FitchRatings

Fitch Affirms DP World at 'BBB+'; Outlook Stable

Fitch Ratings-Milan/London-24 July 2018: Fitch Ratings has affirmed UAE-headquartered ports and logistics operator DP World Limited's (DP World) Long-Term Issuer Default Rating (IDR) at 'BBB+'. The Outlook is Stable. A full list of rating actions is at the end of this rating action commentary.

The affirmation 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 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 long-term maturity of DP World's main concession (Jebel Ali; 87 years) is a supporting credit factor as it ensures long-term visibility to group cash flow generation.

The ratings reflect DP World's standalone credit profile and do not include any support 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% and an average concession life of 36 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 consolidated container volumes 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 service ultra large container vessels (ULCV).

Dubai's Jebel Ali port generates around 45% of 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 and contribute to stabilise cargo flows at Jebel Ali port.

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 the 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 79%. DP World plans to expand its consolidated/gross capacity to 55 million/100 million TEUs by 2020 from the current 49.7 million/88.2 million. However, this large investment plan is deferrable and dependent on market conditions.

Corporate Unsecured - Debt Structure: Midrange

Consolidated debt comprises 47% bonds and loans raised or guaranteed by the parent company, 24% of debt raised under the sukuk programmes of DPW and JAFZ and around 30% bank loans raised at the subsidiary level. Debt is 91% fixed rate, largely US dollar-denominated and 64% made up of bonds, sukuk and convertible bonds. The debt is senior, predominantly unsecured and without material creditor protective features.

The predominantly 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.

Financial Metrics

Our rating case indicates that Fitch-adjusted leverage should peak at 3.8x in 2020 and remain comfortably below the 4.5x mark over the next two 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 bigger than ABP (A-/Negative), 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 vs DP World. DP World's debt structure is weaker than ABP's, which includes extensive financial covenants, securities and other creditor protective features.

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 provided that the sponsor's credit profile does not constrain DP World's rating

Government-Related Entity Assessment
The ratings reflect DP World's standalone credit profile and do not include any support from its ultimate parent, the Dubai government. We assess DPW's linkages with its controlling shareholder, the Dubai government, as moderate under our Government-Related Entities Rating Criteria.

CREDIT UPDATE
Performance Update
In FY17, DP World benefited from an improved trading environment and delivered strong performances across all regions (EMEA, Americas/Australia and Asia/India). Consolidated volumes and revenue increased by around 6% like for like (LfL) while adjusted EBITDA was up 8%. Fitch adjusted leverage was 3.3x compared with 3.5x in last year's Fitch rating case.

During the year, DP World invested approximately USD1.1 billion to increase capacity at its ports in UK, Dubai and Canada, which contributed to support volume growth ahead of the market. This positive trend continued in 1H18, with consolidated container volumes at 4.5% LfL.

Fitch Cases
The Fitch base case assumes a consolidated container volumes increase by around 6% in 2018-19 and thereafter by 3%. We assumed consolidated revenue per TEU to grow by 2.2%, average capex over 2017-2021 of around USD1.2 billion and USD7 billion of acquisitions during 2018-2022. As a result, the Fitch lease-adjusted net debt/EBITDAR averages 3.2x in 2018-2022 with a peak of 3.4x.

The rating case assumes stresses on the base case whereby consolidated container volumes increase by around 5% in 2018-19 and 2.5% thereafter, consolidated revenue per TEU at +1.8%, capex and acquisitions in line the base case. As a result, the Fitch lease-adjusted net debt/EBITDAR averages 3.7x in 2018-2022 with a peak of 3.8x.

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 rating actions are as follows:

DP World Limited
Long-Term IDR affirmed at 'BBB+'; Outlook Stable
Short-Term IDR affirmed at 'F2'
Medium-term note programme and senior unsecured notes ratings: affirmed at 'BBB+'; Outlook Stable

DP World Crescent Limited

USD3 billion global sukuk trust certificate issuance programme and notes affirmed at 'BBB+'; Stable Outlook

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Additional information is available on www.fitchratings.com

Applicable Criteria

Government-Related Entities Rating Criteria (pub. 07 Feb 2018) (https://www.fitchratings.com/site/re/10019302)
Ports Rating Criteria (pub. 23 Feb 2018) (https://www.fitchratings.com/site/re/10021628)
Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017) (https://www.fitchratings.com/site/re/902689)
Sukuk Rating Criteria (pub. 14 Aug 2017) (https://www.fitchratings.com/site/re/902221)

Additional Disclosures

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