

COMPANY UPDATE

ComfortDelGro Corporation (CD SP)

No Longer In The West For Now

LTA announced the tender results for the Bukit-Merah and Jurong-West bus packages whereby the incumbent, CD's subsidiary SBST, won the tender for the Bukit-Merah bus package but lost the latter. We had accounted for CD to lose both bus packages. With the removal of this near-term earnings overhang, we like CD for its improving fundamentals, decent 4.7% dividend yield and robust balance sheet, Maintain BUY with a higher target price of S\$1.56 (S\$1.53 previously).

WHAT'S NEW

- Competition heats up.** Singapore's Land Transport Authority (LTA) announced the results for the Bukit-Merah and Jurong-West bus packages whereby the incumbent, SBS Transit (SBST), would continue to run the Bukit-Merah bus package after its expiry in Apr 24 for an additional five years (option to extend contract by 2-5 years). However, SBST lost the tender for the Jurong-West bus package and would be handing the operations over to local competitor, SMRT Buses, by Sep 24. Despite the loss of the Jurong-West bus package, SBST still retains the largest market share of 55%, managing eight bus packages by Sep 24.

SUMMARY OF THE BID PRICES FOR BUKIT-MERAH AND JURONG-WEST BUS PACKAGES

----- Bukit Merah Bus Package -----		----- Jurong West Bus Package -----		----- Combined Bus Package -----	
Company	Bid Price (S\$m)	Company	Bid Price (S\$m)	Company	Bid Price (S\$m)
SBST (Alternative bid)*	S\$476m*	SMRT Buses *	S\$412m*	SBST (Alternative bid)	S\$896m
SBST (Base bid)	S\$492m	SBST (Alternative bid)	S\$421m	SMRT Buses	S\$911m
SMRT Buses	S\$496m	Tower Transit (Alternative bid)	S\$427m	SBST (Base bid)	S\$920m
Tower Transit (Alternative bid)	S\$533m	SBST (Base bid)	S\$430m	Tower Transit (Alternative bid)	S\$956m
Tower Transit (Base bid)	S\$544m	Tower Transit (Base bid)	S\$443m	Tower Transit (Base bid)	S\$987m
National Express Group	S\$563m	Go-Ahead (Alternative bid)	S\$479m	Go-Ahead (Alternative bid)	S\$1,040m
Go-Ahead (Alternative bid)	S\$576m	Go-Ahead (Base bid)	S\$486m	Go-Ahead (Base bid)	S\$1,051m
Go-Ahead (Base bid)	S\$580m	Transdev Group	S\$519m	National Express Group	S\$1,064m
Transdev Group (Alternative bid)	S\$597m	National Express Group	S\$536m	Transdev Group (Alternative bid)	S\$1,074m
Transdev Group (Base bid)	S\$599m	-	-	Transdev Group (Base bid)	S\$1,075m

Source: LTA, UOB Kay Hian *Winning bids

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,503	3,781	4,055	4,290	4,482
EBITDA	576	627	651	695	746
Operating profit	200	270	288	323	363
Net profit (rep./act.)	120	173	196	219	246
Net profit (adj.)	120	137	196	219	246
EPS (S\$ cent)	5.5	6.3	9.0	10.1	11.3
PE (x)	23.3	20.4	14.3	12.8	11.4
P/B (x)	1.0	1.1	1.1	1.0	1.0
EV/EBITDA (x)	4.4	4.0	3.9	3.6	3.4
Dividend yield (%)	3.3	6.6	4.7	5.4	5.8
Net margin (%)	3.4	4.6	4.8	5.1	5.5
Net debt/(cash) to equity (%)	(21.6)	(26.3)	(27.1)	(30.4)	(34.5)
Interest cover (x)	51.0	47.2	31.8	34.0	51.0
ROE (%)	4.5	6.6	7.5	8.2	9.0
Consensus net profit	-	-	179	195	205
UOBKH/Consensus (x)	-	-	1.10	1.12	1.20

Source: ComfortDelGro Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.29
Target Price	S\$1.56
Upside	+20.4%
(Previous TP)	S\$1.53)

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):	2,165.7
Market cap (S\$m):	2,793.8
Market cap (US\$m):	2,059.2
3-mth avg daily t'over (US\$m):	7.5

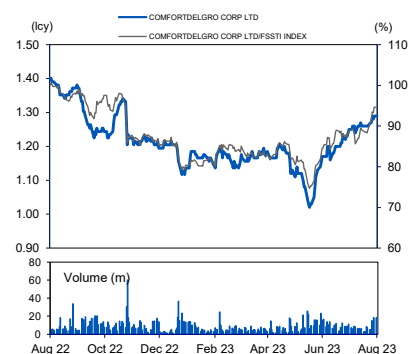
Price Performance (%)

52-week high/low	S\$1.40/S\$1.02			
1mth	3mth	6mth	1yr	YTD
4.9	15.2	10.6	(10.2)	7.1

Major Shareholders

	%
-	-
-	-
-	-
FY23 NAV/Share (S\$)	1.22
FY23 Net Cash/Share (S\$)	0.33

PRICE CHART



Source: Bloomberg

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- Lowest bid wins.** In our view, looking at the bid prices for the two bus packages, it is likely that price was a major factor in the decision-making process, given that SBST's combined bus package bid of S\$896m was the lowest combined package bid by S\$15m but was yet rejected for the two lowest individual winning bids for each respective bus package which had a lower total price of S\$888m. However, LTA did note that a two-enveloped process was used in the decision-making process, implying that LTA only looked at price submissions after a quality evaluation of the bids was completed. We opine that awarding both bus packages to the same incumbent instead of two different operators was more likely, given existing economies of scale and removing the need for a transition.
- Compressed margins.** Based on the previous Bukit-Merah bus tender in 2016 (see chart overleaf), bid prices for the Bukit-Merah bus package ranged from S\$419m-519m, with the winning bid from SBST at ~S\$472m. This recent tender saw bid prices that were a lot higher at S\$476m-599m. In our view, the higher bid prices were largely due to expected increased operating expenses to run the bus package, driven by inflationary pressures. As SBST's recent winning bid price of S\$476m is similar to that of 2016's, we expect lower margins for the Bukit-Merah bus contract due to increased operating costs, in line with our previous expectations. Furthermore, as mentioned earlier, seeing that price is a major factor in LTA's decision making, competitors would be more incentivised to bid lower for future bus package tenders, leading to potentially lower margins moving forward.
- Clear incumbency advantage.** Looking at the bids for both bus packages, the incumbents (SBST, SMRT Buses, Tower Transit, Go-Ahead) had bid prices lower than the two new potential foreign entrants (Transdev and National Express). Currently managing bus packages in Singapore, coupled with existing domestic operations, we reckon that the incumbents have a clear competitive advantage over new potential foreign entrants, driven by better economies of scale and domestic market expertise. Although LTA's Bus Contracting Model is still facing rational competition for now, we opine that the higher barriers of entry for foreign operators may lead to irrational competition, seeing that price is a major factor in LTA's decision making. With CD's Sengkang-Hougang bus package expiring in Sep 24, we may see irrational bids from potential foreign operators who aim to gain a foothold in Singapore.

STOCK IMPACT

- Boost to our estimates.** As a recap, we have already factored the loss of both packages in our estimates previously. With CD only losing the Jurong-West package coupled with lower margins for the Bukit-Merah contract, we estimate a 2-3% boost to our 2024-25 earnings estimates.

EARNINGS REVISION/RISK

- We increase our 2024-25 PATMI estimates by 2-3%**, on the back CD retaining the Bukit-Merah contract, while leaving our 2023 PATMI estimate unchanged. Our new 2023/24/25 PATMI forecasts are S\$195.7m (unchanged), S\$219.1m (S\$215.7m previously) and S\$245.9m (S\$240.9m previously) respectively.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher PE-based target price of S\$1.56 (S\$1.53 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.

BID PRICES FOR THE BUKIT-MERAH BUS PACKAGE TENDER IN 2016

Country	Company	Bid Price (\$m)
China/Local	Jiaoyun Group Corporation / Travel GSH Pte Ltd Consortium	S\$419m
Local*	SBST*	S\$472m*
China	Shenzhen Bus Group Co. Ltd.	S\$449m
Local	SMRT Buses Ltd	S\$445m
Local	The Go-Ahead Group Plc	S\$519m
Local	Tower Transit Singapore Pte. Ltd.	S\$484m

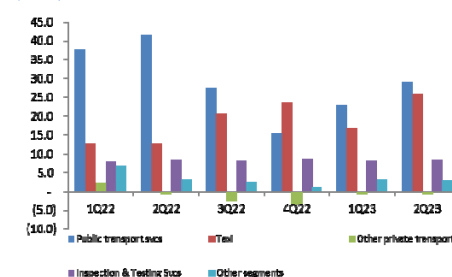
Source: LTA, UOB Kay Hian, *Winning Bid.

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	(likely to be extended)
Woodlands	Sep 2016 – 2023	SMRTB	(likely to be extended)
Jurong West	Sep 2016 – 2024 Sep 2024 – 2029	SBST SMRT	
Bukit Merah	Nov 2018 – Apr 2024 Apr 2024 – 2029	SBST	(Renewed at lower margins)
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

SEGMENTAL QUARTERLY OPERATING PROFIT (\$M)



Source: UOB Kay Hian, CD

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	3,780.8	4,054.8	4,289.7	4,482.2
EBITDA	627.2	651.2	695.1	745.6
Deprec. & amort.	357.2	363.4	371.7	382.2
EBIT	270.0	287.8	323.4	363.4
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	333.9	374.8
Tax	(54.2)	(53.7)	(60.1)	(67.5)
Minorities	(45.4)	(48.9)	(54.8)	(61.5)
Net profit	173.1	195.7	219.1	245.9
Net profit (adj.)	136.8	195.7	219.1	245.9

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	602.3	508.6	597.0	635.0
Pre-tax profit	272.7	298.4	333.9	374.8
Tax	(79.9)	(53.7)	(60.1)	(67.5)
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	(69.5)
Non-cash items	(6.7)	(9.8)	(9.8)	(10.6)
Other operating cashflows	130.6	(226.5)	(114.1)	25.6
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	106.5	139.6
Beginning cash & cash equivalent	919.1	967.0	1,006.8	1,113.3
Changes due to forex impact	(28.7)	0.0	0.0	0.0
Ending cash & cash equivalent	967.0	1,006.8	1,113.3	1,252.9

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	1,113.3	1,252.9
Other current assets	677.7	726.3	767.3	800.5
Total assets	4,700.8	4,740.8	4,831.6	4,932.2
ST debt	26.8	26.8	26.8	26.8
Other current liabilities	1,014.0	972.9	975.1	964.4
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	2,701.9	2,785.2
Minority interest	430.5	445.9	467.2	495.2
Total liabilities & equity	4,700.8	4,740.8	4,831.6	4,932.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.6	16.1	16.2	16.6
Pre-tax margin	7.2	7.4	7.8	8.4
Net margin	4.6	4.8	5.1	5.5
ROA	3.6	4.1	4.6	5.0
ROE	6.6	7.5	8.2	9.0
Growth				
Turnover	7.9	7.2	5.8	4.5
EBITDA	8.9	3.8	6.7	7.3
Pre-tax profit	40.1	9.4	11.9	12.3
Net profit	44.4	13.1	11.9	12.3
Net profit (adj.)	14.1	43.1	11.9	12.3
EPS	14.1	43.1	11.9	12.3
Leverage				
Debt to total capital	8.9	8.7	8.4	8.2
Debt to equity	11.4	11.1	10.8	10.5
Net debt/(cash) to equity	(26.3)	(27.1)	(30.4)	(34.5)
Interest cover (x)	47.2	31.8	34.0	51.0

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