



# Port Bond Ratings

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**Global Infrastructure & Project Finance**

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## **Overview**

Introduction to Ratings

Fitch's Transportation Outlooks

Fitch's Port Rating Portfolio

Analytical Approach to Port Ratings

# Fitch Global Coverage

## Presence

2,100 Employees in 50 Offices Worldwide

## Ratings

3,700 Public Finance Credits

9,100 Structured Transactions

5,400 Financial Institutions

1,800 Corporations

**347 Global Infrastructure**

105 Sovereigns

206 Sub-Sovereigns

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# What is a Rating?

- Independent Assessment of Credit Quality
- Likelihood of Full and Timely Repayment
  - Debt Obligation or Group of Parity Obligations
    - Based on Issuer's **Ability** (quantitative) and **Willingness** (qualitative) to Pay
    - Public Ratings, Private Ratings, and Credit Assessments
- Rating Scales
  - Long Term
  - Short Term
  - Loss Recovery
  - National Ratings

# Long Term Ratings

- Letter Category Denotes Likelihood of Repayment Over Life of the Obligation
  - **AAA, AA, A, BBB, BB, B** ...
  - “+” and “-” Further Refines Credit Quality
- Outlook — Signals Ratings Direction
  - Stable, Positive or Negative
- Watch — Short-Term or Event Driven Potential Rating Change
  - Stable, Positive or Negative

# Long-Term Rating Scale

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

# A Rating is NOT...

- A Buy / Sell or Investment Recommendation
- A Judgment or Statement Regarding any Aspect of Public Policy
- A Management Scorecard

Rating Agencies Do Not Structure or Advise on Transactions



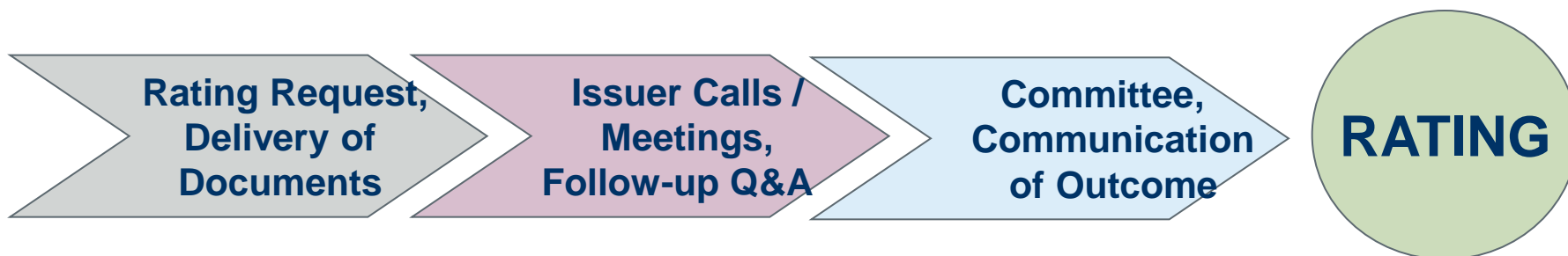
# Why Do Ratings and Rating Agencies Matter?

- A Bridge Between Issuer and Investor
- Increased Investor Knowledge and Acceptance
- Current Economic and Capital Market Environments



**BOTTOM LINE: Higher Ratings = Lower Interest Costs**

# The Rating Process



- **Press Communication:** Press Release Detailing the Rating Assignment
  - Rating Rationale - Key Rating Drivers and Credit Summary
- **Surveillance:** Annual Fitch Reviews of Public Ratings
  - Alert for Changes in Credit Quality

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# Summary of 2011 Transportation Outlooks

- Majority of Fitch Global Transportation Sectors Placed on “Stable” Outlook
- US Airports - Exception With “Stable – Negative” Outlook

Fitch 2011 Transportation Outlooks	
Sector	Outlook
<b>US Transportation</b>	
Airports	Stable - Negative
Seaports	Stable
Toll Roads	Stable
<b>Europe</b>	
Airports	Stable
Toll Roads	Stable
<b>Latin America</b>	
Airports	Stable
Toll Roads	Stable
<b>Asia - Pacific</b>	
Toll Roads	Stable

# Key Drivers to Infrastructure Rating Outlooks

- **Oil Prices – Directly Affects Volume and Cost of Transportation Activity**
- **Economic Growth – Greater Focus on U.S. and Europe**
- **Inflation**
- **Monetary Policy**
- **Global Capital Spending**
- **Regulatory Environment**
- **Market Access**
- **Geopolitical Tensions**

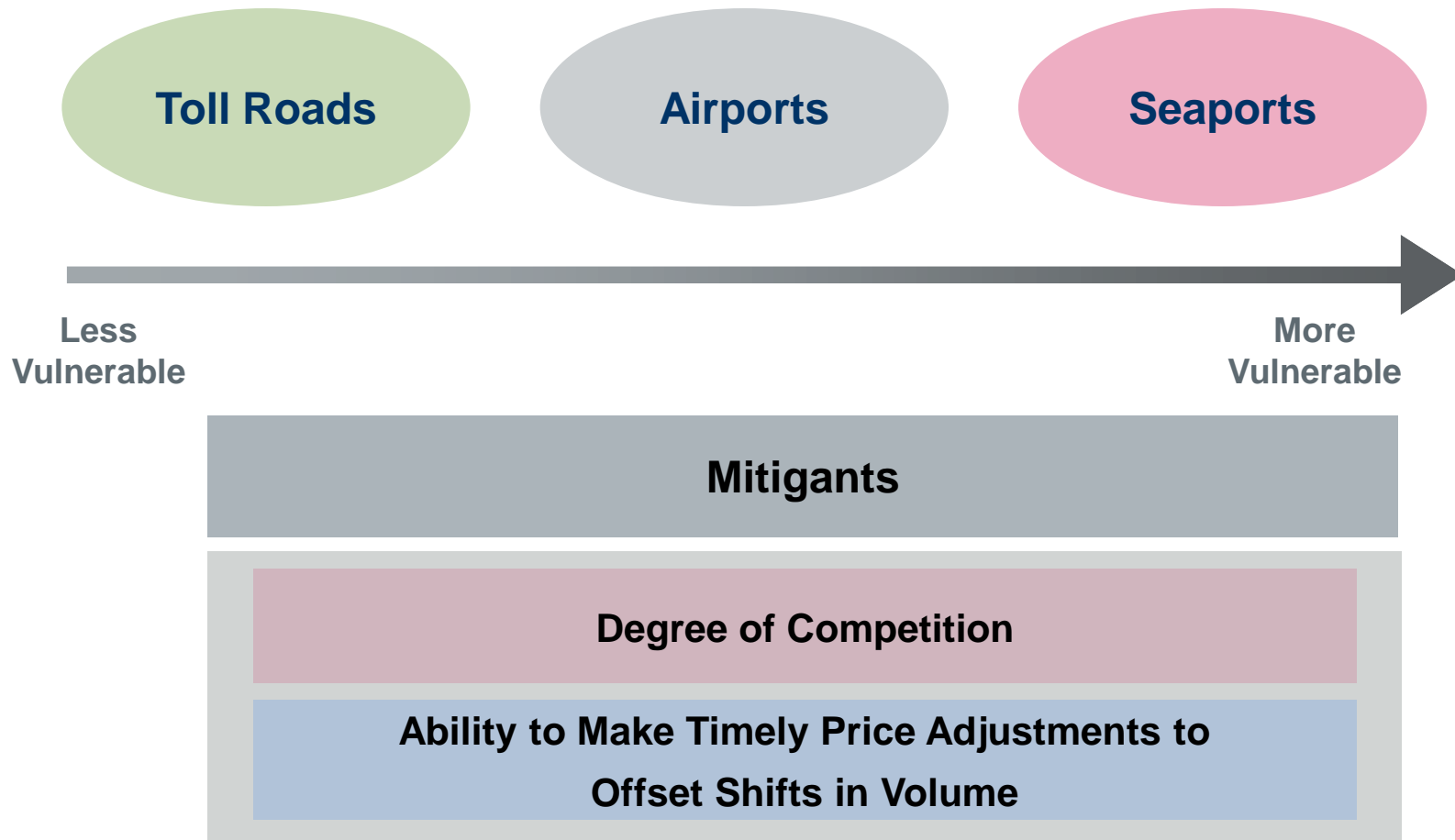
# Outlooks Across Relevant Sectors

## Trends in Related Sectors Which Affect the Transport Business

- US Industrial Sectors
- Global Industrial Sectors
- Sovereigns / Trading Partners

Selected Fitch 2011 Outlooks				
Sector	Outlook	% Outlooks which are:		
		Pos.	Sta.	Neg.
<b>US Industry Sectors</b>				
Coal	Stable	0%	100%	0%
Housing and Homebuilders	Stable	8%	77%	15%
Building and Home Product Services	Stable	0%	78%	13%
Industrials and Capital Goods	Stable	4%	87%	9%
Forest Products	Stable	na	na	na
Mining and Metals	Stable	0%	90%	0%
Retail	Stable	4%	96%	0%
<b>Global Industry Sectors</b>				
Indian Shipping	Negative	na	na	na
Global Aerospace/Defense	Stable	5%	86%	9%
LatAm Forest Products	Stable	18%	82%	0%
LatAm Metals/Mining	Stable	0%	85%	15%
Global Steel Producers	Stable	4%	85%	11%
<b>Sovereigns</b>				
US Tax Backed Credits	Negative	na	na	na
Europe - Emerging	Stable	na	na	na
Europe - Developed	Negative	na	na	na

# Scale of Vulnerability During Downturn by Sector



# Are Infrastructure Ratings Resilient in a Downturn?

Fitch's Rated Portfolio



Profoundly **YES**

- Very Limited Cases of Defaults or Expected Defaults
- Downgrades Occurred but Average Rating Migrated Less Than One Notch
- Few Credits Transitioned from Investment Grade to Below Investment Grade



# Why are the Ratings Resilient?

Natural or Regulated Monopolies

Less Exposed to Pure Market Risks or Discretionary Spending

Leverage Levels Can Withstand Temporary Shocks

Covenants and Reserves Afford Protection to Bondholders and Lenders

Ratings Consider Conservative Scenarios – Low Growth and Downturns

# Actions Taken to Preserve Financial Strength/Flexibility

Eliminating or Rescheduling Capital Expenditures

Improving Operational Efficiency

Negotiating Favorable Terms with Counterparties

Debt Management

# Applying Data in the Rating Process

## Review of Historical Performance

- Volume and Revenue Trends
- Metrics: Cost and Financial
- Management Efficiency

## Development of Forecast Analysis

- Review of Sponsor or Consultant's Assumptions
- Develop Fitch Rating/Base Case and Sensitivities

## Data Comparisons

- Actual Results Versus Covenants and Prior Forecasts
- Comparison to Peer Credits for Rating Consistency

# Retaining Strong Credit Quality – Best Practice

- **Budget Realistically to Conservatively**
- **Maximize Structural Solutions**
- **Formulate “what-if” Scenarios and Develop Contingency Plans**
- **Monitor Revenues and Spending Frequently**
- **Continue Long-Range Financial Planning**
- **Develop and Compliance With Financial/Debt Policies**
- **Develop Framework for Fund Balances**
- **Keep Rating Agencies Informed**

**Simple Steps to Managing Your Credit**

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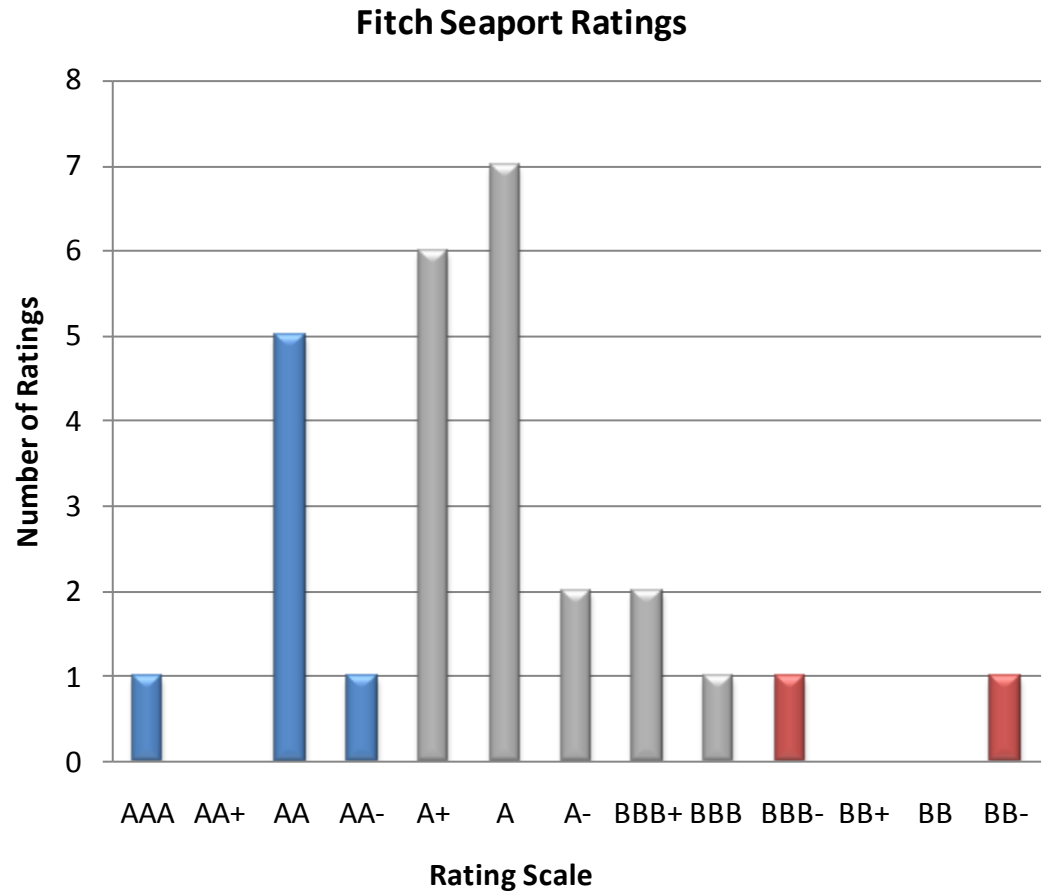
Analytical Approach to Port Ratings

# Seaport Ratings 2011: Profile Remains Investment Grade

Fitch's Rated Portfolio of Seaports Includes:

- 26% AA category or higher
- 55% A category
- 15% BBB category
- 4% BB category

Investment-grade ratings buoyed by essential nature of port infrastructure to the global economy



# Selected Seaport Ratings

AA Category (& up)	A Category	BBB Category (& below)
<p><u>Gateway Ports</u></p> <ul style="list-style-type: none"><li>• Port of Long Beach (CA)</li><li>• Port of Los Angeles (CA)</li></ul> <p><u>Consolidated Entities</u></p> <ul style="list-style-type: none"><li>• Massachusetts Port Authority</li><li>• Port Authority NY/NJ</li><li>• Port of Seattle (WA)</li></ul> <p><u>Tax Revenue Pledge</u></p> <ul style="list-style-type: none"><li>• Port Manatee (FL)</li><li>• Port of Houston (TX)</li></ul>	<ul style="list-style-type: none"><li>• Canaveral Port Authority (FL)</li><li>• Hawaii Harbors Department</li><li>• Hillsborough Co. / Tampa (FL)</li><li>• Jacksonville Port Authority (FL)</li><li>• Port Everglades (FL)</li><li>• Port of Beaumont (TX)**</li><li>• Port of Oakland (CA)</li><li>• San Diego Unified Port (CA)</li><li>• San Francisco (CA)</li><li>• Virginia Port Authority</li></ul>	<ul style="list-style-type: none"><li>• Alabama State Port Authority</li><li>• Commonwealth Port Auth.</li><li>• North Carolina State Port Auth.</li><li>• Port of Palm Beach (FL)</li><li>• Tri-City Regional Port District</li></ul>

*\*\* Limited Tax Pledge*

# Major Seaport Rating Actions: 2008 – 2011

## Ratings Downgrades



- Alabama State Port Authority (AL)
- Canaveral Port Authority (FL)
- Cleveland-Cuyahoga Port (OH)
- Commonwealth Port Authority (NMI)
- Port of Oakland (CA)
- Port of Palm Beach (FL)
- Virginia State Port Authority (VA)

## Outlook Changes



- Jacksonville Port Authority (FL)
- Manatee Port Authority (FL)
- San Diego Unified Port District (CA)
- Tri-City Regional Port District (IL)



# Seaport Outlook Evolution

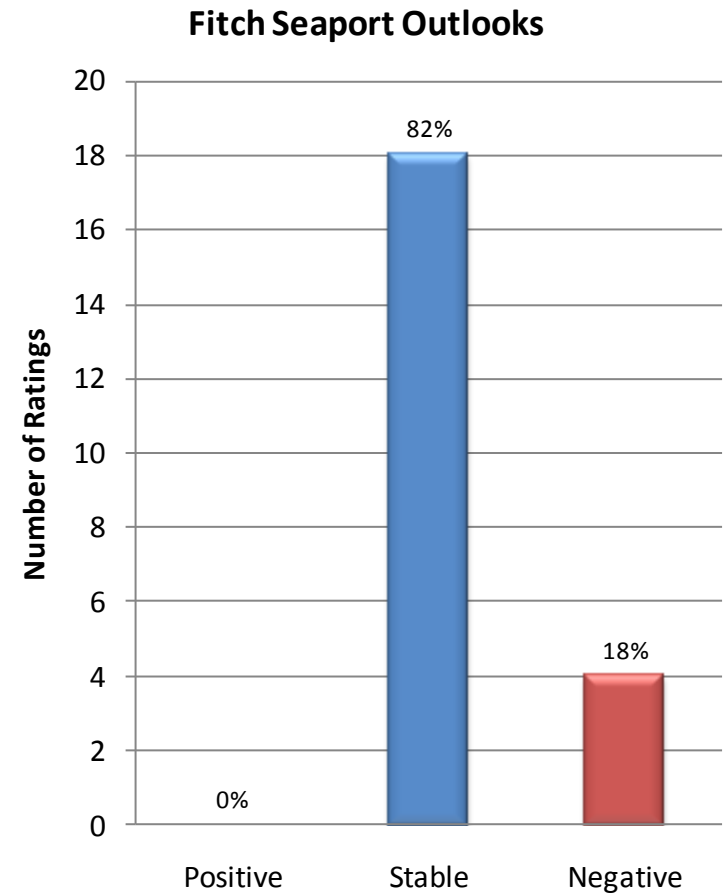
Previous Outlooks	
Pre 2008	Stable to Positive
2008 – 2009	Negative
2010	Stable to Negative
Current Outlook	
2011	Stable

# 2008- 2010 in Review: The Great Recession

- Shift to **stable to negative** in early 2010 reflected:
  - Downturn in trade
  - Foreign and domestic economic uncertainty hit ports hard
  - Sharp contrast with volume growth and capital expansion seen earlier in the decade
- 2010 characterized by consumer restraint, reduced construction, and lower production levels, tempering throughput
- Fragile improvements, susceptible to broader market changes
- Ports borrowed based on expected growth

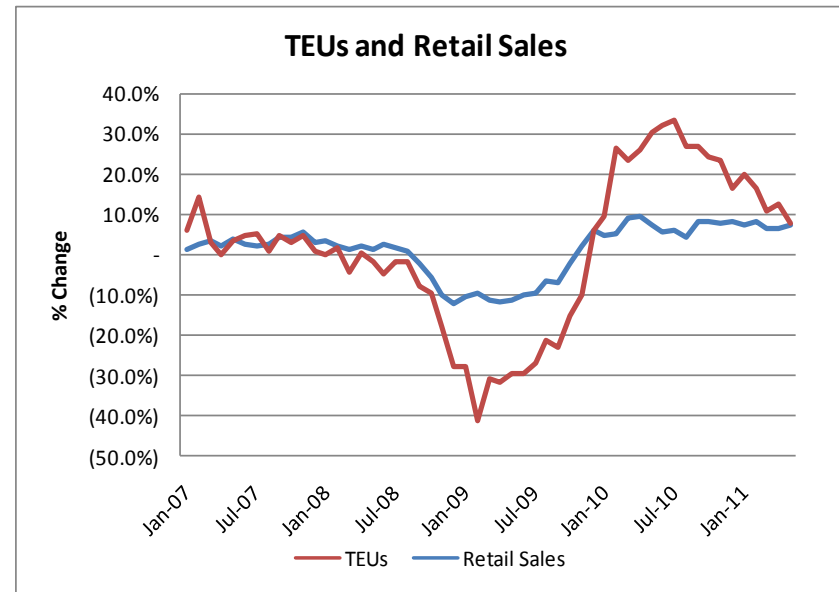
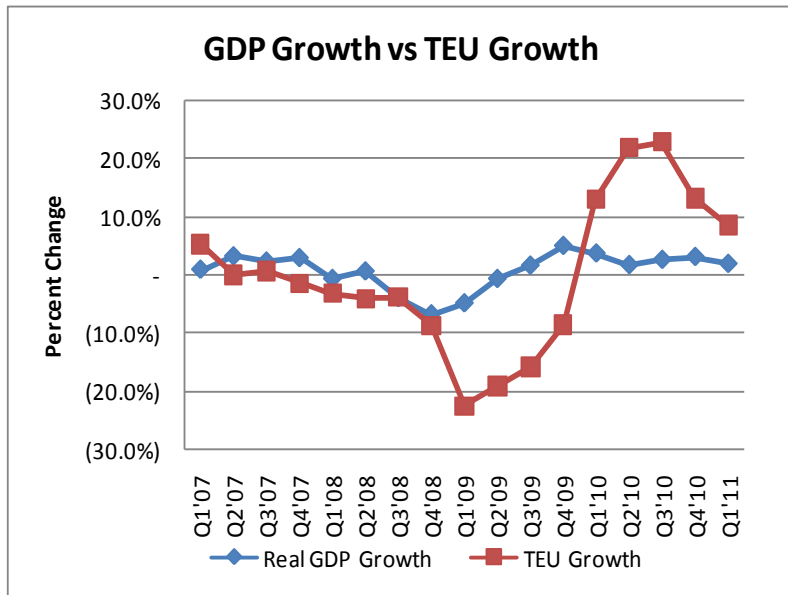
# 2011 Rating Outlook for Seaports – **STABLE**

- Outlook Based on an Expected Continuation of Recovery
- Port Volumes Expected to Recover More Rapidly than Broader Economy
- Gradual Recovery Expected, with Growth Rates Below Historical Norms
- Infrastructure Investment Still a Focus
- Financial Profile Key for Rating Stability



# Looking Forward...

- Throughput growth rate moderation likely in late 2011 & into 2012
- Some key economic indicators continue to show sluggish recovery
- Fitch's Sovereign - Revision of GDP forecasts. Down twice since December 2010
  - US revised to 2.6%, vs 3.2% in December
  - BRIC revised to 6.9%, vs 7.5% in December



Overview

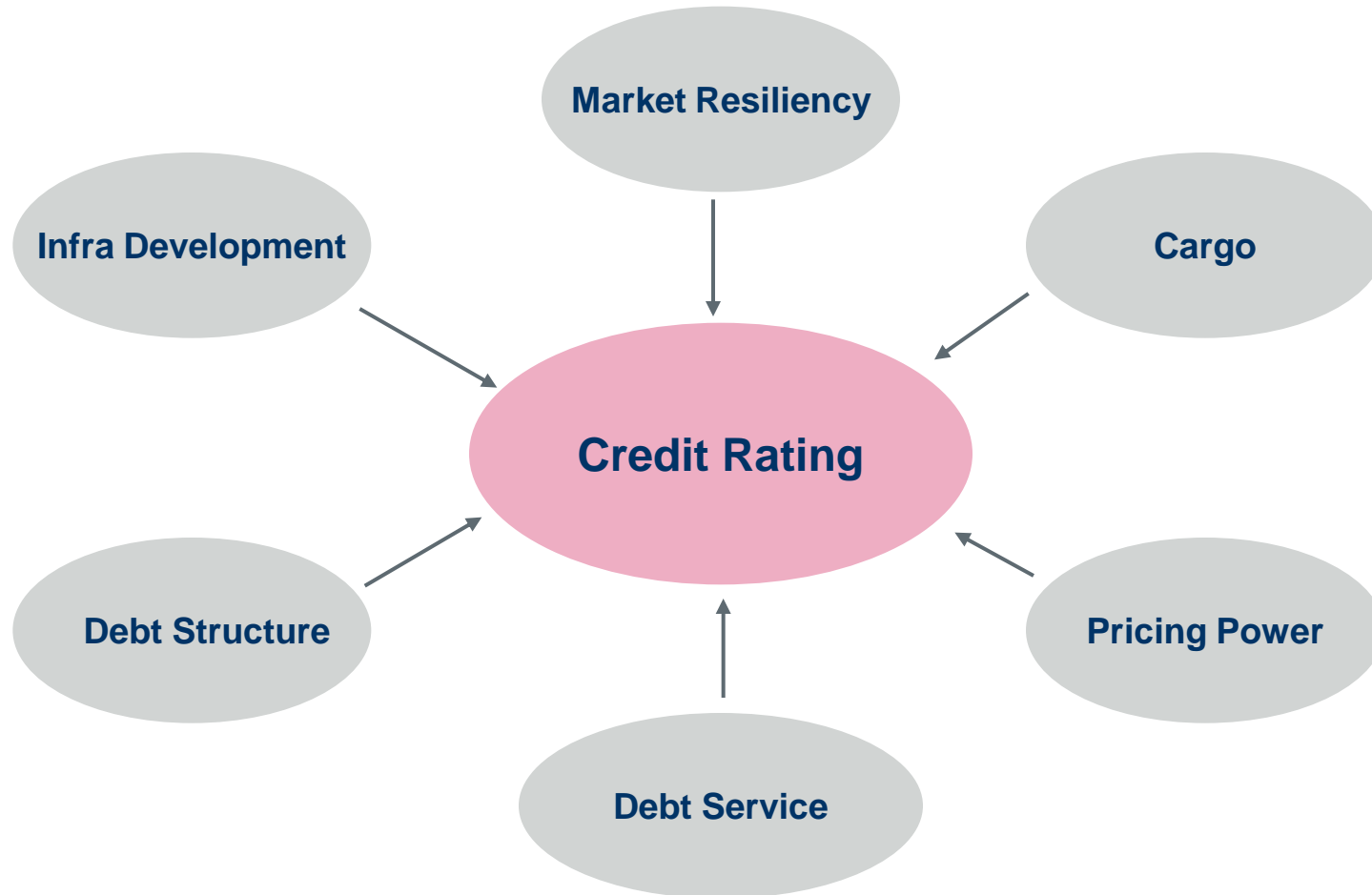
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**Analytical Approach to Port Ratings**

# Rating Rationale for Ports



# Expanded Rating Criteria for Ports

## Global Rating Rationale for Ports:

- Revenue Risk – Market Characteristics
- Revenue Risk – Price
- Debt Structure
- Debt Service
- Infrastructure Development/Renewal

## Description and Relevant Benchmarks

Attribute Scorings: **Stronger**, **Mid-Range**, and **Weaker**

# Revenue Risk: Market Characteristics

**Description:** Port's Local / Transit Markets and Location. Characteristics of Cargo Handled at the Port.

## Relevant Benchmarks

- Cargo breakdown
- % Cargo for local consumption vs transit/discretionary cargo
- Tenant/shipper concentration
- Access limitations
- Competition

Stronger	Mid Range	Weaker
Primary ports, Demand Resiliency, Business Diversity, Infrastructure	Secondary port, higher competition / concentration, some access limitations	Tertiary port, High concentration/competition Limited market access



# Revenue Risk: Price

**Description:** Methods Available to Stabilize Revenue Levels; Irrespective of Throughput Volumes.

## Relevant Benchmarks

- Contractual Frameworks, Tenant Lease Terms
- Operating Agreements
- Minimum Annual Guarantees (MAGs)
- Operating Margins

Stronger	Mid Range	Weaker
<b>Strong contractual framework</b> <b>Long lease terms, MAGs</b> <b>Stable margins</b>	<b>Moderate contracts</b> <b>Limited leases, guarantees</b> <b>Some margin variability</b>	<b>Weak contracts</b> <b>Short / month-to-month leases</b> <b>No MAGs, Volatile margins</b>

# Debt Structure

**Description:** Debt Characteristics: Maturity and Amortization, Profile, Refi Risk, Counterparties, Structural Triggers, Reserves.

## Relevant Benchmarks

- Percent Fixed Rate Debt
- Percent Subject to Refinance
- Rate Covenant/Minimum Coverage, Leverage Limitations/ABT
- Cash Lock-up Provisions
- Derivative Position, Swaps, Market Value

Stronger	Mid Range	Weaker
High Percent Fixed Fully Amortizing Debt	Mixed Fixed/Variable Debt, Some Refinance Risks Some Derivatives Imbalance	High Pct Variable Bullet Maturities High Derivatives Imbalance

# Debt Service

**Description:** Debt Burden – Absolute and Relative Basis, Liquidity

## Relevant Benchmarks

- Debt/EBITDA or Debt/CFADS
- DSCR/LLCR/ICR and Max DS Coverage
- MAGs coverage
- Days Cash on Hand, Cash to Debt

Stronger	Mid Range	Weaker
Low Debt (including Forecasts) Strong Liquidity	Moderate Debt Some Upward Pressures	High Debt Burden Considerable Pressure on Liquidity

# Infrastructure Development and Renewal

**Description:** Capital Program – Planning, Spending, and Funding

## Relevant Benchmarks

- Size of Capex and Dependence to Growth
- Mix of Funding Sources
- Requirements for Community, Regulator or Tenant/Operator Input

### Stronger

Proven/Clear Capex  
Mechanisms, Limited  
Borrowing Dependence

### Mid Range

Moderate Mechanisms  
Uncertainties  
Balanced Funding Sources

### Weaker

Weak Planning  
Cost Overruns

# Indicative Rating Profiles

Rating Category	Key Characteristics
<b>AA</b>	<p>Major Market with Limited Competition                      Low Volatility (Demand and/or Revenue)                      Stronger Attributes for Revenue, Debt Structure and Debt Service</p>
<b>A</b>	<p>Mid-Size to Large Market with Some Competition                      Low/Moderate Levels of Demand and/or Revenue Volatility                      Mix of Stronger or Mid-Range Revenue Risk, Debt Structure and Debt Service Rankings</p>
<b>BBB</b>	<p>Smaller / Specialized Market or High Exposure to Competition                      Moderate/High Demand and/or Revenue Volatility                      Mid-Range to Weaker Revenue Risk, Debt Structure and Debt Service Rankings</p>
<b>BB</b>	<p>Small Market with Demonstrated Volume / Revenue Volatility                      High Dependence on Limited Variety of Cargo / Operators                      Weaker Revenue Risk, Mid-Range / Weaker Debt Structure and Debt Service Rankings</p>

# Key Metrics: Drivers for Cases and Sensitivities

## Financial / Leverage Metrics

- Debt Service Coverage Ratio
- Days Cash On Hand
- Net Debt / Cash Flow Available for Debt Service, Net Debt / EBITDA
- Lease / MAG Debt Service Coverage

## Operating Metrics

- Cargo Concentration Analysis (throughput and revenue)
- Operating / EBITDA Margins
- Lease / MAG Revenues as % of Total Revenues
- Lease Expirations

# Different Metrics, Different Ratings...

Rating Metric	Port of Long Beach (AA)	Broward Co. (A)	Tri-Cities (BBB)
Throughput Volume	7.8 mm TEU	790k TEU, 3.7 mm pax, 16mm tons bulk	2.4 mm tons bulk
DSCR	2.8x	1.6x	1.4x
Days Cash on Hand	1,518	959	432
Gross Debt	\$726 mm	\$310 mm	\$4 mm
MAG as % of Op. Rev.	67%	n/a	3%

# Which Port Should Be Rated Higher?

## Port A

<b>Cargo Tonnage</b>	8 million TEUs
<b>DSCR</b>	1.8x or higher
<b>Debt/EBITDA</b>	4.0x

<b>Vol. Concentration</b>	90% Container
<b>Rev. Concentration</b>	Top 10 Carriers = 60%
<b>Leases</b>	Majority 10+ yrs, 2 renew in 3 yrs
<b>Days Cash on Hand</b>	250
<b>MAG % of Op Revs</b>	50%

## Port B

<b>Cargo Tonnage</b>	500k TEUs, 30mm T Bulk
<b>DSCR</b>	1.8x or higher
<b>Debt/EBITDA</b>	4.0x

<b>Vol. Concentration</b>	25% Container, 75% Bulk
<b>Rev. Concentration</b>	Top Carrier = 25%
<b>Leases</b>	One 10 yr lease, rest op. contracts
<b>Days Cash on Hand</b>	500
<b>MAG % of Op Revs</b>	2%



# Related Research

- “Global Economic Outlook: Soft Patch in Global Recovery”, June 28, 2011
- “Infrastructure Ratings Prove Resilient Through The Downturn”, March 9, 2011
- “2011 Outlook: Global Transportation Infrastructure”, January 20, 2011
- “Rating Criteria for Infrastructure & Project Finance”, August 16, 2010
- “Global Infrastructure and Project Finance Outlook 2010”, March 1, 2010
- “U.S. Seaport Sector: Are Calmer Waters Ahead?”, February 11, 2010

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