

## COMPANY UPDATE

### ComfortDelGro Corporation (CD SP)

#### Upcoming Competition For Bus Packages

With the removal of COVID-19 restrictions, CD's taxi segment is poised to benefit from China's COVID-19 policy shift. However, an extension of the ongoing domestic taxi rental rebates may compress taxi margins in 2023. CD has partnered with Gojek to provide Gojek users access to CD's taxi fleet. Two of CD's contracted bus packages have been put up for tender which poses near- to medium-term earnings risks. Downgrade to HOLD with a lower target price of S\$1.38 (S\$1.59 previously).

#### WHAT'S NEW

- **No more Zero-COVID.** China ended most of its nationwide Zero-COVID policies in a bid to boost its economy and transition into COVID-19 endemicity. After three years of self-isolation and strict lockdowns, China lifted domestic quarantine restrictions as well as relaxed domestic and foreign travel guidelines, whereby inbound travellers are now able to enter the country quarantine-free. Coupled with the absence of sporadic domestic lockdowns, point-to-point (P2P) travel demand is expected to recover, benefitting ComfortDelgro's (CD) Chinese taxi operations and supporting CD's 2023 taxi profitability.
- **Rental rebate extension with new competition.** As mentioned in our last update, CD has extended its 15% taxi rental rebate to end-Mar 23, in line with our expectations and likely due to stiff competition from ride-hailing peers. However, we were negatively surprised by the absence of any increases to CD's current 5% taxi booking commission rate, which we initially expected given lower margins. Moving forward, we expect CD to extend its 15% daily rental rebates to end-2Q23 to retain/attract taxi drivers but reckon that the taxi booking commission rate would be increased from the current 5%. Also, competition for drivers is set to heat up in 2H23 when AirAsia Ride is expected to enter the Singapore market.
- **Partnership with Gojek.** To tackle the ongoing taxi driver shortage in Singapore, CD has announced a two-year partnership with Gojek to provide Gojek users access to CD's 9,000 taxis via the Gojek app. This is aimed to reduce passenger waiting time while boosting CD's driver's opportunities and earnings. We expect CD to implement a similar booking commission system that it has for its Zig app which would support taxi earnings. Further details have yet to be announced but we expect it would come into effect from 2Q/3Q23 onwards. We have not incorporated this into our forecasts as we await further details.
- **Bus packages up for grabs.** In 4Q22, Singapore's Land Transport Authority (LTA) called for tenders for the Bukit Merah and Jurong West bus packages, which are set to expire in Nov 23 and Sep 24 respectively. Both bus packages are currently being operated by CD's subsidiary, SBS Transit (SBST). The tenders close on Mar 23 and are expected to be awarded in 3Q23 in which LTA could either award both packages to the same operator or to two different operators, implying potential risks to CD's near- to medium-term earnings.

#### KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	3,229	3,538	3,771	3,921	3,915
EBITDA	540	612	691	668	665
Operating profit	123	210	291	282	286
Net profit (rep./act.)	62	130	188	179	182
Net profit (adj.)	110	130	148	179	182
EPS (S\$ cent)	5.1	6.0	6.8	8.3	8.4
PE (x)	23.6	20.0	17.6	14.5	14.3
P/B (x)	1.0	1.0	0.9	0.9	0.9
EV/EBITDA (x)	3.9	3.5	3.1	3.2	3.2
Dividend yield (%)	1.2	3.5	5.8	5.0	5.0
Net margin (%)	1.9	3.7	5.0	4.6	4.6
Net debt/(cash) to equity (%)	(10.7)	(21.4)	(26.0)	(33.3)	(38.3)
Interest cover (x)	36.7	54.1	83.2	80.4	80.1
ROE (%)	2.4	4.9	6.9	6.5	6.5
Consensus net profit	-	-	169	196	210
UOBKH/Consensus (x)	-	-	0.87	0.91	0.87

Source: ComfortDelGro Corporation Limited, Bloomberg, UOB Kay Hian

## HOLD

### (Downgrade)

Share Price	S\$1.20
Target Price	S\$1.38
Upside	+14.6%
(Previous TP)	S\$1.59

#### 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):	2,166.1
Market cap (S\$m):	2,599.3
Market cap (US\$m):	1,980.3
3-mth avg daily t'over (US\$m):	9.6

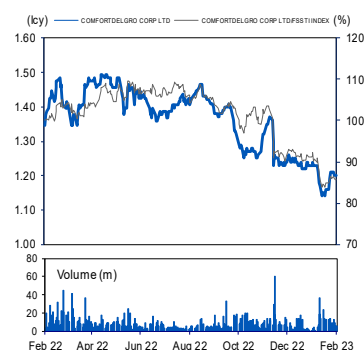
#### Price Performance (%)

52-week high/low			S\$1.50/S\$1.14	
1mth	3mth	6mth	1yr	YTD
(2.4)	(7.7)	(15.8)	(10.9)	(2.4)

#### Major Shareholders

FY23 NAV/Share (S\$)	1.29
FY23 Net Cash/Share (S\$)	0.40

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

Llalleythan Tan  
+65 6590 6624  
yirong@uobkayhian.com

## STOCK IMPACT

- Leadership under threat.** SBST has the largest market share with nine out of the 14 total bus packages currently contracted. But the upcoming tenders for the two bus packages may lead to a potential loss of one or two bus packages for SBST, eroding the group's leading market share. As our base case, we reckon that SBST is set to lose both of its bus packages as we opine that LTA is aiming to diversify competition in the public bus sector. Based on our estimates, the loss of both bus packages would cause CD's earnings drop by about 3% and 10% for 2023 and 2024 respectively. In our bull case, LTA may still award the two contracts to SBST, although they would likely be at lower margins given higher operating costs and inflationary pressures. This is similar to the five re-contracted bus packages from the Downtown Line's transition to the new rail financing framework version 2 which were extended at lower service fee rates. Based on our estimates, CD being re-awarded the two contracts would see earnings drop by 2-3% for both 2023 and 2024.
- Unprecedented surprise.** In Oct 22, it was announced that foreign bus operator Go-Ahead Singapore (GAS) was awarded a three-year extension to continue running bus services for the Loyang bus package up to 2026. The Loyang contract was initially set to expire in Sep 23 and would have been put up for tender via Singapore's bus contracting model (BCM). This was an unprecedented move by the LTA given that it differed from the typical stipulated contract duration of seven (5+2) years and diverged from BCM's original aim for competitive tender and price discovery. In our view, we reckon that the extension was given as: a) awarding the Loyang contract to other incumbent operators would have discouraged other foreign competitors from entering Singapore's public bus sector, and b) LTA is diversifying/increasing competition while preventing an oligopoly. Being the largest incumbent operator by market share, CD faces the highest risks of losing its bus packages.
- SMRTB is here to stay.** Besides the two bus packages (Bukit Merah and Jurong West) up for tender, two other bus packages are set to expire in 2023 (Choa Chu Kang-Bukit Panjang and Woodlands). These two contracts are currently being operated by SMRT Buses (SMRTB) and are at the tail end of their seven-year contracts. However, LTA has not put up these bus packages up for tender despite their upcoming expiries. In our view, we reckon that extensions would be given to SMRTB for these two contracts, similar to the three-year extension given to GAS and for similar reasons as mentioned in the previous paragraph. Given that it takes about four months for the tender bidding application process, 3-6 months for evaluation and minimally six months after for handover, the timeline is too tight for a new operator to take over by Sep 23 and SMRTB is likely to be granted extensions. Looking back at a recent tender in 2016, tenders for Bulim and Sembawang-Yishun bus packages were called two years in advance from expiration. SMRTB had also noted that the company was submitting bids for the Bukit Merah and Jurong West bus packages, ruling out SMRTB's potential exit from the industry.

## EARNINGS REVISION/RISK

- We decrease our 2022-24 earnings estimates,** after accounting for the loss of both contracts in 2023 and 2024, the extended taxi rental rebates along with weaker overseas contributions due to an appreciating Singapore dollar. Our new 2022/23/24 PATMI forecasts are S\$187.6m (S\$194.9m previously), S\$179.2m (S\$186.0m previously) and S\$181.9m (S\$202.9m previously) respectively.

## VALUATION/RECOMMENDATION

- Downgrade to HOLD with a lower SOTP-based target price of S\$1.38 (S\$1.59 previously),** largely due to a 25% discount applied to CD's SBST stake accounting for the uncertainty regarding SBST's upcoming tenders and a change in valuation methodology for the UK bus segment from an EV/EBITDA valuation to a P/B valuation.
- Currently trading below 1x 2023 P/B, we opine that CD is fairly valued at current price levels, despite improving fundamentals, a decent dividend yield and a robust balance sheet. Near- to medium-term earnings headwinds, margin compression and a lack of catalysts would cap share price performance, in our view. We recommend investors to take profit on any run-up in share price performance close to our target price.

## SHARE PRICE CATALYST

- Bus tender contract wins, earnings-accretive overseas acquisitions.

## SINGAPORE'S CURRENT BUS PACKAGES

Route Package	Contract Period	Operator	Remarks
Loyang	Sep 2016 – 2026	GAS	(extended by 3 years to 2026)
Bulim	May 2021 – 2026	TTS	
Sembawang – Yishun	Sep 2021 – 2026	TTS	
Choa Chu Kang – Bukit Panjang	Sep 2016 – 2023	SMRTB	(Not put up for tender)
Woodlands	Sep 2016 – 2023	SMRTB	(Not put up for tender)
Bukit Merah	Nov 2018 – 2023	SBST	(Up for tender)
Jurong West	Sep 2016 – 2024	SBST	(Up for tender)
Sengkang – Hougang	Sep 2016 – 2024	SBST	
Bedok	Sep 2016 – 2023	SBST	(will be extended DTL)
Tampines	Sep 2016 – 2024	SBST	(will be extended DTL)
Seletar	Mar 2018 – 2025	SBST	(extended by 2 years to 2025)
Serangoon – Eunos	Sep 2016 – 2025	SBST	(will be extended DTL)
Clementi	Sep 2016 – 2025	SBST	(will be extended DTL)
Bishan – Toa Payoh	Sep 2016 – 2026	SBST	(will be extended DTL)

Source: LTA, UOB Kay Hian, CD, GeBiz, SBST

## SOTP VALUATION

Business	Value per share (S\$)	Previous value per share (S\$)	Remarks
SBST stake	0.21	0.28	Current Market Cap with 25% discount
Vicom stake	0.21	0.21	Current Market Cap
UK Buses	0.15	0.24	1H22 Book Value
Taxi	0.26	0.26	1H22 Book Value
Automotive + Bus Station + Driving Centre	0.06	0.06	1H22 Book Value
Australia	0.29	0.34	6x 2022F EV/EBITDA*
Net Cash (Debit)	0.20	0.21	FY22F Net Cash
<b>Total Valuation</b>	<b>1.38</b>	<b>1.59</b>	

Source: UOB Kay Hian, Bloomberg. \*Based on comparable transactions

## HISTORICAL FORWARD PE



Source: UOB Kay Hian, Bloomberg

**PROFIT & LOSS**

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	3,538.3	3,771.0	3,920.9	3,915.3
EBITDA	611.6	691.4	667.7	665.3
Deprec. & amort.	401.6	400.2	386.0	379.3
EBIT	210.0	291.3	281.7	286.0
Total other non-operating income	6.2	13.8	13.8	13.8
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>296.8</b>	<b>287.2</b>	<b>291.5</b>
Tax	(44.9)	(62.3)	(63.2)	(64.1)
Minorities	(29.9)	(46.9)	(44.8)	(45.5)
<b>Net profit</b>	<b>130.1</b>	<b>187.6</b>	<b>179.2</b>	<b>181.9</b>
Net profit (adj.)	130.1	147.6	179.2	181.9

**BALANCE SHEET**

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,430.5	2,280.3	2,094.3	1,965.0
Other LT assets	936.2	936.6	937.0	937.4
Cash/ST investment	919.1	1,053.1	1,271.5	1,429.7
Other current assets	669.2	726.8	755.9	754.7
<b>Total assets</b>	<b>4,955.0</b>	<b>4,996.8</b>	<b>5,058.7</b>	<b>5,086.8</b>
ST debt	23.9	23.9	23.9	23.9
Other current liabilities	966.2	956.1	954.8	916.5
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	2,742.4	2,791.7	2,843.6
Minority interest	429.8	445.8	459.7	474.3
<b>Total liabilities &amp; equity</b>	<b>4,955.0</b>	<b>4,996.8</b>	<b>5,058.7</b>	<b>5,086.8</b>

**CASH FLOW**

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>660.9</b>	<b>561.4</b>	<b>574.1</b>	<b>564.0</b>
Pre-tax profit	204.9	296.8	287.2	291.5
Tax	(71.3)	(62.3)	(63.2)	(64.1)
Deprec. & amort.	401.6	400.2	386.0	379.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	75.0	(67.7)	(30.4)	(37.1)
Non-cash items	50.7	(5.5)	(5.5)	(5.5)
Other operating cashflows	0.0	0.0	0.0	0.0
<b>Investing</b>	<b>(203.8)</b>	<b>(236.6)</b>	<b>(186.6)</b>	<b>(236.6)</b>
Capex (growth)	(228.2)	(250.0)	(200.0)	(250.0)
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	13.4	13.4	13.4
<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>134.0</b>	<b>218.3</b>	<b>158.3</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>742.8</b>	<b>919.1</b>	<b>1,053.1</b>	<b>1,271.5</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>1,053.1</b>	<b>1,271.5</b>	<b>1,429.7</b>

**KEY METRICS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	17.3	18.3	17.0	17.0
Pre-tax margin	5.8	7.9	7.3	7.4
Net margin	3.7	5.0	4.6	4.6
ROA	2.5	3.8	3.6	3.6
ROE	4.9	6.9	6.5	6.5
<b>Growth</b>				
Turnover	9.6	6.6	4.0	(0.1)
EBITDA	13.3	13.1	(3.4)	(0.4)
Pre-tax profit	74.8	44.8	(3.2)	1.5
Net profit	110.5	44.2	(4.4)	1.5
Net profit (adj.)	18.2	13.4	21.5	1.5
EPS	18.2	13.4	21.5	1.5
<b>Leverage</b>				
Debt to total capital	9.8	9.7	9.5	9.3
Debt to equity	12.6	12.4	12.2	12.0
Net debt/(cash) to equity	(21.4)	(26.0)	(33.3)	(38.3)
Interest cover (x)	54.1	83.2	80.4	80.1

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W