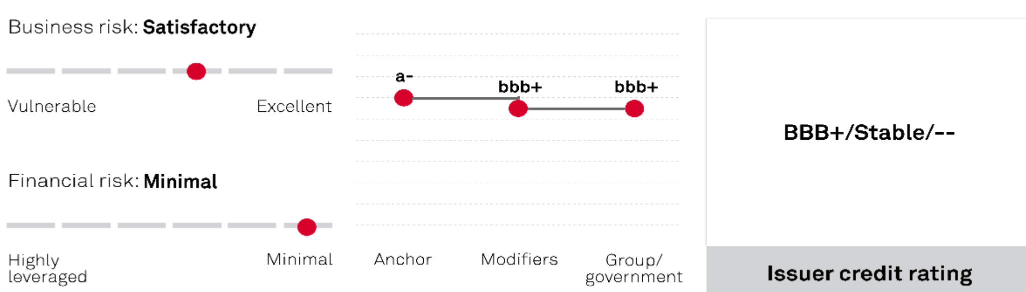
A.P. Moller - Maersk A/S

December 27, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Second-largest container shipping company in the world (as measured by fleet capacity) with a global footprint through a broad and strategically located container liner route and port terminal network.	Sharply and abruptly corrected freight rates in late 2022, which will hamper operating profits in 2023 and 2024, compared to all-time highs achieved in 2021-2022.
Presence in infrastructure-like terminal business and expansion into end-to-end and integrated logistics services, both adding stability to earnings.	The supply of new mega ships, and the capacity they will add, is poised to outstrip demand growth, putting significant new pressure on freight rates.
A proven track record of profitable inorganic growth in the logistics segment.	Diminishing rating headroom because of collapsing earnings and cash flow over the next few quarters, in line with dwindling freight rates.
Strong balance sheet, as reflected in a net cash position expected at year-end 2023, and record-high liquidity reserves providing an ample financial cushion under deteriorating freight rate conditions.	Large capital expenditure (capex) requirements as Maersk continues the environmental upgrade of its fleet to reach its 2030 decarbonization goals, although we understand the timing of orders considers operating industry conditions.

A.P. Moller - Maersk A/S (Maersk)'s results for the first nine-months of 2023 reflect the normalization of global supply chains, weakened cargo volumes, and severe downward correction in freight rates. Like its closest peers and in line with S&P Global Ratings' expectations, Maersk posted a significant year-on-year revenue decline of 38% in the first nine months of 2023, weighed down by its Ocean segment's revenue declining by 48%. This reflects a 3.5% drop in transport volumes and, more importantly, a 50% plunge in Maersk's average year-on-year freight rate. The freight rate decline has been spread over 2023 but accelerated in the third quarter. Strict cost management has only marginally offset declining revenue, leading to a significant fall in Ocean segment reported EBITDA to $6.7 billion, from $27.7 billion a year earlier. We expect this trend to persist in the coming quarters when consumer demand is likely to remain subdued, new vessel deliveries are increased, and contracted freight rates are renegotiated based on considerably and sustainably lower spot levels. Accordingly, our base-case forecast for the group includes a significant deterioration in S&P Global Ratings-adjusted EBITDA to $8.0 billion-$11.0 billion for 2023, which is markedly below record highs of $37.2 billion in 2022 and $24.3 billion in 2021. We expect Maersk's EBITDA will be supported by an up to $2.8 billion contribution from the typically more resilient infrastructure-like terminals segment, towage and maritime services, and recently expanded logistics operations.

Capacity management could narrow the industry supply demand imbalance**.** Freight rates have fallen since late 2022 to levels that are generally close to pre-COVID-19 pandemic averages, and we expect they will remain under pressure. Container liner companies need to react to the difficult market conditions if they are to protect their currently robust creditworthiness. Efforts to limit freight rate declines have, so far, been slow, insufficient, and largely failed amid a challenging market. This is due to a combination of soft demand, the release of tonnage parked at congested ports following the resolution of pandemic-induced supply chain issues, and accelerating deliveries of ultra-large containerships. Inflation, meanwhile, has increased operating expenses. More rigorous and sustainable capacity management will be required if the industry is to avoid economically unviable rates that consign container liners to losses. That is particularly the case given that the supply and demand imbalance is on course to widen in 2023-2024, before only moderately narrowing in 2025.

Our base case forecast hinges on stringent supply side measures. While strict excess capacity management, assuming it occurs, might provide some relief during 2024, it won't completely avert pressure on freight rates given expectations of sluggish demand and accelerating new tonnage deliveries. Moreover, this outlook, combined with the collapse of freight rates in late 2022, has shifted the balance of power in the industry toward shippers, setting the stage for a difficult round of annual negotiations for container liners. Our base-case scenario for 2023 includes an average freight rate (incorporating both spot and contract rates) of about half the 2022 record level. The decline in contract rates is proving initially shallow, cushioned by longer-term, fixed-rate agreements that expire with a time lag. Conversely, the speed and magnitude of the decline in spot rates has been more immediate. The combination of those shifts has meant that the pace of decline in revenue (volume to freight rates) for Maersk has been slower than the deterioration in market spot rates, in line with our expectations. In our current base case, we assume average freight rates will decrease further in 2024 (as contracted rates are renegotiated based on considerably lower spot levels), while potentially stabilizing at economically viable levels, allowing Maersk to largely cover operating costs, which have increased up to 30% (excluding fuel) compared with 2019. That said, our forecast is contingent on industry players implementing more stringent capacity-containment measures and proactively managing excess supply in the coming months, which still need to occur. Although we are alert to lingering geopolitical and macroeconomic uncertainty, which increased following the start of the latest war between Israel and Hamas, we do not include unpredictable shock events as part of our base case.

We expect Maersk's credit metrics will remain well within our 'BBB+' rating thresholds in 2023, but headroom will dwindle markedly in 2024. Maersk has preserved its net cash position (cash exceeding S&P Global Ratings-adjusted debt) and reported an ample liquidity reserve of $26.8 billion (composed of cash and bank balances, term deposits and securities, and undrawn revolving credit facilities of $6.1 billion) as of Sept. 30, 2023. This was despite the record-high shareholder returns, including $10.9 billion in dividend payments under the regular policy of a 30%-50% payout target, and $2.3 billion in share repurchases under the stated annual share buyback program of $3 billion until 2025. The group's net cash position was supported by free operating cash flow (FOCF) of $5.7 billion (as per Maersk's definition) in the first nine months of 2023. Although we expect FOCF to diminish in the fourth quarter as Maersk continues environmental upgrades to its fleet, we predict it will remain significantly positive for the full year. Accordingly, our base case points to a sustained net cash position as of Dec. 31, 2023, albeit materially lower than a year earlier. We see Maersk's financial headroom for unforeseen operational setbacks or external growth as continuing to diminish amid lower freight rates and continued higher inflation. We remain relatively cautious in our assumptions due to the uncertainty of future normalized freight rates. This uncertainty reduces the predictability of credit-ratio projections and increases the risk that adjusted EBITDA could underperform, or that financial leverage could overshoot what can be reasonably built into our base case.

Outlook

The stable outlook reflects our view that Maersk will maintain adjusted funds from operations (FFO) to debt above 50% in view of the faster-than-previously-anticipated EBITDA normalization in 2023, continuing into 2024. We believe this will be underpinned by sustained capacity-management discipline by industry players, allowing Maersk's adjusted EBITDA to ultimately stabilize at (or above) pre-COVID-19 pandemic levels, further supported by the earnings contribution from its logistics and terminals segments and the group's adherence to prudent financial policy.

Downside scenario

We could downgrade Maersk if we expect its adjusted FFO to debt to fall below 50%, with limited prospects for recovery, for example due to a plunge in trade volumes along with industry players' unexpected failure to adjust excess capacity, thereby sustainably depressing freight rates. A large cash- or debt-funded acquisition, resulting in credit measures falling short of our guidelines for a long period, would also pressure the rating.

Upside scenario

We could raise the rating if Maersk expands its logistics business, resulting in an enlarged and less volatile earnings base and a sustained improvement of its business risk profile. We could also upgrade Maersk if its adjusted FFO to debt stays above 60% once freight rates normalize, and the company commits to a financial policy to ensure this level is sustainable.

Company Description

Maersk is one of the world's largest transportation companies, with the following main operating segments:

- Maersk Ocean (EBITDA of $33.8 billion in 2022, $21.4 billion in 2021, and $4.4 billion pre-pandemic in 2019): Activities in the Maersk Line business and Hamburg Süd, and seven hub terminals (thereof two hubs in joint ventures). Maersk Ocean was the world's largest container liner from 1996 until 2021, when it was overtaken by MSC with 19.0% global market share of capacity now versus Maersk's 15.2%. Maersk Ocean operates in over 130 countries and as of June 30, 2023, had a fleet of about 679 ships, of which (as measured by capacity) 60% are owned and 40% chartered from containership owners. Ships sail every major trade lane. The company offers dry, reefer, and special cargo services.

- Logistics and Services (EBITDA of $1.4 billion in 2022, $907 million in 2021, and $216 million in 2019): Supply chain management and intermodal/inland activities. After the 2020 acquisitions of warehousing and distribution companies Performance Team and KGH Customs Services, the segment's offering was enhanced by two e-commerce logistics companies in 2021, Visible Supply Chain Management and B2C Europe. In 2022, Maersk pursued inorganic growth, acquiring U.S.-based first-, middle-, and last-mile, as well as border-crossing, solutions provider Pilot Freight Services, global air freight forwarding company Senator International, and Asia-Pacific contract logistics company LF Logistics. At the beginning of 2023, the acquisition of project logistics company Martin Bencher and a joint venture with Grindrod Intermodal Group were completed.
- Terminals (EBITDA of $1.5 billion in 2022, $1.5 billion in 2021, and $913 million in 2019): Providing port and inland infrastructure that supports global commerce. The segment is currently active in 59 gateway terminals across 31 countries, along with more than 100 inland services operations across the world.
- Towage and Maritime Services (EBITDA of $369 million in 2022, $356 million in 2021, and $341 million in 2019): Activities include Svitzer towage services, Maersk Supply Service (divested in May 2023), and Maersk Container Industry (MCI), which develops and manufactures refrigerated containers and StarCool refrigeration machines for the intermodal industry, including shipping lines, fruit multinationals, and leasing companies. Svitzer has provided safety and support at sea since 1833. With a fleet of about 452 vessels and operations worldwide, Svitzer is the global leader in towage operations, servicing 27 terminals and 120 ports.

Peer Comparison

A.P. Moller - Maersk A/S--Peer Comparisons

	A.P. Moller - Maersk A/S	CMA CGM S.A.	Hapag-Lloyd AG	Wan Hai Lines Ltd.
Foreign currency issuer credit rating	BBB+/Stable/--	BB+/Stable/B	BB+/Stable/--	BB+/Stable/--
Local currency issuer credit rating	BBB+/Stable/--	BB+/Stable/B	BB+/Stable/--	BB+/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	$	$	$	$
Revenue	81,529	74,498	36,917	8,429
EBITDA	37,167	33,317	20,638	4,537

A.P. Moller - Maersk A/S--Peer Comparisons

Funds from operations (FFO)	35,328	31,545	20,329	3,959
Capital expenditure	4,114	4,718	1,520	1,605
Free operating cash flow (FOCF)	29,884	27,806	19,326	2,840
Discretionary cash flow (DCF)	20,221	24,777	12,737	2,006
Debt	0	0	0	0
EBITDA margin (%)	45.6	44.7	55.9	53.8
EBITDA interest coverage (x)	45.5	28.6	78.8	93.4
Debt/EBITDA (x)	0.0	0.0	0.0	0.0
FFO/debt (%)	NM	NM	NM	NM
FOCF/debt (%)	NM	NM	NM	NM

Financial Risk

A.P. Moller - Maersk A/S--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	$	$	$	$	$	$
Revenues	30,945	39,019	38,890	39,740	61,787	81,529
EBITDA	5,041	5,712	6,015	8,411	24,335	37,167
Funds from operations (FFO)	3,502	4,220	4,664	7,128	22,974	35,328
Interest expense	1,073	1,273	971	839	813	816
Cash interest paid	1,365	1,125	850	859	779	1,038
Operating cash flow (OCF)	3,376	4,146	5,457	7,238	21,582	33,998
Capital expenditure	3,536	2,817	2,012	1,315	2,971	4,114
Free operating cash flow (FOCF)	(160)	1,329	3,445	5,923	18,611	29,884
Discretionary cash flow (DCF)	(676)	727	2,115	4,595	15,547	20,221
Cash and short-term investments	1,172	4,299	3,870	4,866	10,535	9,641
Gross available cash	1,172	4,299	3,870	4,866	15,535	27,256
Debt	23,197	14,323	12,883	10,507	0	0
Common equity	31,425	33,392	28,837	30,854	45,588	65,032
Adjusted ratios						
EBITDA margin (%)	16.3	14.6	15.5	21.2	39.4	45.6
Return on capital (%)	1.9	2.5	3.9	9.7	45.2	56.4
EBITDA interest coverage (x)	4.7	4.5	6.2	10.0	29.9	45.5
FFO cash interest coverage (x)	3.6	4.7	6.5	9.3	30.5	35.0
Debt/EBITDA (x)	4.6	2.5	2.1	1.2	0.0	0.0
FFO/debt (%)	15.1	29.5	36.2	67.8	NM	NM
OCF/debt (%)	14.6	28.9	42.4	68.9	NM	NM

A.P. Moller - Maersk A/S--Financial Summary

FOCF/debt (%)	(0.7)	9.3	26.7	56.4	NM	NM
DCF/debt (%)	(2.9)	5.1	16.4	43.7	NM	NM

A.P. Moller - Maersk A/S-- Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Capital expenditure
Financial year	Dec-31-2022							
Company reported amounts	4,029	63,991	36,813	30,627	766	37,167	34,476	4,163
Cash taxes paid	-	-	-	-	-	(801)	-	-
Cash interest paid	-	-	-	-	-	(989)	-	-
Lease liabilities	11,614	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	-	-	1	1	1	-	-	-
Accessible cash and liquid investments	(27,256)	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	49	(49)	(49)	(49)
Share-based compensation expense	-	-	26	-	-	-	-	-
Dividends from equity investments	-	-	327	-	-	-	-	-
Nonoperating income (expense)	-	-	-	568	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	(429)	-
Noncontrolling/ minority interest	-	1,041	-	-	-	-	-	-
Total adjustments	(15,642)	1,041	354	569	50	(1,839)	(478)	(49)
S&P Global Ratings adjusted	**Debt**	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Capital expenditure**
	-	65,032	37,167	31,196	816	35,328	33,998	4,114

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Maersk given that the global shipping industry faces a large regulatory workload. Shipping is exposed to a regulation mandating a sulfur cap of 0.5% in marine fuels and ballast water-treatment conventions. We also see tighter emission standards as a longer-term risk. Maersk explores decarbonization measures including using new technologies and carbon-neutral fuels (green ammonia and green methanol). This strategy differs from those of some peers that invest in less green liquefied natural gas technology, which Maersk views as a transitional solution.

Maersk has initiated a green fleet renewal program stipulating that all future owned newbuilds will be methanol enabled and dual-fuel capable. The first methanol-powered vessel was delivered in September 2023, with 24 more vessels on order through 2024 to 2027. The transition to zero emissions will increase ships' running costs and require large capital investments. Cumulative gross capex, which we estimate in line with the company's guidance at the lower end of the $8 billion-$9 billion range over 2023-2024, includes prepayments for methanol-powered vessels.

Governance factors are a moderately positive consideration. Maersk has an established track record of clear strategic positioning and industry-leading risk management, implemented by a highly experienced and broad management team. The company managed to limit losses from the 2017 cyber attack and has no history of significant environmental incidents (such as oil spills). It has experienced several fatal accidents in recent years, although these had no material influence on our credit rating analysis.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/--
Local currency issuer credit rating	BBB+/Stable/--
Business risk	Satisfactory
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	Minimal
Cash flow/leverage	Minimal
Anchor	a-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Exceptional (no impact)
Management and governance	Strong (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Container Shipping: Overcapacity Will Test Discipline In 2024, Dec. 8, 2023

Ratings Detail (as of December 27, 2023)*

A.P. Moller - Maersk A/S	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Issuer Credit Ratings History	
14-Sep-2021	BBB+/Stable/--
30-Oct-2020	BBB/Positive/--
27-Apr-2020	BBB/Negative/--
28-May-2019	BBB/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.