Rating Perspectives on Public Seaports

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Overview

2011 Outlook
Ratings Through the Downturn
Rating Drivers for Seaports
Seaport Outlook Evolution

Previous Outlooks:

- Pre 2008 – Stable to Positive
- 2008 – Negative
- 2010 – Stable to Negative

Current Outlook:

- 2011 – Stable
2010 in Review

• 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 was 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, which is delayed or may not be realized following the downturn
Has the Seaport Sector Regained Stability?
2011 Rating Outlook for Seaports – **STABLE**

- Fitch expects a continuation of recovery that began in 2010
- Port volumes recovering at a more rapid pace than the broader economy
- Growth rates expected to remain below historical norms, resulting in a slow and gradual recovery
- Infrastructure investment continues to be a focus – port sector well-positioned to continue down the path of recovery
- Financial profile is key in rating stability
Outlooks Across Relevant Sectors

In evaluating port credits, Fitch also considers trends in sectors which affect port business

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Outlook</th>
<th>% Outlooks which are:</th>
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<tr>
<td></td>
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<td>Pos.</td>
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<tr>
<td><strong>US Industry Sectors</strong></td>
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<tr>
<td>Coal</td>
<td>Stable</td>
<td>0%</td>
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<tr>
<td>Housing and Homebuilders</td>
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<td>8%</td>
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<tr>
<td>Building and Home Product Services</td>
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<td>Industrials and Capital Goods</td>
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<tr>
<td>Forest Products</td>
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<tr>
<td>Mining and Metals</td>
<td>Stable</td>
<td>0%</td>
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<tr>
<td>Retail</td>
<td>Stable</td>
<td>4%</td>
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<tr>
<td><strong>Global Industry Sectors</strong></td>
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<tr>
<td>Indian Shipping</td>
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<tr>
<td>Global Aerospace/Defense</td>
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<td>5%</td>
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<td>LatAm Forest Products</td>
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<td>LatAm Metals/Mining</td>
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<td>0%</td>
</tr>
<tr>
<td>Global Steel Producers</td>
<td>Stable</td>
<td>4%</td>
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<tr>
<td><strong>Sovereigns</strong></td>
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<td></td>
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<tr>
<td>US Tax Backed Credits</td>
<td>Negative</td>
<td>na</td>
</tr>
<tr>
<td>Europe - Emerging</td>
<td>Stable</td>
<td>na</td>
</tr>
<tr>
<td>Europe - Developed</td>
<td>Negative</td>
<td>na</td>
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Seaport Ratings 2011: Profile Remains Investment Grade

In 2011, Fitch’s rated portfolio of Seaports includes:

• 30% AA category or higher
• 44% A category
• 22% 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)

**Gateway Ports**
- Port of Los Angeles (CA)
- Port of Long Beach (CA)

**Consolidated Entities**
- Port Authority NY/NJ
- Massachusetts Port Authority
- Port of Seattle (WA)

**Tax Revenue Pledge**
- Port Manatee (FL)
- Port of Houston (TX)

### A Category

- San Diego Unified Port (CA)
- Port of Oakland (CA)
- Hawaii Harbors Department
- Port of Beaumont (TX)
- Jacksonville Port Authority (FL)
- San Francisco (CA)
- Hillsborough Co. / Tampa (FL)
- Port Everglades (FL)
- Virginia Port Authority
- Canaveral Port Authority (FL)

### BBB Category (& below)

- North Carolina State Port Auth.
- Alabama State Port Authority
- Tri-City Regional Port District
- Port of Palm Beach (FL)
- Cleveland-Cuyahoga Port Auth.
- Commonwealth Port Auth.

Ratings Downgrades

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

Outlook Changes

• Tri-City Regional Port District (IL)
• San Diego Unified Port District (CA)
• Jacksonville Port Authority (FL)
• Manatee Port Authority (FL)
What is the “New Normal”?  
What Does This Mean for Port Ratings?
Trends in Throughput Performance…

• For the larger US Container ports, the “turnaround” began in early 2009

• Current growth rates are more moderate, reflecting a new baseline for growth since 2H’09
Trends in Throughput Performance (Cont.)…

- Baltic Dry Index was volatility through downturn, stabilizing at lower levels
- Cruise showed resilience in passengers through 2009, but at the expense of revenues
...And the Evolving Economic Landscape

- Fitch also evaluates relevant economic metrics that affect the port sector, both current levels and over time
  - Gross Domestic Product
  - Retail Sales
  - Savings Rate
  - Producer Price Index, Industrial Production

- Rebound in GDP since mid-2009, TEUs since early 2010
- TEU Growth has mirrored GDP trends, but has shown wider variability
- Fitch economists forecast 3.2% GDP growth for US in 2011 (3.0% globally)
Economic Landscape (cont.)

- Changes in retail sales and TEU volumes are highly correlated
- Both have declined year over year since Jul-08, have increased since the end of 2009
  - Twice the change for TEUs over the same period
Economic Landscape (cont.)

- PPI and Industrial Production are also closely correlated with TEUs
  - Contrasts with an inverse relationship with savings levels
- Most indicators continue to show year-over-year improvement, but growth is slowing as base levels begin to normalize
- Is a double dip coming?

PPI and Ind. Production vs TEUs

Savings Rate vs TEUs
## Financial Markets and Seaports

### Until 2008…
- Seaports Enjoyed Low Cost Financing for Senior & Subordinate Bonds
- Traditional Fixed Rate Bonds, ARS, VRDOs with Many Bank Providers, and Swaps
- High Market Penetration for Bond Insurance

### Last Three Years…
- ARS Market Shutdown
- VRDOs More Limited
- Bank / Swap Provider / Monoline Risk
- Questionable Values of Reserve Sureties
- AMT Holiday, BABs (closing window)
Rating Rationale for Seaports

- Market Resiliency
- Cargo
- Infra Development
- Debt Structure
- Pricing Power
- Debt Service, Counterparties

Credit Rating
## Indicative Rating Profiles

<table>
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<tr>
<th>Rating Category</th>
<th>Key Characteristics</th>
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| AA              | Major Market with Limited Competition  
 Low Volatility (Demand and/or Revenue)  
 Stronger Attributes for Revenue, Debt Structure and Debt Service |
| A               | 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 |
| BBB             | 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 |
| BB              | 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 |
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
Related Research

• “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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