Port Credit Ratings
AAPA Finance Seminar

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Global Infrastructure and Project Finance
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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)
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...

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Harbor Department of Los Angeles</td>
<td>AA</td>
<td>Stable</td>
</tr>
<tr>
<td>Port of Long Beach</td>
<td>AA/AA</td>
<td>Stable</td>
</tr>
<tr>
<td>Port of Houston Authority</td>
<td>AA/AA</td>
<td>Stable</td>
</tr>
<tr>
<td>State of Hawaii (Dept. of Transportation)</td>
<td>A+</td>
<td>Stable</td>
</tr>
<tr>
<td>Port of Beaumont Navigation District</td>
<td>AA/-AA/-AA</td>
<td>Stable</td>
</tr>
<tr>
<td>San Diego Unified Port District</td>
<td>A</td>
<td>Stable</td>
</tr>
<tr>
<td>Broward County-Port Everglades</td>
<td>A</td>
<td>Stable</td>
</tr>
<tr>
<td>Canaveral Port Authority</td>
<td>A</td>
<td>Stable</td>
</tr>
<tr>
<td>Hillsborough County Port District (Tampa)</td>
<td>A</td>
<td>Stable</td>
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<tr>
<td>Jacksonville Port Authority</td>
<td>A</td>
<td>Stable</td>
</tr>
<tr>
<td>Miami-Dade County - PortMiami</td>
<td>A</td>
<td>Stable</td>
</tr>
<tr>
<td>San Francisco Port Commission</td>
<td>A</td>
<td>Stable</td>
</tr>
<tr>
<td>Alameda Corridor Transportation Authority</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Alabama State Port Authority</td>
<td>A/BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>North Carolina State Ports Authority</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Commonwealth Port Authority</td>
<td>BB+</td>
<td>Stable</td>
</tr>
</tbody>
</table>

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

Source: U.S. Bureau of Economic Analysis, Port websites.
## Expectations for 2018 and Beyond

<table>
<thead>
<tr>
<th>Issue</th>
<th>Expectation</th>
</tr>
</thead>
</table>
| **Shifting Trade Policy and Tariffs**      | • Potential adverse effects for some ports  
• Tariffs: First impacts at facilities handling large volumes of steel and aluminum, materials related to their processing  
• Trade agreements in flux, changes will have multiyear effects |
| **Cargo Activity**                         | • Larger ships, operational alliances driving strong volume growth on both coasts  
• Continued growth expected in cargo traffic, keeping pace with the broader U.S. economy |
| **Shippers + Route Decisions**             | • Alliances increase volumes, shippers with memories of labor issues/congestion seek to balance cargo – puts discretionary cargo “In Play”  
• Strategic shifts due to shipping mergers, bankruptcies and alliance changes can call prior agreements into question |
| **Capital Improvements + Investments**     | • Investments focused on accommodating larger vessels (deepening, congestion management, inland and intermodal connectivity)  
• Funding sources for port development expanding  
• Increasing interest in single-asset port facilities and terminals |
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 Group Analysis

Revenue Risk (Volume)

Revenue Risk (Price)

Counterparty Risk

Completion Risk

Key Risk Factors

Completion Risk Analysis – Applies largely to P3s

Infra Dev’t and Renewal

Debt Structure

Financial Profile

RATING

Peer Group Analysis

Stronger

Midrange

Weaker
## Peer Analysis – Key Rating Driver Assessments

### Port Ratings and Key Rating Driver Assessments

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

\(^a\)Port of Houston reflects GO and Issuer Default Rating, respectively. Port of Houston has no revenue bonds outstanding at present.  
\(^b\)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
### Indicative Financial Performance for a Port

<table>
<thead>
<tr>
<th>Rating Category</th>
<th>DSCR</th>
<th>Net Debt/ EBITDA</th>
<th>Days Cash on Hand</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘AA’</td>
<td>2.5x or higher</td>
<td>4.0x or lower</td>
<td>400 or higher</td>
</tr>
<tr>
<td>‘A’</td>
<td>1.4x – 2.5x</td>
<td>4.0x – 8.0x</td>
<td>300 or higher</td>
</tr>
<tr>
<td>‘BBB’</td>
<td>Strength/narrowness of franchise is a key driver, with offsetting factors (i.e. adverse leverage/coverage) to be considered that counteract a strong franchise</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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 (rebundi ng 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
### Fitch Analytical Comparative Tool (F.A.C.T.) – U.S. Ports

**Global Infrastructure and Project Finance**

**Fitch Ratings**

**Fitch Analytical Comparative Tool (F.A.C.T.) – U.S. Ports**

<table>
<thead>
<tr>
<th>Financial - Medians</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCOH</td>
<td>388</td>
<td>437</td>
<td>359</td>
<td>382</td>
</tr>
<tr>
<td>Total ESCR (%)</td>
<td>294</td>
<td>231</td>
<td>227</td>
<td>244</td>
</tr>
<tr>
<td>Net Debt/CFADS</td>
<td>3.03</td>
<td>2.46</td>
<td>2.81</td>
<td>2.52</td>
</tr>
<tr>
<td>RAGS % Op Revs</td>
<td>49.6%</td>
<td>51.6%</td>
<td>59.4%</td>
<td>59.6%</td>
</tr>
</tbody>
</table>

**Number of Rated Issuers**: 15, 15, 15, 15, 15

**Operational**

**FY Cargo (TEU 000)**

**FY Cruise Passengers (000)**

**Five-Year Average Growth (%)**
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