

Singapore Company Update

ComfortDelGro

Bloomberg: CD SP | Reuters: CMDG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Apr 2022

BUY

Last Traded Price (8 Apr 2022): S\$1.47 (STI: 3,383.28)
Price Target 12-mth: S\$1.95 (32% upside)

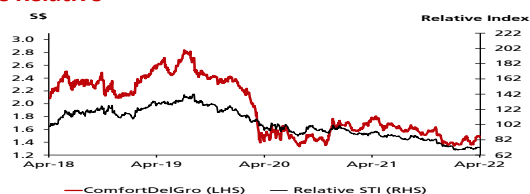
Analyst

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What's New

- Latest relaxation measures spur 20.8% decline in taxi availability; economics of renting taxis improving
- Recovering taxi numbers in New York prove that taxis can survive and compete against ride-hailing peers
- Any turnaround in CDG taxi fleet could boost earnings further and potentially rerate stock from current levels of 4.1x (-2 S.D. from mean) to 5.3x forward EV/EBITDA (-1S.D. from mean)
- Reiterate BUY with unchanged TP of S\$1.95

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	3,229	3,538	3,737	3,839
EBITDA	588	612	663	748
Pre-tax Profit	117	205	258	315
Net Profit	61.8	130	164	200
Net Pft (Pre Ex.)	61.8	130	164	200
Net Pft Gth (Pre-ex) (%)	(76.7)	110.5	25.7	22.2
EPS (S cts)	2.85	6.00	7.54	9.20
EPS Pre Ex. (S cts)	2.85	6.00	7.54	9.20
EPS Gth Pre Ex (%)	(77)	110	26	22
Diluted EPS (S cts)	2.85	5.99	7.52	9.18
Net DPS (S cts)	1.43	4.20	5.00	6.00
BV Per Share (S cts)	120	125	128	132
PE (X)	51.5	24.5	19.5	16.0
PE Pre Ex. (X)	51.5	24.5	19.5	16.0
P/Cash Flow (X)	6.6	4.8	4.8	4.6
EV/EBITDA (X)	5.8	5.0	4.1	3.2
Net Div Yield (%)	1.0	2.9	3.4	4.1
P/Book Value (X)	1.2	1.2	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.4	4.9	6.0	7.1

Earnings Rev (%): 0 0
Consensus EPS (S cts): 9.3 10.4
Other Broker Recs: B: 10 S: 0 H: 1

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

Could taxi stage a reversal?

Investment Thesis

Major reopening beneficiary as mobility gradually trends towards normalisation. The group's key markets (the UK, Singapore, and Australia) are moving towards living with COVID-19, underpinned by vaccines and COVID-19 therapeutics. Indeed, mobility trends in Singapore have already begun to normalise amidst the ongoing reopening. As such, we are forecasting CDG's FY22F net profit to rise c.26% y-o-y as CDG's key segments see increased ridership and demand.

Public listings of ride hailing companies could pave the way for less intense competition. With Grab listed via a SPAC in the US and GoTo's IPO happening next week, CDG's ride-hailing competitors may be subject to increased scrutiny, which could reduce aggressive competition and improve the economics of renting taxis. In turn, CDG's rental taxi fleet could reverse its declining trend.

Evolving into a sustainability play. CDG has embarked on multiple initiatives to turn its business segments green. The group has invested in green projects that include the provision of EV charging infrastructure and a greening of its bus and taxi fleet, which could potentially pave the way for inclusion in ESG indices.

Valuation:

Reiterate BUY with an SOTP-based TP of S\$1.95. Our TP is based on our target prices for SBS Transit and VICOM, and a 6.5x FY22F EV/EBITDA for CDG's remaining businesses (including CDG Australia).

Where we differ:

Consensus earnings for FY22F vary widely. We expect sequential quarterly improvements in FY22F, led by recovery and the pick-up of transit mobility.

Key Risks to Our View:

High COVID-19 hospitalisations and deaths leading to reinstatement of pandemic restrictions, intense competition from ride-hailing competitors leading to large contractions in taxi fleet and loss of bus contracts.

At A Glance

Issued Capital (m shrs)	2,167
Mkt. Cap (S\$m/US\$m)	3,185 / 2,336
Major Shareholders (%)	
Ameriprise Financial Inc	6.8
Blackrock Inc	5.0
Free Float (%)	88.2
3m Avg. Daily Val (US\$m)	14.2

GIC Industry: Industrials / Transportation



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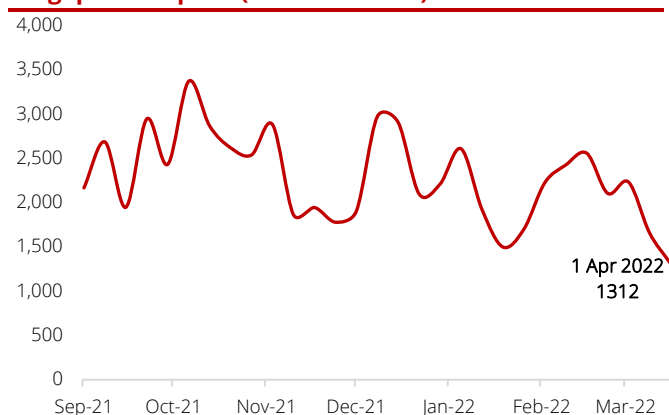
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WHAT'S NEW

Taxis could stage a reversal, driving operating profits further

Latest relaxation measures a boon to mobility. The latest relaxation measures in Singapore, including allowing 75% of the workforce to return to office and restoration of nightlife activities, appear to have provided the impetus for a further improvement in mobility trends. Analysing mobility data, retail & recreation mobility was observed to have increased 2.6% w-o-w in the week after nightlife restrictions were lifted. We think this is positive for CDG, given the high correlation between mobility and average rail ridership volumes, and expect a rise in demand for taxi services as well. Indeed, taxi availability figures at 7pm on the 1 April were down 20.8% w-o-w to only 1,312 available taxis.

Taxi availability (Friday, 7pm) on declining trend as Singapore reopens (DBS estimates)



Source: LTA, DBS Bank

Taxi availability (Friday, 7pm) plunges as latest relaxation measures spur demand (DBS estimates)

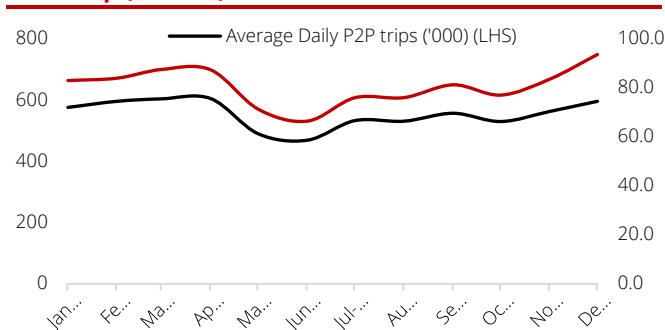
Period	Taxi Availability*	% Change compared to 1 Apr 2022
1 Apr 2022	1,312	NA
25 Mar 2022	1,657	-20.8%
4 Week Average	2,137	-38.6%
26 Week Average	2,303	-43.0%

*lower taxi availability implies higher demand for taxis

Source: LTA, DBS Bank

Higher mobility correlated with better point-to-point ridership. In 2021, retail & recreation mobility and point-to-point daily ridership were found to display a correlation of $r = 0.95$. We opine that the latest boost to mobility from a relaxation of restrictions could drive a recovery in point-to-point daily ridership numbers and may even create a shortage in point-to-point transport vehicles. Indeed, as of December 2021, there were only 10.95 ride-hailing vehicles and taxis per thousand residents, significantly lower than the figure of 12.41 in December 2019. As such, the economics of renting a taxi stands to improve. This could revitalise interest in taxi rentals and spur a reversal in CDG's taxi rental fleet.

Mobility is highly correlated with point-to-point daily ridership ($r = 0.95$)



Source: Google, LTA, DBS Bank

Further demand for taxis could be driven by reduction in ride-hailing promotion incentives. Both GoTo and Grab, CDG's main ride-hailing competitors in Singapore, have been incurring losses and running promotional activities to gain market share since their launch. Anecdotally, promotional activity has been on a decline, as ride-hailing companies seek a path to profitability. Indeed, recent market sentiment has highlighted profitability concerns about loss-making tech companies. We think this reduction in promotional activity could also improve the economics of renting a taxi, especially as taxis remain the sole legal option for picking up street-hail passengers (street-hail rides still make up c.20% of total point-to-point ridership).

FY21 EBITDA of CDG vs. competition

US\$m	CDG	GoTo	Grab
FY21 EBITDA	450	-1,546	-842

Source: DBS BANK

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Data	Comments
<p>CDG's taxi rental fleet has been declining</p> <p>Source: LTA, DBS Bank</p>	<p>CDG's taxi fleet has been declining since the entrance of ride-hailing competition, but fleet numbers may not be far from a bottom. Fleet numbers stood at c.11,000 before COVID-19 struck but have declined to c.9,000 vehicles as of December 2021. There were only 10.95 ride-hailing vehicles and taxis per thousand residents as of December 2021, significantly lower than the 12.41 figure in December 2019.</p>
<p>But New York City shows taxis can stage recovery</p> <p>Source: NYC TLC, DBS Bank</p>	<p>Taxis in New York City (NYC) have also been on a decline since 2015 due to competition from ride-hailing competitors (mainly Uber and Lyft). However, taxis in NYC appear to be staging a comeback in recent months. While this may not be entirely extrapolated to CDG given the different taxi dynamics (the medallion system is in place in NYC), we think this shows that taxis can co-exist with ride-hailing competition.</p>
<p>CDG driver app also shows improved usage in recent weeks</p> <p>Source: data.ai, DBS Bank</p>	<p>Usage of the CDG driver app appears to have improved in recent weeks, which could potentially point to a turnaround in taxi rental fleet numbers. To be clear, usage of ride-hailing driver apps has also increased during this period. Still, higher CDG driver app usage indicates that a bigger pie can be beneficial for all.</p>

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Reiterate BUY with a TP of S\$1.95. Given the better economics of renting taxis and the potential reduction in incentives from ride-hailing competitors, we think a turnaround in CDG's declining taxi rental fleet figures may not be impossible and have laid out a sensitivity table studying the impact. Such an increase could generate an additional c.S\$40m in operating profit if taxi fleet numbers were to recover to pre-COVID levels (i.e. +c.2,000 cars). Notably, CDG's share price recovery since COVID-19 has lagged behind its peers, with the stock still trading c.35% below its pre-COVID price. As such, we think CDG's share price offers plenty of upside and could potentially re-rate to 5.3x EV/EBITDA (-1SD from the 10-year mean) or even 6.5x forward EV/EBITDA (10-year mean) if CDG sees a reversal in its taxi fleet figures.

Taxi fleet and CDG operating profit sensitivity table

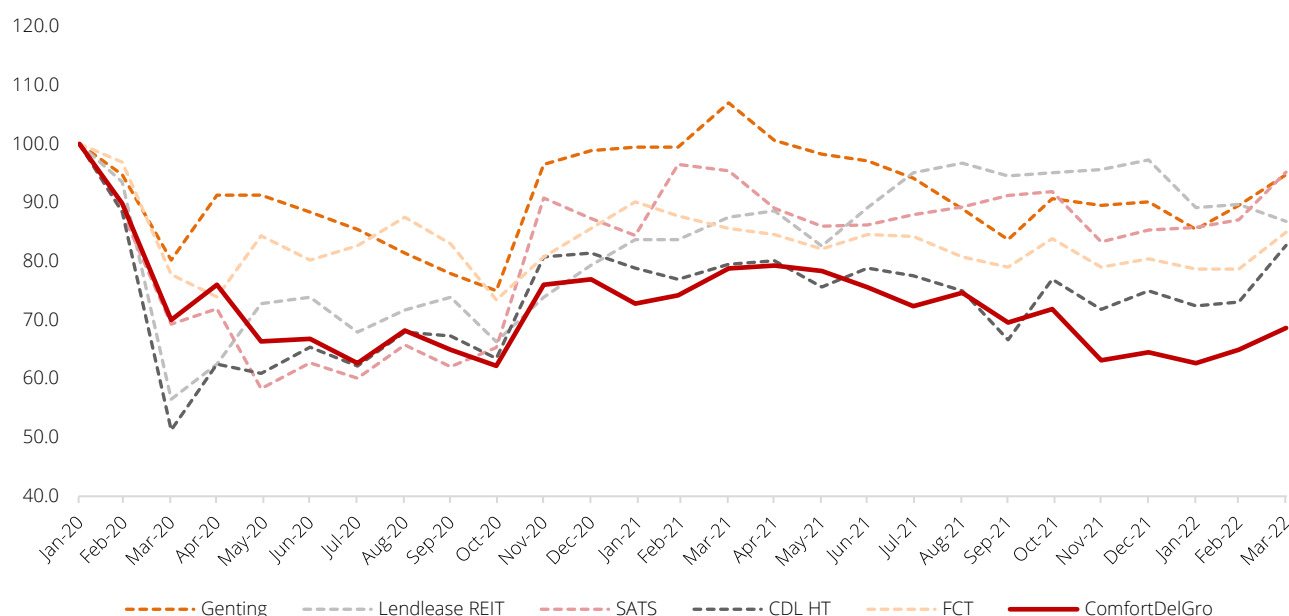
Taxi Fleet	FY22F Op profit (S\$m)	FY23F Op profit (S\$m)
7,000	220.6	273.3
7,500	229.6	282.7
8,000	238.6	292.1
8,500	247.5	301.6
8,900 (current)	254.7	309.1
9,500	265.4	320.5
10,000	274.4	329.9
10,500	283.3	339.4
11,000	292.3	348.8

Source: DBS Bank

Company Background

ComfortDelGro Corporation Limited (CDG) is a land transport service company. Its business includes bus, taxi, rail, and 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.

CDG's share price recovery has lagged its reopening peers



Source: Bloomberg Finance L.P., DBS Bank

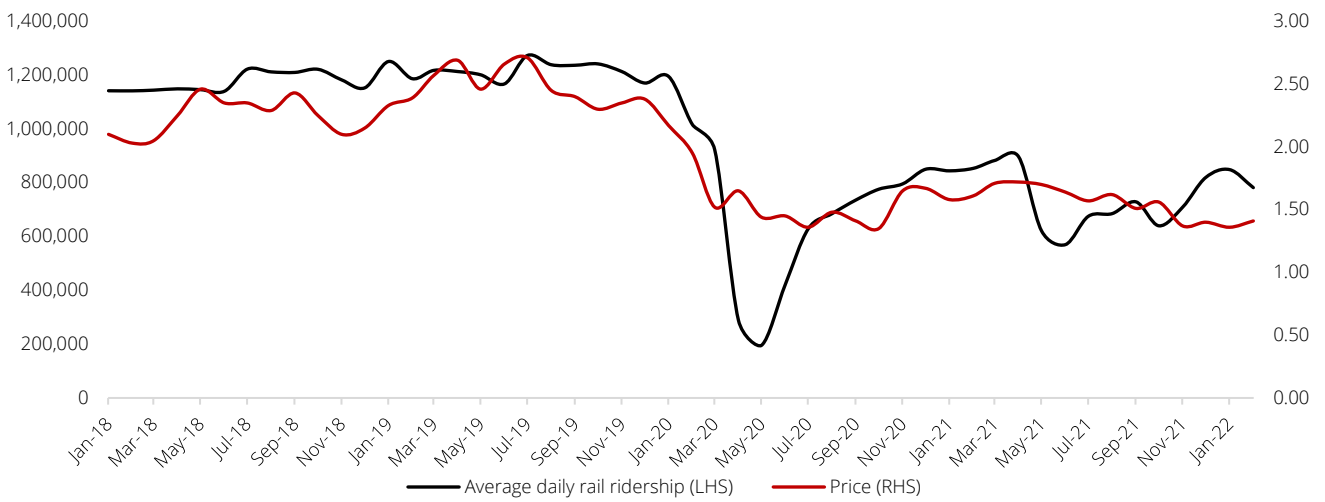
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CDG forward EV/EBITDA



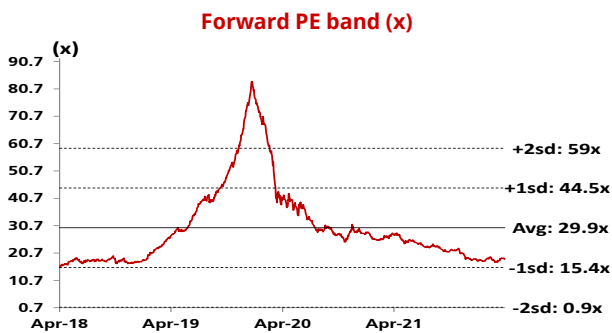
Source: Bloomberg Finance L.P., DBS Bank

CDG's share price exhibits a correlation of $r = 0.85$ with average daily rail ridership

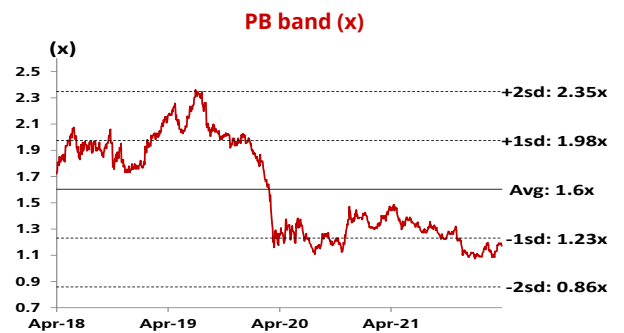


Source: SBS Transit, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
SGP avg taxi fleet (#)	11,471	10,122	9,300	8,900	8,900
SGP fare chg (%)	4.00	7.00	3.00	3.00	3.00

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$\$m)					
Public Transport Svc	2,879	2,568	2,822	2,942	3,012
Taxi	665	403	426	470	491
Automotive Engn	159	89.4	102	127	134
Vehicle Inspection	101	84.2	98.5	106	108
Others	97.7	83.9	90.2	92.5	94.9
Total	3,901	3,229	3,538	3,737	3,839
EBIT (\$\$m)					
Public Transport Svc	224	126	131	135	160
Taxi	104	(64.4)	18.5	51.7	73.6
Automotive Engn	27.8	18.1	10.7	15.9	20.0
Vehicle Inspection	30.6	26.6	30.6	32.3	32.9
Others	28.9	17.3	19.5	19.4	23.0
Total	416	123	210	255	309
EBIT Margins (%)					
Public Transport Svc	7.8	4.9	4.6	4.6	5.3
Taxi	15.7	(16.0)	4.3	11.0	15.0
Automotive Engn	17.5	20.2	10.5	12.5	15.0
Vehicle Inspection	30.3	31.6	31.1	30.5	30.5
Others	29.6	20.6	21.6	21.0	24.3
Total	10.7	3.8	5.9	6.8	8.1

Income Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,901	3,229	3,538	3,737	3,839
Other Opng (Exp)/Inc	(3,485)	(3,106)	(3,328)	(3,483)	(3,530)
Operating Profit	416	123	210	255	309
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	5.00	5.00
Net Interest (Exp)/Inc	(9.2)	(5.9)	(5.1)	(1.7)	1.04
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	407	117	205	258	315
Tax	(88.4)	(24.5)	(44.9)	(56.8)	(69.3)
Minority Interest	(53.1)	(30.9)	(29.9)	(37.6)	(45.9)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	265	61.8	130	164	200
Net Profit before Except.	265	61.8	130	164	200
EBITDA	869	588	612	663	748
Growth					
Revenue Gth (%)	2.5	(17.2)	9.6	5.6	2.7
EBITDA Gth (%)	4.3	(32.3)	4.0	8.5	12.8
Opg Profit Gth (%)	(5.2)	(70.4)	70.6	21.3	21.4
Net Profit Gth (Pre-ex) (%)	(12.6)	(76.7)	110.5	25.7	22.2
Margins & Ratio					
Opg Profit Margin (%)	10.7	3.8	5.9	6.8	8.1
Net Profit Margin (%)	6.8	1.9	3.7	4.4	5.2
ROAE (%)	10.2	2.4	4.9	6.0	7.1
ROA (%)	5.0	1.2	2.5	3.2	3.8
ROCE (%)	7.5	2.2	3.9	4.9	5.8
Div Payout Ratio (%)	80.0	50.1	70.0	66.4	65.2
Net Interest Cover (x)	45.2	20.9	41.2	146.8	NM

Source: Company, DBS Bank

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Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	2,880	2,620	2,431	2,227	1,993
Invt in Associates & JVs	0.70	0.70	0.80	5.80	10.8
Other LT Assets	1,180	1,217	935	937	939
Cash & ST Invt	594	743	919	1,306	1,689
Inventory	151	128	117	131	135
Debtors	319	533	537	498	512
Other Current Assets	256	67.3	15.4	15.4	15.4
Total Assets	5,379	5,309	4,955	5,121	5,294
ST Debt	227	141	23.9	100	100
Creditor	670	675	776	831	853
Other Current Liab	219	228	191	183	196
LT Debt	407	427	317	250	250
Other LT Liabilities	847	809	512	512	512
Shareholder's Equity	2,595	2,607	2,707	2,779	2,870
Minority Interests	414	422	430	467	513
Total Cap. & Liab.	5,379	5,309	4,955	5,121	5,294
Non-Cash Wkg. Capital	(164)	(174)	(297)	(369)	(387)
Net Cash/(Debt)	(40.0)	175	578	956	1,339
Debtors Turn (avg days)	27.8	48.2	55.2	50.5	48.0
Creditors Turn (avg days)	81.9	93.0	90.5	95.2	99.2
Inventory Turn (avg days)	17.4	19.3	15.3	14.7	15.7
Asset Turnover (x)	0.7	0.6	0.7	0.7	0.7
Current Ratio (x)	1.2	1.4	1.6	1.8	2.0
Quick Ratio (x)	0.8	1.2	1.5	1.6	1.9
Net Debt/Equity (X)	0.0	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	CASH	CASH	CASH
Capex to Debt (%)	54.6	18.7	57.0	57.1	57.1
Z-Score (X)	2.4	2.4	2.7	2.8	2.8

Source: Company, DBS Bank

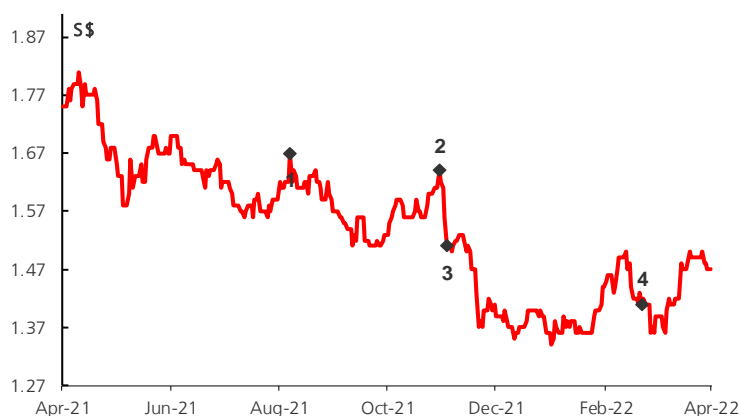
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Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	407	117	205	258	315
Dep. & Amort.	453	465	402	404	434
Tax Paid	(89.5)	(82.7)	(64.7)	(64.4)	(56.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	(5.0)	(5.0)
Chg in Wkg. Cap.	(147)	(28.3)	75.0	79.3	5.46
Other Operating CF	(13.4)	12.6	44.1	0.0	0.0
Net Operating CF	610	484	661	671	693
Capital Exp. (net)	(347)	(106)	(194)	(200)	(200)
Other Invt. (net)	(28.3)	(13.5)	(2.2)	(15.0)	(15.0)
Invt. in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	8.20	9.90	(7.3)	13.0	13.0
Net Investing CF	(367)	(110)	(204)	(202)	(202)
Div Paid	(231)	(115)	(76.5)	(91.1)	(109)
Chg in Gross Debt	31.3	(117)	(144)	9.00	0.0
Capital Issues	1.30	1.10	0.0	0.0	0.0
Other Financing CF	(31.6)	(11.1)	(66.8)	0.0	0.0
Net Financing CF	(230)	(241)	(287)	(82.1)	(109)
Currency Adjustments	(5.5)	15.8	6.40	0.0	0.0
Chg in Cash	8.10	149	176	387	382
Opg CFPS (S cts)	34.9	23.6	27.0	27.3	31.6
Free CFPS (S cts)	12.2	17.4	21.5	21.7	22.7

Source: Company, DBS Bank

Target Price & Ratings History



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

Source: DBS Bank

Analyst: Woon Bing YONG

Paul YONG, 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

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