Issuer Profile:
Negative (6)

Ticker:
CMACGM

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CMA CGM (Parent of Neptune Orient Lines)

Recommendation

- **In 1H2019, on a comparable basis (i.e. excl. CEVA's contributions and IFRS16 adjustments), revenue was up by 5.4% y/y to USD11.1bn while EBITDA jumped 28.8% y/y to USD555.5mn. This came on the back of growth in volumes carried by the intra-regional lines and relatively slower rise in operating expenses due to its cost control plan. Despite better performance, cash on balance sheet fell as CMA CGM had paid out substantial cash to acquire CEVA over 1H2019.**
- **CMA CGM is highly levered, with net gearing standing at 3.48x (1Q2019: 3.19x). CMA CGM's standalone EBITDA/Interest (i.e. excl. CEVA's contributions and IFRS16 adjustments) was 1.99x in 1H2019, up from 1.85x a year ago but lower at 1.83x if we were to include CEVA's contributions (excl. IFRS16).**
- **With ~USD1.6bn short term borrowings excluding lease liabilities under IFRS16, against a total liquidity of USD1.5bn, CMA CGM's liquidity situation remains tight and its ability to repay or refinance its debt is largely dependent on multiple factors such as bank support and asset sales.**
- **On balance, CMA CGM's Negative (6) issuer profile remains appropriate despite improved operating performance considering its still weak balance sheet and significant recurring refinancing needs. Note that we had previously lowered CMA CGM's issuer profile to Neutral (5) from Neutral (4) in March 2019 and subsequently lowered it again to Negative (6) from Neutral (5) in June 2019.**
- **We focused our analysis on NOLSP 4.65% '20s (instead of NOLSP 4.4% '21s as the picture on CMA CGM's near term liquidity situation is comparatively clearer). We think CMA CGM still has assets to sell or potentially use as collateral to obtain funding, and the funds can most likely go towards repaying this bond given that it is CMA CGM's earliest maturing bond (maturing in Sep 2020). This, along with CMA CGM's improved operating performance, drives our neutral recommendation on NOLSP 4.65% '20s despite CMA CGM's still challenging liquidity situation.**
- **While there is no current expectation that its weakened liquidity position may impact its near term maturities, the situation does require investors to monitor developments to ensure CMA CGM's credit profile continues to remain within expectations.**

Bond	Outstanding Amount	Maturity / Call date	Net gearing
NOLSP 4.65% '20	SGD280mn	09/09/2020	3.48x

Aggregate leverage based on latest available quarter

Background

- CMA CGM which first started in 1978 is fourth the largest container liner in the world. The company serves 420 of the world's 521 commercial ports and operates on over 200 shipping routes.
- Jacques R. Saadé and family control 74% of CMA CGM through Merit Corporation, while Yildirim holds the balance 26%. The Banque Publique d'Investissement ("Bpifrance"), an investment fund established by the French Government has 1 preference share, as well as bonds mandatorily redeemable in CMA CGM's ordinary shares at 31 Dec 2020 which would represent 6% of CMA CGM's enlarged ordinary share base.
- In June 2016, CMA CGM acquired Neptune Orient Lines Ltd ("NOL"). With that there are limited detailed financial results on NOL and performance of CMA CGM (the parent) will be used as a proxy for NOL's performance. While CMA CGM has not provided a corporate guarantee for NOL's existing bonds, NOL is a material operating subsidiary of CMA CGM, and is likely to receive support from CMA CGM in our view.

- In April 2019, CMA CGM completed its tender offer to acquire CEVA Logistics ("CEVA"), an asset-light third-party logistics company which designs, implements and operates complete end-to-end freight management and contract logistics solutions for companies, to become a transport and logistics group.

Key Considerations

- **Improvement in operating performance:** In 1H2019, revenue rose by 35.9% y/y to USD15.1bn, driven by the impact of integrating CEVA which contributed USD3.5bn. Without CEVA, revenue would have risen by 5.4% y/y for standalone CMA CGM, on the back of growth in volumes carried by the intra-regional lines. EBITDA (before gains/losses on disposal of property and equipment and subsidiaries) though spiked by 301.8% y/y to USD1.7bn, as IFRS16 application (adopted in Jan 2019) led to classification of what used to be operating expenses as depreciation and interest expenses. Reversing the impact of IFRS16, we find EBITDA higher by 50.6% y/y at USD649.9mn including CEVA's contributions and 28.8% y/y at USD555.5mn excluding CEVA's contribution. Cost control plan implemented at CMA CGM has brought about a slower growth in operating expenses relative to its revenue. This is evident through the improvement in standalone CMA CGM's EBITDA margin (excl. IFRS16 and CEVA) to 4.7% from 3.9% in 1H2018 and standalone CMA CGM's core EBIT margin (excl. IFRS16 and CEVA) to 2.2% from 1.4% in 1H2018.

- **... though dragged by CEVA:** Although CEVA has contributed to CMA CGM's overall revenue and EBIT, we find that standalone CEVA generally had weaker margins relative to standalone CMA CGM. For instance, EBITDA margin for standalone CEVA was 2.7% while that for CMA CGM was 4.7% in 1H2019. Standalone CEVA was also loss making, unlike standalone CMA CGM which was profitable though both were loss making after taking into account the IFRS16 application which had negatively impacted depreciation as well as interest expenses. CMA CGM had also in 1H2019 paid out SGD800.4mn (less of cash at CEVA) to acquire CEVA. Therefore, even though we saw better performance in 1H2019, cash on balance sheet fell to USD1.37bn from USD1.40bn at end 2018 and USD1.66bn at end 1H2018.

Ratio	Standalone CMA CGM (excl. CEVA and IFRS16)	Standalone CEVA (excl. IFRS16)	CMA CGM incl. IFRS16 excl. CEVA	CEVA incl. IFRS16	Overall CMA CGM
EBITDA Margin	4.7%	2.7%	12.3%	8.3%	11.5%
Operating Margin	3.3%	0.3%	4.5%	0.6%	3.7%
Core EBIT Margin	2.2%	0.7%	3.4%	1.1%	2.9%
Net Profit Margin	0.7%	-2.0%	-0.6%	-2.3%	-1.0%
EBITDA/Interest	1.99x	1.24x	2.48x	2.95x	2.55x

Source: Company, Bloomberg, OCBC
Based on reported 1H2019 values

- **Redemption of containerships debt drained some funds:** On 6 May, CMA CGM redeemed the EUR60mn senior notes issued by Containerships (which it acquired in 2018) and maturing in Nov 2021 at the Make Whole Amount of 106.513 (i.e. EUR63.9mn). This redemption relates to the merger of Container Finance Ltd Oy into Containerships, a partial de-merger of the current land and agency businesses of Containerships and a cross border merger of Containerships into MacAndrews GmBH. This senior note originally comes due after NOLSP 4.65% '20. As such, we view this early redemption as a drain of funds that could have been used to repay the NOL bonds.

- **Leverage continues to climb:** Under total borrowings, CMA CGM reported obligations under finance leases in 2018 and lease liabilities under IFRS16 in 2019. Excluding these liabilities, adjusted borrowings rose by 31.2% to USD11.0bn from USD8.4bn at end 2018. Over 1H2019, CMA CGM recorded a ~USD2.1bn increase in bank borrowings to USD5.5bn as the acquisition of CEVA added USD971mn and it also borrowed another USD1.1bn to fund its capex of USD341.9 for the purchase of property and equipment and USD800.4 for CEVA. While as at 30 June, CMA CGM's outstanding senior notes had also increased by ~USD277mn, CMA CGM has since entered into a bridge facility of ~USD342mn (though maturing in July 2020, this borrowing can be converted into term loans with a maturity no earlier than 3 Aug 2025) provided by three banks to repay CEVA's 5.25% EUR300mn senior notes that were tendered. Therefore, we expect CMA CGM's total outstanding senior notes to decrease and its total bank borrowings to increase further to ~USD5.9bn. Assuming bank borrowings are secured against assets, we view higher bank borrowings as negative to senior unsecured debtholders. As a result of the higher debt, net gearing of CMA CGM climbed to 3.48x as at 30 June 2019 (1Q2019: 3.19x) and 1.95x (1Q2019: 1.75x) if we were to exclude the liabilities under IFRS16.

- **… though interest coverage was somewhat stable even after accounting for CEVA:** Following the change in accounting standard for leases, CMA CGM saw its interest expenses (which now includes lease liabilities) rise 2.9x from USD233.4mn to USD679.9mn and its EBITDA surge 4.0x over 1H2019, which led to an EBITDA/Interest of 2.55. On a like-for-like basis however we find CMA CGM's standalone EBITDA/Interest (excl. IFRS16 and CEVA) at 1.99x, up from 1.85x a year ago. EBITDA/Interest was slightly lower at 1.83x if we were to include CEVA's contributions (excl. IFRS16). While EBIT generated in 1H2019 (USD553.9mn) was unable to cover its interest expenses (USD679.9mn), this was not the case if we were to exclude IFRS16 effects which will result in an adjusted EBIT of USD397.9mn and an adjusted interest expense (incl. capitalised interest) of USD361.8mn.

- **Liquidity has deteriorated significantly:** NOLSP 4.65% '20s will mature on 9 Sep 2020, which is more than 12 months away from 30 June 2019. As such NOLSP 4.65% '20s has been excluded from CMA CGM's short term borrowings which were USD4.3bn as at 30 June 2019. Of the USD4.3bn, lease liabilities made up USD1.9bn and bank borrowings made up another USD1.5bn. 19.1% (i.e. USD817.5mn) has been refinanced. Post this announced refinancing, we estimate that CMA CGM has a total of USD1.6bn short term borrowings excluding lease liabilities under IFRS16, against a total liquidity of USD1.6bn which comprises cash on balance sheet and undrawn committed credit facilities. Given that CMA CGM has to maintain ~USD600mn cash, we do not think the company can draw down all of its existing cash on hand. As such, the liquidity situation is very tight. We think strong operating performance, rolling over credit facilities or sale of assets is perhaps necessary for CMA CGM to fulfil its near term liquidity needs. We note that a year ago at 30 June 2018, CMA CGM's had total short term borrowings of USD997.4mn, against a total liquidity of USD2.8bn (comprising USD1.2bn undrawn committed credit facilities and USD1.6bn cash on balance sheet).

12M Liquidity Situation (from 30 June 2019)

Uses of Funds	USD'mn	Sources of Funds	USD'mn
Senior Notes	0	Cash on hand	1,053.30
Bank Borrowings	1,042.10	Short term deposits	261.50
Bank overdrafts	125.90	Undrawn committed credit facilities	283.30
Securitisation programs	162.20		
Bonds and preferred shares redeemable in shares	23.30		
Other borrowings	246.00		
Total	**1,599.50**	**Total**	**1,598.10**

Source: Company, OCBC

- **Some assets are unencumbered:** CMA CGM still has unencumbered assets. Comparing its bank borrowings that are related to the respective assets to the matching assets, we find that CMA CGM has USD3.0bn secured bank borrowings against USD8.4bn (owned) assets. Having said that we are aware that CMA CGM has USD2.5bn of bank borrowings for general corporate purposes and USD2.2bn of other borrowings, securitisation and overdrafts.

Therefore, although CMA CGM does not appear to have sufficient unencumbered asset value to cover all of its senior unsecured debt. We think CMA CGM still can collateralise some of these assets if needed to obtain funding to repay NOLSP'20s if needed.

	Assets (owned) USD'mn	Bank borrowings related to respective asset USD'mn
Vessels	7,052.80	2,640.60
Containers	392.10	2.20
Land and Buildings	396.40	108.50
Other properties and equipment	568.90	252.80
Total	**8,410.20**	**3,004.10**

Source: Company

- **Possible asset sales:** We think CMA CGM can liquidate its stakes in associates and joint ventures if need be. Back in 2013, China Merchants Port purchased 49% stake in CMA CGM's Terminal Link unit for ~USD443mn. We think similar sales of stakes are possible. Below is the list of CMA CGM's stakes in associates and joint ventures as well as their reported valuation as at 30 June 2019. CPLT is PSA Lion Terminal, a container terminal in Singapore. Rotterdam World Gateway is a container terminal in Netherlands. Both terminals are worth ~USD290mn in aggregate. Such a sale would improve CMA CGM's short term liquidity and boost investors' confidence in CMA CGM repaying NOLSP'20s.

Associates and Joint Ventures	Valuation (USD'mn)
51% of Terminal Link Group	421.70
50% of Anji CEVA	345.00
30% of Rotterdam World Gateway	173.90
49% of CPLT	118.60
13.3% of Global Ship Lease	43.90
Total	**1,103.10**

Source: Company

- **Situation calls for close monitoring:** While there is no current expectation that its weakened liquidity position may compromise its ability to repay its near term maturities (including the NOLSP 4.65% '20s), there remains event risk in our view for CMA CGM. The company continues to be susceptible to developments including those outside their control. As such, developments investors should continue to monitor to ensure CMA CGM's credit profile remains within expectations include (1) the global macro-economic conditions and geo-political risks which could lower freight rates; (2) oil prices that could raise operating cost; (3) changes to senior management; (4) evidence of lower bank support through an inability to refinance any upcoming maturities; (5) announcement of additional capital expenditure or investments to those already disclosed; and (6) announcements or updates on any asset sales.

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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