

Rating Action: Moody's downgrades Maersk to Baa3; outlook stable

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London, 07 December 2018 -- Moody's Investors Service, ("Moody's") has today downgraded the issuer rating and senior unsecured rating of Denmark-based integrated container logistics company A.P. Møller-Mærsk A/S (Maersk) to Baa3 from Baa2. Moody's also downgraded Maersk's medium-term note (MTN) program rating to (P)Baa3 from (P)Baa2. The rating outlook for all ratings is stable. This rating action concludes the review of Maersk's ratings initiated in August 2017.

"The downgrade reflects our expectation that Maersk will face increased market and execution risks and, as a result, operate at a higher leverage than is commensurate with a Baa2 rating for a company in such a volatile and cyclical business as container shipping," said Maria Maslovsky, Moody's Vice President -- Senior Analyst and the lead analyst for Maersk. "However, we acknowledge Maersk's leadership position as a liner and container terminal operator, as well as its strategy to integrate vertically into the logistics business and offer superior value to its customers. In addition, we view positively the significant financial flexibility offered by the Total S.A. shares worth approximately USD5 billion which allows Maersk to continue with its transformation while at the same time protecting its balance sheet," added Maslovsky.

RATINGS RATIONALE

The downgrade reflects Moody's expectation that Maersk will operate with a leverage of 3.0x -- 3.5x measured as gross debt/EBITDA which is higher than Moody's expectations for a Baa2 rating (where Moody's expects gross debt/EBITDA below 3.0x). Moody's believes that Maersk will be able to remain within this leverage range given the company's leadership position in container shipping and terminals, as well as its successful integration efforts with respect to Hamburg Sud. Maersk indicated that it expects to exceed its guidance for synergies from the Hamburg Sud acquisition by at least \$100 million - \$150 million compared to initial guidance. In addition, Maersk made good progress toward integrating its different businesses lines toward achieving 2% ROIC improvement as previously outlined. The company views these integration efforts as the cornerstone of a compelling customer offer and the driver of diversifying its cash flows into less volatile businesses, such as supply chain management. Moody's further anticipates that Maersk will prudently balance the use of the proceeds of Total S.A. shares between strengthening its balance sheet and providing a return to shareholders.

The downgrade further reflects significant downside risks facing the container shipping industry, in Moody's view. As the broad economic growth globally is expected to be less robust in 2019 as compared with 2018 (2.9% versus 3.3% according to Moody's estimates), global trade, the key demand driver for container shipping, is also likely to come under pressure. This trend is further exacerbated by the overhang of the US/China trade tensions, although there have been recent signs that a trade war may be avoided. While the supply of new vessels in 2019 is expected to be low owing to a multi-year trough of the orderbook (3.5% effective supply growth in 2019 according to Drewry Maritime Research), weak demand could pressure freight rates and earnings. In addition, the container shipping industry struggled with the lag in passing through increasing bunker costs in 2018 and will need to pass through additional increased fuel costs associated with IMO 2020, a new regulation coming into effect in January 2020. To comply with IMO2020, ocean going vessels will be required to utilize low sulphur fuel which is currently more expensive than typical bunker used by ships.

Counterbalancing these challenges, Maersk holds respectively number one and number four positions in containers and terminals globally. In particular, Moody's views the terminals business, which contributes close to 20% of Maersk's EBITDA, as more stable than liner operations; the significant investment in terminals sets Maersk apart from its peers. Also positively, Moody's notes Maersk's focused and disciplined management team, its stable shareholding and strong, public commitment to investment grade ratings.

Maersk benefits from excellent liquidity which distinguishes it from its container liner peers. The company consistently maintains a liquidity reserve of \$10 billion or more (\$11.8 billion as of 30 September 2018) consisting of \$3.3 billion of cash (excluding restricted cash) and committed undrawn credit facilities. Maersk's debt maturities and capital expenditures in 2019 are expected to be low: at approximately \$3.0 billion and just under \$2.0 billion, respectively.

The stable rating outlook reflects Moody's expectation that Maersk will successfully complete the demerger of Maersk Drilling and apply the proceeds from that business' financing to deleveraging. Moody's also expects that Maersk will prudently balance the use of the proceeds of Total S.A. shares between strengthening its balance sheet and providing a return to shareholders. The stable outlook further anticipates that the company will be able to generate positive free cash flow on a consistent basis.

Positive pressure on the rating would occur from gross debt/EBITDA below 3.0x at all points in the cycle and achievement of greater profitability as measured by consistently positive EBIT margin.

Gross debt/EBITDA consistently exceeding 3.5x and sustained negative free cash flow (after capex and dividends) would be viewed negatively as would a substantial reduction in cash balance and liquidity reserve.

The principal methodology used in these ratings was Shipping Industry published in December 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Headquartered in Copenhagen, Denmark, A.P. Møller-Mærsk A/S is an integrated container logistics company whose main business areas encompass container shipping, port terminals and logistics. The group also has legacy drilling and supply businesses that are expected to be separated. In 2017, Maersk reported revenues of \$30.1 billion and EBITDA of \$3.5 billion.

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