FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms DP World at 'BBB-'; Outlook Stable

Fri 11 Jun, 2021 - 11:19 AM ET

Fitch Ratings - London - 11 Jun 2021: Fitch Ratings has affirmed DP World Limited's (DPW) Long-Term Issuer Default Rating (IDR) at 'BBB-'with a Stable Outlook and Short-Term IDR at 'F3'. A full list of rating actions is at the end of this rating action commentary.

RATING RATIONALE

The rating 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 of group cash flow generation.

Feedback

KEY RATING DRIVERS

We look at the consolidated credit profile of DPW together with its parent company, Port and Freezone World FZE (PFZW), as DPW's cash flow generation serves overall group debt. We continue to assess the group on a standalone basis, separated from Dubai World. DPW's assets demonstrated resilience in 2020 to the pandemic with only around a 1.8% volume contraction on a like-for-like basis, and like-for-like EBITDA pre-IFRS 16 down by only 0.8%. Fitch expects minority sake sales of some assets in 2021-22 to support DPW's deleveraging path after the significant debt funded buy-out of minorities and shareholder payment in 2020, although this could be slower due to lower than expected volume growth or significant M&A.

The perpetual hybrid issue by DPW Salaam (DPWS) is deeply subordinated, senior only to DPW's share capital, while profit payments can be deferred at the discretion of the issuer. As a result, the 'BB'/Stable rating is two notches below DPW's IDR, reflecting the notes' higher risk of non-performance relative to senior obligations. The hybrid instrument qualifies for 50% equity credit as it is fully subordinated with limited dissolution events; the remaining effective maturity is more than five years, and DPW has full discretion to defer periodic profit distributions for at least five years. Deferrals of profit distributions would be cumulative and compounding.

Diversified, Resilient Ports Network - Volume Risk: Stronger

DPW is the fifth-largest container port operator globally with a gross volume market share of around 9% and long average concession life. Its traffic is around 70% origin & destination (O&D) through a global network of port concessions focused on key east-west trade routes and faster growing markets. DPW has further strengthened its competitive position by serving ultra-large-container-vessels (ULCV) in ports located in major routes. DP World demonstrated resilience to the 2020 pandemic, with global consolidated volumes contraction of around 1.8% on a like-for-like basis.

Dubai's Jebel Ali port generates a significant proportion of the group's consolidated volumes, although this has fallen recently, partly due to growing competition in the low margin transhipment 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 contributes to stabilising cargo flows at Jebel Ali port. The group is continuing to develop its 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.

Feedback

Pricing Power and Flexibility - Price Risk: Midrange

The group's predominantly origin & destination (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 the landlord-tenant business model.

Large, Flexible Capex Plan - Infrastructure Development & Renewal: Midrange

We believe that 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 remained high even in 2020. DPW plans to expand total capacity to around 98 million 20 foot equivalent units (TEU) by the end of 2021. However, this large investment plan is deferrable and dependent on market conditions.

Corporate Unsecured - Debt Structure: Midrange (senior unsecured notes and IDR), Weaker (hybrid)

Senior debt is around 90% fixed-rate, largely US dollar-denominated and includes bonds, sukuk and convertible bonds but this is largely 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 reduces refinancing risk.

We assess debt structure for the hybrids as weaker due to features such as coupon deferability and the risk of non-performance relative to senior obligations. Based on our analysis of the company's economic incentives of the hybrid issuance and discussions with management, we believe that the profit rate step-up of 100bp at year 10.5 would likely be an effective maturity of the instrument, and have therefore given equity credit for 5.5 years. Considering its features, the hybrid sukuk instrument qualifies for 50% equity credit.

Financial Profile

Under the updated Fitch rating case, we forecast the group's consolidated Fitch-adjusted net debt to EBITDAR to deleverage from around 6.4x in 2020 to around 5.7x in 2025. The deleveraging path could be faster with the use of the tools such as monetisation of minority stakes and the reduction/deferral of capex and M&A activities.

Feedback

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 DPW. DPW'sdebt 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 Sovereigns, Public Finance and Infrastructure 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.

Feedback

CREDIT UPDATE

In 2020, consolidated throughput, revenue and EBITDA increased yoy by around 4.6%, 11% and 0.4%, respectively, although on a like-for-like basis they declined by 1.8%, 3.2% and 0.8%, respectively. Volumes rebounded strongly with around 10% growth in 1Q21 and continued strong growth expected in 2Q21.

DPW continued to add to its capacity with expansions in Latin America, Asia and Africa taking capacity up from around 91 million TEU to 93 million TEU. We expect it will reach capacity of around 98 million TEU by end-2021 22. It has continued to expand its footprint with acquisitions, including in Senegal, Indonesia, Ukraine, and Angola, among others.

The group is looking to make asset disposals to manage leverage and meet deleveraging targets.

FINANCIAL ANALYSIS

The Fitch base case assumes consolidated container volumes to increase by around 3.1% in 2021, 2.0% in 2022 and thereafter by 2.5%, in line with Fitch's projections of global GDP growth. We assume consolidated revenue per TEU to grow by 1.5%. Annual capex spend is assumed at around USD1.5 billion and around USD4.2 billion of gross acquisitions during 2021-2025. As a result, the Fitch lease-adjusted net debt/EBITDAR averages 5.2x in 2021-2025, deleveraging from around 6.4x in 2020 to 5.0x in 2025. We have included around USD1.6 billion of cash from minority stake sales in key assets in 2021 and an additional USD580 million in 2022.

The rating case assumes stresses on the base case whereby consolidated container volumes increase by around 2.4% in 2021, 1.6% in 2022 and 2.0% thereafter. Consolidated revenue per TEU is assumed to grow at around 1.2% annually. Capex and M&A assumptions are substantially in line with the base case, with some haircuts to the base case for sale of minority stakes. As a result, the Fitch lease-adjusted net debt/EBITDAR averages 5.8x in 2021-25, deleveraging from 6.4x in 2020 to 5.7x in 2025.

Feedback

CRITERIA VARIATION

The analysis includes a variation from the "Rating Criteria for Infrastructure and Project Finance" to determine the notching of the DP World Salaam's hybrid instruments relative to DPW's IDR, and how to apply the equity credit.

Fitch allocates hybrids to the following categories: 100% equity, 50% equity and 50% debt, or 100% debt. The decision to use only three categories reflects Fitch's view that the allocation of hybrids into debt and equity components is a rough and qualitative approximation, and is not intended to give the impression of precision.

The focus on viability means Fitch will typically allocate equity credit to instruments that are subordinated to senior debt and have an unconstrained ability for at least five years of consecutive coupon deferral. To benefit from equity credit, the terms of the instrument should not include mandatory payments, covenant defaults, or events of default that could trigger a general corporate default or liquidity need. Structural features that constrain a company's ability to activate equity-like features of a hybrid make an instrument more debt-like.

Hybrid ratings are notched down from the IDR. The notches represent incremental risk relative to the IDR, these notches are a function heightened risk of non-performance relative to other (eg senior) obligations. Hybrids that qualify for equity credit are (deeply) subordinated and typically rated at least two notches below the IDR.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Feedback

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
DP World Limited	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	ST IDR	F3	Affirmed	F3

ENTITY/DEBT	RATING			PRIOR
• DP World Limited/Debt/1 LT	LT			
• • USD 10 bln program	LT	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Shyamali Rajivan
Director
Primary Rating Analyst
+44 20 3530 1733
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

Alexey Kobylyanskiy
Associate Director
Secondary Rating Analyst
+44 20 3530 1786

Danilo Quattromani
Managing Director
Committee Chairperson
+39 02 879087 275

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Feedback

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

Ports Rating Criteria (pub. 15 Oct 2020) (including rating assumption sensitivity)

Sukuk Rating Criteria (pub. 15 Feb 2021)

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	UK Issued, EU Endorsed
DP World Limited	UK Issued, EU Endorsed
DP World Salaam	UK Issued, EU Endorsed

DISCLAIMER

Feedback

RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

READ LESS

COPYRIGHT

Feedback

Feedback

on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Infrastructure and Project Finance Middle East Asia-Pacific Latin America

Cayman Islands United Arab Emirates

Feedback

ga('set', '732-ckh-767', 'USER_ID');