

# **FITCH REVISES OUTLOOK OF GLI'S NOTES TO STABLE; AFFIRMS AT 'BB-'**

Fitch Ratings-London-19 October 2018: Fitch Ratings has revised the Outlook on Global Liman Isletmeleri A.S.'s (Global Liman, or GLI) USD250 million senior unsecured notes due 2021 to Stable from Negative and has also affirmed the rating at 'BB-'.

The revision of the Outlook to Stable reflects our view that, even under a conservative rating case, GLI's leverage will remain below 3.5x, a level commensurate with the current 'BB-' rating. GLI's exposure to the Turkish economy is diminishing, as its largest Turkish cruise port, Ege Port, only accounts for around 5% of overall revenue, while its major Turkish commercial port, Akdeniz, has a largely export-driven traffic structure.

## **KEY RATING DRIVERS**

GLI's 'BB-' rating reflects structural exposure to two volatile business segments: the commercial segment (about 60% of 2017 EBITDA), with significant exposure to the containerised export of marble from Akdeniz, and the cruise segment (about 40% of EBITDA). Fitch views both sectors as sensitive to business cycles. The rating is also constrained by GLI's historical acquisitive corporate profile and unsecured bullet debt structure, with material exposure to refinancing risk.

Global Ports Holding (GPH Plc), the parent company of GLI, indirectly operates 15 cruise ports and two commercial ports in nine countries. The rating analysis focuses on the consolidated credit profile of the group.

**Concentration Risk, Volatile Business - Revenue Risk (Volume): Weaker**  
Port Akdeniz, an export-driven port with exposure to containerised marble exports to China, accounts for about 60% of total EBITDA. In 2017, about 90% of the port's volume was export-driven, and the main revenue was generated from marble and cement exports to China.

The cruise segment is entirely driven by tourism, a sector which is sensitive to business cycles. In 2017, 84% of cruise revenue was generated by EU ports with more stable cash flows and 16% by Turkish ports, which have high volatility.

The concentration risk of commercial revenue and the exposure to more volatile cruise and commercial segments suggest a 'Weaker' assessment for revenue risk.

**Some Flexibility, Low Visibility - Revenue Risk (Price): Midrange**  
GPH's Turkish ports benefit from full pricing flexibility, in both the commercial and cruise segments. Turkish laws, including those by the Turkish Competition Authority, only prevent 'excessive and discriminatory pricing', for which there is no history of enforcement. For some of the non-Turkish ports, GPH would need approval from the Port Authorities to set up tariffs. GPH's management typically favours short-term contracts with its customers, including incentives at times. Pricing flexibility is balanced by the lack of long-term visibility and results in a 'Midrange' assessment.

**Sufficient Capacity - Infrastructure Development and Renewal: Stronger**  
Most of the ports within GPH's portfolio have sufficient capacity headroom to deliver the expected throughput. Only the ports of Barcelona and Valletta would consider expansionary capex. In our view, GPH's investment plan is well-equipped, as it has experience in delivering capex on its port network. This results in a 'Stronger' assessment.

## Bullet Debt, Refinancing Risk - Debt Structure: Weaker

Rated debt consists of USD250 million senior unsecured corporate-style bond issued by GLI and maturing in 2021. GLI's concentrated and back-ended repayment maturity profile creates refinancing risk. Furthermore, this bullet bond does not benefit from significant covenant protection, apart from the restrictions imposed on the raising of additional indebtedness if gross debt/EBITDA exceeds 5x and the customary limitation of distributions at 50% of cumulated net income. There are no current limitations on acquisitions, but Fitch believes the September 2015 primary equity investment of approximately 11% of the parent company GPH Plc by the European Bank for Reconstruction and Development (after the May 2017 IPO reduced to 5.03%) is providing additional oversight, corporate governance and due diligence for any new acquisitions.

## Financial Profile

Under the revised Fitch rating case, which uses more conservative assumptions than the management, mainly on volume, tariffs, opex and dividends received from joint ventures, GPH's adjusted leverage averages at 3.3x over a five-year forecast period.

We rate GPH on the basis of its consolidated credit profile. This approach considers GPH's extensive strategic, operational and financial control over its subsidiaries, lack of tight ring fencing features in most of its operating companies (except Barcelona Ports Investments, S.L./Creuers that are funded with project finance-like debt) as well as the potential cross default of GPH bonds with debt raised by consolidated subsidiaries (except Valletta Cruise Port and Malaga Cruise Port).

## PEER GROUP

Fitch compared GPH with a series of Fitch-rated single site ports and larger port groups with varying levels of structural protection for creditors.

Mersin Uluslararası Liman İşletmeciliği A.Ş. (BB+/Negative) is a Turkish peer with a more diversified business profile, a strong operational sponsor (PSA International), lower leverage (max 1.2x) and less acquisitive profile. Mersin is capped at Turkey's Country Ceiling (BB+).

Global Ports Investments PLC (BB/Stable), which compared with GPH, has a 'Midrange' assessment of volume and debt structure, a dominant position in its reference market but slightly higher leverage.

LLC DeloPorts (BB-/Stable) is also a close peer as it has a 'Weaker' volume risk assessment, but GPH has arguably more volume concentration than DeloPorts. Furthermore, GPH is more leveraged than DeloPorts' five-year average leverage at 2.9x. DeloPorts' consolidated credit profile is rated one notch higher (BB) than GPH.

## RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

- Failure to prefund GPH's debt 24 months in advance of its maturity could be rating negative
- A Fitch adjusted leverage consistently above 3.5x under the Fitch rating case

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

- A Fitch adjusted leverage consistently below 2.5x under the Fitch rating case

## CREDIT UPDATE

Performance Update

1H18:

Consolidated revenue and EBITDA have grown by 14% and 21%, respectively, supported by both cruise and commercial business lines. The cruise sector had a revenue increase of 21% in 1H18 and EBITDA increase of 45.5%. The commercial sector's revenue increased by 9.3% and EBITDA by 16%. Akdeniz Port's revenue was flat due to a 0.4% decline in TEU throughput volumes and a 6% decline in general cargo and bulk volumes. Nonetheless, EBITDA increased by 8%, given the depreciation of the Turkish lira.

FY17:

Total revenue increased by 1.3%. Cruise ports revenue decreased by 6% and commercial revenue increased by 8%. The weakness in Turkish cruise ports was offset by commercial business and non-Turkish cruise ports' performance (9.9% growth in revenue). Commercial EBITDA increased by 9.7%, offsetting the cruise ports' EBITDA decrease of 12.7%. Total EBITDA was mainly flat.

#### Fitch Cases

The Fitch base case assumes revenue growth of 3.5% CAGR in 2018-2022 and Fitch adjusted EBITDA increase of 5%. The Fitch rating case takes a more prudent stance and assumes a revenue growth of 2% and Fitch adjusted EBITDA increase of 4%. Capex are in line with management case. The projected Fitch adjusted five-year average leverage is 2.9x in Fitch's base case and 3.3x in Fitch's rating case.

#### Asset Description

GPH operates, through GPI, 15 cruise ports and two commercial ports in nine countries. Three of these ports are based in Turkey (Port Akdeniz, Ege Ports and Bodrum).

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#### Applicable Criteria

Ports Rating Criteria (pub. 23 Feb 2018)

<https://www.fitchratings.com/site/re/10021628>

Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)

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