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Ratings

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Summary:

Guam Port Authority; Ports/Port Authorities

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Table Of Contents

Summary:

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Credit Profile		
Guam Port Auth port		
Long Term Rating	A/Stable	Current
Guam Port Auth port		
Long Term Rating	A/Stable	Current
Guam Port Auth port		
Long Term Rating	A/Stable	Current

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 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, under 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), and is 3.6x for fiscal 2022. S&P Global Ratings' debt service coverage (DSC) calculations indicate historically strong coverage levels, including 1.30x in fiscal 2022. Bond provisions also include a 1.25x rate covenant and ABT, along with a debt service reserve fully funded with bond proceeds at the lowest of 10% of par, 125% of average annual, or maximum annual debt service.

As of Sept. 30, 2023, the port has approximately $60 million of bonds outstanding. The authority has no direct-purchase obligations, variable-rate debt, or swaps outstanding.

Typhoon Mawar, the strongest storm to hit Guam in more than 20 years, struck the island on May 24, 2023. The storm caused damage or destruction to many structures, including downed power lines and trees, flooding, and power and water service loss for almost the entire island of 154,000 (as of 2020) residents. Despite the magnitude of the event, critical infrastructure throughout the island was restored fairly soon. The port was back in operation within three days despite extensive damage. Estimated repair costs for the port property total $9.4 million, including damage to several wharves, warehouses, and other infrastructure assets. An additional $25.1 million in repair costs is estimated for the Golf Pier, a project for which the port had requested grant funding prior to the typhoon. Management expects the Federal Emergency Management Agency will fund most of the repair costs not covered by insurance, and that in addition to restoration, further hardening of port infrastructure assets might be funded through federal hazard mitigation grants. Because the port is operational, not all repairs are time-sensitive; therefore, the pace of rebuilding is flexible.

We believe the impact of the typhoon on port operations and finances is manageable given that port activity and related revenues remain in line with historical levels, as well as the port's sound liquidity levels. Management reports no plans for short-term borrowing, with total liquidity of $26.7 million, or 240 days' operating expenses, at fiscal year-end 2022. We believe the port will maintain adequate liquidity through fiscal years 2023 and 2024.

Although the damage to the port is significant, we believe the impact of the typhoon on port activity will vary by cargo and container type. For example, based on figures for August 2023 for container count and tonnage, the port reports that while container counts are down 3.4% compared with August 2022, and containerized cargo tonnage was down by 2.1%, break bulk cargo tonnage rose substantially, by 45%, resulting in higher total tonnage (up 4%) compared with 2022.

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 the sole provider of maritime facilities and services in Guam, somewhat offset by high 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, low debt burden, and adequate liquidity and financial flexibility.

Specifically, the rating reflects our assessment of the port's strengths, including 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 port's low 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, although container volume handled has risen in the past three years;
- Concentrated customer base with almost 43% of operating revenue attributed to Matson Navigation 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 physical environmental risks moderately credit negative in our analysis given the port's exposure to extreme weather events, namely typhoons, such as the recent Typhoon Mawar, and rising sea levels, as a small island territory in the Pacific Ocean. We consider social and governance credit factors as neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that fiscal 2023 and 2024 port activity will continue to demonstrate resiliency in the aftermath of Typhoon Mawar, and that key financial 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 a sustained decline in activity levels related to exposure to international trade and global economic conditions weakens financial performance or market position.

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 and physical risks.

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 43% of operating revenues and 54% of cargo (fiscal 2022) are attributed to one carrier--Matson Navigation Inc.--with a large percentage of the total volume military-related. The leading 10 carriers serving the port accounted for 96% of total operating revenue in fiscal 2022, including 69% by the top two carriers, Matson and American President Lines Ltd. The port has experienced generally stable volume since 2020, which we expect will continue given macroeconomic trends in Guam, including the military operations, and the expectation that the recent typhoon will not materially change overall port activity.

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 obtaining grant funding that minimizes reliance 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 (89,052 containers in fiscal 2022), and a sound overall liquidity position. In fiscal 2022, DSC per our calculations declined to 1.30x, compared with 1.86x in the previous year, due in part to a rise in pension expenses.

We view the authority's debt and liabilities capacity as strong, reflecting its low debt burden with debt to net revenue averaging 7.1x from fiscal years 2020-2022 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 $146.5 million. The pension funded ratio is low, in our view, at just 70%. 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 at 241 days of operating costs as of fiscal year-end 2022 (Sept. 30), up from 86 days in the previous year, mainly attributable to the receipt of $15 million in federal ARPA grant funds as reimbursement of pandemic-related expenses. Our assessment of adequate liquidity and financial flexibility also reflects an available liquidity-to-debt ratio of 53% at fiscal year-end 2022. Port management has indicated that in fiscal years 2023 and 2024, it will cash fund some capital projects, including its 10% share of typhoon damage-related projects. We expect that the port's liquidity will remain at levels supportive of the port's current financial profile.

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.