Moody's
INVESTORS SERVICE

CREDIT OPINION
5 December 2019

Update

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RATINGS

DP World PLC

Domicile	DIFC, United Arab Emirates
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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DP World PLC

Update to credit analysis following outlook change to negative

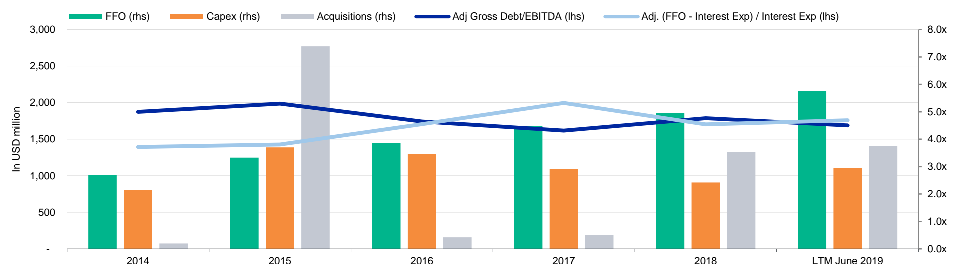
Summary

On 28 November, DP World PLC's (DP World or Group) Baa1 rating was affirmed and the outlook changed to negative. The negative outlook reflects Moody's expectation of a protracted slowdown in non-oil sectors of the United Arab Emirates (Aa2 stable) economy which will weigh more significantly on the operating environment and growth prospects of Dubai[1]. Given DP World's material operational concentration in Dubai and the high government ownership, Moody's considers DP World's credit profile to be tied to the economic and fiscal developments of Dubai.

DP World's Baa1 rating is supported by (1) the company's diversified global operations; (2) the expected positive long-term growth in international container traffic; (3) its solid profitability and liquidity; (4) an expected adherence to leverage targets as proven by management's track record; and (5) the company's flexibility in delaying capital spending to support the balance sheet, if needed. The company tends to focus on origin and destination (O&D) ports, which are relatively less sensitive to cyclical downturns as opposed to transshipment ports.

The Group's credit rating also incorporates its (1) strong correlation to fluctuating global trade volume; (2) material geographical exposure to Dubai, with heightened geopolitical risks from global tensions with Iran; (3) accelerated bolt-on acquisitions and significant ongoing capital spending that temper deleveraging; and (4) increased exposure to non-port-related businesses, which, in some cases, have weaker credit risk profiles than DP World's core operations.

Exhibit 1
Growth in cash flow generation, but significant M&A investment tempers deleveraging



Funds from operations (FFO) includes net interest paid. LTM = last twelve months
Sources: Company financials, Moody's Investors Service

Credit strengths

» Captive O&D revenue, which is diversified to a degree and supported by long-term concessions

» Strong management track record of growing the business while maintaining profitability and healthy liquidity

» Exposure to the infrastructure business, which has high barriers to entry and generates significant operating cash flow

Credit challenges

» A degree of concentration risk, with around 55% of the Group's EBITDA related to assets in Dubai

» Exposure to cyclical global trade volume and current uncertainty because of the US-China trade tensions

» Exposure to event and execution risks related to M&A activity in non-port-related businesses or terminal expansions

Rating outlook

The negative outlook reflects our view that despite DP World's broad geographic footprint, the Group still has material operational exposure to Dubai. The negative outlook also reflects our view that DP World's credit profile is tied to deteriorating economic environment and fiscal strength of the Emirate of Dubai.

Factors that could lead to an upgrade

Given the negative outlook an upgrade of DP World's ratings is currently unlikely. A stabilization of DP World's rating outlook would require an improvement in Dubai's economic environment and a stabilization of the emirate's debt burden.

In the absence of sovereign considerations, upward rating pressure could result if the company maintains Moody's-adjusted FFO interest coverage above 6.0x, adjusted FFO/debt above 25% on a sustained basis and there is evidence of the company formally committing to preserving these credit metrics through stated financial policies.

Factors that could lead to a downgrade

DP World's ratings could be downgraded in case of a deterioration in Dubai's economic environment and debt burden. In addition, negative pressure on the rating could result from weaker liquidity management or from persistently high leverage, with adjusted FFO interest coverage falling towards 4.5x and adjusted FFO/debt trending towards 15%. Furthermore, the rating could be weakened if DP World exceeds its net leverage guidance or undertakes higher-risk development projects or perceived risker M&A activity.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators [1]

Exhibit 2
DP World

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	LTM 06/30/2019
EBITDA Margin	55%	56%	54%	59%	59%	55%	49%
(FFO + Interest Exp.) / Interest Exp.	3.2x	3.7x	3.8x	4.5x	5.3x	4.5x	4.7x
FFO / Debt	14%	15%	14%	17%	19%	16%	17%
RCF / Net Debt	15%	21%	14%	16%	16%	16%	17%
Debt / EBITDA	5.2x	5.0x	5.3x	4.6x	4.3x	4.8x	4.5x
Net Debt / EBITDA	3.7x	3.1x	4.6x	4.1x	3.8x	3.9x	3.9x
RCF / Capex	0.8x	1.3x	0.9x	1.1x	1.3x	1.7x	1.6x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations unless mentioned otherwise.
Projections represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Company financials, Moody's Investors Service

Profile

Headquartered in Dubai, United Arab Emirates (UAE), DP World is the world's fourth-largest container terminal operator by throughput, measured by equity twenty-foot equivalent unit (TEU). DP World is one of the most geographically diversified companies in the Emirate of Dubai, with over 150 operations in over 50 countries across six continents, including its flagship facility at the 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 FTZ, which operates the business logistic hub adjacent to the Jebel Ali port.

DP World's shares are listed on the Nasdaq Dubai. The government of Dubai (not rated) indirectly owns 80.45% of DP World through Port and Free Zone World FZE, a subsidiary of Dubai World. As of the last twelve months (LTM) to 30 June 2019, DP World reported revenue of $6.5 billion and a net income of about $1.4 billion.

Exhibit 3
Revenue split by geography as of six months to 30 June 2019

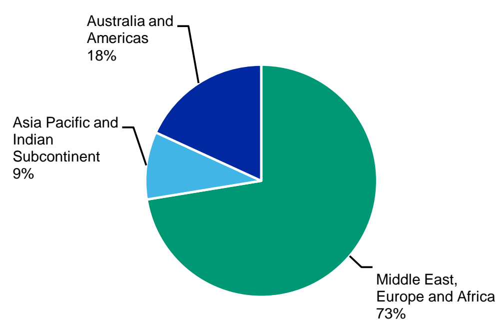
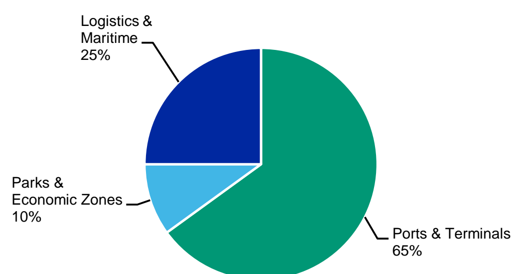


Exhibit 4
Revenue (approx) split by segment as of six months to 30 June 2019



Sources: Company's financials and presentation, Moody's Investors Service

Detailed credit considerations

DP World's geographical footprint implies exposure to global trade volume

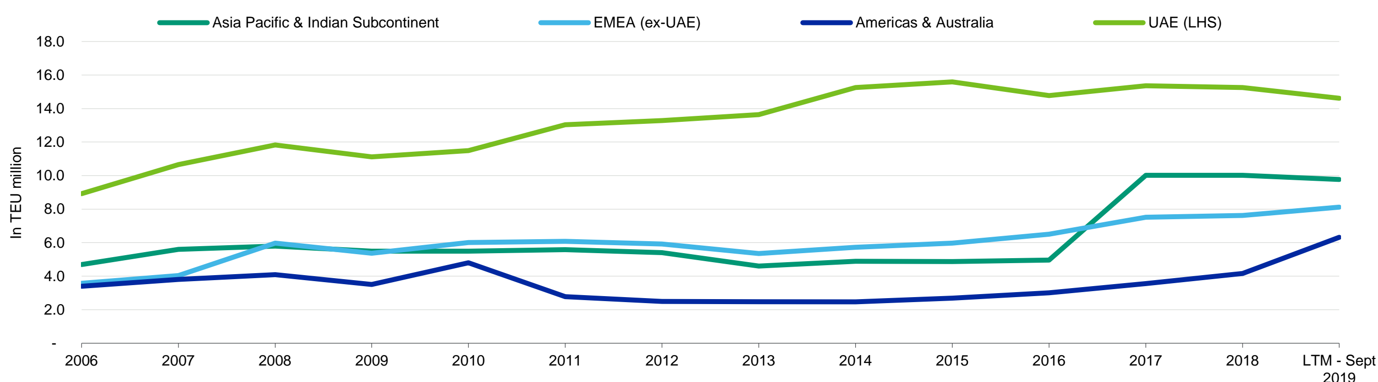
DP World's ratings benefit from the Group's competitive position as the world's fourth-largest container terminal operator by throughput, as measured by equity TEU. Throughput and, ultimately, revenue generation are highly correlated to global growth and global trade volume. For example, DP World's consolidated volume, on a like-for-like basis, dropped 10% in 2009, but recovered to the 2008 levels as of year-end 2010, which is similar to the trend seen in global growth and trade during that period. The US-China trade tensions and softening global growth have led to a slowdown in global trade, with consolidated like-for-like volume growth of 1.4% in 2018 and like-for-like volume contracting by 0.9% in the first 9 months of 2019.

The company benefits from its diversified portfolio to a degree, as demonstrated in its H1 2019 results. On a like-for-like basis for the 9 months to 30 September 2019, consolidated volume declined overall by 0.9%, with a strong growth of 5.7% in DP World's Asia Pacific and Indian Subcontinent portfolios, offset by declines of 2.1% in the Middle East, Europe and Africa and 5.1% in Australia and the Americas. A large part of the decline came from the lost lower-margin volume to Abu Dhabi ports in the UAE, leading to a 5.5% decline in the total UAE consolidated volume. We expect the volumes in the UAE to stabilise, however the company continues to face slower growth in the region and increased competition, specifically from Abu Dhabi ports' aggressive price and value proposition.

Exhibit 5

Overall volume growth to remain soft into 2020

Consolidated volume by region



Sources: Company data, Moody's Investors Service

The risk of escalation in trade tensions between the US and its key trading partners creates significant uncertainty in global trading conditions and is a downside risk for DP World. We believe the increased uncertainty will hurt business confidence and delay investment decisions, leading to a weaker global trade outlook in 2020. We consider DP World's exposure to the US-China trade tensions limited. In the Far East, the Pusan Newport Company terminal in Korea and the Saigon Premier Container Terminal in Vietnam are the only terminals in that region that are consolidated into DP World's financials, which is equal to 10% of the Group's total container capacity. The company is, however, exposed to the non-consolidated minority stakes in several export terminals in Qingdao, China, from which it has received dividend income in the past. The company does not operate any port in the US, and its operations in Canada constitute less than 5% of the Group's total container capacity.

Overall, the company's diversified operations show that while parts of its port portfolio may face more challenging operating conditions in the near future, other parts of the portfolio may be net beneficiaries of any changes to global trade flows. Our base-case scenario, therefore, does not envision a more severe trade war that results in a structural deterioration in DP World's cash flow generating ability.

Captive O&D revenue, supported by long-term concessions

In H1 2019, containerised revenue grew by around 3% on a like-for-like basis and accounted for about 50% of the total revenue, while the Group's gross capacity utilisation remained between 75% and 80%. The company is focused on O&D cargo in emerging markets,

with about 70% of throughput derived from O&D and 75% of the container volume driven by emerging markets. The macroeconomic environment for emerging markets over the long term remains supportive of DP World's activities.

The company has a long average terminal concession life of around 37 years across the Group's portfolio and that underscores the visibility and predictability of the Group's cash flow and the sustainability of the business model. Meanwhile, both the Jebel Ali port and JAFZ have concessions that run until 2105 and remain among the most profitable and cash-generative assets for DP World.

Increased exposure to non-port-related businesses increases credit risk and reduces leverage tolerance

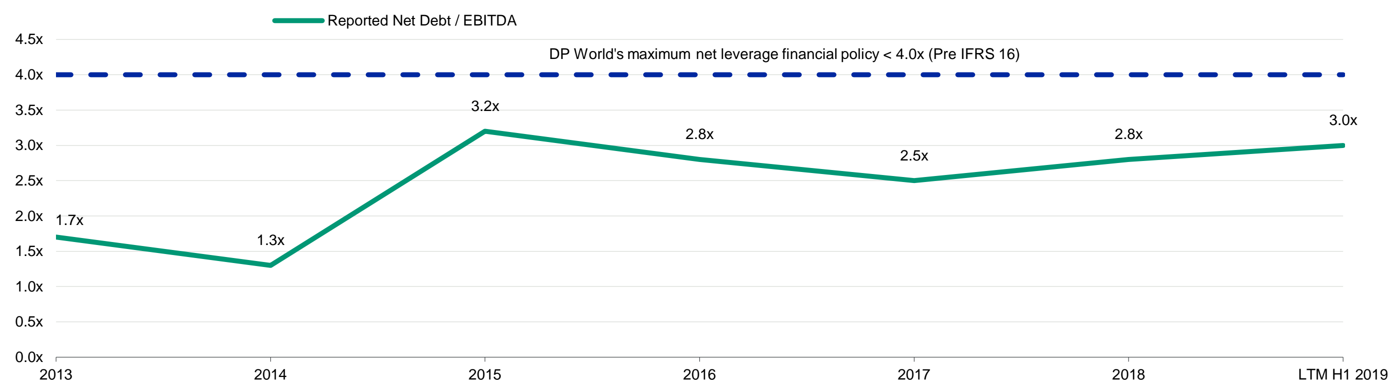
Since the beginning of 2018, DP World has announced 10 acquisitions, mainly in logistics and maritime services, with a total enterprise value of $5.7 billion. This is consistent with DP World's strategy to become a wider competitor within the global supply chain industry and diversify its revenue streams by expanding its presence in complementary businesses.

While DP World's business profile will benefit from the business diversification and be able to provide a deeper integrated supply chain solution to clients, it also increases DP World's exposure to non-port-related businesses. Some of the non-port-related businesses have higher credit risks and cannot support higher leverage, compared with that of a traditional port operator, which benefits from predictable cash flow, supported by high barriers to entry and long-term concessions. Logistics and maritime operations' contribution to revenue increased to approximately 25% in H1 2019 and is expected to increase towards 35% over the next 12 months, as these businesses fully contribute to the Group. The accelerated trend of acquisitions increases execution risks associated with integrating the various logistics businesses within the company's existing port operation network. Furthermore, Moody's-adjusted EBITDA margin, which has fallen to 48.6% as of LTM June 2019 from 54.7% as of 2018, is expected to trend towards 40% as the lower-margin logistics acquisitions are fully integrated.

From a financial policy perspective, DP World has demonstrated a strong track record of undertaking capital spending and M&A investments while adhering to its self-assigned maximum net leverage of 4.0x (pre-IFRS 16) on a reported basis. Reported net leverage reached 3.0x (pre IFRS 16) in H1 2019. While this implies flexibility to pursue debt-funded acquisitions, DP World's FFO/debt of 17.1% and FFO interest coverage of 4.7x are more tightly positioned at the Baa1 rating level.

Exhibit 6

Despite significant ongoing investments, DP World has operated within its maximum leverage target



Sources: Company financials, Moody's Investors Service

The company has been, on average, free cash flow (FCF) neutral over the past five years, excluding its M&A activity. We expect this trend to continue, with the company providing capital spending guidance for 2019 of up to $1.4 billion. Relative to reported cash flow from operations of $2.3 billion for LTM June 2019, this is significant but leaves little room for positive FCF generation after interest and dividend payments are made. The company has, in the past, pushed forward its capital spending when required; for example, it provided capital spending guidance of $1.4 billion in 2018 but spent $908 million. Given the fact that the annual maintenance capital spending is $150 million-$200 million, DP World has the flexibility to delay investments if operating conditions weaken.

For the Baa1 rating, we expect the Group to (1) continue to manage cash flow that is earmarked for growth in line with set financial policies and targets; and (2) manage future M&A activity and capital spending accordingly to maintain a balanced capital structure.

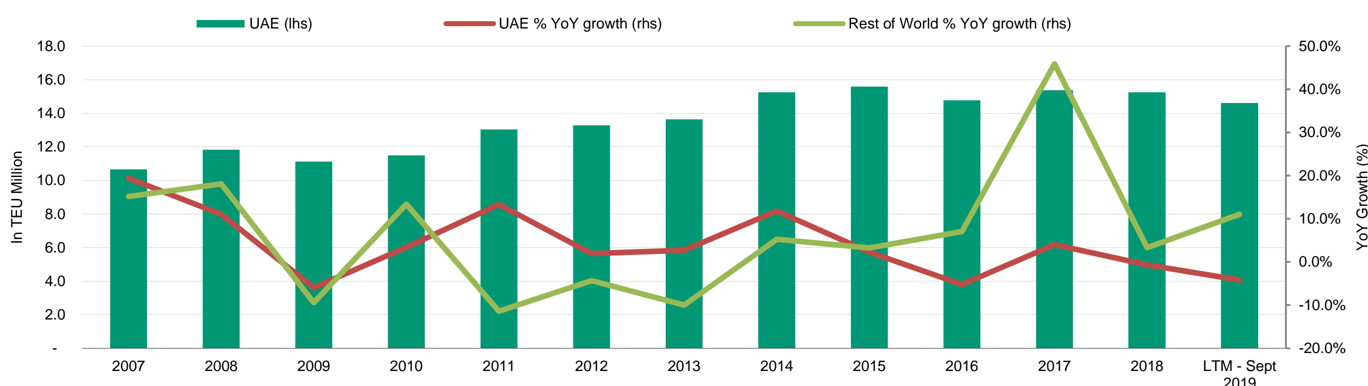
Dubai assets underpin the credit profile, but geopolitical risks and competition are rising

While DP World operates over 150 operations in over 50 countries, the company has material exposure to Dubai, with around 55% of Group EBITDA in 2018 generated from its Dubai assets — mainly from the Jebel Ali port and JAFZ. Out of the total 19.5 million TEU of consolidated volume in H1 2019, Jebel Ali port handled 7.2 million TEU, representing 40% with a utilisation rate of 78%. The concentration risks imply that economic developments in the Emirate of Dubai and the broader Middle East and Africa (MENA) region will have a greater impact on the Group's financial performance.

The rising global tensions involving Iran pose a risk to DP World's Dubai operations. While there has not been any impact on trade flows into and out of the Arabian Gulf, should tensions escalate, the closure of the Strait of Hormuz (the only shipping gateway into and out of the Arabian Gulf) would have a material impact on all ports in the Arabian Gulf, including DP World's Jebel Ali port. We take comfort from the fact that DP World has operating assets outside of the Middle East, as well as a strong liquidity profile, in the form of $2.0 billion of cash balances and a $2.0 billion undrawn revolving credit facility, to absorb a temporary disruption.

Exhibit 7

Recent decline in volume in the UAE, offset by a volume growth across the rest of the portfolio



UAE volume trends primarily comprise the Jebel Ali port.
2017 consolidated volume was materially higher, partly because of the consolidation of Pusan (South Korea) as of year-end 2016.
Sources: Company data, Moody's Investors Service

Environmental, Social and Governance Considerations

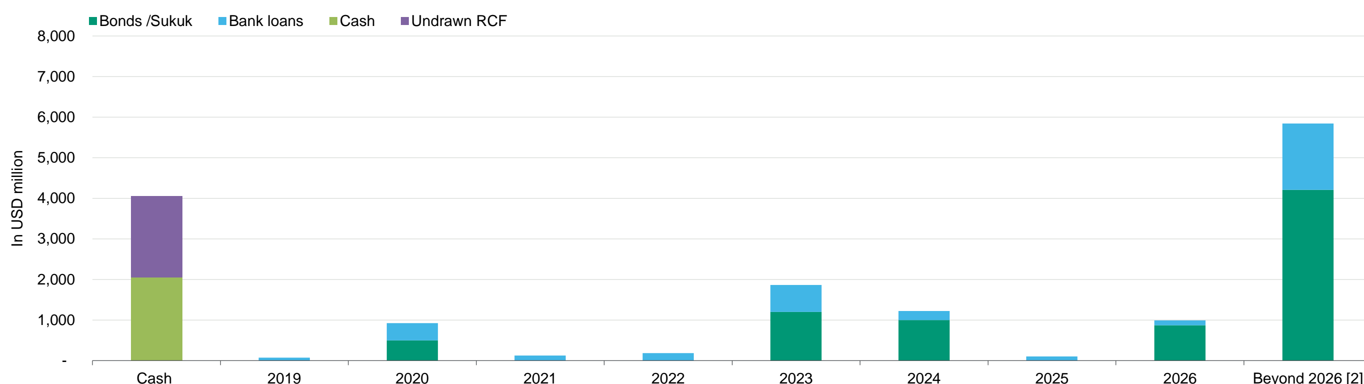
The Government of Dubai indirectly owns 80.45% of DP World through Port and Free Zone World FZE, a subsidiary of Dubai World. The latter went through a debt restructuring exercise in 2011 and 2015 and as of 30 June 2019 has sizable debt obligations estimated at $9.9 billion that are due in September 2022. Moody's notes that over the past 10 years DP World's dividend payout has ranged between 20% and 35% of earnings. However, the weaker fiscal position of the emirate of Dubai increases the risk of higher dividend extraction from their government related entities.

Liquidity analysis

DP World has a strong liquidity profile, underpinned by (1) its reported cash balance of $2.0 billion as of 30 June 2019, (2) its access to a committed and undrawn $2.0 billion revolving credit facility that matures in June 2023, and (3) our expectation that the company will generate $2.2 billion-$2.5 billion of operating cash flow annually (including dividend income and interest paid). Total sources will be more than sufficient to cover forecast outflows over the next 12 months of (1) up to $1.4 billion of capital spending; (2) $360 million-$450 million of anticipated dividend payments; (3) $1.1 billion of debt maturing in the next 12 months (including $364 million of operating leases under IFRS 16); and (4) M&A activity. Over the past five years, DP World has been broadly FCF neutral, excluding M&A activity, and we expect this trend to continue.

During July DP World raised $1.3 billion ($300 million bond and $1 billion sukuk) and raise a further $1 billion ($500 million Sukuk and $500 bond) during September 2019, of which the proceeds were used to redeem existing debt, fund acquisitions and extend it's debt-maturity profile.

Exhibit 8
DP World has a termed out debt-maturity profile
As of 30 June 2019



[1] Bank debt maturity schedule incorporates Moody's estimates.
[2] DP World's $2.3 billion debt issuance in July and September 2019 are not included.
Sources: Company data, Moody's Investors Service

Other considerations

IFRS 16 adoption - For the interim results at 30 June 2019, DP World adopted IFRS 16 lease accounting, under which its operating leases were capitalised. As a result, Moody's will no longer adjust for operating leases. Relative to Moody's previous adjustment approach the adoption of IFRS 16 has lead to some improvement in DP World's credit metrics but our assessment of DP World's credit quality remains unaffected.

Structural subordination - The Group relies on dividends, interest payments and other income from its subsidiaries, associates and affiliates to pay for debt servicing and expenses at the head office level. Of the $11.3 billion of gross debt reported by DP World as of 30 June 2019, we estimate that about 69% of the Group's debt is issued at DP World's head office, while the remaining has been raised in foreign operations.

We have not notched down the bond/sukuk ratings as a result of subordination risk because we believe that the company has full access to the cash flow of its Dubai assets, which we estimate to constitute about 55% of the Group's EBITDA. In addition, a significant portion of the Group's cash balances, as well as the committed $2.0 billion revolving credit facility, is at the head office level, which mitigates the risk of DP World relying on its foreign operations to service debt at the head office level.

Lack of control over certain assets - DP World has a number of non-controlling investments in port assets and therefore does not have full control over their financial contributions. However, we understand that the company does not act as a passive investor and has management/operational control over almost all of its port investments.

Rating methodology and scorecard factors

We have used the Privately Managed Port Companies industry rating methodology to assess the rating of DP World. As a result of the acquisitions in 2019, we expect the proportion of non-core activities to increase, weakening the subfactor to B from Ba.

Exhibit 9

Rating Factors				
DP World PLC				
Privately Managed Port Industry Grid [1][2]	Current LTM 6/30/2019		Moody's 12-18 Month Forward View As of 11/20/2019 [3]	
Factor 1 : Market Position (25%)	**Measure**	**Score**	**Measure**	**Score**
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	Ba	Ba	Ba	Ba
b) Management attitude to financial risk	Baa	Baa	Baa	Baa
c) Proportion of Revenues from Non-Core Activities	Ba	Ba	B	B
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	4.7x	A	4.6x - 4.8x	A
b) FFO / Debt	17.1%	A	16% - 20%	A
c) Moody's Debt Service Coverage Ratio	5.7x	A	4.5x - 5.5x	A
d) RCF / Capex	1.6x	A	1.5x-2.0x	A
Rating Lift:				
a) Debt Structure & Liquidity Protection				
b) Control Afforded To Creditors				
Rating:				
Indicated Rating from Grid Factors 1-5		Baa1		Baa1
Rating Lift				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2019.
[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.
[4] EBITDA-weighted average concession life used for DSCR calculation.
Source: Moody's Investors Service

Appendix

Exhibit 10
Peer comparison

	DP World PLC Baa1 Stable			PSA International Pte. Ltd. Aa1 Stable (a3 BCA)			Hutchison Port Holdings Trust Baa1 Stable			ABPA Holding Limited Baa2 Stable		
(in US millions)	FYE Dec-17	FYE Dec-18	LTM Jun-19	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-17	FYE Dec-18	LTM Sep-19	FYE Dec-17	FYE Dec-18	LTM Jun-19
Revenues	$4,729	$5,646	$6,484	$2,666	$2,875	$3,030	$1,482	$1,465	$1,462	$700	$771	$771
Operating Profit	$1,805	$1,957	$2,072	$974	$934	$901	$463	$456	$458	$298	$324	$301
EBITDA	$2,775	$3,087	$3,152	$1,594	$1,637	$1,751	$870	$861	$863	$420	$455	$435
Total Debt	$11,959	$14,721	$14,187	$4,148	$4,621	$4,462	$4,219	$4,078	$3,916	$3,062	$2,876	$2,881
Cash & Cash Equivalents	$1,468	$2,576	$1,999	$2,597	$2,779	$2,975	$860	$833	$787	$115	$48	$44
Cash Interest Coverage	5.3x	4.5x	4.7x	11.3x	12.1x	9.5x	6.9x	5.8x	5.5x	2.1x	2.1x	2.0x
FFO / Debt	19.0%	16.0%	17.1%	30.6%	31.3%	31.5%	15.6%	15.5%	16.1%	7.5%	7.4%	6.9%
RCF / Capex	1.3x	1.7x	1.6x	1.0x	0.7x	1.3x	2.1x	2.5x	3.8x	1.0x	0.8x	0.8x
Debt / EBITDA	4.3x	4.8x	4.5x	2.7x	2.7x	2.6x	4.9x	4.7x	4.5x	6.9x	6.6x	6.7x

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. All figures converted into US Dollars for comparison purposes. FYE = Financial year-end and LTM = last twelve months.
[2] The rating of PSA International incorporates an assessment of PSAI's credit metrics under proportionate consolidation of equity-accounted entities. The pro rata based ratios are slightly weaker than what is shown in the table above.
[3] The Baseline Credit Assessment (BCA) is a measure of standalone credit quality. PSAI's final rating incorporates uplift because of Singapore government ownership.
[4] ABP Finance Plc is a financing conduit for the Associated British Ports (ABP) group and is the entity assigned the Baa2 stable rating. ABPA Holdings Limited is a holding company for ABP for which the data is shown. The rating benefits from certain structural considerations that provide a degree of protection to creditors.
Source: Moody's Investors Service

Exhibit 11
Moody's-adjusted debt breakdown

(in US Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Jun-19
As Reported Debt	**5,855**	**7,670**	**7,618**	**7,739**	**10,553**	**13,983**
Pensions	220	190	323	195	164	164
Operating Leases	3,638	3,757	3,644	4,000	3,961	0
Non-Standard Adjustments	28	53	25	26	43	40
Moody's-Adjusted Debt	**9,741**	**11,671**	**11,610**	**11,959**	**14,721**	**14,187**

[1] All figures are calculated using Moody's standard adjustments.
[2] DP World implemented IFRS 16 in January 2019 and an operating lease liability has been recognised in the balance sheet. Therefore, we have removed our adjustment from 2019 onwards.
Source: Moody's Investors Service

Exhibit 12
Moody's-adjusted EBITDA breakdown

(in USD Million)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Jun-19
As Reported EBITDA	**1,646**	**1,932**	**2,202**	**2,389**	**2,893**	**3,059**
Pensions	3	-3	-2	-2	28	28
Operating Leases	364	376	364	400	411	205
Unusual	10	-26	80	117	-89	20
Non-Standard Adjustments	-76	-76	-147	-128	-156	-160
Moody's-Adjusted EBITDA	**1,947**	**2,203**	**2,498**	**2,775**	**3,087**	**3,152**

[1] All figures are calculated using Moody's standard adjustments.
[2] DP World implemented IFRS 16 in January 2019 and an operating lease liability has been recognised in the balance sheet. Therefore, we have removed our adjustment from 2019 onwards.
Source: Moody's Investors Service

Ratings

Exhibit 13

Category	Moody's Rating
DP WORLD PLC	
Outlook	Negative
Issuer Rating	Baa1
Senior Unsecured	Baa1
DP WORLD CRESCENT LIMITED	
Outlook	Negative
Senior Unsecured	Baa1

Source: Moody's Investors Service

Endnotes

1 Issuer In-depth: Government of the United Arab Emirates - Fiscal impact of structural growth slowdown most acute for Dubai and Sharjah, aggravating Dubai's high debt burden

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