

Bulletin:

Wan Hai's Strong Performance Can Absorb Large New Vessel Spending

July 1, 2021

Taiwan Ratings Corp. said today that Wan Hai Lines Ltd.'s strong operating cash flow could accommodate the shipping company's further increase in new vessel acquisitions. We expect the company to retain sufficient financial buffer on the rating (twA-/Stable/twA-2).

Wan Hai plans to purchase four vessels with capacity of 13,100 twenty-foot equivalent units (TEU) and 12 with 3,055 TEU. The total amount, based on announcements including the latest on June 28, will be new Taiwan dollar (NT\$) 28.0 billion-NT\$30.3 billion. We believe the vessel purchases are a response to strong market demand and to meet its expansion to a new U.S. East Coast service line in June this year. Deliveries are scheduled for 2023-2024.

These acquisitions represent a significant increase in capacity, given Wan Hai's already aggressive order book. It expects deliveries over 2021-2024 for previous orders of 36 newly built vessels of 2,038-13,000 TEU and 11 secondhand vessels with 4,000-7,000 TEU.

In terms of capital expenditure (capex), the incremental amount for the company in 2021-2022 will be limited at NT\$10 billion-NT\$15 billion in total since the payment to ship-building companies is based on the progress of completion. Hence, Wan Hai's capex could increase to NT\$35 billion-NT\$40 billion in 2021 and NT\$25 billion-NT\$30 billion in 2022 from our previous assumption of NT\$30 billion-NT\$31 billion in 2021 and NT\$21 billion-NT\$22 billion in 2022.

In addition, likely stronger profitability and cash flow could largely help the company absorb high spending without materially weakening its debt leverage. Unresolved port congestions globally and strong demand for physical goods are likely to constrain effective container shipping supply and sustain heightened freight rates for longer than our previous expectation. Shanghai Containerized Freight Rate Index (SCFI) remained about 30% higher as of June 25, 2021 than as of the end of 2020.

This report does not constitute a rating action.

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