



## **2022 ANNUAL SHAREHOLDERS' MEETING**

### **NZX AND MEDIA STATEMENT**

1 November 2022

## **South Port optimistic on trade base**

The diversified opportunities for South Port New Zealand Ltd - represented by a widening range of regional producers operating in Southland - were highlighted at the Company's annual meeting of shareholders at Bluff today.

In the 2022 financial year to 30 June, bulk cargoes were again important to financial performance.

The reported profit of \$12.8m was impacted by two one-off adjustments, an after-tax interest rate derivative gain of \$980,000 and a deferred tax adjustment of \$680,000, with normalised after-tax profit rising 6.8% to \$11.16m.

"This year bulk cargo volumes were up 6.1%, with the main contributor stock food volumes, influenced by climatic conditions and a higher milk price," said chairman, Rex Chapman.

Despite the cost of infrastructure upgrades over the last five years, "South Port has been able to maintain an impressive record of total shareholder return," said Mr Chapman, noting that the 10-year cumulative TSR was 250%.

The full-year dividend of 27 cents per share represents a payout of 55% of NPAT and also 73% of free cashflow.

The strength of the regional economy had given the Port confidence to invest in infrastructure development.

Mr Chapman said that expenditure under the Company's asset management plan had peaked in FY21 and FY22 expenditure was 35% lower at \$2.8m (\$4.3m in FY21).

In August, the Company was granted resource consent for a dredging project, with the objectives of a depth of 9.7m chart datum in the channel, 10.7m in the Island Harbour berth pockets and 9.5m in the swinging basin.

Mr Chapman said an increase of a full metre in operating draft "will improve the safety margin for ship movements and provide greater capacity for vessels to take on additional cargo."

"The significance of this project for the future of the Company should not be underestimated," said Mr Chapman. "This will be the first occasion that the channel entrance has been deepened since the early 1980's, and achieving an increase in our draft aligns with our purpose, which is to facilitate the best logistic solutions for the region."

Work that was undertaken 40 years ago to deepen the channel used dredging equipment unable to remove fractured rock, leaving the channel at an operating draft of 8.5m chart datum.

Heron Construction was recently contracted to remove this fractured or fragmented rock which has proven to be more successful than we anticipated with the result that we expect to achieve 9.7m chart datum in the harbour entrance channel without the need for further drilling and blasting activities, with estimated cost savings of ~\$10m.

“We are now in the process of contracting a suction dredge to deepen the swinging basin and berth pockets, as authorised under the resource consent and this work is expected to be completed in July 2023.

“Once completed, the increased draft of 9.7m will allow for larger cargo volumes on vessels currently calling and the possibility of some increase in vessel size.”

Chief Executive Nigel Gear said critical risks are an import focus for the port industry. He noted the formation of an industry health and leadership group that includes ports, stevedoring companies, the port industry association, unions and regulators to focus on reducing harm in the workplace.

The demolition of Shed 6 has enabled the Port to separate container repairs from container terminal operations, thus reducing the risk profiles of both activities. The move also provided much needed additional container storage.

“There have been a number of times when there has been insufficient room to store export containers, especially during the peak season.”

The recently completed paving of the 14,000m<sup>2</sup> South Rail log storage area will increase utilisation, improve safety within log marshalling and protect market eligibility of export logs.

Work is almost complete on the Island Harbour Access Bridge with only one bay requiring impressed current cathodic protection to be installed; which is expected to extend the life span of the bridge by 25 to 30 years.

The \$11M upgrade of the Town Wharf fuel berth and ancillary infrastructure was recently completed and will provide at least 50 years additional usage.

## **Regional Projects**

“The Port sees itself as a cornerstone of the regional economy and as such involved in ensuring the region’s continued progress.”

Mr Chapman said, “We are now optimistic that NZAS will continue to operate past the current closure date of December 2024.

The key to this will be the successful outcome of the commercial negotiations for electricity supply and satisfying regulators and stakeholders about improving environmental outcomes and site remediation.

One such growth opportunity is the potential development of large-scale renewable hydrogen production in Southland promoted by Meridian Energy and Contact Energy.

Ngāi Tahu Seafoods and Sanford are working on an aquaculture opportunity for Southland.

Ngāi Tahu Seafood's resource consent application has been accepted for processing under the Covid-19 Recovery (Fast Track Consenting) Act 2020. If consented this project would see a salmon farm established within a 2,500-ha site ~2 – 6 km north-east of Stewart Island.

Sanford has lodged a consent to establish an open ocean farm in southern Foveaux Strait. Their application is currently on hold pending further stakeholder engagement.

"These applications are a vote of confidence in the southern region for large scale open water salmon farming and will present servicing opportunities for South Port."

Securing the future of the smelter and growth opportunities, such as green hydrogen and aquaculture, would be a very positive outcome for the Southland economy, and potentially South Port.

Mercury Energy has begun preparation for stage one of the 240MW wind farm at Kaiwera Downs, near Gore. "The components are expected to be brought in through the Port, which should provide a welcomed addition to next year's cargo volume."

## **Outlook**

Mr Chapman said "There are always uncertainties in any outlook and this year is no exception. Although global supply chains are starting to normalise with previous congestion and high freight rates easing, there is still uncertainty in global markets. Record high inflation rates globally resulting in central bank's increasing interest rates is raising risk of recession in many economies."

"However, we as a Company have reason to be optimistic about our prospects at least in the medium term. We expect to have a new operating draft by the middle of next year. The Port handles a range of diverse cargoes and there are near term opportunities with the handling of wind farm equipment and longer-term opportunities in hydrogen and aquaculture."

"Trade for the first quarter of FY 2023 is tracking in line with FY 2022 which is encouraging and in line with expectations."

"Logs and containers are still being impacted by market conditions however all other bulk cargoes are tracking in line or slightly ahead of FY 2022."

"The log market faces ongoing uncertainty because of lockdowns in China affecting residential construction rates in-market. We expect the decrease in demand for logs shipped from New Zealand to last until the end of this calendar year."

However, returns at the wharf-gate level in New Zealand have lifted due to shipping costs easing and the recent weakness of the NZ dollar versus the US dollar. Logs are traded in US dollar terms. The cost of shipping logs has fallen further than has the cost of containerised freight.

The ANZ Bank has commented that this has been particularly helpful as freight now accounts for a significant part of the cost of logs landed in China.

During recent months, there has been a sharp reduction in spot freight rates on major sea-lanes and in charter costs. In the New Zealand context, freight rates are likely to reduce at a slower pace and a return to reliable schedules for ship calls in the port industry remains uncertain.

In a volatile phase in world shipping, South Port has consistent and stable services by Mediterranean Shipping Company one of the largest lines in the world.

Both Australia and New Zealand are seeing interest from new shipping lines. South Port is watching these new developments with interest, while being aware that such ventures will need to attract long-term customers to ensure future viability.

The cruise industry has made a welcome return with several vessels on the coast. Although only a very small number of vessels are expected to call at Bluff, we do provide pilotage services to those that visit Fiordland.

“At this stage we are expecting our full year earnings to be consistent with last year and on that basis will be aiming to maintain the current level of dividend.”

ENDS.

**FOR FURTHER INFORMATION PLEASE CONTACT:**

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