

ING's global transport and logistics sector outlook

The global transport and logistics sector is entering a new phase of recovery post-pandemic, but the Ukraine war's impact on trade means there are further struggles ahead

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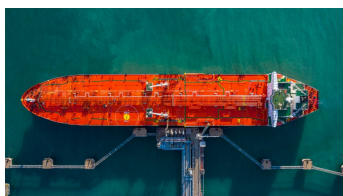


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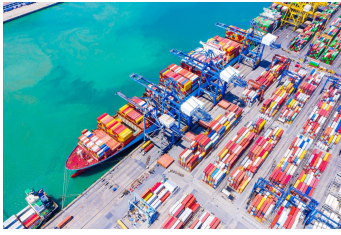


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Source: Shutterstock

Second phase recovery from the pandemic for transport and logistics

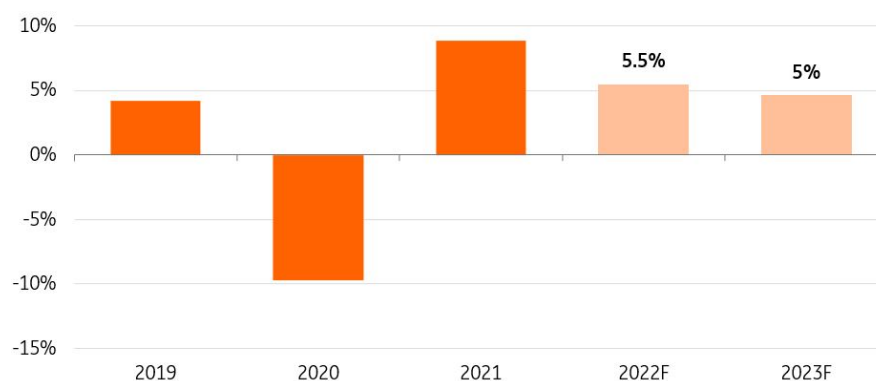
The global transport and logistics sector will see another year of substantial growth in 2022, despite setbacks from the Ukraine war and ongoing lockdowns in Chinese port cities. The recovery is entering its second phase, but it is showing two faces. While dominant goods logistics is expected to enter a phase of moderation after a strong rebound driven by the shift to goods consumption, passenger transportation is expected to take over with a significantly stronger recovery from last year's pandemic lows.

In 2021, passenger transportation suffered from ongoing Covid-restrictions leading to a disappointing year, but in most parts of the world, travel restrictions have been eased which will now trigger more traffic. For many office workers and commuters in developed countries, hybrid

ways of working have been implemented, with people back in the office but also working from home more than before the pandemic. After a long period of limitations and postponed travelling, we expect that pent-up demand, especially in leisure airline travel, will be fulfilled over the course of 2022.

Recovery in global transport and logistics continues on the back of the return of travel

Value added transport, logistics and storage sector



Source: Oxford Economics, ING Research

Airlines and public transport are drivers of sector growth

After a second year of losses, airlines expect to see a natural rebound of leisure travel in 2022 from unprecedented pandemic lows, with travellers eager to resume their journeys after two years of limited leisure travelling. Many consumers saved money for holidays which has made higher ticket fares less offputting. In a consumer [survey](#) in the US last year, 22% of respondents said they held back spending in order to be able to travel once it was more accessible. Airline bookings – especially for continental trips – with Easyjet and Ryanair in Europe, for instance, and Jetblue and Southwest in the US, suggest a solid uptake in the run-up to the summer holiday season. An exceptionally [strong return of cruise bookings with US-based liner Carnival](#) is also a sign of returned holiday travel enthusiasm. However, recovery will be [uneven across airlines and routes and business travel is expected to lag](#).

In everyday passenger transport on road and rail (public transport), we also see a significant rebound over the first quarter of the year. Figures for travelling to transit stations reveal a rebound to levels between 70% to 95% in European countries, and some 75% in the US compared to the pre-pandemic baseline. Recovery is expected to continue this year, which drives general growth in transport in 2022.

Ukraine war limits the upside for sector growth, especially in Europe

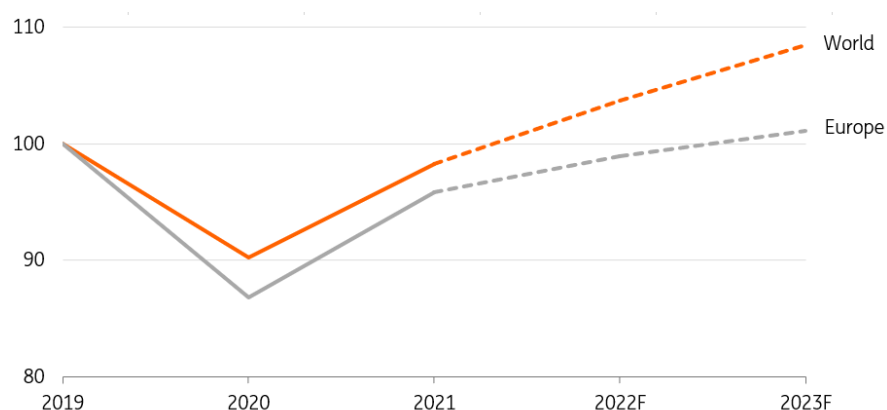
The war in Ukraine has major implications for [aviation](#) and [shipping](#). [We expect world trade to flatten this year](#) if the war carries on. Although recovery continues in transport and logistics, the conflict clearly slows volume growth, especially in Europe, with formal and voluntary sanctions on trade and a weakening general economic perspective due to rising prices and increased

uncertainty around global growth perspectives. This is on top of the inefficiencies of disrupted supply chains and ongoing elevated transport prices (+link) pushing up costs of trade. Estimated average westbound container costs from Asia to Europe surged from 2-3% to 10-15% of product value by the end of the first quarter compared to two years ago. As the manufacturing sector still holds up quite well with order books fairly filled, the impact of slowing demand for goods may materialise more in 2023, but this also depends on how the Ukraine war evolves.

Still, the rebound in aviation and public transport will lead to solid average growth figures, but without the war in Ukraine the recovery would have been stronger. On a global scale, we expect the average total sector volume to exceed pre-pandemic levels by the end of 2022. As trade relations between European countries and Russia and Ukraine are more intensive than elsewhere in the world, the economic impact of the war and the imposed sanctions are more severe in Europe. Together with the mature character of the recovery in goods transport, this leads to lower expected growth perspectives.

Global transport and logistics sector to exceed pre-pandemic level in 2022

Value added transport, logistics & storage sector (index, 2019 = 100)



Source: Oxford Economics, ING Research

Three ways the Ukraine war impacts transport and logistics

The war in Ukraine significantly impacts shippers and transport and logistics companies, adding to ongoing supply chain challenges due to the pandemic. Among the most important implications for transport and logistics are:

- Demand: weakening economic and trade perspective flattens demand for goods

The surge in inflation is weighing heavily on consumers but also producers. Consumers in Europe already revised buying expectations down, while for some producers it is too costly to produce at all at high gas prices.

- Costs: soaring fuel costs (and higher costs of transport equipment) means transport costs go up

High fuel costs impact financial results the most for transport companies serving consumers

directly, like airlines, but also cruise shipping and parcel transporters. European diesel prices have risen more sharply than gasoil prices because of dependency on Russian diesel supply. Higher raw prices for metals and other raw materials have led to price hikes in transport equipment as well.

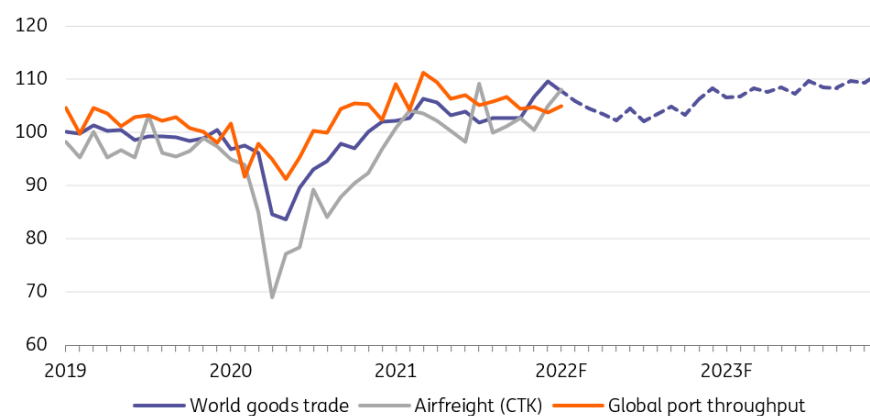
- Supply disruption: new capacity constraints in the air and on land, re-routing in shipping

Capacity pressure continues to drive the year for transport companies and the Ukraine war adds to frictions again. For airfreight, the closure of airspaces leads to new capacity reductions. Russian freighters are dropped out of global service, and routes between Europe and destinations in Korea and Japan are redirected to avoid Russian airspace taking hours longer and possibly requiring stopovers, leading to inefficiency and new capacity pressure, and higher prices/costs. On land, the Eurasian railway – [which grew to handle around 1.5 million containers](#) (TEU) over the last five years (representing more than 5% of total eastbound-westbound container traffic) – is now avoided by logistics services providers and several shippers. Some try to re-route south via the Trans-Caspian route, while some shift to sea, but both options mean longer lead times.

Russia and Ukraine are important suppliers of oil products, gas, coal, iron ore, metals and agricultural products like grains. The war and the imposed (self) sanctioning leads to major shifts in sourcing to other countries and the reshaping of trading routes. In our [shipping piece](#), we take a closer look at this. On balance, this [may lead to longer voyages in shipping](#). Attempts will also be made to shift part of the grain exports from Ukraine to Europe to rail.

World trade slows above pre-pandemic levels in 2022

Indices global trade, airfreight traffic and global ports throughput (2019 = 100)



Source: CPB, IATA, RWI, ING Research

Global trade faces headwinds because of enduring supply chain frictions and sanctions

Trade is a strong indicator of global transport development, especially in shipping and logistics. After a double-digit rebound beyond the pre-pandemic level in 2021, we have already witnessed a slowdown in 2022, and the implications of the war in Ukraine will weigh more heavily on trade than on the global economy. We expect global trade volume to flatten this year, but still remain on the positive side. Higher year-on-year demand for oil products and intra-regional trade growth (such as for building materials) especially support trade. Also, international e-commerce will persist as a

driving force after a surge during the pandemic.

Supply chain disruption and higher costs are not expected to improve trade conditions

The purchasing manager indices in the manufacturing sector still provide positive signs for trade and transport in the short run. Filled order portfolios in the US and Europe seem to secure growth. But at the same time, important manufacturing industries like automotive continue to struggle with shortages (see box: rethinking sourcing). The supply constraints limit production levels and consequently trade and transport demand.

How will supply chain frictions evolve further into 2022?

Port congestion and backlogs started to ease in the first months of the year, leading to a substantial improvement in the US LA-Longbeach port bottleneck. However, the war in Ukraine and related avoidance of ports and vessels combined with a new lockdown at the world's largest global container port region, Shanghai, put the global supply chain network to the test again. Estimated Far East-Westbound timeliness (cargo ready ex-works to port of destination departure) [reached a new high in April](#) which adds to existing delays in supply chains. It's uncertain how these events will evolve, but the impact will at least be felt for several months ahead. Consequently, imbalances are expected to drag on through the year.

Rethinking supply chains may revise logistics patterns, but not immediately

Among transport and logistics clients, supply chain resilience is top of mind. Logistics players such as Dachser and UPS note that clients are looking at ways to reduce supply risks and increase reliability. Efficiency and lowering cost are no longer the leading focus, with damages following production interruptions and workarounds and this could impact transport. What are the options?

- More buffer stocks (just in case inventory) and planning further ahead
- Longer contracts with suppliers and transport partners
- Investment in own containers and transport capacity
- Multi-sourcing
- Reshoring or nearshoring (regionalisation)

Trade and transport are under reconsideration, but at the same time fundamentals of trade still hold. [Research so far shows the pandemic hasn't marked the end of globalisation yet](#) and labour shortages and high energy prices make reshoring more expensive.

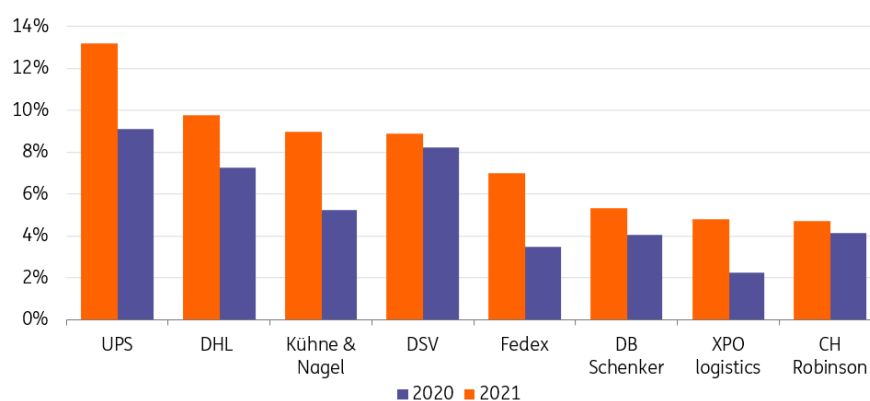
Consequently, despite higher trade costs, [we don't expect a rush in reshoring](#), and perhaps rather nearshoring, with a focus on diversification.

Cross sectoral and global cost pressure for transport companies – pricing power helps

For many companies, this year is marked by rising costs of fuel, wages, and transport equipment. The aviation and shipping sectors are the most energy-intensive. In aviation, specifically, this complicates the return to profitability, while the highly-fragmented trucking sector is also affected. For the latter, the positive thing is that shortages of drivers and transport equipment have lifted pricing power in the US, UK and EU, but wages and sub-contractor rates have gone up as well. With the market volumes and pressure on capacity easing further into 2022, it will most likely be less profitable for most road haulage companies.

Logistics services providers boosted margins amid rebound and disruption

Operational margins of large global logistics services providers (EBIT) in % per year



Source: Annual reports, ING Research

Logistics services providers entered a more challenging year

The profitability of large global logistics services providers active in sea and airfreight soared amid increasing volumes and spiking tariffs in 2021 (chart). The year ahead, however, will be more challenging because of the market, but also because of competition. Last year, logistics companies benefited strongly from earlier fixed-term contracts with container liners, that offered a high margin on the spot market. But as container liners shift more into term contracts with clients, they will try to deal with large shippers themselves more often. Consequently, margins are likely to have peaked and will erode in 2022.

A positive note for logistics services providers active in parcel is that at least higher e-commerce volumes over the pandemic are here to stay. [UNCTAD figures](#) show that the online share of total sales of goods is close to 25% in the UK, China, and Korea in 2020. Other parts of the world are lagging, indicating that there's generally ample room for bolstering growth.

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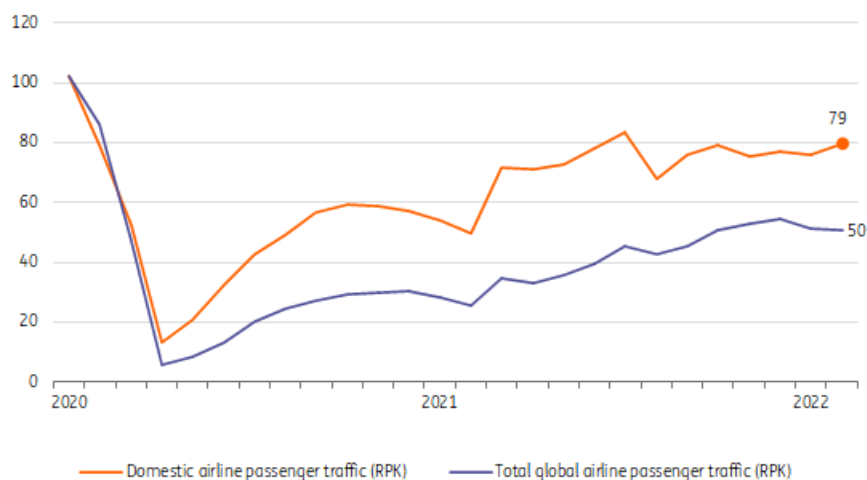
Source: Shutterstock

Recovery in aviation shifts to second stage in 2022, despite lasting volatility

The pandemic has hampered the airline industry for much longer than expected. After the recovery began in 2021, new waves of the virus and fresh travel restrictions prevented the sector from scaling up. This year, however, is meant to be the year of delayed but sustained recovery, despite new scars. Global passenger traffic (RPK) recovered to 50% of pre-pandemic levels in the first months of 2022, but intercontinental traffic still has a long way to go.

Global airline traffic recovery, while entering spring

Index global passenger revenue kilometer (RPK) (2019 = 100)



Source: IATA, ING Research

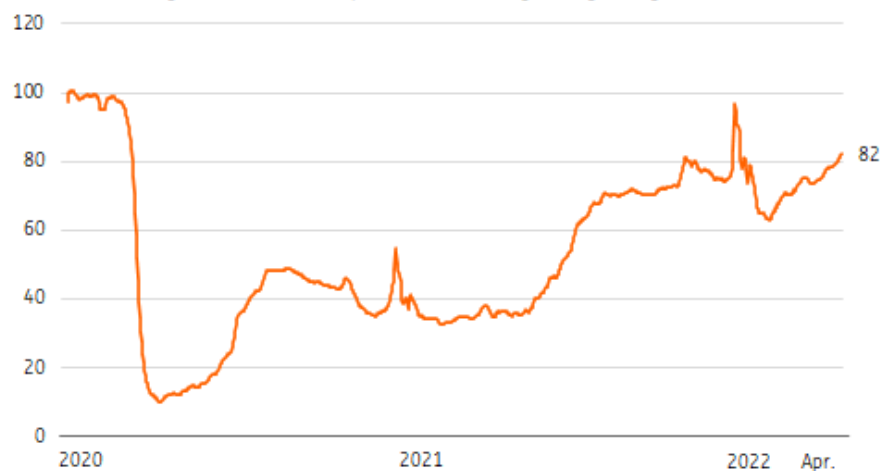
Strong rebound in leisure travel expected for the summer of 2022

What we learned from 2021 is that when restrictions are lifted, demand for travel is still there, particularly for family visits and holidays. Many air passengers have suspended trips over the last two years leading to pent-up demand. This could also lead to 'front loading' this summer as consumers may consider these travel freedoms to be temporary. This suggests the recovery could lose strength later on.

Passenger traffic showed a significant increase, up two thirds of pre-pandemic levels in March in Europe's main airports. Airlines such as [Ryanair have reported stronger international bookings](#) – especially for short-haul international flights despite uncertainty from the war in Ukraine and higher ticket fares. [Sales data on international tickets](#) also point in this direction. Following a weak 2021 – especially in Europe – [airports also expect a much better 2022](#).

European flights reach 80% of pre-pandemic levels in April

Index number of flights from and to European countries, 7 day moving average (2019 = 100)



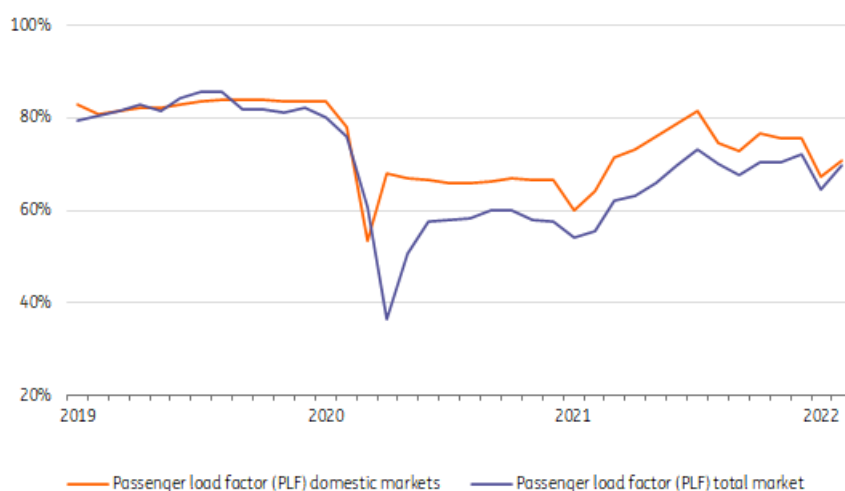
Source: Eurocontrol, ING Research

Flights still less busy than before, leading to inefficiency

Flights have returned stronger than passenger numbers (possibly also to retain slot rights). Average global passenger load factors are still hovering around 70%, which shows that occupancy rates of aircraft are still lower than the pre-pandemic levels of >80%. This means that the cost-efficiency of airlines is still suboptimal which weighs on cost-income ratios. How load factors evolve is therefore something to watch as well in 2022.

Aircraft occupancy rates still some 10%-points lower than usual

Development of passenger aircraft load factors (PLF) total market and domestic markets



Source: IATA, ING Research

Staff shortages challenge airlines in returning capacity to the market

Paradoxically, hiring staff is now a critical factor in getting aircraft frequency back online, as airlines cut their workforces over the pandemic and cabin crew staff left for other sectors. Sick leave rates are also higher than before, which is leading to operational challenges. For every restored flight additional personnel and job markets are tight. This may limit expansion, frequencies and routes, especially in the US (e.g. Jetblue).

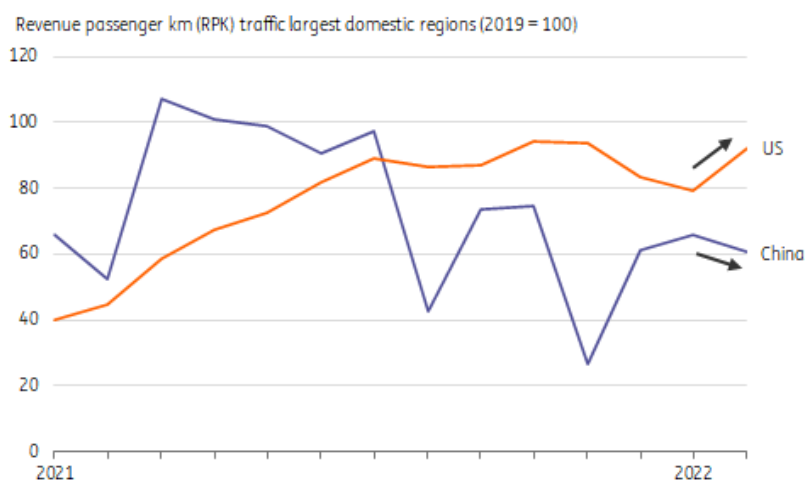
War in Ukraine affects European airline traffic, as well as airfreight capacity

- The mutual closing of air spaces has led to a **reduction of passenger traffic to and from Russia and Ukraine**. Russia accounts for 4.5% of global revenue passenger kilometres (RPK), and because of the sanctions this will undoubtedly go down as Russian holidays to European countries will fall ([Russian travelling accounted for 5.7% of European traffic in 2021](#)). Domestic travel will also suffer.
- The massive size of the Russian airspace avoidance affects some 10% of total passenger kilometres, according to IATA. Avoiding Russian airspace leads to **detours and longer flights on East-West routes** (e.g. from London, Amsterdam or Frankfurt to Tokyo, Seoul or Beijing). This will make trips less efficient and pushes up fuel costs even more, leading to higher ticket prices and extra capacity deployment.
- The war in Ukraine also leads to **direct new capacity cuts**. The grounding of Russian carriers like Airbridge cargo (approx. 20 freighters) due to the closing of airspaces and disturbed supply of spare parts for freighters reduces capacity. Lufthansa expects global air cargo capacity to consequently be [reduced by 10%](#), and global airfreight forwarder Kuhne Nagel indicated its capacity was down 30% on the Far-East Europe route following the sanctions. Due to scarce capacity, airlines are also considering re-allocating capacity to (possibly more profitable) other routes.
- In total, **hundreds of aircraft** leased to Russian operators were [still in Russian territory](#) at the end of March, but they are not in service on the usual international routes anymore. It's uncertain how many eventually will be returned to the lessors, but this will also curtail global capacity.

Full global recovery in passenger aviation not expected before 2024

Although we expect the recovery in aviation to continue this year, global passenger volume is not expected to recover in full before 2024. The war in Ukraine will temper the pace of recovery in 2022. In addition, a setback in the large Chinese airline market due to new Covid-related restrictions is slowing the return of travel volumes as well. Without these events, the recovery would undeniably have been stronger this year. For airlines based in the US, the impact will most likely be less severe than for European airlines, and the impact for low-cost carriers will also be less than for traditional intercontinental operating carriers. Despite the long haul to recovery, global passenger figures are still expected to eventually return to an annual growth trend of 3% or 4%.

Largest domestic market US on track for recovery, Chinese traffic slumps



Source: IATA, ING Research

Continued large regional differences in recovery – US in the front

On the back of a large home market, airlines in the US performed better than European airlines over the last year. Mid-April 2022 passenger checks at [US airports are back to around 90% of pre-pandemic levels](#) and bookings appeared to be relatively strong. European flight numbers returned to 80%, but passenger load factors in Europe are still below the 70-80% US figures.

A relevant difference is that the American (highspeed) rail network is less intensively developed than the European system and distances are longer, so there are fewer alternatives while airline interconnectedness is high. In Europe though, rail network connections are being extended and governments, like the French, aim to shift short-haul flights to rail on short notice.

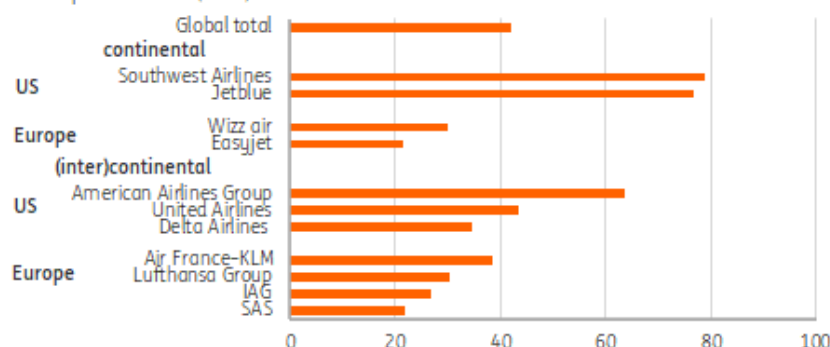
Chinese airline market struggles with return of Covid restrictions

Contrary to the US, the Chinese airline market has slumped after new Covid-related lockdowns. After an almost full return to pre-pandemic levels early in 2021, domestic airline travel figures started to decline again and were around 60% in early 2022. The risk of new measures has led to uncertainty about when the recovery might pick up again.

The other major Asian growth market, India, is also seeing a strong trend of returning domestic airline traffic, which can also be seen in India's public transport. With a growing middle class, India could be a driving force behind the global recovery in the years to come.

US continental airlines recovered stronger than European airlines at the start of 2022

Index revenue passenger km (RPK) of a selection of continental and intercontinental operating airlines in 2021 compared to 2019 (=100)



Source: Annual reports, ING Research

Global aviation entered the year with far fewer restrictions. How will travelling behaviour change once the pandemic is over?

Structural effects of the pandemic for aviation:

- Business travel won't be the same. The pandemic changed the way we perceive work and travel. Corporate travel will show a recovery in 2022 but is not expected to return to previous levels in the near future. Many typically international companies like ASML, PwC and financial institutions have indicated they will fly less and on top of this, sustainable alternatives are preferred – conscious travelling policies, for example for staff at universities and civil servants are also being introduced. For airlines, this means fewer sales of profitable business seat tickets.
- Another effect of the pandemic is the revaluation of the air cargo business. This could offer interesting complementary business opportunities.

The focus on sustainability has gained extra momentum during the pandemic. The blending of sustainable aviation has started to gain traction by flag carriers and market leaders and consequently, flying will be more expensive in the short run, at least in Europe. Europe is also considering fuel taxing and ticket taxing.

Adapting to the post-pandemic world – fewer business seats, more freighters

The dynamics of the post-pandemic world make it relevant for airlines to review their business models and strategy. Air networks may emerge smaller than previously expected and volumes could remain more volatile. With fewer business passengers, smaller aircraft may gain popularity. This will further benefit single-aisle aircraft, which are more flexible and easier to fill. Some airlines may consider changing their seat composition to include fewer business seats and more upgraded economy class seats ('economy plus').

In today's world, freighters are also becoming more structurally important. Freight cushioned the drop in results for intercontinental carriers and due to high rates, it even counted long-haul international passenger routes will take the longest to recover and these are important for belly freight.

Higher fuel costs, but this won't slash traffic in 2022

The gradual rise in oil prices in the second half of 2021 and the spike following the war in Ukraine significantly pushed up airline operational costs. Over the fourth quarter of 2021, jet fuel costs already accounted for 24% of airlines' total operating expenses and this will go up further. Even if oil prices ease in the remainder of 2022, results will be hit and [this complicates the return to profitability](#) for many airlines this year.

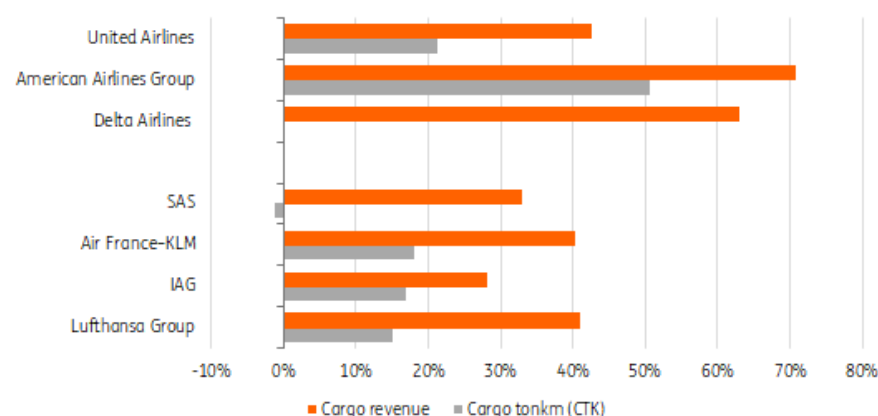
To what extent airlines are affected depends on fuel hedging strategies. In general, low-cost carriers apply hedging rates more than traditional carriers, which implies that the impact for 2022 will be mitigated. Traditional carriers usually accept more risk on the fuel side, with lower hedging rates. This means higher kerosine prices tend to affect them more.

And there is also a difference between European and American airlines as the latter tend to bear the risk themselves (Southwest airlines using hedges is an exception).

Airlines like Air France, KLM and Delta have started to raise ticket fares with fuel surcharges. A positive note is that travellers seem willing to pay extra for their tickets at this point (with oil prices just above \$100). Nevertheless, high fuel prices make fuel efficiency even more important.

Ongoing strong results in air freight attract strategic attention

Development of cargo revenue and cargo tonkm (CTK) in 2021 y.o.y.



Source: Annual reports, ING Research

Air cargo business keeps outperforming in 2022

One thing the pandemic made clear is the need for flexibility and a fast alternative in case of unexpected circumstances. Air freight is more expensive but keeps supply chains agile, although timeliness is also several days longer than the normal six days ex-works to the destination airport. After a strong double-digit rebound in 2021, market growth will significantly slow this year [with world trade flattening and a normalisation in e-commerce growth](#). Air cargo rates on the Far East-Westbound trade are still four times higher than pre-pandemic, but the competitive position for shippers remains relatively good amid disrupted supply chains.

Airfreight capacity remains tight

Capacity remains a limiting factor in airfreight through 2022 and the war in Ukraine has curtailed this further. Belly freight capacity has started to return, but not in full yet and compared to the 5-10% larger freight volume there's still a substantial deficit. The global fleet of full freighters increased by a net 40 in two years but this doesn't compensate. And this year, permission for transporting freight in passenger aircraft (e.g., for medical products during the pandemic) ends in the US as well as in the EU (from mid-2022).

Airlines, logistics players and container liners rush to set up freighter fleets

The capacity shortage on the freight side has led to various initiatives to expand among airlines, logistics services providers and remarkably also shipping companies. Among others, Emirates, [Qantas](#) and Air Canada plan to expand their fleets from 2024 by adding freighters and converting passenger jets.

On the logistics side, Amazon, DHL, [UPS](#), as well as [K+N](#) and container liners CMA CGM, Maersk and possibly MSC are expanding and setting up (chartered) freighter fleets and airlines are revaluing the cargo activities as well. Amazon, in particular, is absorbing a lot of the market growth. Its freighter fleet has grown to 88 (mostly B767 60-ton) and it explained this will continue this year.

How are major European carriers performing?

Lufthansa

In 2021, Lufthansa Group had total revenue of €16.8bn, up 24% YoY, including traffic revenues of €11.9bn, up 31% YoY, and adjusted EBITDA loss of €90mn (compared to the respective loss of €2.9bn in FY 20). In FY '21, the adjusted EBIT loss was €2.3bn (a significant improvement on the loss of €5.5bn in the preceding year), and adjusted negative free cash flow of €0.9bn (vs. negative FCF of €3.7bn in FY 20). Lufthansa's free cash flow benefited from the turnaround in the company's cash from operating activities to a positive €0.6bn, compared to the negative amount of €2.3bn in the preceding year, while gross capex remained at a similar level of approximately €1.3bn. Adjusting Lufthansa's free cash flow further by €0.8bn of the tax payments deferred from 2020, adjusted free cashflow would have been close to breakeven at negative €45mn in FY '21.

In 2021, Lufthansa benefited from the structural decrease in its personnel costs of approximately 10% relative to the pre-Covid 19 levels. Also, during the year, Lufthansa

Cargo had a record performance, almost doubling its adjusted EBIT year-on-year to €1.5bn (from €0.8bn in FY 20).

In 2021, passenger numbers reached 47mn, up 29% YoY, and the number of flights increased by 18% YoY, with available seat-kilometres up 32% YoY. The offered capacity rose from 21% of the 2019 level at the beginning of last year, to approximately 60% at the end of it, to amount to approximately 40% on average for FY '21.

Last year, Lufthansa had multiple fundraising activities, including issuing six bonds, 20 aircraft financings and an equity capital increase, leading to the repayment of the WSF (German Economic Stabilisation) funds in full. At the end of 2021, Lufthansa had access to liquidity to the tune of €9.4bn.

Lufthansa's management expects a strong travel season in 2022, with the summer capacity on short and medium-haul routes close to the 2019 levels and bookings for the Easter period and summer partially above the pre-crisis levels. The company says that it is confident there will be a strong upswing in passenger traffic this year, reflecting the pent-up demand for leisure and business travel, which was already noticeable during the prior year, while risks include the fallout from the war in Ukraine and related geopolitical uncertainties.

For the summer season, Lufthansa expects to increase available capacity to around 85% of the 2019 levels, while on short- and medium-haul routes, the figure is expected to reach around 95%. For FY '22, Lufthansa Group expects an average capacity of over 70% of the 2019 levels.

In 2022, Lufthansa anticipates further improvements in adjusted EBIT and adjusted free cash flow, despite the notable cost inflation, including traffic control and airport charges and fuel costs, partially mitigated by fuel hedges. The improvements are likely to manifest themselves more after 1Q of this year, which was still impacted by the Omicron variant of Covid-19.

IAG

In 2021, International Consolidated Airlines Group (IAG), had total revenue of €8.5bn, up 8% YoY, including passenger revenue of €5.8bn, up 6% YoY, and an operating loss before exceptional items of €3.0bn (compared to the loss of €4.3bn in FY 20). In FY 21, IAG had negative EBITDA before exceptional items of €1.0bn but managed to achieve a positive EBITDA of €0.25bn in 4Q of the year for the first time since the start of the pandemic.

The company had negative free cash flow of €0.3bn in FY21, but with the very low level of gross capex of €0.7bn, partially offset by the asset disposals of €0.5bn. IAG's net cash from operating activities for the year was negative €0.1bn, helped by the substantial positive operating cash flow of €1.0bn in 2H 21. At YE '21, IAG had liquidity of €12.0bn.

In 1Q '22, the company expects capacity to be around 65% of the 2019 levels, with the quarter expected to be loss-making at the operating profit level due to the impact of the Omicron variant, operating costs of restoring capacity and due to the normal annual seasonality. IAG noted that bookings have been strengthening for the Easter and summer periods, with the capacity in 3Q '22 expected to be at approximately 90% of the 2019 levels and planned full restoration of the North Atlantic routes for that quarter.

For FY '22, the company expects to be close to 85% of the 2019 levels and for operating profits to be positive from 2Q onwards and significantly positive for the full year of 2022. IAG guides for net cash flows from operating activities to also be "significantly positive" for FY '22.

Of note is a significant increase in the gross capex budget in FY22, to €3.9bn (compared to just €0.7bn in FY 21), driven by the need to restore the capacity to the pre-pandemic levels and due to the delay in the delivery of aircraft and deferred pre-delivery payments from 2021.

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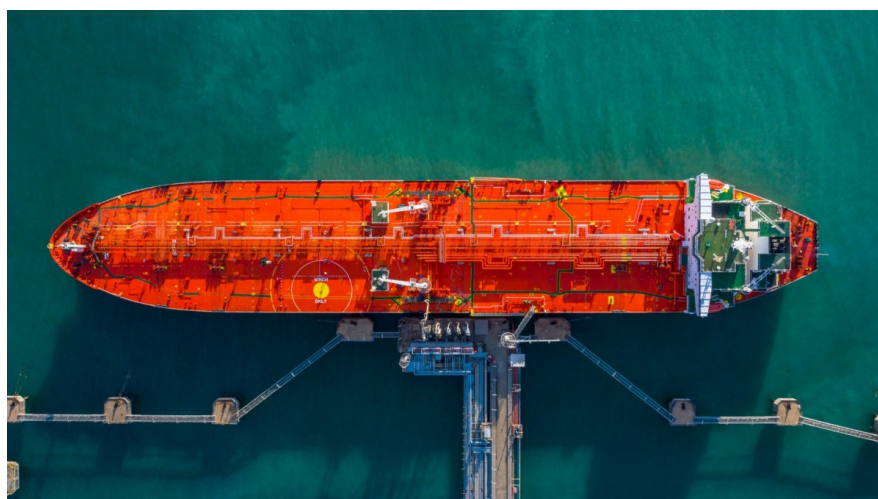
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Global shipping outlook: rebalancing with reshaped routes

The shipping sector faces another extraordinary year, with ongoing supply chain frictions and the reshaping of routes in dry and liquid bulk markets...



Sanctions following the Russian invasion of Ukraine means shipping routes have shifted

Gradual normalisation turns into refueling disruption

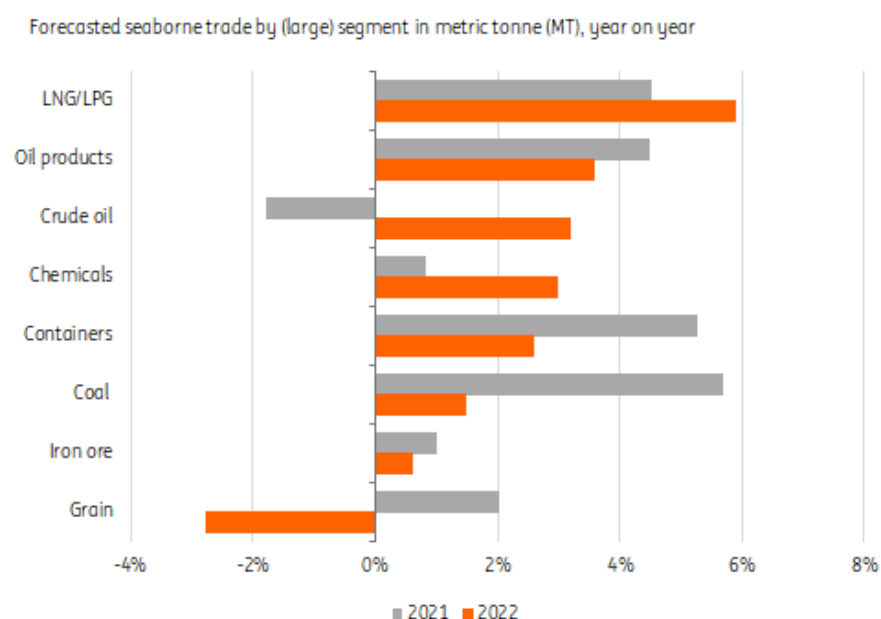
The global shipping sector rebounded strongly from the pandemic in container and dry bulk shipping. A lack of capacity to handle the unexpectedly strong wave of demand and Covid-related closings disbalanced global supply chains and led to spiking tariffs. In the first few months of 2022, the situation started to improve especially in clogged American ports, but the Russian invasion of Ukraine and the return of lockdowns in China has caused disruption to trade and global shipping. Consequently, supply chain problems are expected to drag on through 2022 and capacity pressures will continue.

Market outlook for shipping volume weakens as war weighs on economy

Uncertainty around the unfolding war in Ukraine is significant and is clearly impacting the global economy and world trade. After a double-digit bounce-back beyond pre-pandemic levels, we expect headwinds to leave trade growth limited between 1% and 2%, in our base case. With 80-90% of world trade travelling by sea, this also paints the picture for shipping volume in 2022.

However, the differences in dominant good flows are significant.

Grain trade under pressure in 2022, oil trade in recovery



Source: Clarksons, ING Research

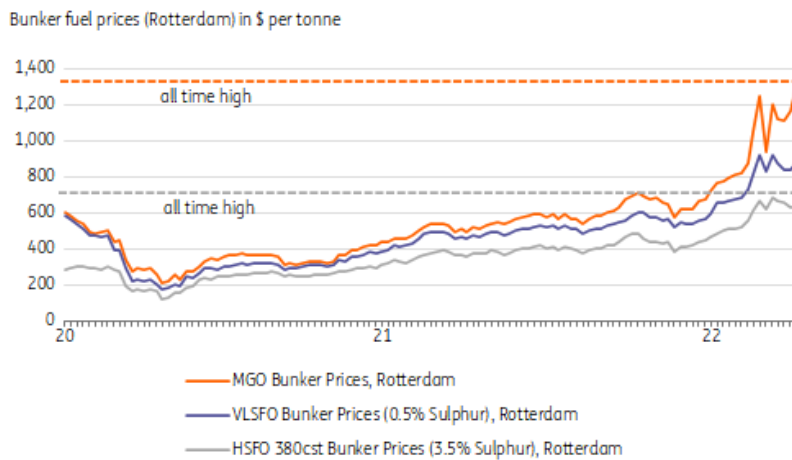
Growth in most segments in 2022, except grain

With resumed travelling and lifted Covid-restrictions in most of the world, energy product flows are expected to rebound and expand the most compared to last year, although the effect of the war and releasing strategic oil reserves influence growth. With the efforts to replace piped Russian natural gas with liquefied natural gas (LNG) in Europe, LNG/LPG (liquefied petroleum gas) tankers are expected to benefit the most (see box on LNG below).

Dry bulk flows are expected to show limited growth this year, and after a strong year for industrial dry bulk and rebuilding stocks (especially in China) 2022 will be more moderate. The comeback of coal as a source in the power sector following the surging gas prices will continue in 2022, leading to continued growth. Grain production is suffering heavily from the war in Ukraine, which is involving two of the world's largest exporters, and alternative supply won't completely offset this setback.

Container shipping growth will probably end up below trend in 2022 as demand for goods will probably soften with consumer spending in services sectors returning, purchasing power suffering from higher prices, and raised transportation costs. Uncertainty is clearly there, but global port figures for the first months of 2022 indicate a positive start.

Global bunker fuel prices in shipping close to all-time highs in the first months of 2022



Source: Clarksons, ING Research, last data point: 4/22

War in Ukraine has multiple implications for shipping

In the [general transport and logistics piece](#), we discussed the generally negative impact of the war in Ukraine. But this event has significant specific implications on direct costs, operations and business (good flows) for global shipping as well:

Direct costs

- **Bunker fuel prices and fuel price spreads are close to record highs**

Bunker prices make up a significant part of total operational cost in shipping and the sector is [one of the most energy-intensive industries](#). The fuel bill can easily exceed half of the total operating costs for larger vessels. Fuel prices are trading at double the 10-year averages for heavy sulphur fuel oil (HSFO) and have approached 2008 highs for marine gasoil (MGO). The fuel spread between HSFO and very low sulphur fuel oil (VLSFO)/MGO widened, which strengthens the case for use of HSFO which is only compliant in combination with installed scrubbers. Upward price pressure will also remain for some time to come.

The impact on shipping companies is unequal. Vessels operating under charter contracts can easily pass on the fuel bill to the charterer. But ships operating on the spot market (voyage chartering) usually carry their own fuel bill and they try to get this compensated in the rates. Still, there may be a mismatch. Container liners can apply bunker adjustment factors, but have refrained from pushing the full bill through via surcharges (bunker adjustment factor, BAF), possibly because rates are still much higher than usual.

Operations

- **Additional port congestion** specifically in ports like Rotterdam, Antwerp, Hamburg and Bremerhaven due to the suspension of Russian destinations by large carriers including MSC, Maersk and Hapag Lloyd, and extra customs checks. Large amounts of dwelling containers led to extra terminal inefficiency and delays in vessel capacity.

- **Banned Russian vessels from ports** of several countries including the EU and UK. Vessels under the Russian flag make up 3% of the global fleet (approximately 2,850 vessels) and 0.5% of total deadweight tonnage (DWT), but there could be more under Russian operation.
- **Additional labour challenges (seafarers).** Russia is the second-largest home country for seafarers after the Philippines. Together with seafarers from Ukraine, this makes up 15% of the global workforce (10.5% + 4%, respectively). This could also lead to operational challenges with absence and travel difficulties because the sector is also still dealing with the legacy of the pandemic with more people on leave.

Demand – good flows

- **Substitution in energy sources.** Europe wants to reduce its pipeline natural gas dependency on Russia as soon as possible. Ramping up LNG sourcing is part of the solution. Temporarily switching (back) to coal in the energy sector is one way to reduce gas consumption and this already happened as a result of high gas prices. This leads to more shipments of coal, which we will witness in coal handling ports like Rotterdam.
- **Weakening trade perspectives, but mitigating effects from re-routing.** The general trade outlook has deteriorated because of the war, but there are also mitigating effects as commodity flows are being redirected and routes are reshaped which is expected to turn into more tonne miles. How this plays out for shipping companies largely depends on specific markets and contracting. On balance, this is expected to create an average of 1%-1.5% extra fleet deployment in 2022, with the most impact on coal and oil products. Below we take a closer look at the replacement of commodity flows running from Russia to Europe.

More (super) slow steaming could be a logical reaction in shipping further into 2022 and 2023 once the market eases. According to DNV, up to 30%–35% less fuel is used when speed is reduced by 20%, and 60%–67% less when the speed reduction is 50%. This is significant and the average speed can still be lowered. However, speed reduction comes at a cost. As the transport capacity of the vessel is reduced, its earning capacity also declines. But it also may push up market rates.

Sanctions following the Russian invasion lead to a shift in shipping routes

Russia is an important supplier of energy carriers and raw materials predominantly shipped through seaports on the Black Sea and Baltic Sea. A large share of these commodities will likely be sold to countries elsewhere in the world. We take a look at the most important European import categories from Russia:

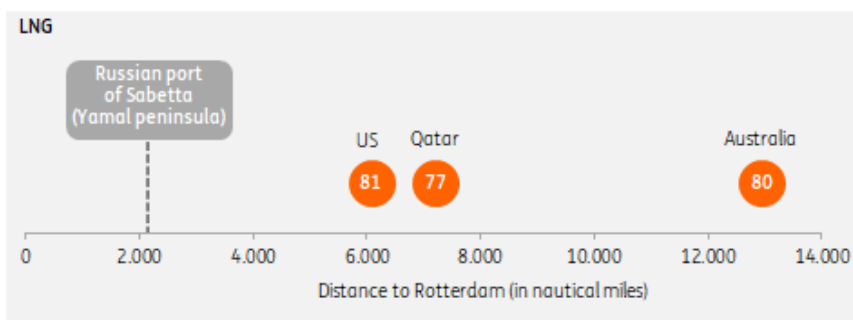
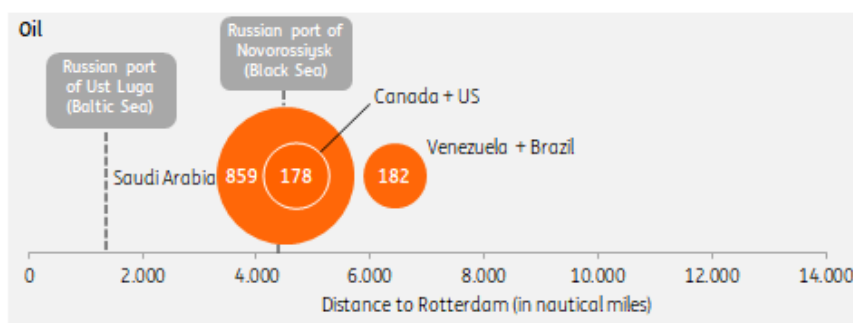
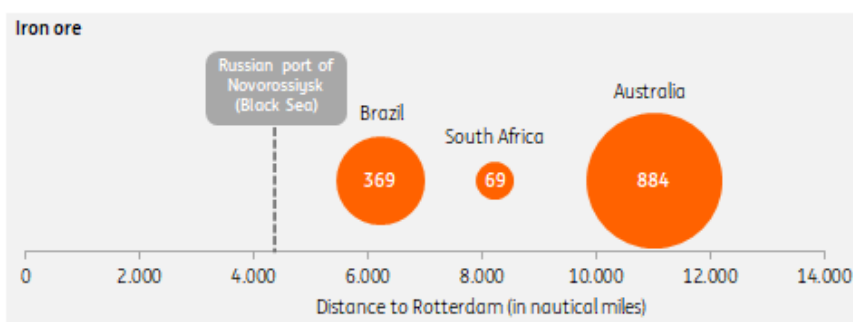
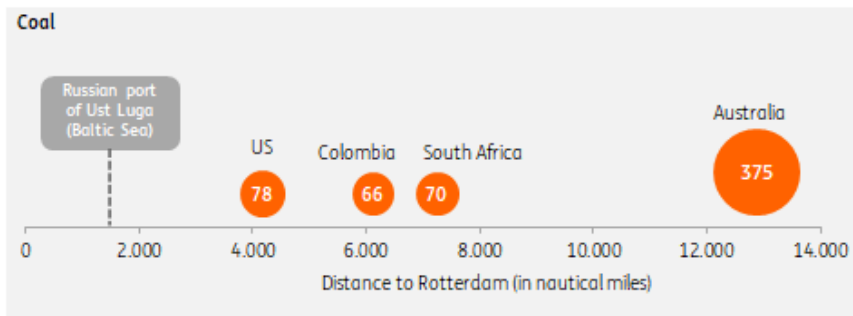
- **Coal** (EU + UK imported 87 million tonnes in 2021) is the dry bulk flow to Europe most exposed to redirection in the short run. The EU sourced 46% of its coal imports from Russia and from August onwards [these imports will be banned](#). Alternative imports are expected to come from the US, Colombia, South Africa and Australia (China still has a trade ban on Australian coal). For most imports, this requires significantly longer voyages than the trip from the Baltic Sea.
- **Iron ore** (EU + UK imported 108 million tonnes in 2021) from Russia to Europe is only a tiny flow, but other metal and steel product imports are also restricted.

- **Oil** (EU + UK imported 172 million tonnes in 2021) Western countries have considered Russian oil bans, and oil majors like Shell and BP, as well as the world's largest trader Vitol, decided to (gradually) step out of Russia and Russian oil. Russian (Ural) oil is generally of heavier quality, which could alternatively be sourced from the Middle East. On the other hand countries like India and perhaps China are likely to import more Russian oil. This will lead to substantial shifts in trade flow patterns in tanker shipping and more tonne miles.
- **LNG** (EU + UK imported 78 million tonnes in 2021). Almost a fifth of European imports came from Russia in 2021 which will try to be replaced by US exports.

Substitute supplies for European commodity imports from Russia need to sail a longer way

Alternative sourcing countries for European commodity import, their current seaborne export in tonnage and distances in nautical miles (NM) to the port of Rotterdam*

Bubble size represents export tonnage



*basis for distances to Port of Rotterdam:
Coal: US: Port of Norfolk, Colombia Puerto Bolivar, South Africa: Richards Bay, Australia: port of Newcastle
Iron ore: Australia: Port Hedland, Brazil: Port of Tubarao, South Africa, Port of Saldanha
Oil: Saudi Arabia: King Fahad industrial port Yanbu, average of Port of Santos (Brazil), Puerto Miranda (Venezuela), average of port of Houston (US) and port of Quebec (Canada)
LNG: US: Port of Sabine pass, Houston, Qatar: Alshaheen terminal, Australia: Port of Gladstone

Source: ING Research

Fleet expansion remains limited in 2022 across shipping sectors

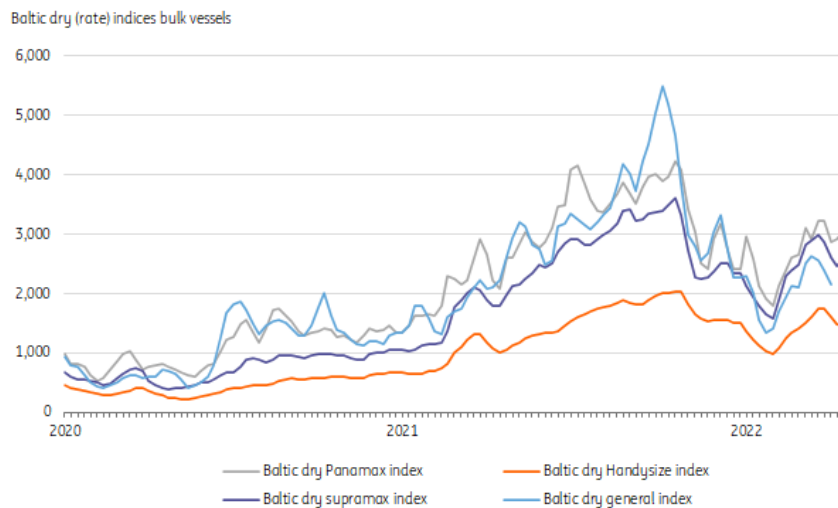
Another important factor for shipping markets is the new vessel capacity. In the years prior to the pandemic, orders for new vessels slowed for bulkers and tankers. In the tanker segment, in particular, most new ordered vessel capacity is expected to come online in 2022 (40% of the order book for bulkers and 60% for tankers, leading to a fleet expansion of 2.8% and 3.5% in 2022 and 2023 respectively). In container shipping there has been a wave of new orders over the last year, however, only 3% of the current fleet size will come online in 2022. All in all, fleet expansion will remain limited across shipping segments in 2022 so this won't derail the markets from the supply side.

Energy transition pushes retrofitting and scrapping

Normal demolition will cover some of this (1% on average across all segments). Higher fuel efficiency requirements ([IMO EEXI efficiency measures for existing vessels will come into force from January 2023](#)) and the shift to alternative fuels (current order book includes methanol (ready) vessels, for example) is also expected to lead to more retrofitting and more scrapping over the rest of the decade.

Container shipping: find our indept article [here](#)

Dry bulk rates still significantly higher than pre-pandemic with medium size bulkers most attractive



Source: Clarksons, ING Research, last data point: 4/22

Dry bulk shipping: beyond the peak, landing softly

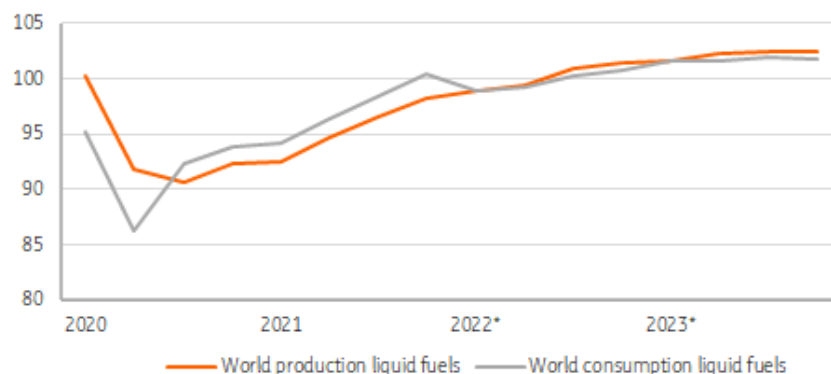
The dynamics of dry bulk shipping are very different this year. The war in Ukraine has led to changing currents in bulk flows like grain and coal. At the same time, massive imports of iron ore from China have eased after a strong industrial driven rebound. The Chinese PMI indicates stabilisation in the first months of 2022 and its zero Covid-policy remains a risk. Consequently, raw material trading will weaken this year. Average seaborne dry bulk trade growth (excluding containers) may stick just above 0% year-on-year, but is expected to show growth in

terms of tonne miles, as explained earlier.

Shipping rates for bulk freight passed their 2021 spike, but still trade above double their pre-pandemic levels in April 2022, which is an encouraging sign, although high bunker prices obviously also push up rates.

Tanker trading flows expected to see year on year growth through 2022

Worldwide production/consumption volume liquid fuels (mln. bbls per day)



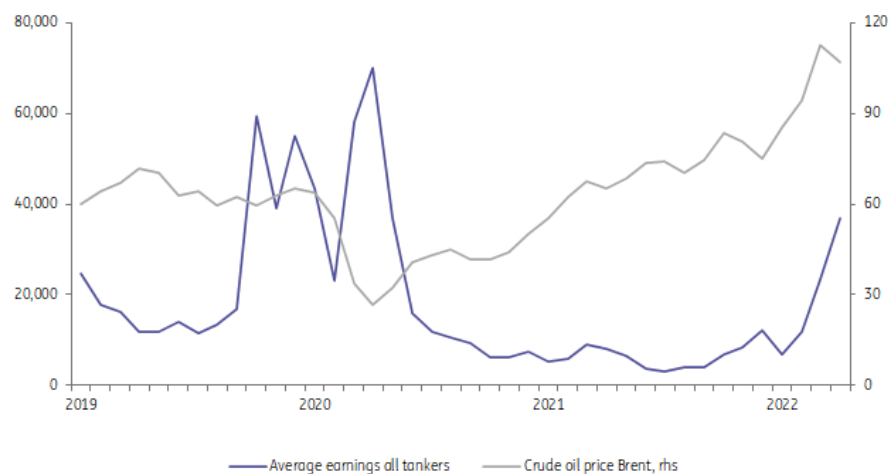
Source: EIA * Forecast EIA

Better fundamentals in tanker shipping

Tanker shipping companies have been operating in difficult market circumstances since the second half of 2020. The market suffered from the setback in travelling during the pandemic. After the oil price recovered and floating storage was curtailed, the tanker market went through a phase with unusual low spot and charter rates. This year promised a more sustained recovery in oil demand, and reserves are relatively low, which should improve market fundamentals for tankers. But the war in Ukraine and surging oil prices has also created renewed uncertainty around future oil consumption. Although crude oil trade is expected to stick below pre-pandemic levels, oil and oil product volumes could see an increase of 3-4% with tonne miles going beyond that level because of replacement of Russian oil supply and reshaping of oil routes (Russia covers 12% of global seaborne oil trade).

Tanker spot rates in recovery while oil price surge

Average tanker earnings in \$ per day and crude oil price in \$ (Brent, rhs)



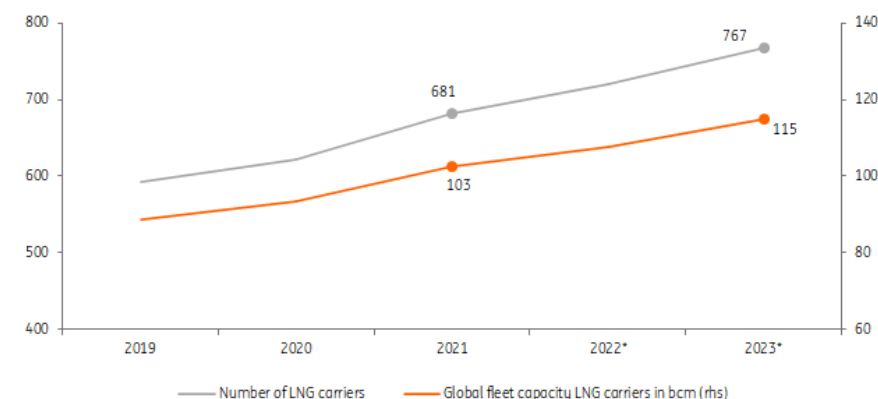
Source: Clarksons, ING Research

Tanker rates leave the worst behind in sanctioned market

The resumption of travelling in combination with (self-imposed) sanctions following the start of the Ukraine war tightened tanker markets. Average earnings of all tankers passed its 10-year average for the first time since mid-2020 in April after a weak winter season. Rates for routes to the Black Sea (including Russia's largest port Novorossiysk) and the Baltic Sea climbed particularly strongly as a reaction to the war and reluctance to sail to Russian ports. Contrary to smaller vessel types, very large crude carriers (VLCC's) haven't joined the market turnaround yet, also because of pressure on demand from largest importer China due to new lockdowns.

LNG-fleet expands, but will struggle to keep up with extra (European) demand

Global LNG-carrier fleet in numbers and total fleet capacity in bcm**



Source: Clarksons, ING Research *forecast **assumed: no demolitions

Replacing Russian gas offers opportunities for LNG shipping

Several European countries are highly dependent on Russia for natural gas supplies and [are rushing to reduce this dependence](#). The European Commission aims to replace a third of its

Russian gas sourcing 50 billion M3 (bcm) per year (33%) by geographical diversification of LNG sourcing. And on top of that, Russian LNG supply has to be replaced. Some European countries have spare re-gassing capacity and also plan to expand current capacity and/or build new terminals [like Germany in Wilhelmshafen and Brunsbüttel](#). In the short run, countries like The Netherlands, Germany and France are also considering the opportunity to create floating LNG terminals to create extra capacity. [The US already committed to ramping up deliverance to Europe by 15 bcm per year in 2022 and 50 bcm in 2030](#). In addition, the US, Qatar and Australia could possibly supply extra LNG, although [spare supply of LNG on the spot market is limited](#).

The shift from pipeline to sea will lead to an extra push for LNG shipping demand over the following years. The global fleet of LNG carriers had a size of 681 in 2021 and 200 more vessels are on order. Constructing all these LNG tankers however will take several years. In 2022 and 2023 only about 8 bcm of additional capacity will come online. If we take an average of seven loops per vessel per year, this would offer an extra annual capacity of 54 bcm on a global scale by the end of 2023.

The combination of limited extra supply and limited extra shipping capacity means that the ability to ramp up imports of LNG flows is limited in the short run. There might also be some reluctance to invest in a 20-year term as LNG isn't a sustainable low carbon energy source in the long run.

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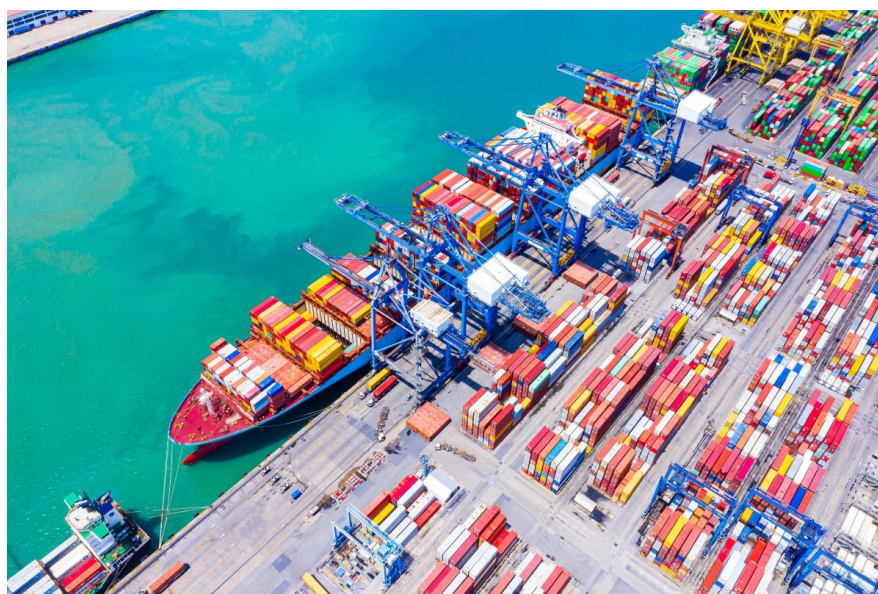
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Container shipping: volume growth calms, tariffs remain strong

Global growth in container shipping is expected to slow to 3% in 2022. Disruption in supply chains should persist amid the war in Ukraine and lockdowns in...



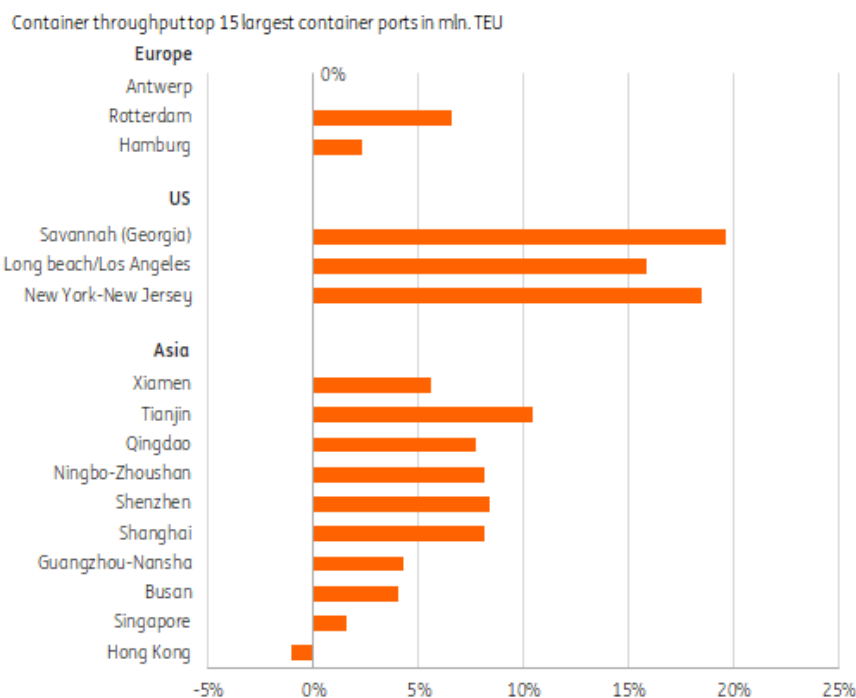
Source: Shutterstock

Strong rebound in container traffic pushes global ports far beyond pre-pandemic levels

Container shipping has enjoyed a phase of strong demand. With the exception of Hamburg and Hong Kong, the 15 largest container ports in the world exceeded pre-pandemic traffic levels in 2021, with flows in Chinese ports like Tianjin, Qingdao, Ningbo and Shenzhen seeing double-digit increases compared to 2019. Container throughput in the largest US ports ended up being 20% larger amid surging demand for goods last year.

[Our general outlook on global shipping \(including dry bulk and tanker shipping\)](#)

The world's largest container ports expanded in 2021, the US is most busy

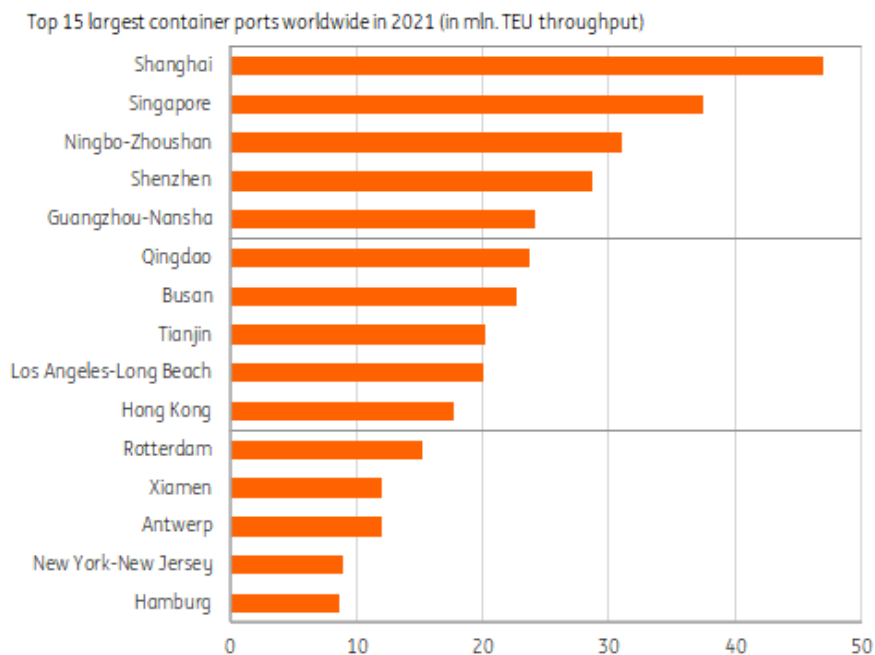


Source: Port authorities, ING Research

Slower container volumes in 2022 while market remains tight

Volumes in global container shipping and container ports are expected to slow to 3% (in MT). In the first three months of 2022, US ports operated at record levels which enabled them to cut backlogs. The largest global port, Shanghai, handled over 47mn containers. But the port has struggled amid new lockdowns in China, and a strict Covid policy remains a risk for terminal productivity in the country. In Europe, the largest ports will face sliding throughput because of the loss of Russian container volumes and diverted vessels because of delays.

Shanghai is by far the largest global port - lockdown to leave its mark

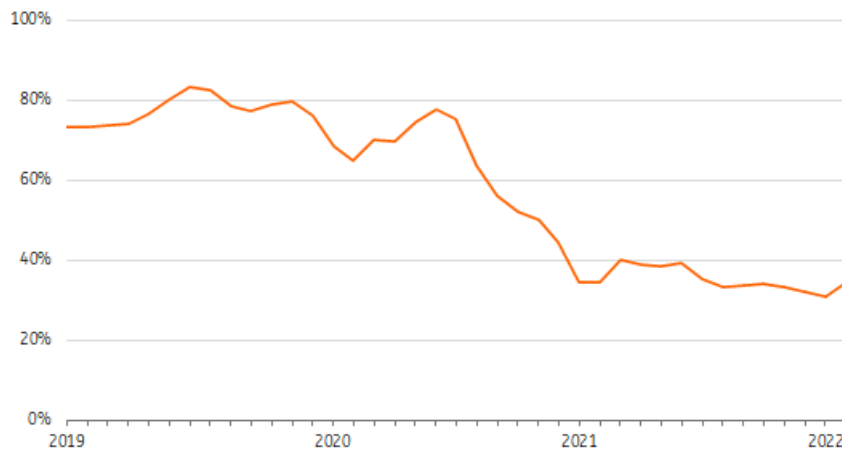


Relief in US port congestion but capacity pressure is far from over

Travel durations for containerised freight from the Far East to destinations in Europe and the US have increased. [Timeliness](#) still hovered around double the pre-pandemic level in April at over 100 days. In the most important port area and bottleneck in the US LA-Longbeach, the backlog dropped. At the same time, Western European ports face the consequences of stranded containers destined for Russia, which again pushes up congestion. And with China being the leading export country for consumer goods, the impact of disruption in Shanghai will leave its mark in other parts of the world through at least the second quarter. This adds to an already unbalanced system. On average, global port congestion was still close to peak levels in April, leading to delays and low arrival reliability.

Hardly any sign of improved arrival performance at the start of 2022

Schedule reliability container vessels worldwide (% vessels arriving on time)

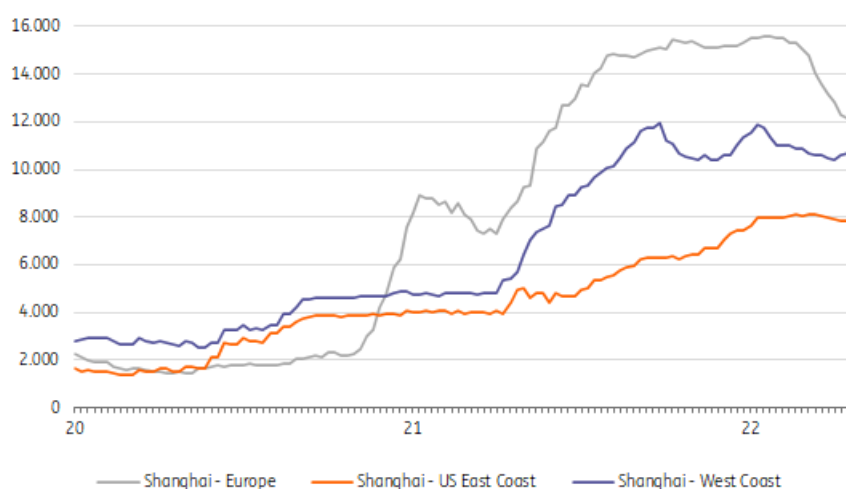


Spot rates ease at high levels while liners lock in higher rates for longer

Westbound spot rates from Shanghai to Europe eased from the peak seen in early 2022. Earlier imposed caps from carriers like Hapag Lloyd and CMA CGM, cooling world trade, as well as regular seasonal effects could be reasons behind this. However, in April, rates were still three to six times higher than normal and liners have been shifting more to long-term contracts with shippers seeking to secure higher rates for longer. In this regard, Maersk aims to reach 70% of total volume under its term contract in 2022, up from 49% in 2019.

Container spot rate tariffs from China-Europe eased from extremes, but remain high

Development containerised (base port) freight tariffs in \$ per FEU (40 ft container)*



Source: Clarksons, ING Research, last data point: 4/22

Lasting congestion and inefficiency lead to another strong year

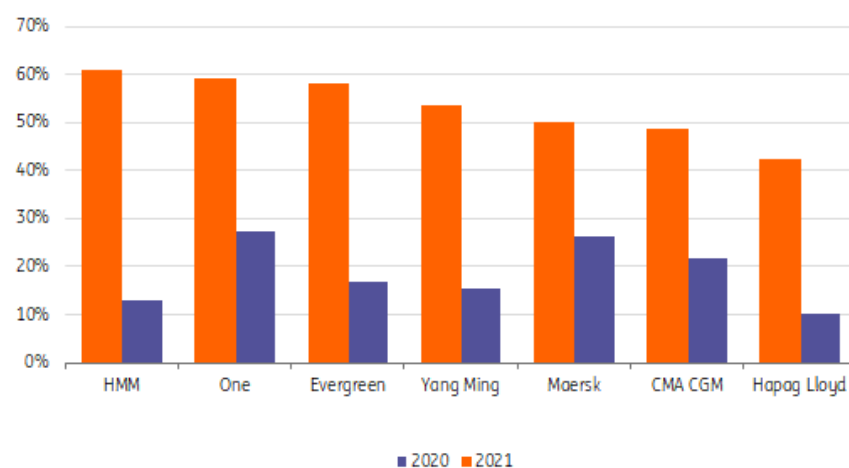
Average containership earnings per day are still trading at peak levels in April and this is similar for the 6-12 month chartering of larger feeder vessels. Congestion still consumes over 10% of total fleet capacity and average port congestion has not improved either. This will mean that capacity pressure is set to remain and rates are expected to stay significantly higher than before. All in all, this will lead to another year of strong results for carriers in 2022 despite a much higher fuel bill.

Highly profitable years enable container carriers to take strategic steps

The large cash reserves will enable liners Maersk and CMA CGM to invest in their strategic development as integrated logistics services providers, by acquiring logistic services activities, investing in terminals and setting up a fleet of full freighters. The aim is to compete with players like Amazon or DHL as end-to-end logistics players, as well as possibly large shippers like Walmart, Ikea and Lidl which are trying to develop their own logistics activities. For [logistics services providers, this creates a challenge](#).

Container liners exceptionally profitable in 2021

Operational margins of large container carrier groups (EBIT) in % per year



Source: Alphaliner, DHL, ING Research

Wave of new container capacity in 2023-2024, but rates not expected to return to previous levels

In the market boom, container liners have ordered over 500 new vessels including (ultra) large ones with capacity from 15,000 to 24,000 twenty-foot equivalent units (TEUs). This amounts to over a quarter of the current fleet capacity in March. Most new container vessels will sail from 2023 and 2024 (both years +9%), creating much more capacity than can be instantly absorbed by demand growth. However, container rates are not expected to return to previous low levels any time soon for several reasons:

- Container liners have shifted massively to longer-term contracts locking in higher tariffs in the short run
- Container liners have learned how to manage capacity by taking sailings out of the loop.

- Slow steaming is another instrument to manage capacity
- The sector is more consolidated – three large alliances dominate* (80% market share)
 - Fuel costs are higher and liners can reduce speed to save fuel or manage capacity: (super) slow steaming (blending) alternative fuel is more costly
 - Carbon emissions will ultimately be priced
 - More retrofits and scrapping are coming to meet CO2 targets.

*Because of the nature of the industry including large risks and longtime overcapacity, container liners have received waivers from authorities to operate in three large alliances. Questions have been raised around extreme profits in Europe and [this block exemption is valid until 2024](#) but in the US, the functioning of the market [will be investigated](#). However, the outcome is not clear.

How three of the largest container carriers have performed

CMA CGM

CMA CGM reported a strong increase in revenue and EBITDA for FY 2021. During the year, the company had revenues of \$56.0bn, up 78% year-on-year, and EBITDA of \$23.1bn, up 278% YoY, with a margin of 41.3% (vs 19.4% in FY 20). According to CMA CGM's management, the financial performance reflected extremely strong demand conditions.

During 2021, CMA CGM's Shipping division achieved a major increase in unit revenue, with the volumes shipped of TEU22.0mn, up 5% YoY, and revenue per TEU transported of \$2,055, up 79.5% YoY, with significant rate increases on the Transpacific, Asia-North Europe and Latam routes. Unit revenues were also supported by higher contracted rates. The higher shipping rates more than offset an increase in unit costs, which were related to the congestion of the supply chain (handling and stevedoring, transportation, logistics), higher chartering costs and higher bunker consumption. In 2021, CMA CGM's unit costs were up 18.2% YoY. The company's Logistics business also showed an improvement in 2021, with revenues up 46.9% YoY and EBITDA up 43.6% YoY.

CMA CGM noted that disruptions in global supply chains have continued to constrain the effective capacity of the global fleet at the beginning of 2022 and that the company is closely monitoring developments related to the Russian war in Ukraine as it has suspended all bookings to and from Russia, Ukraine and Belarus. According to CMA CGM, congestion peaked in December 2021, while the company is still waiting for evidence of improvement so far this year. There was a strong start to this year, with dynamics broadly in line with trends seen in 4Q21, but with macro and geopolitical uncertainty on the rise. The company expects that the industry backdrop will continue to be supportive due to limited new vessel deliveries in 2022, combined with strong demand. Risks highlighted by CMA CGM are cost inflation, including elevated energy prices, and worsening geopolitical risks. The management expects the Q122 EBITDA to be in line with Q421. The company also expects that a higher proportion of contracted revenues at favourable rates should support the medium-term performance.

CMA CGM aims to keep investment at a high level, with total gross capex of \$4.8bn in FY 21, including gross Shipping capex of \$3.5bn and \$1.1bn for Aircraft, Terminals and Other and \$0.2bn for Logistics. Total capex budget for FY 22 is \$4.5bn, including Shipping capex of \$3.2bn, comprising newbuild orderbook and purchase of second-hand vessels (\$2.3bn), fleet maintenance and modernisation (\$0.5bn) and substantial increases in container fleet, as well as \$1.0bn for Aircraft, Terminals & Other and \$0.3bn for Logistics. Also, the 2022 M&A budget is \$5.4bn, including \$3.0bn

for Shipping, \$1.7bn for Logistics and \$0.7bn for Aircraft & Terminals. Free cash flow after gross capex was a very substantial \$14.8bn in FY 21.

To recap: (1) uncertain macro and geopolitical environment; (2) strong start to the year, in line with the 4Q trends; (3) demand backlog and contracted rates to support 2022 performance; (4) strong balance sheet and ample liquidity; (5) significant investment plan for 2022, with limited dividend payout ratio.

Hapag-Lloyd

Hapag-Lloyd had a strong year in 2021, with revenues of \$26.4bn, up 81% YoY, and EBITDA of \$12.8bn, up 317% YoY, with a respective margin of 48.7% (vs 21.1% in FY 20). During FY '21, the company shipped 11.8mn TEUs, flat (+0.3%) YoY, and freight rates of \$2,003 per TEU, up 79.6% YoY. Hapag-Lloyd commented that the key drivers of this very strong performance included significantly improved freight rates stemming from very strong demand for goods exported from Asia. The increase in earnings and margins was achieved in spite of higher transportation expenses (up 17% YoY) due to higher bunker prices (+25% YoY) and charter rates as well as increased demurrage and storage fees. Free cash flow was \$10.9bn in FY '21, leading to the company's net leverage turning from the net debt of \$5.5bn at YE '20 to the net cash position of \$2.5bn at YE '21, in spite of the dividend distribution of \$0.8bn during the year.

Since 2021, the company has been offering customers multi-year contracts at fixed rates in order to secure allocation and improve efficiency. The freight rate is fixed for the duration of the contract, avoiding market price fluctuations, such as during the past two years, with some overbooking (up to 10%) allowed in order to ensure an uptake of the agreed allocation. There is also compensation envisaged on the basis of failing to provide the contracted capacity.

Hapag-Lloyd indicated that it had a very strong start to this year and expected this positive earnings trend to continue in the first half of 2022. The company also commented that it expected the constrained situation in global supply chains to ease in the second half of this year which should then lead to the start of the normalisation of earnings. According to Hapag-Lloyd, it aims for an EBITDA range of \$12 to \$14bn, while this forecast is subject to a material uncertainty, including in relation to the war in Ukraine and the continued Covid-19 pandemic.

According to the company, while demand is expected to stay robust, the capacity influx will increase from 2023 onwards due to increased ordering activity and a substantial order book at the end of 2021.

In terms of the outlook for 2022, Hapag-Lloyd's management expects volumes transported to increase slightly during the year, with bunker costs going up in a pronounced fashion, freight rates increasing moderately and EBITDA being in a similar ballpark to the prior year.

Maersk

In 2021, A.P. Moeller-Maersk (APMM) had a record financial performance, with revenues of \$61.8bn, up 56% YoY, and underlying EBITDA of \$24.0bn, up 189% YoY, with a respective margin of 38.9% (vs 20.9% in FY 20). In FY '21, APMM had free cash flow of \$16.5bn, up from \$4.6bn in the prior year. The company's key operating segments include Ocean, Logistics, Services and Terminals, of which the Ocean (i.e., Shipping) is the most prominent. In FY '21, the Ocean segment generated revenues of \$48.2bn, up 65% YoY, and EBITDA of \$21.4bn, up 227% YoY, with a respective margin of 44.4%.

Last year, the division's loaded volumes increased by 3.6% YoY, while freight rate went up by 66% and bunker price per tonne increased by 30% YoY.

At the end of 2021, APMM had access to liquidity to the tune of \$21.5bn and a net cash position of \$1.5bn.

In terms of the outlook for 2022, APMM expects that it will have a strong first half of the year, followed by a normalisation in its Ocean business early in the second half of the year. The company anticipates that its shipping business will grow in line with the global container demand of +2% to +4% in 2022, subject to uncertainties related to the ongoing congestion, network disruptions and other external factors.

APMM also reiterated its adherence to its 2021-2025 roadmap, including achieving cross-selling synergies between its Ocean and Logistics & Services segments. This strategy is also supported by the company's ongoing M&A activity.

Based on these assumptions, the company expects an underlying EBITDA of around \$24bn, an underlying EBIT of \$19bn and free cash flow above \$15bn.

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