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### Research Update:

# Halifax Port Authority 'A' Rating Affirmed On Strong Traffic, Financial Results; Outlook Stable

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## Research Update:

# Halifax Port Authority 'A' Rating Affirmed On Strong Traffic, Financial Results; Outlook Stable

## Overview

- We are affirming our 'A' long-term issuer credit rating on the Halifax Port Authority.
- In part, the rating reflects the authority's strategic location on the east coast of North America; strong catchment area; and robust financial performance.

## Rating Action

On Sept. 2, 2011, Standard & Poor's Ratings Services affirmed its 'A' long-term issuer credit rating on the Halifax Port Authority (HPA or the authority). The outlook is stable.

## Rationale

The rating on the authority reflects our opinion of the following strengths:

- The port's strategic location on the east coast of North America, with its natural deep harbor and supporting infrastructure, which give it a competitive advantage on North America's east coast as a first-in and last-out port for Southeast Asian container traffic travelling through the Suez Canal;
- What we view as the authority's strong business position and natural advantage that have made it Canada's third-busiest container port after Vancouver and Montreal and seventh-busiest in the North Atlantic; HPA's natural advantage makes it one of two ports on the east coast able to attract and service the larger post-panamax and super post-panamax vessels;
- HPA's historically low debt, which the authority expects will rise in the next five years as a result of its relatively moderate capital spending requirements. However, HPA expects that despite the increase in debt, its debt burden will remain relatively low compared with that of peers. Standard & Poor's expects that the authority will continue to manage its capital program prudently and remain within its borrowing limit in the medium term;
- HPA's revenues rebounded by 8.6% in 2010, alongside a recovery in containerized cargo volumes, TEUs (20-foot equivalent units), which surged ahead by 26% during the year. Despite the sharp recovery in TEUs, cargo volumes remain below their 2007 level. The authority expects cargo volumes to improve further in 2011, based on stronger year-to-date

performance; however, we expect that strong headwinds in the second half of 2011 from a faltering global economy may limit the potential growth for all of 2011.

We believe credit concerns include the following:

- HPA's adequate liquidity support. HPA continues to draw on its available liquidity and internal cash flow to fund a large share of its capital program; Standard & Poor's expects that the authority will increase its cash balances in the medium term as its current capital program is completed;
- HPA's exposure to risks inherent in a potentially volatile sector and possibly having to offset declines in revenues due to unexpected losses from fewer shipping lines calling on the port. We believe mitigating this risk are the relative stability provided by the authority's diversified revenue sources such as rental revenues from land holdings and other lines of business and HPA's strategic plan to enhance relationships with the end users of shipping lines;
- Strong competitive pressures from other eastern container ports, such as the port of Montreal, the Port Authority of New York & New Jersey, Virginia Port Authority, and Savannah;
- Operational risks inherent in HPA's dependence on a single rail line, Canadian National Railway Co. (A-/Stable/A-2).

#### **Government support and government-related entities: Methodology impact**

In accordance with our criteria for government-related entities, our view of a "moderately high" likelihood of extraordinary government support reflects our assessment of HPA's "very important" role in both the province of Nova Scotia and the country as a whole, its strategic importance in the province's economy and Canada's international trade. The federal government does not have an active day-to-day role in the authority nor any direct representation on its board, and regulatory oversight comes through the Canada Marine Act under Transport Canada. We believe this suggests a "limited" link with the federal government. Our rating incorporates Transport Canada's constructive support through recent amendments in HPA's letters patent to increase its borrowing limit.

## **Outlook**

The stable outlook reflects Standard & Poor's expectation that HPA will continue to manage the impact of volatility in cargo volumes so as to minimize their potential impact on operating revenues. We expect the authority will exhibit favorable container volume and revenue growth in the medium term, thus maintaining strong annual debt service coverage. The outlook also reflects our assessment of HPA's prudent management of its capital program and our expectation that it will not issue significantly more debt than it assumed in its capital plan.

## Related Criteria And Research

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- USPF Criteria: Port Facilities Revenue Bonds, June 13, 2007

## Ratings List

Ratings Affirmed

Halifax Port Authority  
Issuer Credit Rating

A/Stable/--

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