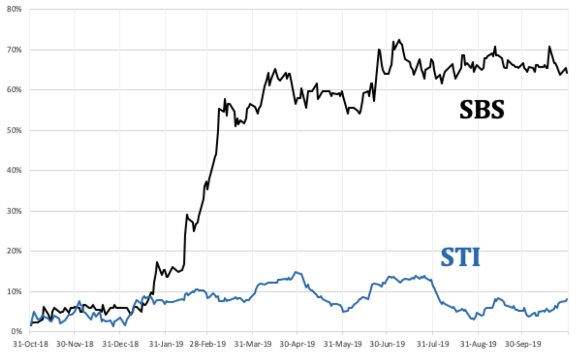
Analysts

Ian Han - Lead Analyst
Ian.Han@u.nus.edu
Keith Gan
e0406116@u.nus.edu
Seng Yong Hwa
yonghwa.s@u.nus.edu

Basic Information

Last Closed Price	S$4.05
12M Target Price	S$5.09
+/- Potential	+25.0%
Bloomberg Ticker	SBUS:SPP
GICS Sector	Industrials
GICS Sub-Industry	Transportation

1Y Price v Relative Index



Company Description

SBS Transit Ltd is a public transport operator company in Singapore. The company operates 222 bus routes and 78 train stations, with a total bus fleet of 3,471 and a total train fleet of 192 as of FY18.

Key Financials

Market Cap	1.263B
Basic Shares O/S	311,448,000
Free Float	25.46%
52-Wk High-Low	SGD$2.61 to SGD$4.72
Fiscal Year End	31-Dec-2018

(S$ M)	FY18A	FY19E	FY20E	FY21E
Revenue	1,383	1,425	1,490	1,530
Gr Rate (%)	16.1	3.0	4.6	2.7
Net Income	80	86	94	99
Margin (%)	5.8	6.1	6.4	6.5
ROE	16.1	16.0	16.1	15.6
ROA	7.5	7.9	8.4	8.6
ROIC	14.4	14.8	15.5	15.6
Gearing	15.0	9.2	4.2	0.0

Key Executives

Mr. Yang Ban Seng (Joined in 1989)	Chief Executive Officer
Ms Chew Kum Ee (Joined in 2017)	Chief Financial Officer

We are initiating coverage of SBS Transit Ltd with a BUY rating and a 12M price target of $5.09.

Q219 Earnings Highlights

- Revenue increased by 3.95% year-over-year in Q219, primarily attributed to a growth in public transport services revenue from $330.0m to $342.9m
- Other commercial services segment also displayed slight growth in operating revenue, increasing to $15.6m from $14.8m in Q218, representing a 5.35% growth
- In line with the growth in operating revenue, the Group's net profit increased to $24.1m in Q219 from $19.4m a year ago, an increase of 24.5%
- Double-digit growth in interim dividend declared of 23.3%, from 5.80 cents to 7.15 cents

Investment Thesis

- SBS Transit is best positioned to win BCM contracts going forward owing to operational excellence. Existing contracts provide high revenue visibility. BCM provides some downside protection from inflation, wages, and fuel costs
- Ridership expected to grow with strategic position of rail lines along key development areas in Singapore. Current ridership is sticky due to necessity of using public transport
- Increased footfall accompanying ridership in MRT stations should translate into greater rent pricing power in Other Commercial Services segment

Catalysts

- Positive earnings results for 2H19 should boost dividends payable and increase dividend yield to attract potential investors. Dividend payout ratio stands at 50% offering more room for increases
- Increase in average daily ridership of the bus and rail lines to drive revenue growth and possible breakeven of the DTL
- Government grant given to public transport operators to offset the high operating costs of rail lines and improve profitability
- Successful tender for competitor's expiring bus packages to increase bus service revenue and improve profits
- Labour market slowdown could drive ridership growth as consumers start to trade down

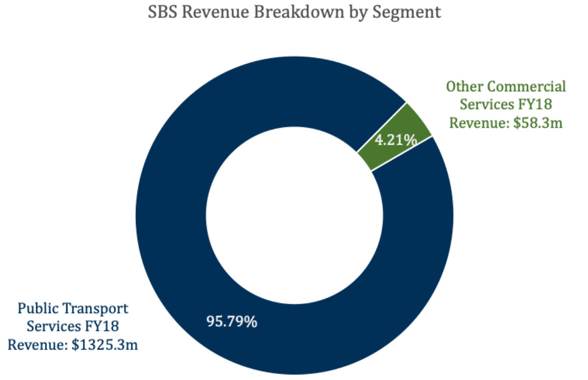
Valuations

- Our 12M target price from date of coverage is **$5.09.** The primary valuation method was derived from a Discounted Cash Flow EV/EBITDA Exit Multiple approach and the secondary valuation was obtained using a Dividend Discount Model. Blending both valuations methodologies gives us an upside of 25%

Investment Risks

- **Rises in wages** would negatively affect SBS Transit's operating earnings. Wages take up a large proportion of SBS Transit's operating expenses
- **Maintenance costs** that are unexpected would negatively affect SBS Transit's operating earnings. The DTL is out of its defect liability period
- **Competitor Risk** from new entrants to the bus service market poses a significant threat to SBS Transit in the long run when its current contracts expire

Figure 1: Segmental Breakdown of Revenue



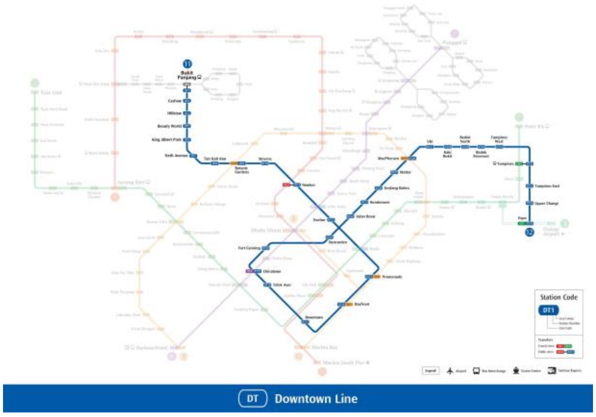
Source: SBS FY18 Annual Report

Figure 2: Contract Expiry Year of Bus Packages under SBS

Bus Package	Contract Expiry Year
Sengkang-Hougang	2021
Bukit Merah	2023
Seletar	2023
Bedok	2023
Jurong West	2024
Tampines	2024
Serangoon-Eunos	2025
Clementi	2025
Bishan-Toa Payoh	2026

Source: SBS FY 18 Annual Report

Figure 3: SBS Transit Operates DTL



Source: Land Transport Authority

Figure 4: Bus Advertising under Other Commercial Services

Source: Moove Media

Figure 5: FY2018 Operational Result Overview

Company Overview

SBS Transit is one of the largest public transport operators in Singapore, operating both bus and rail services. The company's main business segment is in Transport Services, with a separate business segment of Other Commercial Services where revenue is derived from advertising and rental income in buses, bus stops, and train stations. Together, bus service and rail service revenue combine to make up 95.79% of revenue for the company, while Other Commercial Services takes up the other 4.21% of revenue (Figure 1).

Bus Services

In the bus services segment, SBS operates 222 routes throughout Singapore, making it the largest public bus operator with a market share of 61.2%. Competition for bus routes comes from only three other bus operators, which are Go-Ahead Singapore, SMRT Buses Ltd, and Tower Transit Singapore. Of the 14 bus packages available under public bus services contracts, SBS Transit operates nine of these packages, with an average contract period of 5 years. The contract periods that SBS is currently awarded with range from 2 to 7 years, with the earliest contract expiry being the Sengkang-Hougang bus package (2021), and the latest expiry being the Bishan-Toa Payoh bus package (2026) (Figure 2). Under these 9 bus service contracts, SBS Transit partially leases and operates seven bus depots, one bus park, 17 bus interchanges, and 14 bus terminals. Bus service requirements are fulfilled using a fleet of 3,471 buses driven by a total of 6,579 Bus Captains.

<u>Bus Contracting Model</u>

Under the BCM, LTA will determine the bus services to be provided and its service standards, and bus operators will bid for the right to operate these services. They will be paid service fees to operate the services, while fare revenue will be retained by the Government. Additionally, the Government will also own all bus infrastructure such as depots, as well as operating assets such as buses and the fleet management system. This allows bus operators to operate under an asset-light model.

Rail Services

In the rail services segment, SBS operates four Mass Rapid Transport lines, namely the Downtown Line MRT System, North-East MRT System, Punggol LRT System, and Sengkang LRT System. With these rail lines spanning a combined 82 km over 78 train stations, SBS has a market share of 36.3% within the broader rail network in Singapore. Revenue is derived primarily from the fares that commuters pay for rail services, which is regulated by the Public Transport Council based on a Fare Regulation Framework. Additionally, revenue from rail services is affected by ridership on the lines that SBS operates. Total passenger trips in FY2018 was 428 million, with an average daily ridership of 449,588 on the Downtown Line, 591,203 on the North-East Line, and 131,583 on the Sengkang-Punggol LRT Line.

Other Commercial Services

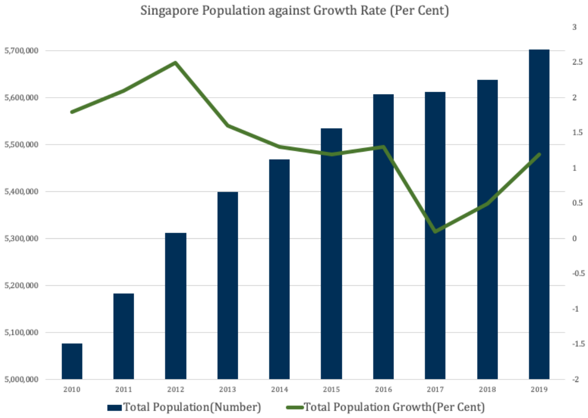
4.21% of SBS's revenue is derived from Other Commercial Services, which include bus advertising, in-train advertising, bus hub advertising, train station advertising, and rental of shop space. SBS controls 8,527 square metres of commercial space at various bus interchanges and train stations and receives rental revenue from the tenants. As of FY18, 93% of the total available commercial space were leased.

2Q19 Earnings Review

- Revenue increased by 3.95% year-over-year in Q219, primarily attributed to a growth in public transport services revenue from $330.0m to $342.9m. Growth in revenue from rail services was underpinned by higher ridership and a higher average fare arising from the fare increase effective 29 December 2018. Bus services revenue increased due to higher fees earned from higher operated mileage

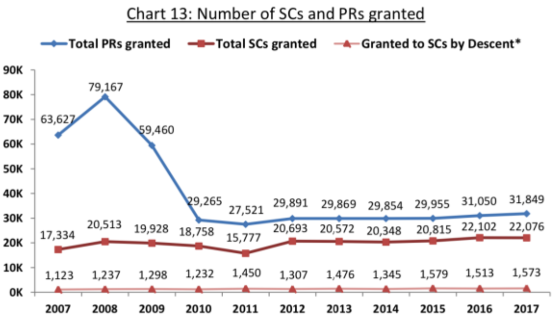
Source: 2019 AGM Presentation

Figure 6: Population steadily increasing; Consistently positive growth rate



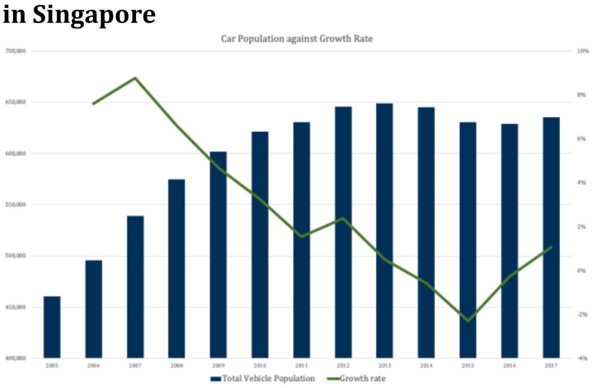
Source: Department of Statistics Singapore

Figure 7: Government grants between 15,000 to 30,000 new SCs and PRs every year



Source: Prime Minister's Office Strategy Group graph

Figure 8: Declining growth of vehicle population in Singapore



Source: Land Transport Authority

Figure 9: Fare Adjustment Formula

- Double-digit growth in interim dividend declared of 23.3%, from 5.80 cents to 7.15 cents. This is in line with management's policy of distributing 50% of earnings to shareholders. Growth in dividends was driven by an increase in EPS by 23.8% in 1H19, compared to a year ago.
- Gearing slightly deteriorated from 113% in FY18 to 119% at the end of Q219. This is primarily due to an increase in lease liabilities of $73.9m, following the Group's adoption of SFRS(I) 16 Leases on 1 January 2019
- Average daily ridership for the DTL grew by 6.9% to 467,000 passenger trips
- Average daily ridership for NEL grew by 1.5% to 588,000 passenger trips
- Average daily ridership for SP-LRT grew by 8.0% to 139,000 passenger trips

Industry Outlook

Population Growth to Continue

Population growth is expected to be consistent with past growth rates. Singapore's total population has been on the rise for the past 10 years with a consistent positive growth rate (Figure 6), according to data from the Department of Statistics Singapore. Official Government population policy as outlined in the 2013 White Paper has been to take in new citizens and permanent residents to counteract a shrinking population caused by declining birth rates. Pursuant to this policy, the Government gives out between 15,000 and 30,000 Singapore Citizenships (SCs) and Permanent Residency status (PRs) every year (Figure 7). With population growth expected to be set consistently positive by the Government, and total population estimated to exceed 6 million by 2030, demand for public transport services is likely to remain robust going forward.

Vehicle Population To Stay Flat

Accompanying the population growth in Singapore is a decline in the number of vehicles on the road, which will drive more people to use public transport as a means of getting around. Vehicle population growth has dropped from a high of 8.77% in 2007 to around -2% to 1% from 2013-2017 (Figure 8). Population CAGR of 1.30% has outstripped vehicle population CAGR of 0.19% from 2010-2019. This is pursuant to the Land Transport Authority's policy of controlling vehicle growth in Singapore through quotas and vehicle taxes. LTA cut the permissible vehicle growth rate from 0.25% to 0% in 2017, and the rate is expected to remain at low levels until the rate is reviewed in 2020, due to land constraints. Narrowing the number of vehicles on the roads would drive the increasing population base to take public transport as an alternative.

Network Effect from Thomson-East Coast Line

The opening of the Thomson-East Coast Line in stages starting from January 2020 will benefit the other rail lines through a network effect by increasing the convenience commuters may enjoy within the rail network. Of particular benefit is the stage 3 opening of the Thomson-East Coast Line, where the opening of interchange stations Stevens and Outram Park will provide a link between the new line and the DTL/NEL that SBS operates. The link to new train stations will increase the reach of existing rail lines within the network, which will drive ridership on the rail network on the whole.

Regulation of Fares for 2018-2022

Public transport fares in Singapore are regulated by the Public Transport Council, who conducts an annual review of fare prices. The Public Transport Council sets fare adjustments based on guidance from a Fare Adjustment Formula. The current Fare Adjustment Formula was announced on 22 March 2018 and is expected to persist through to 2022. The Formula takes into account changes in inflation levels, wage growth, changes in electricity prices, as well as the capacity of the system relative to demand. The Fare Adjustment Formula is expected to help mitigate inflation, wage, as well as fuel and electricity risks for public transport

Fare Adjustment Formula
(Announced in Press Release dated 22 March 2018)

0.5cCPI + 0.4WI + 0.1EI – 0.1% + NCF

2019 maximum allowable fare adjustment quantum = 7.0%

Core Consumer Price Index (cCPI): the change in core Consumer Price Index over preceding year; 1.7% in 2018.

Wage Index (WI): the change in Average Monthly Earnings (Annual National Average) over the preceding year, adjusted to account for any change in the employer's CPF contribution rate; 3.5% in 2018.

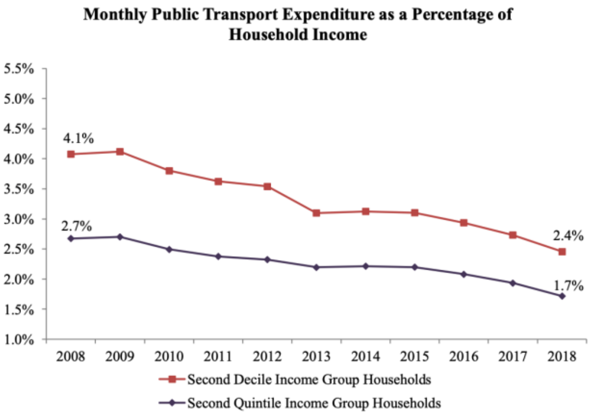
Energy Index (EI): the change in Energy Index which is a composite of cost changes in electricity and diesel; 32.3% in 2018.

0.1%: Productivity Extraction factor set for 2018 to 2022.

Network Capacity Factor (NCF): the change in NCF over preceding year, which means capacity provision relative to passenger demand for the entire public transport system; 1.6% in 2018

Source: Public Transport Council

Figure 10: Public transport becoming increasingly affordable



Source: Public Transport Council

Figure 11: Average Monthly Uniform Singapore Energy Price on the rise

Source: Energy Market Authority

Figure 12: Bus Satisfaction Scores

operators, helping operators to remain sustainable in the long run. In 2019, the maximum allowable fare quantum was set at 7%, primarily due to changes in the Energy Index. There is an incentive on the part of the Government to ensure that public transport operators have sustainable operations in the long run, otherwise it would prove to be more difficult to entice replacement operators to join the market. Transport Minister Khaw Boon Wan said on July 8 2019 that higher fares would be necessary. Before this, fare hikes were not fully implemented. The revised fare adjustment formula is indicative of an acknowledgement that fare hikes are necessary.

Fares Becoming Increasingly Affordable Relative to Income

Increasingly affordable fares provide public transport operators with greater headroom for fare increases to cover any increases in operating costs. Monthly public transport expenditure as a percentage of household income has been on a declining trend for the past 11 years, according to data released by the Public Transport Council (Figure 10). The latest figure for the second quintile income group household is at 1.7%. This could mean that fare adjustments will remain relatively flexible in the long run, so necessary adjustments to ensure the long-term sustainability of public transport operations can be made decisively.

Rising Energy Costs

Rising electricity and diesel prices pose a threat to public transport operators who rely heavily on these energy sources to power the buses and rails that they operate. The Average Monthly Uniform Singapore Energy Price (USEP) bottomed out in 2016 but has since been on the rise due to increasing oil prices and lower supply (Figure 11). The average USEP for the first quarter of 2019 was $113.8/MWh, which is 3.22% higher than the average USEP for 2018. Public transport operator companies will have to manage cost pressures arising from potential increases in energy prices in order to sustain bottom-line growth.

Benign Private Hire Vehicle Environment

Grab has indicated that they will avoid engaging in a price war with Go-Jek, unlike previously with Uber, citing financial viability. We expect the price gap to maintain resultant from a more benign competitive environment for PHV, upholding the switching cost between public transport and PHV.

SWOT Analysis

Strengths

Strong operational track record, with more than 40 years of operations. Market leader with 61% market share in bus services. SBS also has superior customer satisfaction levels compared to the industry average.

Weaknesses

The 3 year old Downtown line is currently still loss making and is a drag on both margins and earnings. Market share in rail services 36%, but is dwarfed by competitor SMRT who has the remaining 64%.

Opportunities

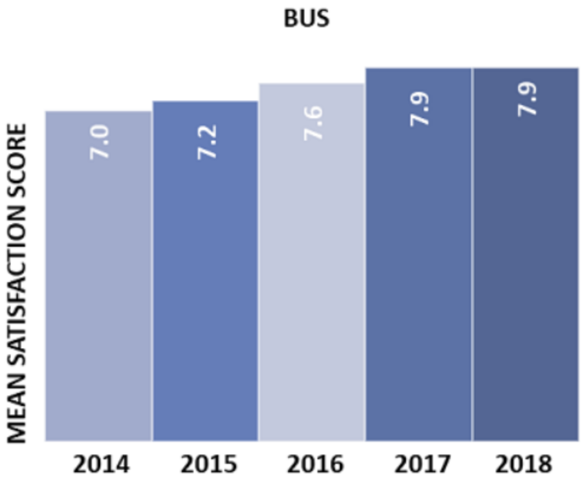
SBS has possible future opportunities to expand by winning additional bus contracts. The government has plans on extending the Downtown line to connect with the North-South line at the proposed Sungei Kadut Interchange station.

Threats

SMRT was recently awarded the tender for the Thomson-East Coast line, indicating the strong competition SBS faces from other public transport operators for rail contracts.. Other experienced overseas bus operators could also compete for bus projects.

Investment Thesis

Best Positioned To Win BCM Contracts Going Forward Due To Strong Operational Track Record



Source: Public Transport Council

Figure 13: Safe Bus Operator of the Year Excellence Award 2018 awarded to SBS Transit

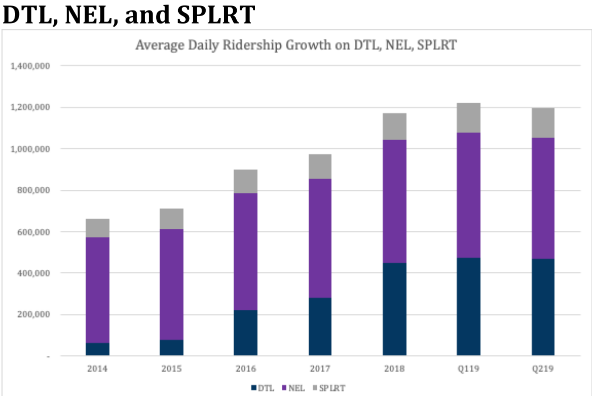
Source: Land Transport Authority

Figure 14: Upcoming T.O.Ps close to DTL, NEL, SPLRT

Upcoming TOPs	Closest MRT/LRT Station	MRT Line	Estimated T.O.P
Bidadari Alkaff Lakeview	Woodleigh	North-East Line	1/12/19
Tampines Greenview	Pasir Ris/Tampines	East-West Line/Downtown Line	1/12/19
Anchorvale Plains	TongKang	Sengkang LRT	1/3/20
Northshore Residences I	Punggol	North-East Line	1/6/20
Northshore Residences II	Punggol	North-East Line	1/6/20
Bidadari Alkaff Courtview	Woodleigh	North-East Line	1/6/20
Hougang RiverCourt	Hougang	North-East Line	1/9/20
Northshore StraitsView	Punggol Point LRT	Punggol LRT	1/9/20
Waterfront I @ Northshore	Samudera	Punggol LRT	1/12/20
Waterfront II @ Northshore	Samudera	Punggol LRT	1/12/20
Matilda Sundeck	Soo Teck LRT	Punggol LRT	1/9/20
Bidadari Alkaff Oasis	Potong Pasir	North-East Line	1/12/20
Tampines GreenBloom	Tampines	East-West Line/Downtown Line	1/9/20
Tampines GreenFlora	Tampines	East-West Line/Downtown Line	1/9/20

Source: BTOHQ

Figure 15: Average Daily Ridership Growth on DTL, NEL, and SPLRT



Source: SBS Transit

Figure 16: MRT Satisfaction Scores

Robust Track Record

In 2018, the number of respondents satisfied with bus services increased to 98.0%, up from 96.7% in 2017. The Public Transport Council's Annual Customer Satisfaction Survey for 2018's overall satisfaction score for bus services remained at 7.9, similar to the previous year but the percentage of respondents satisfied increased to 98.0% from 96.7% in 2017. SBS Transit has been operating for over 40 years in Singapore.

Healthy Cash Flows From BCM Model as LTA Leases Existing Bus Fleet

The implementation of the Bus Contracting Model in 2016 generates a healthy amount of cash flow for SBS Transit from the leasing of its bus assets to the Land Transport Authority (LTA). Under the Bus Contracting Model (BCM), all bus infrastructure such as depots and operating assets like buses are owned by the LTA. As part of the Negotiated Contract under BCM, SBS transit leases its fleet of close to 2,900 buses to LTA in return for a leasing fee based on the depreciation of the buses over the statutory lifespan. This should provide healthy and stable cash flows for SBS for the remainder of the statutory lifespan of its buses, which is typically 17 years for new buses. The company received S$99.3 million in lease revenue in 2018. Based on SBS Transit's FY18 financial statements, the carrying value of its bus assets is around $600m. Their current bus assets should translate into healthy cash flows for the company in the next few years.

High Revenue Visibility From Existing Contracts

SBS Transit Ltd should expect stable revenues from all its business segments for at least the next few years. For its bus services segment, SBS is in 7 negotiated contracts with LTA to operate the Sengkang-Hougang, Bedok, Jurong West, Tampines, Serangoon-Eunos, Clementi, and Bishan-Toa Payoh bus packages. The additional Seletar and Bedok bus packages were competitively tendered for under the Bus Contracting Model. The average contract period for these bus packages awarded to SBS is 5 years. Provided the company is able to operate, manage, and maintain the buses and bus infrastructure well, it will earn the service fee paid by LTA for operation of these routes as well as incentive fees under an incentive framework. As one of the more established bus operators in Singapore with a long history, SBS is in a good position to meet operating requirements. SBS's accident rate dropped by 0.03 per 100,000 km to 0.12 per 100,000 km for 2018. The company's operational excellence earned it the "Safe Bus Operator of the Year Excellence Award 2018" from LTA in 2018. In the short run, bus service revenue in FY19 is expected to be higher than FY18 with the full year contribution from the Seletar and Bukit Merah bus packages.

Downside protection from BCM contracts

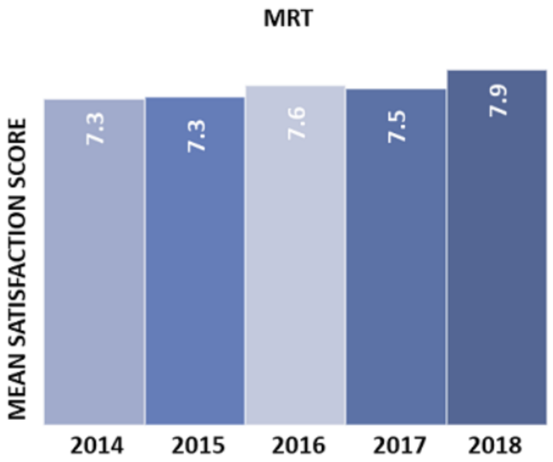
The service fee LTA pays is indexed to changes in wage levels, inflation, and fuel costs. This should help SBS run a more sustainable operation that is able to cover unexpected changes in operating expenses, as LTA helps to bear some of the risk.

Ridership To Experience Sustained Growth Going Forward Due To Opening Of Infrastructure Projects Along The NEL/DTL

Background: In the rail services segment, the operating licence for the North-East Line and Sengkang-Punggol LRT Line expires on 31 March 2033, while the licence to operate the Downtown line is valid until 2032. All four lines (2 MRT, 2 LRT) are expected to benefit from the secular growth in population and the concurrent decrease in total vehicles, which should boost ridership on those lines. Rail service revenue is also boosted by the recent fare adjustment of 4.3% effective 29 December 2018.

Robust Track Record

The industry's **rail services** overall satisfaction score increased from 7.5 to 7.9 in 2018, the percentage of respondents satisfied also increased from



Source: Public Transport Council

Figure 17: DTL and NEL converge at City Centre

Source: Urbanrail

Figure 18: Upcoming Punggol Town Hub

Source: CNA

Figure 19: Sengkang General Hospital opened in late 2018

Source: Straits Times

91.8% to 97.8%. SBS'S rail overall satisfaction score was slightly higher than the industry average at 8.0 and percentage of respondents satisfied with our rail services was 98.3%.

Strategic Location of Rail Lines

The rail lines that SBS Transit operates are strategically positioned, with connections to the growing North-East region of Singapore as well as to the Central Business District. The operation of Sengkang-Punggol LRT Line and North-East Line is expected to see increased ridership due to developments in the area. The Downtown Line and North-East Line is strategically connected to the Central Business District, with Dhoby Ghaut being a key interchange between the Circle, North-South, and North-East Line. Stations from Chinatown to Promenade are located right at the heart of the city centre. The risk of ridership falling below current levels is low as the DTL is a convenient means of transport to the city.

Sticky Ridership Expected from Infrastructure Pipeline

Punggol: The Government's "Punggol 21-plus" vision has resulted in the number of residents in Punggol tripling from approximately 55,00 to over 160,000. Upcoming residential projects present a healthy pipeline of residents with the number of flats projected to increase from the current 50,000 to 96,000. Additionally, a slew of new amenities and attractions are slated to be launched with the recently-launched Oasis Terrace, upcoming Punggol Town Hub, Regional Sports Centre and Digital District business park. They should attract 28,000 employees and 12,000 students. The increase in train ridership is expected to be sticky, as travelling to and fro work, school and home is a recurring daily affair. The upcoming developments are anticipated to increase ridership by approximately 178,000 (assuming additional 46,000 households, average 3 members in addition to 40,000 people from the Digital Business park).

Sengkang: In late 2018, Sengkang General Hospital and Sengkang Community Hospital was opened, boasting a total of 1400 beds. By virtue that these are the only hospitals in the North-East region of Singapore, we are expecting a boost in ridership on the North-East line. On top of this, there are private and HDB developments coming up in the region, such as the integrated community hub by CapitaLand Limited and CDL--which will drive up footfall in that region as well.

Limited Downside Risk from NRFF

The New Rail Financing Framework also limits SBS's downside risk, owing to the sharing of some revenue risks with LTA under the Fare Revenue Shortfall Sharing mechanism. If actual revenue falls short of target revenue by 2% to 6%, LTA will share 50% of the shortfall. Beyond a 6% shortfall, LTA will bear 75% of the incremental revenue shortfall. Using a separate EBIT cap and collar mechanism, SBS can expect to earn a 5% EBIT margin through adjustments made to the licence charge payable to LTA, in exchange for a cap on excess profits. Fare adjustments provide another means for SBS Transit to expand margins. Given the high risk to public transport operators without these mechanisms, the protection of SBS Transit's downside risk with these provisions should be a net positive for its bottom line.

Other Commercial Services Segment to Improve from Increased Footfall Accompanying Ridership

As for its Other Commercial Services segment, revenue growth is expected to remain consistent given the prevalence of transit advertising. Higher ridership expected on MRT lines should lead to increased footfall, granting SBS greater pricing power in rent contracts. 1H19 revenue from Other Commercial Services was up 7.48% year-over-year to $31.9m from $29.7m. Due to higher margins from this segment of around 60%, this segment contributes about 39.4% of EBT. Consistent growth in revenues in this segment would help to mitigate operating expense fluctuations in the other segments.

Catalysts

- Positive earnings results for 2H19 should boost dividends payable and increase dividend yield to attract potential investors. Dividend payout ratio stands at 50% offering more room for increases
- Increase in average daily ridership of the bus and rail lines to drive revenue growth and possible breakeven of the DTL
- Government grant given to public transport operators to offset the high operating costs of rail lines and improve profitability
- Successful tender for competitor's expiring bus packages to increase bus service revenue and improve profits
- Labour market slowdown could drive ridership growth as consumers start to trade down

Financial Analysis

Financial Analysis							
Financial Ratios	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**
Profitability							
Net Profit Margin	4.0%	5.8%	6.1%	6.4%	6.5%	6.7%	6.8%
EBITDA Margin	13%	14%	14%	14%	14%	14%	14%
EBIT Margin	5%	7%	7%	8%	8%	8%	8%
ROE	0.10	0.16	0.16	0.16	0.16	0.15	0.15
ROA	0.04	0.08	0.08	0.08	0.09	0.09	0.09
ROIC	0.08	0.14	0.15	0.16	0.16	0.15	0.15
Liquidity							
Current Ratio	0.68	0.90	1.12	1.34	1.55	1.82	2.08
Quick Ratio	0.42	0.58	0.80	1.01	1.23	1.49	1.75
Cash Ratio	0.01	0.09	0.31	0.52	0.73	0.99	1.25
Activity							
Total Asset Turnover	1.10	1.30	1.31	1.32	1.32	1.29	1.25
Fixed Asset Turnover	1.48	1.96	2.22	2.58	2.97	3.47	4.11
Working Capital Turnover	-9.57	-36.95	30.80	11.31	6.98	4.71	3.59
Financial Leverage							
LT Debt to Assets	0.11	0.07	0.05	0.02	0.00	0.00	0.00
LT Debt to Equity	0.28	0.15	0.09	0.04	0.00	0.00	0.00
Interest Coverage	13.24	28.70	74.24	134.49	423.69	0.00	0.00
Shareholder Returns							
EPS (cents)	15.13	25.71	27.82	30.41	32.10	33.75	35.36
DPS (cents)	6.34	9.73	13.91	15.21	16.05	16.87	17.68
Dividend Payout Ratio	41.9%	37.9%	50.0%	50.0%	50.0%	50.0%	50.0%

Overview

The chart above are our estimates for SBS Transit's financial position for the next 5 years. Most financial ratios yield positive trends and are supportive of the overall BUY recommendation.

Deleveraging of Long-Term Debt

SBS currently only has a long term bank loan of 75,000,000 with a remaining tenure of 2 years. We expect that the company would pay off long-term borrowings within this period, which will deleverage the company. This would explain the converging of LT Debt to Assets to 0 post-2021.

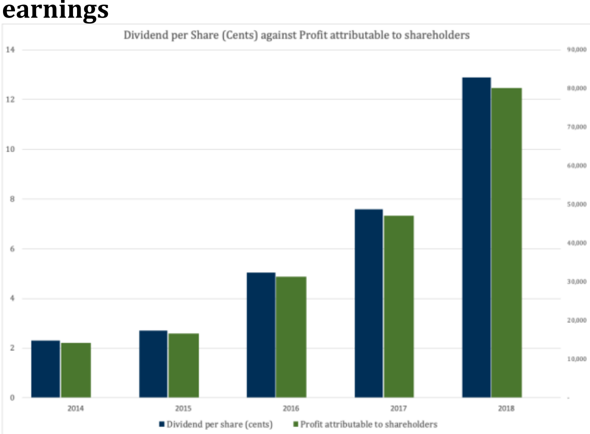
Liquidity Position Strengthening

SBS Transit's current ratio of 0.90 in 2018 was an improvement over its current ratio of 0.68 in 2017. The transition to an asset-light model under BCM should translate into higher liquidity for the business which explains the increasing estimated current ratio. Quick ratio increased from 0.42 in 2017 to 0.58 in 2018, while cash ratio increased from 0.01 in 2017 to 0.09 in 2018, further su

Increasing Net Margins

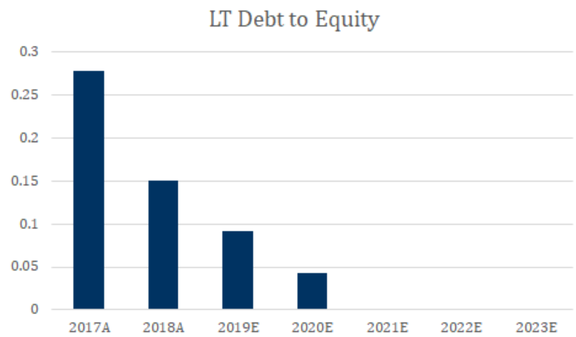
Higher ridership on the DTL should progressively improve margins for SBS Transit, due to the high fixed cost nature of the rail business. Once

Figure 19: Dividend increases in line with earnings



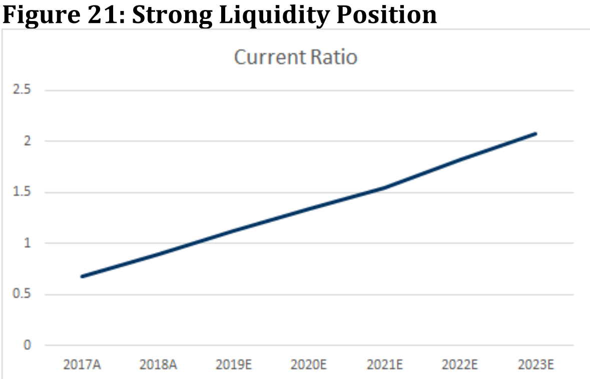
Source: Annual Report

Figure 20: Deleveraging in Place



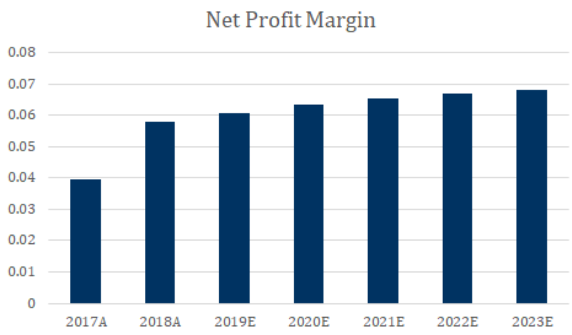
Source: NUS Investment Society Estimates

Figure 21: Strong Liquidity Position



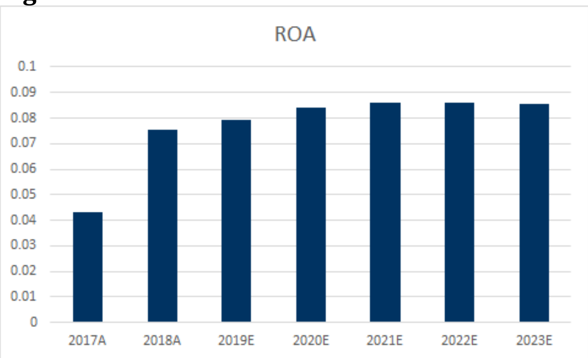
Source: NUS Investment Society Estimates

Figure 22: Net Margins Steadily Increasing



Source: NUS Investment Society Estimates

Figure 23: Stable ROA



Source: NUS Investment Society Estimates

Figure 24: DCF Exit Multiple

Exit EV/EBITDA Multiple Approach	
Terminal Year EBITDA	222,403
Terminal value EBITDA Multiple	6.0x
Terminal Value	1,334,415
PV of Terminal Value	1,096,391
PV of Stage 1 Cash Flows	602,390
Enterprise Value	**1,698,780**
Less: Net Debt	-42,289
Equity Value	**1,656,491**
Diluted shares	311,539,000
Equity Value per share	**$5.32**

Source: NUS Investment Society estimates

Figure 25: WACC

Cost of Capital Assumptions	
Total Debt SGD '000)	75,000.00
Pretax CoD	2.22%
Cost of Debt	1.89%
Risk free rate	1.77%
Equity risk premium	8.70%
Beta	0.47
Market Cap (SGD '000)	1,264,848
Cost of Equity	**5.03%**
WACC	4.85%

Source: Bloomberg

Figure 26: Gordon Growth

Terminal Value: Gordon Growth Model	*Units*	
FY23 Dividends Paid	*S$ ('000s)*	55,086
Terminal Growth Rate (Plowback Ratio)	*%*	50.00%
Long Term Dividend Growth Rate	*%*	1.50%
Terminal Value	*S$ ('000s)*	**1,585,205**
Present Value of Terminal Value	*S$ ('000s)*	1,293,433

Source: NUS Investment Society estimates

Figure 27: Sensitivity table

ridership reaches its breakeven level, margin is expected to increase proportionately. Higher ridership would also translate into greater footfall which should boost rental revenues. Net Margin is expected to increase over the next five years, reaching a peak of 7%.

Increasing ROA & ROE

Increased ridership is expected to drive high asset turnover and margin expansions. Coupled with the effects of operating leverage, this is expected to drive up ROA.

Valuation

Target Price: $5.09

Revenue Model

SBUS's revenue model is driven by the price hike kicking in 2020 and expected steady passenger trip growth. Additionally, we are expecting 1 more year of boosted revenue growth coming from the rail segment due to the stabilizing of commuters using the Downtown Line. For the Bus revenue segment, we are expecting stable growth of 3% yoy to offset the lumpy nature revenue coming from the new Bus Contracting Model (BCM) which is in line with our expectations for SBUS to continue its dominance in winning contracts.

DCF Model

A Discounted Cash Flow model was used as the primary method of valuation for SBUS, with a 5-year forecast period (2019E to 2023E). We used an Exit EV/EBITDA multiple approach, with terminal value EV/EBITDA of 6.0x (reflecting debtless capital structure post-2022) to obtain a base-case 12M target price of S$5.32. Presenting a 31% upside from the current share price of S$4.06.

Cost of Capital

We arrived at a WACC of 4.85% with Cost of Equity of 5.03% and Post-tax Cost of Debt of 1.89%. The risk-free rate of 1.77% was pegged to Singapore's 10-year government bond yield (MASB10Y), with expected equity return of 8.70% (BBG estimates). Beta was obtained by regressing SBUS's share price against 1-week STI data. Post-tax Cost of Debt of 1.89% was obtained by averaging the interest rate on SBUS's long term borrowings.

DDM Model

A Dividend Discount Model was used as a secondary valuation method. The model adopts a 5-year forecast period, with the same assumptions tied to that of the DCF Model. To calculate the PV of future dividend payments, we used a management-guided plowback ratio of 50%. To calculate the PV of terminal value of future dividends, we used a terminal growth rate of dividends of 1.5%, which is pegged to Singapore's long-term GDP growth rate.

Relative Valuation Model

Relative Valuation using forward P/E, P/B and EV/EBITDA multiples were used as a sanity check for our intrinsic valuation methodologies. SBS currently trades at a discount to its peers on a historical Price-Earnings as well as EV-EBITDA front. We believe that it should minimally trade at similar multiples to its peers due to a superior ROE and dividend yield, despite its lower liquidity vis-à-vis peers. We feel the stock is undervalued with room for further potential upside, should the stock re-rate.

Sensitivity Analysis & Football field

A sensitivity analysis was done for both the DCF and DDM model to stress-test our assumptions. For the DCF Model, we varied the WACC against the EV/EBITDA exit-multiple. For the DDM Model, we varied the Cost of Equity against the Terminal growth rate. As a result, we were able to plot the sensitized results into a Football Field Analysis chart as shown, giving us the ranges of values rather than a singular value. For the DCF, an equity

		Equity Value Per Share				
		EV/EBITDA Multiple				
	$5.31	5.0x	5.5x	6.0x	6.5x	7.0x
	5.6%	**4.60**	4.89	5.17	5.46	5.74
	5.1%	4.68	4.97	5.26	5.55	5.85
WACC	4.6%	4.76	5.06	**5.36**	5.65	5.95
	4.1%	4.84	5.15	5.45	5.75	6.05
	3.6%	4.93	5.24	5.55	5.85	**6.16**

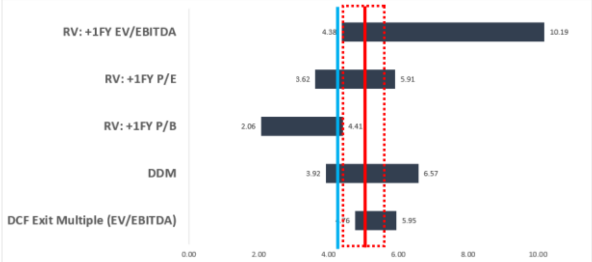
Source: NUS Investment Society estimates

Figure 28: Sensitivity table

			Equity Value Per Share				
			Terminal Growth Rate				
	$	4.88	0.50%	1.00%	1.50%	2.00%	2.50%
		6.0%	**3.23**	3.49	3.82	4.22	4.74
		5.5%	3.54	3.87	4.28	4.80	5.50
Cost of Equity		5.0%	3.92	4.34	**4.87**	5.58	6.57
		4.5%	4.40	4.94	5.66	6.67	8.17
		4.0%	5.01	5.74	6.76	8.28	**10.80**

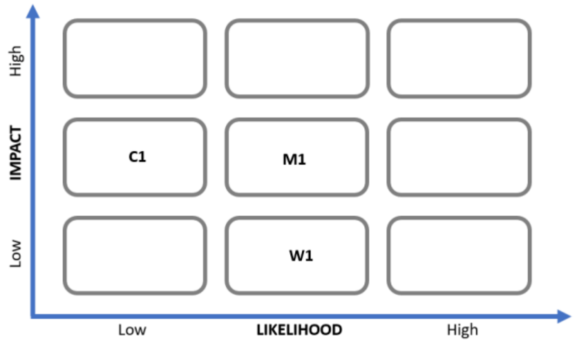
Source: NUS Investment Society estimates

Figure 29: Football Field Analysis



Source: NUS Investment Society estimates

Figure 30: Risk Matrix



Source: NUS Investment Society estimates

value per share range of $4.77 to $5.96 was obtained, and for the DDM, a range of $3.92 to $6.56 was obtained.

Ultimately, our target price of $5.09 was obtained by blending the DCF and DDM's target price, presenting an upside of 25%.

Investment Risks

Risks

Rise in wages (W1) would negatively affect SBS Transit's operating earnings. Staff costs form a significant portion of operating expenses. Staff costs margin was 50.99% in FY2018, 51.55% in Q119, and 48.72% in Q219. An increase of 1% in staff costs could impact EBT by as much as 7.4%. This would be offset, however, by increases in service fee under BCM as well as fare price adjustments for rail lines which are both indexed in part to wage prices, but not entirely.

Maintenance costs (M1) could rise due to any unexpected faults with the trains or buses. Repairs and maintenance costs are the second largest operating expense after staff costs. An ageing fleet increases the likelihood of breakdowns which forces SBS Transit to spend on the maintenance of their fleet. The DTL has come out of its defect liability period, so any maintenance costs will have to be borne by SBS Transit. Preventative maintenance that was started on the NEL should help to reduce the probability of unexpected faults that need repair.

Competitor Risk (C1) from new entrants to the bus service market poses a significant threat to SBS Transit in the long run when its current contracts expire. Successful tender of bus packages would depend both on SBS Transit's ability to deliver quality service as well as its bid price for bus packages when licences expire. Despite the more competitive tendering process, being the incumbent operator of the majority of bus packages grants SBS a certain advantage as it already possesses the expertise in operating bus packages.

Disclaimer

Appendix

Pro forma Financial Statements

3 Financial Statement Model for SBS Transit

Company name	SBS Transit
Ticker	SBUS:SP
Share price as of last close	$4.05
Latest closing share price date	8/11/2019
Latest fiscal year end date	31/12/2018
Circuit breaker:	

Income Statement

Fiscal year	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Fiscal year end date	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Revenue	1,098,736	1,191,717	1,383,613	1,425,121	1,490,169	1,530,911	1,572,796	1,615,857
Staff costs	(581,143)	(628,553)	(705,519)	(726,685)	(759,853)	(780,628)	(801,986)	(823,943)
Repairs and maintainence costs	(131,453)	(151,684)	(173,219)	(178,416)	(186,559)	(191,660)	(196,903)	(202,294)
Fuel and electricity costs	(127,082)	(131,076)	(171,844)	(176,999)	(185,078)	(190,138)	(195,340)	(200,689)
Premises costs	(51,959)	(57,128)	(64,155)	(66,080)	(69,096)	(70,985)	(72,927)	(74,924)
Depreciation expense	(81,660)	(96,925)	(93,136)	(93,136)	(93,136)	(93,136)	(93,136)	(93,136)
Other operating costs	(83,680)	(67,008)	(78,439)	(80,792)	(84,480)	(86,790)	(89,164)	(91,605)
Total operating costs	(1,056,977)	(1,132,374)	(1,286,312)	(1,322,107)	(1,378,202)	(1,413,336)	(1,449,457)	(1,486,591)
Operating Profit	41,759	59,343	97,301	103,014	111,967	117,575	123,340	129,267
Net income from investments	243	242	274	274	274	274	274	274
Finance costs	(5,268)	(4,482)	(3,390)	(1,388)	(833)	(278)	-	-
Profit before taxation	36,734	55,103	94,185	101,901	111,409	117,571	123,614	129,541
Taxation	(5,384)	(7,975)	(14,083)	(15,237)	(16,658)	(17,580)	(18,483)	(19,370)
Profit attributable to shareholders (NI)	**31,350**	**47,128**	**80,102**	**86,664**	**94,750**	**99,991**	**105,130**	**110,171**

Balance Sheet

Fiscal year	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Fiscal year end date	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Assets							
Current Assets							
Short-term deposits and bank balances	5,275	32,711	116,273	201,474	289,042	403,042	518,848
Investments	5,134	-	-	-	-	-	-
Trade receivables	122,582	123,509	127,214	133,021	136,658	140,397	144,240
Other receivables and prepayments	31,701	56,466	58,160	60,815	62,477	64,187	65,944
Inventories	94,012	117,142	120,656	126,163	129,613	133,159	136,805
Total current assets	**258,704**	**329,828**	**422,304**	**521,473**	**617,790**	**740,784**	**865,838**
Non-current Assets							
Subsidiary	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Prepayments	2,537	6,021	6,202	6,485	6,662	6,844	7,032
Vehicles, premises and equipment	803,844	705,304	640,812	577,628	515,263	453,739	393,081
Deferred tax assets	22,737	21,680	21,680	21,680	21,680	21,680	21,680
Total Non-current Assets	**829,118**	**733,005**	**668,694**	**605,793**	**543,605**	**482,263**	**421,793**
Total Assets	**1,087,822**	**1,062,833**	**1,090,998**	**1,127,265**	**1,161,394**	**1,223,047**	**1,287,630**
Liabilities and Equity							
Current Liabilities							
Borrowings	56,000	-	-	-	-	-	-
Trade and other payables	272,302	293,771	301,946	314,757	322,781	331,030	339,511
Deposits received	3,648	2,588	2,588	2,588	2,588	2,588	2,588
Insurance premiums, payable and provision for accident claim	21,965	19,533	20,119	21,037	21,612	22,204	22,812
Fuel price equalisation account	19,992	19,992	19,992	19,992	19,992	19,992	19,992
Income tax payable	9,309	31,394	31,394	31,394	31,394	31,394	31,394
Total current liabilities	**383,216**	**367,278**	**376,039**	**389,768**	**398,368**	**407,208**	**416,297**
Non-current Liabilities							
Borrowings	125,000	75,000	50,000	25,000	-	-	-
Deferred grants	6,958	6,326	6,326	6,326	6,326	6,326	6,326
Deposits received	5,600	7,157	7,157	7,157	7,157	7,157	7,157
Deferred tax liabilities	87,112	77,676	77,676	77,676	77,676	77,676	77,676
Provision for service benefits and long service awards	10,718	11,004	12,076	12,239	12,773	13,020	13,429
Fuel price equalisation account	19,992	19,992	19,992	19,992	19,992	19,992	19,992
Total non-current Liabilities	**255,380**	**197,155**	**173,227**	**148,390**	**123,924**	**124,171**	**124,580**
Total Liabilities	**638,596**	**564,433**	**549,266**	**538,158**	**522,291**	**531,379**	**540,877**
Equity							
Share capital	98,873	100,162	100,162	100,162	100,162	100,162	100,162
Other reserves	40,522	38,628	38,628	38,628	38,628	38,628	38,628
Accumulated profits	309,831	359,610	402,942	450,317	500,313	552,878	607,963
Total Equity	**449,226**	**498,400**	**541,732**	**589,107**	**639,103**	**691,668**	**746,753**
Total Liabilities and Equity	**1,087,822**	**1,062,833**	**1,090,998**	**1,127,265**	**1,161,394**	**1,223,047**	**1,287,630**
Balance Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE

Cash Flow Statement

Fiscal year	2018A	2019E	2020E	2021E	2022E	2023E
Fiscal year end date	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Cash flow operating activities						
Profits before taxation		101,901	111,409	117,571	123,614	129,541
Adjustments for:						
Depreciation expense		93,136	93,136	93,136	93,136	93,136
Trade receivables		(3,705)	(5,806)	(3,637)	(3,739)	(3,844)
Other receivables and prepayments		(1,694)	(2,655)	(1,663)	(1,709)	(1,757)
Inventories		(3,514)	(5,507)	(3,449)	(3,546)	(3,646)
Trade and other payables		8,175	12,811	8,024	8,249	8,481
Prepayments		(181)	(283)	(177)	(182)	(187)
Deferred grants		-	-	-	-	-
Deposits received (current)		-	-	-	-	-
Payment of service benefits and long service awards		1,072	163	534	247	409
Payment of insurance premiums and accident claims		586	918	575	591	608
Cash generated from operations		**195,775**	**204,186**	**210,914**	**216,661**	**222,740**
Income tax paid		(15,237)	(16,658)	(17,580)	(18,483)	(19,370)
Interest expense		1,388	833	278	-	-
Net cash from operating activities		**181,926**	**188,360**	**193,612**	**198,177**	**203,370**
Investing activities						
Purchase of vehicles, premises and equipment		(28,644)	(29,952)	(30,771)	(31,613)	(32,478)
Net cash from investing activities		**(28,644)**	**(29,952)**	**(30,771)**	**(31,613)**	**(32,478)**
Financing activities						
Repayment of borrowings		(25,000)	(25,000)	(25,000)	-	-
Proceeds from share issue		-	-	-	-	-
Interest paid		(1,388)	(833)	(278)	-	-
Dividends paid		(43,332)	(47,375)	(49,996)	(52,565)	(55,086)
Net cash used in financing activities		**(69,719)**	**(73,208)**	**(75,273)**	**(52,565)**	**(55,086)**
Net increase in cash and cash equivalents		83,562	85,201	87,568	114,000	115,807
Cash and cash equivalents at beginning of year		32,711	116,273	201,474	289,042	403,042
Cash and cash equivalents at end of year		**116,273**	**201,474**	**289,042**	**403,042**	**518,848**

Financial Projections

Revenue Model

Fiscal year	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	Assumptions
Fiscal year end date	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	
Total Revenue	1,023,923	1,098,736	1,191,717	1,383,613	1,425,121	1,490,169	1,530,911	1,572,796	1,615,857	
yoy Growth (%)			8%	16%	3%	5%	3%	3%	3%	
Rail Revenue	213,403	270,975	293,213	352,514	363,090	396,276	404,202	412,286	420,532	
Passenger trips (millions)	259	329	356	428	440.84	449.66	458.65	467.82	477.18	
yoy Growth (%)		27%	8%	20%	3%	2%	2%	2%	2%	*gestation period + 1FY'*
Average price per trip	0.82	0.82	0.82	0.82	0.82	0.88	0.88	0.88	0.88	
yoy Growth (%)		0%	0%	0%	0%	7%	0%	0%	0%	*price hike kicking in in 2020, straightlined thereafter*
Bus Revenue (Implied)	810,520	827,761	898,504	1,031,099	1,062,032	1,093,892	1,126,709	1,160,511	1,195,326	
yoy Growth (%)		2%	9%	15%	3%	3%	3%	3%	3%	flatlining, no visibility on BCM contracts

Income Statement Projections

Fiscal year	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	
Fiscal year end date	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	
Staff costs	(581,143)	(628,553)	(705,519)	(726,685)	(759,853)	(780,628)	(801,986)	(823,943)	
Staff costs as % of revenue	53%	53%	51%	51%	51%	51%	51%	51%	*Straightlining this*
Repairs and maintainence costs	(131,453)	(151,684)	(173,219)	(178,416)	(186,559)	(191,660)	(196,903)	(202,294)	
Repairs and maintainence costs as % of reven	12%	13%	13%	13%	13%	13%	13%	13%	*Straightlining this*
Fuel and electricity costs	(127,082)	(131,076)	(171,844)	(176,999)	(185,078)	(190,138)	(195,340)	(200,689)	
Fuel and electricity costs as % of revenue	12%	11%	12%	12%	12%	12%	12%	12%	*Straightlining this*
Premises costs	(51,959)	(57,128)	(64,155)	(66,080)	(69,096)	(70,985)	(72,927)	(74,924)	
Premises costs as % of revenue	5%	5%	5%	5%	5%	5%	5%	5%	*Straightlining this*
Other operating costs	(83,680)	(67,008)	(78,439)	(80,792)	(84,480)	(86,790)	(89,164)	(91,605)	
Other operating costs as % of revenue	8%	6%	6%	6%	6%	6%	6%	6%	*Straightlining this*
Net income from investments	243	242	274	27400%	27400%	27400%	27400%	27400%	*Straightlining this*
Tax	(5,384)	(7,975)	(14,083)	(15,237)	(16,658)	(17,580)	(18,483)	(19,370)	
Tax rate	15%	14%	15%	15%	15%	15%	15%	15%	*Straightlining this*

Working Capital Projections

Fiscal year	2017A	2018A	2019E	2020E	2021E	2022E	2023E	
Fiscal year end date	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	
Trade Receivables								
Beginning of period		122,582	123,509	127,214	133,021	136,658	140,397	
Increases/(Decreases)		927	3,705	5,806	3,637	3,739	3,844	
End of period	122,582	123,509	127,214	133,021	136,658	140,397	144,240	
Trade Receivables as % of Revenue	10%	9%	9%	9%	9%	9%	9%	*Straightlining this*
Other receivables and prepayments								
Beginning of period		31,701	56,466	58,160	60,815	62,477	64,187	
Increases/(Decreases)		24,765	1,694	2,655	1,663	1,709	1,757	
End of period	31,701	56,466	58,160	60,815	62,477	64,187	65,944	
Other Receivables and prepayments as % of Revenue	3%	4%	4%	4%	4%	4%	4%	*Straightlining this*
Inventories								
Beginning of period		94,012	117,142	120,656	126,163	129,613	133,159	
Increases/(Decreases)		23,130	3,514	5,507	3,449	3,546	3,646	
End of period	94,012	117,142	120,656	126,163	129,613	133,159	136,805	
Inventory as % of COGS	62%	68%	68%	68%	68%	68%	68%	*Straightlining this*
Trade and other payables								
Beginning of period		272,302	293,771	301,946	314,757	322,781	331,030	
Increases/(Decreases)		21,469	8,175	12,811	8,024	8,249	8,481	
End of period	272,302	293,771	301,946	314,757	322,781	331,030	339,511	
Trade and other payables as % of COGS	24%	23%	23%	23%	23%	23%	23%	*Straightlining this*
Deposits received (current)								
Beginning of period		3,648	2,588	2,588	2,588	2,588	2,588	
Increases/(Decreases)		(1,060)	0	0	0	0	0	*not expecting change in tenancy*
End of period	3,648	2,588	2,588	2,588	2,588	2,588	2,588	
Insurance premiums, payable and provision for accident claims								
Beginning of period		21,965	19,533	20,119	21,037	21,612	22,204	
Increases/(Decreases)		(2,432)	586	918	575	591	608	
End of period	21,965	19,533	20,119	21,037	21,612	22,204	22,812	
Insurance premiums, payable and provision for accident claim	2%	1%	1%	1%	1%	1%	1%	*averaging this out*
Fuel price equalisation account (current)								
Beginning of period		19,992	19,992	19,992	19,992	19,992	19,992	
Increases/(Decreases)		-	0	0	0	0	0	*flatlining this*
End of period	19,992	19,992	19,992	19,992	19,992	19,992	19,992	
Income tax payable								
Beginning balance			31,394	31,394	31,394	31,394	31,394	
Additions			15,237	16,658	17,580	18,483	19,370	
Paid off			-15,237	-16,658	-17,580	-18,483	-19,370	*pays off tax asap*
Ending balance	9,309	31,394	31,394	31,394	31,394	31,394	31,394	

PPE Schedule

Fiscal year	2017A	2018A	2019E	2020E	2021E	2022E	2023E	
Fiscal year end date	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	
Vehicles, premises and equipment								
Beginning of period			705,304	640,812	577,628	515,263	453,739	
Plus: Capital expenditures			28,644	29,952	30,771	31,613	32,478	
Less: Depreciation			(93,136)	(93,136)	(93,136)	(93,136)	(93,136)	
End of period	803,844	705,304	640,812	577,628	515,263	453,739	393,081	
Capex (enter as +)	35,000	27,810	28,644	29,952	30,771	31,613	32,478	*asset light framework*
Capital expenditures as % of revenue	3%	2%	2%	2%	2%	2%	2%	
Depreciation (enter as -)	(96,925)	(93,136)	(93,136)	(93,136)	(93,136)	(93,136)	(93,136)	*straight line dep*

Other Assets and Liabilities Projections								
Fiscal year	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	
Fiscal year end date	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	
Deferred tax assets								
Beginning of period		22,737	21,680	21,680	21,680	21,680	21,680	
Increases/(Decreases)		(1,057)	0	0	0	0	0	*flatlining this*
End of Period	22,737	21,680	21,680	21,680	21,680	21,680	21,680	
Prepayments								
Beginning of period		2,537	6,021	6,202	6,485	6,662	6,844	
Increases/(Decreases)		3,484	181	283	177	182	187	
End of Period	2,537	6,021	6,202	6,485	6,662	6,844	7,032	
Prepayments as % of revenue	0.2%	0.4%	0	0	0	0	0	*averaging this out*
Subsidiary								
Beginning of period		-	-	-	-	-	-	
Increases/(Decreases)		-	0	0	0	0	0	*flatlining*
End of Period	-	-	-	-	-	-	-	
Investments (Non-current)								
Beginning of period		-	-	-	-	-	-	
Increases/(Decreases)		-	0	0	0	0	0	*flatlining*
End of Period	-	-	-	-	-	-	-	
Investments (current)								
Beginning of period		5,134	-	-	-	-	-	
Increases/(Decreases)		(5,134)	0	0	0	0	0	*no bond purchase after SP bond maturity in 2017*
End of Period	5,134	-	-	-	-	-	-	
Deferred grants								
Beginning of period		6,958	6,326	6,326	6,326	6,326	6,326	
Increases/(Decreases)		(632)	-	-	-	-	-	
End of Period	6,958	6,326	6,326	6,326	6,326	6,326	6,326	*straightlining this*
Deposits received (non current)								
Beginning of period		5,600	7,157	7,157	7,157	7,157	7,157	
Increases/(Decreases)		1,557	-	-	-	-	-	
End of Period	5,600	7,157	7,157	7,157	7,157	7,157	7,157	*no change in tenancy rate expected*
Fuel price equalisation account (non current)								
Beginning of period		19,992	19,992	19,992	19,992	19,992	19,992	
Increases/(Decreases)			-	-	-	-	-	
End of Period	19,992	19,992	19,992	19,992	19,992	19,992	19,992	*no changes expected*
Deferred tax liabilities								
Beginning of period		87,112	77,676	77,676	77,676	77,676	77,676	
Increases/(Decreases)		(9,436)	-	-	-	-	-	
End of Period	87,112	77,676	77,676	77,676	77,676	77,676	77,676	*straightlining this*
Provision for service benefits as % of revenue	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	*growing this with revenue*

Capital Stock Projections							
Fiscal year	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**
Fiscal year end date	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Common Stock							
Beginning of period		98,873	100,162	100,162	100,162	100,162	100,162
Plus: new share issuances		1,227	0	0	0	0	0
Plus: stock based compensation		62	0	0	0	0	0
End of period	98,873	100,162	100,162	100,162	100,162	100,162	100,162
Other reserves							
Beginning of period			38,628	38,628	38,628	38,628	38,628
Additions/(Subtractions)			0	0	0	0	0
End of period	40,522	38,628	38,628	38,628	38,628	38,628	38,628

Accumulated Profits (Retained Earnings) and OCI Projections								
Fiscal year	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	
Fiscal year end date	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	
Accumulated Profits								
Beginning of period		309,831	359,610	402,942	450,317	500,313	552,878	
Plus: Net income		80,102	86,664	94,750	99,991	105,130	110,171	
Dividends	(19,742)	(30,323)	(43,332)	(47,375)	(49,996)	(52,565)	(55,086)	
End of period	309,831	359,610	402,942	450,317	500,313	552,878	607,963	
Dividend payout ratio		38%	50.0%	50.0%	50.0%	50.0%	50.0%	*dividend policy not expected to change*

Debt Schedule								
Fiscal year	**2017A**	**2018A**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	
Fiscal year end date	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	
Borrowings (non-current)								
Beginning of period			75,000	50,000	25,000	-	-	
Additional borrowing/(paydowns)			-25,000	-25,000	-25,000	0	0	*based off notes, max tenure is 3 years on the 75K remaining*
PIK accrual			0	0	0	0	0	*No PIK accrual*
End of period	125,000	75,000	50,000	25,000	-	-	-	
Interest rate			2.2%	2.2%	2.2%	0.0%	0.0%	*blended interest rate from AR2018*
Interest expense on LT Borrowings			1,388	833	278	-	-	*interest expense on the average debt balances*
Borrowings (Current)								
Beginning of period		56,000	-	-	-	-	-	
Additional borrowing/(paydowns)		(56,000)	0	0	0	0	0	*no new ST Debt expected*
PIK accrual		-	0	0	0	0	0	*no new ST Debt expected*
End of period	56,000	-	-	-	-	-	-	

DCF

Free Cashflow Build-up					
Fiscal year	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**
Fiscal year end date	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
EBITDA	196,150	205,103	210,711	216,476	222,403
EBIT	103,014	111,967	117,575	123,340	129,267
Tax rate	15%	15%	15%	15%	15%
EBIAT	**87,611**	**95,225**	**99,994**	**104,897**	**109,938**
Depreciation	93,136	93,136	93,136	93,136	93,136
Trade receivables	(3,705)	(5,806)	(3,637)	(3,739)	(3,844)
Other receivables and prepayments	(1,694)	(2,655)	(1,663)	(1,709)	(1,757)
Inventories	(3,514)	(5,507)	(3,449)	(3,546)	(3,646)
Trade and other payables	8,175	12,811	8,024	8,249	8,481
Prepayments	(181)	(283)	(177)	(182)	(187)
Deferred grants	-	-	-	-	-
Deposits received (current)	-	-	-	-	-
Payment of service benefits and long service awards	1,072	163	534	247	409
Payment of insurance premiums and accident claims	586	918	575	591	608
Unlevered CFO	**181,485**	**188,003**	**193,337**	**197,944**	**203,137**
Capex	(28,644)	(29,952)	(30,771)	(31,613)	(32,478)
Unlevered FCF	**152,841**	**158,051**	**162,567**	**166,332**	**170,659**
Discount	15%	115%	215%	315%	415%
Adjustment Factor	0.15	1.00	1.00	1.00	1.00
Present value of FCF	**22,345**	**149,690**	**146,843**	**143,293**	**140,218**

Exit EV/EBITDA Multiple Approach	
Terminal Year EBITDA	222,403
Terminal value EBITDA Multiple	6.0x
Terminal Value	1,334,415
PV of Terminal Value	1,096,391
PV of Stage 1 Cash Flows	602,390
Enterprise Value	**1,698,780**
Less: Net Debt	-42,289
Equity Value	**1,656,491**
Diluted shares	311,539,000
Equity Value per share	**$5.32**

Cost of Capital Assumptions	
Total Debt SGD '000)	75,000.00
Pretax CoD	2.22%
Cost of Debt	1.89%
Risk free rate	1.77%
Equity risk premium	8.70%
Beta	0.47
Market Cap (SGD '000)	1,264,848
Cost of Equity	**5.03%**
WACC	4.85%

DDM

Discounted Dividend Model Valuation — **Upside (DDM): 20.10%**

Terminal Value: Gordon Growth Model	*Units*	
FY23 Dividends Paid	*S$ ('000s)*	55,086
Terminal Growth Rate (Plowback Ratio)	*%*	50.00%
Long Term Dividend Growth Rate	*%*	1.50%
Terminal Value	*S$ ('000s)*	**1,585,205**
Present Value of Terminal Value	*S$ ('000s)*	1,295,903

DDM Valuation (Gordon Growth)		
Present Value of Cumulative Dividends	*S$ ('000s)*	223,219
Present Value of Terminal Value	*S$ ('000s)*	1,295,903
Terminal Value as a % of Total Value	*%*	*85.3%*
Implied Equity Value	*S$ ('000s)*	**1,519,122**
Fair Value per Share	*S$*	$ 4.88
Upside	*%*	***20.10%***

Dividends		**2017A**	**2018A**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**
Fiscal year end date		**31/12/2017**	**31/12/2018**	**31/12/2019**	**31/12/2020**	**31/12/2021**	**31/12/2022**	**31/12/2023**
Net Income	*S$ ('000s)*	47,128	80,102	86,664	94,750	99,991	105,130	110,171
Dividend Payout Ratio	*S$ ('000s)*		38%	50%	50%	50%	50%	50%
Total Dividends Paid	*S$ ('000s)*			**43,332**	**47,375**	**49,996**	**52,565**	**55,086**
Dividend per Share	*S$*			0.14	0.15	0.16	0.17	0.18
Discount Factor	*Period*			0.11	1.11	2.11	3.11	4.11
Present Value of Dividends	*S$(m)*			**43,102.33**	**44,868.46**	**45,083.98**	**45,132.20**	**45,032.30**

Relative Valuation Sanity Check

Name	Mkt Cap (SGD)	EV/EBITDA Nxt Yr	BEst P/B:1BF	BEst P/E:1BF
SBS TRANSIT LTD	**1,213**			
Median	**8,604**	**10.4x**	**1.6x**	**17.7x**
BTS GROUP HOLDINGS PCL	8,052	38.4x	3.5x	43.1x
MTR CORP	46,001	14.0x	1.4x	20.2x
TAIWAN HIGH SPEED RAIL CORP	9,156	13.3x	2.8x	21.6x
COMFORTDELGRO CORP LTD	5,068	6.8x	1.9x	16.4x
CENTRAL JAPAN RAILWAY CO	58,157	6.5x	1.1x	9.9x
WEST JAPAN RAILWAY CO	23,735	7.5x	1.6x	15.0x
EAST JAPAN RAILWAY CO	47,874	7.5x	1.1x	12.4x
KEISEI ELECTRIC RAILWAY CO	9,925	16.9x	1.7x	18.9x

Valuation Metric	Percentile					
	Min	25th	50th	75th	Max	Average
BEst P/B:1BF	1.1x	1.2x	1.6x	2.5x	3.5x	1.9x
BEst P/E:1BF	9.9x	13.0x	17.7x	21.2x	43.1x	19.7x
EV/EBITDA Nxt Yr	6.5x	7.0x	10.4x	16.2x	38.4x	13.9x
Implied Share Price	Percentile					
	Min	25th	50th	75th	Max	Average
BEst P/B:1BF	1.84	2.06	2.86	4.41	6.13	3.26
BEst P/E:1BF	2.74	3.62	4.91	5.91	11.99	5.47
EV/EBITDA Nxt Yr	4.08	4.38	6.55	10.19	24.17	8.73

Football Field Analysis