FITCH AFFIRMS DP WORLD AT 'BBB-'; OUTLOOK STABLE

Fitch Ratings-London-13 October 2014: Fitch Ratings has affirmed UAE-based port operator DP World Limited's (DP World) Long-term Issuer Default Rating (IDR) at 'BBB-' with a Stable Outlook. Fitch has also affirmed its senior unsecured rating at 'BBB-' and the Short-term IDR at 'F3'. The ratings on the convertible notes due 2024 issued by DP World and the Sukuk unsecured trust certificates issued by DP World Sukuk Limited have also been affirmed at 'BBB-'.

DP World demonstrated improving cash flow margins in 1H14, supported by strong liquidity, leading to an improvement in the company's credit metrics. Improved leverage for FY13 is, however, offset by the delay of some capital expenditure into 2014 and beyond, relating to the completion of major port upgrades at Rotterdam and Jebel Ali. Fitch also expects DP World will remain cash flow negative until 2016 as it makes further acquisitions.

Challenging macro conditions may limit volume progression at DP World's individual ports. However, additional capacity at Jebel Ali (Dubai), London Gateway and Rotterdam should support consolidated volume growth and margin progression, offsetting our expectations of weaker trade activity.

KEY RATING DRIVERS

Strong Market Positions, Geographically Diversified
DP World is one of the four largest container port operators globally based on volume. Its global market share remained at around 10% (5.4% on a consolidated basis) as at end-December 2013. The company's volume throughput is anchored by its operation of Jebel Ali port in Dubai, giving it a dominant market share in the Middle East.

Fitch considers DP World as geographically well-diversified relative to its peers. Volume volatility resulting from irregular economic growth in developing markets is currently offset by stronger pricing across much of its portfolio.

Strategic Locations and Facility Upgrades
DP World's terminal interests are located close to key import and export markets. About 75% of the company's volumes are more stable 'origin and destination' cargoes, enabling it to generate stronger and more stable margins than its peers. Dubai's Jebel Ali port in particular, one of the largest container ports between the Far East and the western hemisphere, is geographically well-located, serving as the key gateway to the Middle East and the growing markets of India and Africa. The upgrade of terminals to capture the latest generation of 18,000 TEUs capacity container ships helps preserve its competitive position.

Greater Headroom in Leverage
DP World exceeded Fitch's forecasts for FY13, with funds from operations (FFO)-adjusted net leverage about 3.3x. This reflects the high level of unrestricted cash reserves being carried by DP World (USD2.5bn at FYE13). The improvement in leverage relative to Fitch's forecasts was further aided by disposal proceeds of USD749m from the sale of the CSX Hong Kong container terminal and other smaller assets completed in FY13.

Fitch expects FFO-adjusted net leverage for FY14 to remain close to this level, but weaken in FY15 to about 4.0x, reflecting potential acquisition activity. Fitch expects FFO fixed charge coverage to improve to about 2.6x for 2014 from 2.4x in 2013, reflecting improving cash flows.

Cyclicality and Expected Slowdown
The industry is cyclical with throughput volumes highly correlated to macroeconomic developments. In FY13 DP World's consolidated volumes fell slightly, reflecting volatile economic conditions. The significant decrease in volumes in Asia was the result of deconsolidation of some of its interests, reflecting DP World's strategy to focus on handling a smaller number of higher-margin containers. Throughput for 1H14, however, was 8.5% higher than the same period in 2013, compared with a global increase in container traffic of 4.9%, demonstrating DP World's strong ability to capture trade.

Intensive but Flexible Capex
DP World's plan to invest USD3.7bn capex in 2012-2014 is delayed, with USD500m of expenditure extended into 2015 to develop additional capacity. Fitch expects full year capex for 2014 of about USD1.4bn, and for 2015 USD1.2bn. DP World has some flexibility to defer investments, particularly where capex relates to a terminal's super-structure such as cranes. Maintenance capex is typically around USD150m per year (3% of total property, plant and equipment).

Strong Liquidity
Cash and cash equivalents amounting to USD3.5bn as of end-June 2014 and undrawn committed borrowing facilities of USD3.7bn more than satisfactorily cover short-term debt of USD82.6m due in 2014. The next significant maturity is the USD1.5bn Sukuk in 2017. DP World in June 2014 issued a USD1bn 10-year convertible bond with a conversion share price of USD27.14, further improving liquidity, ensuring adequate funding for capex over the next two years.

Standalone Credit Profile
The ratings reflect the standalone credit profile of DP World and do not include support or constraint from its ultimate parent, the Dubai government. Fitch views DP World's links with the Dubai government as moderate given the absence of any formal financial guarantees, according to the agency's Parent and Subsidiary Linkage methodology.

DP World's assets remained ring-fenced during the debt restructuring process of its direct parent company, Dubai World. In addition, despite change of control clauses in the documentation of its syndicated loan, Sukuk bond and MTN programme, Fitch notes that DP World's debt has no cross-acceleration provisions related to Dubai World or its subsidiaries above DP World in the capital structure.

RATING SENSITIVITIES

Positive: Future developments that could lead to positive rating actions include:

- FFO-adjusted net leverage consistently below 4.0x
- FFO fixed charge cover above 3.0x
- Positive free cash flow (FCF) (before disposals)

Negative: Future developments that could lead to negative rating action include:
- FFO adjusted net leverage consistently above 4.5x
- FFO fixed charge cover below 2.5x for a sustained period
- Sustained negative FCF post FY13 and FY14 expansion phase

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable criteria, 'Corporate Rating Methodology', dated 28 May 2014, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393