S&P Global Ratings

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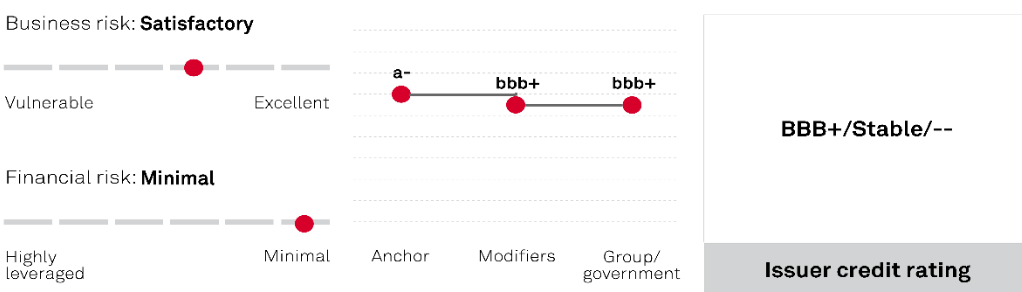
A.P. Moller - Maersk A/S

February 20, 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 corrected freight rates in late 2022 and limited short-term flexibility to adjust operating costs, which will weigh on this year's operating profits.
Presence in infrastructure-like terminal business and expansion into end-to-end and integrated logistics services add stability to earnings.	Pressure on global shipping volumes from macroeconomic headwinds and uncertainties stemming from increasingly stringent environmental regulation, geopolitical developments, and trade disputes.
A proven track record of profitable inorganic growth in the logistics segment.	Increasing capital expenditure (capex) requirements to comply with decarbonization targets.
Record-high liquid funds balance sufficient to absorb discretionary spending under the established financial policy and support the 'BBB+' rating in the declining earnings environment.	

The container shipping sector limped into 2023 weighed down by the sharp downturn in consumer demand over the second half of 2022. It took a dip in demand for consumer durables, the decongestion of maritime ports, and just a few weeks in September and October for container shipping rates to plunge after a year-and-a-half of unprecedented highs. The Shanghai Containerized Freight Index (SCFI) tumbled to 1,006 on Feb. 3, 2023, down about 70% from its average of 3,410 in 2022 and 3,750 in 2020, but still above its pre-pandemic average of 810 in 2019, according to Clarksons Research. The weekly weighted freight rate per 40-foot container plunged to $2,080, close to pre-pandemic levels, from a high of $10,400 in September 2021, according to the World Container Index (as assessed by Drewry Supply Chain Advisors). The falls have not been homogenous. Container prices tumbled on Asia-Europe and Transpacific main lanes, while Transatlantic and Europe-South America routes remained buoyant. We believe that Maersk's global presence should help to soften the slump in freight rates.

This year, we expect Maersk's S&P Global Ratings-adjusted EBITDA to drop to $8 billion-$11 billion from the record high of $37.2 billion in 2022. The correction, which is likely to occur faster than we previously expected, will be largely driven by sluggish trade volumes, reduced capacity utilization rates, and the resulting significantly lower freight rates. The upcoming container ship deliveries (with 29% of the total global fleet currently on order compared with the all-time low of 8% in October 2020, according to Clarkson Research) will put additional pressure on freight rates in the next few quarters. That said, our adjusted EBITDA forecast for 2023 significantly exceeds the pre-pandemic level of $6.0 billion. This is supported by the following factors:

- The high share of contracted volumes (about 70% of Maersk's total volumes are long-haul shipments, of which some are multiyear), limiting the pace in earnings decline in the container business.
- Our expectation of Maersk's continuous expansion into logistics services (under its container logistics integrator strategy; segment EBITDA of about $1.4 billion in 2022) supported by the full-year consolidation effect of the companies acquired in 2022, unfolding cross-selling synergies with the Ocean segment, and strengthened relationships with the current largest customers.
- Resilience of Maersk's infrastructure-like terminal business (segment EBITDA of about $1.5 billion in 2022) with an average EBITDA margin of 30%-35% in the last four years.

Our base case still assumes spot freight rates will normalize at levels (at least) covering the operating costs that have escalated since 2019. This is underpinned by our expectation that the container liner industry will remain disciplined in terms of deploying capacity, as demonstrated during the pandemic. Soon after the initial COVID-19 outbreak, there was a withdrawal of sailings from China, and container liner operators continued to adjust capacity to align with demand trends in a timely manner throughout 2020. These measures demonstrate industry players' reactive supply management, which we consider normal in a sector that has been through several rounds of consolidation in recent years. The five-largest container shipping companies now have a combined market share of about 65%, up from 30% about 15 years ago. Furthermore, we think the IMO 2023 regulation will likely encourage cargo ships to reduce their speed, tying up ship capacity and supporting freight rates. That said, our base-case forecast is subject to significant uncertainties--stemming from macroeconomic headwinds, geopolitical developments, and trade disputes--and is highly dependent on the industry making sufficient and timely capacity adjustments.

We expect Maersk's net cash position as of Dec. 31, 2022, to turn into adjusted debt in 2023, while headroom under the 'BBB+' rating remains ample. This is because its operating cash flow will normalize, and shareholder returns will remain high. We expect Maersk to continue rewarding its shareholders with record-high cash accumulated during the period of elevated freight rates, adhering to its regular dividend policy of a 30%-50% payout ratio target (dividend proposed for 2022 of DKK4,300 and equivalent to about $11 billion payment) and share buyback program, which has been upsized to a $3 billion annual cash outflow until 2025. As of Dec. 31, 2022, Maersk's accessible cash and liquid investments were $27.3 billion, compared to $15.5 billion as of Dec. 31, 2021, and just $3.9 billion at end-2019. We also expect that Maersk will continue with the environmental upgrade of its fleet (with 2023 capex of up to $6.0 billion after $4.2 billion in 2022) and the inorganic growth of its logistics segment. That said, we forecast Maersk's free operating cash flow to remain positive in 2023 (albeit declining significantly compared to 2022), limiting its leverage increase to below 0.5x as measured by S&P Global Ratings-adjusted debt to EBITDA, comfortably within the minimal financial risk profile category. Also, we believe Maersk would adjust its shareholder remuneration if a potential large cash- or debt-funded merger or acquisition were to jeopardize our 'BBB+' rating.

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 correction. We think this will be underpinned by sustained capacity-management discipline by industry players, allowing Maersk's S&P Global Ratings-adjusted EBITDA to ultimately stabilize at well above the 2019 pre-pandemic level, further supported by the earnings contribution from its logistics and terminals segments and the group's adherence to balanced 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 shift to aggressive capacity management, 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 in pre-pandemic 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 and was overtaken by MSC with 17.5% global market share of capacity versus Maersk's 16.1%. The company operates in over 130 countries and has a fleet of about 707 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), including supply chain management and intermodal/inland activities. After the 2020 acquisitions of warehousing and distribution companies Performance Team and KGH Customs Services, in 2021 the segment's offering was enhanced by two e-commerce logistics companies, Visible Supply Chain Management and B2C Europe. In 2022, Maersk pursued inorganic growth, acquiring a U.S.-based first-, middle-, and last-mile as well as border-crossing solutions provider Pilot Freight Services, a global air freight forwarding company Senator International, and an Asian-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), with gateway terminals, provides 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) including Svitzer towage services, Maersk Supply Service, 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.

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

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	4,029	63,991	81,529	36,813	30,627	766	37,167	34,476	6,925	4,163
Cash taxes paid	-	-	-	-	-	-	(801)	-	-	-
Cash interest paid	-	-	-	-	-	-	(989)	-	-	-
Lease liabilities	11,614	-	-	-	-	-	-	-	-	-

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
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	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	-	65,032	81,529	37,167	31,196	816	35,328	33,998	6,925	4,114

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	**G-1**	G-2	G-3	G-4	G-5

- Climate transition risks

- N/A

- Risk management, culture, and oversight

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

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 emissions 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 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 will be delivered in 2023, with 18 more vessels on order through 2024 to 2025. The transition to zero emissions will increase ships' running costs and require large capital investments. The cumulative gross capex of $10 billion-$11 billion over 2023-2024, which we estimate is in line with Maersk's guidance, 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). However, it has experienced several fatal accidents in recent years, although these had no material influence on our credit rating analysis (see "ESG Credit Indicator Report Card: Shipping, Road, And Rail," published Dec. 10, 2021).

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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

Related Research

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Ratings Detail (as of February 20, 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.