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Start of Transcript

Operator: Thank you for standing by and welcome to the Napier Port 2020 Half Year 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 1 on your telephone keypad. I would now like to hand the conference over to Mr Kristen Lie, Chief Financial Officer. Please go ahead.

Kristen Lie: Thank you. Good morning everybody. Welcome to the Napier Port Holdings 2020 Half Year Results call. My name is Kristen Lie, CFO at Napier Port and I'm joined on this call this morning by Todd Dawson, Chief Executive and Alasdair MacLeod, Chairman of the Board.

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 the highlights of the first half of our 2020 financial year, including some more detailed analysis of our financial results and then at the end of the presentation we will open up the line and we'll be happy to respond to any questions you may have.

I will now hand over to the Chairman, Alasdair, to get things underway.

Alasdair MacLeod: Thank you Kristen and good morning everyone. Welcome to our 2020 Half Year Results presentation. Financial results we have reported today show positive trading and progress for the first six months of this financial year. This stands in stark contrast to the significant challenges looking forward that we, the surrounding region and the broader economy face as a result of the COVID-19 pandemic.

For most of the six month period that these results cover, trade has been trending largely in line with the expectations set when we launched our initial public offer in August 2019. However, as we all now fully appreciate, as the half year drew to a close, COVID-19 began to affect global public health and trade and in our case, our log exports in particular and led to a government imposed state of national emergency and Alert Level 4 lockdown affecting trade and our economy.

For the presentation today we intend to report on the highlights of the first half year including our trade and financial results. We will update you on progress with our strategic investment program, including 6 Wharf, and then talk about the specific impacts of COVID-19 on our business and our COVID response plan, including our announcement this morning to not pay an interim dividend. We will also update you on recent trading. Todd will now take us through the highlights of the half year results. Todd.

Todd Dawson: Thank you Alasdair and good morning everybody. Just moving on to the highlights section of the presentation. In these uncertain and unusual times it's been good to reflect and just take stock of both our strategy and the core elements that make up our port.

We put forward to investors at the time of the IPO six key strengths of our port which throughout the COVID-19 situation have endured and remained relevant. Napier Port is deemed a lifeline asset and essential service provider during times of national civil defence emergency. And the port has quite literally been critical to maintaining the health of the Hawke's Bay economy during these unusual times. Keeping shipping and supply chains open to maintain the flow of both essential and non-essential cargo in and out of New Zealand and the Hawke's Bay.

As New Zealand and the Hawke's Bay recovers from the situation, our port remains at the centre of economic trade in the region, providing us confidence to continue to deliver to our purpose of building a thriving region by connecting our customers, people and community to the world.

I'm just going to now go to the next slide which is talking about our half year highlights. Our first half of the year saw us make good progress on delivery of strategic objectives supported by the continuing strength of trade in the Hawke's Bay. Our operating result has been tracking in line or ahead of expectations set at the time of the IPO with solid trade volumes being seen across the majority of commodities arriving at port.

We have seen a smooth start up to our major construction program at 6 Wharf and good progress being made on a number of our other key projects across the business. As COVID-19 began to take hold in China and further afield around the globe during January and into February, uncertainty began to take hold as to the potential economic impact of the pandemic on the port, which we saw initially within our log export trade as the pandemic shut down China.

Following the withdrawal of our forecast guidance and subsequent government imposed Level 4 lockdown period, we have moved to ensure we can maintain the health and wellbeing of our people on the port and support them through this period while also maintaining our operations and responsibilities as essential lifeline asset and essential service provider.

The COVID-19 pandemic and government responses has created significant uncertainty for our people, operations and trade leading into the second half of this year. We are comfortable though that the port remains well supported with a well-capitalised balance sheet and access to liquidity and we are looking out and beyond the development of 6 Wharf to maintain a secure capital position into the future.

In recent months we have moved quickly to take prudent steps to defer capital and operating costs given the uncertain outlook without compromising the port's operations or safety of the team. We continue to keep our focus on delivering our strategic purpose of building a thriving region by connecting our customers, people and community to the world.

I am now just going to talk through some of the first half year highlights in terms of strategic projects on the next slide. As mentioned previously, we have made good progress with the delivery of our strategic programs [worked] during the first half of the year. This has helped us to build further on our operational capability and resilience levels required in lieu of 6 Wharf coming available to us in late 2022.

We completed the signing of the construction contract of 6 Wharf and HEB were underway following the ground-breaking ceremony on 5 February this year. HEB has made a positive start positioning resources onsite and starting demolition of the existing rock wall and progressing sheet wall piling and site preparation works. The Level 4 lockdown period did see construction halt, however there was no material change to 6 Wharf costs or timing at this point.

In addition, our Thames II empty container depot opened for business during March, providing customers with a new state of the art facility to hold and prepare containers ready for the region's exporters. Progressing strategic projects for those growing outer region customer trade, technology deployment and operational efficiencies has slowed during the lockdown period as a result of people's availability, remote working arrangements and the requirement to immediately respond to the task of maintaining our operations during the Level 4 and 3 lockdown periods. But under Level 2, we are back underway with those things and they are gaining momentum on the back of some good people going back to work.

Kaweka, our third tug has also now come into full operation, following successful trials and training of crew and she's already delivering results with increased manoeuvrability, fuel efficiencies and enabling us to avoid additional secondary vessel moves and providing the ability to berth larger container vessels during night time hours also. The additional risk mitigation that Kaweka provides is a boost to our marine operations. In addition, there's also been some real positive momentum created across our health and safety roadmap implementation, settling of our main port collective agreement and further development around our culture of care and our people engagement initiatives.

I'm now going to just cover off on the next slide some of our key financial highlights for the first half of the year. Our total cargo by weight declined 4.9% in the half to just over 2.5 million tonnes, predominantly as a result of the decline in log volumes as a result of Chinese demand and COVID impacts late in the period.

Container services total container volume rose by 7.5% to 135,000 TEU from 126,000 TEU in the same half year period a year ago. Containerised exports were in line with the prior half year and it saw an increased containerisation of pulp and timber products and lower canned food and other food and beverage exports. This year we've seen a later start to the apple export season, however at this state the apple harvest and export profile remains in line with last year.

Import containers rose by 6,000 TEU or 9.3% to 69,000 TEU due to the earlier import repositioning of empty containers into the region ready for the apple season. On the bulk cargo, our total volume of 1.6 million tonnes was 7.3% below the same half year period a year ago. Log exports volumes were down 5% as the main export market of Chinas was affected by the COVID-19 disruptions and high inventory levels that we saw earlier in the year. Bulk imports were lower than the same period a year ago due to lower fertiliser volumes which was all in line with our expectations.

I'm just going to talk now more about our revenue growth and net profit. Our unaudited reported financial results for the six months to March 2020 show good revenue growth arising from both cargo growth and container services, cruise line visits and pricing improvements delivered through renewed commercial agreements.

Increases in operating costs, while in line with our expectations set at the beginning of the year resulted in a slight decrease in our result from operations for the half year. Reported net profit after tax in the year increased substantially but benefitted comparatively from a one-off tax gain in the current period, a prior year asset write down plus a reduction of debt finance costs that were included in the prior year figures. Similarly, cash flow from operations has benefitted from the reduction of our debt finance costs.

Just moving on to the next slide, in terms of our underlying and pro forma metrics across all metrics the results are positive and in line with expectations at the start of the year and saw an EBITDA result of $21.5 million or a 2% growth in net profit after tax result of $11.2 million or 6.7% increase on the same period last year.

I'll now just hand over to Kristen, who is going to talk through more of the detail on the financial and operating results.

Kristen Lie: Thank you Todd. As I run through some of the detail underlying our results for the half year, I need to note we are referencing non-audited numbers and non-gap measures such as EBITDA and pro forma net profit. Details and other further references are provided in the appendices attached to the presentation.

During the first half, we experienced a healthy revenue growth of $3.6 million, or 7.5% compared to the prior year period in reporting our total of $52.3 million of revenue. The period [contained] good revenue momentum in container services and cruise, with the exception being bulk decreasing on the trade volume decline.

Container services revenue rose 12.1% to $30.9 million and cruise revenue increased 22.5% to $4.2 million, while bulk cargo revenue decreased 3.5% to $16 million in the half. Whilst containers and cruise demonstrated volume growth are common characteristics of all three areas as improvements in average revenue per unit versus the prior year comparative period.

A good result for container services was achieved with the 12.1% growth. The TEU volume growth was 7.5% as noted by Todd was complemented by growth in the average revenue per TEU which increased by 4.2% to $229 per TEU, compared to $219 per TEU in the prior comparative period.

Reasons for the average revenue increase from the comparative period in 2019, were a volume increase of approximately 13% in our on port packing facility Port Pack, which correlated with the timber and pulp containerised volume increase, tariff changes including the introduction of an infrastructure levy at the beginning of the second half of 2019 financial year which was introduced to recover the costs of infrastructure investments made to extend capacity and support growth. These are offset by the mix of containers due to the higher proportion of relatively lower revenue, empty and other container movements.

Bulk cargo revenue decreased by 3.5% which resulted from the volume tonnage decrease of 7.3% offset by a 4.1% increase in average revenue per tonne. Average revenue per tonne increased due to pricing rate improvements and cargo mix, offset by the cessation of a previous log [hardstand] levy in 2019 and 14 fewer charter vessel calls and fewer days on berth.

A decrease in bulk cargo volume was led by falling log export volumes but also expected lower fertiliser imports due to timing and to a smaller extent due to the shift in mode to containers for timber and pulp.

Log volumes for the first quarter of our financial year were encouraging following the volatility in Chinese market pricing dynamics in our last quarter of 2019 financial year. In the second quarter of this year, as Todd noted earlier, log export volumes were affected by adverse Chinese log market conditions and then by COVID-19 effects. Right at the end of the first half when New Zealand went into Alert Level 4 lockdown, Napier Port saw destocking of remaining on port inventory as logs continued to be exported during Level 4 without further new logs being carted into Napier Port.

Following Level 4 we've seen a period of on port restocking with a steady stream of log vessels departing from Napier Port after the first couple of weeks following the Level 4 period.

In respect of cruise, with the cruise season coming to a premature close in March due to COVID-19 border closures and public health concerns, we ended the season with 76 visits, up 10 on the corresponding period last year and up six on the whole of 2019. Cruise revenue increased 22.5% to $4.2 million against the prior period. Revenue benefitted from pricing changes including a passenger levy introduced at the beginning of the season.

EBITDA in dollar terms versus the prior comparative period was largely steady with pro forma EBITDA up 2% or $0.4 million and reported EBITDA down $0.2 million. Operating expenses have grown in line with our forecasts leading to an expected decrease in EBITDA margin as percentage of revenue. The largest component of operating cost increases include increased employee benefit costs with increasing employee numbers across 2019 and continuing into the first half of 2020.

Mobile plant service costs being a mix of timing work completed and major repairs on some plant drove the majority of $0.6 million maintenance increase. The 27% increase or $0.6 million in occupancy expenses was driven by increased insurance costs and for which insurance capacity and premiums remain a cost pressure going forward.

Net profit, as Todd noted earlier, reported net profit after tax benefitted from a number of one-off comparative differences being $1.5 million deferred tax benefit arising from the government's reinstatement of tax depreciation on buildings, $2 million related to the repayment of debt following the IPO during 2019 and one-off impairments recognised in 2019 of $0.8 million.

On a pro forma basis, net profit increased 6.7% to $12.8 million for the half year arising from the small increase in EBITDA and capitalisation of finance costs to capital projects in 2020.

Our strategic development program: Todd spoke of the progress on our strategic development projects earlier and these represent the majority of our development capital spend in the period. On an accruals basis we've spent $27.2 million in the half with 6 Wharf elements comprising just over $12 million of this. $4.7 million for payments on our new tug, Kaweka and $2.6 million further payments on our Thames Street container depot, also feature in this period.

As noted earlier, 6 Wharf construction is underway with a couple of key milestones achieved during the first half including construction contracts signing and commencement of works onsite. On a project cost basis, excluding capitalised costs, we have incurred $10 million on the construction phase of 6 Wharf as at the end of the period and expected to incur a further $25 million to $30 million for the second half of 2020. This is approximately $9 million to $14 million less than originally forecast and arises through subsequent detailed project planning and changes to cash flow forecasts.

Total project cost estimates for 6 Wharf are unchanged with additional costs arising from the Level 4 site shutdown which commenced just before the end of the first half, not material to the total project and effectively are to be absorbed in project contingency allowances. This also applies to the project duration estimates.

We have good inventory of steel pole casings onsite and it's pleasing to see the effective progress of HEB contractor with sheet wall piling and recently on 15 May, drilling and installing the first of approximately 400 concrete poles.

Total CapEx spend for the second half is under review currently. Though the 6 Wharf construction is not expected to be affected by this. In terms of cash flow and balance sheet, compared to the prior comparative period operating cash flows have improved by $2.1 million reflecting the reduction of debt finance costs in the current period. On a pro forma basis, operating cash flow has improved marginally by $0.2 million to $13.2 million.

Investing cash flows reflect capital expenditure just for accounting accruals of $23.2 million. First half '20 finance and cash flows represent mainly the $5 million dividend paid in December 2019. From a balance sheet and liquidity perspective, we remain in a sound position with $196 million of cash and undrawn bank facilities.

I'll now hand back over to Todd.

Todd Dawson: Thank you Kristen. I'm just now going to talk through some of the impacts around COVID-19 a little further. The sequence of events leading up to where we find ourselves today from a trade perspective is certainly one we never would have predicted at the start of the year.

New Zealand log exports since December have seen challenges in their main Chinse market due to high inventory levels building onto Chinese wharves. This was due to logs flooding into China through wood sources out of Northern Europe and those sources coming onstream pre-COVID and impacting China in the subsequent lockdown period running through February and March with the effect of the extended Chinese New Year period all slowing exports into this key market.

This was then followed by the New Zealand and wider global outbreak of COVID and its effect in locking down New Zealand log exports under Level 4 conditions. Under Level 4 Napier Port was deemed an essential lifeline asset and service provider so we remained in operation, however many of our customers' businesses were deemed non-essential and stopped.

This quickly saw the halt of milled timber, logs and pulp followed by the shutdown of our on port packing operation at Port Pack due to no cargo being available. In addition, the tail end of our successful cruise season was brought to an abrupt halt and resulted in the loss of seven cruise ship visits. As mentioned earlier, also under Level 4, the construction of 6 Wharf was required to stop.

Whilst benefitting relative to other businesses from being a lifeline infrastructure asset with essential status, we experienced lost revenue during the lockdown period, however we were later able to continue to clear non-essential cargo from our port in order to ensure essential cargo could continue to flow through. This meant that we benefitted from a residual level of revenue from these cargo flows as we cleared remaining inventories from the port under Level 4.

At this time, we are seeing an optimistic bounce back of the cargo that was deemed as non-essential due to pent up demand and rebuilding of inventory back into the export supply chain. However, the enduring local, national and global impacts remain quite uncertain into the future and in particular we are uncertain around our cruise industry business while our border remain closed to international tourists.

I'm just going to move on to the next slide, which is talking about our response plan. So, our primary focus during these times has been to ensure the safety of our people and users of the port. Despite the massive disruption of COVID and the government lockdown, our port has been able to maintain its regional responsibilities as an essential service provider.

Our focus more recently has been on ensuring we now deliver a prudent response to the managing of our cost base and balance sheet, particularly across the next 18 month period as we face into the uncertainty ahead of us. And some immediate response measures that we have taken are reduction in the director fee pool of 20% for six months, deferral on renewal on wage and salary increases for one year, specific cost reductions and deferrals across capital and operational expenditure.

We have applied and received a government wage subsidy of $2 million and we have taken the move to cancel the interim dividend in respect of the 2020 financial year. The exact timing and savings from these response measures are still being worked through. I'll now hand back to Alasdair, our Chair just to discuss in further detail the interim dividend decision.

Alasdair MacLeod: Thank you Todd. A key element of our response plan is the interim dividend. We have announced today that there'll be no interim dividend paid in respect of the 2020 financial year.

The Board of Directors has considered both the short term impacts and long term risks associated with COVID-19 in considering the interim dividend.

With a full program of committed strategic capital investments including 6 Wharf, the Board considers that it is prudent to take a conservative approach to the management of cash while this uncertainty exists. As such, the Board has decided to defer any consideration of dividend payments until the end of the financial year. And as a result the decision has been made to cancel the interim dividend.

In coming to this conclusion we've also considered our stated target of keeping our forecast date and particularly peak debt following the construction of 6 Wharf within prudent levels. As we have stated previously, we are targeting a peak debt to EBITDA ratio approximately 3.5 x or less. It's not a hard target but one that helps guide our thinking.

We recognise the impact of this interim dividend decision may have on our shareholders. And as we've outlined in our half year interim report, we remain grateful for the support of our shareholders as we navigate this period of uncertainty and as we focus on protecting and growing the long term value of our shareholders asset.

The Board expects to review the full financial year results and outlook in November 2020 before making a decision on a final dividend. The Board's intent is to pay a final dividend in respect of the 2020 financial year result in accordance with our stated dividend policy, subject to development and the economic outlook at that time.

I'll now hand back to Todd.
Todd Dawson: Thanks Alasdair. And now I'm just going to talk through a little bit more around our outlook and what we're seeing during April and May. So the results of our trade throughout the key months of April and May impacted by the COVID lockdown has seen April down 40%, which equates to about a 29% revenue reduction. Our bulk tonnage has been more affected than our containerised cargo over this period.

May volumes will also be materially affected; however, we are seeing a strong rebound in log volumes arriving back into the port and the return of our container packing operations for pulp and timber is going very well under Level 3 and now under Level 2 conditions. In addition, our key seasonal [REFA] trade volumes such as apples, squash and meat have been trading in line with expectations.

I'm now just going to hand back to Alasdair to draw us to a close.

Alasdair MacLeod: Thanks Todd. In conclusion overall we've had a solid first half of the year in terms of trade [unclear]. We will be playing into the wind in the second half of the year facing the uncertainty that COVID-19 has brought upon us all.

We've made some good progress in our strategic programs of work and are building momentum on these again, as we have worked our way back to a more normal state. We're taking active and prudent measures to defer spend on OpEx and CapEx where we can without compromising the safety of our people and port operations or jeopardising our ability to maintain our asset base.

Uncertainty remains across the entire economic situation, making it difficult to accurately forecast full year earnings. However, we will be providing a further trade update to the market and June quarter results update during August. I'll now hand over to Kristen who will conclude the presentation.

Kristen Lie: Thanks Alasdair. That concludes our prepared presentation. We would like to provide the opportunity for those on the call to ask questions related to our presentation and therefore I'll hand back over to the moderator to do so.

Operator: Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you are on a speakerphone, please pick up the handset to ask your question. Your first question comes from Andy Bowley from Forsyth Barr. Please go ahead.

Andy Bowley: (Forsyth Barr, Analyst) Thanks operator and good morning guys. So I've got a couple questions. The first of which is around your pricing initiatives and Todd, you mentioned in the presentation around new commercial agreements. Are you referencing there the various levers put in place or is that an additional to the levers put in place? And maybe you can also talk about how your pricing strategy may change in the COVID-19 world, recognising it's early days, but pricing is quite an important part of the growth outlook.

Todd Dawson: Yes, good morning Andy. Good to talk to you. The - obviously some of the effect that we've seen is through the implementation of those earlier pricing levers that we put in place, the infrastructure levy et cetera. But we have been working through as contracts have come up with particularly things like shipping lines, new commercial agreements and have been successful on a number of cases in bringing in increases to our pricing with those shipping lines over the last 12 months or so. So we're seeing the benefit of those increases coming through as well.

In regards to your question about pricing for - or any kind of changes as a result of COVID, at this point in time, we're not contemplating anything specific in response to COVID-19 and our pricing strategies remain the same as they have been pre-COVID as well, which is to continue to work with customers around renewal of contracts as they arise and just making sure that we're targeting pricing that's going to allow us to meet those long term commitments that we've talked about with investors around return on capital et cetera.

Andy Bowley: (Forsyth Barr, Analyst) Sure. Have you seen much pushback from the shipping lines in relation to say pricing relief during the crisis?

Todd Dawson: It would be fair to say a lot of the shipping lines are also suffering quite markedly across the globe. And a number of them have come to us to ask for relief on different things. But at this point in time we haven't had to make any particular moves in that regard.

Andy Bowley: (Forsythe Barr, Analyst) Then the second question on the wage subsidy, I recognise it's only $2 million but that's still a reasonable proportion of half year or even full year profitability. Can you talk about the decision to claim the wage subsidy? The fine print on slide 25 suggests that you may repay it subject to what your revenue turned out to be but I suspect you probably know what your revenue is down in April now or at least the first four weeks of the downturn. So yes, all of the above.

Todd Dawson: Okay, so when we applied for the wage subsidy it was right early on in the piece and obviously times were very, very uncertain at that point. And look, they still remain quite uncertain and we took the view that we needed to do everything within our power. We have a responsibility to make sure we look after our people and our business.

And that was a - I guess using your terminology, a lever that we could pull. So we did apply for it and we're holding that subsidy subject to further illumination of the results that we will see over April and May. And if we aren’t able to meet the government guidance around the reduction over a 30 day period, well our intention would be to pay that wage subsidy back.

Andy Bowley: (Forsyth Barr, Analyst) And was there any impact from the wage subsidy in your decision not to pay a dividend for the first half?

Todd Dawson: I'll let Alasdair talk to that one.

Alasdair MacLeod: It certainly played a part in it Andy. It would be unconscionable to take a wage subsidy from the government and then distribute it as a dividend. But we also were just very conscious of the fact that that there are significant uncertainties ahead and we have major commitments. And we have chosen to cancel the interim dividend, see how the second half of the year plays out and make a call at the end of the year.

Andy Bowley: (Forsyth Barr, Analyst) And based on the fact that you've claimed the wage subsidy, if you didn't repay it because you qualified as per government guidelines, would that impact and I recognise you've still got to have the discussions, but in terms of your thought process at this stage, how would that impact in terms of the final dividend?

Todd Dawson: That would be part and parcel of…

Andy Bowley: (Forsyth Barr, Analyst) …continue to impact [unclear].

Todd Dawson: Yes, well I think the Board will look at it at a holistic level, Andy, in terms of what's the overall financial result. What's the outlook, et cetera and the situation at the time before we make that call.

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

Todd Dawson: As we've said as well, I think the intent as well Andy is to work towards our stated dividend policy as well.

Andy Bowley: (Forsyth Barr, Analyst) Yes, okay. Cheers. Thank you.

Todd Dawson: Thanks Andy.

Operator: Your next question comes from Owen Birrell with Goldman Sachs. Please go ahead.

Owen Birrell: (Goldman Sachs, Analyst) Hey guys, can you hear me?

Todd Dawson: Yes, good morning.

Owen Birrell: (Goldman Sachs, Analyst) Excellent. Yes, good morning. So just a couple of quick questions from me. Firstly around cruise calls. I know that environment is obviously very uncertain but have you had any conversations with the government around, I guess what's the limitation they're likely to put on cruise sailings as we move into the 2020 season?

Todd Dawson: Not yet. It's still very early in the piece in that regard. We're not getting any further insight at this point in time from the government about what their position is going to be with cruise longer term or indeed just when the borders are likely to open. It's still very much open question for the whole economy in New Zealand at this point in time.

At the moment we've still got bookings for 82 cruise vessels this season. First one due to arrive on 2 October. Currently cruise vessels are actually formally banned from New Zealand waters until the end of June I believe. And so it's still a really uncertain outlook as to what the cruise season is going to look like this year and into the future.

Owen Birrell: (Goldman Sachs, Analyst) Can I ask, of those 82 bookings do you know how many of those are Australia/New Zealand forming as part of this Trans-Tasman bubble?

Todd Dawson: Well 65% of cruise passengers do come from Australia and New Zealand. In historical terms that's roughly the number of people that have come through cruise lines on - from New Zealand, Australia. So I guess there is potential there that there's a bubble formed. And even if the bubble is formed further afield to the likes of the Pacific Islands and things, you could see the cruise industry formulate a schedule that would see New Zealand and Australia and the Pacific Islands as a cruise circuit if you like. But it's still, again, I'm speculating. It’s still pretty [hilly].

Owen Birrell: (Goldman Sachs, Analyst) I was going to say if you have a reduced cruise season, is that potentially going to provide some offsetting benefit with the bulks side of the business in terms of that congestion issue that you've been facing in the ports?

Todd Dawson: Yes, that’s a fair conclusion. Obviously your cruise season coincides with a lot of our busy log export season and other bulk trades that come through that side of the port. So if we saw a reduction in the number of cruise vessel visits, it certainly makes the wharves more available for that bulk cargo to flow through.

But again, it's - or even the bulk cargo remains very uncertain as to the overall economic outlook and global outlook. We're seeing that surge in demand happening particularly across logs at the moment coming back on stream. And volumes are good during May, however, I guess the unknown is what things are going to do over the next six months especially as that global demand picture starts to get clearer as that initial surge from pent up demand is met. What's going to be the long term demand view.

Owen Birrell: (Goldman Sachs, Analyst) That was going to be my next question actually in terms of the conversations you've been having with your, I guess logging customers in providing the logs. What are they seeing in terms of overarching global demand for logs at this point? Is it increasing again after all the Chinese issues last year?

Todd Dawson: Yes it is. Pricing's very good for logs at the moment. We - the inventory build-up that was in China in particular has started to clear and back down to more normal, even sub normal levels of imagery on wharves in China. And so that's that pent up demand I'm talking about in terms of the export supply chain being filled back up again. And so the indications are that China is coming back online strongly. Prices are good and volume of logs moving out is good as well.

I guess the warning there is that we've seen that happen before where prices are good and inventories build quickly. And we also are coming into the Chinese summer, which traditionally sees construction works and things slow down. And then you put that against the backdrop of a more global economic outlook, which could be a lot more subdued. It's still - there's still a lot of moving parts in that equation to give us some uncertainty.

Owen Birrell: (Goldman Sachs, Analyst) So just in terms of the log movements through the port, is it fair to say that you've probably only lost about a month of volume in that lockdown given that you're still moving inventory off the wharf and in terms of general throughput levels?

Todd Dawson: It's more four or five weeks. But even still, what we're seeing now is still not back to what would consider to be kind of normal pre-COVID forecasts. So yes, I mean it's that month to month and a half kind of movements, lost movements. But in terms of the - what we're seeing is the volume is not bouncing back to normal, so to speak.

I think you've got to also remember that prior to the New Zealand lockdown we were seeing right back in January, the effects of that high inventory build in China slowing exports out of New Zealand anyway. And then China went into its own pandemic and lockdown period and extended New Year period which all had an impact on log exports throughout the first half of this calendar year.

And then we had the subsequent New Zealand lockdown as well. So the log export market in New Zealand has been pretty well impacted by high inventory and COVID for the best part of six months.

Owen Birrell: (Goldman Sachs, Analyst) Okay. That's great. Thanks.

Operator: Once again, if you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. Your next question comes from Wade Gardiner with Craigs Investment Partners. Please go ahead.

Wade Gardiner: (Craigs Investment Partners, Analyst) Hi guys, can you hear me?

Todd Dawson: Yes, hi Wade.

Wade Gardiner: (Craigs Investment Partners, Analyst) Just further on the logs, just broader can you talk to, say the availability of crews in the region, post-COVID? What's happening in the I guess the woodlot harvesting rather than the commercial guys and have these higher prices been sufficient to stimulate some demand from those woodlots and has there been availability there?

And also have you heard anything around what's happening with the European logs through this COVID? Has there been any impact in terms of those volumes going into China?

Todd Dawson: Okay. So, I’ll start with the first one around the woodlot owners. I think based on what we’re hearing at the moment Wade is that with the prices high, those woodlot owners are definitely returning to the market. And so they are taking advantage of that.

The labour availability in terms of stevedoring crews and things has been good. We are having conversations with the two main stevedores, ISO and C3 in recent weeks and they aren't reporting any issues around labour availability at the moment, which is not too surprising given I think people are looking to make sure they maintain their employment conditions at the moment, which is good and it's helping us to get that initial surge of logs through the port nicely.

Wade Gardiner: (Craigs Investment Partners, Analyst) What about logging crews?

Todd Dawson: Yes, no we haven't heard any issues in that regard in terms of logging crew availability. Certainly the flow of logs in this region through to the port has been very strong in the last few weeks since we had Level 3. I think they had some logs that were still lying around on skid sites and things that initially went straight into the mills to be produced to be pushed through the mills but cutting and the export has been going very well. The European logs, I haven't particularly heard anything on that situation Wade.

Wade Gardiner: (Craigs Investment Partners, Analyst) And in terms of the apple harvest, I mean it’s - you’re only halfway through it now. The season last year was very late. Is there any reason to think that that there might be a late season this year? And also I understand that the actual number of apples or the volume of apples is actually ahead of last year, but there's issues around COVID and social distancing in terms of the production of that. Are you hearing anything there?

Todd Dawson: Yes, I've got a bit of flavour on that. So, our apple volumes this year were late in terms of volume flowing through the port. We were a little bit later than last year. And then we had the whole impact from COVID like you say meaning that the orchardists and packing houses had to bring in place the separation et cetera which slowed their production rates down.

There was a bit of nervousness in the early stages as to whether they were going to get all the picking completed. Which seems they've got through that well, which will push product out for export. Cool stores are very full at the moment is our understanding. So there could be a longer tail to the season.

And then in terms of overall volume, we're currently seeing that we're very much in line with last year. I think anecdotally at the start of the year they were predicting they would have a bigger season than last year. At the moment we're tracking pretty much in line with last year from a volume through the port perspective.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay. Thank you.

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

Kristen Lie: Thank you. Thank you everyone for joining us for the Napier Port Holdings 2020 Half Year Results call and for your questions. That ends our presentation and we will now hand back to the moderator. Have a good day everyone and goodbye.

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