COMFORTDELGRO (CDG)

AN ANALYSIS OF ITS PERFORMANCE, STRATEGY AND GOVERNANCE

MAY 2024

Corporate Monitor Limited

ABOUT CORPORATE MONITOR LIMITED

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This report is based on (i) the Annual Reports of respective firms and other publicly available information, (ii) CML's attendance as a proxy at CDG's AGM (April 2024) and (iii) CML's Zoom call with CDG Investor Relations (May 2024).

All questions posed by CML, along with CDG's responses, are stated in this report.

We appreciate CDG's engagement with our queries and its invitation for such engagement to continue.

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EXECUTIVE SUMMARY

ComfortDelgro (CDG) is integral to Singapore's transportation network, operating taxis, buses, and trains. Faced with issues in Singapore, such as its small market size and the government's desire for public transport competition, CDG has made serious efforts to diversify overseas in its search for growth and stability. This report analyses the strategy, governance and performance of CDG. It does not and should not be read as financial advice.

Shareholder Value Creation

CDG has struggled to generate shareholder value over the past decade with its stock, yielding an annualized Total Shareholder Return (TSR) of only 0.4%, significantly underperforming against benchmarks like the STI.

Financial Performance

Revenue and Profit Margins. Over the past decade, CDG's revenue has grown by only 5% in total, with profit being 40% below its peak due to public transport's inherently low and declining margin, along with the intense competition in the taxi segment. The decline in profitability is structural and calls for strategic action.

Return on Equity (ROE). CDG's ROE has consistently fallen short of its cost of equity, eroding shareholder value. CDG has publicly stated that it has no target ROE. There is no indication that the group will be able to achieve returns that meet its cost of equity in the future.

Strategy

Investments and Acquisitions. CDG has invested over S$1 billion since 2014, primarily in overseas expansions and acquisitions. These investments and acquisitions appear to be underperforming, as evidenced by the stagnant revenues and reduced profitability. FX and regulatory risk are considerable and can further reduce profits.

Public Transport and Taxi. CDG claims that public transport's low return is acceptable due to its low risk but this may overlook the potential for losses due to the razor thin margins. The UK business, in fact, has shown losses and sharp volatility. The taxi segment reveals permanent disruption, with intense competition from ride-hailing firms capturing large market shares globally – yet CDG made a sizeable investment in a taxi business in Australia in 2024, at a very high valuation.

Moving into Related Industries. While its past forays have not moved the needle, its 2024 investment in a managed transport provider, CMAC Group UK, may be promising due to its asset-light model. However, this is a low margin business, and it is too early to conclude if it can be scaled meaningfully to boost overall returns.

Governance, Management and Remuneration

Executive Remuneration. There is a misalignment between executive remuneration and company performance. Despite low, falling shareholder returns, executive remuneration has increased.

Transparency and Accountability. Unlike its global peers, CDG does not disclose specific financial targets and detailed KPIs for executive remuneration, raising concerns about the alignment of management's interests with shareholders. CDG runs contrary to local benchmarks too, with MAS' Practice Guidance advocating similar disclosures for listed firms.

Corporate Structure. CDG comprises 3 separately listed entities, with the smallest, VICOM, having annual revenues of just S$110m. The elaborate structure extends to the group's directorships, with overlapping directors and more than 30 directorships in total. A comparison with SGX-listed peers shows the potential to simplify CDG's corporate structure and board. This can result in cost savings and improve the efficiency of decision-making.

Conclusion

Financial Discipline. Revenue in the last 10 years has stagnated, while profit after tax has declined by 40% from its peak. ROE has been on a long term decline, and in recent years, lower than the cost of equity of 9%. CDG needs to define clear financial targets, particularly regarding ROE and TSR.

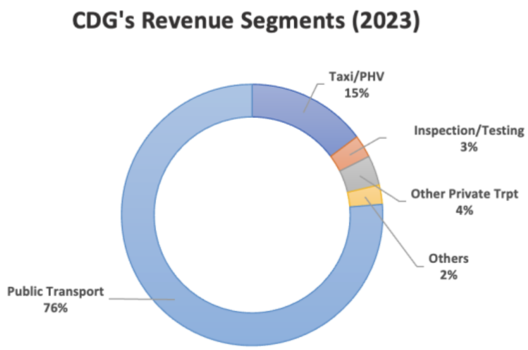
Strategic Clarity. CDG's current strategy is a case of "more of the same". Scaling up, via bidding of public contracts and acquisitions, has not brought satisfactory returns. This is not due to temporary weaknesses or events, but long-term structural challenges within its businesses. Articulation of a strategic road map to achieving financial targets is needed.

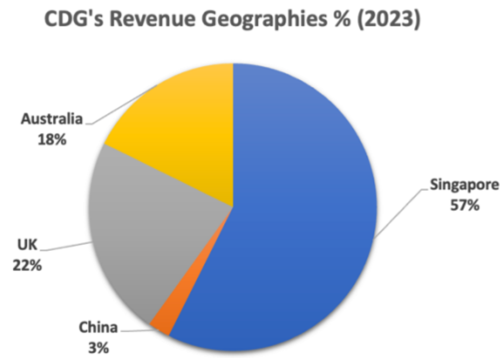
Governance. To better align management and shareholder interests, KPIs for executive remuneration should be defined and disclosed. Setting shareholder-centric KPIs, such as ROE and TSR, would place the firm in line with global and local benchmarks. The group's unwieldy corporate structure does not compare favorably with other SGX-listed firms. A rationalization review of its structure can lead to more effective and efficient decision making, along with cost savings.

1. COMFORTDELGRO: BACKGROUND

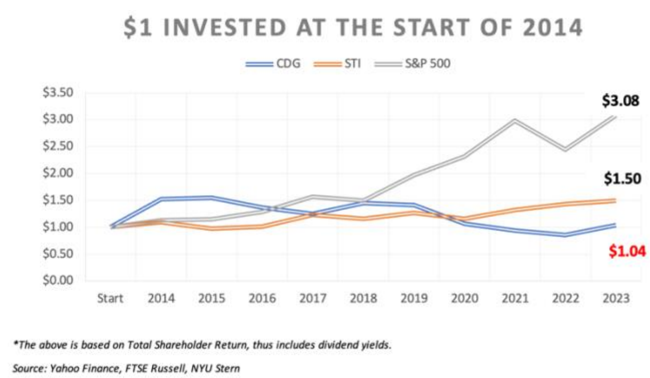
ComfortDelgro (CDG) plays an essential role in the life of a typical Singaporean, with its taxis, buses and trains.

CDG's core revenue comes from the public transport segment (bus and rail) in Singapore. The public transport segment has seen declining margin. Its taxi segment, which was once its most profitable segment, has lost market share to ride-hailing competitors. In its bid to maintain revenues and margins, CDG has been aggressively expanding overseas.





Over the past 10 years or more, CDG has struggled to create shareholder value. Its share price performance has been lackluster, with dividends providing limited respite. Based on Total Shareholder Return (TSR), it yielded an **annualized return of 0.4% over the past 10 years**, resulting in negative real returns after considering inflation. This pales in comparison with the STI, which itself has underperformed compared to international benchmarks like the S&P 500.

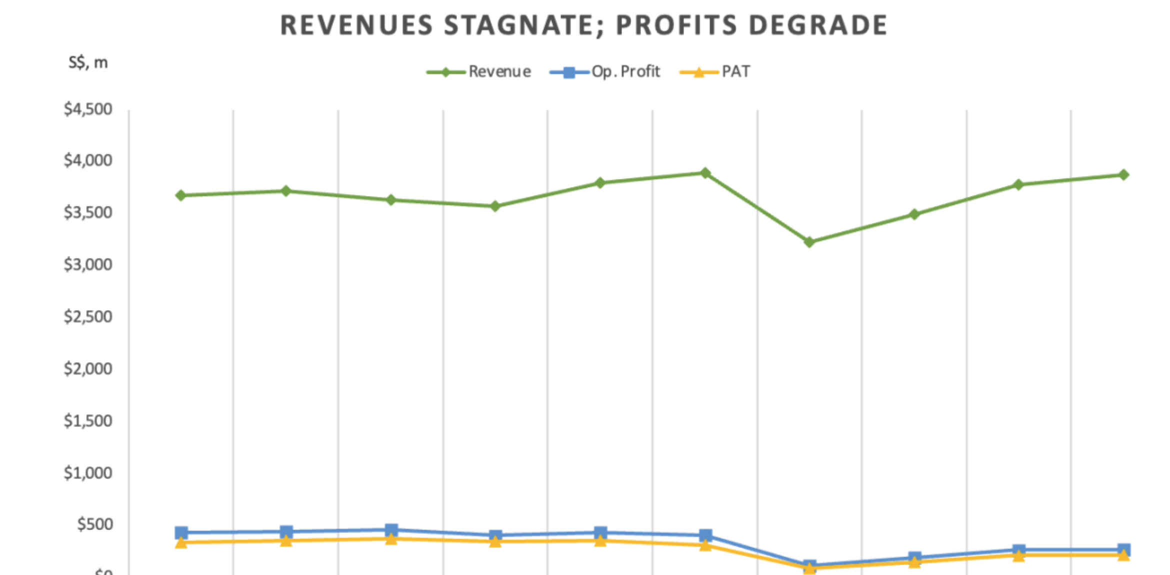


This report analyses **the reasons for CDG's underperformance, and how its current strategy, governance and management practices may have contributed to the underperformance.**

As of the report's publication on 30th May 2024, CDG's share price is **S$1.40**.

2. A DECADE OF UNDERPERFORMANCE

2.1 Revenue, Profits, ROE Performance Disappoint



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,680.20	3,725.70	3,635.50	3,576.40	3,805.20	3,901.10	3,228.60	3,502.8	3,780.8	3,880.3
Op. Profit	442.1	450.7	462.2	409.2	438.8	415.8	123.1	199.8	270.0	272.1
PAT	344.0	363.8	378.4	348.9	358.8	318.2	92.7	152.9	218.5	225.0

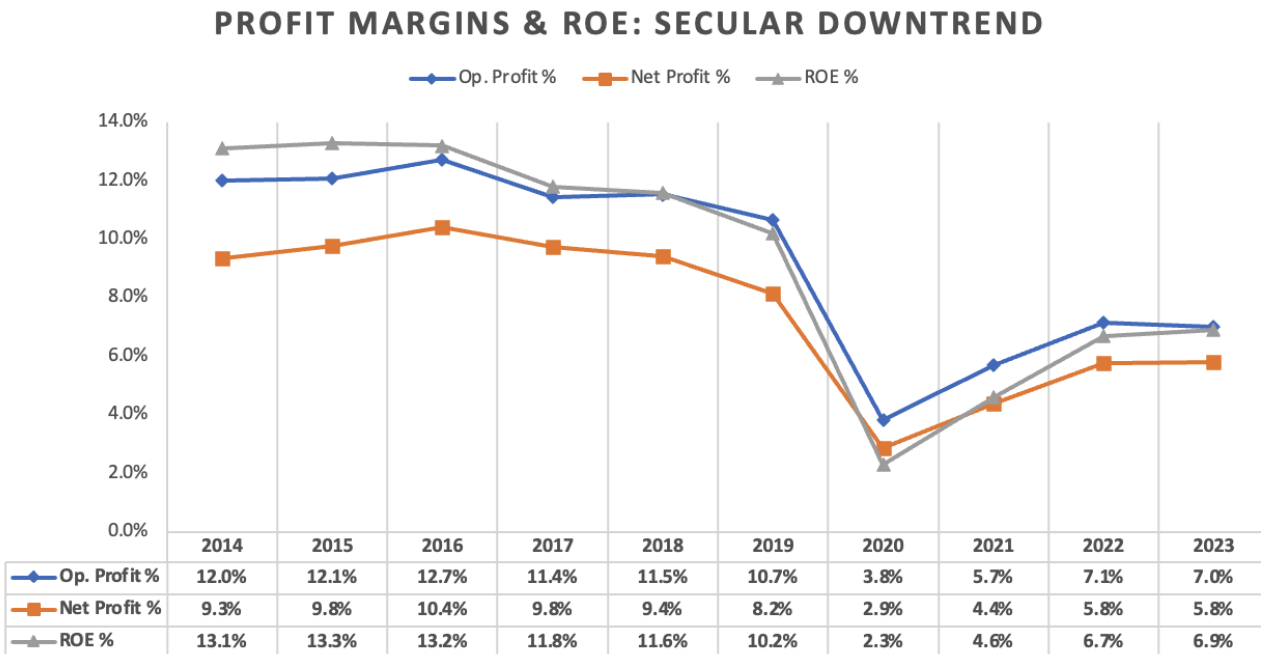
Source: CDG Annual Reports 2014 - 2023

CDG's decade of underperformance is seen with its latest revenue being merely 5% higher than 2014's.

The post-COVID recovery in transportation revenues is driven by the return to "business as usual" and the global trend for governments to encourage public transport as a solution to climate change concerns. However, there are structural headwinds to passenger numbers due to the adoption of "work from home" arrangements by businesses.[1]

CDG's Profit After Tax (PAT) never recovered and is currently standing at around 40% below its peak in 2016. As the above are nominal figures, it is worth mentioning that factoring in the decade's inflation would mean the real value of revenues and profits are significantly reduced.

1 https://www.straitstimes.com/singapore/transport/public-transport-ridership-hit-935-of-pre-pandemic-levels-in-2023#:~:text=According%20to%20figures%20released%20by,with%203.46%20million%20in%202022.



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Op. Profit %	12.0%	12.1%	12.7%	11.4%	11.5%	10.7%	3.8%	5.7%	7.1%	7.0%
Net Profit %	9.3%	9.8%	10.4%	9.8%	9.4%	8.2%	2.9%	4.4%	5.8%	5.8%
ROE %	13.1%	13.3%	13.2%	11.8%	11.6%	10.2%	2.3%	4.6%	6.7%	6.9%

Source: CDG Annual Reports 2014 – 2023

Margins have plummeted and are unlikely to recover to pre-COVID levels. Currently, this is due to 3 key reasons:

1) CDG's Public Transport segment has seen low and declining profit margins. It dominates, as of 2023, with 76% of revenue. The proportion is roughly the same over the years.

2) CDG's Taxi business, which is a higher margin segment, has faced intense competition from ride-hailing companies. For the past 5 years, it has seen its revenues drop by about 29%.

3) High margin segments like inspections and driving instruction are difficult to meaningfully scale. They currently contribute a mere 5% of total revenues. Forays into other segments have not yielded meaningful margins as yet.

2.2 Inadequate Return on Equity (ROE) Eroding Shareholder Value

Using the figures disclosed in the 2023 Annual Report below, CDG's ROE is below the estimated cost of equity.

Cost of Debt	Gearing	Return on Equity	Cost of Equity (Maybank's Estimate)
~4.6%	11.9%	6.9%	9%

Maybank has estimated CDG's cost of equity to be 9%. We think this estimate is reasonable, given the high interest rate environment and CDG's debt already costing 4.6% on average.

Since 2020, CDG's ROE has been significantly below the 9% cost of equity, as shown in the table below.

Financials	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
ROE %	13.1%	13.3%	13.2%	11.8%	11.6%	10.2%	2.3%	4.6%	6.7%	6.9%

***ROE % is taken directly from CDG's Annual Reports**

CDG's ROE has been on a long-term decline even prior to Covid, with structural forces within the industry meaning that it is unlikely to achieve the 13% ROE that it achieved in 2014. A company that is unable to achieve its cost of equity is reducing shareholder value.

CML'S AGM QUESTION:
What is CDG's ROE target? Is there a rough timeline to achieving it and the strategy to achieve it?

CDG'S AGM REPLY: (Emphasis ours)
"We have to ***scale up****, we have to* ***leverage on the size*** *in order to lower down the cost of operations, with a look at how we can synergize across a whole group… we are looking into using technology, actually, to see how we can compete at a far better rate, in a way that's sustainable with the Uber and the Grab of the world.*

If you look at the more recent acquisitions, we're also ***branching to adjacent businesses that have got improved margin****, better margin. So this is where the quality of earnings will start to improve, as we look into the adjacent businesses that will, again, help us, actually, to counter this effect of just a single line of business of just taxi or PHC, for that matter. So combined together, these are all the various strategies that we are taking to improve our overall ROE.*

Do we have a specific ROE target? At this point in time, we don't*. But clearly, we are working towards improving the quality of earnings. And that is front and center in all the investments that we take, whether in terms of bidding or M&A."*

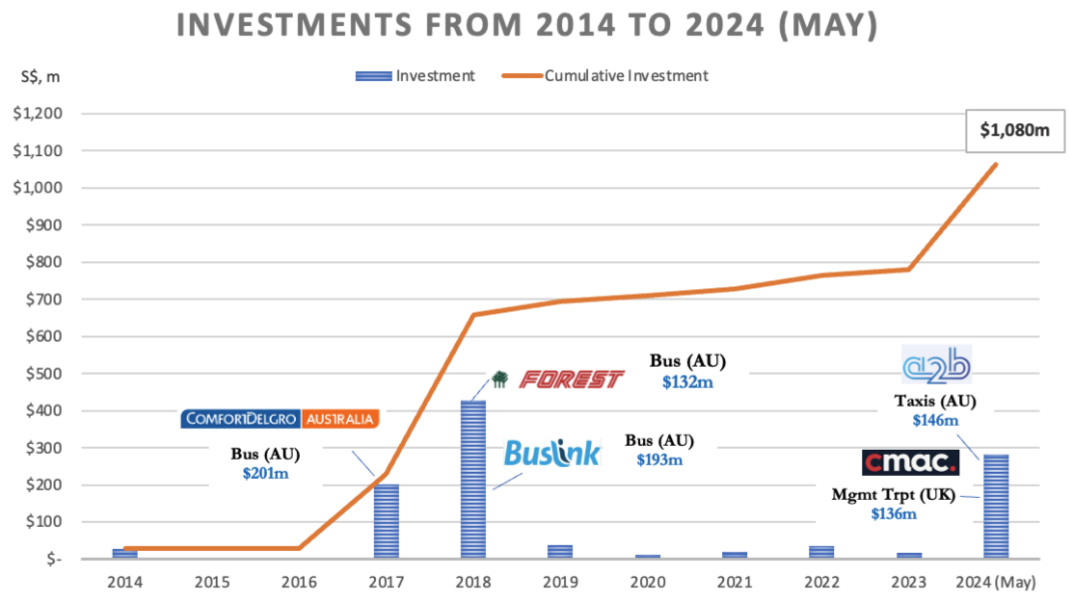
It is disappointing that CDG does not have a specific ROE target. CDG prefers to speak of its growth in absolute dollar revenues and profits instead. It then tries to achieve this metric by bidding for more public transport contracts and making acquisitions in developed markets.

However, wading deeper into public transport exacerbates CDG's already low margins and ROE. The segment's intense competition leads to depressed contract margins for the winners. This is perhaps more so in developed markets which CDG is expanding into. CDG's public transport peers, such as Kelsian (Australia), FirstGroup (UK) and RATP (France), have very modest operating and profit margins. For example, operating margins range from 2% to 4% for the aforementioned foreign peers in 2023. Some, like Mobico UK, are even incurring operating losses.

In summary, CDG is eroding shareholder value, as reflected by its low and declining ROE. The strategy of "more of the same" will only drive ROE lower. CDG's reticence in addressing this core issue is perhaps an implicit acknowledgement of its failure in identifying a strategic path to requisite margins and returns.

3. STRATEGY – OLD FIXES FOR NEW CHALLENGES?

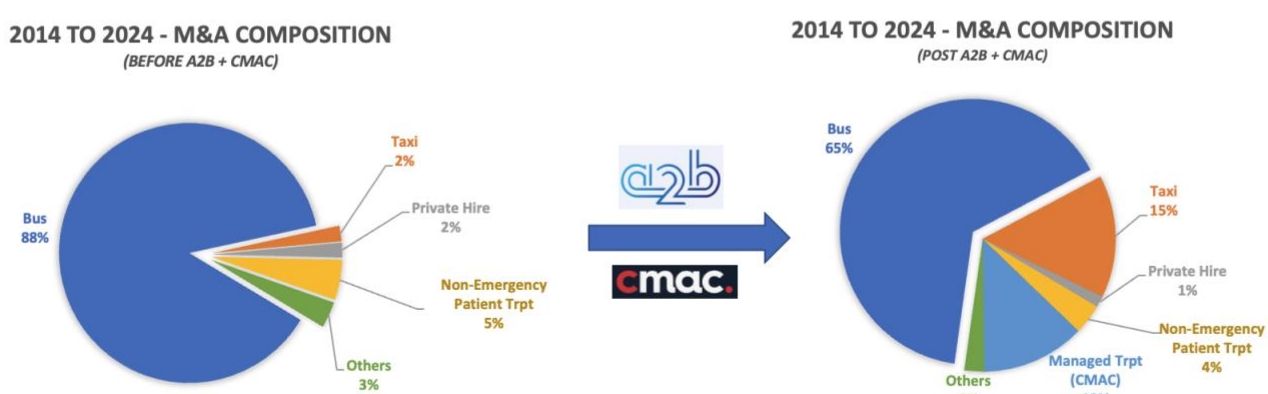
3.1 CDG Has Spent Massive Sums in Acquisitions



Source: CDG Annual Reports 2014 – 2023

In its bid to survive and grow in a challenging environment, CDG has cumulatively invested over S$1bn since 2014. This amounts to a third of its current market capitalization (May 2024) of S$3bn. (See Appendix for the full breakdown)

Despite the large sums invested, its ever-decreasing margins and profits show that it continues to struggle to find new investment opportunities that can generate attractive returns. It thus is unable to compensate for the declining performance of the public transport and taxi segment in Singapore.



The pie charts' breakdown of CDG's M&A activities show that prior to the large acquisitions of A2B (Taxi) and CMAC (Managed Transport) in 2024, CDG had consciously minimized investments in the taxi segment and focused purely on bus-related acquisitions in Australia and UK. As bus services have a much lower margin profile (Public Transport: 4% EBIT as at 2023), the heavy investments therein will lower CDG's overall margins for the long-run.

CDG's record of acquisitions raises two questions,

1) **After spending S$1b on acquisitions, CDG's revenue is flat while operating profit and profit after tax are down 39% and 35% respectively in the 10-year period. As it stands, such investments have eroded shareholder value. Could management have made better use of such funds?**

2) **Management seems to have re-oriented towards the taxi segment for its higher margins. However, this segment has been irreversibly disrupted by ride sharing and is in structural decline. While such investments might temporarily improve the overall margins, is it sustainable?**

CDG's renewed interest in the disrupted taxi segment, with its recent A$182m A2B acquisition, warrants closer examination and will be discussed later.

3.1.1 CDG's Venture Fund

In addition to the acquisitions discussed earlier, CDG also set up an in-house S$100m venture fund in 2019. Of that, S$30m is used to set up its Autonomous Vehicle Centre of Excellence[2], a research center for self-driving capabilities.

There is limited visibility on the venture fund. What we have gathered is that it is managed in-house by the Corporate Development Division[3] and has the stated objective to "identify strategic investments to support the Group's business transformation."[4] It discloses most of its investments in US$ and has invested US$19m[5] thus far in the following:

1) **Haulio** (US$1.5m) – Platform for container trucking services
2) **Swat** (US$740k) – Bus routing technology
3) **Foretellix** (Unknown amount) – Autonomous vehicle safety
4) **Drive Lah** (Unknown amount) – Carsharing platform
5) **Ottopia** (US$4m) – Teleoperation technology
6) **Shift4Good** (EU$4m) – Global VC impact fund that focuses on mobility

CDG's stated objective is to be kept abreast of the latest technologies within the industry and deepen its understanding of them. There is merit in investing to identify new technologies and business opportunities. However, it is questionable whether an in-house fund could gain access to the best mobility startups in competition against global strategic players (e.g. Uber, Tesla, Toyota) and top-tier venture funds (e.g. Sequoia), which have far greater financial resources as well as access to top talent.

2 https://www.businesstimes.com.sg/companies-markets/transport-logistics/comfortdelgro-invest-s30m-autonomous-vehicles
https://www.businesstimes.com.sg/opinion-features/comfortdelgros-venture-arm-may-need-fuller-autonomy-if-it-live-its-potential
3 CDG Annual Report 2023, Pg 90
4 CDG Annual Report 2019, Pg 11
5 CDG Annual Report 2023, Pg 4

3.2 Taxis – Disrupted, with Market Share Reduced

Taxis	2019		2020		2021		2022		2023	
	S$ mil	% of group	S$ mil	% of group	S$ mil	% of group	S$ mil	% of group	S$ mil	% of group
Revenue	806	21%	482	15%	516	15%	555	15%	575	15%
Op Profit	128	31%	-34	-28%	34	17%	67	25%	107	40%
Op Profit %	15.88%		-7.05%		6.59%		12.07%		18.61%	

Source: CDG Annual Reports 2019 – 2023

Taxi revenue in 2023 is 29% below that in 2019. While COVID has a part to play, we believe that the structural decline in the taxi segment is the main reason. This can be seen from the fact that taxi revenue stays at 15% of CDG's total from 2020 to 2023 even as overall revenue recovered post-COVID. The ratio was 21% in 2019.

The table below shows the taxi industry's decline, with all players severely downsizing their fleet.

Changes in Singapore taxi fleet sizes

Operator	Dec 2017	Dec 2023	% change
Comfort	9,825	6,565	(33.2%)
CityCab	3,419	2,258	(34.0%)
Trans-Cab	3,686	2,097	(43.1%)
Strides	3,380	1,360	(59.8%)
Premier	2,055	784	(61.8%)
Prime	691	532	(23.0%)
Yellow-Top (privately-owned)	84	24	(71.4%)
Total	**23,140**	**13,620**	**(41.1%)**

SOURCE: LAND TRANSPORT AUTHORITY
GRAPHIC: BTVISUAL

The Singapore government introduced regulations to reduce costs for taxi operators, in an attempt to level the playing field between operators and private-hire firms. However, industry experts do not think this will turn the tide as commuters' preference towards ride-hailing is already ingrained.[6]

The bright spot in the taxi business is that margin has recovered and exceeded pre-COVID 2019. This is driven by the increase in fares and the roll out of CDG's transport app (ZIG) in 2021. It also introduced fare-based commissions, which were at 5% up to 2023. CDG increased commissions further to 7% from 1 Jan 2024.[7] However, with Gojek's 10% commission rate and Ryde charging 0%, we believe there is limited headroom to increase this further. CDG's partnership to share its platform with GoJek will allow CDG to earn further commissions from the rides it supplies to GoJek's platform.[8] CDG has also entered the private-hire space, renting out vehicles to private-hire drivers and integrating such drivers within the ZIG app.

6 https://www.businesstimes.com.sg/companies-markets/transport-logistics/new-regulations-won-t-halt-decline-taxi-population-say-industry-watchers
7 https://www.businesstimes.com.sg/companies-markets/comfortdelgro-raise-taxi-commissions-booked-rides-7#
8 https://vulcanpost.com/858187/comfortdelgro-taxi-drivers-accept-gojek-rides-singapore/

"We have gone through significant disruptions… unfortunately, for many of these ride share companies coming in…they're buying a market share... they are not reporting positive earnings"

CDG at AGM (26 April 2024)

During the latest AGM held in April 2024, the sentiment conveyed by management was that the ride-hailing firms' low fares and discounted promotions are unsustainable, thus implying that these pressures will subside.

However, this ignores the core difference between the ride hailing firms and CDG. Grab's and Gojek's business model are to monetize their user base through payments, e-commerce and finance. Losses from ever-low fares and promotions may be considered by these firms to be "marketing expense" to attract and retain users. In addition, the ride hailing firms are making strides in achieving profitability by cost cutting, whilst maintaining their low fares. [9,10]

Therefore, it is likely they will continue to take more market share over time.

3.2.1 Concerns with Acquiring Overseas Taxi Businesses

CDG runs taxi operations in Australia, UK and China. Its taxi ventures in Vietnam and Malaysia both failed.

In 2024, it dug in further, with a full takeover of the Australian firm A2B (8,000-strong taxi fleet) for A$182m, at a 31% premium on its 3-month volume weighted average price. Our concerns with this strategy are 2-fold.

1) **With the global decline in the taxi industry as discussed in the previous section, the strategy to further invest in Australia's taxi segment appears to go against the trend.**

As in other markets, ride sharing has greatly disrupted the taxi business in Australia. Since 2019, Uber had already surpassed taxis in Australia as the preferred private transport service, with taxis having an edge only in the "50 and above" age group.[11] This does not bode well for the medium term. The tourist segment has also been successfully penetrated by the ride hailing firms, as evidenced by the dedicated ride-hailing zones created in Sydney and Melbourne airports[12]. Uber has been expanding and reaping economies of scale, allowing it to have a positive gross profit margin in Australia.[13] The growth of ride-hailing will inevitably further affect the taxi industry.

For such a sizeable acquisition, CDG has not meaningfully disclosed the strategic logic behind its investing into the highly competitive and disrupted taxi segment in Australia.

9 https://www.businesstimes.com.sg/companies-markets/brokers-take-dbs-upgrades-goto-buy-undemanding-valuation-expects-fintech-breakeven-fy2025
10 https://www.businesstimes.com.sg/companies-markets/grabs-q1-loss-narrows-us-115-million
https://www.businesstimes.com.sg/startups-tech/startups/grab-injects-s1451-million-gxs-bank
11 https://www.roymorgan.com/findings/ride-sharing-app-uber-overtakes-taxis-as-preferred-private-transport-service#
12 https://www.sydneyairport.com.au/info-sheet/by-taxi-and-rideshare
https://www.melbourneairport.com.au/rideshare
13 https://www.afr.com/companies/transport/australia-is-uber-s-crown-jewel-after-revenues-surge-to-9-2b-20231029-p5efui

2) There is little clarity on whether the A$182m A2B acquisition price creates shareholder value.

An analysis of A2B's Annual Reports shows that A2B had been loss-making for the years 2020 to 2022 (Cumulative net losses totaled A$70m over the 3 years).

In 2023, it reported a large statutory profit of A$27m, which was mainly due to the A$21.3m gains from the sale of its properties. Adjusting for all non-recurring gains, profit was a mere A$4m for 2023. CDG's acquisition at an equity value of A$182 million translates into a PE ratio of 46 times.

CDG expressed confidence that it made a prudent investment, as seen in its AGM response below.

CML'S AGM QUESTION:

A2B had been loss-making for the years 2020 to 2022. If we adjust for the sale of assets in 2023, it made a profit of about A$4 million and CDG acquired it for A$182 million... At 46x PE, can we have some colour on the valuation side of things for A2B?

And knowing that the structure of the taxi industry, both in Singapore and globally, is under a lot of pressure, some colour on the further investment within the taxi industry?

CDG'S AGM REPLY:

"We have also similarly covered most of the points that you have raised during the due diligence process, and as with all acquisitions, we are very prudent and relatively conservative in terms of our investment approach. Let me assure you that the results of A2B, as we have seen in the last few years, are largely impacted in the COVID years and the tailwind from and the aftermath of COVID. So they are in a recovering position, and without mentioning details, results going forward, which will be deemed as a forecast, I will say that they are performing in line with our due diligence forecast and numbers coming in.

So we are pleased to report that we're happy with what we're seeing at this point in time."
[Note from CML: there was no response given on further investment in the taxi segment]

We find CDG's response does not fully address our concerns. We have 3 further points,

1) CDG has been a 9.3% shareholder prior to the full acquisition in 2024. Management presumably has intimate knowledge of A2B. Why such reticence in addressing our question?

2) A PE of 46x is unusually high. Even if A2B's profit were to double, the adjusted PE of 23x is still much higher than CDG's current P/E multiple of 17x and hence dilutive to CDG shareholders.

3) On a Net Book Value basis, A2B sold off 2/3 of its properties in Sydney and Melbourne for A$105m. From the proceeds, it declared special dividends of A$73.8m to its shareholders[14], prior to CDG's acquisition.

Such a move risks hollowing out A2B's operations, with several properties leased back[15], A2B is saddled with higher operating costs. For example, the sale of the O'Roirdan Street property for A$78m, has a lease back arrangement and is estimated by A2B's management to account for a net negative EBIT impact of A$4m in FY25.[16] As future profits can be weighed down, CDG's acquisition may not be accretive, even if the taxi business recovers in the long run.

3.3 Public Transport – A Low Risk Venture?

3.3.1 A Definite Low-Margin Industry

And likewise, for the public transport side, we also see ***more competitive bidding*** *coming online, and the margins from those large contracts are also coming down. So what is our response? So as we've seen last year, what we have done is that we have actually expanded and grown in scale for many of the public transport businesses that we are involved in. So if you look at expanding the rail, rail actually expands very large revenue,* ***although at a smaller margin****, but you gain scale.*

And that, ***in terms of absolute return, actually gives us a bit better and very stable return****. And in addition to that, many of these large contracts are asset* ***gross-cost model*** *for which the* ***risk commensurate to return is much better****, because you* ***don't take a lot of risk*** *associated with those.   [emphasis ours]*

CDG CEO, April 2024 AGM

CDG's management acknowledged in that statement that public transport margin is on a structural downtrend. The following table makes this clear. While revenue increased by 7%, operating profit is down by 45%.

Public Trpt	**2019**		**2020**		**2021**		**2022**		**2023**	
	S$ mil	**% of group**	**S$ mil**	**% of group**	**S$ mil**	**% of group**	**S$ mil**	**% of group**	**S$ mil**	**% of group**
Revenue	2,769	71%	2,469	76%	2,659	76%	2,887	76%	2,959	76%
Op Profit	218	52%	130	107%	115	57%	163	60%	120	44%
Op Profit %	7.87%		5.27%		4.32%		5.65%		4.06%	

Source: CDG Annual Reports 2019 – 2023

In the public transport segment, which encompasses CDG's rail and bus services, operating profit margins have decreased over time to a low of 4%. While we agree with CDG's assessment of the margin trend, we do not see how its strategy of bidding for more contracts and making acquisitions in public transport in developed markets could turn this around. Firms in such markets have even lower margins, as shown in the table below.

14 https://www.a2baustralia.com/investor-center/asx/
ASX Release, 16 Feb 2024,, "FY24 Half Year Results Presentation"
15 https://www.a2baustralia.com/investor-center/asx/
ASX Release, 14 Nov 2023, "A2B successfully agrees to sale of all properties"
16 https://www.a2baustralia.com/investor-center/asx/
ASX Release, 30 March 2023, "A2B agrees sale of O'Riordan Street Alexandria property"

Public Trpt Comparators	FirstGroup (UK)	Keolis (EU)	RATP (EU)	Mobico (UK)	Deutsche Banh (EU)
Op Profit % (2023)	3.24%	2.34%	1.64%	-0.68%	-2.82%

Source: Respective Firm's Annual Reports for FY2023

The industry's strategic playbook is similar, with CDG and its global rivals adopting the mantra of "defend the home turf, look overseas for growth"[17]. Recently, GoAhead UK was acquired by Kinetic, an expanding Australia player[18], and Kelsian acquired a large American bus company for US$325m[19]. However, the current financial outcomes give serious pause to whether CDG should be adopting the same strategy as its peers.

With all major players using the same playbook, **we conclude that price competition will continue to be intense and margins will trend lower.**

CDG's reasoning is that margins should be de-emphasized, with a focus on growing absolute profits that are commensurate with the low risk profile. We are concerned if the risks are as low as claimed and explain further below.

3.3.2 Public Transport is not Low Risk

CDG explains that the gross-cost model in many of its large contracts means that it bears little risk and thus, the diminished margins are acceptable. It is instructive to understand what gross-cost contracting exactly is and assess the risks therein.[20]

Gross-Cost Contract: Under a gross-cost system the private contractor is paid a specified sum to provide the specified service for a specified period. All revenue is collected and remitted to the authority. The industrial risk is borne by the private contractor while the commercial risk is taken by the authority. The remuneration of the private contractor can be modulated by a bonus/penalty scheme.

International Association of Public Transport

Gross Cost avoids revenue risk but bears operational cost risk. Each contract is highly sensitive to the impact of price rises in fuel, driver salaries and other operational costs. This is especially so when competition erodes the margins to razor thin levels, with unexpected cost increases tipping a contract into losses. Should costs increase, operators may not have the flexibility of adjusting service levels as there can be inbuilt penalties to doing so.

Within this "low risk" industry, it is not uncommon for loss making contracts to occur, with 2 examples here.

17 https://www.businesstimes.com.sg/companies-markets/singapore-grown-expertise-anchors-comfortdelgro-as-it-ramps-up-overseas-operations
18 https://www.theguardian.com/business/2022/jun/13/go-ahead-talks-takeover-kelsian
19 https://www.businessnewsaustralia.com/articles/transport-giant-kelsian-group-lines-up-us-debut-with--487m-purchase.html
20 International Association of Public Transport, https://cms.uitp.org/wp/wp-content/uploads/2021/05/study-on-contracting-report-2-final.pdf

In 2022, it had to recognize an onerous contract provision of **GBP58.8m** for a 12-year rail contract it had in Bavaria, Germany. Its auditors noted GoAhead was "*primarily exposed to cost risk due to the fixed nature of the majority of the revenues over the life of the franchise. Consequently, key estimates included in the assessment of the onerous provision include energy costs, driver and conductor recruitment and operational penalty levels*."

In the same year, GoAhead also recognized an onerous contract provision of **GBP11.1m** for its Norwegian rail contract.[21]

In its gross-cost rail contract in Rhine-Ruhr, Germany, it had to drastically increase its onerous contract provision from **GBP46.9m (2022)** to **GBP118.3m (2023)**. Despite bearing no passenger risk, energy price increases, driver shortages and other costs inflations led to the hefty provision. The firm had stated that the continuing driver scarcity can result in incurring higher agency costs and penalties relating to train cancellations.

It is noteworthy that **Mobico had an energy inflation indexing mechanism** in the contract, which eventually turned out to be inadequate in covering its risk.[22]

3.3.3 CDG's Track Record in UK is Dismal

UK / Ireland	2019		2020		2021		2022		2023	
	S$ mil	% of group	S$ mil	% of group	S$ mil	% of group	S$ mil	% of group	S$ mil	% of group
Revenue	854	22%	734	23%	807	23%	795	21%	870	22%
Op Profit	41	10%	-28	-23%	6	3%	-10*	10%	4	1%
Op Profit %	4.82%		-3.82%		0.76%		-1.26%		0.45%	
Investment ('m SGD)	$437.2		$450.4		$436.2		$453.4		$465.2	
ROI % (Op Profit / Investment)	9.42%		-6.22%		1.40%		-2.21%		0.84%	

**Adjusted Profit After Removing S$37.2m Gain on UK Property Sale (Alperton)*

Source: CDG Annual Reports 2019 – 2023

The capital invested in UK has averaged about S$450m for the past 5 years. Unfortunately, returns have been poor and volatile, with an average ROI of 0.6% per year for the period. This highlights the lack of progress over the past 5 years in achieving profitability in the UK and the operational cost risks inherent in public transport long-term contracts.

CDG faced similar woes as GoAhead and Mobico, suffering from cost inflation and a severe shortage of drivers. For the past few years, it had to raise salaries, with an 11% increase for some bus drivers in 2023 alone.[23]

While post-COVID revenue has gone up, there is a clear struggle in managing costs. CDG has negotiated cost indexing provisions within its contracts. However, investors should be mindful that governments will still expect vendors to shoulder the bulk of operational cost risk as it pushes cost efficiencies.

21 GoAhead Annual Report 2022, Pg 119 - 120
22 Mobico Annual Report 2023, Pg 145 and Pg 203
23 CDG Annual Report, Pg 43

This inevitably raises questions on the profitability of CDG's latest win – its GBP422m, 5-year contract to run Manchester buses.[24] It would be premature for investors to celebrate such contract wins but instead closely watch the performance in the UK segment in the coming years.

As an aside, the UK raised its corporate tax rate from 19% to 25% in 2023[25]. While not having a material impact on profits now, as the UK segment is barely profitable, this can only mean further subdued margins moving forward.

3.3.4 The Specter of FX Risk Looms Large

With the unrelenting deterioration of the Australian Dollar and the British Pound over the long-term, these risks wiping out the already low margins. The following Google Finance charts show the currencies' weakness.

CDG's Investment in Australia: S$1,198m (2023)

CDG's Investment in UK: S$445m (2023)

It is noteworthy that over the past 20 years, the AUD has depreciated 29% while the GBP has done so by 42%, with CDG having more than S$1.6billion worth of investments in these countries.

The extent of this risk is shown in the Foreign Currency Translation Reserve. This arises from the translation of assets/liabilities in foreign subsidiaries. It shows the gains or losses due to the difference between the historical and recent exchange rates.

Annual Report Figures (S$, million)	2021	2022	2023
Foreign Currency Translation Reserve	(23.7)	(157.5)	(166.7)

For CDG, this is worrisome as the reserve has deepened to S$166.7m. Should all foreign assets be liquidated today, this would lead to a realized loss of S$166.7m. This amount would wipe out multiple years of profits in Australia (2023 EBIT: S$48m) and UK (2023 EBIT: S$4m).

Since exchange rates fluctuate over time, there is the argument that these are mere paper losses that will reverse in the future, if the SGD weakens. However, given Singapore's robust macroeconomic fundamentals and its government's desire for a strong currency for price stability[26], an investor must consider that this may not happen for the foreseeable future.

24 https://www.businesstimes.com.sg/companies-markets/comfortdelgro-wins-contracts-run-buses-manchester
25 https://taxsummaries.pwc.com/united-kingdom/corporate/significant-developments
26 https://www.mas.gov.sg/monetary-policy#_central-bank-operations

When queried on this, CDG said that this is not a matter of concern. While we understand that this loss is not recognized in accounting terms, in reality, the overseas public transport businesses in UK and Australia have probably been loss-making for several years, if we factor in the FX loss.

CML'S INVESTOR CALL QUESTION:
The Foreign Currency Translation Reserve has increased drastically over the past 3 years. Can a breakdown of it by geographical segment be provided for the 3 years?

CDG'S RESPONSE: (Emphasis ours)
We attribute the Foreign Currency Translation Reserve to GBP and AUD weakening, with the amounts being quite evenly split between the 2 currencies for the past few years.

These fluctuations, while potentially causing losses if a country was completely exited, ***are not a cause for concern*** as the businesses are part of the long-term strategy and no exit is planned.

3.3.5 Regulatory Risk May Affect Costs and Overseas Ventures

In April 2024, Singapore's Ministry of Transport introduced the "*Transport Sector (Critical Firms) Bill*". The bill's aim is to strengthen the resilience of firms in key transport sectors in Singapore and the continued provision of essential services.[27] Public Bus and Rail Services are defined as essential transport services.

This bill will introduce a "Designated Entities" regime, with the Minister indicating the selection of strategically important firms whose "services are not readily replaceable due to significant market share or expertise"[28] The government will disclose the list of Designated Entities by the end of 2024.

We are of the opinion that CDG fulfills such criteria and will very likely be a Designated Entity.

This regulatory event raises early concerns, which requires close monitoring as it unfolds.

Increased Compliance Costs At Home. A reading of the bill shows a Designated Entity *"establishes the systems necessary to restore the reliable and secure provision of…essential transport service provided by…the entity in the event of any disruption"*. This would be placed within a Business Continuity Plan that is then reviewed and approved by the relevant authority.[29]

Compliance can mean significant investments in redundancies, fail-overs and other continuity measures. If the government does not cover such costs, it would fall under CDG's operational budget and reduce its margins.

27 https://www.mot.gov.sg/news/details/introduction-of-the-transport-sector-(critical-firms)-bill
28 https://www.channelnewsasia.com/singapore/transport-sector-critical-firm-bill-passed-chee-hong-tat-4321171
29 https://www.parliament.gov.sg/docs/default-source/bills-introduced/transport-sector-(critical-firms)-bill-16-2024.pdf?sfvrsn=c3b05508_1
Transport Sector (Critical Firms) Bill, Pg 94, Subdivision (5) – Business Continuity

Impact on Overseas Operations. Being a "Designated Entity" might prove to be an albatross to CDG's existing overseas operations should CDG be deemed to benefit from anti-competitive regulations in its home market. Demands for "open market" reciprocity are to be expected.[30]

More importantly, the global environment is morphing into a new normal where countries tighten oversight over key sectors. The EU has issued its "Critical Entities Resilience Directive", with each nation to identify and regulate "Critical Entities" in key sectors such as Transport. [31] Australia has its "Security of Critical Infrastructure Act", with "Responsible Entities" being identified. [32] Such laws have observers concerned about the risks of protectionism.[33]

As the sands shift in the political landscape, CDG risks being nudged out of key overseas markets that it had heavily invested in. Should it be allowed to continue operations, it might have to do so under heavier compliance burdens.

3.4 Do Other Ventures Hold Promise?

While CDG has made forays into many areas (construction logistics, medical transport, cybersecurity etc), most were small ventures, with none of them moving the needle.

In February 2024, it made a large investment of S$135.4m in CMAC, a provider of Managed Ground Transport and Accommodation. [34] During the AGM, the company spoke glowingly about this acquisition, stating *"CMAC is very scalable and applicable pretty much everywhere…it gives you access to multiple European markets"*.

CMAC (S$)	2021	%	2022	%	2023	%	2024 (13 Feb – 31 March)	%
Sales	159,594,741	100%	186,762,079	100%	255,300,000	100%	28,000,000	100%
EBIT	6,613,712	4.1%	6,384,369	3.4%	*not disclosed*	n.a.	1,000,000	3.6%
PBT	5,670,395	3.6%	5,726,044	3.1%	8,600,000	3.4%	*not disclosed*	n.a.
PAT	5,119,777	3.2%	3,802,522	2.0%	6,450,000*	2.5%	*not disclosed*	n.a.

2021 and 2022 figures were translated from GBP to SGD at year-end rates.

****Estimated by CML based on 25% UK tax rate***

Source: CMAC Annual Report 2022, CDG Annual Report 2023, CDG Business Update Q1 2024

While CDG has only made some disclosures relating to the figures of CMAC from 2023 onwards, we have pieced together what is publicly available and a picture emerges of a low margin business of 2% to 3%.

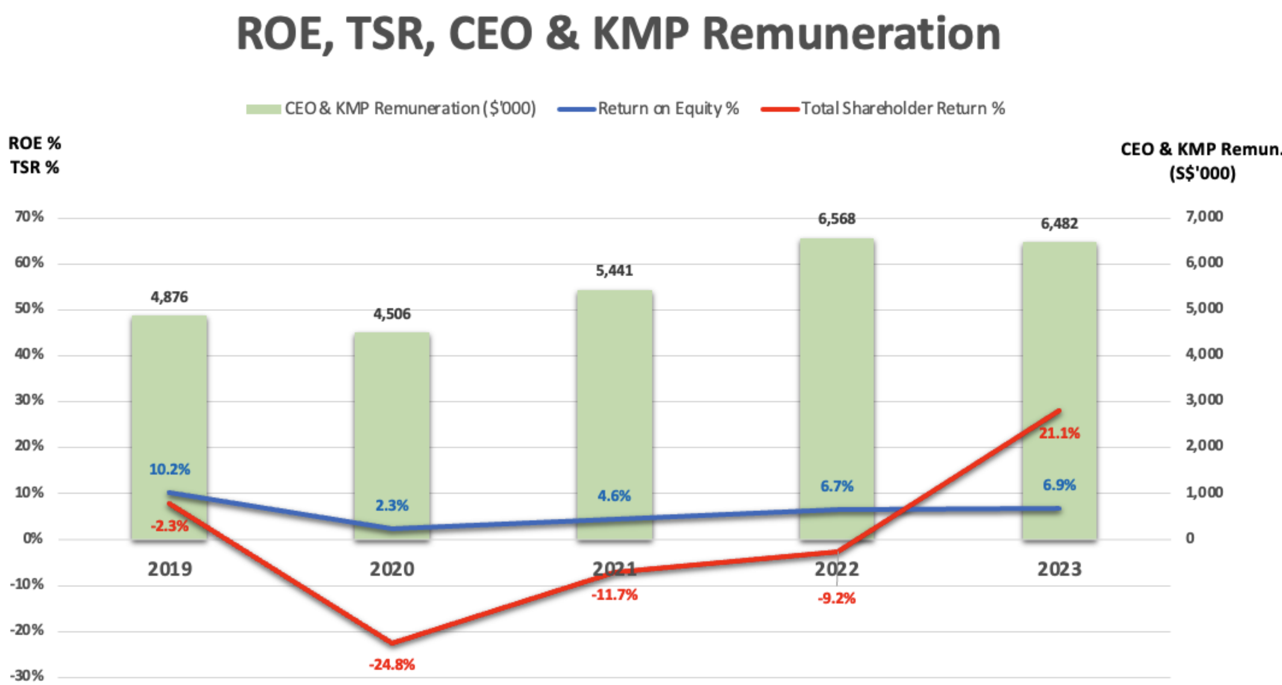
Using the estimated PAT of 2023, the purchase was at what may seem a reasonable PE of 21. A further positive is that CMAC's business model, which involves coordinating large ground transport operations, is asset light. Assuming it can scale up profits with minimal investments, this investment holds promise of eventually earning a favorable ROE.

However, while there is potential, it is still too early to evaluate CMAC's merit as an investment. CML will monitor the performance of CMAC going forward.

30 https://eur-lex.europa.eu/EN/legal-content/summary/the-eu-s-international-procurement-instrument-ipi.html
31 https://www.deloitte.com/global/en/services/risk-advisory/perspectives/navigating-the-eu-critical-entities-resilience-directive.html
32 https://www.dentons.com/en/insights/alerts/2023/april/3/australias-laws-regulating-critical-infrastructure
33 https://ecipe.org/publications/eu-autonomy-brussels-effect-rise-global-economic-protectionism/
34 In simple terms, CMAC mainly serves as a coordinating agent that arranges for the transport needs of large organizations. Examples of its services are employee transport, event transport, emergency transport and passenger transport.

4. GOVERNANCE – CAN MORE BE DONE?

4.1 Remuneration Practices Should Better Align Interests of Management and Shareholders



We have combined the remuneration of the CEO and the Top 5 Key Management Personnel, to examine the relationship of Executive Remuneration with the shareholder metrics of ROE and Total Shareholder Return (TSR).

As can be seen, ROE from 2020 to 2023 is persistently below the cost of equity. Shareholders had been experiencing negative TSR in all the years, save for 2023 where there was a recovery in share price. Despite the small rebound, CDG's 2023 share price is still 40% lower than 2019.

Executive Remuneration provides a stark contrast, with the latest 2023 amounts being 33% higher than 2019.

Singapore's Code of Corporate Governance, Principle 7, states that the *"level and structure of remuneration…should be appropriate and proportionate to the sustained performance and value creation of the company."* Placing CDG against this benchmark, we are not able to comprehend Executive Remuneration rising while value creation is negative.

For investors to evaluate the appropriateness of the remuneration, more disclosure ought to be provided by CDG on the KPIs used to determine Executive Remuneration.

4.2 Specific KPIs for Executives and Key Management Should Be Disclosed

Disclosing specific KPIs would place CDG in line with global best practices and provide assurance to shareholders that the interests of management is aligned with theirs. Below is a sample of its international peers' disclosure on Executive Remuneration. [35]

Competitor Firms	Disclosures
GoAhead	Explictly disclosed detailed targets for Group Operating Profit and Cashflow.
Kelsian	Explictly disclosed Underlying Group EBIT targets. Showed that CEO met target EBIT but missed stretch EBIT.
Mobico	Explictly disclosed detailed targets such as Group Profit Before Tax, Free Cashflow, Total Shareholder Return, ROCE and EPS. Showed CEO missed certain targets and received 30.5% of maximum bonus.
FirstGroup	Explictly disclosed detailed targets such as Total Shareholder Return, Group Profit and Free Cashflow. Showed CEO's Bonus Achievement %.

Mobico's disclosures[36] as shown below are particularly detailed.

(ii) 2023 bonus performance conditions

The following table sets out performance conditions that were attached to Executive Directors' 2023 bonus and the associated outcomes.

Category	Measure	Threshold	Target	Max	Weighting	Outcome achieved	Bonus Achieved
Financial[1]	Group profit before tax (£m)	109.9	122.1	134.3	50%	92.9	0%
	Free cash flow (£m)	118.6	131.7	144.9	25%	163.7	100%
Safety	FWI	Zero Responsible Fatality	0.006	0.003	15%	Two Responsible Fatalities	0%[2]
Personal (CEO)					10%	See below	55%
Personal (CFO)					10%	See below	55%
	CEO formulaic 2023 bonus outcome (% of maximum)					30.5%	
	CFO formulaic 2023 bonus outcome (% of maximum)					30.5%	

Performance condition	Weighting	Threshold (25% vesting for TSR and EPS, 0% for ROCE)	Target	Maximum (100% vesting)	Actual	Percentage vesting
TSR[1] vs. FTSE 250 Index	12.5%	Median	–	Upper Quintile	Below Median	0%
TSR[1] vs. Bespoke Index[2]	12.5%	Equal to Index	–	≥ Index + 10% p.a.	Below Index	0%
EPS[3,4]	25%	25.1p	25.6p	26.3p	4.5p	0%
ROCE[3,5]	25%	8%	9%	11%	7.0%	0%
tCO_2e/million passenger km	25%	6% reduction in tCO_2e/ million passenger km by 2023 relative to 2019 base year	7% reduction in tCO_2e/ million passenger km by 2023 relative to 2019 base year	8% reduction in tCO_2e/ million passenger km by 2023 relative to 2019 base year	+25.0%	0%
Total vesting						0%

35 GoAhead Annual Report 2022, Pg 96, Kelsian Annual Report 2023, Pg 40, FirstGroup Annual Report 2023, Pg 119-122
36 Mobico Annual Report 2023, Pg 117-120

We observed that in 2023, CDG's new CEO, Mr Cheng, had an annual salary and share award that is lower than his predecessor. However, his cash bonus is higher, with the bonus awarded to Mr Cheng being the highest given to a CEO within the past 5 years.

To align management incentive and shareholder value, a higher equity component in executive remuneration is preferable to a cash bonus.

To properly evaluate the appropriateness of the remuneration, more disclosure is needed. We thus queried CDG on whether one could expect more detailed disclosures in the future.

CML'S QUERY TO CDG MANAGEMENT:

Global peers, such as GoAhead and Kelsian, disclose specific and detailed KPIs that are linked to Executive Director and Key Management Remuneration.

Does CDG have any plans for adopting such best practices in the future? If so, can it share the timeline for its adoption?

CDG'S RESPONSE:

The firm reviews its disclosures on KPIs every year, with more emphasis on being in line with the local benchmarks. When compared to that, the firm is meeting all requirements.

There are future plans to look at disclosing KPIs related to ESG targets and CML's desire for KPIs that align to shareholders' interests is acknowledged. The firm is aware that Singtel discloses more information regarding Executive KPIs and will be reviewing that. No timeline can be given for the adoption of any set of practices.

Note: For the benefit of the reader, below is a partial extract from Singtel's 2023 Annual Report, which shows the KPIs used for the vesting of its performance share awards, which include Total Shareholder Return.

Long-term incentives vesting outcomes for the year

For the financial year ended 31 March 2023, the overall vesting outcome for 2020 PSA is 19% as the performance hurdles were partially met. Details of the 2020 PSA vesting conditions and outcomes are outlined in the table below.

2020 PSA
Performance Period: 1 April 2020 to 31 March 2023

KPI Vesting Conditions	Weighting	Vesting Outcome %
Singtel Group's Absolute Total Shareholder Return achieved against predetermined targets	60%	0%
Singtel Group's Reported NPAT achieved against predetermined targets	20%	0%
ESG measures against predetermined targets	20%	95%
	Overall outcome	19%

It is regrettable that CDG uses local benchmarks to justify the absence of disclosures for KPIs tied to executive remuneration. Even here, the local benchmarks have already asked for such disclosures on executive remuneration. Take for example, the Practice Guidance – Corporate Governance[37] from MAS, which provides the best practices for SGX listed firms. We see from the extract below that it expressly asks for the same disclosures.

PRACTICE GUIDANCE 8: DISCLOSURE ON REMUNERATION

" To facilitate better understanding of the relationships between remuneration, performance and value creation, companies should adopt and disclose the following information:

- the way that performance is measured, including the types of financial and non- financial metrics adopted (e.g. Earnings Per Share (EPS), Total Shareholder Returns (TSR), Return On Equity (ROE), customer metrics, operational metrics, safety metrics);

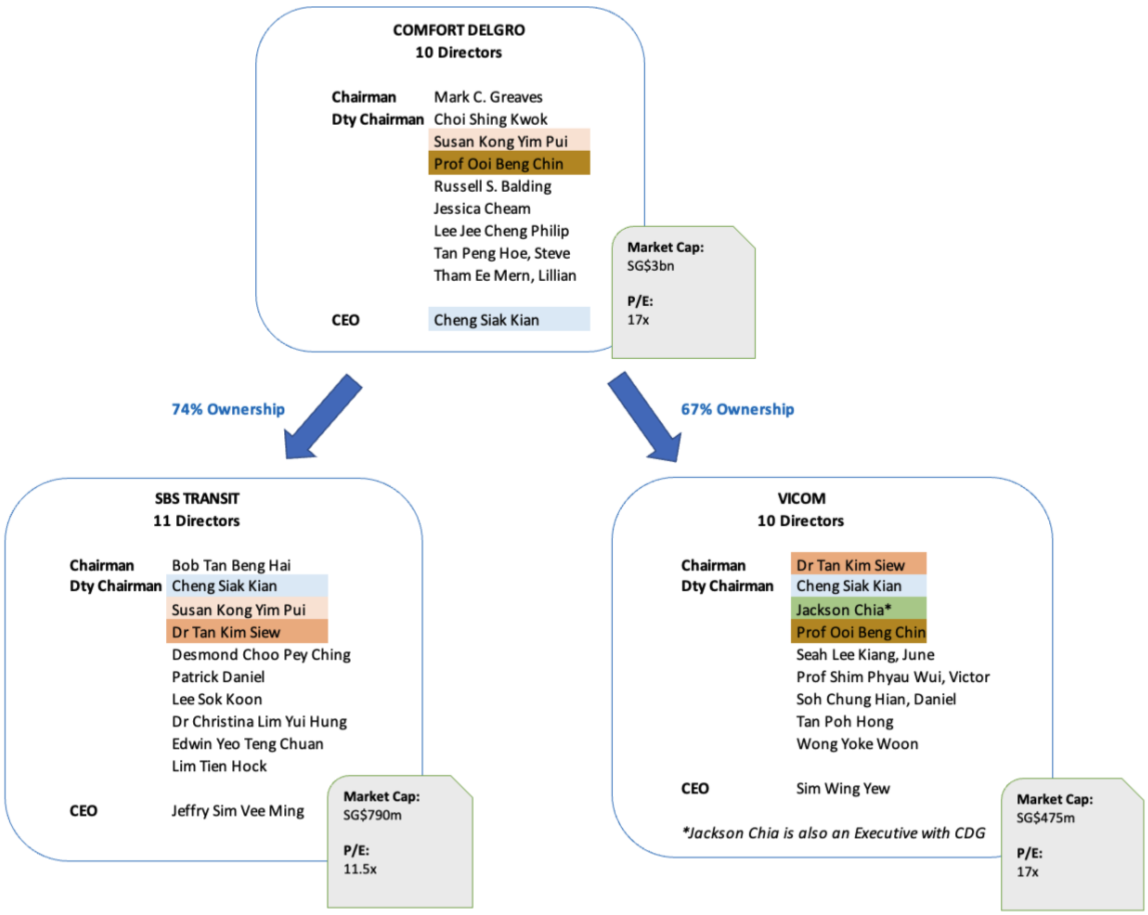
- the metrics used, and why the metrics are appropriate (e.g. EPS growth of 6% compound, TSR of top quartile, ROE of 8%, zero Lost Time Injuries, 90% On Time Performance), including whether relative performance is measured against peers;

- payouts that can be achieved for hitting or exceeding these targets (e.g. 100% payout for median performance, 150% payout for top quartile, 50% payout for 90-percentile performance); "

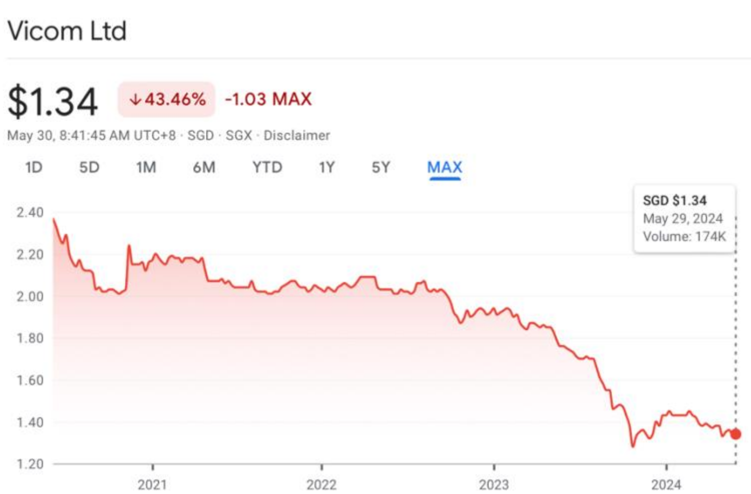
We reiterate our call for detailed disclosures on Executive Remuneration, which will place CDG in line with both global and local benchmarks. More importantly, investors would then be able to evaluate whether the remuneration is appropriate and fair.

[37] https://www.mas.gov.sg/-/media/mas-media-library/regulation/practice-notes/cmi/practice-guidance---corporate-governance/practice-guidance-mar-2022.pdf

4.3 Corporate Structure – 3 Listed Firms, 31 Directorships Yet No Dedicated CFO



CDG has 2 listed subsidiaries, SBS Transit and Vicom. Listings are at considerable expense and consume precious management time. As such, separately listed subsidiaries are contemplated when such spin-offs command good valuations, thus boosting the value of the holding company as investors appraise it with a "sum-of-the-parts" approach.



This rationale does not hold for CDG. As the share price chart shows, Vicom has lost close to half its market value over the past 5 years.

SBS Transit's PE ratio of 11.5 is significantly below CDG's of 17, with a "sum of the parts" approach dragging CDG's value downwards.

As it stands, there does not exist a compelling reason for separate listings.

These separate listings bring with it the question of whether the number of directors is excessive. The organizational chart above shows a total of 31 directorships within the group as of May 2024.

While it is understandable that the Group CEO, Mr Cheng, holds directorships in each of the subsidiaries, it is unclear why a small subsidiary like Vicom has 3 more overlapping directors who also hold positions in either SBS or CDG. Overlapping directors are exposed to potential conflicts of interest. Should a matter arise where the interests of the 2 related firms diverge, which firm's interest would the director represent?

Concerns are further accentuated when CDG is contrasted with other listed firms on the SGX mainboard.

Firm	2023 Revenue (S$)	2023 Net Profit (S$)	Market Cap (S$) @ May 2024	No of Employees	BoD Size	Listed Subsidiaries
CDG	$3.9bn	$225m	$3bn	22,600	10	
SBS	$1.53bn	$69m	$790m	9,853	11	
VICOM	$112m	$28m	$475m	940	10	
Comparables						
DBS	$20.2bn	$10.3bn	$100bn	40,000	10	None.
Singtel	$14.6bn	$2.2bn	$40bn	24,000	13	None.
SIA	$19bn	$2.7bn	$20bn	14,800	10	One - SIA Engineering, $2.6bn market cap. It has 27x PE, higher than SIA's 7x PE.
SMRT **based on information as at delisting in 2016*	$1.3bn	$108m	$2.3bn	9,500	10	None.

Source: Annual Reports, Corporate Websites (May 2024) of Respective Firms.

When set in context, we see that much larger firms do not find it necessary to adopt a structure like CDG's. For example, while CDG's Vicom subsidiary has a mere S$112m in revenue and is listed, Singtel's NCS Group generates more than S$3bn in revenue while remaining as a private subsidiary.

The corporate structure of CDG thus looks unwieldy, with its multiple listings consuming resources that could be better invested in creating shareholder value. As a group, CDG's board composition also seems a lot larger than necessary.

There is potential to rationalise the board and management structures. This can improve effectiveness and efficiency in decision-making, and result in cost savings.

The Absence of a Dedicated Group CFO

Despite the many directors and several layers of management, CDG does not have a dedicated CFO to manage its financial complexities.

The executive performing the current function of CFO is Mr Derek Koh. However, he has multiple roles, being Deputy Group CEO and Group Chief Corporate Services Officer. CDG's annual report reveals that as "*Group Chief Corporate*

Services Officer, he oversees the corporate functions of finance, procurement, information technology, human resources, investor relations, corporate secretariat and legal."

CDG operates in multiple countries, with complex financial landscapes and risks. Furthermore, capital structure plays an important role in attaining an adequate shareholder return, especially in low margin industries.

A dedicated CFO can provide deeper focus and expertise to the issues discussed in this report,
i) Acting as an interface between investors and the CEO/Board, the CFO sharpens the emphasis on earning a return that exceeds the cost of capital, via metrics like ROE and TSR.

ii) Managing public transport biddings and acquisitions that yield satisfactory shareholder returns and the divestment of under-performing transport segments that are in structural decline.

iii) Balancing CDG's dividend payout (which has officially increased from 50% to 70% of PATMI) and the capital expenditures for longer term growth.

5. CONCLUSIONS

There is no denying that CDG's core businesses, of public transport and taxi, face immense challenges. For the public transport segment, it is the low and declining margin. For the taxi segment, it is the loss of market share and structural decline.

As a result, revenue in the last 10 years has stagnated, while operating profit has declined by 39%. ROE has been on a long term decline, and in recent years, lower than the cost of equity of 9%.

Based on the financial performance, it is clear that CDG's strategy of scaling up via bidding of public transport contracts, as well as acquisitions, mostly in the developed markets such as UK, EU and Australia, has not worked. The decline of operating profit after spending S$1b in acquisitions in the last 10 years attests to this failure. Management clearly is aware of the strategic challenges but has focused on more of the same despite evidence to the contrary.

To begin this change in strategic direction, CDG needs to address the low ROE. This is urgent since CDG is eroding shareholder value when ROE is lower than the cost of equity. Without a target ROE, shareholders cannot have the assurance that shareholder value is top of mind for the management. Without focusing on the ROE, management will still be talking about more public transport contracts and more acquisitions, and be preoccupied with revenues despite the lower profitability. With a target ROE, management needs to present a strategy road map and timeframe to achieve that.

To give confidence to shareholders, executive remuneration should be transparent and KPIs clearly identified. This will allow CDG shareholders to track whether management is focused on key initiatives that will deliver shareholder value.

CDG should also review its unwieldy corporate structure, with 3 listed entities, and a total of more than 30 directorships.

Fresh ideas and bold actions are needed. More of the same will not arrest the declining business performance.

6. APPENDICES

6.1 Additional Queries Posed to CDG During a Call with Investor Relations

CML'S QUERY:

Mr Lim Jit Poh was awarded the title of Chairman Emeritus on 28 April 2023. In his final Chairman's Address, Mr Lim spoke of how this role is one of "non-participation and non-involvement from the sidelines".
Could you kindly help us to understand what the title of Chairman Emeritus entails and whether any fees or payments had been made, or are proposed to be made, to Mr Lim after his retirement on 28 April 2023?

(Rationale for query: In line with global best practices, further payments made to a former director is construed as "retirement benefits" that ought to be disclosed to shareholders)

CDG'S RESPONSE:

Mr Lim Jit Poh's title of Chairman Emeritus is purely ceremonial to recognize his decades of service. There are no fees associated with this title. None were paid in the past and none are proposed to be paid for the future.

CML'S QUERY:

In recent times, CDG had completed several acquisitions. As M&As are a significant linchpin of its growth strategy, can CDG disclose

a) **its process of (i) identifying and (ii) evaluating acquisition targets**
b) **an elaboration of how this process was applied to the recent A2B and CMAC acquisitions, including how those acquisition targets were brought to the attention of the management/board?**

CDG'S RESPONSE:

The Group Corp Development division identifies opportunities, which then are surfaced to the Board and the Investment Committee. Occasionally, the firm may be pitched by Investment Banks with deals. The firm is very cautious and scrutinizes deals very closely, for example, it will not readily venture into new continents.

<u>*A2B Acquisition*</u>

For a long time, this was a regular matter of consideration by the Board as CDG had owned 9% of A2B. When it saw the new CEO had aligned the firm in a way that is beneficial to CDG, it then decided it was an appropriate acquisition.

The consideration was how CDG's taxi division lacked a strong presence within Australia and increasing that would help the firm have a better margin mix (rather than relying on public transport's low margins). The firm acknowledges that significant synergies do not exist within bus and taxi, with the acquisition being more for calibrating the earnings mix.

<u>*CMAC Acquisition*</u>

This deal was found by the Corp Development team, who were searching the UK for deals. At that time, CMAC was marketing itself for sale too as they wanted funding to break into the next stage of growth. The deal took more than a year to be completed due to CDG's caution.

6.2 CDG's M&A History

M&A History

Year	Entity	Amount (S$, m)	% Acquired	Main Segment	Country
2014	Blue Mountains Transit	$27.8	100%	Public Bus	AU
	Philip Boyle and Associates	$0.5	49%	Bus Planning/Scheduling	AU
2015	No / Immaterial Activity				
2016	No / Immaterial Activity				
2017	CDG Australia / Cabcharge	$201.1	49%	Mainly Bus	AU
2018*	FCL Holdings	$131.5	100%	Bus	AU
	Buslink	$192.5	100%	Bus	AU
	National Patient Transport	$30.2	100%	Non-Emergency Patient Trpt	AU
	Tullamarine Bus Lines	$32.2	100%	Public Bus	AU
	Coastal Liner Coaches	$9.1	100%	Bus	AU
	Adventure Travel	$25.0	100%	Bus	UK
	Dial A Cab	$2.2	100%	Taxi	UK
	CDG Insurance Brokers	$22.9	51%	Insurance	SG
**There were challenges in reconciling the above figures with given totals in the Annual Report.*					
2019	B&E Blanch	$33.7	100%	Bus	AU
	Xixia JV	$2.6	60%	Driving Instruction	CH
	Buslink	$1.8	Adjustment	Bus	AU
2020	Argyle Satellite Ltd	$13.2	100%	Taxi	UK
2021	Young's Bus Service	$17.7	100%	Bus	AU
	Stubbs	$2.0	100%	Bus	AU
2022	GoBus	$17.5	100%	Bus	UK
	Ming Chuan	$8.5	90%	Non-Emergency Patient Trpt	SG
	Rothery Coaches	$7.2	100%	Bus	AU
	Stagecoach	$2.8	100%	Bus	UK
2023	KingKabs/Vedamain	$14.6	100%	Private Hire Vehicles	UK
	An Security	$0.6	70%	Cybersecurity	SG
	Ming Chuan	$1.0	10%	Non-Emergency Patient Trpt	SG
2024	CMAC	$136.2	100%	Managed Transport	UK
	A2B	$145.7	91%	Taxi	AU
		$1,080.1			