ComfortDelGro Corporation

(CD SP/CMDG.SI)

Fare increase to help ease cost pressure

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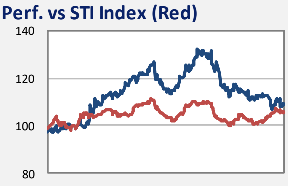
- CD reported a poor set of 3Q19 results, which could have been better had it not been for its forex exposure to AUD and GBP.
- CD's share price has retreated 17% since we downgraded it on 10 July 2019. We now believe it's time to grab a piece of this steady cash flow business.
- We like CD's healthy cash flow business and aggressive use of its strong balance sheet to expand via acquisitions.
- Key downside risks are already priced into its current share price, in our view. These are risks mainly from the depreciating AUD and uncertainty in the UK ahead of a general election on 12 December.
- **We upgrade CD to OUTPERFORM but with a lower target price of S$2.61 as we cut FY2019- 2021F earnings forecast by 6-7% and as we roll over valuations to FY2020F 19x P/E (prev. FY2019F)**

OUTPERFORM - Upgrade

Price as of 19 Nov 19 (SGD)	2.35	**Performance (Absolute)**	
12M TP ($)	2.61	1 Month (%)	-2.5
Previous TP ($)	2.77	3 Month (%)	-4.7
Upside, incl div (%)	16.4	12 Month (%)	13.9
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	5,090		
Issued Shares (mn)	2,166		
Vol - 3M Daily avg (mn)	6.0		
Val - 3M Daily avg ($mn)	14.5		
Free Float (%)	93.6%		
Major Shareholders		**Previous Recommendations**	
Blackrock	7.0%	15-Aug-19	NEUTRAL $2.77
Vanguard	2.7%	10-Jul-19	NEUTRAL $2.77
Norges Bank	1.4%	16-May-19	OP $2.77



Financials & Key Operating Statistics

YE Dec (S$m)	2017	2018	2019F	2020F	2021F
Revenue	3970.9	3805.2	3975.1	4061.4	4120.6
PATMI	301.5	303.3	297.5	296.9	302.1
Core PATMI	279.1	291.5	287.5	296.9	302.1
Core EPS	12.9	13.5	13.3	13.7	14.0
Core EPS grth (%)	-7.9	4.4	-1.4	3.3	1.7
Core P/E (x)	18.2	17.4	17.7	17.1	16.8
DPS (SGCents)	10.4	10.4	10.7	10.7	10.8
Div Yield (%)	4.4	4.4	4.6	4.6	4.6
Net Margin (%)	7.6	8.0	7.5	7.3	7.3
Gearing (%)	-0.1	8.4	18.0	26.3	33.9
Price / Book (x)	1.9	1.9	1.9	1.9	1.8
ROE (%)	9.9	10.0	9.4	9.1	8.9

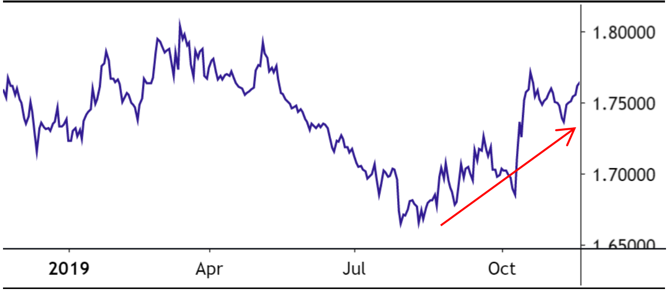
Source: Company Data, KGI Research

3Q19 results summary. CD missed our estimates as it reported an 11% YoY fall in 3Q19 PATMI to S$70.0mn; its 9M19 PATMI made up only 68% of our FY2019F full-year forecasts. CD's 3Q19 revenue increased only 1.1% YoY to S$979.0mn, which could have been higher by 4.6% YoY if not for the forex impact. The weaker GBP impacted CD's revenue by –S$10.8mn, and the weaker AUD by –S$8.2mn.

Fuelled by new acquisitions. New acquisitions contributed to all the 4.5% YoY increase in Public Transport Service revenue, which rose to S$727.1mn in 3Q19. Its taxi business' revenue declined 9.6% YoY to S$162.1mn across three of its geographical segments (Singapore, UK and Australia) on the back of a smaller fleet and unfavourable currency translations.

Forex impact. We believe that most of the negative impact from its forex exposure, specifically to the GBP and AUD, is already priced into CD's current share price. Since touching an all-time low of 1.66 GBP/SGD, the GBP has gone on to rally by around 6% and now trades at 1.76 GBP/SGD. The AUD may also find support at its current levels of 1.08 SGD/AUD, given the limited room for further rate cuts after Australia's central bank cut its cash rate to a new record low of 0.75%. Australia contributed 14.6% of CD's FY2018 operating profits, and this contribution is expected to increase given the Australian bus acquisitions over the past one year. CD's UK business contributed 12% of operating profits in FY2018.

Figure 1: GBP/SGD - SGD has appreciated 6% against GBP since August



Source: KGI Research

Fare hikes to ease cost pressure. The 7% increase in public transport fares from 28 December 2019 is expected to partially offset the increase in CD's operating costs (mainly staff costs and repairs & maintenance), and should lead to an improvement in its rail operations.

Valuation & Action: We **upgrade to OUTPERFORM** as risk-to-reward dynamics have now become favourable after the recent share price weakness. Our S$2.61 price target is pegged to 19x 2020F EPS, which is 1 Standard Deviation above the 10-year mean. The group's balance sheet remains in a strong position to take on more EPS-accretive acquisitions, while offering investors a sustainable 4.6% FY19-21F dividend yield.

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

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.