

China Aviation (Singapore) Oil

Expect carrying moderate growth forward

SINGAPORE | OIL AND GAS | RESULTS

- US\$11.70bn revenue exceeded our expectation of US\$11.00bn by 6.3%
- US\$66.4mn share of profit from associates and JVs in line with our expectation of US\$66.0mn
- US\$88.9mn net profit in line with our full year expectation of US\$89.6mn
- 4.5 SG cents dividend proposed for FY16 (FY15: 3.0 SG cents).
- We revise our FY17e/FY18e EPS forecasts to 12.7/15.9 US cents. (Previous: 13.7/17.9 US cents). We maintain our **“Buy”** rating with an upgraded TP of **S\$2.00** based on updated blended average forward PER of **11.7x**, implying a 31.1% return from the last close price of S\$1.525.

Results at a glance

(US\$ mn)	FY16	FY15	y-y (%)	Comments
Revenue	11,703.2	8,987.5	↑30.2	Increase in total trading volume of jet fuel and other oil products. (FY16: 32.55mn tonnes vs FY15:20.15mn tonnes), offset the lower average selling price
Gross profit	44.1	35.4	↑24.3	Increase in jet fuel volume imported to China, higher premium allocated to the Company for Jet supply into China, and higher gains from trading and optimisation activities
Operating profit	20.5	19.2	↑6.7	Higher administrative costs and higher other operating expenses offset by increase in other operating income
Associates and JVs	66.4	42.3	↑56.9	Higher profit contributions from Pudong (US\$60.6mn in FY16 vs US\$38.8mn in FY15) and OKYC (US\$4.1mn in FY16 vs US\$1.4mn in FY15)
Net profit	88.9	61.3	↑45.1	Higher deferred tax liabilities and provision of income tax

Source: Company, Phillip Securities Research (Singapore)

Trading volume boosted phenomenal growth amid adversity of low oil price

In FY16, CAO's total trading volume soared to 32.6mn tonnes with 61.5% Y-o-Y growth. Respectively, volume from middle distillates, mainly jet fuel, represented 41.8% growth to 18.6mn tonnes, and that from other oil products, mainly including fuel oil, gas oil, and crude oil, achieved 98.2% Y-o-Y growth to 14mn tonnes. However, the average oil price (Brent) suffered from 8.6% Y-o-Y drop. Apparently, high double-digit increase in supply and trading volume dwarfed the oil price decline.

For the perspective of FY17, the management guided that CAO might not duplicate the explosive growth similar to FY16, but the Group still have a promising future in terms of long-lasting increment of air traffic, especially in China domestic market, as well as ongoing International market expansion. In terms of jet fuel supply and trading, we believe CAO will continue riding on the tailwind in FY17 onwards. See Figure 1, according to China Aviation Administration of China, the revenue passenger kilometer (RPK) that measures the volume of passenger traffic has 13% compounded average growth rate (CAGR) over the past five years. Comparatively, CAO's jet fuel trading volume CAGR aligns with it during the same period. Therefore, we believe revenue from this segment will have more than 10% growth in FY17.

For other oil products segment, we think it still has upward momentum in FY17. In retrospect over past 5 years, the revenue drawdown in FY15 was mainly due to backwardation in oil market, which suspended the trading activities for a moment. Since early 2016, market shifted into contango and lasted till now. As long as the market remain status quo, we believe this year's performance could be better off.

27 February 2017

Buy (Maintained)

CLOSING PRICE	SGD 1.525
FORECAST DIV	SGD 0.004
TARGET PRICE	SGD 2.000
TOTAL RETURN	31.4%

COMPANY DATA

O/S SHARES (MN) :	865
MARKET CAP (USD mn / SGD mn) :	939 / 1319
52 - WK HI/LO (SGD) :	158 / 0.62
3M Average Daily T/O (mn) :	2

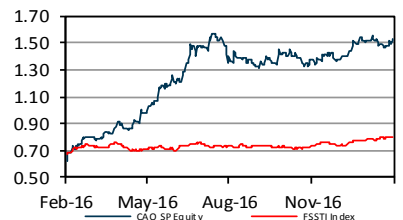
MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GRP	510%
BP PLC	20.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.3)	9.4	150.0
STIRETURN	4.0	110	22.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, USD mn	FY 15	FY 16	FY17e	FY 18e
Revenue	8977	11703	15213	18850
Net Profit	613	88.9	109.6	136.5
EPS (cents)	7.1	10.3	12.7	15.9
P/E (x)	7.0	9.7	11.3	9.1
P/B (x)	0.7	1.4	1.8	1.7
Dividend (Cents)	3.0	4.5	3.8	4.8
Dividend Yield, %	3.0	2.3	1.4	1.7

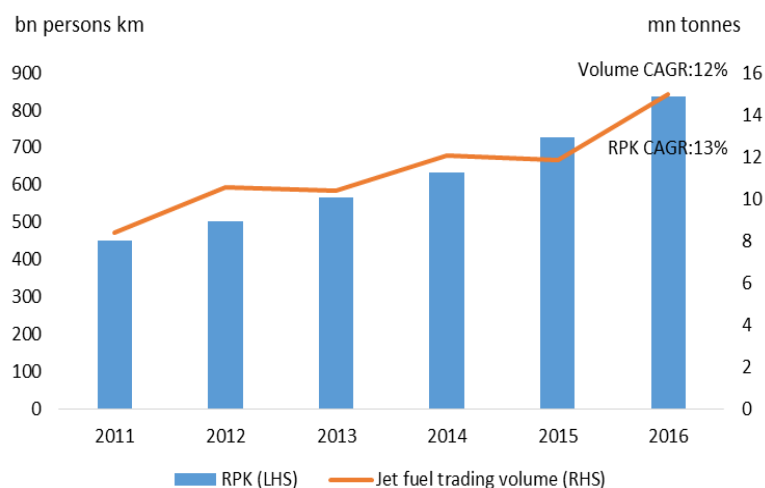
Source: Company Data, PSR est.

VALUATION METHOD

P/E Multiple (PER:11.7x)

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Figure 1. RPK and jet fuel trading volume comparison



Source: CAAC, Company, PSR

Strong contribution from SPIA to drive bottom line growth

Associates contributed 72% of PBT, of which >90% is attributable to Pudong. Pudong associate's FY16 contribution of US\$60.6mn with 60% Y-o-Y growth was boosted by the RMB300mn (US\$43.6mn) revaluation gain to its inventory. The underlying factor for our positive outlook for SPIA is that there still is land around it for further expansion. A fifth runway will be added by 2020, and a new terminal will be added in 2018, doubling the flight handling capacity of SPIA. More traffic flows is expected to translate into larger profit contribution thereafter.

Long-term goal remains unchanged but expect some improvements

Aiming to become a top-tier global transportation fuels provider, CAO will continue to contribute efforts on geographic expansion and fuel types' diversification. To embody, it will vertically integrate the value chain from procurement, transportation, storage, marketing and refuelling. In FY17, management will try to improve gross profit margin, and the foundation of crude oil and fuel oil trading is not solid.

Valuation

We revise our FY17e/FY18e EPS forecasts to 12.7/15.9 US cents. (Previous: 13.7/17.9 US cents.)

Based on our FY17e EPS of 12.7 US cents (17.1 SG cents) and the blended average forward PER of 11.7x, we maintain our "Buy" call with an upgraded target price of **SG\$2.00**.

Financials

Income Statement

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	17,061	8,977	11,703	15,213	18,850
Cost of sales	(17,034)	(8,942)	(11,659)	(15,158)	(18,786)
Gross profit	27	35	44	55	64
Operating profit	8	21	25	34	42
Finance costs	(3)	(1)	(1)	(1)	(2)
Associates & JVs	43	42	66	79	100
Profit before tax	51	64	92	114	141
Tax expense	(2)	(2)	(3)	(4)	(5)
Net profit	49	61	89	110	137
Net profit, adj.	49	61	89	110	137

Per share data (cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	5.7	7.1	10.3	12.7	15.9
EPS, adj.	5.7	7.1	10.3	12.7	15.9
DPS	2.0	3.0	4.5	3.8	4.8
BVPS	64.3	68.9	75.5	93.0	101.7

Cash Flow

Y/E Dec, USD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Net profit	49.2	61.3	88.9	109.6	136.5
Adjustments	(35.5)	(40.1)	(63.6)	(75.1)	(94.8)
WC changes	36.1	32.8	(25.8)	(7.2)	(19.0)
Cash generated from ops	49.8	54.0	(0.5)	27.2	22.7
Others	(2.6)	(1.9)	(1.9)	(2.1)	(2.3)
Cashflow from ops	47.2	52.1	(2.4)	25.1	20.4
CFI					
CAPEX, net	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
Divd from associates & JVs	35.1	37.2	38.1	45.6	57.3
Others	0.3	0.4	1.5	1.7	1.7
Cashflow from investments	35.0	37.2	39.2	46.9	58.7
CFF					
Loans, net of repayments	(28.6)	-	100.0	-	-
Dividends	(13.7)	(12.8)	(19.3)	(38.7)	(32.9)
Others	(1.5)	(0.3)	(0.3)	(0.3)	(0.3)
Cashflow from financing	(43.9)	(13.0)	80.4	(39.0)	(33.2)
Net change in cash	38.3	76.3	117.2	32.9	45.8
Effects of exchange rate	(0.4)	(0.1)	(0.4)	(0.3)	(0.2)
Ending cash	94	171	287	320	366

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
ASSETS					
PP&E	7	6	6	5	5
Intangibles	2	2	2	2	3
Associates & JVs	270	266	281	291	301
Others	8	8	8	8	8
Total non-current assets	287	281	296	306	316
Inventories	38	57	171	50	75
Receivables	959	337	591	931	1,164
Cash	94	171	287	320	366
Total current assets	1,092	564	1,049	1,301	1,604
Total Assets	1,379	846	1,344	1,607	1,921
LIABILITIES					
Others	6	6	6	6	6
Total non-current liabilities	6	6	6	6	6
Payables	819	247	588	800	1,039
Loans and borrowings	-	-	100	-	-
Others	0.02	0.01	0.62	0.40	0.40
Total current liabilities	819	247	688	800	1,039
Total Liabilities	825	253	695	807	1,046
EQUITY					
Share capital	216	216	216	216	216
Reserves	338	377	434	584	659
Total equity	554	593	650	800	875

Valuation Ratios

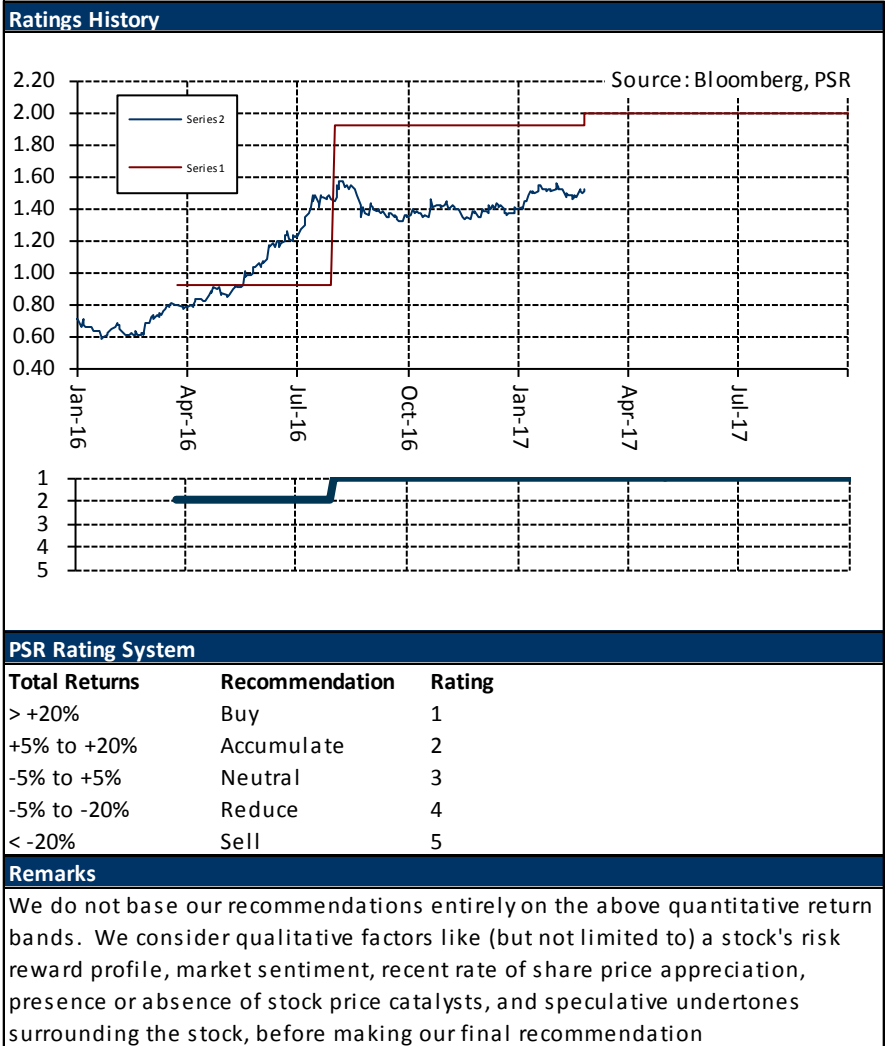
Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	8.8	7.0	9.7	11.3	9.1
P/B (x)	0.8	0.7	1.4	1.8	1.7
EV/EBITDA (x)	38.8	13.6	24.7	28.3	22.7
Dividend yield (%)	2%	3%	2%	1%	2%

Growth & Margins (%)

Growth					
Revenue	9.6%	-47.4%	30.4%	30.0%	23.9%
Gross profit	-47.8%	29.4%	24.3%	24.3%	17.0%
Operating profit	-65.1%	171.9%	19.7%	34.8%	21.2%
Net profit	-30.0%	24.7%	45.1%	23.3%	24.5%
Margins					
GP	0.2%	0.4%	0.4%	0.4%	0.3%
OP	0.0%	0.2%	0.2%	0.2%	0.2%
NP	0.3%	0.7%	0.8%	0.7%	0.7%

Key Ratios

	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	8.9%	10.3%	13.7%	13.7%	15.6%
ROA (%)	3.6%	7.2%	6.6%	6.8%	7.1%
Net debt or (net cash)	(94)	(171)	(287)	(320)	(366)
Net gearing (x)					



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