FITCH AFFIRMS GLOBAL LIMAN ISLETMELERI'S NOTES AT 'BB-'; NEGATIVE OUTLOOK

Fitch Ratings-London-30 October 2017: Fitch Ratings has affirmed Global Liman Isletmeleri A.S.'s (Global Ports Holding, or GPH) USD250 million senior unsecured notes due 2021 at 'BB-' with Negative Outlook.

Global Ports operates 14 ports in eight countries. The rating analysis focuses only on two of its three Turkish ports (Akdeniz and Ege Port/Kusadasi), which are designated as guarantors (recourse perimeter) of the rated bond. Subsidiaries that are outside the two Turkish guarantor ports are accounted for in our analysis for their contribution only through dividend distributions.

KEY RATING DRIVERS
The Negative Outlook reflects our view that continued security risks in Turkey could have a material impact on the tourist sector with a related knock-on effect on GPH's Turkish cruise segment and relevant projected metrics. Fitch expects net leverage to be 3.1x in 2019. Unless financial performance improves, Fitch could consider a negative rating action given the company's refinance risk in 2021.

GPH's 'BB-' rating reflects structural exposure to two volatile business segments within the Turkish ports: the commercial segment (about 82% of 2016 EBITDA of the two guarantor ports), and the cruise business (about 18% of the two guarantor ports). Fitch views both sectors as being sensitive to business cycles. The rating is also constrained by GPH's historical acquisitive corporate profile and unsecured bullet debt structure, with material exposure to refinancing risk.

Concentration Risk, Volatile Business - Revenue Risk (Volume): Weaker
Akdeniz is an export-driven port with exposure to containerised marble exports to China. In 2016 78% of revenue was export-driven. The main drivers of revenue are marble exports to China, which in 2016 accounted for 69% of full container volume, and cement exports, which accounted for 86% of total general and bulk cargo exports. Container revenue represents about 65% of total revenue whereas cement represents about 14%. The cruise sector is entirely driven by tourism, a sector which is sensitive to business cycles and has proved to experience high volatility. Concentration risk of commercial revenue and exposure to more volatile cruise and commercial segments suggest a Weaker assessment for revenue risk.

Full Flexibility, Low Visibility - Revenue Risk (Price): Midrange
In both the commercial and cruise segments, GPH's Turkish ports benefit from full pricing flexibility. For the two Turkish guarantor ports, the Turkish competition law and authorities only prevent 'excessive and discriminatory pricing', for which there is no history of enforcement. GPH 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
None of the Turkish ports within GPH's portfolio has a regulatory requirement to increase capacity, and all have sufficient capacity headroom to deliver the expected throughput. Capex works outside the two Turkish guarantor ports are funded by non-recourse debt at the subsidiary level. This results in a Stronger assessment.

Bullet Debt, Refinance Risk - Debt Structure: Weaker

Rated debt consists of USD250 million senior unsecured corporate-style bond issued by GPH and maturing in 2021. GPH's concentrated and back-ended repayment maturity profile creates refinance 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 customary limitation of distributions at 50% of cumulated net income. There are no current limitations on acquisitions but the September 2015 primary equity investment of approximately 11% of GPH by the EBRD (after May 2017 IPO reduced to 5.03%) is viewed as providing additional oversight, corporate governance, and due diligence. for any new acquisitions. All attributes lead to a Weaker assessment.

Financial Profile
Under the revised Fitch rating case, the agency expects GPH's adjusted leverage to reach 4.2x at end-2017 and to progressively decline thereafter. Fitch's rating case is prudent in its assumptions and as a result uses moderate assumptions on volume, tariffs and dividends received from joint ventures in comparison to management. As a result, Fitch expects leverage to average at 3.2x over a five-year period.

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

Mersin International Port (MIP; BBB-/Stable) is a Turkish peer, with a stronger debt structure and lower leverage (maximum 2x). MIP also has a more diversified business profile, a strong operational sponsor (PSA) and less acquisitive profile.

DP World (BBB+/Stable) compares similarly in leverage (average net debt/EBITDAR of 3.7x), negative structural features and a lack of business restrictions. However, DP World benefits from far greater scale and diversification.

Global Ports International (GPI; BB/Negative): Similar to GPH, GPI has loose covenants although it has a midrange debt structure with less concentration but slightly higher leverage. GPI also has a dominant position in the region, which is more comparable to MIP than to GPH.

LLC DeloPorts (BB-/Stable) is also a close peer as it also has a Weaker volume risk assessment, but GPH has arguably more volume concentration than DeloPorts. Also, GPH is more leveraged than DeloPorts. DeloPorts is exposed to market risk and, as with GPH, has concentrated exposure to one commodity (grain).

RATING SENSITIVITIES
Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
-Given high refinancing risk in 2021 and the then short remaining tail before concessions' maturities, negative rating action may be triggered by the issuer not deleveraging to less than 3.0x net debt / EBITDA by 2019 under the Fitch rating case.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
-A positive rating action may be triggered by the issuer extending the maturity date of its current debt and deleveraging to 2.0x net debt / EBITDA under the Fitch rating case.

The Outlook may be revised to Stable upon a diversification of the business leading to greater stability of cash flow without compromising GPH's financial performance and better-than-expected performance in cruise passenger and commercial volumes.

CREDIT UPDATE

Performance Update
GPH has basically two main business segments: commercial (82% of EBITDA in Akdeniz) and cruise (18% in Ege Port).

Port Akdeniz's volumes of TEU throughput in 1H17 increased 18.9% yoy following the completion of a Chinese investigation into marble imports in 2Q16 and 3Q16.

In the cruise segment Ege Port was affected by tourism recession in Turkey due to the political turmoil in the country and terrorist attacks. Cruise passengers in GPH, excluding Turkey, increased 11.4% yoy. Including the Turkish ports the increase in passengers was only 2.6%. The decrease in passengers in Ege Port was not compensated by increase in yields and as a result revenue decreased 71% yoy in 1H17.

For 2016 Port Akdeniz revenue increased 6.3% yoy following a resolution of the marble investigation in China, which resulted in a cargo volume fall of 3% in 2016. Sluggish volumes were largely compensated by increases in prices. EBITDA increased 10.2% in 2016, supported by higher yields. Revenue in 2016 at Ege Port was down 33% yoy and EBTIDA fell 37%.

Fitch Cases
In Fitch's base and rating cases the commercial sector is driven by specific assumptions on the main business lines, container, cargo and passengers. It reflects the recovery during the last period and assumes a continuation of the positive trend. The cruise sector continues to show uncertainty, which is reflected in Fitch scenarios. In the base case Fitch assumes a recovery in 2019 and 2020. In the rating case the agency is not expecting any recovery but soft growth from 2019 onwards.

Asset Description
GPH has three ports in Turkey (Port Akdeniz, Ege Ports and Bodrum), in addition to Port of Bar (Montenegro), the Lisbon Port Terminal and Creuers (Barcelona Cruise Port and Malaga in Spain and Singapore Cruise Port). The group made two acquisitions during 2015, Valetta Cruise Port, Dubrovnik International Cruise Port, and other four Italian ports were acquired during 2016, Venezia Terminal Passeggeri S.p.A., Ravenna Cruise port, Cagliari and Catania ports, for a total of more than 3,000 berths overall.

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Applicable Criteria
Ports Rating Criteria (pub. 02 Oct 2017)
https://www.fitchratings.com/site/re/904491
Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017)
https://www.fitchratings.com/site/re/902689