



SBS TRANSIT LTD

(Incorporated in the Republic of Singapore)

(Co. Reg. No.: 199206653M)

**RESPONSES TO QUESTIONS FROM THE SECURITIES INDUSTRIES ASSOCIATION (SINGAPORE) IN
RELATION TO THE COMPANY'S ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 AND
FROM SHAREHOLDERS IN RELATION TO THE COMPANY'S THIRTIETH ANNUAL GENERAL MEETING**

SBS Transit Ltd (the “**Company**”) wishes to thank the Securities Investors Association (Singapore) (“**SIAS**”) and Shareholders for submitting their questions in advance of the Company’s Thirtieth Annual General Meeting which will be convened and held on 27 April 2023 at 10.00 a.m. by way of electronic means and in person at the Auditorium of the Singapore Chinese Cultural Centre, 1 Straits Boulevard, Singapore 018906.

Please refer to the Annex for our responses to the questions submitted by the SIAS and Shareholders by 10.00 a.m. on Friday, 14 April 2023. Substantial and relevant questions received after 10.00 a.m. on Friday, 14 April 2023, which are not similar to the questions addressed in this announcement, will be addressed at the Annual General Meeting.

**BY ORDER OF THE BOARD
SBS TRANSIT LTD**

Angeline Joyce Lee Siang Pohr / Au Cheen Kuan
Company Secretaries

21 April 2023

Annex

Responses to questions raised from Securities Investors Association (“SIAS”) on the Annual Report for the year ended 31 December 2022

SBS Transit Ltd (the “Company” or “SBST”) refers to the questions raised by SIAS in its email dated 14 April 2023 in relation to its Annual Report for the year ended 31 December 2022 and sets out its response as follows:

Question by SIAS:

- 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?**

Response by the Company:

- (i) Management has always been conscientious in managing the volatility in electricity prices. SBST has recently entered into a competitively priced tendered electricity contract with a three years term after the previous 3-years contract expired. Our latest electricity contract commenced in October 2022 and is based on a fuel indexed formula that comprised both fixed and variable components. The fixed component provides us some certainty in the electricity price and the variable component is benchmarked and varies with monthly energy indices. In addition, management may also enter into hedges to minimise the volatility of the variable component of the energy prices as and when the opportunity arises. In 2022, we entered into some forward hedges to reduce volatility in the energy cost.
- (ii) Breakdown of the fuel and electricity costs for FY2022:
 - a) Diesel and related costs - \$169.4m
 - b) Electricity costs - \$89.9m
- (iii) With the fuel price indexation, the diesel costs for revenue mileage are fully covered by the LTA.
- (iv) SBS Transit Rail Pte. Ltd. ("SBST Rail"), a wholly-owned subsidiary of SBST, is in a partnership with RATP Dev to jointly bid for the upcoming Operations & Maintenance (O&M) tenders for the Jurong Region Line and Cross Island Line. As the majority stakeholder in the partnership, SBST Rail will take the lead in the bid for these tenders.

We believe that this is a strong partnership that leverages the strengths of both companies: SBST Rail's proven operational excellence on our existing lines and RATP Dev's depth of experience and expertise in operating transport systems across 16 countries.

As of now, there is no firm date for the release of the tenders by LTA. Meanwhile, together with RATP Dev, we are developing various operations and maintenance initiatives to put forth a strong proposal for the tenders.

Question by SIAS:

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?**

Response by the Company:

- (i) The Seletar and Bukit Merah Contracts are extended based on the existing contract terms and hence will not have a significant impact on the Group's financials.
- (ii) SBST, with 9 out of 14 packages, will have competitive advantages in terms of (a) scale of operations in Singapore, (b) deep local knowledge over decades of operating in Singapore led by very experienced management team, and (c) SBST being part of the larger ComfortDelGro Group, can tap expertise and learnings from our sister companies overseas, such as Metroline in London and CDC Australia.

With our size and economies of scale, we are able to invest in critical capabilities to allow us to keep abreast of the broader technological developments and changing operating context so as to better support the Public Transport ecosystem.

- (iii) Yes, the cluster tender is a two-envelope process that considers both quality and price proposals.
- (iv) We are not in a position to comment or speculate whether there is any potential shift of the government's approach to BCM.

Question by SIAS:

- 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 2022	31 December 2021	31 December 2022	31 December 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?**

Response by the Company:

- (i) In the next few years, investment in capital expenditure (CAPEX) will be in the areas of systems and softwares to further enhance our operational efficiency. Other CAPEX investments will be for operational machinery, tools and equipment for bus and rail maintenance as well as improvements to depots, stations, workshops and offices.

(ii) & (iii):

We operate in a regulated and also dynamic, ever-changing economic environment, and the COVID-19 pandemic affecting the operating environment over the last 3 years pandemic has further reinforced the need for us to be prepared for various risks and challenges that may arise.

While we are encouraged by the recent uptick in rail ridership, we recognise that a full recovery to pre-pandemic levels may take some time.

The current high interest rate environment has created a challenging environment for many businesses, and we are not immune to its effects. To prepare for any unforeseen risks and provide us with operational flexibility, we believe that holding cash is the prudent course of action which will also allow us to avoid having to borrow at high interest rates.

In addition, high inflation and escalating energy cost continue to create cost pressures for the Group in the areas of manpower, cost of supplies and fuel and energy costs.

In view of the cash requirement volatility and the uncertainty and risks cited above, Management and the Board will adopt a prudent capital management approach to preserve cash and minimise debt. For context, our cash balances as at 31 December 2022 represent about 3 months of operating cash requirements.

The Board will continue to monitor the Group's capital risk management policies and objectives and will review the dividend payout ratio when the operating environment stabilises.

Response to question raised from a Shareholder in relation to the Company's Thirtieth Annual General Meeting

Question by Shareholder

1. There is cash balances of \$345mil as of 31 Dec 2022. If there is no major capex expected in 2023, why is the management not increasing the dividend payout ratio for 2022? The company's parent company (ComfortDelGro) and sister company (VICOM) have higher payout ratio than the company.

Response by the Company:

1. Please see the responses by the Company to Q3 by SIAS above, which substantially addressed this Shareholder question.