

ComfortDelGro (CD SP)

Transport - Transportation

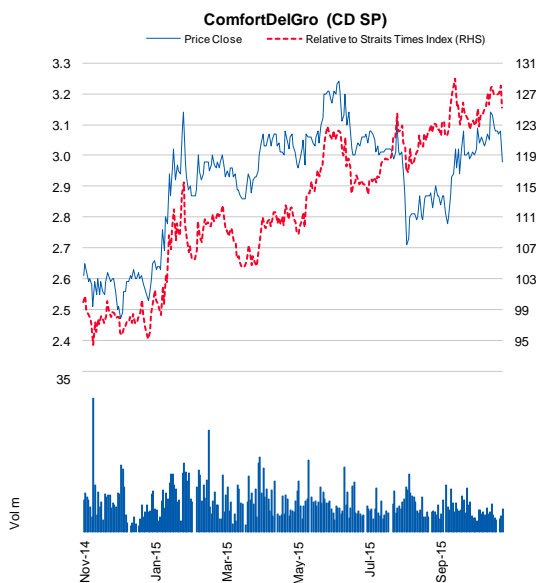
Market Cap: USD4,506m

Neutral (Maintained)

 Target Price: **SGD2.86**

 Price: **SGD2.98**

9M15 Slight Ahead But Growth Is Priced In

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	15.6m/11.1m
Cons. Upside (%)	7.4
Upside (%)	-4.0
52-wk Price low/high (SGD)	2.47 - 3.24
Free float (%)	96
Share outstanding (m)	2,150
Shareholders (%)	
Capital Group	6.3
Blackrock	6.0
First Eagle Investment	3.9
Share Performance (%)	
	YTD 1m 3m 6m 12m
Absolute	14.6 (0.7) (1.0) (1.3) 13.7
Relative	27.7 1.3 4.4 14.0 25.2

9M15 profit of SGD233.7m made up 79%/77% of our/consensus estimates. Maintain NEUTRAL with a DCF-based SGD2.86 TP (4% downside). Revenue growth from bus, rail and taxi was offset by a decline in automotive engineering revenue. Profit growth from bus and taxi remained strong as margins expanded for both businesses. Estimates would be lifted on clearer payment terms for CD's existing buses under the new contracting model or it winning a bus tender.

- ◆ **Steady growth.** 3Q15 profit grew 5.4% YoY to SGD85.2m aided by revenue growth from bus, taxi and rail. ComfortDelGro Corporation (CD) also witnessed reduced operating costs especially related to fuel and materials costs. Bus and rail ridership increased and CD earned higher taxi leasing rate. Staff costs, the largest operating costs, increased 3.1% YoY in line with the preparation for the launch of Downtown Line (DTL) 2 in December and higher number of Bus Service Enhancement Program (BSEP) buses.
- ◆ **No impact from competition to taxi.** While the queue to take up new taxis from CD has shortened, the leasing rate for CD's taxi fleet is close to 100%. CD believes private car apps are addressing the demand that is not met by taxis, as it has not seen decline in the number of bookings. It accelerated its taxi fleet replacement to take advantage of low COE prices, and has earmarked additional capex to upgrade rest of its fleet.
- ◆ **Positive revenue outlook for bus and taxi businesses.** CD is guiding for a rise in bus, rail and taxi business revenue. Revenue growth would be driven by an increase in ridership for bus, higher leasing out rate for Singapore taxi and contribution from the start of operations at DTL2. In contrast, revenue from its automotive engineering and inspection & testing services is expected to decline.
- ◆ **M&A prospects seem limited.** While a strong net cash balance sheet does provide opportunities for mergers and acquisition (M&A) activity, management believes that a weak macroeconomic environment would be the prospect of M&As in 2016.
- ◆ **Maintain NEUTRAL rating with unchanged TP.** Our 12-month DCF-based SGD2.86 TP is derived using a WACC of 9.4% (risk free rate of 2.3%, beta of 0.95, risk premium of 8.2%, a target debt ratio of 10% and a terminal growth rate of 1%).

Forecasts and Valuations	Dec-12	Dec-13	Dec-14	Dec-15F	Dec-16F
Total turnover (SGDm)	3,545	3,748	4,051	4,237	4,543
Reported net profit (SGDm)	249	263	284	297	365
Recurring net profit (SGDm)	249	263	284	297	365
Recurring net profit growth (%)	5.6	5.7	7.7	4.6	23.0
Recurring EPS (SGD)	0.12	0.13	0.13	0.14	0.17
DPS (SGD)	0.06	0.07	0.08	0.08	0.10
Recurring P/E (x)	25.2	23.8	22.3	21.5	17.5
P/B (x)	3.12	2.91	2.91	2.77	2.58
P/CF (x)	9.2	9.1	8.6	10.9	7.6
Dividend Yield (%)	2.1	2.3	2.8	2.8	3.4
EV/EBITDA (x)	9.02	8.74	8.35	8.18	7.17
Return on average equity (%)	12.7	12.6	13.1	13.2	15.3
Net debt to equity (%)	0.3	net cash	net cash	0.6	net cash
Our vs consensus EPS (adjusted) (%)				(3.1)	4.0

Shekhar Jaiswal +65 6232 3894

shekhar.jaiswal@rhbgroup.com

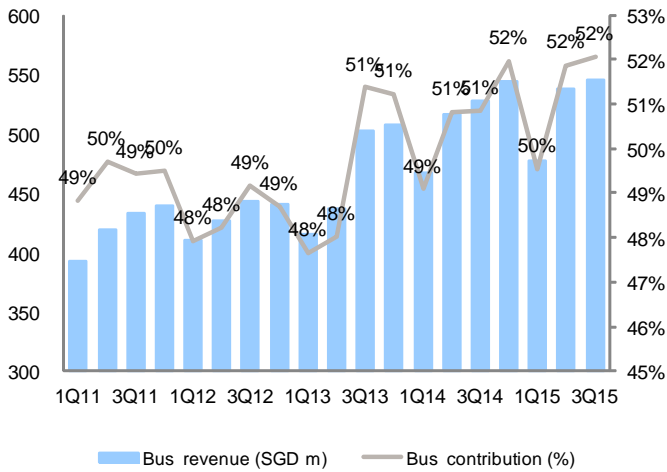
3Q15 Results Review

Figure 1: ComfortDelGro - 3Q15 results review

ComfortDelGro profit and loss (SGDm)										3Q15 Growth (%)		% of estimate	
Year-end Dec	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	QoQ	YoY	2015 est	
Revenue	978.4	990.1	950.8	1,016.3	1,037.3	1,046.9	963.5	1,037.2	1,047.8	1.0%	1.0%	4,237.1	71.9%
Bus	502.6	507.2	466.7	516.5	527.5	544.0	477.3	538.0	545.5	1.4%	3.4%	2,152.8	
Bus station	8.1	5.8	8.3	7.1	7.9	5.8	7.9	7.4	8.0	8.1%	1.3%	29.6	
Rail	42.0	42.5	47.2	48.8	51.0	49.8	51.0	52.1	54.7	5.0%	7.3%	235.3	
Taxi	303.1	310.6	305.8	320.1	327.1	330.7	321.8	330.8	335.2	1.3%	2.5%	1,345.8	
Automotive engineering	78.0	78.8	77.2	77.7	77.4	70.4	58.4	62.0	59.1	-4.7%	-23.6%	284.5	
Vehicle inspection	26.3	26.5	27.2	27.5	27.3	27.1	28.2	27.5	25.6	-6.9%	-6.2%	112.4	
Car rental & leasing	9.0	8.8	8.8	8.7	9.1	9.3	9.4	9.6	9.9	3.1%	8.8%	36.6	
Driving centre	9.3	9.9	9.6	9.9	10.0	9.8	9.5	9.8	9.8	0.0%	-2.0%	40.1	
Operating expenses	(856.0)	(894.7)	(849.3)	(896.4)	(913.4)	(950.1)	(860.4)	(916.3)	(918.8)	0.3%	0.6%	(3,770.4)	71.5%
Staff costs	(321.8)	(334.6)	(312.5)	(333.0)	(345.3)	(368.5)	(329.7)	(343.4)	(356.0)	3.7%	3.1%	(1,455.6)	
Contract services	(126.3)	(140.2)	(125.3)	(138.0)	(141.5)	(144.7)	(130.7)	(147.9)	(139.6)	-5.6%	-1.3%	(588.5)	
Depreciation & amortisation	(84.3)	(86.2)	(84.8)	(87.9)	(89.9)	(91.1)	(91.7)	(96.0)	(98.6)	2.7%	9.7%	(373.5)	
Materials & consumables	(72.9)	(29.3)	(61.0)	(61.5)	(60.5)	(55.9)	(51.7)	(56.0)	(51.7)	-7.7%	-14.5%	(186.2)	
Fuel and electricity	(74.6)	(80.6)	(79.0)	(84.5)	(84.0)	(82.3)	(70.6)	(75.9)	(77.2)	1.7%	-8.1%	(306.3)	
Repair & maintenance	(50.4)	(91.7)	(58.8)	(59.9)	(62.1)	(64.8)	(58.8)	(61.4)	(63.3)	3.1%	1.9%	(322.0)	
Road taxes	(30.4)	(31.4)	(31.5)	(31.7)	(33.5)	(34.5)	(33.8)	(34.1)	(34.2)	0.3%	2.1%	(128.1)	
Insurance premiums	(29.5)	(38.4)	(32.7)	(32.1)	(28.6)	(36.4)	(28.6)	(32.2)	(28.5)	-11.5%	-0.3%	(139.1)	
Taxi driver benefits	(16.6)	(5.9)	(14.6)	(14.3)	(13.5)	(16.1)	(14.1)	(14.6)	(15.3)	4.8%	13.3%	(45.6)	
Premises costs	(18.8)	(19.2)	(19.4)	(20.3)	(20.6)	(20.8)	(20.4)	(22.4)	(21.2)	-5.4%	2.9%	(78.3)	
Vehicle leasing charges	(5.7)	(5.9)	(5.2)	(6.0)	(5.7)	(5.8)	(4.7)	(5.2)	(5.2)	0.0%	-8.8%	(32.1)	
Other operating expenses	(24.7)	(31.3)	(24.5)	(27.2)	(28.2)	(29.2)	(25.6)	(27.2)	(28.0)	2.9%	-0.7%	(115.1)	
Operating profit	122.4	95.4	101.5	119.9	123.9	96.8	103.1	120.9	129.0	6.7%	4.1%	466.7	75.6%
Income from investment	4.1	2.5	2.6	2.5	3.9	2.9	3.0	4.3	4.6	7.0%	17.9%	15.4	
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%		
Finance costs	(7.0)	(6.3)	(5.9)	(5.9)	(5.6)	(4.6)	(4.7)	(4.5)	(4.8)	6.7%	-14.3%	(23.1)	
Profit in associates	0.2	2.0	1.3	0.5	0.3	2.2	1.5	0.5	0.4	-20.0%	33.3%	4.3	
Exceptional item	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%		
Profit before tax	119.7	93.6	99.5	117.0	122.5	97.3	102.9	121.2	129.2	6.6%	5.5%	463.4	76.2%
Tax	(24.8)	(18.5)	(22.1)	(25.3)	(25.1)	(19.8)	(20.5)	(24.6)	(26.1)	6.1%	4.0%	(92.7)	
Profit after tax	94.9	75.1	77.4	91.7	97.4	77.5	82.4	96.6	103.1	6.7%	5.9%	370.7	76.1%
Attributable to:													
Shareholders	76.7	59.9	63.3	75.7	80.8	63.7	67.6	80.9	85.2	5.3%	5.4%	296.6	78.8%
Non-controlling interests	(18.2)	(15.2)	(14.1)	(16.0)	(16.6)	(13.8)	(14.8)	(15.7)	(17.9)	14.0%	7.8%	(74.1)	
Profit margin (%)													
EBIT	12.5%	9.6%	10.7%	11.8%	11.9%	9.2%	10.7%	11.7%	12.3%			11.0%	
Pretax profit	12.2%	9.5%	10.5%	11.5%	11.8%	9.3%	10.7%	11.7%	12.3%			10.9%	
Net profit	7.8%	6.0%	6.7%	7.4%	7.8%	6.1%	7.0%	7.8%	8.1%			7.0%	
YoY (%)													
Revenue	8.6%	9.5%	9.2%	11.9%	6.0%	5.7%	1.3%	2.1%	1.0%				
Pretax Profit	4.8%	1.2%	7.2%	8.1%	2.3%	4.0%	3.4%	3.6%	5.5%				
Net Profit	5.4%	4.0%	9.7%	9.9%	5.3%	6.3%	6.8%	6.9%	5.4%				

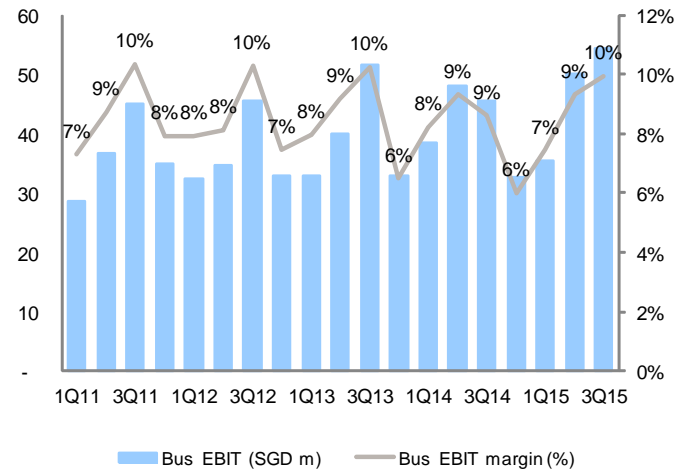
Source: Company data, RHB

Figure 2: Bus segment revenue and contribution



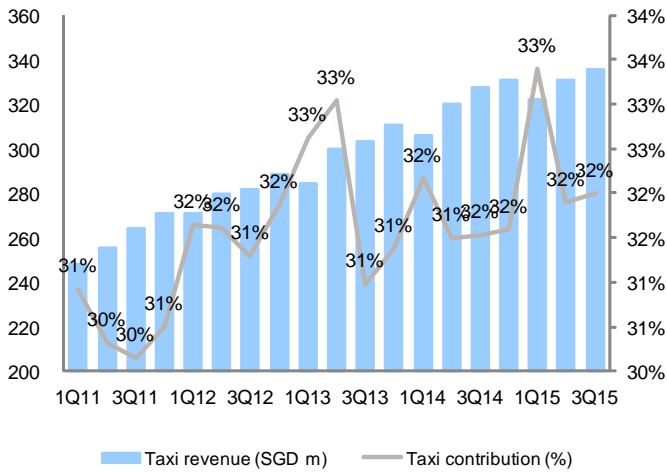
Source: Company data

Figure 3: Bus segment EBIT and EBIT margin



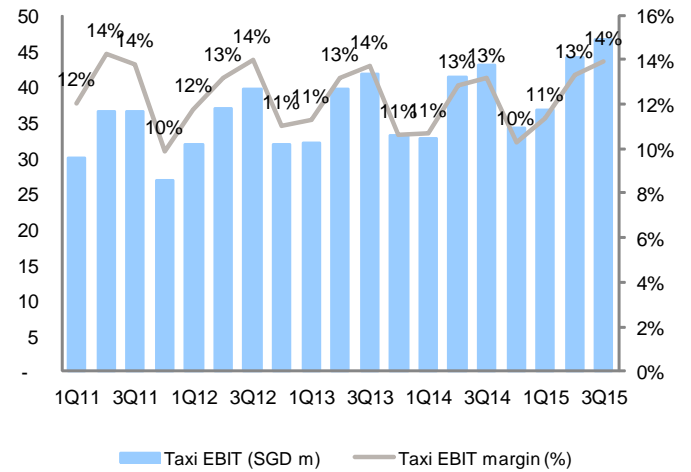
Source: Company data

Figure 4: Taxi segment revenue and contribution



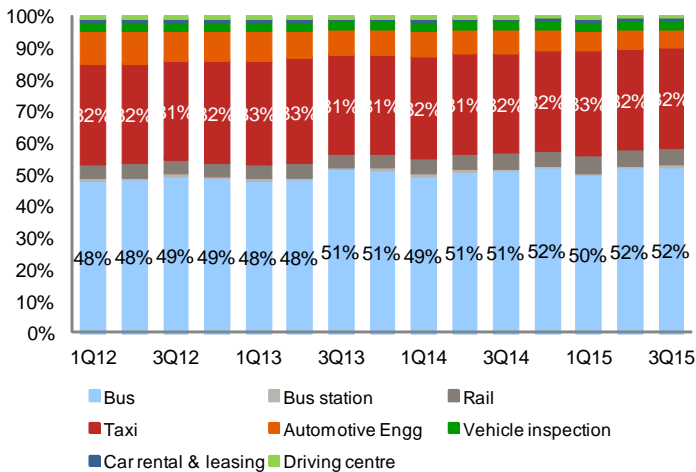
Source: Company data

Figure 5: Taxi segment EBIT and EBIT margin



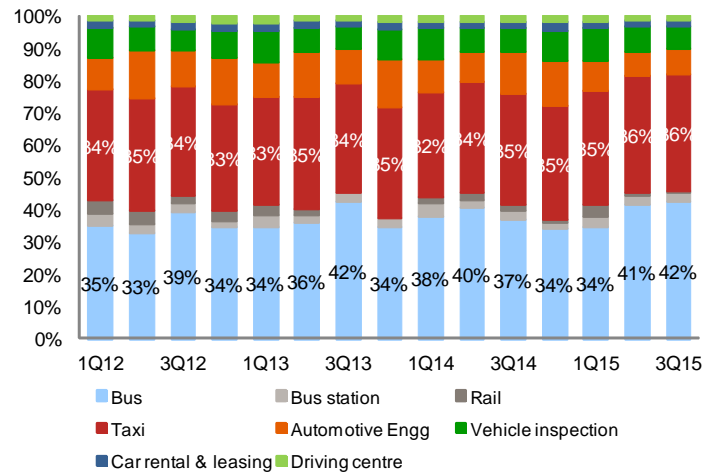
Source: Company data

Figure 6: Revenue contribution by business segment



Source: Company data

Figure 7: EBIT contribution by business segment



Source: Company data

Figure 8: DCF-based valuation

	2015	2016	2017	2018	2019	2020	2021
FCF	87	390	436	629	666	697	730
Terminal value							8,778
NPV of FCF	2,399						
NPV of TV	4,278						
PV of FCF (EV value)	6,677						
Net debt (SGD m)	(89)						
Minority interest	649						
Equity value (SGD m)	6,117						
Shares o/s (m)	2,139						
NPV per share (SGD)	2.86						

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-12	Dec-13	Dec-14	Dec-15F	Dec-16F
Total turnover	3,545	3,748	4,051	4,237	4,543
Gross profit	3,545	3,748	4,051	4,237	4,543
Other operating costs	(3,133)	(3,321)	(3,609)	(3,770)	(3,979)
Operating profit	412	426	442	467	564
Operating EBITDA	735	764	796	840	946
Depreciation of fixed assets	(323)	(337)	(354)	(373)	(382)
Operating EBIT	412	426	442	467	564
Net income from investments	4	4	4	4	4
Interest income	12	11	12	15	25
Interest expense	(31)	(27)	(22)	(23)	(23)
Pre-tax profit	396	414	436	463	570
Taxation	(86)	(87)	(92)	(93)	(114)
Minority interests	(62)	(64)	(61)	(74)	(91)
Profit after tax & minorities	249	263	284	297	365
Reported net profit	249	263	284	297	365
Recurring net profit	249	263	284	297	365

Source: Company data, RHB

Cash flow (SGDm)	Dec-12	Dec-13	Dec-14	Dec-15F	Dec-16F
Operating profit	412	426	442	467	564
Depreciation & amortisation	323	337	354	373	382
Change in working capital	20	6	26	(160)	8
Operating cash flow	755	769	822	680	954
Tax paid	(76)	(78)	(83)	(93)	(114)
Cash flow from operations	679	691	739	587	840
Capex	(520)	(500)	(512)	(500)	(450)
Other new investments	(8)	(2)	(5)	-	-
Other investing cash flow	17	(30)	32	15	25
Cash flow from investing activities	(510)	(532)	(485)	(485)	(425)
Dividends paid	(163)	(166)	(198)	(185)	(198)
Increase in debt	87	120	(62)	36	-
Other financing cash flow	20	8	1	(23)	(23)
Cash flow from financing activities	(56)	(38)	(259)	(172)	(222)
Cash at beginning of period	577	695	831	826	756
Total cash generated	113	121	(4)	(70)	193
Forex effects	(3)	8	3	-	-
Implied cash at end of period	687	824	830	756	950

Source: Company data, RHB

Financial Exhibits

Balance Sheet (SGDm)	Dec-12	Dec-13	Dec-14	Dec-15F	Dec-16F
Total cash and equivalents	695	836	826	756	950
Inventories	58	71	72	78	83
Accounts receivable	129	111	117	157	168
Other current assets	213	222	224	239	254
Total current assets	1,094	1,240	1,239	1,229	1,455
Total investments	88	71	82	86	90
Tangible fixed assets	2,707	2,777	2,895	3,022	3,090
Intangible assets	569	687	686	686	686
Total other assets	388	310	329	329	329
Total non-current assets	3,752	3,845	3,991	4,122	4,195
Total assets	4,846	5,085	5,231	5,351	5,650
Short-term debt	96	218	243	243	243
Accounts payable	634	665	837	736	776
Other current liabilities	187	179	178	178	178
Total current liabilities	917	1,063	1,258	1,157	1,198
Total long-term debt	608	590	494	530	530
Other liabilities	684	638	640	640	640
Total non-current liabilities	1,292	1,228	1,134	1,170	1,170
Total liabilities	2,209	2,290	2,392	2,327	2,368
Share capital	560	623	646	646	646
Retained earnings reserve	1,435	1,557	1,671	1,783	1,949
Other reserves	14	(25)	(128)	(128)	(128)
Shareholders' equity	2,008	2,155	2,190	2,301	2,468
Minority interests	629	640	649	723	814
Total equity	2,637	2,795	2,839	3,024	3,282
Total liabilities & equity	4,846	5,085	5,231	5,351	5,650

Source: Company data, RHB

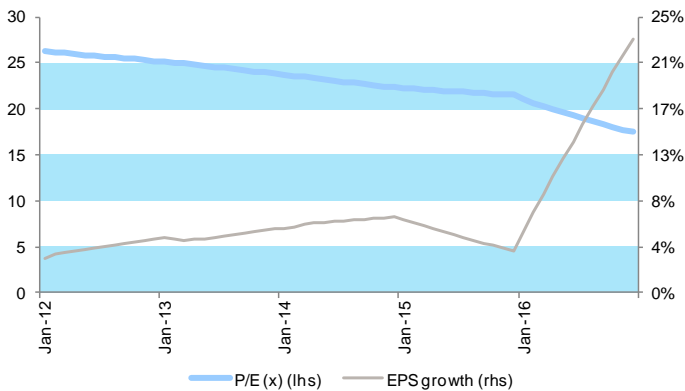
Key Ratios (SGD)	Dec-12	Dec-13	Dec-14	Dec-15F	Dec-16F
Revenue growth (%)	3.9	5.7	8.1	4.6	7.2
Operating profit growth (%)	3.3	3.4	3.7	5.6	20.8
Net profit growth (%)	5.6	5.7	7.7	4.6	23.0
EPS growth (%)	4.9	5.7	6.8	3.8	23.0
BVPS growth (%)	5.1	7.3	(0.0)	5.1	7.2
Operating margin (%)	11.6	11.4	10.9	11.0	12.4
Net profit margin (%)	7.0	7.0	7.0	7.0	8.0
Return on average assets (%)	5.3	5.3	5.5	5.6	6.6
Return on average equity (%)	12.7	12.6	13.1	13.2	15.3
Net debt to equity (%)	0.3	(1.0)	(3.1)	0.6	(5.4)
DPS	0.06	0.07	0.08	0.08	0.10
Recurrent cash flow per share	0.32	0.33	0.35	0.27	0.39

Source: Company data, RHB

SWOT Analysis

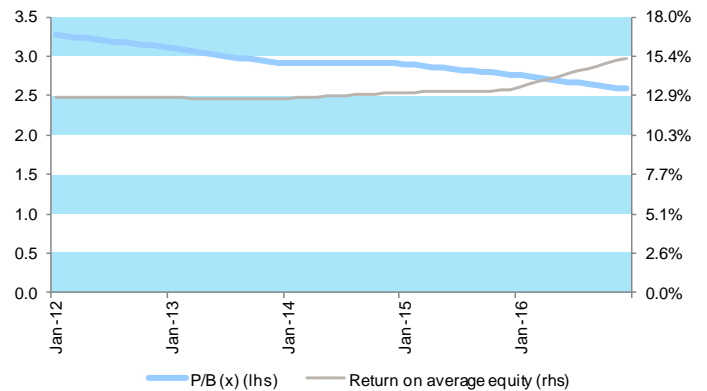


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

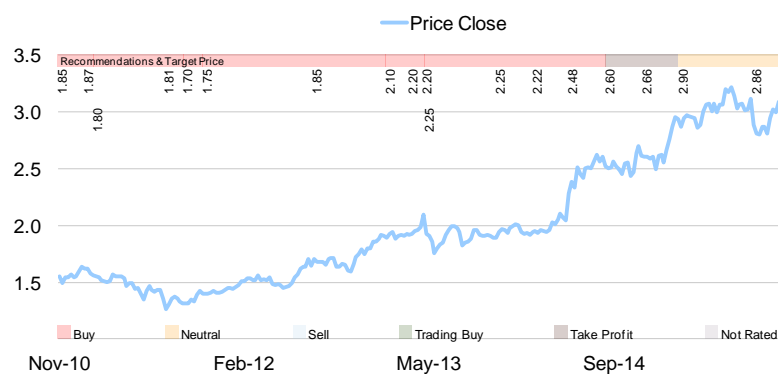


Source: Company data, RHB

Company Profile

ComfortDelGro, one of largest land transport companies in the world, is a market leader in Singapore and has a significant overseas presence. Its businesses include bus, taxi, rail, car rental & leasing, automotive engineering services, testing services, driving centre, insurance broking services, outdoor advertising and car dealership.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-14	Neutral	2.86	3.11
2015-02-12	Neutral	2.90	2.98
2014-11-14	Take Profit	2.66	2.61
2014-08-14	Take Profit	2.60	2.54
2014-05-13	Buy	2.48	2.12
2014-02-14	Buy	2.22	1.94
2013-11-14	Buy	2.25	1.91
2013-08-15	Buy	2.25	1.96
2013-05-21	Buy	2.25	2.19
2013-05-21	Buy	2.25	2.19

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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Kuala Lumpur

RHB Research Institute Sdn Bhd
Level 11, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur
Malaysia
Tel : +(60) 3 9280 2185
Fax : +(60) 3 9284 8693

Hong Kong

RHB Securities Hong Kong Ltd.
12th Floor
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

Singapore

**RHB Research Institute Singapore
Pte Ltd (formerly known as DMG & Partners Research
Pte Ltd)**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

Jakarta

PT RHB Securities Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710, Indonesia
Tel : +(6221) 2783 0888
Fax : +(6221) 2783 0777

Shanghai

RHB (China) Investment Advisory Co. Ltd.
Suite 4005, CITIC Square
1168 Nanjing West Road
Shanghai 20041
China
Tel : +(8621) 6288 9611
Fax : +(8621) 6288 9633

Bangkok

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 2 862 9999
Fax : +(66) 2 862 9799