

Research Update:

Abu Dhabi Ports Co. PJSC 'A+' Ratings Affirmed On Intention To List; Outlook Stable

September 8, 2021

Rating Action Overview

- Abu Dhabi Developmental Holding Co. PJSC (ADQ; not rated) has announced its intention to list its shares in Abu Dhabi Ports Co. PJSC (AD Ports).
- We expect the Abu Dhabi government, via ADQ, to remain AD Ports' majority, controlling shareholder.
- We affirmed our 'A+' long-term issuer credit rating, 'gcAAA' Gulf Cooperation Council (GCC) regional scale rating, and our 'A+' senior unsecured rating on program and issue rating on AD Ports.
- The stable outlook reflects our expectation that despite ADQ's sale of the minority stake in AD Ports the government will maintain its very strong links to the company. We also expect the company's performance to remain strong, with S&P Global Ratings-adjusted funds from operations (FFO) to adjusted debt of 21%-26% and adjusted debt to EBITDA of 3.5-4.0x.

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Rating Action Rationale

The proposed sale of a minority shareholding in AD Ports on the Abu Dhabi Securities Exchange is credit neutral. We understand that AD Ports will remain indirectly, majority owned by the government of Abu Dhabi (AA/Stable/A-1+) via ADQ, which owns 100% of AD Ports. The sale of a minority shareholding does not change our view of AD Ports' link to the government and strategic importance for Abu Dhabi's economy.

Our assessment of government support results in a four-notch uplift to the ratings on AD Ports from its stand-alone credit profile (SACP). In accordance with our criteria for government related entities (GREs), we base our view of the very high likelihood of timely and sufficient extraordinary government support for the company in the event of financial distress on our assessment of AD Ports':

- Very important role for the government due to its systemic importance to non-oil trade. AD Ports handles about 50% of all imports and the vast majority of non-oil exports, including a substantial share of Abu Dhabi's food and beverage trade. It is a key enabler of the

Research Update: Abu Dhabi Ports Co. PJSC 'A+' Ratings Affirmed On Intention To List; Outlook Stable

government's diversification strategy, as set out in Abu Dhabi Economic Vision 2030, since it owns all the emirate's non-oil ports. Transportation, trade, and logistics are priority sectors in Vision 2030. AD Ports contributed about 14% to Abu Dhabi's non-oil GDP, as well as 7% to the UAE's non-oil GDP in 2020 through approximately 212,000 jobs--either at AD Ports, or ancillary companies working with AD Ports--in the country; and

- Very strong link with the government on the majority government ownership via ADQ, a long track record of extensive support, and close control via a government-appointed board, despite financial independence. We expect the government to remain the significant majority shareholder at AD Ports.

We expect further equity injections in 2021 to support AD Ports' growth and capital structure in line with the issuer credit rating. An equity injection of United Arab Emirates dirham 700 million was received as of March 31, 2021. In addition, in 2020, the government transferred ownership of ZonesCorp (an Abu Dhabi government-owned industrial free zone based in the emirate) to AD Ports. Now, AD Ports' industrial and economic zones offering has a combined land area of 555 square kilometers and more than 1,500 customers. Therefore, this cost-free transaction significantly enhanced its scale. These government transactions support our view of a very high likelihood of timely and sufficient extraordinary government support for AD Ports in the event of financial distress.

We expect the listing will be neutral to AD Ports' balance sheet, because ADQ will receive the consideration. We understand that dividends will be based on the company's financial performance and its funding requirements (including capital expenditure [capex]) and liquidity requirements. AD Ports does not expect to pay a dividend for fiscal year 2021. We expect S&P Global Ratings-adjusted FFO to debt of 21%-26% and adjusted debt to EBITDA of 3.5x-4.0x for AD Ports.

Outlook

The stable outlook assumes the government of Abu Dhabi will remain a significant majority shareholder after the listing. It also reflects our expectation that AD Ports' performance will remain strong, despite high expansionary capex, over the coming two years. This will result in negative FOCF and rising debt, with FFO to adjusted debt at 21%-26% and adjusted debt to EBITDA at 3.5x-4.0x, which is consistent with the rating. We anticipate the EBITDA margin will weaken to 42%-46% over the next 24 months, due to higher operational costs associated related to the ramp-up in infrastructure spending.

Downside scenario

We might lower the rating if:

- We saw signs of waning government support for AD Ports, perhaps due to the government further reducing its shareholding via ADQ below a significant, majority, controlling stake;
- AD Ports fails to maintain FFO to debt above 13% or debt to EBITDA below 4x. This could result from delays in revenue and volume growth versus our expectation, increased operating costs, cost overruns under the capex plan, higher competition, or unfavorable economic conditions or geopolitical risks significantly reducing trade volumes to the region; or
- There are delays in equity injections or government receivables from shareholders and related

parties.

Upside scenario

We view the potential for ratings upside over the next 24 months as limited because an upgrade would require one-notch improvements in both the SACP and the sovereign credit rating, which is not our base-case scenario. Given that FFO to debt is strong, AD Port's SACP would strengthen on sustainable adjusted debt to EBITDA of less than 3x, which is unlikely because of high investment requirements.

Company Description

AD Ports owns, manages, and operates 11 ports (commercial, logistics, community, and leisure) and terminals. It is 100% owned by the government of Abu Dhabi via ADQ. 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 leading GREs. The company has direct and indirect investments in more than 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 and utilities, food and agriculture, health care and pharmaceuticals, and mobility and logistics.

AD Ports operates a fully integrated business model. The company owns nine of the 11 ports in Abu Dhabi; jointly (with global partners) operates the terminals at Khalifa Port; owns adjacent industrial and free zones; and provides logistics, marine services, maritime training, cruise infrastructure, and digital solutions (such as vessel management and payment solutions, which help automate the processing of vessels and cargo at the port). The company also operates Fujairah Terminals within the emirate of Fujairah on a 35-year concession agreement with Fujairah Port, and Kamsar Port in Guinea on behalf of Emirates Global Aluminium.

Ratings Score Snapshot

Issuer Credit Rating: A+/Stable/--

Business risk: Satisfactory

- Country risk: Intermediate
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers:

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)

Research Update: Abu Dhabi Ports Co. PJSC 'A+' Ratings Affirmed On Intention To List; Outlook Stable

- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Abu Dhabi Ports Co. PJSC Assigned 'A+' Rating; Outlook Stable, April 22, 2021

Ratings List

Ratings Affirmed

Abu Dhabi Ports Co. PJSC

Issuer Credit Rating	A+/Stable/--
Gulf Cooperation Council Regional Scale	gcAAA/--/--

Abu Dhabi Ports Co. PJSC

Senior Unsecured	A+
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

Research Update: Abu Dhabi Ports Co. PJSC 'A+' Ratings Affirmed On Intention To List; Outlook Stable

have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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