

Re-Thinking Port Investment

Romain Py, Executive Director, J.P. Morgan Asset Management



“The last three years have been one of the most turbulent times in the container shipping industry,” says Romain Py, Executive Director, J.P. Morgan Asset Management.

In December 2010, a consortium comprised of institutional investors advised by J.P. Morgan Asset Management (the “J.P. Morgan Investors”) and a Dutch pension fund bought the Spanish port operator Dragados SPL (DSPL) and Maritima del Mediterraneo S.A. (Marmedsa), a Spanish port services company.

Following the acquisition, DSPL was re-branded “Noatum” and a new corporate image and branding strategy launched.

Noatum is the leading operator of maritime terminals in Spain, operating five container terminals, eight multi-purpose and two bulk terminals as well as the largest vehicle terminal in the Mediterranean.

According to Mr Py, the investors decided on a conservative financing approach, which brought a number of consequences in its wake.

To begin with, the investors carved-out the non-port related business units and acquired only Spanish port assets in order to streamline and refocus the business.

In a second step, the consortium reduced the debt by 40 per cent via a significant equity contribution - representing half

of the purchase price. Through this deleveraging of the business, a sustainable and long-term capital structure was implemented.

In addition, the average life of the debt was increased (from 4.5 years to 8 years) and flexibility to deliver on-going capital expenditure (capex) programme ensured.

The new debt, € 176m, was raised at the flagship terminal in Valencia (Marvalsa) at competitive terms.

The investors were attracted by a number of characteristics, which were meeting their long-term investment criteria.

One of the investors’ aims was to acquire an asset that would provide sufficient operational flexibility and potential for development; Noatum was to be a platform for international growth (through bolt-on acquisition), primarily focusing on OECD countries.

To ensure the asset was suited to these plans, the consortium sought to combine international expertise and outlook combined with operating management capability focused on the port industry as well as strong sponsorship and a highly competent management team to support and grow the business.

J.P. Morgan Investors recognised growth potential with minimal capex in opportunities for operating enhancements (inventory rationalisation, centralised procurement policy etc).

The target further has a leading market position. Noatum, as the leading port operator in Spain as well as the second largest container terminal operator in Southern Europe, possesses high quality and modern facilities. It further boasts long-term concessions, which provide an ideal match to the investors’ investment philosophy.

Furthermore, the asset is strategically well positioned. Noatum is well located

near the key East-West and North-South trade routes and serves Spain’s major consumer markets and other markets through transshipment with a diversified portfolio. In addition, Valencia is an ideal mix hub, i.e. catering for both gateway and transshipment traffic.

In line with the conservative investment strategy, certain defensive characteristics were demanded of the target and Noatum

qualified through its significant unrealised scope for further operational efficiencies, its

balanced mix of gateway and transshipment traffic (50/50), strong industry fundamentals and crisis resilient trading (having remained resilient in 2009).

Moreover, the consortium demanded a strong management team, a prerequisite that was fulfilled with experienced terminal managements, supported by leading industry executives and strong sponsorship. A close working relationship with all major stakeholders was ensured and a knowledge and best practise transfer from other infrastructure investments initiated.

One of the transaction’s highlights was the long-term/ perpetual take and hold investment (no asset exit strategy) of the investors, reflecting the long-term philosophies of the consortium members, e.g. pension funds.

Mr Py’s evaluation of the Noatum acquisition is positive despite the challenging state of the industry. However, he emphasises that investors have to become savvier to meet the demands of the badly beaten economy.

“In the future,” says Mr Py, “investors in the ports sector will be more cautious than in the past.”

“Although the fundamentals of port business remain strong and attractive to investors and lenders, the equity as well as debt providers will be more demanding, with an increased focus on performance to meet financial metrics.”

“2009 was the worst crisis in the industry since the creation of the container.”

“Investors have to become more savvy”

“Equity as well as debt providers will be more selective and will focus on performance to meet financial metrics”