

## Singapore

**ADD** (no change)

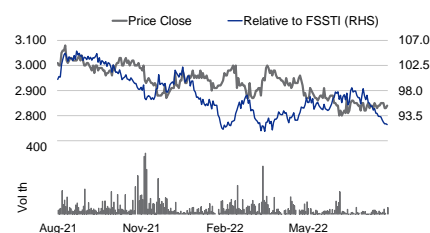
Consensus ratings\*: Buy 1 Hold 1 Sell 0

Current price:	S\$2.84
Target price:	S\$3.40
Previous target:	S\$3.40
Up/downside:	19.7%
CGS-CIMB / Consensus:	1.8%
Reuters:	SBVV.SI
Bloomberg:	SBUS SP
Market cap:	US\$645.7m
	S\$885.7m
Average daily turnover:	US\$0.04m
	S\$0.05m
Current shares o/s:	311.9m
Free float:	25.6%

\*Source: Bloomberg

**Key changes in this note**

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	-1.4	-5.7
Relative (%)	-5	-3	-8.2

Major shareholders	% held
ComfortDelgro Corp Ltd	74.4

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# SBS Transit Ltd

## Steadily improving

- SBUS's 2Q22 net profit of S\$19m (+45% yoy) was in line, driven by strong rail ridership recovery as Singapore significantly eased Covid-19 restrictions.
- We expect further earnings recovery in 3Q22F, with further rail ridership improvement and higher revenue from other commercial services.
- Reiterate Add. We think SBUS is in a good position to raise its DPR by end-FY22F, given its strong balance sheet and cash generation capabilities.

### 2Q22: Ridership improvement drove earnings recovery

SBS Transit (SBUS) announced a 2Q22 net profit of S\$19m (+23% qoq, +45% yoy), showing good earnings recovery riding on Singapore's reopening. We deem the set of results as in line, as 1H22 net profit came in at 51% of our FY22F forecast. Excluding government relief and exceptional items, 1Q22 core EBIT improved to S\$24m (2Q21: S\$3m loss). Profit improvement was driven by: 1) higher rail ridership, 2) changes in Downtown Line rail financing framework, and 3) higher fuel indexation, which allowed SBUS to pass on higher fuel costs (for the bus segment) to LTA. This was partially offset by higher electricity costs to run the rail lines (almost doubled yoy in 1H22). Interim dividend of 5.45Scts (-5% yoy) was declared, with DPR maintained at 50%.

### Ridership recovered to 80% of pre-Covid-19 levels in Jul

SBUS's rail ridership has seen steady recovery since Apr, with the significant relaxation of Covid-19 restrictions in Singapore, and has reached c.80% of pre-Covid-19 levels in Jul 2022 as the Singapore workforce progressively returns to office and nightlife resumes. We expect further rail ridership recovery in the remainder of FY22F, albeit at a slower pace compared to the past 3 months' trajectory, to reach 85% of pre-Covid-19 levels by end-year, as we expect hybrid work arrangements to be part of the "new normal". We also expect revenue from other commercial services (advertising, rental of commercial space) to further improve in 2H22F; this should help offset the lower bus revenue from Sep 2022 onwards (lower service fees as part of the new package agreement with Land Transport Authority, alongside changes in the Downtown Line rail financing framework).

### Read-through to ComfortDelgro

ComfortDelgro (CD SP) is set to announce its 1H22 results on Fri (12 Aug). We forecast CD to also report sequential profit improvement, with a 2Q22 core EBIT of S\$73.3m (+14% qoq, +54% yoy), driven by: 1) lower taxi rental rebates and higher commission fees, and 2) improvement in charter business activity levels in its overseas markets.

### Reiterate Add and TP of S\$3.40

Reiterate Add. Aside from further earnings recovery driven by ridership recovery, we also see potential for SBUS to raise its DPR by year-end, given its strong cashflow generation and strengthened balance sheet position (net cash of S\$247m at end-1H22). Our TP is kept at S\$3.40, based on SBUS's 5-year historical average P/E of 13.2x. Re-rating catalysts include faster improvement in rail ridership recovery. Downside risks include continued hikes in electricity tariffs, which could pressure SBUS's margins.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	1,231	1,311	1,449	1,482	1,439
Operating EBITDA (S\$m)	189.0	158.9	192.5	207.8	213.4
Net Profit (S\$m)	78.96	51.63	67.83	79.24	87.41
Core EPS (S\$)	0.25	0.22	0.22	0.25	0.28
Core EPS Growth	(2.9%)	(14.6%)	0.6%	16.8%	10.3%
FD Core P/E (x)	11.22	13.13	13.06	11.18	10.13
DPS (S\$)	0.06	0.08	0.11	0.13	0.14
Dividend Yield	2.22%	2.89%	3.84%	4.47%	4.93%
EV/EBITDA (x)	4.43	4.29	3.08	2.26	1.60
P/FCFE (x)	6.56	4.62	7.13	5.58	5.21
Net Gearing	(8.2%)	(33.9%)	(46.2%)	(61.4%)	(75.2%)
P/BV (x)	1.51	1.47	1.40	1.31	1.22
ROE	14.2%	11.3%	11.0%	12.1%	12.5%
CGS-CIMB/Consensus EPS (x)			1.01	1.04	1.00

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Steadily improving

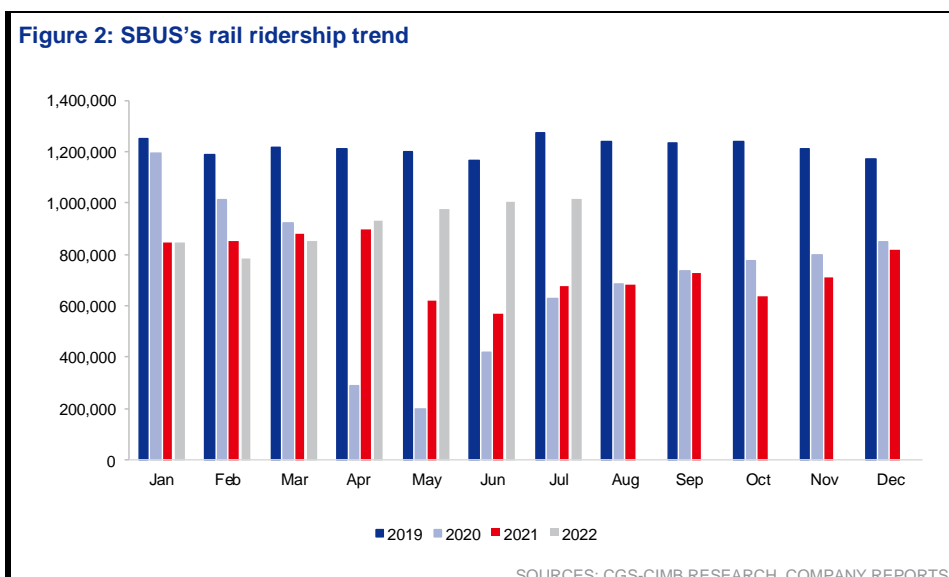
**Figure 1: Results comparison**

FYE Dec (S\$ m)	2QFY22	2QFY21	yoy % chg	1QFY22	qoq % chg	Prev FY22	Comments
Revenue	388	324	20	344	13	1,449	
Operating costs	(341)	(284)	20	(325)	5	(1,257)	
EBITDA	48	40	21	43	11	193	
EBITDA margin (%)	12.3%	12.2%		12.5%		13.3%	
Deprn. & amort.	(24)	(26)	(8)	(24)	2	(109)	
EBIT	24	13	78	19	nm	83	
Net profit	19	13	45	16	nm	68	
<b>EBIT excluding gov relief</b>	<b>24</b>	<b>(3)</b>	<b>(956)</b>	<b>19</b>	<b>22</b>	<b>83</b>	

FYE Dec (S\$ m)	2QFY22	2QFY21	yoy % chg	1QFY22	qoq % chg	Prev FY22	Comments
<b>Revenue breakdown:</b>							
Public transport services	377	315	19.5	333	13	1,387	
Other commercial services	11	8	34.3	11	7	62	
<b>Revenue</b>	<b>388</b>	<b>324</b>	<b>19.9</b>	<b>344</b>	<b>13</b>	<b>1,449</b>	
<b>EBIT breakdown:</b>							
Public transport services	17	9	86.4	14	27	43	
Other commercial services	6	4	59.0	6	11	41	
<b>EBIT</b>	<b>24</b>	<b>13</b>	<b>78.1</b>	<b>19</b>	<b>22</b>	<b>83</b>	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: SBUS's rail ridership trend**


### Recap: SBUS's latest framework agreement with LTA ►

- Transition of DTL financing framework to NRFF (V2).** The issue was first raised in parliament in Mar 2021 by ex-Transport Minister Mr. Ong Ye Kung. In his speech, Mr. Ong said that the government will review the financing framework for the DTL to minimise the commercial risk for its rail operator, SBUS. Previously, DTL was run under the New Rail Financing Framework (NRFF) Version One, where SBUS pays a fixed licence fee to operate the line. Fare revenue risk, which varies depending on rail ridership, is borne by SBUS. Other MRT lines, including North-

South, East-West, Circle and North East lines, run under the NRFF Version 2 — while fare revenue risk is still borne by the rail operators, the updated frameworks allow for lower commercial volatility, as the EBIT margin of rail operators is effectively capped at approximately 5%. In turn, it also allows operators to co-share the LTA fare revenue shortfalls and when the EBIT margin falls below the collar of 3.5%, subject to a limit of the amount of licence charge payable for the year.

- **Material terms of the framework agreement to achieve balanced outcome:**
  - As part of the framework agreement, SBS Transit DTL Pte. Ltd, which currently operates the DTL, will be renamed SBS Transit Rail Pte. Ltd. All of SBUS's current rail operations (DTL, NEL and SPLRT) will be consolidated under this entity, with licence to operate the rail lines for the next 11 years (1 Jan 2022 to 31 Dec 2032).
  - SBUS will continue to have the right to lease out the advertising spaces of the DTL, NEL and SPLRT until 31 Dec 2023. SBUS Rail will have to surrender the rail advertising business from 1 Jan 2024. LTA may allow SBUS Rail to continue to operate the rail advertising business from 1 Jan 2024 until 31 Dec 2032 at a concession fee to be set by LTA in consultation with SBUS Rail.
  - SBUS has also entered into five contracts with LTA on the amendment of bus operation contracts. Service terms of the five contracts will be extended by an average of five years. However, the formula of the service fee payable by the LTA to SBUS will be revised to a rate that is benchmarked against recent bus tenders and lower than the current service fee.
  - SBUS has also agreed to replace 241 of its own buses with newer government-owned buses, which are more cost efficient to maintain.
  - Pursuant to the framework agreement, SBUS has also agreed to forego certain claims previously made in connection with its bus contracts and rail licences. In addition, SBUS has also agreed to conduct improvement work in bus depots and interchanges, which will enhance conditions for land transport workers as well as public commuters, without seeking reimbursement for such capital expenditure from the LTA.

## What we think

- We estimate the P&L impact from the new framework agreement to be rather neutral, with gains in the rail segment offsetting losses in the bus segment.
- We believe that the latest framework arrangement reflects LTA's stance on managing the operator's profitability with a more holistic approach.
- The key is that this deal improves earnings stability for SBUS — note that DTL had been heavily loss-making for the past few years, even before the Covid-19 pandemic, due to slower-than-expected ramp-up in rail ridership. The shift towards NRFF (V2) helps to offset some of the losses, which is important, given that the Covid-19 pandemic is still ongoing, the timing of the recovery of travel and economic activities to pre-Covid-19 levels is uncertain, and there could be significant shifts in ridership patterns in a post-pandemic environment as more businesses adopt work-from-home practices.
- Lastly, we believe that this paves the way for SBUS to increase DPR in FY22F, given its strong cash generation and robust balance sheet.

**Figure 3: Estimated operating profit impact on SBS Transit for FY21-23F**



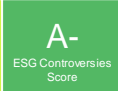




(S\$ m)	FY21	FY22F	FY23F	Remarks
1) DTL rail financing framework transition	0.0	30.0	35.0	Fixed licence charge was expected to increased by S\$5m annually, based on our expectations
2) Rail advertising rights expiry	0.0	0.0	0.0	Effective 1 Jan 2024, subject to further consultation
3) Bus contract service fee repricing	0.0	-11.3	-34.0	Effective 1 Sep 2022
4) Early replacement of SBST buses	-15.8	0.0	0.0	One-off impact in FY21. For FY22F and beyond, lower leasing income is offset by lower depreciation expense
5) Others	-3.4	0.0	0.0	Claims forgone
<b>Net incremental impact</b>	<b>-19.2</b>	<b>18.7</b>	<b>1.0</b>	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

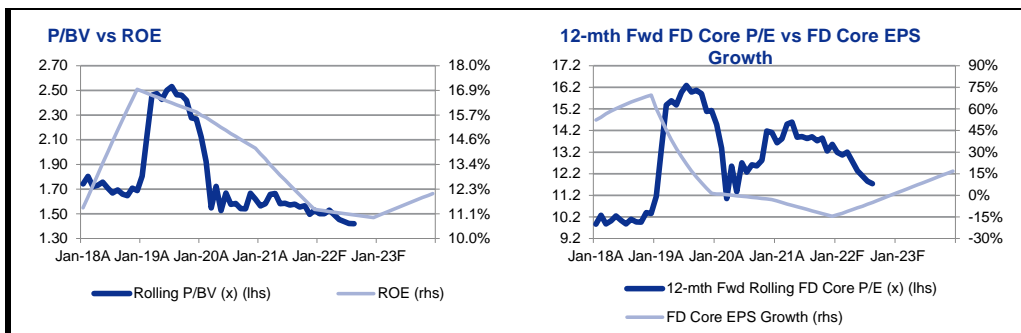
**Figure 4: Financial performance of Downtown Line (S\$ m)**

	FY18	FY19	FY20
<b>Revenue</b>	<b>127,715</b>	<b>148,597</b>	<b>112,824</b>
Staff costs	-88,500	-96,393	-66,985
Repairs and maintenance costs	-8,748	-11,901	-16,697
Fuel and electricity costs	-33,290	-29,633	-20,669
Premises costs	-20,204	-19,877	-20,068
Depreciation expense	-3,026	-3,064	-3,191
Other operating costs	-18,871	-33,804	-38,502
<b>Loss before taxation</b>	<b>-44,924</b>	<b>-46,075</b>	<b>-53,288</b>
Tax credit	7,404	7,624	12,855
<b>Loss for the year</b>	<b>-37,520</b>	<b>-38,451</b>	<b>-40,433</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Refinitiv ESG Scores	
	
     	
<b>ESG in a nutshell</b>	
<p>SBS Transit Ltd (SBUS) has a strong commitment to ESG, especially in the area of environment, which is demonstrated by its increase in its Euro 5-compliant bus fleet size to 80.0% of total fleet size in FY20 (from 72.5% in FY16). SBUS's bus and rail operations (North East Line and Downtown Line) are ISO 45001-certified, underscoring its standards in workplace safety, and it has reduced its electricity and water consumption by 15% and 16%, respectively, in FY20. SBUS has also achieved improvements in accident rates, which decreased from 0.12 cases (310 accidents per 100,000 bus km) in FY18 and FY19 to 0.09 (220 accidents per 100,000 bus km) cases in FY20. Continued improvements in accident rates are an indicator of high quality transport services.</p>	
<p><b>Keep your eye on</b></p> <p>SBUS's bus accident rate was 0.09 cases in FY20, improving from 0.12 in FY19 and FY18.</p>	<p><b>Implications</b></p> <p>As SBUS operates under the Bus Contracting Model, it has to provide quality transportation and service to commuters as part of the requirements. If accident rates remain high, this may result in fines and impair SBUS's chances of winning future bus tenders, negatively impacting earnings.</p>
<p><b>ESG highlights</b></p> <p>SBUS's Ulu Pandan Bus Depot is the first bus depot in Singapore to adopt solar panels to generate electricity and piped-in NEWater for bus washing. In FY20, SBUS's electricity and water consumption fell by 15% and 16%, respectively. Its bus division, as well as the North East Line and Downtown Line, are certified under ISO45001 Occupational Health and Safety Management Systems, underscoring its commitment to employee safety and safe working conditions. The Downtown Line was awarded the "Safe Rail Line of the Year (Excellence)" award by LTA in FY20.</p>	<p><b>Implications</b></p> <p>This demonstrates SBUS's strong commitment to ESG practices. A reduction in utility consumption also results in cost savings for the company. A focus on safe work conditions also ensures low accident frequencies, which raises the quality of transport services that SBUS provides under the Bus Contracting Model.</p>
<p><b>Trends</b></p> <p>The percentage of SBUS's total bus fleet that is at least Euro 5-compliant has been steadily rising, from 72.5% in FY16 to 80% in FY20.</p>	<p><b>Implications</b></p> <p>This is positive for SBUS as it demonstrates the company's commitment to the environment. Any non-compliance with environmental laws in Singapore may result in fines, which will negatively impact earnings.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

**BY THE NUMBERS**

**Profit & Loss**

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>1,231</b>	<b>1,311</b>	<b>1,449</b>	<b>1,482</b>	<b>1,439</b>
<b>Gross Profit</b>	<b>1,231</b>	<b>1,311</b>	<b>1,449</b>	<b>1,482</b>	<b>1,439</b>
<b>Operating EBITDA</b>	<b>189</b>	<b>159</b>	<b>193</b>	<b>208</b>	<b>213</b>
Depreciation And Amortisation	(109)	(105)	(109)	(111)	(107)
<b>Operating EBIT</b>	<b>80</b>	<b>54</b>	<b>83</b>	<b>97</b>	<b>107</b>
Financial Income/(Expense)	(3)	(1)	(2)	(2)	(2)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>77</b>	<b>53</b>	<b>82</b>	<b>95</b>	<b>105</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>77</b>	<b>53</b>	<b>82</b>	<b>95</b>	<b>105</b>
Taxation	2	(1)	(14)	(16)	(18)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>79</b>	<b>52</b>	<b>68</b>	<b>79</b>	<b>87</b>
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>79</b>	<b>52</b>	<b>68</b>	<b>79</b>	<b>87</b>
Recurring Net Profit	79	67	68	79	87
<b>Fully Diluted Recurring Net Profit</b>	<b>79</b>	<b>67</b>	<b>68</b>	<b>79</b>	<b>87</b>

**Cash Flow**

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>189.0</b>	<b>158.9</b>	<b>192.5</b>	<b>207.8</b>	<b>213.4</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(46.6)	0.0	(69.3)	(4.7)	1.8
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	28.0	24.0	0.0	0.0	0.0
Other Operating Cashflow	0.3	61.5	0.0	0.0	0.0
Net Interest (Paid)/Received	(3.2)	(1.3)	(1.5)	(1.5)	(1.5)
Tax Paid	(16.2)	(18.7)	28.5	(16.2)	(17.9)
<b>Cashflow From Operations</b>	<b>151.2</b>	<b>224.3</b>	<b>150.2</b>	<b>185.4</b>	<b>195.8</b>
Capex	(18.3)	(33.1)	(26.1)	(26.7)	(25.9)
Disposals Of FAs/subsidiaries	1.9	0.3	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.3	0.3	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(16.2)</b>	<b>(32.5)</b>	<b>(26.1)</b>	<b>(26.7)</b>	<b>(25.9)</b>
Debt Raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(18.4)	(37.6)	(34.6)	(36.6)	(41.6)
Preferred Dividends					
Other Financing Cashflow	(62.5)	(35.8)	0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>(80.9)</b>	<b>(73.3)</b>	<b>(34.6)</b>	<b>(36.6)</b>	<b>(41.6)</b>
Total Cash Generated	54.1	118.5	89.5	122.0	128.2
<b>Free Cashflow To Equity</b>	<b>135.0</b>	<b>191.8</b>	<b>124.1</b>	<b>158.7</b>	<b>169.9</b>
<b>Free Cashflow To Firm</b>	<b>138.3</b>	<b>193.1</b>	<b>125.6</b>	<b>160.2</b>	<b>171.4</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	85.6	204.0	293.6	415.6	543.8
Total Debtors	152.4	253.4	280.2	286.4	278.1
Inventories	112.0	101.5	110.3	111.8	107.5
Total Other Current Assets	137.6	0.0	59.6	60.9	59.1
<b>Total Current Assets</b>	<b>487.6</b>	<b>558.9</b>	<b>743.6</b>	<b>874.7</b>	<b>988.6</b>
Fixed Assets	618.9	563.2	480.0	395.9	315.2
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	33.3	31.7	31.7	31.7	31.7
<b>Total Non-current Assets</b>	<b>652.2</b>	<b>594.9</b>	<b>511.7</b>	<b>427.6</b>	<b>346.9</b>
Short-term Debt	37.2	0.0	0.0	0.0	0.0
Current Portion of Long-Term Debt					
Total Creditors	250.1	298.6	324.4	328.9	316.3
Other Current Liabilities	99.5	84.8	84.8	84.8	84.8
<b>Total Current Liabilities</b>	<b>386.8</b>	<b>383.4</b>	<b>409.3</b>	<b>413.7</b>	<b>401.1</b>
Total Long-term Debt	0.0	0.0	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	166.0	168.8	211.2	211.2	211.2
<b>Total Non-current Liabilities</b>	<b>166.0</b>	<b>168.8</b>	<b>211.2</b>	<b>211.2</b>	<b>211.2</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>552.8</b>	<b>552.2</b>	<b>620.5</b>	<b>624.9</b>	<b>612.3</b>
Shareholders' Equity	587.0	601.6	634.8	677.4	723.2
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>587.0</b>	<b>601.6</b>	<b>634.8</b>	<b>677.4</b>	<b>723.2</b>

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(14.8%)	6.5%	10.6%	2.2%	(2.9%)
Operating EBITDA Growth	(8.9%)	(15.9%)	21.2%	7.9%	2.7%
Operating EBITDA Margin	15.4%	12.1%	13.3%	14.0%	14.8%
Net Cash Per Share (S\$)	0.16	0.65	0.94	1.33	1.74
BVPS (S\$)	1.88	1.93	2.04	2.17	2.32
Gross Interest Cover	24.63	40.00	55.49	64.65	71.21
Effective Tax Rate	0.0%	1.7%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	24.9%	49.5%	50.1%	50.0%	49.9%
Accounts Receivables Days	47.55	56.49	67.18	69.78	71.80
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	10.4%	7.6%	14.7%	17.6%	22.6%
ROCE (%)	13.0%	8.8%	13.5%	14.8%	15.3%
Return On Average Assets	7.20%	4.59%	5.76%	6.31%	6.74%

### Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Bus revenue (S\$ m)	999.8	1,059.7	1,120.7	1,107.4	1,052.0
Rail revenue (S\$ m)	196.2	204.2	266.3	310.7	324.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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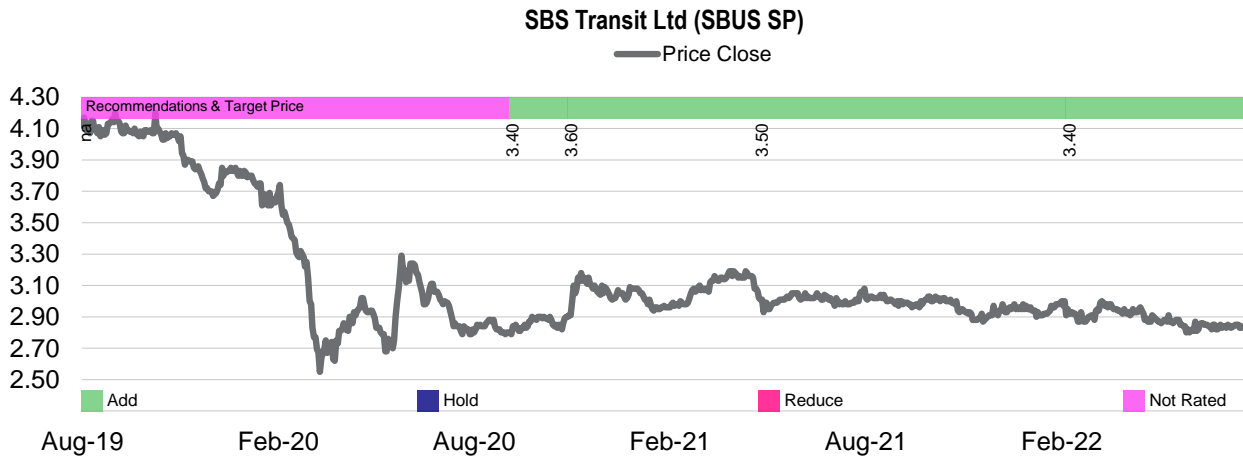
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched ( 2 year data )



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**Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

**Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

**Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

**Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

**Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

**Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.