Briefing of SITC 2021 Interim Results Investor Conference

Date：16 August 2021 (Monday)

Time： 4:30pm (HKT)

Method: conference call

Senior management present:

Vice Chairman, Executive Director and Chief Executive Officer Yang Xianxiang

Executive Director and General Manager of Liu Kecheng

Finance Center and Investment Center

Directorate Secretary and General Manager Xue Peng

of Operation Management Center

Senior management made a review on company development, operation results and financial metrics for the first half year of 2021 (Refer to PPT as attached). And then a Q&A section was entered .

Q1（Kelvin LAU Daiwa） Does the company predict that the average freight rate in the second half of the year still have room to rise? Will the recent epidemics in Southeast Asia and China’s coastal ports lead to further tight supply? Will it also affect demand at the same time?

A （CEO） Regarding freight rates, on the whole, freight rates this year are relatively high, but there are some differences at different times. For example, in the summer, June, July and August are the traditional low season for the industry, and the freight rate is slightly weaker, but usually the freight rate will increase in the second half of the year. From the current point of view, we have felt that the freight rates of most routes are gradually increasing. In the recent period, the shipping capacity in the Asian region has actually been declining continuously, which has provided more support for the increase in freight rates. Regarding the impact of the epidemic on the supply chain. Indeed, the impact of the epidemic on the supply chain is very obvious. The main manifestation is that after the outbreak of the epidemic in Yantian and Nansha ports in the first half of the year, the operating efficiency of these two ports has been affected. In fact, there has been no 100% recovery so far. In addition, in Ho Chi Minh, Vietnam, due to the closure of the city, there are more containers in the terminal, which also affects the efficiency of the port. After a case was recently discovered in Ningbo Port, the terminal was partially closed, which will also affect operations. These factors will have an impact on the entire supply chain and on efficiency. For shipping companies, they may reduce the number of voyages. Reviewing the situation from last year to this year, it will not lead to changes and reductions in the demand side due to the epidemic, but will only have some impact on the supply side, which may make the freight rate stronger.

Q2（Kelvin LAU Daiwa） One more question. The company's dividend for the first half of this year has increased compared with last year. Will there be special dividends for the whole year?

A （CEO）Whether it is possible to pay special dividends, I am afraid it is still a bit early to draw conclusions. Of course, if the profit in the second half of the year is particularly high, we will calculate the capital demand for next year. If there is still a lot of funds remaining, we may also pay a special dividend.

Q3 （Bruce HSBC） Could the management please talk about the capital expenditure and new vessel delivery plan for the next two or three years? In the first half of this year, the company's cargo volume has increased significantly. Please break it down to explain which routes have caused such a high growth rate.

A（Mr. Liu） In terms of capital expenditures, capital expenditures in the first half of this year will be 92.3 million U.S. dollars and about 110 million U.S. dollars in the second half of this year. The capital expenditure plan for next year is 500 million U.S. dollars, of which ship capital expenditures will be about 460 million U.S. dollars. Capital expenditure in 2023 is expected to be USD 250 million, of which capital expenditure for ships is approximately USD 210 million. The new vessel delivery plan, a total of 37 new vessels. One vessel will be delivered in 2021, 21 vessels will be delivered in 2022, 13 vessels will be delivered in 2023, and two vessels will be delivered in 2014.

A（Mr. Xue） In terms of cargo volume growth, the overall cargo volume increased by 29.4%. The ports in Southeast Asia were the main ones with more than average growth. Among them, Vietnam's imports and exports increased by 34%, Thailand increased by 35%, Indonesia increased by 54%, and the Philippines increased by 40%. Malaysia's cargo volumeis growing faster, but the previous base is relatively low, an increase of 82%. Japan's cargo volume has declined in the past few years, but it has increased by 17% in the first half of this year. The overall volume growth is dominated by volume growth in Southeast Asia.

Q4（Lisa, Lin Huatai Securities） Does the company's customers have any delays in shipments due to the current high freight rates? For example, whether there is a shipper with a relatively low value delaying the delivery of the goods. In addition, the company added two leased vessels in the first half of the year compared to the end of last year. Will the number of leased vessels increase in the future?

A （CEO）Regarding whether our customers will delay shipments or cancel orders due to high freight rates, it can be said that it has never happened.. Why not? Judging from the performance of our company in the first half of the year, our freight rate growth was not high, only increased by 40.5%, and the absolute value increased by US$215. The average of this 215 dollars for each piece of goods should be very small. It should be absolutely no problem for the customer to bear the freight increase of $215. At present, it is said that the freight rates of American routes have increased to US$20,000/FEU, which may affect customer shipments, unless the customer’s products are just in demand and the price can be increased. Our customer base, including customers in Southeast Asia, Japan and South Korea, are mostly supply chain customers. They are relatively insensitive to freight rates, and there is no delay in shipments or cancellation of orders due to freight rates. Regarding chartering, we are indeed paying attention to the market. If we have the opportunity, we will lease vessels in a small amount. However, the current charter rate is very high, and we are also more cautious. The good situation is that even if the vessel cannot be chartered, our company will have many new vessels delivered at the end of this year and early next year.

Q5（Maggie Qi, Wang BOCOM） Regarding the cargo volume, how will the second half of this year compare to the first half of this year? Does the epidemic in Vietnam and Japan affect the company's current volume? Just now CEO Yang said that the capacity in the Asian region has been reduced. May I ask, is it due to the transfer of a lot of capacity to the US line?

A （CEO） Overall, the volume of the second half of the year should be more than that of the first half. On the one hand, from the perspective of capacity, our company's capacity in the second half of the year is more than that in the first half of the year; on the other hand, from the perspective of total market demand, the demand in the second half of each year is more than that in the first half of the year. Therefore, I believe that our company's cargo volume in the second half of the year will be more than that of the first half. Regarding whether the epidemic has affected the cargo volume of our ports, there will indeed be some impact. However, some places, such as Japan, did not reduce the volume of goods due to the epidemic. Mr. Xue also introduced just now that Japan's cargo volume in the first half of this year increased by 17% compared with the same period last year. The overall increase in volume this year is actually beyond our expectations. The volume of Southeast Asia has also increased substantially. However, the volume of goods in Ho Chi Minh, Vietnam has indeed been affected by the epidemic. Recently, due to the lockdown of the city, individual customers have been restricted from production in Ho Chi Minh, which has affected the cargo volume. Some other ports, including North Vietnam, have no impact. Regarding capacity, the capacity of routes including Southeast Asia and Japan is gradually decreasing. This is consistent with our previous judgment. There are two reasons for this. The first reason is that slightly larger vessels, vessels with more than 2,000 TEU and more than 3,000 TEU are gradually going to ocean routes, because ocean routes are more profitable. Due to port congestion, the actual effective capacity of ocean routes has declined. Another reason is that charter rates are increasing. For example, for a 1700TEU ship, the daily charter rate at the beginning of last year was only about US$7000 to US$8000, but today, the daily charter rate may be US$30,000 to US$40,000, and a three to five-year lease is signed. Under this circumstance, there are a large number of competitors who operate by chartering many vessels and it is difficult to make up their minds to continue chartering vessels. Individual companies may give up continuing to lease, and route capacity will be reduced. Dozens of vessels have been withdrawn from offshore routes, including some companies that have reduced capacity on Japanese routes, and more reduced capacity in Southeast Asia routes.

Q6（Gangxian, Liu CICC） I roughly calculated , from a single quarterly perspective, the company's freight rates in the second quarter were basically the same as those in the first quarter. However, CEO Yang mentioned just now that there have been some corrections and some fluctuations in the market's freight rates recently. What are the reasons? How does our company look forward to the freight rates in the next three and four quarters? Regarding costs, the company has always been very good at controlling various costs, but I see that the company’s "other container logistics costs" have also increased rapidly from a single container perspective. Just now, the management mentioned that these are mainly third party logistics costs, such as the cost of logistics and warehousing,.I hope the management could share the reasons. How do I predict the cost in this regard later.

A （CEO） Regarding freight rates, the market's freight rates fluctuate significantly, but for SITC, from the perspective of the past 10 years, SITC's freight rates are relatively stable. This is mainly because SITC's customer base is mainly supply chain customers, mainly contracted customers,, and the fluctuation of the freight rate is relatively not so large. However, affected by the market, seasonal changes will also occur throughout the year. Usually the freight rate in the second quarter is slightly worse, and the third quarter begins to rise, and the fourth quarter reaches the highest. It is estimated that this situation will be repeated this year. From the current point of view, the situation is highly consistent with previous years,, the upward trend of freight rates is relatively obvious. In the second half of this year, with the withdrawal of other competitors' offshore shipping capacity, coupled with the epidemic, the operation efficiency of the port has declined, and there may be a serious shortage of capacity and a sharp increase in freight rates. We are also well prepared in this regard, and it is possible to charter more vessels to meet the needs of customers.

A（Mr. Liu） Average freight rate was US$770 in the first half of the year, an increase of 42%, average cost was US$422, an increase of less than 2% over the same period last year, and the absolute amount was an increase of about US$6/TEU. The items that increase the average cost are mainly fuel costs, rents for chartered vessels and operating costs of self-owned vessels. In this regard, the average cost has increased by about US$10. However, because our company is more efficient, the average cost of container equipment and cargo transportation and port charges are reduced. Generally speaking, the increase in the average cost is very low. The "other container logistics costs" in our IR PPT also increased significantly. This is mainly because, from the perspective of business structure, the cost of third-party logistics business has increased significantly, and the cost of warehousing business has increased. This is matched with the corresponding increase in income.

Q7（Sabrina JK Capital） I would like to ask about the correlation between the freight rates of ocean routes and the freight rates in the Asian region. When the skyrocketing market of ocean routes ends, what will be the impact on the freight rates in the Asian region? In this round of rising prices caused by the epidemic, for example, the demand has not weakened, but the tight supply side has caused freight rates to rise. We can analyze this through simple supply and demand, but are there any unexpected factors? Are unexpected factors that led to this round of skyrocketing prices? In addition, please forecast the market conditions in the next two years.

A （CEO）Regarding freight rates. For shipping companies, both ocean-going routes and near-ocean routes are in the same large pool, and the capacity is mutually adjusted to produce a certain degree of complementarity, so the freight rate also has a certain degree of correlation. However, the volatility of freight rates on offshore routes is not as great as that on ocean routes. Revewing the past 10 years, if the market for ocean routes is good, and the market for offshore routes will definitely good, if the market for ocean routes is not good, and the market for offshore routes will not be very good. However, this is not necessarily true for each company. It may not be specific to our company. Regarding unexpected factors, I believe that from last year to the first half of this year, all these things happened as expected, but what I didn't expect was that the freight rate would rise so high. The demand exists and is sustainable, the supply is tight, the backwardness of infrastructure cannot be solved in a short time, and the epidemic is continuing. These are all expected. Regarding near-ocean routes, it is also the result of the tight supply of capacity, which leads to increased freight rates, but they are not as crazy as ocean-going routes. Regarding future prospects. I am still more optimistic on the demand side. There are lots of money in the hands of ordinary people which can be used for shopping. The US will invest trillions of dollars in infrastructure in the future, and the global carbon peak and carbon neutral goals will bring a lot of new products. Now, many new products have been seen in the transportation process. All these products will have to be shipped in the future. If there is no economic crisis, we believe that the increase in volume is certain. The demand side is fine. On the supply side. The increase in ships may take two years. Next year, our company will deliver a large number of ships, but the situation of other competitors may not be so good. Most ships will be delivered in 2023 or even in 2024. However, this time the supply is tight, and adding more ships may not solve the problem, because this is a problem caused by backward infrastructure. For example, on the expressway, if there is a traffic jam and the goods cannot arrive in time, adding a few more cars will not solve the problem, which will only make the expressway more congested. The only solution is to try to widen the highway. However, the widening of expressways cannot be solved in a short time. Therefore, I think the supply-side problem is quite difficult to solve, and the current market conditions will continue in the next two years or so. We are still optimistic about the market conditions in the future mid-term.

Q8（Han jun China Securities.） In the first half of this year, the IMO has put forward some new requirements such as EEXI on the carbon emissions of the shipping industry, and will assign carbon intensity levels to ships, and ships with poor levels may be required to rectify. I would like to ask how the industry will face this problem in the future. Will ships over 15 years old be restricted and forced to slow down their voyages? The second question is that the current shipping industry supply chain is chaotic, such as port congestion and inland supply chain network interruption. When does the company expect this situation to normalize? The third question is what is the current lease term structure of the 29 vessels of SITC? The fourth question is, in the first half of this year, how much did the average freight rate increase on China-Japan routes?

A （CEO） Regarding the IMO's EEXI standard, we have also noticed. This is a gradual transition process, which is less than before every year. Our company's ships, before the age of the vessels reached 20 years, there is a high probability that the problem is not big, only individual old vessels may face problems. We have plans to sell some old vessels when the new vessels are delivered next year. The old vessel's current price is also pretty good. Our company has relatively few old vessels and many new ones. Most of the vessels were built after the economic crisis in 2008, and the age of the vessels is basically less than 10 years. In order to meet the requirements of IMO, our new vessels have made some brand-new designs, and the energy efficiency is relatively high. There is no problem in meeting the IMO standards. Regarding the normalization of the supply chain, I cannot answer your question now. Is the current situation normal? For a long time, the current situation may be normal. If it is necessary to return to the previous situation, it must be resolved from two aspects. On the one hand, demand will fall, and on the other hand, supply will rise. The decline in demand is difficult to emerge at present, unless there is a major crisis. The supply must rise, and the increase in ship supply may be achieved in two to three years, but can the infrastructure be achieved? Can the operation method of the US terminal be changed? If the current operating methods of the US terminals can be changed, then normalization may be accelerated. If it can't be changed, then I think this problem is unsolvable. Like Chinese terminals, almost 100% of them are currently operating at full capacity. Whenever there is an unexpected event happened, such as a typhoon experienced some time ago, the ports in East China have stopped operations for three to four days. It has now last for almost a month ,but the problem of terminal congestion has not been completely resolved. The terminals are no longer redundant. They are all operating at full capacity. A slight disturbance will aggravate supply chain problems. Therefore, the normalization of the supply chain may be a more luxurious dream at present. Regarding the company’s 29 chartered vessels, in fact there are no 29 vessels, only about 20, because some of them are chartered from the related parties of the old group, which should not be regarded as chartered vessels. About 20 vessels are actually chartered. The current charter period of these 20 vessels is likely to match the deliver time of our new vessels. In other words, after the lease expires, we will have a new vessel to replace it, and the impact will not be too great. If we charter a new vessel, it may be difficult to match the charter period with the delivery time of our new vessel.

A （Mr. Xue） Let me add a description of the freight rates of China-Japan routes. We have noticed that the freight index of the China-Japan route has increased by about 10% so far, and the increase in the previous few months may be even greater. We believe that our company's freight rates will also be adjusted with the market level. Our company has a larger proportion of contracted customers, and the freight rates of China-Japan routes are also more stable than those of Southeast Asian routes and some ocean routes. In addition, I will add to the lease term that CEO Yang just mentioned. The average charter period of our external charters is 10 months, and the longest is 18 months.

Q9（Ken Liang Shanghai Wideview Asset）Including the impact of the epidemic, many ports are currently congested, but the number of weekly calls by the company’s ships continues to increase. I don’t know how the company did this. Will this growth continue in the future? The sharp increase in freight rates this year has caused the company's profits to rise a lot, covering up the results of many efficiency improvements. Has our company ever calculated that, assuming that freight rates are only rising moderately, but only to cover the increase in costs, what will be the profit of our company in the first half of this year? Our company’s own ships have increased a bit, but our book fixed assets have not changed much. What is the reason?

 A （CEO） On the basis of the existing capacity, in the existing routes, the continuous increase of port calls is the goal that our company is constantly pursuing. In the first half of this year, our company has some new capacity. The new capacity also contributed to the number of port calls. We should see an increase in the number of calls to ports in our annual semi-annual and annual reports. This is our main way to improve efficiency. Regarding the contribution of transportation volume and price, I don't know if we have calculated it internally, and I can't answer it at once. But what I know is that even if the freight rate does not increase, we can still achieve an increase in net profit. If prices increase, our net profit will increase even more, similar to the effect of leverage. We mainly increase our profits by continuously improving efficiency. I remember that the media announced the net profit of our company's unit capacity the year before. It seems that our net profit per unit was US$980, ranking first in the world, and second place seems to be only one-fifth of ours. Regarding changes in assets, in the first half of this year, we added two more self-owned vessels, one is a new vessel, and one is a second-hand vessel. Second-hand vessel were bought earlier and cheaper. The change in assets is indeed not too great. Relying on increasing assets in exchange for profits is not our goal. Our goal is to increase profits with less or no increase in assets, and to increase profits by improving efficiency.

A（Mr. Liu）I added that the increase in fixed assets. In our balance sheet, there were two increases in long-term assets. One was fixed assets, which increased by approximately US$54 million, mainly due to the delivery of two vessels in the first half of the year. The increased capital expenditure is approximately US$92.3 million, but at the same time, the asset depreciation accrued in the first half of this year is approximately US$40 million. After the two offsets, fixed assets have increased by more than 50 million. Another asset is the right-of-use asset, which is our long-term lease of container assets for more than one year, with a total amount of approximately US$200 million, an increase of US$36 million from the beginning of the year.

Q10（Sabrina JK Capital） The management mentioned just now that the congestion of US ports, including the problem of backward global infrastructure, will not be solved in the short term. According to the understanding of most of us, congestion is caused by the epidemic, so I hope the management will explain in detail.

A （CEO）On this issue, our opinions are not necessarily consistent. Saying that the current congestion problem is caused by the epidemic, my view is not exactly that. The epidemic is an accelerator, or a leverage, but this problem should have happened. The emergence of this situation is driven by demand, which is an increase in demand. Of course, is there any relationship between demand and the epidemic? It doesn't matter, but it also matters. After the epidemic is over, will there be no demand? I think it's impossible. So I think the epidemic is a leverage. You can't finish talking about needs in one or two sentences. What I just said was because of the development of the Internet and another because of the emergence of new technologies and new products. On the supply side and ships, it’s easier for everyone to understand. The development of infrastructure, wharfs, railways, highways, storage yards, and warehouses has owed more than ten years of debt, and one or two years cannot be repaid. For example, in the U.S. trailer transportation, each box occupies a pallet. If it is not available, it may not be possible to make it in time. Once it is made, there may not be a driver. In fact, these problems cannot be solved all at once. On another question, I still disagree with the decline in efficiency due to the epidemic. China has not reduced efficiency due to the epidemic. Other countries are not necessarily due to the decline in efficiency due to the epidemic. The main reason is that the business volume is too large and the volume is too large, which leads to a decrease in efficiency. This is similar to the congestion of a highway. If the capacity of the currency is only 1 million boxes, if it has reached 1 million boxes, it is 100% full and there is no redundancy. If we encounter natural and man-made disasters, we will not be able to solve the problem. Infrastructure investment has been in debt for more than ten years or even decades. More importantly, on the other hand, the technology on the ship side continues to advance, and the ship continues to grow in size. The dock side is still using technology from 20, 30, or even 50 years ago. It is difficult to meet the current needs. The efficiency is Getting lower and lower. For example, the ship was originally 200 meters long, but now it is 400 meters long. It will occupy 2 berths at once, and the supply of bridge cranes will not keep up. Although multiple cranes can be operated at the same time, the ships are loaded in one port and only one or two bays are loaded. The extra cranes are useless. This is a technical issue. Another question is that the way of operation in the United States is different from that in China. China's ports, such as the Shanghai port, are under the unified management of Shanghai Port. When ships come, multiple ports can be flexibly deployed. This is not the case in the United States, Japan, and other countries. In the United States, you have signed a contract with Port A. There are 10 ships at Port A that must be berthed at Port A. Even if there is no ship at Port B, you cannot go to use it. This is a problem. If the United States solves this problem, I believe that efficiency will be greatly improved. Not only in Europe and the United States, in fact, in Asia, and even in countries with the most developed infrastructure such as China, there are more or less demand-induced infrastructure deficiencies that need to be resolved. It is not enough to just increase the infrastructure, and the technology needs to be matched.