SOUTH PORT NEW ZEALAND LIMITED

27 August 2021

<u>NZX Announcement and Media Release</u>

SOUTH PORT NEW ZEALAND LIMITED (NZX SPN)
FULL YEAR 2021 RESULTS

Highlights Full Year ending 30 June 2021:

- Reported net profit after tax (NPAT) $10.71 million (+13.6%)
- Operating Revenue $47.33 million (+6.0%)
- Cargo 3.45 million tonnes (+5.5%)
- Final dividend 19.5 cents per share

Cargo surge and hard work lifts South Port

South Port New Zealand Limited (South Port) has achieved a record after-tax profit of $10.71 million for the year ended 30 June 2021, which is a 13.6% increase on the $9.43 million recorded in 2020. This result is slightly ahead of the guidance provided in the Company's 2021 Interim Report, released on 8 March.

"This is an extremely pleasing result in a sector that continues to face the ongoing challenges presented by Covid-19," said South Port Chairman, Rex Chapman.

Total cargo increased 5.5% to 3,450,000 tonnes (2020 - 3,270,000 tonnes).

"The level of profitability this year again reflects the Port's productivity and diversified cargo mix," said Mr Chapman.

Operating revenue for the year was $47.33 million (FY20: $44.61 million).

Pre-tax operating profit was $14.68 million (FY20: $13.35 million).

Earnings per share were $0.408 (FY20: $0.359). Net tangible asset backing was $1.89 (FY20: $1.74).

In setting the annual dividend, the Board takes into consideration both free cash flows and reported profit. A higher than forecast profit this year has resulted in a decision to lift this year's final dividend to 19.5 cents per share (FY20 18.5cps). This results in a full year dividend of 27 cents per share, a 4% increase on last year. Full imputation credits will be attached to all distributions.

The dividend payment represents a gross return of 4.4% (net 3.2%), based on a share price of $8.48 as at 30 June 2021. This results in a dividend pay-out ratio of 66% for 2021 (using reported NPAT) and equates to 63% of FCF.

After the challenges of Covid-19 in the second half of 2020, Mr Chapman noted the financial benefits of a quick resumption in key trading activities.

“Safety continues to be our highest priority on port ahead of both productivity and profit,” said South Port Chief Executive Nigel Gear. “This past year the performance of the team has again been up to a high safety standard. This is a tribute to the hard work and buy-in of all staff.”

TRADE

Bulk cargo volumes improved by 5.9% with container numbers also increasing by an impressive 13.3% on the previous financial year.

The two major influencing factors on bulk cargo were a 54% increase in logs and a 19% increase in woodchips handled through the Port, in comparison to the previous period.

These increases came on the back of lower cargo volumes being exported through the Port in 2020 due to the Covid-19 Alert Level 4 lockdown.

“Nevertheless, our total log exports of 730,000 tonnes is a record for this cargo, during a period of high demand for wood fibre worldwide and, in particular, for New Zealand grown Radiata in China.”

“A record 53,750 TEU were handled through the Port, which is pleasing considering we experienced an 8% reduction in container vessel calls.”

“The container supply chain worldwide is heavily congested due to the Covid-19 pandemic,” said Mr Gear.

“Several factors are in play, empty containers are stranded across the globe, there is a shortage of labour supply due to both increased demand for goods and Covid-19.”

“Demand is extremely high due to international travel being put on hold for the foreseeable future resulting in disposable incomes being spent on household goods and home construction and renovation.”

Freight rates obtained by major shipping lines on the ‘East West’ trade lanes are far exceeding the returns being achieved on the ‘North South’ routes which is another major impediment to service reliability in New Zealand.

“These factors have resulted in irregular vessel calls to the Port creating periods of heavy congestion in the container terminal and at times a shortage in container supply.”

“It is expected that these current challenges in the supply chain will not change for at least the next 18 months.”

“The warehousing operations continue to play an important role in the Port supply chain supporting the Mediterranean Shipping Company (MSC), Capricorn Service, calling at the Port on a weekly basis.”

“Dairy volumes increased 33% through the Port due to the construction and commissioning of Open Country Dairy’s third dryer at Awarua.”

“Refrigerated products increased by 20% through the Port with the majority of this volume being handled at our cold storage facility.”

Volumes continue to grow through the Intermodal Freight Centre. This facility provides an important competitive option for our clients in Southland.

COVID-19

“Covid-19 continues to impact all aspects of our work and livelihoods and has continued to require operational vigilance.”

“All of our front-line staff have been vaccinated, follow strict protocols and wear the appropriate PPE when operating in this environment.”

“Although the Covid event related to the container vessel Mattina in mid-July has caused some disruption to the Port, we are very proud of the way the team handled the situation. Our processes established for this scenario worked extremely well. The safety of our staff, the wider community and the crew members on board the vessel was ensured. Our port operations continued with minimal impact.”

NEW ZEALAND’S ALUMINIUM SMELTER (NZAS)

On 14 January, NZAS announced a new four-year electricity contract with Meridian Energy to December 2024.

“This positive announcement was a welcome relief for the region that is highly reliant on this business for employment and economic activity,” said Mr Gear.

NZAS represents 30% of South Port’s cargo throughput and approximately 20% of net profit (excluding the licence fee). Should NZAS close, South Port has a Licence Agreement in place with NZAS until 2043 for the use of the Tiwai Wharf and the associated causeway in consideration for which South Port receives an annual licence fee.

“April 2021 marked 50 years of the NZAS operation at Tiwai Point, during which time the two companies have enjoyed an excellent working relationship.”

“Although there is the potential that the Smelter may close in December 2024, South Port would hope that NZAS, which produces the highest purity ‘green’ aluminium in the world (using hydroelectricity), will continue to operate past this date and into the future,” said Mr Gear.

Just Transitions, a division of MBIE is currently engaging with the Southland community on how the province should transition from NZAS to new industry after December 2024 (should the Smelter close).

“This process is important for the province as it is crucial that the electricity produced in Southland remains in the region to help develop new industry and to grow the local economy.”

“Two emerging opportunities are the current investigations into ‘Open Water Aquaculture’ (developed out of the Southland Regional Development Strategy [SoRDS]) and the opportunity of introducing large scale ‘Green Hydrogen’ production.”

INFRASTRUCTURE

2021 represents a significant milestone for South Port which is now at the peak expenditure point in the current Asset Management Plan (AMP) established in 2016 and forecast out for 20 years to 2036.

“The higher expenditure levels incurred over the past four years have been planned to coincide with increased cargo throughput to help manage costs and maintain returns to our shareholders.”

Although we reached our peak maintenance expenditure in FY2021 the port is now embarking on a significant capital expenditure programme to provide a platform for future growth and the expectation of additional revenue.

The Port will soon take delivery of a new $10M, 65 tonne bollard pull Azimuth Tractor Drive (ATD) tug, named ‘Rakiwai’, from Damen Song Shipyard in Vietnam.

Channel Improvement Project

The Company is currently working through the consent process to deepen the Bluff Port channel, swinging basin and berth pockets from 9.7 metres to 10.7 metres. This is a complex process which involves extensive consultation with stakeholders.

Provided the consent can be processed in the coming 12 months, the project will commence in early 2023. The estimated cost of this project will be in the vicinity of $15M to $20M.

OUTLOOK

Mr Chapman said, “for the coming 12 months we do not envisage that market fundamentals will change significantly. We expect that the container supply chain will not improve for the next 18 months, which will have an impact on this sector of the business.”

"Bulk cargoes, however, are expected to be consistent and remain the backbone of the Company's business."

"Peak maintenance expenditure was achieved in FY2021, and the port is now embarking on a capital expenditure programme that will provide for future growth."

"The Southland region is working hard to establish new industry in aquaculture and potentially green hydrogen, in both of which the Port will have a significant role to play in the future."

South Port estimates that earnings in FY22 are likely to remain consistent with FY21 reported earnings.

"On the basis of this consistent earnings profile and in the absence of any unforeseen circumstances, the Directors will be endeavouring to maintain the increased level of dividend for the FY22 year."

ENDS

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