

COMPANY UPDATE

ComfortDelGro Corporation (CD SP)

Higher Fares And More Contract Wins

CD announced that its wholly-owned Australian subsidiary has been awarded three new bus contracts in Melbourne, Australia, increasing the group's existing bus fleet. In line with expectations, the PTC also announced that public transport fares in Singapore would increase by up to 6.0% in end-4Q24 due to inflationary pressures, benefitting public transport operators such as CD. However, with a lack of near-term catalysts, we maintain HOLD with the same target price of S\$1.56.

WHAT'S NEW

- Awarded new bus contracts.** ComfortDelGro Corporation (CD) announced that through its wholly-owned Australian subsidiary, CD has been awarded three contracts in Melbourne under the Victorian Department of Transport and Planning's Metropolitan Zero Emission Bus (ZEB) franchises. The new contracts would cover 250 public and school bus routes operated by over 360 buses, growing CD's Victoria existing bus fleet by 30% and serving 20% of Melbourne's Metropolitan network. Funded by the contracts, the buses and depots will then transition to full ZEB operations prior to the end of the contract term. These contracts would commence on 1 Jul 25 and last for 10 years, valued at around A\$1.6b (S\$1.4b). Also, CD will transfer ownerships of its existing bus depots to the government, booking a one-off gain of around S\$14m.
- Neutral impact.** In our view, the contract wins are minimally positive for CD as it proves that CD has the capability and reputation to win contracts, and also give the group a stronger footing to expand its international business. However, despite a boost to top-line revenue, we reckon that the new contracts would have minimal impact on earnings, largely due to lower margins from stiff competition. Based on our estimates, we reckon that the new contracts would only grow CD's annual operating profit by S\$2m-3m, increasing our 2025-26 core PATMI estimates insignificantly.
- Higher public transport fares...** Due to rising inflationary pressures and wage growth, bus and train fares in Singapore are expected to increase by up to 6.0% (around 10 S cents per journey) starting Dec 24 following the Public Transport Council's (PTC) annual fare review. In line with expectations, this was a slight drop from the 7.0% fare increase in 2023 and only a third of the maximum allowable fare adjustment quantum in 2024 at 18.9% (3.3% from 2024's fare adjustment formulae and the deferred fare quantum of 15.6% from 2023's annual fare review). This would bring down the deferred fare quantum to 12.9% from 15.6% which will be considered at future annual reviews. Maintaining our previous expectations, we reckon this would lead to higher fare hikes in 2025. The government is also giving out an additional S\$250m in subsidies to help support public transport operators like CD cover the deferred fare quantum.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	3,781	3,880	4,124	4,383	4,485
EBITDA	627	636	652	709	756
Operating profit	270	272	297	342	373
Net profit (rep./act.)	173	181	206	237	259
Net profit (adj.)	137	174	206	237	259
EPS	6.3	8.0	9.5	10.9	12.0
PE (x)	23.4	18.4	15.5	13.5	12.4
P/B (x)	1.2	1.2	1.2	1.2	1.2
EV/EBITDA (x)	4.9	4.9	4.8	4.4	4.1
Dividend yield (%)	5.7	4.5	4.9	5.5	6.1
Net margin (%)	3.6	4.5	5.0	5.4	5.8
Net debt/(cash) to equity (%)	(26.3)	(19.5)	(19.2)	(21.5)	(25.8)
Interest cover (x)	47.2	27.8	33.8	50.6	71.9
ROE (%)	6.6	7.0	7.9	8.9	9.5
Consensus net profit	-	-	212.1	233.1	254.3
UOBKH/Consensus (x)	-	-	0.97	1.02	1.02

Source: ComfortDelGro Corporation Limited, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.48
Target Price	S\$1.56
Upside	+5.4%

COMPANY DESCRIPTION

ComfortDelGro Corporation Limited provides land transportation services. The Company offers bus, taxi, rail, car rental and leasing, automotive engineering services, inspection and testing services, driving center, insurance broking services, and outdoor advertising.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CD SP
Shares issued (m):	2,166.1
Market cap (S\$m):	3,205.8
Market cap (US\$m):	2,462.6
3-mth avg daily t'over (US\$m):	6.6

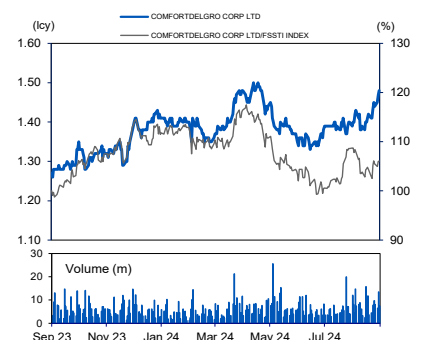
Price Performance (%)

52-week high/low	S\$1.50/S\$1.26			
1mth	3mth	6mth	1yr	YTD
5.7	8.8	8.8	16.5	5.7

Major Shareholders

-	-
FY24 NAV/Share (S\$)	1.22
FY24 Net Cash/Share (S\$)	0.23

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\$17.3m 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 6% hike in rail fare would increase CD's net profit by around S\$9m-10m respectively. However, as we have already incorporated similar 6-7% price hike assumptions into our forecasts, we would not raise our 2025-26 core PATMI forecasts.

STOCK IMPACT

- **Public transport: UK to improve in 2H24.** UK bus contract renewals are still ongoing, which would lead to better margins for 2H24 (1Q24/2Q24: 0.4%/2.8% respectively). Competition in the UK has become more rational as more industry players leave the market. 2H24 is expected to see better seasonal operating performance, specifically from the group's UK bus chartering business. We expect margins for the UK business to continue trending upwards towards the high single-digit to low-teens % in the medium to long term, albeit at a gradual pace given that only 15-20% of contracts are renewed every year. Closer to home, domestic rail ridership could stay stable while bus revenues are expected to drop in 3Q24 from the loss of Jurong-West bus contract.
- **Taxi: Ongoing headwinds masked by inorganic growth...** As a recap, with A2B Australia's (A2B) consolidation in 2Q24, 2Q24 taxi revenue (+27.3% yoy, +20.8% qoq) and core operating profit (+48.4% yoy, +64.4% qoq) surged higher. This was also driven by the platform fees implemented in 3Q23 and higher taxi booking commission rates in 1Q24. However, this was offset by lower booking volumes of around 6.3m in 2Q24 (1Q24: about 6.7m) due to stiff domestic competition. Excluding A2B's contribution (+S\$31.2m revenue, +S\$5m operating profit), 2Q24 taxi revenue would have been stable yoy while core operating profit grew (+29.1% yoy, +42.9% qoq).

- **...as domestic competition remains fierce.** In our view, stiff competition from domestic ride-hailing peers led to lower completed bookings, ultimately dragging down CD's overall commission and revenue on completed jobs. Looking at Zig's online booking volumes over the last two years (see chart on RHS), online booking volumes have come down since the post-COVID-19 reopening (2021-22) spike. In our view, given that 2Q24 booking levels were 1.8m lower yoy, we expect 3Q24 booking levels to trend downwards given stiff competition. Overall, the taxi segment is still likely to continue its upward growth momentum moving into 3Q24, supported by the higher taxi booking commission rates in 1Q24 and new contributions from the A2B acquisition. However, excluding A2B's contribution, we expect the taxi segment to post stable or even lower yoy revenue and operating profit growth rates of 10-15% yoy in 3Q24, contrary to the 30-50% yoy operating profit growth rates in the past eight quarters.

EARNINGS REVISION/RISK

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

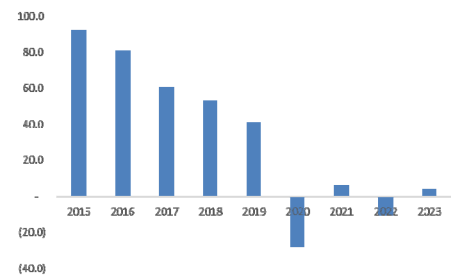
VALUATION/RECOMMENDATION

- **Maintain HOLD with the same target price of S\$1.56,** pegged to the same 16x 2024F PE, CD's five-year average long-term PE.
- With the recent run-up in share price performance close to our target price, we now reckon that there is little upside at current price levels. Despite CD's decent 4.9% dividend yield and robust balance sheet, with no significant near-term catalysts, we recommend investors to take profit on any potential further run-up in share price performance.

SHARE PRICE CATALYST(S)

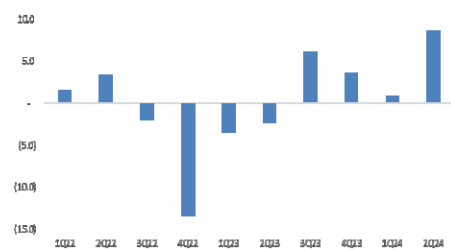
- Bus tender contract wins.
- Increase in taxi commission rates.
- Earnings-accretive overseas acquisitions.

UK ANNUAL OPERATING PROFIT (\$\$M)



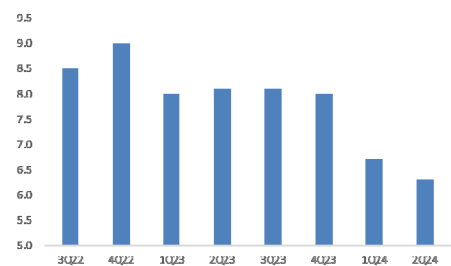
Source: CD, UOB Kay Hian

UK QUARTERLY OPERATING PROFIT (\$\$M)



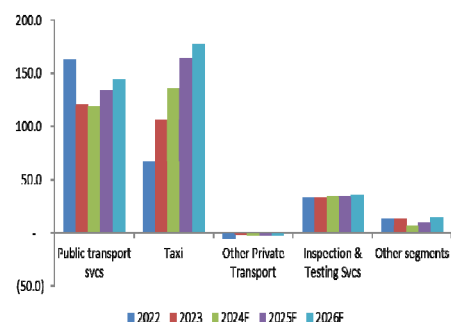
Source: CD, UOB Kay Hian

TAXI SEGMENT'S BOOKING VOLUMES (M)



Source: CD, UOB Kay Hian

SEGMENTAL ANNUAL OPERATING PROFIT FORECASTS (\$\$M)



Source: CD, UOB Kay Hian

HISTORICAL FORWARD PE RATIO



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (S\$m)	2023	2024F	2025F	2026F
Net turnover	3,880.3	4,124.3	4,383.5	4,484.6
EBITDA	636.3	651.5	709.0	756.1
Deprec. & amort.	364.2	354.4	367.2	382.7
EBIT	272.1	297.1	341.8	373.4
Total other non-operating income	29.4	27.9	23.4	20.4
Associate contributions	1.4	2.0	2.6	3.2
Net interest income/(expense)	(22.9)	(19.3)	(14.0)	(10.5)
Pre-tax profit	280.0	307.8	353.8	386.5
Tax	(55.0)	(61.6)	(70.8)	(77.3)
Minorities	(44.5)	(39.9)	(45.8)	(50.1)
Net profit	180.5	206.3	237.2	259.1
Net profit (adj.)	174.1	206.3	237.2	259.1

CASH FLOW

Year to 31 Dec (S\$m)	2023	2024F	2025F	2026F
Operating	449.1	507.9	599.4	678.6
Pre-tax profit	280.0	307.8	353.8	386.5
Tax	(82.5)	(61.6)	(70.8)	(77.3)
Deprec. & amort.	364.2	354.4	367.2	382.7
Associates	0.0	0.0	0.0	0.0
Working capital changes	136.8	39.6	(150.6)	(251.1)
Non-cash items	12.9	(8.6)	(9.4)	(9.9)
Other operating cashflows	(262.3)	(123.7)	109.0	247.7
Investing	(330.5)	(272.5)	(277.0)	(281.0)
Capex (growth)	(367.5)	(300.0)	(300.0)	(301.0)
Investments	(40.3)	0.0	0.0	0.0
Proceeds from sale of assets	44.1	0.0	0.0	0.0
Others	33.2	27.5	23.0	20.0
Financing	(224.1)	(233.0)	(249.4)	(263.3)
Dividend payments	(209.8)	(213.8)	(235.4)	(252.8)
Issue of shares	(1.4)	0.0	0.0	0.0
Proceeds from borrowings	1,707.4	0.0	0.0	0.0
Loan repayment	(1,659.6)	0.0	0.0	0.0
Others/interest paid	(60.7)	(19.3)	(14.0)	(10.5)
Net cash inflow (outflow)	(105.5)	2.4	72.9	134.3
Beginning cash & cash equivalent	967.0	856.9	859.3	932.2
Changes due to forex impact	(4.6)	0.0	0.0	0.0
Ending cash & cash equivalent	856.9	859.3	932.2	1,066.5

BALANCE SHEET

Year to 31 Dec (S\$m)	2023	2024F	2025F	2026F
Fixed assets	2,012.1	1,957.7	1,890.5	1,808.8
Other LT assets	1,063.5	1,063.9	1,064.3	1,064.7
Cash/ST investment	856.9	859.3	932.2	1,066.5
Other current assets	757.2	799.3	843.3	859.9
Total assets	4,689.7	4,680.2	4,730.3	4,799.9
ST debt	115.4	115.4	115.4	115.4
Other current liabilities	976.2	934.2	936.7	949.9
LT debt	234.9	234.9	234.9	234.9
Other LT liabilities	349.3	349.3	349.3	349.3
Shareholders' equity	2,597.7	2,648.0	2,707.4	2,771.4
Minority interest	416.2	398.4	386.5	378.9
Total liabilities & equity	4,689.7	4,680.2	4,730.3	4,799.9

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	16.4	15.8	16.2	16.9
Pre-tax margin	7.2	7.5	8.1	8.6
Net margin	4.7	5.0	5.4	5.8
ROA	3.8	4.4	5.0	5.4
ROE	7.0	7.9	8.9	9.5
Growth				
Turnover	2.6	6.3	6.3	2.3
EBITDA	1.5	2.4	8.8	6.6
Pre-tax profit	2.7	9.9	14.9	9.2
Net profit	4.3	14.3	14.9	9.2
Net profit (adj.)	27.3	18.5	14.9	9.2
EPS	27.3	18.5	14.9	9.2
Leverage				
Debt to total capital	10.4	10.3	10.2	10.0
Debt to equity	13.5	13.2	12.9	12.6
Net debt/(cash) to equity	(19.5)	(19.2)	(21.5)	(25.8)
Interest cover (x)	27.8	33.8	50.6	71.9

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