

# China Aviation (Singapore) Oil

Hurt near-term by unexpected events

## SINGAPORE | OIL AND GAS | 3Q17 RESULTS

6 November 2017

- 9M17 profit from associates was in line with our full year expectation.
- 1H17 net profit missed our full year expectation by 7%.
- Trading business continued to grow the volume, but gross profit dropped due to a backwardation of jet fuel and hurricanes disrupting deliveries.
- Investment in associates performed well, and we remain positive on the outlook.
- We revise down FY17e and FY18e EPS forecasts by 13.1% and 11.3% respectively but maintain our BUY rating with an unchanged TP of S\$2.00 based on a slightly lower average forward PER of 11.5x.

### Results at a glance

(US\$ mn)	3Q17	3Q16	YoY (%)	Comments
Revenue	5,223.1	3,939.9	32.6	Increase in total trading volume of jet fuel and other oil products (3Q17: 13.5mn tonnes vs 3Q16: 10.7mn tonnes) and oil prices (Brent: 3Q17: US\$52.2/bbl vs 3Q16: US\$47.0/bbl)
Gross profit	4.3	10.4	(58.3)	Lower gains from trading and optimisation activities as market reined to backwardation; increase in supply & operational costs incurred due to various supply disruptions caused by weather and refineries outages
Operating profit	1.3	4.4	(69.8)	In line with the above
Associates and JVs	21.5	19.5	10.4	Mild increase in profit contributions from Pudong (3Q17: US\$18.9mn vs 3Q16: US\$17.4mn)
Net profit	21.4	23.2	(7.7)	Higher income tax expenses

Source: Company, PSR

### The Positives

**+ Trading business continued to expand:** Revenue jumped by 44.9% YoY in 9M17, comprising of trading volume rising 19.8% YoY and oil prices up by 21.7% YoY. The volumes of middle distillates and other oil products increased by 7.4% YoY and 13.0% YoY respectively in 9M17. In 3Q17, the trading volume of other oil products recorded a new high of 8.2mn tonnes.

**+ Profits from associates achieved a new high:** Pudong's contribution in 3Q17 helped profits from associates to deliver 10.4% YoY growth to US\$21.5mn, surpassing last year record high. The strong performance in 3Q17 offset the slight drop in 2Q17. As a result, it managed to grow by 3.2% YoY to US\$54.8mn in 9M17.

### The Negatives

**- Unexpected unfavorable market conditions hit CAO:** In 3Q17, gross profit dropped substantially by 58.3% YoY due mainly to the double whammy:

1. Backwardation on jet fuel market  
The backwardation, started in Jul-17, resulting in a narrower trading spread. Accordingly, CAO postponed the procurement of jet fuel to close to the delivery date to reduce the procurement cost when the futures price is lower than expected. Though the group still managed to eke out some profits from trading in 3Q17, it is significantly much lower than in a contango market where the group takes advantage of a wider spread by fixing a higher price.
2. Hurricane season and fire at PetroChina Dalian refinery  
Five typhoons swept across the southern and southeastern coastline of China in 3Q17, resulting in the delay of shipping and disembark of fuels. In Aug-17, a fire occurred in the PetroChina's refinery in Dalian caused a temporary outage of supply to CAO, and CAO had to procure from other refineries to make up the shortage of supply. Therefore, the scheduling and arrangement of urgent procurement led to costs being inflated during the period.

### Buy (Maintained)

CLOSING PRICE	SGD 1.670
FORECAST DIV	SGD 0.004
TARGET PRICE	SGD 2.000
TOTAL RETURN	20.0%

### COMPANY DATA

BLOOMBERG CODE:	CAO SP
O/S SHARES (MN):	865
MARKET CAP (USD mn / SGD mn):	1058 / 1444
52 - WK HI/LO (SGD):	18 / 133
3M Average Daily T/O (mn):	2

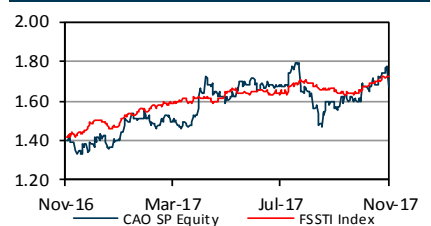
### MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GRP	510%
BP PLC	20.1%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.7	0.9	22.6
STIRETURN	4.3	19	24.8

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, USD mn	FY 15	FY 16	FY 17e	FY 18e
Revenue	8,977	11,703	17,760	23,339
Net Profit	61	89	91	108
EPS (cents)	7.1	10.3	10.5	12.5
P/E (x)	7.0	9.7	13.7	11.5
P/B (x)	0.7	14	18	17
Dividend (Cents)	3.0	3.2	3.2	3.7
Dividend Yield, %	3.0	17	11	13

Source: Company, PSR

### VALUATION METHOD

P/E Multiple (PER:11.5x)

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**Outlook**

It is worth noting that the force majeure such as weather and accidents occurred in 3Q17 is a non-recurring factor that only negatively impacts on the short-term operation. CAO's trading margin will be lower in the backwardation market. However, since CAO continues to expand the global deployment and product mix to ramp up the trading volume, it still manages to grow profits. On the other hand, profits from associates, the key bottom-line driver, still has more room to grow since Pudong will be benefited from an uptick in air traffic in Pudong International Airport, especially with the upcoming operation of the fifth runway by the end of this year. We remain optimistic on CAO's outlook and steady business portfolio.

**Maintain Buy with unchanged TP of S\$2.00**

We revise down our FY17e EPS (from 12.2 US cents to 10.6 US Cents) and FY18e EPS (from 14.1 US cents to 12.5 US cents), due to the negative market impacts. Based on a slightly lower average forward PER of 11.5x (previous 11.7x), FY18e EPS of 12.5 US cents, and estimated appreciation in USD, we maintain our BUY call with an unchanged target price of S\$2.00 for FY18.

## Financials

### Income Statement

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
<b>Revenue</b>	<b>17,061</b>	<b>8,977</b>	<b>11,703</b>	<b>17,760</b>	<b>23,339</b>
Cost of sales	(17,034)	(8,942)	(11,659)	(17,723)	(23,292)
<b>Gross profit</b>	<b>27</b>	<b>35</b>	<b>44</b>	<b>37</b>	<b>47</b>
<b>Operating profit</b>	<b>8</b>	<b>21</b>	<b>25</b>	<b>23</b>	<b>30</b>
Finance costs	(3)	(1)	(1)	(2)	(2)
Associates & JVs	43	42	66	72	81
<b>Profit before tax</b>	<b>51</b>	<b>64</b>	<b>92</b>	<b>96</b>	<b>111</b>
Tax expense	(2)	(2)	(3)	(5)	(4)
<b>Net profit</b>	<b>49</b>	<b>61</b>	<b>89</b>	<b>91</b>	<b>108</b>
<b>Net profit, adj.</b>	<b>49</b>	<b>61</b>	<b>89</b>	<b>91</b>	<b>108</b>

### Per share data (US cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	5.7	7.1	10.3	10.5	12.5
EPS, adj.	5.7	7.1	10.3	10.5	12.5
DPS	2.0	3.0	3.2	3.2	3.7
BVPS	64.3	68.9	75.5	81.2	88.3

### Cash Flow

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
<b>CFO</b>					
Net profit	49.2	61.3	88.9	91.0	107.8
Adjustments	(35.5)	(40.1)	(63.6)	(67.3)	(77.0)
WC changes	36.1	32.8	(25.8)	(3.0)	15.6
Cash generated from ops	49.8	54.0	(0.5)	20.7	46.4
Others	(2.6)	(1.9)	(1.9)	(2.1)	(2.3)
<b>Cashflow from ops</b>	<b>47.2</b>	<b>52.1</b>	<b>(2.4)</b>	<b>18.6</b>	<b>44.0</b>
<b>CFI</b>					
CAPEX, net	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
Divd from associates & JVs	35.1	37.2	38.1	41.5	46.5
Others	0.3	0.4	1.5	1.7	1.7
<b>Cashflow from investments</b>	<b>35.0</b>	<b>37.2</b>	<b>39.2</b>	<b>42.8</b>	<b>47.8</b>
<b>CFF</b>					
Loans, net of repayments	(28.6)	-	100.0	(100.0)	-
Dividends	(13.7)	(12.8)	(19.3)	(27.7)	(27.3)
Others	(1.5)	(0.3)	(0.3)	(0.8)	(0.9)
<b>Cashflow from financing</b>	<b>(43.9)</b>	<b>(13.0)</b>	<b>80.4</b>	<b>(128.5)</b>	<b>(28.2)</b>
<b>Net change in cash</b>	<b>38.3</b>	<b>76.3</b>	<b>117.2</b>	<b>(67.1)</b>	<b>63.6</b>
Effects of exchange rate	(0.4)	(0.1)	(0.4)	(0.3)	(0.2)
<b>Ending cash</b>	<b>94</b>	<b>171</b>	<b>287</b>	<b>220</b>	<b>283</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
PP&E	7	6	6	5	5
Intangibles	2	2	2	2	1
Associates & JVs	270	266	281	299	314
Others	8	8	8	8	8
<b>Total non-current assets</b>	<b>287</b>	<b>281</b>	<b>296</b>	<b>313</b>	<b>328</b>
Inventories	38	57	171	120	100
Receivables	959	337	591	1,185	1,278
Cash	94	171	287	220	283
<b>Total current assets</b>	<b>1,092</b>	<b>564</b>	<b>1,049</b>	<b>1,525</b>	<b>1,661</b>
<b>Total Assets</b>	<b>1,379</b>	<b>846</b>	<b>1,344</b>	<b>1,839</b>	<b>1,989</b>

### LIABILITIES

Others	6	6	6	6	6
<b>Total non-current liabilities</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>
Payables	819	247	588	1,129	1,217
Loans and borrowings	-	-	100	-	-
Others	0.02	0.01	0.62	1.20	1.80
<b>Total current liabilities</b>	<b>819</b>	<b>247</b>	<b>688</b>	<b>1,130</b>	<b>1,219</b>
<b>Total Liabilities</b>	<b>825</b>	<b>253</b>	<b>695</b>	<b>1,136</b>	<b>1,225</b>

### EQUITY

Share capital	216	216	216	216	216
Reserves	338	377	434	487	548
<b>Total equity</b>	<b>554</b>	<b>593</b>	<b>650</b>	<b>702</b>	<b>764</b>

### Valuation Ratios

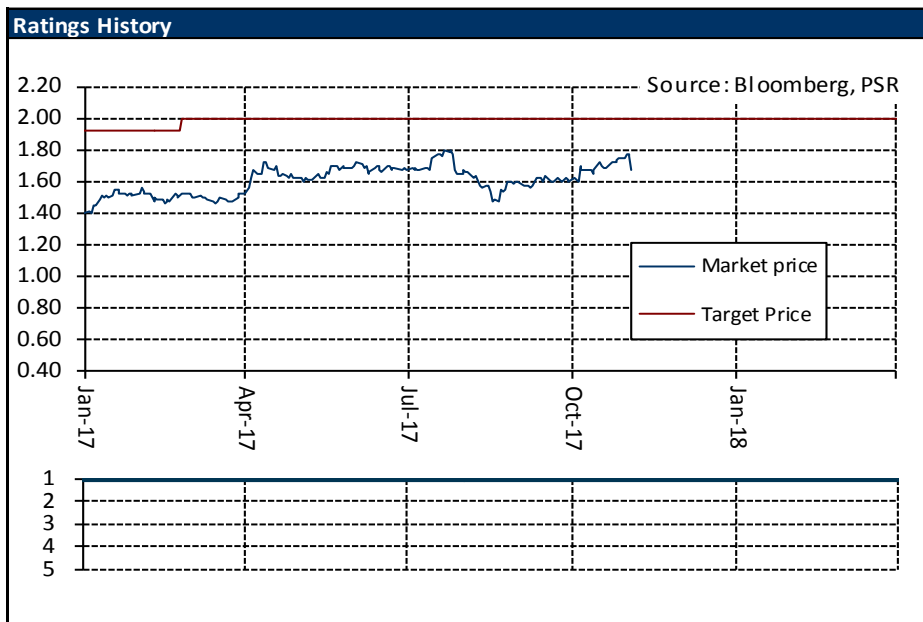
Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	8.8	7.0	9.7	13.7	11.5
P/B (x)	0.8	0.7	1.4	1.8	1.7
EV/EBITDA (x)	38.8	13.6	24.7	44.5	32.9
Dividend yield (%)	2%	3%	2%	1%	1%

### Growth & Margins (%)

Growth					
Revenue	9.6%	-47.4%	30.4%	51.8%	31.4%
Gross profit	-47.8%	29.4%	24.3%	-15.3%	25.2%
Operating profit	-65.1%	171.9%	19.7%	-8.6%	30.6%
Net profit	-30.0%	24.7%	45.1%	2.4%	18.4%
Margins					
GP	0.2%	0.4%	0.4%	0.2%	0.2%
OP	0.0%	0.2%	0.2%	0.1%	0.1%
NP	0.3%	0.7%	0.8%	0.5%	0.5%

### Key Ratios

ROE (%)	8.9%	10.3%	13.7%	13.0%	14.1%
ROA (%)	3.6%	7.2%	6.6%	4.9%	5.4%
Net debt or (net cash)	(94)	(171)	(287)	(220)	(283)
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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