



## RATING ACTION COMMENTARY

# Fitch Takes Rating Actions on North American Ports Amid Coronavirus Disruptions

Mon 30 Mar, 2020 - 3:07 PM ET

Fitch Ratings - New York - 30 Mar 2020: Fitch Ratings has taken rating actions for the following North American port credits:

--Alameda Corridor Transportation Authority (CA): affirmed at 'A'/'BBB+'/'BBB'; Outlook revised to Negative from Stable;

--Broward County (FL): affirmed at 'A'; Outlook revised to Negative from Stable;

-- Canaveral Port Authority: affirmed at 'A'; Outlook revised to Negative from Stable;

-- Miami-Dade County (FL) [Port Facilities]: affirmed at 'A'; Outlook revised to Negative from Stable.

**Fitch has also affirmed the ratings on the following ports:**

- Alabama State Port Authority (AL) at 'BBB+';
- Hawaii Department of Transportation (HI) [Port Facilities at 'AA-';
- Hillsborough County Port District (FL) at 'A';
- Jacksonville Port Authority (FL) at 'A';
- Long Beach (CA) [Port Facilities] (Sr/Sub TIFIA) at 'AA'/AA-';
- Los Angeles Harbor Department (CA) at 'AA';
- Northern Mariana Islands, Commonwealth of (MP) [Port Facilities] at 'BB';
- Port Commission of San Francisco (CA) at 'A';
- Port of Beaumont Navigation District (TX) at 'AA-';
- San Diego Unified Port District (CA) at 'A+';
- Port of Houston Authority (TX) (IDR/GO) at 'AA'/AA'.

Fitch has also recently revised its Sector Outlook for North American Ports to Negative from Stable, indicating that market conditions across the sector are generally on a negative trajectory; please refer to the full report at this link: <https://www.fitchratings.com/site/re/10115670>.

## RATING RATIONALE

### North American Port Rating Actions

The recent outbreak of coronavirus and related government containment measures worldwide creates an uncertain global environment for both cargo and cruise operations in the near term. While the latest available issuer data may not yet indicate impairment, material changes in revenue and cost profiles are occurring across the sector and will worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or expanded.

Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the virus outbreak as it relates to severity and duration, and incorporate revised base and rating case qualitative and quantitative inputs based on expectations for future performance and assessment of key risks.

#### Alameda Corridor Transportation Authority (ACTA)

The Negative Outlook reflects greater downside risk from coronavirus-related volume disruptions, due to ACTA's modest levels of unrestricted cash as compared to upcoming fiscal 2020 debt service payments, coupled with reliance on continued growth in excess of inflation to cover its backloaded debt service. Negative volume trends due to decreased global demand and the extended Chinese Lunar New Year are expected to have a greater negative effect on ACTA than on the ports it services, given ACTA's liquidity position and accelerating debt service profile.

#### Broward County (FL)

The Negative Outlook for Broward County Port Everglades reflects higher exposure to coronavirus-related disruptions due to the port's sizable cruise operations and its vulnerability to a significant, extended decline in cruise activities. The port benefits from substantial unrestricted cash and investments, which equal nearly two years of operating costs and are viewed as sufficient to cover fiscal 2020 debt service payments and support operations in the near term. Fitch also recognizes the diversified nature of the port's revenue streams, with cruise making up just over a third of revenues. Nonetheless, a prolonged cruise shutdown with soft demand thereafter would deplete overall port cash and reduce margins, pressuring the rating.

#### Canaveral Port Authority (FL)

The Negative Outlook for Canaveral reflects a more acute downside risk from coronavirus-related disruptions due to the sizable role of cruise in the port's operations, generating roughly 75% of revenues, and resulting in greater vulnerability in the event of a significant, extended decline in cruise activities. The port's unrestricted cash and investments are more than adequate to make fiscal 2020 debt service payments and provide support for operations during an immediate period of volatility. However, ongoing cruise shutdowns for a prolonged period followed by soft demand thereafter would deplete cash and reduce margins, eroding port financial strength and putting pressure on the current rating.

Canaveral has contractual minimum annual guarantees (MAGs) with shipping lines and cruise lines that have historically helped to insulate port revenues from volume and passenger volatility during periods of economic stress. At Canaveral, Royal Caribbean and Norwegian have declared force majeure events under their contracts, which will provide cruise lines relief from meeting their MAGs levels during their contract year if cruise operations are suspended for a prolonged period. Relief depends on the length of the force majeure event and performance for the remainder of the contract year.

#### Miami-Dade County (FL) [Port Facilities]

The Negative Outlook for Miami reflects potential for downside risk from coronavirus-related disruptions due to the port's significant cruise operations. Cruise accounts for roughly 60% of port revenues, making Miami vulnerable in the event of a significant, extended decline in cruise activity. Miami's substantial unrestricted cash and investments are sufficient to cover fiscal 2020 debt service payments and support operations in the near term. However, a prolonged shutdown with reduced demand for cruise thereafter would weaken the port's financial strength and put downward pressure on the rating.

Favorably, PortMiami has substantial, long-term MAGs with both cruise and cargo operators that have historically helped to insulate port revenues from volume and passenger volatility. However, given the current suspension of cruise activities, the financial condition of counterparties may be strained. PortMiami is in open dialogue with both its cruise and cargo operators, but no force majeure events have been filed to date.

### **KEY RATING DRIVERS**

See links below to individual issuer Rating Action Commentaries with individual Key Rating Driver assessment scores and analysis.

### **RATING SENSITIVITIES**

Developments That May, Individually or Collectively, Lead to Positive Rating Action:

--A return to a Stable Outlook could be possible, and the ratings affirmed, if Fitch sees sustained recovery in volume and revenues due to the easing of pandemic-imposed restrictions resulting in normal throughput and/or passenger patterns or the adaption of strategies that convincingly stabilizes the finances.

Developments That May, Individually or Collectively, Lead to Negative Rating Action:

--A continued period of material throughput declines that presents further challenges to stabilize the finances of the affected ports;

--Further credit erosion of the major shippers, terminal operators, or cruise counterparties that result in payment delinquencies to the ports;

--Sustained deterioration in port liquidity levels.

## **BEST/WORST CASE RATING SCENARIO**

Ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings

<https://www.fitchratings.com/site/re/10111579>.

## **CREDIT UPDATE**

North American Port Considerations

The coronavirus pandemic is having sizable and wide-ranging effects on the port space, both through disruptions to supply chains stemming from the first rounds of infection in Asia in addition to global government-imposed restrictions on

individuals, businesses, and corporations alike. The former directly affects cargo port volumes, while the latter affects both cruise port passengers and the broader global consumer demand that drives U.S. imports and exports. Economic effects of the coronavirus are expected to generate throughput and passenger declines along with financial stresses well in excess of what Fitch expects under typical recessionary conditions.

As a result, Fitch has implemented this portfolio-wide review of its standalone port credits in North America, focusing on available liquidity, port business mix, and counterparty exposure, as well as the implications for throughput, revenues and expenses as ports face severe near-term stresses.

## **FINANCIAL ANALYSIS**

### Fitch Cases

Fitch developed two primary scenarios that serve as the basis for its review of North American ports. The Rating Case scenario contemplates port revenue declines of 20% to 25% in 2020, as a result of pandemic-related disruptions, with contractual Minimum Annual Guarantees (MAGs) used as a floor for revenues. It is expected that revenues will remain depressed in 2021, at only 90% of 2019 levels. Thereafter, revenue growth rates will mirror prior Rating Case growth rates off the lower revenue base and not reach 2019 levels until 2022 or later.

For Cargo, the first half of 2020 (H1) assumes overall volume declines of 20%-30%, which reflects coronavirus shutdowns and blank sailings in the February-March timeframe on top of normal lunar new year seasonal declines in transpacific cargo, followed by continuing declines of 30%-40% through June due to softening demand as the illness slows activity in western consumer markets. H2 2020 reflects a decline of 10% yoy, recognizing the already low base in H2 2019 from tariff-related volume declines and overall lessened demand.

For Cruise, H1 2020 reflects what is normally a slow period for the cruise industry, followed by voluntary shutdowns by the cruise lines starting in March, Cruise operations are assumed to see 50%+ declines in volumes depending on the length of shutdowns (initially announced for 30- and 60-day periods). It is assumed sailings will return in H2 2020, but activity will be below previous years and result in a 10% reduction in revenues.

Fitch's more severe Sensitivity Case assumes the same volume effects as above, but also assumes contractual minimums are not honored, where applicable, due to liquidity or bankruptcy issues at the counterparties.

In addition, Fitch considered an alternate case for ports with substantial cruise operations that account for more than 10% of revenues. This case contemplates follow-on effects from the coronavirus affecting cruise demand and activity levels for a longer timeframe. Under this extreme scenario, Fitch considers a case where cruise revenues see no growth in fiscal 2021, after the fiscal 2020 25% decline in revenue, only returning to 90% of 2019 levels in fiscal 2022 and then resuming prior rating case growth rates.

The results of these scenarios will be published as a Ratings Scorecard.

## **CRITERIA VARIATION**

For Port of Houston Authority, Fitch's analysis supporting the 'AA' IDR on the port includes a variation from the 'Infrastructure and Project Finance Rating Criteria'. Enhanced analysis under the variation relates to the evaluation of the strength of the tax revenue and legal framework to support operations. This evaluation is supported by Fitch's "U.S. Tax-Supported Rating Criteria".

### Public Ratings with Credit Linkage to Other Ratings

Links to last published issuer RACs with Key Rating Driver assessments covered in the above rating actions:

<https://www.fitchratings.com/site/pr/10062496>

<https://www.fitchratings.com/site/pr/10066411>

<https://www.fitchratings.com/site/pr/10068345>

<https://www.fitchratings.com/site/pr/10101778>

<https://www.fitchratings.com/site/pr/10109140>

<https://www.fitchratings.com/site/pr/10084676>

<https://www.fitchratings.com/site/pr/10064794>

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<https://www.fitchratings.com/site/pr/10109906>

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<https://www.fitchratings.com/site/pr/10077150>

<https://www.fitchratings.com/site/pr/10106792>

<https://www.fitchratings.com/site/pr/10061934>

<https://www.fitchratings.com/site/pr/10069762>

<https://www.fitchratings.com/site/pr/10077157>

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

No proposed changes to any outstanding ESG scores for any of the port credits reviewed. With the exceptions of Los Angeles Harbor Department, Port of Long Beach, and Alameda Corridor Transportation Authority (below), the highest level of ESG credit relevance is a score of 3 -ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

Los Angeles Harbor Department, Port of Long Beach, and Alameda Corridor Transportation Authority all have an ESG relevance score of 4 for Labor Relations and Practices due to follow-on impacts of labor relations between port tenants and

longshoremen during periods of contract negotiations, which may potentially have a negative impact to the credit profiles, and are relevant to the ratings in conjunction with other factors.

For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

Revenues/1 LT			
Hillsborough County Port District (FL)			
<ul style="list-style-type: none"> <li>● Hillsborough County Port District (FL) /Port Facilities Revenues/1 LT</li> </ul>			
Long Beach (CA)			
<a href="#">VIEW ADDITIONAL RATING DETAILS</a>			

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## APPLICABLE CRITERIA

[U.S. Public Finance Tax-Supported Rating Criteria – Effective January 10, 2020 to March 27, 2020 \(pub. 10 Jan 2020\) \(including rating assumption sensitivity\)](#)

[Infrastructure and Project Finance Rating Criteria \(pub. 24 Mar 2020\) \(including rating assumption sensitivity\)](#)

[Ports Rating Criteria \(pub. 24 Mar 2020\) \(including rating assumption sensitivity\)](#)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG AST Model, v1.1.0 (1)

## ADDITIONAL DISCLOSURES

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## ENDORSEMENT STATUS

Alabama State Port Authority (AL)	EU Endorsed
Alameda Corridor Transportation Authority (CA)	EU Endorsed
Broward County (FL)	EU Endorsed
Canaveral Port Authority (FL)	EU Endorsed
Commonwealth Ports Authority (Northern Mariana Islands) (MP)	EU Endorsed
Hawaii Department of Transportation	EU Endorsed
Hillsborough County Port District	EU Endorsed
Jacksonville Port Authority (FL)	EU Endorsed
Long Beach (CA)	EU Endorsed
Los Angeles Harbor Department (CA)	EU Endorsed
Miami-Dade County (FL)	EU Endorsed
Port Commission of San Francisco (CA)	EU Endorsed
Port of Beaumont Navigation District (TX)	EU Endorsed
<b>Port of Houston Authority (TX)</b>	EU Endorsed
San Diego Unified Port District (CA)	EU Endorsed

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