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BUSINESS

French Shipping Company CMA CGM to Buy Neptune Orient Lines for $2.4 Billion

Deal bolsters presence in the Pacific and gives it access to lucrative U.S. government contracts

CMA CGM's Jules Verne container ship arrives in the port of Marseille, southern France. **PHOTO:** AGENCE FRANCE-PRESSE/GETTY IMAGES

By P.R. Venkat in Singapore and Costas Paris in London

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French shipping company CMA CGM SA has agreed to buy Singapore's Neptune Orient Lines Ltd. for roughly $2.4 billion in cash, a deal that would bolster its presence in the Pacific Ocean trade routes and provide some consolidation among the world's beleaguered container-shipping fleet.

CMA CGM, the world's third-largest shipping line, said on Monday it had agreed to buy the 67% stake in NOL held by Temasek Holding Pte., Singapore's state investment firm, for 1.3 Singapore dollars a share. As part of the deal, it will also offer to buy the other 33% of the company, which consists of publicly traded shares, at the same price, for a total consideration of 3.38 billion Singapore dollars, or US$2.42 billion.

The offer represents a 49% premium to NOL's closing price on July 16, the last trading day before the Singapore-based container-shipping company said it was considering strategic options. CMA CGM said it would launch its offer by the middle of next year, and NOL would delist from the Singapore stock exchange if 90% of shareholders accept.

The acquisition is subject to approval by U.S., European and Chinese regulators. If it is consummated, it will rank as the biggest shipping consolidation since 2005, when A.P. Moeller-Maersk A/S's Maersk Line bought P&O Nedlloyd for about $3 billion. It is also the biggest state sale this year in Singapore.

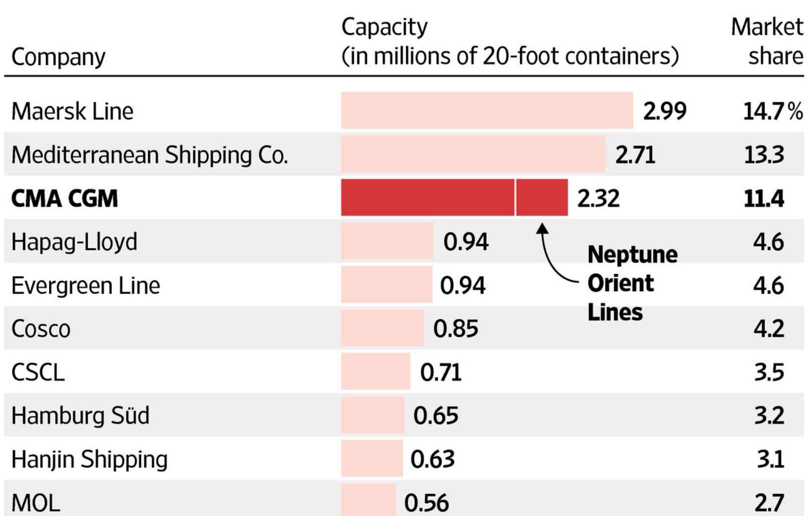
Both CMA CGM and Denmark's Maersk were in discussions with NOL and Temasek over a possible deal. The Wall Street Journal reported earlier this month that CMA CGM was the preferred bidder for NOL. The two companies publicly announced the deal on Monday.

The new company will have combined revenue of $22 billion and a fleet of 563 vessels.

CMA CGM has a relatively small presence on the trans-Pacific and intra-Asia trade routes in which NOL, mostly operating its ships under the APL brand, is stronger. That could make regulatory approval easier.

Stacking Up

The world's 10 biggest container-shipping operators ranked by capacity, including CMA CGM's planned acquisition of Neptune Orient Lines.



Note: As of Dec. 7, 2015
Source: Alphaliner

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"NOL is very strong in trans-Pacific routes, but also strong in intra-Asia trades, which complements our services," CMA CGM Vice Chairman Rodolphe Saade said in an interview.

The merged entity would have an 11.4% share of the world's container capacity, up from CMA CGM's present 8.8% market share. Maersk currently controls 14.7% of the market, and Switzerland's Mediterranean Shipping Co. handles 13.3%.

Sluggish global trade and rampant overcapacity have hammered even the biggest shipping lines, forcing some companies into alliances and cost-cutting. Many blame the industry's fragmented nature for its struggles. With few companies controlling more than 5% of the market, reducing the oversupply of ships is taking longer than industry observers had anticipated.

Consolidation has been rare. Several potential takeover targets, like NOL, are controlled by sovereign-wealth funds and state investment funds, which can afford to ride out the industry's boom-and-bust cycle.

Others are private or family-controlled outfits, which often take similar long-term views.

NOL's Asia-to-Americas routes would strengthen a weak spot for CMA CGM, whose executives have said they are looking to expand into new territories. CMA CGM also looks to take advantage of NOL's long-term contracts with the U.S. government.

Neptune Orient's APL line includes a number of U.S.-flagged ships that move American-made arms and humanitarian aid across the world. The transfer of ownership from Singapore to a French company isn't likely to raise any specific national-security scrutiny, according to a U.S. official familiar with the matter.

CMA CGM's Mr. Saade said that if the integration works well, the combined entity might look in the future for a Singapore listing.

Analysts estimate that overcapacity in container shipping is running at about 30%. This has led to tumbling freight rates that have kept most operators in the red over the past few years.

NOL had been searching for a buyer for months. The company last month reported a third-quarter loss of $96 million, and in May it sold its profitable logistics business, APL Logistics Ltd., to Kintetsu World Express Inc. for $1.2 billion.

CMA CGM faces pressure to expand as two state-owned Chinese shipping giants, China Ocean Shipping Co. and China Shipping Group Co., are in advanced talks to merge.

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