FitchRatings

Fitch Downgrades Global Liman Isletmeleri's Notes to 'B+'; Places Them on RWN

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Fitch Ratings - London - 14-Oct-2019 Fitch Ratings has downgraded Global Liman Isletmeleri A.S.'s (GLI) USD250 million senior unsecured notes due 2021 to 'B+' from 'BB-'/Negative and placed them on Rating Watch Negative (RWN).

RATING RATIONALE

The downgrade considers the higher-than-expected leverage profile of the group, which comprises GLI and its parent company Global Ports Holding (GPH), in a context of increasing capex plan, large bullet maturity with associated refinancing risk and limited visibility on future capital structure due to significant risks of M&A activity in 2019/2020.

The RWN reflects uncertainty about the impact on consolidated leverage stemming from the addition to the group portfolio of Nassau Cruise Terminal that was announced on 10 October 2019. The management plans to invest USD250 million over the next two years to expand capacity and make other enhancements at Nassau terminal in partnership with the Bahamanian Investment Fund.

In July 2019, GPH announced a strategic review of its portfolio of commercial and cruise ports, including the potential sale of certain assets as well as strategic investments and partnerships. Fitch will monitor this possible refocus of the business and any change in its capital structure to assess the impact it may have on the group's credit profile.

GPH operates 16 cruise ports and two commercial ports in nine countries. The rating analysis focuses on the consolidated credit profile of the group.

KEY RATING DRIVERS

GLI's rating reflects structural exposure to two business segments: the commercial segment (about 60% of 2018 segmental EBITDA) with significant exposure to the containerised export of marble from Akdeniz, and the cruise segment (about 40% of EBITDA). Fitch views the Turkish commercial segment as sensitive to business cycles and the cruise segment as sensitive to geopolitical events and discretionary spending.

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 54% of total EBITDA. Most of the port's volume is export-driven, though GPH is working to diversify revenue at this port. The cruise segment is driven by tourism, a sector which is sensitive to business cycles.

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. GPH’s management typically favours short-term contracts with its customers, including incentives at times.

Sufficient Capacity - Infrastructure Development and Renewal: Stronger

Most of the ports within GPH’s portfolio have sufficient capacity headroom to deliver the expected throughput. Significant capex is expected at Nassau, although not yet included in our forecast. Otherwise, capex requirements tend to be moderate. In our view, GPH’s investment plan is adequate, and the group has a record of delivering capex in its port network.

Bullet Debt, Refinancing Risk - Debt Structure: Weaker

Rated debt consists of a USD250 million senior unsecured corporate-style bond issued by GLI, maturing in 2021. GLI’s concentrated maturity profile creates refinancing risk. Furthermore, this 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 limitation of distributions at 50% of cumulated net income. There are no current limitations on acquisitions at GPH.

Financial Profile

Fitch’s five-year forecast rating case net debt/EBITDAR averages 3.8x, rising above 4.0x in 2020 and remaining at 3.8x in 2021 ahead of the refinancing date of the bullet maturity. The rating case has more conservative assumptions on revenue and EBITDA growth compared with the management forecast, and it includes some assumed M&A in 2019 and 2020. The higher leverage is also due to weaker performance in the commercial segment in 1H19 not being fully offset by the growing cruise segment, and slightly higher consolidated group debt.

We rate GLI’s bonds based on GPH’s 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 the Creuers ports that are funded with project finance-like debt).

PEER GROUP

Mersin Uluslararasi Liman Isletmeciligi (Mersin International Port - MIP; BB-/Negative) is a Turkish peer, with an unsecured corporate debt structure, but lacking M&A risk and lower leverage (Gross debt to EBITDA averages about 2.2x). MIP has a more diversified commercial revenue than GLI and a strong operational sponsor, though it is also exposed to refinance risk. MIP is capped at Turkey’s Country Ceiling.

Global Ports Investments PLC (BB+/Stable) has a midrange debt structure with less volume concentration and similar leverage with an average rating case forecast of 3.1x. It also has a dominant position in the region, which is more comparable to that of MIP than GPH.

LLC DeloPort (BB-/Stable) is also a close peer as it also has a ‘weaker’ volume risk assessment, although GPH has arguably more volume concentration than DeloPorts, at least in its commercial segment. DeloPorts has a relatively low leverage but it is exposed to market risk and, like GPH, has concentrated exposure to one commodity (grain).

RATING SENSITIVITIES

Our analysis to solve the RWN will focus on group re-leveraging following the Nassau acquisition. Fitch-adjusted leverage consistently above 4.5x under the Fitch rating case could be rating negative.

Furthermore:

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

Failure to prefund GPH's debt well in advance of its maturity or make substantial progress towards refinancing the 2021 bullet maturity

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

Fitch-adjusted leverage consistently below 3.5x under the Fitch rating case

Refinancing of the bullet maturity

Significant changes to GLI's asset portfolio, substantially reducing dependence on its Turkish assets

TRANSACTION SUMMARY

GPH operates 16 cruise ports and two commercial ports in nine countries. Three of these ports are based in Turkey (Port Akdeniz, Ege Ports and Bodrum). Over 60% of group EBITDA was generated in Turkey in 2018 and 1H19.

CREDIT UPDATE

1H19:

Group performance in 1H19 was marginally weaker than the same period last year, with group revenue down by 3.4% to USD54.6 million (1H18: USD56.6 million) and adjusted EBITDA down by 3.5% to USD34.8 million (1H18: USD36.1 million) with underlying profit falling by 92.4% to USD0.9 million and a loss after tax of USD15.8 million, the latter was driven largely by negative FX movements. Segmental EBITDA was down by 3.1% to USD39.1 million. Strong Cruise EBITDA growth of 14.3% to USD16.8 million was offset by a decline in Commercial EBITDA of 13.1% to USD22.3 million.

In the cruise segment, Ege Port and Valletta grew particularly strongly. In the commercial segment, Port Akdeniz was affected by global macro-economic factors in the period, leading, in particular, to a decline in marble and cement volumes.

FY18:

Group revenue increased by 7.2% in FY18 to USD124.8 million. The increase was driven by the revenue performance at both GPH's cruise and commercial segments, as well as the favourable foreign-exchange moves in the year. Commercial operations performed well in the year, delivering revenue growth of 5.8% to USD69.9 million. This revenue growth came despite a 9.2% decline in general & bulk cargo volumes and a 5.1% decline in container volumes in the year.

Cruise: The cruise business reported an increase in consolidated and managed portfolio passenger volumes of 8.8% to 4.4 million passengers. Cruise revenue grew by 9.2% in the year to USD54.9 million from USD50.3 million in 2017. This growth was primarily driven by the strong performance at Creuers (Barcelona and Malaga). Creuers reported a 5.1% growth in passenger volumes, with a favourable passenger mix between turnaround and transit, driving a 15.3% increase in revenue in the year. Cruise revenue was also bolstered by the first time contribution of GPH's management agreement in Havana.

FINANCIAL ANALYSIS

Fitch's base case assumes revenue and EBITDA CAGR growth of 4.4% and 3.9% in 2019-2023, respectively. In the rating case, we forecast a revenue and EBITDA CAGR of 3.2% and 2.3%, respectively, with stronger growth expected from the cruise segment than the commercial segment. Capex is assumed to be in line with management case and does not yet include the full impact of the Nassau acquisition. The projected Fitch-adjusted five-year average leverage is 3.4x in Fitch's base case and 3.8x in Fitch's rating case.

Additional bids not yet closed may add to the portfolio in 2020. We have not included transactions that have not closed in our forecast, though we have assumed some moderate M&A activity.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of Environmental, Social and Governance (ESG) credit relevance is a score of 3. This signals that 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY	RATING			PRIOR
Global Liman Isletmeleri A.S				
Global Liman Isletmeleri A.S/Debt/1 LT	LT	B+	Downgrade	BB-

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APPLICABLE CRITERIA

Ports Rating Criteria (pub.23-Feb-2018)

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

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