

SMRT Corp Ltd

More frequent audits to come

SINGAPORE | TRANSPORT SERVICES | UPDATE

1 October 2015

- S\$5.4 million fine is the highest ever, reflecting the severity of the disruption.
- LTA holds SMRT fully responsible for the disruption.
- LTA will be subjecting SMRT to more frequent audits.

What is the news?

SMRT Corp Ltd (SMRT) was fined S\$5.4 million for the disruption to the North-South and East-West Lines (NSEWL) which occurred earlier this year on 7 July, during the evening rush hour.

LTA had found a lapse in the maintenance procedure and concluded that the incident was preventable. LTA, holding SMRT fully responsible, has asked SMRT to review and improve their maintenance regime, and will be subjecting SMRT to more frequent audits.

How do we view this

- **Highest ever fine reflects the severity of the disruption.** In an earlier [report](#) (13 July 2015) on SMRT, we guided that while a serious fine is to be expected, a maximum fine would be unwarranted. We used the most recent four fines meted out in July 2014 as benchmarks, and had derived an estimated range of between S\$3 million and S\$7 million for the fine. Given that the S\$5.4 million fine falls in the middle of our estimated range, we think that the fine is reasonable and not excessive.
- **The fine is material at the Group level.** The S\$5.4 million fine represents a 6.6% impact to our previous FY16e NPAT of S\$81.7 million, and we have incorporated the effect of the fine into our revised reported NPAT for FY16e, which now stands at S\$76.3 million.
- **Inadequate maintenance regime comes under greater scrutiny with more frequent audits; Repair & Maintenance expense could continue to climb.** LTA had found SMRT's maintenance regime inadequate, thus necessitating more frequent audits. R&M expenses could continue to climb if further lapses are uncovered, which have to be rectified.

Investment Actions

We maintain our "Reduce" rating on SMRT, with a new lower target price of S\$1.16 (previous: S\$1.32), as we raise our WACC to 6.1% from 5.8%.

Reduce (Maintained)

CLOSING PRICE	SGD 1.305
FORECAST DIV	SGD 0.035
TARGET PRICE	SGD 1.160
TOTAL RETURN	-8.5%

COMPANY DATA

O/S SHARES (MN) :	1,524
MARKET CAP (USD mn / SGD mn) :	1402 / 1996
52 - WK HI/LO (SGD) :	1.82 / 1.12
3M Average Daily T/O (mn) :	2.56

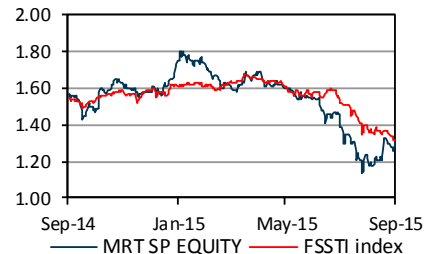
MAJOR SHAREHOLDERS (%)

TEMA SEK HOLDINGS PTE LTD	54.6%
ALLIANZ SE	14%
JPMORGAN CHASE & CO	0.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	4.0	(15.2)	(15.2)
STI RETURN	(5.7)	(13.9)	(12.4)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY14	FY15	FY16e	FY17e
Revenue (SGD mn)	1,164	1,236	1,288	1,350
NPAT, adj (SGD mn)	619	910	76.3	76.2
EPS, adj. (Cents)	4.07	5.98	5.01	5.01
P/E, adj. (x)	26.4	27.4	26.0	26.1
BVPS (Cents)	52.69	56.43	58.16	59.69
P/B (x)	2.0	2.9	2.2	2.2
DPS (Cents)	2.20	3.25	3.45	3.50
Div. Yield (%)	2.0	2.0	2.6	2.7

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 6.1%, Terminal g: 10%)

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Financials

Income Statement

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Revenue	1,119	1,164	1,236	1,288	1,350
Other operating income	36.3	42.1	58.0	49.6	54.7
EBITDA	278	256	314	307	329
Depreciation & Amortisation	(151)	(171)	(193)	(197)	(224)
EBIT	127	84	121	110	105
Net Finance (Expense)/Inc	(4.8)	(9.2)	(10.9)	(11.0)	(13.0)
Other items	-	-	-	-	-
Associates & JVs	(0.4)	(0.4)	1.0	1.0	1.0
Exceptional items	(17.3)	-	-	(5.4)	-
Profit Before Tax	105	75	111	94	93
Taxation	(21.9)	(13.2)	(20.4)	(18.5)	(17.3)
Profit After Tax	83	61	90	76	76
- Non-controlling interest	(0.1)	(0.4)	(0.5)	(0.5)	(0.5)
Net Income, reported	83.3	61.9	91.0	76.3	76.2
Net Income, adj.	100.6	61.9	91.0	76.3	76.2

Per share data (Cents)

Y/E Mar	FY13	FY14	FY15	FY16e	FY17e
EPS, reported	5.50	4.07	5.98	5.01	5.01
EPS, adj.	6.62	4.07	5.98	5.01	5.01
DPS	2.50	2.20	3.25	3.45	3.50
BVPS	50.54	52.69	56.43	58.16	59.69

Cash Flow

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
PBT	105	75	111	94	93
Adjustments	193	187	198	191	240
WC changes	(18.9)	(12.8)	(10.0)	13.5	(45.9)
Cash generated from ops	279	249	298	299	287
Others	(19)	(15)	(21)	(31)	(31)
Cashflow from ops	260	234	277	268	256
CFI					
CAPEX, net	(248)	(649)	(461)	(410)	(194)
Divd from associates & JVs	0.2	0.2	0.2	0.2	0.2
Others	(14.4)	6.5	4.9	1.5	1.1
Cashflow from investments	(262)	(643)	(456)	(408)	(193)
CFF					
Share issuance, net	0.57	0.05	-	-	-
Loans, net of repayments	460	29	189	100	-
Dividends	(109)	(30)	(41)	(49)	(53)
Others	2.5	18.9	30.5	33.6	14.0
Cashflow from financing	353	17	178	84	(39)
Net change in cash	351	(391)	(0)	(56)	24
Effects of exchange rates	(0.1)	0.2	0.8	-	-
CCE, end	546	156	156	100	124

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
ASSETS					
PPE	1,436	1,642	2,042	2,245	2,211
Intangibles	14	14	14	14	14
Associates & JVs	51	53	56	57	57
Investments	32	21	21	21	21
Others	-	-	-	-	-
Total non-current assets	1,532	1,729	2,132	2,336	2,303
Inventories	60	84	81	84	88
Accounts Receivables	86	99	168	175	183
Investments	-	5.0	-	-	-
Cash	546	156	156	100	124
Others	-	-	-	-	-
Total current assets	692	344	405	359	396
Total Assets	2,224	2,073	2,537	2,695	2,699

LIABILITIES

Short term loans	2	156	9	9	9
Accounts Payables	577	355	568	592	559
Others	54	54	63	81	99
Total current liabilities	633	566	640	682	667
Long term loans	607	480	813	913	913
Others	216	225	226	215	211
Total non-current liabilities	823	705	1,038	1,128	1,124
Total Liabilities	1,456	1,271	1,678	1,810	1,790

EQUITY

Non-controlling interest	0.3	(0.1)	(0.6)	(1.1)	(1.6)
Shareholder Equity	768	802	860	886	910

Valuation Ratios

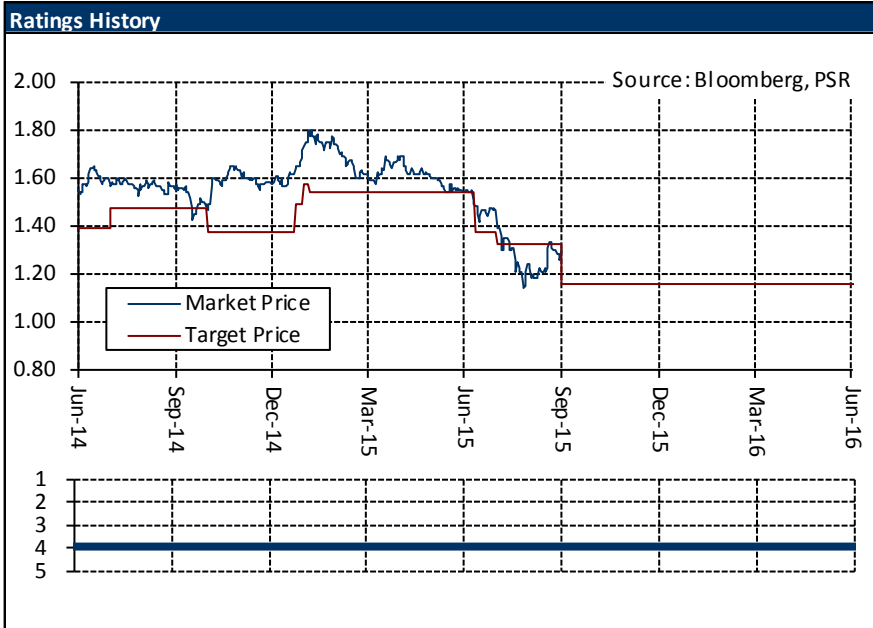
Y/E Mar	FY13	FY14	FY15	FY16e	FY17e
P/E (X), adj.	23.0	26.4	27.4	26.0	26.1
P/B (X)	3.0	2.0	2.9	2.2	2.2
EV/EBITDA (X), adj.	8.5	8.3	10.1	9.1	8.5
Dividend Yield (%)	1.6%	2.0%	2.0%	2.6%	2.7%

Growth & Margins (%)

Growth					
Revenue	5.9%	4.0%	6.2%	4.2%	4.9%
EBITDA	-7.3%	-8.1%	22.9%	-2.3%	7.2%
EBIT	-25.1%	-33.9%	43.4%	-9.2%	-4.3%
Net Income, adj.	-28.9%	-38.5%	47.0%	-16.2%	-0.1%
Margins					
EBITDA margin	24.8%	22.0%	25.4%	23.8%	24.4%
EBIT margin	11.4%	7.2%	9.8%	8.5%	7.8%
Net Profit Margin	7.4%	5.3%	7.3%	5.9%	5.6%

Key Ratios

ROE (%)	12.9%	7.9%	11.0%	8.7%	8.5%
ROA (%)	5.1%	2.9%	3.9%	2.9%	2.8%
Net Debt or (Net Cash)	63	481	665	821	797
Net Gearing (X)	0.08	0.60	0.77	0.93	0.88



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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