Hapag-Lloyd AG

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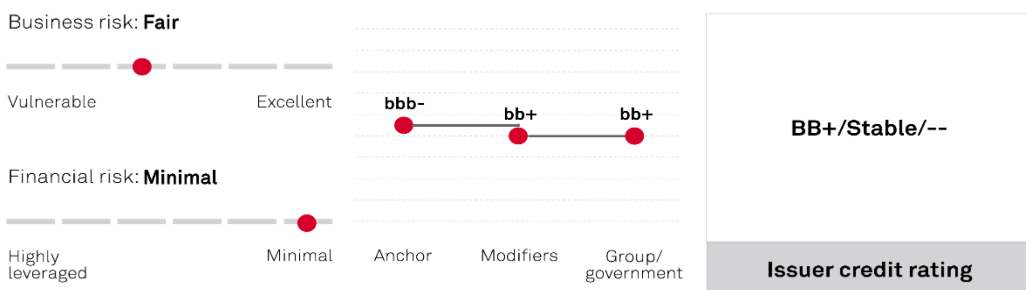
Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
Leading market positions, broad coverage through a far-reaching and strategically located route network, and a large customer base.	Profitability and cash flow are susceptible to chronic demand-and-supply imbalances and fierce competition.
Established track record of achieving significant cost savings and industry-leading profitability.	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 when the Red Sea disruptions and port congestions ease.
Net cash position and ample financial leeway under the rating for a normalization of freight rates, increasing investment to strengthen fleet efficiency, and other discretionary spending, for example, for expansion into terminals.	Diminishing financial leeway (accumulated over 2021-2022) under the rating for potential operational setbacks or external growth.

Hapag-Lloyd's satisfactory first-quarter 2024 results benefitted from ongoing Red Sea disruptions absorbing capacity, as well as an upturn in demand. Despite the significant year-on-year revenue and EBITDA drop it reported for the quarter (24% and 61%, respectively) the company's overall results were somewhat better than we had expected. Its first-quarter 2024 average freight rates fell 32%, compared to first-quarter 2023, but we expect this gap to narrow for full year. This is because the current capacity absorption amid Red Sea rerouting and the recent rise in global trade volumes are cushioning the effects of new tonnage deliveries and are underpinning freight rates. For example, on July 5, 2024, the Shanghai Containerized Freight Index (SCFI) hit a year high of 3,733 points (and indicated a year-to-date average of 2,376 points), which is above the 2020 average of 1,006 points and the pre-pandemic 2019 average of 810 points (all data Clarkson Research). Furthermore, Hapag-Lloyd saw a close to 7% uptick in shipping volumes in the first quarter (a trend continuing into the second quarter). This could partly reflect a pull forward of orders because of the uncertain geopolitical outlook and an expectation that capacity disruptions will persist in the third quarter of 2024 (peak season), as well as improving consumer demand for goods as inflation eases, and amid restocking.

Hapag-Lloyd is on track to meet its increased EBITDA guidance. On July 9, it lifted (again) its 2024 financial guidance such that it now expects to deliver EBITDA of €3.2 billion-€4.2 billion. It previously guided €2.0 billion-€3.0 billion in mid-May and €1.0 billion-€3.0 billion in mid-March. Our base case points to 2024 S&P Global Ratings-adjusted-EBITDA reaching the higher end of the company's revised guidance range. Our base case incorporates global container volume growth of 3.5%-4.5%, reflecting the end of de-stocking, a normalization of consumption patterns, and easing inflationary pressures on demand. Full-year 2024 average freight rates will be slightly lower than in 2023 but they will stay well above their historical pre-pandemic averages. We anticipate that the Red Sea disruption will continue into the fourth quarter of 2024. Port congestion (notably in Asia and the Middle East) is surging--caused by elevated trade volumes, shortages of container boxes, and container liners' ongoing active network realignments--and tying up capacity. We also expect Hapag-Lloyd's EBITDA will be supported by a moderate €100 million-€150 million contribution from the recently expanded and typically more resilient infrastructure-like terminals segment.

Hapag-Lloyd's ability to retain headroom under the 'BB+' rating ahead of a difficult 2025 hinges on its discretionary spending and industry players' stringent management of excess supply when the Red Sea disruptions and port congestions ease. The company preserved its net cash position as of end-2023 despite incurring regular capital expenditure (capex) of €1.7 billion, distributing extraordinarily large dividends of €11 billion, and executing acquisitions of close to €1.7 billion. Our base case is that Hapag-Lloyd will retain its net cash position at end-2024. That said, the company's financial leeway (accumulated over 2021-2022) for potential operational setbacks or external growth amid uncertain industry conditions--given the looming capacity oversupply that has been delayed rather than solved-- will clearly diminish. We forecast that Hapag-Lloyd's EBITDA will ultimately stabilize at above pre-pandemic levels. Nevertheless, our base case is subject to downside risks. These reflect global trade's susceptibility to lingering macroeconomic and geopolitical uncertainties and uncertainties about the interplay between the resilience of profitable freight rates and industry players' capacity-management discipline, most importantly when Red Sea disruptions and port congestions ease (releasing capacity into the network), which we anticipate from 2025. These risks are only partly captured in our forecasts and may exert additional pressure on Hapag-Lloyd's EBITDA. We continue to apply a negative financial policy adjustment, lowering our rating by one notch to 'BB+'. This captures Hapag-Lloyd's capital allocation policy comprising potential cash- or debt-funded acquisitions, which we assume will be carried out within Hapag-Lloyd's debt-to-EBITDA guidance of less than 3.0x.

Outlook

The stable outlook reflects our expectation that Hapag-Lloyd will maintain adjusted FFO to debt above 35%, our threshold for a 'BB+' rating, in the context of uncertain and volatile industry conditions. We think this will be underpinned by the company's adjusted EBITDA ultimately stabilizing at above the 2019 pre-pandemic level, and its adherence to a balanced financial policy.

Downside scenario

We could lower the rating if we expect adjusted FFO to debt to fall sustainably below 35%, 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, might also lead to a downgrade.

Upside scenario

We could raise the rating if adjusted FFO to debt remained above 50% once freight rates normalized, and the company commits to a financial policy to ensure this ratio is sustainable.

Our Base-Case Scenario

Assumptions

- Global trade to remain strongly correlated with economic growth, particularly that of major contributors to trade volumes, such as China. We forecast Chinese GDP to grow 4.6% in 2024 and by a further 4.8% in 2025; this is below the pre-pandemic 6.0%, and also lower than the previous year's 5.2%. Global GDP growth will be stable at 3.2% in 2024 and 3.4% in 2025, on par with the 3.2% in 2023 but lower than 2022's 3.6%, although still somewhat above 3.1% in 2019. Eurozone GDP growth will be stable at 0.7% in 2024 and 1.3% in 2025, lower than the pre-pandemic 1.6%. Asia-Pacific GDP will grow by 4.5% in 2024 and 4.7% in 2025, lower than the 4.8% in 2023, but still on par with 4.5% in 2019. North American GDP growth will be stable at 2.4% in 2024, before moderating to 1.5% in 2025, compared with 2.3% before the pandemic.
- Annual growth of transported volumes of 3.5%-4.5% in 2024-2025, largely mirroring the global GDP growth trend.
- The current capacity absorptions persist as the Red Sea disruption continues into the fourth quarter of 2024, alleviating oversupply pressure on freight rates for most of this year (at least). A tighter-than-expected demand-and-supply balance will translate into 2024 average freight rates being only slightly lower than in 2023. Average freight rates will decline further in 2025, but we expect they will remain well above pre-pandemic levels.
- Future bunker cost increases or decreases (typically closely linked to crude oil price movements) are either passed through or returned to customers via higher or lower freight rates with a time lag of a few months.
- Operating costs (including vessel leasing-in, port charges, stevedoring, transshipment, and terminal fees, but excluding bunker fuel) per TEU in 2024 staying largely flat at 2023 levels, with cost efficiency improvements absorbed by inflation including higher charter and equipment costs due to rerouting around the Cape of Good Hope.
- 2024 adjusted EBITDA of close to €4.0 billion, decreasing to €2.0 billion-€3.0 billion in 2025 mainly owning to lower container shipping rates.
- Our forecast of average annual capex in 2024-2025 of up to €1.5 billion.
- A dividend distribution in line with the stated dividend policy of at least 30% payout ratio. We understand that Hapag-Lloyd aims to adjust its shareholder remuneration depending on the cash flow performance.

- No acquisitions because the timing of these is uncertain and their magnitude is difficult to quantify. That said, we understand that acquisitions, notably to expand the terminal portfolio, will remain part of Hapag-Lloyd's growth strategy.

Company Description

Hapag-Lloyd is a leading global container liner, with 280 modern ships, 11.9 million twenty-foot equivalent units (TEUs) of cargo transported per year, and about 16,600 employees in more than 400 offices spanning 140 countries. The company has a fleet with a total capacity of approximately 2.1 million TEUs, as well as container stock of approximately 3.1 million TEUs, including one of the world's largest and most modern refrigerated container fleets. Its global network provides connections between more than 600 ports on every continent. In addition, Hapag-Lloyd has equity stakes in 20 terminals in Europe, Latin America, the United States, India, and North Africa.

Hapag-Lloyd is owned by CSAV (30.0%), Klaus Michael Kühne (incl. Kühne Holding AG and Kühne Maritime GmbH (30.0%), HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (13.9%), Qatar Investment Authority (12.3%), the Public Investment Fund on behalf of the Kingdom of Saudi Arabia (10.2%), plus a free float of 3.6%.

Peer Comparison

Hapag-Lloyd AG--Peer Comparisons

	Hapag-Lloyd AG	A.P. Moller - Maersk A/S	Wan Hai Lines Ltd.
Foreign currency issuer credit rating	BB+/Stable/--	BBB+/Stable/--	BB+/Stable/--
Local currency issuer credit rating	BB+/Stable/--	BBB+/Stable/--	BB+/Stable/--
Period	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR
Revenue	17,930	46,198	2,959
EBITDA	4,458	8,978	309
Funds from operations (FFO)	4,050	7,522	(124)
Interest	272	818	55
Cash interest paid	269	840	53
Operating cash flow (OCF)	5,341	9,142	(117)
Capital expenditure	1,667	3,178	1,298
Free operating cash flow (FOCF)	3,675	5,964	(1,415)
Discretionary cash flow (DCF)	(7,414)	(6,782)	(1,829)
Cash and short-term investments	7,559	5,136	3,743
Gross available cash	7,559	16,619	3,743
Debt	0	0	0

Hapag-Lloyd AG--Peer Comparisons

Equity	18,767	49,840	6,094
EBITDA margin (%)	24.9	19.4	10.5
Return on capital (%)	12.5	7.7	(0.3)
EBITDA interest coverage (x)	16.4	11.0	5.6
FFO cash interest coverage (x)	16.0	9.9	(1.3)
Debt/EBITDA (x)	0.0	0.0	0.0
FFO/debt (%)	NM	NM	NM
OCF/debt (%)	NM	NM	NM
FOCF/debt (%)	NM	NM	NM
DCF/debt (%)	NM	NM	NM

Financial Risk

Hapag-Lloyd AG--Financial Summary

Period ending	**Dec-31-2018**	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	11,515	12,608	12,772	22,274	34,543	17,930
EBITDA	1,537	1,960	2,694	10,840	19,310	4,458
Funds from operations (FFO)	1,134	1,533	2,356	10,589	19,022	4,050
Interest expense	429	429	344	243	245	272
Cash interest paid	374	397	316	225	228	269
Operating cash flow (OCF)	1,159	1,661	2,618	10,211	19,506	5,341
Capital expenditure	329	426	534	1,253	1,422	1,667
Free operating cash flow (FOCF)	830	1,235	2,084	8,958	18,083	3,675
Discretionary cash flow (DCF)	713	1,195	1,881	8,325	11,918	(7,414)
Cash and short-term investments	642	499	668	7,701	17,959	7,559
Gross available cash	642	499	668	7,701	17,959	7,559
Debt	7,203	6,733	4,848	0	0	0
Common equity	6,259	6,621	6,723	16,162	27,911	18,767
Adjusted ratios						
EBITDA margin (%)	13.3	15.5	21.1	48.7	55.9	24.9
Return on capital (%)	3.6	5.9	11.4	67.8	80.1	12.5
EBITDA interest coverage (x)	3.6	4.6	7.8	44.6	78.8	16.4
FFO cash interest coverage (x)	4.0	4.9	8.5	48.1	84.6	16.0
Debt/EBITDA (x)	4.7	3.4	1.8	0.0	0.0	0.0
FFO/debt (%)	15.7	22.8	48.6	NM	NM	NM
OCF/debt (%)	16.1	24.7	54.0	NM	NM	NM
FOCF/debt (%)	11.5	18.3	43.0	NM	NM	NM

Hapag-Lloyd AG--Financial Summary

DCF/debt (%)	9.9	17.8	38.8	NM	NM	NM

Reconciliation Of Hapag-Lloyd AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	2,770	18,691	17,930	4,445	2,516	226	4,458	4,966	11,088	1,705
Cash taxes paid	-	-	-	-	-	-	(139)	-	-	-
Cash interest paid	-	-	-	-	-	-	(232)	-	-	-
Lease liabilities	2,261	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	248	-	-	0	0	8	-	-	-	-
Accessible cash and liquid investments	(7,559)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	38	(38)	(38)	-	(38)
Dividends from equity investments	-	-	-	58	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	446	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	413	-	-
Noncontrolling/ minority interest	-	76	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(45)	(45)	-	-	-	-	-
Total adjustments	(5,050)	76	-	13	402	46	(408)	375	-	(38)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	-	18,767	17,930	4,458	2,917	272	4,050	5,341	11,088	1,667

Liquidity

We assess Hapag-Lloyd's liquidity as adequate, with sources exceeding uses by more than 2.0x in the 12 months started March 31, 2024, and more than 1.5x in the following 24 months. Our assessment is underpinned by available cash and short-term financial assets of about €7.7

billion at the end of March 31, 2024, which significantly exceeds Hapag-Lloyd's $1.1 billion minimum liquidity reserve target.

Principal liquidity sources

We estimate Hapag-Lloyd's principal liquidity sources during the 12 months from March 31, 2024, are:

- Cash and short-term financial assets of about €7.4 billion, after deducting $350 million of minimum cash requirements under a bank covenant.
- Availability of about €671 million under undrawn credit lines maturing beyond 12 months.
- Operating cash flows (after interest paid and lease amortization) of €2.7 billion-€2.8 billion, as in our base-case forecast.

Principal liquidity uses

We estimate that Hapag-Lloyd's principal liquidity uses during the same period are:

- Short-term maturities and scheduled amortizations of about €532 billion.
- Our cash-funded capex forecast of up to €1.5 billion.
- Dividend distribution of about €1.6 billion as announced and approved for 2023.

Covenant Analysis

Requirements

Hapag-Lloyd has passed its financial covenant tests as of March 31, 2024, with ample headroom. Maintenance financial covenants on bank debt stipulate limits such as a minimum ratio of fair-market vessel or container value to debt, and the higher value of 30% of total assets and equity of €2.75 billion. The company had about €19.5 billion in equity as of the latest reporting date, March 31, 2024. Other covenants stipulate minimum liquid funds of $350 million. We expect the company will pass the next covenant test in 2024. There are no leverage-ratio and interest-coverage covenants.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Hapag-Lloyd, as the global shipping industry faces a large regulatory workload. This is reflected in increasingly stringent emissions targets, demanding lumpy capital investments, for example in new vessels powered by alternative fuels, and more expensive emissions-compliant bunkers. Hapag-Lloyd is proactively investing in dual-fuel gas vessels operated with liquefied natural gas (LNG), a transitional fuel that, in addition to reducing air pollution, produces up to 20% fewer carbon dioxide emissions than traditional fuels. These vessels also have the technical capability to use carbon-neutral synthetic natural gas in the future instead of LNG. Hapag-Lloyd currently has six ultra-large dual-fuel-engine vessels (23,500+ TEU) on order with deliveries in 2024 and 2025. This is equivalent to about 10% of its current fleet size of 2.1 million TEUs. In 2020, Hapag Lloyd was the first shipping company to retrofit a conventional vessel to become LNG-powered.

Rating Component Scores	
Foreign currency issuer credit rating	**BB+/Stable/--**
Local currency issuer credit rating	**BB+/Stable/--**
Business risk	**Fair**
Country risk	Intermediate
Industry risk	High
Competitive position	Satisfactory
Financial risk	**Minimal**
Cash flow/leverage	Minimal
Anchor	**bbb-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb+**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- 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, Jan. 7, 2024
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook Update Europe: Transportation, July 18, 2024

Ratings Detail (as of July 25, 2024)*	
Hapag-Lloyd AG	
Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+
Issuer Credit Ratings History	
04-Feb-2022	BB+/Stable/--
23-Mar-2021	BB/Stable/--
05-Oct-2020	BB-/Positive/--
27-Apr-2020	B+/Stable/--
29-Nov-2019	B+/Positive/--

*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.