SOUTH PORT NEW ZEALAND LIMITED

NZX Announcement and Media Release

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Bulk cargo growth drives South Port ahead

South Port New Zealand Ltd's reported after-tax profit for the June 2018 year is $9.66M, up 14% on last year's result of $8.45M. South Port Chairman, Mr Rex Chapman said, "this is an excellent result for the Port, underpinned by a 13% increase in cargo flows."

Total cargo volume through Bluff set a further record of 3,445,000 tonnes (FY17 3,053,000 tonnes) due to strong growth in bulk cargoes and a positive development in shipping line connectivity.

"The mainstay of our business continues to be bulk cargoes representing 85% of all volumes handled across the Port wharves," said Mr Chapman.

Revenue from port and warehousing operations equated to $40.7 million ($36.9 million), an increase of 10%.

Higher volumes through the Port saw operating profit before financing costs and tax increase by 13% to $13.8 million ($12.3 million).

Net financing costs were $579,000 ($449,000).

Earnings per share were 36.8 cents (32.2 cents per share). Net tangible asset backing per share equates to $1.53 ($1.42 per share). In establishing the dividend payment level, Directors took into account sustainable profit plus future maintenance expenditure. Shareholders will receive a consistent final dividend of 18.5 cents, which sustains a full year dividend of 26.0 cents, fully imputed.

The dividend payment represents a gross return of 5.2% (net 3.7%), based on a share price of $7.00 as at 30 June 2018. A dividend payout ratio of 71% results for 2018 (using reported NPAT) and equates to 61% of free cash flow.

Mr Chapman said that "South Port has recently been successful in renewing its insurance cover, including material damage, up to $250 million."

Insurance companies are now raising the issue of whether ports need to carry out additional strengthening work on critical assets in coming years to maintain insurance cover. This could have significant cost implications for the Port and Management has started to investigate these requirements.

TRADES

The Chief Executive, Mr Nigel Gear, said “Bulk forestry cargo (logs and woodchips) for the first time in the Port’s history, have eclipsed the one million tonne mark and is now the largest contributor to the Port’s volume and profit.”

“Favourable market conditions in both China and India have supported the increase in log trade and the export of eucalyptus woodchip into Japan has remained buoyant.

Due to a particularly dry summer and therefore poor pasture growth, the imports of stock food increased this past year by 80% on the previous period. “Stock food has been imported into the region for a number of years, primarily as supplementary feed for the dairy industry. Specialised products are typically shipped in containers with bulk coming in the form of molasses and palm kernel.”

In March 2018, the Mediterranean Shipping Company (MSC), which calls at South Port on a weekly basis with their Capricorn Container Service, enhanced their South-East Asia – Oceania network by splitting their service into two separate loops, one to cover the South Island and the other the North Island.

“This greatly improves the service out of Bluff with increased capacity to load/discharge more cargo and provide faster transit times to markets worldwide. These changes have already delivered an increase in containerised cargoes handled through the Port.”

During the year, South Port, MSC and customers also celebrated the 10th anniversary of the Capricorn Container Service’s first call into Bluff (MSC Hobart arriving on 28 May 2008).

“The Capricorn call has been an integral part of the service offerings into the Port during this time and provides a much needed competitive option to the importers and exporters of the region.”

The New Zealand Aluminium Smelter at Bluff has continued to deliver strong export volumes and has recently announced the decision to reopen the fourth potline.

“The Intermodal Freight Centre has been operating successfully for two years, adjacent to the KiwiRail container transfer site at Invercargill. The ability to deliver imported containers into Invercargill by rail has been a great success,” said Mr Gear.

During FY18 the paving of a 15,000m^2 log storage area was completed on the Island Harbour.

Mr Gear said, “The development and refurbishment of new and existing infrastructure on the Island Harbour is important to encourage new cargo volumes across the wharves and to improve the quality of the existing operations.”

Design specifications have been finalised for the $5.0 million upgrade to the Town Wharf fuel import berth. Construction beginning in February 2019 is expected to take 12 months. "This significant project will future proof the wharf infrastructure for the next 50 years and allow for the continued efficient distribution of fuel imports into the Southland region and Wakatipu Basin."

Mr Chapman noted concerns over an escalating tariff war between major economies. However, trade forecasts for South Port remain steady with forestry exporters still predicting healthy export market conditions in China, India and Japan. Cargo volumes and revenues are expected to be stable.

South Port estimates that earnings in FY19 are likely to be approximately 10% lower. Increased expenditure this year will continue to be a factor that will have a bearing on profitability, however, the Directors will endeavour to maintain the current level of dividend payment.

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