Orient Overseas International---Maintain OUTPERFORM

2014 results: All about bunker **EPS: ▲ TP: ▲**

Timothy Ross / Research Analyst / 65 6212 3337 / timothy.ross@credit-suisse.com

- Orient Overseas International (OOIL) has reported a pre-ex NPAT of US$261 mn, 6.5x higher than last year's US$40 mn but 10% below our expected US$291 mn and 19% shy of consensus at US$321 mn.
- Consensus overestimation was somewhat surprising given the release of revenue and operational data at the end of January, with OOIL's EBIT matching our expectations and most of the miss appearing below the line. We suspect that part of the shortfall relative to market expectations might have been the lagged impact of falling bunker prices, which should impact most in 2015.
- Even with only 50% capture of the decline in bunker prices and sub-5% revenue growth, OOIL's earnings should expand significantly in 2015. We have lifted our estimates from US$360 mn and US$308 mn in 2015 and 2016 to US$575 mn and US$651 mn, respectively, ahead of a consensus that should also rise.
- We have also raised our TP 20% to HK$60, based on a target P/B of 0.8.x. Our OUTPERFORM rating is unchanged.

Bbg/RIC	**316 HK / 0316.HK**	**Price (09 Mar 15 , HK$)**			**47.85**
Rating (prev. rating)	**O (O)**	**TP (prev. TP HK$)**			**60.00 (50.00)**
Shares outstanding (mn)	625.79	Est. pot. % chg. to TP			25
Daily trad vol - 6m avg (mn)	0.7	52-wk range (HK$)			52.1 - 34.9
Daily trad val - 6m avg (US$ mn)	4.2	Mkt cap (HK$/US$ mn)			29,944.2/ 3,858.9
Free float (%)	31.2	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Fortune Crest - 56%,	Absolute (%)	(4.0)	11.0	33.3
	GALA Way - 12.7%,	Relative (%)	(1.8)	8.3	26.8
	JP Morgan - 5%				

Year	**12/13A**	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Revenue (US$ mn)	6,232	6,522	6,810	7,122	7,496
EBITDAR	824.6	1,037.6	1,375.9	1,473.4	1,578.3
Net profit (US$ mn)	39.7	260.9	574.8	651.1	737.1
EPS (US$)	0.06	0.42	0.92	1.04	1.18
- Change from prev. EPS (%)	n.a.	n.a.	46	90	
- Consensus EPS (US$)	n.a.	n.a.	0.67	0.81	
EPS growth (%)	(85.0)	557.9	120.3	13.3	13.2
P/E (x)	97.3	14.8	6.7	5.9	5.2
Dividend yield (%)	0.3	1.8	3.8	4.3	4.8
EV/EBITDAR (x)	6.6	5.5	4.2	3.5	2.8
P/B (x)	0.9	0.8	0.8	0.7	0.6
ROE (%)	0.9	5.7	11.8	12.1	12.5
Net debt(cash)/equity (%)	36.2	39.2	36.3	22.3	9.5

Note 1: ORD/ADR=5.00. Note 2: Orient Overseas Intl through its subsidiaries, owns and leasesships, operates terminals, provides freight forwarding and containertransportation services.

Click here for detailed financials

"We anticipate gradually improving industry dynamics and margin", Alan Tung, 9 March 20015

With revenue details already released, OOIL's top line held few mysteries, though logistics grew slightly slower than we had expected. The group, meanwhile, produced the best EBIT margin since 2H12.

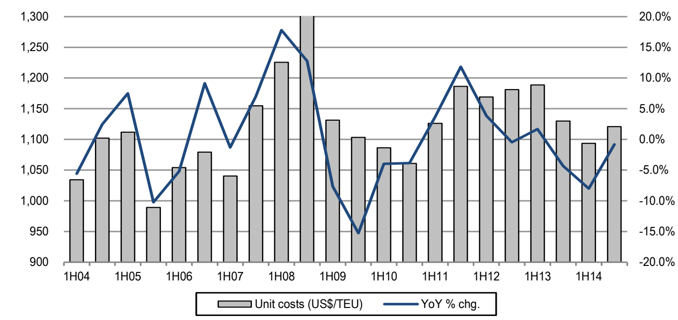
Figure 1: OOIL financial performance (2014A)

US$ mn	**2014A**	**2014E**	**2013A**	**A vs. E %**	**YoY % chg**
Revenue	6,522	6,555	6,232	-1%	5%
EBIT	319	339	90	-6%	229%
Margin	4.9%	5.2%	1.4%	-5%	214%
NPAT pre-x	**261**	**291**	**40**	**-10%**	**558%**
Opex/TEU	1,110	1,113	1,160	0%	-4%

Source: Company data, Credit Suisse estimates.

Cost control remains the company's hallmark, falling 1% in 2H and 4% for the full year on a group-wide basis. Bunker price was part of this (down an average 7% a tonne), with consumption falling >3% despite a 5.5% increase in liftings.

Figure 2: OOIL unit costs vs. YOY % chg.



Source: Company data, Credit Suisse estimates

The liner business generated EBIT margin of 3.8% (up from last year's 1.2%) with the balance coming from the property division. The rump of this occurred in 1H being the bi-annual in specie distributions from its interest in the Hui Xian REIT, which will not recur in 2015.

While net debt-to-equity rose marginally, at 28% it is one of the lowest in the industry, with OOIL sitting on US$2.7 bn in liquid assets (mostly cash). Having spent US$850 mn in capex in 2014, its capital requirements tail-off this year and next with the last four of its 9K TEU vessels delivering and no order book beyond 2015. We do expect OOIL to work with its G6 alliance partners and identify the Mitsui OSK Line order for six 20K TEU vessels (i.e., four short of a loop) as somewhere that the company might look to invest. At ~US$155 mn a ship, this would represent capex of US$620 mn, with deliveries probably in 2017 onwards. Meanwhile, NYK redelivers six 13,800 TEU vessels next year which will be a short-run source of capacity growth.

Looking ahead, the company should get a significant reduction in opex in 1H15 as lower bunker prices feed through. Management notes that about 30% of contracts have a bunker adjustment factor, but that capture of lower prices relies more on competitive dynamics than BAF clauses. We have assumed that OOIL gets 50% of the benefit of a spot price that we think will average US$348/t (vs. ~US$320/t at the minute), implying a 16% reduction in the average bunker price.

Congestion and competition are still expected to weigh on the top line in 2015, especially in Asian trades (congestion) and Asia-EU (competition). OOIL's principal hub is Hong Kong and congestion there (along with some aggressive yield management) accounted for much of the 3% decline in I/A volumes in 2H 2014 which we expect will constrain growth again in 2015. Large numbers of large ships collide with consumption-constrained demand growth on A-EU to push down rates in our view, with volume and rate growth only really seen on Transpacific—and most of this in 2H reflecting contract periodicity and the effects of 1Q15 congestion. The world gets incrementally better in 2015, but it is bunker that makes the difference.

Companies Mentioned *(Price as of 09-Mar-2015)*

Hui Xian REIT (87001.HK, Rmb3.55)
Mitsui O.S.K. Lines Ltd (9104.T, ¥441)
Nippon Yusen Kabushiki Kaisha (9101.T, ¥357)
Orient Overseas International (0316.HK, HK$47.85, OUTPERFORM, TP HK$60.0)

Disclosure Appendix

Important Global Disclosures

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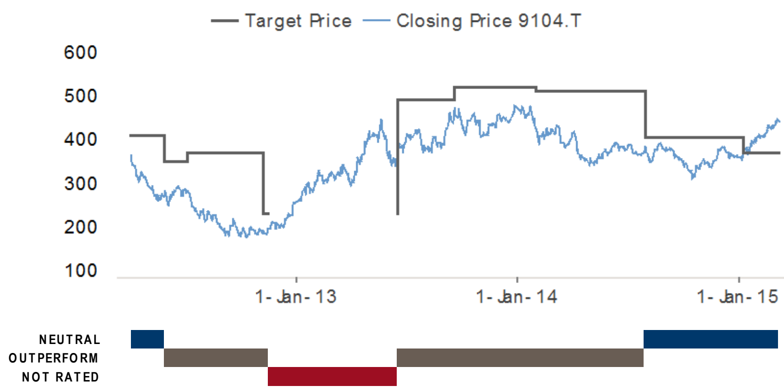
3-Year Price and Rating History for Mitsui O.S.K. Lines Ltd (9104.T)

9104.T	Closing Price	Target Price	
Date	(¥)	(¥)	Rating
03-Apr-12	364	410	N
28-May-12	269	350	O
06-Jul-12	281	370	
08-Nov-12	187	230	
16-Nov-12	195		NR
17-Jun-13	359	490	O *
19-Sep-13	471	520	
31-Jan-14	426	510	
13-May-14	356		*
31-Jul-14	384	405	N
09-Jan-15	371	370	

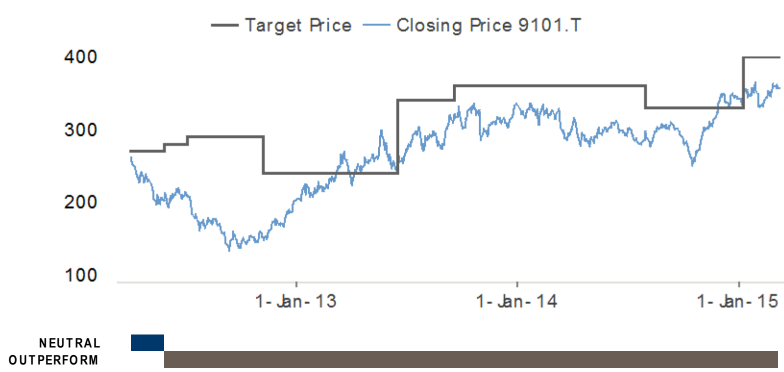
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Nippon Yusen Kabushiki Kaisha (9101.T)

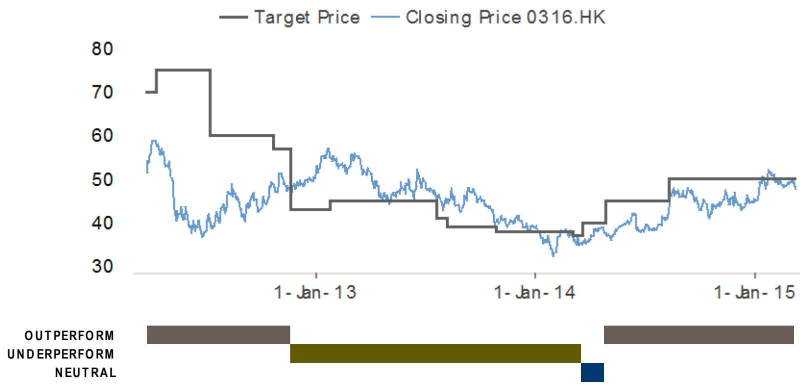
9101.T	Closing Price	Target Price	
Date	(¥)	(¥)	Rating
03-Apr-12	262	270	N
28-May-12	203	280	O
06-Jul-12	209	290	
08-Nov-12	149	240	
17-Jun-13	250	340	*
19-Sep-13	321	360	
13-May-14	296		*
31-Jul-14	297	330	O
09-Jan-15	350	400	

** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Orient Overseas International (0316.HK)

0316.HK Date	Closing Price (HK$)	Target Price (HK$)	Rating
26-Mar-12	51.55	70.00	O
27-Mar-12	54.15		*
10-Apr-12	58.75	75.00	O
09-Jul-12	40.20	60.00	
22-Oct-12	48.85	57.00	
20-Nov-12	47.70	43.00	U
25-Jan-13	54.90	45.00	
21-Jul-13	46.65	41.00	
08-Aug-13	45.25	39.00	
28-Oct-13	40.35	38.00	
05-Mar-14	36.50	37.00	
20-Mar-14	35.00	40.00	N
28-Apr-14	37.60	45.00	O
11-Aug-14	42.80	50.00	



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Underperform/Sell*	15%	(43% banking clients)
Restricted	3%	

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Price Target: (12 months) for Orient Overseas International (0316.HK)

Method: Our HK$60/share price target for Orient Overseas International is based on 0.8x 2015E P/B– justified by pressures on vessel values that see fleet market values ~20% lower than their book equivalent and equal to its assessed break-up value

Risk: Key risks to our price target of HK$60 for Orient Overseas International are: (1) a sharp and sustained decline in bunker fuel price; and (2) significant increases in freight rates and changes in demand growth in key Northern Hemisphere markets

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