

## FITCH UPGRADES DP WORLD TO 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Milan/London-27 July 2017: Fitch Ratings has upgraded UAE-headquartered port operator DP World Limited's (DP World) Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'BBB'. The Outlook is Stable. A full list of rating actions is at the end of this rating action commentary.

The upgrade reflects the group's solid and stable cash flow generation and our view that flexibility embedded in group's expansionary plan will allow DP World to maintain Fitch-adjusted leverage below 4.5x. In our view, this leverage threshold positions the rating at BBB+. It balances DP World's largely diversified business profile with its acquisitive profile and corporate-like, bullet and uncovenanted debt structure, which is weaker than peers like ABP (A-/Negative).

The ratings reflect DP World's standalone credit profile and do not include support or constraint from its ultimate parent, the Dubai government.

### KEY RATING DRIVERS

#### Diversified, Resilient Ports Network - Volume Risk: Stronger

DP World is the fifth-largest container port operator globally with a gross volume market share of 9%. Its average concession life is 38 years, including Jebel Ali at 88 years. Its traffic is 70% origin & destination (O&D) through a global network of port concessions focused on key East-West trade routes and faster growing markets. The low peak-to-trough decline of 8% in 2008-2009 was due to its diverse customer base and cargo type. DP World strengthened its competitive position as most of its ports can dock the largest container ships of 18,000 twenty-foot equivalent unit (TEU).

Dubai's Jebel Ali port generates half the group's consolidated volumes and has strong multimodal capabilities with unrivalled air and road infrastructure, including the Jebel Ali Free Zone (JAFZ), which offers integrated logistics solutions to its customers.

#### Pricing Power and Flexibility - Price Risk: Midrange

The group's predominantly O&D traffic structure, high capacity utilisation rates and integrated logistics solutions at Dubai's Jebel Ali, underpin its pricing power despite the lack of minimum guaranteed revenue or long take or pay contractual arrangements typical of landlord-tenant business model.

#### Large, Flexible Capex Plan - Infrastructure Development & Renewal: Midrange

We believe DP World is well-equipped to deliver its investment programme on the back of the company's strong cash flow generation and extensive experience and expertise in delivering investment on its terminals. Its gross capacity utilisation rate remains high at 75%. DP World plans to expand capacity to 55 million/100 million consolidated/gross TEUs by 2020 from the current 42 million/85 million. However, we believe management's statements that these investments are deferrable and dependent on market conditions.

#### Corporate Unsecured - Debt Structure: Midrange

Consolidated debt comprises 71% bonds and loans raised or guaranteed by the parent company and 29% bank loans raised at the subsidiary level. Debt is 94% fixed rate post swap, largely USD-denominated and 70% bonds, sukuk and convertible bonds. The debt is senior unsecured without material creditor protective features.

Demonstrated access to capital markets, proactive and prudent debt management and a solid liquidity position mitigate the bullet structure of DP World's debt. In Fitch's rating case, cash and

committed credit lines cover debt maturities until 2021, even assuming the convertible bond put is exercised in 2018.

### Financial Metrics

Our rating case indicates that Fitch-adjusted leverage should peak at 3.9x in 2019 and remain comfortably below the 4.5x mark over the next five years. This will be due to higher revenue and cash flow generated from new capacity at group terminals and lower direct investments on its portfolio of assets.

### PEER GROUP

DP World is around five times bigger than ABP (A-/Negative), geographically more diversified and has lower leverage at 3.9x versus 7.6x peak. However, ABP has a landlord-tenant business model with long-term take or pay contractual arrangements that ensure revenue stability. Its co-investment policy aligns landlord-tenant interests and supports a stronger assessment of the infrastructure renewal attribute vs DP World. DP World's debt structure is weaker than ABP's, which includes extensive financial covenants, securities and other creditor protective features.

Turkey-based Mersin (BBB-/Stable) is a relatively small port operator with a credit profile weighed down by the refinancing risk of a single bullet debt maturity. DP World's credit profile benefits from being larger and more geographically diversified, being able to exercise pricing and market power and having a well-established access to bank and capital markets.

### RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

- Fitch-adjusted net debt on EBITDAR sustainably above 4.5x over three years under Fitch's rating case
- Expansion into higher-risk business areas

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

- Fitch-adjusted net debt on EBITDAR sustainably below 3.5x over three years under Fitch's rating case

### CREDIT UPDATE

#### Performance Update

2016 financial performance benefited from the full year impact of the JAFZ acquisition and increased contribution from other higher margin locations. Like for like (LfL) consolidated revenues increased by 1.3% on the back of higher pricing, +4% LfL, despite some moderate volume contraction, -1.6% LfL, amid a slow-down in emerging economies exports. The Fitch-adjusted EBITDA margin increased to 51% from 47% in 2015.

In 2016 the group added 5 million TEUs gross capacity, mainly across Europe and Middle East. The company expects to add a further 4 million TEU gross capacity mainly in Europe, Middle East, Americas and Africa.

Volumes have picked up in 2017 with 1H17 consolidated LfL container volumes growing by 4.7% across all regions - Americas, EMEA and Asia - on the back of improving global trade volumes, with 2Q growth rates accelerating to 7.7%.

In January 2017, in the context of a broader USD3.7 billion strategic partnership with Caisse de depot et placement du Quebec (CDPQ), DP World monetised 45% of its equity interest in two Canadian container terminals for USD640 million. The deal has reduced the 2017 expected consolidated leverage, although we view this decrease as a one-off reduction given the acquisitive stance of DP World.

## Fitch Cases

The Fitch base case assumes container volumes to increase by +3% in 2017 and thereafter to grow by 2% on average, in line with the 2007-2016 CAGR of 2%. We assumed inflation of 2%, flat EBITDA margins at 51%, USD4.7 billion of capex over 2017-2021, USD7.5 billion of acquisitions during 2017-2021, and a dividend pay-out ratio of 30% of net income. As a result, the Fitch lease-adjusted net debt/EBITDAR averages 3.1x in 2017-2021 with a peak of 3.4x and an average interest coverage ratio (ICR) of 6.3x.

The rating case assumes stresses on the base case whereby volumes increase by +2% in 2017 and +1.5% thereafter, inflation +1.7%, capex is 10% higher, and the dividend payout ratio is 40%. As a result, the Fitch lease-adjusted net debt/EBITDAR averages 3.7x in 2017-2021 with a peak of 3.9x and the ICR averages 5.1x.

## Asset Description

DP World is the fifth-largest container port operator in the world by gross throughput. It operates, directly or via JVs, a portfolio of 78 terminals across six continents, with new developments underway in Asia, Africa, the Americas and Europe.

The group generates 54% of EBITDA in Dubai and the remaining 46% in Africa (15%), Asia/India (14%), Americas/Australia (13%). Europe accounts for a modest 4% of group EBITDA as some assets are still in a ramp-up phase.

The rating actions are as follows:

### DP World Limited

Long-Term IDR upgraded to 'BBB+' from 'BBB'; Outlook Stable

Short-Term IDR affirmed at 'F2'

Medium-term note programme and senior unsecured notes ratings: upgraded to 'BBB+' from 'BBB'; Outlook Stable

### DP World Sukuk Limited

Senior unsecured rating upgraded to 'BBB+' from 'BBB'; Outlook Stable

### DP World Crescent Limited

USD3 billion global sukuk trust certificate issuance programme upgraded to 'BBB+' from 'BBB'; Stable Outlook

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### Applicable Criteria

Criteria for Rating Sukuk (pub. 16 Aug 2016)

<https://www.fitchratings.com/site/re/885806>

Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016)

<https://www.fitchratings.com/site/re/886557>

Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)

<https://www.fitchratings.com/site/re/882594>

Rating Criteria for Ports (pub. 17 Oct 2016)

<https://www.fitchratings.com/site/re/889015>

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