PORT AUTHORITY OF GUAM
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NEWS RELEASE

Moody's Issues Baa2 Credit Rating for Third Year in a Row

Piti, Guam, October 5, 2023: The Port Authority of Guam received positive financial news today as Moody's Investors Service issued a Baa2 credit rating for FY 2022.

This rating was based on the Port's credit strengths for the fiscal year. Moody's report highlighted the following:

- **VERY STABLE REVENUE PROFILE:** The port's credit is supported by a very stable revenue profile, which has proven resilient through the coronavirus pandemic. Despite an effective closure of the island's tourism economy, the port's operating revenue between 2020 and 2022 averaged $55.8 million, in-line with pre-pandemic figures.
- **HEALTHY LIQUIDITY:** The port authority's liquidity position is healthy. Fiscal 2022 financials show unrestricted cash and cash equivalents of more than $33 million, with unrestricted and discretionary reserves of $57.5 million; days cash on hand for 2022 was 429 days, above the 361 in 2021. The port has held more than 300 days cash on hand since 2016, a trend we expect will continue at least through the outlook period.
- **SOLID DEBT SERVICE:** The debt service coverage for the Port is solid and expected to remain around 2.7x on the net revenue basis.
- **CREDIT STRENGTH:** The port derives credit strength from its role as the sole commercial port in Guam, handling around 90% of the territory's imported cargo and a significant portion of military cargo. The Port of Guam is the only port in the Micronesia region that has the infrastructure and equipment required to service container vessels with a capacity of up to 4,000 TEUs (twenty-foot equivalent units). The port faces limited restrictions to accommodate future growth related to the military build-up. The port's capacity limit is around 200,000 containers; in fiscal 2022, the port handled just over 89,000 containers, in-line with volumes over recent years
- **QUICK MAWAR RECOVERY:** We've noted in prior reports that the port is exposed to weather-related events that could affect revenue-generating activities. In late May, Typhoon Mawar shut down port activities for several days, though early and prudent preparations limited the extent of damage, with sustained damage quickly remediated by the port.

Moody's release is just more good news for the port on the financial front. On September 29, 2023, S&P Global Ratings released its rating maintaining its outlook for the Port at stable and affirmed its 'A' long-term rating on the agency's outstanding series 2018 Port Revenue Bonds.

"In spite of all of our accomplishments these past four and half years, there is still so much more that needs to be done to keep the Port 100% operational," Port General Manager Rory J. Respicio said. "Since day one, we have been cleaning up the sins of the past and still manage to bring financial stability, improved vessel operations, and high employee morale; in short, we are ushering in a higher level of excellence, as affirmed by this report as well as the recent report by S&P."

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 September 2023

Update

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Port Authority of Guam

Update to credit analysis

Summary

The Port Authority of Guam's (Baa2 stable) credit profile benefits from its role as the sole commercial port in Guam, allowing it to maintain stable operating revenue and deliver solid levels of debt service coverage (3-year average of 2.7x) and liquidity (3-year average of 382 days cash on hand). The port's small scale of operations is a credit weakness, as is its high customer concentration. The port also has elevated exposure to environmental risks, though the port recovered quickly from Typhoon Mawar (May 2023) and is likely to see some short-term benefit from disaster recovery operations and reconstruction.

Credit strengths

» Monopoly position as the sole commercial port in Guam

» Low leverage

» Solid liquidity

Credit challenges

» Small scale of operations and high customer concentration

» High fixed cost base

Rating outlook

The stable outlook reflects our expectation that operating revenue will remain healthy and continue to support solid debt service coverage and liquidity levels.

Factors that could lead to an upgrade

» Sustained volume growth that supports Moody's net revenue DSCR above 2.0x

» Days cash on hand maintained above 500 days on a sustained basis

» Diversification of the port authority's customer base

Factors that could lead to a downgrade

» Moody's net revenue DSCR below 1.5x

» Liquidity levels falling to around 225 days cash on hand on a sustained basis

» Loss of a material customer

Key indicators

Exhibit 1

Fiscal Year	2018	2019	2020	2021	2022
Operating Revenue($'000)	54,330	55,236	54,627	55,059	57,698
Debt Outstanding ($'000)	71,445	70,125	67,745	65,280	62,720
Total Adjusted Debt ($000)	159,230	160,040	185,023	195,402	163,700
Adjusted Debt to Operating Revenues (x)	2.93	2.90	3.39	3.55	2.84
Days Cash on Hand	415	403	355	361	429
Total Debt Service Coverage By Net Revenues (x)	2.71	2.44	1.75	2.03	4.40

All ratios are as defined and as adjusted by Moody's Investors Service. Adjusted debt includes the adjusted net pension liability (ANPL).
Source: Port Authority of Guam and Moody's Investors Service

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. Tariffs are subject to approval by the Public Utilities Commission (PUC) of Guam. The port handles more than 90% of the island's total imports and around 30% of military-related cargo.

Detailed credit considerations

Revenue Generating Base - Strength from monopoly position constrained by small scale

The port derives credit strength from its role as the sole commercial port in Guam, handling around 90% of the territory's imported cargo and a significant portion of military cargo. Competition from other smaller ports in Micronesia only applies to a small volume of volatile transshipment cargo. The Port of Guam is the only port in the Micronesia region that has the infrastructure and equipment required to service container vessels with a capacity of up to 4,000 TEUs (twenty-foot equivalent units). Load factors on ships to Guam tend to be around 50% and 4,000 TEUs vessels are not required. Other ports in the region have more limited infrastructure, cranes and container handling equipment but attract transshipments through competitive pricing. The port faces limited restrictions to accommodate future growth related to the military build-up. The port's capacity limit is around 200,000 containers; in fiscal 2022, the port handled just over 89,000 containers, in-line with volumes over recent years, but down more meaningfully from 2016 when container volume was approximately 103,000. Management expects container counts in fiscal 2023 to meet or exceed 2022 levels, driven by ongoing construction projects on the island. We expect to see an increase in volume as a result of recovery and reconstruction activity following the landfall in May of Typhoon Mawar, but do not expect that increase to be anything other than temporary.

The port's small scale of operations is a credit constraint, and customer concentration is elevated, an additional credit weakness. With $57.7 million of operating revenue in 2022, the port is of small scale, with smaller container and transshipment vessels servicing the port compared to other rated US ports. The port's two major customers handled 76.4% of total containers in 2022 and represented 63.5% of operating revenue in 2022. As a result, the port is extremely vulnerable to a loss of a single key customer or an unexpected decline in volumes. However, given the critical role of the port in sustaining the island, such events are extremely unlikely.

Financial Operations and Position - Stable revenue with solid DSCR and DCOH

The port's credit is supported by a very stable revenue profile, which has proven resilient through the coronavirus pandemic. Despite an effective closure of the island's tourism economy, the port's operating revenue between 2020 and 2022 averaged $55.8 million, in-line with pre-pandemic figures. The port also benefitted in 2022 from the receipt of a $15 million grant from the US Government under the American Rescue Plan.

We've noted in prior reports that the port is exposed to weather-related events that could affect revenue-generating activities. In late May, Typhoon Mawar shut down port activities for several days, though early and prudent preparations limited the extent of damage, with sustained damage quickly remediated by the port. We expect a short-term increase in volume as goods and materials are imported for recovery and reconstruction activity, though this increase will likely be temporary. Longer-term, we expect port revenue to remain fairly stable - even as tourism activity resumes following the end of COVID-related restrictions in Japan and South Korea. Unaudited figures through the end of June 2023 suggest port revenue remains in-line with 2022 performance.

Debt service coverage for the port is solid and expected to remain around 2x on a net revenue basis. Coverage in fiscal 2020 dipped to 1.75x due to an increase in operating expenses, much of which was offset in fiscal 2021 by grants ($2.0 million) from the federal government under the CARES Act. Fiscal 2022 financial figures show 4.4x coverage based on net revenue, though this is reflective of sizeable federal grant revenue. Coverage is expected to decline in 2023 to levels more in-line with recent history.

Liquidity

The port authority's liquidity position is healthy. Fiscal 2022 financials show unrestricted cash and cash equivalents of more than $33 million, with unrestricted and discretionary reserves of $57.5 million; days cash on hand for 2022 was 429 days, above the 361 in 2021. The port has held more than 300 days cash on hand since 2016, a trend we expect will continue at least through the outlook period.

Debt and Other Liabilities

Excluding pensions, the port's direct leverage is low and supportive of its credit profile. At the end of fiscal 2022, the port had $62.7 million in revenue bonds outstanding. Debt to operating revenue was a fairly modest 1.09x, with a cash to debt ratio of 91.6%.

Legal security

The port's bonds and repaid from the net revenue of the port. The revenue pledge excludes certain operating revenue including crane surcharge revenue, facility management fees and marina revenue. Bondholders benefit from a 1.25x rate covenant, a 1.25x maximum annual debt service additional bonds test 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.

Debt structure

The port's debt service is level at $5.75 million through 2028 then steps down to $3.57 million through final maturity in 2048.

Debt-related derivatives

The port has no debt-related derivatives.

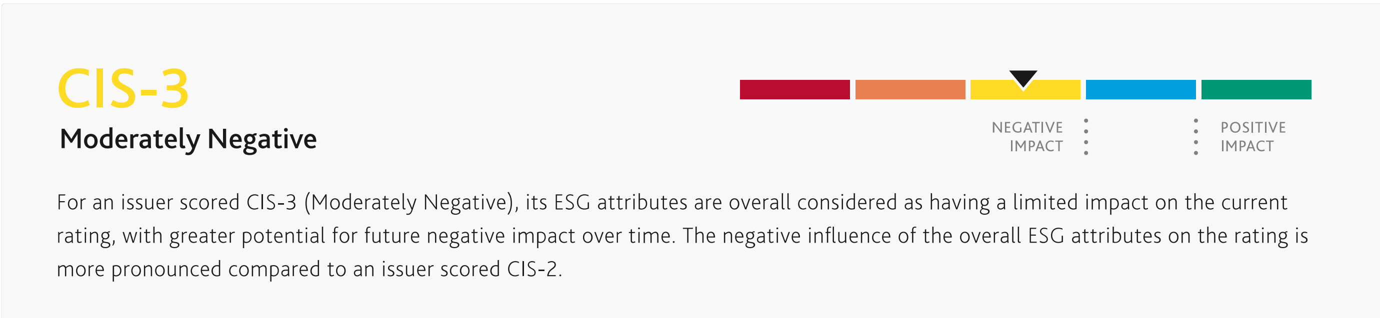
Pensions and OPEB

Pension liabilities are a drag on the port's credit profile. The Port Authority of Guam participates in the Government of Guam Defined Benefit Plan, a single-employer defined benefit pension plan administered by the Government of Guam Retirement Fund. For fiscal 2022, the port reported a net pension liability of about $54.7 million. Moody's adjusted net pension liability (ANPL) was around $101.0 million for the same period, reflective of our use of a 2.87% discount rate (versus the 7% assumed by Guam). Adjusted debt to operating revenue including the ANPL was 2.84x in fiscal 2022.

ESG considerations

Port Authority of Guam's ESG Credit Impact Score is Moderately Negative CIS-3

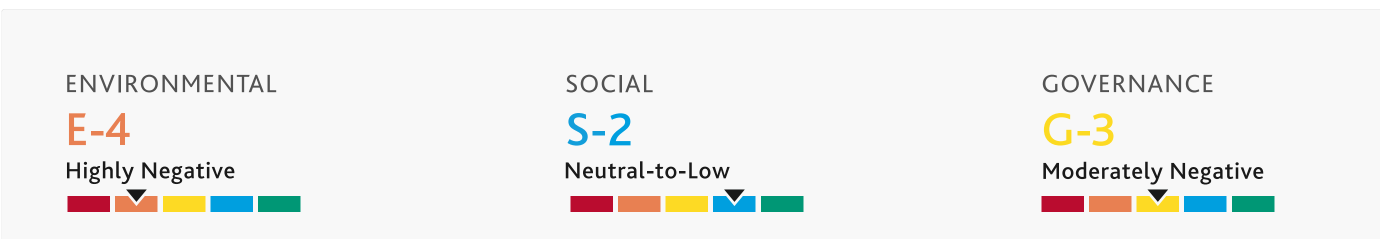
Exhibit 2
ESG Credit Impact Score



Source: Moody's Investors Service

The Port Authority of Guam's ESG credit impact score of **CIS-3** indicates that ESG considerations have a moderately negative impact on the rating. The score reflects the authority's highly negative environmental risk exposure that is tempered by neutral-to-low social risks and moderate exposure to governance risks.

Exhibit 3
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The port has high exposure to physical climate risks and moderate exposure to carbon transition. In addition to heat stress, the port faces typhoons and rising sea levels that may increase disruptions to operations, and efforts to mitigate carbon emissions and other air pollution associated with port operations may lead to higher capital investment and operational costs for the port.

Social

Social risks for the port are limited. Demographic and social trends can influence cargo demand and support or inhibit growth prospects; in general, Guam's resident population has been fairly stable, with historically substantial tourism and the US military presence on island affecting import demands. While port operations are labor intensive, which can pose human capital-related risks, labor union and other stakeholder relations on Guam have been good. Additionally, Guam is exempt from the Jones Act, which allows for the diversification of cargo away from ships that must meet its US-flag, US-ownership and US-crew provisions.

Governance

Most governance considerations pertaining to the port reflect fairly low risk. However, the port's close linkage with the Government of Guam modestly elevates that risk. The Authority's five board members are appointed by the governor with the advice and consent of the legislature, while tariffs are subject to approval by the Public Utilities Commission.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The principal methodology used in these ratings was Publicly Managed Ports methodology published in March 2023. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The scorecard-indicated outcome for Port Authority of Guam is A3, which is above the assigned rating of Baa2. Financial metrics are based on the 3-year average for fiscal 2020-2022. The assigned Baa2 rating is constrained by the authority's exposure to weather-related events including typhoons; the linkages to the credit quality of the Government of Guam (Ba1 positive); and high customer concentration.

Exhibit 4

Publicly Managed Ports Methodology

Factor	Subfactor	Score	Metric
1. Market Position	a) Port Size (Operating Revenues) ($ million)	Baa	$57.70
	Service Area and Competition	Baa	
	Operational Restrictions	A	
2. Volatility and Diversity	a) Operating Revenue Volatility) (5-year operating revenue CAGR)	A	2.60%
	b) Customer Diversity	Caa	
3. Capital Program	a) Capital Needs Requiring Leverage	Baa	
4. Key Credit Metrics	a) Net Revenues DSCR (3 year avg)	Aa	2.72x
	b) (Debt + ANPL) to Operating Revenue (3 year avg)	A	3.26x
Notching Considerations		**Notch**	
	1 - Tax Support for Operations	0	
	2 - Liquidity- Cash to Debt	1	
Scorecard Indicated Outcome:		**A3**	

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454