

## COMPANY RESULTS

### ComfortDelGro Corporation (CD SP)

3Q22: Slightly Below Expectations; Better Fundamentals Dragged By Higher Costs

Despite reporting higher 9M22 revenue (+8% yoy) and PATMI (+31% yoy), CD's 9M22 results were slightly below our expectations as margins start to compress. The Public transport services segment reported higher revenue but rising wage costs and lower bus service revenue impacted profitability. With the relaxation of most COVID-19 measures in Singapore, pent-up demand and taxi commissions gave taxi revenue and earnings a boost. We maintain BUY but with a lower target price of S\$1.59.

#### 3Q22 RESULTS

Year to 31 Dec (\$m)	3Q22	yoy % chg	qoq % chg	9M22	yoy % chg	3Q22 Comments
Revenue	969.5	10.1	0.6	2,829.4	7.9	
Operating expenses	(815.8)	(10.5)	(1.8)	(2,349.2)	(9.7)	
Operating profit	58.8	45.9	(14.0)	234.4	34.0	
Core operating profit	53.6	170.7	(14.1)	180.6	89.1	Excluding one-offs and grants.
PATMI	34.3	32.9	(18.3)	153.0	31.0	
Core operating profit margin (%)	5.5ppts	3.3ppts	(0.9ppts)	6.4ppts	2.7ppts	

Year to 31 Dec (\$m)	Revenue			Core Operating Profit		
	3Q22	yoy % chg	qoq % chg	3Q22	yoy % chg	qoq % chg
Public Transport services	772.5	8.7	(0.2%)	22.5	48.0	(41.7)
Taxi	112.3	15.4	7.0%	15.5	n.m	76.1
Automotive Engineering services	51.8	104.7	(3.4%)	2.5	0.0	(3.8)
Vehicle inspection & testing	27.4	4.2	0.4%	8.2	17.1	(3.5)
Driving ctr	13.3	15.7	2.3%	5.0	85.2	19.0
Car rental & leasing	9.2	41.5	15.0%	0.5	25.0	25.0
Bus station	2.3	(17.9)	53.3%	(0.6)	n.m	(25.0)

Source: CD, UOB Kay Hian

#### RESULTS

- 3Q22: Improved underlying performance.** Slightly below expectations, ComfortDelGro Corporation (CD) reported 9M22 revenue and PATMI of S\$2,829.4m (+7.9% yoy) and S\$153.0m (+31.0% yoy) respectively, accounting for 74.2% and 67.2% of our full-year forecasts respectively. 9M22 core operating profit (excluding government relief and one-off adjustments) increased 89.1% yoy to S\$180.6m, backed by improving economic activity in key markets and higher fuel indexation revenue. For 3Q22, revenue (+10.1% yoy) and PATMI (+32.9% yoy) grew, backed by increased rail ridership and taxi passenger demand.
- Razor-thin margins.** Despite surging 170.7% yoy, 3Q22 core operating profit fell 14.0% qoq as increasing operation costs eroded profitability. Core operating margins softened 0.9ppt qoq due to higher wages from the public transport services and increasing inflationary pressures across all key geographies. Also, starting 1 Sep 22, lower service revenue from the five recontracted bus packages due to the transition of the downtown line to the New Rail Financing Framework Version 2 also contributed to the decline in margins. However, backed by the relaxation of COVID-19 measures in Singapore, stronger 3Q22 contributions from the taxi segment mitigated a further deterioration in margins.

#### KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	3,229	3,538	3,811	3,984	4,077
EBITDA	540	612	700	704	707
Operating profit	123	210	300	288	313
Net profit (rep./act.)	62	130	195	186	203
Net profit (adj.)	110	130	195	186	203
EPS (\$ cent)	5.1	6.0	9.0	8.6	9.4
PE (x)	26.8	22.6	15.1	15.8	14.5
P/B (x)	1.1	1.1	1.1	1.0	1.0
EV/EBITDA (x)	5.0	4.4	3.8	3.8	3.8
Dividend yield (%)	1.1	3.1	5.1	4.4	4.4
Net margin (%)	1.9	3.7	5.1	4.7	5.0
Net debt/(cash) to equity (%)	(10.7)	(21.4)	(26.2)	(31.3)	(35.6)
Interest cover (x)	36.7	54.1	84.3	84.7	85.1
ROE (%)	2.4	4.9	7.1	6.7	7.1
Consensus net profit	-	-	196	222	238
UOBKH/Consensus (x)	-	-	1.00	0.84	0.85

Source: CD, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.36
Target Price	S\$1.59
Upside	+17.0%
(Previous TP)	S\$1.63)

#### 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

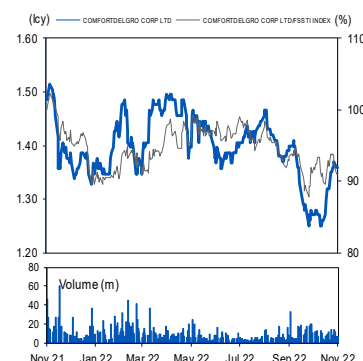
GICS sector	Industrials
Bloomberg ticker:	CD SP
Shares issued (m):	2,166.2
Market cap (\$m):	2,946.0
Market cap (US\$m):	2,140.8
3-mth avg daily t'over (US\$m):	9.4
Price Performance (%)	

52-week high/low S\$1.52/S\$1.25

1mth	3mth	6mth	1yr	YTD
7.1	(5.9)	(2.6)	(9.1)	(1.9)

Major Shareholders	%
-	-
-	-
-	-
FY22 NAV/Share (\$)	1.27
FY22 Net Cash/Share (\$)	0.33

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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• **Public transport: Near-term margin pressure...** Both 9M22 segmental revenue and operating profit were in line with our expectations, forming 76.2% and 72.2% of our full-year forecasts. Similar to 2Q22, 3Q22 segmental revenue (+8.7% yoy) and core operating profit (+48.0% yoy) continued to grow, aided by improving rail ridership in Singapore along with higher fuel indexation revenues. Despite negative forex impacts, improvement in charter services in Australia and the UK also supported earnings as most COVID-19 restrictions were relaxed. However, on a qoq basis, 3Q22 core operating profit fell 41.7%, dragged by lower margins from the five recontracted bus packages and higher cost pressures. A shortage in bus drivers across key geographies, coupled with rising operating costs from the rail segment, also impacted margins in 3Q22. The newly-won bus contracts in Australia (Regions 4/12/14) are not expected to boost margins given that they were bid competitively due to strong competition.

• **... to be offset by upcoming indexation and government grants.** To combat rising inflationary pressures, CD is set to undergo the relevant CPI-linked indexation for its Singapore and Australian bus packages in early-1Q23, supporting margins from 1Q23 onwards. Furthermore, as announced in Oct 22, the Public Transport Council in Singapore has granted a 2.9% fare hike effective from 26 Dec 22, in a bid to help rail transport operators offset rising operating costs. The 2.9% fare hike was a fraction of the maximum 13.5% fare adjustment allowed and would have been insufficient to cover rising costs in our view, given that CD and SMRT applied for the maximum 13.5% fare increase. However, the Singapore government has then stepped in with an S\$200m subsidy meant to cover the remaining 10.6% shortfall in 2023. We reckon that the government grant would help CD offset rising operating costs substantially and is expected to start in early-1Q23.

• **Taxi: Post COVID-19 recovery.** Slightly above our expectations, 9M22 taxi revenue and operating profit formed 69.8% and 80.2% of our full-year forecasts, backed by a robust 3Q22. 3Q22 revenue (+15.4% yoy) and core operating profit of S\$15.5m (3Q21: core operating loss of S\$8.1m) grew as taxi passenger demand surged from the relaxation of COVID-19 measures in Singapore, along with a full quarter of contribution from taxi commissions. There were around 9m taxi bookings in 3Q22 as compared to 6m in 3Q21. Based on our estimates, around 35-40% of 3Q22 taxi core operating profit was from taxi booking commissions. The ongoing taxi rental rebates are currently up till end-4Q22, which in our view, an extension would be granted in early-1QFY23 to retain/attract taxi drivers, given the stiff competition with ride-hailing companies. To ensure segmental profitability, we opine that CD would also increase the taxi booking commission rate from the current 5% to mitigate the impact of the possible rental rebate extension. As China carries on with its zero-COVID policy, any shift in policy stance remains a key potential catalyst for this segment.

## EARNINGS REVISION/RISK

• **We decrease our 2022-24 PATMI forecasts**, on the back of higher operating costs assumptions. Our new 2022/23/24 PATMI forecasts are S\$194.9m (S\$227.8m previously), S\$186.0m (S\$253.4m previously) and S\$202.9m (S\$277.4m previously) respectively.

## VALUATION/RECOMMENDATION

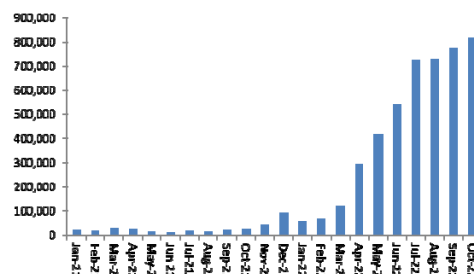
• **Maintain BUY with a slightly lower 2022 SOTP-based target price of S\$1.59 (S\$1.63 previously).** The lower target price is due to lower market valuation for CD's SBS Transit and Vicom stakes. Our target price implies 17x 2022F PE, similar to its five-year average mean PE.

• **In our view, backed by improving fundamentals**, CD remains poised to see a gradual recovery in ridership levels in the medium term as key markets recover and international travel resumes.

## SHARE PRICE CATALYST

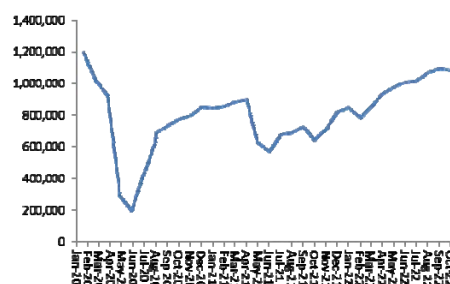
- Earnings-accretive overseas acquisitions.
- Bus tender contract wins.

## SINGAPORE'S MONTHLY INTERNATIONAL ARRIVALS



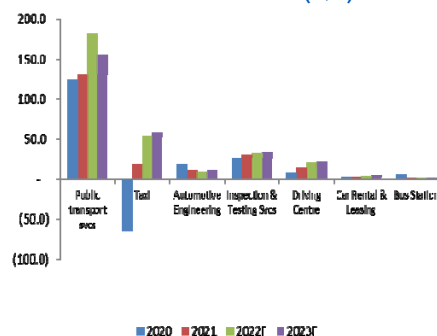
Source: Singapore Tourism Analytics Network, UOB Kay Hian

## SBS TRANSIT RAIL RIDERSHIP



Source: SBS Transit, UOB Kay Hian

## SEGMENTAL OPERATING PROFIT HISTORICALS AND FORECASTS (\$M)



Source: CD, UOB Kay Hian

## SOTP VALUATION

Business	Valuation (\$m)	Value ps (\$)	Remarks
SBST stake	603.7	0.28	Current Market Cap
Vicom stake	458.9	0.21	Current Market Cap
UK Buses	511.0	0.24	7x 2022F EV/EBITDA*
Taxi	563.7	0.26	1H22F Book Value
Automotive + Bus Station + Driving Centre	132.0	0.06	1H22F Book Value
Australia	735.8	0.34	6x 2022F EV/EBITDA*
Net Cash (Debt)	463.5	0.21	FY22F Net Cash
<b>Total Valuation</b>	<b>3,184.5</b>	<b>1.59</b>	

Source: UOB Kay Hian \*Based on comparable transactions

**PROFIT & LOSS**

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	3,538.3	3,810.6	3,984.0	4,076.9
EBITDA	611.6	700.5	703.8	706.9
Deprec. & amort.	401.6	400.2	416.0	394.3
EBIT	210.0	300.3	287.8	312.6
Total other non-operating income	6.2	16.4	18.5	20.9
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(11.3)	(8.3)	(8.3)	(8.3)
<b>Pre-tax profit</b>	<b>204.9</b>	<b>308.4</b>	<b>298.0</b>	<b>325.2</b>
Tax	(44.9)	(64.8)	(65.6)	(71.6)
Minorities	(29.9)	(48.7)	(46.5)	(50.7)
<b>Net profit</b>	<b>130.1</b>	<b>194.9</b>	<b>186.0</b>	<b>202.9</b>
Net profit (adj.)	130.1	194.9	186.0	202.9

**BALANCE SHEET**

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,430.5	2,280.3	2,164.3	2,070.0
Other LT assets	936.2	936.6	937.0	937.4
Cash/ST investment	919.1	1,061.8	1,219.2	1,365.7
Other current assets	669.2	734.0	767.8	784.6
<b>Total assets</b>	<b>4,955.0</b>	<b>5,012.7</b>	<b>5,088.3</b>	<b>5,157.7</b>
ST debt	23.9	23.9	23.9	23.9
Other current liabilities	966.2	962.9	966.8	943.5
LT debt	317.1	317.1	317.1	317.1
Other LT liabilities	511.5	511.5	511.5	511.5
Shareholders' equity	2,706.5	2,749.8	2,805.8	2,878.7
Minority interest	429.8	447.6	463.2	483.0
<b>Total liabilities &amp; equity</b>	<b>4,955.0</b>	<b>5,012.7</b>	<b>5,088.3</b>	<b>5,157.7</b>

**CASH FLOW**

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>660.9</b>	<b>567.5</b>	<b>608.4</b>	<b>595.2</b>
Pre-tax profit	204.9	308.4	298.0	325.2
Tax	(71.3)	(64.8)	(65.6)	(71.6)
Deprec. & amort.	401.6	400.2	416.0	394.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	75.0	(68.2)	(29.8)	(40.2)
Non-cash items	50.7	(8.1)	(10.2)	(12.6)
Other operating cashflows	0.0	0.0	0.0	0.0
<b>Investing</b>	<b>(203.8)</b>	<b>(234.0)</b>	<b>(281.9)</b>	<b>(279.5)</b>
Capex (growth)	(228.2)	(250.0)	(300.0)	(300.0)
Investments	(18.3)	0.0	0.0	0.0
Proceeds from sale of assets	33.9	0.0	0.0	0.0
Others	8.8	16.0	18.1	20.5
<b>Financing</b>	<b>(287.2)</b>	<b>(190.8)</b>	<b>(169.2)</b>	<b>(169.2)</b>
Dividend payments	(107.3)	(182.5)	(160.9)	(160.9)
Issue of shares	0.1	0.0	0.0	0.0
Proceeds from borrowings	2,124.1	0.0	0.0	0.0
Loan repayment	(2,268.0)	0.0	0.0	0.0
Others/interest paid	(36.1)	(8.3)	(8.3)	(8.3)
<b>Net cash inflow (outflow)</b>	<b>169.9</b>	<b>142.7</b>	<b>157.4</b>	<b>146.5</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>742.8</b>	<b>919.1</b>	<b>1,061.8</b>	<b>1,219.2</b>
Changes due to forex impact	6.4	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>919.1</b>	<b>1,061.8</b>	<b>1,219.2</b>	<b>1,365.7</b>

**KEY METRICS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	17.3	18.4	17.7	17.3
Pre-tax margin	5.8	8.1	7.5	8.0
Net margin	3.7	5.1	4.7	5.0
ROA	2.5	3.9	3.7	4.0
ROE	4.9	7.1	6.7	7.1
<b>Growth</b>				
Turnover	9.6	7.7	4.6	2.3
EBITDA	13.3	14.5	0.5	0.4
Pre-tax profit	74.8	50.5	(3.4)	9.1
Net profit	110.5	49.8	(4.6)	9.1
Net profit (adj.)	18.2	49.8	(4.6)	9.1
EPS	18.2	49.8	(4.6)	9.1
<b>Leverage</b>				
Debt to total capital	9.8	9.6	9.4	9.2
Debt to equity	12.6	12.4	12.2	11.8
Net debt/(cash) to equity	(21.4)	(26.2)	(31.3)	(35.6)
Interest cover (x)	54.1	84.3	84.7	85.1

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