

SMALL/MID CAP HIGHLIGHTS

China Aviation Oil Singapore Corporation (CAO SP)

A Delayed Beneficiary Of China's Air Travel Resumption And Oil Prices

CAO has a monopolistic position supplying jet fuel to airlines at key airports in China. Predictably, its profitability has been hit by a COVID-19-related decline in air travel; however CAO's balance sheet remains strong with net cash of S\$0.24/share as at end-1H22. Nevertheless, it had material negative free cash flow of US\$172m in 1H22 (1H21: +US\$37m). The company's valuations appear fair as it is trading at 2022 annualised ex-cash PE of 10x.

- Hit by lower business levels due to COVID-19.** Recent 1H22 results were poor with supply and trading volume declining 36% yoy to 11.27m tonnes. While higher oil prices helped revenue grow 7% yoy, net profit fell 19% yoy to US\$20m due to higher staff costs, provisions and lower associate contribution from Shanghai Pudong airport as China's zero-COVID strategy throttled travel. Notably, receivables nearly doubled to US\$1.3b, and net cash fell 49% during the course of 1H22.
- Reasonably healthy financial position.** Despite its lower profitability in the past two years vs historical levels, China Aviation Oil Singapore Corporation's (CAO) balance sheet remains debt free with its net cash at US\$205m as at end-1H22. This translates to a net cash per share of S\$0.24, representing 28% of the company's current share price.
- A mixed industry outlook at present, but should improve.** While Chinese government actions have somewhat benefitted CAO (eg increasing CAO's refined fuel export volume of 20,000 tonnes), the company's outlook remains tied to the easing of China's zero-COVID strategy – and thus travel restrictions – rather than other factors in the next 6-12 months. In addition, additional fuel charges for domestic flights, which in some instances represent about 80% of the ticket price, have currently dampened demand for short-haul domestic flights.
- Volatile markets provide arbitrage opportunities for crude oil.** The company has a diversified oil products portfolio (comprising of fuel oil, gasoil, gasoline and crude oil) as well as a trading network globally and thus is able to arbitrage pricing opportunities. We note that in 2021 its arbitrage trade volume was the highest in its corporate history. We also highlight that aside from jet fuel, CAO has diversified away from its traditional aviation fuels and supplies other fuels to ship owners, power generators and end consumers.
- Renewable energy a longer term threat – and possibly opportunity.** Given the high oil prices and environmental regulation on carbon emissions, power generating firms have turned to other alternatives, thus threatening CAO's profitability in the long run. Cognisant of such risks, the company has stated that it will look to incorporate biofuels and carbon credits trading into its portfolio.
- Valuations.** Based on consensus, CAO trades at 2022 PE and P/B of 10x and 0.6x respectively vs peers' average PE and P/B of 8.9x and 0.8x. However on an ex-cash basis and annualising 1H22 EPS, the company currently trades in line with its peers. In 2021, the company generated an ROE of 4.5% vs regional peers' average of over 10%.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2018	2019	2020	2021	1H22
Net turnover	20,612.0	20,343.5	10,517.0	17,636.7	9,288.3
EBITDA	34.0	55.5	48.6	32.1	17.4
Operating profit	33.1	43.6	36.6	22.6	12.9
Net profit (rep./act.)	93.9	99.8	56.2	40.4	19.7
Net profit (adj.)	93.9	99.8	56.2	40.4	19.7
EPS	10.9	11.6	6.5	4.7	2.3
PE (x)	5.7	5.4	9.5	13.3	13.6
P/B (x)	0.7	0.6	0.6	0.6	0.6
EV/EBITDA (x)	9.9	6.0	6.9	10.4	9.6
Dividend yield (%)	5.2	5.4	3.0	2.2	0.0
Net margin (%)	0.5	0.5	0.5	0.2	0.2
Net debt/(cash) to equity (%)	(46.5)	(45.4)	(30.7)	(44.5)	(22.9)
Interest cover (x)	7.3	20.2	42.0	18.9	25.0
ROE (%)	12.6	12.4	6.6	4.5	4.4

Source: Bloomberg UOB Kay Hian

NOT RATED

Share Price	S\$0.87
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

China Aviation Oil Singapore Corporation Limited supplies jet fuel to foreign and domestic airlines flying through China's airports. The Company also trades in other oil products including physical and paper swaps, and futures trading.

STOCK DATA

GICS sector	Industrial
Bloomberg ticker	CAO SP
Shares issued (m):	860.2
Market cap (S\$ m):	748.4
Market cap (US\$ m):	536.2
3-mth avg t'over (US\$ m):	0.1

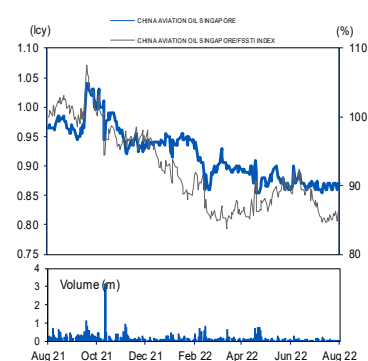
Price Performance (%)

52-week high/low	S\$1.050/S\$0.855			
1mth	3mth	6mth	1yr	YTD
0.0	(1.1)	(7.9)	(9.8)	(7.4)

Major Shareholders

	%
China National Aviation Fuel Group	51.3
BP Investments Asia	20.2
NAV/Share (US\$)	1.04
Net Cash/Share (US\$)	0.24

PRICE CHART



Source: Bloomberg

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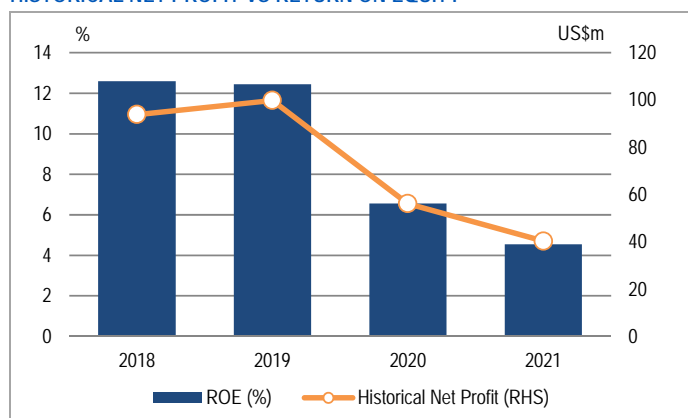
- Financial performance affected by COVID-19 in 2020 and 2021.** In 2020 and 2021, the company's net profit fell 44% and 28% yoy respectively due to COVID-19-related decline in air traffic, thus negatively impacting CAO's business as lower volumes were seen in jet fuel supply as well as oil trading. For 2021 in particular, CAO reported a net profit of US\$40.4m, down 28.2% yoy from US\$56.2m in 2020 due to the decrease in gross profit and other income partially offset by a decrease in expenses. Total revenue increased by 67.7% to US\$17.6b in 2021 vs US\$10.5b in 2020. As a result of the decline in profitability in 2021, the company paid out DPS of S\$0.05 and S\$0.03 in 2020 and 2021 respectively, although its payout ratio went up from 39.5% to 40.5% for 2021.

1H22 RESULTS

Year to 31 Dec (US\$m)	1H21	1H22	Change
Revenue	8,683.3	9,288.3	7.0%
COS	-8,667.6	-9,266.8	6.9%
Gross profit	15.7	21.5	37.1%
Other op income	0.7	-1.0	NM
Admin exp	-3.7	-5.3	42.6%
Other op exp	-1.4	-2.3	64.9%
Finance costs	-0.8	-0.7	-13.5%
Op profit	10.5	12.1	16.1%
Assoc results	16.1	9.7	-39.9%
PBT	26.5	21.8	-17.9%
Tax	-2.3	-2.2	-3.0%
NPAT	24.3	19.7	-19.2%

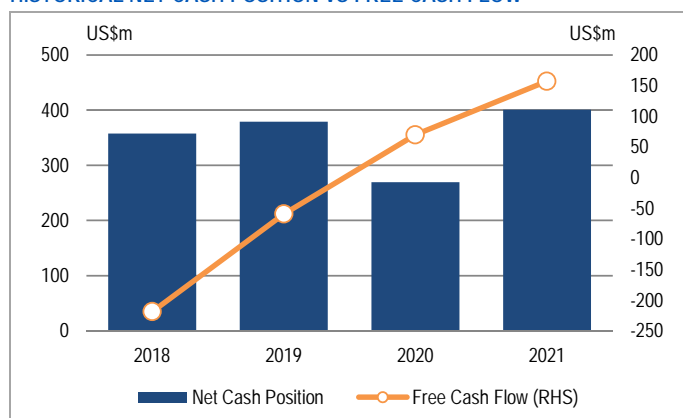
Source: CAO

HISTORICAL NET PROFIT VS RETURN ON EQUITY



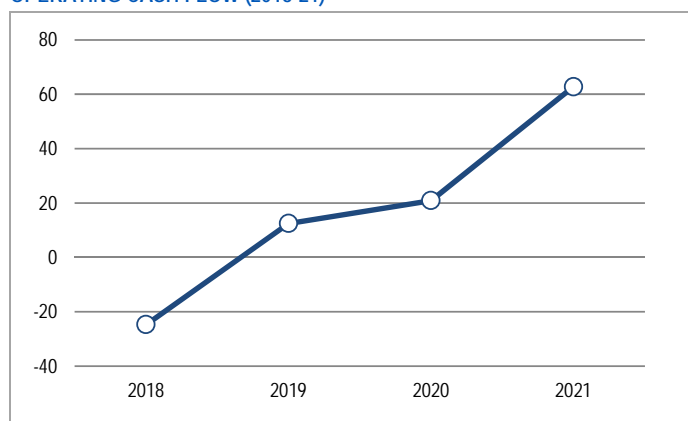
Source: CAO

HISTORICAL NET CASH POSITION VS FREE CASH FLOW



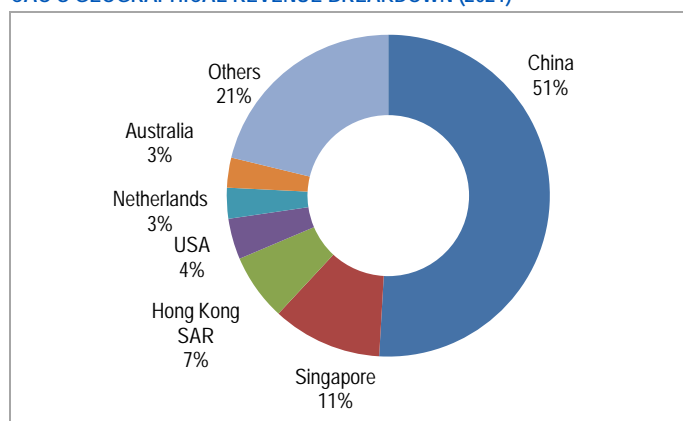
Source: CAO, UOB Kay Hian

OPERATING CASH FLOW (2018-21)



Source: CAO

CAO'S GEOGRAPHICAL REVENUE BREAKDOWN (2021)



Source: CAO

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 23-Aug-22 (lcy)	Market Cap (US\$m)	PE 2022 (x)	PE 2023 (x)	P/B 2022 (x)	P/B 2023 (x)	EV/EBITDA 2022 (x)	EV/EBITDA 2023 (x)	ROE 2022 (%)	Yield 2022 (%)	Net Gearing (%)
Sinopec Kantons	934 HK	HKD	2.42	767	5.1	4.9	0.4	0.3	3.3	3.1	n.a.	n.a.	(27.1)
Titan Petrochemicals	1192 HK	HKD	0.315	49	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China LNG	931 HK	HKD	0.345	248	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.5
Iwatani	8088 JP	JPY	5680	2,423	11.8	11.3	1.1	1.0	7.4	6.8	9.8	1.5	40.3
BW LPG	BWLPG NO	NOK	80.70	1,170	6.3	12.1	0.8	0.8	4.4	5.9	14.1	11.7	33.2
BW Epic Kosan	BWEK NO	NOK	23.00	375	12.4	7.6	n.a.	n.a.	6.6	5.9	6.0	3.8	90.7
Average					8.9	9.0	0.8	0.7	5.4	5.4	10.0	5.7	28.3
China Aviation Oil	CAO SP	SGD	0.87	536	10.1	6.9	0.6	0.5	22.0	14.1	5.1	2.1	(21.0)

Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (US\$m)	2019	2020	2021	1H22
Net turnover	20,343.5	10,517.0	17,636.7	9,288.3
EBITDA	55.5	48.6	32.1	17.4
Deprec. & amort.	11.9	12.0	9.5	4.5
EBIT	43.6	36.6	22.6	12.9
Total other non-operating income	0.0	0.0	0.0	(0.0)
Associate contributions	65.5	24.8	23.6	9.7
Net interest income/(expense)	(2.7)	(1.2)	(1.7)	(0.7)
Pre-tax profit	106.4	60.2	44.4	21.9
Tax	(6.6)	(4.0)	(4.1)	(2.2)
Minorities	0.0	0.0	0.0	(0.0)
Net profit	99.8	56.2	40.4	19.7
Net profit (adj.)	99.8	56.2	40.4	19.7

CASH FLOW

Year to 31 Dec (US\$m)	2019	2020	2021	1H22
Operating	49.9	(166.2)	113.0	(182.4)
Profit for the year	99.8	56.2	40.4	19.7
Tax	(6.6)	(4.0)	(4.1)	(2.2)
Deprec. & amort.	11.9	12.0	9.5	4.5
Associates	(65.5)	(24.8)	(23.6)	(9.7)
Working capital changes	5.4	(227.7)	95.8	(182.3)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	4.9	22.1	(5.1)	(12.5)
Investing	10.9	96.7	44.2	10.6
Capex (growth)	(0.4)	(0.2)	(0.2)	(0.0)
Investment	0.0	0.0	0.0	0.0
Others	11.4	96.9	44.4	10.6
Financing	(40.6)	(40.3)	(25.4)	(22.3)
Dividend payments	(28.5)	(28.8)	(16.8)	(11.8)
Proceeds from borrowings	0.0	217.6	787.1	25.0
Loan repayment	(10.7)	(228.7)	(795.6)	(35.4)
Others/interest paid	(1.5)	(0.4)	(0.2)	(0.1)
Net cash inflow (outflow)	20.2	(109.8)	131.8	(194.2)
Beginning cash & cash equivalent	357.7	378.8	269.1	400.8
Changes due to forex impact	0.9	0.1	(0.1)	(1.4)
Ending cash & cash equivalent	378.8	269.1	400.8	205.2

BALANCE SHEET

Year to 31 Dec (US\$m)	2019	2020	2021	1H22
Fixed assets	19.7	9.0	17.9	23.1
Other LT assets	372.7	311.8	290.0	284.0
Cash/ST investment	378.8	269.1	400.8	205.2
Other current assets	1,101.8	1,298.0	826.9	1,370.4
Total assets	1,872.9	1,887.9	1,535.7	1,882.8
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	1,022.4	1,003.7	619.9	968.1
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	15.6	7.4	14.4	15.4
Shareholders' equity	835.0	876.9	901.4	895.1
Minority interest	0.0	0.0	0.0	4.2
Total liabilities & equity	1,872.9	1,887.9	1,535.7	1,882.8

KEY METRICS

Year to 31 Dec (%)	2019	2020	2021	1H22
Profitability				
EBITDA margin	0.3	0.5	0.2	0.2
Pre-tax margin	0.5	0.6	0.3	0.2
Net margin	0.5	0.5	0.2	0.2
ROA	5.7	3.0	2.4	2.3
ROE	12.4	6.6	4.5	4.4 kan
Growth				
Turnover	(1.3)	(48.3)	67.7	7.0
EBITDA	63.4	(12.4)	(34.0)	5.9
Pre-tax profit	5.9	(43.4)	(26.2)	(17.5)
Net profit	6.4	(43.7)	(28.2)	(19.1)
Net profit (adj.)	6.4	(43.7)	(28.2)	(19.1)
EPS	6.4	(43.7)	(28.2)	(19.1)
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(45.4)	(30.7)	(44.5)	(22.9)
Interest cover (x)	20.2	42.0	18.9	25.0

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