

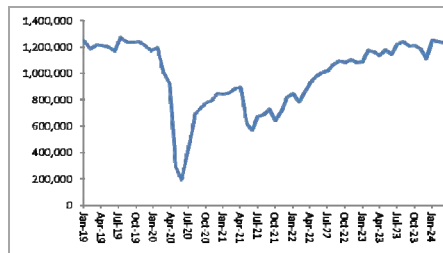
COMPANY UPDATE

ComfortDelGro Corporation (CD SP)

Backed By Favourable Tailwinds

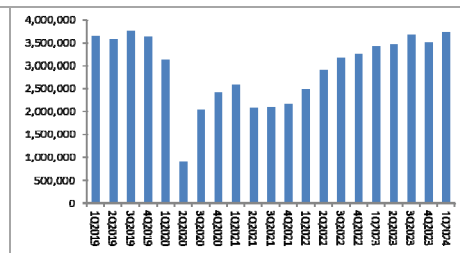
CD's wholly-owned UK subsidiary has been awarded four new public bus contracts. We maintain our expectations that CD would post a strong 1Q24 driven by favourable tailwinds for both the public transport services and taxi segments. We also highlight several points from CD's responses to shareholder questions. In view of improving fundamentals and a lush 5.5% dividend yield, we maintain BUY and a higher target price of S\$1.72. CD remains one of our conviction picks for 1H24.

SBS TRANSIT MONTHLY RAIL RIDERSHIP



Source: SBS Transit, UOB Kay Hian

SBS TRANSIT QUARTERLY RAIL RIDERSHIP



Source: SBS Transit, UOB Kay Hian

WHAT'S NEW

- Strong end to 1Q24.** As predicted in our previous report, ComfortDelGro Corporation's (CD) Mar 24 (+6.1% yoy) rail ridership has surpassed 2019 pre-pandemic levels for the third consecutive month at 101.4% of 2019 levels. On a quarterly basis, 1Q24 rail ridership was also higher (+8.8% yoy, +6.2% qoq), surpassing 2019 levels by 2.0% for the first time after the pandemic. Backed by higher rail fares implemented in Dec 23 along with increased margins from ongoing UK bus contract renewals, we maintain our expectations that CD's public transport services segment would post higher revenue and profitability for 1Q24.
- Awarded UK bus contracts.** CD announced that its wholly-owned subsidiary, Metroline Limited, has been awarded contracts to operate four public bus franchises by the Greater Manchester Combined Authority for a period of five years with options to be extended for two one-year terms starting Jan 25. These franchises will comprise a total of 232 different services served by 420 buses and over 1,350 employees, adding twice as many services and a 30 percent increase over its London portfolio. In our view, this is positive for CD as these four packages are worth approximately S\$720m over five years. Assuming 8% operating margins and an even allocation over five years, this equates to roughly S\$12m in operating profit growth and would increase our 2025-26 PATMI estimates by around 3-4%.

KEY FINANCIALS

Year to 31 Dec (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	3,781	3,880	4,019	4,276	4,375
EBITDA	627	636	691	743	789
Operating profit	270	272	337	375	407
Net profit (rep./fact.)	173	181	233	260	281
Net profit (adj.)	137	174	233	260	281
EPS (\$ cent)	6.3	8.0	10.8	12.0	13.0
PE (x)	23.4	18.4	13.8	12.4	11.4
P/B (x)	1.2	1.2	1.2	1.2	1.2
EV/EBITDA (x)	4.9	4.9	4.5	4.2	3.9
Dividend yield (%)	5.7	4.5	5.5	6.1	6.6
Net margin (%)	4.6	4.7	5.8	6.1	6.4
Net debt/(cash) to equity (%)	(26.3)	(19.5)	(19.3)	(22.0)	(26.6)
Interest cover (x)	47.2	27.8	35.9	53.0	75.1
ROE (%)	6.6	7.0	8.9	9.7	10.2
Consensus net profit	-	-	216	233	257
UOBKH/Consensus (x)	-	-	1.08	1.11	1.10

Source: ComfortDelGro Corporation Limited, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.48
Target Price	S\$1.72
Upside	+16.2%
(Previous TP)	S\$1.66)

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 and maintenance services.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CD SP
Shares issued (m):	2,165.7
Market cap (S\$m):	3,205.3
Market cap (US\$m):	2,352.8
3-mth avg daily t'over (US\$m):	5.4

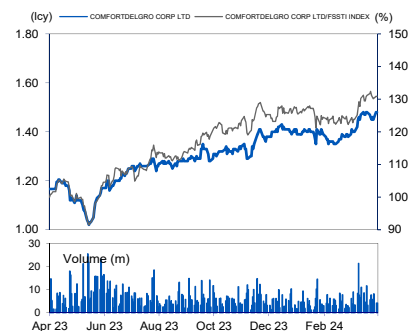
Price Performance (%)

52-week high/low	S\$1.48/S\$1.02			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
7.2	5.0	15.6	24.8	5.7

Major Shareholders

	%
-	-
-	-
-	-
FY24 NAV/Share (S\$)	1.23
FY24 Net Cash/Share (S\$)	0.24

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- CD recently released answers to several shareholder questions ahead of its annual general meeting on 26 Apr 24. We summarise and highlight some points below.
- **Upgrading online user experience.** In response to plans on increasing revenue and adoption of the online booking app Zig, CD noted that the group plans to boost adoption via partnerships with financial institutions, airlines and event organisers. Also, the group would continuously maintain and improve the tech stack of the Zig app, improving usability and user experience. In our view, we reckon that this would help boost online trip counts and taxi commission revenue. For Feb 24, 88.2% of total point-to-point (P2P) average daily trips in Singapore were ride-hailing trips, up from 87.7% in Jan 24 and the highest since it was recorded in Jan 21. This implies a secular shift to ride-hailing versus street-hailing. With higher commission rates from 1Q24 coupled with increasing adoption, we reckon that upgrading CD's Zig app would help boost profitability for the taxi segment moving forward.
- **Stable taxi utilisation.** CD noted that the unhired rate for its Singapore taxi fleet typically stands at less than 5% of the group's total fleet. This is in line with expectations – we understand that the unhired rate has remained around 3% post-pandemic.
- **Rail segment likely unprofitable for now.** Due to the commercial sensitivity of CD's rail segment, the group was unable to clarify on the rail segment's profitability. Based on our estimates, we reckon that CD's rail segment remains unprofitable in 2023. According to CD's rail competitor SMRT Corporation (SMRT), SMRT Trains posted an operating profit of S\$6.1m for 2023. Given that CD has a lower annual rail ridership than SMRT and that the Downtown line posted an operating loss of S\$46.1m pre-pandemic, we estimate that CD's rail segment was still unprofitable in 2023 at around S\$15m operating loss. However, with the higher rail fares implemented in Dec 23, we expect margins for the CD's rail segment to improve and reach near break-even levels in 2024.
- **Better UK prospects.** In line with our expectations, CD noted that revenue and profitability from the group's UK operations are expected to improve on the back of upcoming cost indexations and ongoing higher bus contract renewals. Looking back to 3Q23 (see chart overleaf) when most of CD's UK bus contracts cost indexations started to come through, the UK segment reversed four consecutive quarters of operating losses to a quarterly operating profit of S\$6.1m. Also, we understand that about 20% of UK bus contracts are expected to undergo contract renewals at higher service fees in the next two to three quarters which would help boost margins for the UK segment in our view. A return to pre-pandemic operating profits could potentially boost our 2024 overall annual operating profit by around 7-8%.

### EARNINGS REVISION/RISK

- **We increase our 2025-26 PATMI estimates by 3-4%**, as we factor in contributions from the new UK public bus contracts. Our 2024-26 PATMI forecasts are S\$233.1m (unchanged), S\$259.7m (S\$251.0m previously) and S\$281.4m (S\$275.6m previously) respectively.

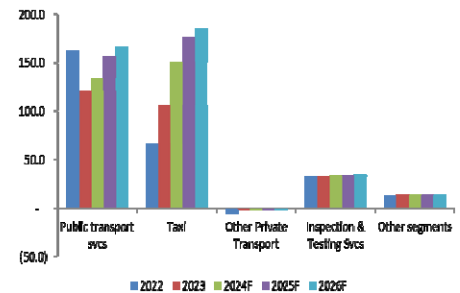
### VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of S\$1.72 (S\$1.66 previously)**, pegged to 16x 2024F PE (15x 2024F PE previously), CD's five-year average long-term PE (10-year average long-term PE previously).
- With improving fundamentals, a lush 5.5% dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Despite the recent strong share price performance, we opine that there is still upside at current price levels. Backed by upcoming favourable tailwinds, we reckon that better sequential earnings improvement for CD for 1Q24 would help support share price performance in 1H24.

### SHARE PRICE CATALYST(S)

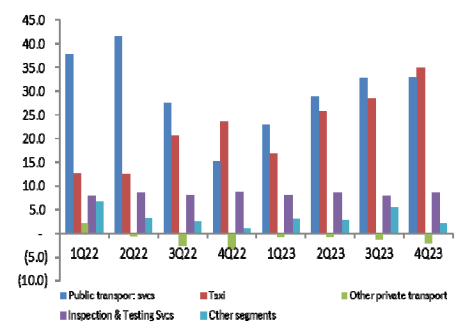
- Bus tender contract wins, increase in taxi commission rates and earnings-accretive overseas acquisitions.

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



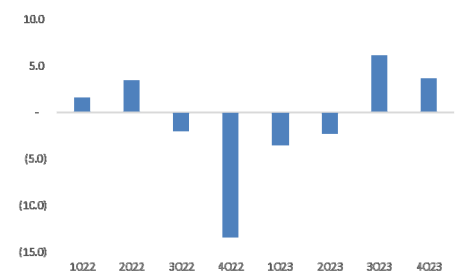
Source: UOB Kay Hian, CD

### SEGMENTAL QUARTERLY OPERATING PROFIT (\$\$M)



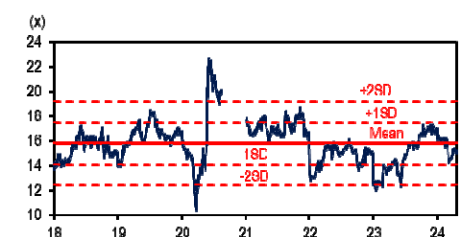
Source: UOB Kay Hian, CD

### CD'S UK CORE OPERATING PROFIT (\$\$M)



Source: UOB Kay Hian, CD

### HISTORICAL FORWARD PE RATIO



Source: UOB Kay Hian, Bloomberg

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>3,880.3</b>	<b>4,019.4</b>	<b>4,276.4</b>	<b>4,375.4</b>
EBITDA	636.3	691.4	742.6	789.4
Deprec. & amort.	364.2	354.4	367.2	382.7
EBIT	272.1	337.0	375.3	406.7
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)
<b>Pre-tax profit</b>	<b>280.0</b>	<b>347.6</b>	<b>387.3</b>	<b>419.8</b>
Tax	(55.0)	(69.5)	(77.5)	(84.0)
Minorities	(44.5)	(45.1)	(50.2)	(54.4)
<b>Net profit</b>	<b>180.5</b>	<b>233.1</b>	<b>259.7</b>	<b>281.4</b>
Net profit (adj.)	174.1	233.1	259.7	281.4

### BALANCE SHEET

Year to 31 Dec (\$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	862.8	947.6	1,091.2
Other current assets	757.2	779.2	823.1	839.3
<b>Total assets</b>	<b>4,689.7</b>	<b>4,663.6</b>	<b>4,725.4</b>	<b>4,804.0</b>
ST debt	115.4	115.4	115.4	115.4
Other current liabilities	976.2	905.3	910.0	922.8
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	2,655.2	2,719.8	2,788.8
Minority interest	416.2	403.6	396.1	392.8
<b>Total liabilities &amp; equity</b>	<b>4,689.7</b>	<b>4,663.6</b>	<b>4,725.4</b>	<b>4,804.0</b>

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>449.1</b>	<b>530.9</b>	<b>628.6</b>	<b>705.3</b>
Pre-tax profit	280.0	347.6	387.3	419.8
Tax	(82.5)	(69.5)	(77.5)	(84.0)
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	(159.4)	(257.6)
Non-cash items	12.9	(8.6)	(9.4)	(9.9)
Other operating cashflows	(262.3)	(132.5)	120.3	254.2
<b>Investing</b>	<b>(330.5)</b>	<b>(272.5)</b>	<b>(277.0)</b>	<b>(281.0)</b>
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
<b>Financing</b>	<b>(224.1)</b>	<b>(252.5)</b>	<b>(266.8)</b>	<b>(280.6)</b>
Dividend payments	(209.8)	(233.3)	(252.8)	(270.1)
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)
<b>Net cash inflow (outflow)</b>	<b>(105.5)</b>	<b>5.9</b>	<b>84.8</b>	<b>143.6</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>967.0</b>	<b>856.9</b>	<b>862.8</b>	<b>947.6</b>
Changes due to forex impact	(4.6)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>856.9</b>	<b>862.8</b>	<b>947.6</b>	<b>1,091.2</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	16.4	17.2	17.4	18.0
Pre-tax margin	7.2	8.6	9.1	9.6
Net margin	4.7	5.8	6.1	6.4
ROA	3.8	5.0	5.5	5.9
ROE	7.0	8.9	9.7	10.2
<b>Growth</b>				
Turnover	2.6	3.6	6.4	2.3
EBITDA	1.5	8.7	7.4	6.3
Pre-tax profit	2.7	24.2	11.4	8.4
Net profit	4.3	29.1	11.4	8.4
Net profit (adj.)	27.3	33.9	11.4	8.4
EPS	27.3	33.9	11.4	8.4
<b>Leverage</b>				
Debt to total capital	10.4	10.3	10.1	9.9
Debt to equity	13.5	13.2	12.9	12.6
Net debt/(cash) to equity	(19.5)	(19.3)	(22.0)	(26.6)
Interest cover (x)	27.8	35.9	53.0	75.1

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