Title: Initiate Coverage on ComfortDelgro: Dangers Lurking Beneath Commuter Cheers

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COMPANY

CRSYSTAL RESEARCH REPORT

SELL

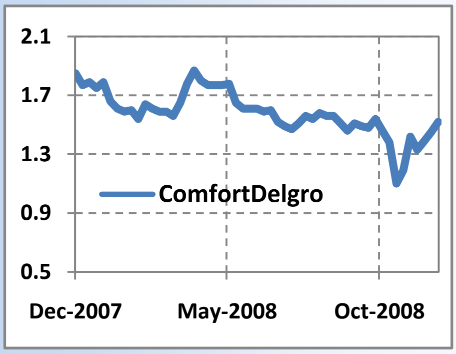
Target Price
S$1.32

Price
S$1.51 (10 Dec)

At a glance:

52 Week Range (S$)	0.97-1.90
Market Cap (S$)	2,857
Shares:	
Outstanding	2,085.65
Float	81%
Exchange	SES
Reuters	CMDG.SI
Bloomberg	CD SP

Price Performance



Source: Reuters

Company Description

ComfortDelGro is the world's second largest land transport company with a total fleet size of 41,500 buses, taxis and rental vehicles. It operates in seven countries - Singapore, China, the United Kingdom, Ireland, Australia, Vietnam and Malaysia – giving it the broadest footprint amongst its international peers. Currently, overseas ventures account for 42% of Group turnover. The Group aims to derive 70% of its total turnover from overseas within the next five to seven years.

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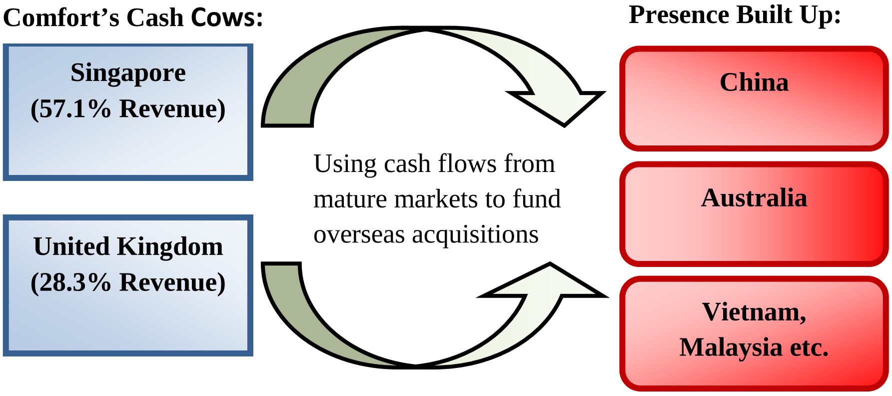
ComfortDelgro

Dangers Lurking Beneath Australian Cheers

We initiate coverage on ComfortDelgro with a sell rating as we foresee the difficulties that CD faces in maintaining their overseas growth momentum. Fundamentally, we believe that CD's core revenue markets face a challenging time ahead in light of the current economic conditions. **Using the DCF valuation model on FCFF, we arrive at a 1-year TP of $1.32, reflecting a 12.6% downside from current price.**

'2nd Cycle' Strategy Not Likely to Deliver

Although the senior management has yet to unveil a concrete strategic roadmap for the second cycle (FY08 to FY12) of its business model, we draw inferences based on CD's five-year target of obtaining 70% of its revenue from overseas and its current operational standings to derive a tentative strategic blueprint.



COMFORTDELGRO'S TENTATIVE STRATEGY

Source: Annual Report, Crystal Research

This '2nd cycle' strategy might seem feasible in theory; however, due to the severity of the deteriorating credit conditions that threaten the growth of operating cash flows, CD's endeavor of increasing acquisitions to mitigate the impending decline of margins looks futile.

Singapore & UK Markets Matures Out

With the LTA's bold plans to centralize the transport markets and promote rail usage; coupled with UK markets approaching saturation point due to its oligopolistic nature, CD stands to lose its cutting edge both locally and in UK, which constitutes a heavy 80% of earnings.

Kefford Deal Dwarf in Comparison to other Issues

Exciting news of the Kefford deal is short-lived as the mounting problems of global recession and cumbersome land transport regulations in China and Australia weigh heavily on CD's growth engines. Kefford poses opportunities for growth but the Australian deal contributes a meagre 2% to future earnings. The depreciating foreign currencies pose a greater threat to CD's bottom line.

Time Running out from LTA's Squeeze

LTA's growth strategy spells trouble for CD

In early 2008, the Ministry of Transport unveiled a new master plan for the land transport system in Singapore. This plan will introduce competition in the bus and rail system, which could end the current duopoly of CD and SMRT, the main public transport operators in Singapore.

We believe CD, the dominant bus operator with 75% market share, will become less relevant in the long run as LTA is poised to boost prospects for trains at the expense of private cars, taxis and buses in the process.

- **CD risks becoming the less relevant transport operator as LTA's strategy boosts prospects for trains at the expense of taxis and buses**

With a doubling of rail networks to 278km and intended tripling of daily ridership to 4.6m, trains form the core of the LTA's strategy to promote public transport usage. Currently servicing intertown long-haul routes, buses will evolve to take up the role of providing short-haul feeder support for trains in LTA's strategy. These changes coupled with the introduction of competition and centralisation of route-planning by the LTA, places leading bus operator CD in a predicament.

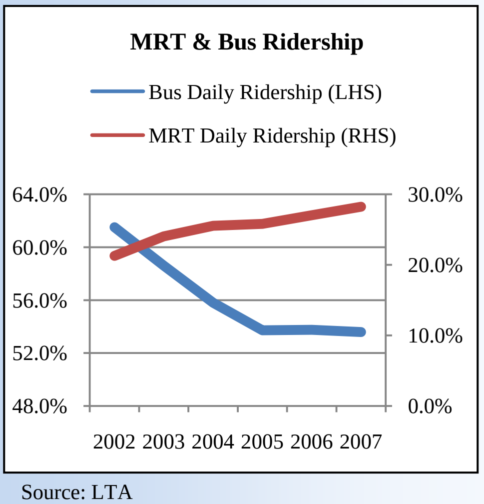
Buses Watch as Limelight is Stolen

Trains set to cannibalise bus ridership share

- **The government is targeting non-train commuters and we should continue to see trains cannibalising bus ridership**

Rail penetration is set to increase with the Circle, Downtown, Thomson and Eastern Region Lines. In contrast to the North-East Line, which catered to then-emerging housing estates, these new lines are situated in mature estates with few train connections.

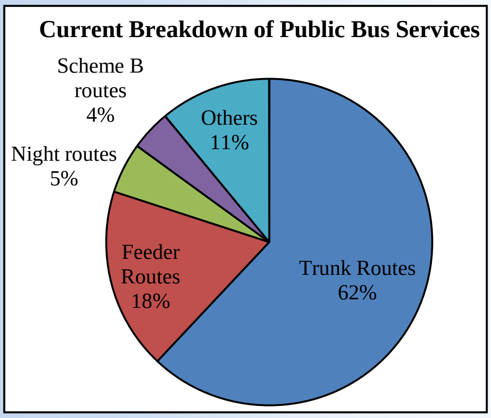
The government is clearly targeting non-train commuters and we should continue to see trains cannibalising bus ridership share. Based on population census, 40% of residents commute to work by bus, implying a huge potential pool of commuters that could shift to trains as their primary mode of transport. CD relies on scale economics from growth in bus ridership to generate earnings growth and would suffer if commuters favour rail networks over bus routes.



Source: LTA

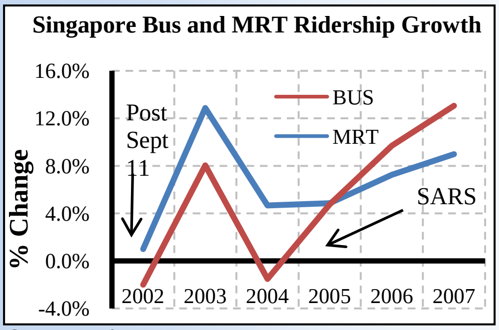
Although trains form the heart of LTA's plan to boost public transport ridership, buses will still play a supporting role in Singapore's transport landscape. We believe a structural shift toward feeder routes to support trains, rather than longer-haul intertown routes, is a likely outcome of the LTA's push for seamless bus-to train transfers.

Trunk routes account for 62% of public bus services and we expect the overall revenue share for buses to shrink as LTA decreases long-haul, intertown trunk routes to avoid duplicating resources with rail lines.



Source: Company Data

- **LTA to introduce greater contestability in the public bus market**



Source: LTA

- **Higher ERP charges coupled with an economic downturn and falling demand due to price hikes will negatively affect outlook of taxi rentals**

The current bus fare structure, which favours shorter routes on a dollar-per-kilometre travelled basis, will no longer benefit CD as LTA implements distance-based fare structures from FY09 onwards.

Liberisation of the public bus market

Come 2009, the LTA will take over planning of bus routes. LTA wants to introduce greater contestability in the public bus markets by introducing more players as well as have packages of routes competitively tendered for.

As the leading bus operator, SBS faces significant risks from the likely advent of greater competition for bus operators. We believe new entrants are likely as barriers to entry in a deregulated bus market are not particularly high. There is already a fragmented pool of private bus operators that could enter this market and there are low switching costs for both commuters and LTA.

Bus ridership takes a hit during economic downturns

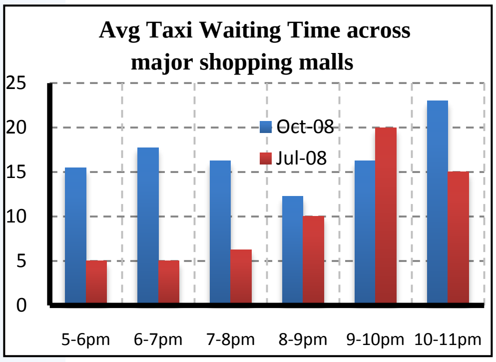
We have generously forecasted Singapore's bus ridership to grow by 2% in both 2009 and 2010, despite a weaker economic outlook. Industry-wide bus ridership tends to decline during economic downturns as the unemployment rate spikes. Even though the decline is mildly mitigated by commuters shifting towards public transport due to higher fuel costs and ERP (electronic road pricing) charges, the impact of the weak economy will still take a hit on the growth of bus ridership in this period.

Taxis No Longer a Comfortable Ride

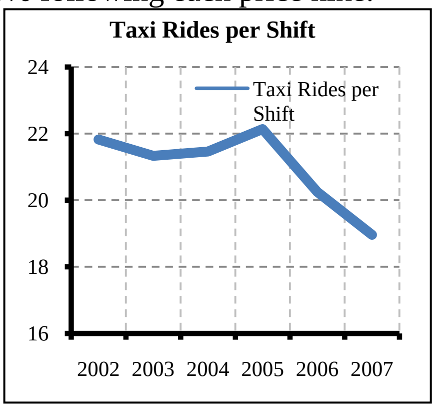
Taxis face shrinking pie

The introduction of ERP charges to achieve the government's aim of taxing motorists based on usage has made the taxi industry disproportionately worse off. The higher ERP burden on taxi drivers coupled with a falling demand for taxi services in an economic downturn, will negatively affect the outlook of taxi rentals.

In addition to a worsening economic outlook, taxi drivers and operators ultimately lose out as demand drops in response to price hikes. Formerly long waiting queues at taxi stands have effectively been transformed into an excess supply of taxis as the number of daily taxi trips declines by about 10% following each price hike.



Source: LTA, Surveys conducted between 29 Sep 06 - 2 Oct 06 & 4 Jul 08 to 7 Jul 08



Source: LTA

Erosion of taxi margins from competition

Several new players such as Transcab and Premier have entered the taxi market in the last few years. Through aggressive pricing strategies and a newer fleet, these players have increased their market share to 25% in just three years and will continue to pose an increasing threat to CD's market share.

- **New common taxi call booking system and expansion of emerging players' fleets will erode CD's competitive**

Market leader Comfort still maintains a competitive advantage over peers through its scalability. Its scale enables it to provide multiple engineering, servicing and diesel-refuel locations and better responsiveness to call-bookings. However, with the new common taxi call booking system and the continuing expansion of emerging players' fleets, this competitive advantage in our view may not be sustainable.

- **CD has one of the industry's highest monthly costs for cab drivers**

CD derives its taxi revenues by collecting rentals from cab drivers. Taxi driving in Singapore has traditionally acted as a buffer for the unemployed, especially during downturns. Though taxi idle rates may remain minimal despite lower ridership, however cab drivers are now faced with greater choices of operators in the taxi market and CD lacks the attractiveness as an employer with one of the highest monthly costs for drivers as shown below

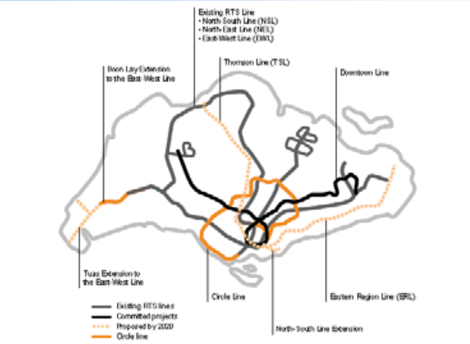
Factors	CD	SMRT	SMART Cab	Premier
Rental/day	S$95	S$65	S$82.50	S$88
Diesel incentives	S$1.18 effective px	S$90 diesel rebate/mth	NA	15% discount @ Caltex
Monthly diesel cost (40l/day @S$1.45)	S$1416	S$1650	S$1740	S$1479
Driver's monthly cost	**S$4266**	**S$3600**	**S$4215**	**S$4119**

Source: LTA (RSD), SMRT & SBST Annual Reports

Rail Growth a Small Silver Lining

North-East Line ridership light at the end of the tunnel

- **NEL ridership will benefit from the government's 2008 Master Plan, however rail's contribution to overall revenue is small**



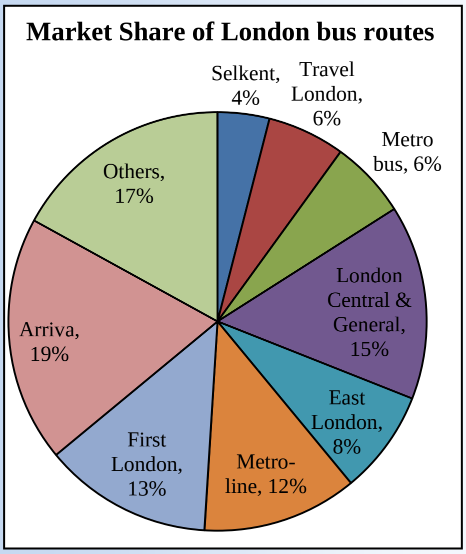
Source: Land Transport Authority of Singapore

CD's rail ridership has been increasing steadily, recording a growth of 17% in 2007. We believe that there is a further upside as the North-East Line (NEL) and LRT tracks continue to ramp up. NEL ridership will benefit from the government's 2008 Master Plan, which will upgrade mature towns such as Hougang and launch more public housing projects to build up critical mass in Punggol. Despite all these exciting plans to increase rail operation prospects, the impact on CD's overall revenue is still small as Singapore rail revenue accounts for a small 3% share of CD's total revenue.

- **Difficult to project the success of CD in bidding for DTL**

May the best man win

CD's rail operations in Singapore could receive a boost if it wins the Downtown Line (DTL) in FY09. Even though CD is a strong contender for the line, it is difficult to project the success of CD's bidding of DTL. In the best case scenario of CD clinching the DTL, operations will only begin in FY2013 and the profit contribution from DTL will be insignificant in our current valuation given the high discount rate.



Source: Company Data

UK Cash Cow Milking Dry

Oligopolistic nature of the UK market impedes growth

With more than 10 players in the market, there is limited growth potential for CD to grow through its subsidiary – Metroline. Public bus services in London are heavily regulated by Transport for London (TfL) and this implies that each player can only operate on pre-tendered routes. With 96 routes under its operations, Metroline contributed a hefty S$723m to CD's 2007 revenue. However, due to depot capacity and location constraints, there remains disincentive for bus operators to bid for the alternative routes. It is thus difficult for CD to achieve strong organic growth through this channel.

Furthermore, there is a one-year lag before operators are given the opportunity for price adjustment of their contracts, as adjustments are made on an annual basis. This means that CD's bus operations have to bear the burden of higher operating costs and spot fuel prices, until they get an adjustment one year later.

Management has highlighted that 80% of Metroline's routes are qualified under the "Quality Incentive" contract scheme, whereby quality performance is rewarded. However, with 80% of these routes already earning the bonus, there is limited growth potential from the scheme. Differentiation measures would thus be ineffective. In our view, the UK market is matured and there is limited scope for growth.

Adverse impacts from the Wall Street meltdown

Monetary policy across UK has sent the British pound spiralling downwards against the Sing dollar. This would dilute earnings contribution from UK operations for a few years running as we forecast the pound to depreciate at a rate of 10% yoy. This estimate is a conservative projection as compared to other economists.

With a taxi radio network, Computer Cab, that contributes around a fifth of UK's earnings, this business arm will take a hit as a majority of its customers hail from the corporate and government sectors. As institutions cut back on costs, demand for taxi services will be reduced and Computer Cab will see its top line eroded.

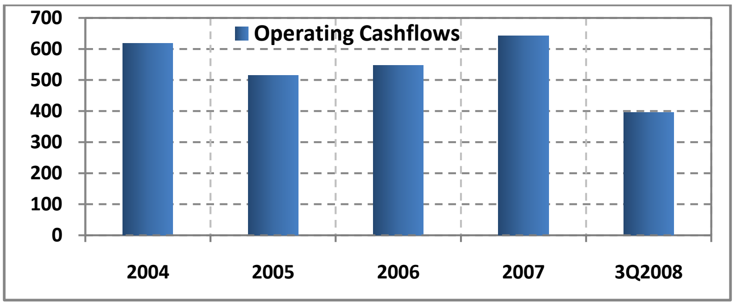
Company Insights

❖ **Operational excellence & sound management team are the cornerstone of ComfortDelgro**

Comforting Strengths

Recession Resilient Model with Operational Excellence

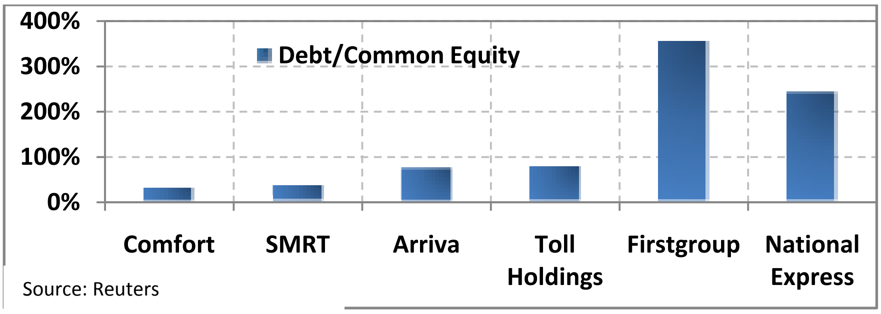
Despite the sluggish global economy and governmental regulations that are detrimental to transportation corporations in general, ComfortDelgro's strategic mix of taxis, railway and busing service operations enables it to deliver consistent operating cash flows even during an economic downturn. In addition, CD's management team comprises of highly experienced and dedicated individuals that understands the requirements of managing an international land transport company. The capability of the management is well reflected in its operational excellence in acquiring as well as running overseas operations such as in Shenyang and in Sydney.



Source: Company Data

Strength of Acquisition Curtailed by Global Credit Deterioration

ComfortDelgro's robust balance sheet with its steady operating cash flows coupled with a low gearing ratio and strong share price; has fundamentally empowered the company with the capability to make strategic overseas acquisitions. Looking at the chart below, we see that CD's low debt to common equity ratio has given CD the advantage over its highly geared peers such as FirstGroup and National Express to undertake strategic acquisitions.



Source: Reuters

❖ **Dilemma between dividend payout and acquisition dollar**

However, with the ongoing turmoil in the credit markets and the drying of market liquidity, even the best credit-rated borrowers would have to pay a premium of LIBOR + 400bps, hence CD's future acquisitions is likely to be majority equity funded. Moreover, CD has been giving out high dividend yields of 6% for the past few years of operations. Thus with acquisitions intent vying for the same dollar that is normally reserved for dividends payout, it is evident that the latter will prevail in fear of adverse stock price reaction over a cut in dividend payout.

Company Analysis

Falling Oil Prices a Bane or a Boon?

Net profit improvements on lower fuel costs undermined by untimely hedging strategies

We forecast CD's net profit next year will improve by 15.8% yoy to S$234.18m, benefitting heavily from a slide in oil prices in FY09. Fuel accounted for approximately 16% of CD's operating costs in 3Q08 and the company has borne the brunt of high fuel costs, which averaged US$106/bbl ytd, as it did not hedge any of its fuel requirements until end August, when the retreat in oil prices was already well underway.

- **CD's average hedged fuel cost for 4Q08 and FY09 is higher than current spot prices of US$43/bbl**

The company is relatively sensitive to fuel prices, with every 5% increase in oil prices trimming 3% off net profit. Since end-August, CD has hedged 80-90% of its fuel requirement for 4Q08, and about 36% so far for FY09. CD however did not manage to timely hedge its fuel requirements as the retreat in oil prices were well underway by the time the hedging strategies were put into place. We believe that the average hedged fuel cost for 4Q08 and FY09 is much higher than the current spot of US$43/bbl and CD will potentially suffer derivative losses in this low oil price environment.

- **Potential downside from derivative losses and mark-to-market movements may deplete CD's cash reserves**

Going forward we believe that as average oil prices pick up, these hedging strategies are necessary to ensure greater stability in operating costs, however the potential downside from derivative losses coupled with volatile mark-to-market movements may deplete CD's existing cash reserves.

Second Cycle: Out of Control

- **The 1st cycle, 2003-2007, is characterized by going global, while the 2nd cycle, 2008-2012, is characterized by the aim of achieving 70% of revenue from overseas**

While management sets ambitious goals to grow CD through China and Australia, we feel that this second cycle overseas expansion is beyond reach due to the problems faced in both countries.

The Kefford deal: A market over-reaction

CD's acquisition of the Kefford Group, the fourth largest bus operator in Victoria, Australia is a strategic move that would add $5mil to CD's FY09 bottom line. However, the recent 23% price rally after the announcement suggests that CD is currently trading in the overbought region due to irrational buying. We feel that the market has yet to price in a greater threat to CD's bottom line; continual depreciation of the Australian dollar due to aggressive interest rate cuts by the government.

- **Rally of CD's share price due to irrational market exuberance**

We expect that the Aussie would experience a further 10% downside for FY09 as the government has indicated their preference in using aggressive interest rate cuts to revive the struggling economy. This would reflect a $26mil plunge in revenue from Australia.

Source: Bloomberg

- **Only 25% of the New South Wales bus market is privatized**
- **Consolidation of bus contractual regions does not benefit CD**
- **Bus industry's strong organic growth capped by numerous players in the market**

Key Sydney operating business stifled by Government

Land-rich Australia sees a high level of car ownership and thus we see that public transport currently accounts for 73% of commuter trips within Sydney CBD as compared to 22% in the suburbs. The highly regulated New South Wales bus market sees only 25% of the routes being privatized, with ComfortDelgro owning a 25% market share.

Although the government has already consolidated the 85 contract regions to 15 during the Unsworth bus reform in 2005, with plans to further consolidate to eight by 2012, most of it would benefit ComfortDelgro's competitor, Sydney Bus, Sydney's state-owned company. ComfortDelgro stands to gain little opportunities for organic growth from the consolidation.

The industry consolidation could present opportunities for ComfortDelgro to acquire smaller operators or the government could further de-regulate but we believe that this is too presumptuous a path for ComfortDelgro to take.

All Hopes in China: A challenging path ahead

While China's growing population, strong tourism industry and bold plans for infrastructure will certainly benefit the land transport industry; the many opportunities ahead for CD could be impeded by the local governments' protectionist measures.

<u>China Bus</u>

With revenues dependent on fares and ridership, CD has made good efforts to differentiate its services from the strong competitors faced in China. Innovations like fleet management and installing air-conditioners have provided strong organic growth for CD's bus business in China. However, the ability for further expansion is constrained by the low barriers to entry.

Being an asset-intensive business, it is more likely for CD to grow through acquisitions, which is difficult for CD. Its last bus acquisition made in China was in early 2007.

❖ **Constrained supply of taxi licenses posed as a ceiling to CD's growth potential**

China Taxi

With the local authorities withholding new license issues, this means that for CD to grow its taxi business, it will need to acquire more licenses from individual owners or other taxi operators. CD is in a favourable position with the Chinese local governments as evident by the granting of licenses in Nanning and Chengdu.

China taxi business

City	Subsidiary/ Associate	2005	2006	2007
Shenyang	Shenyang ComfortDelgro Taxi	1,291	1,291	1,291
Beijing	Beijing Jin Jian Taxi -55%	5,029	5,029	5,029
Chengdu	Chengdu ComfortDelgro Taxi Co	120	200	250
Shanghai	Shanghai City Qi Ai Taxi -51%	462	462	482
Suzhou	Suzhou Comfort Taxi-70%	50	50	50
Jilin	Jilin ComfortDelgro Taxi Co	330	330	390
Nanning	Naning Comfort Transport-80%	400	480	580
Nanjing	Nanjing ComfortDelgro Taxi			497
Xiamen	Xiamen Comfort Taxi	49	49	49
Yantai	Yantai ComfortDelgro Taxi Co	20	20	20
Hengyang	Hengyang CityCab Bus Svc	28	28	28

Source: Company Data

However, its growth in licenses has been low. In its strongest two taxi industries, Beijing and Shenyang, CD has not increased its number of licenses for the past 3 years. Given that CD is unable to grow by volume, it can only improve profits by lowering its bottom line or increasing its rental rates. As such, strong organic growth is unsustainable.

❖ **CD acquisition track record has not been fantastic.**

CD Inorganic Growth: A dangerous bet

The Kefford acquisition is good news for CD but its track record for acquisitions has not been fantastic. Its acquisition averages merely at one per year for each region – UK, China and Australia, and most of them are small investments below S$20m. Even though, the looming economic crisis could present opportunities for CD to acquire failing businesses, there is still a threat of acquisitions turning sour, as evident by the October 2006 venture with Yatai Anxun.

❖ **The strategy to grow rapidly overseas is impeded by government regulations and current heavy reliance on Singapore and UK markets.**

The Second Cycle Strategy: Too Little, Too Late

Since the Singapore and UK market constitutes up to 80% of CD's turnover and profit, the threats that both markets pose to CD is likely to threaten CD's organic growth. Projecting optimistic exponential growth for its other markets, like Australia and China, would not be enough to offset the downside risks in the mature markets, since they constitute less than 20% of CD's earnings. The second cycle strategy yields too little earnings with profitability coming in only years later.

Valuations

The Pro Forma was constructed through thorough analyses of historical financial ratios as well as incorporating forward looking information to obtain the most accurate outlook for ComfortDelgro. The four key inputs for the DCF model to FCFE are: 1) Singapore revenue projection 2) UK revenue projection 3) Australia revenue projection 4) China revenue projection.

Singapore Revenue Projection

Taking the opening of Integrated Resorts, structural changes to bus routes by LTA, future fare hikes and increasing revenue growth of NEL into consideration, we project revenue growth to be at 3.8% and 4.0% for each of the two years. Fuel hedging would eliminate volatility of earnings after fuel costs remain contained within acceptable range.

UK Revenue Projection

Tighter policies of offering bus route contracts by the transport authorities and a further 10% depreciation in GBP would impact UK's revenue growth. We project negative growth of 2% for FY09 followed by subsequent recovery of 3% for FY10 to FY12.

Australia Revenue Projection

Accounting for the additional revenue brought forth by the Kefford acquisition, pricing in 10% depreciation in AUD for FY09 using a cost plus basis of revenue model, we project revenue growth to be sustained at an average of 9% from FY11 to FY12.

China Revenue Projection

Strengthening of the Yuan, coupled with growth in bus and taxi businesses will result in a robust revenue growth of 15% year on year.

Discounted Cash Flow Valuation (FCF to Equity)

Using the DCF valuation model, we assume a terminal growth of 3% with a WACC of 8.98% (beta 0.68). We obtained a one year price target of $1.32 which represents a 12.6% downside from current price. We also adopted a PE valuation model which indicated a target price of $1.26, in line with our expectations.

Key Risks

The key risks are: (1) Winning the local Downtown Line: The win would be positive for CD as operating margins for rail are at 30%, vs 8% for buses, and are awarded on a 10-15 year basis. (2) Delayed execution by LTA: The delay of the execution of LTA's 2008 Land Transport plans could result in CD retaining its bus routes share. (3) Value accretion from overseas acquisitions: As seen by the recent rally, any announcement by CD that a new group has been acquired, regardless of its profitability, will cause an increase in share price. Furthermore, the acquisition or merger of large key players, especially in Australia and China, will result in strategic growth of CD's operations.

Appendix

A. Revenue Projection

	FY2006A	FY2007A	FY2008A	FY2009E	FY2010E	FY2011E	FY2012E
Sales Revenue Breakdown							
Singapore:							
SBS Bus Daily Ridership (mil)	2.1	2.2	2.30	2.39	2.46	2.53	2.58
Ave Fare per Passenger per Trip	0.72	0.75	0.75	0.74	0.73	0.73	0.74
SBS Bus Revenue (mil)	**546.80**	**590.00**	**633.00**	**641.86**	**654.51**	**670.87**	**691.13**
Total Taxi Fleet	14800	15000	16359	16768	17103	17274	17447
Daily Revenue Per Taxi	95	102	103	105	108	110	110
Annual Taxi Revenue (mil)	**513.19**	**557.00**	**615.00**	**643.37**	**676.13**	**696.28**	**703.24**
NEL Daily Ridership (mil)	0.27	0.31	0.34	0.38	0.41	0.43	0.46
Ave Fare Per Passenger per Trip	0.78	0.81	0.82	0.80	0.79	0.79	0.80
Annual NEL Revenue (mil)	**76.60**	**90.50**	**101.50**	**110.84**	**118.51**	**125.62**	**133.22**
Other Revenue (mil)	402.71	367.30	439.10	443.49	447.93	452.41	456.93
Total Singapore Revenue	**1539.3**	**1604.8**	**1788.60**	**1839.56**	**1897.07**	**1945.17**	**1984.52**
Singapore Operating Profit	**184.90**	**193.20**	**146.37**	**143.49**	**147.97**	**151.72**	**156.78**
United Kingdom:							
Total Bus Routes	93	95	95	96	97	98	100
Contracted Fee per Route	7	7.5	6.6	5.94	5.64	5.64	5.70
Metroline Revenue (mil)	**650.4**	**723.1**	**627.0**	**569.9**	**546.9**	**552.3**	**569.0**
Total Taxi Fleet	3500	3500	3500	3395	3327	3327	3327
Taxi Revenue (mil)	238.6	258.2	225.4	202.86	198.80	198.80	198.80
Total UK Revenue (mil)	**889.00**	**981.30**	**852.40**	**772.80**	**745.66**	**751.13**	**767.81**
UK Operating Profit (mil)	**60.40**	**75.10**	**43.67**	**42.50**	**37.28**	**33.50**	**34.55**
China:							
Total Taxi Fleet	7800	8500	9100	9464	9937	10434	11060
Average Taxi Revenue	11200	12500	12870	13385	14054	14757	15495
Total Bus Fleet	2400	2600	2900	3103	3320	3586	3873
Annual Revenue Per Vehicle	18500	18700	18900	19089	19280	19665	20059
Other Revenue (mil)	56	62	69	69	69	70	70
Total China Revenue (mil)	**187.9**	**216.47**	**240.927**	**254.9088**	**272.6707**	**294.49246**	**319.0579**
China Operating Profit (mil)	**42.40**	**40.90**	**52.60**	**50.98**	**53.17**	**57.43**	**60.62**
Australia:							
Total Bus Routes	123	129	136	160	167	175	186
Annual Fare per Route	1.07	1.38	1.49	1.42	1.43	1.46	1.49
Total Australia Revenue (mil)	**131.6**	**177.9**	**203.1**	**227.68**	**239.15**	**256.13**	**276.93**
Australia Operating Profit (mil)	**17.45**	**25.40**	**35.20**	**32.56**	**33.48**	**35.86**	**38.22**
Other Countries Revenue (mil)	14.00	13.00	12.30	11.7	11.5	11.5	11.5
Other Countries Operating Profit	0.25	0.20	0.16	**0.18**	**0.17**	**0.17**	**0.17**
Total Revenue	**2761.80**	**2993.47**	**3097.33**	**3106.64**	**3166.00**	**3258.38**	**3359.77**
Total Operating Profit	**305.40**	**334.80**	**289.10**	**269.70**	**272.08**	**278.68**	**290.34**

Breakdown of Revenue Projection:

FY2007A	FY2008A	FY2009E	FY2010E	FY2011E	FY2012E
4.76%	4.55%	4.00%	3.00%	2.50%	2.00%
4.17%	0.54%	-2.50%	-1.00%	0.00%	1.00%
1.35%	9.06%	2.50%	2.00%	1.00%	1.00%
7.09%	1.24%	2.06%	3.03%	1.96%	0.00%
17.00%	15.20%	12.00%	8.00%	6.00%	5.00%
3.85%	1.23%	-2.50%	-1.00%	0.00%	1.00%
2.15%	0.00%	1.00%	1.00%	1.00%	2.00%
7.14%	-12.00%	-10.00%	-5.00%	0.00%	1.00%
0.00%	0.00%	-3.00%	-2.00%	0.00%	0.00%
8.21%	-12.70%	-10.00%	-2.00%	0.00%	0.00%
8.97%	7.06%	4.00%	5.00%	5.00%	6.00%
11.61%	2.96%	3.00%	3.00%	3.00%	4.00%
8.33%	11.54%	7.00%	7.00%	8.00%	8.00%
1.08%	1.07%	1.00%	1.00%	2.00%	2.00%
4.88%	5.43%	18.00%	4.00%	5.00%	6.00%
28.89%	8.29%	-5.00%	1.00%	2.00%	2.00%
-7.14%	-5.38%	-5.00%	-2.00%	0.00%	0.00%
1.5%	1.3%	1.50%	1.50%	1.50%	1.50%

- Launch of circle line in FY2010
- Bus ridership increase 5% as more passengers rely on public transport during recession
- Changes in fee structure
- Changes in bus planning system from long haul to feeder

- Idle rates at 3% throughout
- Shift from Toyota Crown ($95) to Hyundai hybrid ($104) and limos
- Competitors vying for taxi drivers

- Strong growth momentum projected for NEL → 10% growth
- PTC rebates for commuters
- 1% growth for support divisions
- 40% Fuel costs hedged for FY2009

- Harder to secure further bus routes contract due to increasing regulation
- Pound expected to depreciate by 10% by FY09, management pessimistic about outlook
- Cost plus basis eroding positive translation effects on operating expenses

- Taxi fleet expected to remain constant due to sluggish UK economy
- Management projects declining corporate contracts
- Impact of depreciating cable on the taxi revenue

- China to clamp down on illegal taxi drivers → more licenses expected to be awarded to Comfort
- Top line growth projected at 8% partly due to appreciating CNY

- Kefford acquisition to add additional 4% to earnings BUT
- Aussie expected to further weaken
- Cost plus basis structure

- Management project decline in Malaysia
- Vietnam and others countries to maintain earnings

B. Income Statement

Income Statement Pro Forma

	FY2006A	FY2007A	FY2008A	FY2009E	FY2010E	FY2011E	FY2012E
Sales Revenue Breakdown:							
Revenue	2761.80	2980.80	3097.30	3106.64	3166.00	3258.38	3359.77
Other Revenue	31.30	35.80	28.30	29.72	31.20	32.76	34.40
Total Revenue	**2793.10**	**3016.60**	**3125.60**	**3136.35**	**3197.20**	**3291.14**	**3394.16**
Staff Costs	862.90	950.70	945.40	947.52	965.63	1010.10	1075.12
Energy & Fuel costs	196.00	216.90	285.40	242.32	243.78	254.15	268.78
Depreciation & Amortization	249.50	269.10	263.70	263.45	268.56	276.46	285.11
Material & Consumables	265.80	247.20	329.40	313.64	319.72	329.11	339.42
Taxi Driver Benefits	80.60	66.60	77.70	85.47	89.74	71.79	68.21
Road and Diesel Taxes	115.30	115.50	115.50	115.50	115.50	115.50	115.50
Insurance & Accident Claims	77.10	96.10	105.70	119.18	121.49	128.35	132.37
Repair and Maintenance	159.30	179.70	172.10	194.45	198.23	204.05	210.44
Other Operating Expenses	481.20	540.00	552.70	585.11	602.46	622.94	608.88
Total Operating Expenses	2487.70	2681.80	2847.60	2866.65	2925.12	3012.46	3103.83
EBIT	**305.40**	**334.80**	**278.00**	**269.70**	**272.08**	**278.68**	**290.34**
Interest Income	35.60	22.80	23.20	26.67	30.90	34.53	39.88
Interest Expense	22.30	23.10	27.40	27.57	27.10	27.03	25.56
Exceptional Item	42.10	0.00	26.50	0.00	0.00	0.00	0.00
EBT	**360.80**	**334.50**	**300.30**	**268.81**	**275.88**	**286.18**	**304.65**
Taxation	71.00	61.20	51.10	45.70	46.90	48.65	51.79
Minority Interest	45.20	50.30	49.10	44.62	45.80	47.51	50.57
Net income	**244.60**	**223.00**	**200.10**	**178.49**	**183.18**	**190.02**	**202.29**
Shares Outstanding (mil)	2072.30	2085.64	2085.64	2085.64	2085.64	2085.64	2085.64
Earnings Per Share ($)	**0.118**	**0.107**	**0.096**	**0.086**	**0.088**	**0.091**	**0.097**

	FY2006A	FY2007A	FY2008A	FY2009E	FY2010E	FY2011E	FY2012E
Staff/Revenue	31.24%	31.89%	30.52%	30.50%	30.50%	31.00%	32.00%
Fuel/Revenue	7.10%	7.28%	9.21%	7.80%	7.70%	7.80%	8.00%
DA Growth	8.93%	8.92%	8.44%	8.40%	8.40%	8.40%	8.40%
Mat/Revenue	9.52%	8.19%	10.54%	10.00%	10.00%	10.00%	10.00%
Benefits Growth		-17.37%	16.67%	10.00%	5.00%	-20.00%	-5.00%
Constant							
Claims/Revenue	2.76%	3.44%	3.78%	3.80%	3.80%	3.90%	3.90%
Repair/Revenue	5.70%	6.43%	6.16%	6.20%	6.20%	6.20%	6.20%
	Vehicle leasing costs, premise cost, payment for contracted services						
Income/Cash	14.98%	7.16%	5.68%	5.80%	5.80%	5.80%	5.80%
Cost of Debt	5.51%	4.87%	6.65%	6.50%	6.20%	6.00%	5.50%
Tax Rate:			18%	17%	17%	17%	17%
Minority Interest	20%						

C. Balance Sheet

Balance Sheet Pro Forma

	FY2006A	FY2007A	FY2008A	FY2009E	FY2010E	FY2011E	FY2012E
Assets							
Current Assets							
Cash & Marketable Securities	237.60	318.30	408.30	459.85	532.71	595.41	687.52
Held For Trading Investments	173.10	94.60	42.00	42.00	42.00	42.00	42.00
Trade & Other Receivables	286.40	300.50	305.50	313.64	319.72	329.11	339.42
Inventories	44.70	50.50	51.80	53.32	54.35	55.95	57.70
Hedging Instruments	0.70	0.10	0.00	5.0	7.0	10.0	13.0
Total Current Assets	**742.50**	**764.00**	**807.60**	**873.80**	**955.78**	**1032.47**	**1139.64**
Non Current Assets							
Vehicles, premises and equipment	1841.10	1966.90	1928.00	2021.49	2155.11	2298.91	2428.23
Long Term investments & Associates	147.10	129.40	158.70	170.00	170.00	170.00	170.00
Long Term Receivables	52.70	125.10	127.20	140.16	132.68	136.58	140.86
Taxi & Other Licences	215.50	235.70	249.10	264.05	279.89	296.68	314.48
Goodwill	84.70	94.90	81.00	85.00	85.00	85.00	85.00
Hedging Instruments	1.00	0.00	0.00	2.00	4.00	6.00	8.00
Total Assets	**3084.60**	**3316.00**	**3351.60**	**3556.50**	**3782.46**	**4025.65**	**4286.21**
Liabilities							
Current Liabilities							
Short Term Debt	201.70	161.90	166.60	166.60	166.60	166.60	166.60
Trade Payables	390.00	440.10	481.30	482.96	492.33	506.79	522.66
Other Current Liabilities	215.00	205.50	179.80	200.00	200.00	200.00	200.00
Total Current Liabilities	**806.70**	**807.50**	**827.70**	**849.56**	**858.93**	**873.39**	**889.26**
Non Current Liabilities							
Long Term Debt (w Finance Lease)	203.30	312.60	245.30	257.57	270.44	283.97	298.16
Hedging Instruments	0.00	0.10	0.00	0.20	0.40	0.80	1.20
Deferred Tax Liabilities	130.30	127.70	121.00	100.00	100.00	100.00	100.00
Other Non Current Liabilities	114.30	169.00	180.90	170.00	180.00	180.00	150.00
Total Non Current Liabilities	**447.90**	**609.40**	**547.20**	**527.77**	**550.84**	**564.77**	**549.36**
Total Liabilties	**1254.60**	**1416.90**	**1374.90**	**1377.32**	**1409.77**	**1438.16**	**1438.62**
Equity attributes to shareholders	1441.30	1482.50	1556.80	1759.18	1952.69	2167.49	2427.59
Minority Interest	388.70	416.60	419.90	420.00	420.00	420.00	420.00
Total Equity	**1830.00**	**1899.10**	**1976.70**	**2179.18**	**2372.69**	**2587.49**	**2847.59**
Total liabilities & equity	**3084.60**	**3316.00**	**3351.60**	**3556.50**	**3782.46**	**4025.65**	**4286.21**

D. Statement of Cash Flow

Statement of Cash Flow	FY2007A	FY2008A	FY2009E	FY2010E	FY2011E	FY2012E
Operating Activities:						
Profit before Tax	$ 334.50	$ 300.30	$ 268.81	$ 275.88	$ 286.18	$ 304.65
Adjustments						
Depreciation& Amortization (+)	$ 269.10	$ 263.70	$ 263.45	$ 268.56	$ 276.46	$ 285.11
Interest Expense (+)	$ 23.10	$ 27.40	$ 27.57	$ 27.10	$ 27.03	$ 25.56
Interest Income (-)	$ (22.80)	$ (23.20)	$ (26.67)	$ (30.90)	$ (34.53)	$ (39.88)
Gain on Exceptional Item	$ -	$ (26.50)	$ -	$ -	$ -	$ -
Provision for impairment on Vehicles	$ 11.30	$ 9.60	$ 10.50	$ 9.80	$ 11.00	$ 10.20
Operating Activities before Change in WC	$ 615.20	$ 551.30	$ 543.66	$ 550.44	$ 566.14	$ 585.65
Adjust for changes in net working capital:						
Trade & Other Receivables	$ (14.10)	$ (5.00)	$ (8.14)	$ (6.09)	$ (9.39)	$ (10.30)
Inventories	$ (5.80)	$ (1.30)	$ (1.52)	$ (1.03)	$ (1.60)	$ (1.75)
Hedging Instruments	$ 0.60	$ 0.10	$ (5.00)	$ (2.00)	$ (3.00)	$ (3.00)
Short Term Debt	$ (39.80)	$ 4.70	$ -	$ -	$ -	$ -
Trade Payables	$ 50.10	$ 41.20	$ 1.66	$ 9.37	$ 14.46	$ 15.86
Held-for-trading investments	$ 107.10	$ 59.90	$ 42.00	$ 20.15	$ 42.00	$ 42.00
Other Current Liabilities	$ (9.50)	$ (25.70)	$ 20.20	$ -	$ -	$ -
Income Tax Paid	$ (61.20)	$ (51.10)	$ (45.70)	$ (46.90)	$ (48.65)	$ (51.79)
Net Cashflow from Operating Activities	**$ 642.60**	**$ 574.10**	**$ 547.16**	**$ 523.94**	**$ 559.96**	**$ 576.67**
Investing Activities						
(+) Proceeds from disposal of PP&E	116.10	86.40	$ 76.58	$ 77.84	$ 85.05	$ 102.55
(-) Purchase of PPE, License & Bus Routes	$ (345.10)	$ (369.40)	$ (331.83)	$ (355.84)	$ (368.55)	$ (395.55)
Net Capex	$ (229.00)	$ (283.00)	$ (255.25)	$ (278.00)	$ (283.50)	$ (293.00)
(+) Proceeds from Available for sale investments		$ 45.30	$ 48.10	$ 38.00	$ 28.00	$ 27.00
(-) Interest received	$ (23)	$ (23)	$ (27)	$ (31)	$ (35)	$ (40)
Dividend Received	$ 8	$ 4	$ 6	$ 5	$ 4	$ 4
Net cash from Investing Activities	**$ (244.3)**	**$ (256.6)**	**$ (227.8)**	**$ (265.9)**	**$ (286.0)**	**$ (301.9)**
Financing Activities						
Incr/(Decr) in Common Equity	$ 39.10	$ 74.30	$ 202.38	$ 193.51	$ 214.80	$ 260.10
Incr/(decr) in Debt	$ 69.50	$ (62.60)	$ 12.26	$ 8.87	$ (36.06)	$ (11.31)
Payment to Minority Interest	$ (27.90)	$ (3.30)	$ (17.14)	$ -	$ -	$ -
Finance Leases	$ (110.00)	$ (90.00)	$ (108.00)	$ (129.60)	$ (155.52)	$ (186.62)
Other Sources of Financing	$ (50.00)	$ (30.00)	$ (160.49)	$ (109.28)	$ (112.40)	$ (118.14)
Ordinary dividend paid	$ (210.90)	$ (107.80)	$ (89.24)	$ (91.59)	$ (95.01)	$ (101.14)
Interest Paid	$ (23.10)	$ (27.40)	$ (27.57)	$ (27.10)	$ (27.03)	$ (25.56)
Cash Flow from Financing Activities	**$ (313.30)**	**$ (246.80)**	**$ (187.80)**	**$ (155.19)**	**$ (211.23)**	**$ (182.68)**
Net Effect of Exchange rate changes in Subsidiari	$ (4.30)	$ 19.30	$ (80.00)	$ (30.00)	$ -	$ -
Net Increase in Cash & Cash Equivalents	**$ 80.70**	**$ 90.00**	**$ 51.55**	**$ 72.86**	**$ 62.70**	**$ 92.11**
Cash at Beginning of Year	**$ 237.60**	**$ 318.30**	**$ 408.30**	**$ 459.85**	**$ 532.71**	**$ 595.41**
Cash at End of Year	**$ 318.30**	**$ 408.30**	**$ 459.85**	**$ 532.71**	**$ 595.41**	**$ 687.52**