

COMPANY RESULTS

ComfortDelGro Corporation (CD SP)

2Q23: Robust Results In Line As PATMI Hits Inflection Point

Despite reporting lower yoy 1H23 adjusted PATMI of S\$78.5m (-7.4% yoy), CD's 2Q23 PATMI surged by 16.6% yoy and 39.3% qoq, driven by the public transport and taxi segments. With inflationary pressures tapering, margins for the public transport segment are set to improve moving forward. The taxi segment reported higher margins from the reduction of daily taxi rental rebates in 2Q23. Maintain BUY with a higher PE-based target price of S\$1.53 (S\$1.44 previously).

2Q23 RESULTS

Year to 31 Dec (\$m)	2Q23	qoq % Chg	yoy% Chg	1H23	hoh% Chg	yoy % Chg
Revenue	955.9	5.5	-	1,862.3	(3.9)	1.0
Operating expense	(890.6)	(4.0)	-	(1,746.9)	4.9	(2.1)
Operating profit	66.3	30.3	0.6	117.2	18.5	(31.5)
Core operating profit *	65.3	30.3	0.6	115.4	13.7	(12.7)
PATMI	45.7	39.3	16.6	78.5	35.8	(31.9)
Core operating margin (%)	6.8	1.3ppts	-	6.2	1.0ppts	(1.0ppts)
Net margin (%)	4.8	1.2ppts	0.7ppts	4.2	1.2ppts	-

Revenue				Core Operating Profit		
Year to 31 Dec (\$m) **	2Q23	qoq % Chg	yoy % Chg	2Q23	qoq % Chg	yoy % Chg
Public Transport	730.1	6.4	(0.7)	28.9	25.7	(30.4)
Taxi & Private Hire	140.8	2.7	2.5	25.8	53.6	104.8
Other Private Transport	35.4	3.8	(1.7)	(0.8)	-	14.3
Inspection & Testing Services	27.6	1.8	3.4	8.5	4.9	-
Other Segments	22.1	0.5	10.0	2.9	(3.3)	(6.5)

Revenue			Core Operating Profit			
Year to 31 Dec (\$m) **	1H23	hoh % Chg	yoy % Chg	1H23	hoh % Chg	yoy % Chg
Public Transport	1,416.1	(4.8)	1.2	51.9	21.3	(34.5)
Taxi & Private Hire	277.9	(2.7)	3.2	42.6	(3.8)	68.4
Other Private Transport	69.5	0.7	(13.6)	(1.6)	(73.8)	(206.7)
Inspection & Testing Services	54.7	1.7	4.8	16.6	(1.8)	0.6
Other Segments	44.1	4.5	6.0	5.9	68.6	(39.8)

Source: CD, UOB Kay Hian *Excluding one-offs and non-recurring items. **Newly reclassified since 1H23.

RESULTS

- Strong results as margins expand.** ComfortDelgro Corporation (CD) reported 1H23 revenue (+1.0% yoy) and PATMI (-31.9% yoy) of S\$1,862.3m and S\$78.5m respectively, both forming 46% of our full-year forecasts and largely in line with expectations. Removing the S\$30.5m one-off gain in 1H22, 1H23 adjusted PATMI would have only dropped by 7.4% yoy. Also, on a sequential basis, 1H23 PATMI surged by 35.8% hoh, driven by a robust 2Q23 with both quarterly revenue (+5.5% qoq) and PATMI (+39.3% qoq) growing sequentially. The stronger performance was largely led by the public transport and taxi segments, backed by higher rail ridership and the reduction of daily taxi rental rebates. As inflationary cost pressures are stabilising, 2Q23 operating margins expanded by 1.3ppt qoq.
- Positive change to dividend policy.** CD declared a 1H23 interim dividend of 2.90 S cents/share (1H22: 2.85 S cents/share interim dividend + 1.41 S cents/share special dividend), representing a dividend payout ratio of 80% and annualised yield of around 4.6%. The group has updated its dividend policy to pay at least 70% of PATMI (50% of PATMI previously), higher than CD's 68% historical average payout ratio from 2013-19.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,503	3,781	4,055	4,219	4,388
EBITDA	576	627	651	690	738
Operating profit	200	270	288	318	356
Net profit (rep./act.)	120	173	196	216	241
Net profit (adj.)	120	137	196	216	241
EPS (\$ cent)	5.5	6.3	9.0	10.0	11.1
PE (x)	23.0	20.1	14.1	12.8	11.4
P/B (x)	1.0	1.1	1.0	1.0	1.0
EV/EBITDA (x)	4.3	4.0	3.8	3.6	3.4
Dividend yield (%)	3.3	6.7	4.7	5.5	5.9
Net margin (%)	3.4	4.6	4.8	5.1	5.5
Net debt/(cash) to equity (%)	(21.6)	(26.3)	(27.1)	(30.3)	(34.2)
Interest cover (x)	51.0	47.2	31.8	33.7	50.5
ROE (%)	4.5	6.6	7.5	8.1	8.8
Consensus net profit	-	-	171	190	195
UOBKH/Consensus (x)	-	-	1.15	1.13	1.24

Source: CD, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.27
Target Price	S\$1.53
Upside	+20.7%
(Previous TP)	S\$1.44)

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 (\$m):	2,750.5
Market cap (US\$m):	2,026.7
3-mth avg daily t'over (US\$m):	7.5

Price Performance (%)

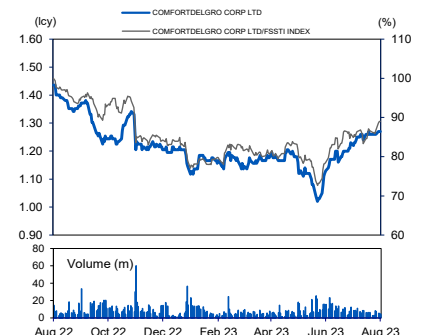
52-week high/low S\$1.44/S\$1.02

1mth	3mth	6mth	1yr	YTD
3.3	7.6	9.9	(11.0)	5.4

Major Shareholders

	%
-	-
FY23 NAV/Share (\$)	1.22
FY23 Net Cash/Share (\$)	0.33

PRICE CHART



Source: Bloomberg

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• **Public transport services: Better sequentially.** 1H23 revenue (+1.2% yoy, -4.8% hoh) and core operating profit (-34.5% yoy, +21.3% hoh) are within our expectations, forming 46% and 50% of our full-year forecasts. The better sequential performance was driven by a sturdy 2Q23, due to higher rail ridership, improved charter activities in Australia and tapering inflationary pressures. 2Q23 segmental revenue (-0.7% yoy, +6.4% qoq) and core operating profit (-30.4% yoy, +25.7% hoh) were generally higher qoq, with 2Q23 operating margins also expanding 0.6ppt qoq to 4.0%. We reckon that this was likely due to cost indexation for CD's UK bus packages coming through in 2Q23, which is expected to continue till end-23 and support margins moving forward. With UK bus contracts coming up for renewal, management also noted that the group expects higher service fees from these contract renewals, given more rational competition and higher expected operating costs. In our view, as mentioned in our previous update, we reckon that earnings from the public transport segment have bottomed out in 2Q23, and are expected to continue the upward momentum moving forward, backed by favourable tailwinds.

• **Taxi: Inflection point...** 1H23 revenue (+3.2% yoy, -2.7% hoh) and core operating profit (+68.4% yoy, -3.8% hoh) are within our expectations, forming 50% and 46% of our full-year forecasts. The lower sequential drop in revenue and core operating profit was largely due to seasonality factors as 1H23 job volumes fell to 16.5m from 17.5m in 2H22 with the latter driven by pent-up demand from Singapore's economic reopening. Management noted that volumes have remained strong in Jul 23. Despite 2Q23 revenue growing marginally (+2.5% yoy, +2.7% qoq), core operating profit surged to S\$26m (+104.8% yoy, +53.6% qoq), higher than our initial S\$18m forecast. This was largely driven by the reduction of CD's daily taxi rental rebates, with operating margins expanding to 18.3% (+9.1ppt yoy, +6.0ppt qoq). Recovery for CD's taxi operations in China remains muted but management noted that the group expects a stronger gradual recovery in 2H23.

• **...with potential catalysts.** Margins are expected to expand further with the upcoming platform fee starting 3Q23. As a recap, CD implemented a platform fee of S\$0.70 for every point-to-point online booking made through its Zig app from 1 Jul 23 onwards. Based on our estimates, this would imply an approximate S\$11m-12m hoh increase in revenue for 2H23, which would most likely flow down to taxi segmental operating profit, given no incremental operating costs. Thus, we expect 2H23 taxi core operating margin to expand by 2-3ppt hoh to 21-22%. Furthermore, 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 2024 full-year taxi operating profit by 4-5%.

EARNINGS REVISION/RISK

• **We increase our 2023-24 PATMI forecasts sharply, on the back of better margin assumptions.** We now forecast 2023-25 PATMI at S\$195.7m (S\$169.5m previously), S\$215.7m (S\$203.3m previously) and S\$240.9m (S\$222.2m previously) respectively.

VALUATION/RECOMMENDATION

• **Maintain BUY with a higher PE-based target price of S\$1.53 (S\$1.44 previously),** pegged to the same 15x 2024 forward PE, CD's average long-term PE. The higher target price is largely due to our increased 2024 PATMI estimates.

• With improving fundamentals, a decent 4.7% 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 better sequential earnings improvement for CD would help support share price performance moving forward.

SHARE PRICE CATALYST

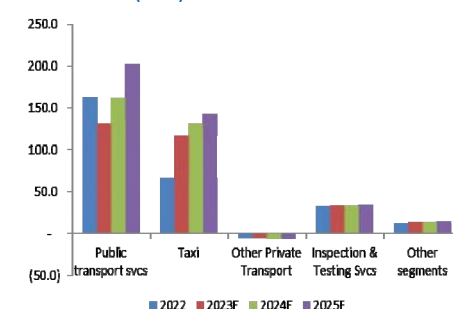
- Bus tender contract wins.
- Earnings-accretive overseas acquisitions.
- Complete removal of taxi rental rebates.
- Increase in taxi commission rates.

CD'S NEW SEGMENTATION OF ITS BUSINESSES

New Segments	Main Components
Public Transport	Public Bus, Public Rail, Scheduled Bus
Taxi & Private Hire	Taxi Rental, PHV Rental, Platform Services, Engineering Services, Fuel Sales
Other Private Transport	Private Bus, Non-Emergency Patient Transport, Corporate Vehicle Leasing
Inspection & Testing Services	Vehicle and Non-vehicle Inspection
Other Segments	Driving Centre, Bus Station, Insurance, Media, Logistics, EV Charging

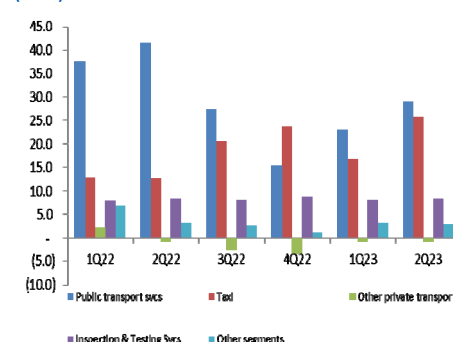
Source: UOB Kay Hian, CD

SEGMENTAL ANNUAL OPERATING PROFIT FORECASTS (\$M)



Source: UOB Kay Hian, CD

SEGMENTAL QUARTERLY OPERATING PROFIT (\$M)



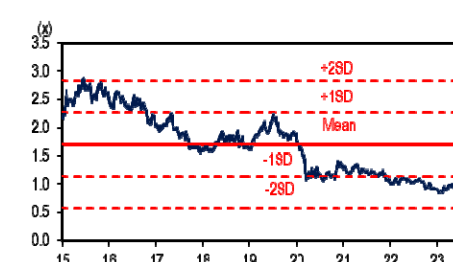
Source: UOB Kay Hian, CD

HISTORICAL FORWARD PE RATIO



Source: UOB Kay Hian, Bloomberg

HISTORICAL FORWARD P/B RATIO



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (\$\$m)	2022	2023F	2024F	2025F
Net turnover	3,780.8	4,054.8	4,218.9	4,387.8
EBITDA	627.2	651.2	690.0	737.9
Deprec. & amort.	357.2	363.4	371.7	382.2
EBIT	270.0	287.8	318.3	355.8
Total other non-operating income	15.2	30.2	30.2	25.2
Associate contributions	0.8	0.8	0.8	0.8
Net interest income/(expense)	(13.3)	(20.5)	(20.5)	(14.6)
Pre-tax profit	272.7	298.4	328.9	367.2
Tax	(54.2)	(53.7)	(59.2)	(66.1)
Minorities	(45.4)	(48.9)	(53.9)	(60.2)
Net profit	173.1	195.7	215.7	240.9
Net profit (adj.)	136.8	195.7	215.7	240.9

CASH FLOW

Year to 31 Dec (\$\$m)	2022	2023F	2024F	2025F
Operating	602.3	508.6	592.2	629.5
Pre-tax profit	272.7	298.4	328.9	367.2
Tax	(79.9)	(53.7)	(59.2)	(66.1)
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	75.4	(70.1)
Non-cash items	(6.7)	(9.8)	(9.8)	(10.6)
Other operating cashflows	130.6	(226.5)	(114.7)	27.0
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)	(184.0)	(205.7)	(210.7)
Dividend payments	(171.3)	(163.6)	(185.2)	(196.1)
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)	(20.5)	(20.5)	(14.6)
Net cash inflow (outflow)	76.6	39.8	101.8	134.1
Beginning cash & cash equivalent	919.1	967.0	1,006.8	1,108.6
Changes due to forex impact	(28.7)	0.0	0.0	0.0
Ending cash & cash equivalent	967.0	1,006.8	1,108.6	1,242.6

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	1,032.7	1,047.7	1,057.7
Cash/ST investment	967.0	1,006.8	1,108.6	1,242.6
Other current assets	677.7	726.3	754.8	783.8
Total assets	4,700.8	4,740.8	4,814.3	4,905.2
ST debt	26.8	26.8	26.8	26.8
Other current liabilities	1,014.0	972.9	961.9	947.9
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	2,634.6	2,698.6	2,776.9
Minority interest	430.5	445.9	466.4	493.1
Total liabilities & equity	4,700.8	4,740.8	4,814.3	4,905.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.6	16.1	16.4	16.8
Pre-tax margin	7.2	7.4	7.8	8.4
Net margin	4.6	4.8	5.1	5.5
ROA	3.6	4.1	4.5	5.0
ROE	6.6	7.5	8.1	8.8
Growth				
Turnover	7.9	7.2	4.0	4.0
EBITDA	8.9	3.8	6.0	6.9
Pre-tax profit	40.1	9.4	10.2	11.7
Net profit	44.4	13.1	10.2	11.7
Net profit (adj.)	14.1	43.1	10.2	11.7
EPS	14.1	43.1	10.2	11.7
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)	(27.1)	(30.3)	(34.2)
Interest cover (x)	47.2	31.8	33.7	50.5

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