MOODY'S INVESTORS SERVICE

CREDIT OPINION
25 March 2021

Update

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RATINGS

A.P. Moller-Maersk A/S

Domicile	Copenhagen, Denmark
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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A.P. Moller-Maersk A/S

Update following upgrade to Baa2

Summary

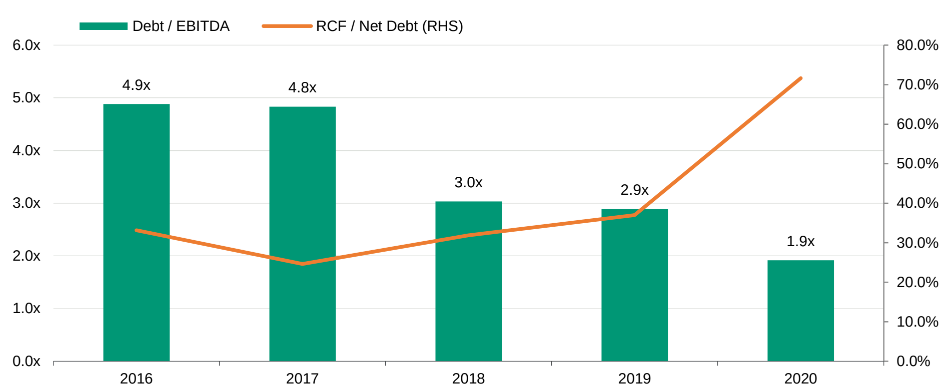
On 22 March 2021, we upgraded the long-term issuer rating of A.P. Moeller-Maersk A/S (Maersk) from Baa3 to Baa2 with a stable outlook. In the second half of 2020, Maersk used its positive free cash flow (FCF) to prepay its bank and capital market debt amounting to $1.9 billion, given the very strong market environment for container shipping. This move has resulted in Maersk's Moody's-adjusted debt/EBITDA decreasing to 1.9x, the lowest leverage ratio since the company decided to transform itself into an integrated shipping and logistics company in 2016.

The Baa2 rating positively reflects Maersk's leadership in the global container shipping sector and solid market position in its ocean, and terminals and towage businesses, along a growing strategic focus in logistics; track record of reducing the debt on its balance sheet, an ongoing process; stable shareholding and disciplined management; excellent liquidity, supported by our expectation of positive FCF; and commitment to an investment-grade rating.

However, the rating is constrained by Maersk's focus on container shipping, a historically undifferentiated service where carriers have been price takers rather than price setters; its history of a low-single-digit EBIT margin in percentage terms, although typical for the sector; and the historically volatile market dynamics in global container shipping, although this improved significantly in 2020.

Exhibit 1

Maersk's leverage decreased to 1.9x in 2020 from the peak of 4.9x in 2016



This represents Moody's forward view and not the view of the issuer. All numbers are on a Moody's-adjusted basis.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Credit strengths

» Status as the largest container shipping company globally, supported by its stable and profitable terminal business

» A balance sheet better equipped to meet the cyclical swings in the global container market, following the divestments of its energy and drilling businesses

» Strong liquidity, which underpins its clear commitment to an investment-grade rating

» A supportive shareholder, with a track record of providing support

Credit challenges

» High reliance on the historically volatile and competitive container shipping industry

» History of an EBIT margin in the low-single digits in percentage terms, although clearly not the case during the pandemic

Rating outlook

The stable rating outlook reflects our assumption that the recent performance improvements in the industry and Maersk's current capital structure will be sustained, leading to Moody's-adjusted debt/EBITDA of 1.5x-2.3x and an EBIT margin of 7%-10% for the company over the next 12-18 months. The outlook also reflects our assumption that Maersk will continue to pursue a conservative financial policy, where potential shareholder remuneration is balanced with the preservation of its strong balance sheet.

Factors that could lead to an upgrade

» Maintaining Moody's-adjusted debt/EBITDA below 2.0x on a sustained basis

» Maintaining excellent liquidity

» Generating positive FCF after shareholder remuneration over the cycle on a sustained basis

» Maintaining retained cash flow (RCF) / net debt at least in the high 30s in percentage terms

» Generating a high-single-digit EBIT margin in percentage terms over the cycle

Factors that could lead to a downgrade

» Debt/EBITDA increasing above 3.0x

» RCF/net debt falling below 20%

» Negative FCF after shareholder remuneration

» Weakening in liquidity

» EBIT margin deteriorating to below 5%

Key indicators

Exhibit 2
A.P. Møller-Mærsk A/S

	2016	2017	2018	2019	2020	12-18m Forward view
Size of fleet (number of ships)	639	781	710	708	706	706
EBIT Margin %	0.8%	3.9%	3.9%	4.3%	9.2%	7% - 10%
Debt / EBITDA	4.9x	4.8x	3.0x	2.9x	1.9x	1.5x - 2.3x
RCF / Net Debt	33.1%	24.6%	31.8%	37.0%	71.6%	60% - 80%
(FFO + Interest Expense) / Interest Expense	9.8x	7.8x	6.0x	6.3x	10.0x	12x - 14x

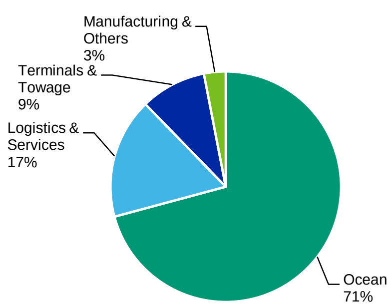
All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Projections are our opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

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 2020, Maersk reported revenue of $39.7 billion and EBIT of $4.2 billion.

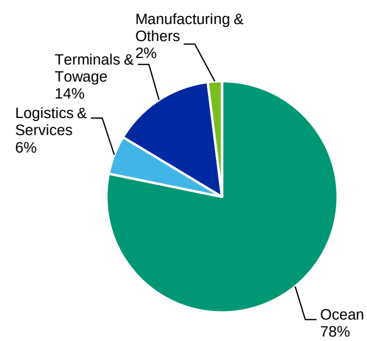
In 1904, the Møller family founded the group, which has now become one of the largest Danish companies listed on the Nasdaq-OMX Copenhagen, with a current market capitalization of around DKK277 billion. Most of the company shares (41.6% of the share capital and 51.5% of voting rights) are owned by A.P. Møller Holding A/S, a subsidiary established by the foundation A.P. Møller og Hustru Chastine Mc-Kinney Møllers Fond til almene Formaal (the Foundation). Together with the foundation, the family indirectly controls 54.4% of the shares and 71.0% of the votes.

Exhibit 3
Revenue per segment
Data per 2020



Source: Company Annual Report 2020

Exhibit 4
EBITDA per segment
Data per 2020



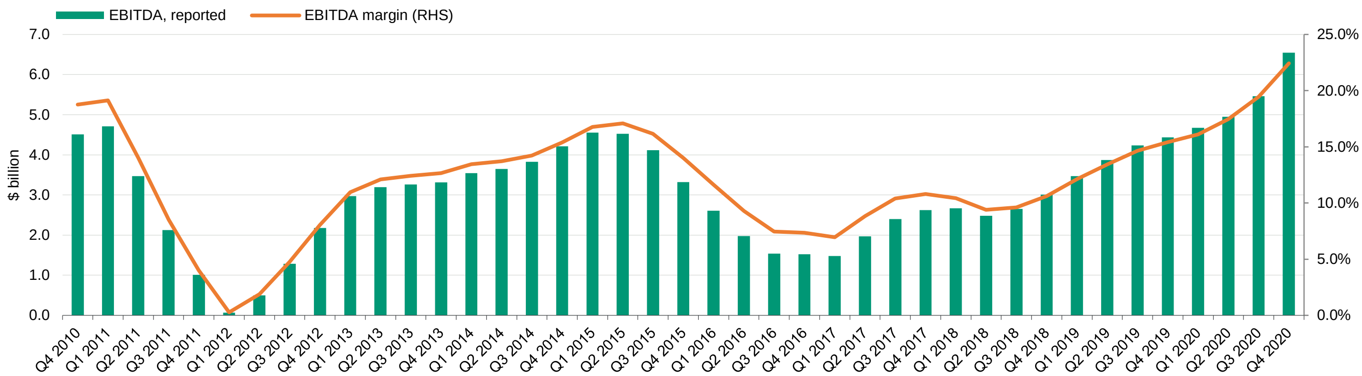
Source: Company Annual Report 2020

Detailed credit considerations

Largest container shipping company in the highly competitive global container shipping industry

With a total fleet of 706 vessels (54% [of the nominal capacity] is owned by the company and the remainder is leased), which carry around 26 million ton equivalent units (TEUs) annually, Maersk is the largest container shipping company in the world. According to Alphaliner, the company holds the market-leading position in the trade lanes of Asia-Europe, Intra-Americas, Latin America and Africa. The company's ocean business, where the container shipping activities take place, is complemented by a very profitable terminal and towage business, and a logistics business. The company aims to grow its logistics business substantially in the long term. More specifically, the company's strategy is to grow its non-shipping-related revenue through its logistics platform, combined with its integrated transportation-related services, through both organic initiatives and acquisitions. Maersk's ambition closely resembles those of its peers, such as CMA CGM S.A. (B1 Positive), although we more or less rule out a larger acquisition than that of CMA's $1.7 billion takeover of CEVA Logistics AG (B2 Positive) in April 2019. However, the reason behind the transition of some container liners into logistics is to decrease the sensitivity to container shipping, which historically has been very cyclical.

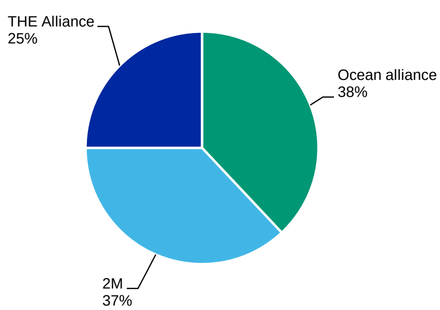
Exhibit 5
Historical peak-to-trough for large container liners has amounted to billions of dollars
Reported EBITDA and EBITDA margin of Maersk's container liner business on a trailing four-quarter basis



2019-20 figures includes lease payments as per the IFRS 16 accounting regime.
Source: Company interim reports

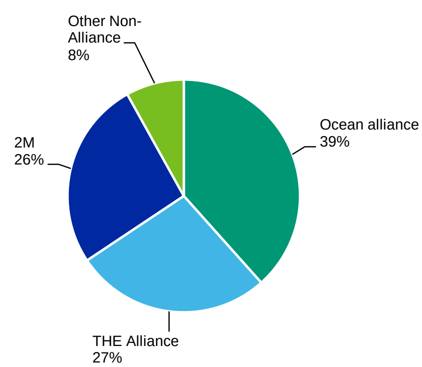
Historically, container shipping has been a highly competitive market arena, with too many companies offering more or less the same commoditized shipping service. Over the past decade, the industry has experienced a wave of consolidation. Such consolidation includes Maersk's €3.7 billion acquisition of Hamburg Süd in 2017, Hapag-Lloyd AG's (Ba2 Stable) merger with United Arab Shipping Company the same year and CMA's $2.4 billion acquisition of Neptune Oriental Lines in 2016. The effect of such consolidation has been significant, with the top five companies controlling around 65% of the market at present, compared with 43% in 2013. We believe the consolidation is over, to a large extent. At present, over 80% of the deployed capacity belongs to carriers in one of the three alliances, under which each carrier makes a substantial contribution of ships to the other carrier(s) on a long-term basis.

Exhibit 6
Alliance's share of capacity deployed in the Far East-Europe
Weekly capacity as of March 2021



2M: Maersk, MSC. Ocean Alliance: CMA, COSCO, Evergreen, OOCL (owned by COSCO).
THE Alliance: Yang Ming, Hapag-Lloyd, ONE, HMM.
Source: Alphaliner

Exhibit 7
Alliance's share of capacity deployed in the Far East-North America
Weekly capacity as of March 2021



Source: Alphaliner

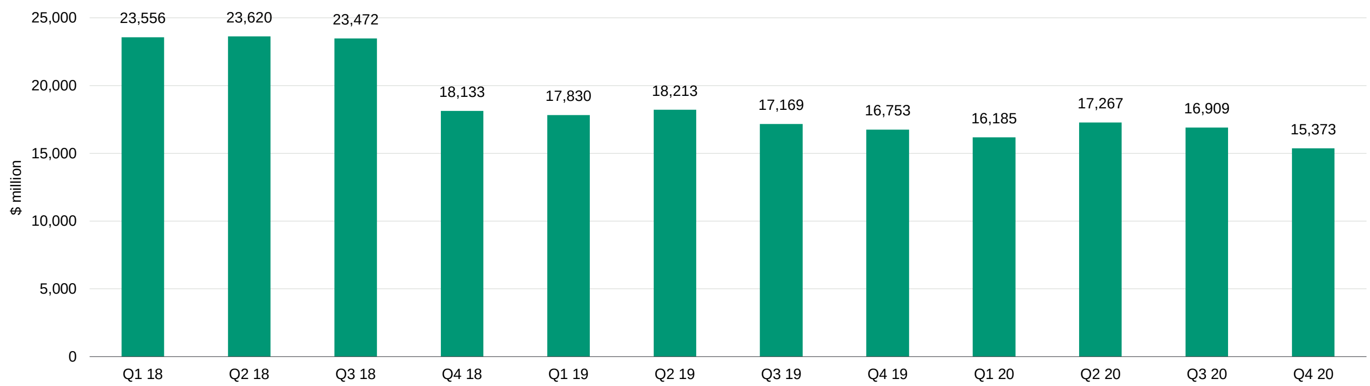
Low capital spending for new vessels and the very strong market environment have translated into high FCF, which was used for debt repayments

Since 2016, Maersk has focused on becoming an integrated shipping and logistics company and has adjusted its capital structure accordingly. This effort has been ongoing since the company's announcement of its intention to divest its energy business in 2016 and the subsequent completion of the divestment in 2019. During this period, the company paid down large amounts of its debt while increasing the profitability of its remaining businesses. The result has been a decrease in Maersk's Moody's-adjusted debt/EBITDA to 1.9x as of year-end 2020 from 4.8x as of year-end 2017. This improvement should be seen in light of a decrease in the company's fleet size over the last two years. Maersk was one of the first carriers to order ultra-large container vessels in 2015, which allowed the company's cash flow generation to be used for debt repayments instead of capital spending.

Exhibit 8

Maersk has used a part of the proceeds from the divestment of its energy business to pay down $6.9 billion of its debt

Reported debt, including operating lease debt for Maersk



Figures include financial debt and IFRS 16 lease liabilities using the retrospective method.

Source: Company interim reports

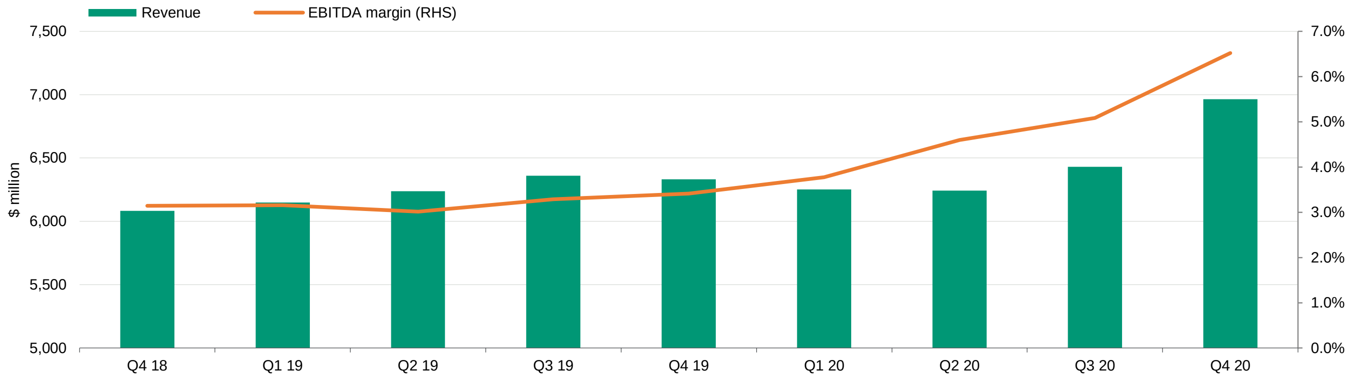
Because Maersk has not ordered any new vessels for a long time, its fleet is gradually becoming older. At some point, also because of current and future environmental requirements, the company will have to replace its older vessels that are no longer efficient enough to operate. Such replacement will most likely result in the company's debt levels increasing somewhat again; however, this is unlikely to occur over the next two to three years (delivery takes around 18-24 months from the time of ordering).

Promising signs of the logistics and services segment will most likely result in larger acquisitions

Maersk has a clear strategy to become an integrated transportation and logistics provider. The company's Logistics and Services division consists of freight forwarding (57% of revenue in 2020) and related services (29% of revenue). It also houses a supply chain management business (contract logistics), which generated around 14% of the division's revenue in 2020. Maersk has clear ambitions to grow this business through a combination of organic growth and M&A. While the division is still fairly small compared with the market leaders such as DHL, owned by Deutsche Post AG (A3 stable), DB Schenker, owned by Deutsche Bahn AG (Aa1 negative), DSV Panalpina A/S (A3 stable) and Kuehne + Nagel, its profitability has increased over the last two years (see Exhibit 9).

Exhibit 9

Maersk's Logistics and Services division has grown and increased profitability since 2018



Source: Company interim reports

The strategy to expand Maersk's logistics offerings has so far not resulted in significant M&A activities; however, the lack of significant M&A activities is in accordance with the company's stated strategy to initially undertake only small to medium-sized acquisitions. In 2020, Maersk acquired the US-based warehousing and distribution company Performance Team LLC for $317 million and the Sweden-based trade and customs services management company KGH Customs Service Group for $288 million. These acquisitions were all paid for in cash, given the company's overall very strong cash flow in 2020.

Third-party logistics is a very competitive industry, often associated with low- to mid-single-digit EBIT margins. In the industry, growing activities organically on a significant scale is also relatively difficult; therefore, we expect Maersk to undertake larger acquisitions when the company views its IT infrastructure and operations ready to integrate such acquisitions.

Stable shareholding and disciplined management, despite some recent shareholder-friendly actions; public commitment to an investment-grade rating

Maersk is indirectly owned (through A.P. Møller Holding A/S) by the Foundation headed by the Møller family. Historically, the Foundation has been linked to the stability and long-term security of Maersk's operations, adjusting the group's leverage and corporate development with respect to changes in the economic environment. From time to time, Maersk has initiated and executed share buyback programs. The latest of such programs was in conjunction with the sale of its energy business to Total SE (A1 stable), whereby the company received Total shares for a value of $4.5 billion (which now has been sold). The company announced its intention to distribute a significant part of the proceeds from the sale to shareholders, subject to maintaining an investment-grade rating. The first stage of shareholder remuneration ended in 2020, and around $1.5 billion worth of shares were bought back. On 30 November 2020, the company announced another program with a total value of up to $1.6 billion, of which $500 million would be bought back by April 2021. Balancing these shareholder-friendly actions are the very supportive shareholders and the company's public commitment to maintaining an investment-grade rating. Furthermore, the company has a formal dividend policy, which targets a payout ratio of 30%-50% of the underlying net result.

ESG considerations

From an environmental perspective, maritime shipping is governed by the International Maritime Organization (IMO), a specialized agency of the United Nations, as well as local and regional authorities. In 2018, the IMO adopted a resolution that details its strategy to reduce emissions of greenhouse gases from ships. More recently, this move resulted in the introduction of a sulfur cap for bunker fuel, effective from 1 January 2020.

Additional regulations will most likely be introduced over the next couple of years as the IMO's strategy includes the reduction of CO_2 emissions per transport work, as an average across international shipping, by at least 40% by 2030, pursuing efforts toward 70% by 2050, compared that in with 2008. In this regard, Maersk's target is to reduce its emissions by 60% by 2030 and to net zero by 2050.

The social considerations for shipping companies pertain mostly to safety and security, both onshore and at sea. Onshore, the risks might have to do with security (criminal activities, including cyberattacks, terrorism or armed conflicts), health (major pandemics, such as COVID-19), or natural and technological disasters (earthquakes, tsunamis and others). At sea, there are risks associated with piracy in risky areas, such as the Indian Ocean, West Africa and Southeast Asia.

From a governance perspective, Maersk benefits from being a publicly listed company. As a Danish company, Maersk operates with a two-tier management structure, consisting of a board of directors and an executive board. There is no overlap between members of the board of directors and members of the executive board (management). By inviting business leaders, functional leaders and relevant experts to participate in parts of their meetings, the board of directors and its committees interact with representatives from various parts of the organization, and external specialists. The board of directors consists of 10 members, of which the Maersk family holds two seats.

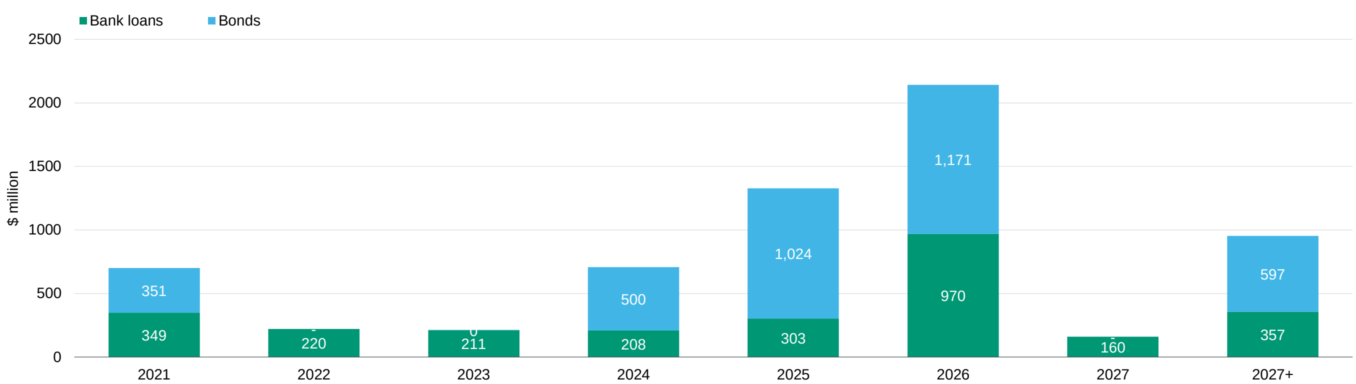
Liquidity analysis

Maersk's liquidity is excellent, with $5.8 billion in cash as of year-end 2020. In addition, the company has access to $6.0 billion worth of revolving credit facilities, with the earliest maturity in 2023. In addition, over 90% of its fleet is unencumbered, which can be used as a source of liquidity if needed. Maersk's current guidance on gross capital spending is $4.5-$5.5 billion in total during 2021-22, which is higher than the $3.4 billion realized over 2019-20.

Following the high amount of debt prepayments in 2020, Maersk's short-term maturities are limited to $700 million over the next 12 months (it is even more limited over the next two years), as can be seen in Exhibit 10.

Exhibit 10

Maersk has a very low amount of debt maturing within the next three years
Data as of 12/31/2020



Source: Company reports

Structural considerations

We expect Maersk to continue to pursue primarily an unsecured financing strategy. As of December 2020, the company's secured debt was only $600 million (9% of its interest bearing debt), down from $1.0 billion in December 2019. Also, as of year-end 2020, Maersk reported that 97% of its assets were unencumbered. Therefore, we have also not notched down the issuer rating, despite the presence of debt at the subsidiary level, which leads to a degree of structural subordination for the parent company's debt. Still, we expect Maersk to continue to use its secured debt for those asset classes (ports and ships), where the terms are more favorable for the company.

Methodology and scorecard

The principal methodology used in rating Maersk is the Shipping Methodology, published in December 2020. The assigned rating of Baa2 is two notches lower than the scorecard-indicated outcome in our current and forward view. The difference can be explained by the very strong operating performance of the container shipping industry in 2020, which we believe is not representative of the performance over the cycle.

Exhibit 11

Rating factors

A.P. Møller-Mærsk A/S

Global Shipping Industry Scorecard [1][2]	Current FY2020		Moody's 12-18m Forward View As of March 2021 [3]	
Factor 1: SCALE (10%)	Measure	Score	Measure	Score
a) Size of fleet (number of ships)	706	A	A	A
Factor 2: BUSINESS PROFILE (20%)				
a) Business Profile	Baa	Baa	Baa	Baa
Factor 3: PROFITABILITY AND EFFICIENCY (5%)				
a) EBIT Margin	9.2%	B	7% - 10%	B
Factor 4: LEVERAGE AND COVERAGE (45%)				
a) Debt / EBITDA	1.9x	A	1.5x - 2.3x	Baa - A
b) RCF / Net Debt	71.6%	Aaa	60% - 80%	Aa - Aaa
c) (FFO + Interest Expense) / Interest Expense	10.0x	A	10x - 12x	A
d) Unencumbered Assets	Aa	Aa	Aa	Aa
Factor 5: FINANCIAL POLICY (20%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating Outcome:				
a) Scorecard-Indicated Rating		A3		A3
b) Actual Rating Assigned				Baa2

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2020.
[3] This represents Moody's forward view, not the view of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Ratings

Exhibit 12

Category	Moody's Rating
A.P. MOLLER-MAERSK A/S	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2
Senior Unsecured	Baa2

Source: Moody's Investors Service

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EMEA	44-20-7772-5454

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