Company Flash

25 March 2009 | 8 pages

DP World (DPW.DI)

FY08: So Far So Good but Visibility Remains Low

- **08 EPS +53% to 3.45c or 18% ahead of our 2.92c** — due to EBITDA $9m ahead at $1,340m, $45m lower net interest, 11% tax rate (vs our 15%) and low minority interest. DPW disclosed back in January PBT >30% above FY07 reported of $509m. 08 underlying PBT was +38% to $701m or 11% above our $634m. Year-end net debt +48% to $4.2bn was 9% below our $4.6bn due largely to CAPEX underspend of $324m. DPS at 0.69c (1.33c in 07) is 20% of EPS, returns to stated policy.

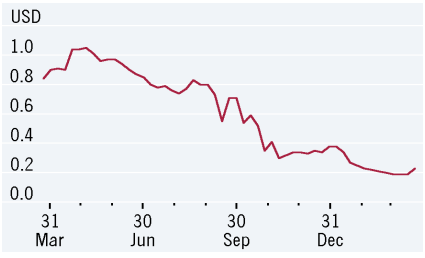
- **Consolidated TEU -8% in Jan and Feb** — with double-digit volume decline in some mature ports, with Dubai more resilient at -5%. Relatively robust start to 09 should be tempered by highly uncertain outlook for TEU growth, weak (construction-exposed) bulk cargo and already announced lower ancillary revenues at Jebel Ali which together could see revenue/TEU drop by c7%-8% to $110. As a result we expect stale 09 consensus PAT of $457m (CIRA $305m) to drop materially.

- **09 CAPEX of c$800m in line with our assumption** — but focused on finishing new terminals and projects with rapid pay-back. Most routine expansion will be deferred. 08 under-spend of $324m is not carried forward to 09.

- **DPW Board is to review options to address concerns over market value** — We would expect options considered to include listing options, share sales to strategic investors, re-packaging or even taking the business private. None look simple and not all might be feasible or desirable to the majority shareholder. We also believe fundamental value is far higher than the current share price unless volumes collapse and recovery is 'L'-shaped.

Buy/Medium Risk	**1M**
Price (24 Mar 09)	US$0.23
Target price	US$0.50
Expected share price return	117.4%
Expected dividend yield	1.4%
Expected total return	**118.8%**
Market Cap	US$3,818M

Price Performance (RIC: DPW.DI, BB: DPW DU)



DP World (USD)

Year to 31 Dec	2006A	2007A	2008E	2009E	2010E
Sales ($M)	na	2,732.4	3,168.6	3,139.4	3,332.9
Net Income ($M)	na	374.8	485.1	265.5	330.7
Diluted EPS (¢)	na	2.3	2.9	1.6	2.0
Diluted EPS (Old) (¢)	na	2.3	2.9	1.6	2.0
PE (x)	na	10.2	7.9	14.4	11.5
EV/EBITDA (x)	na	na	7.4	8.7	8.0
DPS (¢)	na	1.3	1.3	0.3	0.4
Net Div Yield (%)	na	5.8	5.8	1.4	1.7

See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	na	10.2	7.9	14.4	11.5
EV/EBITDA adjusted (x)	na	na	7.4	8.7	8.0
P/BV (x)	na	0.5	0.5	0.5	0.5
Dividend yield (%)	na	5.8	5.8	1.4	1.7
Per Share Data (US¢)					
EPS adjusted	na	2.3	2.9	1.6	2.0
EPS reported	na	2.6	2.9	1.6	2.0
BVPS	na	46.5	48.1	49.4	50.9
DPS	na	1.3	1.3	0.3	0.4
Profit & Loss (US$M)					
Net sales	na	2,732	3,169	3,139	3,333
Operating expenses	na	-2,064	-2,335	-2,492	-2,617
EBIT	**na**	**669**	**834**	**647**	**716**
Net interest expense	na	-265	-312	-379	-376
Non-operating/exceptionals	na	105	112	84	92
Pre-tax profit	**na**	**509**	**634**	**351**	**432**
Tax	na	-89	-95	-46	-56
Extraord./Min.Int./Pref.div.	na	20	-54	-40	-45
Reported net income	**na**	**440**	**485**	**265**	**331**
Adjusted earnings	na	375	485	265	331
Adjusted EBITDA	na	1,100	1,331	1,175	1,277
Growth Rates (%)					
Sales	na	na	16.0	-0.9	6.2
EBIT adjusted	na	na	22.3	-22.8	10.6
EBITDA adjusted	na	na	21.1	-11.8	8.7
EPS adjusted	na	na	29.4	-45.3	24.6
Cash Flow (US$M)					
Operating cash flow	**na**	**955**	**713**	**591**	**666**
Depreciation/amortization	na	326	385	444	469
Net working capital	na	99	-146	-132	-143
Investing cash flow	**na**	**-1,411**	**-2,391**	**-800**	**-700**
Capital expenditure	na	-879	-1,721	-800	-700
Acquisitions/disposals	na	-532	-670	0	0
Financing cash flow	**na**	**55**	**-110**	**-147**	**43**
Borrowings	na	0	0	0	0
Dividends paid	na	-11	-266	-275	-93
Change in cash	**na**	**-401**	**-1,788**	**-356**	**9**
Balance Sheet (US$M)					
Total assets	**na**	**17,190**	**16,863**	**16,786**	**17,030**
Cash & cash equivalent	na	3,059	1,271	915	924
Accounts receivable	na	704	861	853	906
Net fixed assets	na	3,915	5,321	5,747	6,048
Total liabilities	**na**	**8,817**	**8,217**	**7,941**	**7,916**
Accounts payable	na	919	319	211	172
Total Debt	na	5,902	5,902	5,902	5,902
Shareholders' funds	**na**	**8,373**	**8,646**	**8,845**	**9,114**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	na	40.3	42.0	37.4	38.3
ROE adjusted	na	na	6.2	3.3	4.0
ROIC adjusted	na	na	8.3	5.9	6.2
Net debt to equity	na	34.0	53.6	56.4	54.6
Total debt to capital	na	41.3	40.6	40.0	39.3

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DP World

Company description

DPW is the fourth-largest marine terminal operator globally and handled some 43m TEU in 2007 and reported 21.4% growth in 1H08. Its portfolio comprises 45 terminals in 29 countries. DPW offers container and bulk terminal handling alongside logistics and infrastructure development services. Expansion has been largely horizontal, with significant growth realised through concession wins and acquisitions. Consolidation in global terminal operations mirrors consolidation in global shipping customers and allows DPW to leverage its terminal operating expertise across the portfolio and offer its customers a global product.

Investment strategy

We rate DPW Buy/Medium Risk (1M), with a target price of $0.50. DPW is the fourth-largest ports operator globally, having grown from local roots through concession wins and acquisitions (notably P&O and CSX). We expect DPW to seek further terminal concessions and bolt-on acquisitions, afforded by a rapidly de-leveraging balance sheet. Jebel Ali, with its 99-year concession to 2105, is the high-margin, high-growth jewel, with significant expansion potential. Long-term industry fundamentals remain positive: historically container volume (TEU) has consistently outstripped global GDP growth due to containerisation of dry sea freight and transshipment. Terminal operators represent a long-term play on a high-growth sector with local monopoly characteristics, and with predictable and stable cash flows. DPW's valuation is underpinned by strong cash flows from existing terminal concessions, with further upside available from higher land use productivity, future concession wins, pricing power, and medium-term refinancing opportunities.

Valuation

Our target price of $0.50 represents a 40% discount to our $0.83 DCF valuation and includes the value of the existing terminal portfolio, with consolidated terminals (net of minorities) at $0.94 per share and JV & Associates $0.17 per share, less net debt of $0.28 per share. We discount nominal cash flows at a WACC of 9%, which impounds 10.3% Cost of Equity (Beta 0.85x, 6% ERP and 5.25% RFR), 7.5% post-tax Cost of Debt and 45% gearing. Our $0.50 target price implies c.14 09E EV/EBITDA (13.7x grossing-up JV's and associates), which we believe is reasonable given long-term structural growth, low regulation and taxation, and an average 44-year unexpired concession life.

Risks

We rate DPW Medium Risk based on our assessment of industry and company-specific risk factors. Key risks that may prevent the achievement of our target price include slower-than-expected TEU growth and/or weaker pricing, non renewal of material concessions and/or failure to win further concessions, capex overspend and delays in scheduled expansion projects, reliance on third parties, complexity and a lack of transparency and risks associated with the listing on the new and largely untested DIFX exchange.

Appendix A-1

Analyst Certification

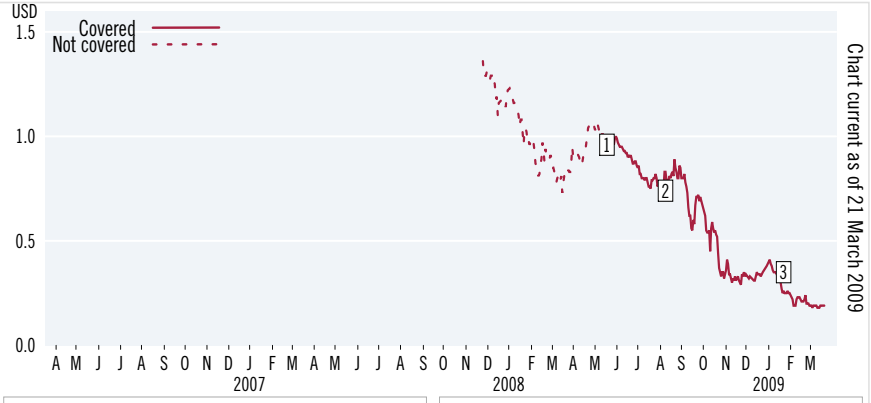
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DP World (DPW.DI)

Ratings and Target Price History
Fundamental Research

Analyst: Roger Elliott
Covered since May 20 2008



	Date	Rating	Target Price	Closing Price
1	19-May-08	*1M	*1.25	0.99
2	8-Aug-08	1M	*1.10	0.83
3	22-Jan-09	1M	*0.50	0.26

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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