

COMPANY UPDATE

ComfortDelGro Corporation (CD SP)

Riding Strong Into 2024

CD's taxi commission rate has been raised from 5% to 7% from 1 Jan 24, largely in line with our expectations. However, CD has also perpetuated its 10% taxi rental rebates from 2024 onwards which was a slight negative surprise. SBST's Seletar bus package has been put up for tender and we expect it be retained given SBST's incumbency advantage. With CD's decent 4.2% dividend yield, we maintain BUY with a slightly lower target price of S\$1.66 (S\$1.69 previously).

WHAT'S NEW

- Change to taxi commission rates and permanent rental rebates.** In response to higher operating costs, we understand that ComfortDelgro (CD) has increased its 5% online- and phone-booked taxi ride commission rates from 5% to 7% starting 1 Jan 24. To help taxi drivers cope with higher costs, CD also announced that the 10% taxi rental rebate has been made permanent from the same date, while commission charges from Jan-Mar 24 for trips priced S\$9 and below would be temporarily waived.
- No major surprise.** As mentioned in our previous reports, the changes were largely in line with our expectations. To recap, we did not expect any near-term changes to the 10% daily taxi rental rebates given that CD's daily taxi rentals are almost double that of peers. However, we did not expect the 10% rental rebates to become permanent from 2024 onwards and expected a reduction sometime in 2H24/2025. For CD's 5% taxi commission rate, we expected potential upward revisions in 2024 as it was lower than that of major competitors like Grab (variable between -10% to 25% depending on distance to passenger pick-up) and GoJek (10% till end-24, 15% thereafter). Based on our estimates, every 1% increase in CD's taxi commission rate will raise our 2024 taxi core operating profit and overall annual net profit estimates by around 4-5% and 2-3% respectively.
- Another one up for grabs.** It was announced in 4Q23 that CD's subsidiary, SBS Transit (SBST), has its Seletar bus package up for tender by the Land Transport Authority. The contract was originally scheduled to run from Mar 18 to Mar 23, but was extended by two years to Mar 25. The tender is set to close on 29 Feb 24 and expected to be awarded sometime in 3Q24. Looking at the results of the previous tenders for the Bukit Merah and Jurong West bus packages, we reckon that SBST is likely to retain its Seletar bus package, given that price was a major factor in the decision-making process. As SBST currently operates the Seletar bus package, existing economies of scale would likely translate to cost efficiencies for SBST, resulting in lower operating costs and the ability to bid more competitively. Therefore, as our base case, we expect SBST to win the tender for its Seletar bus package, albeit at lower operating margins. Assuming the loss of the contract, we expect a 9M25 PATMI loss of around S\$3-4m.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,503	3,781	3,902	4,044	4,153
EBITDA	576	627	636	721	779
Operating profit	200	270	272	350	397
Net profit (rep./act.)	120	173	183	234	266
Net profit (adj.)	120	137	183	234	266
EPS (S\$ cent)	5.5	6.3	8.4	10.8	12.3
PE (x)	25.7	22.5	16.8	13.2	11.6
P/B (x)	1.1	1.2	1.2	1.1	1.1
EV/EBITDA (x)	4.8	4.4	4.3	3.8	3.5
Dividend yield (%)	3.0	6.0	4.2	5.6	6.3
Net margin (%)	3.4	4.6	4.7	5.8	6.4
Net debt/(cash) to equity (%)	(21.6)	(26.3)	(26.8)	(30.1)	(34.2)
Interest cover (x)	51.0	47.2	36.3	41.1	53.3
ROE (%)	4.5	6.6	7.0	8.8	9.8
Consensus net profit	-	-	174	203	270
UOBKH/Consensus (x)	-	-	1.05	1.15	0.99

Source: ComfortDelGro Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.42
Target Price	S\$1.66
Upside	+16.9%
(Previous TP)	S\$1.69

COMPANY DESCRIPTION

ComfortDelGro is the world's second largest public listed passenger land transport company with a total fleet size of c43,000 vehicles. ComfortDelGro's businesses include bus, taxi, rail, car rental & leasing, automotive engineering, maintenance services.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CD SP
Shares issued (m):	2,165.7
Market cap (S\$m):	3,075.3
Market cap (US\$m):	2,309.3
3-mth avg daily t'over (US\$m):	6.0

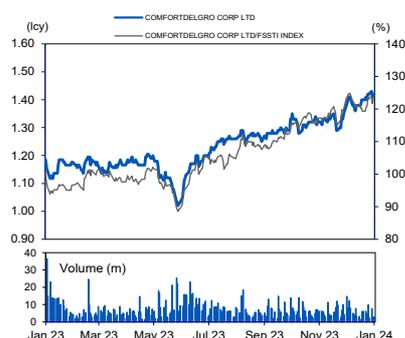
Price Performance (%)

52-week high/low	S\$1.43/S\$1.02			
1mth	3mth	6mth	1yr	YTD
5.2	6.8	18.3	17.8	1.4

Major Shareholders

	%
-	-
-	-
-	-
FY24 NAV/Share (S\$)	1.24
FY24 Net Cash/Share (S\$)	0.37

PRICE CHART



Source: Bloomberg

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- Higher public transport fares.** As a recap, bus and train fares in Singapore have increased by up to 7.0% starting 23 Dec 23, following the Public Transport Council's (PTC) annual fare review. Despite being more than double 2022's 2.9% hike, the upcoming fare hike is only a portion of the maximum allowable fare adjustment of 22.6%. It is expected that the remaining 15.6% would be deferred to future annual fare review exercises, implying further fare adjustments in 2024-25. According to the PTC, CD's 74.4%-owned subsidiary, SBST, is set to experience a S\$20.9m increase in annual revenue. Given that there are no incremental operating costs with the fare hike, we reckon that this would lead to higher margins for CD's public transport segment and flow straight to the bottom line. Based on our estimates, the upcoming fare hike would increase CD's 2024-25 overall net profit by around S\$10m. We have already incorporated the increase in net profit into our estimates.

STOCK IMPACT

- Public transport: Margin expansion to continue into 1H24.** With 30% of CD's UK bus contracts expected to undergo cost indexation within the next two quarters, we reckon that there would be margin expansion moving into 4Q23/1H24, boosting segmental profitability. Also, given increasingly rational competition post-COVID-19 in the UK, 10% of CD's UK bus contracts were renewed at healthier margins in 3Q23 and we expect the same for upcoming contract renewals in 4Q23. Overall, we estimate 2023 segmental annual revenue and core operating profit at S\$2,973m (+3.0% yoy) and S\$122m (stable yoy) respectively, driven by a strong 4Q23. For 4Q23, we expect segmental revenue (+6.1% yoy, +5.3% qoq) and core operating profit (+142.5% yoy, +12.8% qoq) to surge higher, backed by favourable tailwinds.
- Taxi: Strong growth ahead.** For 2023, we estimate taxi annual revenue and core operating profit of S\$578m (+4.2% yoy) and S\$104m (+49.5% yoy) respectively, driven by the recently implemented platform fees and lower daily rental rebates in 2H23. Like the public transport segment, we expect 4Q23 taxi revenue (+6.9% yoy, +3.2% qoq) and core operating profit (+38.9% yoy, +15.5% qoq) to surge higher. Based on our estimates, every 1% increase in CD's taxi commission rate would raise our 2024 annual taxi core operating profit by around 4-5% and our 2024 overall annual net profit estimates by 2-3%. For 2024, we expect taxi annual revenue and core operating profit of S\$608m (+5.2% yoy) and S\$134m (+28.6% yoy) respectively.

EARNINGS REVISION/RISK

- We keep our 2023 PATMI estimates unchanged while making slight downward adjustments to our 2024-25 PATMI forecasts by 2%.** Despite increased profit contributions from the two percentage increases in taxi commission rates, we cut our 2024-25 earnings as we increase both our 2024-25 daily taxi rental rebate assumptions to 10% respectively (5% and 0% previously), given that we initially expected a reduction in rental rebates in 2H24/2025 as mentioned earlier.
- Our new 2023/24/25 PATMI forecasts are S\$182.8m (unchanged), S\$233.6m (S\$238.4m previously) and S\$266.5m (S\$270.3m previously) respectively.

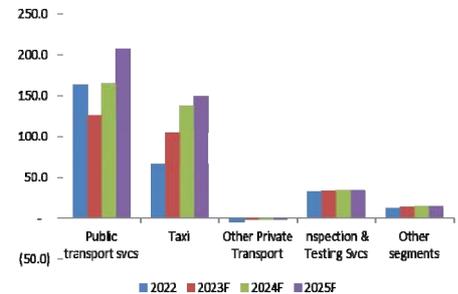
VALUATION/RECOMMENDATION

- Maintain BUY with a lower PE-based target price of S\$1.66 (S\$1.69 previously),** pegged to the same 15x 2024F PE, CD's average long-term PE.
- With improving fundamentals, a decent 4.2% dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Despite the recent strong share price performance, we opine that there is still much potential upside at current price levels. Backed by upcoming favourable tailwinds, we reckon that better sequential earnings improvement for CD for 4Q23/1Q24 would help support share price performance in 1H24.

SHARE PRICE CATALYST(S)

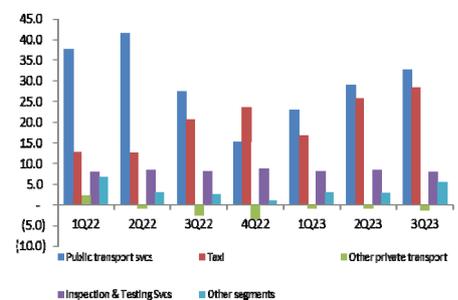
- Bus tender contract wins.
- Earnings-accretive overseas acquisitions.
- Increase in taxi commission rates.

SEGMENTAL ANNUAL OPERATING PROFIT FORECASTS (\$M)



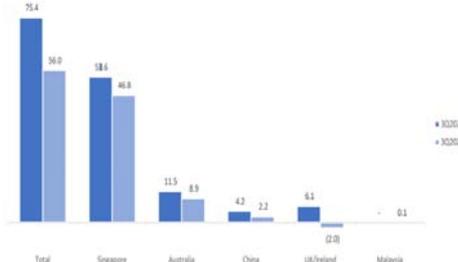
Source: UOB Kay Hian, CD

SEGMENTAL QUARTERLY OPERATING PROFIT (\$M)



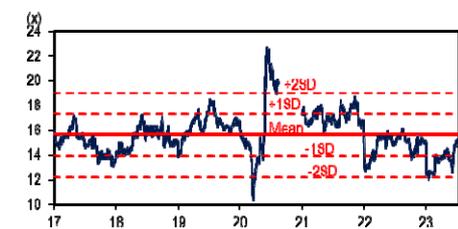
Source: UOB Kay Hian, CD

GEOGRAPHICAL OPERATING PROFIT FOR 3Q23/3Q22 (\$M)



Source: UOB Kay Hian, CD

HISTORICAL FORWARD PE RATIO



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	3,780.8	3,902.4	4,044.4	4,153.2
EBITDA	627.2	635.7	721.3	778.9
Deprec. & amort.	357.2	363.4	371.7	382.2
EBIT	270.0	272.2	349.6	396.8
Total other non-operating income	15.2	23.2	23.2	23.2
Associate contributions	0.8	0.8	0.8	0.8
Net interest income/(expense)	(13.3)	(17.5)	(17.5)	(14.6)
Pre-tax profit	272.7	278.7	356.1	406.2
Tax	(54.2)	(50.2)	(64.1)	(73.1)
Minorities	(45.4)	(45.7)	(58.4)	(66.6)
Net profit	173.1	182.8	233.6	266.5
Net profit (adj.)	136.8	182.8	233.6	266.5

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	602.3	494.7	611.8	663.4
Pre-tax profit	272.7	278.7	356.1	406.2
Tax	(79.9)	(50.2)	(64.1)	(73.1)
Deprec. & amort.	357.2	363.4	371.7	382.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	(71.6)	136.8	73.5	(78.9)
Non-cash items	(6.7)	(5.7)	(5.7)	(8.6)
Other operating cashflows	130.6	(228.4)	(119.7)	35.7
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)	(181.1)	(224.4)	(243.2)
Dividend payments	(171.3)	(163.6)	(206.9)	(228.6)
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)	(17.5)	(17.5)	(14.6)
Net cash inflow (outflow)	76.6	28.8	102.5	135.5
Beginning cash & cash equivalent	919.1	967.0	995.8	1,098.4
Changes due to forex impact	(28.7)	0.0	0.0	0.0
Ending cash & cash equivalent	967.0	995.8	1,098.4	1,233.8

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	2,038.4	1,975.0	1,903.2	1,821.1
Other LT assets	1,017.7	1,025.7	1,033.7	1,041.7
Cash/ST investment	967.0	995.8	1,098.4	1,233.8
Other current assets	677.7	699.5	722.3	740.3
Total assets	4,700.8	4,695.9	4,757.6	4,836.9
ST debt	26.8	26.8	26.8	26.8
Other current liabilities	1,014.0	944.1	920.8	895.5
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	2,621.7	2,681.9	2,753.3
Minority interest	430.5	442.7	467.6	500.7
Total liabilities & equity	4,700.8	4,695.9	4,757.6	4,836.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.6	16.3	17.8	18.8
Pre-tax margin	7.2	7.1	8.8	9.8
Net margin	4.6	4.7	5.8	6.4
ROA	3.6	3.9	4.9	5.6
ROE	6.6	7.0	8.8	9.8
Growth				
Turnover	7.9	3.2	3.6	2.7
EBITDA	8.9	1.4	13.5	8.0
Pre-tax profit	40.1	2.2	27.7	14.1
Net profit	44.4	5.6	27.7	14.1
Net profit (adj.)	14.1	33.7	27.7	14.1
EPS	14.1	33.7	27.7	14.1
Leverage				
Debt to total capital	8.9	8.7	8.5	8.2
Debt to equity	11.4	11.1	10.9	10.6
Net debt/(cash) to equity	(26.3)	(26.8)	(30.1)	(34.2)
Interest cover (x)	47.2	36.3	41.1	53.3

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