



# Port Credit Ratings

## AAPA Finance Seminar

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April 2018

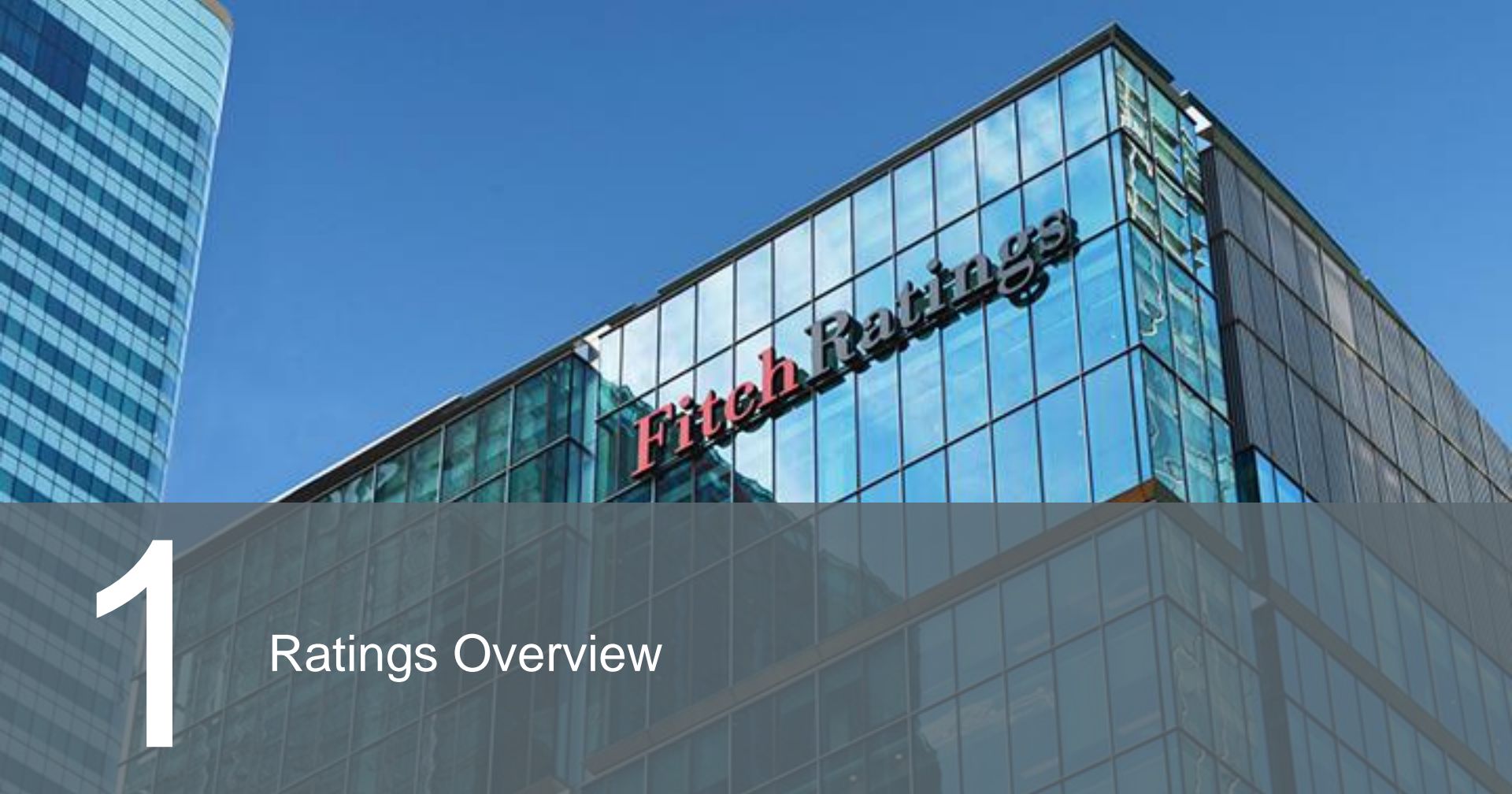
**Fitch**Ratings



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# 1

## Ratings Overview

# What Is a Credit Rating?



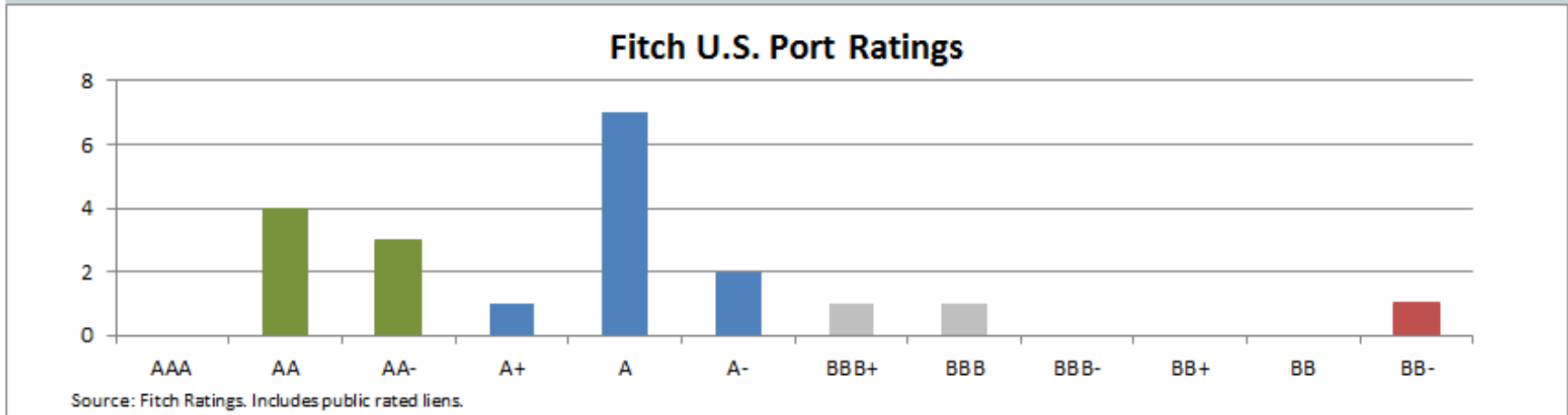
- A rating is an independent assessment of credit quality
- The rating reflects our view of the **likelihood of full and timely repayment**
  - Can apply to a single debt obligation, or a group of parity obligations
    - Based on issuer’s ability (**quantitative**) and willingness (**qualitative**) to pay
    - Various ratings products: Public ratings, private ratings, and ratings assessment service
- Rating Scales
  - Long Term / Short Term / Recovery / National Ratings
- Ideally should apply “through the cycle”
  - Fitch’s U.S. port ratings through “great recession”: No defaults
  - Rating case will consider conservative scenarios, not “management case”
    - Low / Flat Growth
    - Downturns
    - Concentration related shock (if appropriate)

	Rating	Definition
Investment Grade	AAA	Highest Credit Quality
	AA	Very High Credit Quality
	A	High Credit Quality
	BBB	Good Credit Quality
Speculative Grade	BB	Speculative
	B	Highly Speculative
	CCC, CC, C	High Default Risk
	D	Default

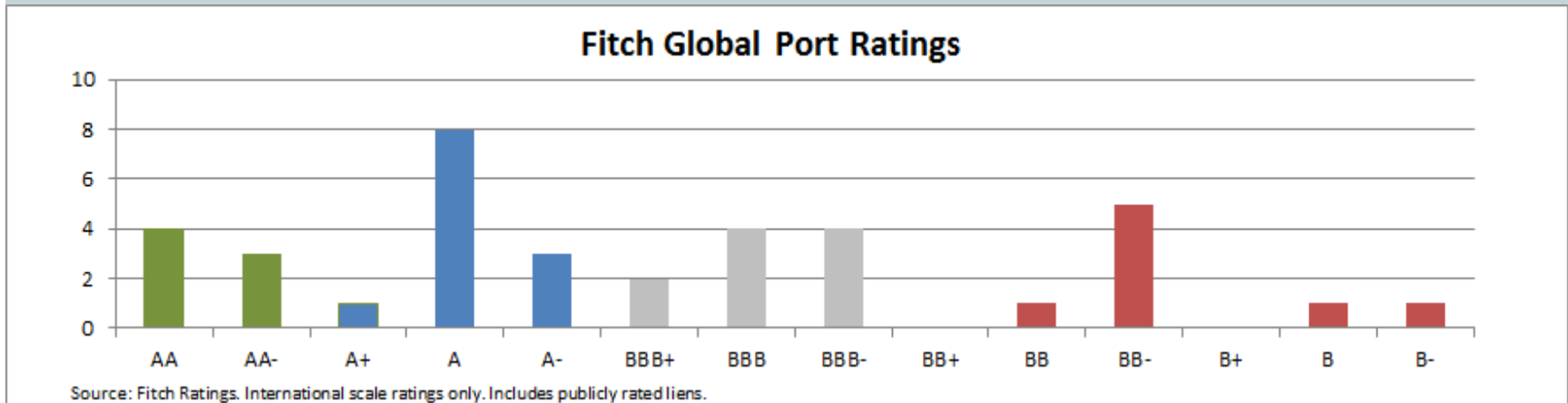
# Port Ratings: Solid Investment Grade Credits



## Majority (95%) Of U.S. Ports Rated By Fitch Investment Grade



## Majority (78%) of Global Ratings are Investment Grade; Distribution Skews Lower



Note: As of April 2018. Ratings reported by lien level, reflects publicly rated standalone U.S. ports.

# U.S. Port Ratings Are Resilient: Actions 2008 – 2018



## Negative Actions Taken During Recession Have Resolved. Positive Actions Resuming...

### History of US and LATAM Port Rating Actions - 2008 to Present (April 2018)

Port	Ratings - 2008-2018											Outlooks - 2008-2018										
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Harbor Department of Los Angeles	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Port of Long Beach		AA/AA-	AA/AA-	AA/AA-	AA/AA-	AA	AA	AA	AA	AA	AA	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Port of Houston Authority		AA/AA	AA-	AA-								Stable	Stable	Stable								
State of Hawaii (Dept. of Transportation)	AA-	A+	A+	A+	A+	A+	A+	A+	A+	A+	A+	Stable	Pos	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Port of Beaumont Navigation District	AA-	AA-/AA-/AA-	A	A	A	A	A	A	A	A	A	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
San Diego Unified Port District		A+	A+	A+	A+	A+	A+	A+	A+	A+	A+	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Neg	Neg	Stable	Stable
Broward County-Port Everglades		A	A	A	A	A	A	A	A	A	A	Pos	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Canaveral Port Authority		A	A	A	A	A	A-	A-	A-	A-	A	Stable	Stable	Stable	Stable	Stable	Stable	Pos	Stable	Stable	Stable	Stable
Hillsborough County Port District (Tampa)		A	A	A	A	A	A	A	A	A	A	Stable	Pos	Pos	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Jacksonville Port Authority	A	A	A	A	A	A	A	A	A	A	A	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Neg	Stable	Stable
Miami-Dade County - PortMiami		A	A	A	A	A						Stable	Stable	Stable	Stable	Stable						
San Francisco Port Commission	A	A	A	A	A	A	A	A	A	A	A	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Alameda Corridor Transportation Authority	A/BBB+	A/BBB+	A/BBB+	A/BBB+	A/BBB+	A/BBB+	A/BBB+	A/BBB+	A/BBB+	A/BBB+	A/BBB+	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Neg	Watch	Stable
Alabama State Port Authority	A-	A-	A-	A-	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	Neg	Neg	Neg	Stable	Pos	Stable	Stable	Stable	Stable	Stable	Stable
North Carolina State Ports Authority	A-	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	Stable	Pos	Pos	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Commonwealth Port Authority		BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Neg	Neg	Stable	Stable

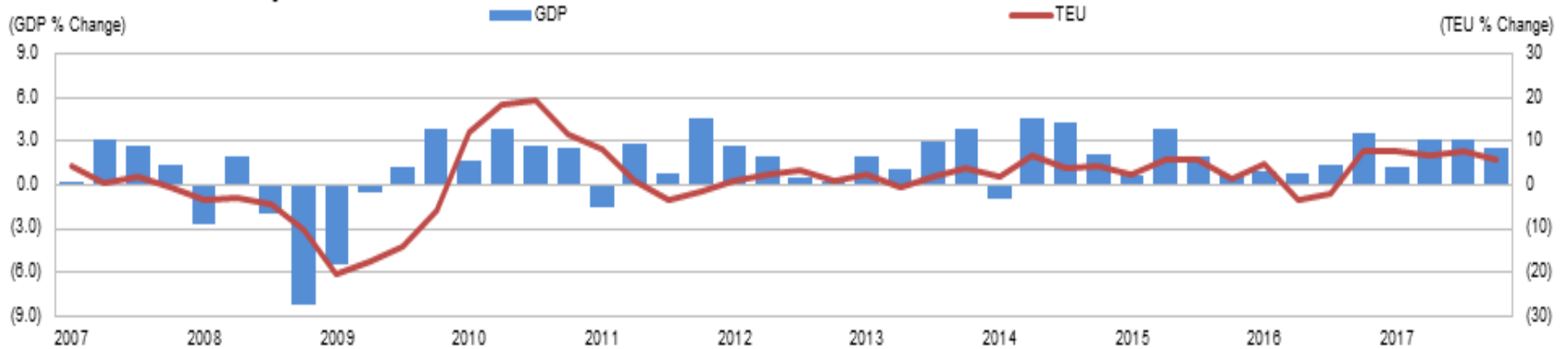
Note: Reflects reviews completed as of April 2018.



## Fitch Expects Overall Volume Growth In-Line with GDP (~2.5%)

- Recent shake-ups from shipping mergers, alliances and bankruptcies are moderating, with volume shifts still underway
- While individual ports may experience sharper cargo changes linked to specific counterparties or markets, overall volume/revenue growth is expected to track U.S. GDP (2.5% for 2018)
  - 2017 trends were above GDP (6% - 7%), YTD 2018 showing strong volumes as well
- Capacity improvements facilitating efficient cargo movement both in-port and beyond continue to dominate port capital programs as vessel size and cargo loads continue to grow

U.S. GDP Versus Quarterly TEU Growth Rate



TEU – 20-foot equivalent units.  
 Source: U.S. Bureau of Economic Analysis, Port websites.



Issue	Expectation
<b>Shifting Trade Policy and Tariffs</b>	<ul style="list-style-type: none"><li>• Potential adverse effects for some ports</li><li>• Tariffs: First impacts at facilities handling large volumes of steel and aluminum, materials related to their processing</li><li>• Trade agreements in flux, changes will have multiyear effects</li></ul>
<b>Cargo Activity</b>	<ul style="list-style-type: none"><li>• Larger ships, operational alliances driving strong volume growth on both coasts</li><li>• Continued growth expected in cargo traffic, keeping pace with the broader U.S. economy</li></ul>
<b>Shippers + Route Decisions</b>	<ul style="list-style-type: none"><li>• Alliances increase volumes, shippers with memories of labor issues/ congestion seek to balance cargo – puts discretionary cargo “In Play”</li><li>• Strategic shifts due to shipping mergers, bankruptcies and alliance changes can call prior agreements into question</li></ul>
<b>Capital Improvements + Investments</b>	<ul style="list-style-type: none"><li>• Investments focused on accommodating larger vessels (deepening, congestion management, inland and intermodal connectivity)</li><li>• Funding sources for port development expanding</li><li>• Increasing interest in single-asset port facilities and terminals</li></ul>





# 2

## Rating Ports

# What Determines a Rating?



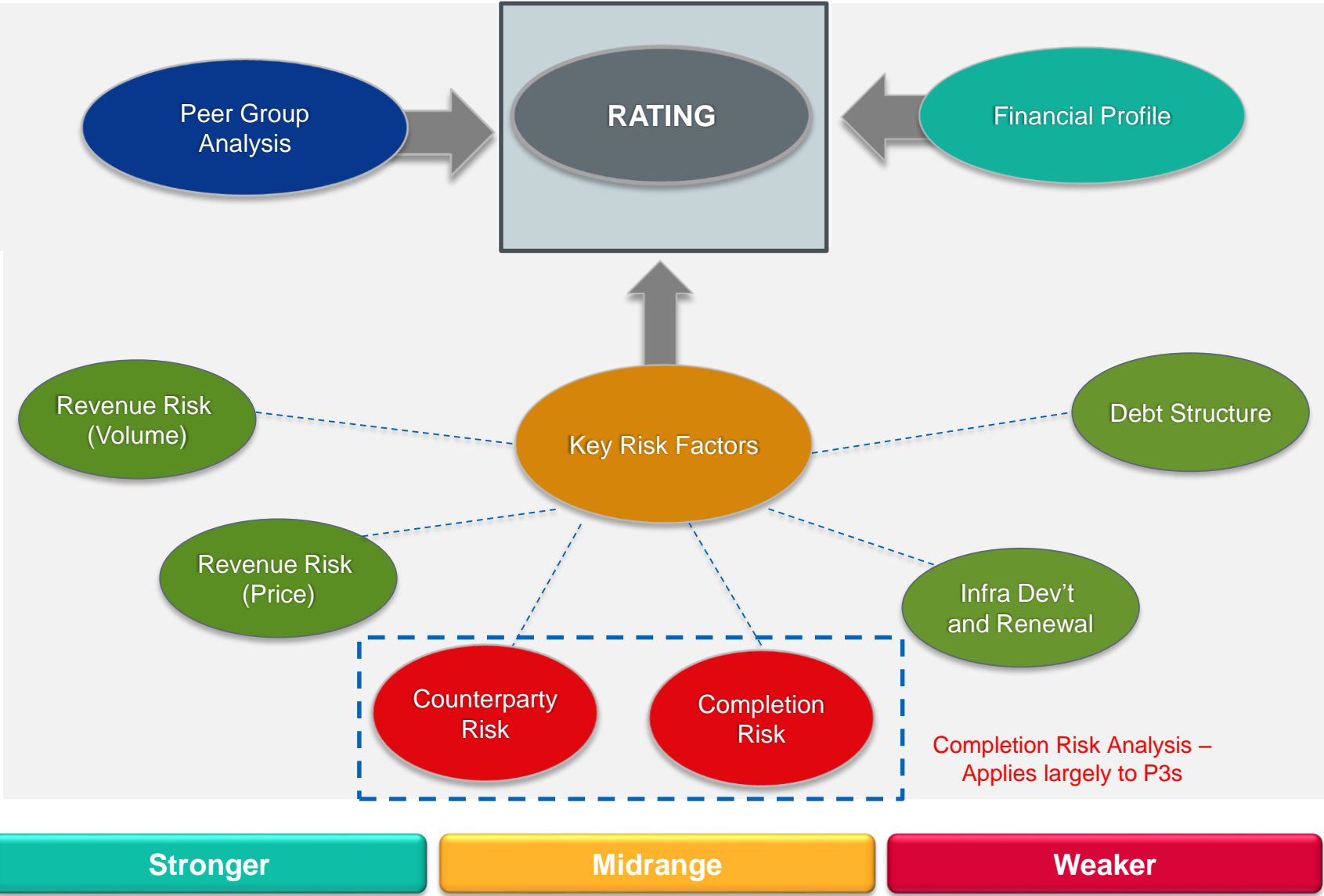
## Key Rating Factors

- Economic base and operating performance
- Revenue raising ability, tax and/or grant accessibility
- Financial condition, including debt affordability
- Security pledge, priority, and legal covenants
- Management's expertise and practices
- Political risk

## Other Points of Consideration

- One size does NOT fit all — different structures used for different issuers and projects
- Depending on extent of needs an issuer might employ multiple structures
- Each structure is independently evaluated by Fitch
- Rating ranges highlighted in our reports

# Analytical Approach – Port Financings



# Peer Analysis – Key Rating Driver Assessments



## Port Ratings and Key Rating Driver Assessments

Port	Rating	Outlook	Revenue Risk: Volume	Revenue Risk: Price	Infrastructure Dev./Renewal	Debt Structure
<b>AA Category</b>						
Harbor Department of Los Angeles	AA	Stable	Stronger	Stronger	Stronger	Stronger
Port of Houston <sup>a</sup>	AA/AA	Stable	Stronger	Stronger	Stronger	Stronger
Port of Long Beach <sup>b</sup>	AA/AA–	Stable	Stronger	Stronger	Midrange	Stronger/Midrange
Port of Beaumont Navigation District	AA–	Stable	Midrange	Midrange	Midrange	Stronger
State of Hawaii (Dept. of Transportation)	AA–	Stable	Stronger	Midrange	Midrange	Stronger
<b>A Category</b>						
San Diego Unified Port District	A+	Stable	Midrange	Midrange	Stronger	Stronger
Broward County-Port Everglades	A	Positive	Midrange	Midrange	Stronger	Stronger
Canaveral Port Authority	A	Stable	Midrange	Midrange	Midrange	Stronger
Hillsborough County Port District (Tampa Port Authority)	A	Stable	Midrange	Midrange	Stronger	Midrange
Jacksonville Port Authority	A	Stable	Midrange	Midrange	Midrange	Stronger
Port Miami	A	Stable	Midrange	Stronger	Midrange	Midrange
San Francisco Port Commission	A	Stable	Midrange	Midrange	Weaker	Stronger
Alabama State Port Authority	A–	Negative	Weaker	Midrange	Midrange	Stronger
North Carolina State Ports Authority	A–	Stable	Midrange	Midrange	Midrange	Midrange
<b>Below Investment Grade</b>						
Commonwealth Port Authority	BB–	Stable	Weaker	Weaker	Midrange	Stronger

<sup>a</sup>Port of Houston reflects GO and Issuer Default Rating, respectively. Port of Houston has no revenue bonds outstanding at present. <sup>b</sup>Port of Long Beach reflects senior and subordinate lien ratings, respectively.

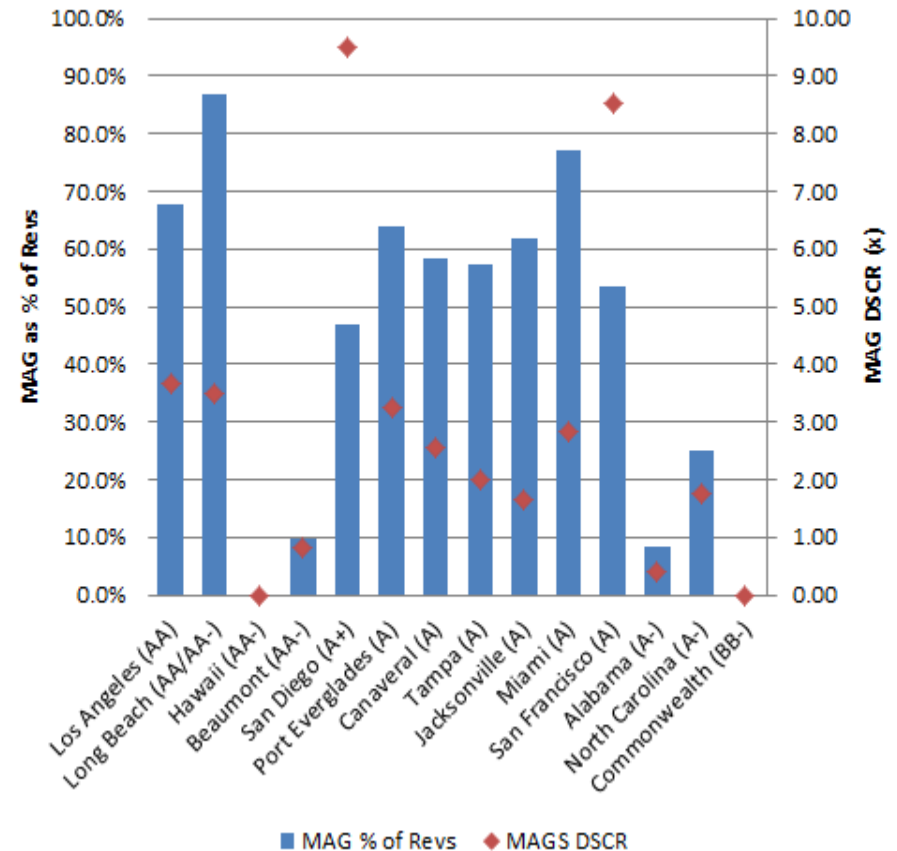
Source: Fitch Ratings.

# Revenue Stability Supports Higher Rating Levels



- Port income streams come from a variety of sources:
  - Wharfage / dockage fees
  - Stevedoring fees
  - Rental and lease revenues
  - Others
- Importance of various revenue lines will depend on business model and throughput mix:
  - Cargo vs Cruise, Bulk vs Container
  - Primary Service Area vs Discretionary Cargo
  - Landlord vs Operator Port
- Guarantees / pricing structure may limit exposure to volatile throughputs
  - MAGs = 45% revenues on average for standalone credits, 50-60% for 'A' and higher
  - MAGs cover debt service for many ports

## Minimum Annual Guarantees





Rating Category	DSCR	Net Debt/ EBITDA	Days Cash on Hand
'AA'	2.5x or higher	4.0x or lower	400 or higher
'A'	1.4x – 2.5x	4.0x – 8.0x	300 or higher
'BBB'	Strength/narrowness of franchise is a key driver, with offsetting factors (i.e. adverse leverage/coverage) to be considered that counteract a strong franchise		

A photograph of a modern glass skyscraper with the 'Fitch Ratings' logo mounted on its facade. The logo consists of the word 'Fitch' in red and 'Ratings' in grey. The building is set against a clear blue sky. To the left, another curved glass building is partially visible.

Fitch Ratings

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## Case Studies: Recent Rating Actions



## What Does the Rating Reflect?

- Harbor system's natural monopoly position serving the islands of Hawaii
- Stable volume growth since 2011 coupled with implemented multi-year tariff rate increases, providing revenue stability
- Fitch expects maintenance of historically robust financial profile despite a sizable CIP that includes additional debt.

## What Drove the Upgrade?

- Continued strong financial performance in terms of coverage, liquidity, and leverage
- Positive operational activities and enacted tariff adjustments driving strong metrics
- Increased focus on cash funding for the port's multi-year capital program, in addition to anticipated additional borrowings

## Key Rating Drivers

Stable Volume Supported by Natural Monopoly - Revenue Risk (Volume): **Stronger**

Scheduled Tariff Increases - Revenue Risk (Price): **Midrange**

Considerable Capital Plan - Infrastructure Development and Renewal: **Midrange**

Conservative Debt Structure - Debt Structure: **Stronger**

## Financial Profile

- Stable operating margins
- Sizable liquidity cushion: 1,320 DCOH, target to maintain 1,000 days
- DSCR: 2x + (3.2x in FY2017) historically and through forecast period
- All-in leverage: 1x-3x range in the next five years including additional borrowing for CIP





## What Does the Rating Reflect?

- Strong financial profile and coverage metrics which provide some insulation from revenue and volume volatility
  - Volatility driven by operating port structure and commodity heavy cargo mix
- Diversification of cargo and shipping lines under management’s growth strategy, coupled with volume increases which Fitch expects to continue
- Capital plan majority funded from state appropriations, focused on modernization and accommodations for post-Panamax ships

## What Drove the Upgrade?

- Sustainable, robust financial metrics
- Operating resiliency evidenced by a quick and full recovery after the loss of Hanjin (largest customer)
- Ongoing diversification in carriers and volume
- Increase in state appropriations (with flexibility to use funds for capital / debt expenditures) provides considerable financial cushion

## Key Rating Drivers

Regional Port Seeking Diversification - Revenue Risk (Volume): **Midrange**, revised from **Weaker**

Fluctuating Cash Flows, Some Protection - Revenue Risk (Price): **Midrange**

State-funded Capital Plan - Infrastructure Development & Renewal: **Stronger**

Moderate Debt Structure - Debt Structure: **Midrange**

## Financial Profile

- Somewhat volatile but satisfactory operating and financial performance
- Adequate liquidity : 446 DCOH
- DSCR: Senior 3x+, All-in 2x+ thru forecast period
- All-in leverage: 3.5x in 2017, expected to rise somewhat over next 5 years but in-line with rating category



## What Does the Rating Reflect?

- Secondary port of call with elevated commodity concentration
- Volatile revenue profile with limited fixed contractually obligated payments, partially mitigated by availability of state tax revenues for debt service and management's control of opex
- Flexible CIP with limited add'l borrowing
- Metrics are consistent with the A rating category
- Rating somewhat constrained by the volatile future impact of commodities on Port's financial profile.

## What Drove the Negative Outlook?

- Uncertainty surrounding trade policy (tariffs), and potential to impact port throughput, and revenue
- Coal, steel volume have stabilized, which improved the port's finances in fiscal 2017
- However, overall financial performance still lower than expected due to recent throughput volatility, which could lead to negative rating action if it persists

## Key Rating Drivers

Relatively High Commodity Exposure - Revenue Risk (Volume): **Weaker**

Limited Contractually Obligated Payments - Revenue Risk (Price): **Midrange**

Some Potential Debt-Funding of CIP - Infrastructure/Renewal: **Midrange**

Conservative Debt Structure - Debt Structure: **Stronger**

## Financial Profile

- Operating revenues up 5% in FY 2017 (rebounding coal and steel markets), opex flat
- Improving liquidity : 239 DCOH (vs 170 yr prior)
- DSCR: 1.9x (2.3x when State resources are included)
- All-in leverage: 4.5x at fiscal year-end 2017, 4-5x through forecast period



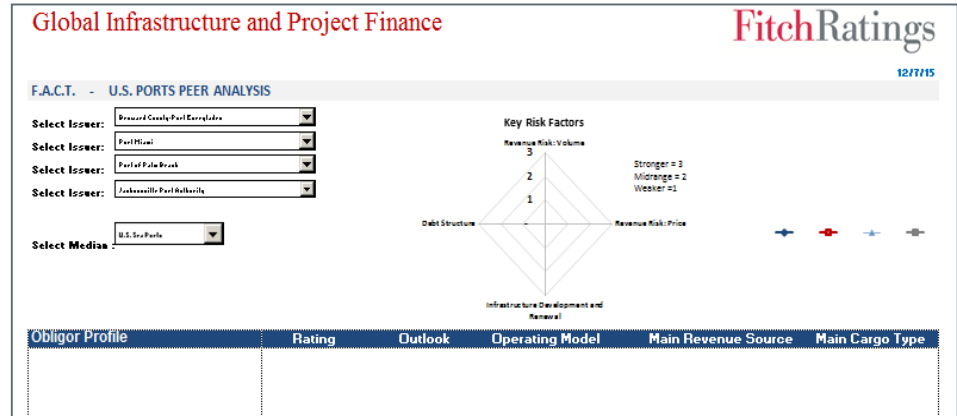
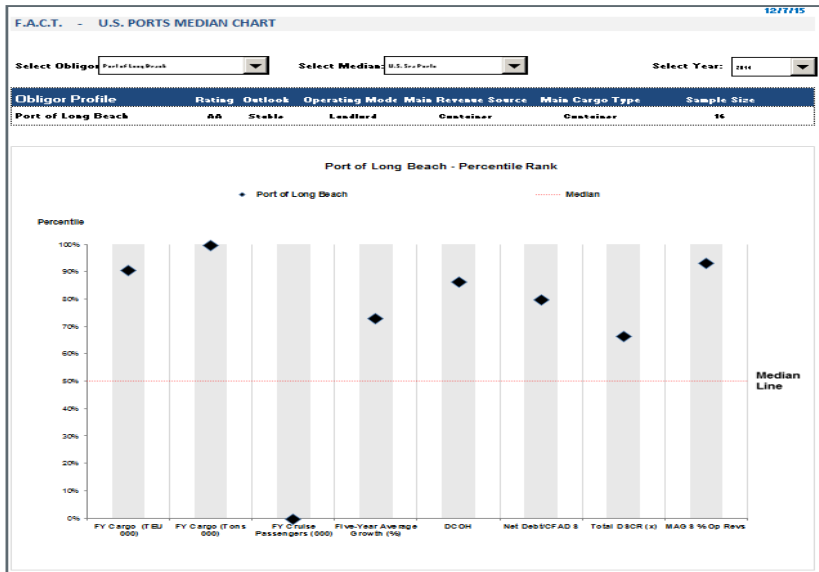
**Global Infrastructure and Project Finance** **FitchRatings**  
12/7/15

**FITCH ANALYTICAL COMPARATIVE TOOL**

F.A.C.T. - U.S. PORTS

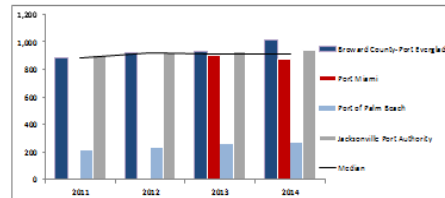
Select View: Financial - Medians U.S. Sea Ports

Financial - Medians	2011	2012	2013	2014
DCOH	388	437	359	382
Total DSCR (x)	2.06	2.31	2.27	2.44
Net Debt/CFADS	3.03	2.49	2.81	2.52
MAGS % Op Revs	49.45%	52.66%	59.40%	59.62%
<i>Number of Rated Issuers</i>	<i>15</i>	<i>15</i>	<i>16</i>	<i>16</i>

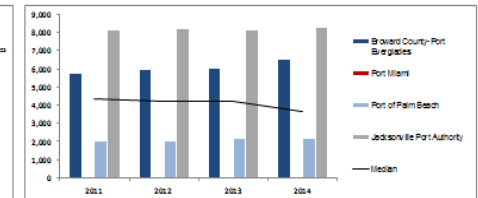


## Operational

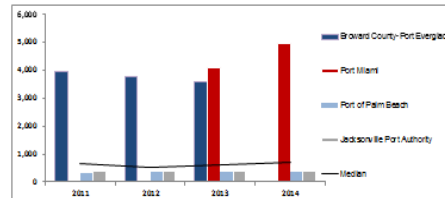
### FY Cargo (TEU 000)



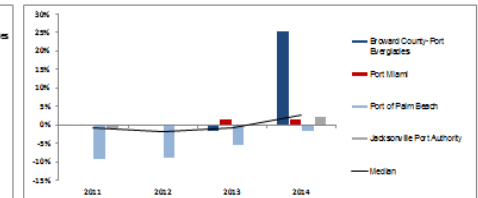
### FY Cargo (Tons 000)



### FY Cruise Passengers (000)



### Five-Year Average Growth (%)



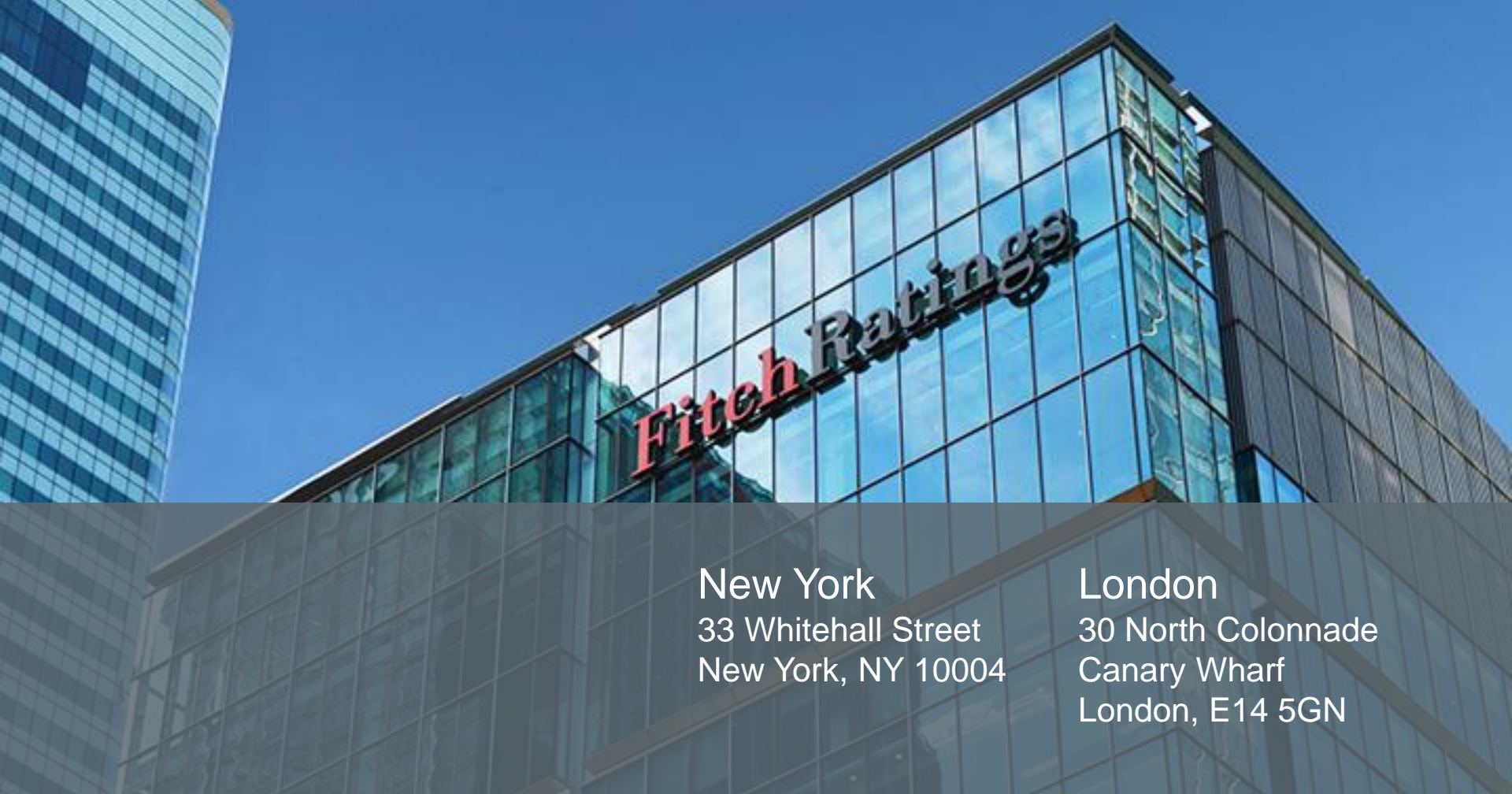
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