

COSCO SHIPPING Holdings 2021 Q3 Results Teleconference Minutes

2021.11.1 15:00-16:00 GMT+8

1.Presentation from the Company

From the perspective of overall market supply and demand:

Since the beginning of this year, as the world economy has gradually recovered from the recession caused by COVID-19, global trade has rebounded. Thanks to the rapid recovery of global trade, the demand for replenishment in Europe and the US has been relatively strong.

In terms of capacity supply, in the first nine months of this year, the market delivered a total of 810,000 TEU of capacity, and the scrapped capacity was only 13,000 TEU, which was far below the normal level. At the same time, the market idle capacity rate at the end of September also remained at a very low level of 0.6%.

To meet the shipping demand of customers, all shipping companies including COSCO SHIPPING Holdings' dual-brand fleet have deployed more capacity. However, the bottleneck of global supply chain industry, e.g., the problem of port congestion, has restricted the effective fleet capacity, leaving the tight supply of capacity an unsolved problem for the time being.

Under the influence of the above factors, the fundamentals of the container shipping market remained strong during the Reporting Period. From January to September, the average of China's Export Container Freight Index (CCFI) was 2,399 points, representing a year-on-year increase of 169%. From July to September, the average of the CCFI index increased by 229% year-on-year and 38% quarter-on-quarter.

Reviewing the Company's operations

During the Reporting Period, COSCO SHIPPING Holdings implemented regular epidemic prevention and control to protect the wellbeing and health of all staff onshore and offshore. Meanwhile, the Company has actively made effort to implement the task of "Ensuring Stability on Supply Chain". The Company has been upholding the philosophy of providing "customer-oriented" services through measures such as increasing shipping capacity, guaranteeing container supply and providing better services, thereby ensuring global transportation services and actively fulfilling the

social responsibility. The financial results during the Period increased substantially year on year.

During the Reporting Period, the Company generated a revenue of RMB231.5 billion and recorded a net profit attributable to the equity holders of RMB67.6 billion. Net operating cash inflow was RMB113.9 billion, and the asset-liability ratio at the end of the Reporting Period was 59%, decreasing by 12 percentage points compared with the beginning of the year. Net assets attributable to equity holders at the end of the Reporting Period were RMB112 billion.

In terms of business segments, the container shipping business:

As of September 30, 2021, the Company operated 517 container ships with approximately 2.98 million TEU, of which the capacity of self-owned and bareboated ships accounted for over 70%. So, our fleets have a clear competitive advantage among peers. In addition, the Company now holds an order for 32 new vessels featuring nearly 600,000 TEU, and the future fleet structure will also be continuously optimized.

Recently, adhering to the “customer-oriented” philosophy, relying on the global network and sea-rail intermodal transportation resources, the Company has launched the “Trans-pacific BCO Express Line” service to provide customers with a more efficient, integrated and customer-friendly logistics solution.

The new service reflected the Company's comprehensive service capability and profound industry accumulation in network resources, terminal resources and inland resources.

The Company recorded a freight volume of 20.45 million TEUs in the first nine months, representing a year-on-year increase of 8%. Among them, the shipping volume of foreign trade routes increased by 10.5% year-on-year, and the shipping volume of domestic trade routes decreased slightly by 0.7% year-on-year.

In the first nine months, the Company's container shipping business segment achieved revenue of USD33.24 billion, representing a year-on-year increase of 117.5%. Among them, revenue from foreign trade routes increased by 125.7% year-on-year.

The unit revenue of the Company's international routes was USD1,944, representing a year-on-year increase of 104.3%, and the unit revenue of the domestic trade routes was RMB 2,326, representing a year-on-year increase of 14.1%.

In terms of terminal business:

From January to September 2021, the total throughput of COSCO SHIPPING Ports reached 96.43 million TEUs, representing a year-on-year increase of 5.9%. Among them, the throughput of the controlled terminal was 17.28 million TEUs, representing a year-on-year increase of 4.9%; the throughput of the non-controlled terminals was 79.15 million TEUs, an year-on-year increase of 6.1%.

In addition, COSCO SHIPPING Ports continues to improve its global terminal layout. For example, in September this year, the Company announced the acquisition of a 35% stake in the Container Terminal Tollerort (“CTT Terminal”) of the Hamburg Port in Germany. With the superior geographical conditions and efficient operation as well as the management capabilities of the Port of Hamburg, the Company will further leverage the advantages in the synergy of port and shipping.

In the first three quarters, the Company has achieved perfect results in strategic execution, industrial operation, customer service and social responsibility, and has also shown a very strong ability to participate in international competition. At the current point in time, the customer structure, source structure, fleet structure and terminal layout of COSCO SHIPPING Holdings have laid a very good foundation for the Company's future development. We expect future progress to be more stable, of higher quality and more sustainable.

Therefore, COSCO SHIPPING Group, the controlling shareholder of the Company, has recently increased its share interest of the Company, which fully reflects the controlling shareholder's confidence in the prospect of the Company's future development and its endorsement of the Company's investment value.

In the future, COSCO SHIPPING Holdings will actively seize market opportunities and implement regular epidemic prevention and control. The Company will make every effort to ensure the smooth operation of the customer's shipping demand and the supply chain. The Company will also strengthen business model innovation and be committed to building a more stable and long-term cooperative relationship with customers. While providing customers with better services, the Company will further enhance its ability to resist risks or cyclical fluctuations to create value for customers and return for shareholders.

2.Q&A session

1. Q: The three alliances of shipping companies passed the European Consortia Block Exemption Regulation in 2018. Does the Exemption need to be reassessed next year?

The target of alliance existence is for several shipping companies to share transport capacity, realize network scale effect and cost competitive advantage to provide more comprehensive service coverage and provide customers with higher frequency services. At the same time, the alliance needs to strictly abide by anti-monopoly laws and regulations.

For example, if a single shipping company has 8 ships a week and other members of the alliance have 16 ships a week, the alliance could integrate 24 ships a week. From the perspective of route coverage and sailing frequency, customers can enjoy greater convenience. However, if the independent carrier has only 8 ships, it may affect the customers' plan for preparation and shipment. Therefore, the alliance could be the best way to guarantee that customers of different audiences of each shipping company can enjoy more frequent ships. 24 ships could provide more comprehensive services than 8 ships. This is the most meaningful reason for the existence of alliances.

The operation mechanism of the alliance of shipping companies is compliant and mature, which is conducive to providing customers with wider coverage and higher quality services. So far, there is no sign that the alliance exemption will be excluded.

2. Q: The Los Angeles and Long Beach port surcharges for overdue piled boxes are expected to be charged on the 15th. What will the impact be?

First, the US ports impose overdue surcharges with an aim that all parties will jointly solve the situation of terminal congestion and speed up the circulation of container goods.

Second, the Company will actively communicate with the authorities and cargo owners and explain especially the potential additional costs to the shippers.

Third, COSCO SHIPPING Holdings advocates the attitude of being responsible for our customers. After learning about the issuance of the administrative order, the Company immediately discussed the countermeasures with the customer, the wharf and the railway company. We formulated a plan immediately to avoid excessive detention of goods as soon as possible or huge loss of customers.

Fourth, the biggest advantage of the Company is that the three wharfs used in LA/LB with a long history, strong operation ability and coordination ability, to maximize the stable operation of the TP route, and then into the company's service advantage, win the trust and support of customers.

Fifth, the specific effect of the policy needs to be continuously tracked and observed after the official entry into force of the executive order on November 15, such as

whether the container turnover rate has been improved or the recovery of terminal operation, etc.

3, Q: There was a large proportion of votes against the upper limit of the annual financial services agreement in the resolution of the general meeting of shareholders on last Friday. What is the reason behind this?

The Company raised the upper limit of the annual financial service agreement in the COSCO SHIPPING Finance Company, mainly due to the enhancement of the Company's profitability and the significant improvement of cash inflow. Therefore, it needed to be re-signed. Some institutional investors holding H shares of the Company voted against the proposal under the advice of overseas voting consultants. However, this agreement is actually beneficial to the Listed Company. First, COSCO SHIPPING Finance Company holds the finance license and features good reputation and mature risk control mechanism. Second, as the core enterprise of the Group, COSCO SHIPPING Holdings can obtain some corresponding preferential policies in COSCO SHIPPING Finance Company.

4. Q: There were more than RMB60 billion liabilities in the Company's accounts. The interest expense in the first three quarters was RMB2.7 billion yuan. The debt financing cost of 5% was not low. The Company has a healthy cash flow. Do you plan to further reduce liabilities?

As for the liabilities and the debt financing cost, the data you mentioned may not be accurate. By the end of September, the company's interest-bearing liabilities was RMB131.3 billion in total, including leasing liabilities of 48 billion yuan, loans from financial institutions and other interest-bearing liabilities of 83.3 billion yuan. At the end of September, the total cash and cash equivalents was RMB144.1 billion in the Company's consolidated balance sheet, so in fact, the Company has been in the state of net cash.

With regard to the work of reducing financial costs, the Company are also constantly promoting the arrangement of debt structure optimization in the future.

The debt financing cost of financial institutions is currently about 2.3%, which is also relatively low among peers. In terms of the absolute value of financial expenses, the net financial expenses from January to September were RMB2.07 billion. However, some of these financial expenses came from the impact of the IFRS-16. After the implementation of the new leasing accounting standards, the rents paid by operating leases with longer leasing period are now regarded as lease liabilities in balance sheet.

The interest expenses related to this part of lease liabilities were the interest expenses arising from amortization based on accounting standards and would not be reduced by repayment of loans of financial institutions.

5. Q: How does the Company view the demand in 2022?

It is not easy to predict trade growth in the next year. In addition to referring to the forecasts of industry consulting institutions, the Company will also look into the needs of our KAs next year and try to make a demand outlook on the volume of goods in next year through first-hand data. At present, the Company is optimistic about the demand.

In addition, the Company's route network covers the globe, and its service capacity in Southeast Asia is also in the leading position in the industry. The Company can adjust the service in time according to the changes of cargo flow. Therefore, the Company has been able to better deal with the changes of cargo flow structure caused by previous trade frictions.

6. Q: What is the Company's outlook on the signing of long-term contract of Asia-Europe routes and Transpacific routes in 2022?

The signing period of the long-term contract of the Transpacific routes is mainly concentrated in March and April every year and some may be discussed in advance for year 2022. Most of them takes effect on 1st May every year as the implementation date. The Company focuses on promoting the long-term contract of the Asia-Europe routes at present.

As for the shipping volume of the Company's Asia-Europe routes contract in 2021, the volume under contracts with one-year term and above accounted for 40 ~ 45% of total AE fronthaul volumes. According to the current Asia-Europe routes contract negotiation in 2022, it is expected that this proportion will increase. However, the signing period has not ended yet and the final proportion cannot be determined yet. In addition to one-year contracts, more two-year or three-year contracts are expected to be signed.

Therefore, the Company is generally optimistic about the long-term contract, and customers particularly focus more on the reliability and resilience of the supply chain. More and more customers hope to find shipping companies with high reliability, comprehensive resources and high-quality service to sign more long-term contracts. They are also willing to reevaluation the importance of the supply chain with more reasonable and relatively fair price.

7.Q: How does the Company view the recent disorder of container transportation system?

The disorder of container transportation system has lasted for a long time. Here are some major reasons. First, new carriers have entered the market, such as the cargo owners who chartered ship for self-transportation. Second, the flourishing downstream demand has been driving the business of procurement and inventory restocking. Third, the imbalance of import and export in cargo flow has added to the burden in container turnover.

This disorder will increase the cost of the whole logistics system and lead to the overdue surcharges at some ports. The Company will fully leverage the advantage in terminal resources and actively communicate with cargo owners to break through the bottleneck of container supply chain.

8. Q: What are the reasons for the decline of the Company's cargo volume in the third quarter?

It is mainly due to the disruptions of the supply chain, such as long berthing time and low container turnover rate, which further reduced the number of effective voyages and shipping capacity within a certain period rather than the decline of demand. During the third quarter and at present, the capacity utilization rate of the Company in the fronthaul direction of the east-west trunk routes has remained fully loaded.

9. Q: It is said that the quotation of freight forwarders fell sharply at the end of September. What is the reason behind this? What does the Company think of the cooperative relationship with freight forwarders?

Some small and medium-sized customers in the market have limited ability to deal with trade and transportation in dynamic environment, and they don't have so many cargo volumes to directly cooperate with the carrier. They need freight forwarders to provide services. After the freight forwarders have collected resources from customers, they order from the shipping companies. The quotation of the shipping companies is based on the fundamentals of supply and demand, which is relatively fair.

However, the freight forwarding market is affected by many factors, such as emotional disturbance, information asymmetry and short-term speculation. Sometimes it may deviate from the internal attributes of service products, which is more likely to lead to

price fluctuations.

But at the same time, the shipping companies are also developing their businesses towards the end-to-end logistics, so as to gradually extend the supply chain to both ends through digital platforms and end-to-end services. The proportion of direct customers may rise in this process.

10. Q: What are the reasons for the difference between freight rates of shipowners and freight forwarders on the TP routes and the AE routes?

First, the demands of the TP routes is stronger than that stemmed from the AE routes. Second, the freight forwarders of the two routes have different resources and service abilities. Third, the AE routes have a higher entry threshold and more stable competition patterns. But the TP routes have more new market entrants, which bring more dynamic and complex market information.

11. Q: The income tax rate increased significantly year-on-year in the third quarter. What are the main reasons? Based on the different tax rates between China Hong Kong and mainland China, what will be the impact of OOIL's dividend to the COSCO SHIPPING Holdings?

The Company's income tax increased significantly in the third quarter, mainly because the Company had negative retained earnings to be made up due to the loss in previous years, which brings the tax shield. With the profit growth, the tax shield gradually decreased until it was used up. Since then, the income tax will be increased with the profit growth.

If OOCL pays dividends to COSCO SHIPPING Holdings, these funds will eventually be distributed from abroad to domestic during the distribution process, and the tax difference will also increase the income tax of COSCO SHIPPING Holdings. During the Reporting Period, some deferred income tax liabilities have been accrued accordingly, also leading to the increase of overall income tax expenses.

12. Q: What is the consideration of the Company's acquisition of the equity of Hamburg Port?

For Hamburg Port, the acquisition helped to deepen cooperation with shipping companies. For the Company, on the one hand, it was in line with the development

philosophy called “The Ports for ALL” of COSCO SHIPPING Ports. On the other hand, it was also helpful to serve the route network of the Company's dual brand container fleet.

13. Q: What is the difference between the quotation of the Company's “Trans-pacific BCO Express Line” service and the ordinary shipping route service?

The development of express line services mainly aims to meet the needs of customers and help customers solve the problems of tight supply chain. From the perspective of pricing, the Company pays more attention to the service commitment and long-term cooperation with customers. Quick success or instant benefit is not what the Company strive for. Thus, the Company will not adopt the high price strategy in express line services.

In addition, this is also an important measure for the Company to echo the policy of “Ensuring Stability on Supply Chain”. The Company provides more reliable services, and is also committed to maintaining the stable operation of the supply chain at prices same as other ordinary routes. This is the embodiment of the Company’s corporate social responsibility.

It has also showed that COSCO SHIPPING Holdings pays more attention to the service experience of customers in business practice. The Company values stable services and focuses on long-term development, so as to build a mutually beneficial and win-win long-term cooperative relationship with our customers.