

# SMRT (MRT SP)

Share Price: SGD1.49

MCap (USD): 1.6B

Singapore

Target Price: SGD1.10 (-26%)

ADTV (USD): 2M

Transport

# SELL

 (Unchanged)

## Rail losses to continue

- 2QFY3/16 net profit of SGD25.7m in line. 55% of full-year estimates.
- Rail remained in the red. Better bus profits on higher revenue and relief from lower energy cost. Stronger showing from non-fare businesses.
- At rich valuations of 27x P/E and 2.2% yield, the stock has priced in a perfect transition even though details are still under negotiation. Maintain SELL and SGD1.10 TP.

## Better bus profits, rail remains in the red

2QFY3/16 net profit of SGD25.7m was in line with 1H16 at 55% of full-year estimates. Its rail business continued to incur losses due to higher repair & maintenance, staff and depreciation expenses. Profitability for the bus segment improved due to higher revenue and cost relief from lower energy cost. EBIT for its non-fare businesses improved significantly to SGD33.7m (+21.7% YoY) due to stronger rental, advertising and taxi performance.

Management remains in discussions on a transition to a new rail financing framework and has begun negotiations on the new bus contract terms after the existing license expires in Aug 2016.

## Rail and bus transition terms remain hazy

The company's earnings outlook remains lacklustre. We forecast sustained losses for the rail business due to the impending fare cuts of 1.9% from end-2015. Further, higher costs to improve system reliability are not captured in the fare adjustment formula.

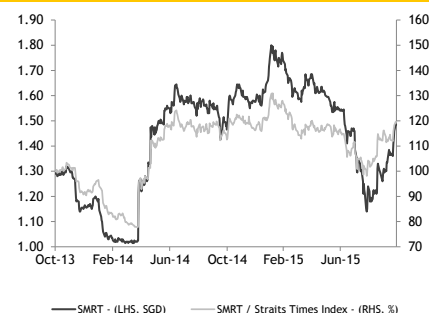
We maintain that the Street has taken a far too simplistic view on the impending rail transition and has ignored the finer details that are still under negotiation. Furthermore, the timing for a transition remains hazy. With the stock trading at rich valuations of 27x P/E and yielding only 2.2%, we believe it has already priced in a perfect transition which is unlikely to be the case. Maintain SELL with unchanged TP of SGD1.10, based on 20x FY3/16 EPS.

FYE Mar (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,163.9	1,235.5	1,313.6	1,308.0	1,361.7
EBITDA	255.5	313.9	338.2	319.1	335.6
Core net profit	61.9	91.0	83.9	81.8	87.1
Core EPS (cts)	4.1	6.0	5.5	5.4	5.7
Core EPS growth (%)	(38.5)	46.9	(7.6)	(2.5)	6.5
Net DPS (cts)	2.2	3.3	3.3	3.3	3.3
Core P/E (x)	36.5	24.9	26.9	27.6	25.9
P/BV (x)	2.8	2.6	2.5	2.4	2.3
Net dividend yield (%)	1.5	2.2	2.2	2.2	2.2
ROAE (%)	7.9	11.0	9.6	9.0	9.2
ROAA (%)	2.9	3.9	3.3	3.1	3.1
EV/EBITDA (x)	8.0	9.9	9.1	10.4	9.6
Net debt/equity (%)	60.0	77.4	92.3	112.5	98.1

### Key Data

52w high/low (SGD)	1.80/1.14
3m avg turnover (USDm)	2.5
Free float (%)	45.3
Issued shares (m)	1,524
Market capitalization	SGD2.3B
Major shareholders:	
- Temasek Holdings Pte Ltd.	54.1%
- JPMorgan Asset Management (Singapore)	0.9%
- Allianz Global Investors Asia Pacific Lt	0.9%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	16.0	1.7	(0.7)
Relative to index (%)	6.6	9.3	3.9

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	4	4
	Maybank Consensus		% +/-
Target Price (SGD)	1.10	1.28	(14.1)
'16 PATMI (SGDm)	84	90	(6.2)
'17 PATMI (SGDm)	82	98	(16.5)

Source: FactSet; Maybank

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Figure 1: Quarterly profit and loss

FYE 31 Mar	2Q15	1Q16	2Q16	Change		YTD16	% of FY	FY16E
	(SGD m)	(SGD m)	(SGD m)	(QoQ %)	(YoY %)	(SGD m)		(SGD m)
Revenue	314.0	320.3	328.8	2.6	4.7	649.1	49.4	1,313.6
EBITDA	80.2	78.7	83.7	6.2	4.3	162.4	48.0	338.2
D&A	(46.9)	(51.1)	(51.1)	0.1	9.0	(102.2)	47.6	(215.0)
EBIT	33.3	27.7	32.5	17.6	(2.4)	60.2	48.8	123.2
Net interest income/ (expense)	(3.1)	(2.7)	(2.9)	8.9	(6.6)	(5.6)	31.1	(18.1)
Other items	0.0	0.0	0.0	n.m.	n.m.	0.0	n.m.	0.0
Associates & JVs	0.0	0.7	1.4	87.7	>100	2.1	n.m.	0.0
PBT	30.2	25.7	31.0	20.5	2.6	56.7	53.9	105.1
Taxation	(5.4)	(5.5)	(5.2)	(6.2)	(3.0)	(10.7)	60.0	(17.9)
MI	0.4	(0.0)	(0.0)	(33.3)	n.m.	(0.1)	1.8	(3.3)
Net Income	25.3	20.1	25.7	27.9	1.9	45.9	54.6	83.9

Source: Company, Maybank KE

Figure 2: Segmental performance

Revenue and Operating Profit by Business Segment For Second Quarter Ended 30 September 2015						
S\$m	Revenue			Operating Profit		
	2QFY16	2QFY15	% chg	2QFY16	2QFY15	% chg
Train	169.6	165.2	2.6	(2.8)	7.6	(137.0)
LRT	2.7	2.5	7.5	(1.2)	(0.7)	(68.2)
Bus	63.2	60.7	4.1	2.6	(1.4)	279.2
<b>Fare Subtotal</b>	<b>235.5</b>	<b>228.4</b>	<b>3.1</b>	<b>(1.4)</b>	<b>5.5</b>	<b>(126.2)</b>
Taxi	37.6	35.1	7.1	4.5	3.4	31.8
Rental <sup>5</sup>	33.3	30.1	10.7	20.5	19.0	7.8
Advertising <sup>6</sup>	11.0	9.4	17.3	7.4	5.2	42.7
Engineering Services	3.5	3.7	(4.2)	(0.1)	(0.9)	86.6
Other Services	7.8	7.3	7.2	0.8	0.5	68.2
<b>Non-Fare Subtotal</b>	<b>93.2</b>	<b>85.5</b>	<b>9.0</b>	<b>33.1</b>	<b>27.2</b>	<b>21.7</b>
Investment Holding/ Group Elimination	-	-	n.m.	0.9	0.7	34.4
<b>Total</b>	<b>328.8</b>	<b>314.0</b>	<b>4.7</b>	<b>32.5</b>	<b>33.3</b>	<b>(2.4)</b>

Source: Company

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	36.5	24.8	26.9	27.6	25.9
Core P/E (x)	36.5	24.9	26.9	27.6	25.9
P/BV (x)	2.8	2.6	2.5	2.4	2.3
P/NTA (x)	2.9	2.7	2.6	2.5	2.4
Net dividend yield (%)	1.5	2.2	2.2	2.2	2.2
FCF yield (%)	nm	0.1	4.0	1.4	6.4
EV/EBITDA (x)	8.0	9.9	9.1	10.4	9.6
EV/EBIT (x)	24.1	25.7	25.0	26.6	24.2
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	1,163.9	1,235.5	1,313.6	1,308.0	1,361.7
Gross profit	1,163.9	1,235.5	1,313.6	1,308.0	1,361.7
EBITDA	255.5	313.9	338.2	319.1	335.6
Depreciation	(171.3)	(193.1)	(215.0)	(194.7)	(202.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	84.2	120.8	123.2	124.3	132.9
Net interest income / (exp)	(9.2)	(10.9)	(18.1)	(22.0)	(24.0)
Associates & JV	(0.4)	1.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	74.7	110.9	105.1	102.3	108.9
Income tax	(13.2)	(20.4)	(17.9)	(17.4)	(18.5)
Minorities	0.4	0.5	(3.3)	(3.1)	(3.2)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	61.9	91.0	83.9	81.8	87.1
Core net profit	61.9	91.0	83.9	81.8	87.1
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	155.5	156.1	196.9	179.7	276.0
Accounts receivable	98.9	167.7	108.0	107.5	111.9
Inventory	84.3	80.9	80.2	81.3	84.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,641.8	2,042.5	2,069.1	2,316.8	2,258.7
Intangible assets	13.6	13.6	13.6	13.6	13.6
Investment in Associates & JVs	52.6	55.8	55.8	55.8	55.8
Other assets	25.7	20.6	20.6	20.6	20.6
<b>Total assets</b>	<b>2,072.5</b>	<b>2,537.2</b>	<b>2,544.1</b>	<b>2,775.3</b>	<b>2,821.0</b>
ST interest bearing debt	156.4	8.9	8.9	8.9	8.9
Accounts payable	355.2	568.2	347.4	352.2	365.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	480.0	812.7	1,012.7	1,212.7	1,212.7
Other liabilities	279.0	288.0	280.0	272.0	266.0
<b>Total Liabilities</b>	<b>1,270.9</b>	<b>1,678.3</b>	<b>1,649.1</b>	<b>1,846.3</b>	<b>1,852.7</b>
Shareholders Equity	801.8	859.5	894.0	926.3	964.0
Minority Interest	(0.1)	(0.6)	1.0	2.6	4.2
<b>Total shareholder equity</b>	<b>801.7</b>	<b>858.9</b>	<b>895.0</b>	<b>928.9</b>	<b>968.2</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>2,072.5</b>	<b>2,537.2</b>	<b>2,544.1</b>	<b>2,775.3</b>	<b>2,821.0</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	74.7	110.9	105.1	102.3	108.9
Depreciation & amortisation	171.3	193.1	215.0	194.7	202.7
Adj net interest (income)/exp	9.2	10.9	18.1	22.0	24.0
Change in working capital	(12.8)	(10.0)	(160.4)	4.2	5.8
Cash taxes paid	(4.5)	(9.0)	(17.9)	(17.4)	(18.5)
Other operating cash flow	11.4	2.5	17.9	17.4	18.5
Cash flow from operations	244.6	289.3	159.9	305.8	322.8
Capex	(649.3)	(460.9)	(250.0)	(450.0)	(151.4)
Free cash flow	(388.0)	1.7	89.9	31.8	145.4
Dividends paid	(30.4)	(41.1)	(49.5)	(49.5)	(49.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	28.7	188.8	200.0	200.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	10.5	20.1	(19.7)	(23.6)	(25.6)
Effect of exch rate changes	0.2	0.8	0.0	0.0	0.0
Net cash flow	(390.8)	0.6	40.7	(17.2)	96.4

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.0	6.2	6.3	(0.4)	4.1
EBITDA growth	(8.1)	22.9	7.7	(5.7)	5.2
EBIT growth	(33.9)	43.4	2.0	0.9	6.9
Pretax growth	(28.9)	48.5	(5.2)	(2.7)	6.4
Reported net profit growth	(25.7)	47.0	(7.7)	(2.5)	6.5
Core net profit growth	(38.5)	47.0	(7.7)	(2.5)	6.5
<b>Profitability ratios (%)</b>					
EBITDA margin	22.0	25.4	25.7	24.4	24.6
EBIT margin	7.2	9.8	9.4	9.5	9.8
Pretax profit margin	6.4	9.0	8.0	7.8	8.0
Payout ratio	54.1	54.4	58.9	60.5	56.8
<b>DuPont analysis</b>					
Net profit margin (%)	5.3	7.4	6.4	6.3	6.4
Revenue/Assets (x)	0.6	0.5	0.5	0.5	0.5
Assets/Equity (x)	2.6	3.0	2.8	3.0	2.9
ROAE (%)	7.9	11.0	9.6	9.0	9.2
ROAA (%)	2.9	3.9	3.3	3.1	3.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	28.6	38.8	37.8	29.7	29.0
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.8	1.8	1.7	1.7	1.8
Current ratio (x)	0.6	0.6	0.9	0.9	1.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.6	1.5	1.5	1.5	1.5
Net debt/equity (%)	60.0	77.4	92.3	112.5	98.1
Net interest cover (x)	9.2	11.0	6.8	5.7	5.5
Debt/EBITDA (x)	2.5	2.6	3.0	3.8	3.6
Capex/revenue (%)	55.8	37.3	19.0	34.4	11.1
Net debt/ (net cash)	480.9	665.5	824.8	1,041.9	945.6

Source: Company; Maybank

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