SOUTH PORT NEW ZEALAND LIMITED

NZX Announcement and Media Release

SOUTH PORT FULL YEAR 2020 RESULTS
For Release following the 27 August 2020 Board Meeting

27 August 2020

South Port Year-end pleasing despite impacts of Covid-19

The results for the year ending 30 June 2020 for South Port New Zealand Limited (South Port) were pleasing but also reflect the unavoidable effects of the nationwide Alert Level 4 lockdown, including some unexpected offsets.

Trade volumes were impacted by a softening of international commodity markets, compounded by the domestic disruption due to the Covid-19 pandemic.

During the Alert Level 4 lockdown, the Port continued operating as an essential business. New processes and procedures were quickly adopted to ensure the Port's people were safe and able to continue in their work.

South Port Chief Executive, Nigel Gear said, "the business operated extremely well due to the hard work and dedication of the port team. Our core set of values, especially 'Safety First', served us well in making good decisions during this period."

Total cargo throughput was 3,269,000 tonnes, a 7.2% decrease on the prior year.

South Port Chairman, Rex Chapman said, "Like the rest of the country we were noticeably affected in April."

"Despite these impacts, the Company has reported an after-tax profit of $9.43 million, 3.6% below last year, which is still a very pleasing result overall and in line with our forecasts presented at the 2019 Annual Shareholders' Meeting in November last year."

Operating revenue for the year was 1.4% higher than FY19 at $44.6 million.

Total log volumes exported through Bluff were 33% down on FY19. Total container volumes fell 2% at 47,600 TEU (2019: 48,600 TEU).

Pre-tax operating profit was $13.35 million (2019: $13.71 million) and net profit after-tax for the year was $9.43 million ($9.79 million).

Earnings per share were $0.359 (2019: $0.373). Net tangible asset backing was $1.74 (2019: $1.64).

The Board's ongoing policy is to take into consideration both free cash flows and reported profits in determining the annual dividend. This year, the Directors also had regard to the uncertain economic outlook caused by the pandemic.

As a result, the Directors have determined to declare an unchanged final dividend for the year of 18.5 cents, which takes the full year's dividend to 26.0 cents (2019: 26.0 cents), with full imputation credits attached.

Mr Chapman said, "The full dividend payment represents a gross return of 5.2% (net 3.7%) based on a share price of $6.95 at 30 June. This means that South Port's dividend pay-out ratio will be 72% of reported net profit (and 79% of free cash flow)."

TIWAI POINT

The Port along with the Southland region has expressed concern over the potential closure in August 2021 of New Zealand's Aluminium Smelter (NZAS), which represents one-third of the Port's cargo base and ~18-20% of NPAT.

Since the announcement by Rio Tinto, Southland business and community leaders have together lobbied Government to work with Rio Tinto for an extension of the shutdown for at least a 4-5 year timeframe. This would allow for the planning and transition to new industries, and importantly preserving jobs and keeping skilled labour in the region.

Mr Chapman noted that NZAS contributes around $450 million annually to the NZ economy. He said, "NZAS is producing some of the lowest carbon aluminium in the world, using hydro electricity from the Manapouri Power Station supplied by a dedicated transmission network."

"The base fundamentals for the continued operation of NZAS are still very sound and it is important that the Government, electricity providers and Rio Tinto negotiate a sensible solution that will benefit not only Southland but the NZ economy. The Port will closely monitor the progress of negotiations."

TRADE IMPACT

Forestry was the main contributor to the decline in FY20 cargo with both logs and woodchips down on past seasons.

"Log volumes in particular were affected by an oversupply of Spruce logs into the China market as a result of a bark beetle infestation in Europe which accelerated the harvesting of that species," said Chief Executive, Nigel Gear.

"This was compounded during the lockdown when forestry cargoes were not considered an essential industry therefore log and woodchip exports (including containerised timber products) ceased during this period."

"Record volumes of bulk stock food products were imported due to a late season surge of shipments through the Port."

"These increases were partly attributed to Covid-19 restrictions that dictated a change in working conditions at the meat plants, slowing down the number of stock units being processed which was perceived to lead to a shortage of feed in the region."

BENEFITS OF DIVERSIFICATION

“While bulk cargoes are the backbone of the Company’s trade, the standouts this past financial year were the cold storage facility and the container activities, effectively making up for any bulk volumes lost through the Port,” said Mr Gear.

“The cold storage facility upgrade completed 18 months ago with extended load-in and load-out bays, increasing efficiency and improving safety. The new blast freezer continues to exceed our volume expectations.”

A $1 million expansion project for the container terminal area was completed and has provided much-needed additional space for the efficient storage and movement of containers. This has assisted with the planning of the depot and ship day operations in the container terminal. These efficiencies combined with the increased throughput of refrigerated cargo at the Port has been one of the highlights of FY20.

OUTLOOK

“Unknown variables could affect the Company in the coming year”, said Mr Chapman. “The continued impact of Covid-19 on international markets and the ongoing disruption from outbreaks of the virus within New Zealand are still a material risk going forward.”

“South Port is considered an essential industry and we expect that should the country return to higher alert levels in the future, all cargoes, including forestry, will continue to be handled through the Port.”

“Our customers indicate they have good visibility of sales to the end of the third quarter (October 2020); however, beyond this timeframe there is some uncertainty.”

Based on presently known factors, South Port is expecting FY21 earnings to be down ~2% and the Company will endeavour to maintain dividends at the current level.

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