Briefing of SITC 2022 Interim Results Investor Conference

Date：16 August 2022 (Tuesday)

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 2022 (Refer to PPT as attached). And then a Q&A section was entered .

Q1（Kelvin LAU Daiwa） The company delivered a lot of new vessels in the first half of the year, but the transportation capacity did not increase much. Is it just a matter of time, the company's transportation capacity will increase in the second half of the year? The second question, I would like to ask Mr. Yang to give us an analysis. Recently, there is a little downward pressure on the market freight rate. I wonder if the company sees some weak market demand.

A （CEO）Indeed, in the first half of this year, although our company delivered some new vessels, the overall capacity did not increase. The main reason is that the new vessels delivered in the first half of the year, we used to replace the chartered vessels. Previously we had more than 20 chartered vessels. After the lease expires, if we renew it, we need to sign a contract for at least 3 years, and the contract price is very high, so we replace these vessels with our own new vessels when the lease contract expires, so our overall capacity no increase. Although the total capacity has not increased, we have still added some new routes and actually our vessel utilization efficiency is improving. More new vessels are expected to be delivered in the second half of the year. In addition to replacing the chartered vessels, the new vessels delivered in the second half of the year will mainly be used to add new routes. New routes in the second half of the year are estimated to require 6 to 7 vessels. Regarding the freight rate, this year's freight rate is like a roller coaster with magnificent waves. Freight rates in the first quarter were very good, continuing last year's high rates, and the contract prices we signed with our customers were relatively good. With the outbreak of the Russian-Ukrainian war in March, everyone may feel the uncertainty of the future. From the customers, we also feel some pressure. Especially later, because of the Russian-Ukrainian war, global inflation, especially in the United States, continued to increase, and the United States continued to raise interest rates. Throughout the process of raising interest rates, the US dollar index rose, and the exchange rate of the US dollar against other currencies rose. Other currencies, such as the Japanese yen, and the currencies of Southeast Asia, including the Ren Min Bi, are falling against the US dollar. Fluctuations in exchange rates have affected the enthusiasm of customers for spot transactions, which were reflected in April, May, June, including August. Therefore, the market freight rate gradually came under pressure. By August, I felt that freight rates may have reached the bottom. I remember that in July and August last year, the market freight rate also had a wave of correction. Of course, the magnitude was not as large as this year, probably because the high point of the freight rate last year was not as high as this year. Now it is seen that some routes of competitors have begun to withdraw, and the cargo volume has gradually recovered since late August. It is expected that the industry peak season will still appear in the second half of this year, but it is hard to say whether it will be as prosperous as in previous years. My judgment is that although there will still be a peak season, it may not be as busy as in previous years. Here's my brief review of the first half of the year and a short-term outlook for the future.

Q2（Kelvin LAU Daiwa） One more question, what is the difference between the company's current contracted freight rate and the market freight rate?

A （CEO） This aspect is not so easy to say clearly. For a clearer explanation, let's simply split it into Northeast Asia and Southeast Asia. So far, the freight rate in Northeast Asia has not changed, and the market freight rate is still the same as in the first half of the year and has not fallen. Northeast Asia's cargo volume account for about 45% of the company's total cargo volume. Spot freight rates in the Southeast Asian market have fallen sharply. I made a simple statistics and found that the cargo volume with a relatively large drop in the spot freight rate accounts for about 25% of the company's total cargo volume.

Q3（Bruce HSBC）You just mentioned that the new vessels delivered by the company in the first half of the year are used to replace some of the chartered vessels. I would like to know how much of the chartered capacity the company will be replaced in the second half of this year when it expires? Looking forward to the next one or two years, how does the company plan for the proportion of self-owned and chartered capacity in the overall capacity? The second question, the company sold a container vessel in the first half of this year. I would like to ask about the company's plan to sell second-hand container vessels in the second half of this year or next year, as well as the current progress. The third question, you mentioned just now that some peers in the region have withdrawn due to relatively large fluctuations in the overall cargo volume and freight rate. I would like to ask, which routes are reflected in the withdrawal of transportation capacity in this regard?

A （CEO）The company will deliver a total of 13 new vessels in the second half of this year, and plans to increase the overall capacity by 5 to 7 vessels to open up new routes in the second half of the year, that is to say, 3 to 4 new vessels will still have to replace chartered vessels. This is the overall capacity deployment in the second half of the year. We are indeed selling second-hand container vessels this year. In addition to the sale of all bulk carriers, we have signed contracts to sell 4 second-hand container vessels this year, 1 of which has been delivered in the first half of the year, and 3 will be delivered in the second half of this year. Also, we have 3 to 4 second hand container vessels available for sale by the end of this year or early next year. After these 3 to 4 vessels are sold, the replacement task of our entire new and old vessels may be completed, and the proportion of our own vessels may reach about 90% or more. Of course, this does not include the vessels of our Old Group. We also have several related-party transactions with the Old Group. I estimate that the proportion of self-owned vessels will be around 90%. As for the recent withdrawal of the routes by the peers, it is mainly some new entrants, some small shipping companies, who suddenly participated. Recently, the freight rate has suddenly fallen rapidly. They have no contract customers and basically only market customers. Therefore, when the market freight rate falls, they lose money, so they will withdraw. The main routes to be withdrawn are the Vietnam and Thailand routes, the North Vietnam routes and the South Vietnam routes in Vietnam, and the Thailand routes. The routes withdrawn are mainly these three points. The withdrawal of other routes is relatively less, and the new capacity in other places is not much.

Q4（Bruce HSBC）One more question. Considering that the company has plans to sell some second-hand container vessels this year and has very strong cash flow, I would like to ask the company to share with us the company's dividend policy and plan for special dividends.

A （CEO）This time, the amount of the interim dividend is 70% of the net profit in the first half of the year. Our company is still confident. In previous years, our dividend payout in the first half of the year would have been lower than 70%, about 50%. This time we paid 70%. We feel that in the second half of this year and in the future, the company's cash flow growth is still relatively strong. Whether there will be a special dividend is uncertain today. I estimate that we will inform stakeholders in a timely manner when the next board of directors, or when the situation in the second half of the year is more clear.

Q5（Cecilia, Qiu JK Capital Management Ltd） You just mentioned that the company started to do e-commerce business, can you talk about the company's business development ideas?

A （CEO）Here is a brief introduction to strategic planning. Our main business is container transportation by sea and land, which can be regarded as a platform. There are multiple business states on this platform, for example, there are reefers, there are frame containers, and there are chemical tank containers, with various cargo categories. For each type of cargo, we have different customer groups, and we have different teams to maintain. A new form of trade has emerged in the past few years - e-commerce. E-commerce transactions are different from ordinary transactions. The way of e-commerce customs clearance, the code in the customs is also different from that of general trade. In addition, the collection and delivery methods of e-commerce are also different from ordinary trade. Therefore, a group of people who understand e-commerce is needed to operate and provide services to customers. If you don’t understand e-commerce business, you can’t provide e-commerce logistics services to customers very well. In the future, we believe that the proportion of general trade volume will gradually decrease, and the volume of e-commerce logistics will gradually increase. Therefore, we have set up a dedicated e-commerce logistics team to serve e-commerce customers. This service may be divided into two aspects. One aspect is to cooperate with the port government or other relevant stakeholders to build some trade platforms. E-commerce can be done by everyone, but there must be a platform. In addition, shipping services, including customs clearance and delivery, will be required after the transaction is completed on the platform. We also have a team that specializes in corresponding logistics and transportation services. This is the strategic plan for our e-commerce logistics business.

Q6（Cecilia, Qiu JK Capital Management Ltd）Are we equivalent to providing value-added services to customers?

A （CEO） It can be said that it is a value-added service, or that we provide solutions for a new way of trading. We already have this business and have launched a special e-commerce logistics express from Xiamen to the Philippines. The e-commerce shipments of this e-commerce logistics express are gradually increasing every week.

Q7（Cecilia, Qiu JK Capital Management Ltd）In addition, I would like to ask, what is the proportion of the cargo volume of the Taiwan route in the company's total cargo volume? Has the situation in the region been substantially affected in the past few weeks? What is the company's outlook for the Taiwan route business in the future?

A （CEO）The proportion of the cargo volume of the Taiwan route, I can't remember clearly now. Mr. Xue, please add this information later. In terms of capacity, we only have the capacity of 2 vessels, so in terms of capacity, it is only 2%. There have been no major changes in cargo volumes and freight rates. Although there have been some problems in the relationship between the two sides of the Taiwan Strait recently, in terms of the economy, there has not been a big change in the business volume I see every day. I don't think much will change in the future. I think it should be mainly a political problem, not a serious economic problem. For example, in the past few years, there have been many political problems between China and Japan, but the economy has not experienced major ups and downs, and it is still relatively stable. For the Taiwan route, I'm not worried about the volume.

A（Mr. Xue Peng）I would like to add the proportion of the cargo volume of the Taiwan route. In the first half of the year, the cargo volume of Taiwan routes accounted for 1.4% of our total cargo volume.

Q8（Gangxian, Liu CICC）As mentioned just now, in the first half of the year, the company's effective capacity did not increase, but the cargo volume increased to a certain extent. Can you give us an analysis of the general differences and trends by countries or routes?

A （CEO）The analysts present may be old friends, and all are very clear about SITC's business model. We have also emphasized many times that SITC can still increase the cargo volume without increasing the transportation capacity, mainly due to the improvement of efficiency. This aspect was most vividly reflected in the first half of this year. It is very difficult for ordinary companies to increase the cargo volume by 8% without increasing the transportation capacity. We mainly through several aspects. The first is to optimize the route. In a cycle, for example, 10 or 20 days, the number of ports of call can be adjusted. For example, the original call at 10 ports, and now it calls at 8 ports, which can save time. The time saved can be added to other routes or to develop new ports. Specifically, for example, in Beibu Gulf, we opened the route from Beibu Gulf to Haiphong, and one ship ran twice a week. This was never seen in the past. In the past, it was basically weekly.。

Q9（Gangxian, Liu CICC）In terms of countries, which countries have the better cargo volume in the first half of the year?？

A（Mr. Xue Peng）In the first half of the year, the countries in Southeast Asia, especially Malaysia and Indonesia, experienced strong growth in cargo volume. In addition, on the Northeast Asia route, the cargo volume of Japan is relatively stable, but the cargo volume of South Korea has increased significantly. Therefore, from the perspective of overall cargo volume, these places have contributed to the 8% growth of our cargo volume.

Q10（Gangxian, Liu CICC）The company has released the operation data of the first quarter. According to the quarter, the freight rate level in the second quarter is similar to that in the first quarter. What is the reason behind this? It is different from the market freight index. Apart from the fact that the contracted freight rates are fixed, are there any other reasons? For example, the adjustment of surcharges.

A （CEO）Indeed, comparing the first quarter and the second quarter, the revenue per box, and even the daily booking volume and weekly gross profit I saw did not change much. The main reason is our products. Our products provide customers with high-frequency, high-density, convenient, fast, and safe transportation services. Therefore, we have received support from stable customers, and a large number of contract customers are stable. In addition, as you said, we have some changes in the structure of freight rates. For example, in the first half of the year, because we all use low-sulfur oil, the price of low-sulfur oil has skyrocketed because of the Russian-Ukrainian war, from $400 to $500 at the beginning of the year to about $1,000 last month. We have also made some adjustments in the collection of low-sulfur oil surcharges, which are based on market prices.

Q11（Gangxian, Liu CICC）You just mentioned that the company sells second-hand vessels. I wonder if it is convenient for the company to disclose what kind of company our trading partner is? Is it another shipping company in the industry or is it sold to the Shipbreaking party?

A （CEO） So far, our bulk cargo vessels have been sold to companies engaged in bulk cargo business, and our container vessels, whether delivered or undelivered, have been sold to relatively well-known container route operators in the industry and ranking among the top.

Q12（Gangxian, Liu CICC）Recently, we have seen a pullback in the price of steel plates for shipbuilding, and the price of shipbuilding may not necessarily pull back. I would also like to ask, from the perspective of a longer period, is it possible that our new shipbuilding orders will increase in this round? If it will increase, do you mainly look at shipbuilding prices or some other indicator?

A （CEO）Whether we place an order to build new vessels mainly depends on our needs. We provide services for customers, and vessels are our hardware. Shipbuilding is mainly determined by the demand for our products. Of course, then it also depends on the price and the quality of the shipyard. So far, we have no plans to sign new shipbuilding contracts except for those already signed, of course, including options.

Q13（Peter, Yu J.P. Morgan Securities）How does the company judge when the liner freight rate will return to normal in the future? Putting aside the unusual market in recent years, in the long run, the company's operating conditions, profitability, return on equity, etc. are much higher than other large peers, and more importantly, it is much more stable, then What is the company's secret sauce?

A （CEO）As for freight rates, I think the imbalance between supply and demand has been more than two years, nearly three years. Now it should be close to, and gradually tend to be normal. This tendency to normality does not mean that supply and demand have changed. In fact, the key driving factors of the supply-demand relationship have not changed. The actual factors that have changed now are accidental factors. For example, the short-term disturbance caused by such accidental factors as the Russian Ukrainian war may not be very short, but may be one or two years. I judge that in the future, the peak season will come in the second half of the year. The main reason why the peak season is still coming is the exchange rate. The inflation rate of 9.1% in the United States is already the peak. If there are no special circumstances, it may gradually fall in the future. Now it is obvious that the exchange rate of the US dollar against other currencies is also gradually retreating. In this case, the customer will have trading opportunities in the next one or two months. It should be September. After October, the peak season will come. After the arrival of the peak season, there should be an adjustment in the freight rate. But in general, the next year, or even two years, may be in the interest rate hike cycle. The interest rate hike cycle will definitely have some impact on the economy and demand, so I think it should gradually become normal in the future. But in the long run, I think there are still contradictions between supply and demand, which cannot be resolved. This is my superficial view of the entire container shipping market. As for the secret sauce, I don't think there is any secret sauce, maybe it's hard work. Because we operate near-ocean routes, we get up early and stay up late, unlike those who operate ocean-going routes, it takes dozens of days and months for a ship to run back and forth. Our ship may depart from one port to the next in less than a day. In addition, I think it is still necessary to improve the relationship with customers, set our own positioning, draw a "portrait" of our customers, and then look for our customers. After we found the core customers, some suppliers of the corresponding core customers also came with us. Then sign a long-term contract with the customer, and be able to maintain a close relationship with the customer. I think these two points are more important, and the others are technical. Anyone can do technical work.

Q14（Peter, Yu J.P. Morgan Securities）The second point you mentioned just now is that the company has logistics and freight forwarding business, so the company can have a direct relationship with direct customers. Signing a long-term contract may make the relationship more stable. Can we think so?

A （CEO）You can think so, but if you change a company and have the same business, you may not be able to gain the trust of customers. In the final analysis, it is a matter of employees. SITC ‘s employees are not the same as employees of other companies.

Q15（Russell, Su Pictet Asset Management）The first question is, what is the ratio of the company's current order-on-hand capacity to the current fleet's total capacity? And what will be the ratio in 2023? And what is the ratio for the entire industry now and in 2023?

A（Mr. Xue Peng） As mentioned just now, the company will deliver 13 new vessels in the second half of this year. The delivery capacity for the whole year will be 41,000 TEU. Next year, 14 new vessels will be delivered. The vessel size will be relatively small, and there will be about 24,000 TEU. The remaining eight vessels will be delivered in 2024, with a total capacity of about 13,000 TEU. Comparing the number of vessels delivered each year with our existing capacity, there may be a 10% to 20% increase in guaranteed capacity every year. Of course, Mr. Yang also mentioned just now that we will have some new vessels to replace our chartered vessels.

A （CEO）Let me add. Next year, the company's own vessel capacity will account for more than 90% of the operating capacity, and the average self owned capacity of the whole industry should account for less than 50%.

Q15（Russell, Su Pictet Asset Management）Second question, what is the proportion of long-term contracts of the company? And what is the likely increase or fluctuation of the long-term contract price compared with the beginning of the year? And what is the difference between the current long-term contract price and the current market spot price?

A（Mr. Xue Peng）Our contract customers account for about 60% of our total customers. Among these 60%, 50% are annual contracts, and the other 50% are quarterly and semi annual contracts. The freight rate of the annual contract will remain unchanged, and the quarterly and semi annual contracts will change with the adjustment of the market freight rate.

Q16（Yan Yan TXCAPT）As mentioned earlier, the cargo volume of the routes with a large drop in spot freight rate accounts for about 25%, and the other 50% is the Northeast Asia route. So, for the freight rate of the Northeast Asia route, should we refer to the change from Shanghai to Japan and South Korea in the CCFI freight index?

A （CEO）Yes.

Q17（Yan Yan TXCAPT）Then what is the remaining 25% of the cargo volume？

A （CEO）The remaining 25% of the cargo volume is Southeast Asia's cargo volume.

Q18（Yan Yan TXCAPT）I calculated the increase of the company's capacity and felt that the ship type was getting smaller. Is this related to the adjustment of the company's route layout or other reasons?

A （CEO）The reason for the small size of the new capacity vessel is that the rent of large vessels is too expensive.

Q18（Yan Yan TXCAPT）In terms of the cost of a single container, the company's cost in the second half of last year was about 550 US dollars, and that in the first half of this year was 650 US dollars, an increase of about 100 US dollars. Apart from the increase of 40 US dollars in fuel oil, there is also an increase in vessel charter. How does the company look forward to this?

A （CEO）The biggest cost of a single container is the vessel cost. In terms of vessel cost, since our company has gradually reached more than 90% of its own capacity, this cost can be understood as being locked and unchanged, and the variable cost is mainly the cost of fuel oil. Fuel costs should have peaked in July, and now they are beginning to recover. However, in terms of fuel, as the fuel price changes, the company can pass on the surcharge to the customers, so the fuel cost is relatively controllable. Another cost is the container cost. Because there is a surplus of containers and there are a large number of empty containers in the port, the rental cost of containers is gradually decreasing. I remember that at the peak of last year, the container rent was $1.8/teu, but now it seems that it is only $0.8/teu. The total cost of the company, except the fuel cost, is controllable and may decrease slightly, especially the vessel cost, which will decrease after the delivery of our own vessels.

Q19（Yan Yan TXCAPT）If I remember correctly, the long-term contract of the company's Northeast Asia route was updated on March 31. The long-term contract of the Southeast Asia route may have been updated at the end of last year. Therefore, the change of the company's freight rate will only reflect the change of the spot freight rate in the market, right?

A （CEO）So far, this is the situation. The second half of the situation is uncertain. Because, if the spot rate falls very low in the future, does the contract rate need to be adjusted? This is now uncertain. There are also annual contracts and quarterly contracts for contract freight rates, and quarterly contracts may face adjustments. So far, this situation has not been encountered, because the spot freight rate fell instantly at the end of July and the beginning of August.

Q20（Yan Yan TXCAPT）If the current market spot freight rate does not reverse, the freight rate in the second half of the year still has a downside risk, right?

A （CEO）Yes. You're right.

Q21（Yan Yan TXCAPT）Could you please help me to forecast the freight rate in the third and fourth quarters of this year, what kind of range and when it will rebound?

A （CEO）Yes. I firmly believe that the peak season will still come in the second half of the year. Because it has been one or two quarters since the problem of destocking, and the impact of exchange rate fluctuations causing customers to slow down shipments has also continued for a period of time, and there are other factors, such as the epidemic, and now China's anti-epidemic seems to be not as strict as before, and nucleic acid testing is more frequent than before. Even if an epidemic occurs, it will not spread in a large area, so I am still very confident in the arrival of the peak season in the second half of the year. I believe that the peak season should come in September, and freight rates will rebound, but the rebound may not be as strong as in previous years. The entire shipping market, including both ocean and near-ocean routes, rebounded at the same time last year. If the strength of the rebound of ocean routes this year is not so strong, then the rebound of near-ocean routes will not be too strong.

Q22（Yan Yan TXCAPT）The current market freight rate has increased a lot compared to before the epidemic. From the perspective of supply and demand, the demand is not very strong at present. In terms of capacity supply, there may not be a lot of new capacity for large vessels at present, but whether there will be new capacity for small vessels come out?

A （CEO）The fundamental change in supply has not occurred recently, and there is not much problem with demand. Unlike the economic crisis in 2008, which led to a cliff-like drop in demand, it has not happened at present. Although demand has indeed decreased now, it is fundamentally different from the situation in 2008.

Q23（Ken Liang Shanghai Wideview Asset）For supply-side emission reductions, is there still a need for stricter emission reductions in the next two to three years? What effect will it have on supply? And how does the company judge the situation of ship demolition?

A （CEO）Regarding emission reduction regulations, the IMO regulations are quite strict, there is no doubt about that. In the future, the regulations will take effect from 2023, and gradually there will be some old vessels that cannot be satisfied and should be dismantled. From this year's point of view, almost no container vessels have been dismantled, and this situation has continued for three years. A large number of container vessels will be dismantled, when the market bottoms out and rents are so cheap that shipowners decide it is not cost-effective to continue operating older vessels. So far, this situation has not happened, but it should definitely happen. It is hard to predict when it will happen, but it should be getting closer. With the arrival of 2023 and the implementation of the regulations, the number of dismantlings in 2023 should gradually increase.

Q24（Ken Liang Shanghai Wideview Asset）From the data of customs or ports, China's exports, especially those to ASEAN, have increased greatly this year. I wonder whether this is a sustained growth under the influence of RCEP or a short-term rapid growth?

A （CEO）As for the growth of ASEAN trade volume, according to the customs data, it has always been very good, and this year is also good. From the perspective of our shipping company, the situation is also stable. However, I think that the customs data may be greatly affected by the price.

Q25（Ken Liang Shanghai Wideview Asset）With the rapid growth of trade volume with ASEAN and the large growth of container volume at the port, the freight rate has dropped. What is the reason?

A （CEO）The drop in freight rate is mainly due to seasonal reasons. July and August are the off-season of the industry every year. At this time, there will be a wave of freight rate drop, but the degree is different. Compared with last year, this year's decline is slightly larger. The main reason is that some shipping companies have made too much money and don't care much about this money.

Q26（Ken Liang Shanghai Wideview Asset） In the next two or three years, or three or five years, do you think the future freight rate will remain at a relatively high level in the recent one or two years?

A （CEO）I think the peak of freight rate has already appeared. The situation that the freight rate keeps hitting new highs should have been over, and now it begins to callback. In addition to inflation, the US interest rate hike and the global interest rate hike, I believe the market also needs a correction.