

ComfortDelGro Corp Ltd

Finally, UK is a source of growth



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SINGAPORE | TRANSPORT SERVICES | 2Q24 RESULTS

18 August 2024

- 1H24 results were within our expectations. Revenue and PATMI were 52%/45% of our FY24e forecast. 2Q24 net profit rose 18% YoY driven by a strong turnaround in UK bus and Singapore taxi businesses. Interim dividend increased 21% to 3.52 cents.
- Around half of 2Q24 EBIT growth was from UK bus operations. It turned around from losses to a 3% operating margin. Taxi earnings spiked 48% YoY to S\$38.3mn on the back of higher Zig ride-hailing commissions and platform fees. Excluding acquisitions, Australia's earnings in 2Q24 declined 26% YoY.
- Our FY24e earnings and DCF target price of S\$1.63 is unchanged. We maintain our BUY recommendation. The re-contracting of London bus routes over the next few quarters will provide strong earnings growth and visibility. Another boost will be a seasonal uptick in earnings from CMAC Group in 2H24. The Singapore taxi business is facing renewed ride-hailing competition. However, higher taxi fares and commission (from end-2023) will provide earnings support in 2H24. The weakness remains in Singapore rail, which is hardly profitable, and the margins in Australia are declining.

Results at a glance

SGD mn	2Q24	2Q23	YoY	Comments
Revenue	1,112.9	955.9	16.4%	Acquisition contributed S\$100.3mn.
- Public transport	774.6	730.0	6.1%	Poor profitability in Singapore rail.
- Taxi & private hire	179.2	140.8	27.3%	A2B acquisition contributed S\$31.2mn.
EBIT (Segment)	84.5	66.3	27.5%	Acquisition contributed S\$8.1mn.
- Public transport	31.0	28.9	7.3%	
- Taxi & private hire	38.3	25.8	48.4%	Higher comms and platform fee.
EBIT (Country)				Acquisition contributed S\$8.1mn.
- Singapore	57.4	52.4	9.5%	
- UK/Ireland	8.6	(2.3)	n.m.	Higher margin contracts renewed.
- Australia	14.7	13.2	11.4%	A2B acquisition contributed S\$5mn.
- China	3.7	3.0	23.3%	Expansion in rental fleet.
PATMI	54.7	45.7	19.7%	
PATMI - normalised	52.7	44.7	17.9%	Excluding disposal gains S\$2mn.
DPS - Interim (cents)	3.52	2.90	21.4%	80% Payout ratio (1H23: 80%).

Source: Company, PSR

The Positive

+ Margin improvement in Singapore taxi and UK bus operations. Taxi margins expanded 4% points to multi-year highs of 22.5%, excluding A2B acquisition. Higher commission rates and platform fees levied by the Zig ride-hailing app contributed to the increase. UK operations turned profitable from higher margin re-contracting of London bus contracts.

The Negative

- Australia bus margins keep sliding. Excluding A2B acquisitions, Australian earnings declined 27% to S\$9.7mn. Australia public bus contracts were renewed in 1H23 at lower margins. Ongoing bus driver shortages in Australia will worsen margins.

Outlook

We expect stronger earnings growth in 2H24 driven by UK bus, CMAC group, Singapore and the China taxi business. Weakness remains in Australia bus and Singapore rail.

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.43
FORECAST DIV	SGD 0.0748
TARGET PRICE	SGD 1.63
TOTAL RETURN	19.2%

COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN) :	2,166
MARKET CAP (SGD mn) :	3,098
52 - WK HI/LO (SGD) :	1.50 / 1.23
3M Average Daily T/O (mn) :	6.1

MAJOR SHAREHOLDERS

Silchester International Investors LLP	8.0%
Ameriprise Financial Inc	6.0%
Bank of Montreal	5.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.9	2.1	4.8
STTF	-2.0	3.2	7.8

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$\$mn)	FY 22	FY 23	FY 24e	FY 25e
Revenue	3,781	3,880	4,092	4,231
PATMI, adj	154.8	192.1	207.7	213.5
EPS, adj. (cents)	7.1	8.9	9.6	9.9
P/E, adj. (x)	20.0	16.1	14.9	14.5
BVPS (cents)	139	139	144	147
P/B (x)	1.0	1.0	1.0	1.0
DPS (cents)	8.5	6.7	7.5	7.4
Div. Yield (%)	5.9	4.7	5.2	5.2

Source: Bloomberg, PSR

VALUATION METHOD

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

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- i. **Singapore Taxi:** There is intense price competition by the three ride-hailing platforms, Gojek, Grab and Tada. All platforms are aggressively sourcing for drivers and giving discounts on rides. Comfort's strategy is not to compete with low-margin subsidised fares. It ultimately impacts driver takings which is not sustainable. We believe competition will limit Zig's ability to raise its commission (7-12%) despite being lower than its competitor's (15-20%). The focus is to enhance the app further to cater for customised customer demand. Separately, VICOM will benefit from the installation of a vehicle on-board unit (OBU), likely over 18 months.
- ii. **UK Bus:** The competition in bidding for London bus routes has been severely curtailed. Only 14-15% of existing bus routes are on new contracts (that range from 5 to 7 years). The new contract margins are now in the mid-teens compared with the low single digits in the past. Competitors have exited due to the severe losses over the past few years and lack of scale. CMAC group registers a jump in revenue in 2h24. During the holiday season, when travel disruptions occur, most airlines use CMAC to resolve any accommodation and travel contingencies. If we assume a 10% EBIT margin for the UK, the potential uplift to group EBIT is around \$70mn (or 25%).
- iii. **Singapore Rail:** Profitability will depend on higher ridership. The opening of the new Punggol Coast MRT station will support ridership. Lower electricity costs due to re-contracting in 4Q24 will increase margins. There is no indexation of electricity costs to rail fares.
- iv. **Australia Bus:** Bus driver shortages lead to increased salaries, dependency on agency drivers that are higher priced or paying penalties for unscheduled delays.
- v. **China Taxi:** Fleet growth will drive earnings. Opportunities exist in Tier 2 cities where a taxi license is a regulatory requirement for ride-hailing.

Maintain BUY with unchanged TP of S\$1.63

ComfortDelGro pays around a 5% dividend yield with strong earnings visibility.

Financials

Income Statement

SGD mn, Y/E Dec	FY 21	FY 22	FY 23	FY 24e	FY 25e
Revenue	3,502.8	3,780.8	3,880.3	4,092.3	4,230.5
EBITDA	576.1	627.2	636.3	675.2	693.8
Depreciation & Amortisation	(376.3)	(357.2)	(364.2)	(375.0)	(383.9)
EBIT	199.8	270.0	272.1	300.2	309.9
Net Finance (Expense)/Inc	(5.1)	1.9	6.5	9.8	8.7
Profit Before Tax	194.8	272.7	280.0	310.0	318.7
Taxation	(41.8)	(54.2)	(55.0)	(55.8)	(57.4)
Profit After Tax	153.0	218.5	225.0	254.2	261.3
Non-controlling interest	29.9	45.4	44.5	46.5	47.8
PATMI, reported	123.1	173.1	180.5	207.7	213.5
PATMI, adj.	146.8	154.8	192.1	207.7	213.5

Per share data (cents)

	FY 21	FY 22	FY 23	FY 24e	FY 25e
EPS, reported	6.0	8.0	8.3	9.6	9.9
EPS, adj.	7.2	7.1	8.9	9.6	9.9
DPS	4.2	8.5	6.7	7.5	7.4
BVPS	144	139	139	144	147

Cash Flow

SGD mn, Y/E Dec	FY 21	FY 22	FY 23	FY 24e	FY 25e
CFO					
PBT	194.8	272.7	280.0	310.0	318.7
Adjustments	-	-	-	-	-
WC changes	106.1	59.0	(125.5)	(136.9)	0.2
Cash generated from ops	727.9	682.2	531.6	538.3	694.0
Others	(71.3)	(79.9)	(82.5)	(55.8)	(57.4)
Cashflow from ops	656.6	602.3	449.1	482.5	636.6
CFI					
CAPEX, net	(189.9)	(222.3)	(323.4)	(388.1)	(465.7)
Divd from associates & JVs	0.1	-	2.1	-	-
Others	(9.6)	(28.7)	(9.2)	18.1	17.1
Cashflow from investments	(199.4)	(251.0)	(330.5)	(369.9)	(448.6)
CFF					
Share issuance, net	2.3	-	3.7	-	-
Loans, net of repayments	(143.9)	(50.1)	47.8	-	-
Dividends	(107.4)	(171.3)	(211.9)	(157.7)	(194.1)
Others	(38.2)	(53.3)	(63.7)	(8.3)	(8.3)
Cashflow from financing	(287.2)	(274.7)	(224.1)	(166.1)	(202.4)
Effects of exchange rates	6.4	(28.7)	(4.6)	-	-
Net increase (decrease) in CCE	176.4	47.9	(110.1)	(53.5)	(14.4)
CCE, end	919.2	967.1	857.0	803.5	789.1

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY 21	FY 22	FY 23	FY 24e	FY 25e
ASSETS					
Cash	919.1	967.0	856.9	803.5	789.1
Accounts Receivables	569.8	476.7	532.7	572.9	575.1
Inventories	116.9	120.1	141.7	126.7	127.0
Prepayments	-	73.3	82.6	82.6	82.6
Others	14.8	7.6	0.2	0.2	0.2
Total current assets	1,620.6	1,644.7	1,614.1	1,585.9	1,573.9
PPE	2,191.9	2,038.4	2,012.1	2,025.1	2,107.0
Intangibles	866.9	816.3	822.6	822.6	822.6
Receivables	176.4	142.6	150.4	150.4	150.4
Others	58.6	59.9	90.5	90.5	90.5
Total non-current assets	3,293.8	3,057.2	3,075.6	3,088.6	3,170.5
Total Assets	4,914.4	4,701.9	4,689.7	4,674.6	4,744.4

LIABILITIES

Short term loans	23.9	26.8	115.4	115.4	115.4
Accounts Payables	775.6	832.2	807.4	695.7	698.3
Others	190.6	181.8	168.8	168.8	168.8
Total current liabilities	990.1	1,040.8	1,091.6	979.9	982.5
Long term loans	317.1	265.4	234.9	234.9	234.9
Others	498.8	395.2	349.3	349.3	349.3
Total non-current liabilities	815.9	660.6	584.2	584.2	584.2
Total Liabilities	1,806.0	1,701.4	1,675.8	1,564.1	1,566.7

EQUITY

Non-controlling interest	429.8	430.5	416.2	462.7	510.5
Shareholder Equity	2,678.6	2,568.9	2,597.7	2,647.7	2,667.1

Valuation Ratios

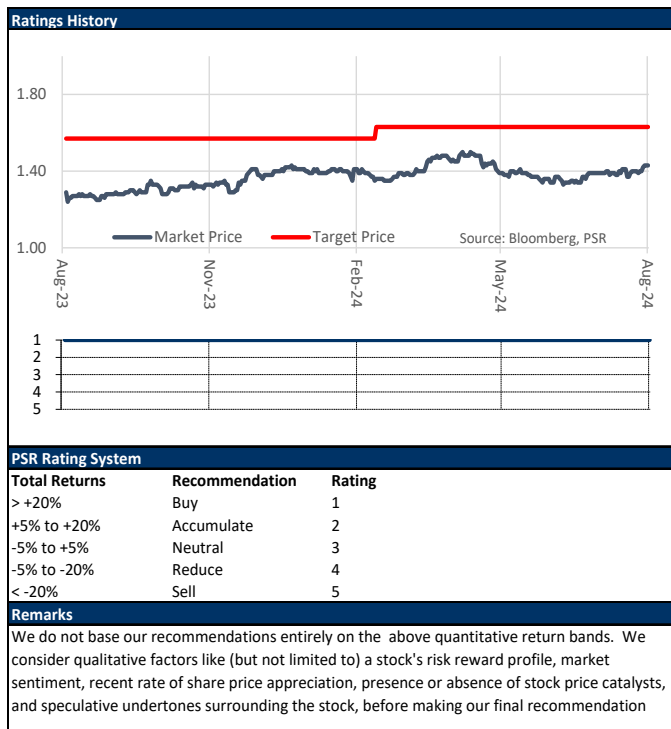
	FY 21	FY 22	FY 23	FY 24e	FY 25e
P/E (x), adj.	20.0	20.0	16.1	14.9	14.5
P/B (x)	1.0	1.0	1.0	1.0	1.0
Dividend Yield	2.9%	5.9%	4.7%	5.2%	5.2%

Growth & Margins

Growth					
Revenue	8.0%	7.9%	2.6%	5.5%	3.4%
EBITDA	4.0%	8.9%	1.5%	6.1%	2.8%
EBIT	64.2%	35.1%	0.8%	10.3%	3.3%
Net Income, adj.	22.4%	5.4%	24.1%	8.1%	2.8%
Margins					
EBITDA margin	16.4%	16.6%	16.4%	16.5%	16.4%
EBIT margin	5.7%	7.1%	7.0%	7.3%	7.3%
PBT margin	5.6%	7.2%	7.2%	7.6%	7.5%
Net Profit Margin	4.2%	4.1%	5.0%	5.1%	5.0%

Key Ratios

ROE	5.5%	5.9%	7.4%	7.9%	8.0%
ROA	3.0%	3.2%	4.1%	4.4%	4.5%
Dividend Payout	58.7%	118.7%	75.1%	78.0%	75.0%
Net Debt or (Net Cash)	-578	-675	-507	-453	-439
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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