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Update

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A.B. Won Guam International Airport Authority

Rating Update: Moody's maintains Baa2 rating on Guam International Airport Authority's revenue bonds; outlook stable

Summary Rating Rationale

Moody's Investors Service has maintained the Baa2 rating on A.B. Won Guam International Airport Authority's $227 million in Series 2013A, B and C general airport revenue bonds.

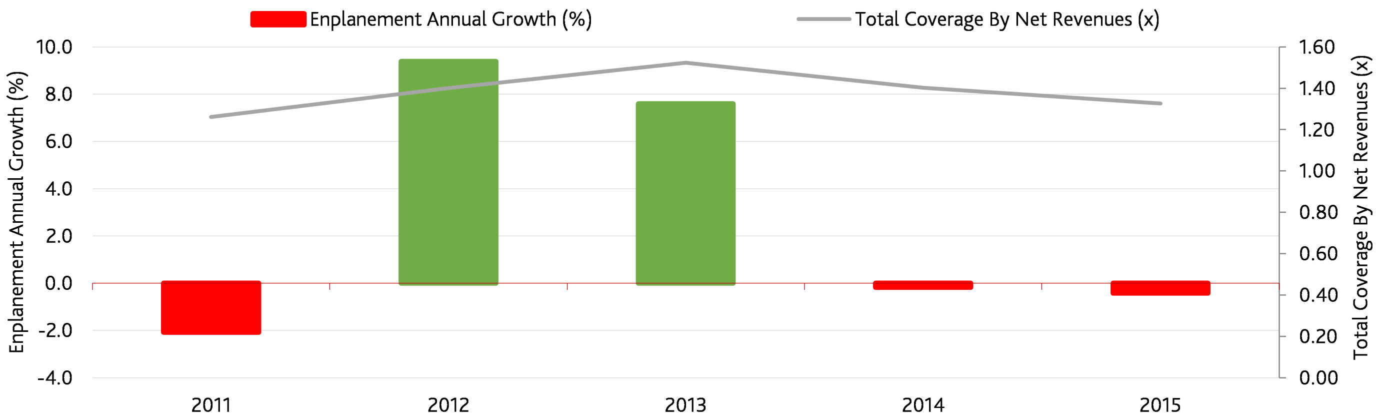
The Baa2 rating is supported by the monopolistic competitive position of the airport as the only commercial airport in the territory of Guam, providing an essential transportation link for an island economy. In addition, the rating benefits from the airport's residual ratemaking framework which allows for a full recovery of operating and certain capital costs. This ratemaking framework has allowed the airport to maintain fairly stable operating performance over the last few years despite its inherent susceptibility to the volatility of passenger enplanements.

However, the rating is constrained by the airport's limited scale and higher vulnerability to event risks such as typhoons, the narrowness of its island economy with a significant dependence on a volatile tourism sector and US military activity. Passenger enplanements are largely concentrated on Japan (55% of passenger enplanements) and Korea (30% of passenger enplanements), making enplanement trends vulnerable to economic downturns in these markets and a strengthening of the US dollars against their local currencies.

We also consider the airport's high leverage and the challenge to execute a large $95 million capital project over the next three years. The airport's liquidity profile is adequate.

Exhibit 1

Residual ratemaking frameworks allows for full cost recovery and limits impact of enplanement volatility on debt service coverage ratios.



Source: Guam Airport Financial Statements, Moody's Investors Service

Credit Strengths

» Monopoly position as an essential transportation link for an island economy

» Scheduled US marine relocation to Guam and positive trends in tourism outside of Japan could support future additional enplanement growth

» Residual ratemaking structure supports full recovery of operating and capital costs

» Stable operating performance

Credit Challenges

» Small scale and high susceptibility to event risks including vulnerability to typhoons and dependence on volatile tourism sector

» High leverage

» Successful execution of capital plan on time and within budget

Rating Outlook

The stable outlook reflects our expectation of stable operating performance supported by stable or increasing enplanement figures and the airport's residual ratemaking structure. The stable outlook also includes our expectation that the airport will renew the lease agreement with signatory airlines that expired September 30, 2016 with similar or more favorable terms & conditions.

Factors that Could Lead to an Upgrade

» Sustained enplanement growth from non-traditional markets that leads to lower airline costs and greater passenger diversity

» Completion of capital program on time and on budget

Factors that Could Lead to a Downgrade

» A downturn in enplaned passengers that weakens the authority's financial profile

» Liquidity levels materially below historic levels

Key Indicators

Exhibit 6

Key Indicators

A.B. WON GUAM INTERNATIONAL AIRPORT AUTHORITY	2011	2012	2013	2014	2015
Enplanement Annual Growth (%)	-2.1	9.4	7.6	-0.2	-0.4
Debt Outstanding ($'000)	164,100	161,291	258,263	258,636	247,849
Debt to Operating Revenues (x)	3.0	2.8	3.9	3.8	3.5
Debt Per O&D Enplaned Passenger ($)	105	92	160	150	144
Days Cash on Hand ('000)	251	230	296	349	344
Total Coverage By Net Revenues (x)	1.26	1.40	1.52	1.40	1.33

Note: All financial data is as adjusted and as defined by Moody's Investors Service. Fiscal year ends September 30.

Source: Moody's Investors Service

Recent Developments

» **Airline lease agreement expired September 30, 2016 and is currently under negotiation.** We do not expect major deviations from the current residual ratemaking lease agreement.

» **Capital projects**: The airport is currently in the process of awarding the contract for its 3-year corridor project. Estimated costs are now around $95 million, approximately $25 million higher than the 2013 cost estimate largely due to higher personnel expenses. The FAA announced that it will provide the airport with a $5.8 million grant for capital projects.

» **Higher tourism numbers supported enplanement growth in 2016:** The tourism sector continued to perform well and according to the Guam Visitors Bureau the territory received around 9.7% more visitors in the first 10 months of 2016 compared to the previous year. An increasing number of visitors from Korea, the US mainland, China and the Philippines helped to offset declining arrivals from Japan. The airport is expecting passenger enplanement growth of close to 5% for 2016 and is budgeting for continued modest growth in 2017.

Detailed Rating Considerations

Revenue Generating Base

MONOPOLY POSITION AS AN ESSENTIAL TRANSPORTATION LINK FOR AN ISLAND ECONOMY

The airport benefits from its monopolistic market position as the only commercial airport on the island which reduces pressure to maintain cost competitiveness relative to certain other airports on the US mainland. This market position is also reflected in a high Origin & Destination (O&D) passenger percentage of 87.2% of total enplanements in fiscal year 2015.

SMALL SCALE AND HIGH SUSCEPTIBILITY TO EVENT RISKS INCLUDING VULNERABILITY TO TYPHOONS AND DEPENDENCE ON VOLATILE TOURISM SECTOR

With operating revenues of $64 million and enplanements of around 1.7 million in fiscal year 2015, the airport is of relatively small scale. The small scale makes the airport more vulnerable to a loss of a key airline customer or downturn in tourism from a particular region.

Passenger demand at Guam airport is largely dependent on discretionary travel from Asia-Pacific nations, mostly from export-driven countries Japan (55% of total enplanements) and South Korea (30% of total enplanements).

A strengthening of the US dollar or weakening of economic performance in these markets can materially impact travel to Guam. Recently, discretionary travel from Japan has been negatively impacted by a strong US dollar and weaker Japanese economy and carriers such as Delta and United have discontinued certain routes to Japan, in particular those dependent on seasonal demand. However, so far the airport has been able to offset discontinued routes to these countries with additional air travel from other Asian markets such China and Taiwan.

As a result of the airport's dependence on a volatile tourism sector, enplanements have historically shown greater volatility compared to other rated origin and destination US airports.

In addition, the airport faces the challenge of operating within an island economy that is prone to extreme weather events such as typhoons. The authority seeks to mitigate the risk with its self-insurance fund, catastrophic events insurance, reinforced fence lines, underground power distribution lines and water system connection.

SCHEDULED US MARINE RELOCATION TO GUAM AND POSITIVE TRENDS IN TOURISM COULD SUPPORT FUTURE ADDITIONAL ENPLANEMENT GROWTH

Guam's economy depends largely on tourism and the US military. Moody's Analytics notes a recent slowdown in military expansion has spilled over into Guam's overall economy and the unemployment rate in 2015 was 6.2% but is expected to decrease going forward. The medium-term outlook for military spending is positive given a scheduled relocation of 2,500 US Marines to Guam from Okinawa, Japan by 2021 and another 2,500 by 2026. The relocation was initially scheduled to be completed by 2017 but was delayed multiple times.

Tourism to Guam has continued a positive trend in 2016 even though the island hosted fewer Japanese tourists which was partially offset by increased US tourism. A long-term negative decline in Japanese tourists could be credit negative for the airport if not offset by other regions.

Enplanements at the airport are expected to show a 5% increase in 2016 compared to 2015 and the authority expects continued modest growth in 2017.

Financial Operations and Position

RESIDUAL RATEMAKING STRUCTURE SUPPORTS FULL RECOVERY OF OPERATING AND CAPITAL COSTS

The airport is currently in negotiations with major signatory airline carriers to renew the airline lease agreement that expired September 30, 2016. We expect that the airport will renew the lease agreement with signatory airlines that expired September 30, 2016 with similar or more favorable terms & conditions. The airline agreement supports a full recovery of operating and capital costs and gates are assigned quarterly on an exclusive basis to airlines. Main signatory airlines include United Airlines (48% of enplanements in 2015), Delta Airlines (14% of enplanements in 2015), Korean Airlines (11% of enplanements in 2015), China Airlines, Japan Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines, Air Busan, T'way Air and Aerospace Concepts.

STABLE OPERATING PERFORMANCE

The residual ratemaking structure has allowed the airport to maintain fairly stable financial metrics despite relatively high volatility in enplanements. Operating revenues continued to increase in fiscal year 2015 to $63.5 million (+2.5% year-over-year) for the sixth year in a row despite flat enplanements over the last two years. Cost inflation modestly outpaced revenue growth in fiscal year 2015, leading to net revenues of $31 million (5-year average 2011-2015 $28 million). For 2016 we expect operating revenues of around $65 million supported by modest enplanement growth.

Since July 2013, operating revenues have benefited from a $15.4 million minimum annual guarantee of concession revenues from a new concession operator, Lotte Duty Free Guam. The agreement is more favorable for the authority than the one with the previous concessionaire DFS Guam L.P. We note that the authority faces pending litigation from the previous concessionaire DFS Guam L.P. but we note that the new concession operator is covering all legal expenses related to this ongoing litigation.

Total DSCR of 1.33x (bond ordinance DSCR 1.57x) was largely consistent with the authority's average historical DSCR of 1.38x (bond ordinance DSCR 1.67x) for the period 2011-2015. The authority expects a bond ordinance DSCR of around 1.5x in 2016 and has budgeted for a DSCR of 1.45x in 2017.

Cost per enplanement (CPE) was high in 2015 and amounted to $16.54 but it remains in line with the historical average. Management expects largely flat CPE going in 2016 and 2017. The authority's CPE is well above the $9.39 median for all residual airports in 2015 and reflects to some extent the unique challenges of an airport operating in a narrow island economy and its monopolistic market position.

HIGH LEVERAGE

The authority's leverage is high with debt/operating revenue of 3.5x and debt per O&D enplaned passenger of 144% in fiscal year 2015.

The Series 2013 revenue bonds were issued to partially fund the authority's capital plan with the remainder coming from federal grants and operating cash flow generation. We currently do not expect any additional debt issuance in the next 12 to 18 months.

SUCCESSFUL EXECUTION OF CAPITAL PLAN ON TIME AND WITHIN UPDATED BUDGET WILL BE CHALLENGING

The authority's capital plan for the period 2016-2019 amounts to around $137 million of which around $61 million will be financed with the 2013 bond proceeds, $51 million with federal funds and around $25 million with cash. The authority's primary capital project is the Corridor project. The project is currently in the bidding process and the lowest bid was provided in November 2016 by Black Construction for around $95 million, which is around $25 million above the 2013 cost estimate for the project largely due to cost inflation related to personnel expenses. Construction is expected to start beginning of next year and will encompass around four phases with the last one scheduled to be completed in late summer 2019. Previously, we expected the project to be completed by March 2018.

The project involves the construction of a new arrivals corridor to separate non-TSA screened international passengers from departing passengers. The construction in several phases should minimize the disruptions on the airport's daily operations. The successful completion of the project should support increased capacity and traveler experience at the airport. However, it will be key for the authority to manage the associated project costs and timeline within the revised budget.

LIQUIDITY

The authority's liquidity profile is adequate. As of September 30, 2015, the authority had available cash and investments of around $127 million of which we view $37 million as unrestricted and discretionary reserves. Available liquidity sources translate into days cash on hand of 344 days for fiscal year 2015 and cash/debt of around 15.1%. While the authority's available liquidity has been strengthened by the 2013 bond issuance proceeds, its average days cash on hand ratio remains below the median of 504 days for all residual airports in 2015. We expect that the authority will maintain an adequate liquidity profile going forward.

Debt and Other Liabilities

DEBT STRUCTURE

The authority had outstanding debt of around $248 million as of September 30, 2015 ($236 million expected at September 30, 2016). Outstanding debt consists of the 2013 Series A, B, and C general revenue bonds of around $237.5 million (227.0 million expected at September 30, 2016) and a long-term bank loan with First Hawaiian Bank (long-term bank deposit rating Aa3 stable) of $10.4 million at September 30, 2015 ($9.4 million expected at September 30, 2016).

The authority's debt amortization profile declines over time. Annual average debt service for 2016-2020 is around $25 million.

The Series 2013 revenue bonds were issued to partially fund the authority's capital plan.

The authority has also bond reserve fund ($19.2 million as of September 30, 2015) and a debt service fund ($17.2 million as of September 30, 2015).

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The airport participates in the defined benefit pension plan of the government of Guam, the Guam Employees Retirement System, as well as Guam's Defined Contribution Retirement System. Both the defined benefit and defined contribution plans are administered by the Government of Guam Retirement Fund to which the authority contributes based upon a fixed percentage of its employees' payroll.

The airport authority's fiscal year 2015 contributions to the plan were $1.4 million, $1.8 million and $0.4 million for the defined benefit pension plan, the defined contribution pension plan and OPEB plans, respectively. The authority's share of the Government of Guam's Retirement Fund defined benefit plan's net pension liability was $30.6 million in fiscal year 2015 based on a discount rate of 7.0%.

Management and Governance

The authority is a public corporation and autonomous instrumentality of the Government of Guam with authority to construct, operate and maintain airports for civil aviation purposes on Guam, including the Antonio B. Won Pat Guam International Air Terminal and related facilities. All powers vested in the authority are exercised by its board of directors. The board consists of seven members nominated and appointed by the governor of Guam, subject to confirmation by the Guam legislature. Each director serves for a term of three years from the expiration of the term for which such director's predecessor was appointed. The terms are staggered. The board establishes the policies of the authority and appoints the Executive Manager and Deputy Executive Manager.

Legal Security

The general revenue bonds are secured by a pledge of revenues of the authority derived from the authority's fully residual airline use and lease agreement, with operation and maintenance costs paid prior to debt service set-asides. Bonds benefit from a rate covenant of net revenues at 1.25xs debt service that includes the use of rolling coverage of 25% of debt service. Bonds are also protected by an additional bonds test that requires either historical or prospective debt coverage of net revenues at 1.25x maximum annual debt service and a cash funded debt service reserve sized to the standard 3-prong test. The debt service reserve fund is invested through an investment agreement guaranteed by CDC Ixis (backed senior unsecured rated Aa2), a French bank. The guarantor must post collateral or issue a new guarantor if the rating falls below Aa3.

Use of Proceeds

Not applicable.

Obligor Profile

The A.B. Won Guam International Airport is the only commercial airport on the island of Guam for both passenger and cargo that offers service to US mainland and other countries in the Asia-Pacific region. The airport authority is a public corporation of the Government of Guam.

The airport has a 758,000 square foot terminal with 21 airline parking positions. There are two parallel east-west runways. Airport facilities include various cargo facilities and hangars as well as two business/industrial parks. In fiscal year 2015, the airport generated total operating revenue of around $64 million and enplanements were around 1.7 million.

Other Considerations - Mapping to the Grid

The grid is a reference tool that can be used to approximate credit profiles in the airport industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see Publicly Managed Airports and Related Issuers for more information about the limitations inherent to grid.

The assigned rating of Baa2 is one notch below the grid indicated rating of Baa1. The assigned rating balances the entity's vulnerability to enplanement demand volatility with its high leverage and limited scale.

Exhibit 8

Guam Airport Methodology Grid

Regional Position:	**Regional**		
Rate Making Framework:	**Residual**		

Factor	Subfactor	Score	Metric
1. Market Position	a) Size of Service Area (millions)	Ba	0.16
	b) Economic Strength and Diversity of Service Area	Ba	
	c) Competition for Travel	Aaa	
2. Service Offering	a) Total Enplanements (millions)	Baa	1.684
	b) Stability of Traffic Performance	A	
	c) Stability of Costs	A	
	d) Carrier base (Primary Carrier as % of Total Enplanements)	Baa	47.9
3. Leverage and Coverage	a)Debt Service Coverage by Net Revenues	A	1.33
	b)Debt in USD per O&D Enplaned Passenger	Ba	144
		Metric	**Notch**
4. Liquidity	Days Cash on Hand	344	0
5. Connecting Traffic	O&D Traffic	87.2	0
6. Potential for Increased Leverage			
7. Debt Service Reserves			
Scorecard Indicated Rating:		**Baa1**	

Note: All financial data is as adjusted by Moody's according to Moody's definitions. Financial data is based on fiscal year 2015.

Source: Guam International Airport Authority's financial statements, Moody's Investors Service

Methodology

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers in November 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

RATINGS

A. B. WON GUAM INTERNATIONAL AIRPORT AUTHORITY	
General revenue bonds Series 2013 A, B, C	Baa2
Rating Outlook	Stable

Source: Moody's Investors Service

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