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Neptune Orient Lines: Valuation and capital structure[[1]](#endnote-2)

Ruth S. K. Tan, Zsuzsa R. Huszár, and Weina Zhang wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On December 7, 2015, the CMA CGM Group (CMA CGM) offered SG$1.30[[2]](#endnote-3) cash for each of the 2.6 billion shares in Neptune Orient Lines Limited (NOL), amounting to a total of $3.38 billion. This represented a 6 per cent premium above its last closing price, or a 49 per cent premium above its closing price on July 16, 2015, the last trading day before NOL said it was considering strategic options.[[3]](#endnote-4)

Singapore’s state investment firm, Temasek Holdings Private Limited (Temasek), gave an irrevocable undertaking to sell its entire majority stake of 67 per cent in NOL at this price for a total of $2.3 billion.

CMA CGM sought to delist NOL and take it private. In order to delist, the company would need to acquire another 23 per cent to hit the acceptance threshold of 90 per cent.

Should the remaining shareholders sell their shares at the offer price of $1.30 per share, or hold out for a better price? Should bondholders of CMA CGA and NOL be concerned about the acquisition?

NEPTUNE ORIENT LINES: BACKGROUND

NOL was started in 1968 as Singapore’s national shipping line to facilitate industrial development and support the economy. It was wholly owned by the government. Under the leadership of its managing director, Goh Chok Tong (who later became Singapore’s second prime minister), NOL turned profitable in the mid-1970s. In 1981, its initial public offering on the Singapore Exchange successfully raised $155 million. The funds were used to grow the business globally, diversifying away from containerization into the bulk carrier market.[[4]](#endnote-5)

In 1997, NOL acquired American President Lines Ltd. (APL) for US$825 million, and started operating under the APL brand. Through the acquisition, NOL gained access to major container trades, key logistical support, and terminals in the United States and Asia.

In July 2008, NOL attempted to acquire Germany’s Hapag-Lloyd AG for US$7 billion, but eventually pulled out because of the onset of the global financial crisis.[[5]](#endnote-6) The crisis was hard on NOL: in 2009, it recorded a net loss of US$741 million. This decline was followed by an amazing turnaround of its fortunes in 2010, which saw a net profit for the company of US$461 million. However, the performance could not be sustained. NOL dipped into the red again, with losses of US$478 million in 2011,[[6]](#endnote-7) US$419 million in 2012,[[7]](#endnote-8) US$76 million in 2013,[[8]](#endnote-9) and US$260 million in 2014,[[9]](#endnote-10) for a total loss of US$1.233 billion over this four-year period. In February 2015, NOL sold the profit-making APL for US$1.2 billion to concentrate on its container-shipping business,[[10]](#endnote-11) which had grown to become the 12th largest in the world.

In November 2015, it was announced that French shipping giant CMA CGM was in exclusive discussions to buy Singapore icon NOL.[[11]](#endnote-12) With its high debt levels and inability to return to profitability, NOL had been looking for a buyer for months.[[12]](#endnote-13) CMA CGM was the world’s third-largest container-shipping firm, and was privately owned by the billionaire Saadé family. On the deadline to complete due diligence, December 7, 2015, CMA CGM offered $1.30 cash for each of NOL shares.[[13]](#endnote-14) The company intended to take NOL private[[14]](#endnote-15) and also planned to sell assets worth $1.4 billion from the merged entity to reduce debt.[[15]](#endnote-16)

Temasek’s head of portfolio management said,

We are supportive of this transaction [because] it presents NOL with an opportunity to join a leading player with an extensive global presence and solid operational track record. We also note and welcome the commitment of CMA CGM to enhance Singapore’s position as a key maritime hub, and grow Singapore’s container throughput volumes.

The offer was subject to the approval of the American, European, and Chinese regulators.[[16]](#endnote-17)

why sell a national icon?

According to the director of research at Drewry Shipping Consultants Limited, NOL was suffering from overcapacity in the container-shipping industry and from falling freight rates: “The 2015 volume total is on course to be the lowest since 2009, while average freight rates are destined to be the lowest in at least a decade. It’s a toxic combination that the management has failed to arrest, and Temasek appears to have seen the writing on the wall that a turnaround is not imminent.”[[17]](#endnote-18)

NOL’s deputy chief executive and chief financial officer in the 1990s felt that NOL might fetch a better price if it waited, “but there’s also the worry that if they don’t sell now, there may not be a suitor later.” Although the offer price was 0.96 times NOL’s book value, Ocean Chinese Banking Corporation Investment Research analyst Eugene Chua agreed that it was fair, given the poor sentiment of the shipping industry. He was of the opinion that Temasek had accepted the offer “[in the hope] that the deal would bring greater economic benefit to Singapore.”[[18]](#endnote-19)

CMA CGM had pledged to “increase its commitment,” and help reinforce Singapore’s position as a leading maritime hub; the company intended to establish its regional head office in Singapore, and sought to enhance Singapore’s position in Asia.[[19]](#endnote-20) Vice-chairman Rudolphe Saadé (son of CMA CGM’s founder and chairman, Jacques Saadé) said,

We recognize the strategic importance of Singapore as a key hub for the maritime industry and we are committed to reinforcing its regional leadership. At a time when the shipping industry is facing strong headwinds, scale is more critical than ever to capitalize on synergies and capture growth opportunities wherever they arise.[[20]](#endnote-21)

NOL’s chief executive officer, Ng Yat Chung, said that the buyout would deliver “the scale that is required for NOL to succeed” and reaffirmed that “the change in ownership of NOL will not impair Singapore’s continuing journey to be a premier maritime hub.”[[21]](#endnote-22)

Motivation on the part of CMA CGM[[22]](#endnote-23)

Over the years, CMA CGM had acquired several national icons, namely the French state-backed Compagnie Generale Maritime (CGM) in 1996, the Australian National Line in 1998, French rival Delmas in 2005, and Taiwan’s Cheng Lie Navigation in 2007.[[23]](#endnote-24)

There was some pressure for CMA CGM to expand, given that the two state-owned Chinese shipping giants, China Ocean Shipping Group Co. and China Shipping Group Co., were in advanced talks to merge.[[24]](#endnote-25) If successful, the merger would create the world’s fourth-largest container-shipping line, after the Maersk Group, Mediterranean Shipping, and CMA CGM, in that order.

Saadé revealed, “We were the first ones to initiate discussions with NOL and Temasek, and it made sense to them; that is why we carried on with the discussions.” As of the end of 2015, most of CMA CGM’s ships called at Malaysia’s Port Klang, but Saadé explained that there were “enough volumes to operate in the two terminals.” He added that it was chronic overcapacity that had pushed freight rates down, and disagreed that shipping was a dying industry:

People have said many things about shipping for many years, but if shipping was not there, we would not have TV sets and all kinds of other goods at competitive prices. Because today, the only competitive and environmentally friendly mode of transport is shipping. Maybe one day it will be different, but at least for the years to come, I don’t believe so.

Without directly stating how CMA CGM planned to chart NOL’s fortunes, Saadé concluded, “I will not comment on the way it is being managed now but I would say we firmly believe we have the expertise to allow NOL to develop a much stronger and better business.”

Valuation

At its highest, NOL’s share price traded at $5.839 on July 16, 2007. At $1.30 a share, Temasek would take a big hit. In 2004, it had launched a cash offer for the 70 per cent of NOL that it did not own at $2.80 a share.

Many had commented that CMA CGM’s offer was reasonable given the present slump—but was that really so? What would be a reasonable valuation for each of NOL’s shares based on the company’s past financial performance (see Exhibits 1 and 2) and other relevant market information?

For a discounted cash flow analysis, some growth projections would be necessary before a reasonable terminal growth rate could be applied in perpetuity (see Exhibit 3). For a dividend discount model valuation, it would be reasonable to assume that dividends would continue to grow for some years before applying a terminal growth rate (see Exhibit 4). For a relative valuation analysis using peer comparison, data had been collected but a suitable peer group had not been be identified (see Exhibit 5). The past stock price performances of NOL and its potential peers had been traced and charted for easy comparison (see Exhibit 6).

effect on the bonds

Some of NOL’s bonds had clauses that would be “triggered by the planned sale, allowing for potential early repayment or compensation.”[[25]](#endnote-26) Such clauses were often inserted in bonds that received implicit parental support of triple A-rated (triple A-rated entities were unlikely to default) majority stakeholders like Temasek.

The head of fixed income for Asia at Coutts Royal Bank of Scotland commented that “the confidence placed in government-owned companies was somewhat over-extended. Investors who are looking to invest in these companies should look closer at the covenants of each issue, ensuring they are well protected on the downside should government support be removed.”[[26]](#endnote-27)

Of the four outstanding NOL bonds, two contained trigger clauses (the 2017 and 2019 bonds), while the other two (the 2020 and 2021 bonds) did not. The prices of all four bonds had suffered as events unfolded but not all to the same extent (see Exhibits 7 and 8). In addition, CMA CGM’s offer also had an impact on its own bond (see Exhibits 7 and 8).

ISSUES FACING INVESTORS

In light of NOL’s past financial performance, should NOL’s shareholders accept CMA CGM’s offer of $1.30 per share? Given the impact that the offer had on the value of the bonds, what should the bondholders of NOL and CMA CGM do?

Exhibit 1: NEPTUNE ORIEnt lines: INCOME STATEMENTs, 2011–2015 (in US$ ’000)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **2015** | **2014** | **2013** | **2012** | **2011** |
| **Total Revenue** |  | **5,382,596** | **7,025,575** | **8,831,193** | **9,511,631** | **9,210,704** |
| Revenue from logistics segment sold | | 722,781 | 624,333 |  |  |  |
| Revenue from container shipping retained | | 4,659,815 | 6,401,242 |  |  |  |
| Cost of sales | | 5,029,914 | 6,723,377 | 8,247,254 | 8,988,204 | 8,819,462 |
| Gross profit |  | 352,682 | 302,198 | 583,939 | 523,427 | 391,242 |
| Other gains net | |  |  |  |  |  |
|  | Miscellaneous | 31,376 | 12,970 | 224,414 | 14,862 | 11,138 |
|  | Finance and investment income | 6,653 | 5,183 | 5,448 | 5,263 | 6,805 |
| Expenses |  |  |  |  |  |  |
|  | Administrative IT | −80,100 | −78,390 | −153,795 | −693,956 | −716,214 |
|  | Administrative non-IT | −344,551 | −397,556 | −571,703 |  |  |
|  | Restructuring cost | - | - | −8,645 | −29,147 | - |
|  | Finance | −125,503 | −138,954 | −45,240 | −75,272 | −56,149 |
|  | Other operations | −55,834 | −60,070 | −58,372 | −115,349 | −75,211 |
| Share of results of associated companies | | −5,055 | 1,559 | 7,572 | 9,035 | 8,437 |
| Share of results of joint ventures | | 2,632 | 1,798 | 545 | 364 | 1,017 |
| Loss before income tax | | −217,700 | −351,262 | −15,837 | −360,773 | −428,935 |
| Income tax expense | | −1,170 | −20,502 | −56,131 | −52,908 | −44,997 |
| **Loss from continuing operations, net of tax** | | **−218,870** | **−371,764** |  |  |  |
| **Profit from discontinued operations, net of tax** | | **929,946** | **120,267** |  |  |  |
| **Net loss for the financial year** | | **711,076** | **−251,497** | **−71,968** | **−413,681** | **−473,932** |
|  | Equity holders of the company |  |  |  |  |  |
|  | From continuing operations | −220,439 | −374,353 |  |  |  |
|  | From discontinued operations | 927,642 | 114,512 |  |  |  |
|  |  | **707,203** | **−259,841** | **−76,298** | **−419,445** | **−478,188** |
|  | Non-controlling interest |  |  |  |  |  |
|  | From continuing operations | 1,569 | 2,589 |  |  |  |
|  | From discontinued operations | 2,304 | 5,755 |  |  |  |
|  |  | **3,873** | **8,344** | **4,330** | **5,764** | **4,256** |
| Loss per share: |  |  |  |  |  |  |
|  | Basic, from continuing operations | −8.50 | −14.47 | 2.95 | −16.25 | −18.54 |
|  | Basic, from discontinued operations | 35.77 | 4.42 |  |  |  |
|  | Diluted, from continuing operations | −8.50 | −14.47 | 2.95 | −16.25 | −18.54 |
|  | Diluted, from discontinued operations | 35.77 | 4.42 |  |  |  |

Source: NOL’s past financial statements: Neptune Orient Lines Limited, *Annual Report 2015*, accessed March 1, 2016, https://www.nol.com.sg/wps/wcm/connect/a655b534-c9d4-490e-bff0-531c3dcf1217/Full+Annual+Report+2015.pdf?MOD=AJPERES; Neptune Orient Lines Limited, “Investor Relations,” accessed February 28, 2017, https://www.nol.com.sg/wps/portal/nol/investorrelations/reportsandannouncements/annualreports.

EXHIBIT 2: NEPTUNE ORIEnt lines: BalaNCE SHEETs, 2011–2015 (in US$ ’000)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **2015** | **2014** | **2013** | **2012** | **2011** |
| **ASSETS** |  |  |  |  |  |  |
| **CURRENT ASSETS** | |  |  |  |  |  |
| Cash and cash equivalents  Trade and other receivables  Inventories at costs  Derivative financial instruments  Assets classified as held for sale  Other current assets | | 229,907 | 1,225,771 | 980,993 | 896,978 | 227,562 |
| 520,458 | 1,080,359 | 1,073,085 | 1,091,573 | 1,045,671 |
| 91,720 | 175,244 | 254,232 | 267,309 | 326,993 |
| 435 | 726 | 6,952 | 5,847 | 3,853 |
| - | 24,516 | 35,840 | 142,501 | 50,225 |
| 81,606 | 103,206 | 115,541 | 119,918 | 111,403 |
| **Total current assets** | | 965,199 | 2,609,822 | 2,466,643 | **2,524,126** | **1,765,707** |
| **NON-CURRENT ASSETS** | |  |  |  |  |  |
| Investments in subsidiaries  Investments in associated companies  Investments in joint ventures  Available-for-sale financial assets  Property, plant, and equipment  Investment property and land use rights  Deferred charges  Intangible assets  Goodwill arising on consolidation  Deferred income tax assets  Derivative financial instruments  Other non-current assets | | - | - | - | - | - |
| 107,462 | 160,835 | 149,039 | 111,831 | 98,191 |
| 21,970 | 21,220 | 21,374 | 26,588 | 28,992 |
| - | - | 83 | 37 | 53 |
| 5,590,142 | 6,012,433 | 6,097,508 | 5,229,062 | 4,789,588 |
| - | 817 | 855 | 0 | 15,862 |
| 3,509 | 5,387 | 5,765 | 10,909 | 14,283 |
| 12,277 | 31,100 | 31,245 | 35,947 | 26,676 |
| 121,036 | 158,068 | 158,663 | 157,047 | 129,095 |
| 39,773 | 42,575 | 33,437 | 16,730 | 4,615 |
| - | - | 13,340 | 29,859 | 7,344 |
| 47,368 | 57,367 | 51,083 | 74,458 | 81,442 |
| **Total non-current assets** | | 5,943,537 | 6,489,802 | 6,562,392 | **5,692,468** | **5,196,141** |
| **TOTAL ASSETS** | | 6,908,736 | 9,099,624 | 9,029,035 | **8,216,594** | **6,961,848** |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | | **2015** | | **2014** | **2013** | | **2012** | **2011** | |
| **LIABILITIES** | | | |  | |  |  | |  |  | |
| **Current Liabilities** | | | |  | |  |  | |  |  | |
|  | Trade and other payable | | | 854,661 | | 1,178,233 | 1,252,421 | | 1,247,627 | 1,274,431 | |
|  | Current income tax liabilities | | | 78,509 | | 132,448 | 165,409 | | 160,795 | 114,627 | |
|  | Borrowings | | | 572,551 | | 615,095 | 599,119 | | 429,246 | 422,095 | |
|  | Provisions | | | 29,983 | | 40,378 | 43,528 | | 44,737 | 43,459 | |
|  | Deferred income | | | 205 | | 5,156 | 7,670 | | 12,585 | 848 | |
|  | Derivative financial instruments | | | 11,034 | | 30,363 | 11,625 | | 10,123 | 18,443 | |
|  | Liabilities of group companies as held for sale | | | 15,988 | |  |  | |  |  | |
|  | Other current liabilities | | | 140,532 | | 226,949 | 232,195 | | 252,480 | 251,812 | |
| Total current liabilities | | | | 1,703,463 | | 2,228,622 | 2,311,967 | | 2,157,593 | 2,125,715 | |
| **Non-current liabilities** | | |  | |  |  | |  | | |  |
|  | Borrowings | | | 2,309,811 | | 4,676,308 | 4,266,827 | | 3,546,621 | 1,931,746 | |
|  | Provisions | | | 147,838 | | 191,654 | 171,977 | | 145,066 | 131,780 | |
|  | Deferred income | | | 581 | | 1,566 | 6,016 | | 15,370 | 3,904 | |
|  | Deferred income tax liabilities | | | 2,717 | | 6,431 | 6,980 | | 5,446 | 8,900 | |
|  | Derivative financial instruments | | | 233,267 | | 160,357 | 65,168 | | 15,938 | 36,694 | |
|  | Other non-current liabilities | | | 18,503 | | 26,809 | 69,289 | | 65,300 | 70,925 | |
| Total non-current liabilities | | | | 2,712,717 | | 5,063,125 | 4,586,257 | | 3,793,741 | 2,183,949 | |
| **TOTAL LIABILITIES** | | | | **4,416,180** | | **7,291,747** | **6,898,224** | | **5,951,334** | **4,309,664** | |
| **EQUITY** | |  | |  | |  |  | |  |  | |
| Share capital  Treasury shares  Other reserves | | | | 1,840,260 | | 1,834,341 | 1,830,222 | | 1,826,723 | 1,822,117 | |
| −5,216 | | −5,216 | −5,216 | | −5,216 | −5,216 | |
| 639,298 | | −79,012 | 252,097 | | 390,064 | 784,079 | |
| Capital and reserves attributable to equity holders of the company (subtotal of Share Capital + Treasury + Other reserves) | | | | 2,474,342 | | 1,750,113 | 2,077,103 | | 2,211,571 | 2,600,980 | |
| Non-controlling interest | | | | 18,214 | | 57,764 | 53,708 | | 53,689 | 51,204 | |
| **TOTAL EQUITY** | | | | 2,492,556 | | 1,807,877 | 2,130,811 | | 2,265,260 | 2,652,184 | |
| **TOTAL EQUITY + LIABILITIES** | | | | **6,908,736** | | **9,099,624** | **9,029,035** | | **8,216,594** | **6,961,848** | |

Note: During financial year (FY) 2012, 1,754,757 new ordinary shares were issued under the NOL share option plan at $1.05; During FY 2011, 940,299 and 32,932 new ordinary shares were issued under the NOL share option plan at $1.05 and $2.10, respectively; During FY 2014, 3,789,763 new ordinary shares were issued under the NOL restricted share plan (RSP) 2010 and NOL performance share plan (PSP) 2010; During FY 2013, 2,582,419 new ordinary shares were issued under NOL RSP 2010 and NOL PSP 2010; During FY 2013, 379,674 new ordinary shares were issued under NOL share option plan at $1.05.

Source: NOL’s past financial statements: Neptune Orient Lines Limited, *Annual Report 2015*, and Neptune Orient Lines Limited, “Investor Relations,” accessed February 28, 2017, https://www.nol.com.sg/wps/portal/nol/investorrelations/reportsandannouncements/annualreports.

**Exhibit 3: assumptions underlying Discounted Cash Flow VALUATION**

The assumptions behind the pro-forma statements are listed below.

1. Assumptions regarding revenues:

* Revenue from the logistics segment that had been carved out would be ignored. Only revenue from the container-shipping segment would be used in the valuation exercise.
* Shipping volume was assumed to be 2,600,000 forty foot equivalent units (FEUs) in 2016, and to increase at a 3 per cent annual rate thereafter. Average Revenue/FEU was assumed to increase to US$2,000/FEU in 2016, and to US$2,286/FEU in 2017 (which was the rate during the 2008 financial crisis), and then increase at a 3 per cent annual rate until 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Volume (‘000 FEU) | Average Revenue per FEU (US$) | Revenue (‘000 US$) |
| 2007 | 2,353 | 2,740 | 6,447,220 |
| 2008 | 2,465 | 3,033 | 7,476,345 |
| 2009 | 2,289 | 2,286 | 5,232,654 |
| 2010 | 2,831 | 2,787 | 7,889,997 |
| 2011 | 2,979 | 2,500 | 7,447,500 |
| 2012 | 3,020 | 2,509 | 7,577,180 |
| 2013 | 2,946 | 2,318 | 6,828,828 |
| 2014 | 2,827 | 2,264 | 6,400,328 |
| 2015 | 2,469 | 1,887 | 4,659,003 |
| 2016 projected | 2,600 | 2,000 | 5,200,000 |
| 2017 projected | 2,678 | 2,286 | 6,121,908 |
| 2018 projected | 2,758 | 2,355 | 6,495,090 |
| 2019 projected | 2,841 | 2,425 | 6,889,425 |
| 2020 projected | 2,926 | 2,498 | 7,309,148 |

* Other revenues, in the form of “Miscellaneous” and “Finance and Investment Income,” were assumed to stay the same as 2015.

b. Assumptions regarding costs:

Since NOL had been improving its cost efficiency, the gross margin was predicted to improve steadily from 8.5 per cent in 2016, to 9.5 per cent in 2017, and to 10 per cent in 2018, 2019, and 2020. This estimate was relatively conservative because the gross margin before the oversupply situation set in was 14 per cent.

* Other expenses mainly consisted of administrative (IT and non-IT), and finance expenses. Administrative (IT) expenses were expected to grow at a low rate of 2 per cent for the next five years, to adjust for inflation and increase in revenue. Administrative (non-IT) expenses were expected to reduce by 8 per cent and 4 per cent for the next two years as NOL strove to cut costs in this area, before growing at a positive 2 per cent rate. The yearly finance expense was equal to the cost of debt (2.5 per cent) multiplied by the total debt in the previous year. Other operating expenses were assumed to stay the same as 2015.

c. Assumptions regarding assets:

All current assets, except for “Assets of Group Companies as Held for Sale,” were assumed to grow with revenue, using 2015 as the base. It was assumed that “Assets of Group Companies as Held for Sale” would drop to zero in 2016 and thereafter.

All non-current assets, except for “Investments in Associated Companies,” “Investments in Joint Ventures,” “Property, Plant, and Equipment,” and “Goodwill Arising on Consolidation,” were assumed to grow with revenue, using 2015 as the base. It was assumed that “Investments in Associated Companies,” “Investments in Joint Ventures,” and “Goodwill Arising on Consolidation” would stay the same. It was assumed that “Property, Plant, and Equipment” would grow at 5 per cent per year—to take overcapacity into consideration.

Property, Plant, and Equipment (PPE) was assumed to depreciate at 7 per cent per year. Capital expenditure was the sum of the change in PPE and depreciation.

Exhibit 3 (continued)

Change in net working capital was the difference in net working capital from one year to the next. Net working capital was defined as current assets not including cash, minus current liabilities.

d. Assumptions regarding equity:

All items under equity were assumed to stay the same except for “Retained Earnings.”

Retained earnings was equal to retained earnings from previous years plus profit/loss of the current year less dividends paid.

Payout ratio was assumed to be zero in 2016, 20 per cent in 2017, 40 per cent in 2018, 60 per cent in 2019, and 80 per cent thereafter.

e. Assumptions regarding liabilities:

All current liabilities, except for “Liabilities of Group Companies Classified as Held for Sale,” were assumed to grow with revenue, using 2015 as the base. It was assumed that “Liabilities of Group Companies Classified as Held for Sale” would drop to zero in 2016 and thereafter.

All non-current liabilities, except for “Borrowings,” were assumed to grow with revenue, using 2015 as the base.

Non-current borrowings would be the plug.

f. Assumptions regarding terminal growth rate:

Terminal growth rate was assumed to be 2.5 per cent.

Source: Data on volume and average revenue from 2007 to 2015 obtained from NOL Corporate Presentations, 2007–2015, accessed March 1, 2016, https://www.nol.com.sg/wps/portal/nol/investorrelations/reportsandannouncements/quarterlyreports#navhomeibid; The growth rates are estimates based on NOL’s past financial statements: Neptune Orient Lines Limited, *Annual Report 2015*, accessed March 1, 2016, https://www.nol.com.sg/wps/wcm/connect/a655b534-c9d4-490e-bff0-531c3dcf1217/Full+Annual+Report+2015.pdf?MOD=AJPERES; Neptune Orient Lines Limited, “Investor Relations,” accessed February 28, 2017, https://www.nol.com.sg/wps/portal/nol/investorrelations

/reportsandannouncements/annualreports.

**Exhibit 4: assumptions underlying dividend Discount Model and  
other selected financial data**

NOL’s ordinary shares outstanding 2,601,400,000

NOL’s stock price as at December 4, 2015 SG$1.23

Exchange rate SG$1.40 = US$1.00

NOL’s book debt as at December 25, 2015 US$2,882,362,000

NOL’s cost of debt 2.50%

NOL’s equity beta 0.81

10-year Singapore Government bond yield 2.47%

Singapore equity risk premium\* 6.89%

Asia/Middle East equity risk premium\* 8.57%

Europe equity risk premium\* 10.768%

Americas equity risk premium\* 7.978%

Singapore’s tax rate 17%

NOL’s equity risk premium was computed as a weighted average of Singapore’s equity risk premium and those of other markets in which NOL operated, with 50 per cent weight placed on Singapore, and the other 50 per cent divided across the geographical regions based on contribution to revenue, Asia/Middle East (29.1 per cent), Europe (16.2 per cent), and the Americas (54.8 per cent).

NOL would start paying dividends from 2017 onwards, with dividend payout ratios of 0 per cent, 20 per cent, 40 per cent, 60 per cent, and 80 per cent for each year from 2016 to 2020, respectively. A terminal growth rate of 2.50 per cent was assumed.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2016 | 2017 | 2018 | 2019 | 2020 |
| Dividend payout | 0% | 20% | 40% | 60% | 80% |

Source: Equity risk premiums were downloaded from Bloomberg; Balance sheet data were obtained from NOL’s past financial statements: Neptune Orient Lines Limited, *Annual Report 2015*, March 1, 2016, https://www.nol.com.sg/wps/wcm/connect/a655b534-c9d4-490e-bff0-531c3dcf1217/Full+Annual+Report+2015.pdf?MOD=AJPERES; Neptune Orient Lines Limited, “Investor Relations,” accessed February 28, 2017, https://www.nol.com.sg/wps/portal/nol/investorrelations/reportsandannouncements/annualreports.

Exhibit 5: KEY FINANCIAL FIGURES and MARKET-COMPARABLE MULTIPLES of SELECTED PUBLICLY TRADED FIRMS

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **NOL** | **The Maersk Group** | **Evergreen Group** | **Hanjin**  **Korea** | **YangMing Marine Transport Corp.** | **China Oceanwide Holdings Group** | **CMA CGM** |
| **Stock Exchange** | Singapore | Copenhagen | Taiwan | Korea SE | Taiwan | Hong Kong | - |
| **Share Price (on January 5, 2016)\*** | S$1.23 | DKK89.40 | TW$12.65 | KRW34.65 | TW$8.25 | HK$1.01 | - |
| **Market Capitalization** | 2,286 | 27,611 | 1,338 | 707 | 745 | 1,416 | - |
| **Employees** | 13,525 | 89,207 | 4,866 | - | 4,989 | 48 | 18,249 |
| **Revenue (ttm\*\*\*)** | 5,383.60 | 42,898.00 | 4,483.49 | 7,439.81 | 4,236.16 | 16.69 | 16,330.60 |
| **Gross Profit (ttm):** | 352.68 | - | 242.31 | 420.73 | 189.55 | 9.99 | - |
| **Operating Margin (%, ttm)** | −1.19 | 11.36 | −0.54 | 3.38 | −2.42 | 60.53 | 6.63 |
| **Net Income (ttm)** | −218.87 | 5015.00 | 38.80 | −425.35 | 13.57 | 11.39 | 583.60 |
| **EPS (ttm, diluted)** | −0.09 | 163.53 | 0.00 | 0.19 | −0.03 | 0.00 | - |
| **EV/Revenue** | 0.93 | 0.87 | 0.82 | 0.84 | 0.72 | 1.88 | - |
| **EV/EBITDA** | 11.3 | 4.5 | 13.2 | 13.6 | 12.5 | 22.3 | - |
| **P/E (ttm, forward)** | - | 9.1 | 62.6 | 67.0 | - | - | - |
| **P/S (ttm)** | 0.4 | 0.6 | 0.3 | 0.1 | 0.2 | 72.4 | - |
| **P/B (mrq\*\*\*\*)** | 0.9 | 0.7 | 0.7 | 0.7 | 0.8 | 1.7 | - |
| **Total Cash and Equivalents** | 229.91 | 3,507.00 | 1,038.19 | 500.82 | 685.78 | 336.03 | 932.80 |
| **Total Debt** | 2,882.36 | 12,325.00 | 3,023.08 | 5,928.06 | 2,663.73 | 0.00 | 5,480.10 |
| **Exchange Rate in US$ (as of January 5, 2016)** | 1.4262 | 6.9382 | 33.1630 | 1191.33 | 33.1630 | 7.7523 | - |
| **Indicative Stock Price in US$ (share price divided by exchange rate)** | 0.8624 | 1288.5186 | 0.3814 | 2.9085 | 0.2488 | 0.1303 | - |

Note: All balance sheet, income statement, and EPS data in US$ millions, but share prices are quoted in local currencies; \*Adjusted closing share price on January 5, 2016 quoted in exchange currency; \*\*Sales growth percentage versus same quarter of the previous year; \*\*\*ttm = trailing 12 month; \*\*\*\*mrq = most recent quarter

Source: Bloomberg L.P., accessed January 5, 2016. The exchange rates are taken from the Exchange-Rates.org website, accessed January 5, 2016, www.exchange-rates.org.

**Exhibit 6: cumulative RETURNS for the specific STOCKS—JANUARY 2010 TO DECEMBER 2015**





Source: Created by authors using data from Bloomberg L.P., accessed January 4, 2016.

**Exhibit 7: Details of nEPTUNE ORIENT lINES Bonds and cma cgM bondS**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Issuer Name** | **NOL** | **NOL** | **NOL** | **NOL** | **CMA CGM** |
| ISIN | SG6U79981465 | SG6Y06987482 | SG7X44961531 | SG6P73971303 | XS1244815111 |
| Country of Domicile | Singapore | Singapore | Singapore | Singapore | France |
| Issue Date | 26/4/2012 | 8/11/2012 | 9/9/2010 | 22/6/2011 | 3/6/2015 |
| Maturity Date | 26/4/2017 | 8/11/2019 | 9/9/2020 | 22/6/2021 | 15/1/2021 |
| Security Type | Corporate Bond/Note | Corporate Bond/Note | Corporate Bond/Note | Corporate Bond/Note | Corporate Bond/Note |
| Seniority Level | Senior Unsecured | Senior | Senior Unsecured | Senior Unsecured | Senior Unsecured |
| Issue Currency | Singapore Dollar | Singapore Dollar | Singapore Dollar | Singapore Dollar | Euro |
| Issue Amount | 400,000,000 | 300,000,000 | 280,000,000 | 300,000,000 | 550,000,000 |
| Maturity Price (% of par) | 100 | 100 | 100 | 100 | 100.00 |
| Offering Price (% of par) | 100 | 100 | 100 | 100 | 98.87 |
| Face Value | 250,000 | 250,000 | 250,000 | 250,000 | 1,000 |
| Coupon (%) | 4.250 | 4.400 | 4.650 | 4.400 | 7.750 |
| Coupon Type | Fixed | Fixed | Fixed | Fixed | Fixed |
| Payment Frequency | Semi-Annual | Semi-Annual | Semi-Annual | Semi-Annual | Semi-Annual |
| First Coupon Date | 27/10/2012 | 8/5/2013 | 9/3/2011 | 22/12/2011 | 15/1/2016 |
| Next Coupon Date\* | 28/4/2016 | 8/5/2016 | 9/3/2016 | 22/6/2016 | 15/7/2016 |
| Last Coupon Date\*\* | 29/10/2016 | 8/5/2019 | 9/3/2020 | 22/12/2020 | 15/7/2020 |
| Bond Feature | -Coupon Step\*\*\*  -Change of Control Call\*\*\*\* | -Callable  -Coupon Step\*\*\*  -Change of Control Call\*\*\*\* | Callable | Callable | Callable |

Note: \*As of February 16, 2016; \*\*Last coupon date refers to the last interest payment date prior to maturity; \*\*\*If NOL did not repay the bonds within 60 days of a change in control, the prevailing coupon rate would increase by 1.5%; \*\*\*\*By giving not less than 30 days and not more than 60 days of irrevocable notice to bondholders, NOL might opt for early redemption of bonds at 100 per cent of the final redemption amount (par value) plus interest following the change of control.

Source: FactSet, accessed February 16, 2016.

Exhibit 8: prices of the four NOL Bonds and one CMA CGM BOND (CMA CGM 2021)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | NOL 2017 | NOL 2019 | NOL 2020 | NOL 2021 | CMA CGM 2021 |
| 16/11/2015 | 98.66 | 96.62 | 93.54 | 92.34 | 92.50 |
| 17/11/2015 | 98.73 | 96.40 | 93.16 | 92.27 | 93.00 |
| 18/11/2015 | 99.44 | 96.28 | 93.13 | 92.27 | 93.01 |
| 19/11/2015 | 99.33 | 96.27 | 93.27 | 92.27 | 93.20 |
| 20/11/2015 | 99.18 | 96.23 | 93.31 | 92.10 | 92.95 |
| 23/11/2015 | 99.43 | 95.20 | 93.16 | 92.19 | 90.95 |
| 24/11/2015 | 99.29 | 95.05 | 93.41 | 92.09 | 89.97 |
| 25/11/2015 | 99.37 | 94.94 | 93.50 | 92.09 | 89.97 |
| 26/11/2015 | 98.93 | 95.31 | 93.73 | 92.09 | 90.97 |
| 27/11/2015 | 98.88 | 95.35 | 93.83 | 92.09 | 90.97 |
| 30/11/2015 | 98.74 | 95.17 | 93.75 | 92.01 | 91.69 |
| 1/12/2015 | 98.74 | 95.12 | 93.84 | 92.01 | 90.45 |
| 2/12/2015 | 98.99 | 94.63 | 94.02 | 91.47 | 90.45 |
| 3/12/2015 | 99.12 | 94.52 | 93.97 | 92.07 | 89.25 |
| 4/12/2015 | 99.09 | 94.56 | 93.76 | 92.08 | 89.00 |
| 7/12/2015 | 98.97 | 91.99 | 93.80 | 84.94 | 87.98 |
| 8/12/2015 | 99.45 | 93.94 | 93.78 | 78.68 | 87.70 |
| 9/12/2015 | 94.00 | 84.94 | 93.78 | 78.57 | 87.98 |
| 10/12/2015 | 97.73 | 84.50 | 93.78 | 78.23 | 88.15 |
| 11/12/2015 | 94.00 | 84.50 | 93.78 | 77.43 | 87.08 |
| 14/12/2015 | 95.25 | 85.47 | 93.78 | 76.09 | 84.01 |
| 15/12/2015 | 95.04 | 85.47 | 93.78 | 75.88 | 86.95 |
| 16/12/2015 | 95.29 | 85.70 | 87.71 | 74.14 | 87.45 |
| 17/12/2015 | 95.52 | 86.28 | 87.77 | 74.27 | 89.25 |
| 18/12/2015 | 95.63 | 86.43 | 87.94 | 74.15 | 87.03 |
| 21/12/2015 | 95.99 | 86.44 | 87.91 | 74.14 | 87.00 |
| 22/12/2015 | 96.35 | 86.50 | 87.98 | 74.15 | 87.01 |
| 23/12/2015 | 96.38 | 86.49 | 87.95 | 74.15 | 86.83 |
| 24/12/2015 | 96.27 | 86.64 | 87.96 | 74.15 | 87.42 |
| 25/12/2015 | 96.27 | 86.64 | 87.96 | 74.15 | 87.42 |
| 28/12/2015 | 96.31 | 86.60 | 87.90 | 74.09 | 85.50 |
| 29/12/2015 | 95.95 | 86.60 | 87.78 | 74.13 | 87.50 |
| 30/12/2015 | 95.94 | 86.59 | 87.54 | 74.14 | 87.50 |
| 31/12/2015 | 95.45 | 86.54 | 85.28 | 74.15 | 87.50 |
| 1/1/2016 | 95.41 | 86.53 | 85.28 | 74.15 | 87.50 |
| 4/1/2016 | 95.28 | 86.54 | 85.30 | 73.92 | 86.08 |
| 5/1/2016 | 95.57 | 85.82 | 85.44 | 73.74 | 86.50 |
| 6/1/2016 | 96.41 | 85.92 | 85.45 | 73.82 | 86.00 |
| 7/1/2016 | 97.17 | 86.35 | 85.73 | 74.02 | 84.45 |
| 8/1/2016 | 97.12 | 86.08 | 85.58 | 74.22 | 83.70 |
| 11/1/2016 | 97.73 | 86.04 | 85.60 | 74.22 | 83.25 |
| 12/1/2016 | 97.84 | 85.33 | 85.56 | 74.23 | 82.42 |
| 13/1/2016 | 97.97 | 85.21 | 87.20 | 74.23 | 81.08 |
| 14/1/2016 | 97.79 | 84.14 | 87.48 | 74.09 | 76.18 |
| 15/1/2016 | 97.77 | 84.00 | 87.48 | 73.63 | 76.50 |
| 18/1/2016 | 98.11 | 84.27 | 87.48 | 73.63 | 76.50 |
| 19/1/2016 | 98.12 | 84.32 | 87.48 | 73.64 | 75.43 |
| 20/1/2016 | 98.14 | 84.32 | 87.48 | 73.64 | 75.00 |
| 21/1/2016 | 97.95 | 84.31 | 87.48 | 73.64 | 74.50 |
| 22/1/2016 | 97.92 | 84.26 | 76.17 | 72.07 | 75.00 |
| 25/1/2016 | 97.98 | 84.01 | 76.13 | 72.06 | 76.00 |
| 26/1/2016 | 98.00 | 84.15 | 76.21 | 72.15 | 76.00 |
| 27/1/2016 | 97.73 | 84.17 | 76.26 | 72.05 | 75.58 |
| 28/1/2016 | 97.92 | 84.18 | 76.20 | 72.07 | 76.22 |
| 29/1/2016 | 98.08 | 84.18 | 76.50 | 72.28 | 77.22 |
| 1/2/2016 | 98.08 | 84.20 | 76.55 | 72.28 | 77.47 |
| 2/2/2016 | 98.08 | 84.20 | 76.54 | 72.29 | 76.47 |
| 3/2/2016 | 97.89 | 84.20 | 76.59 | 72.29 | 75.72 |
| 4/2/2016 | 98.07 | 84.00 | 76.66 | 72.32 | 75.72 |
| 5/2/2016 | 98.05 | 83.95 | 76.76 | 72.32 | 75.72 |
| 8/2/2016 | 98.02 | 83.95 | 76.81 | 72.32 | 75.22 |
| 9/2/2016 | 98.02 | 83.95 | 76.81 | 72.32 | 74.72 |
| 10/2/2016 | 98.02 | 83.88 | 77.04 | 72.24 | 73.96 |
| 11/2/2016 | 98.01 | 83.44 | 77.37 | 72.25 | 73.20 |
| 12/2/2016 | 97.87 | 83.46 | 77.04 | 71.89 | 72.72 |

Source: “Neptune Orient Lines, NOL 2017,” Bond Factsheet, accessed February 16 2016, www.bondsupermart.com/main/bond-info/bond-factsheet/SG6U79981465; “Neptune Orient Lines, NOL 2019,” Bond Factsheet, accessed February 16, 2016, www.bondsupermart.com/main/bond-info/bond-factsheet/SG6Y06987482; “Neptune Orient Lines, NOL 2020,” Bond Factsheet, accessed February 17, 2016, www.bondsupermart.com/main/bond-info/bond-factsheet/SG7X44961531; “Neptune Orient Lines, NOL 2021,” Bond Factsheet, accessed February 17, 2016, www.bondsupermart.com/main/bond-info/bond-factsheet/SG6P73971303; “CMA CGM 2021,” FactSet, accessed February 16, 2016.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of CMA CGM, Temasek, NOL, or any of their employees. [↑](#endnote-ref-2)
2. SG$ = Singapore dollar; all currency amounts are in SG$ unless otherwise stated; US$1.00 = SG$1.40 on December 7, 2015. [↑](#endnote-ref-3)
3. P.R. Venkat and Costas Paris, “French Shipping Company CMA CGM to Buy Neptune Orient Lines for $2.4 Billion,” *Wall Street Journal*, December 7, 2015, accessed December 18, 2015, www.wsj.com/articles/french-shipper-cma-cgm-to-make-offer-to-buy-neptune-orient-lines-1449454066. [↑](#endnote-ref-4)
4. ST Graphics, “NOL through the Years,” *The Straits Times*, December 8, 2015, accessed December 18, 2015, www.straitstimes.com/sites/default/files/attachments/2015/12/08/ST\_20151208\_ALNOL08NEW\_1898700.pdf. [↑](#endnote-ref-5)
5. Aaron Low, “Good Ship NOL Deserves Final Berth in Safe Harbour,” *The Straits Times*, December 8, 2015, accessed February 28, 2017, www.straitstimes.com/business/companies-markets/good-ship-nol-deserves-final-berth-in-safe-harbour. [↑](#endnote-ref-6)
6. Neptune Orient Lines (NOL), “NOL Reports US$208 Million Year-on-Year Improvement in 4Q Core EBIT,” News Release,February 22, 2013, accessed December 18, 2015, https://www.nol.com.sg/wps/wcm/connect/2c62ab86-7d28-453b-bb68-355e30683d60/NOL\_FY2012\_Results\_Press\_Release.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-2c62ab86-7d28-453b-bb68-355e30683d60-lhrlGSN. [↑](#endnote-ref-7)
7. Ibid. [↑](#endnote-ref-8)
8. Neptune Orient Lines (NOL), “NOL Narrows Fourth Quarter Core EBIT Loss by 79%,” News Release, February 13, 2015, accessed December 18, 2015, https://www.nol.com.sg/wps/wcm/connect/64b9723f-a09b-4b79-9798-7c0ead30437c/NOL\_FY2014\_Results

   \_Press\_Release.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-64b9723f-a09b-4b79-9798-7c0ead30437c-lhrlGSN. [↑](#endnote-ref-9)
9. Ibid. [↑](#endnote-ref-10)
10. ST Graphics, op. cit. [↑](#endnote-ref-11)
11. Jacqueline Woo, “Countdown Begins for NOL Buyout Offer,” *The Straits Times*, December 5, 2015, accessed December 19, 2015, www.straitstimes.com/business/companies-markets/countdown-begins-for-nol-buyout-offer. [↑](#endnote-ref-12)
12. Jacqueline Woo, “French Carrier Offers $3.38b to Buy out NOL,” *The Straits Times*, December 8, 2015, accessed December 19, 2015, www.straitstimes.com/business/companies-markets/french-carrier-offers-338b-to-buy-out-nol. [↑](#endnote-ref-13)
13. Ibid. [↑](#endnote-ref-14)
14. Rachel Boon, “CMA CGM Buys NOL Shares on Open Market,” *The Straits Times*, December 15, 2015, accessed December 19, 2015, www.straitstimes.com/business/companies-markets/cma-cgm-buys-nol-shares-on-open-market. [↑](#endnote-ref-15)
15. Jacqueline Woo, “French Shipping Giant CMA CGM to Reinforce Singapore’s Hub Status,” *The Straits Times*, December 8, 2015, accessed December 19, 2015, www.straitstimes.com/business/companies-markets/french-shipping-giant-cma-cgm-to-reinforce-singapores-hub-status. [↑](#endnote-ref-16)
16. Jacqueline Woo, “Analysts Give Thumbs up for NOL Buyout,” *The Straits Times*, December 9, 2015, accessed December 18, 2015, www.straitstimes.com/business/companies-markets/analysts-give-thumbs-up-for-nol-buyout. [↑](#endnote-ref-17)
17. Ibid. [↑](#endnote-ref-18)
18. Ibid. [↑](#endnote-ref-19)
19. Jacqueline Woo, “French Shipping Giant CMA CGM to Reinforce Singapore’s Hub Status,” op. cit. [↑](#endnote-ref-20)
20. Jamie Lee, “Update: Temasek Supports SG$3.4 Billion CMA CGM Offer for NOL,” *The Business Times*, December 7, 2015, accessed December 19, 2015, www.businesstimes.com.sg/companies-markets/update-temasek-supports-s34b-cma-cgm-offer-for-nol. [↑](#endnote-ref-21)
21. Jacqueline Woo, “French Shipping Giant CMA CGM to Reinforce Singapore’s Hub Status,” op. cit. [↑](#endnote-ref-22)
22. 23 Except where indicated, all information in this section is taken from Marissa Lee, “CMA CGM Exec Gives His Take on the NOL Takeover,” *The Straits Times*, December 10, 2015, accessed December 19, 2015, www.straitstimes.com/business/cma-cgm-exec-gives-his-take-on-the-nol-takeover. [↑](#endnote-ref-23)
23. Ibid. [↑](#endnote-ref-24)
24. “CMA CGM Favorite to Buy Neptune Orient Lines,” *Supply Chains Magazine*, November 20, 2015, accessed December 22, 2015, http://supplychains.com/cma-cgm-emerging-as-favorite-to-buy-singapores-neptune-orient-lines/. [↑](#endnote-ref-25)
25. “NOL Bond Holders Hit by Change in Control,” *The Straits Times*, January 9, 2016, accessed February 10, 2016, www.straitstimes.com/business/nol-bond-holders-hit-by-change-in-control. [↑](#endnote-ref-26)
26. Ibid. [↑](#endnote-ref-27)