



# ComfortDelGro Corporation

(CD SP/CMDG.SI)

## Acquisition-fuelled year; taxi business stabilising

Joel Ng / 62 6202 1192 / [joel.ng@kqi.com](mailto:joel.ng@kqi.com)

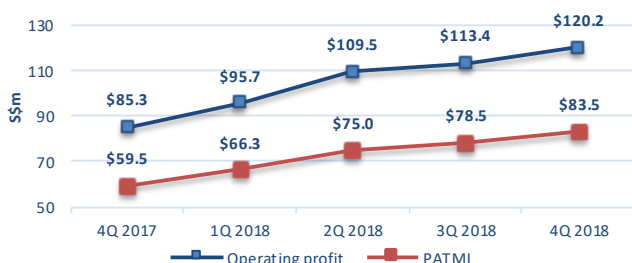
- FY2018 earnings made up 97% of our full-year forecasts. CD's profits have increased 5-13% QoQ every quarter in 2018, pointing to improving fundamentals and growing contributions from its S\$0.5bn of acquisitions in 2018.
- Performance was lifted mainly by its public transport business in Singapore and Australia, which management guided will continue to lead revenue growth in 2019.
- CD's forward 4.5% dividend yield is still attractive despite the 12% gain in its share price YTD.
- **We re-iterate our BUY and target price of S\$2.77.** However, in the short-term, investors may need to take note as we approach the Brexit deadline on 29 March given that CD has a 23% revenue exposure to the pound.

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

**Performance lifted by public transport and acquisitions.** CD reported a 6.4% increase in FY18 revenue to S\$3.8bn, with contributions from new acquisitions making up >50% of the increases. New acquisitions contributed to a S\$20.7mn growth in operating profit, while existing businesses contributed S\$10.7mn. In terms of segments, FY18 operating profits under its public transport services increased 20% YoY to S\$216.5mn. CD has recommended a final dividend of 6.15 SG cents, higher than the 6.05 SG cents in FY17.

Figure 1: Key metric to watch - improving performance QoQ



Source: Company data, KGI Research

**Looking to the future on a strong foundation.** CD has made more than S\$450mn in acquisitions in 2018. In addition to the EPS-accretive acquisitions, CD is setting up a US\$100mn venture capital fund to invest in mobility technologies and solutions that would complement the group's transport business. Balance sheet remains strong, with net gearing only at 8.4% as at end 2018.

BUY - Maintain			
Price as of 18 Feb 19 (SGD)	2.42	<b>Performance (Absolute)</b>	
12M TP (\$)	2.77	1 Month (%)	13.1
Previous TP (\$)	2.72	3 Month (%)	12.1
Upside, incl div (%)	19.7	12 Month (%)	23.6
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	5,239		
Issued Shares (mn)	2,165		
Vol - 3M Daily avg (mn)	8.3		
Val - 3M Daily avg (\$mn)	18.2		
Free Float (%)	93.6%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Blackrock	7.0%	12-Nov-18	BUY \$2.72
Vanguard	2.7%	15-May-18	BUY \$2.72
Capital Group	2.0%	30-Apr-18	BUY \$2.72

**Taxi business stabilising; even playing field.** Although CD's taxi fleet declined 6.7% YoY to 12,360 as at end-December 2018, 4Q18 operating profit under its taxi business increased 38% YoY. It was also announced in January 2019 that Singapore's transport regulators may be imposing tighter rules on the private-hire sector, thus levelling the playing field for taxi and private-hire operators. CD stands to gain with its 12,360 taxis and 60% Singapore market share.

Figure 2: Positive outlook for its Public Transport Services segment – the biggest contributor to its revenues.

Business segments	Revenue outlook
<b>Public Transport Services</b>	Singapore: Increase Australia: Increase UK: Maintain
<b>Taxi</b>	Maintain
<b>Auto Engineering Services</b>	Maintain
<b>Inspection &amp; Testing Services</b>	Maintain
<b>Driving Centre</b>	Maintain
<b>Car Rental &amp; Leasing</b>	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. Most of the key points in our investment thesis has panned out in 2018. The stabilisation of its taxi business removes a key overhang on its share price, in our view. The group's balance sheet remains in a strong position to take on more EPS-accretive acquisitions. While we favour CD as a stable high dividend defensive play, investors will have to take note as we approach the Brexit deadline on 29 March 2019. A hard Brexit would impact the pound where CD has a 23% revenue exposure to.

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

**KGI's Ratings**

<b>Rating</b>	<b>Definition</b>
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-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.