FitchRatings

RATING ACTION COMMENTARY

Fitch Revises DP World's Outlook to Positive, Affirms at 'BBB-'

Thu 26 May, 2022 - 1:18 PM ET

Fitch Ratings - London - 26 May 2022: Fitch Ratings has revised the Outlook on DP World Limited's (DPW) Long-Term Issuer Default Rating (IDR) to Positive from Stable and affirmed the IDR at 'BBB-'The Short-Term IDR has been affirmed at 'F3'. A full list of rating actions is at the end of this rating action commentary.

RATING RATIONALE

The Positive Outlook reflects our expectation that DPW will deleverage to below 5x net debt to EBITDA within the next two years due to a combination of organic growth and monetisation of some assets, in line with management strategy following the company's privatisation and releveraging in 2020.

The 'BBB-' rating balances DPW's strong, diversified business profile with its acquisitive strategy and corporate-like, bullet and un-covenanted debt structure. The long-term maturity of its main concession, Jebel Ali Port and Freezone, is a supporting credit factor as it ensures long-term visibility of group cash flow generation.

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 will be used to serve overall group debt, including the outstanding USD6.4 billion bridge facility at PFZW. Covenants at PFZW lock up dividends until group leverage returns to less than 4x pre-IFRS-16 net debt to EBITDA. We currently align DPW's rating with its consolidated credit profile, as around 35% of EBITDA is generated by its key assets in Dubai, Jebel Ali Port (JAP) and Jebel Ali Freezone (JAFZ), which are debt free and where DPW has full control.

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 weighted average concession life of around 33 years. Its traffic is around 70% origin & destination 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 in ports located on major routes.

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

DPW's diverse portfolio of terminals has no significant regulatory price caps, but prices at some key assets have not always kept pace with inflation. However, the group's predominantly origin & destination volume structure, high capacity utilisation rates and integrated logistics solutions at JAP, together with improved liquidity at shipping lines, support our expectation that DPW will be able to substantially pass through inflation over the next few years.

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. Capex needs may increase as terminals start to reach capacity, but the investment plan is deferrable and dependent on market conditions.

Corporate Unsecured - Debt Structure: Midrange

Senior debt is around 80% fixed-rate, largely US dollar-denominated and includes bonds and sukuk instruments but 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 which reduce refinancing risk. Liquidity in 2023 will be stretched due to the upcoming maturity of the PFZW bridge loan but we understand from management that the company is proactively addressing this.

Hybrid Bonds - Deep Subordination, 50% Equity Credit - Debt Structure: Weaker

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. These features are reflected in the 'BB' notes' rating, which is two notches below DPW's IDR, and the 50% equity credit Fitch is crediting to the instrument. 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.

For further information on DPWS' hybrid rating, see "Fitch Rates DP World's Hybrids 'BB'/Stable", published 7 July 2020 at www.fitchratings.com.

Financial Profile

Under the updated Fitch rating case (FRC), we forecast the group's consolidated net debt to EBITDA to deleverage to below 4.5x by 2023 from around 5.5x in 2021. The deleveraging path could be faster if DPW management's strategy of minority stake sales in some of its assets is implemented with greater magnitude than assumed in the FRC. It could also be affected by the reduction or deferral of capex and M&A activities compared with our assumptions. Finance and operating leases are captured as an operating expense, reducing EBITDA.

PEER GROUP

DPW is larger than ABP Finance Plc (ABP; A-/Stable), 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'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 negative rating action/downgrade:

The Outlook could be revised to Stable if asset monetisations are smaller or slower than expected, or if organic growth is slower than expected, leading to a delay in the expected deleveraging.

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

Group consolidated net debt on EBITDA sustainably below 5x under the FRC, together with an updated assessment of structural subordination of DPW compared with its consolidated credit profile

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.

CREDIT UPDATE

Consolidated throughput, revenue and EBITDA increased by around 8.8%, 26.3% and 15.3%, respectively. DPW's adjusted EBITDA in 2021 was up 8.2% yoy on a like-for-like basis.

2021 gross volume growth was broad based, with India, Asia Pacific, Middle East & Africa, Europe, Australia and Americas regions the key growth drivers. At an asset level, Qingdao (China), Mumbai, Mundra, Chennai (India), Sokhna (Egypt), London Gateway (UK), Caucedo (Dominican Republic), Callao (Peru), and Sydney (Australia) delivered a strong performance. JAP handled 13.7 million TEU in 2021, up 1.9% year-on-year.

1Q22 volume growth of 1.4% on a consolidated basis was driven by strong performance across the global portfolio.

M&A activity continued in 2021, the most significant of which was the acquisition of 100% equity interest in Syncreon Newco B.V. in December, for a purchase consideration of USD994 million. Syncreon's logistics business fits with the group's vision to deliver end-to-end solutions to cargo owners. In 1Q22, the group also completed the acquisition of 100% equity interest in Imperial Logistics Limited, a logistics company with operations in Africa and Europe, for a purchase consideration of around ZAR12.7 billion.

FINANCIAL ANALYSIS

The Fitch base case (FBC) assumes consolidated container volumes and revenues to increase by a CAGR of around 2.8% and 3.8%, respectively, between 2022 and 2026 in line with Fitch's projections of global GDP growth. We assume consolidated revenue per TEU to grow in line with our forecast of US inflation. Annual capex is assumed at around USD1.5 billion and around USD4.0 billion of gross acquisitions during 2022-2026. As a result, the FBC net debt to EBITDA reduces from around 5.3x in 2022 to around 4.1x in 2026. We have included significant cash inflow from minority stake sales in key assets in 2023.

The FRC assumes stresses on the FBC whereby consolidated container volumes increase by a CAGR of round 1.7% between 2022 and 2026. Prices are expected to increase at 50% of US inflation. Capex, asset disposals and M&A assumptions are substantially in line with the base case. As a result, the FRC net debt to EBITDA reduces from around 5.3x in 2022 to around 4.5x in 2026.

Criteria Variation

The analysis includes a variation from the "Rating Criteria for Infrastructure and Project Finance" by taking elements of our "Corporate Hybrids Treatment and Notching Criteria" to determine the notching of 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

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
DP World Limited	LT IDR	BBB- Rating Outlook Positive	Affirmed	BBB- Rating Outlook Stable
	ST IDR	F3	Affirmed	F3
DP World Salaam				
DP World Salaam/Debt/1 LT	LT	BB Rating Outlook Positive	Affirmed	BB Rating Outlook Stable
DP World Crescent Limited				

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Sukuk Rating Criteria (pub. 15 Feb 2021)

Infrastructure and Project Finance Rating Criteria (pub. 23 Aug 2021) (including rating assumption sensitivity)

Transportation Infrastructure Rating Criteria (pub. 16 May 2022) (including rating assumption sensitivity)

APPLICABLE MODELS

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

GIG InForM Model, v1.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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

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