PORT OTAGO

Interim Report

For the six months ended 31 December 2021

Overview of group results

	Six months December 2021 $000	Six months December 2020 $000
Total revenue and other income	41,626	42,892
Operating profit	8,453	8,415
Investment property revaluation	-	12,529
Profit for the year	6,504	18,285
Underlying profit*	6,504	10,192
Net cash flow surplus from operating activities	14,702	9,843
Total assets	768,504	676,717
Shareholder's equity	641,385	566,418
Equity ratio	83%	84%
Trade		
Dunedin bulk port cargo vessel arrivals	103	124
Port Chalmers container and bulk cargo vessel arrivals	68	93
Otago cruise vessel arrivals	0	0
Total ship calls	171	217
Container throughput (TEU - twenty-foot equivalent units)	73,900	84,500
Bulk cargo volume (000's tonnes)	794	924

*** Underlying profit**

We believe an underlying profit measurement can assist understanding business performance – particularly for an organisation such as Port Otago, where revaluation changes can distort financial results and make it difficult to compare profits between years.

Port Otago refers to underlying profits, alongside reported results. That is, when we report the results, we exclude fair value changes of investment property adjusted for changes that relate to development projects completed during the year.

	Unaudited 6 months December 2021 $000	Unaudited 6 months December 2020 $000	Audited Year to June 2021 $000
Profit for the year	6,504	18,285	94,507
Less unrealised change in the value of investment property	-	(12,529)	(82,240)
Addback margin on development projects	-	4,238	8,484
Taxation effect	-	198	661
Underlying profit	**6,504**	**10,192**	**21,412**

Half year review from the Chair and Chief Executive

Our team

Our team adapted well to the challenges of Covid-related testing, vaccinations and new ways of working to keep our people and community safe. Port Otago's development of a Covid Policy in November provided certainty, so we could plan how best to live and work with Covid as it moves into the community.

Our team is 100% double vaccinated and those eligible for the booster vaccine are now boosted. As a fully-vaccinated workplace, we have the best opportunity to minimise the impact of Omicron on our region's exporters.

Staff undertake weekly surveillance saliva testing, providing comfort and reassurance to our people and their families. The national move to the red traffic light setting saw the re-establishment of separate work bubbles to reduce the risk of widespread illness affecting our business.

Our financial value

The tax-paid profit for the six months ended 31 December 2021 of $6.5 million compares to $18.3 million for the same period last year. Last year's interim result included a $12.5 million unrealised net change in the value of investment property.

Underlying profit for the six months to 31 December 2021 was $6.5 million, compared with $10.2 million last year. The $3.7 million difference is a result of property developments' timings, with two projects completed in 2020 while all 2021 projects were still works in progress.

Revenue from marine and cargo services was down 12%, following a slow-down in log exports and reduced container TEU throughput. The container trade continues to suffer from global disruption to vessel schedules and container availability. Container volumes were down 13% – to 73,900 TEU from 84,500 TEU – with lower transships and empty container volumes. Export volumes were down 4%, but are expected to recover in the second half of the financial year. Log export volumes of 441,000 tonnes for the six months to December 2021 were down 30%, from 626,000 tonnes during the last comparative period. This reflects a reduction in log export prices and slowed demand from China in the second quarter of the financial year.

Property rentals increased 13% to $15.2 million, with recently completed property developments in Auckland and Hamilton positively impacting on our property business. Three new design/build/lease projects were signed for new office/warehouses at the Te Rapa Gateway Industrial Park. These builds will be completed in early 2023 and retained in the company's investment portfolio. Tenant interest for design/build/lease warehouses remains steady, as we continue investing to generate sustainable earnings from the remaining developed land at Te Rapa Gateway.

Port Otago settled the Maclaggan Street Warehouse building purchase in August. This will be the Otago Regional Council's new head office.

Development of the new amenity beach at Te Rauone progressed significantly over the six months. The three groynes are due for completion in the next month (March), allowing

Port Otago to build up the new beach with sand dredged from the harbour.

The replacement office building/Port Chalmers Maritime Museum extension has commenced with the site cleared and construction underway. As a promised part of the project, Port Otago has developed a dedicated off-street carpark that removes staff vehicles from our neighbourhood.

At 31 December 2021, total borrowings had increased by $15 million to $94 million, related to the development of investment properties. We maintain our strong balance sheet, with an equity ratio of 83%.

Outlook

Port Otago expects container flows and shipping will continue to be disrupted for at least the next six months. Export volumes are forecast to be similar to the same period last year, reflecting the lower South Island's export agriculture bias. We expect bulk volumes to recover in the second half of the financial year, but with an overall lower annual volume than last year. We anticipate cruise ships returning to Otago and Fiordland late 2022, subject to Government agreement around re-start protocols. Property earnings will continue growing in the second half, based on additional income from completed property developments and rental growth from market movements.

While ongoing Covid and global network disruptions will impact our core port business, our property business will provide a key counterbalance. Our focus of investing in the industrial property sector in Auckland, Hamilton and Dunedin ensures the company remains well positioned to handle ongoing challenges.

An interim dividend of $6 million – up from $4.5 million last year – will be paid in February 2022.

Paul Rea
Chair

Kevin Winders
Chief Executive

Oak Road development, Wiri Auckland

Condensed income statement
For the six months ended 31 December 2021

	Unaudited 6 months December 2021 $000	Unaudited 6 months December 2020 $000	Audited Year to June 2021 $000
Revenue			
Marine and cargo services	22,463	25,455	51,973
Warehousing and logistics services	3,995	4,046	8,442
Property rentals	15,152	13,377	27,150
Sales of property inventories	-	-	2,433
	41,610	42,878	89,998
Other income			
Gain on sale of investment property and property, plant and equipment	16	14	31
Total revenue and other income	**41,626**	**42,892**	**90,029**
Operating expenses			
Staff costs	(15,636)	(16,656)	(32,153)
Purchased materials and services	(10,022)	(10,827)	(21,531)
Cost of sales of property inventories	-	-	(1,643)
Depreciation and amortisation	(6,028)	(5,686)	(12,350)
Impairment of property, plant and equipment	-	-	(848)
Total operating expenses	**(31,686)**	**(33,169)**	**(68,525)**
Operating profit before finance costs, non-operating income and expenses and income tax	**9,940**	**9,723**	**21,504**
Financing costs	(1,487)	(1,308)	(2,797)
Operating profit before non-operating income and expenses and income tax	**8,453**	**8,415**	**18,707**
Non-operating income and expenses			
Subvention payment	-	-	(100)
Fair value change of forward start interest rate swaps	556	129	602
Unrealised change in the value of investment property	-	12,529	82,240
	556	12,658	82,742
Profit before income tax	**9,009**	**21,073**	**101,449**
Income tax expense	(2,505)	(2,788)	(6,942)
Profit for the period	**6,504**	**18,285**	**94,507**

The accompanying notes form part of these interim financial statements.

Condensed statement of comprehensive income

For the six months ended 31 December 2021

	Unaudited 6 months December 2021 $000	**Unaudited 6 months December 2020** $000	**Audited Year to June 2021** $000
Profit for the period	6,504	18,285	94,507
Other comprehensive income			
Unrealised movement in hedged interest rate swaps (net of tax)	1,264	521	1,598
Total comprehensive income for the period	**7,768**	**18,806**	**96,105**

Condensed statement of changes in equity

For the six months ended 31 December 2021

	Unaudited 6 months December 2021 $000	**Unaudited 6 months December 2020** $000	**Audited Year to June 2021** $000
Equity at the beginning of the period	634,617	548,612	548,612
Total comprehensive income for the period	7,768	18,806	96,105
Dividends paid to owners	(1,000)	(1,000)	(10,000)
Equity at the end of the period	**641,385**	**566,418**	**634,617**

The accompanying notes form part of these interim financial statements.

Condensed statement of financial position

As at 31 December 2021

	Unaudited December 2021 $000	Unaudited December 2020 $000	Audited June 2021 $000
Current assets			
Cash and cash equivalents	581	451	241
Trade and other receivables	11,511	12,603	13,611
Property inventories	16,755	24,574	21,495
Maintenance inventories	1,474	1,377	1,476
Income tax receivable	1,037	1,445	1,004
Derivative financial instruments	307	-	-
	31,665	40,450	37,827
Non-current assets			
Investment property	500,341	403,771	479,290
Property, plant and equipment	229,518	227,255	223,052
Intangible assets	4,813	5,241	5,379
Derivative financial instruments	2,167	-	1,021
	736,839	636,267	708,742
Total assets	**768,504**	**676,717**	**746,569**
Current liabilities			
Trade and other payables	7,619	7,191	6,967
Borrowings	17,920	11,425	5,240
Employee entitlements	4,225	4,221	4,172
Derivative financial instruments	263	855	636
Lease liabilities	278	202	283
	30,305	23,894	17,298
Non-current liabilities			
Borrowings	75,850	67,150	73,850
Employee entitlements	997	1,062	956
Derivative financial instruments	133	1,348	619
Lease liabilities	2,689	1,977	2,825
Deferred tax liabilities	17,145	14,868	16,404
	96,814	86,405	94,654
Total liabilities	**127,119**	**110,299**	**111,952**
Equity			
Share capital	20,000	20,000	20,000
Reserves	621,385	546,418	614,617
Total equity	**641,385**	**566,418**	**634,617**
Total equity and liabilities	**768,504**	**676,717**	**746,569**

The accompanying notes form part of these interim financial statements.

Condensed cash flow statement

For the six months ended 31 December 2021

	Unaudited 6 months December 2021 $000	Unaudited 6 months December 2020 $000	Audited Year to June 2021 $000
Cash flows from operating activities			
Receipts from customers	41,914	45,321	88,355
Proceeds from sale of property inventories	-	-	2,433
Net GST received	19	677	397
Payments to suppliers and employees	(23,211)	(30,621)	(56,589)
Purchase of property inventories	(287)	(430)	(3,629)
Interest paid	(1,446)	(1,103)	(2,562)
Subvention payments	-	-	(100)
Income tax payments	(2,287)	(4,001)	(6,596)
Net cash flows from operating activities	**14,702**	**9,843**	**21,709**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	16	14	36
Purchase of investment property	(16,024)	(5,267)	(10,515)
Purchase of property, plant and equipment	(11,856)	(9,398)	(7,592)
Advances from (to) joint operations	-	(38)	27
Interest capitalised	(37)	(187)	(190)
Net cash flows used in investing activities	**(27,901)**	**(14,876)**	**(18,234)**
Cash flows from financing activities			
Net proceeds from borrowings	14,680	6,285	6,800
Dividends paid	(1,000)	(1,000)	(10,100)
Repayment of lease liabilities	(141)	(108)	(241)
Net cash flows from financing activities	**13,539**	**5,177**	**(3,541)**
Increase (decrease) in cash held	340	144	(66)
Cash held at beginning of period	241	307	307
Cash held at end of period	**581**	**451**	**241**

The accompanying notes form part of these interim financial statements.

Reconciliation of profit to net cash flows from operating activities

	Unaudited 6 months December 2021 $000	Unaudited 6 months December 2020 $000	Audited Year to June 2021 $000
Profit for the period	6,504	18,285	94,507
Plus/(less) non-cash items:			
Unrealised change in the value of investment property	-	(12,529)	(82,240)
Depreciation and amortisation	6,028	5,686	12,350
Impairment of property, plant and equipment	-	-	848
Movement in the fair value of forward start interest rate swaps	(556)	(129)	(602)
Movement in non-current employee entitlements	41	5	(101)
Movement in deferred tax	249	918	2,035
Plus/(less) items classified as investing activities:			
Gain on sale of property, plant and equipment	(16)	(14)	(31)
Movement in working capital items:			
Trade and other receivables	2,100	2,524	1,516
Trade and other payables	652	(942)	(1,165)
Current employee entitlements	53	(1,464)	(1,513)
Provisions	-	(227)	(227)
Income tax payable	(33)	(2,130)	(1,689)
Maintenance inventories	2	64	(35)
Property inventories	(287)	(430)	(1,986)
Movement in other working capital items classified as investing activities	(35)	226	42
Net cash flows from operating activities	**14,702**	**9,843**	**21,709**

Notes to the condensed financial statements

For the six months ended 31 December 2021 (unaudited)

1. General information

The unaudited interim condensed financial statements presented are those of Port Otago Limited ("the Company"), its subsidiaries, and share of joint ventures and joint operations ("the Group"). The Company is a limited liability company incorporated in New Zealand and registered under the Companies Act 1993.

2. Summary of significant accounting policies

Basis of Preparation

These unaudited condensed interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting. The unaudited interim financial statements are presented in New Zealand dollars, which is the Group's functional currency.

The unaudited condensed interim financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company's Annual Report for the year ended 30 June 2021.

Comparatives

Certain immaterial adjustments have been made to the prior period comparatives to align with the current period disclosure.

3. Critical estimates and assumptions

At each balance date, the Group reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful lives and residual value estimates of property, plant and equipment requires the Group to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Group, and expected disposal proceeds from the future sale of the asset.

4. Investment property

Investment properties are carried at valuations undertaken by independent registered valuers as at 30 June 2021. The Board has received and considered advice from management that there has been no material change to those valuations. Borrowing costs and other costs recognised in the accounting period that are directly attributable to the acquisition of long-term investment property development projects are capitalised as part of the cost of those assets. Property inventories are transferred to investment property at carrying value, with fair value determined at balance date, where a change in use is evidenced by the inception of an operating lease to another party.

5. Derivative financial instruments

The Group uses derivative financial instruments (interest rate swaps) to economically hedge its exposure to interest rate risks arising from operational, financing and investment activities.

6. Commitments

At 31 December 2021 the Group had commitments/approvals for capital expenditure of $10.9 million (31 December 2020: $1.14 million, 30 June 2021: $20.2 million) which relates to purchases and refurbishments of port assets and investment property.

7. Contingencies

There are no contingent liabilities at 31 December 2021 other than those arising in the normal course of business.

8. Events after balance date

Dividends

On 15 February 2022 the directors declared an interim dividend of $6.0 million.

Directory

Directors

Paul Rea	Chair
Pat Heslin	Deputy Chair
Tim Gibson	
Tom Campbell	
Jane Taylor	
Bob Fulton	
Becky Lloyd	

Leadership Team

Kevin Winders	Chief Executive
Stephen Connolly	Chief Financial Officer
Sean Bolt	GM Marine
Leigh Carter	Head of People
David Chafer	GM Property
Kevin Kearney	GM Operations
Deanna Matsopoulos	Supply Chain Manager
Rachel Pullar	Head of Digital
Gavin Schiller	Head of Safety
Craig Usher	Commercial Manager
Jodi Taylor	Executive Assistant

Address

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Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Ernst & Young on behalf of the Auditor-General