المجموعة المالية هيرميس
EFGHERMES

DP WORLD

Thrown Out with the Bathwater, Initiate with Buy

04 MARCH 2010

UAE | INDUSTRIALS

Current Price* : USD 0.38 **Rating : Buy**
Fair Value (FV): USD 0.56

CONTENTS

EXECUTIVE SUMMARY	2
I. RECOMMENDATION AND VALUATION	6
II. RISKS	13
III. DP WORLD	16
IV. THE OUTLOOK	24
V. ESTIMATES	27
VI. INDUSTRY OVERVIEW	31
VII. FINANCIAL STATEMENTS	35

• **Initiate Coverage with a Buy Rating and a USD0.56 Fair Value:** We initiate coverage of DP World (DPW) with a Buy rating and a USD0.56 fair value, offering 47% upside potential. DP World stock price has recently succumbed to selling pressure as investors are wary of the future of DP World's assets in light of the parent company debt restructuring. DP World's equity value was more affected than its bond price echoing the market participants' concern about DPW as part of DW rather than its financial health on a standalone basis. We believe this selling pressure can be reversed by more clarity on DW debt restructuring. We believe the likelihood of the port assets falling under foreign ownership is low given the strategic importance to the UAE.

• **Global Port Operator Focused on Emerging Markets:** DP World is the fourth largest marine terminal operator in the world, with 50 terminals and 12 new developments across 31 countries. In 2009, DP World handled more than 43 million TEUs (twenty-foot equivalent unit) across its portfolio. With a pipeline of expansion and development projects in key growth markets, including India, South Asia, South America and the Middle East, capacity is expected to rise to around 90 million TEUs by 2017. Going forward, emerging market ports are expected to lead the recovery and, with 75% of DPW's volumes being generated in these faster growing markets, the group is well-placed to benefit from this trend.

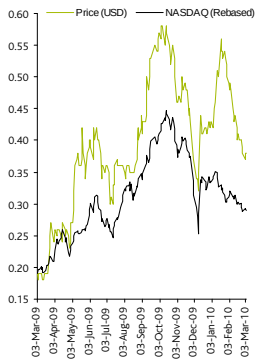
• **Positive Economic Data Point to a Brighter Outlook:** According to Drewery Shipping Consultants, 2009 will mark the first ever volume decline for the container industry of around 12%. This setback has come as a major blow, as the industry has become used to growth despite downturns. However, the worst may now be over, as positive export data from China, India and the US have led to increasing container volumes, with many ports reporting December 2009 throughput figures ahead of expectations. This could put upward pressure on consensus estimates, which currently are forecasting only modest growth. Meanwhile, the proposed dual primary listing on the London Stock Exchange could attract greater investor interest and could provide a further boost to the shares, in our view.

• **USD0.56 Fair Value**: To arrive at our USD0.56 fair value, we use a combination of DCF value of USD0.63 and an estimated 2010 P/E peer group multiple of 21.5x, which is a 20% discount to Chinese and Indian port companies. Given that DPW's average concession length stands at 43 years, we use a weighting of 60:40 in favour of our DCF value. At USD0.56, the stock would trade at an estimated 2010 P/E multiple of 26.3x, falling to 21.4x in 2011, which implies a 20% premium to the overall port sector, and is justified, in our view, given DPW's attractive emerging markets portfolio and long average concession profile.

COMPANY NOTE

December Year End	*2008a*	*2009e*	*2010e*	*2011e*
Revenue	*3,283*	*2,823*	*3,022*	*3,266*
Adj. EBITDA	*1,340*	*1,072*	*1,203*	*1,356*
Net Income	*572*	*295*	*353*	*434*
EPS (in Cents)	*3.45*	*1.78*	*2.13*	*2.62*
DPS (in Cents)	*0.69*	*0.36*	*0.43*	*0.52*
PER (x)	*11.0*	*21.4*	*17.9*	*14.5*
EV / EBITDA (x)	*7.7*	*10.6*	*9.5*	*8.4*
ROE	*7.5%*	*4.3%*	*4.9%*	*5.7%*
CFPS (operating CF)	*0.06*	*0.04*	*0.06*	*0.07*
P/CF (x)	*5.9*	*9.3*	*6.5*	*5.7*
Div. Yield	*1.8%*	*0.9%*	*1.1%*	*1.4%*
FCF Yield	*-6.1%*	*-7.2%*	*-2.5%*	*2.1%*
Net Debt / (cash)	*4,215*	*4,896*	*5,075*	*4,969*

Figures in USD million, unless otherwise stated



Estimate Changes

	2008a	*2009e*		*2010e*	
(USD mn)		*Old*	*New*	*Old*	*New*
Revenue	*3,283*	*N/A*	*2,823*	*N/A*	*3,022*
EBITDA	*1,340*	*N/A*	*1,072*	*N/A*	*1,203*
EBITDA Margin	*40.8%*	*N/A*	*38.0%*	*N/A*	*39.8%*
Net Attrib. Income	*572*	*N/A*	*295*	*N/A*	*353*

Stock Data

Last Dividend Date	*USD0.0069 on 28 Apr 09*
Mkt. Cap./ Shares (mn)	*USD6,308 / 16,600*
Av. Monthly Liqd. (mn)	*USD3.9*
52-Week High / Low	*USD0.58 / 0.18*
Bloomberg / Reuters	*DPW DU / DPW.DI*
Est. Free Float	*22%*

*Price as at 03 March 2010

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EXECUTIVE SUMMARY

INITIATE COVERAGE OF DP WORLD WITH A BUY RATING

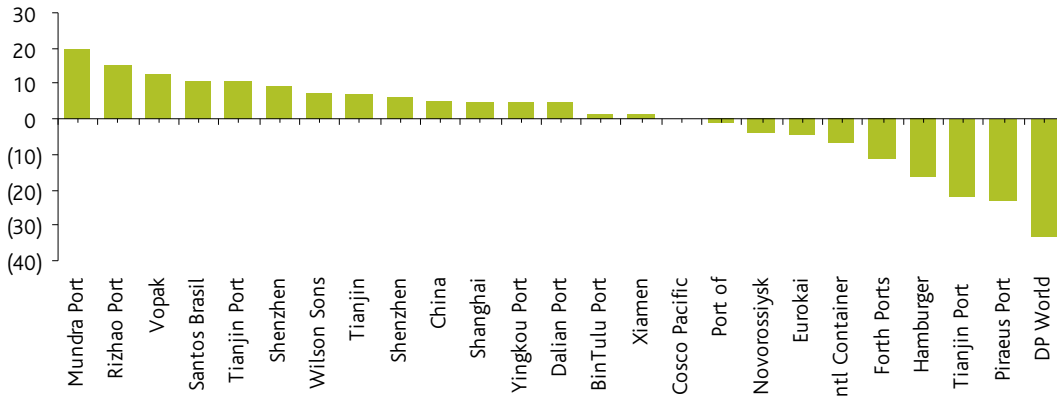
We initiate coverage of DP World with a Buy rating and a USD0.56 fair value, implying 47% upside potential from the current share price. The stock has underperformed the sector by 30% since October 2009 due to concerns about the financial health of its parent company, Dubai World (DW), but we believe the shares have fallen too far and could bounce back strongly once Dubai World reaches a settlement with its creditors.

DP WORLD DOWN 33.5% SINCE OCTOBER 2009

Port operators' share prices began to rally in October 2009, as the market began to price in a recovery as port volume stabilised, but the rally ran out of steam in January 2010, when a market correction began. Overall, between October 2009 and early February 2010, share prices of port companies have fallen by 5%.

During the aforementioned period DP World's share price has fallen 33.5%, and has consequently underperformed the sector by a significant 28.5%. The underperformance is primarily down to concerns regarding Dubai World, DP World's parent company, which is currently restructuring its finances. DP World has been ring-fenced from the refinancing process, but we believe this may not protect the group should Dubai World enter administration.

Figure 1: Port Companies Share Price % Performance since October 2009



Source: Bloomberg

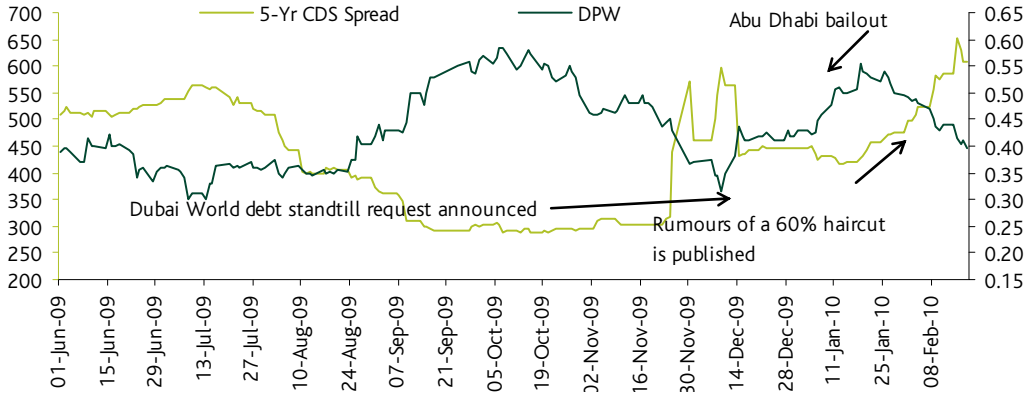
DPW COULD BE AT RISK, BUT PORTS ARE STRATEGICALLY IMPORTANT TO THE UAE

The chart below plots Dubai's five-year CDS spread versus DP World's share price. There is an inverse relationship between the two, but the CDS spread became very volatile when Dubai World announced that it was seeking a debt standstill with its creditors in November 2009. At that point, the CDS spread jumped to over 550 bps from 300 bps. At the same time, DPW's share price fell to USD0.35 from USD0.50. Both the CDS spread and DPW's stock price reversed when the market settled down after Abu Dhabi offered to finance some of Dubai's debts. However, the spreads rose once again, when unconfirmed press reports of Dubai World planning to offer its creditors 60 cents to the dollar, to be repaid after seven years, surfaced.

It is worth emphasising that Dubai World has not cross guaranteed or pledged any of DP World's assets in any of its own financing. Given this, creditors may not have any rights to DP World's assets, but should DW enter administration/bankruptcy then its 80% stake in DPW could be at risk, in our view.

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Figure 2: Dubai Five-Year CDS Spread versus DP World's Share Price



Source: Bloomberg

Below we look at the possible scenarios where DP World is used to raise cash:

- **Firesale/Break-Up** - Under this scenario, Dubai World enters bankruptcy/administration and DP World is forced to sell key assets to raise cash for its parent company. It is worth stating that the new bankruptcy law is untested in the UAE, meaning that it is unclear as to how creditors would fare if they went down the litigation route. Creditors could also try and take ownership of DPW's assets in foreign countries, but again we are unclear on what rights creditors may have on DPW's foreign assets, if any. In terms of raising cash through a sale, there have been unconfirmed press reports that the group is looking to IPO its Australian business. While an IPO of some assets may be a feasible option, we believe DP World is unlikely to sell major ports to competitors as it makes little business sense, and there are few buyers willing to pay decent multiples. In addition, once DPW's capex programme is over, the group could potentially generate circa USD2 billion in free cash flow per annum. As a result, holding this asset for the longer term could be beneficial to Dubai's target of diversifying its income base, and consequently, we believe a firesale, even after accounting for the gravity of the situation, is the least likely scenario.

- **Dubai World sells a Stake at the Time of the London Listing** - DPW is planning a dual primary listing in London in 1H2010, and there have been some unconfirmed press reports that Dubai World could sell down its stake in DPW at the same time. Again, we believe that this is unlikely, as the reason for the listing is to improve liquidity and potentially improve valuation, and Dubai World could sell its stake or a portion of it in DPW in the local market too if it really wanted this. However, if Dubai World does decide to sell some shares, we believe this would be positive for the stock, as it would improve the free float. Already the lack of free float and liquidity at NASDAQ Dubai has hindered the shares, in our view.

- **Asset Swap** - Dubai World has been suspected to have offered investors two options: i) sixty cents for every one dollar owed, to be repaid after seven years, with a sovereign guarantee; or ii) the same as option (i), but with the remaining 40% of outstanding debt to be paid in the form of Nakheel assets with no government guarantee. With the second option, we suspect investors may try and negotiate the 40% outstanding in assets other than Nakheel, and DP World stock would be near the top of the list of any wish list. Once more, we believe this scenario is unlikely, but we believe an asset swap would not be negative for the stock as it would remove the overhang.

Overall, aside from scenario one, we believe all other options would be positive for the stock, as the market needs clarity. Also, it is worth emphasising that the ports business, particularly the UAE ports, is strategically important to the UAE, and it is difficult to envisage these assets being transferred to foreign owners.

FROM THE TRADING FLOOR: SHORT SQUEEZE COULD DRIVE THE SHARES

Given the sharp fall in DPW's share price, it is fair to assume that DPW stock has been shorted by many investors but the magnitude of the short interest is difficult to measure. However, as the anticipated Dubai World debt D-Day draws closer, we are witnessing a significant up-tick in daily volume, some through naturally worked orders on NASDAQ Dubai, but largely through significant blocks of stock being crossed. The nature of these, in size, price (usually a decent discount to indicative price levels on the market) and in print timing would indicate sellers taking advantage of capital commitment from market makers. While some investors are currently maintaining short positions in DPW, our view is that the level of buying interest required to sustain the increase in daily turnover is likely to come in part from buyers who are now in the process of covering short positions having had the foresight to short the stock in mid-January when we saw consistent volumes for a period of two weeks. The volume numbers we are seeing today are similar to those we saw during the period of intense volatility in December 2009 around the speculation over Nakheel's default, but we now have a steady downward trend in DPW and much lower volatility (five-day volume is currently 32 million shares versus a December 2009 high of 165 million shares). Should there be a satisfactory resolution to Dubai World debt it would be expected that the stock would certainly spike (rightly or wrongly being the listed stock most closely associated with Dubai World's woes) when fast-money buyer momentum will be magnified by an accompanying short squeeze.

POSITIVE FUNDAMENTALS COULD BOOST SHARES FURTHER FOLLOWING DUBAI WORLD SAGA

Furthermore, there are positive fundamental near-term catalysts, which could drive the shares higher, such as: i) container volumes have turned positive and recent export data from Asia suggest that port throughput figures could surprise on the upside; ii) the encouraging data could translate into a better-than-expected trading statement at the FY2009 results announcement on 24 March 2010. Also, the group has already stated that FY 2009 profit will be in line with expectations, and consequently, there should be no negative earnings surprises; iii) DP World intends to have a dual primary listing on the London Stock Exchange in 2Q2010, and this could attract greater investor interest, in our view, potentially driving the stock price higher.

EXPORT VOLUMES BOUNCE BACK

China's and India's stock markets rose by 66% and 88%, respectively, in 2009, as the markets brushed off concerns about a prolonged global recession. Recent data suggest that this conviction was not misplaced, as China's Y-o-Y exports rose by 17.7% in December 2009; it was the first rise after 14 months and was well ahead of forecasts. The figure confirmed that China overtook Germany to become the biggest exporter in the world.

Similarly, India's exports rose by 18% in November 2009 after 13 consecutive months of decline. Furthermore, the country's economy grew by 7.9% between July 2009 and September 2009, beating most forecasts, and growth from October 2009 to March 2010 is expected at 8%.

In addition, US manufacturing data also surprised on the upside, with the index of manufacturing activity moving up to 58.4 in January 2010, the best reading since August 2004. The market had expected the index to come in at 55.3.

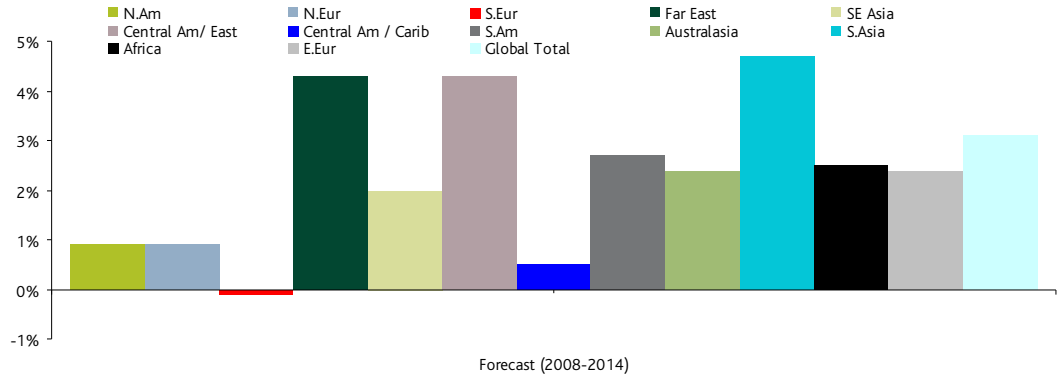
INDUSTRY FORECASTS OF LOW GROWTH COULD BE CONSERVATIVE

We believe that positive data could put upward pressure on the recently published forecasts by Drewery Shipping Consultants, who are forecasting modest growth over the short to medium term.

Drewery expects volume to return to positive growth in 2010, but to only grow by an average of 3.1% per annum between 2008 and 2014. Growth will be driven predominantly by South Asia and the Far East. In contrast, Europe and North America are likely to report flat growth during the same period.

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Figure 3: Drewery Container Volume Growth Forecast (2008-2014)
%, unless otherwise stated



Source: Drewery Shipping Consultants

DECEMBER PORT VOLUME SUGGESTS A RECOVERY MAY HAVE BEGUN

We believe recent port volume data offer confidence that a recovery in on the cards. For instance, the Port of Shanghai reported container volume growth of 7% in December 2009, the only positive month in 2009. Similarly, the Port of Singapore witnessed 6% Y-o-Y growth, and even US ports reported modest growth in December 2009. While we remain mindful that Y-o-Y growth has become easier due to weak comparables, the reported numbers are coming in ahead of expectations.

I. RECOMMENDATION AND VALUATION

- Initiate coverage with a Buy rating and a USD0.56 fair value
- DCF valuation approach implies fair value of USD0.63
- EBITDA is expected to grow strongly between 2010 and 2014 on the back of an emerging markets' recovery. Growth beyond this period is in line with emerging markets' GDP growth.
- Capex is fully funded through free cash flow

RECOMMENDATION - INITIATE WITH A BUY RATING

We initiate coverage with a Buy recommendation, as our fair value of USD0.56 offers 47% upside potential from the current share price. DP World owns an attractive collection of port assets that are highly geared towards emerging markets and should grow faster than the industry average growth rate. In addition, it is worth emphasising that Jebel Ali Port is well-placed and equipped to benefit from the long-term growth potential of the wider region. Furthermore, with a 99-year concession at Jebel Ali Port and an average concession life of 43 years versus an industry average of 25-30 years, we believe the stock deserves to trade at a premium.

Going forward, we believe clarity regarding Dubai World's restructuring is likely to provide a boost to the shares. In addition, there are positive short-term fundamental catalysts that could drive the shares higher. Positive port volume data could act as a positive near-term catalyst. Container volume has stabilised after a very weak 1H2009, and more recent data have been more positive. Given the encouraging export/manufacturing data coming out of emerging economies, we suspect container volume could surprise on the upside, particularly in the short term.

The group has confirmed that FY2009 results will be in line with expectations, and hence no negative surprises should be expected. Furthermore, DPW will publish more current trading pattern data at the FY2009 results announcement, which is likely to be positive, in our view, and this could give the shares a boost.

DP World is also planning a dual primary listing in London in 2Q2010, and while we do not expect liquidity to improve substantially post the new listing, we suspect there could be some new investor interest and that could drive the shares higher.

VALUATION

For our fair value calculation, we use a combination of DCF and peer group P/E multiple. However, given that DP World's average concession length stands at 43 years, we use a weighting of 60:40 in favour of our DCF-derived fair value.

We use a WACC of 9.2%, derived from a 5.8% cost of debt and an 11.5% cost of equity (a risk-free rate of 3.5% +2.0% country spread, an 8% market risk premium, and beta of 1.0). In addition, we use a terminal growth rate of 3.0%.

We expect FCF to grow materially beyond 2017, as the capex expansion programme should be largely completed by then. Following this period, we believe DPW's would only require maintenance capex of around USD200 million per annum. Furthermore, we believe EBITDA margins should return to c45% in the medium term (2015), as new terminals utilisation levels start to rise and cost efficiencies begin to filter through.

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DCF VALUATION BASE CASE

Figure 4: DCF Valuation
In USD million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Adjusted EBITDA	1,072	1,203	1,356	1,467	1,612	1,789	1,941	2,071	2,231	2,307
Capex	**(909)**	**(1,021)**	**(862)**	**(869)**	**(832)**	**(909)**	**(915)**	**(891)**	**(923)**	**(916)**
Working Capital / Tax	(316)	(141)	(152)	(144)	(107)	(185)	(190)	(166)	(198)	(260)
FCF	(153)	41	342	454	673	695	836	1,014	1,109	1,131
Discount Factor	1.00	0.92	0.84	0.77	0.70	0.64	0.59	0.54	0.49	0.45
Discounted FCF	**(153)**	**167**	**414**	**599**	**618**	**661**	**696**	**706**	**688**	**652**

Perpetual Growth	**3.00%**
WACC	9.20%
PV of Cash Flows 2009-2018e	4,396
Terminal Value	**10,512**
Total Firm Value	**15,560**
2008 Net (Debt) / Cash	(4,215)
Minorities / Pension Deficit	(892)
Total Equity Value	10,452
No. of Shares	**16,600**
FV per Share	**0.63**

Source: EFG Hermes estimates

Our DCF approach suggests a fair value of USD0.63, 66% above the current share price. The implied enterprise value amounts to USD15.6 billion, consisting of USD4.4 billion of the forecast period and USD10.5 billion (c67%) from the terminal value; this is expected, given the group's average concession length stands at 43 years. We arrive at our fair value after deducting net debt and minority interests and pension liabilities. No adjustments for associates have been made, as our EBITDA forecasts include associate income.

Our EBITDA estimates grow strongly between 2012 and 2014, as the market is expected to recover and the group captures rapid growth from emerging markets. Beyond this period, we expect growth to be in line with the GDP growth of the markets that DPW serves.

Capex is fully funded through free cash flow, but it is worth noting that 70% of our capex forecasts include investment in new developments, 20% in operational terminals with the remaining 10% as maintenance. The group is only investing in ports where it makes economic sense, for example ports where utilisation rates are above 90%. However, in theory, the group could cancel its expansionary programme altogether, and turn the business into a cash cow. Under this scenario, maintenance capex will fall to cUSD200 million, in our view.

DCF VALUATION SCENARIO 2

In the DCF analysis below we highlight the potential impact to our DCF value if the group was to cancel its expansionary programme. We suspect the capital commitments earmarked for 2010 and 2011 would be difficult to cancel, as these include projects that have already begun. However, there is more flexibility beyond 2011. For illustrative purposes, we lower our capex forecast to just over USD300 million per annum. We also lower our top line growth forecast by 100 bps. In addition, we reduce our terminal growth rate to 2.5% from 3.0%.

Figure 5: DCF Valuation Scenario 2
In USD million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Adjusted EBITDA	1,072	1,203	1,356	1,467	1,612	1,789	1,941	2,071	2,231	2,159
Capex	**(909)**	**(881)**	**(710)**	**(344)**	**(258)**	**(279)**	**(293)**	**(307)**	**(322)**	**(331)**
Working Capital / Tax	(316)	(141)	(152)	(144)	(107)	(185)	(190)	(166)	(198)	(243)
FCF	(153)	182	494	979	1,247	1,325	1,459	1,598	1,711	1,585
Discount Factor	1.00	0.92	0.84	0.77	0.70	0.64	0.59	0.54	0.49	0.45
Discounted FCF	**(153)**	**167**	**414**	**958**	**932**	**939**	**943**	**924**	**784**	**735**

Perpetual Growth	**2.50%**
WACC	9.20%
PV of Cash Flows 2009-2018e	5,907
Terminal Value	**10,970**
Total Firm Value	**17,612**
2008 Net (Debt) / Cash	(4,215)
Minorities / Pension Deficit	-892
Total Equity Value	12,505
Number of Shares	**16,600**
Fair Value per Share	**0.75**

Source: EFG Hermes estimates

Our DCF value jumps to USD0.75 from USD0.63 under the above mentioned scenario, as free cash flow grows strongly from 2013 onwards. This suggests that either: i) our base case DCF value of USD0.63 does not capture the long-term growth potential of the expansionary programme, or ii) the capacity expansion will not deliver the required rate of return. We suspect the former is the case, as our forecast and margin assumptions are relatively conservative.

PEER GROUP VALUATION

On a relative basis, DP World's valuation appears to offer good value. On a P/E multiple basis, the shares trade at an 18% discount to both 2009 and 2010 estimated earnings. On an estimated EV/EBITDA multiple basis, the shares' valuation appears compelling, as the sector trades at more than 20x versus DPW's 10.6x. However, we believe this is misleading, as consensus figures report EBITDA (excluding JV/associate income), which can have a large impact on net profit. For instance, JV/associate income boosted DPW's bottom line by 6% in 1H2009, whereas for the China Merchant Group it accounted for more than 40% of its 2008 bottom line. This results in a higher EV/EBITDA multiple for China Merchant Group, but the P/E multiple is more in line with the industry average. Given this anomaly, we prefer to use P/E multiples for comparison purposes. For our own forecasts, we use proportionate EBITDA estimates.

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Figure 6: Peer Group Analysis (China and India)

Name	Country	EV	EV/Sales (x)		EV/EBITDA (x)		P/E (x)			PEG
		(USD mn)	2009e	2010e	2009e	2010e	2009e	2010e	2011e	
Shanghai International Por-A	China	126556.1	7.7	7.0	18.9	16.2	30.8	28.0	26.0	3.1
Tianjin Port Co Ltd-A	China	28265.6	3.0	2.8	14.0	12.7	26.4	22.1	18.6	1.4
Rizhao Port Co Ltd -A	China	13872.3	6.5	5.5	17.0	14.2	30.7	24.4	21.1	1.2
Shenzhen Yantian Port Hld-A	China	9168.6	23.1	22.2	42.3	40.6	23.1	21.7	20.2	3.6
Yingkou Port liability Co-A	China	14168.6	6.5	5.9	13.8	13.0	36.6	29.5		1.5
Dalian Port (PDA) Co Ltd-H	China	10860.4	5.9	5.2	10.9	9.6	14.8	13.4	12.7	1.4
Shenzhen Chiwan Wharf Hldg-B	China	10875.1	7.4	6.3	11.4	9.6	16.5	14.1	13.6	1.0
Xiamen International Port-H	China	4333.6	2.1	2.0	8.7	7.6	16.9	14.1	13.0	0.8
Cosco Pacific Ltd	China	4834.5	14.7	12.4	20.2	18.5	16.6	15.6	0.0	2.6
China Merchants Hldgs Intl	China	81546.3	23.3	20.9	35.7	31.1	25.9	24.5	20.4	4.7
Tianjin Port Dvlp Hlds Ltd	China	15084.1	12.1	1.1	80.1	6.2	94.4	24.8	19.4	0.3
Tianjin Development Hldgs LT	China	6978.3	1.7	2.2	14.0	15.3	10.4	10.1	9.7	3.5
Mundra Port and Sez Limited	India	285482.8	19.6	14.3	29.4	19.9	43.9	29.6	17.8	0.9
Average China & India			**15.3**	**12.0**	**27.1**	**19.5**	**36.7**	**26.9**	**19.6**	**1.0**

Source: Bloomberg estimates

Figure 7: Peer Group Valuation (Europe)

Company	Country	EV	EV/Sales (x)		EV/EBITDA (x)		P/E (x)			PEG
		(USD mn)	2009e	2010e	2009e	2010e	2009e	2010e	2011e	
Forth Ports plc	Europe	685.1	3.8	3.7	11.8	10.9	19.9	18.4	16.4	2.4
Hamburger Hafen und Logistik	Europe	2,321	2.4	2.3	8.5	7.6	34.9	26.6	20.1	1.1
Eurokai Kgaa-PFD	Europe	732.7	1.2	1.2	6.1	5.6	22.2	18.1	11.1	1.0
Piraeus Port Authority	Europe	294.7	2.3	2.2	13.8	7.4	48.9	17.7		0.3
Vopak	Europe	4,584	4.6	4.4	10.2	9.3	13.9	12.8	11.4	1.6
Average (Europe)			**3.6**	**3.4**	**9.7**	**8.6**	**22.0**	**17.6**	**13.7**	**1.2**

Source: Bloomberg estimates

Figure 8: Peer Group Valuation (Other)

Company	Country	EV	EV/Sales		EV/EBITDA		P/E			PEG
		(USD mn)	2009e	2010e	2009e	2010e	2009e	2010e	2011e	
Bintulu Port Holdings BHD	Malaysia	2,206	4.8	4.6	10.2	9.8	17.4	17.0	17.7	9.0
Intl Container Term SVCS Inc	Philippines	1,222	3.0	2.8	7.2	6.4	17.5	14.7	5.7	0.9
Port of Tauranga Limited	New Zealand	1,146	8.1	7.6	13.4	12.5	20.1	19.0	17.1	3.5
Novorossiysk Commercial-BRD	Russia	3,167	4.6	4.2	6.9	6.8	11.0	9.6	8.5	0.8
Santos Brasil Participacoes	South America	2,404	3.3	2.9	9.4	8.1	28.4	22.5	16.1	1.1
Wilson Sons Ltd-BDR	S. America	1,741	2.0	1.9	8.7	8.3	11.5	15.7	15.6	(0.4)
Average (Other)			**4.2**	**3.9**	**8.9**	**8.3**	**17.3**	**15.9**	**14.3**	**2.5**

Source: Bloomberg estimates

Figure 9: Valuation Summary

Name	Country	EV	EV/Sales (x)		EV/EBITDA (x)		P/E (x)			PEG
		(USD mn)	2009e	2010e	2009e	2010e	2009e	2010e	2011e	
Average China & India			15.3	12.0	27.1	19.5	36.7	26.9	19.6	1.0
Average Europe			3.6	3.4	9.7	8.6	22.0	17.6	13.7	1.2
Average Other			4.2	3.9	8.9	8.3	17.3	15.9	14.3	2.5
Total Average			15.0	10.7	23.1	15.7	26.2	21.8	14.9	1.3
DP WORLD LTD	**UAE**	**11273**	**4.2**	**3.8**	**10.6**	**9.5**	**21.4**	**17.9**	**14.5**	
% Average China & India			-73%	-68%	-61%	-51%	-42%	-34%	-26%	
% Average Europe			18%	13%	10%	10%	-3%	2%	6%	
% Average Other			1%	0%	18%	14%	24%	12%	2%	
% Total Average			-72%	-64%	-54%	-40%	-18%	-18%	-3%	

Source: Bloomberg estimates

When we breakdown the peer group, it is evident that Chinese and Indian port companies trade at a large premium to the sector, which is not surprising, given that volume has bounced back in this region, where the bulk of future growth is expected.

European and other ports trade at a large discount due to the maturity of these ports. However, short-term earnings growth appears significant here, as comparables are weak. That said, we believe organic top line growth is going to be modest in the medium term and this is reflected in the valuations.

With the above in mind, it can be argued that DPW deserves to trade closer to Chinese and Indian companies, given its substantial revenue exposure to China and India. Furthermore, the ownership of Jebel Ali Port, which remains a regional hub that is unrivalled in terms of capacity and facilities, should be reflected in the valuation through an appropriate premium. Overall, we believe a 20% discount to Chinese/Indian port operators is justified, given the higher short-term growth potential of these ports, tax benefits that DP World enjoys, and concerns regarding the parent company.

HISTORIC ACQUISITION MULTIPLES NO LONGER AN INDICATOR OF FUTURE VALUE

In recent years, acquisition multiples for port businesses rose substantially on the back of the perceived long-term growth potential of infrastructure assets. At its peak in 2006, ports were valued at over 20x historic EBITDA. However, the sector has de-rated substantially since the downturn, and there has been little M&A activity in the past year. Given this uncertainty, using these historic multiples is no longer useful, as the outlook has changed materially. That said, the overall average price paid for ports stands at just under 14x EBITDA; accounting for a substantial de-rating, we believe an EBITDA multiple of 13 - 14x is more appropriate now.

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IMPORTANT DISCLOSURES AND
DISCLAIMERS ON BACK PAGE

Figure 10: Historic M&A Multiples

Date	Target Port	Acquirer	EV/EBITDA (Trailing) (x)
Nov-99	ECT Rotterdam	Hutchison Port	6.7
Dec-00	PD Ports	Prestige Acquisitions	7.5
May-01	Hessenatie	Port of Singapore (PSA)	7.1
Nov-02	Clydeport	Peel Holdings	9.2
Dec-04	CSX Terminals	DP World	15
Dec-04	Shanghai	China Merchant Holdings (international)	7.5
Apr-05	Ports of Auckland	Auckland Regional Holdings	10.5
Nov-05	Mersey Docks	Peel Holdings	11
Dec-05	PD Ports	Babcock & Brown	12.6
Mar-06	P&O	DP World	16.7
Apr-06	HPH	Port of Singapore (PSA)	12.8
Jun-06	AB Ports	Admiral	14.6
Nov-06	Halifax	Macquarie	22.9
Nov-06	OOIL	Ontario Teachers' Pension Fund	24
Dec-06	P&O US Terminals	American International Group	21.5
Feb-07	Montreal Gateway	Morgan Stanley	22.4
Average Multiple			**13.9**

Source: Company reports

Furthermore, we believe that using historic P/E multiples for the stock or sector as a valuation tool is also meaningless as: i) DPW has only been trading for a few years, and more importantly, ii) the industry was trading at inflated P/E multiples during the M&A boom, which have little relevance now.

FAIR VALUE OF USD0.56

We set a fair value of USD0.56, which is calculated using an average of our DCF value and peer group P/E multiple. Our DCF-derived fair value amounts to USD0.63, and we apply a weighting of 60% due to the long-term profile of the company's concession. On a peer group P/E multiple basis, we believe a 20% discount to Chinese and Indian port operators is fair, given that DP World's portfolio is more diverse. Consequently, we use an estimated 2010 P/E multiple of 21.5x, which amounts to a fair value of USD0.46. A weighting of 40% implies a price of USD0.183, and the two combined sets our fair value at USD0.56.

Figure 11: Fair Value
In USD, unless otherwise stated

	Price	Weighting	Value	Comment
DCF	0.63	0.6	0.38	DP World has an average concession length of 43 years
Peer Group	0.460	0.4	0.18	At a 20% discount to emerging markets peer group
Implied Price			0.56	

Source: EFG Hermes estimates

At USD0.56, the stock would trade on estimated P/E multiples of 26.3x in 2010 and 21.4x in 2011. On an adjusted EV/EBITDA multiple basis, the stock would trade on an estimated 12.0x in 2010 and 10.7x in 2011.

For a further sanity check, we have analysed historic P/E multiples of the transport sector (Figure 12). The wider transport industry has traded between 25x (peak) and 15x (trough), and currently trades on 21x forward earnings, which stands at a c10% discount to port operators, meaning that DPW would trade at a 20% premium to the transport sector on our fair value, and we believe this is justified, given the higher structural growth prospects of the port operator sector.

Figure 12: Transport P/E Ratio



Source: Bloomberg estimates

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IMPORTANT DISCLOSURES AND
DISCLAIMERS ON BACK PAGE

II. RISKS

A. UPSIDE RISKS

STRONGER-THAN-EXPECTED TOP LINE GROWTH

The key upside risk is a stronger-than-expected recovery in the container industry. The emerging markets of China and India appear to have recovered from the downturn much sooner than developed markets, and given DP Worlds greater exposure to emerging markets, the group could perform stronger than our forecasts. Furthermore, DP World's investment in Africa could yield higher returns than our forecasts, as trading between Africa, the Middle East and Asia could accelerate, with China outsourcing its manufacturing activity to Africa.

CLARITY ON DUBAI WORLD

Given the concerns regarding the parent company, Dubai World, we believe further clarity regarding the group's restructuring plans will help boost the shares, as the stock price is hindered by a significant Dubai World discount, in our view.

B. DOWNSIDE RISK

CONCENTRATION IN DUBAI

While Jebel Ali Port is the flagship port that generates the bulk of the group's profits (c50%), it is worth highlighting that this type of concentration can also be a risk. The group is exposed to a significant slowdown in demand in the wider Middle East region. In addition, transhipments' share of traffic at Jebel Ali Port has increased from 45% to 55% during 2009. This means that the risk of losing market share to another port has increased substantially. Going forward, the group's earnings would be at risk if the region's infrastructure spend is cut back, which could happen if oil prices fell below USD40 per barrel for a long period.

That said, it is worth stating that in the event of Dubai World bankruptcy, we believe DPW's UAE assets will be better protected than the foreign assets, which would fall into international court jurisdictions. In this scenario, having the crown jewel Jebel Ali Port in Dubai would turn out to be a positive for DPW shareholders, in our view.

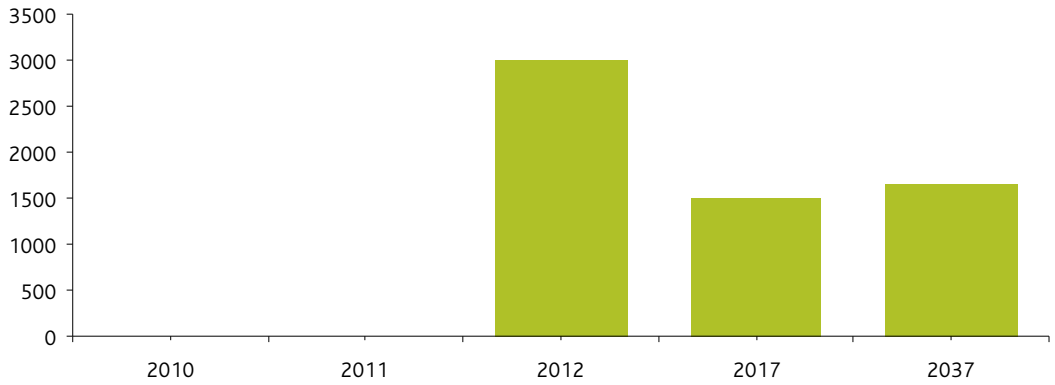
DEBT

DP World's net debt stood at USD4.2 billion at the end of 2008, which equated to a net debt/EBITDA multiple of 3.1x. We believe the multiple will rise to 4.6x when the FY2009 results are announced due to the drop in EBITDA. For 2010, we expect the net debt/EBITDA multiple to fall marginally to 4.2x, as the group's earnings begin to recover.

Gross debt rose to USD7.8 billion at 1H2009, as the company fully utilised its drawdown facilities of USD2.4 billion. The cash remains on the balance sheet and the cash was taken out as a precautionary measure, in case the facility was withdrawn.

DPW has two listed debt instruments - a conventional bond (unsecured MTN) and an Islamic bond (sukuk), which makes up the bulk of the debt. Significant refinancing is required in 2012 when cUSD3 billion needs to be rolled over. The sukuk matures in 2017 and the conventional bond matures in 2037. The group has over USD3 billion of cash and in theory could pay off the debt due in 2012 if financing does not become available. This would not have a detrimental impact on the core business as its capex can be fully funded through free cash flow, but the dividend payout may have to be reduced.

Figure 13: Major Debt Maturity Profile
In USD 000's, unless otherwise stated

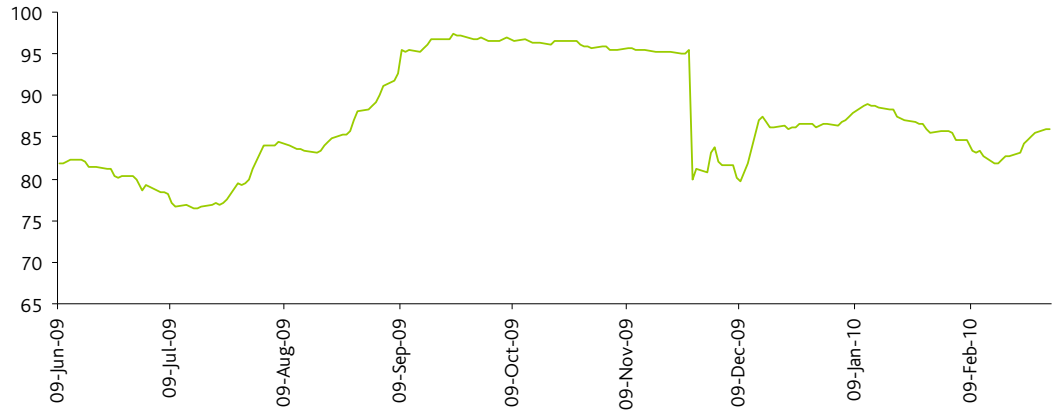


Source: DP World

SUKUK PERFORMANCE

DP World's sukuk offers a 6.25% coupon and the yield on the instrument has risen to c9.0% recently, having been as low as 7.2% in May 2009. The sukuk price unsurprisingly fell after news of Dubai World's restructuring was announced, but has recovered from its lows. Currently, the sukuk is priced at a 15% discount to par, which implies a maximum upside potential of 17.6% and compares unfavourably to the upside potential of the DPW equity.

Figure 14: DPW Sukuk Price Chart



Source: Bloomberg

CURRENCY RISK

In 2008, 84% of the group's net operating assets were denominated in currencies other than UAE dirham and US dollar. Consequently, currency movements can have a material impact on DPW's earnings. However, the group mitigates the risk by borrowing in local currency and through currency swaps. Furthermore, the functional currency is fixed to the US dollar in many of the locations that the group operates in. The table below illustrates the impact of a 10% strengthening of the USD against the listed currencies would have had on the 2008 P&L.

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DISCLAIMERS ON BACK PAGE

Figure 15: Currency Sensitivity Analysis
In USD million, unless otherwise stated

	2008 Income Statement
GBP	0.357
EUR	0.078
AUD	0.172
INR	1.393
CAD	0.486

Source: EFG Hermes estimates

Currently, the largest exposure is to the Indian rupee, where a 10% movement against the US dollar would change the bottom line by almost USD1.4 million; elsewhere, the impact the less severe.

SALALAH EXPANSION

The Port of Salalah in Oman is a key competitor of Dubai's Jebel Ali Port. Salalah is mainly a transhipment port due to its attractive geographic location, as it sits on the East to West route. The port's current capacity is 5 million TEUs compared to almost 12 million for Jebel Ali Port. However, the Port of Salalah has announced a 20-year expansionary plan, which will take capacity up to 15 million TEUs, which means that it will be able to compete in terms of capacity. This could have a significant impact on DP World due to the close proximity of the port. However, it is worth noting that 45% of cargo at Jebel Ali Port is origin and destination (O&D) and the port also acts as a gateway for cargo to the wider Middle East region. Whether Salalah can offer the same services is uncertain. In addition, the expansion plans are highly ambitious, and we doubt whether there is enough demand to have two ports of such size in the region.

GLOBAL COMPETITION

While none of the global port operators has become more aggressive in the downturn, it is worth pointing out that DP World may find it difficult to win new concessions due to financial concerns regarding the parent company, Dubai World. DP World hopes to grow its top line through winning new concessions when they become available and its track record historically has been good. However, given the current concerns, winning future concessions may become more difficult. As a result, port operators that are perceived to be more stable from a financial perspective may have better leverage when bidding for new concessions. That said, it is worth stating that our estimates do not assume any new concession wins, as our growth forecasts only factor in existing projects and capacity expansion plans.

DOUBLE DIP RECESSION

Our valuation assumes a gradual recovery, but should the recent growth trends reverse then this would put negative pressure on our valuation. In addition, the group has significant new capacity coming online in the medium term and some new ports may not provide the required rate of return. In this scenario, EBITDA margins would be diluted leading to a lower fair value.

III. DP WORLD

DP World was established in September 2005 as a result of the merger of the Dubai Ports Authority and Dubai Port International (DPI). The Dubai Ports Authority focused mainly on operating Port Rashid and Jebel Ali Port.

In 2005, DPI extended its global network through the strategic acquisition of international terminal operator, CSX World Terminals. The total value of the deal amounted to USD1.14 billion. (This acquisition gave DPI access to the growing Asian market through CSX's well-established network of operations in Hong Kong and China.)

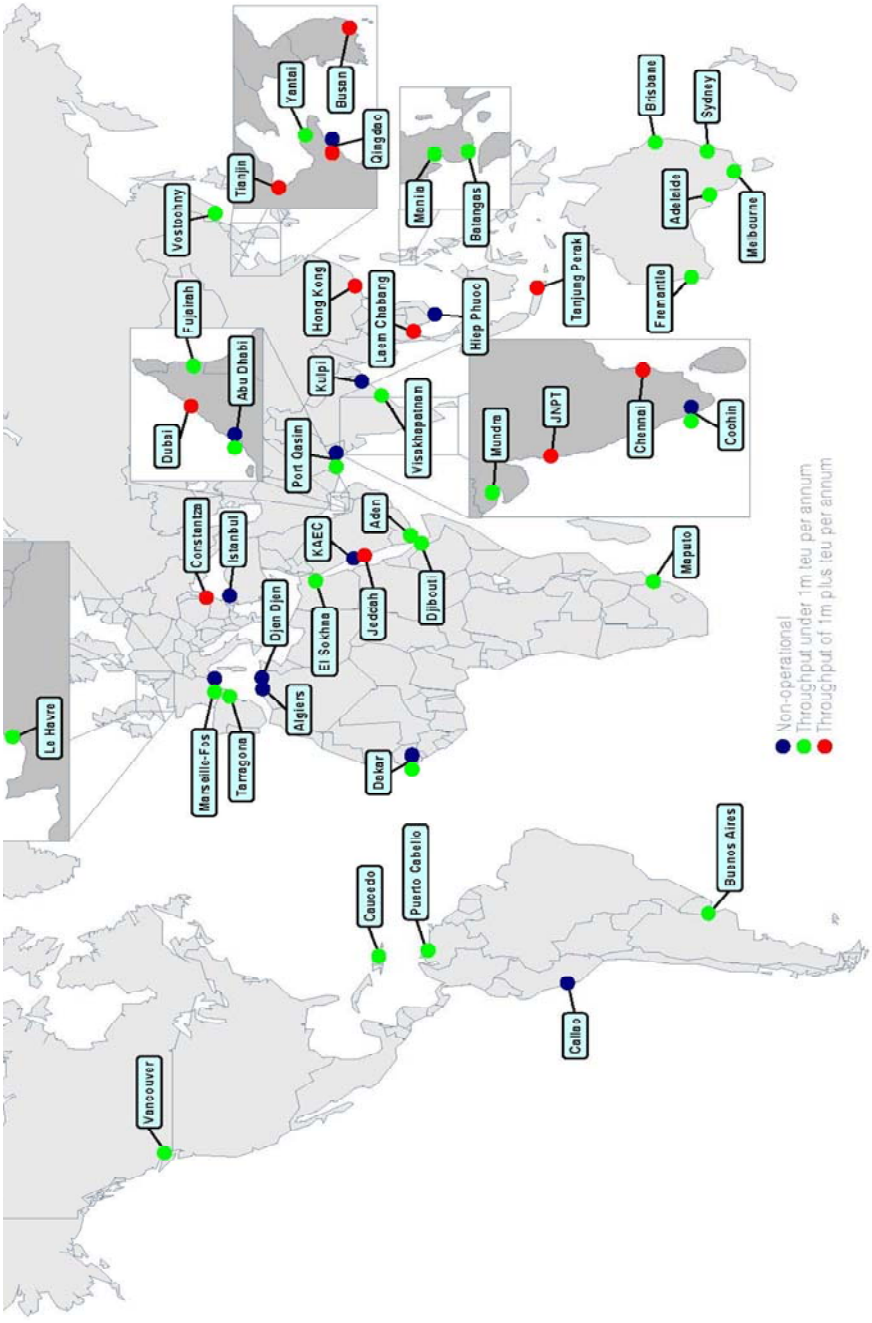
In March 2006, DP World announced the acquisition of Peninsular and Oriental Steam Navigation Company (P&O), a major British shipping and logistics company. This deal, with a total value estimated at EUR3.9 billion, enabled DP World to diversify its business scope beyond its core terminal operator activities.

DP WORLD TODAY

DP World is the fourth largest marine terminal operator in the world, with 50 terminals and 12 new developments across 31 countries. In 2008, DP World handled more than 46.8 million TEUs across its portfolio, from the Americas to Asia - an increase of 8% on 2007. With a pipeline of expansion and development projects in key growth markets, including India, China and the Middle East, capacity is expected to rise to around 90 million TEUs by 2017.

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Figure 16: DP World Portfolio Map

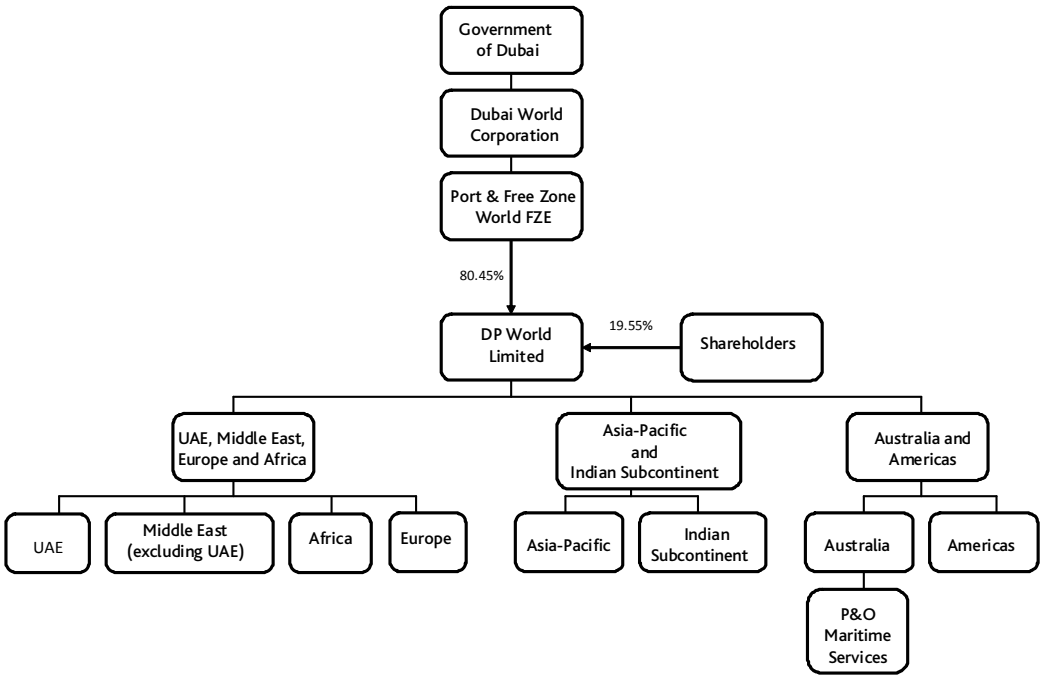


Source: Company reports

GROUP STRUCTURE

DP World is owned 19.55% by shareholders through shares trading on NASDAQ Dubai, with the remaining 80.45% owned by Port and Free Zone World, which is 100% owned by Dubai World. Dubai World in turn is 100% owned by the Dubai Government.

Figure 17: Group Structure



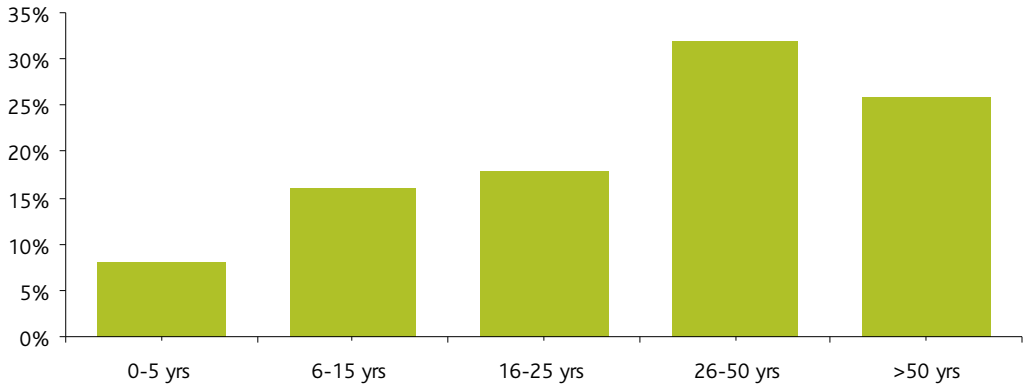
Source: DP World

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CONCESSION

DP World's average concession length stands at 43 years, which is substantially longer than the average of 25-35 years for its competitors. The average is skewed by the 99-year concession the group has at its flagship Jebel Ali Port.

Figure 18: Concession Profile



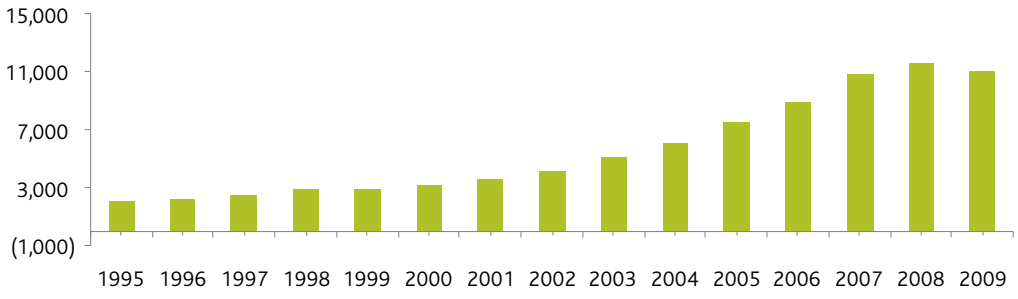
Source: DP World

JEBEL ALI PORT

Jebel Ali Port is DP World's flagship state-of-the-art facility, which acts as a gateway to the Middle East, Africa and the Indian Subcontinent. It has a 14 million TEU capacity, making it the world's sixth largest port and the largest port between Rotterdam and Singapore. The port can accommodate any vessel size in existence or on order. DP World was given a 99-year concession in 1996 by the Dubai Port Authority.

Growth at Jebel Ali Port has been exceptional. In 2008, the port handled over 11 million TEUs compared to less than 3 million TEUs in 1995, amounting to average annual growth rate of c20%.

Figure 19: Jebel Ali Port Growth Profile
Million TEUs, unless otherwise stated



Source: DP World

CAPEX PLANS

DPW will spend cUSD2.5 billion in the next three years on capex, 70% of which will be spent on new developments, 20% on improving operational terminals, with the balance on maintenance capex.

Figure 20: Capacity Pipeline
Million TEUs, unless otherwise stated

	2010e	2011e	2012e	Post 2013e
Middle East, Europe and Africa			Turkey	Abu Dhabi, London Gateway, Senegal
Asia Pacific and Indian Subcontinent	Vallapadam (India)	Karachi (Pakistan)		Kulpi (India)
Australia and Americas	Peru			

Source: DP World

While DP World may have slowed down its expansion plans, it continues to invest in areas where there is volume demand. This is illustrated in the table (Figure 20) above where the focus remains on fast growing markets, particularly in the short term. The Vallarpadam Terminal should open in mid-2010 and is hoping to take advantage of increasing Indian consumer demand. Furthermore, the port is strategically placed close to the major Far East–Europe trade route, which should help in gaining transhipment traffic.

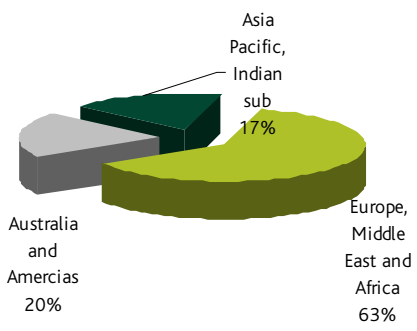
DP World's port in Peru handles over 85% of all domestic traffic serving the capital Lima and has delivered double-digit CAGR since 2000.

Meanwhile, Karachi is running close to full utilisation and requires new capacity. The other projects, such as the London Gateway, are longer-term projects, which should deliver capacity when demand returns.

VOLUME/REVENUE AND PROFIT MIX

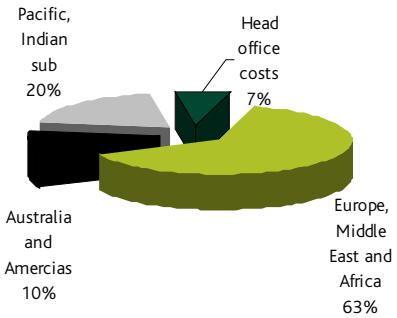
DP World's core focus is on container ports with O&D cargo. Currently, 76% of volume at the ports is O&D, with 24% transhipment; 80% of total revenue is generated from container handling, while the remainder is made up of dry bulk and oil & gas. Within container revenue, 80% comes from pure container handling, with the balance generated through ancillary revenues such as storage, refrigeration, etc.

Figure 21: FY2009e Revenue Breakdown



Source: EFG Hermes estimates

Figure 22: FY2009e EBITDA Breakdown



Source: EFG Hermes estimates

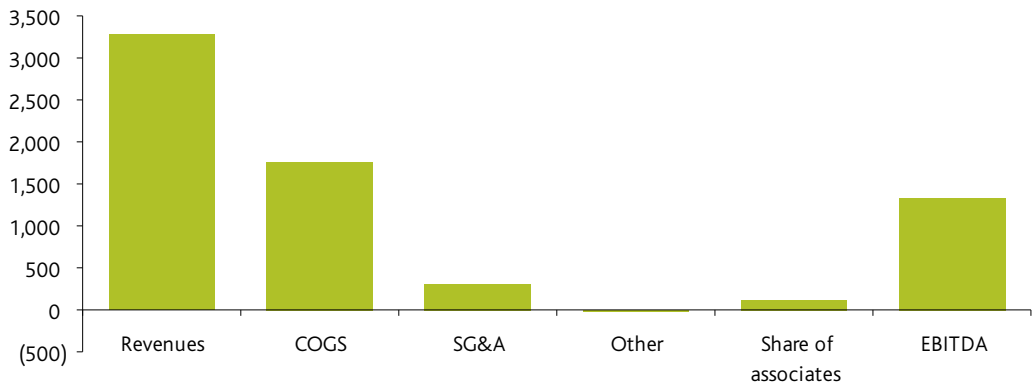
Revenue is highly geared towards Europe, the Middle East and Africa (EMEA), with the Middle East accounting for the bulk of this division. We expect the EMEA division to account for approximately 74% of estimated 2009 EBITDA. The Asia Pacific and Indian Subcontinent division is the next largest, accounting for 17% of estimated 2009 revenue and 22% of estimated 2009 EBITDA. Australia and America make up the balance, with an estimated 20% of revenue and 11% of EBITDA.

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The group's portfolio is highly geared to emerging markets, which should mean faster top line growth than the overall market. This has been evident, even during the downturn. For example, in 2009, DPW's gross container volume declined by 6% compared to a 12% fall in industry volume. Going forward, we believe this trend is likely to continue, especially given that container growth is expected to be primarily driven by emerging economies.

COST BREAKDOWN

Figure 23: Cost break down
In USD million, unless otherwise stated



Source: Company reports, EFG Hermes estimates

Total 2008 operating costs amounted to USD2,059 million. COGS, excluding depreciation and amortisation, came to USD1,772 million. SG&A costs were USD116 million, and the group has a positive benefit from other income of USD18.3 million. A total of 60% of the operating cost base is variable, with 40% fixed. The variable element is mainly staff costs, where headcount is reduced during less busy periods. Furthermore, concession fees typically have a fixed and variable element. In 2009, the group announced that it is looking to reduce the fixed cost base by 3%, which should change the variable/fix cost ratio to 61:39 by year-end 2009. Beyond this, we expect the company to continue to look for efficiencies, but we do not expect any further material cost cutting.

MANAGEMENT

Chairman: Sultan Ahmed Bin Sulayem has served as Chairman since 30 May 2007. He is also Chairman of Dubai World. Mr Sulayem has more than 25 years of experience in the marine terminal industry.

CEO: Mohammaed Sharaf has served as CEO since the formation of DP World in 2005. He has more than 20 years of experience in the transport and logistics business.

CFO: Yuvran Narayan has served as CFO since 2005. He is a qualified accountant with more than 23 years of experience in the ports and international banking sector.

STRATEGY

The group's growth strategy consists of the following:

i) Improve efficiency at existing facilities to maximise returns

ii) Increase capacity at ports with high utilisations

iii) Win three new concessions per year

The group employs a financial criterion of 6-9 year pay-back and 15% return on capital before undertaking a new project.

DP World has had to adjust its strategy and expansion plans due to the severity of the downturn. Capacity utilisation levels have fallen across the board and the immediate need for expansion has dissipated, and consequently, the group has postponed a large portion of its capex plans.

PRIVATISATION OPPORTUNITIES MORE LIMITED

Privatisation of ports has been one of the key drivers behind the structural growth of the industry in the last fourth years and is one of the key reasons why the sector has been growing despite economic downturns. However, the fact that volumes have declined for the first time in 2009 shows the industry is beginning to mature. For example, the public sector now controls only 18% of port capacity and much of this is in Africa, where state ownership still stands at 55%. This compares with less than 10% in Europe. Going forward, while there will be some privatisation opportunities in Africa, we believe private port companies will focus on organic growth opportunities and winning concession from competitors when they become available.

Figure 24: Port Capacity by Ownership

	2008 Throughput		% Share of Throughput	
	(000 TEU)	Global	Private	State
North America	45,888	61.3%	20.5%	18.2%
West Europe	91,763	73.7%	19.1%	7.2%
Northern Europe	56,347	75.5%	18.6%	5.9%
Southern Europe	35,416	70.7%	20.0%	9.3%
Far East	194,218	44.3%	40.2%	15.5%
South East Asia	71,127	76.6%	10.4%	13.1%
Middle East	31,711	61.4%	7.9%	30.7%
Latin America	37,395	42.5%	33.5%	24.0%
South America	18,971	32.2%	49.4%	18.4%
Caribbean/Central America	18,425	52.5%	18.1%	29.4%
Australasia	9,406	32.8%	60.3%	6.9%
South Asia	14,723	67.5%	0.0%	32.5%
Africa	20,643	41.8%	3.5%	54.7%
Eastern Europe	7,987	30.3%	50.6%	19.1%
World	524,860	56.4%	26.2%	17.4%

Source: Drewery Shipping Consultant

DP WORLD VERSUS ITS COMPETITORS

DP World was the fourth largest port operator in 2008, with a c9% market share of global throughput at 46.2 million TEUs, up 7.4% on 2007, mainly due to the strong growth at Jebel Ali Port. According to Drewery, DP World is likely to stay fourth in 2009 in terms of total throughput, but could overtake APMT to move into third place in terms of equity TEU (equity TEU takes into account the equity stake in terminals) due to the resilient performance of Jebel Ali Port, which is 100% owned by DPW.

Figure 25: Throughput Breakdown by Geography

T'put	Operator	2008 Mkt. Share	North America	Europe	Far East	South East Asia	Middle East	Latin America & Caribbean	Australasia	South Asia	Africa
1	HPH	13.0.%		16.8%	14.6%	66.7%		0.7%		1.2%	
2	APMT	12.3.%		25.5%	49.7%	9.1%	1.6%	11.5%		1.5%	1.0%
3	PSA	11.4.%	16.6%	25.5%	25.0%	6.3%	5.2%	6.8%		5.1%	9.5%
4	DPW	8.9.%	1.8%	14.1%	11.8%	5.1%	41.3%	2.2%	8.4%	12.3%	3.0%

Source: Drewery Shipping Consultants

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Unsurprisingly, the Middle East portfolio accounts for 41% of DPW's total volume. Europe is the second largest market, generating 14% of total throughput. South Asia and the Far East combined make up another 24% of volume. In total, over 70% of volume is handled in emerging "higher growth" economies.

Hutchison Port Holdings (HPH) is the market leader with a 13% share. In 2008, the group handled 67.6 million TEUs, 2% more than in 2007. The group generates almost 50% of its throughput in the Far East, mostly through its interests in Hong Kong, China, South Korea and Malaysia. The group also has a presence in the Middle East through the Port of Dammam in Saudi Arabia. A total of 26% of its throughput is generated in Europe, mainly through Barcelona (Spain), Rotterdam (Netherlands) and Felixstowe (UK). HPH has no exposure in North America, but generates 12% of its throughput in South America, mainly through Freeport (Bahamas) and Balboa (Panama).

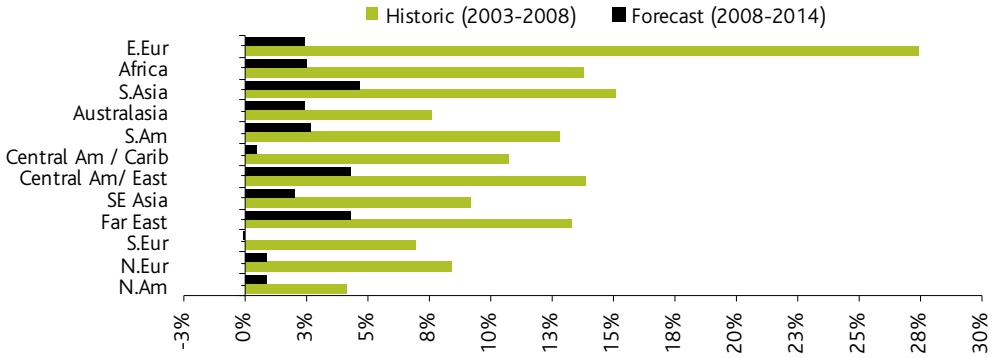
APM Terminals (APMT), a division of AP Moller-Maersk, is the second largest terminal operator. The group handled 64.4 million TEUs, 6.9% more than in 2007. The group has the most diversified portfolio amongst the four large global terminal operators. APMT has a strong presence in North America (17% of throughput), but the bulk (26%) of volume goes through Europe, and a further 25% of volume is generated in the Far East, mainly through ports in China. The group has significant exposure to Africa and Latin America, which account for circa 17% of all throughput. In the Middle East, the group operates the Port of Salalah, which is a competitor to Jebel Ali Port, Dubai.

PSA International Group handled 59.7 million TEUs in 2008, representing a 9.1% increase over 2007. PSA would be market leader in terms of equity weighting if we account for its 20% stake in HPH. In terms of the core business, the group is highly exposed to South East Asia through the Port of Singapore, which accounts for c50% of total volume. PSA also has significant exposure to Europe through its presence at Antwerp and Genoa, while the remaining portfolio lies in the Far East - South Korea, Hong Kong and China.

IV. THE OUTLOOK

While the market may be relieved to see container volume stabilising, the chances of volume growth of yesteryear are unlikely to return in the short term, according to Drewery. There is some drastic change in the expected pace of growth, for example, Eastern European port volume grew by almost 30% per annum between 2003 and 2008, but is only forecasted to grow by an average of 2.4% annually between 2008 and 2014. At the bottom end of the scale, Europe and the US are expected to report low single-digit annual growth. In contrast, Drewery expects the Far Eastern and South Asian ports to grow relative faster, at c5% per annum.

Figure 26: Drewery Container Volume Forecast (2008-2014)



Source: Drewery Shipping Consultants

A. PORT VOLUMES

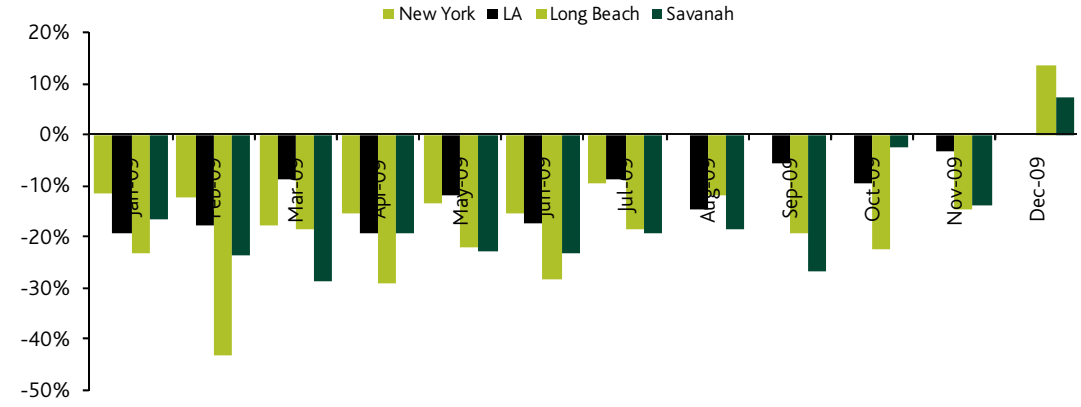
The port container throughput data are lagging by a few months, but generally the market has stabilised after a significant decline in 1H2009.

US

Import volume in 2009 in the US is likely to show a Y-o-Y decline of about 17%, with a total of 12.7 million containers coming into key ports, the lowest figure since 2003. However, there was a small uptick in overall December 2009 volume, with Y-o-Y throughput rising by 1.7%. This marks the first rise in import volume in 28 months. The recovery is being led by retailers, which are re-stocking warehouses as consumer spending begins to pick up in the US. Going forward, 2010 is likely to show marginal volume growth.

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Figure 27: US Container Volume

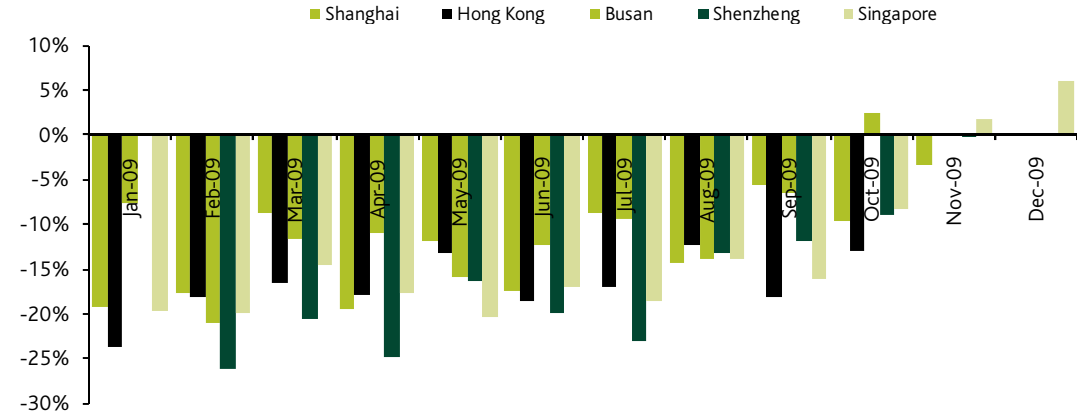


Source: Port Authorities

FAR EAST

While overall port volume in the Far East bounced back strongly in the middle of 2009, the recovery was led by dry bulk goods, whereas container volume remained weak during this period. That said, the container sector has fared better more recently, as Figure 28 indicates, the rate of decline decelerated in 3Q2009, and in December 2009, Shanghai and Singapore reported positive growth. Furthermore, the positive manufacturing output data coming from the region suggest that 2010 will be a better year than 2009.

Figure 28: Asia Container Volume

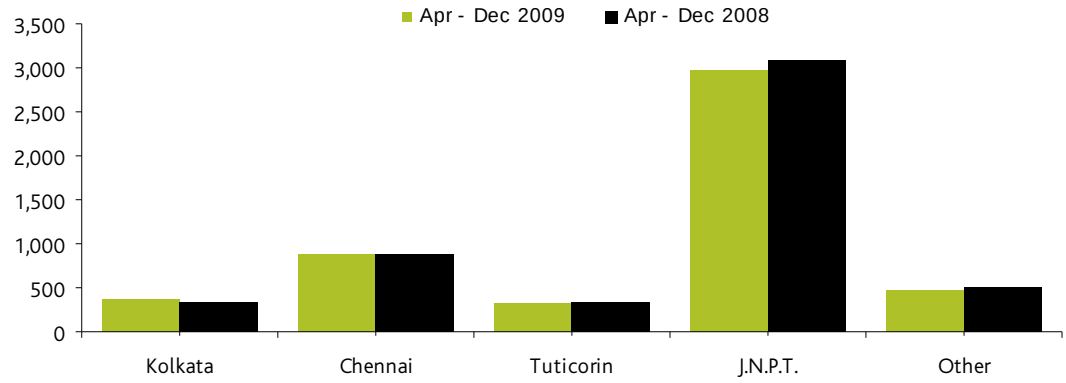


Source: Port Authorities

INDIA

The container market in India has been relatively resilient, with overall container traffic down by only 1.4% Y-o-Y for the period April 2009 to December 2009. Overall port volume grew by 5% during the same period, driven by higher iron ore imports. We believe recent data have been more positive, and India should show good volume growth in 2010.

Figure 29: Indian Container Volume
Million TEUs, unless otherwise stated



Source: Port Authorities

EUROPE

Ports in Europe have experienced similar trading patterns to the US where 2Q2009 was particularly weak. That said, conditions improved somewhat in the 2H2009, but container volume has declined by more than 10% on average. Flat to low single-digit top line growth is what the market is expecting for 2010.

Figure 30: European Container Volume

Container Traffic	1H2009	2H2009e	2009e
Rotterdam	-14.80%	-5.20%	-10%
Antwerp	-18.50%	-12.70%	-15.6

Source: Port Authorities

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IMPORTANT DISCLOSURES AND
DISCLAIMERS ON BACK PAGE

V. ESTIMATES

A. VOLUME DOWN 8% IN 2009

Figure 31: Consolidated Volume Growth

	2008 (mn TEUs)	2009 (mn TEUs)	Growth	2010e (mn TEUs)	Growth	2011e (mn TEUs)	Growth
Europe, Middle East, Africa	17.8	16.5	-7%	17.2	4.2%	17.8	3.5%
Asia Pacific, India Subcontinent	5.8	5.5	-5%	5.8	6.0%	6.4	9.5%
Americas and Australia	4.1	3.5	-15%	3.7	6.5%	4.0	7.0%
Total	**27.7**	**25.5**	**-8%**	**26.8**	**5.2%**	**28.2**	**4.9%**

Source: Company reports, EFG Hermes estimates

DP World has reported its throughput figures for 2009 ahead of its preliminary results. Like-for-like throughput in the 28 consolidated terminals fell by 10%, having been down 13% in 1H2009. Including the contribution from new terminals, volume was down 8%. Gross volume across the 50 operational terminals declined by 6% Y-o-Y compared to an industry decline of almost 12%. In the mix, the EMEA region was down only 7.3% helped by the resilient performance of the UAE market, down only 6%. Volume handled in the Americas and Australia was down by 15.1%, having been down 15.8% in 1H2009. The Asia Pacific and Indian Subcontinent division delivered the most resilient performance, down 5.2%.

Figure 32: P&L Estimates
In USD million, unless otherwise stated

	2008a	2009e	2010e	2011e	2012e
Revenue					
Europe, Middle East and Africa	2,009	1,770	1,874	1,975	2,072
Average Revenue per (TEU mn)	112.9	107.3	109.0	111.0	112.0
Australia and Americas	757.0	543.5	599.9	677.8	746.5
Average Revenue per (TEU mn)	184.6	155.3	161.0	170.0	175.0
Asia Pacific, Indian Subcontinent	517.0	509.4	548.1	612.9	658.9
Average Revenue per (TEU mn)	89.1	92.6	94.0	96.0	96.0
Total Revenue	3,283	2,823	3,022	3,266	3,477
Average Revenue per (TEU mn)	118.5	110.7	113.0	116.0	117.4
% Change	20%	-14%	7%	8%	6%
EBITDA including JV and Associates					
Europe, Middle East and Africa	441.0	797.3	870.5	948.0	1,002.8
Margin	50%	50%	50%	50%	50%
Australia and Americas	120.0	108.1	141.2	174.7	203.6
Margin	30%	20%	20%	30%	30%
Asia Pacific, Indian Subcontinent	135.0	252.0	279.5	321.8	352.5
Margin	50%	50%	50%	50%	50%
Head Office Costs	(44.0)	(85.5)	(88.1)	(88.9)	(91.6)
Total EBITDA	652.0	1,071.8	1,203.2	1,355.5	1,467.3
Margin	41%	38%	40%	42%	42%
Depreciation & Amortisation	(371.6)	(385.9)	(393.1)	(443.2)	(474.7)
Net Finance Costs	(267.1)	(288.1)	(341.4)	(359.2)	(356.0)
Profit before Taxation	701.3	397.8	468.7	553.1	636.7
Other Items (Exceptional Items)	(90.1)	0.0	0.0	0.0	0.0
Income Tax	(80.3)	(63.2)	(67.2)	(66.4)	(76.4)
Effective Tax Rate	0.1	0.2	0.1	0.1	0.1
Profit after Tax (Headline)	620.9	334.7	401.5	486.8	560.3
Profit after Tax (Reported)	530.9	334.7	401.5	486.8	560.3
Minority Interest	(48.5)	(39.5)	(48.6)	(52.5)	(54.6)
Net Income (Reported)	482.4	295.2	352.9	434.3	505.7
Underlying Earnings	572.4	295.2	352.9	434.3	505.7
Underlying EPS (in US cents)	3.4	1.78	2.13	2.6	3.0
DPS (in cents)	0.7	0.4	0.4	0.5	0.6
Payout Ratio	20%	20%	20%	20%	20%

Source: EFG Hermes estimates

We expect the negative 2009 volume growth of 8% to translate into a 14% decline in sales. This is made up of 8% volume and 6% revenue/TEU declines. The worst hit regions are likely to be the Americas and Australasia, with estimated revenue falling by more than 15% in 2009. EMEA is likely to also report a double-digit decline in the top line, mostly due to weak volume in Europe, according to our estimates. We expect the Asia Pacific and Indian Subcontinent division to be most resilient, as there is minimal pricing pressure. In contrast, we are forecasting modest price inflation.

We believe top line growth will return in 2010, as volume rises after a tough 2009. Again, we expect the recovery to be led by the Asia Pacific region as growth in China and India accelerates. Australasia and the Americas should bounce back as the comparables are weak. We expect to see modest growth in the EMEA region, as we forecast European volumes to remain weak. Furthermore, Jebel Ali Port has been relatively resilient during the downturn, and consequently, the comparables are not as weak as they are for some of the other regions.

Overall for 2010 we expect to see revenue growth of 7%, which is likely to be a combination of 5% volume and 1% revenue/TEU increases. Beyond 2010 we believe the trends seen in 2010 will continue in the near future, i.e. emerging markets leading growth. Consequently, we are assuming revenue growth of 8.0% for 2011 and 6% for 2012.

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B. EBITDA

For EBITDA, management has guided that 2009 will be in line with market expectations, which are USD1-1.1 billion, and we expect EBITDA to come in at the top end of this range. The group has been proactive in managing its cost base, and consequently, we expect margin contraction of only 300 basis points. For 2010 and beyond, we expect limited margin growth, as the company reinvests into the business to expand capacity. Also, we expect growth to be led by the Asia pacific and Indian Subcontinent division, which generates higher margins and should help drive overall group margins.

We forecast a c10% Y-o-Y increase in core depreciation and amortisation expense in 2009 due to capacity expansions. Further impairment charges are entirely possible, but are not included in our forecasts.

We forecast net interest expense to rise in 2009 to USD288 million, due to a higher average net debt. We expect net interest cost to rise further in 2010 and 2011, as net debt peaks before falling when the group begins to repay it borrowings.

Management expects the tax rate to be volatile, but we forecast a medium effective rate of around 12%. DPW enjoys a relatively low tax rate, as its earnings at Jebel Ali Port are not subject to taxation. In the long term, we expect the tax rate to rise as Far East and South Asian ports, where the tax rate is relatively higher, is where the growth for the company is forecasted to be generated.

C. NET PROFIT AND EPS

We forecast a 2009 net profit of USD295 million after minority interest, which rises to USD353 million in 2010 as the top line recovers. This translates into estimated 2009 and 2010 EPS of USD1.78 and USD2.13, respectively.

D. DIVIDEND

The group has a dividend policy of a 20% payout ratio, and we do not expect any changes in the near future.

CASH FLOW STATEMENT HIGHLIGHTS

Figure 33: Cash Flow Statement Highlights
In USD million, unless otherwise stated

	2008a	2009e	2010e	2011e	2012e
EBITDA	1,340	1,072	1,203	1,356	1,467
Net Profit before Minority	531	335	402	487	560
Depreciation / Amortisation	372	247	261	319	357
Change in WC	(44)	(228)	(74)	(85)	(68)
Cash from Operations	1,160	769	1,039	1,169	1,290
Cash from operations as % EBITDA	87%	72%	86%	86%	88%
Taxation	(92)	(88)	(67)	(66)	(76)
Net Cash Flow from Operating Activities	1,069	681	972	1,102	1,213
Capex	(1,397)	(947)	(881)	(710)	(725)
Acquisition / Additional investment	(923)	(54)	0	0	0
Cash Flow from Investing	(2,007)	(887)	(701)	(546)	(560)
Net Cash from Op. and Investing Activities	(939)	(206)	271	556	654
Repayment of Debt	(1,154)	(241)	(343)	(351)	(360)
Interest Payments	(291)	(327)	(440)	(431)	(422)
Drawdown of Loan	989	2,409	0	0	0
Net Cash Flow from Financing	(686)	1,737	(793)	(800)	(814)
Change in Cash	**(1,625)**	**1,531**	**(522)**	**(245)**	**(161)**

Source: DP World, EFG Hermes estimates

The above table highlights the key cash flow items. We expect cash from operations (before taxation) to fall 34% Y-o-Y to USD769 million in 2009 due to a larger negative working capital outflow. In 1H2009, the group had a negative working capital of cUSD200 million, which is unlikely to reverse in 2H2009. The large working capital outflow was due to: i) a one-off payment to a creditor for a large amount, and ii) a 10-day payable extension to debtors as a result of the economic downturn. While we believe there has been no further deterioration in the payable period, we think it is unlikely that the situation has improved. This results in cash from operations as a percentage of EBITDA to fall to 72% in 2009 from 87% in 2008. Going forward, we expect cash from operations to recover as cash conversion returns to historic trends.

We expect cash flow from investing activities to stay at around USD800 million due to the large capex programme. We estimate the annual capex spend to range between USD600 million and USD1,000 million until 2019. The exact amount will depend on the economic climate, but beyond this period, maintenance capex should be cUSD200 million per annum, assuming the group does not acquire other operations or decide to invest further. We are assuming no acquisitions are made in the near future.

Cash flow from financing activities will report a large positive of cUSD1,700 million in FY2009, mainly due to the utilisation of the USD2,409 million drawdown facilities. Going forward, we expect financing costs to be in the region of USD8000 million per annum, consisting of interest expenses and loan repayments. Also, our forecasts assume that the USD3,000 million debt due for refinancing in 2012 is rolled over.

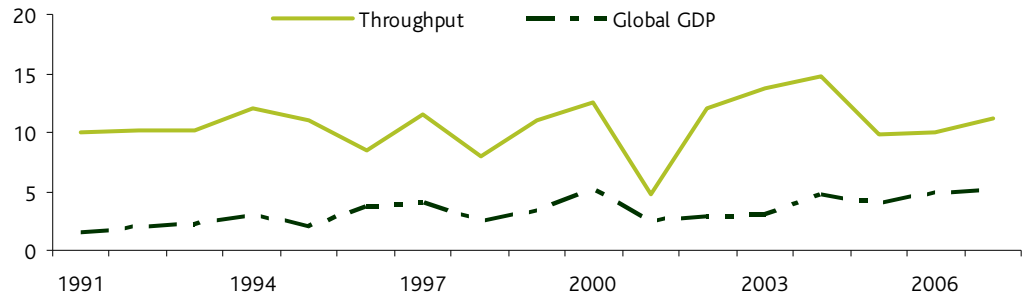
Net change in cash increases by USD1,531 million in 2009, according to our estimates, due to the drawdown of the loan. Change in cash turns negative by USD522 million in 2010, but reduces to negative USD245 million in 2011 as earnings rebound and capex is lowered.

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DISCLAIMERS ON BACK PAGE

VI. INDUSTRY OVERVIEW

The first purpose-built container vessel began operating in 1951, which led to shipment time being reduced by half, as the container could be unloaded at port with ease and moved onto the next mode of transportation without the need for re-packing. This led to the revolution known as containerisation, and the industry has been growing at c3-4x global GDP since then. Growth has been aided by improving trade relations and the rise of globalisation and outsourcing.

Figure 34: Throughput Growth versus % GDP Growth



Source: Drewery Shipping Consultants

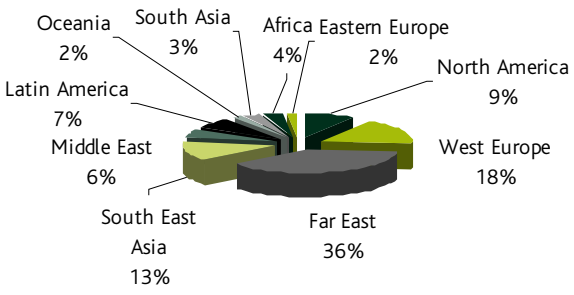
A. TYPES OF PORTS

There are number of different port ownership models, ranging from 100% state-owned to fully privately owned, with different structures in between. The public/private participation model is most common. Ports are strategically important, and governments are reluctant to give up full control; however, most states acknowledge that the private sector is often better at managing ports, and hence why the public/private partnership tends to work best. Under such an agreement, private companies tend to lease the port and engage in quayside operations, i.e. loading and unloading of container vessels. Similarly, concession agreements involve ports developed with public funds that are granted to private operators on a long-term basis. These are known as Build, Operate and Transfer (BOT), where the private operator finances, builds, equips and then operates the terminal. Concession agreement can typically last for 25-50 years.

B. WORLD THROUGHPUT BY REGION

In 2008, over 540 million TEUs were handled across the global ports, with the Far East taking the highest market share at 37%. West Europe is the second largest market, taking an 18% share in 2008. South East Asia and North America are the next largest with a 13% and 9% share, respectively.

Figure 35: 2008 Percentage Market Share of TEU



Source: Drewery Shipping Consultants

The dynamics of the container industry have changed significantly over the last 30 years. For example, the Far East's market share has grown from 20% in 1980 to 37% in 2008, highlighting the significant manufacturing growth that has taken place within the wider region. In contrast, North America's and Western Europe's market shares have fallen significantly during the same period despite absolute volume rising strongly.

Figure 36: Share of Container Throughput 1980-2008

	Share of World Container Port Throughput							
	1980	1990	2000	2004	2005	2006	2007	2008
North America	24.5%	18.9%	13.0%	11.3%	11.2%	10.6%	9.6%	9.0%
West Europe	30.2%	25.6%	21.8%	19.6%	19.0%	18.4%	18.4%	18.0%
North Europe	22.3%	18.2%	13.4%	11.7%	11.5%	11.3%	11.3%	11.1%
South Europe	8.0%	7.4%	8.4%	7.9%	7.4%	7.1%	7.1%	6.9%
Far East	19.8%	26.2%	30.3%	33.8%	34.5%	35.5%	36.2%	37.0%
South East Asia	4.8%	11.0%	14.5%	14.3%	13.8%	13.5%	13.6%	13.5%
Middle East	5.0%	4.1%	4.7%	5.5%	5.6%	5.5%	5.7%	5.9%
Latin America	6.1%	5.8%	7.6%	6.9%	7.0%	7.1%	7.1%	7.0%
Caribbean / Central America	4.7%	3.8%	4.2%	3.6%	3.6%	3.7%	3.7%	3.6%
South America	1.4%	2.0%	3.4%	3.3%	3.4%	3.5%	3.4%	3.4%
Oceania	4.1%	2.6%	2.1%	2.0%	1.9%	1.8%	1.7%	1.7%
South Asia	0.6%	2.0%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%
Africa	3.8%	3.1%	3.1%	3.4%	3.5%	3.6%	3.6%	3.6%
Eastern Europe	1.0%	0.7%	0.5%	0.9%	1.1%	1.2%	1.4%	1.6%

Source: Drewery Shipping Consultants

C. PORT REVENUE MODEL

A port generates revenue through handling cargo. Typically, there is a fixed fee per TEU. In addition to containers, a port could potentially handle bulk goods and raw materials, and this will generate a separate fee. Furthermore, ancillary revenues can be earned through storage and freezer/reefer facilities.

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D. TRANSHIPMENT VERSUS ORIGIN & DESTINATION

The type of cargo can vary and that can have a significant impact on the valuation of a port. A container that is transferred from one ship to another at some point during the journey is said to be transhipped. Some ports are specifically designed for transhipments, such as the Port of Singapore. Only a small percentage of cargo that arrives in Singapore actually stays there, as the port is used as a hub for the region.

In contrast, Origin & Destination (O&D) is cargo that is unloaded close to the point of consumption. This makes O&D less likely to be lost to competitors and less price sensitive. It also provides opportunity to earn ancillary revenue by charging for storage, container cleaning, etc. This makes O&D typically a higher margin operation and provides better quality earnings.

E. TOP OPERATORS

The port industry continues to be dominated by the "big four". As the table below indicates, HPH (Hutchison Port Holdings) continues to lead the market with a market share of 13%. AP Moller-Maersk (APMT) and the Port of Singapore follow closely in second and third position with a 12.3% and 11.5% market share, respectively. DPW remains in fourth place with a market share of 8.9%.

Figure 37: Top Ten Port Operators

Ranking			2008		2007	
2008	2007	Operator	(TEUs mn)	% Share	(TEUs mn)	% Share
1	1	HPH	67.6	13.0%	66.3	13.30%
2	2	APMT	64.4	12.3%	60.3	12.10%
3	3	PSA	59.7	11.4%	54.7	11.00%
4	4	DPW	46.2	8.9%	43.0	8.70%
5	5	Cosco	32	6.1%	27.3	5.50%
6	6	MSC	16.2	3.1%	14.4	2.90%
7	7	Eurogate	13.2	2.5%	13.2	2.70%
8	8	Evergreen	10.3	2.0%	10.4	2.10%
9	10	HHLA	7.4	1.4%	7.3	1.50%
10	9	SSA Marine	7.4	1.4%	7.7	1.60%

Source: Drewery Shipping Consultants

F. THE SHIPPING LINES

While port operators have consolidated and become larger over time, the same has happened on the customer side, with shipping lines becoming significant in size. AP Moller-Maersk is the largest shipping line with over 1 million TEU in capacity, accounting for over 18% of the market. It also owns over 200 vessels. MSC and Evergreen are the next largest with a 10.6% and 6.7% share, respectively. Following those, there are many companies, which have between 4% and 5% market share each. Some of the smaller operators did have large order books and were supposed to close the gap, but, given the extent of the downturn, we suspect many of these vessels with not get delivered or be further delayed.

Figure 38: Top 20 Shipping Lines

Top 20 Carriers	Total Capacity (TEU)	% Share	No. of Vessels	Avg. Vessel Size (DWT)
AP Moller-Maersk	1,087,276	18.4%	222	4,898
MSC	625,551	10.6%	176	3,554
Evergreen Group	396,417	6.7%	114	3,477
CMA CGM	304,844	5.2%	87	3,504
Cosco	301,480	5.1%	127	2,374
Hapag-Lloyd	289,154	4.9%	70	4,131
NYK	245,318	4.2%	63	3,894
MOL	237,499	4.0%	53	4,481
K Line	227,015	3.8%	55	4,128
OOCL	223,962	3.8%	44	5,090
CSCL	216,032	3.7%	57	3,790
Yang Ming	196,197	3.3%	56	3,504
APL/NOL	180,630	3.1%	50	3,613
Hanjin	147,309	2.5%	33	4,464
Wan Hai	135,398	2.3%	59	2,295
Hamburg Sud	121,752	2.1%	36	3,382
HMM	111,886	1.9%	20	5,594
PIL	102,152	1.7%	73	1,399
Zim	92,730	1.6%	26	3,567
UASC	88,549	1.5%	26	3,406
Total	**5,331,151**	**90.3%**	**1,447**	**3,684**
Others	**573,915**	**9.7%**		
Total	**5,905,066**	**100.0%**		

Source: Drewery Shipping Consultants

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VII. FINANCIAL STATEMENTS

Income Statement (December Year End)
In USD million, unless otherwise stated

	2008a	2009e	2010e	2011e	2012e	2013e
Revenue	3,283	2,823	3,022	3,266	3,477	3,754
Change	20%	-14%	7%	8%	6%	8%
COGS	(1,772)	(1,497)	(1,529)	(1,610)	(1,692)	(1,820)
Gross Profit	**1,511**	**1,326**	**1,493**	**1,656**	**1,785**	**1,934**
Gross Profit Margin	**46.0%**	**47.0%**	**49.4%**	**50.7%**	**51.3%**	**51.5%**
SG&A	(306)	(347)	(401)	(425)	(452)	(469)
As % of Sales	9%	12%	13%	13%	13%	13%
Other Income	18	20	21	23	24	26
Share of Profit of Equity acc. Asst. & Joint Ventures	116	74	90	102	110	121
Adj.EBITDA	**1,340**	**1,072**	**1,203**	**1,356**	**1,467**	**1,612**
EBITDA Margin	40.8%	38.0%	39.8%	41.5%	42.2%	42.9%
Depreciation & Amortisation	(372)	(386)	(393)	(443)	(475)	(499)
Net Operating Profit	**968**	**686**	**810**	**912**	**993**	**1,112**
Net Interest Expense	(267)	(288)	(341)	(359)	(356)	(353)
Non-Operating Income	(124)	0	0	0	0	0
Earnings before Taxes	**577**	**398**	**469**	**553**	**637**	**759**
Income Tax	(80)	(63)	(67)	(66)	(76)	(91)
Deferred Taxes	34	0	0	0	0	0
Earnings before Minority	**531**	**335**	**402**	**487**	**560**	**668**
Minority Interest	(48)	(39)	(49)	(52)	(55)	(56)
Net Profit (Headline)	**572**	**295**	**353**	**434**	**506**	**613**
Net Profit (Reported)	**482**	**295**	**353**	**434**	**506**	**613**
EPS	3.45	1.78	2.13	2.62	3.05	3.69

Source: DP World, EFG Hermes estimates

Balance Sheet (December Year End)
In USD million, unless otherwise stated

	2008a	2009e	2010e	2011e	2012e	2013e
Cash & Liquid Assets	1,204	2,685	2,163	1,919	1,758	1,758
Net Accounts Receivable	741	847	906	980	1,043	1,126
Inventory	57	85	136	131	163	176
Other Current Assets	10	10	10	10	10	10
Total Current Assets	**2,013**	**3,627**	**3,216**	**3,039**	**2,975**	**3,071**
Fixed Assets	4,253	5,009	5,629	6,020	6,388	6,724
Goodwill	2,154	2,300	2,168	2,043	1,926	1,815
Investment in Associates and Joint Ventures	3,109	3,233	3,242	3,252	3,263	3,275
Other Non-Current Assets	3,970	4,377	4,377	4,377	4,377	4,377
Total Assets	**15,499**	**18,546**	**18,631**	**18,732**	**18,929**	**19,262**
Accounts Payable and Accruals	1,008	959	996	979	1,007	1,088
Interest-Bearing Loans and Borrowing	172	343	351	360	369	379
Bank Overdraft	50		0	0	0	0
Provisions	40	40	40	40	40	40
Other Current Liabilities	163	226	238	254	268	289
Total Current Liabilities	**1,434**	**1,567**	**1,625**	**1,632**	**1,685**	**1,796**
Accounts Payable and Accruals	378	367	367	367	367	367
Interest-Bearing Loans and Borrowings	5,197	7,239	6,888	6,528	6,158	5,779
Deferred Tax Liabilities	1,168	1,341	1,341	1,341	1,341	1,341
Other LT liabilities	149	279	279	279	279	279
Total Liabilities	**8,326**	**10,793**	**10,499**	**10,147**	**9,830**	**9,562**
Minority Interest	740	815	864	916	971	1,026
Shareholders' Equity	**6,433**	**6,938**	**7,268**	**7,668**	**8,128**	**8,673**
Total Liabilities & Equity	**15,499**	**18,546**	**18,631**	**18,732**	**18,929**	**19,262**

Source: DP World, EFG Hermes estimates

Cash Flows Statement (December Year End)

In USD million, unless otherwise stated

	2008a	2009e	2010e	2011e	2012e	2013e
Net Profit before Minority	531	335	402	487	560	668
Depreciation	372	247	261	319	357	389
Other Operating Inflows (Outflows)	166	99	310	297	296	327
Net Cash Flow from Operating Activities	1,069	681	972	1,102	1,213	1,384
Cash Flow from Investing	(2,007)	(887)	(701)	(546)	(560)	(561)
Net Cash from Op. and Investing Activities	(939)	(206)	271	556	654	823
Net Cash Flow from Financing	(686)	1,737	(793)	(800)	(814)	(823)
Change in Cash	**(1,625)**	**1,531**	**(522)**	**(245)**	**(161)**	**(0)**

Source: DP World, EFG Hermes estimates

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