



South Port NZ

# INTERIM REPORT

FOR THE SIX MONTH PERIOD  
ENDED 31 DECEMBER 2014



CELEBRATING 25 YEARS



## interim report

### FINANCIAL PERFORMANCE

For the 6 months ended 31 December 2014 South Port recorded a markedly improved interim NPAT of \$3.29 million (2013 – \$2.68 million). In contrast to the slow start encountered in the first half of the 2014 financial year, the past 6 months produced strong cargo flows, particularly in bulk form, which resulted in a record interim period cargo throughput and a corresponding record half year profit.

During the interim period the Company increased its bank borrowing facility to a level of \$18M (previously \$13M) to accommodate projected capital expenditure. Infrastructure businesses regularly face large capital related payments and for this reason, it is important that South Port has adequate funding available to achieve its strategic objectives. Actual borrowings drawn down as at 31 December 2014 were \$12.9M (2013 – \$9.5M).

### CARGO

Total cargo was 1,479,000 tonnes compared with 1,369,000 tonnes in the equivalent previous financial year period. This translates to cargo volumes rising by 110,000 tonnes or 8% during the 6 months ended 31 December 2014. The lift in cargo was driven primarily by strong fertiliser and stock food imports despite a low dairy payout environment. In addition, consistent log export and petroleum import volumes plus marginally higher NZAS import activity supported the recorded throughput. Notable declines were recorded for fish and sawn timber.

### OPERATIONAL EVENTS

**Container Infrastructure Enhanced** – South Port took delivery of a second mobile container crane in September 2014 and this equipment was subsequently assembled, tested and put into operation in late October. The \$6.3M outlay to secure the new crane and a further container capable forklift represents a significant investment for a regional port operator and has delivered improved productivity for the MSC Capricorn vessels plus enabled a reduced operating window to be scheduled for the weekly Bluff call.

**Kotahi/Port of Tauranga/Maersk Shipping Line Freight Alliance** – Container shipping rates in the NZ market have fallen more recently and one of the drivers has clearly been the new cargo relationship between Kotahi, Port of Tauranga and Maersk. Over capacity in some key trade lanes has also influenced rates as container shipping lines have looked to offer additional incentives to hold market share in an intensely competitive environment. This is likely to have a flow-on impact on the breakbulk shipping lines as well. It will be interesting to observe further changes in the market over the coming 12-24 months which will be necessary to drive operational cost efficiency and a potential reset of market freight rates.

**On-port Dry Warehousing Activity** – South Port's dry warehousing division services inbound fertiliser, stock food and dairy ingredients plus export dairy product. In addition, a range of third party tenants also receive and distribute fertiliser and stock food product. This past 6 months has been a particularly active period for these cargoes necessitating additional resources to be deployed into the Port warehousing area. The impact of a second milk powder dryer being commissioned at OCD's Awarua site was significant with monthly export orders and the packing of containers hitting new monthly highs.

**PACE Process Improvement Program** – South Port personnel continued to actively roll out the PACE Process Improvement Program. Designed around the review of historic processes, a spring-clean of physical operating locations and the elimination of waste, this program is starting

to deliver positive value for both the Company and its employees. A 2015 action plan for the various sub-committees operating under the program was committed to in late 2014 and will be tracked during the current calendar year.

## BUSINESS DEVELOPMENT OPPORTUNITIES

**Wind Farm Projects** – Pioneer Generation is about to undertake construction of its Flat Hill (near Bluff) Wind Farm and will import and store all related project cargo at South Port over coming months. When completed, the wind farm will comprise of 8 Gamesa Wind Turbines and be capable of delivering 6.8 megawatts of electricity.

In addition, Trustpower still has on its list of potential projects, the proposed Kaiwera Downs Wind Farm which is located across 2,568 ha of farmland, around 15 kms south-east of Gore. The site is very well suited to a development of this nature with an excellent wind resource. Resource Consents were granted to Trustpower in late 2008 by the Gore District Council and Southland Regional Council, with these consents allowing for a maximum of 83 wind turbines. Trustpower has stated from the outset that should the wind farm progress, it is likely to be developed in stages and the size and timing of any stages will be dependent on market conditions.

**Mersey Street, Invercargill Site** – South Port continues to evaluate the development of this land area which is strategically positioned alongside the Invercargill rail head. Progress is occurring with the acquisition of an unused rail siding situated on the site boundary and the squaring off of the resulting boundary with a neighbouring business.

**Oil & Gas Exploration** – Shell NZ, together with its consortium partners OMV NZ and Mitsui E&P Australia announced in January 2014 that it would be undertaking exploration in the Great South Basin (GSB) around the first quarter of calendar 2016. This exploration activity is likely to involve a 50-60 day operating period with the planned one well drilling exercise involving a significant operating outlay by the exploration consortium.

Woodside and NZOG successfully secured a 9,835 km<sup>2</sup> permit in the GSB off the south-east coast of the South Island. Seismic gathering will be completed by Dolphin Geophysical on behalf of these companies. In addition, further GSB seismic data capture is being programmed by the world's largest oilfield services company, Schlumberger with the intent of on-selling this data to interested parties.

Whilst international petroleum prices have fallen dramatically over recent months, it is unlikely that exploration activity which has a significant development lead-time will be impacted by the current market conditions. In the event that a commercial volume of gas is identified in GSB it will take a minimum of 5 years to convert the prospect to an operational stage. South Port and regional stakeholders continue to interact with oil and gas exploration companies and remain optimistic about the energy potential available in GSB.

**NZAS** – The sector in which this important customer operates is encountering some more positive trends. The international aluminium price strengthened in the second half of 2014, albeit from a low base, and the weakening of the NZD has also delivered some much needed relief. However, NZAS continues to face challenges in the form of their current transmission charging mechanism. This relates not to the base electricity supply rate but to the charge method applied by Transpower for the use of transmission infrastructure. If this could be modified to more accurately reflect the actual infrastructure use by NZAS, then not only would the commercial success of the Smelter be more secure, but there would also be an opportunity to reinstate the fourth production line at the Tiwai Smelter.

## HEALTH & SAFETY (H&S)

**Pending Changes in H&S Legislation** – Over the past 4-5 years, South Port has refocused on safety in the workplace and committed additional

resources to ensure that the business is on a continuous improvement H&S pathway. Notwithstanding this effort and an increased financial commitment towards lifting safety standards, the Company acknowledges this is an area where businesses cannot be complacent. Ports in particular are dangerous work environments and encompass a wide range of freight participants and tasks in addition to the port company's direct operating activities. South Port supports the objectives of the proposed new legislation and encourages those involved with finalising the Health and Safety At Work Act to be mindful of both safety enhancement and economic efficiency in the marketplace.

**Regional Contractor Induction System** – Shareholders may be aware that as part of South Port's on-going commitment to improving H&S standards, the Company participated in a working group formed to establish a generic regional induction package for contractors. The working group is initially made up of larger industrial Southland companies together with representatives from the contracting sector and SIT (Southern Institute of Technology). This web-based delivery of core induction information has been activated with an excellent take up and positive feedback from the contractors involved. The system aims to lift the overall H&S standards in the region plus reduce the time that contractor employees spend on duplicated induction content.

## COMMUNITY & REGIONAL ASSISTANCE

South Port was one of the notable donors in a successful fundraising campaign run by Coastguard Bluff last year. A \$20,000 cash sum was committed to the project which focused on generating sufficient funds to replace the existing Coastguard vessel. The Company also provides an on-going berth for the rescue craft, housed within the secure Island Harbour area, plus often commits operational marine support in rescue situations.

## OUTLOOK

Trying to gauge the level of cargo activity in the second half of the 2015 financial year is a more difficult task than normal as a result of the current mixed economic signals. While South Port had anticipated lower farm inputs driven by the subdued dairy payout forecasts, this has not been the case in the 6 months to 31 December 2014. Similarly an expected reduction in log exports has not eventuated in the interim period despite falling demand signals originating from the Chinese market.

Looking to the remainder of the current financial year, South Port believes it is prudent to project that there will be a softening in fertiliser, stock food and potentially fuel consumption by the farming sector and this will likely affect the remainder of F2015. Notwithstanding that assumption, the second half of the financial year is traditionally a busier and more profitable 6 month period so a solid contribution to the bottom line is still predicted. It should also be noted that South Port has introduced additional resources into its business in order to accommodate and appropriately manage the consistent growth of cargo and warehousing activity over several years.

Based on all known factors at the date of releasing its 2015 interim result South Port estimates that its full year earnings should be in the range of \$6.5 million to \$7.0 million (F2014 \$6.68 million).

## DIVIDEND

After assessing the anticipated year end result, the Directors have declared a fully imputed interim dividend of 7.00 cents per share (2013 – 6.00 cents) payable on 10 March 2015.



Rex Chapman  
Chairman of Directors



Mark O'Connor  
Chief Executive

# financial statements

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six month period ended 31 December 2014

	31/12 2014 \$000's	31/12 2013 \$000's	Year to 30/06/14 \$000's
Total operating revenues from port services	16,176	14,550	31,258
Total operating expenses	(9,756)	(9,342)	(18,843)
Gross profit	6,420	5,208	12,415
Administrative expenses	(1,338)	(1,262)	(2,698)
Operating profit before financing costs	5,082	3,946	9,717
Financial income	5	56	168
Financial expenses	(466)	(263)	(561)
Net financing income/(costs)	(461)	(207)	(393)
Other income	2	9	15
<b>Surplus before income tax</b>	<b>4,623</b>	<b>3,748</b>	<b>9,339</b>
Income tax	(1,330)	(1,069)	(2,658)
<b>Total income tax</b>	<b>(1,330)</b>	<b>(1,069)</b>	<b>(2,658)</b>
<b>Net surplus after income tax</b>	<b>3,293</b>	<b>2,679</b>	<b>6,681</b>
Other comprehensive income	203	–	(203)
<b>Total comprehensive surplus/ (loss) after income tax</b>	<b>3,496</b>	<b>2,679</b>	<b>6,478</b>
Basic earnings per share	\$0.126	\$0.102	\$0.255

## CONSOLIDATED STATEMENT OF CASH FLOWS

Six month period ended 31 December 2014

	31/12 2014 \$000's	31/12 2013 \$000's	Year to 30/06/14 \$000's
Cash flows from operating (note 6)	3,427	2,127	8,759
Cash flows from investing	(5,524)	(1,798)	(3,362)
Cash flows from financing	(1,581)	(795)	(1,541)
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>(3,678)</b>	<b>(466)</b>	<b>3,856</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	31/12 2014 \$000's	31/12 2013 \$000's	Year to 30/06/14 \$000's
<b>TOTAL EQUITY</b>	<b>30,707</b>	<b>29,184</b>	<b>31,408</b>
NON-CURRENT ASSETS			
Property, plant & equipment	40,462	35,753	34,741
Total non-current assets	40,462	35,753	34,741
CURRENT ASSETS			
Cash	1,302	860	4,980
Trade and other receivables	6,078	5,284	6,006
Total current assets	7,380	6,144	10,986
<b>Total assets</b>	<b>47,842</b>	<b>41,897</b>	<b>45,727</b>
NON-CURRENT LIABILITIES			
Employee provisions	42	37	38
Deferred tax liability	299	281	276
Borrowings	12,700	–	–
Other	153	164	55
Total non-current liabilities	13,194	482	369
CURRENT LIABILITIES			
Current borrowings	217	9,473	10,301
Trade and other payables	2,466	1,845	1,905
Provisions	825	647	817
Other	433	266	927
Total current liabilities	3,941	12,231	13,950
<b>Total liabilities</b>	<b>17,135</b>	<b>12,713</b>	<b>14,319</b>
<b>TOTAL NET ASSETS</b>	<b>30,707</b>	<b>29,184</b>	<b>31,408</b>
Net asset backing per share	\$1.17	\$1.11	\$1.20

# notes to the financial statements

For the six month period ended 31 December 2014

**1. ACTIVITIES OF SOUTH PORT GROUP** – The Group is primarily involved in providing and managing port and warehousing services.

**2. ACCOUNTING POLICIES** – The interim financial statements of the South Port New Zealand Ltd Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

These financial statements comply with International Financial Reporting Standards (IFRS).

There has been no change in accounting policies. All policies have been applied on a consistent basis with the most recent annual report.

**3. TAXATION** – Income tax expense comprises current and deferred tax at the company tax rate of 28%. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

**4. SEGMENTAL REPORTING** – The South Port Group operates in the Port Industry in Southland, New Zealand, and therefore only has one reportable segment and one geographical area based on the information as reported to the chief operating decision maker on a regular basis.

South Port engaged with one major customer who contributed individually greater than 10% of its total revenue for the period ended 31 December 2014. This customer contributed \$3.65 million for the six months ended 31 December 2014 (2013: \$2.92 million).

## 5. STATEMENT OF CHANGES IN EQUITY

	31/12 2014 \$000's	31/12 2013 \$000's	Year to 30/06/14 \$000's
<b>Total equity at beginning of the period</b>	<b>31,408</b>	<b>30,571</b>	<b>30,571</b>
Surplus/(loss) after income tax	3,293	2,679	6,681
Other comprehensive surplus/(loss)	203	–	(203)
<b>Total comprehensive surplus/(loss)</b>	<b>3,496</b>	<b>2,679</b>	<b>6,478</b>
Distributions to shareholders	(4,197)	(4,066)	(5,641)
<b>Total equity at end of the period</b>	<b>30,707</b>	<b>29,184</b>	<b>31,408</b>

## 6. NET CASH FLOW FROM OPERATING ACTIVITIES

Surplus after taxation	3,293	2,679	6,681
Add/(less) items classified as investing/financing activities	–	–	–
Add/(less) non-cash items	1,386	1,294	2,347
Add/(less) movement in working capital	(1,252)	(1,846)	(269)
Net cash provided by operating activities	3,427	2,127	8,759



# South Port NZ directory

## GROUP COMPANIES

*Parent Company* – South Port New Zealand Limited  
*Subsidiary* – Awarua Holdings Limited

## DIRECTORS

R T Chapman, *Chairman*      RGM Christie  
P W Cory-Wright              T M Foggo  
G D Heenan                      J J McClean

## CORPORATE EXECUTIVES

Mark O'Connor              *Chief Executive*  
Mark Billcliff                *Warehousing Manager*  
Geoff Finnerty              *Port Operations Manager*  
Nigel Gear                  *Commercial Manager*  
Frank O'Boyle              *Infrastructure Manager*  
Lara Stevens                *Finance Manager*

## information

For further information about our Company  
please contact:

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