Could mixed ownership be the answer for the port

A new independent study details the financial decline of Ports of Auckland while it remains 100 per cent local government owned, reports **Graham Skellern**

Over the past eight years Ports of Auckland's financial performance has declined rapidly, and a new report indicates it would be better off with mixed ownership.

Wellington-based consultancy TDB Advisory, specialising in corporate finance, economics and treasury risk management, plotted the financial path of 11 New Zealand ports since 2015 – and found Ports of Auckland was one of the worst performers, at least recently.

Ports of Auckland's return on assets improved from 10.1 per cent to 12 per cent between 2015 and 2016 (for years ending June 30), and return on equity went from 12.5 per cent to 14.4 per cent – but then deteriorated.

By 2017 the return on assets was 7.9 per cent and return on equity 9.1 per cent, only to see an improvement in 2018 with 8.3 per cent and 10.7 per cent respectively before the ratios came crashing down.

The return on assets fell from 5.9 per cent in 2019 to a negative 0.1 per cent in 2022 and return on equity went from 6.9 per cent to minus 1 per cent in the same period.

The dividend yield (for the 100 per cent owner Auckland Council) was steady in 2015 and 2016 at 8 per cent before slipping to 7 per cent in 2017 and 2018 and 6 per cent in 2019, and then falling to zero in 2020, 1 per cent in 2021 and similar last year.

Phil Barry, TDB Advisory co-founder and director, said "if you look at Ports of Auckland's returns over the last three years, they are mediocre at best. The dividend yield has been 1 per cent or less. So, what's going?"

Seven of the 11 ports analysed by TDB are 100 per cent council owned – Auckland, Taranaki, Wellington, Nelson, Marlborough, Lyttelton and Otago. The other four – Tauranga, Napier, Timaru, South Port in Bluff – have a mixed ownership structure.

Tauranga has 46 per cent, Napier 45 per cent and South Port 34 per cent of their shares listed on the New Zealand Stock Exchange while their regional councils still maintain majority ownership.

PrimePort Timaru is jointly owned by Port of Tauranga and Timaru District Council. Tauranga also has 50 per cent of Northport near Whangarei alongside publicly-listed Marsden Maritime Holdings, with Northland Regional Council holding 53.6 per cent and Ports of Auckland 19.9 per cent.

The TDB report found that over the last eight years the mixed-ownership port companies achieved greater profitability and yielded higher dividends than the 100 per cent council-owned ports – but the latter on average had stronger solvency (lower gearing) and liquidity.

The average returns on assets and equity from the mixed-ownership ports were higher in every one of the eight years. The mixed ownership ports returned 9 per cent a year on assets compared with 6.4 per cent from the council-owned ports.

Barry says "the near three percentage points difference matters when you have millions of dollars in assets. Millions are being foregone in returns. It's the councils and ratepayers who are missing out on large capital investments when the dividends are not good."

Over the past eight years the mixed-ownership ports have managed steady dividend yields. Port of Tauranga ranged from 11.7 per cent (in 2017) to 4.6 per cent last year.

Napier Port averaged around 4 per cent though the yield jumped to 16.1 per cent when it listed in 2019 and fell to 1.4 per cent in 2020 (the year of Covid-19).

South Port has consistently been in double digits from 18.3 per cent in 2017 to 12.8 per cent last year.

Barry says the evidence is compelling – "not just our study but in hundreds of peer-reviewed published reports (around the world)" – that businesses which have some degree of private ownership perform better.

"Companies that are listed have a share price and it's easier to monitor the performance than 100 per cent government owned. There are the inevitable multiple objectives that come with government-owned such as employment and social and they are less able to focus on commercial performance."

Barry says when the three electricity gentailers – Meridian, Mercury and Genesis – partially listed between 2011-2014 the government began receiving more dividends with 51 per cent control than under 100 per cent ownership.

"Talk about a win, win situation. The electricity boards were shaken up and people brought in with commercial expertise. The strategies changed to improving performance and getting rid of peripheral non-performing lines of business."

Barry says "you have to ask the question of whether it makes sense for major ports to have such a (high) level of local government ownership. Port of Tauranga is a great success story. It is still 54 per cent owned by the regional council and it's return on shareholders' funds has been consistently strong over the last 20 years.

"Napier Port hasn't yet seen a significant improvement in profitability since listing. This result may reflect the temporary impacts of Covid and Cyclone Gabrielle which adversely affected the port's earnings. The company was able to use the funds raised in the initial public offer to pay down debt which decreased its gearing ratio."

In the big debate over whether Ports of Auckland should move or stay at its present downtown location, little has been said about its own financial performance.

Barry says "clearly Auckland Council is dissatisfied with the performance of the port company (with its standalone board). It puzzles me why they don't ask the question about ownership. It's all very fine having an arm's length but is the council requiring performance that a private shareholder would demand. Obviously not."

He says the council is looking at selling some of its Auckland International Airport shares, and the same could apply to Ports of Auckland.

“Under mixed ownership the council can keep control of the port company, get back millions of dollars for investment in roads and core infrastructure, and pay back debt. The council would be no worse off with the dividend.”

Ports of Auckland actually listed on the stock exchange in 1993 with Auckland Regional Holdings, the commercial arm of Auckland Regional Council at the time, owned 80 per cent of the shares.

The port company delisted in July 2005 when Auckland Regional Holdings bought the remaining shares and subsequently Auckland Council became the 100 per cent owner.

It was downhill after the delisting. For the four years prior (2001-02004) Ports of Auckland’s return on assets ranged from 19.3 per cent to 14.9 per cent, and four years after (2006-2009) slumped from 12.3 per cent to 3.7 per cent.

Likewise, the return on equity pre-delisting was healthy ranging from 16.7 per cent to 13.5 per cent and post-delisting fell from 14.6 per cent to 1.5 per cent.

The dividend yield varied: 4.1 per cent, 47.8 per cent (special dividend 2002), 9.6 per cent and 9.2 per cent in the four years before delisting; and 25.9 per cent (special dividend 2006), 6 per cent, 5.7 per cent and 2.1 per cent in the four years after.

Barry said Ports of Auckland’s profitability deteriorated after delisting. The company’s returns were inflated in 2005 due to revaluations of its land, wharves and investment properties.

For that reason the TDB study removed 2005 (return on assets 47.8 per cent and return on equity 57.8 per cent) from the earnings calculations as the revaluations did not reflect the port’s underlying profitability.

Therefore, the average pre-delisting return on assets and equity were 16.7 per cent and 15 per cent respectively and decreasing to 6.2 per cent and 8.8 per cent post-delisting.

Ports of Auckland’s gearing ratio increased from 23 per cent to 42 per cent after delisting. And on average the dividend yield fell from 14 per cent to 10 per cent.

Barry says the deterioration in financial performance since delisting is material. “It’s big enough that it matters a lot. The ratepayers are missing out. Mixed ownership did better in terms of profitability and dividends.

“The results (of the study) are totally consistent with the mixed ownership model in the electricity sector and with international experience,” he says. “On average and over time, companies with private ownership achieve higher returns for their shareholders than wholly government-owned ones.”