Regional Sector Navigator – 2014

Transport

It's all about the competition

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Both the airline and shipping space is awash with overcapacity and yield pressures from competition, and so our Neutral sector call is not too surprising. But investors should pay attention to the airport sector where we have three Add calls. We expect them to continue doing well in 2014, particularly as Thai and Malaysian LCCs inject record amounts of capacity this year. Airlines will likely see yield deflation in 2014 as competition heightens, so only the best makes the list. Cathay has been able to grow yields as it right-sized capacity on the long-haul routes, and it is benefitting from better US premium demand. Some high-quality but out-of-favour airline stocks like AirAsia and SIA are trading only slightly above their liquidation values. These are superb airline brands in Asia, and share price catalysts could materialise this year. Shipping stocks are trading very cheap, with MISC, Pacific Basin, and Orient Overseas trading at large discounts to their liquidation values. We believe that the earnings downcycle has bottomed for MISC and Pacific Basin, and investors should get in. But any improvement in container shipping rates will be weak as oversupply grows in 2014. SITC is the key standout in this space as its freight forwarding business is growing structurally.

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ASIA PACIFIC

TRANSPORT

RECOMMENDATION

OVERWEIGHT

NEUTRAL

UNDERWEIGHT

Notes from the Field

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“There’s huge potential for LCC growth but there’s too much capacity and the growth in some cases has been too fast.

– Brendan Sobie, Chief Analyst for Southeast Asia, Centre for Asia-Pacific Aviation

Highlighted Companies

Cathay Pacific
Add, TP: HK$18.50 (6.5x CY15 EV/EBITDAR). The airline’s capacity discipline in the long-haul routes had helped it lift overall yields, despite demand weakness on the short-haul routes.

Airports of Thailand
Add, TP: THB192 (DCF). Despite the near-term fall in tourist traffic due to political conflict, we believe tourist arrivals will rebound quickly after the conflict ends. AOT will also benefit from the rapid expansion by both new and incumbent airlines in 2014.

Sydney Airport
Add, TP: A$4.25 (DCF). With a best-in-sector 6% yield, a solid growth outlook driven by international traffic, and catalysts on the horizon, we think Sydney Airport remains attractive on a 2-3 year horizon.

Pacific Basin
Add, TP: HK$6.55 (SOP). Pacific Basin has always been profitable in its core dry bulk shipping business, and has been aggressively expanding its fleet at low prices. It is trading at an unjustifiable discount to its underlying fleet value.

It’s all about the competition

Both the airline and shipping space is awash with overcapacity and yield pressures from competition, and so our Neutral sector call is not too surprising. But investors should pay attention to the airport sector where we have three Add calls. We also like Cathay Pacific, which is our only Add among the airlines. The bulk shipping sector is looking up, and we also highlight MISC which is poised for upside surprises.

Figure 1: Top transport sector picks

Company	Bloomberg Ticker	Recom.	Price	Target Price	Upside (%)
Cathay Pacific	293 HK	Add	HK$16.54	HK$18.50	11.9%
AOT	AOT TB	Add	THB175.50	THB192.00	9.4%
MAHB	MAHB MK	Add	RM8.84	RM9.80	10.9%
Sydney Airport	SYD AU	Add	A$3.88	A$4.25	9.5%
Maybulk	MBC MK	Add	RM1.92	RM2.01	4.7%
Pacific Basin	2343 HK	Add	HK$5.17	HK$6.55	26.7%
MISC	MISC MK	Add	RM5.60	RM7.25	29.5%

SOURCES: CIMB, BLOOMBERG

Airline competition and fare cuts are expected to drive airport traffic volumes in Thailand and Malaysia. Cathay and Pacific Basin are executing well in the downturn and will benefit from the cyclical rebound. And so much bad news is already in MISC’s share price that any positives could move the stock.

Airports rock!

Airport stocks have done very well in 2013, and we expect them to continue doing well in 2014, particularly as Thai and Malaysian LCCs inject record amounts of capacity this year. AOT is currently experiencing a big drop in traffic due to the political conflict, but history has shown that the rebound can be very quick.

Be selective on airlines

Airlines will likely see yield deflation in 2014 as competition heightens, so only the best makes the list. Cathay has been able to grow yields as it right-sized capacity on the long-haul routes, and it is benefitting from better US premium demand. Some high-quality but out-of-favour airline stocks like AirAsia and SIA are trading only slightly above their liquidation values. These are superb airline brands in Asia, and share price catalysts could materialise this year.

We have Reduce calls on Cebu Air and AAV as the strong US$ will hurt. Poor demand and excess capacity will put pressure on Qantas, Virgin Australia, Tiger Air, MAS and Thai Air. The Chinese carriers are still feeling the heat from the austerity drive that has sapped strength from the premium markets. Korean carriers are exposed to the still-weak cargo markets.

Past the shipping trough?

Shipping stocks are trading very cheap, with MISC, Pacific Basin, and Orient Overseas trading at large discounts to their liquidation values. We believe that the earnings downcycle has bottomed for MISC and Pacific Basin, and investors should get in. This is true for Maybulk as well, but avoid PSL on valuation grounds. But any improvement in container shipping rates will be weak as oversupply grows in 2014. SITC is the key standout in this space as its freight forwarding business is growing structurally.

Figure 2: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) CY2013	Core P/E (x) CY2014	3-year EPS CAGR (%)	P/BV (x) CY2013	P/BV (x) CY2014	Recurring ROE (%) CY2013	Recurring ROE (%) CY2014	Recurring ROE (%) CY2015	EV/EBITDA (x) CY2013	EV/EBITDA (x) CY2014	Dividend Yield (%) CY2013	Dividend Yield (%) CY2014
AirAsia Bhd	AIRA MK	Hold	RM2.34	RM2.55	1,953	10.4	10.9	-9.2%	1.21	1.07	12.1%	10.5%	10.0%	7.8	7.6	2.6%	2.4%
AirAsia X Bhd	AAX MK	Hold	RM0.99	RM1.11	704	32.6	23.5	na	1.63	1.36	6.9%	6.2%	13.1%	12.8	11.2	0.0%	0.0%
Asia Aviation Pcl	AAV TB	Reduce	THB3.74	THB3.15	552	12.0	16.1	1.5%	0.92	0.88	8.5%	5.6%	6.5%	9.3	13.7	0.0%	0.0%
Tiger Airways	TGR SP	Reduce	S$0.45	S$0.33	343	na	na	na	1.34	1.30	-41.7%	-16.7%	-6.4%	39.7	19.1	0.0%	0.0%
Cebu Air	CEB PM	Reduce	PHP50.00	PHP37.30	669	19.0	29.4	-16.2%	1.39	1.34	7.6%	4.7%	6.8%	8.2	8.7	0.0%	0.0%
SpiceJet	SJET IN	Not Rated	INR16.65	-	143	na	na	na	na	na	62.5%	145.5%	-20.8%	69.8	na	0.0%	0.0%
Air Arabia	AIRARABI UH	Not Rated	AED1.56	-	1,982	16.3	14.2	12.9%	1.31	1.26	8.1%	9.1%	10.4%	12.5	11.0	4.5%	4.7%
Ryanair	RYA ID	Not Rated	€6.73	-	12,755	18.9	18.8	6.9%	2.92	2.82	16.0%	15.3%	18.2%	9.5	9.3	1.6%	0.9%
easyJet	EZJ LN	Not Rated	£16.48	-	10,875	18.3	15.2	18.0%	3.37	2.92	18.8%	20.6%	20.7%	10.8	8.8	1.8%	2.2%
Southwest	LUV US	Not Rated	US$21.24	-	14,798	19.9	16.4	13.0%	2.05	1.91	10.4%	12.1%	12.7%	7.3	6.5	0.6%	0.8%
JetBlue	JBLU US	Not Rated	US$9.23	-	2,606	18.2	13.9	11.0%	1.35	1.28	7.4%	9.5%	10.6%	7.6	6.5	0.0%	0.0%
GOL	GOL US	Not Rated	US$4.53	-	1,263	na	156.2	na	3.41	4.02	-41.7%	2.4%	19.9%	9.0	6.8	0.2%	0.8%
WestJet	WJA CN	Not Rated	C$27.07	-	3,264	14.2	11.6	6.3%	2.10	1.87	15.1%	17.1%	18.0%	3.2	5.9	1.5%	1.7%
Low-Cost Carriers						**19.7**	**16.8**	**10.0%**	**2.19**	**2.04**	**11.4%**	**12.6%**	**14.4%**	**8.4**	**7.7**	**1.3%**	**1.3%**
Cathay Pacific Airways	293 HK	Add	HK$16.54	HK$18.50	8,386	26.4	12.8	73.0%	1.08	1.01	4.2%	8.2%	8.5%	9.9	7.4	0.8%	1.1%
China Eastern Airlines	670 HK	Reduce	HK$2.66	HK$2.30	5,085	20.9	11.9	-1.9%	0.98	0.90	5.3%	7.8%	9.1%	11.5	10.3	0.0%	0.0%
China Southern Airlines	1055 HK	Reduce	HK$2.79	HK$2.40	4,118	23.9	10.5	4.5%	0.61	0.58	2.6%	5.6%	6.9%	10.9	9.1	2.1%	1.3%
Air China	753 HK	Hold	HK$5.13	HK$5.40	8,387	14.4	9.9	9.0%	0.89	0.83	6.4%	8.6%	9.2%	7.6	6.9	1.7%	1.7%
Korean Air	003490 KS	Hold	Won33,800	Won30,500	1,847	na	48.8	na	0.95	0.87	-13.8%	1.8%	2.0%	10.9	8.4	0.0%	0.2%
Asiana Airlines	020560 KS	Hold	Won5,300	Won5,200	963	na	85.7	na	1.03	1.01	-12.8%	1.2%	17.3%	34.9	20.4	0.0%	0.0%
Malaysian Airline System	MAS MK	Reduce	RM0.31	RM0.17	1,555	na	na	na	1.29	1.93	-37.6%	-37.5%	-55.8%	na	na	0.0%	0.0%
Singapore Airlines	SIA SP	Hold	S$9.83	S$10.50	9,024	22.5	18.1	21.1%	0.87	0.85	4.0%	4.8%	5.2%	5.2	4.8	3.3%	4.0%
Thai Airways International	THAI TB	Reduce	THB14.00	THB11.50	929	na	na	32.2%	0.49	0.51	-4.0%	-3.6%	5.5%	9.4	9.7	0.0%	0.0%
Qantas Airways	QAN AU	Hold	A$1.10	A$1.14	2,121	na	na	-153.2%	0.44	0.49	-3.8%	-6.1%	-0.4%	3.8	4.5	0.0%	0.0%
Virgin Australia Holdings	VAH AU	Reduce	A$0.37	A$0.35	1,142	na	53.0	98.0%	0.96	0.99	-2.6%	1.9%	5.4%	6.9	4.7	0.0%	0.0%
China Airlines	2610 TT	Not Rated	TWD10.65	-	1,827	51.7	16.1	1629.9%	1.06	0.98	2.0%	6.3%	8.7%	10.4	8.9	0.3%	0.6%
EVA Airways	2618 TT	Not Rated	TWD16.30	-	1,753	34.6	15.1	0.0%	1.44	1.31	3.9%	9.1%	8.5%	8.6	7.6	0.2%	0.6%
Garuda	GIAA IJ	Not Rated	Rp490	-	911	22.3	10.1	0.0%	0.79	0.72	4.0%	7.5%	10.2%	5.9	4.9	0.0%	0.0%
Full-Service Carriers						**67.1**	**20.2**	**16.8%**	**0.87**	**0.84**	**1.3%**	**4.2%**	**6.2%**	**9.5**	**8.3**	**1.3%**	**1.4%**
Airports of Thailand	AOT TB	Add	THB175.50	THB192.00	7,625	22.9	20.3	24.4%	2.70	2.53	12.9%	13.1%	14.8%	12.1	12.4	2.4%	2.0%
Malaysia Airports Holdings	MAHB MK	Add	RM8.84	RM9.80	3,270	26.2	19.7	6.2%	2.30	2.14	9.3%	11.3%	10.5%	15.8	13.5	2.1%	2.9%
Auckland Int'l Airport	AIA NZ	Hold	NZ$3.63	NZ$3.37	3,992	28.5	26.0	9.7%	1.92	1.93	6.6%	7.2%	7.7%	17.0	16.5	2.6%	2.9%
Sydney Airport	SYD AU	Add	A$3.88	A$4.25	7,474	61.2	55.8	-7.4%	2.96	2.82	5.3%	5.2%	5.8%	15.1	15.0	5.8%	6.2%
Beijing Capital International	694 HK	Not Rated	HK$6.02	-	3,359	34.4	29.3	9.0%	1.3	1.2	8.5%	9.5%	10.2%	5.3	4.6	2.6%	3.0%
Shanghai International	600009 CH	Not Rated	Rmb13.56	-	4,320	13.1	11.5	11.8%	1.52	1.40	11.6%	12.7%	13.2%	8.0	7.1	2.6%	3.2%
Aeroports de Paris	ADP FP	Not Rated	€84.10	-	11,384	24.5	21.2	9.6%	2.15	2.06	9.2%	9.9%	10.8%	10.8	10.1	2.5%	2.9%
Airports						**25.7**	**22.5**	**10.8%**	**2.29**	**2.18**	**9.3%**	**9.9%**	**10.7%**	**12.3**	**11.6**	**3.0%**	**3.3%**
Average (all)						**28.3**	**19.4**	**12.6%**	**1.46**	**1.39**	**5.3%**	**7.4%**	**9.1%**	**9.7**	**8.7**	**1.8%**	**1.9%**

SOURCES: CIMB, COMPANY REPORTS

Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

CIMB

Figure 3: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY2013	CY2014		CY2013	CY2014	CY2013	CY2014	CY2015	CY2013	CY2014	CY2013	CY2014
Malaysian Bulk Carriers	MBC MK	Add	RM1.92	RM2.01	576	50.9	28.6	49.4%	1.10	1.09	2.3%	3.9%	5.6%	na	58.4	1.0%	2.1%
Pacific Basin Shipping	2343 HK	Add	HK$5.17	HK$6.55	1,290	36.6	15.2	20.1%	0.96	0.93	2.6%	6.2%	7.5%	12.7	7.7	0.7%	3.3%
Precious Shipping	PSL TB	Reduce	THB21.00	THB15.45	664	na	na	na	1.51	1.59	-3.6%	-2.2%	-0.6%	22.6	19.8	1.7%	1.7%
STX Pan Ocean	028670 KS	Reduce	W6,490	W1,020	731	na	na	na	0.96	1.10	-24.4%	-13.2%	-0.2%	1922.3	25.7	0.0%	0.0%
Thoresen Thai	TTA TB	Not Rated	THB17.70	-	535	na	25.4	na	0.78	0.76	-0.6%	3.0%	3.2%	13.9	8.0	0.2%	1.3%
China COSCO	1919 HK	Not Rated	HK$3.44	-	5,102	na	-21.1	na	1.0	1.1	-12.9%	-2.5%	na	88.7	16.4	0.2%	0.0%
China Shipping Devt	1138 HK	Not Rated	HK$5.18	-	2,362	-12.6	41.8	na	0.6	0.6	-4.8%	1.5%	na	35.3	17.2	0.0%	0.6%
Sinotrans Shipping	368 HK	Not Rated	HK$2.55	-	1,308	61.4	22.9	39.5%	0.60	0.59	1.0%	2.6%	3.1%	8.7	3.7	0.0%	2.1%
Sincere Navigation	2605 TT	Not Rated	TWD27.75	-	522	16.1	18.3	na	1.02	0.97	6.4%	5.4%	na	na	na	na	na
U-Ming Marine	2606 TT	Not Rated	TWD53.30	-	1,513	40.8	27.1	na	1.73	1.66	4.4%	6.2%	na	18.0	11.1	2.2%	2.3%
Dry bulk group						**na**	**621.9**	**na**	**0.88**	**0.87**	**-6.5%**	**0.1%**	**1.4%**	**37.7**	**15.0**	**0.4%**	**0.9%**
China Shipping Container	2866 HK	Reduce	HK$1.89	HK$2.08	3,905	na	na	na	0.69	0.72	-9.0%	-5.0%	-3.3%	na	38.2	0.0%	0.0%
Neptune Orient Lines	NOL SP	Hold	S$1.05	S$1.16	2,127	na	23.6	na	1.01	0.97	-14.3%	4.2%	11.9%	51.2	10.9	0.0%	0.0%
Orient Overseas Intl Ltd	316 HK	Add	HK$35.60	HK$50.60	2,871	na	27.1	-18.3%	0.65	0.63	-0.8%	2.4%	3.2%	16.6	11.1	0.0%	0.9%
SITC International	1308 HK	Hold	HK$3.41	HK$3.49	1,136	12.0	11.2	3.4%	1.48	1.37	12.9%	12.7%	11.8%	8.3	6.9	6.3%	3.1%
Evergreen	2603 TT	Not Rated	TWD18.20	-	2,093	na	48.0	na	1.17	1.08	-3.1%	2.3%	4.3%	29.9	14.4	0.0%	0.2%
Wan Hai	2615 TT	Not Rated	TWD14.95	-	1,119	25.9	18.5	7.6%	1.07	1.02	4.2%	5.6%	6.4%	6.5	5.5	1.2%	2.0%
Yang Ming	2609 TT	Not Rated	TWD13.40	-	1,250	na	na	na	1.29	1.27	-16.6%	-4.0%	7.1%	65.4	18.1	0.0%	0.5%
AP Moller-Maersk	MAERSKA DC	Not Rated	DKK62,350	-	51,420	14.2	11.3	-10.8%	1.2	1.1	8.7%	10.1%	10.9%	5.4	4.7	0.0%	0.0%
Container group						**14.0**	**8.3**	**19.6%**	**1.13**	**1.04**	**4.8%**	**7.8%**	**9.2%**	**6.8**	**5.7**	**0.1%**	**0.1%**
MISC Bhd	MISC MK	Add	RM5.60	RM7.25	7,503	17.9	13.7	33.3%	1.05	1.01	6.0%	7.5%	7.9%	13.6	11.6	1.9%	2.8%
Teekay Corp	TK US	Not Rated	US$54.01	-	3,819	na	209.9	na	3.26	3.44	-5.1%	1.6%	7.6%	13.8	11.3	2.3%	2.4%
Frontline	FRO US	Not Rated	US$5.04	-	427	na	na	na	na	na	-554.9%	88.6%	na	25.0	21.6	0.0%	0.0%
Tsakos Energy	TNP US	Not Rated	US$7.50	-	427	na	32.9	na	0.42	0.42	-0.6%	1.3%	5.9%	12.7	10.1	2.7%	2.7%
Teekay Tankers	TNK US	Not Rated	US$4.14	-	346	-20.8	159.2	na	1.3	1.3	-4.2%	0.8%	11.2%	22.6	14.6	2.8%	2.8%
Odfjell	ODF NO	Not Rated	Nok45.60	-	650	-14.3	48.0	na	0.7	0.7	-4.8%	1.9%	9.5%	13.4	9.4	0.0%	0.2%
Stolt-Nielsen	SNI NO	Not Rated	Nok182.00	-	1,915	31.5	15.9	43.1%	1.16	1.11	3.9%	7.1%	10.0%	10.3	9.0	2.6%	2.8%
Eitzen Chemical	ECHEM NO	Not Rated	Nok7.75	-	14	na	na	na	na	na	155.2%	32.1%	13.5%	19.7	14.7	0.0%	0.0%
Teekay LNG	TGP US	Not Rated	US$41.74	-	3,386	na	17.4	3.9%	na	2.6	na	na	15.5%	na	12.9	na	6.7%
Golar LNG	GLNG US	Not Rated	US$35.56	-	2,863	43.0	26.8	na	1.58	1.61	5.0%	5.9%	na	76.5	26.9	5.0%	5.2%
Teekay Offshore	TOO US	Not Rated	US$32.14	-	2,699	33.8	18.1	na	3.38	3.77	13.2%	19.6%	na	12.1	10.1	6.6%	6.9%
Tanker group						**81.9**	**23.8**	**66.1%**	**1.67**	**1.54**	**2.1%**	**7.0%**	**8.8%**	**16.5**	**12.0**	**2.6%**	**3.8%**
Average (all)						**38.6**	**12.7**	**57.6%**	**1.17**	**1.09**	**2.1%**	**6.2%**	**7.8%**	**9.9**	**7.7**	**0.7%**	**1.1%**

SOURCES: CIMB, COMPANY REPORTS

It's all about the competition

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1. WHAT HAPPENED IN 2013

1.1 Airports trump airlines

Airlines' share prices almost universally negative. Last year, 2013, was a difficult year for Transport sector stocks, particularly for the Airline sector. Of the 16 key airline stocks that we cover, only Cathay Pacific gave a positive share price performance of 16.5% across 2013. The remaining 15 airlines saw negative returns ranging from SIA's -0.6% to Korean Air's -42%.

The negative share price returns in the airline space also coincided with earnings downgrades, with CIMB's forecasts for CY13 core net profit reduced significantly during the year. At the end of 2012, we only expected a single airline (i.e. MAS) to make a loss in CY13, but by the end of 2013, six of the 16 airlines we covered were expected to be in the red. This included five full-service carriers (FSC) – MAS, Korean Air, Asiana, Thai Airways, Qantas – and one low-cost carrier – Tiger Airways.

Of the 10 airlines we expect to remain profitable for CY13, we saw massive forecast downgrades for Virgin Australia (-96.5%), China Eastern (-61.2%), China Southern (-66%), AirAsia X (-43.3%), and Cebu Air (-42.9%).

Asia Aviation's CY13 forecasts were the most resilient (only -7.8% reduction during 2013), followed by Air China (-24.7%), AirAsia (-25.5%), Cathay Pacific (-28.7%), and SIA (-30.6%).

Airlines as a whole saw heavy competition and excess capacity in the passenger markets hurting yields, despite generally rising demand, while the air freight markets suffered from weak demand and sliding yields.

Figure 4: Aviation: share price performance during 2013

	Bloomberg ticker	Share price			CY13 core net profit forecasts as at			
Low-cost carriers		1-Jan-13	31-Dec-13	Change (%)	End-2012	End-2013	Change (%)	Notes
AirAsia Bhd	AIRA MK	RM2.53	RM2.20	-12.9%	RM839m	RM625m	-25.5%	
AirAsia X Bhd *	AAX MK	RM1.25	RM1.00	-20.4%	RM127m	RM72m	-43.3%	
Asia Aviation Pcl	AAV TB	THB4.84	THB3.66	-24.4%	THB1,634m	THB1,506m	-7.8%	
Tiger Airways	TGR SP	S$0.68	S$0.51	-25.1%	S$44m	-S$79m	-279.5%	FY Mar 2014
Cebu Air	CEB PM	PHP60.03	PHP46.85	-22.0%	PHP2,826m	PHP1,615m	-42.9%	
Full-service carriers								
Cathay Pacific Airways	293 HK	HK$14.07	HK$16.40	16.5%	HK$3,451m	Rmb2,461m	-28.7%	
China Eastern Airlines	670 HK	HK$3.09	HK$2.92	-5.5%	Rmb3,770m	Rmb1,462m	-61.2%	
China Southern Airlines	1055 HK	HK$3.83	HK$3.02	-21.2%	Rmb3,049m	Rmb1,038m	-66.0%	
Air China	753 HK	HK$6.47	HK$5.79	-10.5%	Rmb5,128m	Rmb3,863m	-24.7%	
Korean Air	003490 KS	W53,813	W31,200	-42.0%	W282bn	-W258bn	-191.5%	
Asiana Airlines	020560 KS	W6,190	W4,935	-20.3%	W154bn	-W123bn	-179.9%	
Malaysian Airline System	MAS MK	RM0.33	RM0.31	-7.2%	n.a.	-RM1,111m	n.a.	
Singapore Airlines	SIA SP	S$10.47	S$10.41	-0.6%	S$810m	S$562m	-30.6%	FY Mar 2014
Thai Airways International	THAI TB	THB21.66	THB13.80	-36.3%	THB3,539m	-THB2,455m	-169.4%	
Qantas Airways	QAN AU	A$1.49	A$1.10	-26.5%	A$412m	-A$481m	-216.7%	FY Jun 2014
Virgin Australia Holdings	VAH AU	A$0.41	A$0.38	-8.0%	A$86m	A$3m	-96.5%	FY Jun 2014
Airports								
Airports of Thailand	AOT TB	THB94.80	THB158.50	67.2%	THB8,218m	THB10,785m	31.2%	FY Sep 2013
Malaysia Airports Holdings	MAHB MK	RM5.11	RM9.00	76.1%	RM351m	RM408m	16.2%	
Auckland Int'l Airport	AIA NZ	NZ$2.57	NZ$3.53	37.5%	NZ$163m	NZ$165m	1.2%	FY Jun 2014
Sydney Airport	SYD AU	A$3.17	A$3.80	19.7%	A$93m	A$136m	46.2%	

* Start price at IPO date

SOURCES: CIMB, COMPANY REPORTS

Airport stocks rock! At the opposite end of the spectrum, the best-performing stocks in the Transport space were the Airports, where each of the four stocks we covered performed very well, ranging from Sydney Airport's 19.7% annual return to MAHB's 76.1%. In fact, AOT had risen to a high of THB225/share during the year (+137% from start-of-the-year), before correcting sharply in the midst of the ongoing political protests.

CIMB had also upgraded CY13 forecasts for all the airports across last year, with the strongest upgrades for Sydney Airport (+46.2%) and AOT (+31.2%). Airports benefitted from the traffic volumes stimulated by the extra capacity deployed by the airlines and the consequent fall in fares.

1.2 Dry bulk trumps container shipping stocks

Shipping returns more mixed. Dry bulk stocks generally performed well during 2013, with the exception of STX Pan Ocean which sought bankruptcy protection last year. This came despite CIMB lowering CY13 forecasts for Pacific Basin and Precious Shipping during the year, even though Maybulk's earnings were upgraded on the back of lower-than-expected losses. The capesize rate rally which started on 24 May 2013 and did not significantly correct until this month, spread to the other vessel sizes, and investors took comfort that the worst of the dry bulk downturn was now behind it.

On the other hand, container shipping stocks generally fell, with OOIL falling the most at 21.5% down from the start of 2013. This was surprisingly more than CSCL's 9.4% share price decline, despite our expanding CSCL's CY13 loss expectations ten-fold during the year. CSCL is also expected to suffer the largest losses among the companies under coverage, although even high-quality OOIL is expected to be in the red. NOL's share price fell the least during 2013, by only 7.9%, as investors were heartened by its cost-saving programme. SITC was the only container shipping stock to buck the trend, rising 30% over the year, despite CIMB downgrading CY13 core earnings by 9%, as investors liked its structural build-up of its freight forwarding business.

On the tanker shipping side, we only have MISC under coverage, and this stock also performed well, rising 28% over 2013. This was accompanied by a small 7% increase in CY13 core earnings. Investors took a liking to MISC on the back of its big discount to its RNAV, and given that most of the bad news was already in the price. This was despite the shocking news that its parent company, Petronas, decided not to grant it contracts for up to eight LNG newbuildings.

Figure 5: Shipping: share price performance during 2013

	Bloomberg ticker	Share price			CY13 core net profit forecasts as at		
Container Shipping		1-Jan-13	31-Dec-13	Change (%)	End-2012	End-2013	Change (%)
China Shipping Container	2866 HK	HK$2.23	HK$2.02	-9.4%	-Rmb252m	-Rmb2,349m	-832.1%
Neptune Orient Lines	NOL SP	S$1.15	S$1.06	-7.9%	-US$151m	-US$309m	-104.6%
Orient Overseas Intl Ltd	316 HK	HK$49.59	HK$38.95	-21.5%	US$374m	-US$34m	-109.1%
SITC International	1308 HK	HK$2.42	HK$3.14	29.9%	US$104m	US$95m	-8.7%
Dry Bulk Shipping							
Malaysian Bulk Carriers	MBC MK	RM1.31	RM1.77	35.5%	RM26m	RM38m	46.2%
Pacific Basin Shipping	2343 HK	HK$4.30	HK$5.36	24.6%	US$43m	US$35m	-18.6%
Precious Shipping	PSL TB	THB13.88	THB21.30	53.5%	THB42m	-THB488m	-1261.9%
STX Pan Ocean	028670 KS	W4,715	W762	-83.8%	-US$244m	-US$360m	-47.5%
Tanker Shipping							
MISC Bhd	MISC MK	RM4.30	RM5.50	27.9%	RM392m	RM419m	6.9%

SOURCES: CIMB, COMPANY REPORTS

2. AIRLINES

2.1 Passenger markets grew at the expense of yields

Air passenger markets in all the countries we cover grew in 2013, but this was accompanied by yield deflation.

Australia. Total Qantas, Jetstar and QantasLink passenger traffic rose 1.2% yoy during 11M13, with domestic traffic up 1.5% and international traffic up 0.2% yoy. However, we are expecting the Qantas group's domestic yields to fall 3.6% in FY14, and international yields to fall 4.2%, on the back of weak domestic demand and heavy competition in both domestic and international markets.

Malaysia. Malaysia Airports's (MAHB) passenger traffic at the Kuala Lumpur International Airport (KLIA) rose 18.7% yoy for 11M13, with 24.7% rise in traffic at the main terminal and 12.2% rise at the Low Cost Carrier Terminal (LCCT). But this was accompanied by atrocious discounting. Malaysia Airlines (MAS) average domestic yields plummeted 19% yoy during 9M13, while international yields fell 6%. AirAsia's 9M13 average yields fell 5% yoy, in response to the low MAS pricing and the even lower pricing from Malindo, which started operations in March 2013.

Singapore. Changi Airport's passenger traffic rose 5.1% yoy during 11M13, but mainline SIA's average passenger yields fell 3.5% yoy during 9MCY13, while Tigerair Singapore's yields fell 1.5% in that same period. Mainline SIA had been affected by intensifying competition with other regional FSCs like MAS and Thai Airways which had upgraded their long-haul product with A380s last year, and also by their aggressive competition for transit traffic. The Middle East carriers also continued to make inroads, in particular when Emirates tied up with Qantas to serve the Kangaroo Route with one-stop in Dubai.

Tigerair Singapore's yields got hit when it rushed to deploy significant capacity growth to Indonesia to take advantage of additional bilateral traffic rights, creating temporary oversupply. Tigerair Singapore was also hit by the rise in the airport passenger service charge from S$18 to S$34/pax when it moved from the Budget Terminal to Terminal 2 in September 2012. This forced it to cut its own fares to keep the total cost of travel affordable.

Thailand. Airports of Thailand (AOT) reported 16.1% growth in passenger traffic at its two Bangkok hubs during 11M13, but Thai Airways saw its average yields fall 2.2% yoy despite registering 7.2% passenger growth during 9M13. Thai Airways did not benefit very much from the record inbound tourist arrivals into Thailand, as competitive pressures with rapidly expanding LCCs ate away at its yields. The weak air travel demand from Europe must have also weighed yields down, and Thai Airways has a significant presence in Europe.

Thai AirAsia (TAA) also reported a 1% decline in 9M13 yields, not too bad considering its 25% passenger traffic growth. TAA succeeded in capitalising on the strong growth in Chinese tourist arrivals by launching to new destinations in China, but was forced to deploy more domestic capacity than the demand warranted, as it wanted to secure the precious landing/takeoff slots at the airports ahead of its competitors and potential new entrants.

Philippines. Cebu Air's yields fell 3.6% yoy during 9M13, partially offsetting its 11.6% rise in passenger traffic. The competitive pressures worsened during 3Q13 when yields fell a massive 11.6% yoy. The incumbent FSC, Philippine Airlines, as well as other LCCs like AirAsia/Zest, PAL Express and Tigerair Philippines competed on price very aggressively.

China. Air China saw its passenger traffic rise 7.3% yoy over 11M13, but its 1H13 domestic yields fell 13.2% yoy and its international yields weakened 0.7%. China Eastern's passenger traffic rose 8.4% yoy during 2013, but 1H13 domestic and international yields fell 6.1% and 11.3% yoy, respectively. And for China Southern, 2013 traffic was up 6.1%, but as with its peers, domestic yields fell 11.8% while international yields dropped 5.5% yoy during 1H13. Chinese carriers suffered from the new frugality and anti-corruption drive of the new Xi Jinping administration, resulting in a steep fall in first and business class passengers.

China Eastern reported its business and first class passenger numbers fell by more than 1m, while its premium revenues were cut by Rmb1.1bn (US$170m) in 2013. Conflict with Japan on territorial issues also resulted in a sharp fall in traffic to/from this very important market. Visitor arrivals from Japan into China fell 18% yoy, while visitors from China to Japan fell 8% yoy during 2013.

Korea. We believe Korean Air and Asiana Airlines grew their passenger traffic by single-digit levels in 2013, but both are expected to large losses for the full-year because of significant yield pressures on the international front. Asiana's yield fell 7% yoy in 3Q13, while Korean Air's yield fell 2%. Japan is still an important chunk of both airlines' regional passenger revenue, and the weak yen had hurt inbound Japanese traffic, leading to significant weakness in yields. Meanwhile, load factors to the US had also declined due to competition.

Hong Kong. Cathay Pacific was the only exception in this long list. Its 3.3% yoy rise in passengers carried during 2013 (+1.3% during 1H13) was achieved with a 4.4% yoy rise in 1H13 yields. This came about because Cathay reduced its long-haul ASKs by swapping the B747s with the smaller B777s, while its new premium economy product also helped boost yields. Cathay also benefitted from strong North America outbound business traffic, which improved the passenger mix. These positives offset pressure on short-haul yields due to excessive competition, in particular to Japan. This impressive achievement in a tough environment helped Cathay's share price rally during 2013.

2.2 Freight markets in the doldrums

Freight markets also suffered from overcapacity during 2013, as the growth in global trade was not sufficiently fast. IATA estimates that air freight volumes grew just 1% in 2013, slower than global economic growth of 2-3%, leading to a 4.9% decline in global cargo yields. This is also reflected by the companies under our coverage, which universally saw yield declines in the cargo space during 2013.

Figure 6: Year-on-year change in cargo yields (%)

	1QCY13	2QCY13	3QCY13
SIA	-6.3%	0.0%	-4.2%
MAS	-7.0%	-9.0%	-8.7%
Thai Airways	-8.1%	-9.3%	-1.9%
Korean Air	-4.7%	-8.6%	-5.3%
Asiana Airlines	-5.5%	-8.9%	1.2%
	1H13		
Cathay Pacific	-3.5%		
Air China	-7.8%		
China Eastern	-12.6%		
China Southern	-7.8%		

SOURCES: CIMB, COMPANY REPORTS

2.3 What is IATA projecting for 2014?

The outlook for airlines in 2014 continue to be clouded by overcapacity and excessive competition, but IATA expects an improvement from last year. The global air passenger business is expected to improve its profitability this year, on the back of (1) a rise in passenger load factors, (2) an expected decline in average jet fuel prices, which will more than offset (3) a projected decline in passenger yields.

IATA is expecting global commercial airlines to see a larger 0.6% yoy decline in passenger yields in 2014, on top of the 0.2% decline seen in 2013. However, this is not as bad as it looks, as a large part of this yield declines is attributable to a decline in fuel surcharges, as the average price of jet fuel is expected to fall 2.7% yoy this year to US$120.6/barrel.

Another positive is that the global average passenger load factors (PLF) are expected to increase, from 80.3% in 2013 to 81.3% in 2014, as global capacity rises at a slower pace than demand. In the Asia-Pacific region, passenger RPK demand is expected to rise 7.4% yoy in 2014, ahead of the forecast 7% rise in passenger ASK supply.

Meanwhile, cargo yields are expected to fall for the third consecutive year, down 2.1% yoy, on top of the 4.9% fall in 2013 and 5.8% fall in 2012. In the cargo space, demand growth is expected to continue lagging supply growth, with cargo FTK demand forecast to rise 2.1% yoy this year, against cargo ATK supply of 4.7%. As such, the pressure on cargo yields will continue. However, IATA does not expect the continued weakness in the cargo space to completely offset the improvements seen in the passenger space.

As mentioned earlier, coming to the rescue of airlines, is the projected decline in fuel prices that may push up global airline operating profits from US$23.6bn in 2013 (3.3% margin) to US$34.7bn in 2014 (4.7% margin). Without the expected fall in jet fuel prices, global airline operating profits would only be US$28.8bn in 2014 (3.9% margin), according to IATA's model.

Figure 7: IATA's profit forecasts for global commercial airlines

System-wide global commercial airlines	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F
REVENUES, $ billion	379	413	465	510	570	476	579	636	679	708	743
% change	17.7	9.1	12.5	9.6	11.7	-16.5	21.8	9.7	6.9	4.3	4.9
Passenger, $ billion	294	323	365	399	444	374	445	497	538	566	596
Cargo, $ billion	47	48	53	59	63	48	66	67	62	60	60
Traffic volumes											
Passenger growth, rpk, %	13.6	8.1	6.2	7.5	2.7	-2.4	8.8	6.2	5.3	5.3	6.0
Sched passenger numbers, millions	2,014	2,157	2,277	2,478	2,515	2,479	2,681	2,845	2,977	3,129	3,312
Cargo growth, ftk, %	10.3	2.5	6.3	4.7	-0.7	-8.8	19.4	-0.1	-1.6	1.0	2.1
Freight tonnes, millions	38.4	39.4	41.8	44.4	42.9	42.6	50.7	51.4	51.1	51.6	52.5
World economic growth, %	4.2	3.4	4.0	3.8	1.7	-2.3	4.0	2.6	2.2	2.0	2.7
Passenger yield, %	3.7	1.7	6.6	1.7	8.2	-13.7	9.6	5.0	2.9	-0.2	-0.6
Cargo yield %	5.1	0.3	4.4	5.6	7.0	-15.2	14.4	1.3	-5.8	-4.9	-2.1
EXPENSES, $ billion	376	409	450	490	571	474	550	622	665	685	708
% change	16.2	8.9	10.1	8.8	16.5	-16.9	16.1	12.9	7.0	3.0	3.5
Fuel, $ billion	65	91	116	133	187	123	139	176	210	211	210
% of expenses	17	22	26	27	33	26	25	28	32	31	30
Crude oil price, Brent, $/b	38.3	54.5	65.1	73.0	99.0	62.0	79.4	111.2	111.8	108.2	104.5
Jet kerosene price, $/b	49.7	71.0	81.9	90.0	126.7	71.1	91.4	127.5	129.6	124.0	120.6
Fuel consumption, billion gallons	65	68	68	70	69	66	69	71	72	74	76
CO_2 emissions, million tonnes	623	645	651	666	661	628	658	679	689	705	726
Non-fuel, $ billion	311	318	334	356	384	351	412	446	455	473	498
cents per atk (non-fuel unit cost)	40.1	38.9	39.0	39.0	40.9	39.0	43.3	44.6	44.3	44.4	44.6
% change	1.4	-3.0	0.2	0.1	4.9	-4.7	11.2	2.8	-0.5	0.1	0.5
Capacity growth, atk, %	9.7	5.7	4.8	6.6	2.7	-4.2	5.5	5.3	2.7	3.9	4.7
Flights, million	23.8	24.9	25.5	26.7	26.5	25.9	26.7	27.6	28.3	29.3	30.6
Break-even weight load factor, %	60.6	60.8	60.3	59.9	61.8	61.4	62.0	63.2	63.7	63.0	62.4
Weight load factor achieved, %	61.1	61.5	62.3	62.4	61.7	61.6	65.3	64.7	65.1	65.2	65.4
Passenger load factor achieved, %	73.4	74.9	76.0	77.0	75.9	76.0	78.5	78.3	79.2	80.3	81.3
OPERATING PROFIT, $ billion	3.3	4.4	15.0	19.9	-1.1	1.9	28.9	14.1	14.8	23.6	34.7
% margin	0.9	1.1	3.2	3.9	-0.2	0.4	5.0	2.2	2.2	3.3	4.7
NET PROFIT, $ billion	-5.6	-4.1	5.0	14.7	-26.1	-4.6	19.2	8.4	7.4	12.9	19.7
% margin	-1.5	-1.0	1.1	2.9	-4.6	-1.0	3.3	1.3	1.1	1.8	2.6
per departing passenger, $	-2.77	-1.91	2.20	5.93	-10.38	-1.86	7.16	2.95	2.49	4.13	5.94
RETURN ON INVESTED CAPITAL, %	2.9	3.0	4.6	5.5	1.4	2.0	6.3	4.7	3.9	4.7	5.7

SOURCE: IATA

Figure 8: Passenger traffic and capacity forecasts for global commercial airlines

System-wide global commercial airlines	Passenger traffic (RPK), % change over year					Passenger capacity (ASK), % change over year				
	2010	2011	2012	2013F	2014F	2010	2011	2012	2013F	2014F
Global	7.9	6.2	5.3	5.3	6.0	4.5	6.5	4.0	4.4	5.2
Regions										
North America	4.5	2.8	1.3	2.0	2.5	2.3	2.8	0.4	1.6	2.0
Europe	4.1	8.2	4.7	3.9	4.7	1.6	8.6	2.8	2.5	4.5
Asia-Pacific	11.8	6.6	6.2	7.6	7.4	6.3	7.0	5.4	7.1	7.0
Middle East	17.8	9.8	15.1	10.8	13.0	13.3	9.8	12.4	11.4	12.0
Latin America	12.3	11.2	9.6	6.5	8.5	6.8	9.3	7.6	4.6	6.5
Africa	12.5	1.6	7.5	6.8	7.8	9.3	3.2	6.4	5.0	6.5

SOURCE: IATA

IATA expects Asia-Pacific airlines to grow its net profits 28% yoy in 2014, which is a decent achievement. However, the "bad" news is that the projected profit growth underperforms the global average increase of 53%, with North American airlines expected to see a 43% rise in profits, Europe 88% rise from a low base, and the Middle East a 50% rise. This is partly due to the fact that airline consolidation in the US is far more advanced, helping to improve cost efficiencies and lift PLFs and yields. US airlines as a group are expected to have the highest profit margins by comparison to their peers. On the flip side, Asia-Pacific carriers have the largest slice of global air freight revenues, and this is not expected to perform as well as the passenger business.

Figure 9: Profit estimates by region

System-wide global commercial airlines	EBIT margin, % revenues					Net profits, $ billion				
	2010	2011	2012	2013F	2014F	2010	2011	2012	2013F	2014F
Global	**5.0%**	**2.2%**	**2.2%**	**3.3%**	**4.7%**	**19.2**	**8.4**	**7.4**	**12.9**	**19.7**
Regions										
North America	5.7%	3.0%	3.4%	4.8%	6.4%	4.2	1.7	2.3	5.8	8.3
Europe	2.4%	0.8%	0.7%	1.3%	2.0%	1.9	0.3	0.4	1.7	3.2
Asia-Pacific	8.0%	3.5%	3.3%	4.1%	4.4%	11.1	5.1	4.0	3.2	4.1
Middle East	3.7%	3.1%	3.0%	3.8%	4.7%	0.9	1.0	1.0	1.6	2.4
Latin America	5.1%	2.0%	1.5%	3.1%	5.1%	1.0	0.2	-0.2	0.7	1.5
Africa	1.7%	0.6%	-0.4%	-0.5%	0.7%	0.1	0.0	-0.1	-0.1	0.1

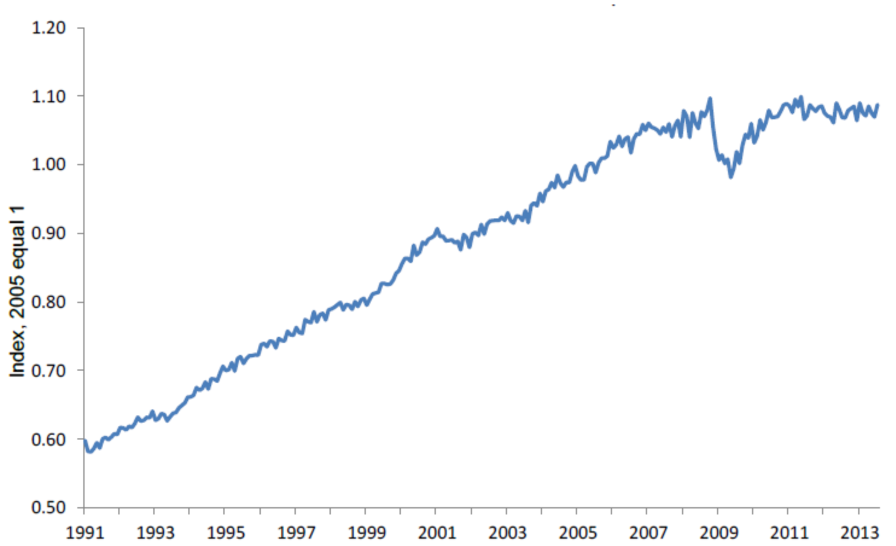
SOURCE: IATA

2.4 Passenger markets to strengthen slowly

IATA highlighted out an interesting chart in one of its recent reports, which led it to warn of an "apparent halt to globalisation", with the ratio of world trade to domestic industrial production remaining largely stagnant since 2011.

This is something of concern, since "the growth of air travel and air cargo is much more closely linked to international trade than to GDP…an end to the rapid growth of international trade, if that persists, would mean much slower growth of air transport in the future".

Figure 10: Ratio of world trade to domestic industrial production



SOURCE: NETHERLANDS CPB, IATA

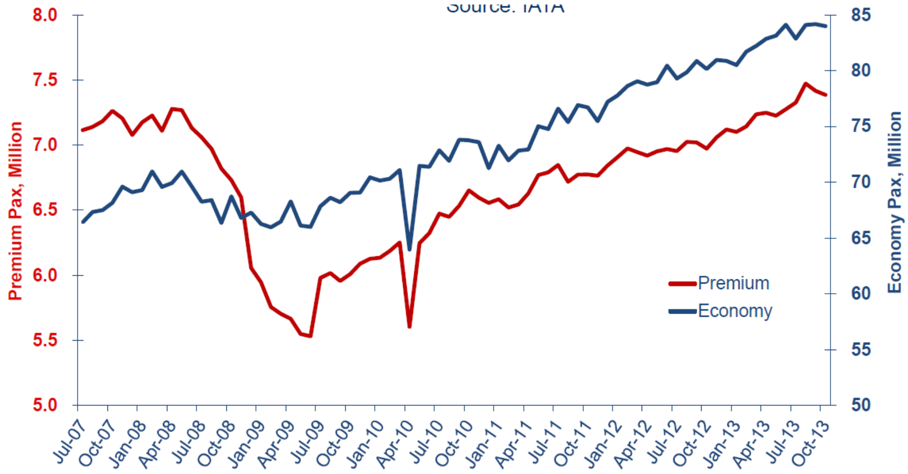
This is certainly a warning to keep in mind for the long term, but for 2014 at least, premium traffic is expected to keep up its trajectory of growth in 2013.

Global premium traffic grew 4.5% yoy during 10M13, a tad slower than the 4.8% growth seen for 2012. Premium traffic on the Far East-Europe sector rose 4.8% yoy in 10M13, while growing 2.9% for Far East-Southwest Pacific. Within the Far East, premium traffic grew a respectable 8% yoy. We believe growth in premium traffic should continue in 2014, because the PMI indices for Europe and the US are in expansion mode, suggesting continued expansion in global trade and hence premium/business-related travel.

Cathay Pacific noted during its 1H13 interim results briefing in August 2013, that there was strong demand for premium travel out of North America. London was also strong. However, the rest of Europe was flat, while premium demand to Japan and other short-haul destinations was weak. This was mirrored by the comments of SIA management in November 2013 (in conjunction with the September quarter results), that "parts of Europe" saw downward yield pressure, but in general, "the situation in Europe has stabilised". For "bookings out of both Europe and the US", conditions have "either bottomed out or coming back", and the for the US specifically, "there are signs of improvement". These are encouraging comments, even if not particularly spellbinding.

Economy class travel will continue on its inexorable upward trajectory, as it has since 2H09, after a relatively shallow decline during the global financial crisis (GFC). Global economy class traffic rose 4.1% yoy on average during 10M13, with "Europe-Far East" rising 6.2% and "Within Far East" growing 4.6% yoy.

Figure 11: IATA: Premium and economy class traffic (m passengers)



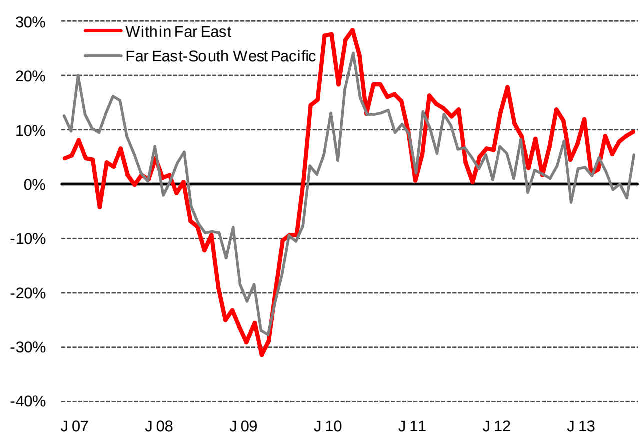
SOURCES: IATA

Figure 12: IATA: Premium traffic growth (yoy %)

	Europe-Far East	Within Fast East	Far East-SW Pacific	All international
2007	5.9%	3.3%	11.4%	2.4%
2008	-2.8%	-6.6%	-3.4%	-2.8%
2009	-15.6%	-19.8%	-15.7%	-15.8%
2010	12.2%	21.1%	12.2%	9.1%
2011	8.4%	9.1%	7.7%	5.5%
2012	5.5%	9.0%	3.9%	4.8%
10M13	4.8%	8.0%	2.9%	4.5%

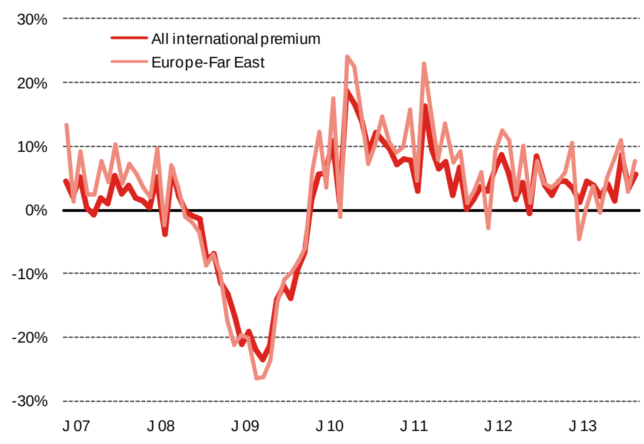
SOURCES: IATA

Figure 13: Premium traffic yoy change (%)



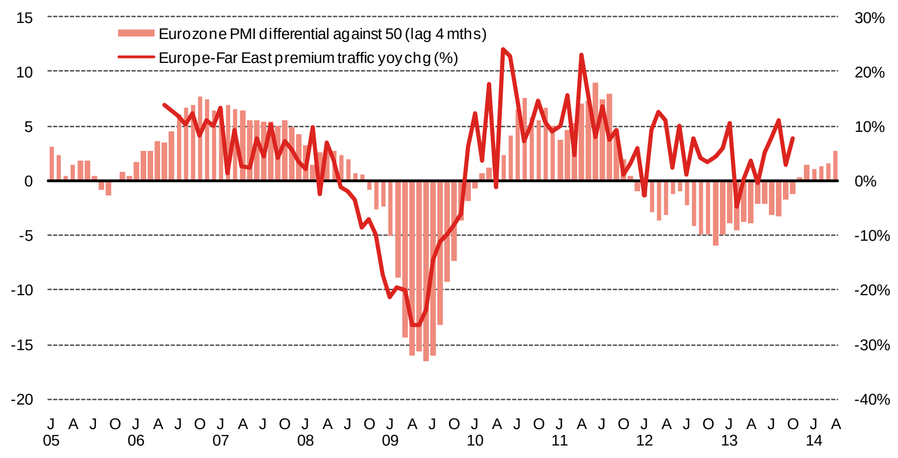
SOURCES: IATA

Figure 14: Premium traffic yoy change (%)



SOURCES: IATA

Figure 15: Eurozone PMI (differential against 50) vs. Europe-Far East premium traffic yoy chg (%)



SOURCES: BLOOMBERG

2.5 Cargo markets to continue weakening

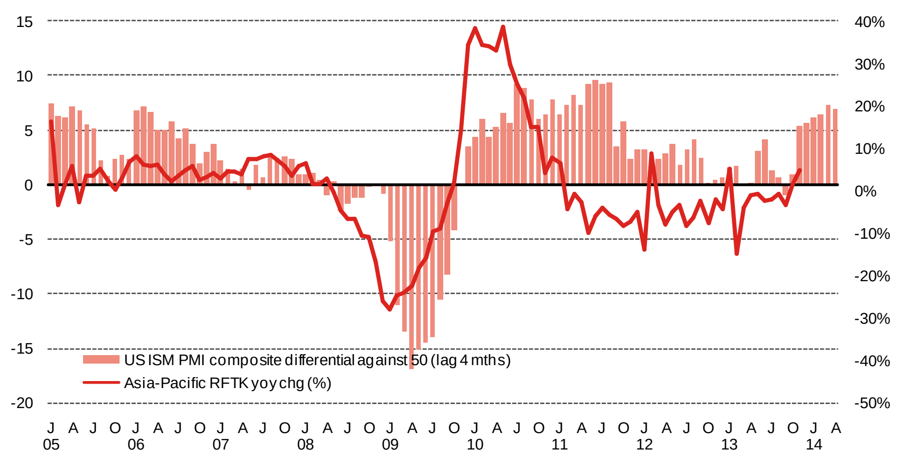
More recently, the growth of Asia-Pacific RFTK cargo demand has moved back to positive territory, growing by 1.5% yoy in October and by 4.8% in November 2013, after spending most of 2011, 2012 and 9M13 in contraction mode. This was acknowledged by China Airlines chairman Sun Huang-hsiang, who noted that the freight markets have made significant recovery since 4Q13. As a result, China Airlines will not send any more B747-400Fs to storage.

If the charts below are any guide, the air freight markets should improve into 1Q14, as the correlation with the US and Eurozone PMI indicators suggests.

- The latest US PMI reading of 57 for December 2013 is much stronger than the readings of 50.2 in December 2012 and 52.9 in December 2011, and equivalent to the 57.3 last seen in December 2010. The US PMI has shown consistently strong readings of above 55 since July.
- Meanwhile, the Eurozone PMI creeped back above 50 since July, registering a reading of 52.7 in December, the highest since May 2011, suggesting tentative signs of a European recovery.

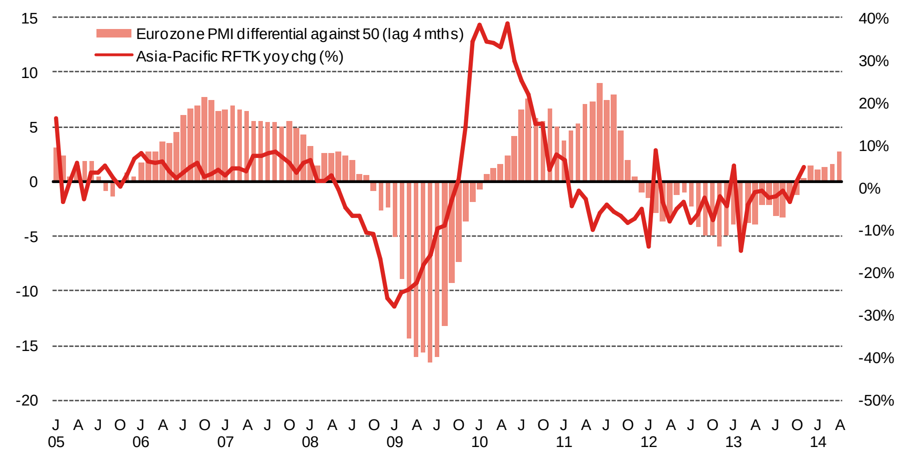
As the PMI is a leading indicator, the readings from the US and Eurozone suggest that global cargo demand should continue its growth momentum into the early part of 2014.

Figure 16: US PMI (differential against 50) vs. Asia-Pacific RFTK yoy chg (%)



SOURCES: BLOOMBERG

Figure 17: Eurozone PMI (differential against 50) vs. Asia-Pacific RFTK yoy chg (%)



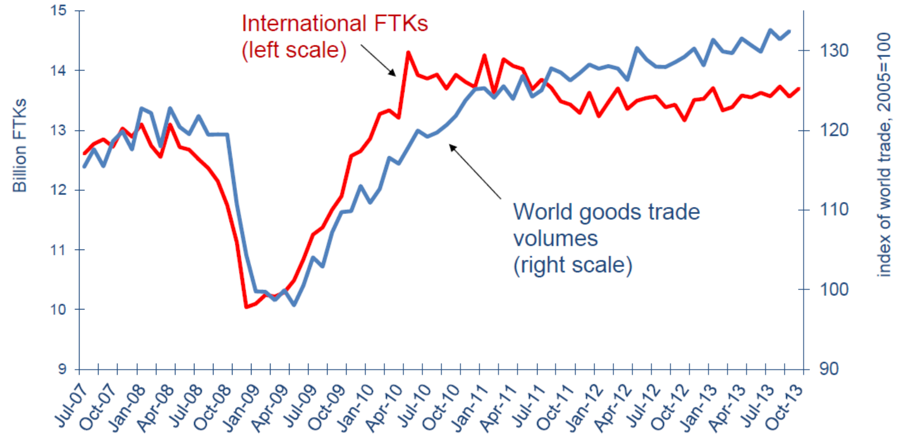
SOURCES: BLOOMBERG

Nevertheless, the big problem with the air cargo markets is that:

1. If the momentum of globalisation is weakening, as IATA pointed out, and if global economic growth remains modest, then cargo demand growth may be fairly slow.
2. The growth in air freight is expected to be slower than the growth in world trade volumes and sea freight volumes, as had been the case since 2H11. IATA is only forecasting a 2.1% rise in air cargo demand in 2014, which contrasts unfavourably with the 4.2% rise in worldwide seaborne container shipping volume growth that Drewry (a shipping consultancy) is expecting, and IMF's forecast of a 4.5% rise in world trade volumes of goods and services. This is because there is currently plenty of shipping capacity, courtesy of the continuing overexpansion of the container shipping industry, leading shippers to reduce the proportion of goods moved via the more expensive air freight.
3. There is expected to be a large amount of air freight capacity injection in 2014 and beyond, because passenger aircraft deliveries are robust and their bellyholds can be used for cargo. IATA estimates a 7% global growth in widebody fleet in 2014, and a fairly stable fleet of dedicated freighters, which implies around 3.5% growth in total air freight capacity, on the assumption of a 50:50 split between bellyhold and dedicated freighter capacity. However, IATA is only expecting a 2% rise in world air freight volumes.

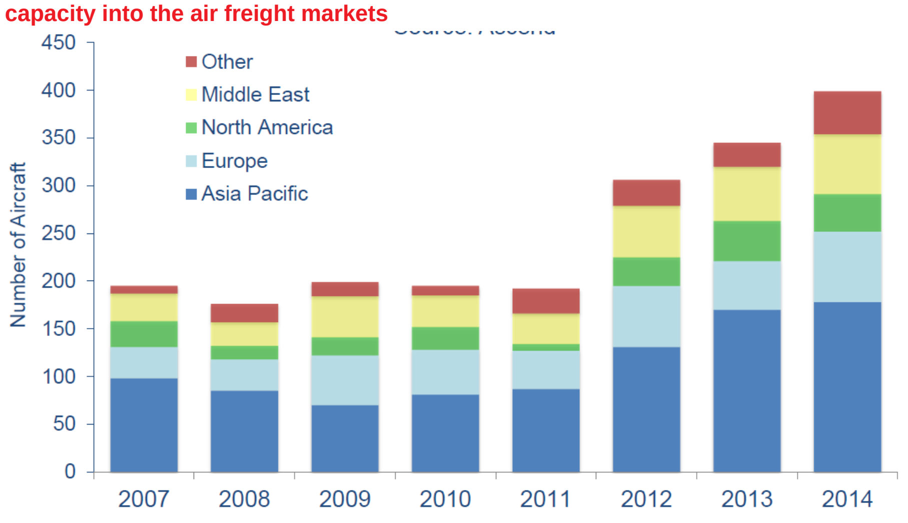
As a result, any improvement in air freight demand is not expected to exceed the available incoming supply, leading to another year of weak cargo load factors and weak cargo yields in 2014. Demand is not the issue, the key problem is with excess supply growth.

Figure 18: Global growth in air freight FTK demand will continue to below the growth in world trade volumes in 2014, as had been the case since 2H11



SOURCES: NETHERLANDS CPB, IATA

Figure 19: Global widebody fleets are expected to grow 7% in 2014, adding unwanted capacity into the air freight markets



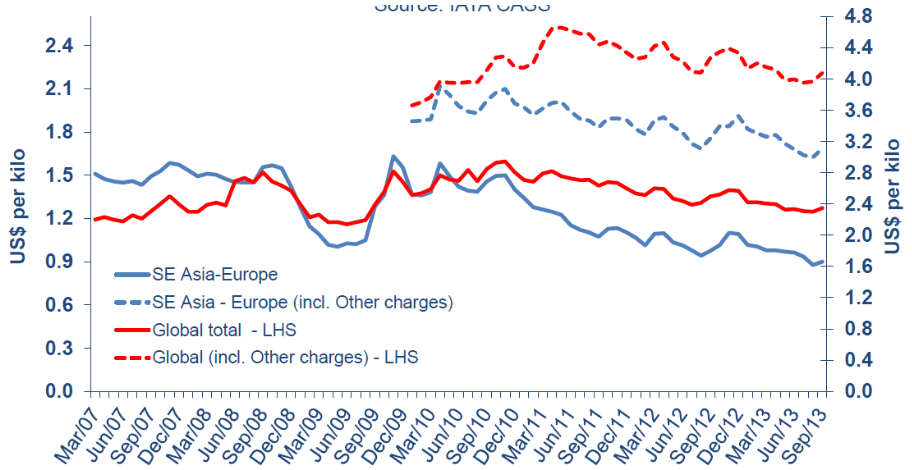
SOURCES: ASCEND, IATA

Figure 20: Projections for world GDP growth and growth in world trade volumes

			Year over Year	
			Projections	
	2012	2013	2014	2015
World Output 1/	**3.1**	**3.0**	**3.7**	**3.9**
Advanced Economies	**1.4**	**1.3**	**2.2**	**2.3**
United States	2.8	1.9	2.8	3.0
Euro Area	–0.7	–0.4	1.0	1.4
Germany	0.9	0.5	1.6	1.4
France	0.0	0.2	0.9	1.5
Italy	–2.5	–1.8	0.6	1.1
Spain	–1.6	–1.2	0.6	0.8
Japan	1.4	1.7	1.7	1.0
United Kingdom	0.3	1.7	2.4	2.2
Canada	1.7	1.7	2.2	2.4
Other Advanced Economies	1.9	2.2	3.0	3.2
Emerging Market and Developing Economies 1/	**4.9**	**4.7**	**5.1**	**5.4**
Central and Eastern Europe	1.4	2.5	2.8	3.1
Commonwealth of Independent States	3.4	2.1	2.6	3.1
Russia	3.4	1.5	2.0	2.5
Excluding Russia	3.3	3.5	4.0	4.3
Developing Asia	6.4	6.5	6.7	6.8
China	7.7	7.7	7.5	7.3
India 2/	3.2	4.4	5.4	6.4
ASEAN-5 3/	6.2	5.0	5.1	5.6
Latin America and the Caribbean	3.0	2.6	3.0	3.3
Brazil	1.0	2.3	2.3	2.8
Mexico	3.7	1.2	3.0	3.5
Middle East, North Africa, Afghanistan, and Pakistan	4.1	2.4	3.3	4.8
Sub-Saharan Africa	4.8	5.1	6.1	5.8
South Africa	2.5	1.8	2.8	3.3
Memorandum				
World Growth Based on Market Exchange Rates	2.5	2.4	3.1	3.4
World Trade Volume (goods and services)	**2.7**	**2.7**	**4.5**	**5.2**
Imports (goods and services)				
Advanced Economies	1.0	1.4	3.4	4.1
Emerging Market and Developing Economies	5.7	5.3	5.9	6.5

SOURCES: IMF

Figure 21: Air freight rates are weak and expected to drop another 2.1% yoy in 2014



SOURCES: IATA

2.6 Competition from LCCs escalating

FSCs key losers from LCC onslaught. One of the key themes of the past 10 years, particularly in Southeast Asia, has been the rise of the LCCs. Their entry into the local and regional aviation markets has led to significant declines in air fares, as they use their lower cost base to offer attractive deals to consumers and to stimulate air travel demand.

The key losers have been the FSCs, which usually find it hard to compete with their higher cost base, but have still been forced to defend their market share from LCC encroachment by pricing at or even below LCC levels. This has been a losing battle, as LCC market shares across Southeast Asia have marched upwards without stopping for breath.

Figure 22: Southeast Asia LCC penetration rates by country: 2013

Rank	Country	System-wide annual capacity (millions of seats)	System-wide LCC penetration rate	Domestic LCC penetration rate	International LCC penetration rate
1	Indonesia	130.5	57.8%	63.1%	43.5%
2	Thailand	95.9	29.1%	55.2%	18.9%
3	Malaysia	81.6	51.2%	56.4%	48.2%
4	Philippines	54.5	62.3%	87.7%	31.3%
5	Vietnam	36.6	19.7%	24.4%	15.9%

SOURCES: CIMB, CAPA

We are accustomed to seeing Thai Airways offering fares on their websites that are sometimes lower than what Thai AirAsia has on offer, especially on overlapping time slots and on routes on which the LCCs have blanketed with numerous frequencies. In Malaysia, MAS started discounting very heavily in the domestic market when newcomer Malindo Air started business from March 2013. It is no wonder that MAS losses have been materially higher during 9M13 vs. 9M12, even with the lower oil prices and a major fleet renewal exercise.

AirAsia vs. Lion Air. The LCC battle lines in Southeast Asia are now clearly drawn, with the AirAsia group on one side, and the Lion Air group on the other. These two have the largest capacity market shares of their peer group, and the largest orderbooks for new aircraft, which means that their dominance will continue for the foreseeable future. Both have established significant market shares in their respective home markets, and are successful and profitable there.

Figure 23: LCC capacity within Southeast Asia by group: 20-26 Jan 2014

Rank	Group	Weekly seats	Capacity share (as % of total LCC seats)
1	Lion Air group	2,136,732	41.1%
2	AirAsia group	1,167,852	22.5%
3	Jetstar group	772,336	14.9%
4	Cebu Pacific	372,409	7.2%
5	Tigerair group	277,200	5.3%
6	Nok	178,074	3.4%
7	Citilink	130,600	2.5%
8	VietJet	98,280	1.9%
9	Scoot	49,014	0.9%
10	Golden Myanmar	7,560	0.1%
11	Orient Thai	5,304	0.1%
	TOTAL	5,195,361	100%

SOURCES: CIMB, CAPA

Figure 24: Southeast Asia LCC fleet growth by carrier

Rank	Carrier	Country	End 2012 fleet	End 2013 fleet	End 2014F fleet	Deliveries post 2014
1	Lion Air	Indonesia	91	103	139	507
2	AirAsia Berhad	Malaysia	64	70	75	312
3	Cebu Pacific	Philippines	41	48	56	40
4	Wings Air	Indonesia	28	38	51	19
5	Thai AirAsia	Thailand	27	35	43	0
6	Citilink	Indonesia	21	31	40	16
7	Indonesia AirAsia	Indonesia	22	29	35	0
8	Tigerair Singapore	Singapore	19	26	28	5
9	Orient Thai	Thailand	4	21	21	12
10	Nok	Thailand	20	20	20	2
11	AirAsia X	Malaysia	11	19	26	42
12	Jestar Asia	Singapore	16	19	19	0
13	AirAsia Zest	Philippines	15	18	18	0
14	Malindo	Malaysia	0	11	11	0
15	VietJet	Vietnam	5	10	12	0
16	Tigerair Mandala	Indonesia	7	12	18	0
17	Scoot	Singapore	4	6	7	19
18	Jestar Pacific	Vietnam	5	5	5	0
19	Tigerair Philippines	Philippines	5	5	0	0
20	AirAsia Philippines	Philippines	2	2	2	0
21	Golden Myanmar	Myanmar	0	2	2	0
	TOTAL		**407**	**530**	**628**	**974**
	Growth yoy (%)			*30.2%*	*18.5%*	

SOURCES: CIMB, CAPA

AirAsia was the pioneer in the establishment of regional associates in Thailand, Indonesia, the Philippines, and Japan (now shut down), with India in the works, and potentially Korea as well, so as to replicate its home country business model. But Indonesia's Lion Air is also moving in the same direction, and has since established associates in Malaysia and Thailand. Both have the orderbooks to expand rapidly across the region. This will only spread the net of intense competition further and wider.

Smaller LCCs are also circling. Outside of these two LCC behemoths, are other smaller LCCs, some successful and others not quite so. Among the successful are Thailand's Nok Air, which focuses almost entirely on the Thai domestic market and has operated profitably throughout most of its history, with the exception of the GFC period. The Philippines' Cebu Air has also been successful for most of its history since transforming into an LCC, though it fell into quarterly losses recently on the back of severe yield and cost pressures. Australia's Jetstar is successful in its home market, but its foreign ventures have been mixed, with Singapore likely profitable, but not so for Vietnam and Japan.

Less successful is Singapore's Tiger Airways, which has built associates in Australia, Indonesia and the Philippines (which it will exit shortly), but unfortunately, all have been bleeding. In 2H13, even Tigerair Singapore suffered losses due to overcapacity. Many other unlisted LCCs are also suffering. For instance, Garuda's Citilink is unprofitable, and Zest Air in the Philippines (now acquired by AirAsia Philippines) was also doing poorly.

So, LCC expansion is not just affecting the FSCs, but weaker and smaller LCCs are also feeling the heat.

Long-haul low-cost carriers hit medium-haul routes. Occupying a special place are the long-haul low-cost carriers (LHLC), of which AirAsia X is the most established. AAX recently turned profitable after many years of experimentation with the business model. SIA's Scoot is losing money, as will NokScoot and Thai AAX when both of them start operations in 2014.

FSCs are especially traumatised by the emergence of the LHLC carriers, because it means that their medium-haul routes are also coming under threat from the LCCs, which have already blanketed the short-haul markets. In Malaysia, AAX is planning to triple its operated fleet over three years between 2012 and 2015, to 28 A330s. In Singapore, Scoot which is presently operating six B777-200ERs, will start taking delivery of 20 B787s from late-2014, for both expansion and fleet replacement.

Thailand is the hotbed of LCC activity in 2014. The conflict is centered on the battle for supremacy between Malaysia's AirAsia and Indonesia's Lion Air, with the latter planting a flag in Thailand since December 2013 in the shape of Thai Lion Air (TLA), and seeking to build a strong presence to challenge the dominance of Thai AirAsia (TAA).

- In 2014, TAA is planning to add eight A320 planes, while TLA is adding eight aircraft, comprising six B737-900ERs and two B737-800s. In a short space of just one year, TLA will have a quarter of TAA's fleet.
- TLA's fleet expansion is supported by Lion Air's orders for 543 aircraft, almost all of them from the B737 and the A320 narrowbody families. Meanwhile, AirAsia has orders for 338 A320 planes. These will be allocated throughout the Asean region, with Thailand a particularly strong focus for expansion given industry consensus for strong tourist inflows over the long term.
- Nok Air is also expanding its fleet of B737-800 planes by four to six aircraft by end-2014.
- Thai AirAsia X is expected to start operations in 2Q14 with an initial fleet of two A330-300s, while NokScoot is targeted to start in 2H14 with an initial fleet of two B777-200ERs.
- Altogether, LCCs in Thailand will deploy 20-22 additional narrowbody and four widebody aircrafts in 2014, up from 15 additions in 2013.

This analysis excludes the impact from Thai VietJet, which is supposed to enter the market sometime in 2014. It also excludes full-service carrier (FSC) aircraft additions.

- For instance, Bangkok Airways is planning to add three more A320s to its end-2013 fleet of 17 A319/320 planes.
- Thai Smile is planning to add two more A320s to its end-2013 fleet of 10 planes of the same make.

This means that yield pressures in Thailand is likely to escalate in 2014, and that will have a negative impact on airline margins for both the LCCs and FSCs.

Figure 25: LCC fleet expansion (excluding turboprops) in Thailand

	End-2012	End-2013	End-2014F
Thai AirAsia	27 x A320	35 x A320	43 x A320
Nok Air	9 x B737-800	14 x B737-800	18-20 x B737-800
Thai Lion Air		2 x B737-900ER	8 x B737-900ER
			2 x B737-800
Thai AirAsia X			2 x A330-300
NokScoot			2 x B777-200ER
Additions		15 planes	24-26 planes
(by no of planes)			

SOURCES: CIMB, COMPANY REPORTS

Malaysian LCCs are also expanding rapidly. In Malaysia, Lion Air's associate Malindo is expanding even more aggressively in 2014 than in 2013, and has publically targeted to double its passengers carried from 1m in 2013, to 2m in 2014. In a fairly mature market like Malaysia, where the LCC penetration is already in excess of 50%, and where the incumbent FSC is still expanding capacity, these rates of growth are likely to be too much for the market to absorb without further hurting yields.

CIMB

Figure 26: LCC fleet expansion (including turboprops) in Malaysia

	End-2012	End-2013	End-2014F
AirAsia	64 x A320	70 x A320	75 x A320
Malindo	-	6 x B737-900ER	14 x B737-900ER
		4 x ATR72-600	11 x ATR72-600
AirAsia X	9 x A330	16 x A330	23 x A330
Additions		19 jet planes, 4 turboprops	20 jet planes, 7 turboprops
(by no of planes)			

SOURCES: CIMB, COMPANY REPORTS

Korean LCCs continue to grow. The AirAsia Group was reported to have filed an application in December 2013 with the South Korean Ministry of Land, Infrastructure and Transport to establish AirAsia Korea. It will reportedly launch in Korea's domestic market first on the Cheongju-Jeju route before applying for permission to launch on international flights. The potential of a large LCC group is likely to result in further yield pressures in a market where LCC presence has risen quite dramatically in recent years. CAPA data shows that LCCs in Korea already have about a 32% market share on domestic routes and about a 11% share of the international market. In comparison, LCCs only had market shares of 7% and 1% in 2008 on domestic and international routes respectively.

We believe that further competition on international routes looks likely, particularly since Korean airlines were previously forced to operate in domestic markets for at least three years before being allowed to fly abroad. As this three-year period expires for many LCCs, we think that regional routes will face even more severe competition. This will affect both Korean Air and Asiana, although the latter seems likely to be placed under more pressure as it derives a greater portion of its revenues from intra-Asia segments.

Importantly, it seems that there will be support from both Incheon and Gimpo airports, with potentially one or even both of them considering building a dedicated LCC facility.

HK Express enters Hong Kong. Meanwhile, Hong Kong has seen its first LCC enter the market in October 2013, in the form of HK Express, owned by the HNA Group. It was launched with five A320s, but will build up its fleet to 30 A320s by 2018, and plans to serve cities in China, Taiwan, Japan, Malaysia, and Thailand. HK Express, together with FSC sister company, Hong Kong Airlines, will work together to build the China network to almost match the Cathay Pacific/Dragonair group by number of destinations, although to match the latter's frequencies is not likely to be possible given runway slot constraints at both the Hong Kong International Airport and many Chinese airports. Jetstar Hong Kong has so far not been able to get regulatory approval to begin operations, with Cathay Pacific lobbying hard against it. Overall, the Cathay Pacific group looks likely to be able to avoid the free fall in yields and fares that have befallen its Southeast Asian counterparts, for now at least.

Is China the last piece in the puzzle? China only has three LCCs, the largest of which is Spring Airlines, followed by Lucky Air, and China West Air. But the capacity of these three airlines in China's domestic market is miniscule, compared to the other state-owned airlines.

Figure 27: Chinese airline seat capacity - domestic routes (20-26 Jan 2014)

Rank	Airlines	Seats per week, domestic	Market share
1	China Southern Airlines	1,937,607	20.7%
2	China Eastern Airline	1,576,399	16.8%
3	Air China	1,201,961	12.8%
4	Hainan Airlines	699,719	7.5%
5	Xiamen Airlines	638,058	6.8%
6	Shenzhen Airlines	596,416	6.4%
7	Sichuan Airlines	455,784	4.9%
8	Shandong Airlines	392,826	4.2%
9	Tianjin Airlines	313,896	3.3%
	Others	1,561,554	16.7%
	Others include these LCCs:		
	-Spring Airlines	171,000	1.8%
	-Lucky Air	115,336	1.2%
	-China West Air	96,544	1.0%
	TOTAL	**9,374,220**	**100.0%**

SOURCES: CIMB, CAPA

But with the regulator CAAC becoming more open to approve more LCC operating licences, we expect the LCCs to have a bigger voice in the years ahead. Still, we do not think that LCCs in China will ever build the commanding presence as they have in Southeast Asia in the next 2-3 years.

Chinese LCCs have been hampered by the lack of available airport slots in key first-tier cities, where demand is plentiful and any services are likely profitable. Airports with available slots are often unprofitable to serve. In addition, the government regulates the number of aircraft that Chinese carriers are allowed to import, and the ongoing bias in favour of state-owned airlines means that Chinese privately-owned LCCs have not been allowed to expand their fleet as they had wished.

In November 2013, the CAAC signalled a possible change to this policy. It will be open to approve licences for new private carriers and new LCCs. It indicated that it was studying the potential to set up low-cost carrier terminals at the existing Shanghai Hongqiao airport, as well as build new ones in Beijing and Guangzhou. Route restrictions may be lifted, and airlines may in the future no longer require CAAC approval to launch to a new destination. Import taxes on aircraft components may be lowered.

All this talk has encouraged the HNA Group to transition Chongqing-based West Air to an LCC model, while Juneyao Airlines is thinking of setting up a new LCC (Jiu Yuan Airlines) based in Guangzhou. China Eastern is also planning to convert Beijing-based China United Airlines into an LCC. Air China and China Southern could soon follow.

But with only 20% of Chinese airspace open to non-military air traffic, commercial airlines in China are suffering from debilitating air traffic delays that ground aircraft on the tarmac for hours. Unless access by commercial aviation to China's airspace is increased, the new LCCs will scarcely make a dent to the aviation system in China as a whole. This comes on top of problems securing commercially-viable landing slots at key airports, which means that LCC growth will be focused on second- or third-tier cities, where their impact on the incumbents will be limited.

2.7 Competition from Middle East carriers to continue

FSCs serving long haul routes have felt the presence of Middle East carriers for years, but their impact will continue to grow in size in the years to come. We saw this in 2013, by just examining the capacity deployment from the Middle East Gulf (MEG) to three regions: ASEAN, North Asia and Southwest Pacific.

In ASEAN, the three Gulf carriers – Emirates, Etihad and Qatar – were responsible for 67% of the capacity expansion between January 2013 and January 2014, contributing to a whopping 31% increase in the total number of seats between ASEAN and the MEG. Only two ASEAN carriers stood out – MAS which restarted flights to Dubai, and Cebu Air which began a new LHLC service to Dubai. Malaysia and Thailand saw more than 20% increase in seat capacity to the MEG, which enhances the ability of the Gulf carriers to serve traffic between ASEAN and Europe/North America via Dubai/Abu Dhabi/Qatar. The Gulf carriers also typically price very attractively for one-stop flights to Europe.

Between the MEG and North Asia, the total capacity increase was not significant at just 7.8% yoy, but the Gulf carriers (in particular Emirates) were responsible for 92% of the capacity increase.

Meanwhile, the MEG-Australia services saw a massive 39% rise in seat capacity, of which a substantial 45% was contributed by more flights by Gulf carriers. The other big contributor was Qantas, which rerouted its flights to Europe via Dubai, instead of Singapore. By partnering Emirates, Qantas is ensuring that the Gulf carriers work to its benefit, but we cannot say the same for the other airlines in the region, particularly for the hard-pressed ASEAN carriers.

The presence and heft of the Gulf carriers will only increase with time, as Emirates, Etihad and Qatar all have massive orderbooks. By 2017, Emirates will operate 140 A380s, more than tripling its current fleet of 44 A380s. This superjumbo will convey to Emirates enormous cost economies, allowing it to price at levels that will hurt even the LHLC carriers, if they attempt to fly to Europe.

Figure 28: Impact of Gulf carriers (Etihad, Emirates, Qatar) - ASEAN

ASEAN	**Jan-13**	**Jan-14**	**yoy (%)**
Flights from MEG to	Total seat capacity/week	Total seat capacity/week	Growth in industry seats
Malaysia	18,222	22,139	21.5%
Thailand	32,632	40,738	24.8%
Singapore	17,342	17,984	3.7%
Indonesia	11,847	18,379	55.1%
Philippines	17,915	29,284	63.5%
Total	**97,958**	**128,524**	**31.2%**

BREAKDOWN BY AIRLINE

	Jan-12	**Jan-13**	**Jan 13/Jan 12**
	Total seat capacity/week	Total seat capacity/week	Share of capacity expansion
Emirates	44,362	55,981	38.0%
Etihad	19,650	23,920	14.0%
Qatar	24,836	29,290	14.6%
MAS	0	1,981	6.5%
Thai Airways	2,114	1,812	-1.0%
Singapore Airlines	3,179	2,801	-1.2%
Cebu Pacific Air	0	3,052	10.0%
Others	3,817	9,687	19.2%
Total	**97,958**	**128,524**	**100.0%**
Of which:			
Gulf carriers	88,848	109,191	66.6%
Other carriers	9,110	19,333	33.4%

SOURCES: CIMB, CAPA

Figure 29: Impact of Gulf carriers (Etihad, Emirates, Qatar) - North Asia

NORTH ASIA	Jan-13	Jan-14	yoy (%)
Flights from MEG to	Total seat capacity/week	Total seat capacity/week	Growth in industry seats
China	30,870	32,348	4.8%
Hong Kong	13,734	16,658	21.3%
Taiwan	0	0	n.a.
South Korea	8,956	9,055	1.1%
Japan	11,565	12,157	5.1%
Total	**65,125**	**70,218**	**7.8%**

BREAKDOWN BY AIRLINE	Jan-12	Jan-13	Jan 13/Jan 12
	Total seat capacity/week	Total seat capacity/week	Share of capacity expansion
Emirates	29,378	32,777	66.7%
Etihad	7,541	8,052	10.0%
Qatar	17,917	18,705	15.5%
Air China	1,088	1,360	5.3%
China Southern Airlines	2,233	2,296	1.2%
China Eastern Airlines	520	600	1.6%
Cathay Pacific	4,624	4,304	-6.3%
Korean Air	1,358	1,362	0.1%
Others	466	762	5.8%
Total	**65,125**	**70,218**	**100.0%**
Of which:			
Gulf carriers	54,836	59,534	92.2%
Other carriers	10,289	10,684	7.8%

SOURCES: CIMB, CAPA

Figure 30: Impact of Gulf carriers (Etihad, Emirates, Qatar) - Southwest Pacific

SOUTHWEST PACIFIC	Jan-13	Jan-14	yoy (%)
Flights from MEG to	Total seat capacity/week	Total seat capacity/week	Growth in industry seats
Australia	31,209	43,425	39.1%
New Zealand	0	0	n.a.
Total	**31,209**	**43,425**	**39.1%**

BREAKDOWN BY AIRLINE	Jan-12	Jan-13	Jan 13/Jan 12
	Total seat capacity/week	Total seat capacity/week	Share of capacity expansion
Emirates	20,180	24,444	34.9%
Etihad	5,256	6,432	9.6%
Qatar	4,690	4,690	0.0%
Virgin Australia	1,083	1,083	0.0%
Qantas Airways	0	6,776	55.5%
Others	0	0	0.0%
Total	**31,209**	**43,425**	**100.0%**
Of which:			
Gulf carriers	30,126	35,566	44.5%
Other carriers	1,083	7,859	55.5%

SOURCES: CIMB, CAPA

Figure 31: The Gulf carriers' fleet and future expansion

Emirates fleet	In Service	On Order	Total by 2019
A330-200	22	0	22
A340-300X	4	0	4
A340-500	9	0	9
A350-1000XWB	0	20	20
A350-900XWB	0	50	50
A380-800	44	96	140
777-200	3	0	3
777-200ER	6	0	6
777-200LR	10	0	10
777-300	12	0	12
777-300ER	90	61	151
777F	10	3	13
Total	**210**	**230**	**440**
Of which:			
Widebodies	200	227	427
Narrowbodies	0	0	0
Freighters	10	3	13

Etihad fleet	In Service	On Order	Total by 2024
A319-100	2	0	2
A320-200	21	4	25
A320-200NEO	0	10	10
A321-200	1	6	7
A321-200NEO	0	26	26
A330-200	19	2	21
A330-200F	3	2	5
A330-300E	6	0	6
A340-300	1	0	1
A340-500	4	0	4
A340-600(HGW	7	0	7
A350-1000XWB	0	22	22
A350-900XWB	0	40	40
A380-800	0	10	10
777-300ER	18	0	18
777-8X	0	8	8
777-9X	0	17	17
777F	3	1	4
787-10	0	30	30
787-9	0	41	41
Total	**85**	**219**	**304**
Of which:			
Widebodies	55	170	225
Narrowbodies	24	46	70
Freighters	6	3	9

Qatar fleet	In Service	On Order	Total by 2021
A319-100LR	2	0	2
A320-200	31	1	32
A320-200NEO	0	35	35
A321-200	10	0	10
A321-200NEO	0	14	14
A330-200	16	0	16
A330-200F	3	5	8
A330-300	13	0	13
A340-600(HGW	4	0	4
A350-1000XWB	0	37	37
A350-900XWB	0	43	43
A380-800	0	10	10
777-200LR	9	0	9
777-300ER	24	3	27
777F	5	3	8
787-8	9	21	30
Total	**126**	**172**	**298**
Of which:			
Widebodies	78	119	197
Narrowbodies	43	50	93
Freighters	5	3	8

Note: Totals assume no further orders, and that expiring leases will be renewed.

SOURCES: CIMB, CAPA

2.8 Outlook by country

Australia. We believe that the Australian markets will remain weak, particularly as domestic travel demand remains lackluster, even though capacity growth across the top ten domestic routes remains flat through to April. This means that carriers are leaving the oversupply in place, and yields will remain weak. Separately, Virgin Australia's recent A$351m capital raising gives it an advantage in its quest to challenge Qantas for more of the premium travel market, and we expect that it will fight hard to capture more of the corporate market. Tigerair Australia will be used by Virgin Australia to fight against Qantas's Jetstar.

Malaysia. Malaysian domestic yields collapsed in 2013 as newcomer Malindo started flights in March 2013, and MAS responded by increasing the utilisation of its short-haul fleet and cut its fares in order to protect market share. Earnings dived for AirAsia and losses expanded for MAS as a result. Malindo's expansion plans in 2014 are already known, but the key uncertainty is whether MAS will change its destructive course sometime during the year

The current MAS management's three-year contracts will expire in 4Q14-1Q15. If their contracts are not renewed, and a new management team enters, there is a possibility that the present MAS strategy will change. In the past, every management change has led to a different strategy. As such, we will have to monitor a potential management change at MAS, as it could trigger capacity cutbacks and fare increases, that could benefit the market.

Singapore. Changi Airport in Singapore is likely to be subject to further LCC activity. While passenger traffic continues to set new records for monthly and yearly throughout, a disproportionately increasing amount of this growth has been due to the sharp growth of the budget airlines. Nevertheless, penetration rates remain at just 31%, as compared to international LCC penetration of 48%

in Malaysia and 46% in Indonesia, suggesting potential for even more market share loss by the incumbent full service airlines. Currently, SIA has 33% of market share in its home market – this has declined from approximately 45% since 2006, although it is still higher than the market shares of MAS and Thai Airways in their respective home countries.

Interestingly, Singapore now accounts for the three largest LCC international routes in the world (Jakarta, Kuala Lumpur and Bangkok). We believe the desire of LCCs to have a strong foothold in the country is a consequence of Singapore's central location within ASEAN. Additionally, appetite for outbound travel from Singapore remains robust due to favourable demographics, high disposable incomes and the continued strength of the Singapore dollar. Moreover, the increasing use of Singapore as a financial centre should also improve demand. As such, we believe that there will continue to be a struggle for balance between demand and capacity growth in the near term.

Thailand. The competitive environment in Thailand will heat up in 2014, as airlines add a record amount of new capacity. Four new airlines will/have already started operations this year, including two new short-haul LCCs and two new LHLC carriers. There is also the political turmoil to consider, and if it drags on, tourist arrivals could drop sharply. These factors suggest that airlines in Thailand will face lower demand just as capacity ramps up, not a good sign for yields and profitability.

Philippines. In the Philippines, competition remains very heavy, with FSC incumbent Philippine Airlines (PAL), and the other LCCs discounting heavily. The pressure had been too great for Tiger Airways, and it has decided to sell its stake in Tigerair Philippines to Cebu Air. While the demise of one competitor is technically good for the industry, Tigerair Philippines is too small to make much of an impact. We also understand that there has been too much capacity deployed to Dubai suddenly, and all carriers operating the route from Manila are bleeding heavily with very low load factors. In the future, when Japan opens up to more flights from the Philippines, overcapacity is expected to be a feature as well.

Separately, an unfavourable Supreme Court ruling last year resulted in the imposition of excise duties and VAT on jet fuel that is uplifted for international flights. In the past, only jet fuel used for domestic flights was subject to these taxes. Without any resolution available in the near term, airlines in the Philippines will have to pay more for their jet fuel. We understand that the largest jet fuel supplier in the Philippines started passing on the tax from July 2013, although other smaller jet fuel suppliers have not done so.

Korea. We believe that the outlook for outbound passenger traffic growth remains comparatively optimistic in the immediate future. Historically, strength in the Korean won relative to the US$ has coincided with an increased appetite for overseas travel, and we expect that outbound travel is likely to continue growing.

In addition, Korea has become an important transit hub on the China to North America routes due to its favourable location as well as the connectivity of both Korean Air and Asiana. While travel growth to the US from Korea slowed due to the cancellation of codeshares between Korean Air and Delta, a reinstatement of the partnership should see a rebound in transit traffic.

We are more sanguine on long-haul travel and less positive on regional passenger travel. Not only is capacity increasing with as LCCs expand their network, but we also see some obstacles to demand. Japanese passengers travelling to Korea were down 24% yoy during 10M13, although the number of Japanese passengers to China in October 2013 recorded a slight yoy gain.

Meanwhile, cargo markets remain in flux. Although both demand and yields have improved in 4Q13 and should continue to rise off a low base, we are unconvinced that capacity growth will be reined in sufficiently so as to see a quick turnaround. Rather, we see a more gradual profit recovery, even though the launch of new tech products and a projected increase in TV sales ahead of the Football World Cup could be a catalyst for demand.

Longer-term, we think that the most important issue revolves around the entry of budget airlines into the market. As with the rest of Asia, we see liberalization of the Korean aviation sector in the coming years, beginning with the potential entry of AirAsia Korea into the market. With the LCCs already showing some signs of winning market share from the incumbents, we see a larger battle looming on regional sectors.

Hong Kong. While Hong Kong remains a popular destination for LCCs, we believe that Hong Kong remains relatively insulated from the impact of low cost carriers at present due to the lack of carriers hubbed out of the country. A regulatory decision on Jetstar Hong Kong's application to operate scheduled services in the city has yet been received. Ultimately, we believe that access for Jetstar is likely to only be granted if there is bilateral reciprocity – in this case, greater access into the Australian market. We believe that the final resolution is likely to resemble a compromise similar to this.

In the immediate future, we believe that Hong Kong continues to benefit from its large corporate and financial sector base in the city. Cathay Pacific's yields rose 4.4% in 1H13, and the airline was one of the few full service carriers to record a positive growth in fares over that period. We see this as not just a reflection of improving demand in the city, but also of the rapid return of premium class passengers, particularly as the corporate expenditure environment rebounds.

China. In the immediate future, China is expected to continue to experience weakness in front-cabin demand, given the slowing economic growth and continued austerity. CAPA reported that China's carriers have experienced more than 10% dip in premium revenues, while passengers using VIP lounges decreased 20%. China Southern has also considered removing first class cabins altogether.

China's Ministry of Finance recently issued new rules for travel expenses, including requesting officials at director general level to travel in economy class when undertaking official travel by air, effective 1 January 2014. Although the new regulation does not apply to travel at the ministerial level, it could potentially cause an even greater contraction in premium demand. As such, average air fares achieved by the Chinese carriers could decline even more.

In the longer term, the key issue to watch is how deregulation will change the operating landscape. One key positive that could emerge is the opening up of more of China's airspace to commercial aviation. Airline traffic has increased in accordance with China's GDP growth, and the 20% of airspace open to non-military movements is now severely choked. If more of the airspace is opened up, flight delays will be reduced, lowering operating costs for airlines and helping them improve aircraft utilisation. In the longer term, however, this could open up space for new entrants and competitors, although we think the net benefits of airspace reform are firmly positive. Any more to open up China's skies is beyond the powers of the aviation regulator CAAC, and will need the military's approval, which is still an unknown at this point.

Another interesting development is the potential entry of new private airlines and LCCs. Eleven new airlines in the past year have announced their intention to set up in China, of which three have so far been approved by the CAAC. Juneyao Airlines and China Eastern are also establishing their own LCCs, while the HNA Group has converted China West Air into an LCC. New entrants mean new competition, but as we noted in section 2.6, the impact on the incumbents could be very gradual and limited.

2.9 Valuation and recommendation

Of the 16 airlines in our coverage universe, we have only one Add, which is Cathay Pacific, underlining how difficult the fundamentals are for the airline space right now. Cathay Pacific has executed well, which enabled it to grow its yields in 1H13 despite an otherwise weak environment. Cathay is also seeing good US premium demand and benefitting from its investments in the premium economy class of seats.

Other airlines, like AirAsia and SIA, while out-of-favour with investors now due to ongoing yield pressures in their home markets, are strong brands and their stocks are trading very close to their liquidation values of RM2.36 and S$9.72, respectively. Any hint of improvement in the fundamentals could see both airlines rerate quickly.

Figure 32: Airline sector recommendations and basis - LCCs

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Upside (%)	Basis for target	Rationale for call
Low cost carriers							
AirAsia Bhd	AIRA MK	Hold	RM2.34	RM2.55	9.0%	11x CY15 P/E, sector average	AirAsia is a structurally sound company, with a great brand and strong profit margins. Its share price is strongly supported by its liquidation value of around RM2.40. Near-term share price catalysts are missing because of yield pressures from heavy competition and a proposed airport tax hike, plus cost pressures from higher landing fees. The stock will rerate only if either MAS or Malindo pull back from the brink and reduce capacity deployment.
AirAsia X Bhd	AAX MK	Hold	RM0.99	RM1.11	12.1%	11x CY15 P/E, sector average	AAX is expanding in a hurry, with 50% ASK growth in 2014 and 30% in 2015, on top of the 20% in 2013. In 2014, overcapacity on some routes (especially to Australia) is a real issue, on top of aggressive competition from MAS, which may cause yields to weaken. Thai AAX is planned to start up in 2Q14, and will compete with Thai Airways as well as NokScoot that will start operations from 2H14. We expect losses from Thai AAX to weigh down AAX's earnings for at least two years.
Asia Aviation Pcl	AAV TB	Reduce	THB3.74	THB3.15	-15.8%	11x CY15 P/E, sector average	AAV is another strong company in the AirAsia group, but yields will be weighed down by the impact of the ongoing political protests. Also, the recent entry of Thai Lion Air and impending entry of VietJet Air, as well as expansion by Nok Air, will spread yield deflation to more routes. The US$ has also appreciated against the baht, causing US$-denominated costs to rise in baht terms.
Tiger Airways	TGR SP	Reduce	S$0.45	S$0.33	-25.8%	1x CY14 P/BV	Tiger Airways needs more time to recover from overcapacity in Singapore which caused its Singapore business to drop into an operating loss during 3QCY13. Its Indonesian affiliate remains loss-making and needs more scale to turn around, but is hampered by the lack of airport slots out of Jakarta, and by significantly larger competitors. Its 40% stake in Tigerair Philippines was recently sold to Cebu Air.
Cebu Air	CEB PM	Reduce	PHP50.00	PHP37.30	-25.4%	1x CY14 P/BV	Cebu Air had recently suffered from excessive competition in the domestic aviation space, with 2Q and 3Q13 yields down yoy. Cost pressures also built from the strong US$, and the imposition of excise duties and VAT on fuel uplifted for international flights by the largest jet fuel supplier in the Philippines. The exit of Tigerair Philippines and the takeover of its airport slots by Cebu Air should help reduce competition in the country. However, short-term rerating catalysts are missing given the tough competitive environment.

SOURCES: CIMB, COMPANY REPORTS

Figure 33: Airline sector recommendations and basis - FSCs

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Upside (%)	Basis for target	Rationale for call
Full-service carriers							
Cathay Pacific Airways	293 HK	Add	HK$16.54	HK$18.50	11.9%	6.5x CY15 EV/EBITDAR (5-year average)	Cathay Pacific executed well in 2013 and responded to weak long-haul markets by swapping its larger, older, four-engined B747s with smaller, younger, twin-engined B777s. As a result, it succeeded in matching demand with supply, and benefitted from rising long-haul yields when demand returned, particularly from North America. While Cathay is reinstating the previous long-haul supply cuts, it is now doing so from a position of strength. The introduction of Premium Economy also helped lift average yields. Offsetting these positives is a continued weakness in short-haul passenger yields, and the weak cargo markets.
China Eastern Airlines	670 HK	Reduce	HK$2.66	HK$2.30	-13.5%	6.4x CY15 EV/EBITDAR (5-year average)	China Eastern is expanding rapidly in western China through its Yunnan affiliate, but we do not expect demand to catch up with supply, leading to a weak yields and load factors. China Eastern is also the most heavily exposed to Japan among the Big 3 Chinese carriers, and political tensions between China and Japan, in addition to the weak yen, will continue to dampen demand.
China Southern Airlines	1055 HK	Reduce	HK$2.79	HK$2.40	-14.0%	6.1x CY15 EV/EBITDAR (5-year average)	China Southern has been forced by regulations to deploy its A380s on the domestic route between Guangzhou and Beijing, which is too close to make the aircraft viable. It is also discounting heavily on its A380 flights to Sydney and Los Angeles. The airline has been affected by the new Beijing-Guangzhou high-speed rail which opened in late-2012. All signs point to continued yield pressure.
Air China	753 HK	Hold	HK$5.13	HK$5.40	5.3%	5.75x CY15 EV/EBITDAR (mid-cycle average)	Air China is favourably located in China's capital Beijing, and we expect it to be less susceptible to competition from the high-speed rail network, or competition from potential new airline entrants. Domestic load factors have been the strongest because its capacity increases have been the least among its peers. Conversely, Air China is the most levered to the cargo markets among the Big 3 airlines, which will act to dampen its profitability.
Korean Air	003490 KS	Hold	W33,800	W30,500	-9.8%	5.2x CY15 EV/EBITDAR (1 s.d. below long-term average)	With cargo markets remaining weak, and with air freight accounting for 24% of KAL's revenue, earnings will continue to remain under pressure. Meanwhile, the weak yen is also reducing Japanese travel demand to Korea, with demand and yields from Japan weakening sharply during 2013. US load factors are also under pressure due to competition and the cancellation of its codeshares with Delta. A potential reinstatement of the Delta codeshares may help KAL in the future.
Asiana Airlines	020560 KS	Hold	W5,300	W5,200	-1.9%	3-phase DCF	Asiana's capacity expansion to China and Europe caused its yields to fall in 2013, and more yield pressure may come about when it deploys its first two A380s in 2014. Apart from this, Asiana is also afflicted by the same malaise as KAL, with weak Japan inbound traffic and weak cargo markets dampening revenues.

SOURCES: CIMB, COMPANY REPORTS

Figure 34: Airline sector recommendations and basis - FSCs (continued)

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Upside (%)	Basis for target	Rationale for call
Malaysian Airline System	MAS MK	Reduce	RM0.31	RM0.17	-45.2%	1x CY14 P/BV	MAS is fighting against one of the most cost-efficient LCCs in the world, AirAsia, and also against newcomer Malindo which actually offers a better short-haul product than MAS. In the end, MAS's flooding of capacity and massive discounting of prices cannot last forever. Current management contracts are ending in 4Q14/1Q15, and if there is new management, there may perhaps be a new strategy. Until then, investors have no reason to own MAS.
Singapore Airlines	SIA SP	Hold	S$9.83	S$10.50	6.8%	4.2x CY15 EV/EBITDAR (historic trough)	SIA is trading very close to its liquidation value of S$9.72, so we expect limited downside. However, neither are there catalysts, as SIA will incur start-up costs for its new Indian FSC affiliate, and its new long-haul LCC affiliate in Thailand (NokScoot), as well as ongoing losses from its low-cost arms, Scoot and Tiger Airways. A China investment is the last missing piece, and may come sooner or later. These are all long-term investments for the future, and will not yield returns to shareholders in the short term.
Thai Airways International	THAI TB	Reduce	THB14.00	THB11.50	-17.9%	0.42x CY14 P/BV (correlated to ROE)	Thai Airways is under significant cost pressure from the stronger US$, as well as topline pressure from existing short-haul LCCs. One short-haul LCC has already started operations in December (Thai Lion Air), while another short-haul LCC may start sometime in 2014 (VietJet Air). Meanwhile, Thai Airways's long-haul yields may also come under pressure from Thai AirAsia X (starting 2Q14) and NokScoot (starting 2H14). On top of this, political conflict in Thailand will cause inbound tourist volumes to decline.
Qantas Airways	QAN AU	Hold	A$1.10	A$1.14	3.4%	0.6x FY15 P/NTA	Qantas is expected to face pressure from a recapitalised Virgin Australia, which will continue to fight hard for more of the local corporate traffic. Meanwhile Tigerair Australia is also expected to raise the stakes in the battle with Jetstar. This means yields will continue to be pressured as Qantas battles to retain market share.
Virgin Australia Holdings	VAH AU	Reduce	A$0.37	A$0.35	-4.6%	1x FY15 P/NTA	Virgin Australia, like Qantas, is struggling under the weight of a fiercely competitive environment, coupled with slow domestic traffic growth, which has a negative impact on yields. These conditions are expected to continue into FY14.

SOURCES: CIMB, COMPANY REPORTS

3. AIRPORTS

3.1 Strong passenger traffic for Thailand and Malaysia

Thailand and Malaysia generated very strong traffic growth in 2013. The other two airports – Sydney Airport and Auckland International Airports – also grew their traffic, although by virtue of them being in developed markets, the rate of growth was slower than in Asia.

Figure 35: Airport passenger movements

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Passengers (millions)													
KLIA			17.5	21.1	23.2	24.1	26.5	27.5	29.7	34.1	37.7	39.9	46.6
Greater Bangkok			30.2	38.0	39.0	43.1	46.0	43.6	43.0	45.8	51.3	59.0	67.8
Sydney		23.9	24.8	27.5	28.7	29.9	31.9	32.9	33.0	35.6	35.5	36.9	37.9
Auckland					11.1	11.6	12.7	13.3	13.1	13.4	13.7	14.2	14.7
Growth (%)													
KLIA				*20.6%*	*10.2%*	*3.9%*	*9.6%*	*4.1%*	*7.8%*	*14.8%*	*10.6%*	*5.8%*	*16.7%*
Greater Bangkok				*25.8%*	*2.7%*	*10.6%*	*6.7%*	*-5.1%*	*-1.6%*	*6.6%*	*12.1%*	*14.9%*	*15.0%*
Sydney			*3.8%*	*10.9%*	*4.4%*	*4.2%*	*6.7%*	*3.1%*	*0.3%*	*7.9%*	*-0.3%*	*4.0%*	*2.6%*
Auckland						*4.1%*	*9.5%*	*5.4%*	*-1.7%*	*1.9%*	*2.5%*	*3.3%*	*3.6%*
5-year CAGR (%)													
KLIA													*11.1%*
Greater Bangkok													*9.2%*
Sydney													*2.8%*
Auckland													*1.9%*

Note: KLIA and Auckland passenger data for 2013 is annualised from 11M13 data.

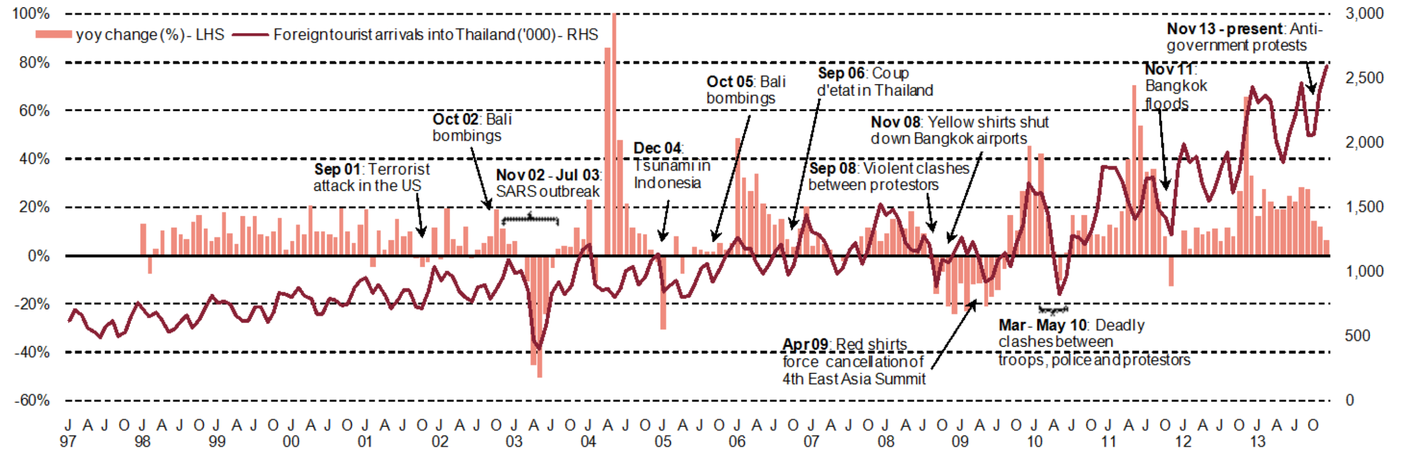
SOURCES: CIMB, COMPANY REPORTS

3.2 Good long-term outlook for airports

Thailand. The current political conflict in Thailand began with on 4 November with street protests by forces seeking to oust the current Thai Prime Minister Yingluck Shinawatra. Protest leaders have vowed to keep up the pressure until they secure the current government's resignation.

As can be seen from the chart below, the onset of any political disturbance, disease outbreak or natural disasters causes a substantial decline in tourist numbers over several months, depending on the severity or duration of the particular event.

Figure 36: Tourist arrivals into Thailand have historically rebounded quickly after political unrest subsides



SOURCES: CIMB, COMPANY REPORTS

Tourism growth into Thailand weakened significantly in November and December 2013, with November growth at 12% yoy and December growth at 7%

yoy, vs. an average of 22% yoy during 10M13. We believe the January numbers will be even weaker, possibly dropping into negative yoy territory.

However, AOT's long-term outlook is good, because the chart below shows that the long-term growth of tourists into Thailand is still very much intact, despite potholes along the way. In fact, the growth of tourism has escalated since 2010.

It took 10 years for in-bound tourists to double from 7.2m in 1997 to 14.5m in 2007, but it will likely double again to 29m by 2014, in our estimate, despite the Global Financial Crisis (GFC) and the Yellow-Shirt protests of 2008 falling in the latter period.

Tourist numbers reached some 26.7m people in 2013, up a staggering 89% from the 2009 base of 14.1m people, or an impressive 17.2% 4-year CAGR.

Much of this growth has been driven by the growing popularity of Thailand with Chinese, Indian and Russian tourists, and the rising disposable income levels of those countries' populations.

Airline capacity growth has also been a key contributor, with the AirAsia group, Tigerair, Jetstar, Nok Air, Bangkok Air and Thai Smile all expanding capacity and providing affordable ticket prices to the masses.

Airports of Thailand has also played a critical role by reopening Bangkok's old Don Muang airport to international flights from 4Q12 and allowing Thai AirAsia to move away from the congested Suvarnabhumi airport. As a result, Bangkok is now served by two airports and four runways, with plenty of capacity to spare.

Moving forward, the weaker baht is going to make Thailand even more attractive to Chinese tourists, with the renminbi appreciating 15% against the baht over the past 12 months. The Korean won has appreciated 8% against the baht. Even the Japanese yen, the Indian rupee, and the Malaysian ringgit, which have depreciated against the US$, have largely kept their values against the baht over the past year.

Meanwhile, airline competition will escalate in 2014, which is very good for traffic numbers and airport profitability, though unfavourable for airline margins. Newcomer Thai Lion Air (TLA), and seeking to build a strong presence to challenge the dominance of Thai AirAsia (TAA). Nok Air is also expanding, and two new LHLC carriers – Thai AirAsia X and NokScoot – will begin operations in 2014. VietJet Air may also open an affiliate in Thailand.

In short, we believe that the fundamentals are in place for tourism volumes to Thailand to rebound once the conflict ends, if history is an accurate guide.

Malaysia. Malaysia enjoyed record traffic growth in 2013, courtesy of newcomer Malindo, as well as aggressive capacity additions by MAS, AirAsia and AirAsia X. The additional traffic will likely continue into 2014, as none of the airlines are willing to cede their market shares. Malindo recently launched flights from Kuala Lumpur to Jakarta and Bali in Indonesia, and Dhaka, Chittagong, Delhi, and Tiruchirappalli in Greater India. Flights to Mumbai and Ahmedabad will be launched soon. Hence, air fares on average are expected to remain low or come down further on selected routes where there is additional capacity injection. The low fares will in turn stimulate more demand, that will drive traffic growth at the airports.

CIMB

Figure 37: Domestic sector (from KUL and SZB) – selected Malindo routes

Flights from KUL to	**Jan-13** Total seat capacity/week	**Aug-13** Total seat capacity/week	**Dec-13** Total seat capacity/week	**Jan-Dec 13** Growth in industry seats
Kota Kinabalu	30,139	35,538	34,332	13.9%
Kuching	24,896	35,952	33,894	36.1%
Miri	8,240	12,588	11,391	38.2%
Sibu	6,160	8,715	8,715	41.5%
Tawau	5,668	9,576	8,316	46.7%
Langkawi	18,088	20,286	21,378	18.2%
Penang	20,272	20,730	24,450	20.6%
Total	**113,463**	**143,385**	**142,476**	**25.6%**
Change from the January 2013 base		36.3%	28.7%	

Flights from Subang to	Jan-13 Total seat capacity/week	Aug-13 Total seat capacity/week	Dec-13 Total seat capacity/week	Jan-Dec 13 Growth in industry seats
Alor Setar	1,368	2,160	2,160	57.9%
Johor Bahru	1,944	4,752	4,752	144.4%
Kota Bahru	4,680	7,056	7,056	50.8%
Kuala Terengganu	1,872	3,024	3,024	61.5%
Langkawi	1,800	2,352	2,352	30.7%
Penang	7,344	10,224	10,224	39.2%
Total	**19,008**	**29,568**	**29,568**	**55.6%**
Change from the January 2013 base		55.6%	55.6%	

BREAKDOWN BY AIRLINE

Flights from KUL	Jan-13 Total seat capacity/week	Aug-13 Total seat capacity/week	Dec-13 Total seat capacity/week	Jan-Dec 13 Share of capacity increase
AirAsia	70,020	79,380	79,380	32.3%
MAS	43,443	50,145	49,236	20.0%
Malindo	0	13,860	13,860	47.8%
Total	**113,463**	**143,385**	**142,476**	**100.0%**

Flights from Subang	Jan-13 Total seat capacity/week	Aug-13 Total seat capacity/week	Dec-13 Total seat capacity/week	Jan-Dec 13 Share of capacity increase
Firefly	15,480	19,656	19,656	39.5%
Malindo	0	7,056	7,056	66.8%
Others	3,528	2,856	2,856	-6.4%
Total	**19,008**	**29,568**	**29,568**	**100.0%**

SOURCES: CIMB, INNOVATA, CAPA

Figure 38: Indonesian sectors – selected Malindo routes

Flights from KUL to	**Jan-13** Total seat capacity/week	**Aug-13** Total seat capacity/week	**Dec-13** Total seat capacity/week	**Jan-Dec 13** Growth in industry seats
Jakarta	28,857	28,911	30,171	4.6%
Medan	8,540	12,551	13,811	61.7%
Bali	10,514	12,544	13,804	31.3%
Total	**47,911**	**54,006**	**57,786**	**20.6%**
Change from the January 2013 base		12.7%	20.6%	

BREAKDOWN BY AIRLINE

	Jan-13 Total seat capacity/week	Aug-13 Total seat capacity/week	Dec-13 Total seat capacity/week	Jan-Dec 13 Share of capacity increase
AirAsia	21,420	23,898	23,898	25.1%
MAS	13,814	16,583	16,583	28.0%
Malindo	0	0	3,780	38.3%
Lion Air	5,040	6,503	6,503	14.8%
Others	7,637	7,022	7,022	-6.2%
Total	**47,911**	**54,006**	**57,786**	**100.0%**

SOURCES: CIMB, INNOVATA, CAPA

Figure 39: Indian subcontinent sectors – selected Malindo routes

	Jan-13	Aug-13	Dec-13	Jan-Dec 13
Flights from KUL to	Total seat capacity/week	Total seat capacity/week	Total seat capacity/week	Growth in industry seats
Dhaka	3,941	7,089	8,353	112.0%
Delhi	2,896	2,806	4,396	51.8%
Mumbai	3,102	2,799	4,059	30.9%
Kochi	1,800	1,260	3,675	104.2%
Tiruchirappalli	2,520	2,520	5,040	100.0%
Total	**14,259**	**16,474**	**25,523**	**79.0%**
Change from the January 2013 base		15.5%	79.0%	

BREAKDOWN BY AIRLINE	Jan-13	Aug-13	Dec-13	Jan-Dec 13
	Total seat capacity/week	Total seat capacity/week	Total seat capacity/week	Share of capacity increase
AirAsia	4,320	3,780	5,040	6.4%
MAS	7,977	9,553	11,042	27.2%
Malindo	0	0	6,300	55.9%
Others	1,962	3,141	3,141	10.5%
Total	**14,259**	**16,474**	**25,523**	**100.0%**

SOURCES: CIMB, INNOVATA, CAPA

3.3 Valuation and recommendation

Of the four airports we cover, we have three Add recommendations. It is all about volume expansion, and none of the woes of commercial airlines affect it at all; conversely, the fare dumping and capacity increases work in the airports' favour.

Figure 40: Airport sector recommendations and basis

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Upside (%)	Basis for target	Rationale for call
Airports							
Airports of Thailand	AOT TB	Add	THB175.50	THB192.00	9.4%	DCF	AOT is a big beneficiary of the inbound tourism boom in Thailand, which looks set to continue once the current political turmoil blows over. From 2014 onwards, four new LCCs will begin operations in Thailand, which will result in more passenger traffic. Competition among the airlines has already caused fare deflation, which will stimulate travel demand.
Malaysia Airports Holdings	MAHB MK	Add	RM8.84	RM9.80	10.9%	DCF	
Auckland Int'l Airport	AIA NZ	Hold	NZ$3.63	NZ$3.37	-7.0%	DCF	AIA has lofty aspirations and plans to double Chinese arrivals by FY17, grow international passengers by 5.2% CAGR until FY18, and its total passenger traffic by 4.7% CAGR until FY20. Management has a strong track record, and it is also strengthening its retail offering and landbank. While AIA is a solid defensive stock, it is fully valued at current levels.
Sydney Airport	SYD AU	Add	A$3.88	A$4.25	9.5%	DCF	With tight cost control, SYD has been able to grow its earnings faster than its traffic growth. It finished 2013 on a high note with strong international traffic growth that is expected to flow through into 2014. Recent commercial initiatives should also drive FY14 earnings growth.

SOURCES: CIMB, COMPANY REPORTS

4. CONTAINER SHIPPING

4.1 2013 was a bad year

Container freight rates performed poorly in 2013, despite starting the year on a strong note. From 2Q13 onwards, spot SCFI rates on all the key routes started to fall below year-ago levels, and it was not until the 4Q that some of the slide was addressed, as carriers worried about their start-of-2014 contract renewals.

On average, CCFI rates (which averages both spot and contract rates) from China to North Europe and the Mediterranean fell 11-12% yoy during 2013, while China-Middle East rates fell 17% yoy. Fortunately, the rates on the all-important transpacific trade (China-US West Coast/East Coast) rates remained largely flat.

Figure 41: SCFI vs. CCFI comparison

	North Europe rates		Mediterranean rates		USWC rates		USEC rates		Asia-Middle East		Asia-Australia	
	SCFI	CCFI	SCFI	CCFI	SCFI	CCFI	SCFI	CCFI	SCFI	CCFI	SCFI	CCFI
	US$/teu	Index	US$/teu	Index	US$/feu	Index	US$/feu	Index	US$/teu	Index	US$/teu	Index
1Q 12	1,010	1,072	1,034	1,186	1,850	925	2,998	1,131	843	871	836	932
2Q	1,741	1,790	1,833	1,953	2,429	1,041	3,580	1,280	1,434	1,538	934	990
3Q	1,491	1,759	1,483	1,835	2,588	1,129	3,782	1,322	949	1,283	878	963
4Q	1,204	1,476	1,015	1,350	2,307	1,113	3,340	1,247	731	1,045	1,039	1,057
1Q 13	1,258	1,470	1,209	1,420	2,326	1,094	3,480	1,249	745	917	985	1,037
2Q	781	1,237	1,012	1,285	2,059	1,093	3,217	1,217	888	1,100	894	1,021
3Q	1,201	1,402	1,208	1,507	1,968	1,072	3,356	1,218	816	997	528	832
4Q	1,109	1,320	1,185	1,362	1,774	980	3,105	1,186	665	922	869	931
1H 12	1,376	1,431	1,434	1,569	2,140	983	3,289	1,205	1,139	1,205	885	961
2H 12	1,347	1,618	1,249	1,593	2,447	1,121	3,561	1,284	840	1,164	958	1,010
1H 13	1,019	1,354	1,111	1,353	2,192	1,094	3,349	1,233	817	1,008	939	1,029
2H 13	1,155	1,361	1,197	1,434	1,871	1,026	3,231	1,202	741	959	699	882
Change yoy (%)												
1Q 13	24.5%	37.2%	17.0%	19.8%	25.7%	18.2%	16.1%	10.5%	-11.6%	5.2%	17.9%	11.2%
2Q 13	-55.2%	-30.9%	-44.8%	-34.2%	-15.2%	5.0%	-10.1%	-4.9%	-38.1%	-28.5%	-4.3%	3.1%
3Q 13	-19.5%	-20.3%	-18.6%	-17.9%	-23.9%	-5.0%	-11.3%	-7.8%	-38.1%	-28.5%	-4.3%	3.1%
4Q 13	-7.9%	-10.6%	16.7%	0.8%	-23.1%	-12.0%	-7.0%	-4.9%	-38.1%	-28.5%	-4.3%	3.1%
1H 13	-25.9%	-5.4%	-22.5%	-13.8%	2.5%	11.2%	1.8%	2.3%	-28.3%	-16.3%	6.1%	7.0%
2H 13	-14.3%	-15.9%	-4.2%	-10.0%	-23.6%	-8.4%	-9.3%	-6.4%	-11.8%	-17.6%	-27.1%	-12.7%
2013	**-20.2%**	**-10.9%**	**-14.0%**	**-11.9%**	**-11.4%**	**0.7%**	**-3.9%**	**-2.2%**	**-21.3%**	**-16.9%**	**-11.1%**	**-3.1%**

SOURCES: CIMB, COMPANY REPORTS

The rates that were disclosed by NOL, OOIL and CSCL were also very poor, especially from 2Q13 onwards. The spot SCFI rates were also extremely volatile, with rate restorations via General Rate Increases (GRI) or Peak Season Surcharges (PSS) eroding quickly over the weeks following the initial increases. In total, and net of the subsequent rate erosions, all of the GRI and PSS attempts during late-2012 to late-2013 were a complete failure.

From November/December 2013 onwards, the GRI attempts appear to hold up much better, as is the case at the start of every year when carriers prepare to negotiate their annual contracts. There is also the pre-Chinese New Year peak, which appears to be frontloaded this year since the Lunar New Year will be celebrated on 31 January. However, we cannot be sure if rates will hold up this well in February and March, not at least until trade restarts during the spring.

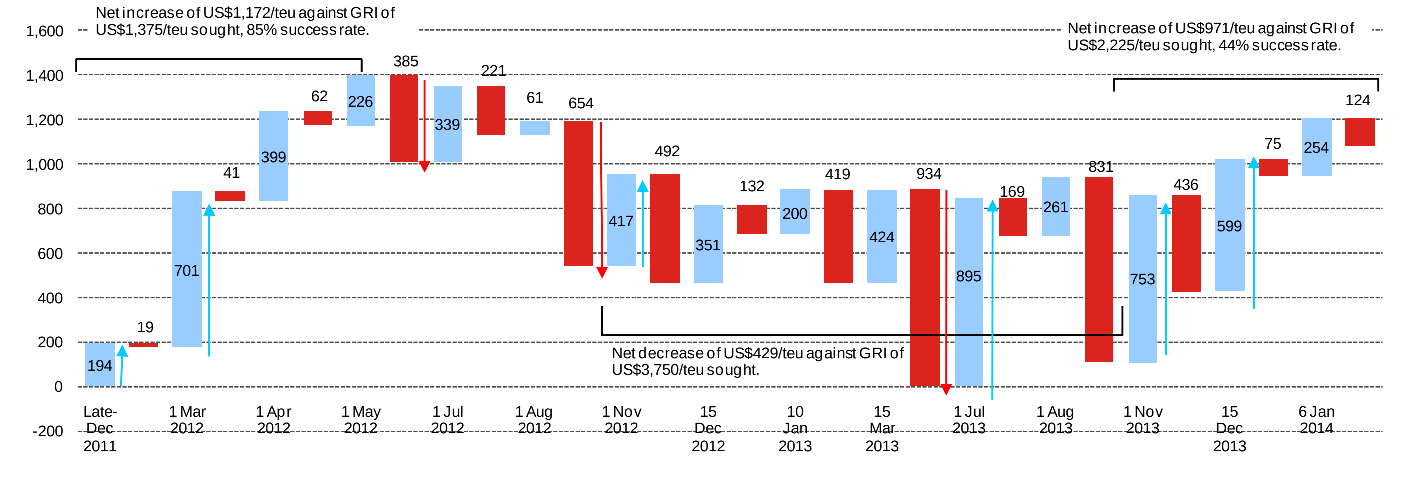
CIMB

Figure 42: SCFI vs. CCFI comparison

	Asia-Europe rates			Transpacific rates			Intra-Asia rates		
	NOL	OOIL	CSCL	NOL	OOIL	CSCL	NOL	OOIL	CSCL
	US$/teu	US$/teu	US$/teu	US$/feu	US$/feu	US$/feu	US$/teu	US$/teu	US$/teu
1Q 12	1,075	1,082	707	3,825	2,953	2,074	720	750	495
2Q	1,375	1,461	1,145	3,651	3,170	2,617	866	798	630
3Q	1,323	1,407	1,147	3,763	3,324	2,707	796	798	556
4Q	1,203	1,252	966	3,500	3,247	2,625	747	784	634
1Q 13	1,207	1,269	1,085	3,471	3,106	2,562	713	750	561
2Q	1,072	1,180	630	3,458	3,232	2,236	727	747	485
3Q	1,214	1,269	905	3,506	3,137	2,077	674	719	345
4Q to date									
Change yoy (%)									
1Q 13	12.3%	17.3%	53.5%	-9.3%	5.2%	23.5%	-1.0%	0.0%	13.2%
2Q 13	-22.0%	-19.2%	-45.0%	-5.3%	1.9%	-14.5%	-16.1%	-6.4%	-23.0%
3Q 13	-8.2%	-9.8%	-21.1%	-6.8%	-5.6%	-23.3%	-15.3%	-9.8%	-38.0%
1H 13	-7.0%	-3.7%	-7.4%	-7.3%	3.5%	2.3%	-9.2%	-3.3%	-7.1%

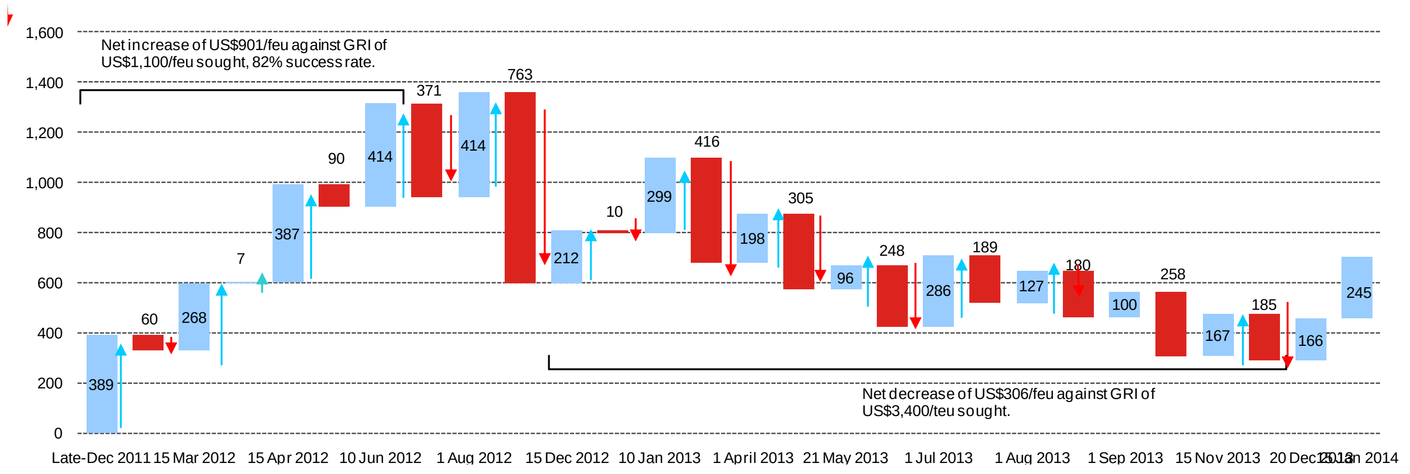
SOURCES: CIMB, COMPANY REPORTS

Figure 43: Progression of China-North Europe SCFI spot rates (cumulative, up to last Friday)



SOURCES: CIMB, SHANGHAI SHIPPING EXCHANGE

Figure 44: Progression of China-US West Coast SCFI spot rates (cumulative, up to last Friday)



SOURCES: CIMB, SHANGHAI SHIPPING EXCHANGE

Figure 45: General Rate Increases / Peak Season Surcharges since late-2011

	Asia-Europe	Transpacific (US West Coast)
	US$/teu	US$/teu
Late-Dec 2011	200	
Mid-Jan 2012		400
1 Mar 2012	775	
15 Mar 2012		300
1 Apr 2012	400	
15 Apr 2012		400
1 May 2012	400-450 (partial success)	500 (failed)
1 Jun 2012	250-400 (failed)	
10 Jun 2012		PSS 600 (partial success)
15 Jun 2012	350-400 (failed)	
1 Jul 2012	400-500 (certain carriers only)	
1 Aug 2012	PSS 250-350 (failed)	
6 Aug 2012		500 (partial success)
15 Aug 2012	250 (Hapag-Lloyd)	
1 Nov 2012	500-550	
1 Dec 2012		400 (delayed to mid-Dec)
15 Dec 2012	600	400
10 Jan 2013	PSS 350	600
15 Mar 2013	750	
1 Apr 2013		400
15 Apr 2013	500 (postponed)	
15 May 2013	500-550 (failed)	
1 May 2013		800 (postponed)
21 May 2013		400
1 Jul 2013	775-1,000	400
1 Aug 2013	PSS 500	PSS 400
1 Sep 2013	GRI 500 (failed)	PSS 400
1 Oct 2013		400 (failed)
1 Nov 2013	950-1,000	
15 Nov 2013		400
15 Dec 2013	775	
20 Dec 2013		200
15 Jan 2013	250-500	300

SOURCES: CIMB, COMPANY REPORTS

4.2 2014 will be another tough year

We think that this year will be another tough year for container shipping carriers, because *nominal supply* is expected to grow faster than demand, which could make it more difficult for carriers to control *effective supply*.

Nominal supply is simply the sum total of the teu capacity of vessels that are capable of being deployed on the container trades. It comprises the current available ship capacity after adding newbuilding deliveries and subtracting scrapping/demolition. Effective supply is nominal supply modified by the actions that carriers take to adjust the actual containership slot capacity available to customers. These actions include slow steaming, skipped sailings and temporary/permanent vessel idling.

Based on our calculations in the table below, average nominal fleet growth is expected to exceed trade growth in 2013 and 2014. Our trade growth forecast is based on the IMF projection of global GDP growth of 3.6% in 2014 and container trade growth of 5.4% (implying a trade-to-GDP multiple of 1.5x).

Even with the acceleration in container trade growth expected in 2014, it will still be 0.7% pts lower than the average nominal fleet growth of 6.1%.

On the assumption that carriers actively manage the effective capacity via more idling (due to skipped sailings) and more slow steaming, the average *effective* capacity in 2014 may grow 5.8% yoy, slower than the average *nominal* fleet growth of 6.1% calculated earlier.

However, unless carriers idle and slow steam more vessels than we estimate in our model, the average effective capacity growth of 5.8% this year may still be higher than the container trade growth forecast of 5.4%.

This means that carriers will have a hard time trying to balance the demand and supply dynamics of the global container trades. In our base case, we think that there will be at best a small rate recovery on average for 2014 from the depressed 2013 levels despite effective capacity rising faster than container trade growth, if carriers hard-line their rate hikes due to desperation.

Further upside in rates is only possible if there is a clear change in carrier behaviour towards less irrational price discounting, more skipped sailings and/or suspensions of entire loops and more ship idling. Based on recent history, this will be very difficult for the industry to achieve.

Figure 46: Global container trade growth and fleet growth assumptions (%)

	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F		Cum growth since 2008
World GDP growth (%)	5.4%	2.8%	-0.6%	5.2%	4.0%	3.2%	2.9%	3.6%	4.3%	a	
Multiple (x)	2.15	1.86	-16.00	2.94	1.88	1.34	1.30	1.50	1.50	b	
Container trade growth (%)	11.6%	5.2%	-9.6%	15.3%	7.5%	4.3%	3.8%	5.4%	6.5%	c = a * b	27.6%
Average *nominal* fleet growth (%)	15.3%	13.0%	9.2%	8.3%	8.8%	7.0%	6.3%	6.1%	6.3%	d	65.3%
Differential (% pts)	**-3.7%**	**-7.8%**	**-18.8%**	**7.0%**	**-1.3%**	**-2.7%**	**-2.5%**	**-0.7%**	**0.1%**	e = c - d	
Average *effective* fleet growth (%)	14.1%	10.9%	-2.6%	11.0%	10.9%	3.3%	5.4%	5.8%	5.8%	f	44.6%
Differential (% pts)	**-2.5%**	**-5.7%**	**-7.0%**	**4.3%**	**-3.4%**	**1.0%**	**-1.7%**	**-0.4%**	**0.6%**	g = c - f	
Avg effective deployed fleet (000 teu)											
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013F**	**2014F**	**2015F**		
Avg nominal container fleet b/f	8,795	10,139	11,452	12,509	13,543	14,731	15,764	16,759	17,785		
+ Avg newbuilding deliveries	1,375	1,373	1,276	1,275	1,291	1,237	1,361	1,401	1,449		
- Avg scrapping	-31	-60	-219	-241	-103	-204	-366	-375	-325		
Avg nominal container fleet c/f	**10,139**	**11,452**	**12,509**	**13,543**	**14,731**	**15,764**	**16,759**	**17,785**	**18,909**		
Less: Avg idled fleet	-50	-133	-1,218	-680	-260	-649	-607	-650	-700	assume idle fleet increases	
Less: Slow steaming	-16	-151	-419	-799	-1,097	-1,301	-1,585	-1,726	-1,898	assume slow steaming rises	
Avg effective container fleet	**10,072**	**11,168**	**10,872**	**12,064**	**13,374**	**13,814**	**14,567**	**15,409**	**16,311**		

SOURCES: CIMB, DREWRY, IMF

Carrier behaviour is impossible to model in an Excel spreadsheet but it can mean the difference between a good year and a bad year. For instance:

- In 2009, the effective fleet actually shrank 2.6% yoy despite the nominal fleet rising 9.2% as carriers significantly increased the idle fleet and continued to slow down the speed of their ships. This set the stage for the dramatic freight rate rally in early 2010 when restocking demand returned.
- In 2010, effective fleet growth surged 11% yoy despite the nominal fleet rising only 8.3% as ships previously idled were reactivated by carriers to service the resurgent trade. When trade growth slowed down in 2011 after a bumper 2010, rates collapsed to very low levels by late-2011.
- As carriers' operating losses escalated over 2011, carriers took action by increasing the idle fleet from 2H11 onwards and keeping it at elevated levels during 1H12. As a result, the effective fleet growth in 2012 once again fell below nominal fleet growth rate. Container trade growth in 2012 once again exceeded the effective fleet growth – repeating what we saw in 2010 – allowing average freight rates to rise significantly in 2012 from the very low rates seen in 2011.

In 2013, average freight rates have weakened materially from 2012 levels for two reasons:

1. Although the effective supply growth was likely be slower than the nominal supply growth, anaemic container demand growth has been even slower than the former, exposing an unfavourable 1.7% pt gap between the two.
2. Container shipping companies panicked and despaired over the poor prospects ahead, slashed their freight rates and competed with each other to gain market share.

As for 2014, we see the unfavourable gap between effective supply growth and container demand growth narrowing but unlikely to close completely, suggesting another tough year for freight rates. Nevertheless, as freight rates in 2013 have been such a disaster, container carriers' behaviour may yet change and so we project a small average rate increase for 2014 vs. 2013. Material freight rate increases or decreases will be dependent on how container carriers choose to compete against each other. There is a reasonable chance that average container freight rates in 2014 will be higher than they have been in 2013 simply because the low 2013 rates have been intolerable to many carriers already experiencing losses. Nevertheless, the rate volatility that we have witnessed in 2013 will likely continue to be a feature in 2014.

Figure 47: Container freight rate change assumptions

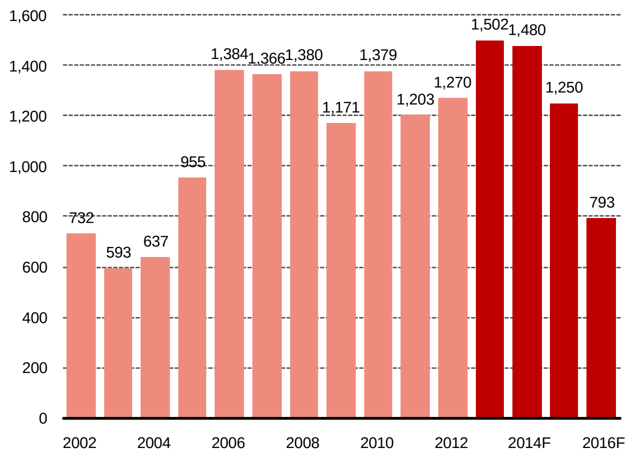
	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
Container trade growth (%)	11.6%	5.2%	-9.6%	15.3%	7.5%	4.3%	3.8%	5.4%	6.5%
Average *effective* fleet growth (%)	14.1%	10.9%	-2.6%	11.0%	10.9%	3.3%	5.4%	5.8%	5.8%
Differential (% pts)	**-2.5%**	**-5.7%**	**-7.0%**	**4.3%**	**-3.4%**	**1.0%**	**-1.7%**	**-0.4%**	**0.6%**
Rate change assumptions (%)									
CCFI: Europe (wtg avg)	3.7%	2.1%	-32.3%	66.2%	-31.2%	27.4%	-9.4%	5.5%	2.8%
CCFI: US (wtg avg)	-2.8%	2.5%	-17.5%	16.2%	-10.5%	10.3%	-3.2%	2.0%	1.2%
CCFI index levels									
CCFI: Europe (wtg avg)	1,530	1,562	1,058	1,758	1,210	1,541	1,397	1,474	1,514
CCFI: US (wtg avg)	1,134	1,163	959	1,115	997	1,100	1,065	1,086	1,099
CCFI: North Europe	1,516	1,539	1,017	1,731	1,174	1,524	1,360	1,435	1,475
CCFI: Mediterranean	1,563	1,615	1,153	1,822	1,294	1,581	1,391	1,468	1,508
CCFI: US west coast	1,095	1,107	880	1,060	939	1,052	1,061	1,083	1,096
CCFI: US east coast	1,252	1,329	1,196	1,279	1,172	1,245	1,218	1,242	1,257

SOURCES: CIMB, DREWRY, IMF, SHANGHAI SHIPPING EXCHANGE

4.3 Record net deliveries expected for 2014

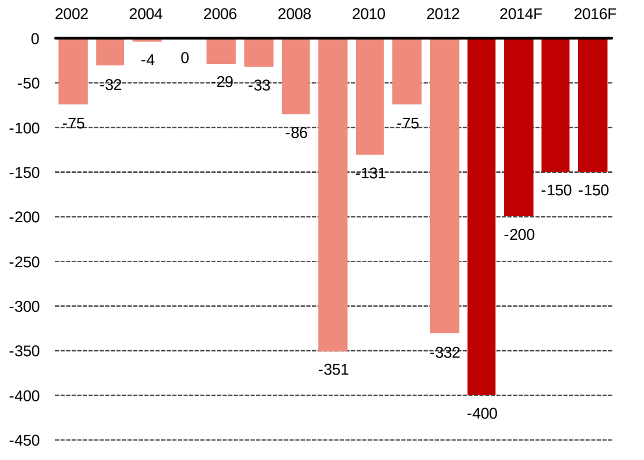
In terms of deliveries, net of scrapping, we expect a record of 1,280,000 teu of nominal capacity to be delivered in 2014, as the charts below indicate, the highest since 2010.

Figure 48: Containership deliveries - gross (000 teu)



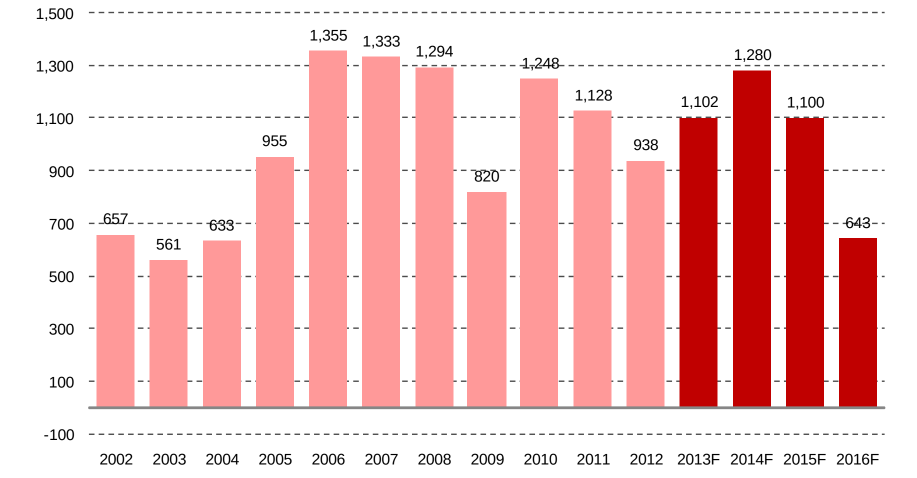
SOURCES: DREWRY

Figure 49: Scrapping (000 teu)



SOURCES: DREWRY

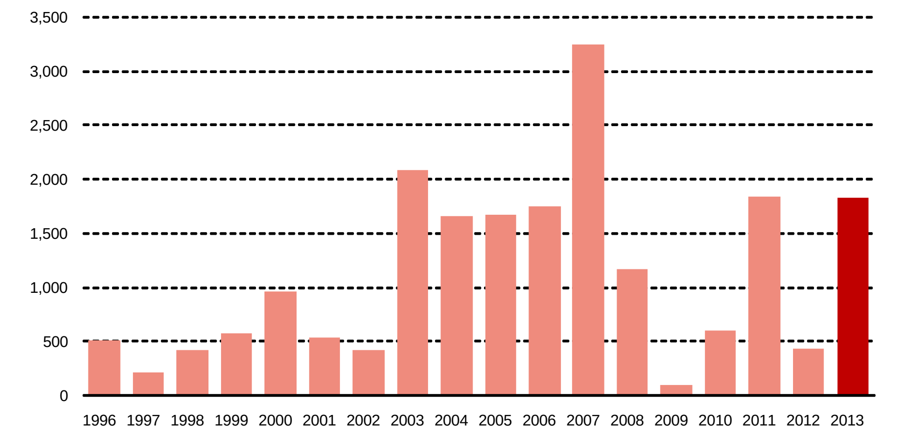
Figure 50: Net shipbuilding deliveries (000 teu)



SOURCES: DREWRY

Deliveries for future years is also building because of the very active newbuilding contracting activity. Newbuilding orders for the container shipping sector have been very strong in 2013 although freight rates were poor. For 2013, 1,823m teus were ordered, exceeding the pre-global financial crisis years of 2004-06 and coming very close to the size of orders placed in 2011.

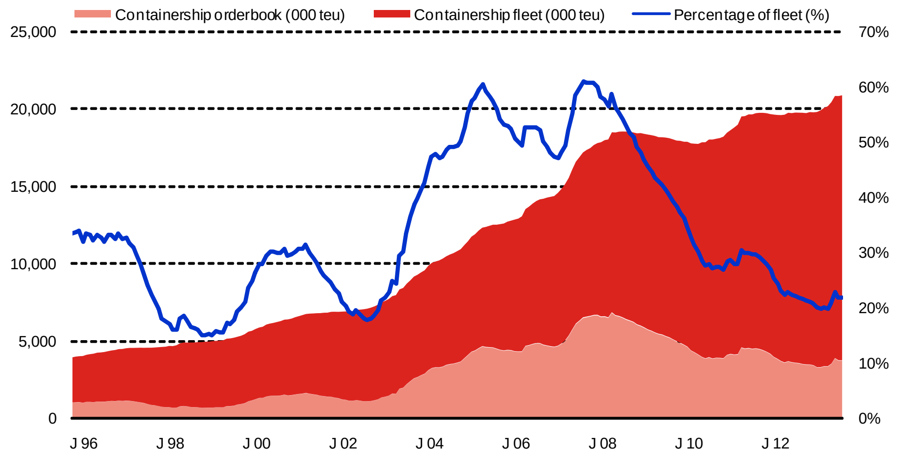
Figure 51: Newbuilding orders - by year (000 teu)



SOURCES: CLARKSON RESEARCH SERVICES

The containership orderbook as a percentage of the fleet continues to hold near historical lows, at just 22%.

Figure 52: Containership fleet and orderbook



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

These newbuilding orders have been driven by carriers' desire to get their hands on the largest and most fuel-efficient tonnage as they seek a lower unit cost structure to survive and hopefully thrive in a low freight rate environment.

As a result, a lot of the orders since 2011 have been concentrated in the very large containership (VLCS) segment of above 10,000 teus. Orders for ships above 10,000 teus make up 49% of the present orderbook, with the most popular sizes in the 18,000+ teu range and the 12,000-13,999 teu range. Ships between 14,000 teus and 17,999 teus are also very popular newbuilding candidates. Ships below 10,000 teus account for the remaining 51% of the present orderbook, with the most popular orders concentrated in the 8,000-9,999 teu range.

Financing is surprisingly available. With the demise of German KG funding that was responsible for a large part of the pre-GFC orderbook and the financial strain felt by the container shipping companies (operators) themselves, other independent financiers have stepped in to oil the containership newbuilding order flows. Independent owners currently account for 60% of the orders that have been placed since 2011, with operators accounting for the remaining 40%. As at 1 July 2013, operators accounted for 51% of the outstanding global fleet so, clearly, independent owners will increase their market share of the containership fleet as the newbuilding orders are delivered.

Te P3 alliance and the unaligned carriers (CSCL and UASC) have actively ordered 16,000, 18,000, and 19,000 teu ships, and what stands out is that the G6 and CKYH alliances do not have any orders for ships in the range of 16,000-18,000+ teus, which could hurt their competitiveness in the Asia-Europe trades.

At the moment, the G6 and CKYH alliances are focused very much on the 13,000-14,000 teu orders. The G6 carriers will operate 40 ships in this range after all their orderbook is delivered while the CKYH carriers will operate 50 such ships.

However, 18,000 teu ships have a unit cost that is 22% lower than equivalent 13,000 teu ships (Maersk claims 30%), which could mean the difference between a decent operating profit and a major operating loss in an environment of weak freight rates.

We believe that the CKYH and G6 alliances may have to each order 10 x 18,000 teu ships (or 10 x 16,000 teu ships, or a mixture of both), for a total of 20 ships, in the near future. As many carriers in the alliances may already be financially stretched, the orders may be placed via independent owners that have been responsible for financing much of the MSC and CMA CGM orderbooks in the past year or two.

4.4 Valuation and recommendation

Because of the strong prospects for additional containership ordering, we stay Neutral on Container Shipping on the back of continuing oversupply and an ultra-competitive freight rate environment. OOIL remains our only Add in the container shipping space on valuation grounds and on its internal strengths, though immediate investor interest may be limited. We have Hold calls on SITC and NOL, while CSCL is a Reduce.

Figure 53: Shipping sector recommendations and basis - Container

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Upside (%)	Basis for target	Rationale for call
Container shipping							
China Shipping Container	2866 HK	Reduce	HK$1.89	HK$2.08	10.1%	0.8x CY14 P/BV (average since 2011)	CSCL is heavily leveraged to spot container freight rates and will likely do poorly this year, as it has last year. The outlook for the container shipping market as a whole is poor for 2014, as carriers take deliveries of ships they had ordered in a massive 2011 binge. CSCL disposed assets in 2012 and 2013 to realise cash, but this is unlikely to reverse the strong downside pressures on its core business.
Neptune Orient Lines	NOL SP	Hold	S$1.05	S$1.16	10.5%	1.1x CY14 P/BV (mid-point since 2012)	NOL's cost saving initiatives will continue into 2014, as the vast majority of its vessel charters that were entered into pre-GFC will be returned to third-party owners. As a result, it will largely achieve its desired cost base this year, with the potential to achieve a breakeven position despite the likelihood of weak spot markets.
Orient Overseas Intl Ltd	316 HK	Add	HK$35.60	HK$50.60	42.1%	0.9x CY14 P/BV (1 s.d. above mean since 2010)	OOIL is not used to reporting losses, but we believe it will soon report a loss for 2013, on the back of weaker-than-expected freight rates during last year. It may also be similarly challenged this year to report a profit. Nevertheless, OOIL remains one of the most cost-efficient players in the market and losses (if any) may not be huge. The key challenge facing OOIL and NOL, and other G6 alliance members, is how to respond to the 16,000, 18,000, and 19,000 teus that have been ordered by its competitors.
SITC International	1308 HK	Hold	HK$3.41	HK$3.49	2.3%	1.4x CY14 P/BV (average since 2010)	SITC continues to leverage on its land logistics and freight forwarding business to help it weather the downturn in the container shipping business. Although SITC focuses on the short-haul intra-Asia trade, and we do not expect it to turn a loss in its shipping business, competitive pressures are building in the space. This is mitigated by shipping volumes coming from its customers in the freight forwarding space. SITC should continue to see structural growth in the years ahead.

SOURCES: CIMB, COMPANY REPORTS

5. DRY BULK SHIPPING

5.1 Dry bulk rates bottomed in 2Q/3Q 2013

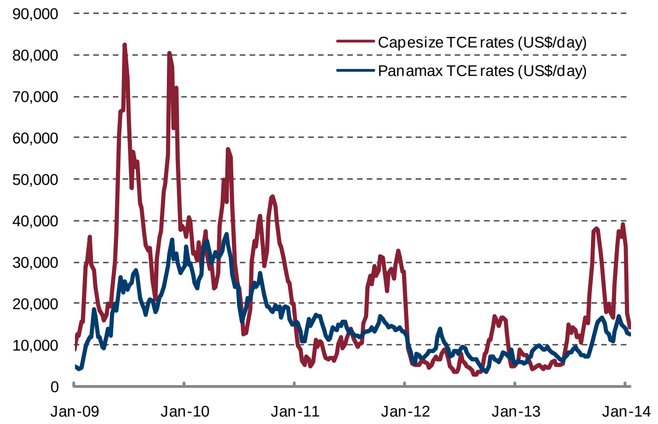
Dry bulk rates staged a major recovery in 2H13, with capesize rates recovering sharply in 3Q and 4Q13, while panamax, supramax and handysize rates recovering convincingly from 4Q13.

The capesize rate recovery was caused by the substantial destocking of iron ore in China across 2012 and 1Q13, and with steel demand and production growing very well, restocking activity drove up exports from Australia and Brazil to China from 2Q13 onwards. This ultimately spilled over to the panamax sector, as capesize rates became too expensive. Nevertheless, capesize rates fell sharply in January 2014, as iron ore stocks in China have been largely replenished.

Supramax and handysize rates recovered only from 4Q13, partly because of the rush by Chinese importers to bring in cargoes of iron ore, nickel ore, bauxite, and other commodities from Indonesia prior to the export ban taking effect in January 2014. However, now that stocks in China of these commodities are plentiful, and with the export ban on nickel ore and bauxite from Indonesia finally in effect, rates for these smaller vessel sizes have corrected.

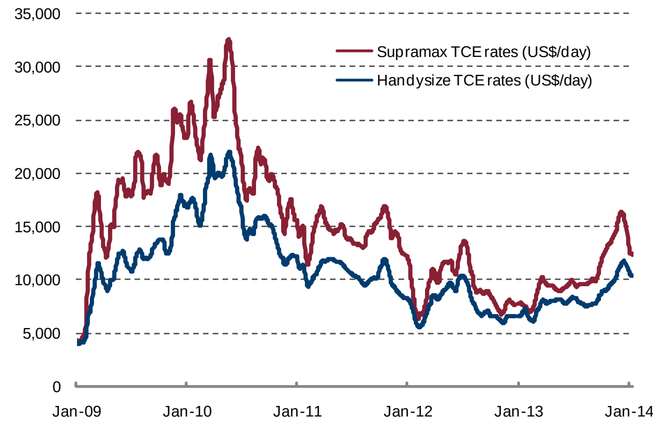
At the present rates, all vessel classes are earning more than their cash operating costs, which must be particularly encouraging for capesize owners because spot rates were below cash operating costs for most of 2012 and 1H13.

Figure 54: Baltic capesize and panamax TCE/day (US$/day)



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 55: Baltic supramax and handysize TCE/day (US$/day)



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 56: Baltic Exchange average time charter equivalent earnings (US$/day)

	Capesize	Panamax	Supramax	Handysize
	US$/day	US$/day	US$/day	US$/day
1Q 10	34,074	29,510	25,131	17,696
2Q	37,827	30,814	27,677	20,019
3Q	26,301	21,744	19,837	15,234
4Q	33,267	17,900	17,191	12,859
1Q 11	8,170	14,627	14,306	10,645
2Q	8,628	13,804	14,667	11,546
3Q	17,289	12,906	14,055	10,085
4Q	28,553	14,555	14,397	9,788
1Q 12	6,554	7,913	8,658	6,958
2Q	6,016	9,530	11,247	9,219
3Q	4,929	6,498	10,150	7,891
4Q	12,352	6,789	7,601	6,426
1Q 13	6,024	7,192	8,171	6,938
2Q	6,496	7,744	9,332	7,999
3Q	19,082	9,002	9,788	7,877
4Q	27,952	14,299	14,170	10,160
2010	32,875	24,858	22,359	16,384
2011	15,836	13,940	14,351	10,505
2012	7,463	7,682	9,414	7,624
2013	14,889	9,559	10,365	8,243
Change yoy (%)				
1Q 11	-76.0%	-50.4%	-43.1%	-39.8%
2Q	-77.2%	-55.2%	-47.0%	-42.3%
3Q	-34.3%	-40.6%	-29.1%	-33.8%
4Q	-14.2%	-18.7%	-16.3%	-23.9%
1Q 12	-19.8%	-45.9%	-39.5%	-34.6%
2Q	-30.3%	-31.0%	-23.3%	-20.2%
3Q	-71.5%	-49.7%	-27.8%	-21.7%
4Q	-56.7%	-53.4%	-47.2%	-34.3%
1Q 13	-8.1%	-9.1%	-5.6%	-0.3%
2Q	8.0%	-18.7%	-17.0%	-13.2%
3Q	287.1%	38.5%	-3.6%	-0.2%
4Q	126.3%	110.6%	86.4%	58.1%
2011	-51.8%	-43.9%	-35.8%	-35.9%
2012	-52.9%	-44.9%	-34.4%	-27.4%
2013	99.5%	24.4%	10.1%	8.1%

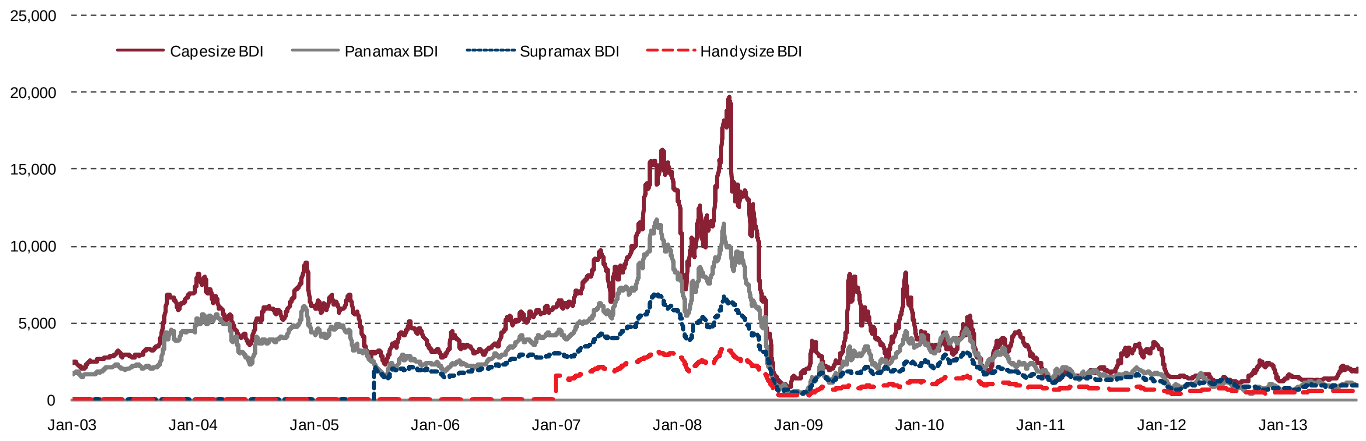
SOURCES: CIMB, BALTIC EXCHANGE

Figure 57: Bulk vessel profit/loss (US$/day)

Ship type	Capesize	Panamax	Handymax	Handysize
Current TCE	12,590	11,929	11,815	10,264
Operating cost	-7,500	-6,500	-6,000	-5,250
Cash earnings	6,625	6,015	6,282	5,095
Interest cost	-3,605	-2,148	-1,956	-1,726
Depreciation cost	-4,636	-2,762	-2,515	-2,219
Daily profit/(loss)	-1,616	1,105	1,811	1,150
Breakeven TCE	15,741	11,410	10,471	9,195

SOURCES: CIMB, MOORE STEPHENS, CLARKSON RESEARCH SERVICES

Figure 58: Baltic Dry Indices - long-term view



SOURCES: CIMB, BLOOMBERG

5.2 Demand

Iron ore demand likely to be strong, benefitting capesize and panamax ships. Demand for capesize ships look likely to be very strong in 2014, apart from a possible weak 1Q14, as the Chinese steel production is still powering ahead, and this will feed into demand for iron ore. We are forecasting a very healthy 7.1% yoy increase in seaborne iron ore imports in 2014, approximately the same as the 6.9% growth seen in 2013.

Chinese steel production likely grew 9.1% yoy in 2013, and even more aggressive apparent steel consumption growth of some 11.5% yoy, causing steel inventories to decline. Finished steel inventory days fell from 32.5 days in 2012 to 28.7 days in 2013.

This strong growth in steel production and demand also stimulated 8% yoy increase in domestic Chinese iron ore production, and kept iron ore import prices at very healthy levels of between US$120-140/tonne cfr.

We think that Chinese iron ore imports could weaken in 1Q14, as iron ore inventories at Chinese ports have risen to 88m tonnes as at 17 January 2014, up 27% against January 2013, and up from an average of around 70m tonnes during 1H13. Previously, iron ore inventories peaked at 98m tonnes in early 2012. Capesize rates have already crashed 70% to around US$12,000/day currently, from a peak of US$39,000/day last Christmas Eve, suggesting that Chinese iron ore importers have cut back on purchases. Another factor is the generally wet weather in both Brazil and Western Australia, which caused force majeure to be declared on some Brazilian shipments.

Moving beyond the 1Q14, we think that iron ore shipments will resume with a gusto and drive capesize demand. Higher demand for capesize ships will also drive demand for panamax ships, as typical capesize cargoes will be split into two or more panamax cargoes if capesize rates become too high. Panamax demand this year will also benefit from the expected 4.5% rise in seaborne coal shipments, and 3.8% rise in grain cargoes.

Indonesian coal exports unlikely to be affected by Chinese regulations. In 2013, the market saw the emergence of China's proposal to impose an import tariff or a ban on the import of "low-quality" thermal coal. Low-quality coal was first defined as thermal coal with a calorific value below 4,500kcal/kg, which was later revised to 3,900kcal/kg. Our Indonesian mining analyst, Erindra Krisnawan, wrote that the news caught the Indonesian producers by surprise since Indonesia's low-CV coal accounted for more than 90% of China's imports for the segment.

However, our Australian mining sector head Warren Edney, noted recently that "faced with opposition from the major power generators, China's government eventually abandoned the initial plan. But the proposal re-emerged by the end of 2013, this time with the "low-quality" term revised to only thermal coal with high levels of sulphur and ash. The latest proposal should affect Indonesian producers the least given that most of Indonesia's exports (particularly low-CV products) are low in ash and sulphur.

"We do not anticipate a dramatic decline in overall thermal coal imports in 2014, even if the NDRC is successful in altering regulations, as power generators cannot readily increase the quality of the coal which is burnt in their boilers. Our estimate is that the import tonnage loss for 2014 may be as low as 10m tonnes".

As a result of the foregoing analysis, we do not expect any major change in 2014 of the nature of the thermal coal trade, of which Indonesian exports account for 45% of the total seaborne trade.

Nickel ore and bauxite trade expected to fall dramatically, hurting supramax and handysize demand. Demand for the smaller sizes – handymax/supramax ships and handysize ships – could be affected by the Indonesian ban on exports of nickel and bauxite ore, effective 14 January 2014. We are forecasting a 21% decline in the volume of seaborne bauxite cargoes, and a 46% fall in nickel ore cargoes, this year.

As a result, the total minor bulks trade inclusive of bauxite, is expected to see a net 1% decline in seaborne volumes in 2014, against a very healthy 6% growth seen in 2013.

The Indonesian ban generally prohibits the export of unprocessed ore in order to encourage miners to build refineries and increase the value added of its mineral exports. Coal was not included into the export ban. However, the government consented to exempting the exports of copper, manganese, lead, zinc and iron ore until 2017. Nevertheless, the exemption was not extended to Indonesia's exports of nickel ore and bauxite, and as a result, we should see large declines in exported volumes this year.

Indonesia's exports of nickel ore to China is about 60% of the global seaborne trade in nickel ore, while its exports of bauxite to China is 35% of the global trade in that commodity. Our mining analyst, Erindra Krisnawan wrote in a recent report that Indonesia accounts for around 60% of total Chinese nickel ore imports and is essentially the sole provider of the high-grade ore on which its nickel pig iron producers rely. For bauxite, China imports around 70% of its entire bauxite requirements from Indonesia.

According to a Tradewinds article, this trade to China relies primarily on supramax/handymax bulkers, and also panamax ships. Fitch Ratings estimates that Chinese refiners are holding up to a year in bauxite stocks, while consultancy Asian Metal estimates that nickel ore stocks at Chinese ports can last about four months, as a result of stocking activity in advance of the anticipated export ban. This means that Chinese importers do not need to rush out immediately to find alternative sources of nickel ore or bauxite, and seaborne volumes of these commodities will probably be weak for 1H14.

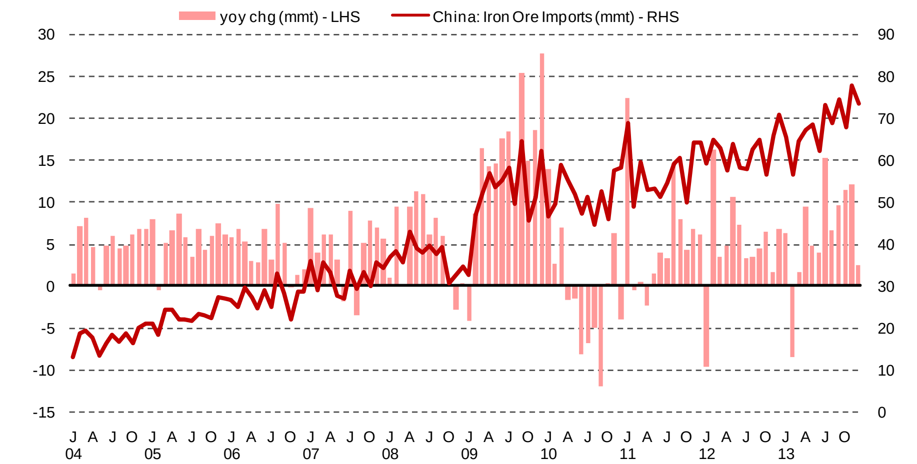
In the long-term, Chinese importers can buy nickel ore from the Philippines, although its quality of nickel ore is lower, but will have to turn to Australia for alternative supplies of bauxite, which will increase the tonne miles of the bauxite trade. However, the near-term impact of the Indonesian export ban is to curtail demand for the supramax ships serving the Indonesia to China trade, which will then also impact the handysize sector rates.

Figure 59: Dry Bulk Seaborne Trade (m mt)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
Five major bulks	**1,198**	**1,198**	**1,199**	**1,318**	**1,344**	**1,398**	**1,481**	**1,604**	**1,710**	**1,818**	**1,960**	**2,065**	**2,091**	**2,353**	**2,487**	**2,678**	**2,836**	**2,955**	**3,092**
Growth (%)	*2.0%*	*0.0%*	*0.1%*	*9.9%*	*2.0%*	*4.0%*	*5.9%*	*8.3%*	*6.6%*	*6.3%*	*7.8%*	*5.4%*	*1.3%*	*12.5%*	*5.7%*	*7.7%*	*5.9%*	*4.2%*	*4.6%*
Iron ore	**428**	**427**	**402**	**448**	**450**	**479**	**522**	**593**	**662**	**713**	**777**	**841**	**898**	**991**	**1,052**	**1,109**	**1,186**	**1,270**	**1,334**
Growth (%)		*-0.2%*	*-5.9%*	*11.4%*	*0.4%*	*6.4%*	*9.0%*	*13.6%*	*11.6%*	*7.7%*	*9.0%*	*8.2%*	*6.8%*	*10.4%*	*6.2%*	*5.4%*	*6.9%*	*7.1%*	*5.0%*
Coal	**454**	**458**	**466**	**524**	**550**	**565**	**604**	**643**	**673**	**704**	**753**	**777**	**778**	**900**	**947**	**1,062**	**1,115**	**1,165**	**1,225**
Steam coal	*284*	*289*	*304*	*350*	*381*	*400*	*438*	*471*	*493*	*528*	*559*	*578*	*590*	*665*	*724*	*827*	*849*	*885*	*934*
Coking coal	*170*	*169*	*162*	*174*	*169*	*165*	*166*	*172*	*180*	*176*	*194*	*199*	*188*	*235*	*223*	*235*	*266*	*280*	*291*
Growth (%)		*0.9%*	*1.7%*	*12.4%*	*5.0%*	*2.7%*	*6.9%*	*6.5%*	*4.7%*	*4.6%*	*7.0%*	*3.2%*	*0.1%*	*15.7%*	*5.2%*	*12.1%*	*5.0%*	*4.5%*	*5.1%*
Steam coal		*1.8%*	*5.2%*	*15.1%*	*8.9%*	*5.0%*	*9.5%*	*7.5%*	*4.7%*	*7.1%*	*5.9%*	*3.4%*	*2.1%*	*12.7%*	*8.9%*	*14.2%*	*2.7%*	*4.2%*	*5.5%*
Coking coal		*-0.6%*	*-4.1%*	*7.4%*	*-2.9%*	*-2.4%*	*0.6%*	*3.6%*	*4.7%*	*-2.2%*	*10.2%*	*2.6%*	*-5.5%*	*25.0%*	*-5.1%*	*5.4%*	*13.2%*	*5.3%*	*4.0%*
Grains	**229**	**227**	**247**	**264**	**261**	**269**	**266**	**272**	**274**	**293**	**306**	**319**	**321**	**343**	**346**	**370**	**369**	**383**	**393**
Wheat/Coarse grain	*190*	*187*	*205*	*214*	*207*	*214*	*206*	*215*	*208*	*225*	*232*	*240*	*240*	*246*	*255*	*274*	*266*	*273*	*280*
Soyabean	*39*	*40*	*42*	*50*	*54*	*55*	*60*	*57*	*66*	*68*	*74*	*79*	*81*	*97*	*91*	*96*	*103*	*110*	*113*
Growth (%)		*-0.9%*	*8.8%*	*6.9%*	*-1.1%*	*3.1%*	*-1.1%*	*2.3%*	*0.7%*	*6.9%*	*4.4%*	*4.2%*	*0.6%*	*6.9%*	*0.9%*	*6.9%*	*-0.3%*	*3.8%*	*2.5%*
Wheat/Coarse grain		*-1.6%*	*9.6%*	*4.4%*	*-3.3%*	*3.4%*	*-3.7%*	*4.4%*	*-3.3%*	*8.2%*	*3.1%*	*3.4%*	*0.0%*	*2.5%*	*3.7%*	*7.5%*	*-2.9%*	*2.6%*	*2.5%*
Soyabean		*2.6%*	*5.0%*	*19.0%*	*8.0%*	*1.9%*	*9.1%*	*-5.0%*	*15.8%*	*3.0%*	*8.8%*	*6.8%*	*2.5%*	*19.8%*	*-6.2%*	*5.5%*	*7.3%*	*6.8%*	*2.5%*
Bauxite/Alumina	**55**	**55**	**54**	**54**	**52**	**55**	**60**	**65**	**70**	**78**	**93**	**97**	**74**	**96**	**113**	**107**	**138**	**108**	**111**
Phosphate rock	**32**	**31**	**30**	**28**	**31**	**30**	**29**	**31**	**31**	**30**	**31**	**31**	**20**	**23**	**29**	**30**	**28**	**29**	**30**
Minor bulks	**748**	**746**	**752**	**778**	**845**	**861**	**975**	**1,046**	**1,084**	**1,163**	**1,244**	**1,234**	**1,103**	**1,239**	**1,340**	**1,402**	**1,463**	**1,479**	**1,546**
Sugar	37	38	40	37	41	44	45	46	48	50	49	49	48	55	56	56	57	58	61
Agribulks	74	89	91	88	87	89	96	105	106	115	121	121	126	128	138	150	148	155	162
Fertiliser	66	66	69	70	66	70	75	81	81	81	92	87	77	94	97	100	104	111	116
Scrap	53	50	54	62	62	67	79	97	90	92	94	103	94	100	106	106	106	109	114
Cement	91	90	100	102	79	75	76	76	96	107	111	105	97	101	91	93	96	99	103
Nickle ore							4	6	6	9	21	18	22	32	54	73	79	42	44
Anthracite							25	31	36	47	52	44	53	51	62	59	63	66	69
Coke	19	20	18	24	23	23	24	24	20	22	23	23	8	13	13	12	15	17	18
Petroleum coke							33	35	38	40	42	47	46	51	54	55	56	58	61
Pig iron	14	14	13	13	12	12	13	17	18	17	18	16	12	12	14	12	12	12	13
Forest products	166	156	158	161	164	160	163	166	170	174	175	173	155	171	178	185	192	200	209
Steel products	195	189	174	184	193	198	212	231	238	263	289	287	212	248	270	279	288	296	309
Others	33	34	35	37	118	123	130	131	139	147	155	162	153	184	209	230	247	256	268
Growth (%)		*-0.3%*	*0.8%*	*3.5%*	*8.6%*	*1.9%*	*13.2%*	*7.3%*	*3.6%*	*7.3%*	*7.0%*	*-0.8%*	*-10.6%*	*12.3%*	*8.2%*	*4.6%*	*4.4%*	*1.1%*	*4.5%*
Total dry bulk trade	**1,946**	**1,944**	**1,951**	**2,096**	**2,189**	**2,259**	**2,456**	**2,650**	**2,794**	**2,981**	**3,204**	**3,299**	**3,194**	**3,592**	**3,827**	**4,080**	**4,299**	**4,434**	**4,638**
Growth (m mt)		*-2*	*7*	*145*	*93*	*70*	*197*	*194*	*144*	*187*	*223*	*95*	*-105*	*398*	*235*	*253*	*219*	*135*	*204*
Growth (%)	*2.0%*	*-0.1%*	*0.4%*	*7.4%*	*4.4%*	*3.2%*	*8.7%*	*7.9%*	*5.4%*	*6.7%*	*7.5%*	*3.0%*	*-3.2%*	*12.5%*	*6.5%*	*6.6%*	*5.4%*	*3.1%*	*4.6%*

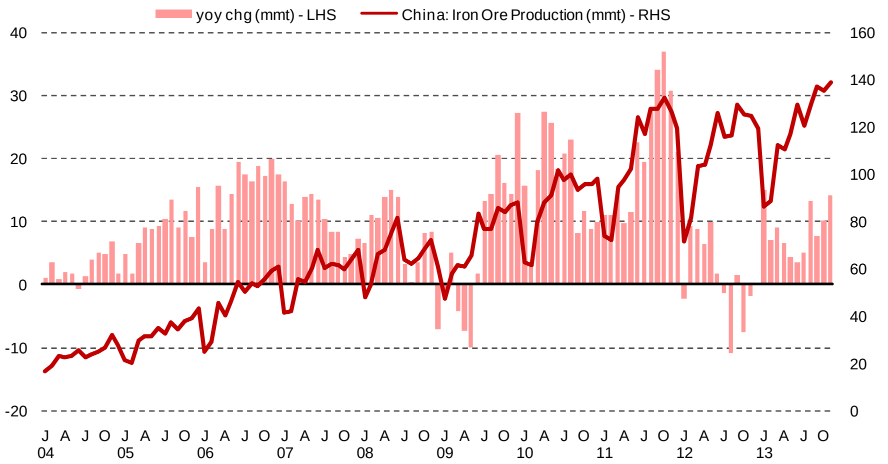
SOURCES: CIMB, COMPANY REPORTS

Figure 60: China: Iron ore imports (mmt) and yoy change (mmt)



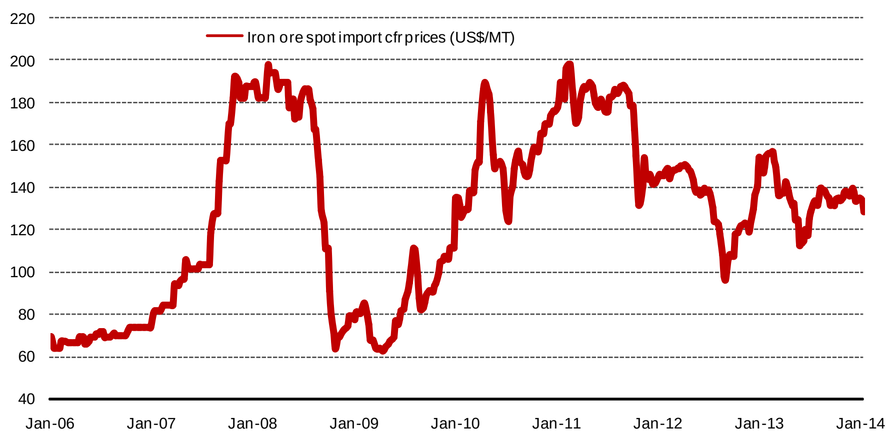
SOURCES: CIMB, CEIC

Figure 61: China: Iron ore production (mmt) and yoy change (mmt)



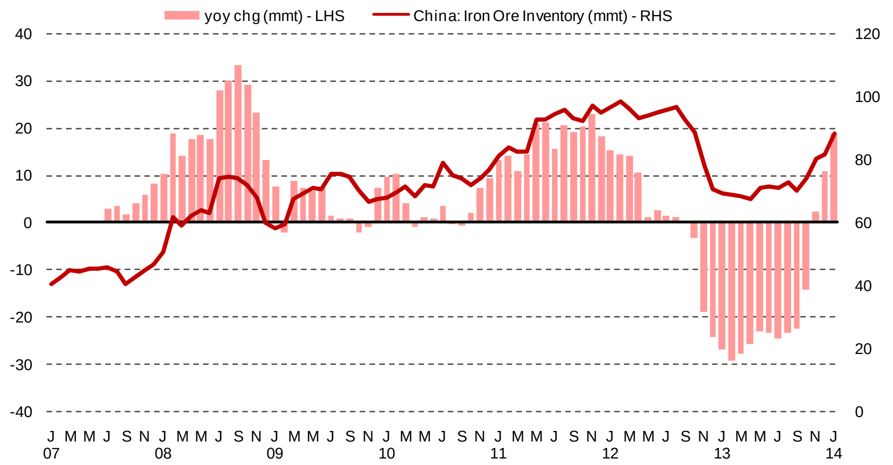
SOURCES: CIMB, CEIC

Figure 62: Iron ore spot prices to China



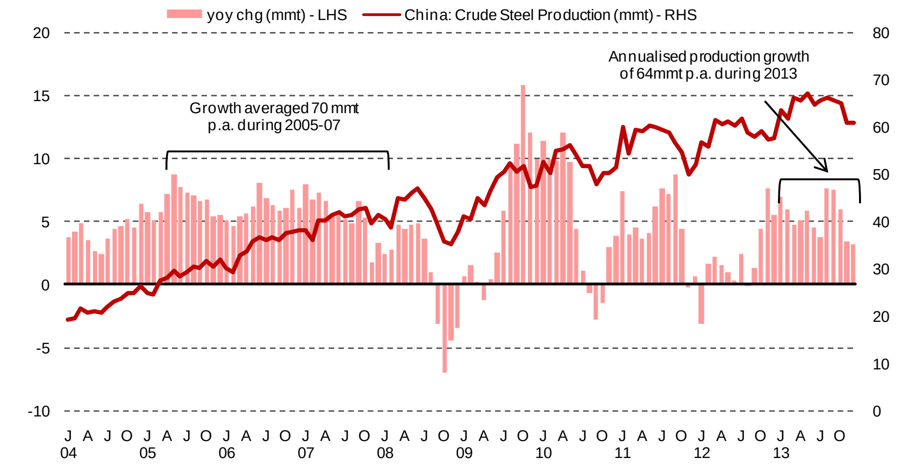
SOURCES: CIMB, BLOOMBERG

Figure 63: China: Iron ore inventory (mmt) and yoy change (mmt)



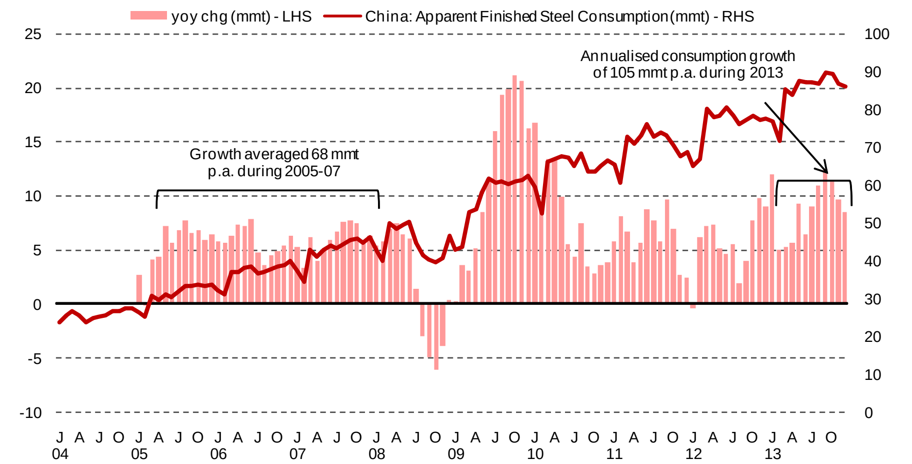
SOURCES: CIMB, CEIC

Figure 64: China: Crude steel production (mmt) and yoy change (mmt)



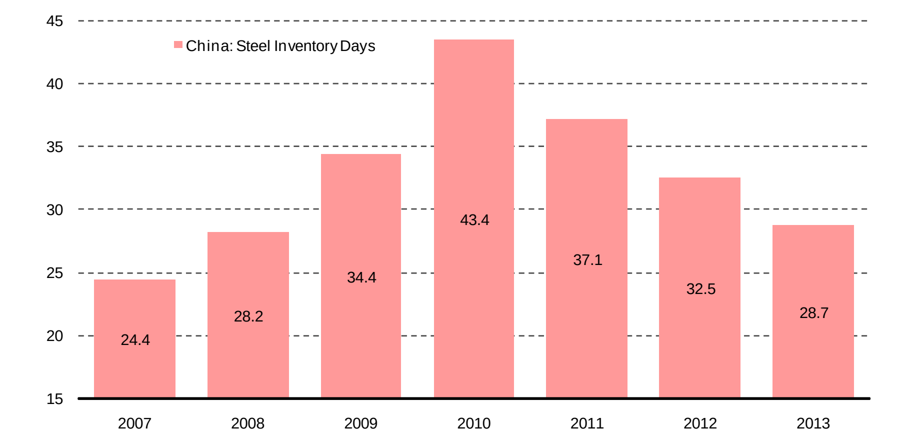
SOURCES: CIMB, ANTAIKE

Figure 65: China: Apparent finished steel consumption (mmt) and yoy change (mmt)



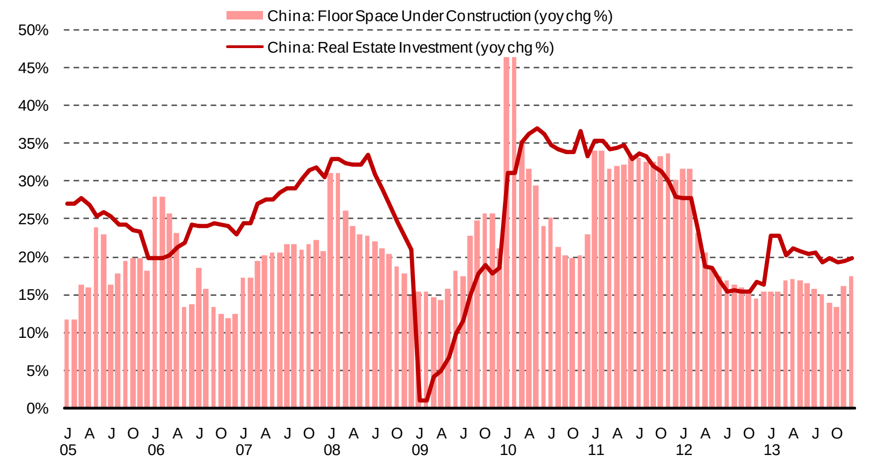
SOURCES: CIMB, CEIC

Figure 66: China: Steel inventory days



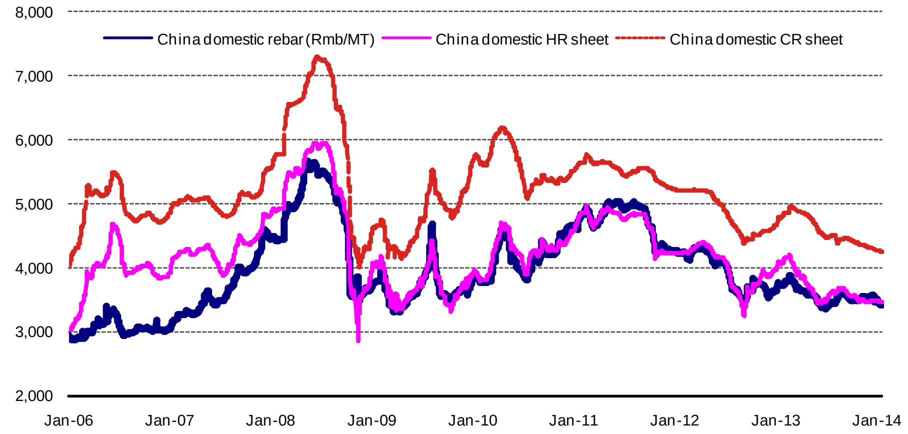
SOURCES: CIMB, CEIC

Figure 67: China: Floor space under construction and Real estate investment (yoy change)



SOURCES: CIMB, CEIC

Figure 68: Domestic Chinese steel prices (Rmb/tonne)



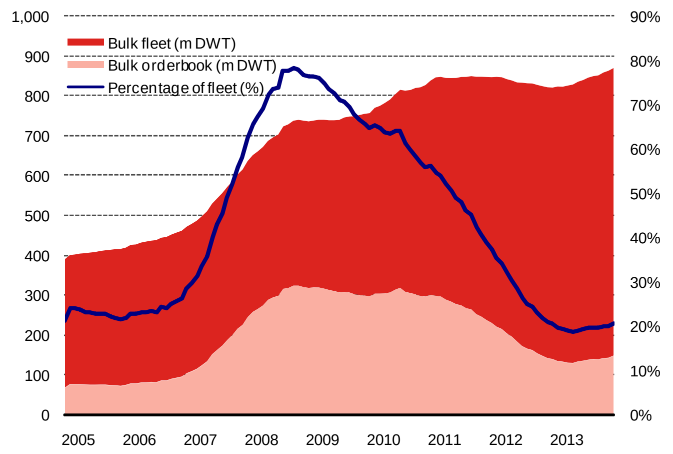
SOURCES: CIMB, BLOOMBERG

5.3 Supply

The bulk orderbook currently stands at 20% of the outstanding fleet, which is low by historical standards. The supramax sector has outstanding orders for 24% of its total fleet, while the handysize sector has 18%. These two sectors are closely linked, because these ships tends to have gears onboard for the loading or offloading of cargoes, and tend to compete in the smaller ports. As such, the supramax fleet development is also of concern to handysize owners.

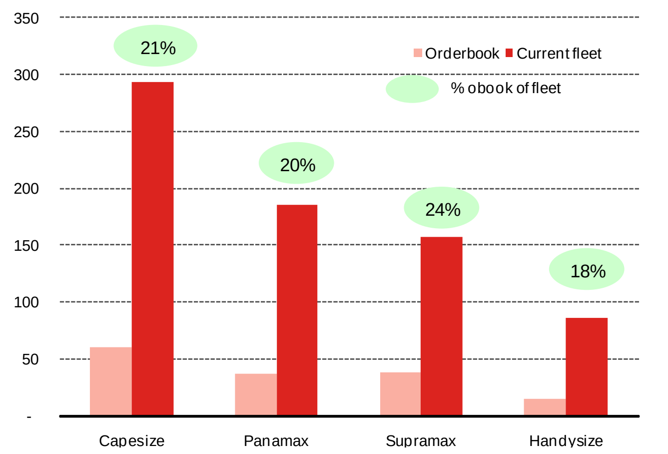
Newbuilding activity picked up considerably in 2013, amounting to almost 80m dwt of new orders, from less than half that level in each of 2011 and 2012. Most of these orders were concentrated in the capesize and supramax segments, as owners positioned for an expected dry bulk freight rate rebound and in view of the still-low newbuilding prices.

Figure 69: Bulk fleet and orderbook



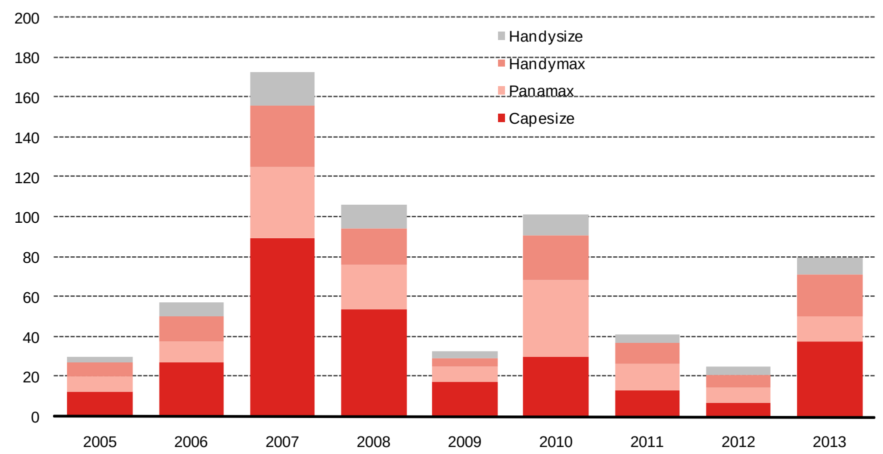
SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 70: Orderbook versus current fleet (m dwt) by vessel type



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

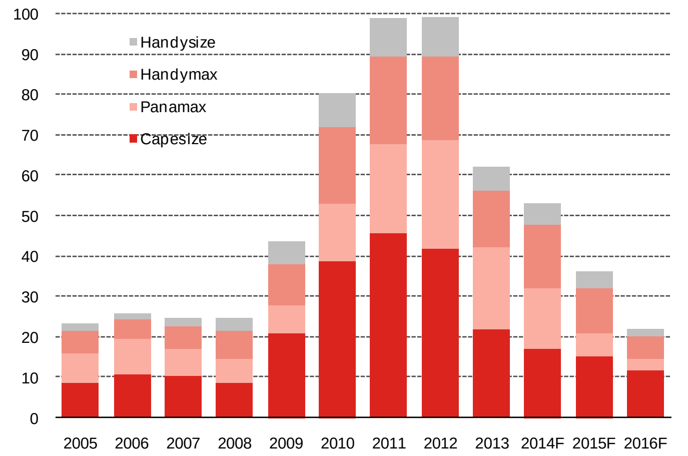
Figure 71: Newbuilding contracts by vessel type (m dwt)



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

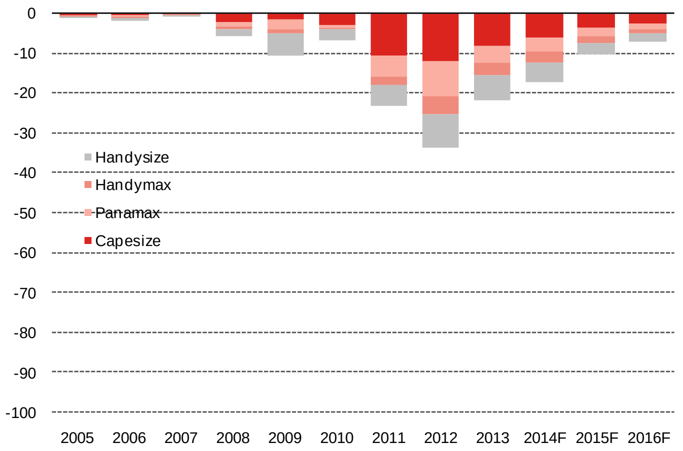
Still, newbuilding deliveries peaked in 2011 and 2012, declined considerably in 2013, and will continue that decline from 2014 onwards. As a result, newbuilding deliveries net of forecasted scrapping should also continue its downward march. If demand for seaborne commodities hold up in the years ahead, which we presently expect, then dry bulk freight rates will continue to rise in the years ahead.

Figure 72: Newbuilding deliveries (m dwt)



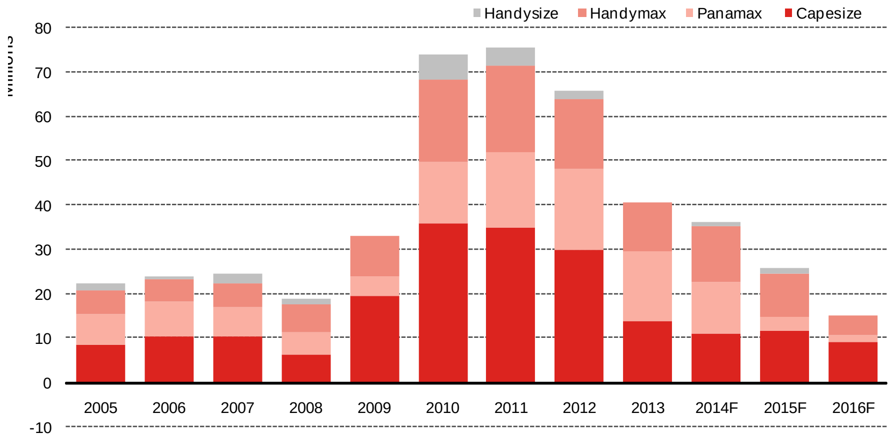
SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 73: Demolition / scrapping (m dwt)



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 74: Net newbuilding deliveries, after scrapping (m dwt)



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

5.4 Demand-supply balance and rate forecasts

Reflecting our above analysis, we are expecting average capesize rates in 2014 to rise further from average 2013 levels, because seaborne iron ore demand growth of 7.1% is expected to be higher than forecast average capesize fleet growth of 4.4%.

Higher capesize rates should spill over into the panamax sector, which will also be supported by continued growth in coal and grain seaborne volumes.

On the other hand, we are expecting only modest improvement in supramax and handysize rates in 2014. because of nickel ore and bauxite volumes will be negatively affected by the Indonesian export ban. The impact of the ban is made worse because of the ample stocks of both commodities currently being held in China, as a result of the frontloading of those imports in 2013. While those two commodities accounted for only 5% of the global seaborne dry bulk trade in 2013, it accounted for 13% of the trade of the commodities that are typically carried by supramax and handysize ships, i.e. what is typically called "minor bulk". Average freight rates for the supramax and handysize categories should improve much more in 2015, as the impact of the Chinese inventories wear off and as the Chinese source from alternative suppliers in the Philippines (nickel ore) and Australia (bauxite). The latter can actually increase tonne miles in the bauxite trade.

Figure 75: Dry bulk TCE rate (US$/day) and BDI forecasts

	Capesize		Panamax		Supramax		Handysize		Average		BDI Index	
	US$/day	Chg (%)	US$/day	Chg (%)	US$/day	Chg (%)	US$/day	Chg (%)	US$/day	Chg (%)		Chg (%)
2008	97,699	-12.3%	48,876	-14.1%	41,113	-13.6%	29,083	-10.9%	54,193	-12.8%	6,353	-10.2%
2009	39,065	-60.0%	19,298	-60.5%	16,946	-58.8%	11,345	-61.0%	21,663	-60.0%	2,602	-59.0%
2010	32,875	-15.8%	24,858	28.8%	22,359	31.9%	16,384	44.4%	24,119	11.3%	2,756	5.9%
2011	15,836	-51.8%	13,940	-43.9%	14,351	-35.8%	10,505	-35.9%	13,658	-43.4%	1,550	-43.8%
2012	7,463	-52.9%	7,682	-44.9%	9,414	-34.4%	7,624	-27.4%	8,046	-41.1%	919	-40.7%
2013	14,889	99.5%	9,559	24.4%	10,365	10.1%	8,243	8.1%	10,764	33.8%	1,220	32.7%
2014F	17,866	20.0%	10,993	15.0%	10,883	5.0%	8,655	5.0%	12,100	12.4%	1,373	12.6%
2015F	22,333	25.0%	13,192	20.0%	12,516	15.0%	9,954	15.0%	14,499	19.8%	1,646	19.8%

SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 76: Demand-supply balance in the dry bulk sector

	2012		2013F		2014F		2015F	
Trade (m tonnes)	**m mt**	**yoy %**	**m mt**	**yoy %**	**m mt**	**yoy %**	**m mt**	**yoy %**
Iron ore	1,109	5.4%	1,186	6.9%	1,270	7.1%	1,334	5.0%
Coking coal	235	5.4%	266	13.2%	280	5.3%	291	4.0%
Steam coal	827	14.2%	849	2.7%	885	4.2%	934	5.5%
Grain	370	6.9%	369	-0.3%	383	3.8%	393	2.5%
Minor bulk (incl. alumina/bauxite/phosphate)	1,539	3.8%	1,629	5.8%	1,616	-0.8%	1,718	6.3%
Total bulk demand	**4,080**	**6.6%**	**4,299**	**5.4%**	**4,434**	**3.1%**	**4,669**	**5.3%**
Fleet at year-end (m dwt)	2012		2013F		2014F		2015F	
	m dwt	**yoy %**	**m mt**	**yoy %**	**m mt**	**yoy %**	**m mt**	**yoy %**
Handysize	85.8	1.2%	85.5	-0.4%	86.3	0.9%	87.5	1.4%
Handymax	146.3	12.0%	157.1	7.4%	169.8	8.1%	179.5	5.7%
Panamax	170.0	12.0%	185.7	9.3%	197.3	6.2%	200.5	1.6%
Capesize	279.3	12.0%	293.2	5.0%	304.2	3.8%	316.0	3.9%
Total fleet	**681.3**	**10.5%**	**721.5**	**5.9%**	**757.6**	**5.0%**	**783.6**	**3.4%**
Average fleet (m dwt)								
Handysize	85.3	2.4%	85.7	0.4%	85.9	0.2%	86.9	1.2%
Handymax	138.4	14.5%	151.7	9.6%	163.4	7.8%	174.6	6.9%
Panamax	160.9	12.3%	177.9	10.6%	191.5	7.7%	198.9	3.9%
Capesize	264.4	15.2%	286.3	8.3%	298.7	4.4%	310.1	3.8%
Average fleet capacity (m dwt)	**649.0**	**12.5%**	**701.4**	**8.1%**	**739.6**	**5.4%**	**770.6**	**4.2%**
Panamax-vessel equivalent growth	2012		2013F		2014F		2015F	
(number of ships)								
Demand growth	+657		+569		+351		+610	
Supply growth	+1,108		+806		+587		+477	
Change in Supply-Demand balance	+451		+238		+236		-132	
Freight rates	***weaker…***		***stronger…***		***stronger?***		***stronger!***	
Average BDI index	*919*		*1,220*		*1,373*		*1,646*	
Average change in Baltic Dry Index (%)	*-40.7%*		*32.7%*		*12.6%*		*19.8%*	

Notes:
1. Supply and demand growth is in terms of Panamax equivalents
2. Demand growth = trade growth converted into Panamax vessels based on: 55,000t cargoes x 6 trips a year
3. Supply growth = net change in bulk fleet divided by 65,000 dwt.

SOURCES: CIMB, CLARKSON RESEARCH SERVICES

5.5 Valuation and recommendation

We maintain Overweight on the dry bulk sector, given the positive outlook for rates from 2014 onwards. Rates bottomed in 2013, and we have likely seen the worst of the dry bulk downturn. Our stock selection criteria are as follows:

- Stock prices must be below SOP valuations, which are calculated using the prevailing secondhand market value of ships, adding cash, deducting debt, and adding/deducting other net assets/liabilities.
- The companies must remain profitable, or at worst, endure only small losses. This is because the dry-bulk cycle will only recover gradually, and companies that are suffering large losses (e.g. STX Pan Ocean) may see their balance sheets eventually destroyed before the cycle turns.

At the moment, Pacific Basin and Maybulk both pass the two tests above, and we have Add calls on both.

Conversely, we have Reduce calls on STX Pan Ocean and Precious Shipping. STX Pan Ocean is technically insolvent after years of losses. Precious Shipping is also reeling from losses, though that does not imperil the company. That said, PSL's share price is significantly above its SOP. All our target prices are based on individual stocks' SOP.

Figure 77: Pacific Basin's SOP and target price

Value of dry bulk fleet (US$ m) - end-2014F	1,271.6
Add: Book value of tugs and barges (US$ m) - end-2014F	180.0
Add: Book value of RoRo fleet (US$ m) - end-2014F	72.7
Add: Other fixed assets (US$ m)	4.9
Add: Payments for newbuildings (US$ m)	138.0
	1,667.2
Add: Net cash/(debt) (US$ m) - end-2014F	-334.4
Add: Other net current assets (US$ m) - end-2014F	299.9
Total (US$ m)	1,632.7
No of shares (m)	1,936.6
Per share value (US$)	0.84
Exchange rate (HK$:US$)	7.77
Per share value (HK$)	**6.55**
Premium/(Discount) (%)	0%
Target price (HK$)	**6.55**

SOURCES: CIMB, COMPANY REPORTS

Figure 78: Maybulk's SOP and target price

	Bulk	Tanker	Total
Second-hand fleet value (US$ m)	106.9	50.6	157.5
Exchange rate (RM:US$)	3.20	3.20	3.20
Second-hand fleet value (RM m)	342.2	162.0	504.1
Add: Vessel capex (RM m)			157.5
Add: Net cash FY14F (RM m)			-26.3
Add: Other net assets FY13F (RM m)			490.9
Add: POSH (RM m) - at 25% premium to cost			884.0
Total (RM m)			**2,010.2**
No of shares (m)			1,000
Per share RNAV (RM)			**2.01**
Discount for risk (%)			0.0%
Target price (RM)			**2.01**

SOURCES: CIMB, COMPANY REPORTS

Figure 79: Precious Shipping's SOP and target price

Dry bulk fleet second-hand value (US$ m) - end-2014	533.7
Exchange rate (THB:US$)	31.10
Dry bulk fleet second-hand value (THB m) - end-2014	16,598.5
Add: Value of newbuilding advances (THB m) - end-2014	4,371.4
Add: Further second-hand vessel acquisitions (THB m)	1,316.6
Add: Net cash/(debt) (THB m) - end-2014	-7,268.8
Add: Other net assets (THB m) - end-2014	1,042.6
Total (THB m)	16,060.3
No of PSL shares (m)	1,040.0
Per share (THB)	**15.44**
Premium / (Discount) (%)	0.0%
Derived target price (THB)	15.44

SOURCES: CIMB, COMPANY REPORTS

Figure 80: STX Pan Ocean's SOP and target price

Value of fleet (US$ m)	3,752.4
Add: DCF value of CVC & COA contracts in excess of capex	11.3
Add: Gross cash FY14F (US$ m)	186.6
Less: Gross debt FY14F (US$ m)	-5,063.2
Less: Estimated PV of long-term leases (US$ m)	-2,069.0
Add: Other net assets FY14F (excluding cash/debt) (US$ m)	338.9
Add: Assumed haircut on debt and LT leases	2,852.9
Add: Assumed KDB cash injection (US$ m)	0.0
Total (US$ m)	**9.9**
No of shares (m)	10.3
Per share value (US$)	0.96
Exchange rate (W:US$)	1,064
Per share value (W)	**1,020**
Premium/(Discount) (%)	0%
Target price (W)	**1,020**

SOURCES: CIMB, COMPANY REPORTS

Figure 81: Shipping sector recommendations and basis - Dry Bulk & Tanker

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Upside (%)	Basis for target	Rationale for call
Dry bulk shipping							
Malaysian Bulk Carriers	MBC MK	Add	RM1.92	RM2.01	4.7%	SOP	The dry bulk freight markets likely bottomed in 2013, and 2014 onwards will see a gradual recovery. Maybulk is not expensive relative to its liquidation value, which is the basis for our target price. The key near-term catalyst is an expected listing of its associate, POSH, which could realise upside value in excess of what we have incorporated into our SOP.
Pacific Basin Shipping	2343 HK	Add	HK$5.17	HK$6.55	26.7%	SOP	Pacific Basin management are a safe pair of hands, guiding the company through the shipping downturn without even incurring a loss on its core dry bulk shipping business. Its key competitive advantages include its tight relationships with cargo owners, which helps ensure maximum possible utilisation of their vessels, and its high-quality fleet of mostly Japanese-built ships. Its balance sheet is strong and it has actively acquired attractively-priced secondhand ships and newbuildings to bulk itself up prior to the expected freight rate recovery.
Precious Shipping	PSL TB	Reduce	THB21.00	THB15.45	-26.4%	SOP	PSL's business model has traditionally focused on being a shipowner, chartering ships whole to operators. As its long-term charter contracts expired in the years following the GFC, PSL has been unwilling to renew them at such low rates. As such, PSL is now chartering the ships on a short-term basis on voyage charters for the carriage of cargoes, with very little contract protection. We think that the share price is overvalued relative to its liquidation price.
STX Pan Ocean	028670 KS	Reduce	W6,490	W1,020	-84.3%	SOP	STXPO ordered too many ships at pre-GFC prices and contracted too many unfixed charter-ins at pre-GFC charter rates, and is now paying the price for it. The company is essentially bankrupt, with the market value of its assets more than the combined value of its on- and off-balance sheet debt. We have a small residual value as our target price only because we assumed a 40% haircut on its debts.
Tanker shipping							
MISC Bhd	MISC MK	Add	RM5.60	RM7.25	29.5%	SOP	A lot of the bad news about MISC is now in the price, and there can only be upside surprises, in our view. That Petronas is funding eight LNG ships on its own account, rather than passing it to MISC is already known by the market. Meanwhile, MMHE's orderbook has already whittled down significantly. On the upside, petroleum tanker and chemical tanker shipping losses are expected to narrow, while there is potential positive surprise coming from possible contract wins in the offshore and LNG space.

SOURCES: CIMB, COMPANY REPORTS

6. TANKER SHIPPING

6.1 Spectacular rally in recent months

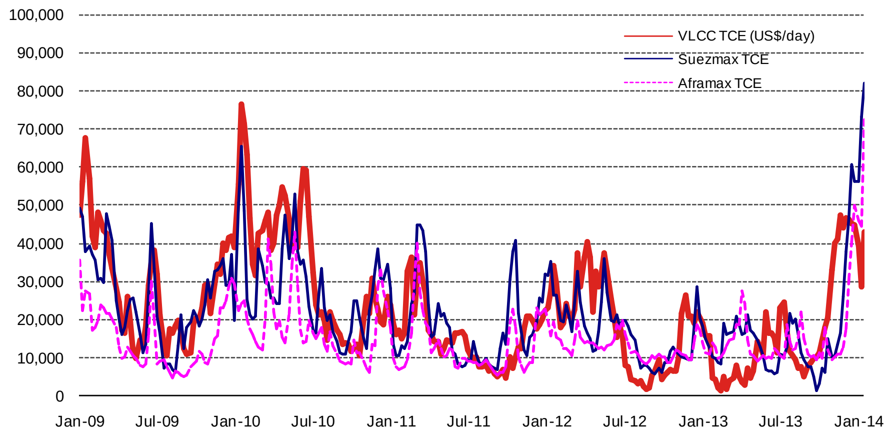
Freight rates for all tanker segments have rallied since November 2013 after a miserable 10M13 for petroleum tanker owners. VLCC rates surged to a high of US$47,300/day in November, up 130% since the end of October. Suezmax rates ballooned by an incredible 450% to US$82,000/day in January, while aframax rates rose by as much as 510% to US$73,200/day in the same month. Suezmax and aframax rates are now at levels unheard of since August 2008, while VLCC rates have reached levels last seen in June 2010.

VLCCs surged ahead of the pack in late-October 2013 as charterers looked to fix their transportation requirements before the Christmas holidays. With demand pressure on the VLCC market mounting, demand flowed to the suezmaxes, resulting in higher rates. Also, ongoing protests at Libya's major ports meant that European refiners had to seek replacement volumes from West Africa, a voyage primarily served by suezmaxes. This depleted available tonnage in the Caribbean market. At the same time, demand for cargo to be hauled from the Caribbean to Europe, the Far East and South America's Pacific coast increased, further constraining suezmax availability in the Caribbean. Delays in and out of the Black Sea are also limiting available suezmax tonnage, while chartering activity continues to be robust.

In the aframax market, similarly active chartering activity and stormy weather in the North Sea in November 2013 led to a sudden surge in rates. Adverse weather along Mexico's Gulf Coast also played a key role in driving rates higher as congested port conditions caused major delays to tanker operations. Aframax rates remain elevated as weather restrictions continue to persist in these regions.

Although shipowners enjoy hefty profits in the interim, rates may plunge as quickly as it has risen in the coming months, in our view. Since available tonnage is temporarily constrained by poor weather and unrest in Libya, tightness in the market may quickly ease once the sun behind the stormy clouds shines through.

Figure 82: Crude tanker TCE shipping rates (US$/day)



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 83: Tanker vessel profit/loss (US$/day)

Ship type	VLCC	Suezmax	Aframax	Clean product
Current TCE	42,883	81,960	73,170	12,495
Operating cost	-10,800	-9,700	-8,500	-8,185
Cash earnings	32,083	72,260	64,670	4,310
Interest cost	-6,904	-4,277	-3,605	-2,570
Depreciation cost	-8,877	-5,499	-4,636	-3,304
Daily profit/(loss)	16,302	62,485	56,429	-1,564
Breakeven TCE	26,581	19,475	16,741	14,059

SOURCES: CIMB, MOORE STEPHENS, CLARKSON RESEARCH SERVICES

6.2 Supply continues to outstrip demand

Looking past the current euphoria, crude tanker supply growth will likely mellow to 2.6% in 2014 vs. to 3.1% in 2013 on expectations of milder fleet growth for VLCCs and suezmaxes, coupled with diminishing tonnage growth for the aframax and panamax segments. Viewed in isolation, the gradually declining tanker fleet growth bodes well for freight rates.

However, demand growth is harder to come by as US-bound seaborne cargoes reduce significantly amid rapidly rising local tight oil production. The burden of generating growth in tanker demand will hence lie solely on Asia's shoulders.

Figure 84: Demand-supply balance

	2010		2011		2012		2013		2014F		2015F	
	m dwt	yoy %	m dwt	yoy %	m dwt	yoy %	m dwt	yoy %	m dwt	yoy %	m dwt	yoy %
Crude Tanker Demand	**267.2**	**5.7%**	**271.7**	**1.7%**	**282.2**	**3.9%**	**283.7**	**0.5%**	**284.0**	**0.1%**	**289.9**	**2.1%**
- VLCC/ULCC	146.4	5.4%	154.6	5.6%	164.3	6.3%	167.2	1.8%	164.7	-1.5%	168.5	2.3%
- Suezmax	50.1	3.5%	49.6	-1.0%	53.6	8.1%	58.7	9.5%	61.5	4.8%	63.2	2.7%
- Aframax	64.5	8.2%	61.5	-4.7%	58.9	-4.2%	54.1	-8.1%	54.9	1.5%	55.8	1.6%
- Panamax	6.2	6.9%	6.0	-3.2%	5.4	-10.0%	3.7	-31.5%	2.9	-21.6%	2.5	-15.0%
Avg Crude Tanker Fleet	**297.4**	**4.5%**	**312.6**	**5.1%**	**329.8**	**5.5%**	**340.1**	**3.1%**	**349.0**	**2.6%**	**356.9**	**2.3%**
- VLCC/ULCC	161.6	4.0%	169.9	5.2%	181.3	6.7%	188.4	3.9%	194.6	3.3%	200.0	2.8%
- Suezmax	61.1	7.6%	65.7	7.6%	70.6	7.3%	74.5	5.5%	77.6	4.2%	79.5	2.5%
- Aframax	67.1	4.8%	69.9	4.2%	71.3	2.0%	70.7	-0.8%	70.4	-0.5%	70.9	0.7%
- Panamax	7.7	-9.5%	7.0	-8.2%	6.7	-4.3%	6.5	-3.0%	6.5	-0.6%	6.6	1.1%
Surplus/(shortage)	**30.2**	**10.2%**	**40.9**	**13.1%**	**47.6**	**14.4%**	**56.4**	**16.6%**	**65.0**	**18.6%**	**67.0**	**18.8%**
- VLCC/ULCC	15.2	9.4%	15.3	9.0%	17.0	9.4%	21.2	11.3%	29.9	15.4%	31.5	15.8%
- Suezmax	11.0	18.0%	16.1	24.6%	17.0	24.0%	15.8	21.2%	16.1	20.7%	16.4	20.6%
- Aframax	2.6	3.9%	8.4	12.0%	12.4	17.4%	16.6	23.5%	15.5	22.0%	15.1	21.3%
- Panamax	1.5	19.0%	1.0	14.6%	1.3	19.6%	2.8	43.3%	3.6	55.3%	4.1	62.4%
Growth in Tanker Demand	14.5		4.5		10.5		1.5		0.3		5.9	
Growth in Avg Tanker Fleet	12.8		15.2		17.3		10.3		8.9		7.9	
Change in Market Balance	-1.7		10.7		6.8		8.8		8.6		2.0	
Avg Baltic Dirty Tanker Index	**898**	**53.3%**	**788**	**-12.3%**	**722**	**-8.4%**	**649**	**-10.0%**	**749**	**15.4%**	**800**	**6.8%**

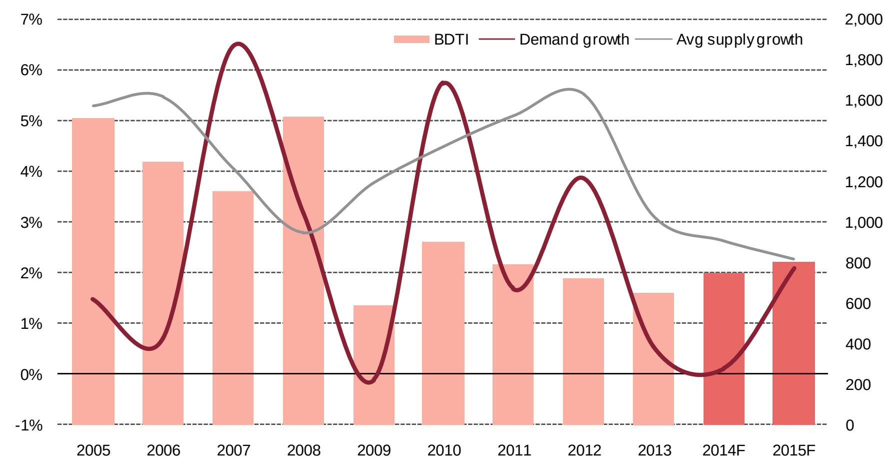
SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Seaborne crude imports into the US is projected to have fallen by 13% yoy in 2013 and is expected to reduce by another 7% in 2014. Demand from Asia's developing economies, spearheaded by China and India, will likely pick up the slack with growth of 4-6% this year. Asia's share of seaborne crude imports have risen over the years and currently represent 50% of global seaborne imports. With growth from Asia offsetting contraction in North America, world crude import demand will probably grow by a marginal 0.1% in 2014, the slowest since 2009.

Hence, despite declining fleet growth, supply additions continue to be faster than what demand can absorb. Surplus capacity will thus likely remain as a predominant feature in 2014's tanker market. Despite the negativity, it is important to remember that supply additions mentioned above are independent of weather disruptions that may affect available tonnage at a particular time (just like the one the market is experiencing right now).

We believe crude tanker demand in 2015 will rise by 2.1% yoy on the back of stronger imports by China and a milder decline in US imports. Tight oil production in the US are of the light sweet kind, similar to the crude oil produced in West Africa. This led to the diminishing relevance of the West Africa-US Gulf trade. The majority of US Gulf refineries are still tuned towards sour crude, however, and until a sizable part of these refineries reconfigure themselves for sweet crude inputs, seaborne sour crude imports by the US should remain prevalent. Capacity growth will dwindle to 2.3% in 2015, in our view, roughly the same as demand growth in that year.

Figure 85: Demand supply-growth and BDTI index



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 86: Tanker fleet development

	Total tanker		Fleet growth (dwt)	
	No of vessels	DWT	Year-end	Average
End 2008	**1,595**	**276,850,000**	**2.3%**	**2.8%**
+ 2009 net deliveries	155	29,682,719		
- 2009 scrapping	-36	-5,101,250		
- 2009 conversions	-55	-9,081,469		
End 2009	**1,659**	**292,350,000**	**5.6%**	**3.8%**
+ 2010 net deliveries	138	27,593,276		
- 2010 scrapping	-93	-17,503,276		
End 2010	**1,704**	**302,440,000**	**3.5%**	**4.5%**
+ 2011 net deliveries	150	30,741,092		
- 2011 scrapping	-63	-10,501,092		
End 2011	**1,791**	**322,680,000**	**6.7%**	**5.1%**
+ 2012 net deliveries	121	25,388,581		
- 2012 scrapping	-68	-11,078,581		
End 2012	**1,844**	**336,990,000**	**4.4%**	**5.5%**
+ 2013 net deliveries	73	15,461,776		
- 2013 scrapping	-56	-9,201,776		
End 2013	**1,861**	**343,250,000**	**1.9%**	**3.1%**
+ 2014 deliveries	75	15,448,935		
- 2014 scrapping & conv	-25	-3,857,467		
End 2014F	**1,911**	**354,841,468**	**3.4%**	**2.6%**
+ 2014 deliveries	37	7,091,410		
- 2014 scrapping & conv	-19	-2,893,100		
End 2015F	**1,929**	**359,039,777**	**1.2%**	**2.3%**

SOURCES: CIMB, CLARKSON RESEARCH SERVICES

6.3 But all is not lost

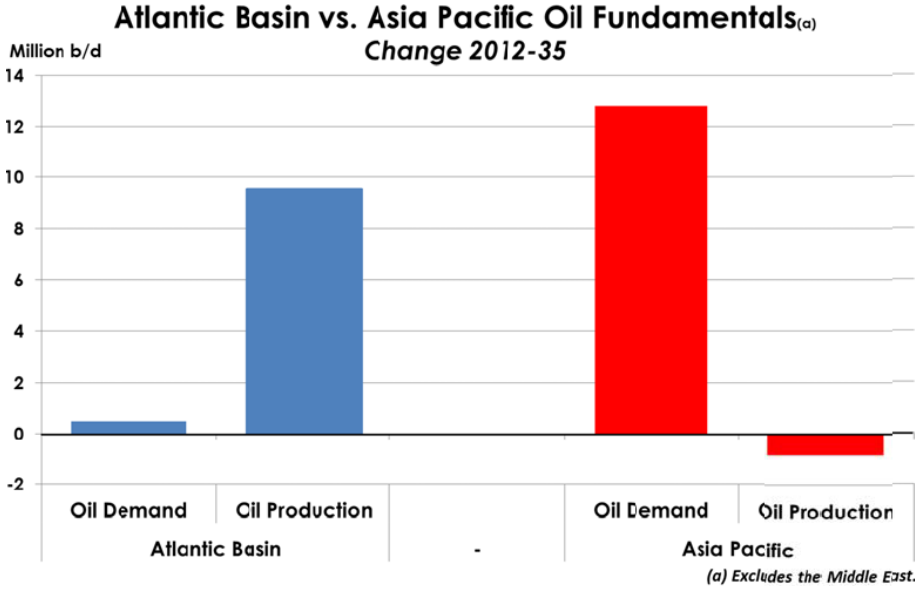
The tight oil and shale gas boom in the US has dramatically changed the tanker shipping landscape. The world's most powerful nation's rising energy independence has resulted in declining crude imports, with suezmaxes most affected as the Americans backed out from importing West African sweet crude. The Caribbean-US Gulf trade is also seeing reduced activity amid competition from both local US crude and Middle Eastern crude.

Shipments from the Middle East to the US Gulf have remained relatively steady, nonetheless, because Saudi Arabia, the largest crude oil producer in the Middle East, is pricing its US-bound crude oil at a discount compared to prices it is asking from Asian customers. As US inland crude oil production is trading at a substantial price discount to its WTI counterpart, Saudi Arabian sellers are willing to offer discounts in order to protect its market share. Demand for VLCC is hence well supported for the time being.

As North America gradually reduces seaborne crude imports, global crude oil exporters are rechanneling their production to other destinations to replace US import demand, extending the tanker industry a lifeline. The diminishing West Africa-US Gulf trade forced West African nations to look east, leading to increasing shipments on suezmaxes to refineries in India. The journey between West Africa and India is some 2,000 nautical miles longer than the voyage to the US Atlantic Coast, which keeps vessels occupied longer and in the process reduces available tonnage in the market.

An increase in average voyage distances will be a key catalyst in the medium- to long-term future, as Caribbean oil producers Mexico, Venezuela and Columbia direct their exports away from the US and towards the Far East. Production in Mexico and Venezuela is expected to rise in the coming years, boosting flows from the Atlantic Basin to Asia. As future oil demand will continue to come from the developing nations in Asia, crude oil will continue to flow to the Far East from production centres in the Atlantic Basin and the Middle East, increasing tonne-miles significantly. Tankers designed to travel long distances at the most economic unit cost (i.e. VLCCs) stand to benefit the most.

Figure 87: Future oil demand centres lie in Asia, while oil production from the Atlantic Basin will likely rise significantly, helping lift tonne-miles for tankers



SOURCES: BP, GIBSON

6.4 Baltic Dirty Tanker Index to average higher in 2014

The Baltic Dirty Tanker Index (BDTI) has averaged 1,130 in the first three weeks of 2014, 73% higher than the same period last year and 74% higher than the whole of 2013. Although rates will almost certainly not sustain its current performance throughout the year, continuing weather disruptions will likely see rates stay elevated for another four to five weeks or so. We hence expect the BDTI to average 15.4% higher this year to 749 despite stubborn oversupply issues. Our calculations are not rocket science and the average BDTI estimate we have is derived fairly simply:

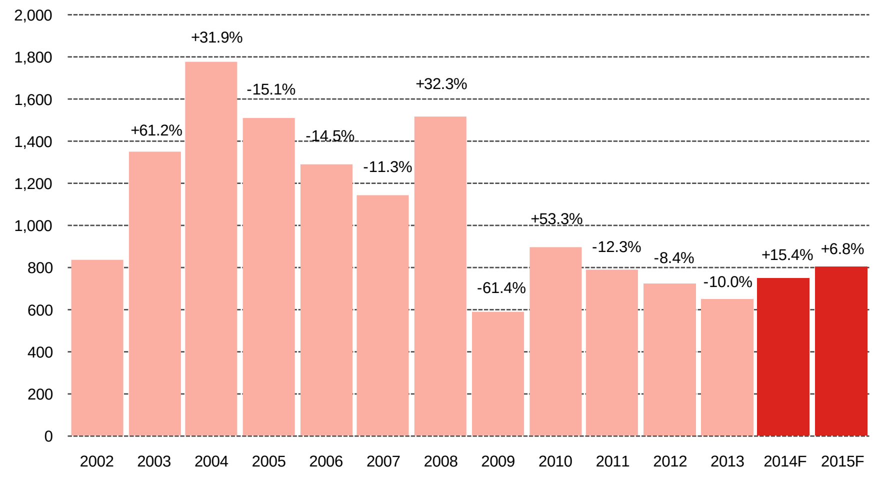
- January's tight supply environment will extend to February (1,130 * 2/12)

- Rates will fall as adverse weather subsides, potentially revisiting the doldrums we saw in 2013 (660 * 9/12)
- December rates will inch up due to seasonally stronger year-end demand (790 x 1/12)

Our method is admittedly simplistic and our estimate may well be off by the end of 2014, but the key message remains loud and clear: crude tanker earnings have in all probability found a bottom in 2013 and should improve in 2014, largely thanks to extraordinary rates in the early part of the year.

We think average crude tanker rates will continue to improve in 2015 on the back of Asia-driven demand and mellowing supply growth. Our estimate is for a 6.8% yoy increase.

Figure 88: Baltic Dirty Tanker Index (BDTI) - average for the year



SOURCES: CIMB, BLOOMBERG

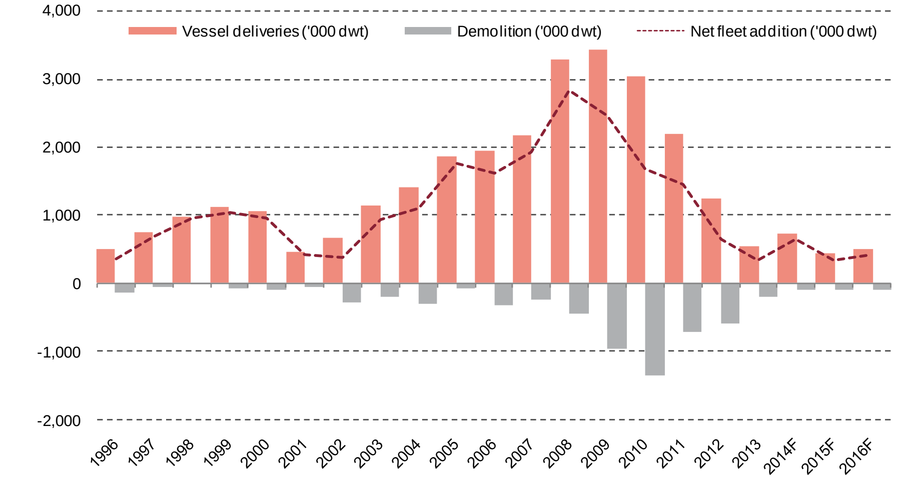
6.5 Chemical tanker outlook – supply growth slows

Chemical tanker spot rates between Europe/US and the Far East have risen in recent months as capacity oversupply concerns begin to abate. Despite a slight increase in orderbook for chemical tankers since September 2013, annual fleet deliveries in 2014-16 is expected to stay at its lowest since 2001-02.

We think the global chemical tanker fleet will grow at an average of 1.5% annually in 2014-16, based on existing orderbook delivery profiles and an assumed scrapping rate of 0.1m dwt/year. Fleet growth will remain mild at 1.8% CAGR even if none of the existing fleet is scrapped over the next three years. In comparison, fleet size has grown at a CAGR of 7.1% in 1996-2013.

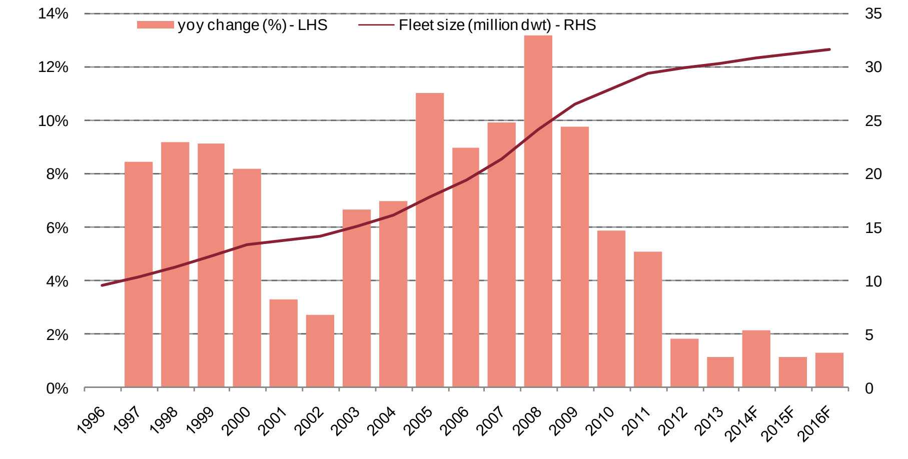
Shipyards with chemical tanker experience are mostly full for deliveries in 2014-16, so oversupply shocks are unlikely over the next three years, in our view. Hence, if demand holds, chemical tanker freight rates should continue to trend higher in 2014.

Figure 89: Annual chemical tanker vessel deliveries and demolitions ('000 dwt)



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 90: Chemical tanker fleet growth



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

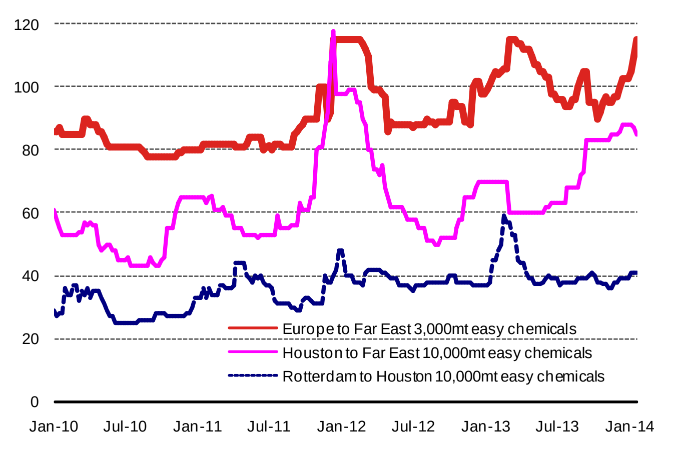
Chemical tanker owners are generally optimistic about industry prospects over the coming years. Customers are also beginning to search for long-term contracts, suggesting that they too expect freight rates to rise. Odfjell believes rates will improve in 2014 as declining fleet deliveries lead to relative tightness in the chemical tanker market. It is also optimistic that a recovery for mature Western economies is in motion, which if true will keep chemical demand afloat. Stolt-Nielsen shares the same view, but warns that the expected increase in freight rates will be a long and gradual process.

On the Arabian Gulf front, the removal of international sanctions against Iran's petrochemical exports beginning 20 Jan 2014 will likely tighten chemical tanker supply in the region, helping to lift rates for voyages originating from the Middle East. The Arabian Gulf currently has a surplus of chemical tanker tonnage, resulting in relatively tepid rate performance.

Nonetheless, improvements in freight rates will more likely come in a gradual rather than an abrupt manner, because petrochemical export volumes from Iran is unlikely to return to pre-sanction levels so quickly. A number of petrochemical plants in Iran are in dire need for maintenance, and as spare parts were also blocked under the sanctions, time is needed for the parts to be transported and fitted into these plants. Shipbroker Braemar Shipping Service plc expects this process to take almost six months. Nonetheless, as Iranian petrochemical plants gradually return to production and as long-delayed plant expansions take place, Braemar expects "an added vibrancy to return to the Iranian export markets".

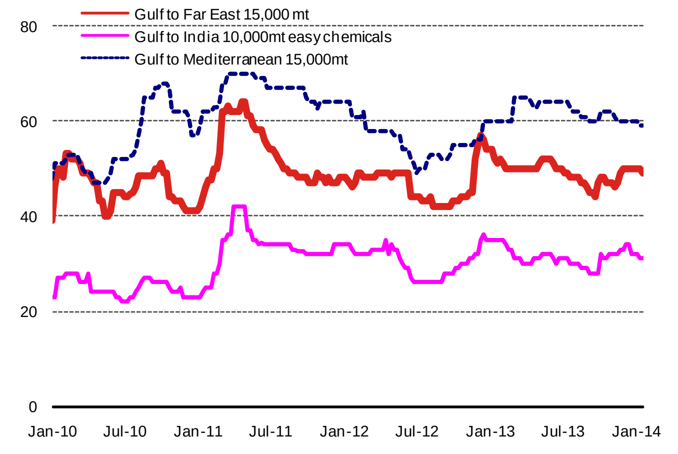
Having that said, Iran's ability to maintain a sustainable petrochemical export market hinges on its very own political discipline. The lifting of international sanctions against Iranian products comes as part of a six-month deal, with Iran promising to scale back its nuclear development programme in exchange for the opportunity to trade with the world's major powers. Until Iran passes this probation period, the country will not be in a position to sign any long-term contracts. With Supreme Leader Ayatollah Ali Khamenei's business organisation Setad invested in Iran's petrochemical and other industries, the immensely wealthy and powerful Iranian politician has a lot on the line.

Figure 91: Chemical tanker spot rates - Europe/US-Far East, Europe-US (US$/MT)



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

Figure 92: Chemical tanker spot rates - Middle East Gulf-Far East/India/Mediterranean (US$/MT)



SOURCES: CIMB, CLARKSON RESEARCH SERVICES

6.6 Valuation and recommendation

On expectations of improving crude and chemical tanker market conditions, we are removing the 30% discount we previously applied to the SOP we have on MISC. Our target price is consequently raised from RM5.08 to RM7.25, while our recommendation is upgraded from Reduce to Add. The absence of a SOP discount is in line with our valuation methodology for other shipping companies within our coverage. We had earlier pegged a 30% discount to our SOP since July 2012 due to the dire outlook for the crude and chemical tanker market at that point in time.

However, our low valuation and previous Reduce call for MISC turned out to be inaccurate, as the market rerated MISC's share price by 30% over the past 12 months. We now re-evaluate our position given that MISC is still trading at a 23% discount to underlying SOP, which suggests that most of the bad news is already in the price, and any upside surprises on MISC can rerate the stock quickly.

1. The LNG division's long-term structural decline in profits is widely known among the investment community and is hence likely well reflected in its share price. MISC is however actively bidding for third-party contracts following Petronas's decision to take on up to eight LNG ships on its own balance sheet, so successful bids at profitable rates may be a pleasant surprise.
2. The weak performance by the petroleum and chemical tanker divisions have bogged down MISC's group earnings for years and is now the baseline expectation among investors. The petroleum segment has made losses for 13 consecutive quarters while the chemical division has bled for 22 quarters

in a row. A gradual improvement in performance, which we expect from this year onwards, will also gradually help lift MISC's share price.

3. Heavy engineering firm MMHE, in which MISC holds a 66.5% stake, saw its 9M13 net profit fall by 5% yoy in a long streak of uninspiring earnings. The company has been finding it difficult to replenishing its orderbook, with its outstanding orderbook falling to RM2.5bn in 3Q13 from more than RM3bn at end-2011. It is, however, in the running to secure one of Petronas's central processing platform (CPP) contracts, which may add RM500m to its orderbook. Any contract wins could encourage investors to have a relook at MISC.

Figure 93: MISC's SOP

	Value (US$ m)	Per share (RM)	Notes
LNG	4,145.9	3.06	DCF, WACC 7.6%
Offshore	2,129.3	1.57	DCF, WACC 7.6%
Heavy Engineering	1,289.7	0.95	66.5% stake, based on our target price of RM4.00
Petroleum	1,917.4	1.42	Expected end-2014 values
Chemical	448.0	0.33	US$28m for Bunga A & B class, US$20m for Melati class
VTTI	839.0	0.62	Cost of acquisition
Subtotal	**10,769.3**	**7.96**	
Gumusut	305.7	0.23	MISC's 50% stake in Gumusut's equity
Cendor	400.0	0.30	Estimated cost of construction
NCB Holdings	79.6	0.06	MISC's 15.7% stake in NCB Holdings (as at 15 Jan 2014)
Bintulu Port	22.5	0.02	MISC's 2.65% stake in Bintulu Port (CIMB's target price)
Other net assets	-122.4	-0.09	
Capex (2014)	1,006.2	0.74	Capex to be spent that is not reflected in fleet value
Net cash/(debt)	-2,654.9	-1.96	Forecast as at 31 December 2014
Total	**9,806.0**	**7.25**	
Discount (%)		0%	
Target price (RM)		**7.25**	

SOURCES: CIMB, COMPANY REPORTS

7. VALUATION AND RECOMMENDATION

7.1 Maintain Neutral

The transport sector has been going through very tough times, and this explains our Neutral rating. However, there are pockets of opportunity for investors:

Airport stocks remain a firm favourite, as they benefit from the capacity injections by airlines but suffer from none of the yield deflation from excessive competition and cost pressures from the strengthening US$.

Some airlines are executing well, like Cathay Pacific, which enabled it to grow its yields in 1H13 despite an otherwise weak environment. Cathay is also seeing good US premium demand and benefitting from its investments in the premium economy class of seats.

Other airlines, like AirAsia and SIA, while out-of-favour with investors now due to ongoing yield pressures in their home markets, are strong brands and their stocks are trading very close to their liquidation values of RM2.36 and S$9.72, respectively. Any hint of improvement in the fundamentals could see both airlines rerate quickly.

In the shipping space, Pacific Basin is our firm favourite, because it is so well managed, and has never made a loss in its core dry bulk business since the GFC. We also believe that dry bulk freight rates passed its bottom in 2013 and will recover gradually from 2014 onwards.

We also want to highlight MISC, which is trading at a significant discount to its SOP, with essentially all of the bad news in the price. Market expectations for this stock are very low, and if it manages to secure new contracts in the LNG or offshore space, or new contracts for its heavy engineering division, the stock price could rerate.

7.2 Key stock recommendations

Figure 94: Top recommendations

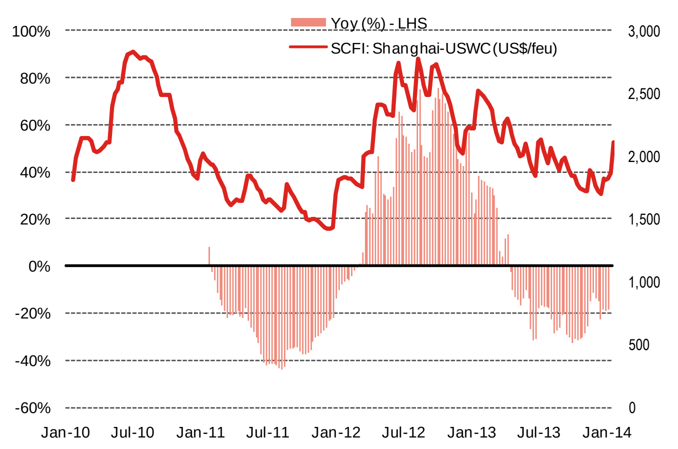
Company	Bloomberg Ticker	Recom.	Price	Target Price	Upside (%)
Cathay Pacific	293 HK	Add	HK$16.54	HK$18.50	11.9%
AOT	AOT TB	Add	THB175.50	THB192.00	9.4%
MAHB	MAHB MK	Add	RM8.84	RM9.80	10.9%
Sydney Airport	SYD AU	Add	A$3.88	A$4.25	9.5%
Maybulk	MBC MK	Add	RM1.92	RM2.01	4.7%
Pacific Basin	2343 HK	Add	HK$5.17	HK$6.55	26.7%
MISC	MISC MK	Add	RM5.60	RM7.25	29.5%

SOURCES: CIMB, BLOOMBERG

8. APPENDIX A: CONTAINER FREIGHT RATES

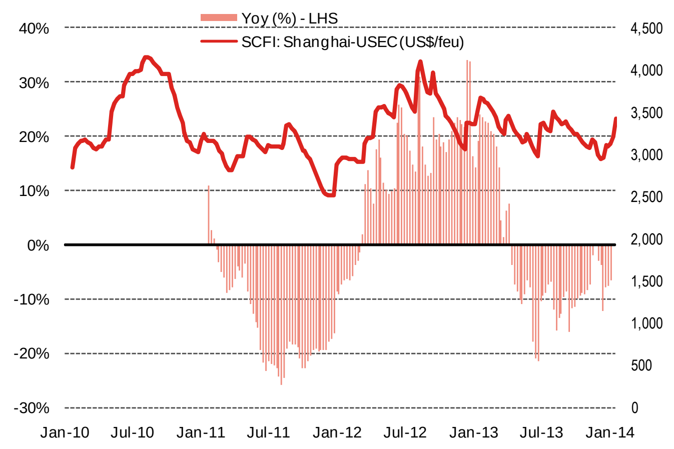
8.1 SCFI rates – Transpacific trade

Figure 95: SCFI: Shanghai-USWC (US$/feu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

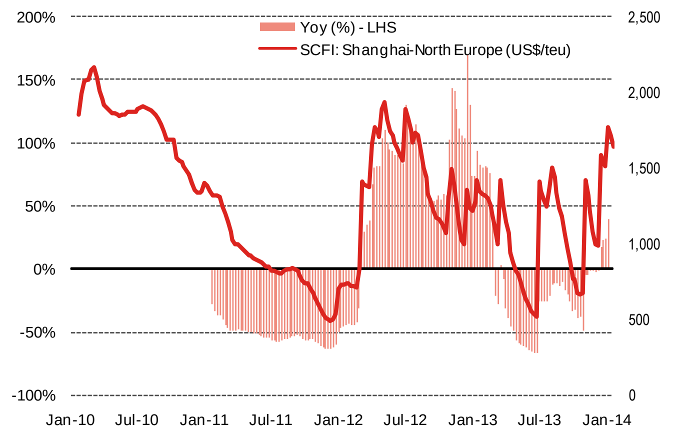
Figure 96: SCFI: Shanghai-USEC (US$/feu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

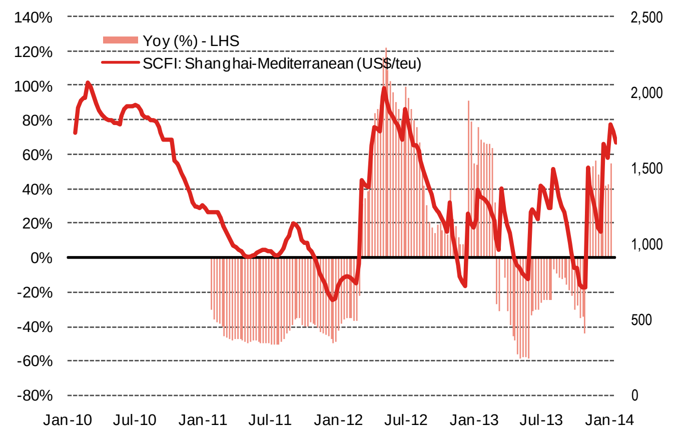
8.2 SCFI rates – Asia-Europe trade

Figure 97: SCFI: Shanghai-North Europe (US$/teu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

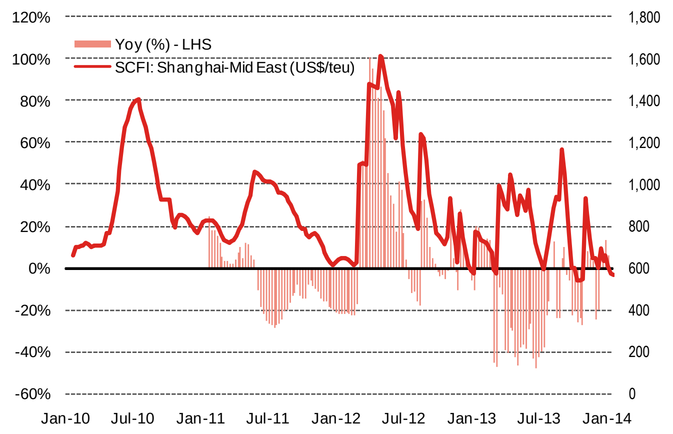
Figure 98: SCFI: Shanghai-Mediterranean (US$/teu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

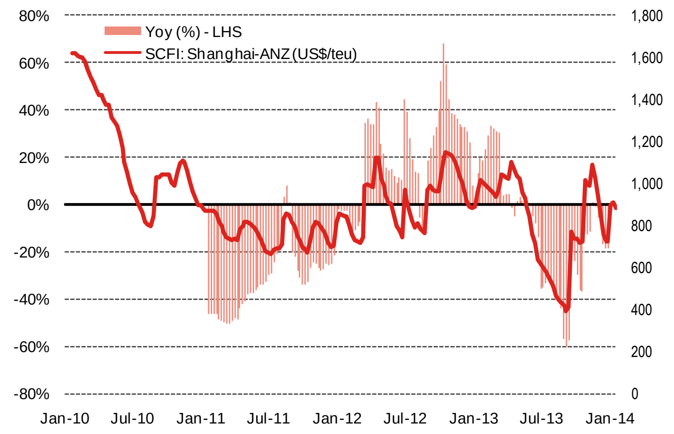
8.3 SCFI rates – Long-haul Intra-Asia trade

Figure 99: SCFI: Shanghai-Mid East (US$/teu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

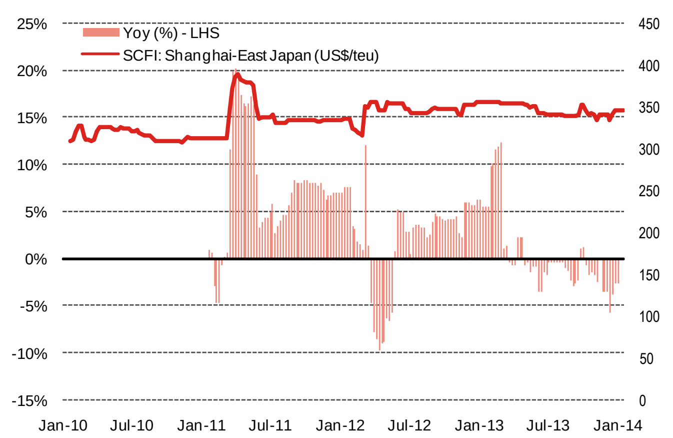
Figure 100: SCFI: Shanghai-ANZ (US$/teu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

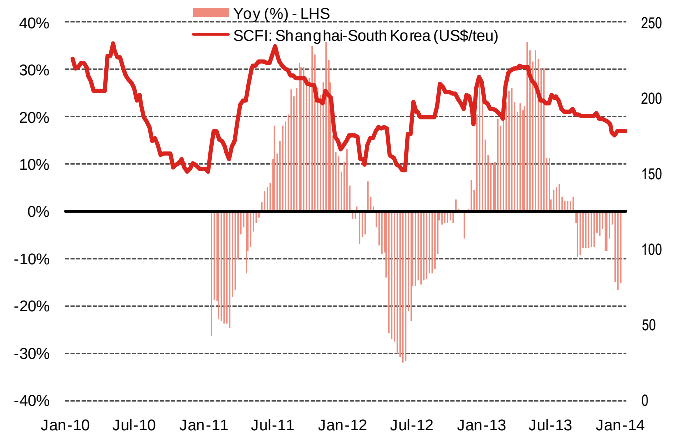
8.4 SCFI rates – Short-haul Intra-Asia trade

Figure 101: SCFI: Shanghai-East Japan (US$/teu)



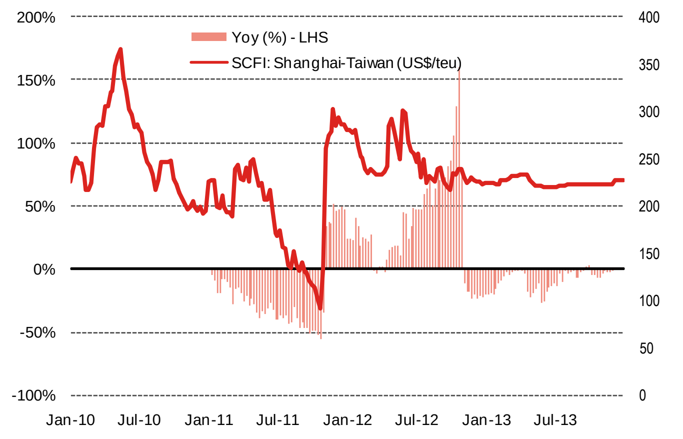
SOURCES: SHANGHAI SHIPPING EXCHANGE

Figure 102: SCFI: Shanghai-South Korea (US$/teu)



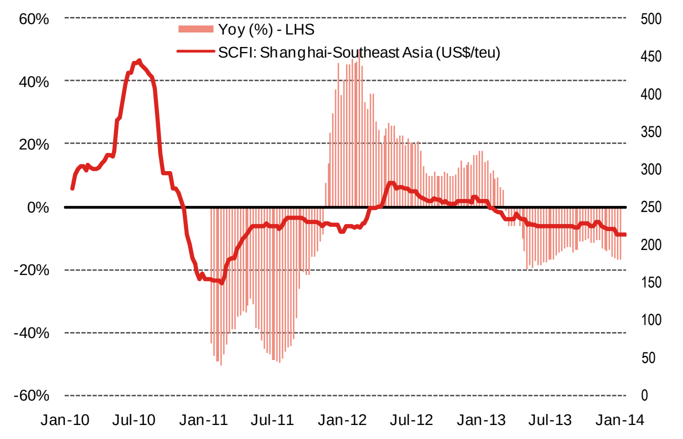
SOURCES: SHANGHAI SHIPPING EXCHANGE

Figure 103: SCFI: Shanghai-Taiwan (US$/teu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

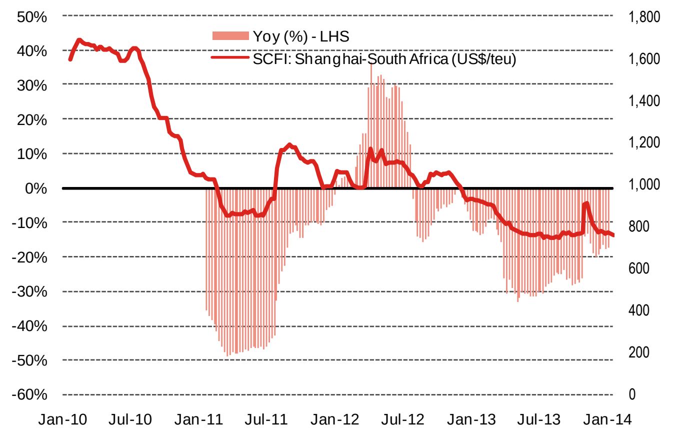
Figure 104: SCFI: Shanghai-Southeast Asia (US$/teu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

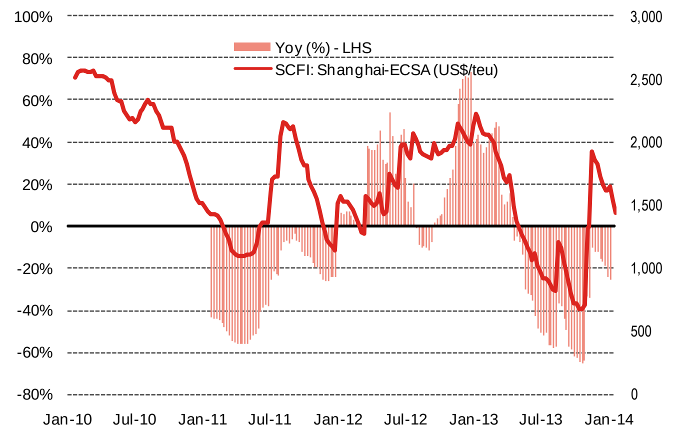
8.5 SCFI rates – North-South trades

Figure 105: SCFI: Shanghai-South Africa (US$/teu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

Figure 106: SCFI: Shanghai-East Coast South America (US$/teu)



SOURCES: SHANGHAI SHIPPING EXCHANGE

Company Briefs

CIMB

Air China

753 HK / 0753.HK

Market Cap	Avg Daily Turnover	Free Float
US$8,382m	US$8.65m	32.0%
HK$65,068m	HK$67.09m	13,085 m shares

Current	HK$5.13
Target	HK$5.40
Prev. Target	HK$5.90
Up/Downside	5.3%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

Andrew ORCHARD
T (852) 2539 1331
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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-5.4	-4.4	-22.8
Absolute	-8.6	-6.1	-27.7

Major shareholders	% held
CNAHC	51.8
Cathay Pacific	19.5

Best of the Chinese carriers

We believe that Air China will continue to capitalise on accelerating international traffic growth, which we think will be the more likely industry growth driver. However, that market remains tepid for now, while cargo shipments have not shown signs of recovery yet.

We see few immediate catalysts and prefer to wait for data to turn better before taking a stronger view on the stock. We lower our earnings estimates by 10-11% over FY13-15, while our target price falls correspondingly to HK$5.40. We base our target price on 5.75x CY15 EV/EBITDAR, Air China's mid-cycle average.

Most conservative domestic growth

Air China has increased its domestic capacity by just 9% ytd, the least among the Big 3 carriers. Domestic load factors have consequently been the strongest and have risen 0.3%pts so far in 2013. We believe that Air China will be relatively more conservative than its peers on domestic routes in 2014 as well, while we think that the company is likely to be less affected by high-speed rail and low-cost carrier competition due to the favourable position of its hubs.

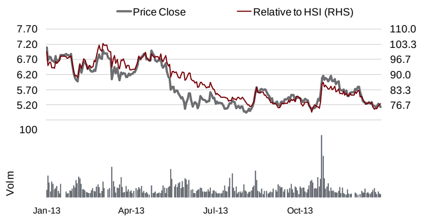
China's flagship international carrier

Air China's international strategy seems to be less predicated on transit traffic and more geared towards ferrying Chinese tourists to long-haul destinations as a relatively small amount of its capacity is used to serve the intra-Asian and Australian sectors. Most of its routes are concentrated on the US and Europe, and we think that Air China has positioned itself well to capture added outbound traffic, which we see as a bigger future growth driver for the Chinese airlines.

On the other hand, Air China is most levered to cargo markets, and the subdued air freight industry is likely to remain a drag on the company's profitability.

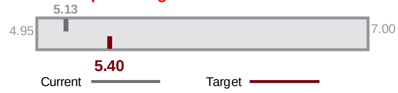
No re-valuation angle

While its FY14 P/BV is only 0.8x currently and the stock appears to be inexpensive at 1 s.d. below its long-run average, we caution investors that recurring ROEs could slip in the coming years as domestic traffic growth slows from high penetration and competition from other modes of transport.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Rmbm)	98,410	100,838	101,822	109,420	118,604
Operating EBITDA (Rmbm)	15,734	18,585	17,126	18,725	19,862
Net Profit (Rmbm)	7,082	4,637	4,992	5,007	5,793
Core EPS (Rmb)	0.39	0.37	0.28	0.40	0.46
Core EPS Growth	(36.6%)	(3.2%)	(25.5%)	44.6%	15.2%
FD Core P/E (x)	10.34	10.69	14.25	9.92	8.61
DPS (Rmb)	0.13	0.06	0.07	0.07	0.08
Dividend Yield	3.13%	1.60%	1.69%	1.74%	1.93%
EV/EBITDA (x)	7.05	6.69	7.34	6.73	6.41
P/FCFE (x)	11.72	22.66	8.85	NA	14.26
Net Gearing	146%	163%	143%	131%	115%
P/BV (x)	1.05	0.97	0.89	0.83	0.76
ROE	10.5%	9.5%	6.5%	8.6%	9.2%
% Change In Core EPS Estimates			(11.3%)	(10.9%)	(9.9%)
CIMB/consensus EPS (x)			1.17	1.04	0.95

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**100,838**	**101,822**	**109,420**	**118,604**
Gross Profit	**32,234**	**31,433**	**34,217**	**36,705**
Operating EBITDA	**18,585**	**17,126**	**18,725**	**19,862**
Depreciation And Amortisation	(10,376)	(10,769)	(11,228)	(11,469)
Operating EBIT	**8,209**	**6,356**	**7,497**	**8,393**
Total Financial Income/(Expense)	(2,160)	(2,218)	(1,915)	(1,865)
Total Pretax Income/(Loss) from Assoc.	403	659	1,301	1,401
Total Non-Operating Income/(Expense)	124	2,094	70	116
Profit Before Tax (pre-EI)	**6,576**	**6,892**	**6,954**	**8,046**
Exceptional Items	0	(2)	0	0
Pre-tax Profit	**6,576**	**6,890**	**6,954**	**8,046**
Taxation	(1,648)	(1,731)	(1,739)	(2,011)
Exceptional Income - post-tax				
Profit After Tax	**4,928**	**5,159**	**5,216**	**6,034**
Minority Interests	(291)	(167)	(209)	(241)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**4,637**	**4,992**	**5,007**	**5,793**
Recurring Net Profit	4,544	3,427	4,955	5,706
Fully Diluted Recurring Net Profit	**4,544**	**3,427**	**4,955**	**5,706**

Balance Sheet

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	12,604	18,199	17,083	19,219
Total Debtors	6,770	7,518	8,332	8,661
Inventories	1,105	1,254	1,339	1,453
Total Other Current Assets	962	661	661	661
Total Current Assets	**21,440**	**27,633**	**27,415**	**29,994**
Fixed Assets	123,480	127,753	131,426	133,357
Total Investments	15,094	15,642	16,943	18,345
Intangible Assets	1,159	1,159	1,159	1,159
Total Other Non-Current Assets	24,111	26,766	26,823	26,896
Total Non-current Assets	**163,844**	**171,321**	**176,351**	**179,757**
Short-term Debt	31,688	46,790	44,220	41,721
Current Portion of Long-Term Debt				
Total Creditors	19,788	22,399	23,881	25,936
Other Current Liabilities	4,783	5,934	6,364	6,781
Total Current Liabilities	**56,260**	**75,123**	**74,465**	**74,439**
Total Long-term Debt	67,731	55,318	55,932	56,252
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	7,981	9,688	10,160	10,670
Total Non-current Liabilities	**75,712**	**65,006**	**66,092**	**66,921**
Total Provisions	0	0	0	0
Total Liabilities	**131,971**	**140,129**	**140,557**	**141,360**
Shareholders' Equity	49,944	55,212	59,388	64,328
Minority Interests	3,368	3,613	3,821	4,063
Total Equity	**53,312**	**58,824**	**63,209**	**68,390**

Cash Flow

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	18,585	17,126	18,725	19,862
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(7,623)	3,142	1,014	2,032
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(920)	1,647	463	501
Other Operating Cashflow				
Net Interest (Paid)/Received	(2,163)	(2,220)	(1,915)	(1,865)
Tax Paid	(1,648)	(1,731)	(1,739)	(2,011)
Cashflow From Operations	**6,232**	**17,963**	**16,550**	**18,519**
Capex	(23,541)	(15,043)	(14,900)	(13,400)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	0	6	0	0
Other Investing Cashflow	5,758	(2,632)	(56)	(74)
Cash Flow From Investing	**(17,783)**	**(17,669)**	**(14,956)**	**(13,474)**
Debt Raised/(repaid)	13,694	5,223	(1,605)	(1,600)
Proceeds From Issue Of Shares	0	193	0	0
Shares Repurchased				
Dividends Paid	(1,521)	(777)	(831)	(853)
Preferred Dividends				
Other Financing Cashflow	(3,819)	672	7	7
Cash Flow From Financing	**8,353**	**5,311**	**(2,429)**	**(2,446)**
Total Cash Generated	(3,198)	5,605	(836)	2,599
Free Cashflow To Equity	**2,143**	**5,517**	**(12)**	**3,445**
Free Cashflow To Firm	**(9,140)**	**2,811**	**3,906**	**7,307**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	2.5%	1.0%	7.5%	8.4%
Operating EBITDA Growth	18.1%	(7.9%)	9.3%	6.1%
Operating EBITDA Margin	18.4%	16.8%	17.1%	16.7%
Net Cash Per Share (Rmb)	(7.15)	(6.83)	(6.76)	(6.41)
BVPS (Rmb)	4.12	4.49	4.83	5.23
Gross Interest Cover	3.41	2.53	3.24	3.71
Effective Tax Rate	25.1%	25.1%	25.0%	25.0%
Net Dividend Payout Ratio	16.7%	16.6%	17.0%	16.4%
Accounts Receivables Days	20.85	25.61	26.44	26.15
Inventory Days	5.96	6.12	6.29	6.22
Accounts Payables Days	112.6	109.4	112.3	111.0
ROIC (%)	5.44%	3.58%	4.11%	4.51%
ROCE (%)	5.86%	4.24%	4.87%	5.33%

Key Drivers

	Dec-11A	Dec-12F	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	14.8	6.5	8.7	9.3	8.4
Rev. Psg Km (RPK, Yoy Chg %)	16.8	5.1	9.4	9.3	8.4
Passenger Load Factor (%)	81.5	80.4	80.9	80.9	80.9
Pax yld per RPK (Rmb)	0.68	0.67	0.62	0.62	0.62
Jet Fuel Price (Rmb/tonne)	7,402	7,653	7,396	7,312	7,251
US$/Rmb rate	6.47	6.32	6.12	6.05	6.00

SOURCE: CIMB, COMPANY REPORTS

CIMB

AirAsia Bhd

AIRA MK / AIRA.KL

Market Cap	Avg Daily Turnover	Free Float
US$1,953m	US$5.86m	66.0%
RM6,508m	RM18.97m	2,778 m shares

Current	RM2.34
Target	RM2.55
Prev. Target	RM2.55
Up/Downside	9.0%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	7.2	-14.9	-26.6
Absolute	5.4	-15.8	-16.4

Major shareholders	% held
Tune Air	23.1
EPF	10.9

Unrelenting yield pressure

The level of competition in the marketplace remains fierce, resulting in a disappointing 3Q13. We expect yield pressure to remain a prevalent feature in 2014 as MAS and Malindo continue to be overly ambitious with their capacity expansion.

We keep our Hold call and our target price remains based on 11x CY15 P/E, the sector average. Yield pressure will persist in 2014 as MAS is intent on defending its market share, leading to pedestrian group earnings growth in FY14-15 as Malaysia earnings fall, only to be offset by better associate earnings. Still, AirAsia remains the best in the field, given its low cost structure.

Recent developments

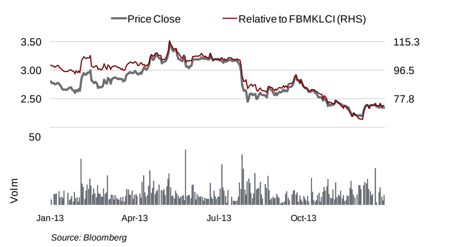
AirAsia's 3Q13 core earnings fell 12% yoy to RM146m, largely due to the 22% yoy plunge in Malaysia earnings. Base yields fell 12.2% as competition hit hard while AirAsia's substantial US$ cost base rose after the ringgit weakened by 3.8%. The base yield decline in 3Q13 had accelerated from the 10.6% fall for 2Q13. The weakness in Malaysia was augmented by the collapse in Indonesia's bottomline as yields fell due to competition and the rupiah depreciated. But Japan's losses have stopped and Thailand's profits grew healthily during 3Q13. The net effect was that the better yoy overall associate performance helped temper but not completely overcome the pressure on Malaysia.

What to expect for 2014

AirAsia may suffer fare deflation for at least the next two years as the current heavy competition could prevent it from passing through to passengers the 9% rise in landing charges from Jan 2014 onwards, the impending 9-11% rise in airport passenger service charges in Feb and the 6% GST from Apr 2015 onwards.

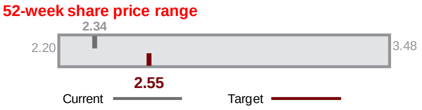
Difficult times

Stay on the sidelines. AirAsia's two founders have recently moved their base from Jakarta back to Kuala Lumpur, admitting in an interview that they have been "complacent" and "taken their eye off the ball". Urgent intervention is clearly needed to reverse its shrinking profits. We expect core earnings to continue to contract in 2014 as yield pressures remain unrelenting, providing AirAsia with little headroom to pass the higher airport charges to consumers.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (RMm)	4,473	4,996	5,350	5,779	6,237
Operating EBITDA (RMm)	1,625	1,663	1,701	1,828	1,971
Net Profit (RMm)	564	1,876	670	890	873
Core EPS (RM)	0.30	0.29	0.22	0.22	0.23
Core EPS Growth	(13.0%)	(5.4%)	(21.7%)	(4.4%)	7.8%
FD Core P/E (x)	7.70	8.15	10.40	10.88	10.09
DPS (RM)	0.05	0.24	0.06	0.06	0.05
Dividend Yield	2.1%	10.3%	2.6%	2.4%	2.3%
EV/EBITDA (x)	7.54	7.65	8.16	7.65	7.39
P/FCFE (x)	8.4	275.9	9.5	6.9	6.8
Net Gearing	142%	116%	138%	123%	118%
P/BV (x)	1.61	1.21	1.21	1.07	0.96
ROE	22.0%	17.0%	11.7%	10.5%	10.0%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.16	1.09	0.93

SOURCE: CIMB, COMPANY REPORTS

CIMB

Profit & Loss

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**4,996**	**5,350**	**5,779**	**6,237**
Gross Profit	**1,663**	**1,701**	**1,828**	**1,971**
Operating EBITDA	**1,663**	**1,701**	**1,828**	**1,971**
Depreciation And Amortisation	(562)	(667)	(792)	(906)
Operating EBIT	**1,101**	**1,034**	**1,036**	**1,065**
Total Financial Income/(Expense)	(351)	(435)	(468)	(500)
Total Pretax Income/(Loss) from Assoc.	(4)	80	82	103
Total Non-Operating Income/(Expense)	51	50	50	50
Profit Before Tax (pre-EI)	**797**	**729**	**700**	**718**
Exceptional Items	1,254	(45)	224	190
Pre-tax Profit	**2,051**	**684**	**924**	**907**
Taxation	(176)	(14)	(34)	(34)
Exceptional Income - post-tax				
Profit After Tax	**1,876**	**670**	**890**	**873**
Minority Interests	0	0	0	0
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**1,876**	**670**	**890**	**873**
Recurring Net Profit	797	625	598	645
Fully Diluted Recurring Net Profit	**797**	**625**	**598**	**645**

Balance Sheet

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	2,226	1,859	2,221	2,579
Total Debtors	1,696	1,792	1,909	2,034
Inventories	24	24	24	24
Total Other Current Assets	0	0	0	0
Total Current Assets	**3,945**	**3,675**	**4,154**	**4,637**
Fixed Assets	9,786	10,947	11,760	13,018
Total Investments	0	0	0	0
Intangible Assets	367	372	358	344
Total Other Non-Current Assets	2,549	2,629	2,711	2,814
Total Non-current Assets	**12,702**	**13,949**	**14,829**	**16,176**
Short-term Debt	726	726	726	726
Current Portion of Long-Term Debt				
Total Creditors	1,896	2,075	2,247	2,427
Other Current Liabilities	409	409	409	409
Total Current Liabilities	**3,031**	**3,211**	**3,383**	**3,562**
Total Long-term Debt	7,718	8,512	8,976	9,907
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	544	544	544	544
Total Non-current Liabilities	**8,263**	**9,056**	**9,521**	**10,451**
Total Provisions	0	0	0	0
Total Liabilities	**11,294**	**12,267**	**12,903**	**14,013**
Shareholders' Equity	5,353	5,356	6,080	6,800
Minority Interests	0	0	0	0
Total Equity	**5,353**	**5,356**	**6,080**	**6,800**

Cash Flow

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	1,663	1,701	1,828	1,971
Cash Flow from Invt. & Assoc.				
Change In Working Capital	925	83	55	54
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(1,284)	0	0	0
Net Interest (Paid)/Received	0	0	0	0
Tax Paid	(8)	(19)	(19)	(20)
Cashflow From Operations	**1,296**	**1,765**	**1,864**	**2,005**
Capex	(2,011)	(2,724)	(3,060)	(3,395)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	125	1,112	1,679	1,421
Other Investing Cashflow	(49)	0	0	0
Cash Flow From Investing	**(1,935)**	**(1,612)**	**(1,381)**	**(1,975)**
Debt Raised/(repaid)	663	533	464	930
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	(139)	(667)	(167)	(153)
Preferred Dividends				
Other Financing Cashflow	225	(385)	(418)	(450)
Cash Flow From Financing	**749**	**(519)**	**(121)**	**328**
Total Cash Generated	109	(367)	362	358
Free Cashflow To Equity	**24**	**685**	**947**	**961**
Free Cashflow To Firm	**(640)**	**152**	**483**	**30**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	11.7%	7.1%	8.0%	7.9%
Operating EBITDA Growth	2.29%	2.33%	7.44%	7.82%
Operating EBITDA Margin	33.3%	31.8%	31.6%	31.6%
Net Cash Per Share (RM)	(2.24)	(2.65)	(2.69)	(2.90)
BVPS (RM)	1.93	1.93	2.19	2.45
Gross Interest Cover	2.91	2.25	2.10	2.01
Effective Tax Rate	8.6%	2.0%	3.7%	3.8%
Net Dividend Payout Ratio	85.6%	23.5%	22.5%	21.1%
Accounts Receivables Days	89.37	96.29	95.88	95.92
Inventory Days	2.38	2.37	2.19	2.03
Accounts Payables Days	158.9	198.7	199.7	199.9
ROIC (%)	7.99%	6.40%	5.85%	5.66%
ROCE (%)	8.81%	7.46%	6.98%	6.58%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	8.8%	12.8%	9.6%	6.9%
Rev. Psg Km (RPK, Yoy Chg %)	8.1%	12.7%	9.6%	6.9%
Passenger Load Factor (%)	80.1%	80.0%	80.0%	80.0%
Pax yld per RPK (RM)	0.2	0.2	0.2	0.2
Pax rev. per ASK (RM)	0.2	0.1	0.1	0.1
Total Cost Per ATK (RM)	-	-	-	-
Fuel Cost Per ATK (RM)	-	-	-	-
Non-fuel Cost Per ATK (RM)	2,811.5	3,171.9	3,477.2	3,716.7
Jet Fuel Price (US$/barrel)	134.0	130.0	130.0	130.0
Fleet Size (no. Of Planes)	118	147	168	186

SOURCE: CIMB, COMPANY REPORTS

CIMB

AirAsia X Bhd

AAX MK / AAX.KL

Market Cap	Avg Daily Turnover	Free Float
US$704.0m	US$0.66m	34.1%
RM2,347m	RM2.13m	2,370 m shares

Current	RM0.99
Target	RM1.11
Prev. Target	RM1.11
Up/Downside	12.1%

STOCK RATING
ADD
HOLD
REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	0.8	-9.1	
Absolute	-1	-10	

Major shareholders	% held
Aero Ventures Sdn Bhd	34.5
AirAsia Bhd	13.8

Wrestling with competition

MAS is keeping up the pressure on AAX as it injects more capacity on a number of the routes that both carriers serve. Base yields are, therefore, likely to dip in 2014. AAX will have to bank on an improving ancillary yield to pick up the slack, which is far from certain.

Our maintain our Hold call and keep our target price unchanged, based on the sector average of 11x CY15 P/E. Base yields are likely to fall next year as competition on the KL-Australia route heats up. AAX's earnings are highly sensitive to yield changes so further yield weakness will dampen its growth sharply.

Recent developments

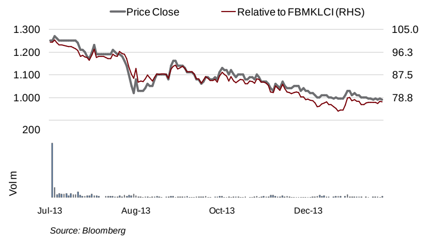
AAX's 3Q13 core profit of RM7m was weaker than expected as it failed to fully recoup the RM26m loss in 2Q13. Promotional campaigns for both matured and newly-launched routes caused overall yield to decline 1.6% yoy and RASK to fall 2.7% due to a 1% pt reduction in loads. The yield weakness on mature routes was probably due to competitive pricing by MAS and the yen and A$ weakness. Promotional fares on new routes to Shanghai and Busan also contributed to the lower yield. The underlying passenger yield fell 3.3% yoy and the impact on AAX would have been worse had it not succeeded in pushing up ancillary yield by 5% on price revisions, higher Fly-Thru take-up and new products. Given the yield decline, 3Q13 core net profit was down 43% yoy despite ASK and RPK rising by 30-32%.

What to expect for 2014

MAS is creating "hyper competition" on KL-Australia routes, adding third daily flights to Sydney and Melbourne. The Australian region is hence beginning to underperform North Asia and AAX estimates that it will need 6-9 months to "wash out" the yield pressures. Thai AAX will also commence operations early next year, which we believe will result in a RM22m loss for AAX's share in the venture.

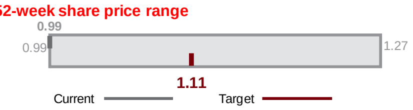
No reason to jump in

Stay on the sidelines. We think that AAX's share price is likely to tread water in 2014 as MAS keeps up the pressure. Base yields are likely to dip next year, compensated by an improvement in ancillary yields. Earnings expansion will be driven by capacity growth, which we expect to be in the region of 54% in 2014. AAX's net profit is extremely sensitive to yield changes, so further deterioration in yields will dampen its growth significantly.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (RMm)	1,862	1,967	2,412	3,697	4,754
Operating EBITDA (RMm)	42.6	155.1	280.5	402.1	583.8
Net Profit (RMm)	(96.6)	33.9	121.8	281.4	217.7
Core EPS (RM)	(0.05)	(0.00)	0.03	0.04	0.10
Core EPS Growth	(602%)	(95%)	na	38%	140%
FD Core P/E (x)	NA	NA	32.57	23.52	9.79
DPS (RM)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	82.40	22.99	13.07	11.18	7.27
P/FCFE (x)	NA	41.12	62.38	11.39	5.14
Net Gearing	213%	210%	91%	125%	98%
P/BV (x)	4.29	4.04	1.63	1.36	1.21
ROE	(18.5%)	(1.0%)	7.1%	6.3%	13.1%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.93	1.11	0.70

SOURCE: CIMB, COMPANY REPORTS

CIMB

Profit & Loss

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**1,967**	**2,412**	**3,697**	**4,754**
Gross Profit	**155**	**280**	**402**	**584**
Operating EBITDA	**155**	**280**	**402**	**584**
Depreciation And Amortisation	(107)	(140)	(185)	(217)
Operating EBIT	**48**	**140**	**217**	**366**
Total Financial Income/(Expense)	(55)	(67)	(93)	(109)
Total Pretax Income/(Loss) from Assoc.	0	0	(22)	(15)
Total Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**(7)**	**73**	**102**	**242**
Exceptional Items	45	(60)	0	0
Pre-tax Profit	**38**	**14**	**102**	**242**
Taxation	(4)	108	179	(25)
Exceptional Income - post-tax	0	0	0	0
Profit After Tax	**34**	**122**	**281**	**218**
Minority Interests	0	0	0	0
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax	0	0	0	0
Other Adjustments - post-tax	0	0	0	0
Net Profit	**34**	**122**	**281**	**218**
Recurring Net Profit	(6)	72	100	240
Fully Diluted Recurring Net Profit	**(6)**	**72**	**100**	**240**

Balance Sheet

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	174	880	983	1,319
Total Debtors	131	160	246	316
Inventories	1	1	2	2
Total Other Current Assets	17	43	43	43
Total Current Assets	**323**	**1,084**	**1,274**	**1,680**
Fixed Assets	1,744	2,643	3,797	3,957
Total Investments	0	0	0	0
Intangible Assets	235	344	526	504
Total Other Non-Current Assets	126	126	104	89
Total Non-current Assets	**2,105**	**3,113**	**4,427**	**4,550**
Short-term Debt	521	521	521	521
Current Portion of Long-Term Debt	0	0	0	0
Total Creditors	254	299	462	584
Other Current Liabilities	201	255	382	487
Total Current Liabilities	**976**	**1,074**	**1,365**	**1,593**
Total Long-term Debt	871	1,679	2,611	2,695
Hybrid Debt - Debt Component	0	0	0	0
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	**871**	**1,679**	**2,611**	**2,695**
Total Provisions	0	0	0	0
Total Liabilities	**1,847**	**2,754**	**3,976**	**4,288**
Shareholders' Equity	581	1,443	1,725	1,942
Minority Interests	0	0	0	0
Total Equity	**581**	**1,443**	**1,725**	**1,942**

Cash Flow

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	155	280	402	584
Cash Flow from Invt. & Assoc.	0	0	0	0
Change In Working Capital	(137)	59	205	157
(Incr)/Decr in Total Provisions	0	0	0	0
Other Non-Cash (Income)/Expense	0	0	0	0
Other Operating Cashflow	(1)	47	103	120
Net Interest (Paid)/Received	(55)	(67)	(93)	(109)
Tax Paid	1	(1)	(2)	(3)
Cashflow From Operations	**(37)**	**318**	**614**	**749**
Capex	(37)	(1,039)	(1,339)	(378)
Disposals Of FAs/subsidiaries	27	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	(50)	0	0	0
Cash Flow From Investing	**(60)**	**(1,039)**	**(1,339)**	**(378)**
Debt Raised/(repaid)	154	758	932	84
Proceeds From Issue Of Shares	0	741	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	0	0	0	0
Preferred Dividends	0	0	0	0
Other Financing Cashflow	0	(72)	(103)	(120)
Cash Flow From Financing	**154**	**1,427**	**829**	**(36)**
Total Cash Generated	57	706	103	336
Free Cashflow To Equity	**57**	**38**	**206**	**456**
Free Cashflow To Firm	**(41)**	**(648)**	**(623)**	**492**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	5.6%	22.6%	53.3%	28.6%
Operating EBITDA Growth	264%	81%	43%	45%
Operating EBITDA Margin	7.9%	11.6%	10.9%	12.3%
Net Cash Per Share (RM)	(0.51)	(0.56)	(0.91)	(0.80)
BVPS (RM)	0.25	0.61	0.73	0.82
Gross Interest Cover	0.85	1.94	2.12	3.04
Effective Tax Rate	10.9%	0.0%	0.0%	10.2%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	23.30	22.03	20.05	21.57
Inventory Days	0.17	0.15	0.14	0.15
Accounts Payables Days	41.67	47.33	42.12	45.79
ROIC (%)	2.10%	5.85%	5.90%	7.09%
ROCE (%)	2.62%	5.18%	5.34%	7.55%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	-8.0%	19.2%	54.1%	30.3%
Rev. Psg Km (RPK, Yoy Chg %)	-3.8%	17.7%	53.2%	30.3%
Passenger Load Factor (%)	83.8%	82.8%	82.3%	82.3%
Pax yld per RPK (RM)	13.2	13.8	13.9	14.0
Pax rev. per ASK (RM)	11.1	11.4	11.4	11.5
Total Cost Per ATK (RM)	123.3	123.2	122.0	117.8
Fuel Cost Per ATK (RM)	57.6	57.1	56.8	56.8
Non-fuel Cost Per ATK (RM)	65.7	66.0	65.2	61.0
Jet Fuel Price (US$/barrel)	129.6	130.0	130.0	130.0
Fleet Size (no. Of Planes)	11	18	25	28

SOURCE: CIMB, COMPANY REPORTS

Airports of Thailand

AOT TB / AOT.BK

Market Cap	Avg Daily Turnover	Free Float
US$7,625m	US$31.40m	30.0%
THB250,714m	THB1,045m	1,429 m shares

Current	THB175.5
Target	THB192.0
Prev. Target	THB192.0
Up/Downside	9.4%

STOCK RATING

ADD

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	7.4	-8.4	66.7
Absolute	6.4	-18.8	57.4

Major shareholders	% held
Ministry of Finance	70.0
Nortrust Nominees	5.0
State Street Bank and Trust	2.9

Concerns create value

An airport is almost a lifetime asset. Occasionally, undesirable events like the ongoing political protests in Thailand will disrupt demand for travel. However, the more crucial factor in determining AOT's share price is whether travellers will still be keen on visiting Thailand once there is a political truce. We believe travel demand will quickly recover.

We maintain our EPS forecasts, DCF-based target price (10.5% WACC, 5% long-term traffic growth) and Add recommendation. The potential catalysts are a political truce and an instant recovery in passenger traffic.

Déjà vu

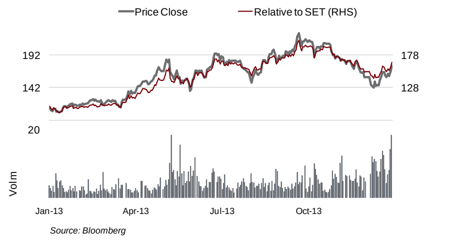
There have been countless events that have disrupted Thai tourism in the past. In 2008, the yellow-shirt protests that culminated in a nine-day seizure of the two Bangkok airports dampened tourist arrival growth to 1%. In 2010, despite the red-shirt riots in Bangkok, tourist arrivals rose by 13%. In 2011, tourist arrivals increased by 21% despite the flood crisis in Bangkok and the neighbouring provinces. This anecdotal evidence proves that all crises, no matter how grim the outlook at the time, are temporary. It also suggests that as long as the chaos is confined to specific locations, the net impact on overall traffic will be limited. The present political unrest only affects AOT's air hubs in Bangkok. Its other airports, including Phuket and Chiangmai, are unaffected and could benefit from re-routed traffic.

Brace for weak data points

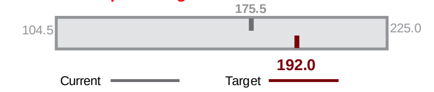
The ongoing political protests have gained momentum since Nov 2013. The international pax traffic at AOT's airports rose 12% yoy in Oct 2013 but slowed to 8% in Nov. Our traffic estimates are now 3% growth in Dec, 20% decline in Jan-Mar 2014, zero growth in Apr-Jun and 14% growth in Jul-Sep. Based on these, we assume zero international traffic growth for AOT in FY14 and a rebound of growth to 20% in FY15. We assume that AOT's proposed hikes for its pax service charges will not be approved by the regulator until FY17, when Suvarnabhumi Airport's Phase 2 is completed.

Undershooting

AOT's share price has plunged by almost 30% from its peak in Oct 2013. It now trades at 12x FY14 EV/EBITDA, below its peers' 14-16x, despite its better long-term growth prospects. A key risk to our call is a more violent political unrest.



52-week share price range



Financial Summary

	Sep-12A	Sep-13A	Sep-14F	Sep-15F	Sep-16F
Revenue (THBm)	30,405	36,810	38,171	45,003	50,336
Operating EBITDA (THBm)	15,325	19,839	19,446	24,272	27,738
Net Profit (THBm)	6,500	16,347	11,468	14,956	17,009
Core EPS (THB)	4.57	7.55	8.03	10.47	11.91
Core EPS Growth	80.7%	65.1%	6.3%	30.4%	13.7%
FD Core P/E (x)	38.38	23.25	21.86	16.76	14.74
DPS (THB)	1.80	4.60	3.20	4.10	4.70
Dividend Yield	1.03%	2.62%	1.82%	2.34%	2.68%
EV/EBITDA (x)	17.99	12.77	13.18	11.31	10.28
P/FCFE (x)	42.3	38.6	134.5	NA	NA
Net Gearing	31.9%	2.7%	5.6%	22.0%	29.1%
P/BV (x)	3.23	2.74	2.60	2.35	2.12
ROE	8.7%	12.7%	12.2%	14.7%	15.1%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.92	1.00	1.02

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(THBm)	Sep-13A	Sep-14F	Sep-15F	Sep-16F
Total Net Revenues	**36,810**	**38,171**	**45,003**	**50,336**
Gross Profit	**19,839**	**19,446**	**24,272**	**27,738**
Operating EBITDA	**19,839**	**19,446**	**24,272**	**27,738**
Depreciation And Amortisation	(4,775)	(5,456)	(5,877)	(6,107)
Operating EBIT	**15,064**	**13,990**	**18,395**	**21,631**
Total Financial Income/(Expense)	(645)	(65)	(217)	(944)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	6,808	410	517	574
Profit Before Tax (pre-EI)	**21,226**	**14,335**	**18,695**	**21,261**
Exceptional Items	0	0	0	0
Pre-tax Profit	**21,226**	**14,335**	**18,695**	**21,261**
Taxation	(4,869)	(2,867)	(3,739)	(4,252)
Exceptional Income - post-tax				
Profit After Tax	**16,357**	**11,468**	**14,956**	**17,009**
Minority Interests	(9)	0	0	0
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**16,347**	**11,468**	**14,956**	**17,009**
Recurring Net Profit	10,785	11,468	14,956	17,009
Fully Diluted Recurring Net Profit	**10,785**	**11,468**	**14,956**	**17,009**

Balance Sheet

(THBm)	Sep-13A	Sep-14F	Sep-15F	Sep-16F
Total Cash And Equivalents	39,271	34,564	16,404	5,621
Total Debtors	2,275	2,275	2,275	2,275
Inventories	206	257	284	310
Total Other Current Assets	1,779	2,202	2,596	2,904
Total Current Assets	**43,532**	**39,297**	**21,559**	**11,110**
Fixed Assets	99,630	107,364	138,137	161,830
Total Investments	6,019	6,019	6,019	6,019
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	3,880	3,880	3,880	3,880
Total Non-current Assets	**109,529**	**117,263**	**148,036**	**171,729**
Short-term Debt	4,460	5,000	5,000	5,000
Current Portion of Long-Term Debt				
Total Creditors	1,256	1,436	1,590	1,734
Other Current Liabilities	13,736	13,947	16,443	18,392
Total Current Liabilities	**19,452**	**20,383**	**23,034**	**25,126**
Total Long-term Debt	37,328	35,000	35,000	35,000
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	4,541	4,541	4,541	4,541
Total Non-current Liabilities	**41,869**	**39,541**	**39,541**	**39,541**
Total Provisions	0	0	0	0
Total Liabilities	**61,321**	**59,924**	**62,574**	**64,666**
Shareholders' Equity	91,579	96,476	106,860	118,012
Minority Interests	161	161	161	161
Total Equity	**91,740**	**96,637**	**107,021**	**118,173**

Cash Flow

(THBm)	Sep-13A	Sep-14F	Sep-15F	Sep-16F
EBITDA	19,839	19,446	24,272	27,738
Cash Flow from Invt. & Assoc.				
Change In Working Capital	3,830	(81)	2,229	1,759
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	395	410	517	574
Net Interest (Paid)/Received	(645)	(65)	(217)	(944)
Tax Paid	(4,869)	(2,867)	(3,739)	(4,252)
Cashflow From Operations	**18,550**	**16,842**	**23,062**	**24,875**
Capex	(6,575)	(13,190)	(36,650)	(29,800)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	(2,299)	0	0	0
Other Investing Cashflow	11,879	0	0	0
Cash Flow From Investing	**3,005**	**(13,190)**	**(36,650)**	**(29,800)**
Debt Raised/(repaid)	(15,063)	(1,789)	0	0
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	(2,571)	(6,571)	(4,571)	(5,857)
Preferred Dividends				
Other Financing Cashflow	3,294	0	0	0
Cash Flow From Financing	**(14,340)**	**(8,360)**	**(4,571)**	**(5,857)**
Total Cash Generated	7,215	(4,708)	(18,160)	(10,782)
Free Cashflow To Equity	**6,492**	**1,864**	**(13,588)**	**(4,925)**
Free Cashflow To Firm	**23,532**	**5,288**	**(11,988)**	**(3,325)**

Key Ratios

	Sep-13A	Sep-14F	Sep-15F	Sep-16F
Revenue Growth	21.1%	3.7%	17.9%	11.9%
Operating EBITDA Growth	29.5%	(2.0%)	24.8%	14.3%
Operating EBITDA Margin	53.9%	50.9%	53.9%	55.1%
Net Cash Per Share (THB)	(1.76)	(3.81)	(16.52)	(24.07)
BVPS (THB)	64.11	67.53	74.80	82.61
Gross Interest Cover	7.62	8.55	11.50	13.52
Effective Tax Rate	22.9%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	31.0%	31.9%	31.3%	31.6%
Accounts Receivables Days	21.37	21.76	18.45	16.54
Inventory Days	4.93	4.51	4.76	4.81
Accounts Payables Days	27.04	26.24	26.65	26.92
ROIC (%)	11.5%	12.1%	14.6%	13.4%
ROCE (%)	12.2%	11.5%	13.9%	14.6%

Key Drivers

(THB)	Sep-13A	Sep-14F	Sep-15F	Sep-16F
Int'l Passenger Traffic Growth (%)	23.6%	0.0%	20.0%	12.0%
Domestic Pax Traffic Growth (%)	17.2%	10.0%	15.0%	12.0%
International Flight Traffic Growth (%)	17.8%	4.0%	15.0%	12.0%
Domestic Flight Traffic Growth (%)	14.7%	10.0%	15.0%	12.0%
Int'l Pax Service Charge	700.0	700.0	700.0	700.0
Dom Pax Serv Charge	100.0	100.0	100.0	100.0
Unit Meals Produced (% Change)	N/A	N/A	N/A	N/A

SOURCE: CIMB, COMPANY REPORTS

CIMB

Asia Aviation PCL

AAV TB / AAV.BK

Market Cap	Avg Daily Turnover	Free Float
US$551.7m	US$1.58m	40.0%
THB18,139m	THB50.48m	4,850 m shares

Current	THB3.74
Target	THB3.15
Prev. Target	THB3.15
Up/Downside	-15.8%

STOCK RATING

ADD

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-5.5	-24	-29.4
Absolute	-6.5	-34.4	-38.7

Major shareholders	% held
Tassapon Bijleveld	33.0
Other management	27.0

Bracing for heavy competition

A repeat of Malaysia's aggressive capacity expansion and resulting yield pressure in 2013 will likely present itself in Thailand in 2014 as two new carriers look to open shop in the country over the next twelve months. Ongoing political protests make things worse.

We keep our Reduce call and our target price remains unchanged, based on 11x CY15 P/E, the sector average. We reduced our FY13-15 EPS forecasts recently amid expectations that the political turmoil in Thailand will reduce business and leisure travel demand, forcing carriers to cut fares further to support loads. De-rating catalysts will also come from more heated competition in 2014.

Recent developments

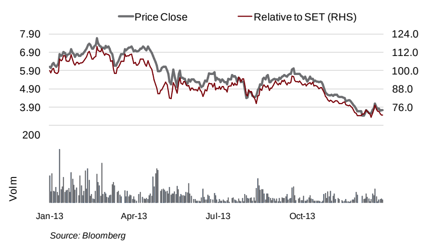
Thai AirAsia's (TAA) 3Q13 showing was a credible one, with core earnings rising 134% yoy on the back of a 28% increase in ASK capacity, 33% rise in RPK demand, a 3.3% pts rise in loads to an impressive 84.4%, coupled with a 4% yoy increase in EBIT margin to 7.1%. On the other hand, yields ex-ancillary incomes declined 6% yoy in 3Q13, more than the 3.5% yoy decline in 2Q. TAA rushed to beef up its domestic capacity and frequencies on existing routes in anticipation of new competition, but demand did not catch up quickly enough. As a result, RASK (ex-ancillary) fell 2% yoy, the first decline in years.

What to expect for 2014

TAA's earnings should continue to grow but at lower rates due to the likely weaker yields from the expanded capacity base in 2013 and possible yield pressures from the entry of Thai Lion Air in Dec 2013 and Thai VietJet next year. Our Thailand Head of Research, Kasem Prunratanamala also expects the political problems to be dragged out. Balancing these is the potential traffic contribution from Thai AAX once it commences in 2014 and the launch of 'Fly-Thru' in Dec 2013 that will earn TAA THB650/pax.

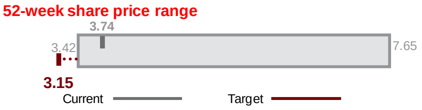
What you should do

Stay away. TAA's 4Q13 earnings should fall short of street expectations as demonstrations in Thailand deal a blow to travel demand. Yield pressures will persist going into 2014 as new carriers inject capacity and price aggressively to obtain market share. Earnings are hence likely to fall below consensus estimates, reminiscent of what happened in Malaysia in 2013 amid overly exuberant industry capacity additions.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (THBm)	8,123	16,103	23,878	29,189	34,371
Operating EBITDA (THBm)	838	1,345	3,109	2,714	3,696
Net Profit (THBm)	1,014	15,649	1,356	980	1,236
Core EPS (THB)	0.19	0.26	0.31	0.23	0.29
Core EPS Growth	21.7%	34.0%	20.1%	(25.0%)	22.7%
FD Core P/E (x)	19.38	14.46	12.04	16.05	13.09
DPS (THB)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	21.11	17.88	9.93	13.69	11.28
P/FCFE (x)	42.15	33.66	53.50	26.96	14.74
Net Gearing	(5846%)	(7%)	13%	30%	39%
P/BV (x)	2,371	1	1	1	1
ROE	(197%)	14%	8%	6%	7%
% Change In Core EPS Estimates			0%	(0%)	(0%)
CIMB/consensus EPS (x)			1.06	0.61	0.63

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(THBm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**16,103**	**23,878**	**29,189**	**34,371**
Gross Profit	**1,345**	**3,109**	**2,714**	**3,696**
Operating EBITDA	**1,345**	**3,109**	**2,714**	**3,696**
Depreciation And Amortisation	(95)	(346)	(733)	(1,081)
Operating EBIT	**1,250**	**2,763**	**1,981**	**2,615**
Total Financial Income/(Expense)	64	9	(134)	(251)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	306	366	454	533
Profit Before Tax (pre-EI)	**1,621**	**3,138**	**2,301**	**2,897**
Exceptional Items	14,755	0	0	0
Pre-tax Profit	**16,376**	**3,138**	**2,301**	**2,897**
Taxation	(320)	(673)	(520)	(650)
Exceptional Income - post-tax				
Profit After Tax	**16,056**	**2,465**	**1,782**	**2,247**
Minority Interests	(407)	(1,109)	(802)	(1,011)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**15,649**	**1,356**	**980**	**1,236**
Recurring Net Profit	1,254	1,506	1,130	1,386
Fully Diluted Recurring Net Profit	**1,254**	**1,506**	**1,130**	**1,386**

Balance Sheet

(THBm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	3,870	4,055	4,416	5,201
Total Debtors	590	728	889	1,047
Inventories	58	68	86	100
Total Other Current Assets	2,610	2,610	2,610	2,610
Total Current Assets	**7,128**	**7,460**	**8,002**	**8,958**
Fixed Assets	2,924	10,142	17,529	23,248
Total Investments	0	792	660	660
Intangible Assets	22,283	22,283	22,283	22,283
Total Other Non-Current Assets	690	690	690	690
Total Non-current Assets	**25,896**	**33,907**	**41,162**	**46,881**
Short-term Debt	137	137	137	137
Current Portion of Long-Term Debt				
Total Creditors	605	579	738	855
Other Current Liabilities	4,221	4,221	4,221	4,221
Total Current Liabilities	**4,962**	**4,937**	**5,096**	**5,213**
Total Long-term Debt	1,783	7,687	13,542	17,853
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	112	112	112	112
Total Non-current Liabilities	**1,895**	**7,798**	**13,654**	**17,965**
Total Provisions	0	0	0	0
Total Liabilities	**6,857**	**12,735**	**18,750**	**23,178**
Shareholders' Equity	18,311	19,666	20,646	21,882
Minority Interests	7,856	8,966	9,767	10,779
Total Equity	**26,167**	**28,632**	**30,414**	**32,661**

Cash Flow

(THBm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	1,345	3,109	2,714	3,696
Cash Flow from Invt. & Assoc.				
Change In Working Capital	1,129	(173)	(21)	(54)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	440	683	944	1,173
Net Interest (Paid)/Received	(17)	(154)	(312)	(446)
Tax Paid	(253)	(673)	(520)	(650)
Cashflow From Operations	**2,643**	**2,793**	**2,805**	**3,719**
Capex	(739)	(7,565)	(8,120)	(6,800)
Disposals Of FAs/subsidiaries	(1,137)	0	0	0
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	45	(792)	132	0
Cash Flow From Investing	**(1,830)**	**(8,357)**	**(7,988)**	**(6,800)**
Debt Raised/(repaid)	(274)	5,903	5,855	4,312
Proceeds From Issue Of Shares	2,587	0	0	0
Shares Repurchased				
Dividends Paid	0	0	0	0
Preferred Dividends				
Other Financing Cashflow	(17)	(154)	(312)	(446)
Cash Flow From Financing	**2,296**	**5,749**	**5,544**	**3,866**
Total Cash Generated	3,109	185	361	785
Free Cashflow To Equity	**539**	**339**	**673**	**1,231**
Free Cashflow To Firm	**830**	**(5,410)**	**(4,871)**	**(2,635)**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	98.2%	48.3%	22.2%	17.8%
Operating EBITDA Growth	60%	131%	(13%)	36%
Operating EBITDA Margin	8.4%	13.0%	9.3%	10.8%
Net Cash Per Share (THB)	0.40	(0.78)	(1.91)	(2.64)
BVPS (THB)	3.78	4.05	4.26	4.51
Gross Interest Cover	71.78	17.93	6.36	5.87
Effective Tax Rate	2.0%	21.4%	22.6%	22.4%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	5.42	6.47	6.50	6.61
Inventory Days	1.05	1.11	1.06	1.11
Accounts Payables Days	3.28	2.28	1.29	1.35
ROIC (%)	(149%)	9%	5%	5%
ROCE (%)	9%	9%	5%	6%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	14.1%	23.6%	22.6%	17.4%
Rev. Psg Km (RPK, Yoy Chg %)	16.6%	26.8%	24.0%	17.4%
Passenger Load Factor (%)	82.1%	84.2%	85.2%	85.2%
Pax yld per RPK (THB)	2.2	2.2	2.2	2.2
Pax rev. per ASK (THB)	1.8	1.8	1.8	1.8
Total Cost Per ATK (THB)	17.3	16.6	17.5	17.4
Fuel Cost Per ATK (THB)	7.6	7.1	7.8	7.8
Non-fuel Cost Per ATK (THB)	6.6	6.5	6.6	6.7
Jet Fuel Price (US$/barrel)	-	124.0	126.0	126.0
Fleet Size (no. Of Planes)	27	35	43	49

SOURCE: CIMB, COMPANY REPORTS

CIMB

Asiana Airlines

020560 KS / 020560.KS

Market Cap	Avg Daily Turnover	Free Float
US$963.0m	US$1.99m	45.1%
W1,034,037m	W2,201m	195.1 m shares

Current	W5,300
Target	W5,200
Prev. Target	W5,200
Up/Downside	-1.9%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	13.6	7.1	-12.1
Absolute	10.5	1.9	-13.3

Major shareholders	% held
Kumho Industrial	33.3
Kumho Petrochemical	14.0
Industrial Bank	6.9

Slowly gaining ground

Asiana has tried to capitalise on Korean Air's (KAL) supply discipline by increasing its international capacity by 6% in 2013 compared with its rival's 1% capacity growth. We see this as Asiana's statement of intent ahead of the delivery of its first two A380s in 2014.

With the company potentially seeing a large capacity increase, we are unsure if it will be able to raise yields quickly in 2014. We leave our earnings, target price and stock rating unchanged. We use a 3-phase DCF valuation to arrive at our W5,200 target price.

Catching up with peers

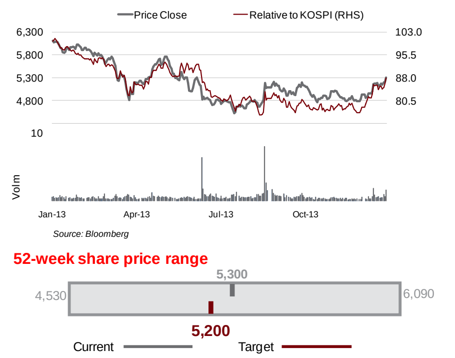
We believe that Asiana has done its best to take advantage of KAL's supply discipline by raising its capacity. Asiana's international available seat kilometres (ASK) rose around 6% in 2013 compared with KAL's mere 1%. Most of Asiana's capacity growth came from its weaker markets such as China and Europe. As such, the faster expansion has come at the expense of yields. Asiana's yield fell by 7% yoy in 3Q13, while KAL's dropped by only 2% yoy. Nevertheless, we think that this is a necessary evil as Asiana tries to capture more feed traffic by securing the slots and route rights that are increasingly hard to come by, especially in China. As Asiana is slated to take delivery of its first two A380s in 2014, we foresee further acceleration in FY14 capacity growth. However, this is likely to have a negative impact on yields.

Cargo more resilient

Asiana was more discerning in its cargo capacity growth. It did not increase the available freight tonne kilometres in 3Q13. This enabled the company to raise its US$-based yield by 3% yoy in 3Q13. However, demand remains sluggish. Although Asiana's profit-oriented cargo operations seem well positioned to outperform its peers, we think that its overall profitability is likely to remain subdued.

Valuations not particularly cheap

Asiana trades around 1x FY14 P/BV, just below the company's long-term average. We prefer to wait until its market share gains are coupled with yield growth to turn positive on the stock.



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Wm)	5,331,003	5,638,068	5,512,287	5,675,993	6,159,379
Operating EBITDA (Wm)	582,804	399,311	234,514	394,938	622,740
Net Profit (Wm)	16,422	50,612	(67,421)	13,791	176,119
Core EPS (W)	245.3	(101.0)	(701.9)	61.8	985.7
Core EPS Growth	(79%)	(141%)	595%	na	1494%
FD Core P/E (x)	21.60	NA	NA	85.71	5.38
DPS (W)	0.00	0.00	0.00	0.00	80.43
Dividend Yield	0.00%	0.00%	0.00%	0.00%	1.52%
EV/EBITDA (x)	11.52	18.43	33.15	20.28	13.18
P/FCFE (x)	9.9	NA	163.3	16.4	17.3
Net Gearing	372%	351%	395%	408%	351%
P/BV (x)	1.15	0.99	1.03	1.01	0.86
ROE	5.3%	(2.0%)	(13.4%)	1.2%	17.3%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.26	0.40	2.34

SOURCE: CIMB, COMPANY REPORTS

CIMB

Profit & Loss

(Wm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**5,638,068**	**5,512,287**	**5,675,993**	**6,159,379**
Gross Profit	**1,023,705**	**884,535**	**1,051,817**	**1,321,143**
Operating EBITDA	**399,311**	**234,514**	**394,938**	**622,740**
Depreciation And Amortisation	(266,775)	(260,085)	(261,881)	(263,541)
Operating EBIT	**132,536**	**(25,571)**	**133,057**	**359,199**
Total Financial Income/(Expense)	(125,359)	(122,878)	(149,851)	(159,445)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	62,854	59,877	35,181	35,071
Profit Before Tax (pre-EI)	**70,031**	**(88,572)**	**18,388**	**234,825**
Exceptional Items	0	0	0	0
Pre-tax Profit	**70,031**	**(88,572)**	**18,388**	**234,825**
Taxation	(19,419)	21,151	(4,597)	(58,706)
Exceptional Income - post-tax				
Profit After Tax	**50,612**	**(67,421)**	**13,791**	**176,119**
Minority Interests	0	0	0	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**50,612**	**(67,421)**	**13,791**	**176,119**
Recurring Net Profit	(17,684)	(122,959)	10,832	172,672
Fully Diluted Recurring Net Profit	**(17,684)**	**(122,959)**	**10,832**	**172,672**

Balance Sheet

(Wm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	109,145	97,547	150,302	185,372
Total Debtors	339,131	377,554	388,767	421,875
Inventories	160,333	179,034	178,696	185,788
Total Other Current Assets	232,580	232,580	232,580	232,580
Total Current Assets	**841,189**	**886,715**	**950,345**	**1,025,615**
Fixed Assets	3,197,353	3,188,521	3,177,811	3,165,367
Total Investments	1,611,460	1,772,606	1,949,867	2,144,853
Intangible Assets	19,486	18,433	17,462	16,565
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**4,828,299**	**4,979,560**	**5,145,139**	**5,326,785**
Short-term Debt	318,398	393,398	393,398	393,398
Current Portion of Long-Term Debt	807,493	887,287	933,717	932,898
Total Creditors	536,545	540,212	539,655	565,956
Other Current Liabilities	144,213	141,329	138,502	135,732
Total Current Liabilities	**1,806,649**	**1,962,225**	**2,005,273**	**2,027,984**
Total Long-term Debt	2,265,707	2,382,134	2,567,608	2,652,231
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	275,846	262,053	248,951	236,503
Total Non-current Liabilities	**2,541,553**	**2,644,187**	**2,816,558**	**2,888,734**
Total Provisions	385,657	356,361	356,361	356,361
Total Liabilities	**4,733,859**	**4,962,773**	**5,178,192**	**5,273,079**
Shareholders' Equity	935,629	903,502	917,293	1,079,322
Minority Interests	0	0	0	0
Total Equity	**935,629**	**903,502**	**917,293**	**1,079,322**

Cash Flow

(Wm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	399,311	234,514	394,938	622,740
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(95,759)	(56,341)	(14,258)	(16,670)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	128,331	46,084	22,079	22,623
Net Interest (Paid)/Received	(125,359)	(122,878)	(149,851)	(159,445)
Tax Paid	(19,419)	21,151	(4,597)	(58,706)
Cashflow From Operations	**287,104**	**122,530**	**248,312**	**410,542**
Capex	(379,656)	(250,000)	(250,000)	(250,000)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	(383)	(161,146)	(177,261)	(194,987)
Other Investing Cashflow	(208,628)	(200)	(200)	(200)
Cash Flow From Investing	**(588,667)**	**(411,346)**	**(427,461)**	**(445,187)**
Debt Raised/(repaid)	244,392	294,500	235,850	88,400
Proceeds From Issue Of Shares	92,246	50,000	0	0
Shares Repurchased				
Dividends Paid	0	0	0	(14,089)
Preferred Dividends				
Other Financing Cashflow	(36,933)	(69,841)	(3,946)	(4,596)
Cash Flow From Financing	**299,704**	**274,659**	**231,904**	**69,715**
Total Cash Generated	(1,859)	(14,157)	52,755	35,070
Free Cashflow To Equity	**(57,171)**	**5,684**	**56,701**	**53,755**
Free Cashflow To Firm	**(176,204)**	**(165,937)**	**(29,299)**	**124,800**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	5.76%	(2.23%)	2.97%	8.52%
Operating EBITDA Growth	(31.5%)	(41.3%)	68.4%	57.7%
Operating EBITDA Margin	7.1%	4.3%	7.0%	10.1%
Net Cash Per Share (W)	(18,739)	(20,353)	(21,376)	(21,654)
BVPS (W)	5,341	5,158	5,237	6,162
Gross Interest Cover	0.89	(0.18)	0.77	1.90
Effective Tax Rate	27.7%	0.0%	25.0%	25.0%
Net Dividend Payout Ratio	NA	NA	NA	8.00%
Accounts Receivables Days	22.70	23.73	24.64	24.02
Inventory Days	12.61	13.38	14.12	13.75
Accounts Payables Days	41.67	42.46	42.62	41.70
ROIC (%)	3.51%	(0.59%)	3.01%	8.12%
ROCE (%)	3.57%	(0.15%)	3.11%	7.35%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
RPK growth (%)	7.3	5.0	3.4	7.2
RCTK growth (%)	6.9	0.3	0.9	4.0
ASK growth (%)	6.5	6.2	6.7	7.6
ACTK growth (%)	5.2	3.0	1.8	4.0
Passenger yield growth (%)	0.2	-6.2	-0.1	1.7
Cargo yield growth (%)	-3.1	-3.9	1.0	1.0
Fuel price (US$/bbl)	129.5	128.2	128.0	128.0
USD/KRW rate (average)	1,120	1,094	1,046	1,041

SOURCE: CIMB, COMPANY REPORTS

Auckland Int'l Airport

AIA NZ / AIA.NZ

Market Cap	Avg Daily Turnover	Free Float
US$3,992m	US$3.20m	78.7%
NZD4,802m	NZD3.93m	1,323 m shares

Current	NZD3.63
Target	NZD3.37
Prev. Target	NZD3.37
Up/Downside	-7.0%

STOCK RATING

ADD

HOLD

REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-0.4	6.3	14.7
Absolute	1.8	7.1	31

Major shareholders	% held
Auckland City Council	12.5
Manukau City Council	8.8
UBS	8.3

Directed strategy paying divs

As New Zealand's primary gateway, with strong management, a directed growth strategy driving robust traffic growth and a significant land bank supplementing earnings growth, there is plenty to like about Auckland Airport.

However, while the outlook remains solid, trading on 18x FY14F EV/EBITDA vs 13x historical average, we see the stock as being fully valued at current levels. We make no changes to forecasts and our DCF-based valuation and TP remains unchanged at NZ$3.37. Our Hold recommendation is maintained.

Strong recent performance

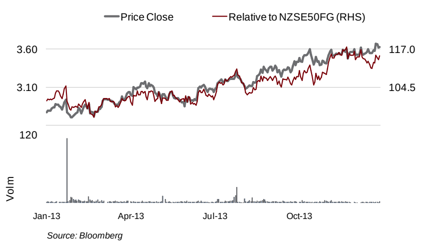
AIA's growth strategy of shifting focus from operations towards profit has borne fruit over recent years, with 14% NPAT and DPS CAGR between FY10-FY13. This has been driven by a number of factors, including: 1) focusing on Asia (especially China) as an underdeveloped market (Chinese traffic has grown by 90% over 2009-13 to become AIA's second largest market); 2) strengthening its retail offering; and 3) efficiently developing its landbank. With a four-pronged approach to further accelerating growth, management has again set the business lofty goals.

Lofty aspirations

Through the Ambition 2020 program, AIA has set lofty traffic growth aspirations going forward, including: 1) doubling Chinese arrivals to 400,000 by FY17; 2) 10m international passengers by FY18 (+5.2% CAGR); and 3) 20m total passengers by FY20 (+4.7% CAGR). Given management's strong track record of achieving aspirational targets in the past we believe it's not outside the realms of possibility. Given our conservative International passenger growth assumption of 3% up to FY20, we believe any achieved rate close to 5% would provide significant upside to current valuation. Assuming AIA achieves these objectives would see an uplift in our DCF valuation to NZ$3.74, an 11% increase to our current price target of NZ$3.37.

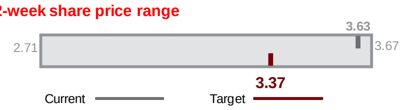
Upside priced in

AIA remains a solid defensive stock with leverage to the upside if traffic growth picks up, the company can achieve its lofty goals and costs remain under control. However, with our forecasts towards the top end of the guidance range, and AIA trading on 18x FY14F EV/EBITDA (vs a historical average 13x), we believe that this upside is largely priced in.



Source: Bloomberg

52-week share price range



Financial Summary

	Jun-12A	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue (NZDm)	425.2	445.6	471.8	495.2	519.7
Operating EBITDA (NZDm)	317.7	328.0	351.6	370.5	390.3
Net Profit (NZDm)	142.3	178.0	164.5	167.6	181.2
Core EPS (NZD)	0.11	0.12	0.14	0.14	0.15
Core EPS Growth	14.5%	10.6%	18.9%	1.9%	8.1%
FD Core P/E (x)	34.53	31.22	26.27	25.78	23.84
DPS (NZD)	0.11	0.12	0.07	0.14	0.15
Dividend Yield	2.89%	3.31%	1.93%	3.86%	4.13%
EV/EBITDA (x)	18.20	17.65	16.03	15.26	14.50
P/FCFE (x)	41.08	26.24	11.27	22.60	21.08
Net Gearing	43.1%	42.9%	62.4%	62.9%	62.9%
P/BV (x)	1.94	1.92	1.93	1.92	1.91
ROE	5.63%	6.19%	6.94%	7.47%	8.04%
CIMB/consensus EPS (x)			1.06	1.01	1.01

SOURCE: CIMB, COMPANY REPORTS

CIMB

Profit & Loss

(NZDm)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Net Revenues	**445.6**	**471.8**	**495.2**	**519.7**
Gross Profit	**445.6**	**471.8**	**495.2**	**519.7**
Operating EBITDA	**328.0**	**351.6**	**370.5**	**390.3**
Depreciation And Amortisation	(62.1)	(64.9)	(66.2)	(66.5)
Operating EBIT	**266.0**	**286.7**	**304.3**	**323.8**
Total Financial Income/(Expense)	(63.9)	(70.1)	(83.6)	(84.5)
Total Pretax Income/(Loss) from Assoc.	8.0	8.3	8.5	8.7
Total Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**210.1**	**224.9**	**229.2**	**247.9**
Exceptional Items				
Pre-tax Profit	**210.1**	**224.9**	**229.2**	**247.9**
Taxation	(56.3)	(60.4)	(61.5)	(66.7)
Exceptional Income - post-tax	24.2	0.0	0.0	0.0
Profit After Tax	**178.0**	**164.5**	**167.6**	**181.2**
Minority Interests	0.0	0.0	0.0	0.0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**178.0**	**164.5**	**167.6**	**181.2**
Recurring Net Profit	153.8	164.5	167.6	181.2
Fully Diluted Recurring Net Profit	**153.8**	**164.5**	**167.6**	**181.2**

Balance Sheet

(NZDm)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Cash And Equivalents	69	197	221	253
Total Debtors	0	0	0	0
Inventories	31	32	34	36
Total Other Current Assets	653	653	653	653
Total Current Assets	**753**	**882**	**908**	**942**
Fixed Assets	3,020	3,080	3,094	3,108
Total Investments	166	174	182	191
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**3,186**	**3,254**	**3,276**	**3,299**
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	62	64	66	67
Other Current Liabilities	35	35	35	35
Total Current Liabilities	**97**	**99**	**100**	**102**
Total Long-term Debt	1,142	1,596	1,636	1,676
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	**1,142**	**1,596**	**1,636**	**1,676**
Total Provisions	200	200	200	200
Total Liabilities	**1,439**	**1,895**	**1,936**	**1,978**
Shareholders' Equity	2,500	2,241	2,248	2,263
Minority Interests	0	0	0	0
Total Equity	**2,500**	**2,241**	**2,248**	**2,263**

Cash Flow

(NZDm)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
EBITDA	328.0	351.6	370.5	390.3
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(50.5)	0.0	(0.0)	(0.1)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	51.7	0.0	0.0	0.0
Net Interest (Paid)/Received	(63.9)	(70.1)	(83.6)	(84.5)
Tax Paid	(57.6)	(60.4)	(61.5)	(66.7)
Cashflow From Operations	**207.8**	**221.2**	**225.4**	**239.0**
Capex	(89.5)	(125.0)	(80.0)	(80.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	14.3	(166.9)	5.8	6.0
Cash Flow From Investing	**(75.2)**	**(291.9)**	**(74.2)**	**(74.0)**
Debt Raised/(repaid)	50.4	454.0	40.0	40.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid	(156.7)	(256.0)	(166.7)	(172.6)
Preferred Dividends				
Other Financing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Financing	**(106.3)**	**198.0**	**(126.7)**	**(132.6)**
Total Cash Generated	26.3	127.4	24.6	32.4
Free Cashflow To Equity	**183.0**	**383.4**	**191.2**	**205.0**
Free Cashflow To Firm	**196.5**	**(0.6)**	**234.8**	**249.5**

Key Ratios

	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue Growth	4.80%	5.88%	4.95%	4.94%
Operating EBITDA Growth	3.24%	7.21%	5.36%	5.34%
Operating EBITDA Margin	73.6%	74.5%	74.8%	75.1%
Net Cash Per Share (NZD)	(0.81)	(1.18)	(1.19)	(1.19)
BVPS (NZD)	1.89	1.88	1.89	1.90
Gross Interest Cover	4.16	4.09	3.64	3.83
Effective Tax Rate	26.8%	26.9%	26.8%	26.9%
Net Dividend Payout Ratio	102%	156%	99%	95%
Accounts Receivables Days	-	-	-	-
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	5.38%	5.72%	5.97%	6.33%
ROCE (%)	6.98%	7.28%	7.49%	7.87%

SOURCE: CIMB, COMPANY REPORTS

CIMB

Cathay Pacific Airways

293 HK / 0293.HK

Market Cap	Avg Daily Turnover	Free Float
US$8,386m	US$6.57m	30.0%
HK$65,066m	HK$51.03m	3,934 m shares

Current	HK$16.54
Target	HK$18.50
Prev. Target	HK$18.50
Up/Downside	11.9%

STOCK RATING

ADD

HOLD

REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	5.3	9.9	11.5
Absolute	2.1	8.2	6.6

Major shareholders	% held
The Swire Group	45.8
Air China	30.0

A cut above

We continue to prefer Cathay Pacific among the Asian full-service carriers due to its strong capacity and cost controls, while its stronger reliance on the Asia-US sectors has helped it fend off competition from the aggressively expanding Middle Eastern airlines.

We keep our earnings estimates and target price unchanged, while we maintain an Add rating on the stock. Our target price is based on 6.5x CY15 EV/EBITDAR, in line with the company's 5-year average. We see further yield growth as a catalyst, particularly due to the company's strong capacity discipline.

Best positioned among the full-service carriers

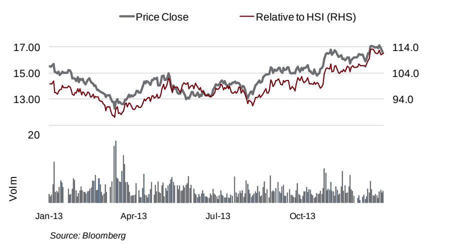
Cathay reduced its capacity for 13 consecutive months before finally raising it in 4Q13. Most of the cutbacks were on long-haul routes to Europe and the US as the company downgauged, replacing some of its old B747s with newer B777-300s. The reduction in the seat capacity has helped lift its yields and load factors, while the return of traffic in the premium classes also boosted revenues. We expect capacity growth to reaccelerate in FY14, but we think that the yields still have room to rise on the back of resilient demand and strong load factors.

Air freight remains a drag

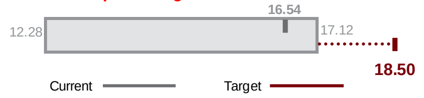
While cargo demand improved in 4Q13, the outlook for air freight market remains uncertain in our view. CX's projected available dead-load ton kilometre growth in 2014 is around 10%, exacerbating the problem of excess market supply and the still weak demand. CX's new cargo terminal is also operating at a slight loss because there is still some excess capacity; the company expects that this situation will persist for the next 12 to 18 months.

Cheap valuation on rising ROEs

Cathay's profitability had bottomed out in 1H13 and we think that the earnings outlook continues to look favourable going into FY14, barring the sudden entry of low-cost carriers such as Jetstar Hong Kong. All else equal, we think that Cathay is cheap at 1x FY14 P/BV, especially with the projected ROEs rising sequentially over the next two years.



52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (HK$m)	98,406	99,376	101,524	107,272	112,049
Operating EBITDA (HK$m)	11,668	8,527	11,123	13,926	14,265
Net Profit (HK$m)	5,501	916	2,461	5,091	5,681
Normalised EPS (HK$)	1.40	0.23	0.63	1.29	1.44
Normalised EPS Growth	(57%)	(83%)	169%	107%	12%
FD Normalised P/E (x)	11.83	71.04	26.44	12.78	11.45
DPS (HK$)	0.96	0.34	0.14	0.18	0.28
Dividend Yield	5.80%	2.06%	0.85%	1.07%	1.70%
EV/EBITDA (x)	8.61	13.29	9.89	7.43	6.82
P/FCFE (x)	20.34	15.81	NA	15.59	16.87
Net Gearing	42.4%	63.0%	51.1%	37.0%	25.4%
P/BV (x)	1.17	1.16	1.08	1.01	0.94
ROE	9.99%	1.64%	4.24%	8.17%	8.50%
% Change In Normalised EPS Estimates			0%	0%	0%
Normalised EPS/consensus EPS (x)			0.85	1.03	0.97

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(HK$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**99,376**	**101,524**	**107,272**	**112,049**
Gross Profit	**24,600**	**27,763**	**31,197**	**31,868**
Operating EBITDA	**8,527**	**11,123**	**13,926**	**14,265**
Depreciation And Amortisation	(6,739)	(7,317)	(7,485)	(7,291)
Operating EBIT	**1,788**	**3,806**	**6,441**	**6,974**
Total Financial Income/(Expense)	(884)	(1,044)	(1,136)	(1,125)
Total Pretax Income/(Loss) from Assoc.	641	514	822	957
Total Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**1,545**	**3,277**	**6,127**	**6,806**
Exceptional Items	0	0	0	0
Pre-tax Profit	**1,545**	**3,277**	**6,127**	**6,806**
Taxation	(417)	(555)	(797)	(885)
Exceptional Income - post-tax				
Profit After Tax	**1,128**	**2,722**	**5,331**	**5,921**
Minority Interests	(212)	(261)	(240)	(240)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Preference Dividends (Australia)				
Net Profit	**916**	**2,461**	**5,091**	**5,681**
Normalised Net Profit	1,128	2,722	5,331	5,921
Fully Diluted Normalised Profit	**916**	**2,461**	**5,091**	**5,681**

Balance Sheet

(HK$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	24,182	24,803	25,889	25,987
Total Debtors	5,600	5,657	6,170	6,756
Inventories	1,194	1,208	1,275	1,336
Total Other Current Assets	5,233	4,222	4,222	4,222
Total Current Assets	**36,209**	**35,889**	**37,555**	**38,301**
Fixed Assets	84,278	87,221	85,377	83,709
Total Investments	24,776	26,280	26,952	27,759
Intangible Assets	9,425	9,546	9,430	9,333
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**118,479**	**123,048**	**121,760**	**120,800**
Short-term Debt				
Current Portion of Long-Term Debt	8,157	8,726	8,726	8,726
Total Creditors	17,470	18,771	19,474	20,325
Other Current Liabilities	10,268	12,506	12,986	13,485
Total Current Liabilities	**35,895**	**40,003**	**41,186**	**42,536**
Total Long-term Debt	51,389	46,864	41,138	34,912
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	3,205	2,833	2,833	2,833
Total Non-current Liabilities	**54,594**	**49,696**	**43,970**	**37,744**
Total Provisions	8,156	8,947	9,394	9,394
Total Liabilities	**98,645**	**98,646**	**94,550**	**89,674**
Shareholders' Equity	56,021	60,125	64,516	69,088
Minority Interests	117	166	246	326
Total Equity	**56,138**	**60,291**	**64,762**	**69,414**

Cash Flow

(HK$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	8,527	11,123	13,926	14,265
Cash Flow from Invt. & Assoc.	(95)	95	0	0
Change In Working Capital	(974)	4,479	602	703
(Incr)/Decr in Total Provisions	(95)	0	0	0
Other Non-Cash (Income)/Expense	0	0	0	0
Other Operating Cashflow				
Net Interest (Paid)/Received	(991)	(1,096)	(986)	(975)
Tax Paid	(417)	(555)	(797)	(885)
Cashflow From Operations	**5,955**	**14,047**	**12,746**	**13,108**
Capex	(21,389)	(13,071)	(8,525)	(8,525)
Disposals Of FAs/subsidiaries	3,955	2,691	3,000	3,000
Acq. Of Subsidiaries/investments	0	(402)	(0)	(0)
Other Investing Cashflow	(1,975)	(2,143)	2,231	2,499
Cash Flow From Investing	**(19,409)**	**(12,924)**	**(3,294)**	**(3,026)**
Debt Raised/(repaid)	17,570	(3,165)	(5,279)	(6,226)
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased				
Dividends Paid	(1,538)	(731)	(859)	(1,269)
Preferred Dividends				
Other Financing Cashflow	(174)	0	0	0
Cash Flow From Financing	**15,859**	**(3,896)**	**(6,138)**	**(7,495)**
Total Cash Generated	2,405	(2,773)	3,314	2,587
Free Cashflow To Equity	**4,117**	**(2,042)**	**4,173**	**3,856**
Free Cashflow To Firm	**(11,718)**	**2,667**	**11,097**	**11,745**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	0.99%	2.16%	5.66%	4.45%
Operating EBITDA Growth	(26.9%)	30.4%	25.2%	2.4%
Operating EBITDA Margin	8.6%	11.0%	13.0%	12.7%
Net Cash Per Share (HK$)	(8.99)	(7.83)	(6.09)	(4.49)
BVPS (HK$)	14.24	15.28	16.40	17.56
Gross Interest Cover	1.10	2.55	3.59	3.85
Effective Tax Rate	27.0%	16.9%	13.0%	13.0%
Net Dividend Payout Ratio	146%	22%	14%	20%
Accounts Receivables Days	21.19	20.23	20.12	21.05
Inventory Days	5.75	5.94	5.96	5.94
Accounts Payables Days	85.49	89.67	91.75	90.59
ROIC (%)	2.00%	4.05%	7.32%	8.20%
ROCE (%)	2.20%	3.42%	5.71%	6.22%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	2.6%	-1.9%	5.5%	5.0%
Rev. Psg Km (RPK, Yoy Chg %)	2.3%	0.6%	5.5%	4.0%
Passenger Load Factor (%)	71.7%	71.3%	71.1%	70.4%
Pax yld per RPK (HK$)	67.3	69.5	70.5	70.8
Pax rev. per ASK (HK$)	54.1	57.2	57.9	57.6
Total Cost Per ATK (HK$)	3.7	3.7	3.7	3.7
Fuel Cost Per ATK (HK$)	1.5	1.5	1.5	1.5
Non-fuel Cost Per ATK (HK$)	2.2	2.2	2.2	2.2
Jet Fuel Price (US$/barrel)	136.0	134.2	126.8	128.0
Fleet Size (no. Of Planes)	131	139	145	146

SOURCE: CIMB, COMPANY REPORTS

CIMB

Cebu Air

CEB PM / CEB.PS

Market Cap	Avg Daily Turnover	Free Float
US$668.8m	US$0.18m	32.8%
PHP30,298m	PHP8.00m	613.2 m shares

Current	PHP50.00
Target	PHP37.30
Prev. Target	PHP37.30
Up/Downside	-25.4%

STOCK RATING

ADD
HOLD
REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	2.8	-2.4	-20.4
Absolute	8.5	-8.4	-19.2

Major shareholders	% held
JG Summit Holdings	67.2

Between the devil and the deep blue sea

Like many Asean markets, airline competition will remain intense in the Philippines in 2014. Last-minute fare-dumping by competitors in hopes of lifting loads has led to severe falls in yields, while a depreciating peso will further compound their misery this year.

We maintain our EPS forecasts and target price, based on 1x CY14 P/BV. The aviation industry environment in the Philippines remains extremely challenging, so we think consensus are overly optimistic with their earnings forecasts. As the market downgrades expectations amid stiff competition and a depreciating peso, the share price should de-rate.

Recent developments

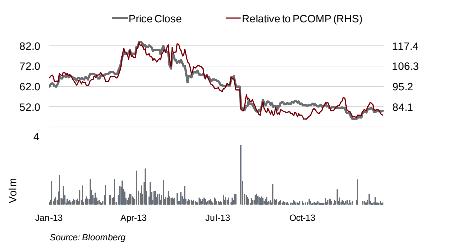
The competitive environment during 3Q13 had deteriorated significantly, with yields falling a huge 12.5% yoy, and CEB attributed this to the last-minute fare-dumping practice of its competitors, with some offering zero fares one day prior to departure. CEB had no choice but to defend its market share by following the prevailing price. CEB's flights to Dubai from 7 Oct have struggled, with an average load of just 36%, against a target of 70%+, so start-up losses may be more than expected. CEB recently announced that it would buy 100% of Tigerair Philippines (TAP). It is a great deal for CEB as it is paying only US$17.5m for the 3% share of Manila NAIA's airport takeoff/landing slots that TAP has.

What to expect for 2014

We expect the industry as a whole to benefit from having one less competitor in the form of TAP, but note that TAP has not generally been the key source of pricing irrationality in the Philippines and its presence is small. If PAL and AirAsia continue to be aggressive, the outlook will remain tough. The Philippine aviation market is in serious overcapacity, and even the most cost-efficient airline, i.e. CEB, is currently making losses.

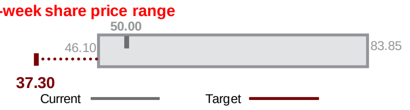
Stay away

Despite increasing its slots at Manila and the high likelihood of yield recovery in 2014, every 1% rise in the US$ will wipe out 30% of CEB's profits. The US$ has appreciated 6.8% from an average of Php42.45 in 2013 to Php45.33 today. The outlook is turbulent and the share price should move lower to reflect the weak fundamentals.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (PHPm)	33,935	37,904	41,883	55,553	65,627
Operating EBITDA (PHPm)	6,180	5,483	5,261	5,142	5,940
Net Profit (PHPm)	3,624	3,570	(46)	818	1,337
Core EPS (PHP)	7.08	4.13	2.63	1.70	2.61
Core EPS Growth	(26.8%)	(41.6%)	(36.3%)	(35.4%)	53.6%
FD Core P/E (x)	7.06	12.10	18.98	29.38	19.13
DPS (PHP)	0.00	1.00	0.00	0.00	0.00
Dividend Yield	0.00%	2.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	6.82	7.72	8.73	8.80	7.29
P/FCFE (x)	19.61	4.26	8.17	5.84	5.75
Net Gearing	62.2%	55.1%	71.8%	70.2%	58.6%
P/BV (x)	1.60	1.39	1.39	1.34	1.26
ROE	23.4%	12.3%	7.3%	4.6%	6.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			(0.03)	0.31	0.41

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(PHPm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**37,904**	**41,883**	**55,553**	**65,627**
Gross Profit	**5,483**	**5,261**	**5,142**	**5,940**
Operating EBITDA	**5,483**	**5,261**	**5,142**	**5,940**
Depreciation And Amortisation	(2,768)	(3,399)	(3,743)	(4,011)
Operating EBIT	**2,715**	**1,862**	**1,400**	**1,929**
Total Financial Income/(Expense)	(317)	(561)	(657)	(667)
Total Pretax Income/(Loss) from Assoc.	54	80	90	100
Total Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**2,452**	**1,380**	**833**	**1,362**
Exceptional Items	1,415	(1,800)	0	0
Pre-tax Profit	**3,867**	**(420)**	**833**	**1,362**
Taxation	(297)	374	(15)	(25)
Exceptional Income - post-tax				
Profit After Tax	**3,570**	**(46)**	**818**	**1,337**
Minority Interests	0	0	0	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**3,570**	**(46)**	**818**	**1,337**
Recurring Net Profit	2,534	1,615	1,044	1,603
Fully Diluted Recurring Net Profit	**2,534**	**1,615**	**1,044**	**1,603**

Balance Sheet

(PHPm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	10,728	13,918	18,514	23,178
Total Debtors	989	1,092	1,449	1,711
Inventories	417	472	649	768
Total Other Current Assets	985	985	985	985
Total Current Assets	**13,120**	**16,467**	**21,597**	**26,643**
Fixed Assets	47,484	52,490	57,588	60,388
Total Investments	512	592	1,465	1,565
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	221	221	221	221
Total Non-current Assets	**48,217**	**53,303**	**59,275**	**62,175**
Short-term Debt	2,769	2,769	2,769	2,769
Current Portion of Long-Term Debt				
Total Creditors	7,769	8,775	12,079	14,301
Other Current Liabilities	6,027	6,655	8,812	10,401
Total Current Liabilities	**16,565**	**18,199**	**23,660**	**27,472**
Total Long-term Debt	20,155	27,000	31,822	34,619
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	2,482	2,482	2,482	2,482
Total Non-current Liabilities	**22,637**	**29,482**	**34,304**	**37,101**
Total Provisions	0	0	0	0
Total Liabilities	**39,202**	**47,681**	**57,964**	**64,573**
Shareholders' Equity	22,135	22,089	22,907	24,244
Minority Interests	0	0	0	0
Total Equity	**22,135**	**22,089**	**22,907**	**24,244**

Cash Flow

(PHPm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	5,483	5,261	5,142	5,940
Cash Flow from Invt. & Assoc.				
Change In Working Capital	1,562	1,477	4,927	3,430
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	146	869	1,062	1,188
Net Interest (Paid)/Received	(733)	(869)	(1,062)	(1,188)
Tax Paid	(297)	374	(15)	(25)
Cashflow From Operations	**6,161**	**7,111**	**10,054**	**9,345**
Capex	(4,506)	(8,405)	(8,841)	(6,811)
Disposals Of FAs/subsidiaries	0	0	(783)	0
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	3,493	0	0	0
Cash Flow From Investing	**(1,014)**	**(8,405)**	**(9,624)**	**(6,811)**
Debt Raised/(repaid)	2,052	5,045	4,823	2,797
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased				
Dividends Paid	(606)	0	0	0
Preferred Dividends				
Other Financing Cashflow	(4,561)	(561)	(657)	(667)
Cash Flow From Financing	**(3,114)**	**4,483**	**4,166**	**2,131**
Total Cash Generated	2,033	3,189	4,596	4,664
Free Cashflow To Equity	**7,199**	**3,751**	**5,253**	**5,331**
Free Cashflow To Firm	**5,880**	**(425)**	**1,492**	**3,721**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	11.7%	10.5%	32.6%	18.1%
Operating EBITDA Growth	(11.3%)	(4.0%)	(2.3%)	15.5%
Operating EBITDA Margin	14.5%	12.6%	9.3%	9.1%
Net Cash Per Share (PHP)	(19.89)	(25.85)	(26.22)	(23.17)
BVPS (PHP)	36.10	36.02	37.35	39.54
Gross Interest Cover	3.71	2.14	1.32	1.62
Effective Tax Rate	7.69%	0.00%	1.78%	1.85%
Net Dividend Payout Ratio	25.0%	NA	NA	NA
Accounts Receivables Days	8.81	9.07	8.35	8.79
Inventory Days	4.60	4.43	4.06	4.33
Accounts Payables Days	81.73	82.44	75.50	80.66
ROIC (%)	6.50%	4.21%	2.88%	3.95%
ROCE (%)	7.4%	4.5%	3.3%	4.1%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	14.4%	16.6%	36.3%	18.9%
Rev. Psg Km (RPK, Yoy Chg %)	9.5%	18.4%	30.0%	18.0%
Passenger Load Factor (%)	81.5%	82.8%	79.0%	78.4%
Pax yld per RPK (PHP)	3.3	3.1	3.1	3.1
Pax rev. per ASK (PHP)	2.7	2.5	2.5	2.5
Total Cost Per ATK (PHP)	25.7	25.1	24.8	24.5
Fuel Cost Per ATK (PHP)	12.5	12.6	13.4	13.5
Non-fuel Cost Per ATK (PHP)	13.1	12.4	11.4	11.0
Jet Fuel Price (US$/barrel)	130.5	128.6	130.6	130.8
Fleet Size (no. Of Planes)	41	48	55	60

SOURCE: CIMB, COMPANY REPORTS

CIMB

China Eastern Airlines

670 HK / 0670.HK

Market Cap	Avg Daily Turnover	Free Float
US$5,081m	US$3.19m	40.3%
HK$39,448m	HK$24.71m	12,674 m shares

Current	HK$2.66
Target	HK$2.30
Prev. Target	HK$2.30
Up/Downside	-13.5%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-4.8	0.2	-21.2
Absolute	-8	-1.5	-26.1

Major shareholders	% held
Eastern Air Group	59.9

Poor take-off for western market expansion

China Eastern's domestic loads have remained the lowest among the Big 3 carriers. We believe that CEA's incursion into western China is the culprit although we think that its expansion into inland regions will yield longer-term positives.

We believe China Eastern's focus on western China will bear fruit in the long run but there will be ticket price and load factor erosion in the near term. We lower EPS by 3-14% over FY13-15, although our target price and stock rating remain unchanged. Our target price is based on 6.4x CY15 EV/EBITDAR, the company's 5 year average.

Domestic loads have shown the weakest tendencies

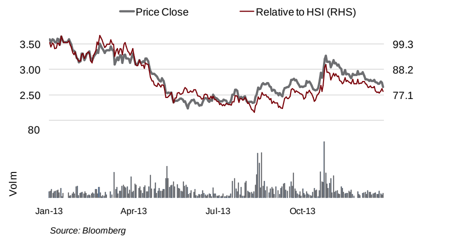
China Eastern's domestic loads stayed the softest among the Big 3 carriers in 2013, remaining below 80%. Domestic yields also fell 6% in 1H13. We believe that a big reason for this is the company's sudden acceleration of capacity growth in western China. China Eastern's Yunnan affiliate is expected to raise domestic capacity by 60% in 2013-15. Although we think that western China is a viable growth avenue in the future, we expect that there will be pressure on yields and loads in the current capacity ramp-up.

Large international capacity growth a drag as well

Despite the decline in Japanese traffic due to the Diaoyu Islands dispute, China Eastern increased international capacity by 16% yoy as it utilised its Yunnan hub to penetrate ASEAN. While load factors held steady at 79% in 2013 we believe the large yield drop of 11% in 1H13 is a sign that demand drivers are not particularly strong. We see further international yield pressure in 1H14 as well.

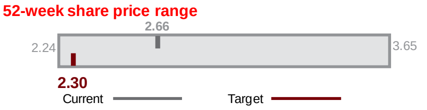
Valuations likely to be hurt by ROE compression

China Eastern trades at 0.9x FY14 P/BV, which is close to its historical trough. However, we note that core ROE has been on a downtrend and seems unlikely to return to pre-2012 levels until at least 2016, in our view. As such, we think that the stock may still decline from its current valuations.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Rmbm)	82,403	85,253	89,270	96,747	104,312
Operating EBITDA (Rmbm)	11,051	11,760	10,906	12,667	13,829
Net Profit (Rmbm)	4,575	2,954	2,897	2,430	3,198
Core EPS (Rmb)	0.23	0.25	0.10	0.17	0.22
Core EPS Growth	(2.5%)	4.9%	(59.5%)	74.6%	28.1%
FD Core P/E (x)	8.85	8.44	20.83	11.93	9.31
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	10.07	10.22	11.32	10.30	9.88
P/FCFE (x)	4.93	3.40	64.94	NA	NA
Net Gearing	267%	299%	229%	216%	198%
P/BV (x)	1.16	1.15	0.98	0.90	0.81
ROE	14.9%	13.7%	5.4%	7.8%	9.1%
% Change In Core EPS Estimates			(13.7%)	(7.5%)	(3.3%)
CIMB/consensus EPS (x)			1.00	0.78	0.76

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**86,973**	**90,776**	**98,385**	**106,086**
Gross Profit	**21,819**	**21,253**	**23,607**	**24,960**
Operating EBITDA	**11,760**	**10,906**	**12,667**	**13,829**
Depreciation And Amortisation	(7,557)	(8,068)	(8,574)	(8,953)
Operating EBIT	**4,203**	**2,838**	**4,093**	**4,877**
Total Financial Income/(Expense)	(1,497)	(1,420)	(1,595)	(1,709)
Total Pretax Income/(Loss) from Assoc.	133	27	70	88
Total Non-Operating Income/(Expense)	148	1,796	233	398
Profit Before Tax (pre-EI)	**2,988**	**3,241**	**2,801**	**3,655**
Exceptional Items	25	17	10	10
Pre-tax Profit	**3,012**	**3,257**	**2,811**	**3,665**
Taxation	(205)	(344)	(281)	(366)
Exceptional Income - post-tax				
Profit After Tax	**2,808**	**2,913**	**2,530**	**3,298**
Minority Interests	146	(16)	(100)	(100)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**2,954**	**2,897**	**2,430**	**3,198**
Recurring Net Profit	2,770	1,261	2,202	2,822
Fully Diluted Recurring Net Profit	**2,770**	**1,261**	**2,202**	**2,822**

Balance Sheet

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	2,512	6,878	5,997	5,764
Total Debtors	2,962	2,620	2,856	3,094
Inventories	2,088	1,806	1,954	2,097
Total Other Current Assets	5,113	6,049	6,049	6,049
Total Current Assets	**12,675**	**17,353**	**16,857**	**17,004**
Fixed Assets	82,519	89,733	94,871	99,631
Total Investments	3,210	3,389	3,459	3,548
Intangible Assets	11,449	11,461	11,469	11,476
Total Other Non-Current Assets	14,036	16,786	17,747	18,765
Total Non-current Assets	**111,214**	**121,369**	**127,546**	**133,420**
Short-term Debt	12,880	14,350	14,350	14,350
Current Portion of Long-Term Debt	12,365	11,238	10,478	10,301
Total Creditors	3,293	4,082	4,411	4,728
Other Current Liabilities	20,085	22,680	24,525	26,129
Total Current Liabilities	**48,623**	**52,350**	**53,764**	**55,508**
Total Long-term Debt	42,349	46,208	47,946	48,924
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	5,004	5,074	5,074	5,074
Total Non-current Liabilities	**47,353**	**51,282**	**53,020**	**53,998**
Total Provisions	6,177	6,694	6,694	6,694
Total Liabilities	**102,153**	**110,327**	**113,478**	**116,200**
Shareholders' Equity	20,235	26,869	29,299	32,497
Minority Interests	1,500	1,527	1,627	1,727
Total Equity	**21,735**	**28,395**	**30,925**	**34,223**

Cash Flow

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	11,760	10,906	12,667	13,829
Cash Flow from Invt. & Assoc.	133	27	70	88
Change In Working Capital	(177)	3,072	1,789	1,541
(Incr)/Decr in Total Provisions	4,252	377	(70)	(88)
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(1,497)	(1,420)	(1,595)	(1,709)
Tax Paid	(205)	(344)	(281)	(366)
Cashflow From Operations	**14,267**	**12,618**	**12,580**	**13,295**
Capex	(16,261)	(15,253)	(13,660)	(13,660)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	(152)	(41)	(60)	(60)
Other Investing Cashflow	2,793	(2,690)	(951)	(1,008)
Cash Flow From Investing	**(13,620)**	**(17,985)**	**(14,671)**	**(14,728)**
Debt Raised/(repaid)	6,236	5,771	1,210	1,200
Proceeds From Issue Of Shares	0	1,398	0	0
Shares Repurchased				
Dividends Paid	0	0	0	0
Preferred Dividends				
Other Financing Cashflow	(7,917)	2,564	0	0
Cash Flow From Financing	**(1,680)**	**9,733**	**1,210**	**1,200**
Total Cash Generated	(1,034)	4,366	(881)	(233)
Free Cashflow To Equity	**6,883**	**404**	**(881)**	**(233)**
Free Cashflow To Firm	**2,344**	**(3,732)**	**(235)**	**516**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	3.5%	4.7%	8.4%	7.8%
Operating EBITDA Growth	6.4%	(7.3%)	16.2%	9.2%
Operating EBITDA Margin	13.8%	12.2%	13.1%	13.3%
Net Cash Per Share (Rmb)	(5.77)	(5.12)	(5.27)	(5.35)
BVPS (Rmb)	1.79	2.12	2.31	2.56
Gross Interest Cover	2.48	1.74	2.21	2.50
Effective Tax Rate	6.8%	10.6%	10.0%	10.0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	11.08	11.41	10.33	10.41
Inventory Days	10.23	10.22	9.18	9.11
Accounts Payables Days	16.20	18.61	20.40	20.25
ROIC (%)	4.61%	2.68%	3.62%	4.14%
ROCE (%)	4.83%	3.02%	4.01%	4.55%

Key Drivers

	Dec-11A	Dec-12F	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	7.1	6.9	11.0	8.7	8.2
Rev. Psg Km (RPK, Yoy Chg %)	8.3	8.1	10.5	8.4	8.0
Passenger Load Factor (%)	78.9	79.8	79.4	79.2	79.1
Pax yld per RPK (Rmb)	0.68	0.66	0.62	0.62	0.62
Jet Fuel Price (Rmb/tonne)	7,657	7,751	7,361	7,279	7,219
US$/Rmb rate	6.47	6.32	6.12	6.05	6.00

SOURCE: CIMB, COMPANY REPORTS

China Shipping Container

2866 HK / 2866.HK

Market Cap	Avg Daily Turnover	Free Float
US$3,902m	US$8.11m	54.1%
HK$30,295m	HK$62.86m	11,683 m shares

Current	HK$1.89
Target	HK$2.08
Prev. Target	HK$2.08
Up/Downside	10.1%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-3.2	-4.3	-20.4
Absolute	-6.4	-6	-25.3

Major shareholders	% held
China Shipping (Group) Company	45.9

No respite from underlying losses

CSCL's 4Q13 net loss should rise sequentially due to weakening spot rates. We expect core net losses right into 2015 due to persistent oversupply.

Under our new rating structure, our Neutral call is now a Reduce. Our target price is unchanged, based on 0.8x FY14 P/BV (its average trading multiple since 2011). We believe that a 20% discount to book value is warranted, given the continuing erosion of its book. We retain our EPS forecasts.

Highest rate volatilities

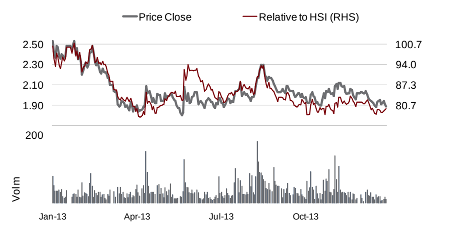
CSCL's average Asia-Europe (AE) rates rose 54% yoy in 1Q13, fell 45% yoy in 2Q, and then fell a further 21% yoy in 3Q. These fluctuations were more than double the rates of OOIL and NOL. CSCL's transpacific (TP) and intra-Asia (IA) rates also gyrated much more, underlining the risks to the company when it relies on the spot market for a significant part of its business, and with less contribution from value-added logistics services which are not as susceptible to rate swings.

Uncertain earnings outlook

The 4Q13 results will likely be worse than 3Q [PDF] as spot AE rates are down ~10% qoq, while spot TP rates are ~6% lower qoq. In just four weeks, almost 60% of the 1 Nov AE GRI has been eroded, while 70% of the 15 Nov TP GRI is already gone. The proposed 15 Dec AE GRI of US$775/teu is likely to meet with more success as carriers must achieve higher rates in time for their annual contract negotiations. However, this is not expected to last.

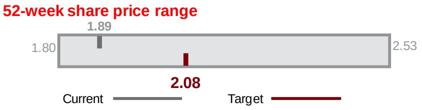
Asset disposals

CSCL disposed its containers for a RM1.1bn gain in 2012 to generate cash for an order of five 18,000 teus earlier this year. More disposals are in the works for 2013, including a terminal disposal that will generate Rmb870m in gains, the listing of a freight forwarding and depot business (Rmb87m gain), and the listing of a logistics consultancy business (zero gain). These non-core asset disposals are intended to "replenish working capital" and "optimise the company's asset structure". Nonetheless, we do not think that these disposals will help CSCL reverse the strong downside pressures from its core business.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Rmbm)	28,246	32,551	33,397	36,467	39,029
Operating EBITDA (Rmbm)	(1,277)	754	(424)	735	1,312
Net Profit (Rmbm)	(2,743)	525	(1,392)	(1,215)	(776)
Core EPS (Rmb)	(0.25)	(0.10)	(0.20)	(0.10)	(0.07)
Core EPS Growth	(169%)	(59%)	100%	(48%)	(36%)
FD Core P/E (x)	NA	NA	NA	NA	NA
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	34.19	NA	38.21	22.25
P/FCFE (x)	NA	3.66	NA	NA	25.31
Net Gearing	32.7%	37.1%	50.1%	68.0%	74.9%
P/BV (x)	0.66	0.65	0.68	0.72	0.74
ROE	(10.4%)	(4.5%)	(9.1%)	(5.0%)	(3.3%)
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.34	(14.86)	(0.45)

SOURCE: CIMB, COMPANY REPORTS

CIMB

Profit & Loss

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**32,551**	**33,397**	**36,467**	**39,029**
Gross Profit	**754**	**(424)**	**735**	**1,312**
Operating EBITDA	**754**	**(424)**	**735**	**1,312**
Depreciation And Amortisation	(1,536)	(1,477)	(1,402)	(1,460)
Operating EBIT	**(783)**	**(1,901)**	**(667)**	**(148)**
Total Financial Income/(Expense)	(366)	(433)	(523)	(593)
Total Pretax Income/(Loss) from Assoc.	90	65	65	65
Total Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**(1,058)**	**(2,269)**	**(1,125)**	**(676)**
Exceptional Items	1,213	957	0	0
Pre-tax Profit	**155**	**(1,312)**	**(1,125)**	**(676)**
Taxation	419	(70)	(80)	(90)
Exceptional Income - post-tax				
Profit After Tax	**574**	**(1,382)**	**(1,205)**	**(766)**
Minority Interests	(49)	(10)	(10)	(10)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**525**	**(1,392)**	**(1,215)**	**(776)**
Recurring Net Profit	(1,172)	(2,349)	(1,215)	(776)
Fully Diluted Recurring Net Profit	**(1,172)**	**(2,349)**	**(1,215)**	**(776)**

Balance Sheet

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	8,832	7,868	6,771	6,858
Total Debtors	2,264	2,323	2,536	2,714
Inventories	1,238	1,317	1,391	1,469
Total Other Current Assets	590	590	590	590
Total Current Assets	**12,924**	**12,098**	**11,289**	**11,631**
Fixed Assets	35,677	32,939	35,452	35,756
Total Investments	2,575	6,929	6,994	7,059
Intangible Assets	29	29	29	29
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**38,281**	**39,896**	**42,475**	**42,844**
Short-term Debt	1,648	1,648	1,648	1,648
Current Portion of Long-Term Debt				
Total Creditors	3,884	4,131	4,364	4,607
Other Current Liabilities	819	819	819	819
Total Current Liabilities	**6,350**	**6,598**	**6,831**	**7,073**
Total Long-term Debt	17,381	19,305	22,046	23,280
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	**17,381**	**19,305**	**22,046**	**23,281**
Total Provisions	0	0	0	0
Total Liabilities	**23,732**	**25,902**	**28,877**	**30,354**
Shareholders' Equity	26,529	25,137	23,922	23,146
Minority Interests	945	955	965	975
Total Equity	**27,474**	**26,092**	**24,887**	**24,121**

Cash Flow

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	754	(424)	735	1,312
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(888)	110	(55)	(13)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	913	600	670	729
Net Interest (Paid)/Received	(549)	(600)	(670)	(729)
Tax Paid	(93)	(70)	(80)	(90)
Cashflow From Operations	**136**	**(385)**	**601**	**1,209**
Capex	(2,115)	(2,748)	(3,915)	(1,764)
Disposals Of FAs/subsidiaries	3,389	678	0	0
Acq. Of Subsidiaries/investments	(20)	0	0	0
Other Investing Cashflow	137	0	0	0
Cash Flow From Investing	**1,392**	**(2,070)**	**(3,915)**	**(1,764)**
Debt Raised/(repaid)	3,171	1,924	2,741	1,235
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	(5)	0	0	0
Preferred Dividends				
Other Financing Cashflow	(2,313)	(433)	(523)	(593)
Cash Flow From Financing	**854**	**1,491**	**2,217**	**642**
Total Cash Generated	2,382	(964)	(1,097)	87
Free Cashflow To Equity	**4,699**	**(531)**	**(574)**	**680**
Free Cashflow To Firm	**2,077**	**(1,855)**	**(2,645)**	**174**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	15.2%	2.6%	9.2%	7.0%
Operating EBITDA Growth	na	(156%)	na	78%
Operating EBITDA Margin	2.32%	(1.27%)	2.02%	3.36%
Net Cash Per Share (Rmb)	(0.87)	(1.12)	(1.45)	(1.55)
BVPS (Rmb)	2.27	2.15	2.05	1.98
Gross Interest Cover	(1.43)	(3.17)	(1.00)	(0.20)
Effective Tax Rate	0%	0%	0%	0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	22.85	25.06	24.31	24.55
Inventory Days	14.07	13.79	13.83	13.84
Accounts Payables Days	44.34	43.25	43.39	43.41
ROIC (%)	(1.84%)	(4.52%)	(1.73%)	(0.35%)
ROCE (%)	(1.34%)	(3.71%)	(1.09%)	(0.02%)

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Average Revenue (US$/FEU)	1,269.3	1,288.3	1,340.4	1,366.6
Average Revenue (US$/TEU)	634.6	644.1	670.2	683.3
Liner rates (yoy chg. %)	14.3%	1.5%	4.0%	2.0%
Cargo Carried (m FEU)	4.02	4.16	4.37	4.59
Cargo carried (FEU, yoy chg. %)	8.0%	3.6%	5.0%	5.0%
Cargo Carried (m TEU)	8.03	8.32	8.74	9.17
Cargo carried (TEU, yoy chg. %)	8.0%	3.6%	5.0%	5.0%
Fleet Size (no. Of Vessels)	145.0	153.0	153.0	153.0
No. Of Container Ships	145	153	153	153

SOURCE: CIMB, COMPANY REPORTS

CIMB

China Southern Airlines

1055 HK / 1055.HK

Market Cap	Avg Daily Turnover	Free Float
US$4,115m	US$8.27m	40.7%
HK$31,947m	HK$64.09m	9,818 m shares

Current	HK$2.79
Target	HK$2.40
Prev. Target	HK$2.40
Up/Downside	-14.0%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-3.2	-4.4	-33.7
Absolute	-6.4	-6.1	-38.6

Major shareholders	% held
Southern Airlines Group	59.3

Still unappealing

China Southern's domestic load factors have declined 1% pt in 2013 as competition from low-cost carriers and high-speed rail continues to take its toll. Yields are also under pressure and we believe that these concerns are unlikely to diminish until 2H14

We cut our earnings estimates for FY13-15 by 2-14%, although our target price and recommendation remain unchanged. We base our target price on 6.1x CY15 EV/EBITDAR, the company's 5-year average. We see revenue growth remaining depressed due to soft pricing. In addition, we think that costs are likely to increase as capacity growth remains high.

Slow international capacity growth; yields still weak

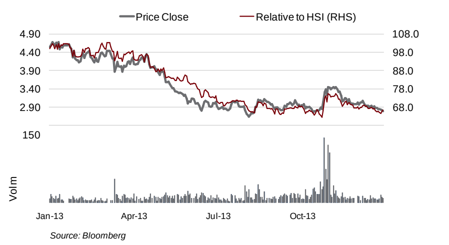
Available seat kilometre (ASK) growth on international routes in 2013 was just 12% yoy, the lowest recorded since 2009. Despite the reduction in growth rates, yields fell around 5% yoy in 1H13, the fourth consecutive semi-annual period that CSA has recorded lower international yields. China Southern recently announced a partnership with Qantas in an attempt to improve feed traffic along its Australia routes. We are positive on this development, although we think that pricing pressure is likely to persist in the coming year.

Domestic loads also under pressure

Domestic ASK growth of 10% yoy was broadly in line with capacity expansion in FY12 but load factors still fell 1% pt as demand slowed. We believe that this decline is due to the increased acceptance of high-speed rail and low-cost airlines. We also believe that the impact of low-cost carriers on the Chinese airlines is only beginning to be felt and we think that further load factor and yield deterioration is likely in FY14.

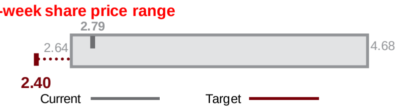
Valuation not pricing in long-term deterioration

CSA trades at 0.6x FY14 P/BV but we think there may be earnings pressure from its long-haul expansion while low-cost carriers could eat away at domestic margins. Hence, our FY14 EPS remains 15% below consensus.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Rmbm)	90,395	99,514	100,970	110,302	119,511
Operating EBITDA (Rmbm)	12,626	13,363	11,905	13,931	15,061
Net Profit (Rmbm)	5,110	2,619	2,796	2,295	3,068
Core EPS (Rmb)	0.27	0.25	0.09	0.21	0.27
Core EPS Growth	(32%)	(11%)	(63%)	127%	30%
FD Core P/E (x)	7.94	8.87	23.88	10.51	8.10
DPS (Rmb)	0.20	0.05	0.04	0.03	0.04
Dividend Yield	9.20%	2.30%	2.06%	1.34%	1.62%
EV/EBITDA (x)	8.83	9.30	10.72	9.14	8.39
P/FCFE (x)	19.07	3.00	2.91	6.62	7.74
Net Gearing	142%	161%	155%	136%	119%
P/BV (x)	0.66	0.65	0.61	0.58	0.54
ROE	9.12%	7.40%	2.63%	5.63%	6.86%
% Change In Core EPS Estimates			(13.9%)	(6.2%)	(1.8%)
CIMB/consensus EPS (x)			1.21	0.80	0.84

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**100,976**	**102,049**	**111,470**	**120,724**
Gross Profit	**15,788**	**14,342**	**16,731**	**18,011**
Operating EBITDA	**13,363**	**11,905**	**13,931**	**15,061**
Depreciation And Amortisation	(8,264)	(8,861)	(9,368)	(9,780)
Operating EBIT	**5,099**	**3,044**	**4,563**	**5,282**
Total Financial Income/(Expense)	(1,066)	(1,239)	(1,303)	(1,243)
Total Pretax Income/(Loss) from Assoc.	438	327	357	386
Total Non-Operating Income/(Expense)	267	2,396	327	535
Profit Before Tax (pre-EI)	**4,738**	**4,578**	**3,994**	**5,010**
Exceptional Items	0	0	0	0
Pre-tax Profit	**4,738**	**4,528**	**3,944**	**4,960**
Taxation	(954)	(934)	(749)	(942)
Exceptional Income - post-tax				
Profit After Tax	**3,784**	**3,594**	**3,195**	**4,018**
Minority Interests	(1,165)	(798)	(900)	(950)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**2,619**	**2,796**	**2,295**	**3,068**
Recurring Net Profit	2,406	894	2,030	2,634
Fully Diluted Recurring Net Profit	**2,406**	**894**	**2,030**	**2,634**

Cash Flow

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	13,363	11,905	13,931	15,061
Cash Flow from Invt. & Assoc.	438	327	357	386
Change In Working Capital	2,142	1,261	2,729	1,507
(Incr)/Decr in Total Provisions	0	(50)	(50)	(50)
Other Non-Cash (Income)/Expense	(2,144)	881	520	(336)
Other Operating Cashflow				
Net Interest (Paid)/Received	(1,141)	(1,250)	(1,303)	(1,243)
Tax Paid	(954)	(934)	(749)	(942)
Cashflow From Operations	**11,704**	**12,139**	**15,435**	**14,384**
Capex	(20,593)	(20,514)	(12,940)	(11,640)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	8,440	9,852	1,939	13
Cash Flow From Investing	**(12,153)**	**(10,662)**	**(11,001)**	**(11,627)**
Debt Raised/(repaid)	7,556	5,851	(1,210)	0
Proceeds From Issue Of Shares	1,535	(0)	0	0
Shares Repurchased				
Dividends Paid	(1,964)	(491)	(439)	(285)
Preferred Dividends				
Other Financing Cashflow	(6,459)	(2,382)	0	0
Cash Flow From Financing	**668**	**2,978**	**(1,649)**	**(285)**
Total Cash Generated	219	4,455	2,786	2,472
Free Cashflow To Equity	**7,107**	**7,328**	**3,224**	**2,757**
Free Cashflow To Firm	**692**	**2,728**	**5,737**	**4,000**

Balance Sheet

(Rmbm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	10,082	14,503	17,289	19,761
Total Debtors	1,853	1,887	2,069	2,241
Inventories	1,708	1,722	1,878	2,019
Total Other Current Assets	3,144	4,430	4,759	5,071
Total Current Assets	**16,787**	**22,543**	**25,995**	**29,092**
Fixed Assets	118,729	126,779	128,934	130,845
Total Investments	2,365	2,557	2,914	3,301
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	4,573	3,882	3,466	3,497
Total Non-current Assets	**125,667**	**133,218**	**135,314**	**137,643**
Short-term Debt	24,393	26,102	26,219	26,297
Current Portion of Long-Term Debt				
Total Creditors	1,825	3,444	3,755	4,038
Other Current Liabilities	22,513	22,288	25,373	27,222
Total Current Liabilities	**48,731**	**51,835**	**55,347**	**57,557**
Total Long-term Debt	49,567	54,613	52,958	52,345
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	3,628	5,649	6,584	6,679
Total Non-current Liabilities	**53,195**	**60,262**	**59,542**	**59,025**
Total Provisions	794	833	833	833
Total Liabilities	**102,720**	**112,929**	**115,722**	**117,414**
Shareholders' Equity	32,839	35,138	36,994	39,777
Minority Interests	6,895	7,693	8,593	9,543
Total Equity	**39,734**	**42,831**	**45,587**	**49,320**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	10.1%	1.5%	9.2%	8.3%
Operating EBITDA Growth	5.8%	(10.9%)	17.0%	8.1%
Operating EBITDA Margin	13.4%	11.8%	12.6%	12.6%
Net Cash Per Share (Rmb)	(6.51)	(6.74)	(6.30)	(6.00)
BVPS (Rmb)	3.34	3.58	3.77	4.05
Gross Interest Cover	3.71	1.99	2.87	3.29
Effective Tax Rate	20.1%	20.6%	19.0%	19.0%
Net Dividend Payout Ratio	18.7%	15.4%	12.2%	11.1%
Accounts Receivables Days	7.36	6.76	6.55	6.58
Inventory Days	7.14	7.14	6.93	6.92
Accounts Payables Days	10.04	10.96	13.87	13.85
ROIC (%)	4.35%	2.32%	3.31%	3.86%
ROCE (%)	5.00%	2.86%	3.93%	4.49%

Key Drivers

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	7.5	12.2	10.0	9.9	8.7
Rev. Psg Km (RPK, Yoy Chg %)	9.9	10.8	10.0	9.5	8.3
Passenger Load Factor (%)	81	80	80	80	79
Pax yld per RPK (Rmb)	0.67	0.66	0.61	0.61	0.61
Jet Fuel Price (Rmb/tonne)	7,545	7,993	7,394	7,312	7,251
USD/RMB rate	6.47	6.32	6.12	6.05	6.00

SOURCE: CIMB, COMPANY REPORTS

CIMB

Korean Air

003490 KS / 003490.KS

Market Cap	Avg Daily Turnover	Free Float
US$1,836m	US$12.81m	67.0%
W1,983,230m	W13,592m	59.79 m shares

Current	W33,800
Target	W30,500
Prev. Target	W30,500
Up/Downside	-9.8%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	18.7	-7.6	-35.4
Absolute	15.6	-12.8	-36.6

Major shareholders	% held
Cho, Yang-Ho and family	11.1
Affiliated companies	14.6

Little cheer ahead

Korean Air remains suppressed by poor passenger demand from Japan and continued softness in the air freight markets. Although the company is cutting capacity to keep yields high, we still see 2014 as a big test on its profitability.

We maintain our earnings forecasts, stock rating and target price, based on 5.2x FY15 EV/EBITDAR, which is 1s.d. below the company's long-term average valuation. We think that KAL will see little re-rating until the cargo demand and passenger yield growth improve.

Passenger demand still dampened by Japan

Japan still accounts for 14% of KAL's regional passenger revenue, and channel checks show that the weakness of the yen against the won has led to both demand and yields deteriorating sharply in the company's passenger business, a decline which has continued into 4Q13. Meanwhile, the US load factors have begun to slump due to the large influx of capacity on the North America routes coupled with slowing demand, partially due to the cancellation of its codeshares with Delta.

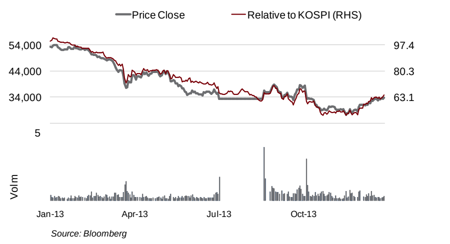
While KAL has been trying to grow its capacity selectively to protect profitability, it has also suffered from a sudden downturn in demand on routes where it has expected growth to remain steady, such as the US and China. As such, we think it is doubtful that passenger yields can turn around quickly.

Air freight not showing signs of life yet

KAL's air freight unit continues to show lacklustre growth as well. Although demand in 4Q13 will have likely seen some yoy growth from a low base, the company has not indicated that there will be a large surge in demand in 2014.

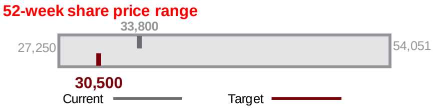
Valuation seemingly inexpensive

While KAL looks inexpensive at 0.9x FY14 P/BV, we believe that ROEs over the next two years will remain depressed as we see minimal earnings improvement in FY14 and FY15. We believe investors should wait for more noticeable improvement in operating conditions before taking a strong view on the stock.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Wm)	11,805,282	12,263,385	11,620,880	11,627,787	12,128,494
Operating EBITDA (Wm)	1,695,082	1,762,457	1,506,437	1,943,097	1,918,439
Net Profit (Wm)	(301,091)	250,113	(257,730)	56,022	123,113
Normalised EPS (W)	(4,458)	3,703	(4,084)	955	2,098
Normalised EPS Growth	(157%)	na	(210%)	na	120%
FD Normalised P/E (x)	NA	9.13	NA	35.40	16.11
DPS (W)	0.0	0.0	0.0	59.8	131.4
Dividend Yield	0.000%	0.000%	0.000%	0.177%	0.389%
EV/EBITDA (x)	9.71	9.25	10.59	8.42	8.13
P/FCFE (x)	2.89	7.02	3.97	21.84	NA
Net Gearing	568%	527%	559%	568%	509%
P/BV (x)	1.04	0.96	0.95	0.87	0.82
ROE	(12.6%)	11.0%	(11.2%)	2.5%	5.2%
% Change In Normalised EPS Estimates			0%	0%	0%
Normalised EPS/consensus EPS (x)			1.18	1.15	0.86

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(Wm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**12,263,385**	**11,620,880**	**11,627,787**	**12,128,494**
Gross Profit	**2,903,398**	**2,774,847**	**2,903,626**	**2,996,434**
Operating EBITDA	**1,762,457**	**1,506,437**	**1,943,097**	**1,918,439**
Depreciation And Amortisation	(1,487,393)	(1,604,770)	(1,559,042)	(1,548,958)
Operating EBIT	**275,064**	**(98,333)**	**384,055**	**369,482**
Total Financial Income/(Expense)	(487,500)	(415,741)	(331,241)	(307,524)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	598,877	115,965	20,000	98,057
Profit Before Tax (pre-EI)	**386,441**	**(398,110)**	**72,814**	**160,015**
Exceptional Items	0	0	0	0
Pre-tax Profit	**386,441**	**(398,110)**	**72,814**	**160,015**
Taxation	(136,328)	140,380	(16,747)	(36,803)
Exceptional Income - post-tax				
Profit After Tax	**250,113**	**(257,730)**	**56,067**	**123,211**
Minority Interests	0	0	0	0
Preferred Dividends	0	0	(45)	(98)
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Preference Dividends (Australia)				
Net Profit	**250,113**	**(257,730)**	**56,022**	**123,113**
Normalised Net Profit	250,113	(257,730)	56,067	123,211
Fully Diluted Normalised Profit	**250,113**	**(257,730)**	**56,022**	**123,113**

Balance Sheet

(Wm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	1,250,001	1,844,177	1,933,299	1,831,839
Total Debtors	885,769	986,826	921,473	963,918
Inventories	481,642	433,551	373,240	394,072
Total Other Current Assets	356,109	386,507	386,507	386,507
Total Current Assets	**2,973,521**	**3,651,061**	**3,614,520**	**3,576,336**
Fixed Assets	14,404,534	15,256,777	15,944,003	15,674,509
Total Investments	3,000,536	3,001,077	3,443,320	3,727,160
Intangible Assets	299,444	315,141	311,677	308,214
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**17,704,514**	**18,572,995**	**19,699,000**	**19,709,883**
Short-term Debt	3,150,057	3,850,089	3,776,281	3,659,377
Current Portion of Long-Term Debt	918,147	0	0	0
Total Creditors	0	240,862	256,603	270,924
Other Current Liabilities	2,004,671	2,941,923	2,941,923	3,126,282
Total Current Liabilities	**6,072,875**	**7,032,873**	**6,974,807**	**7,056,584**
Total Long-term Debt	9,685,570	10,502,120	11,182,182	10,460,974
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	2,545,923	2,450,980	2,864,063	3,356,679
Total Non-current Liabilities	**12,231,493**	**12,953,100**	**14,046,245**	**13,817,653**
Total Provisions	0	0	0	0
Total Liabilities	**18,304,368**	**19,985,974**	**21,021,052**	**20,874,237**
Shareholders' Equity	2,373,668	2,238,084	2,292,469	2,411,984
Minority Interests	0	0	0	0
Total Equity	**2,373,668**	**2,238,084**	**2,292,469**	**2,411,984**

Cash Flow

(Wm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	1,762,457	1,506,437	1,943,097	1,918,439
Cash Flow from Invt. & Assoc.				
Change In Working Capital	4,924	1,094,749	141,405	135,404
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	220,353	(36,516)	493,083	572,616
Net Interest (Paid)/Received	(487,500)	(415,741)	(331,241)	(307,524)
Tax Paid	(136,328)	140,380	(16,747)	(36,803)
Cashflow From Operations	**1,363,907**	**2,289,309**	**2,229,597**	**2,282,132**
Capex	(2,281,105)	(2,584,194)	(2,422,805)	(1,376,000)
Disposals Of FAs/subsidiaries	184,798	80,256	120,000	40,000
Acq. Of Subsidiaries/investments	46,235	(541)	(442,243)	(283,840)
Other Investing Cashflow	(49,789)	633,005	0	0
Cash Flow From Investing	**(2,099,860)**	**(1,871,474)**	**(2,745,048)**	**(1,619,840)**
Debt Raised/(repaid)	1,060,966	118,790	606,255	(760,055)
Proceeds From Issue Of Shares	33,636	132,104	0	0
Shares Repurchased				
Dividends Paid	0	0	(1,682)	(3,696)
Preferred Dividends				
Other Financing Cashflow	(490,333)	(74,553)	0	0
Cash Flow From Financing	**604,270**	**176,341**	**604,573**	**(763,752)**
Total Cash Generated	(131,684)	594,176	89,122	(101,460)
Free Cashflow To Equity	**325,013**	**536,625**	**90,804**	**(97,764)**
Free Cashflow To Firm	**(190,266)**	**904,713**	**17,232**	**1,171,257**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	3.88%	(5.24%)	0.06%	4.31%
Operating EBITDA Growth	4.0%	(14.5%)	29.0%	(1.3%)
Operating EBITDA Margin	14.4%	13.0%	16.7%	15.8%
Net Cash Per Share (W)	(185,147)	(198,210)	(221,987)	(209,432)
BVPS (W)	35,148	35,466	39,070	41,107
Gross Interest Cover	0.50	(0.20)	0.72	0.73
Effective Tax Rate	35.3%	0.0%	23.0%	23.0%
Net Dividend Payout Ratio	NA	NA	2.92%	2.92%
Accounts Receivables Days	27.99	29.41	29.95	28.37
Inventory Days	17.66	18.88	16.88	15.33
Accounts Payables Days	5.74	4.97	10.41	10.54
ROIC (%)	1.28%	(0.44%)	2.08%	1.93%
ROCE (%)	2.07%	(0.17%)	3.46%	3.38%

Key Drivers

(% yoy unless stated)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
RPK	6.1	0.0	3.4	3.9
RCTK	-9.2	-6.0	2.0	4.0
ASK	4.8	1.1	4.0	3.9
ACTK	-10.6	-6.5	2.0	4.0
Passenger yield	3.2	-4.3	-1.3	0.1
Cargo yield	-2.6	-5.7	-0.3	1.1
Fuel price (US$/bbl)	130	127	128	128
USD/KRW rate (average)	1,130	1,093	1,046	1,041

SOURCE: CIMB, COMPANY REPORTS

Malaysian Airline System

MAS MK / MASM.KL

Market Cap	Avg Daily Turnover	Free Float
US$1,554m	US$1.98m	23.8%
RM5,180m	RM6.34m	7,102 m shares

Current	RM0.31
Target	RM0.17
Prev. Target	RM0.17
Up/Downside	-45.2%

STOCK RATING
ADD
HOLD
REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	3.4	-10.5	-16.8
Absolute	1.6	-11.4	-6.6

Major shareholders	% held
Khazanah	69.4
EPF	6.9

Desperate to stay relevant

MAS remains committed to lifting its aircraft utilisation and load factor despite the resulting plunge in yields, which is dragging the carrier deeper into the red. It is not taking its foot off the pedal in order to stay relevant, and shareholders will be the ones bearing the brunt.

We maintain our Reduce call and our target price, which is based on 1x CY14 P/BV. Share price de-rating catalysts include a persistent weak yield environment that will keep MAS in the red.

Recent developments

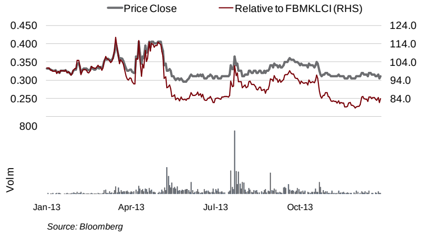
MAS saw its core net loss more than quadruple to RM294m in 3Q13 vs. RM70m in 3Q12. Although its revenue expanded by 9% yoy on the back of a 20% rise in ASK capacity and a 37% rise in RPK demand, yields collapsed 11% yoy during 3Q13. Much of the capacity increase must have been loss making, as operating cost rose 12% yoy, faster than revenue growth, driving MAS into EBITDA losses. The 4% yoy depreciation of the ringgit also inflated the ringgit value of US$-denominated cost items, which account for half its operating costs. The domestic passenger business was hit particularly hard by systemic overcapacity, with yields down 29% and RASK down 21% yoy.

What to expect for 2014

MAS remained steadfast in its strategy of pushing up aircraft utilisation and defending its market share. The carrier has indicated that it will not pull back its capacity to lift its yields and hence we expect yields to stay weak in 2014. As AirAsia and Malindo will also not cede their respective market share, the overcapacity in the domestic and ASEAN markets will weigh on MAS's 2014 earnings.

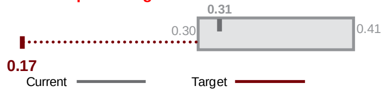
Avoid at all cost

Stay away. In an environment of significant competition from Malindo and AirAsia – both with probably lower costs than MAS – we believe that MAS cannot win the capacity war without burning a huge hole in the shareholders' pockets. However, a reversal of the present strategy is also unpalatable. If MAS reduces its capacity, its fixed costs will then be spread over a smaller ASK capacity denominator. Malindo and AirAsia will then likely step in to fill the gap that MAS leaves behind, causing the total industry capacity to remain pretty much the same, but with MAS having a much smaller market share and relevance. In short, MAS is stuck.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (RMm)	13,675	13,468	14,605	15,218	15,760
Operating EBITDA (RMm)	(905.4)	(256.1)	(122.4)	(28.0)	151.9
Net Profit (RMm)	(2,524)	(433)	(1,169)	(1,347)	(1,251)
Core EPS (RM)	(0.42)	(0.10)	(0.08)	(0.07)	(0.07)
Core EPS Growth	289%	(77%)	(15%)	(9%)	(8%)
FD Core P/E (x)	NA	NA	NA	NA	NA
DPS (RM)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	115.6
P/FCFE (x)	0.86	0.47	1.13	4.21	12.61
Net Gearing	441%	346%	226%	423%	851%
P/BV (x)	2.11	1.04	1.29	1.93	3.62
ROE	(61.0%)	(43.5%)	(36.1%)	(37.2%)	(55.8%)
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.60	3.66	14.97

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**13,468**	**14,605**	**15,218**	**15,760**
Gross Profit	**(256)**	**(122)**	**(28)**	**152**
Operating EBITDA	**(256)**	**(122)**	**(28)**	**152**
Depreciation And Amortisation	(576)	(884)	(1,028)	(1,053)
Operating EBIT	**(832)**	**(1,006)**	**(1,056)**	**(901)**
Total Financial Income/(Expense)	(182)	(379)	(469)	(533)
Total Pretax Income/(Loss) from Assoc.	(1)	10	10	10
Total Non-Operating Income/(Expense)	312	200	200	200
Profit Before Tax (pre-EI)	**(703)**	**(1,176)**	**(1,315)**	**(1,224)**
Exceptional Items	278	35	0	0
Pre-tax Profit	**(425)**	**(1,141)**	**(1,315)**	**(1,224)**
Taxation	(6)	(26)	(30)	(24)
Exceptional Income - post-tax				
Profit After Tax	**(431)**	**(1,167)**	**(1,345)**	**(1,249)**
Minority Interests	(2)	(2)	(2)	(2)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**(433)**	**(1,169)**	**(1,347)**	**(1,251)**
Recurring Net Profit	(689)	(1,111)	(1,247)	(1,147)
Fully Diluted Recurring Net Profit	**(689)**	**(1,111)**	**(1,247)**	**(1,147)**

Balance Sheet

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	2,148	3,847	3,006	2,583
Total Debtors	1,365	1,476	1,536	1,589
Inventories	331	355	368	377
Total Other Current Assets	0	0	0	0
Total Current Assets	**3,845**	**5,679**	**4,911**	**4,549**
Fixed Assets	12,854	16,613	17,655	17,436
Total Investments	0	0	0	0
Intangible Assets	154	154	154	154
Total Other Non-Current Assets	439	449	459	469
Total Non-current Assets	**13,446**	**17,216**	**18,268**	**18,059**
Short-term Debt	1,339	1,400	1,400	1,400
Current Portion of Long-Term Debt				
Total Creditors	2,343	2,514	2,603	2,665
Other Current Liabilities	3,232	3,325	3,425	3,528
Total Current Liabilities	**6,913**	**7,239**	**7,428**	**7,593**
Total Long-term Debt	8,210	11,580	13,020	13,533
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	30	30	30	30
Total Non-current Liabilities	**8,240**	**11,610**	**13,050**	**13,563**
Total Provisions	0	0	0	0
Total Liabilities	**15,153**	**18,849**	**20,478**	**21,156**
Shareholders' Equity	2,123	4,029	2,682	1,431
Minority Interests	15	17	19	21
Total Equity	**2,138**	**4,046**	**2,701**	**1,452**

Cash Flow

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	(256)	(122)	(28)	152
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(318)	36	16	0
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	319	433	420	401
Net Interest (Paid)/Received	(114)	(484)	(589)	(631)
Tax Paid	(4)	(26)	(30)	(24)
Cashflow From Operations	**(374)**	**(164)**	**(211)**	**(102)**
Capex	0	0	0	0
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	1,004	0	0	0
Other Investing Cashflow	150	0	0	0
Cash Flow From Investing	**1,154**	**0**	**0**	**0**
Debt Raised/(repaid)	3,879	3,432	1,440	513
Proceeds From Issue Of Shares	1,498	3,075	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	0	0	0	0
Preferred Dividends				
Other Financing Cashflow	0	0	0	0
Cash Flow From Financing	**5,377**	**6,506**	**1,440**	**513**
Total Cash Generated	6,156	6,342	1,229	411
Free Cashflow To Equity	**4,658**	**3,268**	**1,229**	**411**
Free Cashflow To Firm	**894**	**320**	**378**	**529**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	(1.51%)	8.44%	4.20%	3.56%
Operating EBITDA Growth	(72%)	(52%)	(77%)	na
Operating EBITDA Margin	(1.90%)	(0.84%)	(0.18%)	0.96%
Net Cash Per Share (RM)	(1.04)	(0.55)	(0.68)	(0.74)
BVPS (RM)	0.30	0.24	0.16	0.09
Gross Interest Cover	(3.54)	(2.08)	(1.79)	(1.43)
Effective Tax Rate	0%	0%	0%	0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	35.12	34.30	34.97	35.07
Inventory Days	9.25	8.51	8.66	8.71
Accounts Payables Days	66.50	60.19	61.26	61.59
ROIC (%)	(14.5%)	(10.5%)	(8.0%)	(6.4%)
ROCE (%)	(8.5%)	(6.3%)	(5.5%)	(4.8%)

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	-6.1%	16.5%	7.8%	3.0%
Rev. Psg Km (RPK, Yoy Chg %)	-6.4%	27.0%	7.8%	2.2%
Passenger Load Factor (%)	74.7%	81.5%	81.5%	80.9%
Pax yld per RPK (RM)	0.3	0.2	0.2	0.2
Pax rev. per ASK (RM)	0.2	0.2	0.2	0.2
Total Cost Per ATK (RM)	2.0	2.0	2.0	2.0
Fuel Cost Per ATK (RM)	0.7	0.7	0.8	0.8
Non-fuel Cost Per ATK (RM)	1.3	1.3	1.2	1.2
Jet Fuel Price (US$/barrel)	131.3	128.0	128.0	128.0
Fleet Size (no. Of Planes)	115	107	102	105

SOURCE: CIMB, COMPANY REPORTS

CIMB

Malaysian Bulk Carriers

MBC MK / MBCB.KL

Market Cap	Avg Daily Turnover	Free Float
US$576.0m	US$0.61m	31.0%
RM1,920m	RM1.99m	1,000.0 m shares

Current	RM1.92
Target	RM2.01
Prev. Target	RM2.01
Up/Downside	4.7%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	13.4	4.7	31
Absolute	11.6	3.8	41.2

Major shareholders	% held
Pacific Carriers Ltd.	34.5
Bank Pembangunan Malaysia	18.4
PPB Group Bhd	14.0

Sailing with the wind

Bulk losses have generally narrowed over the recent quarters as the bulk rates have gradually improved amid slowing bulk carrier supply growth. We expect profits to rise in 2014 due to smaller bulk losses and stronger offshore earnings.

We keep our Add call, forecasts and SOP-based target price unchanged. Share price rerating catalysts include the expected narrowing of dry bulk losses over the medium term as freight rates recover on the back of a slower pace of newbuilding deliveries.

Recent developments

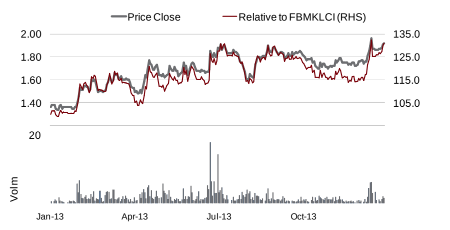
Maybulk posted 3Q13 core earnings of RM6m, a turnaround from 3Q12's RM2m loss. Although the bulk division clocked its fifth consecutive quarter of losses, the magnitude has generally narrowed over the past few quarters. Bulk rates have steadily improved throughout 2013 amid slowing bulk carrier supply growth, which eased the downward pressure on rates. Meanwhile, the tanker division surprisingly fell back into the red, posting an RM3m operating loss in 3Q13. But the loss should be temporary as all three vessels were sent for dry-docking during the quarter, reducing earning days and raising docking cost. Losses from both its core divisions were more than compensated by profits from its offshore associate POSH, which again contributed a laudable RM14.7m to the company.

What to expect for 2014

Dry bulk rates will likely improve in 2014 amid less intense oversupply concerns, leading to narrowing core losses for the ship operator. Bulk TCE rates have already improved remarkably this year, with handysize and supramax rates rising by 56-90% since end-2012. Average rates for the two segments so far in 4Q13 are 48-75% higher than those seen in the same period last year, suggesting that Maybulk may close the year with substantially narrower losses for its bulk division. Also, the tanker division may return to profit once its three vessels leave the docks and return to sea.

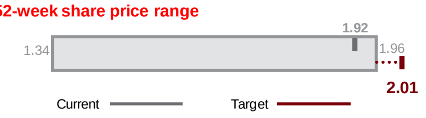
Time to accumulate

Accumulate. Other than the prospect of rising profits, Maybulk is a savvy investor, buying ships near the bottom of a cycle and selling them for a profit when rates are much higher. The company has net cash of RM148m and is in a position to take advantage of low vessel prices.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (RMm)	256.3	262.3	270.2	311.0	377.8
Operating EBITDA (RMm)	99.18	(3.25)	(1.01)	13.28	36.12
Net Profit (RMm)	91.35	66.05	41.65	67.14	99.75
Core EPS (RM)	0.079	0.028	0.038	0.067	0.100
Core EPS Growth	(61.3%)	(65.1%)	36.0%	77.9%	48.6%
FD Core P/E (x)	24.17	69.19	50.86	28.60	19.25
DPS (RM)	0.030	0.030	0.020	0.040	0.060
Dividend Yield	1.56%	1.56%	1.04%	2.08%	3.13%
EV/EBITDA (x)	7.47	NA	NA	58.87	24.00
P/FCFE (x)	20.95	NA	NA	NA	14.54
Net Gearing	(14.7%)	(9.9%)	(8.8%)	1.4%	11.4%
P/BV (x)	1.10	1.12	1.10	1.09	1.06
ROE	4.64%	1.61%	2.19%	3.83%	5.59%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.89	1.07	1.23

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**262.3**	**270.2**	**311.0**	**377.8**
Gross Profit	**(3.2)**	**(1.0)**	**13.3**	**36.1**
Operating EBITDA	**(3.2)**	**(1.0)**	**13.3**	**36.1**
Depreciation And Amortisation	(28.0)	(25.9)	(28.7)	(35.6)
Operating EBIT	**(31.3)**	**(26.9)**	**(15.4)**	**0.5**
Total Financial Income/(Expense)	0.6	0.3	(0.9)	(3.7)
Total Pretax Income/(Loss) from Assoc.	45.2	60.0	80.0	100.0
Total Non-Operating Income/(Expense)	13.8	5.0	5.0	5.0
Profit Before Tax (pre-EI)	**28.3**	**38.4**	**68.7**	**101.8**
Exceptional Items	38.3	3.9	0.0	0.0
Pre-tax Profit	**66.6**	**42.3**	**68.7**	**101.8**
Taxation	(1.0)	(1.5)	(2.0)	(2.0)
Exceptional Income - post-tax				
Profit After Tax	**65.7**	**40.8**	**66.7**	**99.8**
Minority Interests	0.4	0.8	0.5	(0.0)
Preferred Dividends	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**66.0**	**41.6**	**67.1**	**99.8**
Recurring Net Profit	27.7	37.7	67.1	99.8
Fully Diluted Recurring Net Profit	**27.7**	**37.7**	**67.1**	**99.8**

Balance Sheet

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	282	264	206	280
Total Debtors	59	60	64	72
Inventories	6	6	7	8
Total Other Current Assets	0	0	0	0
Total Current Assets	**347**	**330**	**277**	**359**
Fixed Assets	483	457	586	708
Total Investments	1,077	1,137	1,217	1,317
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**1,560**	**1,594**	**1,803**	**2,025**
Short-term Debt	67	67	67	200
Current Portion of Long-Term Debt				
Total Creditors	30	31	34	39
Other Current Liabilities	0	0	0	0
Total Current Liabilities	**98**	**98**	**102**	**239**
Total Long-term Debt	39	39	165	291
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	**39**	**39**	**165**	**291**
Total Provisions	0	0	0	0
Total Liabilities	**137**	**138**	**267**	**531**
Shareholders' Equity	1,716	1,738	1,765	1,805
Minority Interests	53	53	52	52
Total Equity	**1,770**	**1,790**	**1,817**	**1,857**

Cash Flow

(RMm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	(3.2)	(1.0)	13.3	36.1
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(9.7)	(0.4)	(2.1)	(3.3)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	10.5	0.0	0.0	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0
Tax Paid	(1.0)	(1.5)	(2.0)	(2.0)
Cashflow From Operations	**(3.5)**	**(2.9)**	**9.2**	**30.8**
Capex	(0.7)	0.0	(157.5)	(157.5)
Disposals Of FAs/subsidiaries	73.5	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	(94.2)	0.0	0.0	0.0
Cash Flow From Investing	**(21.4)**	**0.0**	**(157.5)**	**(157.5)**
Debt Raised/(repaid)	(49.8)	0.0	126.0	258.8
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(30.0)	(20.0)	(40.0)	(60.0)
Preferred Dividends				
Other Financing Cashflow	3.6	5.3	4.1	1.3
Cash Flow From Financing	**(76.1)**	**(14.7)**	**90.1**	**200.1**
Total Cash Generated	(101.0)	(17.6)	(58.2)	73.3
Free Cashflow To Equity	**(74.6)**	**(2.9)**	**(22.3)**	**132.1**
Free Cashflow To Firm	**(24.9)**	**(2.9)**	**(148.3)**	**(126.7)**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	2.3%	3.0%	15.1%	21.5%
Operating EBITDA Growth	(103%)	(69%)	na	172%
Operating EBITDA Margin	(1.2%)	(0.4%)	4.3%	9.6%
Net Cash Per Share (RM)	0.18	0.16	(0.03)	(0.21)
BVPS (RM)	1.72	1.74	1.77	1.80
Gross Interest Cover	(15.86)	(16.81)	(6.06)	0.10
Effective Tax Rate	1.44%	3.54%	2.91%	1.96%
Net Dividend Payout Ratio	104%	51%	58%	59%
Accounts Receivables Days	36.38	39.91	37.86	36.93
Inventory Days	8.85	7.97	7.70	7.54
Accounts Payables Days	45.2	41.4	40.0	39.1
ROIC (%)	(5.6%)	(5.2%)	(3.1%)	0.1%
ROCE (%)	(1.50%)	(1.32%)	(0.70%)	0.10%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Average Baltic Dry Index	1,228.0	1,099.0	1,154.0	1,269.4
Average Bulk Rate (US$/day)	9,530.0	9,244.1	10,168.5	11,185.4
Bulk Rates (yoy Change %)	-42.3%	-3.0%	10.0%	10.0%
Capacity (no. Of Calendar Days)	4,095	4,320	4,860	5,580
Bulk Capacity (yoy Change %)	-4.9%	5.5%	12.5%	14.8%
Fleet Size (no. Of Vessels)	16.0	17.0	20.0	22.0
No. Of Dry Bulk Ships	13	14	17	18

SOURCE: CIMB, COMPANY REPORTS

CIMB

MISC Bhd

MISC MK / MISC.KL

Market Cap	Avg Daily Turnover	Free Float
US$7,499m	US$2.16m	20.5%
RM24,997m	RM7.00m	4,464 m shares

Current	RM5.60
Target	RM7.25
Prev. Target	RM7.25
Up/Downside	29.5%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	3.8	9.2	20.6
Absolute	2	8.3	30.8

Major shareholders	% held
Petronas	62.7
EPF	10.4
Skim Amanah Saham	6.4

The only way is up

Crude tanker rates did spectacularly well this month as rates spiked 130-510% from their recent lows. Although rates are bound to correct once the temporary supply tightness subsides, the crude and chemical tanker markets now appear to be on a fundamental uptrend.

We keep our Add recommendation and SOP-based target price unchanged. We think that all the bad news is already in the price, and structural as well as cyclical improvements will slowly materialise. Stronger offshore profits and diminishing liquid bulk losses serve as the key catalysts.

Crude tanker rates on fire

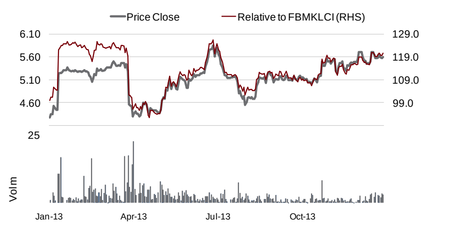
Petroleum tanker owners are smiling after a dismal 10M13 as rates spiked by 130-510% since October 2013. Weather disruptions, unrest in North Africa and robust chartering activity were the fuel behind the fire, but once these subside, rates may fall as quickly as the way they rose. Tanker earnings will nonetheless improve this year, thanks to the fiery rates in the early part of 2014. We believe tanker rates have found a bottom in 2013, with rates likely to inch even higher in 2015 as supply growth closely matches that of demand. On a longer term view, despite concerns of dwindling US crude imports amid rising energy independence, a sharp rise in tonne-miles is in store for the sector, as oil producers direct their exports away from the US and towards the demand centres in Asia's growing economies.

Chemical market to improve

Global chemical tanker fleet growth will likely moderate to 1.5% annually in 2014-16, much slower than the 7.1% annual fleet growth seen in 1996-2013. Chemical tanker owners are mostly optimistic about industry prospects, while customers are beginning to favour long-term contracts, suggesting that they too expect freight rates to rise. Coupled with an expected recovery for mature Western economies, rates will likely trend higher, albeit at a gradual pace.

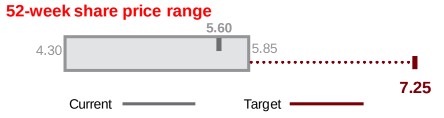
Stronger offshore assets

We expect 31% earnings growth for MISC this year, led by stronger contributions from its offshore assets and diminishing losses from its petroleum and chemical tanker segments. Despite being in a structural decline, the LNG division may pose surprises if MISC manages to secure third-party contracts.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (US$m)	3,736	3,124	2,781	2,922	3,019
Operating EBITDA (US$m)	438.6	669.4	772.1	919.4	990.2
Net Profit (US$m)	(567.4)	249.9	419.1	547.5	601.4
Core EPS (US$)	0.03	0.06	0.09	0.12	0.13
Core EPS Growth	(62.3%)	73.6%	65.2%	30.6%	9.8%
FD Core P/E (x)	51.31	29.56	17.89	13.70	12.47
DPS (US$)	0.033	-	0.032	0.048	0.063
Dividend Yield	1.95%	0.00%	1.93%	2.83%	3.78%
EV/EBITDA (x)	25.24	14.50	13.61	11.62	10.94
P/FCFE (x)	13.92	33.90	NA	37.69	25.14
Net Gearing	45.4%	23.8%	33.1%	33.2%	33.1%
P/BV (x)	1.14	1.09	1.05	1.01	0.97
ROE	2.14%	3.77%	5.98%	7.50%	7.90%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.32	0.35	0.34

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**3,124**	**2,781**	**2,922**	**3,019**
Gross Profit	**669**	**772**	**919**	**990**
Operating EBITDA	**669**	**772**	**919**	**990**
Depreciation And Amortisation	(378)	(368)	(393)	(405)
Operating EBIT	**291**	**404**	**526**	**585**
Total Financial Income/(Expense)	(105)	(93)	(100)	(102)
Total Pretax Income/(Loss) from Assoc.	61	154	189	190
Total Non-Operating Income/(Expense)	73	0	0	0
Profit Before Tax (pre-EI)	**320**	**465**	**615**	**673**
Exceptional Items	(4)	0	0	0
Pre-tax Profit	**316**	**465**	**615**	**673**
Taxation	9	(19)	(25)	(27)
Exceptional Income - post-tax				
Profit After Tax	**325**	**446**	**590**	**646**
Minority Interests	(75)	(27)	(43)	(45)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**250**	**419**	**548**	**601**
Recurring Net Profit	254	419	548	601
Fully Diluted Recurring Net Profit	**254**	**419**	**548**	**601**

Balance Sheet

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	1,314	536	405	304
Total Debtors	944	840	883	912
Inventories	110	90	90	91
Total Other Current Assets	249	249	249	249
Total Current Assets	**2,616**	**1,715**	**1,627**	**1,556**
Fixed Assets	7,129	7,893	8,150	8,395
Total Investments	2,190	2,344	2,533	2,723
Intangible Assets	283	283	283	283
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**9,602**	**10,520**	**10,966**	**11,401**
Short-term Debt	935	935	935	935
Current Portion of Long-Term Debt				
Total Creditors	1,463	1,197	1,194	1,209
Other Current Liabilities	113	113	113	113
Total Current Liabilities	**2,511**	**2,245**	**2,242**	**2,257**
Total Long-term Debt	2,125	2,125	2,125	2,125
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	241	241	241	241
Total Non-current Liabilities	**2,365**	**2,365**	**2,365**	**2,365**
Total Provisions	0	0	0	0
Total Liabilities	**4,877**	**4,611**	**4,607**	**4,623**
Shareholders' Equity	6,884	7,139	7,457	7,761
Minority Interests	458	485	528	573
Total Equity	**7,342**	**7,624**	**7,985**	**8,334**

Cash Flow

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	669	772	919	990
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(34)	(142)	(46)	(15)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	116	112	117	116
Net Interest (Paid)/Received	(229)	(112)	(117)	(116)
Tax Paid	9	(19)	(25)	(27)
Cashflow From Operations	**530**	**611**	**849**	**948**
Capex	(1,180)	(1,132)	(650)	(650)
Disposals Of FAs/subsidiaries	1,478	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	807	0	0	0
Cash Flow From Investing	**1,105**	**(1,132)**	**(650)**	**(650)**
Debt Raised/(repaid)	(1,415)	0	0	0
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	0	(145)	(213)	(283)
Preferred Dividends				
Other Financing Cashflow	(229)	(112)	(117)	(116)
Cash Flow From Financing	**(1,644)**	**(257)**	**(330)**	**(399)**
Total Cash Generated	(8)	(778)	(131)	(101)
Free Cashflow To Equity	**221**	**(521)**	**199**	**298**
Free Cashflow To Firm	**1,865**	**(409)**	**316**	**414**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	(16.4%)	(11.0%)	5.1%	3.3%
Operating EBITDA Growth	52.6%	15.3%	19.1%	7.7%
Operating EBITDA Margin	21.4%	27.8%	31.5%	32.8%
Net Cash Per Share (US$)	(0.39)	(0.57)	(0.59)	(0.62)
BVPS (US$)	1.54	1.60	1.67	1.74
Gross Interest Cover	2.33	3.77	4.91	5.46
Effective Tax Rate	0.00%	4.00%	4.00%	4.00%
Net Dividend Payout Ratio	NA	33.1%	37.2%	45.1%
Accounts Receivables Days	90.1	117.0	107.6	108.5
Inventory Days	17.37	18.13	16.34	16.21
Accounts Payables Days	201.5	241.7	217.8	216.1
ROIC (%)	2.49%	4.24%	4.91%	5.25%
ROCE (%)	2.85%	3.96%	4.91%	5.26%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Petroleum TCE rate (yoy chg %)	-8.9%	-8.5%	5.0%	5.0%
Chemical TCE rate (yoy chg %)	-4.2%	2.0%	10.0%	10.0%
Fleet Size (no. Of Vessels)	145.0	136.0	133.0	134.0
No. Of LNG Tankers	29	29	29	29
No. Of Petroleum Tankers	80	73	74	75
No. Of Chemical Tankers	28	26	26	26

SOURCE: CIMB, COMPANY REPORTS

Neptune Orient Lines

NOL SP / NEPS.SI

Market Cap	Avg Daily Turnover	Free Float
US$2,125m	US$1.71m	30.0%
S$2,720m	S$2.15m	2,583 m shares

Current	S$1.05
Target	S$1.16
Prev. Target	S$1.16
Up/Downside	10.5%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-0.2	1.2	-13.9
Absolute	-1.9	-3.2	-19.2

Major shareholders	% held
Temasek Holdings	67.4

Is the worst over?

Despite the likelihood of outsized losses in 4Q13 following a dramatic fall in spot rates over the past few months, the worst may be over and a brighter year lies ahead in 2014. NOL's current share price has incorporated large amounts of risk and downside appears limited.

We maintain our Hold call and target price, based on 1.1x CY14 P/BV, the mid-point of its trading range since 2012. 4Q13 losses should widen sequentially due to a dramatic fall in spot rates, but NOL's share price has taken a lot of risk into account and should be supported at the current levels.

Recent developments

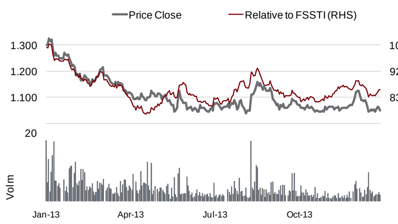
NOL posted core losses of US$9m in 3Q13, its fourth consecutive quarterly loss and its tenth over the past 11 quarters. Its 3Q13 performance was nonetheless a good one, considering the 20% yoy fall in Asia-Europe (AE) and transpacific (TP) spot rates. NOL's 3Q13 rates fell 8.8%, but the impact on the bottomline was blunted by 5% lower unit costs, with cost savings of circa US$500m for the full year, on top of the US$500m already saved in 2012. Hence, the 3Q13 core net loss was much better than 3Q11's US$84m loss, despite lower volumes and rates in 3Q13. NOL managed a 3Q12 profit of US$41m amid relatively "good" industry behaviour and less aggressive price competition.

What to expect for 2014

By end-2014, NOL would have completed the vast majority of its vessel charters that were entered into in the pre-GFC days. As a result, we believe the group will largely achieve its desired cost base next year, and we expect it to turn a small profit of less than 1% net margin. Despite expectations of better earnings in 2014, its near-term share price upside will likely be capped by the possibility of outsized losses in 4Q13. We recommend investors stay on the sidelines for now.

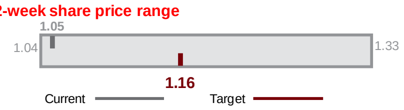
Longer-term challenges

The G6 alliance's biggest ships on order are only 14k teus (ordered by NOL), against the 16k/18k teu ships ordered by the P3 alliance and by CSCL/UASC. The G6 will likely lose further market share in the Asia-Europe trade against lower slot cost competitors in the future unless it proceeds to order the 16k/18k teu newbuildings that it currently does not have.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (US$m)	9,211	9,512	8,740	9,114	9,412
Operating EBITDA (US$m)	(103.7)	40.3	112.2	544.0	725.2
Net Profit (US$m)	(478.2)	(419.4)	(106.2)	90.1	277.9
Core EPS (US$)	(0.18)	(0.14)	(0.12)	0.03	0.11
Core EPS Growth	(202%)	(21%)	(15%)	na	208%
FD Core P/E (x)	NA	NA	NA	23.60	7.65
DPS (US$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	123.7	51.2	10.9	7.5
P/FCFE (x)	NA	3.13	67.86	8.35	3.48
Net Gearing	80%	136%	178%	179%	139%
P/BV (x)	0.81	0.96	1.01	0.97	0.86
ROE	(15.7%)	(15.0%)	(14.3%)	4.2%	11.9%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			8.21	0.85	0.89

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**9,512**	**8,740**	**9,114**	**9,412**
Gross Profit	**844**	**844**	**1,271**	**1,462**
Operating EBITDA	**40**	**112**	**544**	**725**
Depreciation And Amortisation	(315)	(333)	(360)	(359)
Operating EBIT	**(275)**	**(221)**	**184**	**366**
Total Financial Income/(Expense)	(38)	(43)	(49)	(43)
Total Pretax Income/(Loss) from Assoc.	9	10	10	10
Total Non-Operating Income/(Expense)	0	10	10	10
Profit Before Tax (pre-EI)	**(303)**	**(244)**	**155**	**343**
Exceptional Items	(58)	203	0	0
Pre-tax Profit	**(361)**	**(41)**	**155**	**343**
Taxation	(53)	(60)	(60)	(60)
Exceptional Income - post-tax				
Profit After Tax	**(414)**	**(101)**	**95**	**283**
Minority Interests	(6)	(5)	(5)	(5)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**(419)**	**(106)**	**90**	**278**
Recurring Net Profit	(362)	(309)	90	278
Fully Diluted Recurring Net Profit	**(362)**	**(309)**	**90**	**278**

Balance Sheet

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	897	895	1,111	1,689
Total Debtors	1,092	1,003	1,046	1,080
Inventories	267	243	242	245
Total Other Current Assets	268	268	268	268
Total Current Assets	**2,524**	**2,410**	**2,667**	**3,283**
Fixed Assets	5,229	5,875	6,117	5,863
Total Investments	270	280	290	300
Intangible Assets	193	193	193	193
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**5,692**	**6,349**	**6,600**	**6,356**
Short-term Debt	429	429	429	429
Current Portion of Long-Term Debt				
Total Creditors	1,248	1,136	1,129	1,144
Other Current Liabilities	481	481	481	481
Total Current Liabilities	**2,158**	**2,046**	**2,039**	**2,054**
Total Long-term Debt	3,547	4,308	4,729	4,802
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	247	247	247	247
Total Non-current Liabilities	**3,794**	**4,555**	**4,976**	**5,049**
Total Provisions	0	0	0	0
Total Liabilities	**5,951**	**6,601**	**7,015**	**7,104**
Shareholders' Equity	2,212	2,105	2,195	2,473
Minority Interests	54	59	64	69
Total Equity	**2,265**	**2,164**	**2,259**	**2,542**

Cash Flow

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	40	112	544	725
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(64)	1	(49)	(22)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	53	33	39	33
Net Interest (Paid)/Received	(8)	(33)	(39)	(33)
Tax Paid	(33)	(60)	(60)	(60)
Cashflow From Operations	**(12)**	**53**	**435**	**643**
Capex	(1,002)	(1,087)	(602)	(105)
Disposals Of FAs/subsidiaries	150	304	0	0
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	(46)	0	0	0
Cash Flow From Investing	**(898)**	**(783)**	**(602)**	**(105)**
Debt Raised/(repaid)	1,588	761	421	74
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	0	0	0	0
Preferred Dividends				
Other Financing Cashflow	(8)	(33)	(39)	(33)
Cash Flow From Financing	**1,580**	**728**	**382**	**41**
Total Cash Generated	669	(2)	215	579
Free Cashflow To Equity	**678**	**31**	**255**	**612**
Free Cashflow To Firm	**(902)**	**(697)**	**(127)**	**571**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	3.27%	(8.12%)	4.28%	3.28%
Operating EBITDA Growth	na	179%	385%	33%
Operating EBITDA Margin	0.42%	1.28%	5.97%	7.70%
Net Cash Per Share (US$)	(1.19)	(1.48)	(1.56)	(1.37)
BVPS (US$)	0.86	0.81	0.85	0.95
Gross Interest Cover	(5.86)	(3.38)	2.48	4.69
Effective Tax Rate	0.0%	0.0%	38.7%	17.5%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	41.12	43.74	41.03	41.22
Inventory Days	12.55	11.81	11.29	11.18
Accounts Payables Days	53.25	55.11	52.72	52.18
ROIC (%)	(4.77%)	(3.45%)	2.56%	4.85%
ROCE (%)	(4.72%)	(3.02%)	2.92%	5.28%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Average Revenue (US$/FEU)	2,509.0	2,320.1	2,372.9	2,396.6
Average Revenue (US$/TEU)	1,254.5	1,160.0	1,186.5	1,198.3
Liner rates (yoy chg. %)	0.3%	-7.5%	2.3%	1.0%
Cargo Carried (m FEU)	3.02	2.91	2.97	3.03
Cargo carried (FEU, yoy chg. %)	1.4%	-3.5%	2.0%	2.0%
Cargo Carried (m TEU)	0.03	(0.07)	0.04	0.04
Cargo carried (TEU, yoy chg. %)	-73.7%	-353.7%	-157.3%	0.0%
Fleet Size (no. Of Vessels)	154.0	166.0	176.0	176.0
No. Of Container Ships	154	166	176	176

SOURCE: CIMB, COMPANY REPORTS

CIMB

Orient Overseas Intl Ltd

316 HK / 0316.HK

Market Cap	Avg Daily Turnover	Free Float
US$2,870m	US$6.62m	31.0%
HK$22,278m	HK$51.36m	625.8 m shares

Current	HK$35.60
Target	HK$50.60
Prev. Target	HK$50.60
Up/Downside	42.1%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-6	-11.2	-30.7
Absolute	-9.2	-12.9	-35.6

Major shareholders	% held
Tung Chee Chen	68.7
HKSCC Nominees Ltd	30.3

Wobbling in rough seas

Even the strongest ships wobble in tough conditions and OOIL is likely to fall into a full-year loss this year.

We retain our Add recommendation and target price, based on 0.9x FY14 P/BV (1 s.d. above its mean since 2010). We think that a 10% discount to book reflects the difficult industry conditions but also our belief that OOIL remains a strong company. Our forecasts are unchanged. Re-rating catalysts are expected from a possible rise in average freight rates in 2014.

3Q13 operating results

OOIL's 3Q13 volume and rate numbers were more modest than expected and this has led us to lower our full-year expectations for 2013. Total 3Q13 volumes dropped 0.9% yoy, led by a 14% fall in Asia-Europe (AE) and 3.5% lower transpacific (TP) volumes, partially offset by a 4.8% rise in intra-Asia (IA) volumes. As a result, we lower our 2013 volume expectations for the TP/AE trades but raise our IA volume forecast. The net result is a reduction in total revenue as TP/AE rates are naturally higher.

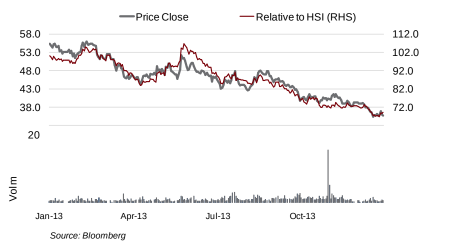
Meanwhile, average 3Q13 rates fell 9.3% yoy, led by a 9.8% yoy fall in AE and IA rates and a 5.6% decline in TP rates. 4Q13 average rates should continue to fall sequentially from the immediately preceding 3Q13. Hence, we reduce our 2013 rate forecast by 2.9% as we lower our TP, AE and IA rate expectations.

Competitors gain heft

From April next year, the P3 alliance is expected to come into effect, increasing the market heft and dominance of the Big 3 carriers, Maersk, MSC and CMA CGM. Also, the CKYH alliance is expected to increase its market share in the 10,000+ teu range while unaligned carriers like UASC and CSCL will take delivery of their 18,000 teu newbuildings and dramatically lift their competitiveness in the AE trade.

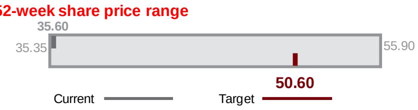
Challenges facing OOIL

The key challenge facing OOIL is also the challenge facing the G6 alliance as a whole. Without 16,000 or 18,000 teu newbuildings, it may not be able to offer the lowest unit costs on the AE trade and the G6 will most likely have to make an investment. Whether this commitment makes sense in an oversupplied market remains an unanswered question.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (US$m)	6,012	6,459	6,153	6,430	6,689
Operating EBITDA (US$m)	386.4	466.0	221.9	358.4	456.0
Net Profit (US$m)	181.6	296.4	(44.3)	106.1	147.3
Core EPS (US$)	0.23	0.43	(0.05)	0.17	0.24
Core EPS Growth	(83%)	89%	(112%)	na	39%
FD Core P/E (x)	20.06	10.63	NA	27.05	19.49
DPS (US$)	0.07	0.12	0.00	0.04	0.06
Dividend Yield	1.53%	2.58%	0.00%	0.92%	1.27%
EV/EBITDA (x)	7.26	6.65	16.55	11.07	8.78
P/FCFE (x)	NA	NA	378.6	21.3	9.5
Net Gearing	13.4%	22.6%	36.1%	42.1%	42.0%
P/BV (x)	0.67	0.64	0.65	0.63	0.62
ROE	2.91%	6.15%	(0.75%)	2.37%	3.21%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			(0.42)	0.41	0.43

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**6,459**	**6,153**	**6,430**	**6,689**
Gross Profit	**856**	**610**	**752**	**854**
Operating EBITDA	**466**	**222**	**358**	**456**
Depreciation And Amortisation	(247)	(280)	(305)	(320)
Operating EBIT	**219**	**(58)**	**53**	**136**
Total Financial Income/(Expense)	6	(1)	(6)	(6)
Total Pretax Income/(Loss) from Assoc.	15	15	15	15
Total Non-Operating Income/(Expense)	44	10	50	10
Profit Before Tax (pre-EI)	**285**	**(34)**	**113**	**155**
Exceptional Items	26	(11)	0	0
Pre-tax Profit	**311**	**(45)**	**113**	**155**
Taxation	(14)	2	(6)	(8)
Exceptional Income - post-tax				
Profit After Tax	**297**	**(43)**	**107**	**147**
Minority Interests	(1)	(1)	(1)	0
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**296**	**(44)**	**106**	**147**
Recurring Net Profit	270	(34)	106	147
Fully Diluted Recurring Net Profit	**270**	**(34)**	**106**	**147**

Balance Sheet

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	1,862	1,833	2,013	2,293
Total Debtors	544	518	542	563
Inventories	154	152	156	160
Total Other Current Assets	206	206	206	206
Total Current Assets	**2,765**	**2,710**	**2,916**	**3,222**
Fixed Assets	4,665	5,169	5,562	5,712
Total Investments	796	800	815	830
Intangible Assets	39	39	39	39
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**5,500**	**6,008**	**6,416**	**6,581**
Short-term Debt	556	556	556	556
Current Portion of Long-Term Debt				
Total Creditors	785	776	795	816
Other Current Liabilities	12	12	12	12
Total Current Liabilities	**1,352**	**1,344**	**1,363**	**1,384**
Total Long-term Debt	2,326	2,875	3,364	3,693
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	72	72	72	72
Total Non-current Liabilities	**2,397**	**2,947**	**3,435**	**3,764**
Total Provisions	0	0	0	0
Total Liabilities	**3,750**	**4,291**	**4,798**	**5,148**
Shareholders' Equity	4,509	4,420	4,526	4,647
Minority Interests	6	7	8	8
Total Equity	**4,515**	**4,427**	**4,534**	**4,655**

Cash Flow

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	466	222	358	456
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(87)	19	(9)	(5)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	102	(9)	(44)	(4)
Net Interest (Paid)/Received	(42)	9	44	4
Tax Paid	(14)	2	(6)	(8)
Cashflow From Operations	**425**	**243**	**344**	**443**
Capex	(785)	(784)	(698)	(470)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	(91)	0	0	0
Cash Flow From Investing	**(875)**	**(784)**	**(698)**	**(470)**
Debt Raised/(repaid)	209	549	489	329
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	(29)	(45)	0	(27)
Preferred Dividends				
Other Financing Cashflow	(42)	9	44	4
Cash Flow From Financing	**138**	**513**	**533**	**307**
Total Cash Generated	(312)	(28)	179	280
Free Cashflow To Equity	**(241)**	**8**	**135**	**302**
Free Cashflow To Firm	**(408)**	**(551)**	**(398)**	**(31)**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	7.44%	(4.74%)	4.49%	4.04%
Operating EBITDA Growth	20.6%	(52.4%)	61.5%	27.2%
Operating EBITDA Margin	7.21%	3.61%	5.57%	6.82%
Net Cash Per Share (US$)	(1.63)	(2.55)	(3.05)	(3.13)
BVPS (US$)	7.21	7.06	7.23	7.43
Gross Interest Cover	6.67	(1.54)	1.21	2.77
Effective Tax Rate	4.4%	0.0%	5.0%	5.0%
Net Dividend Payout Ratio	26.1%	NA	23.7%	23.6%
Accounts Receivables Days	28.75	31.50	30.08	30.14
Inventory Days	9.93	10.07	9.90	9.88
Accounts Payables Days	48.79	51.39	50.50	50.38
ROIC (%)	4.29%	(1.02%)	0.84%	1.99%
ROCE (%)	3.60%	(0.28%)	1.13%	2.06%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Average Revenue (US$/FEU)	2,261.2	2,139.7	2,168.9	2,187.0
Average Revenue (US$/TEU)	1,130.6	1,069.9	1,084.5	1,093.5
Liner rates (yoy chg. %)	2.9%	-5.4%	1.4%	0.8%
Cargo Carried (m FEU)	2.61	2.59	2.65	2.72
Cargo carried (FEU, yoy chg. %)	3.7%	-0.7%	2.5%	2.5%
Cargo Carried (m TEU)	5.22	5.18	5.31	5.44
Cargo carried (TEU, yoy chg. %)	3.7%	-0.7%	2.5%	2.5%
Fleet Size (no. Of Vessels)	98.0	104.0	108.0	110.0
No. Of Container Ships	98	104	108	110

SOURCE: CIMB, COMPANY REPORTS

CIMB

Pacific Basin Shipping

2343 HK / 2343.HK

Market Cap	Avg Daily Turnover	Free Float
US$1,290m	US$4.23m	100.0%
HK$10,012m	HK$32.81m	1,937 m shares

Current	HK$5.17
Target	HK$6.55
Prev. Target	HK$6.55
Up/Downside	26.7%

STOCK RATING
ADD
HOLD
REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-1.4	0	18.3
Absolute	-4.6	-1.7	13.4

Major shareholders	% held
Companie de Navigation	11.9
JP Morgan Chase	9.8
UBS AG	7.0

The persevering workhorse

The stock continues to trade at an undeserved discount to its underlying fleet value, despite a strong balance sheet and improving prospects. Investors cannot go wrong with a company that has never made a loss on its core bulk shipping business.

We retain our Add call, earnings forecasts and target price, still based on SOP valuation. Re-rating catalysts are expected from rising bulk ship values and a gradual recovery in bulk freight rates.

Strong fundamentals

PB has been able to keep its core dry bulk business profitable since the GFC. As usual, its 1H13 time charter equivalent (TCE) rates outperformed the market average by 28-32%, while its 3Q13 handysize rates were 27% above spot Baltic Exchange rates. This superior performance was achieved by milking PB's global network of cargo interests and end-customers to keep ship utilisation high and secure backhaul cargoes. Its fleet of mostly high-quality Japanese-built ships is also fuel-efficient.

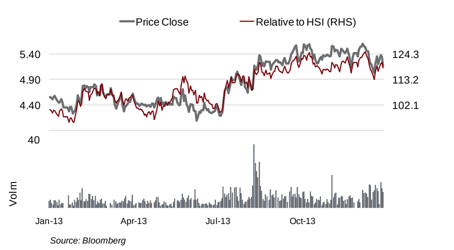
PB has also been exploiting the cheap charter market by rapidly expanding its short-term chartered fleet to tap profitable business.

Timely vessel purchases

PB has been aggressive in asset acquisitions, which are generally well-timed with low ship prices. Its owned and finance-leased fleet is expected to rise from 50 ships as at 1 January 2013 to 74 ships as at 31 December 2013, and further to 87 ships by end-2016. With a strong balance sheet and low gearing, it will find it relatively easy to fund its acquisitions with debt. It recently waded back into the newbuilding market, by signing contracts to buy seven new handysize and handymax ships for delivery in 2014-16. PB can afford to buy more ships as its end-June net gearing of 0.3x was still below its self-imposed limit of 0.5x.

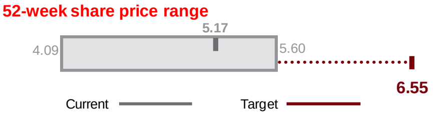
Positive outlook

We believe that the global dry bulk fleet will grow 4.9% yoy in 2014, marginally higher than the 4.6% growth in demand expected, and spot rates should generally be stable. But rates should rise more convincingly in 2015, when the average fleet may grow only 2.2%. However, PB is more aggressively expecting demand to rise 7% next year, which would support our call on the stock even more.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (US$m)	1,343	1,443	1,728	1,936	2,056
Operating EBITDA (US$m)	170.4	138.5	140.0	211.9	232.9
Net Profit (US$m)	32.0	(158.5)	18.8	84.8	105.6
Core EPS (US$)	0.030	0.031	0.018	0.044	0.055
Core EPS Growth	(52%)	5%	(42%)	141%	24%
FD Core P/E (x)	23.69	23.85	41.23	17.14	13.77
DPS (US$)	0.012	0.006	0.005	0.022	0.027
Dividend Yield	1.87%	0.97%	0.73%	3.29%	4.09%
EV/EBITDA (x)	8.55	10.96	12.65	7.67	6.50
P/FCFE (x)	126.1	10.6	NA	15.0	12.4
Net Gearing	11.4%	17.1%	35.7%	24.1%	15.6%
P/BV (x)	0.87	0.97	0.96	0.93	0.90
ROE	3.81%	4.32%	2.63%	6.20%	7.48%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.57	0.86	0.63

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**1,443**	**1,728**	**1,936**	**2,056**
Gross Profit	**138**	**140**	**212**	**233**
Operating EBITDA	**138**	**140**	**212**	**233**
Depreciation And Amortisation	(64)	(85)	(101)	(102)
Operating EBIT	**74**	**55**	**111**	**131**
Total Financial Income/(Expense)	(18)	(20)	(22)	(21)
Total Pretax Income/(Loss) from Assoc.	3	5	2	2
Total Non-Operating Income/(Expense)	(0)	(5)	(5)	(5)
Profit Before Tax (pre-EI)	**58**	**36**	**86**	**107**
Exceptional Items	(215)	(17)	0	0
Pre-tax Profit	**(157)**	**19**	**86**	**107**
Taxation	(2)	(0)	(1)	(1)
Exceptional Income - post-tax				
Profit After Tax	**(158)**	**19**	**85**	**106**
Minority Interests	0	0	0	0
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**(158)**	**19**	**85**	**106**
Recurring Net Profit	61	35	85	106
Fully Diluted Recurring Net Profit	**61**	**35**	**85**	**106**

Balance Sheet

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	703	598	619	654
Total Debtors	106	127	142	151
Inventories	79	96	105	111
Total Other Current Assets	133	133	133	133
Total Current Assets	**1,022**	**954**	**999**	**1,049**
Fixed Assets	1,270	1,525	1,406	1,342
Total Investments	0	0	0	0
Intangible Assets	25	25	25	25
Total Other Non-Current Assets	153	158	160	162
Total Non-current Assets	**1,449**	**1,709**	**1,592**	**1,529**
Short-term Debt	78	78	78	78
Current Portion of Long-Term Debt				
Total Creditors	175	213	231	244
Other Current Liabilities	9	9	9	9
Total Current Liabilities	**262**	**300**	**318**	**331**
Total Long-term Debt	854	1,002	875	800
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	23	10	10	10
Total Non-current Liabilities	**876**	**1,012**	**886**	**810**
Total Provisions	0	0	0	0
Total Liabilities	**1,138**	**1,312**	**1,204**	**1,142**
Shareholders' Equity	1,332	1,350	1,387	1,437
Minority Interests	0	0	0	0
Total Equity	**1,332**	**1,350**	**1,387**	**1,437**

Cash Flow

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	138.5	140.0	211.9	232.9
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(96.3)	(0.1)	(5.3)	(1.5)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	145.3	32.2	33.5	28.9
Net Interest (Paid)/Received	(18.5)	(32.2)	(33.5)	(28.9)
Tax Paid	(1.6)	(0.4)	(0.9)	(1.1)
Cashflow From Operations	**167.3**	**139.6**	**205.7**	**230.3**
Capex	(195.4)	(394.0)	(29.0)	(84.0)
Disposals Of FAs/subsidiaries	12.3	42.1	46.9	46.4
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	**(183.1)**	**(351.9)**	**17.9**	**(37.6)**
Debt Raised/(repaid)	152.5	148.3	(126.8)	(75.1)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(12.5)	(9.4)	(42.4)	(52.8)
Preferred Dividends				
Other Financing Cashflow	(18.5)	(32.2)	(33.5)	(28.9)
Cash Flow From Financing	**121.5**	**106.7**	**(202.7)**	**(156.8)**
Total Cash Generated	105.7	(105.6)	20.9	35.9
Free Cashflow To Equity	**136.7**	**(64.0)**	**96.8**	**117.5**
Free Cashflow To Firm	**2.8**	**(180.1)**	**257.1**	**221.5**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	7.5%	19.7%	12.1%	6.2%
Operating EBITDA Growth	(18.7%)	1.1%	51.3%	9.9%
Operating EBITDA Margin	9.6%	8.1%	10.9%	11.3%
Net Cash Per Share (US$)	(0.12)	(0.25)	(0.17)	(0.12)
BVPS (US$)	0.69	0.70	0.72	0.74
Gross Interest Cover	2.15	1.38	2.73	3.57
Effective Tax Rate	0.00%	1.86%	1.00%	1.00%
Net Dividend Payout Ratio	21.4%	26.3%	49.5%	49.5%
Accounts Receivables Days	26.27	24.61	25.38	26.04
Inventory Days	20.48	20.16	21.26	21.53
Accounts Payables Days	44.84	44.56	46.99	47.60
ROIC (%)	3.69%	2.92%	5.03%	6.31%
ROCE (%)	3.98%	3.23%	5.42%	6.29%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Average Baltic Dry Index	1,228.0	1,099.0	1,154.0	1,154.0
Average Bulk Rate (US$/day)	10,882.7	10,214.8	10,995.1	11,516.9
Bulk Rates (yoy Change %)	-22.2%	-6.1%	7.6%	4.7%
Capacity (no. Of Calendar Days)	56,340	72,104	78,142	81,331
Bulk Capacity (yoy Change %)	26.2%	28.0%	8.4%	4.1%
Fleet Size (no. Of Vessels)	154.5	198.4	215.1	223.9
No. Of Dry Bulk Ships	155	198	215	224

SOURCE: CIMB, COMPANY REPORTS

Precious Shipping

PSL TB / PSL.BK

Market Cap	Avg Daily Turnover	Free Float
US$664.1m	US$0.60m	39.5%
THB21,830m	THB19.61m	1,040 m shares

Current	THB21.00
Target	THB15.45
Prev. Target	THB15.45
Up/Downside	-26.4%

STOCK RATING

ADD

HOLD

REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-0.4	13.8	37.3
Absolute	-1.4	3.4	28

Major shareholders	% held
Nishita Shah & family	43.0
Khalid Hashim & family	17.5
Thai NVDR	5.3

Profits still miles away

PSL has made five consecutive quarters of core losses. Although 4Q13 losses should significantly narrow amid higher freight rates, we think the streak of losses is unlikely to abate until after 2015. Our SOP, based on the market value of PSL's vessels, is also below its share price.

We maintain our Reduce call on PSL, while our forecasts and SOP-based target price also remain unchanged. Although dry bulk rates have improved substantially since the start of 2013, we expect a return to profits only in 2016. The continuous loss and resulting equity erosion serve as PSL's key de-rating catalysts.

Recent developments

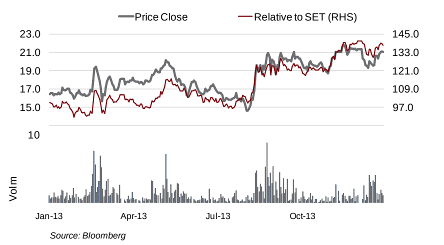
PSL made a core net loss of THB176m in 3Q13 due to weaker-than-expected freight rates. Its average time-charter equivalent earnings (TCE) fell 11.5% yoy to US$7,041/day on the back of a weak market. The average Baltic Handysize Index for 3Q13 was US$7,877/day, so PSL actually underperformed the market average, possibly due to a higher rate of vessel unemployment. PSL still managed to grow its revenue 15% yoy on the back of a 29% rise in the average number of vessels, as it had taken delivery of newbuildings and made second-hand purchases. Reported 3Q13 net profit was THB20.4m due to the presence of THB197m in exceptional gains from the cancellation of five shipbuilding contracts with ABG Shipyard.

What to expect for 2014

Dry bulk rates will likely improve in 2014 amid lesser oversupply concerns, leading to narrowing core losses for the ship operator. Bulk TCE rates have already improved remarkably this year, with handysize and supramax rates rising by 56-90% since end-2012. Average rates for the two segments so far in 4Q13 are 48-75% higher than those seen in the same period last year, suggesting that PSL may close the year with lower losses. Losses and the resulting equity erosion is however likely to stay until end-FY15.

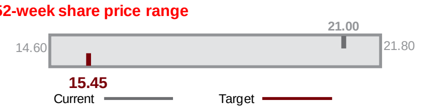
What you should do

Stay away. Core losses will remain a prevalent feature of PSL's results next year. Valuations are also not cheap. Our SOP valuation, based on the current market value of PSL's vessels, is substantially below its share price.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (THBm)	3,084	3,499	3,914	4,427	4,790
Operating EBITDA (THBm)	1,460	1,223	1,105	1,447	1,711
Net Profit (THBm)	718.5	141.0	377.4	(308.5)	(76.1)
Core EPS (THB)	0.47	(0.10)	(0.47)	(0.30)	(0.07)
Core EPS Growth	(32%)	(122%)	356%	(37%)	(75%)
FD Core P/E (x)	45.05	NA	NA	NA	NA
DPS (THB)	0.50	0.36	0.36	0.36	0.36
Dividend Yield	2.36%	1.71%	1.71%	1.71%	1.71%
EV/EBITDA (x)	16.50	23.40	24.22	19.81	16.52
P/FCFE (x)	25.02	NA	4.34	48.26	16.38
Net Gearing	17.3%	49.5%	37.0%	53.0%	52.2%
P/BV (x)	1.43	1.51	1.51	1.59	1.65
ROE	3.03%	(0.72%)	(3.38%)	(2.19%)	(0.56%)
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.12	(0.30)	(0.05)

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(THBm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**3,499**	**3,914**	**4,427**	**4,790**
Gross Profit	**1,449**	**1,476**	**1,835**	**2,118**
Operating EBITDA	**1,223**	**1,105**	**1,447**	**1,711**
Depreciation And Amortisation	(910)	(1,137)	(1,258)	(1,267)
Operating EBIT	**312**	**(33)**	**188**	**445**
Total Financial Income/(Expense)	(413)	(473)	(514)	(538)
Total Pretax Income/(Loss) from Assoc.	(2)	30	30	30
Total Non-Operating Income/(Expense)	3	0	0	0
Profit Before Tax (pre-EI)	**(100)**	**(475)**	**(296)**	**(63)**
Exceptional Items	248	866	0	0
Pre-tax Profit	**148**	**390**	**(296)**	**(63)**
Taxation	(4)	(10)	(10)	(10)
Exceptional Income - post-tax				
Profit After Tax	**144**	**380**	**(306)**	**(73)**
Minority Interests	(3)	(3)	(3)	(3)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**141**	**377**	**(309)**	**(76)**
Recurring Net Profit	(107)	(488)	(309)	(76)
Fully Diluted Recurring Net Profit	**(107)**	**(488)**	**(309)**	**(76)**

Balance Sheet

(THBm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	1,901	6,024	5,525	5,881
Total Debtors	894	919	951	974
Inventories	147	181	192	198
Total Other Current Assets	0	0	0	0
Total Current Assets	**2,941**	**7,125**	**6,669**	**7,053**
Fixed Assets	20,672	18,785	19,933	19,041
Total Investments	403	433	463	493
Intangible Assets	13	13	13	13
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**21,088**	**19,232**	**20,410**	**19,547**
Short-term Debt	802	802	802	802
Current Portion of Long-Term Debt				
Total Creditors	254	313	332	343
Other Current Liabilities	64	64	64	64
Total Current Liabilities	**1,119**	**1,179**	**1,198**	**1,209**
Total Long-term Debt	8,265	10,568	11,992	11,992
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	**8,265**	**10,568**	**11,992**	**11,992**
Total Provisions	161	161	161	161
Total Liabilities	**9,545**	**11,908**	**13,351**	**13,362**
Shareholders' Equity	14,483	14,444	13,720	13,228
Minority Interests	1	4	7	10
Total Equity	**14,484**	**14,449**	**13,727**	**13,238**

Cash Flow

(THBm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	1,223	1,105	1,447	1,711
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(123)	(1)	(24)	(18)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(344)	0	0	0
Net Interest (Paid)/Received	0	0	0	0
Tax Paid	(5)	(10)	(10)	(10)
Cashflow From Operations	**751**	**1,094**	**1,413**	**1,684**
Capex	(6,285)	(3,290)	(2,035)	0
Disposals Of FAs/subsidiaries	1,729	5,272	0	0
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	19	(350)	(350)	(350)
Cash Flow From Investing	**(4,537)**	**1,632**	**(2,385)**	**(350)**
Debt Raised/(repaid)	2,041	2,303	1,424	0
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	(468)	(416)	(416)	(416)
Preferred Dividends				
Other Financing Cashflow	(143)	(489)	(535)	(562)
Cash Flow From Financing	**1,430**	**1,398**	**473**	**(978)**
Total Cash Generated	(2,356)	4,123	(499)	356
Free Cashflow To Equity	**(1,745)**	**5,029**	**453**	**1,334**
Free Cashflow To Firm	**(3,786)**	**2,726**	**(972)**	**1,334**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	13.5%	11.9%	13.1%	8.2%
Operating EBITDA Growth	(16.3%)	(9.6%)	30.9%	18.3%
Operating EBITDA Margin	34.9%	28.2%	32.7%	35.7%
Net Cash Per Share (THB)	(6.89)	(5.14)	(6.99)	(6.65)
BVPS (THB)	13.93	13.89	13.19	12.72
Gross Interest Cover	0.72	(0.07)	0.36	0.81
Effective Tax Rate	2.81%	2.56%	0.00%	0.00%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	17.88	21.41	21.31	21.76
Inventory Days	19.26	24.54	26.28	26.68
Accounts Payables Days	41.16	42.45	45.47	46.15
ROIC (%)	1.35%	(0.12%)	0.77%	1.72%
ROCE (%)	1.44%	(0.10%)	0.76%	1.73%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Average Baltic Dry Index	1,228.0	1,099.0	1,154.0	1,269.4
Average Bulk Rate (US$/day)	8,221.0	7,163.0	7,796.9	8,336.0
Bulk Rates (yoy Change %)	-27.0%	-12.9%	8.9%	6.9%
Capacity (no. Of Calendar Days)	10,956	14,509	15,330	15,695
Bulk Capacity (yoy Change %)	37.7%	32.4%	5.7%	2.4%
Fleet Size (no. Of Vessels)	36.0	41.0	43.0	43.0
No. Of Dry Bulk Ships	36	41	43	43

SOURCE: CIMB, COMPANY REPORTS

CIMB

Qantas Airways

QAN AU / QAN.AX

Market Cap	Avg Daily Turnover	Free Float
US$2,131m	US$16.35m	100.0%
A$2,427m	A$17.92m	2,196 m shares

Current	A$1.11
Target	A$1.14
Prev. Target	A$1.14
Up/Downside	2.9%

STOCK RATING

ADD

HOLD

REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	1.5	-9.6	-37.2
Absolute	0.9	-11.3	-27.3

Major shareholders	% held
Capital Group	11.6
Franklin Resources	10.9
Commonwealth Bank	10.1

Will the sledging tactics work?

The outlook for QAN remains challenging with tough domestic conditions persisting and international capacity growth accelerating. With no sign of these conditions abating in the near term, earnings are likely to remain under pressure for at least the next two years.

Lower load factors and declining yields due to competition in the domestic and international markets have caused us to expect a pre-tax loss of A$666m in FY14, falling to a pre-tax loss of A$233m in FY15 before returning to a pre-tax profit of A$174m in FY16. Under our revised rating structure, our rating changes from Neutral to Hold with a target price of A$1.14 based on a 0.6x FY15F P/NTA multiple.

Capacity remains the issue

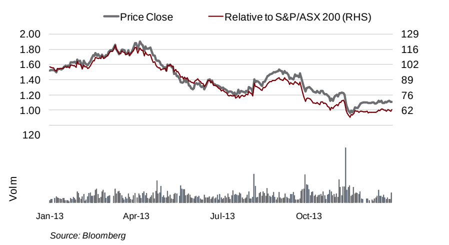
Our analysis of seat availability based on airline schedule data (sourced from CAPA) indicates a continuation of flat capacity growth across the top 10 domestic routes through April but high-single digit growth for the top 10 international markets. While we are comfortable that excessive domestic capacity growth won't return in 2014, demand remains weak and as such is negatively impacting yields.

VAH to keep up the pressure

Cashed up due to support by its four strategic investors, VAH's recent A$351m capital raising gives it an advantage in its quest to challenge QAN for more of the premium travel market. We expect VAH will continue to fight hard to capture more of the corporate market, while also growing Tiger at the discount end of the market to compete with Jetstar. We think this will mean ongoing pressure on QAN yields as it battles to retain market share.

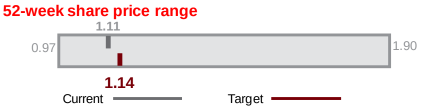
Cheap but risks remain

While we think QAN is cheap on 0.5x P/NTA, we don't see a positive catalyst on the horizon to drive a re-rating. The last time QAN was trading at these share price levels, the market was concerned about the need for a possible equity raising. This time the primary concern in our view is excess capacity and a cashed up domestic competitor aggressively chasing the higher-yielding corporate market (as evidenced by the recent downgrade). These issues won't go away in the near term and we therefore think the share price will remain around current levels until the passenger airline market moves back into a more favourable demand/supply balance, which we think is at least 6-9 months away.



Source: Bloomberg

52-week share price range



Financial Summary

	Jun-12A	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue (A$m)	15,724	15,863	15,639	16,436	17,111
Operating EBITDA (A$m)	1,649	1,822	1,085	1,609	2,094
Net Profit (A$m)	(245.0)	6.0	(480.5)	(168.7)	124.0
Normalised EPS (A$)	0.03	0.06	(0.22)	(0.08)	0.06
Normalised EPS Growth	(84%)	105%	(455%)	(65%)	na
FD Normalised P/E (x)	37.14	18.14	NA	NA	19.61
DPS (A$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	3.43	3.15	5.70	3.82	2.93
P/FCFE (x)	NA	NA	NA	154.9	NA
Net Gearing	53.5%	54.6%	73.0%	77.7%	77.1%
P/BV (x)	0.43	0.42	0.48	0.51	0.51
ROE	1.12%	2.32%	(8.70%)	(3.42%)	2.60%
Normalised EPS/consensus EPS (x)			1.09	1.32	0.91

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(A$m)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Net Revenues	**15,863**	**15,639**	**16,436**	**17,111**
Gross Profit	**15,863**	**15,639**	**16,436**	**17,111**
Operating EBITDA	**1,822**	**1,085**	**1,609**	**2,094**
Depreciation And Amortisation	(1,450)	(1,570)	(1,640)	(1,690)
Operating EBIT	**372**	**(485)**	**(31)**	**404**
Total Financial Income/(Expense)	(180)	(181)	(202)	(231)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**192**	**(666)**	**(233)**	**174**
Exceptional Items	(174)	0	0	0
Pre-tax Profit	**18**	**(666)**	**(233)**	**174**
Taxation	(11)	186	65	(49)
Exceptional Income - post-tax				
Profit After Tax	**7**	**(480)**	**(168)**	**125**
Minority Interests	(1)	(1)	(1)	(1)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Preference Dividends (Australia)				
Net Profit	**6**	**(481)**	**(169)**	**124**
Normalised Net Profit	138	(480)	(168)	125
Fully Diluted Normalised Profit	**137**	**(481)**	**(169)**	**124**

Balance Sheet

(A$m)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Cash And Equivalents	2,829	2,356	2,371	1,985
Total Debtors	1,436	1,412	1,484	1,545
Inventories	364	358	376	392
Total Other Current Assets	616	616	616	616
Total Current Assets	**5,245**	**4,742**	**4,848**	**4,537**
Fixed Assets	13,827	13,507	13,215	13,277
Total Investments	190	190	190	190
Intangible Assets	714	655	602	554
Total Other Non-Current Assets	224	224	224	224
Total Non-current Assets	**14,955**	**14,576**	**14,231**	**14,245**
Short-term Debt	835	835	835	835
Current Portion of Long-Term Debt				
Total Creditors	1,859	1,828	1,921	2,000
Other Current Liabilities	3,676	3,676	3,676	3,676
Total Current Liabilities	**6,370**	**6,339**	**6,432**	**6,511**
Total Long-term Debt	5,245	5,245	5,245	4,845
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	1,958	1,958	1,958	1,958
Total Non-current Liabilities	**7,203**	**7,203**	**7,203**	**6,803**
Total Provisions	673	673	673	673
Total Liabilities	**14,246**	**14,215**	**14,308**	**13,987**
Shareholders' Equity	5,949	5,097	4,763	4,787
Minority Interests	5	6	7	8
Total Equity	**5,954**	**5,103**	**4,770**	**4,795**

Cash Flow

(A$m)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
EBITDA	1,822	1,085	1,609	2,094
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(330)	(1)	3	3
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	47	(200)	(100)	(100)
Net Interest (Paid)/Received	(119)	(272)	(265)	(307)
Tax Paid	(3)	0	0	(49)
Cashflow From Operations	**1,417**	**612**	**1,247**	**1,641**
Capex	(1,320)	(1,100)	(1,232)	(1,628)
Disposals Of FAs/subsidiaries	247	0	0	0
Acq. Of Subsidiaries/investments	(97)	0	0	0
Other Investing Cashflow	125	78	0	0
Cash Flow From Investing	**(1,045)**	**(1,022)**	**(1,232)**	**(1,628)**
Debt Raised/(repaid)	(565)	0	0	(400)
Proceeds From Issue Of Shares	(388)	(63)	0	0
Shares Repurchased				
Dividends Paid	0	0	0	0
Preferred Dividends				
Other Financing Cashflow	0	0	0	0
Cash Flow From Financing	**(953)**	**(63)**	**0**	**(400)**
Total Cash Generated	(581)	(473)	16	(387)
Free Cashflow To Equity	**(193)**	**(410)**	**16**	**(387)**
Free Cashflow To Firm	**491**	**(138)**	**280**	**320**

Key Ratios

	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue Growth	0.88%	(1.41%)	5.10%	4.11%
Operating EBITDA Growth	10.5%	(40.5%)	48.3%	30.2%
Operating EBITDA Margin	11.5%	6.9%	9.8%	12.2%
Net Cash Per Share (A$)	(1.45)	(1.69)	(1.69)	(1.68)
BVPS (A$)	2.65	2.32	2.17	2.18
Gross Interest Cover	1.26	(1.17)	(0.08)	0.95
Effective Tax Rate	61.1%	0.0%	0.0%	28.0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	29.30	33.24	32.16	32.40
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	2.30%	(2.92%)	(0.19%)	2.59%
ROCE (%)	3.78%	(2.06%)	1.39%	5.29%

SOURCE: CIMB, COMPANY REPORTS

CIMB

Singapore Airlines

SIA SP / SIA.SI

Market Cap	Avg Daily Turnover	Free Float
US$9,015m	US$5.76m	45.4%
S$11,539m	S$7.23m	1,200 m shares

Current	S$9.83
Target	S$10.50
Prev. Target	S$10.50
Up/Downside	6.8%

STOCK RATING

ADD

HOLD

REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-2.5	-1.5	-6.4
Absolute	-4.2	-5.9	-11.7

Major shareholders	% held
Temasek Holdings	54.6

No uplift catalysts yet

We continue to worry that SIA will remain dogged by competition from Middle Eastern and low-cost carriers. While SIA will attempt to use a more segmented strategy to gain market share, we think it still lacks scale for this policy to be effective.

We leave our earnings, target price and stock rating unchanged. We rate SIA a Hold as we think competitive pressures will continue to weigh on earnings. We leave our target price and estimates unchanged. Our CY14 target price of S$10.50 is based on a trough multiple of 4.2x CY14 EV/EBITDAR.

Management not particularly positive

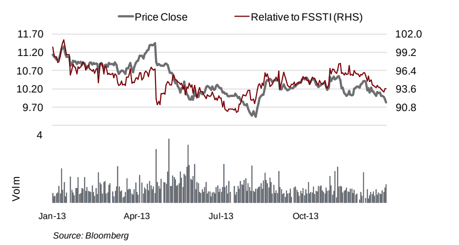
At its 2QFY14 results briefing, SIA highlighted again that while advance bookings point to better demand in the coming months, promotional activities due to competition and the strong Singapore dollar continue to depress yields. The cargo market remains soft and SIA is cutting capacity to stem losses in this unit. In fact, earnings growth last quarter was driven mostly by non-operating items like Tiger's gain on the sale of its Australian business to Virgin Australia.

Segmented strategy not yet effective

SIA will continue to focus on a four-segment strategy that penetrates all areas of the travel market: full-service long-haul and regional, and low-cost long-haul and regional. At present, we see little breakthrough with any of these strategies. Apart from softer yields on the parent airline (full service long-haul), softer loads caused SilkAir's (full service regional) operating profit to decline last quarter. Meanwhile, Tiger (regional low-cost) continues to record losses at the core net-profit level, while Scoot (long-haul low cost) appears to be still lacking requisite scale to significantly stem the fall in profitability.

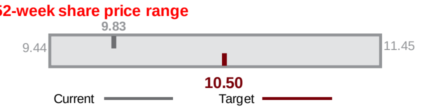
No valuation angle either

SIA is currently trading at 0.9x P/BV. In our view, this does not look especially attractive when compared to its long-run average of 1.1x, particularly in light of the increased competition relative to previous years. In addition, the combination of slow earnings growth and high capex needed in the coming years may keep a lid on payout ratios. This could discourage dividend-centric investors from buying heavily into SIA



Source: Bloomberg

52-week share price range



Financial Summary

	Mar-12A	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Revenue (S$m)	14,858	15,098	15,487	16,102	16,944
Operating EBITDA (S$m)	1,913	1,851	2,082	2,288	2,518
Net Profit (S$m)	335.9	378.9	576.8	681.6	737.1
Core EPS (S$)	0.30	0.34	0.47	0.57	0.61
Core EPS Growth	(71.9%)	14.7%	37.8%	21.3%	8.1%
FD Core P/E (x)	33.42	29.14	21.14	17.43	16.12
DPS (S$)	0.20	0.23	0.36	0.40	0.44
Dividend Yield	2.00%	2.33%	3.63%	4.10%	4.44%
EV/EBITDA (x)	5.85	5.90	5.15	4.66	4.48
P/FCFE (x)	NA	18.35	23.75	77.28	NA
Net Gearing	(32.2%)	(32.8%)	(33.0%)	(30.2%)	(25.1%)
P/BV (x)	0.91	0.90	0.87	0.85	0.83
ROE	2.62%	3.14%	4.21%	4.96%	5.26%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.05	0.97	0.78

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(S$m)	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Total Net Revenues	**15,098**	**15,487**	**16,102**	**16,944**
Gross Profit	**4,204**	**4,490**	**4,740**	**5,022**
Operating EBITDA	**1,851**	**2,082**	**2,288**	**2,518**
Depreciation And Amortisation	(1,622)	(1,645)	(1,638)	(1,803)
Operating EBIT	**229**	**437**	**650**	**715**
Total Financial Income/(Expense)	20	25	30	31
Total Pretax Income/(Loss) from Assoc.	64	66	60	60
Total Non-Operating Income/(Expense)	189	166	159	159
Profit Before Tax (pre-EI)	**512**	**701**	**898**	**965**
Exceptional Items				
Pre-tax Profit	**502**	**693**	**898**	**965**
Taxation	(40)	(73)	(153)	(164)
Exceptional Income - post-tax	(20)	22	0	0
Profit After Tax	**442**	**642**	**746**	**801**
Minority Interests	(63)	(66)	(64)	(64)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	0	0	0	0
Net Profit	**379**	**577**	**682**	**737**
Recurring Net Profit	408	562	682	737
Fully Diluted Recurring Net Profit	**408**	**562**	**682**	**737**

Balance Sheet

(S$m)	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Total Cash And Equivalents	5,409	5,582	5,272	4,715
Total Debtors	1,633	1,615	1,660	1,739
Inventories	275	367	345	323
Total Other Current Assets	182	186	185	186
Total Current Assets	**7,500**	**7,749**	**7,463**	**6,963**
Fixed Assets	13,098	12,893	13,299	14,190
Total Investments	1,382	1,863	2,062	2,260
Intangible Assets	449	408	424	440
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**14,929**	**15,164**	**15,785**	**16,890**
Short-term Debt	0	0	0	0
Current Portion of Long-Term Debt	74	48	50	30
Total Creditors	3,201	3,065	3,005	3,104
Other Current Liabilities	2,272	2,260	2,333	2,412
Total Current Liabilities	**5,547**	**5,373**	**5,388**	**5,546**
Total Long-term Debt	941	928	903	1,016
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	572	760	760	760
Total Non-current Liabilities	**1,513**	**1,688**	**1,663**	**1,776**
Total Provisions	1,951	1,898	1,898	1,898
Total Liabilities	**9,011**	**8,959**	**8,949**	**9,220**
Shareholders' Equity	13,105	13,605	13,885	14,155
Minority Interests	313	350	414	478
Total Equity	**13,417**	**13,955**	**14,298**	**14,633**

Cash Flow

(S$m)	Mar-13A	Mar-14F	Mar-15F	Mar-16F
EBITDA	1,851	2,082	2,288	2,518
Cash Flow from Invt. & Assoc.	(23)	203	0	0
Change In Working Capital	70	(221)	(11)	122
(Incr)/Decr in Total Provisions	(10)	(8)	0	0
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(14)	0	0	0
Net Interest (Paid)/Received	20	25	30	31
Tax Paid	(40)	(73)	(153)	(164)
Cashflow From Operations	**1,854**	**2,008**	**2,154**	**2,507**
Capex	(1,875)	(1,974)	(2,300)	(2,950)
Disposals Of FAs/subsidiaries	648	291	300	300
Acq. Of Subsidiaries/investments	(49)	107	0	0
Other Investing Cashflow	131	107	19	19
Cash Flow From Investing	**(1,146)**	**(1,470)**	**(1,981)**	**(2,631)**
Debt Raised/(repaid)	(61)	(37)	(20)	93
Proceeds From Issue Of Shares	1	159	27	27
Shares Repurchased				
Dividends Paid	(244)	(360)	(429)	(494)
Preferred Dividends				
Other Financing Cashflow	(34)	(50)	(58)	(58)
Cash Flow From Financing	**(339)**	**(289)**	**(480)**	**(433)**
Total Cash Generated	370	249	(307)	(557)
Free Cashflow To Equity	**648**	**500**	**154**	**(32)**
Free Cashflow To Firm	**751**	**578**	**212**	**(77)**

Key Ratios

	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Revenue Growth	1.62%	2.57%	3.98%	5.23%
Operating EBITDA Growth	(3.3%)	12.5%	9.9%	10.0%
Operating EBITDA Margin	12.3%	13.4%	14.2%	14.9%
Net Cash Per Share (S$)	3.66	3.84	3.60	3.06
BVPS (S$)	10.92	11.34	11.57	11.80
Gross Interest Cover	5.60	11.15	16.91	15.18
Effective Tax Rate	8.0%	10.5%	17.0%	17.0%
Net Dividend Payout Ratio	46%	58%	63%	67%
Accounts Receivables Days	36.68	38.28	37.12	36.72
Inventory Days	9.73	10.65	11.44	10.25
Accounts Payables Days	102.0	104.0	97.5	93.8
ROIC (%)	2.09%	3.93%	5.32%	5.61%
ROCE (%)	1.85%	3.07%	4.23%	4.57%

Key Drivers

	2012F	2013F	2014F	2015F	2016F
RPK (% yoy)	3.6	6.8	3.1	4.0	4.0
RCTK (% yoy)	0.3	-6.0	-3.7	2.0	4.0
ASK (% yoy)	5.0	4.3	3.2	4.0	4.0
ACTK (% yoy)	0.7	-5.5	-3.2	2.0	4.0
Passenger yield (% yoy)	-0.9	-4.0	-1.8	1.0	1.0
Cargo yield (% yoy)	-4.7	-4.1	-2.1	1.0	1.0
Fuel price (US$/bbl)	125	129	127	130	130

CIMB

SITC International

1308 HK / 1308.HK

Market Cap	Avg Daily Turnover	Free Float
US$1,136m	US$0.93m	35.0%
HK$8,816m	HK$7.23m	2,600 m shares

Current	HK$3.41
Target	HK$3.49
Prev. Target	HK$3.49
Up/Downside	2.3%

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	5.9	13.9	23.7
Absolute	2.7	12.2	18.8

Major shareholders	% held
Yang Shaopeng	55.4
Yang Xianxiang	8.0
Liu Kecheng	0.5

Sub-optimal bulk ship purchases

We believe that upside for SITC will be very limited in the next 12 months as investors remain wary of its proposed related-party bulk-ship purchases while intra-Asia freight rates remain weak.

We maintain our Hold call and our target price remains based on 1.4x CY14 P/BV, its average since its 2010 IPO. As a whole, SITC should continue to be more defensive than the long-haul carriers, as intra-Asia rates are not as volatile and it has significant freight forwarding operations. While SITC is likely to continue growing, we think its share-price upside could be limited over the next 12 months.

Recent 3Q13 performance

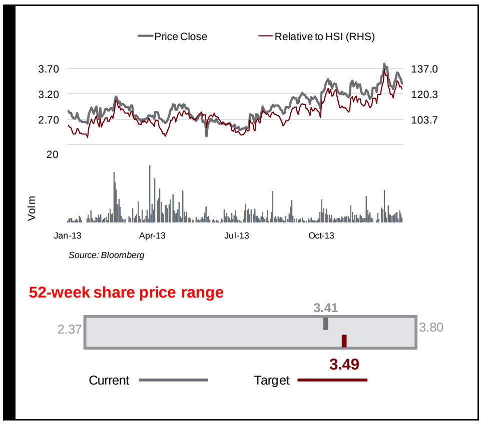
Average 3Q13 shipping rates fell 8.8% yoy and 9M13 rates, 10% yoy, due to the Japanese yen's depreciation and a general decline in China-ASEAN shipping rates on more competition. This partially offset a 10-12% yoy rise in shipping volumes due to the growth of SITC's freight forwarding business, resulting in flat shipping revenue growth of just 0.5% yoy. SITC's 3Q13 total revenue rose 4.6% yoy, as its freight forwarding and land logistics arms compensated for the slow growth in shipping. Also, a slower-than-expected rise in costs helped to raise EBIT margins from 6.8% in 3Q12 to 8.3% in 3Q13, lifting 3Q13 core net profit 30% higher yoy. 9M13 core net profit was flat yoy due to a weak 1H13, when core net profit fell 15% yoy.

Future expansion

SITC has 12 x 1,800 teu orders with Taiwan's CSBC Corp, for 2014-16 delivery. These ships will help SITC gain economies of scale on its South-East Asia runs. However, we do not view its proposed acquisition of five dry bulk ships from its chairman and major shareholder so favourably.

Sub-optimal bulk buys

We are slightly negative on the purchases as SITC does not have any experience operating such ships and we do not think it will have any competitive advantage in an oversupplied market. We estimate that the purchases will reduce SITC's net cash from US$226m at end-June 2013 to about US$100m. SITC could have used the cash to develop its core business of short-sea container shipping, strengthen its land logistics business or return the cash to shareholders, rather than enter an unrelated business. Please see our 17 November report for details [PDF].



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (US$m)	1,087	1,205	1,199	1,286	1,349
Operating EBITDA (US$m)	79.7	93.7	111.2	131.2	138.7
Net Profit (US$m)	93.6	93.4	108.5	101.8	102.7
Core EPS (US$)	0.028	0.036	0.037	0.039	0.039
Core EPS Growth	(39.7%)	25.9%	2.3%	7.1%	0.9%
FD Core P/E (x)	15.47	12.29	12.02	11.22	11.12
DPS (US$)	0.015	0.016	0.027	0.014	0.014
Dividend Yield	3.51%	3.53%	6.25%	3.12%	3.15%
EV/EBITDA (x)	9.03	9.09	8.28	6.88	7.16
P/FCFE (x)	NA	NA	20.30	10.96	14.89
Net Gearing	(63.1%)	(34.9%)	(20.3%)	(20.1%)	(7.9%)
P/BV (x)	1.76	1.63	1.48	1.37	1.27
ROE	11.9%	13.7%	12.9%	12.7%	11.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.07	0.80	0.63

SOURCE: CIMB, COMPANY REPORTS

CIMB

Profit & Loss

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**1,205**	**1,199**	**1,286**	**1,349**
Gross Profit	**154**	**180**	**206**	**217**
Operating EBITDA	**94**	**111**	**131**	**139**
Depreciation And Amortisation	(16)	(26)	(35)	(40)
Operating EBIT	**78**	**86**	**96**	**99**
Total Financial Income/(Expense)	5	2	(2)	(3)
Total Pretax Income/(Loss) from Assoc.	7	7	7	7
Total Non-Operating Income/(Expense)	6	5	5	5
Profit Before Tax (pre-EI)	**96**	**100**	**106**	**107**
Exceptional Items	0	13	0	0
Pre-tax Profit	**96**	**113**	**106**	**107**
Taxation	(2)	(5)	(4)	(4)
Exceptional Income - post-tax				
Profit After Tax	**94**	**109**	**102**	**103**
Minority Interests	(0)	(0)	(0)	(0)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**93**	**108**	**102**	**103**
Recurring Net Profit	93	95	102	103
Fully Diluted Recurring Net Profit	**93**	**95**	**102**	**103**

Balance Sheet

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	378.9	402.1	471.5	514.2
Total Debtors	72.8	72.4	77.7	81.5
Inventories	18.7	18.3	19.4	20.3
Total Other Current Assets	40.0	40.0	40.0	40.0
Total Current Assets	**510.3**	**532.8**	**608.5**	**656.0**
Fixed Assets	444.0	579.0	626.3	786.0
Total Investments	46.4	66.8	73.8	80.8
Intangible Assets	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	0.0	0.0	0.0	0.0
Total Non-current Assets	**490.4**	**645.9**	**700.1**	**866.8**
Short-term Debt	17.4	17.4	17.4	17.4
Current Portion of Long-Term Debt				
Total Creditors	138.1	135.2	143.5	150.5
Other Current Liabilities	24.3	24.3	24.3	24.3
Total Current Liabilities	**179.7**	**176.8**	**185.2**	**192.1**
Total Long-term Debt	115.5	228.0	285.5	425.3
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0.6	0.6	0.6	0.6
Total Non-current Liabilities	**116.1**	**228.5**	**286.1**	**425.9**
Total Provisions	0.0	0.0	0.0	0.0
Total Liabilities	**295.8**	**405.4**	**471.3**	**618.0**
Shareholders' Equity	702.9	771.0	834.8	901.9
Minority Interests	2.0	2.3	2.6	2.9
Total Equity	**704.8**	**773.3**	**837.4**	**904.8**

Cash Flow

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	93.7	111.2	131.2	138.7
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(12.8)	(2.2)	2.0	2.2
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	0.0	0.0	(0.0)	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0
Tax Paid	(2.3)	(4.5)	(4.3)	(4.3)
Cashflow From Operations	**78.6**	**104.5**	**128.9**	**136.6**
Capex	(209.1)	(160.7)	(82.2)	(199.8)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	**(209.1)**	**(160.7)**	**(82.2)**	**(199.8)**
Debt Raised/(repaid)	95.7	112.5	57.5	139.8
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(40.0)	(40.3)	(38.0)	(35.6)
Preferred Dividends				
Other Financing Cashflow	10.8	7.3	3.1	1.6
Cash Flow From Financing	**66.5**	**79.5**	**22.7**	**105.8**
Total Cash Generated	(64.0)	23.3	69.3	42.7
Free Cashflow To Equity	**(34.8)**	**56.3**	**104.2**	**76.7**
Free Cashflow To Firm	**(130.5)**	**(56.2)**	**46.7**	**(63.1)**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	10.8%	(0.5%)	7.3%	4.9%
Operating EBITDA Growth	17.5%	18.7%	18.0%	5.8%
Operating EBITDA Margin	7.8%	9.3%	10.2%	10.3%
Net Cash Per Share (US$)	0.09	0.06	0.06	0.03
BVPS (US$)	0.27	0.30	0.32	0.35
Gross Interest Cover	36.21	18.10	9.85	8.06
Effective Tax Rate	2.39%	4.00%	4.00%	4.00%
Net Dividend Payout Ratio	42.3%	71.7%	33.6%	33.6%
Accounts Receivables Days	23.86	22.11	21.31	21.54
Inventory Days	6.05	6.61	6.36	6.40
Accounts Payables Days	50.41	48.94	47.08	47.38
ROIC (%)	28.5%	17.3%	14.6%	13.8%
ROCE (%)	11.1%	10.0%	9.6%	8.6%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Average Revenue (US$/FEU)	1,077.9	970.1	979.8	979.8
Average Revenue (US$/TEU)	538.9	485.1	489.9	489.9
Liner rates (yoy chg. %)	-0.7%	-10.0%	1.0%	0.0%
Cargo Carried (m FEU)	0.89	0.98	1.02	1.08
Cargo carried (FEU, yoy chg. %)	14.7%	10.0%	5.0%	5.0%
Cargo Carried (m TEU)	1.77	1.95	2.05	2.15
Cargo carried (TEU, yoy chg. %)	14.7%	10.0%	5.0%	5.0%
Fleet Size (no. Of Vessels)	56.0	63.0	70.0	77.0
No. Of Container Ships	-	-	-	-

SOURCE: CIMB, COMPANY REPORTS

STX Pan Ocean

028670 KS / 028670.KS

Market Cap	Avg Daily Turnover	Free Float
US$726.2m	US$10.31m	70.0%
W784,560m	W10,949m	205.9 m shares

Current	W6,490
Target	W1,020
Prev. Target	W51.00
Up/Downside	-84.3%

STOCK RATING: ADD / HOLD / **REDUCE**

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-54.3	-75.8	-92.9
Absolute	-57.4	-81	-94.1

Major shareholders	% held
STX Group	15.0
Korea Development Bank	15.0

Paddling desperately for survival

Existing shareholders will be marginalised in STXPO's recent restructuring exercise as the ship operator attempts to stay afloat. Its shares will essentially be worthless if not for our 40% debt haircut assumption. Losses are also expected to persist.

We retain our Reduce call but our SOP-based target price is raised following the recent share consolidation exercise. STXPO's ability to remain as a going concern remains in question. De-rating catalysts include its inability to come to an agreement on a debt haircut, without which STXPO shares will be effectively worthless.

Recent developments

STXPO sank deeper into the red in 3Q13, with core net loss widening by 32% yoy to US$104.7m. The net loss came on the back of an 80% yoy reduction in revenue after the ship operator sold part of its fleet at fire sale prices, booking a US$167m net vessel disposal loss in the process. Operating expenses correspondingly fell as a result of the reduced fleet size, but persistently soft freight rates meant that revenue dived at a faster rate than cost. As losses mounted, STXPO proposed a capital reduction and a debt-to-equity swap in a desperate attempt to keep the company afloat.

What to expect for 2014t

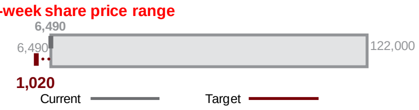
The restructuring plan proposes to convert US$1.1bn of debt into equity, which will lead to a fivefold increase in its share base. STXPO will, in effect, be taken over by its creditors, diluting existing shareholders' stake by 93%. Even after the debt-to-equity swap, STXPO's debt woes will not be over as it will still have US$2.7bn debt on its balance sheet and an additional US$2.1bn in off-balance sheet operating lease obligations. In addition, dry bulk shipping capacity surplus is around 30%, far exceeding the 10-11% surplus of previous "bad" years in 1986 and 1998-99. Hence, we do not expect average dry bulk freight rates to recover by very much or very quickly. Average fleet capacity should rise in lockstep with demand in 2014, and only in 2015 will fleet growth fall 2.4% pts behind demand, assuming no major ship ordering binge. Losses are hence likely to persist for STXPO.

Avoid at all cost

Our current target price hinges on a massive 40% debt haircut, without which STXPO shares will essentially be worthless. Stay away at all cost.

Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (US$m)	5,177	4,812	4,338	4,515	4,739
Operating EBITDA (US$m)	22.5	(26.4)	2.9	227.2	383.4
Net Profit (US$m)	(19.4)	(419.0)	(359.5)	(160.0)	(2.5)
Core EPS (US$)	(0.85)	(1.20)	(1.75)	(0.78)	(0.01)
Core EPS Growth	(543%)	41%	45%	(56%)	(98%)
FD Core P/E (x)	NA	NA	NA	NA	NA
DPS (US$)	0.060	0.043	-	-	-
Dividend Yield	1.00%	0.71%	0.00%	0.00%	0.00%
EV/EBITDA (x)	169	NA	1,920	26	15
P/FCFE (x)	2.80	1.79	7.61	9.41	3.75
Net Gearing	130%	227%	353%	427%	430%
P/BV (x)	0.59	0.75	0.96	1.09	1.09
ROE	(8.3%)	(13.2%)	(24.4%)	(13.2%)	(0.2%)
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)				(0.001)	

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**4,812**	**4,338**	**4,515**	**4,739**
Gross Profit	**(26)**	**3**	**227**	**383**
Operating EBITDA	**(26)**	**3**	**227**	**383**
Depreciation And Amortisation	(163)	(185)	(196)	(198)
Operating EBIT	**(190)**	**(183)**	**31**	**186**
Total Financial Income/(Expense)	(75)	(157)	(181)	(185)
Total Pretax Income/(Loss) from Assoc.	(2)	(3)	(3)	(3)
Total Non-Operating Income/(Expense)	(44)	0	0	0
Profit Before Tax (pre-EI)	**(311)**	**(342)**	**(152)**	**(3)**
Exceptional Items	(171)	0	0	0
Pre-tax Profit	**(482)**	**(342)**	**(152)**	**(3)**
Taxation	64	(17)	(8)	0
Exceptional Income - post-tax				
Profit After Tax	**(418)**	**(360)**	**(160)**	**(2)**
Minority Interests	(1)	0	0	0
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**(419)**	**(360)**	**(160)**	**(2)**
Recurring Net Profit	(248)	(360)	(160)	(2)
Fully Diluted Recurring Net Profit	**(248)**	**(360)**	**(160)**	**(2)**

Balance Sheet

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	269	253	187	311
Total Debtors	362	326	340	357
Inventories	76	68	67	68
Total Other Current Assets	599	599	599	599
Total Current Assets	**1,305**	**1,246**	**1,192**	**1,335**
Fixed Assets	5,054	5,544	5,648	5,650
Total Investments	285	282	279	276
Intangible Assets	31	31	31	31
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**5,371**	**5,857**	**5,958**	**5,958**
Short-term Debt	1,151	1,500	1,500	1,500
Current Portion of Long-Term Debt				
Total Creditors	324	291	288	292
Other Current Liabilities	576	576	576	576
Total Current Liabilities	**2,052**	**2,366**	**2,363**	**2,368**
Total Long-term Debt	2,881	3,353	3,563	3,703
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	82	82	82	82
Total Non-current Liabilities	**2,963**	**3,435**	**3,645**	**3,785**
Total Provisions	0	0	0	0
Total Liabilities	**5,015**	**5,802**	**6,009**	**6,153**
Shareholders' Equity	1,653	1,293	1,133	1,131
Minority Interests	8	8	8	8
Total Equity	**1,661**	**1,301**	**1,141**	**1,139**

Cash Flow

(US$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	(26)	3	227	383
Cash Flow from Invt. & Assoc.				
Change In Working Capital	277	10	(16)	(13)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	475	199	216	225
Net Interest (Paid)/Received	(855)	(178)	(198)	(205)
Tax Paid	64	(17)	(8)	0
Cashflow From Operations	**(65)**	**16**	**221**	**390**
Capex	(1,100)	(675)	(300)	(200)
Disposals Of FAs/subsidiaries	80	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	917	0	0	0
Cash Flow From Investing	**(103)**	**(675)**	**(300)**	**(200)**
Debt Raised/(repaid)	860	821	210	140
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	(9)	0	0	0
Preferred Dividends				
Other Financing Cashflow	(855)	(178)	(198)	(205)
Cash Flow From Financing	**(4)**	**643**	**12**	**(65)**
Total Cash Generated	(171)	(15)	(67)	125
Free Cashflow To Equity	**693**	**162**	**131**	**330**
Free Cashflow To Firm	**687**	**(481)**	**120**	**396**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	(7.05%)	(9.85%)	4.08%	4.96%
Operating EBITDA Growth	(218%)	na	7742%	69%
Operating EBITDA Margin	(0.55%)	0.07%	5.03%	8.09%
Net Cash Per Share (US$)	(18.28)	(22.34)	(23.68)	(23.76)
BVPS (US$)	8.03	6.28	5.50	5.49
Gross Interest Cover	(1.86)	(1.03)	0.16	0.90
Effective Tax Rate	0%	0%	0%	0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	27.58	28.97	26.93	26.82
Inventory Days	5.27	6.03	5.73	5.66
Accounts Payables Days	20.89	25.90	24.61	24.29
ROIC (%)	(3.31%)	(2.87%)	0.45%	2.62%
ROCE (%)	(2.97%)	(2.73%)	0.79%	3.28%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Average Baltic Dry Index	1,228.0	1,099.0	1,154.0	1,154.0
Average Bulk Rate (US$/day)	35,349.2	31,814.3	33,405.0	35,075.3
Bulk Rates (yoy Change %)	-12.2%	-10.0%	5.0%	5.0%
Capacity (no. Of Calendar Days)	113,469	104,755	102,018	102,200
Bulk Capacity (yoy Change %)	0.9%	-7.7%	-2.6%	0.2%
Fleet Size (no. Of Vessels)	364.0	345.0	345.0	345.0
No. Of Dry Bulk Ships	302	299	305	308

SOURCE: CIMB, COMPANY REPORTS

Sydney Airport

SYD AU / SYD.AX

Market Cap	Avg Daily Turnover	Free Float
US$7,411m	US$34.09m	81.4%
A$8,514m	A$37.45m	2,194 m shares

Current	A$3.88
Target	A$4.25
Prev. Target	A$4.25
Up/Downside	9.5%

STOCK RATING
ADD
HOLD
REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	4.2	-1.5	16.2
Absolute	2.6	-4	25.2

Major shareholders	% held
Macquarie Bank	18.6
Unisuper	6.3
FMR LLC & FIL	6.0

Positive dynamics continue

Positive dynamics in the aviation industry are driving increased propensity to travel. With the outlook for international traffic growth solid, and SYD leveraged to international traffic growth in particular (International accounts for approx. 75% of EBITDA), we believe the outlook for SYD remains positive.

Trading at 15.6x FY14F EV/EBITDA (in line with post asset swap average) and with a best-in-sector 6.1% FY14F yield, we believe SYD still offers some upside (14% on a 12-month TSR view). We make no changes to forecasts and maintain our DCF-based TP of A$4.25, with our Add rating also unchanged.

Traffic outlook solid

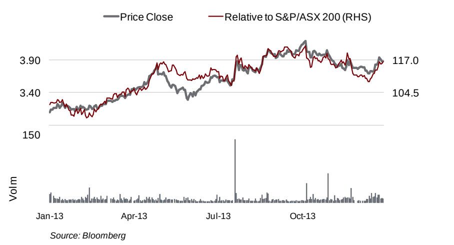
Aircraft technology improvements, liberalisation of air rights, alliances and growth in Low Cost Carriers are structural changes driving ongoing airline traffic growth (particularly in the Asian region). With International traffic growth of 4.1% in FY13 (vs average 3.6% over the past 10 years), and CAPA data indicating that traffic growth is likely to remain around trend levels through 1H14 at least, we believe the traffic outlook for SYD remains solid (we forecast 4% international traffic growth in FY14, 2.5% Domestic growth).

Leverage in the model

Over the period 2007-12, SYD has converted 3% traffic growth into 7% EBITDA (due to CPI-linked pricing increases and ongoing tight cost control) and 10% growth in distributable cash. With ongoing investment in both aero and non-aeronautical facilities driving earnings improvement, and cost control remaining a focus, we believe that SYD can continue to grow earnings at 6-7% pa and forecast 6.3% DPS CAGR over the next three years (to FY16).

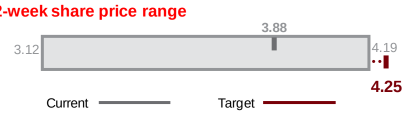
Catalysts on the horizon

2013 was a big year for SYD, having settled the ATO tax audit and moved to 100% of the airport asset (and as a result simplifying the structure). With SYD lodging its master plan with the federal government for approval in December, we believe FY14 is also likely to be a big year with potential developments in relation to the T3 lease reversion, terminal co-location plan, retail development and Duty Free contract retender.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (A$m)	973	1,038	1,116	1,183	1,252
Operating EBITDA (A$m)	712	833	897	951	1,008
Net Profit (A$m)	(239.9)	179.2	18.3	152.7	181.4
Normalised EPS (A$)	0.065	0.096	0.063	0.069	0.082
Normalised EPS Growth	(4.5%)	47.5%	(34.1%)	9.5%	18.4%
FD Normalised P/E (x)	59.45	40.30	61.15	55.83	47.15
DPS (A$)	0.21	0.21	0.23	0.24	0.26
Dividend Yield	5.41%	5.41%	5.80%	6.19%	6.70%
EV/EBITDA (x)	18.46	15.97	15.58	15.82	15.22
P/FCFE (x)	3.75	NA	18.85	17.72	16.56
Net Gearing	238%	283%	220%	215%	211%
P/BV (x)	3.15	3.52	2.96	2.82	2.67
ROE	3.36%	8.25%	5.08%	5.17%	5.81%
Normalised EPS/consensus EPS (x)			1.02	0.83	0.85

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(A$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**1,031**	**1,109**	**1,176**	**1,246**
Gross Profit	**1,031**	**1,109**	**1,176**	**1,246**
Operating EBITDA	**833**	**897**	**951**	**1,008**
Depreciation And Amortisation	(300)	(281)	(273)	(269)
Operating EBIT	**533**	**616**	**678**	**738**
Total Financial Income/(Expense)	(442)	(437)	(460)	(479)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**91**	**179**	**218**	**259**
Exceptional Items				
Pre-tax Profit	**91**	**179**	**218**	**259**
Taxation	67	(54)	(65)	(78)
Exceptional Income - post-tax	0	(107)	0	0
Profit After Tax	**158**	**18**	**153**	**181**
Minority Interests	21	0	0	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Preference Dividends (Australia)				
Net Profit	**179**	**18**	**153**	**181**
Normalised Net Profit	158	125	153	181
Fully Diluted Normalised Profit	**179**	**125**	**153**	**181**

Balance Sheet

(A$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	434	381	418	402
Total Debtors	104	106	109	112
Inventories				
Total Other Current Assets	29	29	29	29
Total Current Assets	**566**	**516**	**555**	**543**
Fixed Assets	0	0	0	0
Total Investments	0	0	0	0
Intangible Assets	8,485	9,588	9,495	9,407
Total Other Non-Current Assets	1,921	1,954	2,509	3,102
Total Non-current Assets	**10,406**	**11,541**	**12,003**	**12,508**
Short-term Debt	217	217	217	217
Current Portion of Long-Term Debt				
Total Creditors	181	181	181	181
Other Current Liabilities	367	395	455	467
Total Current Liabilities	**764**	**792**	**852**	**864**
Total Long-term Debt	6,222	6,481	6,723	6,973
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	**6,222**	**6,481**	**6,723**	**6,973**
Total Provisions	1,861	1,907	1,955	2,004
Total Liabilities	**8,847**	**9,181**	**9,530**	**9,841**
Shareholders' Equity	2,049	2,876	3,029	3,210
Minority Interests	76	0	0	0
Total Equity	**2,125**	**2,876**	**3,029**	**3,210**

Cash Flow

(A$m)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	833	897	951	1,008
Cash Flow from Invt. & Assoc.				
Change In Working Capital				
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	16	(137)	(145)	(153)
Other Operating Cashflow				
Net Interest (Paid)/Received	(308)	(317)	(332)	(345)
Tax Paid	2	(69)	0	0
Cashflow From Operations	**543**	**374**	**475**	**509**
Capex	(211)	(227)	(235)	(243)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	(24)	0	0	0
Cash Flow From Investing	**(234)**	**(227)**	**(235)**	**(243)**
Debt Raised/(repaid)	(438)	259	241	250
Proceeds From Issue Of Shares	0	0	22	29
Shares Repurchased				
Dividends Paid	(391)	(391)	(466)	(560)
Preferred Dividends				
Other Financing Cashflow	(171)	(68)	0	0
Cash Flow From Financing	**(1,000)**	**(200)**	**(203)**	**(282)**
Total Cash Generated	(691)	(53)	37	(16)
Free Cashflow To Equity	**(129)**	**406**	**481**	**516**
Free Cashflow To Firm	**618**	**464**	**572**	**612**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	6.64%	7.51%	5.99%	5.90%
Operating EBITDA Growth	17.0%	7.6%	6.1%	5.9%
Operating EBITDA Margin	80.3%	80.4%	80.4%	80.5%
Net Cash Per Share (A$)	(3.23)	(2.88)	(2.96)	(3.07)
BVPS (A$)	1.10	1.31	1.38	1.45
Gross Interest Cover	1.16	1.35	1.41	1.47
Effective Tax Rate	0.0%	30.0%	30.0%	30.0%
Net Dividend Payout Ratio	218%	312%	316%	294%
Accounts Receivables Days	107.6	34.3	33.2	32.2
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	3.69%	4.32%	4.28%	4.49%
ROCE (%)	6.15%	7.00%	7.15%	7.46%

SOURCE: CIMB, COMPANY REPORTS

CIMB

Thai Airways International

THAI TB / THAI.BK

Market Cap	Avg Daily Turnover	Free Float
US$929.7m	US$1.95m	32.0%
THB30,559m	THB62.76m	2,183 m shares

Current	THB14.00
Target	THB11.50
Prev. Target	THB11.50
Up/Downside	-17.9%

STOCK RATING

ADD

HOLD

REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-1.1	-21	-28.5
Absolute	-2.1	-31.4	-37.8

Major shareholders	% held
Ministry of Finance	51.0
Vayupak Fund 1 by KTAM	8.5
Vayupak Fund 1 by MFC	8.5

Not just about politics

THAI has more deep-rooted problems than the near-term political unrest. Even if peace is restored in Thailand, we doubt that THAI will be able to sustain its profitability, given the intense competition, its heavy cost base and lack of management continuity.

We maintain our EPS forecasts and target price, still set at 0.42x FY14 P/BV, derived in turn using regression on forward ROE. THAI still carries a Reduce rating as its poor earnings are still likely to weigh on its share price.

Problems prior to politics

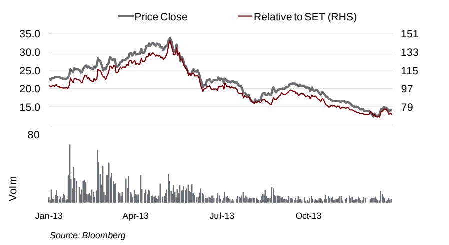
Even before the local political unrest began to affect the tourist arrivals in mid-4Q13, THAI had failed to reap any benefits from the tourism boom. Upon receipt of its new aircraft, THAI's pax production rose 8.5% yoy in 9M13 but its traffic increased by only 6.4%. This resulted in its pax load falling by 1.5% pts to 75.2%. At the same time, the intense competition and strong currency pushed down its pax yield by 2.2% yoy. On the cargo side, THAI's operating statistics were also dismal, with a 7% yoy drop in its freight factor to 50.4% and a 6.7% yoy drop in its freight yield. The lower loads and yields, together with the punishing cost base, translated into a sizeable core net loss in 9M13. The peak travel season has not come to the rescue. THAI's pax load fell 6-8% pts yoy to 70-71% in Dec-Nov 2013.

Tough environment

THAI's near-term data points are likely to remain weak amid the continuing political turmoil. Given the capacity additions by its peers, the competition within the industry will remain fierce. For FY14, we expect THAI's pax load to weaken further while a weaker exchange rate could push up its yield and fuel cost. Given these, we expect THAI to continue to report a core loss in FY14 before returning to a moderate profit in FY15. THAI's fast-rising net gearing (2.4x at end-3Q13) is a cause for concern. Its last capital call was in 2010, after an extended period with high net gearing of 2-3x.

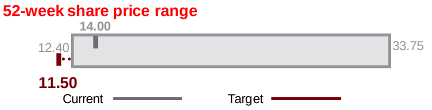
Avoid

Given the intense competition and occasional cost fluctuations, the airline stocks are not prime plays for Thai tourism. THAI is no exception. We expect the national airline's earnings to remain depressed. There is also the risk of a capital call.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (THBm)	190,997	209,123	210,275	223,895	246,344
Operating EBITDA (THBm)	16,923	26,084	20,061	21,659	29,143
Net Profit (THBm)	(10,197)	6,229	(5,692)	(2,216)	3,397
Core EPS (THB)	(2.55)	0.63	(1.12)	(1.02)	1.56
Core EPS Growth	(207%)	na	(277%)	(10%)	na
FD Core P/E (x)	NA	22.05	NA	NA	9.00
DPS (THB)	0.00	0.50	0.00	0.00	0.39
Dividend Yield	0.00%	3.57%	0.00%	0.00%	2.78%
EV/EBITDA (x)	9.22	6.46	9.99	9.70	6.89
P/FCFE (x)	NA	27.55	NA	NA	3.26
Net Gearing	197%	196%	268%	293%	263%
P/BV (x)	0.48	0.44	0.49	0.51	0.48
ROE	(8.01%)	2.10%	(3.75%)	(3.63%)	5.51%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.06	(1.14)	0.87

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(THBm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**209,123**	**210,275**	**223,895**	**246,344**
Gross Profit	**26,084**	**20,061**	**21,659**	**29,143**
Operating EBITDA	**26,084**	**20,061**	**21,659**	**29,143**
Depreciation And Amortisation	(20,524)	(20,109)	(20,783)	(22,701)
Operating EBIT	**5,560**	**(48)**	**876**	**6,441**
Total Financial Income/(Expense)	(5,340)	(5,696)	(6,310)	(6,585)
Total Pretax Income/(Loss) from Assoc.	363	885	943	1,037
Total Non-Operating Income/(Expense)	6,520	(1,411)	2,328	2,561
Profit Before Tax (pre-EI)	**7,104**	**(6,269)**	**(2,163)**	**3,455**
Exceptional Items	0	0	0	0
Pre-tax Profit	**7,104**	**(6,269)**	**(2,163)**	**3,455**
Taxation	(593)	627	0	0
Exceptional Income - post-tax				
Profit After Tax	**6,510**	**(5,642)**	**(2,163)**	**3,455**
Minority Interests	(281)	(50)	(53)	(59)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**6,229**	**(5,692)**	**(2,216)**	**3,397**
Recurring Net Profit	1,386	(2,455)	(2,216)	3,397
Fully Diluted Recurring Net Profit	**1,386**	**(2,455)**	**(2,216)**	**3,397**

Balance Sheet

(THBm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	21,758	19,047	9,565	18,929
Total Debtors	15,738	15,738	15,738	15,738
Inventories	7,784	8,338	8,865	9,521
Total Other Current Assets	26,331	20,219	21,528	23,687
Total Current Assets	**71,611**	**63,342**	**55,697**	**67,875**
Fixed Assets	219,905	249,797	259,014	256,312
Total Investments	1,560	1,560	1,560	1,560
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	11,020	11,020	11,020	11,020
Total Non-current Assets	**232,485**	**262,376**	**271,593**	**268,892**
Short-term Debt	23,944	28,000	28,000	28,000
Current Portion of Long-Term Debt				
Total Creditors	4,622	5,211	5,541	5,951
Other Current Liabilities	54,117	52,569	55,974	61,586
Total Current Liabilities	**82,683**	**85,780**	**89,514**	**95,537**
Total Long-term Debt	134,741	160,000	160,000	160,000
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	16,853	16,853	16,853	16,853
Total Non-current Liabilities	**151,595**	**176,853**	**176,853**	**176,853**
Total Provisions	0	0	0	0
Total Liabilities	**234,277**	**262,633**	**266,368**	**272,390**
Shareholders' Equity	68,920	62,136	59,920	63,317
Minority Interests	898	948	1,002	1,060
Total Equity	**69,818**	**63,085**	**60,922**	**64,377**

Cash Flow

(THBm)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	26,084	20,061	21,659	29,143
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(708)	4,599	1,898	3,208
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	1,677	2,186	2,328	2,561
Net Interest (Paid)/Received	(5,340)	(5,696)	(6,310)	(6,585)
Tax Paid	(593)	627	0	0
Cashflow From Operations	**21,119**	**21,777**	**19,575**	**28,327**
Capex	(34,811)	(50,000)	(30,000)	(20,000)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	249	0	0	0
Other Investing Cashflow	(1,834)	(1,749)	943	1,037
Cash Flow From Investing	**(36,396)**	**(51,749)**	**(29,057)**	**(18,963)**
Debt Raised/(repaid)	16,386	29,315	0	0
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	0	(1,091)	0	0
Preferred Dividends				
Other Financing Cashflow	3,564	(963)	(0)	(0)
Cash Flow From Financing	**19,950**	**27,260**	**(0)**	**(0)**
Total Cash Generated	4,673	(2,711)	(9,482)	9,364
Free Cashflow To Equity	**1,109**	**(657)**	**(9,482)**	**9,364**
Free Cashflow To Firm	**(9,440)**	**(23,644)**	**(2,620)**	**16,226**

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	9.5%	0.6%	6.5%	10.0%
Operating EBITDA Growth	54.1%	(23.1%)	8.0%	34.5%
Operating EBITDA Margin	12.5%	9.5%	9.7%	11.8%
Net Cash Per Share (THB)	(62.73)	(77.40)	(81.75)	(77.46)
BVPS (THB)	31.57	28.47	27.45	29.01
Gross Interest Cover	0.95	(0.01)	0.13	0.94
Effective Tax Rate	8.35%	0.00%	0.00%	0.00%
Net Dividend Payout Ratio	16.0%	NA	NA	25.0%
Accounts Receivables Days	28.34	27.32	25.66	23.32
Inventory Days	15.49	15.47	15.52	15.45
Accounts Payables Days	11.98	9.43	9.70	9.66
ROIC (%)	1.91%	(0.02%)	0.28%	2.02%
ROCE (%)	2.79%	0.24%	0.57%	2.68%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Av. Seat Km (ASK, Yoy Chg %)	0.9%	8.0%	1.2%	7.0%
Rev. Psg Km (RPK, Yoy Chg %)	9.8%	5.9%	0.9%	10.7%
Passenger Load Factor (%)	76.6%	75.1%	74.9%	77.5%
Pax yld per RPK (THB)	2.7	2.7	2.8	2.8
Pax rev. per ASK (THB)	2.1	2.0	2.1	2.2
Total Cost Per ATK (THB)	17.4	17.1	17.8	18.1
Fuel Cost Per ATK (THB)	6.7	6.4	7.1	7.2
Non-fuel Cost Per ATK (THB)	8.2	8.2	8.2	8.3
Jet Fuel Price (US$/barrel)	126.9	120.0	125.0	125.0
Fleet Size (no. Of Planes)	97	98	101	104

SOURCE: CIMB, COMPANY REPORTS

January 24, 2014

Tiger Airways

TGR SP / TAHL.SI

Market Cap	Avg Daily Turnover	Free Float
US$342.9m	US$0.41m	45.0%
S$438.9m	S$0.51m	871.2 m shares

Current	S$0.45
Target	S$0.33
Prev. Target	S$0.33
Up/Downside	-25.8%

STOCK RATING

ADD

HOLD

REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-11.1	-16.1	-33.2
Absolute	-12.8	-20.5	-38.5

Major shareholders	% held
SIA	32.8
Temasek	7.3

Struggling amid headwinds

Tiger Airways has struggled to register sustainable earnings since FY12, only recording one profitable quarter over the past eleven quarters. We see the losses persisting at least until FY16, as yields will remain suppressed by overcapacity.

We keep our Reduce call and maintain our target price, based on 1x CY14 P/BV. Tiger will struggle to make headway in Indonesia as a late entrant while its Australian operations are beset by yield pressures. Its core Singapore business is also struggling with overcapacity. Persistent losses will be Tiger's key de-rating catalyst.

Recent developments

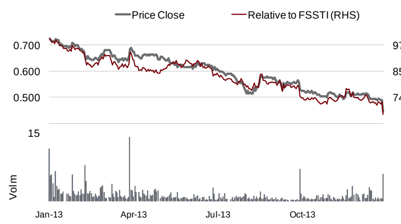
Tiger Airways's 9MFY14 core loss ballooned to S$85.5m. What was surprising was how quickly the operating fundamentals deteriorated. In the Sep quarter, RPK demand rose 21.9% yoy, below ASK capacity growth of 27.5%, but the gap widened in the Dec quarter, with RPK rising just 9.2% yoy against 23.3% ASK growth. Consequently, the PLF dropped 9.8% pts yoy to only 75.8% in the Dec quarter, against a less alarming 4.4% pts yoy fall to 78.5% in the Sep quarter. The decline in passenger yields accelerated from 6.7% yoy in the Sep quarter to 11% in the Dec quarter. The combination of lower PLF and lower yield led to a massive 21% yoy drop in revenue per ASK.

What to expect for 2014

Tigerair Singapore will take on two A319s from Tigerair Philippines (TAP) once the deal to sell its TAP stake to Cebu is complete. Another three A320s will also join its fleet a few months after the deal is transacted. This will compound the currently weak yields and loads over the next 6-12 months. With little sign of capacity rationalisation for the aviation industry in all the countries that Tiger has a foothold in, losses are likely to continue for the budget carrier in 2014, and we expect breakeven only in FY16.

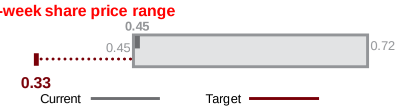
Stay away

Tigerair is making losses in every market that it is in. We think that fundamentals in Singapore will be weak for the next 12 months while Indonesia and Australia will struggle to turn around. With little competitive advantage against its competitors, the budget carrier will struggle to produce a profit.



Source: Bloomberg

52-week share price range



Financial Summary

	Mar-12A	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Revenue (S$m)	618.2	866.2	754.3	834.3	897.8
Operating EBITDA (S$m)	(44.05)	45.47	12.37	54.16	54.62
Net Profit (S$m)	(104.4)	(45.4)	(125.7)	(29.1)	(18.1)
Core EPS (S$)	(0.12)	(0.05)	(0.14)	(0.03)	(0.02)
Core EPS Growth	(319%)	(56%)	163%	(78%)	(38%)
FD Core P/E (x)	NA	NA	NA	NA	NA
DPS (S$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	17.24	71.75	16.45	17.00
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	170%	200%	125%	138%	160%
P/BV (x)	1.56	1.95	1.21	1.33	1.43
ROE	(39.8%)	(20.2%)	(47.5%)	(8.4%)	(5.7%)
% Change In Core EPS Estimates			0%	(0%)	(0%)
CIMB/consensus EPS (x)			2.74	2.11	(0.88)

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(S$m)	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Total Net Revenues	**866.2**	**754.3**	**834.3**	**897.8**
Gross Profit	**45.5**	**12.4**	**54.2**	**54.6**
Operating EBITDA	**45.5**	**12.4**	**54.2**	**54.6**
Depreciation And Amortisation	(34.0)	(37.3)	(40.9)	(40.5)
Operating EBIT	**11.4**	**(24.9)**	**13.2**	**14.1**
Total Financial Income/(Expense)	(6.9)	(6.7)	(7.0)	(7.5)
Total Pretax Income/(Loss) from Assoc.	(27.5)	(87.0)	(36.8)	(25.7)
Total Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**(22.9)**	**(118.6)**	**(30.6)**	**(19.1)**
Exceptional Items	(12.1)	(13.7)	0.0	0.0
Pre-tax Profit	**(35.0)**	**(132.3)**	**(30.6)**	**(19.1)**
Taxation	(10.4)	6.6	1.5	1.0
Exceptional Income - post-tax		0.0		
Profit After Tax	**(45.4)**	**(125.7)**	**(29.1)**	**(18.1)**
Minority Interests	0.0	0.0	0.0	0.0
Preferred Dividends	0.0			
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**(45.4)**	**(125.7)**	**(29.1)**	**(18.1)**
Recurring Net Profit	(45.1)	(133.3)	(29.1)	(18.1)
Fully Diluted Recurring Net Profit	**(45.1)**	**(133.3)**	**(29.1)**	**(18.1)**

Balance Sheet

(S$m)	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Total Cash And Equivalents	117	244	198	172
Total Debtors	28	24	27	29
Inventories	0	0	0	0
Total Other Current Assets	29	6	6	6
Total Current Assets	**174**	**275**	**231**	**207**
Fixed Assets	782	995	954	976
Total Investments	0	0	0	0
Intangible Assets	1	1	1	1
Total Other Non-Current Assets	91	42	55	59
Total Non-current Assets	**874**	**1,038**	**1,010**	**1,036**
Short-term Debt	148	148	148	148
Current Portion of Long-Term Debt				
Total Creditors	175	158	167	180
Other Current Liabilities	107	42	42	42
Total Current Liabilities	**431**	**349**	**357**	**370**
Total Long-term Debt	366	548	502	514
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	53	53	53	53
Total Non-current Liabilities	**419**	**601**	**556**	**567**
Total Provisions	0	0	0	0
Total Liabilities	**850**	**950**	**912**	**937**
Shareholders' Equity	199	362	329	306
Minority Interests	0	0	0	0
Total Equity	**199**	**362**	**329**	**306**

Cash Flow

(S$m)	Mar-13A	Mar-14F	Mar-15F	Mar-16F
EBITDA	45.5	12.4	54.2	54.6
Cash Flow from Invt. & Assoc.				
Change In Working Capital	51.0	(13.2)	5.6	11.4
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	12.2	6.7	7.0	7.5
Net Interest (Paid)/Received	(6.9)	(6.7)	(7.0)	(7.5)
Tax Paid	(10.4)	6.6	1.5	1.0
Cashflow From Operations	**91.4**	**5.8**	**61.3**	**67.0**
Capex	(531.4)	(250.0)	0.0	(62.5)
Disposals Of FAs/subsidiaries	552.6	(13.5)	0.0	0.0
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(75.4)	(80.2)	(50.0)	(30.0)
Cash Flow From Investing	**(54.2)**	**(343.7)**	**(50.0)**	**(92.5)**
Debt Raised/(repaid)	(69.5)	182.0	(45.7)	11.3
Proceeds From Issue Of Shares	0.0	293.7	0.0	0.0
Shares Repurchased				
Dividends Paid	0.0	0.0	0.0	0.0
Preferred Dividends				
Other Financing Cashflow	(11.1)	(11.0)	(11.4)	(11.8)
Cash Flow From Financing	**(80.6)**	**464.7**	**(57.1)**	**(0.6)**
Total Cash Generated	(43.5)	126.7	(45.8)	(26.1)
Free Cashflow To Equity	**(32.3)**	**(156.0)**	**(34.4)**	**(14.3)**
Free Cashflow To Firm	**46.7**	**(327.7)**	**22.7**	**(14.4)**

Key Ratios

	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Revenue Growth	40.1%	(12.9%)	10.6%	7.6%
Operating EBITDA Growth	na	(73%)	338%	1%
Operating EBITDA Margin	5.25%	1.64%	6.49%	6.08%
Net Cash Per Share (S$)	(0.46)	(0.46)	(0.46)	(0.50)
BVPS (S$)	0.23	0.37	0.33	0.31
Gross Interest Cover	1.20	(2.42)	1.16	1.26
Effective Tax Rate	0%	0%	0%	0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	11.47	12.64	11.20	11.38
Inventory Days	0.09	0.12	0.12	0.11
Accounts Payables Days	66.30	82.10	76.05	75.25
ROIC (%)	1.3%	(3.2%)	1.3%	1.4%
ROCE (%)	1.83%	(2.41%)	1.73%	1.83%

Key Drivers

	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Av. Seat Km (ASK, Yoy Chg %)	23.5%	4.2%	11.2%	5.6%
Rev. Psg Km (RPK, Yoy Chg %)	27.5%	-1.6%	12.4%	5.6%
Passenger Load Factor (%)	83.9%	79.2%	80.0%	80.0%
Pax yld per RPK (S$)	8.0	7.0	6.9	7.1
Pax rev. per ASK (S$)	6.7	5.6	5.5	5.6
Total Cost Per ATK (S$)	0.7	0.5	0.6	0.6
Fuel Cost Per ATK (S$)	0.3	0.2	0.2	0.2
Non-fuel Cost Per ATK (S$)	0.4	0.3	0.3	0.3
Jet Fuel Price (US$/barrel)	132.0	128.0	128.0	128.0
Fleet Size (no. Of Planes)	41	51	60	69

SOURCE: CIMB, COMPANY REPORTS

CIMB

Virgin Australia Holdings

VAH AU / VAH.AX

Market Cap	Avg Daily Turnover	Free Float
US$1,132m	US$1.13m	30.0%
A$1,300m	A$1.23m	2,209 m shares

Current	A$0.37
Target	A$0.35
Prev. Target	A$0.35
Up/Downside	-4.6%

STOCK RATING: ADD / HOLD / **REDUCE**

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-2.3	-8.4	-20.9
Absolute	-3.9	-10.9	-11.9

Major shareholders	% held
Air New Zealand	23.0
Singapore Airlines	19.9
Etihad Airways	19.9

Support from the 12th man

Recent operating statistics show VAH is making headway in its quest to challenge QAN in the corporate market. Despite some positive signs and backing from its four strategic investors, we continue to view VAH as overvalued at current levels.

VAH's recent A$351m capital raising highlights the challenges in the domestic airline industry and we expect tough conditions to persist into 2014. We expect a breakeven FY14 NPAT result of A$3m with downside risks if conditions worsen. We keep our Reduce call and target price, based on a 1.0x FY15F P/NTA.

Market remains tough

While recent monthly operating statistics show VAH is outperforming QAN in terms of load factor and yield, we think increases in capacity and a sluggish demand environment will make it difficult for VAH to sustain this for the remainder of FY14. The recent capital raising has given VAH a much needed boost but also highlights it is struggling under the fierce competitive landscape. Overall domestic market capacity growth seems to be contained, however excess capacity still remains which is having an impact on yields. We expect this scenario to continue over the remainder of FY14 and possibly into FY15.

Risks skewed to the downside

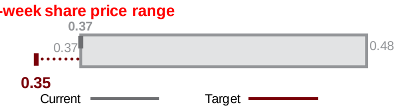
After recording an underlying pre-tax loss of A$73m in FY13 we expect conditions to improve slightly with a marginal FY14 pre-tax profit of A$22m. FY13 saw three downgrades, with VAH blaming a competitive operating environment, the carbon tax, additional transformation costs and unexpected issues from the Sabre distribution system implementation. While we don't expect transformation costs and the Sabre issues to continue into FY14, the tough operating environment and uncertainty with the carbon tax show risks continue to be skewed to the downside, in our view.

Stretched valuation

With the domestic market remaining tough for the foreseeable future and corporate buying recently coming to an end we think there is further downside risk to VAH's share price in the coming months. Currently trading at 1.1x P/NTA we continue to think VAH remains overvalued and would therefore recommend investors wait for more attractive valuation entry levels.

Source: Bloomberg

52-week share price range



Financial Summary

	Jun-12A	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue (A$m)	3,916	4,020	4,446	4,602	4,709
Operating EBITDA (A$m)	354.5	211.3	324.6	385.0	474.5
Net Profit (A$m)	22.8	(98.1)	2.6	45.6	105.5
Normalised EPS (A$)	0.028	(0.021)	0.001	0.013	0.030
Normalised EPS Growth	na	(176%)	na	1529%	131%
FD Normalised P/E (x)	13.2	NA	461.3	28.3	12.2
DPS (A$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	4.74	10.38	6.42	5.83	4.40
P/FCFE (x)	10.34	NA	50.94	NA	4.03
Net Gearing	94%	126%	69%	69%	54%
P/BV (x)	0.87	0.91	1.01	0.97	0.90
ROE	6.63%	(5.17%)	0.22%	3.49%	7.63%
Normalised EPS/consensus EPS (x)			(0.08)	2.18	1.26

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(A$m)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Net Revenues	**4,020**	**4,446**	**4,602**	**4,709**
Gross Profit	**4,020**	**4,446**	**4,602**	**4,709**
Operating EBITDA	**211**	**325**	**385**	**475**
Depreciation And Amortisation	(239)	(248)	(256)	(262)
Operating EBIT	**(27)**	**77**	**129**	**212**
Total Financial Income/(Expense)	(46)	(55)	(58)	(62)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**(73)**	**22**	**71**	**150**
Exceptional Items				
Pre-tax Profit	**(73)**	**22**	**71**	**150**
Taxation	22	(7)	(21)	(45)
Exceptional Income - post-tax	(47)	0	0	0
Profit After Tax	**(98)**	**15**	**50**	**105**
Minority Interests	0	(13)	(4)	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Preference Dividends (Australia)				
Net Profit	**(98)**	**3**	**46**	**105**
Normalised Net Profit	(51)	15	50	105
Fully Diluted Normalised Profit	**(51)**	**3**	**46**	**105**

Balance Sheet

(A$m)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Total Cash And Equivalents	581	954	914	1,234
Total Debtors	257	254	263	269
Inventories	30	1	1	1
Total Other Current Assets	103	103	103	103
Total Current Assets	**971**	**1,312**	**1,281**	**1,608**
Fixed Assets	3,005	3,127	3,228	3,186
Total Investments	8	8	8	8
Intangible Assets	330	101	101	101
Total Other Non-Current Assets	113	113	113	113
Total Non-current Assets	**3,455**	**3,348**	**3,450**	**3,408**
Short-term Debt	374	254	254	254
Current Portion of Long-Term Debt				
Total Creditors	580	600	622	636
Other Current Liabilities	839	839	839	839
Total Current Liabilities	**1,793**	**1,694**	**1,715**	**1,729**
Total Long-term Debt	1,516	1,594	1,594	1,759
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	60	60	60	60
Total Non-current Liabilities	**1,577**	**1,654**	**1,654**	**1,819**
Total Provisions	16	16	16	16
Total Liabilities	**3,386**	**3,364**	**3,385**	**3,565**
Shareholders' Equity	1,040	1,283	1,329	1,434
Minority Interests	0	13	17	17
Total Equity	**1,040**	**1,296**	**1,346**	**1,451**

Cash Flow

(A$m)	Jun-13A	Jun-14F	Jun-15F	Jun-16F
EBITDA	211.3	324.6	385.0	474.5
Cash Flow from Invt. & Assoc.				
Change In Working Capital	51.3	52.2	11.8	7.9
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(159.9)	0.0	0.0	0.0
Net Interest (Paid)/Received	(42.1)	(54.6)	(58.1)	(62.1)
Tax Paid	0.0	(6.6)	(21.3)	(45.0)
Cashflow From Operations	**60.6**	**315.6**	**317.5**	**375.3**
Capex	(395.7)	(369.9)	(357.3)	(220.0)
Disposals Of FAs/subsidiaries	56.8	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(157.1)	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	**(496.0)**	**(369.9)**	**(357.3)**	**(220.0)**
Debt Raised/(repaid)	85.7	77.4	0.0	165.0
Proceeds From Issue Of Shares	110.7	350.0	0.0	0.0
Shares Repurchased				
Dividends Paid	0.0	0.0	0.0	0.0
Preferred Dividends				
Other Financing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Financing	**196.4**	**427.4**	**0.0**	**165.0**
Total Cash Generated	(239.0)	373.1	(39.8)	320.3
Free Cashflow To Equity	**(349.7)**	**23.1**	**(39.8)**	**320.3**
Free Cashflow To Firm	**(393.3)**	**0.3**	**18.3**	**217.4**

Key Ratios

	Jun-13A	Jun-14F	Jun-15F	Jun-16F
Revenue Growth	2.7%	10.6%	3.5%	2.3%
Operating EBITDA Growth	(40.4%)	53.6%	18.6%	23.2%
Operating EBITDA Margin	5.3%	7.3%	8.4%	10.1%
Net Cash Per Share (A$)	(0.51)	(0.26)	(0.27)	(0.22)
BVPS (A$)	0.41	0.37	0.38	0.41
Gross Interest Cover	(0.42)	1.02	1.59	2.44
Effective Tax Rate	0.0%	30.0%	30.0%	30.0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	20.89	21.01	20.54	20.71
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	(1.04%)	2.22%	4.00%	6.32%
ROCE (%)	(0.27%)	3.18%	4.78%	7.08%

SOURCE: CIMB, COMPANY REPORTS

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2013		
1297 companies under coverage for quarter ended on 31 December 2013		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	50.4%	6.9%
Neutral/Hold	33.3%	6.5%
Underperform/Sell/Trading Sell/Reduce	16.3%	4.9%

As at the time of publishing this report CIMB is phasing in an absolute recommendation structure for stocks (Framework #1). Please refer to all frameworks for a definition of any recommendations stated in this report.

CIMB Recommendation Framework #1

Stock Ratings	**Definition**
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock.
Stock price targets have an investment horizon of 12 months.

Sector Ratings	**Definition**
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	**Definition**
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

CIMB Stock Recommendation Framework #2 *

Outperform	The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.
Neutral	The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.
Underperform	The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.
Trading Buy	The stock's total return is expected to exceed a relevant benchmark's total return by 3% or more over the next 3 months.
Trading Sell	The stock's total return is expected to be below a relevant benchmark's total return by 3% or more over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*
CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

CIMB Stock Recommendation Framework #3 **

Outperform	Expected positive total returns of 10% or more over the next 12 months.
Neutral	Expected total returns of between -10% and +10% over the next 12 months.
Underperform	Expected negative total returns of 10% or more over the next 12 months.
Trading Buy	Expected positive total returns of 10% or more over the next 3 months.
Trading Sell	Expected negative total returns of 10% or more over the next 3 months.

*** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.

AAV – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent , **BAY** - Excellent , **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.

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