FINANCIAL REVIEW

During 2023, the post-pandemic recovery of global economy has been difficult and tortuous, suffering from increasing downward pressure. The prospects for global economic recovery are still uncertain amid the continuous tightening of monetary policies in various countries, hiking interest rate, persistently high inflation and other impacting factors. COSCO SHIPPING Ports continued to further implement its strategy of lean operations, focusing on improving quality and efficiency as well as controlling costs in terminal operations and management, achieving an increase in overall results. The Company reported a profit attributable to equity holders of the Company in 2023 of US$324,557,000 (2022: US$306,633,000), increased by 5.8% YoY.

During 2023, profit from the terminals in which the Group has controlling stakes and non-controlling terminals amounted to US$431,601,000 (2022: US$441,088,000) in total, decreased by 2.2% YoY, and profit from terminals in which the Group has controlling stakes amounted to US$132,871,000 (2022: US$137,989,000), decreased by 3.7% YoY. During the year, profits from certain terminals in which the Group has controlling stakes was recorded, including Tianjin Container Terminal which recorded an increase in revenue due to business structure improvements, resulting in a profit of US$22,427,000 for 2023 (2022: US$11,144,000), representing an increase of US$11,283,000 compared to the same period in 2022; Piraeus Terminal recorded a year-on-year increase in throughput and revenue in 2023 with a profit of US$47,165,000 (2022: US$42,636,000), representing an increase of US$4,529,000 compared to the same period in 2022; and Xiamen Ocean Gate Terminal has become a wholly-owned subsidiary of the Group after acquiring its additional 30% equity interests in February 2023, and a profit of US$40,408,000 (2022: US$37,297,000) has been included in the profit from the terminal in 2023, increased by US$3,111,000 YoY. Apart from the above holding terminals with higher profit contribution, CSP Abu Dhabi Terminal recorded an increase of 32.8% YoY in throughput, and increased US$3,863,000 in profit contribution year-on-year. On the other hand, due to the decrease in throughput and decrease in storage income, profit contribution from the remaining holding terminals in aggregate decreased year-on-year, among which profits of CSP Zeebrugge Terminal, CSP Spain Related Companies, and Guangzhou South China Oceangate Terminal for 2023 decreased by US$9,532,000, US$5,765,000 and US$3,470,000 YoY respectively.

In respect of non-controlling terminals, the profit recorded during 2023 was US$298,730,000 (2022: US$303,099,000), decreased by 1.4% YoY. In particular, the total share of profit of COSCO-HIT Terminal and COSCO-HPHT ACT Limited ("COSCO-HPHT"), which held Asia Container Terminal, decreased by US$16,552,000 YoY due to the decrease in throughput and decrease in storage income. In particular, the share of profit of Success Enterprises Limited and Wattrus Limited and their subsidiaries (collectively "Yantian Terminal Related Companies") decreased by US$6,165,000 YoY. On the other hand, the share of profit of QPI, Dongjiakou Ore Terminal and Shanghai Mingdong Terminal increased by US$7,002,000, US$2,956,000 and US$2,793,000 YoY, respectively, which partially offset the decrease. In addition, the Group recorded after-tax fair value gain from the convertible bonds of Beibu Gulf Port held of US$977,000 (2022: loss of US$2,600,000), increased by US$3,577,000 YoY.

FINANCIAL ANALYSIS

Revenues

In 2023, revenues of the Group amounted to US$1,454,353,000 (2022: US$1,441,273,000), increased by 0.9% YoY. Upon the completion of the acquisition of Xiamen Haitou Supply Chain in the first quarter of 2023, it recorded a revenue of US$31,351,000 in 2023 (2022: Nil); Piraeus Terminal recorded an increase in revenue of 8.7% YoY to US$333,443,000 (2022: US$306,684,000) due to the YoY increase in its throughput; CSP Abu Dhabi Terminal recorded a revenue of US$66,428,000 (2022: US$43,919,000), increased by 51.3% YoY; Tianjin Container Terminal recorded a revenue of US$199,659,000 (2022: US$182,543,000) due to the improvement in the business structure as compared to 2022, increased by 9.4% YoY. On the other hand, the overall increase in revenue was offset by a YoY decrease in revenues of several terminals due to the YoY decrease in its throughput, the change of the structure of container type and the YoY decrease in storage income. In particular, CSP Zeebrugge Terminal recorded a revenue of US$48,588,000 (2022: US$68,614,000), decreased by 29.2% YoY; CSP Spain Related Companies recorded a revenue of US$286,612,000 (2022: US$305,062,000), decreased by 6.0% YoY; Guangzhou South China Oceangate Terminal recorded a revenue of US$185,285,000 (2022: US$199,874,000), decreased by 7.3% YoY; Jinjiang Pacific Terminal recorded a revenue of US$10,967,000 (2022: US$16,535,000), decreased by 33.7% YoY; Quan Zhou Pacific Terminal recorded a revenue of US$42,483,000 (2022: US$46,808,000), decreased by 9.2% YoY.

Cost of Sales

Cost of sales mainly comprised operating expenses of terminals in which the Group has controlling stakes. Cost of sales was US$1,033,491,000 in 2023 (2022: US$1,011,595,000), increased by 2.2% YoY. Xiamen Haitou Supply Chain recorded a cost of US$27,533,000 in 2023 (2022: Nil); due to the increase in throughput and the increase in concession fees driven by the increase in revenue, Piraeus Terminal recorded a cost of US$249,039,000 (2022: US$231,467,000), increased by 7.6% YoY; due to the increase in throughput, CSP Abu Dhabi Terminal recorded a cost of US$48,832,000 (2022: US$42,771,000), increased by 14.2% YoY. On the other hand, costs of some terminals experienced a YoY decrease due to the YoY decrease in their container volumes, which partially offset the increase in the abovementioned costs. In particular, Tianjin Container Terminal recorded a cost of US$112,654,000 (2022: US$122,254,000), decreased by 7.9% YoY; CSP Zeebrugge Terminal recorded a cost of US$40,191,000 (2022: US$47,961,000), decreased by 16.2% YoY; CSP Spain Related Companies recorded a cost of US$243,647,000 (2022: US$250,645,000), decreased by 2.8% YoY; Guangzhou South China Oceangate Terminal recorded a cost of US$101,935,000 (2022: US$105,336,000), decreased by 3.2% YoY.

Administrative Expenses

Administrative expenses in 2023 were US$164,596,000 (2022: US$167,457,000), decreased by 1.7% YoY.

Other Operating (Expenses)/Income, Net

Net other operating income was US$18,550,000 in 2023 (2022: net expense of US$871,000), and net income increased by US$19,421,000 YoY. Of which, net exchange gains increased by US$7,113,000 YoY; a pre-tax fair value profit of US$1,303,000 (2022: a loss of US$3,466,000) on the convertible bonds of Beibu Gulf Port held in 2023, increased by US$4,769,000 YoY; management fees and other service revenue increased by US$2,181,000 YoY. In addition, the Company included US$3,215,000 in the effect of dilution in 2022 due to the dilution of the shareholding of Beibu Gulf Port originally held by the Company as a result of the exercise of share conversion rights by certain other convertible bondholders.

Finance Costs

The Group's finance costs amounted to US$171,189,000 in 2023 (2022: US$126,387,000), increased by 35.4% YoY. The average balance of bank loans for the year amounted to US$2,984,791,000 (2022: US$3,041,355,000), decreased by 1.9% YoY. The increase in finance costs was mainly due to the significant increase in the interest rates of the US dollar and Euro loans as a result of interest rate hikes by the US Federal Reserve and the European Central Bank. Taking into account the capitalised interest, the average cost of bank borrowings (including the amortization of transaction costs over bank loans and notes) was 5.30% in 2023 (2022: 3.40%).

Share of Profits Less Losses of Joint Ventures and Associates

The Group's share of profits less losses of joint ventures and associates for 2023 totalled US$297,861,000 (2022: US$308,024,000), decreased by 3.3% YoY. Of which, in 2023, the profit attributable to COSCO-HIT Terminal and COSCO-HPHT decreased by US$16,552,000 YoY in total. During the year, share of profit of Yantian Terminals Related Companies amounted to US$50,493,000 (2022: US$56,658,000), decreased by US$6,165,000 YoY. On the other hand, the profit contribution from some joint ventures and associates increased YoY, which partially offset the decrease. For domestic terminals, the share of profit of QPI amounted to US$135,193,000 (2022: US$128,191,000), increased by US$7,002,000 YoY, the share of profit of Shanghai Mingdong Terminal amounted to US$7,606,000 (2022: US$4,813,000), increased by US$2,793,000 YoY, as well as the share of profit of Dongjiakou Ore Terminal of US$1,130,000 (2022: a loss of US$1,826,000), with a year-on-year increase in profit contribution of US$2,956,000.

Taxation

Taxation for the year amounted to US$35,206,000 (2022: US$69,365,000), decreased by US$34,159,000 YoY. In 2023, a total of US$20,051,000 was reversed in respect of tax provisions made in previous years; tax decreased year-on-year as a result of the reduction in the income tax rate on dividend withholding for certain controlling terminals and the year-on-year decrease in the overall profit of the controlling terminals.

FINANCIAL POSITION

Cash flow

In 2023, the Group continued to receive steady cash flow income. The Group's net cash generated from operating activities amounted to US$482,447,000 (2022: US$467,638,000) during the year. In 2023, the Group borrowed bank loans of US$1,376,793,000 (2022: US$1,008,884,000) and repaid loans of US$1,078,098,000 (2022: US$1,215,490,000). During the year, US$346,466,000 (2022: US$325,553,000) was paid in cash by the Group for the expansion of berths and the purchase of property, plant and equipment.

In addition, during the year, the Company paid approximately RMB819,213,000 (equivalent to approximately US$120,997,000) to acquiring additional 30% equity interests of Xiamen Ocean Gate Terminal to make it a wholly-owned subsidiary of the Group; acquired 56% equity interest in Xiamen Haitou Supply Chain at a consideration of approximately RMB638,408,000 (equivalent to approximately US$94,410,000); purchased 24.99% equity interests of CTT at a consideration of approximately EUR67,127,000 (equivalent to approximately US$72,051,000) and provided shareholder loan; increased in the share capital of APM Terminals Vado Holding B.V. on a pro rata basis for EUR3,200,000 (equivalent to approximately US$3,395,000).

Financing and credit facilities

As at 31 December 2023, the Group's total outstanding borrowings amounted to US$3,234,631,000 (31 December 2022: US$2,908,623,000) and cash balance amounted to US$1,208,039,000 (31 December 2022: US$1,115,166,000). Banking facilities unutilised amounted to US$1,043,341,000 (31 December 2022: US$698,602,000).

Assets and liabilities

As at 31 December 2023, the Group's total assets and total liabilities were US$11,931,881,000 (31 December 2022: US$11,326,353,000) and US$5,089,356,000 (31 December 2022: US$4,687,180,000), respectively. Net assets were US$6,842,525,000 (31 December 2022: US$6,639,173,000). As at 31 December 2023, net asset value attributable to equity holders per share of the Company was US$1.62 (31 December 2022: US$1.61).

As at 31 December 2023, the net debt-to-total-equity ratio was 29.6% (31 December 2022: 27.0%). The interest coverage was 4.2 times (2022: 5.9 times), excluding finance charges relating to lease liabilities.

As at 31 December 2023, certain assets of the Group with an aggregate net book value of US$803,286,000 (31 December 2022: US$137,117,000), together with the Company's restricted bank deposits and interest in subsidiaries, were pledged to secure bank loans, totalling US$1,078,453,000 (31 December 2022: US$753,500,000).

Debt analysis

	As at 31 December 2023		As at 31 December 2022	
	US$	(%)	US$	(%)
By repayment term				
Within the first year	959,038,000	29.7	787,135,000	27.1
Within the second year	233,474,000	7.2	881,396,000	30.3
Within the third year	254,936,000	7.9	95,021,000	3.3
Within the fourth year	427,764,000	13.2	105,802,000	3.6
Within the fifth year and after	1,359,419,000	42.0	1,039,269,000	35.7
	3,234,631,000*	100.0	2,908,623,000*	100.0
By category				
Secured borrowings	1,078,453,000	33.3	753,500,000	25.9
Unsecured borrowings	2,156,178,000	66.7	2,155,123,000	74.1
	3,234,631,000*	100.0	2,908,623,000*	100.0
By denominated currency				
US dollar borrowings	1,776,704,000	54.9	1,507,276,000	51.8
RMB borrowings	738,352,000	22.8	759,561,000	26.1
Euro borrowings	619,325,000	19.2	641,786,000	22.1
HK dollar borrowings	100,250,000	3.1	–	–
	3,234,631,000*	100.0	2,908,623,000*	100.0

* Net of unamortised discount on notes and transaction costs on borrowings and notes.

Financial guarantee contracts

As at 31 December 2023 and 31 December 2022, the Company did not have any guarantee contract.

Treasury policy

The Group manages its foreign exchange risk by matching the currencies of its loans with the Group's functional currency of major cash receipts and underlying assets as much as possible. The functional currency of the Group's terminals business is mainly either Euro or Renminbi, the same currency of its borrowings, revenues and expenses, so as to provide a natural hedge against the foreign exchange volatility.

Interest rate swap contracts with financial institutions are used to achieve the optimum ratio between fixed and floating rates and to manage the related interest rate exposure. As at 31 December 2023, 6.9% (31 December 2022: 18.3%) of the Group's borrowings were at fixed rates. In light of market conditions, the Group will continue to monitor and regulate its fixed and floating-rate debt portfolio, with a view to minimising its potential interest rate exposure.