Fitch Ratings 2021 Outlook: U.S. Transportation Infrastructure

Coronavirus Pressure Constrains 2021 Recovery Expectations

Fitch's Sector Outlook: Improving

Fitch Ratings' 2021 Sector Outlook for U.S. transportation infrastructure is Improving, indicating Fitch's expectation for improved performance in 2021 as compared with 2020 for the two largest sectors – Airports and Toll Roads. This assessment reflects the varied effects of the coronavirus across transportation sectors.

Toll roads and cargo ports have shown resilience through the first year of the pandemic and are expected to recover to 2019 levels by 2022. By contrast, airports and cruise ports continue to face disruption due to constrained capacity and lower than normal demand for travel. The recovery is expected to extend to 2024 or later.

Rating Outlook: Negative

The Rating Outlook for U.S. transportation is Negative, indicating Negative Outlooks in the sector outnumber Positive Outlooks by more than 20 percentage points. This is also true for Airport and Port subsectors, while a lower share of Negative Outlooks for Toll Roads results in a Stable Outlook. Currently, 57% of U.S. Transportation ratings have Negative Outlooks or Negative Watches, 1% have Positive Outlooks, and 42% have Stable Outlooks.

Rating Distribution Weighting: Largely High Investment Grade

Despite a large number of rating actions stemming from coronavirus-related pressures, most ratings across U.S. transportation remain investment grade, with the 'A' category representing the majority. Higher rated credits are typically those facilities with strong franchises and flexible pricing, along with stable financial profiles. Lower rated credits tend to have weaker volume and pricing characteristics or slim financial flexibility due to high leverage or narrow coverage levels.

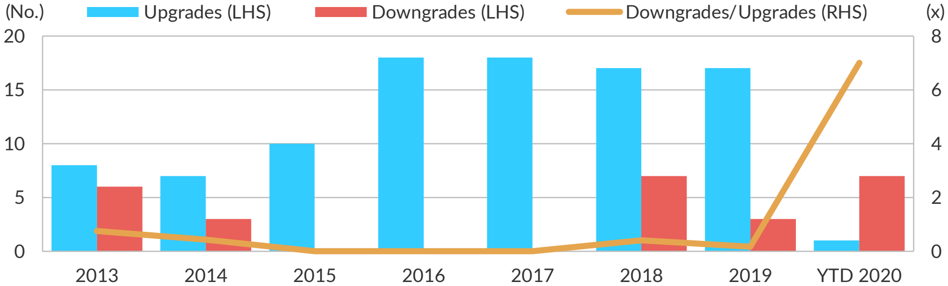
What to Watch

- Credit stability dependent on volume recovery closely linked to evolution of the health crisis, including development of an effective vaccine/cure, economic disruptions and political agendas.
- Cruise and air carriers remain most exposed to pandemic-related volatility until therapies and vaccines restore some normalcy to travel patterns.
- Diminishing liquidity over time may lead to financial pressure.
- Transportation issuers may continue to face challenges in funding capital improvements given demand uncertainty and capital market conditions.
- Pricing flexibility may be curtailed based on economic factors as the pandemic continues to drag down recovery.

Emma Griffith, Senior Director

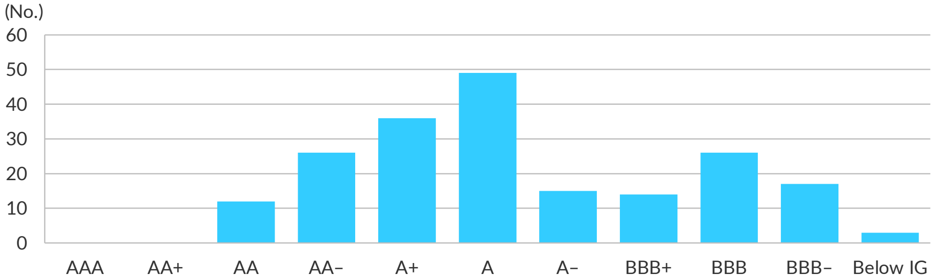
"Fitch expects 2021 will see varying levels of recovery for U.S. Transportation, with more tepid economic conditions in the first half of the year giving way to potentially stronger recovery in the second half as vaccine distribution proceeds. Performance will deviate by transportation sector given the varied impacts of the pandemic. Airports and passenger ports face greater demand pressure compared with toll roads and cargo ports."

U.S. Transportation Infrastructure — Rating Changes



Note: Public International Scale Ratings. YTD, as of Nov. 11, 2020.
Source: Fitch Ratings.

U.S. Transportation Infrastructure — Rating Distribution



IG – Investment grade. Note: Public International Scale Ratings, as of Nov. 11, 2020.
Source: Fitch Ratings.

What to Watch - Credit Stability Linked to Volume Recovery

Transportation credits remain vulnerable to the pace of recovery from the coronavirus pandemic, and the ongoing effects of this trajectory on economic conditions. A prolonged recovery will have varying effects on volumes by sector, with modes moving people (airports and cruise ports) seeing more direct, prolonged effects than those moving essential goods (toll roads and cargo ports). Cruise and air carriers remain the most exposed to pandemic-related volatility until therapies and vaccines restore some normalcy to travel patterns. Full recovery is likely to extend beyond 2021, with transportation sectors taking several years to recover to 2019 levels.

What to Watch - Diminished Liquidity a Challenge

For the most part, U.S. transportation credits benefited from strong liquidity positions going into the coronavirus pandemic, and this has buoyed credits through the initial demand shock of 2020. While continued partial dependence on liquidity in 2021 is not considered a material concern for U.S. transportation credits, Fitch expects to see liquidity rebuilding to levels consistent with the current rating level. Diminishing liquidity over time may lead to financial pressure as a result.

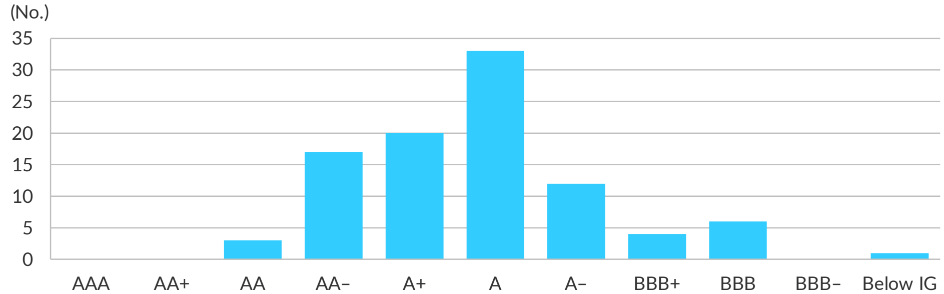
What to Watch - Capital Projects Must Go On

U.S. transportation issuers may face challenges in funding capital improvements given demand uncertainty and broader market conditions. Some issuers are locked into ongoing capital programs, while others have flexibility to defer or scale down programs contemplated pre-pandemic. Debt remains a primary source of funding for capital programs, and access to financing is expected to remain good for most U.S. transportation issuers. Current low interest rates can make borrowing attractive despite the pandemic., and Fitch expects to see continued refinancing activity while rates remain low.

Potential Disrupting Factor: Vaccine Deployment

The speed of demand recovery for U.S. transportation, and the trajectory of economic performance more broadly, could vary considerably based on the timeline for development and distribution of effective coronavirus vaccines and therapies. Widespread vaccinations or broadly available treatments deployed rapidly in 2021 could meaningfully affect the pace of economic recovery across sectors, and provide significant upside to Fitch's rating cases for U.S. transportation credits.

U.S. Airports — Rating Distribution



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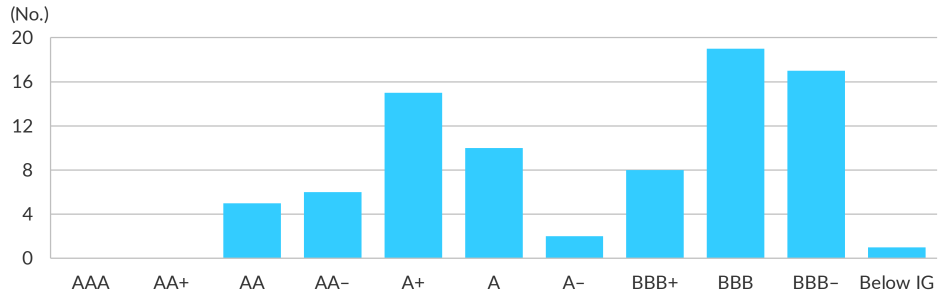
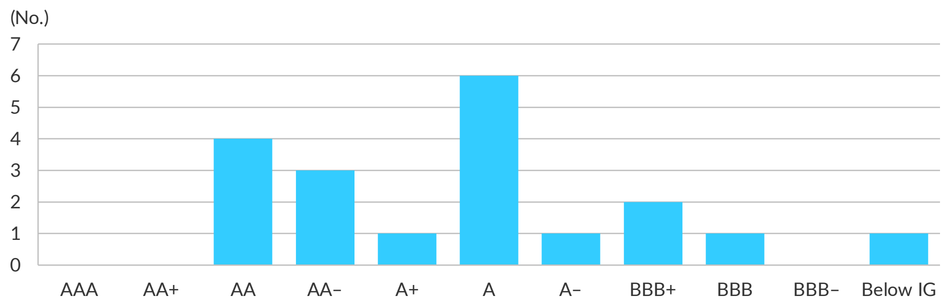
Source: Fitch Ratings.

U.S. Toll Roads — Rating Distribution



IG – Investment grade. Note: Public International Scale Ratings, as of Nov. 11, 2020.
Source: Fitch Ratings.

U.S. Ports — Rating Distribution



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Source: Fitch Ratings.

U.S. Airports - Sector Outlook Improving/Rating Outlook Negative

Airport Risk Profile Elevated

The effects of the coronavirus on airport traffic and revenues have been unprecedented. While strong fee-setting flexibility and liquidity still hold for most airport credits, a sustained period of downside performance will lead to weaker credit characteristics. Airport bonds supported with limited revenue streams (i.e. rental cars, parking and passenger facility charges) and single terminal projects have more exposed credit profiles.

Passenger Traffic Recovery Will Take Time, Perhaps Multiple Years

Unlike past disruptive events in aviation where recoveries were speedy, the coronavirus pandemic illustrates that a long trough in air travel is possible. Scenarios for recovery remain wide given the unknowns about future treatments and vaccines. Air traffic in 2021 will likely remain depressed but 2021 volumes are expected to rise above the nadir of 2020. Multiple uncertainties ranging from airline scheduling to government-imposed restrictions could lead to rapid shifts in passenger traffic over the next 12 months. Fitch's rating and severe downside case scenarios, at 35% and 60%, respectively, below 2019 levels, highlight the forecasting uncertainty for airports. Full recoveries are not expected until 2024.

Debt Financings to Continue

U.S. airports still face large capital programs to fund expansions and redevelopment projects, many focused at terminal facilities. Debt is a leading funding source with greater reliance on airline payments for repayment as non-aeronautical receipts and passenger facility charges are weakened by low travel demand. Refinancing will remain strong in 2021 given low interest rates coupled with incentives to front-load savings in early maturity periods.

U.S. Toll Roads – Sector Outlook Improving/Rating Outlook Stable

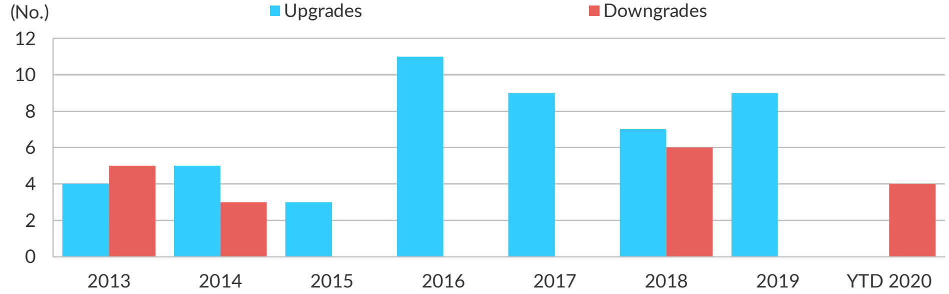
Strong Traffic Recovery Slowing Down

Although the pandemic led to substantial traffic losses in April, toll roads have since benefitted from a rapid recovery with about half of peak losses recovered by June. The recovery has continued through 3Q20 but at a slower pace, coinciding with increased infection rates and resumed lockdowns. Whether traffic recovers or backslides depends upon the path of the virus and related lockdowns, especially regarding commuting by office workers, which has lagged other traffic.

Toll Roads Benefit From Strong Financial Positions

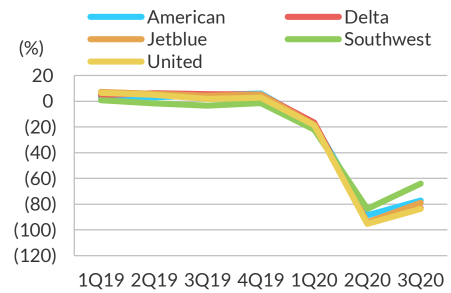
Most toll roads did not need to draw on cash balances to pay debt service or balance financial operations, thus leaving them with solid liquidity positions well into the crisis. The combination of healthy debt service coverage ratios, a rapid traffic recovery and solid liquidity leave toll roads well-positioned to withstand another potential time-limited shock, such as a period of weaker-than-expected economic growth or a second wave of lockdowns.

Airports — Rating Changes



Note: Public International Scale Ratings. YTD, as of Nov. 11, 2020.
Source: Fitch Ratings.

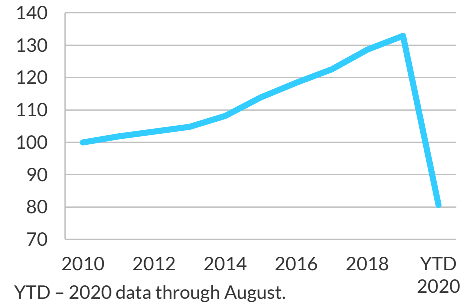
Quarterly Changes in Revenue Passenger Miles



Source: Bureau of Transportation Statistics.

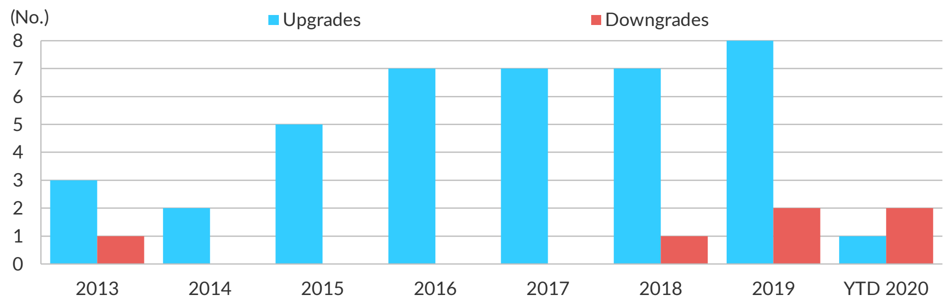
U.S. Airport Traffic Index

(2010 = 100)



YTD – 2020 data through August.
Source: Bureau of Transportation Statistics.

Toll Roads — Rating Changes



Note: Public International Scale Ratings. YTD, as of Nov. 11, 2020.
Source: Fitch Ratings.

Key Drivers Support Continued Debt Issuances

Debt financings will continue, underpinned by three drivers. First, many large, mature systems, especially turnpikes, face sizeable ongoing rehabilitation needs and traditionally look to capital markets in combination with pay-go financing to meet them. Secondly, growth-related expansion projects continue despite some capital program deferrals/downsizing. Continued inadequacy of developer fees and gas taxes to fund expansion projects points to the ongoing importance of debt markets for growing systems. Third, low interest rates present toll roads with an opportunity to refinance with significant interest savings.

Pandemic May Have Long-Lasting Traffic Impact

Fitch expects toll road traffic will recover to 2019 levels by late 2021 or early 2022. However, projections do not include a full catch-up to prior long-term projects with consideration of two factors. First, economic output may not fully return to prior long-term forecasts. Second, long-term telecommuting trends are likely to have been accelerated by the prevalence of working from home, which may suppress commuter traffic for some time. Increased off-peak travel may mitigate these declines, though may not fully compensate for reduced commuting.

U.S. Ports – Sector Outlook Stable/Rating Outlook Negative

Cargo Ports Resilient, May Be Pressured

Cargo-focused ports have shown resilience despite coronavirus in 2020, and Fitch's rated ports have seen cargo revenues outperforming cases developed in 1H20. Nonetheless, Fitch expects cargo port performance to face pressure in 2021 due to a worsening economy and delays in fiscal stimulus. Trade tensions between regions may also exacerbate uncertainty in trade growth. Fitch is conservatively assuming calendar 2021 will see performance similar to 2020 due to the soft economy, with recovery to pre-pandemic levels from 2022.

Cruise Ports Face Uphill Battle

Cruise-focused ports have been negatively affected by the coronavirus, notably by the CDC no-sail order which curtailed cruises from March-October 2020. Looking to 2021, external factors will affect speed with which cruise returns, including choices by cruise lines and government policies. Fitch assumes financial uncertainty remains as cruising resumes at reduced capacity in 2021. Recovery to 2019 levels is not forecast until 2024.

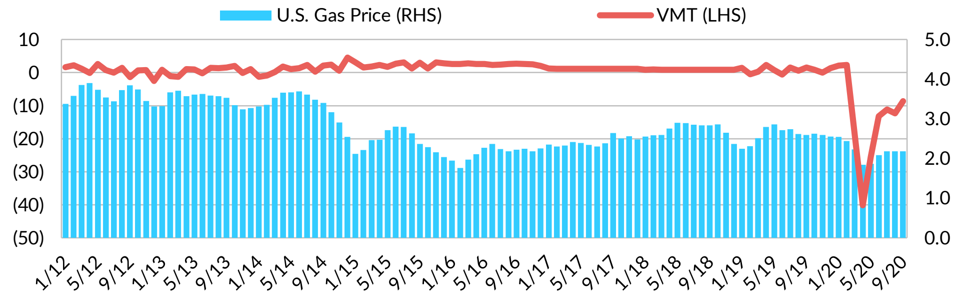
Capital Investments Are Flexible

Port capex is expected to move forward in 2021, with several debt issuances underway. Fitch notes that low interest rates make debt issuances attractive to fund capital needs for ports with market access. Fitch expects ports will work collaboratively with their counterparties (tenants and customers) to address their capex needs.

Continued Focus on Liquidity

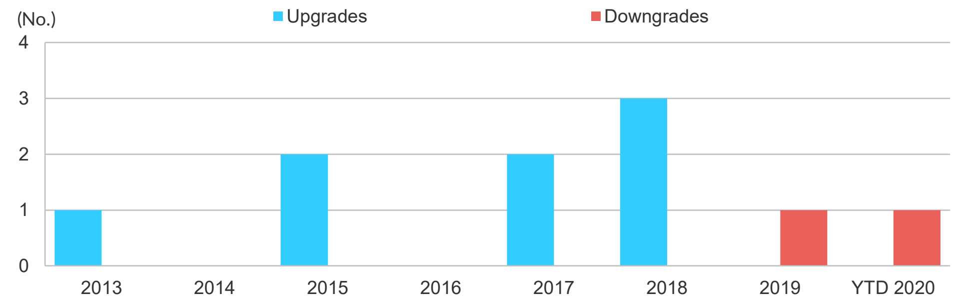
Maintaining liquidity consistent with current credit quality will remain a focus through 2021. A majority of Fitch-rated port issuers maintained available liquidity adequate to cover fiscal 2020 debt service going into the pandemic, softening the initial blow of throughput declines on cashflows. Looking forward, targeted prepayment coupled with maintenance of adequate liquidity may provide means to navigate ongoing volatility in a potentially soft economy.

Gas Prices and Year-on-Year VMT Growth



VMT – Vehicle miles traveled.
Source: Energy Information Administration, Federal Highway Administration.

Ports — Rating Changes



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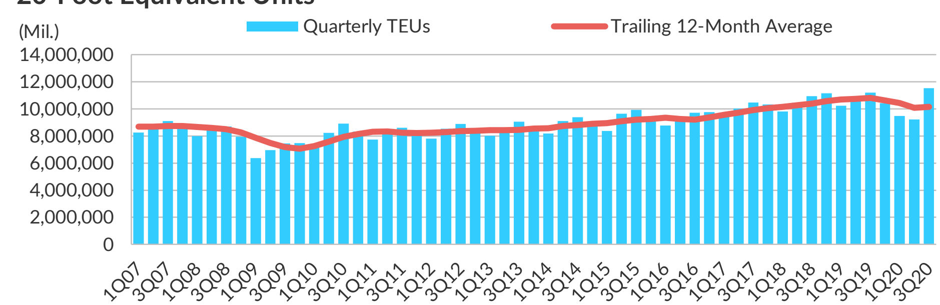
Source: Fitch Ratings.

20-Foot Equivalent Units



TEU – 20-foot equivalent units.
Source: Port websites.

Outlooks and Related Research

2021 Outlooks
Fitch Updates its U.S. Transportation Sector Coronavirus Assumptions (November 2020)
Global Infrastructure Recovery Uncertain While Coronavirus Vulnerability Remains (November 2020)
The Next Phase: How Coronavirus-Related Changes Could Permanently Alter the Global Public Finance and Infrastructure Landscape (October 2020)
Global Economic Outlook - September 2020 (September 2020)
What Investors Want to Know: U.S. Transportation and the Coronavirus Crisis (July 2020)

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