Media Release:

Wan Hai Lines Ltd. Ratings Affirmed At 'twA/twA-1'; Liquidity Revised To Exceptional From Strong; Outlook Stable

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Rating Action Overview

- We believe **Wan Hai Lines Ltd.'s** liquidity buffer has strengthened, supported by abundant cash on hand, less maturing debt, lower capex, and a smaller dividend payout over the next two years. We have therefore revised our liquidity assessment for Wan Hai to exceptional from strong.
- On April 26, 2024, we affirmed our 'twA/twA-1' issuer credit ratings on the Taiwan-based shipping company.
- The stable rating outlook reflects our view that Wan Hai will maintain a net cash position over the next two years amid moderating capex needs. In addition, we see Wan Hai's profitability improving in 2024 on higher freight rates amid constrained containership supply during the ongoing Red Sea crisis.

Rating Action Rationale

The ratings continue to reflect Wan Hai's leading position in the intra-Asia container shipping market but constrained by highly volatile industry nature. In our view, Wan Hai's comprehensive network coverage and high frequency service in the intra-Asia region, and satisfactory operating efficiency support its market leadership. This leadership should support more stable profitability relative to long-haul players.

Tempering the company's competitive strengths are high industry risk brought about by chronic oversupply and intense competition in the containership market, as well as Wan Hai's increasing exposure to more competitive long-haul routes. Moreover, the weaker cost structure and pricing power of Wan Hai's transpacific services could constrain the company's overall margin.

The ratings also incorporate our view that Wan Hai will maintain a net cash position in 2024-2025, supported by its moderating capital expenditure (capex) needs over the same period.

Wan Hai's liquidity buffer has strengthened, given less maturing debt and abundant cash on hand. We forecast the approaching end to the company's fleet replacement program will help to bring down capex to new Taiwan dollar (NT$) 20 billion-NT$25 billion in 2024 and NT$10 billion-NT$15 billion in 2025. This compares with NT$44 billion in 2023. Meanwhile, we expect Wan Hai to maintain a prudent cash dividend policy over the next one to two years, to reserve sufficient cash on hand for a potential industry downturn and support potential capital needs during the period. We estimate the company's ratio of liquidity sources to liquidity uses will be about 3.9x in 2024 and 3.7x in 2025.

Our assessment of Wan Hai's liquidity buffer also reflects our forecast that the company's liquidity sources will continue to exceed uses even if its forecasted EBITDA declined by 75%. In addition, we believe Wan Hai can cope with high impact and low-probability events with limited need for refinancing, given its high cash balance. Moreover, we believe Wan Hai's good relationship with Taiwan banks will provide access to financing, as needed.

Principal liquidity sources:

- Cash and short-term investment of about NT$126.7 billion at the end of 2023.
- Funds from operations of NT$15 billion-NT$20 billion in 2024-2025.

Principal liquidity uses:

- Debt maturity of about NT$10 billion in 2024 and NT$16 billion in 2025.
- Capex of NT$20 billion-NT$25 billion in 2024 and NT$10 billion-NT$15 billion in 2025.
- Cash dividend payout of NT$4.2 billion in 2024.

Ratings Score Snapshot

Wan Hai Lines Ltd.		
	To	**From**
Issuer Credit Rating	twA/Stable/twA-1	twA/Stable/twA-1
Business risk	Weak	Weak
Country risk	Intermediate	Intermediate
Industry risk	High	High
Competitive position	Fair	Fair
Financial risk	Modest	Modest
Cash flow/Leverage	Modest	Modest
Anchor	twa	twa
Modifiers		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Exceptional (no impact)	Strong (no impact)
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Neutral (no impact)	Neutral (no impact)
Stand-alone credit profile (SACP)	twa	twa
Note: The descriptors are on a global scale.		

Related Criteria & Research

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology - April 04, 2024
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014

- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

Wan Hai Lines Ltd.	
Issuer Credit Rating	twA/Stable/twA-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.