SOUTH PORT NEW ZEALAND LIMITED

NZX Announcement and Media Release

SOUTH PORT FULL YEAR 2019 RESULTS
For Release following the 29 August 2019 Board Meeting

29 August 2019

Rising trades carry South Port to record year

A steady level of bulk cargo and increased container activity were key contributors to another record year for South Port New Zealand Limited in the period ending 30 June 2019.

A 2% increase in cargo flows confirmed the sustained strength of the southern New Zealand economy - total cargo volume was 3,521,000 tonnes (2018 - 3,445,000 tonnes) another record performance.

Reported after-tax profit of $9.79 million (2018 - $9.66 million) is a 1% increase on last year which South Port Chairman Rex Chapman said "is a pleasing result consistent with the June guidance that strong late season cargo flows would see South Port's result similar to last year's record."

"This result is certainly much better than we expected at the time of releasing the interim report in February, when earnings looked likely to fall within the range of $8.6 million to $8.9 million, as increased infrastructure expenditure continued to impact profit."

"The strong business activity had given us confidence to continue port developments such as the $1.7 million upgrade to the Island Harbour Cold Stores infrastructure, including the installation of a new blast freezing facility."

"The Board has confirmed a final dividend of 18.50 cents this year, thus maintaining a steady full year dividend of 26 cents."

CARGO GROWTH

Bulk cargo remained at 87% of all volumes imported or exported across South Port wharves.

South Port Chief Executive Nigel Gear said "for the second year running log cargoes reached 700,000 MT and combined with woodchips at 320,000 MT, forestry is now 34% of total bulk cargo volume handled at the Port.

Log prices in China recently dropped significantly due to an oversupply into this market.

Container traffic was the standout performer this year in the Company's trade statistics, increasing by 25% to 48,700 TEU (2018 – 39,100 TEU).

The Mediterranean Shipping Company's (MSC) Capricorn Container Service made 54 calls this year (2018 52 calls) averaging 900 TEU exchanges per call.

The change in port rotations and reduced transit times to market has resulted in a combination of increased full container exports being shipped and empty containers being recycled through the Port.

COLD STORAGE CAPEX

South Port’s warehousing operations performed above expectations this past season. The closure of the Foreshore Road cold storage complex and the consolidation of this activity on the Island Harbour enabled the business to focus all of its resources at the one location.

To enable this transfer, South Port undertook a $1.71 million capital expenditure project to modify the cargo receipt, container loadout areas and construct a new blast freezer.

“This resulted in a similar volume of containers being packed and loaded out from the one consolidated site versus the same being handled over the two facilities utilised last season, with a reduction in operating costs per tonne handled.

An impressive 50% increase in volumes were handled through the new blast freezer and provided options to a number of clients in the region,” said Mr Gear.

Increased dairy produce was also handled by the Open Country Dairy (OCD) warehousing operation. OCD intends to construct a third drier that will be operational for the 2020 / 2021 dairy season. Mr Gear said, “South Port will be working closely with OCD to ensure the necessary resources at the Port will be available to meet their requirements for this expansion.

New Zealand Aluminium Smelter (NZAS) continues as an important customer for South Port representing one third of the Port’s annual total cargo.

NZAS is currently facing some headwinds paying for higher electricity, raw materials and transmission costs ($334 million for transmission costs alone over the last five years), at a time when aluminium prices are at their lowest since early 2017.

Recently the Electricity Authority released its latest proposal for reforming the way transmission costs are allocated. This reform, if adopted, would see transmission costs reduced by $11 million per year for the smelter but would not take effect until 2024.

South Port continues to work closely with NZAS on opportunities to pack a variety of aluminium products into containers for export on MSC vessels and potentially opening up new markets for this customer.

The Intermodal Freight Centre (IFC) adjacent to the KiwiRail container transfer site at Invercargill processed increased volumes in its third year of operation.

“We’ve started to see a balancing of trade flows with exports of Medium Density Fibreboard for Daiken Southland Ltd being packed and transported to South Port for shipment complementing imported cargo being unpacked at this facility,” said Mr Gear.

The Marine department piloted 352 ship movements through the Port in addition to the 30 pilotage movements carried out in the Fiordland sounds. The recent growth in tonnage handled at South Port has translated to increased ship movements and busier wharves.

All sectors of the business were impacted with the exception of forestry where reduced ship calls reflect larger volumes of logs being loaded per visit.

Mr Gear said, “Cruise activity in Fiordland has increased in recent years with more than 100 vessels now calling each year. South Port has been working closely with Southland’s new regional development agency, Great South, and Cruise New Zealand to attract ship calls into Bluff.

Trade forecasts for the Port, with the exception of logs, remain steady, said Mr Chapman. “The forecasted farm-gate milk price for the coming season looks reasonably healthy which again bodes well for agricultural inputs that are shipped into the region annually.”

OUTLOOK

Based on all known factors, South Port estimates that earnings in the next financial year are likely to reduce by approximately 5%.

“Increased infrastructure expenditure will be a feature for coming years with the focus in the next twelve months being placed on the access bridge, wharves and electrical infrastructure.”

A review of the Port’s Asset Maintenance Plan will see R&M spend increase to ~$3.5 million in 2020 and near ~$4.0 million in 2021 compared with $2.1 million in 2018 and $2.8 million in 2019.

“This lower earnings profile and in the absence of any unforeseen circumstances, the Directors will endeavour to maintain the current level of dividend payment,” said Mr Chapman.

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