FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms DP World at 'BBB+', Outlook Stable

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Fitch Ratings - London - 05 Jun 2024: Fitch Ratings has affirmed DP World Limited's (DPW) Long-Term Issuer Default Rating (IDR) at 'BBB+'. The Outlook is Stable. The Short-Term IDR has been affirmed at 'F2'.

RATING RATIONALE

The affirmation reflects 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 (81 years remaining) of its flagship assets, Jebel Ali Port and Jebel Ali Freezone. 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.

DPW services a diversified mix of shipping lines and the volumes are now more spread across over 70 terminal operations, with the key asset Jebel Ali Port now only generating 30% of consolidated volumes due to acquisitions as well as growing competition in the low margin transshipment business. The group expanded its footprint in the integrated logistics segment through the Imperial, Syncreon and Unico acquisitions. The integrated logistics solutions and marine services, makes cargo stickier at its terminals and complements the port operations around the world.

Moderate Pricing Power and Flexibility - Revenue Risk - Price - Midrange

DPW's diverse portfolio of terminals has no significant regulatory price caps. The group's predominantly O&D volume structure, high capacity utilisation rates and integrated logistics solutions strategy, enables DPW to largely pass through inflation. The assessment is constrained by short-term contracts, lack of significant take or pay contracts or minimum guarantees. Furthermore, the logistic and marine business revenues are exposed to freight rate volatility.

Large, Flexible Capex Plan - Infrastructure Dev. & Renewal - Midrange

We believe DPW is well-equipped to deliver its investment programme due to its strong cash flow generation and extensive experience in delivering terminal investments. However, the large investment plan is deferrable and dependent on market conditions. Fitch views that the sizable, albeit flexible, investment activity and capex plan constrain the assessment.

Corporate Unsecured - Debt Structure: Midrange (Senior Unsecured Notes and IDR), Weaker (Hybrid)

Senior debt is around 85% fixed-rate, largely US dollar-denominated and includes bonds, sukuk and perpetual sukuk but largely unsecured. The bullet structure and lack of material structural protection are weaknesses. The group has USD915 million upcoming maturities this year, but this is adequately mitigated by proven access to capital markets, proactive and prudent debt management and solid liquidity. 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 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.

Financial Profile

In the Fitch Rating Case (FRC), leverage remains below 4.5x between 2024 and 2028. The USD4 billion dividend payments in 2023 reduced rating headroom. However, there is flexibility in expansion capex, dividends, and M&A to manage net leverage within the stated leverage goal.

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.

CREDIT UPDATE

Revenue grew by 6.6% yoy to USD18.3 billion in 2023, benefiting from strong performance by Drydocks, the full year contribution of acquisitions and strong performance in the ports and terminals segment. The marine services experienced a drop in revenue due to normalisation of freight rates.

Capex was USD2.1 billion in 2023 (2022: USD1.7 billion) with maintenance capex of USD279 million (2022: USD203 million). Key capital projects include capital enhancements at Jebel Ali (UAE), London Gateway (UK), Inland logistics (India), Dakar (Senegal), East Java (Indonesia), Callao (Peru) and Jeddah (Saudi Arabia). These will enhance consolidated capacity to 67.5 million 20-foot equivalent units (TEU) in 2024 from 60.7 million TEU in 2023.

Due to USD3.5 billion special dividends in addition to USD500 million normal dividends, reported net debt to EBITDA (pre-IFRS 16) increased to 3.7x in 2023, up from 2.8x in 2022, but below the company's self-declared ceiling of 4.0x. Fitch-adjusted net leverage, which reflects dividend payments to minorities, increased to 4.4x in 2023 from 3.2x in 2022.

DP World remains largely unaffected by the Red Sea disruptions given its global diversified presence.

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

This revenue diversification strategy gives some protection from a more consolidated customer base and spreads cost recovery across the supply chain. DPW nurtures 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, Unifeeder now provides full-scale capability in Northern Africa, the Middle East and the Indian Subcontinent and Asia.

FINANCIAL ANALYSIS

The Fitch base case (FBC) assumes consolidated throughput volumes to increase by a CAGR of around 2.2% between 2024 and 2028, 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. We expect margins to remain at around 23% on average for the total business.

We assume annual capex at around USD2.0 billion-USD2.1 billion. We assume around USD1.0 billion of gross acquisitions during 2024-2028. As a result, the FBC net debt to EBITDA remains around 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 2024 and 2028. We expect prices 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. Fitch expects margins to gradually improve from 22% to 23% by 2028. Capex and M&A assumptions are substantially in line with the FBC. As a result, the FRC net debt to EBITDA hovers around 4.5x 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
DP World Limited	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
DP World Limited/Project Revenues - Senior Unsecured Debt/1 LT	LT			

USD 10 bln program	LT BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
USD 1.75 bln 6.85% Notes 2 Jul 2037 XS0308427581	LT BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
USD 1.75 bln 6.85% Notes 2 Jul 2037 23330JAA9	LT BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
USD 1 bln 1.75% Notes 19 Jun 2024 XS1078764302	LT BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
EUR 750 mln 2.375% bond/note 25-Sep-2026 XS1883966076	LT BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
USD 1.3 bln 5.625% bond/note 25-Sep-2048 23330JAB7	LT BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
GBP 350 mln 4.25% bond/note 25-Sep-2030 XS1883966662	LT BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Infrastructure & Project Finance Rating Criteria (pub. 17 May 2023) (including rating assumption sensitivity)

Transportation Infrastructure Rating Criteria (pub. 18 Dec 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

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

Third-party Model (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

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