SECTOR UPDATE

Shipping And Ports – China

Weakening Global Trade Environment With Upside Risks For Freight Rates

The latest economic indicators pointed to a weakening global trade outlook, with both China and global manufacturing PMIs standing at sub-50 levels, and their new export order sub-indices sinking deeper in the contractionary territory. Ocean freight rate futures prices have rebounded lately amid escalating tensions in the Middle East, and the US East Coast port strike, though halted for now, remains a key uncertainty. Maintain MARKET WEIGHT. BUY OOIL, CSP and CMP. CSH is downgraded to HOLD.

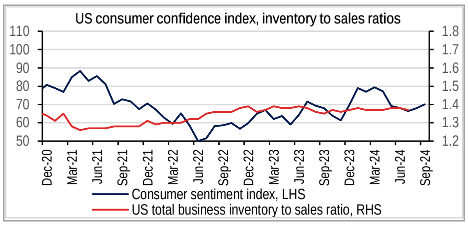
WHAT'S NEW

- Update on economic indicators for global trade outlook and sector statistics.
- Downgrade COSCO SHIPPING Holdings (CSH) to HOLD after its share price rebound.

ESSENTIALS

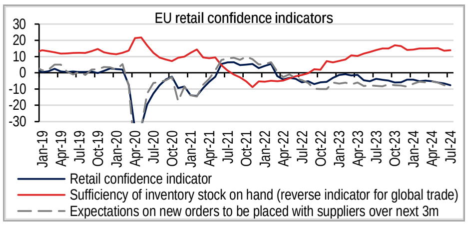
- **The latest economic indicators indicated a weakening global trade outlook, with both global and China manufacturing PMIs staying below 50 in Sep 24, and their new export order sub-indices pointing to an accelerating contraction. The US consumer sentiment picked up slightly, while European retail confidence remained sluggish.**
  - Global manufacturing PMI, a composite index compiled by S&P Global and JP Morgan tracking major manufacturing economies, stayed below 50 for a third consecutive month and declined to 48.8 in Sep 24 from Aug 24's 49.6, indicating slower global manufacturing activities. The new export order sub-index stayed below 50 for a fourth straight month, and declined mom to 47.3 (Aug 24: 48.9), pointing to an accelerating decline in global trade demand.
  - China manufacturing PMIs were also lacklustre, with official manufacturing PMI staying below 50 at 49.8 (Aug 24: 49.1), while the new export order sub-index sinking to 47.5 (Aug 24: 48.7). After a short-lived rebound, Caixin manufacturing PMI, a proxy for export-oriented private sector businesses, dropped below 50 again at 49.3 in Sep 24 (Aug 24: 50.4), indicating faltering private sector manufacturing activities.
  - The US consumer sentiment index picked up slightly mom in Sep 24, thanks to benign inflation expectations. However, retail confidence remained sluggish in Europe. More of the retailers surveyed reported that they had sufficient inventories on hand, and hence their needs for new order placement with suppliers are likely to remain subdued in the near term.

US CONSUMER SENTIMENT PICKED UP SLIGHTLY IN SEP 24; INVENTORY TO SALES RATIO WAS ADEQUATE, AT 1.37 IN JUL 24 (JUN 24: 1.38)



Source: US Census Bureau, University of Michigan

EU RETAIL CONFIDENCE REMAINED SLUGGISH, WITH MORE OF THE RETAILERS SURVEYED SEEING SUFFICIENT INVENTORIES AND LESS NEEDS TO PLACE NEW ORDERS



Source: Eurostat

MARKET WEIGHT

(Maintained)

SEGMENTAL RATING

Segment	Rating
Port	OVERWEIGHT
Container Shipping	MARKET WEIGHT

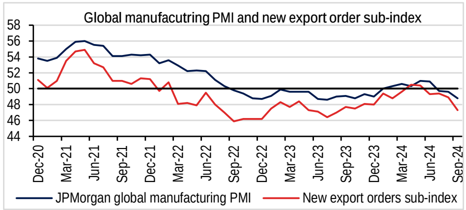
Source: UOB Kay Hian

SECTOR PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
CSP	1199 HK	BUY	4.85	6.44
CMP	144 HK	BUY	13.20	15.34
CSH	1919 HK	HOLD (D/G)	13.14	13.28
OOIL	316 HK	BUY	114.20	130.00

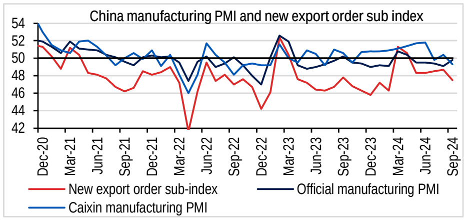
Source: Bloomberg, UOB Kay Hian

GLOBAL MANUFACTURING PMI DROPPED TO 48.8 IN SEP 24 (AUG 24: 49.6); NEW EXPORT ORDER SUB-INDEX SUNK TO 47.3 (AUG 24: 48.9), INDICATING A DETERIORATING GLOBAL TRADE OUTLOOK



Source: JP Morgan, S&P Global

CHINA OFFICIAL MANUFACTURING PMI ROSE SLIGHTLY TO 49.8 IN SEP 24 (AUG 24: 49.1) BUT NEW EXPORT ORDER SUB-INDEX SUNK TO 47.5 (AUG 24: 48.7); CAIXIN PMI DROPPED TO 49.3 (AUG 24: 50.4)



Source: China National Bureau of Statistics, Caixin

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PEER COMPARISON

Segment	Company	Ticker	Rec	Price @ 3 Oct 24 (HK$)	Target Price (HK$)	Upside to TP (%)	Market Cap (US$m)	PE 2024F (x)	PE 2025F (x)	Yield 2024F (%)	Yield 2025F (%)	P/B FY24F (x)	ROE 2024F (%)	ROE 2025F (%)	Net Gearing (%)
Port	COSCO SHIPPING Ports	1199 HK	BUY	4.85	6.44	32.8	2,292	7.6	6.9	5.3	5.8	0.38	5.1	5.5	31.0
	China Merchants Port	144 HK	BUY	13.20	15.34	16.2	7,132	7.2	7.9	6.9	6.3	0.52	7.4	6.5	20.1
Container Shipping	COSCO SHIPPING Hldg	1919 HK	HOLD	13.14	13.28	1.1	26,991	4.3	9.3	11.7	5.4	0.84	21.1	9.0	(57.2)
	Orient Overseas Intl	316 HK	BUY	114.20	130.00	13.8	9,706	4.0	9.1	12.6	5.5	0.76	20.1	8.1	(54.2)

Source: Bloomberg, UOB Kay Hian

CONTAINER SHIPPING

- **Ocean freight rates continued to normalise in Sep 24…** As the market stepped out of the traditional peak season, ocean freight rates continued to moderate in Sep 24, with Shanghai Containerised Freight Index (SCFI) and China Containerised Freight Index (CCFI) having retreated 28% and 17% mom respectively. This pace of decline was largely in line with our expectations.

- **…but futures prices for freight rates have rebounded amid the escalation of tensions in the Middle East.** The Gaza truce talk between Israel and Hamas has virtually fallen apart and tensions in the Middle East are escalating as Iran launched hundreds of missiles at Israel in the past few days. This has diminished hopes of shipping companies resuming normal sailing through the Red Sea any time soon. The reduced accessibility to the Red Sea is expected to continue to absorb effective supply of global shipping capacity, supporting ocean freight rates in the near to medium term. Reflecting the expectations of an extended period instability in the Middle East, prices of Shanghai-Europe freight rate futures contracts expiring between Feb 25 and Aug 25 have seen sizeable rebounds, rising 13-43% over the past month.

- **Raise our FY25 earnings forecast by 35% for both CSH and OOIL.** With references to the futures prices as an indicator for spot ocean freight rate outlook, we raise our FY25 earnings forecasts for CSH and Orient Overseas International (OOIL) by 36%, reflecting: a) overall higher average ocean freight rates in 2025 amid an extended period of reduced accessibility to the Red Sea, and b) the shipping companies' high operating leverage.

- **The US East Coast port strike, though halted, remains an uncertainty.** The strike began on 1 Oct 24, affecting 36 key ports along the East and Gulf coasts, which handle approximately 50% of containerised cargo entering the US. Industry experts have expressed concerns that the strike could create severe ripple effects across global supply chains, potentially leading to another spike in ocean freight rates if supply chain bottlenecks worsen.

- The latest update, as of the morning of 4 Oct 24, is that the International Longshoremen's Association (ILA) has agreed to suspend the strike until 15 Jan 25, after receiving an improved wage offer from employers represented by the United States Maritime Alliance. The ILA is returning to the negotiation table to settle other outstanding issues, such as automation at the ports. Though the risk of a large-scale maritime disruption is not completely eliminated, it appears to have cooled off for now. We will continue to monitor the development of the situation.

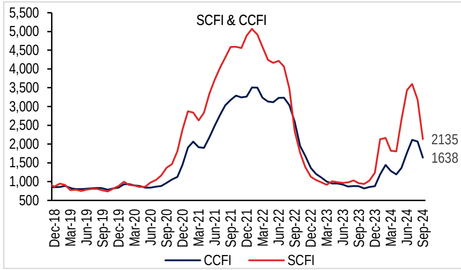
- **Maintain BUY on OOIL (Target: HK$130.00) and downgrade CSH to HOLD (Target: HK$13.28).** Our updated target prices for both CSH and OOIL are now based on a 0.84x 2025F P/B, or 1SD below segmental historical mean, higher than the previous 0.76x (1.5SD below mean) applied. The increased target P/B multiple takes into account an increasingly vulnerable global supply chain today with upside risks for ocean freight rates, while balancing concerns about oversupply in the sector once the Middle East situation stabilises and the US port strike is fully resolved.

  OOIL is our preferred pick, given: a) its relatively cheaper valuation, trading at 0.76x 2025F P/B, compared to CSH's 0.83x, and b) its track record of rewarding shareholders in the years of good profits. We project OOIL offering a 12.6% yield in 2024 based on a 50% payout ratio, while noting there is potential for special dividend. We downgrade CSH to HOLD, with its share price rising 27% since our upgrade on 9 Aug 24, bringing it closer to our updated fair valuation.

PORTS

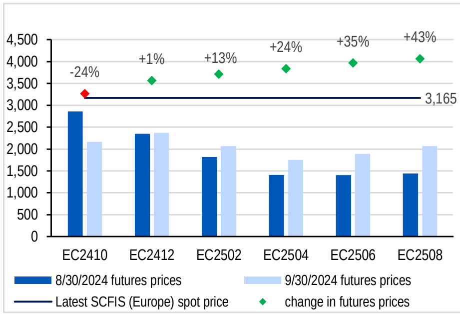
- **Healthy container throughput growth in 8M24; expect steady performance for the full year.** Despite rising global uncertainties, China's port sector achieved a respectable 8.2% yoy growth in container throughput in 8M24. Within our coverage, both COSCO SHIPPING Ports (CSP) and China Merchants Port (CMP) achieved high single-digit gross throughput growth in 8M24 at 7.6% yoy and 7.9% yoy respectively. We believe the two port operators are well on track to achieve their guidance of mid- to high-single-digit throughput growth for the full year of 2024.

FREIGHT RATES ON A FAST-NORMALISING TREND IN AUG AND SEP 24, BUT ESCALATING TENSIONS IN MIDDLE EAST AND POTENTIAL DISRUPTIONS CAUSED BY THE US PORT STRIKE MAY END THE DECLINE



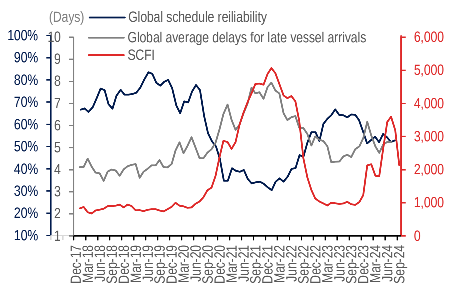
Source: Shanghai Shipping Exchange

PRICES OF FAR-END FREIGHT RATE FUTURES FOR SHANGHAI-EUROPE ROUTE INCREASED IN THE PAST MONTH



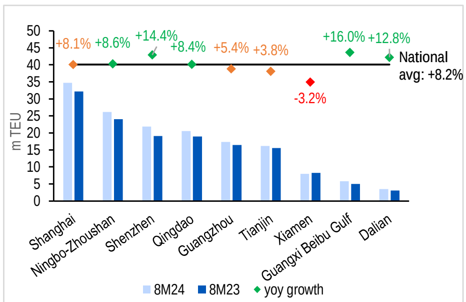
**EC2410: Europe Containerised Freight futures contract expiring in Oct 24*
Source: Shanghai Futures Exchange

LINER SCHEDULE RELIABILITY STABILISING BUT AT A SUBDUED LEVEL



Source: Sea Intelligence

CHINESE PORTS' TOTAL CONTAINER VOLUME ROSE 8.2% YOY IN 8M24



Source: China Ministry of Transport

- **Maintain BUY on CSP (1199 HK/Target: HK$6.44) and CMP (144 HK/Target: HK$15.34).** We continue to like port operators due to the cheap valuation, steady cashflow and sustainable dividend yield. Our target prices for CSP and CMP remain based on 9.2x 2025F PE, pegged to the port segment historical mean. With sustainable dividend yields of 5.3% offered by CSP (based on a 40% payout ratio) and 6.9% offered by CMP (based on a 50% payout ratio), the two port companies should enjoy some re-rating in the Fed's rate cut cycle.

EARNINGS REVISION

- We raise our 2025 earnings forecasts for CSH and OOIL by 36% to reflect overall higher average ocean freight rates. We also raise our 2025 earnings forecasts for CMP by 1%, due to its indirect earnings exposure to container shipping investments via its associate Shanghai International Port Group (SIPG/600018 CN/Not Rated), which is CMP's top profit contributor with a number of container shipping investments.

EARNINGS FORECASTS UPDATE FOR SHIPPING AND PORT COMPANIES

	-------- Net profit forecast – old --------			-------- Net profit forecast – new --------			--------- Adjustment ---------		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
CSP	US$309m	US$331m	US$347m	US$309m	US$331m	US$347m	-	-	-
CMP	HK$6.75b	HK$6.96b	HK$7.19b	HK$6.75b	HK$7.02b	HK$7.19b	-	+1%	-
CSH	Rmb44.8b	Rmb15.2b	Rmb11.8b	Rmb44.7b	Rmb20.6b	Rmb11.8b	-	+36%	-
OOIL	US$2,445m	US$786m	US$556m	US$2,445m	US$1,066m	US$556m	-	+36%	-

Source: UOB Kay Hian

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