

Singapore

August 1, 2018 - 5:17 PM

**ADD** (no change)

Consensus ratings\*: Buy 5 Hold 0 Sell 0

Current price: S\$1.50

Target price: S\$2.03

Previous target: S\$2.03

Up/downside: 35.3%

CGS-CIMB / Consensus: 2.0%

Reuters: CNAO.SI

Bloomberg: CAO SP

Market cap: US\$951.9m

S\$1,297m

Average daily turnover: US\$0.41m

S\$0.56m

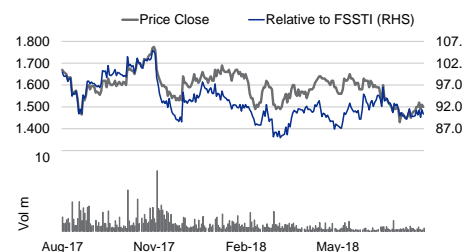
Current shares o/s 866.2m

Free float: 28.9%

\*Source: Bloomberg

**Key financial forecasts**

	Dec-18F	Dec-19F	Dec-20F
Net Profit (US\$m)	92.4	100.5	110.9
Normalised EPS (US\$)	0.11	0.12	0.13
Normalised EPS Growth	7.9%	8.8%	10.4%
FD Normalised P/E (x)	10.32	9.49	8.60
Recurring ROE	12.2%	12.2%	12.4%
P/BV (x)	1.21	1.11	1.02
DPS (US\$)	0.032	0.035	0.037
Dividend Yield	2.91%	3.16%	3.37%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.4	-7.4	-8.5
Relative (%)	-0.2	0.7	-8.2

Major shareholders	% held
China National Aviation Fuel Grp	51.0
BP PLC	20.1

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# China Aviation Oil

## 2Q18: Higher on other oil products; stable associates

- CAO's 2Q18/1H18 net profit of US\$29.3m/US\$56.2m came within expectations. 1H18 accounted for 60.8%/60.2% of our/consensus FY18F estimates.
- The other oil product division shone in 2Q18 on better volumes, taking GP up 24% qoq and 55.1% yoy, mitigating SPIA's softer contributions impacted by forex losses.
- Maintain Add. Our TP is based on 12.5x FY19F P/E, c.26% discount to peer average.

### Gross profit propped up by other oil products

- CAO surprised with a 2Q18 GP of US\$16.4m (+24% qoq, +55.1%) on the back of better performance of other oil products division.
- 2Q18 middle distillate volumes declined to 4.55m metric tonnes (-8.6% yoy) on lower trading and optimisation activities with jet fuel still being in backwardation mode (core China jet fuel supply business is purportedly still growing).
- Thankfully, 2Q18 other oil product volumes increased to 5.42m tonnes (+62.8% qoq, +58.9% yoy) driven by higher trading volumes of crude oil.
- Overall 1H18 GP of S\$29.6m (+13.7% yoy) was driven by 1H18 other oil volumes growth of 42.7% yoy (vs. middle distillate volumes shrinking 7.5% yoy).

### Associate performance marginally softened by SPIA, but still within

- 2Q18 associate earnings of US\$18.6m was higher yoy (+1.6% yoy) but sequentially lower (-11.3% qoq) on softer Shanghai Pudong International Airport Aviation Fuel Supply (SPIA) contributions.
- 2Q18 SPIA earnings (84.3% of 2Q18 associate earnings) fell to US\$15.7m (-17.0% qoq/-2.6% yoy) due to foreign exchange losses and investment income. It is worth noting that refueling volumes have increased, implying operationally all is well.
- Overall, 1H18 associate earnings met 51.5% of our FY18F (US\$76.8m) and rose 19.2% yoy.

### Analyst briefing soon: focus on SPIA and trading environment

- The company is hosting an analyst briefing on 3 Aug 2018. We believe investors will seek updates/outlook on its i) trading businesses especially the other oil products division given the strong 2Q18 performance; ii) Shanghai Pudong airport's runway and satellite terminal developments which have a read-through to SPIA earnings; and iii) M&A opportunities.

### Maintain Add with TP of S\$2.03

- We see CAO as a proxy for China's growing outbound travel and like its healthy balance sheet.
- Maintain Add. Our TP is based on 12.5x FY19F P/BV, c.26% discount to peer average.
- Catalysts are higher product volumes and associate earnings. Downside risks include lower volumes, margins and associate earnings.

**Figure 1: Results comparison**

FYE Dec (US\$ m)	2Q CY18	2Q CY17	yoy % chg	qoq % chg	6M18 Cum	6M17 Cum	yoy % chg	Prev. Comments FY18F
Revenue	5,799.9	3,672.7	57.9	41.4	9,902.4	6,983.8	41.8	18,365.6 In line
Operating costs	(5,783.5)	(3,662.1)	57.9	41.4	(9,872.8)	(6,957.8)	41.9	(18,323.3) In line
EBITDA	11.4	7.8	45.8	55.4	18.7	17.7	5.9	20.8
EBITDA margin (%)	0.2	0.2			0.2	0.3		0.1
Depn & amort.	(0.2)	(0.2)	(6.4)	0.9	(0.4)	(0.5)	(5.0)	0.9
EBIT	11.2	7.6	47.4	57.1	18.3	17.2	6.2	21.8 Above, due to higher GP
Associates	18.6	18.3	1.6	(11.3)	39.6	33.2	19.2	76.8 In line
Pretax profit	30.3	26.7	13.7	6.5	58.8	51.4	14.5	99.8 In line.
Tax	(1.0)	(1.1)	(3.8)	(35.0)	(2.6)	(2.1)	21.9	(7.4)
Tax rate (%)	3.4	4.0			4.4	4.1		7.5
Net profit	29.3	25.6	14.4	8.9	56.2	49.2	14.2	92.4
EPS (S cts)	3.4	3.0	14.4	8.9	6.5	5.7	14.2	10.7
Core Net profit	29.3	25.6	14.4	8.9	56.2	49.2	14.2	92.4 1H18 accounted for 60.8%/60.2% of our/consensus forecasts.
Core EPS (S cts)	3.4	3.0	14.4	8.9	6.5	5.7	14.2	10.7
Volumes (million metric tonnes)	9.97	8.39	18.8	31.2	17.6	15.7	12.1	69.0
Middle Distillates	4.55	4.98	(8.6)	6.6	8.82	9.54	(7.5)	20.9
Other Oil Products	5.42	3.41	58.9	62.8	8.75	6.13	42.7	21.3
SPIA Associate	15.7	16.1	(2.6)	(17.0)	34.6	29.0	19.1	69.0
SPIA contribution (%)	84.3%	87.9%	(4.2)	(6.5)	87%	87%	(0.1)	90%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Peers comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$m)	Core P/E (x)		3-year EPS P/BV (x)		Recurring ROE (%)	Div Yield (%)	Net Gearing
						CY18F	CY19F	CAGR (%)	CY19F	CY19F	CY19F	CY16
<b>China Aviation Oil</b>	<b>CAO SP</b>	<b>Add</b>	<b>1.50</b>	<b>2.03</b>	<b>952</b>	<b>10.3</b>	<b>9.5</b>	<b>9.0%</b>	<b>1.1</b>	<b>12.2%</b>	<b>3.2%</b>	<b>-26.1%</b>
<b>Airport and Airport Services</b>												
SATS Ltd	SATS SP	Hold	5.19	5.06	4,254	21.7	20.0	7.0%	3.2	16.4%	3.5%	-15.1%
Airports of Thailand PCL	AOT TB	NR	66.00	NA	28,414	36.6	32.9	1.0%	5.8	18.3%	1.6%	-34.4%
Beijing Capital International	694 HK	NR	8.98	NA	4,955	10.5	13.2	-6.3%	1.3	10.6%	3.1%	15.8%
Shanghai International Airport	600009 CH	NR	61.69	NA	17,444	27.3	22.9	14.7%	3.7	17.0%	1.3%	-34.4%
<b>Simple Average</b>						<b>24.0</b>	<b>22.3</b>	<b>4.1%</b>	<b>3.5</b>	<b>15.6%</b>	<b>2.4%</b>	<b>-17.0%</b>
<b>Airport Refuellers</b>												
Bangkok Aviation Fuel Services	BAFS TB	NR	35.50	NA	682	22.2	na	na	na	na	na	14.7%
<b>Simple Average</b>						<b>22.2</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>14.7%</b>
<b>Transportation fuel supplier and traders</b>												
World Fuel Services Corp	INT US	NR	27.83	NA	1,891	13.9	11.9	na	na	9.5%	0.9%	30.9%
Brightoil Petroleum Holdings L	933 HK	NR	1.50	NA	1,944	na	na	na	na	na	na	70.5%
<b>Simple Average</b>						<b>13.9</b>	<b>11.9</b>	<b>na</b>	<b>na</b>	<b>9.5%</b>	<b>0.9%</b>	<b>50.7%</b>
<b>Total Simple Average</b>						<b>17.6</b>	<b>14.5</b>	<b>na</b>	<b>2.3</b>	<b>12.4%</b>	<b>2.1%</b>	<b>5.6%</b>
<b>Total Simple Average (excl. CAO)</b>						<b>20.0</b>	<b>17.1</b>	<b>na</b>	<b>3.5</b>	<b>12.5%</b>	<b>1.6%</b>	<b>16.1%</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

## BY THE NUMBERS

### Profit & Loss

(US\$m)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
<b>Total Net Revenues</b>	<b>16,268</b>	<b>18,366</b>	<b>21,275</b>	<b>23,514</b>
<b>Gross Profit</b>	<b>39</b>	<b>42</b>	<b>49</b>	<b>54</b>
<b>Operating EBITDA</b>	<b>21</b>	<b>23</b>	<b>27</b>	<b>33</b>
Depreciation And Amortisation	(1)	(1)	(1)	(1)
<b>Operating EBIT</b>	<b>20</b>	<b>22</b>	<b>26</b>	<b>32</b>
Financial Income/(Expense)	1	1	2	2
Pretax Income/(Loss) from Assoc.	72	77	81	86
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>92</b>	<b>100</b>	<b>109</b>	<b>120</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>92</b>	<b>100</b>	<b>109</b>	<b>120</b>
Taxation	(7)	(7)	(8)	(9)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>85</b>	<b>92</b>	<b>100</b>	<b>111</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Preference Dividends (Australia)				
<b>Net Profit</b>	<b>85</b>	<b>92</b>	<b>100</b>	<b>111</b>
Normalised Net Profit	85	92	100	111
<b>Fully Diluted Normalised Profit</b>	<b>85</b>	<b>92</b>	<b>100</b>	<b>111</b>

### Balance Sheet

(US\$m)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	300	306	329	365
Total Debtors	1,069	937	1,085	1,199
Inventories	210	239	277	306
Total Other Current Assets	0	0	0	0
<b>Total Current Assets</b>	<b>1,579</b>	<b>1,481</b>	<b>1,691</b>	<b>1,870</b>
Fixed Assets	5	6	5	5
Total Investments	321	354	366	379
Intangible Assets	2	1	1	1
Total Other Non-Current Assets	6	6	6	6
<b>Total Non-current Assets</b>	<b>334</b>	<b>367</b>	<b>379</b>	<b>391</b>
Short-term Debt	120	100	100	100
Current Portion of Long-Term Debt				
Total Creditors	1,061	954	1,105	1,221
Other Current Liabilities				
<b>Total Current Liabilities</b>	<b>1,181</b>	<b>1,054</b>	<b>1,205</b>	<b>1,321</b>
Total Long-term Debt	0	0	0	0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total Provisions	8	6	6	6
<b>Total Liabilities</b>	<b>1,189</b>	<b>1,060</b>	<b>1,211</b>	<b>1,327</b>
Shareholders' Equity	724	788	859	934
Minority Interests				
<b>Total Equity</b>	<b>724</b>	<b>788</b>	<b>859</b>	<b>934</b>

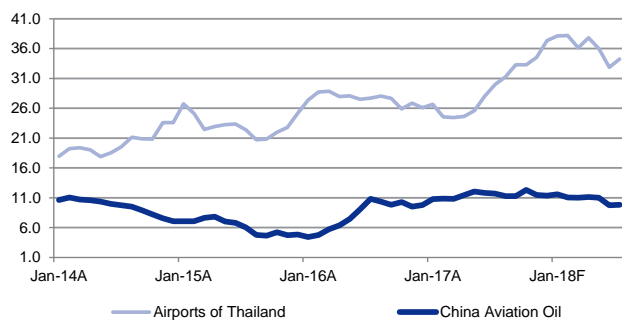
### Cash Flow

(US\$m)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	20.6	22.7	26.6	33.3
Cash Flow from Invnt. & Assoc.				
Change In Working Capital	(46.1)	(3.2)	(35.1)	(27.0)
(Incr)/Decr in Total Provisions	(0.5)	0.0	0.0	0.0
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	2.5	2.9	3.2	4.2
Net Interest (Paid)/Received	(2.8)	(2.5)	(2.3)	(2.3)
Tax Paid	(0.7)	(7.4)	(8.1)	(8.6)
<b>Cashflow From Operations</b>	<b>(26.9)</b>	<b>12.4</b>	<b>(15.8)</b>	<b>(0.4)</b>
Capex	(0.4)	(0.4)	(0.4)	(0.4)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	49.1	43.8	69.2	72.7
<b>Cash Flow From Investing</b>	<b>48.7</b>	<b>43.3</b>	<b>68.8</b>	<b>72.3</b>
Debt Raised/(repaid)	(100.0)	0.0	0.0	0.0
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(27.7)	(27.7)	(30.1)	(32.1)
Preferred Dividends				
Other Financing Cashflow	(2.8)	(2.5)	(2.3)	(2.3)
<b>Cash Flow From Financing</b>	<b>(130.5)</b>	<b>(30.2)</b>	<b>(32.4)</b>	<b>(34.4)</b>
Total Cash Generated	(108.7)	25.5	20.6	37.5
<b>Free Cashflow To Equity</b>	<b>(78.2)</b>	<b>55.7</b>	<b>53.0</b>	<b>71.9</b>
<b>Free Cashflow To Firm</b>	<b>24.6</b>	<b>58.3</b>	<b>55.3</b>	<b>74.2</b>

### Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	39.0%	12.9%	15.8%	10.5%
Operating EBITDA Growth	(22.5%)	10.0%	17.0%	25.5%
Operating EBITDA Margin	0.127%	0.124%	0.125%	0.142%
Net Cash Per Share (US\$)	0.21	0.24	0.26	0.31
BVPS (US\$)	0.84	0.91	0.99	1.08
Gross Interest Cover	7.09	8.61	11.17	14.13
Effective Tax Rate	7.46%	7.46%	7.46%	7.22%
Net Dividend Payout Ratio	32.4%	30.0%	30.0%	29.0%
Accounts Receivables Days	18.62	19.93	17.35	17.78
Inventory Days	4.28	4.47	4.43	4.54
Accounts Payables Days	18.53	20.06	17.70	18.15
ROIC (%)	10.5%	9.4%	10.9%	12.1%
ROCE (%)	2.92%	2.93%	3.17%	3.62%
Return On Average Assets	5.18%	4.84%	5.05%	5.05%

### 12-mth Fwd FD P/E (x)



### Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	21.3%	-0.1%	4.3%	-0.4%
Vol. sales grth (% main prod./serv)	14.6%	13.0%	11.1%	11.0%
No. Of Petrol Stations	N/A	N/A	N/A	N/A

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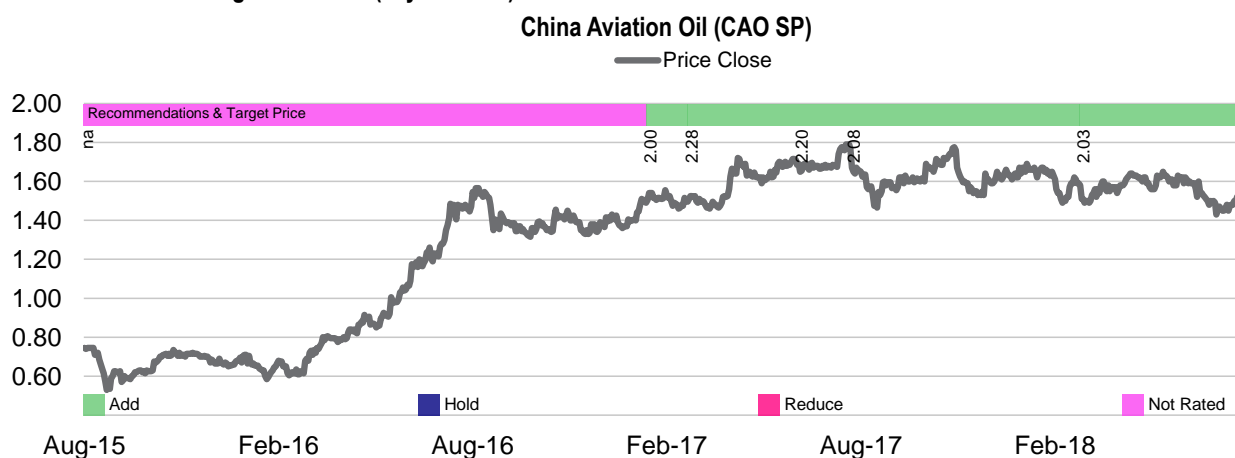
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1203 companies under coverage for quarter ended on 30 June 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	62.3%	4.5%
Hold	26.2%	2.5%
Reduce	9.3%	0.8%

### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

**AAV** – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good,



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- Companies certified by CAC

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#### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.