SG Stock Picks

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• Stock Calls

ComfortDelgro (BUY/S$2.60/Target:S$2.90/ Upside: 12%)

- Diversified business model
- Strong cash flow to fuel higher dividend payout or potential M&A

Raffles Medical Group (BUY/ S$1.46/Target: S$1.70/ Upside 17%)

- Multi-year growth strategy
- China angle with continue growth in home market

Data as at 9 Dec 16

ComfortDelgro Corporation

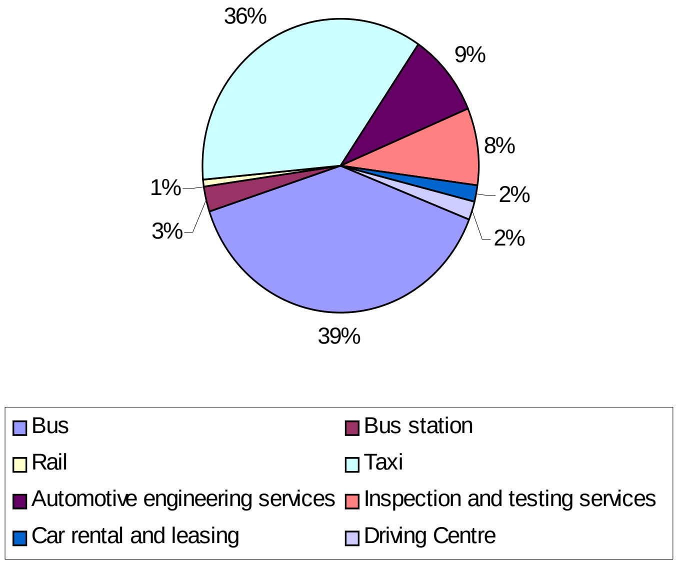
ComfortDelgro (S$2.60)

- Market Capitalization = S$5,585.4m
- 2017F EPS = 16.1 S cents
- 2017F P/E = 16.1x
- BUY Recommendation, Target Price: S$2.90
- Upside: 12.0%

Data as at 9 Dec 16

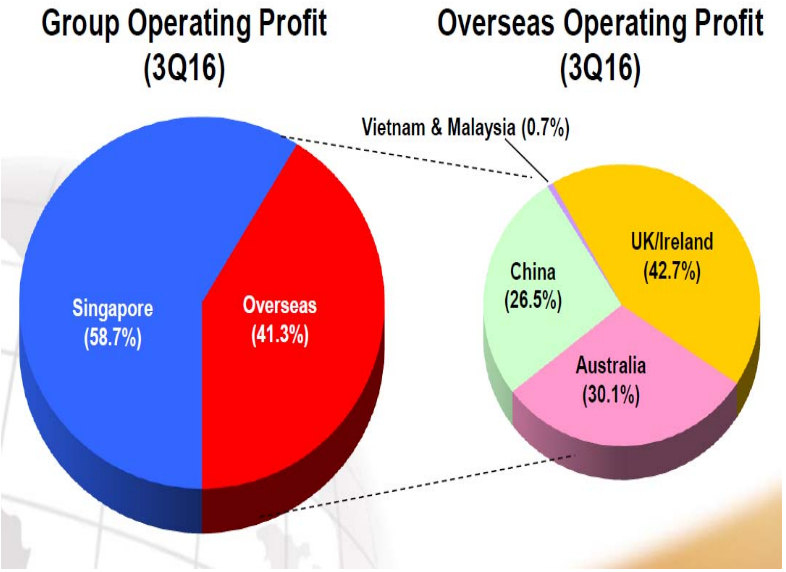
Company Background

•**Well diversified business both geography and segment wise**



Source: CD, UOB Kay Hian

- Bus, Taxi and Rail Operations contribute more than 75% of their operating profit



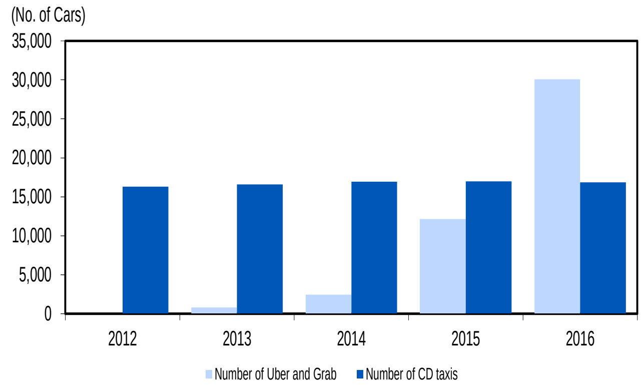
Source: CD, UOB Kay Hian

- Overseas contributed more than 40% to the group operating profit

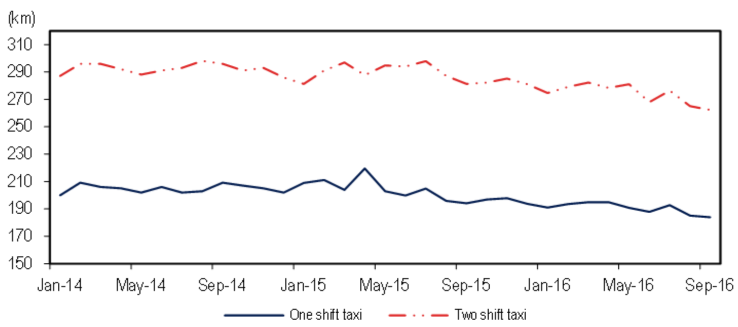
Taxi – Defying Weak Indicators

- **Rental fleet increasing at a rapid clip.** 3-year historical CAGR for CD's taxi fleet grew a mere 0.5% between 2014 and 2016, we estimate the 3-year CAGR for Uber and Grab (through tie-ups with rental firms) combined fleet grew over 230% over the same period.
- **Industry may not be zero sum.** Despite a nearly two-fold increase in private hire car drivers over the past one year, CD's hire-out rate remained resilient at c.99%.
- **Declining mileage for taxis, but gradual.** Coinciding with the sharp increase in rental cars since 2015, we note the average daily mileage for taxis (both one-shift and two-shift) has been on a gradual decline.
- We believe the average daily mileage for taxis will continue to be under pressure going forward, a reflection of the larger supply of drivers, but effect likely gradual.

NUMBER OF CD TAXIS V PRIVATE HIRE CARS



AVERAGE DAILY MILEAGE FOR ONE AND TWO-SHIFT TAXIS

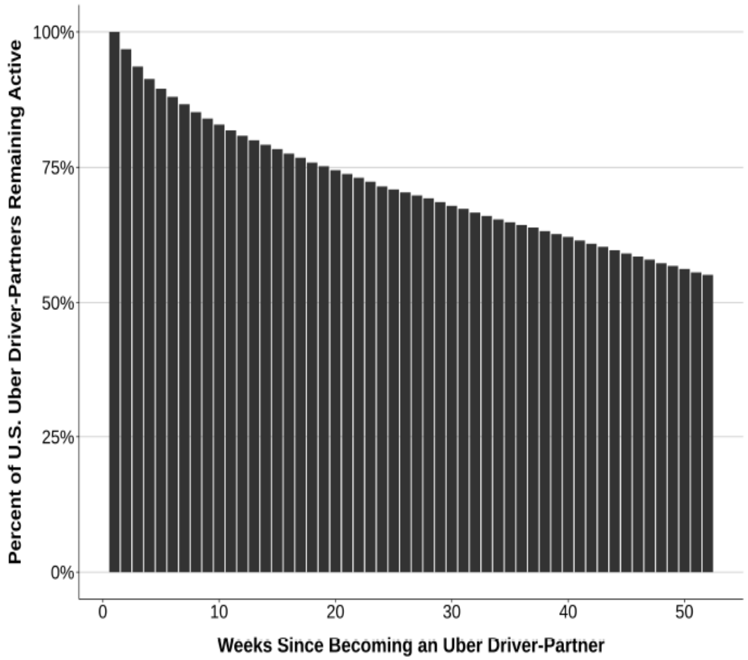


Source: LTA, UOB Kay Hian

Taxi – Case Study of Uber in US

- **Uber: Attracts part-time drivers.** majority (about 60%) of its drivers either have full-time or part-time jobs.
- **High churn rate.** Reportedly 11% of new drivers stopped driving within a month and close to 50% stopped within a year.
- The data is consistent with our view that private hire car operators typically attract drivers who prefer flexibility in their schedules, where the platform mostly either serves as a bridge for drivers to get income while looking for a full-time job or as a supplement to their existing income. On the other hand, taxi operators such as CD tend to attract full-time drivers seeking job stability and stable income.

CONTINUATION RATE OVER A YEAR



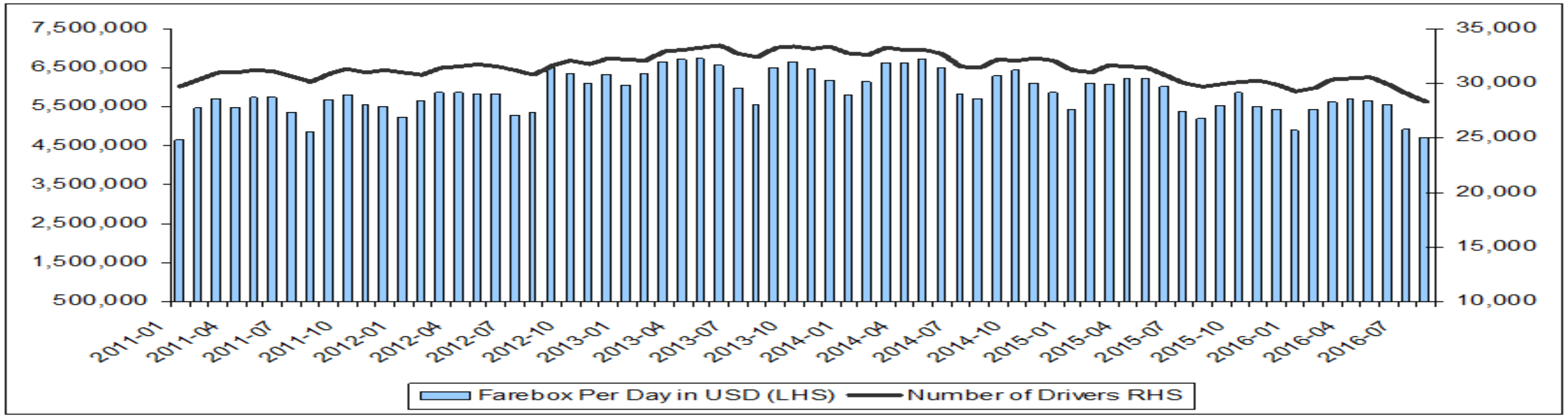
Note: Figure based on U.S. UberBLACK and uberX driver-partners who made their first trip between January and June of 2013 and had subsequently made at least four trips (11,267 individuals). A driver is classified as becoming inactive at the start of any period in which he or she does not record a trip for six or more months.

Source: Uber, UOB Kay Hian

Taxi – Case Study of Uber in US

- **Impact of private hire car on taxi may be gradual than steep.** From data released by the NYC Taxi and Limousine Commission, the declines in the number of taxi drivers (-5%) and farebox revenue (+1%) were much gradual
- This data showed that while the impact of private hire cars on the taxi industry may be unavoidable, the rate of decline may be more gradual than expected.
- As such, we continue to hold the view that CD will be able to maintain its hire-out rate of 99% in the next one-two years.

FAREBOX REVENUE AND NUMBER OF DRIVERS IN NEW YORK CITY

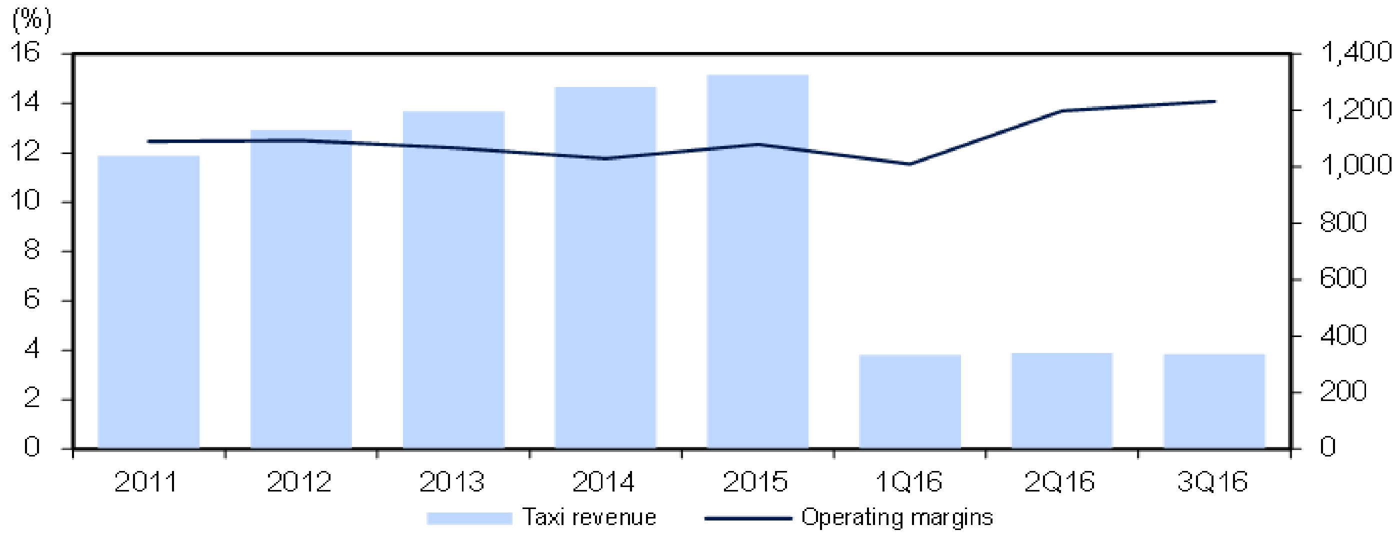


Source: NYC Taxi and Limousine Commission

Taxi – Defying Weak Indicators

- CD's Singapore taxi revenue has remained stable, growing EBIT margin to as high as 14% in 3Q16

- **Taxi segment to remain resilient over next 1-2 years**
  - Different driver profiles
  - Market is not zero sum
  - Cost benefits of comfort, such as diesel discount
  - Earnings supported by higher rental income from fleet renewal

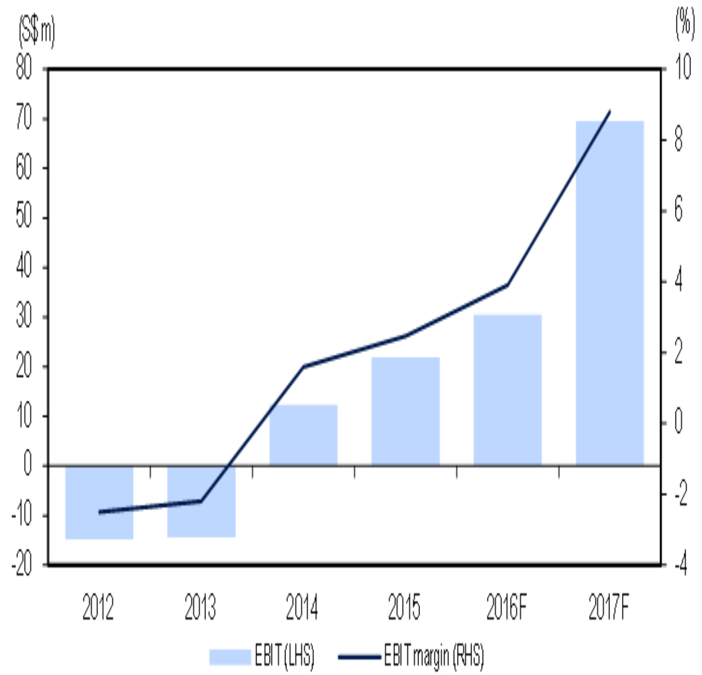


Source: CD, UOB Kay Hian

Bus: Transition to Asset Light Model

- **Transition to Asset light model.** Paid contract fee of S$5.32b for seven years, which takes into account service fee for the provision of bus services (i.e. the cost to operate services as well as agreed operating margin) and leasing fees based on depreciation of the buses.
- Fare revenue risk retained by LTA, cost plus model
- **Margins to elevate from 4Q16.** Under the bus contracting model, we estimate CD's Singapore bus segment to generate EBIT margins of 8-9% from 4Q16, up from its historical margins of 1-3% in 2014-15 and 4.5% in 3Q16**.**

HISTORICAL AND FORECAST SG BUS OPERATING MARGIN



Source: CD, UOB Kay Hian

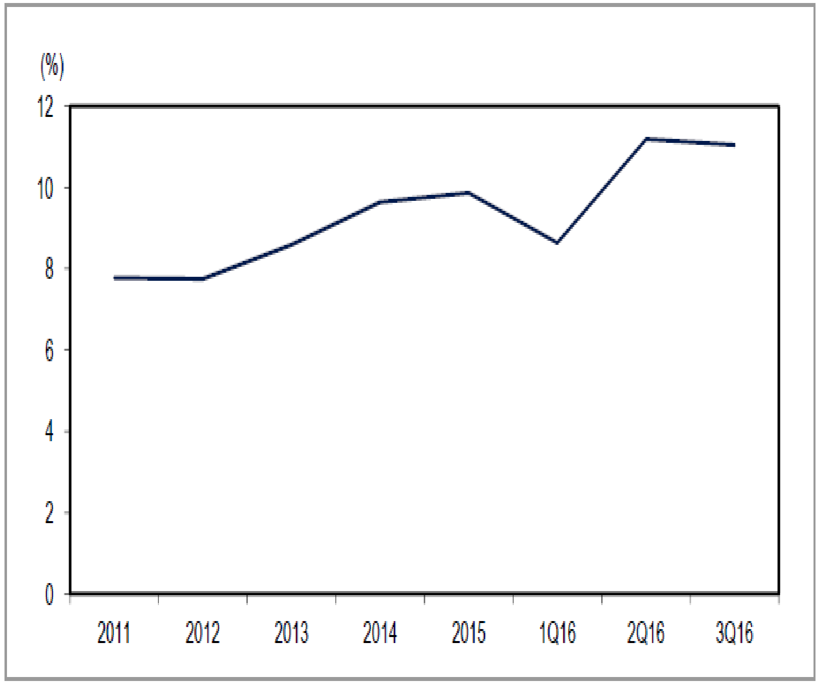
Bus: UK Bus operations

- **Overview of business in UK:** UK business accounts for approximately 19% of group operating profit

- **Currency impact mainly translational.** Natural hedge for CD's operations overseas, where both revenue and costs are incurred in the same stirling currency.

- **Operations remained strong** , with strong EBIT margins.

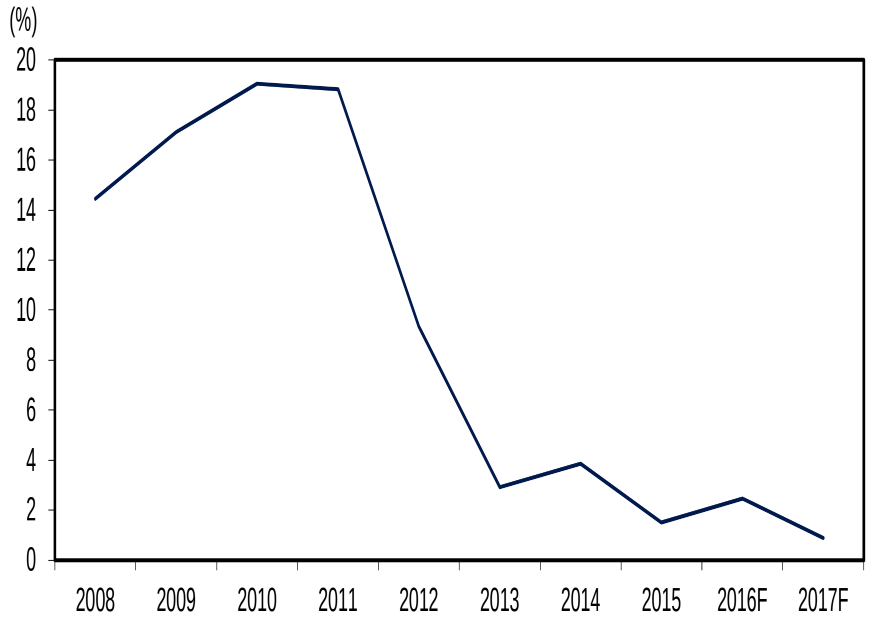
CD's UK Operating Margin



Source: CD, UOB Kay Hian

Rail: Depressed by DTL

- When CD operated only the NEL before 2012, rail margins were 17-19% between 2009 and 2011.
- Since being awarded the DTL licence contract in Aug 11, rail margins were dragged by start-up costs related to headcount hiring and commissioning
- Margins fell to 1-4% between 2013 and 2015
- Loss-making DTL was supported by the profitable NEL (estimated 17-18% margins).

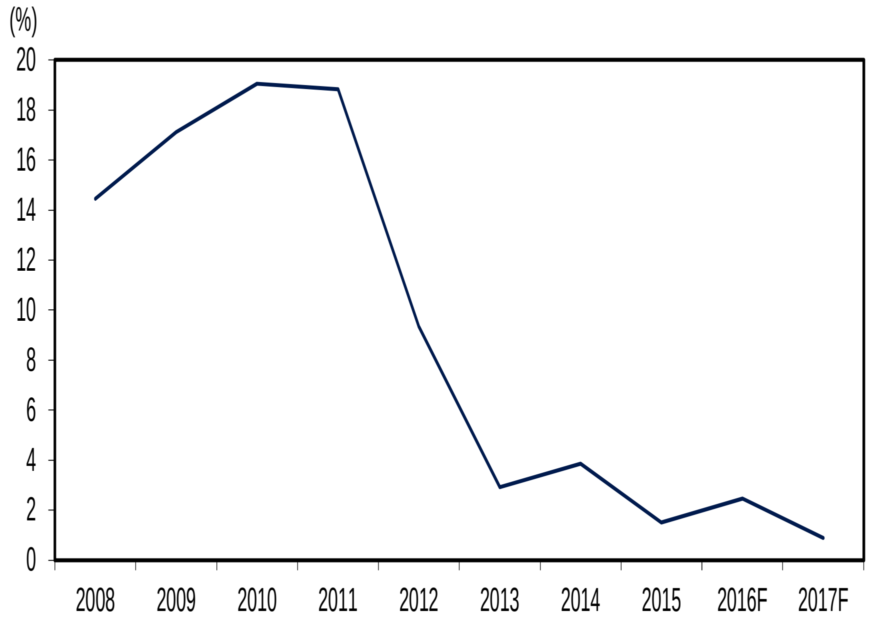


Source: CD, UOB Kay Hian

Rail: Recovery in 2018

- Rail margins to remain at 1-3% in 2016-17, given the ramp- up of **start-up costs for DTL3** as well as the **impact of 4.2% fare reduction beginning 30 Dec 16.**

- Margins to recover in 2018 after the opening of DTL3 in Sep 17 as ridership growth is expected to gain more traction due to the network effect.



Source: CD, UOB Kay Hian

Financials

- We forecast CD to register a healthy 3-year net profit CAGR of 6.0% over 2016-18F.
- **Strong cash generation...** As of 3Q16, CD had net cash of S$259m (S$0.23/share) vs S$229m as at Dec 15 (S$0.11/share). Net capex for 3Q16 also continued to trend down and totalled S$108.9m, from S$123.2m in 3Q15
- **To fuel M&A and rising dividends.** Given its strong financials, we see a case for potential M&A opportunities, most likely within the group's current operating geographies and segments.
- **Dividend payout upside.** Barring any major M&A, we also see dividend payout upside on lower capex upon its transition to an asset-light model.

Valuation – Buy

- Share price has retraced **15%** from ytd high on a mix of factors such as competition from private hire car operators, concerns over rail margins and the coming 4.2% fare reduction.
- Despite resilient 3Q16 results, CD trades at 16.1x 2017F PE, at a discount to its 10-year mean of 16.4x.

Year	2007	2015	2016F
Net Cash/(Debt) (S$m)	Net debt S$156.1m	Net cash S$229.2m (S$0.11/share)	Net cash S$489m (S$0.22/share)
ROE (%)	12.6	13.3	13.8
Operating Margin (%)	10.5	11	12.1
Capex (S$m)	503.3	669.6	400

- **Maintain BUY and PE-based target price of S$2.90**. We continue to like CD for its defensive qualities, strong cash flow and a diversified earnings stream. We also see potential catalysts from rising dividend payouts or accretive M&A.

Raffles Medical

Raffles Medical (S$1.45)

- Market Capitalization = S$2534.3m
- 2017F EPS = 4.9 S cents
- 2017F P/E = 29.9x
- BUY Recommendation, Target Price: S$1.70
- Upside: 17%

Data as at 9 Dec 16

Business Model

- Founded in 1976, Raffles Medical is a leading integrated private healthcare provider in Asia
- Operating medical facilities in thirteen cities in Singapore, China, Japan, Vietnam and Cambodia
- Staff strength of 2,500, including 360 physicians.

Source: Raffles Medical

Expanding in home market

Raffles Holland Village (Completed in June 16)

- Acquired and redeveloped Holland Village property for S$120m

- 6 levels – GFA of 67,720 sq ft

- Raffles Medical Centre opened in June 2016 as an anchor, occupying level 5 to expand medical, pharmacy and specialist services to Holland Village (9000 sf)

- Raffles Holland V Medical Centre may break even in less than a year

- 95% of space has been leased out to tenants such as Virgin Active, Sushi Tei and Pattisez

Source: Google, UOB Kay Hian

Expanding in home market

Raffles Hospital Extension (To be completed in 1H 17)

- Acquisition of land adjacent to current Raffles Hospital Site
- Estimated additional 220,000 sq ft of space, increasing GFA to approximately 520,000 sq ft
- Expand existing services and develop new healthcare facilities and services
- Estimated S$310m total development costs, including land cost and refurbishment of existing hospital
- Expected completed 1H17

Source: Google, UOB Kay Hian

Venturing into China

Shanghai hospital project on track. (to be completed 2H18)

• On 15 May 2015, the Group entered into a Joint Venture agreement with Shanghai LuJiaZui Group to build a new **400-bed** international hospital in
Pudong Qiantan, Shanghai.

•Attractive location at New Bund International Business District

•On track and targeted for completion by 2H18

THE SHANGHAI NEW BUND INTERNATIONAL HOSPITAL PROJECT

Source: Raffles Medical

Venturing into China

Acquisition of ISOS Clinics in 2015

•10 clinics in China, Vietnam and Cambodia

• Pivotal to the upcoming launch of Shanghai Hospital in 2018 as it serves three important benefits.

1) Strategic location in China

2) Serves major MNCs as well as NGO members, giving RMG exposure to these client profiles through privileged access benefit plans.

3) Team of c.60 doctors in the ISOS network, this gives RMG access to a team of qualified and trained medical professionals in China.

INTERNATIONAL SOS

WORLDWIDE REACH. HUMAN TOUCH.

Source: International SOS

Financials

9M16 RESULTS

Year to 31 Dec (S$m)	9M16	9M15	yoy % chg	3Q16	3Q15	yoy % chg
Turnover	**355.1**	**295.8**	**20.0**	**119.3**	**101.5**	**17.5**
Operating Profit	57.2	55.3	3.4	18.6	18.5	0.3
Pre-tax Profit	**58.0**	**56.2**	**3.3**	**18.8**	**18.8**	**0.2**
Tax	(10.9)	(9.4)	15.6	(3.1)	(3.1)	(2.5)
Profit after Tax	47.1	46.7	0.8	15.8	15.7	0.8
Minority Interests	(1.3)	0.2	n.m	(0.5)	0.0	n.m
Net Profit	**48.4**	**46.5**	**4.1**	**16.2**	**15.6**	**4.0**
EPS (cents)	2.8	2.7	2.2	0.93	0.91	2.2
Staff Costs	182.9	146.6	24.7	61.4	49.9	23.0
Margin (%)	**9M16**	**9M15**	**ppt chg**	**3Q16**	**3Q15**	**ppt chg**
Operating margin	16.1	18.7	(2.6)	15.6	18.2	(2.6)
Cost as % of Turnover	**9M16**	**9M15**	**ppt chg**	**3Q16**	**3Q15**	**ppt chg**
Inventories & Consumables Used	11.0	10.8	0.2	10.8	10.7	0.1
Purchased/Contracted Services	8.4	9.3	(0.9)	8.5	9.3	(0.8)
Staff Costs	51.5	49.6	1.9	51.5	49.2	2.3

Source: RMG, UOB Kay Hian

Source: Raffles Medical, UOB Kay Hian

- **9M16 revenue increased 20% yoy,** underpinned by expansion of Raffles Medical Clinic network and higher revenue contributed by newly acquired ISOS clinics
- **Cost pressure remained high but expected…**as key areas such as staff costs and inventory costs exceeded the pace of top line growth. However this is expected as the group caters for expanding business operations as well as the new medical centre in Holland V

Valuation – Buy

- **Raffles Medical Group's (RMG) share price** has retraced 10% from its ytd high and our target price now represents 17% upside from the current level.
- **Maintain BUY with DCF based target price of S$1.70.** We deem the recent share price pull back as an attractive entry opportunity into RMG, where new capacity in China and Singapore will offer RMG a growth runway for the next 5-10 years.

THANK YOU

Q&A