

COMPANY UPDATE

ComfortDelGro Corporation (CD SP)

Stronger Tailwinds As Rail Fare Increases

The PTC has recently announced a 7% increase in public transport fares starting from Dec 23. This will bring in additional revenue of S\$20.9m for CD's subsidiary, SBST, and contribute directly to bottom-line profits. While there is no change to CD's commission rate, we anticipate an upward revision in 4Q23 given the substantial gap with peers. In view of improving rail and taxi ridership and a decent 4.7% dividend yield, we maintain **BUY** with a higher target price of S\$1.61 (S\$1.56 previously).

WHAT'S NEW

- **No changes to taxi rental rebates and commission rates.** We understand that there have been no changes to both ComfortDelGro's (CD) 10% daily taxi rental rebate and the 5% online booking commission rate through its Zig app. As a recap, changes to the daily taxi rental rebate would be reviewed quarterly while the commission rate is reviewed monthly. We do 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, CD's 5% online booking commission rate is considerably lower when compared to major competitors like Grab (20%) and GoJek (15%). We therefore expect potential upward revisions in 4Q23, closing in on CD's peers.
- **Leaving COVID-19 behind.** CD's rail ridership has recovered back to pre-pandemic levels, increasing 1.6% mom and 16.2% yoy respectively in Aug 23. This is in line with our expectations that rail ridership will surpass pre-pandemic levels in 3Q23. Additionally, per the Land Transport Authority (LTA), the average number of point-to-point (P2P) daily trips, via both street-hail and ride-hailing services, has risen by 3.6% mom and 5.5% yoy to 613,000 in Jul 23, the second-highest in the past two years (614,000 in Feb 23). As more employers roll back prevailing work-from-home arrangements and mandate a return-to-office policy, we expect both rail and taxi ridership to continue the upward momentum moving forward.
- **Higher fares yet again...** To combat rising inflationary pressures, bus and train fares in Singapore are expected to increase by up to 7.0% starting Dec 23, following the Public Transport Council's (PTC) annual fare review. Beating our expectations of a 3.0% increase, this is the joint highest fare increase since 2019 which saw a similar 7.0% fare increase. Despite being more than double of last year'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 and is unlikely to be expunged, according to Singapore's Acting Minister for Transport. This implies that we do expect additional higher fare adjustments in 2024-25.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,503	3,781	4,055	4,305	4,503
EBITDA	576	627	651	707	762
Operating profit	200	270	288	335	380
Net profit (rep./act.)	120	173	196	227	257
Net profit (adj.)	120	137	196	227	257
EPS (S\$ cent)	5.5	6.3	9.0	10.5	11.8
PE (x)	23.1	20.3	14.2	12.2	10.8
P/B (x)	1.0	1.1	1.1	1.0	1.0
EV/EBITDA (x)	4.3	4.0	3.8	3.5	3.3
Dividend yield (%)	3.3	6.6	4.7	5.5	5.9
Net margin (%)	3.4	4.6	4.8	5.3	5.7
Net debt/(cash) to equity (%)	(21.6)	(26.3)	(27.1)	(30.6)	(35.0)
Interest cover (x)	51.0	47.2	31.8	34.6	52.1
ROE (%)	4.5	6.6	7.5	8.5	9.3
Consensus net profit	-	-	183	203	222
UOBKH/Consensus (x)	-	-	1.07	1.12	1.16

Source: ComfortDelGro Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.28
Target Price	S\$1.61
Upside	+25.9%
(Previous TP)	S\$1.56

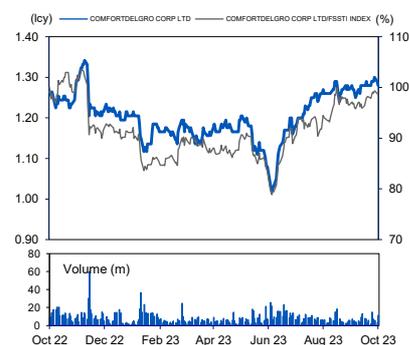
COMPANY DESCRIPTION

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 and maintenance services.

STOCK DATA

GICS sector	Industrials			
Bloomberg ticker:	CD SP			
Shares issued (m):	2,165.7			
Market cap (S\$m):	2,772.1			
Market cap (US\$m):	2,018.6			
3-mth avg daily t'over (US\$m):	5.6			
Price Performance (%)				
52-week high/low	S\$1.34/S\$1.02			
1mth	3mth	6mth	1yr	YTD
0.8	8.5	8.9	1.3	6.2
Major Shareholders				
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
FY23 NAV/Share (S\$)	1.22			
FY23 Net Cash/Share (S\$)	0.33			

PRICE CHART



Source: Bloomberg

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- **... to boost public transport revenue.** According to the PTC, CD's 74.4%-owned subsidiary SBS Transit (SBST) is set to experience an 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 7% hike in rail fare would increase our 2024/25 net profit forecasts by 3-4%.

STOCK IMPACT

- **Upcoming potential catalysts.** Taxi segmental 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 P2P 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 4Q23, 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 2024-25 PATMI estimates by 3-4%**, on the back of the upcoming rail fare adjustment. Our 2023/24/25 PATMI forecasts are S\$195.7m (unchanged), S\$226.9m (S\$219.1m previously) and S\$256.6m (S\$245.9m previously) respectively.

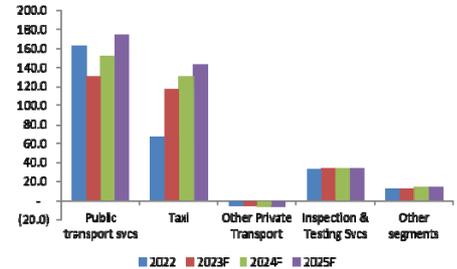
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher PE-based target price of S\$1.61 (S\$1.56 previously)**, pegged to the same 15x 2024F 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

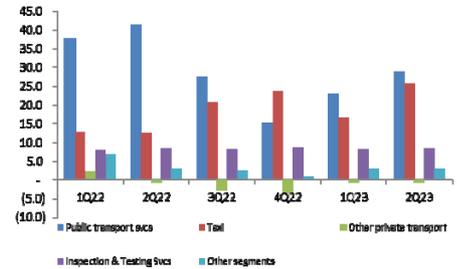
- Bus tender contract wins.
- Complete removal of taxi rental rebates.
- Earnings-accretive overseas acquisitions.
- Increase in taxi commission rates.

SEGMENTAL ANNUAL OPERATING PROFIT FORECASTS (\$M)



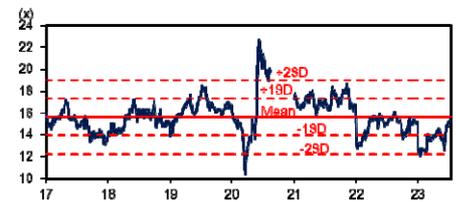
Source: UOB Kay Hian, CD

SEGMENTAL QUARTERLY OPERATING PROFIT (\$M)



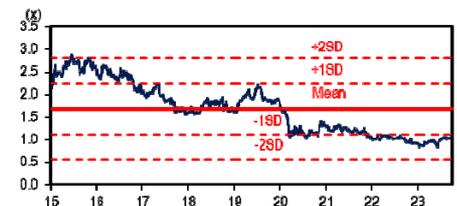
Source: UOB Kay Hian, CD

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	4,304.7	4,502.7
EBITDA	627.2	651.2	707.0	761.8
Deprec. & amort.	357.2	363.4	371.7	382.2
EBIT	270.0	287.8	335.3	379.7
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	345.9	391.1
Tax	(54.2)	(53.7)	(62.3)	(70.4)
Minorities	(45.4)	(48.9)	(56.7)	(64.1)
Net profit	173.1	195.7	226.9	256.6
Net profit (adj.)	136.8	195.7	226.9	256.6

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	602.3	508.6	605.1	647.7
Pre-tax profit	272.7	298.4	345.9	391.1
Tax	(79.9)	(53.7)	(62.3)	(70.4)
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	(71.2)
Non-cash items	(6.7)	(9.8)	(9.8)	(10.6)
Other operating cashflows	130.6	(226.5)	(115.8)	26.7
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)	(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	114.6	152.2
Beginning cash & cash equivalent	919.1	967.0	1,006.8	1,121.4
Changes due to forex impact	(28.7)	0.0	0.0	0.0
Ending cash & cash equivalent	967.0	1,006.8	1,121.4	1,273.7

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	1,121.4	1,273.7
Other current assets	677.7	726.3	769.6	803.7
Total assets	4,700.8	4,740.8	4,842.0	4,956.1
ST debt	26.8	26.8	26.8	26.8
Other current liabilities	1,014.0	972.9	975.7	965.2
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	2,709.7	2,803.7
Minority interest	430.5	445.9	469.2	499.8
Total liabilities & equity	4,700.8	4,740.8	4,842.0	4,956.1

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.6	16.1	16.4	16.9
Pre-tax margin	7.2	7.4	8.0	8.7
Net margin	4.6	4.8	5.3	5.7
ROA	3.6	4.1	4.7	5.2
ROE	6.6	7.5	8.5	9.3
Growth				
Turnover	7.9	7.2	6.2	4.6
EBITDA	8.9	3.8	8.6	7.8
Pre-tax profit	40.1	9.4	15.9	13.1
Net profit	44.4	13.1	15.9	13.1
Net profit (adj.)	14.1	43.1	15.9	13.1
EPS	14.1	43.1	15.9	13.1
Leverage				
Debt to total capital	8.9	8.7	8.4	8.1
Debt to equity	11.4	11.1	10.8	10.4
Net debt/(cash) to equity	(26.3)	(27.1)	(30.6)	(35.0)
Interest cover (x)	47.2	31.8	34.6	52.1

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