

# China Aviation (Singapore) Oil

Key drivers remain sound



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## SINGAPORE | OIL AND GAS | 4Q17 RESULTS

- FY17 profit from associates was in line with our full year expectation.
- FY17 net profit missed our full year expectation by 6.6% due to higher than expected tax expenses.
- Trading volumes continue to grow, and profits from associates touched a new high.
- The 5<sup>th</sup> runway and satellite terminal in SPIA will drive up air traffic in this and next year.
- We revise down our FY18e EPS to 11 US cents (previous 12.5 US cents). Based on a higher average forward 12-month PER of 13.3x (previous 11.5x), we maintain our BUY call with an unchanged target price of S\$2.00 for FY18.

### Results at a glance

(US\$ mn)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)	Comments
Revenue	4,060.7	3,275.7	24.0	16,267.6	11,703.2	39.0	Higher oil prices (Brent: 4Q17: US\$52.2/bbl vs 4Q16: US\$47.0/bbl) offset a slight decrease in total trading volume of jet fuel and other oil products (4Q17: 8.2mn tonnes vs 4Q16: 8.25mn tonnes)
Gross profit	8.3	10.6	(21.3)	38.7	44.0	(12.1)	Lower gains from trading and optimisation activities as market reclinced to backwardation
Operating profit	0.5	5.0	(89.2)	20.7	25.5	(18.9)	Higher other operating expenses due to higher professional fee incurred for business development in 4Q17
Associates and JVs	16.8	13.3	26.2	71.5	66.4	7.8	Higher growth in profit contributions from Pudong (4Q17: US\$16.3mn vs 4Q16: US\$13.6mn)
Net profit	14.0	17.9	(21.7)	85.3	88.9	(4.0)	Higher income tax expenses due mainly to the decline in deferred tax assets and the increase in recognition of deferred tax liabilities

Source: Company, PSR

### Positives

+ The scale of trading business keeps improving:

(mn tonnes)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)
Middle distillates	5.1	4.8	5.0	19.8	18.6	6.7
Jet fuel	3.8	4.1	(6.4)	16.1	15.0	7.8
Other oil products	3.1	3.4	(8.5)	17.5	14.0	25.2
Total	8.2	8.3	(0.6)	37.3	32.6	14.6

Source: Company, PSR

It is worth noting that the fastest growth in trading volume in other oil products came from fuel oil and crude oil in FY17.

+ **Profits from associates delivered a moderate growth:** Profit from Pudong arrived at US\$64.2mn (+5.8% YoY) owing to a 9.8% YoY growth in refuelling volume in FY17 (4.5mn tonnes). Total profits from associates recorded a new high to US\$71.5mn (7.8% YoY growth) since other associates except CNAF HKR generated double-digit growth of profits. Thought CNAF HKR is still loss-making, the amount of loss decreased by 12.5% YoY to US\$0.8mn.

### Negatives

- **Unexpected higher tax expenses in FY17:** The tax expenses in FY17 increased by 133.2% YoY to US\$6.9mn. It was due to an expansion of the global trading business that is subject to the higher tax rate and the restructuring of OKYC that incurred one-off tax expenses (US\$0.5mn) and provision. Moving forward, the effective tax rate will be higher in the future with the global footprint continuous to enlarge, comparing to the past when CAO mainly relies on an income stream from China.

2 March 2018

### BUY (Maintained)

CLOSING PRICE	SGD 1.510
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 2.000
TOTAL RETURN	32.8%

### 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 / 145
3M Average Daily T/O (mn):	1

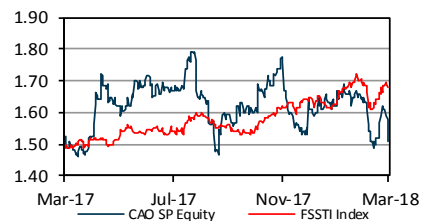
### MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GRP	510%
BP PLC	20.1%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(3.1)	(3.7)	6.8
STIRETURN	(0.4)	2.8	17.2

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, USD mn	FY 16	FY 17	FY 18 e	FY 19 e
Revenue	11,703	16,268	21,578	27,510
Net Profit	89	85	95	105
EPS (cents)	10.3	9.9	11.0	12.1
P/E (x)	9.7	11.8	13.1	11.9
P/B (x)	13	14	13	12
Dividend (Cents)	3.2	3.3	3.3	3.6
Dividend Yield, %	17	15	12	13

Source: Company, PSR

### VALUATION METHOD

P/E Multiple (PER: 13.3x)

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**Outlook**

In 2017, the respective air traffic and passenger traffic reached 497k (Up 3.5% YoY) and 70mn (Up 6.1% YoY) in SPIA. We expect to see higher growths of the two traffic volumes this year, attributable to the commencement of the 5<sup>th</sup> runway. In 2019, the new satellite terminal will provide another 89 to 125 slots when it commences operations. Hence, we expect Pudong deliver strong earnings growth for CAO in the upcoming years. As of Dec-17, CAO held US\$300mn cash, and management will continue to explore the market and to leverage the fund to incorporate quality assets into the portfolio.

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

We revise down our FY18e EPS to 11 US cents (previous 12.5 US cents), due to the expectation of higher tax rate and full operation of the 5<sup>th</sup> runway will come into effect later than expected. Based on a higher average forward 12-month PER of 13.3x (previous 11.5x), we maintain our BUY call with an unchanged target price of S\$2.00 for FY18.

## Financials

### Income Statement

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
<b>Revenue</b>	<b>8,977</b>	<b>11,703</b>	<b>16,268</b>	<b>21,578</b>	<b>27,510</b>
Cost of sales	(8,942)	(11,659)	(16,229)	(21,538)	(27,469)
<b>Gross profit</b>	<b>35</b>	<b>44</b>	<b>39</b>	<b>40</b>	<b>41</b>
<b>Operating profit</b>	<b>21</b>	<b>25</b>	<b>21</b>	<b>20</b>	<b>20</b>
Finance costs	(1)	(1)	(3)	(3)	(3)
Associates & JVs	42	66	72	79	89
<b>Profit before tax</b>	<b>64</b>	<b>92</b>	<b>92</b>	<b>99</b>	<b>109</b>
Tax expense	(2)	(3)	(7)	(5)	(4)
<b>Net profit</b>	<b>61</b>	<b>89</b>	<b>85</b>	<b>95</b>	<b>105</b>
<b>Net profit, adj.</b>	<b>61</b>	<b>89</b>	<b>85</b>	<b>95</b>	<b>105</b>

### Per share data (US cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	7.1	10.3	9.9	11.0	12.1
EPS, adj.	7.1	10.3	9.9	11.0	12.1
DPS	3.0	3.2	3.3	3.3	3.6
BVPS	68.9	75.5	84.1	108.0	119.2

### Cash Flow

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Net profit	61.3	88.9	85.3	95.0	104.6
Adjustments	(40.1)	(54.0)	(65.8)	(75.6)	(85.7)
WC changes	32.8	(35.4)	(46.1)	(24.0)	(22.2)
Cash generated from ops	54.0	(0.5)	(26.6)	(4.6)	(3.2)
Others	(1.9)	(0.0)	(0.7)	(0.7)	(0.8)
<b>Cashflow from ops</b>	<b>52.1</b>	<b>(0.5)</b>	<b>(27.2)</b>	<b>(5.3)</b>	<b>(4.1)</b>
<b>CFI</b>					
CAPEX, net	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Divd from associates & JVs	37.2	36.2	45.5	50.2	53.3
Others	0.4	1.5	3.6	3.9	5.3
<b>Cashflow from investments</b>	<b>37.2</b>	<b>37.3</b>	<b>48.7</b>	<b>53.8</b>	<b>58.2</b>
<b>CFF</b>					
Loans, net of repayments	-	100.0	20.0	-	-
Dividends	(12.8)	(19.3)	(27.7)	(28.5)	(28.5)
Others	(0.3)	(0.3)	(1.6)	(1.7)	(1.9)
<b>Cashflow from financing</b>	<b>(13.0)</b>	<b>80.4</b>	<b>(9.3)</b>	<b>(30.3)</b>	<b>(30.4)</b>
<b>Net change in cash</b>	<b>76.3</b>	<b>117.2</b>	<b>12.1</b>	<b>18.2</b>	<b>23.7</b>
Effects of exchange rate	(0.1)	(0.4)	0.6	(0.2)	(0.2)
<b>Ending cash</b>	<b>171</b>	<b>287</b>	<b>300</b>	<b>318</b>	<b>342</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	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
PP&E	6	6	5	5	4
Intangibles	2	2	2	1	1
Associates & JVs	266	281	321	366	417
Others	8	8	6	6	6
<b>Total non-current assets</b>	<b>281</b>	<b>296</b>	<b>334</b>	<b>378</b>	<b>429</b>
Inventories	57	171	210	230	250
Receivables	337	591	1,069	1,264	1,487
Cash	171	287	300	318	342
<b>Total current assets</b>	<b>564</b>	<b>1,049</b>	<b>1,579</b>	<b>1,812</b>	<b>2,079</b>
<b>Total Assets</b>	<b>846</b>	<b>1,344</b>	<b>1,913</b>	<b>2,190</b>	<b>2,508</b>

### LIABILITIES

Others	6	6	8	8	8
<b>Total non-current liabilities</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>8</b>	<b>8</b>
Payables	247	588	1,060	1,251	1,473
Loans and borrowings	-	100	120	-	-
Others	0.01	0.62	0.95	1.80	2.00
<b>Total current liabilities</b>	<b>247</b>	<b>688</b>	<b>1,181</b>	<b>1,253</b>	<b>1,475</b>
<b>Total Liabilities</b>	<b>253</b>	<b>695</b>	<b>1,189</b>	<b>1,261</b>	<b>1,483</b>

### EQUITY

Share capital	216	216	216	216	216
Reserves	377	434	508	714	810
<b>Total equity</b>	<b>593</b>	<b>650</b>	<b>724</b>	<b>929</b>	<b>1,025</b>

### Valuation Ratios

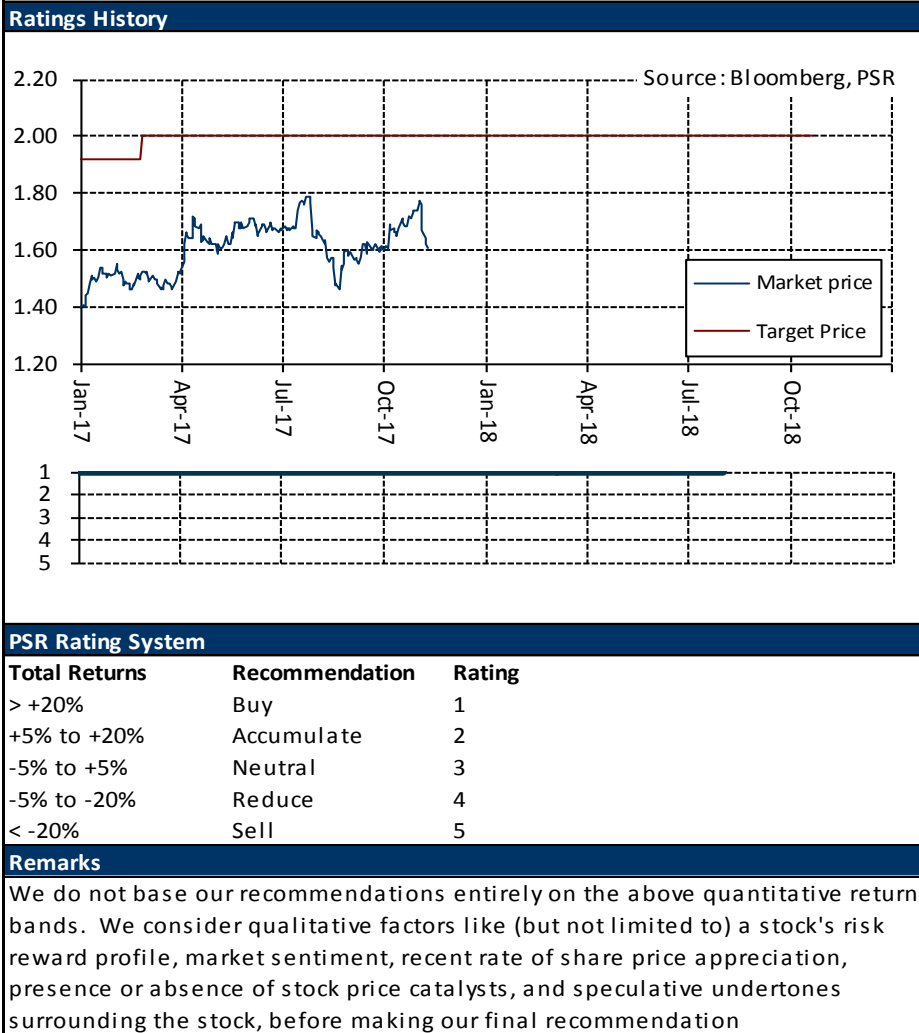
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	7.0	9.7	11.8	13.1	11.9
P/B (x)	0.7	1.3	1.4	1.3	1.2
EV/EBITDA (x)	13.6	24.7	36.7	47.5	47.1
Dividend yield (%)	3%	2%	1%	1%	1%

### Growth & Margins (%)

<b>Growth</b>					
Revenue	-47.4%	30.4%	39.0%	32.6%	27.5%
Gross profit	29.4%	24.3%	-12.1%	3.1%	3.4%
Operating profit	171.9%	19.7%	-18.9%	-1.0%	-1.1%
Net profit	24.7%	45.1%	-4.0%	11.3%	10.2%
<b>Margins</b>					
Gross profit	0.4%	0.4%	0.2%	0.2%	0.1%
Operating profit	0.2%	0.2%	0.1%	0.1%	0.1%
Net profit	0.7%	0.8%	0.5%	0.4%	0.4%

### Key Ratios

ROE (%)	10.3%	13.7%	11.8%	10.2%	10.2%
ROA (%)	7.2%	6.6%	4.5%	4.3%	4.2%
Net debt or (net cash)	(171)	(187)	(180)	(318)	(342)
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash



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