

China Aviation Oil (Singapore)

Constraints on growth persist

Having delivered a record performance in FY18, China Aviation Oil (Singapore) Corporation (CAO) faces a year of more subdued progress. Confronted by more difficult markets in 2019, the management team appears to have adopted a more risk averse stance in oil trading, curtailing some of the optimisation strategies. Trade disputes are also affecting supply volumes and margins to the US. The core trading activity challenges are compounded by policy adjustments affecting growth at Shanghai Pudong airport, the main group associate. The result is a slower growth trajectory, as is reflected in H119 results. Nevertheless, CAO remains a proxy for the rapid growth of the Chinese air transport market.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (US\$ c)	DPS (US\$ c)	P/E (x)	Yield (%)
12/17	16,268	88.7	10.0	4.5	8.4	3.9
12/18	20,612	98.2	11.1	4.5	7.6	3.9
12/19e	20,265	98.4	11.1	4.5	7.6	3.9
12/20e	21,385	103.9	11.7	4.5	7.2	3.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Restated following FY18 change to SFRS(I).

Tough markets and trade wars

The delivery of record FY18 results was hard earned in unhelpful market conditions where prices remained in backwardation for long periods, with future product prices below spot. The result was a natural constraint on contract optimisation strategies and liquidation of stored product inventories. The situation has been tightened by last year's management succession from the parent CNAF, with the incoming CEO further strengthening internal risk control. In FY19 these factors combined with US China trade friction are impairing the growth of the core trading operations.

SPIA faces limited growth through FY20

Shanghai Pudong International Airport Aviation Fuel Supply Company (SPIA) is the largest associate company of the group and contributes most of the associates' and the group's profitability. Its operations rely on traffic growth at Shanghai Pudong International Airport, where passenger numbers grew 6% to 74 million passengers in 2018. SPIA's contribution was reduced by adverse movements in the translation rate of Chinese renminbi to US dollars. With capacity expected to expand to an average of 80 million in FY20, expected growth is somewhat slower than has been experienced in recent years, and growth constraints appear to be compounded by a central policy encouraging more domestic leisure travel in China. As a result, we are looking at more limited growth through 2020 for CAO as a whole, although we expect cash flows to remain healthy and support the healthy dividend payout.

Valuation: Cash strength under rated

CAO's rating (FY19e P/E 7.6x) is at a substantial discount to World Fuel Services. Our DCF-based valuations assessing associates' dividend streams in three ways has also grown, with increased gross cash. Our fair value for CAO stands at US\$1.52/share (S\$2.11) (previously US\$1.39 (S\$1.82)).

Update & H119 results

Aerospace & defence

3 September 2019

Price **S\$1.15**

Market cap **S\$989m**

S\$1.39/US\$

Net cash (US\$m) at 30 June 2019 210.4

Shares in issue 860.2m

Free float 28.5%

Code G92

Primary exchange SGX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (8.8) (7.3) (26.9)

Rel (local) (3.5) (6.1) (24.0)

52-week high/low S\$1.58 S\$1.04

Business description

China Aviation Oil (Singapore) Corporation (CAO) is the largest physical jet fuel supplier and trader in Asia. It holds the sole import licence for bonded jet fuel into China, and has nascent businesses in the US and Europe. Of its five associates, the most important is SPIA, which supplies all jet fuel to Shanghai Pudong Airport.

Next events

Q3 results November 2019

Analyst

Andy Chambers +44 (0)20 3681 2525

industrials@edisongroup.com

[Edison profile page](#)

China Aviation Oil (Singapore)
is a research client of Edison
Investment Research Limited

H119 trading performance

Following the record performance in FY18, the company delivered a robust performance in H119 despite challenging market conditions and the impact of US-China trade tensions. The company has adopted the equivalent of IFRS 16 in 2019 accounts and the impact of the accounting for operating lease liabilities was reflected in the half year accounts. Volumes in H119 were constrained by the impact of trade obstacles on certain product flows, as well as a more risk-averse approach to trading. In addition, the continued fluctuation in oil and product prices, combined with markets in backwardation for long periods, led to a fall in gross margins. In associates, the storage operation OKYC in South Korea saw profitability fall as inventories were liquidated, and SPIA saw profits step back modestly in H119 due to lower Q119 average jet fuel prices than in the comparative period, with an improved performance in Q219.

Exhibit 1: Interim results summary			
Six months to June US\$m	H118	H119	H119 vs H118
Volume (m tonnes)			
– Jet fuel	6.74	7.60	12.8%
– Other	2.08	2.76	32.7%
Middle distillates	8.82	10.36	17.5%
Other oil products	8.74	7.05	-19.3%
Total	17.56	17.41	-0.9%
Revenues (US\$m)			
Middle distillates	5,796.7	6,394.8	10.3%
Other oil products	4,105.6	3,288.5	-19.9%
Total revenues	9,902.4	9,683.3	-2.2%
Gross profit	29.6	28.7	-3.0%
<i>Gross margin</i>	<i>0.30%</i>	<i>0.30%</i>	
Operating costs	(11.6)	(7.3)	-37.2%
EBITDA	18.0	21.4	18.9%
D&A	(0.4)	(5.7)	1211.2%
EBIT	17.6	15.7	-10.8%
Associates	39.6	38.3	-3.3%
Other income	0.0	0.0	
Operating profit	57.1	54.0	-5.5%
Exceptional items	0.3	(0.3)	-200.4%
Net interest	1.4	3.9	180.3%
PBT	58.8	57.6	-2.1%
Taxation	(2.6)	(2.8)	7.2%
Net income	56.2	54.8	-2.5%
EPS (c)	6.53	6.37	-2.5%
Net cash	357.7*	210.4	-41.3%
Lease liabilities	-	(20.3)	
Source: Company reports. Note: *At 31 December 2018.			

Highlights for H119 were:

- Total H119 volumes decreased by 0.9% y-o-y to 17.41m tonnes (H118: 17.56mt). Jet Fuel volumes grew strongly, up by 12.8% y-o-y to 7.60mt, with an even more impressive performance from other middle distillates (gas oil) volumes, which increased 32.7% to 2.76mt (H118: 2.08mt). Other oil products saw volumes drop 19.3% to 7.05mt (H118: 8.74mt).
- Reported revenue in H119 fell 2.2% to US\$9.68bn (H118: US\$9.90bn) reflecting the additional impact of lower oil product prices.
- Reported H119 gross profit fell 3.0% to US\$28.7m (H118: US\$29.6m). Gross profit margin held steady at 0.30% for H119 compared to H118. Trading improved significantly in Q2 compared to Q1, with higher gains derived from trading and optimisation activities although these remained

lower for the first half overall than in the prior year. Q219 saw an increase of US\$0.7m in gross profit to US\$17.1 compared to Q218.

- The contribution from associates was down 3.3% at US\$38.3m, with SPIA only down 1.1% at US\$34.2m after an improved Q219 contribution compared to both Q119 and to Q218. The losses at the other associates largely reflected lower profitability for the storage operations of OKYC in South Korea including some foreign exchange losses.
- PBT in H119 was US\$57.6m (H118: US\$58.8m); the decline of 2.1% reflected a fall of 3.5% in Q119 compared to Q118 and just 0.8% y-o-y in Q219. The contribution from associates was 70%, marginally down on H118.
- H119 net income was 2.5% lower at US\$54.8m (H118: US\$56.2m), mirrored by the decline in reported EPS to US\$0.0637 (H118: US\$0.0653).
- Gross cash balances of US\$210.4m were reduced by US\$147.3m during the half year largely due to higher working capital requirements for the trading activities. We expect these to unwind in H219 leaving year end net cash higher than at the start of the year, as ever boosted by the receipt of the FY18 dividends from SPIA and the other associates received in H219 (in H218 the FY17 dividend received was US\$67.4m).
- Net asset value per share increased to US\$0.9222 from US\$0.8942 at the end of FY18.

Adoption of IFRS16

The company has adopted the equivalent of IFRS 16 in its 2019 accounts and the impact of the accounting for operating lease liabilities was reflected in the half year accounts. It had little impact on the net profitability (we estimate around US\$0.4m), but within the income statement the depreciation of the right of use asset increased depreciation and amortisation and was largely compensated for by a commensurate fall in administrative and operating expenses, which inflates EBITDA but produces a similar EBIT contribution. The high level of depreciation of around US\$2.5m per quarter reflects the fact the leases are expected to end in 2020, and at present are unlikely to be replaced by a similar long-term transaction. We believe the liabilities primarily relate to the lease of storage facilities. There was also a modest US\$0.3m increase in financial interest expenses relating to the notional interest on the c US\$20m of lease liabilities added to the balance sheet.

Outlook

While our FY19 revenue estimate is now only slightly lower (-2%) than our out of date previously published numbers, our PBT estimate is reduced by 6%. It reflects the more challenging market conditions over the last 18 months, despite which CAO delivered a record performance in FY18 in the face of the impact on margins of backwardation markets and fluctuating oil prices. In addition, we expect more constrained growth from the main associate, SPIA, than we had previously anticipated. We expect moderate growth to resume in FY20.

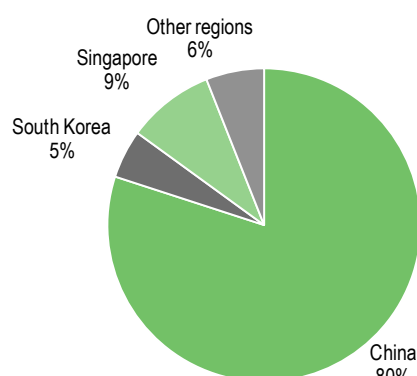
CAO remains a proxy for China's air transport growth

CAO remains the sole supplier of imported jet fuel into China for civil aviation, and is the largest trader of physical jet fuel supply in Asia-Pacific. CAO supplies jet fuel to over 17 international airports across mainland China, including major international hubs such as Beijing Capital International Airport, Shanghai Pudong and Hongqiao International Airports, and Guangzhou Baiyun International Airport. In the last decade the company has made significant progress in internationalising its trading and supply operations as well as diversifying into other oil products. In FY18 international trading and supply accounted for 40% of revenues, compared to just 20% in

2010 and CAO now supplies fuel to 51 airports in 20 countries outside China. CAO continues to seek to expand its integrated global supply chain and benefits from sizeable and growing cash contributions from its five associates. The Chinese government owns a 51% stake through China National Aviation Fuel Group Corporation (CNAF) and BP owns 20%, but CAO provides direct exposure for free float shareholders to Chinese air transport growth through its listing in Singapore.

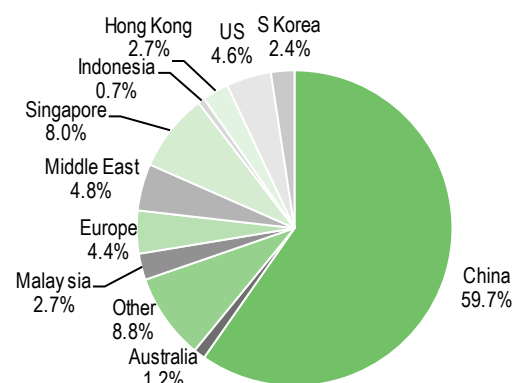
As 90% of the company's trade contracts relate to actual physical supply of product to customers and, given the cost-plus nature of the bonded jet fuel supply into China, the risk of speculative losses is somewhat diminished. CAO has done an impressive job of risk management over the last 13 years. The structure has allowed the group to formulate trade optimisation strategies, but these work better in contango markets (where the spot price is lower than the forward price). CAO trades higher volumes when the market is in contango. The reverse is true in backwardation markets (spot price is higher than the forward price), where the risk of holding inventory for any period manifests itself, and orders are procured as close to when they are needed as possible. As a result, the gross margin can fluctuate in the core oil trading business.

Exhibit 2: Revenue base by geography (FY10)



Source: China Aviation Oil reports

Exhibit 3: Revenue base by geography (FY18)



Source: China Aviation Oil reports

As the jet fuel market was in backwardation for long periods in 2018, margins were impinged. The current year has seen a continuation of the fluctuating price movements between contango and backwardation spreads in various territories as various supply and demand dynamics and resultant product flows have played out in different territories.

The majority of profitability and cash flow for CAO is contributed by Shanghai Pudong International Airport Aviation Fuel Supply Company (SPIA) and its annual dividend payments. CAO holds a 33% stake. It is one of six associates that own and operate fuel supply infrastructure such as storage, pipelines and airport refuelling facilities in various territories. SPIA is responsible for the whole refuelling infrastructure at Shanghai Pudong International, which has grown rapidly to become China's second busiest airport behind Beijing International. SPIA is by far the largest associate and its H119 profit contribution of US\$34.2m (H118: US\$34.6m) accounted for 90% of the associates total and just under 60% of group profitability. The dividend from the previous year's trading is normally received in the final quarter. In 2018 the payment received from SPIA was US\$65.9m compared to a total associates' dividend income of US\$67.4m.

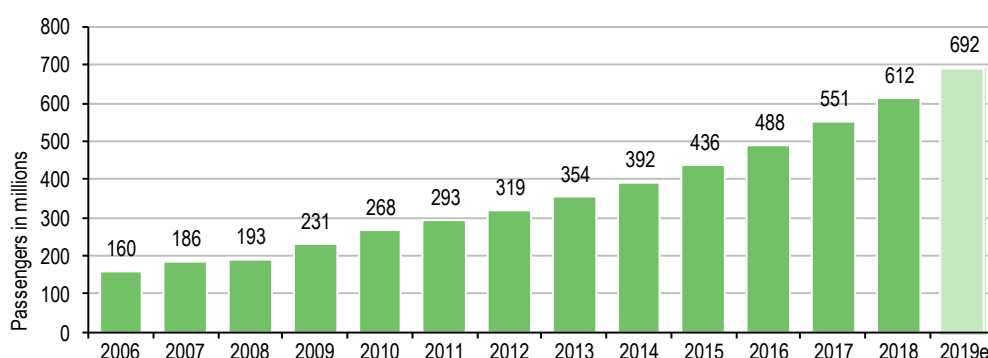
Chinese air transport growth remains very healthy

Chinese air traffic continues to grow strongly, although a greater emphasis appears to be being placed on encouraging internal tourism rather than international leisure travel. Civil Aviation Administration of China (CAAC) data show that overall Chinese air travel, measured in revenue passenger kilometres (RPKs – the number of fare paying passengers × distance flown), grew by 12.6% in 2018 (2017: 13.8%). On a domestic basis, Chinese domestic air travel increased by 12.1% in 2018 (13.3% in 2017). The domestic Chinese market is 2.7x the size of the international

Chinese market. International travel is growing at a faster percentage rate, although in absolute number terms the increase in both passenger volumes and RPKs is far higher for domestic markets. Increasing wealth is helping to increase the propensity to travel, and outbound tourism has been growing rapidly as well. CAO has exposure to Chinese domestic travel through its investment in SPIA, which refuels all aircraft, and is the key jet fuel supplier to all of China's international airports. However, its exclusive fuel supply rights are for the fast-growing Chinese international market.

We estimate RPK growth for China of 13% in 2019 and a similar rate of growth in 2020, implying a traffic multiplier of over 2x expected GDP growth of 6.1% (OECD forecast). We continue to view this as a key growth driver for CAO supply volumes although revenues will also be influenced by prices. We feel this remains sensible, as RPKs should grow faster than passenger volume growth due to the beneficial mix of long-haul international traffic compared to domestic traffic despite the policy shift. CAAC data shows that in 2018 passenger numbers grew 10.9% to 612 million, of which 64 million flew internationally, up 14.8% on the prior year. Year to date through May, the last published data, the international passenger number growth rate had accelerated to 16.5%. However, international RPK growth was 13.3%, which was more in line with CAO's jet fuel volume growth of 12.8% for H119.

Exhibit 4: Number of air passengers in China from 2006 to 2019e (in millions)

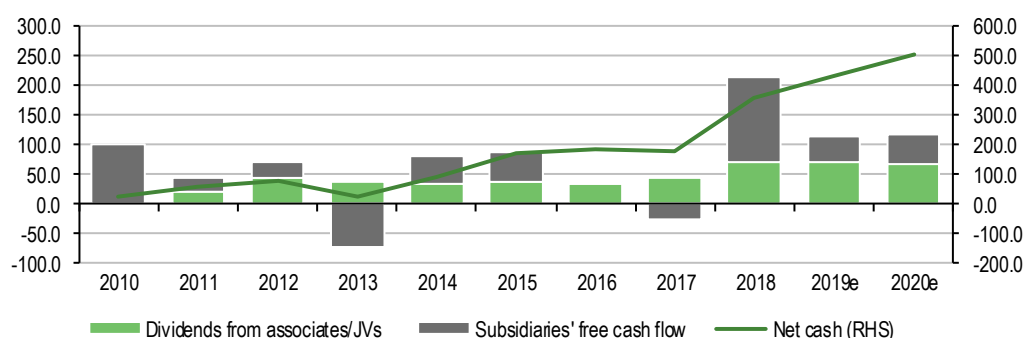


Source: CAAC, Edison Investment Research estimate

Deployment of cash expected to augment growth

CAO has a strong balance sheet and is essentially a cash-generative company, as it demonstrated last year with a substantial inflow. The additional support provided by the sizeable and growing cash dividends from associates also acts as a buffer against undue oil market volatility. CAO ended CY18 with net cash balances of c US\$358m.

The balance sheet supports the expansionary strategy based on organic growth and international M&A to supplement rapid growth of Chinese air transport markets, further enhancing performance, facilitated by the strong balance sheet. CAO's ambition to become one of the largest transportation fuel providers in the world remains at its core. The US\$7.6m purchase in 2018 of Navires Aviation Ltd in the UK (renamed China Aviation Fuel (Europe) Ltd (CAFEU)) is evidence of this, extending airport refuelling to four European airports.

Exhibit 5: Core subsidiaries and associates' cash flow development (US\$m)


Source: China Aviation Oil reports, Edison Investment Research estimates

In the face of less favourable market conditions, the company appears to have adopted a stricter, more risk averse stance, which has led to some volume reductions outside of core jet fuel supply and trading. The trade war between the US and China is also having an impact on the trading of product volumes into the US, as it has been delaying US-bound cargoes from Chinese refineries.

While the rate of organic growth may diminish at the core trading operations, we expect continued growth in cash balances aided by healthy dividend payments from the associates, primarily SPIA. The deployment of this cash in procuring additional infrastructure assets to build CAO's global supply chain network should enhance returns, which in turn should generate an increase in dividends for shareholders in line with a 30% payout ratio from net income.

At the end of FY18, gross cash represented US\$0.42 (S\$0.58) per share, and we estimate this will grow to US\$0.59 (S\$0.81) per share by FY20 year end.

Valuation

We use cash based and peer group comparisons to assess fair value. CAO (on an FY19e P/E of 7.6x) now appears to be trading at a substantial P/E discount to its closest peer, World Fuel Services in the US (FY20e P/E ratio: 13.2x), following a period of share price underperformance. CAO also trades at a significant discount to a wider air transport peer group (FY20e P/E ratio: 14.9x).

The core CAO operations can be valued on a DCF basis given the relative stability provided by being a physical jet fuel supplier as well as a trader. The paper trading of oil contracts is limited to 10% of total trade volume, with 90% backed by physical contracts, substantially de-risking the activity. In addition, the cost plus per barrel nature of the sole source import supply contract to China provides further stability as well as a gross margin premium return compared to normal trading activity. Using our calculated WACC of 11.0% implies a core CAO valuation (including US\$358m FY18 year-end net cash) of US\$0.78 (S\$1.07) per share, to which must be added a value for the associates and joint ventures.

In FY18, the associate and joint venture entities generated 70% of net income and \$67m of free cash flow. Valuing the sustainable growth of the associates' cash stream appropriately is therefore important. Applying net income at the group FY20 P/E multiple of 7.6x is overly conservative in our view given peer multiples and growth rates (DCF A in Exhibit 7). Thus, we consider two more cash-based valuations of the dividend stream to provide a composite value, which currently stands at US\$0.74 (S\$0.78) per share. DCF B values the dividend as a perpetuity at WACC, and DCF C values the dividend as DCF with a 5% growth rate for the forecast period of six years and then as a perpetuity at WACC in the terminal value. Our total DCF-based estimate of fair value for CAO

(average of DCFs A, B and C) overall is thus currently US\$1.51 (S\$2.10) per share, a modest premium to the current share price.

Our DCF based valuations, which value the large associates dividend stream in three different ways, have fallen, due to the higher applied WACC of 11% (as there is no debt), although cash streams have grown as operational performance improved and the payout ratios returned to very high levels while investment requirements are subdued.

Our overall fair value for CAO stand at US\$1.52/share (S\$2.11), compared to US\$1.39 (S\$1.82) previously, and is based on the average of our various peer- and cash-based valuation methodologies, largely reflecting the better than expected cash performance achieved in 2018. While growth may have slowed, cash generation is likely to remain strong, suggesting continued potential for the shares.

Exhibit 6: CAO average DCF value sensitivity to changes in WACC and terminal growth								
US\$ per share		WACC						
Terminal growth rate	8%	9%	10%	11%	12%	13%	14%	15%
0%	1.84	1.71	1.60	1.51	1.44	1.38	1.33	1.28
1%	1.89	1.74	1.63	1.54	1.46	1.39	1.34	1.29
2%	1.95	1.79	1.66	1.56	1.48	1.41	1.35	1.30
3%	2.03	1.85	1.70	1.59	1.50	1.43	1.37	1.31
Source: Edison Investment Research estimates: Note: Core DCF is calculated at a WACC of 11.0%.								
Exhibit 7: Valuation methodology summary								
Valuation basis (US\$m)	EV	Cash	JVs	Market cap	Value per share US\$	Value per share S\$		
Current valuation FY20 P/E 7.6x	-154	358	508	712	0.83	1.15		
FY20 P/E of World Fuel Service (13.2x)	-4	358	880	1,234	1.43	1.99		
FY20 P/E of peer group (14.9x)	41	358	992	1,390	1.62	2.25		
DCF (A)	309	358	506	1,173	1.36	1.90		
DCF (B)	309	358	612	1,279	1.49	2.07		
DCF (C)	309	358	789	1,456	1.69	2.35		
Average					1.52	2.11		
Source: Refinitiv data, Edison Investment Research estimates. Note: Priced at 30 August 2019.								

Sensitivities: Risk management for volatile markets

Given price fluctuations for oil products, the volatile nature of fuel supply markets and the inherent risks in trading activities, albeit well managed utilising sophisticated strategies, the consistent achievement of growth expectations in any territory is challenging. However, the ability of a shift in government policies to interfere and disrupt markets is very real. The current trade friction between the US and China is an example of how trading can be affected. Investors should be aware of several issues that could influence the performance of the company and the share price. Most are high level, but some relate to the nature of the business and government policy. Management has implemented a rigorous risk management regime since the derivatives speculation scandal that damaged the company over a decade ago.

- **Oil price and other macro issues:** while the trading operations tend to be inherently risky, a movement in oil prices is generally a managed event through trading policy, risk control and hedging. In addition, markets trading in backwardation lead to selling down of stocks affecting storage operations, utilisation of stocks to optimise supply strategies and the associated profitability of storage facilities. Foreign exchange exposure exists as CAO is based in Singapore, accounts in US dollars and has a large associate income from China. The principal exposure is to the US dollar versus the Chinese renminbi.
- **Technical issues:** the 20% stake owned by BP appears to be a strategic investment, but there are a host of examples where apparently committed involvement has been quickly undone. BP

has been working with CAO for over a decade, allowing it to develop its own risk management policies, which would endure even if BP were no longer a shareholder. Although a technical overhang, if BP were to sell its stake it could improve liquidity. In addition, the company has a controlling state-owned shareholder, which means the minority free float stakeholders have little control on strategic or financial decisions made by the company. In this regard, however, we would note the progressive earnings-related payout ratio, enhanced in 2018, as a sign of consideration for minority shareholders.

- **Political and regulatory risks:** CAO's main business operates in a centrally planned economy, where changes to policy and regulation can be far reaching and imposed quite rapidly. The state clearly regards aviation as a key element of its economic growth plan. China is exploring changes to its jet fuel market to a more demand-driven competitive pricing regime by 2020. CAO currently supplies its imported jet fuel on a cost-plus, fixed-price barrel basis, which could be altered if such a regime were introduced. However, CNAF, CAO's parent company, which grants CAO its jet fuel import licence, owns the refuelling assets and infrastructure at all of China's airports, providing a very high barrier to entry for any new competitors. In addition, the growth of the transportation fuel market in China could lead to demand for more import licences to be awarded. The US administration's policies have an impact on global trade flows and industrial output, which has affected imported supply of oil products.
- **Company-specific risks:** a large part of the company's activity is oil trading, which carries significant risk as the company seeks to fulfil its contracted physical supply obligations. Risk factors can be categorised as market, credit, operational and enterprise. Risk can be to the upside as well as to the downside, although hedging operations are designed to mitigate the volatility and scale. Since 2006, with the help of BP, a robust risk management structure has been formulated, constructed and implemented, with a multi-tiered boardroom to operational-level system of checks, balances and accountability.

Exhibit 8: Financial summary

	US\$m	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		16,268	20,612	20,265	21,385
Cost of Sales		(16,229)	(20,562)	(20,215)	(21,329)
Gross Profit		38.7	50.0	50.6	56.6
EBITDA		23.9	30.9	40.1	47.1
Operating Profit (before amort. and except.)		23.3	30.3	28.9	30.8
Intangible Amortisation		(0.3)	(0.2)	(0.3)	(0.3)
Net income from associates		63.6	66.8	64.2	66.3
Exceptionals		(1.2)	(1.5)	(2.0)	(1.6)
Other		0.0	0.0	0.0	0.0
Operating Profit		85.4	95.3	90.8	95.2
Net Interest		2.1	1.4	5.7	7.1
Profit Before Tax (norm)		88.7	98.2	98.4	103.9
Profit Before Tax (FRS 3)		87.5	96.8	96.5	102.2
Tax		(2.6)	(2.9)	(2.9)	(3.1)
Profit After Tax (norm)		86.1	95.3	95.5	100.8
Profit After Tax (FRS 3)		84.9	93.9	93.6	99.2
Average Number of Shares Outstanding (m)		860.2	860.2	860.2	860.2
EPS - normalised (c)		10.0	11.1	11.1	11.7
EPS - normalised fully diluted (c)		10.0	11.1	11.1	11.7
EPS - (IFRS) (c)		9.9	10.9	10.9	11.5
Dividend per share (c)		3.2	3.2	3.2	3.29
Gross Margin (%)		0.2	0.2	0.2	0.3
EBITDA Margin (%)		0.1	0.2	0.2	0.2
Operating Margin (before GW and except.) (%)		0.1	0.1	0.1	0.1
BALANCE SHEET					
Fixed Assets		327.9	318.4	327.2	307.7
Intangible Assets		1.5	1.7	1.7	1.7
Tangible Assets		5.2	5.2	5.3	5.5
Investments		321.2	311.4	304.6	300.6
Right of use asset				15.6	0.0
Current Assets		1,584.8	1,335.2	1,367.4	1,460.5
Stocks		209.6	110.8	105.6	108.1
Debtors		1,006.8	821.9	783.9	802.4
Cash		300.0	357.7	433.8	503.7
Other		68.3	44.8	44.1	46.3
Current Liabilities		(1,181.2)	(876.4)	(839.2)	(862.6)
Creditors		(1,061.2)	(876.4)	(839.2)	(862.6)
Short term borrowings		(120.0)	0.0	0.0	0.0
Long Term Liabilities		(7.9)	(8.1)	(23.3)	(8.1)
Long term borrowings		0.0	0.0	0.0	0.0
Lease Liabilities				(15.3)	0.0
Other long term liabilities		(7.9)	(8.1)	(8.1)	(8.1)
Net Assets		723.6	769.1	832.1	897.6
CASH FLOW					
Operating Cash Flow		22.5	216.1	116.5	115.4
Net Interest		0.3	2.1	1.4	5.7
Tax		(2.6)	(2.9)	(2.9)	(3.1)
Capex		(0.4)	(1.1)	(1.0)	(1.1)
Acquisitions/disposals		0.0	(7.6)	0.0	0.0
Financing		0.0	0.0	0.0	0.0
Dividends		(27.7)	(29.1)	(27.8)	(31.8)
Other		0.6	0.2	(10.1)	(15.3)
Net Cash Flow		(7.2)	177.6	76.1	69.9
Opening net debt/(cash)		(187.3)	(180.0)	(357.7)	(433.8)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		(0.0)	(0.0)	0.0	0.0
Closing net debt/(cash)		(180.0)	(357.7)	(433.8)	(503.7)

Source: Company reports, Edison Investment Research estimates. Note: IFRS restated for adoption of IFRS 16 from FY19.

General disclaimer and copyright

This report has been commissioned by China Aviation Oil (Singapore) and prepared and issued by Edison, in consideration of a fee payable by China Aviation Oil (Singapore). Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia