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Issuer: SBS Transit Ltd

Stock code: S61

Meeting details:

Date: 27 April 2023

Time: 10.00 a.m.

Venue: Auditorium, Singapore Chinese Cultural Centre, 1 Straits Boulevard, Singapore 018906 (and via electronic means)

Q1. For the financial year ended 31 December 2022, operating costs increased by 14.2% or \$178.1 million to \$1.44 billion, primarily due to higher fuel, electricity, and staff costs.

GROUP INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2022

	Note	The Group	
		2022 \$'000	2021 \$'000
Revenue	19	1,515,311	1,310,842
Staff costs	20	(735,928)	(625,554)
Repairs and maintenance costs		(206,558)	(204,404)
Fuel and electricity costs		(259,288)	(148,703)
Premises costs		(56,226)	(47,063)
Depreciation expense	10	(93,991)	(105,340)
Other operating costs		(83,412)	(126,224)
Total operating costs		(1,435,403)	(1,257,288)
Operating profit	21	79,908	53,554

(Source: company annual report; emphasis added)

Energy prices spiked, resulting in a 74.4% or \$110.6 million increase in fuel and electricity costs to \$259.3 million, while staff costs which is also the largest component of operating costs rose by 17.6% or \$110.4 million to \$735.9 million.

Since transitioning to the Bus Contracting Model (BCM), the fuel indexation in the contracts with the Land Transport Authority (LTA) provides a natural hedge to diesel price risk. In view of this, the fuel price risk faced by the group relates mainly to electricity.

- (i) **Can management elaborate on the group's strategy to manage its exposure to price volatility in electricity, which represents a substantial input cost in the business? Has the group implemented any active hedging measures to manage its electricity costs during the fiscal year 2022?**
- (ii) **What is the breakdown of the fuel and electricity costs incurred by the group for the financial year ended 31 December 2022?**
- (iii) **Can management confirm that under the BCM model, any increases in diesel costs are fully covered by the LTA?**

Separately, management has stated that it expects the tenders for the Jurong Region Line and the Cross Island Line to be announced by the LTA in the first half of 2023.

- (iv) **Can management provide an update on the group's collaboration with RATP Dev in preparation for the upcoming tenders for the Jurong Region Line and Cross Island Line?**

Q2. In the bus segment, the BCM enters its sixth year, with the group operating nine bus packages of which two were tendered contracts. The group has 218 bus routes, with a market share of 62%.

As noted in the statement by the chairman and Group CEO, the Seletar package has been extended at the option of LTA for another two years to March 2025. The Bukit Merah package has been extended by 5 months and will end in April 2024. For reference, the former, with a tender sum of \$480.3 million over five years, was secured in April 2017 and commenced operations in March 2018 while the latter was secured in February 2018, with a tender sum of \$482 million over five years, starting from November 2018.

- (i) **Can management help shareholders better understand the impact of the extensions on the group's operations and profitability? Are there any price adjustment mechanisms included in the extensions, and if so, how will they affect the group's financials?**

With regard to the cluster tender for Bukit Merah and Jurong West called by LTA in November 2022, management has expressed its intention to put in a competitive bid with a strong value proposition to the LTA.

- (ii) **Aside from its market leadership position, what specific competitive advantages does the group have over other operators, particularly foreign players seeking to enter the market?**
- (iii) **Is the cluster tender a two-envelope process that considers both quality and price factors, or does it follow a different process?**
- (iv) **Given LTA's recent extension of the Loyang bus package, does management see any indication of a potential shift in the government's approach to the BCM?**

Q3. From the statements of financial position (extract shown below), the group has \$345.3 million in short-term deposits and bank balances. This accounts for 28.5% of the group's total assets of \$1.21 billion.

STATEMENTS OF FINANCIAL POSITION

31 DECEMBER 2022

	Note	The Group		The Company	
		31 December	31 December	31 December	31 December
		2022	2021	2022	2021
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Current assets					
Short-term deposits and bank balances	5	345,304	204,034	342,498	201,974
Trade and other receivables	6	261,132	253,372	184,930	490,545
Inventories	7	102,649	101,482	16,290	73,340
Total current assets		709,085	558,888	543,718	765,859
Non-current assets					
Subsidiaries	8	–	–	100,002	100,000
Prepayments	9	492	4,605	248	4,538
Due from subsidiaries	6	–	–	350,565	–
Net investment on sublease		–	28	–	28
Vehicles, premises and equipment	10	480,867	563,200	435,048	537,610
Deferred tax assets	11	20,750	27,065	–	–
Total non-current assets		502,109	594,898	885,863	642,176
Total assets		1,211,194	1,153,786	1,429,581	1,408,035

(Source: company annual report; emphasis added)

- (i) **Can management provide details on the group's capital expenditure plans for the near future, including any major projects or initiatives that are currently under consideration?**

In the past 5 years, the group's return on shareholders' equity was 16.9% (2018), 15.9%, 14.2%, 8.7% and 10.9% (2022).

The group's capital risk management policies and objectives are *"to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance."* (Note 29 Financial instruments, financial risks and capital risks management: Capital risk management policies and objectives; page 122).

- (ii) **Can the board elaborate on its discussions regarding the optimisation of debt and equity to maximise returns for shareholders?**

The company's dividend policy states a minimum payout of 50% of profit attributable to shareholders of the company.

- (iii) **How has the board aligned its dividend practices with the capital risk management policy to maximise returns for shareholders? Specifically, has the board considered increasing the payout percentage to better align with the company's capital risk management objectives and optimise returns for shareholders?**

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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