

22 APR 2021

Fitch Assigns Abu Dhabi Ports Company First-Time 'A+' IDR; Outlook Stable

Fitch Ratings - London - 22 Apr 2021: Fitch Ratings has assigned Abu Dhabi Ports Company PJSC (ADP) a first-time Long-Term Issuer Default Rating (IDR) of 'A+' with a Stable Outlook.

RATING RATIONALE

Fitch rates ADP using a top-down rating approach under its 'Government-Related Entities Rating (GRE)' criteria. ADP is rated two notches below the government of Abu Dhabi's (AA/Stable), which reflects our assessment of its strong linkage with Abu Dhabi government. ADP is wholly owned by the government of Abu Dhabi via Abu Dhabi Developmental Holding Company (ADQ) that Fitch views as an instrumental state-owned holding company of the government's interests in various public companies.

We assess ADP's Standalone Credit Profile (SCP) at 'bbb+', which reflects a largely contracted revenue base resulting in long-term cash flow visibility and stability, and synergies with industrial zones that should fuel the group's Khalifa Port (KP) operations. It also reflects the group's expected re-leveraging due to a large, but flexible, capex plan, which will be funded by a mix of cash flow generation, equity injections and debt.

KEY RATING DRIVERS

Status, Ownership and Control - 'Very Strong'

Abu Dhabi Government has the full ownership of ADP via ADQ, exerts broad control over ADP by appointing its board and setting its strategic objectives to be in line with national trade-flow targets and its plan to gradually increase the diversification of the economy away from the traditional oil sector. Fitch does not expect changes to ADP's shareholding structure. Despite ADP's ordinary commercial law status, in Fitch's view, given the government's full ownership and strong control of ADP, it is highly likely that ADP's assets and liabilities would be ultimately transferred to Abu Dhabi in case of liquidation.

Support Track Record and Expectations - 'Strong'

ADP has a record of receiving government support throughout its operating history in different forms, from asset endowment to equity injections and government grants for construction costs. Furthermore, no dividends have been paid since ADP was incorporated, and no dividends are expected to be paid in the near future. No terms and conditions have been attached to historical subsidies and

support provided by the government of Abu Dhabi. There are no legal, regulatory or policy restrictions limiting timely government support to ADP in case of need.

Socio-Political Implications of Default - 'Strong'

ADP is perceived as a national security and strategic asset by the government, guaranteeing the nation's food security and maritime access. The government also expects ADP to play a key role in the diversification of the economy from the oil business in the context of Abu Dhabi's economic vision.

Fitch views the replacement of ADP in its landlord role at the port as less straightforward than that of a port operator, as it would require the government to create a new entity to take over the relevant assets and to replace ADP as counterparty in long-term contracts. Also a default of the group would cause operational disruption and reduce its ability to fund its large expansionary plan with debt.

Financial Implications of Default - 'Moderate'

Debt is not guaranteed by the government. While a default by ADP would damage the government's reputation we believe that, given the limited size of ADP's current and projected debt, an ADP default would have only a moderate impact on the availability and cost of finance for the government.

SCP

The SCP is assessed under Fitch's Ports Criteria based on each key rating driver as identified below under the criteria.

Some Dependence on Future Growth: Revenue Risk - Volume: 'Midrange'

ADP's diversified traffic mix between container and cargo volumes should provide some stability to volume revenues, once the South Quay and the container terminals expansions in KP have been completed. Overcapacity in the proximity of KP with some well-connected ports increases competition, particularly for container transshipment. However, the low weight of variable concession fees from transshipment volumes in the overall revenue profile, coupled with contracted long-term relationships and co-investment from large shipping-liners in KP terminals, should soften competitive pressure.

Largely Contracted Revenues: Revenue Risk - Price: 'Stronger'

ADP's landlord operations feature protective contractual arrangements with key customers and price flexibility. This should enable them to reduce volatility related to volume risk, at the expense of a marginal lack of cost flexibility. Customers' co-investments in both KP and ADP's industrial zones should lock in future contractual revenues to some extent, further increasing cash-flow stability. Over the projected period of 2021-2025, we expect contracted revenues to average about 60% of total revenues. The lease term at Kizad free zone and KP averages at around +40 and +30 years, respectively.

Significant Expansion Planned: Infrastructure Development /Renewal Risk: 'Midrange'

ADP's extensive capex plan aims to increase KP's capacity, especially around container terminals, South Quay and the Khalifa Logistics Port development. This phase entails lower capex flexibility, given ADP's commitments under the long-term agreements and the projected volume growth, the latter of which would be constrained by the current capacity at KP. Proven experience in completing large-scale investment on time and budget, and access to external funds, drive our 'Midrange' assessment.

Capex linked to industrial zone developments is flexible and dependent on future volume growth and on the ability of ADP to attract long-term lease contracts.

Senior Unsecured Debt: Debt Structure: 'Midrange'

ADP's debt is senior unsecured, with no material covenant protections nor security package. Fitch assumes its existing AED4.05 billion revolving credit facilities (RCFs) will be refinanced with new senior unsecured debt and that a recently raised RCF and will not be extended at maturity in 2021, in line with management's plans.

Financial Profile

The 'bbb+' SCP reflects projected gradual increase in net debt-to-EBITDA to a peak of 4.1x in 2024, resulting in a five-year average of 3.7x under Fitch's rating case (FRC). The 4.1x is assessed in the context of a flexible capex plan that is subject to future business growth. Under Fitch's base case (FBC) projected net debt-to-EBITDA stands at 3.6x over the next five years, peaking in 2024 at 3.9x. Leverage peaks at 2024, reflecting management's funding plan for the ambitious but flexible capex, which in 2021 is expected to be supported by an equity injection, resulting in no increase in leverage in 2021.

PEER GROUP

The closest peer in our portfolio is DP World PLC (DPW, BBB-/ Stable). DPW is much larger in size and geographically diversified but ADP has lower leverage and a largely contracted revenue base, which ensures long-term cash-flow visibility and stability.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A downgrade of Abu Dhabi's sovereign rating
- A perceived reduction in implied support and commitment from the government, as well as in the importance of ADP to Abu Dhabi government's strategic objectives

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of Abu Dhabi's sovereign rating or an upward reassessment of one of the qualitative factors under our GRE Criteria

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of 3. This means that the other 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 our ESG Relevance Scores, visit www.fitchratings.com/esg.

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

ADP is an Emiri-decreed company, consolidated under Abu Dhabi's balance sheet. ADQ oversees ADP's strategic decisions and ADP board members comprise predominantly prominent Emiratis who work for ADQ and for Abu Dhabi GREs. ADQ was established by law in 2018, with its existing status as a 100% government-owned entity and with the main objective of consolidating some of Abu Dhabi's national champions.

ADQ has direct and indirect investments in over 90 entities across a number of sectors, many of which provide essential services to Abu Dhabi and its citizens. ADQ has four economic clusters - energy & utilities, food & agriculture, healthcare & pharma and mobility & logistics. Fitch views ADQ as a government-owned holding company of the state's interests in related companies as operations and debt are largely at subsidiaries level.

ADP's flagship KP is strategically integrated with the free zone of Kizad, which should increasingly feed port operations. In 2020, the government transferred to ADP its ownership of ZonesCorp, which adds new industrial zones to ADP's portfolio and will benefit from strategic alignment with Kizad. Both Kizad and Zonescorp are intended to facilitate industrial diversification and provide infrastructure support in a cost-efficient manner to increase contribution of industrial activities to the emirate's GDP.

FINANCIAL ANALYSIS

FBC and FRC assumptions are broadly aligned with management's business plan for contracted

revenue largely under long-term leases, concessions and government-related payments to return development capex invested. Land lease and warehousing on industrial zones are projected to grow in line with Abu Dhabi GDP forecasts and lease prices revised in line with inflation.

Fitch-projected volume revenue streams linked to port activities are in line with management's forecasts. We applied a haircut of 5% and 10% to tariffs in FBC and FRC, respectively, to reflect potential price compression due to competition driven by port overcapacity in the area. Nevertheless, we are maintaining the capex plan in line with management's base case.

EBITDA margin has been maintained in line with management's base case for each cluster, resulting in an average adjusted EBITDA margin of 42% over 2021-2025 for the overall mix.

Summary of Financial Adjustments

EBITDA-margin projections are adjusted to include as operational expenses the financing costs and amortisation of right-of use reported according to IRFS 16 guidelines, resulting in lower 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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

ADP's rating is two notches below the government of Abu Dhabi's.

Fitch Ratings Analysts

Alexey Kobylanskiy

Associate Director

Primary Rating Analyst

+44 20 3530 1786

Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Alberto Faraco Peinado, CFA

Director

Secondary Rating Analyst

+34 91 702 5778

Danilo Quattromani

Managing Director

Committee Chairperson

+39 02 879087 275

Media Contacts

Athos Larkou

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Abu Dhabi Ports Company PJSC	LT IDR	A+ 	New Rating

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Government-Related Entities Rating Criteria \(pub.30 Sep 2020\)](#)

[Infrastructure and Project Finance Rating Criteria \(pub.24 Mar 2020\) \(including rating assumption sensitivity\)](#)

[Ports Rating Criteria \(pub.15 Oct 2020\) \(including rating assumption sensitivity\)](#)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

[Endorsement Status](#)

Disclaimer

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a

variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally

Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.