



## HONG KONG

316 HK Outperform

Price (at CLOSE, 22 Jul 2015 GMT) HK\$39.65

Valuation HK\$ 49.00  
- Price to Book

12-month target HK\$ 49.00

Upside/Downside % +23.6

12-month TSR % +25.3

Volatility Index Low/Medium

GICS sector Transportation

Market cap HK\$m 24,813

Market cap US\$m 3,201

Free float % 31

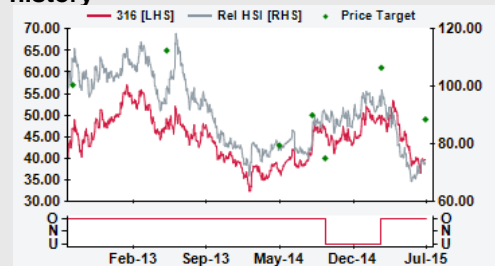
30-day avg turnover US\$m 5.2

Number shares on issue m 625.8

## Investment fundamentals

Year end 31 Dec	2014A	2015E	2016E	2017E
Revenue	m 6,008.8	6,492.2	6,784.7	7,104.2
EBIT	m 252.0	243.3	193.2	201.6
EBIT growth	% 209.3	-3.5	-20.6	4.4
Reported profit	m 224.8	225.1	179.2	187.5
Adjusted profit	m 228.4	225.1	179.2	187.5
EPS rep	¢ 35.9	36.0	28.6	30.0
EPS rep growth	% 377.9	0.1	-20.4	4.6
EPS adj	¢ 36.5	36.0	28.6	30.0
EPS adj growth	% 205.0	-1.4	-20.4	4.6
PER rep	x 14.2	14.2	17.9	17.1
PER adj	x 14.0	14.2	17.9	17.1
Total DPS	¢ 10.9	9.0	7.2	7.5
Total div yield	% 2.1	1.8	1.4	1.5
ROA	% 2.7	2.5	1.9	1.9
ROE	% 5.0	4.8	3.7	3.7
EV/EBITDA	x 8.7	8.3	9.1	8.9
Net debt/equity	% 39.2	38.4	37.7	36.6
P/BV	x 0.7	0.7	0.6	0.6

## 316 HK rel HSI performance, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, July 2015

(all figures in USD unless noted, TP in HKD)

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Macquarie Capital Securities Limited

## Orient Overseas

## One of only a few profitable liners

## Event

- We maintain our Outperform rating on OOIL with 24% potential upside despite lowering our target price to HK\$49.00 from HK\$61. We estimate OOIL will remain profitable over the next three years due to aggressive cost control. The stock trades at only 0.7x P/B.

## Impact

- One of only a few profitable pure container lines:** We forecast only Wan Hai and OOIL to report a profit in 2015 from container shipping, amongst our stocks under coverage. In fact, we believe OOIL is the only container line with a global network that is profitable as Wan Hai is primarily an Intra-Asia operator. Although we forecast Japanese shipping lines to report profitable container businesses, this includes terminals, which are profitable. We believe OOIL's ability to remain profitable is due to aggressive cost control. Along with MOL from G6, OOIL [announced](#) newbuild orders for 6 super-sized +18,000 TEU container vessels for US\$951mn with delivery from 2017. This would lead to lower unit costs given cost savings from operating larger-sized vessels.
- Container shipping – creating own mess:** We turn cautious on the container shipping sector as we estimate a difficult 2H15 and 2016 as container lines continue to focus on maintaining market share at the expense of profitability. Utilisation levels began to decline this year as demand was weaker-than-expected and delivery of newbuilds has continued, leading to freight rate discounting strategies. Asia Europe is the main problem given another 44 +18,000 TEU newbuilds are slated for delivery by end-2017, compared to the current fleet of only 26. Further, we estimate Asia Europe spot rates are already below breakeven. Although transpacific annual contracts are profitable, spot rates have almost halved.

## Earnings and target price revision

- We lower our net profit forecasts for 2015-2017 to US\$225mn, US\$179mn and US\$187mn, respectively. This compares to previous forecasts of US\$363mn, US\$330mn and US\$213mn, respectively.

## Price catalyst

- 12-month price target: HK\$49.00 based on a Price to Book methodology.
- Catalyst: Profitable interim and full year results

## Action and recommendation

- We lower our earnings to reflect lower container freight rates and margins, which led us to cut our target price to HK\$49.00 from HK\$61.00 based on the same mid-cycle P/B multiple methodology. Despite our cautious view on the container shipping sector, we forecast OOIL to remain profitable and we maintain our Outperform rating given 24% potential upside.

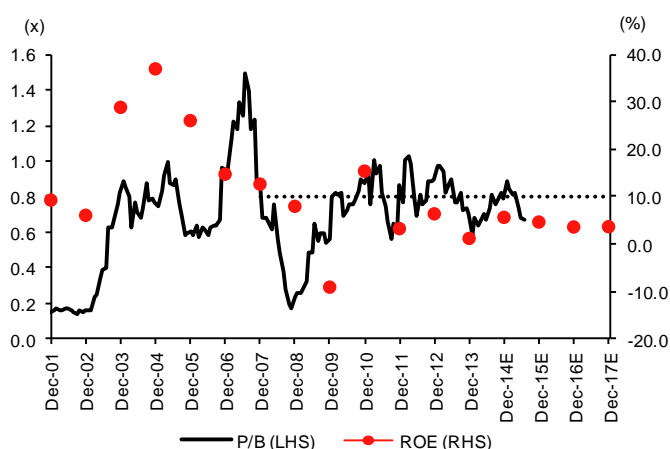
## OOIL earnings and company charts

**Fig 1 Earnings revisions**

Yr-end 31 Dec RMB mn	2015E			2016E			2017E		
	new	old	% chg	new	old	% chg	New	old	% chg
Revenue	6,492	6,732	-3.6	6,785	7,148	-5.1	7,104	7,519	-5.5
Operating expenses	6,249	6,340	-1.4	6,592	6,793	-3.0	6,903	7,294	-5.4
Operating profit	243	392	-38.0	193	354	-45.4	202	225	-10.3
Pre-exceptional profit	225	363	-38.0	179	330	-45.7	187	213	-12.1
Net profit	225	363	-38.0	179	330	-45.7	187	213	-12.1

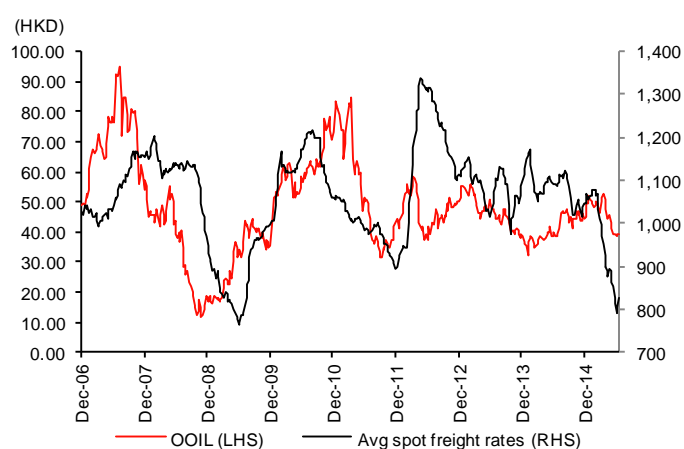
Source: Macquarie Research, July 2015

**Fig 2 OOIL P/BV and ROE**



Source: Company data, Macquarie Research, July 2015

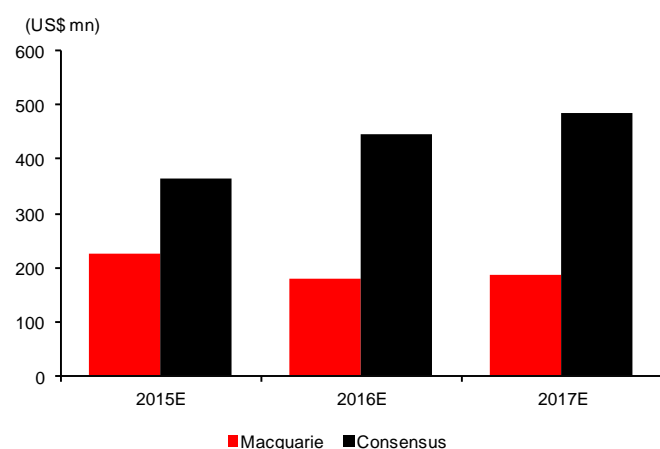
**Fig 3 OOIL share price and container freight rates**



Source: Bloomberg, CCFI, Macquarie Research, July 2015

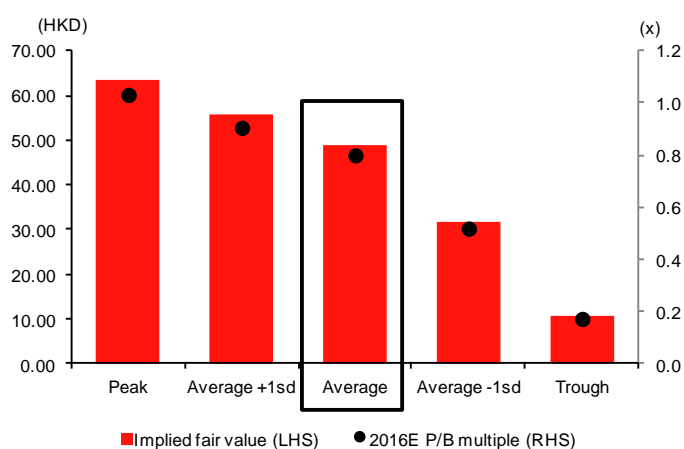
Our previous earnings estimates were broadly in line with consensus estimates. However, factoring in our lower freight rate and margin forecasts, this leads to our earnings being below consensus estimates as we believe that the consensus has not adjusted earnings to reflect decline in container spot rates.

**Fig 4 Earnings comparison – Macquarie and consensus**



Source: Bloomberg, Macquarie Research, July 2015

**Fig 5 Valuation scenarios**



Source: Macquarie Research, July 2015

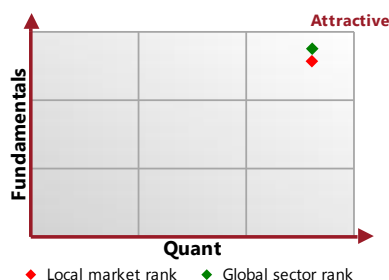
## Macquarie Quant View

The quant model currently holds a strong positive view on Orient Overseas. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Profitability, indicating this stock is not efficiently converting its investments to earnings as proxied by ratios such as ROE, ROA etc.

**50/384**

Global rank in  
Transportation

% of BUY recommendations 87% (13/15)  
Number of Price Target downgrades 2  
Number of Price Target upgrades 0

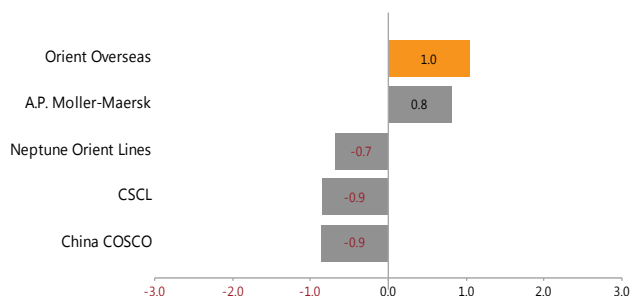


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Hong Kong) and Global sector (Transportation)

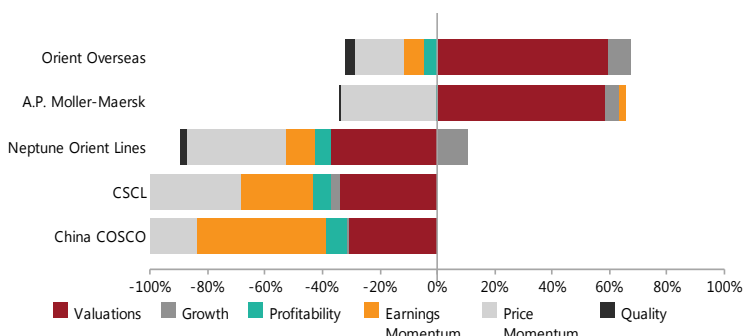
## Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



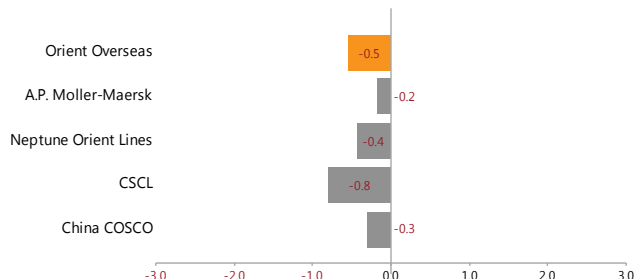
## Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



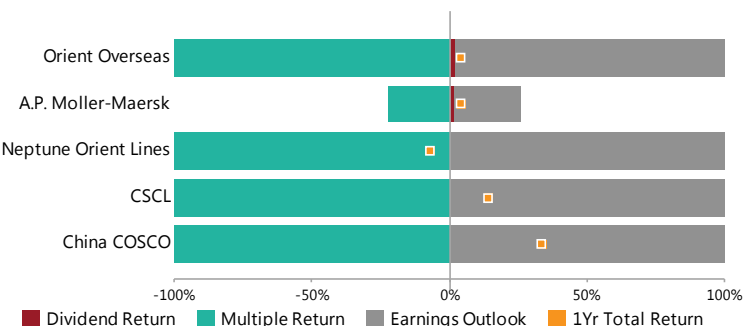
## Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



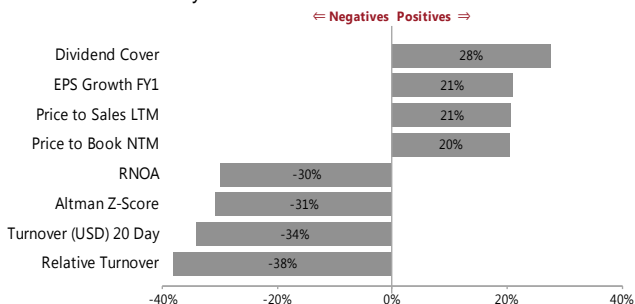
## Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



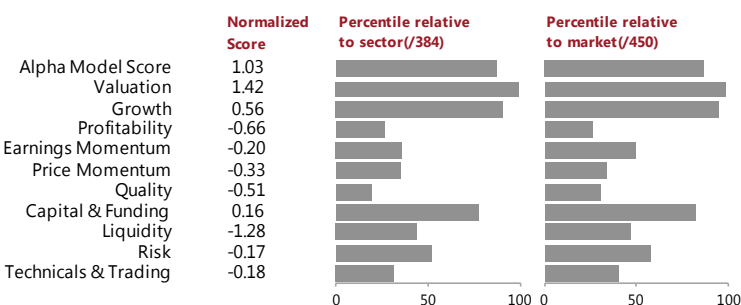
## What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



## How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group ([cpg@macquarie.com](mailto:cpg@macquarie.com))

## Orient Overseas (316 HK, Outperform, Target Price: HK\$49.00)

Interim Results						Profit & Loss					
		2H/14A	1H/15E	2H/15E	1H/16E			2014A	2015E	2016E	2017E
Revenue	m	3,284	2,597	3,895	2,714	Revenue	m	6,009	6,492	6,785	7,104
Gross Profit	m	209	199	298	177	Gross Profit	m	450	497	442	446
Cost of Goods Sold	m	3,075	2,398	3,597	2,537	Cost of Goods Sold	m	5,559	5,995	6,343	6,658
EBITDA	m	282	234	351	214	EBITDA	m	558	585	535	543
Depreciation	m	175	137	205	137	Depreciation	m	306	342	342	342
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	107	97	146	77	EBIT	m	252	243	193	202
Net Interest Income	m	-4	-7	-11	-7	Net Interest Income	m	-15	-18	-17	-17
Associates	m	9	8	12	8	Associates	m	16	19	19	19
Exceptionals	m	-12	0	0	0	Exceptionals	m	-4	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	100	98	147	78	Pre-Tax Profit	m	250	245	195	204
Tax Expense	m	-11	-8	-12	-6	Tax Expense	m	-25	-20	-16	-17
Net Profit	m	89	90	135	72	Net Profit	m	225	225	179	187
Minority Interests	m	-0	0	0	0	Minority Interests	m	-0	0	0	0
Reported Earnings	m	89	90	135	72	Reported Earnings	m	225	225	179	187
Adjusted Earnings	m	102	90	135	72	Adjusted Earnings	m	228	225	179	187
EPS (rep)		0.14	0.14	0.22	0.11	EPS (rep)		0.36	0.36	0.29	0.30
EPS (adj)		0.16	0.14	0.22	0.11	EPS (adj)		0.36	0.36	0.29	0.30
EPS Growth yoy (adj)	%	49.1	-28.9	32.8	-20.4	EPS Growth (adj)	%	205.0	-1.4	-20.4	4.6
						PE (rep)	x	14.2	14.2	17.9	17.1
						PE (adj)	x	14.0	14.2	17.9	17.1
EBITDA Margin	%	8.6	9.0	9.0	7.9	Total DPS		0.11	0.09	0.07	0.07
EBIT Margin	%	3.3	3.7	3.7	2.8	Total Div Yield	%	2.1	1.8	1.4	1.5
Earnings Split	%	44.5	40.0	60.0	40.0	Basic Shares Outstanding	m	626	626	626	626
Revenue Growth	%	2.4	-4.7	18.6	4.5	Diluted Shares Outstanding	m	626	626	626	626
EBIT Growth	%	56.0	-32.8	36.2	-20.6						
Profit and Loss Ratios						Cashflow Analysis					
		2014A	2015E	2016E	2017E			2014A	2015E	2016E	2017E
Revenue Growth	%	-3.6	8.0	4.5	4.7	EBITDA	m	558	585	535	543
EBITDA Growth	%	77.7	4.8	-8.6	1.6	Tax Paid	m	-25	-20	-16	-17
EBIT Growth	%	209.3	-3.5	-20.6	4.4	Chgs in Working Cap	m	72	28	-26	-20
Gross Profit Margin	%	7.5	7.7	6.5	6.3	Net Interest Paid	m	-15	-18	-17	-17
EBITDA Margin	%	9.3	9.0	7.9	7.6	Other	m	-112	-36	71	59
EBIT Margin	%	4.2	3.7	2.8	2.8	Operating Cashflow	m	478	539	547	549
Net Profit Margin	%	3.8	3.5	2.6	2.6	Acquisitions	m	-122	0	0	0
Payout Ratio	%	29.9	25.0	25.0	25.0	Capex	m	-704	-560	-500	-500
EV/EBITDA	x	8.7	8.3	9.1	8.9	Asset Sales	m	0	0	0	0
EV/EBIT	x	18.7	19.1	23.6	22.7	Other	m	272	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-554	-560	-500	-500
ROE	%	5.0	4.8	3.7	3.7	Dividend (Ordinary)	m	0	0	0	0
ROA	%	2.7	2.5	1.9	1.9	Equity Raised	m	0	0	0	0
ROIC	%	3.7	3.5	2.6	2.7	Debt Movements	m	368	145	145	145
Net Debt/Equity	%	39.2	38.4	37.7	36.6	Other	m	-70	-21	-56	-45
Interest Cover	x	17.0	13.9	11.1	11.9	Financing Cashflow	m	297	124	89	101
Price/Book	x	0.7	0.7	0.6	0.6	Net Chg in Cash/Debt	m	226	104	136	149
Book Value per Share		7.4	7.7	7.9	8.2	Free Cashflow	m	-227	-21	47	49
						Balance Sheet					
		2014A	2015E	2016E	2017E			2014A	2015E	2016E	2017E
						Cash	m	2,166	2,269	2,405	2,555
						Receivables	m	588	569	594	622
						Inventories	m	129	132	132	132
						Investments	m	0	0	0	0
						Fixed Assets	m	5,609	5,827	5,985	6,143
						Intangibles	m	49	49	49	49
						Other Assets	m	1,094	1,094	1,094	1,094
						Total Assets	m	9,633	9,940	10,260	10,595
						Payables	m	353	367	388	407
						Short Term Debt	m	389	389	389	389
						Long Term Debt	m	3,596	3,741	3,886	4,032
						Provisions	m	590	534	565	593
						Other Liabilities	m	71	71	70	70
						Total Liabilities	m	4,999	5,101	5,298	5,491
						Shareholders' Funds	m	4,635	4,839	4,962	5,104
						Minority Interests	m	0	0	0	0
						Other	m	0	0	0	0
						Total S/H Equity	m	4,635	4,839	4,962	5,104
						Total Liab & S/H Funds	m	9,633	9,940	10,260	10,595

All figures in USD unless noted.

Source: Company data, Macquarie Research, July 2015

## Important disclosures:

### Recommendation definitions

#### Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return

Neutral – return within 3% of benchmark return

Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

#### Macquarie – Asia/Europe

Outperform – expected return >+10%

Neutral – expected return from -10% to +10%

Underperform – expected return <-10%

#### Macquarie First South - South Africa

Outperform – expected return >+10%

Neutral – expected return from -10% to +10%

Underperform – expected return <-10%

#### Macquarie - Canada

Outperform – return >5% in excess of benchmark return

Neutral – return within 5% of benchmark return

Underperform – return >5% below benchmark return

#### Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return

Neutral (Hold) – return within 5% of Russell 3000 index return

Underperform (Sell) – return >5% below Russell 3000 index return

### Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Asia/Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

### Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

### Recommendation proportions – For quarter ending 30 June 2015

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	46.23%	58.36%	47.27%	44.20%	60.65%	43.01%	(for US coverage by MCUSA, 9.68% of stocks followed are investment banking clients)
Neutral	37.67%	25.65%	29.09%	49.29%	34.19%	40.93%	(for US coverage by MCUSA, 5.53% of stocks followed are investment banking clients)
Underperform	16.10%	15.99%	23.64%	6.52%	5.16%	16.06%	(for US coverage by MCUSA, 1.38% of stocks followed are investment banking clients)

### 316 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, July 2015

### 12-month target price methodology

316 HK: HK\$49.00 based on a Price to Book methodology

## Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/disclosures](http://www.macquarie.com/disclosures).

Date	Stock Code (BBG code)	Recommendation	Target Price
10-Mar-2015	316 HK	Outperform	HK\$61.00
19-Sep-2014	316 HK	Underperform	HK\$40.00
11-Aug-2014	316 HK	Outperform	HK\$50.00
02-May-2014	316 HK	Outperform	HK\$43.00
23-May-2013	316 HK	Outperform	HK\$65.00
09-Aug-2012	316 HK	Outperform	HK\$57.00

### Target price risk disclosures:

**316 HK:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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