

22 April 2020

Energy & Petrochemicals | Oil & Gas Services

China Aviation Oil (CAO SP)

Buy (Maintained)

1Q20 Brief Financial Update Disappoints

Target Price (Return): SGD1.30 (28%)
 Price: SGD1.02
 Market Cap: USD613m
 Avg Daily Turnover (SGD/USD) 0.68m/0.49m

- **Keep BUY, with SGD1.30 TP, 28% upside and c.5% yield.** China Aviation Oil reported disappointing net profit for 1Q20. A slump in aviation traffic amidst COVID-19 and sharp oil price fall had impacted 1Q business operations. We see CAO as a good proxy to Chinese aviation traffic, which we expect to improve in 2H20. Moreover, a strong net cash balance sheet enables CAO to undertake large acquisitions. Nevertheless, we place our rating and TP under review pending further management updates.

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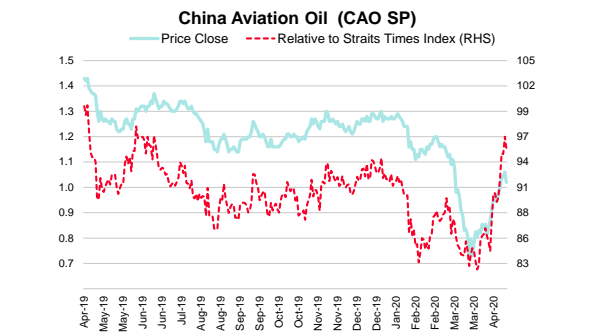


- **Reason for disappointing 1Q20 financial performance.** In a brief financial update, CAO reported disappointing 1Q20 net profit of USD10.8m (-59% YOY, -49% QoQ). This was due to significantly lower attributable profit of USD5.6m (-68% YoY, -58% QoQ) from Shanghai Pudong International Airport Aviation Fuel Supply Company (SPIA), a 33%-owned associate company of CAO. Historically, SPIA has accounted for c.65% of CAO's PBT. CAO's three other subsidiaries that have business operations in Hong Kong, US and Europe were also adversely affected by the COVID-19 pandemic. CAO did not provide more details on 1Q20 performance as the group has switched to reporting its financial performance on a semi-annual basis. CAO will report financial performance for the half-year ended 30 Jun 2020 on 30 Jul 2020.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.7)	28.3	(19.7)	(15.7)	(29.2)
Relative	1.1	22.4	1.7	3.0	(5.4)
52-wk Price low/high (SGD)					0.73 – 1.43

- **How does this compare with our expectations?** While we had anticipated weak 1H20 earnings, 1Q20 profit came in below our expectations. We were expecting CAO to report 1Q20 earnings of USD15m (-40% YoY, -30% QoQ) on the back of a USD10m contribution from SPIA (-42% YoY, -25% QoQ) during the quarter.



Source: Bloomberg

- **Valuations are still compelling.** CAO is trading below its net tangible asset value per share of USD0.95 (c.SGD1.30) and at 6.9x 2020F P/E (ex-cash 2020 P/E of just 2.7x).

- **Risks to our rating.** Key downside risks to our rating and TP are losses at its trading business despite all the risk control measures, opening up of the Chinese aviation fuel market risking CAO's monopoly, and a higher-than-estimated aviation traffic decline in 2020.

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	20,612	20,343	13,029	17,110	17,557
Recurring net profit (USDm)	94	100	88	97	105
Recurring net profit growth (%)	9.8	6.4	(11.6)	10.2	7.5
Recurring P/E (x)	6.53	6.14	6.95	6.30	5.86
P/B (x)	0.8	0.7	0.7	0.6	0.6
P/CF (x)	4.19	12.29	9.05	43.51	20.28
Dividend Yield (%)	4.7	4.6	4.8	4.7	4.8
EV/EBITDA (x)	8.76	4.98	3.94	3.22	1.60
Return on average equity (%)	12.6	12.4	10.2	10.5	10.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.11	0.12	0.10	0.11	0.12
Energy & Petrochemicals	DPS	0.03	0.03	0.03	0.03	0.03
China Aviation Oil	BVPS	0.89	0.96	1.03	1.11	1.20
CAO SP	Return on average equity (%)	12.6	12.4	10.2	10.5	10.5
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	6.53	6.14	6.95	6.30	5.86
	P/B (x)	0.8	0.7	0.7	0.6	0.6
	FCF Yield (%)	23.8	8.1	11.0	2.2	4.9
	Dividend Yield (%)	4.7	4.6	4.8	4.7	4.8
	EV/EBITDA (x)	8.76	4.98	3.94	3.22	1.60
	EV/EBIT (x)	9.05	6.65	4.45	3.53	1.70
	Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	20,612	20,343	13,029	17,110	17,557
	Gross profit	50	58	51	54	57
	EBITDA	29	48	42	41	41
	Depreciation and amortisation	(1)	(12)	(5)	(4)	(2)
	Operating profit	28	36	37	37	39
	Net interest	1	7	8	10	11
	Pre-tax profit	101	106	94	104	112
	Taxation	(7)	(7)	(6)	(7)	(7)
	Reported net profit	94	100	88	97	105
	Recurring net profit	94	100	88	97	105
	Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	143	5	33	(18)	(2)
	Cash flow from operations	146	50	68	14	30
	Capex	(1)	(0)	(0)	(0)	(0)
	Cash flow from investing activities	63	11	33	52	65
	Dividends paid	(29)	(28)	(29)	(29)	(29)
	Cash flow from financing activities	(152)	(41)	(30)	(30)	(30)
	Cash at beginning of period	300	358	379	450	486
	Net change in cash	57	20	71	36	65
	Ending balance cash	358	379	450	486	551
	Balance sheet (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	358	379	450	486	551
	Tangible fixed assets	5	20	15	12	10
	Total investments	311	362	387	404	414
	Total assets	1,653	1,868	1,617	1,858	1,952
	Total liabilities	884	1,033	724	896	915
	Total equity	769	835	894	962	1,037
	Total liabilities & equity	1,653	1,868	1,617	1,858	1,952
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	26.7	(1.3)	(36.0)	31.3	2.6
	Recurrent EPS growth (%)	9.8	6.4	(11.6)	10.2	7.5
	Gross margin (%)	0.2	0.3	0.4	0.3	0.3
	Operating EBITDA margin (%)	0.1	0.2	0.3	0.2	0.2
	Net profit margin (%)	0.5	0.5	0.7	0.6	0.6
	Dividend payout ratio (%)	31.1	28.5	33.4	30.1	28.1
	Capex/sales (%)	0.0	0.0	0.0	0.0	0.0
	Interest cover (x)	9.06	39.92			

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-11	Buy	1.30	0.97
2020-01-21	Buy	1.55	1.27
2019-11-04	Buy	1.55	1.24
2019-09-02	Buy	1.50	1.14
2019-08-13	Buy	1.50	1.15
2019-08-07	Buy	1.60	1.23
2019-07-17	Buy	1.60	1.33
2019-07-10	Buy	1.60	1.30
2019-06-11	Buy	1.60	1.32

Source: RHB, Bloomberg

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