Industry
Dry Bulk Shipping

Date
1 August 2014

Asia
China

Transportation
Marine

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F.I.T.T. for investors

BDI deconstruction & investment implications

Position now ahead of positive rate development

The BDI is one of the most widely tracked indices given its tight relationship with the strength of the global economy and real-time availability. In addition, dry bulk stocks are correlated strongly with the BDI. However, there is a general lack of knowledge on the BDI's drivers, which can create investment opportunities. This note therefore deconstructs the BDI to assess its future direction with specific reference to the Capesize route 9 (C9, involved mainly in Brazil iron ore to the Far East). We expect the BDI to rebound strongly in the coming months and recommend investors position now. Buy CSD, our sector top pick, and China Cosco, which has the strongest historical BDI correlation.

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Capesize route 9 (C9) appears to be the main BDI driver

The BDI is a weighted composite of time-charter (T/C) rates for 20 shipping routes across four vessel categories (Capesize, Panamax, Supramax, Handysize). While the vessel categories are equally weighted, 37% of the BDI's daily movement since 2007 has been driven by Capesize, reflecting the greater variations in Capesize T/C rates. Within the four Capesize routes (C8-11), C9 is by far the most important, on both a standalone basis and in terms of the rate impact on the C8 (Europe-Atlantic) and C10 (Pacific round trip) routes. The importance of C9 reflects the longer distance (Brazil to Far East (C9) about 3x Australia-Far East (C10)/2x trans-Atlantic (C8)), which results in far more fleet capacity being involved than for other routes. Hence, C9 demand affects rates on other routes by determining available supply.

2H14 BDI strength expected, reflecting C9 seasonality and reduced supply

The BDI demonstrates strong 2H seasonality, in part on northern hemisphere coal demand and the US grain harvest season, but it is notable that C9 T/C rates have also shown 2H strength. Given C9's importance, this seasonality is a key driver of Capesize rates, and hence overall BDI. As C9 is involved largely in transporting Brazil iron ore to the Far East, the T/C rate for C9 is highly correlated with Brazil iron ore exports to China. This seasonality is likely to be exaggerated in 2H14. While 45 new Capesize vessels will be delivered in 2H14, the supply schedule implies just 13 new vessels on an annualized basis and compares with our estimated demand requirement of 52 incremental Capesize vessels. This demand/supply mis-match points to strong 2H14 Capesize rates.

Focus on share price/BDI correlations when picking stocks

The correlation between dry bulk stocks and the BDI was as high as 95% pre-GFC. Although it has since weakened, it is still 80%, and has tightened again in the past 12 months. China Cosco ranks top in terms of its correlation with the BDI. In general, we believe the market still treats this company as a dry bulker, and its dry bulk business is highly leveraged to the BDI. For CSD and Pacific Basin, as their earnings are affected less by the BDI, correlations have been relatively lower than for China Cosco. Although only 20% of NYK and K-Line's revenues come from dry bulk, they have displayed a decent correlation with the BDI historically. CSD is our regional top pick, as we like its compelling valuation and promising outlook for the VLCC segment. It has also been strongly correlated with the BDI over the last five and 10 years (although, admittedly, this correlation has been lower over the past 12 months).

Top picks

China Shipping Dvlpmt (1138.HK),HKD5.16	Buy

Source: Deutsche Bank

Companies Featured

China Shipping Dvlpmt (1138.HK),HKD5.16 — Buy

	2013A	2014E	2015E
P/E (x)	–	19.4	7.6
EV/EBITDA (x)	46.0	16.2	10.4
Price/book (x)	0.8	0.6	0.6

China Cosco Hldgs (1919.HK),HKD3.36 — Buy

	2013A	2014E	2015E
P/E (x)	127.9	–	14.9
EV/EBITDA (x)	26.8	21.4	10.3
Price/book (x)	1.3	1.2	1.1

Nippon Yusen (9101.T),¥297 — Buy

	2014A	2015E	2016E
P/E (x)	18.0	9.7	6.3
EV/EBITDA (x)	7.6	5.7	4.6
Price/book (x)	0.7	0.7	0.6

Kawasaki Kisen (9107.T),¥222 — Buy

	2014A	2015E	2016E
P/E (x)	18.5	7.0	4.1
EV/EBITDA (x)	5.0	3.7	2.8
Price/book (x)	0.5	0.5	0.5

Pacific Basin Shipping Ltd (2343.HK),HKD4.71 — Buy

	2013A	2014E	2015E
P/E (x)	119.4	–	11.6
EV/EBITDA (x)	13.9	9.7	7.5
Price/book (x)	1.1	0.9	0.9

Source: Deutsche Bank

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Key tables

Correlations between dry bulk stocks and the BDI

Figure 1: Correlations between listed dry bulkers and the BDI

Regional company	Ticker	Currency	Dry bulk rev as % of total rev	Pre GFC	Post GFC	10 years	5 years	3 years	1 year
China Cosco	1919.HK	HKD	20%	90%	78%	90%	79%	15%	83%
CSD	1138.HK	HKD	52%	89%	82%	83%	80%	33%	37%
K-Line	9107.T	JYP	20%	76%	66%	84%	64%	28%	55%
NYK	9101.T	JPY	18%	73%	55%	81%	49%	28%	53%
Pacific Basin	2343.HK	HKD	94%	89%	67%	83%	67%	9%	76%
Average			**52%**	**83%**	**70%**	**84%**	**68%**	**23%**	**61%**
US company	Ticker	Currency	Dry bulk rev as % of total rev	Pre GFC	Post GFC	10 years	5 years	3 years	1 year
Dryship	DRYS.OQ	USD	21%	93%	76%	93%	76%	52%	49%
Diana	DSX.N	USD	100%	93%	72%	93%	72%	30%	53%
Navios	NMM.N	USD	100%	89%	-0.1%	89%	-0.4%	13%	-31%
Scorpio	SALT.N	USD	100%	na	62%	na	na	na	62%
Average				**92%**	**52%**	**84%**	**49%**	**32%**	**24%**

Source: Deutsche Bank, Bloomberg Finance LP, Clarksons.
Note: China Cosco has been listed since June 2005, Dryship since March 2005, Diana since March 2005, Navios since November 2007, and Scorpio since December 2013.

Global dry bulk comp sheet

Figure 2: Global dry bulk comps

Regional company	Ticker	Curr	Rec	Mcap	Current	Target	P/BV(x)			ROE			Net D/E %		
				US$m	price	price	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
China Cosco	1919.HK	HKD	Buy	4257	3.36	3.6	1.2	1.1	1.0	-3.0	7.5	11.8	128.2	123.4	110.3
CSD	1138.HK	HKD	Buy	2236	5.16	8.0	0.6	0.6	0.6	3.3	8.1	9.5	176.7	160.8	145.1
K-Line	9107.T	JPY	Buy	2105	222	310	0.5	0.5	0.5	4.6	7.4	11.6	75.4	71.7	63.0
NYK	9101.T	JPY	Buy	5003	297	360	0.7	0.7	0.6	4.8	7.0	9.9	130.3	111.4	94.0
Pacific Basin	2343.HK	HKD	Buy	1146	4.71	5.5	0.9	0.9	0.8	-0.9	7.8	9.8	46.8	45.8	43.3
Average							**0.8**	**0.7**	**0.7**	**1.8**	**7.6**	**10.5**	**111.5**	**102.6**	**91.1**
US company	Ticker	Curr	Rec	Mcap	Current	Target	P/BV(x)			ROE			Net D/E %		
				US$m	price	price	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
DryShips	DRYS.OQ	USD	Hold	1262	2.92	3.0	0.3	0.3	NA	-0.2	4.8	NA	129.4	121.0	NA
Diana Shipping	DSX.N	USD	Buy	819	9.77	16.0	0.6	0.6	NA	-1.8	3.3	NA	14.9	14.5	NA
Navios Partners	NMM.N	USD	Buy	1511	19.75	20.0	2.1	2.3	NA	8.5	9.8	NA	55.3	63.1	NA
Scorpio Bulkers	SALT.N	USD	Buy	1107	8.00	18.0	1.0	1.0	NA	-3.3	-1.8	NA	-14.0	106.8	NA
Average							**1.0**	**1.1**	**NA**	**0.8**	**4.0**	**NA**	**46.4**	**76.3**	**NA**

Source: Deutsche Bank estimates, Bloomberg Finance LP. Prices as at 31 July 2014.

BDI deconstruction – identifying ultimate driver

BDI – a quick look at its composition

A strong link with the global economy, its ease of availability and timely release have made the BDI (Baltic Dry Index) one of the most widely tracked indices by the investment community. While almost all investors are familiar with the BDI and many follow it regularly, not many understand how this index is constructed.

Figure 3 shows the composition of the BDI. The index is constructed based on the time-charter (T/C) rates for 20 individual shipping routes across four major vessel categories, including four Capesize routes, four Panamax routes, six Supramax routes and six Handysize routes.

The T/C rates for each vessel category are averaged first according to their individual weights. The four average T/C numbers for the four vessel categories are then equally weighted to construct the BDI. Figure 3 includes an actual example of BDI calculations as of 18 July 2014.

Figure 3: BDI composition and an example of calculations

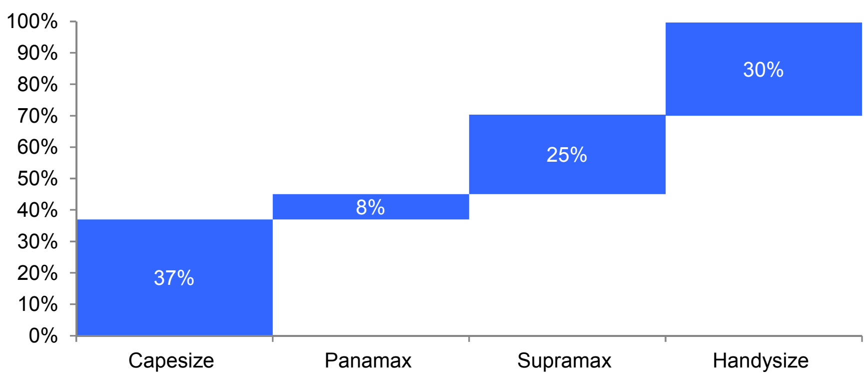
Route	Description	Weightings	18 July 2014 (US$/day)
Capesize routes		**Capesize 4 T/C avg.**	**8,648**
C8	172k DWT Capesize vessel from Gibraltar/Hamburg to Atlantic round trip	25%	5,090
C9	172k DWT Capesize vessel from Continent Europe/Mediterranean to Far East	25%	24,040
C10	172k DWT Capesize vessel Pacific round trip	25%	8,327
C11	172k DWT Capesize vessel from China/Japan to Mediterranean/Continent Europe	25%	(2,864)
Panamax routes		**Panamax 4 T/C Avg**	**4,681**
P1A	74k DWT Panamax vessel Trans-Atlantic round trip	25%	3,888
P2A	74k DWT Panamax vessel from Skaw/Gibraltar to Far East	25%	10,350
P3A	74k DWT Panamax vessel from Japan/ S. Korea to Pacific round trip	25%	4,444
P4A	74k DWT Panamax vessel from Far East to North Pacific	25%	42
Supramax routes		**Supramax 6 T/C Avg**	**6,886**
S1A	54k DWT Supramax vessel from Antwerp/Skaw to Far East	12.5%	10,050
S1B	54k DWT Supramax vessel from Canakkale to Far East	12.5%	8,394
S2	54k DWT Supramax vessel from Japan/S. Korea to North Pacific or Australia round trip	25%	7,413
S3	54k DWT Supramax vessel from Japan /S. Korea to Gibraltar/Skaw range	25%	5,850
S4A	54k DWT Supramax vessel from US Gulf to Skaw/Passero	12.50%	8,233
S4B	54k DWT Supramax vessel from Skaw/Passero to US Gulf	12.50%	1,886
Handysize routes		**Handysize 6 T/C Avg**	**5,599**
HS1	28k DWT Handysize vessel from Skaw/Passero to Recalada/Rio de Janeiro	12.50%	2,892
HS2	28k DWT Handysize vessel from Skaw/Passero to Boston/Galveston range	12.50%	2,917
HS3	28k DWT Handysize vessel from Recalada/Rio de Janeiro to Skaw/Passero	12.50%	8,181
HS4	28k DWT Handysize vessel from US Gulf/S. America to Skaw/Passero	12.50%	6,636
HS5	28k DWT Handysize vessel from S.E. Asia via Australia to Singapore/Japan	25%	5,506
HS6	28k DWT Handysize vessel from S. Korea/Japan to Singapore/Japan range incl. China	25%	6,575
BDI calculation formula			
BDI	**((Capesize 4 T/C avg + Panamax 4 T/C avg+ Supramax 6 T/C avg + Handysize 6 T/C avg)/ 4)*0.1134**		**732**

Source: Deutsche Bank, Clarksons, Baltic Exchange.

BDI – Capesize drives volatility

While the four average T/C rates from the four vessel categories are equally weighted to calculate the BDI, their impact on the overall BDI is very different. Our regression analysis suggests that the Capesize category explains 37% of the daily movement in the BDI, followed by Handysize (30%) and Supramax (25%). Surprisingly, the Panamax category explains only 8% of the BDI's overall movement (Figure 4).

Figure 4: Capesize category drives BDI's volatility



Source: Deutsche Bank, Clarksons. Note: regression based on data since 2007.

There are two main reasons why Capesize T/C rates have been more volatile historically and therefore contributed more to the BDI's movement than the other three vessel categories, in our view.

Firstly, over the past few years, deliveries of dry bulk vessels have concentrated largely on Capesize, and hence the supply side has displayed a stronger volatility in Capesize than other categories.

Secondly, there are fewer varieties of cargo being carried on Capesize vessels than on smaller vessels (Figure 5). According to industry participants, more than 70% of the cargo being carried by Capesize vessels is iron ore, with the rest coming mainly from coal and, to a much lesser extent, grains.

Figure 5: Dry bulk vessel types vs. cargo carried

Vessel types	DWT	Cargo type
Capesize *	110-199k	Used primarily to transport iron ore or coal and, to a much lesser extent, grains
Panamax	60-110k	Used mostly to transport coal, grains and, to a lesser extent, minor bulks, including steel, cement and fertilizers
Handymax/Supramax	40-60k	Used primarily to transport coal, grains and minor bulks, including bauxite ,alumina, fertilizer, etc
Handysize	< 40k	Involved primarily in carrying minor bulks, such as logs and forest products, grains, etc, within regional trading routes

*Source: Deutsche Bank, Clarksons. * Capasize vessels above 199k DWT are classified as VLOC, carrying largely iron ore*

Capesize routes – C9 remains the key

Figure 6 shows details of the four Capesize routes included in the BDI.

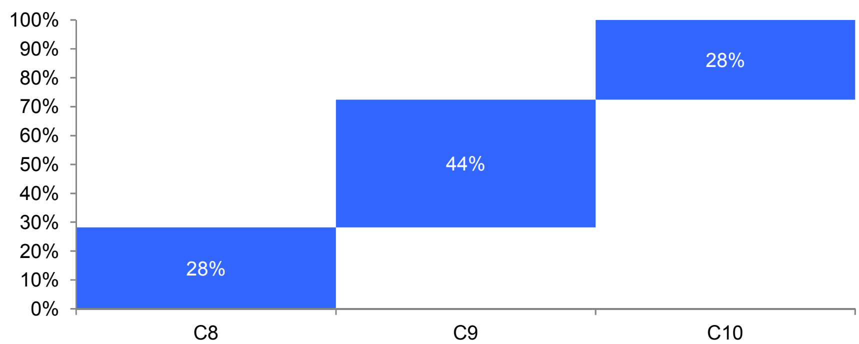
Figure 6: Details of four Capesize routes included in BDI

Route	Vessel type	Trip involved	Vessel delivery area	Vessel return area	Duration
C8	172k DWT, age<10 years	Atlantic round trip	Gibraltar or Hamburg surrounding area	Gibraltar or Hamburg surrounding area	30-45 days
C9	172k DWT, age<10 years	Europe/Med to Far East	Amsterdam, Rotterdam, Antwerp or Cape Passero surrounding area	China or Japan surrounding area	65 days
C10	172k DWT, age<10 years	Pacific round trip	China or Japan surrounding area	China or Japan surrounding area	30-40 days
C11	172k DWT, age<10 years	Far East to Europe	China or Japan surrounding area	Amsterdam, Rotterdam, Antwerp or Cape Passero surrounding area	65 days

Source: Deutsche Bank, Clarksons, Baltic Exchange

In terms of T/C rates, the C9 route has been far more volatile than the other three routes. C9 itself explains 44% of the overall movement in the Capesize category, followed by C8 and C10 (both 28%). As C11 is related largely to the repositioning of empty vessels from the Far East to Europe, this route has little impact on the overall volatility of the Capesize category.

Figure 7: C9 drives Capesize's volatility



Source: Deutsche Bank, Clarksons

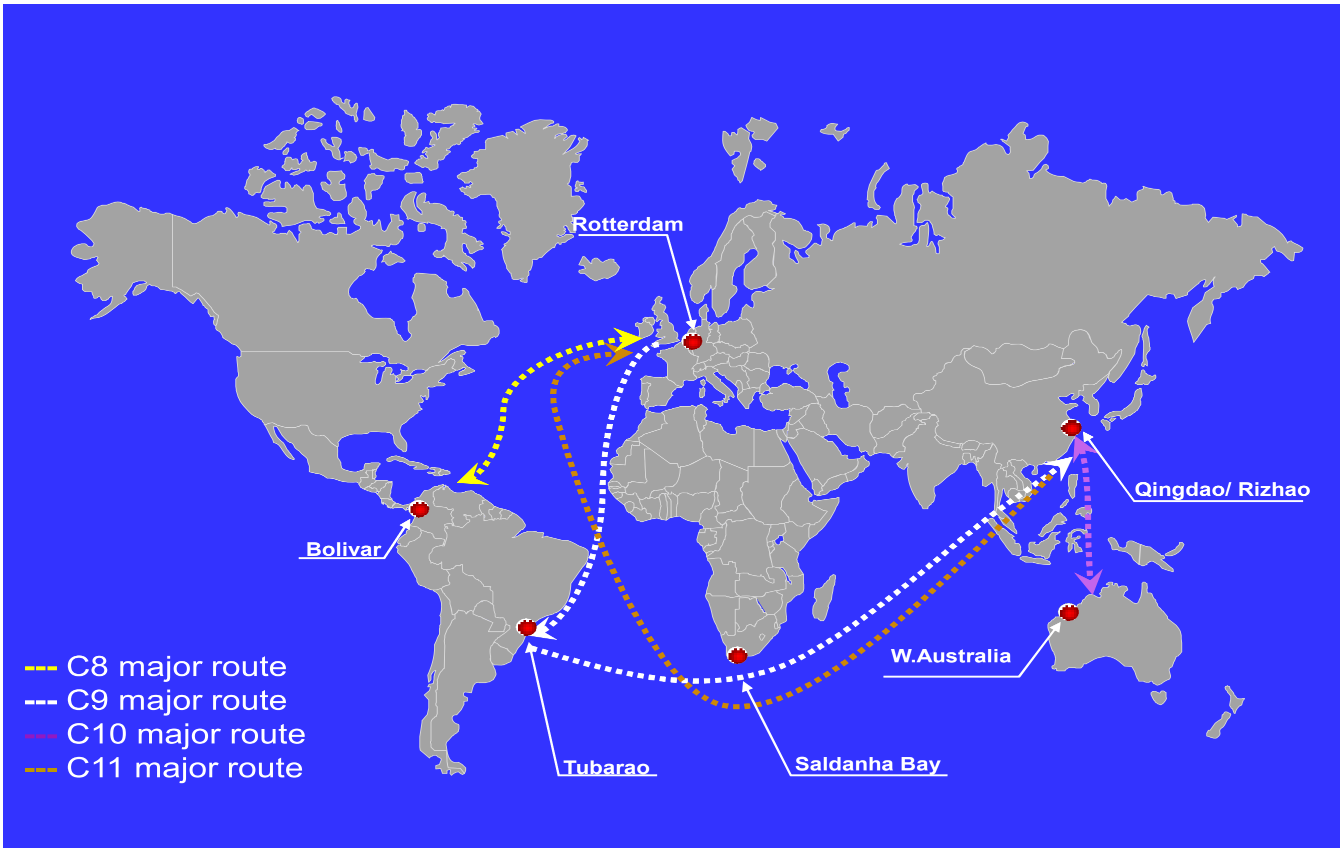
As the C9 route travels from continental Europe/the Mediterranean to the Fast East, the major cargo involved is largely Brazilian iron ore to the Fast East. As most of the iron ore cargo is discharged in the Far East, vessels need to be deployed from the Pacific Basin to the Atlantic Basin when Brazilian iron ore shipments pop up. The time lag, together with the longer distance, probably explains why the T/C rate for the C9 has had a higher volatility historically than the other three routes. Figure 8 lists the possible routes/cargos for each Capesize route. Figure 9 shows the major sailing routes.

Figure 8: Effective routes for Capesize vessel

Iron ore	Routes	Coal	Routes
South America - Continental Europe	C8	Central America - Continental Europe	C8
South America - Far East	C9	South Africa - Far East	C9
South Africa- Far East	C9	West Australia - Far East	C10
India - Far East	C9	Far East - Continental Europe	C11
West Australia - Far East	C10	South East Asia - Continental Europe	C11
West Australia- Continental Europe	C11	West Australia- Continental Europe	C11

Source: Deutsche Bank, Clarksons

Figure 9: Major sailing routes for each Capesize route included in the BDI



Source: Deutsche Bank

Moreover, while the four Capesize routes have equal weightings within the Capsize category, the C9 route appears to be far more important than the other routes in terms of explaining movement in the BDI.

The distance from Brazil to the Fast East is about 3x and 2x times, respectively, that of Australia to the Far East and a trans-Atlantic trip. Translating into actual iron ore, a Capesize vessel can ship 2.1mt iron ore from Brazil to Europe and 2.6mt from Australia to China but can transport only 0.9mt from Brazil to China on an annual basis (Figure 10).

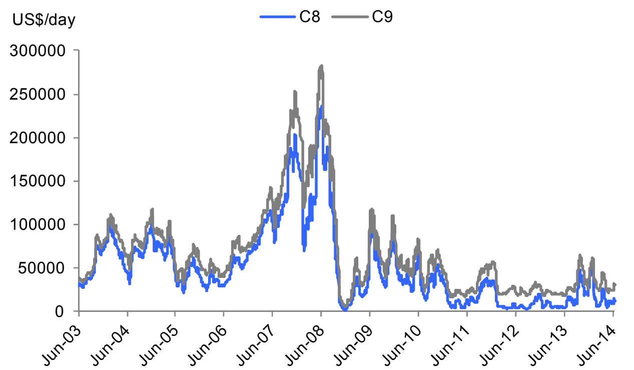
Figure 10: Brazil to Far East about 3x distance of Australia to Far East

Origin port	Destination port	Distance (nautical miles)	Voyage time (days)	Cargo shipped (mt p.a)
Tubarao	Qingdao	10,857	35	0.9
Tubarao	Hamburg	5,227	15	2.1
Dampier	Shanghai	3,306	12	2.6

Source: Deutsche Bank, Clarksons. Note: assuming vessel speed of 14 knots, with total capacity at 172,000 DWT.

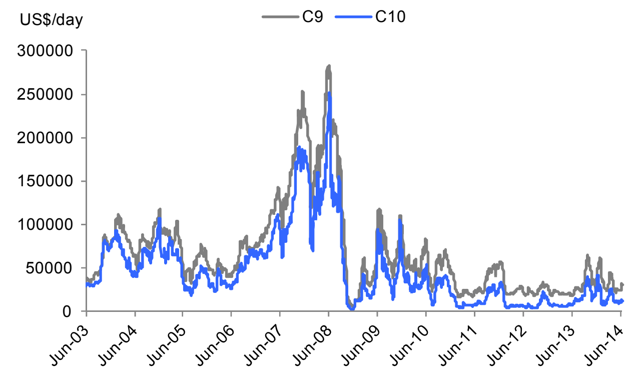
As the C9 route is involved largely in shipping iron ore from Brazil to the Far East, the longer distance travelled gives this route a much higher capability of absorbing fleet capacity than the other Capesize routes. As a result, the C9 route, to some extent, appears to also drive the rate movements for both the C8 and C10 routes, since fleets can move around easily. Historically, the T/C rate for the C9 route has been highly correlated with T/C rates for both the C8 and C10 routes (Figure 11 and Figure 12).

Figure 11: 98.7% correlation between C8 and C9 routes



Source: Deutsche Bank, Clarksons

Figure 12: 98.0% correlation between C9 and C10 routes



Source: Deutsche Bank, Clarksons

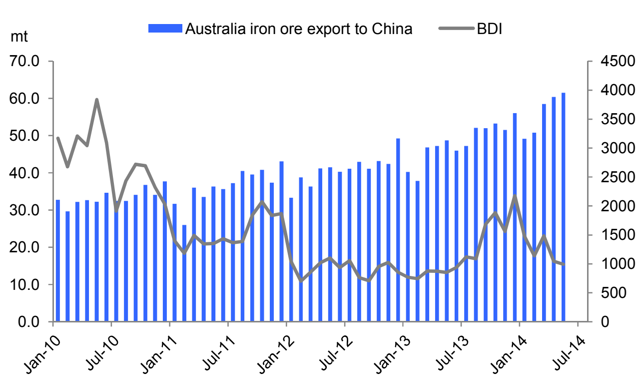
The recent BDI moves also confirm that C9 has a far more profound impact on the BDI than other Capesize routes.

Taking 1H13 as an example, despite strong Australian iron ore exports to China (+16.1% YoY), the T/C rate for C10 essentially remained muted. This was mainly because Brazilian iron ore exports to China declined over the period (-8.5% YoY). As a result, although China's overall iron ore imports from these two countries rose 8.3% YoY in 1H13, the ton-mile demand remained flattish YoY. Along with the strong deliveries of the new Capesize vessels, Capesize rates failed to rise, and the BDI continued to hover below the 1,000 level.

Heading into 2H13, the situation changed completely. As Brazil iron ore exports to China picked up, T/C rates for C9 had a fantastic run. As this route is able to tie up more fleet capacity, given the longer distance, the rebound in C9 in turn drove up C8 and C10 rates and, eventually, the overall BDI.

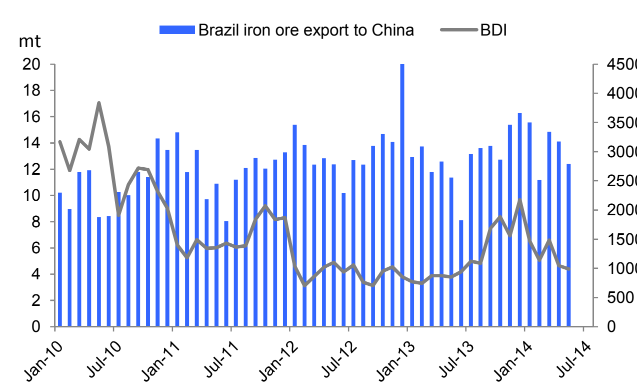
As for 1H14, although China's iron ore imports remained extremely strong (+19% YoY), the BDI remained under pressure, as most imports once again came from Australia, rather than Brazil (Figure 13 and 14).

Figure 13: Australia iron ore exports to China vs. BDI



Source: Deutsche Bank, Clarksons, Wind

Figure 14: Brazil iron ore exports to China vs. BDI



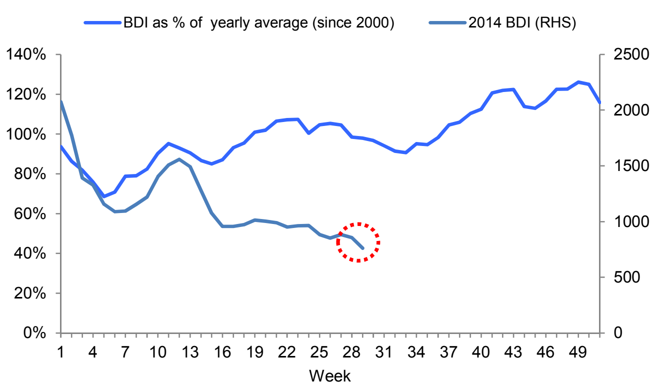
Source: Deutsche Bank, Clarksons, Wind

BDI outlook – strong rebound seems under way

Historically, C9 has tended to move up strongly in 4Q

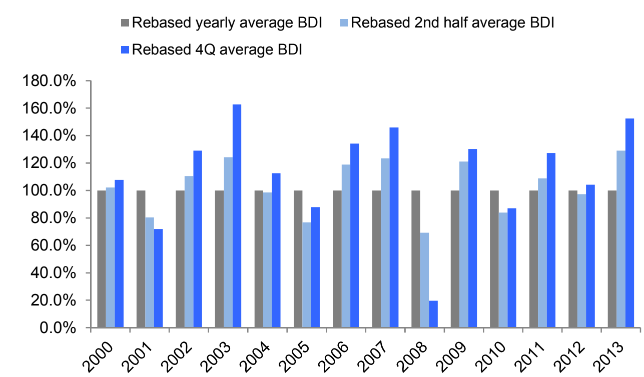
Historically, the BDI has tended to pick up from August (Figure 15). In the past 14 years, there have been nine years when the yearly high of the BDI has occurred in 4Q (Figure 16).

Figure 15: Historically, BDI tended to pick up in August…



Source: Deutsche Bank, Baltic Exchange

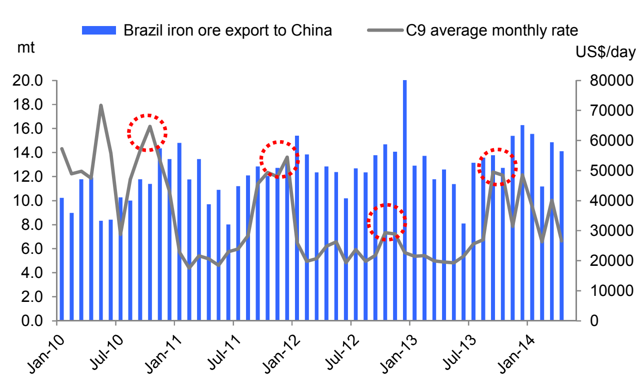
Figure 16: …with yearly high occurring largely in 4Q



Source: Deutsche Bank, Baltic Exchange

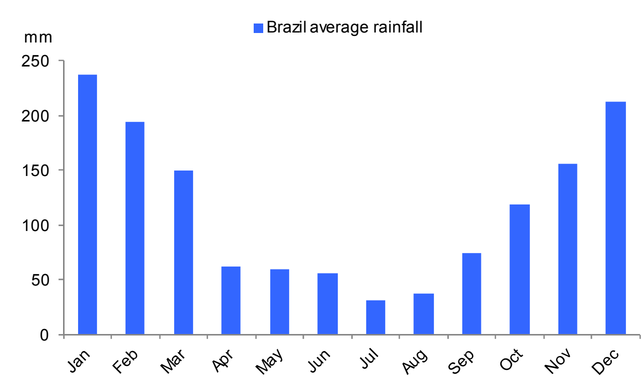
While coal demand for the winter season in the Northern Hemisphere and the grain harvest season in North America contributed partly to this seasonality, the strong performance of the C9 route appeared to be an even more important driver, in our view. Historically, the T/C rate for this route has shown a strong tendency to move up in 4Q, which, in fact, gels nicely with Brazilian iron ore exports to China (Figure 17). As the rainy season in Brazil is in 1Q and early 2Q (Figure 18), production has tended to be lower in 1H than 2H. This, along with the voyage time from Brazil to China, explains why Brazil's iron ore exports have consistently troughed in June and then picked up in 2H.

Figure 17: Brazil iron ore export to China vs. C9 rates



Source: Deutsche Bank, CEIC, Clarksons

Figure 18: Brazil average rainfall for each month

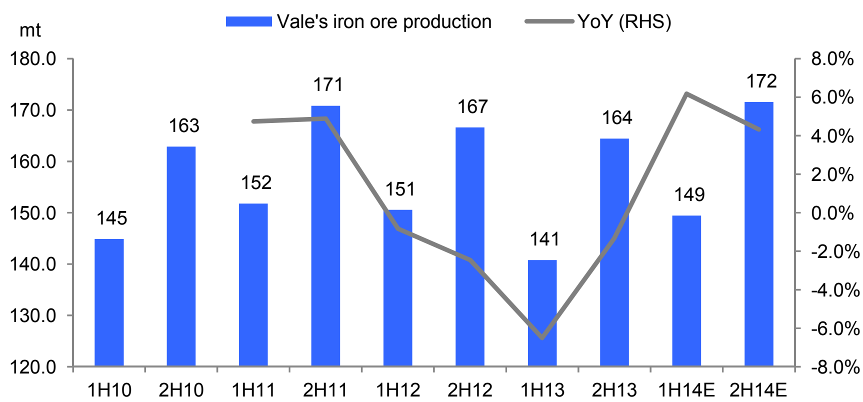


Source: Deutsche Bank, Accuweather

Brazil iron ore exports should rebound strongly in 2H

Looking at this year, we expect a similar pattern. After declining for two years in a row (i.e. -1.7% YoY in 2012 and -3.8% YoY in 2013), Brazilian Vale has guided for 5.2% YoY growth in output, to 321mt, in 2014. Production appears to be on target, with 1Q14 output reaching 71mt, or 5.2% YoY growth. Based on the full-year target and recent production data, we estimate that Vale's output in 2H will rise 15% HoH and 5% YoY (Figure 19).

Figure 19: Vale's iron ore output in 2H14 to see strong growth



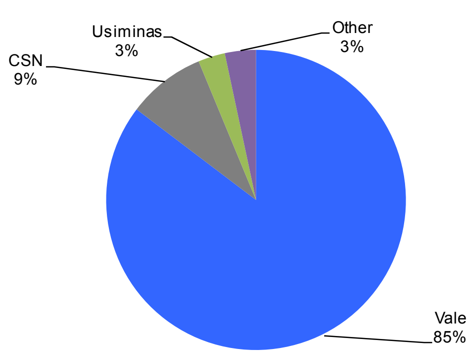
Source: Deutsche Bank estimates, Company data

Of the 305mt iron ore produced by Vale in 2013, 269mt, or nearly 90% of the total output, was for exports. Vale itself accounted for 85% of Brazil's total seaborne iron ore exports of 319mt in 2013 (Figure 20).

In terms of countries importing from Vale, China accounted for more than half (Figure 21), or 146mt, in 2013, which made up more than 90% of China's overall iron ore imports from Brazil.

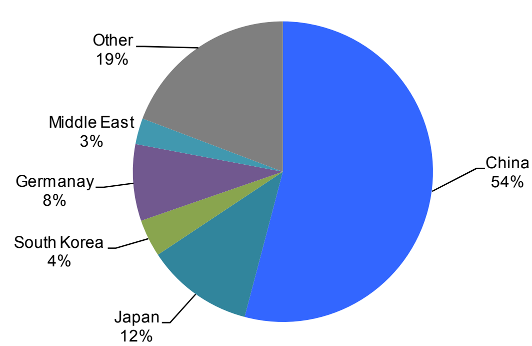
In light of the expected rebound of iron ore output by Vale in 2H, China's imports of iron ore from Brazil should, accordingly, capture strong growth.

Figure 20: Brazil's iron ore exports by company, 2013



Source: Deutsche Bank, Company data

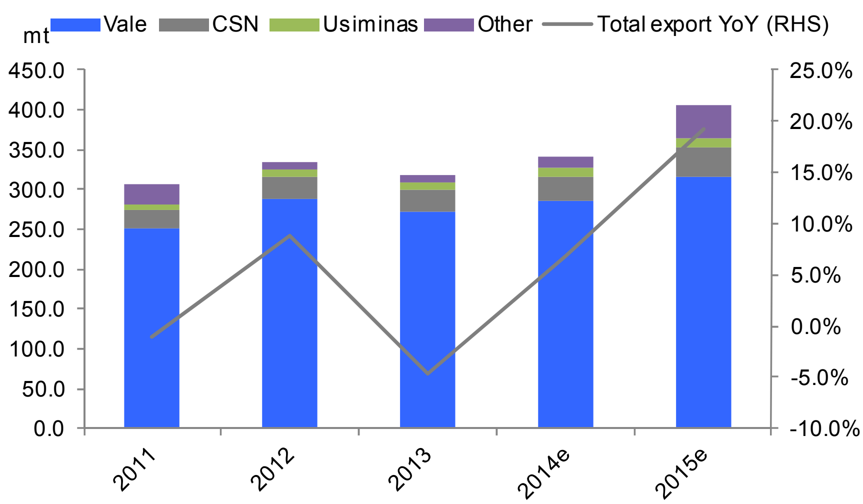
Figure 21: Vale's iron ore exports by country, 2013



Source: Deutsche Bank, Company data

The 2015 outlook seems even brighter, with our commodity team forecasting nearly 20% growth in Brazil's seaborne iron ore exports, driven by rising output by Vale and new capacity coming on stream (Figure 22). As 70%-plus of Brazil's iron ore goes to Asia, eventually, the longer distance should help greatly to absorb fleet capacity, which, in turn, should lift the dry bulk market, in our view.

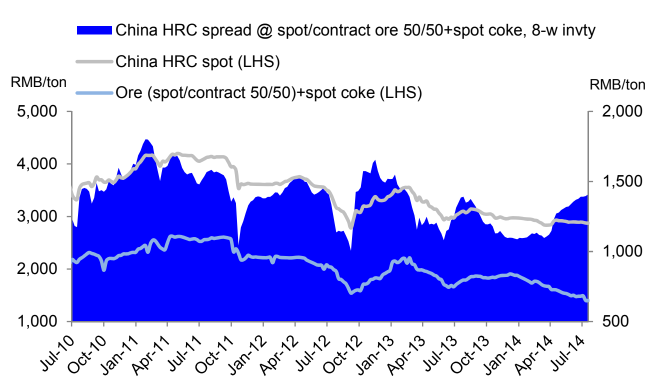
Figure 22: Brazil's iron ore exports set to accelerate ahead



Source: Deutsche Bank estimates, Company data

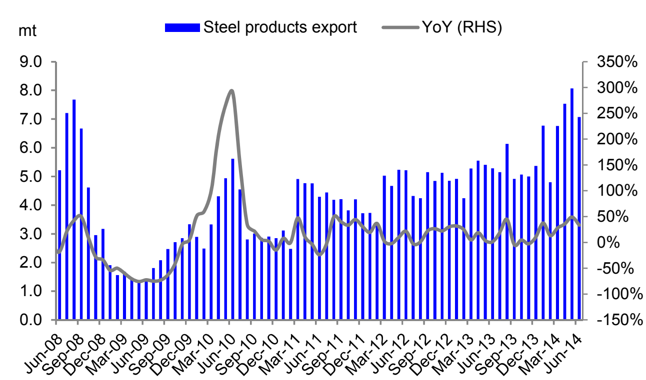
In terms of iron ore demand, some investors are concerned about the slowdown of the property sector in China and elevated iron ore inventories at the Chinese ports. However, improving steel margins, and hence a stronger incentive to produce, along with rising steel exports, should drive strong iron ore consumption ahead.

Figure 23: Steel margins improving as iron ore price falls



Source: Deutsche Bank

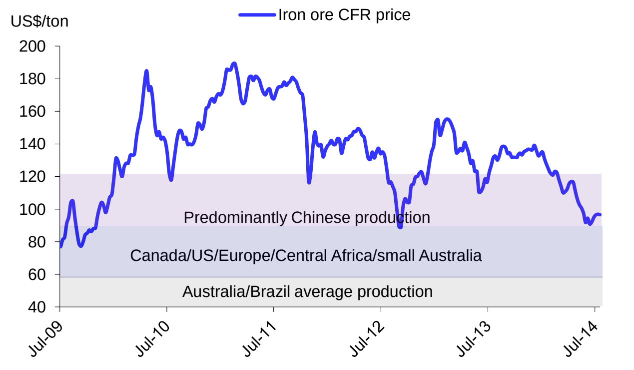
Figure 24: China's steel exports growing strongly



Source: Deutsche Bank

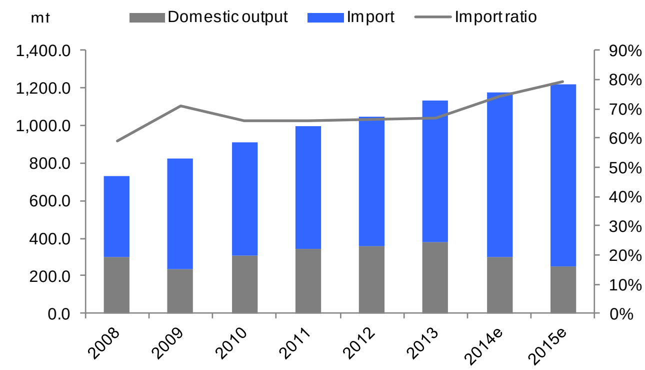
Moreover, as iron ore prices move down, given the huge production cost gap between overseas and China producers (Figure 25), we expect more domestic iron ore to be replaced by imported ore ahead (Figure 26).

Figure 25: China's iron ore production cost much higher



Source: Deutsche Bank, Bloomberg Finance LP, Mysteel

Figure 26: China's import substitution to rise further



Source: Deutsche Bank, CEIC

Our commodity team is currently expecting China's iron ore imports to grow 7% in 2014, which looks conservative. In 1H14, China's iron ore imports rose 18% YoY.

Figure 27: Deutsche Bank seaborne iron ore supply/demand model

Supply		2009	2010	2011	2012	2013	2014E	2015E
Brazil exports	Mt	266	311	308	335	319	341	406
growth	%	-6%	17%	-1%	9%	-5%	7%	19%
Australian exports	Mt	369	412	454	510	597	688	750
growth	%	15%	12%	10%	12%	17%	15%	9%
South African exports	Mt	43	47	50	53	55	58	60
growth	%	34%	9%	8%	4%	5%	4%	4%
India exports	Mt	99	110	91	53	15	20	20
growth	%	12%	11%	-17%	-42%	-72%	34%	0%
Other exports	Mt	159	176	201	209	269	292	327
Total seaborne iron ore supply	**Mt**	**936**	**1,056**	**1,104**	**1,159**	**1,255**	**1,398**	**1,562**
growth	**%**	**8%**	**13%**	**5%**	**5%**	**8%**	**11%**	**12%**
Demand		2009	2010	2011	2012	2013e	2014E	2015E
China steel output (crude steel)	Mt	577	639	702	717	779	808	842
China steel production (BOF)	Mt	521	572	631	644	700	725	755
growth	%	16%	10%	10%	2%	9%	4%	4%
China iron ore imports	Mt	628	608	687	744	820	873	968
growth	%	41%	-3%	13%	8%	10%	7%	11%
Japan imports	Mt	109	129	130	131	137	138	139
growth	%	-22%	18%	1%	1%	4%	1%	1%
S. Korea & Taiwan imports	Mt	53	71	87	84	84	90	94
growth	%	-19%	34%	23%	-3%	0%	7%	5%
European imports	Mt	87	117	119	117	119	118	117
growth	%	-35%	34%	2%	-2%	2%	-1%	-1%
Other imports	Mt	90	90	90	90	90	90	99
Total seaborne iron ore imports	**Mt**	**967**	**1,014**	**1,113**	**1,166**	**1,250**	**1,309**	**1,417**
growth	**%**	**11%**	**5%**	**10%**	**5%**	**7%**	**5%**	**8%**

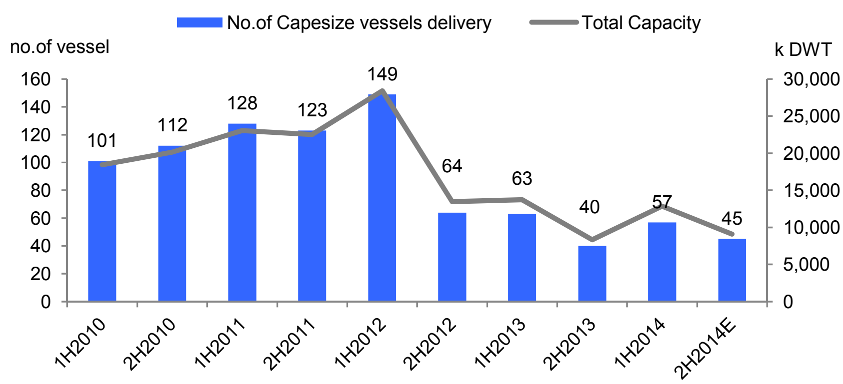
Source: Deutsche Bank estimates, CEIC

Supply also bodes well – Capesize deliveries to taper off

A total of 40 Capesize vessels were delivered in 2H13, much lower than the 63 that hit the water during 1H13. As demand was much stronger in 2H than in 1H, the S/D dynamic was, in fact, much better in 2H13 than in 1H13, which explains the strong move of Capesize rates, and hence the BDI, in 2H last year.

The situation for this year is rather similar to that of 2013. A total of 57 Capesize vessels were delivered in 1H14. The number will fall to 45 in 2H14. As dry bulk shipping demand should seasonally strengthen in 2H, S/D is poised to tighten again in 2H, which, in turn, should lift up rates, in our view.

Figure 28: Capesize deliveries should taper off again in 2H14



Source: Deutsche Bank, Clarksons

Figure 29 shows our S/D analysis for the Capesize category for 2H14. Based on the delivery schedule, a total of 45 Capesize vessels should come on stream in 2H, which effectively translates into 13 vessels on an annual basis. Looking at the demand side, based on an incremental increase of iron ore in 2H, we estimate that a total 52 Capesize vessels will be needed. The substantial undersupply of the Capesize category in 2H should lift Capesize rates significantly and hence the BDI, in our view.

Figure 29: 2H14 S/D analysis for Capesize category

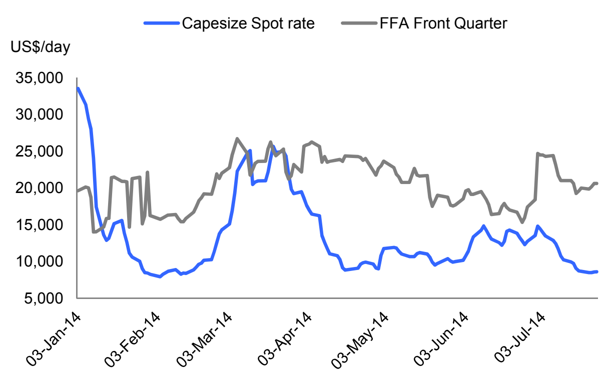
Date	# of Capes delivery	Effective sailing days	# of Capes adjusted
Jul-14	7	183	4
Aug-14	7	152	3
Sep-14	9	122	3
Oct-14	8	91	2
Nov-14	5	61	1
Dec-14	9	30	1
Total Capesize vessel supply	**45**	**639**	**13**
Origin and destination	Vol per Cape (mt p.a)	Incremental iron ore	# of Capes needed
Brazil export to FE (75%)	0.9	24	26
Brazil export to EU (20%)	2.1	6	3
Brazil export to America (5%)	2.1	2	1
Australia export to FE (90%)	2.6	48	18
Australia export to rest (10%)	1.5	5	4
Total Capesize vessel needed		**85**	**52**

Source: Deutsche Bank estimates, Clarksons

Both forward rates and longer-term time-charter rates point to the strength of the dry bulk rates going forward. As Figure 30 shows, although current Capesize spot rates remain below US$10k/day, the forward rates for the front quarter (i.e. three months later) are more than 2x of the spot rates.

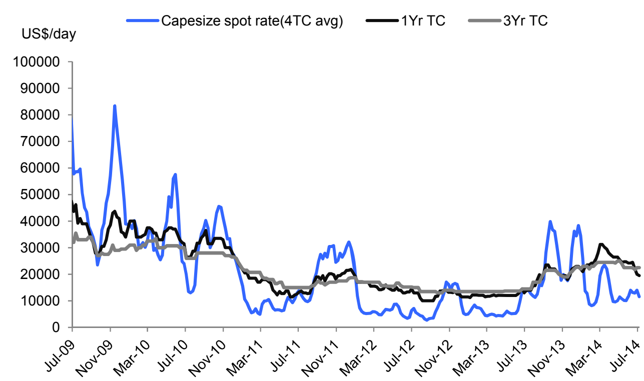
As for the time-charter rates, although the one-year rates retreated recently, along with soft spot market, they remain around US$20k/day, well above the spot rates. Three-year time-charter rates have held up firmly above US$20k/day (Figure 31).

Figure 30: Forward rate at huge premium over spot rate



Source: Deutsche Bank, Clarksons

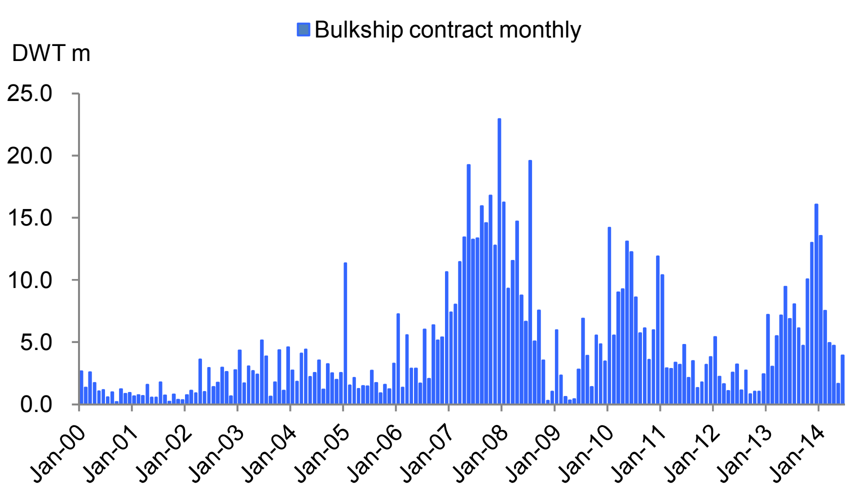
Figure 31: Capesize time-charter better than spot rates



Source: Deutsche Bank, Clarksons

We noticed that dry bulk new orders rebounded sharply late last year and early this year, along with the strength in dry bulk rates, raising concerns among investors about how long this recovery could last. Fortunately, as dry bulk rates have softened again, newbuild orders have dried up in the past few months (Figure 32), which should lead to better S/D in the future.

Figure 32: Brazil's iron ore exports set to accelerate ahead



Source: Deutsche Bank estimates, Clarksons

While future supply, particularly from 2016 onwards, is still subject to change and depends, to a high extent, on how the market performs going forward, 2015 supply, given the vessel construction period, looks relatively certain.

Although new deliveries of the Capesize vessels in 2015 could exceed those of this year (2015E nominal deliveries of 122 Capes vs. 2014E of 102), Brazilian iron ore exports are also set to accelerate in 2015 (+19% YoY, vs. +7% in 2014). As a result, the total Capesize vessels needed in the coming 18 months should still outpace supplies (Figure 33), pointing to a solid market outlook in the coming 18 months.

Figure 33: S/D analysis for Capesize category in coming 18 months

Date	# of Capes delivery	Effective sailing days	# of Capes adjusted
Jul-14	7	548	11
Aug-14	7	517	10
Sep-14	9	487	12
Oct-14	8	456	10
Nov-14	5	426	6
Dec-14	9	395	10
Jan-15	9	365	9
Feb-15	10	335	9
Mar-15	10	304	8
Apr-15	10	274	8
May-15	9	243	6
Jun-15	10	213	6
Jul-15	11	183	6
Aug-15	6	152	3
Sep-15	8	122	3
Oct-15	13	91	3
Nov-15	12	61	2
Dec-15	14	30	1
Total Capesize vessel supply	167	639	121
Origin and destination	Vol per Cape (mt p.a)	Incremental iron ore	# of Capes needed
Brazil export to FE (75%)	0.9	73	81
Brazil export to EU (20%)	2.1	19	9
Brazil export to America (5%)	2.1	5	2
Australia export to FE (90%)	2.6	104	40
Australia export to rest (10%)	1.5	12	8
Other region export	1.7	37	22
Total Capesize vessel needed		249	162

Source: Deutsche Bank estimates, Clarksons

Stock picks – correlation between stocks and BDI

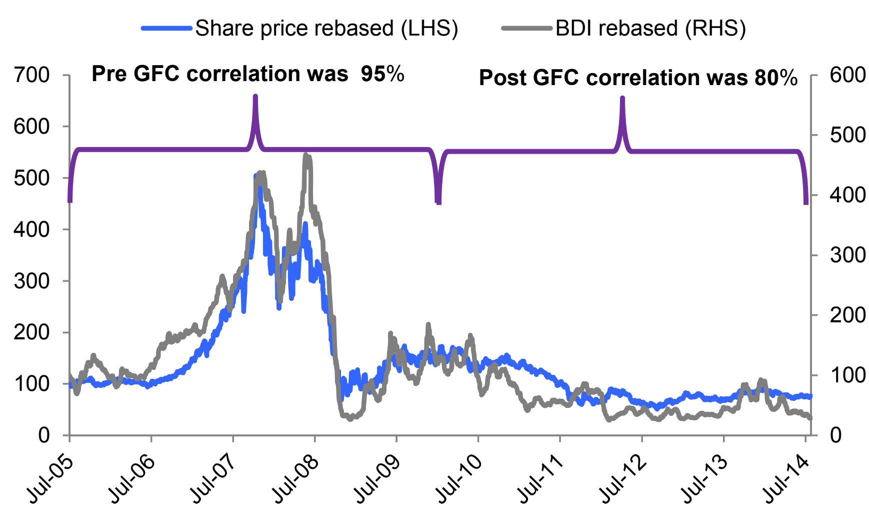
Strong correlation exists – China Cosco ranks top

A strong link with the global economy, its ease of access and timely release have made the BDI one of the most widely tracked indices by investors. As a result, although earnings are not highly correlated with the BDI for some dry bulkers, their share prices do show a strong correlation with this index, especially on a longer-term (e.g. 10 years) basis.

Figure 34 shows the historical correlation between stock prices and the BDI. While the correlation dropped post-GFC, a strong connection between the stocks and the BDI continued to exist (average correlation of 80% since 2009).

We note that the correlation has loosened in the last three years. However, this period can be considered exceptional, as sector-specific drivers have been overwhelmed by broader macro risks (especially those relating to China). Apart from these periods, the historical correlation looks very decent. In the past 12 months, the correlation between dry bulk stocks and the BDI has, in fact, tightened again (Figure 35).

Figure 34: Dry bulk stock index vs. BDI



Source: Deutsche Bank, Clarksons

In terms of individual stocks, China Cosco's share price has displayed the strongest correlation with the BDI among all the dry bulk names. While 73% of its revenue comes from container shipping, investors still treat it largely as a dry bulker. Plus, its dry bulk business is highly leveraged to the spot BDI (due to a relatively lower-than-peer exposure to long-term contracts). This probably explains its higher share price correlation than its peers'.

For CSD, half of its revenue comes from tankers, and a big chunk of its dry bulk revenue is under long-term contracts; hence its earnings are not so affected by the BDI. However, its stock price has also been strongly correlated with the BDI over the last five and 10 years (although, admittedly this correlation has been lower over the past 12 months). The stock is our regional top pick as, in addition, we like its compelling valuation and promising VLCC outlook.

For Pacific Basin, as the company concentrates on the Handysize category, with about half of its capacity locked into contracts (i.e. not on spot), its correlation with the BDI is lower than that of China Cosco. For the Japanese stocks, around 20% of their revenue comes from dry bulk, and most of them are under long-term contracts. However, both NYK and K-Line have shown a decent correlation with the BDI historically.

Figure 35: Correlations between listed dry bulkers and BDI

Regional company	Ticker	Currency	Dry bulk rev as % of total rev	Pre GFC	Post GFC	10 years	5 years	3 years	1 year
China Cosco	1919.HK	HKD	20%	90%	78%	90%	79%	15%	83%
CSD	1138.HK	HKD	52%	89%	82%	83%	80%	33%	37%
K-Line	9107.T	JYP	20%	76%	66%	84%	64%	28%	55%
NYK	9101.T	JPY	18%	73%	55%	81%	49%	28%	53%
Pacific Basin	2343.HK	HKD	94%	89%	67%	83%	67%	9%	76%
Average			**52%**	**83%**	**70%**	**84%**	**68%**	**23%**	**61%**
U.S company	Ticker	Currency	Dry bulk rev as % of total rev	Pre GFC	Post GFC	10 years	5 years	3 years	1 year
Dryship	DRYS.OQ	USD	21%	93%	76%	93%	76%	52%	49%
Diana	DSX.N	USD	100%	93%	72%	93%	72%	30%	53%
Navios	NMM.N	USD	100%	89%	-0.1%	89%	-0.4%	13%	-31%
Scorpio	SALT.N	USD	100%	na	62%	na	na	na	62%
Average				**92%**	**52%**	**84%**	**49%**	**32%**	**24%**

Source: Deutsche Bank, Bloomberg Finance LP, Clarksons. Note: China Cosco has been listed since June 2005, Dryship since March 2005, Diana since March 2005, Navios since November 2007, and Scorpio since December 2013.

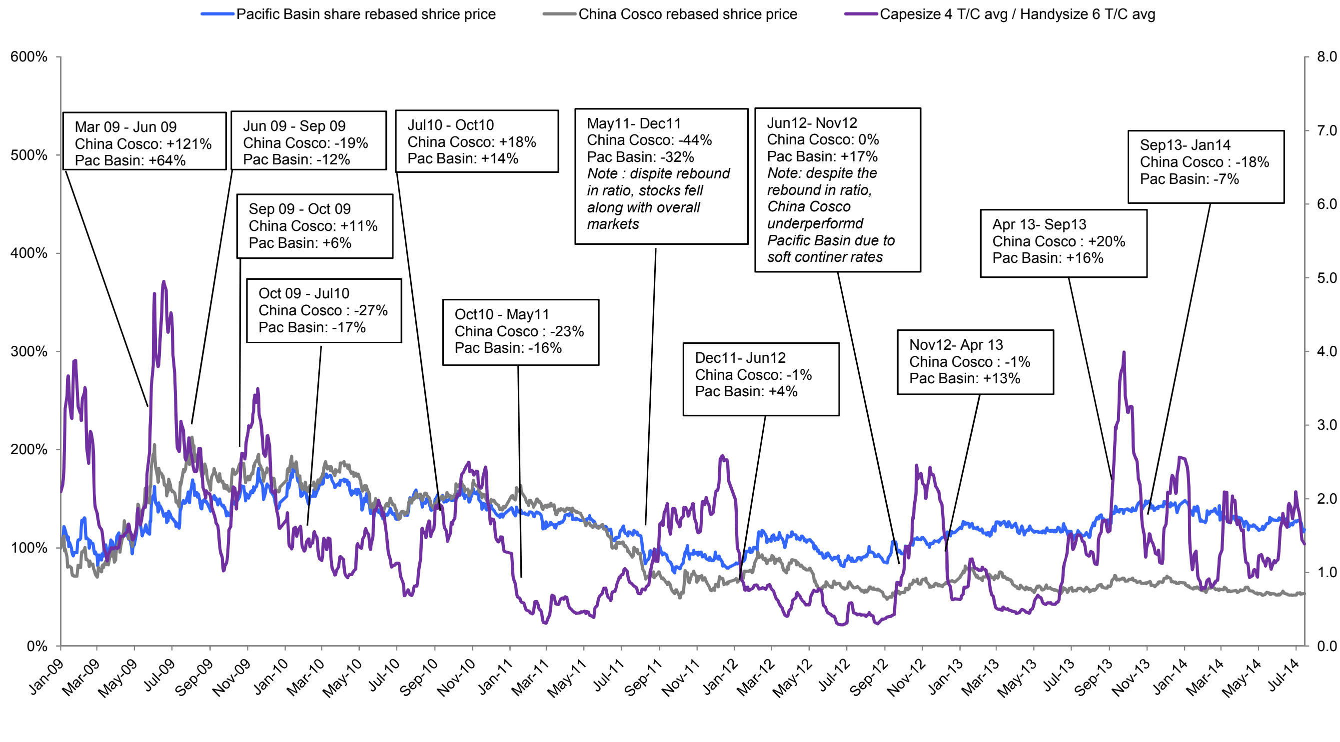
Different leverage to BDI components = different stock performance (China Cosco vs. Pacific Basin)

While dry bulk stocks have been well correlated with the BDI, their earnings leverage to the components of the BDI can be substantially different. For example, Pacific Basin's earnings are more relevant to Handysize than the overall BDI. This is simply because of the company's vessel portfolio, which is skewed to Handysize. In contrast, China Cosco's earnings are more leveraged to Capesize rates, as its vessel portfolio is skewed to Capesize fleets.

Therefore, one would expect that China Cosco's share price would react more to movements in the Capesize T/C rates than the Handysize T/C rates. This is indeed the case. Figure 36 shows our backward testing of the share price movements between China Cosco and Pacific Basin against the ratio of Capesize vs. Handysize rates.

Historically, changes in the ratio have been driven largely by the rally of Capesize, and *vice versa*. When the ratio has picked up, historically, China Cosco's share price has tended to outperform Pacific Basin, and *vice versa*. As we expect the BDI to rebound strongly in 2H on a pick-up in Capesize rates, it looks as if the ratio should expand again going forward.

Figure 36: Share prices of China Cosco and Pacific Basin vs. ratio of Capesize rates over Handysize



Source: Deutsche Bank, Bloomberg Finance LP, Clarksons

Figure 37: Global dry bulk comp table

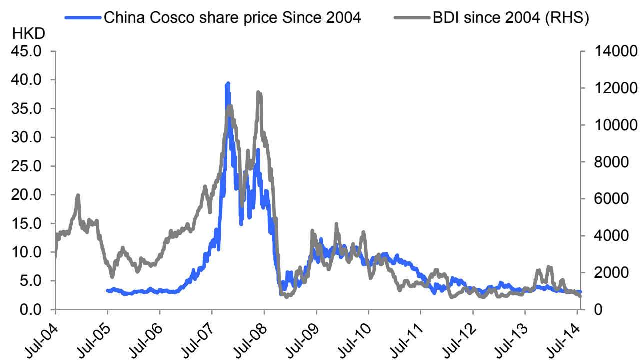
Regional company	Ticker	Curr	Rec	Mcap US$m	Current price	Target price	P/BV(x) 2014E	2015E	2016E	ROE 2014E	2015E	2016E	Net D/E % 2014E	2015E	2016E
China Cosco	1919.HK	HKD	Buy	4257	3.36	3.6	1.2	1.1	1.0	-3.0	7.5	11.8	128.2	123.4	110.3
CSD	1138.HK	HKD	Buy	2236	5.16	8.0	0.6	0.6	0.6	3.3	8.1	9.5	176.7	160.8	145.1
K-Line	9107.T	JPY	Buy	2105	222	310	0.5	0.5	0.5	4.6	7.4	11.6	75.4	71.7	63.0
NYK	9101.T	JPY	Buy	5003	297	360	0.7	0.7	0.6	4.8	7.0	9.9	130.3	111.4	94.0
Pacific Basin	2343.HK	HKD	Buy	1146	4.71	5.5	0.9	0.9	0.8	-0.9	7.8	9.8	46.8	45.8	43.3
Average							0.8	0.7	0.7	1.8	7.6	10.5	111.5	102.6	91.1
US company	Ticker	Curr	Rec	Mcap US$m	Current price	Target price	P/BV(x) 2014E	2015E	2016E	ROE 2014E	2015E	2016E	Net D/E % 2014E	2015E	2016E
DryShips	DRYS.OQ	USD	Hold	1262	2.92	3.0	0.3	0.3	NA	-0.2	4.8	NA	129.4	121.0	NA
Diana Shipping	DSX.N	USD	Buy	819	9.77	16.0	0.6	0.6	NA	-1.8	3.3	NA	14.9	14.5	NA
Navios Partners	NMM.N	USD	Buy	1511	19.75	20.0	2.1	2.3	NA	8.5	9.8	NA	55.3	63.1	NA
Scorpio Bulkers	SALT.N	USD	Buy	1107	8.00	18.0	1.0	1.0	NA	-3.3	-1.8	NA	-14.0	106.8	NA
Average							1.0	1.1	NA	0.8	4.0	NA	46.4	76.3	NA

Source: Deutsche Bank estimates, Bloomberg Finance LP. Share prices as at 31 July 2014.

Individual company review

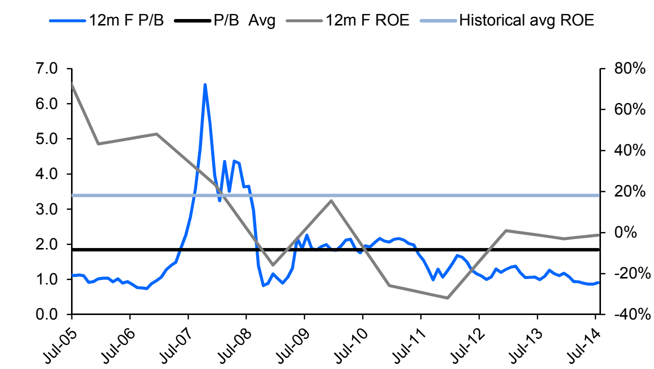
- **China Cosco (1919.HK, Buy, HK$3.36):** While container shipping accounted for 73% of its total revenue in 2013 (vs. dry bulk of around 20%), we think investors overall are still treating this company as a dry bulker. As its stock price has been highly correlated with the BDI, the pick-up of the BDI ahead bodes well for the stock's performance. The stock is trading at 0.9x forward P/B, largely its lowest level since the GFC. Compared with its peers, its P/B is still at a premium, however. Historically, the stock has long traded at a premium, due to its larger market cap and leading position in the global dry bulk space. We expect this premium to continue, and our valuation takes this into account. Our target price of HK$3.6 is based on 1.2x 12-month forward P/B. A key risk lies in weaker-than-expected global growth. As the company is also exposed to dry bulk shipping, a weaker-than-expected dry bulk rate is a downside risk at the company level.

Figure 38: China Cosco share price vs. BDI



Source: Deutsche Bank, Clarksons, Bloomberg Finance LP

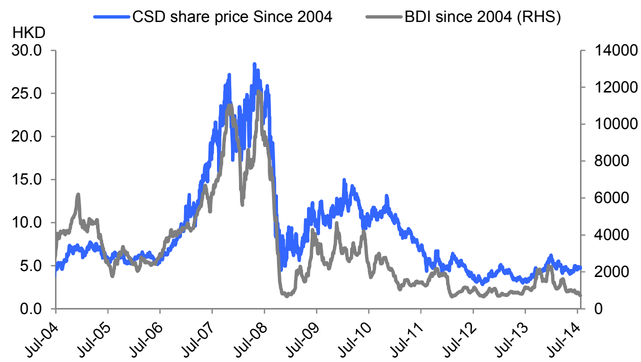
Figure 39: China Cosco 12-month forward P/B vs. ROE



Source: Deutsche Bank, Bloomberg Finance LP

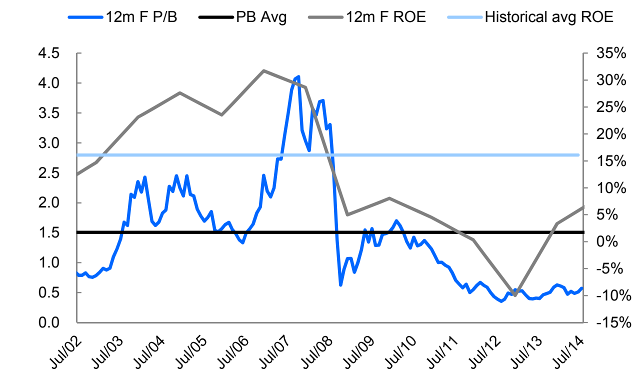
- **China Shipping Development (1138.HK, Buy, HK$5.16):** Dry bulk accounts for roughly half of its total revenue, with the other half coming from tankers. Within dry bulk, the international iron ore segment (65% of dry bulk revenue) has been locked into long-term contracts, and hence it is not affected by the spot BDI. For its domestic coal shipping segment, although this is a closed market (i.e. only vessels with a Chinese flag can operate), rates have been moving in line with the BDI, as fleet capacity can switch easily between domestic and international markets. Overall, we estimate that around one-third of CSD's revenue is relevant to spot BDI. Although CSD's earnings are not affected so much by the BDI, its stock price has also been correlated strongly with the BDI over the last five and 10 years (although, admittedly, this correlation has been lower over the past 12 months). The stock is our regional top pick as, in addition, we like its compelling valuation and promising VLCC outlook. In terms of its earnings outlook, we expect 1H earnings to surprise the market on the upside. While rates have been trending down in 2Q, the company has been actively cutting its costs (such as staff and bunker fuel costs). As a result, we see a good chance that the company may be able to break even in 2Q for its core operations (net profit of RMB52m in 1Q). Consensus is looking for a loss-making 2Q currently. As 2H, particularly 4Q, should be the strong season for both dry bulk and tanker shipping, we expect 2H earnings to be a lot better than those of 1H. Along with an RMB200m subsidy from the government, which we expect to be booked in 3Q, we expect 2014 earnings to reach RMB721m, substantially surprising the Street on the upside. In the longer term, we remain positive. Its VLCC operations should recover strongly on the back of the implementation of ballast water treatment, and its LNG should be another earnings driver in the coming three to five years. The stock is trading at 0.6x forward P/B, which looks extremely cheap, as we estimate its ROE to rise to 8.1% in 2015 and 9.5% in 2016, from 3.3% in 2014 and -10.0% in 2013. Our target price of HK$8 is based on 0.9x of the average BVPS over 2014-15E. Softer-than-expected shipping demand is a macro risk. As LNG is a new business for CSD, there might be operational risk at the initial stage.

Figure 40: CSD share price vs. BDI



Source: Deutsche Bank, Clarksons, Bloomberg Finance LP

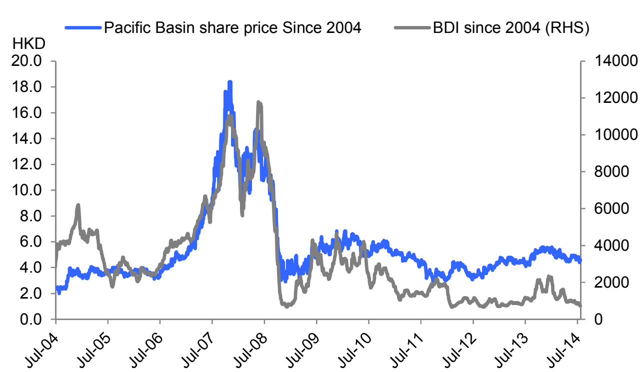
Figure 41: CSD 12-month forward P/B vs. ROE



Source: Deutsche Bank, Bloomberg Finance LP

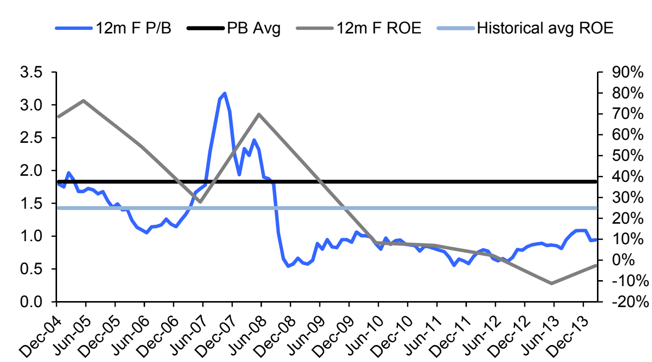
- **Pacific Basin (2343.HK, Buy, HK$4.71):** In 2013, 94% of Pacific Basin's revenue was derived from the dry bulk business. In the dry bulk business, its vessels are mainly the smaller Handysize and Handymax vessels, which carry a wide variety of goods to geographically diverse locations. About 80% of its dry bulk operating profit last year came from the Handysize business. While we believe management has not had a good track record in the non-dry bulk businesses (e.g. RoRo), we rate the company highly in the dry bulk business. It has timed asset disposals well in the past, and it continued to register profits during the downcycle, when others lost money. We have a Buy rating on the stock, and think that any weakness in the share price post its expected weak 1H 2014 results would represent a particularly attractive accumulation opportunity. (The company announced in June that it would record a net loss in 1H because of provisions at its towage business.) Our target price of HK$5.5 is based on 1.1x 2014E P/B. The key macro risk is lower-than-expected minor bulk shipping demand. At the company level, the risk is that the company may have to take further provision in its towage business.

Figure 42: Pacific Basin correlation chart with BDI



Source: Deutsche Bank, Clarksons, Bloomberg Finance LP

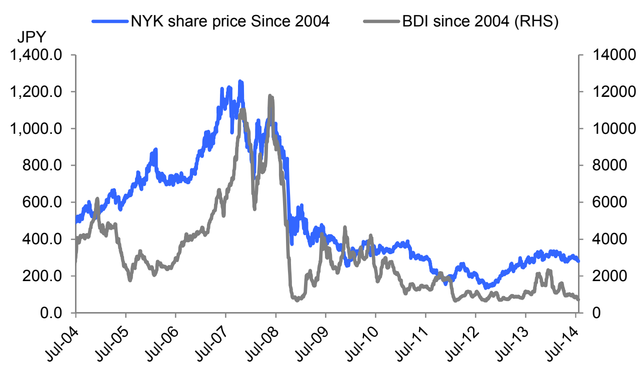
Figure 43: Pacific Basin 12-month forward P/B vs. ROE



Source: Deutsche Bank, Bloomberg Finance LP

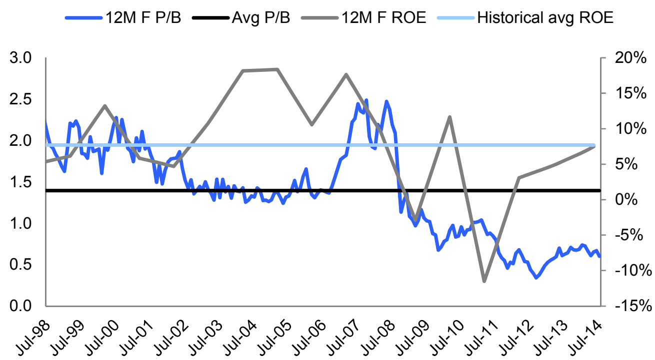
NYK (9101.t, Buy, JPY297): As a diversified carrier, dry bulk accounted for only around 20% of its total revenue in FY3/14. Moreover, most of its dry bulk business is under contracts, and hence its earnings are not leveraged to the spot dry bulk market. Having said that, historically, the stock price has displayed a reasonable correlation with the BDI, according to our analysis. In this sense, we see a good chance that the stock could perform strongly in 2H when the BDI picks up seasonally. Our target price is JPY360, based on 0.8x forward P/B. Historically, the stock has traded at a mean P/B of 1.4x, vs. an average ROE of 8%. With ROE rising to 10% over FY3/15-16E, we expect the stock to move towards 1x P/B in the coming 12 months. The key macro risk is weaker-than-expected global growth, leading to softer-than-expected shipping demand. At the company level, a reversal of the JPY deprecation trend would hurt its operations.

Figure 44: NYK correlation chart with BDI



Source: Deutsche Bank, Clarksons, Bloomberg Finance LP

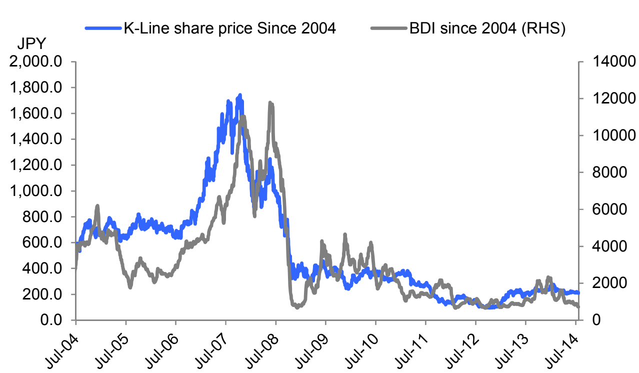
Figure 45: NYK 12-month forward P/B vs. ROE



Source: Deutsche Bank, Bloomberg Finance LP

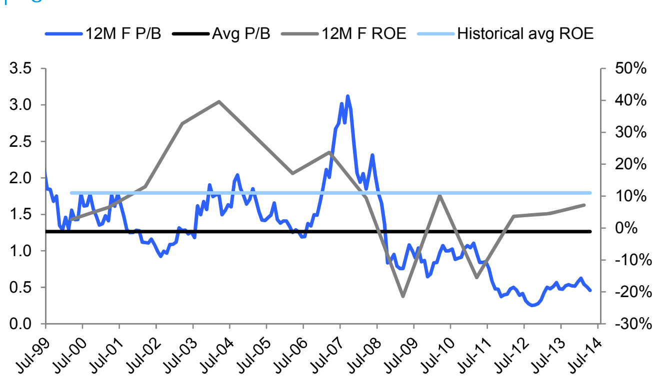
K-Line (9107.t, Buy, JPY222): Dry bulk shipping accounted for 20% of its total revenue in FY3/14. As most of its dry bulk revenue comes from contract-based operations, its earnings are not sensitive to changes in the BDI. Nevertheless, from a sentiment perspective, we think a pick-up in the BDI would still bode well for the stock's performance. Indeed, K-Line's share price has shown a decent correlation with the BDI historically. We set our target price at JPY310, based on 0.7x forward P/B. Historically, the stock has traded at an average of 1.3x P/B, vs. a mean ROE of 13%. During the 2010 industry upcycle, the stock traded up to 1.1x, vs. an ROE of around 10%. With ROE rising to more than 10% ahead, on our estimates, we think our valuation looks conservative. We maintain our Buy rating on the stock. The key macro risk is weaker-than-expected global growth, leading to softer-than-expected shipping demand. At the company level, a reversal of the JPY deprecation trend would hurt its operations.

Figure 45: K-line correlation chart with BDI



Source: Deutsche Bank, Clarksons, Bloomberg Finance LP

Figure 47: K-line 12-month forward P/B vs. ROE



Source: Deutsche Bank, Bloomberg Finance LP

Model updated:01 July 2014

Running the numbers

Asia

China

Marine

China Cosco Hldgs

Reuters: 1919.HK | Bloomberg: 1919 HK

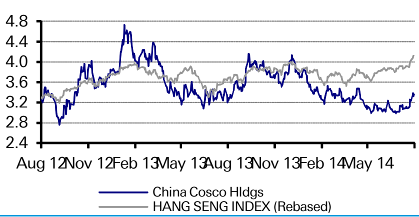
Buy

Price (31 Jul 14)	HKD 3.36
Target Price	HKD 3.60
52 Week range	HKD 2.99 - 4.16
Market Cap (m)	HKDm 34,326
	USDm 4,429

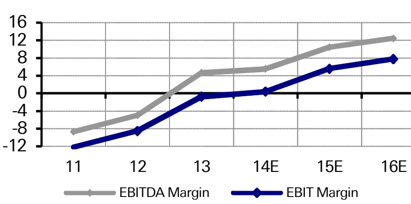
Company Profile

China COSCO Holdings Co. Ltd is the second-largest integrated shipping company in the world. The company, together with its subsidiaries, provides a wide range of container shipping, terminal, container leasing and logistics services across the container shipping value chain for both international and domestic customers.

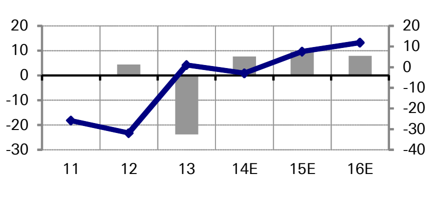
Price Performance



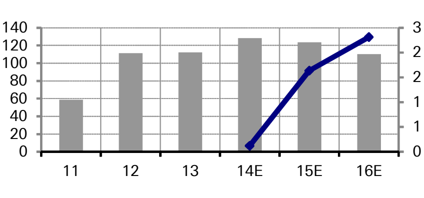
Margin Trends



Growth & Profitability



Solvency



Sky Hong, CFA
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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (CNY)	-1.03	-0.94	0.02	-0.07	0.18	0.31
Reported EPS (CNY)	-1.03	-0.94	0.02	-0.07	0.18	0.31
DPS (CNY)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (CNY)	3.4	2.5	2.4	2.3	2.5	2.8
Weighted average shares (m)	10,216	10,216	10,216	10,216	10,216	10,216
Average market cap (CNYm)	50,463	32,519	30,112	27,354	27,354	27,354
Enterprise value (CNYm)	78,870	78,427	84,181	85,774	85,591	83,398
Valuation Metrics						
P/E (DB) (x)	nm	nm	127.9	nm	14.9	8.6
P/E (Reported) (x)	nm	nm	127.9	nm	14.9	8.6
P/BV (x)	0.93	1.26	1.26	1.16	1.08	0.96
FCF Yield (%)	nm	nm	nm	nm	nm	5.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	0.9	0.9	1.2	1.2	1.1	1.0
EV/EBITDA (x)	nm	nm	26.8	21.4	10.3	7.8
EV/EBIT (x)	nm	nm	nm	283.5	19.3	12.6
Income Statement (CNYm)						
Sales revenue	84,639	88,329	67,384	72,560	79,483	85,773
Gross profit	-2,010	936	3,553	8,389	12,915	15,493
EBITDA	-7,358	-4,367	3,142	4,004	8,311	10,659
Depreciation	2,938	3,154	3,655	3,701	3,887	4,014
Amortisation	0	0	0	0	0	0
EBIT	-10,296	-7,521	-513	303	4,424	6,645
Net interest income(expense)	382	-1,587	-2,103	-2,532	-2,707	-2,875
Associates/affiliates	2,060	1,711	1,102	1,102	1,157	1,215
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	4,692	0	0	0
Profit before tax	-7,854	-7,397	3,179	-1,127	2,875	4,985
Income tax expense	1,031	740	299	-282	719	1,246
Minorities	1,610	1,422	2,644	-127	323	561
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-10,495	-9,559	235	-719	1,833	3,178
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	-10,495	-9,559	235	-719	1,833	3,178
Cash Flow (CNYm)						
Cash flow from operations	-4,876	-5,206	-2,317	1,271	5,349	7,539
Net Capex	-6,988	-10,947	-10,629	-6,000	-6,000	-6,000
Free cash flow	-11,864	-16,154	-12,946	-4,729	-651	1,539
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-919	0	0	0	0	0
Net inc/(dec) in borrowings	14,643	10,238	8,241	0	0	0
Other investing/financing cash flows	-1,581	5,290	6,575	0	0	0
Net cash flow	280	-626	1,870	-4,729	-651	1,539
Change in working capital	*-151*	*-2,896*	*-3,276*	*-1,458*	*-559*	*-72*
Balance Sheet (CNYm)						
Cash and other liquid assets	47,473	46,765	49,057	43,477	42,826	44,365
Tangible fixed assets	73,030	80,643	81,404	83,579	84,669	85,582
Goodwill/intangible assets	196	202	114	114	114	114
Associates/investments	16,622	17,092	11,161	12,263	13,420	14,635
Other assets	20,138	20,505	20,126	21,680	22,921	24,049
Total assets	157,459	165,208	161,862	161,113	163,951	168,745
Interest bearing debt	77,026	93,204	96,395	96,395	96,395	96,395
Other liabilities	30,262	30,306	23,353	23,450	24,131	25,187
Total liabilities	107,288	123,510	119,748	119,845	120,527	121,582
Shareholders' equity	34,695	25,137	24,223	23,504	25,337	28,514
Minorities	15,475	16,561	17,891	17,764	18,088	18,649
Total shareholders' equity	50,170	41,698	42,114	41,268	43,424	47,163
Net debt	*29,553*	*46,439*	*47,338*	*52,918*	*53,569*	*52,030*
Key Company Metrics						
Sales growth (%)	nm	4.4	-23.7	7.7	9.5	7.9
DB EPS growth (%)	na	8.9	na	na	na	73.4
EBITDA Margin (%)	-8.7	-4.9	4.7	5.5	10.5	12.4
EBIT Margin (%)	-12.2	-8.5	-0.8	0.4	5.6	7.7
Payout ratio (%)	nm	nm	0.0	nm	0.0	0.0
ROE (%)	-25.8	-32.0	1.0	-3.0	7.5	11.8
Capex/sales (%)	10.1	12.9	15.8	8.3	7.5	7.0
Capex/depreciation (x)	2.9	3.6	2.9	1.6	1.5	1.5
Net debt/equity (%)	58.9	111.4	112.4	128.2	123.4	110.3
Net interest cover (x)	nm	nm	nm	0.1	1.6	2.3

Source: Company data, Deutsche Bank estimates

Model updated:04 June 2014

Running the numbers

Asia

China

Marine

China Shipping Dvlpmt

Reuters: 1138.HK Bloomberg: 1138 HK

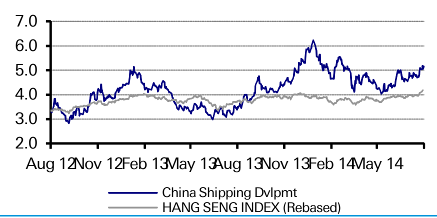
Buy

Price (31 Jul 14)	HKD 5.16
Target Price	HKD 8.00
52 Week range	HKD 3.45 - 6.23
Market Cap (m)	HKDm 17,567
	USDm 2,267

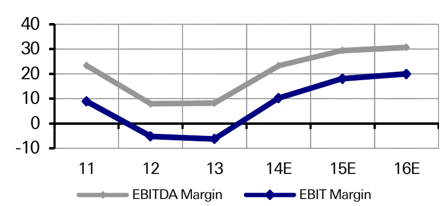
Company Profile

The company is the dominating player in China's coastal energy shipping market. It also participates in the international oil and dry bulk markets.

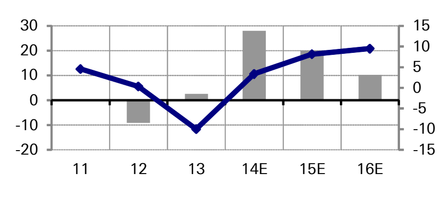
Price Performance



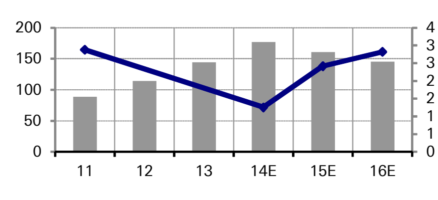
Margin Trends



Growth & Profitability



Solvency



Sky Hong, CFA
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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (CNY)	0.31	0.02	-0.66	0.21	0.54	0.68
Reported EPS (CNY)	0.31	0.02	-0.66	0.21	0.54	0.68
DPS (CNY)	0.10	0.00	0.00	0.07	0.18	0.22
BVPS (CNY)	6.9	6.9	6.2	6.4	6.9	7.4
Weighted average shares (m)	3,405	3,405	3,405	3,405	3,405	3,405
Average market cap (CNYm)	19,893	11,878	11,108	14,000	14,000	14,000
Enterprise value (CNYm)	41,470	39,751	43,144	54,545	53,504	52,138
Valuation Metrics						
P/E (DB) (x)	19.0	161.1	nm	19.4	7.6	6.1
P/E (Reported) (x)	19.0	161.1	nm	19.4	7.6	6.1
P/BV (x)	0.58	0.52	0.77	0.64	0.59	0.55
FCF Yield (%)	nm	nm	nm	nm	17.6	23.4
Dividend Yield (%)	1.7	0.0	0.0	1.7	4.4	5.4
EV/Sales (x)	3.4	3.6	3.8	3.8	3.1	2.7
EV/EBITDA (x)	14.6	45.1	46.0	16.2	10.4	8.8
EV/EBIT (x)	38.2	nm	nm	36.8	17.0	13.6
Income Statement (CNYm)						
Sales revenue	12,157	11,054	11,344	14,517	17,439	19,226
Gross profit	3,271	1,250	1,461	3,924	5,718	6,515
EBITDA	2,837	881	939	3,372	5,137	5,901
Depreciation	1,751	1,448	1,642	1,890	1,993	2,067
Amortisation	0	0	0	0	0	0
EBIT	1,086	-568	-703	1,482	3,143	3,835
Net interest income(expense)	-378	-529	-920	-1,184	-1,303	-1,361
Associates/affiliates	369	294	112	158	212	270
Exceptionals/extraordinaries	147	472	-718	400	143	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,224	-331	-2,229	856	2,195	2,744
Income tax expense	146	-469	-12	128	329	412
Minorities	31	64	17	6	16	21
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,047	74	-2,234	721	1,849	2,312
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,047	74	-2,234	721	1,849	2,312
Cash Flow (CNYm)						
Cash flow from operations	1,422	891	1,429	3,943	4,801	5,614
Net Capex	-8,169	-5,919	-3,619	-4,019	-2,337	-2,337
Free cash flow	-6,747	-5,027	-2,190	-76	2,464	3,277
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-579	-340	0	0	-238	-610
Net inc/(dec) in borrowings	10,748	6,081	2,069	2,000	-1,000	-1,000
Other investing/financing cash flows	-1,070	-806	-1,228	-1,183	-1,301	-1,359
Net cash flow	2,352	-93	-1,348	741	-75	308
Change in working capital	*-959*	*-561*	*451*	*141*	*-361*	*-146*
Balance Sheet (CNYm)						
Cash and other liquid assets	3,377	3,286	1,919	2,660	2,585	2,893
Tangible fixed assets	41,875	45,734	47,468	56,689	56,704	56,647
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	3,567	5,220	5,635	5,792	6,002	6,270
Other assets	2,770	3,621	3,821	3,856	4,498	4,891
Total assets	51,589	57,861	58,842	68,997	69,789	70,700
Interest bearing debt	24,954	31,159	33,955	43,206	42,089	41,031
Other liabilities	2,293	2,316	2,675	2,852	3,133	3,379
Total liabilities	27,247	33,475	36,631	46,058	45,222	44,411
Shareholders' equity	23,639	23,517	21,227	21,949	23,560	25,261
Minorities	703	868	985	991	1,007	1,028
Total shareholders' equity	24,342	24,386	22,212	22,940	24,567	26,289
Net debt	*21,577*	*27,873*	*32,036*	*40,546*	*39,504*	*38,139*
Key Company Metrics						
Sales growth (%)	nm	-9.1	2.6	28.0	20.1	10.2
DB EPS growth (%)	na	-93.0	na	na	156.3	25.0
EBITDA Margin (%)	23.3	8.0	8.3	23.2	29.5	30.7
EBIT Margin (%)	8.9	-5.1	-6.2	10.2	18.0	19.9
Payout ratio (%)	32.5	0.0	nm	33.0	33.0	33.0
ROE (%)	4.5	0.3	-10.0	3.3	8.1	9.5
Capex/sales (%)	68.9	55.8	34.0	29.1	14.5	13.2
Capex/depreciation (x)	4.8	4.3	2.4	2.2	1.3	1.2
Net debt/equity (%)	88.6	114.3	144.2	176.7	160.8	145.1
Net interest cover (x)	2.9	nm	nm	1.3	2.4	2.8

Source: Company data, Deutsche Bank estimates

Model updated:26 June 2014

Running the numbers

Asia

Hong Kong

Marine

Pacific Basin Shipping Ltd

Reuters: 2343.HK Bloomberg: 2343 HK

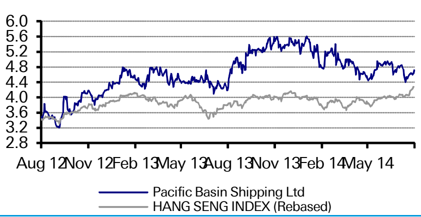
Buy

Price (31 Jul 14)	HKD 4.71
Target Price	HKD 5.50
52 Week range	HKD 4.27 - 5.60
Market Cap (m)	HKDm 9,053
	USDm 1,168

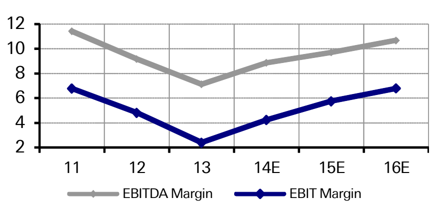
Company Profile

Pacific Basin Shipping Limited is an investment holding company. The Company, through its subsidiaries is engaged in the provision of dry bulk shipping services through the operation of a fleet of vessels.

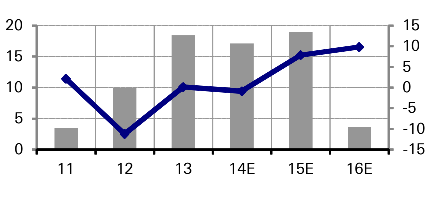
Price Performance



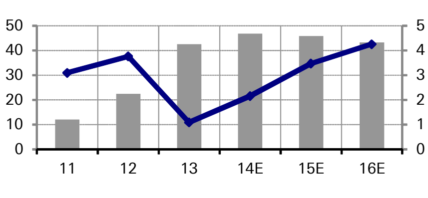
Margin Trends



Growth & Profitability



Solvency



Joe Liew, CFA
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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (USD)	0.03	0.03	0.01	-0.01	0.05	0.07
Reported EPS (USD)	0.02	-0.08	0.00	-0.01	0.05	0.07
DPS (USD)	0.01	0.01	0.01	0.01	0.03	0.03
BVPS (USD)	0.8	0.7	0.7	0.7	0.7	0.7
Weighted average shares (m)	1,938	1,933	1,904	1,934	1,934	1,934
Average market cap (USDm)	1,040	945	1,177	1,168	1,168	1,168
Enterprise value (USDm)	1,152	1,165	1,696	1,725	1,730	1,720
Valuation Metrics						
P/E (DB) (x)	18.0	18.1	119.4	nm	11.6	8.9
P/E (Reported) (x)	32.5	nm	772.5	nm	11.6	8.9
P/BV (x)	0.52	0.81	1.06	0.93	0.89	0.85
FCF Yield (%)	nm	nm	nm	2.2	6.7	9.3
Dividend Yield (%)	2.4	1.3	1.0	2.1	4.3	5.6
EV/Sales (x)	0.9	0.8	1.0	0.9	0.7	0.7
EV/EBITDA (x)	7.7	8.8	13.9	9.7	7.5	6.5
EV/EBIT (x)	12.9	16.8	41.6	20.3	12.7	10.3
Income Statement (USDm)						
Sales revenue	1,313	1,443	1,709	2,002	2,380	2,466
Gross profit	169	148	136	198	263	298
EBITDA	150	132	122	177	231	263
Depreciation	61	63	81	93	94	96
Amortisation	0	0	0	0	0	0
EBIT	89	69	41	85	137	168
Net interest income(expense)	-29	-18	-37	-39	-39	-39
Associates/affiliates	-2	3	7	6	6	6
Exceptionals/extraordinaries	-26	-211	-8	-61	0	0
Other pre-tax income/(expense)	0	0	1	0	0	0
Profit before tax	32	-157	3	-10	103	134
Income tax expense	0	2	1	2	2	2
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	32	-158	2	-12	101	132
DB adjustments (including dilution)	26	211	8	0	0	0
DB Net profit	58	52	10	-12	101	132
Cash Flow (USDm)						
Cash flow from operations	159	149	98	175	229	259
Net Capex	-167	-190	-455	-150	-150	-150
Free cash flow	-7	-41	-357	25	79	109
Equity raised/(bought back)	-1	-7	-7	0	0	0
Dividends paid	-53	-12	-12	-25	-51	-66
Net inc/(dec) in borrowings	46	57	228	0	0	0
Other investing/financing cash flows	-94	-109	-51	-39	-39	-39
Net cash flow	-110	-113	-199	-39	-11	4
Change in working capital	*-17*	*3*	*-28*	*0*	*0*	*-2*
Balance Sheet (USDm)						
Cash and other liquid assets	599	633	483	444	433	437
Tangible fixed assets	1,532	1,278	1,631	1,627	1,683	1,737
Goodwill/intangible assets	25	25	25	25	25	25
Associates/investments	69	78	34	36	42	48
Other assets	207	455	364	388	420	427
Total assets	2,432	2,470	2,537	2,522	2,604	2,675
Interest bearing debt	779	931	1,037	1,037	1,037	1,037
Other liabilities	168	207	196	216	248	253
Total liabilities	947	1,138	1,233	1,253	1,285	1,290
Shareholders' equity	1,485	1,332	1,304	1,268	1,319	1,385
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,485	1,332	1,304	1,268	1,319	1,385
Net debt	*181*	*298*	*554*	*593*	*604*	*600*
Key Company Metrics						
Sales growth (%)	3.5	9.9	18.4	17.1	18.9	3.6
DB EPS growth (%)	-40.2	-9.6	-80.8	na	na	30.6
EBITDA Margin (%)	11.4	9.2	7.1	8.9	9.7	10.7
EBIT Margin (%)	6.8	4.8	2.4	4.2	5.7	6.8
Payout ratio (%)	78.0	nm	807.4	nm	50.0	50.0
ROE (%)	2.1	-11.3	0.1	-0.9	7.8	9.8
Capex/sales (%)	13.0	13.2	26.8	7.5	6.3	6.1
Capex/depreciation (x)	2.8	3.0	5.7	1.6	1.6	1.6
Net debt/equity (%)	12.2	22.4	42.5	46.8	45.8	43.3
Net interest cover (x)	3.1	3.8	1.1	2.1	3.5	4.2

Source: Company data, Deutsche Bank estimates

Model updated:01 July 2014

Running the numbers

Japan

Japan

Transportation

Nippon Yusen

Reuters: 9101.T Bloomberg: 9101 JT

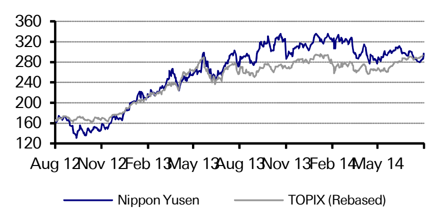
Buy

Price (31 Jul 14)	JPY 297
Target Price	JPY 360
52 Week range	JPY 274 - 336
Market Cap (bn)	JPYbn 505
	USDm 4,913

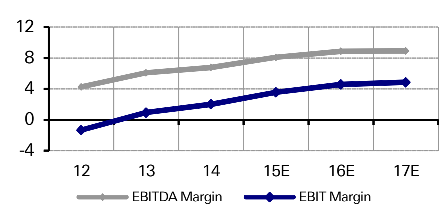
Company Profile

Nippon Yusen Kabushiki Kaisha (NYK) is one of the leading transportation companies in Japan. Its main business consists of container shipping, bulk shipping (including dry bulk, wet bulk, and car carriers), and logistics. It also operates terminal business and conducts air cargo transportation. The company is the biggest car carrier in the world, in terms of operating capacity.

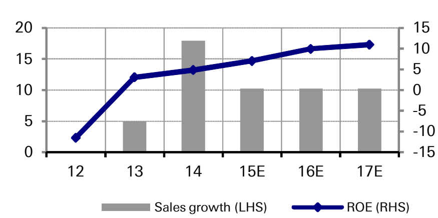
Price Performance



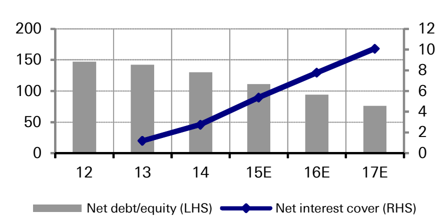
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (JPY)	-41.57	19.90	16.35	30.66	46.81	56.54
Reported EPS (JPY)	-42.92	11.14	19.48	30.66	46.81	56.54
DPS (JPY)	4.00	2.00	3.00	6.12	9.34	11.28
BVPS (JPY)	340.7	382.8	423.6	451.1	491.7	538.8
Weighted average shares (m)	1,701	1,701	1,701	1,701	1,701	1,701
Average market cap (JPYbn)	396	325	501	505	505	505
Enterprise value (JPYbn)	1,098	1,103	1,155	1,132	1,110	1,056
Valuation Metrics						
P/E (DB) (x)	nm	9.6	18.0	9.7	6.3	5.3
P/E (Reported) (x)	nm	17.2	15.1	9.7	6.3	5.3
P/BV (x)	0.75	0.63	0.71	0.66	0.60	0.55
FCF Yield (%)	nm	nm	29.7	13.1	17.4	23.0
Dividend Yield (%)	1.7	1.0	1.0	2.1	3.1	3.8
EV/Sales (x)	0.6	0.6	0.5	0.5	0.4	0.4
EV/EBITDA (x)	14.3	9.6	7.6	5.7	4.6	4.0
EV/EBIT (x)	nm	63.3	25.7	13.0	9.0	7.3
Income Statement (JPYbn)						
Sales revenue	1,808	1,897	2,237	2,467	2,719	2,998
Gross profit	248	290	352	410	463	500
EBITDA	77	115	151	199	241	267
Depreciation	101	98	106	112	117	122
Amortisation	0	0	0	0	0	0
EBIT	-24	17	45	87	124	145
Net interest income(expense)	-13	-15	-16	-16	-16	-14
Associates/affiliates	2	2	15	0	0	0
Exceptionals/extraordinaries	2	15	-5	0	0	0
Other pre-tax income/(expense)	2	13	14	5	5	5
Profit before tax	-31	33	53	75	113	135
Income tax expense	39	11	16	19	28	34
Minorities	3	3	4	5	5	6
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-73	19	33	52	79	96
DB adjustments (including dilution)	2	15	-5	0	0	0
DB Net profit	-71	34	28	52	79	96
Cash Flow (JPYbn)						
Cash flow from operations	30	94	137	166	188	216
Net Capex	-136	-149	13	-100	-100	-100
Free cash flow	-106	-55	149	66	88	116
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-13	-8	-8	-6	-11	-17
Net inc/(dec) in borrowings	86	187	-85	-50	-50	-50
Other investing/financing cash flows	-5	22	-9	-3	-3	-3
Net cash flow	-39	147	47	8	24	47
Change in working capital	*55*	*113*	*162*	*194*	*225*	*258*
Balance Sheet (JPYbn)						
Cash and other liquid assets	151	298	218	357	381	428
Tangible fixed assets	1,187	1,286	1,229	1,339	1,399	1,459
Goodwill/intangible assets	38	39	63	63	63	63
Associates/investments	257	263	523	465	418	381
Other assets	489	543	518	503	581	578
Total assets	2,122	2,430	2,551	2,727	2,842	2,909
Interest bearing debt	1,067	1,292	1,226	1,276	1,226	1,176
Other liabilities	433	439	551	626	716	748
Total liabilities	1,500	1,732	1,777	1,902	1,943	1,924
Shareholders' equity	579	651	720	767	836	916
Minorities	43	48	54	58	63	69
Total shareholders' equity	622	699	774	825	899	985
Net debt	*916*	*994*	*1,008*	*919*	*845*	*748*
Key Company Metrics						
Sales growth (%)	nm	4.9	17.9	10.3	10.2	10.3
DB EPS growth (%)	na	na	-17.8	87.5	52.7	20.8
EBITDA Margin (%)	4.2	6.1	6.7	8.1	8.9	8.9
EBIT Margin (%)	-1.3	0.9	2.0	3.5	4.6	4.8
Payout ratio (%)	nm	18.0	15.4	20.0	20.0	20.0
ROE (%)	-11.5	3.1	4.8	7.0	9.9	10.9
Capex/sales (%)	17.1	16.2	10.5	4.1	3.7	3.3
Capex/depreciation (x)	3.1	3.1	2.2	0.9	0.9	0.8
Net debt/equity (%)	147.1	142.2	130.3	111.4	94.0	76.0
Net interest cover (x)	nm	1.2	2.7	5.4	7.8	10.1

Source: Company data, Deutsche Bank estimates

Model updated:01 July 2014

Running the numbers

Japan

Japan

Transportation

Kawasaki Kisen

Reuters: 9107.T Bloomberg: 9107 JT

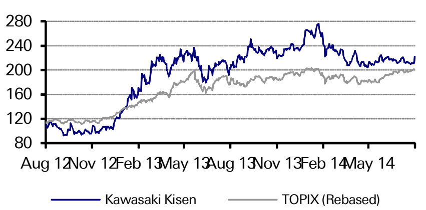
Buy

Price (31 Jul 14)	JPY 222
Target Price	JPY 310
52 Week range	JPY 203 - 276
Market Cap (bn)	JPYbn 208
	USDm 2,025

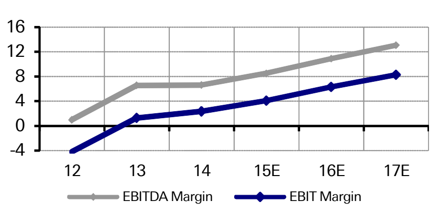
Company Profile

Kawasaki Kisen Kaisha (K-Line) is the third largest shipping company in Japan. With container shipping being its core business, the company also offers integrated marine transportation services including car carrier, dry bulk shipping, and energy transportation businesses. As of March 2013, it operates a fleet of 566 ships with 252 bulk ships, 75 container ships and 95 PCTCs.

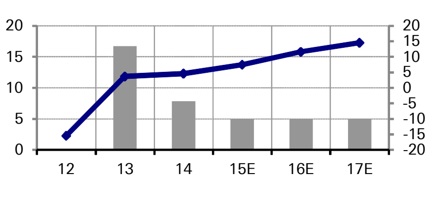
Price Performance



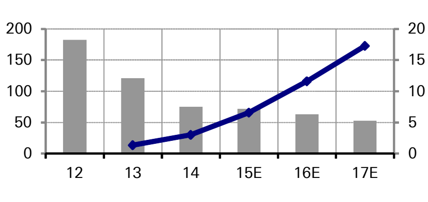
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (JPY)	-54.38	16.90	12.19	31.75	53.88	75.70
Reported EPS (JPY)	-54.14	12.06	17.75	31.75	53.88	75.70
DPS (JPY)	0.00	2.50	4.50	6.35	10.78	15.14
BVPS (JPY)	316.9	362.5	414.7	441.9	489.4	554.4
Weighted average shares (m)	764	884	938	938	938	938
Average market cap (JPYbn)	151	121	211	208	208	208
Enterprise value (JPYbn)	485	423	402	408	408	402
Valuation Metrics						
P/E (DB) (x)	nm	8.1	18.5	7.0	4.1	2.9
P/E (Reported) (x)	nm	11.4	12.7	7.0	4.1	2.9
P/BV (x)	0.57	0.55	0.54	0.50	0.45	0.40
FCF Yield (%)	nm	20.3	40.2	nm	1.7	8.0
Dividend Yield (%)	0.0	1.8	2.0	2.9	4.9	6.8
EV/Sales (x)	0.5	0.4	0.3	0.3	0.3	0.3
EV/EBITDA (x)	51.1	5.7	5.0	3.7	2.8	2.2
EV/EBIT (x)	nm	28.4	13.9	7.8	4.8	3.4
Income Statement (JPYbn)						
Sales revenue	972	1,135	1,224	1,285	1,350	1,417
Gross profit	75	155	153	192	242	295
EBITDA	9	75	81	109	147	185
Depreciation	50	60	52	57	62	68
Amortisation	0	0	0	0	0	0
EBIT	-41	15	29	53	85	117
Net interest income(expense)	-8	-11	-10	-8	-7	-7
Associates/affiliates	1	2	3	0	0	0
Exceptionals/extraordinaries	0	4	-5	0	0	0
Other pre-tax income/(expense)	-1	22	11	3	3	3
Profit before tax	-49	33	27	48	81	113
Income tax expense	-9	19	9	14	24	34
Minorities	2	3	2	4	6	8
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-41	11	17	30	51	71
DB adjustments (including dilution)	0	4	-5	0	0	0
DB Net profit	-42	15	11	30	51	71
Cash Flow (JPYbn)						
Cash flow from operations	-3	60	88	123	115	137
Net Capex	-74	-35	-3	-130	-111	-121
Free cash flow	-77	25	85	-7	4	17
Equity raised/(bought back)	0	21	0	0	0	0
Dividends paid	-5	-1	-3	-5	-7	-11
Net inc/(dec) in borrowings	91	6	-73	-30	-30	-30
Other investing/financing cash flows	-11	15	55	7	10	8
Net cash flow	-3	66	64	-36	-24	-16
Change in working capital	*2*	*8*	*12*	*33*	*-4*	*-10*
Balance Sheet (JPYbn)						
Cash and other liquid assets	97	162	186	151	127	111
Tangible fixed assets	618	663	661	749	823	903
Goodwill/intangible assets	10	6	5	5	5	5
Associates/investments	158	157	191	141	141	141
Other assets	184	192	211	199	215	218
Total assets	1,067	1,180	1,255	1,245	1,311	1,377
Interest bearing debt	570	600	496	466	436	406
Other liabilities	237	218	348	339	384	412
Total liabilities	807	818	844	805	820	818
Shareholders' equity	243	341	389	414	459	520
Minorities	17	21	22	25	31	40
Total shareholders' equity	260	362	411	440	490	560
Net debt	*473*	*438*	*310*	*315*	*309*	*295*
Key Company Metrics						
Sales growth (%)	nm	16.7	7.9	5.0	5.0	5.0
DB EPS growth (%)	na	na	-27.9	160.5	69.7	40.5
EBITDA Margin (%)	1.0	6.6	6.6	8.5	10.9	13.1
EBIT Margin (%)	-4.2	1.3	2.4	4.1	6.3	8.3
Payout ratio (%)	nm	20.7	25.4	20.0	20.0	20.0
ROE (%)	-15.5	3.7	4.6	7.4	11.6	14.5
Capex/sales (%)	24.4	11.7	7.5	10.1	8.2	8.5
Capex/depreciation (x)	4.7	2.2	1.8	2.3	1.8	1.8
Net debt/equity (%)	182.1	121.0	75.4	71.7	63.0	52.7
Net interest cover (x)	nm	1.3	3.0	6.5	11.6	17.3

Source: Company data, Deutsche Bank estimates

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
China Shipping Dvlpmt	1138.HK	5.16 (HKD) 31 Jul 14	6,7
Hanjin Shipping	117930.KS	5,550.00 (KRW) 31 Jul 14	NA
China Cosco Hldgs	1919.HK	3.35 (HKD) 31 Jul 14	14,15
Nippon Yusen	9101.T	297 (JPY) 31 Jul 14	14
Kawasaki Kisen	9107.T	222 (JPY) 31 Jul 14	6,14

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. Sky Hong

Historical recommendations and target price: China Shipping Dvlpmt (1138.HK)

(as of 7/31/2014)

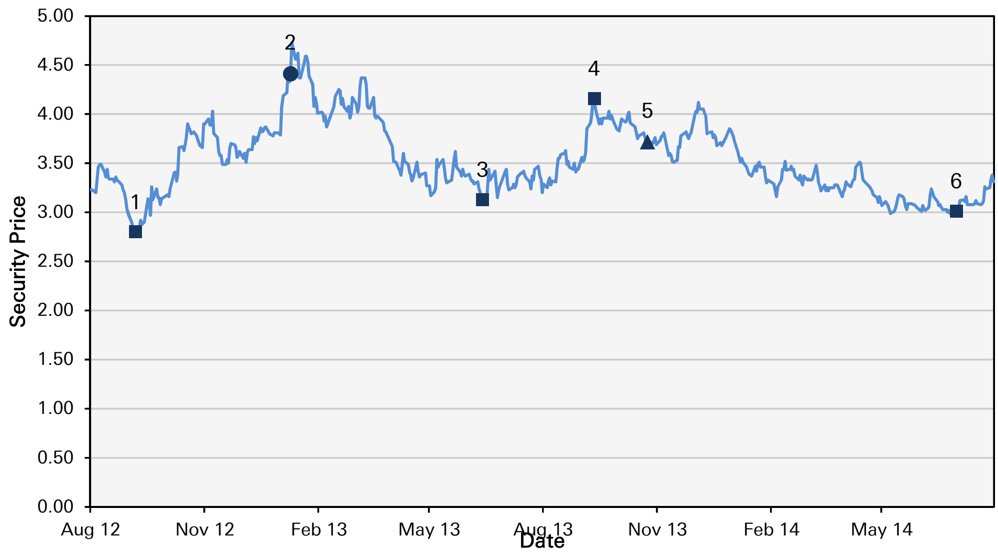
1.	07/09/2012:	Buy, Target Price Change HKD5.00	4.	09/12/2013:	Buy, Target Price Change HKD8.30
2.	10/01/2013:	Buy, Target Price Change HKD7.00	5.	04/06/2014:	Buy, Target Price Change HKD8.00
3.	14/06/2013:	Buy, Target Price Change HKD6.30			

Historical recommendations and target price: Hanjin Shipping (117930.KS)

(as of 7/31/2014)

1.	10/01/2013:	Buy, Target Price Change KRW17,700.00	4.	27/01/2014:	Sell, Target Price Change KRW4,000.00
2.	14/06/2013:	Downgrade to Hold, Target Price Change KRW7,300.00	5.	01/07/2014:	Sell, Target Price Change KRW2,260.00
3.	12/09/2013:	Downgrade to Sell, Target Price Change KRW6,200.00			

Historical recommendations and target price: China Cosco Hldgs (1919.HK)
(as of 7/31/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	07/09/2012:	Buy, Target Price Change HKD3.90	4.	12/09/2013:	Hold, Target Price Change HKD4.00
2.	10/01/2013:	Downgrade to Hold, Target Price Change HKD4.50	5.	25/10/2013:	Upgrade to Buy, Target Price Change HKD4.40
3.	14/06/2013:	Hold, Target Price Change HKD3.46	6.	01/07/2014:	Buy, Target Price Change HKD3.60

Historical recommendations and target price: Nippon Yusen (9101.T)
(as of 7/31/2014)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

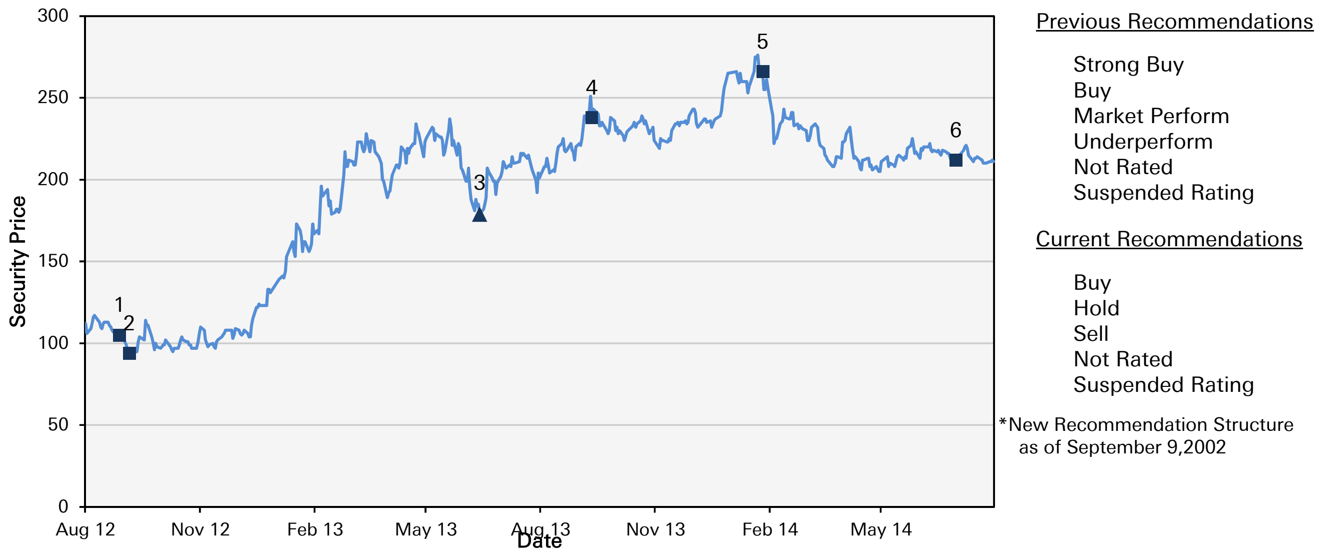
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	29/08/2012:	Buy, Target Price Change JPY244	4.	12/09/2013:	Buy, Target Price Change JPY375
2.	06/09/2012:	No Recommendation, Target Price Change JPY0	5.	27/01/2014:	Buy, Target Price Change JPY390
3.	14/06/2013:	Upgrade to Buy, Target Price Change JPY360	6.	01/07/2014:	Buy, Target Price Change JPY360

Historical recommendations and target price: Kawasaki Kisen (9107.T)

(as of 7/31/2014)



1.	29/08/2012:	Buy, Target Price Change JPY132	4.	12/09/2013:	Buy, Target Price Change JPY280
2.	06/09/2012:	No Recommendation, Target Price Change JPY0	5.	27/01/2014:	Buy, Target Price Change JPY330
3.	14/06/2013:	Upgrade to Buy, Target Price Change JPY260	6.	01/07/2014:	Buy, Target Price Change JPY310

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
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Notes:

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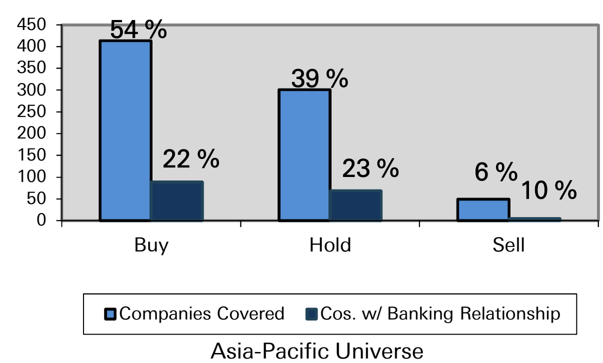
2. Ratings definitions prior to 27 January, 2007 were:

    Buy: Expected total return (including dividends) of 10% or more over a 12-month period
    Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
    Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Regulatory Disclosures

1. Important Additional Conflict Disclosures

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