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## **DBRS Confirms BC Ferries at A (low); Trend Remains Positive Despite Lower Traffic**

**Bloomberg: DBRS Confirms BC Ferries at A (low)**

**Industry Group: Infrastructure Finance**

**Sub-Industry: Public Finance**

DBRS has today confirmed the long-term rating of British Columbia Ferry Services Inc. (BC Ferries or the Company) at A (low). Operating results remain sound, the capital program is progressing as planned and the operating framework continues to evolve favourably, although traffic has been hard hit in recent months by high fuel prices and weak economic conditions. As a result, DBRS has maintained the Positive trend in recognition of the Company's strong profile but will defer any consideration for a potential upgrade until traffic stabilizes.

Fare increases, prudent expenditure management and solid growth in retail activities led to a 17.4% increase in EBITDA in 2007-08, amidst modest traffic growth. As expected, debt jumped by 13.5% to \$1 billion on continued large capital investments, although solid results helped maintain interest coverage at a sound level of 3.3 times. The fiscal year also saw some positive developments in the operating environment. These include an automatic adjustment mechanism for fuel surcharges, replacing the former Commissioner approval process, as well as more favourable price caps for the second performance term, which started on April 1, 2008. However, the record-high fuel prices encountered earlier this year and rapidly weakening economic fundamentals have led to a material deterioration in ridership. Three months of the current fiscal year (at June 30, 2008), passenger and vehicle traffic was down 2.3% and 1.7%, and recent indications suggest that traffic continues to soften. DBRS notes that ferry traffic has exhibited reasonable resilience in past downturns, but the rapidity with which traffic has lost its momentum this year is somewhat surprising. Falling fuel prices, combined with provincial subsidies to reduce tariffs during the slow months of December and January, will provide partial relief. Furthermore, tight cost control and fare increases (7.3% on major routes and 4.0% on other routes) implemented on April 1, 2008, should keep results on fairly solid ground this year. Nonetheless, the unfolding global downturn will likely keep traffic weak through 2009 and maintain a degree of uncertainty in the traffic outlook for some time.

Debt is set to post another solid increase this year, but is projected to stabilize thereafter as large capital projects wind down. Despite economic turbulence, healthy cash flow generation



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is expected by DBRS to keep interest coverage around two times, providing BC Ferries with reasonable financial flexibility.

**Note:**

All figures are in Canadian dollars unless otherwise noted.

<u>Issuer</u>	<u>Debt Rated</u>	<u>Rating Action</u>	<u>Rating</u>	<u>Trend</u>
British Columbia Ferry Services Inc.	Senior Secured Bonds	Confirmed	A (low)	Positive

The full report providing additional analytical detail is available by clicking on the link below or by contacting us at [info@dbrs.com](mailto:info@dbrs.com).

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