NAPIER PORT

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Start of Transcript

Operator: Thank you for standing by and welcome to the Napier Port Holdings Limited annual results announcement. 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 like to hand the conference over to Kristen Lie. CFO. Please, go ahead.

Kristen Lie: Good morning and welcome everybody to the Napier Port Holdings 2020 annual results call. My name is Kristin Lie, CFO at Napier Port. I'm joined on the call this morning with Todd Dawson, Chief Executive and Alasdair Macleod, 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 section of our website. Our intention this morning is to walk through our presentation to report on the highlights of our 2020 financial year, including some more detailed analysis of our financial results. Then, at the end of our presentation, we will open up the line and we will be happy to respond to any questions that you may have.

I'll now hand over to Alasdair to get things underway.

Alasdair Macleod: Thanks, Kristen and good morning everyone. Welcome to our annual results 2020 presentation. 2020 has been a year like no other with COVID costing countless lives and disrupting economies globally. It made our first full year as a listed Company even more challenging than we expected. Despite that - and Todd will provide more detail shortly – in the 2020 financial year, we have made very good progress on our strategic initiatives, including on the centrepiece of our strategic development program, 6 Wharf.

This has all been achieved by the contributions and resilience of our Napier Port people and the resilience of the regional economy. Our management and people have worked through these unique challenges with commitment and calm and applied themselves diligently to the task of keeping cargo moving across our wharves.

Whilst the economic environment and outlook have changed since the time of our original PDS forecasts made at the time of our IPO in August of last year, we are pleased that we can report a set of solid 2020 financial results in line with the original PDS forecasts, given the COVID-19 affected year we've experienced.

Looking forward, we will continue working towards delivering our business plan and developing our sustainability strategy. However, the environment in which we are currently operating is more uncertain. We'll comment further on this later in the presentation. Todd will now take us through the highlights of the year's results. Todd?

Todd Dawson: Thank you, Alasdair, and for those on the line, we're on slide 6. Good morning, everyone, and thank you for taking the time to hear our end of year results today.

Stating the obvious but this year has been an extraordinary year for Napier Port and our customers and community.

We've previously referred to the 2020 financial year as a game of two halves. First half of the year saw us make good progress on the delivery of our strategic objectives and saw the strength of trade coming from the Hawke's Bay continuing to build momentum.

Our operating result has been tracking in line or ahead of expectations set at the time of the IPO with solid volumes being seen across the majority of commodities arriving at Napier Port. We saw a smooth start-up to our major construction program on 6 Wharf and steady progress being made on a number of our other key projects.

As COVID-19 began to take hold in China and further afield during January and into February, the potential economic impact of the pandemic became evident and saw this - and we saw this initially within our log trade as China inventories grew and the pandemic shut down China operations.

Moving into the second half of the year and following on from the withdrawal of our IPO's forecast guidance and the government-imposed level 4 lockdown period, we moved quickly to ensure we could maintain the health and wellbeing of our people at Napier Port, whilst also maintaining our operations responsibility to central lifeline asset and service provider.

The COVID-19 pandemic and government responses did create significant uncertainty for our people, operations and our trade leading into the second half of the year. We took the decision to defer capital and operating costs, given the uncertain outlook without compromising operations and the safety of the team and we continue to keep our focus on delivering our strategy whenever possible.

Most trades have bounced back since the level 4 period and whilst trading volumes are down year on year, we are reporting a pleasing financial result in the face of the COVID-19 challenges we have faced. The year's trading performances are a reinforcement of the resilience of our local economy, our diversified trade base and the value of our region's food and fibre-based commodities across the New Zealand's international markets.

It has also shown once again, the dedication of our people through testing circumstances and demonstrated to us that the strategy we've embarked upon is the right one and that our people in the region's trade is resilient and enduring.

With the foundational elements now in place across the business for clear strategic direction, a sound balance sheet, right management team and supportive community, we have also made significant progress on our strategic development program, including the smooth start-up of a major construction project for 6 Wharf and good progress on a number of our other key projects across our business, including expanding our presence and capability to attract more business in Napier Port from across a wider regional footprint.

Our team is now focussed on executing our strategy and growing our business for the future. A recent highlight for us has been the agreement to extend our strategic partnership with WPI for at least another 10 years. WPI supplies customers throughout the world with high quality forest fibre products including pulp and milled lumber.

WPI is based in the central North Island near Ohakune and is highly contestable and significant volume of cargo that has options to choose any of the main North Island ports to export their products from. Their decision to remain with Napier Port is a welcome endorsement for long-term value that Napier Port has and continues to deliver for WPI.

Securing this business for this [unclear] period is a positive for our competitive position and reinforces that we are able to provide competitive and sustainable cargo solutions across our future strategic growth platform that is well developed and demonstrates to customers that with 6 Wharf under construction and other network infrastructure options planned, Napier Port is a secure supply chain option offering future resilience in the face of the challenges being seen at other competing North Island ports.

Moving on to the next slide, as mentioned on the previous slide, we have made good progress with the delivery of our strategic programs of work during the first half of the year and this has helped to build further on the operational capability and resilience levels required until 6 Wharf becomes available in late ’22.

During the year, we completed the signing of the construction [contract] for 6 Wharf and HEB got underway following the ground-breaking ceremony in February. I’ll talk more about 6 Wharf in a moment.

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 focus related to growing out of region cargo trades, new technology deployments and improving our operating efficiencies did slow down during the lockdown periods but we’re now back on track and I’m pleased to report positive progress and momentum building again as our business operation and cargo flow has returned to normal.

Kaweka, our third tug has now come onto full operation and she’s already delivering great results with increased manoeuvrability, fuel efficiency and is enabling us to avoid additional secondary vessel moves across the port. She has also allowed us to berth larger container vessels during night-time hours, improving the availability of our wharves for customers and Kaweka provides additional risk mitigation, being our third tug as a real boost to our marine operations capability.

We’ve seen positive momentum created across our health and safety roadmap also. Implementation and many improvements delivered this year and we are well on track towards completion of our ISO 45001 program alongside further development of our culture of care and people engagement initiatives.

We are pleased to have made progress this year with the development of Napier Port sustainability strategy as well and we talk more about this in our annual report which is published alongside our results earlier today.

Moving onto the next slide. This year, following the completion of the IPO and start of 6 Wharf development, our commercial focus has turned to looking further afield at the opportunities we see available to Napier Port. Both within the container trade and bulk cargo base of central and lower North Island as well as further afield in support of northern supply chains as congestion issues and supply chain disruption starts to take affect across the North Island and New Zealand’s wider supply chain.

Napier Port is perfectly positioned and poised to support cargo owners and shipping lines with the trade profile that we see as complimentary to other ports on the North Island. Our counter-cyclical productive season on the Hawke’s Bay provides the capacity available at the right time of year to support customers in other North Island ports with the capability required to provide an efficient entry and exit point for import and exports at traditionally busy time of year.

With the uncertainty remaining for many cargo owners on the North Island on the future location, the viability and resilience of ports and their freight networks, we are presenting a solution to customers looking for alternatives to traditional pathways.

I'm pleased to report some initial green shoots of growth emerging as we enter our summer months as a result of our outer region growth strategy for both container and bulk cargoes. However, while these initial signs of growth are encouraging, we still face the uncertainty that remains within our cruise industry business and the wider global uncertainty that remains for customers in the international markets due to COVID-19 and other global trade related political uncertainties that are still at play.

The recent announcement of a funding-in-principle support from the Crown for our future Whakatū inland port development adds to our customer story of having a future growth, connections and capabilities to support our region's growth with the provision of efficient supply chain and port services for across the central and lower North Island into the future.

Moving onto 6 Wharf construction slide. Our 6 Wharf construction project has been progressing really well this year. Following the ground-breaking ceremony in February, our primary contractor, HEB, have been making steady progress and, despite the interruption during the level 4 lockdown period when the site was shut down, I'm pleased to report that we remain on budget and on time for completion during late '22.

The initial and some of the most challenging phases of the project seen - have been seen during this start up and they've gone well and completion of piling has progressed with about one third of the 400 piles completed and our dredging program is well advanced now with operational planning for the commencement of 6 Wharf in '22 going very smoothly so far.

6 Wharf will be a real boost to Napier Port's future capability and will secure the region in the central and lower North Island's growth for future generations.

Our continued investment in such a significant piece of critical regional infrastructure is well supported by the trade we see today as well as that which we see coming into the future. We are now moving aggressively to ensure the benefits of 6 Wharf will be used and support of the whole of the central and lower North Islands, we believe it provides the port infrastructure required to service the North Island as opposed to the challenges we see being faced by other ports with damaged and stranded assets to our south or congested ones to the north.

Moving onto our trade results slide. In 2020, our total cargo volumes were just over five million tonnes, which was a 7.5% decrease from 2019. The decrease was driven by COVID-19 disruptions both here and abroad and in particular, the categorisation of forestry products as non-essential, seen during April and May level 4 lockdown period.

On container services, our container services business was broadly in line with last year and just 1.1% or 3000 TEU down. Container volumes were impacted to a lesser extent than our bulk cargo because food products, amongst others, were categorised as essential during level 4 and they continued to flow during the lockdown.

High value reefer TEUs increased 2.1% whereas dry TEUs decreased 7.3%, largely due to their dominant cargo in those dry TEUs being classified non-essential which was pulp and timber commodities.

Apple and pear volumes saw a record equalling year and was a great result for that industry, given their challenges to maintain their operations and the disrupted international markets that they were experiencing.

Bulk cargo, total bulk cargo of 3.1 million tonnes was 8.3% behind the prior year. Log exports were 2.5 million tonnes, which is an 8.3% decrease on the prior year. A discussed, this was due to the market disruptions in China preceding the cessation of harvesting in New Zealand during the level 4 lockdown.

Overall, we see the trade result as a good one given the circumstances and reflective of the resilience in the local economy and demand for our region's products.

Slide 11, compared to forecasts made at the time of the IPO, we have achieved underlying financial results in line with our forecast across all the key metrics. Revenue per unit growth has offset the lower COVID-impacted trade volumes on the top line revenue and our mitigation measures adopted in response to COVID-19 have supported our operational earnings cashflow and our net profit result for the year.

Slide 12, despite the challenges faced this year, our reported audited financial result and key metrics have been relatively stable compared to 2019. We have managed to achieve a milestone becoming a NZ$100 million revenue business with 0.8% growth year on year.

Net profit after tax increased considerably year on year because it's principally lower due to the non-recurring IPO and capital restructuring costs that have been removed from this year's result. Overall, a very satisfying outcome and one that underlines the performance of our team and the resilience of our trade base in the region.

I'm now going to hand over to Kristen to talk through the detail of the financial and operating results.

Kristen Lie: Thank you, Todd. We're on slide 14. During 2020, the revenue of NZ$100.4 million we achieved was made up of growth in containers where revenue grew from NZ$61.2 million to NZ$62.3 million and Cruise, where revenue increased from NZ$3.7 million last year to NZ$4.3 million in 2020. Bulk cargo revenue decreased from NZ$32.3 million to NZ$31.3 million.

In respect of container services, container services revenue growth of 1.9% year on year resulted from average revenue per TEU increasing by 3% in the year, which offset the 1.1% reduction of TEU trade volume. Average revenue per TEU increased due to the full year impact of infrastructure charges introduced part way through 2019 and increase in refrigerated container services from a high volume and proportion in our container mix and income from related services such as power and monitoring of [unclear] containers, which were offset by lower storage and depot services revenue.

Moving on to slide 16. Bulk cargo revenue was down 3.1% year on year, which was driven by the 8.3% volume decline to 3.1 million tonnes in 2020. Average revenue per tonne increased by 5.7% compared to the prior year, principally due to cargo mix and tariff changes.

The biggest contributor to our bulk and total cargo volume changes by weight was log exports, which takes me on to the next slide. 2020 log volume decreased 8.3% versus the prior year following the heavily COVID impacted second and third quarters of our financial year, we have seen export market conditions and export volumes improve into the fourth quarter though we continue to see month to month volume volatility.

Market commentary suggests that Chinese market conditions for logs and pricing received by New Zealand forest owners has recently been positive, driven by Chinese domestic consumption for construction.

I also note here that the methyl bromide deadline for total [recapture] has now been extended twice and is currently August 2021, which has provided some additional time for the industry to adjust.

In respect to Cruise, a shortened 2020 cruise season saw our revenue increase 14.9% to NZ$4.3 million versus 2019, continuing its relatively high growth trajectory. Cruise vessel calls of 76 were 11 fewer than forecast but six more than 2019. As we have communicated previously, we do not expect the resumption of cruise ship visits this current cruise season. We are also conscious of the possibility that the situation may be in place for an extended period.

Just a brief recap on what we set out to achieve with our COVID response plan that we formulated at the peak of uncertainty in the most severe lockdown period and articulated in our half year 2020 results release. Our primary focus during these times has to be ensure the safety of our people and users of the port. Our financial response aimed to deliver a prudent approach to managing our cost base and balance sheet, in particular across the 18-month period to the end of the 2021 financial year as we face the significant uncertainty that is ahead of us all.

We repeat and note on the slide here a number of the measures we initiated. While this has resulted in cost savings in the short-term, they are temporary in nature and not sustainable for an extended period. A number rely on the good will of our stakeholders, including our staff and shareholders.

We estimate operating expenditure savings in 2020 of NZ$2.2 million and a further approximate NZ$5 million of mostly CapEx deferrals to later periods.

Some initiatives remain on the table but in terms of managing expectations, we expect the current financial year to reflect a sustainable path resuming during 2021. However, I'll add at this point, we continue to maintain operating capital expenditure discipline.

Expenses on slide 20, our pro forma total operating expenses in dollar terms are 0.8% higher than 2019 and they have grown less than originally forecast as a percentage of revenue. Employee benefit expenses are up 6.4% but 2.7% less than forecast due to the COVID measures. Maintenance and other operating expenses are both down 4.6% due to lower volumes in COVID measures.

Moving onto the next slide, comparable pro forma EBITDA of NZ$41 million was up slightly year on year and was in line with the original PDS forecast of NZ$40.9 million. This represented a margin of 40.9% of revenue, a percentage point ahead of our PDS forecasts.

Moving on to net profit. On a comparable pro forma basis, 2020 net profit of NZ$20.4 million was NZ$0.8 million ahead of 2019 and NZ$0.4 million ahead of the original PDS forecasts. The reported statutory net profit after tax of NZ$22 million included a number of items, including those noted in the slide, that are adjusted out for pro forma purposes.

The prior year reported a statutory net profit included the significant one-off IPO and restructuring costs as Todd mentioned earlier.

Capital expenditure. Capital expenditure during the year was NZ$53 million or NZ$46 million in cash flow spend terms. The majority of which went towards 6 Wharf construction. Other completed development projects in the year were final payments for our third tug Kaweka and the remaining payments to complete the development of our off-port Thames Street container services depot.

Major replacement CapEx items in the year included wharf major maintenance, maintenance dredging and empty container handling equipment. In the current year and future years, our development capital spend has ramped up as we continue to build for growth.

Cash flow and liquidity. Reported cash flow from operating activities remains steady at NZ$29.3 million year on year with higher tax payments and working capital in the current year offsetting reduced net finance costs and IPO transaction costs. Whilst not shown, proforma net cashflow from operating activities decreased by NZ$4 million for the same reasons, albeit this was just NZ$0.3 million less than the original PDS forecasts.

As noted, investing cash flow has increased as we got 6 Wharf construction underway and final payments related to the issuance of shares in the IPO and the NZ$5 million dividend paid in December 2019 resulted in a net financing [activity] cash outflow of NZ$6.6 million during the year.

Due to rephase spend on 6 Wharf construction leading up to the signing of the construction contract and an approximate five-week delay from the COVID level 4 shutdown on 6 Wharf, deferrals of other forecast CapEx spend as part of our COVID measures, we remained in a cash positive position at the end of the financial year, having spent less than originally forecast in the PDS.

The balance sheet state we retained at NZ$180 million undrawn bank facilities, which we have subsequently drawn upon in October.

Finally, a comment on our capital management targets. Our stated objective was to target a long-term range of two to three times for our net debt to EBITDA ratio, with a target peak of no greater than 3.5 times through the 6 Wharf construction period.

Given the current environment [unclear] the lack of cruise revenue at least in the short-term, a peak ratio above 3.5 times is now considered likely. This is a point of focus with a view to mitigating this increase over time. I'll now hand back over to Todd and Alasdair for concluding remarks.

Todd Dawson: Thanks, Kristen. So just in conclusion. So, to sum up this year, I would say that we're really satisfied with the result and pleased to have been able to deliver on our forecasts provided at the time of the IPO for our shareholders. It's not been a year without its fair share of challenges but our team, our region and our trades has shown itself to be very resilient.

The business is in good shape to be able to capitalise on the growth prospects and opportunities we see in the future for Napier Port and we've shown ourselves to be adaptable to changes that can come from the least expected situations as well as taking advantage of opportunities that present themselves to us.

The security of our fellow customer base provides us with the confidence to keep investing in our forward-looking development program in customer focussed strategy for growth.

Just in terms of the outlook, the 2021 financial year ahead comes with a fair degree of uncertainty and whilst the current trends and volumes remain strong and our business and our primary sector-based customers appear optimistic, we are looking to next year to remain prudent in our approach to cost management as we see the key challenges being uncertain economic times and outlooks across global markets for New Zealand products.

The issue of a strong reliance on seasonal labour for the harvest of apples this year is unresolved at this time and the fact that to date, there is no international tourism sector being re-established in New Zealand due to the closed borders is the major obstacle to overcome prior to any cruise industry returning in the next 12 months.

Our focus at this time is on ensuring we remain vigilant in keeping our people and our community safe and pressing ahead with our growth plans whilst capitalising on opportunities being presented to us across the North Island supply chain as we see it creak and groan under the pressure of disruption within in international and domestic supply chains.

Now, I'm going to hand over to our Chair, Alasdair, for final remarks.

Alasdair Macleod: Thank you, Todd. We are on slide 29. As stated earlier, we currently are not expecting any cruise ship visits this cruise season and we are conscious of the uncertainty regarding the timing and eventual extent of this industry's revival.

We continue to exercise a disciplined approach to operating and capital expenditure and are pursuing efficiencies. However, several of the cost saving measures introduced in response to COVID-19 including the already signalled deferral of operational and capital expenditure cannot be sustained in the new financial year.

Finally, the Board believes Napier Port should configure itself for the long-term, not only in terms of infrastructure but also in terms of people and capability. All these factors translate into an expectation for an underlying result from operations for the year to 30 September 2021, to range between NZ$34 million and NZ$38 million.

Moving on to slide 30. We have announced today a December dividend of NZ$10 million or NZ$0.05 per share. This will be fully imputed and paid on 18 December. The Board has had regard to, amongst other factors, the economic outlook, the near-term earnings outlook, the Group's existing significant capital commitments, its COVID-19 response plan and its capital management policy.

Taking that into account, we consider that it is prudent to take a conservative approach to its balance sheet management in the current circumstances. The Board acknowledge the fact that the final dividend today is less than originally forecast in respect of the whole of 2020 financial year and we acknowledge the impact this may have on our shareholders.

As we outlined in our half year interim report, we remain grateful for the support of our shareholders as we focus on protecting and growing long term value of our shareholders assets. I'll now hand back 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 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 are on a speaker phone, please pick up the handset to ask our question. Your first question comes from Andy Bowley 27:19 with Forsyth Barr.

Andy Bowley: (Forsyth Barr, Analyst) Thanks, operator and good morning, guys. So, a couple of questions from me. The first one, I just want to pick up on the pricing theme and Todd, during the presentation you talked about average revenue per unit increases that we saw in the last financial year and I recognise cargo mix played a key role in those increases, particularly say from a container point of view with the [unclear] proportional uplift.

But on a mixed neutral basis, what kind of unit revenue increases can we expect in the year ahead for both bulk and containerised cargo?

Kristen Lie: Hi, Andy, it's Kristen here. I'll jump in on that one. The - what we've seen in the increase this year is I guess the prime movers have been the implementation of the infrastructure levy on the containers during 2019. So, we've seen a full year impact of that in the 2019 numbers. Likewise, in cruise, we've implemented a passenger levy for this most recent season and there's been a bit of changing in the bulk sides. Not so much a levy per se but more around mix, I would say.

So, going into the next financial year, obviously on the container side, won't have that impetus in the rate. Obviously cruise is not applicable and wouldn't be expecting any major moves on the bulk side.

Andy Bowley: (Forsyth Barr, Analyst) So outside of those levies that you've referenced, Kristen, are there any other mechanism within the relationships that you have with shipping lines or other customers that will see price increases over the year ahead?

Kristen Lie: Well mechanisms maybe but I guess what we're suggesting is that - not to expect any kind of major movements in those rates.

Andy Bowley: (Forsyth Barr, Analyst) Okay, great. Thanks. Look, second question, in terms of guidance for the year ahead, it clearly implies a material drop from what we've seen in the year just gone. You've referenced a number of items but can you give us some flavour about other key drivers here? I'd expect in particular some bounce back from the various cargoes that were impacted during alert level 4 that you talked about in terms of say, log exports. In terms of dry containerised exports. Then, are there any profit impacts of the WPI retention?

Todd Dawson: I'll probably jump in there a little bit, Andy. I guess what we're seeing in terms of that guidance is that there's some - beside cruise, there's the potential for some reasonably significant swing items within the uncertainty that we see in next year and log trade, whilst it could be very optimistic about its flow, could equally go the other way, given the ability of the pandemic to shut down key markets and the fluctuations that we're seeing in trade uncertainties as well around things like recently you're seeing Australian trade being stopped into China for logs.

So that gives us some degree of cautious approach to how we're looking at the range for next year in particular with logs. Equally, the uncertainty around the trade on the horticulture with the ability to actually get the product away in sufficient - with the sufficient labour available to pick it gives us that - also that need to be conservative in our approach to the outlook.

So, the - there's some reasonably - they can swing that number quite quickly if that happens, as we've seen this year. Plus, the fact that the cruise has, that gives us confidence to be able to just [unclear] a range of that NZ$34 million to NZ$38 million out there.

Andy Bowley: (Forsyth Barr, Analyst) Just on logs there, what's the best-case scenario for you in terms of the range that you're expecting or considering for the year ahead?

Kristen Lie: Yes, I think if we were to be meeting the top end of the range [unclear] provided everything would be going pretty steadily and we'd see the flow that we're seeing today continue. So that would be what I would indicate.

Andy Bowley: (Forsyth Barr, Analyst) Then, in the question, I made reference to any profit impact from the WPI retention.

Kristen Lie: Obviously, you know, the WPI contract, highly contestable but it's also very commercially sensitive as to how we went about that [unclear]. Yes, that's all I'll say on that one.

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

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

Wade Gardiner: (Craigs Investment Partners, Analyst) Hi, guys. A few questions from me. First of all, you've given some guidance on CapEx for next year in regard to Wharf 6 (sic) but what should we assume in terms of other items, you know, replacement CapEx and also I guess the NZ$5 million that was not spent in FY20. Will that get deferred into FY21?

Todd Dawson: So, I think we've talked about before, on an average year, replacement capital comes in roughly NZ$10 million. Maybe a little bit less on an average year. So, I guess I'd probably guide you to that. Yes, give - that's probably the best indicator.

Wade Gardiner: (Craigs Investment Partners, Analyst) No other specific items other than just normal replacement? I think it was NZ$11.7 million or some other long-term number that was discussed in the prospectus.

Todd Dawson: Yes, I think there's a few other I guess developments, that are capital proposals on the table but nothing - I guess nothing material. So, all things considered, I guess if you put the replacement capital together with the 6 Wharf numbers we've provided, it's probably going to get you pretty close.

Wade Gardiner: (Craigs Investment Partners, Analyst) Yes and what was the NZ$5 million that was deferred specifically?

Todd Dawson: It was a range of items. The - in there is some more a routine [buffer] related to some of the infrastructure assets. Probably the best example or the easiest one to understand is the - we are looking at or have been looking at a replacement pilot vessel. So that has been postponed without putting a time frame on it, as an example choice we've made to probably spend a bit more on keeping the old girl we've got now, going. But that needs to be replaced in due course but it's just been moved out.

Wade Gardiner: (Craigs Investment Partners, Analyst) You mentioned in the presentation about up in North Island, congestion. Where's it impacting your business? Is it mainly in access to empties? Or are there other areas?

Kristen Lie: So currently it's not really impacting our business at all, Wade, in that we actually are in our low season and so actually, what we're seeing is some positive spin-off from it where the shipping lines are utilising us as a capacity relief valve, if you want to call it that.

So, it's also helping us to build on the story around the role that Napier Port plays and can play in the future around supporting that upper North Island congestion with the flow of inbound and ports through our port. So, what we've got an eye to the future on though is, I guess that more the next four to five months as we come into our peak if these issues are start to continue – or continue, then container supply into New Zealand to feed the - in the main, the horticultural sector out of the Hawke's Bay could become a concern that we're keeping an eye on as well. Hence the - more so the comments the earlier about the risk that presents to our earnings result for the future.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay. Just understanding the - just following on from what Andy was saying in terms of the guidance range, so the way I guess I'm looking at it is cut cruises out, the top end of that range is really a situation where nothing - so the volumes that we're seeing to date are - and no COVID impact and really the bottom end of the range is if we get further impacts from COVID, whether it be locally or internationally. So, it's - in other words, the range is really driven by the revenue outcomes here.

Todd Dawson: Yes, that's fair to say. I mean, there is some variability in the costs. We're focussed on growth and have some - I guess some plans and things like that so it'll depend a little bit on how things play out, which is all built into our overall variability in the outcome.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay and on - just in terms of labour availability, what are you hearing there in terms of - do you have any insights as to how the government is looking at that?

Kristen Lie: We're obviously - we're hearing what everybody else is hearing but - and talking to the pipfruit growers as well on a regular basis as to what traction they're making with the government. They're putting a number of different scenarios and options in front of the government but at this stage, it doesn't seem like the government is willing to actually accommodate some of those requests in terms of getting seasonal RSC workers back into the country.

So, at this point in time, it stills remains an issue that's outstanding to be resolved. Government's just pushing for them to utilise New Zealand-based labour at this point in time, it would appear. So, I think the pipfruit growers are trying to come up with a myriad of different options to put in front of the government and looking at how they can allow workers to come in from COVID-free countries and do that safely with managed quarantine facilities provided et cetera. But at this stage, it's not getting a lot of traction, is our understanding.

Wade Gardiner: (Craigs Investment Partners, Analyst) Is there a - I guess a timing deadline on that in terms of most of the harvest is through March through June. Or most of the exports, anyway, but what about…

Kristen Lie: It depends on…

Wade Gardiner: (Craigs Investment Partners, Analyst) …the preparatory work?

Kristen Lie: Yes, that's right. It depends on the commodity weight. I mean, you're - at the moment, there's some commodities that will want those workers here now to be doing some of that pre-seasonal crop picking work. The pruning and things that you just mentioned.

Things like the wine industry, equally cherries and things like that, too. We know that they are struggling.

That's not such a big commodity for the Hawke's Bay but for the South Island but they would ideally be landing workers here in the Hawke's Bay around about now to be starting to do that pre-work pruning and getting everything set up in readiness for the harvest to be starting to be picked in late January, early February. Yes.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay. Then final question for me, just in terms of the dividend. I mean, yes, the NZ$0.05 was different to the original PFI forecast and it's - and also, I guess different to what I understood the dividend policy to be. To be around 70% of free cash flow. So, what should we - or how should we view it going forward?

Kristen Lie: Well I think as Alasdair outlined, there was a bunch of factors that were incorporated into the decision on where to land. This year is - we've met the numbers that we are signalling a bit of a change - a definite change going into next year. They dynamics and the Board has taken account that the current outlook and where we're going with a sort of a prudent overview or lens in terms of managing the balance sheet going forward.

I think the policy as written basically allows for that in terms of taking into consideration, I think, all those factors. So, I can't really speak for the Board and maybe Alasdair wants to add something here but I think the policy still stands and we'll take it as it comes in terms of see where we go from here.

Alasdair Macleod: Yes, I don't have a lot to add to that, Wade. The policy is quite clear that the Board has to take into account the general business environment and future funding requirements and so on. As a Board, we're trying to manage risk.

You've already had discussion around the earnings outlook and acknowledgement that cruise has gone from next year - or this current year. Todd's talked about the challenges of getting labour into the pipfruit sector so we're still faced with massive uncertainties and we are being - taking a prudent long-term view.

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

Operator: There are no further questions at this time. I'll now hand back for brief closing remarks.

Todd Dawson: Well thank you everyone for joining us and for your questions. That ends our presentation and just once again, thank you very much and have a good day and goodbye.

Operator: That does conclude our conference for today. Thank you for participating, you may now disconnect.

End of Transcript