

CHINA
DEVELOPMENT
FINANCIAL

ComfortDelGro Corporation

(CD SP/CMDG.SI)

Improving performance; overall outlook positive

Joel Ng / 62 6202 1192 / joel.ng@kqi.com

- 9M18 earnings made up 70% 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 \$0.5bn of acquisitions YTD.
- CD's share price declined 7% on 8 November on concerns of Go-Jek's impact on CD's taxi business. We believe the entry of Go-Jek into the Singapore market will not bring about the same level of competition as Uber and Grab's fight for market share (see our note on 8 Nov).
- 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

YoY decline but look at QoQ improvements. 3Q18 PATMI declined 2% YoY to S\$78.5m, but focus should be on QoQ improvements in the last four quarters. Profits have increased 5-13% QoQ every quarter in 2018.

Figure 1: Key metric to watch - improving performance QoQ



Source: Company data, KGI Research

EPS-accretive acquisitions. CD has made more than \$450mn in acquisitions YTD. Just this month, it acquired one of Australia's largest privately-owned bus company for A\$191mn, which is expected to provide the group access to the Northern Territories and Queensland.

Looking to the future. In addition to all the acquisitions made to date, CD is setting up a US\$100mnn venture capital fund to invest in mobility technologies and solutions that would complement the group's transport business.

BUY - Maintain			
Price as of 9 Nov 18 (SGD)	2.18	Performance (Absolute)	
12M TP (\$)	2.72	1 Month (%)	-3.9
Previous TP (\$)	2.72	3 Month (%)	-7.6
Upside, incl div (%)	27.8	12 Month (%)	12.9
Trading data		Perf. vs STI Index (Red)	
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-Oct-18	BUY \$2.72
Schroders	5.0%	15-May-18	BUY \$2.72
		30-Apr-18	BUY \$2.72

Taxi business. CD's shares took a hit last week (-6% WoW) on concerns of renewed competition to its taxi business with the entry of Go-Jek in SG's market. We gave our counter-arguments last week. Focus should be on management's outlook instead, which has improved as revenue outlook is maintained across all segments, and growth expected in SG/AU's public transport, its biggest revenue contributors.

Figure 2: Positive outlook for its biggest contributor, while other segments are maintained.

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

Source: Company data, KGI Research

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 continue to recover 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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