

Rating Action: Moody's upgrades DP World's and JAFZ's ratings to Baa2; stable outlook

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London, 01 September 2016 -- Moody's Investors Service has upgraded the long-term issuer rating of DP World Limited (DPW) to Baa2 from Baa3 and the long-term issuer rating of Jebel Ali Free Zone FZE (JAFZ) to Baa2 from Baa3. The outlook on all ratings is stable.

A complete list of rating actions can be found at the end of this press release.

"Our decision to upgrade DP World's ratings is a result of the company's credit metrics broadly meeting the criteria for an upgrade in conjunction with Moody's recognizing that the company retains a degree of financial cushion in its credit metrics at the Baa2 level despite the current challenging global trade environment," says Rehan Akbar, a Moody's Assistant Vice President - Analyst. "JAFZ's upgrade directly reflects the company's close interlinkages with parent DP World as well as the robustness of its credit profile."

RATINGS RATIONALE

Today's rating action on DP World is a result of Moody's view that the company has broadly met the guidance for an upgrade, namely retained cash flow (RCF) to net debt being in the mid-teens and funds from operations (FFO) interest coverage being sustained above 3.5x. As of end-June 2016 (LTM), these credit ratios were 14.9% and 4.4x respectively. DPW's financial profile in 2014 suggested upward rating pressure but metrics were moderately weakened by the \$2.6 billion acquisition of JAFZ (through the purchase of Economic Zones World FZE). Moody's forecasts RCF to net debt trending towards 17% by year-end 2017 while FFO interest coverage will likely remain around 4.5x.

A key driver to the upgrade is the recognition that Moody's debt adjustments take a conservative approach to the capitalization of operating leases by using a multiple of the rent expense disclosed in DPW's financial statements. This rent expense number comprises two components defined under various port concession agreements: (1) a variable fee linked to port revenues/performance; and (2) a recurring fixed concession fee obligation. Under Moody's financial adjustments approach, only the fixed rent expense is used for the capitalization of leases if the relevant data is accurately available. After having in-depth discussions with DPW's management and receiving further non-public financial information, Moody's recognizes that DPW's credit metrics as adjusted using public financial disclosures appear to be weaker than would otherwise be the case if only the fixed rent expense is used.

Although the environment for global trade remains challenging, DPW's credit profile is underpinned by (1) a degree of business resilience as a result of the group's diversified global operations; (2) management track record of successfully growing the company through business cycles while improving profitability and maintaining strong liquidity; and (3) the financial flexibility of the company including the ability to delay capex.

The company tends to focus on origin and destination (O&D) ports in emerging markets which are relatively less sensitive to cyclical downturns as opposed to transshipment ports. Nevertheless, the company has a material degree of concentration risk, with about 60% of group EBITDA generation derived from assets in Dubai (including JAFZ). The group is exposed to cyclical global trade volumes and given its growth ambitions, the rating incorporates execution risks related to terminal expansions and M&A.

The upgrade of DPW's ratings today gave headroom for JAFZ's ratings to also be upgraded. JAFZ's Baa2 long-term issuer rating combines (1) the resilience of its business model with sustainable competitive advantages as an offshore business and logistics hub connected to the Jebel Ali mega-port; (2) a reliable recurring cash flow base backed by a large pool of rental contracts; and (3) strong credit metrics, with Moody's adjusted net debt to EBITDA reaching 1.5x and adjusted FFO interest coverage of 5.7x as of year-end 2015. Nevertheless, JAFZ's rating is constrained by the rating of its parent DP World while its geographic concentration in Dubai is also a constraining factor.

JAFZ's EBITDA margins as adjusted by Moody's have consistently exceeded 70% since 2008 and are currently around 80%. Occupancy rates have remained strong across its portfolio, with both warehouses and

land plots about 90% leased and accommodation units at about 100% as of end-June 2016. Office occupancy rates have fallen to 77% as of end-June 2016 from 85% as of year-end 2015 as a result of capacity additions in conjunction with weak demand for office space. JAFZ is exposed to economic volatility in Dubai and the broader region and also faces a degree of competition from various free zones and logistic parks within the UAE.

LIQUIDITY

DPW has strong liquidity with reported cash balances of about \$1.3 billion as of end-June 2016 while Moody's estimates annual operating cash flow generation in excess of \$2.0 billion on a reported basis in 2016. However, the port operator has material on-going capital expenditure needs with 2016 management guidance of \$1.2 billion - \$1.4 billion and \$1.2 billion in 2017. This includes about \$150 million - \$200 million of annual maintenance capex. Moody's forecasts dividend and interest payments to be an additional \$650-\$700 million, leaving the company broadly free cash flow neutral over the next 12-18 months absent M&A activity.

In light of a \$1.5 billion sukuk maturing in 2017, the company prudently issued a \$1.2 billion 7-year sukuk in May 2016 through a tender offer on the 2017 sukuk, leaving about \$1 billion due between July 2016 to year-end 2017. The company also has an undrawn \$2 billion revolver available to it which matures in mid-2019.

JAFZ has good liquidity as Moody's forecasts adjusted funds from operations in excess of \$380 million over the next 12 months and the company has available cash of about \$55 million as of year-end 2015. JAFZ has no upcoming maturities over the next 12 months as it has prepaid its syndicated loan facility in 2015 following which its sole debt obligation is the \$650 million sukuk due in 2019.

Maintenance capex is minimal while growth capex of about \$150 million - \$200 million a year can be comfortably funded through internal cash flows. Within the context of JAFZ's current business plan, Moody's sees little reason for the company to issue new debt and in its view there is a high likelihood that future fund raising will be centralized at the DPW level.

RATIONALE FOR STABLE OUTLOOK -- DPW

The stable outlook on DPW's rating is based on Moody's expectations that the company will be able to navigate through the currently challenging operating environment as a result of its global geographic footprint and from the financial flexibility it has in delaying capex spending. The stable outlook also assumes that DPW will not exceed or persistently maintain leverage at the upper end of its net debt to EBITDA guidance of 4.0x (on a reported basis).

WHAT COULD CHANGE THE RATING UP / DOWN -- DPW

Upward rating pressure could result if DPW's financial profile strengthens beyond current expectations and the company establishes a track record of higher-than-expected cash generation that would sustainably result in Moody's adjusted FFO interest coverage above 5.0x and adjusted FFO to debt above 20%. In addition, evidence of the company formally committing to preserving these credit metrics through a cycle would be supportive of an upgrade. Given the concentration risks in the Emirate of Dubai, any further upward pressure would also require Moody's to assess the domestic macroeconomic environment.

Negative pressure on the rating could result from weaker liquidity management or from persistently higher leverage, with adjusted FFO interest coverage falling towards 3.0x and adjusted FFO to debt trending towards 10%. Furthermore, the rating could be negatively affected if DPW exceeds its net leverage guidance, potentially as a result of assuming higher-risk development projects or higher-than-anticipated M&A activity. The credit metric guidance for downward rating pressure has greater headroom than what Moody's would generally be comfortable with for a Baa2 rating in the port sector, but in DPW's case the guidance incorporates the recognition that a conservative approach has been taken on the capitalization of operating leases.

RATIONALE FOR STABLE OUTLOOK -- JAFZ

The stable outlook on JAFZ's rating incorporates Moody's expectations that JAFZ's competitive market position in Dubai will remain intact for the foreseeable future and that DPW will adhere to policies that will not adversely affect JAFZ's credit profile.

WHAT COULD CHANGE THE RATING UP / DOWN -- JAFZ

JAFZ's rating is constrained by the rating of JAFZ's parent, DPW, as well as by the company's geographic

concentration in the Emirate of Dubai. Given the interlinkages between JAFZ and DPW, an upgrade of JAFZ's ratings would require an upgrade of DPW's ratings as well as an assessment of the macroeconomic environment in Dubai. JAFZ's credit metrics, with adjusted net debt to EBITDA of 1.5x and FFO interest coverage of 5.7x as of year-end 2015, are strong for a Baa2 rating level and are not rating constraints.

Moody's could downgrade JAFZ's rating if the company's credit strength were to weaken substantially, resulting in net debt to EBITDA trending above 3.0x. This could be a result of a weaker operating environment that displays decreased occupancy rates and falling rents, combined with an increase in financial debt. In addition, Moody's would view negatively financial policies that favour JAFZ's shareholder at the expense of a deterioration in the company's credit profile and free cash flow metrics.

List of affected ratings

Upgrades:

..Issuer: DP World Limited

.... Issuer Rating, Upgraded to Baa2 from Baa3

....Senior Unsecured Conv./Exch. Bond/Debenture, Upgraded to Baa2 from Baa3

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

..Issuer: DP World Crescent Limited

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

..Issuer: DP World Sukuk Limited

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

..Issuer: Jebel Ali Free Zone FZE

.... Issuer Rating, Upgraded to Baa2 from Baa3

..Issuer: JAFZ Sukuk (2019) Limited

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

Outlook Actions:

..Issuer: DP World Crescent Limited

....Outlook, Remains Stable

..Issuer: DP World Limited

....Outlook, Remains Stable

..Issuer: DP World Sukuk Limited

....Outlook, Remains Stable

..Issuer: Jebel Ali Free Zone FZE

....Outlook, Remains Stable

..Issuer: JAFZ Sukuk (2019) Limited

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in rating DP World Limited, DP World Crescent Limited and DP World Sukuk Limited was Privately Managed Port Companies published in July 2016.

The principal methodology used in rating Jebel Ali Free Zone FZE and JAFZ Sukuk (2019) Limited was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010.

Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

The Local Market analyst for this rating is Rehan Akbar, AVP-Analyst, Corporate Finance Group, Telephone: +971 (423) 795-65.

Headquartered in Dubai, United Arab Emirates (UAE), DP World Limited ranks amongst the world's four largest container terminal operators by capacity and throughput. DP World is one of the most geographically diversified companies in the Emirate of Dubai (not rated), currently operating approximately 77 marine and inland terminals across six continents, including its flagship facility at Jebel Ali port in Dubai. DP World's shares are listed on Nasdaq Dubai. The government of Dubai indirectly owns 80.5% of DP World through Port and Free Zone World FZE, a subsidiary of Dubai World (not rated). For the 12-month period ended June 2016, DP World reported revenue of \$4.2 billion and net income of about \$1.1 billion.

Based in Dubai, United Arab Emirates, Jebel Ali Free Zone FZE is the operator of the Jebel Ali Free Zone, which is adjacent to Dubai's Jebel Ali port and the largest business logistics hub in the Middle East. JAFZ is wholly-owned by Economic Zones World FZE, an entity that DP World Limited acquired in March 2015 for \$2.6 billion. During the year ended 31 December 2015, JAFZ reported revenues of \$493 million and a net income of \$270 million.

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