SOUTH PORT NEW ZEALAND LIMITED

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South Port half-year highlights diversity

South Port New Zealand Ltd has followed up its excellent 2019 performance with a steady result for the first six months of FY2020 ending 31 December 2019; recording a net profit after tax of $4.6 million consistent with the previous corresponding period in FY2019.

Considering recent market conditions South Port Chairman, Rex Chapman, says it is a pleasing start to the financial year.

"Bulk cargoes, particularly logs and fertiliser came under pressure due to market conditions and inclement weather patterns respectively," he says.

"This was balanced out by a strong performance in the cold storage operation as a result of recent capital investments allowing an increase to blast freezing capacity."

The key factors related to the interim result include:

- Particularly wet conditions in the southern region that resulted in lower than expected volumes of inbound fertiliser being received in the first six months.
- High log prices in China led to an oversupply of softwood into this market. This has now been exacerbated as a result of the bark beetle infestation in Europe pushing large volumes of Spruce logs into this market. These two factors have seen a reduction of log exports through the Port.
- The installation of a new blast freezer has improved the efficiency and capacity of this operation which has allowed the introduction of new customers.

Outlook

The Chief Executive said, "The recent outbreak of the Coronavirus has sent ripples through the international marketplace, impacting tourism and trade. There is a fair amount of uncertainty as to the level of impact however the Port will notify shareholders should there be any material changes in the coming months."

South Port has again provided an outlook including the Company's year-end NPAT forecast range.

Mr Chapman says, "Weather and offshore market conditions are two variables that regularly have an impact on the trade volumes through the Port and this year is no exception.

"The continuing wet conditions leading up to Christmas impacted fertiliser imports and although these are recovering we do not expect to recoup the total volume lost.

"The log trade has also been difficult and expectations are that this trend will continue for the remainder of the year.

"Our expectations are that all other cargoes will track close to budget with potential upside in both containers and cold storage activities although the recent flood event in rural Southland and Otago may impact volumes."

Based on all known factors at the date of releasing its 2020 interim result, South Port estimates that its full year earnings should fall in the range of $8.20 million to $8.70 million (FY2019 - $9.79 million).

Dividend

After assessing the anticipated year end result, South Port Directors have declared a fully imputed interim dividend of 7.50 cents per share (2019 – 7.50 cents) payable on 4 March 2020. In the event that the Company's FY2020 year-end profit falls within the forecast range then they are confident that the full year dividend payment will be consistent with the previous year.

Cargo Spread

South Port's results continue to underscore the importance of the Port's diversified trades and pivotal position in the Southern Region.

"Total cargo activity was 1,687,000 tonnes compared with 1,772,000 tonnes in the prior year interim period, a reduction in cargo flows of 85,000 tonnes or less than 5%," says South Port Chief Executive, Nigel Gear.

"However, while some bulk cargoes were negatively impacted by climatic and demand changes such as fertiliser (-51,000 tonnes) and logs (-84,000 tonnes) there were other positive movements which included increases in petroleum products (+13,000 tonnes) and alumina (+20,000 tonnes)."

Recent Capital Expenditure

"The benefits of the recent capital expenditure on the cold stores load-in/load-out area and the installation of a new blast freezer are now being realised. Increased efficiency, safety and capacity have allowed the Port to increase throughput and introduce more customers to our blast freezing facility. This is consistent with our purpose which is to facilitate the best logistic solutions for the Southern Region."

"A container terminal expansion was successfully completed in December 2019 at an investment cost of $1.2 million. This expansion was undertaken to alleviate some of the stress caused by the 25% growth in volumes experienced in FY2019."

"Containerised cargo increased 7% to 21,000 TEU. This improvement was due to a number of cargo categories increasing which is a pleasing result," said Mr Gear.

"The Company achieved a milestone of 50,000 TEU in the calendar year which was a strategic goal set five years ago at the time of the purchase of the second crane."

Commenting on the completion by Open Country Dairy (OCD) of their new 8,000 m^2 warehouse located at Awarua, Mr Gear notes, "This warehouse will store ingredient products and will also provide capacity for export product to settle before being transported to the Port for packing and export."

The change means that the existing South Port owned warehouse on the Port at Bluff, where OCD ingredients are currently stored, will now be marketed to other potential customers.

In respect to the well-known cost issues related to the operations of the New Zealand Aluminum Smelter (NZAS), Mr Gear says, “Since 2008 NZAS has paid close to $200 million of increased transmission pricing costs, most of which is used for upgrades in the North Island (currently pay between $65 million and $70 million annually).

“This pricing regime needs to be addressed by the Electricity Authority now to allow NZAS to become internationally competitive once again and remain an important part of the Southland landscape.”

An update on the strategic review of NZAS is expected at the end of the first quarter 2020.

Natural gas exploration resumed in the Great South Basin when OMV began drilling an exploratory well in early January. Mr Gear says, “This operation takes approximately 40 to 50 days therefore all support services are being run out of their existing base in Taranaki. Should OMV be successful in their search for natural gas then South Port is well positioned to be involved in supporting the next stages of the development.”

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