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CREDIT OPINION
18 February 2020

Update

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RATINGS

**DP World PLC**

| | |
|---|---|
| Domicile | DIFC, United Arab Emirates |
| Long Term Rating | Baa1 , Possible Downgrade |
| Type | LT Issuer Rating - Fgn Curr |
| Outlook | Rating(s) Under Review |

*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 ratings on review for downgrade

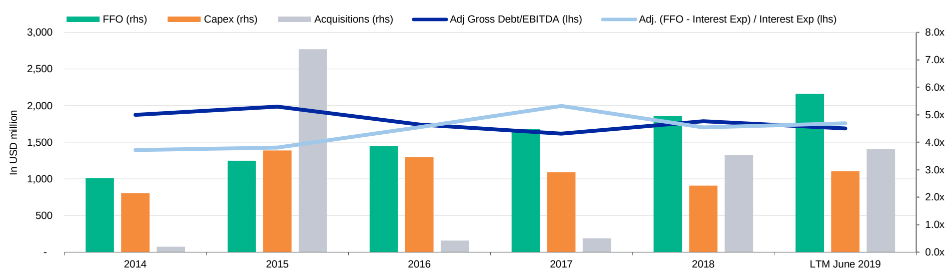
## Summary


On 17 February, DP World PLC's (DP World or Group) Baa1 ratings were placed on review for downgrade. This follows the announcement that DP World will guarantee the debt that its parent company, Port and Free Zone World FZE, intends to raise in order to buy out the minority shareholders and pay a material dividend to Dubai World. If successful, we expect DP World's credit metrics to deteriorate substantially.

DP World's Baa1 issuer 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; and (4) 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 volumes; (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 rating on review for downgrade reflects the anticipated deterioration of DP World's credit metrics and sizeable dividend payment to the ultimate parent, Dubai World, should the transaction materialize.

The review will focus on (1) DP World's consolidated credit metrics including Port and Free Zone World FZE (PFZW) debt; (2) the final outcome of the minority offer and corresponding additional debt; (3) the restrictions that will limit further interference from shareholders; and (4) DP World's commitment and ability to reduce leverage.

## Key indicators

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**

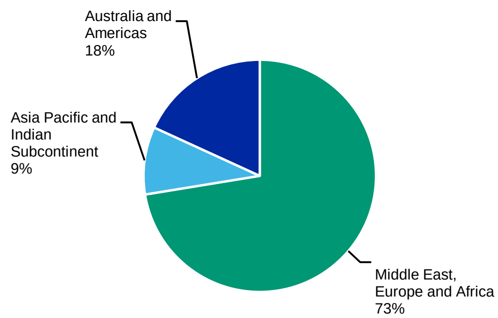
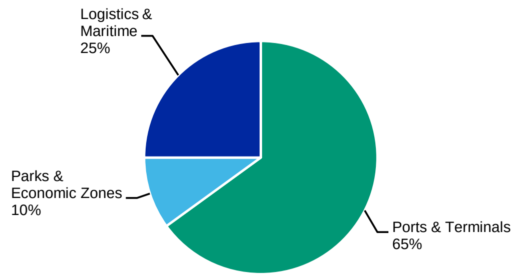



Exhibit 4
**Revenue (approx) split by segment as of six months to 30 June 2019**




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

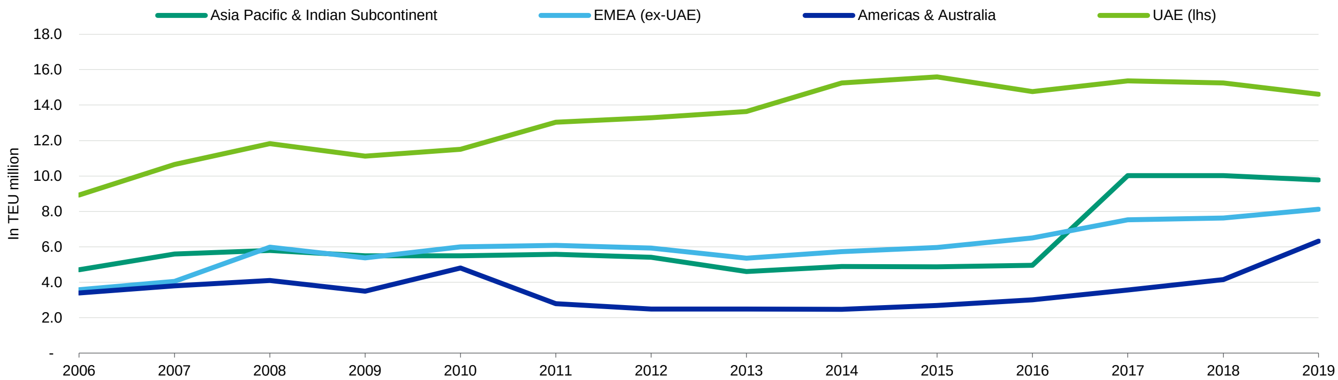
## Detailed credit considerations

### 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 slowing consolidated like-for-like volume growth of 1.4% in 2018 and contracting by 0.5% in 2019.

The company benefits from its diversified portfolio to a degree, as demonstrated in its 2019 throughput results. On a like-for-like basis for 2019, consolidated volume declined overall by 0.5%, with a strong growth of 5.7% in DP World's Asia Pacific and Indian Subcontinent portfolios, offset by declines of 1.9% in the Middle East, Europe and Africa and 3.7% in Australia and the Americas. A large part of the decline came from the lost lower-margin transshipment volume to Abu Dhabi ports in the UAE, leading to a 5.6% decline in the total UAE consolidated volume. Positively, higher margin origination and destination cargo in the UAE grew by 6.5% in 2019. 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

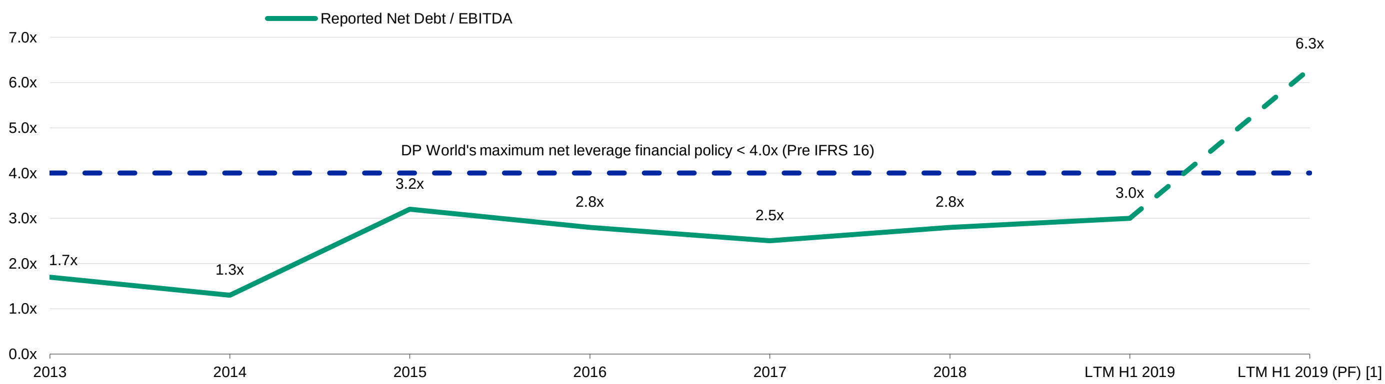
Since the beginning of 2018, DP World has announced a number of acquisitions, mainly in logistics and maritime services, which on aggregate represent a change to the company's business profile towards an integrated supply chain provider instead of the pure port operator.

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 the same leverage as pure 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 45% 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 below 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. Should PFZW proceed with the minority buyout of DP World and dividend payment to Dubai World, it will represent a significant deviation in financial policy, which will result in DP World's leverage and interest coverage ratios to weaken materially.

Exhibit 6

**Proposed minority buyout of DP World and dividend payment to Dubai World will result in net leverage exceeding 4.0x**




[1] Pro forma assumes $8.1 billion is added to DP World's estimated debt as of 31 December 2019

*Sources: Company financials, Moody's Investors Service*

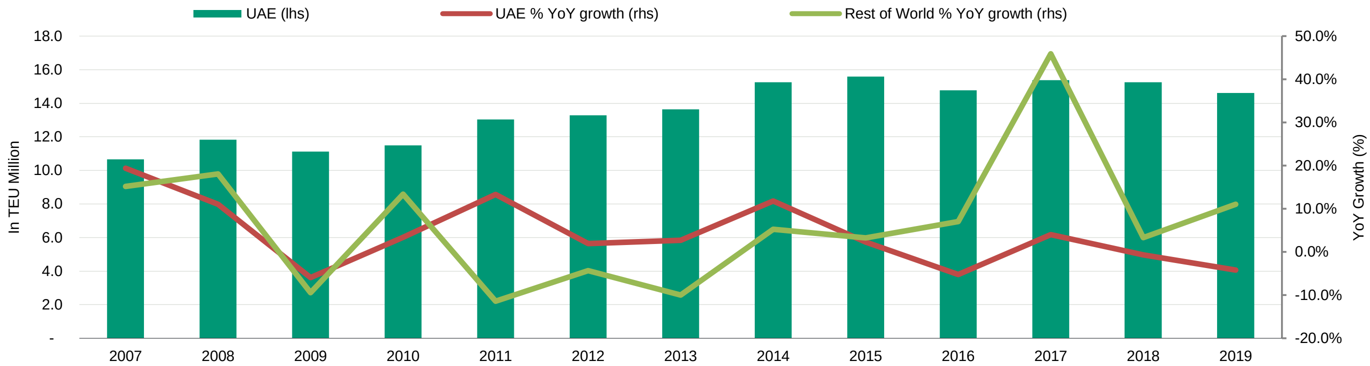
The company has been, on average, free cash flow (FCF) neutral over the past five years, excluding its M&A activity. We expect this trend to continue, with the company providing capital spending guidance for 2019 of up to $1.4 billion. Relative to reported cash flow from operations of $2.3 billion for 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.

### 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 39.9 million TEU of consolidated volume in 2019, Jebel Ali port handled 14.1 million TEU, representing around 35% with a utilisation rate of 73%. 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 PFZW, 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, as evidenced by the announcement that PFZW will pay a $5.1 billion dividend to Dubai World whose financing will be guaranteed by DP World.

## Liquidity analysis

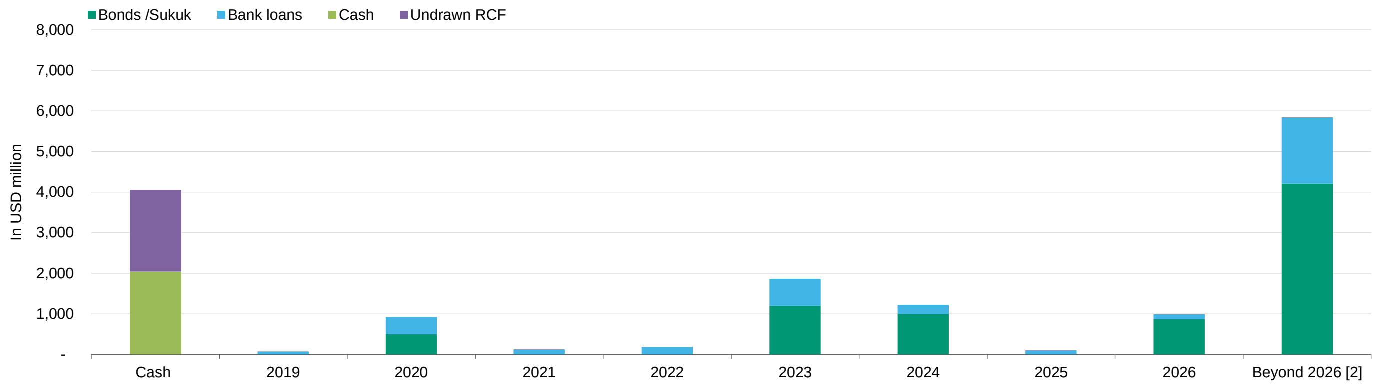
DP World has a strong liquidity profile, underpinned by (1) its reported cash balance of $2.0 billion as of 30 June 2019, (2) its access to a committed and undrawn $2.0 billion revolving credit facility that matures in June 2023, and (3) our expectation that the company will generate $2.2 billion-$2.5 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 (based on current capital structure and not pro-forma for the announced transaction).

During July DP World raised $1.3 billion ($300 million bond and $1 billion sukuk) and raised 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 th subfactor to B from Ba. Moody's 12-18 month forward view does not incorporate PFZW's proposed minority buy-out offer and dividend payment to Dubai World.

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 | Baa | Baa | Baa | Baa |
| 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 | | A3 | | Baa1 |
| **Rating Lift** | | | | |
| a) Indicated Rating from Grid | | A3 | | 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(L).
[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 | | | PSA International Pte. Ltd. | | | Hutchison Port Holdings Trust | | | ABPA Holding Limited | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Baa1 RUR DNG | | | Aa1 Stable (a3 BCA) | | | Baa1 Stable | | | 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. RUR DNG = Ratings under Review for downgrade.
[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 | Rating(s) Under Review |
| Issuer Rating | Baa1[1] |
| Senior Unsecured | Baa1[1] |
| **DP WORLD CRESCENT LIMITED** | |
| Outlook | Negative |
| Senior Unsecured | Baa1 |

[1] Placed under review for possible downgrade on February 17 2020
*Source: Moody's Investors Service*

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