

## Singapore Land Transport Sector

| Negative | Neutral | Positive |
|----------|---------|----------|
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### Go-Ahead's next stop: Singapore

- We spoke to new entrant Go-Ahead Group to better understand its plans in Singapore
- We still expect the upcoming transition to a new contracting model to positively impact the financials of the existing operators
- CDG is in a better position to benefit from this shift, given its greater exposure to the bus segment, in our view

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**What's new:** We spoke to Go-Ahead Group, a UK-based transport services operator, to better understand its plans as a new entrant in the Singapore bus market. In November 2015, the company was awarded a contract by the regulator to operate the second tendered bus package (titled the "Loyang" package), after it won with a SGD498m bid for a 5-year period (with a 2-year extension option). The company is currently the largest bus operator in London, with a 24% share of the market, just ahead of ComfortDelGro's (CDG) Metroline (22%).

**What's the impact:** Go-Ahead said it views the Singapore bus market as an attractive opportunity, as it is familiar with the upcoming government contracting model (GCM) to be implemented by the regulator in September. The GCM is essentially a hybrid of London's existing Quality Incentive Contract (QIC) model – the key difference between them is that in the case of the GCM, all bus-related assets will be owned by the government.

According to the company, it believes a base operating margin of 5-7% (excluding provisions for incentive payments) is achievable in the Singapore market, despite being the lowest bidder among the 8 shortlisted participants. In addition, embedded as a quality component of its successful contract bid are a host of new features it intends to introduce (eg, free WiFi on its buses, multiple payment fare payment modes, bus arrival information updates for commuters etc), with the aim of raising service quality standards.

In terms of staff recruitment, which arguably represents the biggest challenge for Go-Ahead as a new entrant and foreign operator, it is confident it can hire the 900 staff it requires. Thus far, its basic pay for bus drivers is 5-15% above levels currently offered by CDG and SMRT.

**What we recommend:** Our discussions with Go-Ahead strengthen our conviction that incumbent operators **CDG** (CD SP, SGD3.03, Buy [1]) and **SMRT** (MRT SP, SGD1.65, Underperform [4]) are likely to benefit from the transition to the GCM through: 1) a significant improvement in operating margin, with the transfer of revenue risk to the government, and 2) a reduction in capex, as the government will own all bus-related assets. We reiterate our preference for CDG over SMRT, as the former is better placed to leverage this operational shift given the bus segment is CDG's largest segment (32% of Singapore revenue vs. SMRT's 19%).

**How we differ:** We believe the attractiveness of the GCM in the Singapore bus segment could be under-appreciated by some in the market.

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