

Cabcharge Aust Ltd

Initiation of Coverage

Target Price \$4.69 SELL recommendation

- We believe that CAB's near monopoly position in taxi fare payment processing is unwinding rapidly, in line with improvements in payment technology.
- We value CAB at \$5.33 using a SOTP methodology. The core taxi business is valued at \$4.29 through DCF (WACC 11.5%). The JV interests in ComfortDelGro Cabcharge and CityFleet are valued at \$1.03 using a PER of 9 times FY09 forecast earnings.
- Our tp is set at a PER of 9 times FY09 EPS, implying a discount of 15% the market ex 100 FY09 PER.
- Our valuation of the taxi business is driven by an assumption of a decline in market share. Our forecasts imply that CAB's share of electronic payments will decrease from approx 70% in FY08 to 45% in FY11.
- The risk of an investment in CAB appears skewed to the downside, with continuing market share loss leading to declining earnings growth over the next 3 years. A greater than expected loss in market share and/or service margin leads to significantly lower valuations.

Competition to erode market share

- CAB's near 70% share of electronic fare processing is under threat from rivals that offer drivers a share of the 10% surcharge.
- Improvements in technology and the declining cost of payment systems has made it viable for taxis to operate two systems – one to process Cabcharge and third party accounts, and another to process bank issued cards. We believe that the No. 2 player in the market has rolled out approximately 2500 terminals in the last 12 months, representing approximately 20% of the Sydney and Melbourne CBD.
- The emergence of mobile EFTPOS units which are offered and supported by all the major Australian banks will accelerate the move to rival payment systems over the next 3 years in our view.

Risk of regulatory intervention increasing

- We believe that the recent intervention by the ACCC into a proposed CAB acquisition represents a change in the ACCC's approach to CAB. Although the review was aborted following CAB's decision not to pursue the acquisition, the issues that were raised remain relevant.

CAB.ASX

SELL

Monday 15 December, 2008

Price	\$5.52
Target price	\$4.69
DCF valuation	\$5.40
Target valuation method	PER

GICS sector	Commercial Services
Avg monthly t/o	m 9.7
Diluted mkt capitalisation	\$m 665
Shares on issue	m 120
Enterprise value	\$m 744
Previous rating	Initial

Year Ended June 30		07A	08A	09E	10E
Operating revenue	\$m	150.1	171.9	177.2	183.4
EBITDA	\$m	80.0	92.2	97.5	101.2
EBITDA margin	%	53.3%	53.7%	55.0%	55.2%
EBIT	\$m	72.0	83.9	88.7	92.6
EBIT margin	%	48.0%	48.8%	50.1%	50.5%
Adjusted NPAT	\$m	51.8	59.0	62.8	66.0

EPS adj	c	44.9	50.3	52.2	54.8
EPS adj growth	%	32.4%	12.1%	3.8%	5.0%
DPS	c	30.0	34.0	35.0	38.0
Franking	%	100	100	100	100
PER	x	12.3	11.0	10.6	10.1
PER rel Ex-100 ex Fins	x	110.8%	104.6%	120.2%	113.2%
Dividend yield	%	5.4%	6.2%	6.3%	6.9%
NTA/Share	\$	1.28	1.61	1.72	1.86

EV/EBITDA	x	9.3	8.1	7.6	7.4
P/OCF	x	20.4	14.1	11.2	10.6
ROA	%	23%	22%	21%	21%
ROE	%	24%	22%	22%	22%
ROIC	%	34%	34%	35%	36%
Interest cover (EBIT)	x	32.0	20.0	18.2	19.2

CAB vs XJO



Source: IRESS

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Cabcharge Australia (CAB.ASX)

Analyst: Wassim Kisirwani

Profit & Loss (\$m)

Year ending June	2007A	2008A	2009E	2010E
Revenue:	150.1	171.9	177.2	183.4
Expenses	77.7	89.6	93.6	97.4
Equity Assoc NPAT	7.7	10.0	13.8	15.3
EBITDA incl Assoc	80.0	92.2	97.5	101.2
D&A	-8.0	-8.3	-8.8	-8.7
EBIT	72.0	83.9	88.7	92.6
Net interest expense	-2.2	-4.2	-4.9	-4.8
EBT	69.8	79.7	83.8	87.7
Tax	-18.0	-20.7	-21.0	-21.7
Adjusted NPAT	51.8	59.0	62.8	66.0
Non-recurring items	0.0	0.0	0.0	0.0
Reported NPAT	51.8	59.0	62.8	66.0

Cashflow (\$m)

	2007A	2008A	2009E	2010E
EBITDA	72.4	82.2	83.7	85.9
Working capital changes	-20.1	1.1	1.4	3.1
Net Interest	-1.9	-4.0	-4.9	-4.8
Income tax paid	-17.9	-20.3	-21.0	-21.7
Operating cashflow	32.5	47.1	59.2	62.4
Capex	-8.3	-7.7	-8.0	-8.0
Total free cashflow	24.3	39.5	51.2	54.4
Other investing cashflow	-29.3	-7.6	-21.0	0.0
Borrowings	16.3	22.0	22.0	0.0
Equity raisings/(buybacks)	0.0	0.0	0.0	0.0
Dividends paid	-32.2	-37.5	-42.2	-45.8
Net change in cash	-20.9	16.3	10.1	8.7

Balance Sheet (\$m)

	2007A	2008A	2009E	2010E
Cash	12.3	24.7	26.6	32.2
Debtors	70.3	79.3	77.5	75.3
Other current assets	0.9	2.2	2.2	2.2
Current assets	83.5	106.2	106.3	109.7
PPE	39.2	40.2	39.3	38.7
Intangibles	62.9	69.1	77.1	80.1
Investments	107.6	141.9	176.8	192.1
Other non-current assets	17.0	20.3	20.3	20.3
Non-current assets	226.7	271.5	313.5	331.1
Total assets	310.2	377.7	419.8	440.9
Payables	18.3	18.4	19.5	20.3
Short term borrowings	27.7	52.4	52.4	52.4
Other current liabilities	8.9	10.6	9.2	9.2
Total current liabilities	54.9	81.4	81.1	81.9
Long term borrowings	34.8	31.8	53.8	53.8
Other non-current liabilities	2.9	1.1	1.1	1.1
Total non-current liabilities	37.7	32.8	54.8	54.8
Total liabilities	92.6	114.3	136.0	136.8
Net assets	217.6	263.4	283.9	304.1

Market Measures

Year ending June		2007A	2008A	2009E	2010E
EPS reported	cps	44.9	50.3	52.2	54.8
EPS adjusted	cps	44.9	50.3	52.2	54.8
EPS growth		32.4%	12.1%	3.8%	5.0%
Adj PE multiple	x	12.3	11.0	10.6	10.1
PE rel (XSI-ex fins)		111%	105%	120%	113%
EBITDA per share	cps	66.5	76.6	81.0	84.0
EBITDA growth		29%	15%	6%	4%
P/OCF	x	20.4	14.1	11.2	10.6
FCF per share	\$	0.20	0.33	0.43	0.45
DPS	cps	30.0	34.0	35.0	38.0
Dividend yield		5.4%	6.2%	6.3%	6.9%
Franking		100	100	100	100
EV/EBITDA	x	9.3	8.1	7.6	7.4
EV/EBIT	x	10.3	8.9	8.4	8.0

Profitability & Liquidity Ratios

Year ending June		2007A	2008A	2009E	2010E
ROE		23.8%	22.4%	22.1%	21.7%
ROIC		34.1%	33.9%	34.9%	35.6%
ROA		23.2%	22.2%	21.1%	21.0%
FCF yield		3.7%	5.9%	7.7%	8.2%
NPAT/sales (exc Assoc)		29.4%	28.5%	27.6%	27.7%
EBITDA/sales (exc Assoc)		48.2%	47.8%	47.2%	46.9%
Interest cover	x	32	20	18	19
Gearing (ND/[ND+E])		23%	23%	28%	24%
NTA/share	\$	1.28	1.61	1.72	1.86

Valuation

	\$m	\$/share
Sum of PV of FCF	395	3.28
PV of Terminal Value	209	1.74
Cash	-80	-0.66
Total Equity Value	525	4.36
Value of Equity Acc Inv	125	1.03
Valuation	650	5.40
Price target*		\$4.69
upside/downside		-15.0%

WACC

Post-Tax Cost of Debt	4.8%
Cost of Equity	13.2%
Levered Equity Beta	1.2
Market Risk Premium	7.3%
Risk free rate	4.4%
Perpetuity growth	3.0%
WACC	11.5%

Company Statistics

Current share price	\$ps	\$5.52
Ordinary shares	m	120.4
Options	m	0.0
Diluted market capitalisation	\$m	\$665
Enterprise value	\$m	\$744

Executive Summary

CAB is a dominant player in the Australian taxi industry providing services that include taxi fleet management, communications and dispatch. Its payment system has an estimated market share in excess of 70% of Australian electronic taxi transactions, a market that has grown at an estimated CAGR of 19.7% from FY03-FY08. CAB has a 49% interest in a JV that operates bus services in NSW and a 49% interest in JV that operates taxi services in the UK.

CAB has a solid record of earnings growth. From 2004-2008 CAB had CAGR in EBITDA of 23.1%. CAB has a proven business model, a near monopoly position in the Australian electronic taxi payment market and generates above average returns, with ROE averaging 17.8% since FY00.

We believe that CAB's near monopoly position in taxi fare payment processing is unwinding rapidly, in line with improvements in payment technology. As the cost of alternative systems decreases, taxi operators and drivers are adopting dual systems to gain a share of the 10% surcharge available. CAB's response to this threat has been ineffective, with a refusal to offer drivers rebates for using its system. We believe that there will be an acceleration of the rapid loss in market share witnessed in the last 12 months.

We value CAB at \$5.33 using a SOTP methodology. The core taxi business, which includes taxi services and fare processing is valued at \$4.29 through DCF (WACC 11.5%). The JV interests in ComfortDelGro Cabcharge and CityFleet are valued at \$1.03 using a PER of 9 times FY09 forecast earnings

We have included a sensitivity analysis to show the effect of alternative assumptions on our DCF valuation of the taxi business. The Electronic Market growth rate is the rate at which the proportion of total electronic payments increases H/H, with a higher rate signaling a faster transition. Market share refers to CAB's share of the bank issued card and third party account market, with the loss rate reflecting a H/H percentage loss in market share.

The valuation derived is for the core taxi business only.

Table 5: Valuation Sensitivity

Valuation (\$)	Transition Rate	Market share loss rate			
		5%	10%	15%	20%
	3%	4.50	4.09	3.76	3.50
	6%	4.78	4.29	3.91	3.61
	8%	4.98	4.44	4.02	3.69
	10%	5.2	4.61	4.14	3.78

Our forecasts assume that CAB maintains its service margin at the expense of market share, however an alternative assumption of a reduction in service margin to protect market share leads to a similar conclusion: CAB's previously superior business model is under threat from a model that offers strong incentives to operators/drivers. This decline in a key component of CAB's business will lead to a significant decline in earnings growth and an unwinding of CAB's market premium rating, in our view.

Notwithstanding the strength in the Cabcharge account business, which is expected to maintain its near monopoly in the medium term, the decline in market share in bank issued

Technology removing barriers to competition

If CAB shares more of its surcharge to protect market share, the decrease in service margin will also lead to a fall in valuation

and third party accounts has a greater impact on valuation than growth in this business. The transition to electronic payment (ie. increasing size of the electronic payments market), will be predominantly in bank issued cards, therefore CAB will not maintain its market share of the fastest growing segment of the market, leading to overall market share loss. The increase in alternative payment systems also creates the network needed to open the account segment to competition, over time.

Earnings from JV will not compensate for value lost in the taxi business

CAB's diversification into the operation of buses, as well as the JV taxi operations in the UK, provide an alternative growth avenue, however the incremental value contribution of these businesses does not compensate for the loss of value in the core payments business, in our view. Furthermore the strategy within the JV operations has lacked clarity at times, with the aborted plans to build a bus manufacturing plant, and the unsuccessful bid for the Cross City Tunnel, both appearing as major deviations from the core business.

Monopoly Over

CAB's historic dominance of its market has allowed it to charge a 10% service fee for transactions, a processing fee that is un-matched in the Australian retail landscape. CAB pays rebates for transactions involving third party account and bank issued cards, resulting in a service fee margin to CAB below 10%. This margin varies depending on the mix of payments during the period and was 8.3% during FY08.

Drivers adopts dual systems: one to process Cabcharge tickets, and another to process all other electronic payments

CAB's account billing business, which accounts for 43% of payment systems revenue, has been the major inhibitor to competing systems in the past. Given the extensive use of Cabcharge vouchers/tickets among corporate and government users (approximately 12% of all taxi fares are paid this way), drivers were obliged to use the Cabcharge payment system as the primary electronic payment system in their car, as rival systems cannot process Cabcharge tickets. While this currently remains the case, the decreasing costs of technology is allowing drivers/operators to utilise two systems in the taxi; one for cabcharge and third party accounts, and one for debit and credit cards. It is this improvement in technology that poses the greatest threat to CAB's dominant market share

Strong incentives luring drivers

The primary incentive for drivers to use a rival payment system is to receive a portion of the 10% surcharge, which can amount to a substantial increase in earnings. CAB does not rebate any of the fee to drivers, however some taxi networks are currently receiving a 2.5% rebate. Rival payment systems such as GM Cabs offer drivers a rebate of around 2%. We believe that GM Cabs has rolled out approx 2500 terminals in the past 12 months. GM uses hardware provided by Verifone Holdings (NYSE: PAY), a global provider of payment technology systems. The other incentive is that drivers receive the money sooner using alternative systems, although CAB has shortened the payment cycle to twice a week.

Mobile EFTPOS units to accelerate market share loss: They allow the driver to retain up to 80% of the surcharge less costs.

The increasing availability of mobile EFTPOS units in the market is allowing drivers to process payments independently of providers such as CAB and GM Cabs. Our research indicates that such units are offered by all the national, and some regional, banks (see appendix A). These wireless units operate via the GPRS system on mobile carrier networks. The most flexible offerings include no upfront payment, no contract term, monthly fees from \$29, processing fee of 1.95% for credit cards and a 24 hour helpline. This allows the driver to retain approximately 80% of the surcharge, as well as receive payment within their bank account in 24 hours. The incentives to adopt these systems are strong.

CAB's last proposed acquisition of a taxi network prompted the strongest response to date from the ACCC

The risk of regulatory intervention is increasing

Following the proposed acquisition of Suburban Taxis by CAB in December 2007, the ACCC released a Statement of Issues (SOI) and invited submissions from interest parties. This was the first time the ACCC issued a SOI regarding a CAB acquisition. The ACCC did examine competition in the national taxi payment market in 2003 in relation to two CAB acquisitions but did not oppose the acquisitions. It appears that the circumstances now, five years after those acquisitions, were sufficiently different to warrant a SOI and invite submissions.

The proposed acquisition of Suburban Taxis, an Adelaide based taxi network, was promptly aborted by CAB following the release of the SOI. The concerns raised by the ACCC did not relate to taxi service, they related to the impact on competition in the taxi payment market.

The ACCC release followed recent calls for action by the former chairman of the ACCC and the Tourism and Transport Forum (TTF). The NSW Independent Pricing and Regulatory Tribunal (IPART) also raised concerns following the recent review of taxi fares.

The ACCC review did not proceed as CAB withdrew its acquisition, and the possible outcome of such a review cannot be known. The issues raised however remain relevant even without the acquisition and are likely to be a continuing source of risk in our view.

Valuation

Our valuation's greatest sensitivity is to the assumption of a decrease in market share followed by our assumption related to the growth in electronic transactions as a proportion of total taxi payments. The greatest upside risk to our valuation is CAB's ability to maintain its market share. We believe however that any valuation that implies a continuation of this market share over the long term is likely to over-value CAB.

We provide a sensitivity analysis on page 3 that shows the affect of alternative assumptions on our valuation.

Other upside risks to our earnings and valuation may come from:

- Higher than expected growth in the electronic fare transaction market as a proportion of total fare market
- Greater than expected margin improvement through continued cost reductions
- Stronger than expected contributions from the JV companies, especially the bus business.

Risks

Key personnel

Executive Chairman and CEO Reg Kermode is a veteran of the taxi industry and has been integral to CAB's success over the past twenty years. The loss of long term CFO Ewaz Barukh in 2007, who joined rival Lime Taxis, removed the most likely successor to Mr Kermode. The loss of Mr Kermode presents a key risk to CAB.

Competition and technological change

CAB's market share in the fare processing market may come under pressure from competitors offering higher rebates to networks and drivers. It is unlikely that taxis could cease using CAB's system as it is the only one capable of processing Cabcharge tickets, however they could use an alternative system to process bank cards while retaining CAB's system. In time this may lead to a reduction in the service margin.

CAB's position in the industry is strong, with competitors facing numerous hurdles. The taxi industry is comprised of regulated taxi networks, with CAB enjoying good relationships across the industry. Some taxi networks have ownership stakes in CAB while CAB operates large networks in NSW and Victoria. An alternative system would need support from the networks, with drivers unlikely to adopt systems without the network's support.

Technological improvements may also represent a competitive risk as payment systems become more mobile and less dependant on fixed infrastructure.

Regulatory

We believe that the probability of a regulatory review of the taxi industry or the taxi payment market has increased in recent times. The release of the SOI by the ACCC follows recent calls for a review by the former chairman of the ACCC as well as statements by the Tourism and Transport Forum (TTF), a private tourism industry lobby group calling for taxi industry reforms and claiming that the 10% surcharge on electronic payments is unreasonable. Furthermore the NSW Independent Pricing and Regulatory Tribunal (IPART) recently stated that competition concerns raised in relation to CAB as part of IPART's 2008 review of taxi fares, warrant further attention

A regulatory review could consider one or all of the following in our view:

- Taxi licensing – deregulation could reduce the value of licenses, and the revenue associated with them. We consider this unlikely in the medium term
- A change in the mandatory requirement for taxi network membership, which imposes fees on operators that range from \$6-\$7k p.a. The fees are opposed by some industry participants who claim that private networks and/or a booking fee would yield better services. CAB's taxi services businesses is leveraged to network/radio fees.
- CAB's charge accounts which can currently only be processed by CAB's payment system.

One acquisition too many?

CAB's proposed acquisition of Suburban Transport Services resulted in the ACCC releasing a SOI and inviting submissions about the potential for raised barriers of entry into the non-cash fare processing market. CAB subsequently announced that it will not be proceeding with the acquisition.

CAB did not detail the reasons for withdrawing the acquisition proposal but it is highly likely that it related to the ACCC statement. CAB's reluctance to face a review indicates the risk that it perceives from any regulatory examination of the taxi industry, in our view.

The issues identified include:

- The acquisition of taxi networks by CAB raises barriers to entry and expansion for companies seeking to supply taxis specific non-cash payment methods.
- Market inquiries indicated that the inability of any competing non-cash payment system to accept Cabcharge's taxi-specific non-cash payment methods (ie. Cabcharge charge account cards and eTickets) has the result that potential competitors seeking to process non-cash payments in the taxi industry will not present effective competition to the Cabcharge EFTPOS FAREWAY System.

It is unclear what the outcome of the review would have been, or whether there will be any further review in the near term however the implications of the SOI are clear. The issues raised in the SOI persist.

Issues raised in the IPART review:

The Australian Taxi Drivers' Association (ATDA) made the following submissions:

- Concerns were raised regarding the market power of Cabcharge and the surcharge it imposes for electronic payments, with the ATDA claiming that it represents "a failing to safeguard the interests of the people of NSW from the abuses of monopoly power
- The review noted that CAB is also involved in other parts of the Taxi Industry, owning six taxi networks in Sydney, Combined Communications Network which operates one of Sydney's largest radio dispatch networks, and along with Premier cabs dispatch more than three quarters of all booked jobs to Sydney taxis. Premier and CCN are also two of the three major brokers for leasing taxi plates

Industry

The taxi industry is regulated by state governments with the industry across Australia largely resembling the following structure:

Taxi Licence Owners

Licence or 'plate' owners own a taxi licence plate purchased either directly from the state government or on the secondary market. There are over 18,000 taxi plates in Australia. Many licence owners do not operate a taxi themselves, but enter into a plate lease arrangement with a taxi operator.

Taxi operators

Taxi operators typically operate anywhere from one to more than 100 taxis each and are responsible for maintaining the taxi-cab, ensuring that it is roadworthy and paying all vehicle operating expenses, except for fuel. While some operators drive the taxis they operate, many bail out their taxis to bailee drivers.

Taxi networks/Bureaus

Networks generally provide a radio booking service and a GPS tracking and alarm monitoring service. All taxi-cabs in NSW and Victoria must be affiliated with an approved taxi depot.

Taxi drivers

There are approximately 60,000 authorised drivers in Australia.

Market Size

CAB operates in two markets within the taxi industry, taxi services and taxi fare processing.

Taxi Services

The taxi services market comprises all available taxis in Australia which require network services. CAB currently operates networks on NSW and Victoria.

Table 1: Taxi services market

	NSW	VIC	AUST
No. of Taxis	6420	4627	18113
CAB Fleet	3334	1752	5086
CAB's share of market	51.9%	37.9%	28.1%

Source: Company reports, Australian Taxi Industry Association (ATIA)

CAB has grown its market share through acquisitions of competing networks as well as growth of taxi numbers within its network. Further acquisitions are unlikely due to regulatory barriers. CAB recently aborted a proposed acquisition of an Adelaide based network, Suburban Transport Services.

Market growth will also come from the issue of new taxi licences, which must be affiliated with a taxi network. CAB can grow its fleet size by attracting new licences to its networks or acquiring the licences. CAB owns taxi licences valued at \$47m (average value of license in Australia is \$0.36m).

Table 2 shows the growth in taxi numbers in NSW and Victoria since 2005, as reported by the ATIA.

Table 2: Growth in taxi numbers in NSW and Victoria

	2005	2006	2007
NSW	170	68	73
VIC	172	100	102

Source: ATIA

Taxi Payments

CAB operates in the electronic payment segment of the total taxi fare market. The size of the market is not precisely known due to the large proportion of cash transactions, however an estimate of the market size is provided by ATIA.

Table 3: Taxi fare market

	2004	2005	2006	2007
No. of Jobs (m)	195	196	199	209
Ave fare (\$)	15.4	17.2	18.0	16.9
Est market size (\$m)	3,004	3,365	3,578	3,530
Growth		12.0%	6.3%	-1.3%
Electronic payments est (m)	668	751	855	1272
Growth		12.5%	13.9%	48.7%
% market electro	22.2%	22.3%	23.9%	36.0%

Source: ATIA

Table 3 provides an estimate of the total fare market and the electronic fare market. The proportion of electronic transactions at 30%-40% is consistent with CAB's assessment of the market.

Our forecasts assume that the total fare market will grow at a CAGR of 4.5% from FY07-FY11 to reach \$4.2b, while electronic payments will grow at a CAGR of 15.2% over the same period and represent 55% of payments by FY11. We provide sensitivity analysis in our forecasts section on the impact on valuation of alternative assumptions

Growth in CAB's market is a function of growth in the total fare market as well as growth in electronic transactions. Growth in total fares is influenced by demand for taxis and regulated increases in fares, which are generally expected to reflect growth in inflation. Increases in fuel and other input costs increase the likelihood of fare increases. CAB's earnings have a positive relationship with rising petrol prices in that respect. This is offset however by a decline in demand for taxis as fares increase. Rising fuel costs also affect the cost of air travel and therefore the demand for business and tourism travel, which also affect demand for taxis.

Growth in electronic payments, which include bank issued cards and charge accounts (including Cabcharge) is the largest factor in determining the growth of CAB's market over the next five years. CAB has an estimated market share of 70% of electronic payments. The

proportion of non cash taxi fares has grown from approx 23% in 2004 to 30% in 2007. Economy wide statistics for electronic payments as a proportion of total payments are not easily obtainable, with surveyed results usually lagging by one to two years. The RBA Payments System Board's 2007 Annual report suggested that the value of non cash retail payments in Australia had increased by 13% over the year to June 2007, which is in line with the taxi market.

Factors which may increase the shift to electronic include improvements in technology, including contactless cards and mobile phone payments. However it is not clear what effect these technologies may have on CAB's competitive position. Factors which may inhibit the shift to electronic include the small average transaction value of fares, which are currently at an average of \$18. UK payments industry association group APACS claims that over 96% of all payments in the UK under 5 pounds were made with cash in 2006, with a high proportion of cash used for payments under 10 pounds (90%). The most obvious factor inhibiting greater use of electronic payments for taxi fares is the 10% surcharge to consumers. This is largely unparalleled in the Australian retail market and therefore its relative affect on payments for taxi fares is not clear.

Joint Venture Investments

Cabcharge has a 49% interest in the Cityfleet (UK) joint venture with ComfortDelGro, which operates taxi network in the UK as well as providing booking and dispatch services.

CAB holds 49% in ComfortDelGro Cabcharge Pty Ltd (CDC) a JV formed in 2005 to purchase the business and assets of Westbus Group. Westbus is based in Western Sydney and operates approx 25% of NSW private bus services. Following the NSW Government's reform of the bus industry, Westbus emerged as the main operator in three of 11 metropolitan regions reserved for private operators.

Under the seven year contracts, operators are paid a contractual amount consisting of fixed payments for assets and overheads along with variable payments for kilometers traveled and passengers carried, with the government retaining fare revenue. This is a cost plus negotiated margin arrangement. The patronage payment is designed to motivate operators to grow patronage.

The variable cost component of the payment is indexed to a cost index, with a separate fuel component indexed against Sydney refinery price.

The rationale given at the time of the acquisition was that it expanded CAB's land transport role in NSW. The strategic direction of the JV is unclear, with proposed initiatives and acquisitions ranging from building a bus assembly plant to an unsuccessful bid for the Cross City tunnel.

Financials

Revenue

Taxi Services

This business generates revenue from activities that include fleet management dispatch services and other taxi industry services. Revenue is a function of fleet size and average revenue per taxi. Our forecasts imply growth in average revenue per taxi of 6% p.a in FY09 and FY10.

Growth in CAB's taxi fleet is expected to subside as further acquisitions are unlikely in our view. The fleet is expected to grow organically, with our assumptions based on CAB maintaining its market share of the NSW and Victorian fleet, and new license issues tracking average license issues over the last three years.

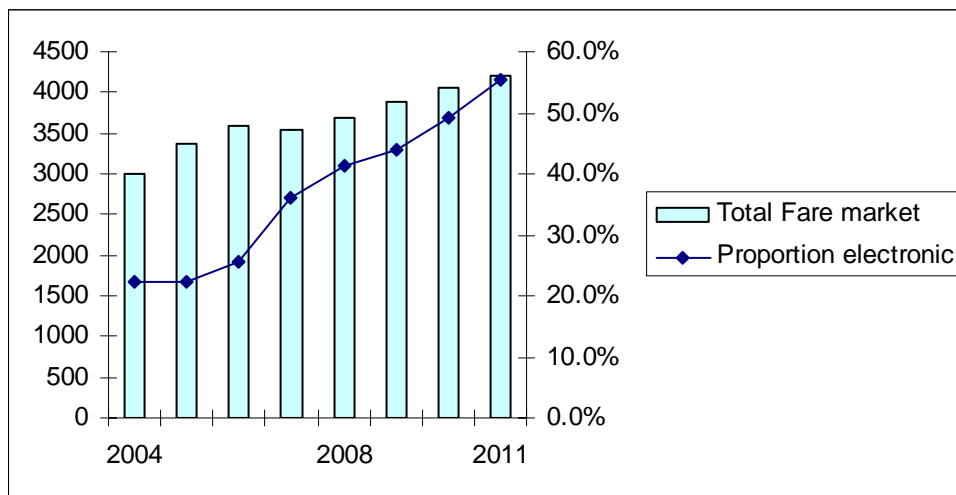
Table 4: Taxi services revenue

	FY06	FY07	FY08	FY09E	FY10E
NSW Fleet	3,080	3,200	3,334	3,412	3,464
growth		120	134	78	52
VIC Fleet	1,476	1,558	1,794	1,841	1,890
growth		82	236	47	49
Total Fleet	4,556	4,758	5,128	5,253	5,354
growth		202	370	125	101
Revenue per Taxi (\$)	10.7	12.3	14.0	14.8	15.7
growth		15%	14%	6%	6%
Taxi Services revenue (\$m)	49	59	72	78	84

Payment System

This division derives revenue from a service fee charged to passengers utilizing electronic payment. The fee is 10% of the total fare, however the amount that CAB retains varies according to the source of payment. CAB retains the full fee when payment is by Cabcharge account tickets or cards.

Payments revenue has several primary drivers; fares processed, market share and net service margin. The total fare market is estimated to be valued at \$3.6bn of which approx 30-40% is transacted electronically. CAB's market share of electronic transactions is over 70%. We assume that CAB maintains its net service margin at 8.3%.

Figure 1: Fare market

Source: Company reports, Veritas Securities

Our forecasts imply that the total fare market will grow a CAGR of 4.7% from 2008-2011, with electronic transactions representing 55% of payments by 2011.

Market Share

The key sensitivity metric for payment services revenue is CAB's market share of its non account business. We assume that CAB's account business turnover will grow at 6% p.a from FY09-FY11, a slower rate than total market growth, implying that this form of payment will account for 23% of total electronic payments on FY11, down from approx 30% in FY08.

The greatest negative impact on CAB's earnings will come from market share loss in the third party account and bank issued card segments. We assume a h/h market share loss rate of 10%, implying an annual average loss rate of 17.6% in market share from FY09-FY11, taking the combined market share of these two segments to 22% in FY11 from 40% in FY08.

Table 5 highlights our assumptions regarding growth in CAB's taxi payments business.

Table 5. Payments business

	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Cab Charge Accounts	370	385	396	422	459	487	516	547
Growth (pcp)	1.9%	4.1%	2.9%	6.6%	8.8%	6.0%	6.0%	6.0%
% electronic	55.4%	51.3%	43.4%	33.2%	30.2%	28.5%	25.7%	23.2%
Third Parties	127	150	175	193	198	186	178	169
Growth (pcp)	6.7%	18.1%	16.7%	10.3%	2.6%	-6.0%	-4.6%	-5.1%
% electronic	19.0%	20.0%	19.2%	15.2%	13.0%	10.9%	8.8%	7.2%
Bank Issued	144	186	250	340	408	394	376	357
Growth (pcp)	28.6%	29.2%	34.4%	36.0%	20.0%	-3.5%	-4.6%	-5.1%
% electronic	21.6%	24.8%	27.4%	26.7%	26.8%	23.1%	18.7%	15.2%
Combined Third Party+Bank	271	336	425	533	606	580	553	525
Growth (pcp)	17.3%	24.0%	26.5%	25.4%	13.7%	-4.3%	-4.6%	-5.1%
% electronic	40.6%	44.7%	46.6%	41.9%	39.8%	34.0%	27.5%	22.3%
Total	641	721	821	955	1065	1066	1069	1072
Growth (pcp)	7.9%	12.5%	13.9%	16.3%	11.5%	0.1%	0.2%	0.3%
% of total electronic market	96.0%	96.0%	90.0%	75.1%	70.0%	62.5%	53.2%	45.5%

Source: Company reports, Veritas Securities

Company Overview

CAB has operated in the Australian taxi industry since 1976. Operations include the provision of electronic payment systems to taxis. CAB also operates its own charge account facility. CAB's payment systems are present in over 90% of Australian taxis.

CAB also provides taxi bureau services in NSW and Victoria and owns Taxis Combined Services, which operates the largest fleet in Australia and provides communications and dispatch services.

CAB holds 49% in ComfortDelGro Cabcharge Pty Ltd (CDC) a JV formed in 2005 to purchase the business and assets of Westbus Group. Westbus is based in Western Sydney and operates approx 25% of NSW private bus services. Following the NSW Government's reform of the bus industry, Westbus emerged as the main operator in three of 11 metropolitan regions reserved for private operators. CDC recently entered into a contract to acquire the Kefford Group, the fourth largest Bus operator in Victoria.

CAB also holds a 49% interest in CityFleet Pte Ltd which operates taxi and private car hire operations in the UK.

Company Background

1976 - CAB was launched by Taxis Combined Services (TCS)

1999 - CAB listed on the ASX

2002 - CAB acquired Combined Communications Network (CCZ), owner of TCS.

2003 - CAB acquired Black Cabs Combined Ltd in 2003. At the time of acquisition Black cabs was the second largest taxi booking and dispatch service provider in Melbourne, providing services to its own fleet as well bureau services to other taxi companies.

2004 - CAB acquired ABC Radio Taxi Co-operative Ltd in 2004. ABC was formed in 1956 and had a fleet of approximately 130 cabs at acquisition. ABC did not provide its own taxi booking services – it was outsourced to CCN.

2005 - CAB formed a JV with Comfort Delgro Corporation to acquire the Westbus group. CAB holds 49% in ComfortDelGro Cabcharge Pty Ltd (CDC).

2005 - CAB bought the assets of Southern Districts Radio Cabs Co-operative Limited, CCN had for many years provided an automated taxi booking service to Southern Districts Radio Cabs.

2007 – CAB acquired Newcastle Taxis, formerly Taxi-Services Co-operative Ltd (TSCL). Newcastle taxis had 159 cabs in the network at time of acquisition.

2007 – CAB acquired Arrow Taxis.

2007 – CAB made an offer for Suburban transport Services, the second largest taxi booking and dispatch service provider in Adelaide, servicing approx 360 cabs. CAB withdrew its proposals following a release by the ACCC of a SOI.

Appendix A - Mobile EFTPOS

	Terminal Provider						
	Commonwealth	NAB	St George	Westpac	ANZ	Suncorp	Bendigo
Contract Term	Nil or 3 years	Nil	1 year	3 years	Nil (based on 2yrs)	Nil, 1,2 or 3 years	3 years
Fees							
Joining	\$79	\$80	\$77	\$143	\$99	Nil	\$35
Annual	\$28	\$28	\$44	\$0	\$29.95	\$20	Nil
Monthly Rental	\$29.5 to \$34.5	\$29.90	\$33-\$71.50	\$57	\$49.95	\$29-\$45	\$33
Merchant (min)	\$20	\$22	\$27.50	\$22	\$29.00	\$20	Nil
Credit Card	0.95%	1-2%	1%-3.3%	2.4%	1-2%	1.95% (max)	1.99% (max)
Debit Card	\$0.25	\$0.38	1%-3.3%	\$0.49	\$0.30	\$0.30 (max)	\$0.35 (max)
Early Termination	\$390	Nil	\$550	\$550	Nil	\$100-\$300	\$250
Termination Fee	\$110	\$150	\$110	\$104.20	\$250	\$150	Nil
Settlement into A/c	Daily	Daily	Daily (excl. Sun)	Daily	Daily	Daily	Daily
Add Surcharge?	Manually	Manually (avail. 03/09)	Manually	Manually	Manually	Yes	Manually
Fee Review?	3 to 6 months	12 months	12 months	6 months	12 months	3 months	6 months



Source: Veritas Securities

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RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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