

28 May 2019

Energy & Petrochemicals | Oil & Gas Services

China Aviation Oil (CAO SP)

Buy (Maintained)

China Aviation Traffic Continues To Grow

Target Price (Return) SGD1.60 (+30%)
 Price: SGD1.23
 Market Cap: USD770m
 Avg Daily Turnover (SGD/USD) 1.29m /0.94m

- **Stay BUY with SGD1.60 TP, 30% upside, 3.6% yield.** We believe the decline in CAO's share price during the last one month seems unwarranted. Market seems overly concerned about a slowdown in China's aviation traffic, despite passenger traffic growing by 3.9% YoY in April. We remain positive on CAO's long-term earnings growth prospects, aided by growth in China's international passenger traffic as well as capacity expansion at Shanghai Pudong International Airport (SPA). In addition, its ex-cash 3.9x 2020F P/E remains compelling.
- **China's aviation traffic continues to grow.** We are not overly concerned with China's aviation passenger traffic declining 1.9% MoM in April 2019. This is mainly because the monthly traffic was still 3.9% higher YoY. While there are concerns about some negative impact from escalation of the US-China trade war, we remain confident of CAO's ability to deliver mid-single digit jet fuel supply volume growth in 2019.
- **Capacity expansion at SPIA to be completed by September.** [News report](#) suggests that SPA's satellite terminals will begin operations in September. This will increase the airport's annual capacity to 80m passengers. With its fifth runway already operational since late-2018, we believe, the current capacity expansion will enable Shanghai Pudong International Airport Aviation Fuel Supply (SPIA) to report a strong jet fuel volume growth during 2020-2021. SPIA accounts for three quarters of CAO's profit before tax.
- **Continues to seek M&A opportunities.** The acquisition of Navires Aviation (NAL) in 2018 enabled CAO to establish a presence at four European airports, namely Schiphol, Brussels, Frankfurt, and Stuttgart. As at end-2018, CAO supplied jet fuel to 51 airports outside mainland China in over 20 countries. CAO plans to keep expanding its customer base globally and extending its reach into key aviation markets worldwide. With a strong Chinese state-owned enterprise parentage, CAO could also gain from growth opportunities offered by China's 'One Belt, One Road' strategy, in our view.
- **Reiterate BUY.** Despite recent weakness in share price, we estimate CAO could report a revival in earnings growth towards the end-2019. With a zero debt balance sheet and a large net cash position (c.49% of its market cap), CAO could also undertake an earnings-accretive acquisition. In our view, the group could even consider paying higher dividends, subject to management and board approvals, in case it is unable to grow inorganically.
- **Key downside risks are** losses being reported at its oil trading business, despite all the risk control measures, lower-than-estimated jet fuel volume growth and opening up of the Chinese aviation fuel supply market, which would remove CAO's current monopoly.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.0	(11.5)	(11.5)	5.1	(23.6)
Relative	12.7	(6.0)	(9.1)	2.5	(13.9)
52-wk Price low/high (SGD)					1.04 – 1.63

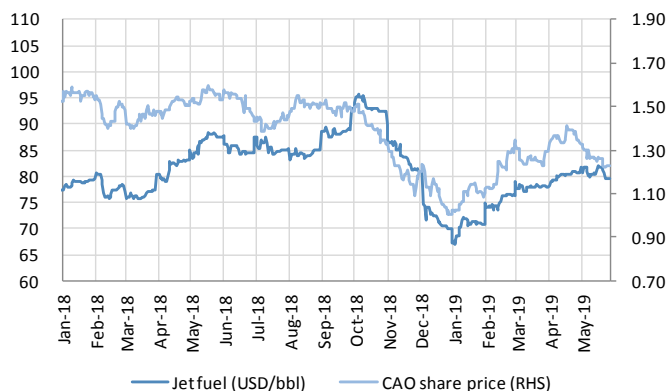


Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	16,268	20,612	17,949	19,305	18,284
Recurring net profit (USDm)	85	94	95	101	110
Recurring net profit growth (%)	(3.9)	9.8	1.4	6.3	8.6
Recurring P/E (x)	9.0	8.2	8.1	7.6	7.0
P/BV (x)	1.1	1.0	0.9	0.9	0.8
P/CF (x)	nm	5.2	9.5	66.6	26.5
Dividend Yield (%)	3.7	3.7	3.6	3.8	4.1
EV/EBITDA (x)	13.0	7.3	6.8	6.2	4.9
ROE (%)	12.4	12.6	11.8	11.6	11.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	12.0	9.1	nm	nm	nm

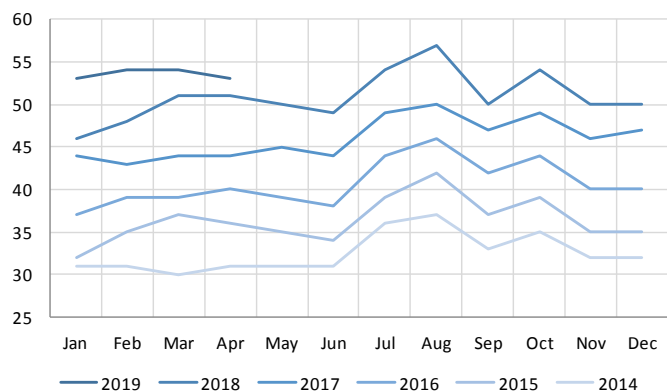
Source: Company data, RHB

Figure 1: CAO share price with Jet Fuel spot price



Source: Bloomberg

Figure 2: China's monthly passenger traffic (m)



Source: Bloomberg

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