DP World

December 18, 2008

Fair Value Estimate: USD 0.64

Recommendation: Buy

Executive Summary

- DP World plans substantial increases in capacity by expanding its existing terminals and initiating new developments over the next 10 years. The Company expects to increase its capacity of 54.2 million TEUs in 2007 to approximately 90 million TEUs by 2017.

- The Company continues to improve its operational efficiency and optimize its existing asset base. We expect profitability to improve, mainly due to improved capacity utilisation, integration synergies, reduced turnaround time, and better productivity.

- DP World is well positioned to perform satisfactorily despite the current global slowdown as the containerisation and port-handling businesses have remained largely resilient in periods of financial crisis. In 1982 and 2001, when the world trade growth was the weakest in the last three decades, the containerised trade growth remained healthy.

- **Outlook:** We expect that terminal expansion and development will continue to drive the revenue growth in the future. The Company will benefit from its presence in the emerging regions such as South Asia, Far East Asia, and the Middle East, which are expected to grow approximately at an average rate of 10.6% between 2006 and 2012. We also expect DP World to maintain its price-fixing ability, given its strong market share.

- **Valuation:** The recent correction in the Company's stock price provides a good buying opportunity. Our valuation model yields a fair value of USD 0.64, implying an 81.7% upside from the current market price of USD 0.35. Thus, we initiate coverage with a Buy rating.

INITIATING COVERAGE

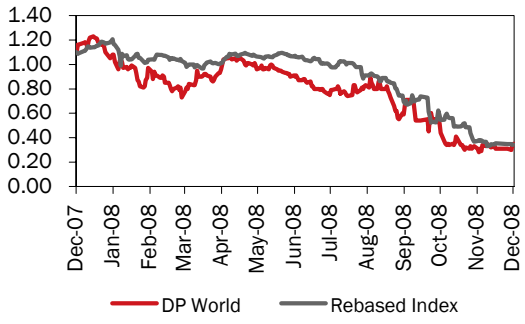
Shares Outstanding	
Market Cap	USD 5.8 bn
Price	USD 0.35
MSCI UAE Index	192.96
Reuters	DPW.DI
Bloomberg	DPW.DU
Avg. Volume (52 Week)	9.1 mn
52-Week High/Low	USD 1.25 / 0.27
Shares Outstanding	16,600 mn
Fair Value Estimate	**USD 0.64**

Key Figures (USD mn)

Year to 31 Dec	2007	2008
Revenue	2,731	3,135
EBITDA	1,013	1,175
Adjusted net profit	375	510
EPS (USD)	0.02	0.03
+/- (%)	51.4%	36.1%
RoA (%)	2.2%	3.0%
RoE (%)	9.0%	6.4%
P / E (x)	15.5x	11.4x
EV / EBITDA (x)	9.2x	9.1x
P / BV (x)	0.8x	0.7x

Shareholding Pattern (%)	
Dubai World (via Port & Free Zone)	80
Public & Others	20

Relative Performance



All Around The World

DP World Limited (DP World) is a leading global port operator with strong positions in key regions. As one of the largest marine terminal operators in the world, in terms of capacity and throughput, it operates 48 terminals in 31 countries. In 2007, the Company's terminal portfolio handled gross throughput of around 43.3 million TEUs (twenty-foot equivalent container units), an increase of 17.7% over 2006. DP World plans substantial increases in capacity with 13 new terminals in development, which it expects will increase the current capacity to approximately 90 million TEUs by 2017. Given such strong growth prospects, we forecast earnings to increase at a CAGR of 10.2% between 2009-12. We regard the current valuation as attractive and initiate coverage with a Buy rating.

Capacity expansion to double operations over 10 years

DP World currently aims to double its capacity over the next 10 years by expanding existing terminals and initiating new developments. In 2007, the Company added five new terminals with a total gross capacity of 5.6 million TEUs. We expect gross capacity to increase from 54.2 million TEUs in 2007 to 93.4 million TEUs in 2017. We believe consolidated terminals will account for 51.6% of this capacity. We expect revenues to increase at a CAGR of 6.9% between 2009-12.

Operational optimization to increase throughput and margins

In recent years, DP World has improved its operating efficiency. Gross throughput rose 17.7% in 2007 reflecting an increase in the Company's capacity utilisation rate to 81% in 2007 from 76% in 2006, and capacity expansion. Operating margins improved to 23.5% in 2007, up 530 bps from 2006, due to integration synergies, higher capacity utilisation (up to 85% for consolidated terminals) and improved revenue per TEU. We expect this trend to continue, mainly as a result of improved capacity utilization, reduced turnaround time and better productivity. Drewry estimates that global capacity utilization will increase from 71.9% in 2006 to around 90% in 2013. As a result, we expect DP World's EBIT margin to rise to 25% in 2008, up 150 bps from 2007.

DPW is well positioned to weather the global slowdown

We believe the Company is well positioned to perform satisfactorily despite the current global economic slowdown with its containerisation and port handling businesses showing resilience in times of financial crisis. In 1982 and 2001, when the world trade growth was weakest in the last three decades, the containerised trade growth remained healthy. Further, with the management having no plans to reduce the tariffs, although shipping companies are decreasing fares due to reduced trade, we expect DP World to outperform the industry in terms of growth and utilise its large market share to maintain pricing power.

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 DCF and 30% to Peer-based multiple valuations to calculate our fair value estimate for 2008. 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 0.64 per share for 2008 representing a premium of 81.7% to the current share price. As a result, we initiate coverage with a Buy rating.

Weighted average value per share		
Valuation Method	Value (USD)	Weight (%)
Discounted Cash Flow (DCF)	0.72	70%
Peer-based Multiple Valuation	0.43	30%
Weighted average fair value	0.64	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:	4.79% (3 yr. average of 10 yr. US Treasury Bond Rate as benchmark reference rate)
Country Risk Premium:	0.9%
Equity Premium:	6%
Beta:	0.90 (a simple average of sector betas in emerging markets)
Cost of equity:	11.1%
WACC:	9.59%
Terminal growth rate:	3.5%

Based on these assumptions, our estimate of the fair value of equity for DP World is USD 12,032mn. Current outstanding shares total 16,600 million. On this basis, our DCF model yields a fair value per share of USD 0.72.

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

	Terminal cost of capital				
Terminal growth	8.59%	9.09%	9.59%	10.09%	10.59%
2.50%	0.78	0.71	0.65	0.60	0.56
3.00%	0.83	0.75	0.69	0.63	0.58
3.50%	0.89	0.80	0.72	0.66	0.61
4.00%	0.96	0.85	0.77	0.70	0.64
4.50%	1.05	0.92	0.83	0.74	0.68

Source: ADCB research

Peer-based Valuation method

DP World is currently trading at a 2008 EV/EBITDA ratio of 9.1x, which is slightly below than its peer group average of 9.5x. We have calculated a fair value of USD 0.43 per share for 2008 based on an average peer group EV/EBITDA multiple of 9.5x.

Comparable Company Trading Analysis												
	Stock Price	Fully Diluted Market Cap	Fully Diluted Enterprise Value (EV)	P/E			Fully Diluted EV / EBITDA			EBITDA Margin		
Company	15-Dec-08 (USD)	(USD mn)	(USD mn)	Dec-07	Dec-08	Dec-09	Dec-07	Dec-08	Dec-09	Dec-07	Dec-08	Dec-09
Shanghai International Port (Group) Co	0.56	11,675	12,473	21.6x	17.9x	17.6x	12.2x	10.4x	9.8x	43.0%	43.7%	41.3%
China Merchants Holdings (International) Co	2.06	4,975	6,743	11.4x	9.7x	9.4x	22.6x	15.7x	16.2x	36.9%	47.7%	47.9%
Hamburger Hafen und Logistik AG	32.63	2,370	2,617	14.0x	10.7x	11.2x	5.0x	4.4x	4.3x	32.3%	33.4%	32.9%
Tianjin Port Co	1.33	2,226	3,009	22.1x	12.3x	11.3x	17.0x	9.1x	8.4x	41.3%	21.8%	21.6%
Shenzhen Yan Tian Port Holdings Co	0.75	934	729	9.9x	11.2x	11.9x	13.5x	15.9x	16.1x	52.6%	58.7%	57.4%
Forth Ports PLC	15.79	721	1,040	18.7x	20.3x	19.7x	12.9x	11.0x	11.0x	31.8%	33.3%	32.0%
Dalian Port PDA Co	0.25	744	1,015	8.7x	6.8x	7.1x	8.3x	6.7x	6.2x	53.3%	61.7%	60.3%
Santos Brasil Participacoes SA	2.77	363	375	7.4x	8.2x	7.0x	3.4x	3.1x	2.8x	39.2%	37.8%	40.0%
Mean				14.2x	12.1x	11.9x	11.9x	9.5x	9.4x	41.3%	42.2%	41.7%
Median				12.7x	10.9x	11.3x	12.5x	9.7x	9.1x	40.3%	40.8%	40.6%

Source: Company data, Reuters, ADCB research

Industry Overview

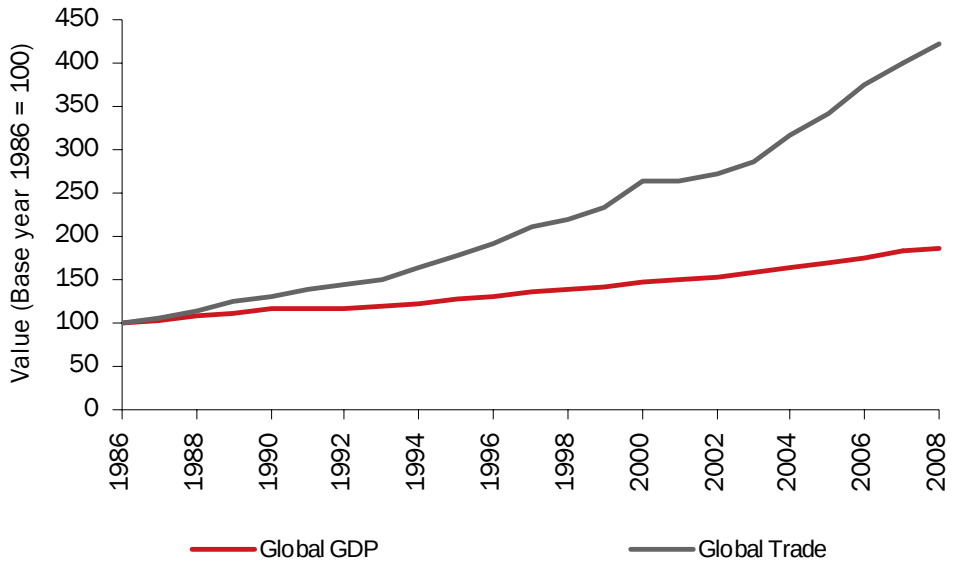
World trade growing at several times GDP growth

The increasing industrialisation of many emerging economies has resulted in accelerated globalization, and substantially higher trading activity. The key cost components of global trade have been falling over the past 20 years. Historically, both in volume and dollar value terms, world merchandise trade has grown twice as fast as world output partly due to the reduced costs of trading. We believe the main factors driving costs of trade lower are:

- Reduced transportation costs due to the availability of better market information as a result of advanced technologies
- Reduced transaction and government imposed costs because of liberalised trade policies and more liquid capital markets
- Effective hedging of foreign exchange risk

In 2007, the world economy grew at 3.7%. Economic growth in developing countries remained robust at 7.3% while trading activity accelerated to 8.4% amongst transitional economies due to buoyant commodity prices and strong domestic demand. Due to the current global financial crisis, the world GDP growth is likely to slow down to 2.7% in 2008 and to 1.9% in 2009; however, world trade is still expected to grow at a higher rate of 4.9% in 2008 and 4.1% in 2009 (source: World Economic Outlook Database – October 2008). We expect these trends to continue beyond 2009.

Global GDP growth vs. global trade growth



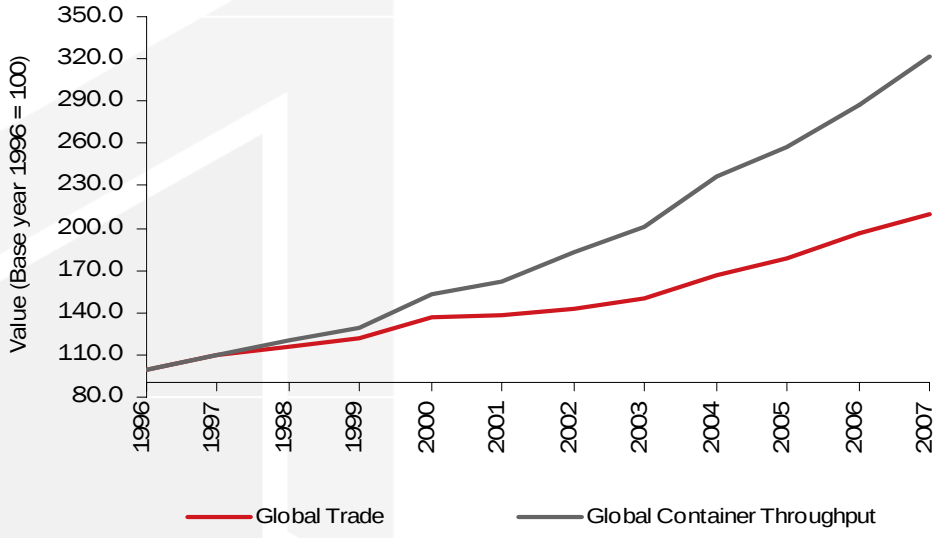
Source: World Economic Outlook Database - October 2008

Terminal container industry throughput is increasing at several times trade growth

As an industry, container shipping originated in the 1950s. Subsequently, it has expanded strongly, supported by increasing globalization of world trade. Historically, global container terminal throughput has grown several times faster than global trade. We believe that demand for container terminal services is increasing due to the following factors:

- Globalized production processes, which have enabled the manufacture of goods in more complex and geographically dispersed ways. The modern supply chain extends from multiple points of origin through transhipment nodes to a final destination
- Increased transhipments business
- Growing demand for containerization, especially in the emerging economies

Global trade growth vs. global container throughput growth



Source: World Economic Outlook Database - October 2008, UNCTAD

DP WORLD

Economic growth and levels of industrial production mainly drive demand for supply chain services. Although world trade is growing faster than the world GDP, port throughput is expanding even faster than trade, increasing at a CAGR of 11.2% between 1996 and 2007, in comparison to a CAGR of 7% for world trade. Spurred by container trade growth, port container handling activity has also expanded. According to Drewry, industry growth in port-handling operations is expected to be 8.9% during 2009–2013.

Marine terminals have high barriers to entry

A marine terminal is an assigned area with equipment for loading and unloading ships, and space for staging cargo until it is loaded onto a ship or transferred to overland modes of transport. Marine terminal operators are the conduit between ships and trucks. Terminal operators are paid fees for handling containers whether they are full or empty. It is common practice in the industry for terminal development to be shared by the terminal operator, the port and local authorities and other investors, with the result that new terminal development usually extends over a period of between 10-12 years. We believe that terminal operations are protected by considerable barriers to entry due to the following factors:

- Limited availability of suitable land and locations
- High capital investment required for development
- Complex government approval processes
- Suitable landside transport connections (e.g. road and rail links)
- Lengthy environmental approval processes

O&D is more profitable than transhipments

Origin and destination (O&D) containers carry goods destined for a market close to the terminal. Transhipment containers are those which are transferred from one vessel to another for onward shipment. The crucial difference for the container terminal operator is that O&D containers must be handled locally; therefore, there are limited opportunities for O&D to be handled by a competitor port. This makes O&D traffic less price sensitive and more profitable for a terminal operator than transhipments.

Containerization share of trade is increasing

A large port can contain between 15 and 20 terminals, which can be classified in three main categories: general cargo, liquid cargo, and containerised cargo. Containerised cargo standardizes the containers that are used for both overland and seaborne transportation, enhancing the efficiency of transportation. With increased globalization, enhanced trade in intermediate goods, growth in consumption and production levels, and the expanding “containerizable” cargo base (for example, agricultural cargoes are increasingly being transferred to containers, given higher freight rates in the bulk sector and economies of scale in the container market), containerised trade is posed to grow significantly and account for a larger share of the world dry cargo. According to Drewry, container trade is forecast to double by 2016 to reach 287 million TEUs, and to exceed 371 million TEUs by 2020.

Asia dominates container throughput

According to UNESCAP, almost 53% of container throughput in 2007 is attributable to the developing Asian countries. Asian ports currently dominate the industry in terms of their increased efficiency and highest productivity. In 2006, Malaysia’s Westport reported

handling 452 container moves each hour, a world record, overtaking CMA-CGM's MV Puccini in 2006. To improve crane efficiency some ports such as Jebel Ali Port (UAE) have introduced tandem lift gantry cranes capable of handling two FEU or, four TEU simultaneously. At Shenzhen, China, cranes capable of lifting three FEU or six TEU are in operation. In an effort to improve container-handling efficiency further, a leading crane manufacturer has begun research into a concept crane capable of discharging four FEU or eight TEU, simultaneously.

Rise of the global operators

Increasingly, global terminal operators compete based on the size and diversification of their terminal portfolios, enabling them to offer global networks to their liner customers. In 1993, 42% of world container throughput passed through state-owned terminals although by 2006, this proportion had declined to 19%. Due to huge capital requirements, global terminal operators are diversifying their search for partners, requiring them in many cases to look to smaller ports for solutions. Consequently, ports in developing countries are likely to be regarded as a less capital-intensive means of expansion. We believe the key factors leading to the emergence of global container terminal operators are:

- The specific requirements of shipping companies concerning the efficient handling of a growing volumes of containers
- Increasingly larger ships at port terminals

Global terminal operators' percentage market share of world container throughput

Global terminal operators	Market share (%)			
	2004	2005	2006	2007
HPH	13.0	13.0	13.0	14.0
APM Terminal	9.0	10.0	10.0	12.0
PSA International	9.0	11.0	12.0	11.0
DP World	9.0	9.0	10.0	9.0
Cosco Pacific	6.0	7.0	7.0	8.0
Sub Total	46.0	50.0	52.0	54.0
World Throughput (In mn of TEU)	356.6	387.7	434.3	485.0

Source: UNCTAD

Competitor profiles

Hutchison Port Holdings (HPH)

HPH is one of the world's leading port operators. It manages more than 47 facilities in 24 countries worldwide. Along with port and container terminal management, the company provides logistics and warehousing services. In 2007, the HPH Group handled a combined throughput of 66.3 million TEU worldwide. HPH is a subsidiary of diversified Hutchison Whampoa Limited (HWL), a Hong Kong based trading giant, and was formally established in 1994 to manage the Group's ports and related services worldwide.

APM Terminals

APM Terminals is also one of the world's largest operators of container terminals with over 50 container terminals spanning 31 countries and five continents. The company is a unit of marine transportation giant AP Moller – Maersk, which handles container traffic from around 60 shipping lines. Overall, APM Terminals' facilities load and unload containers totalling around 28 million TEU each year. Through APM Terminals North America, the company is a major operator of container terminals in the US.

PSA International Ltd

PSA International Ltd is the third largest port operator in the world (by market share). The Company is fully owned by Temasek Holdings. Its flagship operations are PSA Singapore Terminals, PSA HNN and PSA Marine. In total, PSA operates 28 port facilities in 16 countries across Asia, Europe and the Americas with a global capacity of 111 million TEU. PSA's principal business is the provision of integrated container terminal services including multi-purpose terminal services.

Cosco Pacific

Cosco Pacific is the fifth largest container terminal operator in the world and is owned by China Ocean Shipping (Group) Company ("COSCO"), the largest shipping enterprise in China. Cosco's terminal portfolio has the capacity to handle 73.5 million TEU each year with container throughput of around 38.9 million TEU. The Company has 27 joint venture terminal operations with 140 berths located in 15 ports in China and three ports overseas.

Industry customers are consolidating / concentrating

The main customers of container terminal operators are container shipping lines, which transport cargo in container vessels between ports. Over the course of 2007, the carrying capacity of the top 10 global containership operators increased by 15.7%, to 6.6 million TEUs. Overall, the share of the top 20 liner operators increased by 15.5% and reached 8.8 million TEUs. Together, the 20 leading operators accounted for about 70% of the total container capacity deployed.

Leading service operators of containerships

Customer	Country / Territory	TEU Capacity in 2008
Maersk Line	Denmark	1,638,898
MSC	Switzerland	1,201,121
CMA-CGM Group	France	701,223
Ever green	Taiwan Province of China	620,610
Hapag Lloyd	Germany	491,954
COSCON	China	426,814
CSCL	China	418,818
APL	Singapore	394,804
OOCL	Hong Kong (China)	351,542
NYK	Japan	331,083
Total		**6,576,867**

Source: UNCTAD - Review of maritime transport 2008

Maritime sector dominates international transportation

Increased world trade has fuelled growth in derived goods and services such as transport and logistics. The international transportation of merchandise goods continues to be dominated by the maritime sector because it offers the most economical method of transportation over large distances. Maritime trade accounts for approximately two thirds of total merchandise trade.

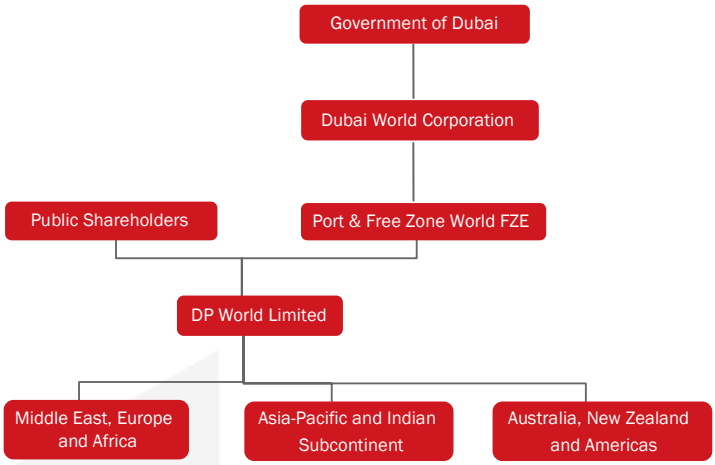
Obviously, unlike road and rail transportation, the sea is a lower cost method of transport as it does not require infrastructure investments covering the entire journey, but only at each end as seaport terminal nodes. Air transport, on the other hand, is characterized by

its ability to deliver merchandise quickly. Since approximately 70% of the earth's surface is covered with water, and since maritime shipping offers considerable cost advantages in many sectors, it is not surprising that shipment by sea is the most significant form of global cargo trade. Due to the cost advantages of maritime cargo shipping we do not expect any major changes in the forms or relative importance of various methods of transportation in the near future.

Company Overview

DP World is a majority-owned indirect subsidiary of Dubai World, a holding company owned by the Government of Dubai. The Company is a global, pure play common-user operator with capacity utilization in excess of 80% in 2007. As of December 31, 2007, DP World had approximately 30,000 employees, servicing customers in UAE, the Middle East, Asia Pacific, the Indian subcontinent, Australia, Europe, Africa and the Americas. As part of its global expansion initiative, the Company acquired CSX WT in February 2005, P&O in March 2006, and Tarragona (Spain) in July 2008. In the first of half of 2008, two new terminals at Dakar (Senegal) and Sokhna (Egypt) joined the portfolio. DPW also increased its stake in two of its most important terminals in Indian Subcontinent, in Chennai (India) and Karachi (Pakistan). In addition, the Company was awarded with concession rights for Aden and Ma'alla (Yemen), which are expected to join the portfolio late this year.

DP World is part of the larger holding company, Dubai World



Source: Company data

Business Activities

DP World operates common-user terminals, in which berths are available to all shipping lines. Most of the Company's revenue comes from lifting containers onto and off ships. Ancillary revenues include logistics services, storage of containers and inland transportation. The core activities of the Company involve:

- Container cargo handling and storage service which consists of lifting containers onto and off vessels, storing containers in relevant terminals, and facilitating the delivery and receipt of containers
- General cargo handling which comprises servicing markets for commodities and specialized cargos, such as frozen and chilled foodstuffs and various types of construction materials

- Ro-Ro facilities which are designed to accommodate vessels that carry wheeled cargo, such as automobiles
- P&O Maritime Services which are shipping services provided to both government and industry. The Company also offers cargo services, defence & port services, chartering and agency services in Australia, South America, Argentina and Singapore.

Apart from these core activities, it also provides other port services, including refrigerated container (also known as reefer) facilities, sea-air cargo transfers, commercial trucking, passenger services and logistics.

Port Relationships and average terminal concession

DP World's average terminal concession, comprising the contract with the port authority to operate facilities at a port, has 44 years left to run. Only 8% of concessions are due to expire in the next 5 years. Generally, terminal operators do not have difficulty retaining concessions when they come up for renewal.

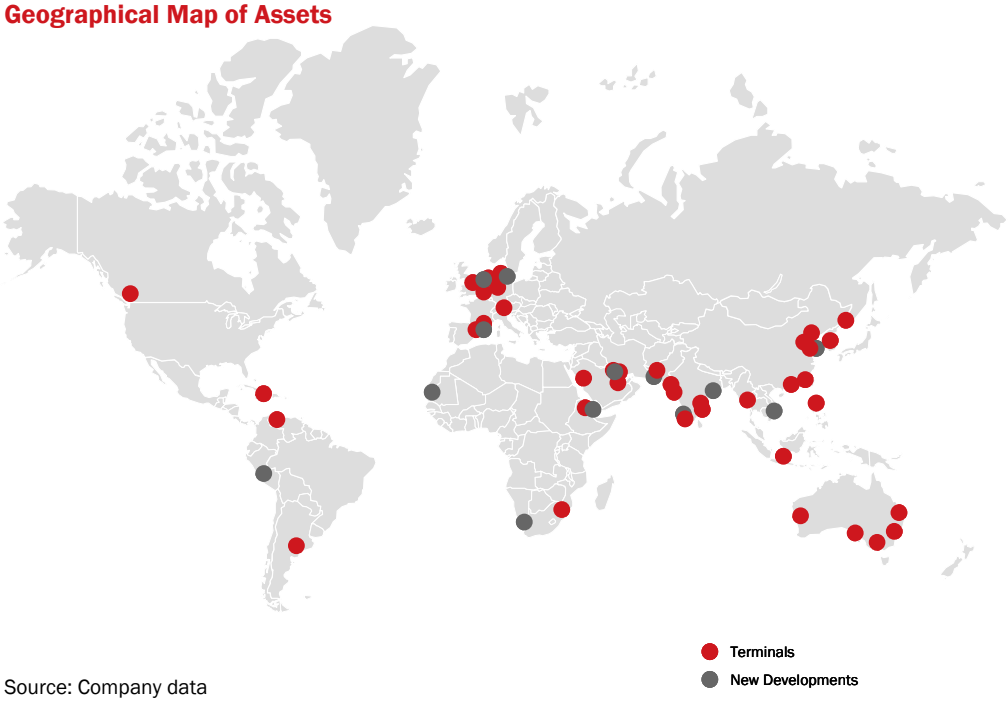
Customers

DP World provides services to more than 150 carriers and cargo interests, including all of the top ten global container shipping lines, as well as general cargo and car carriers. Moreover, it performs logistics activities whereby it deals directly with both transport companies and the ultimate owners of relevant cargo, such as manufacturers, traders, and importers. Some of its most important customers include Maersk Line, MSC, Evergreen, Hapag-Lloyd, CMA CGM, CSCL, NYK, APL, OOCL, UASC and ZIM. Contracts with shipping lines are typically for between two and five years.

Geographical diversification of DP World

DP World has a portfolio of geographically diversified businesses, which enables it to mitigate risk related to a single trade route. Its business is divided into eight operating regions comprising UAE, Middle East (excluding UAE), Africa, Europe and North Africa, Asia-Pacific, the Indian Subcontinent, Australia & New Zealand and the Americas.

Geographical Map of Assets



Source: Company data

Financial Overview

Double-digit revenue growth likely to continue for the next 2-3 years

DP World recorded double-digit revenue growth of 31.6% y-o-y in 2007 resulting in revenue of USD 2,731mn owing to an increase in consolidated throughput, which rose from 20.6 million TEUs in 2006 to 24.1 million TEUs in 2007. Utilisation rates exceeded 80%, reflecting improved efficiencies. The largest contribution to revenues was from the Middle East, Europe and Africa which accounted for 53.9% of total revenue, followed by a 29.2% contribution from Australia, New Zealand and Americas. The balance was accounted for by the Asia-Pacific and Indian Subcontinent regions. We expect revenues to grow by 14.8% in 2008 and 11.2% in 2009 reflecting an increase in capacity and utilization rates.

During 2007, DP World was restructured to become a pure ports operator, running 48 terminals across 31 countries, with a pipeline of 13 new developments which are set to increase capacity substantially over the next 10 years. During the year the Company increased its gross capacity by 11.5% following major expansion projects at Qingdao (China) in the first half of the year, and at Jebel Ali (UAE) in the second half. Smaller expansion projects were completed at Vancouver (Canada), Southampton (UK), Constanta (Romania) and Chennai (India) taking gross capacity for 2007 to 54.2 million TEU.

We expect gross capacity to increase to 67.5 million TEU's by 2009, with consolidated capacity rising to 37.2 million TEU's by 2009 compared with 29.8 million in 2007.

Regionwize revenue (in USD mn)	2007	% of Total	H1 2008	% of Total
Asia Pacific and Indian Subcontinent	461	16.9%	268	16.8%
Australia, New Zealand and Americas	797	29.2%	387	24.2%
Middle East, Europe and Africa	1,473	53.9%	943	59.0%
Total	**2,731**	**100.0%**	**1,598**	**100.0%**

Source: Company data

Higher capacity utilization to boost margins

The Company reported an operating profit of USD 642mn in 2007 a substantial growth of 69.9% y-o-y. Operating margins improved to 23.5% in 2007, up 530 bps from 2006. Such higher profitability was the result of integration synergies, higher capacity utilisation (up to 85% for consolidated terminals) and improved revenue per TEU. We believe this development will continue mainly due to an expected improvement in capacity utilization and productivity. Specifically, Drewry estimates that global projected capacity utilization will increase from 71.9% in 2006 to 90% in 2013. Hence, we expect DP World's EBIT margin to rise to 25% in 2008, up 150 bps from 2007.

Growing contribution of associates

In 2007, the share of net profit from joint ventures and associates was USD 108mn, or USD 87mn excluding profits from businesses sold during the year, almost three times higher than in the same period last year. This reflects not only an excellent performance by terminals within the portfolio, but also the inclusion of profits from P&O Trans Australia (POTA) and a division of P&O Maritime Services (POMS) which were restructured during the year so as to become joint venture operations.

Strong results delivered in the first half of 2008

DP World has reported strong results in the first half of 2008. Revenue grew by 32.1% on a y-o-y basis to USD 1,597.5mn, as against USD 1,209mn (pro forma six months ended June 30, 2007). Two thirds of this increase in revenue has come from increased volumes and higher tariffs during the period, as well as additional revenues from ancillary container-related services. Container-related revenue continued to represent 75% of the Company's total revenue. EBITDA margin increased 257 basis points to 36.9% due to improved capacity utilisation and revenue per TEU. Adjusted net profit more than doubled during the period to USD 276.3mn in H1 2008 from USD 111.2mn in H1 2007. The adjusted net profit margin improved considerably by 810 bps to 17.3% in the first half of 2008. This was attributable to a strong contribution from joint ventures and associates, as well as lower finance costs following the restructuring of long-term debt undertaken in the second half of 2007.

Net debt increases significantly

The Company's net debt as of June 30, 2008, totalled USD 4,095.3mn, as against USD 2,843.1mn as of December 31, 2007. This increase represents a change in cash and bank balance, which stood at USD 1,299.9mn as of June 30, 2008, compared to USD 3,058.9mn in December 2007. Since the start of the year, the Company has invested cash to expand its portfolio with the acquisition of Sokhna (Egypt), to increase its stake in the existing terminals at Chennai (India) and Karachi (Pakistan), and to fund its expansion CAPEX in various terminals. The net debt-equity ratio stood at 0.5x as at the end of the first half of 2008.

Half-yearly Performance (USD mn)	H1 2007[(1)]	H1 2008	y-o-y (%)
Revenues	1,209	1,598	32.1%
Cost of Sales	(800)	(1,031)	28.9%
Gross Profit	409	566	38.5%
Margin (%)	33.8%	35.5%	
EBITDA	415	589	42.0%
Margin (%)	34.3%	36.9%	
EBIT	258	407	57.6%
Margin (%)	21.3%	25.5%	
Adjusted Net Profit	111	276	148.5%
Margin (%)	9.2%	17.3%	

Note: [(1)] Pro forma results

Results are before separately disclosable items

Source: Company data

Investment Rationale

Terminal expansion and development will continue to drive revenue growth

Higher density of existing ports (expansion)

DP World is involved in aggressive global expansion, while simultaneously planning further development of its existing terminals. This is expected to assist the Company in maintaining its revenue growth in the future. DP World added 5.6 million TEUs through new projects in 2007.

Jebel Ali Port is the Company's flagship operation

The Jebel Ali terminal, in Dubai, is the key to DP World's performance. The Company has a 99-year concession at Jebel Ali. We expect that the terminal will handle around 12.6% of consolidated throughput in 2008, generating around 19.7% of group revenues from the Middle East, Europe and Africa region. Jebel Ali port volumes are 50% for use in the UAE and the remaining 50% for re-shipment. Furthermore, the 50% goods that are destined for the UAE market are transformed and re-exported to other countries in the region. Therefore, any expected decline in local consumption is likely to be offset by the growth in re-exports.

Gross capacity addition from new terminal development

Region	New capacity in 2008	New capacity 2009-2011	New capacity 2012-2017	Total new capacity 2008-2017
Middle East, Europe and Africa	0.0	6.6	8.7	15.3
Asia Pacific and Indian Subcontinent	0.0	5.4	5.0	10.4
Australia, New Zealand and Americas	0.0	1.4	0.0	1.4
Total	**0.0**	**13.4**	**13.7**	**27.1**

Gross capacity expansion in existing terminals

Region	Gross capacity expansion in 2008	Capacity expansion 2009-2011	Capacity expansion 2012-2017	Total Capacity expansion between 2008-17
Middle East, Europe and Africa	2.4	2.6	1.9	6.9
Asia Pacific and Indian Subcontinent	0.7	2.3	0.0	3.0
Australia, New Zealand and Americas	0.0	0.8	1.4	2.2
Total	**3.1**	**5.7**	**3.2**	**12.1**

Growth in total gross capacity

Region	Gross capacity in 2007	Total additional capacity in 2008	Total additional capacity 2009-2011	Total additional capacity 2012-2017	Capacity in 2017
Middle East, Europe and Africa	25.6	2.4	9.2	10.6	47.8
Asia Pacific and Indian Subcontinent	23.3	0.7	7.6	5.0	36.7
Australia, New Zealand and Americas	5.3	0.0	2.2	1.4	8.9
Total	**54.2**	**3.1**	**19.1**	**16.9**	**93.4**

Source: Company data, ADCB research

APAC dominates DP World's operating terminals by region (2007)

Region	Number of operating terminals	% of total
Asia Pacific and Indian Subcontinent	16	37%
Europe and North Africa	10	23%
Australia	5	12%
UAE	4	9%
Americas	4	9%
Africa	3	7%
Middle East (excluding UAE)	1	2%
Total	**43**	**100%**

Source: Company data

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Demand has increased, particularly in APAC, where DP World is concentrated

We believe that the outlook for demand remains attractive in both Asia-Pacific and the Indian Subcontinent, due to rapid growth in these regions' manufacturing sectors and consumer demand. The Company also expects that growth will come from Asia and the Middle East, while expect stability in Western Europe, and a decline in the Eastern European markets. In Africa, demand is expected to grow as trade is driven by basic consumption. In the Middle East, the GCC block is likely to have a higher growth rate than the rest of the world.

Operational optimization of existing asset base is increasing throughput and margins

DP World continues to improve its operational efficiency, and optimize the capacity of its existing asset base, not only by investing in advanced handling equipment such as Quad-container lifts, but also by streamlining its operational process.

Increased use of technology / equipment

Most of the company's terminals use synchronous planning and real time control systems (SPARCS), a software solution for optimal inventory controls. This strategy is one of the most cost-effective methods for increasing existing capacity as it reduces crane downtime and avoids traffic jams in the port. Evidence of this improved efficiency can be seen in the company's 17.7% increase in throughput in 2007 combined with its superior EBIT margin, which rose significantly from 18.2% in 2006 to 23.5% in 2007 and further to 25.5% in the first half of 2008.

Streamlined operational processes

DP World is also investing in other methods of increasing its operational efficiency, and enhancing innovation, creating further opportunities for existing facilities to add value. Partly due to these investments, the company's capacity utilization increased from 76% in 2006 to 81% in 2007, while its average global crane productivity rose from 25 to around 27 gross moves per hour. We expect the Company's capacity utilization rate to further increase to around 85% by the year end. Regarding the Company's global operations, O&D containers represent approximately 76% of volume, while transhipments account for the remainder.

Increasing trade and industry consolidation provides sound base

Global trade in goods increased by an average of 7% p.a. between 1996 and 2007. Rising demand for tradable goods resulted in an increase in cargo containerization. Consequently, global container trade volumes rose to 143 million TEUs in 2007, up from 129.1 million TEUs in 2006, a growth of 10.8%. We see this trend to continue due to benefits associated with containerization.

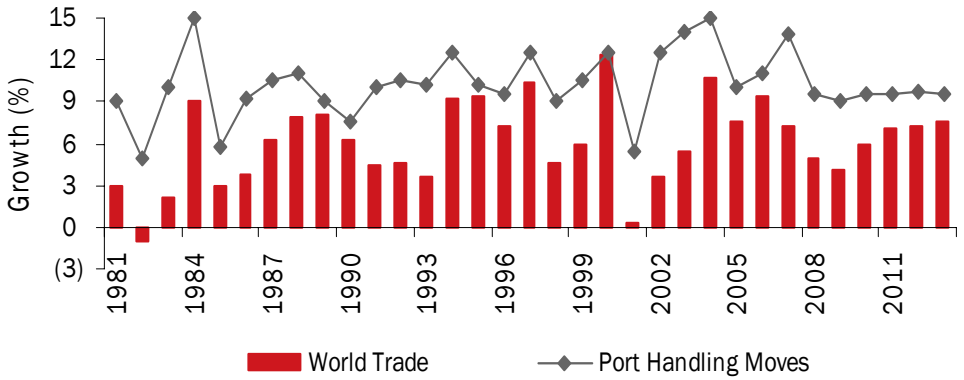
Consolidation resulting in pricing power and higher margins

The container terminal industry is undergoing consolidation, which has resulted in it becoming more oligopolistic. DP World is the fourth largest industry participant in terms of capacity and throughput. The top five global operators collectively accounted for 54% of total worldwide throughput in 2007, up from 46% in 2004. We believe that this level of consolidation is resulting in companies enjoying increasing pricing power, leading to higher margins. Further, consolidation results in operating efficiencies because of economies of scale and synergic benefits, which in turn helps to improve the operating margins. Such a consolidated market also creates barriers to entry for potential new entrants as port relationships with top operators are solidified.

DPW is well positioned to weather the global slowdown

The Company is well positioned to perform satisfactorily despite the current global slowdown as the containerisation and port handling businesses have remained largely resilient in periods of financial crisis. In 1982 and 2001, when the world trade growth was weakest in the last three decades, the containerised trade growth remained healthy. We expect DP World to maintain its price-fixing ability, given its strong market share. The management also states that it has no plans to reduce the tariffs although shipping companies are decreasing fares due to reduced trade. The Company also expects that it won't be under great pressure to reduce handling charges for Origin and Destination cargo as handling fees represent only a small portion of the shipping liner's overall costs. Further, we believe that the Company will also benefit from its presence in the emerging regions such as South Asia, Far East Asia, and the Middle East, which are expected to grow approximately at an average rate of 10.6% between 2006 and 2012.

Annual growth in World Trade (Goods & services) Vs
Annual growth in Port Handling Moves



Source: World Economic Outlook Database - October 2008, Company data

Key Risks

Economic slowdown

The Company's throughput can be affected by the levels of world trade volumes. The slowdown of global economies especially the developed economies can lead to lower levels of gross throughput, thus affecting DP World's growth prospects.

Renewal of Concession agreements

The non-renewal of concession agreements or changes in concession terms can have serious impact on the operating performance of the Company.

Terminal expansion & development has risks

The development of new terminals is a long process that involves many parties. If there are delays or cancellations at any point in the development process, revenues will be delayed and margins could suffer because of higher-than-expected fixed development costs.

Increasing threat from Somali Pirates

The Company's trading volumes in the port of Yemen and Djibouth can be affected by increased hijacking threats by Somali pirates in the Gulf of Aden. As a consequence, some of the liners may re-route shipments through the Cape of Good Hope. According to International Maritime Bureau, 88 ships have been attacked in Gulf of Aden this year and 14 hijacked ships still remain under the control of the pirates.

Balance Sheet					
(USD mn, Yr. ending Dec. 31)	2006	2007	2008	2009	2010
Cash & bank balances including Bank OD	3,172	2,876	1,135	824	1,362
Inventories	43	54	68	76	82
Accounts receivable and prepayments	585	704	773	860	923
Other current assets	156	20	20	20	20
Property, plant and equipment	3,055	3,915	4,554	5,844	6,429
Intangible assets	6,360	6,018	7,231	7,231	7,231
Investment in associates and JVs	2,935	3,322	3,480	3,480	3,480
Other long-term assets	1,158	97	134	138	141
Total Assets	**17,464**	**17,007**	**17,394**	**18,472**	**19,668**
Accounts payable and accruals	709	919	986	1,081	1,113
Borrowings excluding Bank OD	5,614	5,719	5,341	6,214	6,798
Other current liabilities	8,270	553	557	85	85
Other long-term liabilities	1,552	1,443	1,531	1,567	1,593
Minority Interest	702	657	678	704	731
Shareholders' equity	617	7,716	8,301	8,821	9,347
Total Equity & Liabilities	**17,464**	**17,007**	**17,394**	**18,472**	**19,668**

Income Statement					
	2006	2007	2008	2009	2010
Revenue	**2,076**	**2,731**	**3,135**	**3,487**	**3,744**
COGS	(1,382)	(1,838)	(2,038)	(2,317)	(2,498)
Gross Profit	**694**	**893**	**1,097**	**1,171**	**1,246**
SG&A	(316)	(251)	(314)	(331)	(344)
EBIT	**378**	**642**	**784**	**840**	**902**
Depreciation	274	371	392	455	584
EBITDA	**652**	**1,013**	**1,175**	**1,295**	**1,486**
Net interest income	(244)	(265)	(282)	(362)	(431)
Profit from associates	28	108	118	130	143
Net other non-operating income	25	24	16	16	16
Profit Before Tax	**188**	**509**	**636**	**623**	**630**
Tax	89	(89)	(105)	(103)	(104)
Minority Interest	(29)	(45)	(21)	(26)	(26)
Adjusted Net Profit	**248**	**375**	**510**	**494**	**500**
Reported Net Profit	248	440	510	494	500

Cash Flow Statement					
Net Income before MI (reported)	NA	539	531	520	526
Depreciation and amortization	NA	371	392	455	584
Change in Working Capital	NA	(65)	71	(440)	(13)
Other Adjustments, net	NA	(501)	163	232	288
Cash Flow from Operations	NA	**344**	**1,158**	**768**	**1,385**
Capex	NA	(742)	(1,030)	(1,746)	(1,169)
Disposal of assets	NA	2,615	0	0	0
Additional investments in associates	NA	(102)	(157)	0	0
Other Investing cash flow	NA	2,582	(1,021)	213	211
Cash Flow from Investments	NA	**4,354**	**(2,208)**	**(1,533)**	**(958)**
Proceeds from loans	NA	5,017	(378)	873	585
Repayment of loans	NA	(4,987)	0	0	0
Dividends paid to minority interest	NA	(11)	0	0	0
Other Financing cash flows	NA	(2,452)	(312)	(420)	(472)
Cash Flow from Financing Activities	NA	**(2,433)**	**(691)**	**453**	**112**
Net Change in cash and equivalents	NA	**2,265**	**(1,741)**	**(311)**	**539**
Cash and cash equivalents - beginning	NA	0	2,876	1,135	824
Cash flow from discontinued operations	NA	611	0	0	0
Cash and cash equivalents - end	NA	2,876	1,135	824	1,362

Key Ratios					
Per share data (USD)					
Shares outstanding (mn)	16,600	16,600	16,600	16,600	16,600
Basic EPS	0.01	0.02	0.03	0.03	0.03
Diluted EPS	0.01	0.02	0.03	0.03	0.03
Book value per share (O/S shares)	0.04	0.46	0.50	0.53	0.56
Valuation ratios (x)					
EV/Revenue	4.3x	3.4x	3.4x	3.4x	3.2x
EV/EBITDA	13.7x	9.2x	9.1x	9.2x	8.1x
P/E	23.5x	15.5x	11.4x	11.8x	11.6x
Performance Ratios (%)					
Return on Assets	1.4%	2.2%	3.0%	2.8%	2.6%
Return on Capital Employed	5.5%	5.0%	4.6%	4.7%	4.6%
Return on Equity	40.2%	9.0%	6.4%	5.8%	5.5%
Gross Profit Margin	33.4%	32.7%	35.0%	33.6%	33.3%
EBITDA Margin	31.4%	37.1%	37.5%	37.1%	39.7%
EBIT Margin	18.2%	23.5%	25.0%	24.1%	24.1%
Net Profit Margin	11.9%	13.7%	16.3%	14.2%	13.3%

Note:

(1) Income statement and Balance sheet figures for 2006 are pro forma for disposal of POPNA, Shekou , Colombo, reduction in stake at POTA and P&O AGS and carve-out of P&O Ferries and P&O Estates

(2) All figures are before separately disclosable items

Source: Company data, ADCB research

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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).

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

Hold: Between 0 and 15% potential return. We take a neutral view on the stock over the 6-24 months period.

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