

COMPANY UPDATE

ComfortDelGro Corporation (CD SP)

New Year, New Beginning

For 2021, we expect a robust 143% yoy growth in net profit, coming off a low base in 2020. Looking forward, an expected recovery in ridership levels and new contract wins would boost 2022 earnings. Maintain BUY with a lower target price of S\$1.90 (S\$1.99).

SEGMENTAL REVENUE FORECAST

Year to 31 Dec (S\$m)	Revenue			Comments
	2022F	2021F	2020	
Public Transport services	2,854.5	2,716.1	2,567.9	End of WFH, higher fares, Auckland contract
Taxi	444.1	423.7	403.2	VTL tourist arrivals and end of WFH default.
Automotive Engineering services	169.0	160.9	89.4	
Vehicle inspection & testing	100.4	99.4	84.2	
Driving ctr	49.1	48.1	41.2	
Car rental & leasing	24.0	24.0	27.0	
Bus station	19.8	16.5	15.7	
Total Revenue	3,660.9	3,488.7	3,228.6	

Source: CD, UOB Kay Hian

WHAT'S NEW

- Public transport: Favourable tailwinds ahead.** ComfortDelgro's (CD) public transport segment is poised to experience a strong recovery due to upcoming beneficial tailwinds. Starting on 1 Jan 22, Singapore's authorities have removed the work-from-home default arrangement, and up to 50% of fully vaccinated employees are now allowed to return to their workplaces. Bus and train fares in Singapore have also increased by 3-4 S cents as authorities granted the maximum allowable fare adjustment quantum of 2.2% to help operators mitigate rising costs. Backed by a population that is majority fully-vaccinated, these tailwinds would help underpin CD's public transport earnings from 2022 onwards.
- Strengthening global footprint.** CD was awarded an S\$1.13b eight-year contract to operate rail services in Auckland, New Zealand. The Auckland rail is the country's largest rail network and the contract is expected to commence on 16 Jan 22. Based on our estimates, we expect a S\$3m-4m annual boost to CD's bottom line. CD also acquired the remaining stake of its subsidiary, Scottish City Link Coaches, for S\$15.8m in 4Q21. Expected to complete in Feb 22, the acquisition would make CD the second largest inter-city coach operator in the UK with a market share of 11% and inter-city coach fleet size of 150 (previously: 100).
- New risk-profit sharing model.** SBS Transit (SBST) announced that the Downtown Line (DTL) will transition to the New Rail Financing Framework Version 2 (NRFF V2) as of Jan 22. Under NRFF V2, 50% of DTL operating losses below 3.5% EBIT margin would be co-shared with the Land Transport Authority, resulting in roughly S\$28m in annual savings for CD. However, SBST would also release its rights to lease advertising spaces of the rail lines at end-23 and extended five existing bus contracts by three years at a lower service rate, with a loss of S\$34m service revenue per year starting 30 Sep 22. Overall, we estimate that the new profit sharing model would have negligible impact on earnings.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021F	2022F	2023F
Net turnover	3,906	3,229	3,489	3,661	3,744
EBITDA	869	540	630	742	769
Operating profit	416	123	231	344	356
Net profit (rep./act.)	265	62	150	226	236
Net profit (adj.)	292	110	150	226	236
EPS (S\$ cent)	13.5	5.1	6.9	10.4	10.9
PE (x)	9.9	26.4	19.4	12.8	12.3
P/B (x)	1.1	1.1	1.1	1.1	1.0
EV/EBITDA (x)	3.0	4.9	4.2	3.6	3.4
Dividend yield (%)	7.3	1.1	3.7	5.2	6.0
Net margin (%)	6.8	1.9	4.3	6.2	6.3
Net debt/(cash) to equity (%)	(2.5)	(10.7)	(17.8)	(25.9)	(32.4)
Interest cover (x)	41.0	36.7	29.5	35.5	37.7
ROE (%)	10.2	2.4	5.7	8.4	8.6
Consensus net profit	-	-	177	226	243
UOBKH/Consensus (x)	-	-	0.85	1.00	0.97

Source: ComfortDelGro Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.34
Target Price	S\$1.90
Upside	+41.8%
(Previous TP:	S\$1.99)

COMPANY DESCRIPTION

ComfortDelGro is the world's second-largest public listed passenger land transport company with a total fleet size of 43,000 vehicles. Its businesses include bus, taxi, rail, car rental & leasing, automotive engineering, maintenance services vehicle inspection services, driving centre, insurance broking, outdoor advertising and car dealership.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CD SP
Shares issued (m):	2,167.0
Market cap (HK\$m):	2,903.8
Market cap (US\$m):	2,143.5
3-mth avg daily t'over (US\$m):	14.6

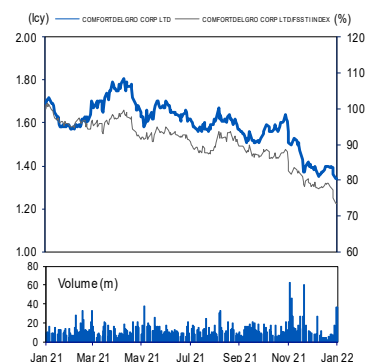
Price Performance (%)

52-week high/low	S\$1.81/S\$1.34			
1mth	3mth	6mth	1yr	YTD
(3.6)	(12.4)	(17.3)	(21.6)	(4.3)

Major Shareholders

	%
-	-
-	-
-	-
FY21 NAV/Share (Rmb)	1.26
FY21 Net Cash/Share (Rmb)	0.33

PRICE CHART



Source: Bloomberg

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• **Taxi: Gradual recovery for 2022.** As Singapore transitions to endemic living, the taxi segment is poised to benefit from the easing of work-from-home as a default starting 2022. Taxi ridership is bound to increase as more of Singapore's workforce head back to their workplaces while there will be new/increasing tourist arrivals from Vaccinated Travel Lanes (VTL). Also, the tapering of taxi rental rebates would boost taxi profitability, with the expected rebate end date on 31 Jan 22. Following the temporary suspension of physical credit card payments in 4Q21, CD would also begin installing physical credit card terminals in their taxis from 2Q22, increasing the flexibility of payments for riders and tourists. Barring any new COVID-19 restrictions and outbreaks, we reckon that the taxi segment would face a slow but gradual recovery in 2022.

STOCK IMPACT

• **VTL arrivals impacted by Omicron.** The return of tourists via VTLs is expected to boost ridership levels as international borders reopen. However, VTL ticket sales have been temporarily suspended due to Omicron concerns and will only resume on 21 Jan 22 at 50% capacity. The suspension would soften both tourism arrivals and ridership levels in 1H22. We reckon Singapore's authorities would restore VTL capacity back earliest in 2Q22, given that Omicron variant has been found to be less lethal compared to the Delta variant.

• **Overseas markets transition to endemic living.** Despite rising COVID-19 cases and hospitalisations, Australia's Prime Minister mentioned that the country would not return to a lockdown. Also, a highly fully-vaccinated population has seen social distancing measures being relaxed and the resumption of interstate travel, supporting CD's bus ridership levels. In the UK, facing record-high Omicron cases, the UK government is considering renewed lockdown measures to curb further spread within the country.

EARNINGS REVISION/RISK

• **No major changes** to our 2021-23 revenue and net profit forecasts. On the back of favourable tailwinds, we expect 2021-22 revenue to grow at 8.1% yoy and 5.0% yoy respectively while net profit is expected to grow at 142.6% yoy and 51% yoy respectively.

VALUATION/RECOMMENDATION

• **Maintain BUY** with a lower target price of S\$1.90 (previously: S\$1.99). We use a lower 18.2x 2022F PE (from 19.2x), pegged to +1SD of CD's average five-year mean (vs seven-year previously).

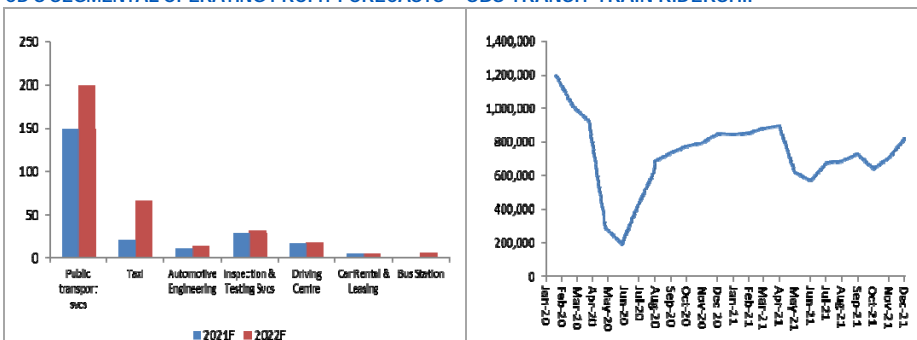
• **Attractive COVID-19 recovery play.** We reckon ComfortDelgro (CD SP) is a great proxy to Singapore's recovery from the COVID-19 pandemic. At its last closing price of S\$1.34, CD is trading at the lowest price of 2020. This is unjustified given that CD is going into 2022 on the back of stronger tailwinds as compared to 2020 when Singapore's underwent COVID-19 lockdowns, multiple phases of social distancing measures and the implementation of taxi rebates. As Singapore steams ahead with its transition to endemic living, we expect ridership levels and earnings to grow, creating huge upside potential for CD.

• **Omicron risk.** We are mindful of an ongoing Omicron wave in Singapore that may worsen and hinder ridership levels. However, Singapore's authorities have mentioned that current COVID-19 measures would only be tightened as a last resort, underpinning CD's recovery.

SHARE PRICE CATALYST

• **Full easing of COVID-19 measures,** bus tender contract wins, earnings-accretive overseas acquisitions.

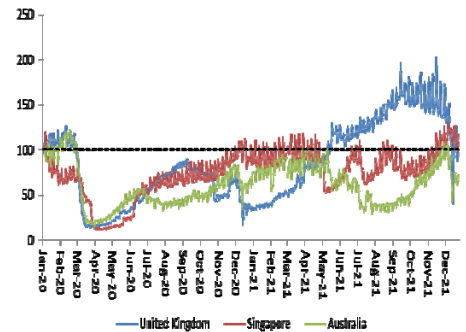
CD'S SEGMENTAL OPERATING PROFIT FORECASTS SBS TRANSIT TRAIN RIDERSHIP



Source: UOB Kay Hian.

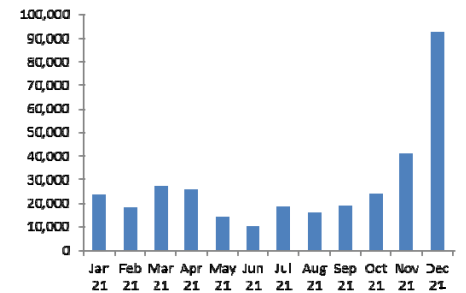
Source: SBS Transit, UOB Kay Hian.

PUBLIC TRANSIT MOBILITY TRENDS



Source: Apple, UOB Kay Hian
13th Jan 2020 as baseline = 100

SINGAPORE'S MONTHLY INTERNATIONAL ARRIVALS



Source: Singapore Tourism Analytics Network, UOB Kay Hian

P/E



Source: Bloomberg, UOB Kay Hian
Removed outliers (>22x and <12x)

SOTP VALUATION

Business Units	S\$/share	Comments
SBS Transit (74% ownership)	0.32	Market price
Vicom (67% ownership)	0.22	Market price
CD buses (SG)	0.02	Estimated NAV based on fleet
UK	0.27	Estimated NAV based on Non-current assets
Taxi	0.31	Book Value
Others (Engineering + Bus Station + Driving Centre + Car Rental)	0.05	Book Value
Net Cash	0.20	2022F
Total (ex. Australia)	1.39	
Australia	0.54	Book Value
CD's Valuation	S\$1.93	

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$Sm)	2020	2021F	2022F	2023F
Net turnover	3,228.6	3,488.7	3,660.9	3,744.3
EBITDA	539.7	629.6	741.6	769.5
Deprec. & amort.	416.6	399.0	397.2	413.1
EBIT	123.1	230.6	344.4	356.4
Total other non-operating income	8.8	13.8	17.1	20.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(14.7)	(21.3)	(20.9)	(20.4)
Pre-tax profit	117.2	223.1	340.6	356.0
Tax	(24.5)	(44.6)	(68.1)	(71.2)
Minorities	(30.9)	(28.6)	(46.3)	(48.4)
Net profit	61.8	149.9	226.2	236.4
Net profit (adj.)	110.1	149.9	226.2	236.4

CASH FLOW

Year to 31 Dec (\$Sm)	2020	2021F	2022F	2023F
Operating	483.7	588.3	668.2	703.3
Pre-tax profit	117.2	223.1	340.6	356.0
Tax	(87.9)	(44.6)	(68.1)	(71.2)
Deprec. & amort.	416.6	399.0	397.2	413.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	(28.3)	3.4	(5.3)	5.0
Non-cash items	66.1	7.5	3.8	0.4
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(109.7)	(236.6)	(233.3)	(280.4)
Capex (growth)	(198.5)	(250.0)	(250.0)	(300.0)
Investments	(12.2)	0.0	0.0	0.0
Proceeds from sale of assets	92.4	0.0	0.0	0.0
Others	8.6	13.4	16.7	19.6
Financing	(241.2)	(172.3)	(215.2)	(236.4)
Dividend payments	(144.0)	(138.1)	(181.4)	(203.1)
Issue of shares	0.7	0.0	0.0	0.0
Proceeds from borrowings	1,993.4	0.0	0.0	0.0
Loan repayment	(2,110.0)	(12.9)	(12.9)	(12.9)
Others/interest paid	18.7	(21.3)	(20.9)	(20.4)
Net cash inflow (outflow)	132.8	179.5	219.7	186.5
Beginning cash & cash equivalent	594.2	742.8	922.3	1,141.9
Changes due to forex impact	15.8	0.0	0.0	0.0
Ending cash & cash equivalent	742.8	922.3	1,141.9	1,328.4

BALANCE SHEET

Year to 31 Dec (\$Sm)	2020	2021F	2022F	2023F
Total assets	5,308.5	5,369.1	5,460.0	5,544.3
Fixed assets	2,619.5	2,470.5	2,323.3	2,210.2
Other LT assets	1,217.6	1,218.0	1,218.4	1,218.8
Cash/ST investment	742.8	922.3	1,141.9	1,328.4
Other current assets	728.6	758.4	776.4	786.8
ST debt	110.3	97.4	84.5	71.6
Other current liabilities	933.4	966.6	979.3	994.8
LT debt	353.4	353.4	353.4	353.4
Other LT liabilities	882.7	882.7	882.7	882.7
Shareholders' equity	2,606.7	2,648.3	2,722.8	2,785.9
Minority interest	422.0	420.8	437.3	455.9
Total liabilities & equity	5,308.5	5,369.1	5,460.0	5,544.3

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	16.7	18.0	20.3	20.5
Pre-tax margin	3.6	6.4	9.3	9.5
Net margin	1.9	4.3	6.2	6.3
ROA	1.2	2.8	4.2	4.3
ROE	2.4	5.7	8.4	8.6
Growth				
Turnover	(17.3)	8.1	4.9	2.3
EBITDA	(37.9)	16.7	17.8	3.8
Pre-tax profit	(71.2)	90.4	52.7	4.5
Net profit	(76.7)	142.6	50.9	4.5
Net profit (adj.)	(62.3)	36.2	50.9	4.5
EPS	(62.3)	36.2	50.9	4.5
Leverage				
Debt to total capital	13.3	12.8	12.2	11.6
Debt to equity	17.8	17.0	16.1	15.3
Net debt/(cash) to equity	(10.7)	(17.8)	(25.9)	(32.4)
Interest cover (x)	36.7	29.5	35.5	37.7

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