

ComfortDelGro Corp Ltd

Recovery building momentum from repricing



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SINGAPORE | TRANSPORT SERVICES | 2Q23 RESULT

17 August 2023

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.27
FORECAST DIV	SGD 0.0608
TARGET PRICE	SGD 1.57
TOTAL RETURN	28.4%

COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN):	2,166
MARKET CAP (SGD mn):	2,750
52 - WK HI/LO (SGD):	1.46 / 1.01
3M Average Daily T/O (mn):	8.8

MAJOR SHAREHOLDERS

Ameriprise Financial Inc	6.3%
Vanguard Group	3.1%

- 2Q23 results were within expectations. 1H23 revenue and PATMI were 45% and 47% of our FY23e forecast. PATMI grew 17% YoY to S\$45mn as taxi earnings doubled.
- Public transport remains a drag on earnings from weaker foreign exchange and higher bus driver costs in the UK. We expect a strong rebound in earnings as bus contracts service fees in the UK are repriced higher from inflation indexing and more rational pricing.
- No changes to our FY23e forecast but we raised our FY23e DPS to 6.08 cents (prev. 5.3 cents), as the company increased their minimum payout ratio from 50% to 70%. Our BUY recommendation and DCF target price of S\$1.57 is unchanged. The largest driver to earnings in 2H23 will be the repricing of services in the key public transport and taxi operations. We believe the key earnings driver in 2H23 include higher bus service fees in the UK, increased hiring of Australian bus drivers, the introduction of taxi platform fees in Singapore and lower taxi rental rebates in Singapore and China.

Results at a glance

(SGD mn)	2Q23	2Q22	YoY	Comments
Revenue	955.8	955.8	0.0%	
- Public transport	730.0	735.4	-0.7%	
- Taxi & private hire	140.8	137.4	2.5%	
EBIT	66.3	65.9	0.6%	
- Public transport	28.9	41.5	-30.4%	FX and higher bus driver fees and overtime.
- Taxi & private hire	25.8	12.6	104.8%	Lower taxi rebates, stable fleet and higher commissions.
Gain on disposal	1.0	1.0	0.0%	
PATMI	45.7	39.2	16.6%	
PATMI - normalised	44.7	38.2	17.0%	Excluding disposal gains.
DPS - Interim (cents)	2.90	2.85	1.8%	80% Payout ratio (1H22: 70%).

Source: Company, PSR

The Positives

+ Taxi profits doubled. 2Q23 margins improved with higher booking volumes, additional booking commissions, lower rebates in Singapore (15% to 10% from Apr23) and reduced taxi rebates and costs in China. Another driver to earnings has been a stable taxi fleet in Singapore. Comfort's taxi fleet grew 0.8% YoY to 8,782, after several years of decline.

+ Cash piling up and returning to shareholders. Comfort continues to generate healthy free-cash-flows (FCF). 1H23 FCF was S\$86.4mn (1H22: S\$88.5mn), piling up the net cash to S\$565mn. Capital expenditure is now trending at S\$350mn p.a. compared to pre-pandemic S\$450-500mn. Comfort has raised its minimum dividend payout ratio from 50% to 70%. We estimate S\$131mn of dividends to be paid out this year.

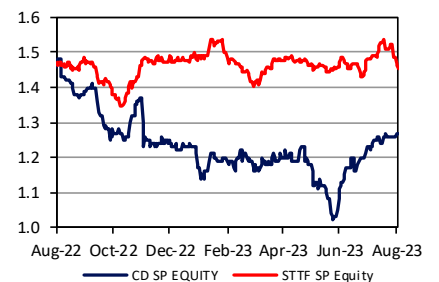
The Negative

- Lethargic in margins for public transport. Public transport operating margin has been the weakest spot for Comfort. 2Q23 margins was 4%, an improvement over 3.4% in 1Q23 but far below pre-pandemic 8%. Bus operations across the UK, Australia and Singapore are depressing margins. The worst hit is the UK which reported an operating loss of S\$0.5mn. A combination of irrational tendering activity and a spike in bus driver fees has negatively impacted margins. Australia is suffering from higher overtime salaries and other "running time" charges due to the lack of bus drivers.

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.3	7.6	6.9
STTF	0.7	1.9	2.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 21	FY 22	FY 23e	FY 24e
Revenue (\$ mn)	3,503	3,781	4,110	4,261
PATMI, adj (\$ mn)	146.8	154.8	164.7	186.3
EPS, adj. (cents)	7.2	5.4	7.6	8.6
P/E, adj. (x)	17.7	23.7	16.7	14.8
BVPS (cents)	144	139	139	142
P/B (x)	0.9	0.9	0.9	0.9
DPS (cents)	4.2	8.5	6.1	6.9
Div. Yield (%)	3.3	6.7	4.8	5.4

Source: Bloomberg, PSR

VALUATION METHOD

DCF (WACC: 9.2%; Terminal g: 1.0%)

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Outlook

2H23e earnings recovery will be driven by multiple drivers:

Public Transport

- i. UK bus service fees will be priced higher due to indexation to the CPI on the anniversary of their contracts. This exercise is conducted on each route. Competition has been more rational with tenders at better margins than the irrational bidding activity in 2019/20.
- ii. Australia's margins have suffered in 1H23 due to bus driver shortages, particularly outside the metro areas. Bus shortages lead to extra cost from increased overtime and other charges. The bus driver situation has been improving.

Taxi and private hire

- iii. Reduction of taxi rental discounts and incentives in China that were still present in 2Q23.
- iv. 2H23 taxi earnings will benefit from a lower taxi rebate (from Apr23) and the introduction of Zig platform fees of 70 cents per trip (from Jul23). Since the introduction of the platform fees, there has been no impact on volume. The number of 3rd party drivers on the platform has been rising from 3,000 to 4,500.

Other meeting highlights:

- **EV charging stations** are a new market that will be pursued. Comfort has been successful in securing 479 charging points from URA (Sep21) and nearly 2,000 from LTA (Nov22). Expanding this segment will be in-line with the growth of EVs in Singapore which can be negatively impacted by high COEs.
- There are **two bus tender packages** in Singapore this year. Also pursuing the rail tenders, namely Cross Island and Jurong Regional Lines.
- **Autonomous vehicle** hiring services are already offered in Southern China. But every country has a different risk appetite in their roll-out.
- The **ComfortDelGro and Gojek collaboration** announced in Nov22 is still progressing. There are many technical and commercial issues to resolve. The collaboration can help in addressing unfilled customer orders, especially at night when public transport is unavailable and night-shift drivers are in demand.
- **Dynamic pricing** in taxis is still needed otherwise drivers will switch to other platforms for higher fares. Zig has become a tool to better compete against other ride-hailing apps. The introduction of booking commission is also a flexible tool to share revenue risk with drivers if fixed car rents are too high.

Maintain BUY with an unchanged TP of S\$1.57

ComfortDelgro pays around 4.8% dividend yield, enjoys a net cash balance sheet of S\$565mn and visibility of earnings recovery.

Financials

Income Statement

SGD mn, Y/E Dec	FY 20	FY 21	FY 22	FY 23e	FY 24e
Revenue	3,242.6	3,502.8	3,780.8	4,110.2	4,260.7
EBITDA	553.7	576.1	627.2	590.2	614.6
Depreciation & Amortisation	(432.0)	(376.3)	(357.2)	(347.5)	(338.8)
EBIT	121.7	199.8	270.0	242.8	275.8
Net Finance (Expense)/Inc	(5.9)	(5.1)	1.9	3.0	2.3
Profit Before Tax	115.8	194.8	272.7	245.7	278.1
Taxation	(24.5)	(41.8)	(54.2)	(44.2)	(50.0)
Profit After Tax	91.3	153.0	218.5	201.5	228.0
Non-controlling interest	30.9	29.9	45.4	36.9	41.7
PATMI, reported	60.4	123.1	173.1	164.7	186.3
PATMI, adj.	119.9	146.8	154.8	164.7	186.3

Balance Sheet

SGD mn, Y/E Dec	FY 20	FY 21	FY 22	FY 23e	FY 24e
ASSETS					
Cash	742.8	919.1	967.0	895.6	971.2
Accounts Receivables	291.8	569.8	550.0	574.0	576.0
Inventories	127.9	116.9	120.1	129.8	124.2
Prepayments	241.6	-	-	-	-
Others	20.1	14.8	7.6	7.6	7.6
Total current assets	1,424.2	1,620.6	1,644.7	1,607.0	1,679.0
PPE	2,604.1	2,191.9	2,038.4	1,957.7	1,939.0
Intangibles	870.0	866.9	816.3	816.3	816.3
Receivables	6.7	176.4	142.6	142.6	142.6
Others	53.6	58.6	58.8	58.8	58.8
Total non-current assets	3,534.4	3,293.8	3,056.1	2,975.4	2,956.7
Total Assets	4,958.6	4,914.4	4,700.8	4,582.4	4,635.7

LIABILITIES

Short term loans	110.3	23.9	26.8	26.8	26.8
Accounts Payables	675.0	775.6	832.2	697.0	699.5
Others	227.2	190.6	181.8	181.8	181.8
Total current liabilities	1,012.5	990.1	1,040.8	905.6	908.1
Long term loans	353.4	317.1	265.4	265.4	265.4
Others	524.0	498.8	395.2	395.2	395.2
Total non-current liabilities	877.4	815.9	660.6	660.6	660.6
Total Liabilities	1,889.9	1,806.0	1,701.4	1,566.2	1,568.7

EQUITY

Non-controlling interest	422.0	429.8	430.5	467.4	509.1
Shareholder Equity	2,646.7	2,678.6	2,568.9	2,548.7	2,557.8

Per share data (cents)

	FY 20	FY 21	FY 22	FY 23e	FY 24e
EPS, reported	2.8	6.0	6.0	7.6	8.6
EPS, adj.	5.6	7.2	5.4	7.6	8.6
DPS	1.4	4.2	8.5	6.1	6.9
BVPS	142	144	139	139	142

Cash Flow

SGD mn, Y/E Dec	FY 20	FY 21	FY 22	FY 23e	FY 24e
CFO					
PBT	115.8	194.8	272.7	245.7	278.1
Adjustments	-	-	-	-	-
WC changes	(28.5)	106.1	59.0	(168.9)	6.1
Cash generated from ops	632.2	727.9	682.2	421.3	620.7
Others	(87.9)	(71.3)	(79.9)	(44.2)	(50.0)
Cashflow from ops	544.3	656.6	602.3	377.1	570.7
CFI					
CAPEX, net	(106.1)	(189.9)	(222.3)	(266.8)	(320.1)
Divd from associates & JVs	0.4	0.1	-	-	-
Others	(4.0)	(9.6)	(28.7)	10.0	9.3
Cashflow from investments	(109.7)	(199.4)	(251.0)	(256.8)	(310.8)
CFF					
Share issuance, net	1.1	2.3	-	-	-
Loans, net of repayments	(116.6)	(143.9)	(50.1)	-	-
Dividends	(144.4)	(107.4)	(171.3)	(184.8)	(177.2)
Others	(41.9)	(38.2)	(53.3)	(7.0)	(7.0)
Cashflow from financing	(301.8)	(287.2)	(274.7)	(191.8)	(184.2)
Effects of exchange rates	15.8	6.4	(28.7)	-	-
Net increase (decrease) in CCE	148.6	176.4	47.9	(71.5)	75.6
CCE, end	742.8	919.2	967.1	895.6	971.2

Source: Company, Phillip Securities Research (Singapore) Estimates

Valuation Ratios

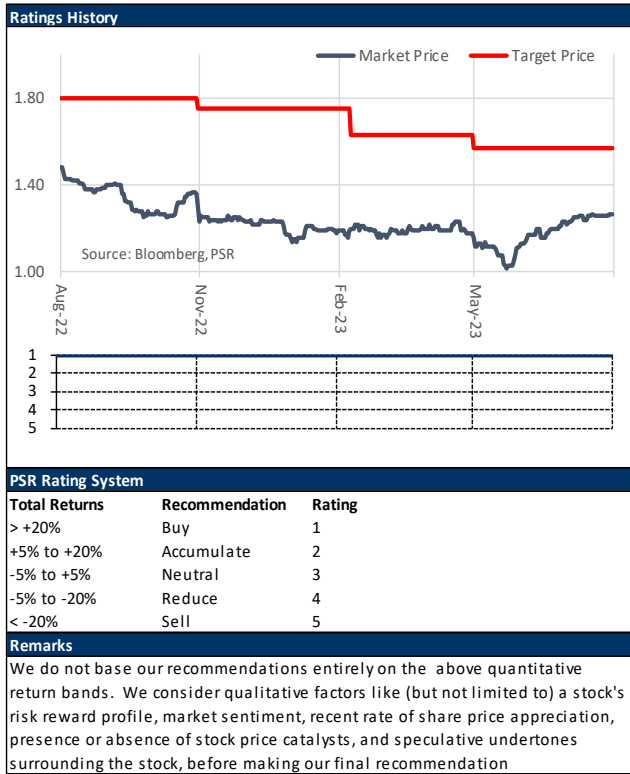
	FY 20	FY 21	FY 22	FY 23e	FY 24e
P/E (x), adj.	22.8	17.7	23.7	16.7	14.8
P/B (x)	0.9	0.9	0.9	0.9	0.9
Dividend Yield	1.1%	3.3%	6.7%	4.8%	5.4%

Growth & Margins

Growth					
Revenue	-16.9%	8.0%	7.9%	8.7%	3.7%
EBITDA	-34.2%	4.0%	8.9%	-5.9%	4.1%
EBIT	-70.7%	64.2%	35.1%	-10.1%	13.6%
Net Income, adj.	-58.3%	22.4%	5.4%	6.4%	13.1%
Margins					
EBITDA margin	17.1%	16.4%	16.6%	14.4%	14.4%
EBIT margin	3.8%	5.7%	7.1%	5.9%	6.5%
PBT margin	3.6%	5.6%	7.2%	6.0%	6.5%
Net Profit Margin	3.7%	4.2%	4.1%	4.0%	4.4%

Key Ratios

ROE	4.6%	5.5%	5.9%	6.4%	7.3%
ROA	2.3%	3.0%	3.2%	3.5%	4.0%
Dividend Payout	25.6%	58.7%	158.0%	80.0%	80.0%
Net Debt or (Net Cash)	-279	-578	-675	-603	-679
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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