Transport
Asia Shipping

HSBC Global Research

Asia Dry Bulk

Smaller companies, bigger opportunities

Rating and Target Prices

Company	Ticker	Target Price	Rating	Pot. Return* (%)	2012e PB (x)	2012e ROE (%)
Pacific Basin	2343 HK	HKD4.06	OW	16.7	0.55x	4.6
Sinotrans Shipping	368 HK	HKD2.90	OW	46.5	0.46x	3.8
China COSCO	1919 HK	HKD3.50	UW(V)	-2.8	0.87x	-16.7
STX PO	028670 KS	KRW4,400	UW	-31.9	0.59x	1.1

Source: HSBC estimates

*Potential return equals the percentage difference between the current share price and the target price.

6 December 2011

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- **Dry bulk market likely to remain depressed due to oversupply in 2012**
- **Strong balance sheets, positive ROEs and inexpensive valuations define stock selection in a catalyst-less sector**
- **Resume coverage of China COSCO with UW(V) and STX PO with UW; upgrade Pacific Basin to OW; SSL remains OW**

BDI is likely to tread along the bottom after slumping by 44% in 2011: Rates firmed up in 2H11, as slow steaming absorbed excess supply and China imported more iron ore from Australia and Brazil to mitigate the decline in Indian exports. However, these factors do little to cure structural oversupply. Utilisation is likely to stay below 80%, with supply growth of 10% y-o-y exceeding demand growth of 5% y-o-y in 2012. Bulk equities, as a result, are also likely to move along the bottom in 2012.

Expect smaller players to outperform larger ones again in 2012. Pacific Basin and Sinotrans Shipping have outperformed bulk majors like China COSCO and STX Pan Ocean by 11-23% so far this year, and we expect this to continue. It is easy to see why: the majors only became majors after focusing on fleet expansion at the peak of the cycle in 2007-08; the subsequent fall in earnings is now eroding their equity value as debt levels continue to rise due to ongoing capex.

Lean leaders: OW on Pac Basin and Sinotrans. Pacific Basin (upgraded to OW from N) offers exposure to the Handysize segment, where rates should be range-bound, but oversupply is not as acute. Its investment in the weak RoRo segment is a concern; however, in our view, seems more than priced in at a 2012e PB of 0.55x. Sinotrans trades at a discount of more than 40% to the value of its fleet and net cash. Admittedly, the cash is not risk-free and low share liquidity is a concern, but at a 2012e PB of 0.46x, it looks attractive and is a deep value pick.

Bulky laggards: UW on STX PO, UW(V) on China COSCO. STX PO faces a steep rise in leverage due to an aggressive capex plan; a 2012e PB of 0.59x seems inexpensive, but the current value of its fleet is barely enough for debt holders. China COSCO's gearing, though on the rise, would be more comfortable than STX PO, but it is likely to follow with yet another net loss in 2012. At a 2012e PB of 0.87x, it is also the most expensive bulk stock under our coverage where consensus estimates are likely headed lower.

Key comparative valuation metrics

Company Name	B'berg Ticker	Price Local Ccy	Market Cap (USDm)	PE FY11e	PE FY12e	PB FY11e	PB FY12e	ROE (%) FY11e	ROE (%) FY12e	Price Performance (%) 1-Day	1-Week	4-Week	12-Week	26-Week	52-Week	YTD
Pacific Basin	2343 HK	3.48	868	29.6x	13.1x	0.6x	0.5x	4.0	4.6	-3.9	5.8	-3.6	-2.8	-24.3	-34.7	-32.7
Sinotrans Shipping	368 HK	1.98	1,018	9.9x	12.1x	0.5x	0.5x	4.8	3.8	0.0	4.2	-0.5	-2.9	-16.1	-34.0	-32.7
China COSCO	1919 HK	3.60	4,734	NM	NM	0.7x	0.9x	-12.2	-16.7	-1.1	10.1	-12.4	-8.4	-47.9	-57.9	-56.3
STX Pan Ocean	028670 KS	6,460	1,175	NM	55.1x	0.6x	0.6x	-6.9	1.1	1.1	15.4	-9.7	-24.1	-17.7	-45.3	-43.6

Source: DataStream, HSBC estimates for Pacific Basin & Sinotrans, IBES estimates for consensus; Valuations as at the close of 2 December 2011

Stock Snapshot

Company	Ticker	Current Price	Target Price	Potential Return* (%)	Rating	Investment Case & Valuation	Risks
Pacific Basin	2343 HK	HKD3.48	HKD4.06**	16.7	OW	Pacific Basin's core business (>80% of gross profits) in the Handysize segment should benefit from better supply/demand dynamics in this sub-sector due to a smaller order book and an older scrap-worthy fleet. Investments in RoRo vessels at the peak of the cycle could remain a drag on ROE in the near term, but the 2012e debt-to-equity ratio of 0.5x is comfortable and a 2012e PB of 0.55x provides an attractive entry point. No changes to our estimates and target, but we upgrade our rating to Overweight from Neutral. Target price is based on a 2012e PB of 0.65x.	Risks: Sharp decline in Handymax rates could depress Handysize rates as well; economic slowdown could adversely impact seaborne demand for minor bulks; sector supply depends on ship finance availability – a credit crunch inhibiting new supply could provide upside potential.
Sinotrans Shipping	368 HK	HKD1.98	HKD2.90**	46.5	OW	The stock trades at a 40%+ discount to the current value of its fleet (>HKD1.90/share) and net cash (>HKD1.50/share) due to perceived risks to its cash, which may be used to help its indebted and loss-making sister companies. We don't ignore these risks, but believe that a 75% discount to net cash (if fleet discount is assumed at 20%) already prices these risks in. The discount to cash is likely to narrow and the stock could re-rate if the company uses part of it to acquire vessels. Target price is based on a 2012e PB of 0.67x.	Risks: Sharp decline in Chinese steel demand or economic slowdown could adversely impact seaborne demand for bulk commodities; sector supply depends on ship finance availability – a credit crunch inhibiting new supply could provide upside potential.
China COSCO	1919 HK	HKD3.60	HKD3.50***	-2.8	UW(V)	A container shipping recovery from 2Q12e and the expiry of expensive chartered-in bulk fleet should not be able to prevent another net loss in 2012e. COSCO Pacific and its logistics business would provide support to earnings, but shipping weakness is not fully reflected in consensus estimates. Moreover, the company is the most expensive bulk equity under our coverage at a 2012e PB of 0.87x. This leaves the stock price vulnerable to another leg down, if the projected shipping recovery doesn't take hold from 1Q12e. Our target price is based on an average of economic profits, fleet-value based sum-of-the-parts and historical trough PB valuation. Our target price implies a 2012e PB of 0.83x.	Risks: Sharp increase in Chinese steel demand or economic slowdown could positively impact seaborne demand for bulk commodities; sector supply depends on ship finance availability – a credit crunch inhibiting new supply could provide upside potential; sharp upturn in container shipping offers upside potential and vice versa.
STX Pan Ocean	028670 KS	KRW6,460	KRW4400****	-31.9	UW	Rising debt due to expensive fleet expansion is the biggest concern for STX Pan Ocean. We expect the debt-to-equity ratio to surpass 2x by end-2012e. The risks from a weaker balance sheet in a downcycle are compounded by the weak performance of its large chartered-in fleet since the financial crisis and loss-making container and tanker operations. Furthermore, KDB's plan to sell down its 15% stake presents an overhang. Our target price is based on average of economic profits, fleet-value based sum-of-the-parts and historical trough PB valuation. Our target price implies a 2012e PB of 0.40x.	Risks: Sharp increase in Chinese ore and coal imports could positively impact seaborne demand for bulk commodities; sector supply depends on ship finance availability – a credit crunch inhibiting new supply could provide upside; sharp upturn in container shipping offers upside potential and vice versa.

Source: HSBC estimates Priced as at close of Friday, 2 December 2011

*Potential return equals the percentage difference between the current share price and the target price.

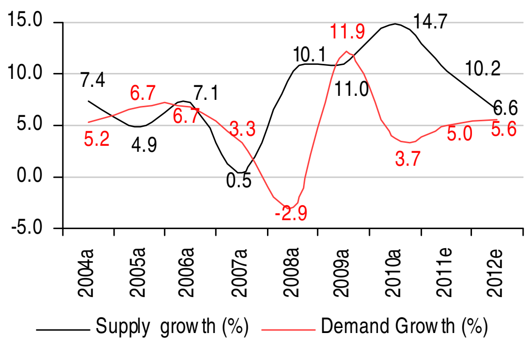
**Under our research model, for stocks without a volatility indicator, the Neutral band is 5% above and below the hurdle rate for Hong Kong stocks of 8.5%. Our unchanged target prices of HKD4.06 and HKD2.90 for Pacific Basin and Sinotrans Shipping imply a potential return of 16.7% and 46.5%, respectively, above the Neutral band; therefore, we upgrade Pacific Basin to Overweight from Neutral, and we reiterate our Overweight rating on Sinotrans Shipping.

***Under our research model, for stocks with a volatility indicator, the Neutral band is 10ppts above and below the hurdle rate for Hong Kong stocks of 8.5%. Our target price of HKD3.50 for China COSCO implies a potential return of -2.8%, below the Neutral band; therefore, we are resuming coverage of China COSCO with an Underweight (V) rating.

****Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Korea stocks of 10%. Our target price of KRW4,400 for STX Pan Ocean implies a potential return of -31.9%, below the Neutral band; therefore, we are resuming coverage of STX Pan Ocean with an Underweight rating.

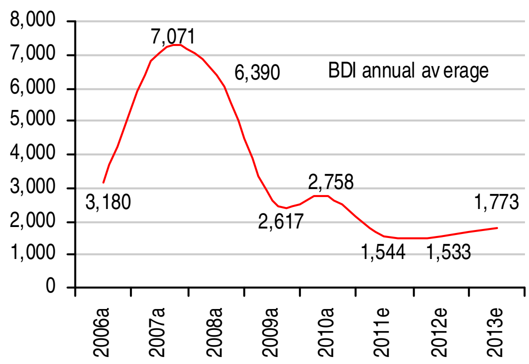
Handysize supply dynamics better in depressed dry bulk sector

Supply growth to exceed demand growth again in 2012e



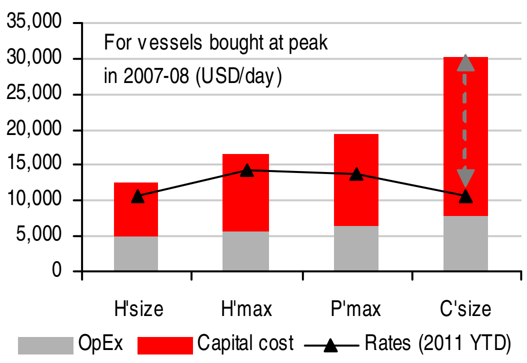
Source: Clarksons, HSBC estimates

Weak utilisation to keep BDI depressed in 2012e



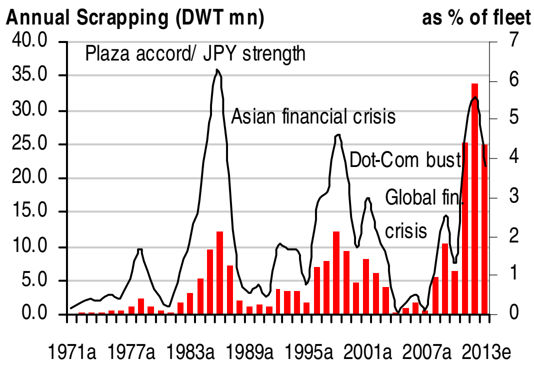
Source: Clarksons, HSBC estimates

Rates too low for Capesize owners...



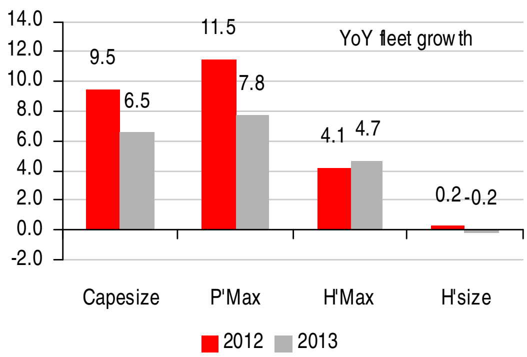
Source: Clarksons, HSBC estimates

...distress could drive a scrapping "super-cycle" like mid-1980s



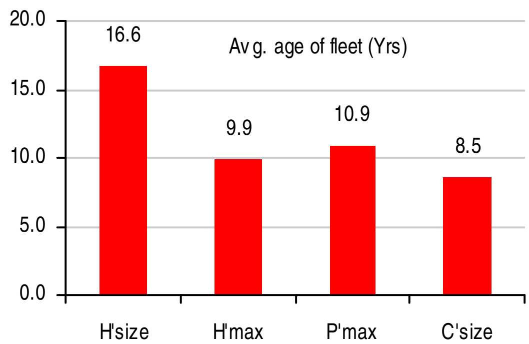
Source: Clarksons, HSBC estimates

Handysize fleet growth to be depressed most by scrapping...



Source: Clarksons, HSBC estimates

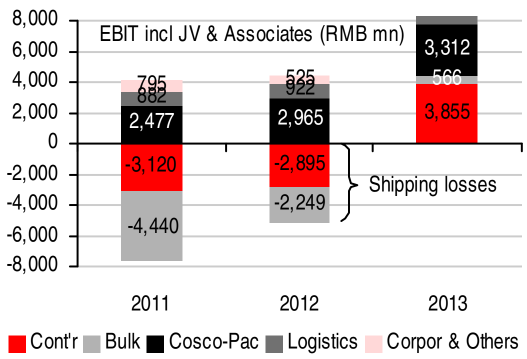
...as older vessels are most likely to be scrapped



Source: Clarksons, HSBC estimates

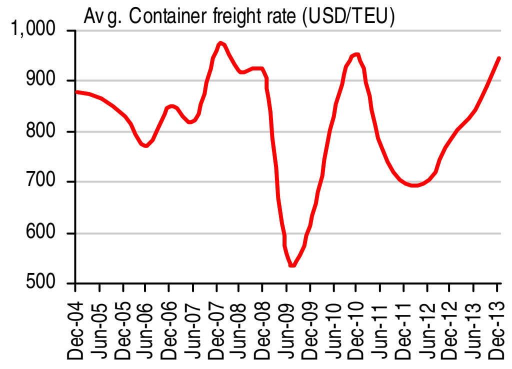
China COSCO: More pain to come in 2012, resume with UW(V)

Shipping losses to keep the company in the red in 2012e...



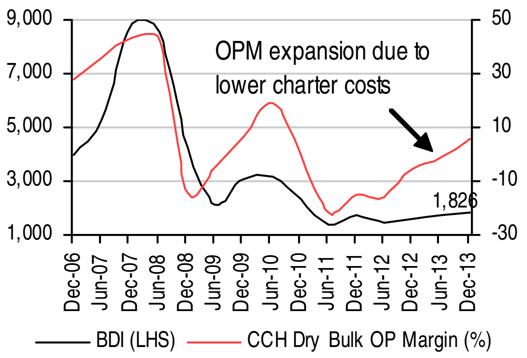
Source: Company data, HSBC estimates

...despite expected recovery in container rates from 2Q12e...



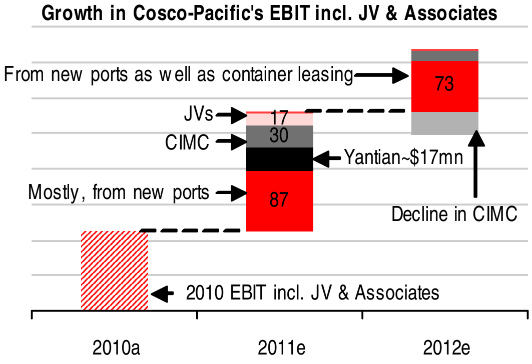
Source: Company data, HSBC estimates

... bulk margin expansion on lower charter costs...



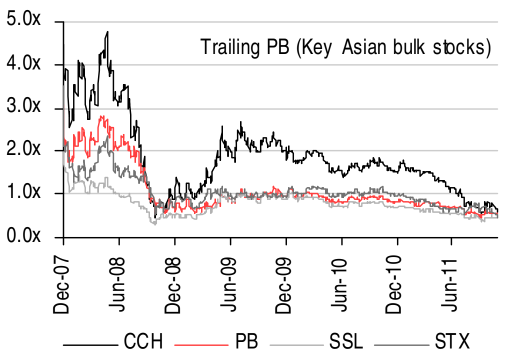
Source: Company data, HSBC estimates

...and continued growth at COSCO Pacific



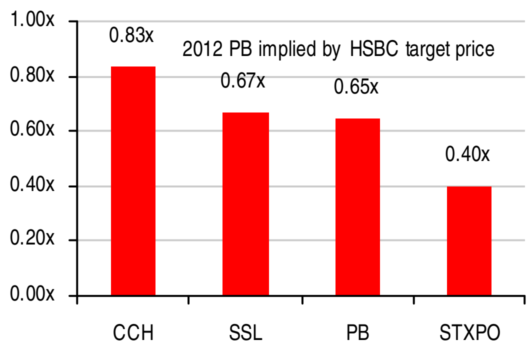
Source: Company data, HSBC estimates

CCH has traded at a premium to other Asian bulk stocks on PB valuation, however, this narrows during downcycle...



Source: Thomson Reuters Datastream

... thus, CCH's premium valuation is an additional source of downside risk, if shipping recovery fails to take hold from 2Q12



Source: Company data, HSBC estimates

Financials & valuation

Financial statements

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Profit & loss summary (CNYm)				
Revenue	96,439	86,321	89,533	101,293
EBITDA	11,136	-2,021	1,168	11,276
Depreciation & amortisation	-3,452	-3,652	-3,992	-4,161
Operating profit/EBIT	7,683	-5,673	-2,824	7,115
Net interest	-158	-76	-3,564	-3,902
PBT	9,244	-3,482	-4,296	5,325
HSBC PBT	9,244	-3,482	-4,296	5,325
Taxation	-1,191	-641	-659	-756
Net profit	6,826	-5,398	-6,275	3,218
HSBC net profit	6,826	-5,398	-6,275	3,218
Cash flow summary (CNYm)				
Cash flow from operations	14,645	-936	-1,279	7,488
Capex	-13,068	-12,318	-8,612	-7,100
Cash flow from investment	-17,702	-10,088	-8,612	-7,100
Dividends	-919	-919	0	-965
Change in net debt	-2,139	15,143	9,891	-388
FCF equity	-2,168	-12,856	-11,045	-610
Balance sheet summary (CNYm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	67,096	77,942	82,562	85,500
Current assets	60,610	58,662	59,213	59,099
Cash & others	46,683	40,000	40,000	40,000
Total assets	150,982	159,657	165,106	168,369
Operating liabilities	27,884	34,573	35,747	36,469
Gross debt	60,797	69,257	79,148	78,760
Net debt	14,114	29,257	39,148	38,760
Shareholders funds	47,829	40,726	34,451	36,704
Invested capital	53,139	62,031	66,028	68,130

Ratio, growth and per share analysis

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Y-o-y % change				
Revenue	40.9	-10.5	3.7	13.1
EBITDA		-118.1		865.3
Operating profit		-173.8		
PBT		-137.7		
HSBC EPS		-179.1		
Ratios (%)				
Revenue/IC (x)	1.9	1.5	1.4	1.5
ROIC	13.2	-11.7	-5.1	9.1
ROE	15.2	-12.2	-16.7	9.0
ROA	6.4	-1.4	-1.5	4.1
EBITDA margin	11.5	-2.3	1.3	11.1
Operating profit margin	8.0	-6.6	-3.2	7.0
EBITDA/net interest (x)	70.5		0.3	2.9
Net debt/equity	22.7	52.4	78.0	72.9
Net debt/EBITDA (x)	1.3	-14.5	33.5	3.4
CF from operations/net debt	103.8			19.3
Per share data (CNY)				
EPS reported (fully diluted)	0.67	-0.53	-0.61	0.31
HSBC EPS (fully diluted)	0.67	-0.53	-0.61	0.31
DPS	0.09	0.00	0.00	0.09
NAV	4.68	3.99	3.37	3.59

Key forecast drivers

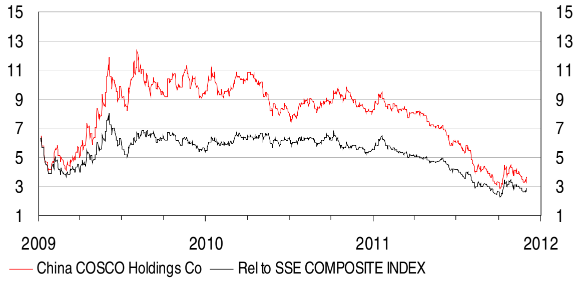
Year to	12/2010a	12/2011e	12/2012e	12/2013e
Container Volume y-o-y chg (%)	19	10	8	6
Container Rate y-o-y chg (%)	51	-23	-2	16
Bulk Operating days y-o-y chg (%	3	-5	-2	3
Bulk Rate y-o-y chg (%)	28	-32	-2	15
Logistics OPM (%)	4	4	4	4
Cosco Pacific OPM (%)	52	57	60	60

Valuation data

Year to	12/2010a	12/2011e	12/2012e	12/2013e
EV/sales	0.5	0.8	0.9	0.8
EV/EBITDA	4.5		67.4	7.0
EV/IC	0.9	1.1	1.2	1.2
PE*	4.4			9.4
P/NAV	0.6	0.7	0.9	0.8
FCF yield (%)	-6.1	-32.9	-27.9	-1.5
Dividend yield (%)	3.1	0.0	0.0	3.2

Note: * = Based on HSBC EPS (fully diluted)

Price relative

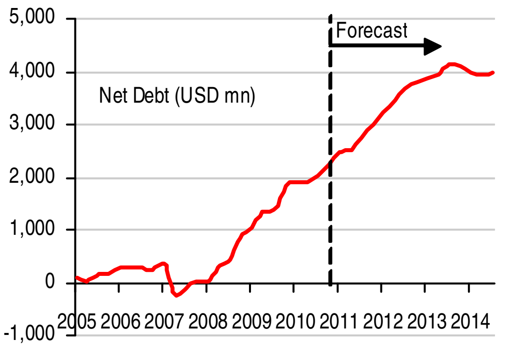


Source: HSBC

Note: price at close of 02 Dec 2011

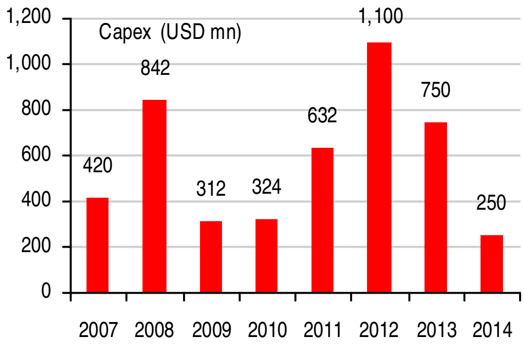
STX Pan Ocean: Worsening balance sheet is a major concern

65% jump in net debt between 3Q11 and end-2013e...



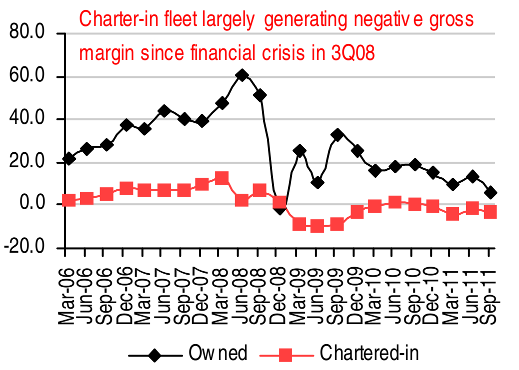
Source: Company data, HSBC estimates

...due to an aggressive fleet expansion plan...



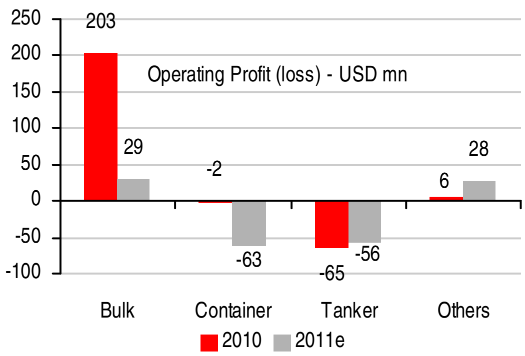
Source: Company data, HSBC estimates

...along with weak performance of chartered-in fleet...



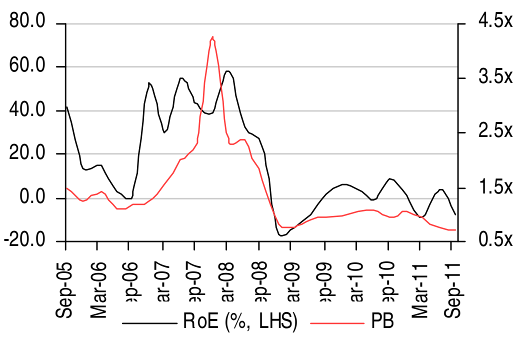
Source: Company data, HSBC estimates

...as well as loss-making container and tanker segments...



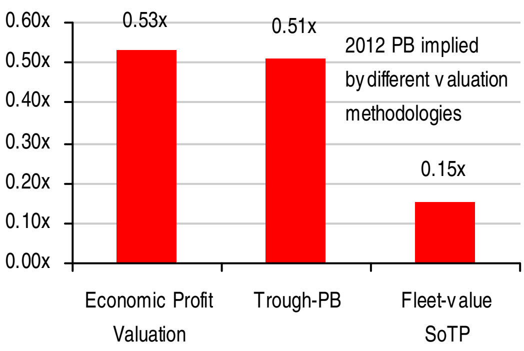
Source: Company data, HSBC estimates

...compound the risks due to a weak bulk market...



Source: Company data, HSBC estimates

...making STX our least preferred dry bulk stock in the region



Source: Company data, HSBC estimates

Financials & valuation

Financial statements

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Profit & loss summary (USDm)				
Revenue	5,593	5,079	5,147	6,068
EBITDA	200	74	310	544
Depreciation & amortisation	-108	-136	-172	-207
Operating profit/EBIT	92	-62	138	338
Net interest	-24	-62	-108	-148
PBT	77	-94	29	189
HSBC PBT	67	-126	29	189
Taxation	-6	-16	-8	-22
Net profit	70	-110	21	167
HSBC net profit	61	-141	21	167
Cash flow summary (USDm)				
Cash flow from operations	58	-117	163	340
Capex	-324	-632	-1,100	-750
Cash flow from investment	-203	-257	-1,100	-750
Dividends	-18	-18	-19	-19
Change in net debt	641	728	955	428
FCF equity	-175	-721	-937	-410
Balance sheet summary (USDm)				
Intangible fixed assets	24	41	41	41
Tangible fixed assets	3,380	4,203	5,131	5,674
Current assets	1,748	1,658	1,725	1,800
Cash & others	554	400	400	400
Total assets	5,273	6,049	7,043	7,662
Operating liabilities	569	915	951	999
Gross debt	2,566	3,139	4,094	4,522
Net debt	2,012	2,739	3,694	4,122
Shareholders funds	2,132	1,988	1,991	2,133
Invested capital	4,028	4,588	5,546	6,116

Ratio, growth and per share analysis

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Y-o-y % change				
Revenue	53.8	-9.2	1.3	17.9
EBITDA		-62.8	317.1	75.6
Operating profit		-167.6		145.2
PBT		-222.0		548.4
HSBC EPS		-331.9		684.8
Ratios (%)				
Revenue/IC (x)	1.5	1.2	1.0	1.0
ROIC	2.3	-1.7	2.0	5.1
ROE	2.9	-6.9	1.1	8.1
ROA	2.6	0.0	1.8	4.3
EBITDA margin	3.6	1.5	6.0	9.0
Operating profit margin	1.6	-1.2	2.7	5.6
EBITDA/net interest (x)	8.2	1.2	2.9	3.7
Net debt/equity	94.1	137.3	184.9	192.6
Net debt/EBITDA (x)	10.1	36.9	11.9	7.6
CF from operations/net debt	2.9		4.4	8.3
Per share data (USD)				
EPS reported (fully diluted)	0.34	-0.53	0.10	0.81
HSBC EPS (fully diluted)	0.30	-0.69	0.10	0.81
DPS	0.09	0.09	0.09	0.12
NAV	10.36	9.66	9.67	10.36

Key forecast drivers

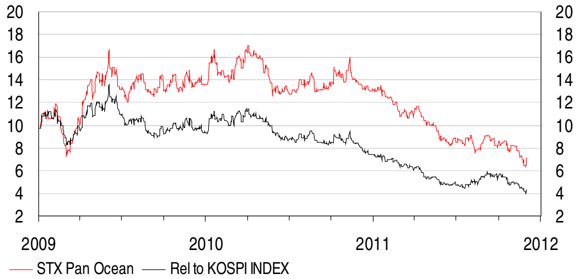
Year to	12/2010a	12/2011e	12/2012e	12/2013e
% fleet chartered	78	76	70	67
Owned Vessels	84	86	113	134
Dry bulk cargo volume (m tonnes)	108	115	126	142
Dry Bulk Avg. Rate (USD/tonne)	45	38	37	39
Container Volume ('000 TEU)	820	762	576	629
Tanker Volume (m tonnes)	11	10	10	11

Valuation data

Year to	12/2010a	12/2011e	12/2012e	12/2013e
EV/sales	0.8	1.0	1.1	1.0
EV/EBITDA	21.2	66.3	19.0	11.6
EV/IC	1.0	1.1	1.1	1.0
PE*	18.8		53.8	6.9
P/NAV	0.5	0.6	0.6	0.5
FCF yield (%)	-7.9	-32.9	-42.8	-18.7
Dividend yield (%)	1.6	1.6	1.6	2.2

Note: * = Based on HSBC EPS (fully diluted)

Price relative

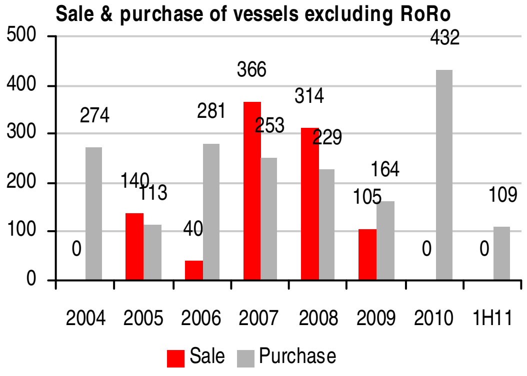


Source: HSBC

Note: price at close of 02 Dec 2011

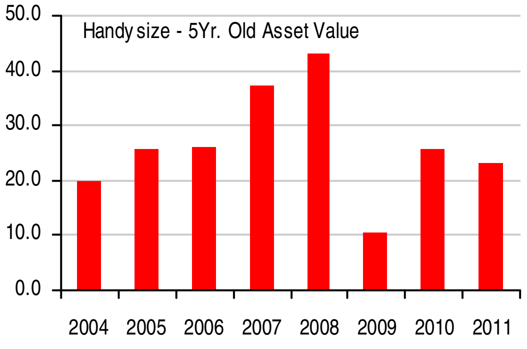
Pacific Basin: Inexpensive valuations to offset RoRo weakness

PB actively managed its bulk fleet to control capital costs…



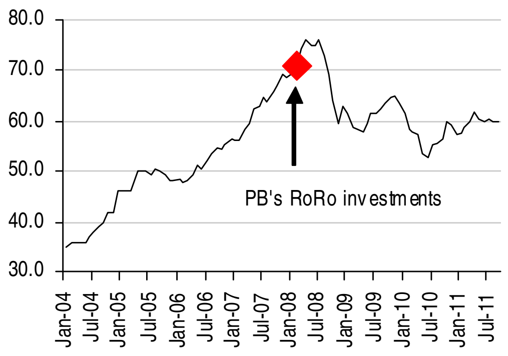
Source: Company data

…by selling near the peak of the cycle and buying off-peak



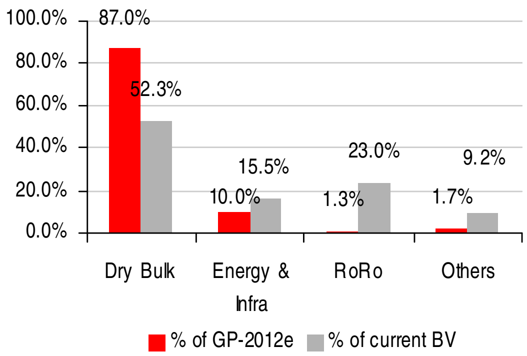
Source: Clarksons

But USD0.5bn capex committed near peak for RoRo vessels…



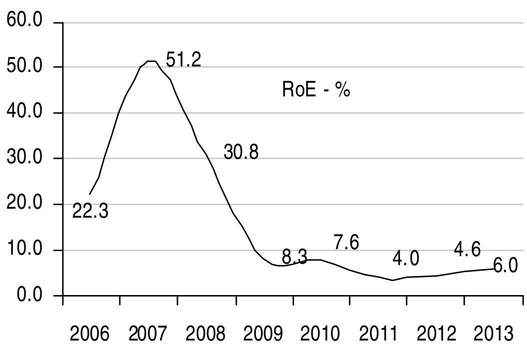
Source: Clarksons, Company data

…continues to disappoint due to weak RoRo market in the EU



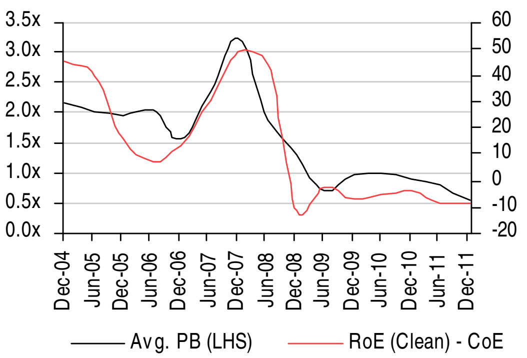
Source: Company data, HSBC estimates

ROE likely to remain depressed at sub-optimal levels…



Source: Company data, HSBC estimates

…but 2012e PB of 0.55x provides an attractive entry point



Source: Thomson Reuters Datastream, HSBC estimates

Financials & valuation

Financial statements

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Profit & loss summary (USDm)				
Revenue	1,269	1,210	1,212	1,323
EBITDA	192	141	176	207
Depreciation & amortisation	-58	-72	-75	-79
Operating profit/EBIT	134	69	101	128
Net interest	-31	-32	-34	-36
PBT	105	29	68	93
HSBC PBT	115	61	72	97
Taxation	0	0	-1	-2
Net profit	104	29	66	91
HSBC net profit	115	61	70	95
Cash flow summary (USDm)				
Cash flow from operations	193	158	176	207
Capex	-541	-183	-162	-194
Cash flow from investment	-481	-105	-162	-194
Dividends	-50	-53	-21	-33
Change in net debt	354	78	14	29
FCF equity	-398	-80	-21	-24
Balance sheet summary (USDm)				
Intangible fixed assets	25	25	25	25
Tangible fixed assets	1,537	1,585	1,644	1,730
Current assets	852	842	845	845
Cash & others	693	606	606	606
Total assets	2,555	2,525	2,586	2,673
Operating liabilities	167	167	181	193
Gross debt	843	834	847	876
Net debt	150	228	242	271
Shareholders funds	1,545	1,525	1,558	1,603
Invested capital	1,554	1,681	1,728	1,802

Ratio, growth and per share analysis

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Y-o-y % change				
Revenue	33.5	-4.6	0.2	9.2
EBITDA	11.1	-26.8	25.0	17.8
Operating profit	1.7	-49.0	47.7	26.8
PBT	-6.4	-71.9	129.9	37.0
HSBC EPS	2.7	-46.8	15.1	34.9
Ratios (%)				
Revenue/IC (x)	0.9	0.7	0.7	0.7
ROIC	10.0	4.2	5.8	7.1
ROE	7.6	4.0	4.6	6.0
ROA	5.4	2.4	3.9	4.8
EBITDA margin	15.2	11.6	14.5	15.7
Operating profit margin	10.6	5.7	8.3	9.7
EBITDA/net interest (x)	6.2	4.5	5.3	5.8
Net debt/equity	9.7	15.0	15.5	16.9
Net debt/EBITDA (x)	0.8	1.6	1.4	1.3
CF from operations/net debt	128.4	69.4	72.6	76.6
Per share data (USD)				
EPS reported (fully diluted)	0.05	0.02	0.03	0.05
HSBC EPS (fully diluted)	0.06	0.03	0.04	0.05
DPS	0.03	0.01	0.02	0.02
NAV	0.80	0.79	0.81	0.83

Key forecast drivers

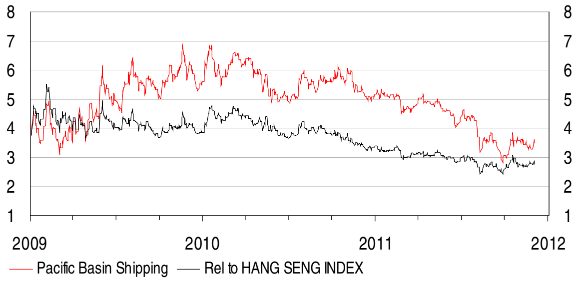
Year to	12/2010a	12/2011e	12/2012e	12/2013e
Handysize revenue days	29,070	30,120	32,490	34,560
Handysize Avg TCE (USD/day)	16,750	13,313	12,374	12,472
Handymax revenue days	11,450	13,230	12,420	13,950
Handymax Avg TCE (USD/day)	22,570	14,819	14,686	15,295
Handysize Spot (USD/day)	16,427	10,807	11,520	12,384
Handymax Spot (USD/day)	22,456	14,491	14,400	15,480

Valuation data

Year to	12/2010a	12/2011e	12/2012e	12/2013e
EV/sales	0.7	0.8	0.9	0.8
EV/EBITDA	4.6	7.3	5.9	5.1
EV/IC	0.6	0.6	0.6	0.6
PE*	7.5	14.2	12.3	9.1
P/NAV	0.6	0.6	0.6	0.5
FCF yield (%)	-54.8	-10.1	-2.7	-3.0
Dividend yield (%)	6.2	2.7	3.8	5.2

Note: * = Based on HSBC EPS (fully diluted)

Price relative

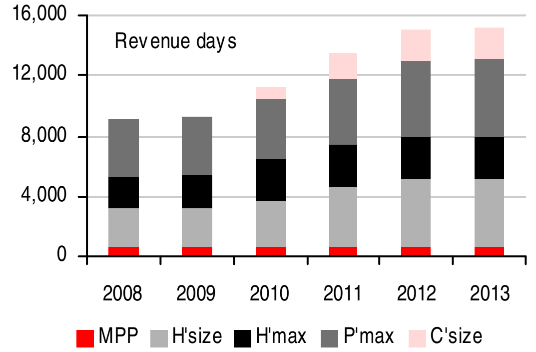


Source: HSBC

Note: price at close of 02 Dec 2011

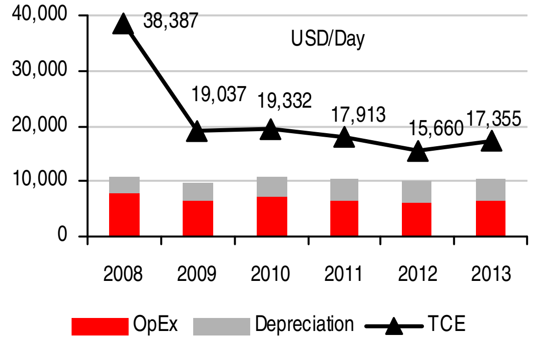
Sinotrans Shipping: Large discount to cash provides opportunity

One of the largest dry bulk vessel owners in China with exposure across the dry bulk market



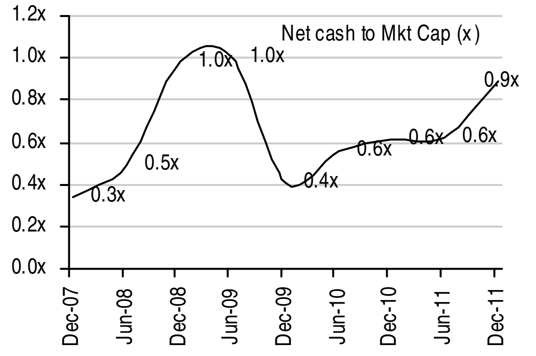
Source: Company data

With an all-in cost of USD10,000/day, the company is likely to remain profitable through the current downcycle



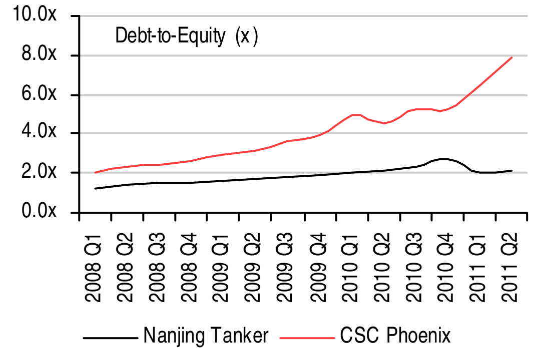
Source: Clarksons

Stock is trading near the value of net cash on SSL's balance sheet since the market believes that…



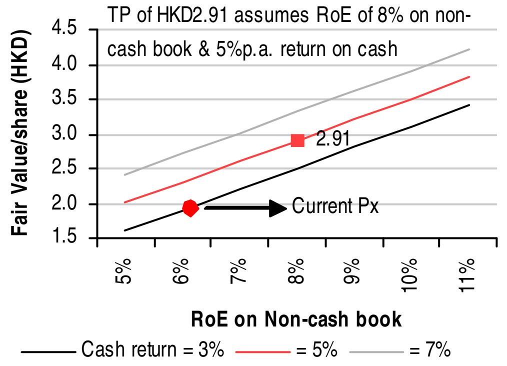
Source: Clarksons, Company data

…it may be used to aid SSL's highly leveraged sister companies instead of value-accretive opportunities



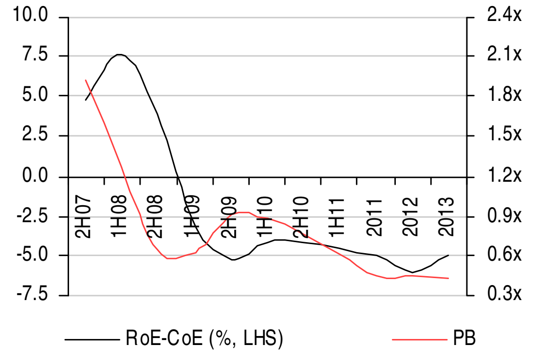
Source: Company data, HSBC estimates

But we believe the shares are too cheap to ignore…



Source: Company data, HSBC estimates

…even though ROE drivers of valuation may not come until 2013e



Source: Thomson Reuters Datastream, HSBC estimates

Financials & valuation

Financial statements

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Profit & loss summary (USDm)				
Revenue	278	281	276	306
EBITDA	143	139	131	150
Depreciation & amortisation	-43	-54	-62	-61
Operating profit/EBIT	99	85	69	89
Net interest	13	18	15	17
PBT	128	105	84	106
HSBC PBT	113	104	84	106
Taxation	-1	0	0	0
Net profit	128	105	84	106
HSBC net profit	112	103	84	106
Cash flow summary (USDm)				
Cash flow from operations	142	157	146	167
Capex	-335	-232	-50	-20
Cash flow from investment	-198	-232	-50	-20
Dividends	-36	-41	-42	-46
Change in net debt	-247	116	-54	-101
FCF equity	-191	-75	96	147
Balance sheet summary (USDm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	1,029	1,207	1,195	1,154
Current assets	1,050	1,051	1,100	1,144
Cash & others	1,000	1,000	1,054	1,101
Total assets	2,163	2,344	2,381	2,385
Operating liabilities	38	40	39	49
Gross debt	0	116	116	62
Net debt	-1,000	-884	-938	-1,038
Shareholders funds	2,126	2,188	2,226	2,273
Invested capital	1,041	1,218	1,202	1,149

Ratio, growth and per share analysis

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Y-o-y % change				
Revenue	21.6	1.0	-1.8	10.7
EBITDA	22.1	-2.6	-5.9	14.9
Operating profit	16.1	-14.2	-19.6	30.2
PBT	20.4	-18.1	-20.1	26.3
HSBC EPS	5.3	-7.8	-19.0	26.3
Ratios (%)				
Revenue/IC (x)	0.3	0.2	0.2	0.3
ROIC	10.7	7.5	5.6	7.6
ROE	5.4	4.8	3.8	4.7
ROA	6.0	4.6	3.7	4.6
EBITDA margin	51.2	49.4	47.3	49.1
Operating profit margin	35.7	30.3	24.8	29.2
EBITDA/net interest (x)				
Net debt/equity	-47.0	-40.4	-42.1	-45.7
Net debt/EBITDA (x)	-7.0	-6.4	-7.2	-6.9
CF from operations/net debt				
Per share data (USD)				
EPS reported (fully diluted)	0.03	0.03	0.02	0.03
HSBC EPS (fully diluted)	0.03	0.03	0.02	0.03
DPS	0.01	0.01	0.01	0.01
NAV	0.53	0.55	0.56	0.57

Key forecast drivers

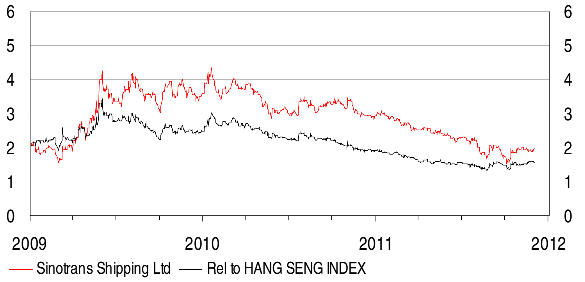
Year to	12/2010a	12/2011e	12/2012e	12/2013e
Revenue Days - Bulk	11,300	13,478	15,034	15,206
Average TCE (USD/day) - Bulk	19,332	17,913	15,660	17,355
Revenue Days - Tanker	335	335	335	335
Average TCE (USD/day) - Tanker	37,737	28,340	28,340	28,340
Revenue Days - Container	3,603	3,603	3,603	3,603
Average TCE (USD/day) - Contai	5,642	5,583	5,822	6,113

Valuation data

Year to	12/2010a	12/2011e	12/2012e	12/2013e
EV/sales	-0.2	0.2	0.0	-0.4
EV/EBITDA	-0.5	0.3	0.0	-0.7
EV/IC	-0.1	0.0	0.0	-0.1
PE*	9.1	9.9	12.2	9.6
P/NAV	0.5	0.5	0.5	0.4
FCF yield (%)	-20.5	-8.1	10.3	15.7
Dividend yield (%)	4.0	4.1	4.5	5.7

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

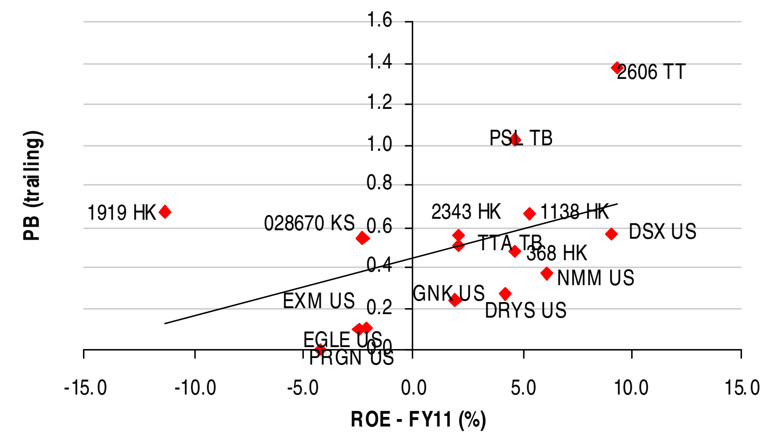
Note: price at close of 02 Dec 2011

Comparative Valuation of key dry bulk stocks

Company Name	B'berg Ticker	Price Local Ccy	Market Cap (USDm)	PE FY11e	PE FY12e	PB FY11e	PB FY12e	ROE (%) FY11e	ROE (%) FY12e	Price Performance (%) 1-Day	1-Week	4-Week	12-Week	26-Week	52-Week	YTD
Pacific Basin	2343 HK	3.48	868	29.6x	13.1x	0.6x	0.6x	4.0	4.6	-3.9	5.8	-3.6	-2.8	-24.3	-34.7	-32.7
Sinotrans Shipping	368 HK	1.98	1,018	9.9x	12.1x	0.5x	0.5x	4.8	3.8	0.0	4.2	-0.5	-2.9	-16.1	-34.0	-32.7
China Cosco	1919 HK	3.60	4,734	NM	NM	0.7x	0.9x	-12.2	-16.7	-1.1	10.1	-12.4	-8.4	-47.9	-57.9	-56.3
STX Pan Ocean	028670 KS	6,460	1,175	NM	55.1x	0.6x	0.6x	-6.9	1.1	1.1	15.4	-9.7	-24.1	-17.7	-45.3	-43.6
China Shipping Development	1138 HK	5.16	2,261	12.1x	9.8x	0.6x	0.6x	5.2	6.2	3.2	19.7	-10.1	-1.1	-33.2	-53.4	-50.2
U-Ming	2606 TT	44.65	1,271	15.4x	18.3x	1.4x	1.4x	9.7	8.0	-1.2	4.2	-4.3	-4.0	-26.9	-28.9	-29.7
Dryships	DRYS US	2.42	1,026	5.5x	4.1x	0.3x	0.3x	5.2	6.7	-3.2	12.6	-12.3	-17.0	-41.7	-58.8	-55.9
Diana Shipping	DSX US	7.60	623	5.8x	9.7x	0.5x	0.5x	9.2	5.1	1.5	4.8	-8.4	-11.1	-31.5	-40.0	-34.4
Genco	GNK US	7.60	273	12.5x	NM	0.2x	0.2x	1.9	-3.1	1.1	9.7	-11.8	-2.6	3.3	-50.2	-47.2
Excel Maritime	EXM US	1.97	167	NM	NM	0.1x	0.1x	-2.6	-5.1	5.3	19.4	-19.9	4.8	-38.6	-66.3	-65.0
Navios Maritime	NMM US	3.90	397	6.5x	6.4x	0.4x	0.4x	5.9	5.6	14.7	21.5	4.6	12.7	-23.4	-28.3	-26.1
Thoresen Thai	TTA TB	18.60	428	16.9x	7.7x	0.5x	0.5x	2.7	6.1	1.6	10.1	24.8	-3.1	-12.7	-7.9	-10.1
Precious Shipping	PSL TB	16.40	554	21.3x	17.6x	1.0x	1.0x	5.0	5.8	3.1	10.1	12.3	-8.9	-6.8	-10.9	-9.9

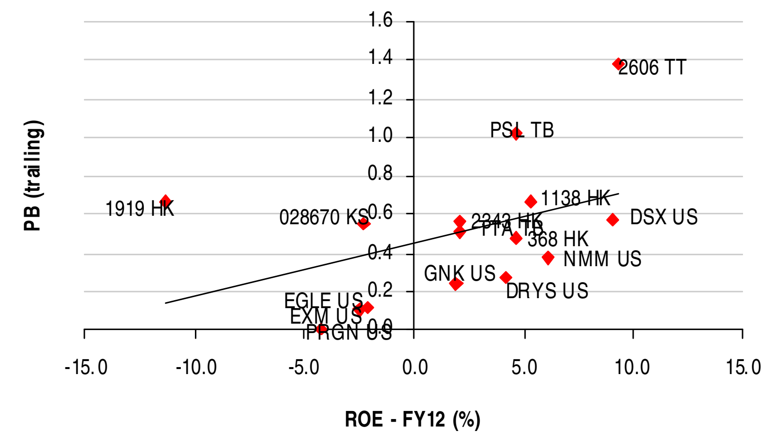
Source: Thomson Reuters Datastream, HSBC estimates for Pacific Basin & Sinotrans, IBES estimates for consensus; Valuations as at the close of 2 December 2011

PB (trailing) vs. consensus ROE 2011e



Source: Thomson Reuters Datastream, All estimates based on IBES consensus

PB (trailing) vs. consensus ROE 2012e



Source: Thomson Reuters Datastream, All estimates based on IBES consensus

Company sections

China COSCO

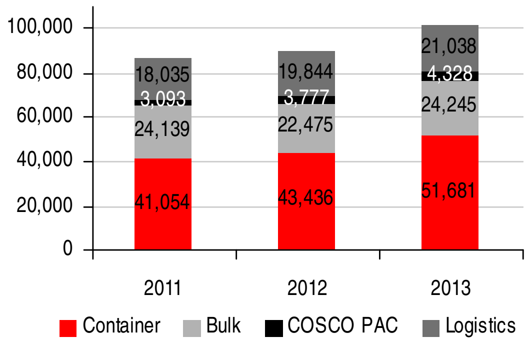
- Container shipping recovery from 2Q12e and expiry of expensive chartered-in bulk fleet unlikely to prevent another loss in 2012e
- COSCO Pacific and logistics business provide support to earnings, but shipping weakness is not fully reflected in consensus estimates
- Greater diversification and potential asset injection deserve a premium, but not the cheapest bulk equity at a 2012e PB of 0.87x; resume coverage with Underweight (V) rating and TP of HKD3.50

Overview

China COSCO Holdings (CCH) is the flagship company of China Overseas Shipping Company, the largest shipping group in China. COSCO owns 52% of CCH, with the rest owned by the public through the H-share and A-share markets. The company's operations include dry bulk shipping, container shipping, terminals, container leasing and management, container manufacturing and logistics services. At end-2010, China COSCO was the largest dry bulk ship operator in the world, with 462 ships, and the sixth largest container shipping company in the world, with 150 ships (fourth largest currently). The company holds a 42.7% interest in Hong Kong-listed COSCO Pacific (1199 HK, HKD9.17, OW(V), Target Price: HKD14.20) as well as a 100% stake in COSCO Logistics.

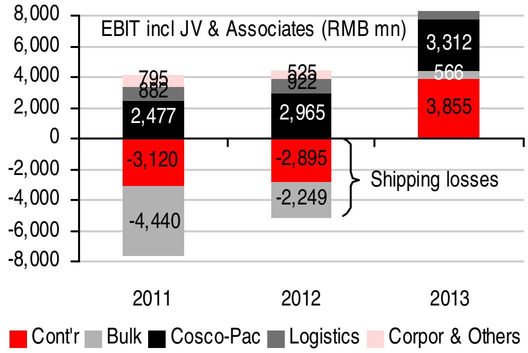
The company's aggressive expansion of its owned and chartered fleet at a time when the sector was peaking in 2008 is proving to be an ongoing handicap to its ability to generate profits. Although we see a recovery from 2H12, largely driven by a bottoming out of container freight rates in 1Q12 and the expiry of expensive charter-in contracts in dry bulk shipping, we doubt if this

Revenue (RMBm) to grow in 2012e, mostly in 2H12…



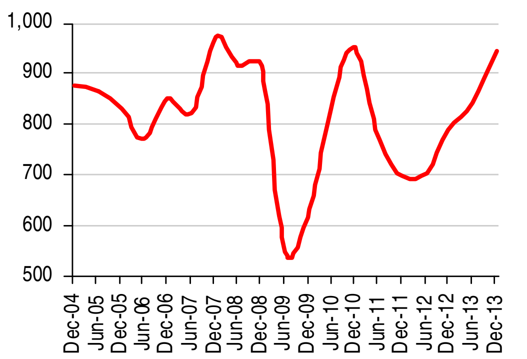
Source: Company data, HSBC estimates

…but, still likely to remain loss making at EBIT-level



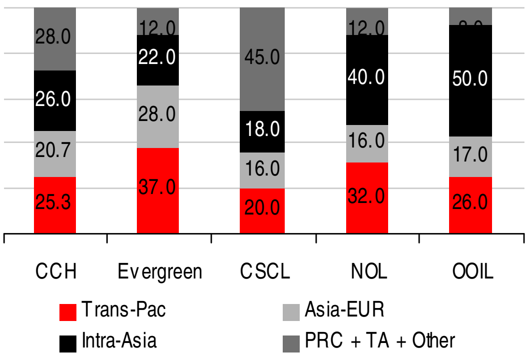
Source: Company data, HSBC estimates

CCH: Average container shipping rates (USD/TEU)



Source: Company data, HSBC estimates

Split of traffic by routes (2010)



Source: Companies, HSBC estimates

will be enough to avoid a bigger net loss in 2012 compared to this year. As a result, we resume coverage on the stock with an Underweight (V) rating and a target price of HKD3.50/share, which implies a 2012 PB of 0.83x, a 26% premium to our target PB for its Hong Kong-listed peers Pacific Basin and Sinotrans Shipping. We attribute this valuation premium to the potential value creation in the event of an asset injection from the parent (dry bulk assets in 2007) and higher diversification offered by CCH (through container, port and logistics businesses) relative to other dry bulk equities.

The issue of a tanker asset injection by the parent has been widely reported in the media, including Reuters, The Standard and other media organisations, and by the Street since the previous injection of dry bulk assets in 2007.

It also worth highlighting that CCH has RMB15bn of operating lease commitments over the next 12 months, in addition to more than RMB18bn of capital commitments. As the majority of these off-balance sheet liabilities are set to be paid down during the course of 2012, the company's balance sheet is likely to deteriorate with its debt-to-equity ratio increasing from 1.1x at the end of June 2011 to 1.6x by the end of 2012e. This may result in pressure on its valuations, particularly if the projected recovery in its container and bulk businesses doesn't remain on track.

Container shipping: deep red

CCH's container fleet of over 150 vessels and 630,000 TEU is one of the largest in the world. Aggressive expansion could add another 30% TEU capacity by the end of 2013e. However, the

CCH cargo volumes (TEUm) and y-o-y changes

	2007a	2008a	2009a	2010a	2011e	2012e	2013e
Cargo volume (TEUm)	**5.7**	**5.8**	**5.2**	**6.2**	**6.9**	**7.4**	**7.9**
Trans-Pac	1.5	1.3	1.2	1.6	1.6	1.7	1.8
Asia-Europe	1.4	1.5	1.2	1.3	1.5	1.6	1.6
Intra-Asia	1.5	1.4	1.4	1.6	1.7	1.9	2.0
Other International	0.2	0.2	0.2	0.2	0.3	0.3	0.3
PRC	1.1	1.3	1.3	1.5	1.8	2.0	2.2
% y-o-y change	**11.7**	**1.5**	**-9.7**	**18.7**	**10.4**	**8.4**	**5.8**
Trans-Pac	15.6	-14.6	-10.2	36.1	1.0	6.6	4.4
Asia-Europe	12.7	12.2	-21.9	7.9	15.5	5.3	3.0
Intra-Asia	-1.1	-3.1	-3.6	16.7	6.2	9.3	7.4
Other International	-2.9	-2.5	-23.9	9.2	35.6	11.8	4.8
PRC	31.4	17.2	1.3	16.9	16.9	11.3	7.8

Source: Company data, HSBC estimates

capacity expansion would not be beneficial to the bottom line until 2013e, in our view.

We believe CCH's weak 3Q11 results provide an indication of its likely performance in 2012e. While cargo volumes were up 14% y-o-y in 3Q11, cargo rates declined on average by 30% y-o-y. Parash Jain, our container shipping analyst, expects severe rate and earnings compression during 4Q11e and 1Q12e before a recovery in rates begins in 2Q12e (see report *Buy signals to emerge in 1Q12*, published on 14 October 2011).

Long-haul routes to remain weak

CCH's container shipping is seeing significant losses on long-haul routes due to soft demand and excessive capacity. Oversupply is worsening due to the arrival of megaships. According to the Shanghai Shipping Exchange, Asia-Europe rates fell to USD500/TEU in the week ending 2 December 2011, which takes the rates well below the cash operating costs of CCH (around USD725/TEU). Even trans-Pacific rates (USD1,426/TEU) have fallen below EBIT breakeven levels.

With around 45% of CCH's volume on these routes, heavy operating losses are highly likely in a seasonally weak 4Q11e and 1Q12e. However, as highlighted earlier, this is likely to mark the bottom of the current downcycle. The company expects Asia-Europe and trans-Pacific rates to come to USD1,100/TEU and USD1,200/TEU, respectively, and the company believes that these rates will allow it to achieve breakeven at an operating level.

CCH container business contribution

RMBm	2009a	2010a	2011e	2012e	2013e
Revenue	27,531	46,342	41,054	43,436	51,681
Y-o-y Chg (%)	-37.1	68.3	-11.4	5.8	19.0
EBITDA	1,839	4,236	-3,202	-876	2,044
EBITDA Margin (%)	6.7	9.1	-7.8	-2.0	4.0
EBIT incl. JV & Assoc	-7,778	3,646	-3,120	-2,895	3,855
EBIT Margin (%)	-28.3	7.9	-7.6	-6.7	7.5

Source: Company data, HSBC estimates

Given the volatility in the sector, the company's optimistic forecasts may well turn out to be correct, but our estimates are a little more conservative at USD1,070/TEU for Asia-Europe and USD1,127/TEU for trans-Pacific because we have yet to see signs of a recovery. For instance, increased idling in 2012e should allow for an improvement in rates. However, as of now, idle capacity has increased to only 2.9% of the global fleet. Idle capacity remains well below the estimated 5-7% required to ease the supply/demand imbalance and the 10%-plus level witnessed during the financial crisis in 2008. Consequently, our forecasts imply that CCH's container business will make operating losses for FY2012e, despite a recovery in 2H12e.

CCH: Average revenue/TEU

	2007a	2008a	2009a	2010a	2011e	2012e	2013e
Avg. revenue/TEU (USD)	**897**	**919**	**595**	**904**	**729**	**745**	**895**
Trans-Pac	1,235	1,423	924	1,340	1,149	1,127	1,314
Asia-Europe	1,350	1,257	750	1,384	942	1,070	1,527
Intra-Asia	545	576	470	612	560	575	646
Other International	1,133	1,251	688	1,186	898	915	991
PRC	298	337	282	327	319	300	296
% y-o-y change	**10.6**	**2.4**	**-35.3**	**52.1**	**-19.3**	**2.1**	**20.1**
Trans-Pac	-3.7	15.2	-35.0	45.0	-14.3	-1.9	16.6
Asia-Europe	34.0	-6.9	-40.3	84.4	-32.0	13.7	42.6
Intra-Asia	9.7	5.8	-18.4	30.2	-8.3	2.6	12.3
Other International	-7.3	10.4	-45.0	72.4	-24.3	1.9	8.3
PRC	27.6	13.0	-16.4	16.0	-2.4	-6.0	-1.3

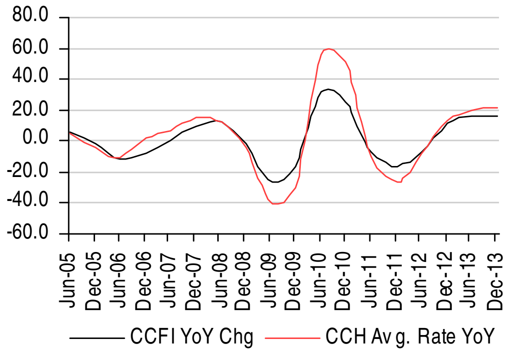
Source: Company data, HSBC estimates

CCH dry bulk TCE (USD/Day)

	2007a	2008a	2009a	2010a	2011e	2012e	2013e
Avg. TCE (USD/Day)	**40,667**	**52,543**	**17,978**	**22,923**	**15,550**	**15,183**	**17,423**
Capesize	74,521	95,740	30,716	33,726	19,275	17,100	23,865
Panamax	36,243	47,283	17,004	22,977	15,753	15,956	16,963
Handymax	29,712	39,893	13,839	18,287	14,200	14,400	15,480
Handysize	20,916	26,454	9,591	13,345	11,246	11,520	12,384
% y-o-y change		**29.2**	**-65.8**	**27.5**	**-32.2**	**-2.4**	**14.8**
Capesize		28.5	-67.9	9.8	-42.8	-11.3	39.6
Panamax		30.5	-64.0	35.1	-31.4	1.3	6.3
Handymax		34.3	-65.3	32.1	-22.3	1.4	7.5
Handysize		26.5	-63.7	39.1	-15.7	2.4	7.5

Source: Company data, HSBC estimates

Y-o-y change in average rates: CCH vs. CCFI



Source: Shanghai Shipping Exchange, Clarksons, HSBC estimates

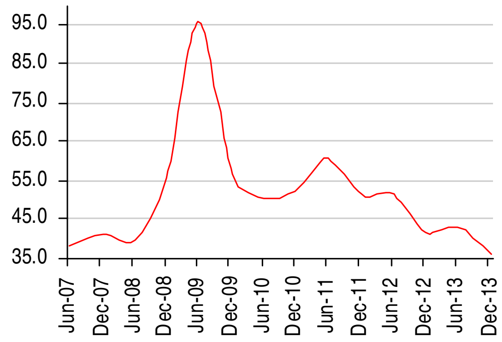
Dry bulk: loss-making leases

On the bulk shipping side, 690,000 DWT are expected to be added in 2012e. The company expects the market to be balanced around 2013-14e as long as new orders stop, close to 100m DWT of capacity is scrapped, and demand catches up with capacity. CCH expects BDI to remain between 1,500 and 2000, with the upper band of the range being the operating breakeven mark for the company's bulk fleet in 2012e. CCH's main challenge in the bulk segment is its expensive chartered-in fleet, which would be loss-making even at a BDI of 2,500. If CCH is able to cut its charter-in costs, then the BDI-breakeven threshold would come down to the 1,700-1,800 level. We expect this to happen only by 2H13e.

Managing charter costs is the key

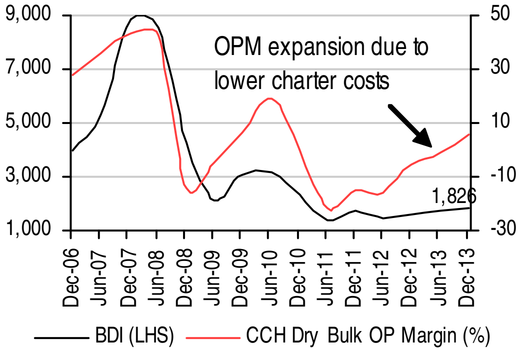
CCH's initiative to force renegotiation of its charter contracts with shipowners earlier in the year met with only limited success, but could have done some damage to its credibility in the market. HSBC Shipping Services noted in its weekly report on 28 October 2011 that the unwillingness of some cargo owners to use CCH for fear of being embroiled in a dispute was one of the contributors to the summer BDI rally. This probably was one of

Bulk charter-in payments as % of Bulk revenue



Source: Company data, HSBC estimates

Dry bulk OPM to recover in 2013 on low charter-in costs



Source: Clarksons, Company, HSBC estimates

CCH dry bulk operation days

	2007a	2008a	2009a	2010a	2011e	2012e	2013e
Operation days	**145,277**	**149,629**	**151,827**	**156,808**	**148,785**	**145,245**	**149,213**
Capesize	31,467	30,834	30,321	36,169	34,685	31,395	31,913
Panamax	48,253	50,060	55,787	54,790	53,404	55,028	56,235
Handymax	51,407	52,927	50,300	48,243	41,870	39,158	41,400
Handysize	14,150	15,808	15,419	17,606	18,827	19,665	19,665
% y-o-y change		**3.0**	**1.5**	**3.3**	**-5.1**	**-2.4**	**2.7**
Capesize		-2.0	-1.7	19.3	-4.1	-9.5	1.6
Panamax		3.7	11.4	-1.8	-2.5	3.0	2.2
Handymax		3.0	-5.0	-4.1	-13.2	-6.5	5.7
Handysize		11.7	-2.5	14.2	6.9	4.5	0.0

Source: Company data, HSBC estimates

the reasons that CCH's bulk revenue development (per PRC GAAP) during 3Q11 lagged both the improvement in bulk rates and market volumes. CCH reduced its charter-in capacity from 19.0m DWT in 2Q11 to 16.7m DWT in 3Q11. As a result, its bulk revenues and volumes increased by only 2% q-o-q and 6% q-o-q, respectively, despite an 11% q-o-q improvement in BDI and an equal increase in Chinese iron ore imports. Even Chinese coal imports increased by 46% q-o-q during this period.

CCH dry bulk business contribution

RMBm	2009a	2010a	2011e	2012e	2013e
Revenue	27,367	32,777	24,139	22,475	24,245
Y-o-y Chg (%)	-61.8	19.8	-26.4	-6.9	7.9
EBITDA	1,839	4,236	-3,202	-876	2,044
EBITDA Margin (%)	6.7	12.9	-13.3	-3.9	8.4
EBIT incl. JV & Assoc	558	3,150	-4,440	-2,249	566
EBIT Margin (%)	2.0	9.6	-18.4	-10.0	2.3

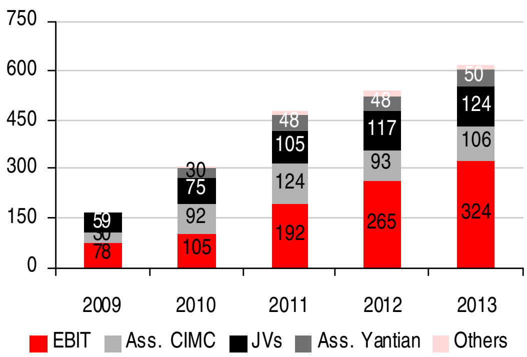
Source: Company data, HSBC estimates

It is probably too early to say whether lower chartered-in capacity during 3Q11 is temporary (due to reservations of cargo owners as mentioned earlier), or in line with the company's strategy to cut losses on its chartered fleet. However, we do believe that CCH's charter costs could start to ease from 2H12e, as the expensive five-year charter agreements signed during the peak of 2007-08 start to expire.

Other businesses solid

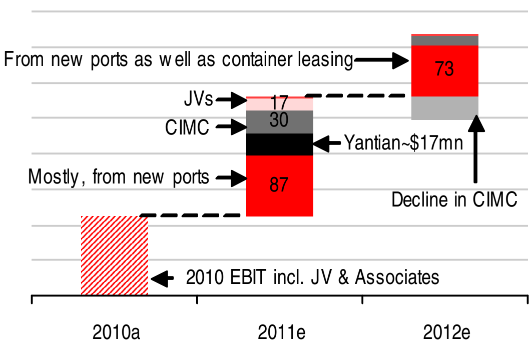
As highlighted in the segmental EBIT chart at the start of this section, CCH's 42.7% stake in COSCO Pacific is likely to be its top performer over next 24 months. This stake provides CCH with exposure to container terminal ports, container leasing and container manufacturing businesses. Given the positive stance of Parash Jain, our container shipping and ports analyst, on COSCO Pacific, we believe that CCH's other

COSCO Pac: EBIT, including associates and JV (USDm)

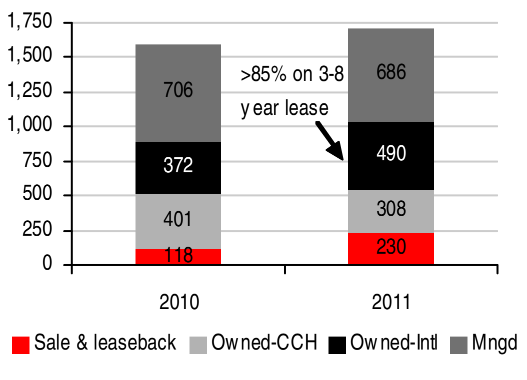


Source: Company data, HSBC estimates

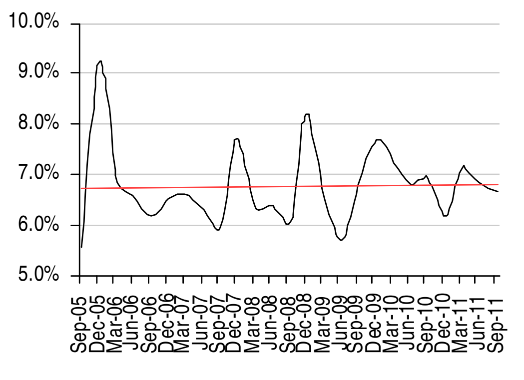
COSCO Pac: Key contributors to EBIT growth (USDm)



Source: Company data, HSBC estimates



Source: Company data



Source: CEIC, Company data, HSBC estimates

businesses would almost offset all of its shipping losses at the EBIT level (including contributions from JVs and associates).

COSCO Pacific

We expect revenue and EBIT (including contributions from JVs and associates) contributions made by COSCO Pacific (CP) to CCH to grow by 22% y-o-y and 20% y-o-y, respectively, in 2011. The primary driver of CP's earnings growth in 2011e is its new port investments in Tianjin Euroasia, Guangzhou-Nansha, and Piraeus terminals. All of these investments turned profitable in 1H11 from generating losses a year ago; 2011e results are also likely to be boosted by CP's 22% stake in CIMC, the No.1 container manufacturer globally. Given the recent weakness in container manufacturing, we believe that 2012e earnings growth will be largely driven by continued growth at new ports, which should be materially supplemented by the container leasing business.

Terminal business: steady sailing

The domestic terminals business benefited from continued growth in the Bohai Rim area and additional business from major liners in its key terminals. With a 22% YTD growth in throughput, the company's international ports are performing well. As at the end of October 2011, effective throughput of 19% YTD remains comfortably ahead of our full-year forecast of 14% y-o-y growth.

CCH COSCO Pacific contribution

RMBm	2009a	2010a	2011e	2012e	2013e
Revenue	1,441	2,118	3,093	3,777	4,328
Y-o-y Chg (%)	*11.7*	*47.0*	*46.0*	*22.1*	*14.6*
EBITDA	1,510	1,592	2,291	2,842	3,157
EBITDA Margin (%)	*104.8*	*75.1*	*74.1*	*75.2*	*72.9*
EBIT incl. JV & Assoc.	1,295	1,617	2,477	2,965	3,312
EBIT Margin (%)	*89.9*	*76.3*	*80.1*	*78.5*	*76.5*

Source: Company data, HSBC estimates

Container leasing: likely stable

COSCO Pacific operates a fleet of 1.7m containers of which c40% of the fleet are managed boxes. It has a low risk, asset-light business model, but is only expected to contribute 4-8% to the group's operating profit. From CCH's perspective, the key earnings-generating assets in this fleet are the 0.5m boxes (29% of total) that have been leased out to international customers (c32% of total fleet is leased within the group to the container shipping business). Given that more than 85% of these containers are on a 3-8 year lease, earnings volatility is likely to be limited in the near term. As a result, we expect CP to benefit from sustained high leasing rental rates, with the addition of more owned containers.

Container manufacturing: near-term weakness

While we are cautious on container manufacturers in the near term due to the pull-in of orders in

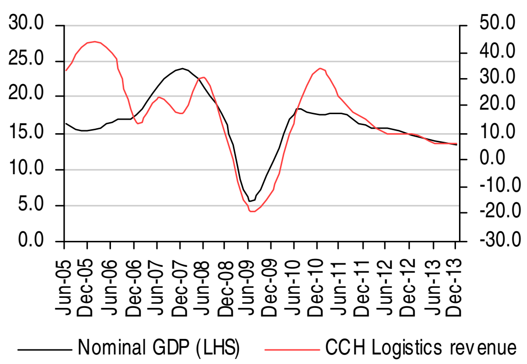
1H11, we remain positive on their medium- to long-term prospects (COSCO Pacific has a 21.9% stake in CIMC, the No.1 container manufacturer globally). In our view, the oligopolistic structure of the market, where the top three players (CIMC, Singamas and CXIX) control c90% of the market, is supportive of supply discipline and this should prevent a severe collapse in the market, provided our view of a liner recovery from 2Q12e holds.

Logistics: geared to China growth

China is developing a modern logistics industry to serve its move away from its large coastal cities to inland regions. On the back of the rapid expansion of the economy and transport network infrastructure in China, the Chinese logistics industry has been growing rapidly. The value added by logistics as a percentage of nominal GDP has remained steady at around 6.5% over the last eight years.

China COSCO's logistics business offers third party logistics, shipping agency and freight forwarding services. It also provides value-added logistics services, including project logistics and other special logistics. CCH is one of the largest logistics companies in China, and consequently, broader macro trends in Chinese logistics industry correlate well with its revenue growth.

Y-o-y change in logistics revenue & nominal GDP of China



Source: CEIC, Company data, HSBC estimates

We forecast moderating revenue growth for CCH's logistics business, which is in line with our economics team's view of moderating GDP growth and declining lower inflationary pressures.

CCH Logistics business contribution

RMBm	2009a	2010a	2011e	2012e	2013e
Revenue	12,127	15,212	18,035	19,844	21,038
Y-o-y Chg (%)	*-14.4*	*25.4*	*18.6*	*10.0*	*6.0*
EBITDA	652	798	923	992	1,052
EBITDA Margin (%)	*5.4*	*5.2*	*5.1*	*5.0*	*5.0*
EBIT incl. JV & Assoc	634	771	882	922	969
EBIT Margin (%)	*5.2*	*5.1*	*4.9*	*4.6*	*4.6*

Source: Company data, HSBC estimates

Potential asset injection premium

CCH has typically traded at a premium to other dry bulk stocks in the region. The premium has varied depending on the degree of outperformance of CCH's other divisions versus the dry bulk sector, but diversification is not the only factor behind the higher valuation, in our view.

Minority shareholders of CCH have benefited from asset injections of its parent's shipping assets in the past. In August 2007, the parent group announced the injection of its dry bulk fleet (202 owned vessels with a total of around 13m DWT and 221 chartered-in vessels). The fleet was acquired for USD4.55bn, which we estimate was priced at a 57% discount to its market value of over USD10bn at that time.

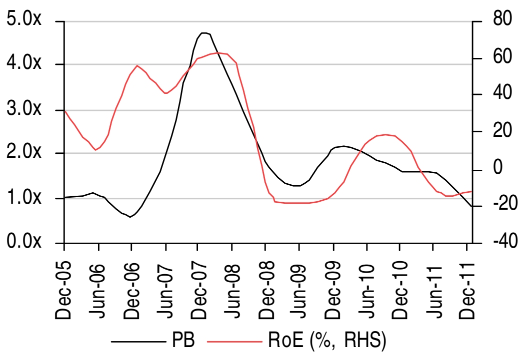
Dry bulk fleet was injected at a 57% discount to fleet value

Vessel type	Tonnage (DWT)	Age @ time of acqu'n Age (years)	__Est. Value (USDm)__ Aug. 2007	Today
H'size	1,320	20.6	887.6	455.2
H'max	3,690	13.5	3,647.6	1,272.4
P'max	4,538	14.5	3,551.5	986.5
C'size	3,337	7.1	2,551.8	765.5
Total Fleet Value			**10,638.5**	**3,479.7**
Acquisition consideration in 2007			4,550.0	
Discount to fleet value at time of acquisition			*57%*	

Source: Company data, HSBC estimates

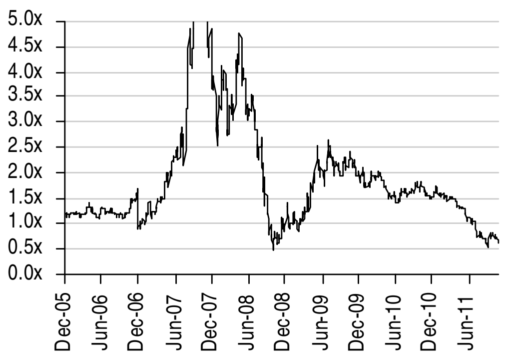
Given this precedent and based on news reports, we believe the market may be factoring in the possibility of the parent injecting its remaining shipping assets into CCH at a discount. Needless

PB vs. ROE (%)



Source: Company data, HSBC estimates

PB (trailing): 2008 trough at 0.45x trailing book



Source: Datastream, HSBC

to say that it is extremely difficult to gauge the possible timing of such an event; however, we do believe that this is likely to happen in the long term. Consequently, some premium to reflect the possibility of another discounted asset injection appears justified to us.

HKD0.15/share as a premium

How much premium investors should pay for the possibility of an asset injection is a difficult question to answer. However, a broad estimate can be achieved by assessing the fleet value of one of group's key unlisted subsidiaries. The value created for CCH shareholders, in such a case, would be the discount to fleet value at the time of injection. For instance, COSCO group's website highlights a tanker fleet of over 30 vessels with a total capacity of around 5m DWT. The group also holds certain other assets like LPG and RoRo vessels.

Despite the well-documented weakness in the tanker market and asset prices, we estimate that the current value of the parent-held fleet is roughly above USD1bn. Therefore, a 20% discount to this fleet value at the time of a potential asset injection could lead to value accretion of USD200m, or HKD0.15/share. Similarly, a discount similar to the already injected dry bulk fleet would imply value accretion of HKD0.43/share. These rough estimates, in our view, allow us to derive a range of HKD0.15-0.43/share for estimating the premium for potential asset injections. However, investors should adjust the range depending on their view on the potential timing of such an injection. Given the uncertainty on timing of such a move, we are conservative and factor an asset injection premium of HKD0.15/share into our target price evaluation.

Valuation and risks

We use three valuation approaches as a reference to establish our target price for CCH. Our economic profits valuation (HKD 4.12/share) is slightly lower than our fleet value-based sum-of-the-parts (HKD4.51/share). The 2012e PB implied by these two approaches is around 1x; however, we also consider the company's trading history by incorporating CCH's trough valuation of 0.45x during financial crisis into our target price estimate. We do so because we don't see a material turnaround in the company's ROE, as well as rising debt burden over the next 12 months, and we believe that the near-term outlook for the company remain challenging.

HSBC

Valuation summary

Methodology	Fair Value/Share (HKD)	Implied PB 2012e
Economic Profit	4.12	0.98x
Sum of the Parts	4.51	1.07x
PB - 2008 trough	1.90	0.45x
Target Price	**3.50**	**0.83x**

Source: HSBC estimates

Our target price of HKD3.50 is the average of the three valuation techniques mentioned above and implies a 2012e PB of 0.83x, which is at a 26% premium to our fair 2012e PB of 0.65-0.67x for the other two Hong Kong-listed bulkers (Pacific Basin and Sinotrans Shipping. We believe that the premium is justified, despite weaker 2012e earnings potential of CCH due to: 1) potential of value creation from an asset injection; and 2) higher diversification offered by CCH, which should result in a more rapid turnaround in 2013e.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10% above and below the hurdle rate for China stocks of 10%. Our target price of HKD3.50 implies a potential return of -2.8%, which is below the Neutral band; therefore, we are resuming coverage of the company with an Underweight (V) rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated (not included for CCH).

Economic profits (EP) valuation

Economic profit valuation

PV of Economic Profit at end (2012-17e) – (A)	-8,968
PV of Terminal Value after 2017e – (B)	1,263
Opening Book Value for 2012e – (C)	40,726
Fair Market Value (RMBm) – (A+B+C)	**33,022**
Fair Market Value/Share – HKD	3.97
Potential asset injection premium – HKD	0.15
Fair Value estimate for Target Price (HKD)	**4.12**

Source: HSBC estimates

The cost of equity used in our EP valuation is based on a risk-free rate of 3.5% and an equity risk premium of 6.5%. Given the volatile nature of the shipping business, we use an asset beta of 1.2x, which is levered to arrive at an equity beta by using the forecasted capital structure of the company. Our equity beta and cost of equity vary between 1.9-2.7x and 16-21%, respectively, in the forecast years.

Our forecasts imply that CCH's ROE will not exceed its cost of equity until 2014e. Economic profits during 2012-17e, as a result, are likely to be negative. Using a sustainable ROE-COE spread of 1% and book value growth of 1% per year beyond 2017, we arrive at our EP valuation of HKD 3.97/share. To this, we add an asset injection premium of HKD0.15/share to arrive at our EP fair value estimate of HKD4.12/share. This implies a 2012e PB of 0.98x.

Sum-of-the-parts valuation

Our sum-of-the parts valuation is based on our estimate of the value of company-owned vessels, as well as the company's prepayments on yet-to-be received new builds. The fleet value estimate is based on asset values reported by Clarksons; however, to remain on the conservative side, we apply a discount of 20% to the fleet value. The fleet value discount is primarily to reflect the possibility of a further fall in asset values due to the ongoing supply glut. We believe the possibility of a further fall in asset values is relatively high since current rates offer an equity IRR of only 8-9% on current asset values. Given the dismal state of the dry bulk market, the required rate of return from most investors is likely to be higher, which is likely to drive asset prices lower.

Sum-of-the-parts valuation

	Value	Disc
Value of owned fleet (USDm)	9,472	20%
Value of COSCO-Pac stake at TP of HKD14.2/share (USDm)	2,108	0%
Logistics (USDm) - based on sale of 49% in logistics biz by COSCO Pacific to CCH in 1H10	630	0%
Enterprise Value (USDm)	**10,316**	
Enterprise Value (RMBm)	65,504	
Less: 2011 Net Debt (RMBm)	*29,257*	
Fair Market Value (RMBm)	**36,247**	
Fair Market Value/Share - HKD	4.36	
Potential asset injection premium	0.15	
Target Price (HKD)	**4.51**	

Source: HSBC estimates

HSBC

CCH fleet value estimate

Container Fleet	TEU	Age	Est. Fleet Value (USDm)
Post-Panamax	406,321	5.1	3,183
Panamax	138,962	8.7	970
Others	118,565	12.3	740
Total Container	**684,245**	**7.1**	**5,123**
Bulk Fleet	**DWTm**	**Age**	**Est. Fleet Value (USDm)**
Capesize	7.27	4.8	1,500
Panamax	5.59	8.7	1,236
Handymax	4.80	13.3	1,371
Handysize	1.11	24.3	242
Total Bulk	**18.77**	**9.3**	**4,350**

Source: Clarksons, HSBC estimates

Given the weak near-term profitability on CCH's chartered-in fleet (particularly bulk), we currently do not factor any contribution from the chartered-in fleet into our valuations. The logistics subsidiary is valued at a transaction value of RMB4bn, which is estimated on the basis of the sale of 49% of COSCO Logistics by COSCO Pacific to CCH in 1H10 (the transaction value for the 49% stake was RMB2bn). We also value the 42.7% stake in COSCO Pacific at our target price of HKD14.20/share. Our sum-of-the-parts valuation generates a fair value estimate of HKD4.51/share

Risks

Upside risks to our estimates and valuation are:

- Stronger-than-expected seaborne dry bulk demand or higher slippage in vessel deliveries causing a shortage of capacity
- Sharper-than-expected rebound in container shipping sector due to idling of capacity or better-than-expected trade growth
- Better-than-expected value creation on the potential injection of tanker assets from the parent holding company

Downside risks are:

- Sharper-than-expected reduction in major bulk imports (iron ore and coal)
- Continued rise in bunker fuel costs
- Any actions required to support the Chinese shipyard industry, including the possibility of purchasing previously unsold vessels

HSBC

Cash flow statement

RMBm	2009a	2010a	2011e	2012e	2013e
PBT	-6,214	9,244	-3,482	-4,296	5,325
Depreciation & Amortisation	3,419	3,452	3,652	3,992	4,161
Associates & JV	-926	-1,719	-2,267	-2,092	-2,112
Finance Cost	1,243	1,321	1,702	2,235	2,655
Interest Income	-512	-1,163	-1,626	1,329	1,247
Provision of onerous contracts	1,419	1,177	1,502	0	0
Reversal of provision of onerous contracts	-5,235	-167	-4	0	0
Tax-paid	-501	-284	-641	-659	-756
Interest Received	483	665	1,626	-1,329	-1,247
Others & Provisions	-12,545	2,068	-2,634	0	0
Change in Working Capital	2,941	1,114	2,200	623	-129
CFO	**-16,427**	**15,708**	**28**	**-198**	**9,144**
Capex	-11,610	-13,068	-12,318	-8,612	-7,100
Other Investments	-931	-4,634	2,230	0	0
CFI	**-12,541**	**-17,702**	**-10,088**	**-8,612**	**-7,100**
Dividend Paid	-2,963	0	-919	0	0
Minority Dividends	-397	-625	-637	-660	-676
Dividends received from JV	557	524	546	597	651
Dividends received from Associates	280	340	829	1,217	1,023
Interest Paid	-1,013	-1,301	-1,702	-2,235	-2,655
Shares Issued	0	0	0	0	0
Debt Issued	51,073	13,650	8,460	9,891	3,100
Debt repaid	-17,609	-12,058	0	0	-3,489
Others	0	0	0	0	0
CFF	**52,294**	**4,552**	**3,680**	**8,810**	**-2,045**
Net Change in Cash	23,326	2,558	-6,380	0	0

Source: Company data, HSBC estimates

Balance Sheet

RMBm	2009a	2010a	2011e	2012e	2013e
Inventories	1,783	2,117	3,791	3,961	3,926
Receivables	4,929	6,101	8,457	8,837	8,759
Cash	44,098	46,683	40,000	40,000	40,000
Other Current Assets	4,288	5,710	6,414	6,414	6,414
Current Assets	**55,097**	**60,610**	**58,662**	**59,213**	**59,099**
PPE	62,464	67,096	77,942	82,562	85,500
JV	4,399	4,572	4,642	4,859	5,037
Associates	6,159	10,910	10,760	10,822	11,082
Other LT Assets & Investments	9,622	7,793	7,650	7,650	7,650
LT Assets	**82,644**	**90,371**	**100,994**	**105,893**	**109,269**
Payables	17,237	19,857	26,087	27,260	27,017
ST Borrowing	7,233	5,870	14,700	14,700	14,700
Other Current Liabilities	2,959	2,817	3,434	3,434	4,400
Current Liabilities	**27,428**	**28,543**	**44,221**	**45,395**	**46,118**
LT Debt	53,117	54,927	54,557	64,448	64,060
Other LT Liabilities	4,611	5,211	5,052	5,052	5,052
LT Liabilities	57,728	60,138	59,609	69,500	69,112
Minority Interest	10,592	14,472	15,100	15,760	16,436
Shareholder's Equity	**41,992**	**47,829**	**40,726**	**34,451**	**36,704**

Source: Company data, HSBC estimates

HSBC

P&L

RMBm	2009a	2010a	2011e	2012e	2013e
Container Shipping	27,531	46,342	41,054	43,436	51,681
Dry Bulk Shipping	27,367	32,777	24,139	22,475	24,245
COSCO Pacific	1,441	2,118	3,093	3,777	4,328
Logistics	12,127	15,212	18,035	19,844	21,038
Corporate & Other Operations	-3	-11	0	0	0
Revenue	**68,463**	**96,439**	**86,321**	**89,533**	**101,293**
Y-o-y Chg. (%)	*-47.7*	*40.9*	*-10.5*	*3.7*	*13.1*
Container Shipping	-6,599	4,949	-1,803	-1,530	5,283
Dry Bulk Shipping	1,839	4,236	-3,202	-876	2,044
COSCO Pacific	1,510	1,592	2,291	2,842	3,157
Logistics	652	798	923	992	1,052
Corporate & Other Operations	-392	-440	-231	-260	-260
EBITDA	**-2,989**	**11,136**	**-2,021**	**1,168**	**11,276**
EBITDA Margin	*-4.4*	*11.5*	*-2.3*	*1.3*	*11.1*
Container Shipping	-1,215	-1,325	-1,316	-1,380	-1,443
Dry Bulk Shipping	-1,366	-1,212	-1,265	-1,399	-1,505
COSCO Pacific	-670	-753	-885	-998	-985
Logistics	-158	-149	-172	-200	-213
Corporate & Other Operations	-11	-14	-15	-15	-15
Depreciation & Amortization	**-3,419**	**-3,452**	**-3,652**	**-3,992**	**-4,161**
Container Shipping	-7,813	3,624	-3,118	-2,910	3,840
Dry Bulk Shipping	474	3,024	-4,466	-2,275	540
COSCO Pacific	839	839	1,407	1,844	2,172
Logistics	494	650	752	792	839
Corporate & Other Operations	-403	-453	-247	-275	-275
Operating Profit	**-6,408**	**7,683**	**-5,673**	**-2,824**	**7,115**
Operating Margin	*-9.4*	*8.0*	*-6.6*	*-3.2*	*7.0*
Container Shipping	11	17	-6	10	10
Dry Bulk Shipping	80	114	20	20	20
COSCO Pacific	404	506	682	733	749
Logistics	72	45	51	50	50
Corporate & Other Operations	0	0	0	0	0
JV	**567**	**683**	**746**	**813**	**829**
Container Shipping	24	4	5	5	5
Dry Bulk Shipping	5	11	7	7	7
COSCO Pacific	51	273	388	387	391
Logistics	68	76	80	80	80
Corporate & Other Operations - includes container mfg	212	672	1,041	800	800
Associates	**359**	**1,036**	**1,521**	**1,279**	**1,283**
Container Shipping	-7,778	3,646	-3,120	-2,895	3,855
Dry Bulk Shipping	558	3,150	-4,440	-2,249	566
COSCO Pacific	1,295	1,617	2,477	2,965	3,312
Logistics	634	771	882	922	969
Corporate & Other Operations	-191	218	795	525	525
EBIT including JV & Associates	**-5,482**	**9,402**	**-3,406**	**-732**	**9,227**
EBIT Margin (incl. JV & Assoc)	*-8.0*	*9.7*	*-3.9*	*-0.8*	*9.1*
Finance Cost	-1,243	-1,321	-1,702	-2,235	-2,655
Interest Income	512	1,163	1,626	-1,329	-1,247
Exceptionals	0	0	0	0	0
PBT	**-6,214**	**9,244**	**-3,482**	**-4,296**	**5,325**
Tax	-451	-1,191	-641	-659	-756
PAT	**-6,664**	**8,053**	**-4,123**	**-4,955**	**4,569**
Minorities	-804	-1,227	-1,275	-1,320	-1,351
Net Profit	**-7,468**	**6,826**	**-5,398**	**-6,275**	**3,218**
EPS	**-0.73**	**0.67**	**-0.53**	**-0.61**	**0.31**

Source: Company data, HSBC estimates

HSBC

STX Pan Ocean

- One of the largest bulk operators with a large chartered-in fleet, but weak track record on profitability since 2008 financial crisis
- High bunker costs, loss-making container and tanker businesses, aggressive capex and rising debt burden are all major concerns
- Resume coverage with Underweight rating and TP of SGD5.00 (STX SP) and KRW4,400 (028670 KS)

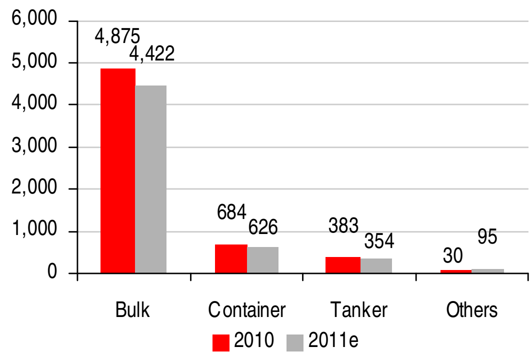
Overview

STX Pan Ocean (STX PO) is one of the largest bulk shipping companies in the world. It operates a dry bulk fleet of over 280 vessels with over 20m DWT capacity, which represents 3.3% of global dry bulk capacity. The company's non-dry bulk businesses include containerships, car carriers and tankers. While these businesses contribute only 15-20% to the company's top-line, the sharp contraction in container and tanker markets has made these segments primary contributors to company's operating loss in 2011e. STX PO plans to cut its chartered-in fleet in container shipping to limit the downside from 4Q11e onwards.

However, tanker losses are likely to continue in 2012e due to relatively high cost of chartered-in VLCCs (very large crude carriers).

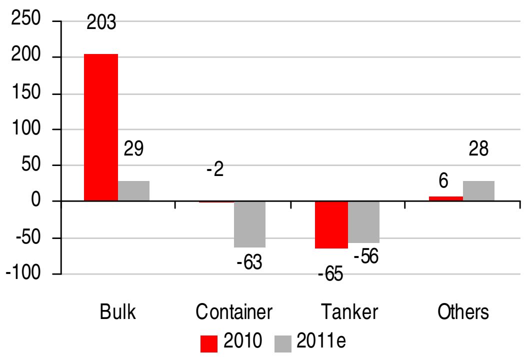
The company was previously known as Pan Ocean Bulk Carriers. After filing for bankruptcy protection in early 1990s, the company emerged from court receivership in 2002. It went public in Singapore (STX SP) in 2005 and Korea (028670 KS) in 2007. STX Corporation is now its largest shareholder and owns 26.4% of the firm. Other STX firms and employees own another 11% of the firm, including a 7% stake held by STX Offshore & Shipbuilding. Korea Development Bank (KDB) owns 15% of the company's shares and is the second largest shareholder.

Sales (USDm)



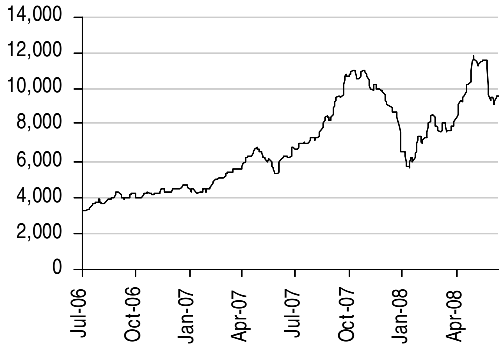
Source: Company data, HSBC estimates

Operating profit (USDm)



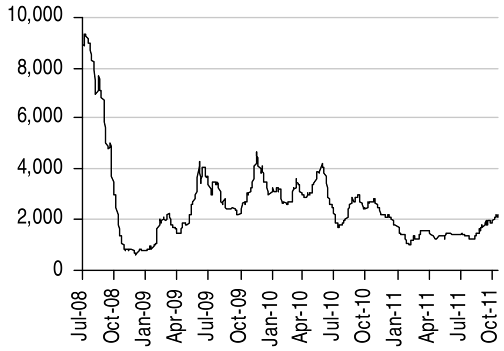
Source: Company data, HSBC estimates

Rising rate environment was helpful for chartered-in fleet…



Source: Company data, Clarksons, HSBC

…however, a declining/choppy market since 2008 has hurt margins



Source: Company data, Clarksons, HSBC

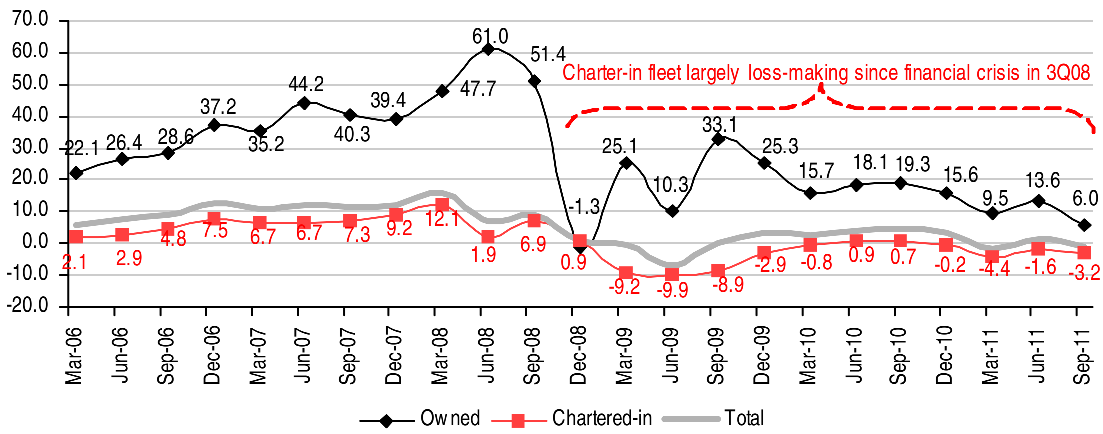
Volatility hits chartered-in fleet

Unlike its peers, China COSCO or Pacific Basin, STX PO has a fleet structure that is heavily skewed towards chartered-in ships. STX PO's owned fleet has remained at around 20% of its total fleet over much of its listed history. This strategy beefs up the firm's economies of scale and market presence, while limiting the capital intensity. As would be expected from a chartered-in business model, the chartered fleet was a strong profit contributor in the rising rate environment before financial crisis, but has been profitable in only three quarters in choppy markets since then.

Short-term chartered ships account for 65% (186 vessels) of the firm's bulk carrier fleet, and would contribute close to half of the STX PO's revenues in 2012e. We believe that the poor performance of its chartered fleet over the last three years is due to the mismatch between costs and revenues of the short-term chartered fleet. The volatility of freight rates during this period is the main culprit and the company is taking steps to shift to a low-risk, low-return business by:

- Reducing the lag between the short-term charter costs and the revenue it generates from cargo contracts.
- Signing more long-term contracts with cargo owners (25-year contracts with Vale and Fibria are more notable ones).

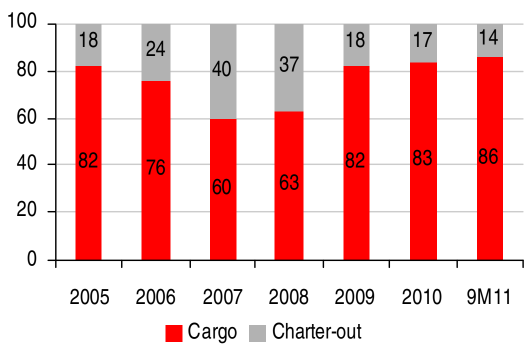
STX PO: gross margins (%) of owned & chartered-in fleet



Source: Company data

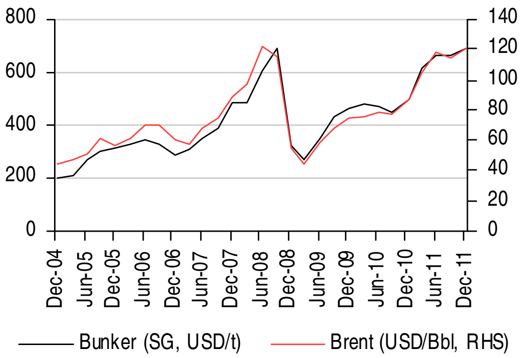
HSBC

Revenue breakdown (%) by business model



Source: Company data

Bunker costs have been going up with Brent



Source: Company data, HSBC, Clarksons, Thomson Reuters Datastream

Exposed to rising bunker cost

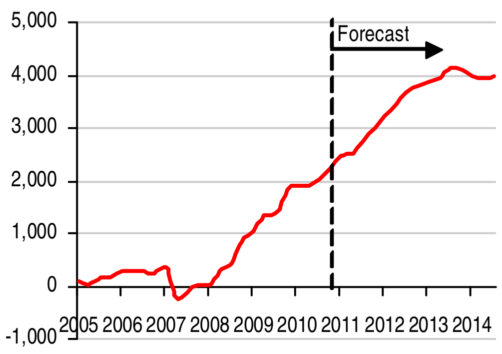
The majority of STX PO's dry bulk business is conducted through voyage charter contracts or cargo contracts as opposed to time-charter (charter-out) contracts. Cargo contracts have accounted for over 80% of the company's revenue in the last three years. STX PO highlights that this approach allows it to avoid the higher counter-party risk associated with a time-charter business model. The downside is that cargo contracts leave it exposed to bunker costs.

In a weak freight rate environment, bunker costs eat into margins because they can't be passed on to cargo owners. So far, the company has tried to control these costs by shifting 55% of its larger Capesize vessels to slow steaming (13 knots/hour to 11 knots/hour). It has also adopted slow steaming in 15-20% of its Handymax/Handysize vessels and continued high bunker prices (more than USD700/tonne) are likely to result in even wider adoption of slow steaming. Nonetheless, it is worth pointing out that an increase in bunker prices is a downside risk to our estimates, which are based on Brent of USD115-120/bbl. Moreover, the risk is asymmetric to the downside since the benefit of lower bunker costs is more likely to be passed to the cargo owners amid oversupply instead of boosting margins.

Balance sheet to deteriorate

During the peak of the cycle in 2007-08, STX PO aggressively contracted for vessel purchases. Asset values have declined more than 50% from peak levels and vessels ordered by STX PO are on average 25-40% more expensive than current prices. This suggests that the company may be at a cost disadvantage to its peers.

Net debt (USDm)



Source: Company data, HSBC estimates

More importantly, the peak capex year for STX PO is in 2012e, when it is expected to incur a capex of over USD1bn to take delivery of 27 new vessels (23 dry bulk vessels, including six VLOCs on long-term contracts to Vale). The company highlights that funding for 2012e capex, as well as 50% of 2013-14e capex, has been finalised. Nonetheless, the increased debt burden is likely to put intense pressure on an already stretched balance sheet.

HSBC

Current fleet status, delivery schedule and estimated capex requirement (USDm)

	Fleet @ end of 3Q11			Delivery Schedule			
No. of Vessels	**Owned**	**Charter-in**	**Total**	**4Q11**	**2012**	**2013**	**2014**
Handy	22	50	72	0	3	0	0
Handymax	10	110	120	1	2	11	7
Panamax	3	49	52	1	7	3	0
Cape	13	28	41	1	4	1	0
VLOC	1	0	1	0	6	1	0
Heavy Lift Carrier	1	5	6	0	1	0	0
Dry Bulk	***50***	***242***	***292***	***3***	***23***	***16***	***7***
Container	8	14	22	0	0	2	0
Car Carrier	4	2	6	0	2	0	0
PC tanker	10	4	14	0	0	0	0
MR tanker	10	7	17	0	0	0	0
VLCC	0	4	4	0	1	1	0
LNG	1	1	2	0	0	0	0
PSV	0	0	0	0	1	2	0
Non-Dry Bulk	***33***	***32***	***65***	***0***	***4***	***5***	***0***
Total	83	274	357	3	27	21	7
Capex Estimate (USDm)				**200**	**1,100**	**750**	**250**

Source: Company data, HSBC estimates

Without an equity injection, we expect STX PO's gross debt-to-equity ratio to rise from 1.4x at the end of 3Q11 to over 2x by end-2012e.

Our expectations of a weak dry bulk market in 2012e followed by a moderate recovery in 2013e imply that the company's cash flow from operations over the next two years will be under USD400m per year. Consequently, we believe that the company's net debt will surpass USD4bn by the end of 2013e. However, we don't envisage the company will experience a liquidity crisis if the financing already finalised for 2012e capex plan stays on course. We expect interest coverage (EBITDA to net interest expense) to remain more than 2x in 2012e.

Risks from a weak financing environment can't be ruled out

KDB's plan to sell down its 15% stake in the company has added to market concerns on potential funding problems at STX group entities. The concerns appear to be centred on STX Offshore & Shipbuilding (STX OS) and STX PO since they have the most leverage among the key STX entities. Based on the latest available data from Reuters, STXOS has the highest gearing with a net debt of over USD3bn as well as the highest short-term debt within the group.

Given the intra-group linkages, it is not unthinkable that potential financial weakness at STXOS may impact STX PO shareholders. In this

Current leverage of key STX group entities

Company	**STX Pan Ocean**	**STX Corp**	**STX OSV**	**STX Offshore**
Bloomberg Ticker	**028670 KS**	**011810 KS**	**SOH SP**	**067250 KS**
Unit	**USDm**	**USDm**	**USDm**	**USDm**
At the end of	**3Q11**	**2Q11**	**3Q11**	**2Q11**
ST Debt	551	1,186	720	3,026
LT Debt	2,421	1,040	45	1,415
Gross Debt	2,973	2,225	765	4,441
Cash	474	233	402	1,206
Net Debt	2,499	1,993	363	3,235
Equity	2,050	1,424	535	1,200
2012 EBITDA f'cast	310	NA	268	271
Gross Debt/Equity	**1.4x**	**1.6x**	**1.4x**	**3.7x**
Net Debt/EBITDA	8.1x	NA	1.4x	11.9x

Source: Thomson Reuters Datastream, HSBC estimates

regard, it's worth noting STX PO plans to buy seven VLOCs (very large ore carriers) and two VLCCs worth over USD1bn from STXOS over 2012-13e. Despite expectations that the bulk and tanker markets will be weak, we doubt if STX PO can delay taking delivery of these vessels. Moreover, STX PO may need to access equity markets during the downcycle to proceed with these orders if the ship finance environment deteriorates. There is also a risk of STXOS selling down its 7% stake in the company to shore up finances, which compounds an existing overhang from the planned sale of 15% stake by KDB.

Valuation and risks

We have 12-month target prices for STX PO listing in Korea (028670 KS) as well as in Singapore (STX SP). Due to liquidity, we treat the former as the primary share class for STX PO and that share class drives valuations and ratings for all the share classes we cover, under our research model. At the same time, our estimates are based on STX PO disclosures to the Singapore Exchange, which are denominated in USD (not in KRW).

We use three valuation approaches as a reference to establish our target price for STX PO. Our economic profits valuation (SGD6.69/share, or KRW 5,900/share) is much higher than our fleet value-based sum-of-the-parts (SGD1.92/share, or KRW1,700/share). The latter is due to currently depressed asset values in the bulk and tanker markets. The 2012e PBs implied by these two approaches are 0.53x and 0.15x, respectively. We also look at the company's trading history and note that its trough valuation during financial crisis was 0.51x. This is broadly in line with our economic profits-based value.

Valuation summary

	Fair Value SGD	KRW	Implied PB 2012e
Economic Profit Valuation	6.70	5,900	0.53x
Fleet-value SoTP	1.90	1,700	0.15x
Trough-PB	6.40	5,700	0.51x
Target Price (Avg., rounded)	**5.00**	**4,400**	**0.40x**

Source: HSBC estimates

Given that we don't see a material turnaround in the company's ROE and rising debt burden over the next 12 months, we believe that the near-term outlook for the company would remain challenging. As a result, we establish our target prices of SGD5.00 and KRW4,400 for the Singapore-listed and Korea-listed shares based on the average of the three valuation techniques mentioned above. Our target price implies a 2012e PB of 0.4x, which we believe is justified by its sub-optimal ROE of 1% in 2012e.

Under our research model, for stocks without a volatility indicator, the Neutral band is 5% above and below the hurdle rate for Korean stocks of 10%. Our target price of SGP5.00/KRW4,400 implies a potential return of -31.9%, which is below the Neutral band; therefore, we are resuming coverage of the company with an Underweight rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated (not included for STX PO).

Economic profits valuation

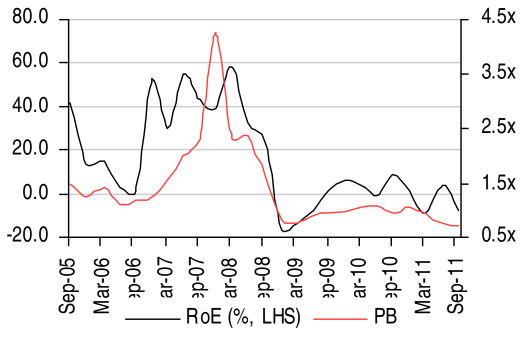
Economic Profit Valuation (USDm)

PV of Economic Profit at end (2012-17) - A	-971
PV of Terminal Value after 2017 - B	43
Opening Book Value for 2012 - C	1,988
Fair Market Value (USDm) – (A+B+C)	1,059
Fair Market Value/Share - SGD	6.69
Estimate for target price calculation (SGD, rounded)	6.70
Fair Market Value/Share - KRW	5,917
Estimate for target price calculation (KRW, rounded)	5,900
Implied 2012 PB	0.53x

Source: HSBC estimates

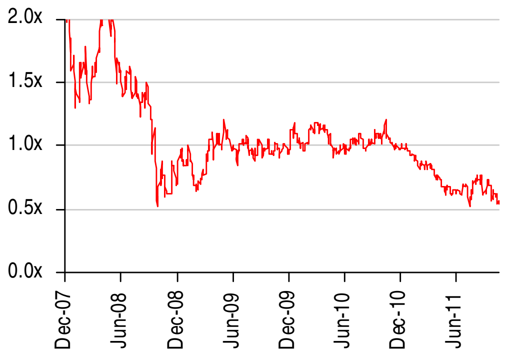
The cost of equity estimate in our economic profits (EP) valuation is based on a risk-free rate of 3.5%

PB vs. ROE



Source: Company data, HSBC estimates

PB (trailing): 2008 trough at trailing PB of 0.51x



Source: Thomson Reuters Datastream, HSBC

and an equity risk premium of 6.5%. Given the volatile nature of the shipping business, we use an asset beta of 1.2x, which is levered up to arrive at equity beta by using the forecasted capital structure of the company. Our equity beta and cost of equity vary between 2.2x and 3.6x, and between 18% and 27%, respectively, in the forecast years. Our forecasts imply STX PO's ROE will not exceed its cost of equity till the middle of this decade. Economic profits in 2012-17e, as a result, are likely to be negative. Using a sustainable ROE-COE spread of 1% and book value growth of 1% per year beyond 2017, we arrive at our EP valuation of SGD6.69/share. This implies a 2012e PB of 0.53x.

Sum-of-the-parts valuation

Sum-of-the-parts (SOTP) valuation

	Value	Disc.
Value of owned fleet (USDm)	2,038.2	10.0%
Add: Payment for New Buildings (USDm)	1,000.0	10.0%
Add: Value of chartered fleet (USDm) - 5x PE	308.8	0.0%
Fair Enterprise Value (USDm)	3,043	
Less: 2011 Net Debt	*2,739*	
Fair Market Value (USDm)	304	
Fair Market Value/Share - SGD	1.92	
Est. for target price calculation (SGD, rounded)	1.90	
Fair Market Value/Share - KRW	1,699	
Est. for target price calculation (KRW, rounded)	1,700	
Implied 2012 PB	0.15x	

Source: HSBC estimates

Our sum-of-the parts valuation is based on our estimate of the value of company-owned vessels, as well as company's prepayments on yet to be received new builds. The fleet value estimate is based on asset values reported by Clarksons; however, to remain on the conservative side, we

Fleet value estimate

Type	No. of Vessels	DWT '000	Age (Year)	Est. Value (USDm)	Remarks
Handysize	22	703	14.3	364	Based on USD15m/ 15-year old Handysize
Handymax	10	511	11.1	215	Based on USD20m/ 10-year old Handymax
Panamax	3	221	10.1	71	Based on USD23m/ 10-year old Handymax
Capesize	13	2,349	10.5	415	Based on USD30m/ 10-year old Handymax
VLOC	1	400	0.2	100	No 2nd hand market, NB price was USD110 m/VLOC
Container	8	178	8.5	80	HSBC estimate
Tanker	20	605	4.6	514	Based on USD28m/MR tanker, USD28m for 6 newer PC tankers, USD20m for 2 mid-aged, USD13m for 2 old
Car Carrier	4	91	12.6	65	HSBC estimate
LNG	1	86	1.5	215	HSBC estimate
Total	**82**	**5,146**	**9.4**	**2,038**	

Source: Clarksons, HSBC estimates

apply a discount of 10% to the fleet value. The fleet value discount is primarily to reflect the possibility of a further fall in asset values due to the ongoing supply glut. We believe the possibility of a further fall in asset values is relatively high since current rates offer an equity IRR of only 8-9% on current asset values. Given the dismal state of the dry bulk market, the required rate of return from most investors is likely to be higher, which is likely to drive asset prices lower. We also value the earnings of chartered-in fleet at 2012e PE of 5x (assuming a 3% gross margin). Our sum-of-the-parts approach implies a fair value of SGD1.90/share and a 2012e PB of 0.15x.

Risks

The earnings visibility of company's charter-in fleet is low and presents both upside and downside risk to our estimates and valuation. STX PO's aggressive capex on new vessels over the last four years and declining vessel values may result in possible future write-downs or financing shortfalls. There could be downside risk from STX PO's VLOC fleet due to China's refusal to grant access to Vale's VLOC fleet to its ports. An overhang from the planned sale of KDB's 15% stake in the company and possible equity issuance are also downside risks. Upside risks are largely sector issues, namely better-than-expected rates and supply-demand balance.

Cash flow statement

USDm	2009a	2010a	2011e	2012e	2013e
Net Income	-62.2	70.2	-110.0	21.3	167.3
Depreciation	80.2	107.8	136.4	172.2	206.6
Interest Expense	30.0	59.9	92.4	131.6	168.4
Interest Income	-29.1	-35.7	-30.5	-23.1	-20.3
Tax expense	-3.8	6.0	15.7	7.9	22.2
FX gains	-34.4	-9.8	-32.0	0.0	0.0
JV/Associate Contribution	0.3	0.7	1.7	0.0	0.0
Chg. In working capital	-6.5	-20.3	-85.9	-30.0	-33.7
Provision & others	-22.7	-57.8	-35.0	0.0	0.0
Cash Generated from Operations	**-48.3**	**121.1**	**-47.3**	**279.9**	**510.5**
Interest paid	-50.4	-91.5	-103.1	-131.6	-168.4
Income tax refunded (paid)	-7.1	-5.9	0.1	-7.9	-22.2
CFO	**-105.8**	**23.7**	**-150.3**	**140.4**	**319.9**
Capital Expenditures	-312.2	-324.2	-632.2	-1,100.0	-750.0
Purchase of Intangibles	-5.6	0.0	-21.6	0.0	0.0
Fixed Assets Sold	7.0	49.0	129.7	0.0	0.0
Intangibles Sold	0.5	0.0	0.5	0.0	0.0
Interest received	20.5	34.0	33.1	23.1	20.3
Others	-167.4	72.3	266.3	0.0	0.0
CFI	**-457.1**	**-169.0**	**-224.1**	**-1,076.9**	**-729.7**
Dividends paid	-55.0	-17.9	-18.2	-18.5	-18.5
Shares issued	0.0	0.0	0.0	0.0	0.0
Others	0.3	2.2	-9.5	0.0	0.0
Debt issued	955.8	995.3	1,063.6	955.0	428.3
Debt raised	-141.6	-892.0	-815.4	0.0	0.0
CFF	**759.5**	**87.6**	**220.4**	**936.5**	**409.8**
Change in Cash	**196.6**	**-57.6**	**-154.0**	**0.0**	**0.0**

Source: Company data, HSBC estimates

HSBC

Balance sheet

USDm	2009a	2010a	2011e	2012e	2013e
Inventories	33.0	41.0	59.1	66.5	74.8
Receivables	285.3	348.5	475.8	535.2	601.9
Other ST financial assets	457.7	336.0	259.9	259.9	259.9
Cash and Cash Equivalents	611.7	554.0	400.0	400.0	400.0
Other Assets	318.6	468.0	463.2	463.2	463.2
Total Current Assets	**1,706.3**	**1,747.6**	**1,658.1**	**1,724.9**	**1,799.9**
Property and Equipment	2,695.7	3,379.8	4,203.0	5,130.8	5,674.2
Intangible	28.1	23.9	41.3	41.3	41.3
Associates & JV	24.9	50.4	55.2	55.2	55.2
Other Assets	58.4	71.2	91.0	91.0	91.0
Total Assets	**4,513.4**	**5,272.9**	**6,048.7**	**7,043.3**	**7,661.7**
Payables	184.3	235.2	294.7	331.5	372.8
Borrowings	519.4	469.3	551.3	551.3	551.3
Other current liabilities	235.7	303.6	576.4	576.4	582.9
Total Current Liabilities	**939.4**	**1,008.0**	**1,422.4**	**1,459.2**	**1,507.0**
Long Term Debt	1,462.8	2,096.3	2,587.7	3,542.7	3,971.1
Other non-current liabilities	24.1	30.2	43.5	43.5	43.5
Total Liabilities	2,426.3	3,134.5	4,053.6	5,045.4	5,521.6
Minority Interest	**4.8**	**6.1**	**7.1**	**7.1**	**7.1**
Equity	**2,082.2**	**2,132.3**	**1,988.0**	**1,990.8**	**2,133.0**

Source: Company data, HSBC estimates

HSBC

Operating metrics and P&L

Operating metrics	2009a	2010a	2011e	2012e	2013e
Bunker (180 cst Singapore) - USD/t	380.6	472.7	658.8	664.5	664.5
Y-o-y Chg.	*-27.8*	*24.2*	*39.4*	*0.9*	*0.0*
Brent (USD/bbl)	61.5	79.6	114.0	115.0	115.0
Y-o-y Chg.	*-36.6*	*29.5*	*43.3*	*0.8*	*0.0*
Fleet (number of vessels)					
Dry Bulk	47	52	53	76	92
Non-Dry Bulk	28	32	33	37	42
Total Owned	**75**	**84**	**86**	**113**	**134**
Dry Bulk	212	270	241	239	243
Non-Dry Bulk	45	35	26	26	26
Total Chartered	**257**	**305**	**267**	**265**	**269**
Volumes					
Total bulk (1,000 R/T)	84,877	108,214	115,268	126,381	142,320
Container (000 TEU)	618	820	762	576	629
Tanker (1,000 R/T)	12,270	11,402	10,348	10,276	10,591
P&L (USDm)	**2009a**	**2010a**	**2011e**	**2012e**	**2013e**
Group revenue	**3,637.0**	**5,593.0**	**5,079.1**	**5,146.9**	**6,068.0**
Y-o-y Chg. (%)	*-60.8*	*53.8*	*-9.2*	*1.3*	*17.9*
Cost of Sales	-3,656.7	-5,404.9	-5,092.1	-4,895.2	-5,598.5
Depreciation	-80.2	-107.8	-136.4	-172.2	-206.6
Other cost of sales	-3,576.5	-5,297.1	-4,955.7	-4,723.1	-5,391.9
Gross Profit	**-19.7**	**188.1**	**-12.9**	**251.6**	**469.5**
Gross Margin (%)	*-0.5*	*3.4*	*-0.3*	*4.9*	*7.7*
Charterage	-1,085.0	-2,959.5	-2,251.5	-2,052.1	-2,370.2
Bunker charge	-394.0	-1,182.4	-1,461.5	-1,395.2	-1,575.1
Port & Cargo Charges	-257.3	-693.7	-721.1	-795.7	-952.3
Others	-99.0	-461.5	-521.6	-480.0	-494.4
Other operating incomes(losses),net	6.6	8.0	60.8	0.0	0.0
Selling and Marketing Costs	-67.1	-80.8	-91.7	-93.0	-106.2
Administrative Expenses	-18.5	-23.4	-18.2	-21.0	-25.8
Total Operating Expense	**-3,735.7**	**-5,501.2**	**-5,141.2**	**-5,009.2**	**-5,730.5**
EBITDA	**-18.5**	**199.7**	**74.3**	**309.9**	**544.1**
EBITDA Margin (%)	*-0.5*	*3.6*	*1.5*	*6.0*	*9.0*
Operating Profit	**-98.7**	**91.8**	**-62.1**	**137.7**	**337.6**
Operating Margin	*-2.7*	*1.6*	*-1.2*	*2.7*	*5.6*
Share of Profit of Joint Venture	-0.3	-0.7	-1.7	0.0	0.0
Net foreign exchange gains(losses)	34.4	9.8	32.0	0.0	0.0
EBIT	**-64.6**	**100.9**	**-31.8**	**137.7**	**337.6**
EBIT Margin	*-1.8*	*1.8*	*-0.6*	*2.7*	*5.6*
Interest income	29.1	35.7	30.5	23.1	20.3
Interest Expense	-30.0	-59.9	-92.4	-131.6	-168.4
Interest, Net	**-0.8**	**-24.2**	**-61.8**	**-108.5**	**-148.1**
PBT	**-65.5**	**76.7**	**-93.6**	**29.2**	**189.4**
Tax	3.8	-6.0	-15.7	-7.9	-22.2
PAT	**-61.7**	**70.7**	**-109.3**	**21.3**	**167.3**
Minorities	-0.6	-0.5	-0.7	0.0	0.0
Net Profit	**-62.2**	**70.2**	**-110.0**	**21.3**	**167.3**
Wtd. number of Shares (m)	205.9	205.9	205.9	205.9	205.9
EPS	**-0.3**	**0.3**	**-0.5**	**0.1**	**0.8**
DPS (USD)	**0.09**	**0.09**	**0.09**	**0.09**	**0.12**

Source: Company data, HSBC estimates

Appendix

Range-bound demand

- We expect dry bulk demand to grow 5-6% y-o-y in 2012-13
- Majors to grow faster than minors but import prices drive trajectory
- Chinese steel demand is the single most important swing factor

Mid-single digit growth y-o-y

Around 3.5bn tonnes of "dry" commodities were shipped globally in 2010. Bulk shippers typically move these commodities from resource-rich countries, such as Australia, Brazil, South Africa and Indonesia, among others, to resource-deficient Far East economies, such as Japan and South Korea, or emerging countries, such as China and India.

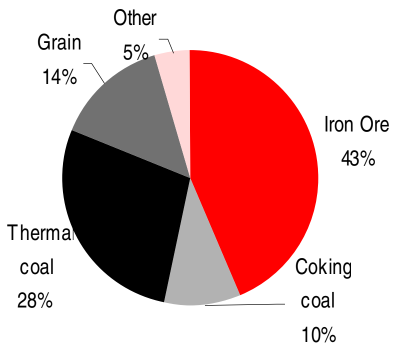
Dry bulk trade accounts for c41% of seaborne trade and has grown at a CAGR of over 5% during the last decade. In 2010, dry bulk seaborne trade rebounded 12% y-o-y but we expect it to hold its long-term trend and increase by 4-6% y-o-y in 2011-13 (including the tonne-mile impact).

Major and minor bulk

Two-thirds of dry bulk trade is in relatively low-value (per tonne) commodities like iron ore, coal and grains. These are generally referred to as major bulk and are typically carried in large carriers (Panamax or Capesize) offering lower unit transportation costs. Given the importance of these commodities to the seaborne bulk trade, we discuss them in greater detail in this section.

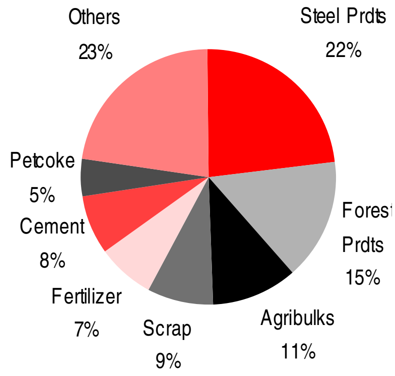
Minor bulks, on the other hand, are typically steel, forest and agricultural products. The outlook of these bulk trades is also somewhat related to that of major bulk commodities – logs, scrap and steel products, for example, are driven by construction activity. Minor bulks also have higher value and, generally, are more sensitive to inventory costs. Therefore, minor bulks are usually traded in smaller shipments. These are generally demand drivers for smaller vessels, namely, Handymax and Handysize.

Major bulk seaborne trade breakdown (2011e: 67% of total)



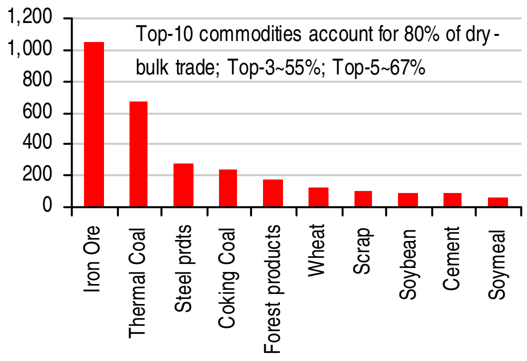
Source: Clarksons, HSBC estimates; Others include bauxite & phosphate rock

Minor bulk seaborne trade breakdown (2011e: 33% of total)



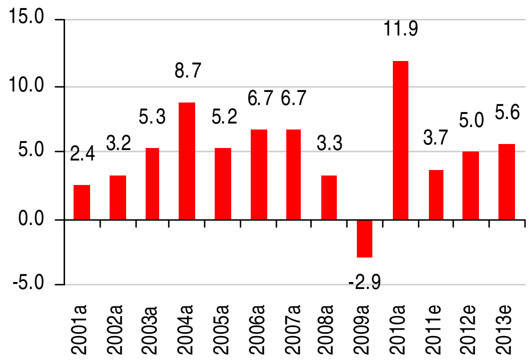
Source: Clarksons, HSBC estimates; Others include Anthracite, sugar, nickel ore etc

Top-10 dry bulk commodities (m tonnes, 2011e)



Source: Clarksons, HSBC estimates

Y-o-y change in dry bulk seaborne trade



Source: Clarksons, HSBC estimates

Iron ore and coal

The majority of the dry bulk cargo relates to raw materials for construction. Steel-related materials (ore, coking coal, scrap and steel products) make up over 45% of all dry bulk shipping demand. When we add other building materials like cement and logs, the total figure is well over 50%. From an end-market perspective, China construction and infrastructure is the major driver of steel and, hence, ore and coking coal demand. China produces almost half of the world's steel – more than 60% from imported ore – and over half of it is used in domestic construction and infrastructure. Iron ore and coking coal are the basic ingredients need to make steel. About 1.6 tonnes of iron ore and 0.6 tonnes of coking coal are required to produce a tonne of steel.

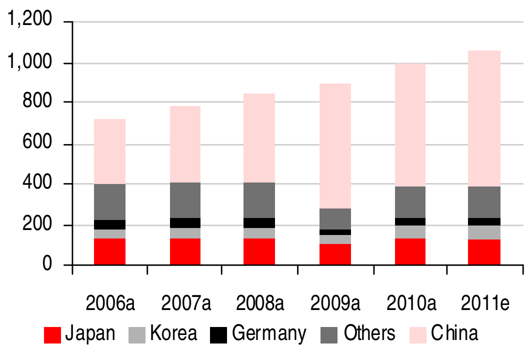
Iron ore: 30% of traded volume

Iron ore is the single biggest contributor with around 30% of seaborne bulk volumes. Ore is an even more important driver than suggested by seaborne volumes since it is dominated by longer routes (Brazil-China) than, say, the coal trade (Indonesia-China). Hence, ore trade accounts for more tonne-miles than coal. Taken together with Japan and South Korea, the three Asian economies consumed around 80% of seaborne ore in 2009-10. On the other hand, Australia, Brazil and India have contributed 80% of demand in the last 5 years.

Chinese steel production is the key

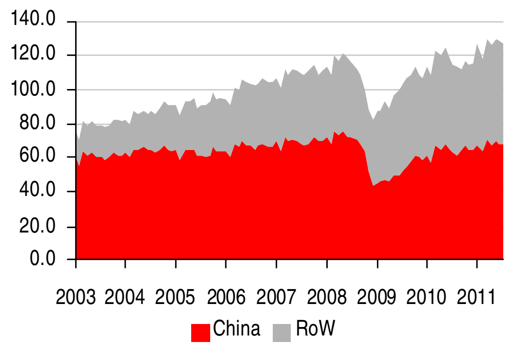
Steel production is the engine of growth for dry bulk commodities. China has been the dominant force driving the growth in global steel

Iron ore: China is the key demand driver



Source: Clarksons, HSBC estimates

World steel production – China/Non-China (2003-10)



Source: WSA

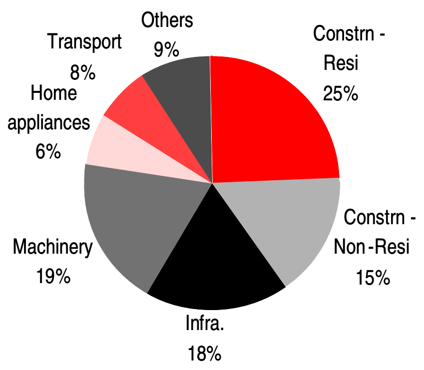
Key forecasts related to seaborne ore trade

Y-o-y chg. (%)	2005a	2006a	2007a	2008a	2009a	2010a	2011e	2012e	2013e
China steel production	7.7	6.4	8.0	17.8	9.0	10.5	6.0	5.4	5.4
China iron ore production	36.9	44.7	21.7	12.4	11.4	21.7	9.4	4.5	3.6
China iron ore imports	32.3	18.5	17.6	15.8	41.5	-1.5	9.5	4.1	1.4
Sea-borne iron ore trade	11.4	8.7	8.4	8.2	6.3	10.6	5.7	5.4	8.3

Source: Bloomberg, CEIC, SBB, HSBC estimates

consumption and production over the last decade. Almost all growth in global steel production since 2003 has come from China, where monthly production has close to tripled to almost 60m tonnes in this period. This has resulted in a doubling of China's share of global steel production to 46% since 2003.

China finished steel end user demand split (%, 2010)

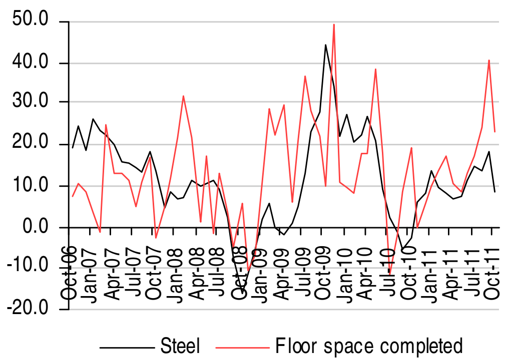


Source: SBB and HSBC

Close to 60% of China's steel demand is accounted for by construction and infrastructure, while the rest is driven by manufacturing. The domestic construction and infrastructure sector accounted for around 58% of China's steel demand in 2010. Growth rates in this segment have held up well despite negative headlines of tighter restrictions on home purchases and lower liquidity levels. Floor space area completed and under construction rose 19% and 28% y-o-y, respectively in October 2011. It remains open to debate whether China's plan for building affordable social housing has contributed much yet but, if it does, it could clearly boost steel consumption.

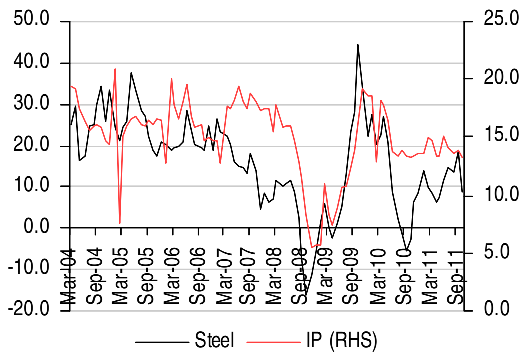
While there has recently been some weakness in China's steel production, our metals and mining team believes that China's steel consumption will grow by a mid-single digit percentage (5-6%) annually till 2013. This is approximately half the CAGR of the last five years but certainly not surprising given the government's attempts to tighten monetary policy and rein in surging fixed asset investment.

Y-o-y change in floor area completed & steel production (%)



Source: Bloomberg, HSBC estimates

Y-o-y change in industrial & steel production (%)



Source: Bloomberg, HSBC estimates

Chinese imports and domestic ore balance

China's reliance on iron ore imports was a key driver for the sector prior to the financial crisis in 2008. However, increased substitution of imported ore by domestic production reversed the trend in 2009-10 as import prices trended higher. This dampened seaborne ore growth in 2010 with Chinese ore imports falling by 1.5% y-o-y despite double-digit growth in steel production during that period.

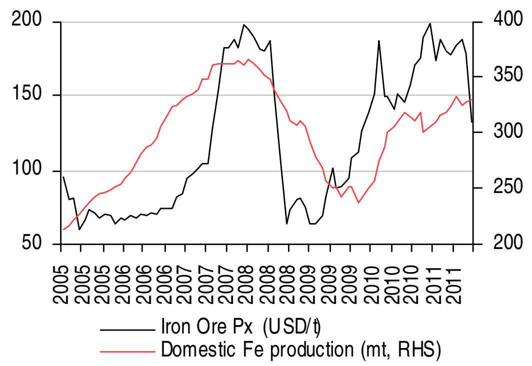
The trend appears to be reversing yet again despite higher import prices due to deterioration of iron ore grades in China. Despite a sharp m-o-m slump, ore imports grew by 9% in October 2011 and 11% y-t-d. Replacement of Indian ore exports (declining due to local regulatory issues) by Brazilian ore is also driving tonne-mile growth.

Going forward, our metals and mining team believes that the proportion of imports to total ore requirement will stabilise due to falling grades of domestic ore production. This is likely to sustain growth of seaborne ore trade, albeit at a lower rate compared to the previous five years due to declining growth of China's steel production. We expect seaborne iron ore trade to grow in line with global iron ore import growth of 5.7% in 2011 and 5.4% in 2012 before rebounding to 8.3% in 2013 as more seaborne supply becomes available.

Near-term risk of destocking

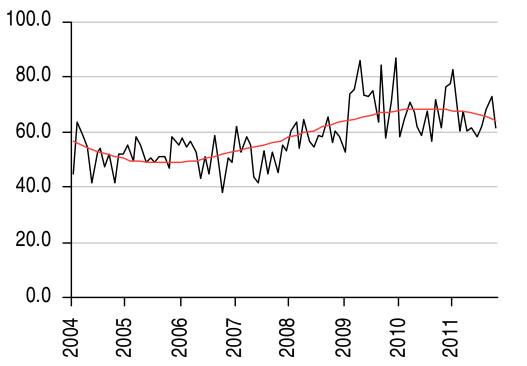
The Capesize vessel market benefits from tight iron ore inventories. However, it is interesting to note that the recent rebound in Capesize rates is despite Chinese iron ore port inventories being near historical highs (inventory-to-demand ratio is

Iron ore price vs. domestic Fe production (trailing 12 months)



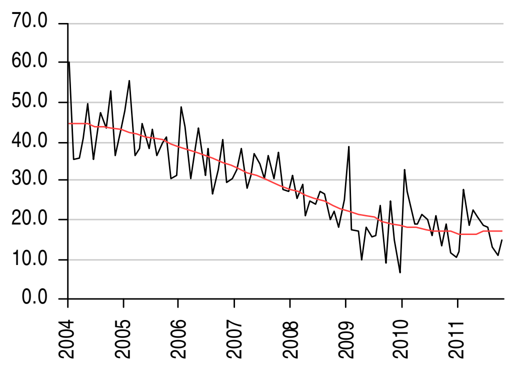
Source: Bloomberg, Metal Bulletin, HSBC estimates

China ore demand met by imports (%)



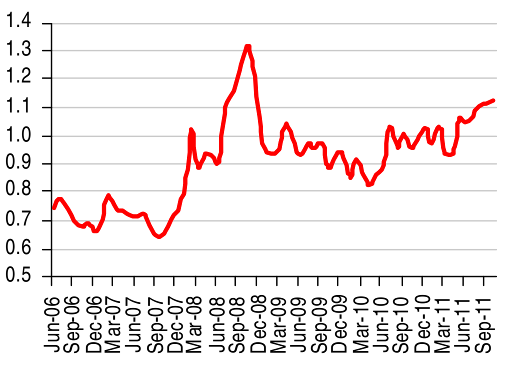
Source: Bloomberg, HSBC estimates

Implied China iron ore grade – Fe (%)



Source: Bloomberg, HSBC estimates

China Iron ore inventory/demand ratio (months of demand)



Source: Bloomberg, HSBC estimates

Iron ore seaborne trade

Tonnes m	2004a	2005a	2006a	2007a	2008a	2009a	2010a	2011e	2012e	2013e
Iron Ore	596	664	722	783	847	900	995	1,052	1,108	1,200
Y-o-y % Change	*14.3*	*11.4*	*8.7*	*8.4*	*8.2*	*6.3*	*10.6*	*5.7*	*5.4*	*8.3*
Exports										
Australia	210	239	248	267	309	362	402	420	453	506
India	61	90	86	90	101	116	103	112	105	100
Ex-Australia/India	325	335	388	426	436	422	491	519	550	594
Imports										
China	205	271	319	377	436	615	603	660	687	697
Ex-China	392	394	403	406	411	286	393	392	421	503

Source: Clarksons, HSBC estimates

at around a 3-year high). While this may be partly due to an increased reliance on imported ore, we believe it does pose a near-term risk to Capesize rates. We would like to see a steadier decline of about five to six days of supply to signal inventory tightness and pent-up vessel demand.

Coal: 25% of traded volume

The seaborne coal trade should surpass 900m tonnes in 2011. This makes it the second biggest tonnage driver in the dry bulk space. Over 70% of the trade is in thermal coal, which is used to generate more than 40% of the world's electricity. The remaining is coking coal used for steel making.

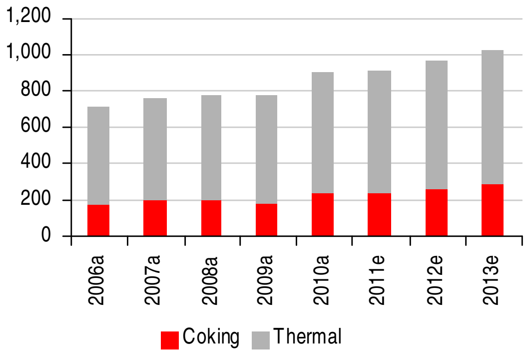
The contribution of coal shipments to the dry bulk trade is similar to that of iron ore, but unlike ore, coal is mostly traded within the region, and consequently, contributes lower tonne-miles/tonne. We expect seaborne coal trade to recover and grow by 6-7% in 2012-13 after slower growth in 2011 due to temporary supply-side (Australian floods) and demand-side (Japan earthquake) constraints.

Thermal coal: low import price could help

Thermal coal is the second largest component of seaborne dry bulk volumes, comprising 19% of total volume in 2010 based on our estimates. China and India have driven most of the growth in its global seaborne trade since 2009, but it is worth noting that China's seaborne import of around 90m tonnes represents only a small part of its total consumption of over 1.7bn tonnes. Consequently, the impact of any imbalance in domestic demand and supply as well as domestic and international prices on seaborne trade could be outsized.

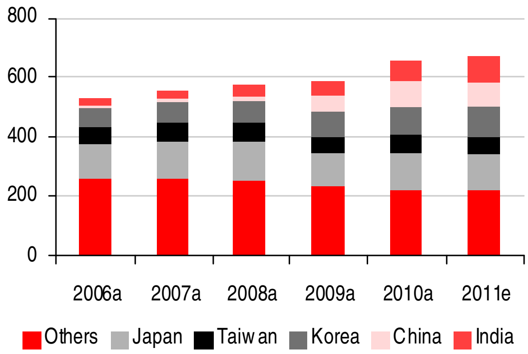
Net imports of coal in China (including coking coal) are flattish y-t-d after surging more that 40% y-o-y in 2010. Part of this is explained by supply-side disruptions in Australia earlier in 2011 but

Seaborne coal imports (m tonnes)



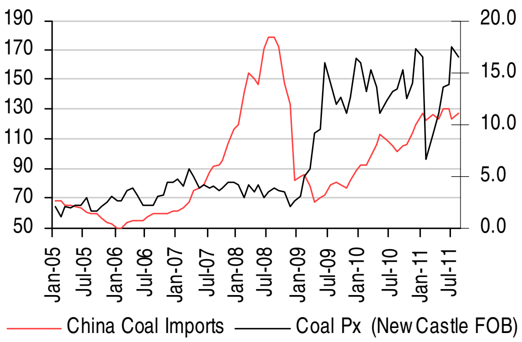
Source: Clarksons, HSBC estimates

Thermal coal: China and India are key demand drivers



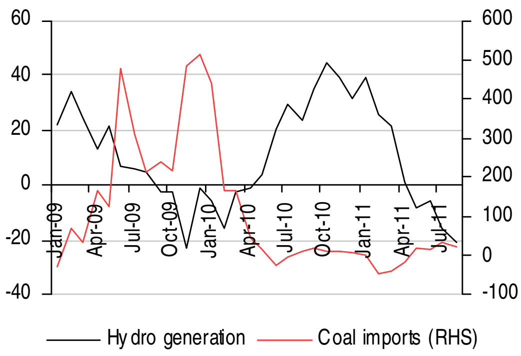
Source: Clarksons, HSBC estimates

China monthly coal imports (m tonnes, RHS) and thermal coal price (USD/tonne, Newcastle, FOB)



Source: Bloomberg, HSBC

Y-o-y change in China coal imports and hydropower generation



Source: Bloomberg, HSBC

higher import prices may have also had a negative impact. We anticipate higher imports when the delivered price of imports is attractive relative to domestic supplies.

There are other factors at play as well and domestic supply of coal has been the most dominant one of them in recent times. Coal mine consolidation in coal rich provinces (Shanxi and Inner Mongolia) in recent years has limited domestic production and supported prices. Our mining team expects a slow rise in domestic thermal coal spot prices in the near term due to coal mine suspensions in Shanxi, transport disruption caused by maintenance of the Daqin railway and restocking for winter demand. These factors, along with lower hydropower generation, are likely to support the market in the near term. However, in the medium term, as domestic production ramps up after restructuring, HSBC's metals and mining team expects China to cease being a key demand driver for seaborne thermal coal trade.

India likely to be the key driver

We expect demand from Japan to recover after a weak 2011 (impacted by the earthquake) and, much like China, demand from Korea and Taiwan should be flat. The strongest driver of sea-borne thermal coal demand is likely to be India, in our view. India has abundant coal reserves to cater to its increasing demand but many of these reserves are located in forests and getting clearance for

India coal demand and supply model - demand to far outstrip domestic supply resulting in increased reliance on imports

In MTs	FY08a	FY09a	FY10p	FY11e	FY12e	FY17e	Incremental (FY10-17e)	FY10-17e (pa)	FY12-17e (pa)	CAGR (FY10-17e)
Demand										
Power	332	363	372	447	499	886	515	74	77	13.2%
Others	171	184	210	216	232	362	153	22	26	8.1%
Total	503	547	582	663	731	1,248	668	96	103	11.5%
Supply										
CIL	379	404	431	431	444	560	129	18	23	3.8%
SCCL	41	45	50	53	47	54	4	1	1	1.1%
Captive/Others	37	44	50	66	69	248	197	28	36	25.7%
Total	457	493	531	550	560	862	330	47	60	7.2%
Demand-supply imbalance	**50**	**59**	**73**	**113**	**171**	**386**	**338**	**49**	**43**	**26.9%**
Demand from Power Sector										
Total	332	363	372	447	499	886	515	74	77	13.2%
Domestic		329	328	401	435	721	393	56	57	11.9%
Imported		34	44	46	64	165	121	17	20	20.8%

Source: Ministry of Coal - India, HSBC estimates; Note: P=Provisional, FY=financial year ending 31 March

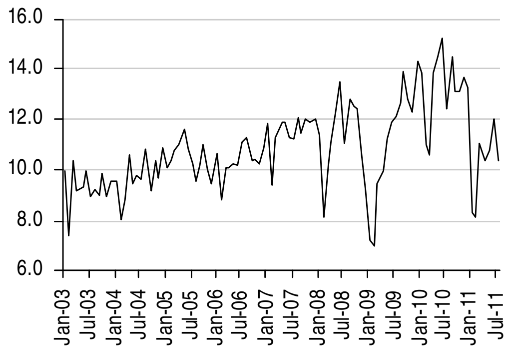
them is a time-consuming process assuming that mining in such areas is approved.

As a result, our metals and mining team expects coal supply to lag coal demand, resulting in increased dependence on imports. HSBC forecasts coal demand in India to grow at a CAGR of 12% over FY10-17e (year-ending March), led by a c12% rise in coal-based power capacity, c12% in steel capacity and c9% in cement capacity over the same period. However, supply growth is unlikely to keep pace, rising only c7% over FY10-17e, driven by capacity expansion by Coal India and captive mining. Consequently, the coal deficit is expected to rise to c390mt by FY17e (from c70mt in FY10), which would have to be met from rising imports and the acquisition of mines overseas by Indian corporates. Having acknowledged the demand deficit, we must remind readers that there could be downside risk to demand forecasts from high import prices and a lack of port and rail infrastructure.

Coking coal: watch out for supply disruptions

We expect a rebound in demand for seaborne coking coal in 2012 from a flattish trend in 2011. This would be driven by reconstruction activity in Japan as well as increased demand in India and China. On the demand side, steel production in each of these three countries is the key driver of seaborne trade.

Australia monthly coking coal exports (m tonnes)



Source: Bloomberg, HSBC

However, the coking coal market was severely impacted by weather-related disruptions in Australia (66% of supply) this year. The recovery of Australian exports has been sluggish and this downside risk to seaborne trade has been compounded by the Bowen Basin coking coal mines.

Grain: 10% of traded volume

The seaborne trade in grains accounted for around 13% of tonne-miles in 2010. While this is small compared to the coal and ore trade and has been growing slowly by comparison (at a 2.8% CAGR over 2000-10), it can be a swing factor for smaller Handymax and Handysize vessels during tighter demand-supply conditions.

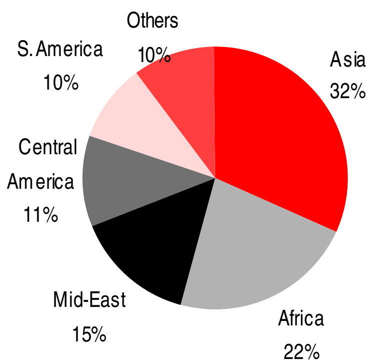
Thermal coal seaborne trade (m tonnes)

Tonnes m	2004a	2005a	2006a	2007a	2008a	2009a	2010a	2011e	2012e	2013e
Thermal coal	471	495	527	556	572	587	662	673	708	742
Y-o-y % Change	*10.3*	*5.1*	*6.5*	*5.5*	*2.9*	*2.6*	*12.8*	*1.7*	*5.2*	*4.8*
Exports										
Indonesia	106	128	175	189	200	233	291	301	316	330
Australia	107	110	114	115	125	135	141	137	162	189
South Africa	64	72	68	67	62	62	64	66	67	69
US	6	5	6	14	18	12	14	17	15	14
China	74	61	54	45	36	19	14	14	13	13
Others	114	119	111	127	133	126	139	67	59	46
Imports										
Japan	118	120	119	126	131	113	125	121	130	130
Korea	57	56	60	62	75	81	93	97	98	99
China	4	6	10	16	14	56	91	80	82	83
India	11	19	23	29	36	48	74	95	114	129
Taiwan	53	57	58	61	61	56	59	62	62	64
Others	228	237	258	261	256	234	220	218	222	237

Source: Clarksons, HSBC estimates

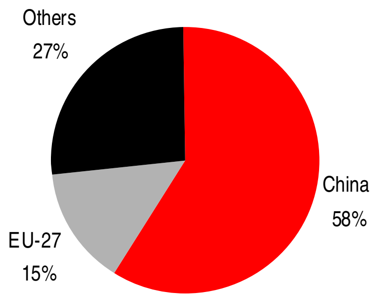
HSBC

Seaborne wheat/coarse grain importers (2010/11 Crop Year)



Source: Clarksons; Crop Year is from Jul-10 to Jun-11

Seaborne soybean importers (2010/11 Crop Year)



Source: Clarksons; Crop Year is from Jul-10 to Jun-11

Unlike demand for the transport of iron ore or coal, the grain trade is very seasonal as it follows the harvesting periods in the northern and southern hemispheres. Harvesting in the southern hemisphere (Brazil, Argentina and Australia) starts around January and ends around May every year. The northern hemisphere (the US and Canada) begins its harvest period from around September and ends around January.

There is no harvesting at all in June, July and August, which impacts freight rates negatively around mid-year. Grain trade is also impacted by weather patterns. Good weather will lead to a bumper crop and increase demand for ships to carry the cargo while bad weather will reduce demand for shipping.

Dominated by wheat and soybean

The grain trade can be split into: 1) soybean, and 2) wheat and coarse grain trade. We expect the former to outperform the latter and grain trade as a whole to grow at low single-digit rate over the next three years. With volumes of over 125m tonnes, wheat makes up over half of the grain trade but its growth has been relatively flat over the last 3 years. Soybean accounts for over 27% of grain trade and is credited with relatively rapid growth (CAGR of 5.8% vs. CAGR of 1.8% for wheat and coarse grain over 2000-10).

Soybean: The major importer is China while the major exporters are in the Americas. China imports close to 60% of global trade and its imports have grown at a CAGR of 11% over the last three years. The export market is dominated by the US (34%) followed by Brazil (29%) and Argentina (19%). The bulk of the export growth in the last three years has come from the US and Brazil.

Dry bulk demand

Tonnes m	2004a	2005a	2006a	2007a	2008a	2009a	2010a	2011e	2012e	2013e
Iron Ore	596	664	722	783	847	902	997	1,053	1,110	1,202
Thermal Coal	471	495	527	556	572	587	662	673	708	742
Coking Coal	179	178	177	195	201	188	237	239	262	282
Total Coal & Ore	**1,246**	**1,337**	**1,426**	**1,534**	**1,620**	**1,677**	**1,896**	**1,965**	**2,080**	**2,226**
Y-o-y Chg. (%)	11.4	7.3	6.7	7.5	5.6	3.5	13.1	3.6	5.9	7.0
Grain	**273**	**273**	**290**	**302**	**322**	**317**	**340**	**343**	**350**	**358**
Y-o-y Chg. (%)	2.6	0.0	6.2	4.1	6.6	-1.6	7.3	0.9	2.0	2.3
Minor Bulk & Others	**1,066**	**1,111**	**1,187**	**1,262**	**1,257**	**1,111**	**1,237**	**1,294**	**1,351**	**1,408**
Y-o-y Chg. (%)	7.3	4.2	6.8	6.3	-0.4	-11.6	11.4	4.6	4.4	4.2
Total Dry Bulk	**2,586**	**2,721**	**2,903**	**3,097**	**3,199**	**3,105**	**3,473**	**3,602**	**3,781**	**3,992**
Y-o-y Chg. (%)	8.7	5.2	6.7	6.7	3.3	-2.9	11.9	3.7	5.0	5.6

Source: Clarksons, HSBC estimates

Wheat and coarse grain: Major importers are in Asia. Major exporters are in the Americas and Australia. The major importers of grain in Asia account for a 32% market share. Within Asia, Japan and South Korea are the two key importers, taking a combined market share of close to half of Asian imports and 17% of global imports. The export market is dominated by a few key countries, with the US taking a 35% share, followed by Argentina, Australia and Canada.

Supply drives rates

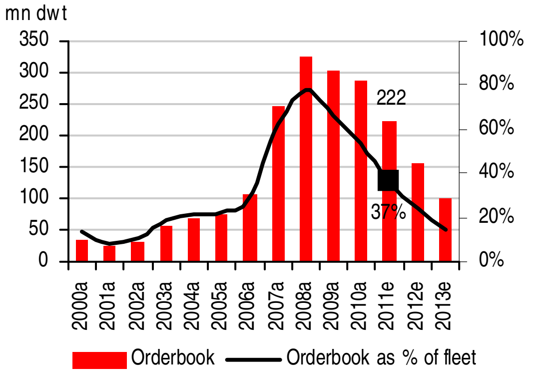
- Sector-wide utilisation to remain under pressure at below 80% as supply growth of 10% y-o-y exceeds demand growth of 5% in 2012e
- But strained cash flows of Capesize owners and high scrap rates should intensify scrapping to levels not seen since the mid-1980s
- H'size owners benefit the most, as scrapping and cancellations halt supply growth in 2012e, but rates to remain depressed at low levels

No signs of supply glut easing

We estimate that the pressure on fleet utilisation would continue to grow over the next 12 months due to continued new deliveries. While the Handysize segment (smaller vessels of 10,000-40,000 DWT) is in a better position, the dry bulk market as a whole has to digest new supply equal to all that came in the last decade within the first half of the current one (mostly, 2011-13e). The sector-wide order book was 53% of fleet size at the start of 2010 and remains at an uncomfortable 38% at the end of October 2011.

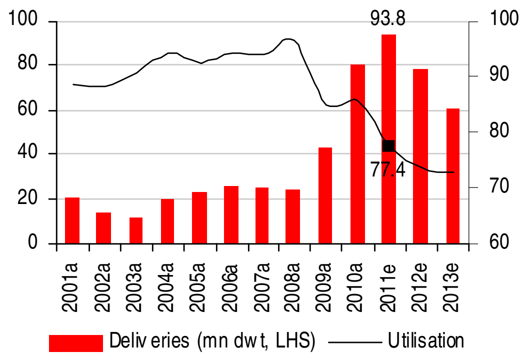
Given that sector supply has increased by almost 50% in the last three years, it is hardly surprising that utilisation is now set to dip below 80% in 2011 from the mid-1990s level prior to the financial crisis in 2008. The employment of new supply at profitable rates would be challenging in an environment already characterized by the lowest utilisation in this millennium. Consequently, we expect both scrapping and order cancellations to pick up pace in 2012, but still expect supply growth to exceed demand growth, worsening the already weak fundamentals. That said, we view Handysize as a more defensive segment since its order book is the lowest and its fleet age is the highest. Consequently, Handysize

Bulk carrier order book (DWTm) as % of fleet



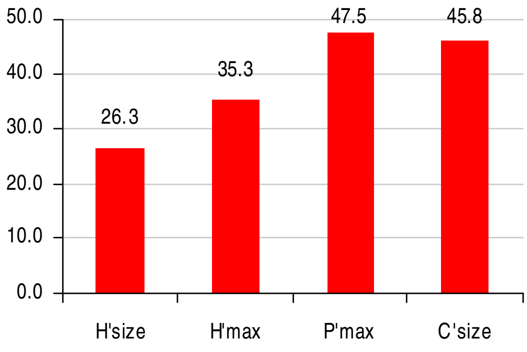
Source: Clarksons

Deliveries (DWTm) and fleet utilisation (RHS, %)



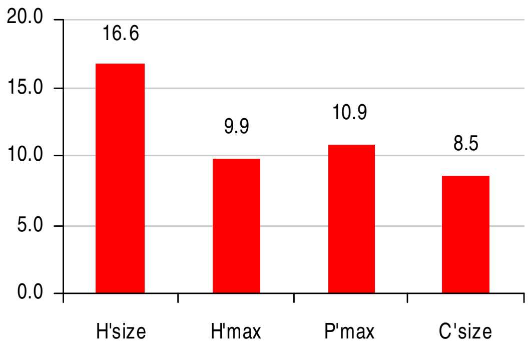
Source: Clarksons, HSBC estimates

Order book as % of fleet size (October 2011)



Source: Clarksons, HSBC estimates

Average age of fleet (years) in 3Q11



Source: Clarksons, HSBC estimates

supply should remain stable beyond 2011, but supply in other segments is likely to grow at a CAGR of 5-10% over the next two years.

The (slow) way out

From a supply-side perspective, there are only two ways to counter the glut – scrapping of existing vessels and/or increasing slippage in the delivery of new orders. While the former eases the imbalance between supply and demand, slippage does so only if it is caused by order cancellations and not order push-outs, which accounted for over 50% of slippage in 2009-10. To make matters worse, cancellations so far in 2011 are running at a slower pace than in the previous two years despite lower rates. However, this may change in the final three months of 2011 since scheduled deliveries are back-loaded in 2011 (53% from September to December).

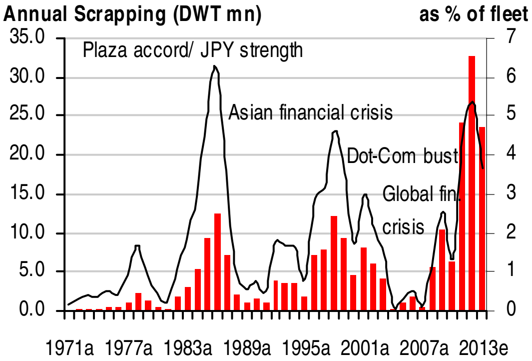
Scrapping to pick up pace in 2012e

We expect scrapping to reach more than 5% of the fleet size in 2012. On this measure, scrapping would reach levels not seen since the mid-1980s, when JPY appreciation following the Plaza Accord pricked the shipbuilding bubble.

The number of ships lost or scrapped in any period is determined primarily by prevailing and expected rates, the age and physical condition of the vessels, as well as the relationship between second-hand vessel values and scrap prices. The stage appears set for relatively high level scrapping to continue through 2013 since:

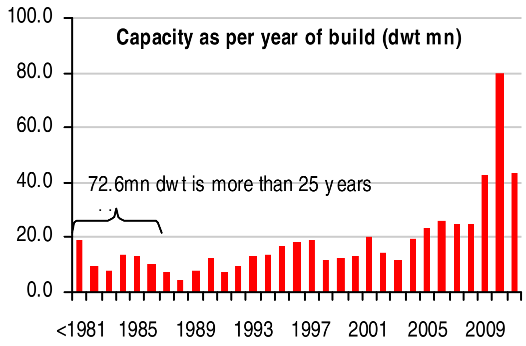
- Rates are weak and have even touched opex levels (variable costs) for the worst affected segment (Capesize) in 2011.

Stage is set for another scrapping "super-cycle"



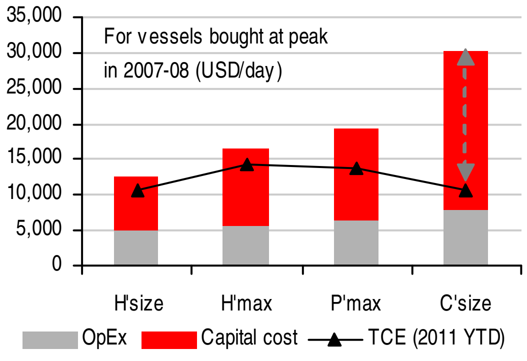
Source: Clarksons, HSBC estimates

Around 12% of fleet is more than 25 years old at mid-2011



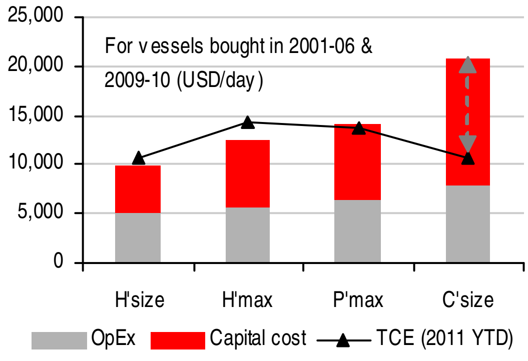
Source: Clarksons, HSBC estimates

TCE rates are too low to cover opex and capital outlays of vessels bought at the peak of the cycle in 2007-08



Source: Clarksons, HSBC estimates; Note: Capital cost calculated as equal annual instalment assuming 10-year financing period

Capesize rates are particularly very weak, providing little support for cash outlays on vessels bought even before and after the peak



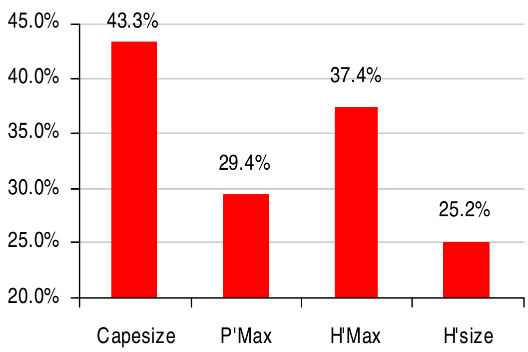
Source: Clarksons, HSBC estimates; Note: Capital cost calculated as equal annual instalment assuming 10-year financing period

- More than 12% of the fleet is over 25 years old and face a deteriorating cost structure due to rising cost of special surveys and maintenance.
- Last but not the least, scrap to second-hand (20 year old) asset values have surpassed or are nearing their multi-year peaks.

Cash crunch of Capesize owners to intensify scrapping

Given the currently low freight rates, shipowners face the burden of financing the deficit between cash outlays (capital payments + variable costs) and revenue generated by vessels. The deficit is most acute for shipowners that invested heavily at the peak of the cycle in 2007-08. If we assume that 50% of 2009-11 deliveries were vessels ordered at the peak, then it would imply that over 100m DWT of capacity (or 17% of fleet) faces cash outlays, which is 25-46% higher than for the rest of the fleet, with "peak buyers" in the Capesize segment at the most disadvantage to "off-peak buyers".

2009-11e deliveries as % of 2011-end fleet

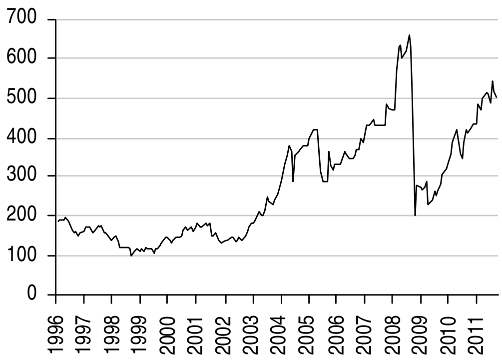


Source: Clarksons, HSBC estimates

Cash flow strain is significantly high for Capesize owners where the concentration of high cost deliveries as well as the incremental financing requirements to convert existing orders to deliveries is relatively high. In addition to a hefty order book of over 90m DWT, "costly" 2009-11 deliveries make up as much as 43% of Capesize fleet compared to only 25% for Handysize.

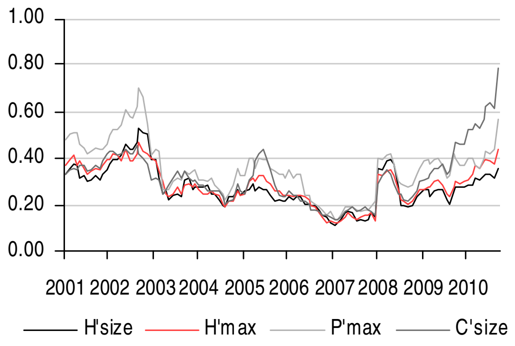
Furthermore, the rate outlook in bigger size segments is also dampened by massive supply growth. Capesize rates were down to variable costs earlier this year and the contribution towards capital outlays shrunk to nothing. This is in contrast to the Handysize segment, where rates allow almost a complete recovery of capital repayments. Given the funding pressure on

Unit scrap prices (USD/ldt)



Source: Clarksons, HSBC estimates

Scrap-to-asset value (20Y old)



Source: Clarksons, HSBC estimates

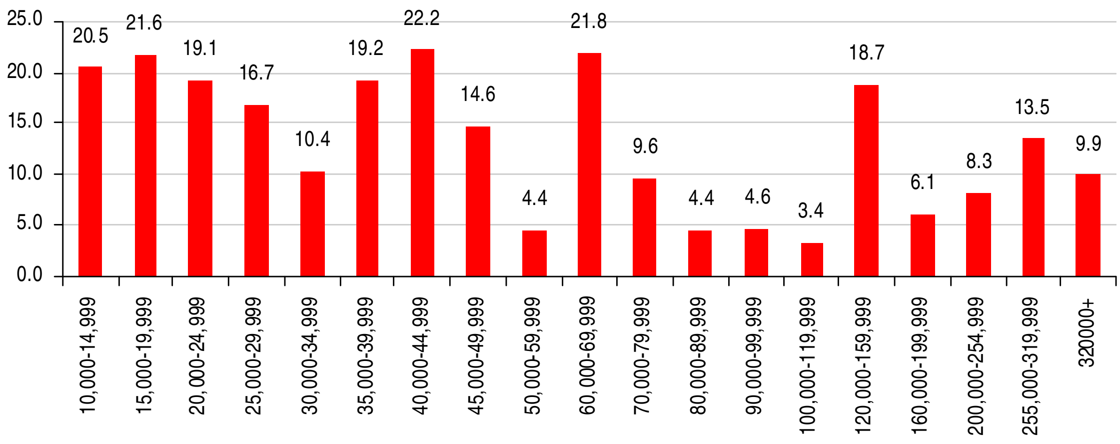
Capesize fleet owners, we believe that distressed asset sales and scrapping are likely to intensify. Additionally, depressed asset values and high scrap rates would tip the balance in favour of scrapping, in our view.

Ageing Handysize fleet likely to be scrapped

Vessel age is a key driver of scrapping. Charter rates are typically lower for older vessels and maintenance and insurance costs are typically higher. According to Clarksons, the average age of bulkers scrapped during 2010 was 31.1 years. The 18 Capesize bulkers scrapped in 2010 averaged 28.4 years, while the 87 Handysizes averaged 32.3 years. As vessels get older, their operational efficiency typically declines and the days lost for repairs, maintenance and dry dockings increase. Furthermore, the dry docking charges at periodic surveys could cost north of USD1-1.5m every 3-5 years for older vessels. Even though the older vessels have the advantage of paid-up capital cost, we estimate that the higher maintenance and dry docking charges fully offset this advantage for vessels over 25-26 years (see page 53 for details).

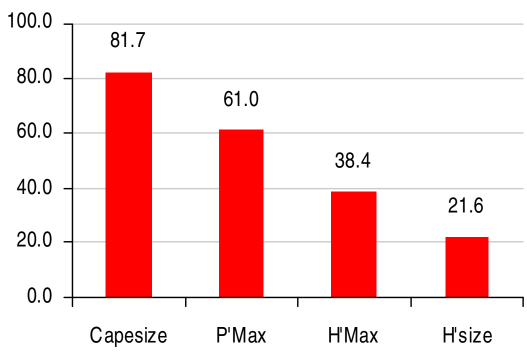
Given that the older fleet is concentrated in smaller vessel sizes, we believe the Handysize segment will be the primary beneficiary of increased scrapping. We highlight that the average age of 45% of the Handysize fleet exceeds 20 years (less than 25,000 DWT and 35-40,000 DWT

Average age of vessels according to size (years)



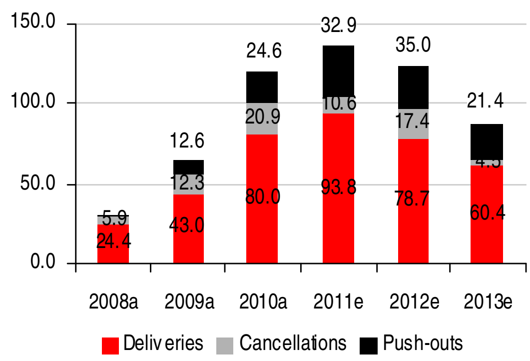
Source: Clarksons

% of order-book with Top-30 shipyards (Beginning of 2011)



Source: Clarksons, HSBC estimates

Deliveries, cancellations and push-outs



Source: Clarksons, HSBC estimates

segments). Another 16% of the Handymax fleet (45-50,000 DWT) is also vulnerable to scrapping since its age exceeds 22 years.

Cancellation risk higher in Handysize

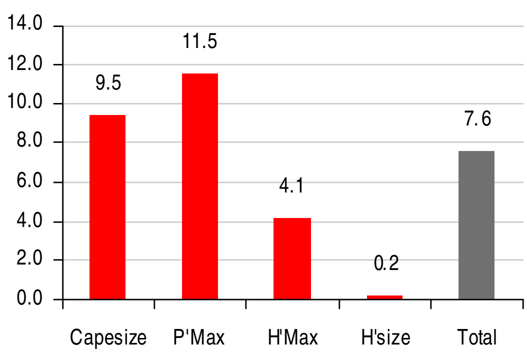
Handysize vessels are easier to build compared with larger vessels and consequently their order book is typically skewed towards newer yards. This belief is validated by Clarksons data, which suggests that only over 20% of the

Handysize order book is with the top-30 shipyards (compared to 80%+ for Capesize). In our view, greenfield or newer yards face a higher risk of delivery delays or cancellations since they typically have lower bargaining power with their customers. Their ability to obtain financing in a difficult market is also questionable.

But overhang from order push-outs

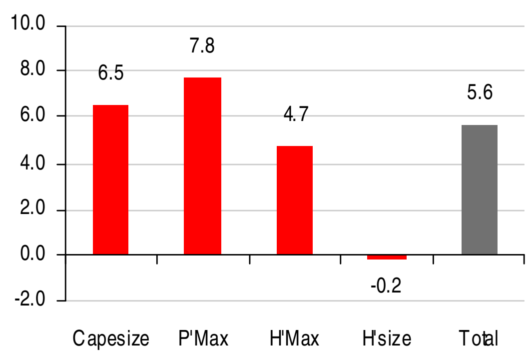
As highlighted earlier, slippage is also caused by delays in order execution (usually during up-cycles) or shipowners renegotiating contracts to push the deliveries to out years (usually during downcycles). These push-outs are likely to be a continuous overhang on the dry-bulk market, preventing a sustained rebound of sector fundamentals. We estimate from Clarksons data that more than 50% of slippage in 2009-10 was due to push-outs. 2011 appears to be faring worse so far with push-outs accounting for over 75% of slippage in the first eight months.

Fleet growth y-o-y (%) in 2012e



Source: Clarksons, HSBC estimates

Fleet growth y-o-y (%) in 2013e



Source: Clarksons, HSBC estimates

Order push-outs remain high and likely to be a continued overhang on the market

	2008a	2009a	2010a	2011e	2012e	2013e
Delivery Schedule (DWTm)	30.4	68.0	125.5	137.3	131.2	86.3
Deliveries (DWTm)	24.4	43.0	80.0	93.8	78.7	60.4
Slippage (%)	19.7	36.7	36.3	31.7	40.0	30.0
Estimated Cancellations (DWTm)	5.9	12.3	20.9	10.6	17.4	4.5
Order push outs (DWTm)	0.1	12.6	24.6	32.9	35.0	21.4
Push-outs as % of total slippage (%)	1.2	50.6	54.1	75.7	66.8	82.6

Source: HSBC estimates based on Clarksons data; * = Cancellations estimated by order-book changes unexplained by deliveries & new orders

BDI likely flattish y-o-y in 2012e

Although the Handysize segment enjoys an ageing fleet, smaller order book and profitable rates, the rate performance has been capped by other weaker dry bulk segments. We believe that these dynamics will continue over the next 12 months. Given the strong imbalance between demand and supply, we do not expect the sector to recover strongly over the next 12 months and any potential end to the downcycle is unlikely to be visible before 2013e, when vessel deliveries slow down and scrapping rates remain elevated. In the near term, Handysize rates are likely to outperform, with the discount to Handymax rates narrowing down to the historical lows of around 20%, but rates are likely to remain capped by a weak Handymax market nonetheless.

BDI & TCE Spot rates (USD/day)

Forecasts	2006a	2007a	2008a	2009a	2010a	2011e	2012e	2013e
BDI	3,180	7,071	6,390	2,617	2,758	1,544	1,533	1,773
Capesize (USD/Day)	45,139	116,049	106,025	42,656	33,298	15,060	14,250	19,888
Panamax (USD/Day)	23,778	56,816	49,014	19,295	25,041	14,089	13,875	14,750
Handymax (USD/Day)	22,618	47,449	41,546	17,338	22,456	14,491	14,400	15,480
Handysize (USD/Day)	19,397	32,363	29,439	11,291	16,427	10,807	11,520	12,384
Y-o-y Chg. (%)	**2006a**	**2007a**	**2008a**	**2009a**	**2010a**	**2011e**	**2012e**	**2013e**
BDI		122.4	-9.6	-59.0	5.4	-44.0	-0.7	15.6
Capesize (USD/Day)		157.1	-8.6	-59.8	-21.9	-54.8	-5.4	39.6
Panamax (USD/Day)		138.9	-13.7	-60.6	29.8	-43.7	-1.5	6.3
Handymax (USD/Day)		109.8	-12.4	-58.3	29.5	-35.5	-0.6	7.5
Handysize (USD/Day)		66.8	-9.0	-61.6	45.5	-34.2	6.6	7.5

Source: Clarksons, HSBC estimates

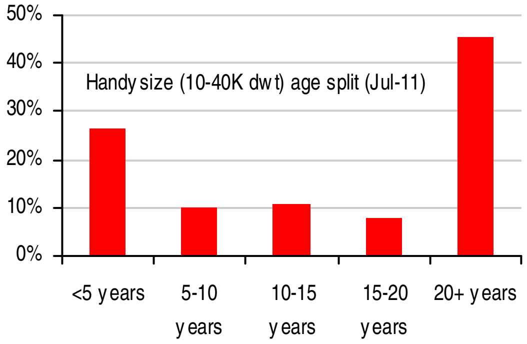
Dry Bulk Supply

DWTm			2004a	2005a	2006a	2007a	2008a	2009a	2010a	2011e	2012e	2013e
Deliveries	C'size	>100k	7.4	8.8	10.8	10.5	8.6	21.0	38.4	43.8	34.9	25.8
	P'Max	60-100K	6.3	7.2	8.6	6.7	6.4	6.9	15.7	23.2	24.6	18.8
	H'Max	40-60K	4.1	5.5	5.0	5.3	6.4	10.2	17.7	18.8	11.9	10.4
	H'size	10-40K	1.9	2.0	1.5	2.3	2.9	4.9	8.2	7.9	7.3	5.4
	Total		**19.7**	**23.4**	**25.8**	**24.9**	**24.4**	**43.0**	**80.0**	**93.8**	**78.7**	**60.4**
Demolitions	C'size	>100k	0.0	0.2	0.3	0.0	2.2	1.4	2.7	12.0	12.0	8.5
	P'Max	60-100K	0.0	0.2	0.5	0.1	1.1	2.1	0.7	5.3	6.8	5.3
	H'Max	40-60K	0.1	0.1	0.1	0.1	0.5	1.4	0.4	2.2	6.7	4.2
	H'size	10-40K	0.3	0.4	0.9	0.3	1.7	5.6	2.5	4.6	7.1	5.6
	Total		**0.4**	**1.0**	**1.7**	**0.6**	**5.5**	**10.5**	**6.4**	**24.2**	**32.7**	**23.7**
Order book	C'size	>100k	29.2	32.7	48.4	124.2	166.1	155.6	130.4	91.4	51.7	24.8
	P'Max	60-100K	20.2	21.4	22.5	49.9	65.3	64.3	78.1	63.2	37.9	18.5
	H'Max	40-60K	14.4	15.4	23.1	47.4	58.6	53.2	52.0	37.8	26.9	16.5
	H'size	10-40K	4.9	6.1	11.5	25.0	33.8	30.8	28.5	19.5	11.9	6.8
	Total		**68.8**	**75.6**	**105.5**	**246.5**	**323.8**	**304.0**	**289.0**	**222.4**	**156.5**	**99.2**
New Orders	C'size	>100k	16.5	12.2	27.0	88.4	54.0	18.0	25.4	9.4	4.4	1.5
	P'Max	60-100K	8.0	8.3	10.2	34.7	22.7	7.9	33.9	10.4	4.4	0.5
	H'Max	40-60K	5.8	6.5	12.7	30.6	18.3	6.1	18.3	5.9	2.9	0.5
	H'size	10-40K	2.4	3.3	7.2	16.1	12.6	3.7	8.2	1.6	1.1	0.6
	Total		**32.6**	**30.3**	**57.2**	**169.9**	**107.6**	**35.6**	**85.8**	**27.3**	**12.8**	**3.1**
Fleet Development	C'size	>100k	102.5	111.2	121.1	131.6	143.5	170.0	209.1	240.9	263.8	281.1
	P'Max	60-100K	86.4	93.7	101.8	108.2	114.7	121.1	136.6	154.5	172.3	185.7
	H'Max	40-60K	61.2	66.7	71.5	76.8	82.9	91.8	109.0	125.6	130.7	136.9
	H'size	10-40K	72.1	73.0	73.3	75.0	76.2	75.4	81.1	84.5	84.7	84.5
	Total		**322.1**	**344.5**	**367.7**	**391.7**	**417.3**	**458.3**	**535.8**	**605.5**	**651.5**	**688.3**
Average Dry Bulk Supply (DWTm)			**311.9**	**333.3**	**356.1**	**379.7**	**404.5**	**437.8**	**497.1**	**570.6**	**628.5**	**669.9**
Capacity growth y-o-y (%)			4.6	6.8	6.8	6.6	6.5	8.2	13.5	14.8	10.1	6.6
Average Dry Bulk Supply (m tonnes)			2,739	2,940	3,084	3,301	3,317	3,653	4,057	4,654	5,127	5,466
Supply growth y-o-y (%)			**4.5**	**7.4**	**4.9**	**7.1**	**0.5**	**10.1**	**11.0**	**14.7**	**10.2**	**6.6**
Utilisation			94.4	92.5	94.1	93.8	96.4	85.0	85.6	77.4	73.7	73.0

Source: Clarksons, HSBC estimates

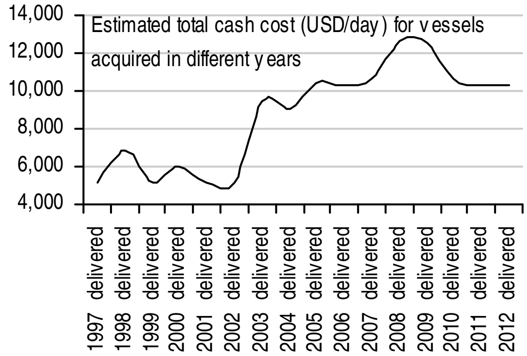
Handysize: Accelerated scrapping on low rates and ageing fleet

Over 40% of fleet is over 20 years old & one-third is over 25 year old



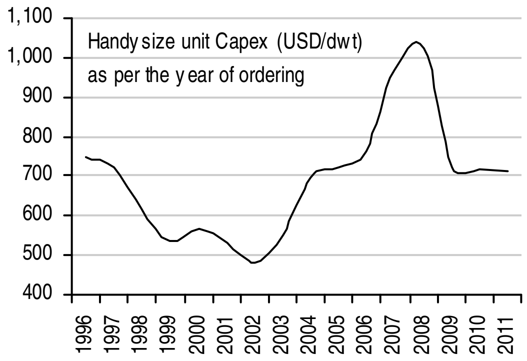
Source: Clarksons, HSBC

But an older fleet doesn't necessarily mean a higher cost fleet



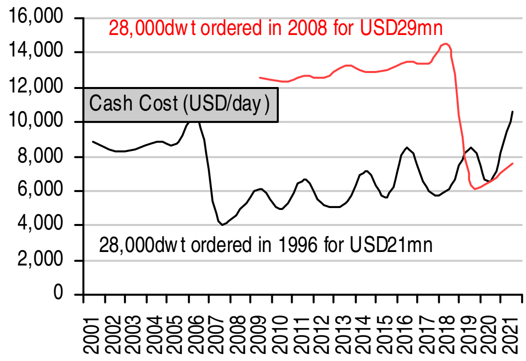
Source: Clarksons, HSBC estimates

Capital/interest cost is a big driver of total cost…



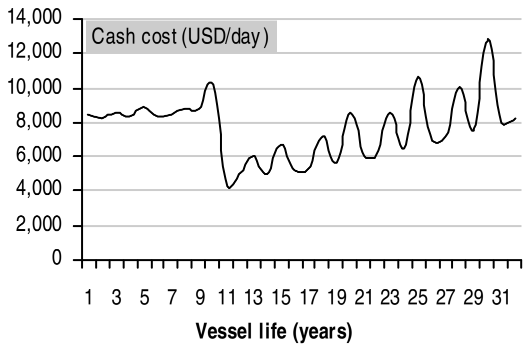
Source: Clarksons, HSBC estimates

…since it is usually paid in the first 10 years of the vessel's life



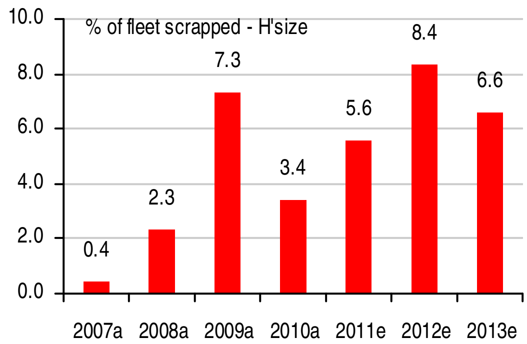
Source: Clarksons, HSBC estimates

But, periodic maintenance costs typically offset the advantage of no capital cost after around 25 years of life



Source: Clarksons, HSBC estimates

Old age will add to low rates & high scrap prices to push scrapping up in 2012e; Handysize likely most impacted



Source: Clarksons, HSBC estimates

Disclosure appendix

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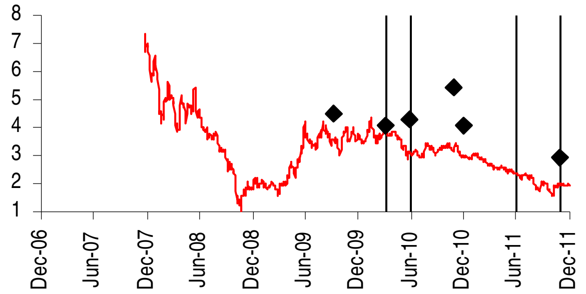
Neutral (Hold)	35%	(22% of these provided with Investment Banking Services)
Underweight (Sell)	11%	(14% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Sinotrans Shipping Ltd (0368.HK) Share Price performance HKD Vs HSBC rating history



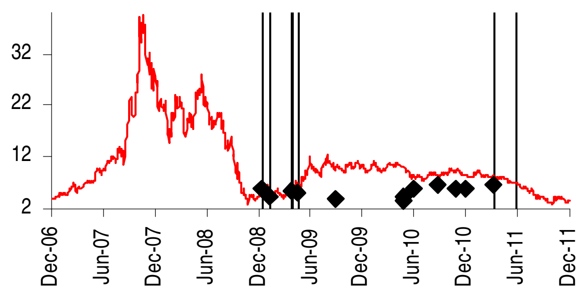
Source: HSBC

Recommendation & price target history

From	To	Date
Overweight (V)	Neutral (V)	11 March 2010
Neutral (V)	Overweight (V)	03 June 2010
Overweight (V)	N/A	01 June 2011
N/A	Overweight	31 October 2011
Target Price	**Value**	**Date**
Price 1	4.50	09 September 2009
Price 2	4.10	11 March 2010
Price 3	4.30	03 June 2010
Price 4	5.40	27 October 2010
Price 5	4.10	03 December 2010
Price 6	2.90	31 October 2011

Source: HSBC

China COSCO Holdings Co (1919.HK) Share Price performance HKD Vs HSBC rating history



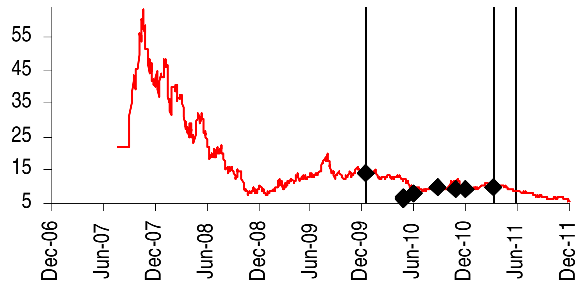
Source: HSBC

Recommendation & price target history

From	To	Date
Overweight (V)	Neutral (V)	16 December 2008
Neutral (V)	Underweight (V)	14 January 2009
Underweight (V)	Neutral (V)	02 April 2009
Neutral (V)	Underweight (V)	20 April 2009
Underweight (V)	Underweight	11 March 2011
Underweight	N/A	01 June 2011
Target Price	**Value**	**Date**
Price 1	5.80	16 December 2008
Price 2	4.30	14 January 2009
Price 3	5.60	02 April 2009
Price 4	5.10	23 April 2009
Price 5	4.10	31 August 2009
Price 6	3.60	29 April 2010
Price 7	4.40	30 April 2010
Price 8	5.70	02 June 2010
Price 9	6.60	27 August 2010
Price 10	5.90	27 October 2010
Price 11	5.70	03 December 2010
Price 12	6.50	11 March 2011

Source: HSBC

China COSCO Holdings Co (601919.SS) Share Price performance CNY Vs HSBC rating history



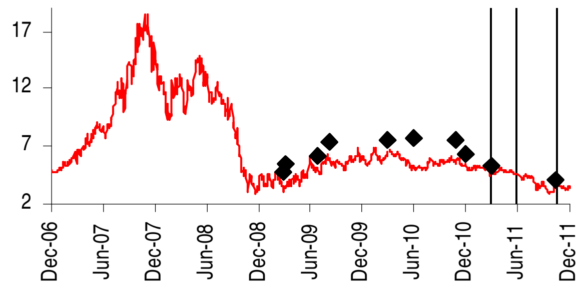
Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Underweight (V)	17 December 2009
Underweight (V)	Neutral	11 March 2011
Neutral	N/A	01 June 2011
Target Price	**Value**	**Date**
Price 1	14.20	17 December 2009
Price 2	6.40	29 April 2010
Price 3	6.80	30 April 2010
Price 4	8.30	02 June 2010
Price 5	9.60	27 August 2010
Price 6	9.20	27 October 2010
Price 7	9.00	03 December 2010
Price 8	9.80	11 March 2011

Source: HSBC

Pacific Basin Shipping (2343.HK) Share Price performance HKD Vs HSBC rating history



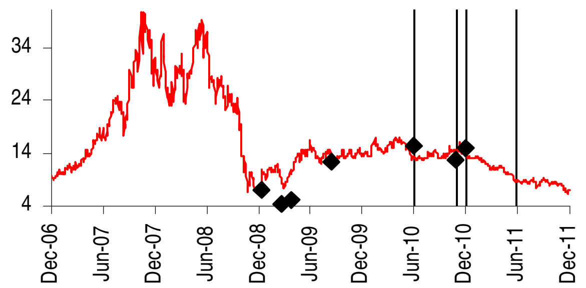
Source: HSBC

Recommendation & price target history

From	To	Date
Overweight (V)	Neutral (V)	02 March 2011
Neutral (V)	N/A	01 June 2011
N/A	Neutral	18 October 2011
Target Price	**Value**	**Date**
Price 1	4.70	03 March 2009
Price 2	5.40	10 March 2009
Price 3	6.10	01 July 2009
Price 4	7.30	12 August 2009
Price 5	7.50	07 March 2010
Price 6	7.80	03 June 2010
Price 7	7.50	27 October 2010
Price 8	6.30	03 December 2010
Price 9	5.30	02 March 2011
Price 10	4.06	18 October 2011

Source: HSBC

STX Pan Ocean (STXP.SI) Share Price performance SGD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Underweight (V)	Neutral (V)	02 June 2010
Neutral (V)	Underweight (V)	27 October 2010
Underweight (V)	Neutral (V)	03 December 2010
Neutral (V)	N/A	01 June 2011
Target Price	**Value**	**Date**
Price 1	7.00	17 December 2008
Price 2	4.40	26 February 2009
Price 3	5.20	02 April 2009
Price 4	12.20	20 August 2009
Price 5	15.30	02 June 2010
Price 6	12.50	27 October 2010
Price 7	14.90	03 December 2010

Source: HSBC

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Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
CHINA COSCO HOLDINGS CO	1919.HK	3.67	05-Dec-2011	4, 11
PACIFIC BASIN SHIPPING	2343.HK	3.37	05-Dec-2011	1, 2, 5, 6, 7
SINOTRANS SHIPPING LTD	0368.HK	1.94	05-Dec-2011	11

Source: HSBC

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