

SMRT Corp Ltd

Rail maintenance-related expenses set to rise

SINGAPORE | TRANSPORT SERVICES | RESULTS

30 October 2015

- Steady performance from Non-Fare business.
- Cost pressures continue to weigh against Fare business.
- Management expects Rail maintenance-related expenses (MRE) to rise to 50% from 41% of Rail revenue.

What is the news?

Results at a glance

(SGD mn)	2Q16	2Q15	y-y (%)	Comments
Revenue	328.8	314.0	↑ 4.7	Broad based growth across most of the segments
EBITDA	83.7	80.2	↑ 4.3	
EBIT	32.5	33.3	↓ (2.4)	Opex outpaced revenue growth
PATMI	25.7	25.3	↑ 1.9	Favourable contribution from Shenzhen Zona

Source: Company, Phillip Securities Research (Singapore)

Analyst briefing key takeaways

- Management expects Rail MRE to be up to 50% from 41% of Rail revenue.** Management explained that MRE includes both Staff Cost and Repair & Maintenance components. Rail MRE is expected to be up to 50% of Rail revenue, due to the Tuas West Extension, ramp-up of staff headcount, additional trains, maintenance of an ageing rail network and meeting higher operational requirements. There will be 45 additional Kawasaki C151B trains for North-South East-West Line (NSEWL) by 2018 and this would require additional maintenance and operations crew.
- Setting the record right with comparison between SMRT and Hong Kong's MTR.** With reference to a Straits Times news article, Management shared some differences between SMRT and MTR. Specifically on how MTR takes on both the design-build operations and maintenance, whereas LTA and SMRT are collectively responsible for infrastructure and maintenance. Thus SMRT's share of expenses alone understates the actual expenses and investments made on Singapore's rail network compared to MTR.
- Taxi landscape remains "in flux".** SMRT's taxi fleet hire-out rate of c.98% is higher than the industry average of <96%. Management has been engaging taxi hirers in order to maintain the hire-out rate. On the third-party apps front, the partnership with Hailo taxi app is "not measuring to earlier expectations". SMRT is assessing the challenges and looking at new opportunities.

How do we view this?

- Largest revenue contributor being squeezed from both ends; expect losses in Rail business to continue.** Fare revenue growth from Rail business is expected to be modest y-o-y between FY16 and FY17, due to implementation of 1.9% fare reduction in December, offset by weaker ridership growth. We project a weaker ridership growth in FY17, due to cannibalisation from the opening of Downtown Line Stage 2 (DTL2). Meanwhile, rail MRE to surge to 50% of revenue by the end of this year. Rail losses are likely to continue, until rail reforms materialise. 2HFY16 will be weaker than 1HFY16, as an increase in MRE by 9ppts will translate to about S\$29 mn in erosion of Rail EBIT in 2HFY16, by our estimate. Rail EBIT-loss in the remaining quarters, 3Q & 4Q FY16, will be in excess of S\$10 million each, by our estimates.

Investment Actions

We cut our earnings forecast by 10%/FY16 and 4%/FY17 after implementing the 1.9% fare reduction and updating the elevated MRE expense. Consequently, our FY16 dividend assumption is lowered to 2.45 Cents, assuming the same payout of 54.4% as FY15. Downgrade to "Sell" rating from "Reduce, with a new lower target price of S\$1.11 (previous: S\$1.16).

Sell (Downgraded)

CLOSING PRICE	SGD 1.500
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 1.110
TOTAL RETURN	-24.4%

COMPANY DATA

O/S SHARES (MN) :	1,524
MARKET CAP (USD mn / SGD mn) :	1626 / 2286
52 - WK HV/L0 (SGD) :	1.82 / 1.12
3M Average Daily T/O (mn) :	2.72

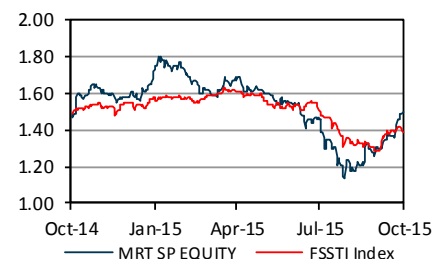
MAJOR SHAREHOLDER (%)

TEMA SEK HOLDINGS PTE LTD	54.6%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	17.9	10	2.5
STI RETURN	9.1	(6.0)	(2.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY14	FY15	FY16e	FY17e
Revenue (SGD mn)	1,164	1,236	1,293	1,331
NPAT, adj (SGD mn)	61.9	91.0	68.4	73.5
EPS, adj. (Cents)	4.07	5.98	4.49	4.83
P/E, adj. (x)	26.4	27.4	33.4	31.1
BVPS (Cents)	52.69	56.43	57.65	60.00
P/B (x)	2.0	2.9	2.6	2.5
DPS (Cents)	2.20	3.25	2.45	2.65
Div. Yield (%)	2.0	2.0	1.6	1.8

Source: Company Data, PSR est.

VALUATION METHOD

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

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Results at a glance

(SGD mn)	2Q16	2Q15	y-y (%)	Comments
MRT	169.6	165.2	↑ 2.6	Higher ridership and average fare
LRT	2.7	2.5	↑ 7.5	Higher ridership and average fare
Bus	63.2	60.7	↑ 4.1	Higher ridership and average fare
Taxi	37.6	35.1	↑ 7.1	Larger and newer fleet
Rental	33.3	30.1	↑ 10.7	Contribution from Kallang Wave Mall
Advertising	11.0	9.4	↑ 17.3	Increased advertising on trains and buses
Engineering Services	3.5	3.7	↓ (4.2)	Completion of overseas consultancy projects
Others services	7.8	7.3	↑ 7.2	Higher charter revenue
Revenue	328.8	314.0	↑ 4.7	Broad based growth across most of the segments
EBITDA	83.7	80.2	↑ 4.3	
Operating Profit/(Loss)				
MRT	(2.8)	7.6	N.M.	Third consecutive quarterly loss
LRT	(1.2)	(0.7)	N.M.	Addition of new trains to the fleet
Bus	2.6	(1.4)	N.M.	Third consecutive quarterly profit
Taxi	4.5	3.4	↑ 31.8	
Rental	20.5	19.0	↑ 7.8	
Advertising	7.4	5.2	↑ 42.7	
Engineering Services	(0.1)	(0.9)	N.M.	Profit contribution from Singapore Rail Engineering
Others services	0.8	0.5	↑ 74.3	
EBIT	32.5	33.3	↓ (2.4)	Opex outpaced revenue growth
PATMI	25.7	25.3	↑ 1.9	Favourable contribution from Shenzhen Zona

Source: Company, Phillip Securities Research (Singapore)

Results at a glance

(SGD mn)	2Q16	2Q15	y-y (%)	Comments
Fare business	235.5	228.4	↑ 3.1	Higher ridership and average fare
Non-Fare business	93.2	85.5	↑ 9.0	
Revenue	328.8	314.0	↑ 4.7	Broad based growth across most of the segments
EBITDA	83.7	80.2	↑ 4.3	
Operating Profit/(Loss)				
Fare business	(1.4)	5.5	N.M.	Third consecutive quarterly loss
Non-Fare business	33.1	27.2	↑ 21.8	Improved profitability from Taxi, Rental and Advertising
EBIT	31.7	32.7	↓ (3.0)	Opex outpaced revenue growth
PATMI	25.7	25.3	↑ 1.9	Favourable contribution from Shenzhen Zona

Source: Company, Phillip Securities Research (Singapore)

Financials

Income Statement

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Revenue	1,119	1,164	1,236	1,293	1,331
Other operating income	36.3	42.1	58.0	58.7	51.9
EBITDA	278	256	314	306	320
Depreciation & Amortisation	(151)	(171)	(193)	(209)	(222)
EBIT	127	84	121	97	98
Net Finance (Expense)/Inc	(4.8)	(9.2)	(10.9)	(11.0)	(12.1)
Other items	-	-	-	-	-
Associates & JVs	(0.4)	(0.4)	1.0	4.0	4.0
Exceptional items	(17.3)	-	-	(5.4)	-
Profit Before Tax	105	75	111	85	90
Taxation	(21.9)	(13.2)	(20.4)	(16.7)	(16.7)
Profit After Tax	83	61	90	68	73
- Non-controlling interest	(0.1)	(0.4)	(0.5)	(0.4)	(0.4)
Net Income, reported	83.3	61.9	91.0	68.4	73.5
Net Income, adj.	100.6	61.9	91.0	68.4	73.5

Per share data (Cents)

Y/E Mar	FY13	FY14	FY15	FY16e	FY17e
EPS, reported	5.50	4.07	5.98	4.49	4.83
EPS, adj.	6.62	4.07	5.98	4.49	4.83
DPS	2.50	2.20	3.25	2.45	2.65
BVPS	50.54	52.69	56.43	57.65	60.00

Cash Flow

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
PBT	105	75	111	85	90
Adjustments	193	187	198	201	234
WC changes	(18.9)	(12.8)	(10.0)	14.8	(51.3)
Cash generated from ops	279	249	298	300	272
Others	(19)	(15)	(21)	(29)	(31)
Cashflow from ops	260	234	277	271	242
CFI					
CAPEX, net	(248)	(649)	(461)	(310)	(95)
Divd from associates & JVs	0.2	0.2	0.2	0.8	0.8
Others	(14.4)	6.5	4.9	1.5	2.0
Cashflow from investments	(262)	(643)	(456)	(308)	(92)
CFF					
Share issuance, net	0.57	0.05	-	-	-
Loans, net of repayments	460	29	189	100	-
Dividends	(109)	(30)	(41)	(49)	(37)
Others	2.5	18.9	30.5	33.6	14.0
Cashflow from financing	353	17	178	84	(23)
Net change in cash	351	(391)	(0)	47	126
Effects of exchange rates	(0.1)	0.2	0.8	-	-
CCE, end	546	156	156	203	329

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	2,133	2,002
Intangibles	14	14	14	14	14
Associates & JVs	51	53	56	59	62
Investments	32	21	21	21	21
Others	-	-	-	-	-
Total non-current assets	1,532	1,729	2,132	2,226	2,098
Inventories	60	84	81	85	87
Accounts Receivables	86	99	168	175	181
Investments	-	5.0	-	-	-
Cash	546	156	156	203	329
Others	-	-	-	-	-
Total current assets	692	344	405	463	597
Total Assets	2,224	2,073	2,537	2,689	2,695

LIABILITIES

Short term loans	2	156	9	9	9
Accounts Payables	577	355	568	594	551
Others	54	54	63	81	99
Total current liabilities	633	566	640	684	659
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	1,812	1,782

EQUITY

Non-controlling interest	0.3	(0.1)	(0.6)	(1.0)	(1.5)
Shareholder Equity	768	802	860	878	915

Valuation Ratios

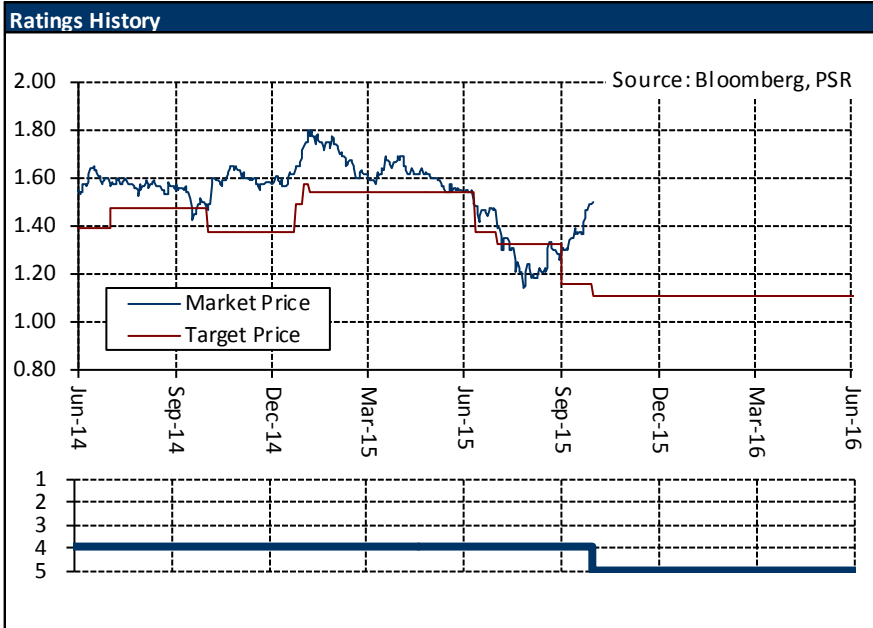
Y/E Mar	FY13	FY14	FY15	FY16e	FY17e
P/E (X), adj.	23.0	26.4	27.4	33.4	31.1
P/B (X)	3.0	2.0	2.9	2.6	2.5
EV/EBITDA (X), adj.	8.5	8.3	10.1	9.8	9.0
Dividend Yield (%)	1.6%	2.0%	2.0%	1.6%	1.8%

Growth & Margins (%)

Growth					
Revenue	5.9%	4.0%	6.2%	4.6%	3.0%
EBITDA	-7.3%	-8.1%	22.9%	-2.4%	4.4%
EBIT	-25.1%	-33.9%	43.4%	-19.6%	0.7%
Net Income, adj.	-28.9%	-38.5%	47.0%	-24.8%	7.4%
Margins					
EBITDA margin	24.8%	22.0%	25.4%	23.7%	24.0%
EBIT margin	11.4%	7.2%	9.8%	7.5%	7.3%
Net Profit Margin	7.4%	5.3%	7.3%	5.3%	5.5%

Key Ratios

ROE (%)	12.9%	7.9%	11.0%	7.9%	8.2%
ROA (%)	5.1%	2.9%	3.9%	2.6%	2.7%
Net Debt or (Net Cash)	63	481	665	718	592
Net Gearing (X)	0.08	0.60	0.77	0.82	0.65



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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