DP WORLD RATING **NEUTRAL**

23 August 2010

Recovery On Track; Downgrade to Neutral Following Recent Rally

RESULTS REVIEW AND RATING CHANGE | **INDUSTRIALS** | **UAE**

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Downgrade to Neutral Following Recent Rally

DP World delivered a solid 1H2010 performance, and we expect the volume growth momentum to accelerate in 2H2010 as it benefits from seasonal trade flows and new capacity expansion. Going forward, the 3Q2010 trading update and news of DP World's London listing in 2011 should act as positive catalysts. However, the stock enjoyed a strong rally in recent weeks (+c20%) and is therefore likely to pause for breath. Furthermore, our unchanged fair value (FV) of USD0.56/share implies 12% upside potential. Consequently, we downgrade our rating on the stock to Neutral from Buy.

1H2010 Numbers In Line

DP World's 1H2010 numbers came in line with our as well as market expectations. Revenues rose by 5% Y-o-Y to USD1,455 million, marginally ahead of our expectation. EBITDA came in at USD580 million, 2% ahead of our estimate, while net income was 4% ahead of our forecast at USD164 million due to lower-than-expected tax charges.

Current Trading is Positive

The momentum in volume rise continued with 1H2010 like-for-like throughput growth coming in at 10%, accelerating from 7% in 1Q2010. Management stated that July 2010 volumes were also 'strong', which bodes well for the short-term outlook. Additionally, Australia and Asia continue to perform strongly, the UAE is picking up after a slow start, and Europe is showing some signs of recovery.

Downgrades to Bottom Line due to Non-Operational Items

Despite the better-than-expected 1H2010 volume figures (7% versus our 5%), we leave our revenue and EBITDA forecasts broadly unchanged until 3Q2010 trading patterns become clearer, particularly in the higher margin UAE region. However, we lower our 2010 and 2011 net income estimates by 12% and 16%, respectively, due to higher depreciation, tax and minority interest charges. Overall, we believe that our top line forecasts are conservative. However, we remain conservative in the meantime.

KEY FINANCIAL HIGHLIGHTS

December Year End (USD mn)	2009a	2010e	2011e	2012e
Revenue	2,821	3,012	3,309	3,505
EBITDA	1,072	1,206	1,394	1,496
Net Income	295	311	365	416
EPS (cents)	1.78	1.88	2.20	2.51
DPS (cents)	0.82	0.84	0.99	1.13
P/E* (x)	28.1	26.7	22.7	19.9
EV/EBITDA (x)	15.1	13.4	11.6	10.8
ROE	4%	5%	5%	6%
P/CF* (x)	14.5	9.7	7.8	7.2
Div. Yield	1.6%	1.7%	2.0%	2.3%
Net Debt	5,059	5,465	5,379	5,212

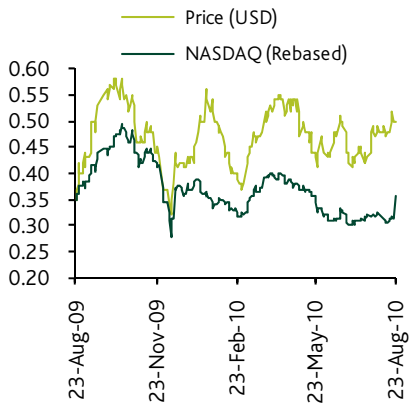
*Prices as at 23 August 2010

Source: EFG Hermes estimates

STOCK DATA

Price	**USD0.50***
Fair Value	**USD0.56**
Last Div. / Ex Date	USD0.0082 on 30 Mar 10
Mkt. Cap / Shares (mn)	USD8,300 / 16,600
Av. Mthly Liqdty (mn)	USD93
52-Week High / Low	USD0.58 / USD 0.32
Bloomberg / Reuters	DPW DU / DPW.DI
Est. Free Float	20%

SHARE PRICE PERFORMANCE RELATIVE TO NASDAQ REBASED



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1H2010 RESULTS REVIEW

1H2010 numbers in line

Revenues in 1H2010 grew by 5% to USD1,455 million, marginally below volume growth of 7%. Sales growth was held back by lower storage revenues (down 1%) and weaker non-container revenues (down 4%). In contrast, container revenues grew by 13% during the period, indicating that the core business bounced back strongly. The decline in non-container revenues has halted, and with weaker comparables for 2H2010, we expect to see revenue growth climbing ahead of volume growth.

Australia and Asia continue to drive revenue growth

In the regional mix, Europe, Middle East and Africa revenues fell by 1.6% Y-o-Y, mainly due to weaker non-container revenues in the UAE. Australia and the Americas (mainly Australia) rebounded strongly by delivering exceptional growth (more than 30%) during 1H2010. Reported revenues in Asia Pacific and the Indian subcontinent declined by 15%; however, this was due to the transfer of ATI Manila to JV and associates from fully consolidated terminals. Excluding this adjustment, like-for-like revenues would have risen by more than 10% in 1H2010.

Adjusted EBITDA rose by 8% to USD580 million as the group continued to cut costs. Overall, USD42 million of costs were taken out in 1H2010. JV and associate income almost doubled on the back of strong growth in Asia.

Depreciation and amortisation charges rose by 16% as new terminals joined the portfolio. Net Interest costs grew by 10% as net debt grew to USD5,365 million, up from USD4,792 million in 1H2009. Overall, 1H2010 PBT came in at USD219 million, some 4% ahead of our estimate.

The tax charge fell by 58% due to an adjustment in deferred tax liability in India. The tax charge in FY2010 is likely to be around USD40-45 million.

The strong growth in JV and associates meant that minority interest charges rose significantly and came in ahead expectation. Overall, underlying net income came in at USD164 million, 3.6% ahead of our estimate.

FIGURE 1: 1H2010 ACTUAL VERSUS FORECASTS
In USD million, unless otherwise stated

	1H09a	1H10a	Y-o-Y	1H2010e	Vs. Forecast
Volume TEUs	12.3	13.2	7%	12.8	3%
Revenue	**1,384**	**1,455**	**5%**	**1,436**	**1%**
Europe, Middle East and Africa	867	853	-2%	894	-5%
Australia and Americas	268	389	45%	276	41%
Asia Pacific, Indian Subcontinent	249	212	-15%	266	-20%
EBITDA (Adjusted)	**535**	**580**	**8%**	**568**	**2%**
Depreciation & Amortisation	(188)	(217)	16%	(188)	16%
Net Finance Costs	(131)	(144)	10%	(171)	-16%
Profit before Tax	**216**	**219**	**1%**	**209**	**4%**
Other Items (Exceptional Items)	0	13	N/M	0	-
Tax	(29)	(12)	-58%	(28)	-57%
Effective Tax Rate	13.3%	5.5%	-58%	13.5%	-59%
Profit after Tax (Headline)	**188**	**206**	**10%**	**181**	**14%**
Profit after Tax (Reported)	**188**	**219**	**17%**	**181**	**21%**
Minority Interest	12.4	42.6	N/M	22.8	87%
Net Income (Reported)	**175**	**177**	**1%**	**158**	**12%**
Underlying Earnings	**175**	**164**	**-7%**	**158**	**4%**
Underlying EPS (in cents)	1.06	0.99	-7%	0.95	4%

Source: DP World, EFG Hermes estimates

CHANGES TO OUR ESTIMATES

Downgrade FY2010 and FY2011 EPS by 12 and 16% respectively

Overall, we lower our FY2010 and FY2011 net income forecasts by 12% and 16%, respectively, due to higher depreciation, tax and minority interest charges. Management indicated that depreciation charges are likely to rise due to the addition of new capacity. Additionally, the average tax rate is likely to rise to 16-19% as the group generates more of its revenues from higher tax regions (outside of UAE). Furthermore, stronger growth in JV and associate ports, mainly Asia, means that minority interest charges will likely increase substantially.

Given the above, we adjust our forecasts accordingly. We also tweak our revenue and EBITDA forecasts, which we believe remain conservative. We suspect that there is room to upgrade our volume and revenue growth estimates, which should filter through to the bottom line and make up for most of the shortfall from the above downgrade. However, given the fragile state of the global recovery, we will refrain from making material changes until the 3Q2010 trading picture, particularly in the higher margin UAE regions, becomes clearer.

FIGURE 2: CHANGES TO FY2010 AND FY 2011 ESTIMATES
In USD million, unless otherwise stated

	2010e (Old)	2010e (New)	Variance	2011e (Old)	2011e (New)	Variance
Volume TEUs	26.7	27.1	1%	28.2	28.7	2%
Y-o-Y Growth	4.9%	6.4%		5.3%	5.8%	
Revenue	**3,022**	**3,012**	**0%**	**3,266**	**3,309**	**1%**
Europe, Middle East and Africa	1,874	1,776	-5%	1,975	1,925	-3%
Australia and Americas	600	794	32%	678	867	28%
Asia Pacific, Indian Subcontinent	548	443	-19%	613	517	-16%
EBITDA (Adjusted)	**1,203**	**1,206**	**0%**	**1,356**	**1,394**	**3%**
Depreciation & Amortisation	(393)	(438)	12%	(443)	(464)	5%
Net Finance Costs	(341)	(332)	-3%	(359)	(367)	2%
Profit before Tax	**469**	**436**	**-7%**	**553**	**563**	**2%**
Other Items (Exceptional Items)	0	13				
Tax	(67)	(40)	-40%	(66)	(93)	40%
Effective Tax Rate	14%	9%	-35%	12%	17%	38%
Profit after Tax (Headline)	**402**	**396**	**-2%**	**487**	**470**	**-3%**
Profit after Tax (Reported)	**402**	**408**	**2%**	**487**	**470**	**-3%**
Minority Interest	49	84	73%	52	105	100%
Net Income (Reported)	**353**	**324**	**-8%**	**434**	**365**	**-16%**
Underlying Earnings	**353**	**311**	**-12%**	**434**	**365**	**-16%**
Underlying EPS (in cents)	2.13	1.88	-12%	2.62	2.20	-16%

Source: EFG Hermes estimates

Trading statement and London listing to be positive catalysts, but shares likely to be range-bound after recent rally

Going forward, we believe that the 3Q2010 trading update (likely in October 2010) and news of global port volumes will drive the shares in the short term. As we previously mentioned, July 2010 trading was strong. Should the momentum continue, we are likely to see consensus upgrades to top line estimates. Furthermore, as we approach 2011, focus will shift to the company's London listing after the reporting of FY2010 results, which remains an important milestone for the group. A London listing is likely to improve liquidity in the stock and attract a new investor base. Furthermore, it could be an opportunity for DP World's parent company, Dubai World, to sell down some of its stock, which could act as an additional positive catalyst.

Overall, DP World remains a play on the global recovery of trade volumes, which appears to be gathering momentum on a monthly basis. The group is highly exposed to emerging market economies and should grow faster than the market.

However, with the above in mind, it is worth stating that the stock rallied by almost 20% in the last month and is likely to pause for breath in the short term. Additionally, the shares now trade at 12% below our unchanged fair value (FV) of USD0.56/share. Consequently, we downgrade our recommendation to Neutral from Buy.

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