Bulletin:

Abu Dhabi Ports' Fourth M&A Transaction Should Leave Credit Quality Intact

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This report does not constitute a rating action.

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DUBAI (S&P Global Ratings) Dec. 8, 2022--S&P Global Ratings said today that **Abu Dhabi Ports Co. PJSC**'s (AD Ports') merger and acquisition (M&A) spree over the past few months has not materially altered the path of the company's financial ratios. AD Ports (A+/Stable/--) recently announced the merger of its staff accommodation business, KEZAD Communities, with Al Eskan Al Jamae LLC (EAJ), marking the company's fourth transaction since September 2022. The noncash deal is expected to close in early 2023.

We expect AD Ports' ratios over 2023-2024 will remain in line with our base case, including our projections of funds from operations (FFO) to debt above 13% and debt to EBITDA below 4x. Specifically after the EAJ transaction, we forecast that debt to EBITDA will approach 3.5x-3.6x in 2023 and liquidity will remain adequate. The EAJ deal will create the largest staff accommodation company in Abu Dhabi, with owned and managed capacity of 135,000 beds. Following the merger, KEZAD Communities will be majority owned and consolidated into AD Ports' balance sheet. For the nine months ended Sept. 30, 2022, EAJ reported United Arab Emirates dirham (AED) 205 million in revenue and AED120 million in EBITDA.

We continue to view AD Ports' recent M&A activity as accretive to the business (see "Abu Dhabi Ports' Acquisitions Are Within Credit Metric Thresholds," published Nov. 23, 2022, on RatingsDirect). That said, we do not think the potential impact of the EAJ transaction is enough to materially bolster AD Ports' stand-alone creditworthiness. In our view, there is limited potential for a positive rating action over the next 24 months because an upgrade would require one-notch improvements in both the stand-alone credit profile (SACP; bbb) and our long-term sovereign credit rating on Abu Dhabi (AA/Stable/A-1+), which is not our base-case scenario. We regard AD Ports as a government-related entity, with a very high likelihood of receiving timely and sufficient extraordinary support from Abu Dhabi. We expect the government to remain the significant majority shareholder of AD Ports (via Abu Dhabi Developmental Holding Co. PJSC, which owns 75.42%).

We will continue to monitor developments in the company's expansion plans, business models, and associated synergies, as well as management's capacity to run a more geographically diverse and complex group.

Related Research

- Abu Dhabi (Emirate of), Nov. 28, 2022
- Abu Dhabi Ports' Acquisitions Are Within Credit Metric Thresholds, Nov. 23, 2022
- Abu Dhabi Ports Co. PJSC, Aug. 23, 2022

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