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CREDIT OPINION
12 December 2023

Update

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RATINGS

Hapag-Lloyd AG

Domicile	Hamburg, Germany
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Hapag-Lloyd AG

Update to credit analysis

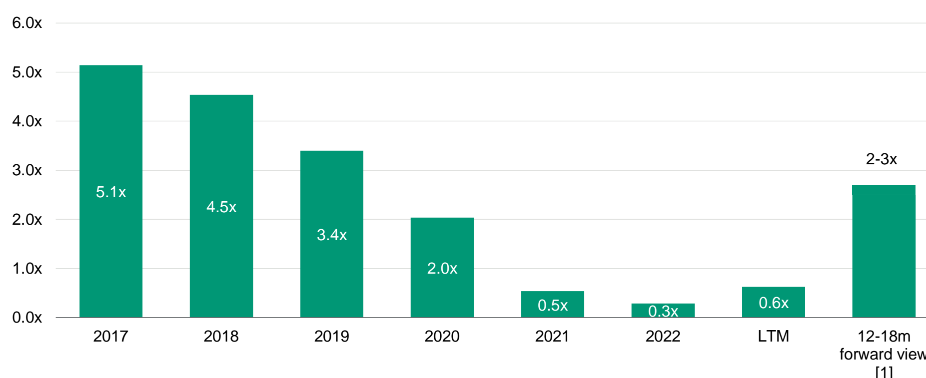
Summary

Hapag-Lloyd AG's (Hapag-Lloyd) Ba2 corporate family rating is supported by (1) the company's number five market position in the global container shipping industry; (2) A diversified geographical exposure with strong presence on the Atlantic and in Latin America; (3) its industry-leading EBIT margin that was achieved before the pandemic and (4) prudent balance sheet management.

The rating is however constrained by; (1) the container liner industry's historically highly competitive and volatile environment; (2) revenue concentration to container shipping as it lacks material exposure to other businesses such as terminal operations (3) a dividend policy that rendered considerably higher payouts than peers over the last two years and (4) growing investment needs to meet internal as well as external environmental goals.

Exhibit 1

Leverage is likely to normalise over the next 12-18 months
Moody's-adjusted debt/EBITDA



[1] This represents Moody's forward view and not the view of the issuer.
Source: Moody's Financial Metrics™

Credit strengths

» Fifth-largest company in the global container shipping industry

» Commitment of sustained deleveraging of its balance sheet

» Strong group of committed shareholders with a solid track record of support

Credit challenges

» History of volatile operating environment for the container shipping industry

» High dividend payout ratio

» Absence of revenue streams not related to shipping

» Increasing investment need as tougher environmental regulations come into force

Rating outlook

Despite a deteriorating market environment, the positive outlook reflects Moody's current expectations of a trough in financial performance during 2024 with a gradual improvement from 2025 onward. Over the next 12-18 months, Moody's expects EBIT will fall to negative territory causing retained cash flow to turn negative and debt / EBITDA to increase above 3.0x. Moody's stresses that the deterioration in credit metrics is deemed to be temporary and that a gradual recovery in industry conditions during the latter part of 2024 could potentially restore key credit metrics back to levels commensurate with a Ba1 rating potentially paving the way for a rating upgrade.

Factors that could lead to an upgrade

An upgrade requires sustained leverage and profitability improvements, reflected in (1) Moody's-adjusted debt/EBITDA remaining comfortably below 3.0x, (2) sustained EBITMargin 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.

Factors that could lead to a downgrade

Negative ratings pressure could arise if credit metrics weaken on a sustained basis: (1) if the company's debt/EBITDA exceeds 3.0x for a prolonged period, (2) EBIT-margin falls below 5% over the cycle and (3) retained cash flow (RCF)/net debt falling toward 15%. Additionally, negative free cash flow and a weakened liquidity profile would cause negative pressure on ratings.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2
Hapag-Lloyd AG

	2018	2019	2020	2021	2022	Q3 23 (L)	Forward view 12-18m
Revenue ($ billion)	13.7	14.1	14.6	26.4	36.4	23.4	16.0 - 17.0
Size of fleet (number of ships)	227	239	237	253	251	264	264
EBIT Margin %	5.1%	6.4%	11.2%	42.2%	51.5%	32.5%	-2% - 2%
Debt / EBITDA	4.5x	3.4x	2.0x	0.5x	0.3x	0.6x	2x - 3x
RCF / Net Debt	15.3%	24.4%	45.3%	-534.8%	-139.6%	105.2%	-26% - 78%
(FFO + Interest Expense) / Interest Expense	3.3x	4.8x	7.8x	43.0x	75.9x	33.1x	5x - 7x

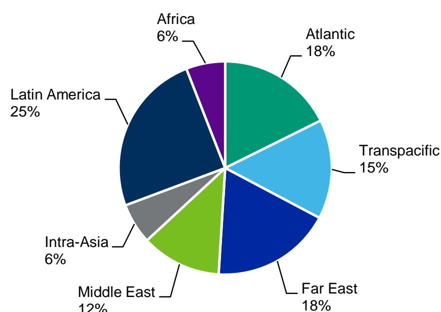
All figures and ratios are calculated using Moody's estimates and standard adjustments.
Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™

Profile

Hapag-Lloyd AG, headquartered in Hamburg, Germany, is the fifth-largest container liner globally based on operated capacity. As of Sept. 30, 2023, it operated a fleet comprising 264 ships, including 124 owned and 140 chartered vessels. For the twelve months ending in September 2023, the company reported revenue of $23.4 billion and EBIT of $6.3 billion. Hapag-Lloyd was established in 1970 as a result of the merger of Hapag (1847) and North German Lloyd (1857).

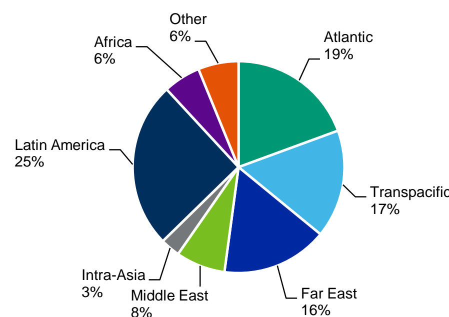
The company's stock has been listed on the Frankfurt Stock Exchange since year-end 2015 and is currently held by Klaus Michael Kühne (30%, including Kühne Holding AG and Kühne Maritime GmbH), CSAV Germany Container Holding GmbH (CSAV, 30%), HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (13.9%), Qatar Investment Authority (12.3%) and the Public Investment Fund on behalf of the Kingdom of Saudi Arabia (PIF, 10.2%). The company's market capitalization amounted to €21 billion as of Nov. 28, 2023.

Exhibit 3
Volume per trade lane
Data for Q3 2023 (LTM)



Source: Company interim reports

Exhibit 4
Revenue per trade lane
Data for Q3 2023 (LTM)



Source: Company interim reports

Detailed credit considerations

Strong liquidity and low debt to cushion adverse market

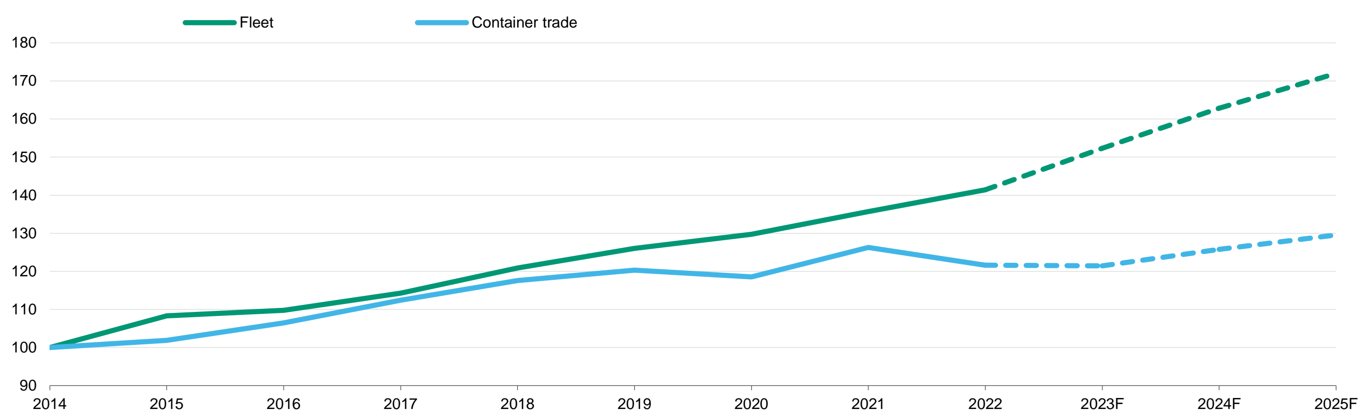
Following an unprecedented profitability streak during the last three years with extreme freight rates and EBIT margins north of 50%, the second half of 2023 has brought a complete reversion of financial performance. Some carriers have already reported negative operating profits and we expect business conditions will worsen further in 2024 because of a surge of new vessels creating substantial overcapacity. Furthermore, the container shipping industry and Hapag-Lloyd is facing an unprecedented investment need ahead of tougher environmental rules both globally and regionally.

Given an expected demand that will not match the substantial inflow of new container ships over the next two years, coupled with increasing signs of a return to historical pricing behaviour, we do not see strong arguments for a more stable industry than what has been the case historically. During the next two years (2024 - 2025), the current orderbook's delivery schedule shows a nominal fleet growth of 18%. Our projections, including delays in deliveries and increased recycling of older vessels, point to fleet growth of around 13% (Exhibit 5)

Exhibit 5

The next two years will create a significant overcapacity in the container shipping industry

Supply and demand growth, indexed to 2014



For forecasts we use an average of projections from Drewry, Clarksons and Moody's Investors Service. Our projections on fleet growth are net of delays in deliveries and recycling of older ships.

Source: Drewry, Clarksons and Moody's Investors Service

We continue to view Hapag-Lloyd's Ba2 rating well positioned to defend the aforementioned downside risks as the current capital structure provides cushion for a very weak market environment. Moreover, the currently very high cash balance of around $8.7 billion (as of Sept. 30, 2023) gives the company high financial flexibility to manage its balance sheet regarding the level of debt on new vessel deliveries.

Record high dividend payments increase ratings sensitivity to market development

Over the last two and a half years, Hapag-Lloyd paid out a significantly higher proportion of its cash flow generation in dividends than peers such as A.P.-Moller Maersk A/S (Baa2 Positive) and CMA CGM S.A. (Ba1 Stable). In 2022 Hapag-Lloyd paid out €6.2 billion in dividends which was followed by another €11.1 billion payment in May 2023. This means that a potential ratings upgrade hinges more on the market conditions of the container shipping industry going forward than what would have been the case if the company had been more conservative regarding shareholder remuneration. Given an expected demand that will not match the substantial inflow of new container ships over the next two years, the likelihood of a ratings upgrade for Hapag over the next 12-18 months has reduced versus a few months ago. Industry conditions could however stabilise toward the end of 2024 if carriers start to scrap older vessels and additionally continue to slow down vessels speeds, thereby reducing available shipping capacity.

Constrained business profile because of limited non-shipping related revenue streams

Hapag-Lloyd is today more or less a pure container shipping company and has refrained from expanding its business into the 3PL industry. Instead, the company has made smaller acquisitions of port terminals with connecting hinterland capabilities such as (i) a 49% stake in Italian Spinelli Group which operates the container shipping terminal in Genoa; (ii) the $1.0 billion acquisition of Chile based company SAAM Ports & Logistics with container and dry bulk port terminals situated in Latin America (iii) taking a minority stake in J M Baxi Ports & Logistics Limited (JMBPL) which operates various container ports around India.

Expanding into container terminal operations is credit positive as it typically gives access to important port terminals and at the same time reduces port costs and boosts profitability. Furthermore, the terminal business is typically more stable than container shipping itself. Having said that, the container terminal industry is relatively consolidated with key ports already being controlled by companies like PSA International Pte. Ltd. (Aa1 Stable), COSCO SHIPPING, A.P. Moller-Maersk A/S (Baa2 Positive) and DP World Limited (Baa2

Stable). Furthermore, CMA CGM S.A. (Ba1 Stable) has already used some of its free cash flow to acquire marquee terminals in the port of Los Angeles and ports of New York/New Jersey.

Although we have argued that the potential synergies between container shipping and 3PL are highly dependent on how efficiently carriers can integrate newly acquired businesses, having a high degree of revenue streams from non-shipping related industries will still make carriers less sensitive to the highly cyclical container shipping industry and thus at least benefit its business profiles. With Hapag-Lloyd clearly staying away from the 3PL industry, we argue its business profile will be less diversified than some of its peers.

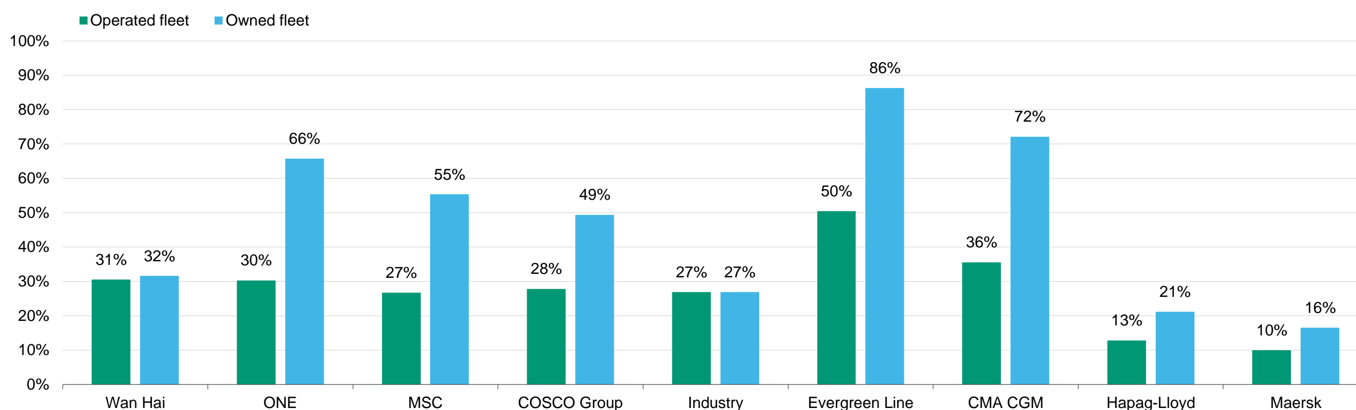
Fleet expansion should be viewed in light of upcoming environmental regulations

Hapag-Lloyd controlled a fleet with a capacity of around 2.0 million twenty-foot equivalent units (TEUs) as of November 2023. Of this, around 60% (1.2 million TEUs) is owned by the company and the remainder is leased. With an order book equivalent to around 13% of its operated fleet, this is lower than the industry as a whole at 27%. This could be viewed as credit positive given lower expected capex, however, Hapag's owned fleet is becoming somewhat old with 42 vessels representing 22% of TEU capacity being 15 years or older as December 2023. Although old vessels can be modified and retrofitted, newer vessels are significantly more energy-efficient. We also note that upcoming regulation aims to increase energy efficiency and reduce carbon intensity - achieving this will require all shipping companies to at least partially rejuvenating its merchant fleets.

Exhibit 6

Hapag-Lloyd's order book / fleet ratio is low compared with peers

Order book in relation to the operated and owned fleet of the largest carriers globally, November 2023



Sources: Alphaliner and Moody's Investors Service

On an industry level, we argue that although the rapid build up of the current industry order book mimics old behaviour - ordering a lot of vessels when market fundamentals are strong which in the end results in over capacity - this should be seen in light of upcoming environmental regulations from both global and regional governmental bodies. One of the more notable ones is the European Union's (EU) Fit for 55 package[1] Among others, this includes maritime transport in the EU Emissions Trading System from 2024. In addition, the proposed FuelEU maritime regulation seeks to reduce greenhouse gas intensity.

On a global level, the International Maritime Organization (IMO) has already introduced the Carbon Intensity Indicator (CII)[2], which aims to encourage vessel owners to use more efficient ships from a CO_2 emission perspective.

Strong group of committed majority shareholders, with a solid track record of support

Hapag-Lloyd's largest equity owners comprise shareholders CSAV (30%), Kühne Maritime GmbH and Kühne Holding AG (30%), HGV Hamburger Gesellschaft für Vermögens-und Beteiligungsmanagement mbH (13.9%), Qatar Investment Authority through its subsidiary Qatar Holding LLC (12.3%) and PIF (10.2%).

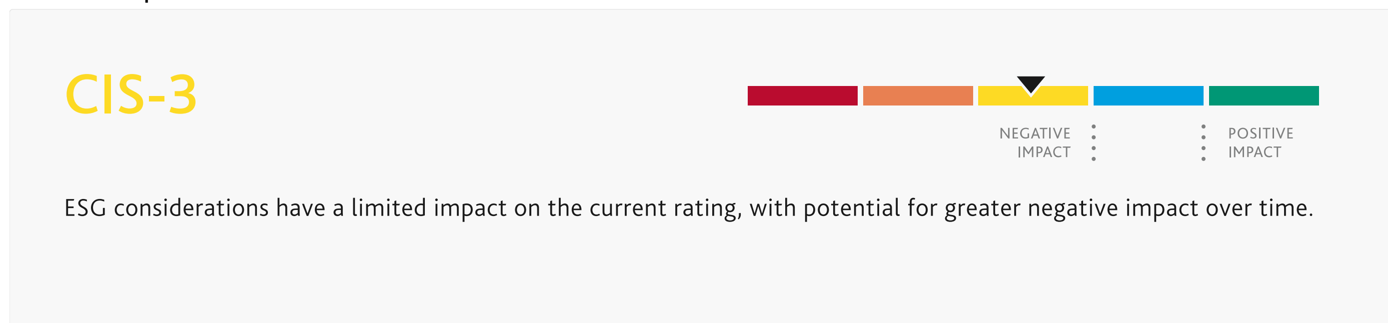
Historically, Hapag-Lloyd has benefited from its pool of long-term shareholders that have supported the group in difficult times and during strategic transactions. During the 2008-09 financial crisis, Hapag-Lloyd's shareholders injected a large amount of equity. In addition, the acquisition of CSAV's container liner activities was conservatively financed and entailed a €370 million capital increase, with contribution from both CSAV's shareholders (70%) and Hapag-Lloyd's shareholders (30%), which benefited the combined group's

financial profile. In 2015, Hapag-Lloyd completed an initial public offering and raised around €265 million. In connection with the listing, two existing shareholders (Kühne and CSAV) increased their stakes in the company, demonstrating, again, the shareholders' long-term support.

ESG considerations

Hapag-Lloyd AG's ESG credit impact score is CIS-3

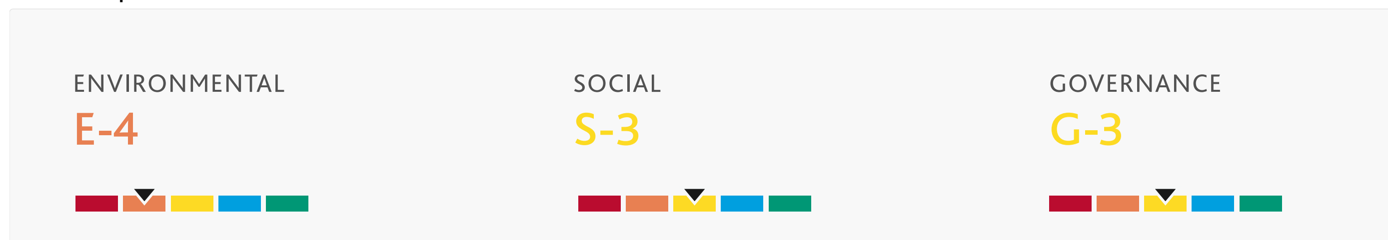
Exhibit 7
ESG credit impact score



Source: Moody's Investors Service

CIS-3 indicates that ESG considerations have a limited impact on Hapag-Lloyd's current credit rating with potential for greater negative impact over time. This is mainly driven by risks related to the environment in general and carbon transition in particular. Stricter environmental regulations on both a global as well as on a regional level will continue to increase which will force shipping companies to invest in its fleet to ultimately eliminate greenhouse gas emissions from its operation.

Exhibit 8
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

E-4. Hapag-Lloyd faces environmental risks that mainly relates to carbon transition and waste and pollution, which are high for the global shipping industry in terms of stricter regulations not just on CO2 emissions but also NOX and SOX as well as ballast water. These challenges are mitigated by shipping companies through a combination of new orders for more energy efficient vessels as well as investments in technologies aimed to reduce greenhouse gas emissions for existing fleets.

Social

S-3. Hapag-Lloyd's exposure to social risks mainly stems from health and safety for its crew living at sea as well as increasing environmental awareness among its customers and growing demand for green transport solutions.

Governance

G-3. Hapag-Lloyd's exposure to governance risks is mainly related to a concentrated ownership, where its board of directors to a large extent is represented by shareholders. This is partly mitigated by the fact that no shareholder controls more than 30%. Furthermore, the company's financial policy has in the past five years moved toward a more conservative one, with a strong management track record.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

We view Hapag-Lloyd's liquidity as good. As of Sept. 30 this year, the company had $8.7 billion of cash and access to $725 million in revolving credit facilities, all undrawn. 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 if needed. Although maintenance capex needs are limited, the company has outstanding orders of 11 new vessels with a total capacity of 239,000 TEUs which Moody's assumes will be financed with a combination of cash and debt. For the next 12 months (starting from Oct. 30 this year), the company has around $820 million in debt coming due.

Structural considerations

Hapag Lloyd's bond rating is one notch below its CFR, reflecting the contractual subordination to the secured debt existing within the group (primarily vessel and container financing).

Rating methodology and scorecard factors

The principal methodology used in rating Hapag-Lloyd is the Shipping Methodology, published in June 2021. The assigned rating of Ba2 is in line with the scorecard-indicated outcome in our forward view.

Exhibit 9

Rating factors

Hapag-Lloyd AG

Global Shipping Industry Scorecard [1]	Current 9/30/2023		Moody's Forward View Next 12-18 months [2][3]	
Factor 1: SCALE (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Size of fleet (number of ships)	264	Baa	264	Baa
Factor 2: BUSINESS PROFILE (20%)				
a) Business Profile	Ba	Ba	Ba	Ba
Factor 3: PROFITABILITY AND EFFICIENCY (5%)				
a) EBIT Margin	32.5%	A	-2-2%	Ca
Factor 4: LEVERAGE AND COVERAGE (45%)				
a) Debt / EBITDA	0.6x	Aa	2-3x	Baa
b) RCF / Net Debt	104.4%	Ca	-26-78%	Ca
c) (FFO + Interest Expense) / Interest Expense	33.1x	Aaa	5-7x	Baa
d) Unencumbered Assets	Ba	Ba	Ba	Ba
Factor 5: FINANCIAL POLICY (20%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating Outcome:				
a) Scorecard-Indicated Rating		Baa3		Ba2
b) Actual Rating Assigned				Ba2

Source: Moody's Financial Metrics™

Ratings

Exhibit 10

Category	Moody's Rating
HAPAG-LLOYD AG	
Outlook	Positive
Corporate Family Rating	Ba2
Senior Unsecured -Dom Curr	Ba3/LGD5

Source: Moody's Investors Service

Exhibit 11

Peer Comparison[1][2]

	Hapag-Lloyd AG N/A Positive			A.P. Moller-Maersk A/S N/A Positive			Wan Hai Lines Ltd. N/A Stable			Global Ship Lease, Inc. N/A Stable			Danaos Corporation N/A Stable		
in USD millions	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Dec-21	FYE Dec-22	LTM Sep-23
Revenue	$26,353.1	$36,405.7	$23,445.5	$61,787.0	$81,529.0	$57,144.0	$8,161.8	$8,708.3	$3,692.7	$448.0	$645.6	$660.9	$689.5	$993.3	$976.8
OPERATING PROFITS	$11,077.7	$18,375.3	$6,436.9	$19,456.0	$30,639.0	$8,030.0	$4,579.0	$3,965.7	$-15.0	$229.7	$354.2	$349.5	$358.3	$616.2	$601.9
EBITDA	$12,854.4	$20,739.7	$9,657.2	$24,494.0	$37,195.0	$16,732.0	$5,095.9	$4,787.2	$805.3	$294.6	$439.8	$434.8	$589.4	$913.0	$723.5
Total Debt (Gross)	$6,615.9	$6,032.3	$6,011.5	$15,550.0	$15,834.0	$15,044.0	$2,250.2	$2,442.2	$2,450.2	$1,070.5	$934.4	$862.1	$1,336.0	$502.0	$410.6
Cash & Cash Equivalents	$8,757.6	$19,180.9	$8,688.3	$16,832.0	$28,599.0	$20,830.0	$3,722.9	$5,588.1	$4,201.8	$78.6	$144.0	$122.0	$129.8	$267.7	$306.3
EBIT / Interest Expense	36.8x	68.4x	27.2x	24.4x	37.6x	226.8x	170.0x	79.2x	2.6x	4.0x	4.9x	8.3x	6.8x	12.5x	19.9x
Debt / EBITDA	0.5x	0.3x	0.6x	0.6x	0.4x	0.9x	0.4x	0.5x	3.2x	3.6x	2.1x	2.0x	2.3x	0.5x	0.6x
RCF / Net Debt	-534.8%	-108.0%	104.4%	-1,702.6%	-228.4%	-85.8%	-314.9%	-105.7%	-20.6%	12.8%	33.0%	39.3%	35.6%	320.4%	604.8%
FCF / Debt	131.5%	192.2%	-77.7%	97.9%	125.5%	3.8%	142.1%	83.0%	-68.4%	-24.3%	27.6%	18.3%	3.1%	134.3%	67.4%
Size of fleet (number of ships)	253.0	251.0	264.0	738.0	707.0	671.0	149.0	N/A	N/A	65.0	65.0	68.0	71.0	68.0	68.0
EBIT Margin %	42.2%	51.5%	32.5%	32.2%	38.0%	16.6%	56.4%	46.7%	4.4%	52.0%	55.5%	52.5%	68.5%	78.4%	60.9%
(FFO + Interest Expense) / Interest Expense	43.0x	75.9x	33.1x	29.2x	44.7x	383.0x	173.6x	84.7x	14.1x	3.8x	5.4x	9.5x	7.7x	14.1x	24.1x

[1] All figures & ratios calculated using Moody's estimates & standard adjustments.

[2] FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics™

Endnotes

1 The Fit for 55 package is a set of proposals to revise and update EU legislation and to put in place new initiatives with the aim of ensuring that EU policies are in line with the climate goals agreed by the European Council and the European Parliament.

2 The CII measures how efficiently a vessel above 5,000 gross tonnes (GT) transports goods or passengers, and is measured in grams of CO_2 emitted per cargo-carrying capacity and nautical mile. The first reporting of the CII based on 2023 data is due no later than 31 March 2024. Vessels will receive a rating of A (major superior), B (minor superior), C (moderate), D (minor inferior) or E (inferior performance level). The rating thresholds will become increasingly stringent towards 2030. A vessel rated D for three consecutive years or rated E will need to develop a plan of corrective actions

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