

The outlook for global container ports and terminals

TOC 2009
Bremen



16 June 2009

Agenda

- Port demand growth
- Port capacity
- Shipping lines as terminal operators/investors
- Tariffs, profitability and valuations
- Conclusions

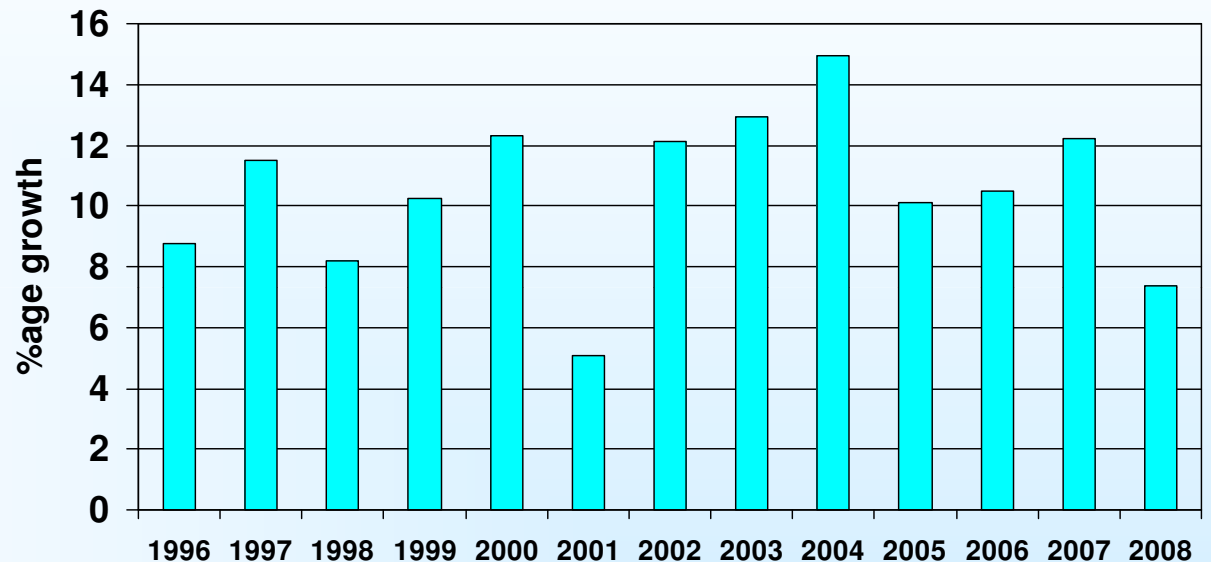


- Demand growth issues



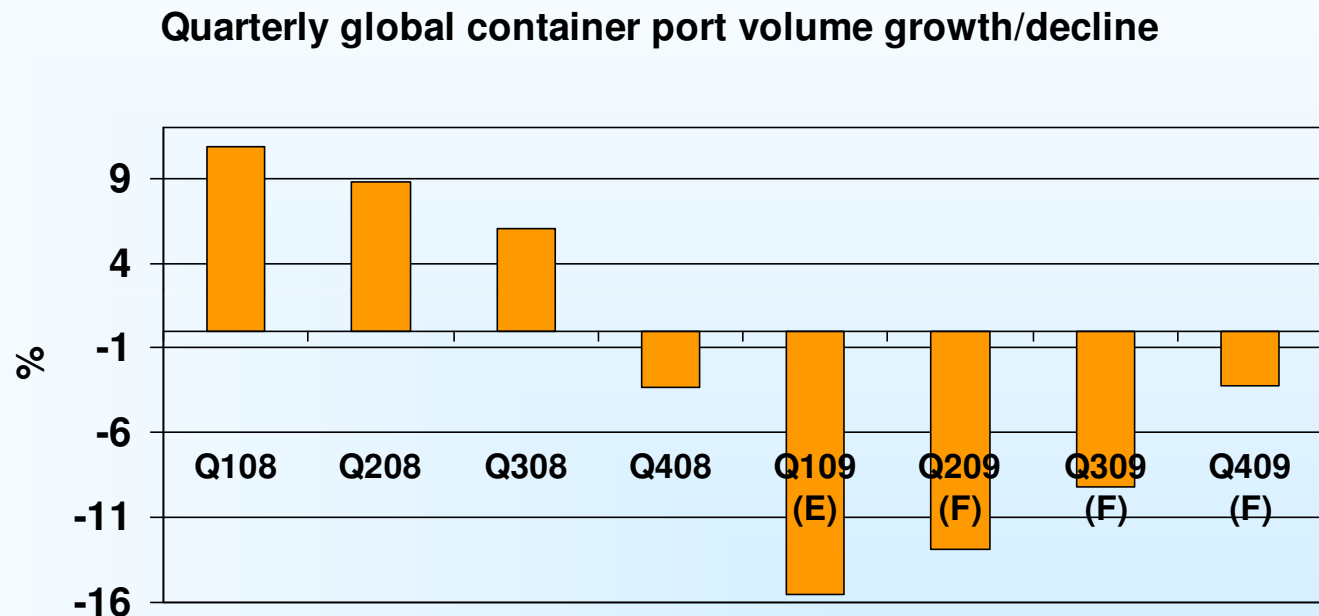
Riding out recession

- The global container port industry has shown resilience against recession in the past, e.g.
- In the Asian financial crisis in 1998, global container port volumes grew by 8%
- In the last US recession in 2001, global container port volumes grew by 5%
- 2009 is different though.....



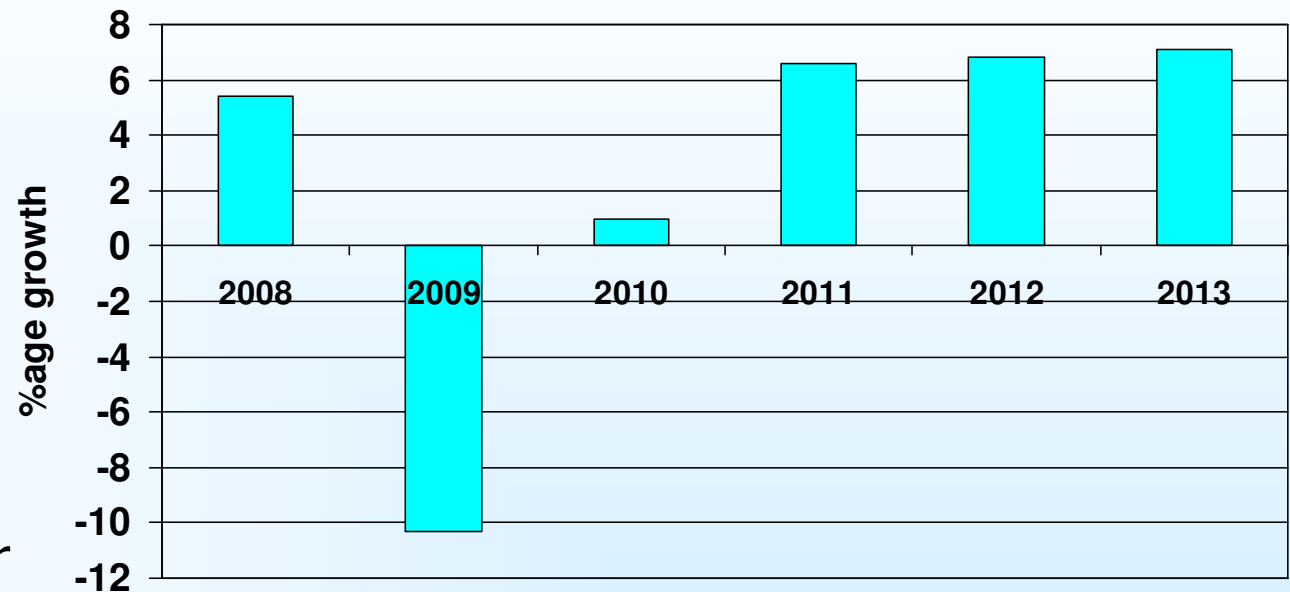
Last quarter of 2008....first quarter 2009

- The recession really started to bite in the last quarter of 2008 and hit hard in Q1 2009
- Remember that the US sub-prime mortgage crisis hit in mid 2007!
- The banking crisis in the second half of 2008 was the really critical factor



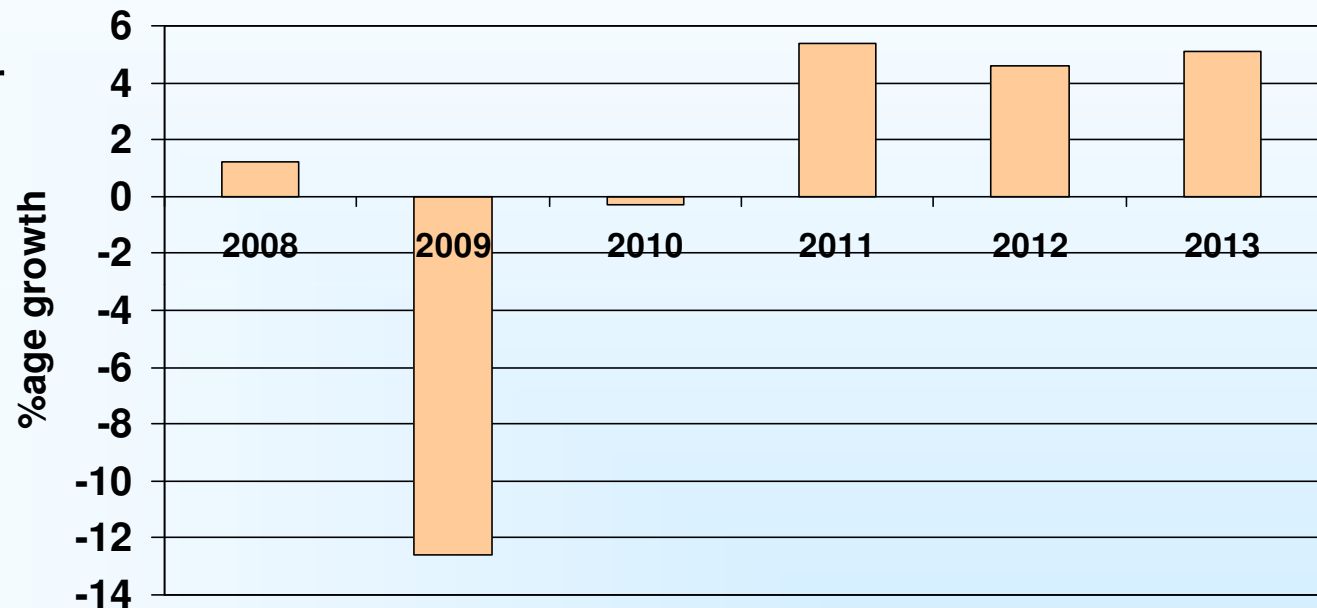
Forecast global container port demand growth to 2013

- 2009 will be the worst ever year for the industry in terms of growth
- Minimal growth is the best that can be expected in 2010
- Reasons to expect 2011 onwards to show a return to much healthier growth levels.
- It will be 2012 though before total traffic volumes exceed 2008 levels again (525 million teu)



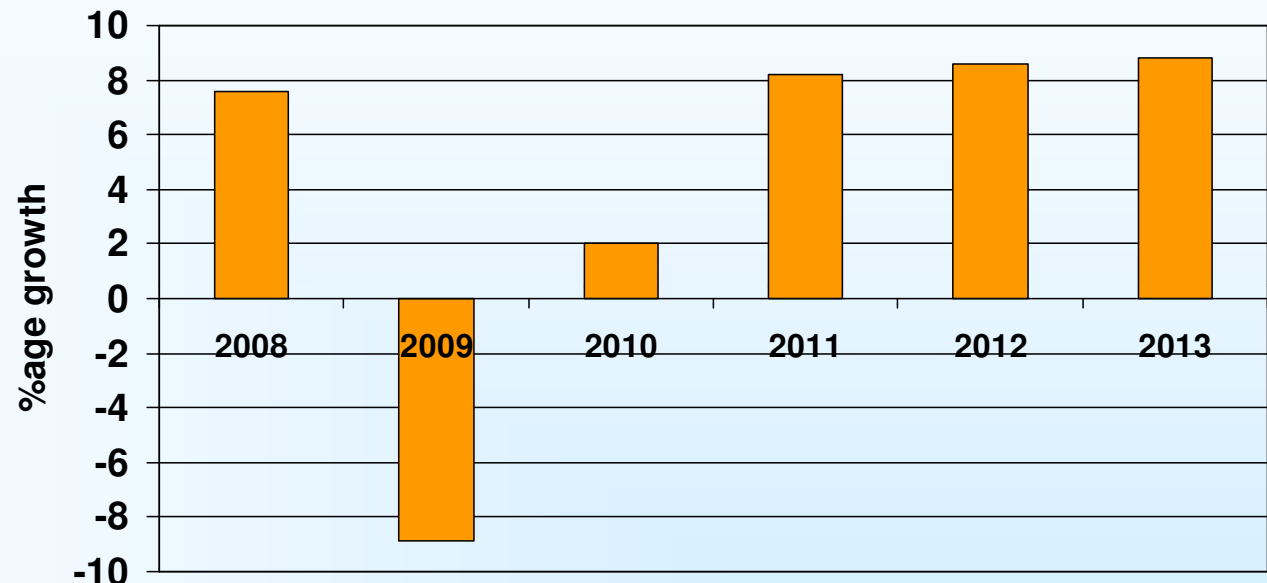
Forecast North European container port demand growth to 2013

- North European volumes show a similar pattern to the global picture....slightly more severe decline in 2009
- Reliance on imports and consumer spending
- 2013 before 2008 total volume levels reached again



Forecast Far Eastern container port demand growth to 2013

- Less sharp 2009 decline than globally, and stronger recovery
- Benefit of being the "world supplier"
- 2008 volume levels are reached again by 2011



- Port capacity issues



Capacity expansion plans

- Expansion projects already under way are happening
- The volume slowdown/decline coupled with the difficulty of obtaining funding has led to many other port/terminal expansion plans being reviewed
- Anecdotal evidence suggests that there have been widescale steps taken by developers to slow down capacity expansion process
- Limited transparency on what projects have been:
 - Cancelled
 - Delayed
 - Scaled back in size



Supply-demand balance?

- 2007 and 2008: Average terminal utilisation was in the 60-70% range and in the 70-90% range at the largest/most heavily used facilities
- 2009: Will see a short term drop in utilisation levels
- 2010: Unlikely to see a further drop as volume decline should have ceased, plus a lot of capacity expansion has been put on hold
- 2011 onwards: Pressure will start to return once 2008 demand levels are regained



- Shipping lines as terminal operators/
investors



Which way now?

- Shipping lines have been very active investors in terminals until recently
- Lack of profitability in the liner sector and general lack of funds in the banking sector will curtail this in the short to medium term
- The sale of some terminal assets is also likely
- Bankruptcy of major carriers?
- Implications for the customer base of ports and terminals



- Tariffs, profitability and valuations



Ports v. liner shipping

- Very different economics
- High barriers to entry in port sector
- Less severe competition
- Less temptation to marginally price
- THCs for gateway cargo
- Profit margins can be maintained or at least kept acceptable in downturns (rather than collapsing)



Container handling tariffs

- Anecdotal evidence suggests that terminal operators are not indulging in discounts
- Price freezes are more evident though
- Transshipment tariffs may be under more pressure than gateway tariffs
- Port authorities are employing discounts on their charges in some locations (e.g. US west coast)



Container terminal profit margins

- Volumes, revenue and absolute profitability is down
- Margins are being generally maintained though, e.g.
 - ICTSI Q108 EBITDA margin 43.6%, Q109 41.3%
 - APMT Q108 EBITDA margin 19.4%, Q109 19.4%
- A profit margin is still there – in the worst year the industry has ever experienced
- Contrast with liner shipping



Container terminal valuations

- The days of valuations of port businesses at over 20x EBITDA are over – at least for the time being
- No real new benchmark deals yet, but sentiment is that 8-12x EBITDA is the ballpark now
- Share prices of quoted port companies are very low relative to the companies' earning power and resilience – general under-valuing of port assets by the stock markets e.g.
 - DP World floated at \$1.36 per share in Nov 2007, fell to under 20 cents a share in Q109 before recovering to around 40 cents recently
 - ICTSI was at around 33 Pesos per share a year ago and fell as low as to around 10 in Q109. Has since improved to around 20



Conclusions

- 2009 will be the worst ever year for the container port industry in terms of volume decline
- Resumption of significant growth not likely until 2011
- Port capacity expansion on hold in numerous locations
- Shipping lines under extreme financial pressure
- Ports and terminals weathering the storm better
- New (lower) benchmarks for valuations of port businesses need to be set – but quoted port companies are generally undervalued





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