

**Analyst: Kelvin Li**
**COSCO PACIFIC LIMITED (中遠太平洋)**

Sector	: Transportation
HKSE Code	: 1199
Market Price	: HK\$16.96 (07/04/2008)
HSI	: 24,578.76 (07/04/2008)
Shares Issued	: 2,244.975 million
Market Cap.	: HK\$38,074.78 million
52 weeks High / Low	: HK\$26.85 / HK\$12.00

Chairman : WEI Jiafu

Vice Chairman &amp; Managing Director : XU Minjie

**SUMMARY OF THE FINAL RESULTS FOR YEAR ENDED 31<sup>ST</sup> DECEMBER 2007**
**Final Results Highlights**

	FY2007 US\$ million	FY2006 US\$ million	y-o-y Change
• Turnover	298.9	297.5	+0.5%
• Profit on disposal of containers	26.0	84.5	-69.2%
• Fair value gain/(net expense) on put options in connection to CIMC share reform net of related expenses	55.2	(55.2)	-200.0%
• Operating profit before finance costs	212.3	201.1	+5.5%
• Share of results of jointly-controlled entities and associates	187.3	174.1	+7.6%
• Disposal gain of 20% interest in Chong Hing Bank	90.7	-	N/A
• <b>Profit attributable to shareholders (including put options expense)</b>	<b>427.8</b>	<b>291.1</b>	<b>+47.0%</b>
• Profit attributable to shareholders (excluding put options expense)	372.6	346.3	+7.6%
• <b>Basic EPS (including put options expense)</b>	<b>US¢19.09</b>	<b>US¢13.14</b>	<b>+45.3%</b>
• DPS – interim	HK¢24.90	HK¢27.40	-9.1%
• DPS – special interim	-	HK¢9.10	-100.0%
• DPS – final	HK¢30.60	HK¢32.20	-5.0%
• DPS – special final	HK¢17.90	-	N/A
• DPS – total	HK¢73.40	HK¢68.70	+6.8%

- COSCO Pacific reported a 47.0% y-o-y jump in net profit to US\$427.8 million for FY07, driven by a fair value gain of put options related to CIMC share reform, a lower overseas income tax and a disposal gain from Chong Hing Bank shares. In fact, excluding fair value gain of the put options in FY07 and related expense in FY06, the Group's net profit would have grown 7.6% y-o-y at US\$372.8 million.
- Turnover was flat at US\$299 million in FY07, compared with US\$298 million in FY06, as a surge in income from container management was levelled out by the drop in revenue from container leasing after the Group disposed of 600,082 TEUs in June 2006.
- Basic EPS was US¢19.09, up from US¢13.14 a year earlier. A final dividend of HK¢30.6 per share and a special final DPS of HK¢17.90 were declared, bringing the full-year payout at HK¢73.40, compared with HK¢68.70 in FY06.
- Share of profits of jointly controlled entities ("JCE") amounted to US\$106.9 million in FY07, up 25.7% y-o-y, thanks to higher profit contribution from ports in the Mainland and revived earnings from the COSCO-HIT Terminal in HK. It was also driven by the reclassification of Shanghai Pudong Terminal as a JCE from an associate after the Group purchased an additional 10% stake in the company to a total of 30%. Shares of profits of associates fell 9.8% y-o-y to US\$89.0 million in FY07, due to the reclassification of Shanghai Pudong Terminal as well as lower profit from Chong Hing Bank (HKEx: 1111) after its disposal in 2H07.

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- As of 31/12/2007, the Group had total debts of US\$914.0 million (31/12/2006: US\$531.6 million). With cash on hand totalling US\$386.9 million, the Group's net debt-to-shareholders' equity ratio climbed up to 19.4% by the end of FY07 from 14.1% a year earlier.

### Business Review

- Breakdown of pre-tax profit:**

	FY2007		FY2006		Change
	US\$ '000	%	US\$ '000	%	
Container terminal & related businesses	134,550	29.8%	107,858	31.4%	+24.7%
Container leasing, container management & related businesses	100,711	22.3%	147,236	42.8%	-31.6%
Profit on disposal of containers	25,975	5.8%	84,454	24.6%	-69.2%
Container manufacturing	68,356	15.2%	72,233	21.0%	-5.4%
Logistics	19,236	4.3%	18,151	5.3%	+6.0%
Non-cash items related to CIMC options	55,181	12.2%	(55,181)	(16.1%)	-200.0%
Disposal gain on Chong Hing Bank	90,742	20.1%	-	-	N/A
Net corporate income/ (expenses)	(4,494)	(1.0%)	485	0.1%	-1,026.6%
Net financial income/ (cost)	(39,412)	(8.7%)	(31,582)	(9.2%)	+24.8%
<b>Total</b>	<b>450,845</b>	<b>100.0%</b>	<b>343,654</b>	<b>100.0%</b>	<b>+31.2%</b>

- Pre-tax profit of the **container leasing** segment, excluding the disposal gains of containers, fell 31.6% to US\$100.7 million in FY07, after the Group reduced the size of its container fleet capacity in mid-2006 amid the "asset-light" strategy. As of 31/12/2007, the container fleet owned and managed by the Group's 100%-owned unit Florens Container Holdings consisted of 1,519,671 TEUs, up 21.5% y-o-y on new container purchased by Florens and a surge in managed containers. Utilization rate of the Group's container fleet was at 94.5% in FY07, down from 96.2% in FY06.
- Container terminals** that COSCO Pacific held interests reported a total throughput of 39,832,964 TEUs in FY07, up 21.5%, thanks to the newly operated berths and newly added berths in Suez Canal Terminal of Egypt. As at end of FY07, the Group controlled or had interest in 140 berths, up from 115 a year earlier. The segment was the largest profit contributor in FY07, with pre-tax profit up 24.7% y-o-y to US\$134.6 million.
- The 49%-owned **COSCO Logistics** reported a 6.0% y-o-y increase in net profit in FY07, accounting for 4.3% (FY06: 5.3%) of the Group's total. The **container manufacturing** segment reported a 5.4% y-o-y drop in pre-tax profit contribution, mainly dragged by weaker profit margins on rising raw material costs. In Nov 2007, the CIMC-related put options was expired and not exercised, and so the provision made in FY06 was fully reversed in FY07.

### Outlook & Prospect

- Container manufacturing outlook continue to be challenging** The Group sold its stake in Chong Hing Bank last year and at the same time raised its interest in the container manufacturing arm CIMC during Dec 2007 – Mar 2008 to 21.8% from 16.2%, further fine-tuning its business model. Nonetheless, the increased stake in CIMC should provide the Group with limited earnings momentum in FY08, as the outlook for the segment remains challenging amid high metal prices.
- Diversifying port portfolio** COSCO Pacific has been adopting its asset-light model, focusing its businesses in 4 major areas, namely port, container leasing, container manufacturing and logistics. In 2008, the Group said it would further diversify its port portfolio, not only looking for overseas opportunities but also extending its presence in bulk cargo terminals.
- Healthy long-term outlook but challenging FY08** The Group has nearly completed its business remodelling by offloading non-core assets and enhanced the 4 core operating segments. Its asset-light strategy have built a solid ground for COSCO Pacific's long-term business development, but we stay cautious in the near term amid a recession in the US. Trading at 14x FY08E P/E, the counter's valuation is not too demanding and we accordingly give it a "Hold" recommendation.

**Recommendation: HOLD**

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