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HONG KONG RESEARCH
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Main Board Listing – Research

中外運航運有限公司
Sinotrans Shipping Limited [Stock Code: 0368]

Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers : BOC International UBS

Sector : Transportation
Business : Shipping

Total share offer: 1,400,000,000 shares
(35% of the enlarged share capital)

Public Offer: *140,000,000* shares (10%)

Placing: *1,260,000,000* shares (90%)

Greenshoe: *210,000,000* shares

Price: HK$7.18 – HK$8.18 per share

Market Cap: HK$28.72 billion–HK$32.72 billion

Pro forma FY2007E PER: 29.2x to 33.3x

Adjusted NTA per H share: HK$3.34 - HK$3.68

Staffing: 81 shore-based employees (as of 30th June 2007)

HK Public Offer period:
12th November 2007 – 15th November 2007 noon

Receiving bank: The Bank of East Asia, Bank of China (Hong Kong) Standard Chartered

Share registrar: Computershare Hong Kong Investor Services Limited

Listing date: 23rd November 2007

Business of Sinotrans Shipping

Sinotrans Shipping owns and operates a fleet of ships, mainly engaged in dry bulk vessel time chartering, container vessel time chartering and crude oil shipping services.

The Group generates revenue by providing shipping services via chartering out vessels under two basic types of contracts, namely time charter and voyage charter. A time charter is a contract under which the ship-owner hires out a ship for a specific time period and is responsible for providing the crew and paying operating costs, while the charterer is responsible for paying the voyage costs. Under a voyage charter, the ship-owner will pay both the operating and the voyage costs.

The Group's core business is the dry bulk vessel time chartering, transporting dry bulk cargo like iron ore, coal, grains and steel products, along major global trade routes.

As of 30th June 2007, Sinotrans Shipping operated a self-owned fleet of 34 vessels with a weighted average age of 10.0 years. The Group's fleet consisted of 26 dry bulk vessels (1.3 million DWT), 3 oil tankers (832,000 DWT) and 5 container vessels (2,230 DWT).

Shareholders after Listing (Assuming the over-allotment option is not exercised)

Sinotrans Shipping (Holdings) Limited BVI	65%
Public Investors	35%
	100%

Use of Proceeds

Net proceeds from the offer are estimated to be HK$10.395 billion *(Assuming an offer price of HK$7.68, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)*

	HK$ million
To enlarge the Group's fleet size and optimise the Group's fleet composition via placing orders for the construction of new buildings and selectively acquiring second-hand vessels	5,717
To increase the Group's market share and improve the Group's competitiveness by acquisition of suitable domestic and overseas shipping companies via equity investment	2,599
To repay bank borrowings	1,040
For general working capital	1,040

Financial Highlights

	Year ended 31st Dec			**6 months ended**	
	2004	**2005**	**2006**	**30th Jun 2006**	**30th Jun 2007**
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Revenue	287,648	304,581	247,515	121,375	130,626
Gross profit	183,367	180,010	117,547	63,429	62,903
Operating profit	174,160	173,187	118,836	58,889	57,431
Profit for the period	**174,109**	**172,048**	**118,952**	**57,468**	**57,596**
Gross profit margin	*63.75%*	*59.10%*	*47.49%*	*52.26%*	*48.16%*
Operating profit margin	*60.55%*	*56.86%*	*48.01%*	*48.52%*	*43.97%*
Net profit margin	*60.53%*	*56.49%*	*48.06%*	*47.35%*	*44.09%*
	31/12/2004	**31/12/2005**	**31/12/2006**	**30/6/2006**	**30/6/2007**
Net debt to Equity	277.63%	49.83%	17.82%	N/A	12.90%

Turnover breakdown in terms of products

(US$ '000)	**2004**	**%**	**2005**	**%**	**2006**	**%**	**1H06**	**%**	**1H07**	**%**
Dry bulk shipping	239,729	84%	257,028	84%	190,330	77%	90,535	75%	107,686	82%
Crude oil shipping	35,616	13%	32,475	11%	44,365	18%	24,024	20%	17,425	13%
Containers shipping	8,362	3%	13,995	5%	11,739	5%	6,354	5%	4,943	4%
Others	941	0%	1,083	0%	1,081	0%	462	0%	572	0%
Total	284,648	100%	304,581	100%	247,515	100%	121,375	100%	130,626	100%

Strengths/Opportunities

- ✓ Driven by the booming Chinese economy as well as the undersupply of major base metals like iron ore in the Mainland, dry bulk trade accelerated significantly over the last couple of years. According to industry survey, the Mainland China's import of dry bulk cargo is expected to grow by 25.0% y-o-y in 2007 and export to grow by 8.9% y-o-y, compared with the growth of 13.6% and 18.1% in 2006. As a whole, the Mainland's dry bulk cargo trade is seen surging 19.5% y-o-y this year, up from 15.1% in 2006.

- ✓ Thanks to the rising dry bulk trade, freight rates in the world dry bulk shipping market have risen sharply so far this year. The Baltic Dry Index, the index that tracks dry bulk shipping rates movement, has hit record in October and its average value for the first ten months of 2007 was more than double from a year earlier. With rising freight rates, Sinotrans Shipping should benefit from better profit margins.

- ✓ Crude oil transport is the Group's another core business segment. Owing to the Mainland's strong appetite for energy resources, crude oil import is expected to grow rapidly in the coming years. For 2007, crude oil import is seen growing 14.1% y-o-y to 151.4 million tonnes from 132.7 million tonnes in 2006. To cope with rising crude oil shipping demand, the Group's 50% owned JV, MS Tanker, has placed an order for one new VLCC oil tanker with delivery scheduled in 2008, which will boost the Group's total crude oil tonnage by 37% to more than 1.1 million DWT.

- ✓ The weighted average age of the Group's owned dry bulk vessels as at 30th June 2007 was 8.6 years, lower than the world's average of 15.2 years. A younger fleet would help lower maintenance costs, which should imply better profit margins as well as stronger capability to cope with market competition.

- ✓ Besides the new crude oil tanker, the Group has also ordered 8 dry bulk vessels and 4 container vessels, pending for delivery in 2009-2011 and 2008, respectively. Along with the new oil tanker order, the newly placed vessel building orders should boost the number of the Group's shipping fleet to a total of 47 from 34 as of the end of June 2007.

- ✓ Seven cornerstone investors agreed to subscribe for an aggregate US$175 million of the Group's IPO offering. Assuming an issue price of HK$7.68, being the mid-point of the indicative price range, the subscription of the cornerstone investors would represent an aggregate 4.44% of the Group's enlarged share capital or 12.70% of the Global Offering. The seven cornerstone investors are China Merchants Energy Transport Investment Company (a subsidiary of the Shanghai listed China Merchants Shipping Energy), China Shipping (HK), Citadel Equity Fund, COSCO (HK), Li Ka Shing Foundation, Multiwin Resources (wholly owned by Shau Kee Financial Enterprises) and Ping An Insurance.

Weaknesses/Threats

- × The shipping industry is highly cyclical. Global dry bulk freight rates now stand at historic highs due to strong shipping demand. However, it may not sustain for a prolonged period, and a drop in freight rates may depress the Group's profit margins.

- × The Group generally charters out its crude oil tankers in form of voyage charter contracts, which means the Group is responsible for paying both operating and voyage costs. Voyage costs include bunker fuel costs, port charges, etc. As such, high energy prices may hurt profit margins of the Group's crude oil shipping segment.

Recommendation: Subscribe

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