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# ComfortDelGro Corporation

(CD SP/CMDG.SI)

## Acquisition-fuelled year; taxi business stabilising

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- FY2018 earnings made up 97% of our full-year forecasts. CD's profits have increased 5-13% QoQ every quarter in 2018, pointing to improving fundamentals and growing contributions from its S\$0.5bn of acquisitions in 2018.
- Performance was lifted mainly by its public transport business in Singapore and Australia, which management guided will continue to lead revenue growth in 2019.
- CD's forward 4.5% dividend yield is still attractive despite the 12% gain in its share price YTD.
- **We re-iterate our BUY and target price of S\$2.77.** However, in the short-term, investors may need to take note as we approach the Brexit deadline on 29 March given that CD has a 23% revenue exposure to the pound.

| Financials & Key Operating Statistics |        |        |        |        |        |
|---------------------------------------|--------|--------|--------|--------|--------|
| YE Dec (\$\$m)                        | 2017   | 2018   | 2019F  | 2020F  | 2021F  |
| Revenue                               | 3970.9 | 3805.2 | 4145.1 | 4220.6 | 4297.5 |
| PATMI                                 | 301.5  | 303.3  | 315.3  | 321.8  | 328.3  |
| Core PATMI                            | 279.1  | 291.5  | 315.3  | 321.8  | 328.3  |
| Core EPS                              | 12.9   | 13.5   | 14.6   | 14.9   | 15.2   |
| Core EPS grth (%)                     | -7.9   | 4.4    | 8.2    | 2.1    | 2.0    |
| Core P/E (x)                          | 18.8   | 18.0   | 16.6   | 16.3   | 15.9   |
| DPS (\$Gcents)                        | 10.4   | 10.4   | 10.6   | 10.7   | 10.8   |
| Div Yield (%)                         | 4.3    | 4.3    | 4.4    | 4.4    | 4.5    |
| Net Margin (%)                        | 7.6    | 8.0    | 7.6    | 7.6    | 7.6    |
| Gearing (%)                           | -0.1   | 8.4    | 17.9   | 24.9   | 31.3   |
| Price / Book (x)                      | 2.0    | 2.0    | 1.9    | 1.9    | 1.8    |
| ROE (%)                               | 9.9    | 10.0   | 9.9    | 9.7    | 9.4    |

Source: Company Data, KGI Research

**Performance lifted by public transport and acquisitions.** CD reported a 6.4% increase in FY18 revenue to S\$3.8bn, with contributions from new acquisitions making up >50% of the increases. New acquisitions contributed to a S\$20.7mn growth in operating profit, while existing businesses contributed S\$10.7mn. In terms of segments, FY18 operating profits under its public transport services increased 20% YoY to S\$216.5mn. CD has recommended a final dividend of 6.15 SG cents, higher than the 6.05 SG cents in FY17.

Figure 1: Key metric to watch - improving performance QoQ



Source: Company data, KGI Research

**Looking to the future on a strong foundation.** CD has made more than S\$450mn in acquisitions in 2018. In addition to the EPS-accretive acquisitions, CD is setting up a US\$100mn venture capital fund to invest in mobility technologies and solutions that would complement the group's transport business. Balance sheet remains strong, with net gearing only at 8.4% as at end 2018.

| BUY - Maintain              |       | Performance (Absolute)   |            |
|-----------------------------|-------|--------------------------|------------|
| Price as of 18 Feb 19 (SGD) | 2.42  | 1 Month (%)              | 13.1       |
| 12M TP (\$)                 | 2.77  | 3 Month (%)              | 12.1       |
| Previous TP (\$)            | 2.72  | 12 Month (%)             | 23.6       |
| Upside, incl div (%)        | 19.7  | Perf. vs STI Index (Red) |            |
| Trading data                |       |                          |            |
| Mkt Cap (\$mn)              | 5,239 | Major Shareholders       |            |
| Issued Shares (mn)          | 2,165 | Blackrock                | 7.0%       |
| Vol - 3M Daily avg (mn)     | 8.3   | Vanguard                 | 2.7%       |
| Val - 3M Daily avg (\$mn)   | 18.2  | Capital Group            | 2.0%       |
| Free Float (%)              | 93.6% | Previous Recommendations |            |
| Major Shareholders          |       | 12-Nov-18                | BUY \$2.72 |
| Major Shareholders          |       | 15-May-18                | BUY \$2.72 |
| Major Shareholders          |       | 30-Apr-18                | BUY \$2.72 |

**Taxi business stabilising; even playing field.** Although CD's taxi fleet declined 6.7% YoY to 12,360 as at end-December 2018, 4Q18 operating profit under its taxi business increased 38% YoY. It was also announced in January 2019 that Singapore's transport regulators may be imposing tighter rules on the private-hire sector, thus levelling the playing field for taxi and private-hire operators. CD stands to gain with its 12,360 taxis and 60% Singapore market share.

Figure 2: Positive outlook for its Public Transport Services segment – the biggest contributor to its revenues.

| Business segments             | Revenue outlook  |
|-------------------------------|--|
| Public Transport Services     | Singapore: Increase<br>Australia: Increase<br>UK: Maintain |
| Taxi                          | Maintain   |
| Auto Engineering Services     | Maintain   |
| Inspection & Testing Services | Maintain   |
| Driving Centre                | Maintain   |
| Car Rental & Leasing          | Decrease   |

Source: Company data, KGI Research

**Valuation & Action:** We re-iterate our BUY recommendation. Our S\$2.77 target price is pegged to 19x 2019F EPS, based on 1SD above the 10-year mean. Most of the key points in our investment thesis has panned out in 2018. The stabilisation of its taxi business removes a key overhang on its share price, in our view. The group's balance sheet remains in a strong position to take on more EPS-accretive acquisitions. While we favour CD as a stable high dividend defensive play, investors will have to take note as we approach the Brexit deadline on 29 March 2019. A hard Brexit would impact the pound where CD has a 23% revenue exposure to.

**Risks:** Slower-than-expected breakeven of DTL; forex risks given its exposure to UK and Australia.

**KGI's Ratings**

| <b>Rating</b> | <b>Definition</b>  |
|---------------|--|
|               | KGI Securities Research's recommendations are based on an Absolute Return rating system. |
| <b>BUY</b>    | >10% total return over the next 12 months  |
| <b>HOLD</b>   | -10% to +10% total return over the next 12 months  |
| <b>SELL</b>   | <-10% total return over the next 12 months   |

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