PORT FINANCE INTERNATIONAL

Container Terminal Ownership and Operators

Neil Davidson, Senior Advisor – Ports, Drewry Maritime Advisors

"When it comes to container terminal investments," says Neil Davidson, Senior Advisor – Ports, Drewry Maritime Advisors, "discussions often revolve around the nature of funding, the risks, and the various infrastructure investors. It is, however, equally important to have a closer look at the actual players, who are running the terminal facilities."

> "There is appetite for new players in the industry and their success will be driven by cash"

Drewry differentiates between terminal operators and owners as the chief parties in the container port business, and counts terminal operators, owners, investors, parent companies, stevedores, shareholders, shipping lines with terminal interests, managers and hybrids into this complex and diverse group.

"There are a lot of different players in terms of operation and ownership and it is quite a challenge to unravel that," says Mr Davidson.

Distinguishing between the different players and understanding the complex concept of ownership is however fundamental in order to understand the multitude of different interests and stakes in terminals and their relevance to the investment. Understanding the industry's structure and how this might be changed is further essential to recognising and evaluating investment opportunities and strategies.

Among the numerous stakeholders in terminals, Drewry especially focuses on the large players that can be divided into global terminal operators (GTO), international terminal operators (ITO) as well as single region and single country terminal operators.

Under the Drewry-definition a GTO is: a terminal operator or owner that operates terminals in more than one world region. This definition covers a group of around 20 companies including a handful of well-known players such as HPH, DPW, APMT and PSA.

"The reality is," notes Mr Davidson, "that there are only very few truly global terminal operators, whereas most players are international or regional, some however very large in a particular area."

> "It is important to understand the structure of the industry, the strategies and motivations of operators and investors and to identify the key players in order to envisage how things change over time and to discover opportunities"

Drewry measures GTOs and ITOs according to their respective activity volume, which can be measured in total TEU (not taking into account the actual shareholder percentage in a terminal) or equity TEU (total TEU adjusted according to the extent of the shareholding in each terminal).

In addition, Drewry is developing ways to take into account how international the respective terminal operators and owners are positioned. The internationalism does not necessarily correlate to their overall volume. Thus for example, due to its large concentration of volumes in Singapore, PSA has a comparatively lower degree of internationalism despite being top 2 GTO worldwide, compared with DPW or APMT.

"Even though this is a complex process," says Mr Davidson, "only by measuring and analysing, can the global players be recognised, strategies and motivations understood and investment opportunities be spotted."

Another important aspect in understanding the industry, according to Mr Davidson, is the degree of hands-on management control. Classic stevedoring companies have the highest level of control, whereas other stakeholders, such as some shipping companies and financial investors, have less control and are more of a terminal investor than a terminal manager.

> "There is some potential for privatisation of remaining terminals, but also opportunities in the privatisation of port authorities"

Apart from the well established and highly experienced existing international players there is a group of emerging ITOs.

"New players are emerging," says Mr Davidson, "and the appetite for these new players has been clear in my recent experience with privatisation and M&A deals."

New ITOs are based upon cash rich organisations in China and the Middle East; plus there is a strong political desire in India to increase international terminal ownership overseas. Certain other operators are seeking to expand in Europe and the US into a selected OECD-focused market.

Examples of a very diverse group of emerging players are China Shipping (increasing terminal ownership, particularly on the US West Coast), SIPG, China Merchants (actively investing in Lagos and expanding in Vietnam and Sri Lanka), Gulftainer (investing in Brazil and Russia), NOATUM, Ports America, IPH and Yildrim.

"The volumes of some of the emerging ITOs are already substantial compared to the GTOs and the success of the new emerging players," says Mr Davidson, "will be driven significantly by cash."

About 54 per cent of global container port throughput is controlled by GTOs and ITOs. However, with the remaining 46 per cent being held by state owned operators (20 per cent) and local private owners (26 per cent) there is still some scope for terminal privatisation (around 50 terminals worldwide handling more than 250,000 TEU) and M&A left.

"A problem for prospective investors," Mr Davidson warns, "is, that the remaining slice of the cake is becoming increasingly fragmented and in order to obtain a bigger slice, bites will have to be smaller and smaller."

The potential for privatisation and M&A greatly varies according to the region. The highest percentage of state owned operators can be found in Africa (over 50 per cent), whereas the highest density of local private owners is in Eastern Europe (over 50 per cent).

Mr Davidson identifies South Africa, Israel, Iran, Kenya, Mauritius, Egypt, Sri Lanka, and Turkey to have the remaining privatisation potential.

However he also cautions that "the attitude to risk will be very significant for investors pursuing privatisation in some of these places."

In addition, Mr Davidson notes an interesting trend in privatisation potential for port authorities in some countries that are looking for access to private money as well as expertise.