Research Update:

Abu Dhabi Ports Co. PJSC 'A+' And 'gcAAA' Ratings Affirmed On Improved Operational Performance; Outlook Stable

July 29, 2024

Rating Action Overview

- Even though Abu Dhabi Ports (AD Ports) increased its exposure to the lower-margin volatile maritime and logistics segments (expected to contribute 45%-50% to 2024-2026 EBITDA, compared with less than 30% historically), we expect AD Ports to continue showing resilient operating performance, with S&P Global Ratings-adjusted EBITDA margins of about 25% on average over 2024-2026, compared with 22.3% in 2023.
- Although the company has increased its geographic footprint and size following a series of expansions, its overall profitability margin is diluted, given the higher exposure to the cyclical and lower-margin maritime and logistics segments. We note, however, that the maritime and logistics segments (about half of the pro forma EBITDA, on average) are integrated within the group and in line with AD Ports' strategy to optimize non-oil trade in Abu Dhabi through dedicated port infrastructure.
- Overall expected profitability margin is lower than the previous five-years average, on the back of the expansion in the maritime and logistics business segments, but we understand management's commitment to the preservation of credit metrics and balance sheet strength.
- We therefore affirmed our 'A+' issuer credit and issue ratings on AD Ports and the company's debt, as well as our 'gcAAA' Gulf Cooperation Council regional scale rating on the company.
- The stable outlook reflects our view that AD Ports' funds from operations (FFO) to debt should strengthen to 18%-23% over 2024-2026, alongside an improvement in credit metrics, compared with low 2023 levels. This is thanks to operational resilience, our expectation of limited additional acquisitions, and the potential benefits from asset monetization initiatives. The outlook also reflects our view that ADQ will continue to be the majority shareholder (above 60%), with no substantial change in board composition or control.

PRIMARY CREDIT ANALYST

Rawan Oueidat, CFA
Dubai
+ 971(0)43727196
rawan.oueidat
@spglobal.com

SECONDARY CONTACTS

Sapna Jagtiani
Dubai
+ 97143727122
sapna.jagtiani
@spglobal.com

Giulia Filocca
Dubai
+ 44-20-7176-0614
giulia.filocca
@spglobal.com

Pierre Gautier
Paris
+ 0033144206711
pierre.gautier
@spglobal.com

Rating Action Rationale

The affirmation reflects our expectation of an average FFO to debt of about 19% until 2026, despite the higher contribution of cyclical segments. AD Ports has been through several debt-funded acquisitions over the past 12-18 months (cumulative enterprise value of United Arab Emirates dirham [AED] 6.7 billion since second-quarter 2023), with the major two including Noatum (completed in second-quarter 2023) and GFS (completed in first-quarter 2024). As a result, we expect the company to benefit from the contributions from previous M&A activities from 2024, which were already evident in first-quarter 2024 results. We understand the company has additional financial levers, including asset monetization initiatives, that can help maintain credit metrics at a level commensurate with the 'A+' rating. These levers could also offset any underperformance or ongoing sizable capital expenditure (capex) plans. In our updated base case, we expect FFO to debt to improve above 18%. Consistent with our criteria, we now use our medial volatility tables to determine the financial risk profile (as opposed to low volatility tables previously) to reflect the increasing share of the more cyclical maritime and logistics businesses.

Our business risk assessment of AD Ports remains unchanged, despite higher exposure to cyclical segments. We continue to see the Gulf Cooperation Council (GCC) region as the main contributor of revenues and EBITDA. Despite the M&A activities expanding the company's geographic footprint (50 countries across five continents) and scale, this is balanced by expected overall lower profitability margin trend. The latter result from the structurally lower-margin nature of the maritime and logistics segments, compared with AD Ports' historic infrastructure segments. We expect average EBITDA margins of about 25% over 2024-2026, compared with historical levels of above 35%. We also expect a dilution effect of long-term contracts--albeit with recurring blue-chip customers--given the recent acquisitions and the underlying nature of the cyclical businesses. Despite the increasing contribution from more cyclical maritime and logistics segments, we view the clusters as integrated and focused on the company's strategy to manage non-oil exports in Abu Dhabi through dedicated port infrastructures. We continue to expect that at least half of the business will remain protected from the volatility of the shipping and logistics industry. If more than 50% of the company's EBITDA are generated from these more cyclical maritime and logistics businesses, this could weigh on our view on the company's credit quality.

Our business risk assessment also reflects the company's good competitive position in the GCC region. AD Ports benefits from high revenue predictability, resulting from contractual revenues from lease rentals in economic cities and free zones, concessions, and joint ventures (JVs) with world-leading shipping companies, good operating efficiency, and modern infrastructure. These strengths are somewhat offset by AD Ports' limited market share in a very competitive region, sustained high expansionary capex that will likely further increase debt, and negative free operating cash flow (FOCF) over the next two years, as per our base case. The company's growth strategy entails combining and integrating associated logistics, transportation, and maritime businesses in Abu Dhabi, so that it can become a globally integrated logistics and trade services player. However, increasing exposure to maritime and logistics, which carry lower and more volatile margins, will likely further lower AD Ports' overall EBITDA margins in our view, a trend that already started.

We consider AD Ports' strong first-quarter 2024 results against the context of sizable capex and growing exposure to cyclical segments. The company's first-quarter 2024 earnings and margins recovered markedly from weaker results in previous quarters, thanks to cash flow contributions from acquisitions over 2022-2023. S&P Global Ratings-adjusted EBITDA margins reached 25.1% in March 2024, from 15%-17% in the second half of 2023. As a result, our updated base case points to average EBITDA margins of 25% over 2024-2026, relatively in line with first-quarter 2024 results. At the same time, we expect organic capex (excluding acquisitions, after government-related entity [GRE] reimbursement) will remain sizable at AED1.5 billion-AED2.0 billion in 2024, and AED 3.5 billion-AED4.5 billion annually over 2025-2026, in line with company guidance of AED12 billion–AED15 billion over the next five years. This means the company will continue to see negative free cash flow over the next few years, as per our base case.

AD Ports retains strong linkages with Abu Dhabi's government. We view AD Ports as a government-related entity, given its indirect state ownership through ADQ and its management of ports that we view as strategically important for Abu Dhabi's economy. Our assessment reflects our view of the company's very important role for the government due to its systemic importance to non-oil trade. AD Ports handles about 50% of all imports and most non-oil exports, including a substantial share of Abu Dhabi's food and beverage trade. It is a key enabler of the government's diversification strategy, as set out in Abu Dhabi Economic Vision 2030, since it owns all of Abu Dhabi's non-oil ports. Transportation, trade, and logistics are priority sectors in Vision 2030. AD Ports contributed about 24% to Abu Dhabi's non-oil GDP and 13% to the UAE's non-oil GDP in 2022 through the creation of approximately 373,000 jobs--either at AD Ports or ancillary companies working with AD Ports--in the country. Our assessment also reflects our view of AD Ports' very strong link with the government--which owns 75.42% of AD Ports through ADQ--the long track record of extensive government support, and the close control through a government-appointed board, despite financial independence. We expect the government will remain the significant majority shareholder at AD Ports. This provides a four-notch uplift to the 'bbb' stand-alone credit profile (SACP) and results in the long-term issuer credit rating of 'A+'.

Outlook

The stable outlook assumes that the government of Abu Dhabi will remain a significant majority shareholder. The outlook also reflects our expectations that AD Ports' operating performance will remain strong, but that high expansionary capex over the coming two years will likely result in negative FOCF and increased debt in 2024. Furthermore, the stable outlook indicates our view that the company will achieve adjusted FFO to debt of 18%-22% over 2024-2026, including the potential to monetize non-core assets, and our expectation of comfortable liquidity, despite sizeable upcoming maturities. We do not factor in substantial debt-funded acquisitions.

Downside scenario

We could lower the rating over the next 12 to 24 months if:

- We saw signs of waning government support for AD Ports, for example due to the government further reducing its shareholding through Abu Dhabi Developmental Holding Co, PJSC (ADQ) to less than a majority controlling stake;
- AD Ports increases its exposure to the volatile maritime and logistics sectors, which would correspond to above 50% of consolidated EBITDA on a sustained basis;
- AD Ports fails to maintain FFO to debt above 18%. This could result from delays in revenue and volume growth versus our expectation, increased operating costs, cost overruns under the capex plan, higher competition, unfavorable economic conditions, or geopolitical risks that

significantly reduce trade volumes in the region or freight rates;

- Equity injections or government receivables from shareholders and related parties are delayed; or
- Asset monetization initiatives or additional debt-funded acquisitions are delayed.

Upside scenario

A positive rating action over the next 24 months is unlikely, in our view, because an upgrade would require one-notch improvements in both the SACP and the sovereign credit rating, neither of which are part of our base-case scenario. AD Ports' SACP would need to strengthen, with FFO to debt sustainably above 30%, which seems unlikely because of high investment requirements.

Company Description

AD Ports manages and operates 10 ports (commercial, logistics, community, and leisure) and terminals operating under a fully integrated business model in the UAE. The company owns nine of the 10 ports in the UAE; jointly (with global partners) operates the terminals at Khalifa Port; owns adjacent industrial and free zones; and provides logistics, marine services, maritime training, cruise infrastructure, and digital products (such as vessel management and payment products, which help automate the processing of vessels and cargo at the port). The company also operates Fujairah Terminals within the emirate of Fujairah on a 35-year concession agreement with Fujairah Port. Following its expansion over the past few years, AD Ports' geographic footprint now spans the UAE, Egypt (two terminals), Pakistan (two terminals), Jordan (one terminal), the Republic of Congo (one terminal), Angola (one terminal), Tanzania (one terminal), and Spain (15 terminals).

The company listed its shares on the Abu Dhabi Securities Exchange (ADX) in February 2022, and the market cap is AED26.4 billion (as of July 26, 2024). Following the initial public offering, the government of Abu Dhabi, via ADQ, remains the largest shareholder with a 75.42% ownership. The remaining shares are free float.

Our Base-Case Scenario

Assumptions

- Real GDP expansion in Abu Dhabi of 4.5% in 2024 and 3.8% thereafter, compared with 3.1% in 2023.
- Revenues to improve by 35%-40% in 2024, largely due to the full consolidation benefits of announced transactions (Al Eskan Al Jamae, Noatum, and GFS), in addition to a recovery in all segments, post-pandemic, growth in the industrial zones, organic growth through capex, and expected growth from the JVs. We expect revenue to grow by 10%-15% in 2025 (benefiting from the consolidation of GFS from February 2024), and by 5%-10% in 2026, as operations normalize. We do not expect any effects from acquisitions for 2026.
- Average EBITDA margins of about 25% over 2024-2026, compared with 22.3% in 2023, reflecting increased earnings contribution from recent acquisitions under the maritime and logistics cluster.

- Capex (after GRE reimbursement) of AED1.5 billion-AED2.0 billion in 2024 and AED3.5 billion-AED4.5 billion annually over 2025-2026, compared with AED4.7 billion in 2023.
- Acquisitions of about AED1.7 billion, AED1.3 billion of which are earmarked for GFS (completed in February 2024), with the remaining amount related to acquisitions that the company announced in 2023 financial statements, including 100% of Sese Auto Logistics (€81 million), Maqta Gateway's acquisition of 60% of Dubai Technologies (AED28 million), and the APM Terminals Castellon acquisition in Spain (€10 million).
- No dividend payments.

Key metrics

Abu Dhabi Ports--Key metrics

(Bil. AED)	2022a	2023a	2024e	2025f	2026f
Revenues	5.5	11.7	15.0-20.0	15.0-20.0	15.0-20.0
Capital expenditure	4.7	4.7	1.5-2.0	3.5-4.5	3.5-4.5
Adjusted ratios					
Revenue growth (%)	40.6	112.4	35.0-40.0	10.0-15.0	5.0-10.0
EBITDA margin (%)	36.3	22.3	25.0-27.0	24.0-26.0	25.0-27.0
Debt to EBITDA (x)	3.6	5.7	3.5-4.0	3.5-4.0	3.5-4.0
Funds from operations to debt (%)	23.7	12.8	18.0-22.0	18.0-22.0	18.0-22.0

AED--United Arab Emirates dirham. a--Actual. e--Estimate. f--Forecast.

Liquidity

We continue to expect AD Ports to maintain adequate liquidity and estimate its liquidity sources will exceed its uses by at least 1.3x over the 12 months from April 1, 2024. We expect net sources to remain positive even if EBITDA declines by 15% over the same period. Our assessment is supported by AD Ports' solid relationships with local banks and government support but constrained by its likely inability to withstand high-impact, low probability events without refinancing.

Principal liquidity sources over the 12 months from July 1, 2024, include:

- Cash and liquid investments of AED1.7 billion; and
- Our estimate of FFO of AED3.0 billion–AED3.5 billion.

Principal liquidity uses over the same period include:

- Short-term debt maturities of AED657 million;
- Working capital outflows of AED250 million-AED350 million;
- Capex (after GRE reimbursement) of AED3.0 billion–AED3.5 billion; and
- No dividend payments, in line with management's intention to reinvest cash flows in the business.

Covenants

Requirements

Under the revolving credit facility (RCF) and bridge facility documents, AD Ports has to maintain a minimum tangible net worth of AED6 billion.

Compliance expectations

The company complies with this financial covenant.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of June 30, 2024, AD Ports' capital structure consisted of unsecured bonds of $1 billion (equivalent to AED3.67 billion)--with a coupon rate of 2.5% per year issued in May 2021 and a 10-year maturity--a $1.0 billion senior unsecured RCF maturing in April 2026, a $2 billion general corporate facility maturing in third-quarter 2025, a AED917.5 million Ijara facility that has a tenure of 1.5 years and is extendable by up to 12 months (as of March 2024), and term loans of about AED1.5 billion that are repayable as quarterly installments over seven years.

Analytical conclusions

We rate AD Ports' senior unsecured notes at the same level as the issuer credit rating because the debt was issued at the parent entity and is unsecured, resulting in no subordination risk.

Ratings Score Snapshot

Issuer credit rating	A+/Stable/--
Regional scale rating	gcAAA
Business risk	Satisfactory
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Modifiers:	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)

Issuer credit rating	A+/Stable/--
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile (SACP)	bbb
Related government rating	AA
Likelihood of government support	Very high (+4 notches from SACP)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook Update Europe: Transportation Infrastructure, July 18, 2024
- Industry Credit Outlook Update Europe: Transportation, July 18, 2024
- Sovereign Risk Indicators, July 8, 2024
- Emirate of Abu Dhabi, May 27, 2024

- Abu Dhabi Ports' Credit Metrics Show Tighter Headroom Following 2023 Results, March 28, 2024

Ratings List

Ratings Affirmed	
Abu Dhabi Ports Co. PJSC	
Issuer Credit Rating	A+/Stable/--
Gulf Cooperation Council Regional Scale	gcAAA/--/--
Senior Unsecured	A+