SINGAPORE EQUITY RESEARCH

China Aviation Oil (Singapore) Corp

Refer to important disclosures at the end of this report

DBS Group Research | 04 November 2025

From cash-rich to shareholder-centric

Investment Overview

CAO is Asia's largest physical supplier of jet fuel and the key importer for China's civil aviation sector, backed by its parent, China National Aviation Fuel Group (CNAF). CNAF's role as China's exclusive aviation-fuel distributor grants CAO privileged access to the country's import market and a secure demand base. The company's strength lies in its integrated network spanning procurement, logistics, and infrastructure, supported by associates such as SPIA and OKYC. The company has also emerged as an early adopter of sustainable aviation fuel (SAF) in Europe and parts of Asia, effectively leveraging its global supply expertise to meet the growing demand from airlines for lower-carbon fuel solutions.

Multi-year earnings growth, supported by improving market conditions and resilient global air travel demand growth. We forecast a mid-teens CAGR in net profit between FY24-27F, subsequently moderating to high single digits between FY25-27F. This growth will primarily be driven by mid-single-digit increases in fuel volumes supplied, a gradual improvement in trading margins as backwardation narrows and a mild contango potentially returns, and persistent regional arbitrage windows. We also expect a steady rebound in associate contributions, although SPIA's earnings will remain constrained by ongoing US flight quotas.

Capital management presents a key re-rating catalyst. CAO's substantial net cash position, equivalent to nearly 60% of its market capitalisation, indicates capital inefficiency. Given CAO's steady cash flow generation and asset-light strategy, we believe the group can sustain a 60%-70% dividend payout, implying a yield of 7%-9%. Furthermore, there is potential for even higher payouts to strategically reduce its excess cash position. A more explicit and firm commitment to shareholder returns would unlock significant value and help narrow CAO's valuation discount relative to its global peers.

Re-initiate coverage with BUY and a TP of SGD1.75, based on 10.8x FY26F EPS (+1SD above historical average). We see re-rating potential driven by enhanced earnings visibility, robust capital management catalysts, and an undemanding valuation.

Risks

Inventory losses amid price volatility, sustained/deeper backwardation limiting trading profitability, while inefficient capital management could prolong CAO's valuation discount against peers.

BUY

Last Traded Price: SGD1.30
Price Target 12-mth: SGD1.75

Analyst

Jason Sum | jasonsum@dbs.com

What's New

- Bloomberg reported Sinopec may merge with CNAF, and market rumours suggest Sinopec could also acquire BP's 20% stake in CAO.
- Stronger supply chain integration and SAF synergies are expected, though we do not see any immediate impact on CAO's operations.
- CAO trades slightly below book at about 0.98x P/BV, and both the merger and a BP stake sale (if it occurs) would likely occur at a premium, supporting a re-rating.
- Maintain BUY with TP of SGD1.75

Key Financial Data (FY Dec)

Bloomberg Ticker	CAO SP
Sector	Energy
Market Cap (USDbn)	0.9
3m Avg. Daily Val (USDmn)	1.6

Closing Price as of 23/10/2025

Source: Twelve Data, DBS, Visible Alpha

China Aviation Oil (Singapore) Corp Share Price

Source: Twelve Data

What's New

03 Nov 2025

Sinopec–CNAF merger likely to have no near-term operational impact on CAO but could support multiple expansion

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- Maintain BUY with TP of SGD1.75

What happened?

Bloomberg reported that Sinopec is exploring a potential merger with China National Aviation Fuel Group (CNAF), the state-owned parent (51% stake) of China Aviation Oil (CAO). There are also market rumours that Sinopec could acquire BP's 20% stake in CAO, as Elliott Investment Management's activism at BP has increased pressure on the oil major to focus on capital discipline and divest non-core assets. Sinopec and BP already compete in refining, trading, and downstream distribution, making joint ownership of CAO potentially conflicting and increasing the likelihood that Sinopec would seek full control. CNAF is China's exclusive aviation fuel distributor, while CAO serves as its overseas procurement and trading arm, sourcing jet fuel globally and supplying CNAF's domestic network. If completed, the merger would consolidate China's aviation-fuel value chain by integrating Sinopec's refining capacity, CAO's import and trading operations, and CNAF's airport distribution network under one structure.

Our views

Operationally, CAO could benefit from closer alignment with Sinopec"s refining and export system, which would improve supply reliability, economies of scale, and secure its access to sustainable aviation fuel (SAF) capacity. While we do not expect any immediate impact on CAO's operations, the merger could strengthen CAO's long-term role as China's international aviation fuel trading platform. Sinopec already operates Unipec, its global trading arm, and is likely to maintain separate mandates to avoid overlap. Unipec would continue managing large-scale crude and refined product trading, while CAO would remain focused on aviation fuel procurement and supply-chain optimisation. Keeping these mandates distinct allows Sinopec to combine Unipec's scale with CAO's niche expertise without disrupting counterparties.

From a market perspective, the transaction multiple will be key. Despite the recent share price rally, CAO currently trades slightly below book at around 0.98x P/BV, and given Beijing's reluctance to restructure state assets below book value, the merger is likely to be executed at a premium, which could drive near-term multiple expansion. Similarly, if Sinopec were to acquire BP's 20% stake, that transaction would also likely occur at a premium, reflecting BP's position as a strategic shareholder. While losing BP would remove an important international partner, we believe CAO will ultimately benefit from Sinopec's scale, network, and growing SAF capacity. Additionally, over time, Sinopec's oversight could also support stronger capital discipline and higher dividends, consistent with broader SOE reform objectives aimed at enhancing shareholder returns.

Principal Share Price Drivers

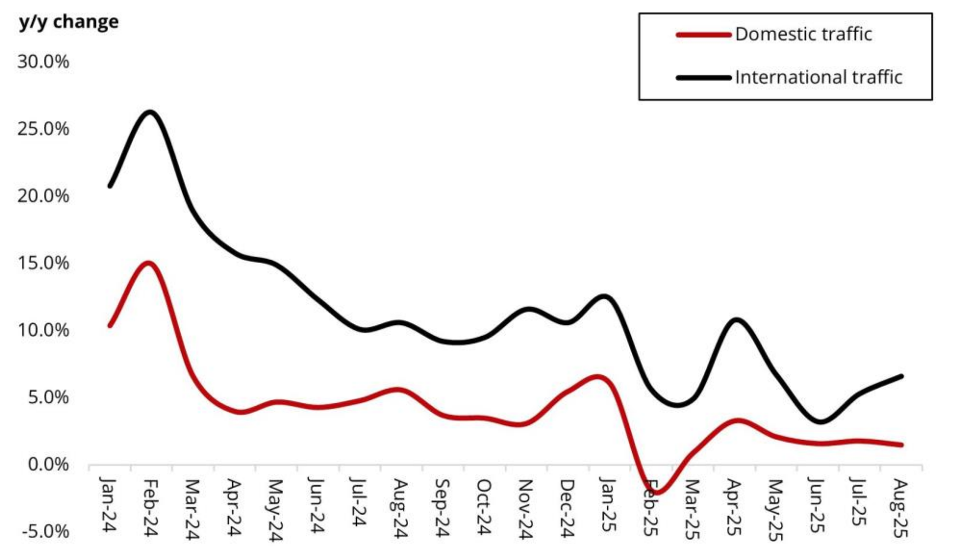
Supply and trading volumes

Solid air travel demand to support mid-single-digit growth in volumes supplied over the next few years

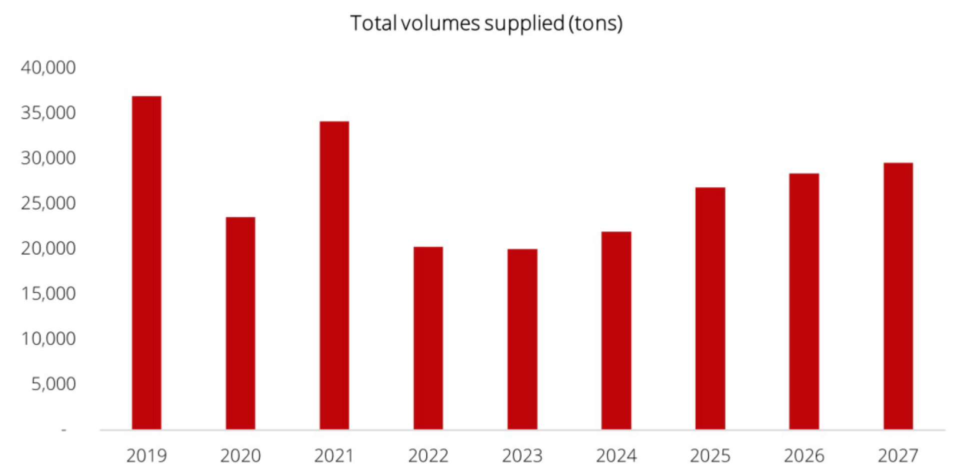
CAO"s enhanced risk management framework has sharpened its focus on controlled, higher-margin physical supply transactions instead of high-turnover trading. The company now limits speculative exposure to roughly 10%-20% unhedged, with most volumes either contracted or hedged. This approach has enabled CAO to concentrate on trades where it holds logistical and contractual advantages, resulting in improved execution and reduced unit profitability volatility. Despite FY24 volumes supplied remaining 41% below FY19 levels, CAO's gross profit per tonne in FY22–24 exceeded FY19, reflecting more disciplined trade selection and stronger risk-adjusted returns. This improvement was achieved despite steep backwardation in the oil markets following the Russia–Ukraine conflict in 2022, as the company successfully capitalised on regional arbitrage opportunities to offset the negative impact on storage and time-spread trades.

Resilient air travel demand to underpin 5–6% volume growth over FY26–27F. Despite macroeconomic headwinds this year, global air travel demand has remained firm, with airline forward bookings staying robust, supported by strong premium travel demand. We assume mid-single-digit annual growth in volumes supplied, in line with the sustained expansion in global air travel. Growth will be driven primarily by Asia, led by China and neighbouring markets, where air traffic continues to outpace global averages.

Historical air travel demand growth by segment



Sustained growth in total volumes supplied



Favourable market conditions to support gradual expansion in gross profit/ton

CAO's trading optimisation opportunities are driven by forward price structures and regional pricing differentials.

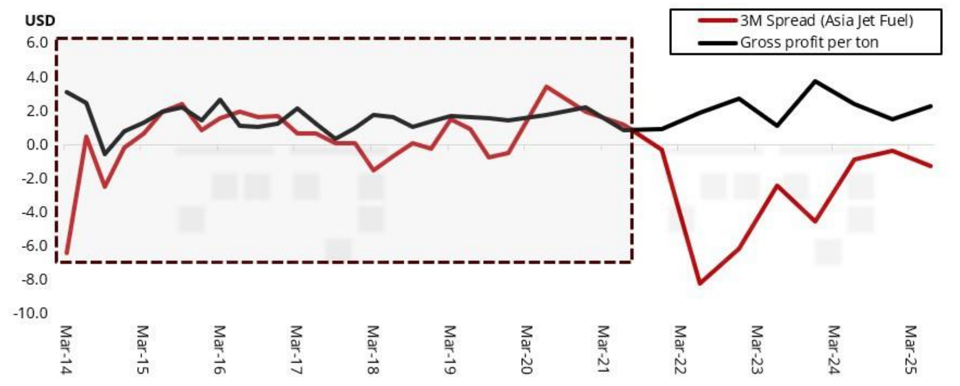
Market structures becoming increasingly favourable for CAO, as easing backwardation and persistently wide regional price differentials create a more supportive trading environment for the next two years. While the Brent crude oil market remains in backwardation, its structure has become progressively shallower due to supply consistently outpacing demand. We anticipate a reversion to mild contango by 2026, primarily driven by an expanding global surplus and the gradual unwinding of geopolitical risk premiums that previously inflated near-term prices. Over the next five quarters, crude demand growth is projected to moderate, concurrently with an acceleration in supply growth, leading to a surplus and inventory build of 1.5-2.5mmbpd between 4Q25 and 4Q26. Additionally, with geopolitical tensions in the Middle East abating and a potential de-escalation in the Russia-Ukraine conflict, the forward curve should continue to flatten as inventories accumulate.

Backwardation in the jet fuel market is expected to become progressively shallower over the next two years. This shift will be driven by a moderation in global air travel demand growth, continuous improvements in fleet fuel efficiency, and the dissipation of geopolitical risk premiums, collectively leading to a more balanced supply-demand dynamic. As supply chain disruptions ease, airlines are now receiving aircraft at a faster pace, integrating newer and more fuel-efficient models after several years of relying on older planes during production delays. This trend should gradually temper overall fuel consumption even as overall flight volumes continue to rise.

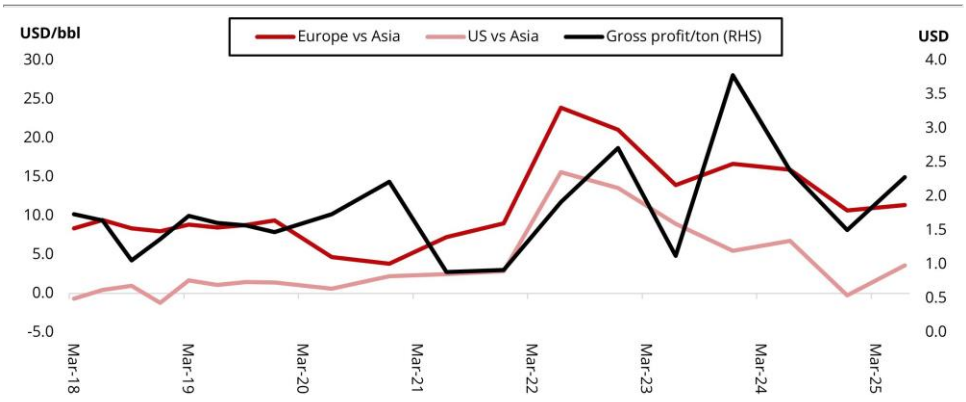
Regional price gaps are likely to remain wide over the longer term, underpinned by structural supply and demand asymmetries. Jet fuel demand is expected to maintain a steady growth trajectory, unlike gasoline and diesel consumption, which are projected to peak as electrification becomes more widespread. This divergence will widen regional disparities, as refining capacity in North America and Europe has been contracting and is expected to decline further, while most new capacity additions are concentrated in Asia. Meanwhile, air travel in Europe and North America continues to expand, albeit at a slower pace, ensuring these markets remain structurally dependent on imported supply. Physical constraints also limit how much refineries can shift yields from diesel to jet fuel, given process design and quality specifications, effectively capping supply-side flexibility. As a result, regional price differentials should stay wider than historical averages, while freight rates continue to normalise as Red Sea disruptions ease, keeping arbitrage windows open and allowing CAO to capitalise on persistent cross-regional pricing inefficiencies.

We expect a gradual uptick in gross profit per tonne through FY27F, supported by a more favourable market structure, with narrower backwardation in the near term and a potential reversion to mild contango into FY26F. This should reduce carry losses and reopen storage and time-spread opportunities. Easing Red Sea disruptions and lower freight costs will also improve trading economics, while regional price differentials remain wider than historical norms, sustaining cross-regional arbitrage opportunities.

CAO's unit profitability typically tracks the degree of contango in oil markets



Wider regional jet fuel spreads also support trading profitability



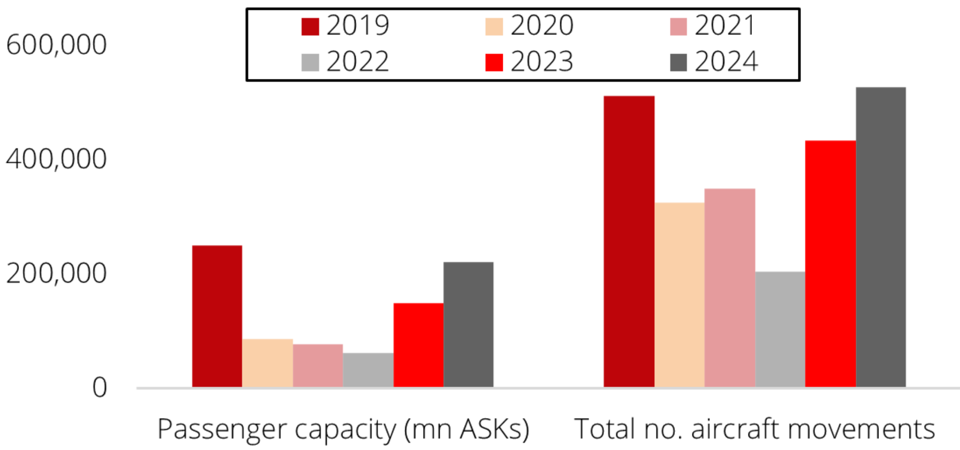
Share of profits from associates/JVs to steadily increase

Sustained rebound in international flights at Shanghai Pudong International Airport to boost earnings contribution, though recovery will be capped by US flight quotas

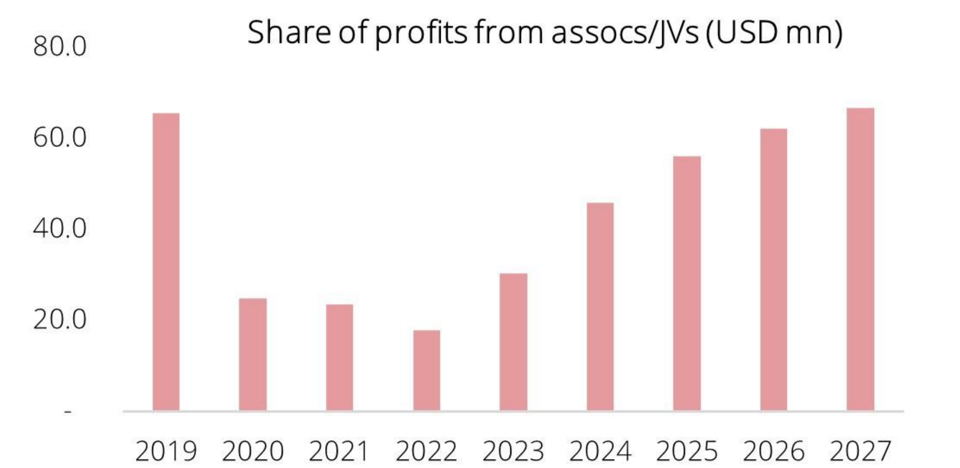
Contributions from associates and joint ventures, particularly SPIA, is expected to recover steadily. While passenger traffic at Shanghai Pudong International Airport has exceeded 2019 levels, jet fuel consumption remains below pre-pandemic levels due to a shift in flight mix, with fewer widebody and long-haul operations which tend to be more fuel-intensive on a unit basis.

Hence, we conservatively model SPIA's share of profit to return to pre-pandemic levels only by FY27F, given current flight quotas on routes to the US. There is upside if China's international connectivity continues to improve, notably following the recent resumption of flights to India and higher frequencies to further destinations in other regions like Europe.

SPIA's pax capacity (in ASKs) has yet to fully recover



Share of profits from associates and JVs to only return to 2019 levels in 2027



Company profile

China Aviation Oil (Singapore) Corporation Ltd ("CAO") is the largest physical jet fuel trader in the Asia Pacific region and the key supplier of imported jet fuel to China's civil aviation industry. It also has investments in oil-related assets, the most significant of which is a 33% stake in the sole jet refueller at Shanghai Pudong International Airport known as Shanghai Pudong International Airport Aviation Fuel Supply Company.

In 2024, profit contribution from associate SPIA (Shanghai Pudong International Airport Fuel Aviation), which is the exclusive jet refueller at Shanghai Pudong International Airport, accounted for 53% of CAO's total net profit while its investments in other oil related associate companies made up 2% of total net profit. Meanwhile, we estimate that 80%-90% of CAO's gross profit in 2024 was derived from supply of imported jet fuel to China while the remaining is from jet fuel supply and trading, and trading of other oil products.

CAO's parent company, China National Aviation Fuel Group Limited ("CNAF") is a large State-owned enterprise in China. It is the largest aviation transportation logistics service provider in China, with a diverse portfolio of businesses, comprising aviation fuel distribution, storage and refuelling services at over 210 airports in China. CNAF holds about 51% of the total issued shares of CAO. Meanwhile, BP investments Asia Limited, a subsidiary of oil major, BP, is a strategic investor of CAO, holding 20% of the total issued shares of CAO.

See China Aviation Oil: Propelling towards full potential for our initiation report on the company.

Business Segments

- Revenue Drivers. The principal activities of CAO are jet fuel supply and trading, trading or other oil products and investments in oil-related assets. Leveraging on the network of its parent, China National Aviation Fuel Group Corporation (CNAF) – a state-owned enterprise and the largest aviation transportation logistics services provider in the PRC – China Aviation Oil (Singapore) Corporation Ltd (CAO) has monopoly in the supply of imported jet fuel (or bonded jet fuel) to 17 international airports in China. With the backing of its parent, CAO has also expanded its business to the marketing and supply of jet fuel to airline companies at international airports outside of the PRC, across Asia Pacific, North America, Europe and the Middle East. In 2024, the total supply and trading volume of CAO was 13.8m tonnes of middle distillates (including jet fuel) and 8.1m tonnes of other oil products.
- Cost Structure. The company operates on a cost-plus model for its bonded jet fuel import business into China and seeks to augment its margins for its supply business of bonded jet fuel into China and other regions through trading activities.
- Competitive Positioning. CAO is the exclusive importer of bonded jet fuel into China and has a 33% stake in the only jet refueller at Shanghai Pudong International Airport.

Operating Assets:

CAO operates an asset-light business model, which allows it to generate strong returns with minimal capital intensity. As of end-2024, the company held fixed assets of only USD 17 mn, reflecting its focus on trading, supply optimisation, and strategic investments rather than heavy infrastructure ownership. Most of CAO's asset base comprises working capital and equity stakes in associates and joint ventures, which together provide stable earnings contributions and operational leverage. Key investments include its 33% stake in Shanghai Pudong International Airport Aviation Fuel Supply Company (SPIA), a refuelling joint venture at one of China's busiest airports, and its 26% interest in Oilhub Korea Yeosu (OKYC), a major regional storage and blending facility. These assets underpin CAO's integrated supply chain while reinforcing its ability to capture trading and arbitrage opportunities across regional markets.

Balance Sheet:

CAO maintains a substantial net-cash position, providing both balance-sheet resilience and strategic flexibility. As of end-2024, net cash stood at approximately

USD 520 mn, accounting for around 60% of its current market capitalisation. This strong liquidity base positions CAO to pursue several strategic options, including higher shareholder distributions or selective investments in complementary assets such as upstream SAF production and downstream logistics infrastructure. Given its asset-light operations, steady operating cash flows, and dividend income from associates, we believe CAO can sustain payout ratios of 70–80%, supporting yields of around 8–11% while maintaining a robust balance sheet.

Corporate Governance:

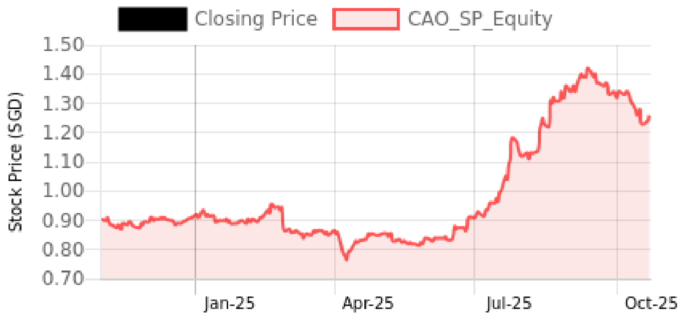
Benchmarked to global best practices. As a result of substantial losses from speculative bets on oil price in 2004, CAO underwent a debt restructuring plan in 2005 with the help of new equity from its parent CNAF, BP and Temasek, and by 2007 successfully completed and terminated its debt repayment scheme. Following the speculative losses, there was a complete overhaul of the management team, which included members of the Special Task Force as well as individuals who were seconded from BP. Today, there is a clear division of responsibilities between the leadership of the Board and the executives responsible for the management of the business. Separately, Independent Directors currently constitute one-third of the Board, while BP is represented by two out of nine seats. Reconstitution of the company's policies and risk management system. After coming on board in end-2005, strategic partner, BP, provided both training and risk management services to CAO. The company subsequently revamped its risk management process and benchmarked it against BP's - which is ranked among the best practices adopted by top-tier international energy trading firms globally.

CAO currently adopts a three-tier management control infrastructure, with the Risk Management Committee at the Board level, the Company Risk Meeting at the management level, and the Risk Management Department at the operational level. We believe that this robust risk framework allows the group to strike a balance between maintaining effective controls over key risk indicators and retaining flexibility in providing timely support to trading counter-parties to drive prudent growth.

Segmental Breakdown

FY Dec	2023A	2024A	2025F	2026F	2027F
Revenues (USD mn)					
Middle distillates	8,694	10,696	10,677	11,124	11,538
Other oil products	5,736	4,822	6,017	5,979	6,083
Total	**14,430**	**15,519**	**16,694**	**17,103**	**17,621**
Gross profit per ton (USD mn)					
Middle distillates	4.5	3.0	3.5	3.7	3.8
Other oil products	0.6	0.1	0.2	0.3	0.3
Total	**2.5**	**1.9**	**2.1**	**2.3**	**2.4**

Target Price & Ratings History - China Aviation Oil (Singapore) Corp (CAO_SP_Equity)



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1	28 Oct'25	1.32	1.75	BUY

Source: DBS
Analyst: Jason Sum

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Sources for all charts and tables are DBS unless otherwise specified.

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