Analyst Comment

December 01, 2009

DP WORLD (DPW.DI)

- DP World issued the following statement on 25 November 2009: "The Government of Dubai has confirmed that DP World and its debt are not included in the restructuring process for Dubai World announced earlier today."
- On 26 November 2009, Moody's downgraded its rating on DP World to Baa2 from A3. Moody's explained that it reduced the government support which it had previously factored into its rating for DP World.
- DP World is 80%-owned by Dubai World and according to DP World's latest financials, the port operator has no contingent liabilities with regards to Dubai World or any other sister companies. Moody's acknowledged that no cross default provisions exist between DP World and Dubai World.
- We have always commended DP World for having a strong balance sheet. According to 1H2009 financials, DP World has USD 3.1 billion in cash with total loans amounting to USD 7.8 billion (which puts net debt at USD 4.7 billion). DP World's leverage is acceptable as the company has a net debt-to-equity ratio of 0.7x.
- DP World is a strong cash-generating company. Despite the recent slump in global trade, the company's trailing twelve months (TTM) cash from operating activities stand at USD 0.8 billion. Also, the TTM net-interest coverage ratio (EBITDA over net interest expense) for the company stands at 4.4x.
- Moreover, DP World's debt maturity schedule is well-dispersed into the future, with the first major repayment occurring in 2012 (which amounts to USD 3 billion).
- Accordingly, we are of the opinion that DP World has a solid capital structure and does not require any financial support from its shareholders.
- In our last update on DP World (dated 6 October 2009) we highlighted that despite the tough operating environment, DP World managed to post strong operating results in 1H2009. Following the 3Q2009 trading update, we became more convinced that the drop in container volumes is starting to bottom out. Accordingly, we expect to start seeing a recovery in 2010 which should lead to growth in container volumes.
- Our long term outlook for DP World remains favorable and accordingly we did not change our fair value estimate of USD 0.55 per share. Our valuation for DP World is based on our discounted cash flow (DCF) model, which examines the fundamentals of the company to determine its future cash-generating ability. This valuation methodology does not account for changes in market sentiment. DP World's stock price is expected to see lots of volatility as a result of the restructuring of Dubai World's debt. In our opinion, this might provide long-term investors the opportunity to acquire DP World's shares at attractive levels. Given that our fair value target is 49% above the latest close for DP World, our recommendation on the stock is "Buy."

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Related Research

- Update - 06 October 2009
- Update - 14 April 2009

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