FITCH UPGRADES DP WORLD TO 'BBB'; OUTLOOK STABLE

Fitch Ratings-Milan/London-05 August 2016: Fitch Ratings has upgraded UAE-based port operator DP World Limited's (DP World) Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB-' and Short-Term IDR to 'F2' from 'F3'. 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. In addition, we believe the flexibility embedded in the group's expansionary plan will allow DP World to maintain Fitch-adjusted leverage below 5x, which is commensurate with the higher rating.

DP World's credit profile is supported by the geographical diversification of its business, the high utilisation rate of its terminals, which supports the group's pricing power as well as the long-term maturity of its main concession (Jebel Ali; 89 years). This ensures long-term visibility of group cash flow generation. The lack of covenants and other creditor protective features in DP World's debt structure is a weakness. However, this is largely offset by its well-established access to the capital markets and solid liquidity position, which mitigates the refinancing risk. DP World is acquisitive and this reduces the long-term visibility of its capital structure.

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
Volume Risk - Stronger
DP World is one of the four largest container port operators globally based on volume. Its global market share was around 9% at end-December 2015. Approximately 55% of the group's consolidated volumes are generated by Dubai's Jebel Ali port. The asset is the ninth busiest port worldwide and is one of the largest container ports between the Far East and the western hemisphere serving as the key gateway to the Middle East and the growing markets of India and Africa. Its long concession tenor (89 years) ensures long-term visibility of the group's cash flow generation. The recent acquisition (2015) of Jebel Ali Free Zone (JAFZ) - a large logistic park adjacent to the port - will further strengthen Jebel Ali's competitive position as it is now able to offer integrated logistics solutions to its customers. The port has strong multimodal capabilities (rail, air and road infrastructures).

DP World has progressively expanded its operations to under-containerised markets that offer growth opportunities, leveraging on its well-established Dubai asset. At YE2015, the group generated around 60% of EBITDA in Dubai and the remaining 40% in Africa (14%), Asia/India (14%), American/Australia (9%). Europe accounts for a modest 3% of group EBITDA as some assets are still in a ramp up phase (London Gateway). This geographical diversification should mitigate negative performance during an economic downturn. The recent upgrade of most of the group's key ports to capture the latest generation of 18,000 TEUs capacity container ships helps preserve DP World's competitive position.

DP World is a global player and therefore is exposed to the cyclicality of global trade volumes. However, the group demonstrated resilience during the 2008-2009 economic downturn. Consolidated container volumes moderately contracted in 2009 (-8%) but quickly rebounded reaching the 2008 level one year after the drop (in 2010). Peak to trough was 8%, one of the lowest rates in our portfolio. Since 2007, DP World's container volumes have grown by 21% (Jebel Ali +45%), mainly driven by growing global demand for containerised cargos, increasing capacity at group terminals and external acquisitions.

Under Fitch's rating case, consolidated container throughput will remain flat (0%) in 2016 and moderately increase thereafter (+1.1% average in 2017-20) largely underpinned by additional capacity at group port terminals. The downside risk mainly stems from the limited visibility on the long-term evolution of global trade volumes and, ultimately, global economic activity.

Price Risk - Midrange
The group's traffic structure is supportive of its pricing power as the predominantly (70%) origin and destination cargo is more stable and less affected by competition than ports with transhipment. The group's volumes are driven by import/export flows dynamic rather than the decisions or strategy of shipping line companies. The group's flagship port, Dubai's Jebel Ali has strong market power as it is the key gateway to the Middle East and the growing markets of India and Africa. The high capacity utilisation rates (around 92%) further strengthen its contractual position with its clients. However, the lack of minimum guaranteed revenue or long take or pay contractual arrangements typical of landlord-tenant business model constrains the attribute to Midrange

Infrastructure Development & Renewal - Midrange
Over 2007-2015, DP World heavily invested (USD8.7bn) in terminal upgrades. This supported volume growth and brought the group's consolidated capacity to 40m TEU (28.4m in 2007). Additional investments are however needed as DP World gross (subs and associates) capacity utilisation is high (around 80%) and peak at 92% in Dubai's Jebel Ali port. Additional capacity for 1m TEU at Dubai's Jebel Ali Terminal 3 was recently added and a further 1.5m TEU should come on stream in 2017 taking the total capacity to 19.5m TEU. The group has also announced plan for a new container terminal (T4) which will add 3.1m TEUs by 2018. However, management states this investment is deferrable and dependent on market conditions. Additional expansionary capex is planned on major ports in Europe (UK), India and Turkey. This expenditure will bring consolidated capacity to 55m TEU (now 40m) and should support volume growth, but can be scaled back or deferred in case of an economic downturn.

We believe DP World is well-equipped to deliver its investment programme as it has extensive experience and expertise in delivering investment on its terminals. However, its acquisitive profile and the size of the capex plan to accommodate medium-term throughput growth constrain the attribute to midrange.

Debt Structure - Midrange
DP World's consolidated debt comprises bonds and loans raised at the parent company level (65%) and several bank loans raised at the subsidiary level (35%). Debt is 90% fixed rate (post swap), largely USD-denominated and is largely made up of capital market instruments (bonds, sukuk and convertible bonds). DP World has a USD5bn GMTN programme and a USD3bn sukuk programme whose ratings are aligned with the IDR.

The bullet structure of DP World's debt and lack of material structural protection are weaknesses. However, this is adequately mitigated by demonstrated access to capital markets, proactive and prudent debt management and a solid liquidity position, which reduces refinancing risk. In Fitch's rating case, cash and committed credit lines cover debt maturities until 2018, even when we prudentially assume that the put embedded in the convertible bond due in 2024 will be exercised in 2018.

Debt Service
Fitch-adjusted net debt/EBITDAR was 3.8x at YE2015. Under Fitch's rating case, which incorporates conservative assumptions on traffic, revenue per TEU and acquisitions, Fitch-adjusted leverage increases to around 4.3x in 2016-17. It progressively decreases thereafter due to lower capex and higher revenue and cash flow generated by the new capacity at group terminals.

Given the group's acquisitive stance, the rating case also factors in around USD3.4bn of external acquisitions over 2016-2020.

Peers
DP World is around five times bigger than ABP (A-/Stable), geographically more diversified and has lower leverage. 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 (Mid-Range for DP World). DP World's debt structure is weaker than ABP's, which includes extensive financial covenants, securities and other creditor protective features.

Compared with DP World, Turkey-based Mersin (BBB-/Stable) is a small port operator with a credit profile weighed down by a single bullet debt structure, which entails refinancing risk. It is less leveraged (maximum 2.7x) than DP World (maximum 4.3x) but DP World's higher rating is supported by its bigger size, its more geographically diversified cargo as well as stronger pricing/ market power and well established access to bank and capital markets, which broadly mitigate refinancing risk

RATING SENSITIVITIES
From this year, Fitch also applies the rating criteria for Ports to rate DP World.
Future developments that could lead to negative rating action include:
- Fitch-adjusted net debt on EBITDAR approaching 5x under Fitch's rating case.
- Extraordinary distributions or cash upstream affecting DP World's leverage profile.
- Adverse policy decisions, a structural decline in international trade or geopolitical event affecting DP World or the port sector.
- Expansion into higher-risk business areas.
- Higher than expected debt funded acquisitions.

Future developments that could lead to positive rating action include:
- Fitch-adjusted net debt on EBITDAR sustainably below 4x under Fitch's rating case.
- Inclusion of creditor-protective features in DP World's debt structure.

SUMMARY OF CREDIT
DP World is the fourth-largest container port operator in the world with a global market share of 9% at December 2015. It operates, directly or via JVs, a portfolio of 77 terminals across six continents, with new developments underway in Asia, Africa and the Americas. The group's portfolio has an average concession life of approximately 39 years.

The rating actions are as follows:

DP World Limited
Long-Term IDR upgraded to 'BBB' from 'BBB-'; Outlook Stable
Short-Term IDR upgraded to 'F2' from 'F3'
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 (DPWCL)
USD3bn global sukuk trust certificate issuance programme upgraded to 'BBB' from 'BBB-' ; Stable Outlook

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Summary of Financial Statement Adjustments
Lease-adjusted debt; Fitch capitalises 100% of the fixed and 50% of the variable, volume related concession payments using a multiple of 8x, resulting in a blended multiple of 6x of total concession payments. The lease-debt adjustment is based on corporate rating methodology referenced at the end of this rating action commentary.

Additional information is available on www.fitchratings.com

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
Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=882594
Rating Criteria for Ports (pub. 20 Oct 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=872725
Rating Sukuk (pub. 18 Aug 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869792