



PRESS RELEASE:

Credit Rating of Port Autonome de Dakar

WARA has downgraded the credit rating of Port Autonome de Dakar (PAD) from BBB+ to BBB on occasion of its third review. The outlook is stable.

PAD, a Senegalese public-sector company, is now rated BBB by WARA, with a stable outlook.

Dakar, 02/15/2016 — **West Africa Rating Agency (WARA)** revised today the rating of **Port Autonome de Dakar (PAD)** following its third review. On WARA's regional scale, PAD's long-term rating was lowered by one notch, from "BBB+" to « **BBB** », still in the investment grade category, while its short-term rating remains "w-4". The ratings reflects the Port's weaker governance, as well as the deterioration of its structural financial performance. However, the outlook attached to the ratings remains **stable**.

Simultaneously, on its international scale, WARA also lowered the ratings of Port Autonome de Dakar to iB/Stable/iw-6.

PAD's ratings remain dependent on the company's capacity to build stronger governance principles and practices, with a more robust management of the risks inherent to the control of strategic decisions, on its capacity to protect its competitive position in West Africa, and on its ability to make the recurring investments necessary to the maintenance and modernization of its infrastructures. The strategy of a "proprietary port" pursued by PAD, whereby some parts of the port are managed by private-sector third parties via concessions, remains a positive and critical rating factor. This strategy provides 4 immediate benefits to PAD: i) the port takes advantage of the expertise and know-how of the private-sector companies exploiting the concessions; ii) some of the investments pertaining to the concessions are supported by the operating companies themselves, not by PAD; iii) PAD keeps ownership of the infrastructure at the end of the concession period; and finally iv) PAD transfers some commercial risk to the operating companies. However, the continuity of its governance principles, which in turn deeply influence the quality of its strategic decision-

making process, weighs on the port's ratings.

"The long-term rating in regional currency assigned to PAD, i.e. BBB, still factors in 2 notches of external support" said Ndeye Thiaw, WARA's lead analyst on PAD. "WARA indeed believes that the strategic importance of PAD for the State of Senegal, which fully owns the port, is high, as PAD is a government entity established by decree, which contributes 30% of the government's fiscal revenues and 90% of its customs revenues" Mrs. Thiaw added.

A national company since the 1st of July 1987 following Decree n°87-1552 dated 19 December 1987 approving the articles of association of Port Autonome de Dakar as a national company, PAD was first established as a public-sector entity with construction of the first fishing pier in 1962. "Dakar's port holds a geographic position at the crossroads of sea lines linking Europe to Latin America, and North America to Southern Africa. In addition, PAD is the first deep-sea, Sub-Saharan port where ships arriving from the North stop, and the last port where ships coming for the South stop. This strategic geographic location constitutes an essential rating driver".

An upgrade of PAD's ratings will depend on: i) better control on several expense items, especially those pertaining to the labor force, which weaken the company's profit margin and slow down the deleveraging process; ii) improving the process of recovering receivables, especially those due by the State of Senegal and government companies, an amount that stood at 19 billion CFA francs and keeps on growing; iii) the complete clarification of the relationships between Dubai Port World, PAD and the State of Senegal, as the uncertainties pertaining to the negotiations on the contract establishing such collaboration weigh on PAD's ratings, which competitive position might suffer if the required investments are further delayed; and iv) better governance policies, with a more diversified Board of Directors, inclined to adopt more effective and efficient risk management practices, and more prudent allocation of financial resources.

A downgrade of PAD's ratings would be the consequence of: i) PAD's financial profile further weakening, following a jump in fixed expenses in comparison to revenues; ii) scarcer funding sources (from banks or markets) which PAD is used to accessing; iii) delayed recovery of the receivables due by the State of

Senegal, which remain on an upward trend and weaken PAD's financial flexibility among other rating drivers; iv) further delays in the investments necessary to protect PAD's competitiveness, in particular the start of the project named "the Port of the Future"; or v) further weakening in governance practices, which in turn would make the company's strategic decision-making more fragile.

With a **stable** outlook, WARA signals that the probability of favorable scenarios is equivalent to that of unfavorable ones in the medium term, which means in other words that PAD's ratings carry as many chances of upgrades as risks of downgrades, under the constraint of Senegal's national ceiling, which WARA currently keeps at 'A-'.

The methodology used by WARA to rate PAD is the credit rating methodology for the industrial and commercial companies, which was published on 15 July 2012 and revised in August 2013, and is available on WARA's website (www.rating-africa.org).

Information sources used by WARA to perform credit ratings on PAD are mainly private information collected during discussions with the company's management team in November 2015. This information, together with publicly available sources, is considered by WARA as relevant and sufficient for carrying out the credit ratings of PAD.

Finally, WARA emphasizes that the credit ratings of PAD was solicited and participating, meaning that it was performed upon a request by the company, and that PAD's management actively participated in the discussions with WARA's analytical team.

PAD's rating of "BBB" is 1 notch above the credit rating accepted by the CREPMF to issue debt without a guarantee.

The comprehensive credit rating report is available upon request by e-mail at: infos@rating-africa.org

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