

**Industrials**  
**Marine**  
 Equity – Hong Kong

## Neutral

Target price (HKD)	1.80
Share price (HKD)	1.72
Forecast dividend yield (%)	2.9
Potential return (%)	7.6

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Performance	1M	3M	12M
Absolute (%)	2.4	-1.7	-25.2
Relative <sup>A</sup> (%)	6.0	-7.3	-32.9

Index<sup>A</sup> HANG SENG INDEX

RIC 0368.HK  
 Bloomberg 368 HK

Market cap (USDm) 884  
 Market cap (HKDm) 6,866

Enterprise value (USDm) 296  
 Free float (%) 32

Note: (V) = volatile (please see disclosure appendix)

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# Sinotrans Shipping (368 HK)

Upgrade to Neutral: Weak outlook now priced in

- ▶ **Company used one-third of its cash for acquisitions**
- ▶ **But likely to remain low-RoE due to weak bulk markets**
- ▶ **Upgrade to Neutral with lower TP of HKD1.80 (HKD1.86 earlier) as valuation base rolled forward to 2015**

### FY14 results not comparable to consensus or our estimates due to acquisitions:

Sinotrans Shipping reported a net profit of USD1.9m on revenues of USD1.21bn. It finally used part of its IPO cash from 2007 for acquisitions of bulk vessels, dry bulk chartering operations as well as an intra-Asia container shipping business. These acquisitions accounted for a little over USD300m or one-third of the company's net cash at the end of FY13. Sinotrans also announced a dividend of HKD0.08/share (or USD41m for FY14) as well as another USD178m in already committed capex for FY15.

**Bulk business bleeding, container better:** Following the consolidation of all acquisitions on a pro-forma basis, the company's revenues are roughly split between container and dry bulk businesses. On a pro-forma basis, it has recorded a negative gross margin in dry bulk and a positive gross margin in the container business in each of the last two years. While the container business offset dry bulk weakness in FY13, this was not the case last year and group gross margins were in negative territory. Profit after tax widened compared to FY13 but Sinotrans managed to post a positive RoE as a larger share of losses was attributed to newly acquired entities through minority interest.

**We restate our financials to reflect the acquisitions, still a low-RoE business:** We now forecast a top-line of over USD1bn in 2015-17e but our net profit forecasts are well below previous forecasts due to a sharp deterioration in the dry bulk sector over the last 12 months as well as lower interest income. While its use of cash for dividends is a positive, management refrained from committing to the level of dividends announced along with FY14 results (HKD0.08 or c4.5% dividend yield). In our view, guidance of a 30% dividend pay-out isn't overly exciting as the company is likely to report a net loss in 2015e.

### Upgrade to Neutral after underperformance with a slightly lower TP of HKD1.80:

The revision in financials has resulted in our negative RoE forecast for 2015e and c1% RoE in 2015-16e. Our valuation methodology remains unchanged and assumes that the company can generate RoE of 4.5-5% on its cash and non-cash assets over the long term. These assumptions imply a fair PB of 0.42 (0.44x earlier) and a target price of HKD1.80 (HKD1.86 earlier). Having fallen by 24% over 12 months, we believe the stock will now be supported by its inexpensive PB of c0.4x. Thus, we upgrade our rating from UW to N.

## Financials & valuation

### Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
<b>Profit &amp; loss summary (USDm)</b>				
Revenue	1,209	1,048	1,083	1,118
EBITDA	30	46	82	81
Depreciation & amortisation	-67	-72	-76	-74
Operating profit/EBIT	-37	-27	6	7
Net interest	16	13	11	12
PBT	-11	-13	16	19
HSBC PBT	-21	-13	16	19
Taxation	-2	-2	-2	-2
Net profit	2	-5	25	27
HSBC net profit	-8	-5	25	27

### Cash flow summary (USDm)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Cash flow from operations	53	74	91	87
Capex	-303	-178	-50	-50
Cash flow from investment	-303	-178	-50	-50
Dividends	-41	-41	-26	-26
Change in net debt	318	144	-16	-12
FCF equity	-476	-103	41	37

### Balance sheet summary (USDm)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	1,340	1,446	1,419	1,396
Current assets	1,041	878	957	977
Cash & others	675	562	640	652
Total assets	2,524	2,467	2,519	2,516
Operating liabilities	248	201	200	206
Gross debt	86	117	180	180
Net debt	-589	-445	-460	-472
Shareholders' funds	2,152	2,121	2,120	2,121
Invested capital	1,458	1,562	1,535	1,515

### Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
<b>Y-o-y % change</b>				
Revenue	520.2	-13.3	3.3	3.3
EBITDA	-17.4	53.6	79.6	-1.8
Operating profit				18.7
PBT	-310.5			12.4
HSBC EPS				8.3

### Ratios (%)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Revenue/IC (x)	0.9	0.7	0.7	0.7
ROIC	-2.9	-1.8	0.4	0.5
ROE	-0.4	-0.2	1.2	1.3
ROA	-0.5	-0.5	0.7	0.8
EBITDA margin	2.5	4.4	7.6	7.2
Operating profit margin	-3.1	-2.5	0.5	0.6
EBITDA/net interest (x)				
Net debt/equity	-26.9	-20.7	-21.5	-22.2
Net debt/EBITDA (x)	-19.8	-9.7	-5.6	-5.9
CF from operations/net debt				

### Per share data (USD)

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EPS reported (fully diluted)	0.00	0.00	0.01	0.01
HSBC EPS (fully diluted)	0.00	0.00	0.01	0.01
DPS	0.01	0.01	0.01	0.01
Book value	0.54	0.53	0.53	0.53

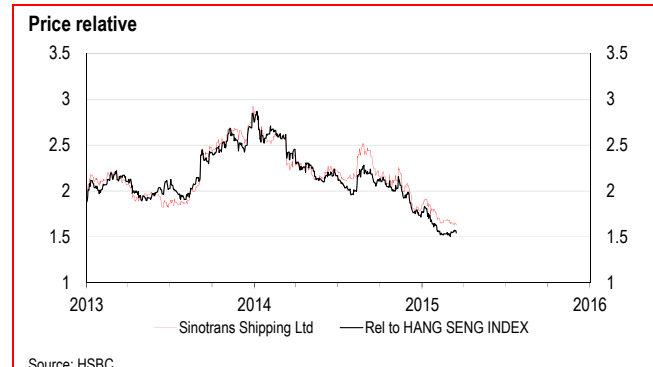
### Key forecast drivers

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Bulk Revenue	621	449	471	495
Container Revenue	585	597	609	621
Bulk GPM	-3	-5	2	2
Container GPM	3	5	5	5
Capex/Sales	25	17	5	4
EBITDA Margin	2	4	8	7

### Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	0.1	0.3	0.3	0.2
EV/EBITDA	5.1	6.5	3.4	3.3
EV/IC	0.1	0.2	0.2	0.2
PE*			35.9	33.1
P/Book value	0.4	0.4	0.4	0.4
FCF yield (%)	-64.3	-13.9	5.5	5.1
Dividend yield (%)	4.6	2.9	2.9	2.9

Note: \* = Based on HSBC EPS (fully diluted)



Note: price at close of 16 Mar 2015. We introduce FY17 estimates in this flashnote.

## Valuation and risks

We have adjusted our financials for the company's acquisitions over the course of the last year. Consequently, our forecasts are not comparable to previous forecasts. We now expect negative RoE in FY15 followed by a low-single digit RoE in 2016-17e.

Our target price changes marginally to HKD1.80 (from HKD1.86) on an unchanged methodology – the slight decline is due to rolling forward the valuation base year to 2015. Our target price continues to be based on our view that the company can generate sustainable returns on its tangible assets (fleet) and its cash balance. Our estimates imply a RoE forecast of 1% over the next three years, and we continue to assume that Sinotrans can improve on this as it emerges from the downcycle, and generates a ROE of 4.5% on its non-cash assets over the longer term. The company expects to use the cash on its books on opportunities that could generate RoE of 5% over the long term. Both of these assets are expected to grow at an annual rate of 1% to perpetuity.

These assumptions imply a target price of HKD1.80 per share. Our TP implies a 0.42 (0.44x earlier) 2014e PB. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppt above and below the hurdle rate for Hong Kong stocks of 8.5%. Our target price implies a potential return of 7.6% (including a forecast dividend yield of 2.9%), within the Neutral band; therefore, we upgrade our rating from Underweight to Neutral. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

The key upside risk to our view is the deployment of surplus cash on value-accretive opportunities. The key downside risks are prolonged deterioration in dry bulk markets and use of cash for value-destructive opportunities.

# Disclosure appendix

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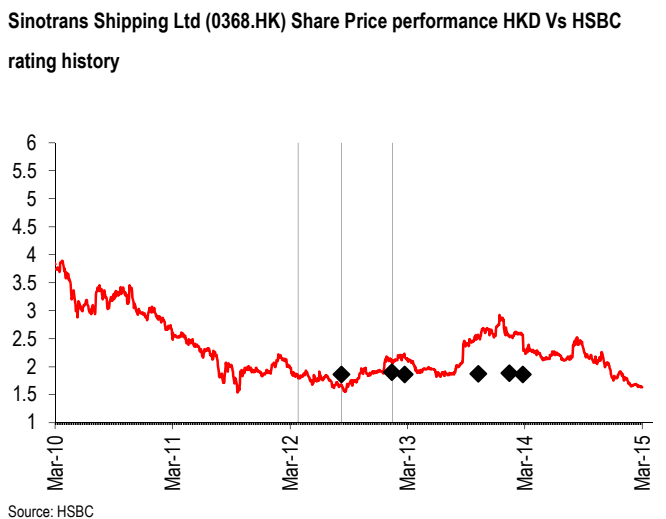
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## Share price and rating changes for long-term investment opportunities



### Recommendation & price target history

From	To	Date
Neutral	Overweight	10 April 2012
Overweight	Neutral	23 August 2012
Neutral	Underweight	28 January 2013
Target Price	Value	Date
Price 1	1.86	23 August 2012
Price 2	1.90	28 January 2013
Price 3	1.86	08 March 2013
Price 4	1.87	23 October 2013
Price 5	1.88	28 January 2014
Price 6	1.86	11 March 2014

Source: HSBC

## HSBC & Analyst disclosures

### Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SINOTRANS SHIPPING LTD	0368.HK	1.63	16-Mar-2015	7

Source: HSBC

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