

China Aviation (Singapore) Oil

Mixed blessing



StocksBnB.com

SINGAPORE | OIL AND GAS | 4Q18 RESULTS

- 4Q18 revenue and net profit missed our expectations due to lower than expected supply and trading volumes and profits from Pudong.
- Supply and trading margins improved. Total supply and trading volume shrank.
- Pudong underperformed due to lower refuelling volumes and FX losses.
- We adjust our FY19e EPS downward to 10.7 US cents (previously 11.2 US cents) due to the assumption of a decrease in profits from supply and trading business, offsetting the growth of profits from Pudong. Based on an unchanged average forward 12-month PER of 11.5x, we maintain our BUY call with a lower target price of S\$1.67.

Results at a glance

(US\$ mn)	4Q18	4Q17 (Restated)	YoY (%)	Comments
Revenue	4,377.1	4,060.7	7.8	Higher oil prices offset the drop in total supply and trading volume of middle distillates and other oil products (4Q18: 6.82mn tonnes vs 4Q17: 8.2mn tonnes)
Gross profit	9.3	8.3	11.9	Higher jet fuel volume supplied to China and higher profits from trading and optimisation activities
Operating profit	6.3	1.6	285.2	Higher bank interest income and increase in allowances on doubtful debts
Associates and JVs	15.0	16.8	(10.6)	Lower profit contributions from Pudong
Net profit	18.7	15.1	23.9	Absence of one-off tax expense incurred FY17 partially offset by the increase in recognition of deferred tax liabilities in FY18

Source: Company, PSR

Positives

+ Supply and trading margin was better off. Supply and trading margins, measured by gross profit/tonne, surged 34.5% YoY to US\$1.37/tonne in 4Q18 (4Q17: US\$1.02/tonne). This was attributable to the curb on non-profitable trading businesses.

Negatives

- Supply and trading volume shrank. Total supply and trading volumes declined in 4Q18, shown in Figure 1. The shrinkage of the volume was due to the reduction of paper trading businesses which offset the increase in supply volume. Since both market risk and geopolitical risk protracted during the period, management continued to implement stringent risk control measures. Hence trading volume was down.

Figure 1: Drop in supply and trading volumes

(mn tonnes)	4Q18	4Q17	YoY (%)
Middle distillates	4.3	5.1	(15.8)
Jet fuel	3.5	3.8	(7.3)
Other oil products	2.6	3.1	(18.5)
Total	6.8	8.2	(16.8)

Source: Company, PSR

- Pudong confronted to triple whammies: 4Q18 profit from Pudong was US\$14.2mn (-13.0% YoY) due to lower refuelling volumes, foreign exchange losses, and higher operating expenses. During the period, refuelling volume dropped by 7.6% YoY to 1.2mn tonnes. This was partially impacted by the decrease in the rate of landing which resulted from more safety measures taken by the airport. 4Q18 RMB depreciated against USD by 4.5% YoY.

5 March 2019

BUY (Maintained)

CLOSING PRICE	SGD 1.300
FORECAST DIV	SGD 0.004
TARGET PRICE	SGD 1.670
TOTAL RETURN	28.8%

COMPANY DATA

BLOOMBERG CODE:	CAOSP
O/S SHARES (MN):	860
MARKET CAP (USD mn / SGD mn):	1058 / 1444
52 - WK HI/LO (SGD):	166 / 104
3M Average Daily T/O (mn):	1

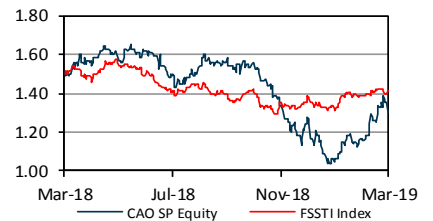
MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GROUP	51.3%
BP PLC	20.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	15.4	8.9	(8.1)
STI RETURN	11	3.6	(5.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, USD mn	FY 17	FY 18	FY 19e	FY 20e
Revenue	16,268	20,612	20,148	20,780
Net Profit	85	94	92	97
EPS (cents)	9.8	10.9	10.7	11.3
P/E (x)	12.2	7.1	7.1	9.0
P/B (x)	15	0.9	0.9	10
Dividend (Cents)	3.3	3.3	3.2	3.4
Dividend Yield, %	2.8	4.2	3.4	3.5

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER:115x)

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Outlook

The new management will focus on the bottom line growth instead of volume growth. With the global geopolitical risks and market uncertainties being escalating, CAO will consolidate the supply business while reducing the scale of trading business. We expect the growth in air traffic in Pudong airport will resume. We expect CAO's performance to remain flat this year owing to an estimated decline in trading business offsetting a mild growth of profits from Pudong.

Maintain BUY with a lower TP of S\$1.67

We adjust our FY19e EPS downward to 10.7 US cents (previously 11.2 US cents) due to a decline in profits from supply and trading business, offsetting the growth of profits from Pudong. Based on an unchanged average forward 12-month PER of 11.5x, we maintain our BUY call with a lower target price of S\$1.67.

Financials

Income Statement

Y/E Dec, USD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	11,703	16,268	20,612	20,148	20,780
Cost of sales	(11,659)	(16,229)	(20,562)	(20,103)	(20,734)
Gross profit	44	39	50	44	46
Operating profit	25	20	28	21	21
Finance costs	(1)	(3)	(5)	(5)	(5)
Associates & JVs	66	72	72	78	83
Profit before tax	92	92	101	99	104
Tax expense	(3)	(7)	(7)	(7)	(7)
Net profit	89	85	94	92	97
Net profit, adj.	89	85	94	92	97

Per share data (US cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	10.3	9.8	10.9	10.7	11.3
EPS, adj.	10.3	9.8	10.9	10.7	11.3
DPS	3.2	3.3	3.3	3.2	3.4
BVPS	75.5	83.8	89.4	95.5	101.6

Cash Flow

Y/E Dec, USD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Net profit	88.9	84.9	93.9	92.2	97.1
Adjustments	(54.0)	(65.4)	(89.1)	(70.2)	(75.4)
WC changes	(35.4)	(46.1)	143.2	(5.8)	(26.4)
Cash generated from ops	(0.5)	(26.6)	148.0	16.2	(4.7)
Others	(0.0)	(0.7)	(1.5)	(1.6)	(1.8)
Cashflow from ops	(0.5)	(27.2)	146.5	14.5	(6.5)
CFI					
CAPEX, net	(0.4)	(0.4)	(8.7)	(0.8)	(0.8)
Divd from associates & JVs	36.2	45.5	67.4	54.6	58.1
Others	1.5	3.6	4.6	5.0	6.5
Cashflow from investments	37.3	48.7	63.2	58.8	63.8
CFF					
Loans, net of repayments	100.0	20.0	(120.0)	-	-
Dividends	(19.3)	(27.7)	(29.1)	(28.4)	(27.7)
Others	(0.3)	(1.6)	(3.1)	(4.9)	(5.2)
Cashflow from financing	80.4	(9.3)	(152.3)	(33.3)	(32.9)
Net change in cash	117.2	12.1	57.4	40.1	24.4
Effects of exchange rate	(0.4)	0.6	0.2	-	-
Ending cash	287	300	358	398	422

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

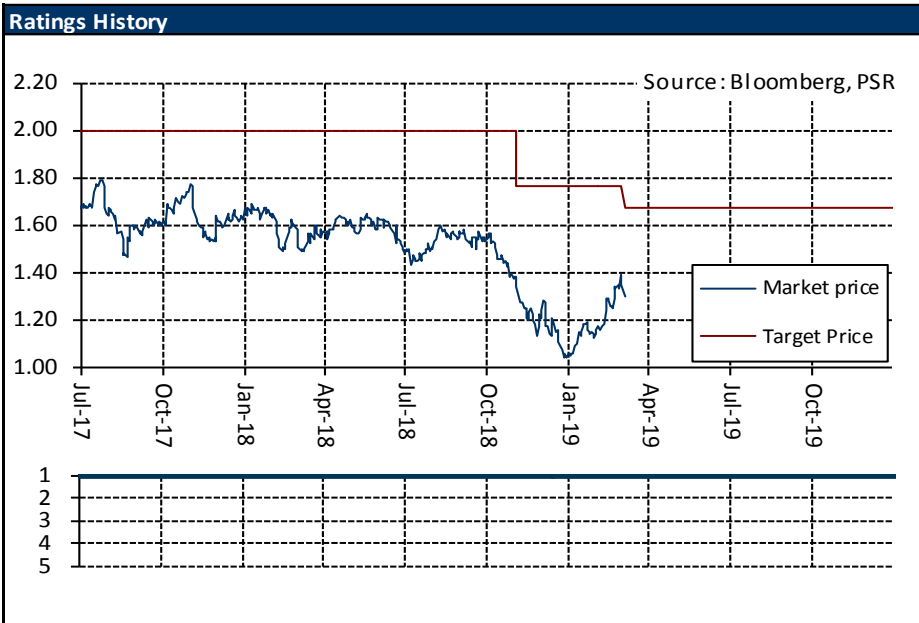
Y/E Dec, USD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PP&E	6	5	5	5	5
Intangibles	2	2	2	2	2
Associates & JVs	281	321	311	318	327
Others	8	6	5	5	5
Total non-current assets	296	334	323	329	338
Inventories	171	210	111	120	140
Receivables	591	1,066	862	817	845
Cash	287	300	358	398	422
Total current assets	1,049	1,576	1,330	1,335	1,407
Total Assets	1,344	1,910	1,653	1,664	1,746
LIABILITIES					
Others	6	8	8	8	8
Total non-current liabilities	6	8	8	8	8
Payables	588	1,060	875	834	862
Loans and borrowings	100	120	-	-	-
Others	0.62	0.95	0.83	0.83	0.83
Total current liabilities	688	1,181	876	835	863
Total Liabilities	695	1,189	884	843	871
EQUITY					
Share capital	216	216	216	216	216
Reserves	434	505	554	606	659
Total equity	650	721	769	821	874

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	9.4	12.2	7.1	7.1	9.0
P/B (x)	1.3	1.5	0.9	0.9	1.0
EV/EBITDA (x)	24.4	42.0	10.2	24.0	23.3
Dividend yield (%)	3%	3%	4%	3%	4%

Growth & Margins (%)

	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	30.4%	39.0%	26.7%	-2.3%	3.1%
Gross profit	24.3%	-12.1%	29.2%	-11.3%	3.1%
Operating profit	19.7%	-20.5%	40.2%	-25.5%	-0.6%
Net profit	45.1%	-4.5%	10.5%	-1.8%	5.3%
Margins					
Gross profit	0.4%	0.2%	0.2%	0.2%	0.2%
Operating profit	0.2%	0.1%	0.1%	0.1%	0.1%
Net profit	0.8%	0.5%	0.5%	0.5%	0.5%
Key Ratios					
ROE (%)	13.7%	11.8%	12.2%	11.2%	11.1%
ROA (%)	6.6%	4.4%	5.7%	5.5%	5.6%
Net debt or (net cash)	(187)	(180)	(358)	(398)	(422)
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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