FitchRatings

Fitch Affirms DP World at 'BBB+'. Upgrades Short-Term IDR to 'F1'

Fitch Ratings-London-17 July 2019: Fitch Ratings has affirmed UAE-headquartered ports and logistics operator DP World PLC's (DP World) Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook and upgraded the Short-Term IDR at 'F1' from 'F2'. A full list of rating actions is at the end of this rating action commentary.

The upgrade of the Short-Term IDR follows the introduction of Fitch's new short-term rating criteria, published on 02 May 2019, and it reflects the stronger assessment of the volume risk, the midrange debt structure and the high liquidity ratio consistently above the 2x threshold over the next three years.

KEY RATING DRIVERS
DP World's 'BBB+' Long-Term IDR reflects the group's solid and stable cash flow generation and the large flexibility embedded in its expansionary plan, which in our view will allow DP World to maintain Fitch-adjusted leverage below 4.5x over the projected five-year period. 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 Associated British Ports (ABP; A-/Stable).

The long-term maturity of DP World's main concession (Jebel Ali; 86 years) is a supporting credit factor as it ensures long-term visibility of group cash flow generation.

Diversified, Resilient Ports Network - Revenue Risk (Volume): Stronger
DP World is the fifth-largest container port operator globally with a gross volume market share of 9% and a remaining average concession life of 37 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 further strengthened its competitive position by serving ultra large container vessels in ports located in the major routes.

Dubai's Jebel Ali port generates around 41% of the group's consolidated volumes and has strong multimodal capabilities with unrivalled air and road infrastructure, including the Jebel Ali Free Zone, which contribute to stabilise cargo flows at Jebel Ali port by providing integrated logistics solutions to its customers.

Pricing Power and Flexibility - Revenue Risk (Price): 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 landlord-tenant business model.

Large, Flexible Capex Plan - Infrastructure Development & Renewal: Midrange
We believe DP World is well-equipped to deliver its investment programme due to 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 80%. DP World plans to expand capacity to 55.5 million/91.8 million consolidated/gross 20-foot equivalent units TEUs by end of 2019 from the current 49.7 million/90.5 million. However, this large investment plan is deferrable and dependent on market conditions.

Corporate Unsecured - Debt Structure: Midrange
Consolidated debt comprises 80% bonds and loans raised or guaranteed by the parent company and 20% bank loans raised at the subsidiary level. Debt is 91% fixed rate, largely US dollar-denominated and 75% made up of bonds, sukuk and convertible bonds. The debt is senior unsecured 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 Profile
Our rating case indicates that Fitch-adjusted leverage should peak at 3.9x in 2020 and remain comfortably below the 4.5x mark over the next five 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, 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
Developments That May, Individually or Collectively, Lead to Negative Rating Action:
- Fitch-adjusted net debt on EBITDAR sustainably above 4.5x under Fitch's rating case
- Expansion into higher-risk business areas

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

CREDIT UPDATE
Performance Update
In FY18, DP World reported growth in like-for-like (LFL) of 1.4%, 4.2% and 6.6% in volumes, revenues and EBITDA, respectively. Volume growth was affected by softer volumes in Jebel Ali, driven by the loss of low value transhipment cargo to competitors in the same region, which offset the double digit like-for-like volume growth in Europe and Africa. 1Q19 confirmed this trend in Jebel Ali, with volumes down by almost 9% quarter-on-quarter.

Lfl revenues benefited from a 3% increase in containerised revenues per TEU, while strong growth in reported revenues of 19.8% was mainly driven by acquisitions finalised in 2018 such as Drydocks World LLC and Dubai Maritime City LLC, acquired from Dubai World Corporation, or Unifeeder Group, Cosmos Agencia Maritima S.A.C. in Peru and an effective stake of 58.5% in Continental Warehousing Corporation Ltd in India. The growth also factors in the full consolidation of DP World Santos.

Fitch-adjusted leverage was 3.2x compared with 3.3x in last year's Fitch base case. During the year, DPW invested around USD 0.9 billion in increasong capacity at its ports, slightly below 2018 Fitch's expectation of USD 1.4 billion.

Fitch Cases
The Fitch base case assumes a consolidated container volumes increase by around 3% in 2019 thereafter by 2.7%, in line with Fitch's projections of global GDP growth. We assume consolidated revenue per TEU to grow by 2.1%, average capex over 2019-2023 of around USD1.1 billion and around USD7.5 billion of gross acquisitions during 2019-2023. As a result, the Fitch lease-adjusted net debt/EBITDAR averages 3.2x in 2019-2023 with a peak of 3.6x.

The rating case assumes stresses on the base case whereby consolidated container volumes increase by around 2.4% in 2019 and 2.2% thereafter, consolidated revenue per TEU at +1.7%, and capex and M&A substantially in line with base case assumptions. As a result, the Fitch lease-adjusted net debt/EBITDAR averages 3.7x in 2019-2023 with a peak of 3.9x.

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 over 150 operations in more than 45 countries, with new developments underway in Asia, Africa, the Americas and Europe.

The rating actions are:

DP World PLC
Long-Term IDR affirmed at 'BBB+'; Outlook Stable
Short-Term IDR upgraded to 'F1' from 'F2'
USD10 billion medium-term note programme and senior unsecured notes ratings: affirmed at 'BBB+'; Outlook Stable

DP World Crescent Limited
USD5 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. 25 Oct 2018)
Ports Rating Criteria (pub. 23 Feb 2018)
Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)
Sukuk Rating Criteria - Effective from 25 July 2018 to 22 July 2019 (pub. 25 Jul 2018)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

SOLICITATION STATUS

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