

Rating Action: Moody's upgrades Hapag-Lloyd AG's rating to Ba2; outlook stable

23 Mar 2021

Stockholm, March 23, 2021 -- Moody's Investors Service (Moody's) has today upgraded the corporate family rating (CFR) of Hapag-Lloyd AG ("Hapag-Lloyd") to Ba2 from Ba3, its probability of default rating (PDR) to Ba2-PD from Ba3-PD as well as the senior unsecured rating to B1 from B2. Concurrently, Moody's has assigned a B1 rating to the company's proposed €300 million senior unsecured bond. The outlook on all ratings are stable.

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

"The upgrade to Ba2 was prompted by continued profitability improvements and a reduction in financial leverage, supported by more favorable industry conditions as well as management's performance improvement measures and more prudent financial policy" says Daniel Harlid, the lead Analyst for Hapag-Lloyd. "While we expect freight rates to moderate over the next quarters, we expect that Hapag-Lloyd's improved operating performance and leverage metrics will be sustained", Mr. Harlid continues.

RATINGS RATIONALE

The upgrade to Ba2 with a stable outlook reflects Hapag-Lloyd's debt prepayments of \$2.0 billion during the second half of 2020 which was substantially larger than expected by Moody's, also resulting in a material increase of the company's unencumbered asset base, increasing it to 29% as of February 2021 from 9% in December 2019. While some of the prepayments have been a result of a very strong market environment, the rating action also incorporates Hapag-Lloyd's commitment to maintain a more conservative financial policy than in the past, not at least evidenced by the introduction of a net debt / EBITDA target of below 3.0x. As a reference, the Moody's-adjusted gross and net debt / EBITDA stood at 2.1x and 1.8x respectively as of 31 December 2020.

The container shipping market has performed very strongly amidst the pandemic, supported by carriers meeting demand contraction during the first half of 2020 by adjusting capacity in a disciplined manner. Demand has since recovered, with volumes on key trade lanes growing double digit, pushing freight rates to unprecedented levels. While Moody's expects that currently elevated freight rates will soften over the next quarters, Hapag-Lloyd's decreased debt levels following the UASC merger in 2017 and its increased unencumbered asset base has resulted in a balance sheet, which is better positioned to meet potential adverse market conditions.

Today's rating action balances the positives with still present downside risks, such as the looming threat of additional lockdowns, a deterioration in capacity discipline by carriers or rising bunker rates. In addition, there has not been a long track record of the recently improved performance in the container shipping industry, which still needs to prove to be sustainable for the longer term. Moody's also highlights risks attached to coming environmental regulations over the medium term, which most likely will drive capex levels for the industry higher as carriers adjust its fleet toward being carbon neutral.

RATIONALE FOR STABLE OUTLOOK

The stable outlook assumes that recent performance improvements in the industry and Hapag-Lloyd's disciplined actions to improve its capital structure will be sustained, leading to a Moody's-adjusted debt / EBITDA of 1.6x - 2.5x and an EBIT margin of 6-11% for the next 12-18 months.

LIQUIDITY PROFILE

We view Hapag-Lloyd's liquidity as good. The company had \$681 million of cash and access to \$585 million in revolving credit facilities, all undrawn as of 31 December 2020. Given the high volatility typical for container shipping, the company's covenants include minimum equity and minimum liquidity, but no leverage or coverage ratios. Hapag-Lloyd has a number of unencumbered vessels and containers that could be pledged to raise additional liquidity. Although maintenance capex needs are limited, the company has recently ordered

six new ultra large container vessels, which will be financed with a combination of cash and debt. For the next 12 months, the company has around \$625 million in debt coming due, which in Moody's base case could be retired altogether given expectations of strong free cash flow.

ESG CONSIDERATIONS

Moody's understands that Hapag-Lloyd's efforts to deleverage the capital structure following the merger with UASC in 2017 and the continued efforts to do so further, is the result of a strategic decision fully backed by the company's owners. Moody's views this as clearly positive under its corporate governance framework.

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

An upgrade requires sustained leverage and profitability improvements, reflected in (1) debt / EBITDA remaining below 2.0x, (2) sustained EBIT-Margin in the high single digit in percentage terms and (3) sustaining RCF / net debt at least in the high twenties in percentage terms. In addition, a prerequisite for positive ratings pressure is that the company maintains the good liquidity profile at all times.

Negative ratings pressure could arise (1) if the company's debt/EBITDA exceeds 3.0x, (2) FFO interest coverage decreases below 4.5x or (3) EBIT-margin falls below 5% over the cycle. Additionally, negative free cash flow and a weakened liquidity profile would cause negative pressure on ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Shipping Methodology published in December 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243200. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

LIST OF AFFECTED RATINGS:

Upgrades:

..Issuer: Hapag-Lloyd AG

.... Probability of Default Rating, Upgraded to Ba2-PD from Ba3-PD

.... LT Corporate Family Rating, Upgraded to Ba2 from Ba3

.... Senior Unsecured Regular Bond/Debenture, Upgraded to B1 from B2

Assignments:

..Issuer: Hapag-Lloyd AG

....Senior Unsecured Regular Bond/Debenture, Assigned B1

Outlook Actions:

..Issuer: Hapag-Lloyd AG

....Outlook, Remains Stable

COMPANY PROFILE

Hapag-Lloyd AG, headquartered in Hamburg, Germany, is the fifth-largest container liner globally based on market share by volume. As of December 31, 2020, it operated a fleet comprising 237 ships, including 112 owned and 125 chartered-in vessels. In 2020, the company reported revenue of \$14.6 billion and EBIT of \$1.5 billion. Hapag-Lloyd was established in 1970 as a result of the merger of Hapag (1847) and North German Lloyd (1857).

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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