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Ratings

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Summary:

Guam Port Authority; Ports/Port Authorities

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Credit Highlights

- S&P Global Ratings' long-term rating on the Guam Port Authority's (the authority or the port) series 2018 port revenue bonds outstanding is 'A'.
- The outlook is stable.

Security

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). S&P Global Ratings' debt service coverage (DSC) calculations indicate strong coverage in fiscal 2021 at 1.86x. Bond provisions also include 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.

The port has approximately $65.28 million of bonds outstanding. The authority has no direct-purchase obligations, variable-rate debt, or swaps outstanding.

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, and the port's essentiality and virtual monopolistic position as sole provider of maritime facilities and services in Guam, somewhat offset by high leading shipping carrier concentration. The overall strong financial risk profile reflects our view of DSC (as per our calculations) that we expect will remain at levels that we consider strong over the next few years, low debt burden, and adequate liquidity and financial flexibility.

Specifically, the rating reflects our assessment of the port's strengths:

- Its essentiality to the island economy;

- Strong financial performance, reflecting our expectation that coverage (S&P Global Ratings-calculated) will be maintained above 1.25x; and
- Strong debt and liabilities capacity given the lack of additional debt needs.

Partially offsetting the above strengths, in our view, are the port's:

- Exposure to modest fluctuations in demand due to economic cyclicality;
- Concentrated customer base with almost 50% of operating revenue attributed to Matson Inc., and about 30% of the volume related to U.S military activity on the island; and
- Very large liabilities combining pension and OPEB, along with a low pension funded ratio.

Environmental, social, and governance

We reviewed the port's environmental, social, and governance risks relative to its market position, management and governance, and financial performance. We consider environmental risks moderately credit negative in our analysis. Compared with other more inland ports, the Port of Guam is exposed to risks of rising sea levels and adverse weather events such as typhoons given its location as a small island territory in South Pacific. Health and safety considerations, which we consider social risks, are abating given the recovery in cargo at the port, but we still believe they are moderately negative given the substantial impact on cargo ports at the onset of the COVID-19 pandemic. We consider governance credit factors as neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that coverage and liquidity metrics will remain sound, the port's debt capacity will remain strong, and cargo volumes will remain near current levels.

Downside scenario

We could lower the rating if the port encounters material additional borrowing needs, if DSC metrics fall materially below forecast levels or significant volatility in activity levels related to exposure to international trade and global economic conditions weaken financial performance.

Upside scenario

We do not expect to raise the rating over the outlook horizon given our view that DSC metrics are unlikely to materially improve to stronger levels and the port's exposure to periods of volatility.

Credit Opinion

Enterprise risk profile

Our overall assessment of the authority's enterprise profile is strong, reflecting very strong economic fundamentals, an adequate market position, and strong governance. Guam's economic activity is largely based on tourism and military spending. 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. The port is highly essential, playing a critical role in Guam's economic vitality and on-island military operations and expansion, and in general for the provision of basic supplies for residents and visitors.

We consider the authority's overall market position as adequate. The port lacks any meaningful regional competition, including nearby ports in Saipan and Majuro. 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 46% of operating revenues and 56% of cargo (fiscal 2021) are attributed to one carrier--Matson Inc.--with 30% of the total volume military-related. The leading three carriers serving the port accounted for 89% of total cargo in fiscal 2021, and the leading 10 carriers or tenants accounted for 98% of fiscal 2021 revenues, including 69% by the top two carriers, Matson and APL. The port has been experiencing generally favorable volume, which we expect to continue given macroeconomic trends in Guam, including the expected military buildup.

We consider the authority's management and governance strong, reflecting our view of the port's strategic positioning, risk and financial management, and organizational effectiveness. The authority has historically operated in a fiscally prudent manner, implementing tariff increases as needed, building and maintaining cash reserves, and minimally relying on debt issuance to meet capital needs.

Financial risk profile

Our assessment of the authority's financial risk profile as strong reflects our view of its strong financial performance, strong debt and liabilities capacity, and adequate liquidity and financial flexibility.

The port entered the pandemic financially and operationally strong, with strong historical DSC (S&P Global Ratings-calculated), relatively stable-to-growing volumes (86,780 containers in fiscal 2021), and a sound overall liquidity position. In fiscal 2021, DSC per our calculations remained relatively flat at 1.86x, compared with 1.73x in the previous year, indicating a stable recovery in volumes from pandemic lows.

We view the authority's debt and liabilities capacity as strong, reflecting its low debt burden with debt to net revenue averaging 6.15x from fiscal 2019-2021, but also factored into our debt and liabilities assessment is our view of the authority's combined pension and OPEB liabilities of a very large $147 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. We assess the authority's liquidity and financial flexibility as adequate, with cash on hand averaging 124 days of operating costs in fiscal years 2019-2021.

Our assessment of adequate liquidity and financial flexibility reflects 83 days' operating costs, and liquidity to debt of 16% in fiscal 2021. We expect that the port will maintain liquidity near historical levels with no plans for drawing down at this time.

S&P Global Ratings currently believes that the U.S economy will fall into a recession in 2023. Supply-chain disruptions remain and will continue to drive inflation, which remains high, although it likely peaked in third-quarter 2022. As the weight of high prices adversely affects purchasing power and the Federal Reserve remains aggressive in its policies to combat inflation, borrowing costs are expected to increase. Our U.S. GDP growth forecast is 1.6% for 2022 and 0.2% for 2023 (compared with 2.4% and 1.6%, respectively, in June 2022). Although higher prices at the checkout erode household purchasing power, economic momentum will still likely protect the U.S. economy this year; however, inflation expectations remain entrenched and extreme price pressures will likely last well into 2023. We expect the unemployment rate, at 3.7% in August and just above its pre-pandemic level, will remain near that rate until early 2023 before rising to 4.8% by the end of 2023 and peak at 5.7% in early 2025 as the economy slows. It will hold above 5.0% through 2026. The Fed is now likely to push rates from zero at the beginning of this year to 400-425 basis points (bps) by early 2023. The Fed will keep its tight monetary policy stance until inflation begins to moderate in second-half 2023. We expect the Fed to cut rates in late 2023 as its soft-landing turns into a hard one with prices softening on weak demand. Risk is for more rate hikes this year and the next. Our lower GDP and inflation forecasts for 2023 and 2024 reflect the likely outcome of this more aggressive policy stance. See "Economic Outlook U.S. Q4 2022: Teeter Totter," Sept. 26, 2022.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

This report does not constitute a rating action.