

Equities

14 March 2011 | 6 pages

SITC International (1308.HK)

Alert: Neutral Impact from Japan Earthquake, but Pay Attention to Port Closures, Power Disruptions

Our thoughts – Based on current information, we believe the mid-term impact from the Japanese earthquake and tsunami could be neutral on SITC. Higher demand for necessities resulting from reconstruction may be offset by lower volumes of exports of industrial components from Japan. We would pay close attention to the near-term volume disruption resulting from port closures in Japan and power disruptions affecting industrial activity in Japan.

SITC's exposure to Japan – We estimate 30% of SITC's revenues and 35-40% of profits are derived from Japan. Goods shipped into Japan include food, textiles, furniture, household goods/appliances, building materials, and auto/mechanical products. Goods shipped from Japan include auto parts, industrial parts, chemical products and food. SITC's vessels call at ports around the South of Japan.

No immediate damage to SITC's property – SITC reported no damage to offices, ships, or any property. All employees are safe. At the time of the earthquake, they had no ships in Tokyo or Yokohama ports. One ship at Shimizu port has temporarily stopped operations and is at anchorage.

Port closure – All ports in Japan have closed, as a precautionary measure. Ports in Northeast Japan have been worst hit, but ports that SITC calls at (South, Southwest and Southeast Japan) are relatively unscathed. Once the precautionary measure is lifted, SITC believes operations can resume immediately. However, the duration of port closure remains uncertain, and could pose downside risks to near-term shipping volumes, in our view.

Neutral impact on SITC's volumes – Reconstruction efforts and re-adjustment to normalcy may lead to higher demand for necessities, so SITC may benefit from higher volumes into Japan from China. However, the explosion and shutdown of nuclear power plants and resulting short supply of power has led to the shutdown of auto plants and other factories. The impact on volumes out of Japan would depend on the extent of power disruption and impact on SITC's customers.

SITC International (1308.HK; HK\$4.70; 1L)

■ Company Update

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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SITC International

Valuation

We apply a P/E of 15x to FY11E full-diluted EPS of US\$0.056 to arrive at our target price of HK\$6.55. Our P/E multiple target of 15x for SITC sits lower than that for freight forwarders but higher than that of air freight integrators, which we think is justified given the higher cyclicality in EBIT margin and ROA compared to freight forwarders (therefore justifying a discount), but faster PATMI CAGR between FY10-12E for SITC compared to air freight integrators (therefore justifying a premium), in our view. The valuation is supported by the company's high net profit growth of 25% CAGR during 2011-13E. For context, our 15x FY11E target PE multiple represents 3.1x FY11E P/B, on our estimated 23% ROAE.

Risks

We rate SITC Low Risk, which is different from the Medium Risk rating assigned by our quant risk rating system. This is justified by SITC's strong earnings growth trajectory, strategic positioning in the high growth Intra-Asia market, attractive and sustainable margins, and high entry barriers to replicate its business model. Key downside risks to our recommendation and target price include: 1) external factors impacting demand; 2) expensive acquisitions; 3) high charter-in costs; 4) inability to extract synergies; and 5) FX mismatch losses.

Appendix A-1

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SITC International (1308.HK)

Ratings and Target Price History Fundamental Research

Analyst: Rigan Wong

Covered since February 8 2011

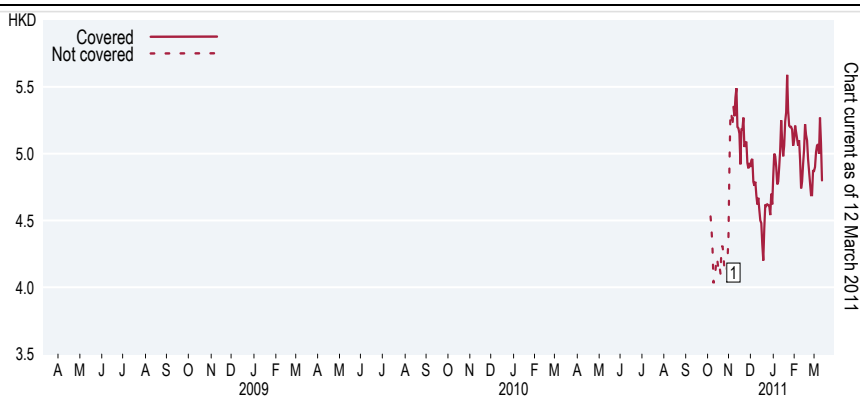


Chart current as of 12 March 2011

	Date	Rating	Target Price	Closing Price
1	6-Nov-10	*1L	*6.55	5.20

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SITC International (1308.HK)

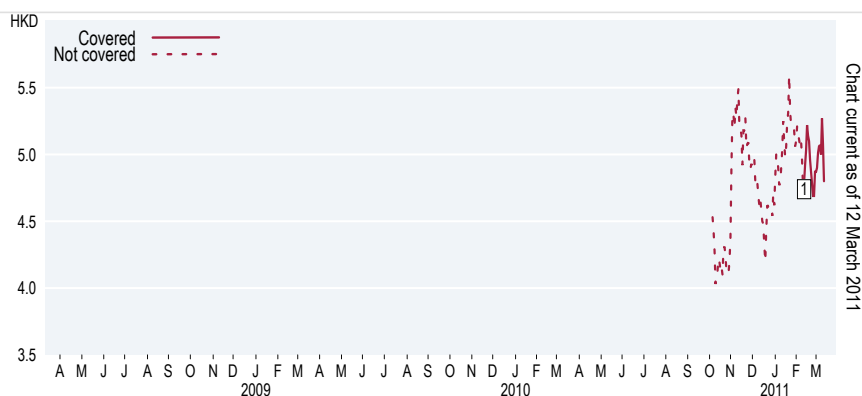
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Rigan Wong

Covered since February 8 2011



Date	Rating	Target Price	Closing Price
11-Feb-11	*ADD MP	-	4.79

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
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45%	44%	40%	0%	44%	0%

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