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New Zealand Ports

Overview of Financial Performance, 2015 – 2024

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All the ports reviewed in this report were given the opportunity to comment on a draft of the report, and we would like to acknowledge the valuable contributions of all the ports that provided comments. Neither TDB nor the ports that have been reviewed in this report warrant or guarantee the accuracy of the information in this document. Not every port in NZ is reviewed in this report and the conclusions derived in this report are not to be taken as representative of any other port.

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Table of contents

Glossary

Current ratio: Current ratio measures the liquidity of a firm by comparing its current assets to its current liabilities.

Dividend yield: Dividend yield measures the return that shareholders can expect from dividend payments. It is calculated as dividend payment relative to the book value of equity.

DuPont analysis: DuPont analysis decomposes return on equity (RoE) into several components to determine the drivers of changes in RoE over time.

EBIT: earnings before interest and tax.

Gearing ratio: Gearing ratio measures the level of indebtedness of a firm by comparing the level of its debt to its total assets.

Return on assets (RoA): RoA measures the profitability of a firm by comparing its earnings (EBIT) to its assets.

Return on equity (RoE): RoE measures the profitability of a firm by comparing its profits to its equity and therefore focuses on the perspective of shareholders.

TEU: twenty-foot equivalent unit.

Executive summary

This report investigates the financial performance of eleven major ports in New Zealand from 2015 to 2024. The ports are: Port of Auckland, Port of Tauranga, Port Taranaki, Napier Port, CentrePort, Port Nelson, Port Marlborough, Lyttelton Port, PrimePort Timaru, Port Otago and South Port.

The ports' financial performance is measured using five indicators: RoA, RoE, gearing ratio, current ratio and dividend yield. Table 1 below summarises the performance of the eleven ports over the period. For each indicator, the port with the highest average value over the period is marked in bold whereas the port with the lowest average value over the period is marked in red. The last row reports the average value of each indicator across all eleven ports.

Table 1. Ten-year average financial performance indicators, 2015 - 2024

Name of Port	RoA	RoE	Gearing ratio	Current ratio	Dividend yield
Port of Auckland	6.1%	6.7%	**32.7%**	1.1	4.5%
Port of Tauranga	8.1%	7.7%	25.8%	0.2	7.9%
Port Taranaki	7.7%	6.6%	21.5%	1.1	4.6%
Napier Port	7.3%	6.6%	19.2%	1.2	3.7%
CentrePort	4.4%	3.3%	-22.7%	**6.0**	2.2%
Port Nelson	5.7%	4.8%	20.7%	0.7	2.5%
Port Marlborough	5.3%	4.8%	17.2%	1.3	2.2%
Lyttelton Port	-2.3%	-2.2%	14.7%	3.3	2.2%
PrimePort Timaru	8.0%	7.2%	30.4%	1.4	2.4%
Port Otago	9.5%	9.6%	12.5%	1.8	1.8%
South Port	**23.0%**	**22.1%**	20.3%	1.1	**15.2%**
Average of all ports	7.5%	7.0%	17.5%	1.8	4.5%

Over the period, the average RoA across the eleven ports was 7.5%. RoA has tended to decrease over time for many of the ports. South Port enjoyed the highest average RoA over the period at 23.0% while Lyttelton Port had the lowest average RoA at -2.3%.

The average RoE over the period was 7.0%. Like RoA, RoE tended to decrease for many ports over the period. South Port enjoyed the highest average RoE at 22.1% while Lyttelton Port had the lowest average RoE at -2.2%.

The average gearing ratio was 17.5% over the period, with the Port of Auckland having the highest average gearing ratio at 32.7% and CentrePort having the lowest average gearing ratio at -22.7%.

Overall, many of the ports have managed their balance sheets conservatively with low financial gearing ratios. Napier Port, Port Marlborough, Lyttelton Port and Port Otago all had average gearing ratios below 20% over the period. Port Taranaki, Port Nelson and South Port had average gearing ratios slightly over 20%. On the one hand, the ports' relatively low gearing ratios may reflect the ports' need to accommodate large-scale capital expenditures. On the other hand, low gearing ratios also seem to be driven by the 100% council ownership of some of the ports, such as Lyttelton Port and Port Otago. Complete council ownership tends to be associated with more conservative financial management.[1]

[1] TDB Ports Financial Performance.docx.

The trends in gearing ratios were mixed. Some ports such as Port Taranaki and Port Otago had generally stable gearing ratios over the period. Other ports such as South Port have traditionally had a low gearing ratio but have seen an increase in their gearing ratios in recent years to accommodate large capital expenditures. Overall, gearing ratios have been impacted by factors such as natural disasters and the subsequent rebuild efforts, large scale investment programmes and the need to conserve debt capacity in anticipation of future projects.

The average current ratio was 1.8 over the period. CentrePort had the highest average current ratio at 6.0 while the Port of Tauranga had the lowest average current ratio at 0.2. Looking at the trend in the current ratios over time, most ports had a current ratio that was generally above one during the period. A notable exception was the Port of Tauranga which had a current ratio below one throughout the period. As explained in Section 2.2 below, the Port of Tauranga does not consider it faces any liquidity risks despite its low current ratio as its current liabilities are backed by secured long-term financing arrangements.

The average dividend yield was 4.5% over the period. South Port had the highest average dividend yield at15.2%[2] while Port Otago had the lowest average dividend yield at 1.8%. All eleven ports tend to pay regular dividends to their shareholders. The exception was during the Covid period which saw reduced dividend yields across many of the ports. Pleasingly, dividend yields have started to improve since then.

It is worth noting that those ports that had a relatively subdued RoA and RoE also tended to have a lower dividend yield. Examples are CentrePort, Port Nelson, Port Marlborough and Lyttelton Port. On the other hand, PrimePort Timaru and Port Otago had low dividend yields despite having relatively high RoAs and RoEs.[3]

Among the eleven ports, two publicly listed ports, South Port and the Port of Tauranga stand out as the strongest performers as measured by RoA, RoE and dividend yield. Both ports enjoyed a high RoA and RoE and had a relatively high dividend yield when calculated using book value.[4] The strong performance of South Port and the Port of Tauranga lends support to the argument that mixed ownership tends to improve port performance on average over time, a finding shared by another TDB report.[5]

On the other hand, Lyttelton Port and CentrePort had relatively poor performances as measured by RoA and RoE compared to the other ports. Lyttelton Port's negative average RoA and RoE over the period was influenced by the large losses it made in 2016 and 2020, driven by asset write-downs in those two years. As explained in Section 2.8 below, assets were written down to better reflect their expected future economic benefits. CentrePort was impacted by the 2016 Kaikōura earthquake which severely constrained the port's operations.

Similarly, the Port of Auckland, Port Nelson and Port Marlborough experienced subdued performance over the period as measured by RoA and RoE. The Port of Auckland had an unsuccessful experiment with automating its container terminal with the project being cancelled in 2022. Port of Auckland made a loss in 2022 which reduced its average RoA and RoE over the period. Reassuringly, the Port's performance has improved in recent years under its "Regaining our Mana" strategy.

During the past four to five years Port Nelson has been impacted by difficult trading conditions which contributed to its low RoA and RoE. A tax legislation change in 2024 meant that firms could no longer claim depreciation on commercial buildings. Tax expenses increased as a result which significantly

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[2] As explained below, dividend yield was calculated using the book value of equity. South Port is a listed company, and its shares tend to trade at a premium to their book value. Using market prices would lead to a lower dividend yield.

[3] Since peaking in 2022, PrimePort Timaru saw a decline in the amount of dividend paid in 2023 and 2024 while the book value of its equity kept expanding, leading to a decline in dividend yield. Port Otago has paid increasing amounts of dividends over the years but its equity rose as well, leading to a low dividend yield on average over the period.

[4] Both ports are listed and tend to trade at a premium to book value. Using market prices would lead to a lower dividend yield.

[5] TDB Ports Financial Performance.docx.

reduced Port Nelson's RoE in 2024. On the positive side, recently Port Nelson has successfully negotiated higher tariffs which should help increase revenue in the future.[6]

Port Marlborough has also experienced difficult trading conditions and weak demand for exports in recent years. The port recorded a loss in 2023, driven by large downward revaluations in investment properties. Investment properties were devalued to reflect the high interest rates and challenging economic conditions at the time.[7] The resulting negative RoA and RoE in 2023 lowered the average values for the period.

Reviewing the ports' annual reports, a common theme is the difficult trading conditions that many have experienced in recent years. Notably, container volumes (measured in TEU[8] throughput) have been subdued across the port sector. Table 2 below shows the year in which each port achieved its highest TEU throughput between 2015 and 2024.[9] The only port that achieved its highest TEU throughput in 2024 was Port Otago.

Table 2. Year of peak TEU throughput, 2015 - 2024

Name of Port	Year of peak TEU throughput
Port of Auckland	2018
Port of Tauranga	2020
Napier Port	2017
CentrePort	2016
Port Nelson	2018
Lyttelton Port	2022
PrimePort Timaru	2021
Port Otago	2024
South Port	2021

Several factors contributed to the slow growth in container volumes. The Covid-19 pandemic and the associated disruptions to the global supply chain clearly had an impact. More recently, severe weather events in the North Island such as Cyclone Gabrielle also caused disruptions to port operations. The ongoing disruptions to shipping in the Red Sea have impacted the ports, too. Lastly, weak economic conditions both in New Zealand and overseas have led to dampened demand for goods and services which contributed to the subdued growth in container volumes. Going forward, it will be crucial for container and overall cargo volumes to improve to lift the ports' financial performance.

[6] https://www.portnelson.co.nz/media/igbj0mez/2024fy-annual-report-port-nelson-web-pages.pdf

[7] https://www.portmarlborough.co.nz/wp-content/uploads/2024/10/PM-AR24_FINAL.pdf

[8] TEU stands for the twenty-foot equivalent unit. It is a unit for cargo capacity and is widely used in container shipping. A TEU represents the dimensions of a standard 20-foot container. TEU throughput measures the volume of containers that a port handles over a period.

[9] Port Taranaki withdrew from the container sector in late 2017 to focus on its core business of bulk products and supporting the offshore oil and gas sector (https://www.mscnewswire.co.nz/pricing/item/6597-port-taranaki-withdraws-from-container-sector.html). Port Marlborough is not a major container port, instead focusing on industries such as forestry, fishery and aquaculture (https://www.portmarlborough.co.nz/wp-content/uploads/2024/10/PM-AR24_FINAL.pdf).

1 Five key financial indicators

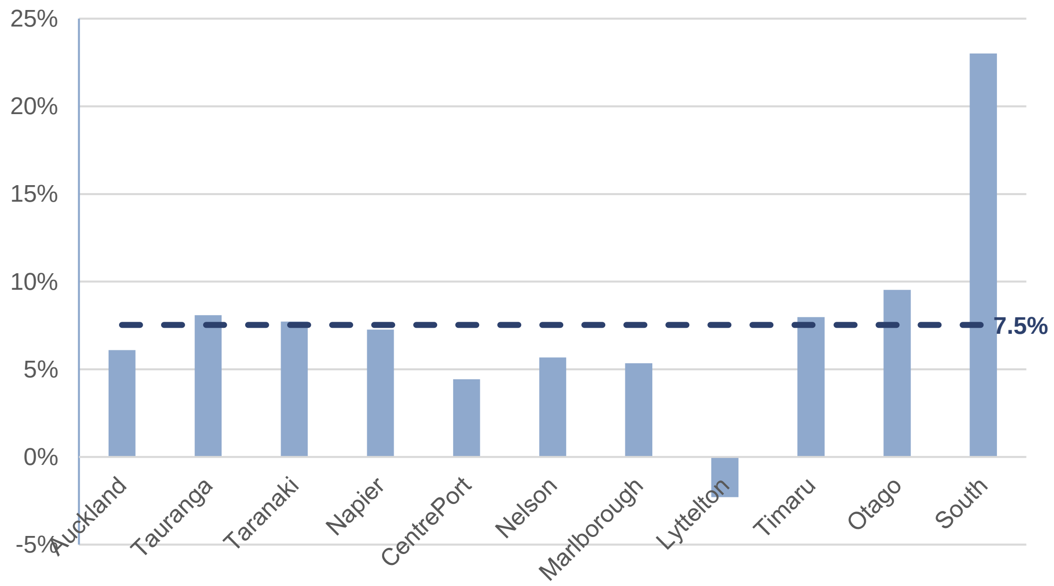
This Section reports the average RoA, RoE, gearing ratio, current ratio and dividend yield from 2015 to 2024 of each port.[10] The average of each indicator across the eleven ports is displayed in the graphs by a dotted dark blue line.[11]

Figure 1 below shows the average RoA for the eleven ports from 2015 to 2024. For each year, RoA is calculated using the following formula:

$$RoA = \frac{EBIT}{Average\ assets}$$

where average assets equals the average of the reported book value of total assets for the current year and the previous year.[12]

Figure 1. Average RoA, %, 2015 – 2024



South Port had the highest average RoA from 2015 to 2024 at 23.0% p.a., followed by Port Otago at 9.5% p.a. On a book value basis, for every dollar of assets owned, South Port generated, on average from 2015 to 2024, 23 cents p.a. in EBIT.[13]

Notably, Lyttelton Port had a negative average RoA from 2015 to 2024 of -2.3% p.a. This was driven by the large and negative RoA values recorded in 2016 and 2020.[14]

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[10] RoA and RoE are averaged using the geometric mean to take into account the effects of compounding on the performance measures over time. Gearing ratio, current ratio and dividend yield are averaged using the arithmetic mean.

[11] A simple unweighted average was used.

[12] We use EBIT instead of NPAT to calculate RoA because assets are funded by both debt and equity and EBIT captures the returns to both forms of funding.

[13] South Port had a price-to-book ratio of around three as at 30 June 2023 (South Port New Zealand (NZE: SPN) Financial Ratios and Metrics - Stock Analysis). This indicates that South Port's RoA would be lower when measured using market prices instead of book values.

[14] See Section 2.8 below.

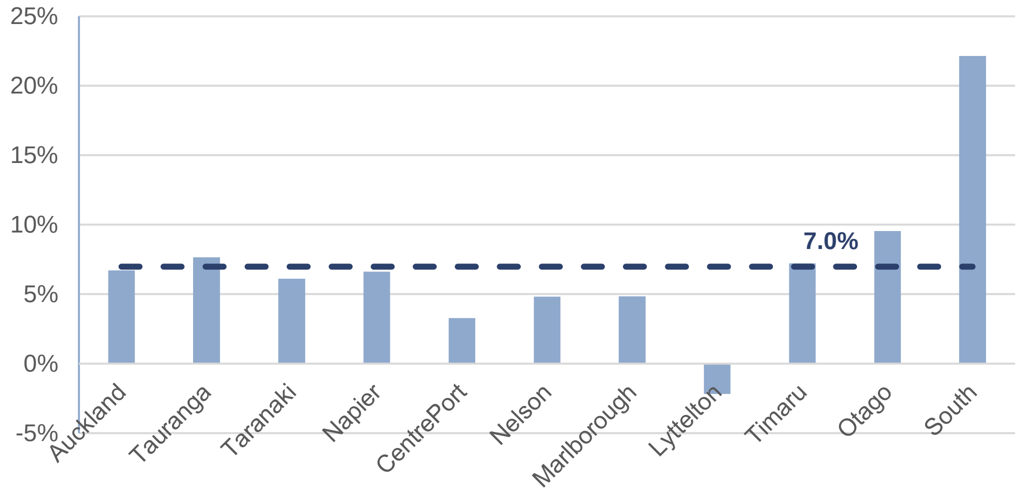
Across the eleven ports, RoA from 2015 to 2024 averaged 7.5% p.a.[15] South Port and Port Otago reported the highest average RoAs from 2015 to 2024. The ports of Tauranga, Taranaki and Timaru reported average RoAs of around 8% p.a. Napier Port's RoA averaged 7.3% over the period. All other ports had a lower average RoA.

Figure 2 below shows the average return on equity (RoE) for the eleven ports from 2015 to 2024. The formula for RoE is:

$$RoE = \frac{NPAT}{Average\ equity}$$

where average equity is calculated similarly to average assets.

Figure 2. Average RoE, %, 2015 – 2024



The patterns for RoE are similar to those for RoA. South Port had the highest average RoE from 2015 to 2024 of 22.1% p.a. followed by Port Otago at 9.6% p.a. Lyttelton Port again was negative at -2.2% p.a.

Across the eleven ports, the average RoE from 2015 to 2024 was 7.0% p.a. South Port, Port Otago, Port of Tauranga and PrimePort Timaru enjoyed above-average RoEs. Port of Auckland and Napier Port were close to average. All other ports were below average.

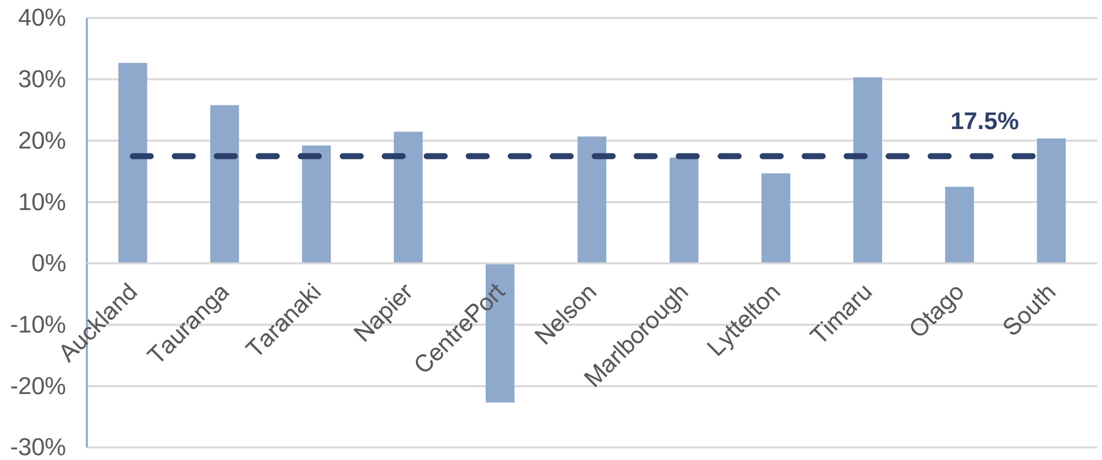
Figure 3 below shows the average gearing ratio for each port from 2015 to 2024. The gearing ratio is calculated using the following formula:

$$Gearing\ ratio = \frac{Net\ debt}{Net\ debt + Equity}$$

where net debt is calculated as current and non-current loans and borrowings plus lease liabilities, minus cash and cash equivalents. An acceptable range for the gearing ratio is normally around 30% to 60%, but the exact figure will vary for each port and can vary over time.

[15] We took a simple average across the eleven ports. In other words, all ports were given an equal weighting when calculating the average.

Figure 3. Average gearing ratio, %, 2015 – 2024



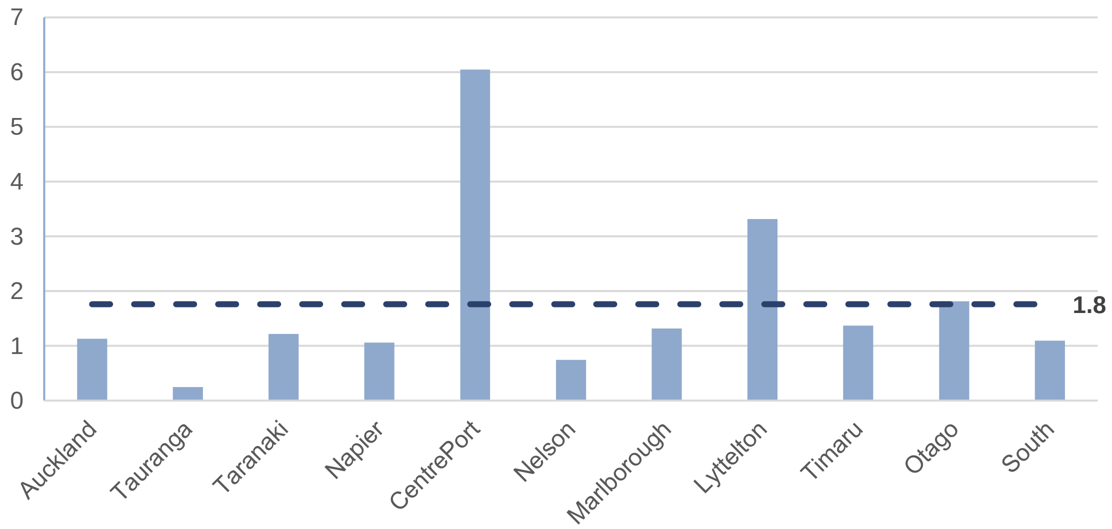
The Port of Auckland was the most highly geared of the eleven ports, with an average gearing ratio of 32.7% from 2015 to 2024. For every dollar of assets financed by equity, loans, borrowings or leases, the Port of Auckland owed approximately 32.7 cents in net debt on average from 2015 to 2024. The Port of Auckland was followed by the ports of Timaru and Tauranga, with gearing ratios of 30.4% and 25.8%, respectively. Notably, CentrePort had a negative average gearing ratio of -22.7%.[16]

Across the eleven ports, the average gearing ratio from 2015 to 2024 was 17.5%. The ports of Lyttelton and Otago had below-average gearing ratios of approximately 14.7% and 12.5% respectively from 2015 to 2024.

Figure 4 below shows the average current ratio for the eleven ports from 2015 to 2024. The current ratio is calculated as:

$$Current\ ratio = \frac{Current\ liabilities}{Current\ assets}$$

Figure 4. Average current ratio, 2015 – 2024



CentrePort had the highest average current ratio from 2015 to 2024, at 6.0. CentrePort's high current ratio was due to large amounts of cash holdings from insurance proceeds after the 2016 Kaikōura

[16] See Section 2.5 for details.

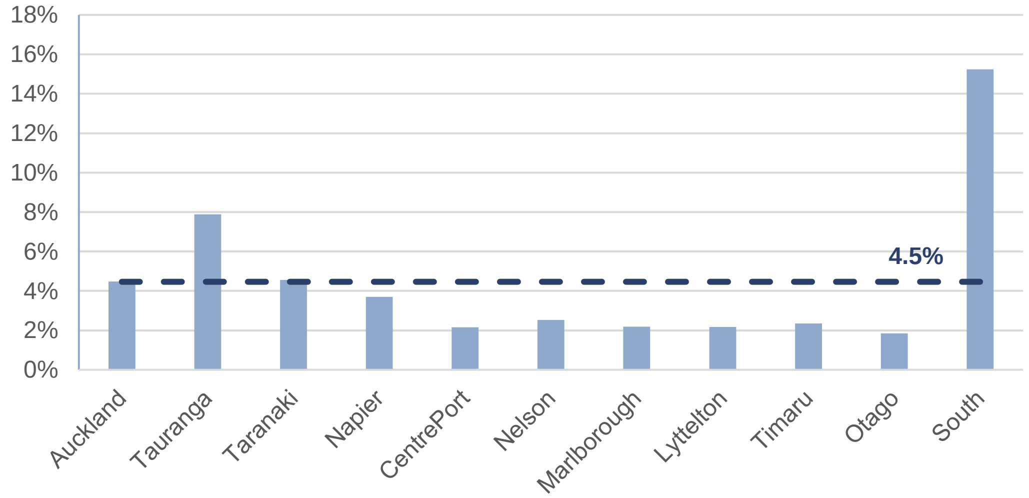
earthquake.[17] The ports of Lyttelton and Otago had the second and third highest average current ratios from 2015 to 2024, at 3.3 and 1.8, respectively.

Across the eleven ports, the average current ratio from 2015 to 2024 was 1.8. CentrePort and the ports of Lyttelton and Otago were above or approximately equal to the average. All other ports were below average with the ports of Tauranga and Nelson having relatively low current ratios, as discussed in Sections 2.2 and 2.6.

Figure 5 below shows the average dividend yield for the eleven ports from 2015 to 2024, with the dividend yield calculated as:

$$Dividend\ yield = \frac{Total\ dividends\ paid}{Book\ value\ of\ Equity}$$

Figure 5. Average dividend yield, %, 2015 – 2024



Across the eleven ports, the dividend yield from 2015 to 2024 averaged 4.5%. South Port had the highest average dividend yield from 2015 to 2024, at 15.2%. The Port of Tauranga had the second highest average dividend yield from 2015 to 2024, at 7.9%. The ports of Taranaki and Auckland were close to average at 4.6% and 4.5%, respectively. All other ports were below average.

[17] As discussed in Section 2.5 below, CentrePort's current ratio has decreased in recent years after peaking in 2020. As of FY2024, CentrePort's current ratio was approximately 3.2.

2 The eleven major ports

This section provides a time-series analysis of the eleven ports' financial performance from 2015 to 2024. Each subsection focuses on a particular port. We start with a DuPont analysis to determine the drivers of RoE, followed by time-series analyses of RoA, gearing ratio, current ratio and dividend yield. For the sake of brevity, we focus on the DuPont analysis and comment only on any noticeable features in RoA, gearing ratio, current ratio and dividend yield.

DuPont analysis breaks down a company's RoE into three components. The first component is the net profit margin, calculated as net profit after tax (NPAT) over operating revenue. The second component is asset turnover, calculated as operating revenue over the average value of total assets (average assets). And the third component is the equity multiplier, calculated as average assets over average equity. The breakdown of RoE is shown in the formula below:

$$RoE = \frac{NPAT}{Operating\ revenue} \times \frac{Operating\ revenue}{Average\ assets} \times \frac{Average\ assets}{Average\ equity}$$

The net profit margin measures the proportion of a firm's operating revenue that remains as NPAT after deducting all expenses, including taxes and interest. Asset turnover measures how efficiently a firm uses its assets to generate operating revenue. The equity multiplier measures the proportion of a firm's assets that is financed by equity, with a higher ratio indicating a lower proportion of assets financed by equity.

2.1 Port of Auckland

The Port of Auckland is one of the largest container ports in New Zealand and a key hub for trade, handling a significant portion of the country's imports and exports. It is the largest import port in New Zealand, and most of its inbound cargo is for Auckland.[18] The Port of Auckland is 100% owned by Auckland Council.[19]

The Port of Auckland had an unsuccessful experiment with automating its container terminal. The automation project was abandoned in mid-2022.[20] Under its "Regaining our Mana" strategy, the Port of Auckland was able to turn things around operationally and financially and its performance has improved in recent years.[21]

Figure 6 below shows a DuPont analysis for the Port of Auckland from 2015 to 2024. The fall in RoE over the period was driven primarily by a decline in the net profit margin.[22] Asset turnover and the equity multiplier were broadly stable from 2015 to 2024.

[18] https://www.poal.co.nz/sites/default/files/2024-09/2024%20Annual%20Report.pdf

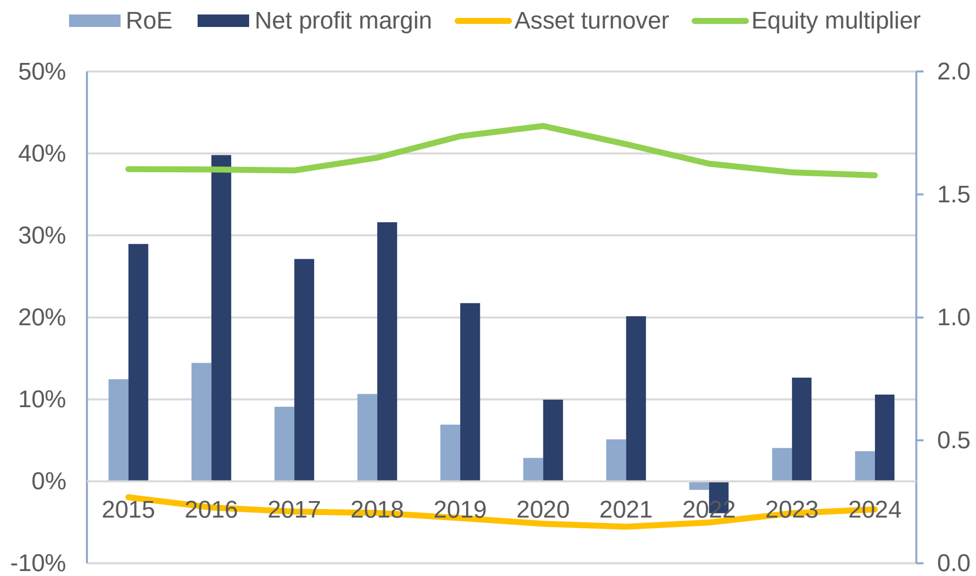
[19] The Port of Auckland aims to operate like a listed company despite being 100% council-owned, with performance disclosures comparable to, if not exceeding, those of listed ports.

[20] https://www.poal.co.nz/news-media/ports-of-auckland-ends-automation-project

[21] In 2023, The Port won the Most Improved Performance Award.

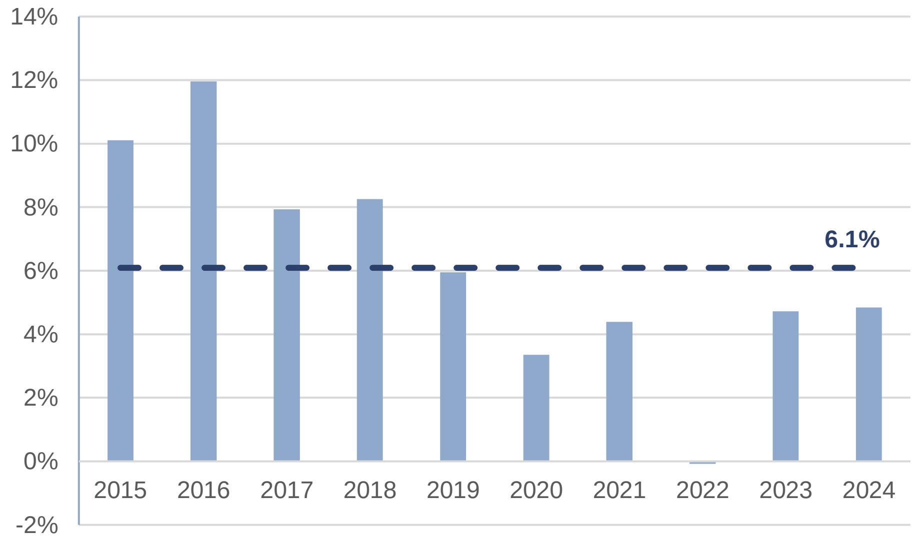
[22] Note that NPAT for 2024 includes items such as revaluations and the deferred tax impacts of a legislation change which removed depreciation on commercial buildings. Removing those unusual items results in an improved underlying NPAT and stronger profitability measures.

Figure 6. DuPont analysis for the Port of Auckland, 2015 – 2024



Figures 7 to 10 below show the RoA, gearing ratio, current ratio and dividend yield for the Port of Auckland from 2015 to 2024

Figure 7. RoA for the Port of Auckland, %, 2015 – 2024



From 2015 to 2018, the Port of Auckland reported an RoA above its long-term average. From 2019 to 2024, however, RoA was consistently below average. Notably, the Port of Auckland recorded a negative RoA in 2022. The RoA improved in 2023 and 2024 but was still below the average for the period as a whole.

Figure 8 below shows the gearing ratio for the Port of Auckland from 2015 to 2024. From 2018 to 2021 the gearing ratio was higher than the long-term average. Since 2022, the gearing ratio has been falling and has also remained below average.

Figure 8. Gearing ratio for the Port of Auckland, %, 2015 – 2024

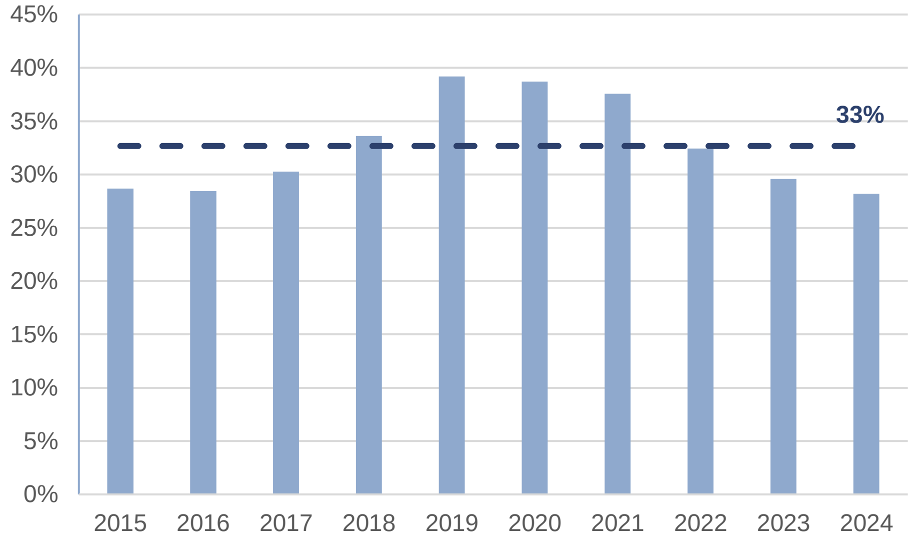


Figure 9 below shows the current ratio for the Port of Auckland from 2015 to 2024. The current ratio was below average throughout the period except for 2016, 2017 and 2019. Since 2020, the current ratio has fluctuated around one, reaching 0.9 in 2024. A ratio below one is typically regarded as a warning light as it indicates the company's current assets are less than its current liabilities.

Figure 9. Current ratio for the Port of Auckland, 2015 – 2024

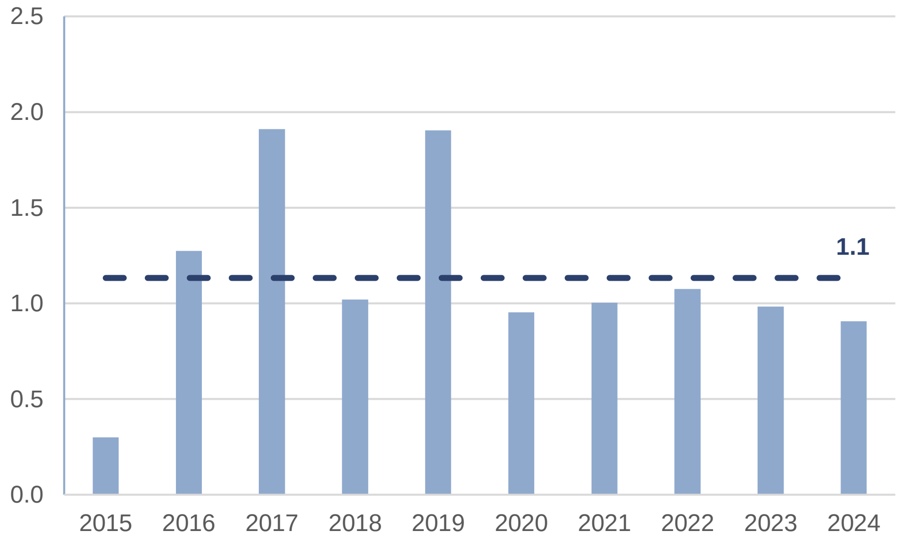
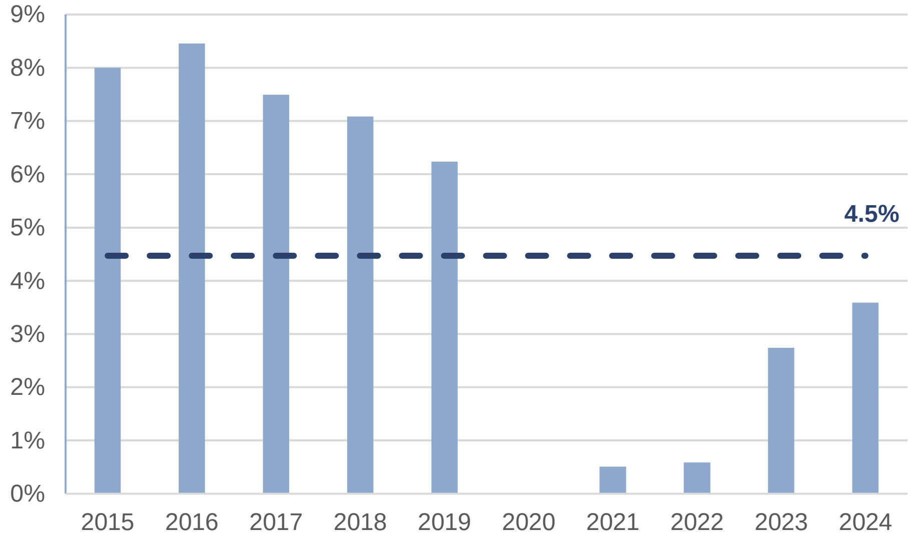


Figure 10 below shows the dividend yield for the Port of Auckland from 2015 to 2024. The dividend yield was above average from 2015 to 2019. Since 2020, it has remained below average, with no dividend being paid in 2020.[23] The dividend yield increased in 2024 compared to 2023 but remained below average.

[23] 2020 Annual Report.pdf (poal.co.nz).

Figure 10. Dividend yield for the Port of Auckland, %, 2015 – 2024



In conclusion, the decrease in RoE for the Port of Auckland was mostly driven by a decline in its net profit margin. RoA was also below-average in recent years. Although the Port's dividend yield has increased since 2020, it remained below average as of 2024. Reassuringly, the Port of Auckland remains committed to delivering a fair return and has published an intended pathway to achieving $100m in NPAT[24] and $60m in dividend by 2027.[25] Furthermore, the Port has outlined a 12–18 month pricing forecast, giving customers confidence in the port's reliability and pricing structure.[26]

2.2 Port of Tauranga

The Port of Tauranga is New Zealand's largest port in terms of container throughput and is also one of the key export ports in the country.[27] Over the years, the port has continued to improve its safety performance and productivity levels, solidifying its position as New Zealand's most efficient port.[28] The Port of Tauranga is majority owned by the Bay of Plenty Regional Council with the rest listed on the NZX.

The Port of Tauranga also operates MetroPort Auckland and the Ruakura inland port in Hamilton. These inland ports connect importers and exporters to the Port of Tauranga via rail links, increasing the efficiency and capacity of the port.

A key development for the Port of Tauranga is the Stella Passage project which involves extending the wharves at the Port. The Stella Passage project is included in the Fast-track Approvals Bill[29] which became law recently.[30]

Figure 11 below shows a DuPont analysis for the Port of Tauranga from 2015 to 2024. RoE declined during the period, from 9.3% in 2015 to 4.2% in 2024. Proportionately speaking, this was driven by the decline in asset turnover, which fell from 0.22 in 2015 to 0.15 in 2024. This was a sizeable drop. The equity multiplier also fell during the period, but not by as much proportionately. The analysis suggests that to improve its RoE, the Port of Tauranga needs to use its assets more efficiently to generate

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[24] This figure is for the underlying NPAT which excludes revaluations and unusual items.

[25] https://www.poal.co.nz/sites/default/files/2024-10/Statement%20of%20Corporate%20Intent.pdf

[26] https://www.poal.co.nz/sites/default/files/2024-09/2024%20Annual%20Report.pdf

[27] https://www.port-tauranga.co.nz/news/port-of-tauranga-shows-resilience-amid-economic-and-supply-chain-challenges/

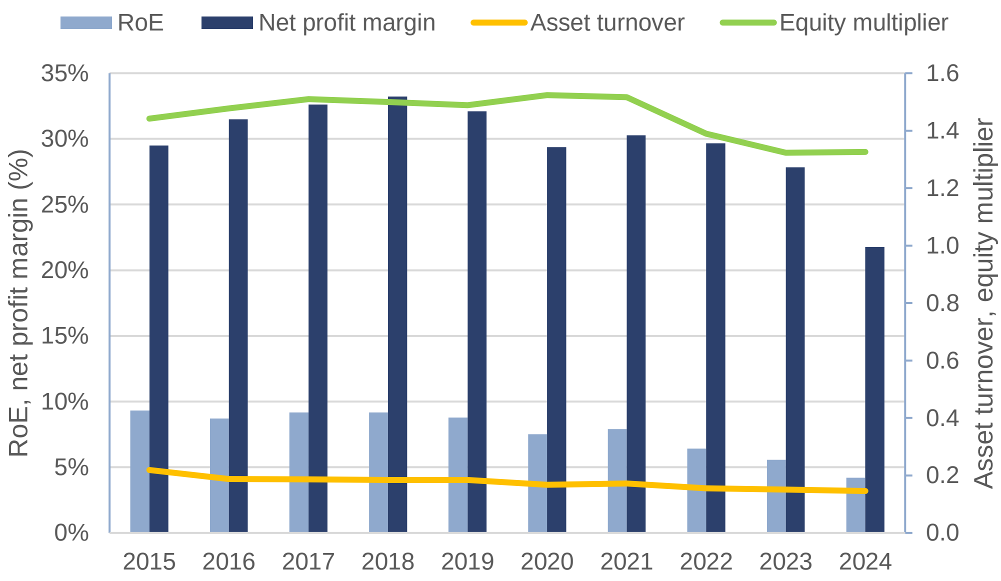
[28] Ibid.

[29] https://www.beehive.govt.nz/sites/default/files/2024-10/Fast-track%20Schedule%202%20Projects%20.pdf

[30] https://www.dentons.co.nz/en/insights/articles/2024/december/19/fast-and-furious-the-fast-track-approvals-act-is-here

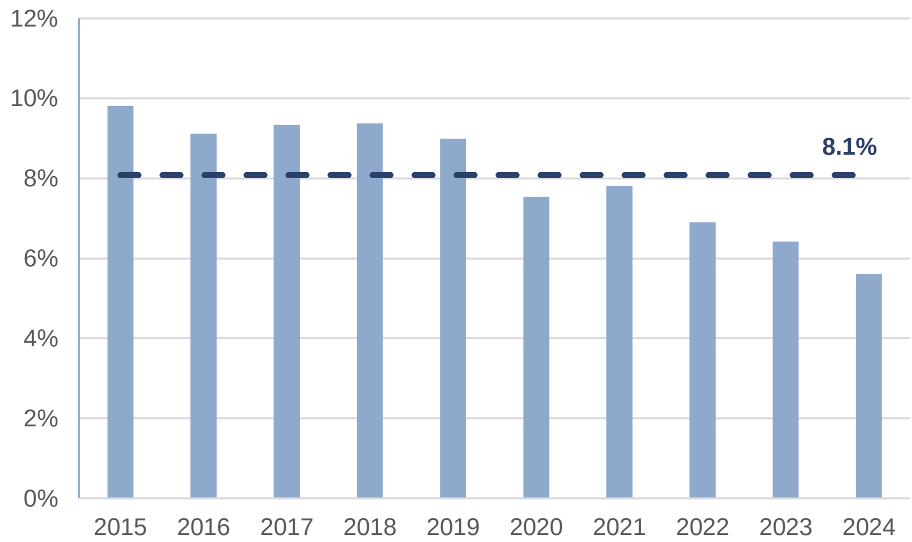
operating revenue. Given the sizable drop in the net profit margin in 2024, improvements in the net profit margin will also help improve RoE. This drop in key metrics started in Covid times and coincides with an extended period of global supply chain disruption and port congestion.

Figure 11. DuPont analysis for the Port of Tauranga, 2015 – 2024



Figures 12 to 15 below show the RoA, gearing ratio, current ratio and dividend yield for the Port of Tauranga from 2015 to 2024.

Figure 12. RoA for the Port of Tauranga, %, 2015 - 2024



The Port of Tauranga's RoA has fallen over the period, from 9.8% in 2015 to 5.6% in 2024. From 2015 to 2019, the RoA remained above average. From 2020 to 2024, however, it has remained below average. As of 2024, the Port of Tauranga's RoA is yet to start increasing again. Since 1999, the Port of Tauranga has experienced very large uplifts in the values of its tangible property, plant and equipment assets. From 2019 to 2024, the Port's asset revaluation reserve has increased by $981 million which will have had a negative impact on RoA returns.

Figure 13 below shows the gearing ratio for the Port of Tauranga from 2015 to 2024. The gearing ratio started below average in 2015 but then remained approximately equal to or above average from 2016 to 2021. It dropped below average in 2022 and declined further in 2024. Notably, as of 2024, the Port of Tauranga's gearing ratio was at its lowest for the period.[31]

Figure 13. Gearing ratio for the Port of Tauranga, %, 2015 – 2024

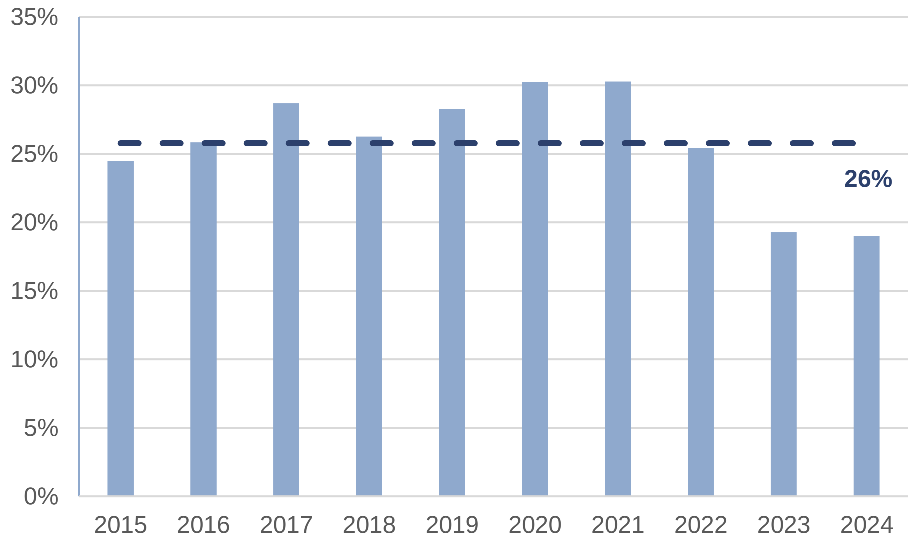
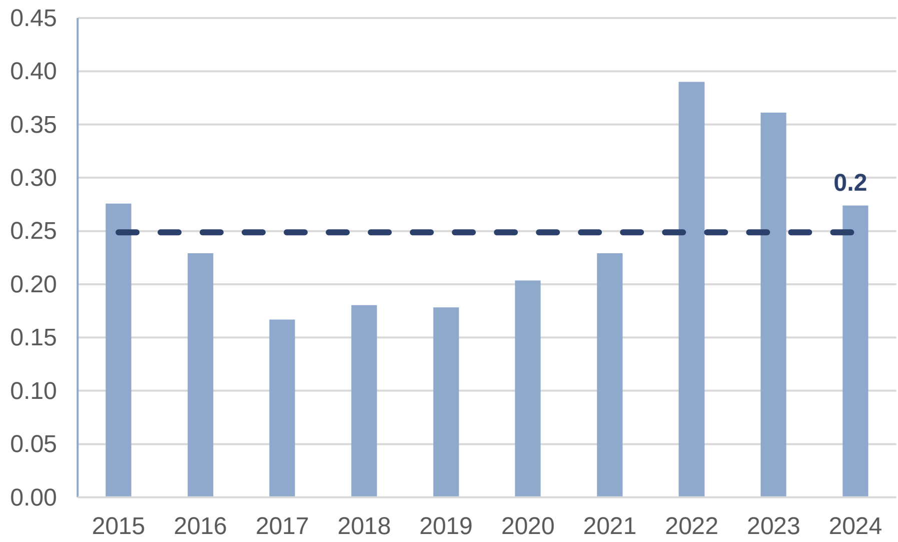


Figure 14 below shows the current ratio for the Port of Tauranga from 2015 to 2024. The current ratio has remained below 0.4 over the period, with an average of 0.2. Since its lowest point in 2017, the current ratio has improved somewhat and has remained above average since 2022. However, as of 2024, it was still significantly lower than one, at 0.3. As of 30 June 2024, the Port of Tauranga had $280 million of undrawn term debt facilities to enable it to meet its liquidity requirements.[32]

Figure 14. Current ratio for the Port of Tauranga, 2015 – 2024

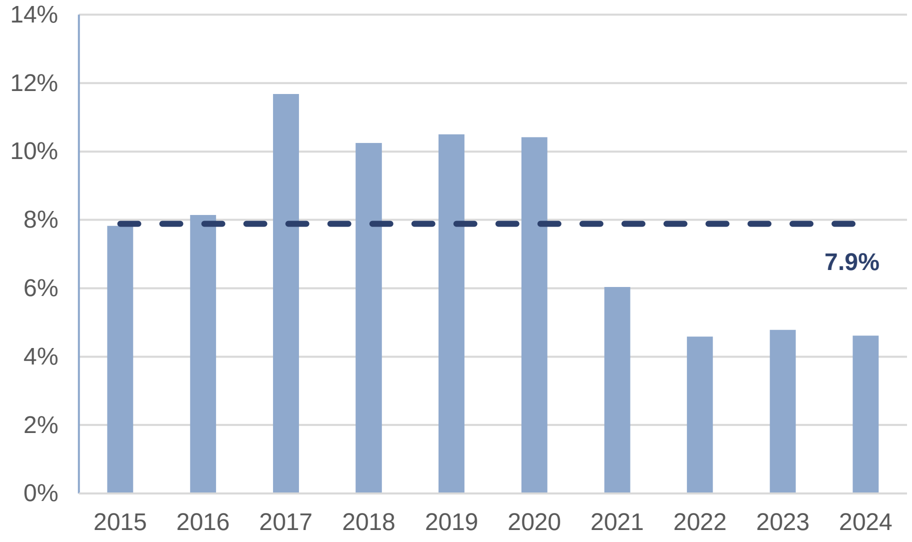


[31] The Port's low gearing ratio in recent years was driven by the need to conserve its balance sheet in order to fund upcoming major capital expenditures including the Stella Passage project and automation for the container terminal.

[32] As explained in its annual reports, the Port does not have any liquidity or working capital concerns despite its low current ratio. The Port of Tauranga has a large amount of commercial paper debt which is classified as a current liability, resulting in a low current ratio. Importantly, the commercial paper debt is supported by a secured revolving credit facility with major banks, alleviating any liquidity concerns.

Figure 15 below shows the dividend yield for the Port of Tauranga from 2015 to 2024. While the dividend yield was close to or above average from 2015 to 2020, it has remained below average since 2021.

Figure 15. Dividend yield for the Port of Tauranga, %, 2015 – 2024



In conclusion, while the Port of Tauranga has historically enjoyed a high dividend yield, its dividend yield has fallen significantly in recent years. A DuPont analysis suggests that the decline in its RoE was driven by a decrease in asset turnover and the net profit margin. Despite having a low current ratio, the Port has no liquidity or working capital concerns as its commercial paper debt is supported by a revolving credit facility with major banks. Going forward, a higher asset turnover and net profit margin will help improve RoE.

2.3 Port Taranaki

Port Taranaki is New Zealand's key energy trading port and the only deep-water port on the west coast of New Zealand, with the energy sector traditionally being the largest contributor to the Port's overall trade.[33] A key development in recent years was the transition towards renewable energy sources and the need for energy security during the transitional phase. Specifically, the Port has been working with offshore wind developers to better understand the infrastructure and skills required to support offshore wind energy.[34] Another key theme in recent years is the relatively weak demand for logs which was driven by a downturn in the Chinese construction sector.[35] Port Taranaki is 100% owned by the Taranaki Regional Council.

Figure 16 below shows a DuPont analysis for Port Taranaki from 2015 to 2024. The RoE has fluctuated but has not shown a consistent trend across the period as a whole. RoE was 4.2% in 2024, the lowest in the period. The net profit margin showed a decreasing trend over the period, while the equity multiplier and asset turnover were generally stable over the period.

[33] https://www.porttaranaki.co.nz/assets/Annual-reports/Port-Taranaki-Annual-Review-2024-Digital-R01.pdf

[34] https://www.porttaranaki.co.nz/assets/Annual-reports/Port-Taranaki-Annual-Review-2023-Digital-R01-v2.pdf

[35] Ibid.

Figure 16. DuPont analysis for Port Taranaki, 2015 – 2024

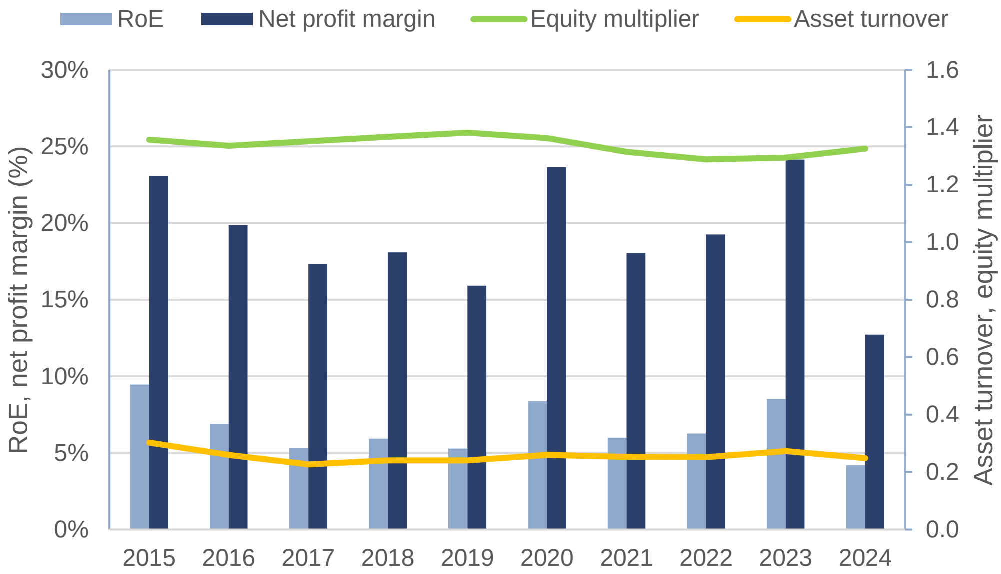


Figure 17 below shows the RoA for Port Taranaki from 2015 to 2024. Port Taranaki's RoA largely mirrored its RoE during the period, remaining mostly below average from 2017 to 2024.

Figure 17. RoA for Port Taranaki, %, 2015 – 2024

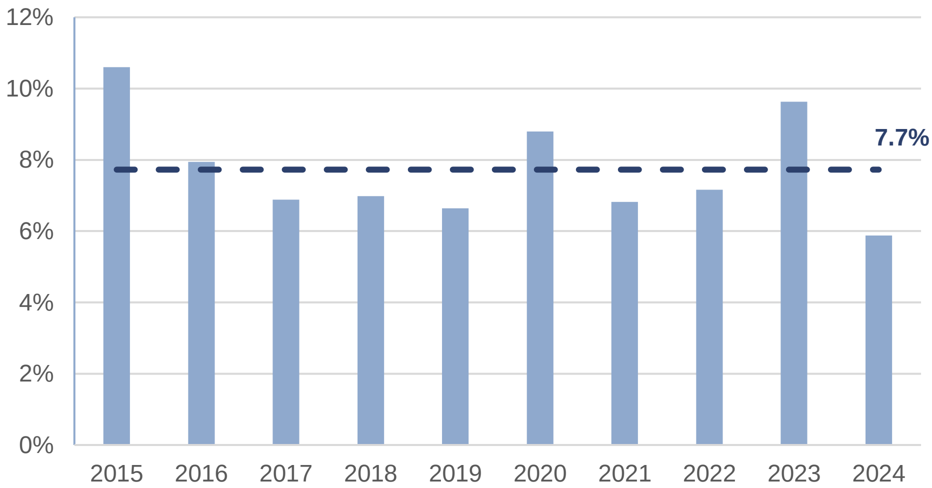


Figure 18 below shows the gearing ratio for Port Taranaki from 2015 to 2024. Port Taranaki has become less geared over the period. Its gearing ratio was trending down from 2019 to 2022 and has remained below average since 2020. In 2024, Port Taranaki's gearing ratio increased slightly but remained below average.

Figure 18. Gearing ratio for Port Taranaki, %, 2015 – 2024

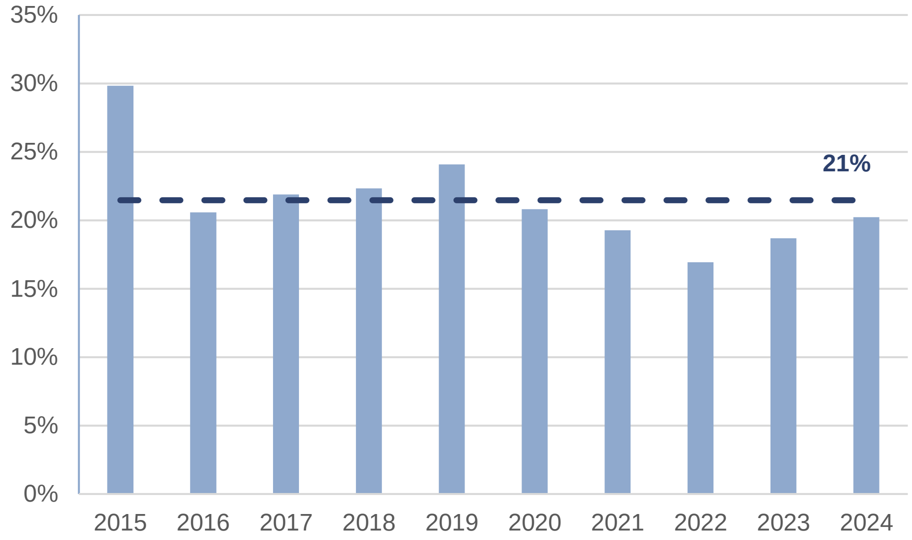


Figure 19 below shows the current ratio for Port Taranaki from 2015 to 2024. The current ratio was less than one for quite a few years during the period but has been increasing since 2022.[36] The current ratio was 1.3 in 2024.

Figure 19. Current ratio for Port Taranaki, 2015 – 2024

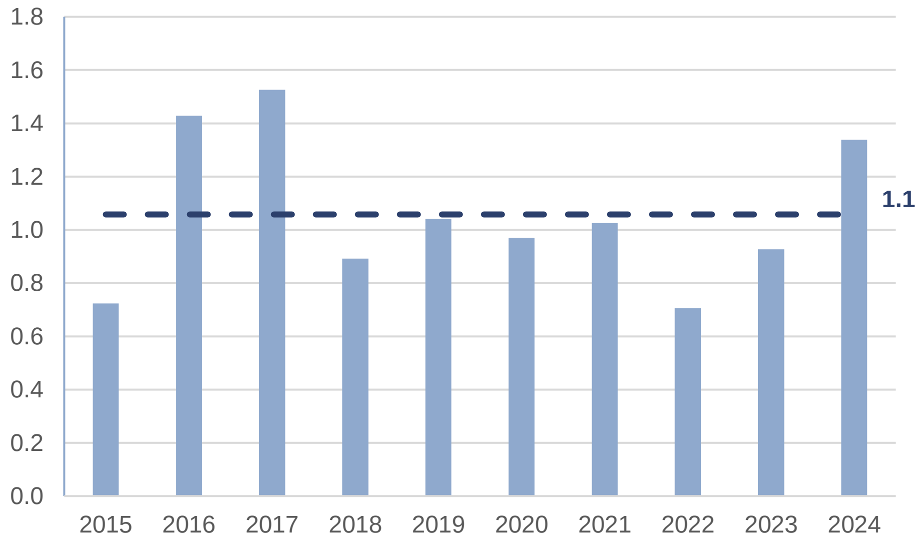
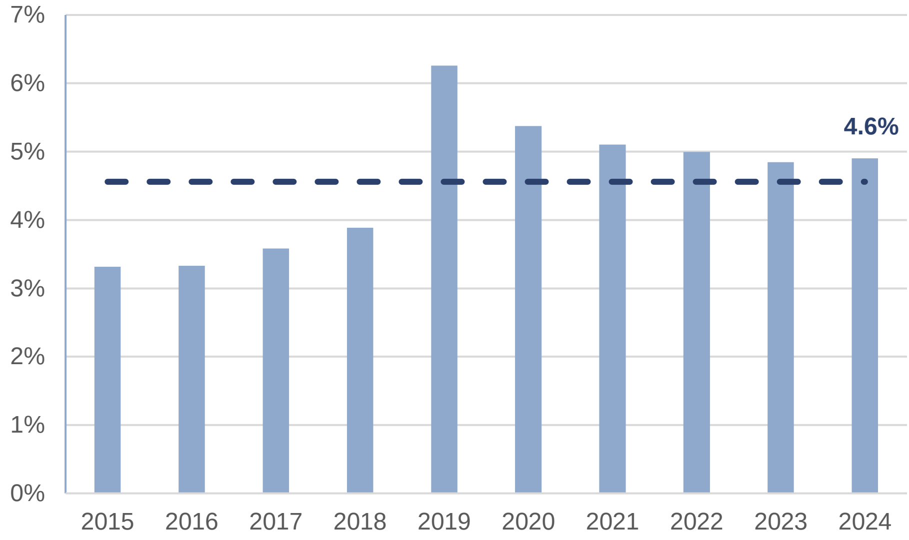


Figure 20 below shows the dividend yield for Port Taranaki from 2015 to 2024. The dividend yield was below average from 2015 to 2018 but rose above average in 2019 and has remained above average ever since. However, the dividend yield has shown a decreasing trend since peaking in 2019.

[36] The Port does not consider there to be any liquidity concerns as it has reliable access to external funding which it uses to meet liquidity needs. The Port's debt facilities are evergreen in nature and rolled over on an annual basis. Interest costs are minimised by using excess cash to repay debt which is redrawn when required. As such, the Port does not consider the current ratio to be the best measure for its liquidity.

Figure 20. Dividend yield for Port Taranaki, %, 2015 – 2024



In conclusion, while Port Taranaki had a stable RoE and RoA from 2015 to 2024, its dividend yield has been falling in recent years. A potential area for improvement would be a more stable dividend yield. Like the other ports, Port Taranaki was impacted by a tax legislation change in 2024 which removed depreciation on commercial buildings, lowering its NPAT in that year. Lifting the net profit margin back to its pre-2024 levels would help improve RoE.

2.4 Napier Port

Napier Port, located on the east coast of the North Island, supports a diverse range of cargo including containerised goods and bulk commodities. It is also a popular cruise ship destination. Known for its specialisation in exporting primary sector products, Napier Port is integral to the regional economy, facilitating the shipment of goods such as fresh produce, timber, meat, and wine to global markets. Cargo volumes rebounded in 2024 driven by the post-Cyclone Gabrielle recovery in the Hawke's Bay region. On the other hand, the closure of Winstone Pulp International's (WPI) central North Island mills in September 2024 had a negative impact on the Port, as WPI was a key customer. Napier Port is majority owned by the Hawke's Bay Regional Council with the rest listed on NZX.

Figure 21 below shows a DuPont analysis for Napier Port from 2015 to 2024.[37] RoE and asset turnover were relatively stable over the period. The equity multiplier decreased from 2018 to 2020 but has since recovered. Net profit margin decreased in recent years but has rebounded in 2024.

[37] One-off items related to the IPO in 2019 have been excluded as they tend to distort the overall picture. Examples include IPO costs and the termination of interest rate swaps.

Figure 21. DuPont analysis for Napier Port, 2015 – 2024

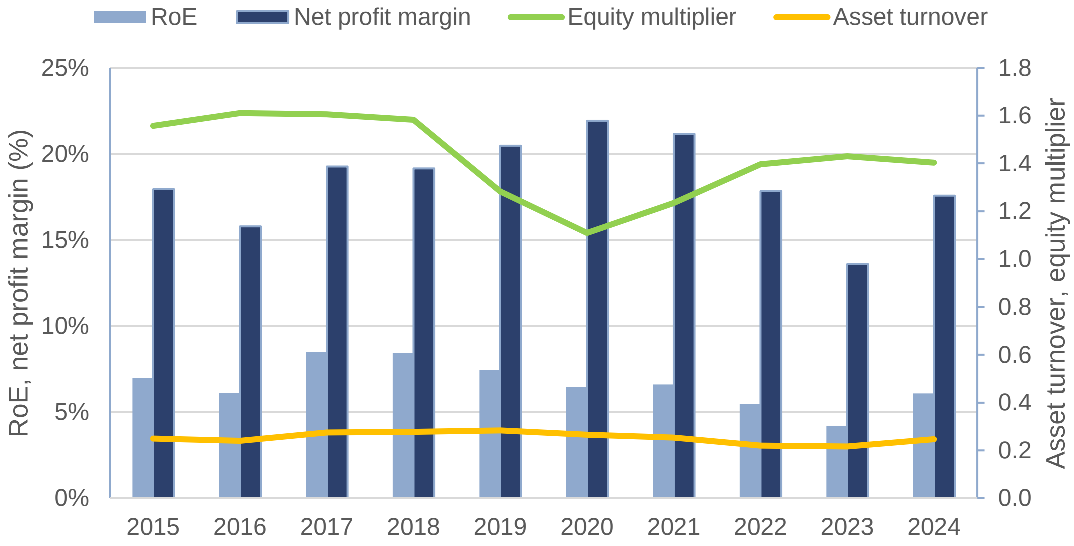


Figure 22 below shows the RoA for Napier Port from 2015 to 2024, both pre- and post-listing. Napier Port's average RoA fell after listing, from an average of 7.9% pre-listing to 6.6% post-listing. Several material factors were at play which impacted the post-listing RoA. On the assets side, the construction of the new 6 Wharf from 2020 to 2022 significantly expanded total assets by about $200m. This was the primary driver of the lower RoA since 2020. On the returns side, from 2020 to 2023 the Port was impacted by the Covid-19 pandemic, shipping disruptions, inflation and Cyclone Gabrielle which disrupted customers' operations and produce.

Figure 22. RoA for Napier Port, %, 2015 – 2024

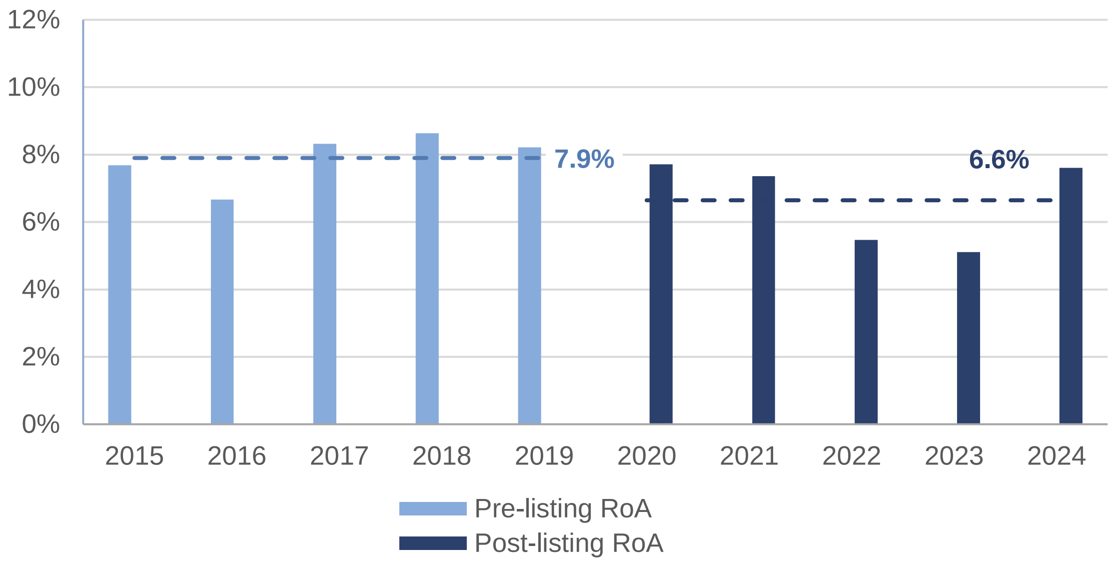


Figure 23 below shows the gearing ratio for Napier Port from 2015 to 2024. Gearing ratio was negative in 2019 and 2020, driven by negative net debt.[38]

[38] A portion of the IPO proceeds were used to repay all debt, leading to negative net debt in 2019 and 2020. Debt was then drawn down again for the construction of 6 Wharf.

Figure 23. Gearing ratio for Napier Port, %, 2015 – 2024

Figure 24 below shows the current ratio for Napier Port from 2015 to 2024. The average current ratio decreased after listing but remained above one.

Figure 24. Current ratio for Napier Port, 2015 – 2024

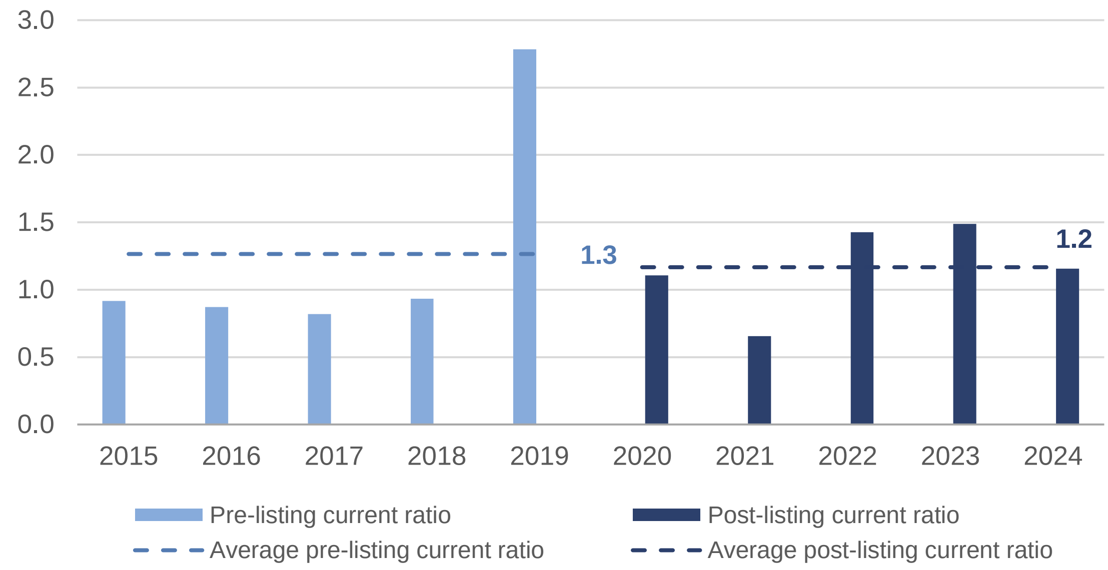
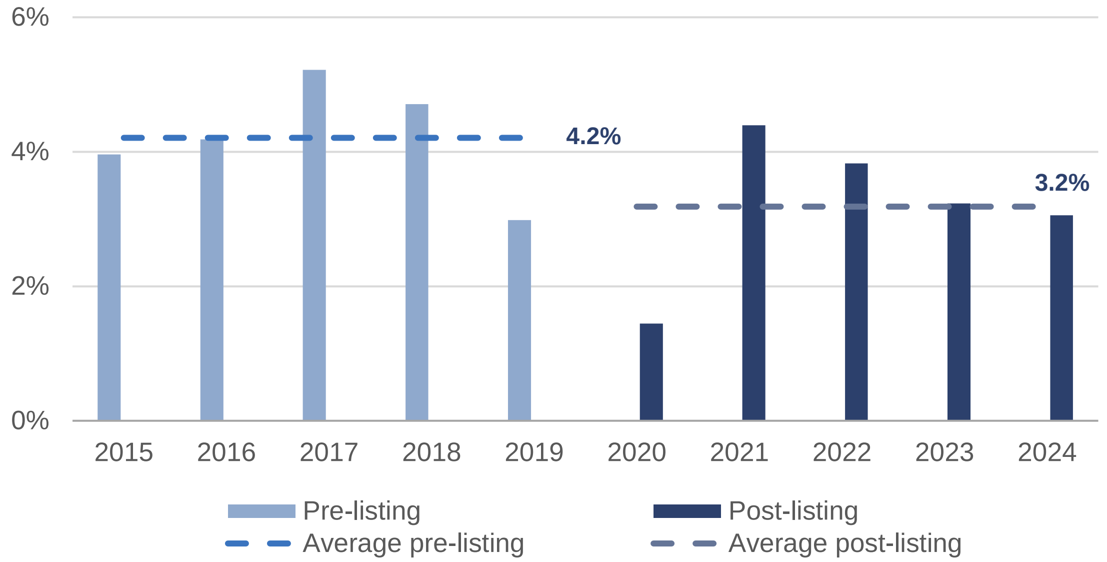


Figure 25 below shows the dividend yield for Napier Port from 2015 to 2024. The special pre-IPO dividend in 2019 has been removed from the data, as it was one-off and tended to distort the overall trend. Dividend yield was relatively low in recent years, driven by the same factors that impacted profitability such as the construction of the 6 Wharf, Covid, shipping disruptions, inflation and Cyclone Gabrielle.

Figure 25. Dividend yield for Napier Port, %, 2015 – 2024



In conclusion, a number of material factors have impacted Napier Port's performance in recent years. The main driver of its lower RoA was the construction of the new 6 Wharf which significantly expanded total assets from 2020 to 2022. Meanwhile, a series of events have impacted the Port's returns such as Covid and the subsequent shipping disruptions, inflation and Cyclone Gabrielle. Reassuringly, cargo volumes have rebounded in 2024 as the post-Cyclone recovery got underway. The new 6 Wharf also enables the Port to handle more and larger ships while improving its operational performance.[39]

2.5 CentrePort

Located in Wellington, CentrePort plays an important role in New Zealand's trade and logistics network. Serving as the main maritime gateway for the Wellington region, the Port handles a wide range of cargo including containers, bulk products and breakbulk items. CentrePort also welcomes cruise ships and interisland ferries that connect the North and South Islands. In 2024, CentrePort was ranked as the most efficient container port in Oceania in the World Bank's Container Port Performance Index.[40] CentrePort is owned by two regional councils, with a majority ownership by the Greater Wellington Regional Council and the rest owned by the Horizons Regional Council.[41]

The Kaikōura earthquake in late 2016 had a substantial impact on CentrePort. The earthquake damaged the infrastructure at the Port. CentrePort received large amounts of insurance proceeds from 2017 to 2020. Insurance-related items have been removed from NPAT in the analysis below to provide a more accurate picture of CentrePort's underlying performance.[42]

Figure 26 below shows a DuPont analysis for CentrePort from 2015 to 2024. The port's RoE decreased from 9.4% in 2015 to 5.9% in 2024. This was mostly driven by a decrease in the equity multiplier which decreased from 1.65 in 2015 to 1.12 in 2024.

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[39] 6 Wharf - Napier Port, Hawke's Bay, New Zealand

[40] See CentrePort's 2024 Annual Report at https://www.centreport.co.nz/home/reports-and-publications

[41] https://www.centreport.co.nz/assets/Uploads/DOCUMENTS/Statement-of-Corporate-Intent-23-25.pdf

[42] Business interruption insurance proceeds have been added back to profit before tax to reflect the fact that these proceeds help compensate for lost revenue. Tax expenses have not been adjusted in any of the years as the insurance payouts tend to result in non-taxable capital gains. Balance sheet items such as current assets and liabilities have not been adjusted either.

Figure 26. DuPont analysis for CentrePort, 2015 – 2024

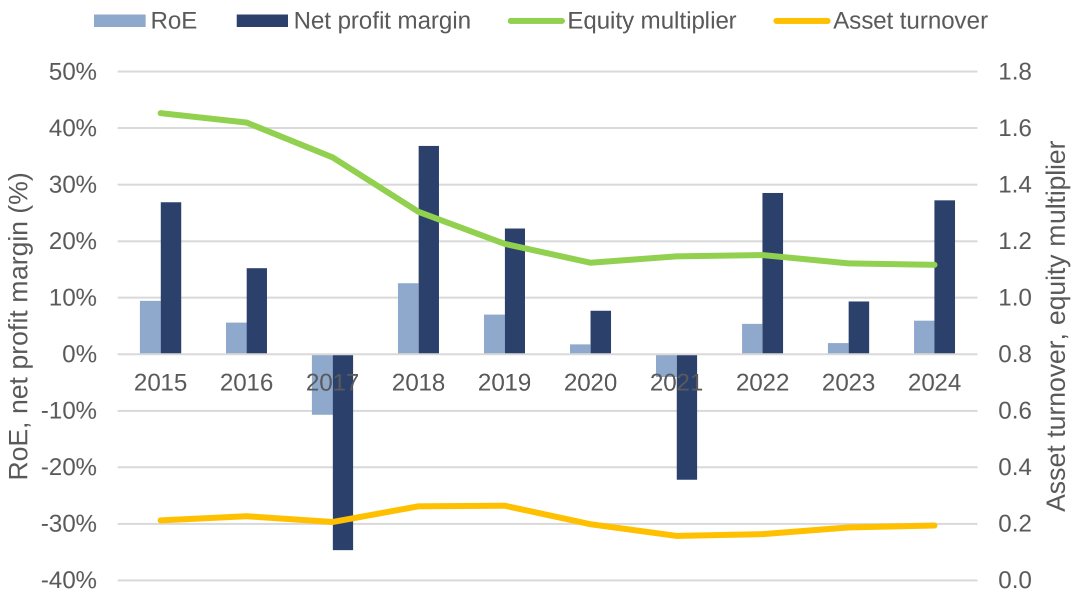


Figure 27 below shows the RoA for CentrePort from 2015 to 2024.[43] The trajectory of RoA largely mirrored that of RoE over the period. Reassuringly, CentrePort's RoA has improved in recent years.

Figure 27. RoA for CentrePort, %, 2015 – 2024

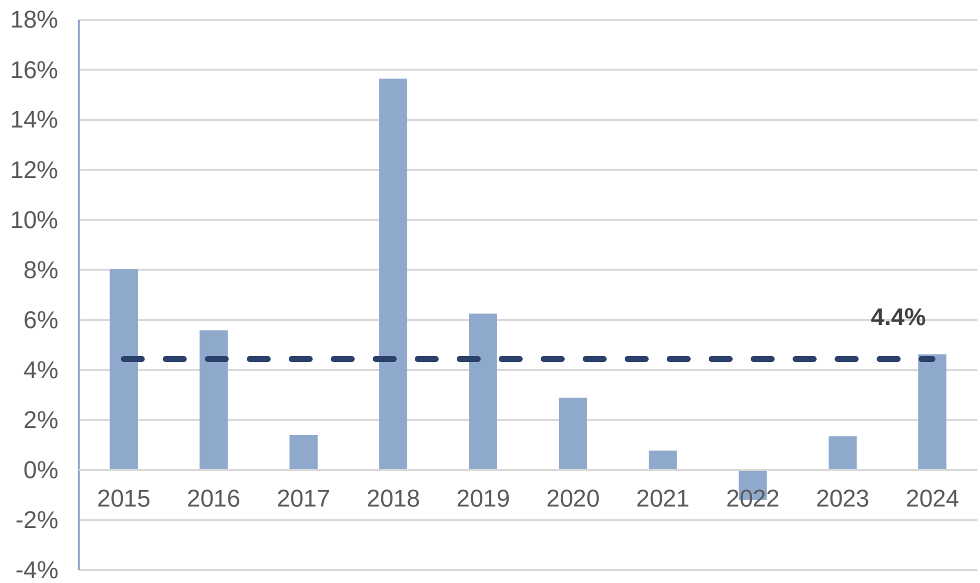


Figure 28 below shows the gearing ratio for CentrePort from 2015 to 2024. Notably, the gearing ratio was negative from 2019 to 2024. Those large and negative values contributed to the average gearing ratio from 2015 to 2024 being negative, at -23%.

Negative gearing ratios since 2019 were driven by insurance payouts which resulted in large cash holdings and negative net debt. More recently, CentrePort has reserved its debt capacity for the cancelled Project iRex which aimed to replace the aging Interislander ferry fleet and upgrade the ferry terminals. Project iRex would have used a very significant amount of CentrePort's debt capacity.

[43] Note that assets include insurance proceeds which reduced RoA.

Figure 28. Gearing ratio for CentrePort, %, 2015 - 2024

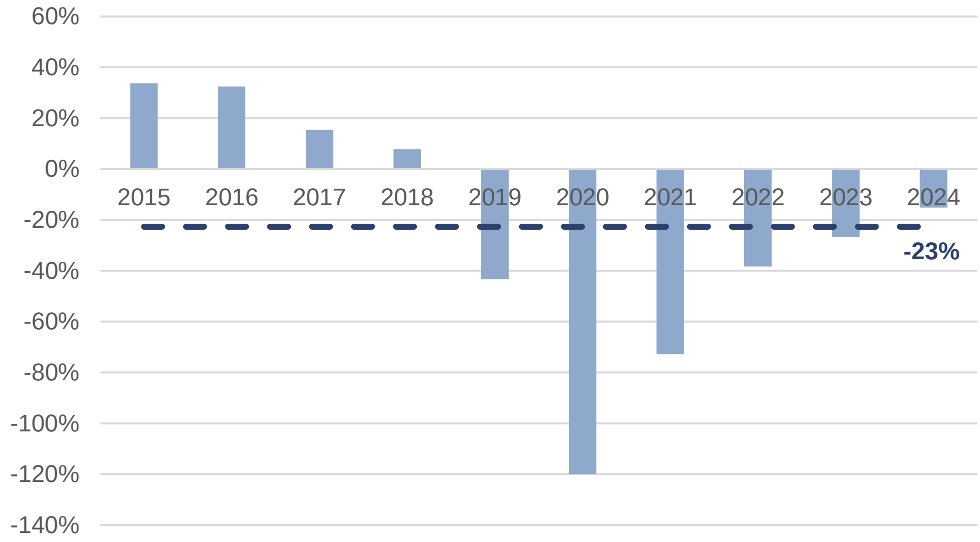


Figure 29 below shows the current ratio for CentrePort from 2015 to 2024. Overall, CentrePort had a very high current ratio over the period, driven by insurance payouts. From 2015 to 2024, CentrePort recorded an average current ratio of 6.0.[44] Notably, the current ratio has been declining since its peak in 2020 but has remained high at 3.2 in 2024.

Figure 29. Current ratio for CentrePort, 2015 – 2024

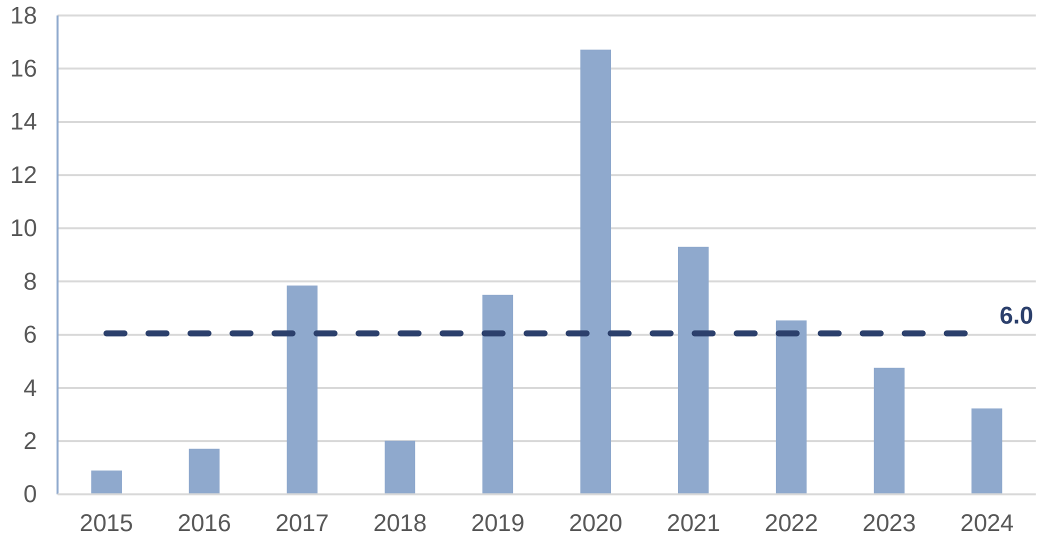
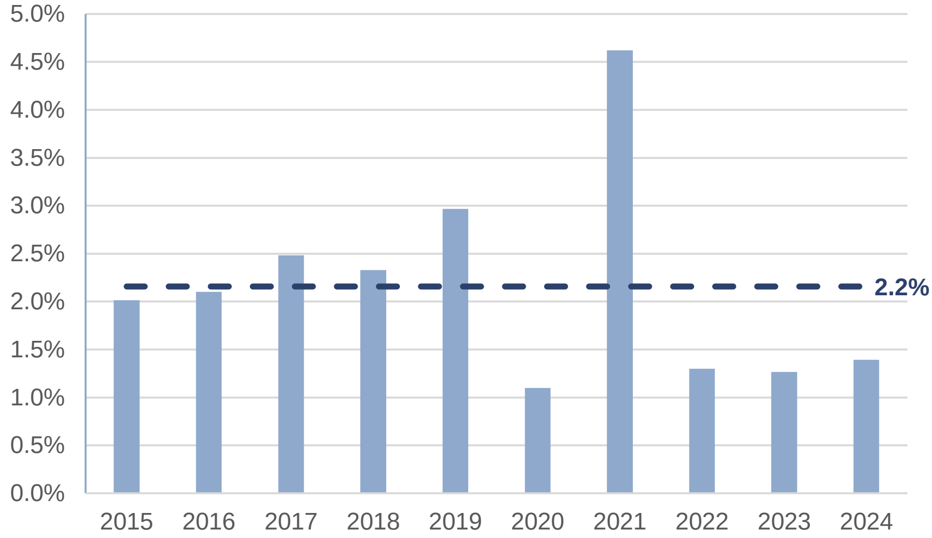


Figure 30 below shows the dividend yield for CentrePort from 2015 to 2024. The dividend yield showed a generally increasing trend from 2015 to 2021, albeit from low levels, starting from 2.0% in 2015 and peaking in 2021 at 4.6%. There was a noticeable dip in 2020, with the dividend yield being only 1.1% in that year. Since 2022, however, the dividend yield has remained below average. In 2024, it was 1.4%.

[44] Insurance proceeds were invested on a conservative and liquid basis while the Port completed resilience works. These large-scale infrastructure works take time to complete, possibly explaining the high current ratio.

Figure 30. Dividend yield for CentrePort, %, 2015 – 2024



In conclusion, the 2016 Kaikōura earthquake had a long-term impact on CentrePort. More recently, the Port conserved debt capacity for Project iRex which was ultimately cancelled. Despite these challenges, the Port has enjoyed a rising RoA since 2022 which reached above its average in 2024 but still well below average for the sector as a whole. Overall, CentrePort has shown a high degree of resilience over the period, demonstrated by its post-earthquake recovery and prudent financial management regarding Project iRex.

2.6 Port Nelson

Located in the city of Nelson at the top of the South Island, Port Nelson serves as a gateway for trade and logistics in the area. It is a hub for industries such as forestry, horticulture, and seafood, with approximately two-third of the port's volumes being exported and the rest being imported.[45] Key exports include forestry products, seafood and wine. Key imports are fuel and cars, both second-hand and new.[46] Other than traditional port operations, Port Nelson also diversified its activities by offering warehousing and logistics services. Notably, Port Nelson has over 235,000 square meters of commercial land that it leases to support exported-related industries.[47] Port Nelson is equally owned by Nelson City Council and Tasman District Council.[48]

Figure 31 below shows a DuPont analysis for Port Nelson from 2015 to 2024. RoE declined from 5.1% in 2015 to a low 0.3% in 2024. This decline in RoE was driven by a decrease in the net profit margin, which fell from 17.8% in 2015 to 0.9% in 2024.[49] The decrease in the net profit margin was mostly due to expenses rising faster than revenue. This sizeable drop in the net profit margin more than offset the increase in the equity multiplier.

[45] https://www.portnelson.co.nz/about-us/

[46] Ibid.

[47] Ibid.

[48] Ibid.

[49] A tax legislation change in 2024 which removed depreciation on commercial buildings led to a one-off (non-cash) charge to tax of $5m which directly impacted NPAT in that year.

Figure 31. DuPont analysis for Port Nelson, 2015 – 2024

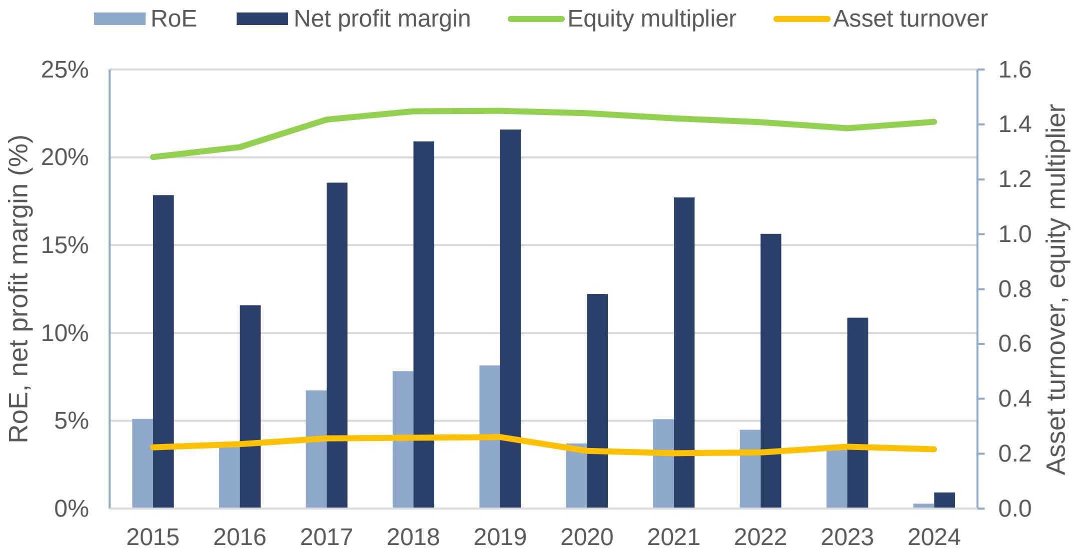


Figure 32 below shows the RoA for Port Nelson from 2015 to 2024. Port Nelson's RoA has been below average since 2020. As of 2024, the RoA has fallen for three consecutive years after reaching a recent peak in 2021.

Figure 32. RoA for Port Nelson, %, 2015 – 2024

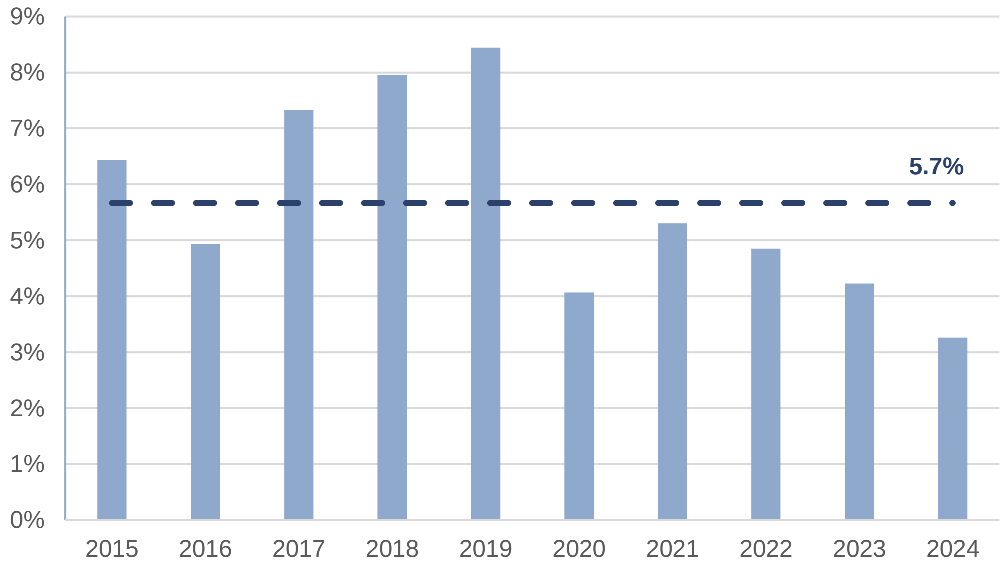


Figure 33 below shows the gearing ratio for Port Nelson from 2015 to 2024. Gearing increased from 2015 to 2019 and then generally declined. As of 2024, Port Nelson's gearing ratio was slightly above average at around 22%.

Figure 33. Gearing ratio for Port Nelson, %, 2015 – 2024

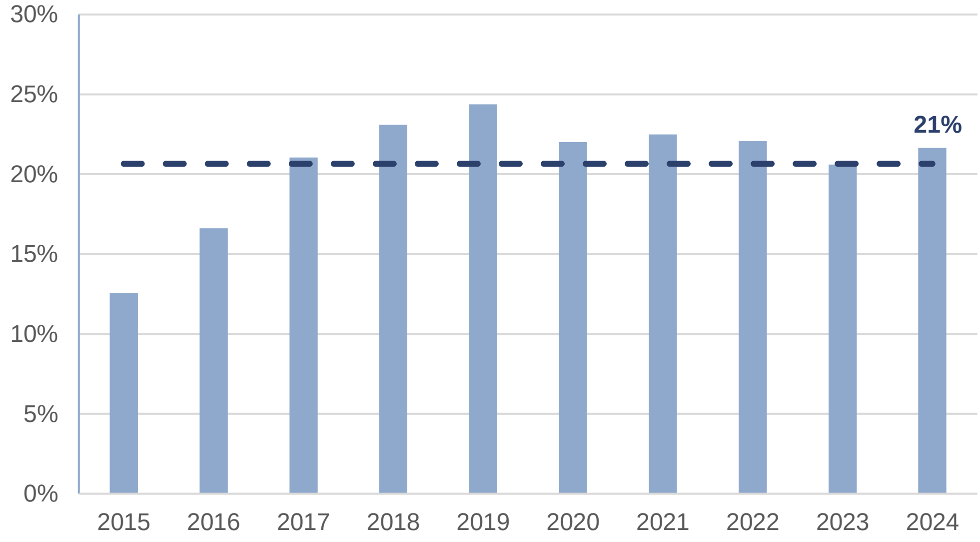


Figure 34 below shows the current ratio for Port Nelson from 2015 to 2024. Other than 2020, Port Nelson's current ratio was below one for year over the period. It increased from 0.2 in 2022 to 0.7 in 2024 but remained below average and also less than one. Port Nelson has access to credit facilities via its parent company, Infrastructure Holdings Limited. This arrangement enables the Port to meet its liquidity needs. Furthermore, those credit facilities are yet to be drawn as of 2024.[50]

Figure 34. Current ratio for Port Nelson, 2015 – 2024

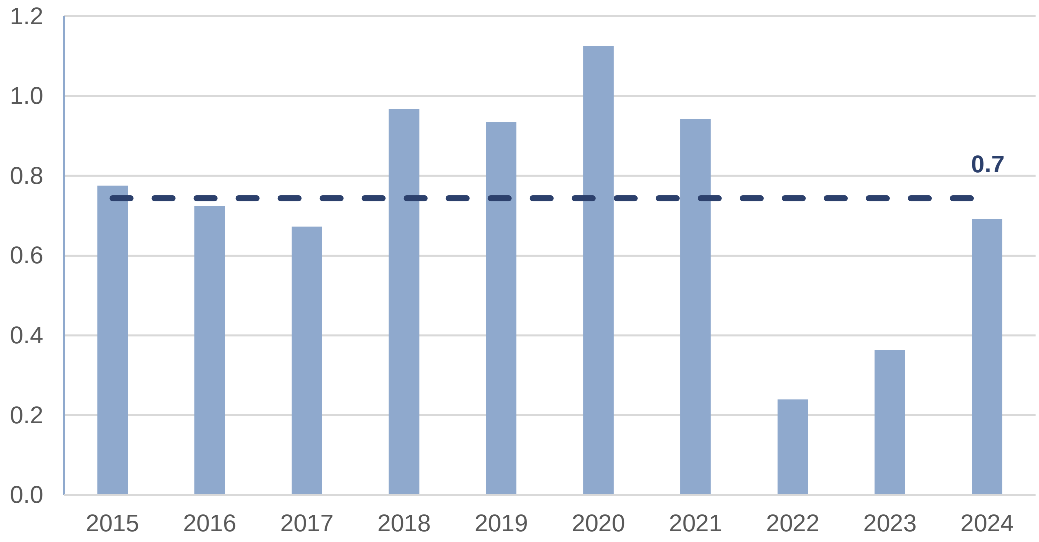


Figure 35 below shows the dividend yield for Port Nelson from 2015 to 2024. The dividend yield has been below average since 2021. Furthermore, it has generally fallen since 2019. A change in company policy led to a low dividend yield in 2024, at 0.5%.[51]

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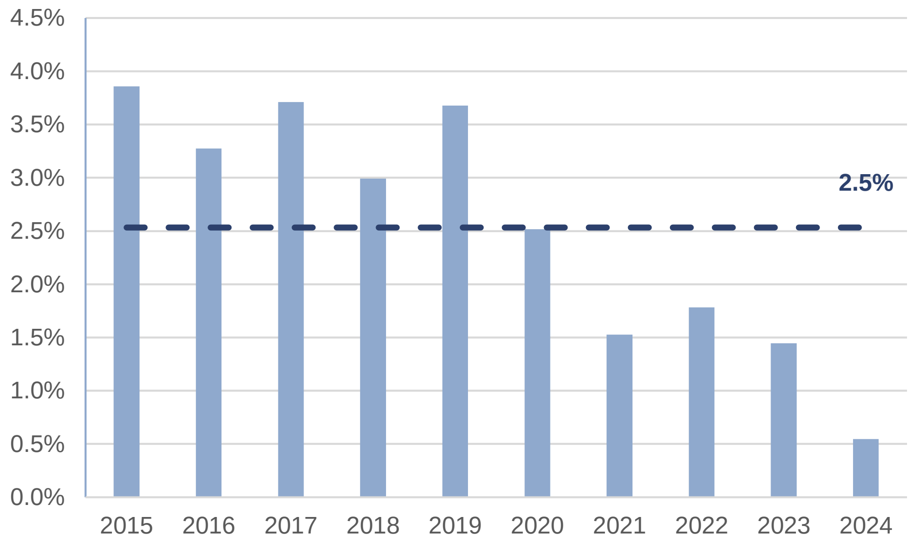
[50] https://www.portnelson.co.nz/media/igbj0mez/2024fy-annual-report-port-nelson-web-pages.pdf

[51] Following the policy change, dividend was announced after the completion of year-end audits and the confirmation of results. Therefore, there was no dividend payable in 2024. The dividend yield in 2024 only included an interim dividend of $1.5m, paid in February 2024. Port Nelson paid a final dividend of $3m in September 2024. The low dividend yield in 2024 was therefore mostly an issue of timing.

Figure 35. Dividend yield for Port Nelson, %, 2015 – 2024



In conclusion, Port Nelson's RoE, RoA and dividend yield have generally decreased over the period while its gearing ratio has been relatively stable. A DuPont analysis shows that the decrease in RoE was driven by a decrease in the net profit margin. The current ratio was less than one for most of the period although it has been increasing since 2022. Access to credit facilities should enable the Port to meet its working capital needs, alleviating any liquidity concerns.

2.7 Port Marlborough

Located in Marlborough Sounds at the top of the South Island, Port Marlborough is a gateway for regional trade and marine activities, supporting industries such as forestry, fishing and aquaculture. The Port provides the South Island terminal for Cook Strait ferries at Picton and operates a multipurpose berth in Picton Harbour.[52] As a busy cruise ship port, it also plays a significant role in the region's tourism industry.[53] A key part of the Port's operations is the Marlborough Sounds Marinas which is the largest marina operator in New Zealand.[54] The Port has commercial property holdings that support the ongoing growth of the aquaculture industry along with investment properties in Marlborough.[55] Port Marlborough is 100% owned by Marlborough District Council.

Figure 36 below shows a DuPont analysis for Port Marlborough from 2015 to 2024. Asset turnover increased slightly over the period while the equity multiplier decreased slightly. The negative RoE in 2023 was driven by a large downward revaluation of investment properties in that year which led to a negative net profit margin.

[52] https://portmarlborough.co.nz/about/

[53] Ibid.

[54] https://www.portmarlborough.co.nz/wp-content/uploads/2024/10/PM-AR24_FINAL.pdf

[55] Ibid.

Figure 36. DuPont analysis for Port Marlborough, 2015 – 2024

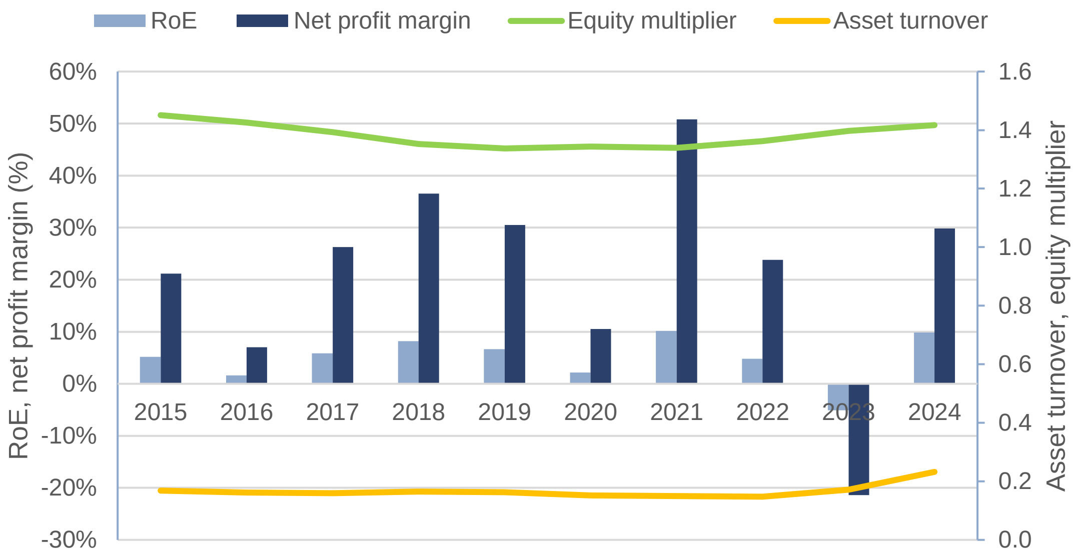


Figure 37 below shows the RoA for Port Marlborough from 2015 to 2024. Average RoA over the period was 5.3%. However, RoA was negative in 2023, similar to RoE and net profit margin.

Figure 37. RoA for Port Marlborough, %, 2015 – 2024

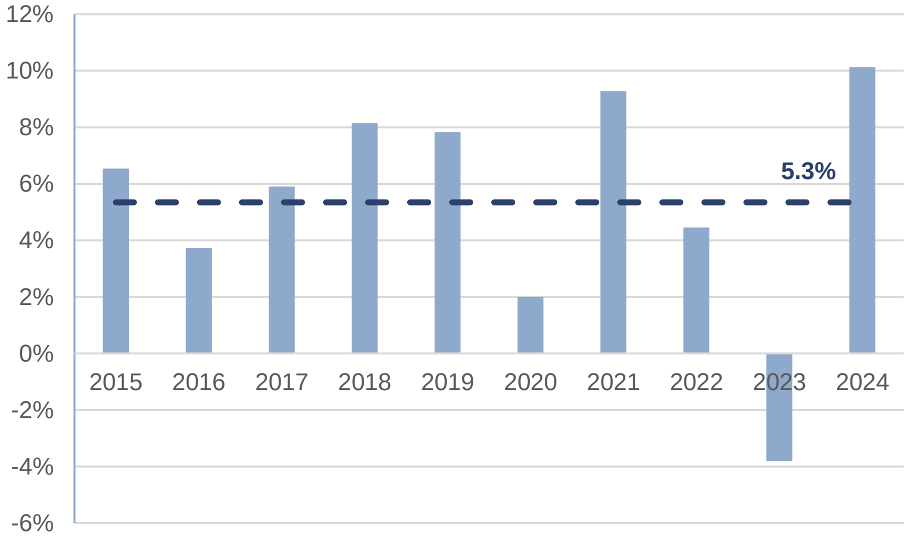


Figure 38 below shows the gearing ratio for Port Marlborough from 2015 to 2024. The gearing ratio generally fell from 2015 to 2021 but has increased slightly since. As of 2024, the gearing ratio was around 16% which was slightly below the port's average over the last decade.

Figure 38. Gearing ratio for Port Marlborough, %, 2015 – 2024

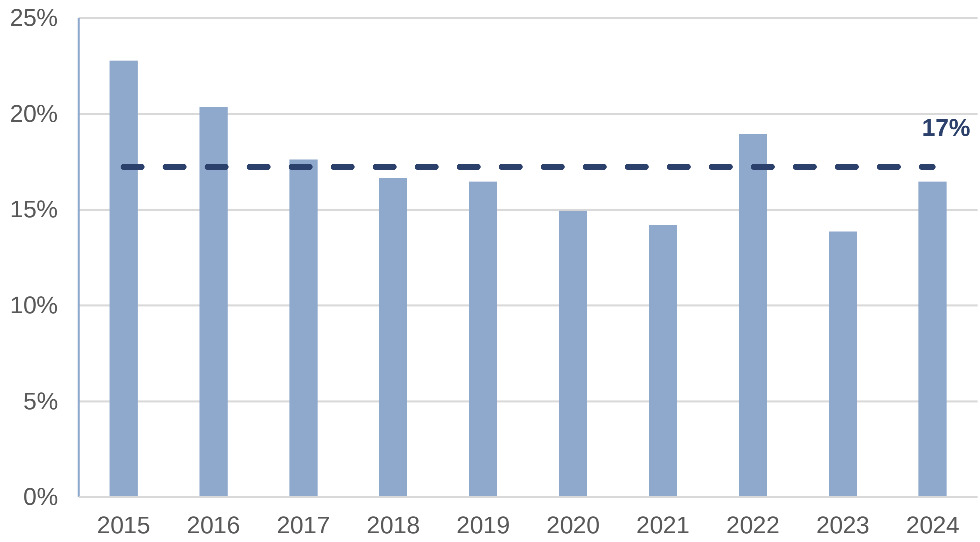


Figure 39 below shows the current ratio for Port Marlborough from 2015 to 2024. The current ratio was above one from 2015 to 2022. Since 2023, however, the current ratio has been less than one. The decrease in the current ratio was driven by a reclassification of borrowings (from the Port's parent company, MDC Holdings) from non-current to current liabilities to comply with accounting standards. Importantly, we are advised that MDC Holdings does not intend to call on any debt in the 2024/25 financial year and remains committed to meeting the Port's long-term funding requirements.

Figure 39. Current ratio for Port Marlborough, 2015 – 2024

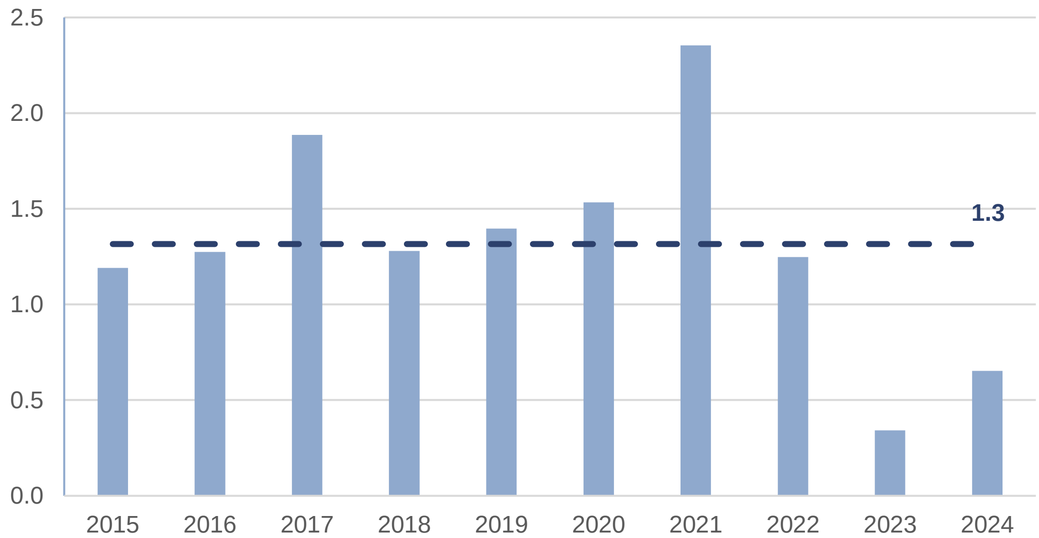
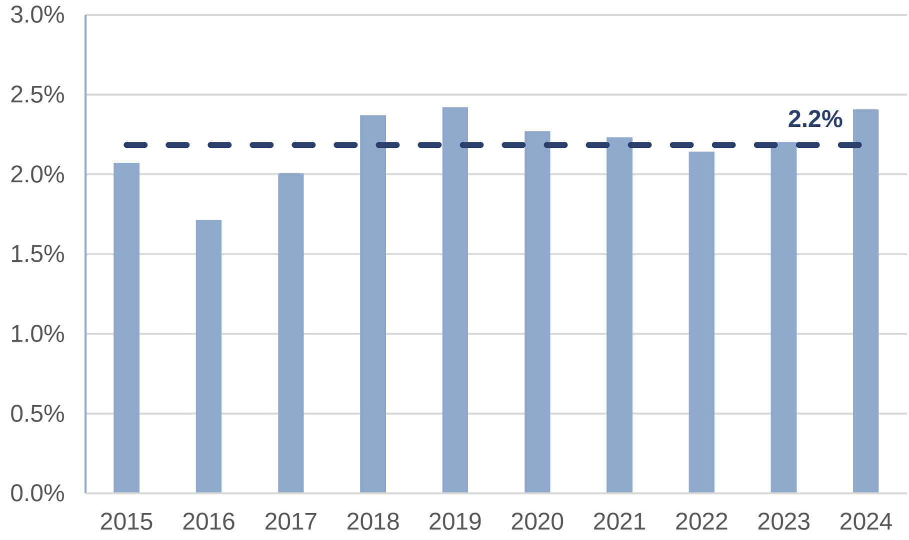


Figure 40 below shows the dividend yield for Port Marlborough from 2015 to 2024. The dividend yield was generally stable over the period, with an average of 2.2%. In 2024, the dividend yield was slightly above the port's long-term average at 2.4%.

Figure 40. Dividend yield for Port Marlborough, %, 2015 – 2024



In conclusion, although Port Marlborough recorded a negative RoE, RoA and net profit margin in 2023, its performance was otherwise generally stable from 2015 to 2024. The low current ratio in 2023 and 2024 was due to borrowings being reclassified as current liabilities. Port Marlborough had a stable (albeit low) dividend yield over the period. A higher dividend yield would help generate more returns for the shareholder.

2.8 Lyttelton Port

Located near Christchurch on the east coast of the South Island, Lyttelton Port is a gateway for regional and international trade and is the largest port in the South Island measured by container volume. The Port handles a diverse range of cargo including containers, bulk goods and vehicles.[56] Lyttelton Port has two inland facilities, MidlandPort and CityDepot, which help facilitate the movement of cargo.[57] Lyttelton Port is a key player in the cruise industry with 82 cruise ship visits in 2024.[58] Lyttelton Port is 100% owned by the Christchurch City Council through Christchurch City Holdings Limited (CCHL).

Figure 41 below shows a DuPont analysis for Lyttelton Port from 2015 to 2024. Except for 2016 and 2020 when the Port recorded large losses, RoE was generally stable over the period. The losses in 2016 and 2020 were mostly due to the large asset write-downs in those two years. The write-downs occurred to more accurately reflect how much earnings Lyttelton Port can expect to make from its assets.[59] The equity multiplier increased from 1.1 in 2015 to 1.8 in 2024. Asset turnover increased from 0.18 in 2015 to 0.28 in 2024.

[56] https://www.lpc.co.nz/wp-content/uploads/2024/09/LPC-Annual-Report-2024-1.pdf

[57] Ibid.

[58] Ibid.

[59] For more details, see https://oag.parliament.nz/2021/port-companies/part3.htm#para3_18

Figure 41. DuPont analysis for Lyttelton Port

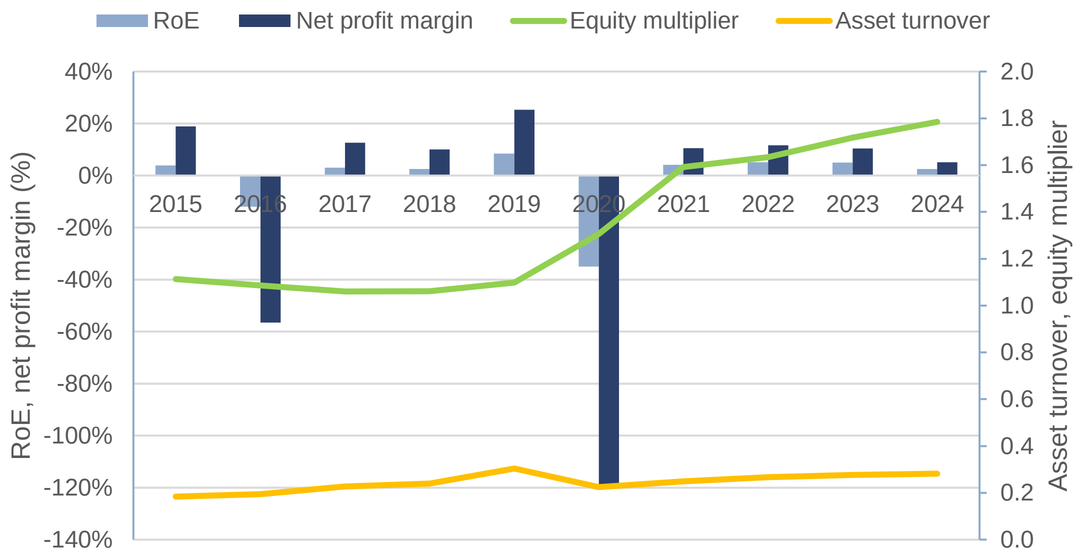


Figure 42 below shows the RoA for the Lyttelton Port from 2015 to 2024. Similar to the RoE and net profit margin, RoA was negative in 2016 and 2020. The average RoA from 2015 to 2024 was -2.3%, clearly influenced by the negative values in 2016 and 2020. In 2024, RoA was 4.5%.

Figure 42. RoA for Lyttelton Port, %, 2015 – 2024

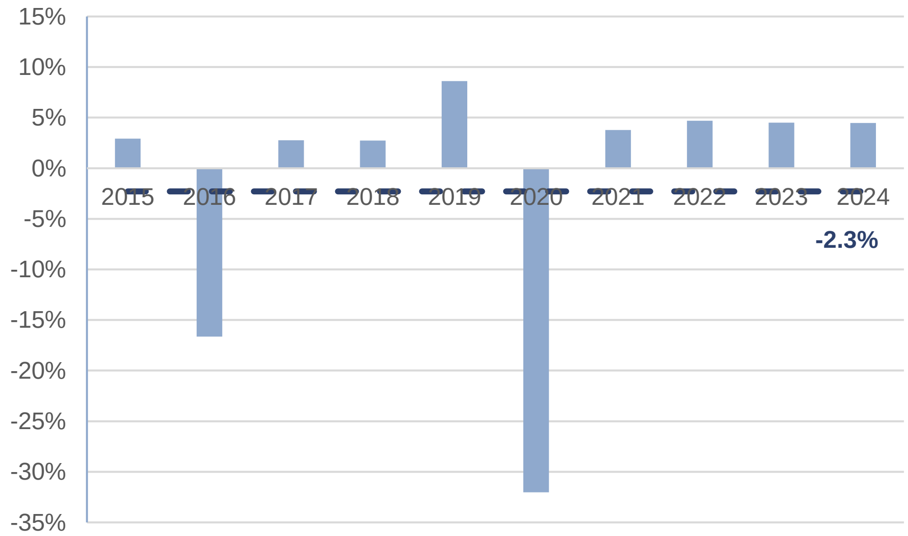


Figure 43 below shows the gearing ratio for Lyttelton Port from 2015 to 2024. The gearing ratio has been generally stable in the last couple of years, at approximately 40% in 2023 and 2024.[60] The gearing ratio was negative from 2015 to 2018, mostly due to negative values of net debt.

[60] The negative gearing ratios from 2015 to 2018 should be interpreted with caution. Data on loans, borrowings and lease liabilities was scarce before 2019. When calculating net debt using the formula in Section 1, a value of zero for loans, borrowings and lease liabilities will tend to produce a negative gearing ratio. Once the data on loans, borrowings and lease liabilities became available in 2019, the gearing ratio became positive.

Figure 43. Gearing ratio for Lyttelton Port, %, 2015 – 2024

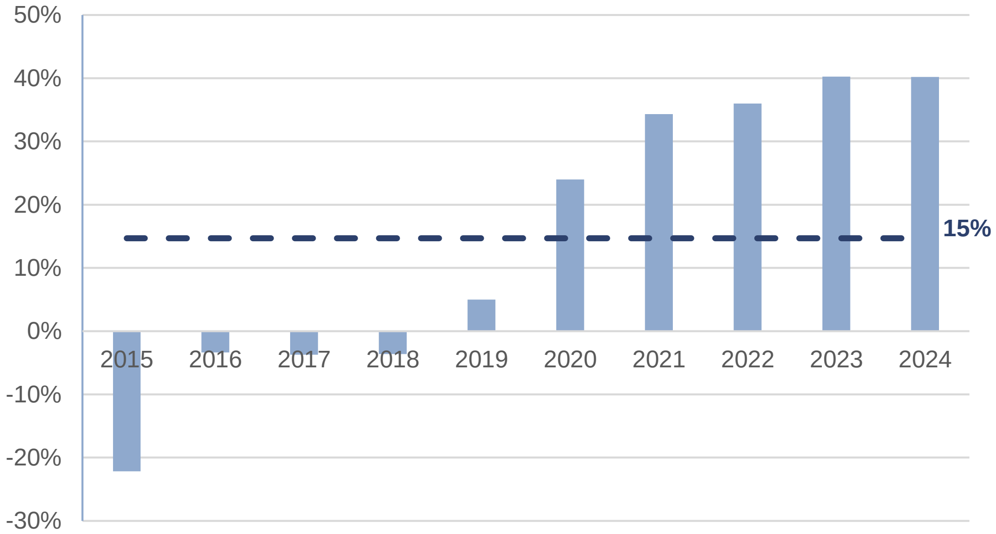


Figure 44 below shows the current ratio for Lyttelton Port from 2015 to 2024. The average current ratio over the period of 3.3 was clearly influenced by the high values of the current ratio from 2015 to 2017. Since 2019, the current ratio has been well below the average for the ten-year period. After recording a current ratio of less than one in 2022 and 2023, the current ratio increased to 1.5 in 2024, its highest value since 2019.

Figure 44. Current ratio for Lyttelton Port, 2015 – 2024

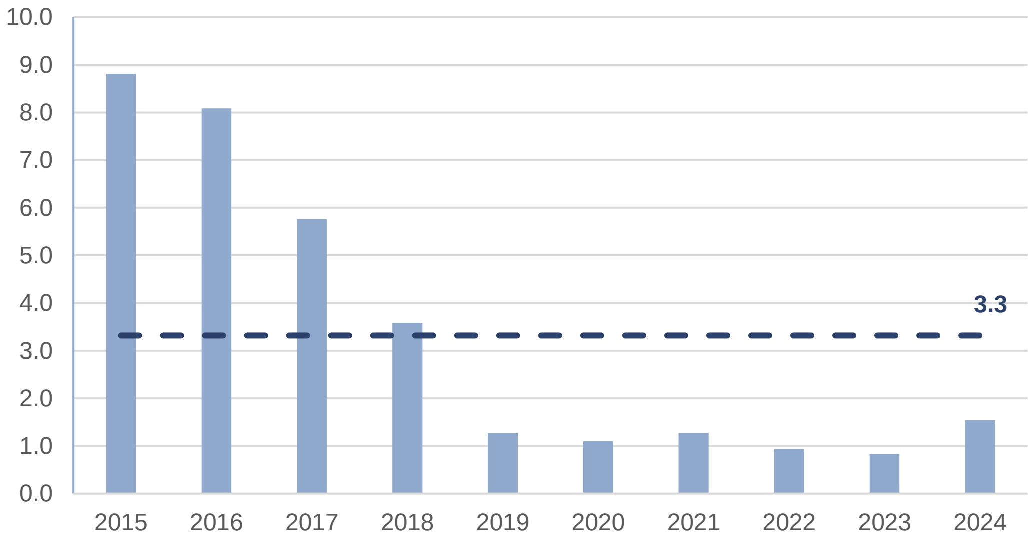
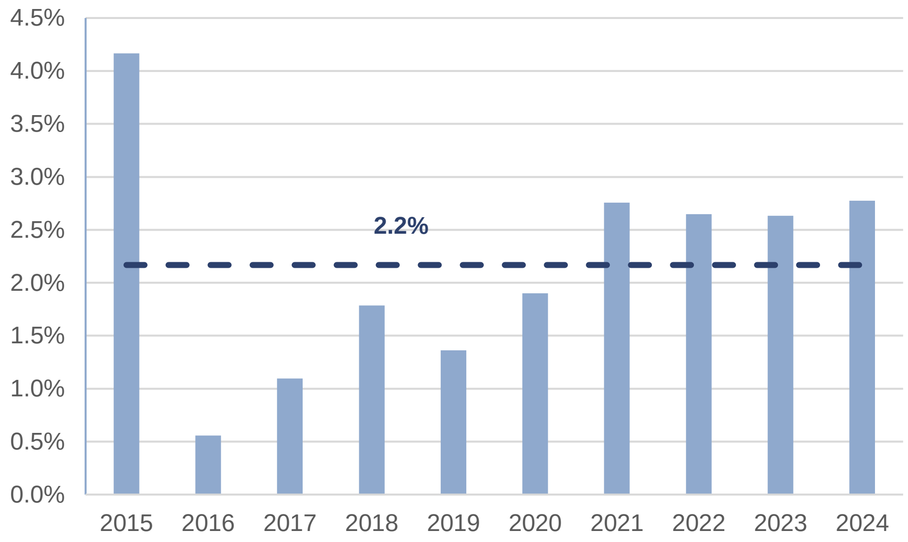


Figure 45 below shows the dividend yield for Lyttelton Port from 2015 to 2024. The average dividend yield over the period was 2.2%. Since 2016, the dividend yield has increased somewhat. In 2024, it was above the Port's long-term average at 2.8%.

Figure 45. Dividend yield for Lyttelton Port, %, 2015 – 2024



Overall, Lyttelton Port's performance has been poor over the period. Its average RoA and RoE have been the lowest of all eleven ports. The port's gearing ratio increased from 2015 to 2024 but has stabilised in recent years. Its current ratio improved in 2024 while its dividend yield increased generally after 2016 and has stabilised between 2.6% to 2.8% in recent years. Lyttelton Port recorded a negative NPAT in 2016 and 2020, mostly driven by large asset write-downs in those years. Assets were written down to better reflect the lower revenue Lyttelton Port expected to receive from its assets.[61]

2.9 PrimePort Timaru

Located in Timaru on the east coast of the South Island, PrimePort Timaru handles a diverse range of cargo including bulk products, containers and logs. It is one of the biggest fishing ports in New Zealand and a popular cruise ship destination. In recent years, PrimePort has been impacted by difficult economic conditions which saw a reduction in bulk trade volumes and rising costs driven by finance costs, inflation-driven salary increases and higher insurance premiums. Despite these economic headwinds, PrimePort's partnership with the Port of Tauranga remains strong, with PrimePort serving as at connector for regional importers and exporters.[62] PrimePort Timaru is 50% owned by the Port of Tauranga with the other 50% owned by Timaru District Council.

Figure 46 below shows a DuPont analysis for PrimePort Timaru from 2015 to 2024. The RoE remained generally stable over the period except for decreases in 2023 and 2024. The equity multiplier increased steadily from 2015 to 2017 and has since stabilised at around 1.6. One the other hand asset turnover decreased from 0.3 in 2015 to 0.2 in 2024. The trajectory of the net profit margin largely mirrored that of the RoE over the period, rising from 2018 to 2022 but falling in 2023 and 2024.

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[61] The Office of the Auditor General discusses these asset write-downs in the context of what it calls "over-investment" in the port sector in New Zealand. The central government's Aotearoa New Zealand freight and supply chain strategy released on 18 August 2023 aims to address the issue of investment efficiency. For more details on the strategy, see https://www.transport.govt.nz/area-of-interest/freight-and-logistics/new-zealand-freight-and-supply-chain-strategy

[62] https://www.primeport.co.nz/__data/assets/pdf_file/0006/939732/Primeport_AR_2024_WebReady.pdf

Figure 46. DuPont anlaysis for PrimePort Timaru, 2015 – 2024

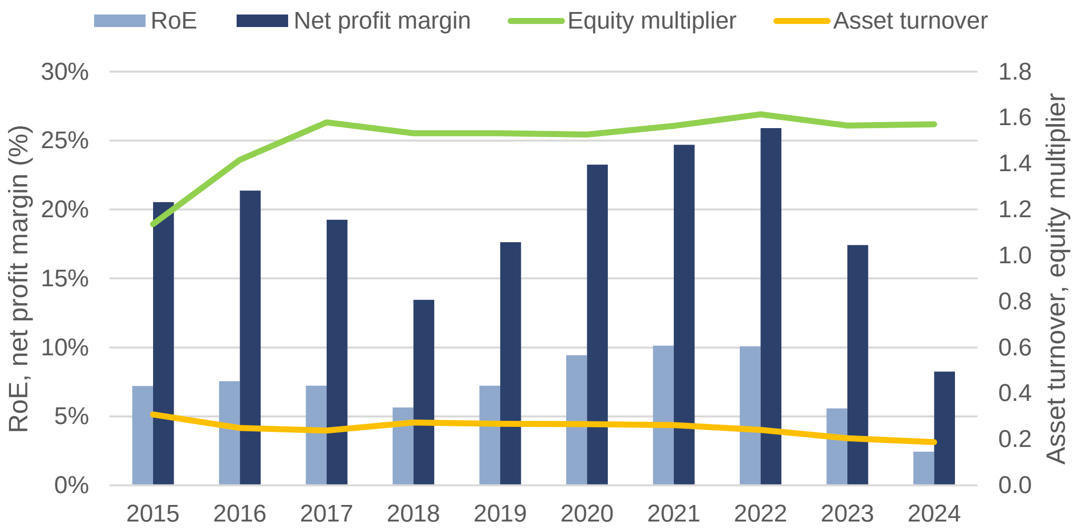


Figure 47 below shows the RoA for PrimePort Timaru from 2015 to 2024. The trajectory of the RoA is similar to those of the RoE and net profit margin. RoA decreased from 2015 to 2018 and then started to increase until it peaked in 2021. Since 2021, however, RoA has been decreasing every year. As of 2024, RoA was below average at 5.3%.

Figure 47. RoA for PrimePort Timaru, %, 2015 – 2024

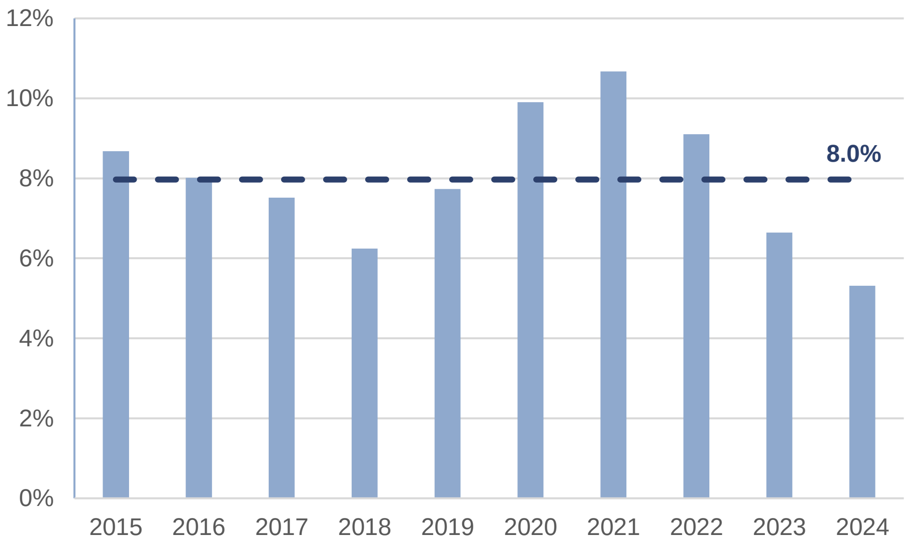


Figure 48 below shows the gearing ratio for PrimePort Timaru from 2015 to 2024. The gearing ratio averaged around 30% over the period. It was close to or slightly above average from 2016 to 2022. As of 2024, the gearing ratio was above average at around 36%.

Figure 48. Gearing ratio for PrimePort Timaru, %, 2015 – 2024

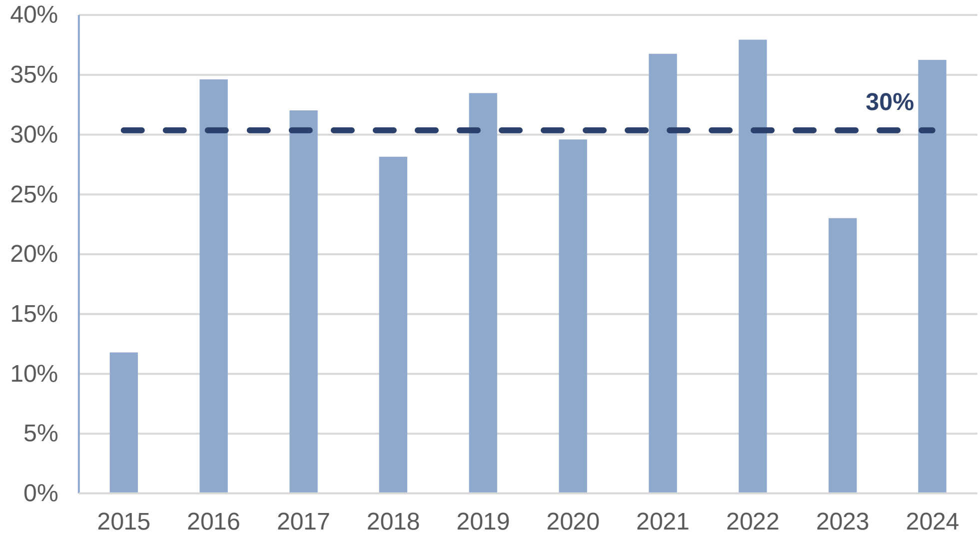


Figure 49 below shows the current ratio for PrimePort Timaru from 2015 to 2024. The average current ratio was 1.4 over the period. However, this was influenced by the years from 2015 to 2017 which had above-average current ratios. The current ratio remained below average from 2018 to 2023 but increased markedly to 2.1 in 2024.[63]

Figure 49. Current ratio for PrimePort Timaru, 2015 – 2024

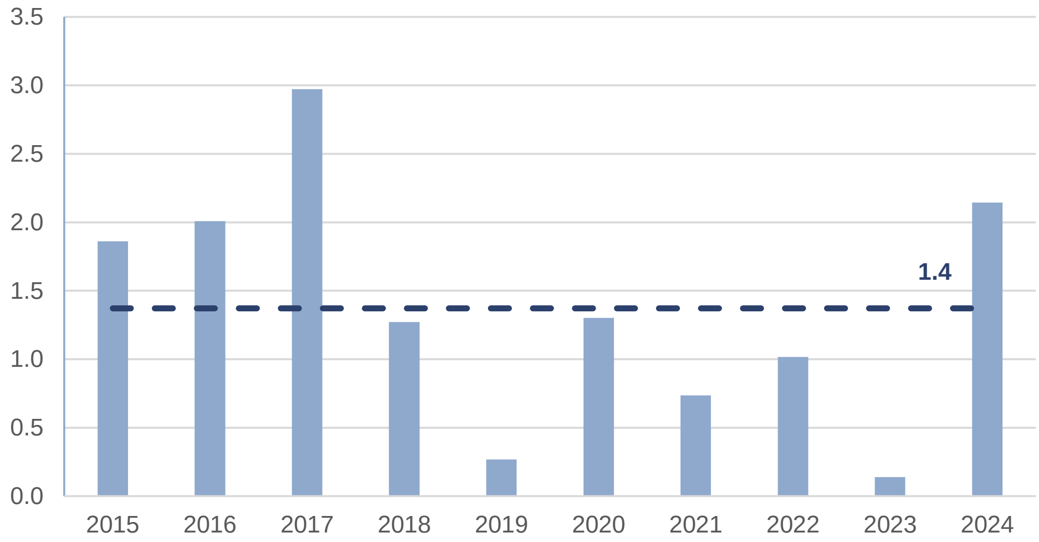
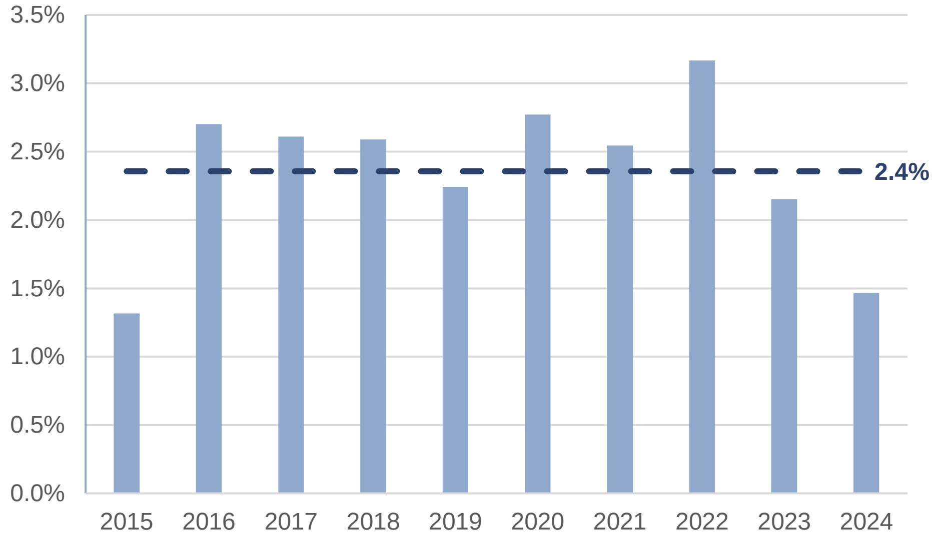


Figure 50 below shows the dividend yield for PrimePort Timaru from 2015 to 2024. The average dividend yield was 2.4% over the period. The dividend yield recorded its highest level over the period in 2022, at 3.2%. In 2024, however, it dropped to 1.5%.

[63] PrimePort recorded a low current ratio in 2019 and 2023, primarily due to the significant amounts of money market loans classified as current liabilities in these years. Meanwhile, current assets have been relatively stable over the period. As money market loans were renewed and recorded as current liabilities, the current ratio decreased accordingly.

Figure 50. Dividend yield for PrimePort Timaru, %, 2015 – 2024



In conclusion, PrimePort Timaru's RoE has fallen in recent years, driven by decreases in asset turnover and the net profit margin. While the current ratio was 2.1 in 2024, it was relatively volatile from 2018 to 2023, rising above one in some years and dropping below one in other years. A stable current ratio that is consistently above one would provide greater certainty and help address any liquidity concerns.

2.10 Port Otago

Located on the Otago Harbour, Port Otago is a primary export port for the lower South Island.[64] The Port has four main businesses: container, bulk, property and cruise.[65] Port Otago has a significant property business which includes developments well outside its region in Hamilton and Auckland as well as Dunedin.[66] The port is also the primary South Island port for cruise ships with a record cruise season in 2024 of over 100 cruise ship visits.[67] Port Otago is 100% owned by the Otago Regional Council.

Figure 51 below shows a DuPont analysis for Port Otago from 2015 to 2024. Port Otago's RoE declined from 14.6% in 2015 to 4.3% in 2024. The Port's investment property portfolio totalled over $600m as of 2024. Revaluations of investment properties had a material impact on the Port's RoE over the period. Net profit margin averaged around 50% from 2015 to 2024, driven by investment property revaluations.[68] While revaluations eventually translate to higher (or lower) rents, there can be a significant delay due to a portion of the portfolio being ground leases and subject to periodic rent reviews.[69]

[64] https://www.portotago.co.nz/about/about-port-otago/

[65] Ibid.

[66] Ibid.

[67] https://www.portotago.co.nz/assets/Uploads/2024-reports/Port-Otago-AR-2024-web-final.pdf

[68] For example, net profit margin was 105% in 2021 and 80% in 2022 as a result of large revaluations in investment properties.

[69] https://www.portotago.co.nz/assets/Uploads/2024-reports/Port-Otago-AR-2024-web-final.pdf

Figure 51. DuPont analysis for Port Otago, 2015 – 2024

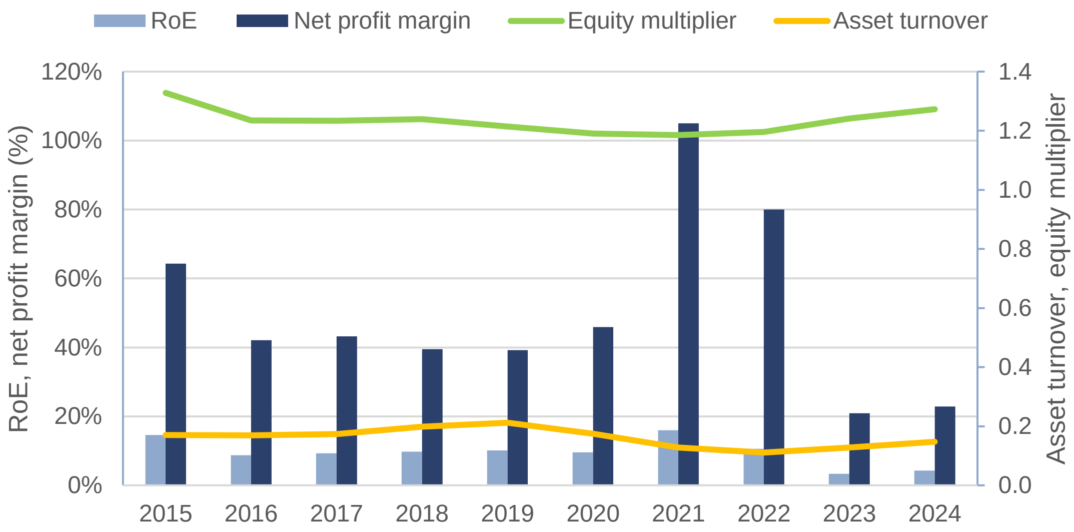


Figure 52 below shows the RoA for Port Otago from 2015 to 2024. RoA peaked in 2021 but has generally declined since, along with RoE. Although the RoA improved in 2024, it was still the second lowest value in the period, at 5.9%. The drop in RoA in 2023 and 2024 was due to lower investment property revaluations in those two years, driven by market cap rates and contract rents in the Auckland, Hamilton and Dunedin property markets. On the other hand, gross profit which does not include investment property revaluations and tax increased by around $10m each year in 2023 and 2024.

Figure 52. RoA for Port Otago, %, 2015 – 2024

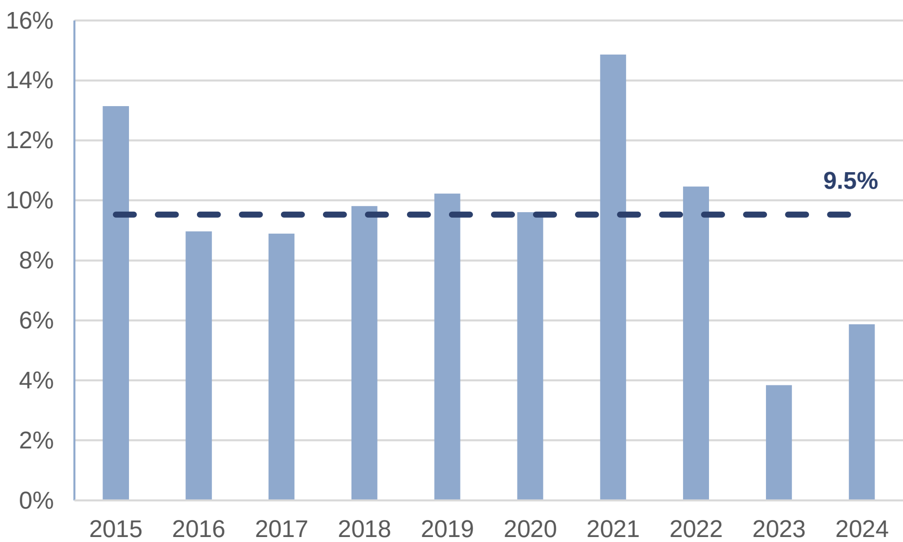


Figure 53 below shows the gearing ratio for Port Otago from 2015 to 2024, with an average of around 12% over the period. The gearing ratio was generally stable in recent years, reaching around 13% in 2024.

Figure 53. Gearing ratio for Port Otago, %, 2015 – 2024

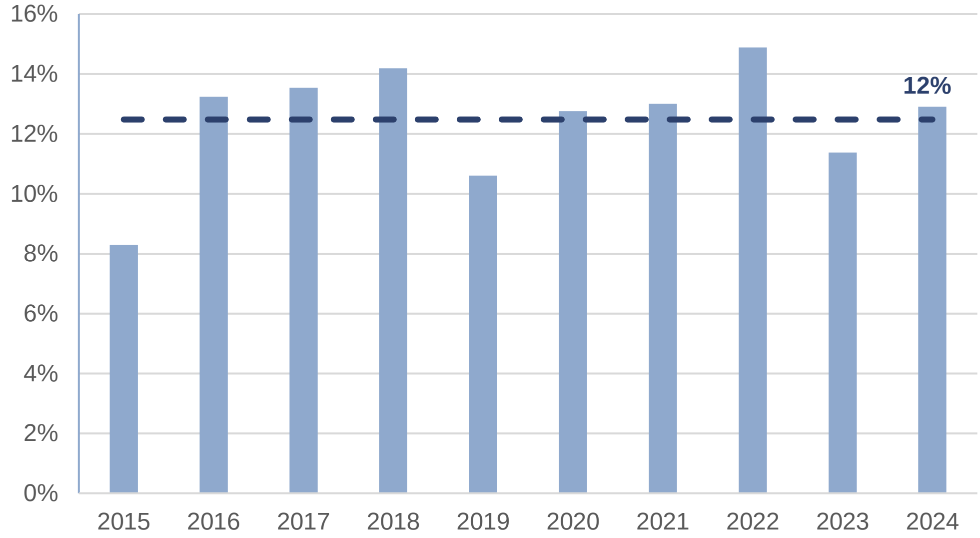
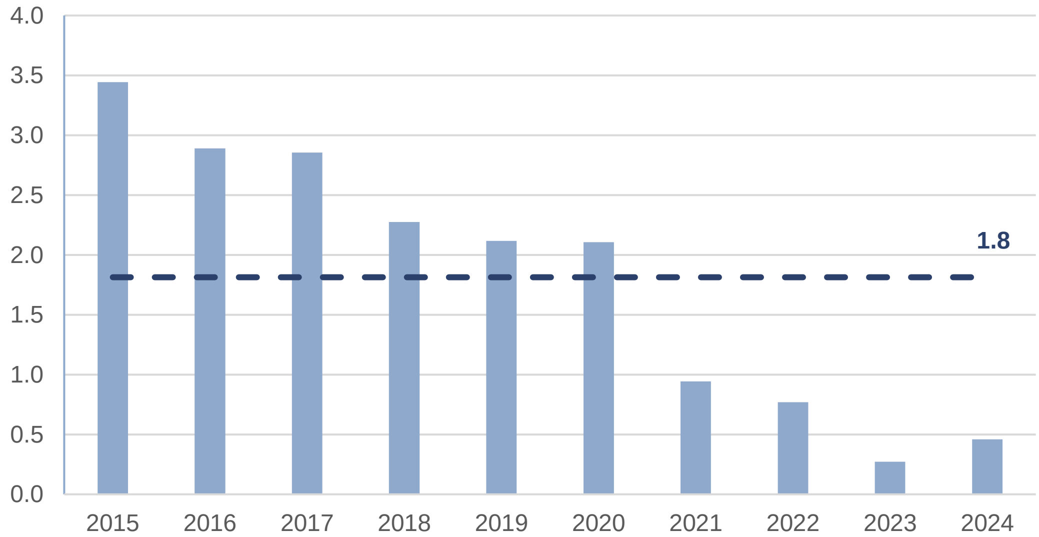


Figure 54 below shows the current ratio for Port Otago from 2015 to 2024. The current ratio decreased generally over the period, from 3.4 in 2015 to 0.5 in 2024. The drop in the current ratio was mainly due to a change in accounting policy and a reclassification of related-party loans. An accounting policy change which classified property inventories from current to non-current assets occurred in 2021.[70] Meanwhile, current liabilities increased since 2023 due to a reclassification of related-party loans.[71] Port Otago considers the low current ratio is mostly a result of accounting policies and does not indicate any liquidity concerns.[72]

Figure 54. Current ratio for Port Otago, 2015 – 2024



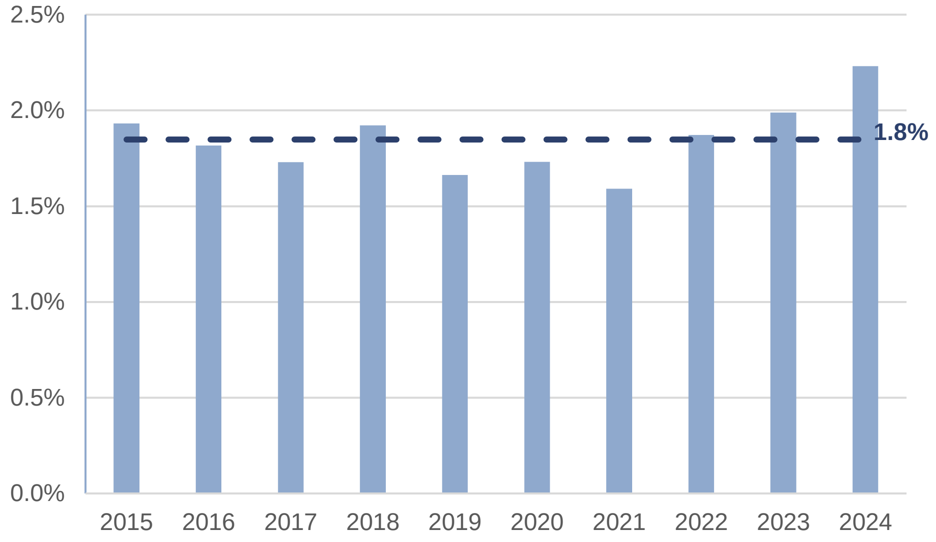
[70] These property assets are carried at cost and held for long-term development. When a new tenant is secured, a property will be constructed and the land asset transferred from property inventories to investment property which is carried at fair value. Previously, this land was classified as a current asset under the inventory accounting standard, but as the property inventories will not be sold but held as a long-term investment property, they are now classified as a non-current asset.

[71] The Otago Regional Council has agreed to provide up to $150 million of loans from the Local Government Funding Authority (LGFA), which has a lower cost of debt than bank debt. LGFA loans provided from the Council that mature in the next 12 months are classified as current, and there is no indication that the Council will not continue to support the Port through providing access to LGFA funding. In addition to the LGFA loans, Port Otago has access to a large bank facility which has only been drawn by less than a half as of June 2024.

[72] The Port has never experienced any liquidity issues, as evidenced by its low gearing ratio, its large and geographically diverse investment property portfolio and its access to external debt providers if required.

Figure 55 below shows the dividend yield for Port Otago from 2015 to 2024. It has been very low but relatively stable, with an average of 1.8% over the period. The dividend yield increased slightly since 2021, reaching 2.2% in 2024, the highest value for the period.[73]

Figure 55. Dividend yield for Port Otago, %, 2015 – 2024



In conclusion, Port Otago's performance over the period has been heavily influenced by revaluations of its investment property portfolio which led to high net profit margins in 2021 and 2022. The recent drop in RoA reflected low investment property revaluations. The Port had a low gearing ratio over the period while its current ratio was impacted by recent changes in accounting policies. The Port has delivered a higher gross profit in 2023 and 2024 and is forecasting to pay higher dividends in the next few years.

2.11 South Port

Located in Bluff Harbour, South Port is New Zealand's southernmost commercial port and the only Southland-based company listed on the NZX.[74] Recently, South Port was impacted by subdued trading conditions which saw reduced total cargo volumes in 2024.[75] On the other hand, the commitment by New Zealand Aluminium Smelter (NZAS) to a 20-year electricity contract will help give stability to a third of the port's cargo volume.[76] Similarly, the completion of dredging of the Bluff Harbour channel will offer opportunities for larger ships, improving efficiency.[77] South Port is 66% owned by Environment Southland with the rest listed on the NZX.

Figure 56 below shows a DuPont analysis for South Port from 2015 to 2024. RoE was generally stable until around 2022 when it started to decrease. RoE was 12% in 2024, the lowest for the period. The net profit margin followed a similar trajectory to the RoE, being relatively stable until around 2022 when it started to decrease.[78]

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[73] In its Statement of Corporate Intent, the Port forecasts dividends to increase from $16m in 2024 to $18m in 2025 and $20m in 2026 and 2027.

[74] https://southport.co.nz/about-us-and-our-people

[75] https://southport.co.nz/assets/reports/240917_SP_Annual-Report-2024_web-FINAL.pdf

[76] Ibid.

[77] Ibid.

[78] The tax legislation change in 2024 which removed depreciation on commercial buildings led to a $2.3m reduction in NPAT for that year.

Asset turnover deceased from 0.74 in 2015 to 0.56 in 2024 while the equity multiplier increased from 1.4 in 2015 to 1.7 in 2024. Taken together, the increase in equity multiplier helped offset the decrease in asset turnover.

Figure 56. DuPont analysis for South Port, 2015 – 2024

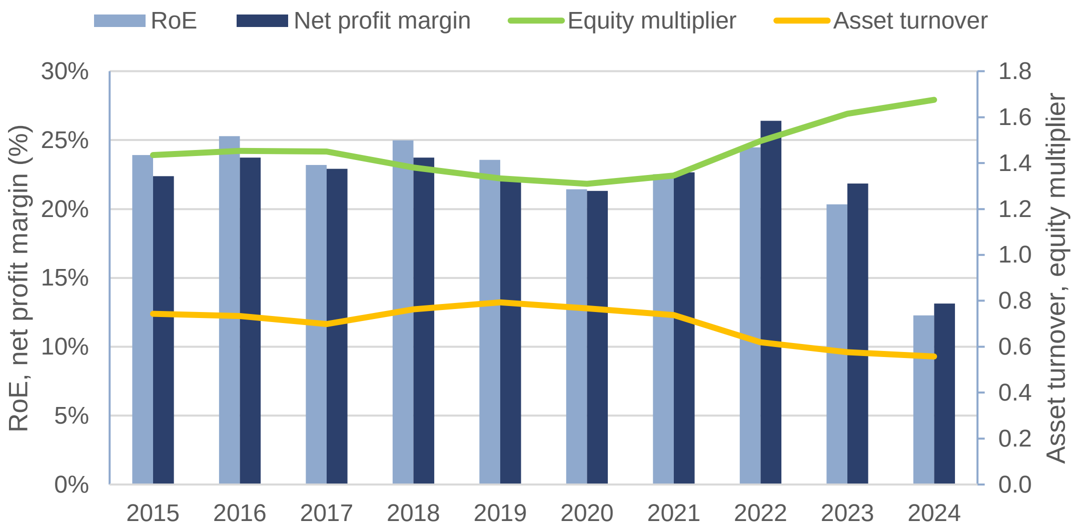

Figure 57 below shows the RoA for South Port from 2015 to 2024. RoA averaged 23.0% over the period but has been declining since peaking in 2018. In 2024 RoA was below average at 16.3%.[79]

Figure 57. RoA for South Port, %, 2015 – 2024

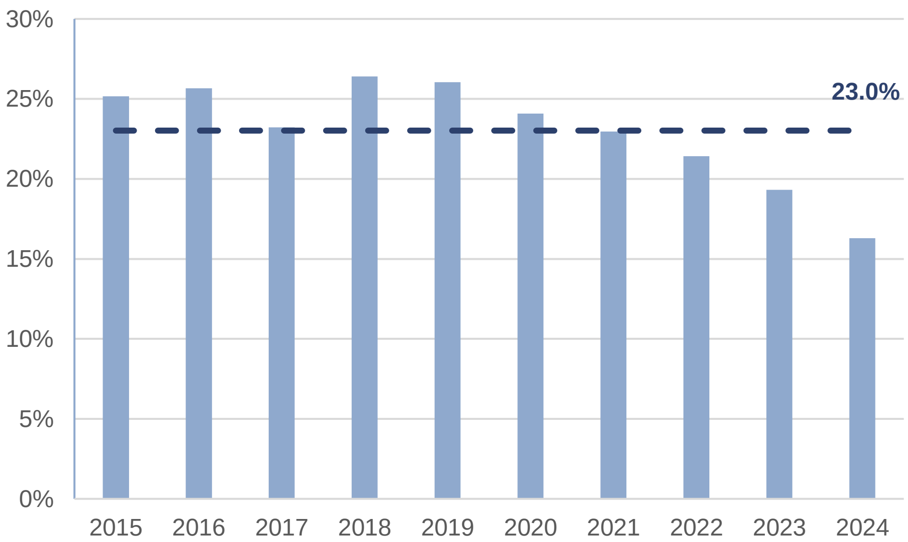

Figure 58 below shows the gearing ratio for South Port from 2015 to 2024. The gearing ratio declined initially and then increased towards the end of the period, with a sizable jump in 2022. The gearing ratio was around 36% in 2024.[80]

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[79] South Port's capital expenditures have increased significantly from 2021 to 2024 due to a number of major projects undertaken. These projects mostly have long payback periods and required a material increase in debt to fund. The Port expects its RoA to improve over time. Projects undertaken include a new tug, capital dredging, a new fuel berth accessway, pipeline corridor and discharge platform, among others.

[80] Historically, the Port has had a low gearing ratio. Its gearing ratio increased in recent years driven by major capital expenditures which saw large increases in debt.

Figure 58. Gearing ratio for South Port, %, 2015 – 2024

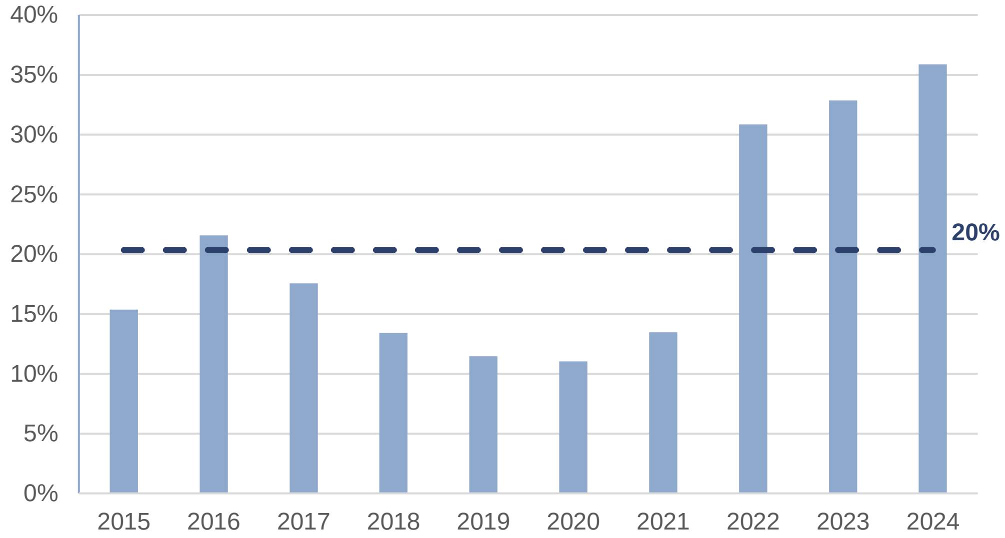


Figure 59 below shows the current ratio for South Port from 2015 to 2024. The average current ratio was 1.1 over the period. In 2024 the current ratio was 1.8, a significant increase from 2023.

Figure 59. Current ratio for South Port, 2015 – 2024

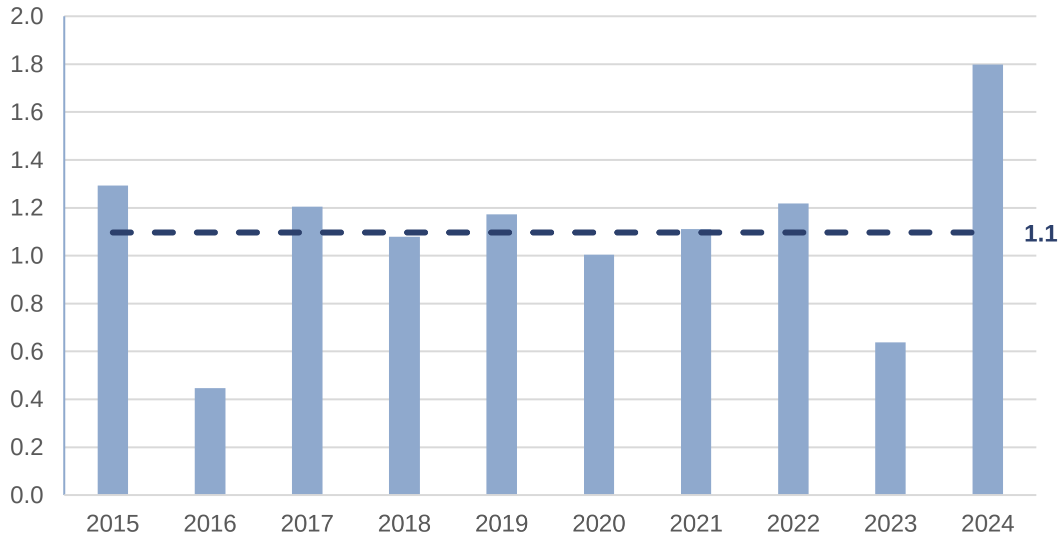
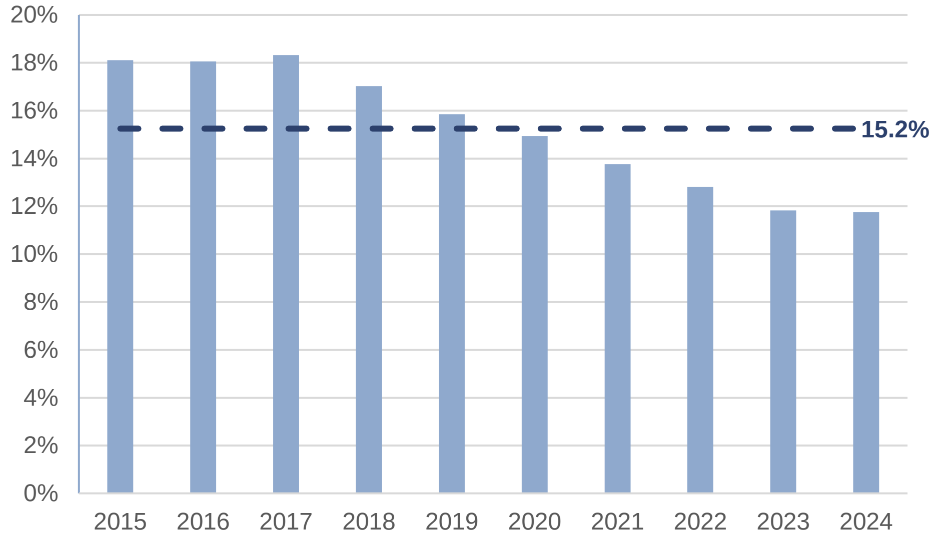


Figure 60 below shows the dividend yield for South Port from 2015 to 2024. The dividend yield was relatively stable from 2015 to 2017, averaging around 15%. Dividend yield decreased from 2018 to 2023 but has since stabilised. As of 2024, the dividend yield was below the port's ten-year average at 11.8%.[81]

[81] The decline in dividend yield in recent years was driven by dividend payments being held steady while significant capital expenditures took place.

Figure 60. Dividend yield for South Port, %, 2015 – 2024



In conclusion, South Port's recent performance has been impacted by large capital expenditures which have significantly increased the Port's debt and asset levels, leading to a lower RoA and a higher gearing ratio. As the projects undertaken have a long payback period, the Port expects its RoA to improve over time. Similarly, the recent decline in dividend yield was driven by dividend payments being held at constant levels while the balance sheet expanded. Lastly, the removal of building depreciation lowered NPAT in 2024, leading to a lower RoE in that year.

3 Conclusions

A well-performing port sector helps foster economic growth and connects New Zealand to the rest of the world. However, the eleven major ports in New Zealand have experienced mixed financial performance from 2015 to 2024, measured by RoA, RoE, gearing ratio, current ratio and dividend yield.

In terms of the average profitability and dividend yield over the period, South Port and the Port of Tauranga stand out as strong performers. South Port had the highest average RoA and RoE out of the eleven ports. It also had the highest average dividend yield. Port Taranaki and Napier Port also had relatively high average RoAs, RoEs and dividend yields over the period. PrimePort Timaru and Port Otago enjoyed high average RoAs and RoEs over the period, but their average dividend yields were relatively low.

Lyttelton Port and CentrePort underperformed relative to the other ports. Lyttelton Port had two large asset write-downs in 2016 and 2020 which led to losses in those two years, reducing the port's average RoA and RoE over the period. CentrePort was severely impacted by the 2016 Kaikōura earthquake. More recently, CentrePort has conserved its debt capacity in anticipation of Project iRex. However, the project has since been cancelled.

The Port of Auckland, Port Nelson and Port Marlborough had below-average profitability and dividend yield over the period. The three ports had average RoAs around 5% to 6% whereas the average RoA across all eleven ports was 7.5%.

Looking at profitability over time, RoA and RoE have trended down for many ports during the period. A DuPont analysis shows that the decreases in RoE were mostly driven by declining net profit margins. In recent years, the port sector has faced rising costs such as inflation-driven salary increases and higher insurance premiums. Escalated costs combined with weak economic conditions in New Zealand and overseas have put pressure on ports' profit margins.

Events such as natural disasters, pandemics and conflicts have all impacted the ports' operations. Recent examples include the 2016 Kaikōura earthquake, Cyclone Gabrielle in 2023, the Covid-19 pandemic and disruptions to shipping in the Red Sea. Similarly, ports are also influenced by policy and legislation changes. Recent examples include the cancelled Project iRex and a tax legislative change in 2024.[82]

Although natural disasters and legislation changes are beyond management's control, maintaining a healthy profit margin remains essential. This can be achieved by focusing on actionable measures such as negotiating higher tariffs[83] and implementing careful cost-management strategies.

In terms of financial leverage, most ports seem to be managed conservatively with low gearing ratios. CentrePort had a negative average gearing ratio due to the large insurance payouts it received after the 2016 Kaikōura earthquake. Ports that are 100% council-owned such as Lyttelton Port and Port Otago have lower gearing ratios than those with mixed ownership such as the Port of Tauranga and PrimePort Timaru.

Gearing ratios were generally stable for most ports over the last decade. When a port incurs significant capital expenditures, its gearing ratio tends to rise as these projects are often debt-financed. This was the case for South Port which saw a higher gearing ratio in recent years, driven by large capital expenditures. On the other hand, a port may conserve its debt capacity in anticipation of upcoming

[82] For details on the legislative change, see https://www.deloitte.com/nz/en/services/tax/perspectives/april-2024-bye-bye-building-depreciation-the-consequences.html

[83] A recent report by Forsyth Barr argues that higher pricing will help improve profitability in the port sector in New Zealand. See https://www.forsythbarr.co.nz/research-library/research/transport-sector-ports-high-tide-raises-most-ships

capital expenditures, leading to a lower gearing ratio. This was the experience of CentrePort which had conserved its debt capacity for Project iRex.

In terms of liquidity, almost all the ports had a current ratio above one throughout the period. The Port of Tauranga had a low average current ratio of 0.2. However, the Port has no liquidity or working capital concerns as its commercial paper debt is supported by a secured long-term financing arrangement with major banks.[84]

All eleven ports paid dividends to their shareholders. The dividend yields, however, were mixed. South Port had the highest average dividend yield over the period at 15.2%. The Port of Tauranga was second highest, at 7.9%.[85] Port Taranaki had an average dividend yield of 4.6% while the Port of Auckland averaged 4.5%. Both ports were close to the average dividend yield across all eleven ports of 4.5%.

On the other hand, CentrePort, Port Nelson, Port Marlborough, Lyttelton Port, and PrimePort Timaru had below-average dividend yields from 2.2% to 2.5%. Port Otago had the lowest average dividend yield at 1.8%.

Looking at the trend in dividend yield over time, many ports had lower dividend yields in recent years, likely due to a combination of difficult trading conditions and escalating costs which have put pressure on profitability.

Ports need to maintain healthy profitability, leverage and liquidity to operate as successful businesses. They are expected to make regular dividend payments to provide a return on their shareholders' investment. Given the difficult trading conditions experienced by the port sector in recent years, skilful port management is all the more important. A thriving port sector will not only deliver positive returns to shareholders but also contribute to prosperity in the wider economy.

[84] https://www.port-tauranga.co.nz/wp-content/uploads/POTJ201062-IAR-2024-WEB-FA29.pdf

[85] Both ports are listed on the NZX and tend to trade at a premium to book value. When calculated using market prices, their dividend yields would be lower.