Deutsche Bank
Markets Research

Rating
**Buy**

Asia
China

Transportation
Marine

Company
# China Shipping Container Alert

| Reuters | Bloomberg | Exchange | Ticker |
|---|---|---|---|
| 2866.HK | 2866 HK | HSI | 2866 |
| ADR Ticker | ISIN | | |
| CITAY | US16945H1068 | | |

Date
27 March 2015

Results

| | |
|---|---|
| Price at 26 Mar 2015 (HKD) | 2.29 |
| Price target - 12mth (HKD) | 2.90 |
| 52-week range (HKD) | 2.57 - 1.73 |
| HANG SENG INDEX | 24,528 |


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Stock data

| | |
|---|---|
| Market cap (HKDm) | 26,754 |
| Market cap (USDm) | 3,450 |
| Shares outstanding (m) | 11,683.1 |
| Major shareholders | China Shipping Grp (49.9%) |
| Free float (%) | 50 |
| Avg daily value traded (USDm) | 7.8 |

*Source: Deutsche Bank*

Key data

| FYE 12/31 | 2013A | 2014E | 2015E |
|---|---|---|---|
| Sales (CNYm) | 33,917 | 36,374 | 39,648 |
| Net Profit (CNYm) | -2,610.1 | 1,041.5 | 2,666.0 |
| DB EPS (CNY) | -0.22 | 0.09 | 0.23 |
| PER (x) | – | 20.6 | 8.0 |
| Yield (net) (%) | 0.0 | 0.0 | 0.0 |

*Source: Deutsche Bank*

## 2014 results no surprise; 2015 outlook remain promising; Buy

### 2014 actual earnings in line with pre-warned number

Net profit of RMB1,044m was in line with previously guided figure (RMB1,050m) and DBe (RMB1,42m). Excluding non-recurrent of RMB1,008m (mainly due to disposal gain on PPE of RMB919m, government subsidy of RMB211m ), core operations turned to a net profit of RMB36m from a core net loss of RMB2,971m in 2013. The sharp turnaround was driven by both top-line improvement and cost reduction. While total volume edged down 1.2% YoY, CSCL managed to grow its shipping revenue by 3.8% YoY on higher average rates (+1.1% YoY). This along with lower operating expense (-3.2% YoY) and falling bunker cost (-15% YoY) which resulted in an operating profit of RMB275m vs loss of RMB3,003m last year. On QoQ basis, despite slow season, the company recorded a core net profit of RMB332m on dramatically falling oil price. The result was much better than same period of last year (core net loss of RMB948m).

Quickly looking into individual routes. Transpacific slightly retreated, with volume and ASP falling 4% and 1% YoY, respectively. Asia-Europe routes turned out to be a bright spot, recoding 3.4% growth in volume and 14% rise in revenue. Intra-Asia volume was up by 13% YoY while ASP expanded 2% YoY. While domestic volume fell 10% YoY, average rates were 3.3% YoY higher than last year.

### 2015 outlook promising on lower bunker and possibly higher TP contract rates

Mgmt guided a relatively cautious outlook and claimed that sector S/D may deteriorate further in 2015 on continued newbuild deliveries. While we fully acknowledge this, we also think the positive impact from lower bunker price and possibly higher Transpacific rates should not be understated. The average bunker price YTD was about US$333/t, which is US$237/t lower than the average of US$570/t in 2014. As the company probably has already locked in large portion of its consumption volume this year at low bunker price, we would expect to see a substantial cost saving in this area. In addition, our channel checks suggest that there is a good chance that Transpacific rates would be renewed higher. If that happens, the profitability for Transpacific routes should greatly improve starting from May 2015. The company is currently trading at 0.7x forward P/B, which looks compelling as we expect its ROE to recover to 10.2% in 2015 from 4.3% in 2014. We reiterate our Buy rating with target price of HK$2.9 based on 1.0x P/B. We think now is a good entry point.