MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on Maersk's rating to positive from stable; Baa2 rating affirmed

26 Aug 2022

Stockholm, August 26, 2022 -- Moody's Investors Service ("Moody's") has today affirmed the Baa2 long-term issuer rating of A.P. Moller-Maersk A/S (Maersk or the company). Concurrently, Moody's has also affirmed the Baa2 senior unsecured instrument rating of the existing notes and the (P)Baa2 rating of the senior unsecured euro medium term notes (EMTN) programme both issued by the company. The outlook on all ratings has been changed to positive from stable.

"Maersk has continued to strengthen its operating performance over the previous quarters amid the favorable market environment for container shipping, efficiency improvements and a further vertical integration into logistic assets", says Daniel Harlid, lead analyst for Maersk. "Positive cash flow generation in conjunction with conservative shareholder remuneration has also enabled the company to significantly deleverage to a negative net debt position of $3.4 billion as of June 2022", Mr. Harlid continues. "While we expect the market conditions for container shipping to become more challenging going forward, a continued robust operating performance of Maersk combined with a balanced financial policy could support further positive rating pressure over the next quarters", says Mr. Harlid.

A full list of affected ratings can be found in the end of the press release.

RATINGS RATIONALE

The change in outlook reflects Maersk's strengthened financial flexibility and credit metrics, driven by a strong market environment for container shipping and a continuous focus on increasing the share of ocean customers on long term as well as multiyear contracts over the last two years. In addition, the rising share of the terminals business and the increased scale and growing profitability of its logistics division is providing a higher degree of vertical integration and should improve the performance stability going forward. The logistics business has doubled in size to $12 billion compared to $6.9 billion in 2020 and remains profitable with an EBITA margin of around 7% LTM in June. Additional investments in the terminal and logistics business have been funded with record free cash flow generation of Maersk, driven by an extraordinary market environment for container shipping.

Maersk has improved its credit metrics, resulting in a Moody's-adjusted debt/EBITDA ratio of 0.5x as of June 2022 which is the lowest leverage ratio since the company decided to transform itself to an integrated shipping and logistics company in 2016, driven by EBITDA improvements and further debt reductions of around $647 million during the first half of 2022. Moody's anticipates that the environment for container shipping normalises going forward, reflected in lower freight rates and transportation volumes. The Baa2 rating balances the company's improved credit metric with downside risks, such as the potentially challenging next two years for the industry when the global fleet is poised to grow by around 8% annually (before scrapping/postponed deliveries). Given that the macroeconomic environment has gradually weakened and is most likely to continue doing so in 2023, the capacity growth is considerably higher than market projections for demand growth of around 2% - 3% next year. Such a demand supply / gap has historically put negative pressure on freight rates and carrier profitability. Despite the expected softening of operating performance and modest weakening of credit metrics, the positive outlook reflects the likelihood that the company's debt / EBITDA stays comfortably below 2.0x over the cycle, driven by capacity discipline, the more diversified business mix and the company's disciplined financial policy.

Considering Moody's expectation of continued strong operating cash flow generation over the next two to three years and disciplined capex, the company has financial flexibility to both engage in moderate M&A activity as well as following its financial policy to pay out 30-50% of the underlying net result to shareholders in dividend. Consequently, Moody's expects that free cash flow, although likely negative in 2023 reflecting larger than usual dividend payments, continues to be positive after potential share buybacks through the cycle.

CHANGE OF RATING OUTLOOK

The positive rating outlook balances Maersk's materially improved financial flexibility and credit metrics with the risk of a weakening container shipping market next year. Positive rating pressure could build up over the next quarters, should Maersk's operating performance and credit metrics remain relatively robust, despite a weakened container market caused by a rapidly deteriorating macroeconomic environment. The positive outlook also rests on Moody's assumption that the company continues to show a balanced financial policy.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Further positive ratings pressure would require the company to sustain a debt / EBITDA ratio below 2.0x while maintaining its very strong liquidity profile. This also includes generating positive free cash flow after shareholder remuneration over the cycle, as well as maintaining an RCF / net debt ratio at least in the high thirties in percentage terms. Furthermore, a higher rating would require the company to generate a high single digit EBIT-margin over the cycle.

Negative ratings pressure could arise if the company's debt/EBITDA ratio increased above 3.0x. Additionally, RCF/ net debt falling below 20%, negative free cash flow after shareholder remuneration or a weakened liquidity profile would cause negative pressure on ratings, as well as the company's EBIT-margin deteriorating to below 5%.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: A.P. Moller-Maersk A/S

....LT Issuer Rating, Affirmed Baa2

....Senior Unsecured Medium-Term Notes Program, Affirmed (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

Outlook Actions:

..Issuer: A.P. Moller-Maersk A/S

....Outlook, Changed To Positive From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Shipping published in June 2021 and available at https://ratings.moodys.com/api/rmc-documents/72792 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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