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Fitch Affirms DP World at 'BBB-'; Outlook Stable

Ratings Endorsement Policy

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Fitch Ratings-London-08 March 2012: Fitch Ratings has affirmed DP World Limited's (DP World) Long-Term Issuer Default Rating (IDR) at 'BBB-' with a Stable Outlook. Fitch has also affirmed the senior unsecured rating at 'BBB-' and the Short-term IDR at 'F3'. The Sukuk unsecured trust certificates issued by DP World Sukuk Limited have been affirmed at 'BBB-'.

DP World's ratings reflect its strong position as one of the largest global container terminal port operators, with a geographically diversified portfolio of assets in high growth emerging markets and key locations. Additional positive factors include the relatively high remaining average life of its concessions, its record of sustained operating cash flow generation and strong liquidity position. In H111, liquidity was bolstered by the USD1.5bn cash proceeds raised from the sale of a 75% stake in its Australian assets.

These strengths mitigate the cyclicality of the industry, which is correlated to macroeconomic developments, and the concentration of the company's earnings at the company's port in Dubai, Jebel Ali. While Jebel Ali represents a sizeable and reliable business base, representing the gateway to the Middle East as well as India and Africa, in 2010 Jebel Ali accounted for almost 40% of the group's total throughput. The rating is also constrained by the company's capital intensive and acquisitive nature and consequently high leverage. Continuous development and expansion is necessary in order for the company to win new concession contracts, maintain market share and adapt to changing vessel sizes. As at FY10, lease-adjusted net debt to EBITDAR was around 5.0x and FFO net adjusted leverage around 5.2x. Although these metrics had both decreased at H111 to around 3.9x on an annualised basis, they are expected to remain high at around 4.5x in FY12 and FY13. Management plans to spend around USD3.7bn between FY12 to FY14 and Fitch anticipates this will most likely be front-loaded.

In Fitch's view, lease-adjusted net debt to EBITDAR and FFO net adjusted leverage of 4.5x represents the upper limit for the company at the current 'BBB-' rating level. Leverage in excess of 4.5x for a sustained period would likely place pressure on the ratings. Fitch expects increases in leverage will be limited by an improvement in trading volumes and EBITDA margins in the medium term. These are forecast to be driven by growth in emerging markets, albeit at a slower pace than in the past few years, and continued cost-cutting initiatives. However, risks to performance include further downward revisions to GDP growth and potentially, risks from the container shipping industry, which remains troubled by severe structural issues. Impacts are not likely to be material given DP World's diversified portfolio. Nevertheless, Fitch is wary of increased competition from increased route-sharing and alliances between container shipping companies, particularly where companies within these alliances have their own terminals in nearby locations. There is also some increased risk of customer payment delays or bad debts.

Management has continually stated it intends to be disciplined in its capex and acquisition plans and that capex spending will be determined by increased demand. However, DP World has a record of aggressive acquisitions and large capital investment expansion projects. Further risks to the rating may include new project developments or major acquisitions, which require sizable capital investments and result in lease-adjusted net leverage or FFO net adjusted leverage exceeding 4.5x for a sustained period. If there is a deterioration in industry fundamentals and weakening in performance, Fitch would expect the company to reduce or defer capex-spending. While some concessions require certain levels of capex spending, DP World retains control over timing and consequently has some flexibility to defer investments.

As at H111, cash totalled USD4.1bn and more than sufficiently covered short-term debt of USD153m (including finance lease liabilities) in addition to the fully-drawn USD3bn syndicated facility due in October 2012. Following the proceeds from the sale of 75% of its Australian assets, it is expected that the company will seek to reduce its gross leverage and repay the USD3bn syndicated facility from its cash balances. Fitch understands that a new syndicate loan facility of between USD1bn-USD1.5bn will be put in place but that the company currently has no plans to draw down on this in FY12. DP World's debt primarily comprised senior unsecured borrowings under the company's USD3bn revolving credit facility, its GMTN programme and a USD1.5bn Sukuk. Secured bank debt as a proportion of total debt remained relatively low at around 11%.

The ratings reflect the standalone credit profile of DP World and do not include support or constraint from its ultimate parent, the Dubai government. According to Fitch's Parent and Subsidiary Linkage methodology, the agency believes that DP World's links with the Dubai government are moderate given the absence of any formal financial guarantees and the fact that DP World's assets remained ring-fenced during the debt restructuring process of its direct parent company, Dubai World. In addition, despite change of control clauses in the documentation of its syndicated loan, Sukuk bond and MTN programme, Fitch understands that DP World's debt has no cross-acceleration provisions related to its direct parent and the subsidiaries above DP World.

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The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Corporate Rating Methodology', dated 12 August 2011, is available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology

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