

TAX-EXEMPT CREDIT PERSPECTIVES: PORT REVENUE BONDS

APRIL 27, 2020

What are Port Revenue Bonds?

Port Revenue bonds are obligations issued by an authority that owns or operates infrastructure that facilitates the movement of goods, commodities or people through ports. Operating revenues are directly correlated with the volume of activity at these facilities and a sharp decline in the economy and global trade has raised questions about near-term credit fundamentals.

How Has This Sector Been Impacted?

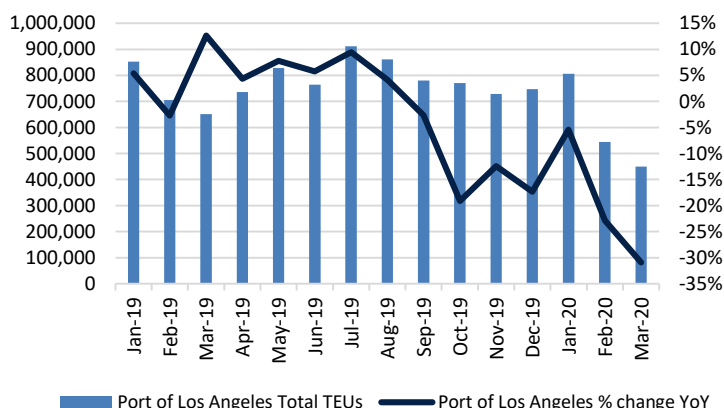
Today’s economic conditions have impacted ports in several ways. Operations that regularly utilize ports have been curtailed, creating supply chain disruptions, sharply reducing petroleum imports and exports, and prompting cruise line cancellations.

Ports that have a large portion of their two-way trade with Asia have been most significantly impacted, as many Asian factories were shut down during Q1. Although these factories have started to reopen and ramp up production, many US ports and European producers are now facing similar disruption, a development that will extend overall sector impact.

Travel restrictions have dramatically impacted ports given the extent to which cruise lines account for overall revenues. Many cruise lines have suspended operations and their eventual restart is expected to significantly lag the economic recovery.

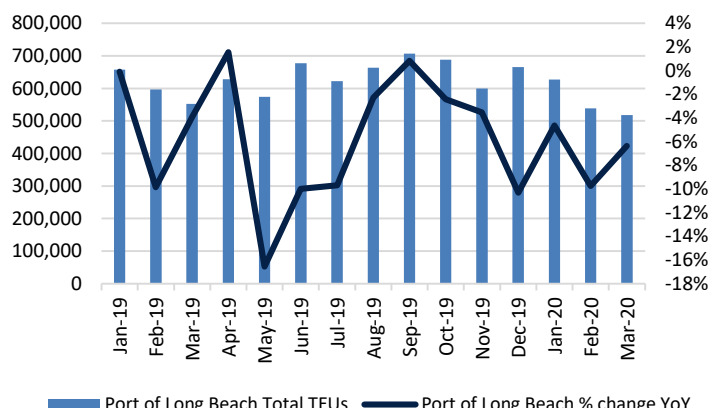
Sharp declines in oil exports have also caused stress for some ports, as oil prices have plunged to historic lows in the face of extreme supply-demand imbalances. Port of Corpus Christi, TX, the largest US crude export port, has already cut their capital expenditure plan by 33% and will likely delay it until 2021. Others will likely follow suit.

Port of Los Angeles TEUs (20 ft. equivalent units)



Source: Port of Los Angeles

Port of Long Beach TEUs (20 ft. equivalent units)



Source: Port of Long Beach

Identifying Potential Value

While these are tough times across the transportation sector, we believe select bond issuers are much better positioned than others. Location, operational strengths, strategic importance and contractual provisions must be considered. We are selectively adding exposure to ports where, in our opinion, a disconnect exists between bond prices and credit fundamentals.

What Credit Factors Are Most Important in This Environment?

Our credit analysis takes a holistic review of an issuer’s creditworthiness. However, certain factors deserve heightened attention.

Days cash of hand	This liquidity measure details the extent to which an additional layer of protection exists should declining revenue become insufficient to cover debt service and other expenses.
Debt service coverage	Net operating cash flow relative to debt obligations due within the next year reveals the extent to which a cushion is available to absorb revenue declines.
Minimum annual guarantees	The presence of such contractual provisions differentiate certain issues, as sizeable guarantees contribute to greater revenue stability, support debt service during difficult times, and facilitate important long-term investments in facilities.
Diversity	Revenue diversity helps insulate ports from reliance on any customer(s) or business lines, risk factors that become more acute in times of economic dislocation.
Competitive position	Some ports are economically vital and the location of a port’s service area, its competitive strength, and relative strategic value influences the extent to which economic shocks can be mitigated.

Accessibility and communication are important in any environment, although these attributes are especially valuable during uncertain and volatile times. Appleton Partners is committed to sharing our market and portfolio management perspectives as developments unfold. We hope these briefs are helpful and also invite you to reach out to us directly and/or visit www.appletonpartners.com/Insights for additional commentary and insights.

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