# SOUTH PORT NEW ZEALAND LIMITED

## NZX AND MEDIA RELEASE

## 18 AUGUST 2016

*SPN South Port New Zealand Limited*

## South Port sustains cargo growth trend

South Port New Zealand Limited has recorded its best ever financial performance which has seen the operator of the Port of Bluff surpass $8 million in net earnings and post a higher dividend.

“This past year has, for all its uncertainty, delivered a fourth consecutive improved result for South Port,” said the Chairman, Mr Rex Chapman.

“The Company has benefited from a diversified exposure to the expanding southern regional economy and the pleasing result has been driven by higher bulk cargo tonnages,” said Mr Chapman. “Support from the regional customer base and an excellent effort by the South Port team and port contractors has produced both a record cargo volume and tax paid profit for FY2016.”

“The Company has been able to convert rising trade volumes into bottom-line results by making incremental efficiency gains over recent years.”

“The year to June 2016 has produced several milestones,” he said. These include:

- A record net profit after tax of $8.71 million, up 13% on last year (2015: $7.74 million).

- Record revenue from port and warehousing operations of $36.7 million (2015: $34.6 million), an increase of 6%.

- Record volume of 3.05 million tonnes (2015: 2.86 million) an increase of 7%.

- Record dividend of 26.0 cents per share (2015: 24.0 cents).

Operating profit before financing costs and tax increased by 9% to $12.7 million ($11.7 million).

Net financing costs were $700,000 ($910,000). Based on the reported result, earnings per share were 33.2 cents per share (29.5 cents per share).

“The Directors regard this as a particularly strong result, considering that at the start of the year we had predicted a softening trend in cargo” said Mr Chapman.

“South Port has improved and continues to diversify the financial base of the business,” he said. Total equity is $35.6 million ($33.3 million) after allowing for dividend payments during the period of $6.43 million ($6.03 million). Total group assets stand at $53.0 million ($47.1 million). Net tangible asset backing per share equates to $1.36 ($1.27 per share).

Current assets amount to $5.6 million ($6.5 million), with current liabilities at $12.6 million ($5.1 million). Term liabilities total $4.8 million ($8.8 million). Property, plant and equipment stood at $47.4 million ($40.6 million).

**DIVIDENDS**

Considering both free cash flows (FCF) and reported profitability, the Board elected to pay a final dividend of 18.5 cents, thus lifting full year dividend to 26.0 cents, which is an increase of 8% on the prior year (2015 – 24.0 cents).

Full imputation credits will be attached to all distributions. The dividend payment represents a gross return of 7.8% (net 5.6%) based on a share price of $4.60 as at 30 June 2016. The 2016 dividend pay out ratio of 78% equates to 100% of FCF and is similar to the prior year pay out ratio of 81%.

**CARGO MILESTONE**

“Breaking the 3.0 million tonne cargo threshold is a significant milestone for the business and reflects a consistent period of growth since the 2009 year when cargo was 1.86 million tonnes,” said Chief Executive, Mr Mark O’Connor.

“To put the latest year’s volume in context, during the first half of the previous decade South Port’s cargo total remained within a range of 2.0 million to 2.1 million tonnes. Over the past ten years the Company’s freight volumes have climbed steadily, alongside a wider range of services being offered to the market.”

He said this overall improvement was surprising in the context of challenging market conditions for a number of primary industries.

“Bulk cargo activity was again a major influence on business, resulting in a 7% increase in cargo at 187,000 tonnes.”

The largest gains were made by logs, woodchips and dairy with most other cargoes showing good resilience to economic conditions.

“The cargo volume lift was achieved against the backdrop of a dairy industry that is being severely tested and a subdued sheep and beef sector,” said Mr O’Connor. However, Open Country Dairy increased warehouse activity and additional storage capacity is being provided for this customer in the coming season. Another regional entity, Mataura Valley Milk, plans to build a $200 million dairy processing plant in Eastern Southland to manufacture infant formula and UHT cream.

An improved profit contribution from cold storage was due to busy seasonal fishing activity and continuing cost containment.

“Container volumes remained relatively static at 35,100 TEU (35,800) as a result of weaker imports for the dairy sector – specifically of high-end stock food and fertiliser products.”

“However, additional use of tracking and planning technology within the containerised cargo operation delivered productivity gains.”

Construction of the Intermodal Freight Centre, completed at Invercargill this year and opened in mid-July as an import cargo facility, will see containerised cargo, sourced from various ports, relayed on rail for unpacking and uplift by truck much closer to end users.

“The venture will service freight forwarders plus transport operators and will function on a port-neutral basis. The cost of developing the site was approximately $4.5 million”.

“South Port has worked effectively with KiwiRail plus a range of customers and freight forwarders to deliver greater efficiency in the import supply chain,” said Mr O‘Connor. “This lift in visibility in the Invercargill freight environment is an important step by South Port and signals the intent to actively look at ways to increase the Company’s effectiveness in the wider supply chain and diversify the business”.

The marine division lifted service levels on the commissioning of the Te Matua tug with its 40 tonne pulling capacity. The tug has replaced the Monowai, a 28 tonne bollard pull tug constructed in 1972. A $2.5 million capital sum was outlaid on procurement, delivery costs and work to ensure the replacement tug was fit for purpose for operating in Bluff Harbour.

“Continued emphasis on Health & Safety performance saw regular engagement with port users, increased focus on traffic management and improved directional signage within Island Harbour,” said Mr O’Connor.

**OUTLOOK**

“Despite bearish predictions to the contrary, the New Zealand economy and key export destinations have remained resilient,” said Mr Chapman.

“This has assisted South Port to further grow its cargo base and support recent growth capital expenditure.”

“A current plus for exporters is the availability of depressed shipping freight rates which is due to surplus physical hardware and a mismatch between the number of shipping operators and the New Zealand freight profile. Until such time as capacity is removed from the market, these rates are likely to remain at historic low levels.”

A review and update of the Company's Asset Maintenance Plan (AMP) took place in the second half of FY2016. This five yearly process covers the Port's key infrastructural assets (Island Harbour wharves/Access Bridge/Town Wharf/Ferry Wharf and Stewart Island wharves) and is the second such review since the AMP was adopted in 2005. "This Plan has flagged an increasing repairs and maintenance requirement which will have a material impact on profitability over the coming 5-7 years," said Mr Chapman. Based on all known factors at the date of this release, South Port estimates that earnings in the next financial year are likely to reduce by approximately 15%.

A further update of the earnings outlook will be provided with the FY2017 interim result.

The Annual Meeting of South Port shareholders will be held on Thursday, 20 October 2016, Mr Philip Cory-Wright retires this year by rotation and being eligible offers himself for re-election. Mr Graham Heenan who is a long serving Director also retires by rotation but has elected not to offer himself for re-election. Mrs Clare Kearney, an Otago based professional Director is the sole nomination to replace Mr Heenan.

**FOR FURTHER INFORMATION PLEASE CONTACT**

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# South Port Facts

- Owns and manages assets which have a book value of $53 million
- Directly employs more than 120 full time equivalent staff
- Is the only Southland-based company listed on NZX – market capitalisation as at 30 June 2016 equated to $120 million
- Handles in excess of 3.0 million tonnes of cargo in a normal trading year
- Offers full container, break bulk and bulk cargo capability and services the following main cargoes:
  - ~ import – alumina, petroleum products, fertiliser, acid, stock food and cement
  - ~ export – aluminium, timber, logs, dairy, meat by-products, fish and woodchips
- Has split its land-based operating resource into four main divisions – dairy warehousing, containers, cool & cold storage and general cargo
- Undertakes its primary port operation on a 40 ha. man-made Island Harbour situated at Bluff
- Operates a separate dedicated fuel berth at Bluff Town Wharf plus provides the Tiwai Wharf facility to NZAS under a long term licence
- Owns and operates an off-port container packing/unpacking facility adjacent to the railhead at Mersey Street, Invercargill. The 8,000 $m^2$ site houses a 4,000 $m^2$ customs controlled and MPI transitional facility.
- Services vessels carrying approximately 1 million tonnes of cargo destined for movement across the Tiwai Wharf each year, of which 2/3 is raw material imports while 1/3 is finished aluminium product
- Has approximately 7 ha of on-port land available for further port development or industry establishment