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Rating Action: Moody's downgrades various Dubai corporate ratings

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DIFC, November 04, 2009 -- Moody's Investors Service has downgraded various government-related issuers (GRIs) in Dubai, concluding a review initiated on 4 August 2009. The ratings remain investment-grade and are substantially above those that would be based on the entities' stand-alone credit quality. This rating uplift reflects the strategic importance of the GRIs to the government, which makes it likely that the government would extend them support, should such support be needed. However, the downgrades reflect recent disclosures that reveal the increasing conditionality under which support may be provided.

Ratings affected by today's action are the following:

- DP World issuer and debt ratings were downgraded to A3 from A1;

- Dubai Electricity & Water Authority (DEWA) issuer and debt ratings were downgraded to A3 from A1;

- DIFC Investments (DIFCI) issuer and debt ratings were downgraded to A3 from A1;

- Jebel Ali Free Zone (JAFZ) issuer and debt ratings were downgraded to Baa1 from A3;

- Dubai Holding Commercial Operations Group (DHCOG) issuer and debt ratings were downgraded to Baa1 from A3;

- Emaar Properties issuer ratings were maintained at Baa1.

The ratings outlook for DP World, DEWA, DIFCI and JAFZ is negative, reflecting ongoing economic pressures. The ratings of both DHCOG and Emaar have been maintained on review for downgrade, pending the completion of Moody's ongoing assessment of the impact of the proposed merger of Emaar with DHCOG's real estate operations.

The downgrades follow recent disclosures of increased conditionality around when support could be provided to these GRIs. This includes the specific criteria that will be considered by the recently established Dubai Financial Support Fund when assessing whether financial assistance should be provided. Among these criteria are whether the GRIs are able to demonstrate sustainable business plans, the on-going support of their existing financial creditors, and realistic prospects of fulfilling their repayment obligations.

The government also reiterated that GRI debt obligations not benefiting from a guarantee are not regarded as obligations of the government and that the government is under no obligation to extend support to any such GRI either directly or through the Support Fund.

Moody's is therefore making a greater distinction between its view of the creditworthiness of Dubai's GRIs and that of the Dubai central government, which is itself viewed by Moody's as benefiting from support from the UAE federal government (rated Aa2, stable). The UAE federal government continues to be seen as an important source of support for Dubai and for funding future increases, if required, to the Dubai Financial Support Fund.

Moody's views the liquidity profiles of four of the six rated GRI's (DP World, DEWA, JAFZ and Emaar) as fairly robust, with only moderate maturities until 2012. Moody's notes that DIFCI and DHCOG are understood to have already received liquidity support and will likely require additional liquidity support in the future.

Moody's assumes that the second USD 10 billion tranche will be funded imminently to further prop up the gradually depleting Support Fund. Dubai's recent successful government bond issuance is also likely to be supportive to Dubai's liquidity profile and alleviate some of the pressures that would arise from further bail-outs, although the use of proceeds has not been specified.

In terms of stabilizing the outlooks, an overall upturn in economic activity and sound liquidity management are key factors for the majority of the rated GRIs, particularly those with sound underlying business models. Those companies in more vulnerable sectors (real estate) may potentially remain under pressure over a more prolonged period.

For a more in-depth assessment of today's rating action, please also refer to our Special Comment "Dubai Inc Credit Environment Update and Outlook", as well as individual Credit Opinions on the six rated GRI's, which will be published shortly on moodys.com.

The last rating action on Dubai's corporate GRI's was on August 3, 2009, when Moody's placed all ratings on review for downgrade. Today's rating action concludes that review.

The principal methodology used in rating these entities was "The Application of Joint Default Analysis to Government Related Issuers", published in April 2005, which determines ratings on the basis of a company's baseline credit assessment, as well as credit enhancement for exceptional government support. Accordingly, ratings were assigned by evaluating factors we believe are relevant to the baseline credit assessment of the issuers, such as i) the business risk and competitive position of the companies versus others within its industry, ii) the capital structure and financial risk of the companies, iii) the projected performance of the companies over the near to intermediate term, and iv) management's track record and tolerance for risk. These attributes were compared against other issuers both within and outside of the companies' core industries and ratings are believed to be comparable to those of other issuers of similar credit risk. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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