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Maersk says plunging, although profitable, Q1 will be its best for 2023

Maersk's earnings may have fallen sharply in the first quarter compared with last year, but the carrier remains highly profitable. Photo credit: Maersk.

Greg Knowler, Senior Editor Europe | May 4, 2023, 7:55 AM EDT

Maersk's first-quarter result will be its best quarterly earnings of 2023, the carrier announced Thursday, with muted demand expected from key markets as container shipping rates continue to fall from the extreme highs of last year.

In an environment Maersk CEO Vincent Clerc described as the "extreme normalization" of container shipping markets, the carrier's profit guidance for this year reveals the massive effect of the slowing business environment.

Maersk expects its full-year EBITDA to be between $8 billion and $11 billion, down from $36.8 billion last year. EBIT of $2 billion to $5 billion this year would be down from $30.8 billion in 2022.

"Volume and rate development in the second half of the year remains uncertain," Clerc told analysts during the carrier's first-quarter earnings call. "We continue to believe in a recovery of volume, but given the industry order book, the supply side risks remain."

3M 6M 1Y 2Y YTD MAX

The scale of the year-over-year decline for Maersk in financial terms has been stunning, but the fact that the carrier remains highly profitable despite the huge cuts in earnings illustrates the extreme levels reached by the market over the past three years.

Compared with the first quarter of last year, Maersk revenue fell by just over 25%, down $5.1 billion at $14.2 billion. Average loaded freight rates decreased 37% year over year to $2,871 per FEU, while the carrier's volume fell 9.4% in the first quarter to 2.7 million FEU.

The lower volume and falling rate levels translated to a 56% drop in EBITDA of $9.1 billion, and an EBIT of $2.3 billion that was down 67% year over year.

Earnings peak has passed

Despite the plunging numbers, the carrier still banked a net profit of $2.3 billion in Q1, and even though that was down 66% on the first quarter of last year, Maersk remains highly profitable compared with the results of pre-pandemic 2019 when it reported a first-quarter loss of $656 million.

Still, for this year, Maersk has already reached the peak of its earnings, according to CFO Patrick Jany, who pointed to a 25% sequential decline in average rate levels, spot and contract, in the first quarter, with a 37% drop in rates compared with the same quarter last year.

“Clearly, we have gathered that the first quarter will be the strongest for ocean and we will see a regression of profitability as the new contracts come in,” Jany said. “We expect contracts will always be a little higher than the actual spot rate … the progressive erosion of contract rates in ocean towards spot levels will be the main element determining profitability in the next quarters.”

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Maersk expects 70% of its total volume in 2023 to be moved under contract, up from 68% in 2022, while 75% of all its contracts for this year have already been signed, Jany said, adding that at the end of the first quarter, the number of containers under multi-year contracts remained flat year over year at 1.8 million FEU.

Destocking ‘is temporary’

Lower volume and rates compared with the beginning of last year were seen across all Maersk’s geographical segments in the first quarter.

“The destocking that is currently taking place is especially affecting North America, more so than in Europe, and that you see in the terminal results of our two largest facilities in Los Angeles and in New York where there are fewer volumes coming through the pipeline,” Clerc noted.

He added that although the destocking was temporary, there were no signs of significant inventory rebuilding in the second quarter.

“Whether it will be seven months, eight months, 10 months, that's the part that is really hard for us to predict,” he said. “But [destocking] is going to come to an end … consumption now is well ahead of what is being moved.”

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The US retail sales-to-inventory ratio for February — the latest data available — was 1.23, unchanged from January, according to the US Census Bureau. Retailers generally consider an acceptable ratio to be about two to one, which ensures enough inventory to meet demand, but not so much that merchandise sits idle in the warehouses for months on end.

Revenue in Maersk's Logistics & Services division increased 21% to $3.5 billion in the quarter, but that was primarily driven by contributions from the 2022 acquisitions of Pilot, LF Logistics and Senator International, and the early 2023 acquisitions of Martin Bencher Group and Grindrod Logistics.

The Terminals division reported a 23% drop in revenue to $876 million along with a 9.5% drop in volume to 2.8 million FEU. Revenue per move fell 14% to $309.

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