MOODY'S RATINGS

CREDIT OPINION
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Hawaii (State of) Airports Enterprise

Update to credit analysis following upgrade

Summary

Hawaii Airports Enterprise's (senior debt Aa3 stable; subordinate debt A1 stable) credit profile benefits from its unrivaled market position that serves a world-renowned tourism destination. Enplanement traffic has recovered to pre-pandemic levels and the airport's finances are healthy, underpinned by a strong days cash on hand (DCOH) metric that has exceeded 600 days since 2019. The airport's 2024 debt service coverage ratio (DSCR) was also strong at above 2.0x in fiscal 2024, although it will taper closer to 1.25x as it issues additional debt in the coming years. The airport also benefits from a hybrid-residual cost framework with signatory airlines which allows for the full recovery of debt service and other capital costs from airlines.

Offsetting these strengths is the substantial expected debt issuance in the coming years that will materially increase the airport's leverage profile. Nearly $4 billion in expected additional bonds from 2025-2029 will increase adjusted debt per O&D enplanement to above $300 before declining, which while materially higher than historic levels is consistent with other large hub airport systems undergoing transformational capital programs.

This credit opinion follows a press release on January 31 announcing the upgrade of Hawaii Airports' outstanding GARB bonds to Aa3 senior/A1 subordinate and assignment of Aa3 to the systems' Series 2025 bonds.

Credit strengths

» The state's remote location, popularity as a tourist destination, need for interisland travel, and a substantial military and government presence that requires frequent mainland service bolsters passenger demand and exceptional airport utilization relative to peer large hub airports

» Demonstrated track record of strong liquidity in excess of 600 days cash on hand

» Hybrid residual airline agreement provides for full recovery of debt service associated with new facilities

» Track record of executing substantial capital projects

Credit challenges

» Substantial CIP will materially leverage the airport in coming years

» Sluggish post-pandemic recovery of international travel

» Potential design and construction complexities associated with executing such a transformative capital plan

» The certificates of participation (COPs) add a layer of financing complexity that could bring additional risks

Rating outlook

The stable outlook reflects our expectation that the airport will maintain its healthy liquidity and satisfactory coverage levels through the outlook period while making progress on its capital program without meaningful unforeseen delays or expenses. The stable outlook also reflects our expectation that days cash on hand will remain above 600 days while coverage may taper incrementally in the coming years.

Factors that could lead to an upgrade

» Significant reduction in leverage that improves financial metrics

» Material economic diversification of service area that meaningfully reduces the system's exposure to tourism

Factors that could lead to a downgrade

» Material unforeseen costs associated with the capital program that sustains adjusted debt per O&D above $300

» Stabilization of days cash on hand below 600 days

» Decline in total DSCR to below 1.15x on a sustained basis

Key indicators

Exhibit 1

Hawaii (State of) Airport Enterprise
FY end June 30

	2019	2020	2021	2022	2023	2024
Total Enplanements ('000)	18,727	14,392	6,069	15,808	19,505	19,220
Airline Payments per Enplanement (x)	9.77	11.19	23.80	11.67	10.95	16.04
Adjusted Debt Per O&D Enplanement ($)	115	149	406	166	129	121
Total Coverage By Net Revenues (x)	1.45	1.27	1.59	2.52	1.81	1.73
Total Coverage (Bond Ordinance) (x)	1.73	1.40	1.84	2.93	2.20	2.10
Days Cash on Hand	858	795	697	898	829	648

Based on Moody's standard adjustments
Source: Moody's Ratings

Profile

The Hawaii Department of Transportation (DOT) operates and maintains 15 airports at various locations within the state and served 18.7 million enplaned passengers in FY 2019, or pre-COVID. The system served 19.5 million enplaned passengers in FY 2023. The DOT is one of 18 principal executive departments of the state and is empowered to establish, maintain and operate the transportation facilities of the state, including highways, airports, harbors and other transportation facilities. The DOT is headed by the director, who is appointed by the governor and confirmed by the state senate. The governor also appoints a deputy director of transportation of Administration. The director and deputy directors of transportation of Administration serve four-year terms conterminous with the governor's term. The director also appoints three other deputy directors of transportation of Airports, Highways and Harbors.

Through the Airports Division all state airports are operated as a single integrated system for management and financial purposes. Virtually all non-military passenger traffic throughout Hawaii passes through the airport system, which includes five primary airports and ten secondary airports. The primary airports are Honolulu (on the Island of Oahu, HNL), Kahului (on the Island of Maui, OGG), Hilo International and Kona International (both on the Island of Hawaii), and Lihue (on the Island of Kauai).

Detailed credit considerations

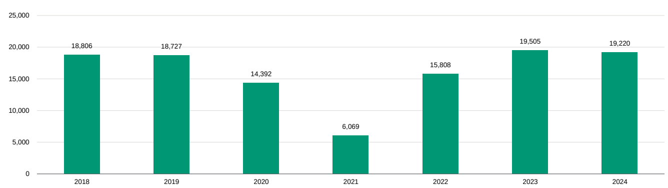
Revenue Generating Base: passenger traffic slightly above pre-pandemic levels

We expect Hawaii's status as a premiere tourism destination will continue to support significant demand for travel to the islands. Hawaii's durability as a global visiting location offsets the state's somewhat sluggish long-term economic and demographic growth prospects highlighted by out migration, aging population and below average labor force participation.

The system's traffic recovery has been healthy and surpassed pre-pandemic levels in FY 2023 and FY 2024 despite continued low levels of international travel. The airport system ended FY 2024 with 19.2 million enplanements, representing 103% of FY 2019 levels. Enplanements in FY 2025 are expected to be roughly unchanged from FY 2024. The recovery is being buoyed by healthy domestic demand from both overseas and interisland travelers. The overall activity level is strong relative to international traffic, which accounted for a significant 17% of total enplanements in FY 2019 and has yet to fully recover.

Exhibit 2

Enplanements in FY 2024 were 4% above FY 2019 levels

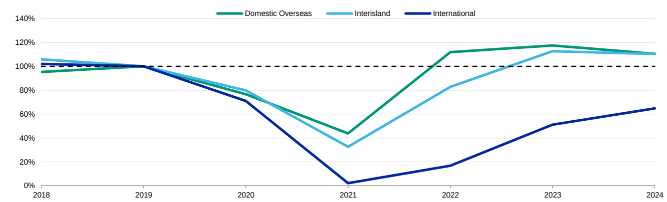


Source: Hawaii Airports System, Moody's Ratings

Exhibit 3

International traffic has yet to fully recover

Passenger segments compared to FY 2019



Source: Hawaii Airports System, Moody's Ratings

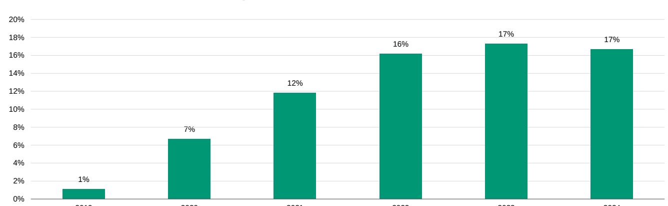
The entry by Southwest Airlines (Baa1 negative) into the Hawaiian market, initiated in late calendar 2019, has been positive. Southwest has significantly expanded overseas and inter-island service, promoting fare competition, stimulating demand and bolstering enplanement levels (Exhibit 2).

In fall 2024 Alaska Airlines announced its acquisition of Hawaiian Airlines. With the acquisition Alaska will account for over 50% of enplanement traffic at Hawaii Airports, which is above average and a modest credit weakness. For the foreseeable future both brands will continue service to the islands without planned service changes but will begin consolidating operations in the coming years, primarily in the form of centralized ticketing and baggage handling.

Exhibit 4

Southwest now represents about 17% of enplanements

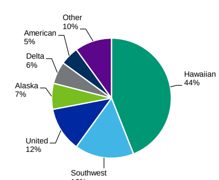
Southwest as % of total enplanements



Source: Hawaii Airports System, Moody's Ratings

Exhibit 5

With the merger Hawaiian and Alaska will comprise 51% of enplanements



Source: Hawaii Airports System, Moody's Ratings

Hybrid residual airline agreement provides protection

The airport system operates with a residual rate-making methodology for the airport terminal and airfield activities, while ground transportation and some other non-aeronautical revenues operate on a compensatory, or demand risk, methodology. Most of the planned capital projects that will be funded through revenue bonds will be allocated to the residual cost centers, providing for full rate recovery. The airline agreement that established the rate making methodology currently has no expiration date, but we do not expect any key changes to the framework in a new agreement given the comparatively low level of airline costs and steady demand for service at the system.

Financial Operations and Position: sound financial positon underpinned by strong cost recovery framework

The system's favorable hybrid-residual cost framework, sound DSCR levels, and strong liquidity will support Hawaii Airports' solid financial position moving forward despite the airport's sizeable anticipated debt issuances. With multiple debt issuances forecast through fiscal 2030 debt service will increase and cash will decline modestly from currently high levels, but our projections show total Moody's-adjusted DSCR remaining above 1.2x even in conservative scenarios and cash remaining above 600 DCOH through 2031. The lower level of DSCR is balanced by the lower risk of cost recovery due to more of the required debt service being allocated to the residual cost centers.

With the capital investments added to the airline cost base, CPE will increase from $16 (in FY 2024) to gradually increase above $25 in FY 2030 if additional debt is issued as expected and the system's enplanement trend continues.

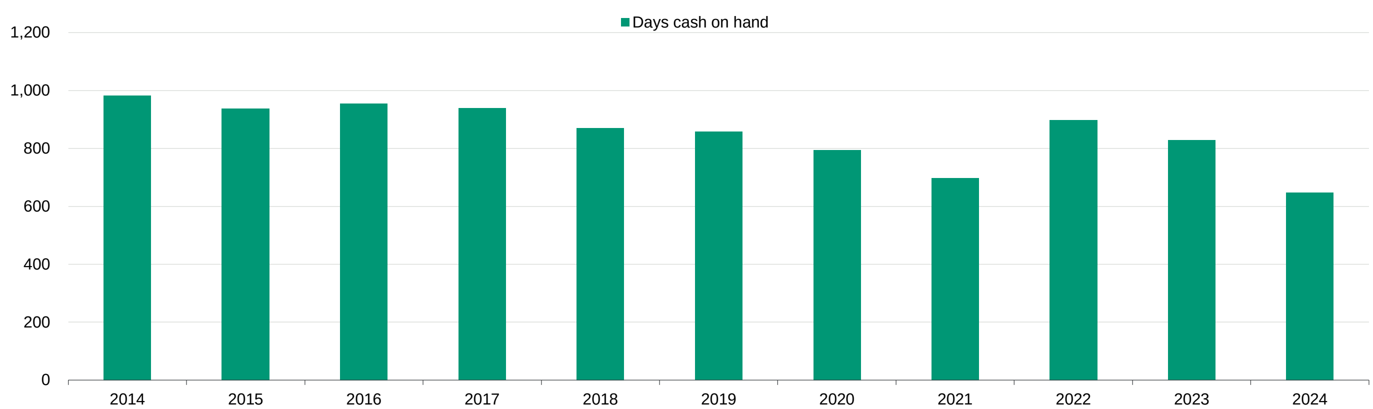
In fiscal 2024 the airport had 648 days cash on hand and Moody's-adjusted net revenue DSCR of 1.8 times. We expect senior and total DSCRs will moderate toward 1.2x through 2030 as debt service increases to support the airport's capital plan.

Liquidity

The system has historically maintained strong liquidity, with above 600 DCOH since fiscal 2019 and we expect this high level of cash to sustain.

Exhibit 6

Consistent maintenance of strong liquidity position



Source: Hawaii Airports System, Moody's Ratings

For FY 2024, the system had about 648 days cash on hand, comprised of the following:

» $601 million of unrestricted cash

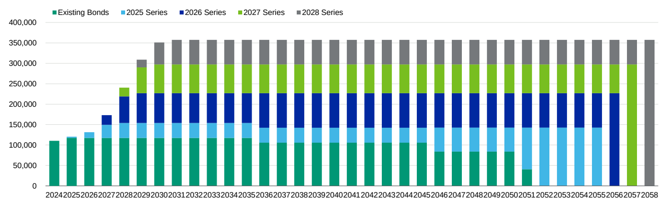
» $141 million in the O&M Reserve

» $29 million in the Funded Coverage Account

Debt and Other Liabilities: leverage to increase considerably with future debt issuance; in line with other large O&D airports

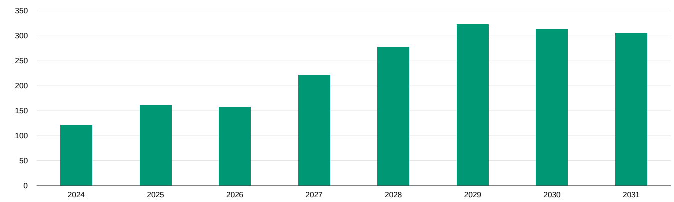
We expect adjusted debt per O&D enplanement will increase considerably from the currently modest $133 to upwards of $320 in 2029 before metrics ease with amortization and gradual enplanement growth. The additional leverage is substantial, but not inconsistent with other large O&D airports that undertake sizeable transformational capital plans. The sharp increase from the system's current position incorporates conservative assumptions around the sizing and sequencing of debt issuances and considers $1-$1.2 billion in issuances annually in 2027, 2028, and 2029. The precise amount and sequencing of the issuances will depend largely on the progress of the airport's approved base CIP and concurrence from the airport's signatory airlines to incorporate additional potential projects.

Exhibit 7
Future debt service assuming annual issuances



Source: Hawaii Airports System, Moody's Ratings

Exhibit 8
Debt per O&D Enplanement



Source: Hawaii Airports System, Moody's Ratings

Transformative multi-airport capital program
The system's recently updated FY 2025-2031 CIP includes a comprehensive plan to update and expand infrastructure across all of its airports statewide. The upgrades range widely and include renovations to runway infrastructure, terminal renovations and security enhancements with the largest project scheduled to be the Diamond Head Extension project at HNL with an estimated potential cost of up to $1.1 billion. The CIP requires concurrence from signatory airlines and to date only the first $1.8 billion in Base CIP has been approved with up to an additional $2.0 billion in capital projects subject to airline approval. Our baseline scenario assumes almost entirely bond financing of both the Base CIP and the $2.0 billion in potential capital projects through 2029, although uncertainty remains around the size and sequencing of future debt. The design, construction, and execution of such a multi-faceted capital program represents a risk to the airport, but positively it has a demonstrated track record of delivering large capital plans with $3.1 billion in capital investment completed since 2014.

Legal security
Senior lien bonds are secured by a pledge on net revenues of the airport system and aviation fuel tax revenues. The rate covenant is 125% senior debt service and 100% total debt service with unlimited rolling coverage. The senior lien bonds have an additional bonds test (ABT) that requires revenues plus rolling coverage equal to 125% of maximum annual debt service (MADS) or that the rate covenant has been met and will be met, including additional bonds, to the later of 5 years after issuance or 3 years beyond the use of capitalized interest. The bonds also have a debt service reserve that is sized at the lesser of the three-prong test and is fully cash funded.

The COPs are secured by a proportionate interest in the rights of the lease agreement, including the lease agreement payments made by the airport system as a junior obligation to the lessor, Johnson Controls, Inc. JCI has assigned its rights as lessor, including the right to receive rent payments, to the trustee for payment of debt service of the COPs. The airport system's obligation to make payments under the lease agreement from year to year is subject to annual appropriation by the State of Hawaii under a separate line item for capital leases in the department's budget. The payments are treated as “other lawful purposes” of the airport's system.

If the state fails to appropriate the lease payment, the contract can be terminated at the end of the fiscal year for which money has been appropriated and the holders of the certificates would gain recourse to the equipment. Moody's believes this equipment would have little to no value outside of its use with the airport system, but its removal would be significantly detrimental to the operations of the airport system.

Debt structure
All of the airport's debt is fixed-rate and amortizing.

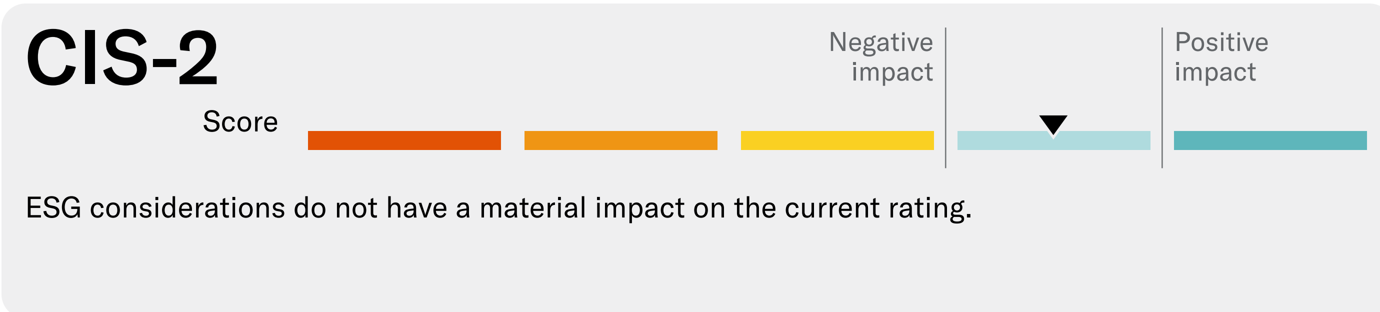
Debt-related derivatives
None.

Pensions and OPEB
For FY 2023, based on Moody's standard adjustments to reported pension data, we calculate a Moody's Adjusted Net Pension Liability of $309 million.

ESG considerations

Hawaii (State of) Airport Enterprise's ESG credit impact score is CIS-2

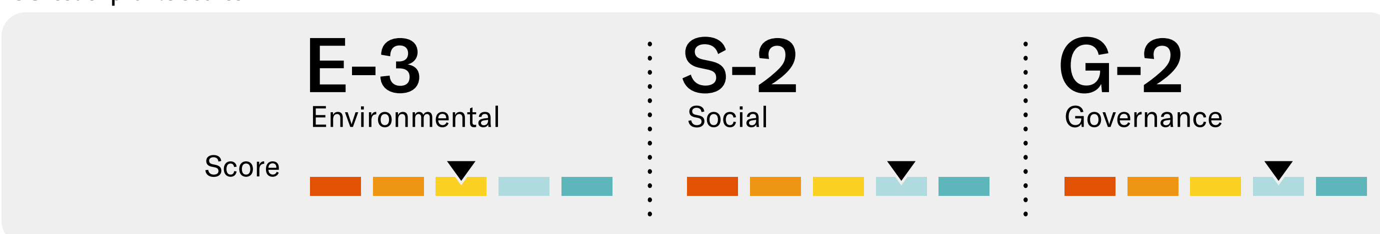
Exhibit 9
ESG credit impact score



Source: Moody's Ratings

Hawaii Airport Enterprise, HI's ESG credit impact score of **CIS-2** indicates that ESG considerations are not material to the rating. The score reflects the airport's moderate environmental risk and low social and governance risks.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

E-3. The system is exposed to physical climate risks related primarily to sea level rise, heat stress and an increase in the frequency and severity of tropical storms. As the only U.S. state comprised entirely of islands, Hawaii faces the highest sea-level rise risks among all 50 states, and several of system's assets are located on or near the coast. Additional environmental risk exposure is consistent with risks across the airport sector, with has moderate exposure to carbon transition risk from evolving decarbonization policies; regulations that may increase operating costs for airlines and result in higher airfares that reduce the demand for air travel. Further, the desire by some customer segments to reduce carbon emissions may lead to reduced travel. Our consideration is balanced by neutral-to-low risk for water management, natural capital and waste and pollution.

Social

S-2. Exposure is low to social risk. Levels of social risk related to the linkage between carbon transition and demographic and societal policies to be lower in the US/Canada than in other regions given the geographically dispersed nature of the country and the lack of viable rail alternatives.

Governance

G-2. Exposure to governance risk is low. Federal Aviation Administration regulation of US airports tightly restricts the use of funds generated at US airports to aviation purposes and essentially eliminates the possibility that a municipal owner could extract value from the airport at the expense of bondholders. The airport system is under the Hawaii Department of Transportation, which is responsible for the transportation facilities of the state, including highways, airports, harbors and other transportation facilities. The department is headed by the director, who is appointed by the governor and confirmed by the state senate.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published on March 6, 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The assigned Aa3 rating on the senior lien airport revenue bonds is one notch higher than the scorecard indicated outcome and reflects our forward-looking view of the credit including gradually improving passenger volumes, increased leverage, and modestly growing service area.

Exhibit 11

Publicly Managed Airports and Related Issuers Scorecard
As of FY 2023

Regional Position:	**Regional**		
Rate Making Framework:	Residual		
Factor	**Subfactor**	**Score**	**Metric**
1. Market Position	a) Size of Service Area (millions)	A	1.4
	b) Economic Strength and Diversity of Service Area	A	
	c) Competition for Travel	Aaa	
2. Service Offering	a) Total Enplanements (millions)	Aaa	19.2
	b) Stability of Traffic Performance	A	
	c) Stability of Costs	Baa	
	d) Carrier Base (Primary Carrier as % of Total Enplanements)	Baa	51%
3. Leverage and Coverage	a) Net Revenue Debt Service Coverage	A	1.7x
	b) Debt + ANPL (in USD) per O&D Enplaned Passenger	Ba	$162
		Metric	**Notch**
4. Liquidity	Days Cash on Hand	829	1.0
5. Connecting Traffic	O&D Traffic	88%	0.0
6. Potential for Increased Leverage			-0.5
7. Debt Service Reserves			0.0
Scorecard Indicated Outcome:		**A1**	

Source: Moody's Ratings

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EMEA	44-20-7772-5454