Deutsche Bank
Markets Research

Rating
Buy

Asia
China

Transportation
Marine

Company
China Cosco Hldgs Alert

Reuters	Bloomberg	Exchange	Ticker
1919.HK	1919 HK	HKG	1919
ADR Ticker	ISIN		
CICOY	US1689181006		

Date
27 March 2015

Results

Price at 26 Mar 2015 (HKD)	3.83
Price target - 12mth (HKD)	4.50
52-week range (HKD)	4.24 - 2.99
HANG SENG INDEX	24,528

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Results came in line; maintaining Buy on strong earnings recovery in 2015

2014 results without surprise; core loss narrowed substantially

Headline net profit was RMB363m, or 54% YoY growth. The number was largely in line with its previous profit warning (i.e. net profit will rise 50%+) as well as our forecast of RMB378m. Excluding non-recurrent items (scrapping subsidy of RMB1,742m and disposal loss of RMB1,010m), core net loss was RMB369m in 2014. Still, this was a big improvement as vs. last year. Although the headline net profit was RMB235m in 2013, core net loss was as high as RMB6,365m excluding RMB6,600m one-off items included in 2013 (mainly disposal of its logistic business , CIMC equity stake held by its subsidiary Cosco Pacific, and two property assets in Qingdao and Shanghai).

The YoY improvement in core operations was driven by both container and dry bulk segments. For container, the company managed to grow both total volume (+8.5% YoY) and average rates (+1.7% YoY). Along with lower bunker cost (-15% YoY), this segment turned to positive operating profit of RMB1,016m in 2014 from negative of RMB988m in 2013. As for dry bulk, as the company continued to downsize (shipments -15% YoY) by returning expensive charter-in ships and scrapping old vessels, operating loss was narrowed by 38.4% to RMB1,045m in 2014.

Strong earnings recovery in 2015; maintaining Buy

Mgmt guided a relatively cautious outlook. For container, while expecting volume to continue to grow in 2015, mgmt believes that oversupply is likely to persist on continued newbuild deliveries. As a result, rates probably would remain under pressure going forward. As for dry bulk shipping, mgmt expects 2015 to be another challenging year as supply growth would continue to outpace demand.

While we fully share with mgmt’s view, we think a few positive factors should not be overlooked. In terms of container, the lower bunker price and possible higher Transpacific contract rates suggest that earnings should recover strongly this year. While dry bulk shipping outlook remain gloomy, the continued downsizing by China Cosco should help to contain the loss for this segment, in our view.

In a long-run, as one of the handful SOE carriers in China, we expect China Cosco to greatly benefit from gov’t initiatives on transportation security. Along with possible rebound in BDI in coming a couple of months, we think now is a good buying opportunity.

Stock data

Market cap (HKDm)	39,127
Market cap (USDm)	5,046
Shares outstanding (m)	10,216.0
Major shareholders	Cosco Group (53%)
Free float (%)	47
Avg daily value traded (USDm)	6.0

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	67,384	68,441	71,737
Net Profit (CNYm)	235.5	378.1	1,946.2
DB EPS (CNY)	0.02	0.04	0.19
PER (x)	127.9	82.9	16.1
Yield (net) (%)	0.0	0.0	0.0

Source: Deutsche Bank