

Bulletin:

Wan Hai Can Withstand Pricing And Fuel Volatility

August 15, 2022

TAIPEI (S&P Global Ratings) Aug. 15, 2022--**Wan Hai Lines Ltd.** will likely maintain solid credit metrics over the next six months despite fluctuating freight rates and fuel charges. The Taiwan-based container-shipping company reported a slightly weaker EBITDA margin in first half 2022 than we had previously forecast due to rising bunker fuel costs.

We anticipate elevated freight rates and capacity additions on its key transpacific routes to sustain Wan Hai's (twA/Stable/twA-1) strong operating performance for the rest of 2022. The carrier looks on course to meet our forecast of 65%-70% growth in absolute EBITDA in 2022 after it recorded EBITDA of new Taiwan dollar (NT\$) 98 billion in the six months. This is about NT\$52 billion more than in the same period in 2021.

A gradual easing of port congestion and slowing demand for goods are leading to corrections in freight rates from record highs. Nonetheless, we do not expect a sudden plunge in freight rates, given that capacity management has been disciplined among major carrier alliances. Wan Hai's blended freight rate remains on track to increase by 45%-50% annually in 2022, which is in line with our base case for the company. This would help Wan Hai to sustain its EBITDA margin at 60%-65% in 2022 compared with 62.1% in 2021. Downside risks for trade volume and our base case forecast for Wan Hai include rising inflationary pressure, geopolitical conflicts, and a weaker global economic outlook.

Wan Hai's strong cash flow generation should enable the carrier to meet its high capital expenditure (capex) needs and cash dividend payouts while maintaining a net cash position over the next 12 months. Capex is likely to remain high at NT\$45 billion-NT\$50 billion in 2022 with operating cash flow of over NT\$200 billion over the same period. Cash accumulated over the past two years should also provide ample financial headroom for Wan Hai to withstand a potential fall in freight rates. As of June 30, 2022, Wan Hai held NT\$178.5 billion cash on hand versus gross debt of about NT\$48.8 billion.

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PRIMARY CREDIT ANALYST

Susan Chen

Taipei

+886-2-2175-6817

susan.chen

@spglobal.com

susan.chen

@taiwanratings.com.tw

SECONDARY CONTACT

Raymond Hsu, CFA

Taipei

+886-2-2175-6827

raymond.hsu

@spglobal.com

raymond.hsu

@taiwanratings.com.tw

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