



CHINA
DEVELOPMENT
FINANCIAL

ComfortDelGro Corporation

(CD SP/CMDG.SI)

Lifted by acquisitions and public transport services

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

- 1Q19 PATMI rose 6% YoY to S\$70.4mn, which was driven mainly by the S\$0.5bn of acquisitions in 2018.
- CD's share price has declined 8% from its 1-year highs of S\$2.73 and now offers another buying opportunity.
- CD's forward 4.4% dividend yield, backed by its defensive businesses, is attractive in the current volatile market.
- **We re-iterate BUY and target price of S\$2.77.**

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

Lifted by acquisitions and public transport business. CD's S\$0.5bn of acquisitions in 2018 contributed around 80% of the 8% YoY revenue increase in 1Q19. In terms of segment, its public transport business revenues increased 12% YoY to S\$685mn, mainly from its acquisitions in Australia. CD's Australia-based businesses contributed 16% of sales and 18% of operating profit in 1Q19.

Figure 1: Key metrics to watch – there was a dip in QoQ performance due to higher expenses from its acquisitions.



Source: Company data, KGI Research

Taxi business stabilising but facing another threat. Its taxi business revenues in 1Q19 declined by 4% YoY to S\$172mn, but we note that this was at a slower pace compared to the declines experienced in 2018. Management expects this segment to be under pressure even as it implements various initiatives, such as the conversion of older diesel taxis into the new hybrid taxis, which will result in tax and depreciation savings.

We think that private hires may once again pose a threat to CD's taxi business. The Land Transport Authority (LTA) is proposing two different licenses that may potentially allow

BUY - Maintain

Price as of 15 May 19 (SGD)	2.52	Performance (Absolute)	
12M TP (\$)	2.77	1 Month (%)	-1.5
Previous TP (\$)	2.77	3 Month (%)	8.3
Upside, incl div (%)	18.7	12 Month (%)	12.3
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	5,479		
Issued Shares (mn)	2,166		
Vol - 3M Daily avg (mn)	7.8		
Val - 3M Daily avg (\$mn)	19.7		
Free Float (%)	93.6%		
Major Shareholders		Previous Recommendations	
Blackrock	7.0%	18-Feb-19	BUY \$2.77
Vanguard	2.7%	12-Nov-18	BUY \$2.72
Norges Bank	1.4%	15-May-18	BUY \$2.72

private hires to provide street-hailing services, which only taxis are now allowed to offer. Street hails account for 70% of Singapore's total taxi trips, and the proposal by LTA would have the largest impact on CD given its 60% market share of Singapore's taxi market.

Positive outlook overall. CD's public transport service revenue is expected to improve with the full-year contribution from the Seletar and Bukit Merah Bus Packages which commenced operations in May 2018 and November 2018, respectively. We expect this would be sufficient to offset the weakness in its taxi business in 2019, and therefore keep our forecasts unchanged.

Figure 2: 1Q19 outlook - management has changed its revenue outlook for its Taxi business to "Decrease" from "Maintain".

Business segments	Revenue outlook
Public Transport Services	Singapore: Increase Australia: Increase UK: Maintain
Taxi	Decrease (previously 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. The group's balance sheet remains in a strong position to take on more EPS-accretive acquisitions, while its defensive business offers resilience to support its dividend in the current weak macro environment.

Risks: 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

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2019. KGI Securities (Singapore) Pte. Ltd. All rights reserved.