Moody's
INVESTORS SERVICE

Rating Action: Moody's places DP World's Baa1 ratings on review for downgrade

17 Feb 2020

Paris, February 17, 2020 -- Moody's Investors Service, ("Moody's") has today placed on review for downgrade the Baa1 long term issuer and senior unsecured ratings of DP World PLC ("DP World" or "Group") and (P)Baa1 senior unsecured rating assigned to DP World Crescent Limited MTN program.

A complete list of rating actions can be found at the end of this press release.

Today's rating action follows the announcement that Port and Free Zone World FZE (PFZW), has made an offer to DP World's minority shareholders to acquire the outstanding 19.55% of shares for approximately $2.7 billion. The transaction would give PFZW full ownership of DP World which will then be delisted. PFZW and DP World will raise debt up to $9.0 billion to fund (1) the minority buyout, (2) pay a dividend of $5.15 billion to Dubai World, the sole shareholder of PFZW and (3) refinance some upcoming debt maturities as well as DP World's outstanding convertible bonds. The around $9.0 billion additional debt will be guaranteed by DP World, as co-borrower, with the intention to refinance a portion of the debt in the debt capital markets at a later stage.

"The proposed minority buyout and dividend payment to Dubai World will increase DP World's leverage well beyond Moody's guidance for a Baa1 rating and will lead to a material deviation from the Groups self-imposed financial policy. The transaction will weaken the overall credit profile of DP World", says Dion Bate a Moody's Vice President - Senior Analyst and local market analyst for DP World.

RATINGS RATIONALE

Today's rating action reflects the anticipated deterioration of DP World's credit metrics and sizeable dividend payment to the ultimate parent, Dubai World, should the transaction materialize. According to our preliminary calculations, DP World's pro-forma (FY2019) funds from operation (FFO) to debt is expected to reduce to around 10%, significantly below the current level of 17% for LTM H1 2019, while cash interest cover, measured as (FFO + Interest expense) to (interest expense -- non-cash interest), will reduce to around 3.0x from a current level of 4.7x. This displays an increased tolerance for higher debt and negative interference from debt burdened Dubai World which had so far limited its demands on DP World's cash flows to a moderate dividend. Moody's notes that DP World's financial policy will remain unchanged and that both PFZ and DP World are committed to a progressive deleveraging strategy such that net leverage trends towards its current target of 4.0x net debt to EBITDA over the next 2 to 3 years. This will be achieved through a combination of free cash flow generation, disciplined capex and planned asset monetizations. Based on the terms of the current offer, Moody's expects the rating downgrade could be limited to two notches but this will depend on the final take-up of the minority buyout and plans that the company intends to implement in order to restore stronger credit metrics.

The sizable dividend payment to Dubai World breaks our current assumption that DP World's credit profile is unaffected by the debt burden at the level of Dubai World. To protect against further shareholder interference, the new PFZW's financing arrangements will include a covenants that will restrict PFZW from paying dividends to Dubai World until such time that DP World is in compliance with its net leverage target of below 4.0x (on a Pre-IFRS 16 basis which compares to a pro-forma estimate of 6.3x).

The review will focus on (1) DP World's consolidated credit metrics including PFZ 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.

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; 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 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.

LIQUIDITY

DP World has a strong liquidity profile, underpinned by reported cash balance of $2.0 billion as of 30 June 2019; access to a committed and undrawn $2.0 billion revolving credit facility that matures in June 2023. 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).

LIST OF AFFECTED RATINGS

On Review for Possible Downgrade:

..Issuer: DP World PLC

.... Long Term Issuer Rating, placed on Review for Downgrade, currently Baa1

....Senior Unsecured Medium-Term Note Program, placed on Review for Downgrade, currently (P)Baa1

....Senior Unsecured Regular Bond/Debenture, placed on Review for Downgrade, currently Baa1

....Senior Unsecured Conv./Exch. Bond/Debenture, placed on Review for Downgrade, currently Baa1

..Issuer: DP World Crescent Limited

....Senior Unsecured Medium-Term Note Program, placed on Review for Downgrade, currently (P)Baa1

....Backed Senior Unsecured Regular Bond/Debenture, placed on Review for Downgrade, currently Baa1

....Senior Unsecured Regular Bond/Debenture, placed on Review for Downgrade, currently Baa1

Outlook Actions:

..Issuer: DP World PLC

....Outlook, changed to Rating Under Review from Negative

..Issuer: DP World Crescent Limited

....Outlook, changed to Rating Under Review from Negative

The principal methodology used in these ratings was Privately Managed Port Companies published in September 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The local market analyst for this rating is Dion Bate, +971 (423) 795-04.

Headquartered in Dubai, United Arab Emirates (UAE), DP World PLC 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 FZE, 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 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 to 30 June 2019, DP World reported revenue of $6.5 billion and a net income of about $1.4 billion.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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