

Singapore Company Update

ComfortDelGro

Bloomberg: CD SP | Reuters: CMDG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Aug 2022

BUY

Last Traded Price (12 Aug 2022): S\$1.46 (STI : 3,269.27)

Price Target 12-mth: S\$1.95 (33% upside)

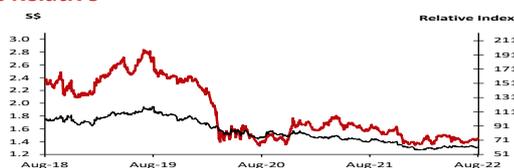
Analyst

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What's New

- A surprise special dividend and 70% interim payout totalling 4.26 S cts was declared
- Signals higher confidence in recovery from COVID, save for China operations
- 1H22 net profit +30.4% - within expectations
- Improvement expected to continue into 2H22; Reiterate BUY, TP: S\$1.95

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	3,229	3,538	3,743	3,852
EBITDA	588	612	711	787
Pre-tax Profit	117	205	317	346
Net Profit	61.8	130	204	223
Net Pft (Pre Ex.)	61.8	130	166	223
Net Pft Gth (Pre-ex) (%)	(76.7)	110.5	27.5	34.2
EPS (S cts)	2.85	6.00	9.40	10.3
EPS Pre Ex. (S cts)	2.85	6.00	7.65	10.3
EPS Gth Pre Ex (%)	(77)	110	27	34
Diluted EPS (S cts)	2.85	5.99	9.38	10.2
Net DPS (S cts)	1.43	4.20	7.26	7.50
BV Per Share (S cts)	120	125	130	133
PE (X)	51.2	24.3	15.5	14.2
PE Pre Ex. (X)	51.2	24.3	19.1	14.2
P/Cash Flow (X)	6.5	4.8	4.2	4.4
EV/EBITDA (X)	5.8	4.9	3.7	3.1
Net Div Yield (%)	1.0	2.9	5.0	5.1
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	7.4	7.8
Earnings Rev (%):			-	-
Consensus EPS (S cts):			9.4	10.3
Other Broker Recs:		B: 10	S: 0	H: 1

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

Mid-year surprise 70% payout and special dividend

Investment Thesis

Major reopening beneficiary as mobility 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 (pre-ex) to rise c.27% 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 in the US and GoTo's listed in Indonesia, 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:

Maintain BUY with a TP of S\$1.95 based on a blend of forward EV/EBITDA and PB valuations. We peg CDG to a forward EV/EBITDA of 5.3x and PB of 1.25x, both of which represent the -1SD level from the 10-year mean.

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, and 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 (\$m/US\$m)	3,164 / 2,307
Major Shareholders (%)	
Ameriprise Financial Inc	6.8
Blackrock Inc	5.0
Free Float (%)	88.2
3m Avg. Daily Val (US\$m)	6.4
GIC Industry :	Industrials / Transportation



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WHAT'S NEW

ComfortDelGro 1H22 trending as expected; mid-year surprise special dividend

Reiterate BUY, TP: S\$1.95. We reiterate our BUY recommendation with an unchanged TP of S\$1.95. The counter's price is and has been slow to shake off the impact from COVID given lingering restrictions such as China's zero-COVID policy. Slowly but surely, activities are returning to norm, as we see activities and mobility increase in Singapore, Australia and the UK. Trading at 1.1x PB (-1SD 4 year average) with recovering profitability, and a projected yield of 5% (FY22F), we believe upside significantly outweighs the downside.

1H22 performance within expectations, +30.4% y-o-y. ComfortDelGro (CD) reported 1H22 attributable net profit of S\$118.7m, equating to an improvement of 30.4% y-o-y, on the back of 6.7% increase in revenue to S\$1.86bn. As of half-time, headline **net profit accounts for 58% of our FY22F estimates.** This includes **gain on disposal of a property in London amounting to S\$37.2m.** Excluding this, like-for-like comparison on net profit would be c.48% of our FY22 forecasts, given expectations of sequential improvement in 2H22.

A pleasant interim (2.85 Scts) and special dividend (1.41Scts) declared. Beyond expectations of a further improvement in performance in 2H22, an **interim dividend of 2.85 Scts** equating to a **payout ratio of 70%** was declared. On top of that, a **special dividend of 1.41Scts** was also declared, which came out of the disposal gains of its Alperston property in London. In our view, this probably **signals** the Board/ management **improved confidence** in the group's balance sheet and **recovery** from COVID restrictions seen in the past 2 years.

Group revenue improved by 6.7% to S\$1.86bn, helped mainly from contributions in Singapore. If not for foreign exchange (FX) translation (S\$33m), revenue growth would have been higher at 8.6%. Most of its business segments saw higher revenue, save for Taxi, Driving Centre and Bus Station.

1H22 operating profit excluding disposals and government reliefs surged by a strong 67.6% to S\$126.9m, up from S\$75.7m, contributed mainly from Public Transport, Taxi and Inspection & Testing, negated partially by losses in bus

station. The group had S\$57.2m in government reliefs in 1H21, and this has tapered significantly to S\$9.8m in 1H22.

2H22 should show sequential improvement. While its operations in China (taxi and bus station) are still being impacted by the zero-COVID policy, we believe the easing restrictions elsewhere, particularly in Singapore, Australia and the UK should bode better for the group in 2H22. In its results announcement, the group has indicated that it "maintains a cautiously optimistic outlook for 2022".

Segment results comments and earnings call take-aways

Public Transport segment revenue +8.1%, operating profit +48.4%. Revenue for the segment in 1H22 was at S\$1.49bn (+8.1% y-o-y) mainly due to higher rail ridership and fuel indexation in Singapore. The strong operating profit growth was helped by its net gain on disposal of Alperston property in London and higher revenues. Excluding the disposal gain (S\$37.2m), operating profit would still have been 3.8% higher at S\$85.6m in 1H22.

We noted that there were **government reliefs amounting to S\$47.9m in 1H21** for its Public Transport segment, which have **dropped to S\$8.1m in 1H22.** **Excluding disposal gain and government reliefs, operating profit in 1H22 would have been S\$76.5m, more than doubled that of 1H21 (S\$34.1m).** Besides higher ridership and fuel indexation, public transport benefited from private charter projects in Singapore and the UK

Taxi – a brighter spot in Singapore. Revenue for its Taxi segment decreased by 6.5% y-o-y to S\$211.3m, mainly due to rental waivers in China (~S\$10m) and absence of contribution from its London taxi business post divestment in 1H21 (~S\$9m). This was partially mitigated by higher revenues in Singapore from lower rental discounts and higher call volumes. **Operating profit** for the segment was **S\$21.2m (+18.4% y-o-y),** mainly from its Singapore operations.

Management shared that its taxi call bookings in Singapore have exceeded pre-COVID, while fleet size decline has stabilised with small uptick. Management is focusing on drivers' recruitment though shared that it is challenging. The

focus is to pivot towards keeping its vehicle rental rates competitive, with discounts, and pivot more towards revenue sharing model, ie taking a certain percentage of fare revenue via call bookings. This will lower the fixed cost barrier for drivers, while allowing the sharing of upside potential.

Automotive engineering's revenue increased by 17.1% y-o-y to S\$100.1m mainly due to higher fuel prices and volume. Operating profit, however, was lower by 16.1% to S\$4.7m due to the lagged effect of higher fuel pump price increase vis-à-vis oil price increases as well as absence of government reliefs. With recent retreat in oil prices, there should be some let up in pressure and reversal of the trend in 2H22, in our view.

Other business segments. The other smaller business segments of the group were a mixed bag. Its Inspection and Testing business benefitted from recovery in activities while Car Rental and Leasing saw higher revenue from expansion in its PHV (Private Hire Vehicle fleet). Driving centre and Bus Station both saw lower revenues with the divestment of its Nanjing driving school in China in 1H22, while the latter continued to be impacted by China's lockdown and travelling restrictions in 1H22.

Forecasts and Valuation

FY22F/ 23F earnings to continue its recovery path; raised our dividend payout expectations, Reiterate BUY, TP: S\$1.95. We retain our FY22F/ 23F forecasts with expectations of 27%/ 24% (pre-exceptional) earnings growth. Our TP is based on the average of forward EV/EBITDA and PB valuations. We peg CDG to a forward EV/EBITDA of 5.3x and PB of 1.25x, both of which represent the -1SD level from the 10-year mean. With the interim dividend of 2.85 Scts equating to 70% payout, along with the special dividend of 1.41 Scts declared, this gives us greater confidence in raising our expected dividend payout to c.70%, from ~55% previously.

Trading at 1.1x PB (-1SD 4 year average) with recovering profitability, and a projected yield of 5% (FY22F), we believe upside significantly outweighs the downside. **BUY, TP: S\$1.95.**

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.

ComfortDelGro

Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	% chg yoy	% chg hoh
Revenue	1,743	1,796	1,860	6.7	3.6
Cost of Goods Sold	0	0	0	-	-
Gross Profit	1,743	1,796	1,860	6.7	3.6
Other Oper. (Exp)/Inc	(1,610)	(1,719)	(1,723)	7.1	0.3
Operating Profit	133	77	137	2.9	77.3
Other Non Opg (Exp)/Inc	3	(3)	4	25.0	(225.0)
Associates & JV Inc	0	0	1	nm	nm
Net Interest (Exp)/Inc	(6)	1	(5)	16.9	nm
Exceptional Gain/(Loss)	2	(2)	39	2,188.2	nm
Pre-tax Profit	132	73	175	32.8	140.0
Tax	(24)	(21)	(36)	48.6	75.2
Minority Interest	(17)	(13)	(20)	(22.9)	53.4
Net Profit	91	39	119	30.4	203.6
Net profit bef Except.	89	41	80	(10.6)	95.6
EBITDA	342	270	331	(3.2)	22.7
Government reliefs	57.2	27.4	9.8	(82.9)	(64.2)
Margins (%)					
Opg Profit Margins	7.6	4.3	7.3		
Net Profit Margins	5.2	2.2	6.4		

Source of all data: Company, 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
Chg in staff strength (%)	5.17	(3.23)	(1.00)	1.00	0.50

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$\$ m)					
Public Transport Svc	2,879	2,568	2,822	2,954	3,026
Taxi	665	403	426	438	462
Automotive Engn	159	89	102	153	160
Vehicle Inspection	101	84	99	106	108
Others	98	84	90	92	95
Elimination	98	84	90	92	95
Total	3,901	3,229	3,538	3,743	3,852
EBIT (\$\$ m)					
Public Transport Svc	224	126	131	168	188
Taxi	104	(64)	19	48	69
Automotive Engn	28	18	11	19	24
Vehicle Inspection	31	27	31	32	33
Others	29	17	20	14	32
Total	416	123	210	282	346
EBIT Margins (%)					
Public Transport Svc	7.8	4.9	4.6	5.7	6.2
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	15.6	33.5
Total	10.7	3.8	5.9	7.5	9.0

Income Statement (\$\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,901	3,229	3,538	3,743	3,852
Cost of Goods Sold	0	0	0	0	0
Gross Profit	3,901	3,229	3,538	3,743	3,852
Other Opng (Exp)/Inc	(3,485)	(3,106)	(3,328)	(3,461)	(3,505)
Operating Profit	416	123	210	282	346
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	2	2
Net Interest (Exp)/Inc	(9)	(6)	(5)	(5)	(2)
Exceptional Gain/(Loss)	0	0	0	38	0
Pre-tax Profit	407	117	205	317	346
Tax	(88)	(25)	(45)	(71)	(78)
Minority Interest	(53)	(31)	(30)	(42)	(46)
Preference Dividend	0	0	0	0	0
Net Profit	265	62	130	204	223
Net Profit before Except.	265	62	130	166	223
EBITDA	869	588	612	711	787
Growth					
Revenue Gth (%)	2.5	(17.2)	9.6	5.8	2.9
EBITDA Gth (%)	4.3	(32.3)	4.0	16.2	10.8
Opg Profit Gth (%)	(5.2)	(70.4)	70.6	34.3	22.7
Net Profit Gth (%)	(12.6)	(76.7)	110.5	56.6	9.2
Margins & Ratio					
Opg Profit Margin (%)	10.7	3.8	5.9	7.5	9.0
Net Profit Margin (%)	6.8	1.9	3.7	5.4	5.8
ROAE (%)	10.2	2.4	4.9	7.4	7.8
ROA (%)	5.0	1.2	2.5	4.0	4.2
ROCE (%)	7.5	2.2	3.9	5.4	6.4
Div Payout Ratio (%)	80.0	50.1	70.0	77.3	73.1
Net Interest Cover (x)	45.2	20.9	41.2	53.9	154.6

Gain from disposal of Alperton property in London.

Source: Company, DBS Bank

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Interim Income Statement (\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	1,534	1,695	1,743	1,796	1,860
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	1,534	1,695	1,743	1,796	1,860
Other Oper. (Exp)/Inc	(1,528)	(1,578)	(1,610)	(1,719)	(1,723)
Operating Profit	5.80	117	133	77.1	137
Other Non Opp (Exp)/Inc	5.00	(5.0)	3.20	(3.2)	4.00
Associates & JV Inc	0.0	0.0	0.0	0.0	0.50
Net Interest (Exp)/Inc	(8.2)	2.30	(5.9)	0.80	(4.9)
Exceptional Gain/(Loss)	0.0	0.0	1.70	(1.7)	38.9
Pre-tax Profit	2.60	115	132	73.0	175
Tax	(1.6)	(22.9)	(24.3)	(20.6)	(36.1)
Minority Interest	(7.6)	(23.3)	(16.6)	(13.3)	(20.4)
Net Profit	(6.6)	68.4	91.0	39.1	119
Net profit bef Except.	(6.6)	68.4	89.3	40.8	79.8
EBITDA	223	112	342	270	331
Growth					
Revenue Gth (%)	(22.4)	10.5	2.8	3.1	3.6
EBITDA Gth (%)	(48.0)	(49.6)	204.5	(21.1)	22.7
Opp Profit Gth (%)	(97.0)	1,922.4	13.3	(42.0)	77.3
Net Profit Gth (%)	(105.6)	(1,136.4)	33.0	(57.0)	203.6
Margins					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opp Profit Margins (%)	0.4	6.9	7.6	4.3	7.3
Net Profit Margins (%)	(0.4)	4.0	5.2	2.2	6.4

Includes govt reliefs amounting to S\$57.2m in 1H21 vs S\$9.8m (1H22) and S\$27.4m in 2H21

Gain from disposal

Balance Sheet (\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	2,880	2,620	2,431	2,254	2,115
Invt in Associates & JVs	1	1	1	3	5
Other LT Assets	1,180	1,217	935	937	939
Cash & ST Invt	594	743	919	1,342	1,600
Inventory	151	128	117	131	135
Debtors	319	533	537	499	514
Other Current Assets	256	67	15	15	15
Total Assets	5,379	5,309	4,955	5,182	5,323
ST Debt	227	141	24	100	100
Creditor	670	675	776	832	856
Other Current Liab	219	228	191	197	204
LT Debt	407	427	317	250	250
Other LT Liabilities	847	809	512	512	512
Shareholder's Equity	2,595	2,607	2,707	2,819	2,884
Minority Interests	414	422	430	472	517
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
Total Cap. & Liab.	5,379	5,309	4,955	5,182	5,323
Non-Cash Wkg. Capital	(164)	(174)	(297)	(383)	(396)
Net Cash/(Debt)	(40)	175	578	992	1,250
Debtors Turn (avg days)	27.8	48.2	55.2	50.5	48.0
Creditors Turn (avg days)	81.9	93.0	90.5	96.7	100.5
Inventory Turn (avg days)	17.4	19.3	15.3	14.9	15.9
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	1.8
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	71.4	85.7
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	317	346
Dep. & Amort.	453	465	402	427	439
Tax Paid	(90)	(83)	(65)	(64)	(71)
Assoc. & JV Inc/(loss)	0	0	0	(2)	(2)
Chg in Wkg.Cap.	(147)	(28)	75	80	6
Other Operating CF	(13)	13	44	0	0
Net Operating CF	610	484	661	757	718
Capital Exp.(net)	(347)	(106)	(194)	(250)	(300)
Other Invt.(net)	(28)	(14)	(2)	(15)	(15)
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	8	10	(7)	13	13
Net Investing CF	(367)	(110)	(204)	(252)	(302)
Div Paid	(231)	(115)	(77)	(91)	(157)
Chg in Gross Debt	31	(117)	(144)	9	0
Capital Issues	1	1	0	0	0
Other Financing CF	(32)	(11)	(67)	0	0
Net Financing CF	(230)	(241)	(287)	(82)	(157)
Currency Adjustments	(6)	16	6	0	0
Chg in Cash	8	149	176	423	258
Opg CFPS (S cts)	34.9	23.6	27.0	31.2	32.8
Free CFPS (S cts)	12.2	17.4	21.5	23.4	19.3

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Aug 21	1.67	1.94	BUY
2:	08 Nov 21	1.64	2.06	BUY
3:	12 Nov 21	1.51	2.06	BUY
4:	02 Mar 22	1.41	1.95	BUY
5:	11 Apr 22	1.48	1.95	BUY
6:	17 May 22	1.47	1.95	BUY

Source: DBS Bank

Analyst: Andy SIM, 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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Sources for all charts and tables are DBS Bank unless otherwise specified.

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