Company: Napier Port Holdings Limited
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Start of Transcript

Operator: Thank you for standing by and welcome to the Napier Port Holdings Limited 2019 Annual Results Conference Call. All participants are in a listen-only mode. There will be a presentation, followed by a question and answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad.

I would now like to hand the conference over to Mr Kristen Lie, Napier Port Chief Financial Officer. Please go ahead.

Kristen Lie: Welcome, everybody, to the Napier Port Holdings 2019 Annual Results Call. My name is Kristen Lie, Chief Financial Officer, Napier Port and I'm joined on the call this morning by Todd Dawson, Chief Executive and Alasdair MacLeod, the Chairman of the Board of Directors of Napier Port.

During this presentation, we will be referencing the investor presentation included within the suite of information released earlier today on the NZX reporting platform and also available in the investor centre section of our website.

Our intention this morning is to walk through our presentation to report on highlights of our 2019 financial year, including some more detailed analysis of our financial results and then at the end of our presentation, we will open up the line and will be happy to respond to any questions you may have.

I will now hand over to Alasdair to get things underway.

Alasdair MacLeod: Thanks, Kristen. I'd like to add to Kristen's welcome to [unclear] on the call for our annual results 2019 presentation.

2019 has been a year of significant change and significant progress. The board and I welcomed the over 9,000 new shareholders of the Group, including 97% of all employees. Napier Port is a key regional long-term infrastructure asset with a purpose to help build a thriving region by connecting the region to the world's markets. Napier Port provides direct routes to global markets for the region's high-value export cargo and provides efficient access for import products to feed the regional and national economy.

The financial results we have reported today show that we've made a good start as a publicly-listed company. Whilst headline net profit has substantially decreased compared to 2018, the result is in line with forecasts and as a result for capital restructuring and listing on the NZX and today, we are ready and capitalised to embark on our centrepiece development project, 6 Wharf, which has been in the making for several years.

We are looking forward to breaking dirt on this project as we position ourselves to deal with the cargo growth that we are already experiencing.

With the IPO behind us, we have the balance sheet in place to get started.

Outlook looking forward, we will be looking forward to delivering our business plan and developing our sustainability strategy in line with the UN Sustainable Development Goals, which we will use to guide a response to global issues, help improve our focus on diversity and enhance environmental outcomes. I am now going to hand over to our Chief Executive, Todd Dawson, who will take us through the highlights of the year's results. Todd.

Todd Dawson: Thank you, Alasdair. So this year Napier Port presented the opportunity to investors to gain a share in our port and during the IPO, we spoke about some of the key strengths and features of our port and our business and we still feel it makes our business a very attractive proposition to investors and I think it's worthwhile just recapping on a few of those. These key features will continue to forward our future strategy and I think are really relevant for investors to just refresh their memories on.

So just to start off that line of thought, Napier Port, we are an essential regional infrastructure asset and by connecting Hawke's Bay and Central New Zealand to global markets, we are an active participant in driving regional prosperity.

The Hawke's Bay region is experiencing very strong growth and it's supported by international demand for its diverse range of exports. We also have very strong key customer relationships that see the port embedded as an essential supply chain partner. We retain a very diversified trade portfolio and the port handles a diversified mix of export and import products including logs and forestry products, pipfruit, oil products and fertiliser, which are shipped to and from over 110 countries globally and we are well-positioned for future cargo and the visibility of that cargo, as well as having fully-consented development plans for the construction of our 6 Wharf and other infrastructure investments that we have planned.

Strong historical financial performance and a record of execution on growth which has been very beneficial for our previous shareholders, seeing the average revenue growth over the last four years of over 11% and consistent delivery of EBITDA margins of over 40%.

We also have a very strong and experienced management team with extensive commercial and infrastructure expertise and a broad depth of senior leadership experience in New Zealand and overseas. We also enjoy very strong relationships with key stakeholders and the local community.

Moving on to the next slide. At Napier Port, we have had a very busy and productive year having achieved many of the goals and targets we set for ourselves in FY19. Some of the main and key highlights have been a very strong operating result with continued growth across all our major trades, continuing buoyant local economy and rural sectors seeing continued investment in the Hawke's Bay, despite concerns of global trade headwinds and some of the recent pricing fluctuations in the forestry and fibre sector.

We have new infrastructure, plant and equipment that's gone in and that is boosting operational capability and resilience at the port. We have added additional experience into the senior management team which is driving our strategy and innovation agenda and also commercial areas of business which strive and focus on regional and also outer regional growth. We have continued the development of our people with training and also a strong focus on our culture of care and health and safety outcomes and we have had a successful introduction of infrastructure recovery charges to the container shipping lines during FY19.

We continue to be maintaining and developing a strong social licence at Napier Port and that has been demonstrated this year in particular by the local support for the resource consent for 6 Wharf development, significant demand and support from the locals in the region around ownership by the IPO. We have had 97% of our full-time employees now take up a shareholding in Napier Port and we've had very strong support from local iwi, with four local iwi investing into Napier Port this year.

So just moving onto the next slide; this year, we've created and cemented our platform for growth and expansion of the port. We have given the region and port certainty for the future by taking some big steps forward on the expansionary plans related to our 6 Wharf. We have secured resource consent for 6 Wharf and that's been done without any appeal. We have signed our construction contract with HEB Construction to build this for us. We have secured pricing for the development that is within our initial estimate range and schedules, and construction is due to begin in Q2 of FY20.

We also this year took the opportunity to review and refresh our strategy for the next 10 years and establish a 30-year master plan for the port which is giving us more certainty in our planning for the future in both infrastructure and for the trade that we are likely to see come into the port.

In addition, the port has also continued its investment in new plant, equipment and technology to continue improving efficiency of our operations and also the services that we can provide to our customers.

Moving on to our trade results, I will just touch on a few of the key metrics underpinning the FY19 result for us. This year we've achieved new record total cargo volumes at just over 5.5 million tonnes which will see a 7.3% increase from 2018. Our container services saw us receive and process a total container volume of over 271,000 containerised TEU; this is 1.9% and nearly 5,000 ahead of the prior year and about 1% or 2,000 ahead of forecasts.

We had higher export-driven – export volumes which were driven by another record export season for apples at 8.6% increase for them and increased meat exports, but slight decreases in canned food and other food exports. The highlight for this container volume was the 9.9% or 5,000 TEU increase in export [unclear] to 54,000 TEU in total.

On the bulk cargo front, this includes a new bulk cargo record of 3.4 million tonnes which was 10.9% ahead of the prior year and about 1% above our forecast for the year. Log volumes were the driver of this with a new record of 2.58 million tonnes being about 16.9 or just shy of 17% increase on prior year and 3.2% ahead of our forecast.

Moving on to our financial results and compared to 2018, we have achieved substantial growth across all key metrics with our net profit after-tax in the current year being the exception due to cost incurred related to the IPO and capital restructuring. These metrics have been led by robust revenue growth which in turn has been driven by cargo volume growth and pricing measures through increasing capital investment that we have introduced this year.

In summary, we saw our revenues rise by 8.6% in results from our operations improved by 7.9% during the year with net profit after IPO transaction-related costs at $6.8 million for FY19.

Moving on to some of our financial results a bit further, compared to our forecasts made at the time of the IPO, we've achieved results ahead of forecasts across key metrics and higher revenue growth has translated into higher pro forma earnings and cash flows for the year. Pro forma cash flow from operations achieved a strong result affecting higher net receipts from customers, including working capital, lower finance costs than forecast and lower pro forma capital structure costs.

I am now going to hand over to Kristen, our CFO, and he is just going to talk you through some more of the details; the financial and operating results.

Kristen Lie: Thank you, Todd. I'll run through some of the detail underlying our results for the year. I need to note that the analysis that follows is based on our [PDS] forecast and differs in some cases from the statutory classification of expenses.

We are also referencing non-audited, [non-debt] measures such as EBITDA and pro forma net profit. Details and further references in respect to these are provided in the appendices' attached to the presentation.

During 2019, we experienced a healthy year-on-year revenue growth of 8.6%, but it's particularly pleasing that this has occurred across all three of our service areas. Container services revenue rose 5.5% from $58 million to $61.2 million, while bulk cargo revenue increased 11.4% from $29 million to $32.3 million. Cruise revenue increased from $2.6 million last year to $3.7 million in 2019.

A common characteristic of all three of these growth profiles result from both volume and average revenue per unit improvements. We finished the year just shy of $100 million total revenue at $99.6 million and $2.2 million ahead of the forecast for the year.

In respect of container services, we achieved a good result with 5.5% year-on-year growth. In addition to the 1.9% TEU trade volume growth, average revenue per TEU increased by 3.4% in the year from $218 per TEU to $226 or $226 per TEU compared to the forecast of $221 per TEU.

Reasons for the average revenue increase from 2018 and the 2.1% ahead of the forecast include introduction of an infrastructure recovery charge during the year introduced to recover the costs of infrastructure investments made to extend capacity and support growth, additional income from on port container storage services, a higher refrigerated container or reefer proportion in our container mix and income from related services such as power and monitoring of reefer containers which was offset by a lower marine revenue component due to 26 fewer vessels due to shipping service changes in 2019.

In addition, other container services which includes our Port Pack and off-port depot services performed ahead of forecasts, albeit, down in the prior year due to a loss of a significant depot customer earlier in the year. Our team provided exceptional container servicing turnarounds assisting our container depot customers to gain market share during the peak export season.

In 2019, we saw exports – a strong export reefer growth with apples and meat exports in particular with 5,000 or 9.9% additional export reefer TEUs. Refrigerated containers are a valuable cargo to shipping lines that call at Napier Port. They also generate higher revenue from providing additional services such as power and monitoring. With apples, we have seen the literal fruits of ongoing increased industry and planting of new varieties and increased yields, but apple exporters continue to report good returns on international markets. It mentioned the increase in reefers in our TEU mix has also contributed to the growth in average revenue per TEU this year.

Bulk cargo revenue growth of 11.4% year-on-year was driven by a 10.9% volume growth to 3.4 million tonnes in 2019. Average revenue per tonne increased by 0.5% compared to the prior year and was 1.5% higher than forecasts due to [16] additional vessel calls.

The driving force behind our bulk and total cargo volume growth for the year by weight has been log exports which are detailed on the next page - next slide.

2019 log volume increased 16.9% versus the prior year and was 3.2% ahead of our IPO forecast for the year. As has been well-publicised, there was a relatively sharp correction in China log prices in our financial year fourth-quarter from historically higher levels. Since then, prices have recovered partially and whilst not at their highs, are still around longer-term averages.

We have a portfolio of eight log exporters and of those, corporate estates are proving resilient to date in terms of export volumes and those exposed to smaller woodlot owners seeing some declines in volumes from pre-price correction levels. In the fourth quarter, we had some miniature volumes diverted from the Gisborne region as the Eastland Port faced shipping closures.

Overall, in our fourth quarter and October month, we have seen some variability in shipped log volumes, export volumes, including our highest single month ever of log exports in August and followed by a relatively quiet September, which was our second lowest month in the whole of 2019. Overall, from a typical month period to period we have seen volume levels maturely consistent with a 2019 average.

We continue to monitor log export developments and we currently have no update to our existing 2020 forecast volume of 2.5 million tonnes.

2019 cruise revenue increased by 46.1% to $3.7 million versus 2018 and was up 4.1% versus forecast. As forecast, 2019 vessel numbers increased to 70 from 57 in the prior year. As noted in our annual report and the slide, there continues to be positive reports on the effects of cruise in the Hawke's Bay region with Statistics New Zealand estimating that cruise passengers spent $28.4 million in the Hawke's Bay in the year to June '19 and the Napier Port and Hawke's Bay cruise call continuing to be rated highly as a cruise destination in Australasia.

Our respective EBITDA as a result of revenue growth in our business, our reported EBITDA has grown by $3 million of $41.8 million and on a pro forma basis by $3.3 million to $40.5 million; both ahead of forecasts. The EBITDA margin as a per cent of revenue is in line with the forecast.

Our pro forma total operating expenses, excluding offer costs but including forecast listed company costs, in dollar terms, they're just over 2% higher than forecast and have grown in line with the forecast as a percentage of revenue and as reflected in the pro forma EBITDA mentioned – margins mentioned in the previous slide.

In addition to volume-related increased such as power for reefer containers, we've seen some additional costs over forecast from increased employee leave costs and expenditure on our Western Gate safety improvements.

In respect to net profit, on a pro forma basis, net profit of $19.8 million for 2019 was $0.6 million ahead of forecast. The reported statutory net profit after tax of $6.8 million was 61% lower than the prior-year result of $17.6 million, but $1.2 million higher than the forecast.

In addition to the one-off $6.4 million of expensed IPO costs and $7.1 million for the closing and settlement of interest rate swap, the bottom line result also included a one of $1.1 million non-cash expense for the [unclear] in our joint venture interest in the Longburn Intermodal Freight Hub.

IPO transaction and related costs of $6.4 million were less than the forecast of $7.3 million because of the eventual split of total IPO costs between the income statement and equity which resulted in a lower portion of the total IPO costs being recognised in the income statement.

In respect of capital expenditure, in the current year and future years, our development capital spend has ramped up as we build for growth. Total capital spend during the year was $18.5 million or $17.6 million in cashflow spend terms. A number of projects remain a work in progress at year-end and some replacement spend has been deferred into 2020. Key development projects in progress at year-end were 6 Wharf preconstruction, progress payments for our third tug, Kaweka, since now received, and the further development of our off-port Thames Street container services depot.

In terms of cash flows, we reported a higher operating cash flow that forecasted by just over $5 million generated from the stronger operating result and improved working capital position, lower net finance costs and low expensed IPO costs. As noted, some capex spend has been deferred into 2020, otherwise, cashflows were in line with forecasts and resulted in a $31.2 million cash increase in the year.

Turning to the balance sheet. Compared to 2018, we've had a – we have a transformed balance sheet. The capital restructuring resulting from the equity raising sees us holding $31.2 million of cash at the year-end. Debt repaid and undrawn bank facilities of $180 million which means we are positioned to execute on our strategic development programme including 6 Wharf.
This is a stronger cash position than forecast, but as noted, this largely derives from differed capital expenditure in addition to the positive operating cashflow result for 2019.

I'll now hand back over to Todd.

Todd Dawson: Thank you, Kristen. So in summary, it's been a busy, productive and very pleasing year for Napier Port. Having successfully listed on the NZX Main Board on 20 August, we have achieved our FY19 forecasts, FY20 - sorry, FY19, has given us a really good platform going into FY20.

We don't have any updates on a FY20 forecast as published within the PDS, they remain consistent and FY20 forecasts subject to PFI assumptions and risks identified in the PDS also remain consistent.

Our focus moving into FY20 is now moving into the actual construction of 6 Wharf itself, continuing to focus and improve the health and safety systems, building on our sustainability strategy and also, looking to secure and cement opportunities for further cargo growth.

I'll now just go to hand over to Alasdair MacLeod, our Chairman, to talk through the dividends for the year.

Alasdair MacLeod: Thanks, Todd. As you will see on the final slide, the dividend is as forecast. We have announced today a dividend of $5 million which equates to $0.025 per share. It is fully imputed. The record date is 2 December 2019 and the payment date is 20 December 2019, which is also the date of our Annual Shareholder Meeting.

I will now hand back to Kristen to manage the process from here.

Kristen Lie: Thank you, Alasdair. That concludes our formal presentation and we will now open up the line for questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question.

Your first question comes from Andy Bowley with Forsyth Barr. Please go ahead.

Andy Bowley: (Forsyth Barr, Analyst) Thanks, operator and good morning guys. There's a couple of questions from me. The first of which is around capex and the 6 Wharf's development in particular; is the second quarter commencement in the next financial year or I guess the current financial year consistent with IPO expectations in terms of broader timing and is there any implication for outlying capex for fiscal '20 as a result?

Kristen Lie: Hi, Andy. Yes, that is consistent. If you're looking for guidance on cash flows for next year perhaps, I think at this stage, the best numbers we can give you are what were forecast at the time of the IPO. I mean there is an ongoing process there of continuing reviewing those and as we're now in sort of an execution mode, we'll be monitoring those in terms of whether that's still the right forecast, but that's the best information we have at this time.

Andy Bowley: (Forsyth Barr, Analyst) Okay and then so I assume then if we think about capex for the next financial year, we add on the underspend in fiscal '19 to the IPO forecast, is that a fair assumption? I guess it's not overly material [unclear], but...

Kristen Lie: Yes, that's a fair assumption, Andy.

Andy Bowley: (Forsyth Barr, Analyst) Okay, great. Second question around the container business and there was clearly a container mix benefit in fiscal '19 where the average rate per unit was higher than the IPO forecasts and helped by the additional reefers that came through. Was there any benefit besides mix – relative to the IPO forecast? Did you achieve a better rate underlying relative to expectations?

Kristen Lie: Well, underlying those average rates are a number of factors, so the reefer mix is just one factor. In the year, we had some good outcomes that we don't have a track record for, particularly related to container storage revenue, which have also contributed positively to the result this year.

Andy Bowley: (Forsyth Barr, Analyst) Then I guess looking forward, what level of average rate increase are you expecting in the next financial year excluding any kind of mixed benefits?

Kristen Lie: At this stage, I think the forecast that we've published – I mean we are not republishing a new forecast for that number and I guess we need to see how this season plays out in terms of the next side of things.

Some of the other container storage revenue I mentioned largely relates to decisions made by our customers – port customers – so we're not in a position to say that's going to continue at this stage.

Andy Bowley: (Forsyth Barr, Analyst) Okay, thanks, guys.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We will pause briefly to allow more questions to enter the queue. There are no further questions at this time. I will hand back to Mr Lie for closing remarks.

My apologies, our next question comes from Wade Gardiner with Craigs Investment Partners. Please go ahead.

Wade Gardiner: (Craigs Investment Partners, Analyst) Hi, can you guys hear me, I'm having phone issues today?

Todd Dawson: Yes, we can hear you, Wade.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay, good. Hey, can you just I guess a couple of things around your log volumes; first of all, you said you picked up extra volumes out of Gisborne, was that unusual and can you sort of quantify how much in terms of tonnes, how much those Gisborne volumes added in quarter four?

Is that a sort of a seasonal thing in terms of the winter swells coming from the south affected getting into Eastland Port there?

Todd Dawson: You know, I guess it's unusual for that to occur, Wade and it was largely due to some unusual weather events that Gisborne were suffering and some issues that were created for them around berthing and vessels and some damage I believe that they had to their port as a result. But – so we benefitted from that for a short period of time.

In terms of total volume it contributed, we sort of estimated – it's not actually that significant and probably more in the region of around about 10,000 tonnes that we benefitted from that during that period of time. But it's gone back to normal state now and the consistency of the run rate we're seeing on logs through the port has been as expected.

Wade Gardiner: (Craigs Investment Partners, Analyst) So you're…

Todd Dawson: ...tens of thousands.

Wade Gardiner: (Craigs Investment Partners, Analyst) Right, so you're going...

Todd Dawson: Tens of thousands rather than hundreds of thousands.
Wade Gardiner: (Craigs Investment Partners, Analyst) Your forecast for FY20 then doesn't include anything really out of Gisborne?

Todd Dawson: No...

Wade Gardiner: (Craigs Investment Partners, Analyst) Anything there is sort of cream on the top? Okay, and just on your forecast for FY20, is that - is the fact that you've maintained the PFI forecast, is that a reflection of the fact that the impact of those price declines, it's just too early to tell or is there other sort of factors that are giving you comfort that that forecast is to be maintained?

Kristen Lie: Wade, there is a delayed impact and as I mentioned earlier, I suppose where we are today that I guess over our fourth quarter plus sort of October month, we're kind of running on an average basis at a run rate consistent with that forecast, so we have no additional information at this time to suggest that we should change that where it's going to be materially different.

Wade Gardiner: (Craigs Investment Partners, Analyst) Right, so what you're seeing through October and November in terms of volumes is consistent with that 2.5 million tonnes?

Kristen Lie: Yes, so across our fourth-quarter plus October.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay. All right, cool, thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We'll pause again to allow more questions to enter the queue.

Your next question is a follow-up question from Andy Bowley with Forsyth Barr. Please go ahead.

Andy Bowley: (Forsyth Barr, Analyst) Thanks, look, just a follow-up; there's a been a bit of speculation talk across the industry around one of your large container customers, guys. I wonder if you could give us an indication of where you are with regards to hopefully renegotiating and retaining that customer?

Todd Dawson: That'll be WPI that you're referring to I guess, Andy. In terms of that customer, our - obviously I won't go into the details of any kind of commercial arrangements we have with them, but we continue to have a very positive relationship with WPI. The relationship is ongoing and they seem to be very happy with the level of service that they're receiving from Napier Port to date, so when we've got further information to announce, we'll come back and let you know.

But at this stage, WPI are remaining where they are.

Andy Bowley: (Forsyth Barr, Analyst) Great, thank you.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Lie for closing remarks.

Kristen Lie: Thank you, everyone, for joining us today for the Napier Port Holdings 2019 Annual Results Call. We thank you for your questions. We hope you found this informative. That ends our call. Goodbye, and have a lovely day.

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