

# China Aviation (Singapore) Oil

Stellar growth from Pudong



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## SINGAPORE | OIL AND GAS | 1Q18 RESULTS

11 May 2018

### BUY (Maintained)

CLOSING PRICE	SGD 1.580
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 2.000
<b>TOTAL RETURN</b>	<b>26.9%</b>

#### 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

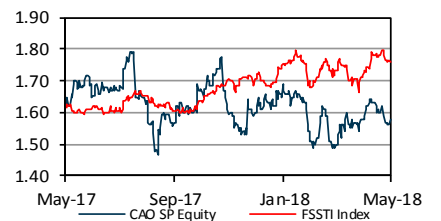
#### MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GRP	510%
BP PLC	20.1%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	15	6.2	(10)
STIRETURN	3.9	6.4	12.9

#### 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	94	104
EPS (cents)	10.3	9.9	10.9	12.1
P/E (x)	9.7	11.8	13.2	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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- 1Q18 net profit exceeded our expectation by 11.8% due to higher than expected profit from associates.
- Trading volumes were healthy and profits from associates at new highs.
- Backwardation persisted, compressing trading margins.
- CAO adopted SFRS (I) 9, which reports expected credit losses and changes. It made an impairment provision of US\$1.57 million on receivables in 1Q18.
- We modestly raised FY18e EPS to 10.9 US cents (previously 11.0 US cents) after the impact of the adoption of SFRS (I) 9. Based on an average forward 12-month PER of 13.3x, we maintain our BUY call with an unchanged target price of S\$2.00 for FY18.

#### Results at a glance

(US\$ mn)	1Q18	1Q17	YoY (%)	Comments
Revenue	4,102.5	3,311.2	23.9	Higher oil prices (Brent: 1Q18: US\$68.4/bbl vs 1Q17: US\$54.7/bbl) and a slight increase in total trading volume of middle distillates and other oil products (1Q18: 7.59mn tonnes vs 1Q17: 7.27mn tonnes)
<b>Gross profit</b>	<b>13.2</b>	<b>15.5</b>	<b>(14.6)</b>	Lower gains from trading and optimisation activities as market reined to backwardation
Operating profit	7.5	9.8	(23.3)	Higher interest income partially offset by foreign exchange loss
<b>Associates and JVs</b>	<b>21.0</b>	<b>14.9</b>	<b>40.7</b>	Higher growth in profit contributions from Pudong (1Q18: US\$18.9mn vs 1Q17: US\$13.0mn)
<b>Net profit</b>	<b>26.9</b>	<b>23.6</b>	<b>13.9</b>	Higher deferred tax liabilities on the Company's share of undistributed retained earnings from associates and higher provision for income tax expense by a subsidiary

Source: Company, PSR

#### Positives

**+ The scale of trading business keeps improving:** CAO is building scale in trading business to achieve lower break-even point. Trading volume in other oil products mainly came from crude oil in 1Q18 (Figure 1).

Figure 1: Still expanding volumes

(mn tonnes)	1Q18	1Q17	YoY (%)
<b>Middle distillates</b>	<b>4.3</b>	<b>4.6</b>	<b>(6.4)</b>
Jet fuel	3.3	3.9	(14.1)
<b>Other oil products</b>	<b>3.3</b>	<b>2.7</b>	<b>22.4</b>
<b>Total</b>	<b>7.6</b>	<b>7.3</b>	<b>4.4</b>

Source: Company, PSR

**+ Profits from associates delivered a stellar growth:** Profit from Pudong was US\$18.9mn (+46% YoY) due to higher refuelling volume, foreign exchange gain and investment income. During the period, refuelling volume increased by 6.8% YoY to 1.1mn tonnes, and RMB appreciated against USD by 8% YoY. OKYC also improved their performance with 1Q profit of US\$1.4mn, +6.9% YoY. CNAF HKR continued to shrink net losses to US\$0.17mn, the lowest since the business was acquired in 2014.

**Negatives**

- **Trading margins narrowed due to backwardation persisted:** Despite the rise in total trading volume, GPM dropped by 14.6% YoY in 1Q18. With oil prices in backwardation, CAO slowed the rate of expansion in the trading business and became more selective in orders deemed more profitable.

**Outlook**

Oil prices are on a rising trajectory, and backwardation could continue for another 1 or 2 quarters. Hence, the growth of trading activities is expected to slow down. Meanwhile, trading margins will continue to face compression in the near term. Nonetheless, we remain upbeat on CAO as profit from associates, especially Pudong will deliver high growth rates continuously this year, driven mainly by more air traffic volumes that are attributable to the operation of the 5<sup>th</sup> runway.

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

We modestly adjusted our FY18e EPS to 10.9 US cents (previously 11.0 US cents) due to the impact of the adoption of SFRS (I) 9. Based on an average forward 12-month PER of 13.3x, 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>19</b>	<b>19</b>
Finance costs	(1)	(1)	(3)	(3)	(3)
Associates & JVs	42	66	72	82	92
<b>Profit before tax</b>	<b>64</b>	<b>92</b>	<b>92</b>	<b>101</b>	<b>111</b>
Tax expense	(2)	(3)	(7)	(7)	(7)
<b>Net profit</b>	<b>61</b>	<b>89</b>	<b>85</b>	<b>94</b>	<b>104</b>
<b>Net profit, adj.</b>	<b>61</b>	<b>89</b>	<b>85</b>	<b>94</b>	<b>104</b>

### Per share data (US cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	7.1	10.3	9.9	10.9	12.1
EPS, adj.	7.1	10.3	9.9	10.9	12.1
DPS	3.0	3.2	3.3	3.3	3.6
BVPS	68.9	75.5	83.8	107.7	118.9

### Cash Flow

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Net profit	61.3	88.9	85.3	94.4	104.4
Adjustments	(40.1)	(54.0)	(65.8)	(76.5)	(87.0)
WC changes	32.8	(35.4)	(46.1)	(26.9)	(22.2)
Cash generated from ops	54.0	(0.5)	(26.6)	(9.0)	(4.7)
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>(9.7)</b>	<b>(5.6)</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	52.3	55.5
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>55.8</b>	<b>60.3</b>
<b>CFF</b>					
Loans, net of repayments	-	100.0	20.0	-	-
Dividends	(12.8)	(19.3)	(27.7)	(28.5)	(28.3)
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>(30.2)</b>
<b>Net change in cash</b>	<b>76.3</b>	<b>117.2</b>	<b>12.1</b>	<b>15.8</b>	<b>24.6</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>316</b>	<b>340</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	1,066	1,267	1,484
Cash	171	287	300	316	340
<b>Total current assets</b>	<b>564</b>	<b>1,049</b>	<b>1,576</b>	<b>1,812</b>	<b>2,074</b>
<b>Total Assets</b>	<b>846</b>	<b>1,344</b>	<b>1,910</b>	<b>2,191</b>	<b>2,504</b>
<b>LIABILITIES</b>					
Others	6	6	8	9	9
<b>Total non-current liabilities</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>9</b>	<b>9</b>
Payables	247	588	1,060	1,254	1,470
Loans and borrowings	-	100	120	-	-
Others	0.01	0.62	0.95	1.35	2.00
<b>Total current liabilities</b>	<b>247</b>	<b>688</b>	<b>1,181</b>	<b>1,255</b>	<b>1,472</b>
<b>Total Liabilities</b>	<b>253</b>	<b>695</b>	<b>1,189</b>	<b>1,264</b>	<b>1,481</b>
<b>EQUITY</b>					
Share capital	216	216	216	216	216
Reserves	377	434	505	711	807
<b>Total equity</b>	<b>593</b>	<b>650</b>	<b>721</b>	<b>926</b>	<b>1,023</b>

### Valuation Ratios

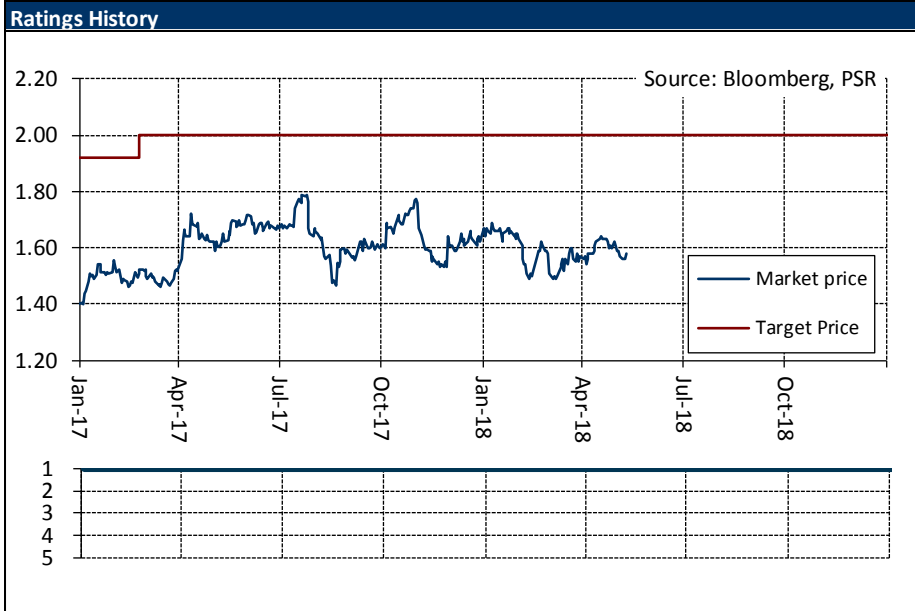
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	7.0	9.7	11.8	10.8	9.8
P/B (x)	0.7	1.3	1.4	1.1	1.0
EV/EBITDA (x)	13.6	24.7	36.7	39.4	39.0
Dividend yield (%)	3%	2%	1%	2%	2%

### 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%	-8.3%	-1.5%
Net profit	24.7%	45.1%	-4.0%	10.6%	10.7%
<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)	(316)	(340)
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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