Moody's upgrades Port Newark Container Terminal to Baa3 from Ba1; stable outlook

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New York, December 07, 2020 -- Moody's Investors Service, ("Moody's") has upgraded to Baa3 from Ba1 the senior unsecured bond ratings assigned to Port Newark Container Terminal LLC's approximately $273 million Series 2017 Bonds issued by New Jersey Economic Development Authority. The rating outlook is stable.

The revenue bonds were issued through the New Jersey Economic Development Authority and on-lent to Port Newark Container Terminal LLC.

RATINGS RATIONALE

The upgrade to Baa3 reflects a combination of strong volume and revenue growth; recent completion of a large expansion plan on budget; and financial metrics sustained at healthy levels, which will be supported by increased revenue generation potential and lower capital spending going forward.

Volume and revenue have grown at mid-single digit compound annual rates over the last 10 years, with particularly robust growth in recent years. The growth was achieved despite a major capital program being implemented concurrently. The expansion was completed in Q1 2020, on budget, and has increased throughput capacity by 40%. Revenue is expected to be $360 million at the end of 2020, a level we initially forecast would not be achieved until 2023. At the same time, EBITDA margins continue to improve toward the 25% level, and debt service coverage is above 3.0x. Going forward, financial metrics are poised to strengthen further, supported by relatively level debt service and our expectation of growing revenue over the medium term. The port market continues to grow and demonstrate relevance as the second-largest port complex in North America; the terminal has maintained market share and has newly added capacity for continued growth; and the company is transitioning to a profile of lower capital spending and more manageable steady-state operations, which we expect will support financial performance and cash flow generation.

The rating continues to reflect the terminal's position in a highly essential, and capacity constrained, port market that serves the largest consumer market in the US; PNCT's affiliation through its 50% shareholder TiL to MSC and the contractual arrangement to be the exclusive provider of cargo handling for Mediterranean Shipping Company (MSC) — the second-largest container shipping line globally — at the port, which mitigates the volume risk and partially de-risks investment spending; the significant yet manageable capital expansion that has increased capacity by more than 40%, with the expansion completed on budget; a demonstrated resilience during the COVID crisis; financial metrics sustained at improved levels; and positive structural features including fully amortizing debt, a 12-month debt service reserve, and O&M and major maintenance reserves.

These factors partially balance PNCT's comparatively concentrated business profile, comprising a single terminal in a single port with one carrier accounting for 69% of volume.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade

- Increased cash flow margins resulting in DSCRs exceeding 3.5x and FFO-to-debt exceeding 25%
- Broadening of customer base and earnings diversification

Factors that could lead to a downgrade

- Lower cash flow margins resulting in DSCRs declining below 3.0x and FFO-to-debt declining below 15% for a sustained period
- Significant decline in volumes due to customer loss or if the two primary customers shift activity to other terminals in the port
METHODOLOGY


PROFILE

Port Newark Container Terminal LLC (PNCT) is an integrated marine terminal operator and stevedore and lessee of the Port Newark Container Terminal, a 314-acre, 1.2 million-container/1.96 million-TEU capacity container terminal at the Port of New York and New Jersey.

PNCT is owned equally by Ports America, Inc. (Ports America, 50%) and Terminal Investment Limited S.à.r.l (TiL, 50%).

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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