

**2020 ANNUAL MEETING NZX AND MEDIA STATEMENT**

29 October 2020

**South Port looks forward with optimism after 25 years**

The benefits of diversification were highlighted in a COVID-19 affected year, shareholders of South Port New Zealand Limited (South Port) were told at the Company's Annual Shareholders' Meeting at Bluff today.

South Port incurred only a 3.6% decline in net profit at \$9.43 million, from the previous year's record profit.

South Port Chairman, Rex Chapman, noted that at the 2019 Annual Meeting, shareholders were told to expect a fall of approximately 10% in 2020 net profit.

The 2019 forecast decrease in profit followed some softening at that time in the international commodity markets, in particular, forestry products.

Total cargo for the June 2020 year was 3.269 million tonnes, a 7.2% decrease on the previous period.

"But what we did not predict was the complete cessation of those cargoes during the period of the Alert Level 4 Lockdown, when forestry cargoes were not considered as an essential industry."

"Forestry represented 31% of all cargoes the previous year, so it is not surprising that forestry was the main contributor to the 7.2% decline in total volume."

Record volumes of bulk stock food were imported late in the season as COVID-19 restrictions led to a shortage of processing space at meat plants and a shortage of late season feed.

"While bulk cargoes are the backbone of the Company's trade, 85% of total volume, our cold storage and container activities performed extremely well making up for the loss in bulk forestry cargoes (logs and woodchips)."

Although the Company met the threshold of a 30% decline in revenue, which would have qualified for the Government's wage subsidy, it was decided not to apply.

"As it turned out, with the subsequent recovery in forestry cargoes after moving to Alert Level 3, this was the right decision for us," said Mr Chapman.

As an essential business, the Port continued to operate during Alert Level 4, and Mr Chapman praised the collective effort of the Port's staff. All permanent and fixed term staff received a \$500 bonus payment for their support and cooperation during this period.

This year marks 25 years since South Port listed on the New Zealand Stock Exchange. In July 1994 the Company made a public offer that was fully subscribed. South Port remains the only Southland-based listed company.

Mr Chapman said, "trade volume has almost doubled from 1.7 million tonnes to nearly 3.3 million tonnes."

"Our conversion of revenue to net profit after tax has increased from 6% to 21% which reflects the greater utilisation of our fixed asset base. Profit and share price have increased by over five times."

"The original share price of \$1.10 per share had increased to \$6.95 as at June 2020 balance date and market capitalisation from \$29M to \$182M."

"Total value delivered to shareholders since listing (share price appreciation and dividends) has been in excess of \$269M. Annual dividend per share has increased from 6 cents to 26 cents."

"All of this has been achieved through an approximate doubling in staff from 48 to 100. This smaller percentage increase in staff relative to the increase of the size of the business reflects the great utilisation of technology over the last 25 years."

## **TIWAI POINT**

A year ago the fourth potline at New Zealand's Aluminium Smelter (NZAS) was reopening, "and so it was disappointing to receive the news on 9 July 2020 that Rio Tinto was to start planning for the wind down of operations and the eventual closure of the Smelter in August 2021."

South Port subsequently clarified that while the Smelter represents approximately 33% of the Port's cargo volume, the Company receives no wharfage revenue for the raw material delivered to the Smelter on the Tiwai Wharf.

Instead, the Smelter pays the Port a licence fee for the wharf structure which is for a fixed term until 2043. South Port has earlier estimated the Smelter's overall contribution to net profit after tax, excluding the licence fee payable until 2043, to be approximately \$2M. "Based on a net profit of approximately \$10M, this represents 20% of our after tax profit."

"Fortunately, lobbying and political pressure has brought home to the Government the regional and national significance of the Smelter."

“This together with other considerations, such as the stranding of the Manapouri power in the South, the cost of transmission upgrades to get the power north, transmission losses and anticipated changes to transmissions pricing, have led to what we understand to be constructive recent dialogue between Rio Tinto, Meridian and the Government which gives us increased optimism that at least a three to five year extension to operations might be possible.”

“If that can be achieved, it gives at least some hope that the Smelter might have a longer-term future beyond that, or alternatively, it would allow time for other industry to be established.”

## **AQUACULTURE**

Mr Chapman added, “the development of aquaculture in Southland has also been promoted as an industry which is capable of achieving the same scale as the Smelter in terms of its contribution to the local economy and GDP.”

In February, Ngāi Tahu Seafoods Ltd lodged an application for resource consent to develop a sustainable open ocean salmon farming operation, Hananui Aquaculture, off the northern coast of Rakiura (Stewart Island).

Sanford lodged an application for consent to establish an open ocean salmon farm 28 kms from Bluff near Ruapuke at the south-end of Foveaux Strait.

“It is estimated that these two sites, if consented, could support approximately 55,000 tonnes of salmon production.”

“The impact of an expanded aquaculture industry on the Port will be modest in terms of cargo volumes which could be expected to be import of salmon feed and export of processed salmon, but the increased activity will require berth space and port side facilities for servicing the marine farms which will all be very welcome new business for the Port and region.”

## **CHANNEL IMPROVEMENT PROJECT**

Over the last 12 months, South Port’s Board has been actively considering the possibility of deepening the Port’s entrance channel operating draft by 0.75m to 1m, “which would increase our draft from the current 9.7m to either 10.45m or 10.7m.”

Mr Chapman said, “consultation is being undertaken with a range of stakeholders before proceeding further. Initial feedback has been supportive.”

“We are confident that the necessary work on the channel (drilling, blasting, dredging and disposal) can be undertaken safely with no material effect on the local community or the environment.”

A final decision about the project is possible before year-end and, if the Board does decide to proceed, the first step will be the lodging of an application for the necessary resource consents.

After evaluating the replacement of the tug Hauroko, and deciding to proceed with this, the Board will now assess whether a new tug be commissioned or a second-hand tug purchased. The expected cost could be up to \$10M.

The new tug would have a minimum bollard pull of 60 tonnes bringing the minimum bollard pull of the two tugs combined to 100 tonnes, currently 75 tonnes.

“The increase in tug power would provide an additional safety margin and increase our capacity to service the larger vessels calling at the Port. Increased tug power would also improve our ability to service the expected increase in cargo flows if the channel improvement project proceeds.”

Annual maintenance expenditure peaked in FY20 at just over \$4M and is now forecast to decrease over future years although it will not return to the lower levels prior to 2017. “We are an infrastructure business and one of our core strategies is to ensure that the infrastructure remains fit for purpose.”

## **OUTLOOK**

Mr Chapman commented that “for the most part business activity in the region had returned to some normality.”

“Until we have a COVID-19 vaccine, the possibility of further community transmission within New Zealand is still a material risk, although with much better control at the border, this risk has reduced.”

“Despite this uncertainty, we are optimistic about South Port’s future. The tug replacement and possibility of deepening the entrance channel provides a pathway for the future growth of the Company as we continue in our quest to facilitate the best logistics solution for the region.”

“At the time of the issue of our Annual Report, we were forecasting the earnings in this financial year to reduce by approximately 2%. We are now nearly four months into the financial year and at this stage our earnings guidance is unchanged.”

### **FOR FURTHER INFORMATION PLEASE CONTACT:**

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