# ComfortDelGro Corporation

(CD SP/CMDG.SI)

## Attractive dividend yield; resilience amid disruption

**BUY**

| | |
|---|---|
| Price as of 2 Jan 2018 | 2.02 |
| 12M target price (S$) | 2.24 |
| Previous target price (S$) | - |
| Upside (%) | 10.9 |

**Trading data**

| | |
|---|---|
| Mkt Cap (S$m) / (US$m) | 4,370 / 3,283 |
| Issued Shares (m) | 2,163.4 |
| Ave Daily Traded (3-Month) Vol / Val | 10.3m / $20.7m |
| 52 week lo / hi | $1.89 / $2.80 |
| Free Float | 99.6% |

**Major Shareholders**

| | |
|---|---|
| Blackrock | 6.1% |
| Schroders | 5.0% |

**CD SP (1yr) VS STI**

*Source: Bloomberg*

### Event

CD's share price has underperformed the STI and has declined almost 30% over the last two years compared to the STI's 25% gain during the same period. One of the main reasons for the underperformance was due to the disruption to the traditional taxi business model from the entrance of ride-hailing platforms such as Uber and Grab. Until now, many of these ride-hailing platforms have aggressively focused on grabbing market share by subsidising fares. In the long-term, the current structures of these ride-hailing companies are simply unsustainable. Recently, there have been several notable events indicating the change of business direction for these ride-hailing companies that may eventually benefit CD's taxi and engineering businesses.

### Impact

**The selling pressure may be over for CD**, in our view, on the back of several factors. First, CD's free cash flow is sufficient to support its current dividend of 10 SG cents per share, which translates to an attractive dividend yield of >5%. Second, the acquisition of 51% stake in Uber's Singapore car rental business and platform collaboration may mean lesser competition for CD's taxi business. Third, car-sharing companies like Uber and Grab may potentially face stricter regulations in Asia following the ruling by the European Court of Justice (ECJ). In Dec-17, the ECJ had ruled that Uber is a transport company and required it to accept stricter regulation and licensing within the EU as a taxi operator.

### Valuation & Action

**Opportunity to accumulate; downside limited in our view.** CD currently offers an attractive 5% dividend yield over the next three years based on consensus forecasts, which may provide downside protection. Upside catalysts may include a better-than-expected contribution from its acquisition of Uber's car rental business, as well as stricter regulations of ride-hailing companies. We estimate CD's fair value to be S$2.24 based on 16x FY18F consensus earnings (10-year P/E average), implying ~15% upside including dividends. CD's balance sheet remains in a healthy net cash position despite the recent Uber tie-up.

### Risks

Key risk mainly from a deterioration of CD's taxi business from aggressive pricing or enticement of drivers from ride-hailing competitors.

| YE Dec (S$ m) | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Revenue | 3545.3 | 3747.7 | 4051.3 | 4111.5 | 4059.5 |
| Net Income | 248.9 | 263.2 | 283.5 | 301.9 | 317.1 |
| EPS (Cents) | 11.9 | 12.4 | 13.2 | 14.0 | 14.7 |
| EPS grth (%) | 5.3 | 4.4 | 6.9 | 5.9 | 4.8 |
| P/E (x) | 16.9 | 16.2 | 15.2 | 14.3 | 13.7 |
| DPS (SG Cents) | 6.4 | 7.0 | 8.3 | 9.0 | 10.3 |
| Div Yield (%) | 3.2 | 3.5 | 4.1 | 4.5 | 5.1 |
| Net Margin (%) | 7.0 | 7.0 | 6.9 | 7.2 | 7.9 |
| Net Debt ($m) | 9.0 | -27.7 | -88.7 | -229.2 | -434.2 |
| Price / Book (x) | 1.9 | 2.0 | 2.5 | 2.8 | 2.2 |
| ROE (%) | 12.7 | 12.6 | 13.1 | 13.3 | 13.2 |

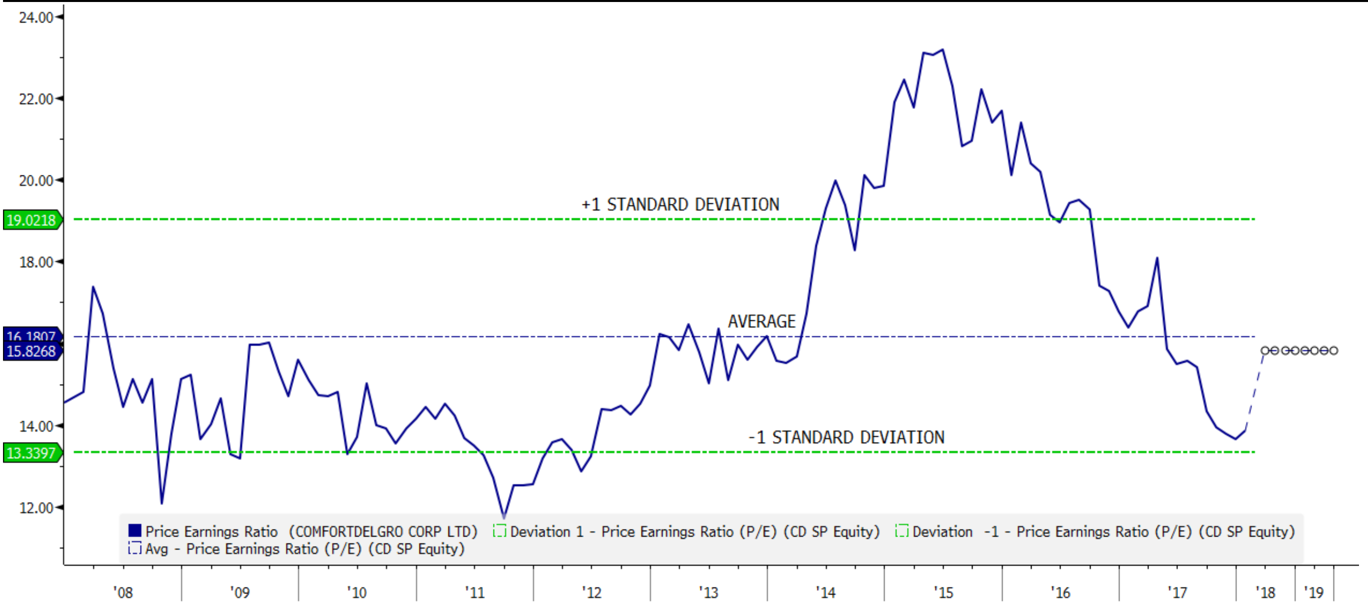
*Source: Company Data, KGI Research (negative net debt=net cash)*

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

See the last page for important disclosures.

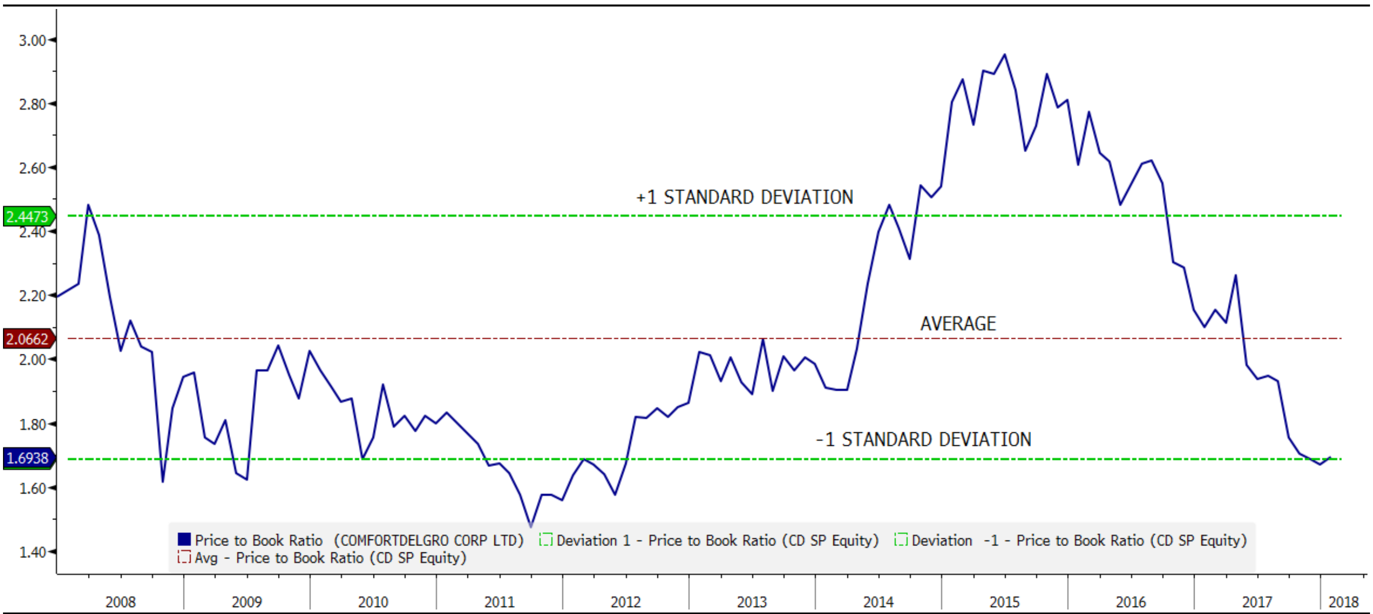
## Valuations

**Figure 1: P/E historical band – 10 years**




*Source: Bloomberg, KGI Research*

**Figure 2: P/B historical band – 10 years**




*Source: Bloomberg, KGI Research*

## 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.