FITCH REVISES DP WORLD'S OUTLOOK TO POSITIVE; AFFIRMS 'BBB-'

Fitch Ratings-London/Johannesburg-16 November 2015: Fitch Ratings has revised UAE-based port operator DP World Limited's (DP World) Outlook to Positive from Stable and affirmed its Long-term Issuer Default Rating (IDR) at 'BBB-'.

Fitch has also affirmed DP World's senior unsecured rating at 'BBB-' and its Short-term IDR at 'F3'. The ratings on the convertible notes due 2024 issued by DP World and the Sukuk unsecured trust certificates issued by DP World Sukuk Limited have also been affirmed at 'BBB-'.

The Positive Outlook is supported by improving cash flow margins in 1H15, strong liquidity, and expected deleveraging from 2016 onwards, assuming continued bolt-on acquisitions. We expect funds from operations (FFO) adjusted net leverage to peak at 3.9x in 2015 (2014: 2.4x) as it completes the acquisitions for EZ World (EZW), and Fairview Container Terminal that in our view further improve DP World's business profile. Fitch also expects DP World to remain cash flow negative until 2016, reflecting higher expansion capex.

KEY RATING DRIVERS
UAE Operations to Outperform
Fitch expects the UAE operations to outperform the other operations, supported by the acquisition of EZW, which includes the 100% DP World-owned key asset of JAFZ (BBB-/Stable). The acquisition, which improves pro forma gross leverage, should increase EBITDA by nearly USD400m per annum. DP World (80%) is ultimately owned by the Dubai government-owned holding company, Dubai World.

Fitch expects the acquisition of JAFZ to be positive for DP World's operating efficiency at the port of Jebel Ali in Dubai, as JAFZ's assets are located immediately adjacent to the port's existing footprint. DP World's ownership of JAFZ will enable it to improve the layout of the port access and enable it to expand its logistic capacity and access to support ongoing growth of the port of Jebel Ali and improve integration of the port area with the new Al Maktoum International Airport.

Combining Jebel Ali Port and EZW Free Zone allows DP World to integrate its logistics operations, underpinning port volumes. Currently 70% of DP World's cargo is origin and destination (O&D). DP World focuses on O&D cargo, rather than transhipment cargo, as it provides higher margins and is less affected by competition and global economic performance than transhipment hubs (such as Singapore).

Growth Capex Increase
DP World has commenced construction for container terminal four, which will increase capacity by 3.1m TEUs by 2018 at Jebel Ali, to meet demand following UAE's record delivery of throughput volumes of 15.2m TEUs in 2014. The port continues to operate at high levels of utilisation and, given the strong domestic and regional growth outlook including the lead up to Expo 2020, DP World is delivering capacity now to meet the future demand of the UAE and the wider region (for example the lifting of sanctions on Iran). DP World's gross capacity utilisation marginally improved to 79% at end-2014 (2013: 78%).

Strong Market Positions, Geographically Diversified

DP World is one of the four largest container port operators globally based on volume. Its global market share remained at 9% at end-December 2014. The company's throughput volume is anchored by its operation of Jebel Ali port in Dubai, giving it a dominant market share in the Middle East.

Challenging macro conditions may limit volume growth at DP World's individual ports. However, additional capacity at Jebel Ali (Dubai), Yarimca (Turkey), Rotterdam (Netherlands) and Nhava Sheva (India) should support consolidated volume growth and margin increase, offsetting our expectations of weaker trade activity. Fitch considers DP World as geographically well-diversified relative to its peers. Volume volatility resulting from irregular economic growth in developing markets is currently offset by stronger pricing across much of its portfolio.

Strategic Locations and Facility Upgrades
DP World's terminals are located close to key import and export markets. About 70% of the company's volumes are O&D cargoes, enabling it to generate stronger and more stable margins than its peers. Dubai's Jebel Ali port in particular, one of the largest container ports between the Far East and the western hemisphere, is geographically well-located, serving as the key gateway to the Middle East and the growing markets of India and Africa. The upgrade of terminals to capture the latest generation of 18,000 TEUs capacity container ships should help preserve its competitive position.

Improving Leverage
Fitch expects FFO adjusted net leverage to be 3.9x for FY2015, reflecting the debt funded portion of the acquisitions and the reduction in cash balance. We expect DP World's leverage to improve based on expected FFO improvement and modest leverage increase. Fitch expects FFO fixed charge coverage to marginally improve to about 2.8x for 2015 from 2.7x in 2014, reflecting improving cash flows.

Intensive but Flexible Capex
DP World plans to invest USD5.3bn capex in 2015-2018. Fitch expects full year capex for 2015 to be USD1.6bn, and USD1.3bn for 2016 for maintenance (around 12% of total capex) and port level expansion (this does not include additional port acquisitions). DP World has some flexibility to defer investments, particularly where capex relates to a terminal's super-structure such as cranes.

Should DP World face a reduction in throughput volume at certain locations, we would expect a curtailment in growth capex. Maintenance capex is typically around USD150m per year (3% of total property, plant and equipment). Despite the high levels of capex, we expect DP World to remain free cash flow (FCF) positive from 2016 onwards, helped by its low dividend payments.

Standalone Credit Profile
The ratings reflect DP World's standalone credit profile and do not include support or constraint from its ultimate parent, the Dubai government. Fitch views DP World's links with the Dubai government as moderate given the absence of any formal financial guarantees, according to the agency's Parent and Subsidiary Linkage methodology.

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, DP World's debt has no cross-acceleration provisions related to Dubai World or its subsidiaries above DP World in the capital structure.

KEY ASSUMPTIONS
Fitch's key assumptions within the rating case for DP World include:

-Stronger throughput growth in 2H15, supported by the new capacity at Jebel Ali and recent acquisition of Fairview Container Terminal.
- JAFZ EBITDA margins of 78% to support earnings growth.
-UAE operations to outperform the other operations, supported by new capacity at Jebel Ali and lifting of sanctions on Iran.
-Capex of USD5.3bn for 2015-2018, with average of USD1.3bn per annum.
-Acquisitions of USD750m per annum for 2015-2018 at a 10x EBITDA multiple.
-Lease-adjusted debt; Fitch capitalises 100% of the fixed and 50% of the variable, volume related concession payments, at a multiple of 8x, resulting in a blended multiple of 6x.

RATING SENSITIVITIES
Positive: Future developments that could lead to positive rating action include:
- FFO-adjusted net leverage consistently below 4.0x
- FFO fixed charge cover above 3.0x
- Positive FCF (before disposals)
- Strong uptake of new terminal capacity

Negative: Future developments that could lead to negative rating action include:
- FFO adjusted net leverage consistently above 4.5x
- FFO fixed charge cover below 2.5x for a sustained period
- Sustained negative FCF
- Expansion into higher-risk business areas; structural decline in international trade

LIQUIDITY
Cash and cash equivalents amounting to USD2.4bn as of end-June 2015, and undrawn committed borrowing facilities of USD2.5bn more than satisfactorily covered short-term debt of USD86.9m. Combined with strong operating cash flows forecast for 2015 and 2016, Fitch expects there will be more than adequate funding for capex over the next two years. The group's credit facility is currently well within the covenant limits. Foreign exchange risk is mitigated by the geographical spread of revenues, and the dollarisation of tariffs.

Contact:
Principal Analyst
Radim Radkovsky
Associate Director
+44 3540 1254

Supervisory Analyst
Paul Lund
Senior Director
+44 20 3530 1244
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Committee Chairperson
Josef Pospisil
Senior Director
+44 20 3530 1287

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362