

Singapore Company Update

SBS Transit Ltd

Bloomberg: SBUS SP | Reuters: SBVV.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Jun 2022

HOLD

Last Traded Price (8 Jun 2022): S\$2.88 (STI : 3,225.80)
Price Target 12-mth: S\$3.28 (14% upside)

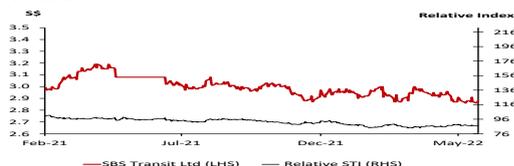
Analyst

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What's New

- Stabilising domestic COVID-19 situation drives average daily rail ridership to c.891,000 in April 2022
- Strong net cash position could point to higher dividends in medium term
- Upcoming bus package expiries a concern, but SBST likely to retain majority
- Maintain HOLD with TP of S\$3.28; suspending coverage due to reallocation of resources

Price Relative



Forecasts and Valuation

| FY Dec (S\$m) | 2020A | 2021A | 2022F | 2023F |
|--------------------------|-------|--------|-------|-------|
| Revenue | 1,231 | 1,311 | 1,409 | 1,436 |
| EBITDA | 189 | 159 | 191 | 199 |
| Pre-tax Profit | 77.0 | 52.5 | 78.9 | 88.6 |
| Net Profit | 79.0 | 51.6 | 65.5 | 73.5 |
| Net Pft (Pre Ex.) | 79.0 | 51.6 | 65.5 | 73.5 |
| Net Pft Gth (Pre-ex) (%) | (2.9) | (34.6) | 26.8 | 12.3 |
| EPS (S cts) | 25.3 | 16.6 | 21.0 | 23.6 |
| EPS Pre Ex. (S cts) | 25.3 | 16.6 | 21.0 | 23.6 |
| EPS Gth Pre Ex (%) | (3) | (35) | 27 | 12 |
| Diluted EPS (S cts) | 25.3 | 16.6 | 21.0 | 23.6 |
| Net DPS (S cts) | 6.30 | 8.20 | 10.5 | 11.8 |
| BV Per Share (S cts) | 188 | 193 | 203 | 215 |
| PE (X) | 11.4 | 17.4 | 13.7 | 12.2 |
| PE Pre Ex. (X) | 11.4 | 17.4 | 13.7 | 12.2 |
| P/Cash Flow (X) | 5.9 | 4.0 | 6.1 | 4.9 |
| EV/EBITDA (X) | 4.4 | 4.4 | 3.2 | 2.5 |
| Net Div Yield (%) | 2.2 | 2.8 | 3.6 | 4.1 |
| P/Book Value (X) | 1.5 | 1.5 | 1.4 | 1.3 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH |
| ROAE (%) | 14.2 | 8.7 | 10.6 | 11.3 |
| Earnings Rev (%) | | | 57 | 40 |
| Consensus EPS (S cts): | | | 18.0 | 21.5 |
| Other Broker Recs: | | B: 1 | S: 0 | H: 1 |

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

One door closes, another opens

Investment Thesis

Valuations are fair for now. Our TP of S\$3.28 represents SBST's 10-year mean PB of 1.6x. We used a 10-year period to adjust for a short-lived spike in SBST's share price in 2019.

Faster-than-expected ridership recovery a boon. Singapore's average daily rail ridership recovered to c.891,000 in April 2022, nearing our projections of c.896,000 for FY22F. As such, we have increased our projections for average daily rail ridership to c.939,000 in FY22F to reflect the faster pace of recovery in domestic mobility.

Extended bus packages a source of uncertainty. As part of the LTA's New Rail Financing Framework Version 2 (NRFF 2), five of SBST's bus packages (Bedok, Tampines, Serangoon-Eunos, Clementi, and Bishan-Toa Payoh) were extended, albeit at a lower rate. This lower rate, which comes into effect from September 2022 is estimated to potentially reduce operating profit by c.S\$34m based on FY20 proforma figures.

Valuation:

Maintain HOLD with a TP of S\$3.28. Our valuation was obtained by pegging SBST to its 10-year mean PB of 1.6x. We believe SBST is currently trading near its fair valuation. We are suspending coverage on the stock as we reallocate research resources.

Where we differ:

We adopt neutral view on the stock and believe that the new NRFF 2 framework has offsetting effects for SBST, with the protection offered by the EBIT collar negated by the lower bus service fees expected.

Key Risks to Our View:

Downside risks include loss of bus packages in 2023, a significant permanent decline in public transport ridership, and a resurgence of COVID-19, leading to tightened restrictions.

At A Glance

| | |
|---|-----------|
| Issued Capital (m shrs) | 312 |
| Mkt. Cap (S\$m/US\$m) | 898 / 654 |
| Major Shareholders (%) | |
| ComfortDelgro Corp Ltd | 74.3 |
| Free Float (%) | 25.7 |
| 3m Avg. Daily Val (US\$m) | 0.08 |
| GIC Industry : Industrials / Transportation | |



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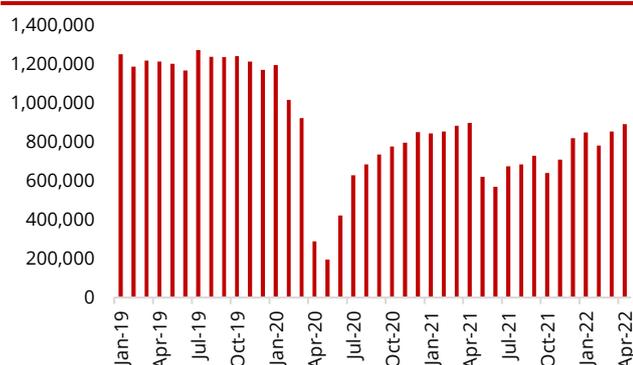
Live more, Bank less

WHAT'S NEW

One door closes, another opens

Faster-than-expected pace of ridership recovery as COVID cases come under control. Singapore's average daily rail ridership recovered to c.891,000 in April 2022, nearing the COVID-19 high of c.897,000 in April 2021 but remaining about 27% below pre-COVID levels. The result contributed to SBST recording 1Q22 profit after tax of S\$15.5m, despite lower government reliefs. The figure was also approaching our previous full-year FY22F projection of c.896,000 in average daily rail ridership.

Average daily rail ridership nears COVID high in April 2021



Source: Company, DBS Bank

Strong net cash position a prelude to better dividends ahead. As of end-1Q22, SBST was in a net cash position of S\$236.7m, a q-o-q increase of S\$32.7m. We reiterate our belief that some cash could be kept as a buffer against rising costs, with the remainder potentially returned to shareholders through an elevated dividend policy in the medium term.

Maintain HOLD with a TP of S\$3.28. FY22F/23F earnings were revised up 57%/40% on the back of the high operating leverage of the business and a faster-than-expected pace of ridership recovery. We were previously overly conservative on EBIT margin, expecting SBST to

only record FY22F EBIT margin of 3.6%. As such, we have increased our FY22F projections for average daily rail ridership to c.939,000 and also raised the EBIT margin to 5.7%. However, looking forward, we see potential uncertainty arising from lower fees for the five bus packages which were extended by an average of three years by LTA. Indeed, the extension terms require the service fees of the extended bus packages to be revised to a rate benchmarked to recent bus tenders. Recent bus tenders were rumoured to have a rate that was 15% lower than before and are estimated to potentially reduce operating profit by c.S\$34m based on FY20 proforma figures.

Bus packages expected to receive a lower fee

| Route | Services | Original Expiry |
|------------------|----------|-----------------|
| Bedok | 23 | 2023 |
| Tampines | 27 | 2024 |
| Serangoon-Eunos | 23 | 2025 |
| Clementi | 26 | 2025 |
| Bishan-Toa Payoh | 23 | 2026 |

Source: LTA, DBS Bank

We are suspending coverage of the stock due to the reallocation of research resources.

Company Background

SBS Transit ("SBST") was listed on the Singapore Exchange in 1997. The group has two key business segments, Public Transport Services and Other Commercial Services. Public Transport Services is involved in the provision of bus and rail services to commuters as part of a public transport network. Other Commercial Services generates rental income from commercial spaces at bus interchanges and rail stations and advertising revenue on trains, buses, bus interchanges, and rail stations.

SBS Transit Ltd

Historical PE and PB band



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



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

SBS Transit Ltd
Segmental Breakdown

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenues (\$m) | | | | | |
| Public transport services | 1,383 | 1,196 | 1,265 | 1,361 | 1,383 |
| Other commercial | 62.0 | 35.2 | 45.5 | 48.2 | 52.4 |
| Total | 1,445 | 1,231 | 1,311 | 1,409 | 1,436 |
| EBIT (\$m) | | | | | |
| Public transport services | 62.0 | 56.9 | 31.0 | 56.2 | 61.0 |
| Other commercial | 41.5 | 23.1 | 22.6 | 24.1 | 28.8 |
| Total | 103 | 80.0 | 53.6 | 80.3 | 89.8 |
| EBIT Margins (%) | | | | | |
| Public transport services | 4.5 | 4.8 | 2.4 | 4.1 | 4.4 |
| Other commercial | 67.0 | 65.8 | 49.6 | 50.0 | 55.0 |
| Total | 7.2 | 6.5 | 4.1 | 5.7 | 6.3 |

Income Statement (\$m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 1,445 | 1,231 | 1,311 | 1,409 | 1,436 |
| Other Opng (Exp)/Inc | (1,342) | (1,151) | (1,257) | (1,329) | (1,346) |
| Operating Profit | 103 | 80.0 | 53.6 | 80.3 | 89.8 |
| Other Non Opng (Exp)/Inc | 0.14 | 0.27 | 0.29 | 0.29 | 0.29 |
| Associates & JV Inc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Interest (Exp)/Inc | (4.3) | (3.3) | (1.3) | (1.7) | (1.5) |
| Exceptional Gain/(Loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-tax Profit | 99.4 | 77.0 | 52.5 | 78.9 | 88.6 |
| Tax | (18.1) | 1.95 | (0.9) | (13.4) | (15.1) |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Preference Dividend | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Profit | 81.3 | 79.0 | 51.6 | 65.5 | 73.5 |
| Net Profit before Except. | 81.3 | 79.0 | 51.6 | 65.5 | 73.5 |
| EBITDA | 208 | 189 | 159 | 191 | 199 |
| Growth | | | | | |
| Revenue Gth (%) | 4.5 | (14.8) | 6.5 | 7.5 | 1.9 |
| EBITDA Gth (%) | 8.9 | (8.9) | (15.9) | 19.7 | 4.6 |
| Opg Profit Gth (%) | 6.4 | (22.7) | (33.0) | 49.9 | 11.8 |
| Net Profit Gth (Pre-ex) (%) | 1.5 | (2.9) | (34.6) | 26.8 | 12.3 |
| Margins & Ratio | | | | | |
| Opg Profit Margin (%) | 7.2 | 6.5 | 4.1 | 5.7 | 6.3 |
| Net Profit Margin (%) | 5.6 | 6.4 | 3.9 | 4.6 | 5.1 |
| ROAE (%) | 15.9 | 14.2 | 8.7 | 10.6 | 11.3 |
| ROA (%) | 7.4 | 6.9 | 4.5 | 5.6 | 6.1 |
| ROCE (%) | 11.4 | 10.2 | 6.8 | 8.5 | 9.1 |
| Div Payout Ratio (%) | 50.1 | 24.9 | 49.5 | 50.0 | 50.0 |
| Net Interest Cover (x) | 24.4 | 24.6 | 40.0 | 46.9 | 59.4 |

Source: Company, DBS Bank

SBS Transit Ltd
Balance Sheet (\$\$m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Fixed Assets | 715 | 619 | 563 | 486 | 410 |
| Invt in Associates & JVs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other LT Assets | 24.9 | 33.3 | 31.7 | 31.7 | 31.7 |
| Cash & ST Invt | 31.5 | 85.6 | 204 | 285 | 397 |
| Inventory | 131 | 112 | 101 | 107 | 109 |
| Debtors | 167 | 152 | 253 | 272 | 277 |
| Other Current Assets | 67.8 | 138 | 0.0 | 0.0 | 0.0 |
| Total Assets | 1,137 | 1,140 | 1,154 | 1,183 | 1,225 |
| ST Debt | 75.0 | 25.0 | 0.0 | 0.0 | 0.0 |
| Creditor | 258 | 250 | 299 | 316 | 320 |
| Other Current Liab | 86.7 | 112 | 84.8 | 64.4 | 66.0 |
| LT Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other LT Liabilities | 191 | 166 | 169 | 169 | 169 |
| Shareholder's Equity | 527 | 587 | 602 | 634 | 671 |
| Minority Interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Cap. & Liab. | 1,137 | 1,140 | 1,154 | 1,183 | 1,225 |
| Non-Cash Wkg. Capital | 21.1 | 40.2 | (28.6) | (0.3) | 0.50 |
| Net Cash/(Debt) | (43.5) | 60.6 | 204 | 285 | 397 |
| Debtors Turn (avg days) | 36.7 | 47.4 | 56.5 | 68.1 | 69.9 |
| Creditors Turn (avg days) | (967.4) | (850.1) | (950.6) | (1,019.6) | (1,062.5) |
| Inventory Turn (avg days) | (434.4) | (405.9) | (369.8) | (346.6) | (361.1) |
| Asset Turnover (x) | 1.3 | 1.1 | 1.1 | 1.2 | 1.2 |
| Current Ratio (x) | 0.9 | 1.3 | 1.5 | 1.8 | 2.0 |
| Quick Ratio (x) | 0.5 | 0.6 | 1.2 | 1.5 | 1.7 |
| Net Debt/Equity (X) | 0.1 | CASH | CASH | CASH | CASH |
| Net Debt/Equity ex MI (X) | 0.1 | CASH | CASH | CASH | CASH |
| Capex to Debt (%) | 38.5 | 65.9 | N/A | N/A | N/A |

Source: Company, DBS Bank

Cash Flow Statement (\$\$m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Pre-Tax Profit | 99.4 | 77.0 | 52.5 | 78.9 | 88.6 |
| Dep. & Amort. | 104 | 109 | 105 | 110 | 109 |
| Tax Paid | (21.9) | (14.1) | (17.4) | (33.9) | (13.4) |
| Assoc. & JV Inc/(loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Chg in Wkg.Cap. | (110) | (46.6) | 61.2 | (7.8) | (2.5) |
| Other Operating CF | 12.2 | 25.8 | 22.7 | 0.0 | 0.0 |
| Net Operating CF | 83.7 | 151 | 224 | 147 | 182 |
| Capital Exp.(net) | (28.9) | (16.5) | (33.1) | (33.1) | (33.1) |
| Other Invt.(net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 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 | 0.14 | 0.27 | 0.56 | 0.0 | 0.0 |
| Net Investing CF | (28.7) | (16.2) | (32.5) | (33.1) | (33.1) |
| Div Paid | (44.4) | (18.4) | (37.6) | (32.7) | (36.8) |
| Chg in Gross Debt | 0.0 | (50.0) | (25.0) | 0.0 | 0.0 |
| Capital Issues | 0.31 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Financing CF | (12.1) | (12.5) | (10.8) | 0.0 | 0.0 |
| Net Financing CF | (56.2) | (80.9) | (73.3) | (32.7) | (36.8) |
| Currency Adjustments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Chg in Cash | (1.3) | 54.1 | 118 | 81.3 | 112 |
| Opg CFPS (S cts) | 62.1 | 63.4 | 52.3 | 49.7 | 59.1 |
| Free CFPS (S cts) | 17.6 | 43.2 | 61.3 | 36.6 | 47.7 |

Source: Company, DBS Bank

SBS Transit Ltd

Target Price & Ratings History



| S.No. | Date of Report | Closing Price | 12-mth Target Price | Rating |
|-------|----------------|---------------|---------------------|--------|
| 1: | 02 Sep 21 | 3.04 | 3.44 | HOLD |
| 2: | 12 Nov 21 | 3.00 | 3.39 | HOLD |
| 3: | 03 Mar 22 | 2.92 | 3.28 | HOLD |

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

Source: DBS Bank

Analyst: Woon Bing Yong

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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