

## **RATING ACTION COMMENTARY**

# **Fitch Upgrades Abu Dhabi Ports Company to 'AA-'; Removes UCO; Outlook Stable**

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Fitch Ratings - Dubai - 01 Mar 2024: Fitch Ratings has upgraded Abu Dhabi Ports Company PJSC's (ADP) Long-Term Issuer Default Rating (IDR) to 'AA-' from 'A+'. Fitch has also upgraded ADP's euro medium-term notes programme (EMTN programme) and its USD1 billion 2031 senior unsecured notes to 'AA-' from 'A+'. ADP's ratings have been removed from Under Criteria Observation (UCO). The Outlooks are Stable.

## **RATING RATIONALE**

The upgrade is driven by our assessment of the likelihood of exceptional support by Abu Dhabi government to ADP following our updated Government-Related Entities (GRE) Rating Criteria on 12 January 2024. ADP is rated one notch below Abu Dhabi (AA/Stable) based on a top-down rating approach, which reflects our assessment of its strong linkages with the Abu Dhabi government.

We assess ADP's Standalone Credit Profile (SCP) at 'bbb+', which reflects a largely contracted revenue base resulting in long-term cash flow visibility and stability, and synergies with industrial zones that should fuel the group's Khalifa Port (KP) operations.

## **KEY RATING DRIVERS**

Risk Assessments

Fitch assesses ADP's GRE risk factors as follows:

debt and is used by the government to hold its interest in 25 public companies. ADQ through its representation on ADP's board provides oversight, control and monitoring of ADP's strategic planning and finances. The ADP board approves all major corporate activities, including annual budgets, investments and M&As.

Fitch does not expect changes to ADP's shareholding structure. Despite ADP's ordinary commercial law status, in Fitch's view, given the government's ownership and strong control of ADP, it is very likely that ADP's assets and liabilities would ultimately be transferred to Abu Dhabi in case of liquidation. ADP is an Emiri-decreed company, consolidated under Abu Dhabi's balance sheet.

#### Precedents of Support - 'Strong'

ADP has a record of receiving government support throughout its operating history in different forms, from asset endowment to equity injections and government grants for construction costs. No terms and conditions have been attached to historical subsidies and support provided by the government. There are no legal, regulatory or policy restrictions limiting the government in providing timely support to ADP.

#### Preservation of Government Policy Role - 'Strong'

ADP is perceived as a national security and strategic asset by the government in guaranteeing the nation's food security and maritime access. The government also expects ADP to play a key role in the diversification of the economy from the oil business as part of Abu Dhabi's economic vision.

Fitch views the replacement of ADP in its landlord role at the port as less straightforward than in the case of a port operator, as ownership of the assets would require the government to create a new entity to take over the relevant assets and to replace ADP as counterparty in long term contracts. Also, Fitch believes an ADP default would cause operational disruption, reduce its ability to fund its large expansionary plan with debt and result in the loss of a valuable financial investment.

#### Contagion Risk - 'Stronger'

Fitch assesses ADP's SCP risk factors as follows:

## Revenue Risk

Volume: 'High Midrange'

ADP's diversified traffic mix between container and cargo volumes should provide some stability to volume. Overcapacity at some well-connected ports in the proximity of its Khalifa Port (KP) increases competition, particularly for container trans-shipment. However, the low weight of variable concession fees from trans-shipment volumes in overall revenue, coupled with contracted long-term relationships and co-investment from large shipping-liners in KP terminals, should soften competitive pressure.

## Revenue Risk

Price: 'Stronger'

ADP's landlord operations feature protective contractual arrangements with key customers and price flexibility.

## Infrastructure Development

Renewal Risk: 'Midrange'

Proven experience in completing large-scale investment on time and budget, and access to external funds, drive our 'Midrange' assessment. Capex linked to industrial zone developments is flexible and dependent on future volume growth and on the ability of ADP to attract long-term lease contracts.

Debt Structure: 'Midrange'

ADP's debt is senior unsecured, with no material covenant protections nor security package.

## Financial Profile

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addition to AED1.7 billion of credit lines available under its existing debt facilities. No debt maturities are expected in 2024.

## **PEER GROUP**

The closest peer in our portfolio is DP World Limited (DPW, BBB+/ Stable), but DPW is much larger in size and geographically diversified. The rating differential is explained by Fitch's assessment of potential government extraordinary support to ADP, which results in a top-down approach by one notch below Abu Dhabi's rating.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- A downgrade of Abu Dhabi's sovereign rating
- A perceived reduction in implied support and commitment from the government, as well as in the importance of ADP to the government's strategic objectives.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- An upgrade of Abu Dhabi's sovereign rating or an upward reassessment of one of the qualitative factors under our GRE Criteria

## **TRANSACTION SUMMARY**

ADP owns and operates ports and terminals regionally and globally. In addition to the ports, ADP has other businesses ranging from logistics, marine services, maritime training, cruise infrastructure, to digital products (such as vessel management and payment products, which help automate the processing of vessels and cargo at the port).

## **CREDIT UPDATE**

In 2023, revenue increased 112% year-over-year (YoY) to AED11.7 billion, largely fueled by expansion in maritime & shipping, ports, logistics, and digital clusters, alongside M&A activities. Excluding pass-through vessel trading revenues, growth was still a significant 77% YoY, or 23% on a like-for-like basis. EBITDA increased 23% YoY to AED2.7 billion.

The Red Sea attacks have had varying impact on Abu Dhabi ports. Container operations remain unaffected due to a landlord business model and JV obligations, roll-on/roll-off volumes have increased, general cargo volumes are unchanged, while the cruise business has seen a negative impact in Aqaba but remains a small part of ADP's activities.

The maritime and shipping cluster saw a minor positive impact for SAFEEN Feeders rates and a significant positive impact for Transmar rates. Air freight demand has increased due to conversion from ocean freight, while ocean freight demand has been unstable with high rates. Overall, the effect on Abu Dhabi ports has been modestly positive.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

ADP's rating is one notch below Abu Dhabi's.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
Abu Dhabi Ports Company PJSC	LT IDR    AA- Rating Outlook Stable	A+ Rating Outlook

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Abu Dhabi Ports Company PJSC/Port Revenues - Senior Unsecured Debt & EMTN Programme/1 LT	LT	AA- Rating Outlook Stable	Upgrade	A+ Rating Outlook Stable
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## **APPLICABLE CRITERIA**

[Infrastructure & Project Finance Rating Criteria \(pub. 17 May 2023\) \(including rating assumption sensitivity\)](#)

[Transportation Infrastructure Rating Criteria \(pub. 18 Dec 2023\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria - Effective from 12 January 2024 to 9 July 2024 \(pub. 13 Jan 2024\)](#)

## **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG InForM Model, v1.1.0 (1)

## **ADDITIONAL DISCLOSURES**

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