

SMRT Corporation



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Agenda



1. Company Background

2. Valuation

3. Risk

Latest Update



- Reposition itself as an engineering company
- No material figures have been quoted
- Our analysis and figures quoted are prior to the announcement

Company Background

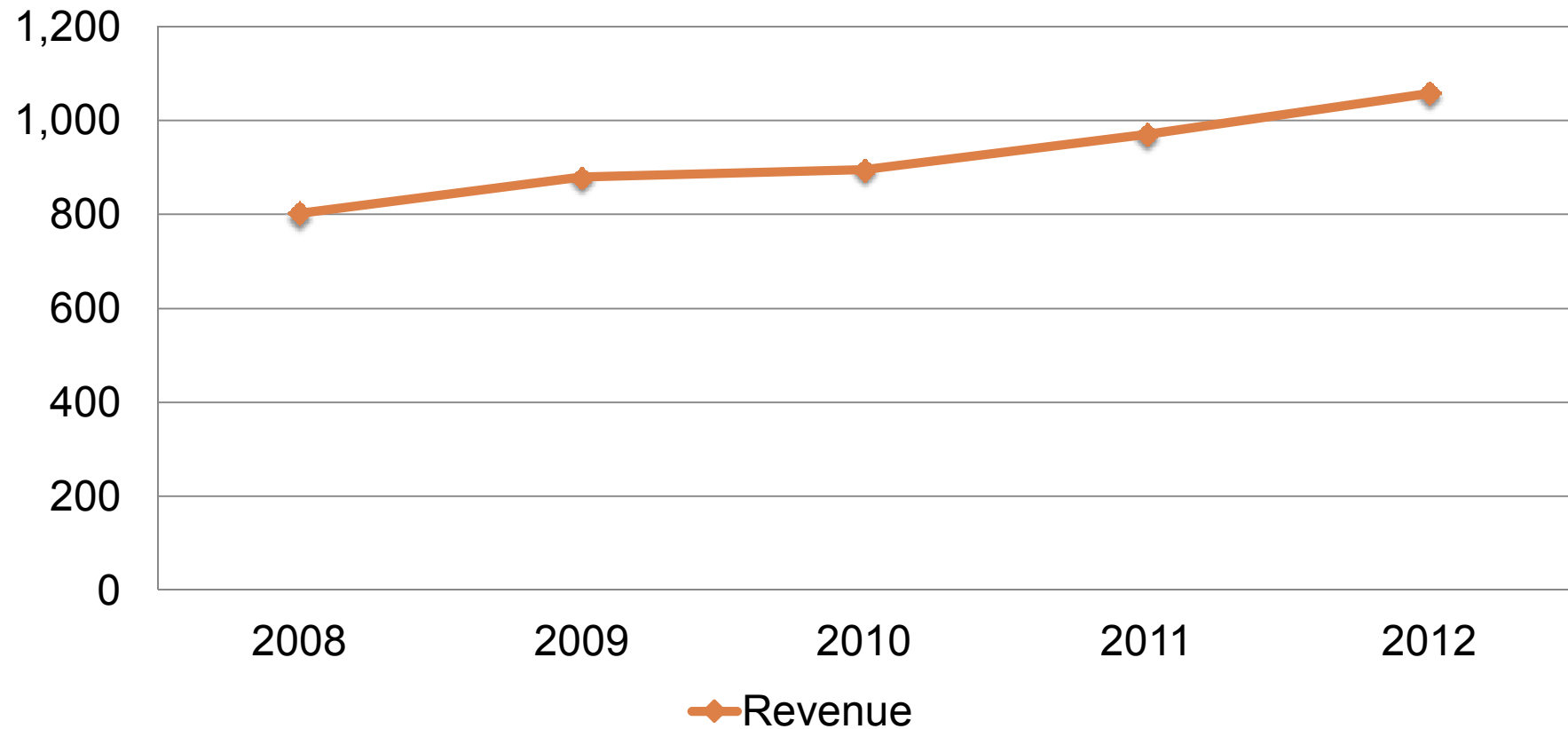


- ✓ **A transport service provider**
 - ✓ Core interests being Railway, Bus and Taxi services.
 - ✓ Marketing and leasing of commercial and advertising spaces
 - ✓ Engineering consultancy and project management services.

Company Background

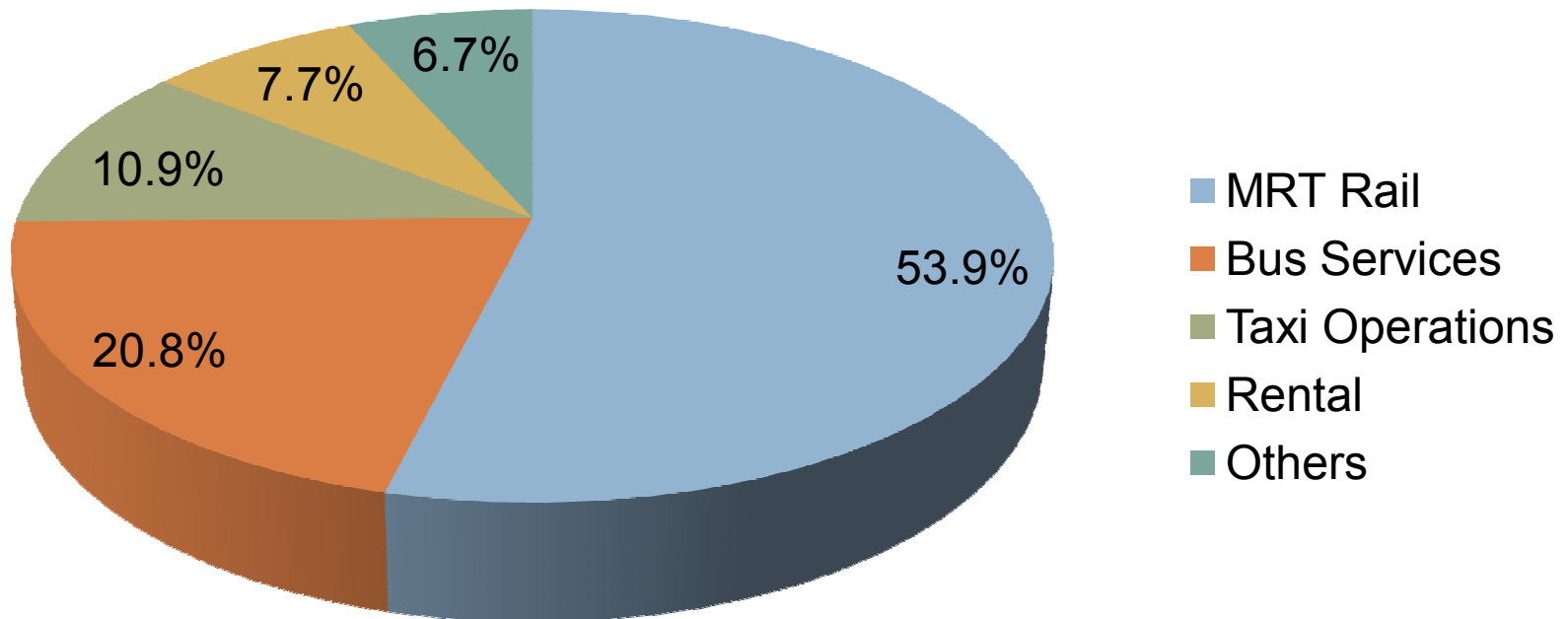
- Constant and stable growth

Revenue



Source: Bloomberg

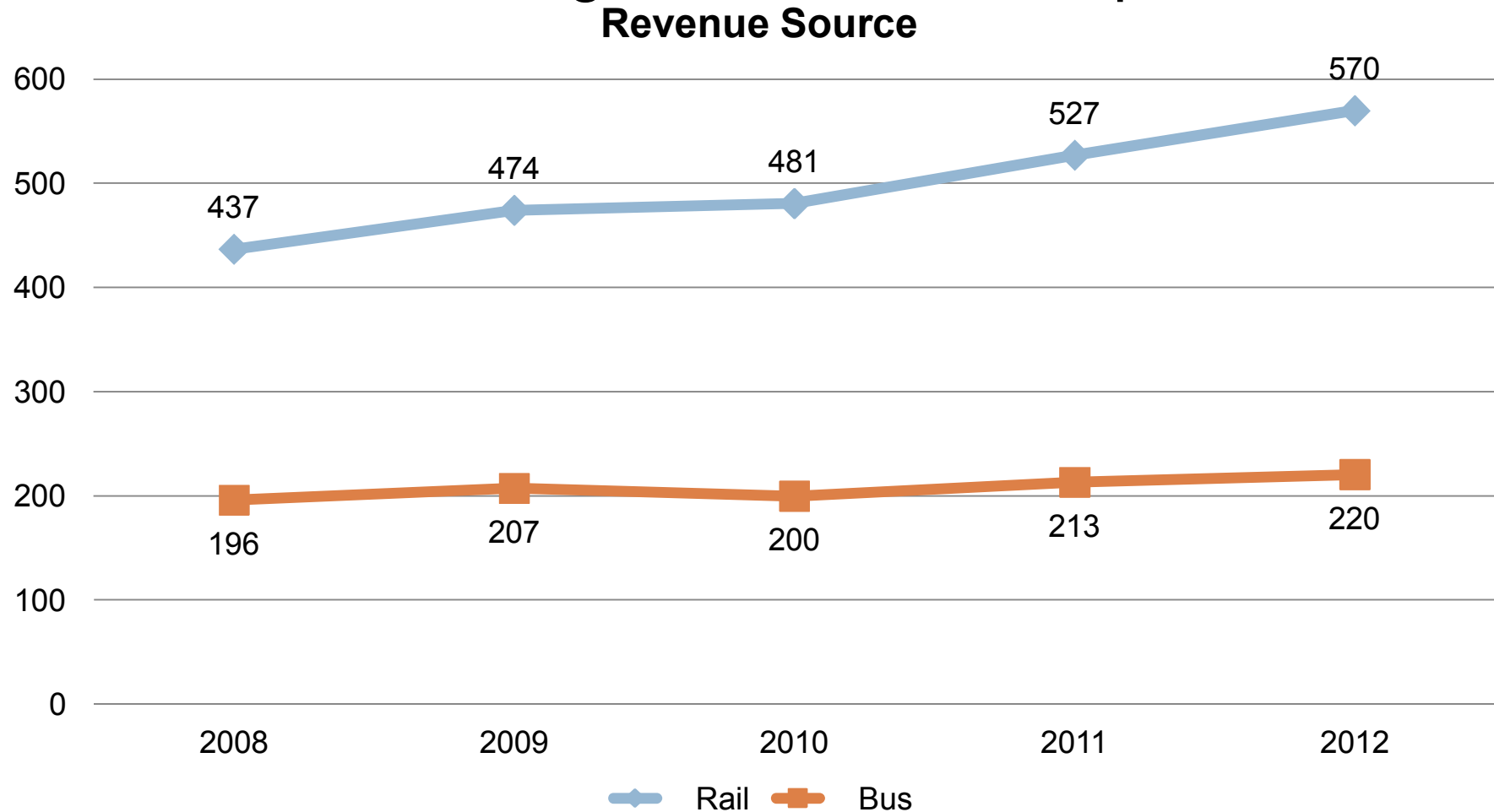
Revenue by Segment



Source: SMRT




Business Drivers

- Stable revenue segments from core operations



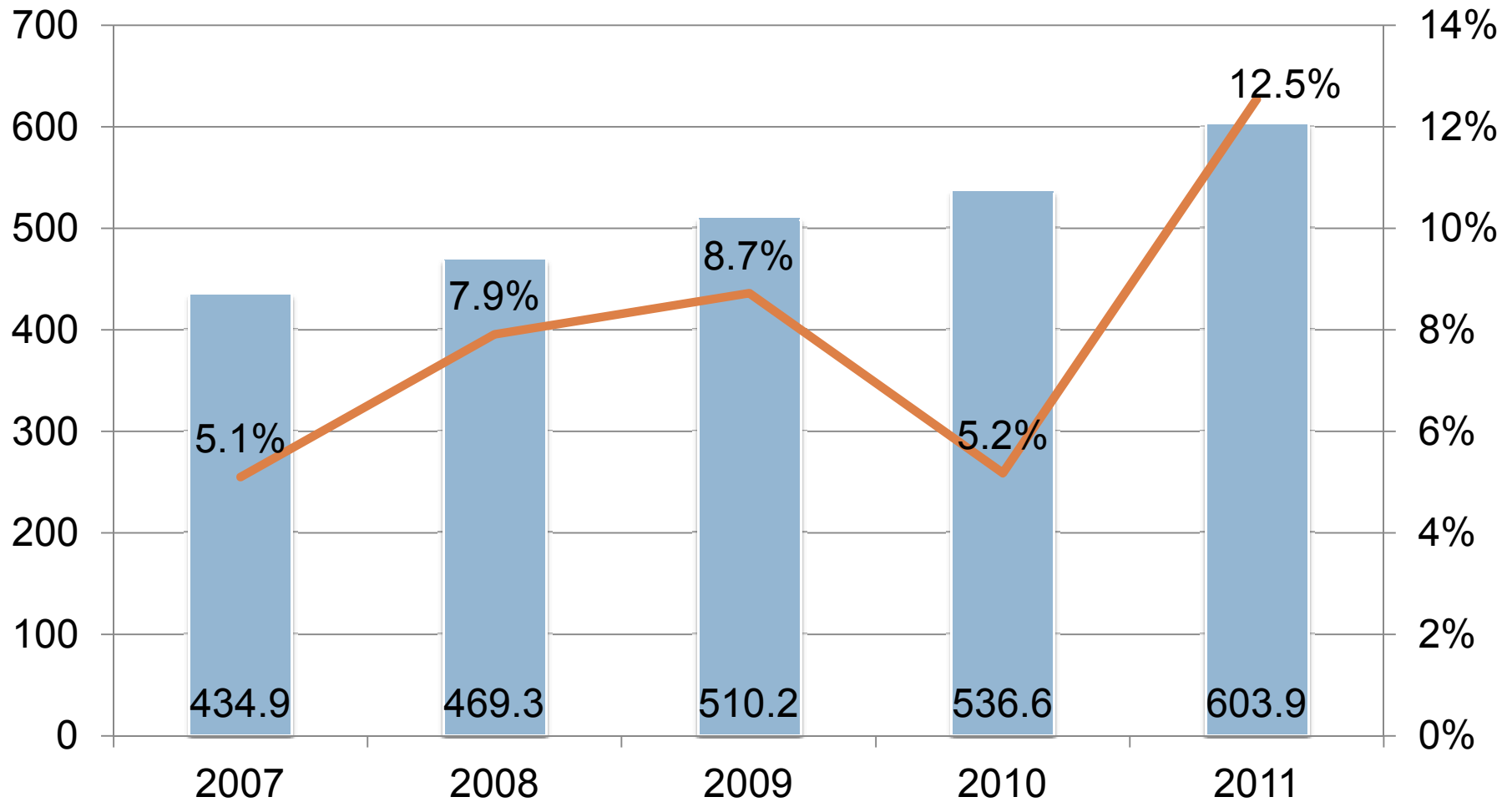
Source: Bloomberg

Business Outlook

<p>Group Revenue</p> 	<ul style="list-style-type: none">✓ Continued increase in MRT ridership✓ Continued increase in Bus ridership✓ Rental and advertising revenue to grow with increased space✓ Advertising revenue expected to rise
<p>Operating Expenses</p> 	<ul style="list-style-type: none">✓ Increases in repair & maintenance, energy and staff expenses and related costs
<p>Operating Profit</p> 	<ul style="list-style-type: none">✓ Bus operations remain tough as increased revenues cannot offset escalating costs✓ More investments required for the Train operations from the acquisition of operating assets and assets renewal. This will have an impact on the Train business going forward.

Source: SMRT

Railway Ridership



Source: SMRT

Revenue Analysis



- FY 2013
 - ▣ No fare revision for 2013 → SMRT cannot pass on increase in operating expenses to consumers

- FY 2014
 - ▣ Projected fare increase of 4.0%
 - Formula: **0.5 x CPI + 0.5 WI – 1.5%**
 - Account for the absence of fare revision in 2013

Revenue Analysis



- Circle Line to contribute to revenue increase.
 - Complete opening in Jan 2012
 - Average weekday ridership of 350,000
- Downtown line impact on bus services due concentration of SMRT bus services in Choa Chu Kang and Woodlands Area

Revenue Analysis (Rental)

- Rental revenue to rise
 - Upcoming projects include
 - Orchard Xchange
 - Jurong East
 - Woodlands
 - Holland Village
 - 20% increase in rental space
 - Expected increase of SGD\$7 million in annual revenue for FY2012



Source: SMRT

Revenue Analysis (Taxi)

- Taxi revenue to rise
- Factors taken into consideration
 - ▣ High COE results in switch to public transport
 - ▣ Larger hired out fleet increase revenue

newslink

COE prices go past \$80,000 mark

CERTIFICATE of entitlement (COE) prices for bigger cars breached the \$80,000 mark in the latest tender yesterday – a level unsurpassed since the mid-1990s.

The other premiums ended mostly **higher** too, reflecting a bullishness that surprised industry players.

The COE premium for cars up to 1,600cc and taxis ended at \$56,501, relatively unchanged from the \$56,551 seen two weeks ago.

The premium for cars above 1,600cc closed 3.4 per cent **higher** at \$82,003. The price of the Open category COE, which can be used to register any type of vehicle but ends up being used mainly for bigger cars, rose by 4.2 per cent to hit \$80,101.

Operating Expenses



- Operating expenses has been relatively constant at 81.5% of revenue
- Additional Factors to consider
 - ▣ Rising energy costs
 - ▣ Increased Maintenance and Repair Expenses
 - ▣ Asset Renewal Scheme

Rising Energy Costs



- Increased revenues insufficient to offset the rising energy costs
- “Operating was due mainly to higher diesel and staff and related expenses, partially offset by higher revenue.”
- “Higher average tariff and higher electricity consumption”

Expenses Changes



- Higher taxi acquisition costs due to rising COE
 - ▣ Falls under Category A (1600cc and below)
 - ▣ \$64 201(Apr 2012) VS \$50 000 (2011) VS \$30 000 (2010)
- Bus Worker pay
 - ▣ Basic pay is \$1200 compared to SBS basic pay \$1600
 - ▣ SBS increasing bus drivers pay by 16%.

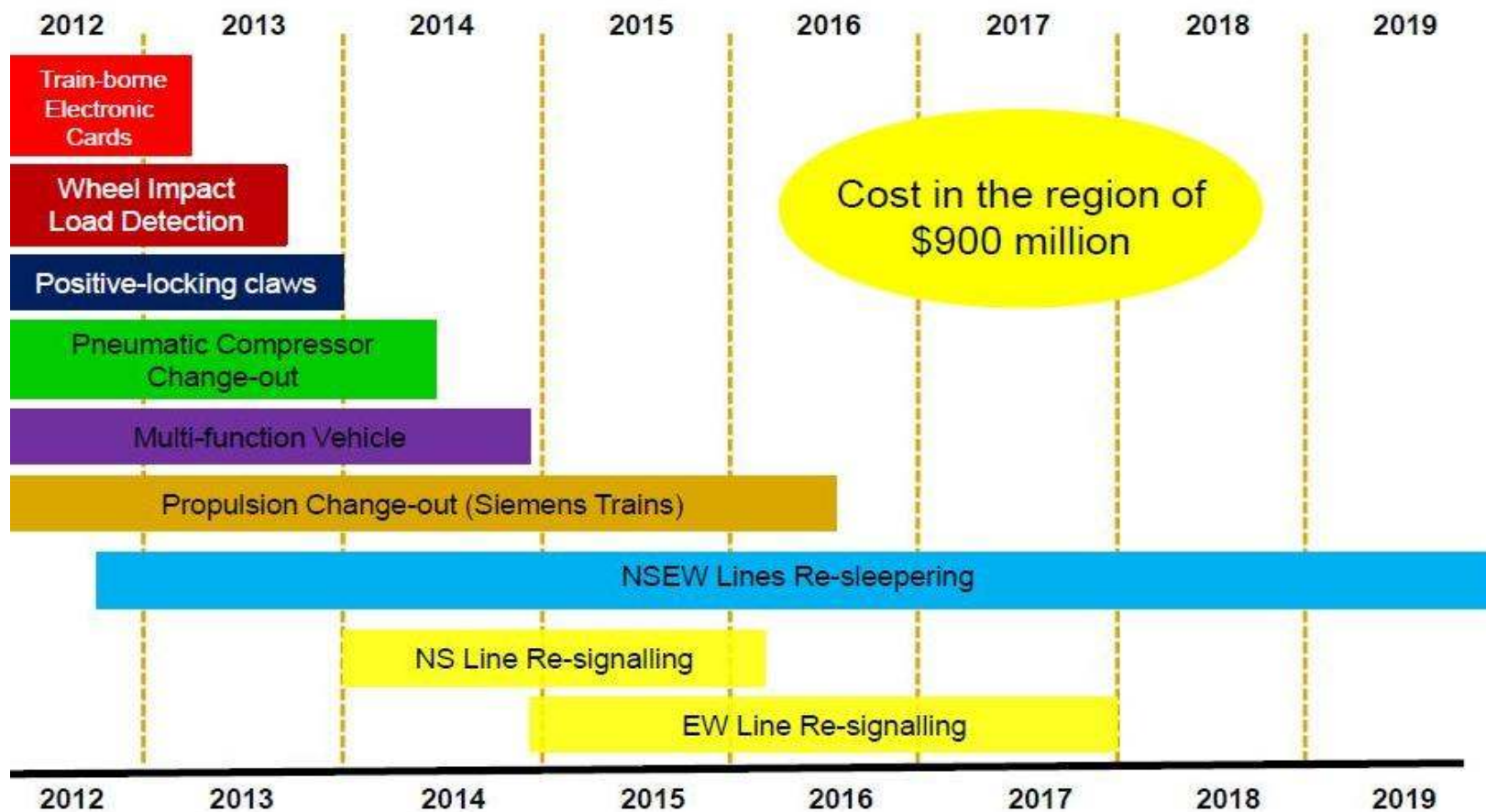
Higher Maintenance and Repair Expenses



- More scheduled and repairs and maintenance as a result frequent stoppages
- Increase in taxi maintenance associated with having a larger taxi fleet

Assets Renewal Plan

Planned additional maintenance, upgrading and renewal for safe and reliable system



Assets Renewal Plan



- According to a *Straits Times* Article, “LTA could end up footing more than half the bill.”
- Given that the S\$900 million CAPEX is expected to be spread over 8 years and shared with LTA, SMRT incremental CAPEX could be S\$60 million p.a.
- Assumption: **SMRT to foot 40%**
- Majority of the expenditure takes place in 2012 to 2015

Profit Projection

	2010	2011	2012	2013F	2014F
Revenue	895.0	969.7	1057.2	1136.3	1195.7
Operating Income	207.2	196.8	148.7	155.1	160.7
Net Income	162.9	161.1	119.9	118.8	123.5
EPS (S cts)	11.0	11.0	8.0	8.0	8.0
DPS (S cts)	8.5	8.5	7.5	7.5	7.5

SMRT Financial Data



- Beta: 0.6 (Bloomberg)
- Risk Free Rate: 1.65% (SGS 10-year bond yield)
- Required Market Return: 10.7% (Bloomberg)
- Required Stock Return = 7.1%
- Adjusted Stock Return = 8.5%

Company Analysis



- Long-Term Growth Rate = 3.0%
- With the projected income,
 - ▣ Using the DDM, Fair Value = **\$1.29**

Trading Data



52 Week Range	\$1.63 - \$1.96
Volume	1.0 milion
Market Capitalisation	\$2.5 billion
Shares Outstanding	1.5 billion
P/E	17.7

Source: Yahoo Finance

Competitor Analysis

	SMRT	SBS Transit	Comfort DelGro	STI
Price	\$1.64	\$1.54	\$1.48	-
P/E	21.0	16.0	12.9	9.9

Source: Bloomberg

Fair P/E Ratio = 15.0

Using P/E Method,
Fair Value = \$1.20

The P/E ratio of SMRT is the highest compared to the previous 5 years

Financial Risk



- Liquidity Risk – Medium
 - ▣ Current Ratio: 0.5 v 0.3 (SBS)
 - ▣ Quick Ratio: 0.4 v 0.1 (SBS)
 - ▣ Cash Ratio: 0.3 v 0.02(SBS)
 - ▣ Cash Position: \$182.2mil v \$5.5mil (SBS)
- Solvency Risk - Low
 - ▣ Debt to Assets: 0.1 v 0.2 (SBS)
 - ▣ Interest Coverage: 28.8 v 25.6 (SBS)
- AAA rating by S&P

Business Risk



- Volatility of Oil Prices due to tension between oil producers and the US
- Public opinion that transportation is a public good will restrain the ability of SMRT to pass on increase in operating expenses to consumers
- Further public outcry might lead to unexpected financial penalties or stringent standards
- Renewal scheme details not finalised

Conclusion

Fair Value By DDM	1.29
Fair Value by Peer Comparison	1.20
Current Share Price	1.64

- Revenue growth unable to offset increase in operating expenses → Decreased profits