

**Rating Action: Moody's changes outlook on Port Authority of Guam's Baa2 senior port revenue bonds rating to stable**

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13 May 2021

New York, May 13, 2021 -- Moody's Investors Service has affirmed the Baa2 rating assigned to the Port Authority of Guam's senior port revenue bonds. Concurrent with this action, the outlook has been changed to stable from negative.

**RATINGS RATIONALE**

The affirmation of the Baa2 rating and outlook change to stable follows Moody's rating action on the Government of Guam's general obligation bonds rating which was affirmed at Ba1 with a stable outlook on 4 May 2021.

The Port Authority of Guam's Baa2 rating reflects its position as the sole commercial port in Guam, handling around 90% of the territory's imported cargo, including a significant portion of military cargo. Leverage is low (3.4x adjusted debt to operating revenue in fiscal 2020) and liquidity remains strong. The port remained fully operational during the coronavirus pandemic.

Moody's expects that the authority will maintain healthy credit metrics with debt service coverage (DSCR) around 2.0x through the cycle. DSCR based on the indenture calculation dropped to 1.26x in 2020 (Moody's net revenue DSCR 1.75x in fiscal 2020) and recovered to 1.7x as of Jan 2021 based on an unaudited basis.

Constraining credit factors include the small scale, high customer concentration, exposure to weather-related events, the linkages to the credit quality of the Government of Guam and a high fixed cost base as an operator port.

The port authority's liquidity position remains strong, partially also because of a high amount of unspent 2018 bond proceeds. Total cash and investments as of January 31, 2021 were around \$109 million, of which \$49 million is reserved for construction projects and around \$2.0 million is for the debt service reserve. The rest of the funds are for operations, crane acquisitions reserves, facility maintenance, crane related operations, operations reserves and other funds that are required in the bond indenture.

**RATING OUTLOOK**

The stable outlook assumes that the Port Authority of Guam will maintain healthy financial metrics with DSCR around 2.0x and solid liquidity levels.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS**

- Sustained volume growth that supports Moody's net revenue DSCR above 2.0x
- Diversification of the port authority's customer base
- Visibility that the port authority will complete the capital program on time and on budget and will maintain capital equipment in a state of good repair
- Days cash on hand maintained above 500 days on a sustained basis
- Improvement in the government's financial position and liquidity

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS**

- Erosion of the government's financial position and liquidity or deteriorating local economic conditions that would negatively impact the authority's financial flexibility
- Loss of a material customer

- Moody's net revenue DSCR below 1.5x
- Liquidity levels falling to around 225 days cash on hand on a sustained basis

## LEGAL SECURITY

The authority issued \$71.445 million in 2018 Series port revenue bonds to finance a portion of the port authority's capital improvement program, fund a debt service reserve and redeem existing bank loans. The bonds are fully amortizing, have a debt service reserve funded at maximum annual debt service and a final maturity of July 1, 2048. Maximum annual debt service is around \$6.5 million and average annual debt service is around \$4.1 million over the life of the debt.

Bondholders benefit from a rate covenant of net revenue at 1.25x debt service. Bondholders are also protected by an additional bonds test, which requires either historical or prospective debt coverage of net revenue at 1.25x maximum annual debt service and a cash funded debt service reserve sized at maximum annual debt service. Other reserve requirements include an O&M reserve fund and a renewal and replacement reserve fund.

## PROFILE

The Port Authority of Guam operates the Jose D. Leon Guerrero Commercial Port of Guam, the only commercial port in Guam. The port has a cargo terminal, industrial terminal, six cargo handling berths, cargo handling equipment and numerous support buildings and facilities. The authority generates all of its revenue from tariffs charged to its customers. The Public Utilities Commission (PUC) of Guam needs to approve tariffs since 2009. The port handles more than 90% of the island's total imports and around 30% of military-related cargo

## METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Ports Methodology published in June 2019 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1161994](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1161994) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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