



PORT OTAGO

Interim Report

For the six months ended 31 December 2020





Overview of Group results

	Six months December 2020 \$000	Six months December 2019 \$000
Total revenue and other income	42,892	47,159
Operating profit	8,415	9,821
Investment property revaluation	12,529	-
Profit for the year	18,285	7,047
Net cash flow surplus from operating activities	9,843	573
Total assets	676,717	633,277
Shareholders' equity	566,418	514,831
Equity ratio	84%	81%
Trade		
Dunedin bulk port cargo vessel arrivals	124	107
Port Chalmers container and bulk cargo vessel arrivals	93	121
Otago cruise vessel arrivals	0	42
Total ship calls	217	270
Container throughput (teu - twenty-foot equivalent units)	84,500	89,000
Bulk cargo volume (000's tonnes)	924	860

Half year review from the Chair

Our Team

The impact of Covid-19 through the first six months of operations has been material and a challenging time for our team. The loss of the cruise business along with disruption in shipping patterns on the New Zealand coast has presented many challenges for our team to work through in the last six months. We need to acknowledge the great work of our front-line staff who have kept cargo moving while ensuring our border is safe from Covid, undertaking regular surveillance testing and adapting to new ways of working.

The loss of the cruise business combined with the uncertainty around economic conditions in mid-2020 resulted in the company initiating a restructuring programme to reduce the cost base to offset the expected reduced revenues. The combination of investment in systems, early retirements and redundancies, delivered significant savings. This cost out programme is now complete and has partially bridged the revenue gap created by Covid – a pleasing result.

In December 2020, Port Otago signed a long-term partnership with the Port Chalmers Maritime Museum. Port Otago assumes responsibility and ownership of the museum building and picks up the museum's building maintenance, rates, insurance, electricity, security and compliance costs for the next 35 years. The museum, which is managed by the Port Chalmers Historical Society, will remain the building's sole occupant. Port Otago has also committed \$20,000 annually for 10 years, specifically to attract young people with an interest in maritime history to join the society.

Our financial value

The Port Otago Group achieved an unaudited tax-paid profit of \$18.3 million for the six months ended 31 December 2020, compared to \$7.0 million in the same period last year.

The operating profit before non-operating income, expenses and income tax of \$8.4 million is \$1.4 million lower than in the comparative six-month period – a pleasing result in light of the impacts of Covid, particularly the loss of all revenue from the cruise business. During the comparative period, 42 cruise vessels called at Port Chalmers and Dunedin with 112 cruise vessels calling during the full 2020 financial year.

Revenue from marine and cargo services was down 16% following the suspension of cruise vessel visits and slightly lower container teu throughput.

Industrial and logistical issues in ports across Australia and New Zealand have impacted the flow of containers and ship schedules, resulting in volatile shipping patterns with significant peaks and troughs. The teu container throughput of 84,500 was 5% lower than the comparative period, in line with the New Zealand average reduction of 4.5%.

Bulk cargo volumes recovered post the Level 4 lockdown in March and April last year, with 924,000 tonnes handled through both ports. Our log customers delivered 19% higher volumes for the six months with exports increasing to 626,000 tonnes.

Included in the interim result is an unrealised net change in the value of investment property of \$12.5 million, which reflects the strength of the comparative industrial property market in Auckland and Hamilton. A significant component of the valuation movement is the gain above cost of investment property developments completed in the last six months than now have long term leases in place with quality tenants. No developed land sales settled during the period, compared to a \$0.4 million net contribution from the sale of one lot in the Te Rapa Gateway Industrial Park in Hamilton last period.

Outlook

Demand for industrial warehouse space in Auckland and Hamilton continues to be strong, as increasing rents provide additional income for the Group. The property business has secured a number of new design/build/ lease tenants in Hamilton over the last quarter that will result in increased capital investment in 2021. This will flow on to rental revenue in 2022, building our sustainable earnings.

We expect container flows and shipping to continue being disrupted over the next six months but given Port Otago's strong export bias, second half volumes are expected to be similar to the same period last year.

Bulk cargo volumes are expected to continue tracking ahead of last year, driven by favourable in-market conditions for log exporters along with use of the new landside infrastructure at Dunedin Bulk Port.

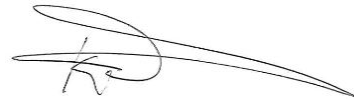
The tourism sector and Port Otago continue to be heavily impacted by Covid and the Government's cautious approach to managing border controls, with recent events highlighting the unpredictable nature of Covid-19. We do not anticipate cruise ships returning to New Zealand in the 2021 calendar year but we continue to work with the industry in preparation for the safe return of cruise in the future.

Our strong balance sheet and the Group's diversity of earnings of the group, underpins the sustainable returns to our shareholder, allowing an interim dividend of \$4.5 million to be paid on 18th February.

Overall, the company is well positioned to cope with the challenges that will arise in the year ahead and take advantage of investment opportunities as they arise.



Paul Rea
Chair



Kevin Winders
Chief Executive

Condensed income statement

For the six months ended 31 December 2020

	Unaudited 6 months December 2020 \$000	Unaudited 6 months December 2019 \$000	Audited Year to June 2020 \$000
Revenue			
Marine and cargo services	25,455	30,180	62,213
Warehousing and logistics services	4,046	3,757	8,278
Property rentals	13,377	11,781	23,859
Sales of property inventories	-	1,106	13,947
	42,878	46,824	108,297
Other income			
Gain on sale of investment property and property, plant and equipment	14	335	1,680
Total revenue and other income	42,892	47,159	109,977
Operating expenses			
Staff costs	(16,656)	(16,933)	(34,725)
Purchased materials and services	(10,827)	(12,924)	(24,139)
Cost of sales of property inventories	-	(696)	(7,170)
Depreciation and amortisation	(5,686)	(5,683)	(11,280)
Total operating expenses	(33,169)	(36,236)	(77,314)
Operating profit before finance costs, equity accounted investments, non-operating income and expenses and income tax	9,723	10,923	32,663
Financing costs	(1,308)	(1,170)	(2,440)
Share of profit from equity accounted investment	-	68	203
Operating profit before non-operating income and expenses and income tax	8,415	9,821	30,426
Non-operating income and expenses			
Subvention payment	-	-	(101)
Fair value of forward start interest rate swaps	129	-	(232)
Unrealised net change in the value of investment property	12,529	-	27,943
	12,658	-	27,610
Profit before income tax	21,073	9,821	58,036
Income tax expense	(2,788)	(2,774)	(7,543)
Profit for the period	18,285	7,047	50,493

The accompanying notes form part of these interim financial statements.

Condensed statement of comprehensive income

For the six months ended 31 December 2020

	Unaudited 6 months December 2020	Unaudited 6 months December 2019	Audited Year to June 2020
	\$000	\$000	\$000
Profit for the period	18,285	7,047	50,493
Other comprehensive income			
Unrealised movement in hedged interest rate swaps (net of tax)	521	194	(471)
Total comprehensive income for the period	18,806	7,241	50,022

Condensed statement of changes in equity

For the six months ended 31 December 2020

	Unaudited 6 months December 2020	Unaudited 6 months December 2019	Audited Year to June 2020
	\$000	\$000	\$000
Equity at the beginning of the period	548,612	508,090	508,090
Total comprehensive income for the period	18,806	7,241	50,022
Dividends paid to owners	(1,000)	(500)	(9,500)
Equity at the end of the period	566,418	514,831	548,612

The accompanying notes form part of these interim financial statements.

Condensed balance sheet

As at 31 December 2020

	Unaudited December 2020 \$000	Unaudited December 2019 \$000	Audited June 2020 \$000
Current assets			
Cash and cash equivalents	451	525	307
Trade and other receivables	12,603	15,562	15,127
Property inventories	24,574	33,078	27,554
Property held for sale	-	2,719	-
Maintenance inventories	1,377	1,395	1,441
Income tax receivable	1,445	1,037	-
	40,450	54,316	44,429
Non-current assets			
Investment property	403,771	342,080	378,489
Property, plant and equipment	227,255	229,232	227,598
Intangible assets	5,241	5,578	5,262
Equity accounted investments	-	2,071	-
	636,267	578,961	611,349
Total assets	676,717	633,277	655,778
Current liabilities			
Trade and other payables	7,191	10,406	8,132
Borrowings	11,425	12,375	5,140
Employee entitlements	4,221	4,449	5,685
Provisions	-	297	227
Derivative financial instruments	855	691	1,009
Lease liabilities	202	97	203
Income tax payable	-	-	685
	23,894	28,315	21,081
Non-current liabilities			
Borrowings	67,150	70,650	67,150
Employee entitlements	1,062	966	1,057
Derivative financial instruments	1,348	1,210	2,047
Lease liabilities	1,977	2,290	2,084
Deferred tax liabilities	14,868	15,015	13,747
	86,405	90,131	86,085
Total liabilities	110,299	118,446	107,166
Equity			
Share capital	20,000	20,000	20,000
Reserves	546,418	494,831	528,612
Total equity	566,418	514,831	548,612
Total equity and liabilities	676,717	633,277	655,778

The accompanying notes form part of these interim financial statements.

Condensed statement of cash flows

For the six months ended 31 December 2020

	Unaudited 6 months December 2020 \$000	Unaudited 6 months December 2019 \$000	Audited Year to June 2020 \$000
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Port operations revenue	32,687	32,174	71,154
Property rentals	12,634	12,215	23,017
Sales of property inventories	-	1,903	13,837
Interest received	-	200	435
Net GST received / (paid)	677	(161)	(254)
<i>Cash was applied to:</i>			
Payments to employees and suppliers	(30,621)	(30,777)	(57,936)
Expenditure on property inventories	(430)	(7,286)	(8,964)
Interest paid	(1,103)	(1,077)	(2,347)
Subvention payments	-	-	(101)
Income tax payments	(4,001)	(6,618)	(10,674)
Net cash flows from operating activities	9,843	573	28,167
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment	14	496	673
Sale of investment property	-	2,722	6,907
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment	(5,267)	(19,352)	(23,118)
Purchases and improvements to investment property	(9,398)	(8,390)	(16,645)
Interest capitalised	(187)	(282)	(567)
Advances from (to) joint operations	(38)	(2,129)	(2,162)
Net cash flows used in investing activities	(14,876)	(26,935)	(34,912)
Cash flows from financing activities			
<i>Cash was provided from:</i>			
Net proceeds from borrowings	6,285	27,345	16,610
<i>Cash was applied to:</i>			
Dividends paid	(1,000)	(500)	(9,500)
Repayment of lease liabilities	(108)	(100)	(200)
Net cash flows from financing activities	5,177	26,745	6,910
Increase (decrease) in cash held	144	383	165
Cash held at beginning of period	307	142	142
Cash held at end of period	451	525	307

The accompanying notes form part of these interim financial statements.

Reconciliation of profit to net cash flows from operating activities

	Unaudited 6 months December 2020 \$000	Unaudited 6 months December 2019 \$000	Audited Year to June 2020 \$000
Profit for the period	18,285	7,047	50,493
Plus/(less) non-cash items:			
Unrealised net change in the value of investment property	(12,529)	-	(27,943)
Depreciation and amortisation	5,686	5,683	11,280
Movement in the fair value of forward start interest rate swaps	(129)	-	232
Movement in non-current employee entitlements	5	23	114
Movement in deferred tax	918	343	(667)
Plus/(less) items classified as investing activities:			
Gain on sale of property, plant and equipment	(14)	(13)	(24)
Gain on sale of investment property	-	(322)	(1,656)
Movement in joint ventures	-	(68)	(203)
Movement in working capital items:			
Trade and other receivables	2,524	(900)	1,778
Trade and other payables	(942)	(1,839)	(3,854)
Current employee entitlements	(1,464)	(1,041)	195
Provisions	(227)	30	(40)
Income tax payable	(2,130)	(4,187)	(2,464)
Maintenance inventories	64	(14)	(60)
Property inventories	(430)	(6,590)	(1,794)
Movement in other working capital items classified as investing activities	226	2,421	2,780
Net cash flows from operating activities	9,843	573	28,167

Notes to the condensed financial statements

For the six months ended 31 December 2020 (unaudited)

1. General information

The unaudited interim condensed financial statements presented are those of Port Otago Limited ("the Company"), its subsidiaries, associates 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 2020.

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 valuation

As at 30 June 2020, the independent valuations of Port Otago's portfolio were reported on the basis of 'material valuation uncertainty', meaning less certainty and a higher degree of caution

should be applied due to the uncertainty related to the Covid-19 pandemic.

At 31 December 2020 the valuations have been determined by management based on the independent valuations provided at 30 June 2020 and assessed movements in market values since that date.

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 where a change in use is evidenced by the inception of an operating lease to another party are transferred from property inventories to investment property at carrying value with fair value determined at interim reporting date.

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 2020 the Group had commitments/approvals for capital expenditure of \$1.14 million (31 December 2019: \$11.55 million, 30 June 2020: \$4.01 million) which relates to purchases and refurbishments of port assets and investment property.

7. Contingencies

There are no contingent liabilities at 31 December 2020 other than those arising in the normal course of business.

8. Events after balance date

Dividends

On 16 February 2021 the directors declared an interim dividend of \$4.5 million.



Oak Road development, Wiri, Auckland

Directory

Directors

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

Leadership Team

Kevin Winders	Chief Executive
Stephen Connolly	Chief Financial Officer
Sean Bolt	GM Marine
David Chafer	GM Property
Kevin Kearney	GM Operations
Deanna Matsopoulos	Supply Chain Manager
Gavin Schiller	Head of Safety
Sandy Shea	GM IT
Craig Usher	Commercial Manager
Kate Walton	People and Capability Manager
Jodi Taylor	Executive Assistant

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Bankers

ANZ Bank New Zealand Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General

