

Hapag-Lloyd

First View: Exceptionally Strong Demand Leading to \$1.3bn EBITDA Surge in 1Q21

16 February 2021

Key Takeaway

Conclusion: 1Q21E EBITDA is expected to be >\$1.3bn higher, after strong demand and record-high freight rates, followed by a normalisation.

Detail: Hapag-Lloyd expects 1Q21E EBITDA will be at least \$1.8bn, 58% of FY20 EBITDA, and vs. \$0.5bn in 1Q20, after exceptionally strong demand, resulting in record-high freight rates (CCFI +103% y/y & +55% vs. 4Q20). As a result, Hapag Lloyd expects FY21E EBITDA and EBIT will be clearly higher y/y, with a large proportion generated in Q1/Q2, as current exceptional conditions are expected to normalise. We are projecting FY21E EBITDA will be 44% higher at €3.95bn, based on a low-single-digit volume recovery, a 10% higher freight rate, partly offset by a 10% higher bunker price. Note that [Maersk said last week exceptional conditions are expected to normalise beyond 1Q21E](#). Record-high container-freight rates will inevitably come down, but are unlikely to fall below contract rates according to industry sources, implying upside risk to estimates.

FIRST VIEW

Germany | Transport & Logistics

RATING	BUY
TICKER	HLAG GR
PRICE	€107.40 [^]
PRICE TARGET (PT)	€112.00
MARKET CAP	€18.9B / \$22.9B

[^]Prior trading day's closing price unless otherwise noted.

David Kerstens *

Equity Analyst

+44 (0) 20 7029 8684

dkerstens@jefferies.com

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* Jefferies International Limited

Company Description

Hapag-Lloyd

Hapag-Lloyd is the fifth-largest global container shipping liner after the recent merger with the United Arab Shipping Company (UASC), with a fleet of 250 vessels with a combined capacity of 1.8m TEU, implying a 7.4% capacity market share. It is active on all major trade routes, with a balanced geographical portfolio, including Latin America (accounting for 24% of transport volume), Far East (19%), Transpacific (16%), Atlantic (16%) and Middle East (12%). Hapag Lloyd aims to be profitable over the cycle, with ROIC>WACC of 8%, corresponding to an EBITDA margin of >12% (vs 12.0% in FY19 excl. IFRS 16 effects), supported by additional cost savings of \$350m-\$400m by FY21E (adding up to 300bps to profitability) and revenue management initiatives, with a focus on quality leadership. It has gained sufficient critical mass through M&A and is targeting a relatively stable volume market share of >10% excl. Intra-Asia (vs 9% today), as incremental cost benefits from further M&A are expected to be relatively limited, and further expansion of inland services, which currently account for c30% of volume. The company employs 12,996 people, and is headquartered in Hamburg, Germany.

Company Valuation/Risks

Hapag-Lloyd

SOTP-based price target of €112.0, based on a valuation at a 65% premium to invested capital, with ROIC expected to cover the 8.5% WACC from FY22E in a tightening container market. Risk factors include a larger-than-expected fallout from the COVID-19 coronavirus, irrational vessel ordering (with state support), increasing overcapacity, escalating protectionism, increasing fuel costs under IMO 2020, acquisition integration risks, and general macroeconomic risks.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published	February 16, 2021 , 09:34 ET.
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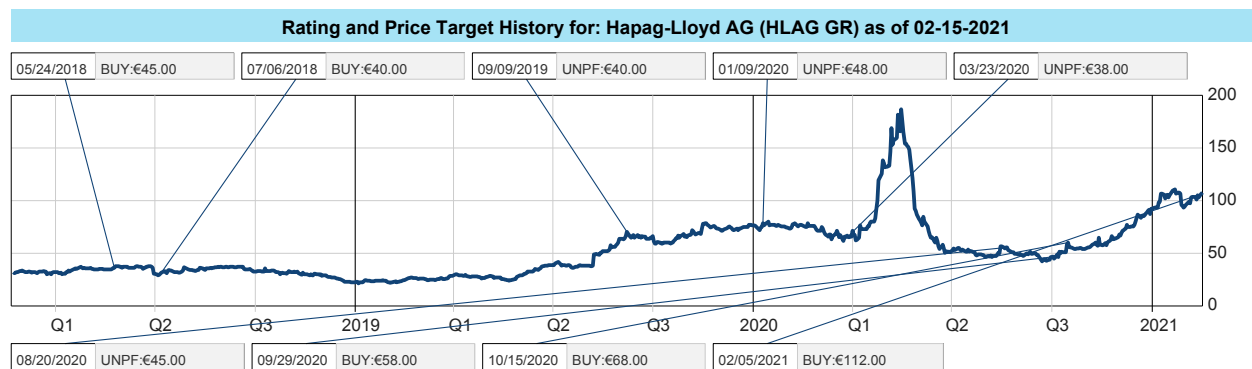
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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1605	60.20%	151	9.41%	19	1.18%
HOLD	926	34.73%	24	2.59%	6	0.65%
UNDERPERFORM	135	5.06%	2	1.48%	1	0.74%

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