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Port Financing and Investment – a perspective from Dublin Port

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- **Overview of Dublin Port**
- **The port sector in Ireland**
- **Port models in Ireland**
- **Role of ports within the supply chain**
- **Dublin Port Company corporate objectives**
- **Status of port charges**
- **Capacity and investment**
- **Conclusions**

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Overview

- Most important sea port on the island
- Multimodal
- 20m tonnes (net)
- 1.8m ferry passengers
- 150,000 cruise visitors
- Nearly 7,000 ship arrivals p.a.
- 52% of country's petroleum products
- Infrastructure provider to private sector operators

On an all island basis (2010):
34.4% of total turnover (€70m)
47.3% of all operating profits (€27m)
29.7% of cargo tonnage (19.5m net tonnes)
55.3% of Lo-Lo TEU's handled (554,000 TEU)
47.3% of Ro-Ro units handled (726,000 units)

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Corporate structure

Revenue (2011)		
Tonnage	€	10.1m
Goods	€	37.4m
Rents	€	11.8m
Services	€	4.9m
Other	€	4.9m
Total	€	69.1m

- A classic landlord port
- DPC is a "*semi-state*" company
- Limited liability company set up in 1997
- Shares owned by the Irish State
- Legal structure set out in legislation
- Shareholders funds of €268m at end 2011
- Net debt €11m
- Can borrow up to 50% of fixed assets (c. €130m) subject to Ministerial approval
- Pay dividends to the State €16.5m in 2011 and €10.2m in 2012

Port models

- Large multi-modal ports (Dublin and Belfast)
- Specialised Ro-Ro ports (Larne and Rosslare)
- Ports dominated by commodities (Cork and Shannon Foynes)
- 17 other ports down to the very tiny
- Different approaches in different ports
- From “landlord ports” like Dublin to “tool ports” like Greenore
- Smaller ports struggle to be profitable let alone make a return on capital employed
- Investment by smaller ports from their own resources is near impossible

Financial capability

- **23 ports on the island of Ireland**
- **Aggregate turnover of €200m**
- **Operating profit:**
  - **All ports €57m**
  - **Top 6 €55m**
  - **Dublin €27m**

Dublin	8.8%
Belfast	5.6%
Foynes	5.0%
Galway	4.8%
Dun Laoghaire	2.9%
Cork	1.9%
Drogheda	1.7%
Warrenpoint	0.6%
New Ross	-0.2%
Waterford	-0.4%
Wicklow	-11.8%
Dundalk	-18.8%

Role of ports in the supply chain

- **Ports don't add value**
- **The charges made by Port companies account for a very low proportion of the total door to door costs in the overall supply chain from shipper to receiver.**
- **For example, DPC cargo dues are:**
  - ***€28.25 for a 40' container or a 13.6m trailer***
  - ***€1.00 for a tonne of animal feed***
  - ***€2.82 for a tonne of petrol (0.23 cent per litre)***
  - ***€12.00 for a new car***
  - ***€2.14 for a tourist car***
  - ***€0.48 for a passenger***
- **Moving a container / trailer from the Benelux region to the Greater Dublin Area would indicatively cost €800. DPC's cargo dues represent 3.5%**
- **Lowest possible supply chain costs are essential for national competitiveness**
- **Although ports contribute a small proportion to total supply chain costs, they must be cost efficient**
- **Moreover, port capacity must be available where supply chain costs can be minimised**

Finance and corporate objectives

- The demand for Port infrastructure and services is a derived demand from the market for shipping services
- The demand for shipping services is itself a derived demand.
- Because of these market characteristics, the competitive forces between ports are comparatively weak; much weaker, for example, than those in the Ro-Ro or Lo-Lo shipping markets or those for road haulage.
- Ports like Dublin are, therefore, in a strong position to generate large profits from trade for which Dublin facilitates the most cost effective supply chain.
- Moreover, when ports do not have the capacity and/or are too expensive, they destroy supply chain efficiencies (as happened with Dublin in the 1980's)
- Ports (and port policies), therefore, need very clear objectives

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Dublin Port corporate objectives

- Provide port infrastructure to be operated by private sector customers (shipping lines, terminal operators and stevedores)
- Develop and maintain commercial relationships with customers in such a way as to maintain competitive forces in the shipping, terminal operation and stevedoring markets
- Generate a return on capital employed (ROCE) sufficient to remunerate past investments appropriately and sufficient to allow future investment in port infrastructure
- Subject all capital investment proposals to rigorous appraisal to ensure target ROCE is not compromised by inappropriate investment decisions
- Manage operating costs downwards to appropriate levels
- Manage port pricing consistent with the above objectives
- Distribute surplus cash by way of dividends

Status of port charges

- DPC follows a traditional approach to tariffs:
  - Ships charges based on GT / NT
  - Goods dues are on a per tonne or per unit basis
- DPC provides towage – open to any private sector operator to come in
- Pilotage – 75% PEC's
- DPC free to set charges
- Charges largely unchanged since 1997 as old inefficiencies have been addressed
- Charges challengeable through competition legislation
- Regulation would be a hammer to break an egg

Capacity and investment

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- The recession has "created" a lot of spare capacity
- RoI volumes down 9m tonnes (-16.7%)
- Ro-Ro down 167,000 units (-9.4%)
- Lo-Lo down 475,000 TEU (-32.2%)
- All of this is proven spare capacity
- There is yet more available
- Delivering new capacity is slow
- Future investment decisions need to be made carefully
- Projects are expensive compared to the size of the industry (€194m turnover; €57m operating profits)
- Example of planned Liverpool container expansion (850m of quay wall; 17 hectares infill; budget cost £300m)

Capital investment	€ 360m
ROCE	10%
Operating profit needed	€ 36.0m
Operating margin	29.4%
Revenue required	€ 122m
Revenue as % of all ports	61%

Public vision of the future is essential

	2010 '000 gross tonnes[1]	2040 '000 gross tonnes	AAGR
Ro-Ro	16,403	41,920	3.2%
Lo-Lo	6,317	10,480	1.7%
Bulk Liquid	4,009	4,000	0.0%
Bulk Solid	2,054	3,500	1.8%
Break Bulk	96	100	0.1%
Total tonnes	**28,879**	**60,000**	**2.5%**

	2010	2040
Ro-Ro ('000 units)	701	1,791
Lo-Lo ('000 units)	377	625
Totals	**1,078**	**2,416**

	2010	2040
Lo-Lo ('000 TEU)	641	1,063

[1] All tonnages and volumes are five year averages

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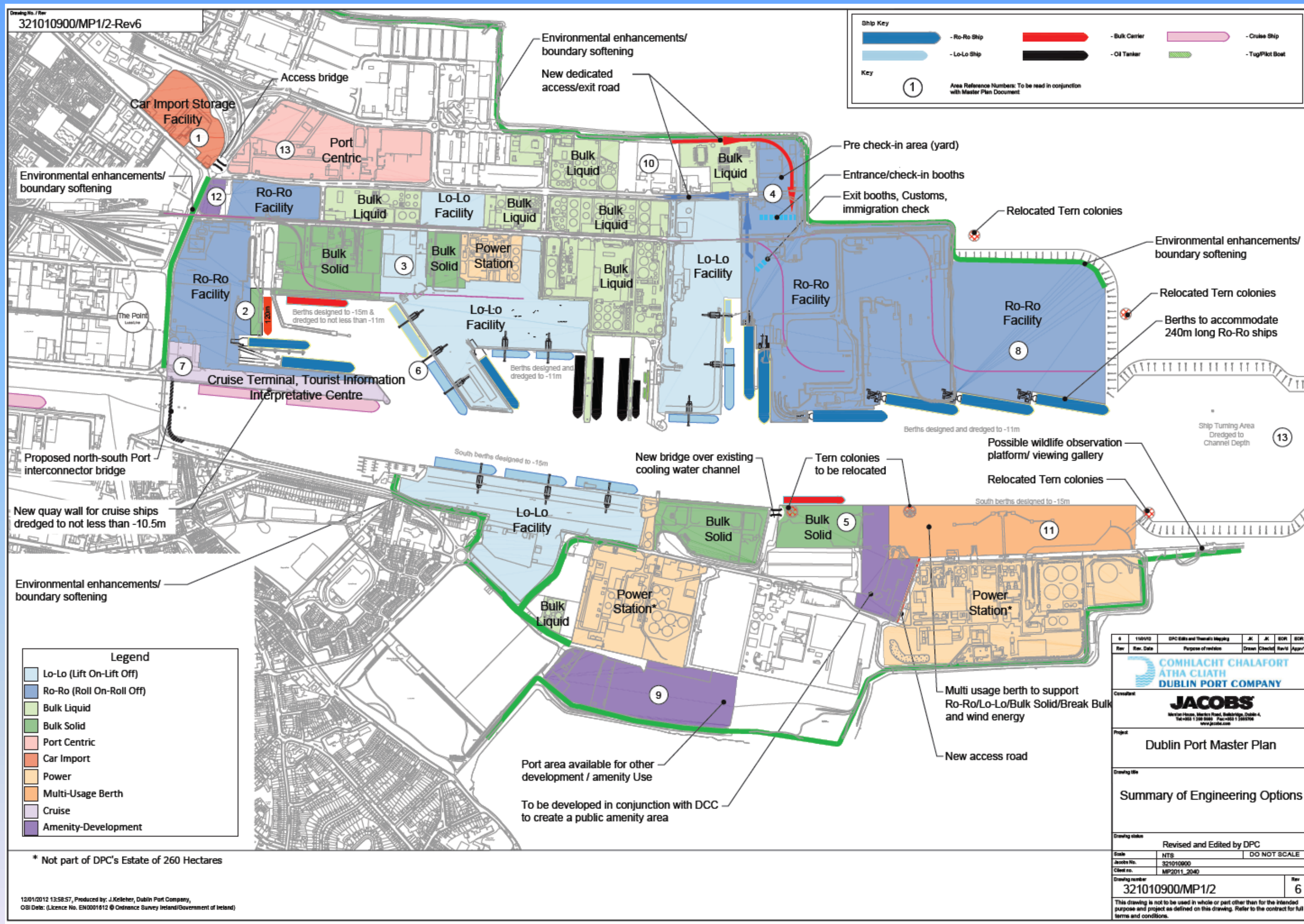

www.dublinport.ie/masterplan

Must be able to deliver the vision

(€"000)	2006	2007	2008	2009	2010
Turnover	66,423	70,450	70,597	62,852	66,969
EBITDA	33,305	27,842	33,254	32,313	34,310
Operating Profit	25,592	21,664	26,969	25,647	27,031
Capital Employed	219,775	252,338	262,982	295,611	307,250
ROCE	11.6%	8.6%	10.3%	8.7%	8.8%

Conclusions

- The *semi-state* approach works for Dublin Port and Ireland
- Scale is the key – we're big enough to be able to finance prospective projects
- Policy issue in Ireland is how large projects from smaller ports are handled
- Key to success in the Irish model is clear corporate objectives
- Customer pressure and competition policy keep ports honest when it comes to setting charges

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Questions?