ComfortDelGro

Policy reforms to drive further upside

Equities

Singapore
Land Transportation Equipment

12-month rating	**Buy** *Prior: Neutral*
12m price target	**S$3.54** *Prior: S$2.54*
Price	**S$2.93**

RIC: CMDG.SI **BBG:** CD SP

Trading data and key metrics

52-wk range	S$3.14-2.02
Market cap.	S$6.27bn/US$4.61bn
Shares o/s	2,139m (ORD)
Free float	88%
Avg. daily volume ('000)	8,027
Avg. daily value (m)	S$23.4
Common s/h equity (12/15E)	S$2.32bn
P/BV (12/15E)	2.7x
Net debt / EBITDA (12/15E)	NM

EPS (UBS, diluted) (S$)

	From	To	% ch	Cons.
12/15E	0.14	0.14	-1.19	0.15
12/16E	0.15	0.15	0.43	0.17
12/17E	0.17	0.17	4.85	0.19

Robin Xie
Analyst
robin.xie@ubs.com
+65-6495 2708

Sale of buses may result in S$969m windfall for SBS Transit (SBST) by mid-2016

We think the government is likely to purchase SBST's (75.1%-owned by CDG) Singapore bus assets by mid-2016, and appears to have budgeted for it this fiscal year (Fig 2). We estimate that SBST may receive S$969m from the asset sale at 1x P/BV, or S$559m net of debt repayments (Fig 4). In order to upstream the "trapped cash" to CDG, we believe SBST may declare a special dividend and/or capital reduction in 2016, though balance sheet constraints (Fig 6) suggest that it may be able to distribute only about S$300m initially.

Potential special div of 10.5¢ in 2016; cost-plus for rail a logical next step

Our base case is for CDG to pay a 10.5¢ special dividend in 2016 (+3.6% to yield), assuming it distributes 100% of the cash received from SBST (Fig 7). This would still put CDG in a net cash position, leaving it well capitalised for opportunistic investments. In addition, given the shift to cost-plus for buses, we think rail is likely to follow suit from H216 onwards. This would help separate transit policy from operations, improve system integration, and benefit operators by lowering the revenue risk for newer train lines.

Capex reduction boosts FCFE, and improves CDG's ability to pay dividends

We factor in a greater reduction in capex from 2016 onwards, which we think we were too conservative on previously (Fig 9). Over the past three years, the average annual bus capex has been S$254m (spent mainly in Singapore), and we think this could drop to S$70m or less after the government contracting model is implemented. This would result in substantially higher free cash flows, leading to a sustainable improvement in CDG's ability to pay dividends.

Valuation: higher ROE from lighter balance sheet; upgrade to Buy (PT: S$3.54)

Given tailwinds from policy reforms and lower energy prices, we upgrade CDG from Neutral to Buy. We raise our DCF-derived price target from S$2.54 to S$3.54, mainly attributable to higher free cash flows from net capex reductions (Fig 14-15). Despite CDG's strong price performance, we see further upside from structural changes in the industry. We think a more efficient balance sheet post the sale of SBST buses would improve ROE from 13% to 16%, which helps to justify a P/E rerating. Within the transport sector, we also continue to like SMRT Corporation (SMRT) as a primary beneficiary of rail reforms (Buy; S$1.81 price target).

Highlights (S$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	3,545	3,748	4,051	4,164	4,260	4,387	4,535	4,690
EBIT (UBS)	412	426	442	482	514	574	600	623
Net earnings (UBS)	249	263	284	305	328	370	391	410
EPS (UBS, diluted) (S$)	0.12	0.13	0.13	0.14	0.15	0.17	0.18	0.19
DPS (S$)	0.06	0.07	0.08	0.09	0.20	0.10	0.11	0.11
Net (debt) / cash	(9)	28	89	232	1,402	1,346	1,575	1,802
Profitability/valuation	**12/12**	**12/13**	**12/14**	**12/15E**	**12/16E**	**12/17E**	**12/18E**	**12/19E**
EBIT margin %	11.6	11.4	10.9	11.6	12.1	13.1	13.2	13.3
ROIC (EBIT) %	16.5	16.2	16.5	17.9	23.0	32.6	33.8	34.6
EV/EBITDA (core) x	5.2	6.0	6.8	8.0	7.3	6.4	6.2	6.1
P/E (UBS, diluted) x	13.3	15.3	17.5	20.6	19.1	16.9	16.0	15.3
Equity FCF (UBS) yield %	5.6	7.7	6.0	5.1	6.1	7.0	7.2	7.4
Net dividend yield %	4.1	3.5	3.5	2.9	6.7	3.5	3.7	3.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of S$2.93 on 15 Apr 2015 22:37 HKT

Investment Thesis

ComfortDelGro

12-month rating	**Buy**
12m price target	**S$3.54**

Investment case

We expect ComfortDelGro (CDG) to be a major beneficiary of the transition towards to a cost-plus model for Singapore public buses, which would reverse the current loss-making situation. The nationalisation of bus assets should result in a one-off cash uplift and reduce gearing at the SBS Transit (SBST) level, while raising the possibility of a special dividend. The asset-light bus framework would also lead to a permanent reduction in capex, which boosts free cash flows and improves CDG's ability to pay sustainably higher dividends in the long run. We think CDG will continue pursuing growth abroad, where it has achieved superior profitability. Management has had a strong overseas track record, particularly in the UK and Australia (buses), and China (taxis). With tailwinds from lower energy prices and policy reforms, we think the operating environment has improved, and have a Buy rating on CDG.

Upside scenario

Upside could come from further overseas acquisitions, or winning of more bus contracts at good margins. Under the government contracting model, if the long-term reduction in bus capex is greater than expected (e.g. falling to S$40m a year versus our S$70m estimate), the resulting increase in free cash flows would raise our valuation to S$3.81. Further, if CDG returns the full net cash proceeds from the sale of SBST buses, we estimate that the 2016E special dividend could be as high as 19.6¢ per share.

Downside scenario

Potential downside to our estimates could come from the loss of bus contracts in Australia and Singapore; if Singapore bus and train fare increases continue to be outpaced by rising operating costs; or if there is an unexpected spike in electricity/diesel costs. In the scenario where long-term Singapore bus capex reductions and margins are lower than expected, our valuation would be S$2.78.

Upcoming catalysts

Positive catalysts include the securing of new bus/rail contracts at favourable margins; the sale of bus assets (which could result in a special dividend); acquisitions of businesses overseas; and a transition to a new rail financing framework on terms favourable for operators. In the medium term, we think a switch to a cost-plus model for Singapore rail is likely, and would improve margins.

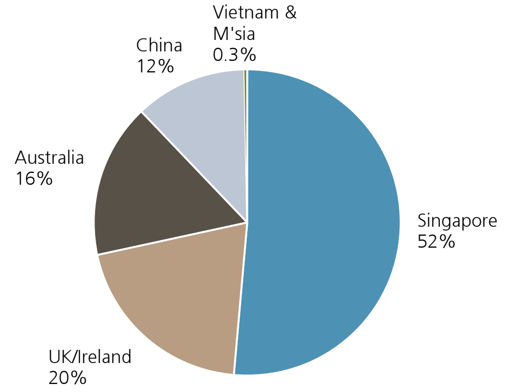
Business description

ComfortDelGro (CDG) was formed in 2003 through the merger of two land transport companies, Comfort Group and DelGro Corporation. CDG owns a 75% stake in Singapore-listed SBS Transit (SBST), and is a multimodal transport provider with bus, taxi, and rail businesses. The bus and taxi units jointly contribute around 70% of the group's operating earnings. CDG's operations in Australia, China, the UK/Ireland, Malaysia and Vietnam generate about half of its EBIT. CDG also provides car rental, automotive engineering, vehicle inspection and testing services.

Industry outlook

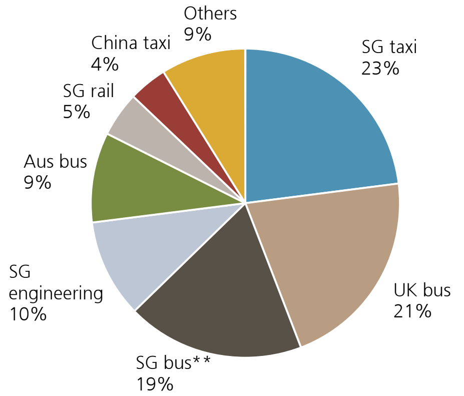
The Singapore government is restructuring the public bus and rail business models, towards an asset-light and cost-plus framework. Timing and the form of implementation are key risks. The sector reforms could result in the introduction of new entrants from overseas, to increase competitiveness and boost service standards. In Australia, bus margins could come under pressure, though we see opportunities for growth via acquisitions. UK bus margins are expected to remain stable, but organic revenue growth is possible from increased bus frequencies and routes alongside ridership growth.

EBIT by region (2014)



Source: Company data, UBS

Revenues by product segment (2014)



Note: **Singapore core public bus operations (excl. rental & advertising) incurred a loss of S$13.5m in 2014.
Source: Company data, UBS

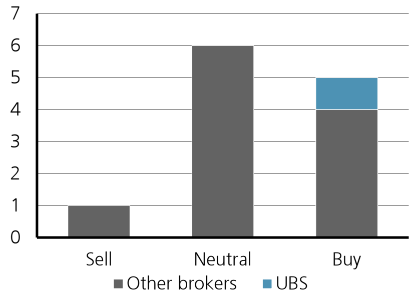
Robin Xie, Analyst, robin.xie@ubs.com, +65-6495 2708

Upside from sale of buses not priced in

Government appears to have budgeted for the purchase of Singapore bus assets before mid-2016. We think the government is likely to purchase SBST's bus assets by June 2016, ahead of the implementation of the government contracting model (GCM) in H216. Moreover, we note that based on the Ministry of Transport's budget for the fiscal year ending March 2016, allocations appear to have been made for the purchase of public buses (Figure 2).

In particular, S$4.9bn has been set aside for "new projects", versus S$0.5bn the year before. Of this, we understand that S$3bn has been earmarked for the initial development of Changi Airport Terminal 5, which leaves S$1.9bn unaccounted for. We believe this partly refers to – and would be sufficient for – the purchase of both CDG's and SMRT's public bus assets, jointly worth about S$1.3bn.

Figure 1: Broker ratings



Source: Bloomberg, UBS

Figure 2: Ministry of Transport's budget for "new projects" (S$)

Project Title	Actual FY13	Estimated FY14	Revised FY14	Estimated FY15
Administration Programme				
New Projects	0	572,163,200	520,102,600	4,878,582,100

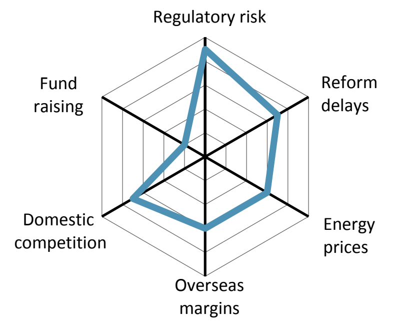
Source: Ministry of Transport Budget 2015

We think SBST could sell its buses to the government by mid-2016, and budget allocations appear to have already been made

Net of segmental liability repayments, SBST's cash could rise by S$559m from sale of buses. Using recently released data from SBST's annual report, we estimate that the relevant portion of SBST's bus assets that will be sold to the government is currently worth S$969m, while bus segmental liabilities are around S$411m.[1] If these assets are sold at net book value, and cash received is used to pay down segmental debt, this leaves net cash proceeds of S$559m (Figure 4). However, we think this full amount is unlikely to be paid out, as discussed later.

We have further assumed that any large future capex will be funded by net debt, since SBST's core business may not be sufficiently cash generative; in 2014, cash from operations was only S$33m. Hence, we think the S$559m is unlikely to differ substantially at the point of sale in mid-2016.

Figure 3: CDG key risks (1-5 scale)



Source: UBS

Figure 4: SBST cash proceeds from bus asset sale

Details	Calculation	Comments
SBST segmental bus assets (end-2014, S$m)	969	Bus carrying value + capital projects in progress
SBST segmental bus liabilities (end-2014, S$m)	411	Includes bus related liabilities, e.g. computers
Assumed sale price	1x P/BV	
Net cash proceeds (end-2014, S$m)	**559**	If proceeds are used to repay segmental liabilities
SBST shares outstanding (m)	309	
Net cash proceeds per SBST share (S$)	**1.81**	Though the full amount is unlikely to be paid out

Source: UBS estimates

We estimate that the sale of bus assets would generate net cash proceeds of S$559m for SBST

[1] To be conservative, we have used a lower asset base but larger liability assumption. Segmental assets we have considered include buses and capital projects in progress, but we have excluded leasehold buildings, workshop machinery, etc. Segmental liabilities include bus-related items like computers, furniture & fittings, and rental & advertising fixtures.

How will SBST return excess capital to CDG?

SBST's core business is the provision of Singapore public bus and rail services. With Singapore buses transitioning to an asset-light framework, and capex for the Downtown Line already borne by the government, we believe SBST has little need for excess capital, particularly since capex-intensive overseas investments have in the past always been undertaken at the parent CDG level. Therefore in order for CDG to upstream the cash "trapped" at the SBST level, which it owns a 75.1% stake in, two options come to mind:

We think SBST is likely to upstream the bulk of net cash proceeds to CDG via a special dividend and/or capital reduction

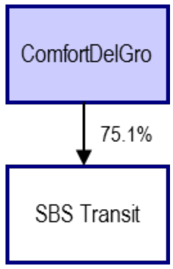
(1) **SBST could pay out surplus cash as a special dividend, via a capital reduction exercise, or both.** Using the same assumptions in Figure 4, a lump sum S$969m payment from the government would translate to theoretical net cash proceeds of S$1.81 per SBST share – similar to its current share price.

- While some investors have assumed that the full cash amount can be upstreamed up to CDG, we disagree, due to balance sheet considerations. Since the bus assets will presumably be sold at net book value, SBST would only be able to pay special dividends out of a lower accumulated profit amount of S$253m (Figure 6).

- SBST could also opt for a capital reduction exercise, given the permanent step down in capex requirements, but this would be subject to approval from the Singapore courts and its own creditors. In theory, the maximum cash it could upstream using this method is about S$95m (Figure 6).

- In the scenario where SBST elects to do a combination of the above, we think a more "practical" amount that it would be able to distribute is closer to S$300m, since the company is unlikely to voluntarily put itself in a situation of negative shareholder equity.

Figure 5: CDG-SBST shareholding



Source: Company data, UBS

Figure 6: Simplified SBST balance sheet (December 2014, S$m)

Assets		Liabilities		Equity	
Cash	5.0	Borrowings	482.5	Share capital	94.6
Vehicles, premises, eqpt	1,033.3	Trade payables	233.4	Other reserves*	(37.4)
Others	141.6	Others	154.0	Accumulated profits	252.9
Total	1,180.0	Total	869.9	Total	310.1

Note: *Other reserves are negative due to a loss on cash flow hedges during 2014.
Source: Company data, UBS

Due to balance sheet considerations, the actual amount that SBST can distribute may be closer to S$300m

(2) **Alternatively, CDG could elect to privatise SBST in order to extract the trapped cash.** The longstanding argument behind the need for SBST to be separately listed is for essential Singapore public transport services to be ring fenced from CDG's "riskier" overseas operations. But with domestic bus and rail businesses going asset-light, the need to raise capital is reduced, and we think CDG may privatize SBST to reduce listing and related compliance costs.

Privatisation would also allow CDG to upstream the balance of cash that would otherwise be stuck at the SBST level (or at least, in the absence of financial engineering). However, this may only occur in the medium term after the Singapore bus and rail restructuring has been fully implemented.

CDG base case –10.5¢ special dividend in 2016

CDG could distribute S$225m to its shareholders (+3.6% to 2016E yield). Regardless of how SBST eventually choses to upstream the cash to CDG, our base case from Figure 6 is that it will distribute S$300m, which works out to S$225m for CDG based on its 75.1% stake. Further assuming that CDG passes on 100% of this to its own shareholders as a special dividend, this translates to a payout of 10.5¢ per share (+3.6% boost to 2016E yield). This should still put CDG in a net cash position, leaving it well capitalised to undertake opportunistic overseas investments.

Figure 7: Base-case special dividend for CDG shareholders

Details	Calculation	Comments
Total distributions from SBST (S$m)	300	Base case
CDG stake in SBST	75.1%	
CDG cash received (S$m)	225	
CDG shares outstanding (m)	2,139	As of end-2014
CDG special div per share (¢)	**10.5**	Assume CDG pays out 100% of cash from SBST
2016E special dividend yield	**3.6%**	Based on S$2.93 per share

Source: UBS estimates

Our base case assumes that CDG will pay a 10.5¢ special dividend in 2016

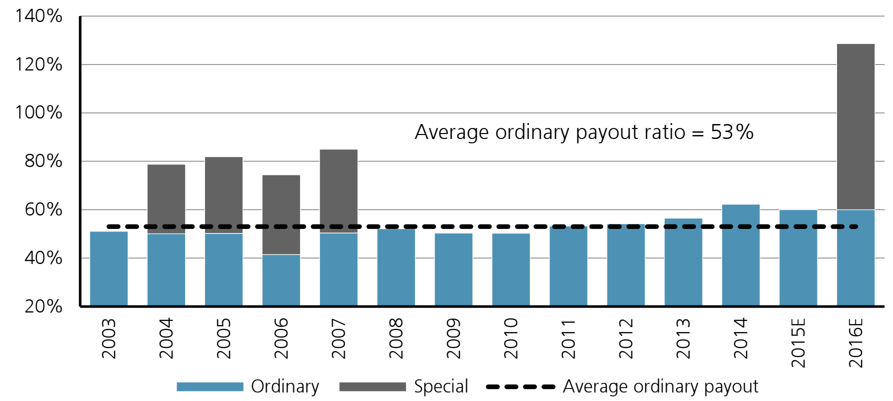
Bull case. In an upside scenario, CDG could pay a higher special dividend equivalent to 75.1% of the full net cash proceeds from the sale of SBST buses (i.e. closer to 19.6¢ per share), as it does not have the same balance sheet constraints as SBST. We think this amount is the theoretical upper figure that CDG would distribute, though the probability is not high as CDG management may not have a strong incentive to do so.

Risks to our view. The key risk to our base case on special dividends is if CDG decides to keep the cash proceeds from SBST without a clear capital redeployment plan, which could disappoint some shareholders. Of course, in lieu of a special dividend, if CDG is able to articulate a clear capital redeployment strategy in other geographies, such as the UK and Australia, we think it would be still be taken positively as CDG has had a good investment track record in these markets.

Key risks are if CDG retains the cash without a clear investment plan, or if payment from the gov't is staggered (i.e. specials delayed)

Another risk is if SBST does not get a lump sum payment from the government, but instead gets in the form of progressive payments. This could mean that special dividends could be staggered over time, instead of a one-off in 2016.

Figure 8: Dividend payout ratio history and forecasts



Source: Company data, UBS estimates

CDG has a 50% payout policy, but has been exceeding that level in recent years

We have assumed a 60% ordinary payout for 2015 onwards, though this could surprise positively

Cost-plus for rail could follow in the medium-term

We see compelling reasons for a shift to cost-plus for trains, which would be positive for the sector. While this is currently a non-consensus view, we think it is the next logical step after bus reforms are completed. Doing so would help to separate transit policy from transit operations, and improve system integration between buses and trains under a common distance-based fare network. In our view, it would also help SBST to improve margins on its core rail operations to a more "equitable" level, compared with the current situation where it is barely breaking even at the EBIT level.[2]

A shift to cost-plus for rail would help separate transit policy from operations, and improve system integration

NRFF implementation likely to be from H216 onwards, but impact to SBST is small. We think a switch to the new rail financing framework (NRFF) – where capex is borne by the government and operators pay an annual license fee (conceptually similar to an operating lease) – could be delayed till after H216, as the focus of the authorities appears to be on the ongoing bus reforms. However, this would benefit SMRT significantly more than SBST, as the value of SBST's rail segment assets is small (S$69m as at end-2014).

We think rail reforms may only be implemented from H216 onwards, after bus reforms are completed

Earnings & valuations

Long-term reduction in bus capex significantly boosts free cash flows. We factor in a greater reduction in annual capex from 2016 onwards, which we think we were too conservative on previously. A more granular examination shows that the average gross capex for buses over the past three years was about S$254m. Of this, we estimate that over three-quarters was from Singapore, with the rest mostly from the UK. Thus, we cut our bus capex estimates, resulting higher free cash flows; upside to our price target could come from further reductions in bus capex.

For taxis, CDG guides 2015 gross capex to rise compared with that in 2014, before falling again in 2016, due to the bunching effect of taxi fleet renewals. We expect grants relating to the Bus Service Enhancement Programme (BSEP) to taper ahead of the GCM implementation in 2016, and adjust our net capex estimates. All in all, changes to our capex estimates result in a S$0.77 uplift to our price target.

Changes to our capex estimates (mostly Singapore bus-related) results in a S$0.77 uplift to our price target

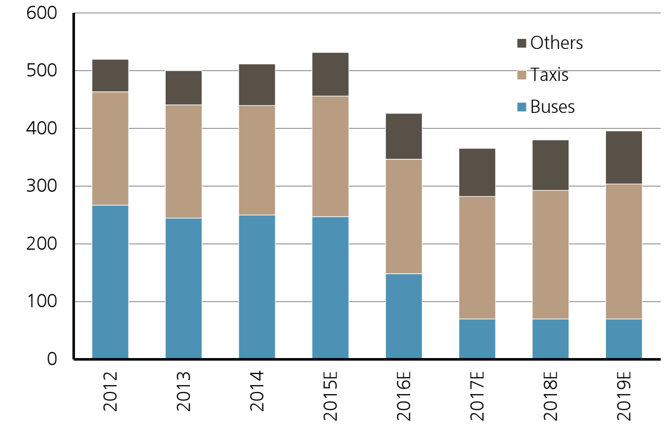
Figure 9: Segmental capex estimates (S$m)

	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	Comments
Buses	267	245	250	247	148	70	70	70	Reductions are from SG; 2017E capex mostly from UK
Taxis	196	196	190	209	198	212	223	234	Fluctuations due to bunching effect of taxi fleet renewals
Others	56	59	72	76	79	83	88	92	
Gross capex	**520**	**500**	**512**	**532**	**426**	**365**	**380**	**396**	
Less: Disposals	(36)	(85)	(41)	(54)	(46)	(30)	(30)	(30)	Falls due to the one-off sale of SG buses (separately adjusted)
Less: BSEP	(28)	(78)	(63)	(50)	(20)	-	-	-	BSEP grants expected to taper by 2016
Net capex (new)	**456**	**338**	**408**	**428**	**360**	**335**	**350**	**366**	Potential PT upside from even lower bus capex 2017 onwards
Net capex (old)				425	425	425	425	425	

Source: Company data, UBS estimates

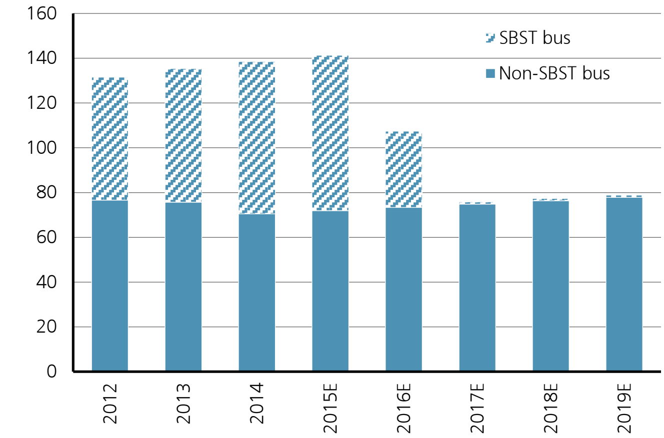
[2] This is partly due to start-up costs related to the Downtown Line, where only Stage 1 (4.3km) has been opened. Stage 2 (16.6km) and Stage 3 (21km) are expected to complete in Q116 and 2017, respectively.

Figure 10: Gross capex estimates (S$m)



Source: Company data, UBS estimates

Figure 11: Bus depreciation estimates (S$m)



Source: Company data, UBS estimates

Depreciation. We recalibrate our bus segment depreciation estimates, based on the latest available company filings. This incorporates our base-case assumption of an asset sale of Singapore public buses to the government in mid-2016 (Figure 11).

A lower capex burden would lead to a sustainable improvement in CDG's ability to pay dividends

Higher free cash flows supportive of higher dividend payouts. In the past, CDG tended to distribute close to 50% of PATMI as dividends, in line with its stated dividend policy. However, we note that this has been rising in recent years, e.g. it made a 62.2% payout in 2014. We think the reduction in the group's capex requirements would lead to a sustainable improvement in its ability to pay dividends, and have assumed an ordinary dividend payout ratio of 60% from 2015 onwards, with scope to surprise positively if capex reductions are larger than we have anticipated.

P/E multiple rerating. While the direct P&L impact from an asset sale would be minimal in theory (apart from some interest savings, and lower depreciation), a lighter and more efficient balance sheet would improve ROE – from 13.1% in 2014, to around 16% by 2017/18 – which we think could help justify a P/E rerating. In the bull-case scenario in which CDG distributes 100% of net cash proceeds from SBST (i.e. a 19.6¢ special dividend in 2016, with the cash impact reflected in 2017), we estimate that ROE could rise further to 17.6% by 2018.

Figure 12: ROE forecasts

	2013	2014	2015E	2016E	2017E	2018E
ROE (base case)	12.6%	13.0%	13.5%	13.7%	15.4%	16.2%
ROE (bull case)	12.6%	13.0%	13.5%	13.7%	16.1%	17.6%

Source: UBS estimates

We have assumed the SBST will win only 1 out of 3 bus tenders under the GCM, implying a 13% loss of SG public bus revenues

Singapore bus package tenders. We have assumed that CDG (via SBST) will win only one of the three bus tenders under the government contracting model, which we estimate would imply a 13% loss in public bus revenues from H216 onwards.[3] As 100% of bus routes in the upcoming Loyang bus package tender are currently run by SBST, we believe management may be tempted to put in a more competitive bid to defend its market share. For details, see Appendix.

[3] Note that under the government contracting model, bus operators will continue to benefit from advertising and rental revenue.

United Kingdom. We make adjustments to reflect stronger-than-expected revenues from CDG's London bus business, which grew 29% YoY in 2014 to S$886m. This was driven by the full-year impact from the acquisition of FirstGroup's West London bus assets, as well as one-off FX translation gains of S$54m from a stronger British Pound.

Australia. We factor in our revised A$/S$ forecast of 1.05:1 and 1.07:1 for 2015 and 2016 respectively, from 1.17:1 previously. The revenue impact of the loss of New South Wales Regions 1 & 3 also appears to have been greater than previously guided, and accordingly we adjust for this.

Figure 13: Earnings revisions (S$m)

	2015E	2016E	2017E	2018E
PATMI (new)	304.5	327.7	370.1	391.2
PATMI (old)	302.8	320.6	346.9	362.3
% change	*0.6%*	*2.2%*	*6.7%*	*8.0%*

Source: UBS estimates

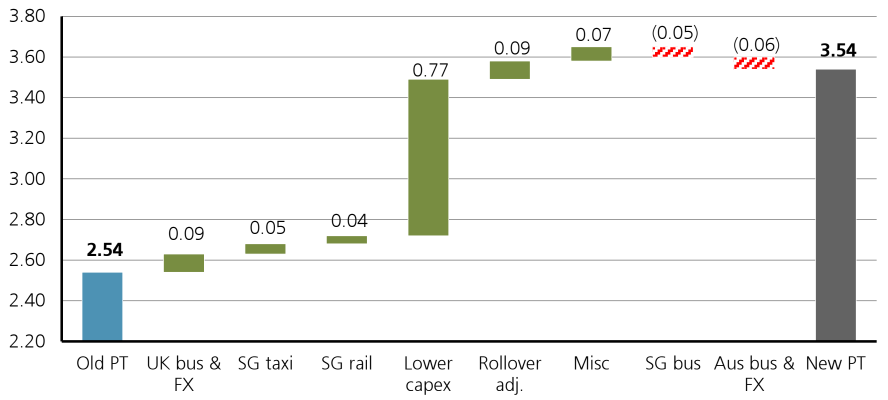
We upgrade CDG from Neutral to Buy

Given tailwinds from policy reforms and lower energy prices, we think the operating environment has materially improved. We upgrade CDG from Neutral to Buy, and raise our DCF-derived price target from S$2.54 to S$3.54 mainly attributable to higher free cash flows from bus capex reductions (Fig 14-15). Our 7.2% cost of equity and 3% long-term growth rate assumptions remain unchanged.

Despite its strong price performance, we think the market has not fully priced in the upside potential from policy reforms, and think a more efficient capital structure would improve ROE and justify a P/E rerating. We also continue to like SMRT (Buy; S$1.81 price target) as a primary beneficiary to impending rail reforms.

We raise our price target to S$3.54, mainly to reflect the permanent decrease in capex under an asset-light bus model

Figure 14: Price-target revision (S$)



Source: UBS estimates

Figure 15: Price-target derivation (S$)

(Dec-YE)	2015E	2016E	2017E	2018E	2019E
Net profit	305	328	370	391	410
Less net capex	(432)	(360)	(335)	(350)	(366)
Add depreciation	359	328	300	304	309
Chg working capital	14	12	16	19	20
(1-d)	1	1	1	1	1
FCF to equity	250	308	350	364	372
Terminal value	6,257				
Discount rate	7.2%				
Long term growth rate	3.0%				
NPV	7,582				
Number of shares (m)	2,139				
Per share value	3.54				

Note: 'd' is the debt ratio (1=100% equity), which is multiplicative.
Source: UBS estimates

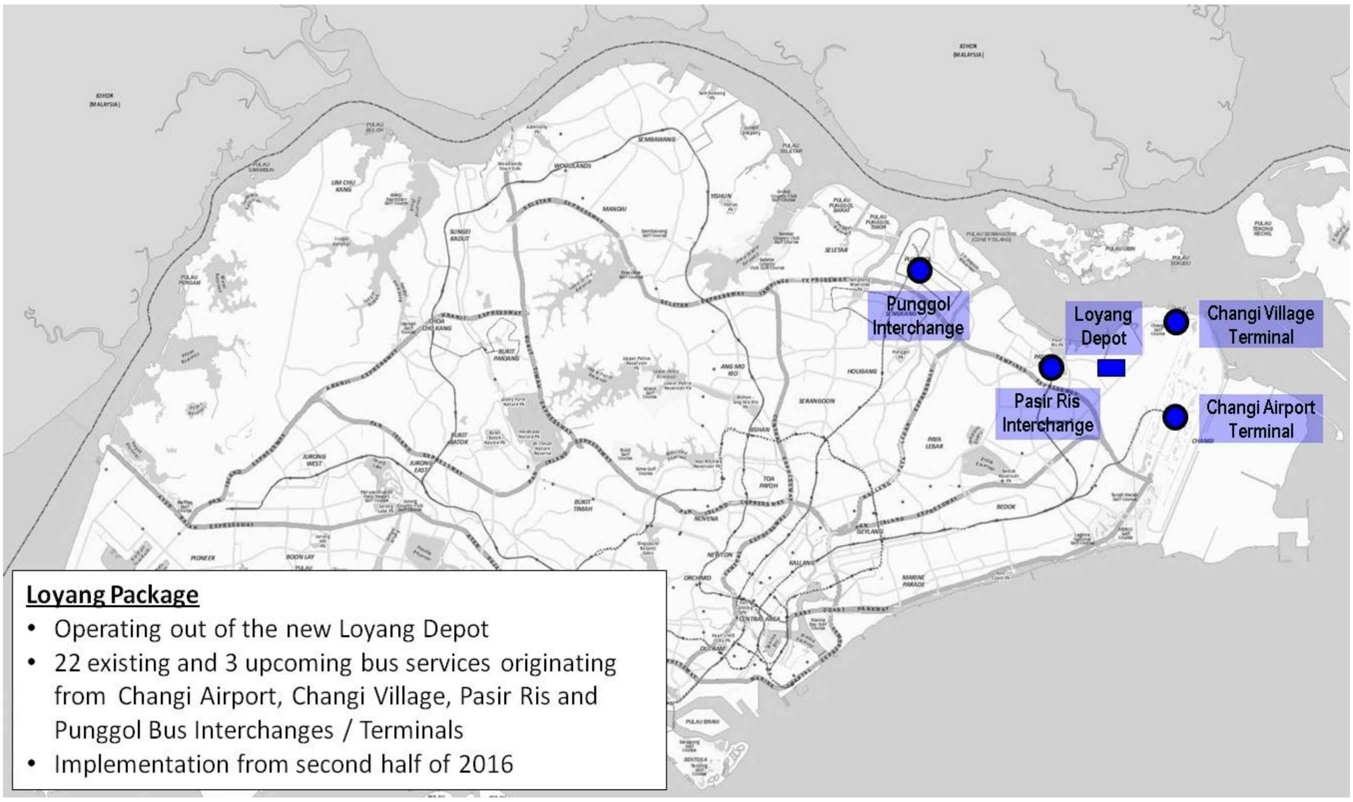
Appendix – Bus bidding wars

Figure 16: Expected timeline of Singapore bus package tenders

Bus package	Est. tender close date	Est. tender award date	Est. implementation	No. of buses affected	No. of bus services	No. of bidders	Comments
1 (Bulim)	Jan-15	Apr-15	Jun-16 to Sep-16, in 3 tranches	380, growing to 500 by 2021	26	11	About two-thirds of the existing buses are from SBS Transit, with the remainder from SMRT
2 (Loyang)	Aug-15	Q315	Sep-16	400, growing to 500 by 2021	25		22 existing SBS Transit routes + 3 new routes
3 (Mandai)	Q315	Q415	Sep-16	300 - 500			
4 to 12	-	-	Sep-16	80% of existing buses	-	To be kept by incumbents till 2021	Bus Service Operating Licenses for SBS Transit and SMRT expire on 31 Aug 2016. The operating terms from 1 Sep 2016 onwards will be negotiated based on the results of the earlier 3 tenders

Source: LTA, UBS

Figure 17: Details of bus package 2 (Loyang)



Source: LTA (reproduced with permission)

Appendix – Key business segments

Figure 18: ComfortDelGro – segmental earnings and margins

	2013 Rev (S$m)	2013 EBIT (S$m)	2013 Op. margin	2014 Rev (S$m)	2014 EBIT (S$m)	2014 Op. margin	2014 EBIT share
Taxi	1,197.9	146.2	12.2%	1,283.7	150.9	11.8%	34.1%
Taxi - Singapore	892.4	96.0	10.8%	961.2			
Taxi - China	159.6	37.9	23.7%	167.9			
Taxi - UK	117.1	5.3	4.5%	127.9			
Taxi - Australia	22.5	6.4	28.4%	19.6			
Taxi - Vietnam	6.3	0.6	9.5%	7.1			
Bus	1,863.5	157.4	8.4%	2,057.5	164.6	8.0%	37.2%
Bus - Singapore	703.4	12.1	1.7%	777.4			
Bus - UK	685.2	57.6	8.4%	886.2			
Bus - Australia	462.5	88.7	19.2%	393.9			
Bus - China (sold)	12.4	(1.0)	-	-			
Bus station - China (Guangzhou)	28.6	12.4	43.4%	29.1	12.5	43.0%	2.8%
Rail - Singapore	164.7	4.8	2.9%	196.8	7.6	3.9%	1.7%
Auto engineering + Diesel sales	425.5	52.7	12.4%	429.7	51.4	12.0%	11.6%
Engineering - Singapore	422.8	52.7	12.5%				
Engineering - China	2.7	-	0.0%				
Vehicle inspection & testing	108.6	35.2	32.4%	112.0	36.8	32.9%	8.3%
Veh inspection - Singapore	102.9	33.8	32.8%				
Veh inspection - China	3.7	1.2	32.4%				
Veh inspection - Malaysia	2.0	0.2	10.0%				
Car rental and leasing	35.4	9.1	25.7%	36.1	9.1	25.2%	2.1%
Car rental - Singapore	24.5	7.4	30.2%				
Car rental - China	8.7	1.1	12.6%				
Car rental - Malaysia	2.2	0.6	27.3%				
Driving centre	38.1	8.5	22.3%	39.6	9.2	23.2%	2.1%
Driving centre - Singapore	33.6	10.9	32.4%				
Driving centre - China	4.5	(2.4)	-53.3%				
Total	3,862.3	426.3	11.0%	4,184.5	442.1	10.6%	100.0%
Inter-segment elimination	(114.6)			(133.2)			
External	3,747.7	426.3	11.4%	4,051.3	442.1	10.9%	

Note: 2014 full segmental breakdown not available due to changes in disclosures and reporting format.
Source: Company data, UBS

ComfortDelGro (CMDG.SI)

Income statement (S$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Revenues	**3,545**	**3,748**	**4,051**	**4,164**	*2.8*	**4,260**	*2.3*	**4,387**	**4,535**	**4,690**
Gross profit	735	764	796	842	*5.7*	842	*0.1*	874	905	932
EBITDA (UBS)	**735**	**764**	**796**	**842**	*5.7*	**842**	*0.1*	**874**	**905**	**932**
Depreciation & amortisation	(323)	(337)	(354)	(359)	*1.6*	(328)	*-8.6*	(300)	(304)	(309)
EBIT (UBS)	**412**	**426**	**442**	**482**	*9.1*	**514**	*6.6*	**574**	**600**	**623**
Associates & investment income	4	4	4	5	*10.0*	5	*10.0*	6	6	7
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(20)	(16)	(10)	(18)	*-80.7*	(15)	*19.3*	(10)	(5)	1
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**396**	**414**	**436**	**469**	*7.4*	**504**	*7.6*	**570**	**602**	**630**
Tax	(85)	(87)	(92)	(99)	*-7.4*	(107)	*-7.6*	(121)	(127)	(133)
Profit after tax	**311**	**327**	**344**	**370**	*7.4*	**398**	*7.6*	**449**	**475**	**497**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(62)	(64)	(60)	(65)	*-7.4*	(70)	*-7.6*	(79)	(83)	(87)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**249**	**263**	**284**	**305**	*7.4*	**328**	*7.6*	**370**	**391**	**410**
Net earnings (UBS)	**249**	**263**	**284**	**305**	*7.4*	**328**	*7.6*	**370**	**391**	**410**
Tax rate (%)	21.6	21.0	21.2	21.2	*0.0*	21.2	*0.0*	21.2	21.2	21.2

Per share (S$)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
EPS (UBS, diluted)	0.12	0.13	0.13	0.14	*7.4*	0.15	*7.6*	0.17	0.18	0.19
EPS (local GAAP, diluted)	0.12	0.13	0.13	0.14	*7.4*	0.15	*7.6*	0.17	0.18	0.19
EPS (UBS, basic)	0.12	0.13	0.13	0.14	*7.4*	0.15	*7.6*	0.17	0.18	0.19
Net DPS (S$)	0.06	0.07	0.08	0.09	*3.6*	0.20	*130.8*	0.10	0.11	0.11
Cash EPS (UBS, diluted)[1]	0.27	0.29	0.30	0.31	*4.2*	0.31	*-1.2*	0.31	0.33	0.34
Book value per share	0.96	1.03	1.02	1.08	*5.8*	1.15	*6.3*	1.09	1.17	1.25
Average shares (diluted)	2,091.01	2,101.99	2,139.41	2,139.41	*0.0*	2,139.41	*0.0*	2,139.41	2,139.41	2,139.41

Balance sheet (S$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Cash and equivalents	695	841	826	970	*17.4*	1,728	*78.2*	1,672	1,901	2,128
Other current assets	400	404	414	443	*7.1*	448	*1.1*	455	462	470
Total current assets	**1,094**	**1,245**	**1,239**	**1,412**	*14.0*	**2,176**	*54.1*	**2,127**	**2,363**	**2,598**
Net tangible fixed assets	2,707	2,777	2,895	2,964	*2.4*	2,026	*-31.6*	2,062	2,108	2,165
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	1,045	1,068	1,096	1,098	*0.2*	1,100	*0.2*	1,103	1,106	1,110
Total assets	**4,846**	**5,090**	**5,231**	**5,474**	*4.7*	**5,303**	*-3.1*	**5,292**	**5,578**	**5,874**
Trade payables & other ST liabilities	821	844	1,015	923	*-9.1*	940	*1.9*	962	989	1,017
Short term debt	96	218	243	243	*0.00*	143	*-41.08*	143	143	143
Total current liabilities	**917**	**1,063**	**1,258**	**1,166**	*-7.3*	**1,083**	*-7.1*	**1,106**	**1,132**	**1,160**
Long term debt	608	590	494	494	*0.0*	183	*-63.0*	183	183	183
Other long term liabilities	684	638	640	783	*22.3*	790	*1.0*	804	811	817
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**2,209**	**2,290**	**2,392**	**2,442**	*2.1*	**2,056**	*-15.8*	**2,093**	**2,126**	**2,160**
Common s/h equity	2,008	2,160	2,190	2,318	*5.8*	2,463	*6.3*	2,336	2,506	2,680
Minority interests	629	640	649	714	*10.0*	784	*9.8*	863	946	1,034
Total liabilities & equity	**4,846**	**5,090**	**5,231**	**5,474**	*4.7*	**5,303**	*-3.1*	**5,292**	**5,578**	**5,874**

Cash flow (S$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Net income (before pref divs)	249	263	284	305	*7.4*	328	*7.6*	370	391	410
Depreciation & amortisation	323	337	354	359	*1.6*	328	*-8.6*	300	304	309
Net change in working capital	36	34	64	14	*-77.5*	12	*-15.3*	16	19	20
Other operating	68	94	66	70	*5.6*	75	*7.4*	90	87	89
Operating cash flow	**676**	**728**	**767**	**748**	*-2.5*	**743**	*-0.6*	**776**	**801**	**827**
Tangible capital expenditure	(491)	(418)	(471)	(428)	*9.1*	(360)	*15.9*	(335)	(350)	(366)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(36)	(130)	(24)	0	-	969	-	0	0	0
Other investing	13	14	8	0	-	0	-	0	0	0
Investing cash flow	**(514)**	**(534)**	**(488)**	**(428)**	*12.2*	**609**	-	**(335)**	**(350)**	**(366)**
Equity dividends paid	(130)	(138)	(165)	(177)	*-6.7*	(183)	*-3.5*	(422)	(222)	(235)
Share issues / (buybacks)	15	35	0	0	-	0	-	0	0	0
Other financing	0	(55)	(53)	0	-	0	-	(75)	0	0
Change in debt & pref shares	72	109	(76)	0	-	(411)	-	0	0	0
Financing cash flow	**(43)**	**(48)**	**(294)**	**(177)**	*40.0*	**(594)**	*-236.4*	**(497)**	**(222)**	**(235)**
Cash flow inc/(dec) in cash	**118**	**146**	**(15)**	**144**	-	**759**	*NM*	**(56)**	**229**	**227**
FX / non cash items	0	0	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**118**	**146**	**(15)**	**144**	-	**759**	*NM*	**(56)**	**229**	**227**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

ComfortDelGro (CMDG.SI)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	13.3	15.3	17.5	20.6	19.1	16.9	16.0	15.3
P/E (UBS, diluted)	13.3	15.3	17.5	20.6	19.1	16.9	16.0	15.3
P/CEPS	5.8	6.7	7.8	9.4	9.6	9.4	9.0	8.7
Equity FCF (UBS) yield %	5.6	7.7	6.0	5.1	6.1	7.0	7.2	7.4
Net dividend yield (%)	4.1	3.5	3.5	2.9	6.7	3.5	3.7	3.9
P/BV x	1.6	1.9	2.3	2.7	2.5	2.7	2.5	2.3
EV/revenues (core)	1.1	1.2	1.3	1.6	1.4	1.3	1.2	1.2
EV/EBITDA (core)	5.2	6.0	6.8	8.0	7.3	6.4	6.2	6.1
EV/EBIT (core)	9.3	10.7	12.3	13.9	11.9	9.8	9.4	9.2
EV/OpFCF (core)	5.5	6.2	7.1	8.3	7.5	6.7	6.4	6.3
EV/op. invested capital	1.5	1.7	2.0	2.5	2.7	3.2	3.2	3.2

Enterprise value (S$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	3,299	4,018	4,933	6,268	6,268	6,268	6,268	6,268
Net debt (cash)	32	(9)	(58)	(161)	(817)	(1,374)	(1,460)	(1,460)
Buy out of minorities	606	634	644	681	749	823	905	990
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	**3,937**	**4,643**	**5,519**	**6,789**	**6,200**	**5,718**	**5,713**	**5,798**
Non core assets	(88)	(70)	(82)	(83)	(86)	(88)	(92)	(96)
Core enterprise value	**3,849**	**4,572**	**5,437**	**6,706**	**6,114**	**5,629**	**5,621**	**5,702**

Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	3.9	5.7	8.1	2.8	2.3	3.0	3.4	3.4
EBITDA (UBS)	2.7	3.9	4.2	5.7	0.1	3.7	3.5	3.0
EBIT (UBS)	3.3	3.4	3.7	9.1	6.6	11.7	4.6	3.7
EPS (UBS, diluted)	5.6	5.2	5.8	7.4	7.6	12.9	5.7	4.7
Net DPS	6.6	5.7	22.0	3.6	130.8	-47.3	5.7	4.7

Margins & Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Gross profit margin	20.7	20.4	19.6	20.2	19.8	19.9	19.9	19.9
EBITDA margin	20.7	20.4	19.6	20.2	19.8	19.9	19.9	19.9
EBIT margin	11.6	11.4	10.9	11.6	12.1	13.1	13.2	13.3
Net earnings (UBS) margin	7.0	7.0	7.0	7.3	7.7	8.4	8.6	8.7
ROIC (EBIT)	16.5	16.2	16.5	17.9	23.0	32.6	33.8	34.6
ROIC post tax	12.9	12.8	12.9	14.1	18.1	25.6	26.6	27.2
ROE (UBS)	12.8	12.6	13.0	13.5	13.7	15.4	16.2	15.8

Capital structure & Coverage (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net debt / EBITDA	0.0	(.0)	(0.1)	(0.3)	(1.7)	(1.5)	(1.7)	(1.9)
Net debt / total equity %	0.3	(1.0)	(3.1)	(7.7)	(43.2)	(42.1)	(45.6)	(48.5)
Net debt / (net debt + total equity) %	0.3	(1.0)	(3.2)	(8.3)	(76.0)	(72.6)	(83.9)	(94.2)
Net debt/EV %	0.2	(0.6)	(1.6)	(3.5)	(22.9)	(23.9)	(28.0)	(31.6)
Capex / depreciation %	152.2	123.8	133.1	119.1	109.7	111.9	115.1	118.5
Capex / revenue %	13.9	11.1	11.6	10.3	8.5	7.6	7.7	7.8
EBIT / net interest	20.7	26.6	43.8	26.4	34.9	57.5	NM	NM
Dividend cover (UBS)	1.9	1.9	1.6	1.7	0.8	1.7	1.7	1.7
Div. payout ratio (UBS) %	53.7	54.0	62.2	60.0	128.7	60.0	60.0	60.0

Revenues by division (S$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Bus	1,722	1,861	2,055	2,091	2,089	2,112	2,166	2,221
Taxi	1,121	1,198	1,284	1,336	1,392	1,450	1,511	1,574
Automotive engineering	355	317	303	312	321	331	341	351
Rail	153	165	197	207	232	261	278	296
Car inspection	98	106	109	112	116	119	123	126
Others	36	38	39	40	42	43	44	46
Others	61	64	65	67	69	71	73	76
Total	**3,545**	**3,748**	**4,051**	**4,164**	**4,260**	**4,387**	**4,535**	**4,690**

EBIT (UBS) by division (S$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Bus	146	157	165	190	206	238	250	256
Taxi	140	146	151	160	169	190	201	212
Automotive engineering	51	53	51	53	55	56	58	60
Car inspection	33	35	37	38	39	40	41	43
Bus station	11	12	13	13	13	14	14	14
Rail	14	5	8	10	13	16	17	18
Others	17	18	18	19	19	19	20	20
Total	**412**	**426**	**442**	**482**	**514**	**574**	**600**	**623**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+20.8%
Forecast dividend yield	2.9%
Forecast stock return	+23.7%
Market return assumption	7.2%
Forecast excess return	+16.5%

Statement of Risk

Transport fares are regulated by Singapore's Public Transport Council to ensure affordability and to safeguard commuters' interests. Any change in fare tariff structure, or loss of bus contracts under the government contracting model, will impact CDG's expected revenues. A spike in electricity/diesel prices and wage inflation poses significant risks as energy and staff costs are two major cost items. Our ridership assumptions could be negatively affected in the case of an epidemic, as was the case during SARS. Revisions to transport policies, both in terms of timing and the extent of changes, could also affect our estimates and ratings.

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	45%	37%
Neutral	FSR is between -6% and 6% of the MRA.	43%	33%
Sell	FSR is > 6% below the MRA.	12%	20%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2015.
1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES: UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount. **Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities Pte. Ltd.: Robin Xie.

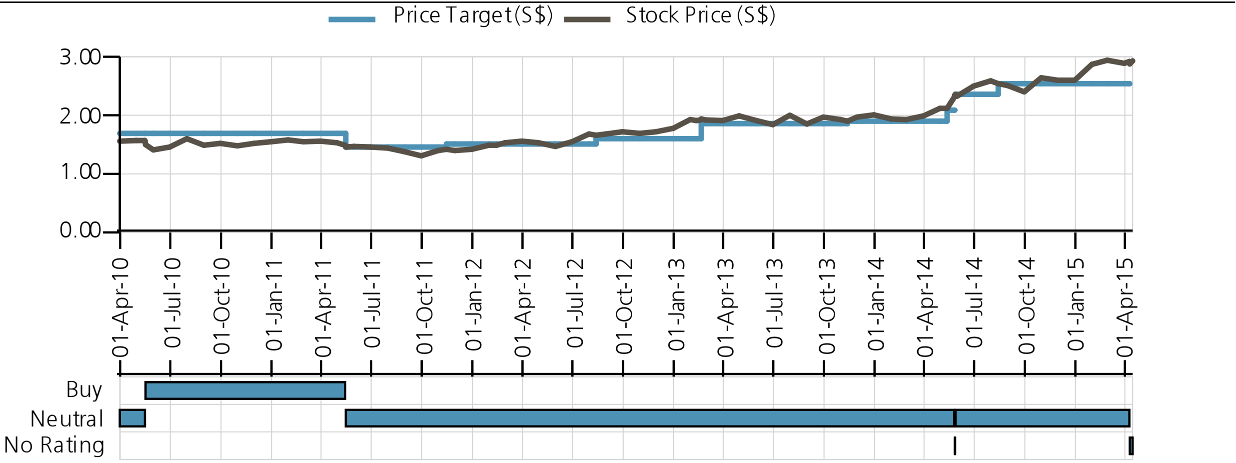
Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
ComfortDelGro	CMDG.SI	Buy	N/A	S$2.93	15 Apr 2015
SMRT Corporation Ltd	SMRT.SI	Buy	N/A	S$1.63	15 Apr 2015

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

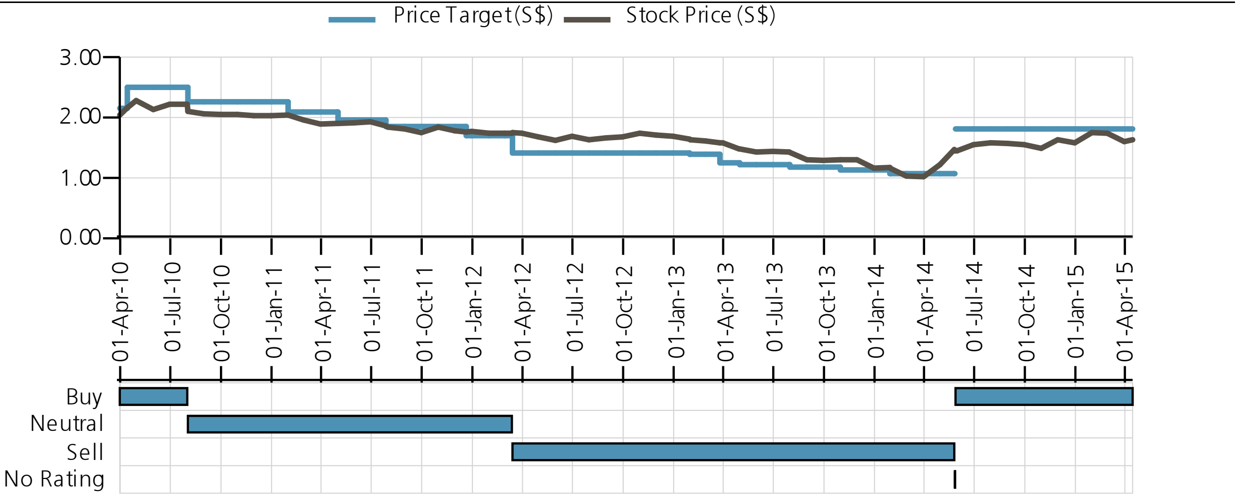
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

ComfortDelGro (S$)



Source: UBS; as of 15 Apr 2015

SMRT Corporation Ltd (S$)



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