Briefing of SITC 2023 Interim Results Investor Conference

Date：16 August 2023

Time： 4:30pm (HKT)

Method: Live Meeting & Tencent Video Conference

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 SITC 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 first half year of 2023 (Refer to PPT as attached). And then a Q&A section was entered .

Q1（Maggie, Wang DBS Bank）I have three questions. The first question, I want to know the company's views on the trend of cargo volume and freight rates in the second half of the year in Asia, as well as the current booking situation of the company's customers. The second question is the company's future capital expenditure plan and where these capital expenditures will be used. The third question is a bit more long-term. In response to the low-carbon emission reduction requirements of IMO in 2050, large companies in the shipping industry, such as Maersk, have taken actions one after another. I want to know how SITC plans to respond.

A （Xue Mingyuan）The shipping industry in Asia has a traditional peak season from the third quarter to the fourth quarter. The third and fourth quarters of last year were very abnormal. The market conditions were generally in a downward trend, which was not as good as expected. However, the overall trend must be much better than that in the second quarter. Judging from the latest booking situation, the third and fourth quarters of this year should still be in peak season. It is currently August. Although it is a relatively off-season time, the overall recovery of cargo volume is still very good and relatively optimistic. The volume of goods is expected to continue to recover in the third quarter, and the volume of goods in the fourth quarter is expected to be relatively good.

A （Liu Kecheng）Regarding the future capital expenditure situation, the capital expenditure in the second half of 2023 will be about 70 to 80 million US dollars, of which the new shipbuilding capital expenditure will be about 60 million US dollars. In addition, now that the price of containers continues to drop, the company may continue to make some investment in containers. The amount will not be too large, and may be 10 to 20 million or 20 to 30 million US dollars. Of course, there will also be investment in logistics projects, but the amount will not be too large, within a few million to ten million US dollars. The capital expenditure in 2024 is expected to be 150 million to 200 million US dollars, mainly the capital expenditure of new ships is about 150 million US dollars, and the capital expenditure of new ships ordered before will be fully completed by the end of 2024. In 2024, there may be capital expenditures of tens of millions of dollars, including logistics projects and containers, and the total amount will not exceed 50 million dollars. After 2025, new ships have been delivered and no major capital expenditures are expected.

A （Xue Peng）Regarding IMO carbon reduction in 2050, the company is also continuously paying attention and will release a TCFD report on climate change, which will include detailed risk analysis. From the perspective of the fleet, the current technology is still very immature, and the company still hopes to reset and update assets after seeing that the technology is mature. From the current fleet of ships operated by the company, there are nearly 100 owned ships, and the company has at least 20 years to update all of these ships in the future. From the company's operational situation and expected capital expenditure, it can be seen that the company can meet the IMO's carbon reduction requirements by 2050.

A （CEO）In fact, the carbon emissions of our company's new shipbuilding are already very low, and the problem will not be too significant in the next 10 or 20 years.

Q2（Lisa, Lin Huatai Securities）I have two questions. The first question is about market freight rates. We have seen a significant increase in freight rates in the entire European and American markets since June and July. I would like to consult with the management on how to understand the freight rates increase behavior of these competitors on ocean routes in the current supply and demand situation. Then, please look forward to the fourth quarter of our Asian region. Will peak season freight rates increase also occur?

A (Xue Mingyuan）July and August are the peak season of European and American routes. At this time, the shipping company operated every year will have an increase in freight rates. Judging from the actual results, this time the freight rate of the US line rose relatively successful. Although the rising freight rate of the European line was not very successful, it still increased the freight rate. Now their freight rates should be above the profit line. In July and August of each year, for the Asian regional routes, it is generally the lowest point of annual freight, which is no exception this year. At present, with the increase of the amount of goods, the loading rate has continued to increase. From the end of August, the freight rates of some routes will gradually recover. We believe that the freight rate in the fourth quarter will be recovered, and now it is not sure how high it will rise.

Q3（Bruce, Chu HSBC） I want to consult, from the perspective of cost, how much room is there for further optimization in the second half of the year? At present, the number of leased ships has dropped to 11, I wonder in this regard, whether the company will have room for further cost optimization in the second half of the year? Or whether in other areas the company continues to have room to further control costs.

A (Xue Mingyuan）The company optimized its transportation capacity in the first half of the year. Last year's demand was strong, and the company's transportation capacity expanded accordingly. This year, without affecting service, we made some optimizations and reduced the number of ships in the first half of the year. But compared to the end of June, the number of ships in the second half of the year will increase, resulting in an increase in transportation capacity. Other operating costs, such as fuel costs, have been doing very well this year, with a reduction of nearly 10% in single ship fuel consumption. There are two factors involved. One is that our ship is being exchanged for new ones, which has greatly improved the fuel efficiency of the fleets. In addition, in terms of navigation management, the port conditions this year also allow us to control the navigation speed relatively steadily. The decrease in fuel costs in the first half of this year was quite significant, and the margin for the second half is to maintain the same level of decline as in the first half, and it difficult for further changes to occur. In terms of terminal costs, there will be almost no significant changes in terminal loading and unloading fees, which may be lower due to some impact of exchange rates. Other aspects should also not have significant changes.

A （Liu Kecheng）I would like to add that the cost of the company's own ships has also significantly decreased in the first half of this year, with single ship costs decreasing by nearly 9%. Mainly due to overall industry changes, the wages of crew members have significantly decreased compared to the same period of last year.

A （Xue Peng）Regarding the ships leased by the company, although the proportion of decrease will not be too large, there is still some room for a decrease in the cost of ship rental.

Q4（Lisa, Lin Huatai Securities）I would like to add two additional questions. The first one is about the changes in the overall market capacity in the Asian region. I would like to ask what kind of changes the overall market capacity in the first half of this year was compared to the same period last year, or in the second half of last year? Regarding SITC's own situation, the new ships ordered by the company are gradually being delivered, including the sale of some old ships. What is the expected year-on-year growth of the company's overall transportation capacity in 2024 and 2025? The second question is about the company's dividend payout rate policy. Although the company has already given a very good dividend in the first half of the year, it is still slightly lower than the annual guideline of 70%. I would like to know the company's dividend guidelines for the entire year of 2023.

A (Xue Mingyuan）The transportation capacity in the Asian region has not changed much compared to last year, with a slight increase, with some opening and withdrawal lines. The overall transportation capacity has increased slightly. As for the adjustment of SITC's transportation capacity in the first half of this year, it is mainly based on the significant difference between last year's cargo volume and this year's cargo volume. In 2024, our company's transportation capacity is bound to increase. This is not just based on our new ship delivery and sale of second-hand ships. The company has been investing in new routes since August, expanding into Indian routes. The Indian market is our new entry, and once we enter the new market, the company will continue to increase its capacity investment. In addition, the company also plans to increase most of its capacity investment on Indonesian routes in the near future. In addition, in the market west of the Malacca Strait, our route density will also be further strengthened. So, in 2024 and 2025, our transportation capacity will maintain a sustained and reasonable growth.

A （CEO）There has been no change in the company's dividend payout rate policy, and we still adhere to a dividend payout rate of no less than 70% for the entire year.

Q5（Qianlei, Fan Morgan Stanley Asia）The first question is that the management mentioned in the previous annual report that the company's cost advantage relative to the market is approximately $200 to $300 per TEU. As mentioned earlier, there may still be some room for cost savings in the second half of the year. I would like to further understand whether the cost advantage of the company in the second half of the year will be generally stable compared to the first half, or will it continue to expand?, The second question is, based on the company's situation in the first half of the year, the profit of each TEU in the first half of the year is approximately $200 per TEU. Does this mean that the entire market may still be in a low profit or breakeven situation in the first quarter, and then may have entered a loss situation in the second quarter? Now it seems that the freight rates in the third quarter have not recovered well compared to the second quarter. Can we judge that in terms of the third quarter, the entire market will be at a loss, and SITC's profit per TEU may still be between $100 and $200? Whether the profit in the second half of the year can increase compared to the first half of the year depends on the peak season starting from the end of the third quarter.

A （Xue Peng）The company still maintains a very clear cost advantage, with costs per TEU ranging from $500 to $600 last year. With the decrease in ship costs and other costs such as fuel, it has now reached the range of $400 to $500. The market freight rate has dropped from around $800 at the beginning of this year to around $600 now, which is also affected by the decline in market costs. Due to the impact of supply and demand, market freight rates have fallen to a certain extent. We believe that most shipping companies operating in the Asian region in the current market should have experienced varying degrees of losses. Next, please ask President Xue to supplement.

A (Xue Mingyuan）I think the company's cost advantage mainly comes from ships. Our own ship proportion is high, and the price of shipbuilding is relatively low, so our cost advantage from ships is relatively large. However, with the continuous changes in the transportation capacity of various competitors in the market, and the current market rent is also declining, the possibility of the cost gap between competitors narrowing is increasing. For example, if all the ships operated by a competitor in the past were leased, this year will definitely be in a loss state, and the cost difference with our company should be more than $200. In terms of the entire industry, the composition of the operating fleet of each competitor is also different, and the proportion of self owned ships varies. Whether there is a loss in the second and third quarters, the situation of each company may also be different. In the first, second, and third quarters, some companies on offshore routes may experience losses, but for companies with a relatively high proportion of their own ships, there will still be some profits. SITC's profits not only come from the cost side, but mainly from the revenue side. The advantage of the revenue side is firstly our freight rates. About 90% of the routes in our main operating area have always had the highest freight rates in the market, and the higher freight rates contribute significantly to our profitability. Secondly, it is the efficiency of our operations, as our ship turnover rate has certain advantages. The trend of market freight rates in the third and fourth quarters may be similar to what you have analyzed. It is expected that the market will begin to rise in the third quarter and recover somewhat in the fourth quarter.

Q6（Qianlei, Fan Morgan Stanley Asia）I have another additional small question, the management mentioned in the first half of the performance presentation just now, after next year the capital expenditure of ships will be relatively small, but in fact, we now observe a strange situation in the entire market, some shipping companies are still more aggressive to order new ships, of course, the orders are some large ships, the cost of ships is also very high, I don't know from SITC's point of view, will it consider continuing to book ships in the long term, that is, after the delivery of the new ships that have been ordered? Or will you want to wait until the price is more friendly?

A （CEO）From a historical perspective, every time we book a ship, it was at the lowest point in the market, when there was almost no business in the shipyard, and when no one booked a ship, this time should be no exception. Because the proportion of our own ships is already high, and the current shipbuilding prices are not cheap. As for other companies currently building ships, I think the situation is different for each company because they may have missed the most suitable opportunity, but the proportion of their own ships is not high, and they cannot rent ships in the market, so they can only build their own ships. In addition, some companies may have a large amount of cash in their hands and be eager to spend their cash, so they must also build ships. Each company's strategy is different. For SITC, there are no plans to build ships at the moment, but we are still continuously developing new ship types and have never stopped.

Q7（Artisan Partners Yuanyuan, Ji）The first question,I just heard that President Xue said that the amount of goods in July, August, or the third quarter was relatively confident. It is expected that there will be a better peak season in the fourth quarter. In your opinion, this would be a relatively short -term phenomenon, or did you judge that European and American destocking reached a end, will it be more sustainable? The second question, I would like to ask the cycle of shipbuilding. I have n’t seen the price of raw materials have been declining for a long time, but the price of shipbuilding has been raising this situation, which makes me feel more puzzled. This year's shipping industry does not make much money, and it may make a lot of money last year. But shipping companies, especially Europe, because the IMO problems are very active. Want to ask CEO to analyze the cycle of replacement of the ship. From the long run, what is the rhythm of capacity?

A (Xue Mingyuan）Whether the demand in Europe and the United States can come up is not so easy to judge. We now judge that the third and fourth quarters will not be too strong. As far as the Asian market is concerned, the third and fourth quarters are a traditional peak season, and last year was more special, just in time for the period of destocking, and last November and December were significantly different from the trend of previous years. Now we don't feel much about the impact of destocking, judging from what we have learned from our customers. How much demand will grow, it is not easy to judge now, but from the current booking situation, in mid-to-late August this year, this data is better than the same period in 2019 and 2018. It was still significantly worse before July, but it was relatively better than before the pandemic in August. Based on these, we generally feel that the third and fourth quarters will not be too bad, at least there should be an upward trend.

A （CEO） I think shipbuilding is actually an investment, the amount of capital is very large, and the cycle is very long, so we should be more careful. Investment also has a cyclical nature, but it may turn relatively quickly, unlike the shipping industry. Investing, if you buy at the highs, it's definitely not good. The same is true for ship trading, especially now that not only the price of ships is high, but also the cost of capital is high. With the high price of the ship and the high cost of capital, I think it should not be a good time to buy a boat. After the ship price falls and the cost of capital falls, it may be a better time, but this time may come for a long time, after all, the asset cycle and the stock market cycle may still have some differences, but overall it should be positively correlated.

Q8（Columbia Threadneedle UK Jin, Xu）The first question is, there may have been some geographical changes in the capital expenditure of factories in Asia in the past period, and when this capital expenditure and the establishment point of the factory change, I would like to ask, in such a new environment, does the company need to adjust the business model that is currently existing or has been more effective in the past? Or can the models of the past continue to work effectively in this different context? The second question is, after this background has changed, do we see other new players coming in, how our competitors are responding, and whether customers have shown some different models in this new context.

A (Xue Mingyuan）Now it is true that many customers have changed their purchasing needs. They have factories overseas, and they also have factories in Chinese Mainland. Indeed, Chinese companies are investing heavily overseas, including in Southeast Asia. The biggest impact of this situation is that the transportation mode between Chinese Mainland and Europe and the United States has changed, which is more than that in Asia. For example, a home appliance factory has opened in Thailand, and the regional transportation mode has not changed. However, its actual transportation demand in the Asian region has increased, and of course, the demand for our company has also increased. Originally, a factory in China may be shipped to a certain country in ASEAN, and it has become a shipping from a certain country in ASEAN to other countries. We feel that the demand for this transportation will feel a certain increase in the future. We are also paying attention to changes in this model. At present, the model of our company's entire route has little effect, but it is more about shipping companies operating in European and American routes that may need to pay attention and need to invest in regions in Southeast Asia and India. Of course, we are also paying attention to some emerging places. For example, we have recently opened the route from mainland China to India, and we have made some adjustments based on market changes. In terms of competitors, I don't think there is no special change. What we do is the adjustment of some routes in the area and some new capacity, which may need to make some adjustments in terms of layout.

A （CEO）President Xue's analysis is very good and the logic is clear. I feel like this is the case. With China's international trade players investing and developing not only in Southeast Asia, but also around the world, there have been multiple blooms in global import and export transportation. Of course, there are particularly many in the Asian region, and new business will emerge in Southeast Asia in the future. There should be no significant changes in SITC's profit model, and I believe SITC's profit model is more adaptable to this change. Because we are a network of services, every point is our starting point and our home port. For us, there is no concept of import or export, and each point is a central point, so there will be no change in the profit model. Regarding competitors, I think the situation for new competitors is very difficult. Recently, new players have been gradually withdrawing. In the past period of time, it can be seen that those who do domestic trade transportation in China have started to do foreign trade transportation in Southeast Asia. Now, there are basically no new entrants, and there are still some old players. However, old players also have some new situations. In the past, they mainly invested a large amount of transportation capacity in routes exported from China to Europe and America. Now, some companies, which used to provide less services in the Asian region, are starting to expand their operations. Among older players, there may be more capacity investment in the future. From the customer's perspective, I don't think there has been any significant change in their needs. It is possible that in the future, the growth of Chinese customers will be faster than that of customers from other countries, as a large number of Chinese customers set up factories outside of China. I believe this is a changing trend. From this trend, there may still be a very significant increase in cargo flow in the Asian region in the future. This is a simple addition I made.

Q9（Zhou Yijing Foresight Fund）I would like to inquire about the punctuality rate. I have communicated with some shippers and feel that their evaluation of service quality is not only about timeliness, but also about punctuality. I have looked at some punctuality data done by freight forwarders and found that in the past three years of the epidemic, SITC's punctuality rate in many ports has been among the top or second compared to its competitors. But it seems that compared to before the epidemic, although there is still an advantage in punctuality, it is not as obvious as the first or second place. I have a few related questions to ask. The first question, as I mentioned earlier, does the situation I saw from the freight forwarder match the actual situation? The second question, if it is the actual situation, what is the reason behind the significant increase in our advantage in punctuality compared to our competitors at this node of the epidemic? The third question is that it has been almost a year since the normalization of the supply chain. Have we seen that the relative advantage in punctuality is not as obvious as before?

A (Xue Mingyuan） After the epidemic, especially in the first half of this year, the punctuality rate has increased significantly. The actual situation last year was that we had different perspectives. We calculate the on-time rate for 12 hours, and not all the announcements are based on the on-time rate for 12 hours. Our 12 hour punctuality rate has increased from less than 20% to over 70% to 80%. Of course, this is also closely related to the preparations we made last year. We judge that the market will not be good, so we need to try our best to improve the punctuality rate. In the past few years, as long as everyone has transportation capacity, there has been no mention of good or bad service. As long as there is transportation capacity, customers will accept it, and the freight rates are relatively the same. We made arrangements in advance this year and significantly improved our punctuality rate. Of course, the significant improvement comes from a more objective condition - port congestion has greatly reduced this year. Of course, the situation of port congestion this year will also change with changes in the situation. For example, in the first half of the year, almost all ports began to be free of congestion, but after the typhoon season in August or in the fourth quarter, some busy ports such as those in the Philippines, Shanghai, Ningbo, or ports like Ho Chi Minh and Bangkok will continue to experience congestion. For this situation, SITC has an advantage that our route density is very high, and the density and punctuality complement each other very, very much. For example, there are six shipments from Shanghai to Thailand, and we have now completed the transshipment process of the goods. Even if the customer is late today, they will still be able to ship on time tomorrow. And we are responsible for completing all the work. We load the customer's goods onto another ship tomorrow, and the customer doesn't have to do anything. Another very important reason for the competitive advantage in punctuality is that 90% of the services provided by SITC are provided by our own ships. For example, a total of four ships are invested in a single route, and we all invest ourselves. This route accounts for about 90% of us. But in the entire industry, a large number of cases involve several joint ventures, with four ships invested by four, three, or two, providing this type of service. The quality, flexibility, and attention of this service will be much worse, as it can only handle one ship and cannot handle the other two ships. So, from these two aspects, SITC's advantages in this area will continue to be maintained. Of course, this is mainly reflected in our freight rates. In fact, freight rates can explain many things, first is the product itself, and second is our network service. At present, we are able to maintain the highest freight rates in all major markets.

A （CEO）Let me add something. I think Xiao Zhou's work is still very meticulous. This is like a math exam. If the teacher's questions are difficult, good students may get high scores, while poor students may have a large difference in scores. However, if the questions are very simple and everyone scores 100 on the exam, the difference will not be noticeable.

Q10（Zhou Yijing Foresight Fund）I would also like to ask, from a business perspective, what actions can we take to improve punctuality and thus enhance our advantage over competitors in the current market?

A (Xue Mingyuan）The most crucial point is that our agents at each port are ourselves. We do not have any public shipping agents, they are all our own networks, and our own employees must pay more attention to service quality than public agents. This is one of our own reasons. Another reason is that when designing our route, we also pay close attention to the needs of our customers, whether they have a stronger demand for delivery time or a stronger demand for service stability. In fact, the customer's demand for service stability is higher than the delivery time, so we consider this aspect relatively more when designing the route. The third reason is that our route operations are all our own ships, with a high density of routes, and we have also done some other work. For example, in Bangkok Port, Thailand, we have a total of four independent shipping routes, and we have permanently set aside one ship there. When the port congestion was severe, we released two ships. If there is a problem with any port or route, we will immediately have a ship put in. Of course, this also leads to a relatively high cost for us to invest, but overall, the return on improving our punctuality is still better than our cost investment.

Q11（Lu Yuting）I would like to inquire about the overall prosperity of the industry mentioned earlier. Two colleagues previously asked about the successful increase in US route freight rates. When the company leader answered earlier, they mentioned that the factor of destocking may not have a significant impact, and whether there will be an overall increase in demand in the future is still uncertain. So, what is the reason for the successful increase in US route freight rates? From the perspective of cargo volume, the company should currently be able to see the booking level in some industries. Has the booking volume actually increased? Or is this caused by comments and other behaviors among shipowners?

A (Xue Mingyuan）We are not paying much attention to the cargo volume of the entire US route now. There are two routes in the United States, and one reason I saw on the Eastern route is that the Panama Canal is currently in the dry season, blocking a lot of transportation capacity, which reduces the supply of transportation capacity. The Western route in the United States may involve strikes. I think these two factors should be helpful for the increase in US freight rates. In addition, some new players on the US route continued to withdraw in June, which is expected to have a relatively significant impact on the overall supply of transportation capacity. We did not pay specific attention to the data on the growth of cargo volume on the entire US route. The US route was originally in the peak season, but the cargo volume was very low recently. It is possible that this wave of freight rates has also been driven by demand.

A (Xue Peng）We can see from public data that many freight rates are actually lower than the cost lines of various shipping companies. As the volume of goods increases and the supply-demand relationship improves, there is also a demand to increase freight rates.

Q12（Lu Yuting）I also want to know where the difference may come from, as the US freight rates have successfully increased, but the European freight rates have not? I would like to see if there are similar factors to refer to in Asia. At present, the number of competitors in Asia is also increasing, and this situation is not consistent.

A (Xue Mingyuan）Asia is influenced by two factors. One factor is that many ports are beginning to experience a certain degree of congestion, and when congestion occurs, the transportation capacity will decrease, which has a significant impact. In recent weeks, the Philippines, Thailand, and Vietnam have all started to experience a certain degree of congestion, although the level of congestion is not very high. Of course, this congestion may also be due to an increase in cargo volume, but it plays a accelerating role. The strike should have minimal impact, and port congestion may be a relatively direct factor affecting the Asian region in the future.

Q13（Wang Chen NORTH OAKRIDGE CAPITAL） The first question is, during the last performance briefing, Mr. Yang mentioned that the company is relatively cautious about the Indian route. Has our view changed now? The second question is the congestion of ports in the Asian region. Overall, the growth of port construction in various countries is not very strong. Will there be frequent congestion problems in the future? The third question is, how much higher is our company's price advantage in various regions compared to our competitors?

A (Xue Mingyuan）From the customers we are currently in contact with, the demand growth in India is still higher than in other regions. Therefore, the company has started to invest in India, including making some attempts to purchase container space from other companies in the first half of the year, which is quite successful. We started investing in an Indo Eastern route in August and are also researching other markets. Overall, the Indian market is more active than other markets. Regarding the issue of terminals in the Asian region, the new investment in each port in the region is almost minimal or there are some plans in place, but there have been no results in the near future. If there is a recovery or growth in cargo volume, we believe that many ports will still experience congestion and restrict the release of the entire transportation capacity. Now it seems that the market has slightly improved, and many ports have started to experience congestion. Regarding the regional freight advantage of SITC. From the perspective of SITC's operations, what we do is to become the preferred choice for our customers. Becoming the first choice for customers, of course, customers will also have relatively high requirements for our products and services. 90% of the ships we invest in are operated by our independent routes, and our actual focus is on services, not costs. Under the premise of focusing on services, our measure of whether we have achieved the customer's preferred indicator is whether our market freight rate can be sold to the highest in the market. We are currently maintaining the highest market freight rates in the traditional markets of China to Japan, China to Vietnam, Thailand, Cambodia, including the Philippines and Indonesia. Of course, the magnitude of the increase varies among different markets. For example, compared to the second tier, we may be $20 or $30 higher, but we may be $80 or $100 higher than the lowest tier. Because in the market, the market positioning of various competitors also varies greatly, including some new entrants, whose freight rates are also quite low. The difference in shipping revenue in this market has always been a core indicator of our SITC SHIPPING management.