

SECTOR UPDATE

Shipping And Ports – China

Strong Freight Rates Further Raise Container Shipping Earnings Outlook

The latest economic indicators for global trade remain mixed with some negative tilt. With the unabated Red Sea attacks, ocean freight futures prices rose further in the past weeks, reflecting the market’s expectations that upbeat freight rates may extend into 1H25. In line with the updated futures price curve, we raise earnings forecasts for our container shipping coverage by over 40% in FY24 and over 100% in FY25 (from a low base). We upgrade OOIL to BUY on its better dividend prospect (FY24 yield: 18%). Maintain MARKET WEIGHT.

WHAT’S NEW

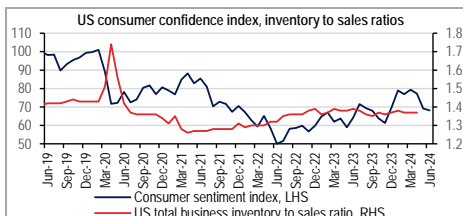
- Update on economic indicators for global trade outlook and sector statistics.
- Raise earnings forecasts for container shipping companies to reflect further strengthened ocean freight rates; upgrade Orient Overseas International (OOIL) to BUY.

ESSENTIALS

• Latest economic indicators for global trade were largely mixed with some negative tilt. New export order sub-indices for both global and China official manufacturing PMIs stood at below 50 in Jun 24, indicating potentially weakening global trade momentum. US consumer sentiment was largely flattish, while Europe’s retail confidence weakened mom in Jun 24.

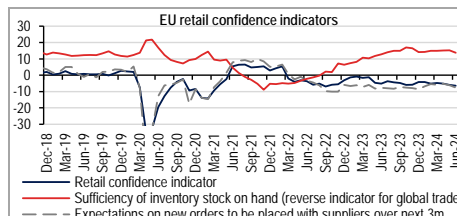
- Global manufacturing PMI, a composite index compiled by S&P Global and JP Morgan tracking 30 major manufacturing economies, stood in a slightly expansionary territory at 50.9 in Jun 24 (May 24: 51.0). After staying at above 50 for two consecutive months, new export order sub-index fell below 50 at 49.3 in Jun 24 (May 24: 50.4), indicating a slight slowdown in global trade activities.
- China manufacturing PMIs were mixed, with official manufacturing PMI and new export order sub-index staying below 50 at 49.5 and 48.3 respectively in Jun 24 (both unchanged from May 24). On the other hand, Caixin manufacturing PMI, a preferred proxy for export oriented private sector businesses, increased marginally to 51.8 in Jun 24 (May 24: 51.7), indicating improved private sector manufacturing activities.
- US consumer sentiment index was largely flat mom in Jun 24. Retail sentiment in Europe deteriorated, with mom weaker retail confidence index in Jun 24 and more of the retailers surveyed expecting to place fewer new orders with their suppliers in the near term.

US CONSUMER SENTIMENT WAS LARGELY FLATTISH MOM IN JUN 24 AT 68.2; INVENTORY TO SALES RATIO (1.37) REMAINED ADEQUATE AS OF APR 24



Source: US Census Bureau, University of Michigan

EU RETAIL CONFIDENCE REMAINED WEAKENED MOM IN JUN 24, WITH MORE OF SURVEYED RETAILERS EXPECTING TO PLACE LESSER NEW ORDERS WITH THEIR SUPPLIERS



Source: Eurostat

PEER COMPARISON

Segment	Company	Ticker	Rec	Price @ 7 Jul 24 (HK\$)	Target Price (HK\$)	Upside to TP (%)	Market Cap (US\$m)	PE 2024F (x)	PE 2025F (x)	Yield 2024F (x)	Yield 2025F (x)	P/B FY24F (x)	ROE 2024F (%)	ROE 2025F (%)	Net Gearing (%)
Port	COSCO SHIPPING Ports	1199 HK	BUY	5.34	6.75	26.4	2,511	7.9	8.2	5.0	4.9	0.41	5.2	5.0	27.3
	China Merchants Port	144 HK	BUY	12.32	15.79	28.2	6,622	7.8	8.0	5.8	5.6	0.49	6.4	6.0	19.5
Container Shipping	COSCO SHIPPING Hldg	1919 HK	HOLD	13.46	13.86	3.0	27,507	3.1	5.1	16.4	9.8	0.83	24.2	13.3	(39.7)
	Orient Overseas Intl	316 HK	BUY	128.4	141.5	10.2	10,857	2.8	4.7	18.0	10.6	0.77	31.0	16.1	(56.2)

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT (Maintained)

SEGMENTAL RATING

Segment	Rating
Port	OVERWEIGHT
Container Shipping	MARKET WEIGHT

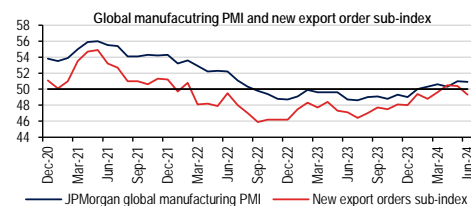
Source: UOB Kay Hian

SECTOR PICKS

Company	Ticker	Rec	Share Price (Icy)	Target Price (Icy)
CSP	1199 HK	BUY	5.34	6.75
CMP	144 HK	BUY	12.32	15.79
CSH	1919 HK	HOLD	13.46	13.86
OOIL	316 HK	BUY (U/G)	128.40	141.50

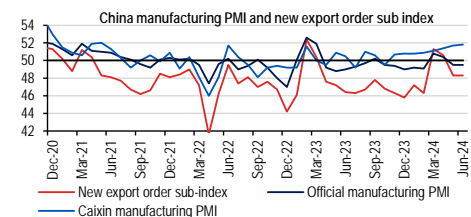
Source: Bloomberg, UOB Kay Hian

GLOBAL MANUFACTURING PMI STOOD AT 50.9 IN JUN 24 (MAY 24: 51.0); NEW EXPORT ORDER SUB-INDEX FELL BELOW 50 AT 49.3 (MAY 24: 50.4), POINTING TO SOME SLIGHT WEAKNESS IN GLOBAL TRADE DEMAND



Source: JP Morgan, S&P Global

CHINA OFFICIAL MANUFACTURING PMI AND NEW EXPORT ORDER SUB-INDEX STAYED BELOW 50 AT 49.5 AND 48.3 IN JUN 24 (BOTH UNCHANGED FROM MAY 24), WHILE CAIXIN PMI IMPROVED MARGINALLY TO 51.8 (MAY 24: 51.7)



Source: China National Bureau of Statistics, Caixin

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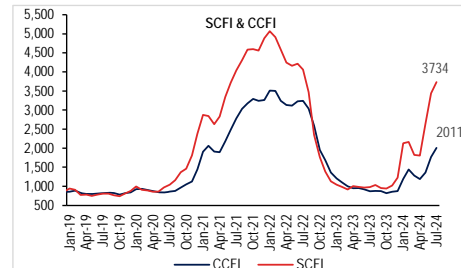
CONTAINER SHIPPING

- Further strengthened ocean freight rates...** Advancing deeper into the peak season, ocean freights continue to rise in the past few weeks. Shanghai Containerised Freight Index (SCFI), a composite index reflecting spot freight rates for containers sailing out of China, rose 23% in the past month, with its latest reading on 5 Jul 24 standing at 3,734. China Containerised Freight Index (CCFI) rose 34% during the same period, reaching 2,011. While the increases in both SCFI and CCFI were largely in line with our expectations, prices of futures contracts expiring in the forward months have risen higher than our projections, with prices of Shanghai-Europe freight futures contracts expiring between Aug 24 and Jun 25 having risen 28-75% from the 4 Jun 24 levels (ie when we raised forward ocean freight rate assumptions last time). Notably, the far-end futures contract prices rose more significantly than nearer month contracts due to: a) their previous low bases, and b) the market pricing with the increasing likelihood that the Red Sea situation may potentially extend into 1H25. On the other hand, the Aug 24 contract price was only a tad higher than the latest spot rates, since we are not far from the season peak.
- ...boost our earnings projections in FY24 and FY25.** Assuming that the futures prices are a fair reflection of spot ocean freight rate outlook, we update our earnings projections for container shipping companies. We raised our FY24/25 earnings forecasts for COSCO SHIPPING Holdings (CSH) by 40%/109% and for OOIL by 47%/149%, reflecting: a) the updated futures price curve, and b) the shipping companies' high operating leverage.
- Risk-reward getting more favourable.** Since our last update, share prices of OOIL and CSH dropped 8% and 4% respectively. The share price drops, together with strengthened freight rate futures curves (and resultant increases in our earnings estimates), have rendered the container shipping stocks' valuation more palatable.
- Upgrade OOIL to BUY (Target: HK\$141.5) and maintain HOLD on CSH (Target: HK\$13.86).** We recommend investors to stay invested with container shipping stocks. Our updated target prices for CSH and OOIL remain based on 0.85x 2024F P/B, or 1SD below segmental historical mean. With our raised earnings estimates and assuming a 50% payout ratio (pegged at the top end of OOIL's and CSH's stated policies of a 30-50% payout for 2024), OOIL and CSH would offer outsized dividend yields of 18.0% and 16.4% in FY24.
- We prefer OOIL to CSH,** taking into account: a) OOIL's slightly cheaper valuation (0.77x FY24F P/B) compared to CSH (0.83x); b) OOIL's stronger net cash position (estimated at 56% of OOIL's FY24F equity base) compared to CSH (40%); and c) OOIL's track record of rewarding shareholders more generously than the stated dividend policy in past good years; OOIL's FY24 dividend yield will increase to 25% if it raises dividend payout ratio to 70%.
- Truce talk between Israel and Hamas a key watch point.** Israel announced last Friday (5 Jul 24) that it will send a delegation to Qatar for fresh talks with Hamas through Qatari mediators this week. We believe this is a key event and the outcome of which may cause volatility to shipping stocks in the days/weeks to come. While we have hopes for a Gaza cease-fire deal, it remains unclear: a) if the two sides can reach an agreement immediately, since Israel said "there are still gaps between the parties", and b) if a Gaza cease-fire deal will automatically lead to an end to the attacks by the Iran-backed Houthis at the Red Sea. Even with positive developments for both, our best guess is that it may take a few more months before the Red Sea can restore normal navigation. As such, we believe shipping companies' strong 2024F earnings performance to be largely secured.

PORTS

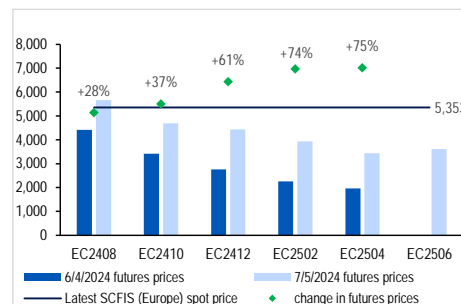
- Healthy container throughput growth in 5M24; expect steady performance for the full year.** Despite rising geopolitical tensions, China's ports sector achieved a respectable 8.8% yoy growth in throughput volume in 5M24, partly helped by the low-base effect a year ago when China's manufacturing activities were disrupted by the outbreak of COVID-19 cases immediately after the country's reopening. Within our coverage, both COSCO SHIPPING Ports (CSP) and China Merchants Port (CMP) achieved high-single-digit gross throughput growth in 5M24. Both CSP and CMP previously guided for low single-digit throughput for 2024, which we believe are on the low side.

DRIVEN BY TIGHT CAPACITY SUPPLY-DEMAND DYNAMICS, SCFI AND CCFI CONTINUED TO RISE STRONGLY IN THE PAST MONTH



Source: Shanghai Shipping Exchange

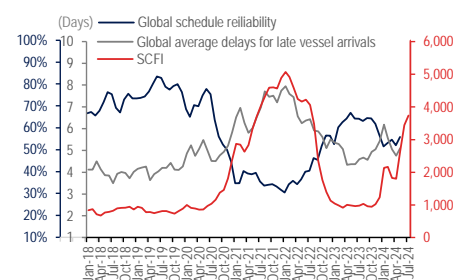
PRICES OF FREIGHT FUTURES FOR THE SHANGHAI-EUROPE ROUTE STRENGTHENED FURTHER SINCE OUR LAST UPDATE



\*SCFIS: Shanghai Containerised Freight Index based on Settled Rates  
\*EC2406: Europe Containerised Freight futures contract expiring in Jun 24

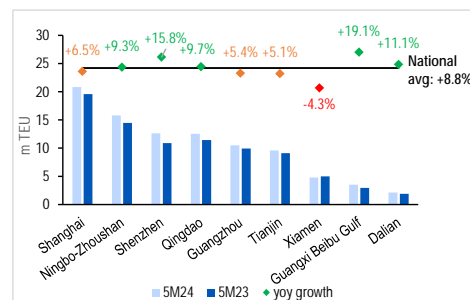
Source: Shanghai Futures Exchange

STABILISING LINER SCHEDULE RELIABILITY



Source: Sea Intelligence

CHINESE PORTS' TOTAL CONTAINER VOLUME ROSE 8.8% YOY IN 5M24



Source: Bloomberg

• **Maintain BUY on CSP (1199 HK/Target: HK\$6.75) and CMP (144 HK/Target: HK\$15.79).**

We continue to like port operators for their attractive risk-reward. With China potentially scrapping dividend tax charged to Chinese investors on Hong Kong stocks purchased via the Stock Connect, Hong Kong-listed port operators, which offer stable yields and trade at a sizeable discount to their A-share listed peers, should enjoy a re-rating. Our target prices for CSP and CMP remain based on 10.3x 2025F PE, pegged to the segment's historical mean. Based on our estimates, CSP and CMP offer stable dividend yields of 5.0% (based on a 40% payout ratio) and 5.8% (based on a 45% payout ratio) respectively in 2024.

### EARNINGS REVISION

- Our earnings adjustments for CSH and OOIL in 2024-26 reflect our updated ocean freight rate assumptions, taking into considerations the ocean freight futures price curve. Our earnings adjustment for CMP is due to its indirect earnings exposure to container shipping investments via Shanghai International Port Group (SIPG/600018 CN/Not Rated), which is CMP's associated company and has a number of container shipping investments. We raise FY24 earnings estimate for CSP to reflect lesser earnings dilution in FY24 from its major associate Qingdao Port International's (QPI/6198 HK/Not Rated) delay in material asset reorganisation.

### EARNINGS FORECASTS UPDATE FOR SHIPPING AND PORT COMPANIES

	----- Net profit forecast – old -----			----- Net profit forecast – new -----			----- Adjustment -----		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
CSP	US\$298m	US\$299m	US\$314m	US\$307m	US\$299m	US\$314m	+3%	-	-
CMP	HK\$6.36b	HK\$6.11b	HK\$6.26b	HK\$6.66b	HK\$6.43b	HK\$6.28b	+5%	+5%	+0%
CSH	Rmb46.9b	Rmb18.7b	Rmb13.2b	Rmb65.7b	Rmb39.2b	Rmb13.8b	+40%	+109%	+5%
OOIL	US\$2,663m	US\$927m	US\$611m	US\$3,915m	US\$2,312m	US\$686m	+47%	+149%	+12%

Source: UOB Kay Hian

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