

ComfortDelGro (CD SP)

Potential Positive Developments

Potential Grab-Uber merger & positive regulations

Potential acquisition of Uber by Grab, reported by Bloomberg, could be positive for Comfort if it happens in Singapore, as the consolidation could reduce competition for the taxi industry. However, regulatory hurdles could block the deal. Also, the Ministry of Transport raised two positive points in the budget debate on 7 Mar 2018: 1) the rail fare could increase; and 2) further regulation of private-hire car services. Maintain BUY and DCF-based TP of SGD2.35 (WACC 9%).

Potential scenarios for Grab's acquisition of Uber

In Singapore, it might be difficult for Grab to acquire Uber, as the regulators are very much against market dominance by a single player. However, we think of several scenarios for Comfort if the deal goes through: 1) Comfort continues to acquire Uber's car-rental fleet and partners with Grab instead of Uber. As Comfort and Uber have not closed the deal, which is pending regulatory approval, they might renegotiate the terms; 2) Comfort calls off the deal and Grab acquires Uber's car-rental fleet along with Uber's booking app. This is less likely as Grab's current business model involves partnering with other vehicle-rental companies, instead of owning a large fleet of vehicles in-house; and 3) UberFlash should continue, as Uber's ride-booking app is likely to stay. Following the acquisition of Uber by Didi Chuxing in China in 2016, Uber's app has been retained.

Fare hike and further regulation for Grab & Uber

Two potential positive points were raised by the Ministry of Transport in its budget debate yesterday. First, the rail fares could rise as commuters will be required to share the cost increase in improving the service standards. Operating costs have risen by around 60% over the past 5 years but fares have gone down by 2%. The key timeline is the conclusion of the fare formula review by PTC, targeted to be by 1Q18. Comfort should benefit if there is any hike in the rail fare, as it shares the fare revenue with the government. We estimate every 1% increase in rail fare will raise Comfort's FY19E EBIT by 0.05%. Second, further regulation in the private-hire car services, operated by Uber and Grab, could benefit Comfort's taxi unit as it could further level the playing field.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	4,060	3,971	4,019	3,850	3,847
EBITDA	858	818	796	798	783
Core net profit	317	302	304	311	312
Core EPS (cts)	14.6	13.9	14.0	14.3	14.4
Core EPS growth (%)	4.6	(4.9)	0.4	2.4	0.3
Net DPS (cts)	10.3	10.4	10.5	10.7	10.8
Core P/E (x)	14.1	14.8	14.7	14.4	14.3
P/BV (x)	1.8	1.7	1.7	1.6	1.6
Net dividend yield (%)	5.0	5.0	5.1	5.2	5.2
ROAE (%)	13.2	11.8	11.4	11.4	11.0
ROAA (%)	6.1	6.1	6.2	6.2	6.1
EV/EBITDA (x)	6.5	5.4	5.5	5.3	5.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	295	303	312
MKE vs. Consensus (%)	-	-	2.9	2.7	0.0

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BUY

Share Price SGD 2.06
12m Price Target SGD 2.35 (+14%)
Previous Price Target SGD 2.35

Company Description

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

Statistics

52w high/low (SGD)	2.77/1.90
3m avg turnover (USDm)	16.3
Free float (%)	98.9
Issued shares (m)	2,164
Market capitalisation	SGD4.5B
	USD3.4B

Major shareholders:

BlackRock Fund Advisors	6.0%
The Vanguard Group, Inc.	2.3%
First Eagle Investment Management LLC	2.1%

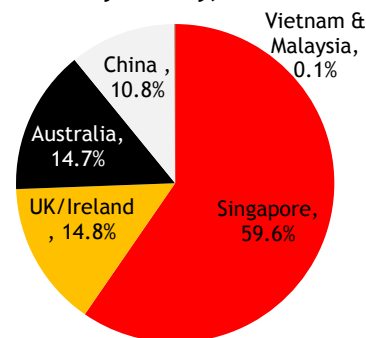
Price Performance



	-1M	-3M	-12M
Absolute (%)	1	8	(18)
Relative to index (%)	0	7	(25)

Source: FactSet

EBIT contribution by country, FY17

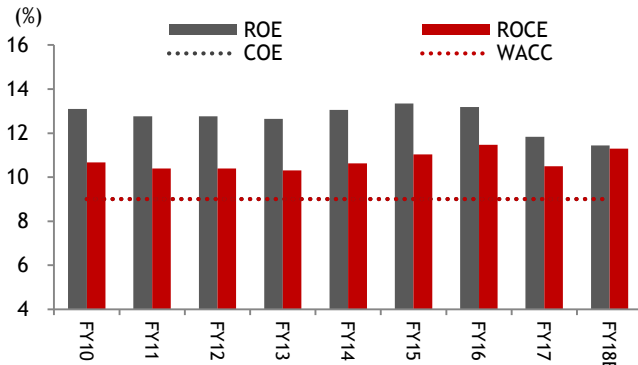


Source: Company

Value Proposition

- Land-transport conglomerate with over 46,000 vehicles globally. Its public transport services (44%) and taxi (33%) businesses are the biggest EBIT contributors.
- Singapore (60%) is the largest EBIT contributor by geography. It also has significant operations in the UK/Ireland (15%), Australia (15%) and China (11%).
- Structural threats to core taxi business from private-hire car operators, Uber and Grab.
- Singapore bus earnings may benefit from the change to asset-light, fare-independent regime.

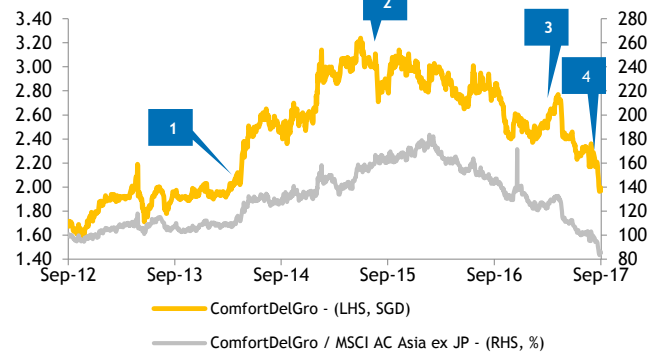
Consistently delivers higher returns than its cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



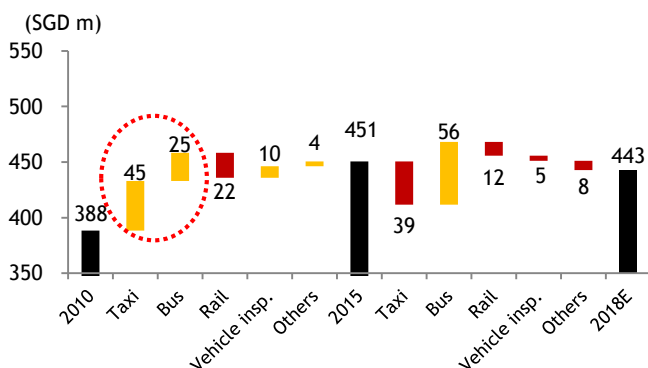
Source: FactSet, Maybank Kim Eng

1. Government announcement of a change in bus operating model seen as a positive for the sector.
2. Uber started a car-rental company. Aggressive expansion by the new entrant is seen as a competitive threat to its taxi business.
3. Taxi's EBIT started declining due to intensifying competition from the private-hire vehicles.
4. Lost the tender for Thomson East Coast Line.

Financial Metrics

- Expect improving Singapore bus profits after a change in business model from Sep 2016. Profitability for rail should start to improve as the Downtown Line fully opened in 2017.
- This should drive margin expansion over the next three years.
- Taxis key to profit growth in past five years, but we project declining earnings given imminent threats. Increase in private-hire car drivers and its taxi utilisation are key indicators to watch.
- We expect rising FCF (recovery in FY18E, stable FY19E and FY20E) to support progressive dividend distributions.

Operating profit progression from 2010 to 2018E



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Higher-than-expected bus profitability.
- Successful bids for new rail lines in Singapore.
- Value-enhancing acquisitions of overseas business.

Downside

- Decline in taxi utilisation or rental rates.
- Overpaying for acquisitions.
- Higher labour and energy costs.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	18.9	16.5	14.7	14.3	14.3
Core P/E (x)	14.1	14.8	14.7	14.4	14.3
P/BV (x)	1.8	1.7	1.7	1.6	1.6
P/NTA (x)	2.4	2.3	2.2	2.1	2.0
Net dividend yield (%)	5.0	5.0	5.1	5.2	5.2
FCF yield (%)	8.1	5.9	11.6	9.7	10.2
EV/EBITDA (x)	6.5	5.4	5.5	5.3	5.2
EV/EBIT (x)	12.1	10.8	9.9	9.3	8.9

INCOME STATEMENT (SGD m)

Revenue	4,059.5	3,970.9	4,019.2	3,849.6	3,847.2
Gross profit	3,663.5	3,562.1	3,665.5	3,504.9	3,516.5
EBITDA	858.2	818.0	796.5	797.9	783.1
Depreciation	(396.0)	(408.8)	(353.6)	(344.7)	(330.7)
EBIT	462.2	409.2	442.9	453.2	452.5
Net interest income / (exp)	(0.5)	11.6	0.5	4.7	7.5
Associates & JV	4.9	4.6	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	466.6	425.4	443.4	457.8	460.0
Income tax	(88.2)	(76.5)	(88.7)	(91.6)	(92.0)
Minorities	(61.3)	(47.4)	(50.9)	(55.2)	(56.1)
Reported net profit	317.1	301.5	303.8	311.0	311.9
Core net profit	317.1	301.5	303.8	311.0	311.9
Preferred Dividends	0.0	0.0	0.0	0.0	1.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	779.3	596.2	856.5	1,034.4	1,230.9
Accounts receivable	390.1	445.8	418.4	400.8	400.5
Inventory	81.7	113.6	97.1	92.0	92.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,887.4	2,722.6	2,674.1	2,584.5	2,498.8
Intangible assets	645.2	640.2	635.1	630.0	625.0
Investment in Associates & JVs	11.2	9.0	9.0	9.0	9.0
Other assets	327.1	300.3	300.3	300.3	300.3
Total assets	5,122.0	4,827.7	4,990.5	5,050.9	5,156.9
ST interest bearing debt	169.3	114.2	114.2	114.2	114.2
Accounts payable	904.4	810.8	874.1	827.7	831.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	175.8	208.1	208.1	208.1	208.1
Other liabilities	680.0	657.0	657.0	657.0	657.0
Total Liabilities	1,929.9	1,789.9	1,853.2	1,806.8	1,810.2
Shareholders Equity	2,475.5	2,618.2	2,694.8	2,776.8	2,854.1
Minority Interest	716.6	419.6	442.5	467.4	492.6
Total shareholder equity	3,192.1	3,037.8	3,137.3	3,244.1	3,346.7
Perpetual securities	0.0	0.0	0.0	0.0	1.0
Total liabilities and equity	5,122.0	4,827.7	4,990.5	5,050.9	5,156.9

CASH FLOW (SGD m)

Pretax profit	466.6	425.4	443.4	457.8	460.0
Depreciation & amortisation	396.0	408.8	353.6	344.7	330.7
Adj net interest (income)/exp	0.5	(11.6)	(0.5)	(4.7)	(7.5)
Change in working capital	(8.4)	(145.6)	107.1	(23.6)	3.2
Cash taxes paid	(63.4)	(72.0)	(88.7)	(91.6)	(92.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	825.0	626.8	815.0	682.7	694.4
Capex	(467.0)	(365.4)	(300.0)	(250.0)	(240.0)
Free cash flow	358.0	261.4	515.0	432.7	454.4
Dividends paid	(199.3)	(224.8)	(227.2)	(229.1)	(234.5)
Equity raised / (purchased)	10.3	10.4	0.0	0.0	0.0
Change in Debt	(209.4)	(51.5)	0.0	0.0	0.0
Other invest/financing cash flow	50.8	(176.3)	(26.5)	(22.7)	(18.3)
Effect of exch rate changes	(18.9)	(4.1)	0.0	0.0	0.0
Net cash flow	10.4	(180.8)	260.3	177.9	196.5

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(1.3)	(2.2)	1.2	(4.2)	(0.1)
EBITDA growth	2.2	(4.7)	(2.6)	0.2	(1.8)
EBIT growth	2.6	(11.5)	8.2	2.3	(0.2)
Pretax growth	3.2	(8.8)	4.2	3.3	0.5
Reported net profit growth	5.0	(4.9)	0.8	2.4	0.3
Core net profit growth	5.0	(4.9)	0.8	2.4	0.3
Profitability ratios (%)					
EBITDA margin	21.1	20.6	19.8	20.7	20.4
EBIT margin	11.4	10.3	11.0	11.8	11.8
Pretax profit margin	11.5	10.7	11.0	11.9	12.0
Payout ratio	70.0	74.3	74.7	74.7	74.7
DuPont analysis					
Net profit margin (%)	7.8	7.6	7.6	8.1	8.1
Revenue/Assets (x)	0.8	0.8	0.8	0.8	0.7
Assets/Equity (x)	2.1	1.8	1.9	1.8	1.8
ROAE (%)	13.2	11.8	11.4	11.4	11.0
ROAA (%)	6.1	6.1	6.2	6.2	6.1
Liquidity & Efficiency					
Cash conversion cycle	(746.4)	(631.3)	(711.7)	(751.7)	(765.1)
Days receivable outstanding	35.8	37.9	38.7	38.3	37.5
Days inventory outstanding	71.3	86.0	107.3	98.7	100.3
Days payables outstanding	853.5	755.2	857.7	888.7	902.9
Dividend cover (x)	1.4	1.3	1.3	1.3	1.3
Current ratio (x)	1.1	1.2	1.4	1.6	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.7	2.7	2.8	2.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	na	na	na	na
Debt/EBITDA (x)	0.4	0.4	0.4	0.4	0.4
Capex/revenue (%)	11.5	9.2	7.5	6.5	6.2
Net debt/ (net cash)	(434.2)	(273.9)	(534.2)	(712.1)	(908.6)

Source: Company; Maybank

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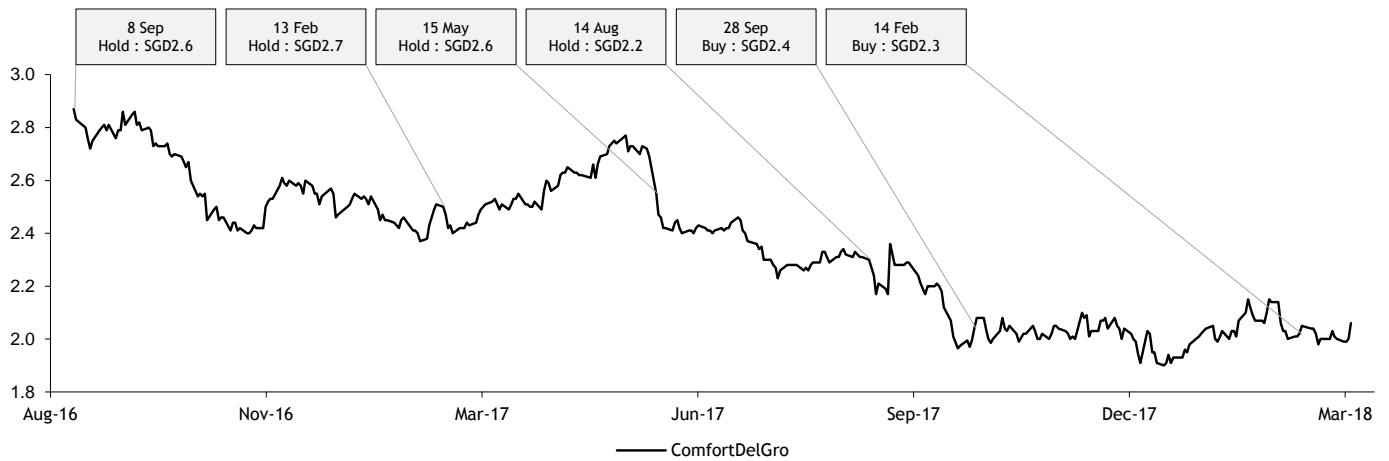
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