



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
TOTAL RETURN	20.1%

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
Revenue	17,637	16,464	14,430	17,137	19,727
Cost of sales	(17,606)	(16,429)	(14,379)	(17,060)	(19,642)
Gross Profit	31	35	51	77	85
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
EBIT	46	39	67	94	103
Net finance expenses	(2)	(1)	(1)	(2)	(2)
Profit before tax	44	38	66	92	101
Taxation	(4)	(5)	(8)	(14)	(15)
Net Profit	40	33	58	78	86
Minority interests	-	0	0	-	(1)
Profit attributable to owners	40	34	59	78	85

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
CFO					
Pretax profit	44	38	66	92	101
Adjustments	(27)	(11)	(32)	(26)	(32)
WC changes	96	(114)	25	0	(50)
Cash generated from ops	113	(87)	59	67	19
Others	44	23	33	31	34
Cashflow from ops	157	(65)	92	98	54
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)	(34)
Proceeds from borrowings, net	(8)	(15)	(6)	-	-
Others	-	-	-	-	-
Cashflow from financing	(25)	(26)	(16)	(31)	(34)
Net change in cash	132	(91)	64	64	18
Cash at the start of the period	269	401	308	308	372
Currency translation	(0)	(2)	1	-	-
Ending cash	401	308	373	372	390

Source: Company, Phillip Securities Research (Singapore) Estimates

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	284	275
Total non-current assets	308	294	286	288	278
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	-	-	-	-	-
Total current assets	1,228	1,206	1,501	1,687	1,903
Total Assets	1,536	1,500	1,788	1,975	2,181
LIABILITIES					
Trade and other payables	605	565	814	982	1,130
ST borrowings	-	-	-	-	-
Others	15	16	13	27	32
Total current liabilities	620	580	826	1,009	1,163
LT borrowings	-	-	-	-	-
Others	14	12	9	12	12
Total non-current liabilities	14	12	9	12	12
Total liabilities	634	592	835	1,020	1,174
EQUITY					
Share Capital	216	216	216	216	216
Retained profits	686	687	733	734	786
Others	-	-	-	-	-
Total equity	901	903	948	950	1,001
Minority interests	-	4	4	4	5
Total equity and liabilities	1,536	1,500	1,788	1,975	2,181

Valuation Ratios

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

Growth & Margins (%)

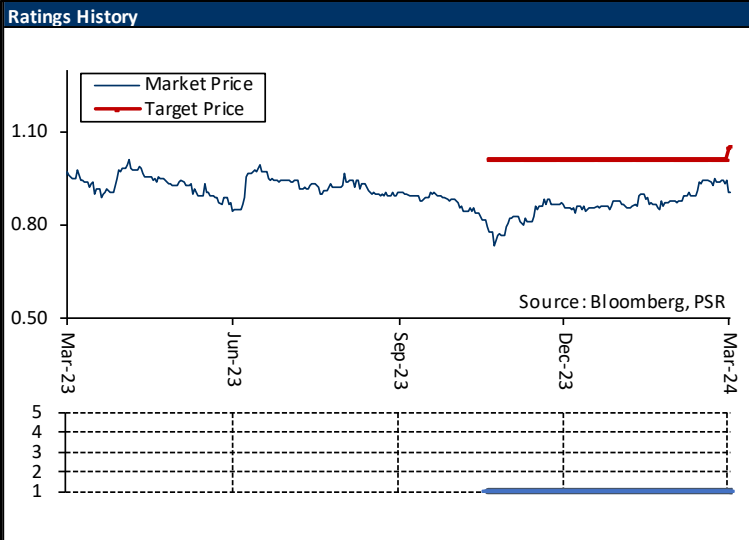
	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	-13.3%	-6.6%	-12.4%	18.8%	15.1%
Gross profit	-47.5%	15.3%	43.0%	52.4%	10.0%
EBIT	-57.8%	-15.8%	71.6%	41.5%	9.7%
PBT	-58.3%	-15.1%	74.8%	40.0%	9.9%

Margins

	FY21	FY22	FY23	FY24e	FY25e
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%

Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
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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