

**Rating Action: Moody's downgrades Global Liman's CFR to B3 from B2, negative outlook**

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02 Mar 2020

London, 02 March 2020 -- Moody's Investors Service (Moody's) has today downgraded Global Liman Isletmeleri A.S.'s (Global Liman) corporate family rating (CFR) to B3 from B2 and the probability of default rating (PDR) to B3-PD from B2-PD. Concurrently, Moody's downgraded to Caa1 from B2 the rating of the company's USD250 million guaranteed senior unsecured bond due 2021. The outlook on the ratings is negative. This rating action concludes the review initiated on 17 December 2019.

A full list of affected ratings is provided towards the end of this press release.

**RATINGS RATIONALE**

The rating downgrade to B3 takes account of a deterioration in Global Liman's operating performance as reflected in a reduction in the company's reported EBITDA by 7% in the nine months to September 2019, but more importantly the expectation of a limited improvement in earnings this year. This is entirely driven by the weakness in the commercial segment, which is negatively impacted by macroeconomic factors and trade tariffs. Whilst cruise operations have performed better, Global Liman's metrics are expected to remain below the levels commensurate with the previous B2 rating -- namely funds from operations (FFO)/debt of at least 10% and FFO interest cover above 2.0x, with limited prospects of recovery over the next 12-18 months, and ahead of the company's bond maturity in 2021.

In the nine months to September 2019, Global Liman's container volumes were down 15% and general cargo volumes fell by 50%, resulting in a decline in EBITDA from the commercial segment by over 19%. While some of the deterioration in volumes was offset by other revenue initiatives and an 11% growth in the cruise segment, the company's cash flows weakened. Moody's understands that performance trends remained weak in the last quarter of the year, with management having guided to a single-digit decline in 2019 full year EBITDA for the GPH group, which includes the newly acquired ports in Nassau and Antigua (but with only partial contribution for the year 2019).

Global Liman maintains solid margins and positive free cash flow generation but its rating is constrained by the company's relatively small size and significant reliance on earnings from the Turkish port of Akdeniz, which is exposed to throughput variation affected by the geopolitical situation in the region as well as trade tariffs. While the cruise segment, which provides a degree of business and international diversification, benefits from some visibility to cash flows due to advance bookings by cruise lines, passenger volumes can be subject to volatility as seen in the past at the Turkish ports of Ege and Bodrum. The B3 CFR is further constrained by Global Liman's complex group structure, with significant presence of minority shareholders at the majority of the ports, resulting in cash flow leakage.

Moody's considers Global Liman to have a highly-leveraged financial profile, with estimated Moody's-adjusted leverage above 6x and FFO/debt of around 9% as of end-2019. These ratios need to be considered also in the context of the remaining concession life. Whilst the concession for the port of Valletta expires in 2066, the main contributors to the group's cash flows have significantly shorter concession lives. The port of Akdeniz's concession will expire in August 2028, whereas the concession for the port of Barcelona will end in June 2030, excluding extension options. While in some cases concession extensions may be possible, the limited concession life for the Turkish port of Akdeniz is a constraining factor in the context of Global Liman's highly-leveraged financial profile.

Global Liman's rating further considers the wider Global Ports Holding (GPH) group, whose primary focus is on growth and attractive shareholder remuneration policies. In 2019, the company completed two major acquisitions in the cruise segment - Nassau and Antigua, which will substantially increase the group's debt, given planned investments, including of USD250 million at the port of Nassau. The strategic focus on the cruise segment has prompted a review of the operations by Global Liman, with a potential for a sale of certain assets. The sale of any part of the business would result in a material shift in the group's business profile and it would also likely result in a pre-payment of the notes issued by Global Liman as stipulated under the terms of

the bond documentation. There is, however, uncertainty as to the final outcome and timing of the completion of the strategic review in particular in the context of the current weakness in the performance of the commercial segment.

Moody's understands that Global Liman's liquidity is supported by around USD42 million in unrestricted cash as of end-2019. The company does not maintain any external committed facilities and is thus reliant on internal cash flow generation for repayment of its debt, which includes USD42 million in short-term maturities this year.

Recognising the above considerations, Global Liman's CFR of B3 is positioned below the scorecard-indicated outcome of Ba3 under the Privately managed port companies methodology. The difference takes account of (1) Global Liman's relatively small size, complex group structure and material exposure to cruise activities, (2) the company's exposure to the Turkish sovereign risk (Turkey, being rated B1 negative) given its high geographic concentration, (3) the company's linkages with the wider GPH group, which has higher financial leverage and acquisitive strategy; and (4) liquidity and refinancing risks.

#### STRUCTURAL CONSIDERATIONS

The B3-PD PDR is in line with the CFR. This is based on a 50% recovery rate, as typical for transactions with both bond and bank debt. The Caa1 rating on the senior unsecured notes due 2021 is one notch below the CFR, reflecting a fairly large amount of debt at the operating subsidiaries that are not guarantors and are considered senior to the notes with respect to the assets and cash flows of the respective operating subsidiary. It further takes account of the higher leverage for the issuer and guarantors' group compared with the consolidated profile of Global Liman.

The 2021 notes are unsecured and guaranteed by the issuer and Turkish subsidiaries, which accounted for around 55% of reported EBITDA as of end-September 2019.

#### RATING OUTLOOK

The negative outlook reflects the uncertainty around Global Liman's capital structure ahead of the refinancing of its 2021 bond maturity given weakness in the company's operating performance. It further takes account of the uncertainties related to the cruise market environment in the context of the evolution of the coronavirus epidemic, which could result in downside pressure on earnings, not currently factored into Moody's assessment.

#### WHAT COULD CHANGE THE RATING -- UP/ DOWN

Given the negative outlook, a rating upgrade is currently unlikely. However, the outlook could be stabilized if Global Liman strengthens its liquidity well in advance of its bond maturity and the company remains compliant with the terms of its financial covenants. This will also take into account the performance of the wider GPH group.

The ratings could be downgraded if there was an increasing concern about Global Liman's ability to refinance its debt ahead of maturities.

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Privately Managed Port Companies published in September 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Global Liman Isletmeleri A.S. is a port operator domiciled in Turkey. The company operates a mixed commercial and cruise port of Akdeniz located on Turkey's Mediterranean coast and two cruise and ferry ports (Bodrum and Ege) located on Turkey's Aegean coast. In addition, Global Liman holds a controlling stake in the commercial port of Bar (Montenegro, 64%), and a number of cruise ports internationally, including in the port of Barcelona (Spain, 62%). Global Liman is 100% owned by Global Ports Holding PLC, which is listed on the London Stock Exchange.

#### LIST OF AFFECTED RATINGS

..Issuer: Global Liman Isletmeleri A.S.

Downgrades, previously on review for downgrade:

... Probability of Default Rating, Downgraded to B3-PD from B2-PD

... LT Corporate Family Rating, Downgraded to B3 from B2

...BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to Caa1 from B2

Outlook Actions:

..Issuer: Global Liman Isletmeleri A.S.

...Outlook, Changed To Negative From Rating Under Review

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