Deutsche Bank
Markets Research

Rating
Buy

Asia
China

Conglomerates

Company
Cosco Pacific Alert

Reuters	Bloomberg	Exchange	Ticker
1199.HK	1199 HK	HKG	1199

ADR Ticker	ISIN
CSPKY	US22112B1044

Date
25 March 2015

Results

Price at 24 Mar 2015 (HKD)	10.34
Price target - 12mth (HKD)	12.50
52-week range (HKD)	11.88 - 9.75
HANG SENG INDEX	24,400

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2014 results in line with DBe, but slightly below the market

Profit growth in terminal was offset by decline in leasing

2014 net profit was US$293m, largely in line with DBe of US$299m but slightly below consensus of US$315m. On a YoY basis, net profit slashed 58.3%. However, excluding share of profit of CIMC (US$23m) and disposal gain of CIMC (US$393m) in 2013, recurring profit in 2014 indeed edged up 2.3% YoY.
By segments, profit from terminals rose strongly by 18.3% YoY to US$221m on solid throughput growth (10.8% YoY) as well as higher ASP. PCT profit continued to grow robustly (+25.7% YoY to US$29m) driven by higher throughput (+18.5% YoY) while Xiamen further reduced its loss by more than 50% to US$6.9m. Several non-controlled terminals such as QQCT, Cosco-PSA, and Antwerp also recorded strong earnings growth during 2014.
In terms of box leasing, although Cosco Pacific managed to grow its revenue (+2.7% YoY to US$357m) on fleet expansion, net profit indeed fell 23.6% YoY to US$96m as leasing rates remained depressed and profit from disposal of returned boxes dropped during the period.
Mgmt proposed a final dividend of HK$15.4 cents, which would lead to a full year dividend of HK$31 cents, or 40% payout ratio (same as in 2013).

Challenging outlook for box leasing, but valuation also inexpensive

Mgmt remains relatively optimistic on its terminal business and believes that global recovery and 'One Belt, One Road' initiated by China should continue to drive stable throughput growth in 2015. However, regarding box leasing, mgmt continues to be cautious and expects leasing rates to remain low ahead on ample supply.
We agree with mgmt's view. While we expect the earnings for its terminal business to grow further in 2015, its box leasing segment is likely to see further decline in profit ahead. True, its boxes were largely contracted for long-term. However, the continued soft leasing rates ahead suggest that overall profit may continue to deteriorate when existing contracts get renewed and new boxes are contracted at lower rates. We expect its 2015 earnings largely to remain flattish as vs. 2014.
Having said that, trading at less than 13x forward P/E, the stock, in our view, looks inexpensive. Along with positive newsflow ahead related to new free trade zones in China and detailed policies 'One Belt, One Road, we maintain our Buy rating for the stock at TP of HK$12.5, or 35% discount to 2015E NAV.

Stock data

Market cap (HKDm)	28,037
Market cap (USDm)	3,615
Shares outstanding (m)	2,712
Major shareholders	COSCO Holdings (42.3%)
Free float (%)	–
Avg daily value traded (USDm)	5.3

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (USDm)	799	856	882
Net Profit (USDm)	702.7	299.2	302.7
DB EPS (USD)	0.25	0.11	0.11
PER (x)	5.8	12.4	12.3
Yield (net)(%)	6.9	3.2	3.3

Source: Deutsche Bank