FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades DP World PLC to 'BBB-'; Outlook Stable

Tue 16 Jun, 2020 - 12:42 PM ET

Fitch Ratings - London - 16 Jun 2020: Fitch Ratings has downgraded DP World PLC's (DPW) Long-Term Issuer Default Rating (IDR) to 'BBB-' from 'BBB' and Short-Term IDR to 'F3' from 'F2'. The Rating Watch Negative has been resolved, and the Outlooks have been revised to Stable.

RATING RATIONALE

The rating action follows the progression of the taking private of DPW. Its parent company, Port and Freezone World FZE (PFZW, together with DPW, the group,) is in the process of buying back the 19.55% minority shareholding in DPW, taking the company private and re-leveraging the group. The transaction is expected to be completed by end-June 2020. DPW has surpassed the threshold needed to squeeze out minorities, allowing for more visibility on its medium-term capital structure.

We expect the group's leverage to peak at about 8x in 2020 following the transaction and deleverage over the next three to five years to about 6x Fitch-adjusted net debt to EBITDAR. This medium-term leverage profile is consistent with a 'BBB-' rating. The deleveraging path could be faster with the use of tools such as monetisation of minority stakes and the reduction/deferral of dividends, capex and M&A activities.

KEY RATING DRIVERS

The rating of 'BBB-' balances DPW's largely diversified business profile with its acquisitive profile and corporate-like, bullet and un-covenanted debt structure, which is weaker than peers like ABP Finance PLC (A-/Stable). The long-term maturity of its main concession, Jebel Ali, is a supporting credit factor as it ensures long-term visibility to group cash flow generation.

We look at the consolidated credit profile of DPW together with its parent company, PFZW, as PFZW will fully own DPW and DPW's cash flow generation will be used to serve overall group debt. We continue to assess the group on a standalone basis, separated from Dubai World. Part of the transaction proceeds are being used to pay a one-time dividend of USD 5.15 billion to PFZW's parent, Dubai World, in order to maintain the group's commercial ring-fencing and independence from Dubai World following the delisting. Financing documentation at PFZW locks up dividends until group leverage returns to less than 4x pre-IFRS-16 net debt to EBITDA.

The outbreak of coronavirus and related government containment measures worldwide has created an uncertain global environment for the transportation sector. Material changes in revenue and cost profile are occurring across the transportation sector and will continue to evolve as economic activity and government restrictions respond to the ongoing situation, even though DPW's performance data through most recently available issuer data has indicated some impairment so far. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the virus outbreak as it relates to severity and duration, and will incorporate revised base and rating case qualitative and quantitative inputs based on expectations for future performance and assessment of key risks.

Coronavirus Affecting Demand

In light of the coronavirus pandemic leading to an unprecedented impact on cargo mobility, we assume volumes to fall by about 20% in 2020 and only recover gradually, normalising to reach 2019 levels by 2021/2022. DPW'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.

Solid Liquidity

DPW has about USD3.4 billion of cash available as of 30 April 2020 and committed credit facilities for about USD1.0 billion. We estimate that liquidity position covers debt maturities for the next one-two years in the Fitch rating case.

Diversified, Resilient Ports Network - Volume Risk: Stronger

DPW is the fifth-largest container port operator globally with a gross volume market share of 9% and long average concession life. Its traffic is 70% origin & destination 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 has further strengthened its competitive position by serving ultra large container vessels in ports located in the major routes.

Dubai's Jebel Ali port generates a significant proportion of the group's consolidated volumes, though this has fallen recently in part due to growing competition in low margin transshipment business. Jebel Ali has strong multimodal capabilities with unrivalled air and road infrastructure, including the Jebel Ali Free Zone, which offers integrated logistics solutions to its customers and contribute to stabilise cargo flows at Jebel Ali port.

The group is continuing to develop this strategy of providing integrated logistics solutions in its other terminal locations, primarily through M&A activity with the aim of making cargo stickier at its terminals around the world.

Pricing Power and Flexibility - Price Risk: Midrange

The group's predominantly origin & destination 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 DPW 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 77.6% in 2019. DPW plans to expand capacity to 57.5 million consolidated twenty-foot equivalent units (TEUs) by end-2020 from 54.0 million TEUs in 2019. However, this large investment plan is deferrable and dependent on market conditions.

Corporate Unsecured - Debt Structure: Midrange

Consolidated debt comprises about 80% bonds and loans raised or guaranteed by the parent company and about 20% bank loans raised at the subsidiary level. Debt is 91% fixed-rate, largely US dollar-denominated and 75% bonds, sukuk and convertible bonds. Senior debt is unsecured without material creditor protective features. The bullet structure of the group's debt and lack of material structural protection are weaknesses. However, this is adequately mitigated by proven access to capital markets, proactive and prudent debt management and a solid liquidity position, which reduce refinancing risk.

Financial Metrics

Under the updated Fitch rating case, we forecast the group's consolidated Fitch-adjusted net debt to EBITDAR to peak to about 8x in 2020. After the 2020 shock, leverage progressively normalises to about 6x by 2023/2024 but remains high over the four-year forecast period. The deleveraging path could be faster with the use of the tools described above including monetisation of minority stakes and the reduction / deferral of capex and M&A activities. We also assume in our cases that DPW would use additional subordinated instruments, including hybrids, for quicker deleveraging.

PEER GROUP

DPW is about nine times 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, which ensure revenue stability. Its co-investment policy aligns landlord-tenant interests and supports a stronger assessment of the infrastructure renewal attribute compared with 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

Factors that could, individually or collectively, lead to positive rating action/upgrade:

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

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-Group consolidated Fitch-adjusted net debt on EBITDAR sustainably above 6.5x under Fitch's rating case

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public 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, visit https://www.fitchratings.com/site/re/10111579.

TRANSACTION SUMMARY

On 17 February 2020, PFZW announced plans to buy back the 19.55% minority shareholding in DPW, take the company private and re-leverage the group. The tribunal hearing to sanction the scheme (ie the take private transaction) is scheduled for 16 June 2020. All remaining conditions to effect the scheme have been satisfied and the scheme would then be expected to become effective (ie All DPW shares will become owned by PFZW) by the end of June 2020.

The transaction is being financed through three bridge facilities, each with a total commitment of USD2.0 billion, a conventional term loan facility of USD1.85 billion and an Islamic term facility of USD1.15 billion, all at the PFZW level. The bridge facilities have maturity dates of three years and the term loans have maturity dates of five years.

Upon the completion of the offer, it is intended that DPW will accede to the above financing agreements as a guarantor and a borrower. DPW is expected to be a guarantor of up to USD 8.1 billion of indebtedness and a direct borrower of up to USD900 million.

PFZW and DPW will target a combined leverage ratio (excluding IFRS 16) of below 4.0x net debt to adjusted EBITDA by end-2022 and a "strong investment-grade rating" in the medium term. DPW expects to change its form from a public company to a company limited by shares and, by the end of June, 2020, expects to amend its legal name from "DP World PLC" to "DP World Limited".

CREDIT UPDATE

As at 31 December 2019, the group managed over 150 operations in over 50 countries across six continents with a significant presence in both high-growth and mature markets. For FY19, the group generated gross throughput of 71.2 million TEUs, a revenue of USD7,685.9 million, an annual profit of USD1,194.6 million and an adjusted EBITDA of USD3,305.6 million.

The group handled 17.2 million TEUs across its global portfolio of container terminals in 1Q20, representing a year-on-year decrease in the gross container volumes of 1.7%. Reported volumes declined in the Asia Pacific and India segment due to the expiry of the concession in Surabaya (Indonesia) and the disposal of Tianjin (China). Jebel Ali (UAE) handled 3.4 million TEUs in 1Q20, representing a year-on-year decrease of 3.4%. Overall, like-for-like growth in the Asia, Middle East and Africa regions was offset by weakness in India, Europe and Australia.

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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to 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		
DP World PLC	LT IDR	BBB- Rating Outlook Stable	Downgrade
	ST IDR	F3	Downgrade
• DP World PLC/Debt/1 LT	LT		
• • USD 10 bln program	LT	BBB- Rating Outlook Stable	Downgrade
• • USD 1.75 bln 6.85% Notes 2	LT	BBB- Rating Outlook Stable	Downgrade

VIEW ADDITIONAL RATING DETAILS

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Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Sukuk Rating Criteria (pub. 22 Jul 2019)

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), v7.9.0 (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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