Moody's

Rating_Action: Moody's upgrades DP World's rating to Baa2; outlook stable

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London, January 18, 2023 -- Moody's Investors Service ("Moody's") has today upgraded DP World Limited's ("DP World" or "company") long term issuer rating to Baa2 from Baa3. At the same time, the senior unsecured ratings assigned to the Medium-Term Note (MTN) Programs of DP World Limited and DP World Crescent Limited were upgraded to (P)Baa2 from (P)Baa3 and ratings of all outstanding rated senior unsecured bonds were also upgraded to Baa2 from Baa3. The rating of the perpetual junior subordinated reset note issued by DP World Salaam was upgraded to Ba1 from Ba2. The outlook on all ratings remains stable.

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

RATINGS RATIONALE

DP World's ratings were upgraded because the company has successfully reduced net debt to EBITDA (before IFRS leases) as of December 2022 below 4.0x, in line with the target that it announced at the time of its recapitalization in 2020. In 2020, Port and Free Zone World FZE (PFZW), DP World's immediate parent issued $9 billion of debt, guaranteed by DP World, to fund a $5.15 billion dividend to its ultimate parent Dubai World to redeem its legacy debt and to fund the repurchase of DP World's 19.55% listed shares. As of 31 December 2022, the debt issued by PFZW has been fully repaid, mainly through proceeds of asset sales by DP World in June and December 2022.

Following the reduction in debt, the company has re-established a solid financial profile and excellent liquidity that more appropriately position its ratings in the Baa2 category. Moody's also recognizes a strengthening in financial policy and management credibility as a result of adhering to the previously announced deleveraging target in a timely manner, which Moody's includes as a governance consideration. Moody's understands that all the debt at the PFZW level and all legacy debt of its ultimate parent Dubai World has now been repaid, and therefore Moody's views the risk of negative interference by the government of Dubai as reduced, which further reduces the company's exposure to risks related to governance. Consequently, the ESG Governance issuer profile score was changed to G-2 from G-3 and the overall credit impact score was changed to CIS-2 from CIS-3.

Moody's also positively notes the company's strong operating performance throughout 2021 and 2022, which has further contributed to reducing leverage. Moody's estimates adjusted gross debt to EBITDA to reach 4.3x by the end of 2022, down from 6.9x a year earlier and funds from operations (FFO) to debt to increase to around 17% from 10% a year earlier. DP World raised a total of $7.4 billion during 2022 from the sale of a 32.2% stake in 3 of its key Dubai-based assets, the Jebel Ali Port, the Jebel Ali Free Zone and the National Industries Park to Caisse de depot et placement du Quebec (CDPQ) and Hassana, a Saudi Arabian pension fund. Following the minority stake sale, the assets will remain fully consolidated on DP World's balance sheet, however there will be material cash flow leakage to the minority owners. To appropriately take into account the cash flow leakage, Moody's will going forward increasingly focus on retained cash flow (RCF) to debt, which includes dividend payouts, rather than funds from operations (FFO) to debt, which does not include dividend payments, when assessing DP World's credit profile. Moody's estimates RCF to debt has improved to 13.7% at the end of December 2022, up from 10.2% a year earlier and 7.5% at the end of 2020.

DP World's ratings remain supported by (1) the company's diversified global port operations in strategic fast growing emerging market locations with long term concessions; (2) operations of Jebel Ali Port and Free Zone in Dubai, the 4th largest container port globally outside of China; (3) solid profitability through economic cycles and expected positive long term growth in international container traffic, as the company focusses on origin and destination (O&D) cargo, which is relatively less sensitive to cyclical downturns than transshipment ports; (4) prudent financial policy targeting net debt to EBITDA (before IFRS leases) of less than 4.0x.

The company's credit ratings also incorporate (1) material concentration in Dubai and some exposure to geopolitical risks; (2) increasing exposure to non-port related businesses, which dilutes profitability and supports less leverage than DP World's core port operations; (3) historically high acquisition spend, which bears integration risks and could temporarily increase leverage beyond the financial policy target.

STABLE OUTLOOK

The stable outlook reflects DP World's broad geographic portfolio of well-located port assets and variable cost structure that gives the company flexibility to weather volatility in global trade. It further incorporates the expectation that after successfully deleveraging below 4.0x reported net debt/ EBITDA by the end of 2022, as per the company's prior guidance, DP World will maintain leverage comfortably within its financial policy limit of 4.0x reported net debt/ EBITDA (pre-IFRS lease adjustments) going forward.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating could be upgraded if the company re-establishes a track record of adherence to its financial policy target of reported net debt/ EBITDA (pre-IFRS leases) below 4.0x, while Moody's adjusted RCF/ debt sustainably remains above 15% and cash interest coverage above 4.5x. These credit ratios assume that DP World will continue to derive the majority of its EBITDA and cash flow from port operations and that the company's non-port related activities demonstrate resilience through economic cycles. Given DP World's sizeable operational exposure to Dubai, its rating position would also need to be considered in the context of the Government of Dubai's credit profile and the overall macroeconomic environment in Dubai.

The rating could be downgraded if the company does not adhere to its financial policy targets or if it undertakes higher-risk development projects or acquisitions that lead to credit metrics weakening for a sustained period of time, such that RCF/ debt trends below 8% and cash interest coverage is below 3.5x. The rating would also come under pressure if DP World's liquidity profile weakens.

LIST OF AFFECTED RATINGS

Upgrades:

..Issuer: DP World Crescent Limited

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

....BACKED Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

..Issuer: DP World Limited

....LT Issuer Rating, Upgraded to Baa2 from Baa3

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

..Issuer: DP World Salaam

....Junior Subordinated, Upgraded to Ba1 from Ba2

Outlook Actions:

..Issuer: DP World Crescent Limited

....Outlook, Remains Stable

..Issuer: DP World Limited

....Outlook, Remains Stable

..Issuer: DP World Salaam

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Privately Managed Ports Methodology published in May 2021 and available at https://ratings.moodys.com/api/rmc-documents/72199. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The local market analyst for this rating is Lisa Jaeger, +971 (423) 796-59.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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 issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

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

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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