



China Aviation Oil

Spike in air traffic

Singapore | TRANSPORT | 1H24 RESULTS

- Revenue for 1H24 increased by 20% YoY to US\$7.5bn, slightly below expectations and accounting for 44% of our FY24e forecast. The revenue growth is primarily attributed to a rise in oil prices and an increase in supply and trading volume (+7.5% YoY).
- Net income soared by 117.8% YoY to US\$42.4mn for 1H24, in line with our forecast, forming 54% of our FY24e estimates. The jump came from SPIA's 154.9% YoY rise to US\$22.38mn, driven by an uptick in international air demand that led to higher refueling volumes. Gross profit rose 127% YoY to S\$24.2mn from increase contribution of end-to-end sales and contango curve.
- 2024e earnings supported by the recovery in international air traffic in China, which we anticipate will reach c.90% of pre-pandemic levels (currently 25% below pre-COVID levels). We are positive on CAO as the largest physical importer in China and associate SPIA, the sole jet fuel supplier for international flights at Shanghai airport. We maintain our FY24e earnings forecast and BUY recommendation with an unchanged DCF-TP of S\$1.05.

Result at a glance

(USD mn)	1H24	1H23	YoY (%)	Comments
Revenue	7,535.0	6,277.0	20.0%	Increase in oil price and business volume
Gross profit	24.2	10.6	127.1%	Higher profits derived from jet fuel supply business
Operating Profit	24.2	13.4	80.9%	
Associates	23.1	8.3	180.2%	Higher contributions from SPIA
Net Profit	42.3	19.4	117.8%	Higher refuelling volume
SPIA	22.38	8.78	154.9%	Higher international air traffic

Source: Company, PSR

The Positives

+ Increasing margin and trading volume. Total supply and trading volume grew by 7.5% YoY to 10.17mn mt. Jet fuel supply and trading volume surged by 65.9% YoY, driven by increasing air demand. Margins improved alongside volume, reaching 0.32% (+0.15ppt), supported by the open trading window under the contango oil curve, allowing the company to achieve higher roll returns. Furthermore, mispricing due to geopolitical tensions in the Middle East, particularly the Red Sea conflict, has redirected demand to Asia for jet fuel purchases. CAO also saw an increasing contribution from end-to-end sales (from refinery to airline delivery), which now accounts for c.10% of the total volume. We expect trading volume to remain robust in 2H24, as 3Q is seasonally stronger for airlines to onboard jet fuel for winter.

+ Improving contribution from associates. Profit from associates increased by 180% YoY to US\$23.1mn, driven by rising air demand. The growth in associates was primarily due to SPIA's increasing jet fuel supply, which boosted profits by 154% YoY to US\$22.38mn, accounting for 52% of the group's profit. We expect SPIA's contribution to continue increasing. Additionally, share of results from other associates, such as those in Korea and Tianjin, also turned profitable, reaching US\$0.76mn for 1H24 (1H23: -US\$0.52mn) due to higher utilization rates.

22 August 2024

BUY (MAINTAINED)

LAST CLOSE PRICE	SGD 0.860
FORECAST DIV	SGD 0.036
TARGET PRICE	SGD 1.050
TOTAL RETURN	26.3%

COMPANY DATA

BLOOMBERG CODE:	CAOSP
O/S SHARES (MN):	860.18
MARKET CAP (USD mn / SGD mn):	566 / 740
52 - WK HI/LO (SGD):	0.94 / 0.71
3M Average Daily T/O (mn):	0.38

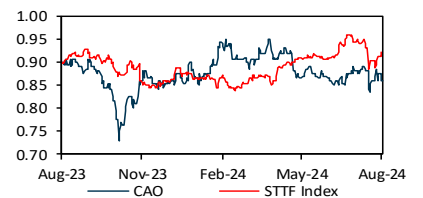
MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GROUP	51.3%
BP INVESTMENTS ASIA LTD	20.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	-2.3%	-0.6%	1.0%
STTF RETURN	-0.9%	3.2%	11.4%

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (US\$, 'mn)	FY22	FY23	FY24e	FY25e
Revenue	16,464	14,430	15,023	15,473
Gross Profit	35.4	50.6	52.6	54.2
EBIT	38.9	66.7	89.6	97.6
NPAT	33.5	58.9	77.1	81.2
P/NAV (x)	0.6	0.6	0.6	0.6
P/E (x)	17.2	9.8	7.5	7.1
ROE (%)	3.7%	6.2%	8.1%	8.1%

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 15%, Terminal g: 1%)

Liu Miaomiao (+65 6212 1852)
 Research Analyst
 Liumm@phillip.com.sg

The Negative

- NIL

Outlook

CAO is diversifying its geographical presence outside of China, although revenue from the PRC still accounts for 75% of its total income. We expect higher contributions from other regions as several partnerships, particularly in Korea and the US (+30%YoY), are progressing well.

We believe there is an good opportunity for CAO to increase its payout ratio or announce a special dividend, given its current cash-rich position of US\$353mn. In addition State Owned Enterprises have been encouraged to raise dividends.

Maintain BUY with an unchanged TP of S\$1.05

Earnings will be supported by a recovery in international air traffic in China, which we expect to reach c.90% of pre-pandemic levels (currently around 25% below pre-COVID levels). We maintain our BUY recommendation with an unchanged DCF-TP of S\$1.05.

Financials

Income Statement

Y/E Dec, (US\$ mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	17,637	16,464	14,430	15,023	15,473
Cost of sales	(17,606)	(16,429)	(14,379)	(14,970)	(15,419)
Gross Profit	31	35	51	53	54
Other operating income	2	1	19	10	8
Administration	(11)	(14)	(17)	(12)	(12)
Other expenses	1	(1)	(16)	(5)	(5)
Share of results of associates and joint ve	24	18	30	44	53
EBIT	46	39	67	90	98
Net finance expenses	(2)	(1)	(1)	(2)	(2)
Profit before tax	44	38	66	88	96
Taxation	(4)	(5)	(8)	(11)	(14)
Net Profit	40	33	58	77	81
Minority interests	-	-	-	-	-
Profit attributable to owners	40	33	58	77	81

Per share data (US\$ cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	104.8	105.0	110.3	110.3	116.0
DPS (S\$ cents)	2.6	1.6	5.1	3.6	3.8
EPS	4.7	3.9	6.8	9.0	9.4

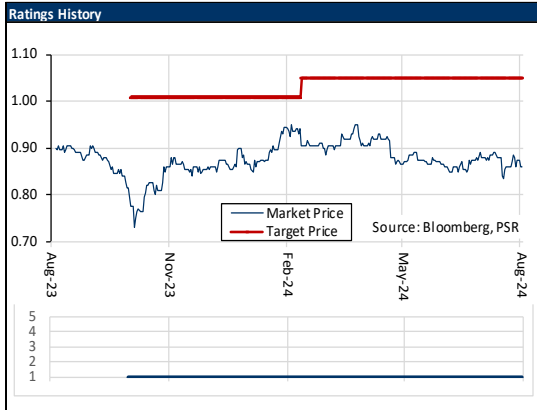
Cash Flow

Y/E Dec, (US\$ mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Pretax profit	44	38	66	88	96
Adjustments	(27)	(11)	(32)	(38)	(46)
WC changes	96	(114)	25	42	(9)
Cash generated from ops	113	(87)	59	92	40
Others	44	23	33	31	38
Cashflow from ops	157	(65)	92	123	78
CFI					
CAPEX, net	(0)	(0)	(11)	(2)	(2)
Others	(0)	1	0	-	-
Cashflow from investments	(0)	0	(11)	(2)	(2)
CFF					
Dividends paid to owners	(17)	(12)	(10)	(31)	(32)
Proceeds from borrowings, net	(8)	(15)	(6)	-	-
Others	-	-	-	-	-
Cashflow from financing	(25)	(26)	(16)	(31)	(32)
Net change in cash	132	(91)	64	90	44
Cash at the start of the period	269	401	308	308	398
Currency translation	(0)	(2)	1	-	-
Ending cash	401	308	373	398	442

Balance Sheet

Y/E Dec, (US\$ mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	4	5	15	4	3
Others	304	288	271	296	301
Total non-current assets	308	294	286	300	305
Cash and cash equivalents	401	308	373	398	442
Inventories	43	182	88	82	84
Trade and other receivables	784	716	1,040	1,070	1,102
Others	-	-	-	-	-
Total current assets	1,228	1,206	1,501	1,550	1,628
Total Assets	1,536	1,500	1,788	1,850	1,933
LIABILITIES					
Trade and other payables	605	565	814	861	887
ST borrowings	-	-	-	-	-
Others	15	16	13	24	32
Total current liabilities	620	580	826	885	919
LT borrowings	-	-	-	-	-
Others	14	12	9	12	12
Total non-current liabilities	14	12	9	12	12
Total liabilities	634	592	835	897	930
EQUITY					
Share Capital	216	216	216	216	216
Retained profits	686	687	733	734	782
Others	-	-	-	-	-
Total equity	901	903	948	949	998
Minority interests	-	4	4	4	4
Total equity and liabilities	1,536	1,500	1,788	1,850	1,933
Valuation Ratios					
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	14.3	17.4	9.9	7.5	7.1
P/B (x)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	5.5	8.8	4.6	3.3	2.5
Dividend yield (%)	2.9	1.8	5.6	4.0	4.2
Growth & Margins (%)					
Growth					
Revenue	-13.3%	-6.6%	-12.4%	4.1%	3.0%
Gross profit	-47.5%	15.3%	43.0%	3.9%	3.0%
EBIT	-57.8%	-15.8%	71.6%	34.3%	9.0%
PBT	-58.3%	-15.1%	74.8%	32.8%	9.2%
Margins					
Gross profit margin	0.2%	0.2%	0.4%	0.4%	0.4%
EBIT margin	0.3%	0.2%	0.5%	0.6%	0.6%
Net profit margin	0.2%	0.2%	0.4%	0.5%	0.5%
Key Ratios					
ROE	4.5%	3.7%	6.2%	8.1%	8.1%
ROA	2.1%	2.1%	2.5%	3.0%	2.8%
Net Gearing	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, Phillip Securities Research (Singapore) Estimates



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

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Banking & Finance

Glenn Thum – glenthumjc@phillip.com.sg

US Tech Analyst (Hardware/E-commerce/ETF)

Helena Wang – helenawang@phillip.com.sg

Research Admin

Qystina Azli - qystina@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

US Tech Analyst (Digital Entertainment/Semicon)

Jonathan Woo – jonathanwooki@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

US Tech Analyst (Software/Services)

Ambrish Shah – amshah@phillipventuresifsc.in

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

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

Esentepe Mah. Harman 1 Sk.
Nida Kule Kat 3-12 Levent-Şişli
34394, İstanbul Turkey
Tel: +90 (212) 239 10 00
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

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

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
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

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.