

American Shipper 8/18/2010: Maersk Line first half tops \$1 billion

Maersk Line made \$1.3 billion in operating profits in the first half of 2010, the container line's parent company said Wednesday.

That was a mammoth reversal on the \$884 million Maersk's container division lost in the first half of 2009. Revenue grew 32.8 percent to \$12.5 billion. Maersk Line drove 46 percent of the A.P. Moller - Maersk Group's total revenue in the first half of 2010, compared to 41 percent in the same period of 2009.

A.P. Moller - Maersk Chief Executive Nils Andersen said in a conference call Wednesday the turnaround was achieved not simply because of higher container shipping rates and volumes, but through cost cutting in the past two years that made the business more profitable.

"If we had not improved our cost position in the container business, it's likely we would have talked about a zero profit in this half, even with improved rates," Andersen said. "Our efforts in past two years have turned the shipping line into a more robust business than it has been in the past."

But the improvement in rates simply can't be discounted. Maersk per-FEU performance went from a loss of \$261 in the first half of 2009 to \$364 profit in the first half this year.

Volume rose 11 percent to 7.2 million TEUs, while rates increased 31 percent. Bunker prices rose 69 percent, though Andersen said the line had cut consumption by 6 percent. It should also be noted the Maersk Group has a sizable oil and gas business which hedges against losses the shipping line incurs from higher bunker costs.

By trade lane, transpacific volume for Maersk rose 11 percent (right in line with the average volume gain globally), while Asia/Europe volume rose 5 percent (8 percent growth on the head-haul direction and a 2 percent drop on the backhaul).

Andersen said the drop in backhaul volume, as well as a volume drop in June 2010 from June 2009, were partly attributable to problems in June with getting containers back to Asia.

"We had to use a lot of backhaul capacity to Asia to get empties back," he said.

Other trade lane increases were:

- Transatlantic volumes, 4 percent.
- Africa, 12 percent; Latin America, 18 percent.
- Oceania, 6 percent.

"Due to increasing volumes, the group started redeploying laid up vessels in the second quarter," the company said in its interim statement. "At the end of the first half of 2010, nine of the group's vessels were laid up compared to 19 at the end of 2009. Five vessels were redeployed in July 2010. The remaining vessels await market development."

APM Terminals, Maersk's terminal operating division, saw operating profit increase threefold, to \$607 million, but that was largely due to the sale of a 12 percent stake in a container terminal in Yantian in South China.

APMT actually saw volume grow at half the rate global container volume grew in the first half -- 6 percent for APMT to 12 percent global growth -- a development Andersen attributed to the company's reduction of assets. Along with the sale of the Yantian stake, the company also has agreed to a 20-year lease back with the Virginia Port Authority to operate a terminal APMT developed in Portsmouth.

Andersen also said APMT, like Maersk Line, "took a bit of market share last year, and it's correct that we are losing a little bit this year.

"Our rate development is more or less parallel with the rest of the market," he said. "We obviously don't have transparency with that. But we're not sacrificing volume for higher rates. We're trying to use capacity as best we can."

Andersen said Maersk has been successful in negotiating the rates and seasonal surcharges it wanted.

"Of course, the seasonal surcharge will go away when the season ends, but there were no problems getting the rates through," he said.

When asked whether continued high rates might induce more capacity to flow in the market, Andersen said it was up to Maersk to set a high barrier that new entrants won't be able to compete with -- "at least that's what the textbooks say," he said.

Rates have reached a "reasonable level," Andersen added, with 2009 being the outlier, not this year.

"We've seen small growth in volume from 2008 to 2010," he said. "The market is basically returning to 2008 rates and volumes. We've seen 11 percent growth compared to 2009, but comparing to 2008, the growth is less. In the second half, there will be less growth because volumes in second half 2009 were

quite O.K."

Asked about Maersk's cautious projections for the fourth quarter -- the line said there is significant uncertainty about the fourth quarter, but that it expects to still post a positive result in the second half -- Andersen said, "we're just trying to say our customers have little visibility into their orders in the fourth quarter so we have a lack of clarity."

Andersen also addressed the question of where the group sees itself going forward, given it has disposed of a few assets in the first half. He said the sale of the Yantian stake, as well as the pending sale of its retail supermarket business in the United Kingdom and a sale of a stake in a roll-on/roll-off carrier, were made for strategic reasons, not just because the market presented attractive sale prices.

"These (sold) assets are what we regarded as strategically less interesting," he said. "In Yantian, we had a 12 percent share, but no influence on management. These sales had strategic merits, not simply made because of prices. We're not on a sale spree. We'd rather buy if we find the right assets."

"We see opportunities to grow in businesses where we are active. We have a nice positive cash flow in the first half and expect it to continue in the second half. With reasonable rates and everything moving in a sensible direction, having positive cash flow allows us to pay our debts and be ready for opportunities that arise. We are ready to do bigger things. We have a good and healthy balance sheet. And following our entry into the bond markets last year, we are ready if opportunities come up. But if our cash flow goes simply into debt reduction, that's fine."

Andersen talked about the impact a container shortage was having on Maersk Line's business. He said Maersk wasn't interested in negotiating container lease contracts in a period where the supply was "squeezed," but that the company had ordered new containers: "It's not something that will affect our business."

And finally, he said Maersk would not hesitate to pull capacity out of trades if demand deteriorates.

"We don't have any plans to pull capacity, but if the market deteriorates, we can definitely take some out," Andersen said. "We don't have a lot of vessels coming in the slack season, so we don't expect to have any problems utilizing our tonnage. But if the market goes down, we don't have a problem taking out tonnage." — **Eric Johnson**