Company report

Global Emerging Markets
Transport, Marine
Equity – United Arab Emirates

HSBC Global Research

DP World

Leading port operator: initiating coverage with a Neutral (V) rating and target price of USD1.05

- **DP World is the fourth largest terminals operator globally. We forecast good profits growth, of CAGR 15% 2008-2010e**
- **Upside could come from further capacity expansion and acquisitions. The main downside risk is of contagion from the US on its Middle East, European and Chinese terminals**
- **Our TP of USD1.05 indicates c18% potential return. DP World is a recent IPO and the stock has been weak, therefore we flag this as a more risky (or 'volatile') investment, and initiate coverage with a Neutral (V) rating**

DP World has a strong portfolio of terminal operations. These are mainly exposed to fast growing China, India, Middle East and European trade routes. It is currently handling c43m TEU (container boxes) each year, up 40% from 2005. Growth has been accelerated significantly by the acquisition of CSX's terminals in 2005 and P&O ports in 2006.

There is a more potential growth in the pipeline. We forecast, applying conservative assumptions, that TEUs handled will rise to c60m (up 38%) by 2010, with profits forecast to rise by CAGR of 15% 2008-2010e. Upside may come from further expansion and/or increases in utilisation of terminal capacity. On the downside, volumes and profits are sensitive to the wider economy, particularly global consumer demand. We think that DP World is a more defensive play from this perspective with much of its growth in the next few years coming from developing economies in the Middle East, India and China. Nonetheless, contagion from a severe US slowdown is a risk to earnings in the near term.

Our target price is USD1.05, which is derived from a DCF of net cash linked to our detailed 2008-2022 forecasts. This indicates a 12-month potential return of c18%. Detailed sensitivity analysis of our valuation, for example, varying average box handling rates and terminal throughput by 5%, indicates a range of USD0.76-1.35 on our base target price of USD1.05. DP World's stock has been weak and volatile since the IPO in November 2007. On a 2008e PE of 28.6x, it is still trading at a premium versus the global ports sector (on a PE of 27.2x). This is probably justified given its exposure to markets with strong growth dynamics and it appears well positioned for growth over the medium term. Our TP indicates healthy upside but our test to assign an Overweight rating with recent volatility is stringent and we initiate coverage with a Neutral (V) rating.

Index^	DIFX
RIC	DPW.DI
Bloomberg	DPW DU

Source: HSBC

Free float (%)	23
Market cap (USDm)	14,774

Source: HSBC

Neutral (V)

Target price (USD)	**1.05**
Share price (USD)	**0.89**
Potential total return (%)	**c18**

Dec	**2006a**	**2007e**	**2008e**
EPS USD cents	-	2.45	3.12
HSBC PE	-	36.4	28.6
Performance	**1M**	**3M**	**12M**
Absolute (%)	-12.7	-	-
Relative^ (%)	-19.1	-	-

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Financials & valuation

Financial statements

Year to	12/2006a	12/2007e	12/2008e	12/2009e
Profit & loss summary (USDm)				
Revenue	2,076	2,477	2,793	3,134
EBITDA (exc. JVs & Assoc.)	677	952	1,126	1,321
EBITDA (Inc. JVs & Assoc.)	705	1,016	1,216	1,416
EBITDA Reported (inc. JVs)	570	1,016	1,216	1,416
Operating profit/EBIT (exc. JVs)	403	641	761	903
Operating profit/EBIT (inc. JVs)	431	705	851	998
EBIT reported (inc. JVs)	296	705	851	998
Net interest	-305	-202	-219	-242
Total Taxation	97	-72	-70	-83
HSBC Net income (before MI)	276	448	562	673
HSBC Net income (after MI)	248	406	517	619
Cash flow summary (USDm)				
Cash from operations	159	1,777	663	841
Total Gross Capex (adjusted)	-689	-1,313	-1,500	-800
Balance sheet summary (USDm)				
Total current assets	3,961	4,272	3,555	3,674
Total non-current assets	13,508	12,625	13,761	14,143
Total assets	17,470	16,897	17,316	17,816
Current liabilities	9,177	1,308	1,308	1,308
Non-current liabilities	6,974	6,974	6,974	6,974
Total liabilities and equity	17,470	16,897	17,316	17,816
Invested capital	15,757	14,526	15,862	16,348

Ratio, growth and per share analysis

Year to	12/2006a	12/2007e	12/2008e	12/2009e
Y-o-y % change				
Revenue	207.5	19.3	12.7	12.2
EBITDA	97.4	44.1	19.6	16.5
HSBC net income	13.8	62.2	25.7	19.6
HSBC EPS	-	-	27.4	19.6
Ratios (%, x)				
Revenue/CE(x)	0.13	0.17	0.18	0.19
ROCE (adjusted)	8.7%	7.6%	8.4%	9.2%
EBITDA margin (exc. JV)	32.6%	38.4%	40.3%	42.1%
EBITDA margin (inc. JV)	33.5%	40.0%	42.2%	43.8%
Gearing	147%	26%	34%	32%
Net debt/EBITDA (x)	2.8	2.2	2.5	2.2
Per share data (USD cents)				
HSBC EPS	-	2.45	3.12	3.73
DPS	-	-	0.62	0.75

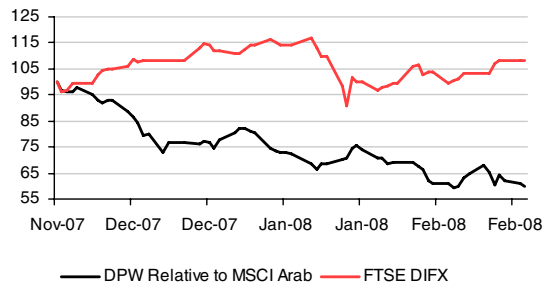
Key forecast drivers (TEUm, throughput)

Year to	12/2006a	12/2007e	12/2008e	12/2009e
Middle East, Europe and Africa	17.1	20.3	24.5	27.5
Asia-Pacific and Indian Sub.	15.5	18.1	18.4	20.5
Australia, NZ and Americas	4.0	4.7	4.6	4.7
Total gross throughput	36.5	43.1	47.5	52.7
Growth	-	18.1%	10.2%	10.9%

Valuation data

Year to	12/2006a	12/2007e	12/2008e	12/2009e
EV / Revenue	-	6.9	6.4	5.7
EV / EBITDA (EBITDA incl. JVs)	-	16.8	14.7	12.6
EV / ROCE	-	1.7	1.6	1.6
ROCE / CoC	-	0.8	0.9	1.0
PE	-	36.4	28.6	23.9
FCF yield (%) - pre capex	-	5.1%	6.3%	7.4%
FCF yield (%) - post capex	-	3.0%	3.8%	4.6%
Dividend yield (%)	-	0.0%	0.7%	0.8%

Price relative



Source: Thomson Financial Datastream

Note: price at close of 26 Feb 2008

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Investment summary

- Our valuation indicates a TP of USD1.05, or c18% return
- Though potential returns look fairly healthy, due to recent stock volatility and the recent IPO we flag this stock as higher risk
- Hence, we initiate coverage with a Neutral (V) rating

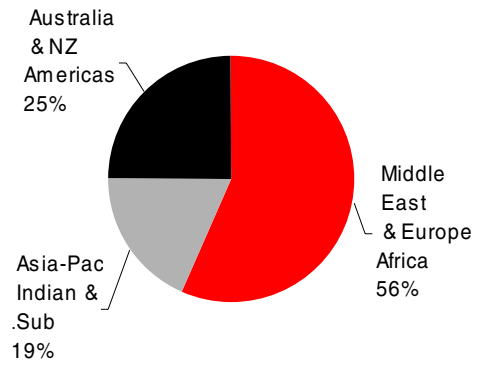
Overview

Company background

One of the largest operators globally

DP World is the fourth largest operator of container terminals globally with 43 terminals and 13 new development projects, spread across 23 countries. We forecast that for 2007 the company will generate cUSD2.47bn of revenues (figure 1).

1. Regional split of revenues



Source: HSBC estimates

Recent IPO raised cUSD5bn

DP World listed on the Dubai International Financial Exchange (DIFX) on 26 November 2007, at the price of USD1.30, raising USD4.96bn for the parent company.

More details on the company's background are shown in the section *Company background* towards the end of this note.

Jebel Ali Port is the flagship operation

The Jebel Ali terminal, in Dubai, is key to DP World's performance. The company has a 99-year concession at Jebel Ali and the government of Dubai has a 77% stake in the company. We calculate that the terminal will handle 25% of gross throughput in 2008e, generating USD1.2bn of group revenues which is c43% of the total for the group.

DP World's top 10 terminal operations are shown in figure 2.

2. Profile of top 10 terminals (2008e)

Terminal	Country	Consolidated / Unconsolidated	TEU000s (2008e)
Jebel Ali	Dubai	Consolidated	11,880
Qingdao Qianwan	China	Unconsolidated	7,110
Antwerp	Belgium	Consolidated	2,145
Jeddah South	Saudi Arab.	Unconsolidated	1,720
Nhava Sheeva	India	Consolidated	1,640
Tianjin Orient	China	Unconsolidated	1,500
Southampton	UK	Consolidated	1,440
Laem Chabang	Thailand	Unconsolidated	1,360
Port Rashid	Dubai	Consolidated	1,230
Petikemas Surabaya	Indonesia	Unconsolidated	1,230
Total throughput handled by top 10 terminals			31,255
Gross throughput projected for the group			47,546
Contribution by top 10 terminals			66%

Source: HSBC estimates

January trading update: strong growth

The company reported 2007 outturn operating statistics to the capital markets on 21 January 2008 and confirmed that throughput in its ports, globally, increased by 18% in 2007. All three regions reported fast growth. For example, Middle East, Europe and Africa regions increased TEUs by 19% y-o-y (with Jebel Ali recording 28% growth with the opening of the new second terminal). Asia-Pacific and Indian Subcontinent region reported 17% growth in throughput and Americas and Australia 18%.

Investor events

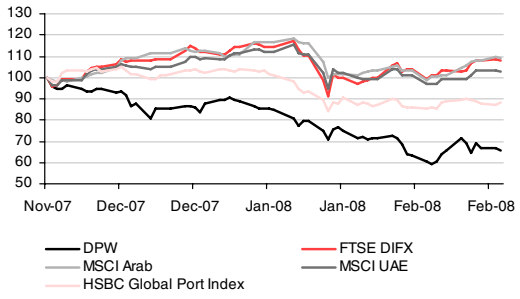
Recent analyst visit to Jebel Ali

The company held a site visit to Dubai and Jebel Ali on 21 January 2008 for fund managers and analysts, which we attended. The next planned event is the 2007 results, which are due to be reported on 7 April. We understand that management intends to report earnings to the capital markets twice a year, for the interim and full year results.

Recent share price weakness

Since the IPO, DP World's share price has been weak, falling c32%. We believe that this is due to generally weak stock market conditions and concerns about financing of large infrastructure projects. DP World has a strong balance sheet and has secured finance for its major projects, as we discuss later. Figure 3 shows price performance against local indices and also our bespoke HSBC Global Ports index, which shows price performance for 17 companies.

3. Share price performance versus various indices



Note: Port companies included in our index are shown in the comparatives table at the end of this note.

Source: Thomson Financial Datastream

HSBC forecasts & valuation

Summary forecasts

Healthy earnings growth forecast

We forecast that DP World will increase operating profits by c64% to USD705m in 2007 and by c21% to USD851m in 2008. This is mainly due to new expansion projects coming on stream and rising capacity utilisation (figure 4).

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4. Operational and financial summary

31 Dec, USDm	2006	2007e	2008e	2009e
Capacity growth (%)	11.2%	14.1%	6.6%	12.3%
Gross throughput (TEUm)	36.5	43.1	47.5	52.7
Throughput growth (%)	18.2%	18.1%	10.2%	10.9%
Sales (USDm)	2,076	2,477	2,793	3,134
Middle East, Europe and Africa	1,133	1,391	1,731	1,870
Asia-Pacific and Indian Subcontinent	386	453	442	618
Australia, New Zealand and Americas	537	613	595	616
Other	19	20	25	30
Sales growth (%)	-	19.3%	12.7%	12.2%
EBIT	431	705	851	998
Growth	-	63.5%	20.8%	17.2%
Net income (continuing)	276	448	562	673
Growth	-	62.2%	25.7%	19.6%

Source: HSBC estimates

Forecast sensitivity

Volumes and throughput are tested

We have tested the sensitivity of our forecasts, assuming that 60% of costs (excluding depreciation) are fixed. We vary our average tariff (cUSD100) and also throughput, separately and combined. A 1% positive change in tariff, combined with a 1% positive change in throughput results in a 9% change in 2008e EPS (figure 5). Assuming that both movements are positive, tariffs and volumes beat our forecasts; this reduces our 2008e PE from 28.6x to 26.3x.

5. Forecast sensitivity

Variable, USD	Prior 2008e EPS	Revised 2008e EPS	New 2008e PE, x	New 2008e EV/EBITDA, x
1% change in tariff	3.12	3.27	27.2	14.3
1% change in throughput	3.12	3.23	27.5	14.4
1% change in both	3.12	3.39	26.3	14.1

Source: HSBC estimates

Summary valuation

Valuation indicates c18% potential return

Neutral (V)

We value Dubai Ports primarily by discounting our 15-year forecast of net cash. This derives a fair value for the company's fully consolidated terminal operations. Then we apply a group 2008e PE to the JVs and associates to derive a value for these operations where there is limited information on cash flows. We cross-check the results of this method using peer group and recent port transaction multiples.

Our base valuation indicates a target price of USD1.05 per share; this implies a total 12 month return of 18%. For Dubai listed stocks, with a 'volatile' flag, a 12-month potential return between 0.50% and 19.50% attracts a Neutral rating.

Reasons to invest

The bull case

- **Earnings growth**. As discussed above, we forecast healthy growth over the next few years, and our sensitivity analysis indicates that there could be more upside (or downside).
- **Generally defensive industry.** Growth in container handling is sensitive to global and economic conditions. However, there are mitigating factors that help improve the stability of revenues. Terminal operators are paid fees for handling containers whether these are full or empty. Growth in container handling outstrips that of the global economy due to the conversion of carrying general bulk in containers (containerisation). Moreover, specific to the company, DP World has a broad geographical exposure which should help protect against any future downturn in activity.
- **Good contract visibility**. DP World's average terminal *concession*, the contract with the port authority to operate facilities at a port, has 44 years left until expiry. Only 8% of concessions are due to expire in the next 5 years. Generally, terminal operators retain concessions when these come up for renewal.

- **Leading operator.** DP World is the fourth largest operator with c9.4% global market share. It main peers are Hutchinson (HPH), Mærsk's APMT operations and Port of Singapore (figure 6). The company has the fastest projected growth in capacity of its peers according to Drewry (which we discuss in more detail later in the note, see figure 16).

6. Leading global terminal operators (2006)

Rank	Operator	TEUm	Share
1	Hutchison	60.9	13.8%
2	Mærsk (APMT)	52.0	11.8%
3	PSA (Singapore)	47.4	10.7%
6	DP World	41.6	9.4%
5	Cosco	22.0	5.0%
7	Eurogate	11.7	2.7%
8	Evergreen	9.4	2.1%
9	MSC terminals	8.8	2.0%
10	SSA Marine	7.6	1.7%

Note: Data in this table differs slightly from our own analysis for DP World
Source: Drewry

- **Fair geographical spread of activities.** Jebel Ali is clearly a key asset in the company's portfolio. However, DP World's activities still appear fairly broad-based when compared with its peers (figure 7).

7. Throughput handled by global port operators (2006)

% TEU	DP World	Hutchison	PSA	Mærsk (APMT)
Middle East	35%	1%	-	3%
Oceania	9%	-	-	-
Africa	1%	1%	-	5%
Americas	10%	9%	-	37%
South Asia	12%	2%	1%	2%
Europe	13%	26%	17%	26%
Far East/SE Asia	20%	61%	82%	27%

Source: Drewry

- Strong balance sheet fundamentals. Balance sheet gearing is forecast at 34% (excluding operating leases) in 2008e. The company has no contingent liability either on the books or off-balance sheet. DP World quoted debt, which comprises USD3.25bn, attracts investment grade ratings (A1 rating from Moody's and A+ rating from S&P). We forecast that the company should be able to maintain a Net debt/EBITDA rating of approx. 3x 2008-10, including our forecast of USD4.1bn of capital expenditure (2007-10) to meet expansion needs.

- **Experienced management team**. Board members and senior management has on average, 20-25 years of experience in the ports and shipping industry.

- **Earnings momentum**. We forecast 11% CAGR sales 2008-2010, and EBIT and Net income of 15% and 19% respectively. Upside could come from new projects, expansion of existing facilities, accelerated growth in underlying demand and/or increased utilisation (from productivity gains and/or growth). Additional upside to earnings may come from the potential de-pegging of the dirham (AED) to the US dollar, which we discuss in detail later in the note. Figure 8 summarises our forecasts for capacity growth in the next few years.

8. Growth in total gross capacity

TEUm	2007e	2008e	2009e	2010e
Middle East, Europe and Africa	25.8	29.4	33.8	36.7
Growth	14.4%	13.9%	15.0%	8.6%
Asia-Pacific & Indian Subcontinent	23.1	23.1	25.9	30.4
Growth	14%	0.0%	11.9%	17.4%
Australia, NZ & Americas	5.6	5.6	5.6	6.5
Growth	14%	0.0%	0.0%	16.0%
Total	54.5	58.1	65.3	73.6
Growth	14%	6.6%	12.3%	12.7%

Source: HSBC estimates

- **Valuation.** Our core method discounts 15 years of forecast free cash flow. This is 'capacity constrained' - we only assume growth from existing projects or projects already announced. Later in this note we consider the incremental impact of adding additional blocks of 1,000 TEU of capacity. To illustrate, we forecast that when running at normalised group utilisation (c80%), each block of new capacity should generate cUSD30m of additional EBIT pa.

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Risks and concerns

The Bear case

- **Slowdown and dominance of Jebel Ali.** We argue that terminal operations generate generally defensive revenues with good visibility. However, clearly a prolonged global or regional economic downturn could reduce volumes, prompt price competition between trans-shipment ports, or result in delayed or cancelled development projects by joint venture partners. A sharp slowdown in growth at Jebel Ali would clearly have a significant impact on group profits.
- **Execution risk with significant expansion plans.** DP World has expanded rapidly in recent years with acquisition of CSX World Terminals in 2005, and P&O in 2006. These businesses appear to have been integrated successfully, but, in our view, the capacity of management to manage further rapid expansion is a risk.

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Valuation

- Our core method is DCF-based, using detailed explicit forecasts with a group multiple applied to JVs and associates
- TP derived using this method is USD1.05, indicating c18% potential return. Other methods indicate a range of USD0.83-1.14
- We initiate coverage with a Neutral (V) rating

Overview

A mix of DCF, sector and deal multiples

We value DP World using four different methods. Combining a long-range DCF of underlying forecasts and sector and deal multiples. The target price range indicated by this analysis is USD0.83-1.14 per share.

Core method

USD1.05 target price

We discount our 15-year forecasts for net cash flows. This helps to derive a fair value for the company's fully consolidated terminal operations. Then we apply the company's 2008e PE to the JVs and associates to derive a value for these operations. We value these separately as there is limited information on cash flows for these operations.

Conservative method: capacity constrained

Generally, in our underlying forecasts that drive this method, we assume that expiring terminal concessions are extended to the end of our explicit forecasts period and we also include announced expansion of existing facilities and new projects. Our valuation, particularly in later years, is therefore capacity constrained; this is a conservative methodology and should lead to upside if and when new projects are announced.

This method indicates a TP of USD1.05 and is summarised in figure 9.

9. Valuation summary (core method)

Summary results		Assumptions & cost of capital	
USDbn		Growth (CAGR 2008-22e)	
PV of net cash	11.43	Total revenue	6.2%
PV of terminal cash	9.44	EBIT	7.8%
Implied EV (consolidated)	20.86	EBITA margin	38.0%
Value of JVs & Associates	2.57	Net operating cash flow	9.4%
Total EV (Group)	23.43	Average USD/TEU	100
Net debt	-3.07	*Cost of capital:*	
Capitalised leases	-2.22	Country risk free rate	4.0%
Minority interests	-0.71	Country ERP	5.5%
Implied equity value	17.44	Sector beta (adjusted)	1.0
Number of shares, m	16.60	Cost of debt	4.5%
Implied value per share, USD	1.05	Cost of geared equity	11.7%
Current price, USD	0.89	Cost of ungeared equity	9.5%
Target/current price	18.0%	WACC	9.2%
Dividend yield	0.0%	DCF discount rate	9.2%
Total potential 12m return	18.0%	DCF terminal growth	2.0%
Implied 2009e multiples			
PE, x	28.2		
EV/EBIT, x	23.5		
EV/EBITDA, x	16.6		

Source: HSBC estimates

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Other methods give a TP range USD0.83-1.14

We test our core method using 3 other methods:

- **Equity value per TEU.** Here, we value the JVs and associates using equity value per TEU, calculated from the value per TEU for the consolidated terminals, and apply this to unconsolidated capacity. This method gives a target price of USD1.10.
- **Sector PEs.** We apply sector PEs from our analysis of market consensus forecasts, for the airports and ports sectors to DP World's net profits to derive a target price of USD0.83. We have analysed ports sector 1 year forward PEs from 1995-2007. During this period the minimum was 10.3x, the maximum 29.6x and median 20.7x. However, historic sector comparisons are difficult because of the many changes in corporate and reporting structures, new listings and so on.
- **Ports transactions.** Finally, we have looked at the EV/EBITDA multiples from recent and fairly recent transactions in the sector (CSX terminals, P&O, Hutchison disposal of some of its terminal operations to PSA, OOIL asset disposals etc.). We apply these multiples to derive a target price of USD1.14.

All of the methods are summarised in figure 10 below and our detailed base case valuation is shown later (figure 12).

Sensitivity of base case

Indicates a wide variation in valuation

As with our forecasts, we have tested the sensitivity of our target price to changes in volumes and prices, although the outcome is clearly not precisely the same as our DCF is long-range. However, assuming, say, a 2% variation in average tariff and throughput, the resulting valuation range around our mid-point of USD1.05 is USD0.93-1.17 per share (figure 11). At present, pending the company's full year results, we think it is difficult to conclude whether there is good upside to our valuation (or indeed, if we should be being more cautious with our growth assumptions).

10. Summary of valuation methods

Method, USDbn	1. DCF (core)	2. DCF (equity TEU)	3. Sector PE	4. Deal EV/EBITDA
Implied EV for consolidated business	20.9	20.9	17.3	20.6
Equity Value of JVs & Associates	2.6	3.4	2.4	4.3
Total EV (Group)	23.4	24.3	19.7	25.0
EV Adjustments	-6.0	-6.0	-6.0	-6.0
Implied equity value	17.4	18.3	13.7	19.0
Total number of shares, m	16.6	16.6	16.6	16.6
Price per share (USD)	1.05	1.10	0.83	1.14
Sector multiples applied			PE	
Sector 1 - Ports average multiple, x			27.2	
Sector 2 - Airports average multiple, x			24.8	

Note: Sector multiples are shown in the comparatives table at the end of the note.

Source: HSBC estimates

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Neutral (V) rating

18% potential return

To assign a rating for a Dubai listed company, we apply a risk free rate of 4% (due to the pegging of the dirham to the USD) and equity risk premium of 5.5%. Generally, for stocks that have either experienced sharp movements in share price or for recent listings, which is the case for DP World, we classify the stock as volatile and set a hurdle rate of 10% required return over and above the risk free rate and equity risk premium.

Therefore, for example, for DP World to be assigned an Overweight rating our valuation would have to indicate a potential 12-month return above 19.5%. Our target price of USD1.05 against the current share price of USD0.89 indicates c18% return and therefore we assign a Neutral rating, with a volatility flag to indicate the additional risk with the investment case.

11. Sensitivity of our core valuation

USD		Revised TP	%
(A) Change in average tariff	**Base**	**1.05**	
% change in variable	1.0%	1.08	3%
	2.0%	1.12	6%
	5.0%	1.22	16%
	-1.0%	1.02	-3%
	-2.0%	0.98	-6%
	-5.0%	0.88	-16%
(B) Change in throughput	**Base**	**1.05**	
% change in variable	1.0%	1.08	2%
	2.0%	1.10	5%
	5.0%	1.18	12%
	-1.0%	1.03	-2%
	-2.0%	1.00	-5%
	-5.0%	0.92	-12%
(C) Change in tariff & throughput	**Base**	**1.05**	
% change in variable	1.0%	1.11	6%
	2.0%	1.17	11%
	5.0%	1.35	28%
	-1.0%	0.99	-6%
	-2.0%	0.93	-11%
	-5.0%	0.76	-28%

Source: HSBC estimates

12. Detailed DCF valuation to derive target price of USD 1.05 per share

Year to 31 Dec, USDm		2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
Total revenue	USDm	2,793	3,134	3,467	3,984	4,550	5,081	5,473	5,744	5,914	6,048	6,148	6,248	6,335	6,409	6,443
Growth		13%	12%	11%	15%	14%	12%	8%	5%	3%	2%	2%	2%	1%	1%	1%
Adjusted EBIT (with capitalised operating leases, excluding of JVs)	USDm	938	1,080	1,192	1,444	1,693	1,940	2,107	2,224	2,216	2,237	2,237	2,235	2,283	2,257	2,380
Growth		16%	15%	10%	21%	17%	15%	9%	6%	0%	1%	0%	0%	2%	-1%	5%
Margin		34%	34%	34%	36%	37%	38%	39%	39%	37%	37%	36%	36%	36%	35%	37%
Corporate tax rate (for tax shield)		11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Adjusted NOPAT (adjusted for leases)	USDm	835	961	1,061	1,285	1,507	1,727	1,876	1,979	1,972	1,991	1,991	1,989	2,032	2,009	2,118
Growth		3%	15%	10%	21%	17%	15%	9%	6%	0%	1%	0%	0%	2%	-1%	5%
Margin		30%	31%	31%	32%	33%	34%	34%	34%	33%	33%	32%	32%	32%	31%	33%
Adjusted depreciation	USDm	481	535	565	592	617	643	668	687	700	713	726	739	751	764	661
Depreciation/NFR		17%	17%	16%	15%	14%	13%	12%	12%	12%	12%	12%	12%	12%	12%	10%
Net operating cash flow (adjusted)	USDm	1,316	1,496	1,626	1,877	2,124	2,369	2,544	2,666	2,672	2,704	2,716	2,728	2,784	2,773	2,778
Changes in working capital	USDm	-95	-103	-101	-156	-171	-161	-119	-82	-51	-41	-30	-30	-26	-22	-10
Change in WC/NFR		3%	3%	3%	4%	4%	3%	2%	1%	1%	1%	0%	0%	0%	0%	0%
Capex	USDm	-1,500	-800	-750	-600	-600	-600	-600	-400	-400	-300	-300	-300	-300	-300	-300
Capex/NFR		54%	26%	22%	15%	13%	12%	11%	7%	7%	5%	5%	5%	5%	5%	5%
Net Cash (adjusted)	USDm	-279	593	775	1,121	1,353	1,609	1,825	2,185	2,221	2,363	2,386	2,397	2,457	2,451	2,468
Discount factor		92%	84%	77%	70%	65%	59%	54%	50%	45%	42%	38%	35%	32%	29%	27%
Cash pa (adjusted)	USDm	-256	497	596	789	873	951	988	1,083	1,009	983	910	837	786	718	663
Cumulative (adjusted)	USDm	-256	242	837	1,627	2,499	3,450	4,438	5,521	6,530	7,514	8,423	9,261	10,047	10,765	11,428
Terminal Value (adjusted)																9,436
Summary																
Discount rate (WACC)		9.16%														
Terminal value growth		2.0%														
EV of explicit cash forecast	USDm	11,428														
EV of terminal values	USDm	9,436														
Implied EV for consolidated business	USDm	20,863														
Value of JVs & Associates	USDm	2,570														
Total EV (group)	USDm	23,433														
Net cash / debt	USDm	-3,065														
Capitalised leases	USDm	-2,217														
Minority interests	USDm	-711														
Implied equity value	USDm	17,440														
Number of shares	M	16,600														
DCF per share	USD	1.05														
Current share price	USD	0.89														
Potential upside		18.0%														

Source: HSBC estimates

Company analysis

- DP World has impressive capacity expansion plans
- Current average contract concession life is 44 years with only 8% due for renewal in the next five years
- We forecast EBIT CAGR at 15% 2008-2010

Overview & business model

Global operations

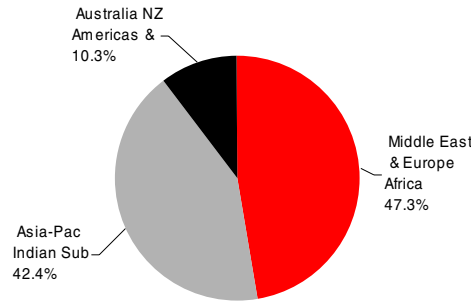
43 terminal operations globally

DP World is the fourth largest operator of container terminals globally, with 43 terminals and 13 new developments across 23 countries. Its main terminal operations are in the Middle East, Europe and Asia Pacific.

In 2007, we estimate that c47% of the total gross throughput (consolidated and unconsolidated terminals), was handled by the terminals in Europe, Africa and Middle East region, c42% in Asia Pacific and India and c10% in the Americas and Australia.

DP World also handles other cargoes through its terminals, mainly general bulk cargos such as coal and iron ore, but it also has some tanker related operations. According to the company, these comprise 15% of total revenues, however, for reporting purposes these are absorbed into the reporting of container handling (figure 13).

13. Throughput (2007e)



Source: HSBC estimates

Comparatively well balanced portfolio…

Each of the main global terminals operators will point to strengths and weaknesses in their activities and business models. DP World arguably has the best balanced geographical spread of activities. Jebel Ali is an important asset but this does not dominate the company's throughput as it appears to do with Hutchison and Hong Kong, or PSA with the Port of Singapore.

DP World also has a broad range of customer relationships, unlike, say Mærsk's APM Terminals, which generate 75% of its business from it sister company Mærsk Line.

….but lack of US exposure is a weakness
However, due to the forced disposal of its US ports assets, its Canadian ports are now its only North American interests.

The terminals business

Simple revenue and profits model:

- Revenues are derived from throughput (TEUs) times average tariff per TEU
- Utilisation equals throughput divided by terminal capacity
- Operating profits are derived as revenues less fixed costs (60%) and variable costs (40%)
- Capital expenditure equals maintenance plus expansion at existing facilities plus new projects and capitalised development costs for unidentified projects

The concessions process
DP World typically signs an agreement with a local port authority (usually a government or government-linked organisation) to develop and operate a terminal operation, and will make lease or fee payments for this concession. In some cases, such as with the new London Gateway terminal, DP World is the freeholder.

Joint venture operations
Many terminals are owned and developed as joint venture operations. This is as governments frequently want to retain a direct interest in these strategic assets. From a terminal operators' perspective, this ownership structure is useful in securing related infrastructure investments, such as road and rail links.

Of DP World's 43 terminal operations, only 23 are fully consolidated. The company's equity stakes vary. For example, in its Chinese terminals it has an average stake of c32% and ranging between 25-67%.

Around 67% of joint venture and associate equity adjusted throughput is in the Asian region, particularly in China, where a high degree of local ownership of operations is usually retained.

Management control is retained by DP World
Crucially, despite varying degrees of ownership, DP World retains management control over all of its operations. For our forecasts, we model consolidated and unconsolidated ports separately.

Our core valuation method values joint ventures and associates separately, to allow investors to identify value in these, and in the core business.

Terminal development
Development of the terminal (the quay, stacking and handling areas, warehouses, cranes and in-land transport connections) will therefore often be shared between the terminal operator, port and local authorities and other investors.

Revenue generation and utilisation
Core revenues are generated through terminal handling and storage. Other revenues are generated from port area logistics, container repair and other sources. The terminal operator will negotiate capacity needs with the container shipping lines, typically on annual basis, and agree charges for the handling of boxes.

Utilisation is a key efficiency metric for most operators. Most terminal operations will hit break-even on their investment at around 35-40% utilisation. The global utilisation rate achieved, according to Drewry, is currently c74.6% (2007e), DP World's current utilisation is c79%.

Container movements

76% of volumes are Origin & Destination
Container flows handled by terminals are typically categorised as origin and destination (O&D) or trans-shipment. O&D containers essentially carry goods that are destined for a market close to the terminal.

Trans-shipment containers are those whose market is not close by. These containers are typically being transferred from one vessel to another (or from one container line to another) for onward shipment.

The crucial difference for the container terminal is that O&D by its nature has to be handled locally and there are therefore limited opportunities for these volumes to be handled by a competitor port. O&D traffic is also less price sensitive. Conversely, trans-shipment can operate more flexibly, with volumes being fairly quickly shifted between markets.

Our understanding, from discussions with management, is that DP World (handling 76% O&D) has a high proportion of O&D traffic compared with its main peers.

Costs

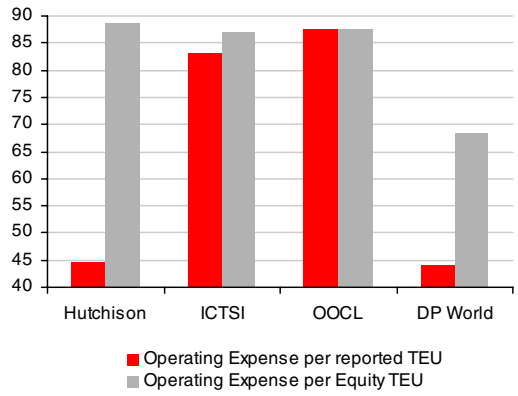
Key costs

The major operating cost is employee costs, which were 47% of the total operating costs in 2006. General and administration expenses contributed 19%, depreciation and amortisation 16% and operating lease expenses 18%.

DP World's cost efficiency compares well

According to analysis by Drewry, DP World's costs per TEU compares well with other operators, though, clearly, these kinds of comparisons can be tricky due to factors such as differences in methods of absorption of overheads and reporting methods (figure 14).

14. Operating cost for global port operators (USD/TEU, 2006)



Source: Drewry

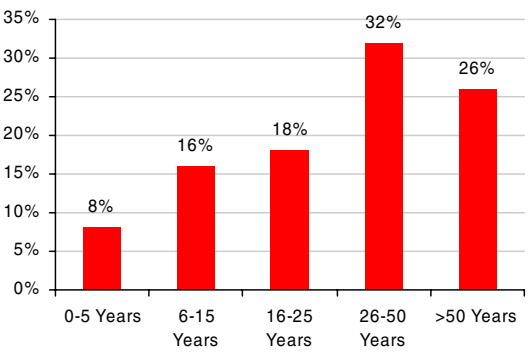
Concessions expiry profile

DP World concession length is impressive

Ports assets are often attractive to investors due to their potentially good visibility and stability of operations and revenues.

DP World has an average concession length of 44 years across its portfolio. These range from c8% of contracts due to expire in the next 5 years, to its 99-year concession at Jebel Ali. A profile of concession expiries is shown in figure 15.

15. Concession profiles for DP World



Source: Company

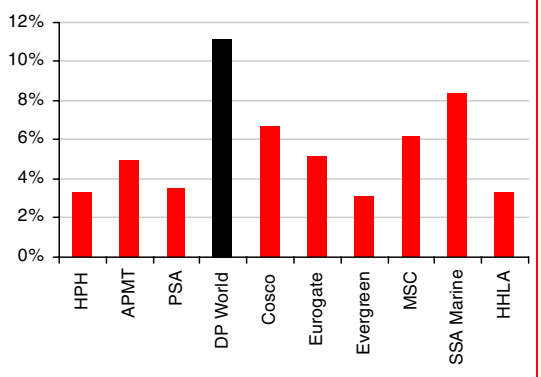
Expansion plans

DP World is the fastest expanding operators

Analysis by Drewry indicates that DP World is due to expand more quickly than its peers 2006-2012e (figure 16).

HSBC

16. Plans for growth in capacity (CAGR, TEU 2006-2012e)



Sources: Drewry, Company

Plans are focused on growth markets

Drewry also indicates that a lack of global capacity will drive up utilisation over the next few years. The indications from this analysis are also that DP World is well positioned to take advantage of growth in the Middle Eastern, Asian and more recently, with acquisitions such as the stakes in Maputo and Matola in Mozambique, African markets (figure 17).

Lack of US assets is a weakness

DP World was forced by the US Government to sell P&O's US ports assets on its takeover of this business. Lack of capacity in one of the key markets globally is clearly a weakness that the company will need to address, if allowed, over time.

Summary forecasts

2008e should see steady growth

We forecast throughput growth to be slower in 2008, increasing c10% on 2007e, but sales should still increase 12.7% to USD2.8bn. We project EBIT to increase c21% with better control of costs (figure 18). Detailed forecasts are shown in figures 19, 20 and 21. Detailed capacity and throughput analysis is shown in figure 22.

18. Summary forecasts and growth

USDm	2006e	2007e	2008e	2009e
Capacity growth (%)	11.2%	14.1%	6.6%	12.3%
Gross throughput (TEUm)	36.5	43.1	47.5	52.7
Throughput growth (%)	18.2%	18.1%	10.2%	10.9%
Sales (USDm)	2,076	2,477	2,793	3,134
Middle East, Europe and Africa	1,133	1,391	1,731	1,870
Asia-Pacific & Indian Sub.	386	453	442	618
Australia, NZ and Americas	537	613	595	616
Other	19	20	25	30
Sales growth (%)		19.3%	12.7%	12.2%
EBIT (inclusive of JVs)	431	705	851	998
Growth		63.5%	20.8%	17.2%
Net income (continuing)	276	448	562	673
Growth		62.2%	25.7%	19.6%

Source: HSBC estimates

Incremental growth

Figure 23 shows the potential impact on our forecasts of increasing capacity in blocks of 1m TEU.

FX issues: de-pegging from the USD

Since November 1997, the dirham has been pegged to the US dollar (USD1 to AED3.6725). It is likely, according to HSBC currency strategists, that the dirham and other pegged Gulf currencies could be re-valued or 'de-pegged' at some stage due to the negative impact on inflation that the depreciating US dollar is having.

17. Industry outlook for throughput, capacity growth and utilisation

Market	DPW market share position	Market throughput growth	Market capacity growth	Capacity utilisation	
		2006-2012e	*2006-2012e*	*2006*	*2012e*
Americas & Caribbean	4	7.0%	3.4%	69.1%	85.2%
Middle East	1	10.2%	5.5%	76.2%	99.0%
Africa	n/a	11.2%	7.0%	77.5%	97.6%
Europe	7	8.7%	3.7%	65.9%	87.6%
Oceania	Top 2	6.2%	0.1%	72.1%	102.3%
South Asia	1	12.0%	6.4%	77.6%	105.4%
Far East & South East Asia	3	10.1%	4.0%	74.7%	105.0%
Global	**4**	**9.3%**	**3.9%**	**71.9%**	**97.5%**

Sources: Company data, Drewry

HSBC

19. Consolidated Income Statement

Year to 31 Dec, USDm	2006	2007e	2008e	2009e	2010e	2011e	CAGR 2008-10e	CAGR 2008-11e
Revenues	2,076	2,477	2,793	3,134	3,467	3,984	11%	8%
Growth		19%	13%	12%	11%	15%	-9%	5%
Staff costs	-792	-834	-880	-934	-991	-1,082	6%	7%
Growth		5%	6%	6%	6%	9%	5%	18%
Other external expenses	-607	-691	-787	-879	-1,013	-1,161	14%	14%
Growth		14%	14%	12%	15%	15%	5%	2%
Share of profit from JVs & Associates	28	64	90	95	111	126	11%	12%
Growth		125%	41%	6%	17%	14%	-36%	-31%
EBITDA inclusive of JVs (excluding non-recurring)	705	1,016	1,216	1,416	1,574	1,868	14%	15%
Growth		44%	20%	16%	11%	19%	-24%	-2%
Margin	34%	40%	42%	44%	44%	45%	-	-
D, A and impairment of P,P&E & intangibles	-274	-311	-364	-418	-448	-475	11%	9%
Growth		14%	17%	15%	7%	6%	-35%	-29%
EBIT inclusive of JVs (excluding non-recurring)	431	705	851	998	1,126	1,393	15%	18%
Growth		63%	21%	17%	13%	24%	-21%	5%
Margin	20%	28%	30%	31%	31%	34%	-	-
EBIT inclusive of JVs (reported)	296	705	851	998	1,126	1,393	15%	18%
Growth		138%	21%	17%	13%	24%	-21%	5%
Margin	14%	28%	30%	31%	31%	34%	-	-
Financial income/Expenses	-305	-202	-219	-242	-236	-216	4%	0%
Growth		-17%	9%	10%	-2%	-8%	-	-
PBT (excluding non-recurring)	187	503	632	756	890	1,177	19%	23%
Growth		169%	26%	20%	18%	32%	-17%	8%
Total Tax for the year	97	-72	-70	-83	-98	-129	19%	23%
Rate	-43%	11%	11%	11%	11%	11%	0%	0%
Net profit for the year (excluding non-recurring)	276	448	562	673	792	1,047	19%	23%
Growth	14%	62%	26%	20%	18%	32%	-17%	8%
Minority interests	29	42	45	54	55	84	11%	23%
Growth		45%	8%	20%	3%	51%	-40%	82%
Net profit for shareholders	248	406	517	619	737	963	19%	23%
Growth		64%	27%	20%	19%	31%	-17%	4%
Margin	12%	16%	18%	19%	21%	23%	7%	9%
Net profit for shareholders (total including discontinued)	59	1,160	518	619	737	964	19%	23%
Growth		1858%	-55%	20%	19%	31%	-	-
Margin	3%	46%	18%	19%	21%	23%	7%	9%
EPS Basic (HSBC), USD cents	-	2.45	3.12	3.73	4.44	5.80	19%	23%
Growth			27.4%	19.6%	19.1%	30.8%	-17%	4%
EPS Diluted (HSBC), USD cents	-	2.45	3.12	3.73	4.44	5.80	19%	23%
Growth			27.4%	19.6%	19.1%	30.8%	-17%	4%
DPS	-	-	0.62	0.75	0.89	1.16	19%	23%
Growth				19.6%	19.1%	30.8%	-	-
Cover			5.0	5.0	5.0	5.0	-	-

Source: HSBC estimates

HSBC

20. Cash Flow Statement

Year to 31 Dec, USDm	2006	2007e	2008e	2009e	2010e	2011e	CAGR Growth 2008-10e	CAGR Growth 2008-11e
PBT from continuing operations	187	503	632	756	890	1,177	19%	23%
Adjustments	521	513	584	660	684	691	8%	6%
Change in working capital	-549	760	-553	-574	-587	-674	3%	7%
Net cash from operating activities	159	1,777	663	841	987	1,194	22%	22%
Purchase of PPE	-713	-950	-1,300	-600	-550	-500	-	-
Other investments	10	-363	-200	-200	-200	-100	-	-
Proceeds from disposals	46	1,577	-	-	-	-	-	-
Cash flow from other investing activities	-6,556	186	169	146	152	172	-	-
Net cash used in investing activities	-7,212	450	-1,331	-654	-598	-428	-33%	-31%
Net Loan (total of addition and payments)	4,393	-2,000	-	-	-	-	-	-
Total dividend payments (to minority and other shareholders)	-27	-37	-144	-172	-197	-268	-	-
Others (including contribution from parent company)	4,002	-	-	-	-	-	-	-
Net cash flow from financing activities	8,368	-2,037	-144	-172	-197	-268	17%	23%
Net increase / (decrease) in cash for the year	1,316	189	-813	15	192	498	-51%	-185%
Foreign exchange transactions and other adjustments	1,611	-	-	-	-	-	-	-
Opening cash balance	250	3,177	3,367	2,554	2,569	2,762	-13%	-6%
Closing cash	3,177	3,367	2,554	2,569	2,762	3,259	4%	8%

Source: HSBC estimates

21. Consolidated Balance Sheet

Year to 31 Dec, USDm	2006	2007e	2008e	2009e	2010e	2011e	CAGR Growth 2008-10e	CAGR Growth 2008-11e
Property, plant and equipment	3,055	3,451	4,346	4,487	4,549	4,534	2%	1%
Intangible assets	6,360	5,796	5,837	5,877	5,918	5,957	1%	1%
Financial and other assets	4,093	3,378	3,578	3,778	3,978	4,078	5%	4%
Total non-current assets	13,508	12,625	13,761	14,143	14,445	14,569	2%	2%
Trade receivables	585	698	786	883	976	1,122	11%	13%
Spare parts, supplies and fuel	43	52	58	65	72	83	11%	13%
Deferred income taxes	19	19	19	19	19	19	-	-
Prepaid expenses and other	137	137	137	137	137	137	-	-
Cash and cash equivalents	3,178	3,367	2,554	2,569	2,762	3,259	4%	8%
Total current assets	3,961	4,272	3,555	3,674	3,967	4,621	6%	9%
Total assets	17,470	16,897	17,316	17,816	18,411	19,190	3%	3%
Borrowings	5,422	5,422	5,422	5,422	5,422	5,422	-	-
Deferred tax liabilities	1,277	1,277	1,277	1,277	1,277	1,277	-	-
Other non current liabilities	275	275	275	275	275	275	-	-
Total non-current liabilities	6,974	6,974	6,974	6,974	6,974	6,974	-	-
Trade payables	709	846	846	846	846	846	-	-
Other payables and accruals	138	264	264	264	264	264	-	-
Borrowings	8,330	197	197	197	197	197	-	-
Total current liabilities	9,177	1,308	1,308	1,308	1,308	1,308	-	-
Total liabilities	16,151	8,282	8,282	8,282	8,282	8,282	-	-
Share capital	617	5,909	6,323	6,818	7,408	8,179	8%	9%
Reserves	0	2,000	2,000	2,000	2,000	2,000	-	-
Total share capital and reserves	617	7,909	8,323	8,818	9,408	10,179	6%	7%
Minority interests	702	706	711	716	722	730	1%	1%
Total equity & minority	1,319	8,615	9,034	9,535	10,130	10,909	6%	6%
Total liabilities and equity	17,470	16,897	17,316	17,816	18,411	19,190	3%	3%

Source: HSBC estimates

22a. Operating statistics for global terminal portfolio

Year to 31 Dec	2005	2006	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	CAGR 2008-10e	CAGR 2008-13e	CAGR 2008-15e
Gross capacity (TEUm)														
Middle East, Europe and Africa	18.9	22.6	25.8	29.4	33.8	36.7	41.0	44.2	47.4	51.4	53.5	11.7%	10.0%	8.9%
Asia-Pacific and Indian Subcontinent	19.8	20.3	23.1	23.1	25.9	30.4	34.9	38.3	40.2	40.6	40.6	14.6%	11.7%	8.4%
Australia, New Zealand and Americas	4.3	4.9	5.6	5.6	5.6	6.5	7.0	7.7	8.8	9.3	9.9	7.7%	9.2%	8.3%
Total gross capacity	43.0	47.8	54.5	58.1	65.3	73.6	82.9	90.1	96.3	101.2	103.9	12.5%	10.6%	8.6%
Growth		11.2%	14.1%	6.6%	12.3%	12.7%	12.6%	8.7%	6.9%	5.1%	2.6%			
Gross throughput (TEUm)														
Middle East, Europe and Africa	14.7	17.1	20.3	24.5	27.5	29.7	33.3	36.9	39.7	43.1	45.4	10.2%	10.2%	9.2%
Asia-Pacific and Indian Subcontinent	12.6	15.5	18.1	18.4	20.5	24.5	28.2	32.3	34.6	35.7	36.5	15.3%	13.4%	10.2%
Australia, New Zealand and Americas	3.6	4.0	4.7	4.6	4.7	5.4	5.8	6.5	7.5	8.1	8.7	7.6%	10.3%	9.4%
Total gross throughput	30.9	36.5	43.1	47.5	52.7	59.6	67.4	75.7	81.8	86.9	90.5	12.0%	11.5%	9.6%
Growth		18.2%	18.1%	10.2%	10.9%	13.0%	13.1%	12.4%	8.0%	6.3%	4.1%			
Gross utilisation (%)														
Middle East, Europe and Africa	77.7%	75.9%	78.8%	83.3%	81.3%	80.9%	81.2%	83.5%	83.9%	84.0%	84.9%	-1.4%	0.1%	0.3%
Asia-Pacific and Indian Subcontinent	63.6%	76.1%	78.5%	79.8%	79.2%	80.8%	81.1%	84.4%	86.0%	88.0%	90.0%	0.6%	1.5%	1.7%
Australia, New Zealand and Americas	84.2%	80.3%	83.2%	82.2%	84.4%	82.1%	83.0%	84.8%	86.2%	87.3%	88.0%	-0.1%	0.9%	1.0%
Total utilisation	71.9%	76.5%	79.1%	81.8%	80.8%	81.0%	81.3%	84.0%	84.9%	85.9%	87.2%			
Gross capacity (TEUm) for consolidated ports														
Middle East, Europe and Africa	13.4	16.1	18.9	22.5	25.1	27.0	31.4	34.6	37.3	39.8	40.4	9.6%	10.7%	8.7%
Asia-Pacific and Indian Subcontinent	5.5	5.5	6.3	6.3	8.9	10.3	11.7	13.1	14.8	14.9	14.9	28.4%	18.7%	13.2%
Australia, New Zealand and Americas	3.6	3.8	4.5	4.5	4.5	5.4	5.9	6.5	7.1	7.4	7.7	9.6%	9.8%	8.1%
Total gross capacity for consolidated ports	22.4	25.3	29.6	33.2	38.4	42.6	48.9	54.2	59.1	62.0	62.9	13.4%	12.3%	9.6%
Growth		13.0%	17.0%	12.2%	15.8%	10.9%	14.8%	10.7%	9.1%	4.9%	1.4%			
Gross throughput (TEUm) for consolidated ports														
Middle East, Europe and Africa	10.8	12.5	14.9	18.7	20.5	22.0	26.1	29.2	31.7	34.3	35.6	8.4%	11.1%	9.6%
Asia-Pacific and Indian Subcontinent	3.9	4.7	5.4	5.2	7.0	8.2	9.5	10.9	12.4	12.8	13.0	26.3%	19.2%	14.1%
Australia, New Zealand and Americas	3.1	3.4	3.9	3.8	3.9	4.4	4.9	5.5	6.2	6.5	6.8	8.6%	10.3%	8.9%
Total gross throughput for consolidated ports	17.8	20.7	24.2	27.7	31.4	34.7	40.4	45.7	50.3	53.6	55.5	11.9%	12.7%	10.4%
Growth		16.1%	17.1%	14.3%	13.6%	10.3%	16.5%	13.1%	10.1%	6.6%	3.5%			
% Utilisation for consolidated ports														
Middle East, Europe and Africa	80.8%	78.1%	79.1%	83.5%	81.9%	81.6%	83.1%	84.5%	85.1%	86.2%	88.3%	-1.1%	0.4%	0.8%
Asia-Pacific and Indian Subcontinent	72.0%	87.0%	86.1%	82.4%	79.1%	79.8%	80.8%	83.5%	84.1%	86.2%	87.5%	-1.6%	0.4%	0.9%
Australia, New Zealand and Americas	87.3%	90.3%	88.3%	84.8%	86.9%	83.1%	83.2%	85.2%	86.6%	88.0%	88.9%	-1.0%	0.4%	0.7%
Total utilisation	79.7%	81.9%	81.9%	83.5%	81.8%	81.4%	82.6%	84.3%	85.1%	86.4%	88.2%			
Average tariff (USD / TEU) - consolidated														
Middle East, Europe and Africa	-	90.3	93.3	92.3	91.1	91.1	89.1	89.7	90.4	91.0	92.1	-1%	0%	0%
Asia-Pacific and Indian Subcontinent	-	81.5	84.2	85.8	87.8	90.1	92.1	94.3	95.9	97.0	98.0	2%	2%	2%
Australia, New Zealand and Americas	-	158.6	156.0	157.6	159.3	155.0	154.7	155.3	159.4	163.6	166.9	-1%	0%	1%
Average tariff	-	99.5	101.4	100.0	98.8	99.0	97.7	98.8	100.2	101.3	102.7	-1%	0%	0%

Source: HSBC estimates

HSBC

22b. Operating Statistics for global terminal portfolio

Year to 31 Dec	2005	2006	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	CAGR 2008-10e	CAGR 2008-13e	CAGR 2008-15e
Revenue generating capacity (TEUm) for consolidated ports (EI adjusted)														
Middle East, Europe and Africa	10.1	11.8	14.1	17.9	19.3	20.5	23.8	26.5	28.7	31.0	32.2	6.9%	9.9%	8.7%
Asia-Pacific and Indian Subcontinent	3.3	3.9	4.5	4.3	5.4	6.1	6.9	7.9	8.9	9.2	9.3	19.1%	15.6%	11.6%
Australia, New Zealand and Americas	2.7	3.0	3.5	3.4	3.5	3.8	4.1	4.7	5.3	5.7	6.0	6.0%	9.2%	8.5%
Total revenue generating capacity	16.1	18.7	22.2	25.6	28.2	30.4	34.8	39.1	42.9	45.9	47.5	8.9%	10.9%	9.2%
Revenue generating capacity (TEUm) for unconsolidated ports (EI adjusted)														
Middle East, Europe and Africa	0.7	1.0	1.3	1.3	1.9	2.2	2.1	2.3	2.4	2.8	3.2	30.0%	12.6%	13.6%
Asia-Pacific and Indian Subcontinent	2.9	3.7	4.3	4.5	4.5	5.5	6.3	7.1	7.3	7.6	7.8	10.7%	10.4%	8.2%
Australia, New Zealand and Americas	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.6	0.7	3.5%	10.9%	11.6%
Total revenue generating capacity	3.9	5.0	5.9	6.1	6.8	8.1	8.8	9.7	10.3	11.0	11.7	14.7%	10.9%	9.7%
Growth		28.6%	18.6%	4.3%	10.5%	19.2%	9.2%	10.2%	5.9%	7.4%	6.2%			
Total revenue for consolidated ports (USDm)														
Middle East, Europe and Africa	-	1,133	1,391	1,731	1,870	2,004	2,324	2,620	2,869	3,118	3,282	7.6%	10.6%	9.6%
Asia-Pacific and Indian Subcontinent	-	386	453	442	618	741	870	1,031	1,190	1,243	1,273	29.4%	21.9%	16.3%
Australia, New Zealand and Americas	-	537	613	595	616	689	753	859	981	1,069	1,143	7.7%	10.5%	9.8%
Other Revenue	-	19	20	25	30	33	36	40	42	44	46	14.9%	10.9%	9.2%
Total revenue (USDm)	-	2,076	2,477	2,793	3,134	3,467	3,984	4,550	5,081	5,473	5,744	11.4%	12.7%	10.9%
Growth	-		19.5%	12.6%	12.2%	10.6%	15.0%	14.2%	11.7%	7.7%	4.9%			
% Growth in gross capacity (TEUs) for consolidated ports														
Middle East, Europe and Africa	-	20%	17%	19%	12%	8%	16%	10%	8%	7%	2%			
Asia-Pacific and Indian Subcontinent	-	0%	15%	0%	42%	16%	14%	12%	13%	1%	0%			
Australia, New Zealand and Americas	-	6%	19%	0%	0%	20%	9%	11%	9%	5%	4%			
Total gross capacity	-	13%	17%	12%	16%	11%	15%	11%	9%	5%	1%			
% Growth in gross throughput (TEUs) for consolidated ports														
Middle East, Europe and Africa	-	16%	19%	26%	9%	7%	18%	12%	9%	8%	4%			
Asia-Pacific and Indian Subcontinent	-	21%	14%	-4%	37%	17%	15%	16%	13%	3%	1%			
Australia, New Zealand and Americas	-	9%	16%	-4%	3%	15%	9%	14%	11%	6%	5%			
Total gross capacity	-	16%	17%	14%	14%	10%	16%	13%	10%	7%	3%			
% Growth in revenue generating capacity (TEUs) for consolidated ports (EI adjusted)														
Middle East, Europe and Africa	-	17%	20%	27%	7%	6%	16%							
Asia-Pacific and Indian Subcontinent	-	19%	15%	-4%	26%	13%	13%							
Australia, New Zealand and Americas	-	9%	17%	-4%	2%	10%	8%							
Total revenue generating capacity	-	16%	19%	16%	10%	8%	14%							
Percentage change in utilisation for consolidated ports														
Middle East, Europe and Africa	-	-3%	1%	4%	-2%	0%	2%							
Asia-Pacific and Indian Subcontinent	-	15%	-1%	-4%	-3%	1%	1%							
Australia, New Zealand and Americas	-	3%	-2%	-4%	2%	-4%	0%							
% of revenue generating capacity (total)	-	2%	0%	2%	-2%	0%	1%							
% growth in total revenue from volumes														
Middle East, Europe and Africa	-	-	23%	24%	8%	7%	16%							
Asia-Pacific and Indian Subcontinent	-	-	17%	-2%	40%	20%	17%							
Australia, New Zealand and Americas	-	-	14%	-3%	4%	12%	9%							
Total across regions	-	-	19%	13%	12%	11%	15%							
% change in operating cost per throughput			-6%	-3%	-3%	0%	-5%							
% change in average tariff	-	-												
Middle East, Europe and Africa	-	-	3.4%	-1.0%	-1.5%	-0.3%	-2.0%							
Asia-Pacific and Indian Subcontinent	-	-	3.3%	2.0%	2.2%	2.7%	2.2%							
Australia, New Zealand and Americas	-	-	-1.6%	1.0%	1.1%	-2.7%	-0.2%							
Average tariff for full operations	-	-	2.0%	-1.4%	-1.4%	0.2%	-1.2%							

Source: HSBC estimates

HSBC

23. Incremental growth: theoretical potential uplift to profits and returns from adding 1m TEU

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Initial Investment	USDm	138	138								
Cumulative invested capital		138	276	276	276	276	276	276	276	276	276
Capacity addition	TEU000s			1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Utilisation	%			45%	50%	55%	68%	74%	78%	84%	88%
Throughput	TEU000s			450	500	550	680	740	780	840	880
Average Revenue / TEU	USD	100	99	99	98	99	100	101	103	104	104
Operating cost / TEU	USD	73	71	71	67	66	66	66	67	68	69
Cost at EBITDA level / TEU	USD	60	58	58	56	55	56	56	56	58	59
Total revenue	USDm			44.6	48.9	54.3	68.2	75.0	80.1	87.1	91.8
Operating Cost	USDm			31.8	33.6	36.5	44.9	48.9	52.0	57.5	61.0
EBIT	USDm			12.7	15.2	17.8	23.3	26.0	28.1	29.6	30.7
EBIT Margin	%			29%	31%	33%	34%	35%	35%	34%	34%
EBITDA	USDm			18.6	21.1	23.8	30.4	33.7	36.2	38.2	39.9
EBIT Margin	%			42%	43%	44%	45%	45%	45%	44%	43%
Tax %		11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Tax	USDm			1.40	1.68	1.96	2.56	2.86	3.09	3.25	3.38
NOPAT				11.3	13.6	15.8	20.7	23.2	25.0	26.3	27.4
Invested Capital (after depreciation)		138	276	267	258	250	243	235	228	221	214
ROIC				4.3%	5.2%	6.3%	8.5%	9.9%	11.0%	11.9%	12.8%
WACC		9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%

Source: HSBC estimates

HSBC

Risks

Downside risks:

- **Global slowdown.** We argue that terminal operations generate generally defensive revenues, however, clearly a prolonged global or regional economic downturn, particularly in the Middle East, could reduce volumes, prompt strong price competition between trans-shipment ports, or result in delayed or cancelled development project by joint venture partners.
- **Financing risk.** Ability to obtain required external financing to fund existing and future operations is a risk. Although, from recent debt re-financing, DP World appears to have no problem in doing this currently.
- **Cost inflation.** Staff costs are rising quickly in many markets, particularly in the Middle East, this could impact our earnings forecasts.
- **Execution risk.** Ability to integrate newly-acquired operations whilst maintaining margins and returns in the core business.
- **Political risk.** Changes in political, social, legal or economic conditions in the markets in which the company operates.
- **Planning and regulatory risk.** Ability to obtain government or regulatory approvals to undertake planned terminal development projects.
- **Concession renewal.** Ability to secure or renew concessions at future or existing facilities. As we have discussed, this risk appears fairly limited.
- **Currency.** Fluctuations in the currency exchange rates in the markets in which the company operates. Most transactions are conducted in USD or USD-pegged currencies.
- **Ownership and control.** Actions taken by JV partners may not coincide with the company's objectives. Although the company has management control over all of its operations and so this risk may be considered limited.
- **Free float.** Actions taken by controlling shareholder, Dubai World Corporation may conflict with the interests of the company or other shareholders.
- **Management capacity.** Rapid growth might strain management capabilities and undermine core operations.
- **Antitrust**. Competition restrictions in the countries in which DP World operate may limit the growth and subject the company to antitrust and other investigations.
- **Customer concentration.** DP World is dependent on a small number of customers for a significant portion of business. Around five customers account for c42% of gross throughput. However, we note that given the highly consolidated market for terminals operators and container shipping lines, this degree of concentration risk is difficult to avoid.

Upside risks:

- **Conservative forecasts.** We believe that our forecasts are conservative. Research coverage of DP World has only recent started and so we think that consensus forecasts may take time to settle. Nonetheless, our analysis indicates that our forecasts are lower than the current consensus. Upside may flow from better throughput/utilisation, better average tariffs, control of costs and so on (figure 24).

24. HSBC vs consensus

% difference from market median	2008e	2009e
Income	-2.0%	-3.1%
EBITDA	-2.9%	-5.6%
EBIT (continuing)	-6.2%	-11.2%

Source: Bloomberg

- **De-pegging of the dirham**. As discussed, it is likely, according to HSBC currency strategists, that the dirham and other pegged Gulf currencies could be re-valued or 'de-pegged' at some stage due the negative impact on inflation that the depreciating US dollar is having.

Market analysis

- Terminal container handling is a growth industry, outpacing GDP
- We forecast some slowing of volume growth in 2008 to 9.7% against the 1991-2006 CAGR of c10.6%
- Medium term dynamics remain positive due to under-penetration of many emerging markets and low projected capacity growth

Global container market

Overview

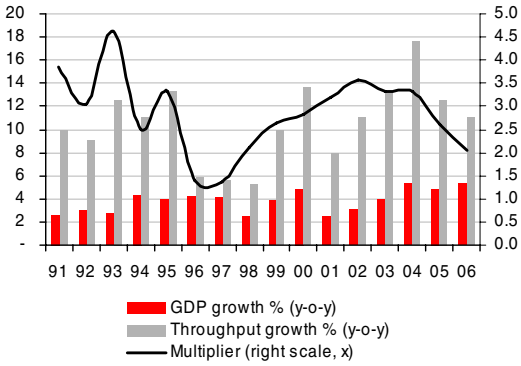
Major global industry

Container flows are driven by economic growth, changing patterns of trade and also conversion – *containerisation* - of general cargos. Around 500m TEUs are handled by the terminals industry globally. Assuming USD100 per box handling fee (as a rough guide), this suggests that the global container ports industry might generate USD50bn in annual sales.

Container handling has outstripped GDP

Historically, growth in the TEUs handled has increased each year by c3x global GDP.
This is due to growth in global trade, growth in trans-shipment and also due to containerisation (figure 25).

25. Global GDP, growth in container handling and the multiplier



Sources: Bloomberg, Drewry, HSBC, Containerisation International

Individual operators can accelerate growth

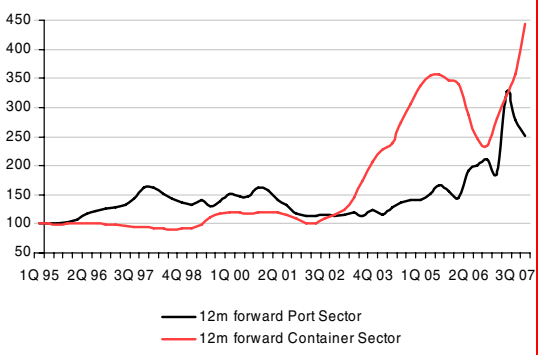
Accelerated growth for individual operators has come from consolidation, expansion of existing facilities, efficiency gains, market share shift (particularly with trans-shipment) or development of new facilities. Moreover, many ports facilities or operations are still owned by governments or local authorities, these are steadily being privatised, bringing new development opportunities.

Sector earnings comparatively stable

More stable than for liners

Our analysis of earnings for ports companies versus the liner companies, over the cycle, indicates that these are more stable, though clearly they still do vary. Recent volatility in ports earnings appears due to inclusion of new listings such as DP World (figure 26).

26. Earnings over the cycle: Ports versus Containers (indexed)



Source: Bloomberg

Market shares

A consolidating sector

Global terminal operators dominate the market with the top 5 handling c50% of total global throughput. Figure 27 shows gross throughput market shares. These gross volumes are not equity adjusted for joint ventures; if adjusted for joint ventures the market share of the top 5 operators falls to c31%.

27. Global ports market shares

Ranking		Operator	2006		2005	
2006	2005		TEUm	Share	TEUm	Port share
1	1	Hutchison	60.9	13.8%	51.8	13.0%
2	2	Mærsk	52.0	11.8%	38.8	9.7%
3	3	PSA	47.4	10.7%	40.3	10.1%
4	6	DP World	41.6	9.4%	11.3	2.8%
5	5	Cosco	22.0	5.0%	14.7	3.7%
6	7	Eurogate	11.7	2.7%	11.2	2.8%
7	8	Evergreen	9.4	2.1%	8.7	2.2%
8	9	MSC terminals	8.8	2.0%	7.8	2.0%
9	10	SSA Marine	7.6	1.7%	7.3	1.8%
10	11	HHLA	6.6	1.5%	6.0	1.5%

Note: Data in this table differs slightly from our own analysis for DP World.

Source: Drewry

The pace is likely to increase

Given the often substantial capital requirements for development of these operations, complex planning rules and increasingly specialist skills required to develop and manage new terminals, we think that consolidation is likely to continue apace in the next few years.

Barriers to competitor entry

These are potent

Terminal operations enjoy fairly considerable barriers to entry. We think this is part of the reason that the sector is becoming increasingly consolidated. Barriers to entry include:

- **Land use.** Availability of suitable land and locations for operations, with sufficient navigation and draft to handle container vessels (which are increasing in size).
- **Capital investment.** The high costs of initial construction and development are a potent barrier. This is not just the physical assets but also increasingly the development and application of advanced technologies, for example, IT used for crane handling systems.
- **Relationships with government.** Development of a new terminal or extension is frequently a politically high profile project, requiring complex planning approvals. We think that this tends to favour larger

operators with the skills, experience and resources to negotiate complex agreements, often over many years.

- **Inland transport.** Related to the above point, suitable landside transport connections (eg, road and rail links) or commitment of a local authority or other partner to invest, often require significant resources (political and economic) to secure.
- **Planning processes.** Length of planning and environmental approvals processes, particularly in Europe and North America where the average development period for a new terminal is between 10 and 12 years.

Sector growth forecasts

Volumes have increased by over 10% CAGR

Ports operations are an integral part of the global supply chain, and we think that the macro context and its impact on the supply chain is an important part of the assessment of the DP World investment case.

We calculate, from data provided by Drewry and Containerisation International, that container handling increased by a CAGR of 10.63% 1991-2006. In the next sections we consider the outlook for growth.

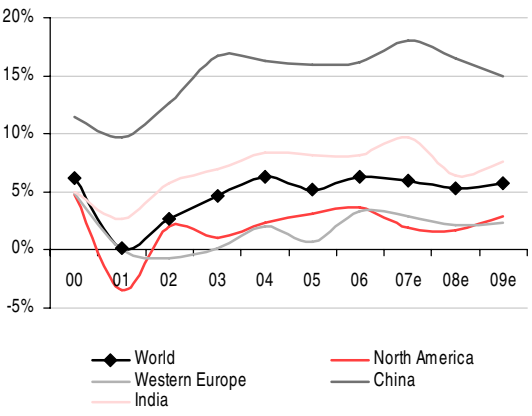
Macro context

Downturn in 2008 followed by recovery

Demand for supply chain services is primarily driven by economic growth and levels of industrial production. HSBC economists forecast that global industrial production will slow in 2008, before making a small recovery in 2009.

Clearly the potential positive impact on the US (and global) economy of the recent Fed rate cuts and other measures will take time to feed through and may increase our forecasts (figure 28).

28. Forecast changes in annual industrial production



Note: at the time of writing 2007 is still an estimate

Source: HSBC economists

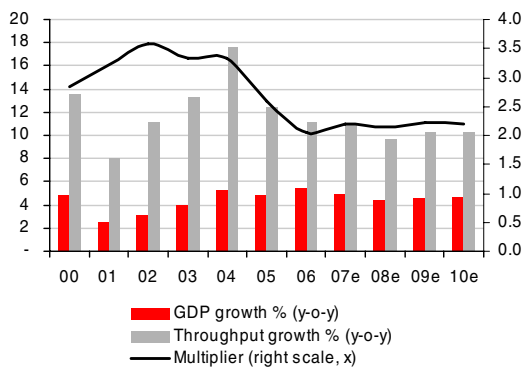
Container sector growth

Forecasts for the sector

We have translated this macro view into forecasts for container handling. We think that growth globally will slow to 9.7% y-o-y in 2008e from 11% in 2007e, before recovering to 10.2% in 2009e.

Hence, for both years, we forecast growth to be *below* the long-run trend. We expect the GDP multiplier to be c2.2x (figure 29).

29. Growth in container handling



Sources: Drewry, HSBC estimates

Our forecasts vs Drewry: broadly similar

Drewry is probably the main specialist forecaster in the market and they project CAGR growth of 9.3% between 2006 and 2012 (source: Annual Review of Global Container Operators 2007). This is broadly similar to our forecast.

Growth versus capacity: shortfall

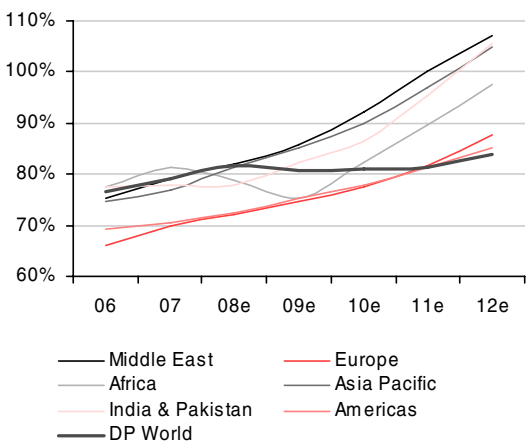
As we showed earlier, although demand growth is likely to slow (but remain above c9%) capacity growth is forecast, by Drewry, to increase at just CAGR 3.9% 2006-2012.

Hence, utilisation should increase

More capacity is clearly needed globally. This capacity shortfall, with all other factors being equal, should result in utilisation rising.

Drewry forecast that utilisation will increase globally from 72% in 2006, to 97.5% in 2012. We forecast that DP World's average utilisation will rise from average 81.8% to 84% in 2008-2012 but for some of its ports such as Jebel Ali, (where we are assuming no further growth in capacity beyond announced plans) this will be much higher. Figure 30 shows utilisation by region and for DP World.

30. Capacity utilisation, by region and for DP World



Source: Drewry

Market penetration

Emerging market 'use' of container is limited

We have analysed market penetration of use of containers. In key markets (China, India etc.) penetration per capita is low, GDP is rising quickly and consumer markets are developing quickly. DP World's capacity expansion plans are focused on many of these emerging markets (figure 31).

HSBC

31. Market penetration of containers

	Country	TEUm handled 2006	Population (m)	TEU per capital (000)	GDP (PPP) USD bn
1	China	104.2	1,314	79	10,147
2	United States of America	38.7	300	129	12,955
3	Singapore	25.6	4	5,798	148
4	Japan	16.3	128	128	4,156
5	Korea	15.2	48	314	1,163
6	Germany	13.3	82	162	2,583
7	Malaysia	13.2	26	499	316
8	Taiwan	13.1	23	573	702
9	Spain	11.1	44	251	1,232
10	Netherlands	9.7	16	591	604
11	Dubai	8.9	4	2,110	144
12	Belgium	8.7	11	820	368
13	Italy	8.0	58	138	1,809
14	Thailand	5.6	66	85	605
15	India	5.0	1,113	4	4,232
16	Australia	4.5	21	219	682
17	Indonesia	3.6	222	16	967
18	Philippines	3.1	87	35	467
19	Turkey	2.9	73	40	671
	Others	131.0	2,805	47	23,111
	Global	441.0	6,446	68	67,062

Sources: Containerisation International, IMF, HSBC

HSBC

Company background

- Origins in Dubai, listed on DIFX in November 2007
- Expanding global network of terminals
- Experienced management team

History

Origins in Dubai

From Port Rashid to major regional hub

DP World's origins are in its Dubai operations. Port Rashid, the 'old port', was established in 1972 and its flagship Jebel Ali Port started operations in 1979. In 1991, both of these ports were combined under common control of the newly formed Dubai Ports Authority as a part of strategy to create the key hub in the region.

In 1999, a separate wholly owned subsidiary was formed, Dubai Ports International FZE, to manage and operate container terminals and other facilities outside of Dubai. Its first international project was at Jeddah Islamic Port, Saudi Arabia. By the end of 2004, the company operated container terminals in five countries.

Global expansion in 2005 and 2006

In February 2005, DP World started international expansion with the acquisition of CSX World Terminals (CWT) from CSX Corporation. CWT was a leading container terminal with operations in Asia, Australia, Europe and North America. The CWT acquisition added 10 terminals and developments, including new projects in Pusan, South Korea and Qingdao, China.

In 2006, DP World acquired P&O, the UK headquartered ports and shipping company. P&O added 37 terminals and/or projects and added a strong presence in Asia, Australia, India, Europe, Americas and Africa. DP World sold its US ports assets (New York, New Jersey, Philadelphia, Baltimore, New Orleans, and Miami) in March 2007 on the instruction of US authorities. Apart from ports, P&O had significant operations in ferries and property (these operations are not held within the DP World listed entity).

IPO and structure

Listed on DIFX in November 2007

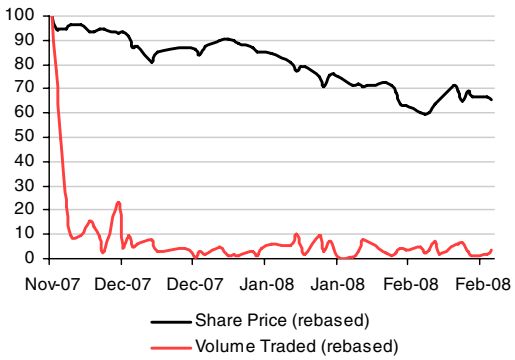
DP World listed on the Dubai International Financial Exchange (DIFX) on 26 November 2007, at the price of USD1.30, raising USD4.96bn for its parent company. The IPO was 15x oversubscribed.

Free float is c23%

The Government of Dubai (though Dubai World Corporation and Port & Free Zone World FZE) owns 77% of DP World. The free float is c23% with over 90% of this held by institutional investors, the remainder is owned by retail investors.

Share price performance has been weak since the IPO and volumes traded have been comparatively light (figure 32).

32. Share price performance and daily volumes



Source: Thomson Financial Datastream

Management

Chairman

Sultan Ahmed Bin Sulayem

- A leading businessman in the region with interests across a range of sectors including real estate, commodities exchanges, retail and transport and logistics operations
- Member of the Board of Executive Council, Government of Dubai
- 25 years of experience in transport & logistics industry.

Selected senior managers

Mohammed Sharaf (CEO):

- CEO since 2005
- Joined DPA in 1992 holding a number of senior positions at the Port of Dubai including Commercial Director and Managing Director
- More than 20 years of experience in transport & logistics industry.

Yuvraj Narayan (CFO):

- CFO since 2005
- Joined DP World in 2004
- Previous roles include ANZ group's head of Corporate and Project Finance for South Asia and CFO at Salalah Port services in Oman
- 23 years of experience in ports and international banking sectors.

Anil Wats (Executive VP and COO):

- Joined DP World in 2003 as global commercial director
- Started career with Sealand where he served as CEO responsible for Middle East and Indian operations. Following the acquisition of Sealand by Mærsk he was appointed CEO for APM group activities for Indonesia and UAE
- More than 25 years experience in shipping and logistics.

Figure 33 shows comparative metrics for global ports companies and figure 34 DP World's main terminal interests.

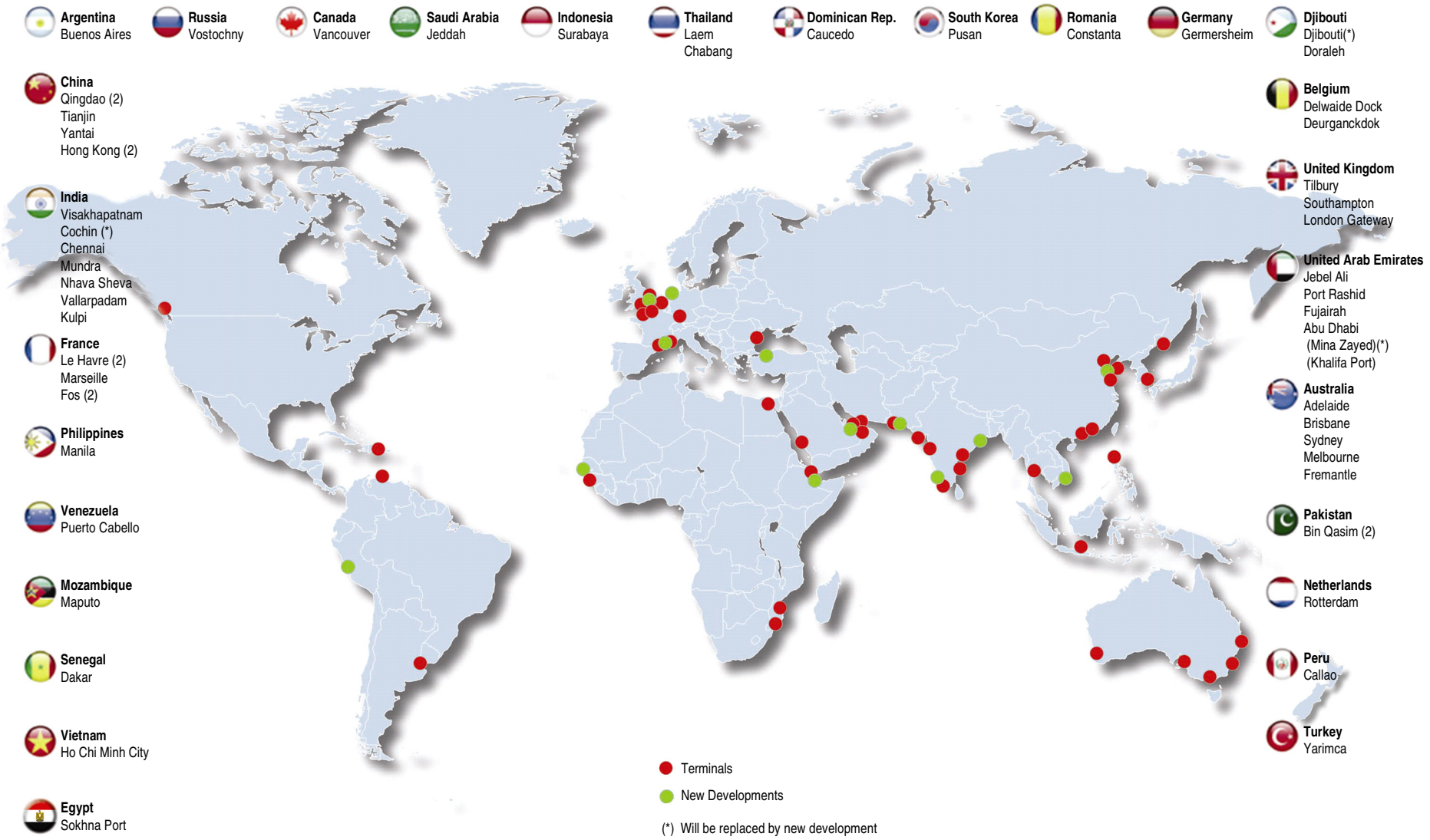
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33. Comparative metrics for ports and airports

Name	RIC	Bloomberg Ticker	Currency	Current Price	Target	Rating	PE LY, x	PE 1Y, x	PE 2Y, x
Airports									
Aeroports de Paris	ADP.PA	ADP FP	EUR	80.38	85.00	O/W	58.4	32.5	29.5
Fraport	FRAG.DE	FRA GR	EUR	50.97	-	n/r	24.6	22.9	24.5
Vienna Airport	VIEV.VI	FLU AV	EUR	77.38	-	n/r	25.0	19.4	18.2
Zurich Airport	UZAN.S	UZAV SW	CHF	450.00	-	n/r	34.2	25.4	21.2
Grupo Aeroporturio Sureste	ASURB.MX	ASURB MM	MXN	57.64	-	n/r	35.8	81.4	15.4
Airport of Thailand	AOT.BK	AOT TB	THB	56.50	80.00	O/W	76.1	21.9	14.6
Hainan Meilan Airport	0357.HK	357 HK	HKD	9.20	7.75	U/W	33.7	22.2	22.2
Beijing Capital International	0694.HK	694 HK	HKD	8.30	6.00	U/W	29.8	26.1	34.7
Malaysia Airport Holdings	MAHB.KL	MAHB MK	MYR	3.08	-	n/r	22.6	15.8	13.6
Auckland International Airport	AIA.NZ	AIA NZ	NZD	2.51	-	n/r	38.3	28.4	24.9
Airports									**24.8**
Ports									
China Merchant Holdings	0144.HK	144 HK	HKD	42.50	-	n/r	36.8	30.5	24.7
COSCO Pacific	1199.HK	1199 HK	HKD	17.70	-	n/r	17.1	11.8	14.0
Dalian Port PDA	2880.HK	2880 HK	HKD	4.70	-	n/r	19.9	19.9	14.9
DP World	DPW.DI	DPW DU	USD	0.89	1.05	N (V)	n/d	36.4	28.6
Forth Ports	FPT.L	FPT LN	GBP	20.52	-	n/r	24.0	44.0	43.5
Hamburger Hafen & Logistik	HHFGn.de	HHFA GR	EUR	51.82	-	n/r	36.8	30.5	24.7
Hutchison Whampoa	0013.HK	13 HK	HKD	75.10	-	n/r	15.8	9.5	31.8
International Container Term.	ICT.PS	ICT PM	PHP	31.50	-	n/r	33.8	25.9	19.5
Jinzhou Port	600190.SS	600190 CH	CNY	8.91	-	n/r	74.4	n/d	n/d
Nanjing Port	002040.SZ	002040 CH	CNY	11.23	-	n/r	98.1	n/d	n/d
Port of Tauranga	POT.NZ	POT NZ	NZD	6.50	-	n/r	27.0	21.0	18.1
Piraeus Port Authority	OLPr.AT	PPA GA	EUR	22.82	-	n/r	56.1	34.8	30.2
Shenzhen Chiwan Wharf	200022.SZ	200022 CH	HKD	13.21	-	n/r	13.8	11.2	10.5
Shanghai International Port	600018.SS	600018 CH	CNY	7.98	-	n/r	57.9	55.0	36.7
Tianjin Port Development	3282.HK	3382 HK	HKD	3.97	-	n/r	19.2	25.0	25.0
Koninklijke Vopak	VOPA.AS	VPK NA	EUR	34.71	-	n/r	19.8	13.2	12.5
Xiamen International Port	3378.HK	3378 HK	HKD	2.53	-	n/r	23.2	15.1	15.1
Ports									**27.2**

Source: HSBC estimates, Bloomberg

34. Global Terminal Portfolio of DP World



Source: Company, HSBC

Notes

Notes

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Disclosure appendix

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