S&P Global
Ratings

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Summary:
Hawaii Airport System; Airport

Primary Credit Analyst:
Ladunni M Okolo, Dallas + 1 (212) 438 1208; ladunni.okolo@spglobal.com

Secondary Contact:
Scott Shad, Englewood (1) 303-721-4941; scott.shad@spglobal.com

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Summary:

Hawaii Airport System; Airport

Credit Profile		
Hawaii Arpt Sys airport system rev bnds ser 2015A due 07/01/2045		
Long Term Rating	AA-/Stable	Upgraded
Hawaii Arpt Sys AIRPORTS		
Long Term Rating	A+/Stable	Upgraded
Hawaii		
Hawaii Arpt Sys, Hawaii		
Hawaii (Hawaii airpt sys) rev rfdg bnds (taxable)		
Long Term Rating	AA-/Stable	Upgraded
Hawaii (Hawaii Arpt Sys) arpt		
Long Term Rating	AA-/Stable	Upgraded
Hawaii (Hawaii Arpt Sys) arpt (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Hawaii (Hawaii Arpt Sys) arpt (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on Hawaii Airport System's (HAS or the system) senior-lien general airport revenue bonds (GARBs) outstanding to 'AA-' from 'A+'.
- At the same time, S&P Global Ratings raised its rating on the system's series 2013 lease revenue subordinate-lien certificates of participation (COPs) to 'A+' from 'A'.
- The outlook on all ratings is stable.
- The upgrade reflects HAS' strong recovery in air travel demand that we believe is sustainable long term and its return to business-as-usual rate-setting flexibility.

Security

The senior-lien GARBs are secured by senior-lien system revenue and aviation fuel tax revenue after operations and maintenance costs. The airport system's series 2013 COPs, which we rate based on our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria, published Nov. 20, 2019, on RatingsDirect, are special limited obligations of the airports division and represent assignment of a proportionate interest in the lease and in the right to receive rent payments under the lease. Lease payments are secured solely by revenue and aviation fuel tax revenue but are junior in priority to the pledge of the revenue securing the airport system revenue bonds outstanding. Debt service reserves (DSRs) provide additional liquidity for bondholders. The DSR for the senior-lien GARBs totals approximately $107.5 million, all of which is cash-funded.

The airport system has approximately $2.3 billion in debt outstanding, consisting of $1.74 billion of senior-lien GARBs, $173 million of COPs, and $403.3 million of customer facility charge (CFC) revenue bonds. The CFC bonds are a separate credit and not secured by airport system revenues.

Credit overview

The rating action reflects our view of HAS' improved enterprise risk profile to extremely strong from strong, and its strong financial risk profile which remains unchanged. We view the airport's fiscal year-to-date 2023 enplanement recovery through January 2023 of 98% of pre-pandemic levels and expectation of sustained recovery as supportive of an improved overall extremely strong market position. Monthly enplanement recovery has exceeded 2019 levels beginning September 2022 with January 2023 enplanement levels at about 103% of 2019 levels. While international traffic has remained below pre-pandemic levels, HAS' recovery has reflected demand for domestic travel, which has exceeded 2019 levels since the end of 2021.

Our financial risk profile is based on what we expect to be HAS' improving revenue-generating capacity relative to most recent historical levels as traffic rebounds, supported by strong liquidity and financial flexibility afforded by federal pandemic relief operating grants. We expect financial risk profile, based on management's forecast, to be maintained at levels we consider strong, with debt service coverage (DSC) near or above 1.5x by fiscal 2024, debt to net revenues between 10x and 15x, and unrestricted days' cash on hand above 400 days.

Key credit strengths, in our opinion, include HAS':

- Favorable service area economic fundamentals, which support air travel demand to and within the state, good economic activity as measured by GDP per capita, a large population base, and improving employment levels despite a lag in the leisure and hospitality sector;
- Extremely strong market position, highly essential role, and no practical competition reflecting a strong recovery in domestic enplanements to pre-pandemic levels;
- Maintenance of very strong available liquidity as measured by days' cash, bolstered by infusions of federal operating grants; and
- Very strong management and governance, as evidenced by the state Department of Transportation's (DOT) ability to adjust revenue, expenses, and capital spending under recently stressed and currently improving industry conditions.

Partially offsetting these strengths, in our view, are HAS':

- Exposure to an international oversees passenger segment, which has been much slower to recover than the domestic passenger segment due to pandemic-related health and safety requirements and protocols; and
- Rising cost and debt metrics associated with a large $1.8 billion capital improvement program (CIP) with $543 million in additional bonds in planned GARBs over the next three years and which could pressure coverage levels.

Environmental, social, and governance

We analyzed the airport's risks related to environmental and governance factors and consider them credit neutral in our rating analysis. While we acknowledge that Hawaii's location also exposes it to considerable environment-related risks, which could dampen its tourism-based economy in the short term, the state has generally displayed resilience over the longer term, as demand for tourism has remained strong despite periodic challenges. We will continue to evaluate these risks as the situation evolves.

Outlook

The stable outlook reflects our expectation that enplanements will be sustained near or above pre-pandemic levels, allowing the airport to maintain an extremely strong enterprise risk profile and financial metrics consistent with a strong financial risk profile.

Downside scenario

We could lower the rating if HAS' activity and coverage levels (based on our calculations) erode from current and projected levels and we believe they will likely remain materially weaker for an extended period.

Upside scenario

We do not expect to change the ratings over the next two years, given our view that coverage and liquidity metrics are not likely to improve materially. Also limiting additional rating upside is the airport's large $1.8 billion CIP primarily funded by debt

Credit Opinion

Our enterprise risk profile assessment reflects extremely strong service-area economic fundamentals, an extremely strong market position, very strong industry risk, and management and governance assessments we consider very strong.

The Hawaii Airport System (HAS) maintains15 airports serving domestic, interisland, and international traffic within the state of Hawaii. The extensive, mostly origination and destination (90%) 15-airport system consists of one medium-hub airport (HNL, previously a large hub), four medium- to small-hub airports, and 10 non-hub or secondary airports. HAS is the sole provider of commercial aviation facilities in the state, and multiple airports in the system can accommodate overseas flights (allowing direct flights from the U.S. mainland to the neighboring islands).

The unique nature of Hawaii as an island state and tourist destination for U.S. and international travelers with its three different passenger segments has influenced HAS' rebound in traffic demand. Since the system's precipitous decline in April 2020, which resulted in enplaned passengers declining to 6.1 million in fiscal 2021 from 18.7 million in fiscal 2019, traffic began to ramp up in March 2021 to a January 2023 peak of 103% of pre-pandemic January 2019's total passenger levels. Particularly, the domestic overseas U.S. market saw a significant boost with the entrance of Southwest Airlines in 2019, which has since increased to 20% of the entire Hawaii market, historically dominated by Hawaiian Airlines (with 43% market share). We anticipate the ongoing expansion by Southwest, which doubled seat capacity in 2021 versus 2019, will support the continued growth of domestic U.S. and interisland travel.

The domestic U.S. travelers segment (45% of total enplanements) has fully recovered to pre-pandemic levels (even exceeding 2019 volumes), aided by pent-up demand, additional airline seat capacity, and the likely diversion to Hawaii of U.S. travelers away from other international destinations. HAS' second passenger segment includes interisland passengers (38% of total enplanements), composed of both Hawaii residents and interisland travel by visitors, which has recovered to 98% of 2019's level. The recovery of this segment has generally mirrored the domestic U.S. travel recovery and in pre-pandemic times had seen a slower growth rate as more islands have developed direct airline service. However, the smaller but important international passenger segment (17% of total passengers) remains significantly affected and is only at 35% of pre-pandemic levels. Management assumes full recovery of the international component to the pre-pandemic level of 3.3 million enplaned passengers to occur in 2027.

We view management and governance characteristics to be very strong. HAS and DOT management teams have developed and maintained a strategic plan for the system, and have strong oversight of operations and facility control via airline-use agreements while maintaining long-term financial and capital plans that are updated annually. The state of Hawaii owns and operates the system through its Department of Transportation, Airports Division. The system includes all commercial facilities in the state, and the state accounts for them as a single integrated enterprise fund. The airports division has the authority to levy rates and charges that, along with aviation fuel taxes, are set to comply with the bond indenture's flexible requirements.

Our financial risk profile assessment of strong reflects our expectation that as the airport exhausts its remaining federal relief aid, we expect DSC (S&P Global Ratings-calculated) will be maintained at levels we still consider at least strong (1.25x-3x). Additionally, we believe the airport has strong debt and liabilities capacity, with debt to net revenues fluctuating between 10x-15x after factoring in additional debt issuance. We also expect the airport to maintain strong liquidity and financial flexibility, with days' cash on hand maintained above 400 days, while the airport funds its large CIP.

S&P Global Ratings-calculated DSC for HAS declined to below 1.0x in fiscal years 2020 and 2021 from a strong 1.54x in 2019, excluding federal COVID-19 relief operating grants and the system's funded carry-over coverage account and including passenger facility charges (PFCs) pledged or committed to debt service as revenue rather than as a debt service offset. Management's DSC of senior debt obligations as permitted under the rate covenant include federal grants and coverage accounts as revenues and PFC offsets to debt service and was 2.0x in 2020 and 3.4x in 2021. After keeping terminal rental rates at Daniel K. Inouye International Airport, or Honolulu International Airport (HNL) flat in 2021, management increased rates almost 10% for the current fiscal 2022 and landing fees have also increased under the residual rate-making formula with overall fiscal 2022 airline revenue expected to increase by 31%. Most of the rent deferrals management allowed the airlines to take have been collected.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022