit growth	(12.6)	(76.7)	206.6	28.5	9.6
Core net profit growth	(12.6)	(76.7)	206.6	28.5	9.6
Profitability ratios (%)					
EBITDA margin	22.3	16.7	19.2	19.5	18.7
EBIT margin	10.7	3.8	8.2	9.9	10.0
Pretax profit margin	10.4	3.6	8.1	10.1	10.3
Payout ratio	79.9	60.0	60.0	80.0	80.0
DuPont analysis					
Net profit margin (%)	6.8	1.9	5.3	6.5	6.9
Revenue/Assets (x)	0.7	0.6	0.7	0.7	0.7
Assets/Equity (x)	2.1	2.1	2.1	2.1	2.1
ROAE (%)	10.2	2.4	7.4	9.2	9.8
ROAA (%)	5.0	1.2	3.6	4.4	4.7
Liquidity & Efficiency					
Cash conversion cycle	(32.5)	(28.6)	(32.0)	(32.1)	(31.4)
Days receivable outstanding	52.0	58.0	49.4	51.1	50.9
Days inventory outstanding	17.2	18.7	16.6	16.9	16.7
Days payables outstanding	101.7	105.3	97.9	100.0	99.1
Dividend cover (x)	1.3	1.7	1.7	1.2	1.2
Current ratio (x)	1.2	1.5	1.8	2.0	2.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.3	2.3	2.3	2.3
Net gearing (%) (incl perps)	1.3	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	1.3	net cash	net cash	net cash	net cash
Net interest cover (x)	45.2	20.9	126.2	na	na
Debt/EBITDA (x)	0.7	1.2	0.9	0.9	0.9
Capex/revenue (%)	12.0	6.0	4.3	6.1	10.0
Net debt/ (net cash)	40.0	(370.0)	(747.4)	(997.3)	(1,047.2)

Source: Company; Maybank

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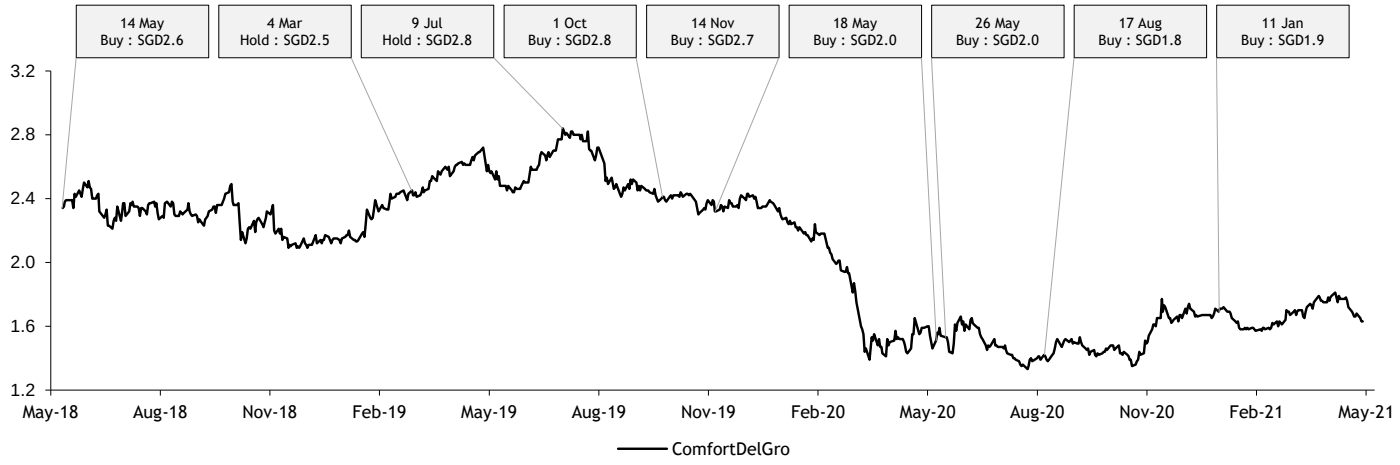

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