# China Aviation Oil (CAO SP)

## 1H26: Misses Expectations Due To Weakness in Business Volume; Recovery Expected in 2H26

## Highlights

- 1H26 revenue and net profit declined 8.8%/17.3% yoy respectively, making up 45%/34% of our full-year forecasts, mainly due to weaker business volumes.
- Stronger contributions from associates, particularly SPIA, helped cushion the weaker core business, with associate earnings rising 67.3% yoy.
- Maintain BUY with a 28% lower target price of S$1.88, rolling over our valuation based to 2027F, and pegged to an unchanged 14.5x 2027F PE.

### 1H26 Results

| Year to 31 Dec (US$m) | 1H25 | 1H26 | yoy% |
|---|---|---|---|
| Total revenue | 8,560.5 | 7,805.1 | (8.8)% |
| Gross profit | 30.4 | 4.9 | (83.8)% |
| Gross margin (%) | 0.35% | 0.06% | (0.29)ppt |
| Share of results of associates | 27.4 | 45.9 | 67.3% |
| Net profit | 50.0 | 41.4 | (17.3)% |
| Net profit margin (%) | 0.58% | 0.53% | (0.5)ppt |

*Source: CAO, UOB Kay Hian*

## Analysis

- **1H26 results miss expectations.** Revenue declined 8.8% yoy to US$7.81b, below expectations and representing 45% of our full-year forecast. This was largely due to lower business volume amid the sudden intensification of the Middle East conflict, partially offset by the increase in revenue caused by higher oil prices. Net profit fell 17.3% yoy to US$41.4m, also below our expectations at 34% of our full-year forecast. The weaker performance stemmed from lower business volumes, alongside higher jet fuel procurement costs and oil price related impairment losses in Asia and the US West Coast, effectively offset by the increase in share of results from associates. Gross profit fell sharply, down 83.8% yoy to US$4.91m, while total expenses rose 9.3% yoy to US$10.8m.
- **Positives from associates.** Share of results from associates surged 67.3% yoy to US$45.9m, led by Shanghai Pudong International Airport Aviation Fuel Supply Company (SPIA), whose contribution jumped 76.0% yoy to US$44.9m on higher refuelling volumes and oil prices. China Aviation Oil (CAO) owns 33% of SPIA. As flight volumes increase amid stronger travel demand across Asia Pacific, alongside ongoing expanding airport capacity, these associates are expected to deliver stronger recurring income, especially for SPIA.

### Key Financials

| Year to 31 Dec (US$m) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 15,519 | 16,440 | 16,522 | 17,195 | 17,899 |
| EBITDA | 49.6 | 70.2 | 26.6 | 47.4 | 66.7 |
| Operating profit | 40.7 | 65.9 | 23.6 | 45.2 | 65.0 |
| Net profit (rep./act.) | 78.1 | 110.6 | 89.8 | 111.9 | 130.9 |
| Net profit (adj.) | 78.1 | 110.6 | 89.8 | 111.9 | 130.9 |
| EPS (US$ cent) | 9.0 | 12.8 | 10.4 | 12.9 | 15.1 |
| PE (x) | 14.2 | 10.0 | 12.3 | 9.9 | 8.5 |
| P/B (x) | 1.1 | 1.0 | 1.0 | 0.9 | 0.9 |
| EV/EBITDA (x) | 8.6 | 6.1 | 16.1 | 9.0 | 6.4 |
| Dividend yield (%) | 2.3 | 3.0 | 3.5 | 4.0 | 4.6 |
| Net margin (%) | 0.5 | 0.7 | 0.5 | 0.7 | 0.7 |
| Net debt/(cash) to equity (%) | (50.7) | (63.8) | (59.6) | (59.1) | (60.2) |
| Interest cover (x) | 57.8 | 79.1 | 27.6 | 49.3 | 69.4 |
| ROE (%) | 8.1 | 10.7 | 8.1 | 9.6 | 10.5 |
| Consensus net profit (US$m) | - | - | 115.5 | 122.0 | 130.0 |
| UOBKH/Consensus (x) | - | - | 0.78 | 0.92 | 1.01 |

*Source: CAO, Bloomberg, UOB Kay Hian*

**Analyst(s)**

Tang Kai Jie
kaijietang@uobkh.com
+65 6590 6624

John Cheong
johncheong@uobkh.com
+65 6590 6623

## BUY (Maintained)

| | |
|---|---|
| Share Price | S$1.63 |
| Target Price | S$1.88 |
| Upside | 15.3% |
| Previous TP | S$2.63 |

### Stock Data

| | |
|---|---|
| Sector | Energy |
| Bloomberg ticker | CAO SP |
| Shares issued (m) | 860.2 |
| Market cap (S$m) | 1,402.1 |
| Market cap (US$m) | 1,098.4 |
| 3-mth avg daily t'over (US$m) | 1.5 |

### Price Performance (%)

| 52-week high/low | | | | S$2.34 /S$1.22 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| 1.9 | (19.7) | (15.1) | 24.4 | (1.8) |

### Major Shareholders (%)

| | |
|---|---|
| China National Aviation Fuel Group | 51.3 |
| BP plc | 20.2 |

### Balance Sheet Metrics

| | |
|---|---|
| FY26 NAV/Share (S$) | 1.31 |
| FY26 Net Cash/ Share (S$) | 0.78 |

### Price Chart


*Source: Bloomberg*

### Company Description

China Aviation Oil supplies jet fuel to foreign and domestic airlines flying through China's airports. The company also trades in other oil products such as fuel oil, gas oil, crude oil, and petrochemical products, including physical and paper swaps, and futures.

- **Balance sheet remains healthy.** As at end-June, CAO maintains a healthy financial position with a strong cash position of US$589m with zero debt. NAV also rose to 126.7 US cents per share as at end-Jun 26 compared to 125.3 US cents per share as at end-Dec 25. This strong balance sheet position also continues to support the potential for more dividend upside for 2026F, with current 2026F yield at around 3.5%.
- **Restructuring completed, synergies still to be unlocked.** In Jul 26, CAO completed the restructuring of its controlling shareholder, CNAF, with Sinopec Group, which now holds an indirect 51.31% stake in CAO. Management flagged no material impact on operations, but sees potential benefits including better access to upstream refinery and supply resources, deeper participation in the international aviation fuel supply chain, and a stronger first mover position in SAF. We view these as longer-term positives for earnings visibility, though a tangible P&L contribution will take time.
- **Continued recovery in flight activities supports jet fuel demand.** CAO's performance continues to benefit from the ongoing recovery in air travel, with China's international outbound flights rebounding to over 90% of 2019 levels as of 2025. Looking ahead, International Air Transport Association (IATA) forecasted that Asia Pacific air passenger volume will rise 5.1% in 2026. The increase in passenger traffic is likely to continue supporting higher jet fuel demand at major airports such as Shanghai Pudong, which saw record-high passenger throughput exceeding 80m in 2025.
- **Oil price volatility cuts both ways.** Following the escalation of the US Israel Iran conflict in late-February, oil prices spiked before easing across Asia and the US West Coast in May and June. With the Middle East situation still fluid, we expect prices to stay volatile into 2H26, which could offer near-term trading opportunities but also add uncertainties. CAO has reiterated it will not engage in short-term speculative trading and will continue to rely on scenario analysis to manage risk under its existing trading approach.
- **Three key positives support the 2H26 outlook.** First, volume is expected to be higher in 2H26 as trading activity normalises. Second, the lifting of export restrictions should ease supply chain constraints and support supply into 2H26. Third, CAO's exposure to SAF has increased approximately 50% yoy, positioning the group to benefit further as SAF adoption accelerates across the aviation industry.

## Valuation/Recommendation

- **Maintain BUY with a lower target price of S$1.88,** implying 15.3% upside. Our target price is pegged to an unchanged 14.5x 2026F PE, +1.0SD above historical averages, which we view as conservative, as it remains significantly below the peers' average of 19.3x 2026F PE.
- **Earnings recovery.** We expect earnings recovery in 2H26, supported by the normalisation of jet fuel volumes after the war, higher contributions from associates, and expanding margins from the growing SAF segment. The company's solid balance sheet and S$589m net cash position (42% of market cap) also provide ample flexibility for growth initiatives and potential capital returns.

## Earnings Revision/Risk

- We lower our 2026-28F revenue forecasts by 4% and lower our 2026-28F earnings forecast by 26%/11%/1%, to take into account a weaker 1H26 due to the impact on business volume due to the war. Our earnings decline is partially offset by stronger contributions from associates, which we adjusted higher by 18% across 2026-28F.

## Share Price Catalyst

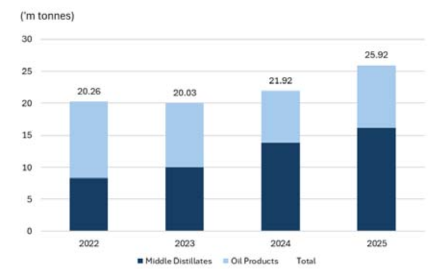
- Continued growth of travel activities at Shanghai Pudong International Airport.
- Synergies with parent company following the recent restructuring.
- Deployment of excess cash to drive growth or a higher 2026 dividend payout.

### Revenue Breakdown (2025-28F)

| (US$'m) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Middle distillates | 11,377 | 11,434 | 12,005 | 12,606 |
| Other oil products | 5,063 | 5,088 | 5,190 | 5,294 |
| Total | 16,440 | 16,522 | 17,195 | 17,899 |

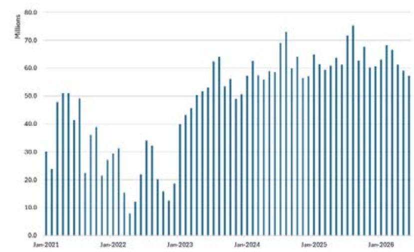
*Source: CAO, UOB Kay Hian*

### Growth In Trading Volume



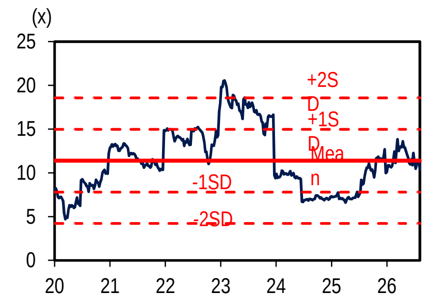

*Source: Bloomberg, UOB Kay Hian*

### Chinese Airlines Air Passenger Volume



*Source: Bloomberg, UOB Kay Hian*

### Historical PE Band




*Source: CAO, Bloomberg, UOB Kay Hian*

## Profit & loss

| Year to 31 Dec (US$m) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Net turnover | 16,439.6 | 16,521.8 | 17,195.2 | 17,899.3 |
| EBITDA | 70.2 | 26.6 | 47.4 | 66.7 |
| Deprec. & amort. | 4.3 | 2.9 | 2.2 | 1.7 |
| EBIT | 65.9 | 23.6 | 45.2 | 65.0 |
| Total other non-operating income | 0.0 | 0.0 | 0.0 | 0.0 |
| Associate contributions | 60.2 | 78.3 | 81.4 | 83.0 |
| Net interest income/(expense) | (0.9) | (1.0) | (1.0) | (1.0) |
| Pre-tax profit | 125.2 | 100.9 | 125.7 | 147.1 |
| Tax | (14.6) | (11.1) | (13.8) | (16.2) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 110.6 | 89.8 | 111.9 | 130.9 |
| Net profit (adj.) | 110.6 | 89.8 | 111.9 | 130.9 |

## Cash flow

| Year to 31 Dec (US$m) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Operating | 150.5 | (46.9) | (0.9) | 23.4 |
| Pre-tax profit | 125.2 | 100.9 | 125.7 | 147.1 |
| Tax | (20.1) | (22.2) | (27.6) | (32.4) |
| Deprec. & amort. | 4.3 | 2.9 | 2.2 | 1.7 |
| Associates | (60.2) | (78.3) | (81.4) | (83.0) |
| Working capital changes | 99.0 | (45.1) | (16.6) | (8.4) |
| Non-cash items | 17.5 | 11.1 | 13.8 | 16.2 |
| Other operating cashflows | (15.2) | (16.3) | (17.0) | (17.7) |
| Investing | 62.6 | 69.6 | 77.1 | 86.2 |
| Capex (maintenance) | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment | 14.9 | 16.3 | 17.0 | 17.7 |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 47.7 | 53.2 | 60.1 | 68.6 |
| Financing | (26.4) | (34.1) | (39.2) | (45.1) |
| Dividend payments | (24.4) | (34.1) | (39.2) | (45.1) |
| Proceeds from borrowings | 97.0 | 0.0 | 0.0 | 0.0 |
| Loan repayment | (97.0) | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (2.1) | 0.0 | 0.0 | 0.0 |
| Net cash inflow (outflow) | 186.7 | (11.4) | 37.0 | 64.6 |
| Beginning cash & cash equivalent | 500.3 | 687.0 | 675.6 | 712.5 |
| Changes due to forex impact | 0.0 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 687.0 | 675.6 | 712.5 | 777.1 |

## Balance Sheet

| Year to 31 Dec (US$m) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 17.7 | 15.4 | 13.8 | 12.7 |
| Other LT assets | 288.9 | 313.3 | 334.0 | 347.9 |
| Cash/ST investment | 687.0 | 675.6 | 712.5 | 777.1 |
| Other current assets | 1,274.0 | 1,241.9 | 1,301.0 | 1,354.0 |
| Total assets | 2,267.6 | 2,246.2 | 2,361.3 | 2,491.6 |
| ST debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Other current liabilities | 1,171.9 | 1,094.8 | 1,137.2 | 1,181.8 |
| LT debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Other LT liabilities | 14.3 | 14.3 | 14.3 | 14.3 |
| Shareholders' equity | 1,077.6 | 1,133.4 | 1,206.0 | 1,291.8 |
| Minority interest | 3.8 | 3.8 | 3.8 | 3.8 |
| Total liabilities & equity | 2,267.6 | 2,246.2 | 2,361.3 | 2,491.6 |

## Key Metric

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Profitability | | | | |
| EBITDA margin | 0.4 | 0.2 | 0.3 | 0.4 |
| Pre-tax margin | 0.8 | 0.6 | 0.7 | 0.8 |
| Net margin | 0.7 | 0.5 | 0.7 | 0.7 |
| ROA | 5.2 | 4.0 | 4.9 | 5.4 |
| ROE | 10.7 | 8.1 | 9.6 | 10.5 |
| | | | | |
| Growth | | | | |
| Turnover | 5.9 | 0.5 | 4.1 | 4.1 |
| EBITDA | 41.7 | (62.2) | 78.6 | 40.6 |
| Pre-tax profit | 46.1 | (19.4) | 24.5 | 17.0 |
| Net profit | 41.7 | (18.8) | 24.5 | 17.0 |
| Net profit (adj.) | 41.7 | (18.8) | 24.5 | 17.0 |
| EPS | 41.7 | (18.8) | 24.5 | 17.0 |
| | | | | |
| 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 | (63.8) | (59.6) | (59.1) | (60.2) |
| Interest cover (x) | 79.1 | 27.6 | 49.3 | 69.4 |