

China Aviation (Singapore) Oil

Maintain outperformance

SINGAPORE | OIL AND GAS | RESULTS

7 November 2016

- Revenue met 95.9% of our full year expectation of US\$8,792mn
- Share of profit from associates and JVs met 90% of our full year expectations of US\$58.6mn
- Net profit met 81.8% of our full year expectations of US\$86.8mn
- We revise up our FY16 forecast, with a higher FY16e EPS of US 10.4 cents from US 10.1 cents. We maintain our “Buy” rating with an unchanged TP of S\$1.92 based on updated average forward PER of 13.9x, implying a 40% return from the last close price of S\$1.4.

Buy (Maintained)

CLOSING PRICE	SGD 1.400
FORECAST DIV	SGD 0.041
TARGET PRICE	SGD 1.920
TOTAL RETURN	40.1%

COMPANY DATA

OS SHARES (MN) :	883
MARKET CAP (USD mn / SGD mn) :	619 / 892
52 - WK HI/LO (SGD) :	1.11 / 0.97
3M Average Daily T.O (mn) :	1.16

MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GRP	51.0%
BP PLC	20.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	0.0	(2.9)	8.1
STI RETURN	(4.6)	(9.2)	(16.5)

Results at a glance

(US\$ mn)	9M16	9M15	y-y (%)	Comments
Revenue	8,427.5	7,004.4	↑20.3	Due mainly to the increase in total trading volume of products. (9M16: 24.29mn tonnes vs 9M15:14.53mn)
Gross profit	33.5	27.4	↑21.9	Due mainly to the increase in jet fuel volume in higher gains from trading and optimisation acti
Operating profit	20.5	19.2	↑6.7	Due mainly to higher administrative costs and h expenses
Associates and JVs	53.0	32.5	↑62.9	Due mainly to higher profit contributions from Pudon vs US\$30.8mn in 9M15) and OKYC (US\$3.9mn in 9M: 9M15)
Net profit	71.0	49.9	↑42.4	Due to higher deferred tax liabilities and provis

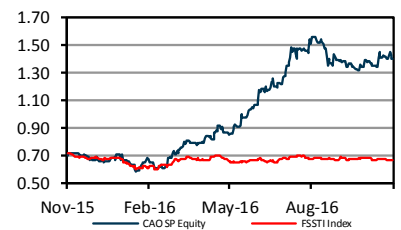
Source: Company, Phillip Securities Research (Singapore)

Trading volume maintained at a remarkable growth, offsetting the low oil price impact.

In retrospect, China Aviation Oil (CAO)'s 9M revenue grew by 20.3% y-o-y to US\$8.4bn. Though oil price bottomed out early this year, it failed to stabilise above US\$50/bbl but hovered between US\$40/bbl and US\$50/bbl. The average oil price (Brent and WTI blended) during 9M16 was US\$43/bbl, 20% lower than the average of US\$54/bbl in 9M15.

However, CAO managed to boost the topline, demonstrating its immunity to the low oil price. This improvement was due to the substantial growth in trading volume of both jet fuel and other oil products. The trading volume of middle distillates segment (jet fuel) increased by 19.4% y-o-y to 10.88mn tonnes, and that of other oil products segment (mainly fuel oil and gas oil) increased by 128% y-o-y to 12.36mn. Accordingly, the revenue from middle distillates and other oil products was US\$5.5bn (slightly down 1.8% y-o-y) and US\$2.9bn (hugely up 110.2% y-o-y) respectively. Through this performance, we see that CAO is achieving the goal to become an integrated fuels provider, since the other oil products businesses were not dwarfed by the jet fuel trading business.

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, USD mn	FY 15	FY 16e	FY 17e	FY 18e
Revenue	8977	11007	13450	16475
Net Profit	61.3	89.6	117.4	154.2
EPS (cents)	7.1	10.4	13.7	17.9
P/E (x)	7.0	13.3	10.1	7.7
P/B (x)	0.7	1.9	1.7	1.6
Dividend (Cents)	3.0	3.1	4.1	5.4
Dividend Yield, %	3.0	1.2	1.5	2.0

Source: Company Data, PSR est.

VALUATION METHOD

P/E Multiple (PER:13.9x)

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Investment in oil-related assets propelled the bottom line, underpinning the diversification strategy.

With a 42.4% y-o-y growth, YTD 9M16 net profit was reported at US\$71mn, which was even higher than FY15's full year net profit of US\$61.3mn. The strong growth in net profit was buoyed by a US\$47mn (up 52.6% y-o-y) share of profits from Pudong. Higher refueling volume, as well as higher margins resulting from 3Q's oil price rebound helped. Besides, OKYC also contributed a gain of US\$3.9mn YTD, recovering from losses during the same period in FY15, along with increasing demand for tank storage. Profits from TSN- PEKCL increased by 30.9% y-o-y to US\$2.5mn, while Xinyuan's profit dropped by 45.2% to US\$0.26mn. Loss from CNF HKR was US\$0.68mn, but it is expected to return to profits in 3 years. Returns from these assets as a whole was lucrative, and we expect the profit contribution to sustain in the long term as we expect China's civil aviation market to continue to see high growth in the foreseeable future.

Valuation

We revise up our three years ahead forecast, with respective EPS of US 10.4 cents, US 13.7 cents, and US 17.9 cents in FY16e, FY17e, and FY18e.

Based on our FY16e EPS of US 10.4 cents (SG 13.8 cents) and the updated average forward PER of 13.9x, we maintain our "Buy" call with an unchanged target price of **SG\$1.92**.

Financials

Income Statement

Y/E Dec, USD mn	FY14	FY15	FY16e	FY17e	FY18e
Revenue	17,061	8,977	11,007	13,450	16,475
Cost of sales	(17,034)	(8,942)	(10,964)	(13,398)	(16,411)
Gross profit	27	35	43	52	64
Operating profit	8	21	26	35	45
Finance costs	(3)	(1)	(1)	(1)	(2)
Associates & JVs	43	42	67	87	114
Profit before tax	51	64	93	122	160
Tax expense	(2)	(2)	(3)	(4)	(5)
Net profit	49	61	90	117	154
Net profit, adj.	49	61	90	117	154

Per share data (cents)

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
EPS, reported	5.7	7.1	10.4	13.7	17.9
EPS, adj.	5.7	7.1	10.4	13.7	17.9
DPS	2.0	3.0	3.1	4.1	5.4
BVPS	64.3	68.9	93.7	112.4	137.0

Cash Flow

Y/E Dec, USD mn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Net profit	49.2	61.3	89.6	117.4	154.2
Adjustments	(35.5)	(40.1)	(64.4)	(82.6)	(108.5)
WC changes	36.1	32.8	1.6	3.1	(48.6)
Cash generated from ops	49.8	54.0	26.8	38.0	(2.9)
Others	(2.6)	(1.9)	(2.0)	(2.2)	(2.4)
Cashflow from ops	47.2	52.1	24.8	35.8	(5.3)
CFI					
CAPEX, net	(0.5)	(0.4)	(0.2)	(0.3)	(0.3)
Divd from associates & JVs	35.1	37.2	58.9	76.6	100.5
Others	0.3	0.4	1.1	1.1	1.2
Cashflow from investments	35.0	37.2	59.8	77.5	101.4
CFF					
Loans, net of repayments	(28.6)	-	-	-	-
Dividends	(13.7)	(12.8)	(25.8)	(26.9)	(35.2)
Others	(1.5)	(0.3)	(0.2)	(0.2)	(0.2)
Cashflow from financing	(43.9)	(13.0)	(26.0)	(27.1)	(35.5)
Net change in cash	38.3	76.3	58.5	86.2	60.7
Effects of exchange rate	(0.4)	(0.1)	(0.3)	(0.3)	(0.2)
Ending cash	94	171	229	315	375

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	FY16e	FY17e	FY18e
ASSETS					
PP&E	7	6	6	5	4
Intangibles	2	2	2	2	3
Associates & JVs	270	266	326	404	507
Others	8	8	8	8	8
Total non-current assets	287	281	341	419	522
Inventories	38	57	146	161	177
Receivables	959	337	1,069	874	1,231
Cash	94	171	229	315	375
Total current assets	1,092	564	1,444	1,349	1,783
Total Assets	1,379	846	1,784	1,768	2,305

LIABILITIES

Others	6	6	6	6	6
Total non-current liabilities	6	6	6	6	6
Payables	819	247	972	794	1,119
Loans and borrowings	-	-	-	-	-
Others	0.02	0.01	0.40	0.40	0.40
Total current liabilities	819	247	972	795	1,120
Total Liabilities	825	253	978	801	1,126

EQUITY

Share capital	216	216	216	216	216
Reserves	338	377	590	751	963
Total equity	554	593	806	967	1,179

Valuation Ratios

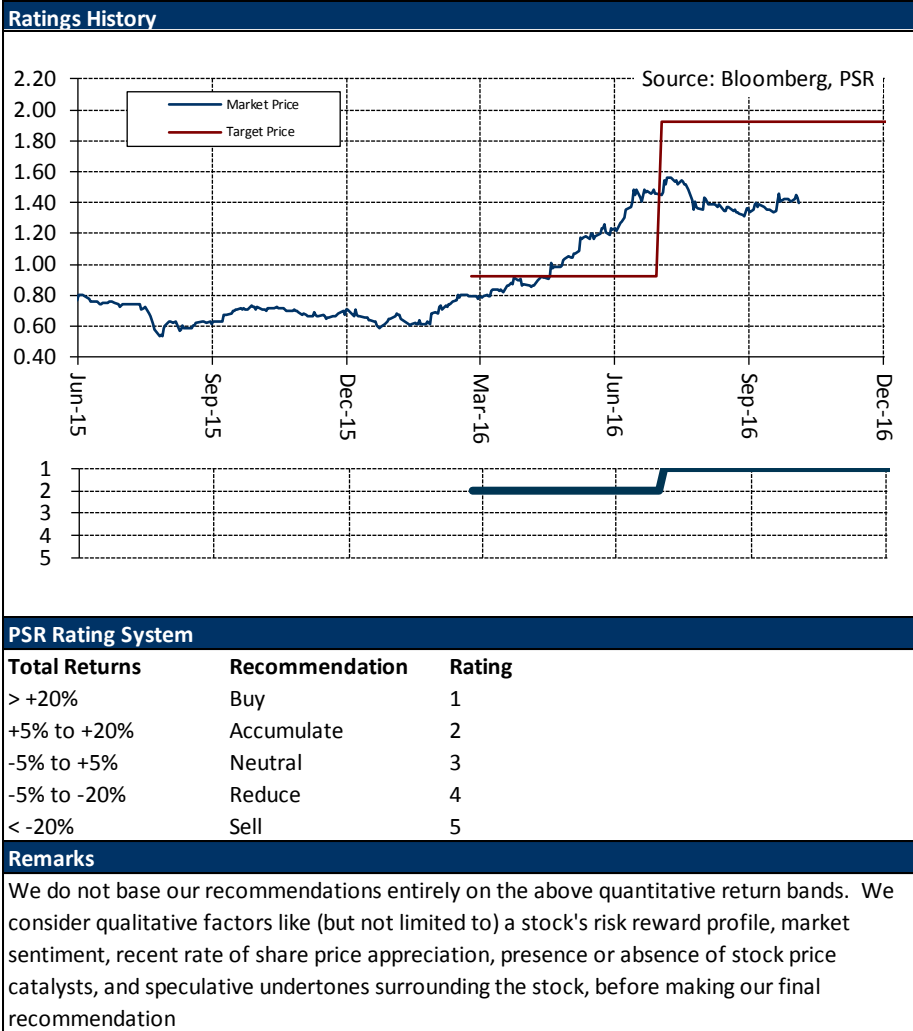
Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	8.8	7.0	13.3	10.1	7.7
P/B (x)	0.8	0.7	1.9	1.7	1.6
EV/EBITDA (x)	38.8	13.6	38.0	27.0	19.8
Dividend yield (%)	2%	3%	1%	2%	2%

Growth & Margins (%)

Growth					
Revenue	9.6%	-47.4%	22.6%	22.2%	22.5%
Gross profit	-47.8%	29.4%	21.1%	22.2%	22.5%
Operating profit	-65.1%	171.9%	21.5%	33.5%	31.5%
Net profit	-30.0%	24.7%	46.3%	31.0%	31.3%
Margins					
GP	0.2%	0.4%	0.4%	0.4%	0.4%
OP	0.0%	0.2%	0.2%	0.3%	0.3%
NP	0.3%	0.7%	0.8%	0.9%	0.9%

Key Ratios

ROE (%)	8.9%	10.3%	11.1%	12.1%	13.1%
ROA (%)	3.6%	7.2%	5.0%	6.6%	6.7%
Net debt or (net cash)	(94)	(171)	(229)	(315)	(375)
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash



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