S&P Global Ratings

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Guam Port Authority; Ports/Port Authorities

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Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'A' long-term rating on the Guam Port Authority's (the authority or the port) outstanding series 2018 port revenue bonds using its Global Not-For-Profit Transportation Infrastructure Enterprises (TIE) criteria, published Nov. 2, 2020, on RatingsDirect.

The outlook revision reflects our view that, despite the economic disruption caused by the global COVID-19 pandemic, volume levels at the port have remained relatively stable and resilient from fiscal 2019 to fiscal 2020 and continuing into fiscal 2021 (Sept. 30 year-end), given the essentiality of the port to Guam, supporting financial metrics that remain in line with our expectations at the current rating level.

Currently, the port has approximately $72.3 million of bonds (all fixed rate) outstanding. A senior, statutory lien on the authority's net revenues less crane surcharges, facility maintenance fees, and public marina revenues secures the series 2018 bonds. However, per the indenture, for purposes of calculating coverage per the rate covenant and additional bonds test (ABT), the authority is permitted to include crane surcharges used to pay debt service or operating expenses. The indenture coverage calculation also permits noncash accounting adjustments including those related to pension and other postemployment benefits (OPEB). Bond provisions also include both a 1.25x rate covenant and ABT, along with a debt service reserve fund fully funded with bond proceeds at the lowest of 10% of par, 125% of average annual debt service or maximum annual debt service.

Credit overview

The rating reflects our opinion of the authority's strong enterprise risk profile and strong financial risk profile. The strong enterprise risk profile reflects our view of Guam's very strong economic fundamentals as scored under the above criteria, and the port's essentiality and virtual monopolistic position as sole provider of maritime facilities and services in Guam, somewhat offset by high leading carrier concentration. The strong financial risk profile reflects our view of coverage (as per our calculations) that we expect to remain at levels that we consider strong over the next few years, a very strong debt profile (low debt burden), and strong liquidity and financial flexibility.

The port entered the pandemic financially and operationally strong, with strong historical debt service coverage (DSC; S&P Global Ratings-calculated), relatively stable-to-growing volume levels (84,954 containers in fiscal 2019), and a strong overall liquidity position. Entering the pandemic, we viewed the port's market position as adequate and still view it as such, reflective of the port's critical importance to the island's economy offset by a concentrated customer base with nearly 50% of operating revenue attributed to one carrier, Matson Inc., and roughly 30% of the volume related to U.S military activity on the island. While many of its sector peers have experienced fluctuations in volume--declines in 2019 due to frosty trade policies or large increases due to surging imports of consumer goods--volume levels at the Port of Guam have been largely stable between fiscal 2018-2020 with containers growing to 85,143 in fiscal 2020 from 84,954 in fiscal 2019 and with fiscal year 2021 year-to-date levels at 2.4% ahead of fiscal 2020 through the month of June.

The key credit strengths in our view are the port's:

- Adequate market position given the port's essentiality to the island economy but offset by a concentrated customer base;
- Strong financial performance, reflecting our expectation that DSC (S&P Global Ratings-calculated) will be maintained above 1.25x, and strong debt and liabilities capacity given the lack of additional debt needs but offset by large retirement benefit liabilities; and
- Strong liquidity and financial flexibility, reflecting our expectation that that the port will maintain liquidity levels near historical levels with no potential plans for drawing down at this time.

These strengths are offset by the port's exposure to modest fluctuations in demand due to economic cyclicality.

The stable outlook reflects our expectation port volumes will remain relatively stable and support financial metrics in line with the current rating.

Environmental, social, and governance (ESG) factors

We analyzed port's ESG risks relative to its market position, management and governance, and financial performance, and determined that, with the exception of environmental risks, all are in line with our view of the sector standard. Compared to other more inland ports, the Port of Guam is exposed to more heightened environmental risks due to the risks of rising sea levels and adverse weather events such as typhoons given its location as a small island territory in the Pacific Ocean.

Stable Outlook

Upside scenario

We do not expect to raise the rating, given our view that DSC metrics are unlikely to materially improve to stronger levels, as well as our view that the Port of Guam's activity levels will likely experience some periods of volatility in the long term.

Downside scenario

While we do not expect to lower the rating, if the port encounters material additional borrowing needs, or if its coverage metrics fall materially below forecast levels, we could lower the ratings. In addition, significant volatility in activity levels related to exposure to international trade and global economic conditions could weaken the rating.

Credit Opinion

S&P Global Ratings expects U.S. economic activity and growth will accelerate in 2021 as public health conditions continue to improve. The steady pace of vaccination in the U.S. has allowed for the easing of capacity restrictions, with most state and local governments fully or partially lifting mask mandates. Vaccination progress is part of our assessment of U.S. economic and credit implications across public finance (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

A better vaccination outlook this summer, a faster reopening schedule, and $2.8 trillion from two stimulus packages have turbocharged the U.S. economic recovery this year and the next, following the pandemic-induced slump. S&P Global Economics' current forecasts anticipate ending 2021 at a 6.7% real GDP growth rate and rebounding to a slower growth phase heading into 2022, with 3.7% estimated for next year. Our risk for recession over the next 12 months is now 10%-15%, down sharply from the 20%-25% range in January and around the U.S. economy's long-term unconditional recession risk average of 13%. The U.S. unemployment rate in May fell to 5.8%, and we expect the national unemployment rate will likely reach its pre-pandemic level of less than 4% by first-quarter 2023. For more information, see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes" June 24, 2021.

Enterprise Risk Profile

Our assessment of the authority's enterprise risk profile as strong reflects our view of its very strong economic fundamentals, low industry risk, adequate market position, and strong management and governance.

Economic fundamentals

In our view, Guam has very strong economic fundamentals as measured by GDP per capita ($35,713 as of January 2018), although it has above-average unemployment levels at 5.4% versus 4.9% for the nation and a population base (166,000 estimated as of 2018) that is relatively small compared with that of comparable ports on the U.S. mainland. In our opinion, Guam's economy is very closely tied to volume at the port, more so than for many other port issuers, because of its remote location. Guam imports much of what it needs to support its residents and annual visitors, so the economy directly affects port volumes and overall financial performance.

Guam's economic activity is largely based on tourism and military spending. Because of this, many of the government's economic development initiatives focus on these pillars, especially tourism. Hotel property owners have invested substantially in renovations and expansions in recent years. While the island has faced weather-related events and pandemics in the past, the nature of the COVID-19 pandemic is causing a historic downturn in tourist activities. Before the pandemic, visitor arrivals peaked in fiscal year 2019 at 1.6 million but declined nearly 90% in fiscal 2020. In July 2021, visitor arrivals were 12, 349, an increase of 792% from the miniscule July 2020 level of 1,385, but still significantly lower than the June 2019 level of 136,878.

The ongoing U.S. military buildup, while still a large undertaking, has been scaled back. Originally as many as 9,000 troops were to relocate to the island, mainly from Japan, from 2014 to 2017. A few years ago, however, the Department of Defense (DOD) reported that the number would be closer to 5,000 active duty personnel, along with 1,300 family members, support and civilian staff, vendors, and suppliers (to occur by 2026), and those figures remain. As a result, the once-estimated $15 billion economic boon has been revised to $8.7 billion. Still, this will almost double the amount of active military personnel on Guam.

The National Defense Authorization Act (NDAA) for fiscal 2020 authorized $529 million for Guam but spent a lower amount of approximately $365 million, with the fiscal 2021 NDAA allocated approximately $402 million for relocation reconstruction projects on Guam. This represents a continued commitment of the DOD to the military buildup in the region to counter evolving threats from China and Russia. These priorities, if sustained, should benefit Guam, given its location in the Pacific.

Market position

We consider the authority's overall market position adequate. The port has been experiencing generally favorable volume, which we expect to continue given macroeconomic trends in Guam, including the ongoing military buildup. While the port is a critical component of the economy, processing approximately 90% of Guam's total volume of goods supplies, we also note a very concentrated 43% of operating revenues and 54% of cargo (fiscal 2020) are attributed to one carrier--Matson Inc.--with 30% of the total volume military-related. The leading four carriers serving the port accounted for 83% of total cargo in fiscal 2020, and the leading 10 carriers or tenants accounted for 96% of fiscal 2020 revenues, including 65% by the top two carriers, Matson and APL. Matson has been serving Guam since 1996; it employs five containerships, each with a capacity of 2,500 twenty-foot equivalent units (TEUs).

Containerized cargo, breakbulk, and liquid bulk volumes have been largely stable with a compound annual growth rate of 0.2% from 2015-2020, inclusive of a steady level of containers of 85,000 containers in fiscal 2019 and fiscal 2020 despite the pandemic. Total revenue tons has averaged about 2 million over the past few years.

The port lacks any meaningful regional competition, including two nearby ports in Saipan and Majuro. The port is the only one in the region with the required infrastructure and equipment (gantry cranes, container handlers) to service container vessels with a capacity up to 4,000 TEUs. The port is under the oversight of the Public Utilities Commission (PUC), where changes to rates and charges require the approval of the PUC through a tariff-petition process. While this is atypical for U.S. ports, our view is that such oversight has thus far not been an impediment in terms of getting necessary tariff adjustments approved. The recent 2017-2021 tariff adjustment plan included rate increases of 7%, 7%, 1%, 1%, and 1% in June 2017, January 2018, October 2018, October 2019, and October 2020, respectively. Since being placed under the PUC's oversight in 2009, the PUC has approved combined tariff adjustments totaling 37%. We take a positive view of management's actions to adjust tariffs to meet growing operating costs and finance needed capital improvements.

We expect the authority's activity levels to remain generally favorable with some modest fluctuations given the potential for weak economic cycles and potential disruptions from redeveloping the facilities.

Management and governance

We consider the authority's management and governance strong, reflecting our view of the port's strategic positioning, risk management and financial management, and organizational effectiveness.

To enhance its role within Guam, the authority is embarking on a capital improvement plan (CIP) to make itself more prepared for industry needs such as the military buildup, provide pre-disaster mitigation hardening of port facilities, and make various other upgrades and additions. The authority has historically operated in a fiscally prudent manner, implementing tariff increases as needed, building up cash reserves, and minimally relying on debt to meet capital needs. The authority has a relatively simple debt profile, consisting completely of fixed-rate amortizing debt in the form of the 2018 bonds. It has an informal target to maintain 365 days of cash operating costs. The port also performs monthly budget-to-actual analyses to stay on track. Management is also addressing climate risk through an insurance policy against natural disasters (including business interruption insurance), and recently installed seven power generators as backup against power loss.

Financial Risk Profile

Our assessment of the authority's financial risk profile as strong reflects our view of the authority's strong financial performance, strong debt and liabilities capacity, and strong liquidity and financial flexibility. Our financial profile risk assessment considers the port's historical figures focused on fiscal 2018-2020 (Sept. 30 year-end) as future metrics are expected to be maintained at those levels. Our financial profile assessment also considers the authority's financial policies, which we consider credit neutral.

Financial performance

Coverage per our calculations declined to 1.73x in fiscal 2020 from 4.35x in fiscal 2019 and 2.69x in fiscal 2018 due to relatively flat revenues, despite the impacts of the pandemic, but higher operating expenses from retirement benefit costs increases. Management began implementing tariff increases effective March 1, 2010. The higher tariffs support new debt associated with the capital program and have bolstered financial performance. As a result of the tariff increases and steady growth in volume, total operating revenue grew by a very strong 21% to $51 million in fiscal 2017 from $42 million in fiscal 2013 and to $54 million-$55 million during fiscal 2018-2020. Cargo throughput charges represent the largest share of revenues at 62% in fiscal 2020, followed by lease revenues and crane surcharges at 17% and 11%, respectively.

Debt and liabilities

We assess the authority's debt and liabilities capacity as strong, reflecting its low debt burden with debt to net revenue averaging 5.84x from fiscal 2018-2020 but also factoring into our debt and liabilities assessment is our view of the authority's combined pension and OPEB liabilities of a very large $138 million. The pension funded ratio is low, in our view, at just 62%. We view these contingent liabilities, combined, as sizable versus the port's budget and liquidity position. The authority has no plans to issue additional debt, and its five-year capital improvement plan for fiscal 2021-2026 is almost entirely funded with federal grants.

Liquidity and financial flexibility

We assess the authority's liquidity and financial flexibility as adequate, with cash of about 363 days of operating costs and liquidity to debt of 64% from fiscal 2018-2020. Our assessment incorporates the resulting debt levels from the authority debt-financing a portion of its CIP with the 2018 bonds. At this time, port management has no plans to materially draw down its unrestricted reserves, nor are we expecting any material increases.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 2, 2021)

Ratings Detail (As Of September 2, 2021) (cont.)		
Guam Port Auth port rev bnds ser 2018C due 07/01/2048		
Long Term Rating	A/Stable	Outlook Revised
Guam Port Auth port rev bnds (Guam Port Auth)		
Long Term Rating	A/Stable	Outlook Revised