



# China Aviation Oil

## Net profit and dividend beat expectations

### SINGAPORE | TRANSPORT | FY23 RESULTS

4 March 2024

- The results beat our estimates by 22%, due to stronger-than-expected contributions from 33%-owned SPIA.
- Net profit rebounded 75.5% due to 1) stronger demand for jet fuel with borders reopened from early 2023; 2) higher margin per metric ton with increased direct sales with airline customers; and 3) SPIA's net profit jumping 61% YoY. Net cash at year-end was US\$373mn (S\$0.623/sh). Full-year dividend was raised to 5.05 Sct (FY22: 1.6 Sct), a yield of 5.4%.
- China's international air traffic is still at 37% below pre-Covid level. Flights are progressively being restored with further normalization of aviation services. China accounted for 62% of total revenue in FY23.
- **Maintain BUY call and raised TP to DCF-derived TP to S\$1.05 (prev. S\$1.01).** We lifted our FY24e net profit estimates by 17% to factor in improved gross margin.

#### BUY (MAINTAINED)

|                     |              |
|---------------------|--------------|
| LAST CLOSE PRICE    | SGD 0.905    |
| FORECAST DIV        | SGD 0.036    |
| TARGET PRICE        | SGD 1.050    |
| <b>TOTAL RETURN</b> | <b>20.1%</b> |

#### COMPANY DATA

|                                |             |
|--------------------------------|-------------|
| BLOOMBERG CODE:                | CAO SP      |
| O/S SHARES (MN) :              | 860         |
| MARKET CAP (USD mn / SGD mn) : | 579 / 778   |
| 52 - WK HI/LO (SGD) :          | 1.01 / 0.73 |
| 3M Average Daily T/O (mn) :    | 0.61        |

#### MAJOR SHAREHOLDERS (%)

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

#### Results at a glance

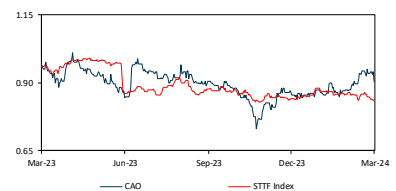
| Y/E 31 Dec (US\$m) | FY22   | FY23   | Comments   |
|--------------------|--------|--------|--|
| Revenue            | 16,464 | 14,430 | Total sales volume fell 1.1% YoY. ASP declined for jet fuel and other oil products.  |
| Gross profit       | 35     | 51     | Gross profit per ton rose from US\$1.75/mt to US\$2.53/mt.   |
| Operating profit   | 21     | 36     | 5-fold jump in interest income to US\$17.7mn, absence of forex loss of US\$4.1mn in FY22, offset by US\$12mn impairment of goodwill and investment in an associate |
| Associates         | 18     | 30     | SPIA's contribution rose 61% to US\$31mn   |
| Net profit         | 34     | 59     |  |

Source: Company data, PSR

#### PRICE PERFORMANCE (%)

|             | 1MTH | 3MTH | 1YR   |
|-------------|------|------|-------|
| COMPANY     | 4.0  | 5.8  | (5.0) |
| STTF RETURN | 0.0  | 1.8  | 1.2   |

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

| Y/E Dec (US\$, 'mn) | FY22   | FY23   | FY24e  | FY25e  |
|---------------------|--------|--------|--------|--------|
| Revenue             | 16,464 | 14,430 | 17,137 | 19,727 |
| Gross Profit        | 35     | 51     | 77     | 85     |
| EBIT                | 39     | 67     | 94     | 103    |
| NPAT                | 34     | 59     | 78     | 85     |
| P/NAV (x)           | 0.6    | 0.6    | 0.6    | 0.6    |
| P/E (x)             | 17.2   | 9.8    | 7.4    | 6.8    |
| ROE (%)             | 3.7%   | 6.2%   | 8.3%   | 8.5%   |

Source: Company, PSR

#### VALUATION METHOD

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

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#### The Positives

- **Gross profit per metric ton jumped to US\$2.53 in FY23 (FY22 US\$1.75/mt).** The margin in 2H23 was 145% higher YoY at US\$3.78/mt. This was achieved through engaging in more end-to-end sales, sourcing products from refinery for delivery to the airline customers. This is compared to the typical low-margin back to back oil trading transaction. Higher volume also helps to lower unit fixed cost.
- **Contributions from 33%-owned associate Shanghai Pudong International Airport Aviation Fuel Supply Co Ltd (SPIA) grew 61% to US\$31mn.** SPIA also paid US\$23mn to CAO in FY23, 9.5% higher YoY. We expect a higher payout in FY24e after the strong FY23.

#### The Negative

- **Provided for impairment of US\$12mn for goodwill (US\$3.4mn) and investment in an associate (US\$8.7mn),** thus lowering net profit.

#### Outlook

Volume is expected to continue to improve as China further restores bilateral flights that were cut during the pandemic. Its US jet fuel supply operation would also benefit from resumption of US-China flights to 100 round-trips at end March.

Maintain BUY and raised DCF-derived TP to S\$1.05 (WACC 15%, terminal growth 1%). We have also lifted our FY24e net profit estimates by 17% to account for a higher profit per ton.

## Financials

### Income Statement

| Y/E Dec, (US\$'mn)                   | FY21          | FY22          | FY23          | FY24e         | FY25e         |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                       | <b>17,637</b> | <b>16,464</b> | <b>14,430</b> | <b>17,137</b> | <b>19,727</b> |
| Cost of sales                        | (17,606)      | (16,429)      | (14,379)      | (17,060)      | (19,642)      |
| <b>Gross Profit</b>                  | <b>31</b>     | <b>35</b>     | <b>51</b>     | <b>77</b>     | <b>85</b>     |
| Other operating income               | 2             | 1             | 19            | 10            | 8             |
| Administration                       | (11)          | (14)          | (17)          | (20)          | (23)          |
| Other expenses                       | 1             | (1)           | (16)          | (5)           | (5)           |
| Share of results of associates an    | 24            | 18            | 30            | 32            | 38            |
| <b>EBIT</b>                          | <b>46</b>     | <b>39</b>     | <b>67</b>     | <b>94</b>     | <b>103</b>    |
| Net finance expenses                 | (2)           | (1)           | (1)           | (2)           | (2)           |
| <b>Profit before tax</b>             | <b>44</b>     | <b>38</b>     | <b>66</b>     | <b>92</b>     | <b>101</b>    |
| Taxation                             | (4)           | (5)           | (8)           | (14)          | (15)          |
| <b>Net Profit</b>                    | <b>40</b>     | <b>33</b>     | <b>58</b>     | <b>78</b>     | <b>86</b>     |
| Minority interests                   | -             | 0             | 0             | -             | (1)           |
| <b>Profit attributable to owners</b> | <b>40</b>     | <b>34</b>     | <b>59</b>     | <b>78</b>     | <b>85</b>     |

### Per share data (US\$ cents)

| Y/E Dec         | FY21  | FY22  | FY23  | FY24e | FY25e |
|-----------------|-------|-------|-------|-------|-------|
| BVPS            | 104.8 | 105.0 | 110.3 | 110.4 | 116.4 |
| DPS (S\$ cents) | 2.6   | 1.6   | 5.1   | 3.6   | 4.0   |
| EPS             | 4.7   | 3.9   | 6.8   | 9.1   | 9.9   |

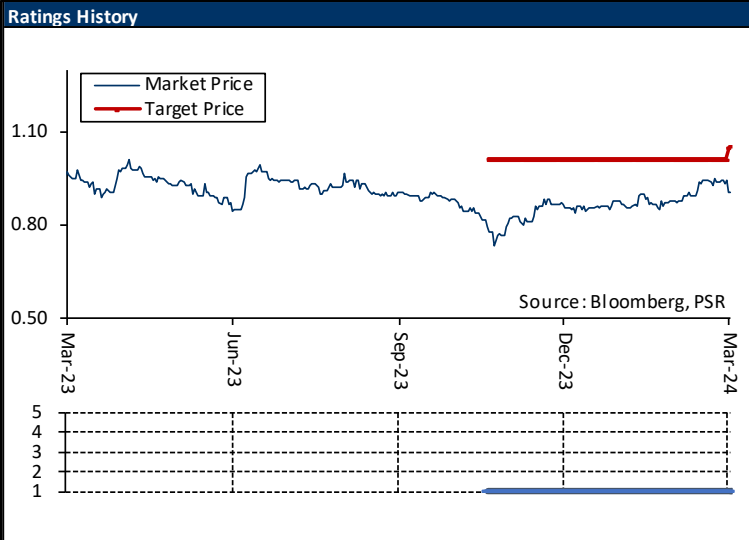
### Cash Flow

| Y/E Dec, (US\$'mn)               | FY21        | FY22        | FY23        | FY24e       | FY25e       |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>CFO</b>                       |             |             |             |             |             |
| <b>Pretax profit</b>             | <b>44</b>   | <b>38</b>   | <b>66</b>   | <b>92</b>   | <b>101</b>  |
| Adjustments                      | (27)        | (11)        | (32)        | (26)        | (32)        |
| WC changes                       | 96          | (114)       | 25          | 0           | (50)        |
| <b>Cash generated from ops</b>   | <b>113</b>  | <b>(87)</b> | <b>59</b>   | <b>67</b>   | <b>19</b>   |
| Others                           | 44          | 23          | 33          | 31          | 34          |
| <b>Cashflow from ops</b>         | <b>157</b>  | <b>(65)</b> | <b>92</b>   | <b>98</b>   | <b>54</b>   |
| <b>CFI</b>                       |             |             |             |             |             |
| CAPEX, net                       | (0)         | (0)         | (11)        | (2)         | (2)         |
| Others                           | (0)         | 1           | 0           | -           | -           |
| <b>Cashflow from investments</b> | <b>(0)</b>  | <b>0</b>    | <b>(11)</b> | <b>(2)</b>  | <b>(2)</b>  |
| <b>CFF</b>                       |             |             |             |             |             |
| Dividends paid to owners         | (17)        | (12)        | (10)        | (31)        | (34)        |
| Proceeds from borrowings, net    | (8)         | (15)        | (6)         | -           | -           |
| Others                           | -           | -           | -           | -           | -           |
| <b>Cashflow from financing</b>   | <b>(25)</b> | <b>(26)</b> | <b>(16)</b> | <b>(31)</b> | <b>(34)</b> |
| <b>Net change in cash</b>        | <b>132</b>  | <b>(91)</b> | <b>64</b>   | <b>64</b>   | <b>18</b>   |
| Cash at the start of the period  | 269         | 401         | 308         | 308         | 372         |
| Currency translation             | (0)         | (2)         | 1           | -           | -           |
| <b>Ending cash</b>               | <b>401</b>  | <b>308</b>  | <b>373</b>  | <b>372</b>  | <b>390</b>  |

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

| Y/E Dec, (US\$'mn)                   | FY21         | FY22         | FY23         | FY24e        | FY25e        |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>ASSETS</b>                        |              |              |              |              |              |
| PPE & Investment Properties          | 4            | 5            | 15           | 4            | 3            |
| Others                               | 304          | 288          | 271          | 284          | 275          |
| <b>Total non-current assets</b>      | <b>308</b>   | <b>294</b>   | <b>286</b>   | <b>288</b>   | <b>278</b>   |
| Cash and cash equivalents            | 401          | 308          | 373          | 372          | 390          |
| Inventories                          | 43           | 182          | 88           | 93           | 108          |
| Trade and other receivables          | 784          | 716          | 1,040        | 1,221        | 1,405        |
| Others                               | -            | -            | -            | -            | -            |
| <b>Total current assets</b>          | <b>1,228</b> | <b>1,206</b> | <b>1,501</b> | <b>1,687</b> | <b>1,903</b> |
| <b>Total Assets</b>                  | <b>1,536</b> | <b>1,500</b> | <b>1,788</b> | <b>1,975</b> | <b>2,181</b> |
| <b>LIABILITIES</b>                   |              |              |              |              |              |
| Trade and other payables             | 605          | 565          | 814          | 982          | 1,130        |
| ST borrowings                        | -            | -            | -            | -            | -            |
| Others                               | 15           | 16           | 13           | 27           | 32           |
| <b>Total current liabilities</b>     | <b>620</b>   | <b>580</b>   | <b>826</b>   | <b>1,009</b> | <b>1,163</b> |
| LT borrowings                        | -            | -            | -            | -            | -            |
| Others                               | 14           | 12           | 9            | 12           | 12           |
| <b>Total non-current liabilities</b> | <b>14</b>    | <b>12</b>    | <b>9</b>     | <b>12</b>    | <b>12</b>    |
| <b>Total liabilities</b>             | <b>634</b>   | <b>592</b>   | <b>835</b>   | <b>1,020</b> | <b>1,174</b> |
| <b>EQUITY</b>                        |              |              |              |              |              |
| Share Capital                        | 216          | 216          | 216          | 216          | 216          |
| Retained profits                     | 686          | 687          | 733          | 734          | 786          |
| Others                               | -            | -            | -            | -            | -            |
| <b>Total equity</b>                  | <b>901</b>   | <b>903</b>   | <b>948</b>   | <b>950</b>   | <b>1,001</b> |
| Minority interests                   | -            | 4            | 4            | 4            | 5            |
| <b>Total equity and liabilities</b>  | <b>1,536</b> | <b>1,500</b> | <b>1,788</b> | <b>1,975</b> | <b>2,181</b> |
| <b>Valuation Ratios</b>              |              |              |              |              |              |
| Y/E Dec                              | FY21         | FY22         | FY23         | FY24e        | FY25e        |
| P/E (x)                              | 14.3         | 17.2         | 9.8          | 7.4          | 6.8          |
| P/B (x)                              | 0.6          | 0.6          | 0.6          | 0.6          | 0.6          |
| EV/EBITDA (x)                        | 5.5          | 8.8          | 4.6          | 2.9          | 2.5          |
| Dividend yield (%)                   | 2.9          | 1.8          | 5.6          | 4.0          | 4.4          |
| <b>Growth &amp; Margins (%)</b>      |              |              |              |              |              |
| <b>Growth</b>                        |              |              |              |              |              |
| Revenue                              | -13.3%       | -6.6%        | -12.4%       | 18.8%        | 15.1%        |
| Gross profit                         | -47.5%       | 15.3%        | 43.0%        | 52.4%        | 10.0%        |
| EBIT                                 | -57.8%       | -15.8%       | 71.6%        | 41.5%        | 9.7%         |
| PBT                                  | -58.3%       | -15.1%       | 74.8%        | 40.0%        | 9.9%         |
| <b>Margins</b>                       |              |              |              |              |              |
| Gross profit margin                  | 0.2%         | 0.2%         | 0.4%         | 0.4%         | 0.4%         |
| EBIT margin                          | 0.3%         | 0.2%         | 0.5%         | 0.6%         | 0.5%         |
| Net profit margin                    | 0.2%         | 0.2%         | 0.4%         | 0.5%         | 0.4%         |
| <b>Key Ratios</b>                    |              |              |              |              |              |
| ROE                                  | 4.5%         | 3.7%         | 6.2%         | 8.3%         | 8.5%         |
| ROA                                  | 2.1%         | 2.1%         | 2.5%         | 3.6%         | 3.4%         |
| Net Gearing                          | 0.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         |



**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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