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Hapag-Lloyd returns to profit in Q1, but baffled by current rate spike

Hapag-Lloyd reported a $325 million net profit in the first quarter, up from a $234 million loss in the 2023 fourth quarter. Photo credit: Oliver Hoffmann / Shutterstock.com.

Keith Wallis, Special Correspondent | May 15, 2024, 1:49 PM EDT

Hapag-Lloyd returned to the black in the first quarter on the back of higher freight rates and container volumes, a rebound in demand that is set to continue despite a more uncertain second half, CEO Rolf Habben Jansen indicated Wednesday.

But while Habben Jansen remained upbeat about the outlook over the coming months, he was mystified by the steep increase in freight rates in the last three weeks.

"It's difficult to see where it has come from," the CEO said during a first quarter financial briefing with analysts. "Is it a short-term spike, or an early peak season or restocking?"

Demand has been “more or less as expected, except for the last couple of weeks which had been remarkably strong,” Habben Jansen said.

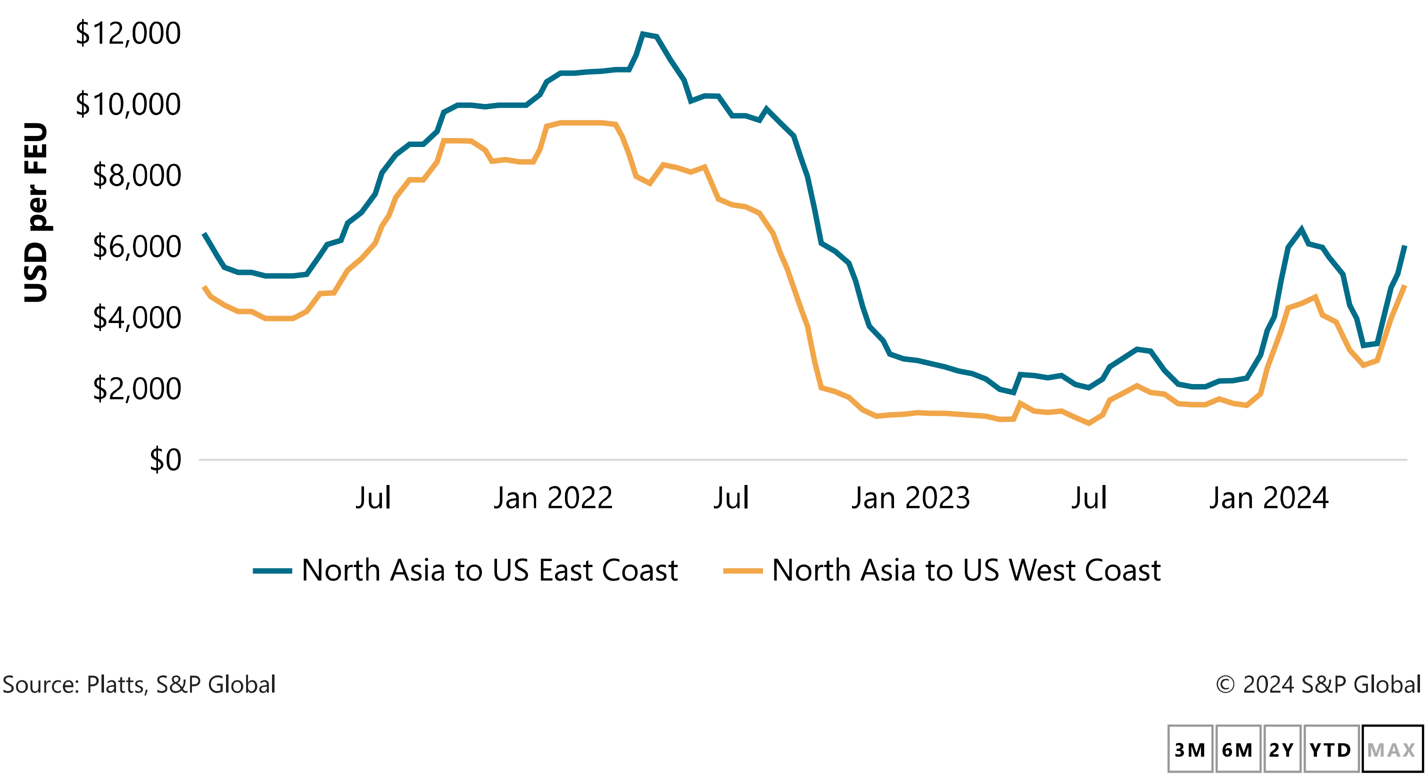
He pointed out buyers could be pulling orders forward because of concerns about global geopolitical uncertainties or said rates could be driven by a more general restocking to replenish inventories.

“I wouldn’t be surprised to see rates come down, maybe to the level of four or five weeks ago,” Habben Jansen said.

Platts, a sister company of the *Journal of Commerce* within S&P Global, pegged spot rates from North Asia to the US West Coast at $4,850 per FEU as of May 14, up from $2,820 at the end of April.

North Asia-US spot rates spike into May as GRIs bite

Container rate from North Asia to US East and West coasts in USD per FEU



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Habben Jansen said the carrier has recently concluded the majority of its contract negotiations at rates similar to or slightly higher than last year, while also securing a slightly higher volume of contracted cargo.

Demand is forecast to grow approximately 4% this year, “maybe a little bit higher, it’s a bit difficult to judge,” he said, while adding 2025 looked “solid.”

Hapag-Lloyd reported a $325 million net profit in the first quarter. While that was up from a $234 million loss in the fourth quarter, it was down sharply from the $2 billion in net profit in last year’s first quarter. Revenue was 13% higher quarter over quarter at $4.6 billion, although down 23% from $6 billion in Q1 2023.

Earnings forecast shifts toward upper end of range

Habben Jansen’s comments came after Hapag-Lloyd narrowed its full-year earnings forecasts to the upper end of its previous range on the back of the better-than-expected first quarter.

The carrier now sees a “moderate decrease” in freight rates for the full year to an average of $1,500 per TEU “that is closer to the level we see in Q1 and Q2,” Habben Jansen said. Group full year earnings before interest, taxes, depreciation and amortization are now forecast at between $2.2 billion to $3.3 billion against the previous 2024 outlook of between $1.1 billion to $3.3 billion.

Habben Jansen said the revised full-year guidance was kept at a broad range to consider the uncertain outlook for the rest of the year.

“When we look at the second half there is a lot of uncertainty,” he said. “As we can see from the swings from the fourth quarter to the first quarter, those swings can be quite significant.

“Whether that means we are going to lose money in the second half of the year, that remains to be seen,” he added. “I hope not, but we’ll see.”

Longer term, Habben Jansen said Hapag-Lloyd aimed to grow so that it had majority stakes in 30 terminals by 2030, while also further growing its share of inland business.

“The company has benefited from a stronger container market driven by Red Sea disruption and healthy trade volumes,” equity research house Jefferies said in a note Wednesday on the carrier. “The near-term outlook remains positive due to the latest upswing in freight rates globally, supporting Hapag-Lloyd’s profitability and potentially another boost to guidance next quarter.”

Hapag-Lloyd saw a stronger-than-anticipated start to the year after a weak fourth quarter with average freight rates that were up 14% to $1,359 per TEU quarter over quarter but down 32% compared with the first quarter of last year.

Q1 volumes were up 6.9% to more than 3 million TEUs from 2.8 million TEUs one year earlier, driven by a 28% increase on the trans-Pacific trades.

Habben Jansen said the carrier's move to cut costs that started late last year has begun yielding results after unit costs fell 5% to $1,256 per TEU in the first quarter against the year-earlier period.

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