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Research Update:

Danish Conglomerate A.P. Moller - Maersk 'BBB' Rating Put On CreditWatch Negative On Sale Of Oil And Gas Unit To Total

Primary Credit Analyst:

Alexander Griaznov, Moscow (7) 495-783-4109; alexander.griaznov@spglobal.com

Secondary Contacts:

Izabela Listowska, Frankfurt (49) 69-33-999-127; izabela.listowska@spglobal.com

Simon Redmond, London (44) 20-7176-3683; simon.redmond@spglobal.com

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Overview

- On Aug. 21, 2017, A.P. Moller - Maersk announced the sale of its oil and gas subsidiary to Total S.A. for \$7.45 billion.
- It is not clear at this stage whether potential deleveraging at Maersk could fully offset the loss of diversification benefits that we previously considered supportive of Maersk's creditworthiness.
- We are therefore placing our 'BBB' rating on Maersk on CreditWatch negative.
- The CreditWatch reflects that we could lower the rating on Maersk if its credit metrics do not improve to levels that fully offset the loss of diversification.

Rating Action

On Aug. 23, 2017, S&P Global Ratings placed on CreditWatch with negative implications its 'BBB' long-term corporate credit rating on Danish conglomerate A.P. Moller - Maersk.

Rationale

The CreditWatch follows Maersk's announcement that it will sell its oil and gas subsidiary Maersk Olie og Gas A/S (Maersk Oil) to France-based oil and gas major Total S.A. for \$7.45 billion.

This disposal represents a reduction in Maersk's diversification, prompting us to no longer apply a one-notch uplift to the rating for diversification, which could result in a one-notch downgrade. However, we expect the company's credit metrics to strengthen on the back of the transaction, given the resulting \$2.8 billion debt reduction and receipt of \$4.95 billion of highly liquid shares in Total that could support deleveraging and offset the loss of about 38% of consolidated EBITDA (\$2.6 billion in 2016) that Maersk Oil previously contributed. In addition, Maersk stated that its decommissioning liability will reduce by \$2.9 billion, which could further support an improvement in credit metrics.

Therefore, we believe that Maersk's ability to maintain a 'BBB' rating will depend upon the scale of the improvement in its credit metrics and management's commitment to use the proceeds from sale for debt repayment

rather than shareholder remuneration. We understand that management has yet to decide how to allocate the funds between these two options and that the final decision will depend largely on the completion of other separations. We also note the company's public commitment to maintaining investment-grade rating.

Absent the Maersk Oil sale, the company's performance in 2017 is in line with our base-case expectations, reflecting cash flow improvement across the company's main business lines. At the end of the first half of 2017, Maersk's ratio of funds from operations (FFO) to debt stood at 36.8%, higher than the target of above 30% based on the current (pre-disposal) mix of assets. However, this ratio will weaken after Maersk closes its acquisition of Hamburg Sud for \$4.1 billion, which the company expects to do in the fourth quarter of this year. We also note that Maersk's liquidity remains exceptional and will only strengthen post transaction.

CreditWatch

We plan to resolve the CreditWatch in the next three months when we get more clarity from Maersk's management regarding the exact use of the proceeds from the sale of Maersk Oil, including the allocation of funds between debt reduction and dividends. We will also monitor Maersk's continued reorganization and will reassess the evolving business risk profile once the separation of energy businesses is completed.

We could affirm the rating if the company's credit metrics improve, offsetting the loss of diversification. This would hinge on a ratio of FFO to debt between 40% and 45%, or even higher, depending on our assessment of the company's business risk profile after the completion of additional disposals, the free cash flow generation profile, and financial policy.

If we do not see sufficient deleveraging at Maersk, we could lower the rating, most likely by one notch.

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For Contract Drilling, April 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Transportation Cyclical Industry, Feb. 12, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Oil And Gas Exploration And Production Industry, Dec. 12, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Methodology For Crude Oil And Natural Gas Price Assumptions For Corporates And Sovereigns, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
A.P. Moller - Maersk A/S		
Corporate Credit Rating	BBB/Watch Neg/--	BBB/Negative/--
Senior Unsecured	BBB/Watch Neg	BBB

Additional Contact:

Industrial Ratings Europe; Corporate_Admin_London@spglobal.com

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