

Press release

A.P. Moller - Maersk reports solid uplift in earnings and strong cash flow in Q1

Copenhagen, 24 May 2019

A.P. Moller - Maersk has closed the first quarter of 2019 with a 33% increase in earnings before interest, tax, depreciation and amortization (EBITDA) to USD 1.2bn while revenue grew by 2.5% to USD 9.5bn compared to Q1 2018. Operating cash flow improved significantly to USD 1.5bn and free cash flow was USD 3.5bn, including sale of shares in Total S.A.

"We had a good start to 2019. In Q1, revenue grew by 2.5%, operating earnings improved by 33% and cash flow from operations doubled to USD 1.5bn. With a strong free cash flow of USD 3.5bn after the sale of the remaining shares in Total SA., we have significantly strengthened our balance sheet. Net interest-bearing debt has been reduced by USD 2.4bn since Q4 and by USD 7.1bn since Q1 2018," says Søren Skou, CEO of A.P. Moller - Maersk.

Profitability in Ocean increased. EBITDA grew 42% to USD 927m compared to same period last year, mainly driven by a 3.9% increase in average loaded freight rates and an improvement in total operating cost of 2.8%. Revenue increased to USD 6.9bn despite lower volumes which declined 2.2%, impacted by the frontloading seen on the Pacific trades in Q4 2018 and weak demand on Latin America and Oceania trades.

Looking at terminal profitability, the opening of the Moin terminal, Costa Rica and positive underlying volume growth in gateway terminals had a positive impact on terminal profitability in Q1. Terminals & Towage reported an increase in revenue to USD 991m from USD 911m and in EBITDA to USD 267m from USD 244m compared to same quarter last year.

Logistics & Services reported a decrease in revenue in Q1 2019 by 0.5% to USD 1.4bn driven by lower air freight forwarding revenue. EBITDA increased to USD 51m from USD 45m in Q1 2018.

Progress on transformation

The strategic transformation also progressed. In the first quarter, Maersk delivered combined synergies of USD 130m. Cash return on invested capital (CROIC) improved to a positive 6.7% from a negative 5.9%, driven by higher earnings, strong cash conversion and a reduction in invested capital.

"We made good progress on the transformation, where we have completed the separation of the energy businesses, further integrated our organisation and continued to improve our product portfolio. This resulted in a solid cash return on invested capital and delivery of synergies, getting us closer to our target of USD 1bn by end of 2019. Non-Ocean revenue and gross profit in Logistics & Services grew, but needs to accelerate in the coming quarters," says Søren Skou.

Non-Ocean revenue grew by 3.8% in Q1 when adjusted for the closing of production facilities in Maersk Container Industry. Logistics & Services improved gross profit by 2.2%, positively impacted by growth in intermodal and from warehouse facilities.

The return on invested capital (ROIC) improved in Q1 to a positive 1.3% from negative 0.5%. The long-term target of a ROIC above 7.5% is reaffirmed.

Share buy-back, cash distribution and a new dividend policy

As part of the intention to distribute a material part of the value of shares received in Total S.A in connection with the sale of Maersk Oil, the Board of Directors has decided to exercise the authority to buy back shares with a maximum value of DKK 10bn (USD 1.5bn). The program will run from June 2019 and over a period of up to 15 months. After execution of the program, the Board of Directors will evaluate the capital structure and outlook for A.P. Møller - Maersk with the intention to distribute additional cash to shareholders, subject to maintaining investment-grade rating.

Furthermore, the Board of Directors has decided a new dividend policy with an annual payout ratio of 30-50% of underlying net result. The new dividend policy provides A.P. Møller - Maersk with the flexibility to adjust dividends within a range to accommodate investments needed to balance the company and grow non-Ocean disproportionately. In the medium-term the annual payout ratio should be expected to be at the low to mid-point of the range.

Guidance for 2019

Subject to the current risk of further restrictions on global trade and other external factors impacting freight rates, bunker prices and foreign exchange rates, A.P. Møller - Maersk reiterates its guidance of an EBITDA of around USD 5bn, including effects from IFRS 16.

Furthermore, guidance on CAPEX of around USD 2.2bn and a high cash conversion is maintained with an estimated organic market growth in volumes in Ocean of 1-3% for 2019.

"We reaffirm our guidance for the 2019 results. We are still facing considerable uncertainties from weaker macro numbers as well as the risk from trade tensions and implementation of IMO 2020. In Q1, volumes on trans-Pacific trade between Asia and North America have shown signs of decline and new tariffs can potentially reduce expected growth in global container volumes by up to 1 percentage point", Søren Skou says.

Highlights Q1 2019

→ Highlights Q1		Revenue		EBITDA		CAPEX
USD million	2019	2018 ¹	2019	2018 ¹	2019	2018 ¹
Ocean	6,929	6,810	927	652	469	1,074
Logistics & Services	1,448	1,455	51	45	9	8
Terminals & Towage	991	911	267	244	121	101
Manufacturing & Others	558	672	21	48	177	184
Unallocated activities, eliminations, etc.	-386	-543	-30	-58	2	-8
A.P. Møller - Maersk consolidated – continuing operations	9,540	9,305	1,236	931	778	1,359

¹ Q1 2018 presented as if IFRS 16 had been implemented in 2018 and adjusting for Maersk Supply Service as continuing operations.

SENSITIVITY GUIDANCE Q1 2019:**→ Sensitivities on guidance for 2019**

The guidance of A.P. Møller - Maersk for 2019 depends on several factors. Based on the expected earnings level and all else being equal, the sensitivities for the rest of 2019 for four key assumptions are listed in the table below:

Factors	Change	Effect on EBITDA Rest of year
Container freight rate	+/- 100 USD/FFE	+/- USD 1.0bn
Container freight volume	+/- 100,000 FFE	+/- USD 0.1bn
Bunker price (net of expected BAF coverage)	+/- 100 USD/tonne	-/+ USD 0.3bn
Foreign rate of exchange (net of hedges)	+/- 10% change in USD	+/- USD 0.1bn

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