

Container Shipping

13 March 2018

Orient Overseas Int'l (316 HK)

FY17 results review: margin uplift slower than expected

- ⊕ **Net profit US\$137.7m for FY17:** OOIL reported a net profit of US\$137.7m, a turnaround from the net loss of US\$219.2m in 2016. While reported turnover of US\$6.1bn was higher than our forecast of US\$6.0bn, the reported earnings came in lower than our forecast of HK\$152.7m (Bloomberg consensus: US\$156.8m) as the reported gross profit margin of 9.4% missed our expectation of 11.4%. Moreover, margin improvement in 2H17 (GPM: 10.0%; 1H17: 8.8%) was slower than our expectation. While OOIL paid an interim dividend of US\$0.0214 per share, no dividend was proposed for the final result, which we believe is probably a result of the pending general offer from COSCO SHIPPING Holdings (CSH, 1919 HK/Buy).
- ⊕ **Capacity turnover and load factor slowed in FY17:** Management said the per TEU operating cost increased by about 4% in FY17, higher than our forecast of 2.9%. Bunker cost per TEU increased the most among all cost items, up 45% YoY, and higher than our forecast 33% YoY increase. In 2017, net operating capacity of OOIL increased by 22% YoY while shipping volume was up 3.6% YoY. Other than the decline in load factor from 84.9% in FY16 to 83.7% in FY17, we believe lower capacity turnover (shipping volume/net operating capacity) also contributed to the lower-than-expected gross margin in FY17.
- ⊕ **Management stays positive for FY18:** Despite the short-term overhang from new industry supply, management remains positive over the long-term outlook of the industry. However, management provided no guidance over the status of the latest contract negotiations for implementation in May. In terms of shipping volume increase of OOIL in 2018, management said they are expecting a high single/low double digit increase this year for the major East-West tradelanes (Transpacific/Asia-Europe), while cargo volume on Intra-Asia routes should be higher YoY without specific growth estimate.
- ⊕ **Positive over completion of the general offer:** There are still two pre-conditions to be fulfilled for the general offer from COSCO SHIPPING Holdings to formally proceed. Management remains confident that the general offer will proceed before the expiry date for the satisfaction of all pre-conditions (30 June 2018). OOIL has received all the six 21,000TEU ships and management said they are in contact with CSH on possible growth options for OOIL ahead.
- ⊕ **We reiterate our Buy rating and TP of HK\$74.70:** The conditional general offer remains the overarching event for OOIL and the proposed offer price of HK\$78.67 has limited the share price movement of OOIL in the past few months. We do not think this will change in the near term. Hence, we maintain our target price of HK\$74.70, which represents a 5% discount to the proposed general offer price.

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Figure 1: OOIL FY17 result summary

(US\$m)	FY16	FY17	% YoY	1H17	2H17	% HoH
Revenue	5,298	6,108	15.3	2,898.0	3,210.4	10.8
Gross profit	265	577	117.4	255.8	321.1	25.5
Gross margin (%)	5.0	9.4		8.8	10.0	
Operating profit	(138)	232	(268.0)	109.6	122.6	11.8
Operating margin (%)	(2.6)	3.8		3.8	3.8	
Profit before tax	(200)	150	(175.2)	74.2	75.9	2.3
Net profit	(219)	138	(162.8)	53.6	84.1	56.8
Net margin (%)	(4.1)	2.3		1.8	2.6	
EPS (US\$)	(0.350)	0.220	(162.9)	0.086	0.134	55.8
Ctr volume ('000 TEU)	6,081	6,299	3.6	3,087	3,212	4.0

Source: Bloomberg, BOCOM Int'l

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Rating System

Analyst Stock Ratings:

Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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