

MITA No. 010/06/2008

27 April 2009

# SMRT Corporation Ltd

Maintain

## BUY

Previous Rating: BUY

### \$S\$1.52

### Fair Value: \$S\$1.81

Stock Code:  
 Reuters: SMRT.SI  
 ISIN Code S53  
 Bloomberg: MRT SP

Event: Results

#### General Data

Issued Capital (m)	1,516
Mkt Cap (\$m/US\$m)	2,305 / 1,545
Major Shareholder	
Temasek Holdings	(54.37%)
Free Float (%)	45.6%
NTA per share (SGD)	0.45
Daily Vol 3-mth ('000)	3,322
52Wk High (\$)	2.010
52Wk Low (\$)	1.420

## FY09 results in line with expectations

**FY09 results in line with expectations.** SMRT announced its 4QFY09 results last Friday, with revenue growing 4.1% YoY (-1% QoQ) to S\$216.9m and net profit rising 13.0% YoY (-6.2% QoQ) to S\$38.7m. This brings the total FY09 revenue to S\$879.0m (+9.6%) and net income to S\$162.7m (+8.5%). The strong top line performance came mainly from increased train and bus ridership, growth in rental and advertising revenue, increased consultancy revenue and higher project management fees. Despite experiencing higher operating expenses from increased staff and related costs, energy costs and loss on disposal of taxis, the group managed to post higher profit due partly to Singapore Budget measures. In 4QFY09, particularly, SMRT enjoyed ~S\$7.4m of deferred tax write-back as a result of 1% corporate tax reduction. As such, while FY09 revenue was in line with our sales projection, net income was 4.7% ahead of our expectations. Excluding the tax benefit, we note, profit before tax of S\$185.8m was spot on with our forecasts. SMRT ended the year by declaring a final cash dividend of 6 cents/share, bringing the total FY09 dividend to 7.75 cents, or a yield of 5.1%.

**Mixed 1QFY10 outlook.** For the upcoming quarter, SMRT is expecting revenue from train and bus operations to be lower YoY due to the 4.6% fare reduction package (effective from 1 April 2009) as announced by Public Transport Council in Feb 2009. Operating expenses are also likely to trend higher YoY due to higher repair and maintenance costs, and increased headcount with the commencement of Circle Line Stage 3 in May 2009. In addition, revenue from Advertising is anticipated to be lower, while the outlook for taxi is expected to remain challenging (although management expects average hired-out rate and its financial performance to improve in FY10). However, revenue from rental is projected to be higher YoY due to increased lettable space and better yield.

**Maintain BUY.** As the results and outlook were largely in line with our expectations, we have left our FY10F revenue unchanged. However, to reflect a lower tax rate and slightly lower-than-expected dividend payout, we have made minor changes to our income tax and dividend assumptions. This in turn eases our DDM-derived fair value to S\$1.81 (S\$1.83 previously). Despite this, we continue to like SMRT for its defensive nature, consistently strong dividend payouts and strong operating cash flows. Seeing that the share price has eased somewhat in recent weeks, we believe the stock has an even more attractive entry point now. Maintain **BUY**.

#### Kevin Tan

(65) 6531 9809

e-mail: KevinTan@ocbc-research.com

Year to 31 Mar	Turnover (\$m)	Gross Profit (\$m)	Net Profit (\$m)	EV/EBITDA (x)	EPS (SG cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 08	802.1	258.4	149.9	8.2	9.9	10.5	15.4	5.1
FY 09	879.0	287.5	162.7	7.7	10.7	8.5	14.2	5.1
FY 10F	906.2	301.7	165.6	7.3	10.9	1.7	13.9	5.3
FY 11F	955.2	318.2	174.5	6.9	11.5	5.4	13.2	5.4

Please refer to the important disclosures at the back of this document.

**SMRT's Key Financial Data**

<b>SMRT Results</b> Year Ended 31 Mar (S\$ m)	<b>4Q08</b> (S\$m)	<b>4Q09</b> (S\$m)	<b>% Chg</b> (YoY)	<b>3Q09</b> (S\$m)	<b>% Chg</b> (QoQ)
Revenue	208.5	216.9	4.1%	219.0	-1.0%
Gross profit	62.1	66.1	6.4%	72.5	-8.9%
Gross margin	29.8%	30.4%		33.1%	
EBITDA	65.8	64.7	-1.6%	78.7	-17.7%
Depreciation & amortisation	-27.0	-27.3	1.1%	-28.2	-3.1%
Operating profit	38.8	37.4	-3.5%	50.5	-25.9%
Finance costs	-1.9	-1.8	-5.4%	-1.8	-1.1%
Interest and investment income	0.8	0.4	-48.0%	1.1	-60.0%
Associates	0.2	0.1	-28.7%	0.0	nm
Pre-tax profit	37.8	36.1	-4.5%	49.7	-27.3%
Tax	-3.7	2.5	nm	-8.5	nm
Minority interests	0.0	0.0	nm	0.0	nm
Net profit	34.2	38.6	13.0%	41.2	-6.2%
Net Margin	16.4%	17.8%		18.8%	

**EARNINGS FORECAST**

<b>Year Ended 31 Mar (S\$ m)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10F</b>	<b>FY11F</b>
Revenue	802.1	879.0	906.2	955.2
EBITDA	284.1	299.0	314.4	327.6
Depreciation & amortisation	-106.1	-110.4	-114.1	-117.4
Operating Profit	178.0	188.7	200.2	210.2
Finance costs	-8.0	-7.4	-7.4	-7.4
Interest and investment income	5.8	4.1	4.1	4.8
Associates	0.3	0.3	0.2	0.2
Pre-tax profit	176.2	185.8	197.1	207.8
Tax	-26.2	-23.0	-31.5	-33.2
Minority interests	0.0	0.0	0.0	0.0
Net profit	149.9	162.7	165.6	174.5
Earnings per share (cents)	9.9	10.7	10.9	11.5
Fully diluted earnings per share (cents)	9.9	10.7	10.9	11.5

**BALANCE SHEET**

<b>As at 31 Mar (S\$ m)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10F</b>	<b>FY11F</b>
Cash	232.5	245.6	262.9	304.8
Other current assets	122.8	146.7	148.5	154.1
Fixed assets	1,032.8	1,061.5	1,049.3	1,043.7
Other long term assets	49.4	47.6	47.6	47.6
Total assets	1,437.6	1,501.5	1,508.2	1,550.3
Current liabilities less debt	229.9	266.3	243.1	253.9
Debt	250.0	250.0	250.0	250.0
Other long term liabilities	280.6	263.1	245.0	226.8
Total liabilities	760.5	779.4	738.1	730.7
Shareholders equity	677.1	722.1	770.1	819.6
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	1,437.6	1,501.5	1,508.2	1,550.3
NTA per share (cents)	41.9	44.9	48.0	51.3

**CASH FLOW**

<b>Year Ended 31 Mar (S\$ m)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10F</b>	<b>FY11F</b>
Operating profit before working cap. changes	298.5	319.3	314.5	327.8
Working capital changes	-11.5	5.0	-24.9	5.1
Interest and tax	-20.4	-41.3	-35.8	-37.3
Net cash from operations	266.5	283.1	253.8	295.6
Capex	-97.1	-139.5	-120.0	-130.0
Other investing flows	5.3	-13.6	1.0	1.5
Investing cash flow	-91.7	-153.1	-119.0	-128.5
Change in equity	1.8	0.3	0.0	0.0
Net change in debt	0.0	0.0	0.0	0.0
Dividends paid	-113.6	-117.5	-117.5	-125.1
Others	0.0	0.0	0.0	0.0
Financing cash flow	-111.8	-117.1	-117.5	-125.1
Net cash flow	63.0	12.8	17.3	42.0
Cash at beginning of year	169.6	232.5	245.6	262.9
Effect of exchange rate fluctuations on cash held	0.0	0.2	0.0	0.0
Cash at end of year	232.5	245.6	262.9	304.8

**Key Ratios**

PER (x)	15.4	14.2	13.9	13.2
Price/NTA (x)	3.6	3.4	3.2	3.0
EV/EBITDA (x)	8.2	7.7	7.3	6.9
Dividend yield (%)	5.1	5.1	5.3	5.4
ROIC (%)	3.9	5.5	5.5	4.6
ROE (%)	22.8	23.3	22.2	22.0
Net gearing (%)	2.6	0.6	Net Cash	Net Cash
PE to growth (x)	1.5	1.7	8.0	2.4

Source: Company data, OIR estimates

**SHAREHOLDING DECLARATION:**

The analyst/analysts who wrote this report holds NIL shares in the above security.

**RATINGS AND RECOMMENDATIONS:**

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

**DISCLAIMER FOR RESEARCH REPORT**

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged/Confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this message that do not relate to the official business of my company shall not be understood as neither given nor endorsed by it.

Co.Reg.no.: 198301152E

For OCBC Investment Research Pte Ltd



Carmen Lee  
Head of Research

Published by OCBC Investment Research Pte Ltd