KGI CHINA DEVELOPMENT FINANCIAL

ComfortDelGro Corporation

(CD SP/CMDG.SI)

Good share price performance YTD but valuations are stretched

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- CD's share price has given a total return, inclusive of dividend, of 35% year-to-date.
- As much as we like CD's healthy cash flow business and aggressive use of its strong balance sheet to expand via acquisitions, we believe its current valuations are stretched.
- Furthermore, there are downside risks from the depreciating AUD and the potential of a hard Brexit by the end of the year. Meanwhile, its dividend yield has compressed to 3.7% for FY2019, which is among the lowest in our high-dividend watchlist.
- **We thus downgrade to NEUTRAL with an unchanged target price of S$2.77.**

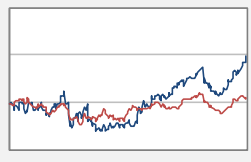
Financials & Key Operating Statistics

YE Dec (S$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)	22.0	21.1	19.5	19.1	18.7
DPS (SGCents)	10.4	10.4	10.6	10.7	10.8
Div Yield (%)	3.7	3.7	3.7	3.8	3.8
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)	2.3	2.4	2.3	2.2	2.1
ROE (%)	9.9	10.0	9.9	9.7	9.4

Source: Company Data, KGI Research

NEUTRAL - Downgrade

Price as of 10 Jul 19 (SGD)	2.84	**Performance (Absolute)**	
12M TP ($)	2.77	1 Month (%)	13.6
Previous TP ($)	2.77	3 Month (%)	11.8
Upside, incl div (%)	1.1	12 Month (%)	25.0
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	6,151		
Issued Shares (mn)	2,166		
Vol - 3M Daily avg (mn)	7.6		
Val - 3M Daily avg ($mn)	19.6		
Free Float (%)	93.6%		
Major Shareholders		**Previous Recommendations**	
Blackrock	7.0%	16-May-19	BUY $2.77
Vanguard	2.7%	18-Feb-19	BUY $2.77
Norges Bank	1.4%	12-Nov-18	BUY $2.72

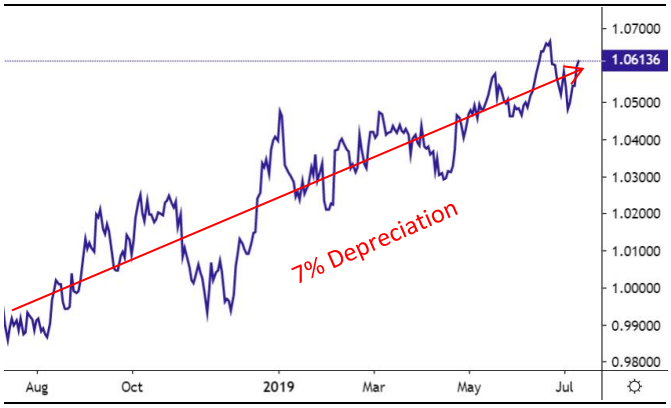


Recent rally lifted by hopes of public fare revision. Although still in the early phase of discussions, the Singapore government will be working to review the formula by which public transport fees are determined. This is in order to reflect the increasing operating costs of Singapore's MRT system, which Mr Khaw Boon Wan (Singapore's Transport Minister) has said is now on par with other world-class systems like the Hong Kong MTR and Taipei Metro. If this pushes through, CD's public transport business, which currently accounts for 49% of CD's FY2018's operating profits, is expected to get an earnings uplift.

Still early, upside hard to estimate. Details are not available and it is hard to estimate how the revisions will pan out. We also think that any fare revision cannot be too aggressive given the potential for pushback from commuters. Fares are determined by the Public Transport Council (PTC), which will take into account factors such as inflation, wages and fuel costs.

Currency down under. A key earnings risk that we have to highlight is the depreciating AUD. The AUD has depreciated against SGD by 7% over the past year and 24% over the past five years. 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. Furthermore, it seems the likelihood of a hard Brexit is rising given how the political situation is evolving in the UK. Its UK business contributed 12% of operating profits in FY2018.

Figure 1: AUD/SGD - AUD has depreciated 7% against SGD over the past year, and potential for more downside as Australia continues to cut its interest rates.



Source: KGI Research

Valuation & Action: We **downgrade our recommendation to Neutral** as valuations are stretched following the 35% year-to-date rally. Our S$2.77 target price is already pegged to 19x 2019F EPS, which is 1 Standard Deviation above the 10-year mean. While the group's balance sheet remains in a strong position to take on more EPS-accretive acquisitions, we believe it will be prudent for investors to accumulate at a lower level below our target price.

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

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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.
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Not Rated (NR)	The stock is not rated by KGI Securities.
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