J.P.Morgan

China Cosco Holdings - H

Headline results beat expectations due to one-offs; still loss-making at the recurring level; stay N

Neutral

1919.HK, 1919 HK

Price: HK$3.83

▲ **Price Target: HK$3.80**
Previous: HK$3.50

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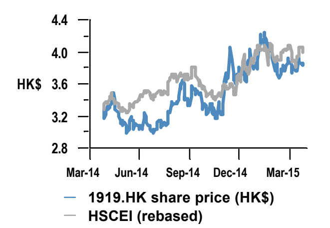
- **Results beat ours and market expectations helped by one-offs; still loss-making at the recurring profit level:** Net profit was Rmb2.6B in 2H14, 115% higher y/y and vs net loss of Rmb2.3B in 1H14. This resulted in full year net income of Rmb363MM, 54% higher y/y. Net profit margin was 0.5%, steady y/y. Excluding one-offs, China Cosco remained loss-making at the recurring level in 2014 - ***core loss was Rmb1.3B, 64% smaller y/y. Core loss margin was 2%,*** 4ppts higher y/y. Core ROE was negative 6%. Dec-14 BV/shr rose 10% h/h to Rmb2.39. Net debt-equity fell to c.1.9x (from c.2.0x in Dec-13).

- **Container shipping segment turned profitable:** Revenue rose 3% y/y in 2H14 as container shipping volume rose 8% y/y to 4.9MM TEUs while average freight rate rose 6% to c.US$762/TEU. 2014 revenue breakdown: America 31% (+2ppts y/y), Europe 24% (+2ppts), Asia Pacific 17% (+2ppts), China Domestic 23% (-5ppts), Other 6% (+1ppt). Operating costs fell 1% y/y while unit cost per TEU fell c.8% y/y which is positive. Container shipping booked an operating profit of Rmb1,884MM in 2H14, 89% higher y/y, much better than its operating loss of Rmb869MM in 1H14. Notably, the container shipping business cut fuel consumption by 8.3% y/y and fuel cost fell 15.0% y/y.

- **Dry bulk shipping losses shrank h/h:** Revenue fell 24% y/y, mainly driven by weaker shipping volume which fell 14% y/y to 88MM tons. Operating costs fell 16% y/y which is positive. Dry bulk shipping segment booked an operating loss of Rmb335MM in 2H14, 53% smaller h/h but weaker than its operating profit of Rmb220MM in 2H13. Notably, vessel chartering expenditure fell 30.6% y/y and fuel costs fell 17.9% y/y. **Other segments remained profitable -** Container leasing profit fell 8% y/y, 15% h/h to Rmb341MM while Container terminal profit fell 32% y/y, 50% h/h to Rmb241MM.

Price Performance



	YTD	1m	3m	12m
Abs	0.0%	-2.5%	-0.8%	16.4%
Rel	0.5%	0.0%	0.0%	-4.6%

China Cosco Holdings - H (Reuters: 1919.HK, Bloomberg: 1919 HK)

Rmb in mn, year-end Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (Rmb mn)	66,138	66,901	65,032	70,271	78,074
Net Profit (Rmb mn)	235	363	340	1,361	2,224
EPS (Rmb)	0.02	0.04	0.03	0.13	0.22
DPS (Rmb)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	(3.1%)	1.2%	(2.8%)	8.1%	11.1%
EPS growth (%)	NM	54.0%	(6.2%)	300.2%	63.4%
ROCE	(5.0%)	(0.4%)	1.6%	2.3%	2.8%
ROE	1.0%	1.5%	1.4%	5.4%	8.2%
P/E (x)	133.1	86.5	92.2	23.0	14.1
P/BV (x)	1.3	1.3	1.3	1.2	1.1
EV/EBITDA (x)	NM	17.2	12.0	9.9	8.6
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	10,216
Market Cap (Rmb mn)	31,341
Market Cap ($ mn)	5,046
Price (HK$)	3.83
Date Of Price	26 Mar 15
Free Float(%)	48.0%
3M - Avg daily vol (mn)	11.73
3M - Avg daily val (HK$ mn)	46.30
3M - Avg daily val ($ mn)	6.0
HSCEI	1,1919.69
Exchange Rate	7.75
Fiscal Year End	Dec

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Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
A rebound in shipping volume and freight rates, China's continued urbanization and industrialization which will sustain raw material demand, government policies to support the shipping industry, industry consolidation.	Global economic recovery sustains, improvement in industry over-supply, lower bunker fuel prices.	China's raw materials import demand stalls; prolonged industry oversupply; substantial increase in bunker fuel prices and limited pass-through, policies that dampen China's raw materials import demand, and potential equity-raising if the downturn is prolonged.

Key financial metrics	FY14A	FY15E	FY16E	FY16E
Revenues (LC)	66,901	65,032	70,271	78,074
Revenue growth (%)	1.2%	-2.8%	8.1%	11.1%
EBITDA (LC)	4,555	7,264	9,387	11,309
EBITDA margin (%)	6.8%	11.2%	13.4%	14.5%
Tax rate (%)	206%	35%	35%	35%
Net profit (LC)	363	340	1,361	2,224
EPS (LC)	0.04	0.03	0.13	0.22
EPS growth (%)	54.0%	-6.2%	300.2%	63.4%
DPS (LC)	-	-	-	-
BVPS (LC)	2.39	2.40	2.54	2.77
Operating cash flow (LC mn)	6,037	3,855	6,253	7,870
Free cash flow (LC mn)	5,274	(8,626)	(6,228)	(4,611)
Interest cover (x)	2.4	4.0	4.8	5.3
Net margin (%)	0.5%	0.5%	1.9%	2.8%
Sales/assets (X)	0.43	0.42	0.42	0.43
Debt/equity (%)	202.4%	219.1%	228.1%	231.7%
Net debt/equity (%)	193.8%	228.2%	239.4%	235.5%
ROE (%)	1.5%	1.4%	5.4%	8.2%
Key model assumptions	**FY14A**	**FY15E**	**FY16E**	**FY16E**
Average TCE growth	-11%	-24%	37%	35%
Container volume growth	8%	6%	4%	4%
Average freight rate growth	-4%	-3%	3%	2%

Source: Company and J.P. Morgan estimates.

Valuation and price target basis

Our Dec-15 H-share price target of HK$3.80 is based on 1.3x P/BV, close to China Cosco H-share's historical average valuation since listing given its improving outlook in the longer term as it continues to restructure.

P/BV Trading Range Since Listing

Source: Bloomberg, Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA	EPS
Sensitivity to	FY15E	FY15E
5% chg in average TCE growth	+/-1%	+/-16%
1% chg in container volume gr	+/-1%	+/-13%
1% chg in avg freight rate gr	+/-2%	+/-27%

Source: J.P. Morgan estimates. *Large earnings sensitivity due to small loss base.

JPMe vs. Consensus, change in estimates		
EPS (LC)	FY15E	FY16E
JPMe old	(0.10)	0.12
JPMe new	0.03	0.13
% chg	nm	9.7%
Consensus	0.09	0.21

Source: Bloomberg, J.P. Morgan.

Comparative metrics

	CMP	Mkt Cap	P/E (x)		P/BV (x)		ROE (%)		YTD
	LC	$Mn	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	Stock perf.
China Cosco – H	3.83	11,938	92.2	23.0	1.3	1.2	1.4	5.4	0.0
CSCL - H	2.29	7,843	nm	30.5	0.9	0.9	(1.6)	2.7	(6.5)
Pacific Basin Shipping	2.53	632	7.2	3.5	0.6	0.6	(7.2)	8.9	(19.2)
Sector Average			**16.4**	**24.3**	**1.1**	**1.1**	**4.1**	**6.7**	**7.9**

Source: Bloomberg, J.P. Morgan estimates. Prices are as of 26th March 2015.

2H14 Results Review

Results beat ours and market expectations, helped by one-offs; still loss-making at the recurring profit level

China Cosco reported a net profit of Rmb2.6B in 2H14, 115% higher y/y and vs net loss of Rmb2.3B in 1H14. Net profit margin was 7.7%. This resulted in full year net income of Rmb363MM, 54% higher y/y. Net profit margin was 0.5%, steady y/y.

The results were favorably impacted by the reversal of previously recognized income tax liabilities of Rmb1.6B, disposal gains of Rmb608MM and F/X gains of Rmb66MM offset to some extent by loss on vessel demolition of Rmb309MM and provision for onerous contracts of Rmb213MM.

Excluding these, China Cosco was loss making at the recurring level in 2014 reporting core loss of Rmb1.3B, 64% lower y/y. Core loss margin was 2%, 4ppts higher y/y. Core ROE was negative 6%. Dec-14 BV/shr rose 10% h/h to Rmb2.39. Net debt-equity fell to c.1.9x (from c.2.0x in Dec-13).

Container shipping segment review

Revenue rose 3% y/y in 2H14 as container shipping volume rose 8% y/y to 4.9MM TEUs while average freight rate rose 6% to c.US$762/TEU. 2014 revenue breakdown: America 31% (+2ppts y/y), Europe 24% (+2ppts), Asia Pacific 17% (+2ppts), China Domestic 23% (-5ppts), Other 6% (+1ppt). Operating costs fell 1% y/y while unit cost per TEU fell c.8% y/y which is positive.

Container shipping booked an operating profit of Rmb1,884MM in 2H14, 89% higher y/y, much better than its operating loss of Rmb869MM in 1H14. Notably, the container shipping biz cut fuel consumption by 8.3% y/y and fuel cost fell 15.0% y/y despite the y/y increase in shipping capacity and volume.

Shipping capacity rose 6.9% y/y to 175 container vessels with a total capacity of 840,682 TEUs as at Dec-14 (excluding the chartered-out capacity of 5 container vessels with 42,476 TEUs). Remaining orderbook: 10 vessels or 117,960 TEUs (c.14% of existing capacity).

Dry bulk shipping segment review

Revenue fell 24% y/y, mainly driven by weaker shipping volume which fell 14% y/y to 88MM tons. Operating costs fell 16% y/y which is positive. Dry bulk shipping booked an operating loss of Rmb335MM in 2H14, 53% smaller h/h but weaker than its operating profit of Rmb220MM in 2H13. Notably, vessel chartering expenditure fell 30.6% y/y and fuel costs fell 17.9% y/y.

Shipping capacity: 255 vessels or 23.4MM dwt as at end Dec-14. Remaining orderbook: 40 vessels or 3.47MM dwt (c.14.9% of existing capacity).

Other segments remained profitable

Container leasing profit fell 8% y/y, 15% h/h to Rmb341MM while Container terminal profit fell 32% y/y, 50% h/h to Rmb241MM.

Management outlook remains cautious

Management commented that:

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“**Container shipping:** in light of the ‘New Normal’ of the global economy and the shipping market and the new wave of Internet economy, the Company will further grasp the main keynote of ‘Adjustment and Development’, actively adapt to ‘New Normal’, activate new reform impetuses to continually improve effectiveness of business operation.

Capitalizing two key factors, namely large-scale vessel and energy saving and environmental protection, the Group will continue to optimize its fleet structure, establish a low-cost fleet, improve the economical efficiency of marine fuel. In addition, the Group will promote sharing of resources within the alliance, enhance its value-creating capacities and further consolidate and expand the cost advantages of alliance. Moreover, the Group will actively exploit the potentials and the profit growth contributors of the emerging markets and regional markets through optimization of the type of vessels and shipping routes.

The Group will renovate its transportation modes under the guideline of national strategy of ‘One Belt and One Road’ in order to establish seamless connection of transit shipment in multi-transportation modes and establish unique competitive advantages. Moreover, the Group will carry out marketing innovation, improve service quality and put full efforts on the consolidation of cargo source base in order to further increase the proportion of high-value cargoes and profit contribution.

The Group will enhance its resource allocation capacities and utilization efficiency in order to accelerate turnover of container equipment. Furthermore, the Group will continue to strengthen ship operation and fuel consumption monitoring. Moreover, the Group will continue to strengthen supplier management and negotiations and enhance collaboration between terminal business and shipping business in order to improve terminal operation efficiency.

(The Group) will further explore O2O (online to offline) e-commerce model and actively introduce new elements and new mechanism, and will integrate various resources through (their) e-commence platform to expand derivative services with increasing efforts on service and product innovation for establishing shipping e-commerce ecosphere, so as to improve the overall value of the Company’s services.

In 2015, the Group’s container shipping business is expected to achieve a 5-6% increase in cargo volume as compared with 2014.

Dry bulk shipping: In 2015, with the new changes and features of domestic and international economic development, COSCO Bulk will adhere to its operation and development principles of ‘being market-oriented and customer-centric’, and gradually promote the transformation of business model to enhance its soft power. Focusing on the four dimensions of ‘anti-cyclicality, profitability, global presence, increase in size’, it will insist on ‘systematic thinking, systematic innovation and systematic implementation’ to enhance the ability to increase revenues and create benefits so as to achieve sustainable development.

It will establish the systematic innovation mechanism, speed up the transformation of business model to build an integrated service cluster for dry bulk. Being customer-centric, it will optimize the design of service products, and actively promote the deep strategic cooperation with major customers and realize mutual benefit by taking a series of measures such as “entering into long-term contracts to provide selectively tailored-made ship-booking and transportation services to targeted customers, collaborating on the development of resources and deepening joint venture". Through materializing the reforms on institutional mechanism of marketing, it will adopt marketing account executive accountability system to improve the customers' experience on shipping services and enhance its global market capacities. On the basis of the existing marketing network of overseas companies, with a combination of source flow of goods, status of cargo owners and potential of emerging markets, it will accelerate the establishment of oversea networks to develop an overseas collaborative network platform. It will gradually facilitate the adjustment, optimization and professional management on fleet structure to form competitive advantages at a low cost from sources and continue to meet the demands for special cargo types and project transportation at various levels from customers.

COSCO Bulk expects that a shipping volume of 678.3 billion ton miles is to be achieved in 2015.

Terminal business: To focus on investment opportunities in major hub ports and domestic second-tier ports, and make flexible investment in promising second-tier domestic terminals. To upgrade existing terminal facilities to adapt to the trend of large vessels. To improve the terminal layout in Mediterranean region. To deepen the market research efforts on bulk, universal and various specialized terminals. To enlarge and strengthen the markets and businesses of existing specialized terminals such as stone terminals, timber terminals and car docks, and to identify cooperation opportunities in relevant specialized terminals to achieve diversification in terminal investment and operation. To actively coordinate with global development strategy of COSCO fleet to achieve full synergy between terminal and shipping segments. To promote the diversification of shareholding cooperation and make efforts to enhance the profitability of terminal segment. To firmly grasp the 'Two Belts and One Road' strategic opportunity to make efforts to promote the globalization layout of terminals. To focus on emerging markets such as African and Latin-American markets."

Raising estimates and price target; stay Neutral

We have raised our FY15-16E earnings forecasts, mainly to factor in higher container shipping rates and lower bunker fuel costs. We also introduce our FY17E forecasts. Consequently, we have raised our Dec-15 H share price target from HK$3.50 to HK$3.80 which is based on 1.3x P/BV, close to China Cosco H-share's historical average valuation since listing given its improving outlook in the longer term as it continues to restructure.

We remain cautious on the container shipping sector's outlook this year as we expect the global container shipping industry's gross capacity growth to accelerate to c.10.3% based on newbuild vessel deliveries or c.7-8% net of scrapping in 2015 versus demand growth of c.5-6%, putting pressure on freight rate recovery. Spot freight rates have remained weak YTD especially on Asia-Europe routes as liners have been unsuccessful in their rate hike plans. Transpacific contracts look like they will improve from low base last year which is the positive side. Alliances could help stabilize freight rates, but could crowd out weaker players longer-term. The four major alliances 2M, G6, CKYHE and Ocean Three will have a combined market share of c.77% of the global container shipping market. These alliances could manage capacity deployment better. We believe freight rates and earnings will recover more strongly from 2016 and early 2017 when the industry demand-supply growth finally returns to balance with moderating newbuild vessel deliveries. 2M will have a combined market share of 35% on the Asia-Europe trade vs 23% for CKYHE alliance, 22% for Ocean Three and 19% for G6 alliance. China Cosco has 24% exposure to Asia-Europe trade in terms of revenue.

We believe the dry bulk sector recovery could be delayed to late 2015 or early 2016 driven by recent correction in spot rates on account of slowdown in coal imports from China and lower ton-mile effect from iron imports to China as Australia gained share from Brazil. A silver lining is that the orderbook looks overstated and delivery shortfall is likely to remain significant given the financing challenges of many ship owners and builders. Continued scrapping will likely continue to mitigate effective supply. We expect freight rates to improve as the sector demand-supply growth returns to balance in the c.5-6% range in late 2015 or early 2016. Global bulk shipping capacity held steady m/m at 761.2MM dwt as at March 1. This is the 25th month of a ≤1% m/m rise and implies only 4.0% growth annualized, below our 6.3% net capacity growth forecast and 10% growth implied by the vessel orderbook. Scrapping removed 78 ships and 5.9MM dwt in Jan-Feb 2015 (or c.4.7% of capacity annualized).

China Cosco provides investors with a leveraged exposure to the recovery of the bulk shipping sector, given that it is the largest player globally and has a large spot market exposure.

Key risks: 1) China’s raw materials import demand stalls; 2) a rise in newbuild vessel orders, prolonging the industry recovery; 3) substantial increase in bunker fuel prices and limited pass-through; 4) policies that dampen China’s raw materials import demand; 5) falling container shipping freight rates and 6) potential equity-raising if the downturn is prolonged.

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Table 1: China Cosco: 2H14 & 2014 Results at a Glance

Rmb MM	2H14	2H13	Y/Y Chg	1H14	H/H Chg	2014	2013	Y/Y Chg
Container shipping revenue	25,882	25,144	3%	23,610	10%	49,492	47,465	4%
Container shipping profit (loss)	1,884	997	89%	(869)	nm	1,016	(988)	nm
Dry bulk shipping revenue	5,347	7,013	-24%	5,903	-9%	11,250	12,957	-13%
Dry bulk shipping profit (loss)	(335)	220	nm	(710)	-53%	(1,045)	(1,698)	-38%
Container terminal revenue	1,469	1,336	10%	1,457	1%	2,926	2,567	14%
Container terminal profit (loss)	241	357	-32%	478	-50%	719	756	-5%
Container leasing revenue	498	551	-10%	607	-18%	1,105	1,178	-6%
Container leasing profit (loss)	341	372	-8%	399	-15%	739	925	-20%
Others	1,213	1,020	19%	915	33%	2,128	1,971	8%
Total revenue	**34,409**	**35,064**	**-2%**	**32,492**	**6%**	**66,901**	**66,138**	**1%**
Cost of services & inventories sold	(31,962)	(34,545)	-7%	(30,916)	3%	(62,877)	(67,030)	-6%
Gross profit	**2,447**	**520**	**371%**	**1,577**	**55%**	**4,024**	**(892)**	**nm**
Other income (expenses), net	1,730	3,564	-51%	(403)	nm	1,327	3,765	-65%
SG&A expenses	(2,304)	(2,210)	4%	(2,004)	15%	(4,308)	(4,176)	3%
Operating profit	**1,873**	**1,874**	**0%**	**(831)**	**nm**	**1,043**	**(1,303)**	**nm**
Operating profit margin	***5.4%***	***5.3%***	***0.1ppt***	***-2.6%***	***8.0ppt***	***1.6%***	***-2.0%***	***3.5ppt***
Finance income	732	41	1670%	267	175%	999	1,023	-2%
Finance costs	(1,380)	(721)	91%	(1,520)	-9%	(2,900)	(2,336)	24%
Profit from JVs/ associates	662	598	11%	703	-6%	1,366	1,102	24%
- JVs	336	296	13%	319	5%	654	541	21%
- Associates	327	302	8%	385	-15%	711	561	27%
Pre-tax profit	**1,888**	**1,792**	**5%**	**(1,381)**	**nm**	**507**	**(1,514)**	**-134%**
Tax credit (charge)	1,336	(0)	nm	(293)	nm	1,044	(299)	nm
Effective tax rate	*-70.8%*	*0.0%*	*-70.8ppt*	*-21.2%*	*-49.6ppt*	*-205.7%*	*-19.8%*	*-185.9ppt*
Profit from discontinued operations	-	(19)	-100%	-	-	-	4,692	-100%
Minority interests	(585)	(547)	7%	(603)	-3%	(1,188)	(2,644)	-55%
Net profit	**2,639**	**1,225**	**115%**	**(2,277)**	**nm**	**363**	**235**	**54%**
Continuing operations	2,639	1,233	114%	(2,277)	nm	363	(2,960)	nm
Discontinued operations	-	(8)	nm	-	-	-	3,196	-100%
Net profit margin	***7.7%***	***3.5%***	***4.2ppt***	***-7.0%***	***14.7ppt***	***0.5%***	***0.4%***	***0.2ppt***
EPS (basic and diluted)	**0.26**	**0.12**	**115%**	**(0.22)**	**nm**	**0.04**	**0.02**	**54%**
Continuing operations	0.26	0.12	114%	(0.22)	nm	0.04	(0.29)	nm
Discontinued operations	-	(0.00)	-100%	-	-	-	0.31	-100%

Source: Company reports. *1H13 numbers were restated. Discontinued operations represent Cosco Logistics and CIMC equity stake sale and their share of profit prior to disposal.

Table 2: China Cosco vs. NOL vs. OOIL vs. Hanjin Shipping: 2014 Financials Comparison

	China Cosco		NOL		OOIL		Hanjin Shipping	
US$MM	2014	Y/Y Chg	2014	Y/Y Chg	2014	Y/Y Chg	2014	Y/Y Chg
Revenue	10,858	1%	8,617	-2%	6,522	5%	8,220	-7%
EBIT	169	nm	(95)	nm	329	264%	78	nm
EBIT margin	*2%*	*3.5ppt*	*-1%*	*-1.3ppt*	*5%*	*3.6ppt*	*1%*	*5.2ppt*
Finance costs	471	24%	(133)	235%	(54)	32%	(210)	-46%
Profit before tax	82	nm	(217)	1270%	295	340%	(529)	-26%
Tax charge (credit)	169	nm	(35)	-38%	(24)	22%	(8)	-39%
Effective tax rate	*205.7%*	*185.9ppt*	*-16.0%*	*338.5ppt*	*8.2%*	*-21.5ppt*	*-1.5%*	*0.3ppt*
Net profit	59	54%	(260)	241%	270	472%	(402)	-35%
Net profit (loss) margin	*0.5%*	*0.2ppt*	*-3.0%*	*-2.2ppt*	*4.1%*	*3.4ppt*	*-4.9%*	*2.2ppt*

Source: Company reports.

Table 3: China Cosco: 2H14 & 2014 Container Shipping Operating Statistics

	2H14	2H13	Y/Y Chg	1H14	H/H Chg	2014	2013	Y/Y Chg
Volumes ('000 TEU)	4,948	4,589	8%	4,489	10%	9,438	8,702	8%
Average rates (US$/TEU)	762	716	6%	715	6%	740	729	1%
Cargo Revenues (US$ millions)	3,769	3,284	15%	3,212	17%	6,981	6,343	10%

Source: Company reports. Note: Detailed operating data by routes is not available.

Table 4: China Cosco: 2014 Container Shipping & Related business Revenue Breakdown

In mn Rmb	2014	2013	Y/Y Chg
America	15,521	14,201	9.3%
Europe	11,851	10,663	11.1%
Asia Pacific	8,435	7,385	14.2%
China domestic	11,425	13,767	-17.0%
Other	3,078	2,296	34.0%
Total	**50,310**	**48,312**	**4.1%**
Revenue contribution (%)			
America	31%	29%	1.5ppt
Europe	24%	22%	1.5ppt
Asia Pacific	17%	15%	1.5ppt
China domestic	23%	28%	-5.8ppt
Other	6%	5%	1.4ppt
Total	**100%**	**100%**	

Source: Company reports.

Table 5: China Cosco vs CSCL vs NOL vs OOIL vs Hanjin Shipping: 2014 Container Shipping Operating Statistics Comparison

	China Cosco		NOL		OOIL		Hanjin Shipping	
	2014	Y/Y Chg	2014	Y/Y Chg	2014	Y/Y Chg	2014	Y/Y Chg
Volumes ('000 TEU)								
Transpacific	-	-	2,004	-5%	1,289	4%	1,409	-4%
Asia-Europe/Transatlantic	-	-	1,146	-4%	1,365	10%	1,080	-9%
Intra-Asia/Australasia	-	-	2,504	-3%	2,932	4%	947	-3%
China Domestic	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total	**9,438**	**8%**	**5,654**	**-4%**	**5,586**	**6%**	**3,436**	**-6%**
Average Rates (US$/TEU)								
Transpacific	-	-	1,640	-4%	1,531	-2%	-	-
Asia-Europe/Transatlantic	-	-	1,237	2%	1,300	-2%	-	-
Intra-Asia/Australasia	-	-	678	-2%	703	-3%	-	-
China Domestic	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Average	**740**	**1%**	**1,132**	**-2%**	**1,040**	**-2%**	**-**	**-**
Revenues (US$mn)								
Transpacific	-	-	3,287	-8%	1,973	3%	-	-
Asia-Europe/Transatlantic	-	-	1,418	-2%	1,774	8%	-	-
Intra-Asia/Australasia	-	-	1,696	-6%	2,061	1%	-	-
China Domestic	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Logistics & Other Businesses	-	-						
Total	**6,981**	**10%**	**6,401**	**-6%**	**5,807**	**4%**	**-**	**-**
Revenue Contribution* (%)								
Transpacific	-	-	51%	-1.3ppt	34%	-0.3ppt	41%	0.5ppt
Asia-Europe/Transatlantic	-	-	22%	1.1ppt	31%	1.3ppt	31%	-1.1ppt
Intra-Asia/Australasia	-	-	27%	0.2ppt	35%	-1.0ppt	28%	0.7ppt
China Domestic	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Logistics & Other Businesses	-	-						
Total	**-**		**100%**		**100%**		**100%**	

Source: Company reports. Note: China Cosco's detailed operating data by routes is not available.. *Volume contribution for Hanjin Shipping as revenue contribution by route region is not disclosed.

Table 6: China Cosco: 4Q14 & 2014 Dry Bulk Shipping Operating Statistics

	4Q14	4Q13	Y/Y Chg	3Q14	Q/Q Chg	2H14	2H13	Y/Y Chg	2014	2013	Y/Y Chg
Shipment by route ('000 tons)											
International lines	38,317	43,766	-12%	33,386	15%	71,703	86,977	-18%	145,666	178,390	-18%
Domestic coastal lines	7,509	7,245	4%	8,550	-12%	16,059	14,840	8%	32,151	31,684	1%
Total	**45,827**	**51,011**	**-10%**	**41,936**	**9%**	**87,762**	**101,818**	**-14%**	**177,817**	**210,074**	**-15%**
Shipment by cargo types ('000 tons)											
Coal	16,562	17,470	-5%	13,862	19%	30,424	38,420	-21%	65,524	82,117	-20%
Metal ore	21,170	23,284	-9%	18,961	12%	40,131	43,306	-7%	75,488	87,501	-14%
Other	8,095	10,257	-21%	9,112	-11%	17,207	20,092	-14%	36,806	40,456	-9%
Total	**45,827**	**51,011**	**-10%**	**41,936**	**9%**	**87,762**	**101,818**	**-14%**	**177,817**	**210,074**	**-15%**
Breakdown by cargo types											
Coal	36%	34%	1.9ppt	33%	3.1ppt	35%	38%	-3.1ppt	37%	39%	-2.2ppt
Metal ore	46%	46%	0.6ppt	45%	1.0ppt	46%	43%	3.2ppt	42%	42%	0.8ppt
Other	18%	20%	-2.4ppt	22%	-4.1ppt	20%	20%	-0.1ppt	21%	19%	1.4ppt
Total	**100%**	**100%**		**100%**		**100%**	**100%**		**100%**	**100%**	
Shipment Turnover ('000 ton-miles)	**221,547**	**248,371**	**-11%**	**191,736**	**16%**	**413,283**	**491,652**	**-16%**	**831,626**	**998,622**	**-17%**

Source: Company reports.

Table 7: China Cosco: 2014 Dry Bulk Shipping & Related business Revenue Breakdown

Rmb MM	**2014**	**2013**	**Y/Y Chg**
International shipping	9,962	12,144	-18.0%
PRC coastal shipping	2,583	1,918	34.7%
Total	**12,545**	**14,062**	**-10.8%**
Revenue contribution (%)			
International shipping	79%	86%	-7.0ppt
PRC coastal shipping	21%	14%	7.0ppt
Total	**100%**	**100%**	

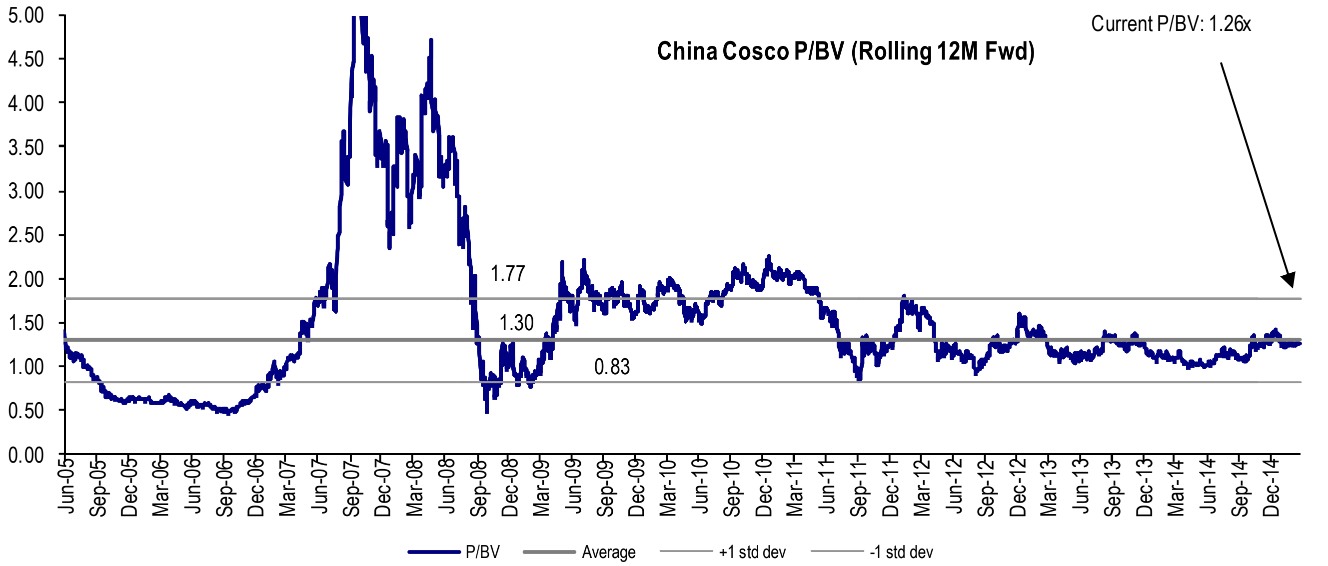
Source: Company reports.

Table 8: China Cosco: FY15-17 Earnings Estimate Revisions

	Old			**New**			**% chg**		
	2015E	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**
Net profit (Rmbm)	(1,040)	1,241	-	340	1,361	2,224	nm	9.7%	-
EPS (Rmb)	(0.10)	0.12	-	0.03	0.13	0.22	nm	9.7%	-

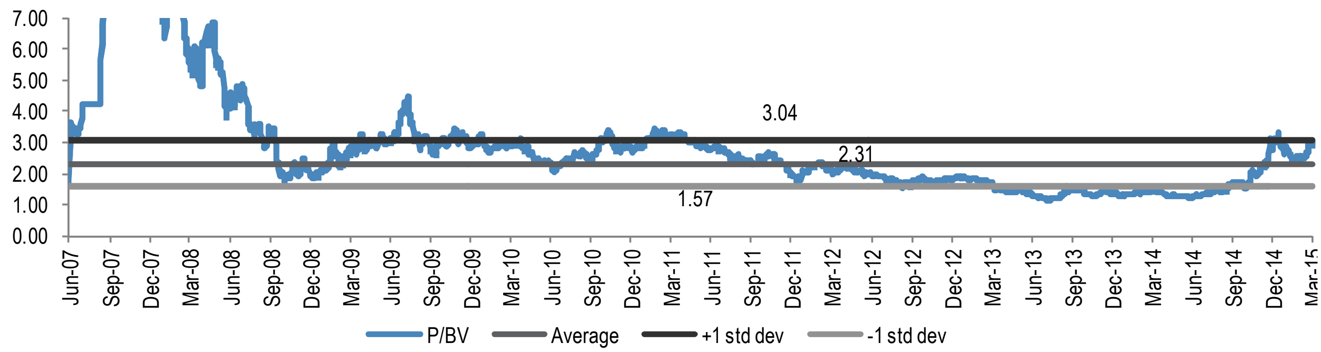
Source: J.P. Morgan estimates.

Figure 1: China Cosco – H P/BV Trading Range Since Listing



Source: Company data, Bloomberg, J.P. Morgan estimates.

Figure 2: China Cosco – A P/BV Trading Range Since Listing



Source: Company data, Bloomberg, J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

China Cosco Holdings - H *(Neutral; Price Target: HK$3.80)*

We view China Cosco as fairly valued and see limited earnings and share price upside from current levels, as container shipping rates have tumbled and the recovery in dry bulk shipping will likely be delayed.

Valuation

Our Dec-15 H-share price target of HK$3.80 is based on 1.3x P/BV, close to China Cosco H-share's historical average valuation since listing given its improving outlook in the longer term as it continues to restructure.

Risks to Rating and Price Target

Key upside risks: (1) a sharp correction in bunker fuel prices; (2) stronger-than-expected growth in dry bulk shipping demand; (3) a faster-than-expected rebound in freight rates; (4) further asset disposal gains; (5) value-enhancing restructuring; and (6) industry consolidation. **Key downside risks:** (1) China's raw materials import demand stalls; (2) a rise in newbuild vessel orders, prolonging the industry recovery; (3) a substantial increase in bunker fuel prices and limited pass-through; (4) policies that dampen China's raw materials import demand; (5) falling container shipping freight rates; and (6) equity-raising if the downturn is prolonged.

China Cosco Holdings - H: Summary of Financials

Income Statement

Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	66,138	66,901	65,032	70,271	78,074
% change Y/Y	(3.1%)	1.2%	(2.8%)	8.1%	11.1%
EBITDA	(1,016)	4,555	7,264	9,387	11,309
% change Y/Y	(76.3%)	NM	59.5%	29.2%	20.5%
EBIT	(4,994)	434	2,785	4,493	6,002
% change Y/Y	(38.5%)	NM	541.1%	61.3%	33.6%
EBIT Margin	(7.6%)	0.6%	4.3%	6.4%	7.7%
Net Interest	(1,313)	(1,901)	(1,800)	(1,938)	(2,118)
Earnings before tax	(1,514)	507	2,351	3,921	5,249
% change Y/Y	(82.4%)	NM	363.5%	66.8%	33.9%
Tax	(299)	1,044	(823)	(1,372)	(1,837)
as % of EBT	(19.8%)	205.7%	35.0%	35.0%	35.0%
Net income (reported)	235	363	340	1,361	2,224
% change Y/Y	NM	54.0%	(6.2%)	300.2%	63.4%
Shares outstanding	10,216	10,216	10,217	10,217	10,217
EPS (reported)	0.02	0.04	0.03	0.13	0.22
% change Y/Y	NM	54.0%	(6.2%)	300.2%	63.4%

Cash flow statement

Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
EBIT	(4,994)	434	2,785	4,493	6,002
Depr. & amortization	3,978	4,121	4,479	4,893	5,307
Change in working capital	(3,256)	(1,418)	(787)	176	516
Taxes	(457)	1,044	(823)	(1,372)	(1,837)
Cash flow from operations	(2,317)	6,037	3,855	6,253	7,870
Capex	(10,629)	(12,481)	(12,481)	(12,481)	(12,481)
Disposal/(purchase)	1,505	0	0	0	0
Net Interest	(1,313)	(1,901)	(1,800)	(1,938)	(2,118)
Other	9,934	11,717	0	0	0
Free cash flow	(1,506)	5,274	(8,626)	(6,228)	(4,611)
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	3,191	(9,452)	10,000	10,000	10,000
Other	160	(4,322)	0	0	0
Dividends paid	0	0	0	0	0
Beginning cash	46,361	48,206	39,706	41,080	44,852
Ending cash	48,206	39,706	41,080	44,852	50,241
DPS	0.00	0.00	0.00	0.00	0.00

Balance sheet

Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	48,206	39,706	41,080	44,852	50,241
Accounts receivable	9,079	7,722	7,506	8,111	9,012
Inventories	2,375	1,927	1,693	1,785	1,952
Others	4,851	1,365	1,365	1,365	1,365
Current assets	64,511	50,720	51,645	56,113	62,570
LT investments					-
Net fixed assets	81,404	80,097	88,098	95,686	102,859
Total Assets	161,862	148,788	159,080	172,502	187,497
Liabilities					
Short-term loans	28,044	18,886	18,886	18,886	18,886
Payables	18,152	15,377	14,375	15,156	16,572
Others	1,875	1,711	1,711	1,711	1,711
Total current liabilities	48,070	35,975	34,973	35,753	37,170
Long-term debt	68,351	68,057	78,057	88,057	98,057
Other liabilities	2,043	527	527	527	527
Total Liabilities	119,748	105,830	114,828	125,609	137,025
Shareholder's equity	42,114	42,958	44,252	46,893	50,472
BVPS (Rmb)	2.37	2.39	2.40	2.54	2.77

Ratio Analysis

Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
EBITDA margin	(1.5%)	6.8%	11.2%	13.4%	14.5%
Operating margin	(7.6%)	0.6%	4.3%	6.4%	7.7%
Net margin	(4.5%)	0.5%	0.5%	1.9%	2.8%
Sales per share growth	(3.1%)	1.2%	(2.8%)	8.1%	11.1%
Sales growth	(3.1%)	1.2%	(2.8%)	8.1%	11.1%
Net profit growth	NM	54.0%	(6.2%)	300.2%	63.4%
EPS growth	NM	54.0%	(6.2%)	300.2%	63.4%
Interest coverage (x)	NM	2.4	4.0	4.8	5.3
Net debt to equity	198.9%	193.8%	228.2%	239.4%	235.5%
Sales/assets	0.4	0.4	0.4	0.4	0.4
Assets/equity	662.7%	639.2%	630.0%	657.6%	663.4%
ROE	1.0%	1.5%	1.4%	5.4%	8.2%
ROCE	(5.0%)	(0.4%)	1.6%	2.3%	2.8%

Source: Company reports and J.P. Morgan estimates.

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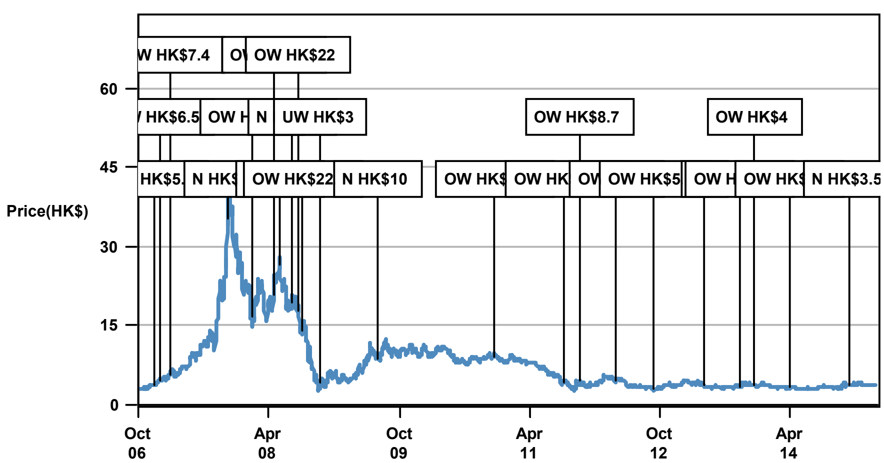
China Cosco Holdings - H (1919.HK, 1919 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Mar 28, 2013 - Aug 30, 2013.

Date	Rating	Share Price (HK$)	Price Target (HK$)
05-Dec-06	OW	3.83	5.60
04-Jan-07	OW	4.44	6.50
13-Feb-07	OW	5.72	7.40
15-Oct-07	N	35.25	33.00
22-Jan-08	OW	16.60	19.00
23-Apr-08	OW	20.75	27.00
19-May-08	N	26.75	27.00
08-Jul-08	N	19.24	22.00
31-Jul-08	OW	17.90	22.00
21-Aug-08	OW	13.90	22.10
05-Nov-08	UW	4.32	3.00
07-Jul-09	N	8.80	10.00
29-Oct-10	OW	8.97	11.80
26-Aug-11	OW	4.04	10.10
28-Oct-11	OW	4.43	8.70
30-Mar-12	OW	4.53	7.00
30-Aug-12	OW	3.15	5.80
28-Mar-13	NR	3.81	--
30-Aug-13	OW	3.43	4.70
31-Oct-13	OW	3.72	4.00
28-Mar-14	OW	3.24	3.50
02-Dec-14	N	3.72	3.50

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