KGI CHINA DEVELOPMENT FINANCIAL

ComfortDelGro Corporation

(CD SP/CMDG.SI)

Starting to look attractive again but risks from currency exposure

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- CD reported a decent set of 2Q19 results, which could have been better had it not been for its forex exposure to AUD, GBP and RMB.
- Although CD's share price has retreated almost 10% since our last report, and 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 risk-reward dynamics are still not favourable at the moment.
- Downside risks from the depreciating AUD and the potential of a hard Brexit by 31 October 2019 are still key concerns for us.
- **We maintain our NEUTRAL recommendation with an unchanged target price of S$2.77, based on 19x FY2019F EPS.**

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	323.5	321.8	328.3
Core PATMI	279.1	291.5	313.5	321.8	328.3
Core EPS	12.9	13.5	14.5	14.9	15.2
Core EPS grth (%)	-7.9	4.4	7.5	2.7	2.0
Core P/E (x)	20.2	19.4	18.0	17.5	17.2
DPS (SGCents)	10.4	10.4	10.6	10.7	10.8
Div Yield (%)	4.0	4.0	4.1	4.1	4.1
Net Margin (%)	7.6	8.0	7.8	7.6	7.6
Gearing (%)	-0.1	8.4	17.5	24.6	31.0
Price / Book (x)	2.2	2.2	2.1	2.0	2.0
ROE (%)	9.9	10.0	10.2	9.7	9.4

Source: Company Data, KGI Research

2Q19 results summary. CD reported a 1.2% YoY rise in 2Q19 PATMI to S$75.9mn, with 1H19 PATMI making up 45% of our FY2019 full-year forecasts. The group's operating profit rose 5.0% to S$115mn, which would have been S$2.1mn higher if not for the negative impact from the weaker AUD, GBP and RMB. Once again, CD's public transport services contributed the bulk of overall growth, with this segment's revenues growing by 8% YoY to S$724mn, and of which 80% of the growth came from the new acquisitions. Its taxi business' revenues declined 8% YoY to S$167mn across all its geographical segments (SG, UK, AU, CN) on the back of a smaller fleet and unfavourable currency translations. The only positive takeaway from the latest quarterly results: CD increased its interim dividend to 4.50 Sing cents, up from 4.35 cents in the prior year period.

Currency down under. A key earnings risk that we have to continue to highlight is the depreciating AUD. The AUD has depreciated against SGD by 6% 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 by October 2019 is rising given how the political situation is evolving in the UK. Its UK business contributed 12% of operating profits in FY2018.

NEUTRAL - Maintain

Price as of 14 Aug 19 (SGD)	2.51	**Performance (Absolute)**	
12M TP ($)	2.77	1 Month (%)	-9.7
Previous TP ($)	2.77	3 Month (%)	-2.3
Upside, incl div (%)	14.7	12 Month (%)	10.5
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	5,436		
Issued Shares (mn)	2,166		
Vol - 3M Daily avg (mn)	7.7		
Val - 3M Daily avg ($mn)	20.3		
Free Float (%)	93.6%		
Major Shareholders		**Previous Recommendations**	
Blackrock	7.0%	10-Jul-19	NEUTRAL $2.77
Vanguard	2.7%	16-May-19	OW $2.77
Norges Bank	1.4%	18-Feb-19	OW $2.77

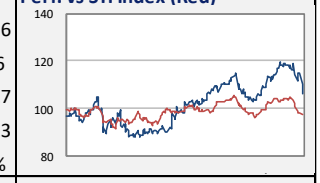
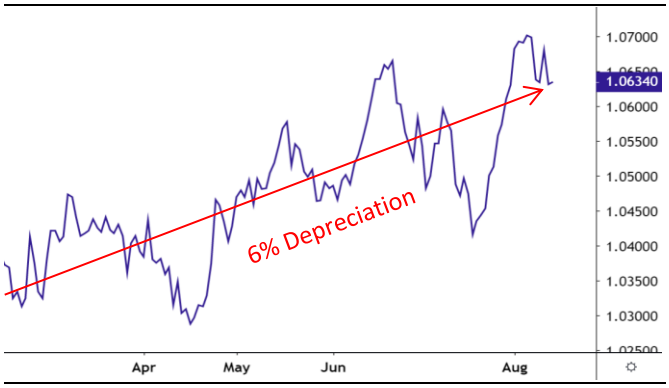


Figure 1: SGD/AUD - AUD has depreciated 6% against SGD over the past year, and there is potential for more downside risks as Australia continues to cut its interest rates.



Source: KGI Research

Valuation & Action: We **maintain our NEUTRAL recommendation** as risk-to-reward dynamics are still not favourable at this point. 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. There is upside potential to CD when the Singapore government works on reviewing the formula by which public transport fees are determined, although it is still too early to say how the revisions will pan out. We are of the view that any fare revision cannot be too aggressive given the potential for pushback from commuters. CD's public transport business accounted for 49% of FY2018's operating profits.

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

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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.
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