MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Global Liman's CFR to Caa1, negative outlook

15 Sep 2020

London, 15 September 2020 -- Moody's Investors Service (Moody's) has today downgraded Global Liman Isletmeleri A.S.'s (Global Liman) corporate family rating (CFR) to Caa1 from B3 and the probability of default rating (PDR) to Caa1-PD from B3-PD. Concurrently, Moody's downgraded to Caa2 from Caa1 the rating of the company's USD250 million guaranteed senior unsecured bond due 2021. The outlook on the ratings remains negative.

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

RATINGS RATIONALE

Today's rating action reflects Moody's expectation of an increase in Global Liman's leverage in 2020 and an uncertain pace of recovery, which may lead to an unsustainable capital structure ahead of the company's November 2021 debt maturity.

The rapid spread of the coronavirus outbreak, deteriorating global economic outlook, low oil prices, and high asset price volatility have caused an unprecedented credit shock across a range of sectors, regions and markets. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. Today's action reflects the impact on Global Liman of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered.

For Global Liman specifically, the coronavirus outbreak resulted in a cancellation in cruise calls through the year and decrease in marble exports to China and other container volumes. In the first half of 2020, Global Liman's cruise passenger volumes were down 87% and container volumes fell by almost 14%. While performance of the general cargo volumes was stronger and Global Liman's performance was supported by cost cutting measures, the company's EBITDA was down 69% to USD11.3 million in the first half of 2020.

Moody's expects no meaningful recovery in cruise operations this year, which will result in a continued cash burn for cruise ports despite Global Liman's initiatives to reduce costs and cut or defer investments. As a result, the commercial segment will be the sole cash flow generator, with the port of Akdeniz-Antalya in Turkey accounting for the bulk of earnings. In the first half of 2020, the port of Akdeniz-Antalya contributed USD11.9 million to the company's adjusted EBITDA.

Given the steep EBITDA decline, Moody's expects Global Liman's adjusted leverage to increase to above 15x in 2020. This leverage has to be considered in the context of the company's remaining concession life. The port of Akdeniz-Antalya, which is currently the main asset supporting Global Liman's cash flows, has a concession that will expire in August 2028. The sustainability of Global Liman's capital structure is therefore reliant on the recovery in the cruise segment.

Global Liman's rating further considers the company's exposure to the general economic and political environment in Turkey (B2, negative). While the company holds a portfolio of international assets, the reduction in cruise activity means that earnings are primarily generated by the port of Akdeniz-Antalya, increasing Global Liman's exposure to the evolving regulatory and legal environment in Turkey.

Moody's notes that Global Liman's owner -- Global Ports Holding Plc (GPH) -- started a sale process for its commercial port operations in line with its strategic objective to focus on the cruise segment. Any disposal would result in a material shift in the group's business profile and its capital structure. While management indicated that the sale could be agreed in the coming weeks, there is uncertainty as to the final outcome and timing of the completion of the process.

Overall, Global Liman's Caa1 CFR reflects (1) the uncertainty and magnitude of the operational disruptions caused by the coronavirus pandemic; (2) the company's weakening liquidity; (3) its high financial leverage in the context of a decreasing concession life; and (4) the high cash flow concentration derived from the port of Akdeniz-Antalya in Turkey. The rating further considers Global Liman's relatively small size and complex group structure, as well as its linkages with the wider GPH group, which has a higher financial leverage and exhibits significant negative free cash flows, given investments in the newly acquired ports of Nassau and Antigua, albeit these have been fully funded.

STRUCTURAL CONSIDERATIONS

The Caa1-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 Caa2 rating on the senior unsecured notes due 2021 is one notch below the CFR, reflecting a significant 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.

LIQUIDITY

As of end-June 2020, Global Liman's liquidity was supported by around USD26.5 million in unrestricted cash. The company does not maintain any external committed facilities and is thus reliant on internal cash flow generation for debt service, which includes USD30 million in annual interest payments. While Moody's expects Global Liman to have sufficient liquidity to support its operations during a limited period of disruptions to the cruise operations, the company is exposed to a refinancing risk. As of end-June 2020, Global Liman had USD48.1 million in maturities of short-term loans and borrowings. The company's USD250 million bond comes due in November 2021.

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 and uncertainty around the pace of recovery in cruise volumes.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the negative outlook, a rating upgrade is currently unlikely. However, the outlook could be stabilized if Global Liman strengthens its liquidity and it appears likely that the company's earnings start to recover. This will also take into account the performance of the wider GPH group.

The ratings could be upgraded if the company addresses its capital structure and debt maturities in a manner that leaves it with adequate liquidity and more sustainable financial position.

Conversely, Moody's could downgrade the ratings if Global Liman's liquidity profile is further weakened or if the company fails to evidence recovery in the cruise segment, leading to a potentially distressed capital structure.

The principal methodology used in these ratings was Privately Managed Port Companies published in September 2016 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1040210. Alternatively, please see the Rating Methodologies page on 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:

.... LT Corporate Family Rating, Downgraded to Caa1 from B3

.... Probability of Default Rating, Downgraded to Caa1-PD from B3-PD

.... BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to Caa2 from Caa1

Outlook Actions:

..Issuer: Global Liman Isletmeleri A.S.

....Outlook, Remains Negative

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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