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HONG KONG RESEARCH
24th April, 2008

Analyst: Kelvin Li

CHINA COSCO HOLDINGS COMPANY LIMITED (中遠控股)

Sector	:	Transportation
HKSE code	:	1919
Market price	:	HK$22.40 (23/04/2008)
HSI	:	25,289.24 (23/04/2008)
H shares issued	:	2,580.6 million
H-share market cap.	:	57,805.4 million
52 weeks High / Low	:	HK$40.80 / HK$6.93

Chairman & CEO : WEI Jiafu

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007

Final Results Highlights

	FY2007 RMB million	FY2006 *(restated*)* RMB million	*y-o-y Change*
• Revenue	107,998.5	78,856.3	*+37.0%*
• Gross profit	24,595.8	12,174.1	*+102.0%*
• Fair value gain/(deficit) on put options in connection to CIMC share reform net of related expenses (^)	419.6	(439.7)	*N/A*
• Operating profit before finance costs	23,839.8	10,762.5	*+121.5%*
• Profit on disposal of Chong Hing Bank 20% stake	690.0	-	*N/A*
• Share of results of jointly-controlled entities	955.7	673.4	*+41.9%*
• Share of results of associates	1,005.8	873.4	*+15.2%*
• **Profit attributable to shareholders**	**19,477.9**	**8,292.4**	***+134.9%***
• EPS – basic	RMB2.1816	RMB1.0415	*+109.5%*
• DPS – final	RMB0.18	RMB0.09	*+100.0%*
• DPS – special final	-	RMB0.15	*-100.0%*
• DPS – total	RMB0.18	RMB0.24	*-25.0%*

*Remarks: **(*)** the FY2006 results were restated in accordance to IFRSs, following the purchase of dry bulk shipping and other assets from the parent company in the second half of 2007. **(^)** China COSCO's 51%-owned subsidiary COSCO Pacific issued 424,106,507 put options to China International Marine Company ("CIMC") shareholders in accordance to its A-share reform in 2006. Upon the expiry of the put options on 23rd Nov 2007, no one exercised the put options. Accordingly, COSCO Pacific recorded a fair value gain of US$55.2 million in 2007 following the put options expiry, while China COSCO recorded a fair value gain of RMB419.6 million last year.*

- China COSCO Holdings reported a sharp 134.9% y-o-y jump in net profit to RMB19.5 billion for FY2007, driven by the dry bulk shipping segment, a fair value gain related to the put options of its container manufacturing arm CIMC as well as disposal gain of Chong Hing Bank (HKEx: 1111).

- Total revenue rose 37.0% y-o-y to RMB108.0 billion in FY07, mainly driven by the dry bulk shipping segment amid robust dry bulk freight rates and volume. Cost of services rose 25.1% y-o-y to RMB83.4 billion on a higher shipping volume, leading to higher bunker costs, port charges and transhipment expenses. Overall, the Group's gross profit jumped 102.0% y-o-y to RMB24.6 billion, while the gross profit margin improved by 7.34 percentage points to 22.77% in FY07 from 15.44% a year earlier.

- China COSCO reported a fair value gain of RMB419.6 million from the put options related to the CIMC share reform, as no holder exercised the put options. Besides, the Group's 51%-owned COSCO Pacific (HKEx: 1199) sold its entire 20% interest in Chong Hing Bank, leading to a disposal gain of RMB690.0 million in FY07.

- EPS was RMB2.1816 for FY07, compared with RMB1.0415 a year earlier, while a final dividend of RMB0.18 per share was proposed.
- As of 31/12/2007, China COSCO has total debts of RMB19.3 billion (31/12/2006: RMB19.0 billion). With cash on hand of RMB37.3 billion, China COSCO was in a net cash position of RMB18.0 billion at the end of FY07, compared with net debts of RMB8.1 billion by the end of FY06, thanks to the proceeds received from its A-share listing in June 2007.

Business Review

- **Breakdown of pre-tax profit:**

	FY2007		FY2006		
	RMB million	%	RMB million	%	*change*
Container shipping	1,667.0	6.4%	1,648.7	14.4%	*+1.1%*
Dry bulk shipping	21,433.7	82.7%	7,684.3	66.9%	*+178.9%*
Container terminal	1,040.3	4.0%	827.0	7.2%	*+25.8%*
Container leasing	975.9	3.8%	1,835.9	16.0%	*-46.8%*
Logistics	456.2	1.8%	378.8	3.3%	*+20.4%*
Other operations	865.8	3.3%	712.7	6.2%	*+21.5%*
Net gain/(deficit) on CIMC options	419.6	1.6%	(439.7)	(3.8%)	*-195.4%*
Disposal gain on Chong Hing Bank	690.0	2.7%	-	0.0%	*N/A*
Net finance cost & other expenses	(1,621.5)	(6.3%)	(1,164.6)	(10.1%)	*+39.2%*
Total	**25,927.0**	**100.0%**	**11,483.1**	**100.0%**	***+125.8%***

- China COSCO reported an 11.7% y-o-y **container shipping** volume growth in FY07 to 5.71 million TEUs. On average, container freight rates rose 6% y-o-y last year, with solid gains in the Asia-Europe and the PRC routes. The Trans-Pacific routes remained the key contributor, with revenue up 6.6% y-o-y to RMB14.3 billion in FY07, which accounted for 31.1% (FY06: 33.4%) of the segment's total. The Asia-Europe routes were gaining higher importance, contributing 30.8% of the segment's total revenue, up from 24.4% a year earlier. However, due to rising bunker and transhipment costs, the segment saw a depressed margin and reported a mere 1.1% rise in pre-tax profit in FY07.
- The **dry bulk shipping** segment, which China COSCO acquired from its parent during 2H07, saw robust growth last year. The dry bulk shipping volume totalled 264.7 million tonnes in FY07, up 15.1% y-o-y. Driven by sharply higher dry bulk freights rates in 2007, the segment generated revenue of RMB49.3 billion, up a strong 78.9% y-o-y, which contributed most of the revenue growth of the Group. Cost of services grew 46.8% y-o-y in FY07 on higher vessel costs. As a result, the segment reported a 178.9% y-o-y jump in pre-tax profit to RMB21.4 billion, representing 82.7% (FY06: 66.9%) of the Group's total. In fact, the segment's result was also lifted by an unrealized gain on freight forward agreements ("FFAs" – a hedging tools against global dry bulk freight rates), which amounted to RMB2.39 billion in FY07, up more than four-fold from a gain of RMB466.0 million a year earlier.
- **Container terminals and related businesses**, operated via COSCO Pacific, reported a 21.5% y-o-y rise in throughput to 39.8 million TEUs in FY07, driven by the newly operated ports. Profit contributed from the segment surged 25.8% y-o-y to RMB1.0 billion in FY07, accounted for 4.0% (FY06: 7.2%) of the Group's total pre-tax profit. Meanwhile, Florens Container Holdings, the **container leasing** arm of COSCO Pacific, reported a 46.8% y-o-y drop in earnings to RMB975.9 million, as less containers were sold during FY07. In fact, excluding the disposal gains of containers and the related finder fee income in FY06, the segment would have reported a 25.3% y-o-y fall in earnings, mainly due to rising market competition.
- The Group's **logistics** segment saw pleasant business volume growth in FY07, leading to 17.2% y-o-y rise in revenue to RMB11.8 billion. It was mainly driven by chemical logistics, as service orders from major Mainland oil producers like CNPC and CNOOC increased last year. Overall, the segment's pre-tax profit grew 20.4% y-o-y to RMB456.2 million. Profit contribution from **other operations** (excluding disposal gain of Chong Hing Bank and CIMC share reform-related items) was up by 21.5% y-o-y to RMB865.8 million, mainly supported by the container manufacturing arm CIMC as well as the Group's finance arm COSCO Finance.

Outlook & Prospect

- ***Higher capital expenditure to boost business scale*** China COSCO has earmarked a capex budget of RMB23.30 billion in FY08, up 37.0% from a year earlier. Nearly 30% of the capex would be used for container vessel purchase, while about 20% would be allocated to dry bulk vessel purchase. China COSCO would also increase substantially its capex for terminal investments by 134% to RMB4.4 billion from RMB1.9 billion a year earlier, as it plans to diversify its port portfolio via acquiring or building berths in second-tier ports of China (e.g. Qingdao and Ningbo) as well as extending footsteps in dry bulk terminals.
- ***Expanding shipping capacity*** As mentioned, China COSCO is planning to strengthen its container shipping fleet in 2008. In fact, the Group plans to raise its container shipping capacity to 508,842 TEUs by the end of 2008, up 17% from 435,138 TEUs as of 31/12/2007. It also plans to maintain double-digit capacity growth in its container shipping fleet to 670,018 TEUs by the end of 2010, or a CAGR of 15% during 2008-2010. Meanwhile, China COSCO also plans to boost its dry bulk shipping fleet, with 49 new vessels to be delivered in 2008-2010. It would lift the Group's dry bulk shipping capacity by more than half to 19.6 million deadweight tonnes (DWTs) by the end of 2010 from 12.9 million DWTs as of 31/12/2007, or a CAGR of 15%.
- ***Expanding container and bulk terminal portfolio*** To cope with booming international trade in the Mainland, China COSCO added 25 new berths in 2007, including 20 container berths and 5 dry bulk cargo berths, which would start to commence operations gradually during 2007-2011.
- ***Dry bulk shipping contracts secured at good price levels*** Management revealed that, as of the end of FY07, China COSCO has secured 54% of its 2008 dry bulk shipping capacity volume (in terms of operation days), with the average pricing (in terms of time-charter equivalent revenue per day) 33% higher than the full-year average of 2007. With this effective business execution, the segment is posed to report another strong result this year.
- ***Measures to mitigate impact from high oil prices*** Bunker cost was one of the Group's key operating costs, and so rising crude oil prices has led to pressure on China COSCO's operations and profitability. In order to mitigate the impact of high oil prices, management said the Group would impose fuel surcharges on its clients to pass through some of the fuel expense increase. Besides, it has also implemented the strategy of reducing the speed of vessels by 10% to save more fuel. At the same time, via better route management, the Group plans to reduce the time of vessels parking at ports, in order to enhance the overall shipping business efficiency.
- ***Exceptional and one-off items add volatility in bottom line*** China COSCO has delivered a strong set of 2007 results, largely driven by its robust dry bulk shipping operations. At the same time, the Group's 2007 bottom line was also boosted by some exceptional items like the fair value gain related to the CIMC put options, disposal gain of Chong Hing Bank interest, sizable hedging gains on FFAs, disposal gains on vessels and containers, etc. Some of these items were in one-off nature, while the other may recur in the future, which would lead to extra volatility in the Group's bottom line.
- ***Not yet plans to acquire oil tanker fleet from parent*** China COSCO revealed that there is no immediate plan or timetable to acquire the oil tanker fleet from its parent after the purchase of the dry bulk shipping business in the second half last year. In March, officials from the parent company said about 70% of the assets of the COSCO Group are now listed via China COSCO and other listed subsidiaries. It will seek to list the remaining 30% of assets, but there is not yet any definite plan whether it would inject the assets into China COSCO or a new listing.
- ***Buy on strong dry bulk shipping outlook*** A possible recession in the US economy may lead to a slowdown in global container shipping market. Nonetheless, robust dry bulk shipping demand in the Mainland should continue to support the Group's dry bulk segment as well as the overall business. Trading at 9x FY08E P/E, the counter's valuation is not demanding given the sound outlook of its dry bulk business. Accordingly, we give a "BUY" recommendation on the counter

Recommendation: BUY

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