

Singapore

ADD (no change)

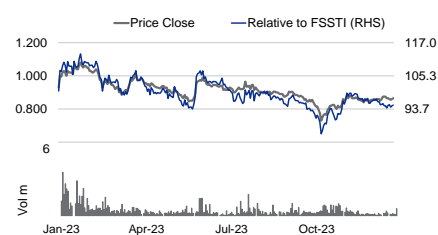
Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.86
Target price:	S\$1.14
Previous target:	S\$1.14
Up/downside:	31.8%
CGS-CIMB / Consensus:	12.9%
Reuters:	CNAO.SI
Bloomberg:	CAO SP
Market cap:	US\$559.3m
	S\$744.1m
Average daily turnover:	US\$0.20m
	S\$0.27m
Current shares o/s:	860.2m
Free float:	28.5%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.6	2.4	-8
Relative (%)	-2.2	1.4	-4.7

Major shareholders	% held
China National Aviation Fuel Group	51.3
BP Investments Asia	20.2

Analyst(s)



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China Aviation Oil

Likely a strong 2H23F showing

- We expect CAO to report a 2H23F net profit of US\$26m (+88% yoy), driven by increased trading activities and rebounding associate profits.
- For FY24F, we forecast EPS growth of 57% yoy, driven by a further recovery in China's outbound flight volumes to 80% of 2019 levels by end-2024F.
- Reiterate Add at an unchanged TP of S\$1.14, still pegged to 10x FY24F P/E (FY10-19 average). Current valuation is attractive at 8x FY24F P/E.

2H23F: EPS rebound driven largely by outbound travel recovery

We expect CAO to announce its 2H23F results in the last week of Feb 24. We forecast 2H23F net profit to rebound to US\$26m (+32% hoh, +88% yoy), driven by an improved trading environment and rebounding contribution from associates. We think 2H23F gross profit should recover off 1H23 lows to US\$14m (+28% hoh, flat yoy) on the back of 1) c.50% yoy increase in jet fuel trading volumes, in line with recovering China outbound flights, and 2) more trading opportunities. As crude oil prices showed better stability in 2H23F compared to 1H23, we think CAO's traders were able to capitalise on more margin optimising trading opportunities in the second half. We forecast 2H23F share of associates profits to rise 75% hoh and 76% yoy, as 33%-owned associate SPIA likely benefitted from strong passenger throughput growth at Pudong Airport.

Outbound flight volumes from China set to grow further in 2024F

As of end-Dec 23, China's outbound flight volumes (measured by seat capacity) stood at 64% of 2019 levels, while domestic flight volumes have exceeded 2019 levels. As announced on 4 Jan 24, the Civil Aviation Administration of China expects international flight volumes to hit 80% of pre-Covid levels by end-2024F, giving us greater certainty of travel recovery ahead. While domestic economic weakness and visa issues have resulted in international flight volumes recovering slower than we had previously anticipated, we think 2024F volume recovery will be driven by 1) eased visa restrictions for tourists entering China, 2) complete lifting of Covid-19 restrictions within China, and 3) further restoration of flight routes between China and laggard countries (notably US and Japan).

Reiterate Add on healthy EPS growth and decent valuation

Over the past year, CAO's share price has fallen 9% on concerns over slow recovery in China international flight volumes, resulting in its forward P/E multiple de-rating from 12x to 8x currently (0.7 s.d. below FY10-19 historical mean). Reiterate Add as we still like CAO for its robust earnings growth trajectory ahead, which could help re-rate the stock back to its historical average of 10x FY24F P/E, in our view. Our TP is unchanged at S\$1.14, still based on 10x FY24F P/E. Re-rating catalysts include strong GPM improvement from increased trading activities, and quicker improvement in China's international flight volumes. Key downside risks include a slow recovery in China's international flight volumes, recessionary fears triggering a slowdown in global travel, and an unfavourable trading environment impacting CAO's trading activities.

Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (US\$m)	17,637	16,464	13,344	15,149	15,893
Operating EBITDA (US\$m)	29.89	29.82	21.39	28.27	32.52
Net Profit (US\$m)	40.35	33.53	45.79	72.03	80.26
Core EPS (US\$)	0.047	0.039	0.053	0.084	0.093
Core EPS Growth	(28.2%)	(16.9%)	36.6%	57.3%	11.4%
FD Core P/E (x)	13.86	16.68	12.21	7.76	6.97
DPS (US\$)	0.014	0.012	0.016	0.025	0.028
Dividend Yield	2.18%	1.85%	2.41%	3.85%	4.30%
EV/EBITDA (x)	(4.05)	(0.15)	(7.21)	(9.72)	(10.10)
P/FCFE (x)	3.56	NA	3.31	3.62	6.85
Net Gearing	(44.3%)	(34.0%)	(48.4%)	(58.1%)	(59.6%)
P/BV (x)	0.62	0.62	0.60	0.57	0.54
ROE	4.54%	3.72%	4.98%	7.50%	7.92%
EPS/Consensus EPS (x)			0.97	1.03	1.00

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Likely a strong 2H23F showing

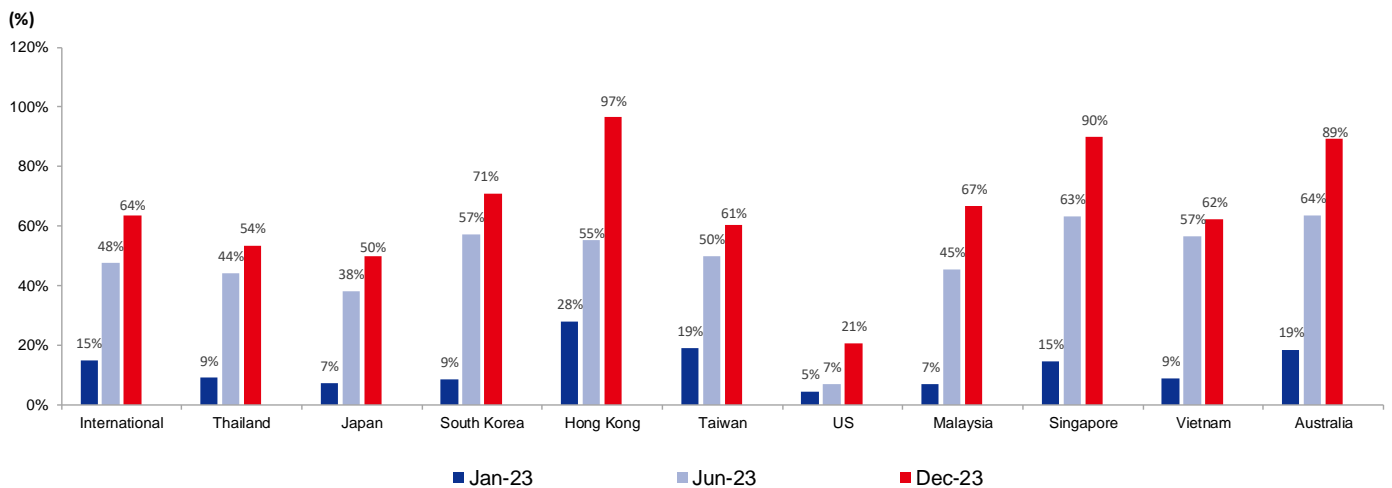
Outbound flights from China set for further recovery

As of end-Dec 2023, China's international flight volumes (as measured by seat capacity) recovered to 64% of 2019 levels, according to flight data provider Centre for Aviation (CAPA). Hong Kong and Singapore have recovered close to pre-Covid levels at 97% and 90% of 2019 levels, respectively, while US remains a laggard at 21% (due to US-China geopolitical tensions and ongoing restrictions on flying over Russian airspace). The Civil Aviation Administration of China announced on 4 Jan 2024 that it expects international flight volumes to recover to 80% of pre-Covid levels by end-2024F.

We think further outbound flight recovery will be driven by:

- 1) Easing of visa restrictions. Over the past three months, China has steadily relaxed visa restrictions for foreign tourists. Notable changes include eased visa restrictions for tourists from the US (with effect from 1 Jan 24), Thailand (with effect from Mar 24), and Singapore (with effect from early-2024).
- 2) Complete lifting of Covid-19 restrictions. Since Aug 23, China has completely removed its Covid-19 restrictions for inbound travellers. We note that 2024 will be the first year since 2019 without any Covid-19 related restrictions imposed within China.
- 3) Further restoration of flight routes between China and other laggard countries. Based on Fig. 1, countries with lagging flight volumes include the US, Japan, and Thailand. We think airlines could steadily ramp up capacity over the next year as travel demand picks up.

Figure 1: China's outbound flight volumes (measured by seat capacity) as a % of 2019 levels. US remains a clear laggard



SOURCES: CGS-CIMB RESEARCH, CAPA

Trading activities should have improved hoh

As announced by CAO in its 1H23 analyst brief, the group expects a more favourable trading environment in 2H23F, as its traders see more jet fuel transportation opportunities emerging between Asia and US/Europe/Middle East. Historically, CAO's trading business has typically enjoyed better GPM when oil markets are in a contango structure. While we understand that oil markets remained mostly in backwardation in 2H23F, we note that oil prices saw some stabilisation in 3Q23F, which could likely drive traders to increase their margin-optimising activities.

Given the unpredictability of CAO's trading business, we have forecasted 2H23F GPM to improve hoh to 0.19% (+0.02% pt hoh, flat yoy). Should CAO's 2H23F GPM come in stronger-than-expected at between 0.23% (1H22 level, outbreak of Russia-Ukraine conflict) and 0.29% (FY14-19 pre-Covid average), this would translate into a 2H23F net profit of US\$31m-35m (+123-152% yoy), ahead of our forecast of US\$26m (+88% yoy).

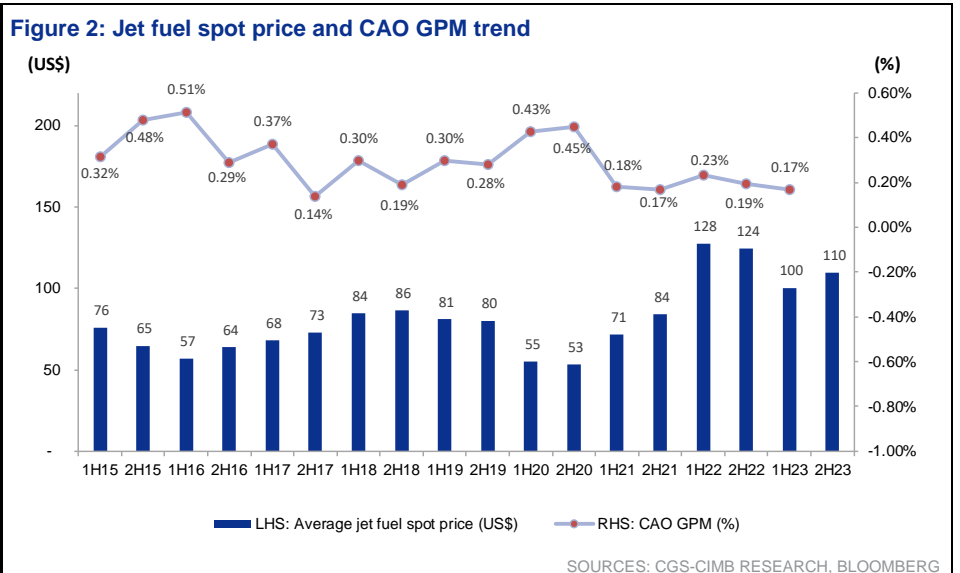



Figure 5: Peers comparison

Company	Bloomberg		Price	Target Price	Market Cap	P/E (x)		P/BV (x)		Recurring ROE (%)	EV/EBITDA (x)		Dividend Yield (%)
	Ticker	Recom.	(lcl curr)	(lcl curr)	(US\$ m)	CY24F	CY25F	CY24F	CY25F	CY24F	CY24F	CY25F	CY24F
China Aviation Oil	CAO SP	Add	0.86	1.14	559	7.8	7.0	0.57	0.54	7.5	-9.7	-10.1	3.8
Transportation fuel suppliers:													
Bangkok Aviation Fuel Services	BAFS TB	NR	25.25	na	465	37.4	21.3	3.07	2.74	7.2	15.0	12.2	0.9
World Kinect Corp	WKC US	NR	22.54	na	1,331	9.8	8.4	0.63	0.58	7.1	4.7	4.4	2.7
Average						37.4	21.3	3.07	2.74	7.2	15.0	12.2	0.9
Airports and airport services													
Airports of Thailand	AOT TB	Hold	62.75	74.00	25,658	37.7	30.3	6.86	6.14	19.1	20.4	17.1	1.6
Beijing Capital International	694 HK	NR	2.41	na	1,400	20.8	6.7	0.62	0.58	3.9	8.4	5.7	1.3
SATS Ltd	SATS SP	Add	2.83	3.00	3,171	43.6	23.1	1.97	1.89	4.5	7.2	6.1	1.1
Shanghai International Airport	600009 CH	NR	31.43	na	10,911	21.0	15.1	1.79	1.63	8.7	13.3	10.6	1.1
Average						30.8	18.8	2.81	2.56	9.1	12.3	9.9	1.3

DATA AS OF 10 JAN 2024

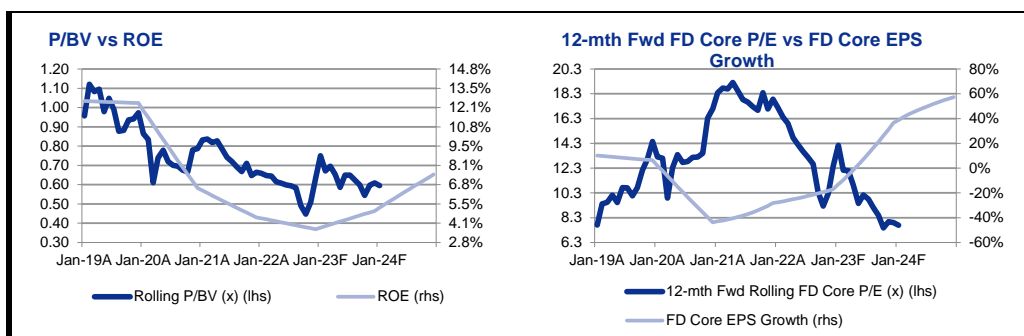
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Note: All forecasts for Not Rated (NR) companies are based on Bloomberg consensus estimates

Refinitiv ESG Scores													
	<table border="1"> <tr> <td style="background-color: #f4a460; color: white; text-align: center;">D+</td> <td style="background-color: #2e8b57; color: white; text-align: center;">A+</td> <td style="background-color: #f4a460; color: white; text-align: center;">D+</td> <td style="background-color: #e67e22; color: white; text-align: center;">D</td> <td style="background-color: #f1c40f; color: white; text-align: center;">C-</td> <td style="background-color: #f4a460; color: white; text-align: center;">D+</td> </tr> <tr> <td style="font-size: 8px; text-align: center;">ESG Score</td> <td style="font-size: 8px; text-align: center;">ESG Controversies Score</td> <td style="font-size: 8px; text-align: center;">ESG Combined Score</td> <td style="font-size: 8px; text-align: center;">ESG Environment Pillar Score</td> <td style="font-size: 8px; text-align: center;">ESG Social Pillar Score</td> <td style="font-size: 8px; text-align: center;">ESG Government Pillar Score</td> </tr> </table>	D+	A+	D+	D	C-	D+	ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score
D+	A+	D+	D	C-	D+								
ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score								
<h2>ESG in a nutshell</h2> <p>In its FY22 Annual Report, China Aviation Oil (CAO) expressed its ongoing commitment to its green, low-carbon emissions strategy. It seeks to enter the carbon credits trading business to: (1) achieve its goals of carbon neutrality; and (2) diversify substantial risk associated with conventional oil businesses. The company's ESG combined score by Refinitiv was D+ in 2022 (2021: D+). The current score of D+ is split into Environment: D (weightage 29.1%); Social: C- (weightage 42.7%); and Governance: C- (weightage 28.2%).</p>													
<p>Keep your eye on</p> <p>CAO filed for bankruptcy in Nov 2004 following losses amounting to US\$550m in a derivatives scandal. Improper application of accounting principles and inadequate risk management systems on top of heavily leveraged speculative options were the cornerstones of CAO's failure. Mr Chen Jiulin, CAO's former CEO, was held responsible for the loss and was arrested and charged with fraud and failure to report losses, alongside four executives.</p>	<p>Implications</p> <p>Following the crisis, CAO has diversified its trade exposure, with clearly defined trading and risk limits. Its revenue mix between jet fuel supply and trading (of jet fuel and other oil products) remains undisclosed to date, which brings some uncertainty to our forecasts. Significant gains/losses from trading activities remain a key upside/downside risk for CAO.</p>												
<p>ESG highlights</p> <p>According to Refinitiv, CAO trails behind its peers in its Environmental pillar, due to lack of policies for water and energy efficiencies.</p>	<p>Implications</p> <p>We think the company is taking actionable steps towards improving its environmental footprint. In FY21, CAO established accounts with carbon registries such as Switzerland-based carbon registry - "The Gold Standard Foundation" - and joined the advisory team of <i>Taskforce on Scaling Voluntary Carbon Markets</i> to reduce its GHG emissions, according to its FY21 Annual Report. In FY22, CAO announced (in its FY22 Annual Report) that it would be exploring new business opportunities in sustainable aviation fuel and carbon credits trading.</p>												
<p>Trends</p> <p>CAO's Governance pillar score improved from D+ in FY21 to C- in FY22, according to Refinitiv. We think this was due to improved disclosures provided for its Board Diversity Policy, Board diversity targets, and implementation timeline under its FY22 Statement of Corporate Governance.</p>	<p>Implications</p> <p>We have not yet factored its low governance scores into our valuations of CAO.</p>												

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(US\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	17,637	16,464	13,344	15,149	15,893
Gross Profit	31	35	24	33	38
Operating EBITDA	30	30	21	28	33
Depreciation And Amortisation	(10)	(10)	(11)	(11)	(11)
Operating EBIT	20	20	10	17	22
Financial Income/(Expense)	(0)	2	16	10	6
Pretax Income/(Loss) from Assoc.	24	18	23	50	59
Non-Operating Income/(Expense)	1	(2)	1	1	1
Profit Before Tax (pre-EI)	44	38	49	77	86
Exceptional Items					
Pre-tax Profit	44	38	49	77	86
Taxation	(4)	(5)	(3)	(5)	(6)
Exceptional Income - post-tax					
Profit After Tax	40	33	46	72	80
Minority Interests	0	0	0	0	(0)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	40	34	46	72	80
Recurring Net Profit	40	34	46	72	80
Fully Diluted Recurring Net Profit	40	34	46	72	80

Cash Flow

(US\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	29.9	29.8	21.4	28.3	32.5
Cash Flow from Invt. & Assoc.	(23.6)	(17.9)	(22.7)	(50.1)	(58.8)
Change In Working Capital	95.8	(113.9)	112.8	73.6	(7.3)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	11.3	12.3	7.7	41.1	53.8
Net Interest (Paid)/Received	(0.1)	2.4	15.5	9.5	5.5
Tax Paid	(0.3)	(1.5)	(3.4)	(5.4)	(6.0)
Cashflow From Operations	113.0	(88.8)	131.3	97.0	19.7
Capex	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.0	0.6	0.0	0.0	0.0
Other Investing Cashflow	44.5	24.2	38.1	58.1	62.4
Cash Flow From Investing	44.2	24.4	37.7	57.7	62.0
Debt Raised/(repaid)	0.0	(6.2)	0.0	0.0	0.0
Proceeds From Issue Of Shares					
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(16.8)	(11.8)	(13.5)	(21.5)	(24.0)
Preferred Dividends					
Other Financing Cashflow	(8.6)	(8.6)	(11.0)	(11.0)	(11.0)
Cash Flow From Financing	(25.4)	(26.7)	(24.5)	(32.5)	(35.0)
Total Cash Generated	131.8	(91.0)	144.5	122.2	46.6
Free Cashflow To Equity	157.2	(70.5)	169.0	154.7	81.7
Free Cashflow To Firm	158.9	(63.2)	170.0	155.7	82.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(US\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	401	308	453	575	621
Total Debtors	784	716	585	664	697
Inventories	43	182	109	104	109
Total Other Current Assets	0	0	0	0	0
Total Current Assets	1,228	1,206	1,147	1,342	1,427
Fixed Assets	4	5	5	4	4
Total Investments	284	260	261	263	266
Intangible Assets	0	11	11	11	11
Total Other Non-Current Assets	20	17	17	17	17
Total Non-current Assets	308	294	294	296	298
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	605	565	474	621	652
Other Current Liabilities	15	16	16	16	16
Total Current Liabilities	620	580	490	637	667
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	14	12	12	12	12
Total Non-current Liabilities	14	12	12	12	12
Total Provisions	0	0	0	0	0
Total Liabilities	634	592	502	649	679
Shareholders' Equity	901	903	935	986	1,042
Minority Interests	4	4	0	4	0
Total Equity	905	907	935	990	1,042

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	67.7%	(6.6%)	(19.0%)	13.5%	4.9%
Operating EBITDA Growth	(28.7%)	(0.2%)	(28.3%)	32.2%	15.0%
Operating EBITDA Margin	0.169%	0.181%	0.160%	0.187%	0.205%
Net Cash Per Share (US\$)	0.47	0.36	0.53	0.67	0.72
BVPS (US\$)	1.05	1.05	1.09	1.15	1.21
Gross Interest Cover	12.01	17.35	10.30	17.25	21.57
Effective Tax Rate	9.2%	12.0%	7.0%	7.0%	7.0%
Net Dividend Payout Ratio	30.2%	30.9%	29.4%	29.9%	29.9%
Accounts Receivables Days	20.60	16.62	17.79	15.09	15.63
Inventory Days	1.39	2.50	3.99	2.58	2.44
Accounts Payables Days	16.52	12.99	14.24	13.26	14.65
ROIC (%)	6.0%	7.6%	2.7%	6.7%	12.3%
ROCE (%)	2.45%	2.56%	2.91%	2.88%	2.76%
Return On Average Assets	2.36%	2.06%	2.12%	4.10%	4.47%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Middle distillates volume (mt)	13.9	8.3	10.1	14.1	16.4
Other oil products volume (mt)	20.3	11.9	13.1	14.4	14.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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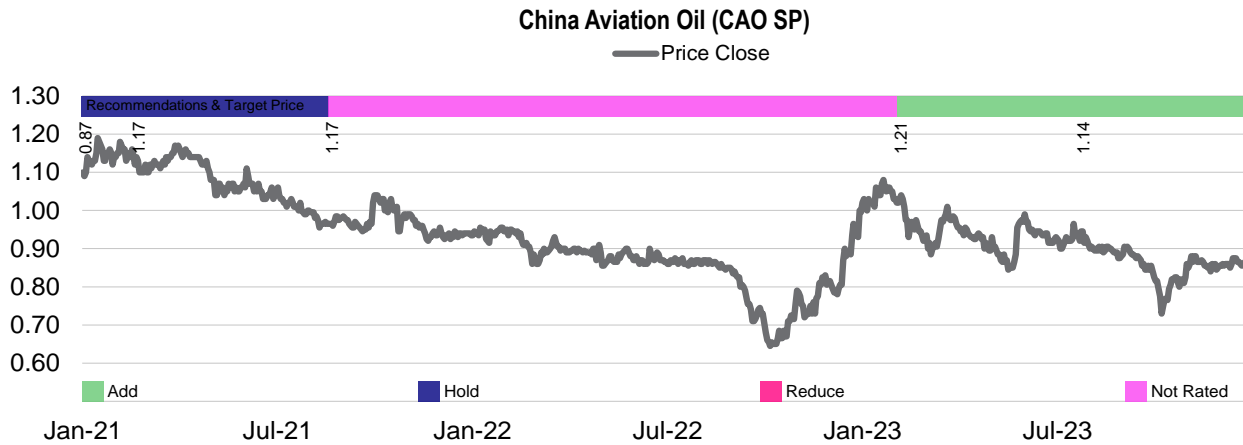
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework	
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.
<i>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.</i>	
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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.
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