



## Rating Action: **Moody's upgrades Maersk's ratings to Baa1; outlook stable**

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14 Feb 2024

Stockholm, February 14, 2024 – Moody's Investors Service ("Moody's") has today upgraded the long-term issuer rating of A.P. Moller-Maersk A/S ("Maersk") to Baa1 from Baa2. Concurrently, the ratings of senior unsecured global notes and euro medium term notes (EMTN) have also been upgraded to Baa1 from Baa2 whilst the senior unsecured medium term note programme rating has been upgraded to (P)Baa1 from (P)Baa2. The outlook was changed to stable from positive.

"Today's rating action incorporates ample cushion for Maersk to navigate the current and anticipated highly unpredictable market environment for the container shipping industry during the next two years" says Daniel Harlid, a Moody's Vice President – Senior Credit Officer and lead analyst for Maersk. "While we foresee significant overcapacity in the container shipping industry at least through 2025, we recognize that credit metrics will be commensurate with a Baa1 rating", Mr. Harlid continues.

### RATINGS RATIONALE

Rapidly increasing freight rates marked the transition from last year to 2024, as carriers rerouted from the Red Sea to the Cape of Good Hope. This shift is expected to yield decent profitability in the first quarter of 2024. However, Moody's expects that rates are likely to revert in the second quarter, assuming the situation does not escalate further, as the increase is not fundamentally warranted but rather a result of shippers nervousness around a potential new round of supply chains disruptions. Therefore, Moody's still expects the next two years for the industry and Maersk to be the weakest since the last downturn in 2016.

Despite the risks mentioned, the decision to upgrade Maersk's rating to Baa1 with a stable outlook comes after monitoring the company's actions for 18 months. These actions, focused on preserving a conservative balance sheet and maintaining strong liquidity, resulted in a cash balance of approximately \$19.5 billion as of Dec. 31, 2023. This liquidity buffer remains a record high compared to pre-pandemic levels. With limited committed capital expenditure outflows for the next three years, especially when compared to industry peers, key credit metrics will still translate to a solid Baa1 rating, despite Moody's prediction of Maersk's Ocean division showing negative EBIT through at least the first half of 2025. Moody's also acknowledges that the company's move to a hub-and-spoke shipping network, announced in January this year, could increase profitability for both its Ocean and Terminals business by boosting utilization at sea and on land.

Moody's emphasizes that Maersk and the container shipping industry are currently facing increasing regulatory pressure to invest in a more energy-efficient fleet, while freight rates remain too low to generate sufficient cash flow for

such investments. Consequently, Moody's continues to see the company's growing exposure to third-party logistics as credit positive. Over time, this should help mitigate the low and volatile earnings from container shipping.

## RATING OUTLOOK

The stable rating outlook balances Maersk's financial flexibility and net cash position with the risk of the container shipping market performing even worse than in Moody's base case. Despite a Moody's-adjusted debt / EBITDA that is expected to hover above the 2.0x downgrade trigger during the next 12-18 months, this is mitigated by the absence of net debt as cash will continue to be on or slightly below the company's debt level. Nevertheless, Moody's stresses that current geopolitical risks reduce visibility more than what is normal for the container shipping industry.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive ratings pressure would require the company further diversifying its business profile such that non shipping related activities generate a meaningful share of group EBIT. Furthermore, the company is required to sustain a debt / EBITDA ratio below 2.0x while maintaining its very strong liquidity profile. This also includes generating positive free cash flow after shareholder remuneration over the cycle, as well as consistently reporting a high single digit EBIT margin percentage wise.

Negative ratings pressure could arise if the company's debt/EBITDA ratio increased toward 3.0x. Additionally, RCF/net debt falling below 35%, negative free cash flow after shareholder remuneration or a weakened liquidity profile would cause negative pressure on ratings, as well as the company's EBIT-margin being below 5% on a sustained basis.

## LIQUIDITY

Maersk's liquidity is excellent, with total available liquidity of \$25.4 billion as of Dec. 31, 2023, and was composed of (i) cash of \$6.7 billion (of which \$1.0 billion classified as restricted cash), (ii) term deposits longer than three months of \$12.7 billion and (iii) \$6.1 billion of revolving credit facilities (all undrawn). Maturity of the facilities are between 2026 and 2027. In addition, 97% of its vessels and containers are unencumbered, which can be used as a source of liquidity if needed. Maersk's current guidance on gross capital spending is \$9.0-\$10.0 billion in total during 2024-25, driven by intensified growth in logistics and investments related to its environmental targets.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Shipping published in June 2021 and available at <https://ratings.moodys.com/rmc-documents/72792>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## PROFILE

Headquartered in Copenhagen, Denmark, A.P. Møller-Mærsk A/S (Maersk) is an integrated container logistics company. The company's main business areas encompass container shipping, port terminals and logistics. In 2023

Maersk reported revenue of \$51.1 billion and EBIT of \$3.9 billion.

In 1904, the Mller family founded the group, which today is one of the largest Danish companies listed on the Nasdaq-OMX Copenhagen, with a current market capitalization of around DKK230 billion. The largest shareholder is the A.P. Moller Foundation (A.P. Mller Fonden) which ultimately controls 55% of the capital and 72% of the votes.

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