

Fitch Downgrades CMA CGM to 'BB+'; Outlook Remains Negative

Fitch Ratings-London-16 December 2008: Fitch Ratings has today downgraded the French-based global shipping company CMA CGM S.A.'s (CMA CGM) Long-term Issuer Default Rating (IDR) and its senior unsecured rating to 'BB+' from 'BBB-' (BBB minus), respectively, and the company's Short-term IDR to 'B' from 'F3'. The Outlook for the Long-term IDR remains Negative.

The downgrade reflects a weakening of prospective coverage and leverage ratios, as the company's capital expenditure (capex) profile has changed compared with Fitch's prior expectations. While CMA CGM's total capex spend relating to its vessel order book, which covers 2008-11, remains unchanged, factors contributing to the spend profile being brought forward include an increase in down-payments for new vessels due to loan-to-value (LTV) requirements and further container investment in 2008.

Fitch has adjusted CMA CGM's coverage and leverage ratios to reflect the annual fixed cost and debt-equivalent effect of chartering/leasing. Lease-adjusted (on a net present value basis) net debt/EBITDAR is expected to be above 2.3x in 2008 and 2009 and EBITDAR/interest plus rent is likely to average 1.4x-1.6x for the same period, assuming EBITDA of over USD1bn.

The Negative Outlook reflects the continued deteriorating dynamics affecting CMA CGM's key Asia-Europe route, with the potential for fleet over-capacity, and increasingly difficult conditions in the container shipping industry as a whole. CMA CGM and its competitors face record vessel order book deliveries in 2009 and 2010 as the industry enters a severe down-cycle. On the Asia-Europe route, key players, including CMA CGM, have reduced capacity by cancelling charters or putting ships to anchor, thus limiting downward pressure on freight rates. CMA CGM's solid market share in this region should enable it, in part, to mitigate the wider weakening economic environment, but further capacity reductions may be necessary as volume growth slows.

The ratings reflect the operational benefits to CMA CGM of having some 70% of its YE07 capacity chartered (37% of which was short-term). Cancelled charter and falling bunker fuel net costs for the group will enhance CMA CGM's EBITDA in 2009, counteracting in part the negative effects of decreased revenues from falling freight rates.

While the majority of CMA CGM's USD7bn vessel order book has been pre-financed through secured bank funding, tax and finance leasing, and securitisation funding, Fitch notes that USD2bn remains to be financed by 2010. Although there is no immediate financing concern, the Negative Outlook reflects the need to actively manage this risk without detrimentally affecting unsecured creditors. CMA CGM's liquidity weakened in Q308, with cash and cash equivalents of USD1.1bn (H108: USD1.8bn). Fitch expects cash and cash equivalents to be some USD1.8bn in 2008 and 2009, but committed bank facilities are expected to be fully drawn over the same period. YE08's increased debt (Q308: USD4.9bn) was unaided by the cash outflow due to Q108's announced derivatives loss of USD0.3bn.

Fitch acknowledges CMA CGM's market position as the third-largest global container shipping company. It operates in an inherently price-competitive, cyclical sector characterised by periodic over-capacity. It is vulnerable to changing trade flows, potential freight and charter rate volatility, high operating leverage and exposure to oil/fuel price movement. The ratings acknowledge the ability and experience of CMA CGM's management to partly mitigate the effects of such risks in the current environment.

CMA CGM, which is privately-owned, had 913,000 twenty-foot equivalent unit (TEU) capacity at FYE07. It has a global network of 81 main lines and 37 feeder lines, calling at 228 ports in 161 countries.

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