‘Hungry’ ComfortDelGro hits the high road, with a new target in foreign markets

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WHAT does it mean for the locals when the nation’s biggest public-transport operator moves deeper into foreign markets?

This question has arisen with ComfortDelGro’s new plan for overseas operations to account for 70 per cent of annual revenue within the next five to seven years, up from the current 47 per cent.

To those who steer the company, the latest drive is commercially motivated.

“We have to ask ourselves how we are going to sustain and further grow our business in today’s highly competitive and fast changing landscape,” ComfortDelGro chairman Lim Jit Poh said during Friday’s gala dinner celebrating the fifth anniversary of the company, born out of a marriage between taxi firm Comfort and bus operator DelGro. “We are hungry and want to do more.”

To commuters here, however, will the move spell fewer resources devoted to the home base? Assistant Professor Terence Fan of the Singapore Management University does not think so. He said although senior management theoretically have a finite amount of time and are known to “look at the changing landscape.” ComfortDelGro chair-associate Professor Lee Der Hong said he does not think so. He said although senior managers increasingly setting their sights abroad. Firms from other industries are also increasingly setting their sights abroad.

Building up clout for ventures abroad was one reason behind the 2003 merger, which took place amid Government calls for Singapore firms to go overseas to help develop a second economic wing.

But the transport merger drew flak, too. At the time, some observers criticised the expected retrenchments. Then-Minister for Transport Yeo Cheow Tong also voiced concerns that the marriage would form a taxi fleet that would be reportedly eight times bigger than the No 2 operator.

Five years on, the transport giant is holding up proof of success. Its footprint now covers 23 cities in seven countries, which together are bringing the group closer to achieving its original target of deriving 50 per cent of total revenue from overseas. Also, the company’s value on the stock exchange has jumped to as high as $5.1 billion from the early days of $1.5 billion, said Mr Lim.

But the road ahead may not be as smooth. A shake-up of the land transport industry, unveiled in January, will see the Government taking over bus-route planning by next year and making it easier for new players to enter the market.

This will spell “unfavourable times” for ComfortDelGro, said a stock analyst, hence it is better for the firm to look into becoming “less reliant” on the domestic business. Firms from other industries are also increasingly setting their sights abroad.

SingTel, a prime example, has morphed into an Asian behemoth through overseas acquisitions and partnerships, deriving just 32 per cent of last year’s turnover from its Singapore operations.

Will ComfortDelGro also manage to further raise its profile abroad?

Mr Lim said it would not be easy “for we are now starting from a much larger base. It will not be a short run and it will have to be reviewed periodically”.

Part of the difficulty, said a transport analyst, lies in the highly regulated global transport industry, where politics may hinder commercial acquisitions.

However, ComfortDelGro is already close to hitting its first target on overseas sales contributions — which has risen from 30 per cent in 2003 to nearly 50 per cent now — so it is possible the firm will reach its new target, said the analyst.

Mr Lim Boon Heng, Minister in the Prime Minister’s Office, is also confident of ComfortDelGro’s prospects, which will be led by new leaders that the company will identify and groom.”It is a Singapore success story,” he said at the dinner.

For instance, anyone who bought ComfortDelGro shares has reaped impressive gains. Total shareholder return — which calculates the increase in share price plus dividends paid out — came in at 25 per cent annually over the past five years, said the Minister.

But commercial success for a provider of public services can often draw controversy.

Each time ComfortDelGro reports good profits, angry Singaporeans write to the media, wondering how requests for fare hikes by subsidiary SBS Transit could be justified.

In response, a company spokeswoman noted that ComfortDelGro is a global business, while SBS Transit, which recently posted a drop in profits, operates locally. She added that last year’s bus fare hike of 1.8 per cent was not even enough to cover higher fuel costs and the 2 percentage-point increase in the Goods and Services Tax.