Briefing of SITC 2021 Annual Results Investor Conference

Date：7 March 2022 (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

Executive Director and President of Shipping Group Xue Mingyuan

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 year of 2021 (Refer to PPT as attached). And then a Q&A section was entered .

Q1 （Liu Gangxian CICC）The first one is about the demand side. Now everyone sees that the inflation in the United States is relatively strong, including the subsequent interest rate hike, and there have been some changes in the political situation recently. I would like to ask Mr. Yang, what is our company's expectation for the second half of this year, including next year? For example, is there a general guideline for the overall demand growth in Asia and what kind of volume growth our company expects to achieve?

A （CEO）On the demand side, a month ago I was still very optimistic about the growth of future demand. Everyone knows that the Russian-Ukrainian war broke out recently. The Russian-Ukrainian war has a certain inhibitory effect on demand in the short term. Everyone is nervous about war, and they don't know what the consequences of war will be. No matter from which angle or industry, everyone wants to wait and see. Judging from the import and export data, I estimate that in the short term, in a month or so, demand will be suppressed. But after a period of time, whether the war continues or not, there will still be demand at the end, so inventory replenishment will still be carried out. For the second half of this year, including next year's demand, I think there is still a lot of certainty. Especially after the war, it is estimated that everyone will increase inventory rather than reduce inventory. The increase in inventory is not only due to energy, congestion, and price increases, but from a security perspective, everyone still wants to have a little more inventory to be safer. In short, I think the demand will be quite good in the next six months to one year.

Q2（Liu Gangxian CICC） The second question, we now see that the entire freight rate in the market is on the high side from a historical point of view. The earnings of listed companies, including the earnings of the entire industry, are very strong. Although there are IMO regulations in 2023, the capacity will still increase. What I want to ask is, if there are some unexpected situations on the demand side or the supply side in 2023 or 2024, how will our company respond. For example, some peers may take some measures in the negotiation of a long-term agreement, and now provide a certain discount to lock the long-term agreement for a longer period, even two or three years. I would like to ask Mr. Yang how our company considers ensuring the continuous and stable performance in the future.

A （CEO）This is a very good question, and it's something we think about every day. No matter how good the market is, after all, it is cyclical. There will definitely be a black swan event in the future. Therefore, this kind of cliff-like decline still exists. But in the long run, I think it's still a bullish market. There may be one problem or another in the middle of a long-term bull market, and a cliff-like decline may also occur. There will be a short period of time, a few months or even more than half a year, and the market conditions may be very poor. In response to this situation, I think signing a long-term agreement is probably one aspect, but it is not the key to solving the problem. Because even if you sign a long-term agreement, when your customer does not exist, or the customer cannot survive, it is impossible for him to perform the contract. Therefore, I think it is very important to select customers at the moment. Selecting good customers, supply chain customers, and customers who can survive for a long time is a policy for us to select customers. As for signing contracts, we basically sign annual contracts, supplemented by quarterly contracts. Because of the annual contract, our customer volume and price can be guaranteed, so we still adhere to our consistent practice. In order to deal with this uncertainty, I think in addition to selecting customers, that is to improve service. Past experience has proven that companies with better service levels can grow against the trend in times of uncertainty and in extremely high-risk situations. In the past, from the Asian economic crisis, the global financial crisis, these several crises, including other large and small crises, it has been proved that customers still have great trust in companies with good service and stability, and their freight rates are also high. There will be some inclination, so I think the second aspect is to do a good job in service. The third aspect is actually to dig deep and wide the moat and raise the city wall, including the allocation of assets and own ships. If there is a cliff-like decline in the next two or three years, then I believe that self-owned ships can become a good city wall to prevent major problems for the company. If a large number of ships are chartered, and they are all leased at high points, when the market is turbulent, such companies may be the first to die. I think it is very important for the company to train its own internal skills well. These three points are what our company is doing now, and it is also the best solution to deal with future uncertainties.

Q3（Maggie Wang BOCOM International）I have three questions here. The first question is about the short-term outlook. From the perspective of the first half of this year, the market is divided into Southeast Asia and Northeast Asia. Please look forward to the volume and freight rate of the company. The second question, I would like to ask the management to update the freight rate after the long-term contract negotiation in 2022. The third question is about leasing ships. At present, about 28% of the company's ships are leased. I would like to ask whether the ratio of leasing will increase in 2022, or will it be basically stable?

A （CEO）The first question is about the short-term outlook for freight rates and volumes. It is now the beginning of March. Judging from the situation this year, due to the influence of the Beijing Winter Olympics, the recovery of the goods volume is obviously not as good as last year. I estimate that the recovery of shipments this year may be two weeks later, probably by the end of March. I estimate that by the end of March all routes will explode. The second question is about the long-term agreement. The negotiated price this year is relatively optimistic. Our contract customers, including quarterly and annual contract customers, account for more than half. On the whole, the freight rate has increased substantially on the basis of last year. The third question is about chartering. We have some chartered vessels, but not many, some of which are from our own unlisted old group. If you remove this part of the ships, in fact, there are only a dozen or so ships chartered. There will be about 22 new self-owned ships delivered this year. It is no problem to replace all these leased ships. This year, we plan to replace the leased ships first, and then add some capacity and open new routes in the second half of the year.

Q4（Peter, YU JP Morgan Securities）The first question is about the Russian-Ukrainian war. What impact do you think it will have on the supply side? Will there be new disruptions to the entire supply chain? The second question, do you have any views on the entire supply and demand in 2023 and 2024, as well as the freight rate level? Some people think that there will be a serious surplus in the global shipping market in 2024, and the freight rate will be greatly adjusted. I don't know what you think of this point of view.

A （CEO） Everyone is thinking about the impact of the Russian-Ukrainian war, and I have also considered some, but it is not necessarily comprehensive. First of all, after the war, many ships stopped operating in the Black Sea and in the Russian port area, unable to get out or in. Some ships may not be able to unload the cargo they are pulling, and some ships may not be able to go to load the cargo. , don't know where to go. Therefore, in the short term, there will definitely be insufficient supply of ships. In addition, it is still unclear how much the global sanctions on Russian ships will affect. In fact, Russia has a lot of ships, relatively few container ships, and quite a lot of bulk carriers and oil tankers. Once these ships are sanctioned, the impact on the entire global ship supply is still very large. Another big influencing factor is that the raw materials and products that originally depended on Russia's exports may need to find new suppliers and new supply countries. This places new demands on the supply chain. For example, some goods that were transported from Russia to Europe in the past must be provided from other countries once Russia cannot provide them. From where? It's not clear yet. But no matter where it comes from, shipping may be required, either in containers or in bulk. Therefore, I think the impact on the supply of ships during the war is still relatively large, but the extent of the specific impact is still uncertain. If coupled with the demand for increased inventory, the impact may still be quite large. Regarding the outlook for 2023 and 2024, I think the first thing to look at is the demand side. Where does the current demand come from? I think there are about four aspects. One aspect is natural growth. There is an increase of 100 million people in the world every year. The increase in the population of more than 100 million is not the increase of children, but the main force of consumption, the increase of the consumption army, and the consumption growth is still quite large. Another is the growth of GDP. Every year, the global GDP grows by about two trillion US dollars. This is normal growth, and it is growth from a high base. The second aspect is that demand is leveraged by the use of mobile internet. Under normal circumstances, the application of the Internet may take ten years to popularize, but now it has become popular in one or two years because of the epidemic. With the application of the Internet, everyone's online shopping, stickiness and frequency will increase. This cannot be replaced, and it cannot disappear even when the epidemic is over. The third aspect is new products. In the past ten years ago, when there was no Internet, when there was no AI, the products were basically some products of clothing, food, housing and transportation. Now because of AI and the mobile Internet, many intelligent products have come out, and these new products have been added on the basis of the original clothing, food, housing and transportation. The fourth aspect is the conversion of old and new kinetic energy. What is the conversion of old and new kinetic energy? The original traditional power, oil and coal should be converted into clean energy with low carbon and environmental protection. This process creates a lot of new merchandise that needs to be shipped. Such as solar power generation, electric vehicle products, these needs will not disappear in the future, nor will they disappear because of the disappearance of the epidemic. In my opinion, the growth of the demand side is like a step. After this step is reached, it will be much higher than before, and it will not disappear. Therefore, I think that in the medium and long term in the future, the demand will still exist. There are two aspects on the supply side. One is ships. I think it is okay to say that there will be many ships launched in 2024. But from my comparison of orders before the 2008 economic crisis, the ratio is much lower now than it was in 2008. And a lot of them are ordered by Operators, and there are very few pure owners of newbuildings. In this way, there will not be too many ships that can be leased in the market in the future. More importantly, in 2019, 2020, 2021, and 2022, the old ships have not been dismantled for four years, and there is also a lack of maintenance. If there is a cliff-like decline in 2023 or 2024, a large number of ships will have to leave the market and be sent for dismantling. Another reason is that the IMO rules, starting from 2023, require that the annual carbon emissions of each ship continue to decline, and many ships are sent for dismantling because they do not meet the standards. Even if demand falls off a cliff in the future, many ships may be out of business, so there will be no excess supply of ships. Even if there is a surplus, it may only be a short-term surplus. Another key factor affecting the supply side is the problem of infrastructure. The infrastructure of the terminal is in short supply. So far, I haven't seen a lot of wharf planning and construction in the US, China or Europe. No company has proposed to change the way existing container terminals operate so that efficiency will increase by 100% or 200%. If there is no new technology, no new wharf, and the demand still exists, this contradiction cannot be resolved. No matter how many boats there are, it is useless. The more boats, the worse the jam. So I said, the future will be a long bull market. But there are indeed uncertain factors, such as the Russian-Ukrainian war, and the other is how much the US will increase interest rates? Exactly how much impact it will have on financial markets is uncertain.

Q5（BRUCE HSBC）The first question, for 2022, where do you think the cost side will be under greater pressure? Specifically, we see that the port congestion may continue, fuel prices may have a relatively obvious rise recently due to geopolitical reasons, and some ship leases may expire. I would like to ask you to analyze what kind of trend you have seen in terms of cost in 2022, and how the company's overall gross profit margin will change compared to 2021.

A （Mr. Xue Mingyuan）There will still be some pressure on supply-side costs in 2022. The first is the port. In China's terminals, there is a high probability that many terminals will have a rate increase, but the proportion of this increase in the entire freight is very, very small. If the terminal rate increases by 10%, it will be less than 10 US dollars. The actual total cost of this part is not small, but our gross profit margin has little impact. The other is the price of fuel, which has risen very rapidly recently because of the Russian-Ukrainian war. But fuel has a fixed formula for charging fuel surcharges from two or three years ago. This aspect will not affect our profits and will be fully hedged, including long-term agreement customers and market customers, which can form a complete hedge. In terms of chartering, our CEO Yang also explained that chartering should be the biggest pressure on shipping companies. The rate of increase in charter rates is about three to five times. Our SITC will deliver 22 new ships in 2022, and most of the leased ships will be replaced by our own ships. This in turn creates a competitive advantage for us. The changes in costs in the above three aspects will be the biggest cost changes faced by shipping this year.

Q6（BRUCE HSBC）Another question please. The company launched the Russian route at the end of last year. In view of the current geopolitical influence, how does the company plan for the Russian route? The company mentioned before that in the second half of 2022, the company will gradually open up some new routes with the delivery of new ships, and would like to know where these new routes will be concentrated.

A （Mr. Xue Mingyuan）With the recent conflict in the Russian-Ukrainian war, some Western shipping companies, including Taiwan's Yang Ming and Japan's ONE, are now making some adjustments to ships calling in Russia. Now almost all ships calling at St. Petersburg have stopped, and the capacity of ships calling at the Far East may be reduced by 50%. However, now the whole sanctions situation does not form an embargo on Russia like Iran. Among the ships currently running in Russia, some leased ships may not be able to berth in Russia due to the influence of bank financing or charter clauses. Regarding the impact of the entire transportation, there is no clear statement that it is impossible to go to Russia. For the route to Russia, on the one hand, our service will be maintained for now. In addition, the company pays attention to the development of the situation and actively responds to future changes. Regarding the new routes in 2022, it is mainly in the Southeast Asia region. Our company now has obvious advantages in the Philippines, Thailand, Vietnam, and Indonesia. Malaysia, Myanmar and Bangladesh, which the company has deployed in recent years, are still very much in demand. We will continue to deploy new routes in Southeast Asia.

Q7（BRUCE HSBC）Have you seen any noticeable changes in port congestion in the Asian region recently? Or is the congestion gradually easing? Are there any significant changes in the price and volume of some new long-term contracts signed by the company compared with last year? Are there more clients willing to sign longer-term contracts?

A （Mr. Xue Mingyuan）In terms of wharfs, the wharfs in the whole Southeast Asia direction, including China's wharf infrastructure, have hardly changed. The traffic conditions at the terminal have been slightly smoother in recent weeks, mainly due to the impact of the Chinese New Year, which has led to a decrease in cargo to Southeast Asia. But I estimate that congestion will resume in the next few weeks. In fact, now Thailand and Vietnam have begun to be congested again, as is the Philippines. Congestion will continue to occur in these places in the future. Congestion will form a very good support for freight rates. Regarding contract issues. We have contributed a lot to our long-term clients over the past two years. For example, last year, our market freight rate was three times the long-term freight rate. Our customers have already tasted the sweetness of long-term contract prices, and some customers have suffered from the pain of unstable costs caused by not signing long-term contracts. This year's signings have improved markedly. In terms of freight rates, the expectations of customers' acceptance now have significantly increased. The signing price this year is much higher than last year. On the one hand, it is the impact of rising costs such as ships in the market, and on the other hand, it is mainly due to changes in customer expectations. From the current point of view, the number of contracts we signed this year has increased compared to last year, and more customers want to sign long-term contracts.

Q8（Yuan Yuan ,JI Artisan Partners）The company will deliver 22 self-owned ships this year. Please predict how the average ship cost will change compared to last year after the new ships are delivered. In addition, what kind of considerations did we take to sign 18 new ships? Are deliveries also mostly 2023 or 2024? Please update the ship delivery schedule.

A （CEO）22 of our own ships will be delivered this year. After the 22 ships are delivered, if they are all used to replace leased ships, the cost advantage is still quite large. Because, all our own ships, the average daily operating cost is less than 10,000 US dollars, but the leased ships of the same type are now renting about 30,000 US dollars a day, and the cost reduction will be obvious.

A（Mr. Xue Peng）I will add the relevant information about the new ship order. The 18 new ship orders mentioned just now should be our option to announce the exercise of the original contract in 2021, but in fact they are all within the scope of 37 ships. Three have been delivered, and we have another 20 to be delivered this year, 12 next year, and 2 in 2024.

Q9（Yuan Yuan ,JI Artisan Partners）Is the delivery of 22 new ships this year, most of which are concentrated in the second half of the year?

A（Mr. Xue Peng）Correct. Seven ships will be delivered in the first half of the year and 15 in the second half.

Q10（Yuan Yuan ,JI Artisan Partners）To sum up, if we deliver our own ships this year and more alternative charter ships, the average ship cost will drop, is that right?

A（Mr. Xue Peng）Yes. The cost of our own ships is far lower than the market rent level. Even compared with last year's rent level, it is still low.

Q11（Yan Hai SWS Research）Two questions, the first question, under the Environmental Protection Convention, the proportion of our company's own ships in line with EEXI, I would like to know. The second question is that many feeder ships in the Asian region have recently gone to run the main line. Can you help us estimate the growth rate of China, Japan, South Korea or Southeast Asia as a whole, compared to last year's operating capacity.

A （Mr. Xue Mingyuan）The first question, all our new ships now are fully compliant. We had a classification society do an assessment and almost all of our ships can meet the requirements of the convention. Of course, we have some ships, and we need to do some power restrictions when docking, but this will not affect our capacity. The second problem is that some of the feeder boats go to the main line. In general, freight rates on ocean routes are more attractive than those in Southeast Asia. This part of the capacity will continue to remain in the ocean route. Of course, the actual proportion of this part of the capacity is very small. This year's capacity in Southeast Asia, at present, there are very few new routes. Because the current boat rental is very high. Now charter a 1700TEU ship, the daily rent will reach 40,000 US dollars, and the lease term will be 3 years. The risk of new charter capacity on new routes is very high. Currently, shipping companies are very cautious about adding new capacity.

Q12（Yan Hai SWS Research）To add to the question of EEXI. What is the percentage of each grade of our CII rating CBCBE? For the speed limiting device you mentioned just now, what is the proportion of ships that our company needs to install?

A （Mr. Xue Mingyuan）I don't have exact numbers right now. Currently, we have about a dozen ships that will need to limit power in the last two years, and no other ships have this problem.

A（Mr. Xue Peng）I add one more thing. Our vessels over 15 years old require additional equipment and these vessels are also relatively under-rated. In addition, our company will consider selling these old ships and replacing them with our newly delivered ships, so that the entire fleet is more in line with EEXI, including CII ratings, and generally meets the requirements of environmental protection.

Q13（Liu Gangxian CICC）I want to ask another question about operational efficiency. The company's capacity in 2021 increased by 10%, but the cargo volume increased by about 20%. The gap in the middle is still relatively large. From a global perspective, everyone's ship turnover rate should have dropped quite a lot. I would like to ask, in what aspects is the improvement of the company's operation efficiency be mainly reflected in 2021? This efficiency improvement, in the next few years, will there be room for improvement after our new ships are delivered? After the ship size becomes larger, it generally affects the overall loading rate..

A （CEO）This is an obvious manifestation of the advantages of SITC's operating model that is different from other companies. We used to say that our model was network-like, and people might not understand what it does. In fact, it can play a very important role in improving operational efficiency. In fact, a lot of our capacity increased at the end of last year, and the actual capacity increase is limited. But we got a 20%+ volume increase because our network-like model improved our operational efficiency. For example, we have 7 boats a day to Ho Chi Minh, Vietnam, and at the same time, these 7 boats a day also go to Laem Chabang, Thailand. When there was a port blockage in Ho Chi Minh, Vietnam, and the ship could not come back after leaving, maybe when we were arranging the ship, the ship could not go to Ho Chi Minh, Vietnam, but only to Laem Chabang, Thailand, and another ship to go to Laem Chabang, Thailand, not Ho Chi Minh, Vietnam. In this way, our service, the weekly capacity has not been reduced, and the schedule can be guaranteed. In a given period of time, say, two or three weeks, or four weeks, our ships can complete one lap. This is the advantage of our model. This model has nothing to do with the size of the boat, both big boats and small boats can do this.