FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades DP World PLC to 'BBB'; on Rating Watch Negative

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Fitch Ratings - London - 06 Apr 2020: Fitch Ratings has downgraded UAE-headquartered ports and logistics operator DP World PLC's Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB+' and the Short-Term IDR to 'F2' from 'F1'. The ratings remain on Rating Watch Negative.

RATING RATIONALE

The rating action reflects our expectation that DP World's credit profile and metrics will be affected by a severe but relatively short-lived demand shock due to the coronavirus pandemic. DP World's liquidity profile is comfortable for 2020, and it has some financial flexibility to mitigate the expected short-term revenue shortfall. We assume the 2020 shock will progressively recover but will revise the rating case according to the severity and duration of the outbreak. The Rating Watch considers Fitch's limited view on the company's medium-term capital structure, including its acquisitions and deleveraging plans.

DP World Taken Private

In February 2020, DP World's parent company, Port and Freezone World FZE (together with DP World, the group) announced its intention to buy back the 19.55% minority shareholding in DP World, take the company private and re-leverage the group. Transaction closing is expected by 3Q2020.

The group is strongly committed to bringing pre-IFRS net debt to adjusted EBITDA down to below 4x in the next two to three years. The deleveraging path could include monetisation of minority stakes, use of subordinated instruments including hybrids and the reduction/deferral of capex and merger and acquisition activities.

Fitch believes that DP World has extensive balance sheet flexibility to deleverage and we expect it to maintain its investment-grade ratings. The demand shock related to coronavirus has affected the expected evolution of the group leverage profile, however, and further reduced the visibility on the company's plans to bring its leverage below the 4x mark within the next two to three years.

In our updated Fitch rating case (FRC), we look at the group's consolidated credit profile to rate DP World, including its parent company Port and Freezone World FZE. This is because DP World's cash-flow generation and asset disposals will be the primary source for servicing any debt at the parent company. We continue to assess the group on a standalone basis, separated from Dubai World.

For more information on the transaction see our last rating action commentary on this issuer at https://www.fitchratings.com/research/infrastructure-project-finance/fitch-places-dp-world-plc-on-rating-watch-negative-17-02-2020.

KEY RATING DRIVERS

Coronavirus Affecting Demand

The rapidly spreading coronavirus pandemic is leading to an unprecedented impact on cargo mobility. Under our revised rating case, we assume volumes to fall by around 20% in 2020 and only recover gradually, reaching 2019 levels by 2021/2022. We see a significantly larger drop in traffic than during the global financial crisis of 2008 as mobility is impaired to a much larger extent. DP World's significant diversification and ongoing effort to create enduring relationships with end customers may drive a quicker recovery than other port operators and bolster volume resilience.

Defensive Measures

DP World has balance sheet flexibility to partially offset the impact of the expected significant revenue shortfall. In our revised FRC, we assume a re-profiling of planned capex over the next four years. The flexible cost structure will allow a material portion of opex to move along with traffic.

Credit Metrics - Recover from 2021

Under the updated FRC, we forecast DP World's consolidated Fitch-adjusted net debt on EBITDAR to peak above 8.5x in 2020, considerably surpassing our previous negative sensitivity. After the 2020 shock, we expect leverage to progressively normalise to around 6x by 2023/2024 but to remain high over the four-year forecast period, indicating a prolonged impairment of its credit profile.

We are closely monitoring developments in the port sector as DP World's operating environment has substantially worsened and will revise the FRC if the severity and duration of the coronavirus pandemic becomes worse than expected.

Solid Liquidity

DP World has about USD3.0 billion of cash available as of March 2020 and committed credit facilities for around USD2.0 billion. We estimate that this liquidity position covers DP World's debt maturities until the end of 2023 in the FRC.

Sensitivity Case

We have also run a sensitivity case where DP World's traffic falls at similar levels to the FRC, but with a recovery to 2019 levels delayed until 2022/2023. Mitigation measures are unchanged compared to the FRC. The sensitivity shows that under this scenario DP World's leverage spikes to around 8.7x in 2020 and deleverages to around 6.5x by 2023/2024.

Risk Assessments

Fitch assesses DP World's volume risk as 'stronger', price risk and infrastructure renewal as 'midrange' and debt structure as 'midrange' (for more information see the last full review at https://www.fitchratings.com/research/infrastructure-project-finance/fitch-affirms-dp-world-at-bbb-upgrades-short-term-idr-to-f1-17-07-2019).

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- We do not anticipate an upgrade as reflected in the RWN. Quicker-than-assumed recovery from the coronavirus shock or better visibility on group deleveraging plans in the context of the coronavirus scenario would be credit positive.

- Cancellation of Port and Free Zone World FZE's expected transaction, resulting in a reduction in 2020-2024 group leverage would be credit positive

Developments That May, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Group consolidated Fitch-adjusted net debt on EBITDAR sustainably above 5.5 under Fitch's rating case

- The short-term ratings may be negatively impacted if the issuer fails to maintain adequate committed undrawn liquidity or balance sheet cash reserves

BEST/WORST CASE RATING SCENARIO

Ratings of Infrastructure and Project Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon, and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings https://www.fitchratings.com/site/re/10111579.

TRANSACTION SUMMARY

DP World is the fifth-largest container port operator in the world by gross throughput. It operates, directly or via joint ventures, a portfolio of over 150 operations in more than 50 countries, with new developments underway in Asia, Africa, the Americas and Europe.

As indicated above, the recent outbreak of coronavirus and the related government containment measures worldwide create an uncertain global environment for the port sector in the near term. While DP World's performance data through most recently available issuer data may not have indicated impairment, material changes in revenue and cost profile are occurring across the port sector and will probably worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or expanded.

Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector that are a result of the coronavirus outbreak as they relates to severity and duration. We will incorporate revised base and rating case qualitative and quantitative inputs based on expectations for future performance and assessment of key risks.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING

ENTITY/DEBT	RATING		
DP World PLC	LT IDR	BBB	Downgrade
	ST IDR	F2	Downgrade
• DP World PLC/Debt/1 LT	LT	BBB	Downgrade
DP World Crescent Limited			

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

Ports Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.6.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

DP World Crescent Limited	EU Issued

DP World PLC EU Issued

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Corporate Finance Industrials and Transportation Infrastructure and Project Finance

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