

China Aviation (Singapore) Oil

Flattish performance



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SINGAPORE | OIL AND GAS | 1Q19 RESULTS

- 1Q19 revenue and net profit met our expectations.
- Mild growth of middle distillate volume but other oil product volume nosedived.
- Pudong underperformed due to lower average oil prices.
- We keep our FY19e EPS at 10.7 US cents and maintain our BUY recommendation with an unchanged target price of S\$1.67 based on the 12-month PER of 11.5x.

Results at a glance

(US\$ mn)	1Q19	1Q18	YoY (%)	Comments
Revenue	3,717.9	4,102.5	(9.4)	Decrease in oil prices and total supply and trading volume of middle distillates and other oil products (1Q19: 6.78mn tonnes vs 1Q18: 7.6mn tonnes)
Gross profit	11.6	13.2	(12.0)	Lower profits from trading and optimisation activities
Operating profit	8.3	7.5	11.1	Higher bank interest income partially offsetting higher foreign exchange loss
Associates and JVs	19.1	21.0	(8.8)	Lower profit contributions from Pudong
Net profit	26.3	26.9	(2.1)	Lower deferred tax liabilities and lower provision for income tax expenses

Source: Company, PSR

Positives

Mild growth of middle distillates supply and trading volume. As shown in Figure 1, the jet fuel volume improved by 6% YoY in 1Q19 due to recovery in supply to China. During the period, 71% of the jet fuel was supplied to China compared to the previous 60%+ in the recent quarters. Demand for gas oil increased owing to the substitution for fuel oil with higher sulphur content for the bunker market.

Negatives

- **Flat overall supply and trading margin.** Supply and trading margins, measured by gross profit/tonne, dipped 1.4% YoY to US\$1.71/tonne in 1Q19 (1Q18: US\$1.74/tonne). There was a reduction in riskier trading positions which resulted in lower profit enhancement.

- **Nosedive of other oil product volume.** As per Figure 1, the substantial drop in other oil products was due to the shortfall of fuel oil volume. The 2020 International Maritime Organization fuel sulphur regulation will phase out high sulphur content fuel oil. Therefore, the demand for such kind of fuel oil plummeted. Moving forward, the other oil product volume is expected to hover around the current levels.

Figure 1: Plunge in other oil products volume offset the growth of middle distillates

(mn tonnes)	1Q19	1Q18	YoY (%)
Middle distillates	4.6	4.3	8.7
Jet fuel	3.5	3.3	6.0
Other oil products	2.1	3.3	(35.5)
Total	6.8	7.6	(10.7)

Source: Company, PSR

2 May 2019

BUY (Maintained)

CLOSING PRICE	SGD 1.370
FORECAST DIV	SGD 0.004
TARGET PRICE	SGD 1.670
TOTAL RETURN	22.2%

COMPANY DATA

BLOOMBERG CODE:	CAOSP
O/S SHARES (MN):	860
MARKET CAP (USD mn / SGD mn):	1058 / 1444
52 - WK H/L (SGD):	165 / 104
3M Average Daily T/O (mn):	1

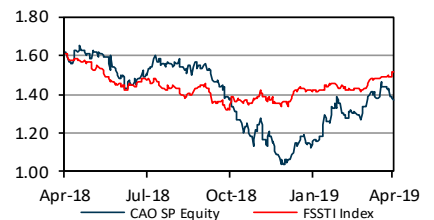
MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GROUP	51.3%
BP PLC	20.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.0	23.2	(11.3)
STIRETURN	6.3	7.6	(14)

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	9.4
P/B (x)	15	0.9	0.9	1.1
Dividend (Cents)	3.3	3.3	3.2	3.4
Dividend Yield, %	2.8	4.2	3.2	3.3

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER:11.5x)

Chen Guangzhi (+65 6212 1859)

Research Analyst
chengz@phillip.com.sg

- **Moderate decrease in profit contribution from Pudong:** 1Q19 profit from Pudong was US\$17.2mn (-8.9% YoY) due to lower average oil price and flat refuelling volume. During the period, refuelling volume arrived at 1.1mn tonnes, similar to volumes in 1Q18.

Outlook

The supply and trading business is expected to be stable. Growth is muted as the scale of the trading business is tightened in view of escalating geopolitical risks and market uncertainties. The fifth runway has been operating but yet to be well utilised due to the domestic control of aircraft landings. We do expect the growth of air traffic in Pudong airport to gradually rise in the foreseeable future, and our expectation contributed profit growth from which is 4.6% in FY19e.

Maintain BUY with an unchanged TP of S\$1.67

We keep our FY19e EPS at 10.7 US cents. Based on an unchanged average forward 12-month PER of 11.5x, we maintain our BUY call with an unchanged 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

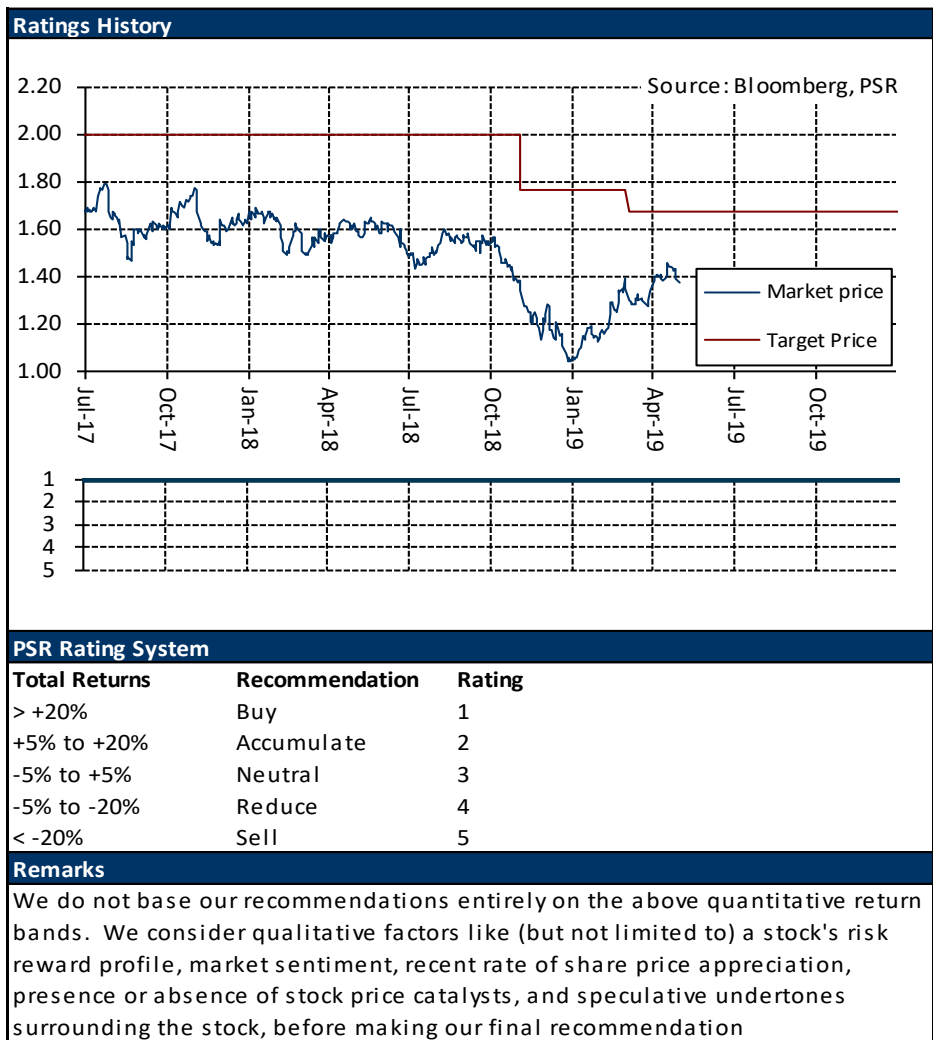
Y/E Dec, USD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PP&E	6	5	5	5	5
Intangibles	2	2	2	2	2
Associates & JVs	281	321	311	318	327
Others	8	6	5	5	5
Total non-current assets	296	334	323	329	338
Inventories	171	210	111	120	140
Receivables	591	1,066	862	817	845
Cash	287	300	358	398	422
Total current assets	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 (%)

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



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Siti Nursyazwina - syazwina@phillip.com.sg

Banking & Finance | Healthcare

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Telco | Technology

Alvin Chia - alvinchiawy@phillip.com.sg

Property | REITs

Tara Wong - tarawongsj@phillip.com.sg

REITs

Natalie Ong - natalieongpf@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

US Equity

Edmund Xue – edmundxuejj@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

No. 60, 5th Lane,
Colombo 3, 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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