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DP World Limited

Minority stake sale of key Dubai assets to fund debt repayment credit positive

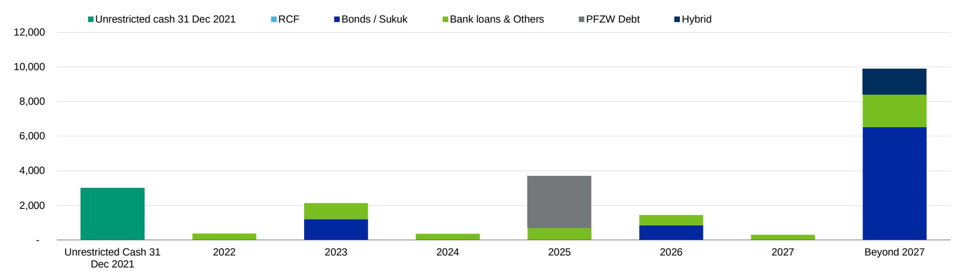
On 6 June, DP World Limited (Baa3 stable) announced that Caisse de Depot et Placement du Quebec (CDPQ), a global investment group, will acquire a 22% stake in its key Dubai assets, the Jebel Ali Port, the Jebel Ali Free Zone and the National Industries Park. CDPQ will pay a consideration of $5 billion for a sub-concession of up to 35 years. DP World will fully apply the initial $5 billion proceeds to repaying debt maturing in 2023, and expects that this will allow it to adhere to its public guidance to reduce net leverage excluding IFRS leases to below 4x by the end of the year. DP World expects the transaction to close in the second or third quarter of this year, and may sell a further 13% stake for an additional $3 billion to other investors before the end of 2022.

The transaction is credit positive because it supports management's credibility, proves the company's good access to equity funding and significantly improves liquidity, allowing the company to meet all maturities over the next 18 months from available liquidity sources (see exhibit). In our view the transaction however does not materially reduce cash flow based leverage and also weakens the business profile through the partial disposal of the company's flagship infrastructure and free zone assets, the Jebel Ali Port and Free Zone, which partially offsets the credit positives.

Exhibit 1

DP World's liquidity profile will substantially improve following the debt repayment

Pro forma debt maturity profile, factoring in $5 billion of disposal proceeds applied to debt prepayment



Sources: Company data and Moody's Investors Service

We expect Moody's adjusted gross debt to EBITDA to reduce to around 5.5x by the end of 2022 against 6.9x at the end of 2021, however this expected reduction in leverage masks cash leakage from the three Dubai assets to the new minority investors. Consolidated leverage will reduce because DP World will continue to consolidate the assets fully while benefitting from a reduction in debt through the receipt of disposal proceeds. We believe from a cash flow perspective, however, deleveraging will not be material. While CDPQ will raise $2.5 billion of debt to fund the purchase, this debt will not have recourse to DP World and will not be consolidated at the DP World level.

When factoring in debt reductions of $5 billion and $8 billion, while deducting the corresponding dividends to minority investors for a 22% and a 35% investment in the three Dubai assets from free funds from operations (FFO), we estimate that FFO/ debt will improve to around 13% in both scenarios. This compares against our previous expectation of 11%, which did not include any disposal and shows that on a cash flow basis, the transaction does not reduce leverage in a material way. DP World's performance in 2021 was strong and we understand despite slower volume growth since the beginning of 2022, cash flow and profitability have continued to improve. Therefore leverage on both a debt/ EBITDA and FFO/ debt basis could improve further until the end of 2022, if organic growth is stronger than we previously anticipated.

The partial disposal will also weaken the company's business profile because it will further reduce DP World's cash flow generation from infrastructure assets, which we view as having a stronger credit profile than logistics operations, into which the company has been expanding since 2018. Port infrastructure assets support a relatively higher level of leverage than logistics operations because of their strong market position and stable and predictable cash flows. Following the acquisitions of logistics businesses Syncreon and Imperial Logistic in December 2021 and February 2022, respectively, we expect EBITDA from logistics operations to increase to around 30% of consolidated EBITDA. On a reported basis, this will not change as a result of the minority stake sale in the three Dubai assets because these will remain consolidated. However, we will also continue to monitor the extent to which DP World's cash flow generation will derive from relatively weaker logistics operations over the next 1-2 years, and may factor this into the FFO/ debt leverage tolerance for any given rating if the cash flows cease to be primarily generated from port infrastructure operations.

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