Company Focus

19 May 2008 | 88 pages

DP World (DPW.DI)

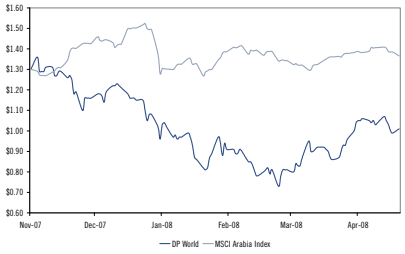
Initiation of coverage ☑

No Mirage

- **Attractions are no mirage** — 18% TEU growth, 380bp EBITDA margin growth and US$1bn of operating cash flow in 2007. Share price volatility looks down to limited history, visibility, index & liquidity issues and cyclical exposure.
- **Growth and rising returns from a global platform** — 54m TEU gross capacity in 2007 at 43 sites in 28 countries is planned to reach 92.5m TEU (including 13 new sites) by 2017 to keep pace with TEU growth (10% CAGR since 1980) and the needs of global customers. Skills, capital and connections could see more new projects (nine, or 21m TEU since 2005). ROCE should rise despite de-leveraging post 2010E as the portfolio matures. Strategic priorities are LatAm, Africa and even the US. We see TEU growth of 15%, capacity of 13.5%, EBITDA of 18% and EPS of 29% from 2007 to 2012E with CAPEX of US$5.7bn.
- **Risks appear exaggerated** — Over 60% of cash opex is payroll and concession fees of which c66% are variable. Some 60% of consolidated EBITDA comes from five competitively strong ports with Jebel Ali and its oil surplus driven growth the jewel. Most high risk ports are JVs or associates. Cash flow looks secure as c50% of capex can be deferred and big projects are well supported: London Gateway (acute UK capacity shortages) and Maasvlakte 2 (largely pre-sold).
- **We initiate at Buy/Medium Risk (1M) with a US$1.25 price target** — Paradoxically FX, terminal expansion, new start-ups and port performance mix can mean lumpy margins and premium multiples but rising NPV. Organic growth, rising free cash flow and a full concession pipeline support premium multiples. DCF of US$1.25 per share (19.8x 08E EV/EBITDA), rising to US$1.38 per share (21.4x 08E EV/EBITDA) if two new concessions per year are assumed for the next 10 years.

Buy/Medium Risk	**1M**
Price (16 May 08)	US$1.01
Target price	US$1.25
Expected share price return	23.8%
Expected dividend yield	0.6%
Expected total return	**24.3%**
Market Cap	US$16,766M

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



DP World (USD)

Year to 31 Dec	2006A	2007A	2008E	2009E	2010E
Sales ($M)	na	2,732.4	3,099.8	3,543.1	4,089.4
Net Income ($M)	na	374.8	480.6	602.9	837.8
Diluted EPS (¢)	na	2.3	2.9	3.6	5.0
Diluted EPS (Old) (¢)	na	2.3	2.9	3.6	5.0
PE (x)	na	44.7	34.9	27.8	20.0
EV/EBITDA (x)	na	na	14.0	12.4	10.3
DPS (¢)	na	1.3	0.6	0.7	1.0
Net Div Yield (%)	na	1.3	0.6	0.7	1.0

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

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[1]Citigroup Global Markets Ltd

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	na	44.7	34.9	27.8	20.0
EV/EBITDA adjusted (x)	na	na	14.0	12.4	10.3
P/BV (x)	na	2.2	2.1	2.0	1.8
Dividend yield (%)	na	1.3	0.6	0.7	1.0
Per Share Data (US¢)					
EPS adjusted	na	2.3	2.9	3.6	5.0
EPS reported	na	2.6	2.9	3.6	5.0
BVPS	na	46.5	48.8	51.7	55.7
DPS	na	1.3	0.6	0.7	1.0
Profit & Loss (US$M)					
Net sales	na	2,732	3,100	3,543	4,089
Operating expenses	na	-2,064	-2,300	-2,584	-2,887
EBIT	**na**	**669**	**800**	**959**	**1,202**
Net interest expense	na	-265	-315	-350	-340
Non-operating/exceptionals	na	105	101	119	136
Pre-tax profit	**na**	**509**	**586**	**728**	**998**
Tax	na	-89	-64	-80	-110
Extraord./Min.Int./Pref.div.	na	20	-41	-45	-50
Reported net income	**na**	**440**	**481**	**603**	**838**
Adjusted earnings	na	375	481	603	838
Adjusted EBITDA	na	1,100	1,284	1,522	1,807
Growth Rates (%)					
Sales	na	na	13.4	14.3	15.4
EBIT adjusted	na	na	16.5	19.6	24.2
EBITDA adjusted	na	na	16.7	18.6	18.7
EPS adjusted	na	na	28.2	25.5	39.0
Cash Flow (US$M)					
Operating cash flow	**na**	**955**	**708**	**852**	**1,068**
Depreciation/amortization	na	326	382	444	469
Net working capital	na	99	-142	-168	-201
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**	**-120**	**25**	**14**
Borrowings	na	0	0	0	0
Dividends paid	na	-11	-266	-137	-166
Change in cash	**na**	**-401**	**-1,804**	**78**	**382**
Balance Sheet (US$M)					
Total assets	**na**	**17,190**	**16,806**	**17,369**	**18,192**
Cash & cash equivalent	na	3,059	1,255	1,333	1,715
Accounts receivable	na	704	820	981	1,218
Net fixed assets	na	3,915	5,324	5,749	6,050
Total liabilities	**na**	**8,817**	**8,053**	**8,129**	**8,278**
Accounts payable	na	919	279	331	433
Total Debt	na	5,902	5,902	5,902	5,902
Shareholders' funds	**na**	**8,373**	**8,753**	**9,240**	**9,915**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	na	40.3	41.4	43.0	44.2
ROE adjusted	na	na	6.1	7.2	9.4
ROIC adjusted	na	na	8.1	8.5	10.2
Net debt to equity	na	34.0	53.1	49.4	42.2
Total debt to capital	na	41.3	40.3	39.0	37.3

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Executive Summary

A new entity but a successful port operator since 1972

Dubai Ports World (DPW) was incorporated on 9 August 2006 as a holding company for the ports-related commercial activities of Dubai World and started operations on 1 January 2007. The group's port activities have expanded organically since 1972 and through nearly US$10bn of acquisitions to create the most complete global portfolio offering counterparts 43 terminals, global commercial arrangements and uniform service levels. We expect DPW to target new concessions in Africa, Latin America and, perhaps, the US.

Economic risks look exaggerated

DPW was IPO'd at US$1.30 per share on the DIFX on 26 November 2007. Since then fears over the effects of slower global trade (most US exposure is in JV/associate investments), listing and index issues have weighed. DPW indicated strong 1Q08 trading on 12 May 2008. In any event operating leverage looks modest due to 60% variable opex (relatively labour intensive operations and some TEU[1] based fees) and >60% of EBITDA comes from five competitively strong terminals. Key is Jebel Ali, the regional gateway with oil surplus driven growth, a concession to 2105, the source of 50% of EBITDA with expansion potential to 50m TEU by 2030. Others include Southampton, Constanta (natural deep water Black Sea hub) and Antwerp (shortage of North Range capacity). Cash flow is more secure as c50% of capex can be deferred or cancelled. Flagship projects look secure: London Gateway (UK capacity shortages) and Maasvlakte 2 (capacity pre-sold to fellow consortium members).

DPW has the contacts, the capital and the skills to capitalise on expected future TEU growth. Capacity is planned to rise 70% to 92.5m TEU in 2017E

10% historical TEU growth since 1980, industry expectations and the US$100bn of container ships on order support a positive view of TEU growth from trade growth and further containerisation (increasingly of commodities) as economics relative to general cargo and break-bulk improve further. In 2007 DPW added c6m TEU gross capacity (4m at Qingdao and Jebel Ali) to total 54.2m TEU, and plans to raise this 70% to 92.5m TEU in 2017 (13m from expansion and 25.3m from 13 new sites) with capacity creep from small projects on top.

We expect rapid EPS growth, expanding margins, rising returns and de-leveraging to 2017E

2007 saw gross TEU +18.7% and EBITDA margin (ex JVs and Associates) +380bp to 36.4% due to gross capacity utilisation +4pp to 80%, US$40m favourable FX and P&O cost synergies. We expect gradual margin progress to 42.9% in 2012E with upside potential beyond. Margin expansion is influenced by pricing and utilisation at key locations, FX and level of start-up activity. ROCE is modest at 7.3% in 2008E due to goodwill and heavy capex. We expect ROCE to double in the next decade to reach 15% in 2015E. Current plans suggest DPW rapidly de-leverages with net cash forecast by 2015E.

We favour DCF to derive our price target of US$1.25 per share

We believe multiples do not capture differences in outlook, risk and capex timing. Terminal expansion and new concessions can inflate near-term multiples but significantly boost NPV. We forecast EBITDA growth of 18% between 2007E and 2012E on 15.3% TEU growth and capex of US$ 5.7bn. Our consolidated ports DCF (including 3% pa capacity creep to 2012E and 1% to 2017E) of $21.6bn plus $3.7bn for JV and Associates implies an equity value of $25.4bn, with an implied 08E EV/EBITDA multiple of 19.8x broadly in line with global ports, but a premium to other global infrastructure companies. Two new concessions per year for the next decade would add US$0.13 per share. We ignore any upside from higher land use productivity at congested sites from automation such as SCT and the potential for concession extensions that arise.

[1] A TEU is a twenty foot equivalent unit that is based on the dimensions of a cargo container 20 feet long by 8 feet 6 inches wide with a maximum load of 24 tonnes

Valuation & Risks

Introduction

An asset class that has been much in demand from strategic and financial buyers in recent years

In recent years, infrastructure assets around the world with both mature and growth outlooks have interested strategic and financial buyers; there have been three recent major toll road transactions, 23 airport transactions and 13 major port transactions (in the last five years, of which 12 have occurred since February 2005). The seven most recent port transactions are profiled below in Figure 1.

Figure 1. DPW — Key Precedent Global Port Transactions since March 2006

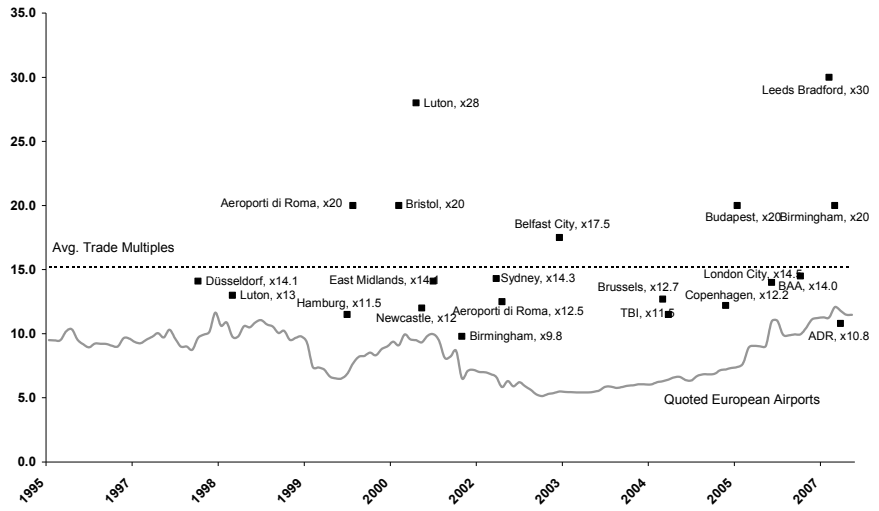
	Target	Focus	Closed	Interest	100% price (m, local)	TEU (m)	Hist EV/Sales	Hist EV/EBITDA
RREEF (DB)	Maher	Canada/US	Pending	100%	Not known	Not known	Not known	Not known
Morgan Stanley	Montreal	Canada	01 Mar 07	80%	405.8	22.0	Not known	Not known
OTPP	OOCL	Canada/US	01 Jan 07	100%	2,410.0	2.6	5.4	24.2
RREEF (DB)	Peel Ports	UK/Ireland	01 Dec 06	49%	1,530.6	Mixed	3.6	15.3
Goldman Consortium	ABP	UK	01 Aug 06	100%	3,045.0	Mixed	7.0	15.3
PSA	Hutchison	Global	01 Apr 06	20%	170,000.0	51.8	5.7	nk
Dubai World Ports	P&O	Global	01 Mar 06	100%	5,457.0	13.8	1.8	18.6
Average							**4.7**	**18.4**

Source: Company Reports

23 European airport transactions between 1998 and 2007 have completed at c15x EV/EBITDA

Figure 2 below summarises exit multiples from 23 European airport sector transactions between February 1998 and June 2007. The sample varies significantly by size, nature of interest acquired (ie minority or controlling interest) and company-specific factors (such as nature and scope of regulation, future capital requirements and quality of traffic base).

Figure 2. DPW – Precedent Airport Transaction EV/EBITDA Multiples 1998 – 2007

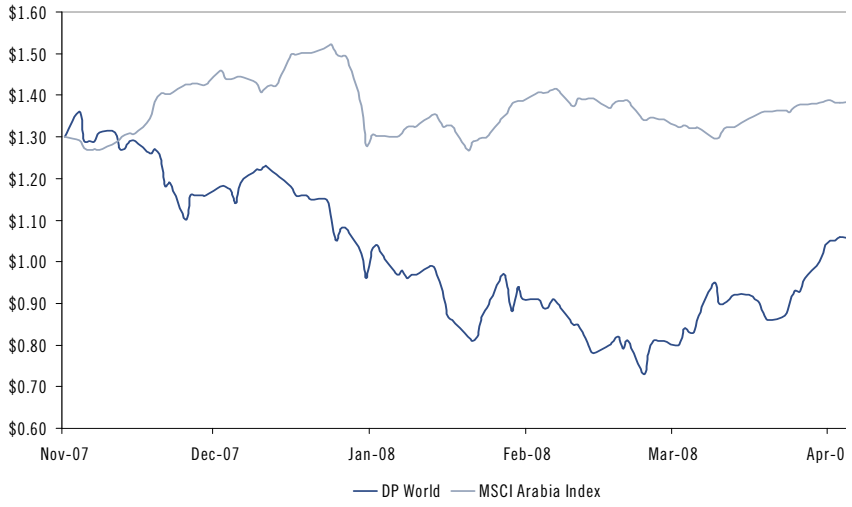


Source: Press Releases and CIR

A short and volatile history as a listed company

DPW was IPO'd at US$ 1.30 per share on the DIFX on 26 November 2007 and reached a closing high of $1.36 on the same day and a low of $0.73 on 17 March 2008. DPW authorised share capital comprises 25bn ordinary shares each of US$ 0.10, of which 16.6bn is issued and fully paid, and of which Dubai World owns 80.45%. We attribute the weakness to a combination of the limited history and track record, index and liquidity issues, and fears over how the business would respond to marked slowdown in volumes to the US. DPW is domiciled in the UAE and as such is not a constituent of the key MSCI emerging markets indices — the significance being that the assets under management that benchmark against frontier economy indices are a fraction of the US$80bn plus that benchmark against emerging market indices. It is possible that Dubai will one day be reclassified as an emerging market, but even then it can take 12-18 months after acceptance for the change to take effect. Recent share price performance is presented below in Figure 3.

Figure 3. DPW – Absolute & Relative Share Price Performance



Source: DataStream

Formidable complexity and limited visibility on the moving parts

Like P&O before it, one of biggest challenges facing DPW is how to provide visibility on all the moving pieces in a constantly shifting global portfolio of container port operations where linking financial results to underlying economic trends and prospects is tough. Container terminals operators have little reason to know the origin, final destination or content of each container other than to comply with safety and security regulations. Inherent opacity is exacerbated further by large acquisitions and significant divestments without pro-forma financial statements. The modelling and valuation challenge is further compounded by the substantial contribution from joint ventures and associates that are reported as a single post-tax line item and likewise the share of net profit attributable to minority shareholders. Key valuation issues include:

- Reconciling premium near-term multiples relative to global peers with valuations indicated by fundamental methods;

- Reflecting the likelihood that DPW gains new concessions in the future;
- Ensuring valuation of minority interests and of joint venture/associate interests are consistent; and
- WACC must reflect the geographic mix of frontier, emerging and developed market exposure.

Relative Valuation

Valuable as a cross check but we would not rely on it as a primary valuation methodology

We believe relative valuation is a useful cross check but care must to taken to reflect the many distortions and differences that are peculiar to a heterogeneous group of global infrastructure stocks such as those that arise from different capex cycles, differences in concession length and terms, organic growth prospects and risks including the extent of any price controls or other regulatory interventions.

Figure 4. DPW – Key Valuation Multiples at Current and Target Price

	2008E	2009E	2010E	2011E	2012E
At Current Price:	$0.99				
P/E	34.2	27.3	19.6	15.2	12.4
PEG	1.2	0.9	0.7	0.5	0.4
DPS Yield	0.6%	0.7%	1.0%	1.3%	1.6%
Price/Book	1.9	1.8	1.7	1.5	1.4
Price/Sales	5.3	4.6	4.0	3.5	3.1
EV/Sales	6.8	5.9	5.0	4.3	3.7
EV/EBITDA	16.4	13.8	11.4	9.5	8.0
EV/EBIT	23.4	19.5	15.4	12.3	10.1
FCF Yield	-10.2%	0.3%	2.2%	2.6%	5.0%
Maintenance FCF Yield	4.5%	5.3%	6.6%	8.1%	9.2%
At Target Price:	$1.25				
P/E	43.2	34.4	24.8	19.2	15.6
PEG	1.5	1.2	0.9	0.7	0.5
DPS Yield	0.5%	0.6%	0.8%	1.0%	1.3%
Price/Book	2.4	2.2	2.1	1.9	1.7
Price/Sales	6.7	5.9	5.1	4.4	3.9
EV/Sales	8.2	7.1	6.1	5.2	4.5
EV/EBITDA	19.8	16.6	13.8	11.5	9.7
EV/EBIT	28.2	23.5	18.6	14.9	12.4
FCF Yield	-8.1%	0.3%	1.8%	2.0%	4.0%
Maintenance FCF Yield	3.5%	4.2%	5.2%	6.4%	7.3%

Source: Citi Investment Research. Market Data at close: 15 May 2008

Global peers include ports, airports and toll roads

We believe a European-only peer group would be too narrow and biased to airports and to toll roads. We believe a better relative valuation universe includes other sub-sectors with broadly similar generic risks and rewards like ports, toll roads and railroads. This global peer group presented in Figure 5 includes 32 companies that range in size from US$ 39bn to US$ 325m (nine port-related stocks, nine railroads, eight airports, four toll road operators and two diversified infrastructure funds).

Figure 5. Global Infrastructure Relative Valuation Multiples, 2008E-2009E

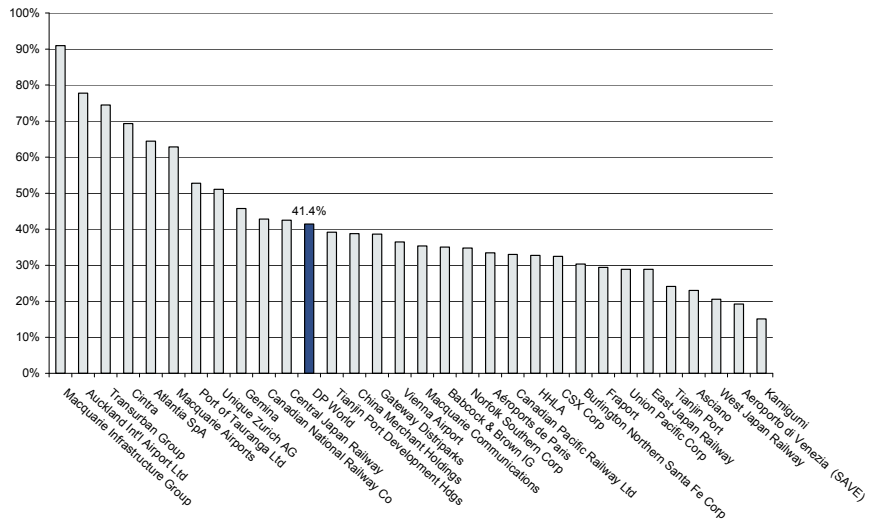
Company Name	Country	CCY	Rating	Price (local)	Change YTD %	Mcap (US$m)	Gearing (%) FY08e	EBITDA growth (%) FY08e	EBITDA growth (%) FY09e	DPS growth (%) FY08e	DPS growth (%) FY09e	EV/ EBITDA (x) FY08e	EV/ EBITDA (x) FY09e	Yield (%) FY08e	Yield (%) FY09e	FCF Yield FY08e	FCF Yield FY09e
Asciano	Australia	AUD	1H	4.93	-29.6%	3,042	63%	7.4%	5.7%	nm	-32.6%	12.3	11.7	9.3%	6.3%	-2.6%	1.6%
China Merchant Holdings	China	USD	3L	4.67	-25.0%	11,231	32%	15.9%	13.5%	28.4%	4.2%	36.9	32.5	2.3%	2.4%	1.9%	2.0%
DPW	UAE	USD	1M	0.99	-18.9%	16,434	35%	16.7%	18.6%	nm	25.5%	16.4	13.9	0.6%	0.7%	-10.2%	0.3%
HHLA	Germany	EUR	1L	57.30	-6.1%	6,427	32%	18.2%	13.3%	51.6%	11.2%	13.0	11.4	2.2%	2.5%	-2.3%	0.6%
Tianjin Port Development Hdgs	China	HKD	1L	4.31	-27.6%	988	6%	36.9%	12.0%	31.5%	23.5%	15.2	13.6	1.6%	2.0%	2.8%	3.5%
Tianjin Port	China	CNY	1L	20.31	-25.9%	4,863	21%	97.6%	17.8%	113.1%	15.5%	15.3	13.0	1.0%	1.2%	-16.3%	7.6%
Kamigumi	Japan	JPY	2M	831.00	2.7%	2,171	-8%	7.2%	1.5%	-10.5%	11.8%	6.4	6.3	1.0%	1.1%	3.8%	3.7%
Gateway Distriparks	India	INR	1M	120.00	-25.8%	325	-8%	27.4%	48.0%	-14.3%	16.7%	12.9	8.7	2.5%	2.9%	-6.4%	-8.6%
Port of Tauranga Ltd	NZ	NZD	2M	6.65	-3.2%	680	24%	4.0%	7.8%	9.1%	8.3%	14.7	13.6	3.6%	3.9%	-1.7%	-0.1%
PORTS					**-19.0%**	**46,161**	**31%**	**24.5%**	**14.8%**	**26.2%**	**12.4%**	**20.0**	**17.4**	**2.0%**	**1.9%**	**-5.2%**	**1.8%**
East Japan Railway	Japan	JPY	1M	835,000	-9.4%	28,842	69%	4.6%	2.9%	11.1%	10.0%	8.4	8.1	1.2%	1.3%	-0.4%	3.3%
West Japan Railway	Japan	JPY	1M	493,000	-11.2%	9,331	59%	7.0%	4.7%	0.0%	0.0%	7.1	6.8	1.2%	1.2%	-0.4%	0.6%
Central Japan Railway	Japan	JPY	1M	1,020,000	7.0%	19,193	78%	7.3%	3.4%	13.3%	5.9%	8.1	7.8	0.8%	0.9%	11.9%	8.8%
Burlington Northern Santa Fe Corp	US	USD	2M	107.9	29.7%	37,228	42%	10.9%	8.3%	17.5%	11.9%	8.4	7.8	1.2%	1.4%	4.8%	4.1%
Canadian National Railway Co	Canada	USD	2M	57.0	21.4%	27,265	36%	6.9%	10.3%	17.1%	26.1%	9.3	8.4	1.6%	2.0%	2.9%	3.7%
Canadian Pacific Railway Ltd	Canada	USD	2M	73.4	13.6%	11,278	41%	7.1%	13.7%	15.0%	8.5%	9.5	8.3	1.3%	1.4%	2.7%	3.9%
CSX Corp	US	USD	2M	65.7	49.3%	26,581	50%	17.5%	8.8%	27.8%	19.6%	9.4	8.7	1.1%	1.3%	3.2%	3.0%
Norfolk Southern Corp	US	USD	1M	64.5	27.9%	24,232	39%	7.9%	5.3%	17.2%	17.2%	8.5	8.0	1.8%	2.1%	4.7%	4.0%
Union Pacific Corp	US	USD	2M	152	21.0%	39,273	34%	11.6%	11.0%	25.7%	13.6%	9.0	8.1	1.2%	1.3%	1.8%	1.9%
RAIL					**19.7%**	**223,224**	**48%**	**9.5%**	**7.8%**	**18.1%**	**14.0%**	**8.7**	**8.1**	**1.3%**	**1.5%**	**3.4%**	**3.7%**
Aéroports de Paris	France	EUR	2M	74.2	6.0%	11,340	38%	15.6%	9.4%	-16.1%	15.3%	11.1	10.2	1.8%	2.1%	1.6%	2.5%
Auckland Int'l Airport	NZ	NZD	3M	2.3	-21.0%	2,145	36%	11.5%	11.7%	-4.0%	18.1%	14.5	13.0	3.4%	4.0%	-1.3%	2.3%
Fraport	Germany	EUR	1M	46.4	-13.8%	6,566	30%	6.4%	3.8%	0.0%	0.0%	8.6	8.3	2.5%	2.5%	-12.6%	-12.5%
Gemina	Italy	EUR	1H	1.0	-17.9%	2,235	64%	5.4%	15.8%	nm	nm	10.5	9.1	0.0%	0.0%	3.1%	3.2%
Macquarie Airports	Australia	AUD	1H	3.3	-19.5%	5,266	69%	-44.5%	12.8%	3.8%	-29.6%	10.6	9.4	8.3%	5.8%	4.7%	5.2%
Aeroporto di Venezia (SAVE)	Italy	EUR	1H	10.1	-5.2%	867	12%	17.1%	14.9%	62.3%	25.3%	9.3	8.1	3.4%	4.3%	8.9%	10.1%
Unique Zurich AG	Swiss	CHF	2M	473.0	2.8%	2,748	39%	5.2%	0.8%	28.9%	12.1%	8.9	8.8	1.2%	1.4%	4.4%	3.0%
Vienna Airport	Austria	EUR	2M	78.2	-1.0%	2,536	39%	6.3%	5.9%	-4.0%	-4.2%	10.5	10.0	3.1%	2.9%	-8.3%	-1.7%
AIRPORTS					**-6.2%**	**33,702**	**42%**	**2.0%**	**8.6%**	**-1.4%**	**3.0%**	**10.5**	**9.6**	**3.0%**	**2.8%**	**-1.1%**	**0.0%**
Abertis	Italy	EUR	1L	21.0	0.0%	20,705	75%	7.8%	6.5%	10.0%	10.0%	10.8	10.1	2.7%	3.0%	5.0%	5.4%
Cintra	Spain	EUR	1M	10.6	2.2%	8,831	89%	12.5%	11.3%	10.0%	10.0%	20.6	18.5	1.4%	1.5%	1.5%	1.8%
Macquarie Infrastructure Group	Australia	AUD	1H	3.1	2.0%	6,955	19%	-2.7%	-19.9%	0.0%	-50.0%	6.4	8.1	6.5%	3.2%	2.6%	3.5%
Transurban Group	Australia	AUD	2M	6.2	-9.5%	6,401	58%	82.8%	11.3%	5.6%	1.8%	19.5	17.5	9.2%	9.4%	-0.5%	1.8%
TOLL ROADS					**-0.6%**	**42,892**	**67%**	**18.3%**	**3.9%**	**7.7%**	**-1.0%**	**13.4**	**12.6**	**4.0%**	**3.7%**	**3.0%**	**3.8%**
Babcock & Brown IG	Australia	AUD	2H	1.2	-25.9%	2,646	74%	57.3%	24.9%	5.3%	6.7%	14.3	11.5	12.7%	13.5%	-17.5%	-4.7%
Macquarie Communications	Australia	AUD	2H	4.1	-25.2%	2,002	89%	28.9%	0.8%	9.5%	-13.0%	16.8	16.6	11.3%	9.9%	-2.5%	-4.7%
DIVERSIFIED INFRA. / OTHER					**-25.6%**	**4,648**	**81%**	**45.1%**	**14.5%**	**7.1%**	**-1.8%**	**15.4**	**13.7**	**12.1%**	**11.9%**	**-11.1%**	**-4.7%**
GLOBAL SECTOR AVERAGE					**9.1%**	**350,627**	**48%**	**12.3%**	**8.4%**	**15.8%**	**10.7%**	**11.0**	**10.1**	**2.0%**	**2.1%**	**1.6%**	**3.0%**

Source: Powered by dataCentral. Market Data at close: 15 May 2008. dataCentral is Citi Investment Research's proprietary database which includes Citi estimates, data from company reports, and feeds from Reuters, Datastream, Firstcall, IBES and Toyo Keizai.

Average multiples weighted by market capitalisation reflect the relatively large capitalisation of North American and Japanese railroads, which represent 64% of the peer group by US$ market capitalisation. These sub-sectors have relatively low multiples at 8.7x 08E EV/EBITDA and 8.1x 09E and depress the global weighted average. The port sub-sector is the most highly rated sub-sector of the peer group at 20.0x 2008E EV/EBITDA and 17.4x 2009E. Comments on specific metrics include:

- **EBITDA Margin** – Global average of 41.4% for 2008E in a wide range of 14.9% to 90.9% as presented below in Figure 6. The very high margins reflect situations where a holding company collects management fees and other payments from its operating units and highly automated capital-intensive business models with significant depreciation.

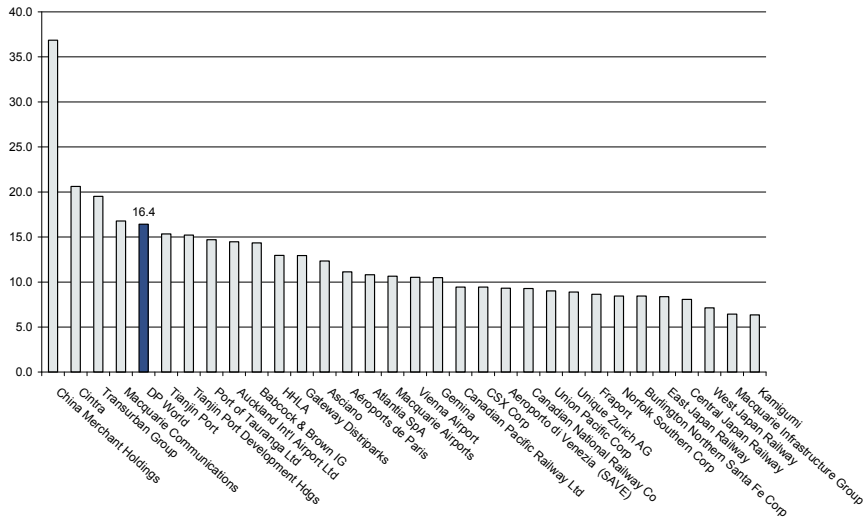
Figure 6. DPW – EBITDA Margins for DPW and Global Peers, 2008E (%)



Source: Citi Investment Research

- **EV/EBITDA** – Global average of 11.0x 2008E and 10.1x 2009E (or 15.1x 2008E and 13.6x 2009E excluding railroads) in a wide range of 6.3x to 36.9x 2008E. Ports are the most expensive sub-sector at 20.0x 08E EV/EBITDA. Factors to note when comparing EV/EBITDA multiples are the extent of asset ownership and intensity, financial and operational gearing, concession differences, cyclicality, barriers to entry and prospects. We believe the 22% premium to European toll roads reflects DPW's 44-year average unexpired concession length (20-25 years typical for a toll road concession) and the absence of any price controls in most locations.

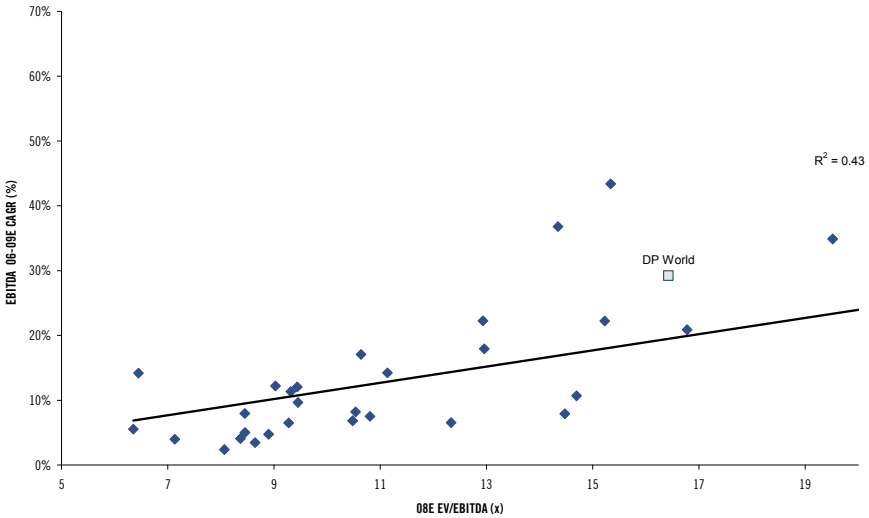
Figure 7. DP World – EV/EBITDA for DPW and Global Peers 2008E (Times)



Source: Citi Investment Research

- **EV/EBITDA vs EBITDA growth** – The scatter of points in Figure 8 below suggests investors are relatively indifferent to the short-term EBITDA growth outlook when valuing this sub-sector; DPW's forecast 29.2% CAGR adjusted EBITDA growth 2006-2009E is nonetheless an attraction. While the main appeal of ports is the strong and stable long-term cash flows rather than short-term profit momentum, we attribute the premium placed on the port sub-sector to the rapid organic growth in container volumes relative to GDP (a factor of 3x-4x) compared to passenger traffic volumes at airports with more typically 1.3x GDP growth historically and to the absence of price caps or other regulatory constraints in most countries compared to airports.

Figure 8. DPW – 2008E EV/EBITDA versus EBITDA CAGR 2006-2009E for Global Peers

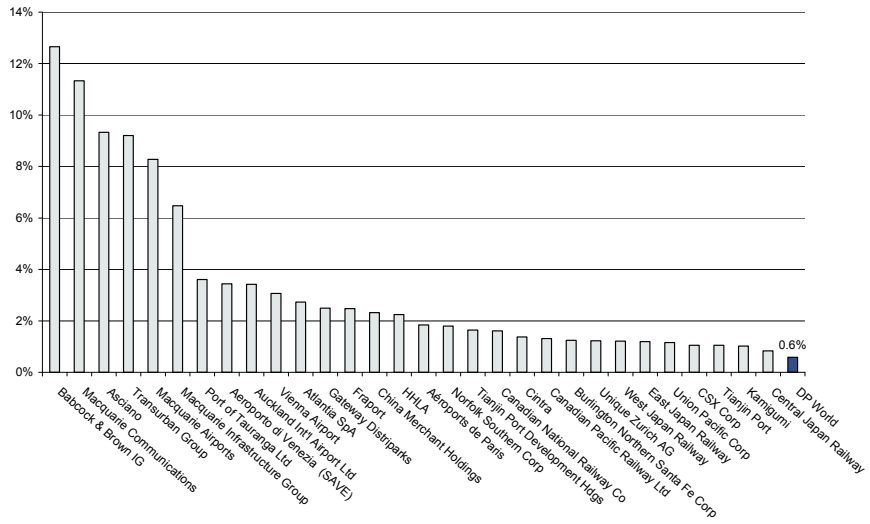


Source: Citi Investment Research

- **Price/Book –** The global average is 2.3x 2008E, with the ports subsector at 2.6x and DPW at 1.9x. We believe the wide range reflects the wide range of prospects, differences in accounting policy and historical losses carried forward.

- **Dividend Yield & Growth –** Most infrastructure peers pay modest dividends, with 2008E dividend yield ranging from nil to 12.7% and an average of 2.0%. The highest dividend yields of some 12.1% come, unsurprisingly, from infrastructure funds. These specialist funds are often structured to appeal to income investors. The ports sub-sector average dividend yield in 2008E is 2.0%.

Figure 9. DP World – Dividend Yield for DPW and Global Peers 2008E (%)



Source: Citi Investment Research

- **Free Cash Flow Yield –** Free Cash Flow (FCF) yield (after all capex) in 2008E is modest at 1.6% for global infrastructure companies, indicative of a group of companies that are net investors. Free cash flow on an individual stock basis is clearly volatile and is largely dependent the company's position in its capex cycle. The broad spread of 2008E FCF yields suggests the market also does not invest in this space on the basis of short-term FCF.

Compared and contrasted with HHLA

Both DPW and HHLA have similar ownership and liquidity issues, in both cases with a majority shareholder that looks unlikely to cede control and a business largely dependent on the lifting and storing of containers at multi-user terminals. There are however considerable differences in the scale and strategy of these businesses:

- Capital requirements (HHLA plans to spend €1.34bn to add 6m TEU by 2013 at an average cost of €223 per TEU, and DPW US$4.1bn to add 11.4m gross TEU by 2010 at an average cost of $360 per TEU). The unit capex for DPW is distorted by the heavy, front-loaded investment in London Gateway as DPW is also the Port Authority responsible for quay wall construction, dredging, land reclamation and a requirement to make a contribution to the cost of surface access infrastructure as well as equipping the terminal.

- HHLA has a narrow Eurocentric trade exposure versus the broad global trade exposure of DPW, although we note future EBITDA growth of DPW is sensitive to the more narrow outlook for future growth in trade to, from and via the Middle East.
- Macro versus micro analysis. We see the HHLA investment debate as largely hinging on granular performance of individual terminals whereas the complexity of DP World necessitates a more top-down debate.
- Horizontal versus vertical strategic direction. HHLA has rejected building a portfolio of unrelated overseas interests in favour of heavy investment at Hamburg and in complementary 'beyond the port gate' inter-modal services. DPW's strategy is to continue the horizontal build-out of container concessions.
- We regard HHLA's balance sheet management as very conservative whereas DPW looks currently looks more efficient.

Fundamental Valuation

We believe DCF best captures long-term cash flows generated by DPW's existing and planned investments

We believe a fundamental approach to valuation better reflects the profile and value of significant planned investments that should create value beyond the horizon of simple relative valuation metrics — the average economic life of typical port equipment is 12 to 20 years and typical concession duration of around 25 years. We use a Discounted Cash Flow to capture the value in DPW's current portfolio of terminals including planned capacity expansion at existing terminals and also new projects. This initial analysis excludes new concessions that may be won in the future. We calculate the present value of post-tax nominal free cash flows less prospective Net Debt (at 31 December 2008E) and adjust for minority interests to derive the equity value of DPW.

Our DCF equity valuation of $1.25 per share, presented in Figure 10, is based on the following key assumptions:

- DPW invests $4.1bn between 2007A and 2010E, with a peak spend of $1,721m in 2008E. We assume maintenance capex at 10% of Further Adjusted EBITDA and model expansionary capex based on an estimated cost per TEU of c$275m for new projects and half that for expansion of existing facilities.
- We expect working capital outflow to be stable at c12.0% of Further Adjusted EBITDA.
- Cash Tax equals Effective Tax per the income statement. We assume that Cash Tax is around 9.7% of Further Adjusted EBITDA in the terminal period.
- Long-Term Growth Rate of 3.5% reflects a 1.0% increase in average revenue per TEU and a 2.5% increase in annual throughput, in line with our long-run global GDP growth forecasts.
- Further Adjusted EBITDA margin of 46.5% in 2018E is equivalent to a long-run Adjusted EBITDA margin of 50% and suggests a terminal EV/EBITDA multiple of 15.9x.
- For consistency 2.5% terminal TEU growth is assumed to require DPW to make expansionary capex of $232m in the terminal period based on 1.5m TEU added each year at $160m per TEU.

Figure 10. DPW – Discounted Cash Flow Valuation, Current Portfolio (US$ in Millions)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	TV
Consolidated Throughput (TEU m)	27.4	31.7	36.8	42.8	48.4	50.2	52.2	53.7	55.3	56.0	57.4
delta	13.7%	15.6%	16.2%	16.3%	13.0%	3.7%	3.9%	2.9%	3.0%	1.2%	2.5%
Consolidated Capacity (TEU m)	32.1	36.9	42.5	48.4	53.1	54.5	55.0	55.6	56.1	56.7	58.1
delta	14.4%	14.8%	15.1%	14.0%	9.8%	2.5%	1.0%	1.0%	1.0%	1.0%	2.5%
Utilisation	85%	86%	87%	88%	91%	92%	95%	97%	99%	99%	99%
Revenue	3,100	3,543	4,089	4,724	5,293	5,484	5,690	5,846	6,007	6,095	6,310
delta	na	14.3%	15.4%	15.5%	12.0%	3.6%	3.8%	2.7%	2.8%	1.5%	3.5%
per TEU	$113	$112	$111	$110	$109	$109	$109	$109	$109	$109	$110
delta	na	-1.1%	-0.7%	-0.7%	-0.9%	-0.1%	-0.2%	-0.2%	-0.2%	0.2%	1.0%
Further Adjusted EBITDA	1,182	1,403	1,671	1,983	2,271	2,362	2,460	2,536	2,615	2,653	2,936
Margin	38.1%	39.6%	40.9%	42.0%	42.9%	43.1%	43.2%	43.4%	43.5%	43.5%	46.5%
per TEU	$43	$44	$45	$46	$47	$47	$47	$47	$47	$47	$51
delta		2.7%	2.4%	2.0%	1.3%	0.2%	0.2%	0.2%	0.1%	0.2%	8.0%
Working Capital	-142	-168	-201	-238	-273	-283	-295	-304	-314	-318	-352
% of Further Adjusted EBITDA	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Tax Paid	-64	-80	-110	-145	-178	-194	-213	-229	-245	-257	-285
% of Further Adjusted EBITDA	5.5%	5.7%	6.6%	7.3%	7.9%	8.2%	8.7%	9.0%	9.4%	9.7%	9.7%
Maintenance Capex	-118	-140	-167	-198	-227	-236	-246	-254	-262	-265	-294
% of Further Adjusted EBITDA	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Expansionary Capex	-1,603	-660	-533	-701	-465	-116	0	0	0	0	-232
TEUs of capacity added (m)	3.2	3.8	4.5	4.7	3.3	0.8	0.0	0.0	0.0	0.0	1.5
Cost per TEU	$501	$174	$120	$151	$141	$144	nm	nm	nm	nm	$160
Dividends from JVs & Associates	145	163	180	199	217	239	251	251	253	255	234
delta	nm	11.8%	10.6%	11.0%	8.8%	10.0%	5.4%	0.0%	0.4%	1.1%	-8.4%
Cash Flow	-600	518	841	900	1,345	1,771	1,957	2,001	2,047	2,067	46,165

Consolidated Terminals	23838.2	$1.44
JV & Associates	3734.2	$0.22
Less: Minority Interests	-2205.8	-$0.13
Enterprise Value	25,367	$1.53
Net Debt 08E	-4,647	-$0.28
Equity Value	20,720	$1.25
WACC	7.9%	
Long Term Growth Rate	3.5%	

Source: Citi Investment Research

Forecast cash flows discounted at a (nominal post-tax) WACC of 7.87%.

We use a standard CAPM formulation to derive our weighted average cost of capital (WACC) of 7.87% (nominal, post tax), weighted by region as shown below in Figure 11. Our Cost of Equity of 8.75% is based on an Equity Risk Premium of 5.00%, a Beta of 0.70x and a 5.25% average risk free rate. Our WACC calculation assumes 45% debt financing, an average of 3.75x Net Debt to Adjusted EBITDA between 2008E to 2015E (vs 3.5x to 4.0x guidance). Our post-tax cost of debt of 6.14% assumes a 10% tax rate and 6.8% pre-tax cost of debt.

Figure 11. DPW – Cost of Capital Calculation

	% EBITDA	RFR	Beta	ERP	Ke	Kd	Tax	Post Tax	Gearing	WACC
Middle East, Europe & Africa	65.6%	5.28%	0.70	5.00%	8.78%	6.80%	10%	6.14%	45.0%	7.89%
Asia Pacific & Indian Subcontinent	20.9%	5.78%	0.70	5.00%	9.28%	6.80%	10%	6.14%	45.0%	8.16%
Australia, New Zealand & Americas	13.5%	4.28%	0.70	5.00%	7.78%	6.80%	10%	6.14%	45.0%	7.34%
Blended	100.0%	5.25%	0.70	5.00%	8.75%	6.80%	10%	6.14%	45.0%	7.87%

Source: Citi Investment Research

The following items reconcile an Enterprise Value of $1.53 per share to $1.25 per share Equity value per Figure 10:

- $1.44 per share present value of cash flows from consolidated terminals, including the share that relates to minorities.
- Add: $0.22 per share present value of dividends from JV & Associates. We assume that dividend income equals JV & Associates per the income statement, plus a $44m non-cash purchase price accounting adjustment (but not in the terminal period). This places JV & Associates on an equivalent P/E of 31.5x FY09E.
- Less $0.13 per share for Minority Interests that we assume at 8% of the NPV of gross cash flows from consolidated terminals and JV & Associates. An implied P/E of minorities is 49.0x FY09E.
- Less $0.28 per share of net debt at 31 December 2008.

Valuation is sensitive to commercial assumptions, to the WACC and to long-term growth rates

We have examined the sensitivity of our DCF value of $1.25 per share to the following key input assumptions:

- **WACC**. We estimate that a 50bps decrease in WACC from our base-case assumption of 7.9% raises our DCF valuation by 18% and a 50bps increase lowers it by 14%. Our assumption of 7.9% is in line with company guidance, but is some 50bps to 225bps higher than would be typically be used to value European infrastructure assets, reflecting a mix of operations in developed and emerging markets and a higher cost of debt at DP World. A rapidly deleveraging balance sheet, with DP World expected to reach a net cash position by 2015E, makes selecting an appropriate WACC difficult, but indicates that further potential valuation upside from refinancing exists.
- **Terminal Growth Rate.** A 50bps increase in the long-term growth rate assumption raises our DCF by 10% and a 50bps decrease lowers it by 8%. Sensitivity is reduced by a commensurately lower terminal capex requirement, calculated based on an assumed cost of $160m per TEU. Valuation upside exists if DP World can achieve volume growth with lower capex requirements through "capacity creep" in the terminal period.

Figure 12. DPW – DCF Sensitivity to WACC & Long-Term Growth Rate ($ per share)

		Long Term Growth Rate				
		2.5%	3.0%	3.5%	4.0%	4.5%
WACC	6.9%	$1.44	$1.58	$1.76	$2.01	$2.37
	7.4%	$1.24	$1.34	$1.47	$1.64	$1.87
	7.9%	$1.07	$1.15	$1.25	$1.37	$1.53
	8.4%	$0.94	$1.00	$1.07	$1.16	$1.28
	8.9%	$0.82	$0.87	$0.93	$1.00	$1.08

Source: Citi Investment Research

- **Revenue per TEU.** We assume virtually flat revenue per TEU to 2018E and just 1% growth per annum in the terminal period. Raising this by 1ppt per year (to +1% and +2% in the explicit and terminal periods, respectively) increases our DCF valuation by 18% assuming that Adjusted EBITDA Margins remain unchanged.

- **Adjusted EBITDA Margin/Capex.** We assume a gradual margin expansion from 40.3% in 2007 to 47.0% in 2018E with a terminal margin of 50.2%. Raising our margin assumptions by 1ppt in each year raises our DCF by US¢5, or 4%. Likewise, lowering our capex as a percentage of sales assumption by 1ppt in each year lowers our DCF by US¢5.

Figure 13. DPW – DCF Sensitivity to Revenue/TEU vs. Adjusted EBITDA Margin ($ per share)

		Revenue per TEU				
		-2.0%	-1.0%	0.0%	1.0%	2.0%
EBITDA Margin	-2.0%	$0.75	$0.94	$1.14	$1.36	$1.60
	-1.0%	$0.80	$0.99	$1.20	$1.42	$1.67
	0.0%	$0.84	$1.04	$1.25	$1.48	$1.73
	1.0%	$0.89	$1.09	$1.30	$1.54	$1.79
	2.0%	$0.93	$1.13	$1.35	$1.59	$1.85

Source: Citi Investment Research

Implied 08E EV/EBITDA valuation is in line with global ports peers

Figure 14 benchmarks our valuation of DPW to a range of global infrastructure companies. On the basis of the 19.8x FY08E EV/EBITDA multiple implied by our DCF, DPW would trade at a 1.1% discount to global ports, but at a premium to other infrastructure classes.

Figure 14. DPW – EV/EBITDA Premium/Discount to Global Infrastructure Comparatives

Implied 2008E EV/EBITDA	19.8x
Prem/dis to Global Ports (7)	-1.1%
Prem/dis to Global Rails (9)	126.6%
Prem/Dis to Global Airports (7)	88.8%
Prem/Dis to Global Toll Roads (4)	47.3%
Prem/Dis to Diversified Infrastructure (3)	28.4%
Prem/Dis to All Global Peers (30)	79.1%

Source: Citi Investment Research. Number in brackets denotes number of peers.

Valuing New Concession Wins

Further acquisitions and concession wins could raise our valuation above the $1.25 DCF value of the current portfolio

Our DCF equity valuation of $1.25 per share is of DPW's current terminal portfolio and planned capacity expansion (including expansion of existing facilities and new terminal sites). It does not include potential further terminals that we expect DPW to win or acquire in the coming years. Assuming returns exceed the cost of capital, a concession win would be value accretive. Investments or acquisitions (and cash returns to shareholders) also help DPW keep an efficient balance sheet gearing. Below we explore how much a concession is worth. While we recognise that there is no such thing as a "typical concession", we examine the valuation sensitivity of potential future concession wins by way of a generic model based on broad assumptions as shown below in Figure 15.

Figure 15. DPW – Illustrative Container Concession Valuation Model (US$ in Millions)

T+	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Capacity (TEU m)	na	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Utilisation	na	25%	50%	75%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Throughput (TEU m)	na	0.5	1.0	1.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Revenue ($m)	na	50	101	153	206	208	210	212	214	217	219	221	223	225	228	230	232	235	237	239
Revenue per TEU	na	$100	$101	$102	$103	$104	$105	$106	$107	$108	$109	$110	$112	$113	$114	$115	$116	$117	$118	$120
EBITDA margin	na	35%	35%	35%	35%	35%	35%	35%	36%	36%	36%	36%	36%	36%	36%	37%	37%	37%	37%	37%
EBITDA per TEU	na	$35	$35	$36	$36	$37	$37	$38	$38	$39	$39	$40	$40	$41	$41	$42	$43	$43	$44	$44
Capital Expenditure	-400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBITDA	na	18	35	54	72	73	74	75	76	77	78	80	81	82	83	84	85	86	88	89
Working Capital	na	-2	-4	-6	-9	-9	-9	-9	-9	-9	-9	-10	-10	-10	-10	-10	-10	-10	-11	-11
Cash Flow	-400	15	31	47	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78

IRR	12.4 %
NPV ($m)	157
per share ($ cents)	0.9
TEU	2.0
Revenue per TEU	$100
annual growth	1%
Starting EBITDA margin	35%
Incremental EBITDA Margin	50%
Capex per TEU	200
Working Capital as % of EBITDA	12%
Concessions won per year	2

Source: Citi Investment Research

Winning two concessions per year for the next five years could theoretically raise our DCF valuation by $0.08 per share

We estimate the option value of winning a single concession to be $157m, per Figure 15. We calculate that winning two concessions per year for the next five years could be worth $1.3bn or $0.08 per share, and winning two per year for the next 10 years could be worth $2.1bn, or $0.13 per share. This analysis is based on the following simplifying assumptions:

- A 20-year concession life;
- $200 capex per million TEU;
- $100 revenue per TEU escalated at 1% per year;

- An initial 35% EBITDA margin rising gradually based on a 50% incremental EBITDA margin;
- Working capital requirement of 12% of EBITDA; and
- 100% capacity utilisation reached by year 5.

Valuation of Current Portfolio Ex-Growth

Given DPW's significant expansionary capex, particularly in the period to 2012E, it is worth looking at the valuation of the existing business ex-growth by estimating the maintenance free cash flow yield and calculating the NPV based on 08E cash flows and maintenance capex only. This provides comfort that DPW's current share price is underpinned by strong cash flows from its existing portfolio, ignoring potential upside from expansion and new concession wins.

Figure 16. DPW – Ex-Growth Valuation of Current Portfolio (US$ in millions)

	2008E	2009E	2010E
Further Adjusted EBITDA	1,182	1,403	1,671
Working Capital	-142	-168	-201
Tax Paid	-64	-80	-110
Maintenance Capex	-118	-140	-167
Dividends from JV & Associates	145	163	180
Minority Dividends Paid	-45	-41	-45
Cash Flow	958	1,136	1,329
WACC	7.9%	7.9%	7.9%
Long Term Growth	1.0%	1.0%	1.0%
Enterprise Value	13,941	16,532	19,330
Per Share	$0.84	$1.00	$1.16
Discount rate	1.00	1.08	1.16
PV	$0.84	$0.92	$1.00
Net Debt	-$0.28	-$0.28	-$0.25
Value per Share, ex-growth	$0.56	$0.65	$0.75

Source: Citi Investment Research

Current share price appears firmly underpinned by underlying cash flows from established operations

In Figure 16, we estimate the equity value of the current portfolio to be between $0.56 and $0.75 per share based on growing Maintenance Free Cash Flow at 1% per annum in perpetuity and discounting at a WACC of 7.87%. Valuation would be further enhanced by a lower cost of capital associated with de-risking, capacity creep and margin improvements. Raising our long-term growth assumption to 2% per annum raises the 08E value per share of the existing business by 25% to $0.70 per share.

Investment Risks

We rate DPW Medium Risk

We rate DPW Medium Risk based on our assessment of industry and company specific risk factors. Container ports exhibit attractive monopolistic, utility-like characteristics offering investors modest risk exposure to fast-growing global container volumes without the exposure to volatile freight rates that are a feature of the global container shipping sector. While we believe the DPW business model offers some protection in periods of slow or negative TEU growth, profits would be adversely impacted and we therefore feel a medium risk code is appropriate.

Exchange, ownership and liquidity risks

The shares of DPW are listed on the newly established and largely untested DIFX exchange that has listing requirements that are different from more established markets with respect to disclosure, reporting and audit requirements. Dubai World with c80.45% of the economic and voting interest in DPW retains the ability to exert control and its interests may diverge from those of minority public shareholders. We are not aware of any foreign ownership restrictions on DIFC listed companies. However, in practice a minimum 50% Government (ie Dubai World) holding exists as certain bonds, including the Sukuk, default should the Government holding fall below 50%. We expect Dubai World to retain a long-term controlling interest in DPW. Dubai Would could exert control over, among other things, election of directors, business plan and strategy, budgets, timing and amount of dividend payments, changes in the share capital and mergers, acquisitions and disposals of assets and businesses.

Political and regulatory risk

DPW has operations in some locations where the political situation could change. We see the principal political risk as being that new policies seek to change concession terms and conditions, to develop new rival facilities or to reduce expenditure of essential supporting infrastructure such as roads and railways. Currently DPW is free to set its own tariffs in most of its concessions outside of India. Imposition of tariff regulations would be regarded as a negative development if it was implemented elsewhere. DPW must also comply with national and international regulations governing safety and security arrangements that we would expect to apply to all industry participants. If these assumptions prove to be false DPW could be commercially disadvantaged.

Currency and interest rate risk

Some 80% of DPW's net operating assets are denominated in foreign currencies with the result that shareholder equity in particular can be affected by currency movements. In addition to translation exposure revenue is typically denominated in US$ or in Euros while more costs of sales are in local currency. Exposures to interest rates relate primarily to long term debt obligations with a fixed/floating interest rate and bank deposits. The November 2007 Prospectus disclosed that at 30 June 2007 US$5.1bn of interest-bearing loans and borrowings carried interest at floating rates. At 31 December 2007 some 68% of group borrowings, including the effects of interest rate swaps, net were effectively at a fixed rate of interest.

Visibility and limited track record

The DPW business comprises a large portfolio of individual concessions each with different risks and rewards. While both the Dubai Ports Authority (DPA) and P&O have a long history, DP World has only existed in its current form since 1 January 2007.

Exposed to external factors that can reduce or disrupt global trade

DPW like any terminal operator is exposed to the level and pattern of global trade that is sensitive to economic, financial and political conditions beyond the control of DPW, including as a result of the imposition of trade barriers, sanctions and boycotts plus trade disputes, natural disasters (earthquakes, floods, etc), epidemics, acts of war, acts of terrorism and other hostilities. Terrorist acts, natural disasters or other catastrophic events may hinder terminal operation or cause delays in the arrival and departure of vessels.

Reliance on third parties

We believe the successful operation of a container terminal depends upon the timely delivery of investments from third parties such as the local Port Authority and Local and National Government — investments such as maintaining channel depth sufficient to accommodate latest generation of vessels without undue loading restrictions and investing in road and rail facilities with sufficient capability to absorb planned volumes.

DPW does not have controlling equity interests and/or management control of all its operations

Certain operations are conducted through jointly controlled entities, associated companies and partnerships. In 2007 DPW's share of profits from joint ventures and associates was US$108m or US$88m on a like-for-like-basis (compared to US$28.4m PF in 2006). Such entities involve additional risks including the possibility the JV partner may have economic, business or legal interests that are inconsistent with DPW's and may be unable or willing to fulfil their obligations.

Container concessions can be changed, terminated or repudiated

We expect most concessions to be held at least until expiry and many extended to allow for further investment to upgrade or extend. We believe also that most Port Authorities would be unwilling to countenance the scale of disruption that a change of operator would involve particularly in situations where the cranes and other equipment are owned by the concession operator. A small number of concessions are, however, terminated early. Terminal operator APMT terminated its lease on Port Everglades, that was due to expire in 2013, early to consolidate operations at nearby Miami and was required to pay rent and a minimum guarantee for three years, which equals US$2.6 million a year. Containerisation International reported on 8 February 2008 that the Gujarat High Court had upheld the decision of the Gujarat Maritime Board (GMB) to terminate the 28-year sub-concession for the Mundra International Container Terminal (that handled 671,000 TEU in 2007) issued to P&O Ports in 2003 and now held by DPW on the grounds the transfer of the sub-concession should not have been done without prior approval. DPW expects the legal process up to and including an appeal to the Indian Supreme Court to take a number of years. If DPW is ultimately unsuccessful it will have to abandon Mundra International.

Introduction

Infrastructure assets appeal to both strategic and financial buyers

Investor interest in a variety of transport infrastructure assets including toll roads, airports and ports, and even essential transport services such as short sea ferry operations and London bus operations, has increased significantly in recent years. Strategic investors in the port sector have been attracted by the breadth and depth of investment opportunities and targeted exposure to emerging economies that the decade-long growth in container volumes had created. Financial investors in airports and ports have attached greater significance to strength and stability of long-term cash flows of the more mature port companies in the UK and in North America that support more leveraged capital structures. The result has been rapid de-equitisation of many major participants in the global port sector. In the following sections we explore global issues in container shipping and ports that are relevant to DPW.

Trends in Global Ports

Global ports handled 466m TEU in 2007 after a decade of growth exceeding 10% per annum

The global port sector has enjoyed a decade of double-digit volume growth. Global port-to-port TEU volumes comprise:

- Fully laden international containers;
- Domestic containers including local re-positioning;
- Empty containers; and
- Transshipment.

The distinction has less relevance for a terminal operator over time (as the discount for empty containers has reduced) but not for a container shipping line; however, other mix effects can have important revenue implications, notably the amount of transshipment volume handled as the revenue per TEU is significantly lower than import/export volumes, perhaps by as much as 50%. The most significant recent development has been the growth in transshipment in most regions that we see as a natural consequence of strong volume growth allied to the increasing size of container ships and acute container port congestion (such as in the UK). The exchange of cargos between main line and feeder ships operating hub-and-spoke networks and the practice of interlining between main-line services is now commonplace and, with rising average vessel size, is likely to continue. MDS Transmodal reported that port-to-port demand increased 11.3% in 2006 to 452m TEU, of which transshipment volumes were 23%, the fastest growing segment, as illustrated in Figure 17.

Figure 17. DPW – Element of Global Port to Port Demand 1996-2006

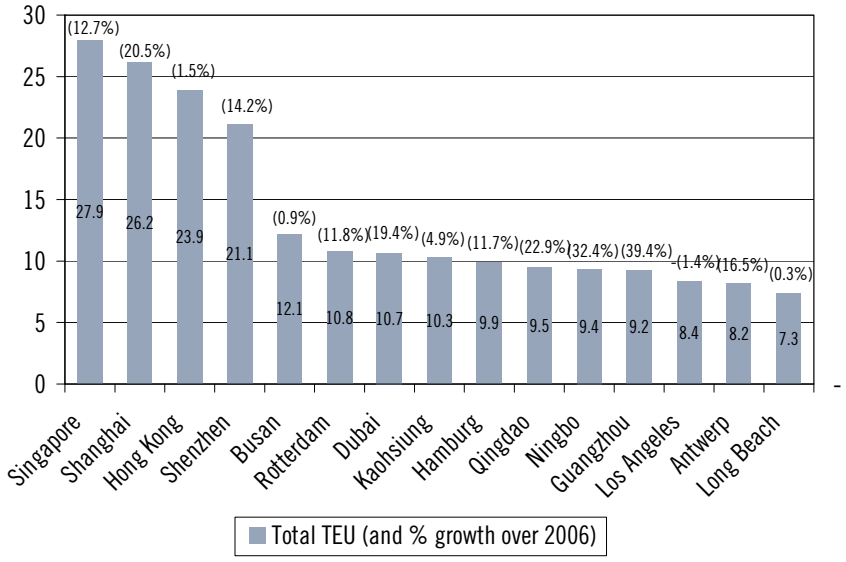
	Share		CAGR		
	1996	2006	1996-00	2001-06	1996-06
Loaded International	50.9%	47.1%	7.7%	11.4%	9.9%
Domestic (inc local repositioning)	18.4%	16.4%	2.5%	15.5%	9.4%
Long haul empty	11.7%	13.7%	11.0%	12.8%	12.6%
Transshipment	19.0%	22.8%	10.9%	12.2%	12.8%
All	**100%**	**100%**	**7.9%**	**12.4%**	**10.7%**

Source: MDS Transmodal

Global TEU lifts increased 11% in 2007. Top 15 reported average growth of 12.5%

Clarkson reports total global TEU lifts of 466m TEU in 2007, growth of 11% over 2006, with considerable regional disparities. Europe increased 8.4%, Asia 13.6% (or 15% excluding Japan), North America 2% and minor trades 8%. In terms of trade lane growth peak direction Asia Europe increased 19% while the headhaul Transpacific (trades between Northern and South East Asia and the East and West Coasts of North America) trade grew by just 0.3%. Clarkson expects the westbound Far East to Europe trade to overtake the eastbound Transpacific as the world's largest container trade with an estimated 16.6m TEU versus 16.1m TEU on the eastbound Transpacific. Figure 18 illustrates below that the top 15 global container ports increased TEU throughput by an average of 12.5% with certain ports suffering from start-up issues (Busan), from economic issues (Long Beach, Los Angeles and the other US West Coast ports) and some switching of transshipment volume to reflect new capacity coming on stream.

Figure 18. DPW – Global Top 15 Container Ports in 2007 (TEUm)



Source: Containerisation International

Port congestion has severe financial consequences

Hamburg Sud reported that in 2006 15% of its scheduled port calls in Brazil were cancelled, requiring containers to be off loaded at the next stop and moved by road or ship back to the missed port, with a significant number of other port calls where the scheduled berth window was missed. Hamburg Sud estimates that additional costs in one key country totalled $106m ($15m additional costs in port, $50m additional vessel costs and $40m of lost revenues) and were passed on to customers. We regard the ability of a terminal operator to accommodate vessels outside agreed windows and facilitate rapid unloading to get vessels back on schedule to be a significant competitive advantage.

Full orderbook for large ships reflects efficiencies but has investment implications for the Port Authorities and for terminal operators

Figure 19 below illustrates how the size of the average container ship has more than doubled since 1980, with the largest modern ship having a capacity over 4.5 times that of the largest ship back in 1980 and requires an additional 4 metres of water depth. By way of illustration an 8,000 TEU ship purchase costs on a per TEU basis around one-third less than a 1,700 TEU ship.

Figure 19. DPW – Trends in Container Ship Size 1980 – 2007

Year	Average Ship Size (TEU)	Largest Ship (TEU+draught)
1980	975	3,057 -11.6m
1990	1355	4,409 - 14.0m
2000	1741	7,200 - 14.5m
2007	2191	13,500 - 15.5m

Source: Drewry Shipping Consultants

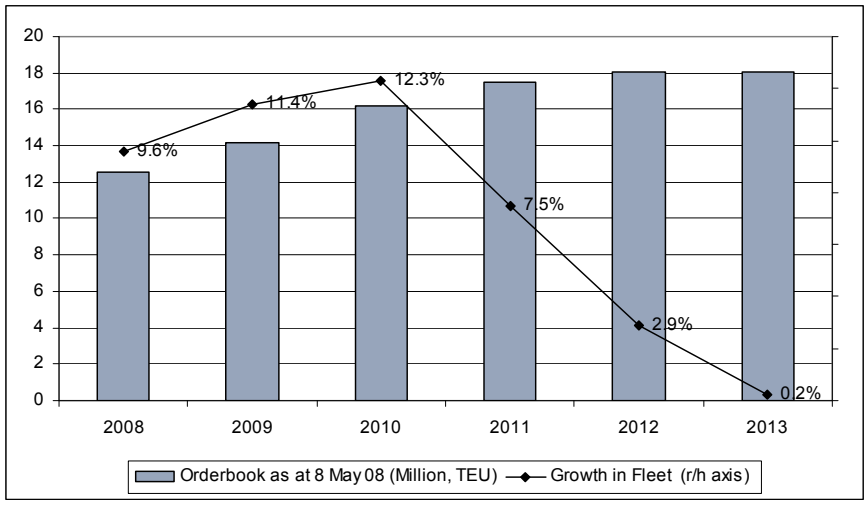
Constraints exist on the rapid recent growth in vessel size

Economies of scale have driven an upward trend in capacity of container ships in order to reduce costs limited only by the dimensions of key canal passages. One such limit on ship size is the "Suezmax" standard, or the largest theoretical ship capable of passing through the Suez Canal. Such a vessel has a capacity of some 14,000 TEU and would displace 137,000 DWT, be 400m long, more than 50 metres wide with a draft of nearly 15m and use more than 85 MW (113,987hp) to achieve 25.5 knots, specifications met by the Emma Maersk. After Suezmax comes the "Malaccamax" (for the Straits of Malacca) ship of 18,000 TEUs, that displaces 300,000 DWT, 470 metres long, 60 metres wide, 16 metres of draft, and using more than 100 MW (134,102hp) for 25.5 knots. Constraints on materially larger vessels include the power outputs of a single engine, the absence of a manufacturer capable of producing a propeller needed for transmitting the power level (more than 10 metres in diameter and over 130 tonnes), time in port and flexibility of service routes; these are similar considerations to the constraints that have limited the growth in size of supertankers.

The forward order book for container ships stands at some US$100bn and appears a vote of confidence in the growth of containerised sea freight by the shipping lines

The forward order book for container ships differs slightly, depending on the source used. As of 8 May 2008, Clarkson identified the forward order book at 1,352 vessels with a total capacity of 6.5m TEU including 195 vessels of over 10,000 TEU and a largest vessel on order of 13,500 TEU. Containerisation International identified a forward order book of 6.7m TEU in 1,520 ships with an average size of 4,833 TEU. The average size of vessel being delivered rises significantly from 3,814 TEU in 2009 to 8,615 TEU in 2012. Figure 20 below illustrates the magnitude of the forward order book, with some 481 ships with a slot capacity of 1.2m TEU due to be delivered in 2008.

Figure 20. DPW – Forward Order Book for Container Vessels 2008 – 2013

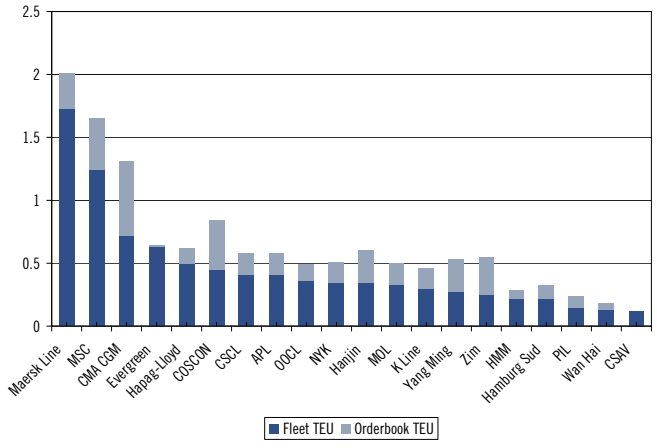


Source: Citi Investment Research and Containerisation International

Orders are well spread among the shipping lines

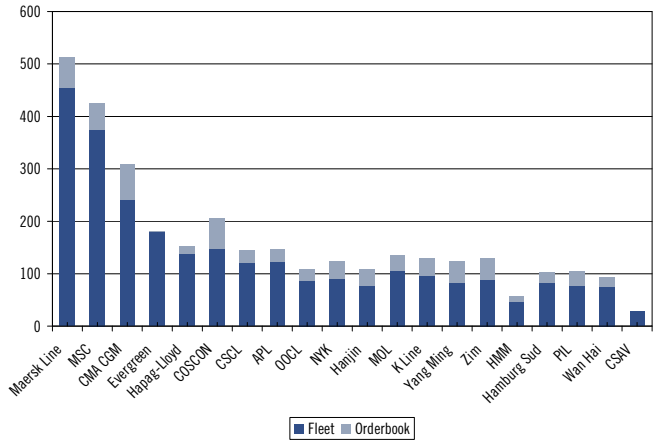
Figure 21 and Figure 22 below present the total TEU deployed by the top 20 carriers at 3 April 2008 excluding capacity of affiliated carriers. The top 20 carriers account for some 58% of the global forward orderbook of 3.9m of capacity in 1,536 vessels.

Figure 21. DPW – Container Fleet Size & Orderbook (TEU m)



Source: Containerisation International

Figure 22. DPW – Container Fleet Size & Orderbook (Vessels)



Source: Containerisation International

Wider and longer vessels...

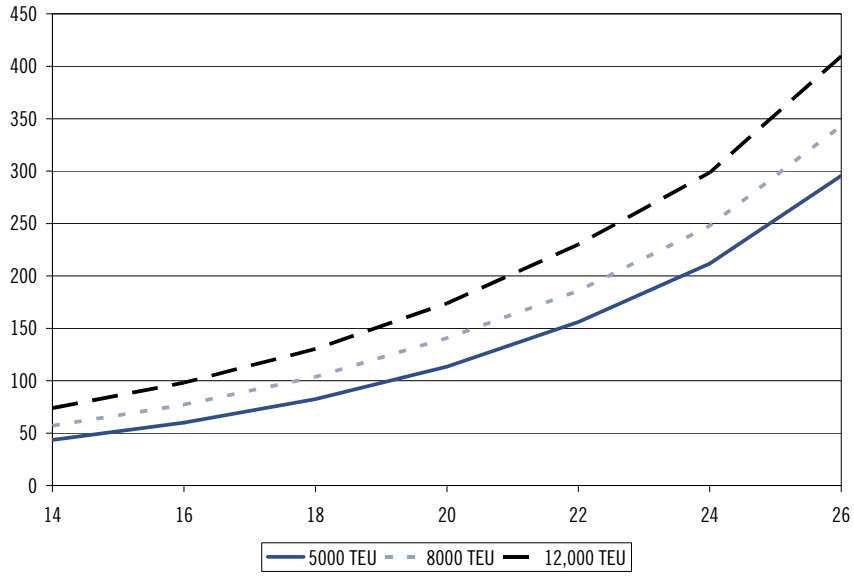
The beam of the latest container ships has also increased significantly to some 64m or some 23 TEU across for the largest ship. These vessels can be 400m in length compared to the typical post-Panamax berth at 370m. (DPW's current ship-to-shore gantry cranes can handle 22 rows across.) Unlike channel and berth depth and turning basin requirements, greater vessel length and beam also has direct investment implications for the terminal operator.

In particular, the number and the outreach, the lift height and the loading capacity of ship-to-shore cranes have to rise. The increased weight produces greater wheel loads and that requires stronger and more expensive quay structures. Tandem lift super post-Panamax cranes (like those in operation at Jebel Ali) weigh well over 2,500 tonnes. Indeed terminal operators have to find more quay wall for longer ships and then are pressured to provide four or more post-Panamax cranes per vessel in order to turn them around as rapidly as vessels half their size.

...that sail more slowly

We regard slower sailing as a mixed blessing for container operators as they result in more on-time arrivals (ECT in Rotterdam reported that up to 40% of vessels miss their assigned berthing times) that allow better asset utilisation; but the same volume distributed on more ships puts most pressure on berths, the area of the operation that is typically difficult and expensive to expand. At conventional speeds a typical service between Asia and Europe required eight vessels per week. Slow sailing has increased this to nine with the saving in fuel costs funding the additional vessel costs and net generating additional profit. Slower sailing has been the preferred method to mitigate higher fuel costs as a 3.5 knot reduction to 21 knots for a 8,000 TEU ship can reduce fuel consumption by some 33% or 100 tonnes per day, which at $500 per ton represents a $50,000 per day saving. Customers receive goods three to four days later but with superior reliability. The extent of potential savings for different vessel types at different sailing speeds is presented below in Figure 23.

Figure 23. DPW – Relationship between Bunker Consumption (tons per day) and Sailing Speed (knots)



Source: Company Reports

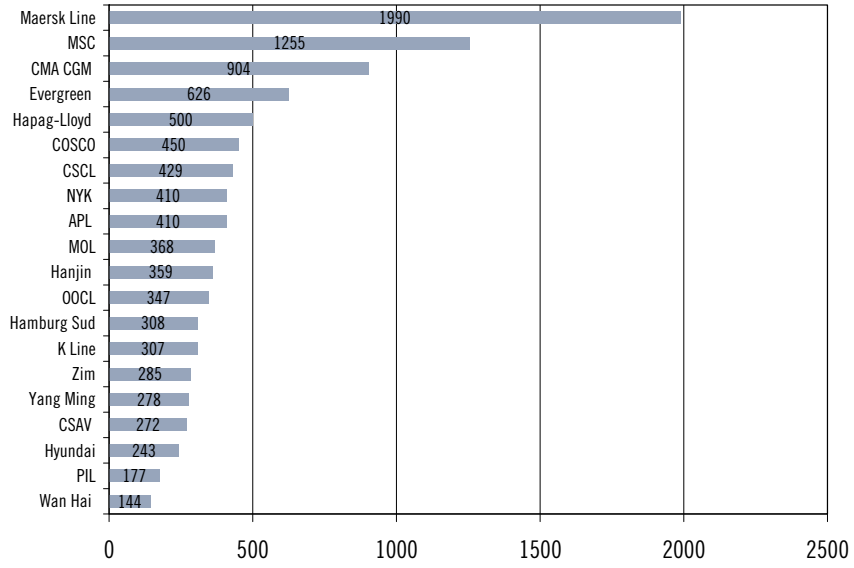
Vertical integration with ocean carriers...

Some major shipping lines also own significant interests in container terminals, with the most likely motive to secure adequate peak capacity at favoured locations given the financial costs of delays. The ability to commit substantial volumes ahead of construction reduces utilisation risk and as such would be a competitive advantage. With container shipping subject to tonnage tax regimes and with terminals' profits conventionally taxed, a temptation must exist to maximise lightly taxed container shipping profits at the expense of more heavily taxed terminal profits through transfer pricing.

...with fewer and more demanding customers, with the top 10 lines now owning 61% of the fleet compared to 49% in 2000

The key customers of a container port operator are shrinking after the relatively rapid consolidation over the last five years that has seen some 30 shipping lines disappear with the global leader, Maersk, now having more than double the volume of the third-ranked carrier, as illustrated below in Figure 24 — although this is just 17% of the global total. The 10 largest container shipping lines own 61% of container capacity by TEU currently, compared to 49% in 2000. Not only is more capacity for larger vessels demanded, but also operational improvements to minimise turnaround times and offer flexibility in the face of schedule delays.

Figure 24. DPW – Top 20 Container Shipping Lines at April 2008 (TEU in Million)



Source: Hamburg Sud

Capacity, efficiency and quality are preferred to price and to sailing time

The structure of global container flows is evolving to a hub strategy with mainline vessels linking the major transshipment ports on each continent. At these ports shipments are re-loaded on to feeder vessels, trains or trucks and carried to their final destinations.

Financial and operational burden has seen the role of the private sector increase sharply

Historically national governments regarded ports as strategic assets, but the costs of port modernisation and expansion investment required (plus related road and rail capacity) forced a rethink over the role of private sector. Port liberalisation began to take root in the 1980s with the seminal privatisation in 1983 of Associated British Ports, which acts as both harbour authority and operator at 21 UK ports. Drewry Shipping Consultants reports that the share of TEU handled at state-operated terminals has declined from around 42% in 1993 to around 19.2% in 2006 as general acknowledgment that private sector can invest in additional capacity in a speedy and timely fashion as well, boosting productivity and delivering product innovation. The most common model remains the concession where the state retains certain rights (ownership of land, port authority functions etc) and receives a combination of investment, an initial payment, a royalty as a percentage of revenue or a nominal rent.

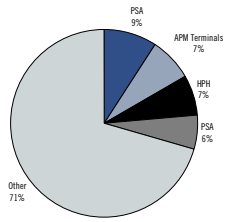
State influence varies markedly by region, with just 6.1% in Northern Europe and 68.3% in Africa in 2006, although this fell from 72% in 2005. Drewry Shipping Consultants expects the state sector to fall steadily in the coming years. However the debate over national strategic interest occasionally stirs, most recently by the controversy in the US over the acquisition by DPW of P&O, including US terminal assets, that saw these assets divested. In some instances such as at Nhava Sheva and at Mundra in India the relationship between the public and private sectors can still be difficult.

Four quite different global groups have emerged

DPW has three global peers and a variety of regional and local competitors that have a combined market share of c30% (25% in 2005) as measured by equity adjusted throughput. Even the global peers of comparable size have different strategies and strengths with two dominated by Asian exposure and one dependent on the strategy and interests of another company. Key characteristics of the three global peers include:

- PSA is the largest global group with a 2006 market share of 9.3% that largely reflects the scale of its terminals in Singapore, which was over 60% of the volume. Singapore handled 27.1m TEU in 2007. However, Singapore is over 90% transshipment volume that is acutely price sensitive and facing rising competition as regional facilities are improved allowing more direct shipments.
- HPH has a heavy bias (>90%) to Hong Kong where transshipment volumes dominate and volumes have been under pressure from lower-cost ports in Southern China as prices are being undercut as Hong Kong is no longer the only gateway to China.
- APMT is the dedicated terminal operations of Maersk Line, the clear global #1 container shipping line, and the supplier of some 66% of volume often under long-term contracts. Strategy and investments revolve around the needs and strategic interests of Maersk Line.

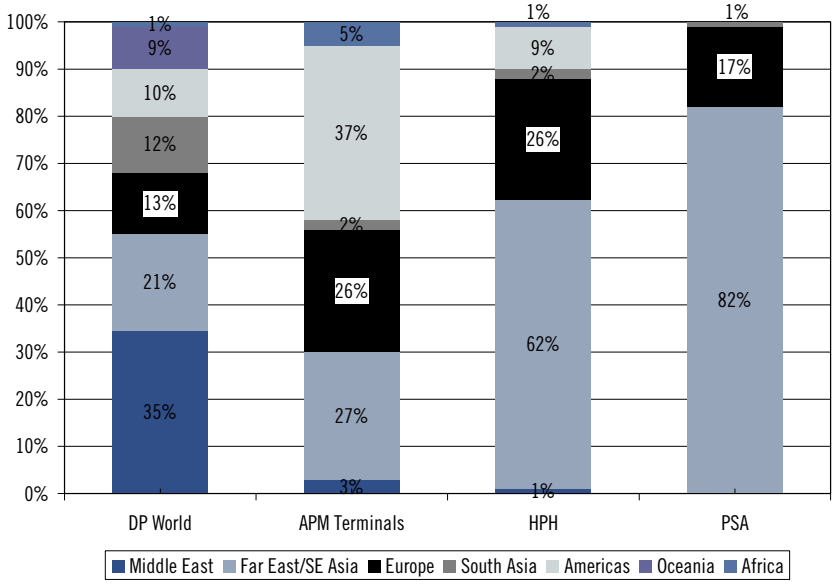
Figure 25. Global Market Shares 2006



Source: DPW

Regional exposure reflects corporate origins and acquisitions

Figure 26. DPW – Regional Balance to Global Terminal Operators TEU in 2006 (Equity TEU)



Source: Citi Investment Research

Container Dynamics and Drivers

Introduction

A mix of macro and micro drivers

Container handling generated 52.6% of 2007 revenue and container-related activities a further 22.8% or 75% combined of DPW revenue. Geographically the Middle East, Europe and Africa was the most important region with 54% of 2007 revenue. We believe a full understanding of DPW's business requires an understanding of the macro and micro drivers and dynamics of container flows through a particular port or group of ports. Macro questions include why container growth has outpaced global real GDP and global trade growth over several decades. The answer to this appears to be found in the patterns of global production and consumption that require more and longer movements of goods and the increasing cost effectiveness of moving large volumes of goods by sea in containers rather than as loose cargo. The extent that these flows benefit a particular port rests primarily on the strength of local demand, demand from a wider hinterland and the efficiency of an individual port's operations. The extended hinterland is largely a function of the quantity, quality and cost of onward transport services from the port.

Macro Drivers of Demand

The container is the most efficient way to move an increasingly wide range of materials and goods

The era of the container began with the transport of US military equipment in the 1950s, which soon extended to the transport of ordinary goods. At the time, mixed cargo included everything from semi-finished goods to tobacco, rice and olive oil and was packed in bales, sacks or barrels, which made loading and unloading complicated and time consuming. The then revolutionary idea of grouping goods into larger, and particularly uniform, loads was quickly adopted and made the expansion of cargo volumes feasible, as equipment could be designed to efficiently handle containers of standard dimensions (initially twenty-foot, now more commonly forty-foot, containers). An industry rule of thumb suggests containerisation raises productivity by a factor of eight from faster loading and a shorter berthing period. Further growth has been generated by the advent of special-purpose containers, including 'reefers' with and without humidity control and open-top containers. Additionally, certain dry bulk products such as soya beans and timber are being carried in containers.

It is no surprise that container volume growth has outstripped global GDP and merchandising growth

Figure 27 below illustrates trends in real global GDP growth, merchandising growth and global container volume in the period 1980 to 2007E. Global container volumes have increased at a high and rising multiple of real global GDP since 1980 and 2.7x in the period 2000 to 2007E. Over this period the multiple of global container growth to global merchandising growth has remained stable at around 1.5x.

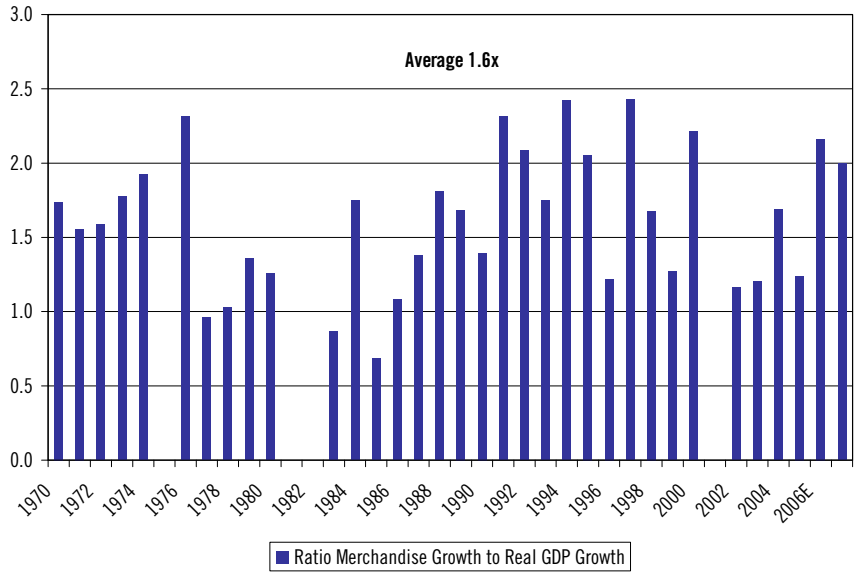
Figure 27. DPW – Real GDP, Global Container Growth and Merchandising Growth 1983 – 2007

	Real GDP Growth pa	Merchandise Growth pa	Container Growth pa	Cont/GDP	Cont/Merch
1970-1980	4.4%	7.5%	na	na	na
1980-1990	3.3%	5.1%	8.0%	2.4x	1.6x
1990-2000	3.1%	5.8%	8.7%	2.8x	1.5x
2000-2007E	3.9%	6.8%	10.5%	2.7x	1.5x

Source: Citi Investment Research, IMF, WTO & Drewry Shipping Consultants

Merchandising growth has outpaced real GDP growth consistently since 1970...

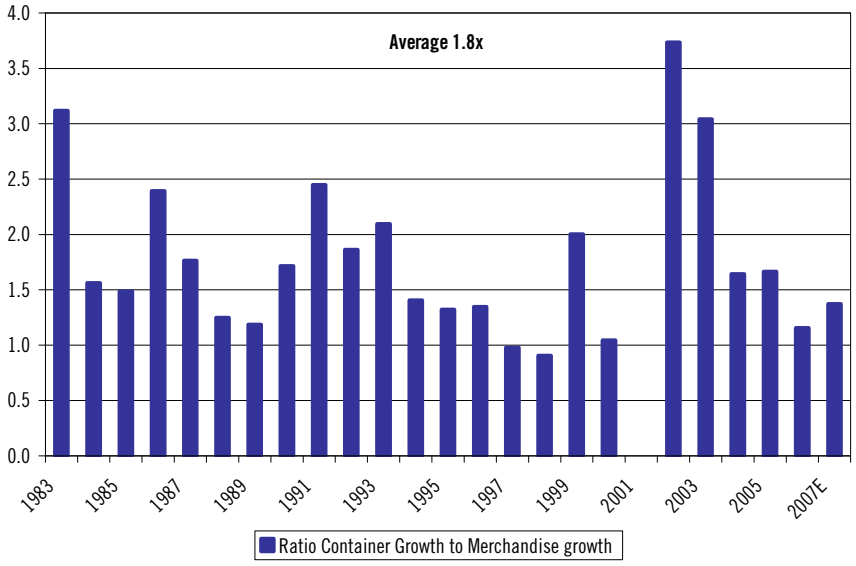
Figure 28. DPW – Relationship Between Real GDP and Merchandising Growth, 1970 - 2007E



Source: Citi Investment Research, IMF and WTO

...and global container growth has outpaced merchandising growth since 1983

Figure 29. DPW – Global Container Growth and Merchandising Growth 1983 - 2007E

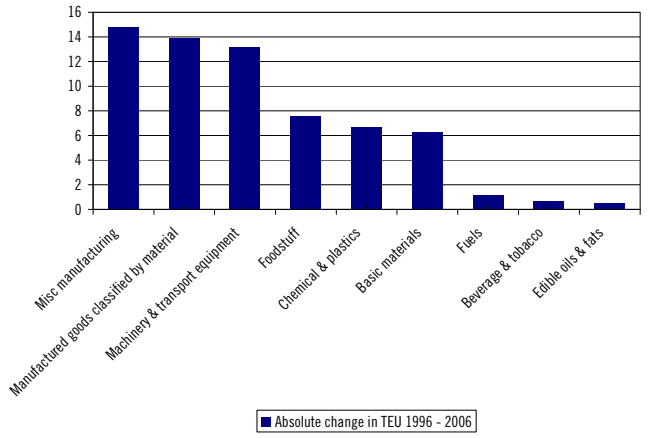


Source: Citi Investment Research, WTO and Drewry Shipping Consultants

Consumer demand and production trends have been factors in boosting containerised sea freight

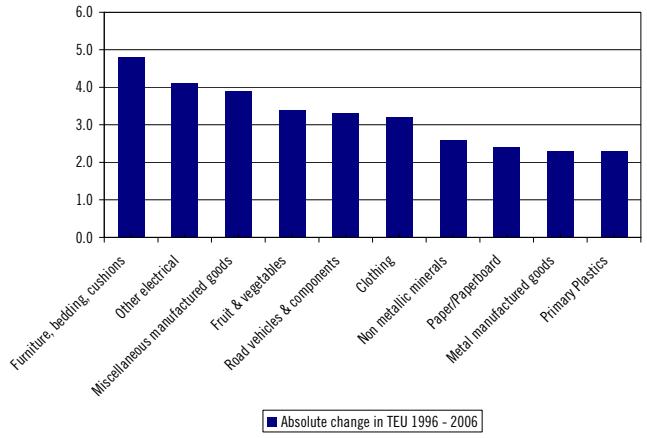
Figure 30 below illustrates the commodity groups that have seen the highest absolute growth in TEU between 1996 and 2006, with some 65% of the absolute growth in TEU coming from manufactured goods, machinery and transport equipment. Figure 31 presents the absolute growth by individual commodity types between 1996 and 2006, and which is mostly related to consumer demand increasingly met by extended east-to-west supply chains. These goods can be characterised as high-volume and/or high-weight but low-value, non-time-sensitive products.

Figure 30. DPW – Absolute Growth by Group 1996-06 (TEU in million)



Source: WTO

Figure 31. DPW – Absolute Growth by Commodity 1996-06 (TEU in million)

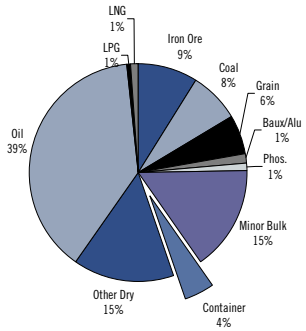


Source: WTO

Container share of dry seaborne trade has increased from 7% in 1985 to 25% in 2007

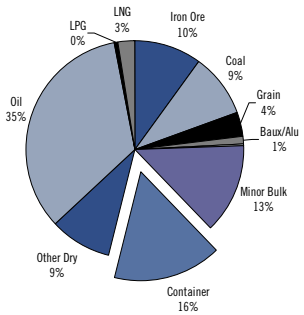
It is interesting to note that the share of dry and liquid seaborne trade as measured by million tonnes shipping has remained relatively stable as illustrated below in Figure 32 and Figure 33 — for liquid 41% in 1985 and 38% in 2007, but within the dry segment container accounted for 4% of seaborne trade (or 7% of the dry category) in 1985 but 16% of seaborne trade (or 25% of the dry category) in 2007. Annual average TEU growth of 10% since 1985 compares with dry bulk at 3% and total seaborne trade at 3.6%.

Figure 32. DPW – Structure of Global Seaborne Trade 1985



Source: Clarkson

Figure 33. DPW – Structure of Global Seaborne Trade 2007



Source: Clarkson

Global Demand and Capacity Outlook

Clarkson currently expects global TEU growth to be above 9% in 2008 and in 2009

In the April 2008 edition of Container Intelligence Monthly, Clarkson expects global TEU lifts to increase 9.3% to 510m in 2008 and by 9.4% in 2009 to 558m TEU (compared to 10%-11% per annum since 2005). Expected regional growth rates are Europe at 7%, Asia at 12.4%, North America (off of a depressed base) at 6.5% and minor trades at 7.6%. Container shipping capacity is expected to rise by 13.1% in 2008 and 12.5% in 2009. At the beginning of February 2008 the forward order book stood at 11m TEU or 60% of the fleet by capacity. The supply demand mismatch is expected to be 3.8pp in 2008 and 2.9%pp in 2009.

Drewry Shipping Consultants expect TEU growth of 9.3% pa 2006 to 2012

The most recent Drewry Shipping Consultants forecasts of global demand and capacity were published in 2007 and are summarised below in Figure 34. Figure 34 presents regional forecast annual average global growth of 9.3% per annum between 2006 and 2012 based on confirmed capacity expansion plans that add just 3.9% of new capacity per annum or 159m TEU.

Figure 34. DPW – Forecast Growth in Container Volumes to 2012 (%)

Region	CAGR to 2012
North America	6.6%
North Europe	7.7%
South Europe	7.2%
South East Asia	7.6%
Far East	11.1%
South East Asia	7.4%
Middle East	9.6%
Central America/Caribbean	6.1%
South America	9.3%
Oceana	6.2%
South Asia	12.0%
Africa	11.2%
East Europe	21.5%
Africa	10.3%
Global	**9.3%**

Source: Drewry Shipping Consultants 2007

Forecasts prepared in July 2007 by UK Consultant MDS Transmodall are slightly more conservative as presented below in Figure 35

Figure 35. DPW – Forecast Growth in TEU 2006 – 2011 (%)

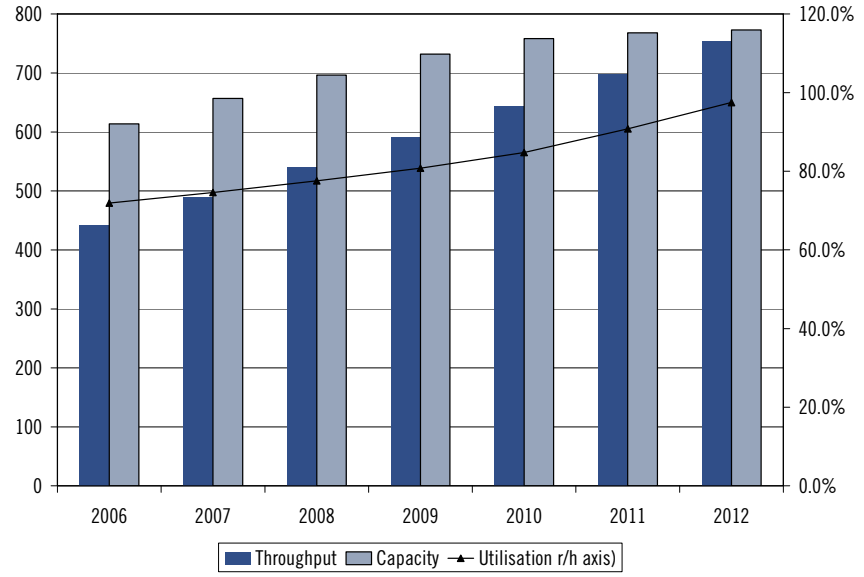
	2006	2007E	Delta	2011E	CAGR
Total Containerised Trade (tonnes)	765	Na	na	1100	7.5%
Laden TEU (m)	106.3	115.7	8.8%	151	7.3%
Total Port Traffic (m)	349	378	8.3%	487	6.9%

Source: MDS Transmodal

Implied utilisation based on confirmed new capacity rises to nearly 100%

Drewry also collates confirmed capacity additions to determine future utilisation. Figure 36 below presents Drewry's forecast container throughput, capacity and utilisation between 2006 and 2012. Drewry's analysis suggests global capacity utilisation will increase from 72% in 2006 to over 97% in 2012.

Figure 36. DPW – Forecast Container Throughput, Capacity & Utilisation 2006 to 2012 (%, TEUm)



Source: Drewry Shipping Consultants 2007

In practice if demand forecasts are correct we expect capacity to be higher

Most terminal operators have the scope to raise capacity with small-scale investment with short lead times, for example by providing additional equipment or by improving terminal processes and raising terminal throughput by for example pushing up storage charges. The phenomenon is often termed capacity creep.

If volume forecasts prove to be overly optimistic capacity expansion projects can be deferred

It is important to note that if the demand is less than industry commentators expect it does not automatically follow that utilisation will fall and pricing comes under pressure. Most established container terminal operators have the ability to defer or even cancel projects (such as equipping previously constructed berths or increasing levels of automation with automatic stacking cranes or new generation ship-to-shore cranes) until demand justifies the additional investment in new capacity.

We believe the shipping lines' choice of port calls reflects a combination of location, capacity, service quality and rates

We believe the key drivers of port choice for import and export volumes are the proximity to origin or final destination (to minimise surface transport cost that can account for up to 80% of the total end-to-end shipping cost), service quality (including ease of port access, availability and flexibility of capacity and availability of ancillary services) and finally price per TEU. Figure 37 below presents an illustrative Sea:Land split of distances and cost from Shanghai to Prague.

Figure 37. DPW – Sea:Land Split of Transport Costs from Shanghai to Prague

	Sea-Borne Transportation	Land Transportation
One Way distance (km)	20,375	650
Cost per km per TEU (€)	0.09 - 0.15	1.54
Percentage of Distance	97%	3%
Percentage of Costs	70%	30%

Source: Company Reports

The DPW Business

Introduction

From local to regional to global since 1972

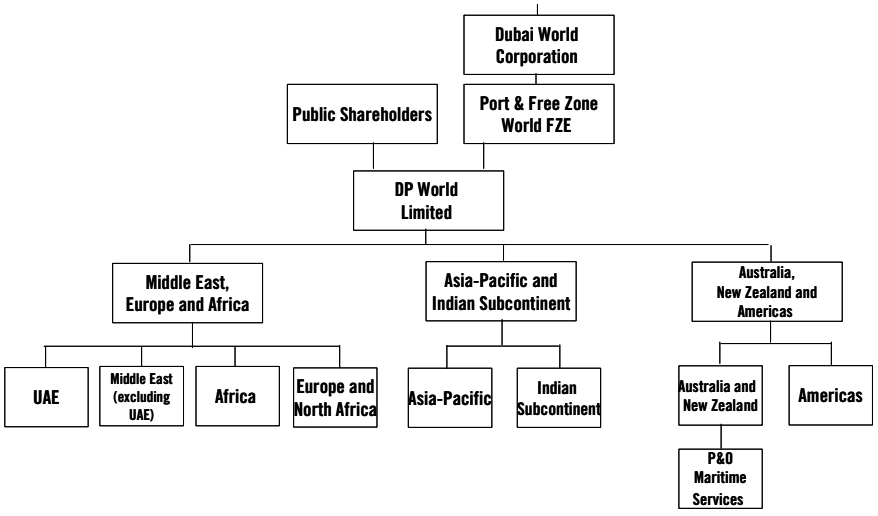
The DPW portfolio at 1 February 2008 included 43 terminal and 13 development projects in 28 countries. The current portfolio has some 37,000m of quay wall. Container and related activities account for some 75% of revenue with the balance of 25% mostly from Bulk handling (in Australia and also at Jebel Ali) and maritime auxiliary services. DPW continues to shape the portfolio with divestments of minority interests acquired with P&O where day to day management control and influence were deemed insufficient. These include a 22.5% interest in Shekou 1 and a 22.05% interest in Shekou 2 for US$228.4m, a 16.25% interest in South Asia Gateway (Colombo) for US$ 60m, and other non-core activities including certain logistics operations in China and Australia.

Management and organisation

Strong and experienced management team

The DPW Board comprises seven members, of which three are independent non Executive Directors chaired by Sultan Ahmed Bin Sulayem and including former P&O Chairman Sir John Parker. The business is managed out of the DPW global head office in Dubai by an 11-member executive management team led by CEO Mohammed Sharaf, who was appointed in 2005, that has been in place for several years and has overseen the transformation of the company. Mr Sharaf joined DPA in 1992 and brings 20 years of experience in the transport and logistics sectors that started in the Port of New York/New Jersey. Mr Anil Wats, Executive Vice President and Chief Operating Officer who joined DPW in 2003, brings with him over 25 years experience of international shipping and logistics including most recently with A P Moller-Maersk. Mr Yuvraj Narayan, Chief Financial Officer, has over 25 years banking and shipping experience and joined DPW in 2004 and has served as CFO since 2005. The business is organised along sub-regional lines with units aggregated to the three regions used for financial reporting as illustrated below in Figure 38.

Figure 38. DPW – Organisational Structure



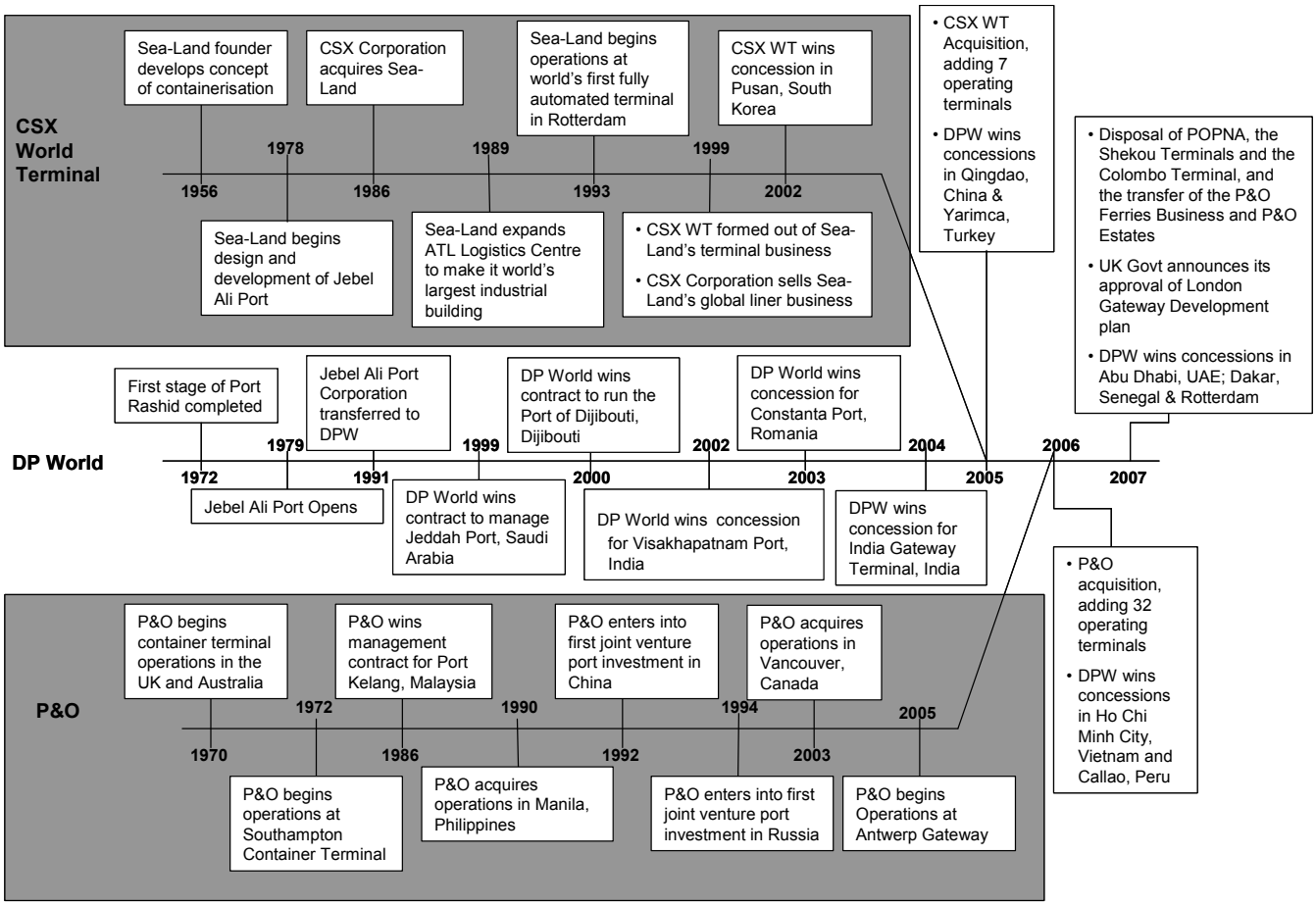
Source: Company Reports

Corporate History

Rapid progress from local, to regional and to global scale

The origins of DPW can be traced to the completion of Port Rashid in 1972 and the opening of Jebel Ali in 1979. The period 1999 to 2003 saw expansion in the Middle East and the first overseas successes in India and in Romania. The acquisition of CSX World Terminals in February 2005 for US$ 1.15bn (at some 16.9x 2004 EV/EBITDA) strengthened the group's representation in Hong Kong, China and Korea as well as adding operations in Australia, Germany, the Dominican Republic and Venezuela. Exponential growth followed the acquisition of P&O in March 2006 for US$8.9bn (at some 15.6x 2005 EV/EBITDA). Figure 39 below charts the origins of the group.

Figure 39. DPW – Origins of the DPW Portfolio



Source: Company Reports

The acquisition of CSX Terminals brought DPW key strategic assets in fast growing regions

The CSX acquisition in February 2005 provided Dubai Ports with key strategic terminal interests in some of the world's fastest growing regions, including Asia and South America, establishing it as a major regional operator with an increased international presence. DPW acquired CSX World Terminals (formerly CSX WT) in February 2005 for $1.2bn from CSX Corporation, a NYSE listed company.

The CSX WT acquisition contributed interests in seven operating terminals including CT3 Hong Kong and Yantai and Tianjin in China) and three terminals either under construction or in the planning phase (including Pusan, South Korea and Quingdao, China). For CSX Corp, the sale of CSX World Terminals reflected a decision to focus on its core North American railroad business and completed the divestiture of the international shipping assets originally acquired in 1987 as part of the purchase of Sea-Land Corporation.

The acquisition of P&O in March 2006 elevated DPW to a global operator

DPW acquired P&O, a UK-listed company, for $7.2bn in March 2006 (c£3.9bn Enterprise Value and £3.3bn equity value) implying an exit multiple of c13.4x trailing EV/EBITDA and c29x forward P/E. DPW gained a complementary portfolio of terminals in Asia, India, Australia, the Americas, Europe and Africa. P&O contributed interests in 32 operating terminals and five terminals either under construction or in the planning stage. P&O's other operations in ferries, maritime services and property development were either transferred to other group entities or divested, mainly reflecting a desire to focus on the core container terminal operations. The US terminals of P&O North America (POPNA) were sold after political pressure relating to foreign ownership of strategic assets increased. The following disposals have been made:

- POPNA. On 16 March 2006, 100% of POPNA was sold to AIG Global Investment Group. Assets included concessions at six container terminals and four non-container terminal operations in the US as well as stevedoring operations at 16 US ports.
- P&O Ferries and P&O Estates were transferred to DPW parent company Port & Free Zone World FZE.
- POTA and P&O AGS. 50% of P&O Trans Australia Logistics and 75% of P&O Automotive & General Stevedoring was sold to a consortium led by Kaplan Equity.

Group Strategy

Current portfolio has a mix of multi-user terminals and projects

The expansion of DPW has been horizontal with rapid geographic growth in the portfolio rather than vertical in the direction of offering services beyond the port gate. DPW has also limited co-operation with global shipping lines to joint participation at the individual terminal level (perhaps to commit volumes or to comply with concessions that stipulate a shipping line partner) but unlike two of the three other principal global container groups it has no equity-based relationship at the group level. The business model is generally multi-user in that no one shipping line has priority over another by virtue of ownership. The DPW portfolio includes a mix of freehold projects (like Yarimca in Turkey and London Gateway in the UK), long-term concessions (with an average of 44 years remaining) and management contracts. The typical DPW project is a 25- to 50-year operating concession with an investment commitment either on a design build operate transfer or design build operate basis. Concession are often replaced or extended without a formal tender process up to 10 years before expiry, particularly if new investment is required.

Strategy aims to capitalise on the seemingly insatiable demand for container handling capacity

We believe the seemingly insatiable demand for container capacity across the world and for higher terminal productivity gives DPW a vast pool of potential projects as public sector bodies seek to quickly modernise or expand aged facilities or build new facilities by using external capital. DPW typically is looking at 20-25 projects at any one time although with varying levels of interest. The key strategic decisions are which regions and locations to favour from a risk/reward perspective and the nature of any investments made. In parallel DPW constantly positions itself to secure extensions in advance of concessions expiring. Investment can take several forms: capex to support a winning concession bid or the full or partial acquisition of a company already holding a concession. DPW's counterparty in a terminal agreement is often a local or national government body where track record, access to capital and ability to stand behind commitments are key success factors as ports have significance for the economic development of a country or even a region.

Acquisitions have added resources to cope

The former CSX and P&O acquisitions have provided DPW with skilled management resources in each region to assemble bids in a framework established and monitored centrally. The wide range of operating practices found across the portfolio allows significant benefits to be realised from spread of best practice in areas such as yard automation and optimisation, systems development, security compliance and safety.

Interest is selective

DPW looks to add capacity to the portfolio in locations of interest either through acquisition or concession wins where day to day operational control is possible. These locations are either high-growth or potentially high-growth with import/export rather than transshipment volume and where customer choice is limited or where existing quality of service is poor. A recent example is the 25 year Dakar container concession to upgrade the existing terminal and to build a new terminal at Port du Futur, which is planned to become operational in early 2011 with an annual capacity of some 1.5m TEU per annum. This is the first real challenge to APMT's near monopoly of West African concessions (Apapa and Onne in Nigeria, Abidjan in Ivory Coast, Luanda in Angola and Tema in Ghana). DPW also has a major concession in Maputo in Mozambique. DPW has also indicated a particular interest in concessions in Latin America and also to enter the US, if political circumstances permit.

Quality rather than quantity is key

DPW regards transshipment volume as generally inferior to volume that is to or from the economic hinterland of the port. Transshipment volume by its very nature will usually have a variety of potential transshipment ports with cost being key and as such is inherently less stable than import/export volumes. Switching import/export volumes (aka origin/destination) incurs additional costs when goods are moved away from the port closest to the point of consumption. DPW reports that import/export volume was some 76% of consolidated volume in 2007. However, excluding Jebel Ali where import/export is lower at c50% would make the portfolio ex Jebel Ali some 84% import/export.

Key Features of the DPW Portfolio

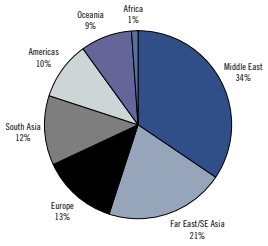
The DPW portfolio at 17 February 2008 consisted of 43 terminals and 13 new developments in 28 countries

The portfolio is in a near constant state of evolution with new concessions added or divested and/or interests raised or lowered in individual terminals. Most recently DPW has acquired a 20% stake in Qasim International Container Terminal (QICT) in Karachi, Pakistan from APM Terminals for an undisclosed consideration. In the following section we segment the DPW business by key attributes.

Geographically diversified

The DPW portfolio at 17 February 2008 consisted of 43 terminals and 13 new developments in 28 countries and is the most geographically diversified portfolio. Full details by operating region are presented in Figure 40. The DPW portfolio is less biased to any one region than any of its global peers (Asia Pacific in the case of Hutchinson or PSA) or to any one customer (APM Terminals). Its absence from the US reflects the political aftermath of the acquisition of P&O and the forced divestment of P&O's US terminal assets. If circumstances change we would expect DPW to seek to add terminals in the US perhaps via some of the major port projects being considered.

Figure 40. DPW – TEU by Region in 2006



Source: Company Reports

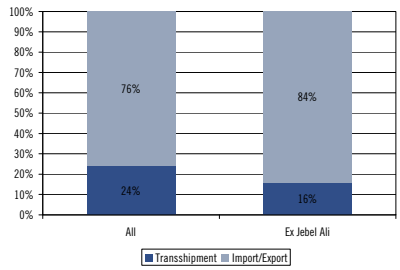
Day to day control but not always 100% ownership

DPW like other major port groups includes a variety of joint ventures and associate investments that arise because in certain geographies local regulations prevent 100% ownership, such as China, and in others 100% ownership is not desirable from a risk perspective or where local minority shareholders could bring local strategic advantages, for example in future tender situations. In 2007 over 72% of JV and Associate contribution came from Asia Pacific and the Indian Subcontinent. The most recent example is the Sokhna acquisition where DPW acquired a 97% stake.

Biased to higher-quality import/export volumes

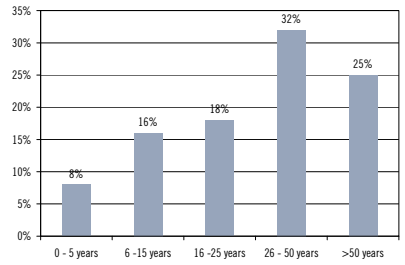
An important measure of the quality of future revenue visibility is the quality of the TEU handled at a terminal and the proportion that is import or export rather than transshipment volume. Import/export is typically going to and from the local hinterland and is effectively captive to the port whereas transshipment volume by definition is moved on by sea to another country with one port in competition with other in the region for the business. An exception to this are the key regional hubs such as Jebel Ali where shipping lines have little choice but to call and the transshipment volumes they bring are effectively also captive. DPW reports 76% of consolidated TEU as import/export with Jebel Ali lower than the average at 50%, ie the non Jebel Ali import/export percentage at some 84% is indicative of a high-quality portfolio.

Figure 41. DPW – Volume Mix at 31/12/06



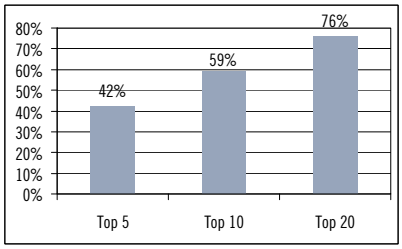
Source: Company Reports

Figure 42. DPW – Concession Expiry Profile



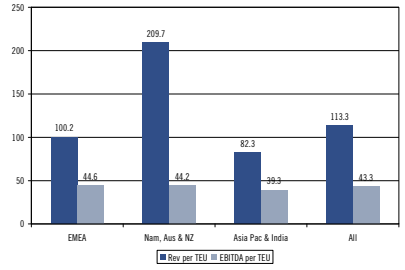
Source: Company Reports

Figure 43. DPW – Customer Concentration



Source: Company Reports

Figure 44. DPW – Regional Comparison (US$)



Source: Company Reports

Long-term visibility

Virtually the entire DPW portfolio is operated under concessions or long-term leases generally of between 25 and 50 years. DPW reports that the TEU weighted average unexpired concession length in the portfolio is some 44 years excluding free hold ports (such as London Gateway and Yarimca in Turkey) and management contracts. The typical concession length is 20 to 50 years often depending on the scale of investment required. The Jebel Ali concession is 99 years and expires in 2105. The expiry profile is presented in Figure 42 Historically incidence of Port Authorities switching operators is rare due to the risk of disruption of operations as key equipment (cranes etc) and key staff are often not owned or employed by the Port Authority, which could lead to up to four months' terminal downtime. This risk is further reduced if additional capacity and/or further automation is needed well in advance of the concession termination that allows an early concession extension in return for additional investments.

High revenue concentration

DPW customers include 150 carriers and cargo groups, including all of the top 10 global container shipping groups. Like most other port companies the business depends on a small and consolidating number of major customers. In the year ending 31 December 2006 DPW reported that the top 5 customers accounted for approximately 42% of gross pro-forma throughput, the top 10 59% and the top 20 76%. DPW believes that the shipping lines attach importance to long-term relationships and to high and homogenous levels of service (in particular fixed day berthing slots and defined crane productivity rates) and to structured commercial approaches managed at a regional and global level.

Range of unit revenue and unit EBITDA across regions

The range of revenue consolidated per TEU reported in 2007 was wide in a range of US$82 to US$210 with an average of around US$113. As Figure 70 illustrates revenue per TEU is not a good indicator of profitability as the Australia, New Zealand & Americas region has the highest revenue per TEU by a considerable margin but the lowest EBITDA margin at 39.3%. Asia Pacific/Indian Subcontinent and Middle East/Europe & Africa regions generate revenue per TEU less than half that of Australia, New Zealand & Americas but generate a similar level of EBITDA per TEU. We believe these differences reflect the importance of non-container business and very different unit costs with the US and Australian waterfronts being relatively high cost.

Solid foundations to consolidated EBITDA

We believe consolidated EBITDA is well underpinned

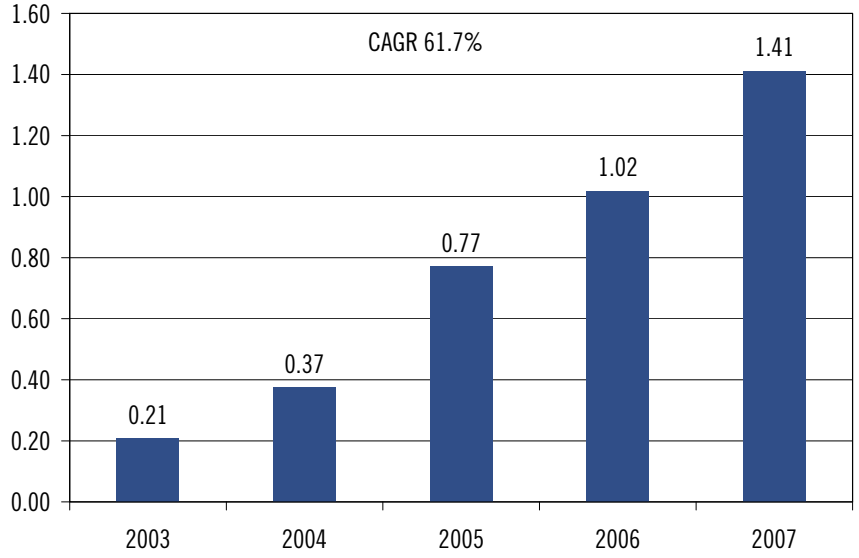
We understand over 60% of consolidated EBITDA comes from five locations (Jebel Ali, SCT, Karachi, Constanta and Antwerp Gateway), each well established with local competitive advantages, each serving trade lanes where demand for modern handling capacity outweighs demand and each with significant expansion either underway or planned to strongly underpin current and forecast EBITDA. We explore some of the features at four of these five locations as few details exist as to the nature of operations at Karachi:

1. **Jebel Ali** – Clear regional gateway with post-Panamax capability, high service level set in a free trade area that generates over half of consolidated EBITDA at margins we estimate at up to 70%. Volumes have benefited as the region's oil surplus is consumed and invested in development projects. Expansion capacity up to 50m TEU by 2030. We discuss the outlook for growth at Jebel Ali in the next chapter.

2. **Southampton Container Terminal** (SCT) – DPW owns 51% of SCT, the UK's second-largest container port that reported 27% TEU growth to 1.9m TEU in 2007 after several years of operational problems due to congestion. The terminal is close to London with a natural deep-water harbour, a double tide and high-quality TEU with virtually everything import/export. The lack of deep-water container capacity until the first berths at London Gateway become operational mean any available capacity should be quickly utilised by volumes forced to transship via a continental European port. SCT plans to further capitalise on the location with a three-phased expansion plan to raise capacity to around 3.5m TEU initially from new double-lift gantry cranes, then the creation of a new terminal from an existing berth and finally the automation of the existing terminal using automated high-density stacking, positioning and recovery cranes similar to CTA at Hamburg and planned for Antwerp and London Gateway. Strategy will seek to boost volumes by growing transshipment feeder volume to Continental Europe to around 25%

3. **Constanta** – DPW has operated the Costanta South Container Terminal (CSCT) in Romania since 2004 with a planed capacity of some 1m TEU. The port as a whole recorded CAGR growth of 61.7% to 1.411m TEU between 2003 and 2007 as illustrated below in Figure 45 (more than double the volume handled by the other key Black Sea port of Odessa) reflecting the emergence of Constanta as a Black Sea transshipment hub (over 75% of volume is transshipment) due to rival ports being inadequate for large vessels. CSCT also serves the Romanian market. It is benefiting from the rapid growth in Russia and central and eastern Europe and also from the lack of capacity at North Range ports, particularly Hamburg.

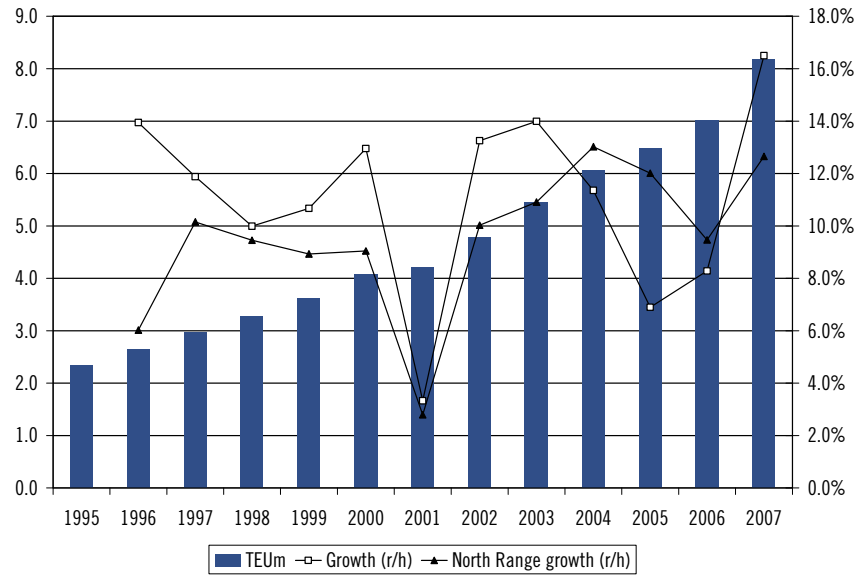
Figure 45. DPW – Throughput at Constanta 2003 to 2007 (TEU m)



Source: Containerisation International

4. **Antwerp** – DPW owns 100% of the container terminal at the Delwaidedok in the Port of Antwerp with a capacity of 1.25m TEU from 1305m of quay wall and an area of 563m^2 until 2034. DPW also owns 42.5% of the Antwerp Gateway concession that runs until 2044 (alongside Zim Ports 20%, Cosco Pacific 20%, CMA-CGM 10% and duisport 7.5%) at The Deurganck Dock; this has 2,500m of quay and an area of 125 hectares opened on 6 July 2005, and will eventually triple DPW capacity in the Port of Antwerp to 5m TEU pa and is also P&O Ports' first tidal terminal in Antwerp. Phase one operations use straddle carriers for stacking and in the second phase the terminal with be upgraded to Automated Stacking Cranes. When fully developed the total capacity of Antwerp Gateway will be 3.5 million TEU. The Port of Antwerp was the fastest growing port in the North Range in 2007 with over 15% growth compared to Rotterdam at 12.5% and Hamburg at 11.2%, as illustrated below in Figure 46. We attribute this to buoyant demand with capacity available compared to limited additional new capacity at Hamburg and at Rotterdam.

Figure 46. DPW – Growth in the Port of Antwerp (TEU in Million)



Source: Company Reports

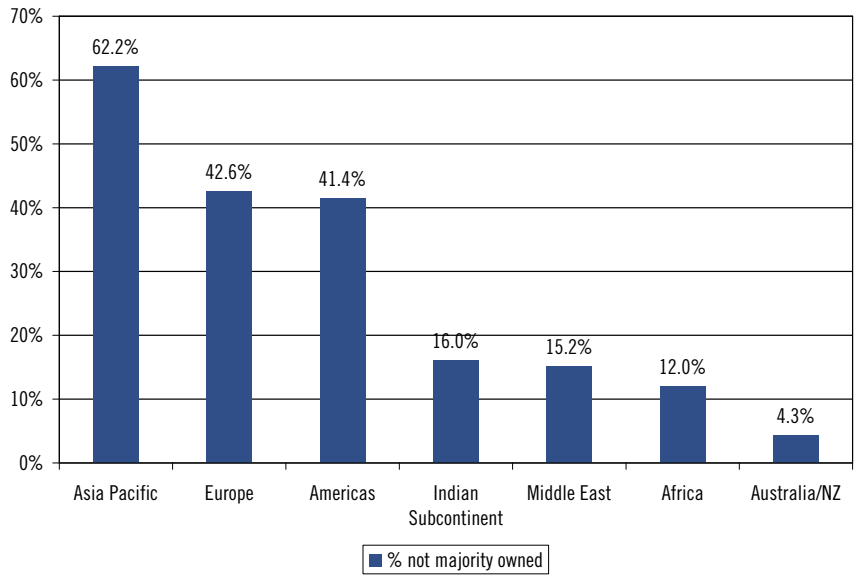
DPW also owns 100% of two other multipurpose terminals (Churchill Dock and Sixth Harbour Dock) that handle steel, paper and other break bulk cargoes using specialised cranes and rolling equipment. With 60 ha of general cargo terminal area, more than 3km of quay length and more than 10 ha of covered warehouses, P&O Ports is one of the leading general cargo stevedores in the Port of Antwerp.

Significant associate and JV investments

Some 44% or 16.3m TEU are at locations where DPW does not have majority ownership

Figure 47 below presents by region the percentage of gross TEU not owned by DPW. In Asia Pacific 76% of the gross TEU reported by DPW in 2007 were handled at terminals in which DPW had less than 50% interest due in part to Chinese restrictions on foreign ownership and in part due to a deliberate strategy decision. In Europe, the other region with material sub 50% interests, this represents strategic decisions to gain concessions (such as Antwerp Gateway or Maasvlatke 2) as part of consortia that typically include one or more shipping lines who commit future volumes to use the facility. We assume that all terminals where DPW owns less than 50% of the equity fall within joint ventures and associates.

Figure 47. DPW – Regional Locations of JV and Minority Interests



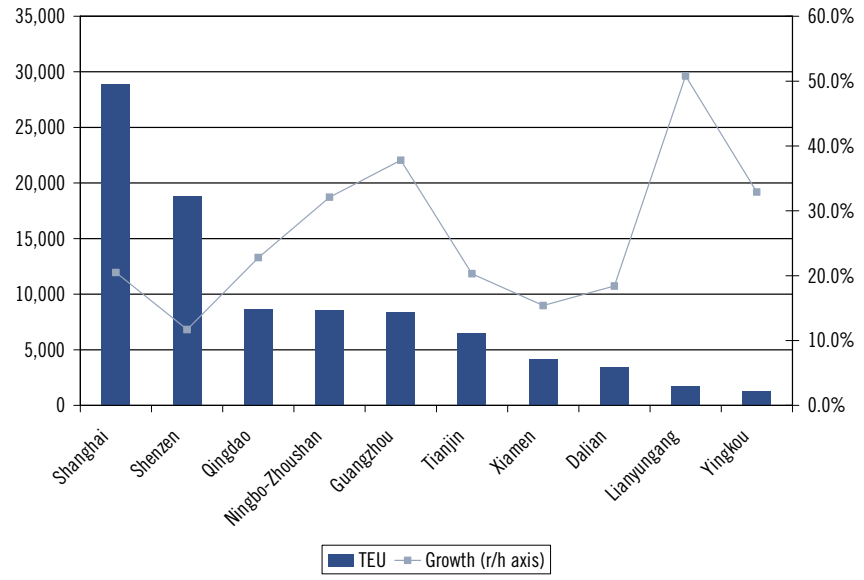
Source: Company Reports

Qingdao Qianwan key to JV/Associates

DPW owns just 29% of Qingdao Qianwan but it is a key contributor to profits and to future growth

The underlying contribution of JVs and associates is material to DPW at around 21% of net profit (remember this is a post-tax number). Key to this line is the contribution from Asia Pacific/Indian Sub-Continent that generated 62% of the total net profit generated by JV and associate companies. We understand Qingdao Qianwan Container Terminal (QQCT) generates around two-thirds of the $87m underlying JV and Associate contribution in 2007. TEU throughput at the Port of Qingdao increased 23% to over 9.4m in 2007 and was third-largest container port in China after Shanghai and Shenzen based on data for the eleven months to the end of November 2007, as illustrated below in Figure 48. Port of Qingdao Authority targets growth of 10m TEU in 2008 reflecting available capacity.

Figure 48. DPW – TEU at Top Ten Chinese Ports, 11 months to November 2007 (TEUm)



Source: Shenzen Municipal Port Authority

DPW's exposure to Qingdao will increase when phase 4 of QQCT opens and when a new terminal opens in 2009

DPW owns just 29% of the QQCT Joint Venture company that was founded in July 2000 with Qingdao Port Group, with Maersk Line and Cosco joining later. The other shareholdings are Qingdao Port Group 31% and Maersk Line and Cosco each with 20%. QQCT operates 3,400m of quay across 11 berths with a design capacity of 6.5m TEU per annum and capable of handling 10,000 TEU vessels. The fourth phase of the terminal will add 2,640m of quay wall across eight berths at a reported cost of $1bn. It reported that two of the eight berths will be completed by the end of 2008 and the balance within five years. In addition DPW is developing a new Greenfield terminal in Qingdao pursuant to an agreement signed in November 2005. The new terminal will be 100% owned by DPW and comprise 1,320m of quay across four berths and is reported to have capacity in excess of 2m TEU with operations expected to commence by 2009.

Short-term uncertainties remain

Citi economists see a wide range of outcomes for Chinese exports and container throughput (6%-16%) in 2008 largely depending on the extent that the US economic slowdown adversely impacts demand in other regions, particularly Europe, which became the largest trading partner of China in 2007. Our economists suggest that in the long run a 1ppt fall in US imports would imply a 2ppt decline in China's export growth. As a result, Citi expects China's exports to decelerate to 18% in 2007 on weak US demand, fast currency appreciation and cuts in export tax rebates. We see a slowdown in China's export growth to 15% as very likely in 2008, potentially falling to 10% in a global cooling down. Since August 2007, China's export growth has softened to 22% in the last five months from 30% in the first seven months of 2007, largely reflecting the 9ppt slowdown in US imports from China from 16% (Jan-Jul) to 7% (Aug-Nov).

US imported products that have experienced the biggest drops in growth since 3Q07 have been manufactured goods, machinery & transport equipment and miscellaneous manufactured articles, which in total explained 94% of US imports from China. The percentage of China exports to the US has slid from nearly 30% to 25% (adjusted by Asian transition trade) since 2000 with Europe absorbing 33% of Chinese exports compared to 25% In 2000. Figure 49 weights Chinese export growth by region for three scenarios of economic growth with export growth of 10%-16% seen as most likely in 2008.

Figure 49. DPW – Growth Scenarios for Chinese Imports and Exports 2007 -2008E

China export by destination (growth)	Adj weight	2007	2008 -a	Growth	2008-b	Growth	2008-c	Growth
USA	25.0%	13.0%	7.0%	1.7%	3.0%	0.7%	0.0%	0.0%
Europe	33.0%	34.0%	25.0%	8.1%	15.0%	4.9%	5.0%	1.6%
Japan	12.0%	11.0%	8.0%	0.9%	5.0%	0.6%	2.0%	0.2%
Asia	19.0%	25.0%	20.0%	3.8%	15.0%	2.9%	5.0%	1.0%
Other	12.0%	6.0%	6.0%	0.7%	6.0%	0.7%	6.0%	0.7%
Total China export		**26.0%**		**15.3%**		**9.7%**		**3.5%**
Total China import		21.0%		20.0%		15.0%		10.0%
Container Throughput Growth		**24.0%**		**15.6%**		**10.8%**		**5.7%**

Source: Citi Investment Research

For reference during the post 9/11 US recession with a GDP hard landing from 3.7% to 0.8% growth, Chinese export growth to the US slowed to 4% from 24% in 2000 and amidst slower global demand, headline export growth slowed to 7% from 28% in 2000. Machinery, apparel and toy imports, that together accounted for 61% of US imports from China, saw growth slow to 1%, 5% and -6% respectively from 13%-31% in 2000. Furniture still managed 19% growth in 2001.

Four Pillars of Future Growth

Growth in established locations, solid execution of expansion projects, more innovation at existing locations and strong likelihood of further concession wins

- We expect oil surplus fuelled investment and consumption in the GCC states to drive further strong growth and expansion of Jebel Ali. Jebel Ali, as the source of over one-half of consolidated EBITDA, is the foundation on which group profits and cash flow are built
- We assume timely execution of current within-portfolio capacity expansion plans that include the freehold ownership of a major new deep water port just outside London and as part of a consortium set to equip and operate one of three new terminals in a planned new development at Rotterdam.
- Within portfolio capacity increases could be exceeded due to capacity creep and/or better land use productivity (through the use of Automated Stacking Cranes or more or bigger ship-to-shore gantry cranes).
- We see plentiful opportunities to bid for new concession as governments wish to expand or improve an existing terminal where the expertise, capital and relationships are key advantages or to acquire small single-terminal operators.

Jebel Ali: Gateway to a rapidly evolving region

Leveraging geographic advantage

The pace of development has reflected both the strategic position of Dubai (a key meeting point and hub for East-West intercontinental trade as the Middle East straddles the crossroads of the major Asia-to-Europe and Asia-to-Africa trade routes), oil-fuelled development and regional economies opening to the outside world. The first box facility in the Emirate opened in 1972 at Port Rashid with two quayside gantry cranes and a throughput of less than 10,000 TEU. Jebel Ali opened in 1979 as the largest manmade harbour in the world and is now the largest container port to be found between Singapore and Rotterdam. The terminal equipment includes 10 quad-container ship-to-shore units that have boosted flexibility and allowed productivity to rise to some 32 moves per crane hour. Key to productivity is 24/7 operation and careful planning to maximise efficiency but efficient port operations also depend on vessels arriving on time, the depth of water drawn by those vessels and general harbour traffic. Back in November 2006 Port Strategy reported that average anchorage at Jebel Ali is only between 1.5 hours to 2 hours.

The regional leader

The mix of timely investment in new capacity, high productivity and economic development has seen TEU volumes increase rapidly (14% CAGR 1991 to 2007) from rapid growth in import/export traffic and further growth in transshipment (ie in and out by sea) volume. DPW indicates the current mix is 50% import/export and 50% transshipment compared to c70% transshipment. Figure 50 below illustrates that Port Rashid/Jebel Ali is the clear regional leader in 2006 with an increased 40% share of regional volumes.

Figure 50. DPW – Top 10 Container Ports in the Middle East in 2006 (TEUm)

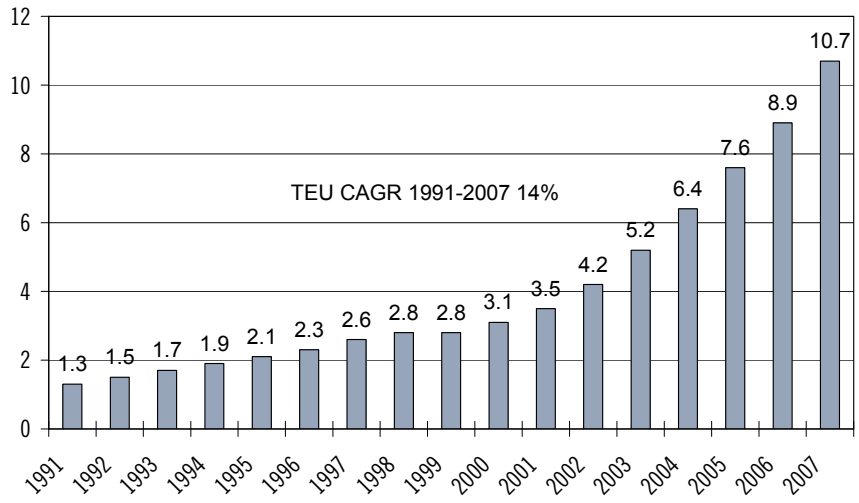
Location	State	TEU 2005	TEU 2006	Delta
Dubai	UAE	7,619,220	8,923,465	17.1%
Jeddah	Saudi Arabia	2,874,940	2,963,618	3.1%
Salalah	Oman	2,492,000	2,398,264	-3.8%
Sharjah	UAE	2,157,900	2,012,840	-6.7%
Bandar Abbas	Iran	1,292,960	1,410,000	9.1%
Karachi	Pakistan	1,024,482	1,127,456	10.1%
Haifa	Israel	1,122,789	1,053,000	-6.2%
Dammam	Saudi Arabia	894,810	857,000	-4.2%
Ashdod	Israel	586,000	692,000	18.1%
Port Qasim	Pakistan	544,654	628,888	15.5%
Top 10		20,609,755	22,066,531	7.1%

Source: Company Reports

Jebel Ali underpins DPW volume, profit and cashflow

Jebel Ali remains central to a portfolio of 43 terminals in 28 countries and alone generated c30% of 2007 revenue. DPW reported in 2007 that Port Rashid/Jebel Ali generated 25% of consolidated TEU volume or 10.7m TEU, growth of 20% reflecting the contribution from phase 1 of Terminal 2 from August 2007 (that added 2m TEU from three new berths) and also new vessel calls. Jebel Ali also generates significant revenue from Bulk handling. Jebel Ali is the single largest contributor to consolidated EBITDA by a wide margin at around 50% of total consolidated EBITDA at margins we believe to be in the upper echelon of global terminal profitability at between 60% and 70%. We usually associate EBITDA margins of this magnitude with highly automated operations in high wage cost locations such as the Alternwerder terminal in Hamburg where depreciation is significant. By EBIT margin Jebel Ali should be at or near the top of global performance. Volume development of Jebel Ali since 1991 is presented below in Figure 51.

Figure 51. DPW – Port Rashid/Jebel Ali Combined Throughput 1991-2007 (TEUm)



Source: Company Reports

DPW also operates facilities in Abu Dhabi

DPW also manages Abu Dhabi's Mina Zayed and the container terminal at the Port of Fujairah. In addition, DPW won the tender to operate Abu Dhabi's Port Khalifa that will relieve Mina Zayed and is expected to become the UAE's second-biggest port. Port Khalifa is located on a reclaimed island in the Taweelah area between Dubai and Abu Dhabi and aims to become a major transhipment, industrial and logistics hub. The offshore development will be connected to the mainland by a 4.5km causeway. In its initial phase that is due to open in 2010, the port will have a capacity of 2m TEU, potentially increasing to 8m TEU by 2015.

APMT is present in Oman and Bahrain

The only global competitor with a significant presence in the region is APMT. APMT operates Salalah Port in Oman. A US$270m expansion was completed in 2007 that increased capacity by 30% to 3.5m TEU pa; this is planned to rise to 4.5m TEU in 2Q08 when Berth 6 opens. APMT is also present in Bahrain with a 25-year concession to operate Bahrain's commercial ports. The facility at Mina Salman and ownership of Khalifa bin Salman was handed over to APMT in December 2006. Khalifa Bin Salman, otherwise known as the Bahrain Gateway, with some 900,000 m² of land, has substantial room to accommodate growth once the current capacity at Mina Salman is exceeded. Mina Salman, with a draft alongside of 15 metres, will be able to handle post-Panamax container ships with capacity of up to 8,000 TEUs compared to the current maximum capacity for 3,000 TEU ships. DPW also finalising plans for the development of a new terminal at Fujairah in conjunction with the Port Authority.

Plans for Jebel Ali could eclipse rivals

Jebel Ali's current capacity is some 11m TEU (including 2m TEU from phase 1 of the $1.5bn Terminal 2 expansion) that is planned to increase to 14-15 million TEU in phases by early 2009. The expansion adds 2,500m of quay wall and a 17m draft wall served by 18 rail-mounted cranes and eight tandem lift gantry cranes. We expect 1 million TEU to be operational on the completion of phase 2 of Terminal 2 in August 2008 when DPW will have moved all cargo operation from Port Rashid to Jebel Ali Port, a further million TEU in October 2008 and the remainder in February 2009. DPW is committed to the timely delivery of capacity with firm plans for a highly automated Terminal 3 with capacity of over 5m TEU that could be built as early as 2010 if demand is sufficient. Even then the port has sufficient land for further material expansion. The Jebel Ali Masterplan envisages capacity rising from 15m to 50m TEU in 5m TEU increments by 2030 using an artificial island currently under construction if demand continues to rise. We regard the adjacent Free Zone, the ability of Jebel Ali to accommodate post-Panamax ships and high levels of productivity as major competitive advantages with the likelihood that larger vessels will make fewer calls in the upper Gulf with more regional feeders.

Economic Momentum

Rapid economic growth and structural change

Regional economic growth has been strong and accompanied by profound structural changes as the leading regional economies rapidly diversify away from reliance on oil and related products largely financed by the surplus created by high oil prices. Dubai as the second largest of the seven Emirates of the UAE has invested heavily in infrastructure (along with banking, tourism and real estate) to become a services and trading hub between Asia and Europe.

Imports are central

Imports to Dubai accounted for 72% by weight and 69% by value in 2005 according to Dubai Customs data as presented below in Figure 52. Over this period the proportion of imports in total direct trade has fallen from 78.6% to 67.9% and the proportion of exports has also fallen from 6% to 4% with the share of goods re-exported having increased from 15.5% to 28.1%.

Figure 52. DPW – Composition of Trade in 2005

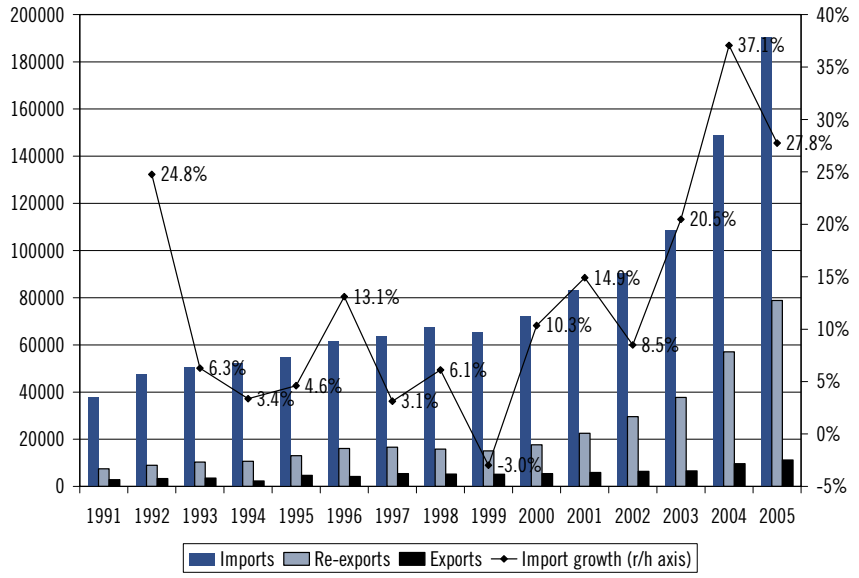
	Weight (kgm)		Value (AEDm)	
Imports	23,404	71.6%	190,407	67.9%
Exports	4,156	12.7%	11,228	4.0%
Re-Exports	5,147	15.7%	78,823	28.1%
	32,709		280,458	

Source: Dubai Customs

Re-exports have been rising rapidly

Overall trade measured in AED increased at a compound annual rate of 13.4% between 1991 and 2005 with imports growing at 12.2% per annum, exports at 10.2% per annum and re-exports at 18.3% per annum as illustrated below in Figure 53. Over the period 1991 to 2005 the proportion of imports in total direct trade has fallen from 78.6% to 67.9% and the proportion of exports has also fallen from 6% to 4% with the share of goods re-exported having increased from 15.5% to 28.1%.

Figure 53. DPW — Trade Development 1991 - 2005 (AEDm)



Source: Dubai Customs

Dubai customs filings for 2007 indicated that 3.06m loaded TEU were moved in or out of Jebel Ali/Port Rashid. We attribute the difference between 3.06m TEU reported by Dubai Customs and the 10.7m TEU volume reported by DPW to a large volume of empty containers and to high levels of transshipped containers, ie around half the containers are transshipped with a second lift handled.

Loaded import containers totalled 2.1m TEU and loaded exports 0.9m TEU suggesting a significant imbalance that gives rise to significant movement of empty containers. Dubai customs data also offers some valuable insights as to the contents of import and export containers. The single most important import category was motor vehicle related but accounted for just 2.9% and the top export was motor vehicle parts at 5.7%. The top 20 import categories accounted for just 26% of the total loaded containers and the top 20 export containers 40%. Key import categories included motor vehicle components, food and related products, garments and footwear, furniture and related products and general machine parts.

Supportive Regional Economic Outlook

Regional economic stimulus from oil surplus likely to continue and should provide further opportunities for DPW

Commodity exporters continue to experience good economic times. Nevertheless, the economic performance of the Middle East, home to some of the world's top oil and gas exporters, looks impressive. Average real GDP growth for the GCC economies over the past three years has been 5.8%. Average *nominal* GDP growth (perhaps more relevant given the US dollar peg) has been 14%. We estimate the current account surplus in 2007E at 24% of GDP. Since 2004, the GCC countries have produced about 32 billion barrels of oil equivalent, worth about $2tr at spot prices when produced. If we assume that every dollar per barrel of oil above $30 is pure "surplus" (saved), then $750b of surplus has been generated over that time, a number that we expect to rise to $1.1tr by the end of 2009. This is equivalent to $30m per GCC resident. Equally important, the oil exporters have taken an increasingly active approach to investing these surpluses into their domestic economies, generating an economic stimulus that shows little sign of relenting. Although the source of the boom has been oil, the benefits have been spread well beyond the oil exporters themselves. Countries such as Egypt, Morocco and Jordan, as well as peripheral North African markets, have prospered by providing labour and investment targets; in exchange, they have received capital flows needed to support their economic growth. We expect this process to continue, barring a major reversal in either the oil price or political support for market based economic reforms under way, neither of which look likely to us.

Regional economic growth is therefore expected to remain relatively healthy

In 2006 some 93% of GCC GDP was generated by four economies. Current economic forecasts for Saudi Arabia, Kuwait, the UAE and Qatar suggest a gentle slowing of real economic activity in 2008E and 2009E excluding oil as presented below in Figure 54. Projected levels of economic growth are expected to drive further growth in imports as shown in Figure 55 consistent with continued high levels of capacity utilisation in the region.

Figure 54. DPW – Real GDP Growth for non Oil Sector 2005 – 2009E (%)

	2005	2006	2007	2008E	2009E
Saudi Arabia	5.2%	6.3%	7.7%	6.8%	8.0%
Kuwait	11.4%	8.9%	10.3%	9.3%	6.0%
UAE	10.8%	10.4%	9.9%	7.3%	7.9%
Qatar	13.1%	14.6%	12.5%	9.5%	7.2%

Source: Haver Analytics

Figure 55. DPW – Import Growth 2005 – 2009E (%)

	2005	2006	2007	2008E	2009E
Saudi Arabia	25.5%	17.0%	15.3%	13.6%	8.5%
Kuwait	22.1%	0.8%	10.3%	9.7%	7.2%
UAE	17.4%	15.6%	15.7%	14.0%	12.0%
Qatar	67.5%	63.4%	35.0%	31.6%	17.6%

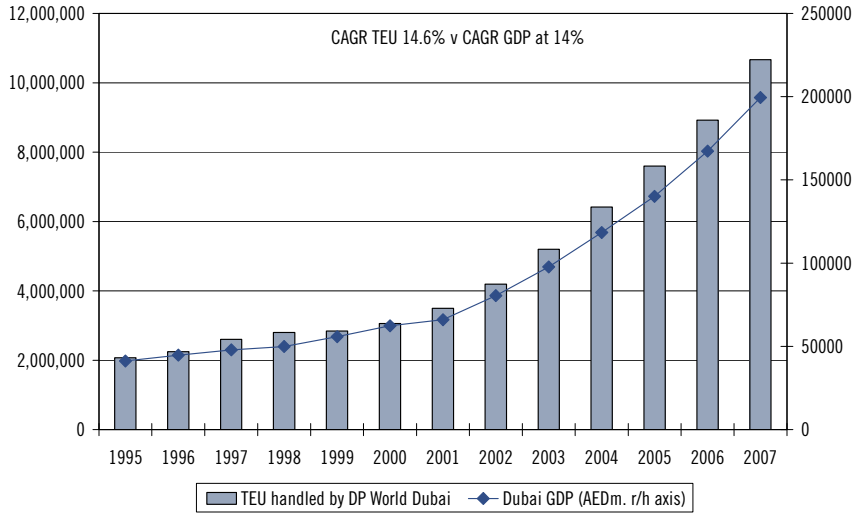
Source: Citi Investment Research

Inflation expectations in the region are around double digits that could put upward pressure on labour rates at Jebel Ali. Reasonable population growth is expected to require further private and public investment in infrastructure and general construction.

Against this macroeconomic backdrop historical relationships suggest future volumes through Jebel Ali should also stay healthy

Figure 56 below presents the historical association between Dubai GDP and volume of TEU handled at Port Rashid/Jebel Ali in the period 1995 to 2007. CAGR in TEU of 14.6% was slightly ahead of nominal GDP at 14.0% in the period.

Figure 56. DPW – TEU Handled at Dubai v Dubai GDP 1995-2007 (TEU / AEDm)



Source: Company Reports

Within-Portfolio Expansion

25.3m TEU of capacity from expansion projects by 2017

The DPW portfolio includes a wide range of within-portfolio expansion projects ranging from the micro to the major that DPW expects to add some 25.3m TEU or 47% over 2007 with growth biased away from Australia, New Zealand and the Americas as illustrated below in Figure 57.

Figure 57. DPW – Current and Expansion Capacity 2007 - 2017E (TEU in Million)

	2007	by 2010E	2011-2017E	In 2017	Delta 07-17
EMEA	25.2	3.1	8.7	37.0	46.8%
Asia Pac/Indian Sub Continent	23.4	3.8	8.3	35.5	51.7%
Aus, NZ & Americas	5.6	0.9	0.5	7.0	25.0%
All	54.2	7.8	17.5	79.5	46.7%

Source: Company Reports

As we have discussed previously there are few limiting factors to the build-out of capacity at Jebel Ali.

Creative solutions needed to engineer more capacity at Southampton Container Terminal (SCT)

SCT is a 51% joint venture with Associated British Ports on a physically constrained site with port access and environmental the key concerns to be addressed before further new capacity can be added by more intensive use of the existing terminal and development of a new terminal. As statutory permissions are awaited we do not think this project is included in published plans of DPW.

Sole owner and Harbour Authority in London Gateway – the UK's next deep-water port

London Gateway, one of the key brownfield projects in the portfolio to provide the first new major port in England for 25 years, finally gained the Harbour Empowerment Order to enable official and statutory powers on 7 May 2008. The 430-acre site is to the east of London but closer than either Felixstowe or Southampton and the project was seen as the jewel in the crown of the old P&O portfolio. DPW unusually owns the freehold and acts as Harbour Authority, which means the financial dynamics are atypical with DPW bearing upfront costs of a 14.5m channel dredge to allow <14,000 vessels to use the facility, provision of port infrastructure and other civil works and land reclamation. Initially two berths will be provided with a 1m TEU capacity and ultimately the facility will include seven berths within a decade ultimately to offer a total of 3.5m TEU capacity with a high degree of automation.

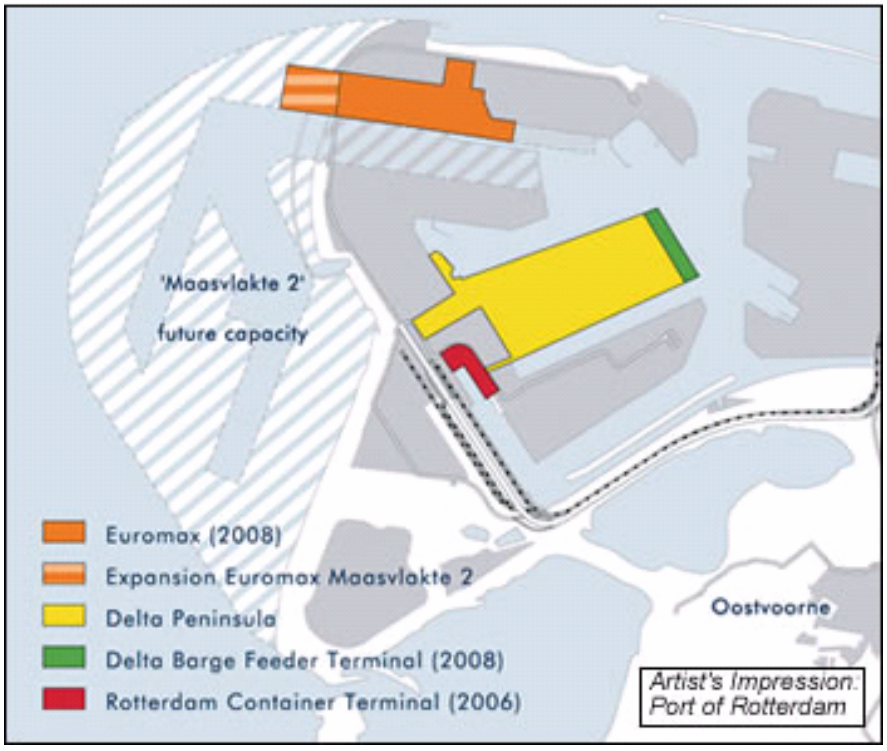
We expect the new facility to be very successful as capacity constraints in the South East of England have seen growth of 9% per annum 1990-2000 slow to c3% in 2000 due to volumes being transshipped via Continental Europe. P&O estimated that underlying growth in origin and destination between 2000 and 2004 was some 7% with some 475,000 TEU having to be transshipped in 2005. We would expect the first berths at London Gateway to be filled with this volume plus transshipment growth 2005-2008.

Financial dynamics are different from a typical port concession in two important respects: that DPW is the Harbour Authority, which means it levies navigation and other port charges, but also it is responsible for additional and capital-intensive activities. P&O reported the overall project cost was £800m in 2005 (or over US$1.5bn) with £375m (US$743m or 18% of the US$4.1bn planned investment to 2010) to deliver just 1m TEU with the incremental cost of the remaining capacity falling to £170 per million TEU. The quid pro quo will be that DPW collects vessel dues and rail charges with no concession fee/land rental. As a result P&O envisaged revenue per TEU at over US$125 at an initial EBITDA margin of around 60%.

DPW is a 40% shareholder in the first terminal concession at Rotterdam's Maasvlakte 2

The Rotterdam Port Authority announced on 11 July 2007 that the Rotterdam World Gateway (RWG) consortium of DP World (40%) and the New World Alliance (60%) plus CMA CGM had won the first concession to build the first container terminal at the still to be built second Maasvlakte in Rotterdam. Rotterdam Port Authority hopes that construction of Maasvlakte 2 will commence in the second half of 2008, and the first terminal is scheduled to open in 2013. RWG plans to develop a terminal capable of handling 4m TEU pa on the 156ha site, of which a minimum 30% of handling capacity is to be available to third parties. The terminal will comprise 1,900m of quay, with a depth alongside of 20m for mainline ships (plus 550m of berthing line for feeder/barge tonnage). The facility looks to us targeted at the 50 12,000-plus TEU vessels conditionally or unconditionally ordered for delivery by 2011, which require at least 17m draught. Rotterdam Port Authority indicated that the RWG consortium narrowly beat the partnership of MSC/PSA (14 parties had expressed interest in the project) and commented that the authority was tempted to grant the third concession to the losing party, but did not do so as to limit the impact on pricing of new capacity by phasing the introduction of new capacity. In 2006, APMT acquired land in Maasvlakte 2 and plans to build a 4.5m TEU terminal, to open in 2014. Figure 58 below presents current expansion plans at the Port of Rotterdam.

Figure 58. DPW – Expansion Plans at the Port of Rotterdam



Source: Rotterdam Port Authority

Upside to current plans

Capacity is set to rise over 70% to 92.5m TEU in 2017. This could prove to be conservative

The planned expansion of the existing portfolio is planned to add 13m TEU per annum by 2017 and includes 13 new projects (at Dakar, Rotterdam, London Gateway, Yarimcha, Fos, Djibouti, Abu Dhabi, Qingdao, Ho Chi Minh City, Kulpi, Villapardam, Karachi and Callao) making up an additional 25.3m, giving gross capacity of 92.5m TEU. Growth of 70% over 2007 is significant by any standard. We believe that in the long term this may prove to be a conservative estimate of what will be actually be delivered if demand growth remains high. We understand DPW's 13m TEU expansion plan only includes relatively large projects of over 500m TEU or above. We expect numerous small projects to boost capacity by process improvements or minor additional equipment to boost capacity further.

In the long term higher levels of automation could boost land use productivity if required

Aside from Australia and North Europe most of DPW concessions are in relatively low labour cost regions with little economic justification for the high levels of automation that are being seen in land-constrained and/or high labour cost locations such as Hamburg. If capacity, labour costs or environmental objections create obstacles to an expansion of the port footprint then raising capacity by automation and re-organisation will provide for additional growth. We understand the use of automated stacking cranes and the associated high-density storage areas are being piloted in Antwerp, planned for London Gateway and for Maasvlate 2 and considered for space constrained locations such as Southampton Container Terminal. Plans for Container Terminal Buchardkai at Hamburg illustrate what might be possible where this approach is planned to increase land use productivity from 2.56 TEU per m^2 to 3.4 TEU per m^2.

What next

Full pipeline of concessions and in-fill acquisitions

We expect DPW to deliver a steady stream of positive news of concession extensions or renewals (decision on an extension to the Adelaide concession is expected shortly), new concession wins or in-fill acquisitions. Since 2005 nine new concessions have been confirmed with 21m TEU capacity. In April 2008 DPW confirmed it was to participate in the planned development of a new deep-water container port at King Abdullah economic city with a target capacity of 1.6m TEU by mid 2011 but a aspirations to eventually reach 20m TEU. A quick scan of the trade press indicates recent tenders include Brisbane, Vancouver and Thessaloniki. In addition DPW has recently acquired businesses in Egypt and Ecuador. The economics of acquisition of a company with a concession over bidding for a new concession are similar. We are confident that a full pipeline of projects will persist in the developed world as additional capacity is required and in the developing world as the port sector is viewed as critical to development prospects acting as a gateway for goods to arrive and to depart and also as a facilitator of trade. The lack of connectivity to global transport networks either direct or via transshipment ports is seen by agencies as a major barrier to trade. Many African countries are among the worst connected to international shipping networks and as a result their estimated freight costs as a percentage of the value of imports is high.

We expect DPW to gain further concessions

We expect DPW to continue to bid for new concessions in the target geographies of Latin America, Africa and, if conditions change, the US. DPW typically examines 20-25 potential new projects at any one time due to genuine interest in the project or a genuine interest in the terms of the tender and competitor intelligence. We believe a maximum of five new concessions per year can be negotiated and started up. Bids are promoted at the regional level and subject to strict criteria (such as strategic fit, demand characteristics, local industry dynamics, management control and projected returns). Since 2005 DPW has added nine concessions with a gross capacity of 20.7m TEU as illustrated below in Figure 59, which reflects the existing DPW relationships and dedicated business development teams.

Figure 59. DPW – New Concession Wins 2005 to 2008

	2005	2006	2007	2008 to date
Terminals Added	2	2	4	1
Locations	Qingdao Yarimica	Ho Chi Minh City Callao	Maasvlatke 2 London Gateway Dakar Khalifa	Sokhna
Gross Capacity (TEUm)	7	2.9	9.6	1.2

Source: Company Reports

Sokhna provides a good example of a bolt-on acquisition in a strategic location

DPW acquired 90% of Egyptian Container Handling Company (ECHCO) for US$670m in October 2007. ECHCO controls the majority of Sokhna Port Development Company, which holds a 30-year concession to manage and market the port's modern container terminal. The port is located at the southern entrance to the Suez Canal and an excellent gateway for Egypt-Asia trade, which has reported >20% growth in each of past five years and is directly connected to Cairo via a six-lane highway and with direct rail links to the rest of Egypt. Sokhna's TEU increased 15.7% to 300,640 in 2006, growth that compares favourably to growth seen at Alexandria and at El Dekheila's of 4.8%. We understand nearly 100% of the volume is import/export.

Financial Statements & Analysis

Financial History

Introduction

DPW – a global terminal operator with pedigree

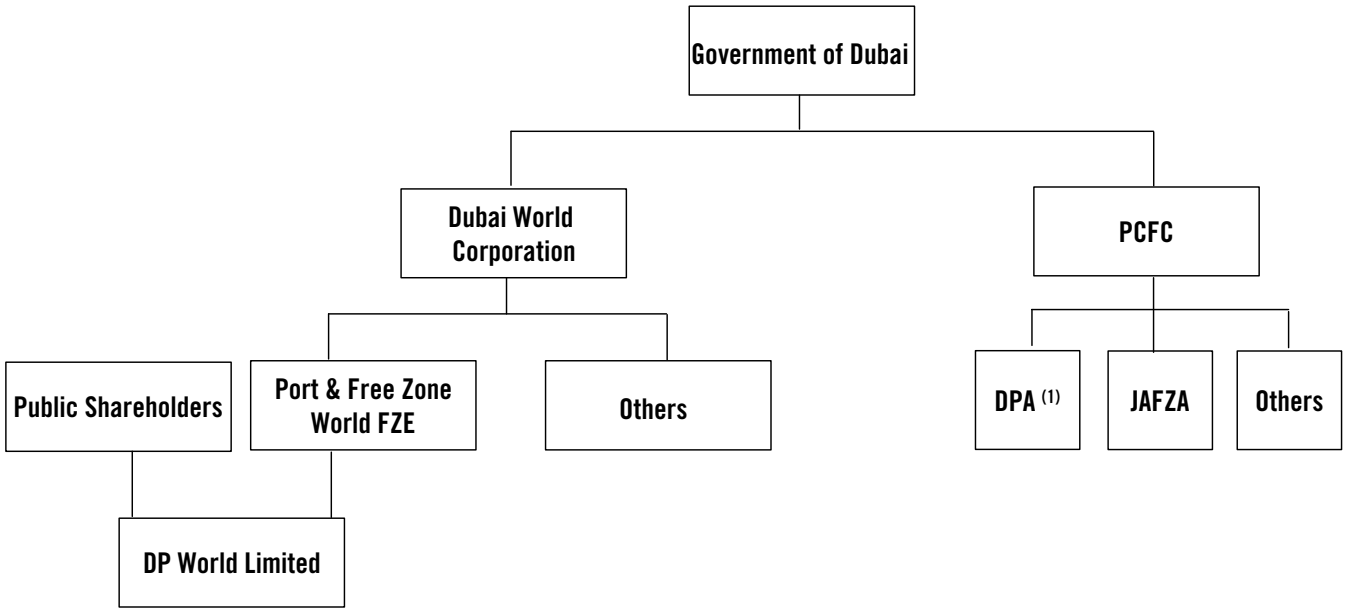
DPW is a truly global container ports operator, bringing together the commercial ports-related activities of Dubai Ports Authority (DPA), the acquisitions of CSX World Terminals and P&O, along with numerous concession wins. While DPW itself is a relatively young company, having commenced operations in January 2007, the roots of Dubai Ports can be traced back over 35 years. DPW is a complicated entity and its terminal portfolio of 43 terminals in 28 countries includes fully consolidated, JV & Associates and management contracts. A more detailed financial history of DPW is outlined below.

Incorporation & IPO

The commercial ports related activities of Dubai World were transferred to DPW on 1 January 2007

On 1 January 2007, the commercial ports related activities of Dubai World were transferred to DPW. Incorporated on 9 August 2006, DPW's operations commenced on 1 January 2007 when DPW FZE and Thunder FZE (a holding company for P&O) were transferred from DPA to DPW. The regulatory (non-commercial) port activities remained with government owned DPA. Figure 60 illustrates DPW's relationship with the Government of Dubai via Port & Free Zone World FZE, and other related companies, including DPA.

Figure 60. DPW – Ownership Structure and Related Companies



Source: Citi Investment Research

Intercompany liability on transfer partially satisfied by the proceeds of the IPO.

The transfer of DPW FZE and Thunder FZE (the commercial ports related activities of Dubai World) from DPA resulted in a significant intercompany liability which was satisfied at the time of the initial public offering. The liability of $8.1bn at 30 June 2007 was subsequently satisfied as follows: i) a $2bn cash payment from DPW; ii) $2bn was waived (converted to Shareholders' Reserves); and iii) the Dubai World Corporation agreed to subscribe to $4.1bn of shares in DPW at the initial public offering. DPW authorised share capital is 25bn ordinary shares each of US$ 0.10 of which 16.6bn is issued and fully paid. DPW has no share options outstanding at 31 December 2007, therefore the basic and diluted share count is identical. Following the IPO Dubai World retained 80.45% of the ordinary shares.

DPW: the world's largest ever port IPO

Last year's IPO was the world's largest ever ports offering and was heavily (c15x) oversubscribed. The shares debuted on the DIFX on 26 November 2007. Key information about the IPO follows:

- Port & Free Zone World FZE was the former 100% owner selling shareholder
- Offer size of 3.818bn shares
- IPO was priced at $1.30 compared to an indicative pricing range of $1.00 to $1.30
- At the issue price the implied market capitalisation of DPW was $21.58bn and the deal size $4.96bn

IPO proceeds went to Port & Free Zone World FZE which bore the costs of the issue. The purpose of the IPO can be summarised as follows:

- Allow Port & Free Zone World FZE to reduce its interest in DPW.
- To provide increased trading liquidity in the shares.
- To raise the profile of Dubai and Dubai Ports to the international investment community
- To facilitate the part redemption of the PCFC Development Sukuk (an explanation follows)

PCFC Development Sukuk – "pre-IPO" Islamic bond forms the final piece of the IPO puzzle

The PCFC Development Sukuk is the final piece of the IPO puzzle. A $3.5bn Sukuk (Islamic Bond) was launched to partially finance the $7.2bn acquisition of P&O in March 2006. Listed on the Dubai DIFX exchange, this "go public" Sukuk was a debt financing instrument designed to offer subscribers both a fixed income return and a guaranteed pre-allocation of shares issued in the IPO, combining the risk/return characteristics of a bond with the upside potential of equity.

The Sukuk was redeemed at the time of the IPO: 83% of the gross proceeds of the offering were used to repay Sukukholders and in addition a portion of the 3.818bn shares offered at the IPO were allocated to Sukukholders (50% of which were received at the time of the IPO and 50% two months later). The Sukuk was issued by PCFC and, other than the shares issued to Sukukholders at the time of the IPO, DPW has no liability in respect of the Sukuk. Its 16.6bn share count will not be diluted further.

Historical Financial Statements

Comparability of Historical Financial Statements

1H07 & FY07 results are representative of what can be expected in future, but a comparable historical times series is not available

1H07 and FY07 financial statements are representative of what can be expected in the future, both in terms of presentation and company structure, and form the basis of our earnings forecasts. A directly comparable historical time series, however, does not exist because of acquisitions, disposals and the separation of commercial activities of DPA from regulatory activities.

The following factors hamper the comparability of historical financial statements:

- Mid-year acquisitions of CSX WT (Feb 2005) and P&O (Mar 2006), the subsequent disposals in 2006 of POPNA, POTA & P&O AGS and the transfer of P&O Ferries and P&O Estates to affiliates.
- Disposals in December 2006 of Shekou (minority stake China Merchants) and Colombo.
- Purchase and resale of Antwerp Gateway, as intended.
- Disposal of Shanghai JiFa logistics facilities (Dec 2007)
- Separation of commercial and regulatory activities – commercial activities were transferred to DPW (resulting in an annual increase in depreciation of US$13m following the revaluation of assets transferred) whilst regulatory activities remained with DPA (FY06 net assets, revenue and profit from regulatory activities were not material according to DPW)
- Commencement of "the concession agreement" – ownership of UAE ports Jebel Ali, Port Rashid and Hamriya remains with DPA, with which DPW has entered into an operating concession on an arm's length basis. While DPW is not obliged to pay concession fees until 2012, US$47m per year will be accrued in the income statement.

Reported FY07 results presented vs pro-forma FY06 numbers

Examining the historical performance of any company pre-disposed to make acquisitions is difficult and DPW is no exception. Our income statement shows reported DPW results for 1H07 and FY07 vs pro-forma FY06 and, in the absence of pro-forma numbers, the FY05 results of DPA (which are not comparable due to the above factors). Pro-forma FY06 results are based on the reported results of DPA, including both P&O and CSX, adjusted as if mid-year events had occurred on 1 January 2006. Figure 61 presents 2007 results against 2006PF.

Figure 61. DPW – Summary Income Statement 2006PF – 2007 (US$ in Millions)

	2006PF	2007 Rep	2007 ex SDI[1]	Delta
Revenue	2076	2731	2731	31.6%
Adjusted EBITDA	705	1759	1100	56.0%
Adjusted EBITDA margin	34.0%	64.4%	40.3%	
JV's & Associates	28	105	108	285.7%
Consolidated EBITDA margin	32.6%	60.6%	36.3%	
PBT	188	619	509	170.7%
Net Profit from Cont Ops	276	1150	420	52.2%
Minority Interest	-29		-45	57.2%
Attributable of Ordinary Shareholders	247		375	51.6%
EPS from Cont Ops	1.49		2.26	51.7%

Source: Company Reports and CIR Estimates [1] Separately Disclosable Items

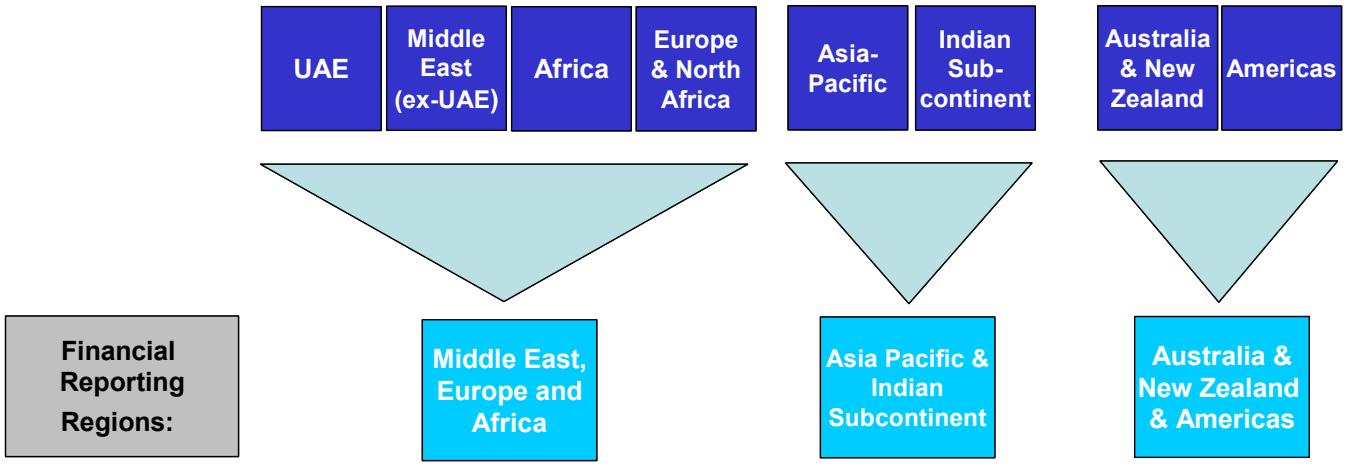
In summary: capacity up, utilisation up and profits up

Gross capacity (ie including 17 terminals reported in JVs and Associates) increased by 11.5% to 54.2m TEU and gross throughput increased 17.6% to 43.3m TEU or 80% utilisation (79% in FY06). Consolidated capacity increased 12.4% to 28.1m TEU and consolidated throughput 17% to 24m or 85% utilisation (82% in FY06). DPW suggested the most appropriate 2007 revenue figure was US$2,613m (excluding US$118m of revenue from discontinued landside operations in Australia and certain US land sales from the US$2,731m reported). Consolidated revenue before one-offs increased 8% to US$108.8 per TEU with 5pp due to favourable FX movements and 3pp due to pricing (Jebel Ali and SCT were specifically mentioned). EBITDA with the same adjustment was US$1,063m rather than the US$1,100m reported. Consolidated EBITDA per consolidated TEU increased 23% to US$41 per TEU. Despite 12% growth in both gross and consolidated capacity, utilisation increased on both bases and across all regions in 2007 as shown below in Figure 79.

Current Financial Reporting Structure

Figure 62 shows DPW's current operating and financial structure: eight operating regions are reported in three financial reporting regions.

Figure 62. DPW, Operating and Reporting Structure



Source: Company Reports

Key financial metrics: gross and consolidated TEU and capacity, revenue, Further Adjusted EBITDA, JV & Associates and Adjusted EBITDA

Our earnings forecasts are based on the three financial reporting regions. In the FY07, 1H07 and FY06 pro-forma financial statements, the following key operational and financial information is disclosed by region:

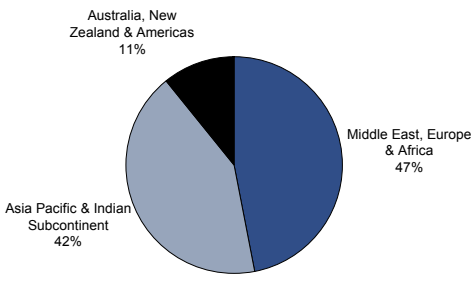
- **Gross Throughput** and **Gross Capacity** (TEU millions). Container volumes handled vs available capacity across DPW's entire portfolio including fully consolidated terminals, JV & Associates and management contracts. Utilisation can be calculated as throughput over capacity.
- **Consolidated Throughput** and **Consolidated Capacity** (TEU millions). Throughput and capacity at DPW's fully consolidated terminals only, excluding JV & Associates and management contracts, including the share of TEUs that relate to minority interests.
- **Further Adjusted EBITDA** (US$ millions). Despite the elaborate title, this is what would normally be recognised as EBITDA – earnings from fully consolidated terminals, excluding Associates and Joint Ventures.
- **JV & Associates** (US$ millions). In one of the many quirks of IFRS, this represents the post-tax (ie Net Income) from JV & Associates reported above the EBIT line.
- **Adjusted EBITDA** (US$ millions). The sum of Further Adjusted EBITDA (EBITDA from consolidated terminals) and (the post-tax result from) JV and Associates.

Regional Exposure

A brief analysis of container volumes (TEU), revenue, EBITDA and the results of JV & Associates by region follows. Alongside an analysis of DPW's regional exposure, we will examine the composition of JV & Associates and consider Minority Interests. A review of FY07 financial results will follow in a subsequent section.

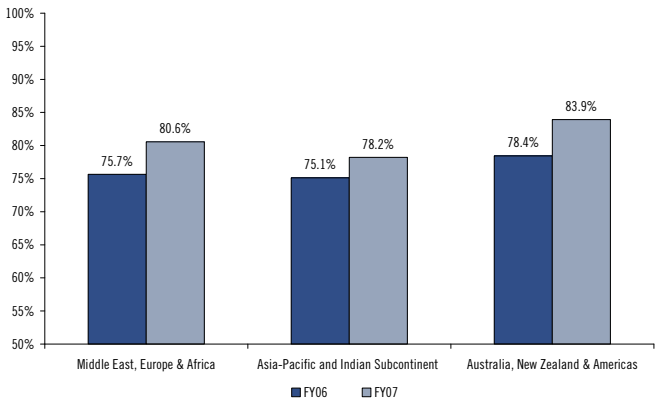
Gross Throughput vs Gross Capacity

Figure 63. DPW – Gross Throughput by Region, FY07



Source: Company Reports

Figure 64. DPW – Gross Capacity Utilisation by Region



Source: Company Reports

Middle East, Europe and Africa region is the fastest growing and most significant in terms of gross container volumes

Gross throughput and capacity refer to the total container volumes at all DPW's terminals, including JV & Associates and management contracts. Gross throughput growth of 17.7% in FY07 to 43.3m TEU (vs +17.6% in FY06) was achieved through an 11.5% capacity increase and a 4.2ppt increase in utilisation to 79.9%, with all regions reporting improved utilisation rates.

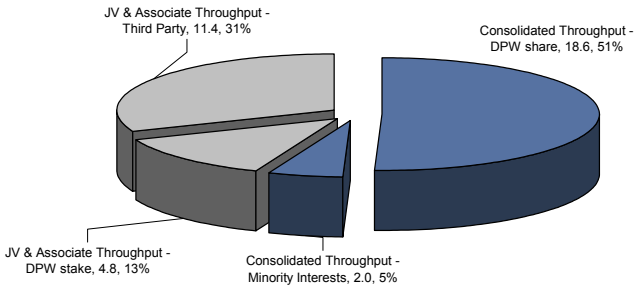
- Middle East, Europe and Africa (EMEA) – is the most significant region at 47% of gross throughput (vs 46% in FY06). It is also the fastest growing with 18.7% growth in FY07 (vs 16.3% in FY06) to 20.3m TEU, achieved through an 11.5% capacity increase and a 4.9ppt utilisation increase to 80.6%.
- Asia Pacific & Indian Subcontinent (API) – is the second-largest region at 42% of gross throughput in FY07, vs 43% in FY06. Gross throughput growth of 16.6% in FY07 (vs 21.7% in FY06) was achieved through 12.0% capacity growth and a 3.1ppt utilisation increase to 78.2%.
- Australia, New Zealand and the Americas (ANZA) – is the smallest region at 11% of gross throughput in FY07. As a mature region, growth is generally slower than the EMEA or API, but ANZA reported 17.5% TEU growth in FY07 (+9.8% capacity and a 5.5ppt increase in utilisation) vs more modest growth of 8.3% in FY06.

Throughput: Gross vs Consolidated

Consolidated throughput and capacity refers only to terminals where DPW owns a majority stake

DPW presents both "Gross" and "Consolidated" throughput and capacity. Gross throughput and capacity refers the to the total container volumes at all DPW's terminals, regardless of ownership. Consolidated throughput and capacity refers only to total container volumes at terminals where DPW owns a majority stake. Consolidated throughput is relevant for calculating Revenue and EBITDA per TEU and consolidated throughput forms the basis of our capital expenditure forecasts.

Figure 65. DPW – Breakdown of FY06 Gross Throughput



Source: Citi Investment Research

Fully consolidated TEUs, of which c10% relate to minority interests, account for 55% of DPW's gross throughput

Figure 65 shows Gross Throughput of 36.7m TEU in 2006 can be subdivided into consolidated throughput and JV & Associates:

- Fully Consolidated (20.6m, 56%): per the accounting treatment of consolidated entities, this includes not only the share that is attributable to DPW (18.6m) but also the share that relates to Minority Interests (2.0m). DPW guides that Minority Interest represent around 10% of total Consolidated TEUs.

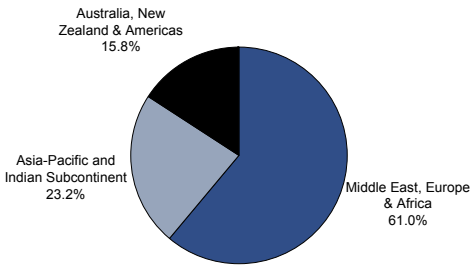
- JV, Associates & Management Contracts (16.1m, 44%): of 16.1m gross TEUs in ports where DPW held a minority stake or management contract, its equity apportioned share was 4.8m TEUs; the remaining 11.3m TEUs were attributable to third parties. DPW states that its equity stake of JV & Associate throughput represents c20% of consolidated throughput (4.8m over 20.6m equals 23% in 2006).

Consolidated Throughput and Consolidated Capacity

Consolidated throughput growth of 17.0% in FY07 is slightly slower than gross throughput growth of 17.7% in FY07

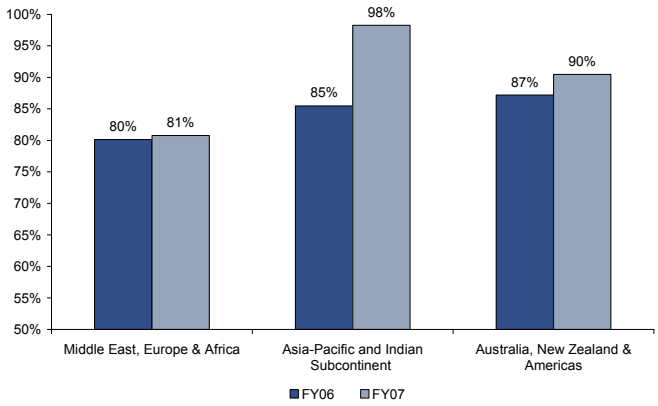
DPW reported consolidated throughput of 24.1m TEU in FY07 (+17.0%) vs gross throughput of 43.3m TEU (+17.7%). DPW added 12.4% of consolidated capacity in FY07 and improved capacity utilisation by 3.4ppt to 85.8%. Consolidated throughput represents 56% of gross throughput in FY07 (unchanged vs 2006).

Figure 66. DPW – Consolidated Throughput by Region, FY07



Source: Citi Investment Research

Figure 67. DPW – Consolidated Capacity Utilisation by Region



Source: Citi Investment Research

API region represents a lower percentage of group consolidated throughput than gross because many terminals interests are JV & Associates

- Middle East, Europe and Africa (EMEA) – The EMEA region is the most significant, accounting for 61% of DPW's consolidated throughput. The majority of DPW's terminals in the EMEA region are consolidated; consolidated TEUs are 72% of gross TEUs. Consolidated throughput growth of 17.6% (vs gross throughput growth of 18.7%) in FY07 was based on a 16.7% capacity increase and a 0.7ppt utilisation increase.

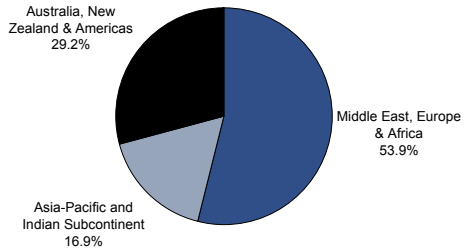
- Asia Pacific & Indian Subcontinent (API) – Many of DPW's terminals interests in the API region are through JV & Associates; where the API region represents 31% of gross throughput, it is just 23% of consolidated throughput and consolidated throughput in API represents just 31% of gross TEU. Consolidated throughput growth of 19.1% (vs gross 16.6%) was achieved through just 3.6% capacity growth and a 12.8ppts capacity utilisation increase.

- Australia, New Zealand and the Americas (ANZA) – Consolidated throughput in the ANZA region represents 89% of gross throughput in FY07. Consolidated TEU growth of 11.8% in FY07 was achieved through a 7.7% capacity increase and a 3.3ppts capacity utilisation increase.

Consolidated Revenue and EBITDA

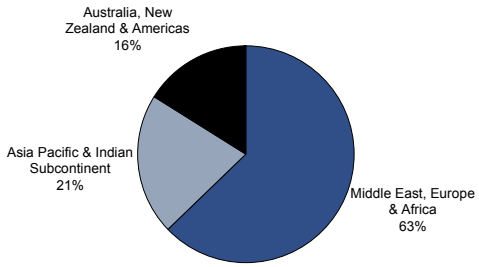
Revenue and Further Adjusted EBITDA relate to consolidated terminals and exclude the results of JV& Associates and can be assessed in conjunction with consolidated throughput and capacity.

Figure 68. DPW — 2007 Revenue by Region



Source: Company Reports

Figure 69. DPW — 2007 Further Adjusted EBITDA by Region

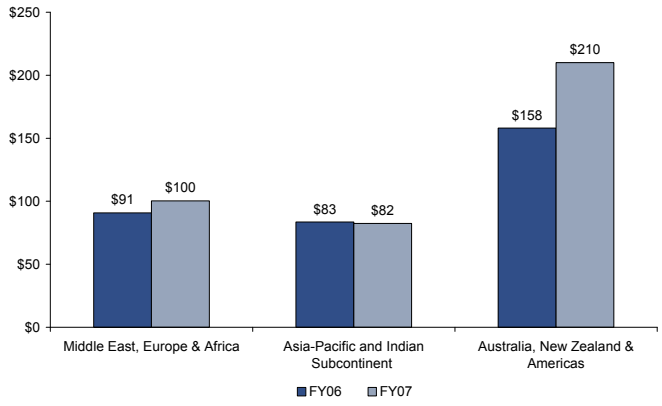


Source: Company Reports

Reported revenues increased 32% and like-for-like revenue growth of 26%

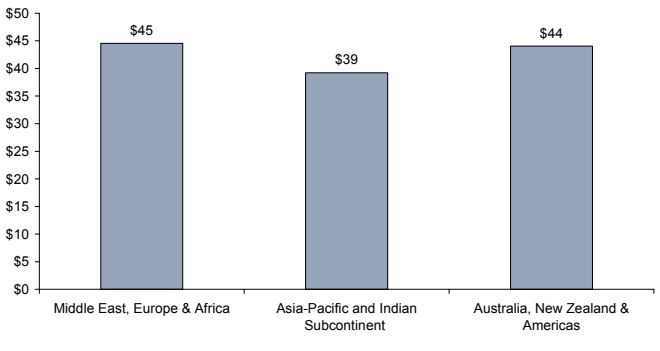
2007 revenues rose by 32.5% to US$2,732m on throughput growth of 17.7% and a 13.2% increase in average revenue per TEU (to US$113.38). In 2007 revenues benefited from a US$66m contribution from POTA and US$52m of US land sale with a similar geographic split as 2006. Excluding these items gives underlying revenue of US$2,613m with like-for-like growth of 26% in 2007. 2007 was also flattered by a favourable currency impact of US$100m as c60% of DPW revenues are non-US$ / non-US$ pegged. Jebel Ali accounted for some 30% of revenue. Further EBITDA rose by 47.0% to $995m (including US$47m of unallocated head office costs and flattered by US$40m of favourable FX movements), a 3.8ppt margin improvement to 36.4%. Significant regional variations in revenue per TEU remain as illustrated below in Figure 70 with regional differences in EBITDA per TEU being less marked, as illustrated in Figure 71. Further Adjusted EBITDA by region is distributed in a similar pattern to the consolidated throughput by region.

Figure 70. DPW – Average Revenue per Consolidated TEU 2007 (US$)



Source: Company Reports

Figure 71. DPW – Further Adjusted EBITDA per Consolidated TEU FY07



Source: Company Reports

EMEA is the most important region for revenue and further adjusted EBITDA. ANZA's revenue per TEU is 85% above the average but further adjusted EBITDA per TEU is around the average with higher unit revenue reflecting higher unit costs

- Middle East, Europe and Africa (EMEA) – represents 54% of Revenue and 63% of Further Adjusted EBITDA vs 61% of consolidated throughput in FY07. EMEA achieved a 44.4% Further Adjusted EBITDA margin in FY07 (unchanged vs 1H07), ahead of the group average of 36.4%. While Revenue per TEU of $100 is slightly lower than the group average of US$113, Further Adjusted EBITDA per TEU of US$45 is slightly ahead of the group average of US$43.

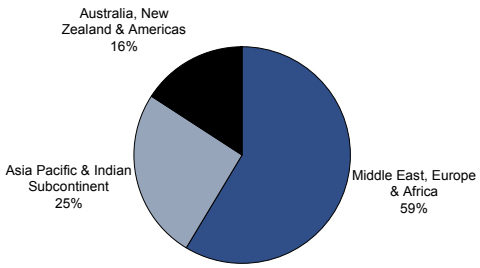
- Asia Pacific & Indian Subcontinent (API) – represents 29% of Revenue and 21% of Further Adjusted EBITDA vs 23% of consolidated throughput in FY07. API achieved 47.6% Further Adjusted EBITDA margin in FY07. While Revenue per TEU of US$82 is some way below the group average, the higher EBITDA margin in the API region means that Further Adjusted EBITDA per TEU of US$39 is only slightly behind the group average of US$43.

- Australia, New Zealand and the Americas (ANZA) – represents 29% of Revenue but just 16% of Further Adjusted Group EBITDA vs 16% of Consolidated TEU. While Revenue per TEU of US$210 in FY07 is the highest in the group, the EBITDA margin of 22.9% is the lowest. Further Adjusted EBITDA per consolidated TEU of US$44 is in line with the group average.

Adjusted EBITDA is useful to assess contribution by region, but is not directly comparable to (consolidated) revenue as it includes net result of JV & Associates

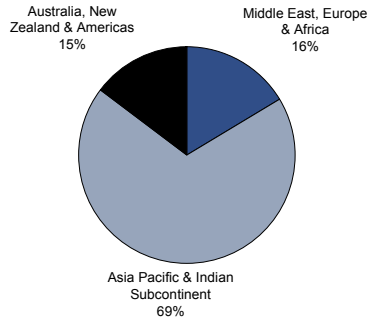
The previous section discusses revenue and further adjusted EBITDA from consolidated terminals, ignoring the significant JV & Associate contribution. DPW defines "Adjusted EBITDA" as Further Adjusted EBITDA plus JV & Associates. Per IFRS JV & Associates are reported net of tax and interest (ie equivalent to Net Income) – an important consideration when calculating a "Adjusted EBITDA" margin. Figure 72 shows the split of Adjusted EBITDA by region. The API region represents 25% of group Adjusted EBITDA vs 21% of Further Adjusted EBITDA because of the significant contribution of JV & Associates in the region.

Figure 72. DPW – Adjusted EBITDA by Region in 2007



Source: Company Reports

Figure 73. DPW – JV & Associates by Region in 2007



Source: Company Reports

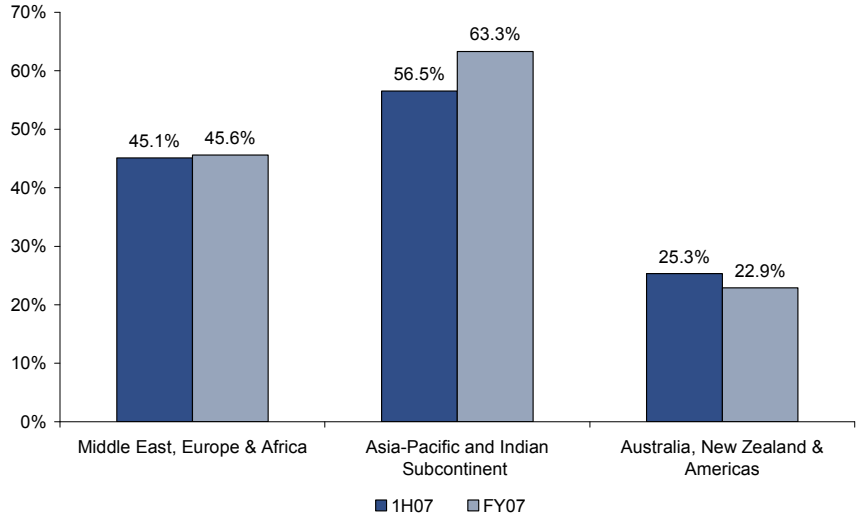
Rapid growth and additional colour on JV & Associates. JV & Associates represent c10% of Adjusted EBITDA, but nearly 25% of profit after tax

More detailed disclosure was provided on JV & Associates in the 2007 results. This single line item represents the net results of currently 17 joint venture or associate holdings that are an important part of DPW's profits. JVs/Associates was boosted in 2007 by some US$21m of one-time effects (property disposals, discontinued activities and other separately disclosable items) 286% to US$108m on 18.4% throughput growth, or 211% growth to US$87m excluding these effects on 17% like-for-like volume growth driven by Qingdao, which contributes 73% of volumes. We regard this as the most relevant number going forward. The API region makes the most significant contribution to JV & Associates, representing 69% of the total in FY07. The API region generates 49% of revenues but 72% of total net profit generated by JV & Associates. The API region also generates 77% of JV & Associate throughput, with Qingdao of particular significance at around one-third of total throughput alone. Key to regional result and indeed to the entire JV/Associate result was the 20%-plus TEU growth DPW reported at the high-margin Qingdao terminal (DPW owns 29%) that benefited from new added capacity in 1H07. The underlying result from JV & Associates of US$87m is 8.2% of Adjusted EBITDA or perhaps more meaningfully nearly one quarter of profit after tax.

Adjusted EBITDA growth has outpaced Further Adjusted EBITDA growth as a result of rapid growth of JV & Associates, which are concentrated in the API region

Adjusted EBITDA growth outpaced Further Adjusted EBITDA growth (+51% underlying vs +47%) in FY07 because of rapid growth of JV & Associates, which more than tripled from US$28m to US$87m underlying. DPW reported 56% Adjusted EBITDA growth in FY07 to US$1,100m (+51% to US$1,063m underlying), with a 6.3ppt margin improvement to 40.3% (38.9% underlying). Figure 74 shows Adjusted EBITDA margin by region.

Figure 74. DPW – Adjusted EBITDA margin by region 2007



Source: Company Reports

EMEA region is key at 59% of the total Adjusted EBITDA

- Middle East, Europe and Africa (EMEA) – the EMEA region is the most significant, at 59% of group Adjusted EBITDA. Of EMEA's Adjusted EBITDA of US$672m, 97.5% relates to consolidated terminals (Further Adjusted EBITDA) and just 2.5% to JV & Associates. The Adjusted EBITDA margin of 45.6% is ahead of the group average of 40.3%.

- Asia Pacific & Indian Subcontinent (API) – the second largest region, at 25% of group Adjusted EBITDA. Of API's Adjusted EBITDA of US$292m, 25% relates to JV & Associates. The API region accounts for 69% of the group JV & Associates (Figure 73). The Adjusted EBITDA margin of 63.3% is some way ahead of the group average of 40.3%.

- Australia, New Zealand and the Americas (ANZA) – the smallest region at 16% of the group total. Of Adjusted EBITDA of US$183m, just 8.2% relates to JV & Associates. The Adjusted EBITDA margin of 22.9% is much lower than the group average, but the (consolidated) EBITDA per TEU is broadly in line, as a result of significantly higher unit revenues.

Minorities represent c10% of consolidated TEU and group Profit after Taxation

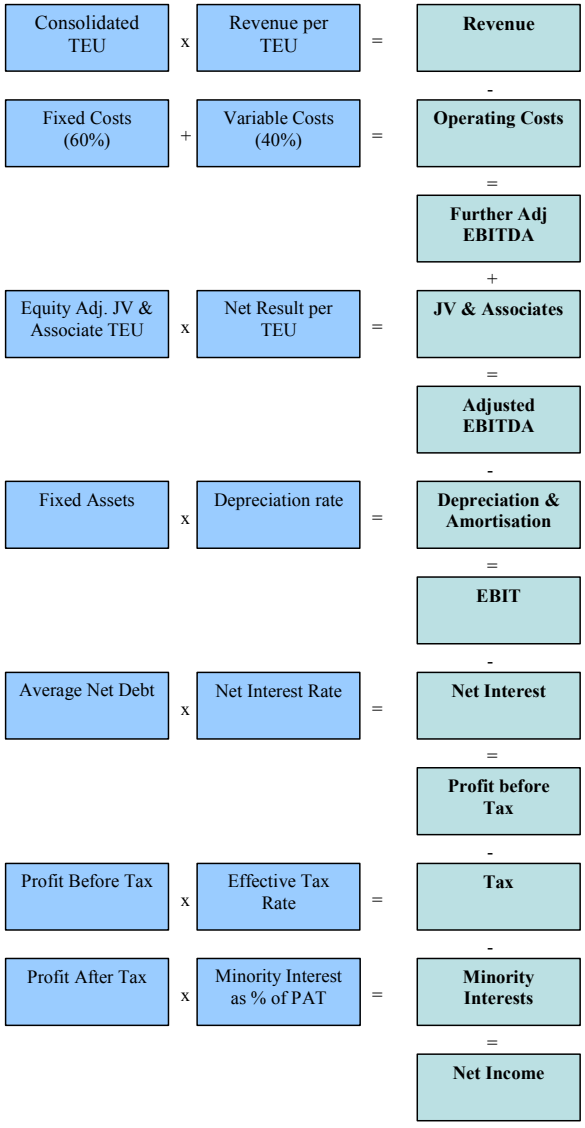
Per Figure 65, around 10% of consolidated TEU is attributable to Minority Interests. This situation occurs where DPW owns less than 100% of a fully consolidated terminal. In the Income Statement, Minority Interests (US$45m in FY07) were 10.7% of Profit after Tax (vs 10.4% in FY06), broadly in line with the percentage of consolidated TEU attributable to minorities.

Financial Model — Assumptions & Methodology

A complex modelling task

The flowchart presented below in Figure 75 shows the rather complex general methodology we have followed in our DPW earnings model. We base our forecasts on the three financial reporting regions, rather than a terminal-by-terminal model as this level of information is commercially sensitive. In this case we argue that a "top down approach" is appropriate.

Figure 75. DPW – Forecasting Framework



Source: Citi Investment Research

Capacity, Throughput and Utilisation

Container volumes, as the main driver of earnings, are a logical starting point for our earnings model

Container volumes, expressed in TEU (twenty foot equivalent units), are the main driver of DPW's earnings, so forecasting throughput and capacity growth is a logical starting point for our earnings forecasts. Our regional throughput growth forecasts are based not only on our assessment of anticipated demand, but also forecast capacity based on planned capacity additions.

DPW aims to raise gross capacity by 71% to 92.5m in 2017E through a combination of new projects and expansion of existing facilities

Our capacity forecasts are based on our proprietary capacity model which examines planned additions by terminal. Our forecasts are broadly in line with DPW's stated guidance at the time of the FY07 results, which is summarised below:

Figure 76. DPW – Planned Capacity Additions (TEU millions)

	to 2010	2011-17	Total
Middle East, Europe & Africa	3.1	8.7	11.8
Asia Pacific & Indian Subcontinent	3.8	8.3	12.1
Australia, New Zealand & Americas	0.9	0.5	1.4
New Projects	7.8	17.5	25.3
Middle East, Europe & Africa	7.6	0.0	7.6
Asia Pacific & Indian Subcontinent	2.8	0.8	3.6
Australia, New Zealand & Americas	1.0	0.8	1.8
Expansion	11.4	1.6	13.0

Source: DPW

DPW plans to add a total of 19.2m TEU by 2010E and 38.3m by 2017E, raising gross capacity from 54.2m in 2007 to 92.5m in 2017E (+71%). Capacity expansion can be broken down into three elements which we will examine individually: New Projects, Expansion of existing facilities and "Capacity Creep". We will also differentiate gross capacity additions from capacity additions at consolidated terminals.

- **Expansion**: DPW plans to raise gross capacity by 11.4m 2007-2010E through expanding existing terminal facilities. Between 2011-17E, it plans to add another 1.6m TEU. Significant projects include Jebel Ali, UAE (+5.0m TEU), Pusan, South Korea (+2.2m TEU) and Quingdao, China (+2.0m TEU).
- **New Projects**: DPW plans to add 7.8m TEU through New Projects 2007-2010E and a further 17.5m by 2017E. Significant projects include London Gateway (+3.5m TEU) and Rotterdam (+4.2m TEU).

Our throughput and capacity forecasts for DPW are presented below in Figure 77.

Figure 77. DPW – Capacity and Throughout Forecasts, 2006-2017E

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Middle East, Europe & Africa	17.1	20.3	24.0	28.3	33.4	39.4	45.3	48.5	50.7	51.9	53.8	54.3
Asia-Pacific and Indian Subcontinent	15.7	18.3	21.0	24.2	27.8	32.0	35.8	40.1	43.1	43.6	44.0	44.4
Australia, New Zealand & Americas	4.0	4.7	5.2	5.7	6.3	6.9	7.2	7.6	8.0	8.2	8.5	8.7
Gross Throughput (TEU millions)	36.8	43.3	50.2	58.2	67.4	78.2	88.3	96.3	101.8	103.7	106.2	107.5
Middle East, Europe & Africa	na	18.7%	18.0%	18.0%	18.0%	18.0%	15.0%	7.2%	4.5%	2.4%	3.6%	1.0%
Asia-Pacific and Indian Subcontinent	na	16.6%	15.0%	15.0%	15.0%	15.0%	12.0%	12.0%	7.4%	1.0%	1.0%	1.0%
Australia, New Zealand & Americas	na	17.5%	10.0%	10.0%	10.0%	10.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%
Gross Throughput Growth	na	17.7%	15.9%	15.9%	16.0%	16.0%	12.9%	9.0%	5.8%	1.8%	2.5%	1.2%
Middle East, Europe & Africa	22.6	25.2	29.2	35.4	39.7	43.8	47.1	48.5	50.7	51.9	53.8	54.3
Asia-Pacific and Indian Subcontinent	20.9	23.4	24.1	27.6	31.9	39.5	41.5	42.7	43.1	43.6	44.0	44.4
Australia, New Zealand & Americas	5.1	5.6	6.2	6.4	8.2	8.9	9.7	9.8	9.9	10.0	10.1	10.2
Gross Capacity (TEU millions)	48.6	54.2	59.5	69.5	79.7	92.2	98.3	101.0	103.7	105.4	107.8	108.9
Middle East, Europe & Africa	75.7%	80.6%	82.2%	79.8%	84.0%	89.9%	96.1%	100.0%	100.0%	100.0%	100.0%	100.0%
Asia-Pacific and Indian Subcontinent	75.1%	78.2%	87.3%	87.6%	87.4%	81.0%	86.4%	94.0%	100.0%	100.0%	100.0%	100.0%
Australia, New Zealand & Americas	78.4%	83.9%	83.1%	88.8%	76.3%	77.4%	74.8%	77.8%	80.8%	82.4%	84.1%	85.7%
Gross Capacity Utilisation	75.7%	79.9%	84.4%	83.7%	84.6%	84.9%	89.9%	95.3%	98.2%	98.3%	98.5%	98.7%
Middle East, Europe & Africa	12.5	14.7	17.3	20.5	24.2	28.5	32.7	33.1	33.4	33.7	34.1	34.4
Asia-Pacific and Indian Subcontinent	4.7	5.6	5.9	6.8	7.8	8.9	10.0	11.2	12.5	13.5	14.6	14.8
Australia, New Zealand & Americas	3.4	3.8	4.2	4.5	4.9	5.4	5.7	5.9	6.2	6.4	6.6	6.8
Consolidated Throughput (TEU millions)	20.6	24.1	27.4	31.7	36.8	42.8	48.4	50.2	52.2	53.7	55.3	56.0
Middle East, Europe & Africa	na	17.6%	18.0%	18.0%	18.0%	18.0%	14.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Asia-Pacific and Indian Subcontinent	na	19.1%	4.8%	15.0%	15.0%	15.0%	12.0%	12.0%	12.0%	8.0%	7.8%	1.0%
Australia, New Zealand & Americas	na	11.8%	10.0%	6.6%	10.0%	10.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%
Consolidated Throughput Growth	na	17.0%	13.7%	15.6%	16.2%	16.3%	13.0%	3.7%	3.9%	2.9%	3.0%	1.2%
Middle East, Europe & Africa	15.6	18.2	21.9	23.6	27.5	29.8	32.7	33.1	33.4	33.7	34.1	34.4
Asia-Pacific and Indian Subcontinent	5.5	5.7	5.9	8.8	9.1	12.1	13.2	14.2	14.3	14.5	14.6	14.8
Australia, New Zealand & Americas	3.9	4.2	4.3	4.5	5.8	6.5	7.2	7.2	7.3	7.4	7.4	7.5
Consolidated Capacity (TEU millions)	25.0	28.1	32.1	36.9	42.5	48.4	53.1	54.5	55.0	55.6	56.1	56.7
Middle East, Europe & Africa	80.1%	80.8%	79.0%	86.7%	87.8%	95.5%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Asia-Pacific and Indian Subcontinent	85.5%	98.2%	100.0%	76.3%	85.2%	73.9%	75.5%	79.0%	87.6%	93.7%	100.0%	100.0%
Australia, New Zealand & Americas	87.2%	90.5%	96.6%	100.0%	83.9%	83.4%	79.1%	82.2%	85.5%	87.2%	88.9%	90.6%
Consolidated Capacity Utilisation	82.4%	85.8%	85.2%	85.8%	86.7%	88.5%	91.1%	92.2%	94.8%	96.6%	98.5%	98.8%

Source: Company Reports and CIR Estimates

We expect reported capacity each year to slightly exceed DPW's stated capacity targets as a result of capacity creep, and expect 108.9m TEU gross capacity in 2017E vs DPW's target of 92.5m

- **Capacity Creep**: We assume that every year, nominal capacity rises by 3% per year, slowing to 1% after 2011E as a result of "capacity creep". This latent capacity is derived from the use of improved technology to improve utilisation of existing terminal assets, including better year usage, the introduction of new carriers and increasing the stacking height of containers. Because capacity is a function of a number of different interacting processes, modest improvements can be found through gradual process reengineering. Capacity creep is the reason that ports can operate at or above their nominal stated capacity.

Gross capacity at the end of 2006 was 48.6m TEU. In 2007, 4.0m TEU of capacity was added through two major projects (Qingdao +2.0m TEU and Jebel Ali +2.0m) suggesting a theoretical capacity at the end of 2007 of 52.6m.

Reported gross capacity was actually 54.2m, 1.6m (or 3.3%) higher, including an element of "capacity creep" and minor new concessions won. While DPW has indicated major expansion projects which added over 0.5m TEU of capacity, numerous smaller projects are likely to also be completed.

We expect Gross Capacity growth of 13.7% CAGR 2007-2010E

Our forecast capacity growth of 13.7% CAGR 2007-2010E compares to DPW's guidance of "around 10%" per year. We expect Gross Capacity utilisation to reach 85% in 2010E vs DPW's guidance of c95%. If we assume no capacity creep, this is raised to 91%. We believe that it is defensible to include capacity creep in our earnings forecasts – the alternatives would be to either assume unrealistically low throughput growth or to forecast utilisation rates over 100%.

Consolidated capacity is expected to rise at a slightly faster rate of 14.8% CAGR 2007-2010E

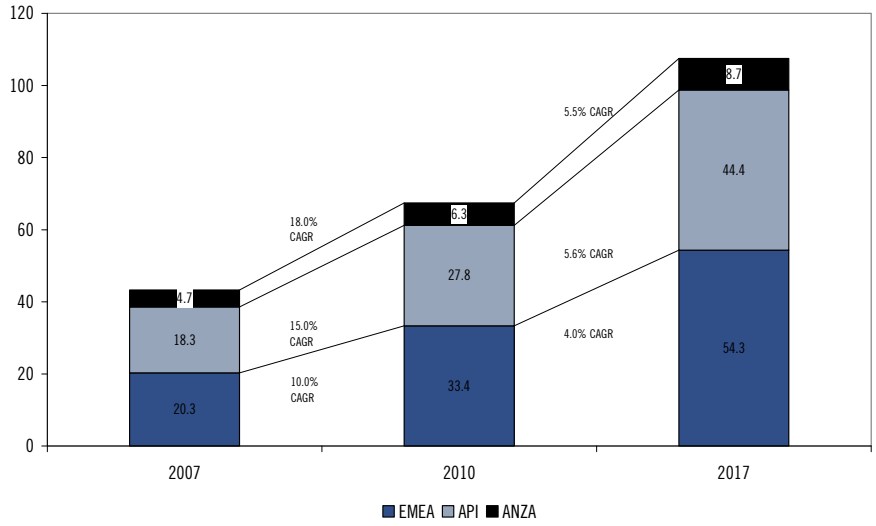
Of gross capacity in FY07 of 48.6m TEU, 20.6m TEU (42%) is at consolidated terminals. We expect DPW to grow consolidated capacity at a slightly faster rate than gross capacity: we expect consolidated capacity growth of 14.8% CAGR 2007-2010E and 2.8% CAGR 2011-2017E vs gross capacity growth of 13.7% and 2.8%, respectively. Both our consolidated and gross capacity growth forecasts assume an element of capacity creep each year.

Throughput Growth

We expect annualised gross throughput growth 2007-10E of 15.9% and 15.2% from consolidated terminals

We expect gross throughput growth of 15.9% CAGR 2007-10E and 5.4% 2011-2017E. We anticipate slightly slower growth in consolidated throughput of 15.2% CAGR 2007-2010E and 4.6% 2011E-17E. Our forecasts are based on historical trends, regional industry growth forecasts and available capacity by region. Consolidated throughput is expected to grow at a slightly slower rate than gross because DPW has a significant number of JV & Associate terminals in the fast growing API region. Figure 78 shows our gross and consolidated throughput growth forecasts by region, summarised above in Figure 78

Figure 78. DPW – Gross TEU by Region, 2007, 2010 & 2017 (TEUm)



Source: Company Reports and CIR Estimates

- **EMEA** – We expect 18.0% CAGR Gross Throughput 2007-10E (vs 18.7% in FY07), slowing to 5.5% CAGR 2011E-17E. We expect gross capacity utilisation to reach 100% by 2013E, constraining throughput growth thereafter – throughput growth eventually slows to just 3% in 2017E, based on assumed capacity creep and no planned additions in the year. We expect 18.0% CAGR Consolidated Throughput 2007-10E, in line with Gross Throughput growth. We expect Consolidated Throughput growth of 3.2% 2011E-2017E, slightly slower than Gross Throughput growth as consolidated terminals are forecast to reach 100% capacity utilisation one year earlier in 2012E.

- **API** – We expect 15.0% CAGR Gross Throughput 2007-2010E (vs 16.6% in FY07), slowing to 5.6% CAGR 2011E-17E. We expect Gross Capacity utilisation to reach 100% by 2014E. We expect 11.5% CAGR Consolidated Throughput 2007-10E, lower than Gross Throughput growth, as a result of temporarily reaching full capacity utilisation in 2008E. We expect 8.7% CAGR Consolidated Throughput 2011E-2017E.

- **AZNA** – We expect 10.0% CAGR Gross Throughput 2007-2010E (vs 17.5% in FY07), slowing to 4.0% CAGR 2011E-17E. We expect 8.9% CAGR Consolidated Throughput 2007-2010E (vs 11.8% in FY07) slowing to 4.0% CAGR 2011E-17E.

Gross and consolidated utilisation both increased in 2007

Figure 21 below summarises regional consolidated and gross capacity utilisation in 2006 and in 2007

Figure 79. DPW – Consolidated and Gross Capacity Utilisation in 2006 -07

	2006		2007	
	Consolidated	Gross	Consolidated	Gross
EMEA	80%	76%	81%	81%
Asia Pac/Indian Sub Continent	85%	75%	98%	78%
Aus, NZ & Americas	85%	78%	88%	84%
All	85%	76%	85%	80%

Source: Company Reports

Income Statement

2007 results and our forecasts are presented below in Figure 80.

Figure 80. DPW – Income Statement, 2007-2012E (US$ in millions)

	2007	2008E	2009E	2010E	2011E	2012E
Middle East, Europe & Africa	1,473	1,739	2,052	2,421	2,857	3,281
Asia Pacific & Indian Subcontinent	461	483	556	639	735	823
Australia, New Zealand & Americas	798	878	936	1,029	1,132	1,189
Head Office/Other	0	0	0	0	0	0
Revenue	2,732	3,100	3,543	4,089	4,724	5,293
Growth	31.6%	13.4%	14.3%	15.4%	15.5%	12.0%
Middle East, Europe & Africa	655	801	963	1,155	1,382	1,603
Asia Pacific & Indian Subcontinent	220	233	274	320	374	423
Australia, New Zealand & Americas	167	195	213	242	274	292
Head Office/Other	-47	-47	-47	-47	-47	-47
Further Adjusted EBITDA	995	1,182	1,403	1,671	1,983	2,271
Margin	36.4%	38.1%	39.6%	40.9%	42.0%	42.9%
Middle East, Europe & Africa	17	13	16	18	22	25
Asia Pacific & Indian Subcontinent	72	71	81	94	108	121
Australia, New Zealand & Americas	15	17	21	24	26	27
Head Office/Other	0	0	0	0	0	0
JV & Associates	105	101	119	136	155	173
% of Sales	3.8%	3.3%	3.3%	3.3%	3.3%	3.3%
Middle East, Europe & Africa	672	814	979	1,174	1,404	1,628
Asia Pacific & Indian Subcontinent	292	304	355	414	482	544
Australia, New Zealand & Americas	183	213	235	266	300	319
Head Office/Other	-47	-47	-47	-47	-47	-47
Adjusted EBITDA	1,100	1,284	1,522	1,807	2,139	2,444
Margin	40.3%	41.4%	43.0%	44.2%	45.3%	46.2%
Depreciation & Amortisation	-326	-382	-444	-469	-495	-519
EBIT	774	901	1,078	1,338	1,644	1,925
Margin	28.3%	29.1%	30.4%	32.7%	34.8%	36.4%
Net Interest	-265	-315	-350	-340	-325	-302
PBT	509	586	728	998	1,319	1,623
Income Tax	-89	-64	-80	-110	-145	-178
Effective Tax Rate	17.5%	11.0%	11.0%	11.0%	11.0%	11.0%
PAT	420	522	648	888	1174	1444
Discontinued operations	65	0	0	0	0	0
Minority interests	-45	-41	-45	-50	-94	-116
% of PAT	10.7%	7.9%	6.9%	5.6%	8.0%	8.0%
Net Income	440	481	603	838	1,080	1,329
Number of Shares (m)	16,600	16,600	16,600	16,600	16,600	16,600
EPS (cents)	2.65	2.90	3.63	5.05	6.51	8.00
Clean EPS (cents)	2.26	2.90	3.63	5.05	6.51	8.00
delta	51.4%	28.2%	25.5%	39.0%	28.9%	23.0%
DPS (cents)	1.33	0.58	0.73	1.01	1.30	1.60
Payout Ratio	58.9%	20.0%	20.0%	20.0%	20.0%	20.0%

Source: Company Reports and Citi Investment Research

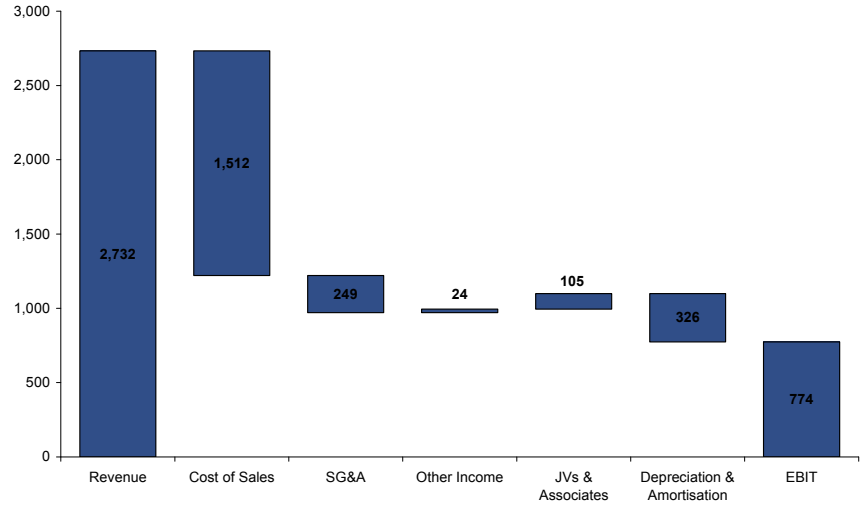
Positive immediate outlook

Guidance was rather general and reflects obvious uncertainties but year to date trading continues to be strong with volumes well up on the same period in 2007. Our revenue growth of 16% to US$3,030m reflects 14% TEU growth, 2% FX gains and flat pricing. We assume a 42% margin in 2008 including JVs/Associates (that are assumed to grow in line with consolidated revenue) or 38.7% just for consolidated business (32.6% in 2007). This derives 2008E EBITDA of US$1,273m or growth of 20% 2008E. DPW indicated that it expected margins to reach 44% in 2010 in a linear fashion. We think it is best to regard DPW margins, like equity markets, as following a random walk with a positive upward drift particularly during periods of rapid development of the portfolio. We believe period on period margin changes reflect a combination of start-up effects, numerous mix effects depending on which terminals see most growth, as margins are quite different and some terminals have volume-linked payments), non separately disposable one-offs and FX

Progress expected thereafter

We expect 14.4% CAGR Revenue 2007-10E, based on 15.2% TEU growth and a slight fall in average revenue per TEU. The anticipated yield decline is a mix effect resulting from faster growth in the lower yielding API and EMEA regions, in line with guidance. Our regional revenue forecasts assume flat revenue yields over the entire forecast period 2007-2017E – a highly conservative assumption given the +12.5% reported in FY07, aided by US$ weakness in the year. Figure 81 shows a breakdown of operating costs for FY07. While our earnings forecasts are based on top-down EBITDA margins by region, examining a breakdown of operating costs helps determine the operating leverage in the business model.

Figure 81. DPW – Breakdown of Operating Costs 2007 (US$ in Millions)



Source: Company Reports

DPW guides that 40% of operating costs excluding D&A are fixed. Our forecasts are more prudent, implying just 23%

DPW estimates that that 40% of operating costs, excluding Depreciation & Amortisation, are fixed and 60% are variable. Based on this guidance, there is some upside to our earnings forecasts: we expect 18.0% CAGR Adjusted EBITDA 2007-2010E and 14.4% Revenue CAGR in the same period, suggesting 77% of operating costs (excluding D&A) are variable.

DPW reported a Gross Margin of 32.7% in FY07. Cost of Sales is the most significant cost line and includes labour (stevedoring, marine, yard), concession fees, fuel, warehousing and transportation costs. A more detailed cost breakdown has not been disclosed and is likely to be relatively meaningless: the operating cost structure will vary significantly between terminals based on DPW's participation (management agreement vs concession vs ownership), the level of capital intensity and regional cost variations, especially labour.

18.9% CAGR Further Adjusted EBITDA growth expected, 2007-10E

We expect 18.9% CAGR Further Adjusted EBITDA growth 2007E-2010E vs 14.4% CAGR Sales. Further Adjusted EBITDA margin is expected to rise from 36.4% reported in FY07 to 40.9% in 2010E. While we forecast a rising EBITDA margin throughout the period, we expect margin growth to decelerate over time as incremental productivity improvements become harder to achieve.

- **EMEA**: We expect 20.8% CAGR Further Adjusted EBITDA 2007-10E on 18.0% Sales CAGR. We expect Further Adjusted EBITDA margin to rise from 44.4% in 2007 to 47.7% in 2010E, implying an incremental EBITDA margin of c53%. The EMEA region accounts for 63% of group Further Adjusted EBITDA in FY07, with Jebel Ali alone accounting for c50%.

- **API**: We expect 13.4% CAGR Further Adjusted EBITDA 2007-10E on 11.5% Sales CAGR. We expect Further Adjusted EBITDA margin to rise from 47.6% in 2007 to 50.1% in 2010E, implying an incremental EBITDA margin of c57%. The API region only accounts for 21% of group Further Adjusted EBITDA (FY07) as most of DPW's terminal interests in the region are through JV & Associates.

- **AZNA**: We expect 13.1% CAGR Further Adjusted EBITDA 2007-10E on 8.9% Sales CAGR. We expect Further Adjusted EBITDA margin to rise from 21.0% in 2007 to 23.5% in 2010E, implying an incremental EBITDA margin of c32%. The AZNA is the smallest region at 16% of group Further Adjusted EBITDA as well as being the slowest growing.

- **Head Office**: We expect flat Head Office Costs of US$47m vs FY07 in all years. These relate to central administrative costs that cannot be meaningfully allocated by region.

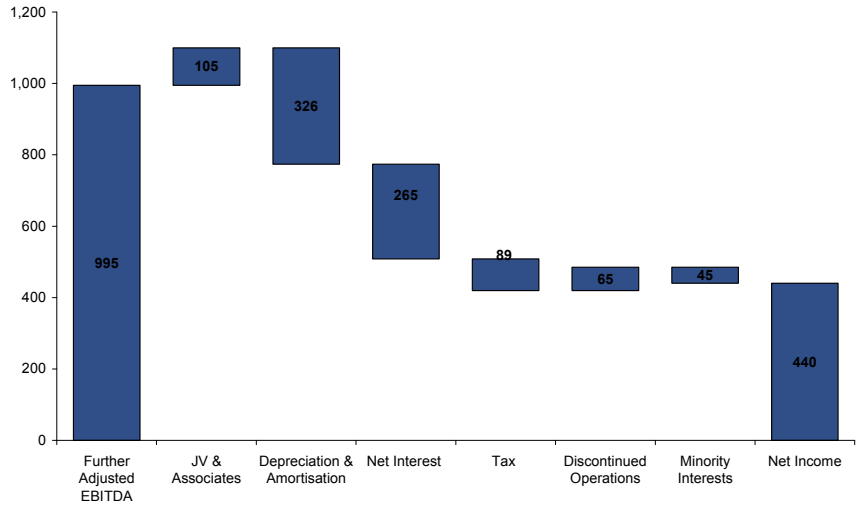
Our earnings forecasts, based on assumed "incremental EBITDA margin" by region, imply a degree of operating leverage is achievable but they are more conservative than DPW's guidance that 40% of operating costs are fixed

Our forecasts are based on assumed incremental Further Adjusted EBITDA margins for each region – the EBITDA margin achieved for each additional container. For the group as a whole, our forecasts imply an incremental margin of 49.8% vs reported FY07 Further Adjusted EBITDA margin of 38.1%; this is consistent with the forecast assumptions we use for HHLA. In reality, because of DPW's numerous terminal interests globally, it is almost impossible to accurately forecast regional profitability, particularly given the lack of detailed disclosure. As discussed earlier, our margin assumptions imply that around 77% of operating costs excluding Depreciation & Amortisation are variable and 23% are fixed; slightly more conservative than DPW's guidance that 40% of operating costs (excluding D&A) are fixed.

We expect 18.0% Adjusted EBITDA 2007-10E vs 18.9% CAGR Further Adjusted EBITDA as a result of slightly slower growth of JV & Associates

Adjusted EBITDA is defined as Further Adjusted EBITDA plus JV & Associates. We expect 18.0% CAGR 2007-10E; slightly less than forecast Further Adjusted EBITDA growth as a result of a slower growth in JV & Associates (9.0% CAGR) in the period. We expect Adjusted EBITDA margin to rise from 40.3% in 2007 to 44.2% in 2010E (vs guidance of "above 44%"). The EMEA region represents 61% of group Adjusted EBITDA in FY07 – we expect this fast growing region to rise in significance to 65% of group Adjusted EBITDA by 2010E . Figure 82 reconciles FY07 Further Adjusted EBITDA to Net Income. Discontinued Operations (US$65m income) are one-off items which we do expect in the future.

Figure 82. DPW – Reconciliation of Further Adjusted EBITDA to Net Income in 2007 (US$ in Millions)



Source: Company Reports

Underlying result from JV & Associates is expected to grow broadly in line with Sales.

Net result from JV & Associates of US$105m in FY07 includes US$18m of non-recurring items. On an underlying basis JV & Associates of US$87m in FY07 represents 3.2% of Sales. DPW has indicated that it expects JV & Associates to grow in line with Sales; however this implies that there is no scope for margin improvement. We expect the underlying net result from JV & Associates to grow from US$87m in FY07 to US$136m in 2010E (16.1% CAGR) rising from 3.2% of Sales to 3.3% by 2010E. We grow the net result from JV & Associates by JV & Associate throughput growth.

20% CAGR EBIT growth expected 2007-10E

We forecast 20% average annual growth in EBIT 2007-2010E, slightly ahead of Adjusted EBITDA growth of 18.0% in the same period. DPW reported a significant EBIT margin improvement of 7.5ppts to 28.3% in FY07. We expect this to rise by 1.5ppts per annum on average to 32.7% by 2010E.

DPW is a relatively capital-intensive company, which is reflected in a significant Depreciation & Amortisation (D&A) charge of US$326m in FY07, 11.9% of Sales. We expect D&A to fall to 11.5% of Sales by 2010E. Our Depreciation forecasts are based on a Depreciation rate of 6.5% of Tangible Fixed Assets (in line with FY07) and a flat US$70m per annum Amortisation charge.

11% cash & effective tax rate assumed and Minority Interest at c8% of Profit after Tax

Tax before separately disclosable items was 17.5% or US$88.8m and minority interests +57% to US$45m or 10% of net profit, unchanged from 2006. Our Tax forecasts assume an effective tax rate of 11.0% in all years, consistent with DPW's guidance of "between 10% and 12%". We assume that the cash tax rate mirrors the effective rate. An effective tax rate in FY07 of 17.5% will exaggerate forecast EPS growth as DPW expects the tax rate to return to 11% in 2008. We expect Minority Interests per the P&L to be around 10% of Profit after Taxation excluding the net result of minorities, or around 8% of group Profit after Taxation.

31% CAGR Clean EPS growth expected 07E-10E

We expect average annual Clean EPS growth of 30.7% 2007E-2010 based on an unchanged share count of 16.6bn. FY07 Reported EPS of 2.65 US$ cents per share includes a US$65m one-time result from Discontinued Operations – excluding this gives a Clean EPS of 2.26 cents. We expect 2.90 cents in FY08E and 5.05 US$ cents in FY10E.

Net Debt expected to peak in FY09, with sustained FCF thereafter

As a result of falling financial leverage, we expect PBT growth (25.2% CAGR 07-10E) to outstrip EBIT growth. Our Net Interest forecasts are based on an assumed cost of debt of 6.8% and 4.0% return on cash and equivalents. Net Interest is expected to rise from $265m in FY07 to $320m in FY08, peaking at $350m in FY09E and falling thereafter as a result of sustained free cash flows. The structure of Net Debt and financial gearing will be considered in more detail later.

DPW declared a dividend for 2007 of US$1.33

DPW guidance was for a payout ratio of at least 20% of clean EPS. In 2007 DPW declared a dividend of US$1.33 that was equivalent to 59% of Clean EPS. We believe the 2007 dividend represents a signal of confidence in the business during a period of uncertainty rather than a re-basing of the payout. Our forecasts therefore assume a 20% ratio is applied in the future despite DPW being forecast to have significant headroom from 2009E to make further acquisitions or to return cash to shareholders through an increased dividend or share re-purchase.

Figure 83. DPW – Cash Flow Statement, 2007-2012E (US$ millions)

	2007	2008E	2009E	2010E	2011E	2012E
EBIT	**774**	**901**	**1,078**	**1,338**	**1,644**	**1,925**
Depreciation & Amortisation	326	382	444	469	495	519
JV & Associates	-105	-101	-119	-136	-155	-173
Further Adjusted EBITDA	**995**	**1,182**	**1,403**	**1,671**	**1,983**	**2,271**
Working Capital	99	-142	-168	-201	-238	-273
Tax Paid	-136	-64	-80	-110	-145	-178
Net Interest	-265	-315	-350	-340	-325	-302
Other	263	47	47	47	47	0
Operating Cashflow	**955**	**708**	**852**	**1,068**	**1,323**	**1,518**
Margin	35.0%	22.8%	24.1%	26.1%	28.0%	28.7%
Capital Expenditure	-879	-1,721	-800	-700	-900	-692
Net Acquisitions/Disposals/Other	-532	-670	0	0	0	0
Free Cash Flow	**-456**	**-1,683**	**52**	**368**	**423**	**826**
Margin	-16.7%	-54.3%	1.5%	9.0%	9.0%	15.6%
Dividends from JVs & Associates	66	145	163	180	199	217
Minority Dividends Paid	-11	-45	-41	-45	-50	-94
Equity Issued	0	0	0	0	0	0
Dividends Paid (Parent)	0	-221	-96	-121	-168	-216
Movement in Net Debt	**-401**	**-1,804**	**78**	**382**	**405**	**733**
Net Debt b/f	**2,442**	**2,843**	**4,647**	**4,569**	**4,187**	**3,782**
Net Debt c/f	**2,843**	**4,647**	**4,569**	**4,187**	**3,782**	**3,049**

Source: Company Reports and CIR Estimates

Figure 84. DPW – Balance Sheet, 2007-2012E (US$ in millions)

	2007	2008E	2009E	2010E	2011E	2012E
Property, plant & equipment	3,915	5,324	5,749	6,050	6,525	6,768
Goodwill	2,510	2,510	2,510	2,510	2,510	2,510
Intangible assets	3,508	3,438	3,368	3,298	3,228	3,158
Investment in associates & JVs	3,322	3,278	3,234	3,190	3,146	3,102
Other	97	97	97	97	97	97
Non-current assets	**13,353**	**14,648**	**14,959**	**15,146**	**15,507**	**15,635**
Inventories	54	63	75	94	115	135
Accounts receivable & prepayments	704	820	981	1,218	1,496	1,752
Bank balances & cash	3,059	1,255	1,333	1,715	2,120	2,852
Other	20	20	20	20	20	20
Current assets	**3,837**	**2,159**	**2,409**	**3,046**	**3,751**	**4,759**
Total assets	**17,190**	**16,806**	**17,369**	**18,192**	**19,258**	**20,395**
Pensions	147	147	147	147	147	147
Long Term Debt	5,608	5,608	5,608	5,608	5,608	5,608
Deferred tax liabilities	991	991	991	991	991	991
Other	304	304	304	304	304	304
Non-current liabilities	**7,051**	**7,051**	**7,051**	**7,051**	**7,051**	**7,051**
Accounts payable & accruals	919	279	331	433	541	544
Short Term Debt	294	294	294	294	294	294
Other	553	428	453	500	548	598
Current liabilities	**1,767**	**1,002**	**1,078**	**1,227**	**1,384**	**1,437**
Parent's equity	7,716	8,100	8,582	9,253	10,117	11,179
Minority interests	657	653	657	662	706	728
Equity	**8,373**	**8,753**	**9,240**	**9,915**	**10,823**	**11,907**
Total equity & liabilities	**17,190**	**16,806**	**17,369**	**18,192**	**19,258**	**20,395**

Source: Company Reports and CIR Estimates

Cash Flow & Balance Sheet

Strong but volatile operating cash flow

We expect Operating Cash Flow growth of 3.8% CAGR 2007-10E versus Further Adjusted EBITDA growth of 18.9% in the period. Operating Cash Flow is expected to fall from US$955m (35% of Sales) to US$708m (22.8% of Sales) in FY08E as a result of positive working capital in FY07, rising to US$1,068m (26.1% of Sales) in FY10E. Working Capital forecasts are based on DPW's guidance of a working capital requirement of US$110m to US$130m for each US$1bn of Further Adjusted EBITDA – we assume US$120m. We assume a cash tax rate of 11.0% of pre-tax earnings, in line with our assumed effective tax rate. In the years 2008E to 2011E inclusive, we make a US$47m adjustment per year for Jebel Ali concession fees recorded in DPW's income statement, but not actually payable in cash until 2012E.

Consistent FCF expected from FY09E.

As a result of significant planned capital expenditure, we do not expect DPW to become Free Cash Flow positive until FY09E. We expect consistent Free Cash Flow from FY09E onwards, with FCF rising from 1.5% of Sales (FY09E) to 9.0% in 2010E and 29.6% by 2017E. We estimate that at the current price, DPW is trading on a Free Cash Flow yield of 5.9% FY09E and 7.2% FY10E.

2007 capex of US$879m reflects heavy investment in expanding existing terminals

US$879 million capex during 2007 was below DPW forecasts largely due to the delay in investment at Jebel Ali that is now expected in 2008. The majority of capex (US$675m) was spent in the Europe, Middle East and Africa region mostly on expanding Jebel Ali, Southampton and Constanta. Over 75% of capex was on expansion projects with only 10% of capex spent on the higher-cost new projects which can typically average some U$275 million per TEU. Maintenance capex was 15%. DPW re-iterated capex would be $4.1bn from 2007–2010 inclusive with 2008 being higher due to the lighter spend than planned in 2007.

US$100m of Maintenance Capex per US$1bn of Further Adjusted EBITDA, implies a FCF yield of 5.9% in 2009E and 7.2% in 2010E

Our capex forecasts for the period 2008E-10E are based on DPW's guidance of US$4.1bn 2007-2010E inclusive, including both expansionary and maintenance capex. Group capex excludes that at JV & Associates, which are equity accounted. We estimate that US$100m of Maintenance Capex is required for every US$1bn of Further Adjusted EBITDA.

Figure 85. DPW, Capital Expenditure Forecasts vs Scheduled Capacity Increases at Consolidated Terminals, 2007-2017E (US$ in millions)

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Growth	779	1603	660	533	701	465	116	0	0	0	0
Maintenance	100	118	140	167	198	227	240	253	264	276	289
Total Capex	879	1721	800	700	900	692	355	253	264	276	289
Expansion	2.0	3.2	0.0	2.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
New Projects	0.0	0.0	3.8	2.4	4.2	3.3	0.8	0.0	0.0	0.0	0.0
Capacity Increase (TEU, millions)	2.0	3.2	3.8	4.5	4.7	3.3	0.8	0.0	0.0	0.0	0.0

Source: Company Reports and CIR Estimates

Our Capital Expenditure forecasts from 2011E are based on an assumed maintenance requirement plus an estimated expansionary capex. This is calculated using scheduled capacity additions at consolidated terminals, multiplied by an assumed cost per TEU of US$275m for new projects and half that for expansion of existing facilities with inflation of 2.5% per annum.

DPW with no further material acquisition is expected to achieve Net Cash by 2015E

Assuming that no further acquisitions are made, we estimate that DPW will be in a Net Cash position by 2015E versus Net Debt of US$2,727m at 31 December 2007. Our forecast movements in Net Debt are based on FCF, less parent and minority dividends plus dividends received from JV & Associates. We assume that 100% of JV & Associate profit per the Income Statement is received as a dividend, plus US$44m per year PPA (Purchase Price Accounting) adjustment which boosts cash earnings. Minority dividends are assumed to be equal to the Income Statement charge and dividends paid to parent shareholders are based on the last year's proposed dividend.

Figure 86. DPW – Financial Statistics, 2007-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Growth											
Sales	31.6%	13.4%	14.3%	15.4%	15.5%	12.0%	3.6%	3.8%	2.7%	2.8%	1.5%
Further Adjusted EBITDA	47.0%	18.8%	18.7%	19.1%	18.7%	14.5%	4.0%	4.2%	3.1%	3.1%	1.4%
Adjusted EBITDA	55.9%	16.7%	18.6%	18.7%	18.4%	14.3%	4.6%	4.4%	2.8%	2.9%	1.4%
EBIT	79.4%	16.5%	19.6%	24.2%	22.8%	17.1%	5.6%	6.0%	4.1%	4.1%	2.2%
Net Income	77.6%	9.3%	25.5%	39.0%	28.9%	23.0%	8.9%	9.6%	7.4%	7.1%	4.9%
EPS	51.4%	28.2%	25.5%	39.0%	28.9%	23.0%	8.9%	9.6%	7.4%	7.1%	4.9%
DPS	na	-56.5%	25.5%	39.0%	28.9%	23.0%	8.9%	9.6%	7.4%	7.1%	4.9%
Margins											
Further Adjusted EBITDA	36.4%	38.1%	39.6%	40.9%	42.0%	42.9%	43.1%	43.2%	43.4%	43.5%	43.5%
Adjusted EBITDA	40.3%	41.4%	43.0%	44.2%	45.3%	46.2%	46.6%	46.9%	46.9%	47.0%	47.0%
EBIT	28.3%	29.1%	30.4%	32.7%	34.8%	36.4%	37.1%	37.9%	38.4%	38.8%	39.1%
Net Income	16.1%	15.5%	17.0%	20.5%	22.9%	25.1%	26.4%	27.9%	29.1%	30.4%	31.4%
Returns											
EBITDA / Capital Employed, Average	13.3%	9.6%	10.3%	12.0%	13.8%	15.4%	15.8%	16.4%	17.0%	17.5%	17.7%
Return on Capital Employed, Average	10.3%	7.3%	7.9%	9.6%	11.5%	13.0%	13.6%	14.4%	15.0%	15.6%	15.9%
Return on Equity, Average	9.1%	5.6%	6.7%	8.7%	10.4%	11.7%	11.6%	11.6%	11.3%	11.1%	10.7%
Gearing											
Net Debt / EBITDA	2.6	3.6	3.0	2.3	1.8	1.2	0.8	0.2	-0.3	-0.8	-1.3
Net Debt / Total Capitalisation	25%	35%	33%	30%	26%	20%	13%	4%	-5%	-15%	-25%
Net Debt / Equity	34%	53%	49%	42%	35%	26%	15%	4%	-5%	-13%	-20%
Interest Cover	2.9	2.9	3.1	3.9	5.1	6.4	7.7	10.0	13.9	22.3	52.1

Source: Company, Citi Investment Research

Rapidly de-leveraging balance sheet leaves DPW significant financial flexibility and headroom to invest or return surplus capital

We expect Net Debt to Adjusted EBITDA to rise from 2.6x FY07 to 3.6x FY08E as a result of planned capital expenditure and the acquisition of Sokna (US$670m) completed in late FY07. We estimate that DPW could support a long-run average of 3.5x to 4.0x Net Debt to Adjusted EBITDA, which leaves DPW significant headroom for further acquisitions or cash returns – based on maintaining a 3.5x Net Debt to Adjusted EBITDA ratio, we estimate that DPW could have US$2.1bn of headroom by 2010E. At 31 December 2007, DPW reported Net Debt of US$2,843m comprising Gross Debt of US$5,902m and Cash & Equivalents of US$3,059m. Following the IPO, DPW restructured its debt with two new fixed interest rate bonds/sukuk for US$3,219m (a 10-year Sukuk of US$1,487m at 6.250% and a 30-year bond of US$1,732m at 6.850%) rated A1/A+ from Moody's and S&P, respectively. In addition it has a US$2.5bn five-year revolving credit facility. Our forecasts assume that the debt rolls over, and that forecast movements in Net Debt are reflected in the Cash balance.

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Appendix

Figure 87. DPW – Key Characteristics of the Port Portfolio

			Interest	Expiry	Throughput (TEUm)				
			%		2005	2006	2007	1H06	1H07
Middle East, Europe & Africa	UAE	DPW Jebel Ali	100%	2105	6,390	7,651	na	na	4,527
		Port Rashid (Dubai)	100%	2105	1,229	1,272	na	na	451
		Mina Zayed (Abu Dhabi)	0%	na	230	251	na	na	155
		DPW Fujairah	100%	2035	47	31	na	na	11
	All UAE				7,896	9,205	na	na	5,144
	Saudi Arabia	Jeddah South Container Terminal (Saudi Arabia)	0%	na	1,568	1,503	na	na	738
	All Middle East				9,464	10,708	na	na	5,882
	Equity accounted				7,666	8,954	na	na	4,989
	Europe	Southampton Container Terminal (UK)	51%	2022	1,375	1,540	na	na	943
		Tilbury Container Services (UK)	34%	2028	428	447	na	na	226
		Terminal de Nord & Terminal de France (Le Havre, France)	37%	2041	779	869	na	na	642
		Fos Container Terminal (Fos sur Mer, France)	26%	na	435	445	na	na	244
		Mourepiane Container Terminal (Marseille, France)	26%	2011	199	237	na	na	114
		DPW Antwerp (Belgium)	100%	2034	972	950	na	na	352
		Antwerp Gateway (Belgium)	43%	2044	75	600	na	na	366
		DPW Constanta (Romania)	100%	2022	582	871	na	na	543
		DPW Germersheim (Germany)	100%	na	141	171	na	na	65
	All Europe				4,986	6,130	na	na	3,495
	Equity accounted				3,027	3,686	na	na	2,006
	Africa	Port Autonome International de Djibouti (Djibouti)	0%	na	195	225	na	na	132
		Maputo International Port Services (Mozambique)	60%	2013	54	63	na	na	34
	All Africa				**249**	**288**	**na**	**na**	**166**
	Equity accounted				32	38	na	na	20
All Middle East, Europe & Africa					**14,699**	**17,126**	**20,300**	**7,900**	**9,543**
Equity Accounted					**10,725**	**12,678**	**na**	**na**	**7,015**

Source: Company Reports and CIR Estimates

Figure 88. Key Characteristics of the Port Portfolio -continued

			%	Expiry	2005	2006	2007	1H06	1H07
Asia-Pacific and Indian Subcontinent	Asia Pacific	Qingdao Qianan Container Terminal (China)	29%	2030	4,619	5,580	na	na	3,142
		Tianjin Orient Container Terminals (China)	25%	2027	1,078	1,125	na	na	594
		ACT CT8 (Hong Kong)	55%	2047	344	1,041	na	na	530
		CT3 (Hong Kong)	67%	2047	276	542	na	na	229
		DPW Yantai (China)	33%	2033	241	320	na	na	176
		Laem Chabang International Terminal (Thailand)	35%	2026	1,273	1,286	na	na	570
		Terminal Petikemas Surabaya (Indonesia)	49%	2019	1,073	1,059	na	na	558
		Asia Terminals Incorporated (Philippines)	84%	2013	643	717	na	na	380
		Vostochnaya Stevedore Company (Russia)	25%	na	296	291	na	na	175
		Pusan Newport Company (South Korea)	40%	2056	0	250	na	na	246
	All Asia Pacific				**9,843**	**12,211**	**na**	**na**	**6,600**
	Equity accounted				3,648	4,685	na	na	2,497
	India Subcontinent	DPW Nhava Sheva (India)	100%	2027	1,311	1,344	na	na	718
		DPW Chennai (India)	75%	2031	700	829	na	na	499
		Mundra International Container Terminal (India)	100%	2031	298	460	na	na	324
		DPW Cochin (India)	76%	2035	150	219	na	na	115
		Visakha Container Terminal (India)	26%	2032	48	53	na	na	29
		DPW Karachi (Pakistan)	55%	2025	544	629	na	na	332
	All Indian Subcontinent				3,051	3,534	na	na	2,017
	Equity accounted				2,560	2,952	na	na	1,694
Asia-Pacific and Indian Subcontinent					**12,894**	**15,745**	**18,300**	**6,900**	**8,617**
Equity Accounted					6,208	7,637	na	na	4,191
Australia, New Zealand and Americas	Australia	DPW Melbourne	100%	2033	739	805	na	na	401
		DPW Sydney	90%	2009	646	721	na	na	338
		DPW Brisbane	100%	2012	380	439	na	na	204
		DPW Fremantle	100%	2017	223	259	na	na	131
		DPW Adelaide	85%	2009	193	202	na	na	117
	All Australia & NZ				**2,181**	**2,426**	**na**	**na**	**1,191**
	Equity accounted				2,087	2,324	na	na	1,140
	Americas	Terminales Rio de la Plata (Buenos Aires, Argentina)	56%	2019	554	634	na	na	320
		DPW Caucedo (Dominican Republic)	35%	2054	334	448	na	na	350
		DPW Vancouver (Canada)	100%	2054	355	328	na	na	231
		DPW Puerto Cabello (Venezuela)	50%	2009	167	119	na	na	58
	All Americas	**Americas**			**1,410**	**1,529**	**na**	**na**	**959**
	All Americas - Equity Adjusted	Equity Adjusted			866	899	na	na	562
Australia, NZ & Americas					**3,591**	**3,955**	**4,700**	**1,800**	**2,150**
Equity Accounted					2,953	3,223		na	1,701
GROUP TOTAL	**Gross**				**31,184**	**36,826**	**43,300**	**16,600**	**20,310**
	Equity Adjusted (m)				19,886	23,538		na	12,907

Source: Company Reports and CIR Estimates

DP World

Company description

DPW is the fourth-largest marine terminal operator globally and handled some 43m TEU in 2007 at its portfolio of 43 terminals in 28 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 $1.25. 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 deleveraging balance sheet. Jebel Ali, with its 99-year concession to 2105, is the high-margin, high-growth jewel, with significant expansion potential. Industry fundamentals look positive: container volume (TEU) has consistently outstripped global GDP growth as a result of a trend towards containerisation and transshipment. Terminal operators represent a defensive play on this high-growth sector and exhibit monopolistic utility-like characteristics, 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 $1.25 per share is based on our DCF valuation of the existing terminal portfolio, broken down as: consolidated terminals (net of minorities) $1.30; JV & Associates $0.22 per share; less: Net Debt of $0.28 per share. We discount nominal cash flows at a WACC of 7.9%, which impounds 8.75% Cost of Equity (Beta 0.7x, 5% ERP and 5.25% RFR), 6.14% post-tax Cost of Debt and 45% gearing. Our $1.25 Target Price implies 19.8x 08E EV/EBITDA, a premium to current listed Global Infrastructure stocks justified by structural growth, low taxation, a lack of regulation and an average 44-year 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

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