

## Company Report: COSCO Shipping Ports (01199 HK)

公司报告: 中远海运港口 (01199 HK)

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# Valuation Attractive, Reiterate "Accumulate"

估值吸引, 重申“收集”

- **A sudden lift in China's foreign trade boosted COSCO Shipping Ports' ("CSP" or the "Company") throughput, and overseas terminals also recovered from the pandemic.** Excluding the throughput of 3 terminals sold recently, CSP's total container throughput increased by 6.3% YoY in November 2020. Strong growth of China's foreign trade boosted CSP's throughput in its foreign trade-oriented terminals. In addition, starting from August 2020, the Company's throughput from overseas terminals rallied and increased by 4.9% YoY in November.
- **Profitability is expected to be supported by both exogenous and endogenous factors.** CSP has become the second largest shareholder of Guangxi Beibu Gulf International Container Terminal in which we expect its future Beibu Gulf throughput to rapidly grow under the signing of the RCEP. In addition, given CSP's terminals in the developing stage still suffer from low gross profit margin; we see great potential for the Company to improve its gross profit margin. In addition, we are looking forward to efficiency improvement on the back of CSP's operating strategy and expect cost reduction to materialize in the coming years.
- **Reiterate "Accumulate" rating given attractive valuation and reliable dividend policy and revise up TP to HK\$6.60.** As the potential profitability enhancement slowly materializes in the future, we expect the Company's valuation to be leveraged. CSP currently has a strong position in cash which helps effectively resist the changing environment given the pandemic, and provides flexibility for potential acquisition. Reliable dividend policy given the background of the pandemic should be attractive. Our TP represents 8.2x, 8.6x and 7.7x 2020-2022 PER.
- **陡增的中国外贸推动中远海运港口（“公司”）吞吐量增长，海外码头也从疫情中恢复。** 若不计入近期出售完成的 3 个码头的吞吐量，2020 年 11 月公司总集装箱吞吐量同比上升 6.3%。强劲的中国外贸增长推动中远海运港口外贸导向型码头的吞吐量。另外，自 2020 年 8 月起，公司海外码头吞吐量开始反弹，并在 11 月实现同比上升 4.9%。
- **盈利能力预计将同时受益于内生和外生因素。** 中远海运港口已成为广西北部湾国际集装箱码头第二大股东，我们期待未来其北部湾吞吐量在 RCEP 签署后快速成长。另外，中远海运港口处于发展阶段的码头仍受困于低毛利率，我们认为公司毛利率的提升存在巨大潜力。同时，我们期待中远海运港口运营策略下效率的提升并预计成本节省将在未来几年显现。
- **考虑到估值吸引和可靠的派息政策，重申“收集”评级，并上调目标价至 6.60 港元。** 随着更强的盈利能力在未来显现，我们期待公司估值上升。公司目前现金充裕，有利于抵御疫情下多变的环境及为潜在收购提供灵活性。疫情环境下可靠的股息政策应具吸引力。我们的目标价对应 8.2 倍、8.6 倍及 7.7 倍 2020-2022 年市盈率。

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

**HK\$6.60**

Revised from 原目标价:

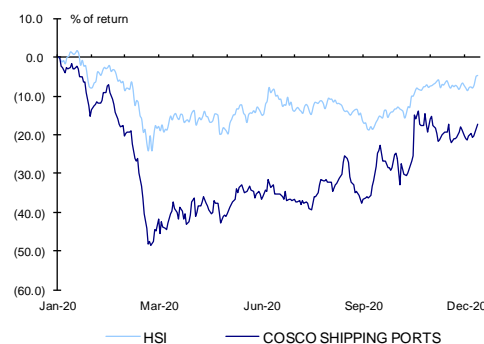
HK\$5.35

Share price 股价:

HK\$5.390

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	2.7	21.9	(16.9)
Rel. % to HS Index 相对恒指变动 %	0.2	5.9	(13.5)
Avg. share price (HK\$) 平均股价 (港元)	3.9	4.2	6.0

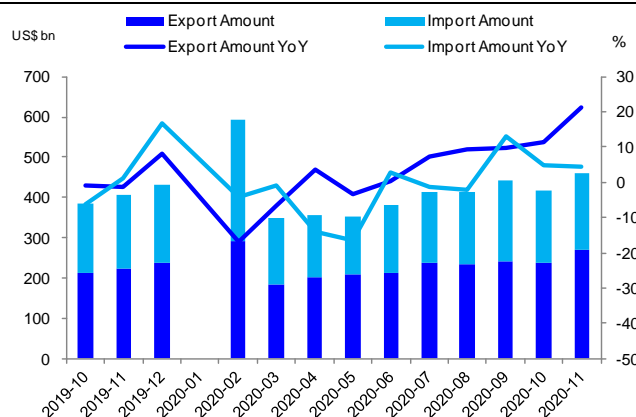
Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2018A	1,000	325	0.106	(37.3)	6.5	1.659	0.4	0.042	6.1	6.3
2019A	1,028	308	0.098	(7.5)	7.1	1.580	0.4	0.039	5.7	6.1
2020F	990	335	0.103	5.1	6.8	1.569	0.4	0.041	5.9	6.6
2021F	1,059	327	0.099	(3.9)	7.0	1.628	0.4	0.039	5.7	6.2
2022F	1,119	367	0.111	12.1	6.3	1.697	0.4	0.044	6.4	6.7
Shares in issue (m) 总股数 (m)				3,315.3	Major shareholder 大股东		COSCO SHIPPING Holdings 50.0%			
Market cap. (HK\$ m) 市值 (HK\$ m)				17,869.5	Free float (%) 自由流通比率 (%)		50.0			
3 month average vol. 3 个月平均成交股数 ('000)				5,341.0	FY21 Net gearing (%) FY21 净负债/股东资金 (%)		36.7			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				6.570 / 3.300	FY21 Est. NAV (HK\$) FY21 每股估值 (港元)		9.4			

Source: the Company, Guotai Junan International.

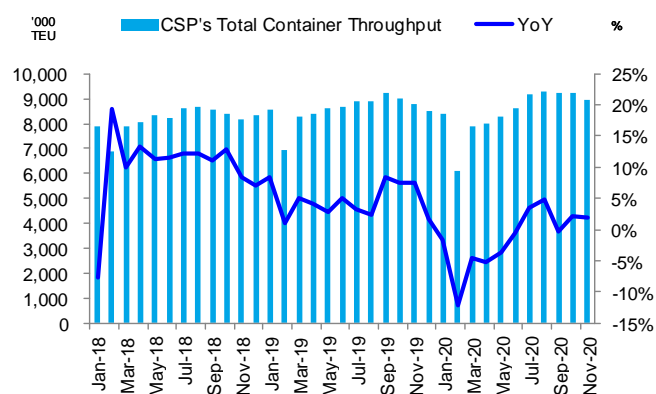
**A sudden lift in China's foreign trade boosted COSCO Shipping Ports' ("CSP" or the "Company") throughput, and overseas terminals also recovered from the pandemic.** Under the support of easing monetary policy and measures taken to tackle COVID-19, external demand, specifically related to working from home, increased significantly in recent months, in which China's exports increased by 21.1% YoY in November 2020. In November 2020, the Company's total container throughput (excluding Qingdao Ports International) recorded 8.956 mn TEUs, up 2.0% YoY. If excluding the throughput of 3 terminals sold recently, CSP's total container throughput increased by 6.3% YoY. Among which, container throughput in Yantian International Container Terminals, which is dominated by foreign trade containers, increased by 15.6% YoY along with strong growth of China's foreign trade, pulling throughput in Pearl River Delta to increase by 10.1% YoY. Besides, starting from August 2020, the Company's throughput from overseas terminals rallied and increased by 4.9% YoY to 2.423 mn TEUs in November, showing recovery from the pandemic.

**Figure-1: China Monthly Imports and Exports**



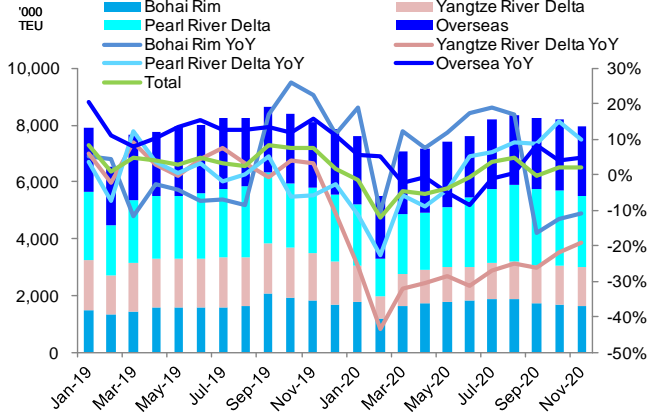
Source: China Customs.

**Figure-2: CSP's Monthly Throughput and YoY Growth**



Source: the Company, Guotai Junan International.

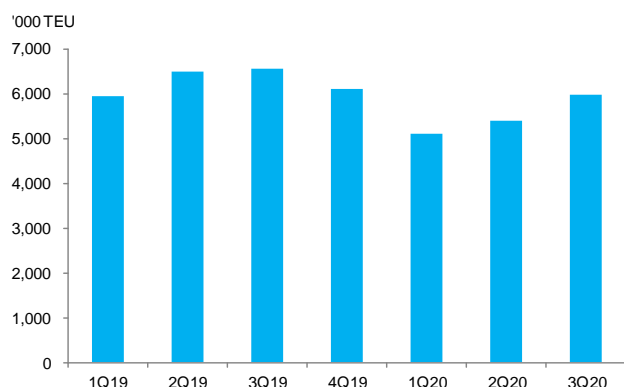
**Figure-3: CSP's Regional Throughput and YoY Growth**



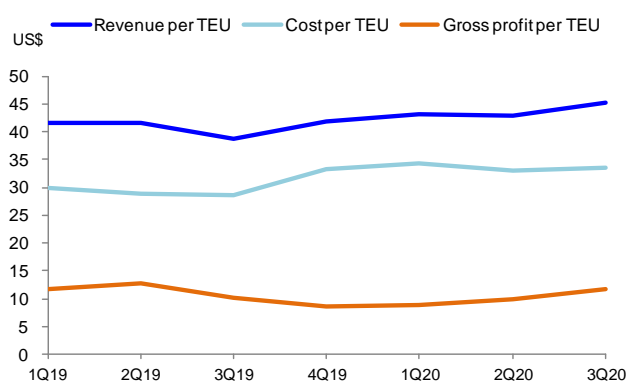
Source: the Company, Guotai Junan International.

**The Company's future throughput is expected to benefit from the RCEP.** With about 27% of global exports involved, we expect the RCEP to be conducive in promoting trade within Asia. Overall, the agreement would gradually remove tariffs on 90% of items. Although a certain trade network had been established between members before the signing of the agreement, we believe that further reduction of tariffs is expected to contribute to incremental trade in the region. In addition, the RCEP's unification of non-tariff barriers, such as certificate of origin, customs clearance facilitation, sanitary and phytosanitary measures, is expected to play an important role in optimizing the regional value chain. CSP has become the second largest shareholder of Guangxi Beibu Gulf International Container Terminal. Facing Southeast Asia, Guangxi Beibu Gulf International Container Terminal provides a convenient sea gateway in Southern China, in which we see great potential. In 3Q20, Beibu Gulf contributed 4.3% of the Company's profit. We expect throughput of the port to achieve at least double-digit growth in the next few years.

**We believe that CSP has strong endogenous growth potential.** Container terminals that are in a mature stage usually have better gross profit margin, for example, CSP's Guangzhou Nansha Terminal and Xiamen Oceangate Terminal showed gross margin of 52% and 39% in 3Q20, while terminals still in growth stage like Piraeus Container Terminal and Nantong Terminal have gross margin of 17% and 21%, respectively. In addition, CSP's Abu Dhabi Terminal was still suffering from negative gross profit margin in 3Q20. Given CSP's gross profit margin of 26.5% in 2019 and 23.5% in 1-3Q20, we believe that CSP still has plenty of room to improve its gross profit margin. In addition, CSP introduced the concept of "cost per TEU" to establish operating cost control goals within its subsidiaries, and set a goal to increase its revenue per TEU of its subsidiary by around 4.5% YoY and 2.7% YoY in 2020 and 2021, respectively. After Zeebrugge Terminal, Lianyungang Terminal and Quan Zhou Pacific Terminal, the Navis N4 system is expected to apply to CSP's subsidiaries in 3 years, which we see as an important way to improve terminal efficiency and streamline CSP's portfolio network. Therefore, on the back of both maturity of developing terminals and efficiency improvement, we expect the Company's ROE to improve gradually.

**Figure-4: CSP's Throughput From Subsidiaries**


Source: the Company, Guotai Junan International.

**Figure-5: CSP's Revenue/ Cost/ Gross Profit Per TEU**


Source: the Company, Guotai Junan International.

**Given CSP's throughput performance recently and brighter profitability prospects, we revise up earnings forecasts.**

We estimate CSP's revenue to be US\$990 mn, US\$1,059 mn and US\$1,119 mn in 2020-2022, respectively, representing change of 1.2%, 1.2% and 1.2%, respectively. Moreover, we estimate CSP's gross profit margin to be 24.2% in 2020. Given relatively strong growth in throughput from CSP's non-controlling terminals in 3Q20, we expect its profit from associates and joint ventures to increase by 6.5% in 2020. Including one-off gains from the disposal of CSP's interests in Yangzhou Yuanyang Terminal, Zhangjiagang Terminal and Jiangsu Yangtze Petrochemical Terminal, we forecast 2020-2022 shareholders' profit of US\$335mn, US\$327 mn and US\$367 mn, respectively. Correspondingly, our forecasted 2020-2022 EPS is US\$0.103, US\$0.099 and US\$0.111, respectively, representing change of 5.1%, 4.3% and 4.2% in 2020-2022 from our previous estimates. Adjusting for factors including one-off impacts of fair value gain on financial assets, gain on investment remeasurement, and gain on disposals (including the one-off dilution effect of equity interest in QPI in 2019), our forecasted 2020-2022 adjusted shareholders' profit is US\$251 mn, US\$327 million and US\$367 million, respectively, representing YoY growth of -11.3%, 30.3% and 12.4%. In addition, given a strong balance sheet and CSP's strong operating cash flow, the Company should be able to maintain a dividend payout ratio of around 40% in 2020.

**Table-1: Earnings Estimates for CSP**

US\$ mn	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
	Previous Estimates			New Estimates			Changes		
Revenue	978	1,046	1,105	990	1,059	1,119	1.2%	1.2%	1.2%
Net Profit	319	313	352	335	327	367	5.1%	4.3%	4.2%
EPS (US\$)	0.098	0.094	0.106	0.103	0.099	0.111	5.1%	4.3%	4.2%
Adj. Net Profit	234	313	352	251	327	367	7.0%	4.3%	4.2%

Source: Guotai Junan International.

**Reiterate our "Accumulate" rating given attractive valuation and high dividend yield; revise up TP to HK\$6.60.** Valuation of CSP was reinstated as the recent foreign trade surge enhanced the Company's fundamentals. Given the current condition of the pandemic, China's imports and exports are expected to maintain its momentum in the coming few months and benefit the Company's throughput growth. If conditions of the pandemic ease in 2021 as expected, we think that CSP's throughput growth is likely to make a smooth transition during the impact from the COVID-19 pandemic. As mentioned above, as potential profitability enhancement slowly materializes in the future, we expect the Company's valuation to be leveraged. We think CSP's operation is prudent during the pandemic, and the sufficient cash position is expected to provide flexibility for port portfolio optimization and support its dividend policy. We think CSP's current valuation is still attractive. The Company's dividend payout ratio is expected to maintain at 40% over reported net profit to shareholders. We reiterate our "Accumulate" rating and revise up our TP to HK\$6.60, representing 8.2x/ 8.6x/ 7.7x 2020-2022 PER and 0.5x/ 0.5x/ 0.5x 2020-2022 PBR.

**Table-2: Peers Comparison**

				PE				PB				ROE(%)	D/Y(%)	EV/EBITDA	ROA(%)
Company	Stock Code	Currency	Last price	19A	20F	21F	22F	19A	20F	21F	22F	20F	20F	20F	20F
HK - Listed Companies															
China Merchants Port Holding	144 HK	HKD	9.49	3.8	9.2	7.9	7.2	0.4	0.4	0.4	0.4	4.5	5.3	18.0	2.4
Cosco Shipping Ports Ltd	1199 HK	HKD	5.39	7.0	7.6	7.5	6.9	0.4	0.4	0.4	0.4	5.5	5.8	16.8	3.0
Dalian Port (Pda) Co Ltd-H	2880 HK	HKD	0.74	10.9	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tianjin Port Dvlp Hlds Ltd	3382 HK	HKD	0.63	10.0	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Qingdao Port International-H	6198 HK	HKD	4.79	7.2	7.4	6.6	6.2	0.9	0.8	0.8	0.7	11.5	5.2	8.9	n.a.
Xiamen International Port-H	3378 HK	HKD	1.14	9.8	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				8.1	8.1	7.3	6.8	0.5	0.6	0.5	0.5	7.2	5.4	14.6	2.7
Weighted Average				7.0	8.1	7.2	6.7	0.6	0.6	0.6	0.5	8.0	5.3	13.5	2.6
China - Listed Companies															
Dalian Port Pda Co Ltd-A	601880 CH	CNY	1.93	32.2	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tianjin Port Co Ltd-A	600717 CH	CNY	4.78	16.0	n.a.	n.a.	n.a.	0.6	0.6	0.6	n.a.	3.7	1.9	n.a.	1.7
Rizhao Port Co Ltd -A	600017 CH	CNY	2.88	13.7	12.0	11.5	10.7	0.8	n.a.	n.a.	n.a.	5.9	1.0	n.a.	3.0
Tangshan Port Group Co Ltd-A	601000 CH	CNY	2.48	8.3	7.8	7.1	6.7	0.9	n.a.	n.a.	n.a.	10.3	3.2	n.a.	8.1
China Merchants Port Group-A	001872 CH	CNY	15.92	10.0	n.a.	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xiamen Port Development Co-A	000905 CH	CNY	7.17	44.5	n.a.	n.a.	n.a.	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jinzhou Port Co Ltd-B	900952 CH	USD	0.24	20.0	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yingkou Port Liability Co-A	600317 CH	CNY	2.57	16.4	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ningbo Zhoushan Port Co Lt-A	601018 CH	CNY	3.92	15.1	19.3	17.6	17.0	1.3	1.3	1.2	1.1	6.6	2.0	n.a.	4.0
Jiangsu Lianyungang Port -A	601008 CH	CNY	4.28	611.4	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				19.6	13.0	12.1	11.5	1.0	0.9	0.9	1.1	6.6	2.0	n.a.	4.2
Weighted Average				16.1	16.6	15.1	14.6	1.1	1.2	1.1	1.1	6.7	2.1	n.a.	4.3
Other Area - Listed Companies															
Piraeus Port Authority Sa	PPA GA	EUR	19.50	13.8	15.9	12.4	11.5	2.1	n.a.	n.a.	n.a.	n.a.	2.4	n.a.	n.a.
Eurokai Kga	EUK2 GR	EUR	30.00	9.6	n.a.	30.9	19.1	1.0	1.1	1.1	1.1	(3.4)	n.a.	9.8	(2.4)
Hamburger Hafen Und Logistik	HHFA GR	EUR	18.44	13.0	29.7	17.9	14.2	2.3	2.4	2.2	2.1	7.4	1.9	6.7	2.2
Simple Average				12.1	22.8	20.4	14.9	1.8	1.8	1.7	1.6	2.0	2.1	8.3	(0.1)
Weighted Average				12.6	26.1	18.9	14.4	2.0	2.1	2.0	1.9	5.1	2.0	7.4	1.2

Source: Bloomberg.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (US\$ m)	2018A	2019A	2020F	2021F	2022F	Year end 31 Dec (US\$ m)	2018A	2019A	2020F	2021F	2022F
Total Revenue	1,000	1,028	990	1,059	1,119	Property, plant and equipment	3,057	3,125	3,353	3,545	3,731
Cost of sales	(707)	(755)	(750)	(752)	(783)	Investment in associates	2,579	2,753	2,858	2,880	2,903
Gross profit	294	273	240	307	336	Investment in JVs	1,269	1,278	1,292	1,305	1,320
Administrative expenses	(111)	(124)	(120)	(116)	(114)	Right of use assets	0	938	931	925	918
Other operating income	37	94	119	22	23	Other non-current assets	1,284	910	929	910	892
Other operating expenses	(7)	(31)	(14)	(8)	(8)	Total Non-current Assets	8,189	9,004	9,363	9,564	9,765
Operating Profit	213	213	225	205	237	Cash & Cash Equivalents	543	927	993	794	832
Share of profit of associates and JVs	292	267	285	297	316	Trade and other receivables	235	227	268	236	243
Finance income	12	12	16	14	12	Inventories	14	12	12	13	13
Finance costs	(78)	(109)	(115)	(118)	(110)	Other current assets	64	306	32	33	33
Profit Before Tax	440	384	410	399	454	Total Current Assets	856	1,472	1,305	1,076	1,121
Income Tax	(66)	(34)	(38)	(25)	(35)	Total Assets	9,045	10,477	10,667	10,640	10,886
Profit After Tax	374	350	373	374	420	Short-term bank borrowings	196	509	338	259	305
Non-controlling Interest	(49)	(42)	(37)	(47)	(52)	Trade and other payables	565	587	572	570	569
Shareholders' Profit / Loss	325	308	335	327	367	Other current liabilities	19	77	78	77	77
Basic EPS	0.106	0.098	0.103	0.099	0.111	Total Current Liabilities	781	1,173	987	906	951
						Long-term bank borrowings	2,284	2,408	2,565	2,371	2,282
						Other non-current liabilities	161	1,131	1,138	1,145	1,153
						Total Non-current Liabilities	2,445	3,539	3,703	3,516	3,436
						Total Liabilities	3,226	4,711	4,690	4,422	4,387
						Share capital	40	41	41	41	41
						Reserves	5,125	4,955	5,161	5,356	5,584
						Total Shareholders' Equity	5,165	4,995	5,202	5,396	5,625
						Minority Interest	654	770	775	822	874
						Total Equity	5,820	5,765	5,977	6,218	6,499
						Financial Ratios					
							2018A	2019A	2020F	2021F	2022F
Year end 31 Dec (US\$ m)	2018A	2019A	2020F	2021F	2022F	Gross margin (%)	29.4	26.5	24.2	29.0	30.0
Profit before income tax	440	384	410	399	454	SG&A ratio (%)	11.1	12.1	12.1	11.0	10.2
Depreciation and amortization	147	190	153	165	177	Net income margin (%)	32.4	30.0	33.9	30.9	32.8
Other gain/loss	(232)	(208)	(256)	(194)	(218)	ROA (%)	3.6	3.2	3.2	3.1	3.4
Change in working capital	(49)	23	(55)	29	(9)	ROE (%)	6.3	6.1	6.6	6.2	6.7
Interest received	16	17	16	14	12	Fixed asset turnover (x)	0.3	0.3	0.3	0.3	0.3
Tax paid	(56)	(52)	(39)	(24)	(35)	A/R turnover (x)	3.9	4.4	4.0	4.2	4.7
Cash from Operating Activities	266	353	229	390	381	Current ratio (x)	1.1	1.3	1.3	1.2	1.2
Purchases of fixed assets	(313)	(256)	(366)	(337)	(340)	Quick ratio (x)	1.0	1.0	1.3	1.1	1.1
Investment in joint ventures	(60)	0	0	0	0	Total debt / EBITDA (x)	3.6	3.9	4.0	3.8	3.4
Investment in associates	0	(81)	(108)	0	0	Net gearing ratio (%)	37.5	39.8	36.7	34.0	31.2
Proceeds on disposal of assets	0	52	275	0	0	Interest coverage ratio (x)	8.5	6.3	5.9	5.8	6.7
Dividends from associates and JVs	167	235	251	262	278						
Others	(25)	(123)	3	3	4						
Cash from Investing Activities	(230)	(172)	54	(72)	(58)						
Change in bank loans	207	462	(6)	(265)	(35)						
Dividends paid	(102)	(106)	(129)	(133)	(139)						
Others	(146)	(134)	(82)	(119)	(112)						
Cash from Financing Activities	(40)	221	(217)	(517)	(285)						
Cash at Beg of Year	560	543	927	993	794						
Effects of changes in exchange rates	(12)	(18)	0	0	0						
Net Changes in Cash	(5)	403	66	(199)	38						
Cash at End of Year	543	927	993	794	832						

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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