

Notice is hereby given of the:

South Port Sub-committee Rōpū a-Tonga Taunga Waka

Tuesday, 23 July 2024, at 11.30 am

Environment Southland, 220 North Road, Invercargill
24/SP/38

Committee Members

Cr Eric Roy (Chair)
Cr Alastair Gibson
Cr Lyndal Ludlow

Cr Jeremy McPhail
Cr Maurice Rodway
Chairman Nicol Horrell (*ex officio*)



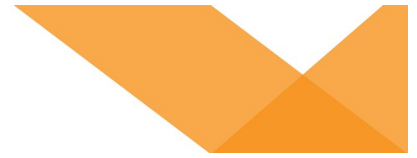
AGENDA

Rarangi Take

1. Welcome | Haere mai
2. Apologies | Ngā Pa Pouri
3. Public Forum, Petitions and Deputations | He Huinga tuku korero
4. Confirmation of Minutes | Whakau korero – 11 March 2024
5. Notification of Extraordinary and Urgent Business | He Panui Autaia hei Totoia Pakihi
 - 5.1 Supplementary Reports
 - 5.2 Other
6. Questions | Patai
7. Chairman’s Report | Te Purongo a Tumuaki
8. Extraordinary and Urgent Business | Panui Autaia hei Totoia Pakihi
9. General Manager, Business Services Report - 24/SP/38
 - Item 1 – Quarterly Update6
10. Public Excluded Business | He hui Pakihi e hara mo te iwi
 - Confirmation of Minutes – 11 March 2024
 - Item 2 – South Port Investment - Shareholder Considerations.....15

Wilma Falconer
Chief Executive

RECOMMENDATIONS IN COUNCIL REPORTS ARE NOT TO BE CONSTRUED
AS COUNCIL POLICY UNTIL ADOPTED BY COUNCIL



Confirmation of Minutes

- **South Port Sub-committee Meeting – 11 March 2024**



Minutes of the South Port Subcommittee

Held at Environment Southland, 220 North Road Invercargill
Friday 11 March 2024 at 3.00 pm



Present:

Cr Eric Roy (Chair)
Chairman Nicol Horrell (ex officio)
Cr Alistair Gibson
Cr Lyndal Ludlow
Cr Jeremy McPhail
Cr Maurice Rodway
Mr Dom Rikiti (General Manager Business Services)
Miss Mariette Geldenhuys (Meeting Secretary)

Also Present:

Scott Hamilton (online via Teams)

1 Welcome | Haere mai

The chairperson welcomed everyone to the South Port Subcommittee meeting for 16 February 2024.

2 Apologies

No apologies received for this meeting.

3 Declarations of interest

There were no declarations of interest.

4 Public forum, petitions and deputations | He huiuga tuku korero

There were no public forum, petitions or deputations presented at the meeting.

5 Confirmation of minutes

Resolved:

Moved by Cr McPhail, seconded by Cr Ludlow that the South Port Subcommittee confirms the minutes of the meeting held 16 February 2024 as a true and correct record of that meeting.

Carried

6 Notification of extraordinary and urgent business | He panui autaiā hei totoia pakihi

There were no extraordinary items or urgent business tabled for inclusion in the agenda.

7 Questions | Patai

There were no questions asked by the membership.

8 Chairman and councillors reports

No reports were tabled by the Chair or councillors at this meeting.



9 Reports

No reports presented.

10 Public excluded business | He hui pakihi e hara mo te iwi

Resolved:

Moved Chairman Horrell, seconded Cr McPhail, that in accordance with section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interest/s protected by section 7 of that act, that the public be excluded from the following parts of the proceedings of this meeting, namely:

- Confirmation of public excluded minutes – South Port Subcommittee 7 December 2023
- Item 11 - South Port Investment – March 2024 update

The general subject matters to be considered while the public is being excluded, the reason for this resolution in relation to the matter, and the specific grounds for excluding the public, as specified by Section 48(1) of the Local Government Official Information and Meetings Act 1987 are set out below:

GENERAL SUBJECT MATTER	REASON FOR PASSING THE RESOLUTION	GROUNDS UNDER S.48(1)
Confirmation of public excluded minutes – South Port Subcommittee 16 February 2024	To protect information which, if public, would (i) disclose a trade secret, or (ii) unreasonably prejudice the commercial position of the person who supplied or who is the subject of the information.	S.7(2)(b)

Carried

Termination

There being no further business, the chair closed the meeting at 3.57 pm.



Item 1 - South Port Investment – Update July 2024

Objective ID: A1033418
Report by: Scott Hamilton, Consultant
Approved by: Wilma Falconer, Chief Executive

Purpose

To provide an update to the South Port Subcommittee on matters relating to South Port.

South Port Investment - Update

This report is backwards looking and outlines the activity that has occurred on the New Zealand Stock Exchange ('NZX') and New Zealand Companies Register relating to South Port New Zealand Limited (SPN:NZ), including company announcements, share trading and company directors.

This report only reflects activity since the last meeting of the South Port Subcommittee on 16 February 2024 and up to 10 July 2024.

Recommendation

It is recommended that the South Port Subcommittee resolve to receive the report "South Port Investment - Update July 2024".

Background

South Port New Zealand Limited ('South Port') operate a deep-water Port at Bluff, Southland. The company is listed on the NZX.

Environment Southland ('Council') is a majority shareholder of South Port. At the time of this report, Council holds 17,441,573 shares or 66.48% of the shares on issue. No change.

Schedule of upcoming meetings

Date	Meeting
17 October 2024	South Port AGM

Share Price Movement

The latest trades on the NZX were at \$6.09 on 10 July 2024 which is a decrease of \$1.04 per share since the last update to the Subcommittee in February. This implies the Council's investment has a current market value of \$106 million, which is a decrease of \$18 million since the previous update.

For reporting purposes the Council records this investment at cost. In the 2022/23 Annual Report the investment in South Port was recorded at the cost price of \$9 million. The notes to the last Council Financial Statements stated the fair value at 30 June 2023 was \$130 million based on the NZX quoted bid price of \$7.43. The share price at 30 June 2024 was \$5.61, implying a fair value at \$98 million.



The line charts below include the price movements and trading activity for the last 12 months. There was a decrease of \$1.10 per share from \$7.40 on 17 July 2023 to \$6.09 on 25 January 2024. This equates to a 17.7% decrease in the share price over the 12 months. (Source: nzx.com).

Share price movement and share trading



Price Movement Comparison

Ticker	Name	10-Jul-24	11-Jul-23	Movement	% Change	Largest Shareholder
SPN	South Port	\$ 6.09	\$ 7.40	-\$ 1.31	-17.7%	Environment Southland (66%)
POT	Port of Tauranga	\$ 5.20	\$ 6.23	-\$ 1.03	-16.5%	Quayside (BOPRC) (54%)
MMH	Marsden Maritime (50% North Port)	\$ 3.50	\$ 4.94	-\$ 1.44	-29.1%	Northland Regional Council (54%)
NPH	Napier Port	\$ 2.31	\$ 2.38	-\$ 0.07	-2.9%	HBRIC (HBRC 55%)

All NZ ports have struggled in the past 12 months. The price movement in South Port is comparable to the Port of Tauranga. Both ports have provided market updates with a decline in expected revenues and are both subject to shareholder consideration of a sell down, albeit Tauranga a more frequently traded stock.

Port of Napier share price has been resilient over the same period as it recovers from the Cyclone Gabrielle impact 12 months earlier.

Share trading commentary

There has been no significant trading in South Port in the period and no announcements regarding changes in significant shareholders.



Company Directions

South Port has the following Board of Directors. There have been no changes to the Board of Directors since the last update to the Subcommittee.

Name	Role	First Appointed	Last Appointed
Cory-Wright, Philip	Independent Chair	2010	2023
Crowley, Cassandra	Independent Director	2023	2023
Greer, Nicola	Independent Director	2019	2021
Henderson, Michelle	Independent Director	2021	2021
Kearney, Clare	Independent Director	2016	2022
Schol, John	Independent Director	2022	2022

NZX Listing Rules (Rule 2.7.1) require that a director cannot hold office for more than three years from their last appointment. Therefore, Directors Greer and Henderson must be considered for reappointment or replacement at the next AGM.

Company Announcements

South Port New Zealand Limited Announcements

Display announcement for year: 2024

Title	Date	Type	Flag
NZAS Sign Long Term Contracts	31/05/2024, 14:49 NZST	MKTUPDTE	P
D&O Ongoing Disclosure Notice - L Stevens	9/04/2024, 14:08 NZST	SHINTR	3
AMENDED - South Port - Interim Report to 31 D...	15/03/2024, 08:30 NZDT	GENERAL	P
South Port NZ Ltd - Interim Report to 31 Decem...	12/03/2024, 09:09 NZDT	GENERAL	P
Challenging market conditions impact South Po...	16/02/2024, 12:25 NZDT	HALFYR	P

The company has made three price sensitive announcements during the period.

16 February 2024 – Challenging Market Conditions

South Port, has for the last provided a forecast profit update in February. At the time of the Annual Report (25 September 2023), the Port forecast a net profit between \$11.7m and \$12.3m (with 2023 NPAT being \$11.7m). At the AGM (31 October 2023) this was tempered back to \$9.0m following a weaker first quarter trading.

The 16 February 2024 announcement included the following extracts

“Reduced volumes across most of South Port's key commodities, and inflationary pressure on costs have negatively impacted South Port's financial performance in the first half of the financial year. This deterioration in trade is common across the port sector and unfortunately South Port is not immune.

These market conditions have been reflected in South Port's net profit after tax (NPAT) for the first six months of FY2024 at \$3.0 million (FY2023 \$5.2 million).



OUTLOOK

Global events continue to create uncertainty and provide challenges to our business operations. Based on all known factors at the date of releasing its 2024 interim result, South Port estimates that its full-year earnings should fall in the range of \$7.3 million to \$8.0 million (FY2023 - \$11.7 million)."

12 and 15 March 2024 – Interim Results

"INTERIM REPORT

South Port's Interim Report for the period ended 31 December 2023 is now available on our website. Reduced volumes across most of South Port's key commodities and inflationary pressure on costs have impacted South Port's financial performance in the first half of the financial year.

Adverse market conditions have been reflected in South Port's net profit after tax (NPAT) for the first six months of FY2024 at \$3.0 million (FY2023 \$5.2 million).

Contributing factors to the year include:

- *Inflationary pressures on labour and materials.*
- *Insurance costs have substantially increased.*
- *Increased finance costs due to an upwards movement in interest rates and additional debt on the balance sheet.*

Based on all known factors at the date of releasing its 2024 interim result, South Port estimates that its full-year earnings should fall in the range of \$7.3 million to \$8.0 million (FY2023 - \$11.7 million)."

31 May 2024 – NZAS Signs Long Term Contract

"New Zealand's Aluminium Smelter (NZAS) announced today that they have secured energy supply contracts from Meridian Energy, Contact Energy and Mercury for 20 years, out until 2044.

"This announcement is great news for NZAS, South Port and the Southland province" said South Port Chair, Philip Cory-Wright.

"This certainty will now provide confidence in the region for further investment in local businesses and new generation", said Mr Cory-Wright.

The Company estimates that the Smelter's overall contribution to net profit after tax to be approximately \$2M, (excluding the annual licence fee which is payable until 2043).

NZAS has been a significant long-term valued customer of South Port. "The businesses have enjoyed a mutually beneficial working relationship, and it is especially pleasing to see this partnership continue for a further 20 years" said Chief Executive Nigel Gear."

Other Port announcements of note

South Port Sale Consultation

The article below was first published by the Southland Times on 26 March 2024 relating to a proposed sale, and subsequently appeared on stuff.co.nz

'Environment Southland to divest some South Port shares

Environment Southland is proposing to sell some of its shares in South Port, saying it wants to reduce its risk exposure.



The council says there is a risk that there is a change in operating circumstances and South Port cannot maintain its forecast dividend, reducing the offset against the general rate which would result in higher rates or more debt.

The regional council's Financial Strategy Te Rautaki Pūtea, which is a supporting document of the Long-term Plan 2024-34 Consultation Document, which will both be tabled at an extraordinary council meeting on Wednesday.

It says the regional council is the majority shareholder in the publicly listed company, with a 66.48% share.

The port is a strategic asset and the council's principal reasons for owning these shares are the economic wellbeing of the region and to provide a financial benefit by using the dividends to reduce the general rate, the report says.

A key objective for council is to ensure that it continues to hold a controlling stake in South Port NZ Ltd and that controlling stake remains above 50%.

Maintaining the current level at 66.48% does concentrate councils' investment portfolio heavily into one industry, so consequently council proposes to look to divest some of this shareholding and reposition this equity into similar if not higher performing investments, reducing investment risk and maintaining or enhancing returns, the report says.

Forecast dividends over the 10-year period of the Long Term Plan are based on receiving 27 cents per share.

The council has not forecast any growth in this return given the uncertainty in what lies ahead.

The South Port dividend is Environment Southland's single largest source of investment income.

The regional council says the closure of Tiwai is still undecided and the new opportunities that lie ahead create uncertainty.

If dividends received are less than budgeted, this will create a deficit, increase debt and reduce our resilience, the report says.

Subject to adoption by council, the consultation document Investing in Southland Whakangao ki Murihiku, will be released for public consultation on March 28, with submissions closing on May 6.

The hearing of submissions, and deliberations, will occur in May.

<https://www.stuff.co.nz/business/350226080/environment-southland-divest-some-south-port-shares>

Similar articles also appeared on the websites for the National Business Review on 27 March 2024.

Attachments

Nil.