

**Fitch**Ratings

**AAPA – Spring Conference**  
**Washington DC**

**“Global Finance Sources for Hemispheric Port  
Development”**

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March 19, 2013

# Agenda

- I. Transportation Credit Overview
- II. Global Seaport Rating Portfolio
- III. Examples of International Ratings
- IV. Developments Affecting Ratings
- V. Rating Drivers and Peer Analysis

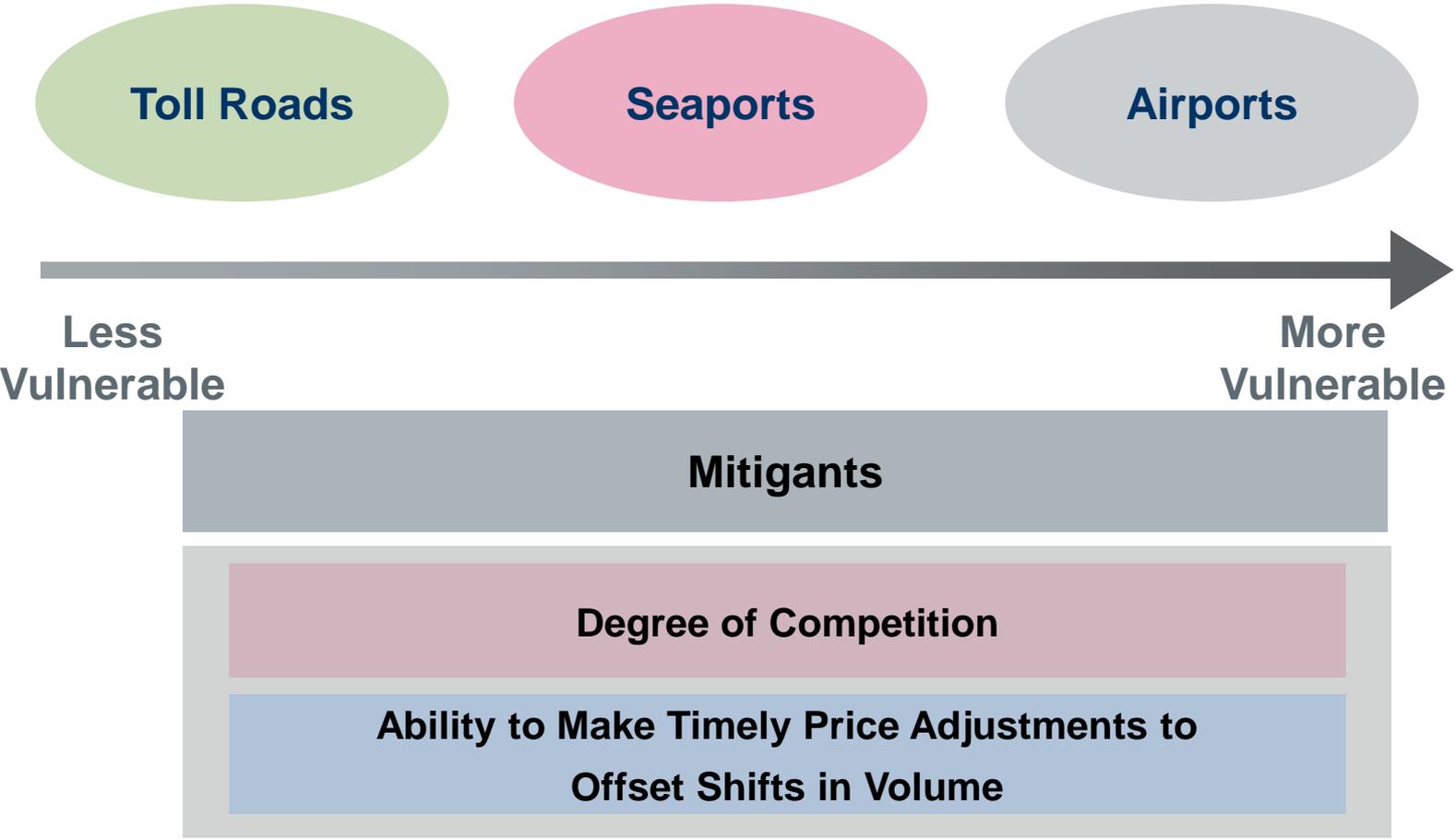
# U.S. Credit Overview – Transportation

Sector	2010 Outlook	2011 Outlook	2012 Outlook	2013 Outlook
Ports	Stable/Negative	Stable	Stable	Stable
Airports	Negative	Stable/Negative	Stable/Negative	Stable
Toll Roads	Stable/Negative	Stable	Stable	Stable

# What Could Change the Outlook?

Sector	External Factors	Fuel Prices	State/Local Stress	Federal Government
Ports	✓	✓	✓	
Airports	✓	✓		✓
Toll Roads	✓	✓	✓	

# Scale of Vulnerability During Downturn by Sector

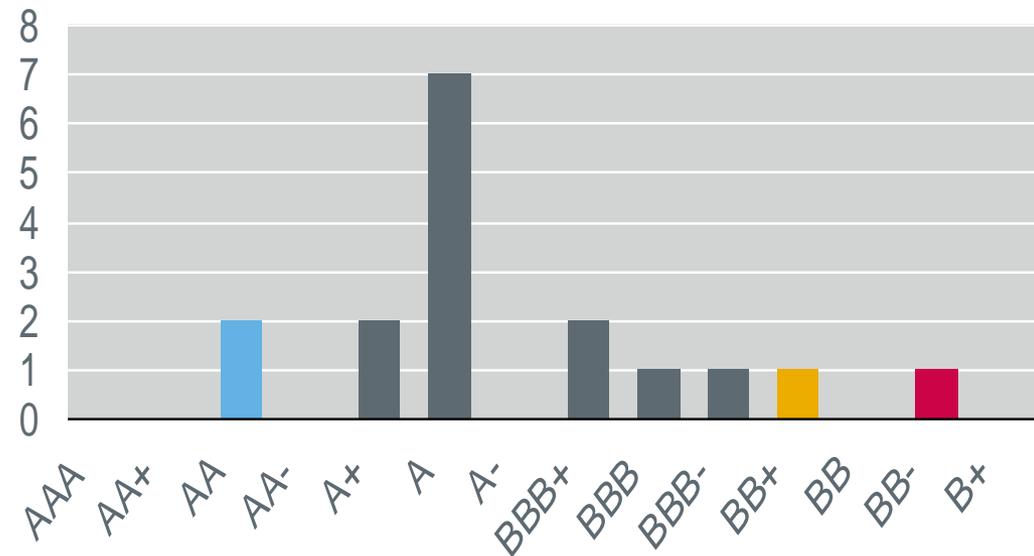


# U.S. Port Ratings: Solid Investment Grade Credits

Fitch's rated U.S. portfolio of ports includes:

- 13% AA category
- 56% A category
- 25% BBB category
- 6% BB category

## Fitch U.S. Port Ratings



Note: As of March 2013. Reflects publicly rated U.S. ports only.

# Global Port Ratings: A Broader Range of Ratings

## Fitch's Global Portfolio of Ports:

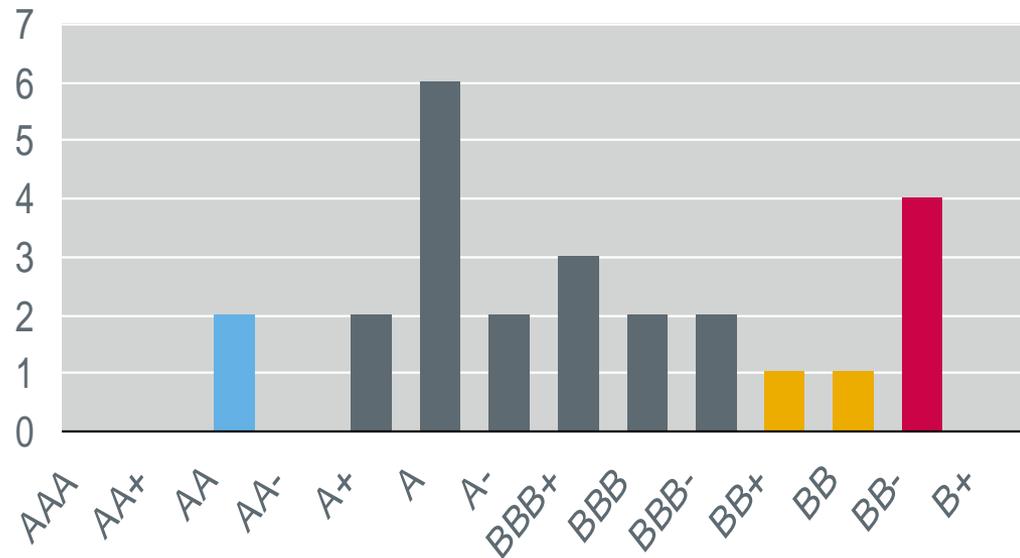
❖ U.S

❖ EMEA

❖ Latin America

- 8% AA category or higher
- 40% A category
- 28% BBB category
- 24% BB category

## Fitch Global Port Ratings



# Typical Rating Ranges

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## ‘AA’ Category

- Primary Ports, Major Markets, Limited Competition & Low Volatility, Strong Rating Drivers

## ‘A’ Category

- Midsize/Large Markets, Some Competition & Volatility, Midrange rating drivers

## ‘BBB’ Category and Lower

- Smaller/Midsize markets, Concentrated, Meaningful Competition, Midrange/Weaker Rating Drivers incl. **Debt Structures and Security Features**

# Have Port Ratings Been Resilient During the Downturn?

Fitch Ratings' Rated Portfolio



Profoundly YES

- No Defaults on Rated Debt
- Downgrades/Negative Outlooks Occurred but Sector Rating Migration Minimal
- 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 – 2013

## Ratings Changes

- Alabama State Port Authority (AL)
- Canaveral Port Authority (FL)
- Cleveland-Cuyahoga Port (OH)
- Northern Marianna Isl. (NMI)
- Port of Palm Beach (FL)
- Virginia State Port Authority (VA)

Note: As of March 2013. Reflects publicly rated U.S. ports only.

## Outlook Changes

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

# Selected International Port Ratings

## Associated British Ports

Rating: BBB+

Obligations: 2.4Bn (GBP)

Purpose: Acquisition Refi

Ownership: Equity Sponsors/Investors

- Borealis – 33%
- GIC Investments – 33%
- Goldman Sachs IP – 23%
- Infracapital Partners LP – 10%

## Port of Paita (Peru)

Rating: BB-

Obligations: 100Mn Bonds(USD)

Purpose: Capital Funding

Ownership: Federal Government of Peru:

Concession – 30 Years

- Mota-Engil
- Cosmos Agencia Maritima

# Associated British Ports (UK)

## Defining Characteristics

- ❑ Leading Position in UK Trade
- ❑ Landlord Model with Many Locations
- ❑ Diverse Cargo Operations
- ❑ Favorable Contracts with Leading Customers
- ❑ Flexible Regime for Tariffs and Cost Adjustments
- ❑ Solid Financial History
- ❑ Manageable Capex Plan

## Credit Issues

- ❑ Debt Structure Risks: Bridge Loans and Bullet Maturities
- ❑ Counterparty Risks: Interest Rate Hedges
- ❑ Financial Metrics Reliant on Long Term Growth

# Port of Paita (Peru)

## Defining Characteristics

- ❑ Secondary Port of Call (Northwest Peru) but Growing
- ❑ Export Driven Facility: Container Trade in Agro, Hydro and Grain Products
- ❑ Local Area Has Low Economic Activity
- ❑ Limited Intermodal Connectivity
- ❑ Conservative Debt Structure – Amortizing Principal with Reserves, and Good Covenants/Triggers

## Credit Issues

- ❑ Volume Risk – Limited Revenue Guaranties Under Contracts/Leases
- ❑ Concentration in Customers and Trade Sectors
- ❑ Capex Completion Risks
- ❑ High Leverage

# From Looking Back...to Looking Ahead

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## 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

# TEU Performance Since the Downturn

Year	Fitch's 6 Largest Rated Ports % Change in TEUs	AAPA Total U.S. Ports % Change in TEUs
2007	+1.0%	+1.3%
2008	-6.6%	-4.8%
2009	-15.1%	-12.4%
2010	+17.9%	+12.7%
2011	+0.2%	+1.1%
2012	+0.6%	n/a

Slow Comeback Following Consecutive Years of Larger Declines

# Global Economic Outlook – GDP Growth

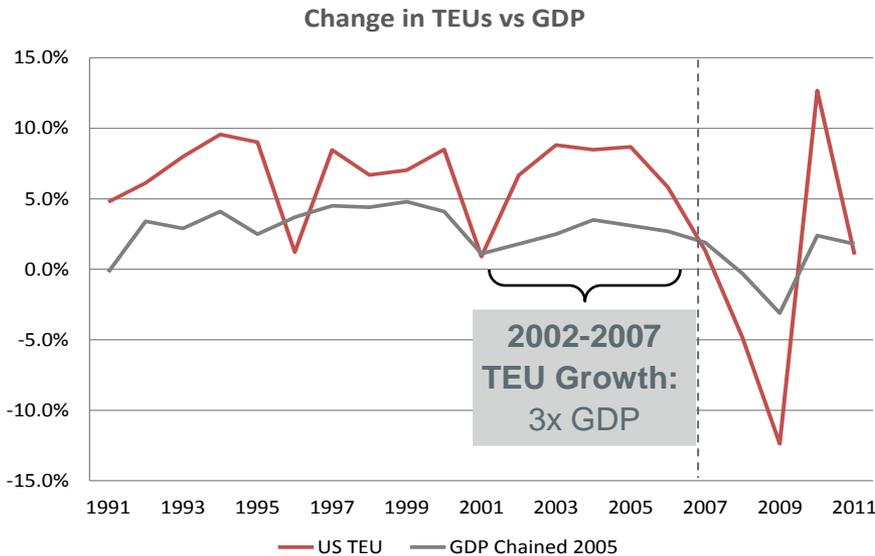
Region	2013	2014
U.S.	+2.3%	+2.8%
Eurozone	-0.1%	+1.2%
MAEs	+1.2%	+1.9%
BRICs	+6.3%	+6.2%
Global	+4.8%	5.0%

Growth in Global Economy Varies Significantly by Region

# Volume Performance and GDP: Pre-Recession

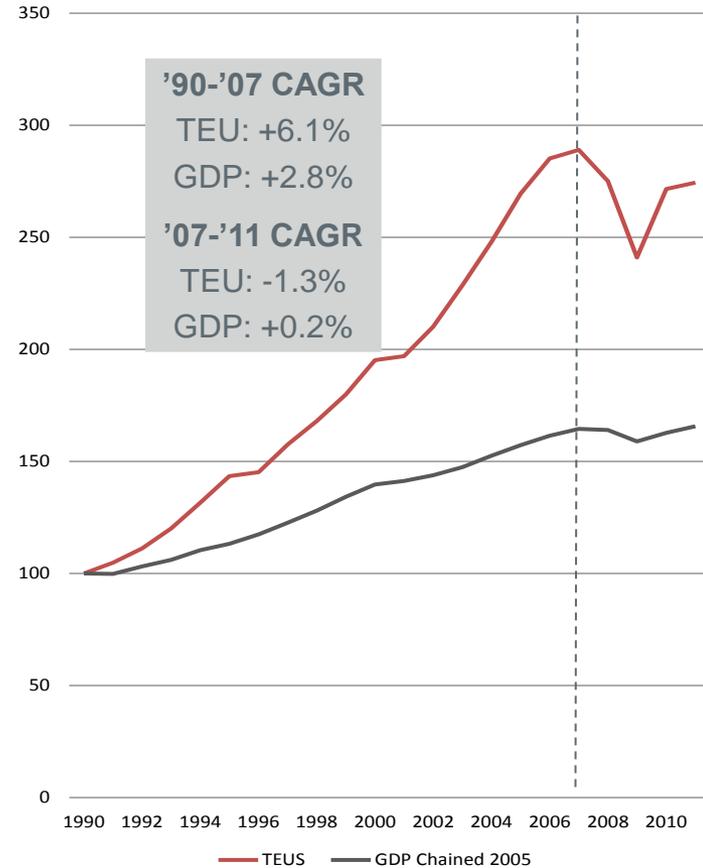
In years prior to the recession, U.S. TEU volumes grew more rapidly than U.S. GDP

- **1990-2007:** TEU growth in the U.S. was 2x GDP growth on average
- **2002-2007:** Average was closer to 3x



Source: AAPA, U.S. Bureau of Economic Analysis (BEA).  
Data as of March 2013

## US TEU Throughput vs GDP (Indexed)

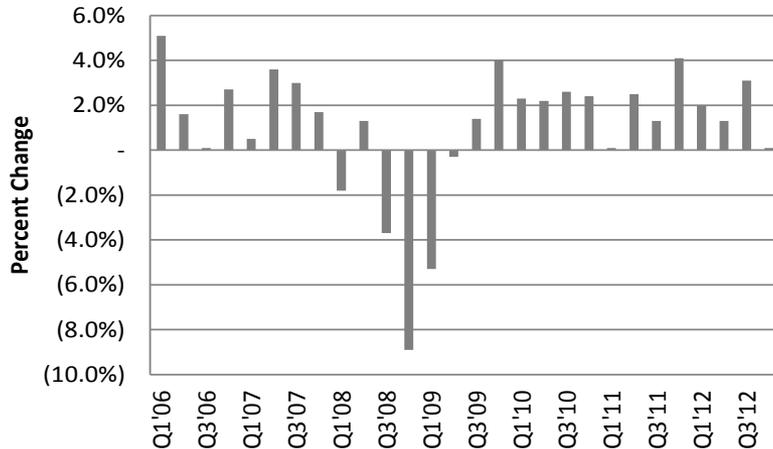


Source: AAPA, U.S. Bureau of Economic Analysis (BEA).  
Data as of March 2013

# Since Recession: Return to “Normal”?

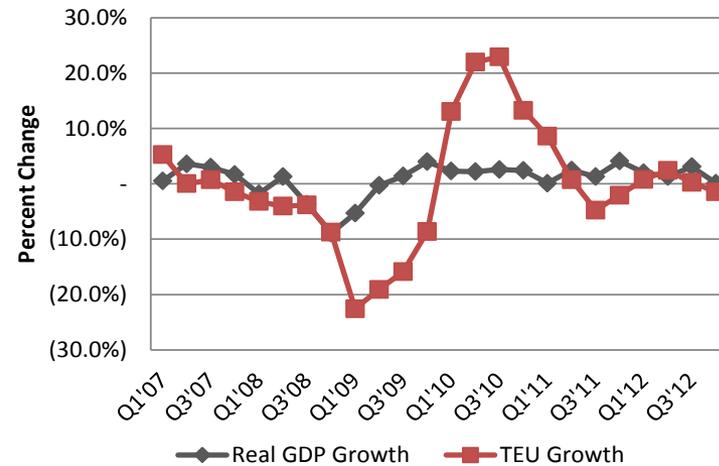
- Rebound in U.S. GDP since mid-2009, TEUs since early 2010
- Both GDP and TEUs show softening growth since first half of 2011
  - Compression in the “multiplier” relationship

Quarterly Real GDP Growth



Source: U.S. Bureau of Economic Analysis (BEA).  
Data as of March 2013

GDP Growth vs TEU Growth



Source: Port websites and U.S. Bureau of Economic Analysis (BEA).  
Data as of March 2013

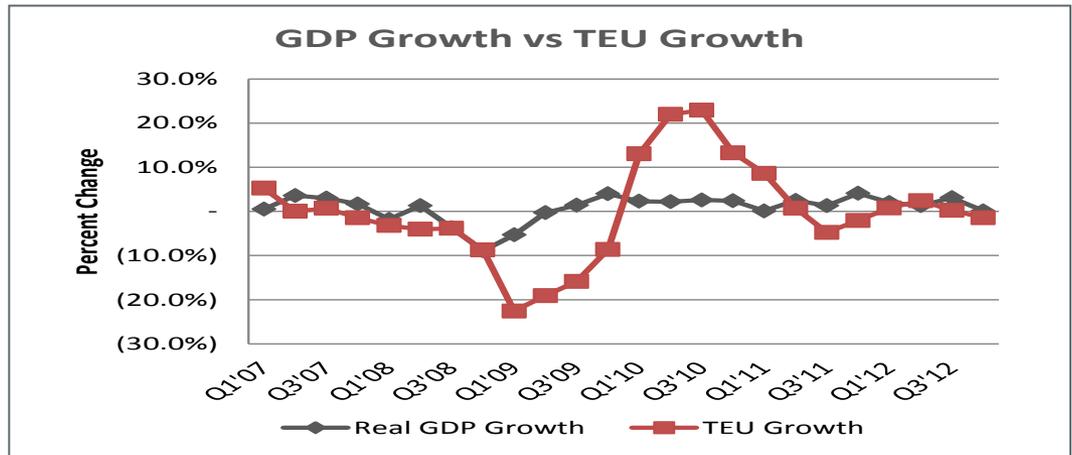
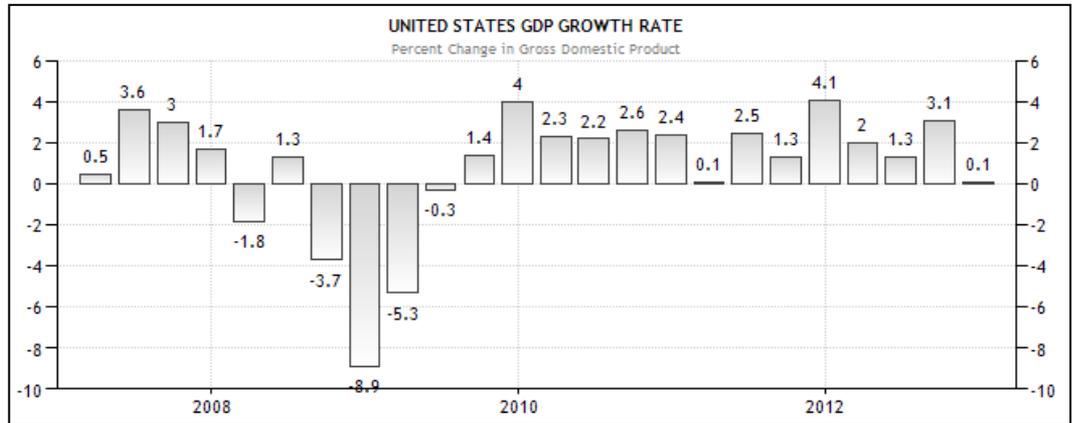
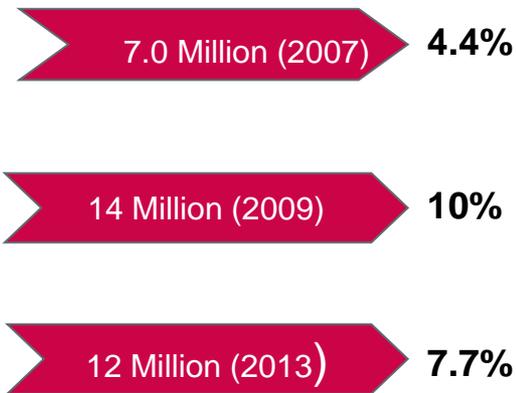
# An Uncertain Economic Landscape for Ports

Economic Factors Have Potential to Pressure Demand

## U.S. GDP:

- Rebound Has Slowed in Recent Quarters
- Where Are We Heading?

## Unemployed Rate



# Our Expectations for 2013 and Beyond

Issue	Expectation
<b>Cargo Activity</b>	<ul style="list-style-type: none"><li>• Low 'Positive' Growth</li><li>• More Conservative View of Forecasts</li></ul>
<b>Revenue Growth</b>	<ul style="list-style-type: none"><li>• Contracts for Revenue Visibility</li><li>• Customer &amp; Revenue Diversity Preferred</li></ul>
<b>Shippers</b>	<ul style="list-style-type: none"><li>• Expect Reaction to Panama Canal Expansion in 2014</li><li>• Some Caution on Capacity, Labor, and Fuel Trends</li></ul>
<b>Investments</b>	<ul style="list-style-type: none"><li>• Ongoing Need with Maintenance &amp; Renewal versus Speculative Growth &amp; Expansion</li><li>• Growing Role for Private Sector Capital</li></ul>

# A Global Approach to Rating Ports

## “Rating Criteria for Ports” – September 2012

- 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. Corporate)

**FitchRatings** Global Infrastructure & Project Finance  
Transportation / Global

### Rating Criteria for Ports

Sector-Specific Criteria

**Application of Criteria:** This criteria report evaluates debt issued by maritime ports across the globe and applies both to whole port enterprises and single-terminal facilities with an operational history that may be under a variety of ownership models. This criteria report also applies to operations that own port facilities in multiple locations each of which is an exclusive franchise, requires extensive capital works, and are listed in a single territory or market. The port criteria is intended to include debt borrowings with a broad revenue pledge (i.e. entire operating revenues from the port enterprise) as well as those that have more limited revenue streams such as facility leases. This criteria report may supplement other relevant Fitch Ratings' criteria when rating borrowings are secured substantially by all relevant lease, general corporate, bondings, not prepared on case-specific analysis, pre-issued but stable transactions, and structured/renovated financings.

This criteria report should be read in conjunction with the agency's report, "Rating Criteria for Infrastructure and Project Finance," published July 11, 2012 at [www.fitchratings.com/infrastructure/master-criteria/](http://www.fitchratings.com/infrastructure/master-criteria/).

**Key Rating Drivers**

Fitch has identified five key rating factors, each of which plays a significant role in determining the rating outcome for a given port. These are discussed at various points in the criteria report and will be highlighted using the (K) symbol.

**Revenue Risk — Volume:** Covers the role of the port, the nature of operations, and facility attributes, including intermodal connectivity, characteristics of demand from local and foreign markets, and exposure, if any, to competing alternatives that drive the breadth and diversity of services. Fitch will also analyze economic underpinnings that support trade volumes, including trade characteristics, cargo mix, and associated counterparty risks.

**Revenue Risk — Price:** Reviews the cash flow generation as provided by the port's legal framework and operating model, including contractual and/or regulatory provisions between the port, its host jurisdiction, and its trading partners.

**Infrastructure Development/Renewal:** Reviews management and funding of infrastructure development/renewal.

**Debt Structure:** Considers the composition of financial instruments, security, additional leverage limits, distribution levels, and financial triggers.

**Debt Service:** The ability of the port to make timely debt service payments is captured in metrics measuring its liquidity profile, such as a debt advice coverage ratio, as well as metrics measuring its overall financial and operational flexibility, such as net debt to cash flow available for debt service (CFADS) or other measures of overall leverage.

This report focuses on metrics specifically relevant to the port sector. The evaluation of any transaction involves consideration of additional risks common to all infrastructure and project finance debt. These are covered more fully in the Infrastructure Master Criteria.

**Relevant Criteria**

Rating Criteria for Infrastructure and Project Finance (July 2012)

**Analysis**  
ECONOMY  
+1 212 904 8100  
[www.fitchratings.com](mailto:www.fitchratings.com)

**NYC Branch**  
+1 212 904 4352  
[ny.fitchratings@fitchratings.com](mailto:ny.fitchratings@fitchratings.com)

**London Office**  
+44 (0) 20 399 3000  
[www.fitchratings.com](mailto:www.fitchratings.com)

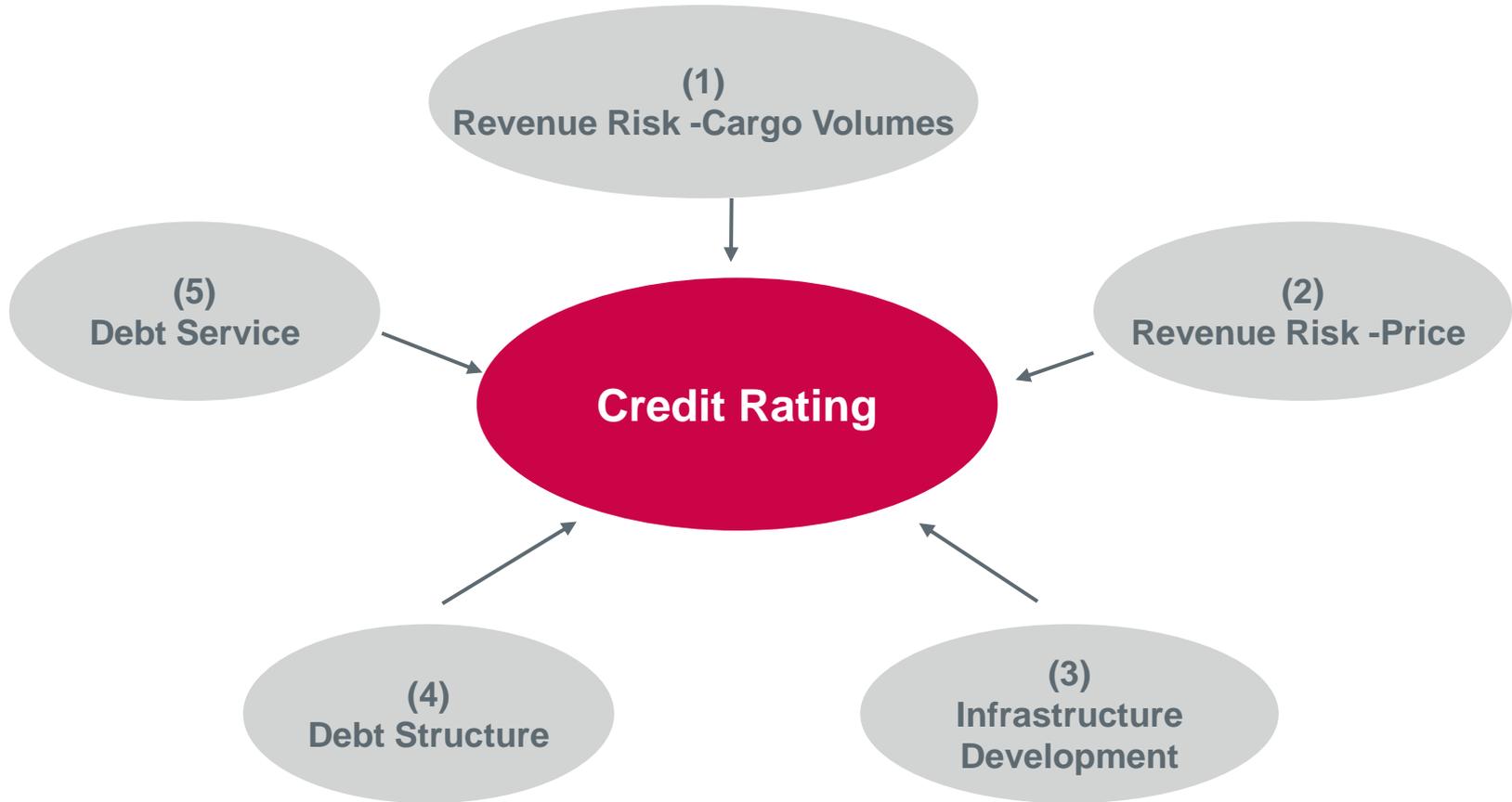
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[www.fitchratings.com](http://www.fitchratings.com)

**Media Contact**  
+1 212 904 8100  
[media@fitchratings.com](mailto:media@fitchratings.com)

**Corporate & Government**  
+1 212 904 8100  
[corporate@fitchratings.com](mailto:corporate@fitchratings.com)

[www.fitchratings.com](http://www.fitchratings.com) September 27, 2012

# Ports Rating Criteria – 5 Key Drivers



# Expanded Rating Criteria for Ports

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## I. Global Rating Rationale for Ports:

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

## II. Description, Drivers and Relevant Benchmarks (See Appendix)

## III. Attribute Scorings: Stronger, Mid-Range, and Weaker

# Indicative Rating Metrics by Category

Rating Category	DSCR(x) <sup>a</sup>	Net Debt/EBITDA (x) <sup>b</sup>	Days Cash on Hand <sup>c</sup>
AA Category	2.50 or higher	4.0 or lower	400 or higher
A Category	1.40-2.50	4.0-8.0	300-400
BBB Category	<ul style="list-style-type: none"> <li>• Strength/narrowness of franchise is a key driver</li> <li>• Other factors (i.e. adverse leverage/coverage) may offset a strong franchise</li> </ul>		

<sup>a</sup> The LLCR/ICR combination may be used where there is refinance risk on 30% of the debt or more, or where debt has a non-amortizing feature.

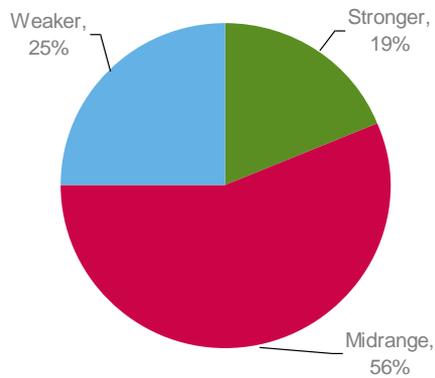
<sup>b</sup> Fitch will use net debt to CFADS in the appropriate market (i.e. U.S.).

<sup>c</sup> Days Cash On Hand is used with U.S. municipal port credits.

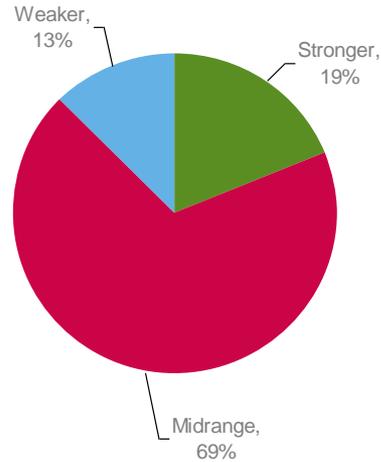
Source: Fitch Ratings

# Peer Review of Rated U.S. Ports - 2013

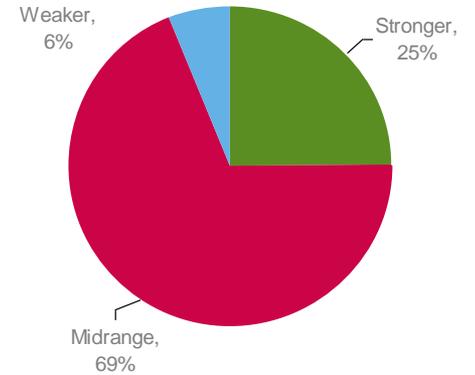
### Revenue Risk - Volume



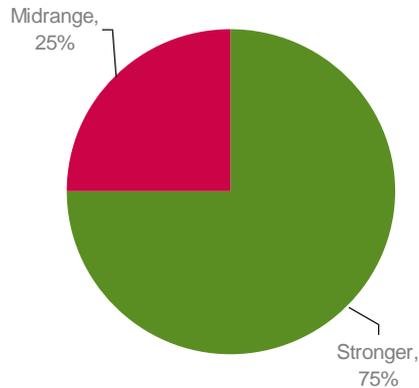
### Revenue Risk - Price



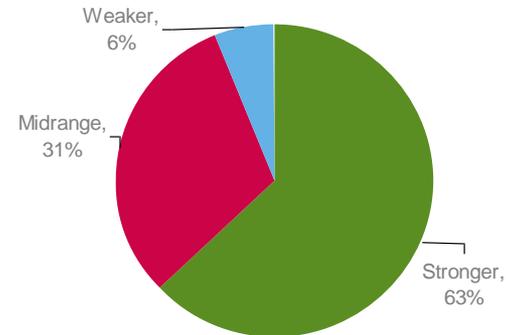
### Infrastructure/ Development



### Debt Structure



### Debt Service



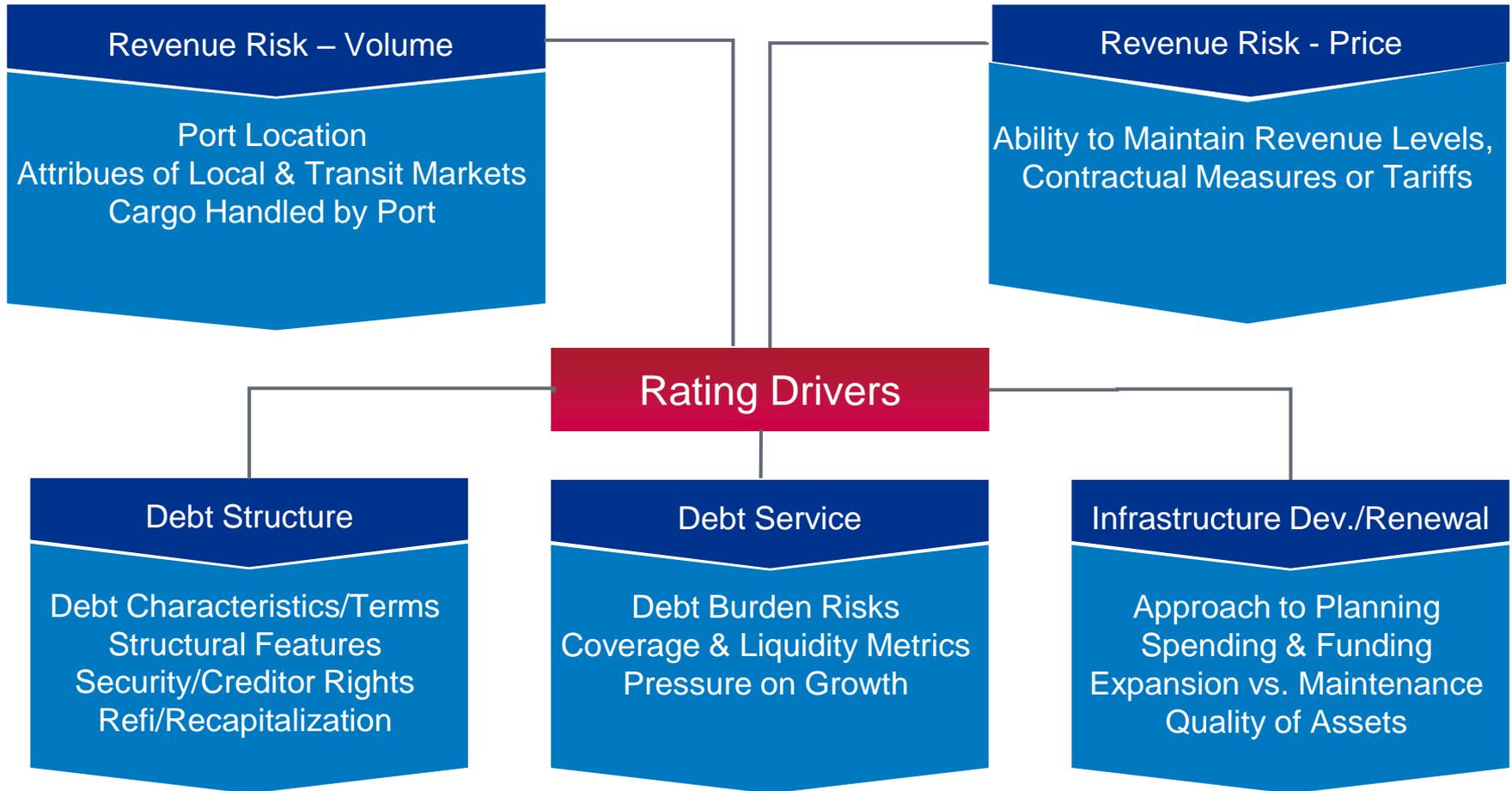
# Related Research

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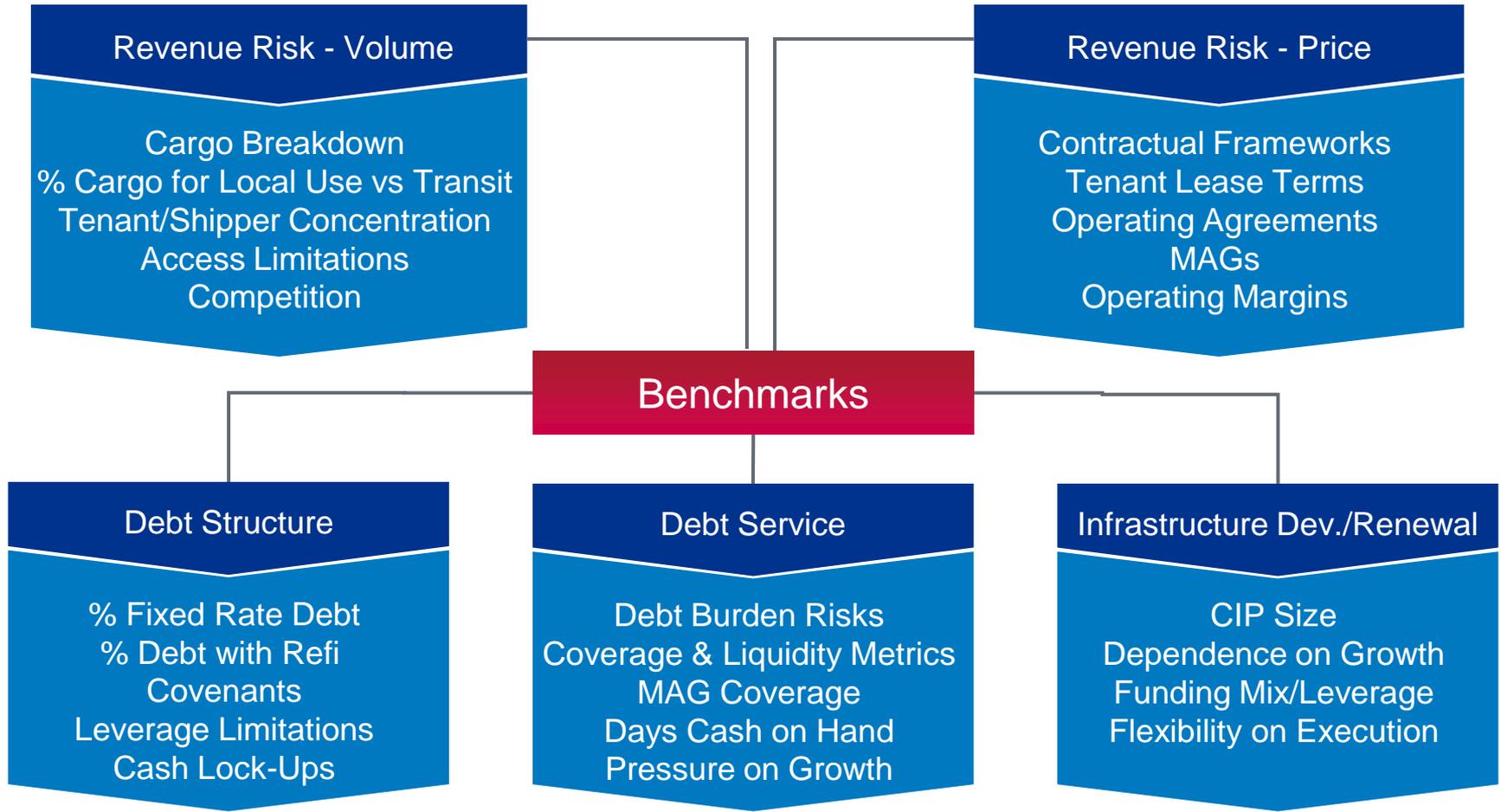
- “Quarterly Port Trend Data”, February 2013
- “2013 Outlook: U.S. Transportation Infrastructure”, December 2012
- “Port Credits Resilient in Face of Labor Action”, December 2012
- “Fiscal Cliff Would Stress U.S. Transportation Infrastructure”, November 2012
- “East Coast Port Strike Credit Implications”, September 2012
- “Rating Criteria for Ports”, September 2012

# Appendix

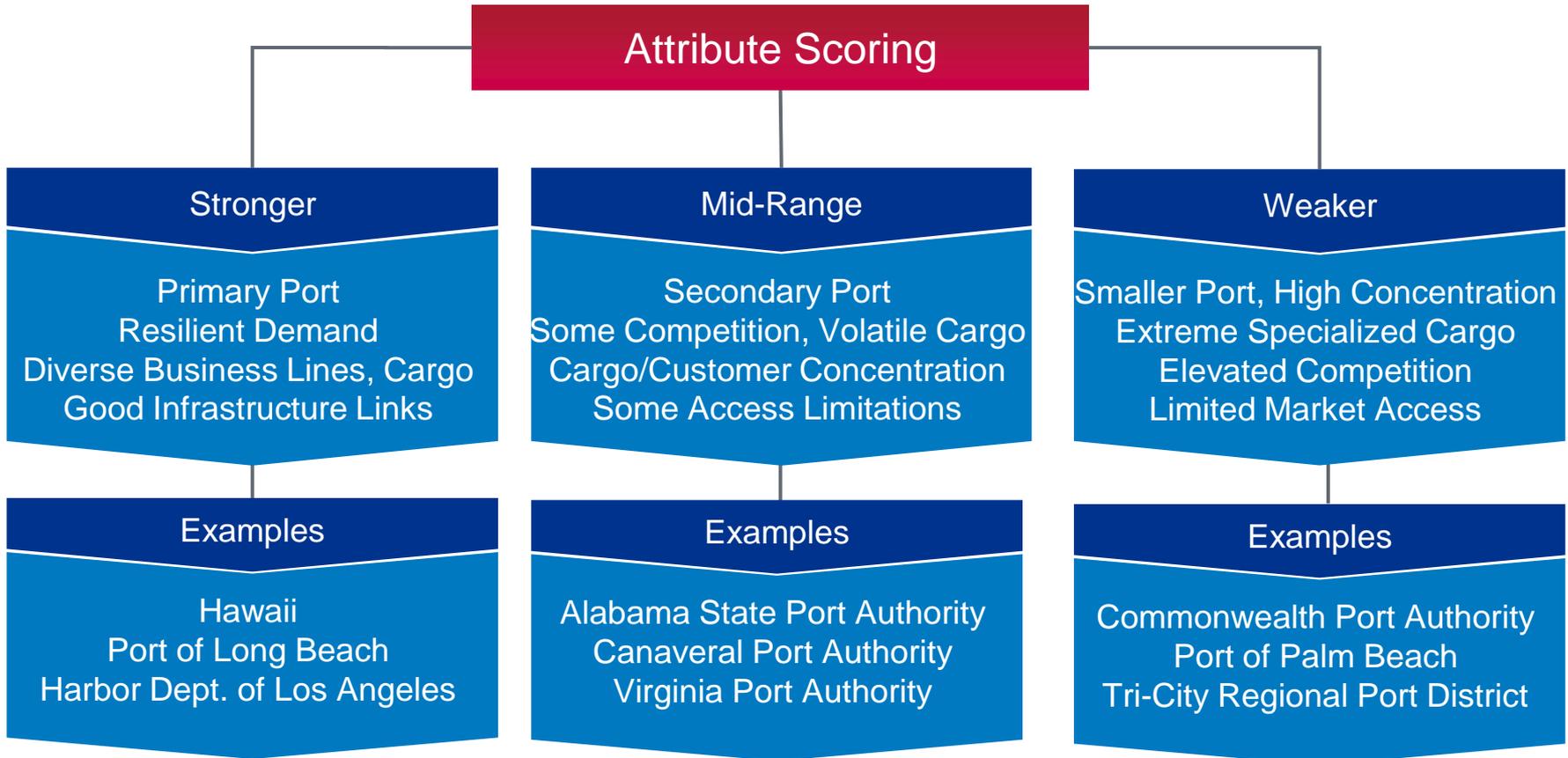
# Global Rating Rationale for Ports - Drivers



# Global Rating Rationale for Ports - Benchmarks



# Assessment: Revenue Risk – Volume



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