

MOODY'S

INVESTORS SERVICE

Credit Opinion: DP World Limited

Global Credit Research - 14 Dec 2015

DIFC - Dubai, United Arab Emirates

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured	Baa3
Jebel Ali Free Zone FZE	
Outlook	Stable
Issuer Rating	Baa3
DP World Sukuk Limited	
Outlook	Stable
Senior Unsecured	Baa3
JAFZ Sukuk (2019) Limited	
Outlook	Stable
Senior Unsecured	Baa3

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Key Indicators

[1]DP World Limited	6/30/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
EBITDA Margin	54.9%	55.2%	55.3%	54.6%	56.3%
Cash Interest Coverage	3.5x	3.7x	3.2x	3.3x	3.3x
FFO / Debt	12.4%	14.9%	13.9%	14.3%	10.7%
RCF / Net Debt	13.3%	20.4%	15.3%	14.1%	14.2%
Debt / EBITDA	5.9x	5.1x	5.2x	5.2x	6.8x
Net Debt / EBITDA	4.7x	3.2x	3.7x	4.1x	4.4x
RCF / Capex	1.1x	1.3x	0.8x	1.1x	1.4x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Corporate Profile

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 65 terminals across six continents, including its flagship facility at Jebel Ali port in Dubai. Following the completion of the acquisition of Economic Zones World FZE (EZW) in March 2015, DP World also owns Jebel Ali Free Zone FZE (JAFZ, Baa3 Stable), which operates the business logistic hub adjacent to Jebel Ali port.

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 2015, DP World reported revenue of \$3.8 billion and net income of \$724 million.

Rating Rationale

Moody's views DP World as a government-related issuer (GRI) in view of its 80.5% indirect ownership by the government of Dubai. The final Baa3 ratings is on par with DP World's baseline credit assessment (BCA) of baa3, which is sustained by the group's diversified global operations, the expected long-term growth in international container traffic as well as its solid profitability and liquidity profile. The Baa3 ratings are also driven by the company's expected adherence to leverage targets, as well as its flexibility with future growth spending to preserve improvements to the capital structure.

The ratings reflect the risks linked to its strong correlation to global trade volumes and geographic exposure to Dubai. Event risk is also a constraint, although we expect DP World to refrain from any further large-scale acquisitions in the near future as a result of the Economic Zones World FZE (EZW) acquisition while taking into account internal leverage targets and the current capital expenditure programme. Moreover, we assume an absence of negative interference by DP World's main shareholder and incorporate assumptions of low support from the government in the event of the group facing financial distress.

DETAILED RATING CONSIDERATIONS

DP WORLD'S GEOGRAPHIC FOOTPRINT IMPLIES EXPOSURE TO GLOBAL TRADE VOLUMES

DP World's ratings benefit from the group's competitive position as one of the world's four largest port operators based on gross throughput numbers. Conversely, gross throughput and ultimately revenue generation are highly correlated to global trade volumes, which constrain ratings for port operators globally. The group has demonstrated resilience through the recent full cycle, with consolidated volumes on a like for like basis dropping 8% in 2009 but recovering to 2008 levels by year-end 2010 and growing a further 9% in 2011. Consolidated volumes growth on a like for like basis in 2012 and 2013 remained almost flat at 1% and -0.5% respectively. Consolidated volumes on a like for like basis are back to an upward trend in 2014 and the first nine months of 2015 with 9.5% and 2.5% growth respectively.

The macroeconomic environment for emerging markets over the long-term remains supportive to DP World's activities. Geopolitical risk in the Middle East is a concern but is partially mitigated by the group's diversified revenue base and exposure to global trade flows.

CAPTIVE ORIGIN AND DESTINATION (O&D) REVENUES SUPPORTED BY LONG-TERM CONCESSIONS

In 2014, containerised revenues grew by 10% over the previous year and accounted for 77% of total revenues while the group's gross capacity utilisation rate stood at approximately 80.0%. Moody's expects DP World to be well positioned to benefit from strong growth in emerging markets over the long-term, with ca. 75% of volumes to be driven by emerging markets and a focus towards stable O&D revenues. An average terminal concession of approximately 40 years across the group's portfolio (Jebel Ali and Port Rashid's concessions run until 2105) underscores the visibility and predictability of the group's cash flows and the sustainability of the business model. The UAE - including Jebel Ali port - represented a substantial 54% of consolidated throughput for 2014 and remains one of the most profitable and cash generative areas for DP World.

CLEAR INVESTMENT AND FINANCIAL POLICY GUIDANCE IS PARAMOUNT TO INVESTMENT-GRADE RATING

DP World's capital expenditure guidance for the 2016-2017 period is \$1.2 billion including annual maintenance capex of about \$150 million, significantly lower than the previous 2012-2014 period guidance of \$3.7 billion. The company in the past has pushed forward its capex when required, with capex over the 2012-14 period amounting to a lower than projected amount of \$2.6 billion. With capex guidance of \$1.6 to \$1.9 billion in 2015 (\$1.1 billion spent in H1 2015), we expect the company to have negative to weak free cash flow generation until 2015. For our

investment grade rating, we expect the group to (1) continue to manage cash flows that are earmarked for growth in line with set financial policies and targets; and (2) manage future spending accordingly as large components of the considered investments are scalable and would allow for re-phasing if needed to maintain a balanced capital structure.

Moody's believes the two main pipeline projects - Jebel Ali port extensions and London Gateway - are sustained by strong investment underpinnings overall. It is worth noting that the capacity growth at Jebel Ali increases the group's exposure to a global and regional downturn in trade volumes, while London Gateway's focus on replacing older and less efficient regional capacity may be less sensitive to this. In 2014, UAE volumes grew by 11.8% (versus 2.7% growth in 2013) to 15.2 million twenty-foot equivalent units (TEU). Despite an additional 2 million TEU becoming operational in 2014 with total capacity reaching 17 million TEU, utilisation rate remained close to 90% at the Jebel Ali port. With 2mn TEU to be added in Q4 2015, the port's capacity will reach 19 million TEU in the near future. DP World also announced the plan to further extend Jebel Ali with the construction of terminal 4, which is expected to add 7.8 million TEU out of which 3.1 million TEU is expected to be added by 2018.

London Gateway became operational at the end of 2013 with 1.6mn TEU of capacity and is expected to handle 3.5mn TEU once fully developed. In November 2015, DP World announced the acquisition of the remaining 49% stake in the DP World Southampton container terminal from Associated British Ports for an undisclosed amount. We estimate that the acquisition cost to be small relative to DP World's operating cash flows while the transaction will help to manage capacity and able to generate synergies as DP World will now fully control both Southampton container terminal and London Gateway.

Moody's takes further comfort from DP World's self-assigned maximum net leverage of 4.0x on a reported basis. Management's guidance is particularly relevant in the context of its expansion goals up until 2020, which would raise the broader group's gross capacity to approximately 100 million TEU, up from the reported 76.1 million TEU at year-end 2014 (consolidated capacity forecasted to reach approximately 55mn TEU from 39.7 million TEU) through existing terminal expansions and acquisitions of new assets, including the acquisition of Fairview Container Terminal for \$450 million in August 2015.

COMPLETED ACQUISITION OF EZW IS ACCOMMODATED IN CURRENT RATING POSITIONING

DP World completed the acquisition of EZW in March 2015 for \$2.6 billion. EZW's most noteworthy asset is JAFZ (Baa3 stable), the operator of an offshore business and logistics hub connected to the Jebel Ali port, which contributes 97% of EZW's total revenue and operating profit.

The acquisition was funded through a mix of debt and internal cash sources, which led to credit metrics to moderately weaken but remain within our existing rating guidance. For the 12-month period ended June 2015 which includes 3 months of JAFZ's results, DP World's credit metrics fitted in the current rating guidance with FFO interest cover at 3.3x and RCF/net debt of 13.3% (versus 3.7x and 20.4%, respectively, as of year-end 2014). Under our pro-forma calculations including last twelve months of JAFZ's results, DP World's credit metrics would be in the upper end of our guidance with FFO interest cover at 3.6x and RCF/net debt at 15.7%.

However, we expect the EZW transaction to limit DP World's ability to make material acquisitions over the next several years if it plans to maintain its credit metrics within the level commensurate with its current rating. The acquisition led to an increase in DP World's adjusted net debt position to \$9.8 billion as of June 2015 from \$6.1 billion as of December 2014 with pro-forma net debt to EBITDA of 4.1x over LTM ended June 2015 from 3.2x over full year ended December 2014, and substantially increased investment exposure to Dubai's economy. Economic volatility in the Emirate and broader MENA region will therefore have a greater impact on the combined group's financial performance.

RATING ASSUMES NO NEGATIVE INTERFERENCE FROM DUBAI WORLD, DP WORLD'S ULTIMATE CORPORATE PARENT

Dubai World signed a debt restructuring agreement in March 2011 that sealed the group-wide restructuring with debt tranches due in 2015 and 2018. In February 2015, Dubai World successfully negotiated a new debt restructuring with its creditors, which resulted in an early repayment of \$2.9 billion due in September 2015 and an extension of 2018 maturities to 2022. We continue to believe there is a low probability of negative interference risk from Dubai World as DP World was never financially or operationally affected throughout the restructuring process and the economic fundamentals of Dubai have improved since then. While the EZW acquisition diverges from DP World's strategy of expanding its ports business and is a significant related party transaction that benefits Dubai World, we do not view the acquisition to be credit negative given the benefit from possible synergies and strong linkage between the port and free zone.

Liquidity

DP World has strong liquidity with available cash balances of about \$2.3 billion as of end-June 2015 and expected annual operating cash flow generation in excess of \$1.5 billion. However, DP World has material on-going capital expenditure needs and also has a \$1.5 billion sukuk maturing in 2017, which could weigh on its liquidity profile in the future.

Rating Outlook

The stable outlook is based on Moody's expectations that DP World will maintain its global position as a leading port operator, preserve operating margins at historical levels with an unchanged share of captive O&D volumes, and prudently manage and use its currently solid liquidity position. In addition, Moody's expects DP World to remain within the boundaries of its leverage target by not embarking on further large acquisitions.

What Could Change the Rating - Up

Upward rating pressure could result if DP World'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 FFO interest cover above 3.5x and RCF/net debt in the mid-teens (%).

What Could Change the Rating - Down

Negative pressure on the rating or outlook could result from weaker liquidity management, a reversal to negative free cash flow generation, or from persistently higher leverage, with FFO interest cover below 3.0x and RCF/net debt trending to below 10%. Furthermore, the rating or outlook could be negatively affected if DP World shifts any financial policy guidelines that are currently in place, or assumes higher-risk development projects, or higher-than-anticipated M&A activity.

Rating Factors

DP World Limited

Privately Managed Port Industry Grid [1][2]	Current LTM 6/30/2015		[3]Moody's 12-18 Month Forward ViewAs of November 2015	
	Measure	Score	Measure	Score
Factor 1 : Market Position (25%)				
a) Port Size / No. of Ports Owned	Aa	Aa	Aa	Aa
b) Quality of Service Area and Connections	Aa	Aa	Aa	Aa
c) Operational Restrictions	A	A	A	A
Factor 2 : Diversity of Customer Base (10%)				
a) Exposure to volume variation	Baa	Baa	Baa	Baa
b) Dominance of Customers	A	A	A	A
Factor 3 : Capital Programme, Stability of Business Model and Financial Profile (15%)				
a) Scale and Scope of Capital Expenditure Programme	B	B	B	B
b) Management attitude to financial risk	Baa	Baa	Baa	Baa
c) Proportion of Revenues from Non-Core Activities	Aaa	Aaa	Aaa	Aaa
Factor 4 : Nature of Asset Ownership (10%)				
a) Ownership and Control of Assets	Baa	Baa	Baa	Baa
Factor 5 : Key Credit Metrics (40%)				
a) Cash Interest Coverage	3.5x	Baa	3.7x - 4x	Baa
b) FFO / Debt	12.4%	Baa	14% - 15%	Baa
c) Moody's Debt Service Coverage Ratio	3.2x	Baa	3.5x - 4x	Baa
d) RCF / Capex	1.1x	Baa	1.2x - 1.7x	Baa
Rating Lift:				

a) Debt Structure & Liquidity Protection			None	0
b) Control Afforded To Creditors			None	0
Rating:				
Indicated Rating from Grid Factors 1-5		Baa2		Baa2
Rating Lift				0
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa3		Baa3

Government-Related Issuer	Factor
a) Baseline Credit Assessment	baa3
b) Government Local Currency Rating	Aa2
c) Default Dependence	High
d) Support	Low
e) Final Rating Outcome	Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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