



ComfortDelGro Corporation

(CD SP/CMDG.SI)

Refuelling for the journey ahead

Joel Ng / 65 6202 1192 / joel.ng@kqi.com

- **Saved by government grants.** CD reported a net loss of S\$6mn in 1H20. If not for government grants, it would have reported a loss of S\$66mn.
- **As bad as it can get.** We believe CD's share price has factored in the worst of the pandemic-induced recession and lockdowns. While there are still concerns of a second wave, we think governments will not repeat the blanket ban that were imposed in 1H20. Therefore, we are of the view that demand for local transport will only increase moving forward.
- **Maintain OUTPERFORM but lower our fair value to S\$1.63,** based on 17.2x FY2021F EPS. The group has minimal gearing (net debt of only S\$21.9mn). If countries like Singapore, Australia and the UK ease travel restrictions earlier-than-expected, we could possibly see a re-rating of CD's share price.

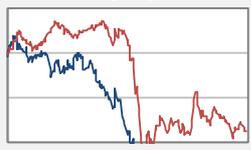
Financials & Key Operating Statistics					
YE Dec (\$m)	2018	2019	2020F	2021F	2022F
Revenue	3805.2	3905.7	3410.0	3742.3	3799.5
PATMI	303.3	265.1	77.4	205.6	240.0
Core PATMI	303.3	292.4	77.4	205.6	240.0
Core EPS	14.0	13.5	3.6	9.5	11.1
Core EPS grth (%)	8.7	-3.6	-73.5	165.8	16.8
Core P/E (x)	10.2	10.6	40.0	15.0	12.9
DPS (\$Gcents)	10.5	9.8	2.8	7.5	8.7
Div Yield (%)	7.3	6.8	2.0	5.2	6.1
Net Margin (%)	8.0	6.8	2.3	5.5	6.3
Gearing (%)	8.4	13.5	7.6	7.6	6.2
Price / Book (x)	1.2	1.2	1.2	1.1	1.1
ROE (%)	10.0	8.8	2.5	6.4	7.2

Source: Company Data, KGI Research

Toughest year ever. CD has gone through the last 20 years relatively unscathed by recessions. Even the multiple crises such as the bursting of the dotcom bubble and the global financial crisis did not impact CD's businesses. Traditionally, CD's business model made it a defensive company during economic slowdowns as it provides a basic service to the economy. However, Covid-19 has turned this viewpoint upside down. Non-essential transportation activities were forced into a complete halt for a few months in 1H20 as countries grappled with outbreaks.

As a result, 1H20 revenues declined 21% YoY and net profit plunged to a loss of S\$6mn from a profit of S\$146mn in 1H19. The saving grace is that while EBITDA in 1H20 saw its largest YoY drop, declining by 43% to S\$247mn, it still managed to generate a positive net cash inflow of S\$26mn. Thus, balance sheet strength remained in a strong position as net debt declined to S\$22mn as at end-2Q20, from S\$40mn as at end-4Q19. The group has almost S\$700mn of available facilities it can tap on. With CD, it is not an issue of whether it can survive, but a question of how fast it can recover.

Lending a hand to the hardest hit taxi business. The Covid-induced lockdowns hit CD's taxi business the most as revenues plunged 47% YoY to S\$179mn in 1H20. CD

OUTPERFORM - Maintain			
Price as of 25 Aug 20 (SGD)	1.43	Performance (Absolute)	
12M TP (\$)	1.63	1 Month (%)	1.4
Previous TP (\$)	2.28	3 Month (%)	-9.3
Upside, incl div (%)	16.2	12 Month (%)	-41.3
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	3,055		
Issued Shares (mn)	2,167		
Vol - 3M Daily avg (mn)	27.6		
Val - 3M Daily avg (\$mn)	41.4		
Free Float (%)	93.6%		
Major Shareholders		Previous Recommendations	
BMO Financial	7.5%	24-Feb-20	OP \$2.28
Blackrock	5.1%	19-Nov-19	OP \$2.61
Vanguard Group	2.7%	15-Aug-19	NEUTRAL \$2.77

extended full rental waiver to drivers during the circuit breaker measure period in Singapore, which was much more generous compared to other taxi companies in Singapore.

The million dollar question. In the aviation sector, the International Air Transport Association (IATA) forecasts global air travel will only recover back to 2019 levels by 2024, which is negative news for many airlines and service companies in the aviation sector. However, we expect local transport demand to recover much more quickly. A key factor to identify is whether work from home (WFH) arrangements will have a long-term impact on transportation demand. At this point, it will be difficult to estimate the impact of WFH on local transport demand until a vaccine is developed and widely distributed, which will not be until 2022.

Recovery. Although there is still significant uncertainty, especially if a second wave were to occur, we think that governments will not repeat the strict lockdowns that were imposed in 1H20. Hence, we are of the view that demand for local transportation will only increase moving forward.

Valuation & Action: We maintain **OUTPERFORM** but lower our target price to S\$1.63, pegged to 17.2x 2021F EPS (5-year average).

Dividend cut FY20-22F. CD did not pay an interim dividend in 1H20, a justified cancellation given the challenging environment. Until 2019, interim dividends had grown at a 7% CAGR from 2011. For FY20/21/22F, we expect dividends to be reduced to 2.8/7.5/8.7 Scts, still lower than 9.8 Scts it paid out in FY2019.

Risks: Second wave COVID-19 outbreak could derail recovery; forex risks given its exposure to UK, Australia and China.

Financials

YE 31 Dec

INCOME STATEMENT (S\$m)	2018	2019	2020F	2021F	2022F
Revenue	3,805.2	3,905.7	3,410.0	3,742.3	3,799.5
Gross Profit	3,805.2	3,905.7	3,410.0	3,742.3	3,799.5
Profit from Operations	438.8	415.8	170.5	336.8	379.9
PATMI	303.3	265.1	77.4	205.6	240.0
PATMI Normalized	303.3	292.4	77.4	205.6	240.0
BALANCE SHEET (S\$m)	2018	2019	2020F	2021F	2022F
Cash and cash equivalents	586.1	594.2	566.9	550.2	550.9
Trade and other receivables	552.4	574.2	495.0	543.3	551.6
Inventory	138.7	150.7	134.3	141.2	142.1
Other current assets	0.0	0.0	0.0	0.0	0.0
Current Assets	1,277.2	1,319.1	1,196.3	1,234.7	1,244.6
Property, plant and equipment	2,691.3	2,706.1	2,712.0	2,713.9	2,729.7
Other non-current assets	1,168.2	1,353.8	1,397.0	1,442.3	1,489.9
Non-current Assets	3,859.5	4,059.9	4,109.0	4,156.2	4,219.6
Total assets	5,136.7	5,379.0	5,305.3	5,390.9	5,464.2
Trade and other payables	691.0	670.3	680.7	675.5	678.1
Borrowings (current)	90.4	227.0	81.0	88.9	90.3
Other current liabilities	227.9	218.5	218.5	218.5	218.5
Current Liabilities	1,009.3	1,115.8	980.2	982.9	986.8
Borrowings (non-current)	479.5	407.2	429.7	471.6	478.8
Other non-current liabilities	620.8	847.0	774.0	715.6	668.9
Non-current liabilities	1,100.3	1,254.2	1,203.7	1,187.2	1,147.7
Shareholders equity	2,613.6	2,595.0	2,656.2	2,699.6	2,751.4
Non-controlling interests	413.5	414.0	465.2	521.3	578.3
Total Equity	3,027.1	3,009.0	3,121.4	3,220.9	3,329.7
Total Liabilities and Equity	5,136.7	5,379.0	5,305.3	5,390.9	5,464.2
CASH FLOW STATEMENT (S\$m)	2018	2019	2020F	2021F	2022F
Net income before tax	439.3	379.2	160.6	327.2	371.3
Depreciation & non cash adjustments	418.2	453.0	381.9	371.8	375.9
Change in Working Capital	(118.0)	(54.5)	105.9	(60.3)	(6.6)
Income Tax Paid	(82.1)	(89.5)	(32.1)	(65.4)	(74.3)
Interest Paid	11.4	21.2	20.9	20.6	19.7
CF from operating activities	668.8	609.9	637.2	593.9	686.0
Purchase/Disposal of PPE	(352.8)	(506.7)	(381.0)	(413.5)	(433.7)
Other CFI	(285.1)	140.1	0.0	0.0	0.0
CF from investing activities	(637.9)	(366.6)	(381.0)	(413.5)	(433.7)
Dividends Paid	(225.1)	(230.7)	(60.6)	(162.3)	(188.2)
Debt Raised / (Repaid)	215.5	3.7	(196.5)	(8.6)	(38.1)
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(8.4)	12.7	0.0	0.0	0.0
CF from financing activities	(29.0)	(229.7)	(277.9)	(191.5)	(246.0)
Net increase in cash & cash equiv.	(10.1)	8.1	(27.3)	(16.7)	0.7
FX effects	(12.0)	(5.5)	(5.5)	(5.5)	(5.5)
Beginning Cash	596.2	586.1	594.2	566.9	550.2
Ending Cash	586.1	594.2	566.9	550.2	550.9
KEY RATIOS	2018	2019	2020F	2021F	2022F
Profitability					
Core EPS	14.0	13.5	3.6	9.5	11.1
Core EPS Growth (%)	8.7	(3.6)	(73.5)	165.8	16.8
DPS (SGD Cents)	10.5	9.8	2.8	7.5	8.7
Dividend Yield (%)	7.3	6.8	2.0	5.2	6.1
Profitability					
EBITDA margin	21.9%	22.2%	16.0%	20.0%	21.0%
Net margin	8.0%	6.8%	2.3%	5.5%	6.3%
ROE	10.0%	8.8%	2.5%	6.4%	7.2%
ROA	5.9%	4.9%	1.5%	3.8%	4.4%
Financial Structure (x)					
Interest coverage	38.5	19.6	8.2	16.3	19.3
Total Debt/Equity	0.3	0.3	0.3	0.2	0.2
Net Gearing	0.1	0.1	0.1	0.1	0.1

Source: Company data, KGI Research

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