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Ratings

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Summary:

A.B. Won Pat International Airport Authority, Guam; Airport

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Summary:

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Credit Profile		
A.B. Won Pat Intl Arpt Auth (AGM)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'BBB' long-term rating and underlying rating (SPUR) on A.B. Won Pat International Airport Authority, Guam's senior-lien general revenue bonds outstanding. The outlook is stable.

The ratings reflect our view of the authority's:

- Susceptibility to economic conditions in key airline markets such as Japan and Korea, and to changes in U.S. strategic policy regarding its military presence on the island;
- High debt burden;
- Moderately high cost per enplanement;
- Prospects for reduced liquidity given a large capital plan and demands on internal resources; and
- Vulnerability to severe weather, such as typhoons, given the island's location.

Factors we believe partly offset the above weaknesses include the authority's:

- Strong enplanement growth in fiscal 2016 of 4.8%, with continued strong growth of 5.2% projected for fiscal 2017 and 3.4% annually thereafter through 2022 given the island's growth and tourism prospects;
- Strong market position and essentiality as the only commercial facility on the island, combined with its remote location;
- Strong origin and destination (O&D) nature, with approximately 94% of total passengers traveling to or from the island; and
- Recent history of good financial performance, demonstrated by improved coverage and liquidity and good cost containment.

The bonds are secured by net revenues, which are defined by the bond indenture as all of the revenues received during a particular period less all operations and maintenance expenses of the airport incurred in that period. According to the bond indenture, the authority is permitted to include excess revenues from the previous period in its calculation for debt service coverage (DSC). The authority has covenanted to maintain DSC of 1.25x annual debt service payments. The additional bonds test states that net revenues must be at least 1.25x annual debt service payments in the previous fiscal year or projected at 1.25x annual debt service.

Guam, a U.S. Territory with a population of approximately 162,742, covers 212 square miles and is located 3,800 miles southwest of Honolulu and 1,500 miles southeast of Tokyo. The airport is the only commercial airport on the island for passenger and cargo serving the mainland U.S., Asia, Australia, and various islands in the Pacific region. The authority is a component unit of the Government of Guam. Median household effective buying income for Guam is about 73% that of the U.S.

Guam is experiencing continued moderate economic growth, with increased tourism, diversification thereof, and related expansions in that sector. Fiscal year 2016 experienced a new record for visitor arrivals at 1.51 million visitors, in part due to Guam hosting the Festival of the Pacific Arts that year, but continued good growth is anticipated, especially from the thriving Korean market. As of March 2016, the unemployment rate was just 4.0%, a significant decline from 13.3% in March 2011. Although the territory's economy is stable, it is also very narrow and susceptible to events outside of its control, such as the economic condition of other countries and regions, changes in strategic policies of the U.S. with regard to its military installations on the island, and even severe weather given its exposure to typhoons. Tourism and military continue to be the dominant pillars of the island's economic base. The ongoing U.S. military buildup, while still a large undertaking, with an estimated $8 billion economic impact, has been scaled back to 4,700 troops relocating from Japan from originally as many as 9,000 troops. A record of decision, identifying the final locations for additional bases and facilities to accommodate the Marines, was released in August 2015. The relocation is projected by management to create over 7,000 full-time jobs and result in a permanent population increase of about 7,000. A 13-year period (revised from seven years) of moderate construction followed by a gradual phase-out is planned. In our view, the military buildup is positive for the island's future economic growth and airport operations, but we expect the related growth in pledged revenue to be gradual.

The Federal Aviation Administration classifies the airport as a small hub. The airport served approximately 1.8 million enplaning passengers in fiscal 2016 (year ended Sept. 30) and primarily serves tourist-oriented O&D passengers, most of whom are from Japan or Korea, as well as local and interisland traffic. In our view, the airport has a dominant business position. The authority's key credit strengths, in our opinion, are its essential role in providing air service to the island and its history of relatively stable financial performance despite volatility in passenger volumes produced by economic swings, weather events, and other factors that influence visitors to Guam. In fact, fluctuations in passenger traffic volumes are common. Enplanements grew a strong 4.8% in fiscal 2016, and continued strong growth of 5.2% is projected for fiscal 2017 and 3.4% annually thereafter through 2022 given the island's growth and tourism prospects. While essentially flat in fiscal 2015 relative to fiscal years 2014 and 2013, enplanements in fiscal years 2013 and 2012 increased by 7.9% and 9.4%, respectively, primarily due to an increase in visitors. In fiscal 2011, enplanements declined 1.2% to 1.4 million from 1.5 million in fiscal 2010. This decline was primarily due to the March 2011 earthquake and subsequent events in Japan that adversely affected Guam's primarily O&D market. Enplanements were up by 11.6% in fiscal 2010, but they were down 9.1% and 3.8% in fiscal years 2009 and 2008, respectively, primarily due to the global economic recession.

Enplanements are still below historical levels. The peak of enplanements was in 1997 at approximately 1.9 million. Enplanements declined drastically following September 2001 due to several factors, including the continued poor performance of the Japanese economy, the Sept. 11 terrorist attacks, two typhoons that struck the island, the SARS outbreak, and the U.S. conflict with Iraq. In particular, post-Sept. 11 monthly passenger levels dropped 43% from prior-year levels and were recovering when Typhoon Chata'an hit the island on July 5, 2002. Again, as traffic demand showed signs of recovery, Super Typhoon Pongsona struck on Dec. 8, 2002, and took an especially heavy toll on the airport facilities and enplanement figures at the airport. The island sustained heavy damages from the typhoon, and traffic in January 2003 decreased 45% from January 2001 levels. Finally, the SARS outbreak, which dramatically reduced flights and passenger levels throughout the Pacific region, depressed traffic levels for spring 2003, again at levels nearly 42% lower than 2001.

Although management has been aggressively pursuing new service, including low-cost carriers, overall, we view the air carrier market to be relatively concentrated, with United Air Lines carrying 41% of passenger enplanements in fiscal 2016, followed by KAL at 13% and Delta at 11%. Visitors arrivals grew 10% to 1.51 million in fiscal 2016 from 1.37 million in fiscal 2015, in part due to strong attendance at several locally hosted conventions and festivals, but also due to continued growth in the Korean visitor market (which has mitigated a shrinking Japan market). While essentially flat in fiscal 2014, total visitor arrivals in fiscal years 2013 and 2012 increased by 5.3% and 10.2%, respectively. The visitor arrivals by country continue to diversify, although Japan still dominates the market at 50% as of fiscal 2016, down from 57% in 2015 and 62% in 2014. Visitor arrivals from Korea grew 35% in fiscal 2016 to 519,400 after 31% growth in fiscal 2015 and 62.2% in fiscal 2014. Korean visitors represented 35% of total visitors in fiscal 2016. By comparison, in fiscal 2004, Japan's market share was 81% and Korea's was 8%. Based on the latest results from Guam Visitors Bureau, visitor arrivals are up 5.3% for fiscal 2017, with Japan arrivals declining 8.3% and Korean visitors up 26.0%.

The U.S. has a visa waiver in effect for several countries, including Japan, South Korea, and Taiwan, the three largest markets for tourism, which represent about 90% of annual visitors combined. The Government of Guam and the Guam Visitors Bureau continue to work to expand the full visa waiver program to visitors from mainland China, but little progress has been made. Although a visa waiver has not been granted for Chinese tourists to travel to Guam, the U.S. and China have agreed to extend visa validity from a one-year, single use visa to a 10-year, multiuse visa.

The airline lease agreement was renewed in September 2011 and expired Sept. 30, 2016, but has since been extended through Sept. 30, 2017, as negotiations continue for a five-year agreement. According to the airline operating agreement, terminal rental rates, loading bridge use fees, apron use fees, enplanement fees, arrival fees, and immigration inspection fees are calculated based on a compensatory rate-setting methodology, and landing fees are calculated based on a residual rate-setting methodology. Gates are assigned quarterly on a priority basis related to recent actual activity. The agreement has a negative majority-in-interest provision under which the airlines can disapprove capital projects, but only insofar as the funding affects the airline rate base, having the effect only of delaying the project for up to one year. The authority may not proceed with any capital project whose cost exceeds $10 million, however, if concurrence is specifically withheld by a majority-in-interest.

Due to the cost-recovery nature of the airlines' use and lease agreements, financial performance measures have been consistently adequate, in our view. Aeronautical charges are high by U.S. domestic standards, but are typical for international airports that have higher costs associated with customs, immigration, and other facility and security requirements. For fiscal 2016, the cost per enplaned passenger was $16.30, essentially flat since fiscal 2010. In fiscals 2017 through 2022, management expects the cost per enplaned passenger to be steady at about $16.50.

Senior-lien bond DSC in audited fiscal 2016 was 1.75x, including available revenues from a coverage account, and 1.50x as calculated by S&P Global Ratings, excluding the coverage account. These are up from 1.56x and 1.31x, respectively, in fiscal 2015. When including debt service related to a subordinate-lien bank loan, we calculate all-in DSC of 1.41x for fiscal 2016, up from 1.23x in fiscal 2015 and 1.22x in fiscal 2014. Passenger facility charge revenue is considered revenue in both the indenture and S&P Global Ratings' calculation (it is not used as an offset to debt service). All-in coverage as calculated by S&P Global Ratings is projected at about 1.24x-1.30x for fiscals 2017-2022.

We consider the debt burden, at about $133 per enplaned passenger in fiscal 2016, to be high relative to the median debt per enplanement for 'BBB' category rated airports, which is $96, and small hub airports, which is $80. Liquidity based on audited unrestricted cash and unrestricted cash and investments held by trustees in fiscal 2016 grew to $56 million, or 548 days' operations, from $36 million, or 332 days' operations, in fiscal 2015. The median unrestricted days' cash for 'BBB' category rated airports is 242 and for small hub airports is 464. Projections from management indicate cash levels will be spent down for capital projects to $24 million, or 181 days of operating cash, by 2019, before increasing to $47 million, or 305 days' cash, by 2022.

The capital plan for fiscal 2016 through fiscal 2019 totals a very large $137 million as the authority has several critical projects to complete. However, no additional debt is anticipated until potentially 2023, when an additional financing is possible to address aging airport infrastructure. Capital projects for 2016-2019 will be funded using $61 million from the previously issued series 2013 bonds (44%), $51 million by federal grants (38%) and $25 million by cash on hand (18%).

Outlook

The stable outlook reflects our anticipation that the airport's financial performance will remain steady, supported by consistent or improving passenger levels.

Upside scenario

We could raise the ratings during the two-year outlook period if there is a material change to demand, and to the extent there is a significant reduction in capital needs such that higher levels of liquidity are sustained.

Downside scenario

We could lower the ratings if there is a significant increase in debt that results in higher cost levels or if liquidity erodes to levels materially below projected levels. We could also lower the ratings if demand sustains significant multiyear declines that we don't expect to improve.

Ratings Detail (As Of June 19, 2017)		
A.B. Won Pat Intl Arpt Auth gen rev bnds		
Long Term Rating	BBB/Stable	Affirmed
A.B. Won Pat Intl Arpt Auth gen rev bnds (non-AMT)		
Long Term Rating	BBB/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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