DP World

October 21, 2009

Fair Value Estimate: USD 0.51
Recommendation: Hold

Executive Summary

- DP World reported 10% y-o-y lower consolidated throughput of 12.3mn TEUs in H1 2009, less than we expected (13.2mn) but better than the industry average (Drewry estimate: -14.2% y-o-y). In the short- to medium-term we believe DP World will outperform its peers and forecast consolidated throughput of 25.4mn TEUs for 2009, down 8.2% y-o-y but by less than the expected industry average decline of 10.3% y-o-y (Drewry).

- Due to weaker throughput and a further 23% y-o-y reduction in non-container revenue, DP World reported a 3.5pps lower EBIT margin of 22%. The negative effect of weaker throughput was partly offset by significant cost reductions due to improved efficiencies and cost-saving initiatives. We expect the Company to improve its EBIT margin in H2 2009.

- The Company retains a sound capital structure with a net debt-to-equity ratio of 70% at the end of H1 2009. As we now forecast lower cash flow from operations in 2009, we expect a higher net debt-to-equity ratio of 75% by the end of this year.

- **Valuation**: Since our last report, the DP World share price has increased substantially. Because our revised fair value estimate of USD 0.51 implies that the stock is now fairly valued, we downgrade our rating from Buy to Hold.

RESULT UPDATE

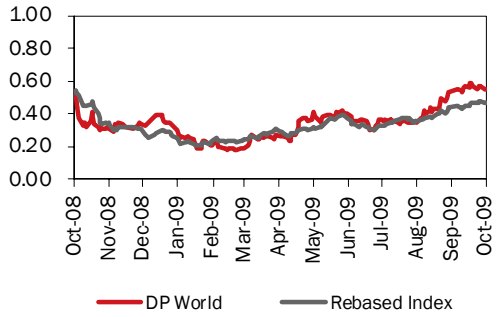
Share data	
Market Cap	USD 9.1 bn
Price	USD 0.55
MSCI UAE Index	287.50
Reuters	DPW.DI
Bloomberg	DPW.DU
Avg. Volume (52 Week)	11.3 mn
52-Week High/Low	USD 0.599 / 0.170
Shares Outstanding	16,600 mn
Fair Value Estimate	**USD 0.51**

Key Figures (USD mn)

Year to 31 Dec	2008	2009
Revenue	3,283	2,836
EBITDA	1,205	1,029
Adjusted net profit	572	278
EPS (USD)	0.03	0.02
EPS growth	52.7%	(51.5%)
RoA (%)	3.5%	1.6%
RoE (%)	8.1%	4.1%
P / E (x)	16.0x	32.9x
EV / EBITDA (x)	13.1x	14.7x
P / BV (x)	1.4x	1.3x

Shareholding Pattern (%)	
Dubai World (via Port & Free Zone)	80.45
Public & Others	19.55

Relative Performance



Investment Rationale

Due to adverse operating conditions, DP World reported 13.4% y-o-y lower revenue of USD 1,384mn and a 36.6% y-o-y decline in net profit to AED 175mn in H1 2009. Weaker revenue was mainly the result of a 10% y-o-y reduction in throughput and a 23% y-o-y decline in non-container revenue. Further, the EBIT margin declined 3.5pps to 22% in H1 2009 vs. H1 2008. However, DP World partly offset the deterioration in margins mainly due to various cost-saving measures, enabling it to achieve a 15% y-o-y reduction in total fixed costs.

Since our last report, the Company's share price has increased substantially and is currently fairly valued. Nevertheless, we believe DP World is much better positioned than its peers based on projected growth with a faster than expected recovery in the global economy likely to drive valuations higher. We downgrade our rating from Buy to Hold.

DP World continues to outperform peers

For the first half of 2009, the Company reported 13.4% y-o-y lower revenues of USD 1,384mn due to a 10% decline in consolidated throughput and a 23% reduction in non-container revenues. However, the Company's throughput exceeded the industry average which fell by 14.2% y-o-y (Drewry). While we expect the operating environment to remain challenging in the near-term, we believe DP World will outperform its peers based on growth in trade volumes due to its larger exposure to the more resilient Middle East and Indian subcontinental markets. We forecast consolidated throughput for 2009 of 25.4mn TEUs, down 8.2% y-o-y (but better than the estimated industry average decline of 10.3% - Drewry) with a sharper fall in non-container revenues. Nevertheless, we believe revenue per TEU should increase from current levels. Further, we expect dollar depreciation to benefit revenues. For H2 2009, we forecast container and non-container revenue at USD 1,169mn and USD 283mn, respectively.

Container growth by region (Change in total port handling)

Region	2007	2008	2009*	2010*	2011*	2012*
North America	1.9%	(4.2%)	(12.3%)	2.8%	4.5%	3.9%
Latin America	10.7%	6.2%	(10.5%)	1.6%	4.5%	5.2%
West Europe	11.9%	0.8%	(13.0%)	1.3%	5.1%	4.8%
East Europe	32.4%	10.8%	(28.4%)	(9.5%)	6.3%	9.2%
Middle East	15.7%	11.7%	(6.9%)	3.1%	6.7%	7.2%
Africa	13.2%	15.3%	(6.3%)	2.2%	5.2%	5.7%
South Asia	17.5%	8.6%	(8.5%)	4.3%	8.4%	8.9%
South East Asia	12.5%	5.6%	(11.4%)	1.7%	5.5%	6.0%
Far East	14.6%	7.5%	(8.6%)	4.2%	8.1%	8.6%
Oceania	9.0%	8.8%	(6.7%)	2.0%	4.9%	4.9%
World	**12.4%**	**5.4%**	**-10.3%**	**2.7%**	**6.4%**	**6.8%**

* Forecast

Source: Drewry Shipping Consultants

Operating margin should improve from current levels

Weaker throughput by DP World resulted in a significantly lower EBIT margin of 22% in H1 2009 compared with 25.5% in H1 2008. Nevertheless, various cost reduction measures adopted by the Company helped limit the downfall. We expect the Company to improve its EBIT margin in H2 2009 to 22.8% largely due to a 15% reduction in fixed costs reported

in H1 and a lesser share of total revenues comprising lower margin non-container business.

Deferring expansion plans

Due to current adverse market conditions, the Company has postponed ~50% of its already announced capacity additions in the short-term and will instead focus on expanding those of its new developments currently nearing completion and those replacing existing terminals. However, we believe the Company will unfreeze its capacity expansion and development plans as trade recovers from 2010. We expect the addition of around 6.2mn TEUs in consolidated capacity to the Company's portfolio between 2011 and 2015, mainly due to the further introduction of 4.2mn TEU in the Middle East, Europe and Africa. Consequently, we forecast total consolidated capacity of ~49.3mn TEU by 2015 and total gross capacity of ~90.7mn TEU.

Solid capital structure though net debt will increase short-term

We expect the Company's net debt-to equity ratio to increase in the short-term from a solid 70% at the end of H1 2009 due to lower cash flow from operations which we believe will prove insufficient to finance its modest capex plans. We now estimate cash flow from operations of ~USD 516mn for 2009 compared with our previous forecast of over USD 800mn. We believe net debt will increase to ~USD 5.24bn (from currently USD 4.79bn) and the net debt-to-equity ratio will rise to around 75% by the end of 2009.

Valuation

We have valued DP World using a combination of Discounted Cash Flow (DCF) and Peer-based Multiples. We have assigned subjective weights of 70% to our DCF and 30% to our Peer-based multiples valuation to calculate our fair value estimate for 2009. We have chosen to allocate a higher weight to our DCF model as it discounts firm-specific cash flows. Our weighted average model yields a fair value of USD 0.51 per share for 2009, which is at a 8% discount to the current market price. As a result, we have donwgraded our rating from Buy to Hold.

Weighted average value per share		
Valuation Method	Value (USD)	Weight (%)
Discounted Cash Flow (DCF)	0.37	70%
Peer-based Multiple Valuation	0.82	30%
Weighted average fair value	0.51	100%

Source: ADCB research

Discounted Cash Flow model (DCF)

We have used a two-stage DCF model with explicit forecasts to 2015. Based on these, we have calculated free cash flows which we have then discounted in order to estimate the fair value of the Company. We have estimated the Cost of Equity using the Capital Asset Pricing Model. The key assumptions underlying our model are as follows:

Risk free rate:	4.12%
Country Risk Premium:	2.9%
Equity Premium:	6%

Company Beta:	0.9
Cost of equity:	12.42%
WACC:	9.27%
Terminal growth rate:	3.0%

Sensitivity of fair value estimate, using different terminal cost of capital and terminal growth rates:

	Terminal cost of capital				
Terminal growth	8.27%	8.77%	9.27%	9.77%	10.27%
2.00%	0.40	0.35	0.30	0.26	0.23
2.50%	0.45	0.39	0.33	0.29	0.25
3.00%	0.50	0.43	0.37	0.32	0.28
3.50%	0.56	0.48	0.41	0.36	0.31
4.00%	0.64	0.54	0.46	0.40	0.34

Source: ADCB research

Peer-based Valuation method

DP World is currently trading at a 2009 EV/EBITDA multiple of 14.7x, which is at a 21% discount to the peer group average of 18.7x. Based on a peer group mean EV/EBITDA multiple of 18.7x for 2009, we have calculated a fair value of USD 0.82 per share.

Comparable Company Trading Analysis													
	Stock Price	Fully Diluted Market Cap	Fully Diluted Enterprise Value (EV)	P/E			Fully Diluted EV / EBITDA			ROAE		
Company	20-Oct-09 (USD)	(USD mn)	(USD mn)	Dec-08	Dec-09	Dec-10	Dec-08	Dec-09	Dec-10	Dec-08	Dec-09	Dec-10
DP World	0.55	9,130	14,710	16.0x	32.9x	29.8x	13.1x	14.7x	12.9x	8.1%	4.1%	4.3%
Shanghai International Port (Group) Co	0.79	16,881	18,923	27.3x	31.6x	27.9x	16.2x	18.6x	17.1x	15.9%	10.5%	10.4%
China Merchants Holdings (International) Co	3.43	8,506	10,073	18.4x	21.8x	23.2x	36.2x	39.7x	34.8x	12.5%	9.2%	8.3%
Hamburger Hafen und Logistik AG	46.37	3,370	3,758	13.4x	36.6x	25.7x	5.7x	9.1x	7.7x	30.3%	10.6%	14.1%
Tianjin Port Co	1.70	2,880	3,921	20.3x	21.1x	19.2x	13.3x	12.8x	11.8x	12.0%	8.8%	8.9%
Shenzhen Yan Tian Port Holdings Co	1.15	1,450	1,322	17.0x	22.4x	20.7x	36.8x	38.2x	36.4x	15.4%	10.9%	10.8%
Forth Ports PLC	18.63	851	1,183	55.3x	21.5x	20.2x	NM	12.3x	11.8x	(18.7%)	10.4%	10.3%
Dalian Port PDA Co	0.47	1,363	1,477	14.1x	16.2x	15.6x	8.8x	10.4x	9.8x	12.8%	8.9%	9.1%
Santos Brasil Participacoes SA	8.21	1,077	1,168	15.1x	24.4x	22.6x	3.7x	8.5x	7.6x	4.8%	6.6%	6.4%
Mean				22.6x	24.5x	21.9x	17.3x	18.7x	17.1x	10.6%	9.5%	9.8%
Median				17.7x	22.1x	21.7x	13.3x	12.6x	11.8x	12.7%	9.8%	9.7%

Source: Company data, Reuters, ADCB research

Quarterly

Balance Sheet				
(USD mn, half yr. ending)	H1 2008	H2 2008	H1 2009	H2 2009
Cash & bank balances including Bank OD	1,289	1,154	2,994	3,455
Inventories	62	57	63	55
Accounts receivable and prepayments	700	741	803	875
Property, plant and equipment	3,975	4,253	4,708	5,080
Investment in associates and JVs	3,480	3,109	3,229	3,229
Other assets	7,376	6,134	6,756	6,690
Total Assets	**16,880**	**15,449**	**18,553**	**19,384**
Accounts payable and accruals	905	1,008	935	803
Borrowings excluding Bank OD	5,385	5,369	7,786	8,699
Other liabilities	2,778	2,638	2,982	2,923
Shareholders' equity	7,813	6,433	6,850	6,959
Total Equity & Liabilities	**16,880**	**15,449**	**18,553**	**19,384**

Income Statement[1]				
	H1 2008	H2 2008	H1 2009	H2 2009
Revenue	**1,598**	**1,686**	**1,384**	**1,452**
% growth	4.9%	5.5%	(17.9%)	5.0%
Gross Profit	**566**	**573**	**457**	**455**
% margin	35.5%	34.0%	33.1%	31.3%
EBITDA	**589**	**616**	**492**	**537**
% margin	36.9%	36.6%	35.6%	37.0%
EBIT	**407**	**427**	**305**	**331**
% margin	25.5%	25.3%	22.0%	22.8%
Adjusted Net Profit	**276**	**296**	**175**	**103**
% margin	17.3%	17.6%	12.7%	7.1%
Basic EPS (USD)	0.02	0.02	0.01	0.01

Yearly

Balance Sheet					
(USD mn, Yr. ending Dec. 31)	2007	2008	2009	2010	2011
Cash and cash equivalents	2,876	1,154	3,455	2,856	2,421
Inventories	54	57	55	63	74
Accounts receivable and prepayments	704	741	875	953	1,147
Other current assets	20	10	10	10	10
Property, plant and equipment	3,915	4,253	5,080	5,816	7,507
Intangible assets	6,018	5,995	6,412	6,252	6,098
Investment in associates and JVs	3,322	3,109	3,229	3,229	3,229
Other long-term assets	97	129	268	252	262
Total Assets	**17,007**	**15,449**	**19,384**	**19,430**	**20,748**
Accounts payable and accruals	919	1,008	803	929	1,096
Borrowings excluding Bank OD	5,719	5,369	8,699	8,317	8,882
Other current liabilities	553	204	207	207	207
Other long-term liabilities	1,443	1,694	1,921	1,929	1,985
Minority Interest	657	740	795	817	854
Shareholders' equity	7,716	6,433	6,959	7,232	7,724
Total Equity & Liabilities	**17,007**	**15,449**	**19,384**	**19,430**	**20,748**

Income Statement[1]					
	2007	2008	2009	2010	2011
Revenue	**2,731**	**3,283**	**2,836**	**3,320**	**4,185**
COGS	(1,838)	(2,143)	(1,924)	(2,215)	(2,704)
Gross Profit	**893**	**1,140**	**912**	**1,104**	**1,481**
SG&A	(251)	(306)	(276)	(332)	(419)
EBIT	**642**	**834**	**636**	**773**	**1,063**
Depreciation	371	372	393	423	455
EBITDA	**1,013**	**1,205**	**1,029**	**1,196**	**1,518**
Net interest income	(265)	(267)	(379)	(479)	(528)
Profit from associates	108	116	68	66	83
Net other non-operating income	24	18	18	18	18
Profit Before Tax	**509**	**701**	**343**	**377**	**636**
Tax	(89)	(80)	(45)	(49)	(83)
Minority Interest	(45)	(48)	(20)	(22)	(37)
Adjusted Net Profit	**375**	**572**	**278**	**307**	**517**
Reported Net Profit	440	572	278	307	517

Cash Flow Statement					
Net Income before MI (reported)	539	531	297	328	553
Depreciation and amortization	371	372	393	423	455
Change in Working Capital	(65)	(24)	(513)	65	8
Other Adjustments, net	(501)	190	338	414	445
Cash Flow from Operations	**344**	**1,069**	**516**	**1,230**	**1,462**
Capex	(742)	(1,265)	(980)	(999)	(1,992)
Disposal of assets	2,615	60	4	0	0
Additional investments in associates	(102)	(107)	(43)	0	0
Other Investing cash flow	2,582	(695)	112	276	254
Cash Flow from Investments	**4,354**	**(2,007)**	**(907)**	**(723)**	**(1,738)**
Proceeds from loans	5,017	989	3,322	(382)	566
Repayment of loans	(4,987)	(1,154)	(36)	0	0
Dividends paid to minority interest	(11)	(31)	(9)	0	0
Other Financing cash flows	(2,452)	(490)	(585)	(723)	(724)
Cash Flow from Financing Activities	**(2,433)**	**(686)**	**2,692**	**(1,106)**	**(159)**
Net Change in cash and equivalents	**2,265**	**(1,625)**	**2,301**	**(599)**	**(435)**
Cash and cash equivalents - beginning	0	2,876	1,154	3,455	2,856
Cash flow from discontinued operations and	611	(97)	0	0	0
Cash and cash equivalents - end	2,876	1,154	3,455	2,856	2,421

Key Ratios					
Per share data (USD)					
Shares outstanding (mn)	16,600	16,600	16,600	16,600	16,600
Basic EPS	0.02	0.03	0.02	0.02	0.03
Diluted EPS	0.02	0.03	0.02	0.02	0.03
Book value per share (O/S shares)	0.46	0.39	0.42	0.44	0.47
Valuation ratios (x)					
EV/Revenue	4.6x	4.3x	5.3x	4.6x	3.9x
EV/EBITDA	12.5x	13.1x	14.7x	12.9x	10.8x
P/E	24.4x	16.0x	32.9x	29.8x	17.7x
Performance Ratios (%)					
Return on Assets	2.2%	3.5%	1.6%	1.6%	2.6%
Return on Capital Employed	4.0%	5.5%	3.8%	4.1%	5.5%
Return on Equity	5.3%	8.1%	4.1%	4.3%	6.9%
Gross Profit Margin	32.7%	34.7%	32.2%	33.3%	35.4%
EBITDA Margin	37.1%	36.7%	36.3%	36.0%	36.3%
EBIT Margin	23.5%	25.4%	22.4%	23.3%	25.4%
Net Profit Margin	13.7%	17.4%	9.8%	9.2%	12.3%

Note: [1] All figures are before separately disclosed items

Source: Company data, ADCB research

DP WORLD

Investment Ratings:

Buy: More than +15% potential return. We recommend that investors buy the stock based on the annualised return to the shareholders over 6-24 months time horizon (percentage change from current price to the projected target price).

Hold: Between +15% and -15% potential return. We take a neutral view on the stock over the 6-24 months period.

Sell: Less than -15% potential return. We recommend that investors sell the stock based on the annualised return to the shareholders over the 6-24 months time horizon.

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