国泰君安证券 GUOTAI JUNAN SECURITIES

Company Report: Sinotrans Shipping (00368 HK)

公司报告：中外运航运 (00368 HK)

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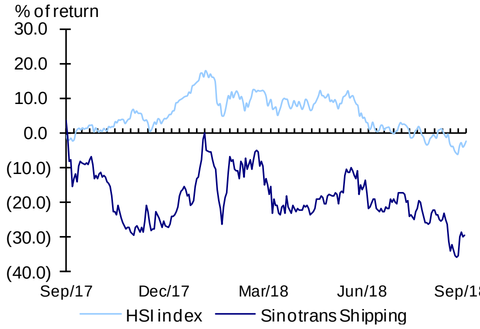
Privatization amid Ongoing Recovery, Maintain "Accumulate"

复苏在途，计划私有化，维持“收集”

- **Privatization planned:** In accordance with SASAC rules and the Company's valuation in recent years, we estimate 0.9x-1.0x acquisition PBR for the privatization of Sinotrans Shipping, which corresponds to approx. 100% upward price potential. We await further disclosure of details.
- **Operating strategy in 1H18 was unexpectedly cautious.** The Company's 1H18 revenue declined 0.7% YoY to US$497 mn due to less dry bulk shipping capacity in control, yet shareholders' profit surged 399.85% YoY to US$40.018 mn amid effective cost control. The price of 70% of self-owned vessels will be locked in in 2H18 to secure stable margins. Sino-U.S trade tension will have limited impact on dry bulk profitability.
- **Improving capacity structure with possible higher-than-expected demand in 2H18.** Projected supply/ demand growth has been revised to 1.7%/ 3.2% for 2018. Average grain shipping distance might rise. Iron ore import is expected to stay robust amid heating housing construction; we estimate 2018 dry bulk revenue to slightly decline by 2.2% YoY.
- **Container business gradually forming into good shape.** The Company operates intra-Asia routes only; volume has been stable due to complimentary features of trade lines. 1H18 average box price rose 10.1% YoY, and we expect container segment revenue to grow 9.7% YoY in 2018.
- **Adjust TP to HK$2.22 and maintain "Accumulate".** LNG JV may provide stable shared profit of US$10 mn, US$23 mn, US$30 mn in 2018-2020, respectively, given carriers' delivery schedule. The Company's valuation has a high safety margin against its PBR. Our TP (without considering effects of the possible privatization) reflects 0.60x/ 0.58x/ 0.55x 2018-2020 PBR.
- **公司计划私有化:**综合国资委规则和公司近年估值水平来分析，我们预测中外运航运的收购价将介于 0.9-1.0 倍市净率，对应约 100%的股价上升空间。更多细节仍待公司公告披露。
- **上半年经营策略超预期地谨慎。**因可控运力收缩，收入同比减少 0.7%至 4.97 亿美元，受益于有效成本管控，股东净利同比升 399.85%至 4,001.8 万美元。展望 2018 下半年，公司已将 70%的自有船锁定价格至年底，以确保稳定收益。中美贸易战的胶着不会对干散分部盈利产生较大影响。
- **下半年干散供需结构继续改善叠加下半年需求端潜在超预期。**2018 年干散供需预测值已调整至 1.7%/3.2%。平均运距或有可能加长。国内房地产开工加速，铁矿石进口有望维持强势，我们预计公司 2018 全年干散收入将小幅同比减少 2.2%。
- **集运分部景气度逐步向好。**公司仅经营亚洲区域内航线；因货源互补型，集运箱量一直较稳。上半年集运单箱收入同比升 10.1%，我们预计公司 2018 年集运收入同比上升 9.7%。
- **调整目标价至 2.22 港元并维持“收集”。**据船舶交付计划 LNG 有望在 2018-2020 年贡献1,000 万、2,300 万和 3,000 万美元利润。考虑较低市净率，公司股价具备较高安全边际。我们的目标价(不考虑私有化)对应 0.60 倍、0.58 倍以及 0.55 倍的 2018 至 2020 年市净率。

Rating:	**Accumulate** Maintained
评级：	**收集** (维持)
6-18m TP目标价:	**HK$2.22**
Revised from 原目标价:	HK$2.36
Share price 股价:	HK$1.810

Stock performance
股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(8.1)	(15.4)	(30.4)
Rel. % to HS Index 相对恒指变动 %	(8.8)	(10.8)	(29.8)
Avg. Share price(HK$) 平均股价（港元）	1.8	2.0	2.1

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (US$ m)	Net Profit 股东净利 (US$ m)	EPS 每股净利 (US$)	EPS 每股净利变动 (△ %)	PER 市盈率 (x)	BPS 每股净资产 (US$)	PBR 市净率 (x)	DPS 每股股息 (US$)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2016A	841	(230)	(0.058)	n.a.	(4.0)	0.448	0.5	0.005	2.2	(12.0)
2017A	1,006	32	0.008	n.a.	29.0	0.455	0.5	0.004	1.7	1.8
2018F	1,046	95	0.024	200.0	9.6	0.473	0.5	0.007	3.1	5.1
2019F	1,154	113	0.028	16.7	8.2	0.491	0.5	0.008	3.7	5.9
2020F	1,252	125	0.031	10.7	7.4	0.510	0.5	0.009	4.1	6.2

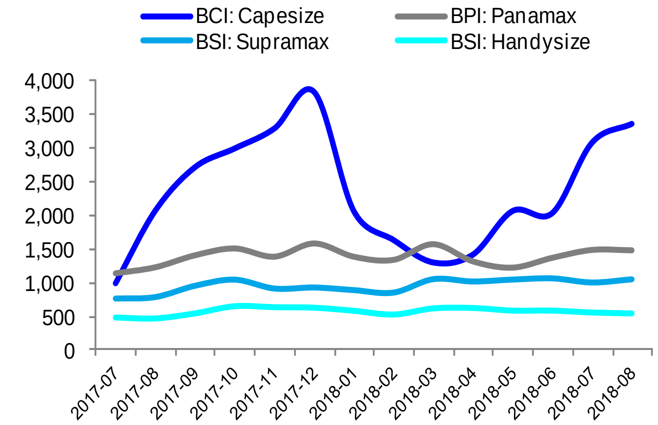
Shares in issue (m) 总股数 (m)	3,992.1	Major shareholder 大股东	Sinotrans & CSC 68.2%
Market cap. (HK$ m) 市值 (HK$ m)	7,225.7	Free float (%) 自由流通比率 (%)	31.8
3 month average vol. 3 个月平均成交股数 ('000)	3,856.7	FY18 Net gearing (%) FY18 净负债/股东资金 (%)	net cash
52 Weeks high/low (HK$) 52 周高/低 (HK$)	2.730 / 1.580	FY18 Est. NAV (HK$) FY18 每股估值（港元）	3.0

Source: the Company, Guotai Junan International.

Plans to go private. On 18 September 2018, Sinotrans Shipping (00368 HK, the "Company") requested a halt to trading the Company's shares on the HKEx starting 1:00p.m. that day amid possible privatization. As we know, Sinotrans Shipping's ultimate parent company China Merchants Group ("CMG") owns two listed shipping companies (Sinotrans Shipping and China Merchants Energy Shipping (601872 SH, "CMES")) that engages in dry bulk shipping. **The privatization could take two steps:** Firstly, CMG might acquire the entire shareholding of Sinotrans Shipping. Secondly, CMES may issue shares or use cash to buy related bulk shipping assets from CMG. Unlike COSCO Shipping Group, which has specialized divisions of various fleets, CMES is moving towards the path of becoming a comprehensive shipping company. In addition to bulk cargo transportation such as oil products and iron ore, CMES may be involved in automobile transportation and special cargo transportation business in the future. There has been no precedent for delisting and reorganizing state-owned shipping companies, and it's worth noting the pricing of state-owned assets in accordance with the SASAC ("国务院国有资产监督委员会") usually cannot be lower than the acquired target's book value (1.0x PBR). However, the Company's PBR has been trading at less than 1.0x PBR for a long time. In this special case, CMG's valuation on Sinotrans Shipping's book value might be less than 1.0x. Details of the acquisition awaits further disclosure. With a reasonable 0.9x-1.0x PBR, Sinotrans Shipping's share price approximately corresponds to HK$3.42-HK$3.80, with 98%-109% (100% on average) upward potential.

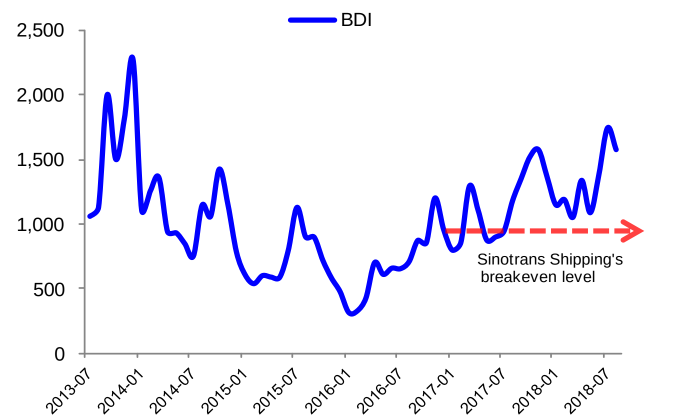
The Company's 1H18 operations strategy was conservative. For 1H18, Sinotrans Shipping recorded total revenue of US$497.002 mn, slightly down 0.7% YoY, mainly due to reductions in dry bulk capacity. Shareholders' profit surged 399.85% YoY to US$40.018 mn, mainly driven by less operating cost due to a cut in fleet capacity, as well as investment income contributed from the Yamal LNG joint venture (JV) project. Overall, the global dry bulk and container shipping market has been gradually bottoming out. BDI is still in its early stage of recovery amid external pressure from the Sino-U.S. trade war. Overall, we believe Sinotrans Shipping's conservative operating strategy to be on the right track as external conditions (especially the Sino-U.S. trade dispute) remain vague.

Figure-1: BDI Component Indexes Performance



Source: The Baltic Exchange, Guotai Junan International.

Figure-2: BDI and the Company's Breakeven Level



Source: The Baltic Exchange, the Company, Guotai Junan International.

Still a cautious planner: Sinotrans Shipping initiated dry bulk cost control in 1H18. Segmental revenue declined 12.1% YoY to US$211.8 mn in 1H18, missing our expectation. After January 2018, the number of dry bulk vessels that was leased by Sinotrans Shipping decreased by 20 vessels, while corresponding scale of chartered-in dry bulk shipping capacity decreased by 1,508 deadweight tonnes (DWT), down 46.1%. Presumably, the Company's judgment on Sino-U.S. trade friction had been conservative in 1H18, while tensions had not escalated. Meanwhile, the average age of self-owned vessels decreased from 6.2 years by the end of 2017 to 6.0 years by 1H18, indicating high operating efficiency while optimizing its fleet portfolio. Average daily charter hire/ time charter equivalent (TCE) rate of self-owned vessels was US$12,430, up 30.65% YoY. By July 2018, Sinotrans Shipping's dry bulk fleet DWT capacity totaled 5.187 mn tons. Of which, 33.9% capacity was typed as chartered-in vessels. For the remaining 70% of self-owned vessels, Sinotrans Shipping expected the price of 70% of them to be locked in in 2H18. Especially for Capesize and Panamax type ships, the Company expects price to be locked in at over 80% ratio for large vessels, roughly corresponding to 1,768 of the BCI. From the management's view, locked-in freights could guarantee stable profit margins amid possible freight volatility in 2H18. We believe that despite being cautious, the strategy could secure stable margins in 2H18. The Company's average daily TCE in 1H18 was 10.0% higher than the spot market average. So far, Sinotrans Shipping's dry bulk operating structure and strategies have been forward-looking, and we expect 2018 revenue of the dry bulk segment to drop 2.2% YoY amid shifting operating strategy to rent fewer vessels.

Table-1: Dry Bulk Fleet Delivery and Capacity Breakdown of Sinotrans Shipping as at July 31, 2018

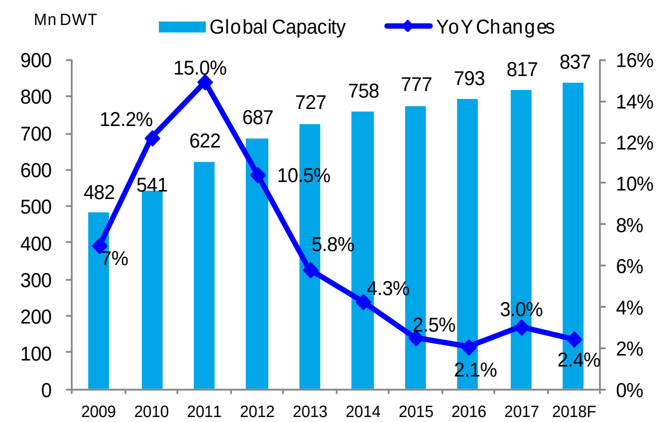
Sinotrans Shipping's Fleet:	Self-owned			Chartered-in			Controlled Vessels			Orderbook
	No.	DWT('000)	TEU	No.	DWT('000)	TEU	No.	DWT ('000)	TEU	
Dry Bulk Carriers	38	3,427	-	25	1,760	-	63	5,187	-	3
Container vessels	14	221	16,733	17	366	26,019	31	587	42,752	0
LNG	2	192	-	-	-	-	2	192	-	3
Total vessels	**54**	**3,840**	**16,733**	**42**	**2,126**	**26,019**	**96**	**5,966**	**42,752**	**6**

Source: the Company, Guotai Junan International.

The market is over-concerned on the future volatility of China's grain (especially soybeans) food import. U.S-to-China bound routes account for about 15% of Sinotrans Shipping's projected 2018 grain transportation volume, while the weight is relatively small. Total domestic soybean import was 95.56 mn tons in 2017 (up 14.81% YoY). In which, the U.S. accounted for 34.19% of China's soybean import volume (75% of the total 2017 U.S. soybean export). According to judgments from the major state-owned food importer COFCO (中粮集团), if China suspends U.S soybean imports starting 3Q18, the projected transferred U.S. soybean import demand gap could reach 40 mn tons for 2018. While Sino-U.S. trade disputes continue to intensify, China might really cut its U.S soybean imports in 3Q18 and beyond. For now, it's likely for China to opt Brazil as the only main soybean exporter in 2H18; corresponding distance of shipping lines will increase, which may indirectly benefit long-term growth of BCI/ BPI freights. According to Clarksons, Sino-U.S. dry bulk shipping routes are about 18% shorter than China-Brazil routes. However, if Brazil raises the price of soybeans exported to China by 25% or above, China may still partially import soybeans from the U.S.. However, domestic imports of the plant-rich protein (soybeans) grain products will not decline regardless of external trade tensions. Therefore, overall voyage distance for grain dry bulk shipping might not decline. Grain-related dry bulk shipping volume will remain stable.

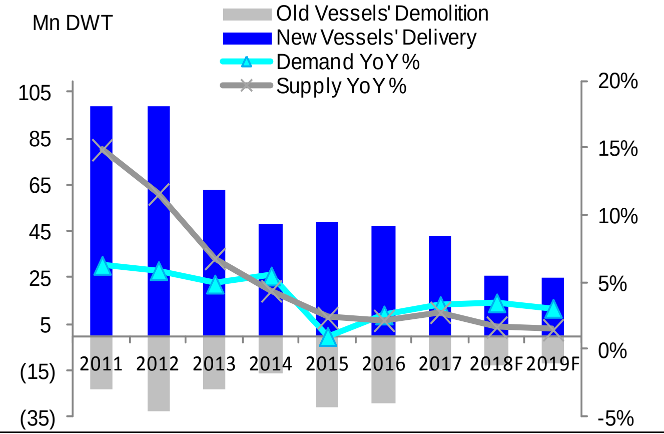
More signs have been revealed to confirm the dry bulk shipping industry's continued upward trend. Firstly, supply/ demand structure continued to improve. Benefitting from smooth order digestion and vessel scrapings over the past 3 years, the ratio of orders-on-hand/ existing dry bulk capacity hit a low range (8.9%) in August 2018. 2018 dry bulk shipping supply/ demand YoY growth estimations from Clarksons has been revised to 1.7%/ 3.2%. Secondly, considering China's policy guidance shift to increase infrastructure investment in 2H18, dry bulk shipping demand growth in 2H18/ 2019 may exceed expectations due to increased iron ore imports. From January to August 2018, domestic real estate investment amount was RMB7.65 tn, up 10.1% YoY, beating market expectation. As a result, we expect Chinese property investment/ new construction growth to accelerate in 2H18. Correspondingly, 2H18 iron ore import demand may increase 8.0%-10.0% YoY, which will in turn stimulate large vessel shipping freights. We maintain optimistic regarding the overall dry bulk sector's upward development.

Figure-3: Capacity of Dry Bulk Vessels and YoY Growth



Source: Clarksons, Guotai Junan International.

Figure-4: Dry Bulk Shipping Capacity Changes

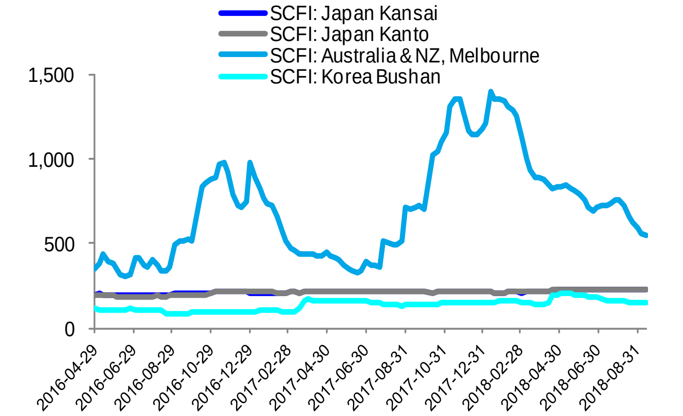


Source: Clarksons, the Company, Guotai Junan International.

Container shipping expected to remain stable in 2H18 due to the nature of fixed routes and stable demand. Firstly, Sinotrans Shipping's container shipping lines are all intra-Asia, and the Company's underlying transported goods are complementary to Japan, Korea, and Australia (e.g. electronic devices and primary processed goods). Benefiting from increasing cargo trade demand, shipping volume of Sinotrans Shipping Containers grew 2.76% YoY in 1H18 to 484,000 TEU. Clarksons predicts that demand for intra-Asia container shipping might increase 6.4%/ 6.0% YoY for 2018/ 2019, higher than projected global average container shipping growth of 4.3%/ 4.2%. In 1H18, Sinotrans Shipping continued to provide high frequency port-to-port services tailored to customer needs. Meanwhile, competition patterns on each Asian route has been relatively stable.

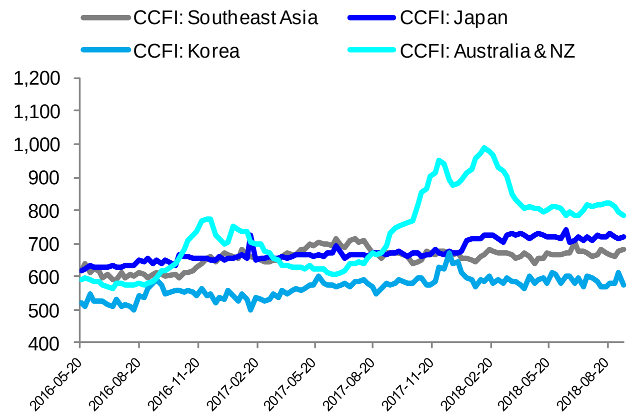
In 1H18, the Company ranked No.1 along the China-Taiwan route, and ranked No.3 in China-Japan routes in terms of market volume share. The Company's average box revenue was US$427/TEU, up 10.05% YoY. Recent intra-Asia freights also performed strongly; Shanghai Container Freight Index (SCFI) in Japan, Australia, and Southeast Asia improved in August/ September 2018. For Japan-bound routes (Osaka and Tokyo), Shanghai-Kansai/Kanto freights rose YoY by 5.0%/ 4.6% YoY by the end of second week in September 2018. For Australia and New Zealand-bound routes, SCFI/ China Container Freight Index (CCFI) adjusted -22.7%/7.8% YoY by the end of second week in September 2018. In the case of unclear trade tension between China and the United States, China may strengthen trade with Japan and South Korea, which could stimulate Sinotrans Shipping's container-based freight traffic in 2H18. Overall, we estimate Sinotrans Shipping's container segment revenue to grow 9.7% YoY in 2018.

Figure-5: SCFI Intra-East Asia Container Shipping Freights



Source: Shanghai Shipping Exchange, Guotai Junan International.

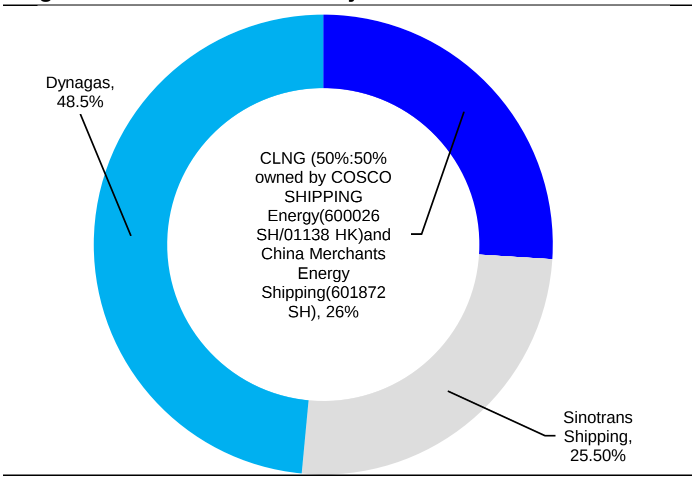
Figure-6: CCFI Asia Container Shipping Freights



Source: Shanghai Shipping Exchange, Guotai Junan International.

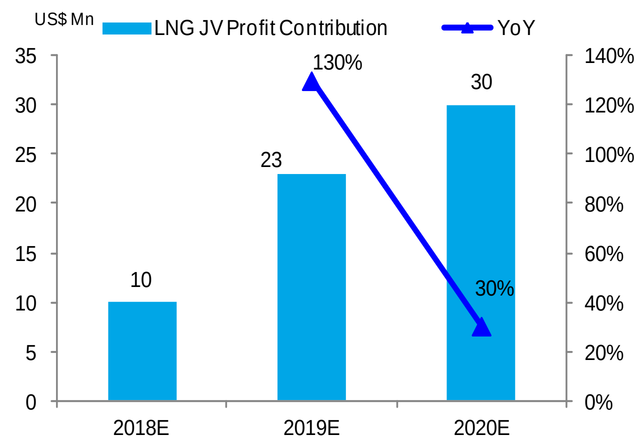
Contribution from the LNG JV (Sinotrans Shipping owns 25.5% stake) has been sparkling. Shared profits from JVs amounted US$4.18 mn for 1H18, compared with a loss of US$0.05 mn in 1H18. Two LNG carriers recorded investment returns of US$4.14 mn in 1H18, while the remaining three vessels of the Yamal project will be delivered by the end of 2019. Overall, project profitability would be stable. As of August 9, 2018, the Yamal LNG JV project launched two production lines with estimated total LNG reserve of 1.3 trillion cubic meters. The LNG ice-class vessels sail through Artic's Northeastern Water Fairway of the Arctic region, while such transportation usually takes an average of 20 days. From previous guidelines, the JV may contribute shared profit of US$30 mn per year based on China-Russia contract value, with annual IRR estimated at around 10.0%. Due to operation stability of the Yamal project and the on-time vessel delivery schedule, we roughly maintain our previous profit forecast for the LNG JV segment, which assumes that the JV will provide Sinotrans Shipping with stable income of US$10 mn, US$23 mn and US$30 mn for 2018, 2019 and 2020, respectively.

Figure-7: The Yamal LNG Project Share Breakdown



Source: the Company, COSCO Shipping Energy (600026 SH/01138 HK), Guotai Junan International.

Figure-8: LNG Profit Contribution Projection



Source: the Company, Guotai Junan International.

Revise earnings estimates amid the Company's cautious fleet operating strategy as well as prospective incremental contribution from the LNG JV. In 1H18, the Company's earnings per share equaled US$1.00 cent, yet the management decided not to pay dividends, bringing disappointment to the market. However, the management has stated that the Company will maintain its constant 30% dividend payout ratio for the whole year as usual, and we believe that the Company will honor the promise. With cash on hand standing at approx. $224.8 mn, the Company's interest-bearing liability was $50.89 mn in 1H18, with debt repayment risk scoring in the low range. We believe that Sinotrans Shipping can make better use of its excess cash (e.g. signing more favorable bank deposit rates in the context of current US dollar appreciation) in 2H18 and beyond. In terms of operations, the Company is likely to adopt prudent business strategies to maintain competitiveness. We do not expect a decline in chartered-in dry bulk capacity, so we revise down 2018-2020 revenue estimates by 6.6%, 4.7% and 4.5% due to less dry bulk capacity in control. Also, the Company's total operating costs in 2018 will be lower than we had previously estimated. At this point, we revise down the Company's 2018 operating cost estimate by 10.8%. Considering all circumstances, we revise up Sinotrans Shipping's 2018-2020 earnings estimates by 119.2%, 102.0% and 99.3%, respectively. Corresponding EPS estimates for 2018-2020 are US$0.024, US$0.028, and US$0.031, respectively, reflecting YoY improvement of 195.3%, 18.6% and 10.4%.

Table-2: Change in Earnings Estimates

USD in million	FY18F	FY19F	FY20F
		New estimates	
Revenue	1,046	1,154	1,252
EBIT	91	98	107
Net Income	95	113	125
EPS (US$)	0.024	0.028	0.031
		Original estimates	
Revenue	1,120	1,212	1,311
EBIT	39	39	47
Net Income	43	56	63
EPS (US$)	0.011	0.014	0.016
		% change	
Revenue	-6.6%	-4.7%	-4.5%
EBIT	131.3%	149.1%	128.2%
Net Income	119.2%	102.0%	99.3%
EPS (US$)	119.2%	102.0%	99.3%

Source: Guotai Junan International.

Maintain "Accumulate" investment rating while our recommended TP is adjusted to HK$2.22, consideration for the privatization has not yet been applied but reflecting the Company's fair valuation amid an overall market downturn. Up to the most recent week, Sinotrans Shipping was trading at approximately 0.50x 2018 PBR with a relatively high safety margin. On the other hand, the topic of current Sino-U.S. trade relations is overshadowing the future of Chinese exports, destabilizing expectations on HK market shipping sector profitability. Additionally, the valuation of the overall HK stock market recently underwent a downward adjustment. Expectations of escalating Sino-U.S trade relations may keep putting stress on the shipping industry's valuation. In our view, the valuation of Sinotrans Shipping is underestimated, yet is subject to overall market pressure. As a result, we have adjusted TP to HK$2.22 to reflect its attractive valuation under slow recovery in the dry bulk shipping environment. The TP represents 0.60x/ 0.58x/ 0.55x 2018-2020 PBR, and 11.8/ 10.0x/ 9.1x 2018-2020 PER.

Major risks: 1) a slowdown in dry bulk shipping recovery in 3Q18 and beyond and 2) further tariffs or escalation of trade sanctions from the recent Sino-U.S. trade war.

Table-3: Peers Comparison

Company	Stock Code	Currency	Last price	PE 17A	PE 18F	PE 19F	PE 20F	PB 17A	PB 18F	PB 19F	PB 20F	ROE(%) 18F	D/Y(%) 18F	EV/EBITDA 18F	ROA(%) 18F
HK - Listed Companies															
Sinotrans Shipping Ltd	368 HK	HKD	1.81	28.7	12.6	8.9	7.9	0.5	0.5	0.5	0.5	3.9	3.0	n.a.	3.2
Sinotrans Limited-H	598 HK	HKD	3.20	7.3	7.6	6.9	6.2	0.8	0.7	0.7	0.6	10.6	4.1	4.2	4.6
Cosco Shipping Energy Tran-H	1138 HK	HKD	3.87	7.6	49.6	12.9	6.7	0.5	0.5	0.5	0.4	1.3	0.7	15.8	0.7
Cosco Shipping Holdings Co-H	1919 HK	HKD	3.29	11.0	13.5	12.8	10.7	1.4	2.1	1.8	1.5	16.9	0.0	20.0	5.3
Orient Overseas Intl Ltd	316 HK	HKD	51.80	30.2	33.0	13.6	12.2	0.9	0.9	0.8	0.8	2.5	0.6	9.2	1.4
Pacific Basin Shipping Ltd	2343 HK	HKD	1.98	282.3	14.2	8.4	6.4	1.0	0.9	0.8	0.8	6.5	2.8	7.6	3.4
Sitc International Holdings	1308 HK	HKD	6.53	11.7	11.0	9.6	8.6	2.3	2.1	2.0	1.8	19.4	6.5	8.0	11.7
Simple Average				61.2	21.8	10.6	8.3	0.8	0.9	0.8	0.8	7.0	1.9	11.4	3.1
Weighted Average				34.1	22.6	11.6	9.4	1.0	1.2	1.1	0.9	8.7	1.2	13.2	3.3
China - Listed Companies															
Cosco Shipping Holdings Co-A	601919 CH	CNY	4.10	15.8	26.1	11.1	7.7	2.0	1.9	1.7	1.4	9.3	0.0	16.2	1.7
Cosco Shipping Developme-A	601866 CH	CNY	2.37	18.9	n.a.	n.a.	n.a.	1.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cosco Shipping Energy Tran-A	600026 CH	CNY	4.42	10.0	40.6	13.0	7.5	0.6	0.6	0.6	0.6	1.5	0.7	13.5	0.6
Cosco Shipping Specialized-A	600428 CH	CNY	3.64	32.8	29.1	21.7	16.3	0.8	0.8	0.8	0.7	2.5	0.5	n.a.	0.9
China Merchants Energy -A	601872 CH	CNY	3.58	29.8	28.4	16.6	10.4	1.2	1.2	1.1	1.0	4.3	0.6	n.a.	1.0
Simple Average				21.5	31.0	15.6	10.5	1.3	1.1	1.0	0.9	4.4	0.4	14.9	1.1
Weighted Average				19.6	29.8	13.9	9.2	1.5	1.4	1.2	1.1	5.9	0.3	15.4	1.2
Other Area - Listed Companies															
Ap Moller-Maersk A/S-B	MAERSKB DC	DKK	9,448.00	n.a.	131.6	20.1	14.8	1.0	1.0	1.0	1.0	2.9	3.1	11.6	1.4
D/S Norden	DNORD DC	DKK	96.65	24.0	24.5	9.0	5.2	0.8	0.7	0.7	0.6	2.2	0.6	11.5	1.1
Hapag-Lloyd Ag	HLAG GR	EUR	35.30	185.8	n.a.	17.7	11.7	1.0	1.0	1.0	0.9	0.4	1.3	11.3	(0.5)
Kirby Corp	KEX US	USD	81.75	14.5	28.9	21.5	16.8	1.6	1.5	1.4	1.3	5.0	n.a.	12.8	2.7
Golar Lng Ltd	GLNG US	USD	27.63	n.a.	n.a.	54.4	18.2	1.6	1.6	1.6	1.4	(2.8)	1.3	34.0	0.4
Teekay Corp	TK US	USD	6.41	n.a.	n.a.	26.7	9.3	0.7	0.4	0.3	0.3	(4.1)	3.4	n.a.	n.a.
Seaspan Corp	SSW US	USD	8.21	8.7	8.6	8.2	7.3	1.0	0.8	0.8	0.8	6.9	6.1	8.9	2.1
Ship Finance Intl Ltd	SFL US	USD	13.80	13.0	14.5	12.2	9.8	1.3	1.2	1.3	1.1	8.0	10.2	12.2	3.1
Hyundai Merchant Marine	011200 KS	KRW	4,990.00	n.a.	n.a.	n.a.	n.a.	1.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Korea Line Corp	005880 KS	KRW	23,750.00	4.6	6.7	6.2	5.8	0.9	0.8	0.7	0.6	12.2	n.a.	8.4	3.3
Wan Hai Lines Ltd	2615 TT	TWD	16.70	14.5	16.8	18.8	n.a.	1.1	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Evergreen Marine Corp Ltd	2603 TT	TWD	12.75	6.8	51.6	15.2	6.8	0.8	0.8	0.8	0.7	1.9	0.9	15.6	1.8
U-Ming Marine Transport Corp	2606 TT	TWD	34.05	28.9	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yang Ming Marine Transport	2609 TT	TWD	8.72	51.3	n.a.	n.a.	18.2	0.8	0.9	1.2	1.0	(40.7)	0.0	67.7	n.a.
Mitsubishi Logistics Corp	9301 JP	JPY	2,864.00	23.5	23.6	22.7	21.7	0.9	0.9	0.8	0.8	3.9	1.0	11.2	2.5
Mitsui Osk Lines Ltd	9104 JP	JPY	3,315.00	75.3	31.6	13.4	9.1	0.7	0.7	0.7	0.7	2.2	0.7	14.2	0.8
Nippon Yusen Kk	9101 JP	JPY	2,186.00	n.a.	26.9	26.0	11.7	0.7	0.7	0.7	0.6	2.7	0.8	10.5	0.9
Kawasaki Kisen Kaisha Ltd	9107 JP	JPY	2,309.00	n.a.	28.7	58.9	28.3	1.0	1.0	1.0	1.0	2.9	0.0	10.2	0.8
Simple Average				37.6	32.8	22.1	13.0	1.1	0.9	0.9	0.8	0.2	2.3	17.2	1.6
Weighted Average				70.5	86.0	21.8	14.2	1.1	1.0	1.0	0.9	2.3	2.5	13.3	1.3

Source: Bloomberg.

Financial Statements and Ratios

Income Statement

Year end 31 Dec (US$ m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	841	1,006	1,046	1,154	1,252
-Dry bulk shipping	369	489	479	549	591
-Container shipping	473	518	568	606	662
-Others (including LNG)	1	1	1	1	1
-Proportionate Revenue Driven by JVs	(2)	(2)	(2)	(2)	(2)
Cost of operations and SG&A	(923)	(977)	(957)	(1,054)	(1,138)
Other operating income	(164)	6	2	(2)	(6)
Operating Profit	(246)	36	91	98	107
Interest income, net	5	11	20	22	21
Share of profits/(losses) of JV	0	(1)	10	23	30
Profit Before Tax	(241)	46	121	143	158
Income Tax	(1)	(6)	(15)	(18)	(20)
Profit After Tax	(242)	40	106	126	139
Non-controlling Interest	13	(8)	(11)	(13)	(14)
Shareholders' Profit / Loss	(230)	32	95	113	125
Basic EPS	(0.058)	0.008	0.024	0.028	0.031

Cash Flow Statement

Year end 31 Dec ($US m)	2016A	2017A	2018F	2019F	2020F
Profit before income tax	(241)	46	121	143	158
Depreciation and amortization	60	53	57	61	65
Loss (Gain) on disposal of PP&E	214	6	(6)	12	16
Share of loss/(gain) of JVs	(0)	1	(10)	(23)	(30)
Finance costs, net	(5)	(11)	(18)	(21)	(20)
Changes in working capital	12	22	(1)	(58)	(34)
Interest received, net	10	14	24	25	24
Government subsidy recognized	(49)	(8)	(2)	0	0
Others	15	(14)	(25)	(29)	(29)
Income tax paid	(0)	(3)	(15)	(18)	(20)
Cash from Operating Activities	16	105	125	93	131
CapEx	(96)	(99)	(118)	(98)	(95)
Decrease in bank deposits	113	(160)	51	(4)	(25)
Others	118	23	24	10	5
Cash from Investing Activities	134	(236)	(42)	(92)	(115)
Dividends paid	0	(20)	(15)	(29)	(34)
Changes in bank loans	(14)	61	(4)	(13)	4
Cash from Financing Activities	(14)	40	(20)	(42)	(30)
Cash at Beg of Year	155	283	199	261	220
Net Changes in Cash	136	(91)	62	(41)	(14)
Cash at End of Year	283	199	261	220	207

Balance Sheet

Year end 31 Dec (US$ m)	2016A	2017A	2018F	2019F	2020F
Property, plant and equipment	1,105	1,131	1,192	1,229	1,259
Investments in JVs	74	90	100	123	153
Other non-current assets	40	40	37	37	37
Total Non-current Assets	1,219	1,260	1,329	1,389	1,449
Cash & Cash Equivalents	283	199	261	220	207
Short-term bank deposits	361	527	476	480	505
Inventories	18	19	27	35	34
Trade and other receivables	157	169	152	202	243
Other current assets	36	14	3	3	3
Total Current Assets	855	929	920	941	992
Total Assets	2,074	2,189	2,248	2,330	2,440
Trade and other payables	178	279	260	258	263
Other current liabilities	30	19	21	30	45
Total Current Liabilities	209	298	281	289	308
Borrowings	63	55	51	40	40
Other non-current liabilities	6	2	2	2	2
Total Non-current Liabilities	69	57	53	43	43
Total Liabilities	278	355	334	331	351
Share capital	51	51	51	51	51
Reserves	1,737	1,766	1,836	1,907	1,984
Total Shareholders' Equity	1,788	1,817	1,887	1,959	2,036
Minority Interest	8	17	27	40	54
Total Equity	1,796	1,834	1,914	1,999	2,090

Financial Ratios

	2016A	2017A	2018F	2019F	2020F
EBITDA margin (%)	(22.0)	8.8	14.1	13.8	13.8
EBIT margin (%)	(29.2)	3.5	8.7	8.5	8.6
Net income margin (%)	(27.3)	3.2	9.1	9.8	10.0
ROA (%)	(10.6)	0.9	3.5	4.1	4.5
ROE (%)	(12.0)	1.8	5.1	5.9	6.2
Current ratio (x)	4.09	3.12	3.27	3.26	3.22
Quick ratio (x)	4.00	3.05	3.17	3.13	3.11
Operating cash flow ratio (x)	0.08	0.35	0.44	0.32	0.43
Total asset turnover (x)	0.38	0.47	0.47	0.50	0.52
Fixed asset turnover (x)	0.62	0.8	0.81	0.85	0.88
Total liabilities / Total assets (%)	13.41	16.22	14.85	14.22	14.37
Net gearing ratio (%)	net cash	net cash	net cash	net cash	net cash

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance>15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance>5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance<-5%; Or the fundamental outlook of the sector is unfavorable.

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