

China Aviation (Singapore) Oil

Margin improvement from underlying business



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SINGAPORE | OIL AND GAS | 2Q18 RESULTS

3 August 2018

- 2Q18 net profit exceeded our expectations due to higher than expected gross profit.
- Total volumes grew together with margin improvement.
- More modest growth in profits from associates due to Pudong's underperformance.
- The acquisition of Navires Aviation Limited is expected to generate synergies.
- We raise our FY18e EPS by 6% to 11.6 US cents due to the improvement in profit margins and a profit contribution from the recent acquisition. Based on an average forward 12-month PER of 12.8x, we maintain our BUY call with an unchanged target price of S\$2.00 for FY18.

BUY (Maintained)

CLOSING PRICE	SGD 1.530
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 2.000
TOTAL RETURN	31.0%

COMPANY DATA

BLOOMBERG CODE:	CAO SP
O/S SHARES (MN):	865
MARKET CAP (USD mn / SGD mn):	1058 / 1444
52 - WK HI/LO (SGD):	179 / 142
3M Average Daily T/O (mn):	0

MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GRP	510%
BP PLC	20.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.4	(2.9)	(5.8)
STIRETURN	2.3	(6.6)	3.2

Results at a glance

(US\$ mn)	2Q18	2Q17 (Restated)	YoY (%)	Comments
Revenue	5,799.9	3,672.7	57.9	Higher oil prices (Brent: 2Q18: US\$77.4/bbl vs 2Q17: US\$69.9/bbl) and a moderate increase in total supply and trading volume of middle distillates and other oil products (2Q18: 10.0mn tonnes vs 2Q17: 8.4mn tonnes)
Gross profit	16.4	10.6	55.1	Higher jet fuel volume supplied to China and higher profits from trading and optimisation activities
Operating profit	11.7	8.4	39.9	Higher interest income partially offset by foreign exchange loss
Associates and JVs	18.6	18.3	1.6	Foreign exchange losses and higher operating expenses offsetting higher operating profit from increased refuelling volume
Net profit	29.3	25.6	14.4	In line with the above

Source: Company, PSR

Positives

+ Total volumes grow amid margin improvement: Total supply and trading volumes continued to grow. Other oil products volumes surged due to higher crude oil import quotas into China in 2Q18. However, the volume of middle distillates, especially jet fuel fell substantially. Backwardation in oil markets had persisted, and CAO had to reduce their paper trading volume. Supply and trading margins, measured by gross profit/tonne, increased to US\$1.64/tonne (+30.5% YoY) in 2Q18.

Figure 1: Growing overall trading volumes

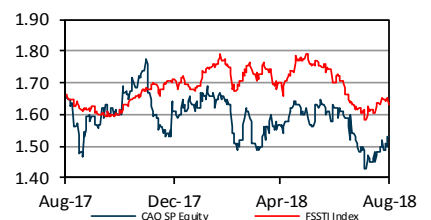
(mn tonnes)	2Q18	2Q17	YoY (%)
Middle distillates	4.6	5.0	(8.6)
Jet fuel	3.4	4.0	(14.8)
Other oil products	5.4	3.4	58.9
Total	10.0	8.4	18.8

Source: Company, PSR

Negatives

- A slight drop in profits from associates due to Pudong's underperformance: Profit from Pudong was US\$15.7mn (-2.6% YoY) due to foreign exchange losses and higher operating expenses offsetting the increase in refuelling volume. During 2Q18, refuelling volume arrived at 1.2mn tonnes (1H18: 2.3mn tonnes, FY17 4.4mn tonnes) while RMB depreciated against USD by 7% YoY. OKYC continued to deliver strong growth from the tank storage leasing businesses with a profit of US\$2.0mn (+40.2% YoY). Net losses from CNAF HKR reduced to a new low of US\$0.14mn since the business was acquired in 2014.

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	100	111
EPS (cents)	10.3	9.9	11.6	12.9
P/E (x)	9.7	11.8	9.8	8.9
P/B (x)	13	14	12	11
Dividend (Cents)	3.2	3.3	3.5	3.9
Dividend Yield, %	17	15	17	19

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER: 12.8x)

Chen Guangzhi (+65 6212 1859)
Investment Analyst
chengz@phillip.com.sg

Outlook

Trading activities are expected to be slower due to the stubbornly long backwardation environment in oil markets. In 2Q18, CAO extended the global footprint in Europe throughout the acquisition of Navires Aviation Limited (NAL). We are hopeful NAL is able to contribute profits to the group. Other synergies will come from flexibility in managing and coordinating jet fuel supply globally. We are still upbeat on the outlook since demand for jet fuel and other oil product remain healthy.

Furthermore, the 5th runway at Pudong airport is partially utilized. Therefore, there is still ample room to grow air traffic volume in the foreseeable future, which will translate into more refuelling volume and higher profit contribution.

Maintain BUY with an unchanged TP of S\$2.00

We adjust our FY18e EPS upward to 11.6 US cents (previously 10.9 US cents) due to the improvement in profit margins and a profit contribution from the recent acquisition. Based on an average forward 12-month PER of 12.8x, we maintain our BUY call with an unchanged target price of S\$2.00.

Navires Aviation Limited (NAL)

NAL is a private company limited by shares registered in England and Wales with principal activities in jet fuel supply and trading as well as aviation marketing. NAL has an interest in Aviation Fuel Supply B.V., a company incorporated in the Netherlands and holds concession rights to supply jet fuel at the Schiphol Airport. Through the acquisition of NAL, CAO will be able to establish into-wing jet fuel supply system at four European airports namely, Schiphol Airport, Brussels Airport, Frankfurt Airport and Stuttgart Airport.

Financials

Income Statement

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	8,977	11,703	16,268	21,578	27,510
Cost of sales	(8,942)	(11,659)	(16,229)	(21,529)	(27,458)
Gross profit	35	44	39	50	52
Operating profit	21	25	21	29	29
Finance costs	(1)	(1)	(3)	(3)	(3)
Associates & JVs	42	66	72	82	92
Profit before tax	64	92	92	111	122
Tax expense	(2)	(3)	(7)	(10)	(11)
Net profit	61	89	85	100	111
Net profit, adj.	61	89	85	100	111

Per share data (US cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	7.1	10.3	9.9	11.6	12.9
EPS, adj.	7.1	10.3	9.9	11.6	12.9
DPS	3.0	3.2	3.3	3.5	3.9
BVPS	68.9	75.5	83.8	93.8	106.1

Cash Flow

Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Net profit	61.3	88.9	85.3	100.5	111.3
Adjustments	(40.1)	(54.0)	(65.8)	(73.0)	(83.1)
WC changes	32.8	(35.4)	(46.1)	(26.9)	(22.2)
Cash generated from ops	54.0	(0.5)	(26.6)	0.6	6.1
Others	(1.9)	(0.0)	(0.7)	(0.7)	(0.8)
Cashflow from ops	52.1	(0.5)	(27.2)	(0.2)	5.3
CFI					
CAPEX, net	(0.4)	(0.4)	(0.4)	(8.0)	(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
Cashflow from investments	37.2	37.3	48.7	48.2	60.3
CFF					
Loans, net of repayments	-	100.0	20.0	(120.0)	-
Dividends	(12.8)	(19.3)	(27.7)	(29.1)	(30.1)
Others	(0.3)	(0.3)	(1.6)	(1.7)	(1.9)
Cashflow from financing	(13.0)	80.4	(9.3)	(150.9)	(32.0)
Net change in cash	76.3	117.2	12.1	(102.8)	33.6
Effects of exchange rate	(0.1)	(0.4)	0.6	(0.2)	(0.2)
Ending cash	171	287	300	197	230

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

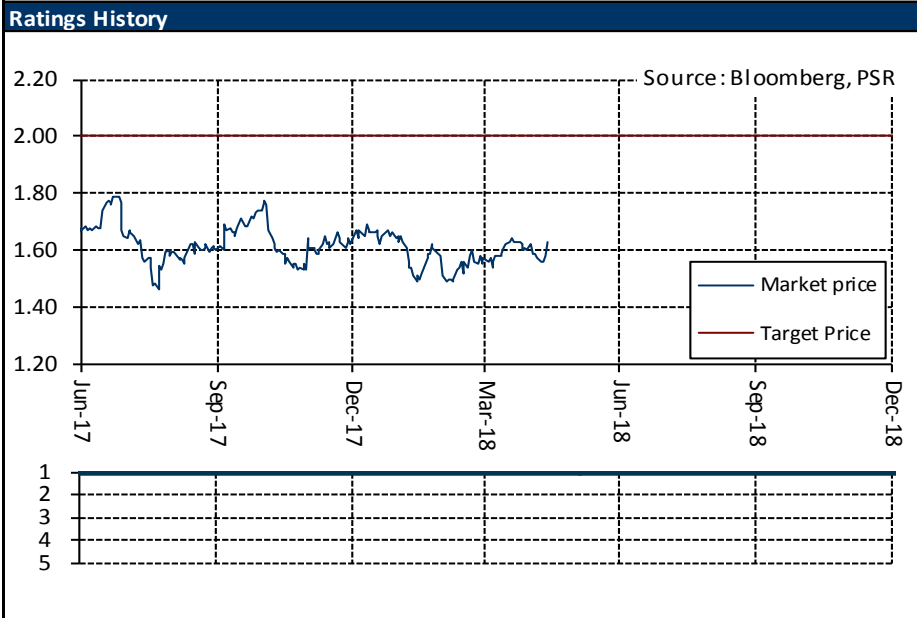
Y/E Dec, USD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PP&E	6	6	5	5	4
Intangibles	2	2	2	1	1
Associates & JVs	266	281	321	366	417
Others	8	8	6	6	6
Total non-current assets	281	296	334	378	429
Inventories	57	171	210	230	250
Receivables	337	591	1,066	1,267	1,484
Cash	171	287	300	197	230
Total current assets	564	1,049	1,576	1,694	1,965
Total Assets	846	1,344	1,910	2,072	2,394
LIABILITIES					
Others	6	6	8	10	10
Total non-current liabilities	6	6	8	10	10
Payables	247	588	1,060	1,254	1,470
Loans and borrowings	-	100	120	-	-
Others	0.01	0.62	0.95	1.51	2.00
Total current liabilities	247	688	1,181	1,256	1,472
Total Liabilities	253	695	1,189	1,265	1,482
EQUITY					
Share capital	216	216	216	216	216
Reserves	377	434	505	591	697
Total equity	593	650	721	807	912

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	7.0	9.7	11.8	9.8	8.9
P/B (x)	0.7	1.3	1.4	1.2	1.1
EV/EBITDA (x)	13.6	24.7	36.7	28.5	26.8
Dividend yield (%)	3%	2%	1%	2%	2%

Growth & Margins (%)

	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	-47.4%	30.4%	39.0%	32.6%	27.5%
Gross profit	29.4%	24.3%	-12.1%	28.2%	5.3%
Operating profit	171.9%	19.7%	-18.9%	37.9%	3.5%
Net profit	24.7%	45.1%	-4.0%	17.7%	10.8%
Margins					
Gross profit	0.4%	0.4%	0.2%	0.2%	0.2%
Operating profit	0.2%	0.2%	0.1%	0.1%	0.1%
Net profit	0.7%	0.8%	0.5%	0.5%	0.4%
Key Ratios					
ROE (%)	10.3%	13.7%	11.8%	12.5%	12.2%
ROA (%)	7.2%	6.6%	4.5%	4.8%	4.7%
Net debt or (net cash)	(171)	(187)	(180)	(197)	(230)
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

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Banking and Finance

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Telecommunications | Technology

Alvin Chia - alvinchiawy@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow - richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Tara Wong - tarawongsj@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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