

China / Hong Kong Company Update

COSCO SHIPPING Ports

Bloomberg: 1199 HK EQUITY | Reuters: 1199.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Apr 2022

BUY

Last Traded Price (4 Apr 2022): HK\$6.62 (HSI : 22,502)
Price Target 12-mth: HK\$8.50 (28% upside) (Prev HK\$8.40)

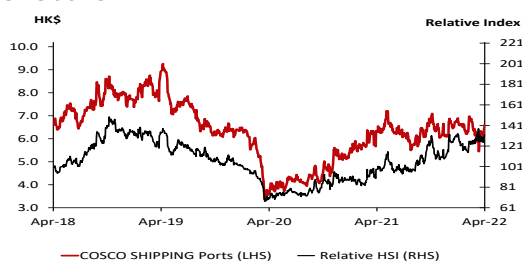
Analyst

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Regional Research Team

What's New

- FY21 core net profit rose by 24% y-o-y to US\$332.5m, in line with our expectations
- Final dividend of HK17cts declared, bringing full-year payout to HK33.5cts; 40% payout ratio
- Positive outlook driven by steady throughput growth and firm container handling tariff increases
- Maintain BUY and higher TP of HK\$8.50

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Turnover	1,001	1,208	1,300	1,369
EBITDA	709	827	879	927
Pre-tax Profit	409	500	549	595
Net Profit	347	355	392	426
Net Profit Gth (Pre-ex) (%)	12.8	2.1	10.4	8.8
EPS (HK\$)	0.85	0.84	0.92	1.00
EPS Gth (%)	10.1	(1.1)	10.1	8.4
DPS (HK\$)	0.35	0.34	0.37	0.40
BV Per Share (HK\$)	13.53	13.75	14.28	14.85
PE (X)	7.8	7.9	7.2	6.6
P/Cash Flow (X)	8.3	6.8	6.4	6.1
P/Free CF (X)	21.6	nm	43.9	31.6
EV/EBITDA (X)	7.5	7.2	6.8	6.4
Net Div Yield (%)	5.2	5.1	5.6	6.0
P/Book Value (X)	0.5	0.5	0.5	0.4
Net Debt/Equity (X)	0.3	0.3	0.3	0.2
ROAE (%)	6.6	6.2	6.6	6.9

Earnings Rev (%):
Consensus EPS (US\$)
Other Broker Recs:

0
0.12
S:0
New
0.13
H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Undemanding valuations for stronger profitability ahead

Investment Thesis

Maintain BUY with a higher TP of HK\$8.50, pegged to a 0.6x FY22F P/BV. FY21 net profit came roughly in line with expectations, at US\$354.7m, on the back of a 4.7% growth in throughput volumes. Excluding one-off items, net profit rose 23.6% y-o-y. The firm operating results were driven by higher throughput and ASP.

Stronger profitability and ROE in FY22F. The key driver for 2022's earnings growth should come from container handling tariff increases, where major ports such as those in Ningbo, Guangzhou, Xiamen, and Tianjin have announced a 10%-19% increase in published rates. We expect mid-single-digit increases in both throughput volumes and overall blended container handling tariffs to drive a 10% growth in earnings in FY22F.

Undemanding valuations. CSP is trading at a 0.5x FY22F P/B, close to its five-year average P/B. Our TP is based on a 0.6x FY22F P/B, which translates to c.1SD above the five-year mean, against a projected ROE of 6.6%, with a decent FY22F yield of 5.6%.

Valuation:

Maintain BUY with a TP of HK\$8.50. Our 12-month target price for CSP is HK\$8.50, based on a 0.6x FY22F P/B against a projected core ROE of 6.6%.

Where we differ:

There is upside risk to our relatively conservative throughput growth and ASP assumptions if overall global trade can sustain its growth momentum from FY21.

Key Risks to Our View:

COVID-19 variant is a key risk. The resurgence of COVID-19 may slow down the global economy and erode trade demand.

At A Glance

Issued Capital (m shrs)	3,315
Mkt Cap (HK\$m/US\$m)	21,945 / 2,801
Major Shareholders (%)	
China Ocean Shipping Co., Ltd.	49.0
Silchester International Investors, L.L.P.	10.0
Free Float (%)	41.1
3m Avg. Daily Val. (US\$m)	2.40
GICS Industry: Industrials / Transportation	



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COSCO SHIPPING Ports

WHAT'S NEW

Firm operating results in line with expectations

Revenue increased by 20.7% y-o-y to US\$1,208m; gross profit increased by 39.8% y-o-y to US\$325m. Profit attributable to equity holders (excluding one-off items) was US\$332.5m, a y-o-y increase of 23.6%. Total throughput from terminals in which the group has controlling stakes increased by 4.7% y-o-y to 23.3m TEU while throughput from the group's non-controlling terminals increased by 4.4% y-o-y to 105.9m TEU.

Our View

The company expects that its equity throughput volume growth will be in line with that of the industry, which we project to be in the mid-single-digit range.

The key driver for 2022's earnings growth should come from container handling tariff increases, where major ports such as those in Ningbo, Guangzhou, Xiamen, and Tianjin have announced a 10%-19% increase in published rates. As a result, we expect the company to be able to achieve a double-digit increase in revenue and an improvement in margins to drive stronger profitability and ROE in FY22.

We maintain our BUY call and raise the TP to HK\$8.50. The stock is currently trading at a 0.5x FY22F P/B, against an ROE of 6.6%, and offering a 5.6% dividend yield.

Throughput growth forecast

		FY22F
COSCO SHIPPING Ports	Greater China	+6.6%
	Overseas	+4.8%

Source: DBS HK Estimates

Results Summary

FYE Dec	FY20	FY21	y-o-y change
Revenue (US\$m)	1,000.6	1,208.3	20.8%
Gross profit (US\$m)	232.6	325.2	39.8%
Attributable profit to shareholders (US\$m)	347.5	354.7	2.1%
EPS (UScts)	10.7	10.8	1.0%
Attributable profit to shareholders (excluding one-off items)	269.0	332.5	23.6%
EPS (excluding one-off items)	8.4	10.0	19.8%

Source: Company, DBS HK

Company Background

COSCO SHIPPING Ports (CSP) primarily invests in and operates a global portfolio of container terminals. It is 46%-owned by China Ocean Shipping Group (COSCO), a leading state-owned enterprise in China.

COSCO SHIPPING Ports

Interim Income Statement (US\$m)

FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg h-o-h
Revenue	548	565	643	17.4	13.9
Cost of Goods Sold	(414)	(417)	(467)	12.6	12.0
Gross Profit	133	148	177	32.5	19.2
Other Oper. (Exp)/Inc	(21)	(44)	(10)	(52.3)	(76.5)
Operating Profit	112	105	167	48.7	59.1
Other Non Opg (Exp)/Inc	N/A	N/A	N/A	nm	nm
Associates & JV Inc	144	175	154	7.1	(12.0)
Net Interest (Exp)/Inc	(49)	(50)	(50)	(2.3)	0.3
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	207	230	271	30.7	17.9
Tax	(5)	(32)	(62)	1,131.4	93.7
Minority Interest	(18)	(22)	(29)	(63.2)	34.2
Net Profit	184	176	179	(2.8)	1.9
Net profit bef Except.	184	176	179	(2.8)	1.9
EBITDA	(321)	552	(367)	(14.4)	nm
Margins (%)					
Gross Margins	24.4	26.3	27.5		
Opg Profit Margins	20.5	18.5	25.9		
Net Profit Margins	33.6	31.1	27.8		

Source: Company, DBS HK

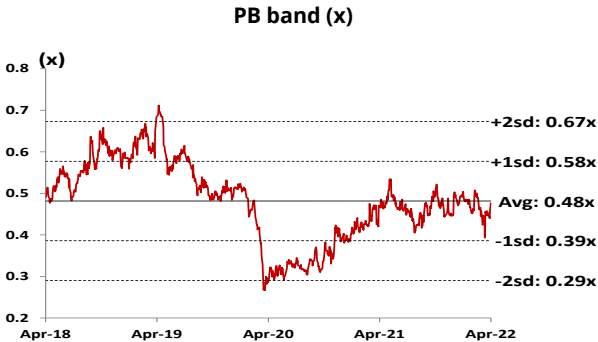
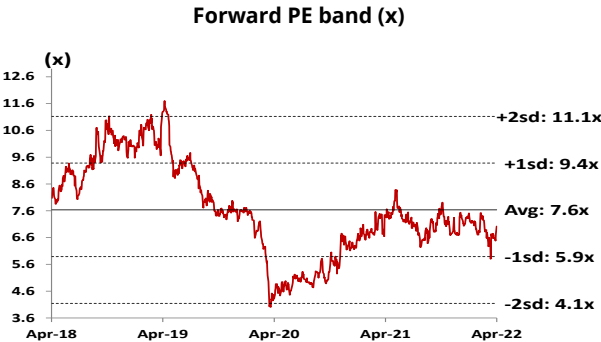
Income Statement (US\$ m)

FY Dec	2020A	2021A	% cha v-o-v
Revenue	1,001	1,208	20.7
Cost of Goods Sold	(768)	(883)	15.0
Gross Profit	233	325	39.8
Other Opng (Exp)/Inc	3	(54)	(1,795.6)
Operating Profit	236	271	15.1
Other Non Opg (Exp)/Inc	0	0	nm
Associates & JV Inc	273	329	20.8
Net Interest (Exp)/Inc	(100)	(100)	(0.3)
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	409	500	22.5
Tax	(35)	(95)	170.7
Minority Interest	(26)	(51)	(95.7)
Net Profit	347	355	2.1
Net Profit before Except.	347	355	2.1
EBITDA	709	827	16.6
Margins & Ratio			
Gross Margins (%)	23.2	26.9	
Opg Profit Margin (%)	23.6	22.5	
Net Profit Margin (%)	34.7	29.4	

Source: Company, DBS HK

COSCO SHIPPING Ports

Historical PE and PB band



Source: Thomson Reuters, DBS HK

COSCO SHIPPING Ports

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Subsidiary terminals net profit contribution	49.9	34.7	88.8	117.4	123.4
Associate terminals net profit contribution	181.1	194.5	246.2	262.6	278.8
Joint ventures terminals net profit contribution	86.4	78.2	83.2	90.8	97.3

Source: Company, DBS HK

Income Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	1,028	1,001	1,208	1,300	1,369
Cost of Goods Sold	(755)	(768)	(883)	(949)	(999)
Gross Profit	273	233	325	351	370
Other Opng (Exp)/Inc	(60)	3	(54)	(63)	(68)
Operating Profit	213	236	271	288	301
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	267	273	329	353	376
Net Interest (Exp)/Inc	(96)	(100)	(100)	(92)	(83)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	384	409	500	549	595
Tax	(34)	(35)	(95)	(104)	(113)
Minority Interest	(42)	(26)	(51)	(54)	(56)
Preference Dividend	0	0	0	0	0
Net Profit	308	347	355	392	426
Net Profit before Except.	308	347	355	392	426
EBITDA	670	709	827	879	927
Growth					
Revenue Gth (%)	2.7	(2.6)	20.7	7.6	5.3
EBITDA Gth (%)	2.6	5.8	16.6	6.3	5.5
Opg Profit Gth (%)	(0.3)	11.0	15.1	6.0	4.8
Net Profit Gth (%)	(5.1)	12.8	2.1	10.4	8.8
Margins & Ratio					
Gross Margins (%)	26.5	23.2	26.9	27.0	27.0
Opg Profit Margin (%)	20.7	23.6	22.5	22.1	22.0
Net Profit Margin (%)	30.0	34.7	29.4	30.1	31.1
ROAE (%)	6.1	6.6	6.2	6.6	6.9
ROA (%)	3.2	3.2	3.0	3.2	3.5
ROCE (%)	2.1	2.1	2.0	2.0	2.2
Div Payout Ratio (%)	40.3	40.8	40.0	40.0	40.0
Net Interest Cover (x)	2.2	2.4	2.7	3.1	3.6

Source: Company, DBS HK

COSCO SHIPPING Ports
Interim Income Statement (US\$ m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	510	453	548	565	643
Cost of Goods Sold	(390)	(354)	(414)	(417)	(467)
Gross Profit	119	99	133	148	177
Other Oper. (Exp)/Inc	(8)	25	(21)	(44)	(10)
Operating Profit	111	124	112	105	167
Other Non Opg (Exp)/Inc	N/A	N/A	N/A	N/A	N/A
Associates & JV Inc	123	129	144	175	154
Net Interest (Exp)/Inc	(53)	(51)	(49)	(50)	(50)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	180	201	207	230	271
Tax	(3)	(30)	(5)	(32)	(62)
Minority Interest	(18)	(8)	(18)	(22)	(29)
Net Profit	160	163	184	176	179
Net profit bef Except.	160	163	184	176	179
Growth					
Revenue Gth (%)	1.0	(12.6)	7.5	24.8	17.4
Opg Profit Gth (%)	8.7	21.9	1.0	(15.4)	48.7
Net Profit Gth (%)	3.4	10.5	14.9	7.5	(2.8)
Margins					
Gross Margins (%)	23.4	21.9	24.4	26.3	27.5
Opg Profit Margins (%)	21.8	27.3	20.5	18.5	25.9
Net Profit Margins (%)	31.4	36.1	33.6	31.1	27.8

Source: Company, DBS HK

COSCO SHIPPING Ports

Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	4,063	4,337	5,041	5,179	5,306
Invt in Associates & JVs	4,201	4,477	4,708	4,812	4,923
Other LT Assets	740	756	763	763	763
Cash & ST Invt	957	1,342	1,260	913	609
Inventory	12	15	20	18	19
Debtors	227	293	238	381	401
Other Current Assets	276	5	4	4	4
Total Assets	10,477	11,224	12,033	12,071	12,025
ST Debt	545	342	956	956	956
Creditors	587	537	522	664	699
Other Current Liab	40	36	55	55	55
LT Debt	2,408	2,748	2,306	1,906	1,506
Other LT Liabilities	1,131	1,185	1,254	1,254	1,254
Shareholder's Equity	4,995	5,550	5,818	6,060	6,322
Minority Interests	770	827	1,123	1,176	1,233
Total Cap. & Liab.	10,477	11,224	12,033	12,071	12,025
Non-Cash Wkg. Capital	(112)	(259)	(315)	(316)	(330)
Net Cash/(Debt)	(1,995)	(1,748)	(2,002)	(1,949)	(1,853)
Debtors Turn (avg days)	82.1	94.9	80.2	86.8	104.3
Creditors Turn (avg days)	372.2	361.4	294.0	303.9	331.4
Inventory Turn (avg days)	8.5	8.7	9.7	9.9	9.2
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.3	1.8	1.0	0.8	0.6
Quick Ratio (x)	1.0	1.8	1.0	0.8	0.6
Net Debt/Equity (X)	0.3	0.3	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.4	0.3	0.3	0.3	0.3
Capex to Debt (%)	0.4	6.5	15.8	13.1	15.3
Z-Score (X)	1.1	1.1	1.1	1.1	1.1

Source: Company, DBS HK

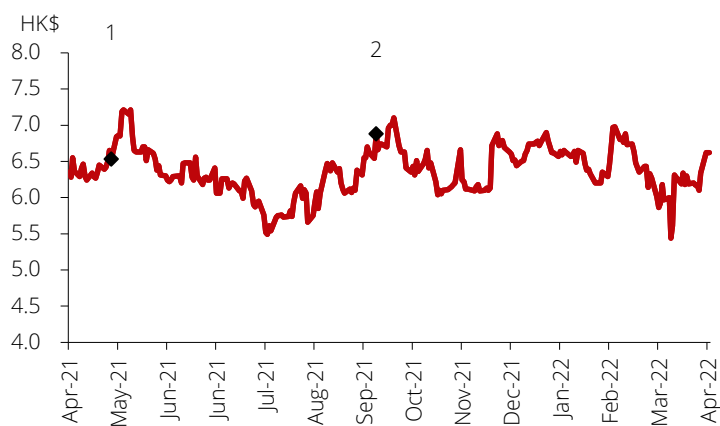
Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	384	409	500	549	595
Dep. & Amort.	190	200	226	237	249
Tax Paid	(52)	(42)	(95)	(104)	(113)
Assoc. & JV Inc/(loss)	(267)	(273)	(329)	(353)	(376)
(Pft)/Loss on disposal of FAs	(11)	(88)	0	0	0
Chg in Wkg. Cap.	23	6	36	0	14
Other Operating CF	87	114	70	110	96
Net Operating CF	353	326	409	440	465
Capital Exp. (net)	(13)	(200)	(516)	(376)	(376)
Other Invt. (net)	(126)	2	0	0	0
Invt in Assoc. & JV	(157)	158	38	0	0
Div from Assoc & JV	165	194	232	249	266
Other Investing CF	(41)	0	(196)	0	0
Net Investing CF	(172)	154	(442)	(127)	(110)
Div Paid	(76)	(51)	(145)	(150)	(164)
Chg in Gross Debt	425	(52)	97	(400)	(400)
Capital Issues	0	0	0	0	0
Other Financing CF	(127)	(13)	(112)	(110)	(96)
Net Financing CF	221	(115)	(160)	(660)	(659)
Currency Adjustments	(18)	7	109	0	0
Chg in Cash	384	372	(83)	(347)	(304)
Opg CFPS (US\$)	0.11	0.10	0.11	0.13	0.14
Free CFPS (US\$)	0.11	0.04	(0.03)	0.02	0.03

Source: Company, DBS HK

COSCO SHIPPING Ports

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Apr-21	HK\$6.65	HK\$8.40	Buy
2:	28-Sep-21	HK\$6.54	HK\$8.40	Buy

Source: DBS HK

Analyst: Paul YONG, CFA
Regional Research Team

COSCO SHIPPING Ports

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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