Media Release:

Yang Ming Marine Transport Corp. Upgraded To 'twA/twA-1' On More Resilient Profitability; Outlook Stable

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Rating Action Overview

- Taiwan-based container carrier **Yang Ming Marine Transport Corp.** earns most of its revenue from long-haul service routes and generated EBITDA of new Taiwan dollar (NT$) 19.5 billion in 2023.
- We expect the ongoing Red Sea crisis to constrain containership supply and support freight rates, which could uplift Yang Ming's profitability in 2024. Moreover, Yang Ming accumulated abundant cash on hand during the industry's super-upcycle in 2021-2022, which together with prudent financial management should help sustain the company's net cash position over the next two years.
- We have raised our liquidity assessment for Yang Ming to exceptional from strong to reflect its reduced debt maturity over the next 24 months and very high cash balance.
- Accordingly, we have raised our issuer credit ratings on Yang Ming to 'twA/twA-1' from 'twA-/twA-2'.
- The rating outlook is stable to reflect our view that Yang Ming will maintain a net cash position in 2024-2025. This will be underpinned by the company's enhanced cash position, despite higher capex for vessel replacement in 2025.

Rating Action Rationale

The rating action reflects our view that strengthened seaborne freight rates could enhance Yang Ming's profitability in 2024. Containership supply has tightened following the divergence to longer routes around the Cape of Good Hope to avoid potential attacks in the Red Sea. This has pushed up freights significantly across main-lane service lines since the beginning of 2024. Rates for transpacific, East Asia-to-Europe and Mediterranean lines have been easing over the past two months, as major carriers have adjusted to the new normal of longer transit times and the consecutive deliveries of new ships that have expanded capacity. Nonetheless, rates remain over 70% higher than in the same period of 2023.

Our base case assumptions factor in a potential freight rate correction in the second half of 2024 because lingering overcapacity remains the key industry risk. However, we expect Yang Ming's EBITDA margin to improve to 20%-25% in 2024 from 13.8% in 2023 under the benefit of favorable freight rates in the first half of 2024.

High cash balance will support Yang Ming's solid capital structure in 2024-2025. The carrier maintained an abundant cash and short-term investment balance of NT$185 billion as of the end of 2023. That's despite negative discretionary cash flow of NT$85.5 billion during the year. This material shrinkage in cash flow mainly resulted from the company's high cash dividend payout based on lucrative profits in the previous year, as well as higher capital expenditure (capex) needs for fleet expansion. In our view, Yang Ming's high cash position provides ample financial leeway and supports the company's increasing capital needs for fleet replacement, as well as cash dividend payout over the next one to two years. Accordingly, we view Yang Ming could continue maintain a net cash position in 2024 and 2025.

Yang Ming's financial policy remains prudent. The company's plan to purchase new vessels has is more conservative that its industry peers. Yang Ming only has five 15,000 TEU (twenty-foot equivalent unit) liquid natural gas dual-fuel vessels in its orderbook. These are targeted for delivery in 2026 for a total investment of NT$25 billion-NT$30 billion. Our base case projection factors in over NT$30 billion in capex for 2025-2026. That’s because we believe Yang Ming will gradually increase the percentage of self-owned vessels and replace less-efficient vessels to meet increasingly stricter environmental regulations worldwide. The total investment amount will likely remain within Yang Ming's financial capability and not lead to a material rise in debt. Moreover, we expect the investment plan to be highly dependent on the overall supply and demand condition in container ship industry.

High business volatility continues to constrain the ratings. We anticipate the global container shipping industry will remain highly volatile due to standardized shipping services and a constant supply-demand imbalance, especially for on long-haul routes. The increased tonnage of megaships, which typically serve long-haul service routes, will continue to outstrip demand growth after Red Sea disruption ends. Capacity growth from megaships is likely to remain high at 15%-20% in 2024 and 10%%-15% in 2025, following a surge of 19% in 2023.

Meanwhile, global trade volume could see a gradual recovery as major economies remain resilient against recession. However, growth in trade volume will remain softened at only a low-single digit. Economic issues, include cost inflation, high interest rates, and diminishing disposable income could continue to weigh on demand for tangible goods. As a result, the supply and demand imbalance could heighten pressure on freight rates and further pressure carriers' cash flow generation.

Better market discipline through the formation of shipping alliances could partially alleviate cash flow volatility, in our view. Yang Ming will likely remain more vulnerable to this than its larger peers due to its relatively weak market position and persistent intense competition in the long-haul market. Accordingly, we incorporate such high cash flow volatility into our financial risk profile assessment.

Liquidity has grown stronger, given abundant cash on hand and reduced debt maturity over the next two years. We forecast Yang Ming's liquidity buffer will strengthen over the next two years. Several factors will support this, including a decrease in debt maturing in the short-term because the company has paid down most of its bank loan, a decline in cash dividend payouts, and a high cash balance. This is despite a likely increase in the company's capex needs in 2025. Accordingly, we have revised our liquidity assessment for Yang Ming to exceptional from strong.

Outlook

The stable rating outlook reflects our view that Yang Ming will maintain a net cash position in 2024-2025, underpinned by its enhanced cash position. This is despite higher capex for vessel replacements in 2025. We also expect the company's profitability to improve in 2024, supported by higher freight rates amid constrained supply in the containership industry.

The outlook also reflects our view that Yang Ming's role and linkage to the Taiwan government will remain intact and our belief that the company will maintain good access to Taiwan's banking channels over the next two years.

Downside scenario

We could lower the long-term rating on Yang Ming if:

- The company's competitive position weakens substantially, which could result from a significant decline in market share, or a major deterioration in cost structure and service network relative to larger peers due to Yang Ming's inadequate fleet; or
- The ratio of funds from operations (FFO) to debt falls below 60% for an extended period without sign of recovery. This could result from either Yang Ming taking on more debt due to overly aggressive capex or cash dividend payments amid prolonged deterioration in industry conditions, or weakening profitability led by declining freight rates or rising operating costs; or
- In a less likely scenario over the next two years, we believe that the company's role and link to the Taiwan government has weakened substantially. This includes a substantial reduction in government ownership or control of Yang Ming's board.

Upside scenario

We see a low likelihood of and upgrade over the next one to two years, given high business risk in the global container shipping market, and the company's relatively weaker market position in long-haul service routes. That said, we may raise our rating on the company if:

- Yang Ming materially increases its profitability through a strengthened market position, cost competitiveness, and economies of scale; and
- At the same time, the company maintains an improved capital structure and prudent financial policy on capex and cash dividend payout that keeps its debt from rising significantly, such that the ratio of FFO to debt maintains above 60% through business cycles.

Our Base-Case Scenario

Assumptions

- S&P Global forecasts Eurozone real GDP to grow by 1.3% in 2024 and 2.0% in 2025; U.S. real GDP to grow by 2.4% in 2024 and 1.5% in 2025; and Asia Pacific's real GDP to expand by 4.3% in 2024 and 4.7% in 2025.
- We project Yang Ming's total lifting volume to remain largely flat in 2024 compared to 2023 and increase by 2%-4% in 2025. Lifting volume is likely to grow on America and Asia service routes amid a gradual economic recovery but could decrease on European lines because of Yang Ming's capacity controls in the face of muted demand and potential overcapacity in the region.
- Yang Ming's average freight rate to rebound by 10%-15% in 2024 after a 65.5% plunge in 2023.
- Bunker fuel price of US$550-US$600 per ton in 2024-2025.

- Other ex-bunker costs (including port charges, stevedoring, transshipment, and terminal fees) to grow along with handling volume.
- Yang Ming's capex to stay above NT$10 billion in 2024, compared with NT$14.7 billion in 2023 and rise substantially to over NT$30 billion in 2025, mainly for vessel and container box replacement, as well as the installment of scrubbers.
- Cash dividend payout of NT$6.98 billion in 2024.
- We applied a 9% haircut ratio for surplus cash adjustment, reflecting our view that Yang Ming will continue to use its abundant cash on hand to pay down maturing corporate bonds over the next two years.

Yang Ming Marine Transport Corp.
Industry sector: Transportation cyclical

(Mil. NT$)	**2021a**	**2022a**	**2023a**	**2024e**	**2025f**
Revenue	333,687.4	375,899.9	140,623.7	154,428.7	145,431.0
EBITDA (reported)	220,895.1	240,775.9	18,862.2	32,905.0	21,864.3
Plus/(less): Other	956.2	1,584.6	588.6	588.6	588.6
EBITDA	221,851.4	242,360.5	19,450.8	33,493.6	22,452.9
Less: Cash interest paid	(2,503.2)	(2,391.5)	(2,479.6)	(2,103.3)	(1,931.1)
Less: Cash taxes paid	(2,571.6)	(46,781.2)	(31,116.6)	(3,669.0)	(2,032.6)
Funds from operations (FFO)	216,776.6	193,187.8	(14,145.4)	27,721.4	18,489.2
Cash flow from operations (CFO)	207,911.8	214,649.8	(881.0)	26,395.6	22,679.1
Capital expenditure (capex)	7,276.9	8,454.2	14,729.4	14,600.0	32,700.0
Free operating cash flow (FOCF)	200,634.9	206,195.6	(15,610.4)	11,795.6	(10,020.9)
Debt (reported)	21,949.6	16,716.3	13,562.4	10,982.7	8,682.7
Plus: Lease liabilities debt	61,963.7	79,170.2	60,892.8	57,848.2	54,955.8
Less: Accessible cash and liquid Investments	--	(284,716.8)	(168,444.3)	(172,095.9)	(147,571.0)
Plus/(less): Other	--	--	--	--	--
Debt	83,913.2	--	--	--	--
Cash and short-term investments (reported)	193,475.9	317,764.2	185,103.7	189,116.4	162,165.9
Adjusted ratios					
Debt/EBITDA (x)	0.4	--	--	--	--
FFO/debt (%)	258.3	N.M.	N.M.	N.M.	N.M.
Annual revenue growth (%)	120.6	12.7	(62.6)	9.8	(5.8)
EBITDA margin (%)	66.5	64.5	13.8	21.7	15.4
Return on capital (%)	84.0	71.3	4.4	6.2	2.3

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. a--Actual. e--Estimate. f--Forecast. N.M.--Not meaningful.

Liquidity

The short-term rating on Yang Ming is 'twA-1'. We assess Yang Ming's liquidity as exceptional and estimate the company's ratio of liquidity sources to liquidity uses at 7.9x in 2024 and 4.2x in 2025. This assessment also reflects our belief that liquidity sources will continue to exceed uses even if Yang Ming's forecasted EBITDA was to decline by 75%.

In addition, we believe that the company should also be able to cope with high-impact and low-probability events with limited refinancing, given its high cash balance on hand. We also assess Yang Ming has good access to banks, underpinned by its association with the Taiwan government. The company does not carry any covenant on its bank loan.

Principal liquidity sources:

- Cash and short-term investment of about NT$185 billion at the end of 2023.
- Fund from operations of NT$33 billion-NT$38 billion in 2024 and NT$20 billion-NT$25 billion in 2025.

Principal liquidity uses:

- Debt maturity of about NT$2.6 billion in 2024 and NT$2.3 billion in 2025.
- Capex of over NT$10 billion in 2024 and over NT$30 billion in 2025.
- Cash dividend payout of NT$6.98 billion in 2024.

Ratings Score Snapshot

Yang Ming Marine Transport Corp.		
	To	**From**
Issuer Credit Rating	twA/Stable/twA-1	twA-/Stable/twA-2
Business risk	Weak	Weak
Country risk	Low	Low
Industry risk	High	High
Competitive position	Weak	Weak
Financial risk	Intermediate	Intermediate
Cash flow/Leverage	Intermediate	Intermediate
Anchor	twbbb+	twbbb+
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)	Negative (-1 notch)
Stand-alone credit profile (SACP)	twbbb+	twbbb
Issuer credit rating on Taiwan*	AA+/Stable/A-1+ (unsolicited)	AA+/Stable/A-1+ (unsolicited)
Likelihood of government support	Moderately high (+2 notches from SACP)	Moderately high (+2 notches from SACP)
*Unsolicited rated assigned by S&P Global Ratings. 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- 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

Upgraded

	To	From
Yang Ming Marine Transport Corp.		
Issuer Credit Rating	twA/Stable/twA-1	twA-/Stable/twA-2