

COMPANY UPDATE

ComfortDelGro Corporation (CD SP)

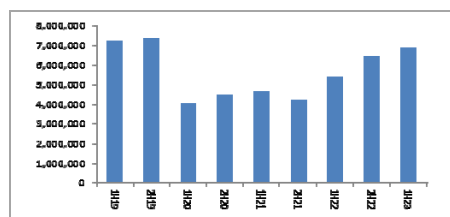
Inflection Point Fast Approaching; Upgrade to BUY

Rail ridership and P2P trips continue to improve towards pre-pandemic levels. For 2Q23, we expect earnings from the public transport and bus segments to trend upwards sequentially, backed by favourable tailwinds. Upgrade to BUY with a higher PE-based target price of S\$1.41.

WHAT'S NEW

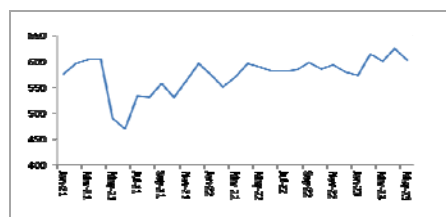
- **Robust rebound.** For 1H23, ComfortDelGro Corporation's (CD) rail ridership has recovered to 95.2% of pre-pandemic levels. 1H23 rail ridership increased 6.9% hoh and 27.7% yoy respectively, given that domestic COVID-19 measures have been fully eased coupled with the gradual return of office workers. For Jun 23, rail ridership increased 13.6% yoy but softened 3.2% mom, largely due to the school holidays. We maintain our expectations that rail ridership is set to pass pre-pandemic levels in 3Q23.
- **Robust P2P trip demand.** According to statistics from Singapore's Land Transport Authority, the average daily number of point-to-point (P2P) trips in Singapore has been on an uptrend, with the latest May 23 statistics being one of the highest in two years. We expect P2P trips to continue the upward momentum in 3Q23, driven by the full relaxation of domestic COVID-19 measures and the gradual recovery in tourist arrivals.

SBS TRANSIT SEMI-ANNUAL RAIL RIDERSHIP



Source: SBS Transit, UOB Kay Hian

AVERAGE DAILY NUMBER OF P2P TRIPS



Source: LTA, UOB Kay Hian

- **Impending announcement.** As a recap, CD's subsidiary SBS Transit's (SBST) Bukit Merah and Jurong West bus packages are set to expire in Nov 23 and Sep 24 respectively and were put up for tender. The tenders closed in Mar 23 and are expected to be awarded in 3Q23, and both packages could be awarded to the same current operator (SBST) or to two different operators, implying potential risks to CD's near- to medium-term earnings. Based on our previous estimates, CD being re-awarded the two contracts at lower service rates would result in earnings dropping by 2-3% for both 2023 and 2024 while the loss of both packages would cause earnings to drop by 3% and 10% respectively. As our base case, we have already factored the loss of both packages into our estimates. Potential earnings upside may come from winning back these two packages.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,503	3,781	4,080	4,251	4,445
EBITDA	576	627	617	649	696
Operating profit	200	270	254	308	344
Net profit (rep./act.)	120	173	165	198	221
Net profit (adj.)	120	137	165	198	221
EPS (S\$ cent)	5.5	6.3	7.6	9.1	10.2
PE (x)	21.9	19.2	15.9	13.3	11.9
P/B (x)	1.0	1.0	1.0	1.0	0.9
EV/EBITDA (x)	4.1	3.7	3.8	3.6	3.4
Dividend yield (%)	3.5	7.0	4.1	4.5	5.0
Net margin (%)	3.4	4.6	4.1	4.7	5.0
Net debt/(cash) to equity (%)	(21.6)	(26.3)	(27.4)	(30.0)	(33.4)
Interest cover (x)	51.0	47.2	86.7	91.2	97.8
ROE (%)	4.5	6.6	6.4	7.4	8.0
Consensus net profit	-	-	166	190	195
UOBKH/Consensus (x)	-	-	0.99	1.04	1.13

Source: ComfortDelGro Corporation, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$1.21
Target Price	S\$1.41
Upside	+16.1%
(Previous TP)	S\$1.27

COMPANY DESCRIPTION

ComfortDelGro is the world's second largest public listed passenger land transport company with a total fleet size of around 43,000 vehicles.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CD SP
Shares issued (m):	2,165.7
Market cap (S\$m):	2,620.5
Market cap (US\$m):	1,976.0
3-mth avg daily t'over (US\$m):	7.3
Price Performance (%)	

52-week high/low S\$1.44/S\$1.02

1mth	3mth	6mth	1yr	YTD
12.0	2.9	5.6	(12.2)	0.4

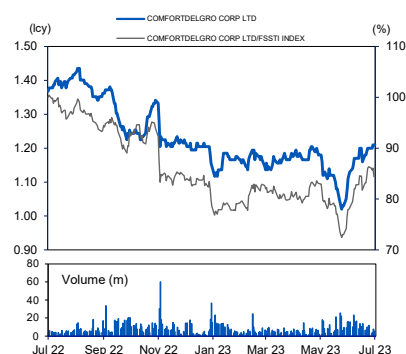
Major Shareholders

	%
-	-
-	-
-	-

FY23 NAV/Share (S\$) 1.21

FY23 Net Cash/Share (S\$) 0.33

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- 1H23: Most headwinds accounted for.** For 1H23, we expect lower overall revenue (-1% yoy, -4% hoh) and core PATMI (-13% yoy, +10% hoh), dragged by lower yoy contributions and margins from the public transport segment. However, this is offset by better contributions from the taxi segment, supported by lower daily taxi rental rebates starting 2Q23. On a sequential basis, we expect CD's revenue and PATMI to bottom out in 2Q23, driven by upcoming favourable tailwinds. Based on our estimates, we expect 2Q23 revenue (+2% yoy, +3% qoq) to improve, with PATMI (-11% yoy, +16% qoq) also improving sequentially.
- Public transport: Bottoming out in 2Q23.** For 1H23, we expect segmental revenue for the public transport segment to soften around 2% yoy and 6% hoh respectively, on the back of lower contributions from the five re-contracted bus packages due to the Downtown Line transition and lower bus contract renewals in Australia. Dragged by lower margins from these contracts and higher operating costs due to inflationary cost push, we expect 1H23 core operating profit to drop by around 38% yoy. However, on a sequential basis, we expect 1H23 core operating profit to improve by 28% hoh, driven by improved rail ridership, higher rail fares and expected cost indexation from the UK bus packages coming through starting 2Q23. For 2Q23, we estimate that segmental revenue and core operating profit would soften by 4% yoy and 38% yoy respectively, but improve sequentially by 4% qoq and 16% qoq, backed by favourable tailwinds as mentioned above.
- Taxi: Upcoming inflection point.** For 1H23, we expect segmental revenue and core operating profit for the taxi transport segment to increase by 8% yoy and 50% yoy respectively, largely driven by the decrease in daily taxi rental rebates and the expected ramp-up in CD's Chinese taxi operations. As a recap, CD's decreased its daily taxi rental rebate from 15% to 10% starting 2Q23, leading to an estimated increase of around S\$4-5m in quarterly taxi revenue which we reckon would flow down to core operating profit given no incremental operating costs. On a quarterly basis, we expect 2Q23 taxi revenue (+14% yoy, +10% qoq) and core taxi operating profit to surge to S\$18m from S\$10m/13m in 2Q22/4Q22, driven by higher margins from the reduction of the taxi rental rebates. Moving forward, we expect potential upward revisions for CD's 5% commission rate in 2H23, given that it is considerably lower when compared to major competitors Grab (20%) and GoJek (15%). According to our estimates, a 1% increase in commission rate would raise our FY23 full-year taxi operating profit by 4-5%. Also, CD's new online booking platform fee is expected to boost margins from 3Q23 onwards.

EARNINGS REVISION/RISK

- We make no changes to our earnings estimates.**

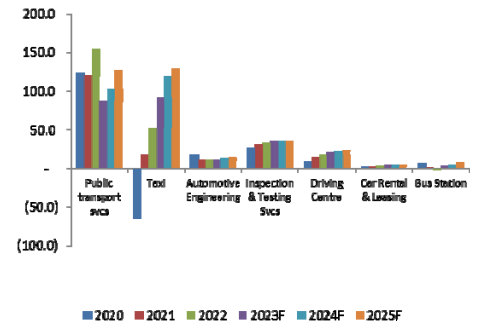
VALUATION/RECOMMENDATION

- Upgrade to BUY with a higher PE-based target price of S\$1.41 (S\$1.27 previously),** pegged to 15x 2024 forward PE, CD's average long-term PE. We have changed our methodology from a SOTP valuation to a PE valuation to reflect CD's expected improvement in earnings.
- With improving fundamentals, a decent dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Backed by upcoming favourable tailwinds, we reckon that expected sequential earnings improvement in the upcoming 2Q22 earnings would help support share price performance.

SHARE PRICE CATALYST

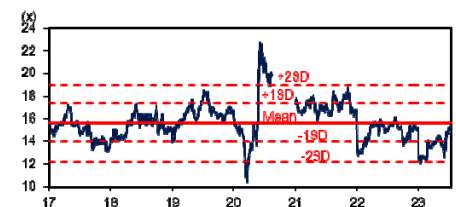
- Bus tender contract wins.
- Increase in taxi commission rates.
- Complete removal of taxi rental rebates.
- Earnings-accretive overseas acquisitions.

SEGMENTAL OPERATING PROFIT - HISTORICALS AND FORECASTS (\$M)



Source: UOB Kay Hian, Bloomberg

HISTORICAL FORWARD PE RATIO



Source: UOB Kay Hian, Bloomberg

HISTORICAL FORWARD P/B RATIO



Source: UOB Kay Hian, Bloomberg

SOTP VALUATION

Business	Value per share (\$)	Remarks
SBST stake	0.21	Current Market Cap with 25% discount.
Vicom stake	0.19	Current Market Cap
UK Buses	0.04	FY22 Book Value
Taxi	0.24	FY22 Book Value
Automotive + Bus Station + Driving Centre	0.08	FY22 Book Value
Australia	0.28	6x 2023F EV/EBITDA*
Net Cash (Debt)	0.23	FY23F Net Cash
Total Valuation	1.27	

Source: UOB Kay Hian, Bloomberg. *Based on comparable transactions

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	3,780.8	4,079.9	4,250.9	4,445.5
EBITDA	627.2	617.3	649.4	696.4
Deprec. & amort.	357.2	363.4	341.7	352.2
EBIT	270.0	253.9	307.7	344.3
Total other non-operating income	15.2	15.6	15.6	15.6
Associate contributions	0.8	0.8	0.8	0.8
Net interest income/(expense)	(13.3)	(7.1)	(7.1)	(7.1)
Pre-tax profit	272.7	263.2	317.0	353.6
Tax	(54.2)	(56.6)	(69.7)	(77.8)
Minorities	(45.4)	(41.3)	(49.4)	(55.2)
Net profit	173.1	165.3	197.8	220.6
Net profit (adj.)	136.8	165.3	197.8	220.6

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	602.3	478.5	536.7	576.3
Pre-tax profit	272.7	263.2	317.0	353.6
Tax	(79.9)	(56.6)	(69.7)	(77.8)
Deprec. & amort.	357.2	363.4	341.7	352.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	(71.6)	136.8	82.1	(67.7)
Non-cash items	(6.7)	(8.5)	(8.5)	(8.5)
Other operating cashflows	130.6	(219.8)	(125.8)	24.6
Investing	(251.0)	(284.8)	(284.8)	(284.8)
Capex (growth)	(302.4)	(300.0)	(300.0)	(300.0)
Investments	(42.1)	0.0	0.0	0.0
Proceeds from sale of assets	80.1	0.0	0.0	0.0
Others	13.4	15.2	15.2	15.2
Financing	(274.7)	(149.0)	(159.8)	(170.7)
Dividend payments	(171.3)	(141.9)	(152.7)	(163.6)
Issue of shares	(1.7)	0.0	0.0	0.0
Proceeds from borrowings	2,468.2	0.0	0.0	0.0
Loan repayment	(2,518.3)	0.0	0.0	0.0
Others/interest paid	(51.6)	(7.1)	(7.1)	(7.1)
Net cash inflow (outflow)	76.6	44.7	92.1	120.9
Beginning cash & cash equivalent	919.1	967.0	1,011.7	1,103.9
Changes due to forex impact	(28.7)	0.0	0.0	0.0
Ending cash & cash equivalent	967.0	1,011.7	1,103.9	1,224.7

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	2,038.4	1,975.0	1,933.2	1,881.1
Other LT assets	1,017.7	1,018.1	1,018.5	1,018.9
Cash/ST investment	967.0	1,011.7	1,103.9	1,224.7
Other current assets	677.7	732.0	760.9	794.6
Total assets	4,700.8	4,736.8	4,816.5	4,919.3
ST debt	26.8	26.8	26.8	26.8
Other current liabilities	1,014.0	985.3	970.5	961.0
LT debt	265.4	265.4	265.4	265.4
Other LT liabilities	395.2	395.2	395.2	395.2
Shareholders' equity	2,568.9	2,625.8	2,704.4	2,795.0
Minority interest	430.5	438.3	454.3	475.9
Total liabilities & equity	4,700.8	4,736.8	4,816.5	4,919.3

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.6	15.1	15.3	15.7
Pre-tax margin	7.2	6.5	7.5	8.0
Net margin	4.6	4.1	4.7	5.0
ROA	3.6	3.5	4.1	4.5
ROE	6.6	6.4	7.4	8.0
Growth				
Turnover	7.9	7.9	4.2	4.6
EBITDA	8.9	(1.6)	5.2	7.2
Pre-tax profit	40.1	(3.5)	20.4	11.6
Net profit	44.4	(4.5)	19.7	11.6
Net profit (adj.)	14.1	20.8	19.7	11.6
EPS	14.1	20.8	19.7	11.6
Leverage				
Debt to total capital	8.9	8.7	8.5	8.2
Debt to equity	11.4	11.1	10.8	10.5
Net debt/(cash) to equity	(26.3)	(27.4)	(30.0)	(33.4)
Interest cover (x)	47.2	86.7	91.2	97.8

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