



RATING ACTION COMMENTARY

Fitch Upgrades DP World to 'BBB+', Outlook Stable

Wed 17 May, 2023 - 11:16 AM ET

Fitch Ratings - London - 17 May 2023: Fitch Ratings has upgraded DP World Limited's (DPW) Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'BBB-'. The Outlook is Stable. The Short-Term IDR has been upgraded to 'F2' from 'F3'. A full list of rating actions is at the end of this rating action commentary.

RATING RATIONALE

The upgrade reflects DPW's successful deleveraging to below 4.0x group net debt to EBITDA (pre IFRS-16) at end-2022, in line with management's commitment. Leverage had peaked at around 6.4x in 2020 due to its debt-funded privatisation.

In 2020, DPW's parent company, Port and Freezone World FZE (PFZW) issued over USD9 billion of debt to buy back the 19.55% minority shareholding in DPW, re-leveraging the group and taking the company private. The group's subsequent deleveraging was due to the disposal of a minority (32.1%) stake in its three flagship Dubai assets.

The ratings reflect the group's stable cash flow generation, supported by its diversified business profile and stable origin and destination (O&D) ports-related revenue as well as the long-term maturity (82 years remaining) of its flagship assets Jebel Ali Port (JAP) and Jebel Ali Freezone (JAFZ). The ratings also consider the group's acquisitive strategy and corporate-like, bullet and un-covenanted debt structure. We continue to rate DPW in line with its consolidated credit profile as the majority of the group's cash flow generation remains free of significant restrictions.

The subordinated perpetual certificates' rating is driven by DPW's ratings and notched down by two notches from its Long-Term IDR. This reflects Fitch's view that a risk of default of the hybrid sukuk is linked to that of DPW, in accordance with Fitch's rating definitions. The rating may also be sensitive to changes to the roles and obligations of DPW under the sukuk's structure and documents.

KEY RATING DRIVERS

Diversified, Resilient Ports Network - Revenue Risk - Volume - Stronger

DPW is the fifth-largest container port operator globally, with a gross volume market share of around 9% and long average concession life of around 32 years. Its ports volumes are around 70% O&D through a global network of port concessions focused on key east-west trade routes and faster-growing markets (around 75% of group volumes from emerging or frontier markets in 2022).

Dubai's JAP generates a significant proportion of the group's consolidated volumes, although this has fallen recently, partly due to acquisitions as well as growing competition in the 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 helps stabilise cargo flows at JAP.

DPW's recent significant investments in logistics, including the USD994 million Syncreon acquisition in 2021 and the USD816 million Imperial Logistics acquisition in 2022, are in line with its strategy to make the terminal business more resilient by forming direct relationships with customers and providing integrated supply chain solutions.

Moderate Pricing Power and Flexibility - Revenue Risk - Price - 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 O&D volume structure, high capacity utilisation rates and integrated logistics solutions strategy, together with improved liquidity at shipping lines, support our expectation that DPW will be able to largely pass through inflation over the next few years. The ports and terminals business was able to pass through significant price per move increase in 2022. Contracts generally are inflation linked.

Large, Flexible Capex Plan - Infrastructure Dev. & 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 in delivering terminal investments. However, the large investment plan is deferrable and dependent on market conditions. DPW's capex was around USD1.7 billion in 2022, slightly higher than previous years and capacity utilisation remains high at around 85% in 2022, partly driven by congestion in the supply chain and container trade routes in particular. We expect utilisation to reduce as congestion has eased.

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 perpetual sukuk but largely unsecured. The bullet structure of the group's debt and lack of material structural protection are weaknesses. The group has significant upcoming maturities this year, but this is adequately mitigated by proven access to capital markets, proactive and prudent debt management and a solid liquidity position.

The perpetual hybrid issue is deeply subordinated, senior only to DPW's share capital, while profit payments can be deferred at the issuer's discretion. As a result, the 'BBB-/Stable' rating is two notches below DPW's IDR, reflecting the notes' higher risk of non-performance relative to senior obligations.

The hybrid securities qualify for 50% equity credit as they are fully subordinated with limited dissolution events, their 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.

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 (for further details see "Fitch Rates DP World's Hybrids 'BB'/Stable" dated 07 July 2020 at www.fitchratings.com).

Financial Profile

The Fitch Rating Case (FRC) expects leverage to remain below 4.5x between 2023 and 2027, despite the additional leakage to minorities from the 2022 stake sale of its three flagship assets: JAP, JAFZ and National Industries Park (NIP).

PEER GROUP

DPW is much larger than ABP Finance PLC (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 significantly 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

Group consolidated net debt to EBITDA above 4.5x on a sustained basis under the FRC.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Group consolidated net debt to EBITDA below 3.5x on a sustained basis under the FRC.

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>.

TRANSACTION SUMMARY

Privatisation and Asset Sale

In July 2020, DPW's parent company, PFZW bought back the 19.55% minority shareholding in DPW, took the company private and paid a one-time dividend to PFZW's parent company, Dubai World, for a total additional debt incurrence of USD9.3 billion. Together with some pandemic-related disruption, this took the group's net debt to EBITDA to around 6.4x in 2020 from below 3.5x in 2019. We downgraded DPW's ratings to 'BBB-' in 2020 from 'BBB+' as a result.

DPW's management subsequently pledged to bring pre-IFRS 16 net debt/EBITDA back to below 4x by end-2022. Measures to achieve this included monetisation of minority stakes, dividends lock-up, and a reduction or deferral in capex and M&A. In line with this strategy, DPW sold a total 32.1% stake in three key assets in Dubai: JAP, JAFZ and NIP in two tranches. The resulting USD7.4 billion cash and shareholder loan injection from the minority shareholders allowed DPW to repay the remaining debt at PFZW, returning net debt to EBITDA to around 3.1x by end-2022.

CREDIT UPDATE

Extraordinary Growth Boosted by Acquisitions

DPW's strong consolidated revenue growth of 59% in 2022 was significantly boosted by the acquisitions of Syncreon and Imperial Logistics. Together, these acquisitions massively boosted DPW's logistics operations, cementing the group's strategy to provide end to end solutions to its customers.

Strong Like-for-Like Performance

DP World's like-for-like revenue growth was driven by its ports and terminals business in the UAE, Africa and the Americas, along with the marine services business, where Unifeeder was the key growth driver. Consolidated throughput grew by 1.5% to 46.1 million 20 foot equivalent unit (TEU), while container revenue grew by 9%. Marine services revenue grew by 31% due to strong performance by Unifeeder, and drydocking revenue grew by 12%. Lease revenue grew by 15%. Performance even on a like-for-like basis strongly outperformed the 2022 FRC, which forecast around 2.7% total revenue growth and 3% EBITDA growth.

DPW reported revenues ahead of volume growth during the year, despite falling freight rates, but in the context of high inflation across its portfolio. To offset cost increases, variable elements have been factored into contract pricing clauses, including CPI, which will provide some protection against rising inflation.

Resilience in the Context of Longer-Term Trends

DPW's integration strategy leverages synergies between port, marine and landside assets. The investment into the marine segment, through the acquisition of Unifeeder and Transworld Feeders, has strengthened connectivity, while landside assets provide end-to-end logistics solutions.

This revenue diversification strategy protects against a more consolidated customer base and spreads cost recovery across the supply chain. DPW continues to nurture customer relationships through its dedicated carrier point programme. Global supply chain disruptions and rising costs are driving the diversification of manufacturing and reshoring and nearshoring of production networks.

Unifeeder has evolved from being a well-connected feeder and shortsea network in Europe and the Mediterranean to become a global operator. By acquiring feeder and regional trade operators it now provides full-scale capability in Northern Africa, the Middle East and the Indian Subcontinent and Asia.

2022 Capex and Dividends High

Key capex projects include capacity enhancements at Caucedo (Dominical Republic), Sokhana (Egypt), Jeddah (Saudi Arabia), Callao (Peru), Saigon (Vietnam), Luanda (Angola), Dakar (Senegal), Berbera (Somaliland) and Vancouver (Canada), which will enhance consolidated capacity to around 60.0 million TEU by 2023. DPW also has new developments in the parks and freezones segment in India, Africa and the US. Management expects capex in 2023 to be slightly lower than 2022 (USD 1.72 billion).

In 2022, DPW paid an extraordinary dividend in order for its parent PFZW to repay the remaining acquisition debt of USD6.4 billion, from the proceeds of its stake sale. Total dividends were USD4.6 billion.

FINANCIAL ANALYSIS

The Fitch base case (FBC) assumes consolidated throughput volumes to increase by a CAGR of around 2.1% between 2023 and 2027, 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. We forecast marine services, drydocking, lease and logistics revenue will grow more slowly than ports and terminals-related revenue. Margins are expected to remain at around 2020-22 levels within each business segment.

Annual capex is assumed at around USD1.6 billion-USD1.8 billion. We assume around USD2.5 billion of gross acquisitions during 2023-2027. As a result, the FBC net debt to EBITDA remains under 4.0x during the forecast period.

The FRC assumes stresses on the FBC whereby consolidated throughput volumes increase by a CAGR of round 1.6% between 2023 and 2027. Prices are expected to increase at 75% of US inflation. Similar to the FBC, we forecast marine services, drydocking, lease and logistics revenue growing more slowly than ports and terminals-related revenue. Margins are expected to decline slightly compared with 2020-22 levels. Capex and M&A assumptions are substantially in line with the FBC. As a result, the FRC net debt to EBITDA hovers between 3.7x and 4.2x during the forecast.

Summary of Financial Adjustments

Finance and operating leases are captured as an operating expense, reducing EBITDA.

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 Stable Upgrade	BBB- Rating Outlook Positive
	ST IDR F2 Upgrade	F3
DP World Limited/Debt/1 LT	LT BBB+ Rating Outlook Stable Upgrade	BBB- Rating Outlook Positive
DP World Salaam		
DP World Salaam/Debt/1 LT	LT BBB- Rating Outlook Stable Upgrade	BB Rating Outlook Positive
DP World Crescent Limited		
DP World Limited/Debt/1 LT	LT BBB+ Rating Outlook Stable Upgrade	BBB- Rating Outlook Positive

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Transportation Infrastructure Rating Criteria - Effective from 16 May 2023 to 18 December 2023 \(pub. 16 May 2022\) \(including rating assumption sensitivity\)](#)

[Infrastructure & Project Finance Rating Criteria -- Effective July 20, 2022–May 17, 2023 \(pub. 20 Jul 2022\) \(including rating assumption sensitivity\)](#)

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)

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