Event Transcript

Company: Napier Port Holdings
Title: Napier Port Nine Month Results Announcement
Date: 25/082020
Time: 09:00AM AEST

Start of Transcript

Operator: Thank you for standing by, and welcome to the Napier Port Holdings Ltd nine-month results announcement. All participants are in 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 Kristen Lie, Chief Financial Officer. Please go ahead.

Kristen Lie (CFO): Morning everybody and thank you all for joining us this morning. My name is Kristen Lie, Chief Financial Officer of Napier Port, and I'm joined on the call this morning by Todd Dawson, Chief Executive, and Alasdair MacLeod, Chairman of the Board of Directors. Earlier this morning, we released our interim third quarter and nine-month year-to-date results. In doing so, our intention was to provide a timely market update of our trading performance in these rather extraordinary times, and to provide expectations for the remainder of the financial year, ending 30 September 2020.

As the third quarter largely includes our peak produce export season, this update enables us to talk about our financial results with stakeholders. It also allows our majority shareholder to use our June results for their own financial reporting requirements.

In terms of the format for this call, as it is an update, we have not prepared a detailed presentation to talk to, but we will provide an introductory high-level overview of the results and our market update, and then open up the line for any questions. I now hand over to Alasdair to get things underway.

Alasdair MacLeod (Chair): Thanks, Kristen, morning everyone. The financial results for the third quarter and nine-month year-to-date that we have reported today reflect the impacts of COVID-19 disruptions on our business. Following the positive trading and progress for the first six months of this financial year, the third quarter covers the period that included the level four COVID-19 lockdown, when all but the cargo the government deemed essential reduced sharply. This was followed by a general recovery in cargo volumes flowing across our wharves since the lockdown, albeit with month-to-month volatility in key trades.

The COVID-19 disruptions have put pressure on our earnings for both the three-month and nine-month periods. Meanwhile, continued uncertainty about the medium-term impact of the pandemic and trade volatility continue to pose challenges to accurately assessing the outlook for the future. Despite this uncertainty, Napier Port, along with the broader region, is weathering the pandemic relatively well.

We expect the primary sector cargo that underpins our business and the prosperity of the region to continue to flow across our wharves and, over the longer term, to grow. We continue to invest to support that long-term growth and our customers.

Todd will now take us through the highlights of the results.

Todd Dawson (CEO): Thank you Alasdair, and good morning everybody. As we signalled in May, the 2020 financial year is emerging as a year of two halves, with the first half largely in line with our forecasts we set at the time of our 2019 initial public offer, and the second half seeing the COVID-19 disruption to trading and the resulting softening in our financial performance. As Alasdair has mentioned, we have seen, subsequent to level four lockdown, volatility in volumes of key trades, particularly log exports, where market prices have bounced up and down. On-port restocking and export volumes started to rebuild over the remainder of the third quarter, however.

In respect of our financials, COVID-19 disruptions led to a 16.2% fall in revenue and a 30.1% fall in our proforma EBITDA for the third quarter compared to the same period last year. Whilst our expenses for the quarter reduced by 4.5%, which was benefitting from us being able to reduce and defer operating costs, our operating expenses have increased 6.2% for the nine months compared to the same period last year. This is in line with our expectations to support growth and build operational resilience, however.

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. While acknowledging the uncertainties related to the cruise industry, and general uncertainties regarding the macroeconomic outlook in a COVID environment, we continue to have full confidence in the continued growth in demand for the core primary sector commodities of the Hawke's Bay and surrounding regions.

Kristen will now provide more detail on our numbers.

Kristen Lie (CFO): In addition to the third-quarter revenue EBITDA figures Todd quoted, our results for the nine months are also down year-on-year, albeit the relatively positive first half offset some of the downside experienced during the third quarter.

Across container services and bulk, volumes for the quarter are down. However, continued momentum with average revenues per unit growth across both areas has offset the volume-driven decreases in the quarter and, in the case of container services, means for the nine months revenue has increased by 0.9% compared to the prior-year period.

Overall, revenue for the nine months is down 1.4% to $76.6 million from $77.6 million in the same period last year. Proforma EBITDA is down by 10.8% to $30.8 million from $34.5 million. Proforma net profit after tax is down 14.3% to $15.5 million from $18.1 million in the same period last year.

In terms of operating costs, in addition to planned increases in employee numbers we continue to see increasing insurance costs, with another significant premium increase for the current insurance period recently commenced. Our reported statutory net profit for the nine months of $18.7 million, up from $16.3 million in the same period last year, includes the receipt of the government's COVID-19 wage subsidy of $2 million before tax, and a one-off non-cash deferred tax gain of $1.5 million related to the deductibility of tax depreciation on buildings, both of which are excluded from the proforma result.

The statutory net profit after tax also benefitted from reduced finance costs of approximately $3 million when compared to the same period a year ago.

As noted during our half-year results, we have taken steps to mitigate some of the COVID-related revenue losses, and to prudently protect the forecast balance sheet, including deferring controllable capital and operating costs, but without compromising the safety of our people or our ability to operate. Our focus has been on cash expenditures for the 18-month period to the end of the 2021 financial year, and include reductions in directors' fees, deferrals of wage and salary increases, OpEx and CapEx deferrals, receipt of the wage subsidy, and cancellation of the interim dividend.

Whilst we are progressing according to our initial plan, which is reflected in our 2020 financial year guidance provided today, some elements of our plan are still being worked through and considered. They will be included in our 2021 guidance, which we will address on a future occasion.

Today, we have reinstated our earnings guidance for the current financial year to 30 September 2020. We expect proforma net profit after tax for the 12 months to 30 September 2020 to be approximately $20 million, assuming no material change to trading conditions. Our guidance for the current financial year incorporates July and the August month to date. This earnings expectation benefits from our COVID-19 response measures and includes proforma adjustment items such as the COVID-19 wage subsidy. Further information on our proforma adjustments is provided in the supplemental selective financial information document released together with our results on the NZX platform this morning.

I'll now hand back over to Todd to comment on the outlook.

Todd Dawson (CEO): Thanks, Kristen. Beyond the end of the financial year, the enduring local, national, and global impacts remain uncertain from COVID. In particular, while our borders remain closed to international tourists, uncertainties for our cruise industry remain. Cruise ship visits are unlikely to resume for the coming 2021 financial year, which traditionally sees cruises commence in October and extend through the summer months into April.

Despite all the uncertainty, we remain confident in the trade fundamentals of our business, and the continued long-term growth prospects of the Hawke's Bay and our surrounding regions and, as Alasdair pointed out earlier, the region is weathering the pandemic relatively well, and we will and are continuing to invest to support that long-term growth in our customers.

I'll now hand back over to Kristen to finish up.

Kristen Lie (CFO): Thanks, Todd. That concludes our prepared remarks. We would like to provide the opportunity for those on the call to ask questions related to our announcement today. I will therefore hand back over to the moderator to do so.

Operator: Thank you. At this time, if you would like to ask a question please press star then one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star then two. If you are on a speakerphone, please pick up the handset to ask your question.

Our first question comes from Wade Gardiner of Craigs Investment Partners. Please go ahead.

Wade Gardiner (Craigs Investment Partners, Analyst): Hi guys, couple of quick questions. A good apple season, but clearly some issues around demand in international markets, volatility there. Would this be a timing issue? In other words, the apples get picked and stored and then shipped later when there's demand, or do they get diverted into domestic, in which case you might not see them across your wharf?

Todd Dawson (CEO): It's the former, Wade. So, what we're hearing and seeing from the apple industry is that they've seen quite a bit of price volatility in the markets that they're selling into, so they've been holding inventory until prices are favourable, and moving it when it is. What we are seeing is that the inventory levels in the cool stores are probably higher than what they traditionally would be at this time of year, so we are expecting a bit of a tail to the season to eventuate this year.

They had a good season in terms of actual crop, and that volume will continue to move across the wharves instead of, as you suggested, into the domestic market.

Wade Gardiner (Craigs Investment Partners, Analyst): What - when you say a good season in terms of the crop, what are we talking in percentage terms relative to last year?

Todd Dawson (CEO): I mean, relative to last year, we're about in line with what we would expect of - what we saw last year, slightly behind, but as I said, we're in discussions with the industry, seeing that there's quite a bit of volume still left to go.

Wade Gardiner (Craigs Investment Partners, Analyst): No cruise ships next season. Would you get productivity gains in terms of logs because you don't have that situation where you're having to move ships, et cetera?

Todd Dawson (CEO): Certainly, I think we'll have some gains from a reduction of congestion that we would have seen in other years, and that does provide us an opportunity to look at how we could utilise that window, particularly with the logging industry. We'll be working on that coming into the summer months.

Wade Gardiner (Craigs Investment Partners, Analyst): Any view on dollars saved?

Todd Dawson (CEO): Oh, look, I don't think it's going to be significant or material. It is an opportunity, but I don't think it's going to be materially making a difference to the economics of the port.

Wade Gardiner (Craigs Investment Partners, Analyst): Okay. Finally, just a bit of colour on what you're seeing in the log market, particularly around wood lot harvesting, that sort of thing.

Todd Dawson (CEO): Yes, sure. So, obviously during lockdown and post lockdown we saw the resurgence of the logs back into the port - very steady volumes as they were building the inventory pipe again. Pricing was very strong initially, and subsequently has dropped back. What we're seeing currently is there is still a steady, almost semi-normal flow of logs that we would have seen pre-COVID coming into the port. I guess the uncertainty still remains as to what and how much inventory is able to be consumed up in China. We aren't currently hearing or seeing any particular disruptions to the actual harvesting of wood lot versus our state forest owners. They all seem to be fairly steady, and the wood continues to flow, is what we're seeing at the moment.

Wade Gardiner (Craigs Investment Partners, Analyst): Okay, thank you. That's all from me.

Todd Dawson (CEO): Thanks, Wade.

Operator: Our next question come from Andy Bowley of Forsyth Barr. Please go ahead.

Andy Bowley (Forsyth Barr, Analyst): Thanks, morning guys. I've got a couple of questions - the first of which is around the cost base and cost base initiatives that you've undertaken over recent months, and you can kind of see through your numbers that costs are down in the third quarter versus the first half on a proportional basis. How much of that is variable in the context of lower volumes coming through, and how much of it is the initiatives that you've undertaken? Maybe elaborate a little bit more about the latter in terms of anything in excess of salary reductions, et cetera.

Kristen Lie (CFO): So, yes, there is a small amount that's variable related to boxes over the wharves, et cetera, Andy, but I guess the majority of that will be related to the measures in terms of deferring OpEx costs. So, I guess probably in addition to the salary end of things, or the wages end of things, probably the key elements related to maintenance, site maintenance in particular, where we talked about at the half year we had the opportunity to defer for a period some of those costs, but without really undermining our operations or safety. However, I suppose they're not the sort of things we can continue on indefinitely.

Andy Bowley (Forsyth Barr, Analyst): So then, in essence do we see an operating cost increase through fourth quarter on a proforma basis?

Kristen Lie (CFO): No, so as I mentioned in the introduction, or in the half year, our approach to the revenue loss, COVID-related, is to adopt an 18-month outlook. So, yes, I'm expecting that to more or less continue through the fourth quarter. There will be some costs that come back in the future, but we've got other - still working on other things too that will hopefully also contribute going forward.

Andy Bowley (Forsyth Barr, Analyst): Great. Can you talk about the broader container business? I recognise you made some comments about the pip fruit, but what are you seeing in the broader industry, and particularly around contestable cargo and competing other ports, in terms of win / losses? Any particular dynamics that you can talk to?

Todd Dawson (CEO): I'll talk to that one, Andy. So, I guess overall what we're seeing is pretty steady volume through the port from a container trade perspective. Obviously, we continue to operate in a market where there is cargo that is highly contestable, and people are actively out there trying to seek that contestable cargo from us. Obviously, we're doing everything we can as well to make sure we retain all of our customers and continue to grow. We're seeing some good traction in that growth side of our strategy as well, which is encouraging.

But overall, I think it is a very active market, as you're aware, around container trade across the lower North Island, and yes, otherwise our volumes have been very consistent, and those other key trades - apples, et cetera, meat, pulp, et cetera - going through the port. So, that probably summarises where we're at, at the moment.

Andy Bowley (Forsyth Barr, Analyst): Are you able to elaborate on the good traction that you're seeing in particular trades?

Todd Dawson (CEO): Look, we're seeing some good traction being made out of region, in particular with some of the reefer trades coming to the port and some of the work that we're doing around utilising the likes of the Manawatu Inland Port as well, so that's been encouraging.

Andy Bowley (Forsyth Barr, Analyst): Thanks guys.

Operator: Thank you. A reminder, to ask a question please press star then one. Our next question is from Craig Brown of ANZ Investments. Please go ahead.

Craig Brown (ANZ Investments, Analyst): Good morning, and thanks for making the time available to take questions. I might take advantage of actually having Alasdair on the call and just wondering, Alasdair, if you're able to provide a little bit more colour around the comments on the dividend? I note you deferred the payment in the first half, and you reference in the release just about within the dividend payout policy. If you're guiding to a $20 million NPAT, is that the number that you'll be using to determine the dividend for the year?

Alasdair MacLeod (Chair): We'll decide the dividend for the year in November, Craig, and we'll look at all of the relevant factors at that time.

Craig Brown (ANZ Investments, Analyst): Alright. I appreciate you've got to - yes, I'm just wondering if you can't give any more colour, the reasons behind why you deferred at the interim, if deferral's the right word, and then just how and what's changed to where we are now?

Alasdair MacLeod (Chair): We cancelled the interim dividend because of the massive uncertainty we were facing at the time. The results that have been reported are certainly encouraging, but we will make a call in November.

Craig Brown (ANZ Investments, Analyst): Appreciate that. Alright, thanks very much.

Operator: Thank you. There are no further questions at this time. I'd like to hand the call back to Kristen Lie for closing comments. Thank you.

Kristen Lie (CFO): Thank you everyone for joining us for the Napier Port Holdings nine months 2020 results call, and for your questions. That's it from us, and have a good day and goodbye.

Alasdair MacLeod (Chair): Thank you all.

Todd Dawson (CEO): Thank you everybody.

Operator: Thank you. That concludes today's call. You may now disconnect your lines.

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