January 7, 2010

Pan Asia: Transportation: Shipping

Re-rating to resume in 2010, as freight rates continue to recover

Shipping well leveraged to global recovery

A recovery in global growth provides a favorable backdrop for the shipping sector, which tends to be viewed by the market as a leveraged play. Top-line growth from both volume and pricing with relatively stable unit costs (ex-fuel) should generate positive operating leverage in 2010, resulting in upside risk to earnings expectations. We think that there is potential for significant capital appreciation, particularly for containers where we see 35% potential upside on average to our 12-m target prices.

Capacity discipline holds the key to container profitability

Rate growth acceleration is likely to drive the next leg of the sector re-rating, underpinned by decelerating supply growth coupled with accelerating demand growth in 2010E, in our view. Spot container freight rates have held up very well despite softer demand during the seasonal slack period thanks to uncharacteristic capacity discipline. We think rates could be lifted this month, as carriers attempt to implement "emergency revenue charges" on Transpacific to offset losses on contractual rates. Valuations are supportive at 2010E 1.04X EV/fleet value and 1.1X 2010E P/B against our forward return expectations of 11.5% on fleet and 6.3% on book over 2010E-2011E on average, respectively.

Early indicator points to rebound in dry bulk rates

After correcting 36% from the peak in November to end-2009 at 3,005, the BDI could be bottoming. We have seen the first uptick in several weeks. Moreover, one of our early indicators of inflection is pointing to a rebound in Capesize rates. The premium over Panamaxes has contracted to just 33%, more than one std dev below the mean of 97%. When this happens, Cape rates tend to rally which implies that the BDI should continue rebounding, at least near-term. STX Pan Ocean (Buy) is our preferred play on spot and the stock is trading at attractive valuations on 2010E EV/FV at 1.27X while our forward return estimates would justify 1.52X.

Tough times for tankers should encourage single-hull phase-out

We expect the tanker market to bottom this year after suffering a poor performance in 2009. Low rates and returns will likely prompt the phase-out of single-hull vessels, offsetting newbuild deliveries. The diversified carriers in Japan, China Shipping Dev, China Merchants Energy Shipping and Great Eastern Shipping have material exposure to tankers.

TOP THREE BULKER BUYS

Company	Rating	Trading Currency	Current Price	12-Month Target Price	Potential upside/ (downside)
Sinotrans Shipping	*Buy	HK$	3.69	5.50	49%
Precious Shipping	Buy	Bt	18.60	26.25	41%
STX Pan Ocean - KRW	Buy	W	11,300	15,300	35%

*This stock is on our regional Conviction list.

TOP THREE CONTAINER BUYS

Company	Rating	Trading Currency	Current Price	12-Month Target Price	Potential upside/ (downside)
Hanjin Shipping	Buy	W	13,450	33,500	149%
Orient Overseas International	Buy	HK$	36.35	65.00	79%
Wan Hai Lines	Buy	NT$	17.40	25.50	47%

TOP THREE DIVERSIFIED BUYS

Company	Rating	Trading Currency	Current Price	12-Month Target Price	Potential upside/ (downside)
Kawasaki Kisen Kaisha	*Buy	¥	269	560	108%
Mitsui O.S.K. Lines	Buy	¥	492	810	65%
Nippon Yusen KK	Neutral	¥	286	470	64%

*This stock is on our regional Conviction list.
All prices mentioned above are as of the market close of January 4, 2010.

Source: Goldman Sachs Research estimates, Bloomberg.

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We kick off the New Year singing the same tune

We reiterate our positive view on the shipping sector, which is well leveraged to a global growth recovery forecast by Goldman Sachs ECS Research. The bulker sector is trading closer to mid-cycle multiples but future return prospects justify higher valuations, in our view. Meanwhile, carriers are attempting to raise container rates in January to recover costs. There is significant upside potential in container shipping where expectations remain low, as valuations are still below mid-cycle.

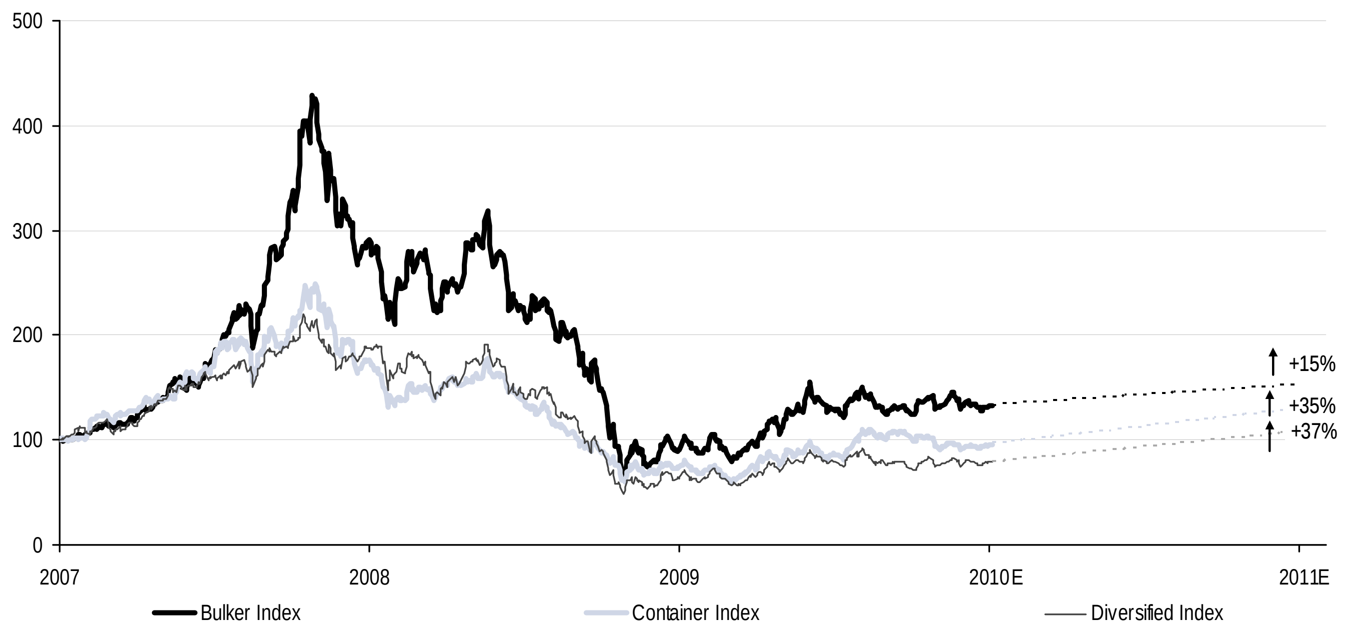
Key themes

1. **Positive operating leverage**: In 2009, operating leverage worked negatively against carriers. Revenue fell much faster than operating costs could be cut, resulting in earnings disappointment. We expect the opposite to occur this year. A recovery in the global economy should lift cargo volumes and underpin revenue growth, by our estimation. Coupled with rate improvement, carriers should enjoy positive operating leverage that the market may be underestimating.
2. **Rebound in demand**: GS economists have a sanguine outlook for global growth of 4.4% for 2010E, which underpins our optimism about demand for shipping. Given the low base, we foresee double-digit growth in demand for both bulkers and containers this year.
3. **Restrained supply growth, again**: We believe ongoing lack of ship finance and carrier attempts to preserve cash will lead to further newbuild delivery deferrals. Meanwhile, redelivery of costly chartered-in fleet and slow steaming will continue to reduce effective capacity, especially for containers.

Bulkers: Rates could pleasantly surprise in 1Q10

We expected bulker rates to correct late 4Q09 and continue to weaken in 1Q10, in anticipation of delayed deliveries coming to sea coupled with an expected seasonal moderation in demand. However, inclement weather is hampering China's coal supply chain, driving demand for coal imports. As a result, freight rates are beginning to rebound earlier than we had initially thought.

Exhibit 1: We see 15% to 37% potential upside for the three shipping segments over the next 12 months
Shipping share performance by sector, 2007 – 2011E



Source: Datastream, Goldman Sachs Research estimates

Containers: Unexpected emergency revenue charge a positive

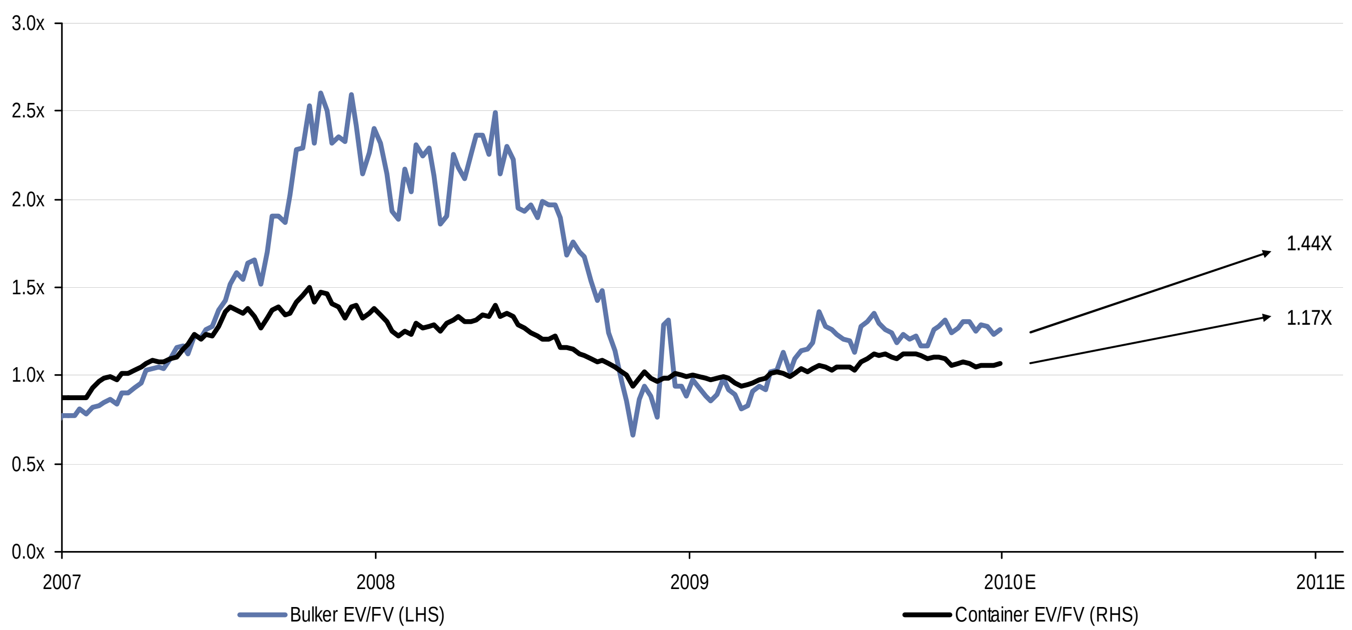
The market had been expecting container rates to correct from November-February during the shoulder months following the holiday inventory build up. We assumed a soft landing scenario because of carrier attempts to cull capacity in anticipation of weaker demand. While we are in the middle of the slack season, rates are holding up surprisingly well. Weekly spot rates per the Shanghai Shipping Exchange have been stable since November 20, 2009. Carriers aim to raise rates from mid-January on both Asia to Europe (A/E) and Transpacific (TP) routes to cover operating costs. For the latter, an emergency revenue charge has been proposed by the Transpacific Stabilization Agreement (TSA) to lift rates on their loss-making Asia to US routes by US$400/FEU and US$320/TEU from mid-January as an interim solution to annual contractual rates that are typically renegotiated around May 1. While we would assume attempts to raise rates on A/E, which is largely a spot driven market, we were pleasantly surprised by the TSA's proposal to lift TP rates. We have assumed no material change to base rates until annual contracts come up for renewal in May. If the emergency revenue charge is successfully implemented, we would need to lift our above-consensus earnings estimates all else equal.

Diversified: Funding concerns and large losses discounted

In our view, the diversified shipping stocks, particularly those in Japan, are undervalued laggards that should rally, as market concerns about container shipping and car carriers subside. Kawasaki Kisen is our top pick in Japan (on our Conviction Buy List). The risk is to our view centers around persistent funding concerns and worries of large losses for FY3/10E. However, current valuations seem to discount the negatives at 2010E 1.36X EV/fleet value, which is below what our forward returns estimates would justify. Our 12-month target price assumes a target EV/FV multiple of 1.43X based on a returns on fleet over WACC.

Within the region, we think shipping stocks in Japan, Korea and Taiwan look most attractively valued, with pockets of opportunities in Hong Kong names like OOIL and Sinotrans Shipping.

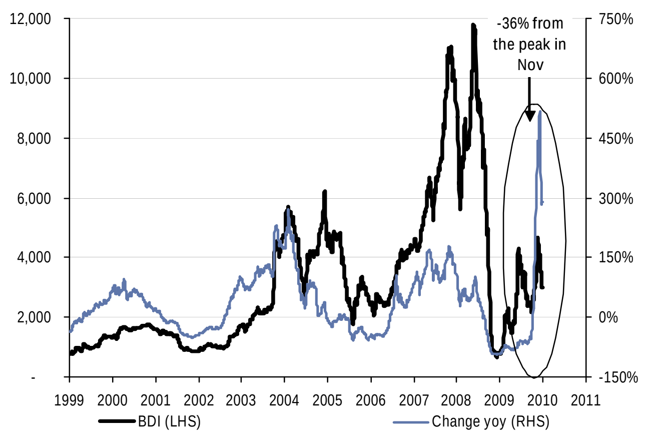
Exhibit 2: Multiples should continue to expand on improving returns
EV/fleet value, 2007 – 2011E



Source: Datastream, Goldman Sachs Research estimates

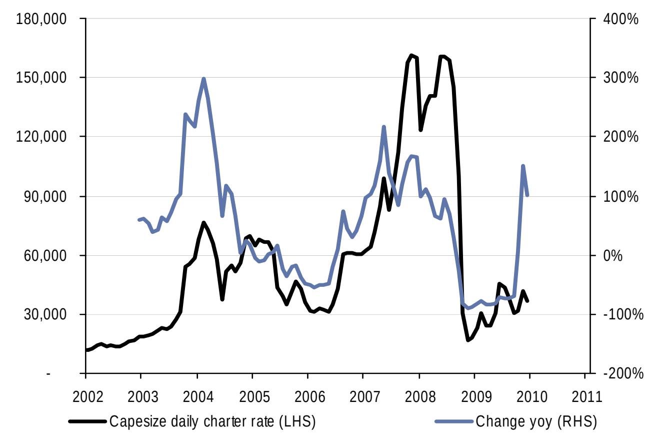
Bulkers to be bolstered by China, again

Exhibit 3: We assume a 25% yoy rise in the BDI in 2010E
BDI and yoy



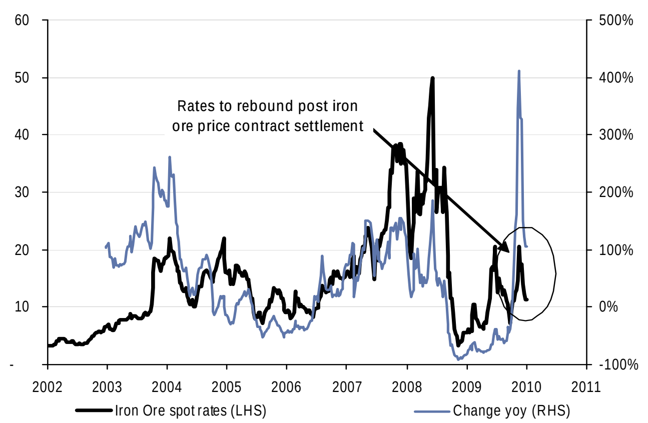
Source: Datastream

Exhibit 4: Near-term rebound likely
Capesize daily charter rates (US$/day) and yoy



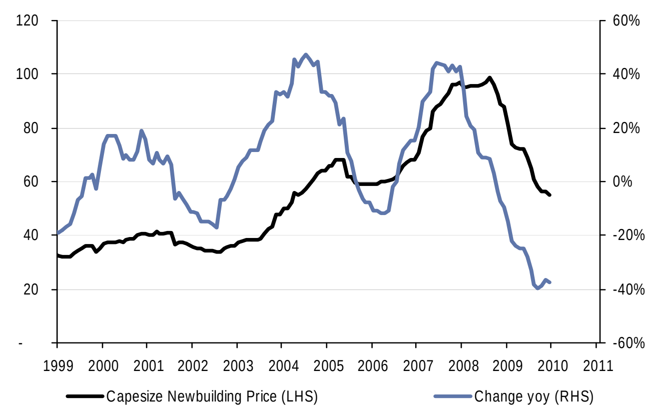
Source: Clarksons

Exhibit 5: Early contract settlement would bode well
Iron ore spot rates (AU to China) and yoy



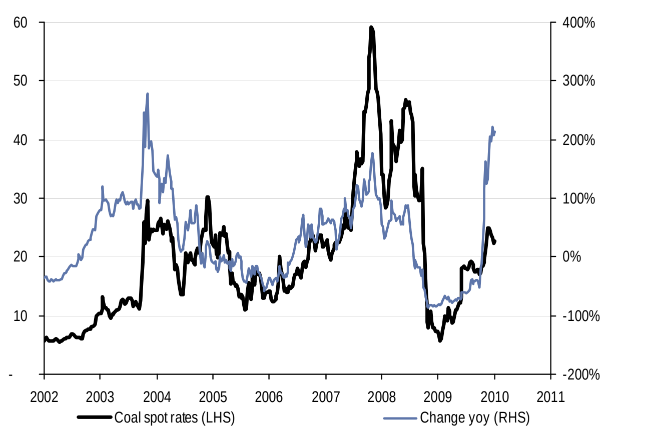
Source: Clarksons

Exhibit 6: Asset values may have bottomed
Capesize newbuild price (US$ mn) and yoy



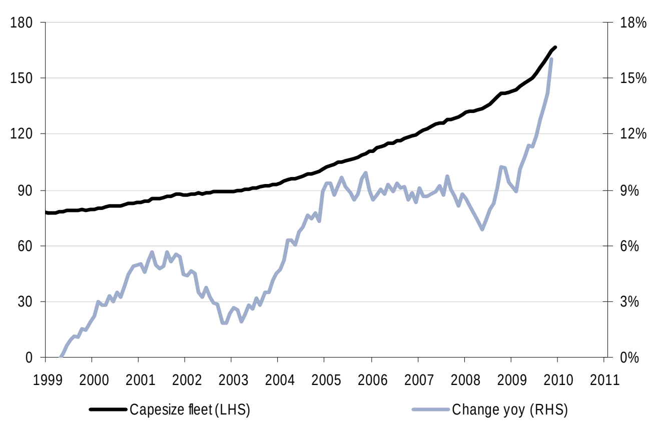
Source: Clarksons

Exhibit 7: Demand to support higher rates
Coal spot rates (AU to Japan) and yoy



Source: Clarksons

Exhibit 8: Supply growth may be peaking
Capesize supply (million dwt) and yoy



Source: Clarksons

Attractive outlook for bulkers

In our view, demand is likely to grow faster than market expectations, underpinned by China's infrastructure expansion and property development, while supply is likely to be less than the consensus assumes due to limited finance for both ship owners and shipbuilders. Consequently, we expect slippage to persist, resulting in upside surprise in rates. **We forecast the BDI to average 2,958 on average for 2010E.**

The risk to our view is fewer-than-expected delays and/or cancellations.

Demand: Ton-mile demand to grow 10.5% for 2010E

We expect China to continue driving demand for dry bulk shipping, not only for iron ore but also coal. In the near-term, inclement weather at northern ports in China will likely stimulate demand for imported thermal coal. Infrastructure constraints over the medium term will likely sustain good growth over the medium term. Refer to our *Bulkers: Why aren't share prices moving with the BDI?* of November 20, 2009, for more details on longer-term demand drivers.

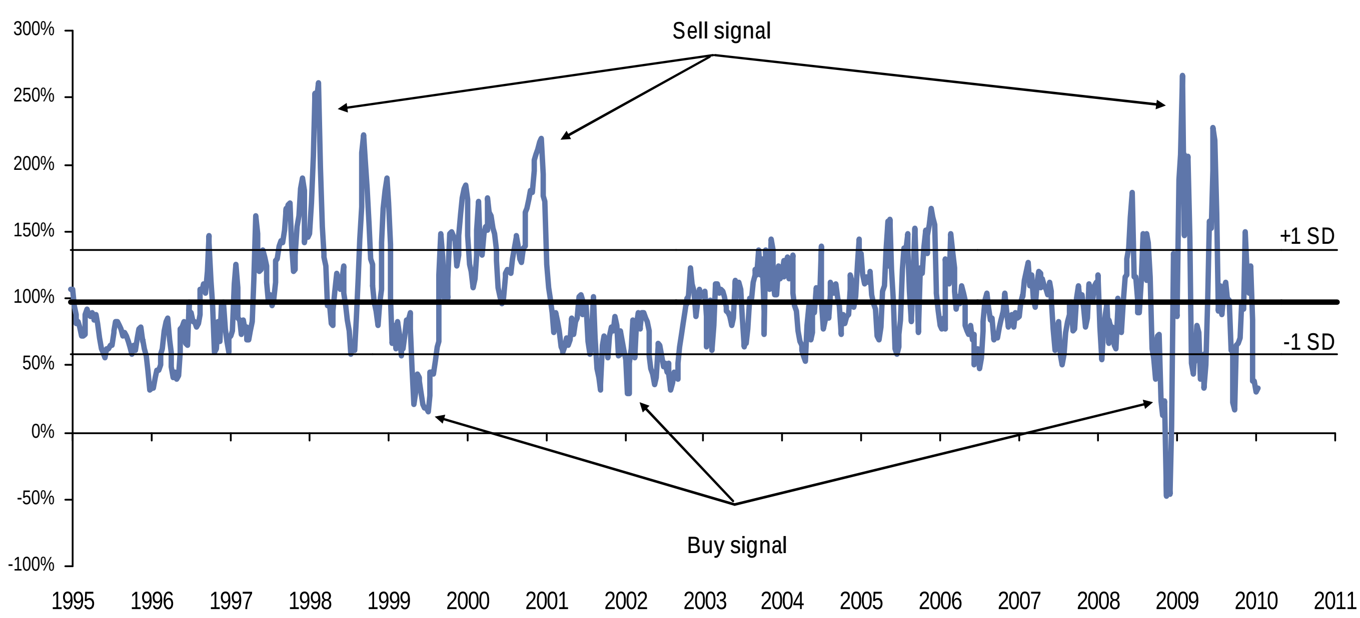
Supply: Ship finance still an impediment to newbuild deliveries

Delays averaged eight months in 2009 with delivery deferrals of one to 30 months, according to Baltic and International Maritime Council (BIMCO). Our discussions with commercial banks specializing in shipping lead us to believe that lending will remain constrained for newbuild orders in 2010. Consequently, effective supply growth is likely to remain less than market expectations at 8.0%, while headline scheduled deliveries look overstated to us at 24% yoy.

Top Buy ideas

We think the Buy-rated shares of Sinotrans Shipping (on our Conviction List) and STX Pan Ocean are well leveraged to better-than-expected rates.

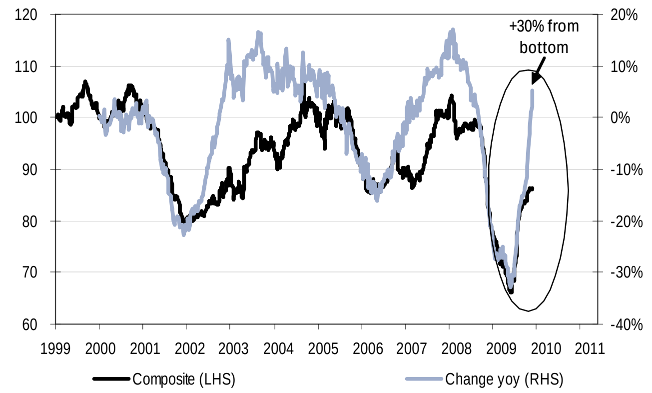
Exhibit 9: One of our favorite leading indicators for the BDI implies near-term upside
Capesize premium over Panamax equivalent capacity



Source: Clarksons

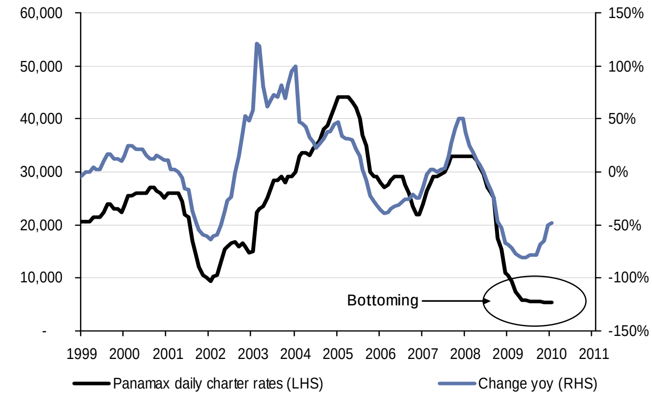
Containers could surprise by posting incremental profits in 2H10E

Exhibit 10: Rates are up 5% yoy already
CCFI and yoy



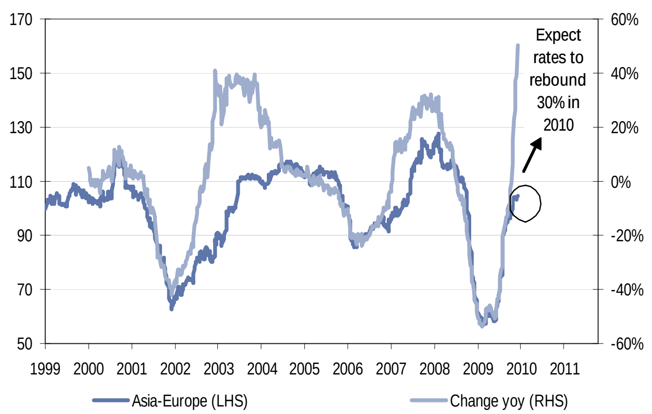
Source: Shanghai Shipping Exchange

Exhibit 11: Charter market to lag freight rates
Panamax daily charter rates (US$/day) and yoy



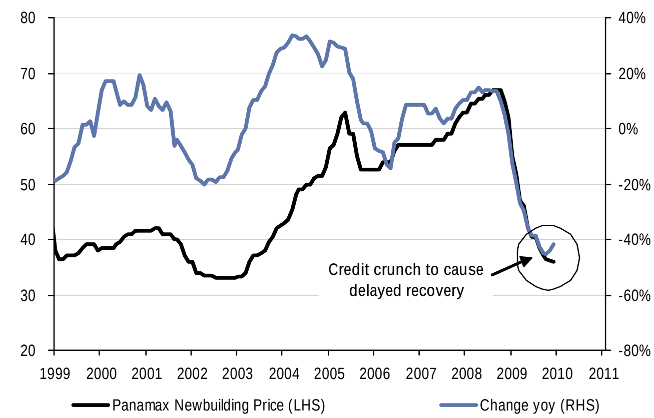
Source: Clarksons

Exhibit 12: Plenty of room to recover
Asia to Europe spot rates and yoy



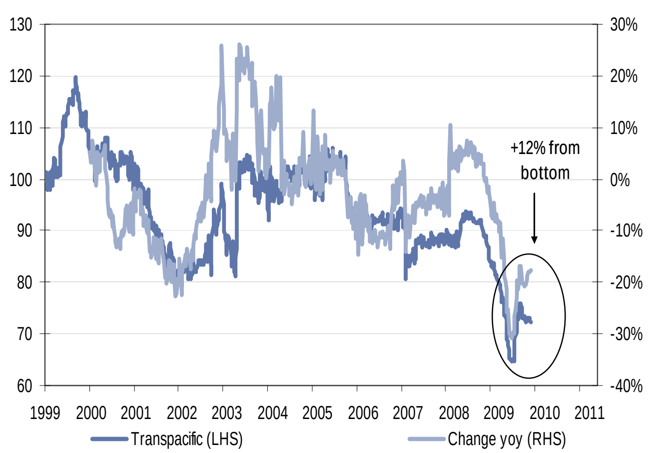
Source: Shanghai Shipping Exchange

Exhibit 13: Demand to remain sluggish
Panamax newbuild price (US$ mn) and yoy



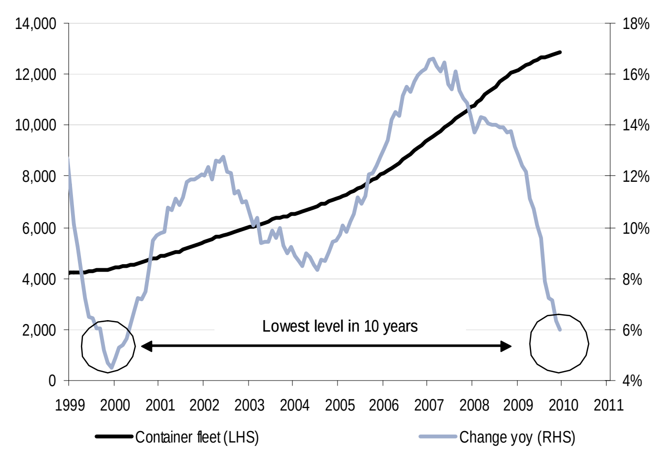
Source: Clarksons

Exhibit 14: Emergency revenue charge would help
Asia to US spot rates and yoy



Source: Shanghai Shipping Exchange

Exhibit 15: Slowing supply growth is positive
Supply (TEU 000) and yoy



Source: Clarksons

Constructive view of container shipping

Container carriers are still suffering deep losses despite a 30% increase in spot rates from trough levels. We assume 15%-20% rate hikes on average for 2010E and a further 5%-10% increase in 2011E. Three favorable factors for freight rates underpin our optimism: (1) large net losses to drive a cost recovery; (2) nominal supply growth is slowing; and (3) demand will likely accelerate. There is upside risk to our assumptions should the TSA members successfully implement the emergency revenue charge aforementioned. For Asia to Europe, carriers are planning to raise rates by about US$250/TEU from January 15, 2010.

Capacity and pricing discipline pose the greatest risks to our positive view of the containership sector.

Demand: TEU-mile demand to grow 11.8% for 2010E

Container volumes tend to move in tandem with global growth. Over the years, container trade has been a significant multiple of real GDP growth of around 3X-4X. That multiple is likely to come down structurally over the long term, as Asia's market share gains stabilize but outsourcing is here with us for the near to medium term because of the cost savings. We forecast east-west effective TEU-mile demand to bounce 11.8% for 2010E off a low base before decelerating to 4.7% in 2011E. Please see our report *"Containers: Rate growth acceleration to sustain the sector re-rating"* of December 18, 2009, for more details.

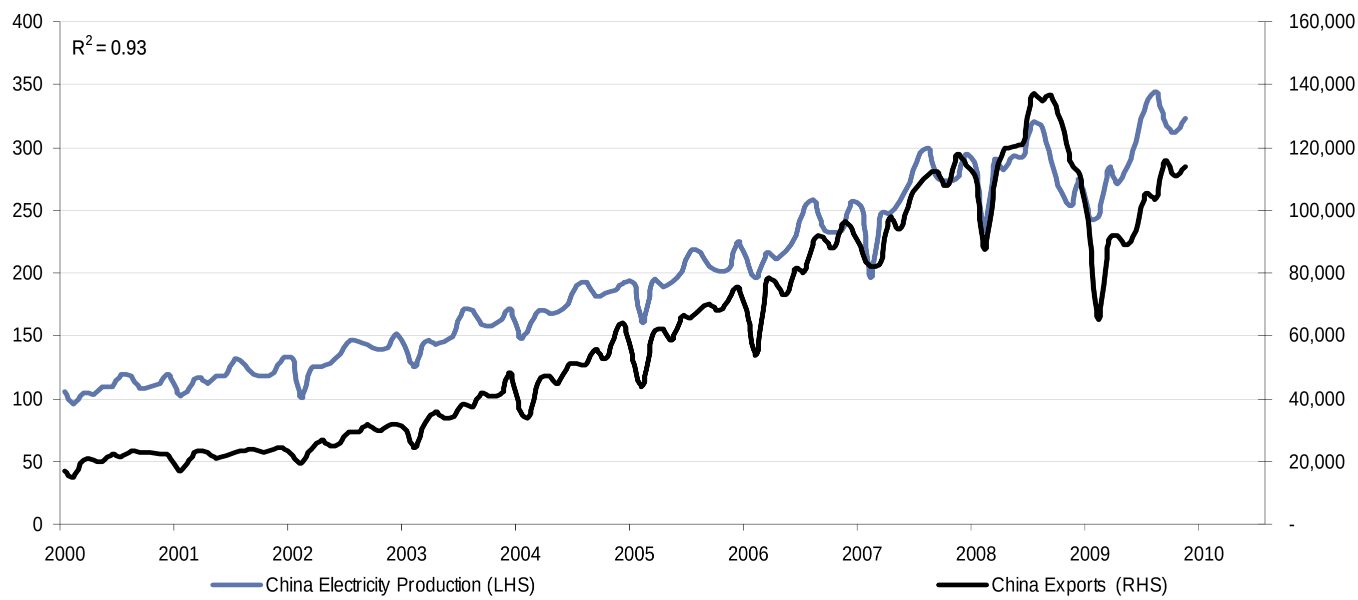
Supply: Carriers need to control capacity

Contrary to market expectations, supply growth has been decelerating, and sharply. We estimate that effective supply contracted 6.5% in 2009E. Going forward, we estimate supply to grow 4.0% in 2010E, net of various mitigating factors such as delaying deliveries, scrapping, idling and slow steaming.

Top Buy ideas

The sector is still trading below mid-cycle multiples, implying 35% upside on an average to our 12-month target prices. Hanjin Shipping, OOIL and Wan Hai have the highest upside to TP.

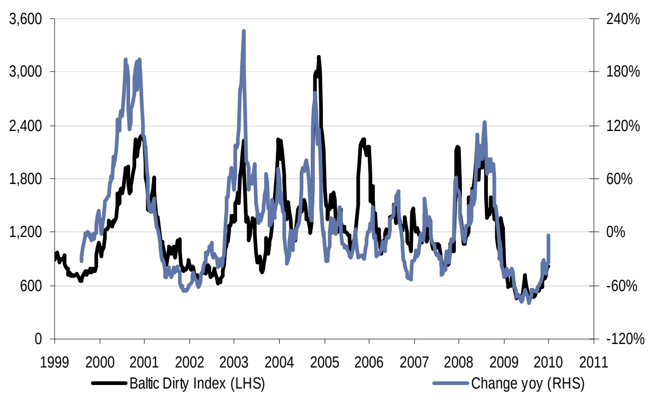
Exhibit 16: Re-accelerating China electricity production implies more exports
China exports (USD mn) and China electricity production (KWH bn)



Source: CEIC

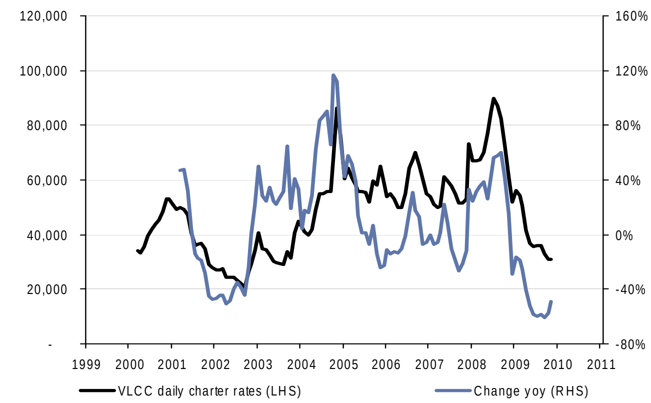
Tankers to bottom out in 2010

Exhibit 17: Seasonal rebound underway
Baltic Dirty Index and yoy



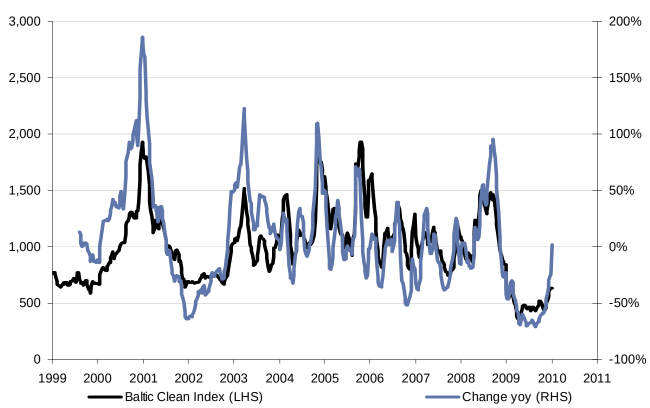
Source: Datastream

Exhibit 18: Weak charter market to persist
VLCC daily charter rates (US$/day) and yoy



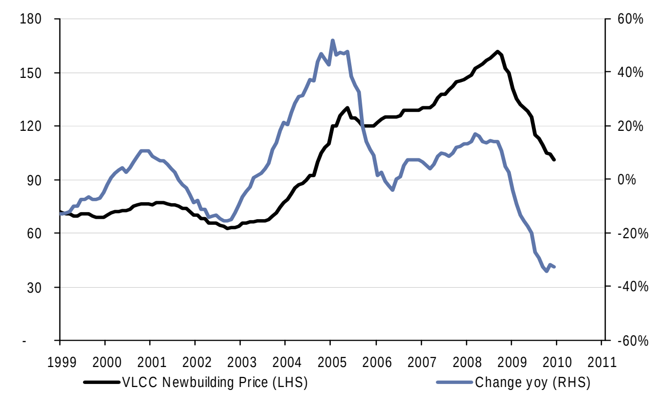
Source: Clarksons

Exhibit 19: Burdened by excessive new orders
Baltic Clean Index and yoy



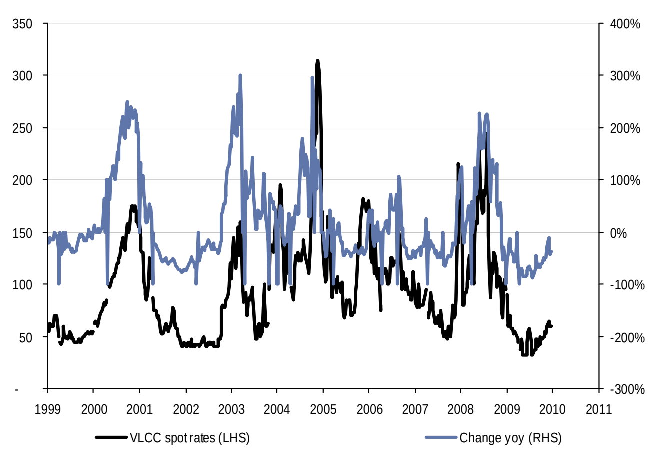
Source: Datastream

Exhibit 20: Market to stabilize
VLCC newbuild price (US$ mn) and yoy



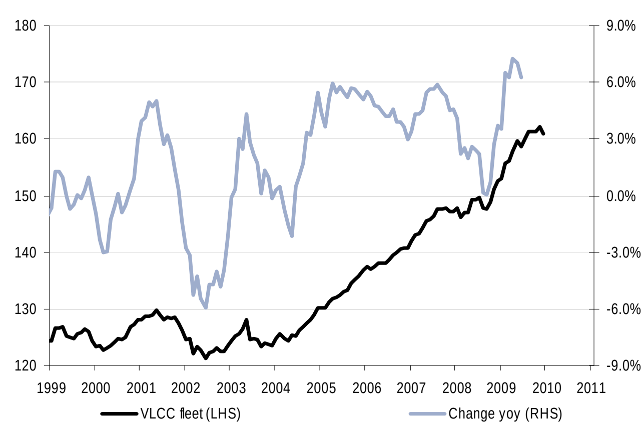
Source: Clarksons

Exhibit 21: Another tough year ahead
Crude spot rates (Arabian Gulf to US) and yoy



Source: Clarksons

Exhibit 22: Fortunately, supply growth has peaked
VLCC supply (million dwt) and yoy



Source: Clarksons

Exhibit 23: Asian Bulker Shipping comparables

Company	Reuters Ticker	Rating	Trading Currency	Current Price	12-Month Target Price	Potential upside /(downside)	Market cap (US$ mn)	Turnover (US$ mn)
China COSCO Holdings (H)	1919.HK	Sell	HK$	9.80	9.90	1%	12,912	70.7
China COSCO Holdings (A)	601919.SS	Sell	Rmb	13.71	12.50	-9%	20,516	179.9
Korea Line	005880.KS	Sell	W	40,250	50,600	26%	398	17.5
Pacific Basin Shipping	2343.HK	Neutral	HK$	5.77	6.20	7%	1,328	17.2
Precious Shipping	PSL.BK	Buy	Bt	18.60	26.25	41%	580	2.2
Sincere Navigation	2605.TW	*Sell	NT$	41.90	36.00	-14%	744	11.5
Sinotrans Shipping	0368.HK	*Buy	HK$	3.69	5.50	49%	1,902	3.9
STX Pan Ocean - SGD	STXPx.SI	Buy	S$	13.60	17.60	29%	1,994	0.6
STX Pan Ocean - KRW	028670.KS	Buy	W	11,300	15,300	35%	1,998	42.5
Thoresen Thai	TTA.BK	Neutral	Bt	27.00	30.00	11%	573	17.7
U-Ming Marine	2606.TW	Sell	NT$	64.70	57.00	-12%	1,736	20.7

Company	ROF 2010E-11E	WACC 2009E	Target fleet multiple 2010E	Current fleet multiple 2010E	Net D/E 2009E	Adjusted Net D/E 2009E	FCF Yield 2009E	FCF Yield 2010E
China COSCO Holdings (H)	12.8%	11.2%	1.19x	1.18x	21%	78%	-13.6%	-3.2%
China COSCO Holdings (A)	12.8%	9.1%	1.59x	1.71x	21%	78%	-8.5%	-2.0%
Korea Line	8.8%	12.2%	0.64x	0.55x	106%	111%	-88.2%	-29.6%
Pacific Basin Shipping	11.3%	9.6%	1.25x	1.18x	-8%	39%	-5.7%	-4.5%
Precious Shipping	22.5%	12.6%	2.02x	1.28x	-16%	-16%	7.9%	4.1%
Sincere Navigation	12.2%	10.0%	1.31x	1.47x	40%	39%	6.1%	3.9%
Sinotrans Shipping	18.7%	11.7%	1.78x	0.71x	-46%	-46%	-7.3%	-1.6%
STX Pan Ocean (SGD)	14.5%	10.5%	1.52x	1.30x	41%	92%	-21.8%	-22.6%
STX Pan Ocean (KRW)	14.5%	10.5%	1.52x	1.27x	41%	92%	-21.8%	-22.6%
Thoresen Thai	12.7%	12.4%	1.02x	0.88x	-16%	-6%	0.2%	-1.6%
U-Ming Marine	16.7%	9.9%	1.95x	2.31x	-47%	-39%	9.7%	8.3%
Simple average :	14.3%	10.9%	1.44x	1.26x	13%	39%	-13.0%	-6.5%

	EPS growth (pre-exceptional)				Net margin (pre-exceptional)			
Company	2008	2009	2010E	2011E	2008	2009	2010E	2011E
China COSCO Holdings (H)	19%	-141%	126%	97%	15%	-13%	2%	4%
Korea Line	87%	-216%	103%	95%	14%	-21%	1%	2%
Pacific Basin Shipping	5%	-76%	-30%	116%	21%	9%	6%	13%
Precious Shipping	47%	-27%	-16%	6%	57%	50%	45%	45%
Sincere Navigation	48%	-26%	-15%	-6%	42%	36%	33%	32%
Sinotrans Shipping	47%	-62%	13%	32%	67%	47%	45%	57%
STX Pan Ocean (SGD)	6%	-104%	410%	214%	7%	-1%	2%	6%
Thoresen Thai	98%	-90%	319%	4%	24%	4%	14%	14%
U-Ming Marine	19%	-57%	-28%	1%	62%	47%	38%	38%
Simple average :	40%	-94%	101%	66%	32%	14%	19%	21%

	P/E				Dividend yield			
Company	2008	2009	2010E	2011E	2008	2009	2010E	2011E
China COSCO Holdings (H)	4.4x	NM	42.7x	21.6x	3.4%	0.0%	0.6%	1.2%
China COSCO Holdings (A)	7.0x	NM	67.8x	34.4x	2.1%	0.0%	0.4%	0.7%
Korea Line	1.0x	NM	24.4x	12.5x	1.2%	0.0%	0.0%	0.0%
Pacific Basin Shipping	3.5x	14.2x	20.3x	9.4x	13.1%	3.4%	2.5%	5.3%
Precious Shipping	4.0x	5.5x	6.5x	6.1x	6.4%	5.1%	3.8%	4.1%
Sincere Navigation	8.6x	11.6x	13.7x	14.7x	6.0%	4.3%	3.6%	0.0%
Sinotrans Shipping	6.2x	16.4x	14.5x	11.0x	5.9%	1.8%	2.1%	2.7%
STX Pan Ocean (SGD)	3.1x	NM	25.6x	8.2x	2.5%	0.0%	1.0%	3.1%
STX Pan Ocean (KRW)	3.1x	NM	25.7x	8.2x	2.5%	0.0%	1.0%	3.1%
Thoresen Thai	2.3x	23.7x	5.6x	5.4x	11.6%	2.2%	4.4%	4.4%
U-Ming Marine	4.9x	11.4x	15.8x	15.6x	9.3%	4.3%	3.1%	3.2%
Simple average :	4.4x	13.8x	23.9x	13.4x	5.8%	1.9%	2.0%	2.5%

	P/B				ROE (pre-exceptional)			
Company	2008	2009	2010E	2011E	2008	2009	2010E	2011E
China COSCO Holdings (H)	2.7x	2.2x	2.1x	1.9x	38%	-20%	5%	9%
China COSCO Holdings (A)	4.3x	3.4x	3.3x	3.0x	38%	-20%	5%	9%
Korea Line	1.5x	0.6x	0.6x	0.5x	42%	-68%	2%	4%
Pacific Basin Shipping	1.7x	1.0x	1.0x	1.0x	30%	7%	5%	10%
Precious Shipping	1.3x	1.0x	0.9x	0.8x	30%	19%	14%	14%
Sincere Navigation	1.9x	1.8x	1.7x	1.6x	22%	15%	12%	11%
Sinotrans Shipping	0.9x	0.9x	0.9x	0.8x	15%	6%	6%	8%
STX Pan Ocean (SGD)	1.6x	0.9x	0.9x	0.8x	29%	-1%	3%	10%
STX Pan Ocean (KRW)	1.7x	0.9x	0.9x	0.8x	29%	-1%	3%	10%
Thoresen Thai	1.1x	0.7x	0.7x	0.6x	33%	3%	12%	11%
U-Ming Marine	2.3x	1.9x	1.8x	1.7x	42%	17%	11%	11%
Simple average :	1.9x	1.4x	1.3x	1.2x	32%	-4%	7%	10%

	P/B at target price		P/E at target price		Absolute Performance			
Company	2010E	2011E	2010E	2011E	1-Month	3-Month	6-Month	YTD
China COSCO Holdings (H)	2.1x	1.9x	43.1x	21.9x	-7%	7%	7%	77%
China COSCO Holdings (A)	3.0x	2.8x	61.8x	31.3x	-7%	14%	-4%	85%
Korea Line	0.7x	0.7x	30.6x	15.7x	-2%	-17%	-36%	-38%
Pacific Basin Shipping	1.1x	1.0x	21.8x	10.1x	-8%	15%	18%	60%
Precious Shipping	1.3x	1.2x	9.2x	8.7x	2%	2%	18%	72%
Sincere Navigation	1.4x	1.3x	11.8x	12.6x	8%	13%	11%	42%
Sinotrans Shipping	1.3x	1.2x	21.6x	16.3x	-3%	15%	10%	83%
STX Pan Ocean (SGD)	1.2x	1.1x	33.1x	10.6x	-1%	5%	4%	51%
STX Pan Ocean (KRW)	1.2x	1.1x	34.7x	11.1x	-2%	4%	-3%	20%
Thoresen Thai	0.7x	0.7x	6.3x	6.0x	0%	-4%	30%	78%
U-Ming Marine	1.6x	1.5x	13.9x	13.7x	0%	13%	-1%	65%
Simple average :	1.4x	1.3x	26.2x	14.4x	-2%	6%	5%	54%

*Conviction List. Our 12-month target prices are based on SOTP. For important disclosures, please go to http://www.gs.com/research/hedge.html.

Key upside risks: Better-than-expected coal demand, infrastructure constraints, delays in deliveries and/or cancellations. Key downside risks: Potential substitution of China's domestic production of ore and coal displacing imports.

The current prices are based on the market close of January 4, 2010.

Turnover is represented as average daily turnover over the past 3 months.

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

Exhibit 24: Asian container shipping comparables

Company	Reuters Ticker	Rating	Trading Currency	Current Price	12-Month Target Price	Potential upside/ (downside)	Market cap (US$ mn)	Turnover (US$ mn)
China Shipping Container (H)	2866.HK	Neutral	HK$	2.79	3.10	11%	4,204	31.3
China Shipping Container (A)	601866.SS	Sell	Rmb	4.57	3.90	-15%	7,821	34.3
Evergreen Marine	2603.TW	Neutral	NT$	18.15	23.70	31%	1,670	6.8
Hanjin Shipping	000700.KS	Buy	W	13,450	33,500	149%	1,021	27.0
Hyundai Merchant Marine	011200.KS	Sell	W	27,000	19,000	-30%	3,085	6.2
Neptune Orient Lines	NEPS.SI	Buy	S$	1.65	2.20	33%	1,913	12.0
Orient Overseas International	0316.HK	Buy	HK$	36.35	65.00	79%	2,934	5.4
Regional Container Lines	RCL.BK	Neutral	Bt	10.10	11.50	14%	201	0.5
Wan Hai Lines	2615.TW	Buy	NT$	17.40	25.50	47%	1,184	2.1
Yang Ming Marine Transportation	2609.TW	Neutral	NT$	12.25	16.20	32%	981	7.7

Company	ROF 2010E-11E	WACC 2009E	Target fleet multiple 2010E	Current fleet multiple 2010E	Net D/E 2009E	Adjusted Net D/E 2009E	FCF Yield 2009E	FCF Yield 2010E
China Shipping Container (H)	12.9%	10.9%	1.29x	1.20x	23%	92%	-22.1%	-7.3%
China Shipping Container (A)	12.9%	9.4%	1.62x	1.81x	23%	92%	-11.9%	-3.9%
Evergreen Marine	8.0%	10.1%	0.67x	0.58x	11%	148%	6.3%	5.5%
Hanjin Shipping	12.4%	11.4%	1.13x	0.81x	135%	209%	-159.0%	-72.2%
Hyundai Merchant Marine	13.3%	12.0%	1.15x	1.31x	274%	353%	-27.3%	20.5%
Neptune Orient Lines	11.4%	10.0%	1.22x	0.99x	7%	95%	-17.3%	2.9%
Orient Overseas International	11.6%	9.9%	1.30x	0.82x	32%	54%	-27.6%	-2.8%
Regional Container Lines	10.5%	10.9%	0.94x	0.89x	72%	83%	-41.8%	1.2%
Wan Hai Lines	11.7%	10.8%	1.13x	0.85x	23%	87%	-9.6%	14.8%
Yang Ming Marine Transportation	10.5%	9.3%	1.21x	1.13x	159%	350%	-60.5%	-12.5%
Simple average :	11.5%	10.5%	1.17x	1.04x	76%	157%	-37.1%	-5.4%

	EPS growth (pre-exceptional)				Net margin (pre-exceptional)			
Company	2008	2009	2010E	2011E	2008	2009	2010E	2011E
China Shipping Container (H)	-83%	-1148%	102%	1351%	1.7%	-31.3%	0.5%	5.5%
China Shipping Container (A)	-83%	-1148%	102%	1351%	1.7%	-31.3%	0.5%	5.5%
Evergreen Marine	-57%	-389%	115%	476%	2.4%	-7.6%	0.9%	4.9%
Hanjin Shipping	124%	-518%	104%	527%	2.9%	-16.7%	0.5%	2.6%
Hyundai Merchant Marine	235%	-280%	98%	1395%	6.3%	-15.2%	-0.2%	3.1%
Neptune Orient Lines	-68%	-395%	117%	325%	1.7%	-9.0%	1.5%	5.5%
Orient Overseas International	-46%	-248%	121%	465%	4.6%	-8.9%	1.4%	6.4%
Regional Container Lines	-139%	-187%	103%	1479%	-3.8%	-17.1%	0.5%	6.1%
Wan Hai Lines	-48%	-190%	256%	63%	3.2%	-3.7%	4.6%	6.3%
Yang Ming Marine Transportation	-67%	-1010%	104%	485%	0.9%	-11.4%	0.3%	1.6%
Simple average :	-23%	-551%	122%	792%	2.2%	-15.2%	1.0%	4.8%

	P/E (pre-exceptional)				Dividend yield			
Company	2008	2009	2010E	2011E	2008	2009	2010E	2011E
China Shipping Container (H)	43.4x	NM	NM	13.8x	0.0%	0.0%	0.1%	1.5%
China Shipping Container (A)	106.8x	NM	NM	25.6x	0.0%	0.0%	0.1%	0.8%
Evergreen Marine	21.9x	NM	41.5x	7.2x	0.4%	0.3%	0.0%	0.6%
Hanjin Shipping	10.2x	NM	28.0x	4.5x	1.6%	0.0%	0.0%	3.7%
Hyundai Merchant Marine	9.2x	NM	NM	15.5x	1.3%	0.0%	0.0%	0.0%
Neptune Orient Lines	17.4x	NM	24.7x	5.8x	2.9%	0.0%	1.0%	4.3%
Orient Overseas International	9.2x	NM	31.8x	5.6x	2.5%	0.0%	0.8%	4.4%
Regional Container Lines	NM	NM	91.2x	5.8x	0.0%	0.0%	0.0%	3.5%
Wan Hai Lines	21.2x	NM	12.9x	7.9x	10.3%	0.0%	0.0%	2.0%
Yang Ming Marine Transportation	32.6x	NM	72.6x	12.4x	5.9%	0.4%	0.0%	0.3%
Simple average :	30.2x	NM	43.2x	10.4x	2.5%	0.1%	0.2%	2.1%

	P/B				ROE (pre-exceptional)			
Company	2008	2009E	2010E	2011E	2008	2009	2010E	2011E
China Shipping Container (H)	0.8x	1.1x	1.1x	1.1x	1.9%	-24.5%	0.6%	7.5%
China Shipping Container (A)	2.0x	2.1x	2.1x	2.0x	1.9%	-24.5%	0.6%	7.5%
Evergreen Marine	1.1x	1.0x	0.9x	0.8x	4.9%	-15.6%	2.3%	11.6%
Hanjin Shipping	0.9x	0.4x	0.4x	0.4x	8.5%	-40.8%	1.5%	8.6%
Hyundai Merchant Marine	1.8x	2.1x	2.1x	1.9x	19.4%	-52.9%	-0.9%	10.9%
Neptune Orient Lines	1.1x	0.8x	1.0x	0.9x	6.5%	-20.7%	4.2%	15.2%
Orient Overseas International	0.6x	0.8x	0.7x	0.7x	6.8%	-11.3%	2.3%	11.6%
Regional Container Lines	0.7x	0.5x	0.5x	0.4x	-4.7%	-15.2%	0.5%	7.8%
Wan Hai Lines	1.6x	1.5x	1.3x	1.2x	7.6%	-7.4%	10.4%	14.8%
Yang Ming Marine Transportation	0.9x	0.9x	0.9x	0.8x	2.8%	-32.9%	1.2%	6.5%
Simple average :	1.2x	1.1x	1.1x	1.0x	5.5%	-24.6%	2.3%	10.2%

	P/B at target price		P/E at target price		Absolute Performance			
Company	2010E	2011E	2010E	2011E	1-Month	3-Month	6-Month	YTD
China Shipping Container (H)	1.2X	1.2x	NM	15.3x	-4%	-2%	37%	138%
China Shipping Container (A)	1.8X	1.7x	NM	21.8x	-9%	8%	2%	72%
Evergreen Marine	1.2X	1.1x	NM	9.4x	11%	3%	1%	17%
Hanjin Shipping	1.0X	0.9x	NM	11.1x	-12%	-15%	-12%	-16%
Hyundai Merchant Marine	1.5X	1.3x	NM	10.9x	3%	-2%	11%	-27%
Neptune Orient Lines	1.4X	1.2x	NM	7.7x	6%	2%	17%	63%
Orient Overseas International	1.3X	1.2x	NM	10.0x	-3%	-10%	9%	111%
Regional Container Lines	0.5X	0.5x	NM	6.6x	2%	-14%	3%	64%
Wan Hai Lines	2.0X	1.7x	NM	11.6x	12%	8%	12%	23%
Yang Ming Marine Transportation	1.1X	1.1x	NM	16.4x	9%	0%	0%	21%
Simple average :	1.3X	1.2x	NM	12.1x	2%	-2%	8%	47%

(1) *This stock is on our regional Conviction List.

(1) Our 12-month target prices are based on SOTP. For important disclosures, please go to http://www.gs.com/research/hedge.html.

(2) Key upside risks: Stronger-than-expected rebound in spot freight rates. Key downside risks: Double-dip recession in the US and/or EU, which could derail our thesis.

(3) The current prices are based on the market close of January 4, 2010.

(4) Turnover represented as average daily turnover over the past 3 months.

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

Exhibit 25: Asian Diversified Shipping comparables

Company	Reuters Ticker	Rating	Trading Curr.	Current Price	12-Month Target Price	Potential upside/ (downside)	Market cap (US$ mn)	Turnover (US$ mn)
China Merchants Energy Shipping	601872.SS	Neutral	Rmb	5.59	5.60	0%	2,811	24.8
China Shipping Development (H)	1138.HK	Buy	HK$	11.94	13.20	11%	5,215	20.3
China Shipping Development (A)	600026.SS	Buy	Rmb	14.00	15.70	12%	6,946	41.8
Great Eastern Shipping	GESC.BO	Neutral	Rs	285	285	0%	931	1.5
Kawasaki Kisen Kaisha	9107.T	*Buy	¥	269	560	108%	1,841	32.7
Mitsui O.S.K. Lines	9104.T	Buy	¥	492	810	65%	6,324	105.2
Nippon Yusen KK	9101.T	Neutral	¥	286	470	64%	3,773	38.2

Company	ROF 2010E-11E	WACC 2009E	Target fleet multiple 2010E	Current fleet multiple 2010E	Net D/E 2009E	Adjusted Net D/E 2009E	FCF Yield 2009E	FCF Yield 2010E
China Merchants Energy Shipping	13.9%	10.4%	1.44x	1.44x	18%	18%	-12.9%	0.7%
China Shipping Development (H)	14.7%	10.9%	1.47x	1.35x	42%	45%	-9.9%	-0.7%
China Shipping Development (A)	14.7%	9.1%	1.90x	1.73x	42%	45%	-7.5%	-0.5%
Great Eastern Shipping	13.7%	13.1%	1.06x	1.06x	63%	86%	-32.4%	-20.7%
Kawasaki Kisen Kaisha	8.4%	6.7%	1.43x	1.36x	101%	929%	-21.0%	-4.2%
Mitsui O.S.K. Lines	6.4%	5.9%	1.15x	1.07x	97%	628%	-22.5%	-18.2%
Nippon Yusen KK	7.0%	5.9%	1.38x	1.33x	210%	801%	-86.9%	-92.4%
Simple average :	11.3%	8.9%	1.40x	1.33x	82%	365%	-27.6%	-19.4%

	EPS growth (pre-exceptional)				Net margin (pre-exceptional)			
Company	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E
China Merchants Energy Shipping	56%	-65%	242%	26%	43.5%	25.8%	50.0%	53.2%
China Shipping Development (H)	29%	-68%	139%	34%	30.4%	17.1%	29.4%	34.5%
Great Eastern Shipping	-27%	-51%	22%	22%	27.8%	16.1%	17.1%	17.1%
Kawasaki Kisen Kaisha	-61%	-76%	161%	161%	3.7%	0.9%	1.9%	1.9%
Mitsui O.S.K. Lines	-34%	-69%	95%	95%	7.2%	2.7%	5.0%	5.0%
Nippon Yusen KK	-51%	-74%	103%	103%	4.7%	0.9%	1.4%	1.4%
Simple average :	-15%	-67%	127%	73%	20%	11%	17%	19%

	P/E (pre-exceptional)				Dividend yield			
Company	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E
China Merchants Energy Shipping	13.7x	39.4x	11.5x	9.2x	1.6%	0.7%	2.1%	2.7%
China Shipping Development (H)	6.8x	21.4x	9.0x	6.7x	2.9%	1.2%	2.8%	3.7%
China Shipping Development (A)	9.1x	28.5x	11.9x	8.9x	2.1%	0.9%	2.1%	2.8%
Great Eastern Shipping	4.1x	8.4x	6.9x	6.9x	4.6%	7.0%	7.0%	7.0%
Kawasaki Kisen Kaisha	5.3x	21.8x	8.3x	8.3x	5.0%	1.2%	3.2%	3.2%
Mitsui O.S.K. Lines	4.7x	14.9x	7.7x	7.7x	6.3%	1.3%	2.6%	2.6%
Nippon Yusen KK	6.3x	23.7x	11.7x	11.7x	5.2%	0.8%	1.7%	1.7%
Simple average :	7.1x	22.6x	9.6x	8.5x	4.0%	1.9%	3.1%	3.4%

	P/B				ROE (pre-exceptional)			
Company	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E
China Merchants Energy Shipping	2.6x	2.0x	1.7x	1.5x	14.8%	4.9%	14.9%	16.4%
China Shipping Development (H)	2.6x	1.6x	1.4x	1.2x	24.5%	7.5%	15.9%	18.3%
China Shipping Development (A)	3.4x	2.1x	1.9x	1.6x	24.5%	7.5%	15.9%	18.3%
Great Eastern Shipping	1.3x	0.8x	0.7x	0.7x	20.2%	9.0%	10.4%	10.4%
Kawasaki Kisen Kaisha	2.4x	0.5x	0.5x	0.5x	9.7%	2.3%	5.7%	5.7%
Mitsui O.S.K. Lines	2.8x	0.9x	0.8x	0.8x	20.3%	6.1%	10.8%	10.8%
Nippon Yusen KK	2.0x	0.6x	0.6x	0.6x	10.3%	2.7%	5.2%	5.2%
Simple average :	2.4x	1.2x	1.1x	1.0x	17.8%	5.7%	11.2%	12.1%

	P/B at target price		P/E at target price		Absolute Performance			
Company	2010E	2011E	2010E	2011E	1-Month	3-Month	6-Month	YTD
China Merchants Energy Shipping	1.7x	1.5x	11.5x	9.2x	-5%	15%	-7%	45%
China Shipping Development (H)	1.6x	1.4x	9.9x	7.4x	-4%	27%	20%	55%
China Shipping Development (A)	2.1x	1.8x	13.4x	10.0x	-8%	25%	0%	72%
Great Eastern Shipping	0.7x	0.7x	6.9x	6.9x	2%	9%	21%	30%
Kawasaki Kisen Kaisha	1.0x	1.0x	17.4x	17.4x	1%	-18%	-27%	-35%
Mitsui O.S.K. Lines	1.4x	1.4x	12.6x	12.6x	-2%	-4%	-13%	-9%
Nippon Yusen KK	1.0x	1.0x	19.2x	19.2x	4%	-16%	-28%	-48%
Simple average :	1.4x	1.3x	13.0x	11.8x	-2%	5%	-5%	16%

(1) Our 12-month target prices are based on SOTP. For important disclosures, please go to http://www.gs.com/research/hedge.html.

(2) Key upside risks: Delays in deliveries and/or cancellations. Key downside risks: Slower-than-expected recovery in tanker spot freight rates.

(3) The current prices are based on the market close of January 4 2010.

(4) Turnover represented as average daily turnover over the past 3 months.

(5) Great Eastern Shipping's fiscal year ended March on 31; figures are presented for FY09 to FY12E.

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

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Reg AC

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