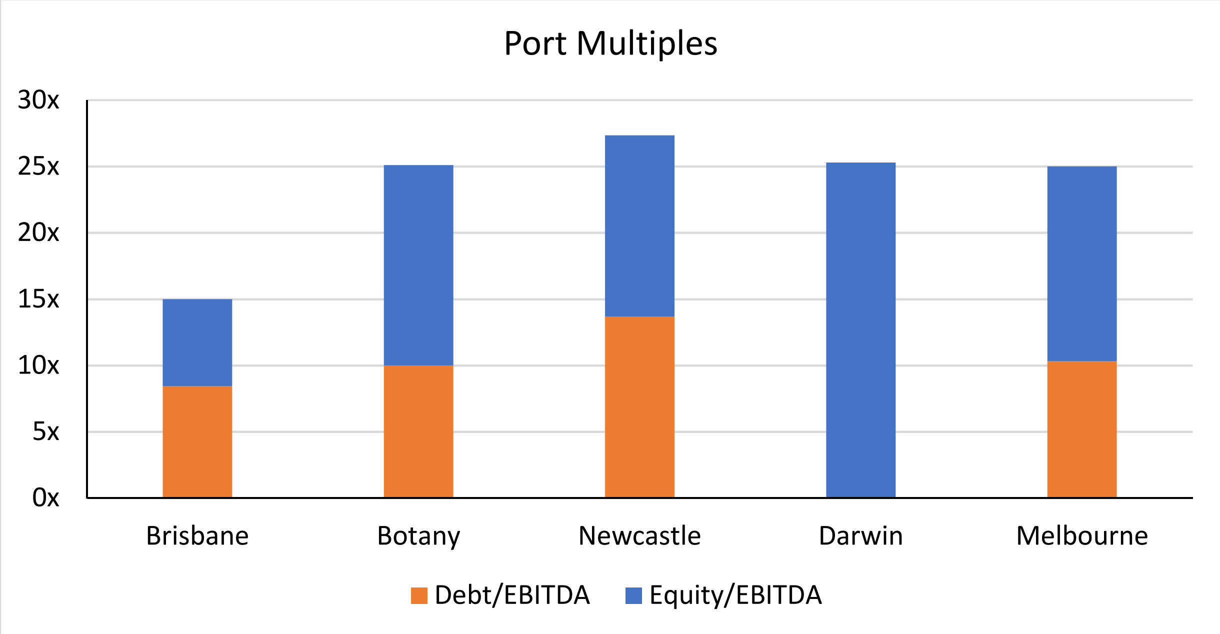
Port valuations

Port of Melbourne

The winning bidder for the 50 year lease of the Port of Melbourne was announced late this quarter. The winning bid was $9.7 billion by the QIC led consortium. It is rumoured that the final bids were very, very close. Curiously, the Government did not call for a second round of best and final offers to extract even more from the bidding process.

The Consortium has lined up a $4 billion loan with 17 lenders split into three, five and seven year tranches. There is expected to be a sell down of positions by banks after financial close.

	Year	EV	EBITDA	Debt	EV/ EBITDA	Debt/ EBITDA	Equity/ EBITDA	Gearing
Brisbane	2010	2,100	140	1,179	15x	8x	7x	56%
Botany	2013	5,070	202	2,020	25x	10x	15x	40%
Newcastle	2014	1,750	64	875	27x	14x	14x	50%
Darwin	2015	506	20	0	25x	0x	25x	0%
Melbourne	2016	9,700	388	4,000	25x	10x	15x	41%



Hanjin Shipping

Sticking with ports, one situation port investors should be watching closely is the bankruptcy of Hanjin Shipping. Hanjin Shipping is one of the world's top 10 shipping companies by capacity and filed for bankruptcy protection in August. This has left its fleet of 200+ container, bulk and LNG ships stranded (as well as their cargoes) stranded at ports around the world due to the inability to pay port and terminal fees.

Hanjin's bankruptcy is a symptom of chronic overcapacity in the shipping industry as the rebound in trade growth post GFC has failed to materialise and shipping lines have been left with substantial overcapacity. This has seen cutthroat competition and weak freight rates across the world.

The reason why we recommend watching Hanjin closely, is the parallels with the airline industry post 9/11. There are two distinct examples from that era:

- In Australia, Ansett collapsed and there was a period of substantially weaker completion in the Australian domestic airline segment (as Qantas absolutely dominated the market). During this period airfares rose -

which restored airline profitability - but at the expense of weaker than trend growth in domestic passenger travel (as real fares were higher). This weaker growth was a headwind for airports.

- In the US, both United and American Airlines filed for bankruptcy and were able to significantly write down their debt as well as reset wage deals with unions. This "creative destruction" drove down costs and actually allowed a cut in real airfares which underpinned faster growth in domestic travel in the US. This boosted passenger growth over the period that followed.

This highlights that a big customer bankruptcy - which always has short term costs - can have positive or negative long-term impacts for port (or airport) providers. Which scenario is emerging here - and how the unsustainably low profitability of the shipping industry is resolved - is an important issue for port investors. My personal view is that Hanjin is more like the US example above (for one, the market share at Australian ports of Hanjin is nothing like Ansett's pre-collapse market share).

One to keep an eye on.