Assessing Port Creditworthiness

Emma Griffith, Director

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Fitch: A Global Presence

2,000+ Employees in 50 Offices Worldwide

Ratings:

• 46,000 U.S. Municipal Transactions
• 2,700+ Public Finance Credits
• 8,700 Structured Transactions
• 6,000 Financial Institutions
• 2,000 Corporations
• 100+ Sovereigns/200+ Sub-Sovereigns
• 500+ Global Infrastructure/Project Finance
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 Assessments
- Rating Scales
  - Long Term / Short Term / Recovery / National Ratings
- A Rating is NOT:
  - A Buy / Sell or Investment Recommendation
  - A Judgment or Statement Regarding any Aspect of Public Policy
  - A Management Scorecard
Fitch Global Rated Ports (US, EMEA, Latam)

**AA Category (and up)**

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

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

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

**A Category**
- ABP (UK)
- Alabama State Port Authority
- Canaveral Port Authority (FL)
- Hawaii Harbors Department
- Hillsborough Co/Tampa (FL)
- Jacksonville Port Authority (FL)
- Port Everglades (FL)
- Port Miami (FL)
- Port of Beaumont (TX)*
- San Diego Unified Port (CA)
- San Francisco (CA)
- Virginia Port Authority

**Consolidated Entities**
- Port of Oakland (CA)

**BBB Category (and below)**
- Commonwealth Port Authority
- Deloport (Russia)
- Global Ports (Russia)
- GPH (Turkey)
- LLX Acu (Brazil – nat’l rating)
- North Carolina State Port Authority
- Mersin (Turkey)
- Paita (Peru)
- Port of Palm Beach (FL)
- TPHA Fin Ltd (UK) (multilien)

**Corporates**
- DP World Ltd. (Dubai)

* Limited Tax Pledge

**Note:** As of March 2016.
U.S. Port Ratings: Solid Investment Grade Credits

Majority Of U.S. Ports Rated By Fitch Are In The ‘A’ Category Or Higher

Note: As of March 2016. Ratings reported by lien level, reflects publically rated standalone U.S. ports.
Global Port Ratings: A Broader Range of Ratings

Majority of Global Rated Ports are Investment Grade, but Distribution Skews Lower

Note: As of March 2016. Ratings reported by lien level, reflects publically rated standalone ports in US, Latam, EMEA.
Port Ratings Are Resilient

**Fitch Ratings’ Rated Portfolio Through The Downturn:**

- No Defaults on Rated Debt
- Downgrades/Negative Outlooks Occurred but Sector Rating Migration Minimal
  - **Most negative actions have now “corrected” to pre-recession levels**
- Very Few Credits Transitioned from Investment Grade to Below Investment Grade
- Ratings Consider Conservative Scenarios – Low/Flat Growth, Downturns
### U.S. Port Rating Actions: 2008 – 2015

#### Most Negative Actions Taken During the Recession Have Since Been Resolved

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

Note: As of March 2016.
2016 U.S. Ports Outlook: **Stable**

Continued growth expected in revenues and volumes, in line with US GDP (2.0 - 2.5%)

- Increasing freight volumes provide both opportunities and challenges
  - ‘Big ship readiness’ continues to drive CIP priorities
- Supply chain adjustments may result in volume shifts among U.S. ports

**U.S. GDP Versus Quarterly TEU Growth Rate**

TEU – 20-foot equivalent units.
Source: U.S. Bureau of Economic Analysis, port websites.
# Expectations for 2016 and Beyond

<table>
<thead>
<tr>
<th>Issue</th>
<th>Expectation</th>
</tr>
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<tbody>
<tr>
<td>Cargo Activity</td>
<td>• Low ‘Positive’ Growth In Line with GDP (~2.0 - 2.5%)</td>
</tr>
<tr>
<td></td>
<td>• More Conservative View of Forecasts</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>• Contracts Provide Revenue Visibility, but Shippers Looking for Shorter Commitments</td>
</tr>
<tr>
<td></td>
<td>• Customer &amp; Revenue Diversity Preferred</td>
</tr>
<tr>
<td>Shippers</td>
<td>• Alliances Increasing Volumes, Beyond Panama Canal Concerns – Discretionary Cargo Is “In Play”</td>
</tr>
<tr>
<td></td>
<td>• Labor Issues and Congestion Raise Questions of Reliability, Could Shift Volumes</td>
</tr>
<tr>
<td>Investments</td>
<td>• Focus Remains “Big Ship Readiness”, but “Last Mile” Congestion, Yard Logistics May Be Greater Concern</td>
</tr>
<tr>
<td></td>
<td>• Growing Role for Both Public and Private Sector Capital</td>
</tr>
</tbody>
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A Global Approach to Rating Ports

“Rating Criteria for Ports” – October 2015

- Compliments Fitch’s “Rating Criteria for Infrastructure and Project Finance” (Sept. 2015)
- Applies to:
  - Whole port enterprises
  - Single/Multi-Terminal Facilities
  - Port Facilities in Multiple Locations
  - Different Forms of Ownership Models
- Borrowings with Broad Revenue Pledge
- More limited revenue streams (i.e. facility leases)
- May supplement other relevant Fitch Ratings’ criteria (i.e. Tax-Backed, Corporate)
Ports Rating Rationale – Key Drivers

Attribute Assessments:

- **Stronger**
- **Midrange**
- **Weaker**
Peer Review of Rated U.S. Ports - 2015

Revenue Risk - Volume
- Weaker, 19%
- Stronger, 25%
- Midrange, 56%

Revenue Risk - Price
- Weaker, 6%
- Stronger, 25%
- Midrange, 69%

Infrastructure/ Development
- Weaker, 6%
- Stronger, 25%
- Midrange, 69%

Debt Structure
- Midrange, 19%
- Stronger, 81%

Attribute scores as of September 2015 Peer Review.
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><strong>Strength/narrowness of franchise is a key driver, with offsetting factors (i.e. adverse leverage/coverage) to be considered that counteract a strong franchise</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Using the Attributes Matrix

<table>
<thead>
<tr>
<th>Port</th>
<th>Port A</th>
<th>Port B</th>
<th>Port C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>AA</td>
<td>A-</td>
<td>BB-</td>
</tr>
<tr>
<td>Revenue: Volume</td>
<td>Stronger</td>
<td>Midrange</td>
<td>Weaker</td>
</tr>
<tr>
<td>Revenue: Price</td>
<td>Stronger</td>
<td>Midrange</td>
<td>Weaker</td>
</tr>
<tr>
<td>Infrastructure Development</td>
<td>Stronger</td>
<td>Stronger</td>
<td>Midrange</td>
</tr>
<tr>
<td>Debt Structure</td>
<td>Stronger</td>
<td>Midrange</td>
<td>Midrange</td>
</tr>
<tr>
<td>Net Debt/CFADS</td>
<td>2.0x</td>
<td>7.5x</td>
<td>6.0x</td>
</tr>
<tr>
<td>DSCR - Current</td>
<td>3.5x</td>
<td>2.3x</td>
<td>2.4x</td>
</tr>
<tr>
<td>DSCR – 5-Yr Average</td>
<td>2.6x</td>
<td>1.7x</td>
<td>n/a</td>
</tr>
<tr>
<td>Throughput Volume</td>
<td>8m TEUs</td>
<td>100m tons</td>
<td>200k TEUs</td>
</tr>
<tr>
<td>MAG as % of Op. Rev.</td>
<td>66%</td>
<td>28%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Fitch Ratings Data for FY 2014
Rating Rationale for Ports – Key Rating Drivers

Revenue Risk – Volume*
- Port Location
- Attributes of Local & Transit Markets
- CargoHandled by Port

Revenue Risk – Price*
- Ability to Maintain Revenue Levels, Contractual Measures or Tariffs

Infra Dev./Renewal*
- Approach to Planning
- Spending & Funding
- Expansion vs. Maintenance
- Quality of Assets

Debt Structure*
- Debt Characteristics/Terms
- Structural Features
- Security/Creditor Rights
- Refi/Recapitalization

Debt Service
- Debt Burden Risks
- Coverage & Liquidity Metrics
- Reliance on Growth

Key Rating Drivers

(*) Attribute Assessments

Stronger \[\text{Midrange} \] \[\text{Weaker}\]
Rating Rationale Example: Port of Long Beach

Revenue Risk – Volume - **Stronger**

- Strategic Location
- Strong Market Position
- O&D Volumes
- Exposure to competition
- Some Volume Concentration

Revenue Risk – Price - **Stronger**

- Strong Minimum Guarantees
- Supportive “Public” ownership

Infra Dev./Renewal - **Midrange**

- Sizable Capex Plan
- Additional Borrowing Expected
- Careful Management of Plan
- Risk of cost overrun?

Debt Structure - **Stronger**

- Amortizing, Fixed Rate Debt
- Strong Covenants
- Board Ordinance: DSCR 2.0x
  - 600 DCOH
- Protection vs Add’l Debt

Debt Service

- Excellent Financial Profile
  - 1,015 DCOH
  - Hist./Proj. DSCR 3.0x/2.0x
  - Hist./Proj. Leverage 1.9x/4.0x

**Ratings:** ‘AA’ (senior lien) / ‘AA-’ (TIFIA) with a Stable Outlook
Fitch Analytical Comparative Tool – U.S. Ports
Related Research

• U.S. Ports – 2016 Sector Briefing (February ‘16)
• 2016 Outlook: U.S. Transportation Infrastructure (December ‘15)
• Fitch Analytical Comparative Tool — U.S. Ports (December ‘15)
• Rating Criteria for Ports (October ‘15)
• Global Infrastructure & Project Finance U.S. Transportation Trends Fall ‘15 (October ‘15)
• Peer Review of U.S. Ports: Attribute Assessments, Metrics and Ratings (September ‘15)
• Fitch: Ports Face Uncertainty with Global Weight Regulations (February ‘16)
• Fitch: Vessel Size, Alliances Raising Pressure on Some U.S. Ports (August ‘15)
• Fitch: West Coast Labor Seesaw Leaves Reliability Question (February ‘15)
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