

COSCO International: A proxy to shipbuilding industry

Recommendation: BUY (initiating coverage)

Hong Kong Conglomerates

Price	HK\$3.16	Year to Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.	
Target price	HK\$4.47 (+54%)	Dec	HK\$m	HK\$	Δ %	x	x	x	%	%	%	
12 mth range	HK\$1.36-3.45	04A	219.2	0.155	na	20.3	4.0	22.1	0.8	19.6	9.6	32.6
Market cap.	US\$587.3m	05A	496.5	0.350	125.5	9.0	2.8	33.2	1.4	36.6	23.7	Cash
Daily t/o, 3 mth	US\$2.1m	06F	390.1	0.273	(22.0)	11.6	2.3	14.9	2.1	21.7	18.7	Cash
Free float %	42.5%	07F	556.9	0.386	41.5	8.2	1.8	13.5	3.1	24.2	21.4	Cash
Ticker	0517.HK/517 HK	08F	624.8	0.433	12.2	7.3	1.4	12.3	3.4	21.4	19.2	Cash

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -10.4%, +5.3%, +62.9%

Actual price changes (1 mth, 3 mth, 12 mth): +14.9%, +69.0%, +116.4%

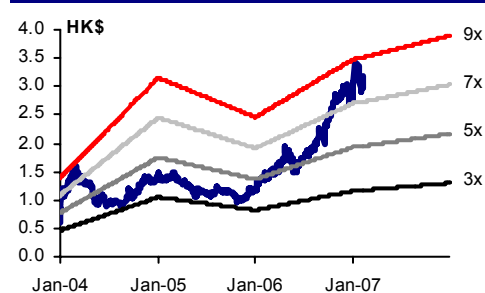
Consensus EPS (06F-07F): HK\$0.208, HK\$0.326

Key points:

- A proxy to China's booming shipbuilding industry.
- Streamlining operations by disposal of non-core assets.
- Backed up by COSCO Group's mighty fleet.
- Huge value to be unleashed upon the listing of SORED.
- Strong growth momentum in marine services.
- High free cash flow on low capex.
- HK\$1.1b cash on hand for EPS accretive acquisitions.
- Attractive valuation at ex-cash P/E of 6.2x for FY12/07F and 5.5x for FY12/08F.

Company profile. After years of restructuring and disposal of non-core assets, COSCO International (the group) has repositioned itself as one of China's leading marine services providers. It is engaged in the manufacture/sales of marine/container/anti-corrosion coating, provision of marine insurance brokerage service, vessel trading and supplying service. We expect robust organic growth in the group's marine services division thanks to the global fleet expansion. With strong parental support, the earnings visibility of its marine services division is high. The company also has exposure to China's booming property market through its 44.0%-owned Sino Ocean Real Estate Development Group (SORED), which, if listed this year, will unleash substantial value from the group. Trading at the ex-cash P/E of 6.2x for FY12/07F and 5.5x for FY12/08F, its valuation remains attractive, despite a 116.4% YTD rise in the share price. Its HK\$1.1b in cash on hand should serve as a war chest for EPS accretive acquisitions.

Chart 1: P/E bands



Source: SBI E2-Capital

SORED - hidden treasure. With its 3.4m sq.m landbank, SORED is one of Beijing's leading property developers. As of end-June 2006, it had 16 projects under development. In December 2006, it outbid other six developers, including Beijing Capital Land (2868 HK, HK\$3.37, NR) and China Resources Land (1109 HK, HK\$7.81, NR), and bought a 0.31m sq.m GFA site in Beijing's Chaoyang district for about RMB1.8b, representing a 58.0% premium over the opening bid of RMB1.12b. SORED reported a two-year earnings CAGR of 105.9% between FY12/03A and FY12/05A. Its earnings for 1H FY12/06A surged five-fold to RMB164.2m and its net asset value (NAV) was at HK\$1,455.2m as of June 2006. The group increased its stake in SORED to 44.0% from 20.0% in October 2006 for HK\$385.3m, representing a 10.3% premium over SORED's NAV. SORED has brought in three strategic investors, including the private equity investing arm of Standard Chartered (2888 HK, HK\$235.0, NR), which has put in US\$35.0m in the company. According to media reports, the other two are Morgan Stanley and Merrill Lynch. SORED is expected to list on the HKEX between 3Q and 4Q 2007 to

raise HK\$3.0b-4.0b, with Morgan Stanley and Goldman Sachs acting as sponsors.

Table 1: SORED's land bank

Property held under development	Location	GFA (sq.m.)	Market value as of June 30, 2006 (RMB m)	SORED's interest (%)
Zone 5 of Ocean Paradise	Chaoyang District, Beijing	226,483	1,170.0	100.0
Chemsunny Plaza	Xicheng District, Beijing	193,905	2,100.0	50.0
Office Park	Chaoyang District, Beijing	212,946	660.0	80.0
Oceanseasons	Fengtai District, Beijing	229,466	390.0	70.0
Ocean Landscape	Shijingshan District, Beijing	990,354	1,329.0	100.0
Ocean Paradise of Haihe New Skyline	Hedong District, Tianjin	271,558	1,120.0	99.7
		Site area (sq.m.)	Market value as of June 30, 2006 (RMB m)	SORED's interest (%)
Property held for development	Location	GFA (sq.m.)	Market value as of June 30, 2006 (RMB m)	SORED's interest (%)
Hai Ke Guan Cheng	Haidian District, Beijing	16,770	500.0	75.0
Donglong Villa	Chaoyang District, Beijing	240,851	830.0	85.7
South of Boai Road	Zhongshan City, Guangdong	843,138	617.0	43.0
		GFA (sq.m.)	Market value as of June 30, 2006 (RMB m)	SORED's interest (%)
Property held for sale	Location	GFA (sq.m.)	Market value as of June 30, 2006 (RMB m)	SORED's interest (%)
Ocean Prospect	Haidian District, Beijing	5,133	33.0	99.8
Ocean Cityscape	Haidian District, Beijing	10,671	46.0	99.6
Phase I of Ocean Express	Chaoyang District, Beijing,	24,718	370.0	75.0
Zones 1, 2 and 3 of Ocean Paradise	Chaoyang District, Beijing	32,312	146.0	100.0
Phase I of Ocean Landscape	Shijingshan District, Beijing	2,041	31.0	100.0
		GFA (sq.m.)	Market value as of June 30, 2006 (RMB m)	SORED's interest (%)
Property held for investment	Location	GFA (sq.m.)	Market value as of June 30, 2006 (RMB m)	SORED's interest (%)
Various units at Ocean Plaza	Xicheng District, Beijing	29,018	597.0	70.0
Best Western Beijing Hotel	Chaoyang District, Beijing	30,531	250.0	99.1
		Site area (sq.m.)	Market value as of June 30, 2006 (RMB m)	SORED's interest (%)
Property contracted to be acquired	Location	GFA (sq.m.)	Market value as of June 30, 2006 (RMB m)	SORED's interest (%)
Tong Hui Shang He Jia Yuan Phase 1	Chaoyang District, Beijing	144,158	430.0	99.9
Lot No.(2006)-1	Shenyang Rd, Dalian	63,040	412.8	99.9
Lot Jin Kong Jia (Gua)	Tianjin Airport Logistic Zone	214,787	N.A.	N.A.

Source: Company data

Coating division. Currently, the group manufactures and sells coating products through its 63.1%-owned joint venture, COSCO Kansai, with the renowned Japanese coating manufacturer Kansai and its 50.0%-owned JV, Guangzhou Jotun Ocean Paints Co., with Jotun Group, one of the world's top three marine paint producers. The COSCO Kansai's coating plant in Tianjin has a production capacity of 63,000 t.p.a. and the COSCO Jotun plant in Guangzhou 14,300 t.p.a.. COSCO Kansai is China's the third largest container coating manufacturer. The JV also makes anti-corrosion paint and is one of the major suppliers for nuclear power plants in China. Guangzhou Jotun Ocean Paints are one of China's major producers of marine coating products.

Positive outlook. The group's container coating products are set to benefit from the revival in the global container market. According to AXS-Alphaliner's estimations, the size of the global container fleet will increase at a four-year CAGR of 12.9% between 2006 and 2010, in terms of TEU (twenty-foot equivalent units). The global container fleet will expand 16.6% YoY to 9.6m TEUs in 2007 and 14.7% YoY to 11.0m TEUs in 2008, which will spur demand for containers and ultimately for container paint. The production volume of containers is forecast to increase 10.0% YoY to 2.5m TEU this year. Impact Marketing Consultants estimates that demand for container coating products will increase 30.0% this year. We expect strong growth in the group's anti-corrosion paint division on the back of the robust fixed-asset investment in China. The marine coating business should also continue growing on orders from its parent's huge fleet. About 500 tons of marine coating are required for each new vessel with a capacity of 100,000 deadweight ton (D.W.T.) and the submerged part of the hull is due for repainting every 18 months.

Table 2: Container fleet projections 2006F-2010F

Container fleet projection	Ships	Change (%)	TEU (m)	Change (%)
2006E	3,618	-	8.2	-
2007F	4,006	10.7	9.6	16.6
2008F	4,464	11.4	11.0	14.7
2009F	4,842	8.5	12.5	13.8
2010F	4,994	3.1	13.4	6.6

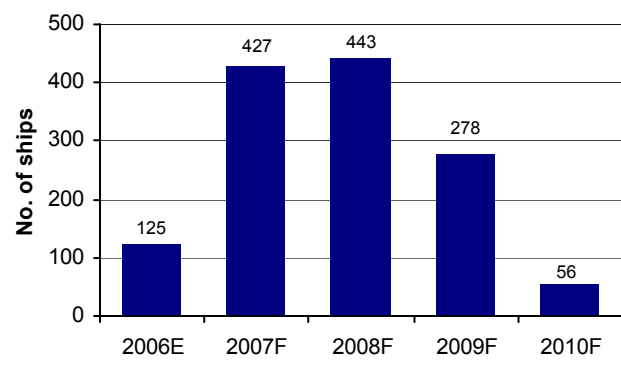
Source: AXS-Alphaliner

Foray into China marine insurance market. The group is an accredited insurance broker certified by Lloyds. Before 2006, as a non-Chinese company, it was not allowed to provide marine insurance to vessels flying China’s flag. This limited its services to less than one-third of COSCO’s fleet. After the liberalization of China’s insurance industry, the group can provide insurance brokerage services to the entire COSCO fleet and other ships flying China’s flag. It teamed up with Shenzhen Ocean, a non wholly-owned subsidiary of the COSCO Group, to form a JV, Shenzhen COSCO Insurance Broker Ltd. Its growth potential is tremendous, given the aggressive expansion in China’s fleet while capital commitment is minimal, as no fixed-asset is investment required. Thus, with its relatively small depreciation and amortization charges, the business is very lucrative.

Sole ship trader for COSCO Group. We consider the group as one of the few Hong Kong-listed proxies to the booming global shipbuilding industry, due to its involvement in the provision of marine supplies as well as equipment-trading and vessel-trading services. The company is the sole ship trader for COSCO Group, engaged in the sale and purchase of new and second hand vessels, as well as bareboat charters. It also supplies marine equipment, spare parts, vessel accessories, chemicals for vessels, living supplies and marine communication and navigation system to COSCO Group through its 100.0%-owned Yuantong Marine Services Company. Demand for marine supplies will grow significantly as COSCO’s fleet expands. Nevertheless, with all of the division’s offices situated in China’s major ports, its scope of business is currently geographically limited. We expect it to acquire more overseas trading units from its parent in a bid to provide full services to its parent’s fleet. Again, like the insurance brokerage division, capex requirements are minimal.

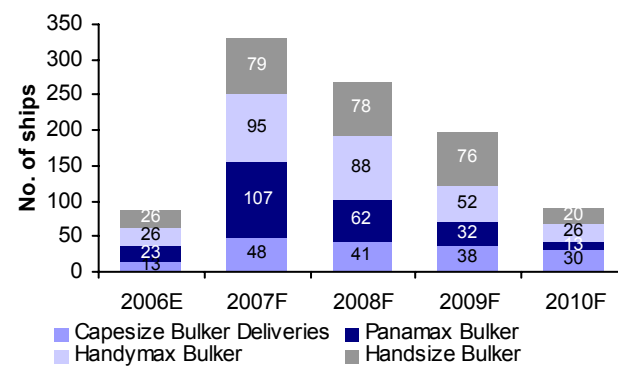
Proxy to the booming shipbuilding industry. According to Maxmart, 1,204 container vessels and 885 bulk carriers will be delivered between 2007 and 2010. The phasing out of old single-hull tankers by 2010 as mandated by the International Maritime Organization will result in more new builds as well. In fact, delivery slots in shipyards are only available until 2010 due to massive new orders. China is the world’s third largest ship building country and ultimately will surpass Korea and Japan, as it continues to advance technologically and expands its capacity. The government considers the industry’s development as a priority during the 11th five-year plan. With more ships to be delivered between 2007 and 2008, the growth momentum of the group’s ship trading business, part-trading business and marine insurance brokerage business is expected to be vigorous.

Chart 1: Order books of container vessels



Source: Maxmart

Chart 2: Order books of bulk carriers



Source: Maxmart

Backed up by parent’s giant fleet. COSCO Group, which owns 57.5% of the company, operates a fleet of more than 700 vessels with a total carrying capacity of up to 41.0m Dead Weight Tons (DWT) and has ranked first in international bulk shipping sector for years. It is also listed as one of the world’s top ten container liner operators. Its fleet includes container vessels, dry bulk carriers, oil tankers, general cargo ships, heavy-lift carriers and specialized vessels. With its parent’s backing, the group’s marine service business should offer great expansion potential, with high earnings visibility.

Core earnings to surge in FY06F. Earnings surged 126.5% YoY to HK\$496.5m in FY12/05A, thanks to the revaluation gain of HK\$257.1m on investment properties, a provision write-back of HK\$53.2m for claims and foreseeable losses on certain construction contracts and a provision write-back of HK\$46.7m for the impairment loss on prepaid premiums for land leases. Stripping off the exceptional gains, earnings declined 27.3% YoY, due to the weakness in its coating manufacturing and property development divisions. We expect headline earnings to drop 21.4% YoY to HK\$390.1m in FY12/06F due to the 87.3% YoY plunge in exceptional gains to HK\$45.5m. However, we expect core earnings to increase 115.9% YoY to HK\$343.9m, due to the revival in the container coating market, higher commission income provided by marine services divisions and a higher earnings contribution from SORED.

Coating division to resume growth. Due to the seasonal weakness in the container market between 2H 2005 and 1H 2006, its coating division's earnings plunged 48.0% to HK\$42.0m in FY12/05A and 32.0% to HK\$30.0m in 1H FY12/06A. We believe the growth momentum resumed since 2H FY12/06F as the container market has been recovering since 2H 2006, thanks to the delivery of new container ships, strong global trade growth and the recovery in steel prices. In response to the surge in crude oil prices, the group increased the price of all its categories of paint products four times last year, with the price of container paint up 30.0%, and marine and anti-corrosion paint both up 10.0%. As a result, the gross profit margin of the company's container coating products improved to 19.5% from 16.0%, by our estimation. Although the crude oil prices peaked in July last year, the group has yet to adjust its ASP, as demand for paint products remains strong. We expect the gross profit margin of container paint products to widen to 21.0% in FY07F. We estimate that the sales volume growth of paint products (except anti-corrosion coating, forecast to surge 40.0% YoY) remained flat in FY12/06F and growth in the paint division was driven mainly by margin expansion. However, the division's sales volume should pick up in FY12/07F, on production capacity expansion given the robust demand. With the launch of COSCO Kansai's new paint plant in Zhuhai in July 2007, the JV's production capacity will expand 38.1% to 87,000 t.p.a.. The new plant's capacity can be expanded to as much as 32,000 t.p.a.. We expect the division's earnings to reach HK\$53.9m in FY12/06F, HK\$83.2m in FY12/07 and HK\$114.0m in FY12/08F. Jotun COSCO's ASP is expected to rise 10.0% on strong demand for marine coating products and earnings contributions from the JV are estimated at HK\$59.0m in FY12/06F, HK\$75.5m in FY12/07F and HK\$91.0m in FY12/08F.

Strong orders. Commission income from vessel trading is collected and booked in four phases up to the delivery of vessels to the owner. In 1H FY12/06A, the company's vessel trading volume doubled to 3.14m DWT. Its order book is strong, thanks to the addition and replacement demand for vessels of all kinds. We estimate that commission income in FY12/06F and 1H FY12/07F will stem from orders placed in 2004 and 2005. Building prices for new containerships and bulk carriers peaked in 2004 and retreated a bit in 2005. Nevertheless, ship building prices have been rising since 2006, with liner operators placing orders for larger vessels and steel prices inching up. Besides, the growth in the number of ships to be delivered is expected to be robust between 2006 and 2008, sustaining the growth momentum in the company's vessel trading division. We expect the division's earnings to reach HK\$33.9m in FY12/06F, HK\$41.0m in FY12/07F and HK\$48.1m in FY12/08F.

Strong growth in other marine services. Shenzhen COSCO Insurance Broker Ltd is expected to drive the insurance brokerage division but its contribution will be limited in FY12/06F since it commenced operation in August 2006. Also, most of the current insurance policies in Chinese fleets expired only at the end of 2006, so we do not expect much commission income from the China market in FY12/06F. Renewal policies, especially in COSCO's fleet this year, will be the major growth catalyst, followed by higher premiums due to rising ship values. We expect the division's earnings to reach HK\$24.2m in FY12/06F, HK\$38.1m in FY12/07F and HK\$49.0m in FY12/08F. Although earnings of the company's part trading division dropped 18.0% YoY in 1H FY12/06A, we expect the business to pick up from FY12/07F as demand for parts rises spurred by more ship deliveries between 2007 and 2008. Also, as commission income is calculated upon the order value, more commission income will be realized from higher orders. We expect order values to increase since most of the new vessels require advanced communication and navigation equipment. We estimate the division's earnings at HK\$35.0m in FY12/06F, HK\$42.2m in FY12/07F and HK\$49.1m in FY12/08F.

Share of SORED earnings may be diluted. With SORED's developed and unsold land bank of 74,875 sq.m as of end-June 2006, and 2.1m sq.m GFA under development, its revenue stream is expected to be stable between FY12/06F and FY12/08F. The company sold about 0.32m sq.m GFA in 1H FY12/06A, or 86.5% of the GFA sold in FY12/05A. Rising properties prices in China will drive SORED's earnings, with the average land cost in Beijing estimated at RMB8,000.0 per sq.m.. However, if SORED goes public by the end of the year, the group's share of SORED's earnings will be diluted. How much in exceptional gain the group could realize upon the listing is uncertain. Assuming, the company's stake remains at 44.0%, SORED's earnings contribution is estimated at HK\$109.3m in FY12/06F, HK\$268.5m in FY12/07F and HK\$286.8m in FY12/08F.

Disposal of non-core assets. The group has been streamlining its business disposing of its non-core assets. In FY06F, it sold its 54.0% stake in Henan Xin Zhong Yi Electric Power Co. for RMB43.8m and 10.0% in International Paint of Shanghai for RMB39.0m. It also disposed of a site in Kutong, New Territories, Hong Kong. Its disposal gain is estimated at HK\$45.0m and cash inflow at HK\$94.0m in FY12/06F from the transactions. The company has also stripped off its construction business, which as of end-FY12/05A, reported a negative net asset value of HK\$60.2m. The shedding of non-core assets will release capital for the development of its core marine services and enhance the company's earnings and assets quality.

Strong free cash flow. As of end-1H FY12/06A, the company was in a net cash position of HK\$1,107.3m. Due to its low capex requirement and cash inflow from the disposal of eight floors in COSCO Tower, Hong Kong, the group generated HK\$249.3m in free cash flow in FY12/05A. However, its free cash flow is expected to turn negative in FY12/06F, due to the acquisition of a 24.0% stake in SORED for HK\$385.3m, and pick up to HK\$496.6m in FY12/07F and HK\$610.4m in FY12/08F on 1) low capex; and 2) higher contribution from SORED and Guangzhou Jotun Ocean Paints.

Table 3: Division turnover

(HK\$m)	04A	05A	06F	07F	08F
Ship trading	54.0	54.0	69.7	84.3	98.8
Insurance brokerage	20.0	38.0	40.6	58.0	62.0
Provision of supplies	0.0	350.0	352.0	396.0	437.5
Coating	894.0	903.0	1,072.7	1,234.4	1,578.0
Property	407.0	142.0	385.4	157.7	19.4
Others	313.0	24.0			
Total	1,688.0	1,511.0	1,920.4	1,930.3	2,195.6

Source: Company data, SBI E2-Capital

Table 4: Division EBIT

(HK\$m)	04A	05A	06F	07F	08F
Ship trading	30.0	32.0	41.1	49.7	58.3
Insurance brokerage	14.0	22.0	29.3	46.2	49.6
Provision of supplies	0.0	31.0	42.4	51.2	59.5
Coating	80.0	42.0	97.5	105.8	145.0
Property	259.0	345.0	106.0	49.8	7.7
Others	(48.0)	41.0	-	-	-
Total	335.0	513.0	316.4	302.6	320.0

Source: Company data, SBI E2-Capital

Table 5: Estimated division net earnings (before headquarter's expenses)

(HK\$m)	06F	07F	08F
Ship trading	33.9	41.0	48.1
Insurance brokerage	24.2	38.1	40.9
Provision of supplies	35.0	42.2	49.1
Coating	53.9	83.2	114.0
Property	38.4	18.7	4.4
SORED	109.3	268.5	286.8
Jotun COSCO	59.0	75.5	91.0
Total	353.7	567.2	634.3

Source: SBI E2-Capital

Attractive valuation. Although the share price has surged 116.4% YTD, trading at ex-cash P/E of 6.2x for FY07F and 5.5x for FY08F, the valuation is not far from the trough. Trading at a substantial discount of 29.3% to our sum-of-the part based valuation of HK\$4.47, our valuation is subject to upside risk, as we applied the SORED's booked NAV of HK\$1,455.2m as of end-June 2006 in our model. Nevertheless, the Hong Kong-listed China property developers are trading at an average P/NAV of 2.4x for 2007F and 2.3x for 2008F. The group deserves a re-rating, given its undemanding valuation and positive earnings growth prospect as well as being one of the few Hong Kong-listed proxies to China's booming shipbuilding industry. With a potential share price upside of 41.5%, we initiate coverage on the group with a BUY recommendation.

Risk factors. Any new austerity measures introduced by the Chinese government to cool the property market will depress market sentiment and affect the counter. Besides, the group has entered into a number of agreements with parent COSCO Group and its associates regarding ship trading, parts trading and insurance brokerage

services. Such agreements are considered continuing connected transactions. The acquisition of the additional 24.0% in SORED is also considered a connected transaction. Since the COSCO Group is the major shareholder and customer of the company, we are concerned about potential transfer pricing issue.

Table 6: Sum-of-the part valuation

Division	Description	Valuation (HK\$m)
Coating manufacturing	Sector average P/E: 17.6x, FY12/07F earnings: HK\$83.2m	1,463.9
Insurance brokerage	Sector average P/E: 18.2x, FY12/07F earnings: HK\$38.1m	693.1
Other marine services	Sector average P/E: 24.1x, FY12/07F earnings: HK\$83.2m	2,006.3
SORED	44.0% stake in SORED, NAV: HK\$1,455.2m	640.3
China properties	Kingswell Garden, Fragrant Garden and COSCO Yihe Garden	33.0
Others	195 car parking spaces in Shum Wai @ HK\$0.25m each	48.8
Net cash	Projected net cash at the end of FY07F	1,556.8
Valuation		6,442.2
Valuation/share		4.47

Source: Bloomberg, SBI E2-Capital

Table 7: Valuation benchmark

	Ticker	Year End	Currency	Market cap (US\$m)	P/E (x) 1-yr forward	P/E (x) 2-yr forward
Coating manufacturer						
RPM International	RPM US	May	USD	2,750	15.2	13.7
Sherwin-Williams Co	SHW US	Dec	USD	9,262	15.0	14.0
Kansai Paint	4613 JP	Jun	JPY	2,453	30.1	na
<i>Average</i>					<i>17.6</i>	<i>11.6</i>
Insurance broker						
THB Group	THB LN	Apr	Gbp	60	9.8	9.1
Willis Group Holdings	WSH US	Dec	USD	6,593	18.8	15.8
Jardine Lloyd Thompson	JLT LN	Dec	Gbp	1,725	16.5	15.9
<i>Average</i>					<i>18.2</i>	<i>15.8</i>
Marine service providers						
ASL Marine Holdings	ASL SP	Jun	SGD	165	9.2	7.8
Cosco Corp Singapore	COS SP	Dec	SGD	4,257	25.4	21.2
SembCorp Marine	SMM SP	Dec	SGD	3,476	23.6	17.7
BH Global Marine	BHGM SP	Dec	SGD	82	9.8	na
Sinwa	SKS SP	Dec	SGD	67	13.2	7.8
<i>Average</i>					<i>24.1</i>	<i>19.1</i>

Source: Bloomberg, SBI E2-Capital

Table 8: Chinese property developers' valuation

Company name	Ticker	Year End	Currency	Market cap (US\$m)	P/E (x) 1-yr forward	P/E (x) 2-yr forward	P/NAV (x) 1-yr forward	P/NAV (x) 2-yr forward
Beijing Capital Land	2868 HK	Dec	HKD	875	9.1	7.2	0.8	0.9
Shanghai Forte	2337 HK	Dec	HKD	904	8.3	6.1	1.4	1.2
Shenzhen Investment	604 HK	Dec	HKD	1,171	9.8	6.8	1.5	1.3
Guangzhou Investment	123 HK	Dec	HKD	1,612	15.8	10.9	0.8	0.8
New World China Land	917 HK	Jun	HKD	2,226	38.2	23.8	0.7	0.7
Agile Property	3383 HK	Dec	HKD	3,013	12.2	10.1	2.3	2.0
China Resources Land	1109 HK	Dec	HKD	3,137	23.7	13.2	1.3	1.8
Hopson Development	754 HK	Dec	HKD	3,144	10.4	7.5	2.6	2.0
Shimao Property	813 HK	Dec	HKD	5,001	15.6	11.8	1.5	3.6
Guangzhou R&F Properties	2777 HK	Dec	HKD	5,935	13.3	9.4	4.5	3.4
China Overseas Land	688 HK	Dec	HKD	7,148	15.6	12.3	3.2	2.5
<i>Average</i>					<i>16.1</i>	<i>11.4</i>	<i>2.4</i>	<i>2.3</i>

Source: Bloomberg, SBI E2-Capital

P & L (HK\$m)	04A	05A	06F	07F	08F
Year to Dec					
Turnover	1,688.4	1,510.7	1,920.4	1,930.3	2,195.6
% chg	-	(10.5)	27.1	0.5	13.7
Gross profit	417.5	387.0	528.4	572.0	607.1
EBITDA	207.4	137.9	307.9	340.4	372.9
Depre./amort.	(11.0)	(8.5)	(7.8)	(11.3)	(10.3)
EBIT	196.4	129.3	300.2	329.1	362.7
Net int. income/(exp.)	(12.9)	(2.1)	8.2	9.7	10.9
Exceptionals	116.9	358.9	46.2	-	-
Associates	-	-	-	-	-
Jointly-controlled entit.	12.9	64.9	168.3	344.0	377.8
Pre-tax profit	313.3	551.0	522.7	682.7	751.4
Tax	(50.4)	(25.4)	(71.0)	(66.4)	(64.5)
Minority interests	(43.8)	(29.2)	(61.6)	(59.4)	(62.2)
Net profit	219.2	496.5	390.1	556.9	624.8
% chg	-	126.5	(21.4)	42.8	12.2
Dividends	(35.4)	(63.8)	(97.5)	(139.2)	(156.2)
Retained earnings	183.8	432.6	292.6	417.7	468.6
EPS (HK\$) - Basic	0.155	0.350	0.273	0.386	0.433
EPS (HK\$) - F.D.	0.152	0.344	0.270	0.386	0.433
DPS (HK\$)	0.025	0.045	0.068	0.097	0.108
No. sh.s o/s (m) - W.A.	1,410.1	1,416.9	1,428.0	1,441.2	1,441.2
No. sh.s o/s (m) - Y.E.	1,414.4	1,422.0	1,441.2	1,441.2	1,441.2
No. sh.s o/s (m) - F.D.	1,440.1	1,445.2	1,443.6	1,441.2	1,441.2
Margins (%)					
Gross	24.7	25.6	27.5	29.6	27.6
EBITDA	12.3	9.1	16.0	17.6	17.0
EBIT	11.6	8.6	15.6	17.0	16.5
Pre-tax	18.6	36.5	27.2	35.4	34.2
Net	13.0	32.9	20.3	28.9	28.5
Balance Sheet (HK\$m)	04A	05A	06F	07F	08F
Year to Dec					
Fixed assets	1,490.1	502.2	996.4	1,290.0	1,666.3
Intangible assets	62.3	79.6	115.6	115.6	115.6
Other LT assets	-	-	-	-	-
Cash	562.9	1,274.1	1,099.2	1,556.8	2,052.0
Accounts receivable	410.2	455.8	478.6	454.7	500.2
Other receivables	-	-	-	-	-
Inventories	216.5	163.9	180.3	171.3	188.5
Due from related co.s	-	-	-	-	-
Other current assets	245.8	236.0	303.4	195.8	2.7
Total assets	2,987.8	2,711.7	3,173.6	3,784.3	4,525.3
Accounts payable	(674.0)	(810.9)	(851.4)	(808.8)	(849.3)
Other payable	-	-	-	-	-
Tax payable	(19.1)	(7.0)	(38.1)	(59.5)	(69.0)
ST debts	(122.6)	(10.6)	(25.1)	-	-
Other current liab.	-	-	-	-	-
LT debts	(865.9)	(96.1)	-	-	-
Other LT liabilities	-	(0.1)	-	-	-
Total liabilities	(1,681.6)	(924.7)	(914.6)	(868.3)	(918.3)
Share capital	141.4	141.8	143.7	143.7	143.7
Reserves	975.9	1,451.4	1,859.8	2,457.4	3,086.3
Shareholders' funds	1,117.3	1,593.2	2,003.5	2,601.1	3,230.1
Minority interest	188.9	193.9	255.5	314.8	377.0
Total	1,306.2	1,787.0	2,259.0	2,916.0	3,607.1
Capital employed	2,294.7	1,893.7	2,284.1	2,916.0	3,607.1
Net (debt)/cash	(425.6)	1,167.4	1,074.0	1,556.8	2,052.0
Cash Flow (HK\$m)	04A	05A	06F	07F	08F
Year to Dec					
EBIT	196.4	129.3	300.2	329.1	362.7
Depre./amort.	11.0	8.5	7.8	11.3	10.3
Net int. paid	12.9	2.1	(8.2)	(9.7)	(10.9)
Tax paid	(59.4)	(20.3)	(40.0)	(45.0)	(55.0)
Dividends received	19.7	19.7	54.6	134.3	143.4
Gross cashflow	180.6	139.4	314.4	420.0	450.4
Chgs. in working cap.	163.7	163.7	(65.5)	87.6	170.9
Operating cashflow	344.3	303.1	248.9	507.6	621.3
Capex	(101.7)	(53.7)	(426.1)	(10.9)	(10.9)
Free cashflow	242.7	249.3	(177.3)	496.6	610.4
Dividends paid	-	(49.6)	(64.0)	(83.2)	(139.2)
Net distribution to MI	(12.7)	(22.3)	-	-	-
Investments	(7.6)	-	-	-	-
Disposals	1.1	1,391.9	94.2	-	-
New shares	11.4	2.2	1.9	-	-
Others	(280.4)	21.5	51.8	69.3	24.0
Net cashflow	(45.4)	1,593.1	(93.4)	482.8	495.2
Net (debt)/cash - Beg.	(380.2)	(425.6)	1,167.4	1,074.0	1,556.8
Net (debt)/cash - End.	(425.6)	1,167.4	1,074.0	1,556.8	2,052.0
Interim Results (HK\$m)	04A	05A	06A		
Six months to Sep					
Turnover	906.4	947.0	878.3		
% chg	101.7	4.5	(7.3)		
Profit from operations	96.5	428.7	109.9		
Interest expenses	(6.1)	(13.1)	(1.2)		
Associates	-	-	-		
Jointly-controlled entit.	3.1	(4.2)	36.6		
Pre-tax profit	93.5	411.4	145.3		
Tax	(24.8)	(18.6)	(22.6)		
Minority interests	(25.4)	(22.9)	(22.9)		
Net profit	43.3	369.8	99.8		
% chg	5,110.2	754.1	(73.0)		
EPS (HK\$) - Basic	0.031	0.261	0.070		
DPS (HK\$)	-	0.010	0.010		
Shareholding Structure					
				Shares o/s (m)	%
China Ocean Shipping				829.4	57.5
Public				611.9	42.5
Total				1,441.2	100.0
Background					
COSCO International is engaged in the manufacture/sales of marine/container coating, provision of marine insurance brokerage service, vessel trading and supplying service. Besides, through its 44.0%-owned Sino Ocean Real Estate Development Group (SORED), the group has exposure to the booming property market in China.					
Key Ratios	04A	05A	06F	07F	08F
Net gearing (%)	32.6	Cash	Cash	Cash	Cash
Net ROE (%)	19.6	36.6	21.7	24.2	21.4
EBIT ROCE (%)	8.6	6.2	14.4	12.7	11.1
Dividend payout (%)	16.1	12.9	25.0	25.0	25.0
Effective tax rate (%)	16.1	4.6	13.6	9.7	8.6
Net interest coverage (x)	15.2	61.9	na	na	na
A/R turnover (days)	88.7	104.6	88.8	88.2	79.4
A/P turnover (days)	145.7	179.4	158.0	157.0	137.8
Stock turnover (days)	62.2	61.8	45.1	47.2	41.3

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