FitchRatings

Click Here for Printer-Friendly Version

Tagging Info

Fitch Affirms Broward County, FL's Port Facility Revs at 'A'; Outlook Stable

Ratings Endorsement Policy

01 Apr 2015 1:42 PM (EDT)

Fitch Ratings-New York-01 April 2015: Fitch Ratings has affirmed its 'A' rating on Broward County, Florida's outstanding $205 million port facilities senior revenue and refunding bonds. All senior bonds are secured by net revenues from Port Everglades (the port). The Rating Outlook on all senior bonds is Stable.

KEY RATING DRIVERS

The rating reflects continued strong and growing throughput and revenue performance, supported by resilient cruise operations. Despite the port's substantial $636 million five-year capital plan that calls for additional borrowing, the system is expected to maintain its historically strong financial profile with relatively strong coverage, moderate leverage, and high liquidity.

Revenue Risk: Volume - Midrange
Diversified Revenues with Some Cruise Exposure: The port benefits from diversified revenue streams from various business lines, notably cruise operations, container traffic, and petroleum distribution. The port's primarily local and regional cargo market limits its exposure to global trade volatility compared to peers. However, the port is exposed to fluctuations in the cruise business and to the competitive port environment in South Florida and on the east coast.

Revenue Risk: Price - Midrange
Cruise Market Exposure Mitigated by Contracts: Potential fluctuation in the discretionary cruise business adds risk to Port Everglades' revenue profile, as with most Florida ports. The existence of long-term guaranteed contracts with key cruise and cargo customers, accounting for $99 million or 65% of 2014 operating revenues, partially mitigates this concern.

Infrastructure Development / Renewal - Stronger
Manageable Capital Program: The port's sizable yet flexible fiscal year (FY) 2015-2019 capital improvement plan (CIP) totals approximately $636 million in project costs, with approximately 40% expected to be funded with new bond issuances. The port has benefited from $119 million in state grants for several projects in the CIP, and remaining funding is expected to come from the port's substantial current cash balance and excess cash flow in forthcoming years. Fitch takes the view that the port has sufficient financial capacity to raise required debt for capital improvements in upcoming years.

Debt Structure - Stronger
Conservative Debt Structure: Debt is fixed rate, with the majority on the senior lien, and amortizes over a relatively short timeframe, with final maturity in 2029.

Peers: Peers for Port Everglades include other 'A'-rated Florida ports, including Jacksonville (rated 'A') and Canaveral (rated 'A'). Canaveral has a similarly sized capital program, with higher cruise exposure, while Jacksonville has comparably diverse cargo and a smaller CIP. Port Everglades compares favorably to peers in terms of both coverage and leverage metrics.

RATING SENSITIVITIES

Negative:
Significant Dilution to Current Metrics: Sustained senior lien coverage below 1.7x and migration of net debt to CFADS meaningfully above 5.0x upon execution of the Port's five-year capital program could put the current rating under pressure.

Execution of CIP in a Down Cycle: Specifically, proceeding with the full borrowing component of the CIP in a low-to-no growth scenario could pressure the above metrics and the rating.

Positive:
Given the ongoing capital program and associated borrowing, upward rating migration is not expected at this time. However, positive rating action could be warranted post completion of the CIP if healthy metrics are maintained.

CREDIT SUMMARY

Historically, operating margins have been relatively stable at the port, averaging 45% and dropping below 40% only three times since 2000. Revenues have decreased year over year only twice over the same timeframe. Audited results for 2014 indicate revenue growth of 4.3% over 2013, reflecting an increase in petroleum and container throughput and higher revenues on property lease income. .

Contract renewals with Royal Caribbean in 2008 and Carnival in 2010 included steadily increasing minimum guarantees and, separately, capital cost recovery charges allocated towards the now completed renovations of cruise terminals 2, 18, 19, 21, and 26. In fiscal 2014, long-term guaranteed contracts with key cruise and cargo customers accounted for 65% of operating revenues. Such guarantees partially mitigate exposure to the discretionary nature of cruise activity and cyclical cargo markets, though the port remains vulnerable long term to cyclicality and competition from other nearby ports.

Capital cost recovery charges pursuant to the agreement with Royal Caribbean decreased in FY2014 as scheduled causing cruise revenues to drop 4.4%. However, cruise passengers increased to 4 million in the same time period, representing an 11.1% increase over fiscal 2013 while approaching the all-time high realized in fiscal 2004 of 4.1 million. Cruise revenues overall accounted for 39% of operating revenues in FY2014, with container revenues and petroleum revenues comprising 22% and 19%, respectively.

Operating expenses have been largely contained over the course of the last five years, having increased 1.8% since 2009. Given the timing of several capital projects coming online, the budget indicates expenses are likely to increase in coming years. Given the port's CIP commitments, which anticipates $314 million in new debt over the course of the next five years, it will be important for management to continue to control its expense profile going forward.

Financial performance of Port Everglades has historically been strong. Debt service coverage ratio (DSCR) on the senior lien has averaged 2.2x since 2000. The port has maintained strong cash and investment balances in recent years as well, with 957 days cash on hand on the balance sheet in FY2014 ($211 million in cash and investments in FY2014) while paying for capital improvements. The port intends to continue the use of these funds for pay-go capital investments in its capital program.

Looking forward, senior coverage is expected to remain in the 2.2x range as future debt service associated with the Port's capital program comes online. The largest elements of the program are port-wide dredging projects and the Southport Turning Notch Extension project, which will add five new berths for container ships. Combined these projects make up $180 million out of the $636 million total for the program.

Fitch's base case assumes a revenue compound annual growth rate (CAGR) of 4.5% for 2015-2020, below the 7.8% assumed in the management case. Expenses are grown at 4.8% over the same time period, versus 7.1% in the management case. Senior annual debt service requirements grow to $37.6 million from $28.8 million, as debt service ramps up on new issuances and falls on existing debt. Coverage reaches a minimum of 2.2x in 2019 on the senior lien and 2.0x on an all-in basis including subordinate lien debt service. Net debt to CFADS rises to 3.0x upon issuance of $314 million in new debt. In Fitch's more conservative rating case, which contemplates a recessionary revenue drop of 7% in 2016 and modest revenue growth thereafter (1.1% CAGR for 2015-2020), coupled with 4% growth for expenses, and completion of the full borrowing program for the CIP, coverages remain at or above 1.5x, and leverage remains consistent with the rating level at 4.0x.

SECURITY

The revenue bonds are secured by a lien on, and pledge of, the net revenues derived from the operation of the port facilities and the moneys on deposit in specific funds and accounts established by and outlined in the resolution.

Contact:

Primary Analyst
Emma W. Griffith
Director
+1-212-908-9124
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Emma Chapman
Associate Director
+1-312-368-2063

Tertiary Analyst
Samuel Marsico
Analyst
+1-212-612-7810

Committee Chairperson
Chad Lewis
Senior Director
+1-212-908-0886

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance' (July 12, 2012);
--'Rating Criteria for Ports' (Oct. 16, 2014).

Applicable Criteria and Related Research:
Rating Criteria for Infrastructure and Project Finance
Rating Criteria for Ports

Additional Disclosure
Solicitation Status