Ryan Zheng (SFC CE:BOB758) (852) 3519 1294 March 11, 2022 Friday

Market Wrap

HSI ▲1.27% HSCEI ▲0.92% Turnover HK$146.2 bn ▲9% (30-day average) SSE Composite ▲1.22% SZSE Component ▲2.18%

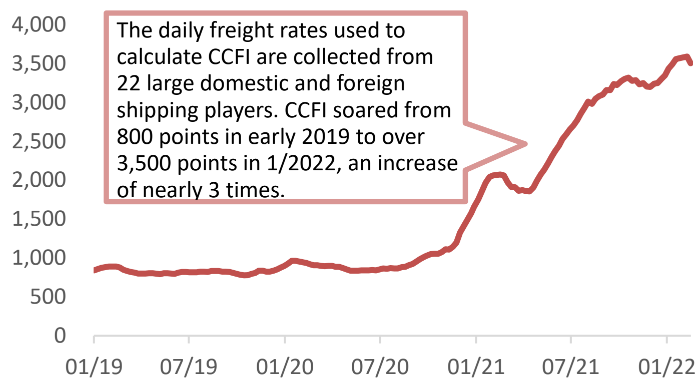
Sector tracking				Stock tracking			
1D	▲%	1Y	▲%	Shanghai Connect 1D	▲%	Shenzhen Connect 1D	▲%
Power	4.3	Marine	126.9	GCL-POLY ENERGY(3800)	10.9	IMMUNOTECH-B(6978)	19.1
Airlines	3.8	Coal	69.3	EVERG SERVICES(6666)	9.6	LK TECH(558)	13.2
Auto	3.7	Power	59.7	PEIJIA-B(9996)	9.5	SKYWORTH GROUP(751)	12.7
Insurance	3.2	Printing	34.6	SOHO CHINA(410)	9.0	GCL-POLY ENERGY(3800)	10.9
Water	3.1	Chemicals	21.1	WUXI APPTEC(2359)	8.6	JACOBIO-B(1167)	10.3

Market Highlight

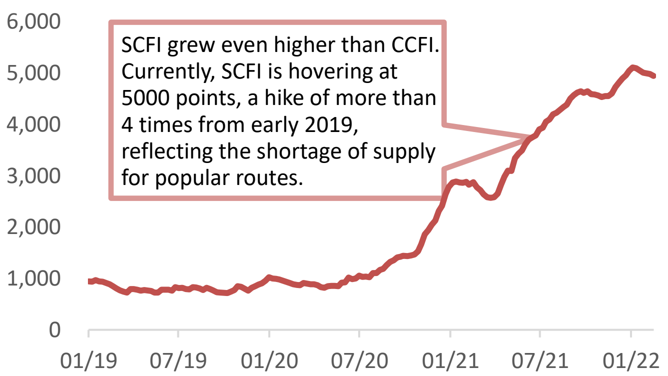
Shipping Market Varied for Container Cost Hike and BDI Slide

The global logistics supply chain continuously suffered port congestion and container shortages with the recovery of major economies, resulting in skyrocketing shipping prices. The China Containerized Freight Index (CCFI) was 3510.8 points in average in 1/2022, up 274% from early 2020. The Baltic Dry Index (BDI), an index of average prices paid for the transport of dry bulk materials across more than 20 routes, rose to a peak of 5,650 points in 10/2021, and then fell all the way to around 2,000 points.BDI rebounced to 2558 in recent weeks on the the back of Ukraine uncertainty.

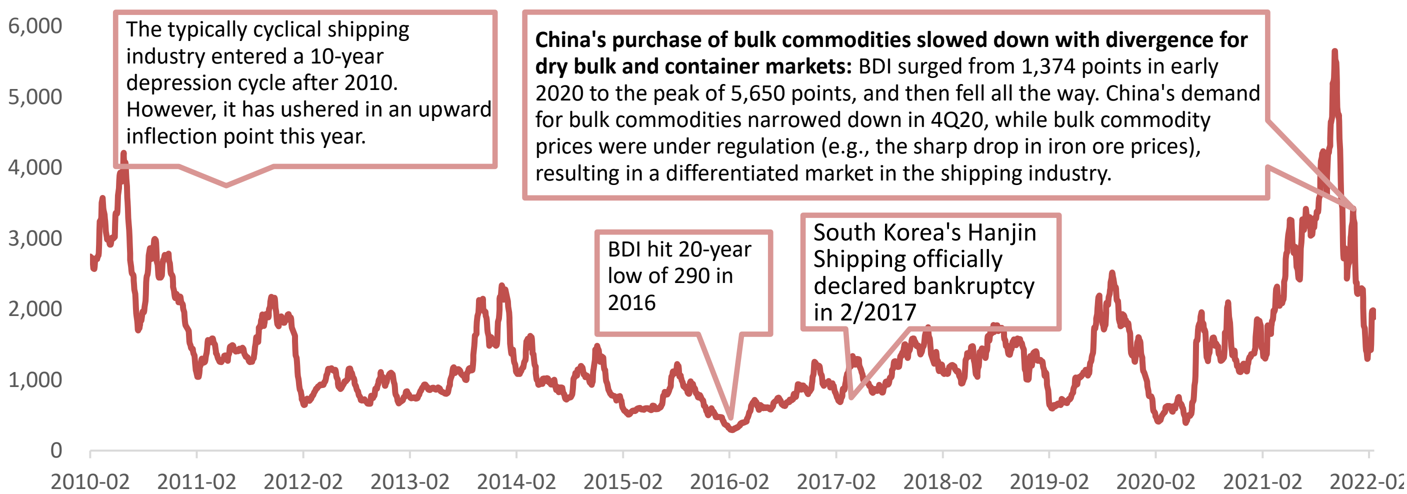
China Containerized Freight Index (CCFI)



Shanghai Containerized Freight Index (SCFI)



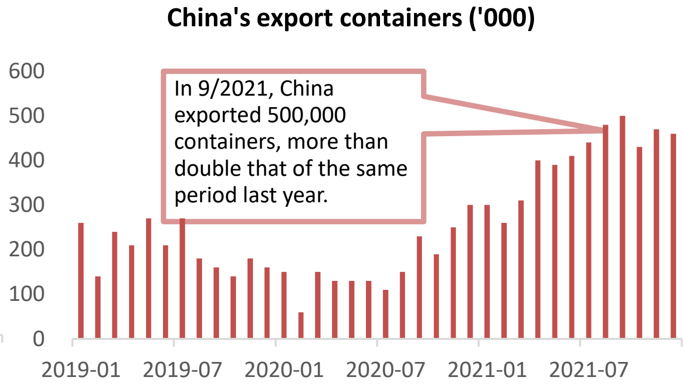
Baltic Dry Index (BDI)



Source: Wind, Orient Securities (Hong Kong)

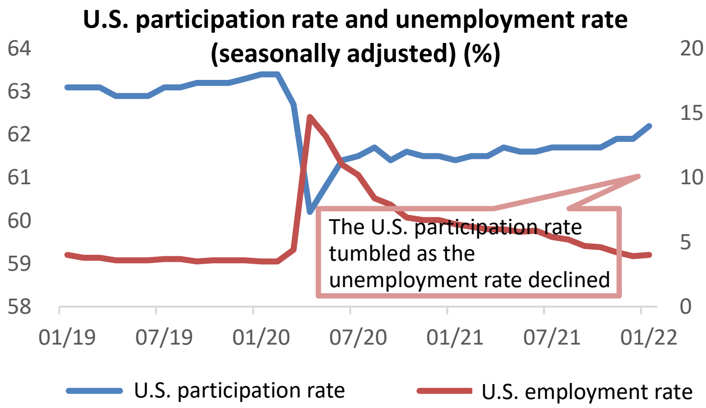
Soaring prices of sea shipping may not tumble in a short time due to multiple reasons

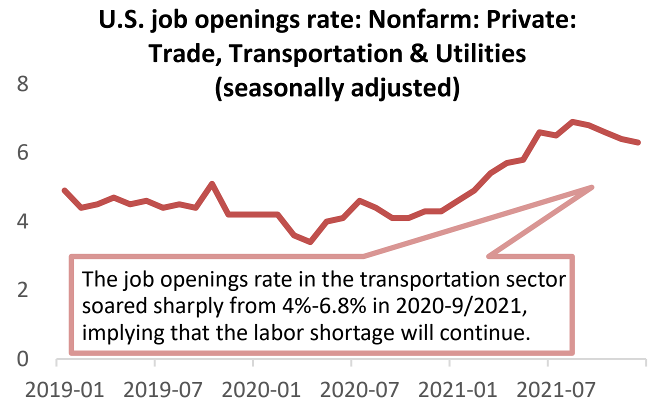
1. The strong recovery of U.S. consumption prompted by the COVID-19 stimulus packages caused a surge in import demand, whilst China's import and export volume climbed sharply. U.S. governments issued multiple rounds of COVID-19 aid plans involving a large amount of cash handouts, resulted in a sustained recovery of consumption. Moreover, retailers destocked amid the pandemic, causing lower inventory. As the U.S. import and China's export grew in recent years, China's trade surplus widened further. Given Vietnam were trapped in the rebound of the pandemic, a lot of global manufacturing orders flew back to China, thereby boosting the demand for containers. China's export containers have been increasing solidly since 5/2021, reaching 500,000 in 9/2021. The excess freight demand went beyond the carrying capacity of terminals. Meanwhile, large backlog slashes the efficiency of terminals, which further deteriorates transportation.



Source: Wind, Orient Securities (Hong Kong)

2. A shortage of labor at U.S. ports dragged down the efficiency of terminals. The World Bank launches the Container Port Performance Index (CPPI) by evaluating the operational efficiency of 351 container ports around the world based on indicators such as total port hours per ship call. Among them, the Port of Los Angeles and the Port of Long Beach ranked 328th and 333rd, respectively. Some U.S. laborers have low willingness to find jobs given the unemployment benefits. The U.S. participation rate dropped by 1ppt since the COVID-19 outbreak. The unemployment rate repeatedly hit fresh lows this year under the labor shortage. However, shipping sector saw a big rise in job openings rate, indicating that the transportation market is not attractive to labors, which adversely affects port operation.





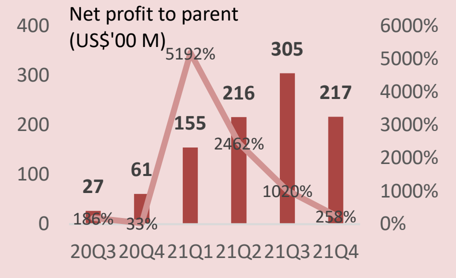
Source: Wind, Orient Securities (Hong Kong)

3. Anti-epidemic measures hurt the cargo transportation efficiency. China's strict 'zero-Covid' policy ensured port operation, but the social distance measures (e.g., covid test for all staff) inevitably somewhat affected the port operation efficiency. Regional outbreaks happened frequently, bringing about suspensions of port operations, thereby hitting the global supply chain.

Recent matters that affected port operations	
5/2021	Shenzhen Yantian Port, the fourth largest port in the world after Shanghai, Singapore, and Ningbo, was closed due to the pandemic.
8/2021	Ningbo Zhoushan Port, the third largest port in the world after Shanghai and Singapore, was partially closed due to the confirmed cases of workers.

Our views: The global shipping market is mostly concentrated between the major producers in East Asia and the consumer markets in Europe and the U.S. The surge in global shipping prices was caused by multiple factors. First, the demand for container shipping spiked amid the recovery of consumption in Europe and the U.S. Second, anti-epidemic measures came out with the lack of labor in the U.S. and lower efficiency of global terminals. Strong consumer demand and labor shortages in Europe and the U.S. were still problems in the short term during the pandemic. We believe that global shipping pressure will grow further. However, as the pandemic weakens and the job market recovers, it is expected that the tensions will ease quickly.

Hong Kong-listed Shipping Companies

<table>
<tr><th>Company</th><th>COSCO (1919 HK)</th><th>OOIL (316 HK)</th><th>SITC (1308 HK)</th><th>PACIFIC BASIN (2343 HK)</th></tr>
<tr><td>Quarterly revenue or net profit and yoy (%)</td>
<td>
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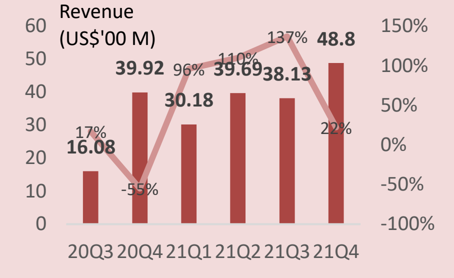
<td>
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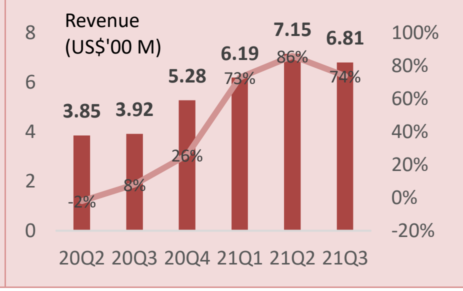
<td>
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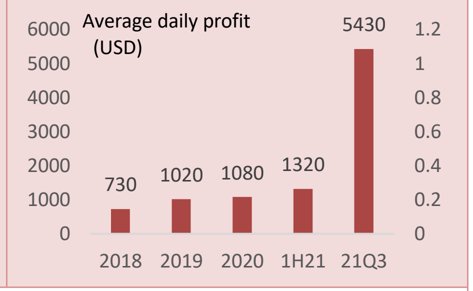
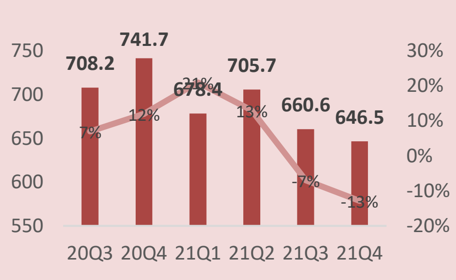
<td>
</td></tr>
<tr><td>Our views</td><td colspan="4">The major shipping companies listed on the HKEX booked explosive growth in revenue and profits since 4Q20. Among them, COSCO, the leading shipping player, announced a forecasted net profit of roughly RMB89.28 billion in 2021, up 799.3% yoy, while OOIL's revenue climbed 110.2%.</td></tr>
<tr><td>Quarterly container volume (10,000 TEUs)</td>
<td>
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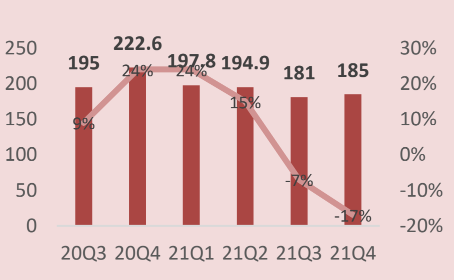
<td>
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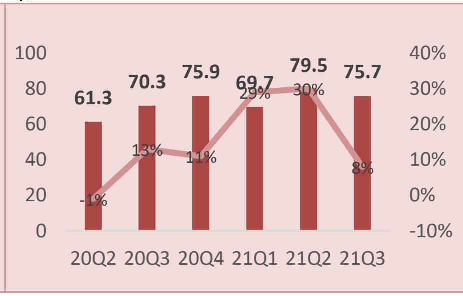
<td>
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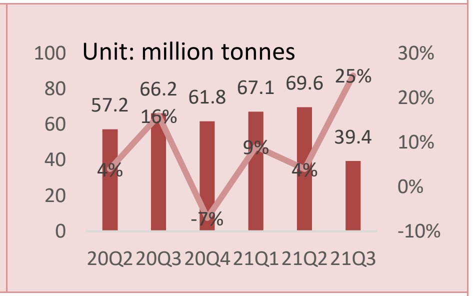
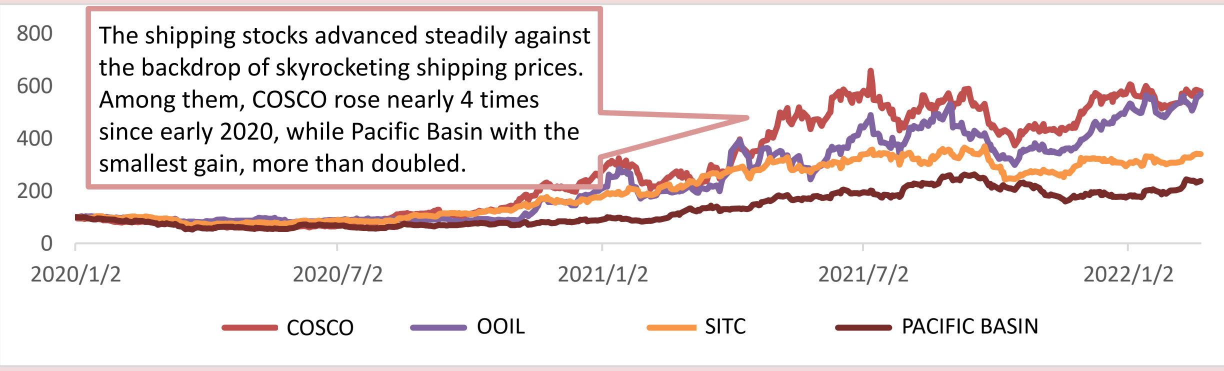
<td>
</td></tr>
<tr><td>Our views</td><td colspan="4">Despite a big slide in cargo volume with the congestion of route network since 2H21, shipping companies recorded robust results owing to the soaring average income of a single container: Shipping companies showed limited resilience in cargo volume amid the sharp increase in container cargo demand. Lower efficiency of terminals dragged down the cargo volume of shipping companies due to the congestion of routes since 2H21, which even worsened in 4Q21. The wild growth in revenue and profits of shipping companies was chiefly attributable to the single container price hike, given no large rise in cargo volume.</td></tr>
<tr><td>Share prices</td>
<td colspan="2">
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<td colspan="2">The shipping stocks all climbed sharply, of which the increase in the container business (e.g., COSCO) was higher than that of dry bulk business (e.g., Pacific Basin): The shipping stocks remained low due to the long downturn in shipping industry. However, the container shipping prices picked up steadily from 4Q20, whilst shipping companies witnessed surging results and rising share prices. At its peak, COSCO advanced 6 times from that in early 2020, while Pacific Basin, mainly focusing on dry bulk shipping, underperformed other shipping stocks, in line with the mixed trend of the shipping industry.</td></tr>
</table>

Source: Company, Wind, Orient Securities (Hong Kong)

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