

Asian Equity Research | March 2013

Jefferies

AP Transport | Container Shipping

Better but not so good

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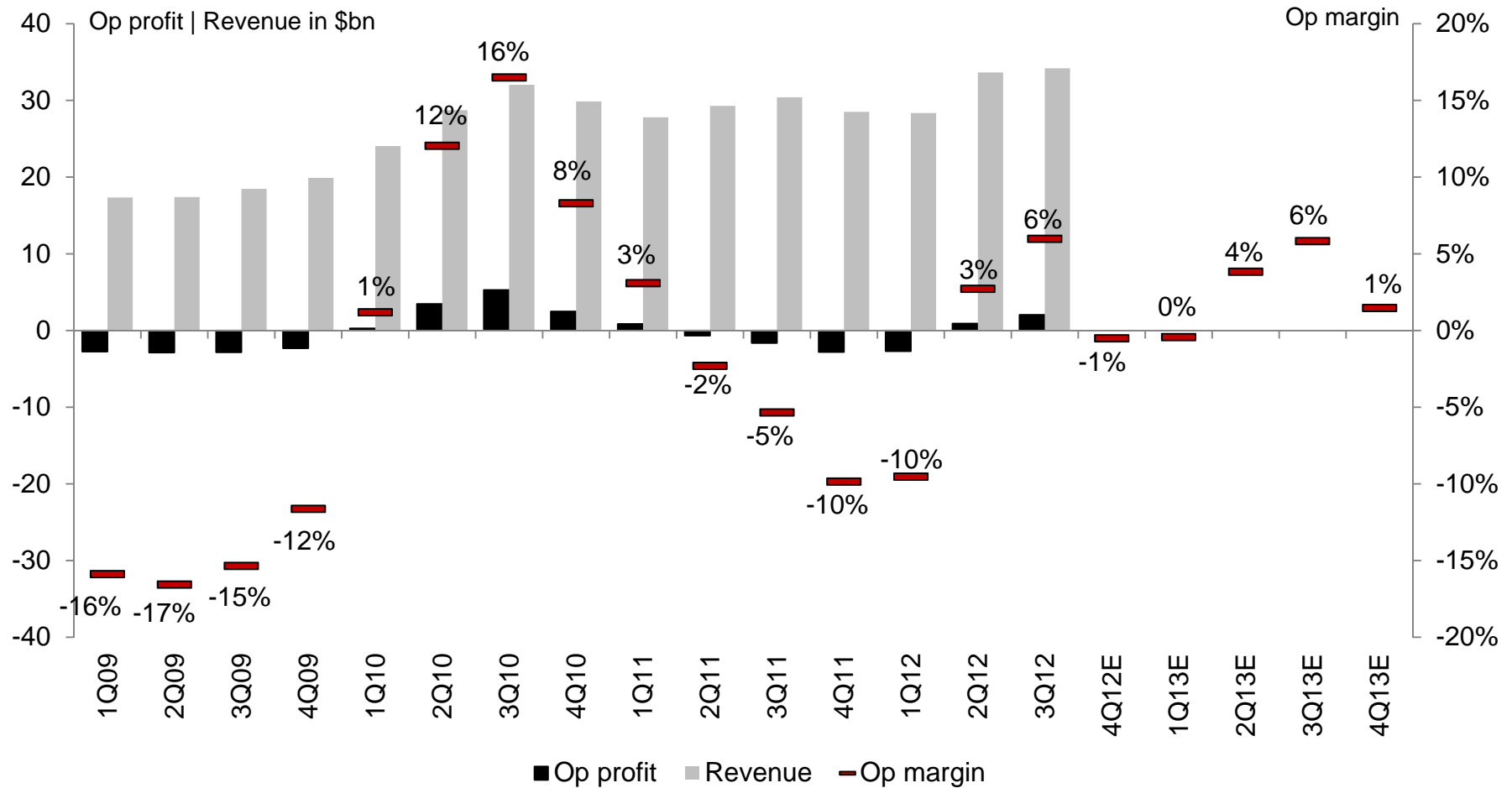
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Past and current view:

- **Our view for 2013: Better year but low single digit ROE**
- My view in **2010** (presented at TPM conference, March 2010): **The container shipping industry is turning around**; Full year volume growth could reach double digit; Trans-Pacific may come as close to black as ever since 2006; and Asia-Europe may peak this year with significant downside risk by year end.
- Our view in **2011** (presented at SGH Container Shipping Conference): **Industry ROCE could challenge the 2009** low without immediate capacity cut; Full year volume growth may just be 6-7% globally; and Both Trans-Pacific and Asia-Europe trades could be in the red this year.
- Our view in **2012: Industry may turnaround as early as 2Q**; Bunker inflation no issue as long as freight rates can be lifted; Swing of cycle underestimated; and Cut throat competition is not necessarily the natural means for container shipping.

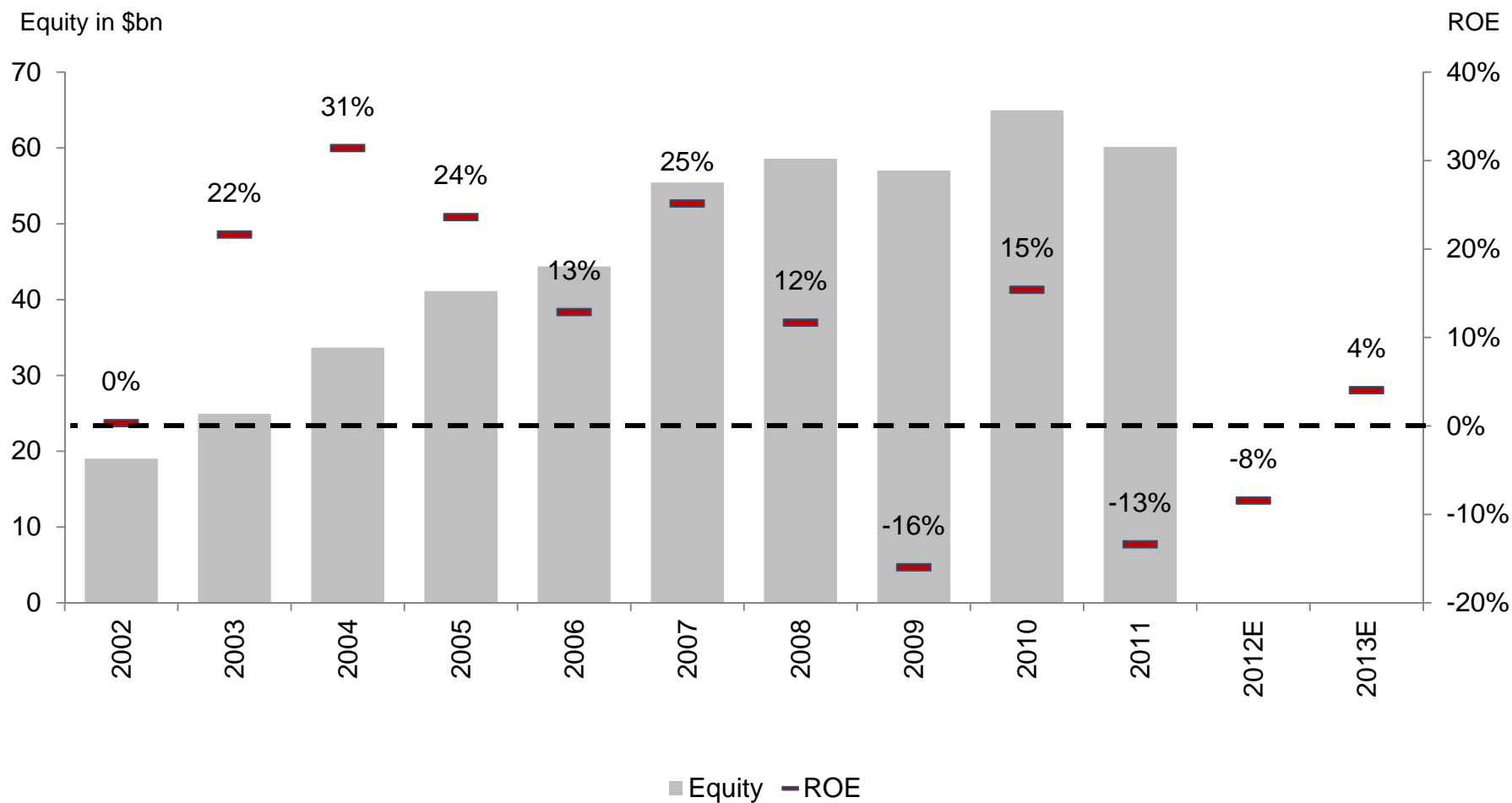
Container Shipping | Operating margin to slightly improve



Source: Company data, Jefferies estimates

Note: The actual figures include container shipping segment for 19 container liners

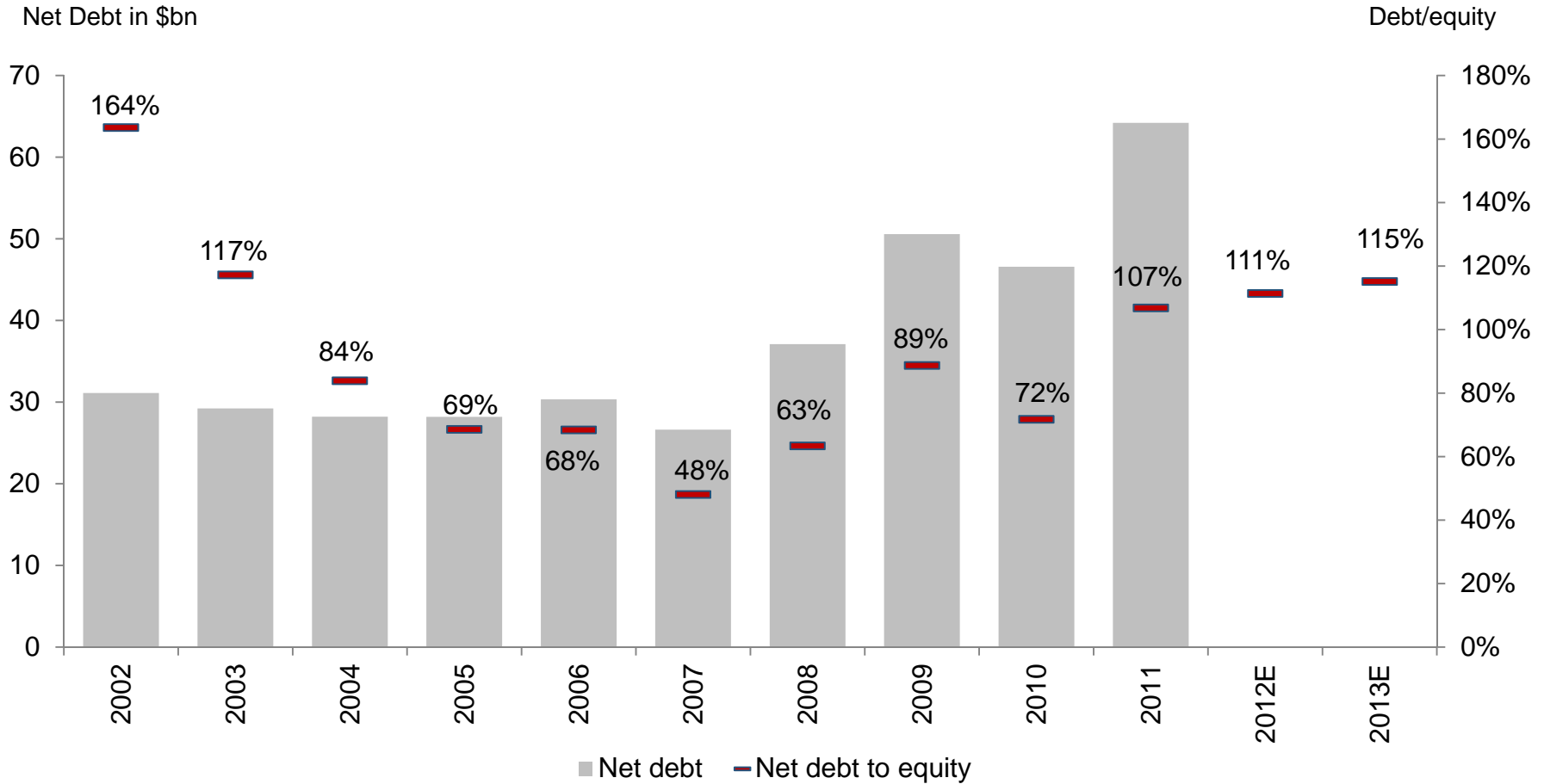
Container Shipping | Yet, return still below costs of capital



Source: Company data, Jefferies estimates

Note: (1) Calculation also includes shipping conglomerate; (2) The figures cover 12 listed major Asian container liners

Container Shipping | Gearing to remain elevated

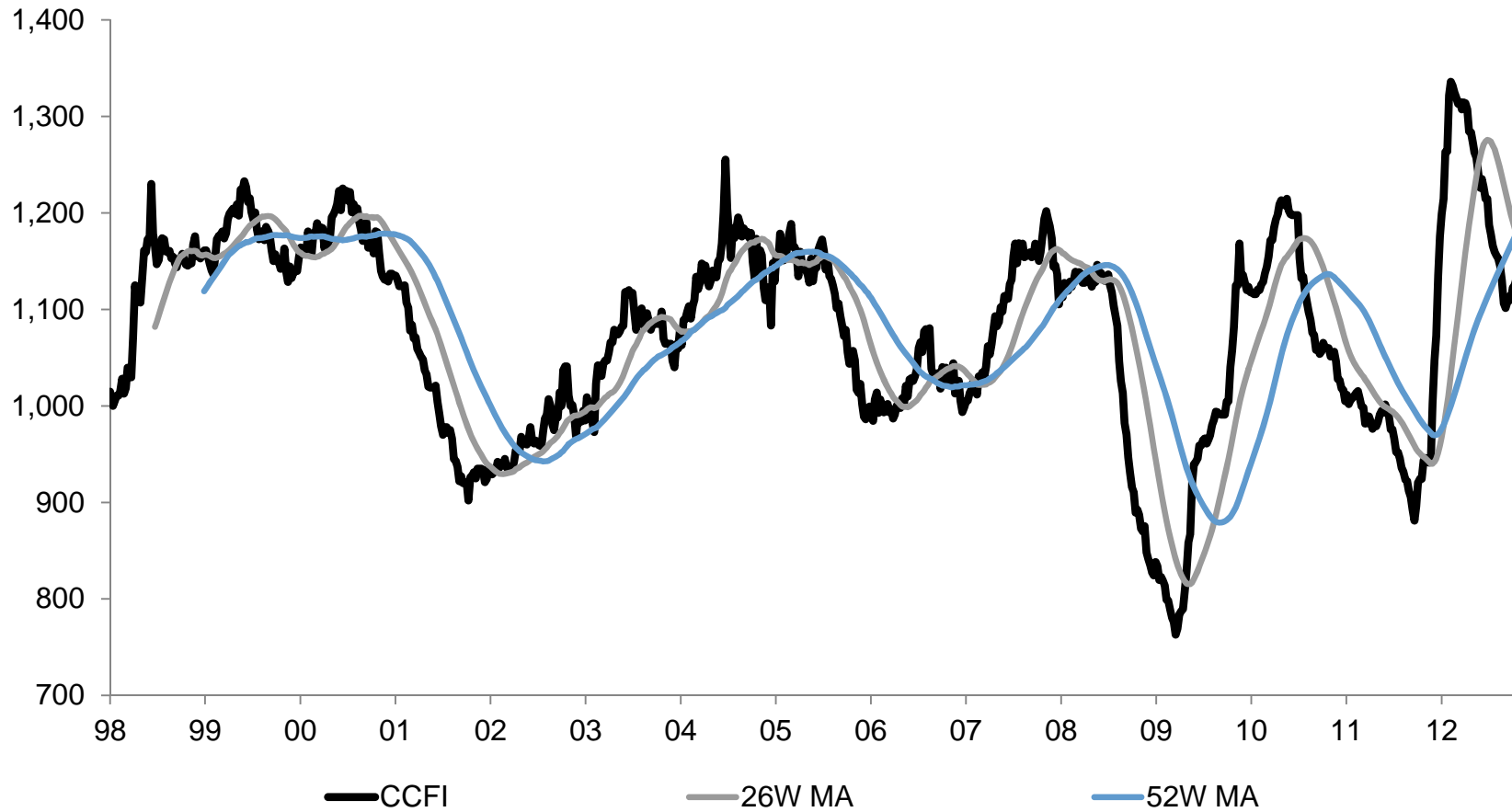


Source: Company data, Jefferies estimates

Note: (1) Calculation also includes shipping conglomerate; (2) The size of net debt include 14 of the top 20 major container liners

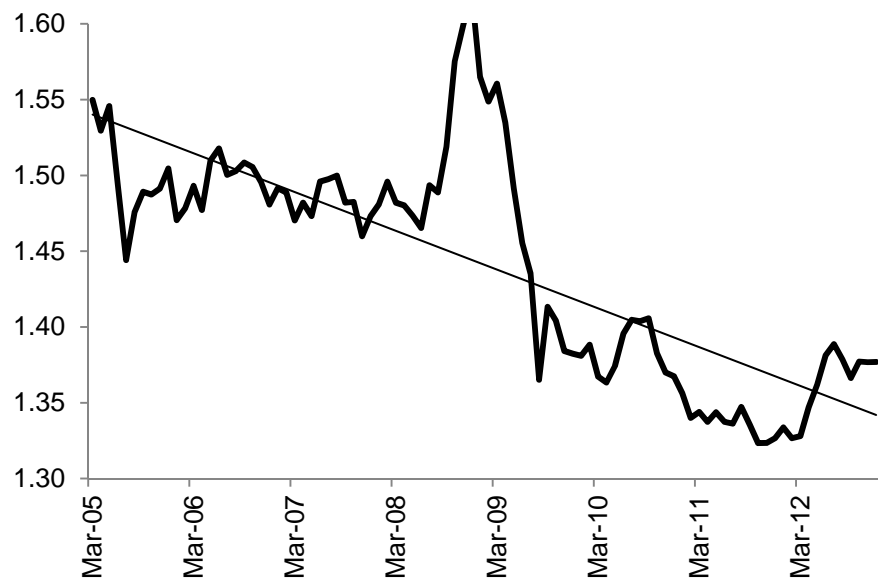
Container Shipping | Freight rate on a crossing path in the near term

CCFI: freight rates rebounded, but 26 week MA is breaking down



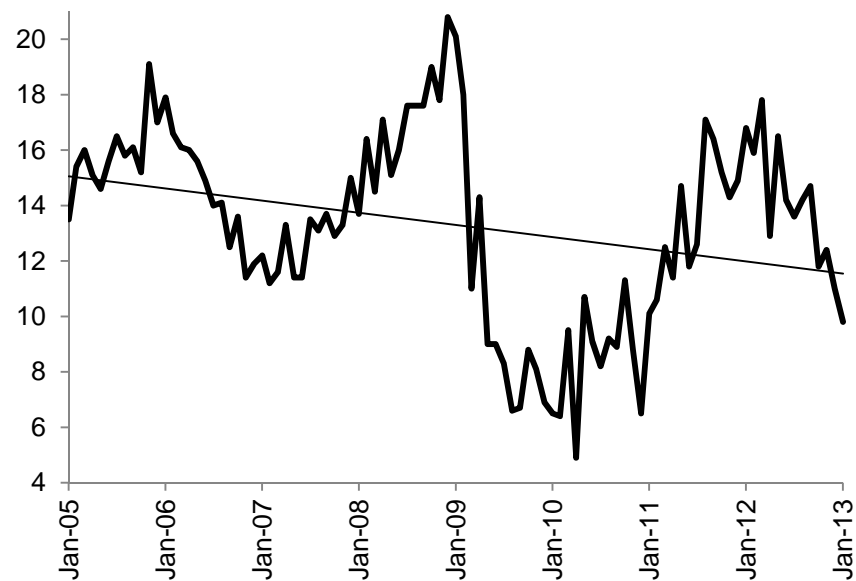
Source: Shanghai Shipping Exchange

US retail inventory to sales ratio: slightly above trend line



Source: US Census Bureau
Note: US inventory-to-sales ratio is based on the actual inventory and sales volume compiled by the US Census Bureau

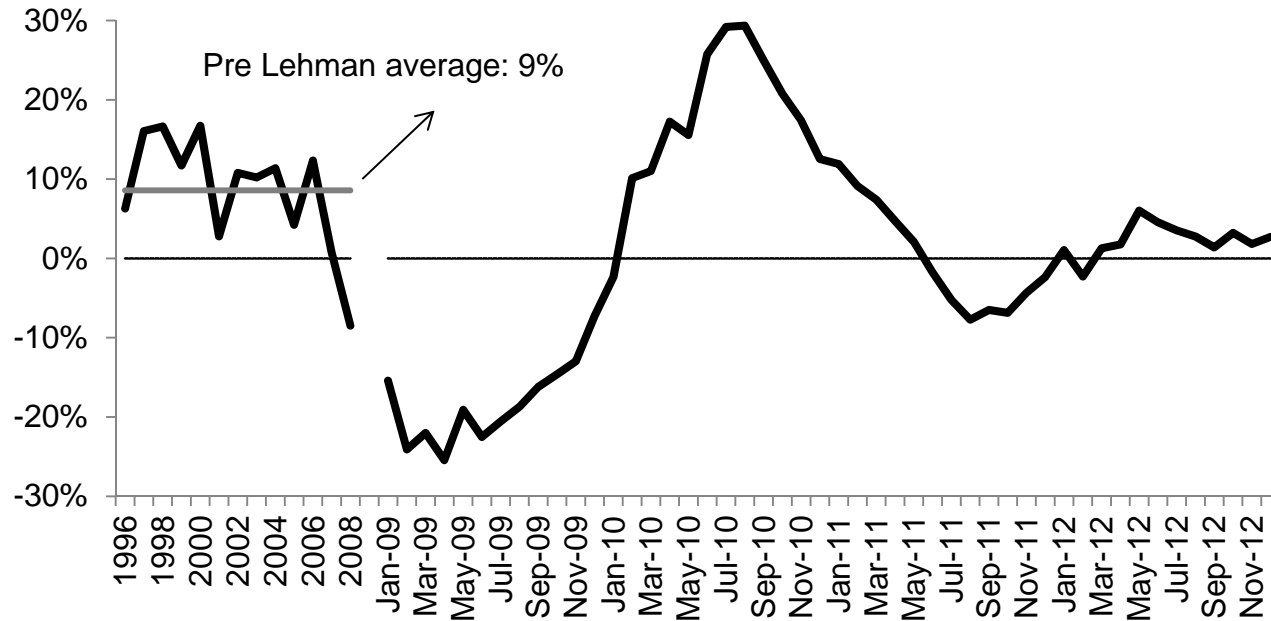
Euro27 inventory survey: destocking continues



Source: CEIC from European Commission
Note: EU inventory survey is a PMI type of survey that asks participants for their opinion on their inventory relative to their sales

Container Shipping | Single digit volume growth could be the norm

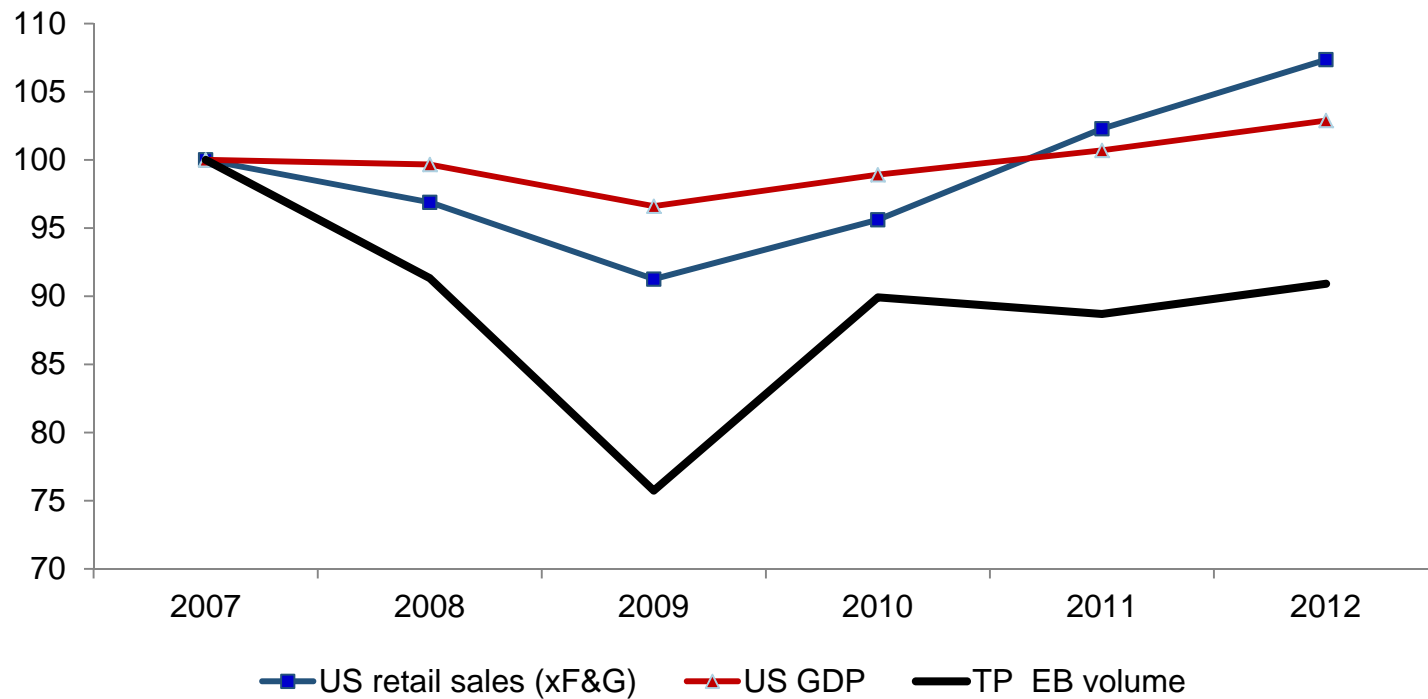
TP volume YoY growth (3MMA)



Source: Port websites

Note: TP volume growth is based on the laden import volume to Los Angeles and Long Beach as proxy

Growth of TP east bound container volume tracking below US retail sales and US GDP

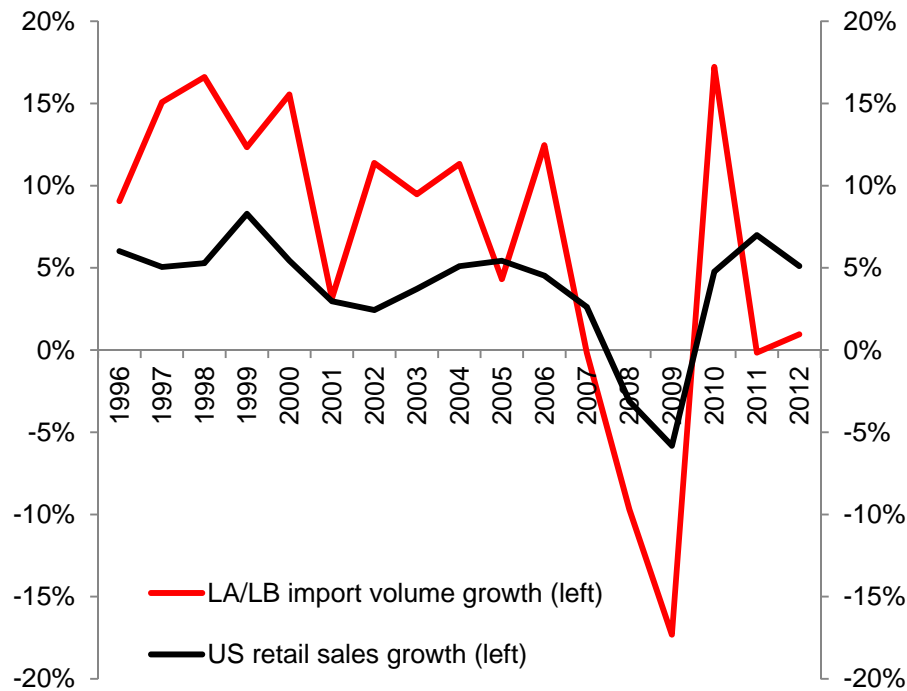


Source: IMF, US Department of Commerce, USWC port websites

Note:

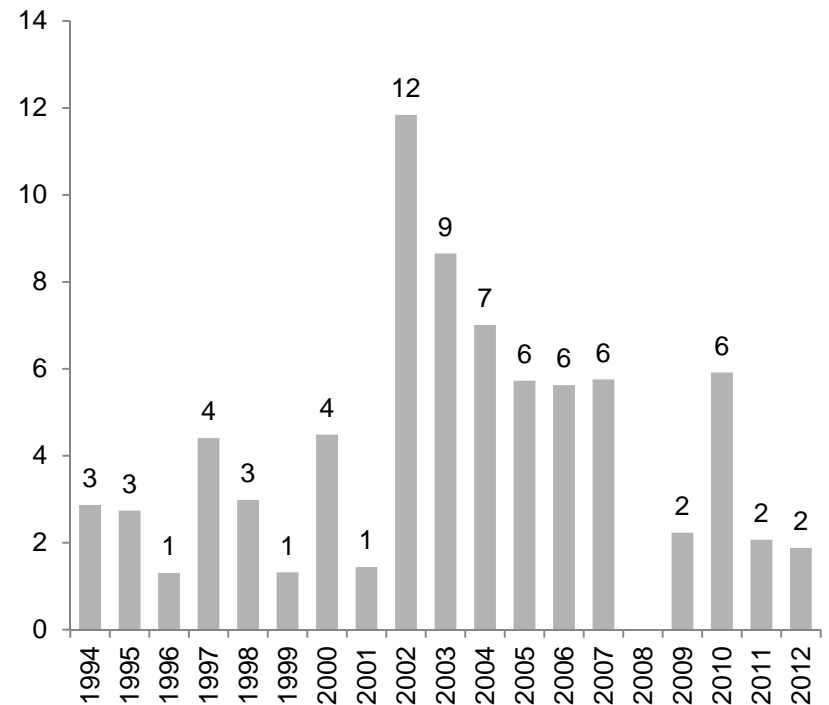
1. Data are indexed using 2007 value as base
2. Sales at Gasoline Station and Food and Beverage Stores are excluded in our US retails sales index
3. TP eastbound volume is based on the laden inbound volume at the west coast ports including Vancouver

US retail sales growth versus container port import volume growth at LA/Long Beach: Retail sales have grown much faster than port volume since 2011



Source: U.S. Census Bureau, China Customs, Port website

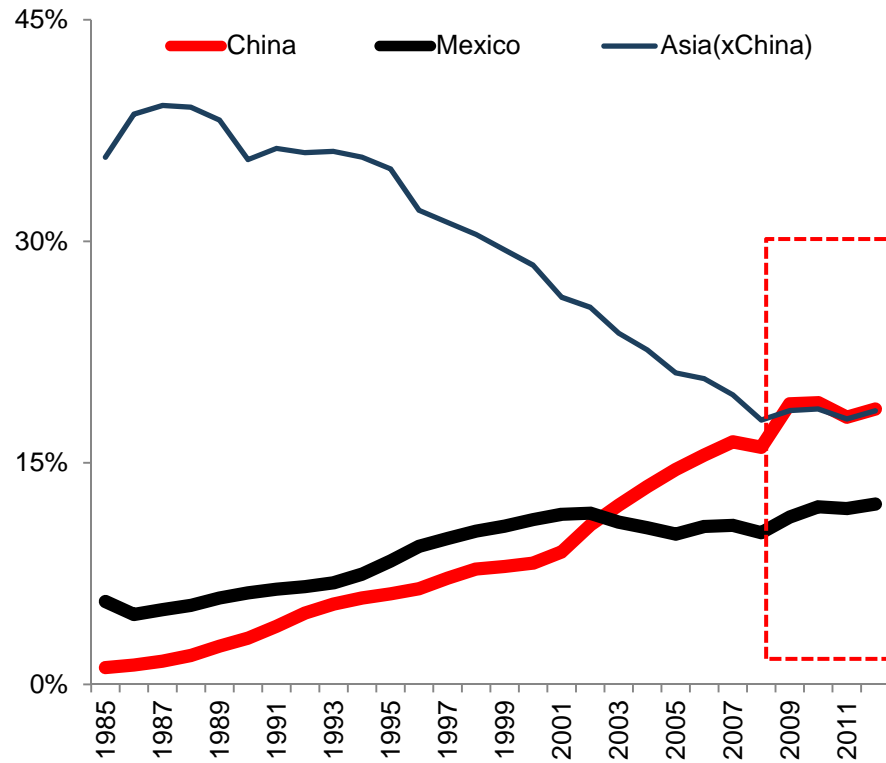
Ratio of China-to-US export growth/US retail sales growth: back to pre WTO norm



Source: U.S. Department of Commerce

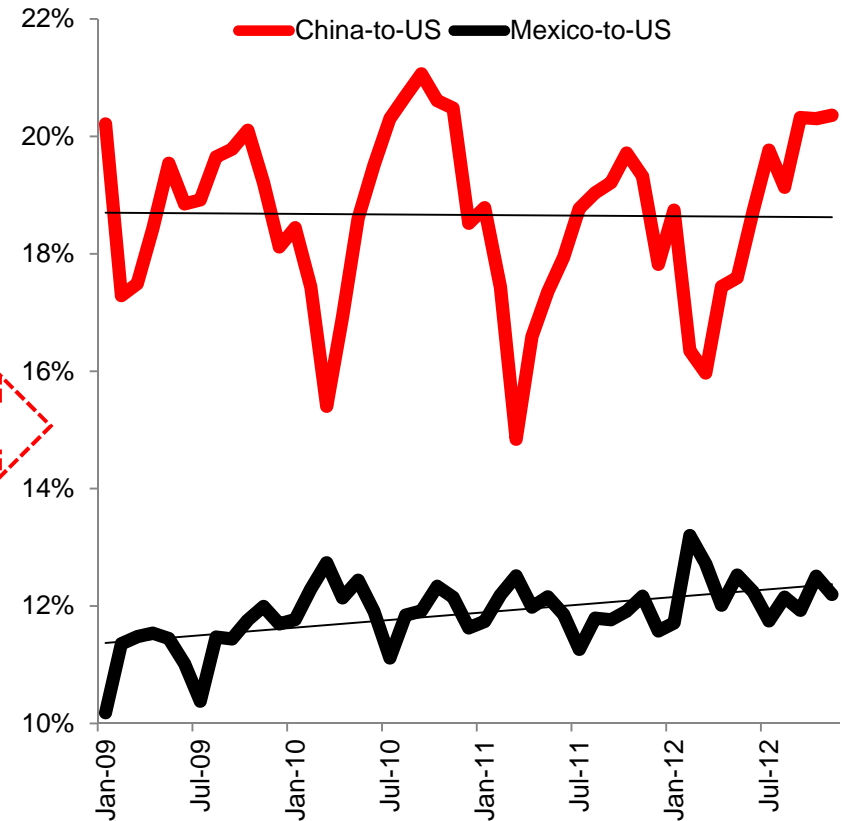
Container Shipping | Structural changes underway

Share of US import *by country of origin*: China grew from being 1% to 19% share of US import in 27 years



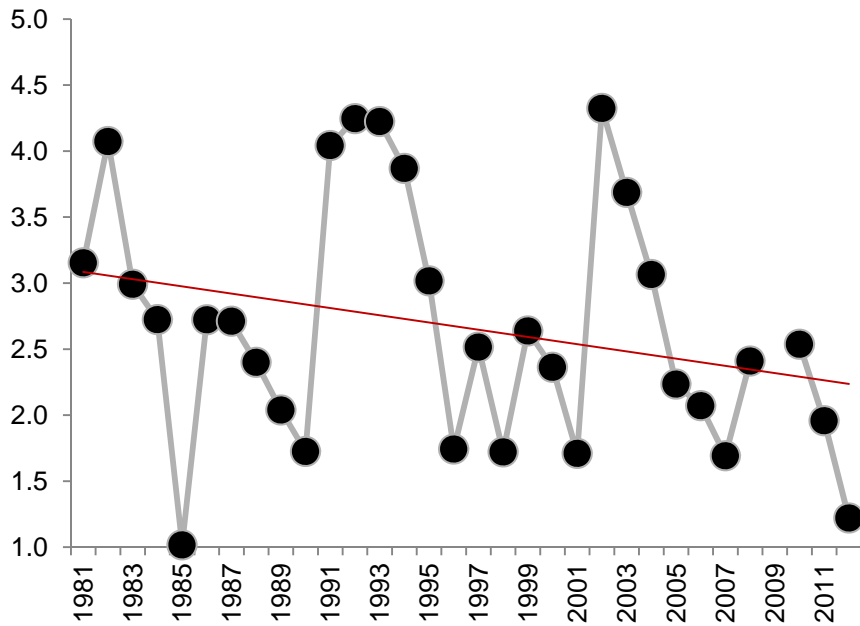
Source: U.S. Department of Commerce

Share of US import *by China and Mexico since 2009*: China's share of US import peaks while Mexico gains

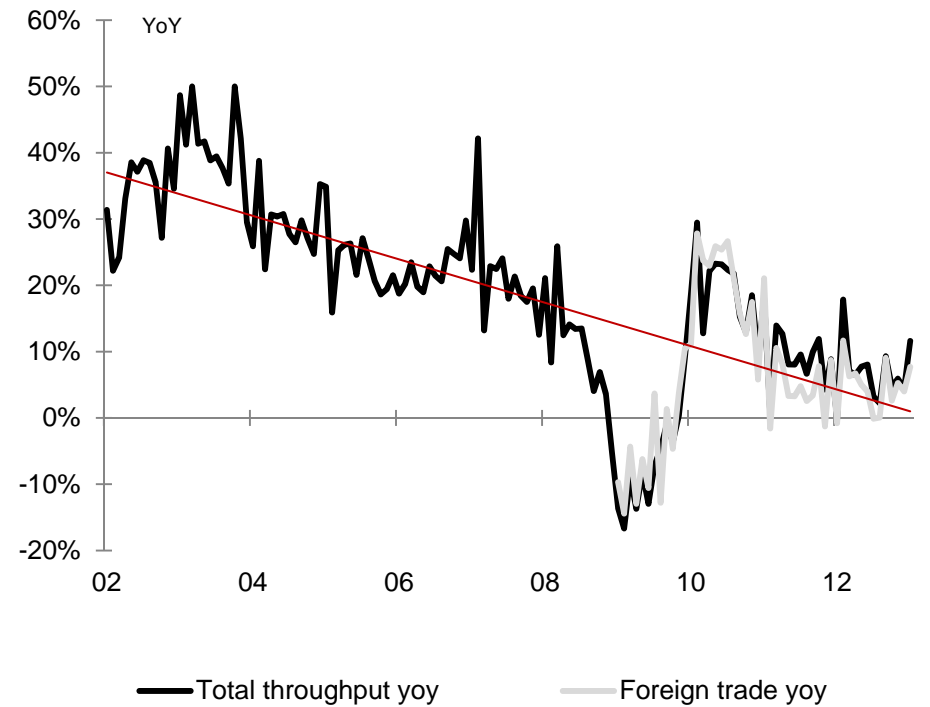


Source: U.S. Department of Commerce

Global container traffic/GDP growth multiplier: moving from 3x to 1x

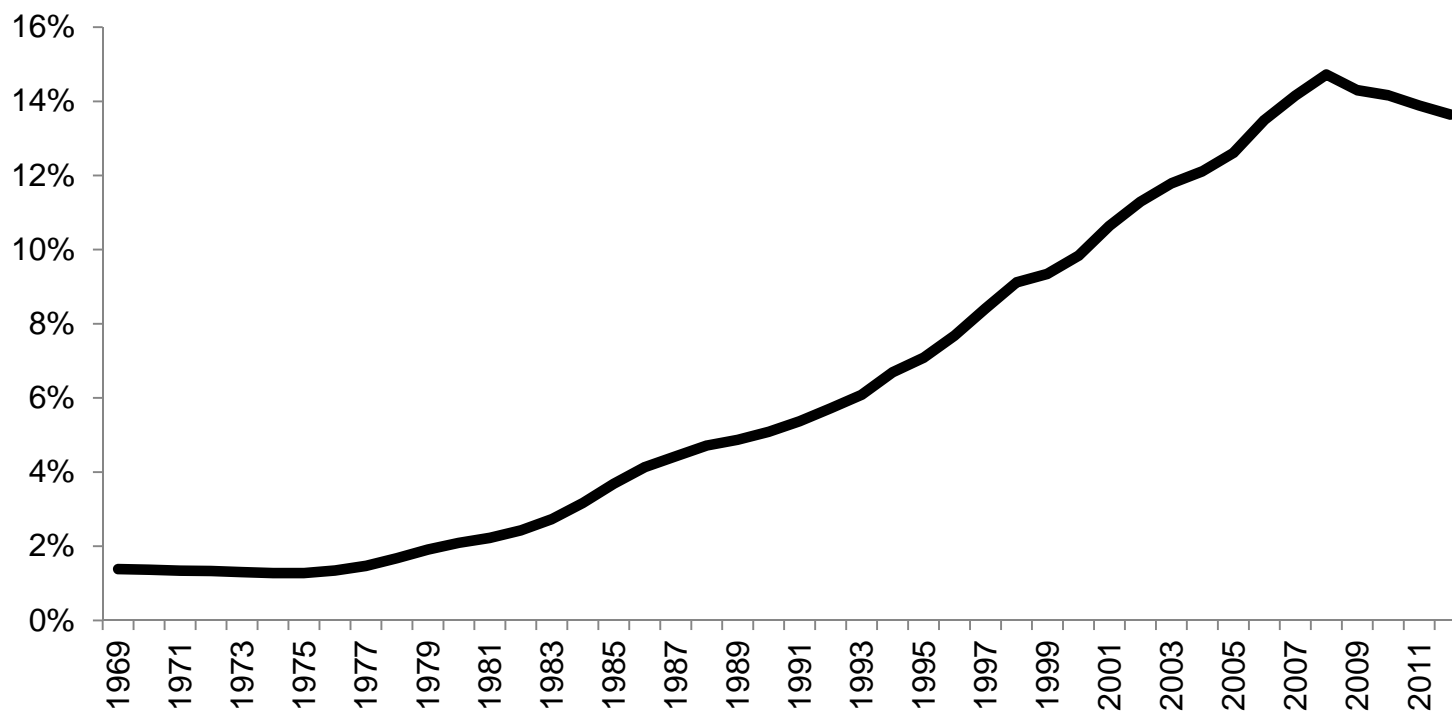


Chinese's container throughput YoY: on a structural downtrend



Source: IMF, Jefferies' estimates, Drewry, China's Ministry of Transport

Container shipping capacity as a percentage of global commercial shipping fleet: Containerization has peaked in 2008

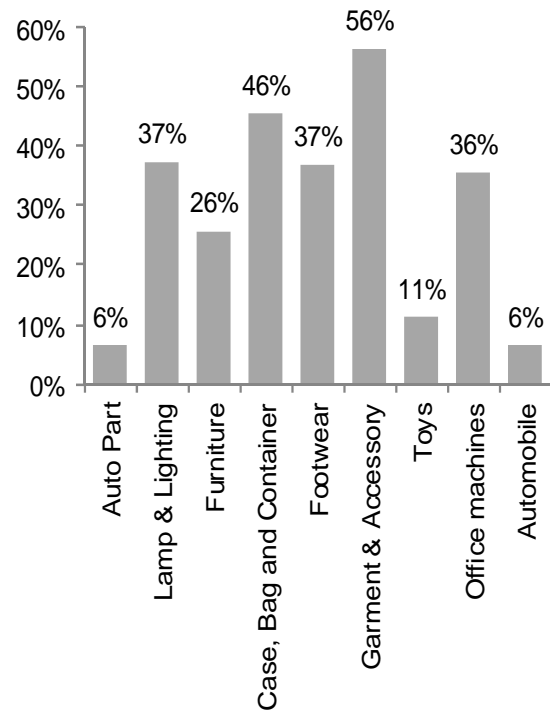


Source: Clarksons, Jefferies estimates

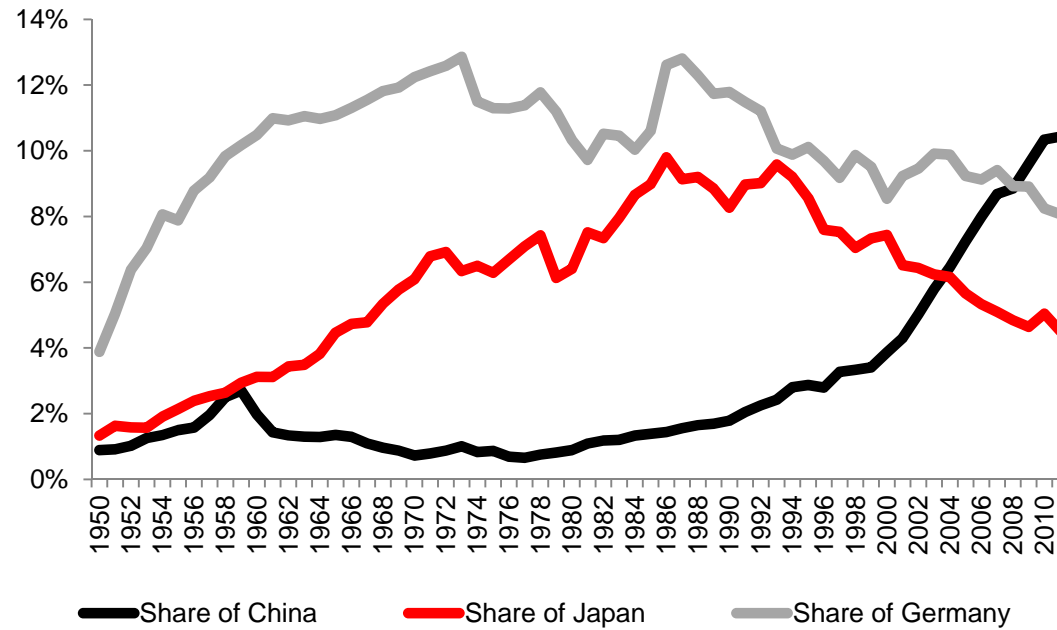
Note:

- 1 The percentage is based on DWT of global fleet including oil tanker, gas tanker, chemical tanker, dry bulk, reefer, container vessels
- 2 Container shipping's cargo tonnage as percentage of global seaborne cargo also peaked in 2008, but we lack data to plot similar chart back to '70s
- 3 Dry bulk shipping has been taking share from other shipping segments in both capacity and cargo tonnage since 2008

Chinese exports' share of global trade



Countries export share of global trade peaked at 10-12%: It is harder for China to gain market share



Source: CEIC, UNCTAD, Jefferies

Speak bio

□ Johnson Leung is the Head of AP Regional Transport at Jefferies. He came from a shipping background where he spent the first seven years of his career at Maersk Group before working for Hutchison Port Holdings. Prior to Jefferies, he was with Tufton Oceanic, a shipping hedge fund, and JP Morgan.

□ Johnson is a graduate of Maersk Shipping Academy and holds an INSEAD MBA.



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