MOODY'S
INVESTORS SERVICE

Rating Action: **Moody's assigns A1 to South Carolina State Ports Authority's $163 million Revenue Refunding Bonds, Taxable Series 2019D**

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New York, November 01, 2019 -- Moody's Investors Service ("Moody's") has assigned a rating of A1 to the South Carolina State Ports Authority's $163 million Revenue Refunding Bonds, Taxable Series 2019D. The outlook is stable.

RATINGS RATIONALE

The A1 rating reflects the authority's strong cargo volumes, benefiting from favorable demographic and industrial trends in the South Carolina and Southeast economies; the authority's competitive infrastructure and operating model, which supports high productivity and low port charges to users; the elevated level of volume risk in the authority's operating model and customer contracts; strong historical financial metrics, but increasing financial leverage and reduced financial flexibility as the authority implements a large capital program to enhance its competitive position in the Southeast port market; and the significant capital, economic development and planning support provided by the State of South Carolina (Aaa stable).

The port's strong volume growth - 87% over the last 10 (2010-2019) fiscal years - has occurred alongside a comprehensive infrastructure expansion/modernization program. The large and multi-faceted program is positioning the port with the scale and infrastructure capability to remain a major cargo center in the Southeast amid an evolution toward larger ships and more concentrated service patterns by container lines.

The capital spending has been funded in large part with debt, which has increased leverage (over 4.0x debt to operating revenue post sale) and narrowed the port's historically robust debt service coverage ratios (DSCRs). The A1 rating reflects our expectation that senior and total DSCRs will remain above 2.0x and 1.5x, respectively, and that leverage will stabilize and capital spending will moderate considerably post 2021. The port will complete its three major capital projects - the harbor deepening, the expansion/modernization of Wando Welch and the construction of Leatherman phase 1 - by the end of 2021, after which 1) capital spending will revert to much lower levels at the same time that 2) new revenue-generating facilities ramp up to steady state operations. Leatherman phase 1 will add 600,000-700,000 TEU of new capacity - equivalent to 25-30% of fiscal 2019 volume - and phases 2 and 3, each of which is budgeted at half the cost of phase 1, can be developed as discrete projects over multiple years, if and to the extent demand warrants.

The A1 rating continues to reflect the port's strong growth trend - 7.2% CAGR from fiscal 2010-2019; 5.7% CAGR from fiscal 2015-2019 - and our expectation of long-term demand for Charleston's capacity, and harbor depth, in the Southeast, supported by a large and growing regional cargo market with a significant industrial base, as well as by Charleston's competitive cost structure, productivity and trade balance.

RATING OUTLOOK

The stable outlook is based upon our expectation that the authority will continue to exhibit strong operating and financial performance. The stable outlook also reflects our expectation that the authority will incur debt required to fund its growth capital projects in a phased manner, as demand warrants and with net revenue levels that enable the authority to retain sufficient flexibility to manage a downturn in volume without weakening coverage, leverage and liquidity metrics below its minimum target levels of 2.0x senior DSCR, 1.5x total DSCR and 270 days cash on hand.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Total DSCRs maintained above 2.5x and days cash on hand above 600 post implementation of the capital program, combined with an expectation of lower/more manageable capital spending levels

FACTORS THAT COULD LEAD TO A DOWNGRADE

If the following quantitative metrics exceed the associated thresholds for a sustained period:

- Senior and total DSCRs below 2.0x and 1.5x, respectively

- Days cash on hand and cash to debt below 300 and 20%, respectively

- Debt to operating revenues sustained above 4.0x

LEGAL SECURITY

The bonds are secured by a senior lien on net revenues generated at port facilities. Additional security includes a rate covenant to provide 1.20x debt service coverage and an additional bonds test requiring the prior fiscal year or five projected fiscal years to maintain 1.20x debt service coverage. The resolution also establishes a Depreciation Fund and a Capital Improvement Fund, but does not require funding. Surpluses can be used to pay debt service. The Series 2019 bonds do not have security in a debt service reserve account.

USE OF PROCEEDS

Proceeds will be used to advance refund the authority's Series 2015 Bonds for net present value savings within the same maturity schedule.

PROFILE

The South Carolina State Ports Authority is an instrumentality of the State of South Carolina. The authority is an operator port authority. It owns and operates five marine cargo terminals and a cruise terminal in Charleston, one marine cargo terminal in Georgetown, and intermodal inland port facilities in Greer and Dillon. The authority handles container, breakbulk and roll-on/roll-off cargo, with containers accounting for approximately 80% of operating revenues in fiscal 2018. As distinct from many US ports, all major equipment is operated by non-union authority employees.

The authority was the second largest port in the Southeast, the fourth largest port on the East Coast and the ninth largest port in the US by container volume in 2018.

METHODOLOGY

The principal methodology used in this rating was Publicly Managed Ports Methodology published in June 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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