



ComfortDelGro Corporation

(CD SP/CMDG.SI)

Overreaction to Go-Jek's entry into Singapore

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- CD's share price dropped as much as 5.5% on heavy volume on 10 October after media reports that Indonesia's ride-hailing Go-Jek has decided to enter the Singapore market by itself, and will not be partnering CD as was initially widely expected.
- Go-Jek is partnering with 6 car rental firms to supply vehicles, according to news reports.
- We believe the entrance of Go-Jek into the Singapore market will not bring about the same level of competition as Uber and Grab's fight for market dominance, which was simply not sustainable.
- Therefore, we are of the view that the sell-off is overdone and presents an attractive entry point for a defensive business offering 5% dividend yield, sustained by strong free cash flows from stable operations.
- **We re-iterate our BUY and target price of S\$2.72.**

Financials & Key Operating Statistics

YE Dec (\$\$m)	2016	2017	2018F	2019F	2020F
Revenue	4059.5	3970.9	4031.8	4092.8	4154.9
PATMI	317.1	301.5	310.2	315.9	321.4
Core PATMI	303.2	279.1	310.2	315.9	321.4
Core EPS	14.0	12.9	14.3	14.6	14.9
Core EPS grth (%)	0.4	-7.9	11.2	1.8	1.8
Core P/E (x)	15.8	17.2	15.5	15.2	14.9
DPS (SGCents)	10.3	10.4	11.2	11.2	11.2
Div Yield (%)	4.6	4.7	5.0	5.0	5.0
Net Margin (%)	7.8	7.6	7.7	7.7	7.7
Gearing (%)	-4.8	-0.1	14.7	22.6	28.8
Price / Book (x)	1.9	1.8	1.8	1.7	1.7
ROE (%)	9.9	9.9	9.8	9.6	9.4

Source: Company Data, KGI Research

Go-Jek is coming. Indonesia ride-hailing Go-Jek will be entering the Singapore market in November 2018 and has roped in 6 rental firms to sign-up private-hire drivers and to supply vehicles to those who do not own one. Go-Jek – whose investors include Temasek and Google – was previously in talks with CD to explore a tie-up, according to news reports.

Not a concern for us. We believe the impact on CD's taxi business will not be as severe as during the Uber/Grab's fight for market dominance that was simply not sustainable. As we had mentioned in January in our key investment thesis, CD has strong cash flows to outlast competitors in the transport business given its diversified geographical base. Therefore, Go-Jek will be more measured in terms of the discounts and incentives to both drivers and customers.

Actually good for customers. The Competition and Consumer Commission of Singapore (CCCS) fined Grab and Uber a total of S\$13mn following their merger, after finding that Grab trip fares increased by 10-15%, and complaints from drivers on Grab's fare and commission. With Grab currently controlling 80% of the ride-hailing market, the entry of Go-Jek would be a much needed alternative for drivers and consumers.

BUY - Maintain		Performance (Absolute)	
Price as of 12 Oct 18 (SGD)	2.19	1 Month (%)	-3.9
12M TP (\$)	2.72	3 Month (%)	-7.6
Previous TP (\$)	2.72	12 Month (%)	12.9
Upside, incl div (%)	27.8	Perf. vs STI Index (Red)	
Trading data			
Mkt Cap (\$mn)	4,741		
Issued Shares (mn)	2,165		
Vol - 3M Daily avg (mn)	6.6		
Val - 3M Daily avg (\$mn)	15.3		
Free Float (%)	93.6%		
Major Shareholders		Previous Recommendations	
Blackrock	6.0%	15-May-18	BUY \$2.72
Schroders	5.0%	30-Apr-18	BUY \$2.72
		2-Jan-18	BUY \$2.24

CD not standing still. With the tie-up of CD and Go-Jek now off the cards, CD has been actively exploring partnerships with new players to enhance its service offerings to customers. On 8 October 2018, CD announced that it was partnering MaaS Global – which stands for Mobility as a Service - from Finland in a new service that will bring all means of transport (taxi, bus, train, car rental and even bicycles) into a seamless digital offering for customers. The soon-to-be-launched app, called "WHIM", has already been implemented in Finland, Belgium, Netherlands and the UK. WHIM users will have the option of pay-as-you-go option or opt for a subscription plan where customers will not have to worry about ticketing and payments. The WHIM service is expected to go on trial in Singapore soon with a commercial launch expected in 1Q19.

Valuation & Action: We re-iterate our BUY recommendation and maintain our target price to S\$2.72, pegged to 19x 2018F EPS, based on 1SD above the 10-year mean. We believe the following catalysts would lead to an expansion in valuation multiples as earnings begin recovering over the next few quarters: (1) better-than-expected recovery of its taxi business following the exit of Uber in SEA; (2) potential upside from the breakeven of Downtown Line (DTL); and (3) EPS-accretive acquisitions given its strong balance sheet and healthy cash flows.

Risks: Slower-than-expected recovery of taxi business if Go-Jek decides to aggressively grab market share; slower-than-expected breakeven of DTL; forex risks given its exposure to UK and Australia.

KGI's Ratings**Rating Definition**

KGI Securities Research's recommendations are based on an Absolute Return rating system.

BUY >10% total return over the next 12 months

HOLD -10% to +10% total return over the next 12 months

SELL <-10% total return over the next 12 months

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