Deutsche Bank
Markets Research

Rating
Buy

Asia
China

Transportation
Marine

Company
China Shipping Dvlpmt Alert

Reuters	Bloomberg	Exchange	Ticker
1138.HK	1138 HK	HSI	1138
ADR Ticker	ISIN		
CSDXY	US1694082009		

Date
27 March 2015

Results

Price at 27 Mar 2015 (HKD)	4.99
Price target - 12mth (HKD)	8.00
52-week range (HKD)	6.09 - 4.03
HANG SENG INDEX	24,497

Sky Hong, CFA
Research Analyst
(+852) 2203 6131
sky.hong@db.com

Joe Liew, CFA
Research Analyst
(+65) 6423 8507
joe.liew@db.com

Stock data

Market cap (HKDm)	16,989
Market cap (USDm)	2,191
Shares outstanding (m)	3,404.6
Major shareholders	China Shipping Corp (46%)
Free float (%)	54
Avg daily value traded (USDm)	11.2

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	11,344	12,518	13,611
Net Profit (CNYm)	-2,234.2	311.6	2,063.0
DB EPS (CNY)	-0.66	0.09	0.51
PER (x)	–	44.7	7.8
Yield (net) (%)	0.0	0.0	4.2

Source: Deutsche Bank

2014 results no surprise, guidance for 2015 looks encouraging; Buy

2014 net profit RMB309m vs. DBe 312m; net loss of RMB2.2bn in 2013

The number was slightly better than what the company guided previously in its profit warning (c.RMB300). Excluding one-off items (mainly scrapping subsidy of RMB490m and loss on disposal of fixed assets of RMB231m), core net profit ended up with RMB55m, a “V” shaped turnaround as vs. 2013 (net loss of RMB2.2bn).

Effective cost control appeared to be the key factor, driving this impressive YoY improvement. Despite 10.9% YoY growth in shipments, CSD managed to reduce its operating cost by 6% YoY. Particularly, the company has done a great job controlling bunker cost. Despite strong growth in shipments, total bunker consumption indeed edged down 1.1% YoY to 1.17mt as the company took more measures (e.g. economic speed) to reduce consumption. Bunker cost accounted for 41.9% of total operating cost in 2014. In addition, CSD also reduced sea crew cost (-9.5% YoY; 13.8% of total operating cost) and port charge (-15% YoY; 10.2% of total operating cost) via appropriate staff arrangement with parent group and effective communication with ports.

By segments, gross margin for oil segment sharply improved by 15.1ppts to 13.1% in 2014 on recovery in both domestic and internal crude shipping. Gross margin for dry bulk also recovered to 5.3ppts to 8.8% largely driven by int’l iron ore.

In light of the turnaround, the company resumed dividend by declaring RMB0.03/share for 2014. This represents 39% payout ratio, consistent to its historical payout level. We think this clearly shows the company’s strong commitment of rewarding investors.

2015 guidance looks encouraging and 0.6x P/B remains compelling; Buy

According to the guidance included in it’s A share results, CSD expects revenue to grow 1.8% YoY to RMB12.5bn in 2015 on 2.1% YoY rise in shipments. However, as bunker price would be a lot lower than in 2014, the company estimates that operating cost would fall 10% to RMB9.8bn. These two items combined should bring in additional RMB1.3bn earnings in 2015. The strong earnings recovery ahead and current compelling valuation (0.6x P/B, in our view, present investors a great buying opportunity.

Furthermore, as one of handful SOE carriers in China, CSD would be the key beneficiary of government’s policy initiatives on transportation security. We expect the company to aggressively add VLCC, LNG, and possibly Valemax vessels ahead. As these coming vessels are likely to be locked into long-term contracts with attractive returns, we expect its ROE to recover towards 10% in coming years, leading to re-rating of P/B to 1x from current 0.6x. We maintain Buy on the stock, with target price of Hk$8.0, based on 0.9x P/B.