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Research Update:

Halifax Port Authority Outlook Revised To Positive On Continuing Good Operating And Financial Performance

Primary Credit Analyst:
Bhavini Patel, CFA, Toronto (1) 416-507-2558; bhavini.patel@standardandpoors.com

Secondary Contact:
Mario Angastiniotis, Toronto (1) 416-507-2520; mario.angastiniotis@standardandpoors.com

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Overview

- We are revising our outlook on Halifax Port Authority (HPA) to positive from stable.
- We are also affirming our 'A' long-term issuer credit rating on the HPA.
- The outlook revision reflects what we view as sustained healthy operating and financial performance, with forecast annual debt service of more than 5x in the next two years.
- In part, the rating reflects the authority's strategic location on the east coast of North America, strong catchment area, and robust financial performance.

Rating Action

On Aug. 21, 2013, Standard & Poor's Ratings Services revised its outlook on Halifax Port Authority (HPA) to positive from stable. At the same time, Standard & Poor's affirmed its 'A' long-term issuer credit rating on the HPA.

The outlook revision reflects what we view as sustained healthy operating and financial performance, with forecast annual debt service of more than 5x, despite debt issuance, in the next two years.

Rationale

The rating on the authority reflects Standard & Poor's opinion of the following factors:

- The HPA's strategic location on the east coast of North America, with its natural deep harbor and supporting infrastructure, which give it a competitive advantage as a first-in and last-out port for Southeast Asian container traffic traveling through the Suez Canal;
- What we view as the authority's strong business position and natural advantages that have made it Canada's fourth-busiest container port after Vancouver, Montreal, and Prince Rupert, B.C., and the seventh-busiest in the North Atlantic. The HPA's natural advantage of ice-free harbor result in it being one of only two ports on the east coast able to attract and service the larger postpanamax and super-postpanamax vessels;
- The HPA's historically low debt, which we expect will notably increase in the near term as a result of its relatively moderate capital spending requirements. Nevertheless, in our view, despite the increase in debt,

the authority's debt burden will remain relatively low compared with that of peers. Standard & Poor's expects that the HPA will continue to manage its capital program prudently in the next three years and remain within its C$75 million borrowing limit in the medium term;
- Our view that, as a landlord port, the authority has a fairly stable revenue stream compared with that of some peers. In 2012, total revenues rose modestly by 2.3%, and remained relatively stable compared with the previous year. Key drivers of 2012 revenue growth included an increase in the number of cruise ships visits and a modest increase in 20-foot equivalent units (TEUs). We attribute the stability of the HPA's revenue base to the significant share of its 2012 revenues from rental income;
- In accordance with our criteria for government-related entities (GREs), our view of a "moderately high" likelihood of timely and sufficient extraordinary government support. We base this on our assessment of the "limited" link with the federal government as ports operate as nonshare capital corporations, with general roles and responsibilities set out in the Canada Marine Act with little involvement by the federal government in day-to-day operations. We also base this on our assessment that the role of HPA is "very important" to Canada because ports provide essential infrastructure that is strategically important to Canada's international trade and effectively hold a monopoly position in their respective regions;
- The HPA's exposure to risks inherent in a cyclically driven sector and potentially having to offset declines in its revenues from unexpected losses in shipping lines calling on the port. As well, the authority faces strong competitive pressures from other east coast container ports such as the Port of Montreal, the Port Authority of New York and New Jersey, and the Virginia Port Authority. Cargo volumes continue to remain below their 2007 levels. Nevertheless, results for the first half of 2013 reflect favorable operating performance, because TEUs to date have increased about 17% compared with the same period in 2012. We believe mitigating this risk is the relative stability from the HPA's diversified revenue sources such as rental revenues from land holdings and other lines of business as well as the authority's strategic plan to enhance relationships with the end users of shipping lines; and
- Operational risks inherent in HPA's dependence on a single rail line -- Canadian National Railway Co.

We have used the "Principles of Credit Ratings" in conjunction with "U.S. Public Finance: Port Facilities Revenue Bonds" as our criteria foundation for our analysis of the authority's creditworthiness. We feel that there is a high degree of similarity between U.S. and Canadian port authorities and that the U.S. port revenue bond criteria is an appropriate methodology for evaluating Canadian port authorities' credit quality. In contrast to their U.S. counterparts, Canadian port authorities cannot issue secured debt with liens on revenue. As a result, bond covenants such as minimum debt service requirements, debt service reserve requirements, or additional bonds tests, are not an important credit consideration. Under the Canada Marine Act, each port's debt borrowing limits are outlined in their letters patent, which ultimately affect their financial risk profiles. Accordingly, we considered more fulsome analysis of the regulatory structure of the regulatory structure of Canadian port authorities in lieu of the bond provisions' exclusion.

Liquidity

The HPA's liquidity is "adequate," in our opinion. Historically, the authority typically held strong unrestricted cash and liquid investment balances. In the last five years however, cash balances have been very low while the HPA relied on its cash flow from operations to fund its capital program. It does have access to a revolving bank facility with a maximum limit of C$45 million. As of Dec. 31, 2012, the authority had cash balances of about C$129,000 and C$26 million has been drawn from the facility. Through a combination of cash balances and external liquidity available through the undrawn balance of the line of credit, the HPA had sufficient liquidity to cover slightly more than 12 months of operating expenses.

Outlook

The positive outlook reflects Standard & Poor's expectation of the authority's strong cargo and revenue growth in the two-year outlook horizon and our expectation for continuing strong annual debt service coverage ratio (DSCR) exceeding 5x despite debt issuance as it undertakes its capital plan. The outlook also reflects our view of the HPA's prudent management of its capital program to date and our expectation that it will not issue significantly more debt in the next two years than it assumes in its current capital plan. If it meets these expectations, we could raise the rating. Although we believe it is unlikely, material weakening of the authority's financial risk profile as reflected in a material narrowing in its DSCR as a result of a significant deterioration in total revenues could result in an outlook revision to stable.

Related Criteria And Research

- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- USPF Criteria: Port Facilities Revenue Bonds, June 13, 2007

Ratings List

Outlook Revised To Positive

	To	From
Halifax Port Authority		
Issuer credit rating	A/Positive/--	A/Stable/--

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