Issuer Profile:
Negative (6)

Ticker:
CMACGM

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CMA CGM (Parent of Neptune Orient Lines)

Recommendation

- **Revenue rose 32.3% y/y to USD22.7bn over 9M2019, driven by CEVA which contributed USD5.3bn. Without CEVA, revenue would have risen by 2.5% y/y, on the back of growth in volumes (+5.5% y/y). With a less than proportionate increase in operating expenses (+1.7% y/y), EBITDA margin for standalone CMA CGM (excl. IFRS16 effects and CEVA) improved to 5.3% (9M2018: 4.6%).**
- **Q/q, net debt fell by USD273.3mn (i.e. 1.5%) and net gearing edged lower to 3.47x from 3.48x in 2Q2019. Excluding liabilities under IFRS16, net gearing would fall to 1.78x (2Q19: 1.95x, 1Q19: 1.75x). The good operating performance over the quarter lifted that EBITDA/Interest ratio (incl. capitalised interest) to 2.83x from 2.62x in the preceding quarter.**
- **CMA CGM has also announced plans to lighten its capital structure by divesting and refinancing certain assets to raise proceeds, extend debt maturities and reduce its net debt by over USD900mn. This is no doubt credit positive.**
- **On balance, CMA CGM's Negative (6) issuer profile remains appropriate for now. Although operating performance has improved steadily, the liquidity situation has become tighter relative to three months ago. Given CMA CGM's announced plans to reduce leverage, we will consider upgrading the Issuer Profile of CMA CGM to Neutral (5) from the current Negative (6) if its plans transpire and its operating performance continues to improve, leading to significant improvement in its credit metrics.**
- **Given we think the sale of investment stakes in ten port terminals to Terminal Link is likely to go through which will supply CMA CGM with the needed funds to repay NOLSP 4.4% '21s, we have turned Overweight on NOLSP 4.65% '20s. We are Neutral on NOLSP 4.4% '21s given the yield it is offering, though we caution that the liquidity situation beyond the immediate 12 months continues to be tricky for now.**

Bond	Outstanding Amount	Maturity / Call date	Net gearing	Yield to maturity	Spread
NOLSP 4.65% '20	SGD280mn	09/09/2020	3.47x	19.4%	1797.2bps
NOLSP 4.4% '21	SGD300mn	22/06/2021	3.47x	22.5%	2115.7bps

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

- **Cost reduction programme reaped benefits q/q:** Although revenue was down by 1.0% q/q, operating expenses fell by 2.0% q/q, led by reduction in chartering and handling costs. This brought about a 6.0% q/q increase in EBITDA to USD1.0bn from USD954.2mn in the preceding quarter. Overall, CMA CGM managed to record a profit to owners (i.e. after minority investors) of USD45.4mn, a reversal of the loss of USD109.2mn in 2Q2019.

- **Steady 9M2019:** Revenue rose 32.3% y/y to USD22.7bn over 9M2019. This was driven by CEVA which contributed USD5.3bn over 9M2019. Without CEVA, revenue would have risen by 2.5% y/y, on the back of growth in volumes (+5.5% y/y). With a less than proportionate increase in operating expenses (+1.7% y/y), EBITDA margin for standalone CMA CGM (excl. IFRS16 effects and CEVA) improved to 5.3% (9M2018: 4.6%). Profit before tax attributable to standalone CMA CGM (excl. IFRS16 and CEVA) rose 2.3x to USD329.9mn from USD143.1mn a year ago. That said, CEVA continues to drag consolidated CMA CGM's results with an EBITDA margin of 2.6% (excl. IFRS16). Over 9M2019, CEVA (excl. IFRS16) also recorded a loss of USD103.7mn before tax.

- **Deleveraging:** Q/q, net debt fell by USD273.3mn (i.e. 1.5%) and hence net gearing edged lower to 3.47x from 3.48x in 2Q2019. Excluding liabilities under IFRS16, net gearing would fall to 1.78x (2Q19: 1.95x, 1Q19: 1.75x). The good operating performance over the quarter lifted the EBITDA/Interest ratio (incl. capitalised interest) to 2.83x from 2.62x in the preceding quarter. Evidently, credit metrics of CMA CGM has improved slightly over the quarter. CMA CGM has also announced plans to lighten its capital structure by divesting and refinancing certain assets. We think these transactions which will be discussed below will further enhance its credit health.

- **Sales of assets:** CMA CGM is estimated to raise ~USD1.4bn of liquidity (excl. what has already been received) from the following:
  (1) Vessel sale and leaseback transaction
    - The full transaction size is USD860mn. Of which USD650mn has already been completed and the balance USD210mn is scheduled to close over the coming weeks (as at 25 Nov 2019).
    - CMA CGM will be using the proceeds to pay down the bridge acquisition facility relating to CEVA. The balance outstanding as at 30 Sep 2019 was USD242.3mn, though reportedly less than USD200mn on 25 Nov 2019.

  (2) Sale of investment stakes in ten port terminals to Terminal Link ("TL")
    - TL is a joint venture owned 51% by CMA CGM and 49% by China Merchant Port ("CMP"). CMP will subscribe for Mandatory Convertible Bonds (coupon rate 6%) issued by TL in an amount up to USD468mnm.
    - CMP will also grant TL a secured term loan facility of up to USD500mn (interest rate 6% net of all taxes) with a maturity of 8 years. Interest under the loan will be funded primarily by way of share capital increases of TL subscribed by CMA CGM.
    - In 8 years' time, CMP will convert the Mandatory Convertible Bonds while CMA CGM would subscribe for more capital in TL in 8 years' time to pay down the secured term loan. The transaction is subject to antitrust and other regulatory approvals and is expect to close during 1H2020. CMA CGM is expected to receive USD968mn proceeds.
    - Given that total consideration of USD955.1mn is for 100% of the assets while CMA CGM retains a 51% stake in TL at the outset, it appears that CMA CGM is getting a "shareholders' advance" of USD500mn from TL, and we think CMA CGM will have to pay as much as USD740mn (made up of USD500mn in principal and USD240mn of interest) to subscribe for the increase in capital in TL in 8 years. We presume the capital from the equity subscription will then be used by TL to repay CMP.

(3) Sale of a 50% stake in a logistics hub in India
- This sale is expected to fetch CMA CGM USD93mn (USD85mn at closing and USD 8mn in a four-year earn out) and expected to close in 1Q2020.

(4) Increase in CEVA's receivables securitisation program
- This transaction is expected to provide CMA CGM with USD100mn proceeds.
- CMA CGM has signed the renewal of its USD450mn securitisation program in Europe, the United States and Australia for a 3-year period.

- **Much needed liquidity boost:** NOLSP 4.65% '20s will mature on 9 Sep 2020, which is less than 12 months away from 30 Sep 2019. As such NOLSP 4.65% '20s is include in CMA CGM's short term borrowings which were USD4.1bn as at 30 Sep 2019. Of the USD4.1bn, lease liabilities made up USD1.9bn. We did not account for them in Figure 1 and 2 as we assume they are in essence to be covered by cash flow from operations. Given that CMA CGM has historically kept ~USD600mn cash for day-to-day operations, we do not think the company can draw down all of its existing cash on hand. As such, the liquidity situation is very tight and even tighter than at 30 June 2019. As seen in Figure 1 and 2, total sources of funds excluding any expected proceeds were USD1.4bn as at 30 Sep 2019 versus USD1.6bn in the preceding quarter against a much larger pool of short term borrowings. Therefore, the four transactions mentioned above are crucial in providing CMA CGM with its much needed liquidity boost. In fact, we think the sale of investment stakes in ten port terminals to TL must happen for CMA CGM to be able to cope with all of its short term using of fund as the other three transactions in aggregate will only add USD395mn liquidity.

Figure 1: 12M Liquidity Situation (from 30 Sep 2019) with Proposed Transactions

Uses of Funds	USD'mn	Sources of Funds	USD'mn
Senior Notes	167.40	Cash on hand	1,036.70
Bank Borrowings	1,668.40	Short term deposits	252.50
Bank overdrafts	53.20	Undrawn committed credit facilities	86.30
Securitisation programs	141.60	*Proceeds from vessel sale and leaseback (expected weeks from 25 Nov 2020)*	*210.00*
Bonds and preferred shares redeemable in shares	15.90	*Proceeds from sale of 50% logistic hub (expected 1Q2020)*	*85.00*
Other borrowings	237.90	*Proceeds from sale of stake in 10 port terminals (expected 1H2020)*	*968.00*
		Proceeds from CEVA's receivables securitization program (no indicative timeline)	*100.00*
Total	**2,284.40**	**Total**	**2,738.50**

Source: Company, OCBC

Figure 2: 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

- **Sale of investment stakes in ten port terminals to TL is likely:** Given this is the most significant deal amongst the four, we will go on to discuss the probability. CMP has been listed on the Hong Kong Stock Exchange since 1992. CMP is a leading port developer, investor and operator, with a comprehensive ports network portfolio spanning six continents and 18 countries and regions. As at 26 Nov 2019, CMP has a market capitalisation of HKD42.6nn (~USD5.4bn). CMP is an investment grade name with a net gearing of 0.34x as at 30 June 2019. CMP has HKD6.8bn (USD865mn) cash on hand, though insufficient to pay for the USD968mn, we think CMP is able to easily raise the shortfall in funds. We note that the deal remains subject to antitrust and other regulatory approvals. Therefore we continue to recommend close monitoring. Overall, the plan to divest and refinance certain assets to raise proceeds, extend debt maturities and reduce its net debt by over USD900mn is no doubt credit positive for CMA CGM in the short term.

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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