

COMPANY UPDATE

ComfortDelGro Corporation (CD SP)

Starting 2025 With Multiple Headwinds.

CD announced that it has raised its taxi platform fees starting 2025 to offset rising manpower costs from the Platform Workers Act. Two new competitors have also entered the domestic ride-hailing market, further increasing competition. One of SBS Transit's existing bus contracts has been put up for tender, implying potential near-term earnings risks. Nonetheless, underpinned by strong earnings growth, we maintain BUY but with a lower target price of S\$1.77.

WHAT'S NEW

- Higher platform fees.** ComfortDelGro Corporation (CD) recently announced that it has raised its platform fee on its online booking app Zig by S\$0.30 to S\$0.50 starting 1 Jan 25. This is in response to rising costs from the Platform Workers Act which would require platform companies such as CD to contribute more to the Central Provident Fund accounts of platform workers, coupled with work injury initiatives and enhanced insurance coverage. Following the increase in platform fees, CD's platform fees would increase from a flat fee of S\$0.70 to S\$1-1.20 depending on distance travelled and travel time. Other domestic ride-hailing competitors such as Grab and Gojek have also increased their platform fees in response to the Platform Workers Act.
- Minimal impact.** Based on our estimates, we expect minimal earnings impact from the increased platform fees for CD's taxi segment. We reckon that the increase in platform fee revenue would be largely offset by higher manpower costs incurred due to the Platform Workers act. Furthermore, as ride-hailing becomes slightly more expensive sector-wide, we opine that CD's online booking volumes may be impacted as consumers switch to cheaper alternatives such as public transport. Given that CD's online booking volumes have already been on a downtrend (see chart overleaf), we expect booking levels to continue trending downwards after the increase in platform fees.
- Up for tender.** Singapore's Land Transport Authority (LTA) recently announced that the Tampines bus package which is currently being run by CD's subsidiary, SBS Transit, has been called for tender with results expected in 2H25. The existing bus package is expected to expire in Jul 26 and is likely to draw bids from both domestic and foreign operators, similar to recent past tenders in 2022-23. Besides the usual two-envelope process which takes into account both quality and price factors, the LTA also mentioned that it would evaluate proposals for electric bus operations. As a recap, the Tampines bus package was one of five bus packages which were extended at lower service fees as part of a deal made with LTA due to the shift in financing framework for the Downtown MRT line. The expiry of the other four packages have not been made known to the public.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	3,781	3,880	4,474	5,146	5,327
EBITDA	627	636	678	769	820
Operating profit	270	272	324	402	438
Net profit (rep./act.)	173	181	210	251	273
Net profit (adj.)	137	174	210	237	273
EPS	6.3	8.0	9.7	10.9	12.6
PE (x)	22.8	17.9	14.8	13.2	11.5
P/B (x)	1.2	1.2	1.2	1.1	1.1
EV/EBITDA (x)	5.4	5.4	5.0	4.4	4.2
Dividend yield (%)	5.9	4.6	5.0	5.7	6.5
Net margin (%)	4.6	4.7	4.7	4.9	5.1
Net debt/(cash) to equity (%)	(26.3)	(19.5)	(4.4)	(7.5)	(12.5)
Interest cover (x)	47.2	27.8	32.3	20.5	19.9
ROE (%)	6.6	7.0	8.0	9.3	9.9
Consensus net profit	-	-	213	242	265
UOBKH/Consensus (x)	-	-	0.99	0.98	1.03

Source: ComfortDelGro Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.44
Target Price	S\$1.77
Upside	+23.1%
(Previous TP)	S\$1.83

COMPANY DESCRIPTION

ComfortDelGro Corporation Limited provides land transportation services. The Company offers bus, taxi, rail, car rental and leasing, automotive engineering services, inspection and testing services, driving centre, insurance broking services, and outdoor advertising.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CD SP
Shares issued (m):	2,166.1
Market cap (S\$m):	3,119.2
Market cap (US\$m):	2,277.6
3-mth avg daily t'over (US\$m):	4.5

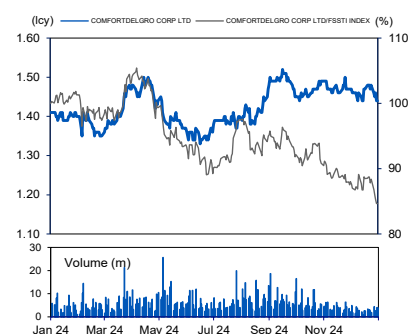
Price Performance (%)

52-week high/low	S\$1.53/S\$1.32			
1mth	3mth	6mth	1yr	YTD
(2.0)	(2.0)	5.1	2.1	(2.7)

Major Shareholders

-	-
FY24 NAV/Share (S\$)	1.22
FY24 Net Cash/Share (S\$)	0.05

PRICE CHART



Source: Bloomberg

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- Lower margins.** Like past tenders, we reckon that the upcoming Tampines bus package tender implies potential risks to CD's near- to medium-term earnings no matter the outcome. Even if CD wins back the Tampines bus package, we expect lower margins due to competitive bidding. In our view, CD's incumbency advantage is likely to increase its chances of winning back the contract given the existing economies of scale and cost savings that would allow CD to put in a competitive bid. However, based on our estimates, this would lead to a S\$2m decline in CD's 2026 public transport segmental operating profit as margins compress. If CD loses the contract, we expect around S\$4m (a half year's contribution) negative impact to CD's 2026 public transport segmental operating profit. As our base case, we expect CD to win back the Tampines bus package.
- Regulatory changes.** Singapore's LTA announced several new regulatory changes and updates upon the completion of the first phase of its ongoing point-to-point (P2P) industry review. Several changes to licensing conditions include: a) removal of call-booking requirement for smaller street-hail operators, b) implementing operational contingency plans and the doubling of exit notification period to 120 calendar days, c) features to improve matching for different service types such as accommodating wheelchair users, and d) operators will be required to display a standardised set of trip information to drivers to improve the transparency of trip requests.
- Increasing supply.** To attract more taxi drivers, the LTA has also streamlined the training curriculum for the taxi driver's vocational licence (TDVL) from 16 to 12 hours while also reducing the training hours required to convert a private hire car driver's vocational licence (PDVL) to a TDVL from eight to five hours. Also, the costs to obtain a TDVL would be reduced from S\$275 to S\$250 while costs to convert a PDVL to TDVL would drop from S\$145 to S\$132.50. We reckon that these measures would help mitigate the secular decline in taxi drivers (see RHS) which would specifically benefit major taxi operators such as CD.
- Greater competition.** The LTA announced that two new ride-hailing service providers, Geo Lah and Trans-cab Services, have been awarded one-year provisional licences. The provisional licences would allow the two new operators to fine-tune their operations before being considered for a full Ride-Hail Service Operator Licence. Also, existing major players such as CD and Grab have had their respective licences renewed.
- Compressed margins.** We expect the two new ride-hailing entrants to have a slight negative impact on CD's taxi margins as domestic competition intensifies. Given that most drivers are already on multiple service platforms, assuming competitive pricing from these new entrants, we expect CD's declining booking volumes to fall further, leading to lower margins for CD's taxi segment as online booking commission drops.
- Upcoming fare hike.** As a recap, bus and train fares in Singapore have increased by up to 6.0% starting Dec 24 following the Public Transport Council's (PTC) annual fare review. According to the PTC, SBS Transit is set to experience an S\$17.3m increase in annual revenue. Given that there are no incremental operating costs with the fare hike, we reckon that this would lead to higher margins for CD's public transport segment and flow straight to the bottom line. Based on our estimates, the upcoming 6% hike in rail fare would increase CD's net profit by around S\$9m-10m. We have already incorporated similar 6-7% price hike assumptions into our forecasts.

STOCK IMPACT

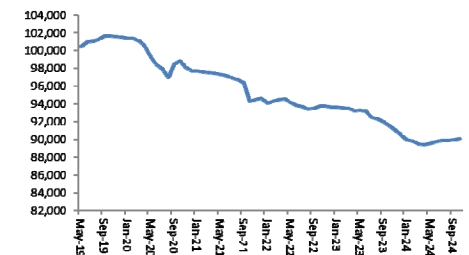
- Public transport: UK to improve in 4Q24.** Management noted that the UK bus contract renewals are still ongoing, which would lead to a better margin profile for 4Q24 and beyond (1Q24/2Q24/3Q24: 0.4%/2.8%/6.1% respectively). Excluding the consolidation of the Addison Lee acquisition, we maintain our expectations that margins for the UK business would continue trending upwards towards the high single-digit to low-teens % in the medium to long term, albeit at a gradual pace given that only 15-20% of contracts are renewed every year. Also, seasonally higher scheduled bus chartering activities in 4Q24 would boost segmental revenue and profitability. Closer to home, improving domestic rail ridership would help boost rail revenue yoy while bus revenues are set to drop for 4Q24 due to the loss of the Jurong-West bus contract coupled with softer margins from the Australian business

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 – 2026	SMRTB	(extended by 3 years)
Woodlands	Sep 2016 – 2026	SMRTB	(extended by 3 years)
Jurong West	Sep 2024 – 2029	SMRTB	Took over SBST
Bukit Merah	Apr 2024 – 2029	SBST	(Renewed at lower margins)
Sengkang – Hougang	Sep 2016 – 2024	SBST	(Likely already extended)
Seletar	Mar 2025 – 2030	SBST	(Recently awarded)
Tampines	Sep 2016 – 2026	SBST	(Put up for tender)
Bedok	Sep 2016 – 2023	SBST	(Extension unknown, DTL deal)
Serangoon – Eunos	Sep 2016 – 2025	SBST	(Extension unknown, DTL deal)
Clementi	Sep 2016 – 2025	SBST	(Extension unknown, DTL deal)
Bishan – Toa Payoh	Sep 2016 – 2026	SBST	(Extension unknown, DTL deal)

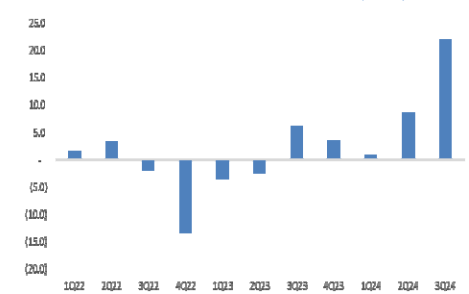
Source: LTA, UOB Kay Hian, CD, GeBiz, SBST

TOTAL NUMBER OF TDVL HOLDERS IN SINGAPORE



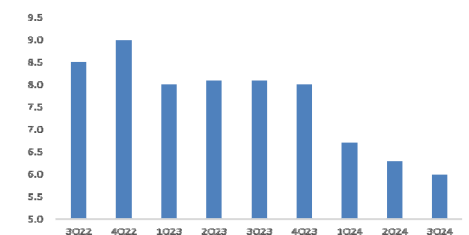
Source: LTA, UOB Kay Hian

UK QUARTERLY OPERATING PROFIT (\$M)



Source: CD, UOB Kay Hian

TAXI SEGMENT'S BOOKING VOLUMES (M)



Source: CD, UOB Kay Hian

- **Taxi: Strong growth despite stiff competition.** Moving into 4Q24, we expect stiff competition from ride-hailing peers to continue, leading to lower completed bookings and dragging down CD's overall commission on completed jobs. However, additional contributions from the A2B and the newly-completed Addison Lee acquisitions are expected to support the taxi segment's upward growth momentum. However, due to acquisition costs, management noted that any significant earnings impact from Addison Lee would likely only come through in 1Q25.

EARNINGS REVISION/RISK

- **We adjust our 2025-26 PATMI estimates slightly lower by 2-3%**, on the back of the lower margin assumptions for both the public transport and taxi segments while leaving our 2024 PATMI estimates unchanged. Our new 2024-26 core PATMI forecasts are S\$210.4m (unchanged), S\$237.1m (S\$241.7m previously) and S\$272.6m (S\$280.1m previously) respectively.

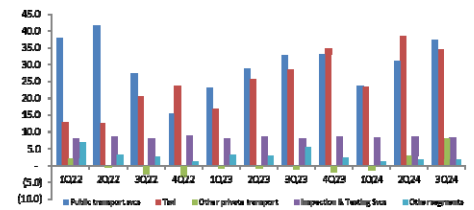
VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of S\$1.77 (S\$1.83 previously)**, pegged to the same 16x 2025F PE, CD's five-year average long-term PE. The lower target price is largely due to our lower 2025 PATMI estimates. Backed by CD's decent dividend yield of 5.7% for 2025, we opine that there is potential upside at current price levels, underpinned by strong earnings growth from the taxi segment and better margins from the UK bus business.

SHARE PRICE CATALYST(S)

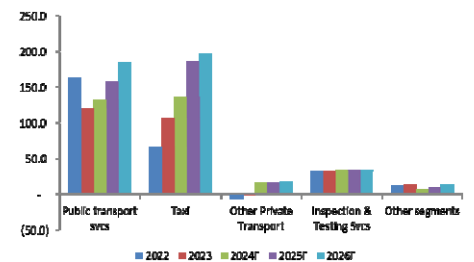
- Bus tender contract wins.
- Increase in taxi commission rates.
- Earnings-accretive overseas acquisitions.

SEGMENTAL QUARTERLY OPERATING PROFIT (\$M)



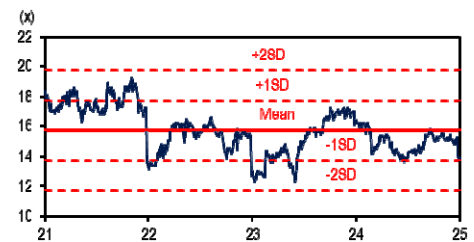
Source: CD, UOB Kay Hian

SEGMENTAL ANNUAL OPERATING PROFIT FORECASTS (\$M)



Source: CD, UOB Kay Hian

HISTORICAL FORWARD PE RATIO



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	3,880.3	4,474.2	5,145.9	5,326.5
EBITDA	636.3	678.2	769.0	820.3
Deprec. & amort.	364.2	354.4	367.2	382.7
EBIT	272.1	323.8	401.8	437.6
Total other non-operating income	29.4	16.0	16.0	16.0
Associate contributions	1.4	2.0	2.6	3.2
Net interest income/(expense)	(22.9)	(21.0)	(37.5)	(41.3)
Pre-tax profit	280.0	320.8	382.8	415.5
Tax	(55.0)	(64.2)	(76.6)	(83.1)
Minorities	(44.5)	(46.2)	(55.1)	(59.8)
Net profit	180.5	210.4	251.1	272.6
Net profit (adj.)	174.1	210.4	237.1	272.6

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,012.1	2,257.7	2,190.5	2,108.8
Other LT assets	1,063.5	1,169.5	1,175.5	1,181.5
Cash/ST investment	856.9	868.0	955.9	1,099.6
Other current assets	757.2	860.0	975.6	1,006.0
Total assets	4,689.7	5,155.3	5,297.4	5,395.9
ST debt	115.4	515.4	515.4	515.4
Other current liabilities	976.2	998.9	1,070.2	1,097.7
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	2,652.1	2,725.5	2,794.3
Minority interest	416.2	404.7	402.1	404.3
Total liabilities & equity	4,689.7	5,155.3	5,297.4	5,395.9

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	449.1	535.9	650.8	737.4
Pre-tax profit	280.0	320.8	382.8	415.5
Tax	(82.5)	(64.2)	(76.6)	(83.1)
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	(146.6)	(249.9)
Non-cash items	12.9	5.0	21.5	25.3
Other operating cashflows	(262.3)	(119.7)	102.4	246.9
Investing	(330.5)	(690.0)	(290.0)	(291.0)
Capex (growth)	(367.5)	(300.0)	(300.0)	(301.0)
Investments	(40.3)	(400.0)	0.0	0.0
Proceeds from sale of assets	44.1	0.0	0.0	0.0
Others	33.2	10.0	10.0	10.0
Financing	(224.1)	165.2	(273.0)	(302.7)
Dividend payments	(209.8)	(213.8)	(235.4)	(261.4)
Proceeds from borrowings	1,707.4	400.0	0.0	0.0
Loan repayment	(1,659.6)	0.0	0.0	0.0
Others/interest paid	(62.1)	(21.0)	(37.5)	(41.3)
Net cash inflow (outflow)	(209.8)	(213.8)	(235.4)	(261.4)
Beginning cash & cash equivalent	967.0	856.9	868.0	955.9
Changes due to forex impact	(4.6)	0.0	0.0	0.0
Ending cash & cash equivalent	856.9	868.0	955.9	1,099.6

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	16.4	15.2	14.9	15.4
Pre-tax margin	7.2	7.2	7.4	7.8
Net margin	4.7	4.7	4.9	5.1
ROA	3.8	4.3	4.8	5.1
ROE	7.0	8.0	9.3	9.9
Growth				
Turnover	2.6	15.3	15.0	3.5
EBITDA	1.5	6.6	13.4	6.7
Pre-tax profit	2.7	14.6	19.3	8.5
Net profit	4.3	16.6	19.3	8.5
Net profit (adj.)	27.3	20.9	12.7	14.9
EPS	27.3	20.9	12.7	14.9
Leverage				
Debt to total capital	10.4	19.7	19.3	19.0
Debt to equity	13.5	28.3	27.5	26.9
Net debt/(cash) to equity	(19.5)	(4.4)	(7.5)	(12.5)
Interest cover (x)	27.8	32.3	20.5	19.9

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