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Research Update:

Halifax Port Authority Issuer Credit Rating Affirmed At 'A' On Strong Business Position

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Research Update:

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Overview

- We are affirming our 'A' long-term issuer credit rating on the Halifax Port Authority.
- In part, the rating reflects the authority's strategic location on the east coast of North America; strong catchment area; and robust financial performance.
- The stable outlook reflects Standard & Poor's expectation that, in the next two years, the authority will continue to benefit from modest cargo volume and revenue growth, and it will not issue significantly more debt than it is assumed in its current capital plan, thus helping to maintain strong annual debt service coverage of more than 5.0x.

Rating Action

On Sept. 5, 2012, Standard & Poor's Ratings Services affirmed its 'A' long-term issuer credit rating on the Halifax Port Authority (HPA or the authority). The outlook is stable.

Rationale

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

- The authority's strategic location on the east coast of North America, with its deep berths 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 as well as European cargo;
- 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. HPA's natural advantage of a deep, ice-free harbor results in it being one of only two ports on the east coast able to attract and service the larger post-panamax and super post-panamax vessels;
- HPA's historically low debt, which we expect will increase in the near term and peak in 2014 as a result of its relatively moderate capital spending requirements. Nevertheless, in our view, despite the increase in debt, HPA's debt burden will remain relatively low compared with that of peers. Standard & Poor's expects that the authority 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;

- We believe that as a landlord port, HPA has a fairly stable revenue stream compared with some of its peers. In 2011, total revenues rose modestly by 2.8%, despite a 5.7% decline in containerized cargo volume, as measured by 20-foot equivalent units from the previous year. This followed a robust 26% increase recorded in 2010. The authority attributed the increase in 2011 revenues to the large share of fixed revenue streams.

We believe credit concerns include the following:

- HPA's liquidity is adequate, in our opinion. Although the authority's cash balances are low, a C\$35 million revolving credit facility enhances liquidity. We believe that cash balances have declined in recent years as HPA continues to fund a large share of its capital program through its use of available liquidity and internal cash flow. As at June 30, 2012, HPA had about C\$20 million drawn on the facility. Standard & Poor's expects that the authority's cash balances will increase in the medium term once the bulk of its capital spending is complete;
- HPA's exposure to risks inherent in a cyclically driven sector and potentially having to offset declines in its revenues from unexpected losses of cargo handled at the port. As well, HPA faces strong competitive pressures from other east coast container ports such as the port of Montreal, the Port Authority of New York/New Jersey, and the Virginia Port Authority. Cargo volumes continue to remain below their 2007 level. For the first half of 2012, cargo volumes were lower than forecast as a result of global economic instability, but the authority expects volumes to improve in the second half of the year as a result of an increase in calls from two major shipping lines at the port. We believe mitigating this risk is the relative stability provided by the authority's diversified revenue sources such as rental revenues from land holdings and other lines of business as well as HPA's strategic plan to enhance relationships with the end users of shipping lines;
- Operational risks inherent in HPA's dependence on a single rail line -- Canadian National Railway Co. (A-/Stable/A-2).

We rate HPA in accordance with Standard & Poor's government-related entities methodology. Our view of a "moderately high" likelihood of extraordinary government support reflects our assessment of HPA's "very important" role in both the province of Nova Scotia and the country as a whole, and its strategic importance in the province's economy and Canada's international trade. Regulatory oversight comes through the Canada Marine Act under Transport Canada. The federal government has no active day-to-day role within the authority. We believe this suggests a "limited" link with the federal government. Our rating incorporates Transport Canada's ongoing constructive support as evidenced by amendments in HPA's letters patent in recent years to increase its borrowing limit.

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