

NZ Ports' Financial Performance

A Comparison of Mixed and Government Ownership

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Disclaimer

This presentation is based on a report produced by TDB Advisory, “New Zealand Ports: A Comparison of Mixed and Local Government Ownership”, that was released in April 2023.

The report was produced on pro bono basis and was based solely on publicly available information.

The report can be found at:

<https://www.tdb.co.nz/wp-content/uploads/2023/04/TDB-Ports-A-Comparison-of-Mixed-and-Government-Ownership.pdf>

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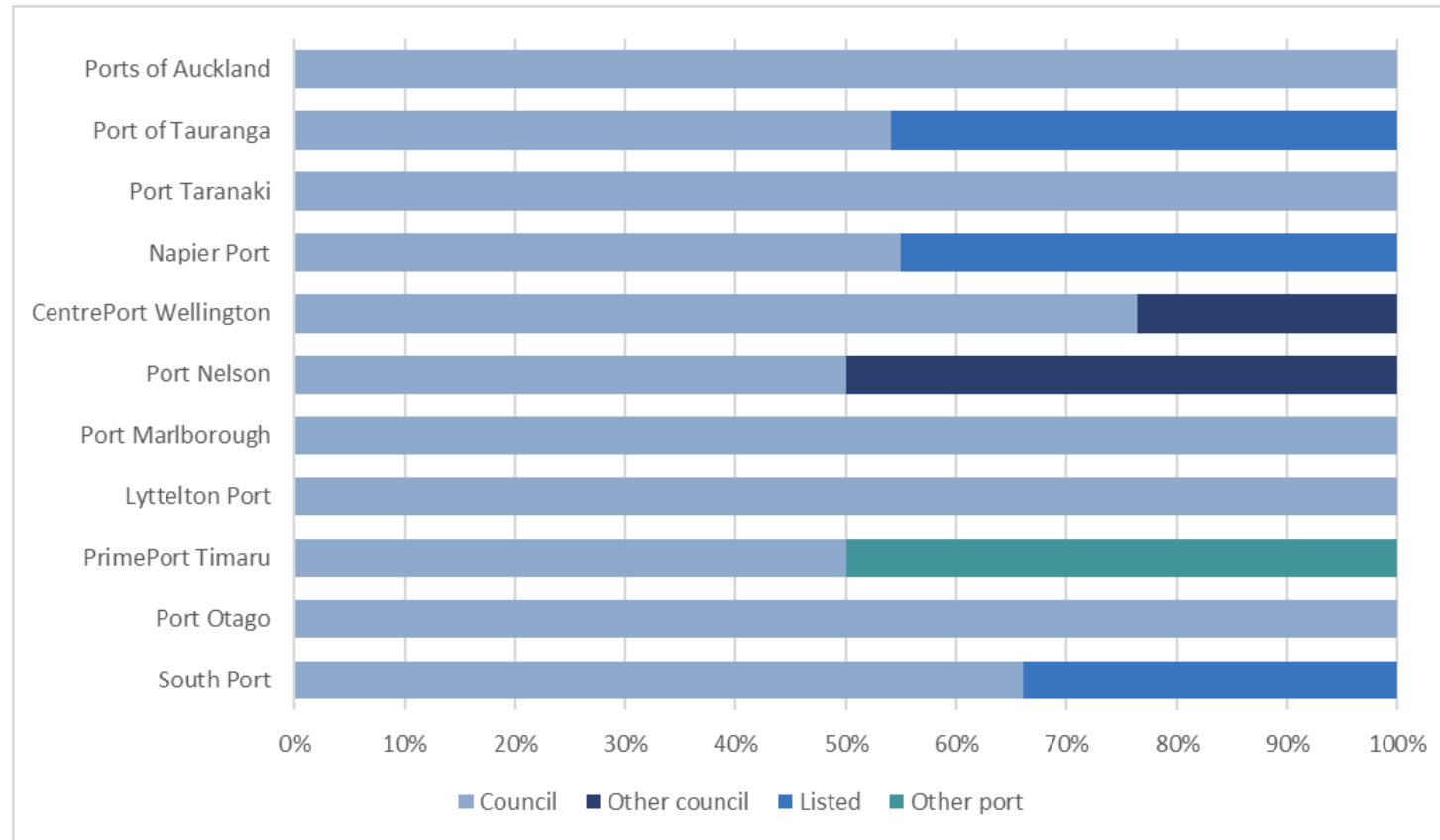
Introduction

- Genesis of study – infrastructure debate in Auckland
- The central question: relative performance of mixed and government owned trading enterprises
- Ports in NZ – a rich laboratory
 - Cross-sectional analysis
 - Time- series analysis
- Broaden out analysis – IMF and Treasury data
- What's out of scope

Ports Analysis

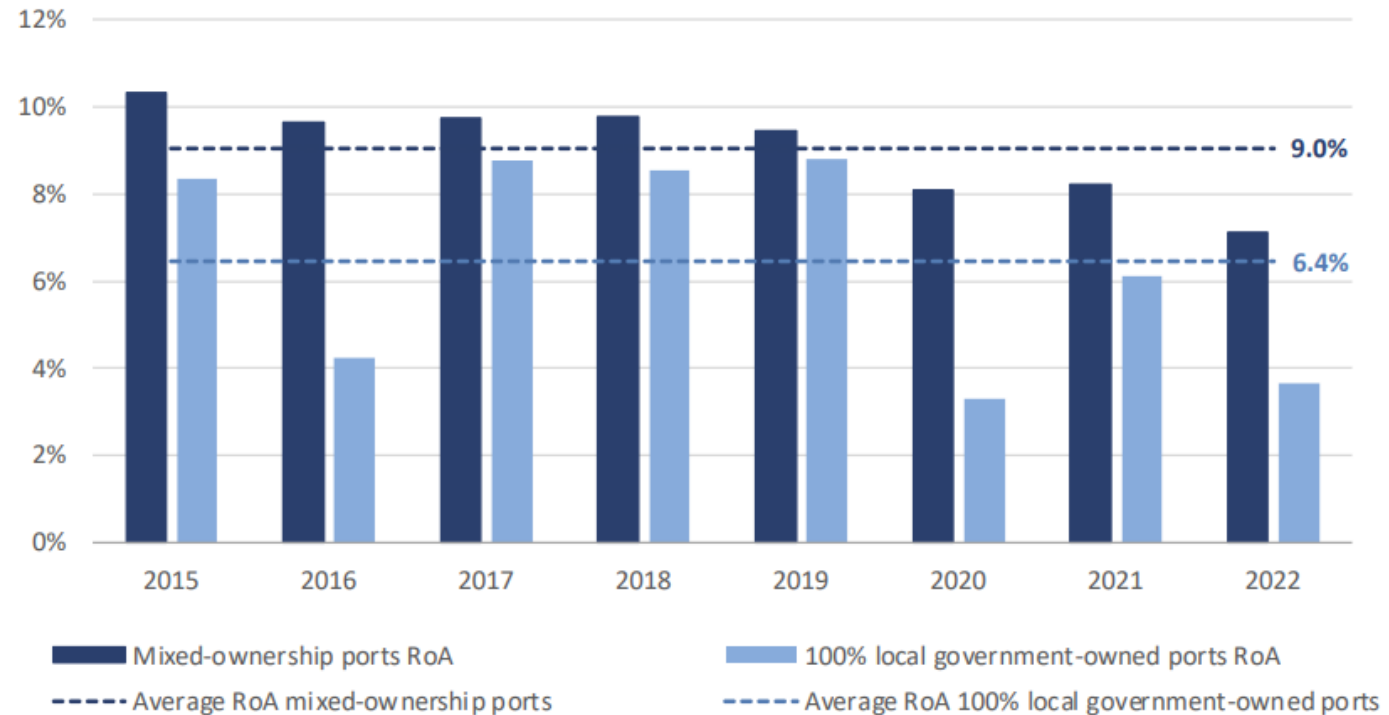
- Our analysis compared the financial performances of 100% council owned ports and the mixed ownership ports in New Zealand
- Examined eleven of the major ports in New Zealand
 - Seven solely local government owned
 - Four mixed ownership
- Listing and de-listing case studies to compare relative performance of ownership models

New Zealand Port Ownership Structures



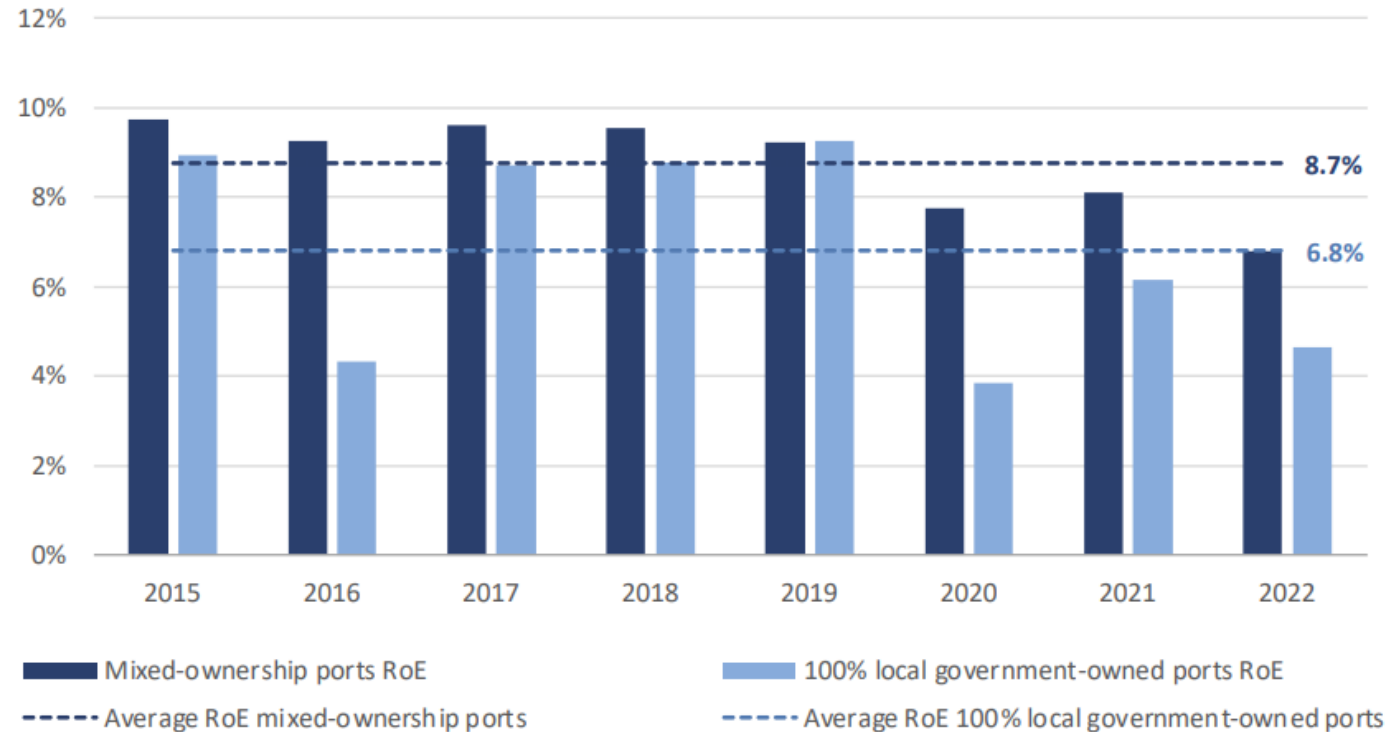
Cross-company Analysis 1: Profitability

Return on assets, 2015-22, %



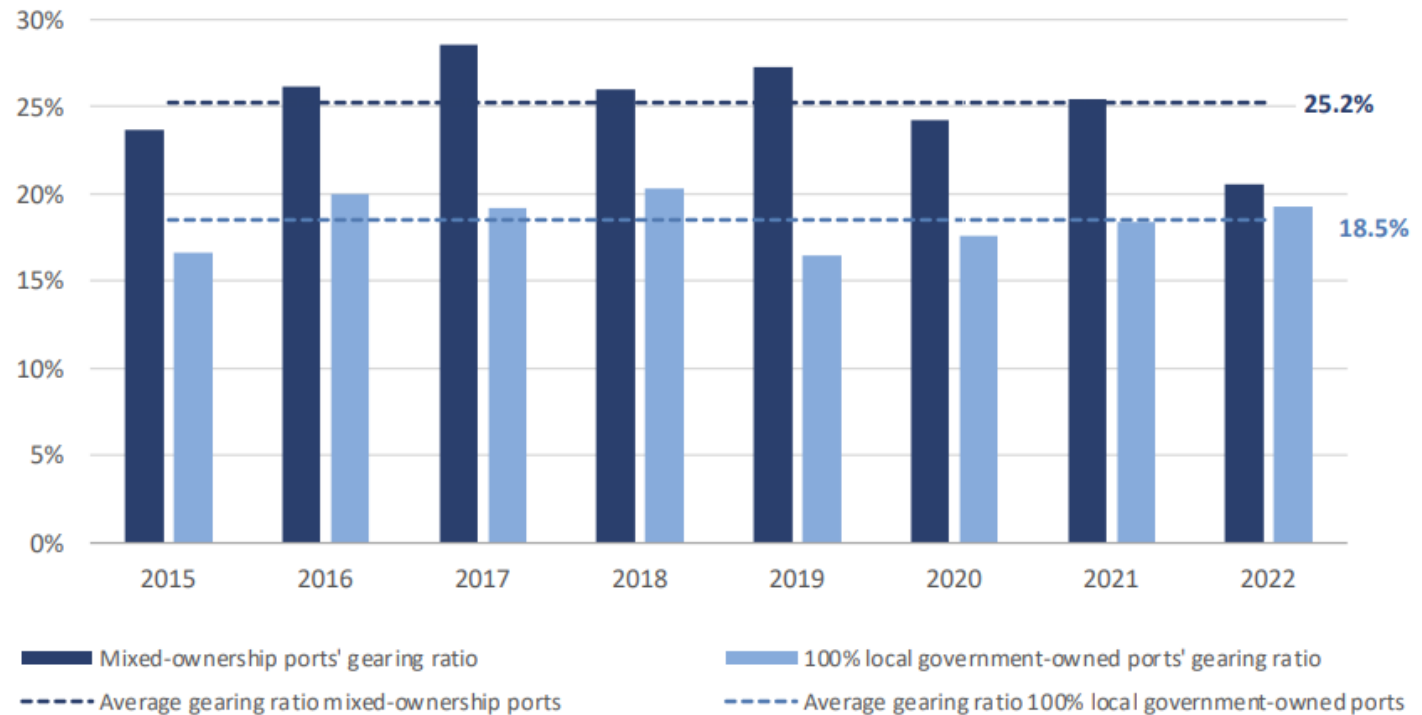
Cross-company Analysis 2: Profitability (cont.)

Return on equity, 2015-22, %



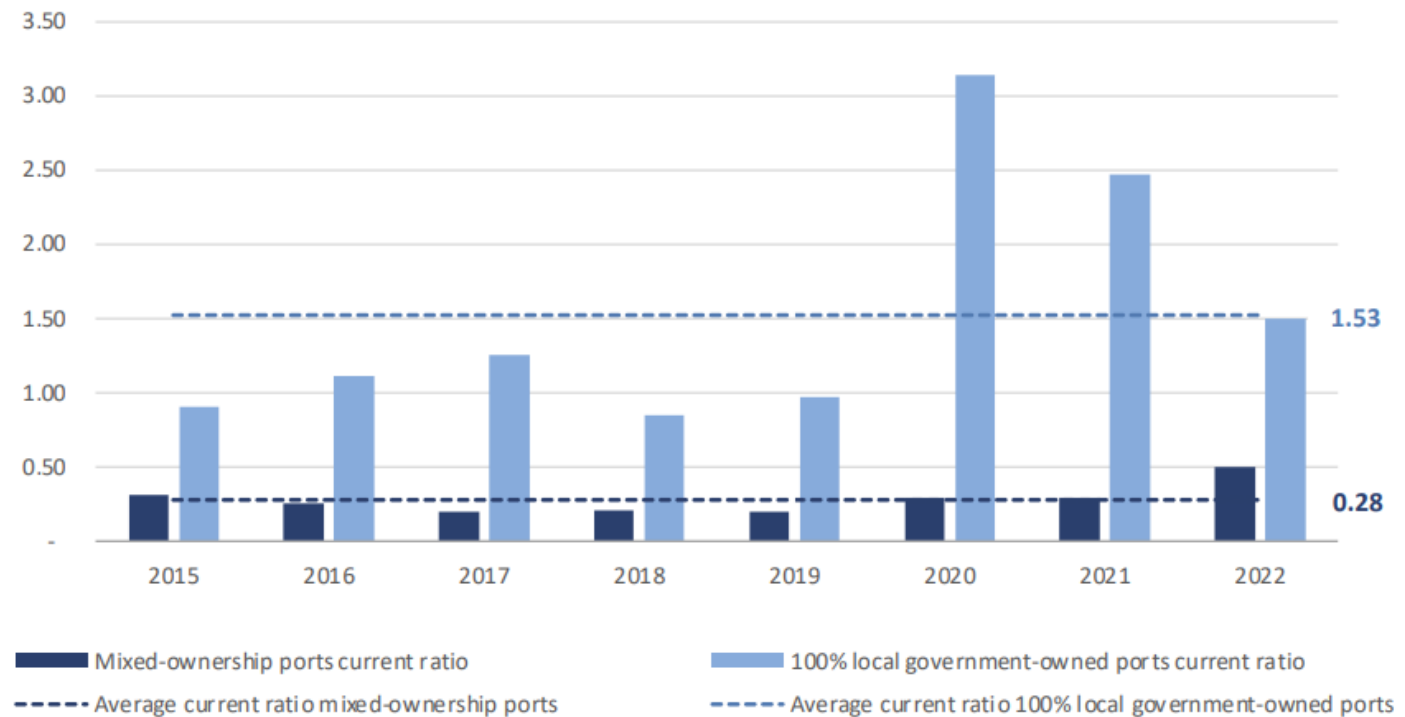
Cross-company Analysis 3: Capital Structure

Gearing ratio, 2015-22, %



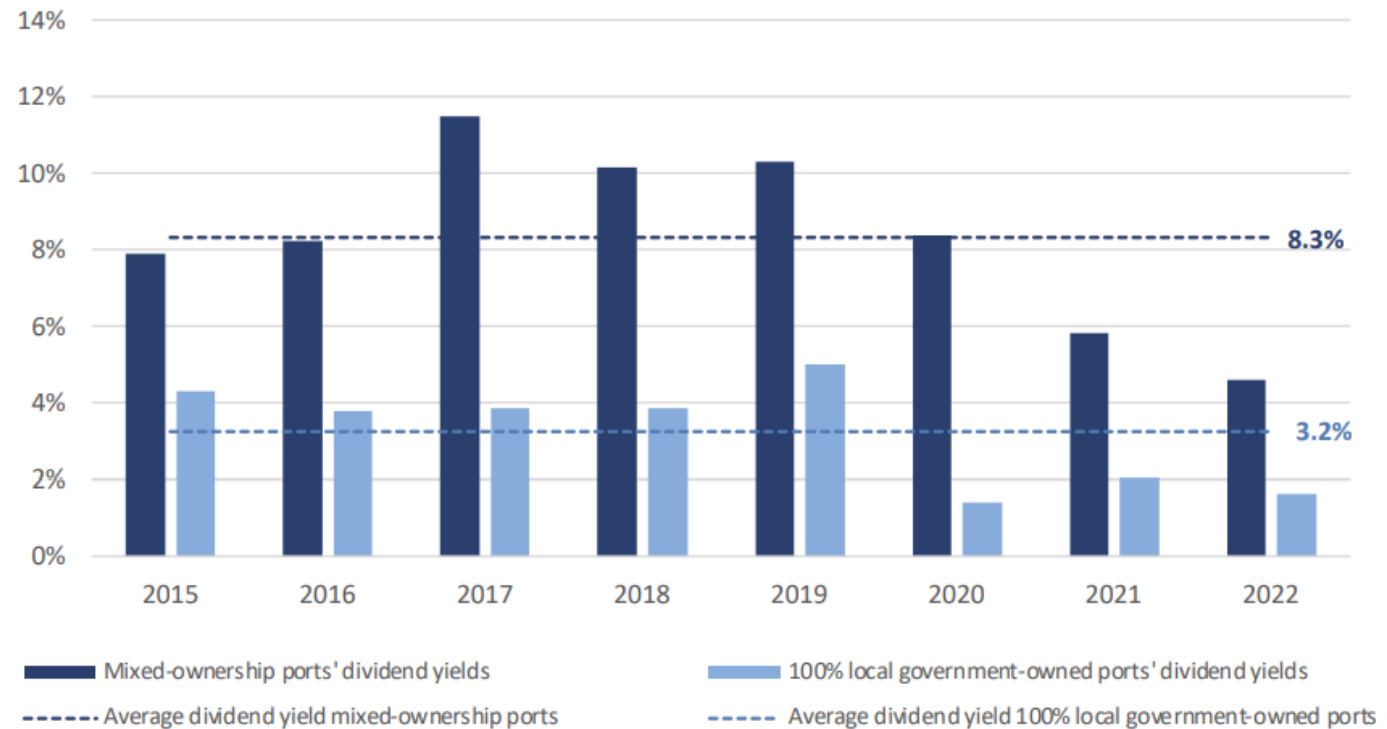
Cross-company Analysis 4: Liquidity

Current ratio, 2015-22



Cross-company Analysis 5: Dividends

Dividend yield, 2015-22, %



Cross-company Analysis Conclusions

- Mixed-ownership ports were more profitable and yielded higher dividends than 100% local government-owned ports
- 100% local government-owned ports carried less debt (relative to equity) and had greater liquidity
- Caveats: sample size, time period and one-off events

Case studies: Partial Changes of Ownership

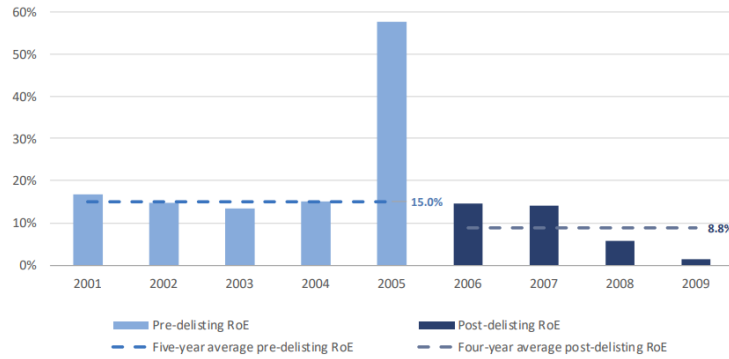
- We examined the performance of three New Zealand ports that delisted/listed over the last 20 years
- Ports of Auckland delisting in 2005
- Lyttelton Port delisting in 2014
- Napier Port listing in 2019

Ports of Auckland Delisting

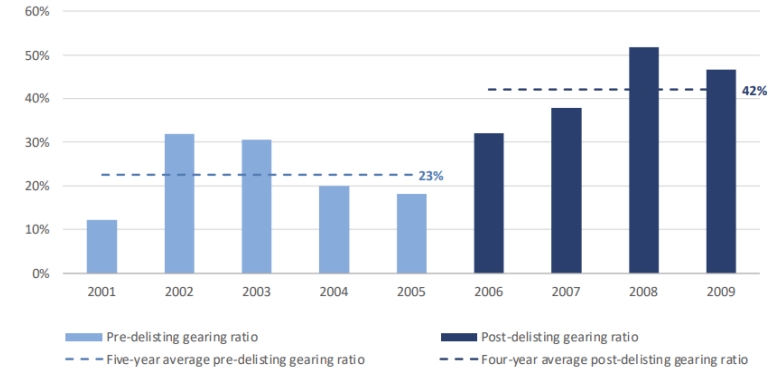
- Ports of Auckland listed on the NZX in 1993 with the commercial arm of Auckland Regional Council owning 80% of the shares
- Ports of Auckland delisted in 2005 and the council has wholly owned the company since

Ports of Auckland Delisting, 2001-2009

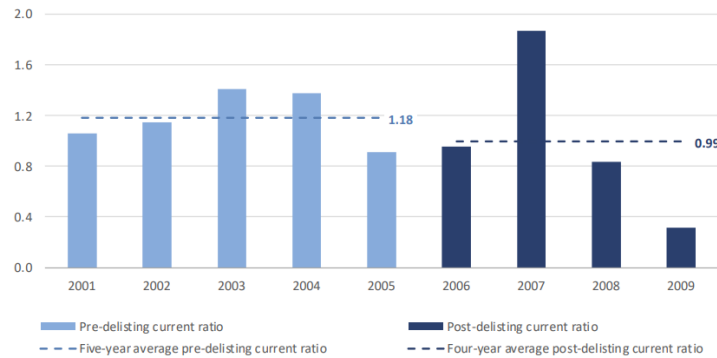
Return on equity (before and after delisting), %



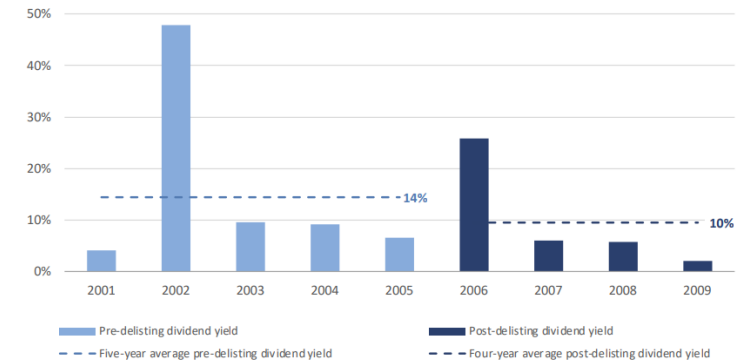
Gearing ratio (before and after delisting), %



Current ratio (before and after delisting)



Dividend yield (before and after delisting), %

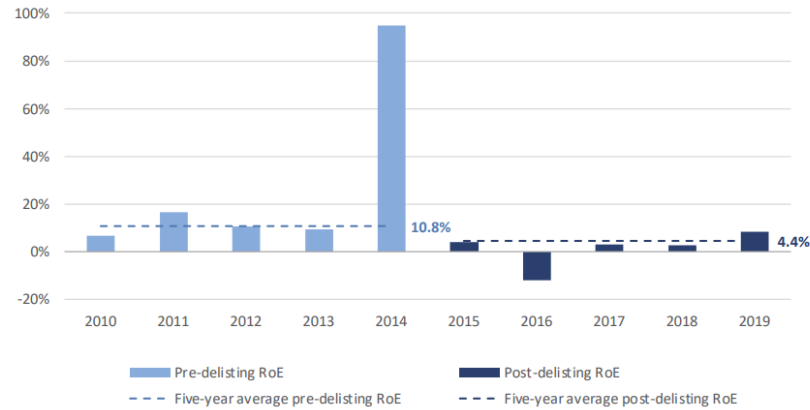


Lyttelton Port Delisting

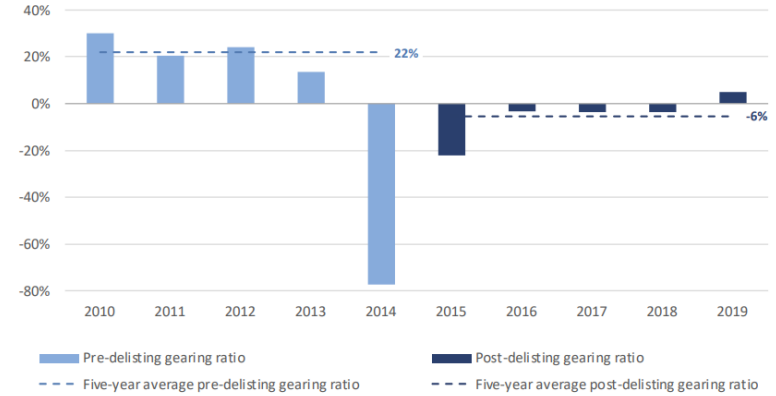
- Lyttelton Port listed on the NZX in 1996 with 19% of its shares public
- Various territorial authorities sold their shares in the company in 1997 which raised the level of public ownership to 30%
- The port delisted from the NZX in November 2014 and became 100% council owned

Lyttelton Port Delisting, 2010-2019

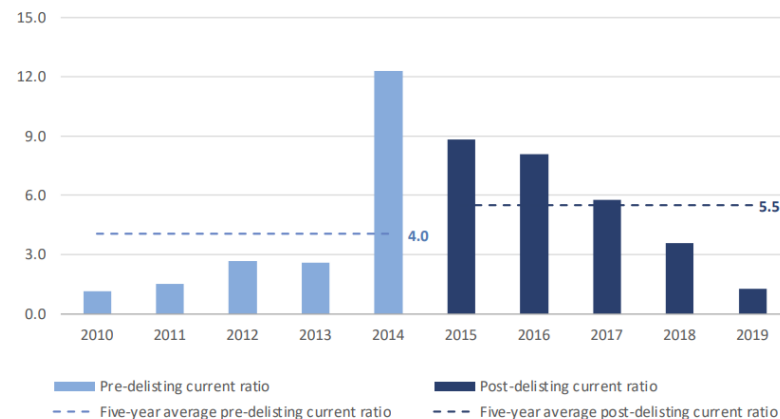
Return on equity (before and after delisting), %



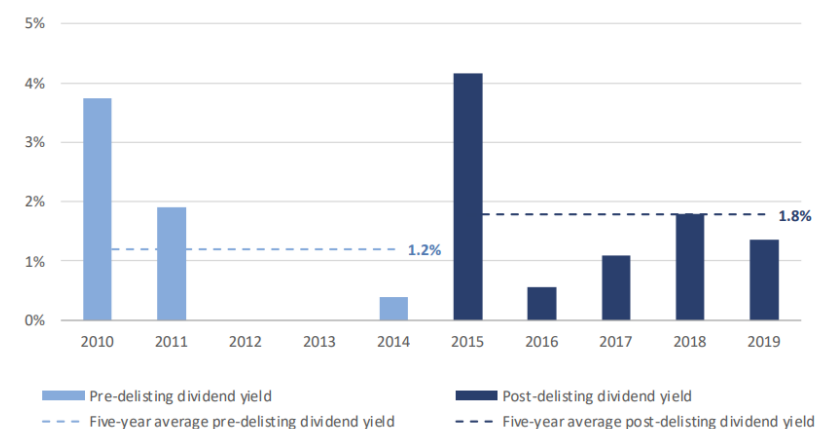
Gearing ratio (before and after delisting), %



Current ratio (before and after delisting)



Dividend yield (before and after delisting), %

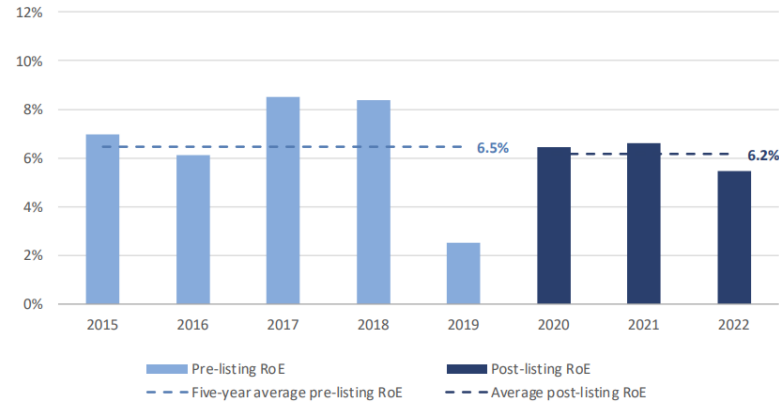


Napier Port Listing

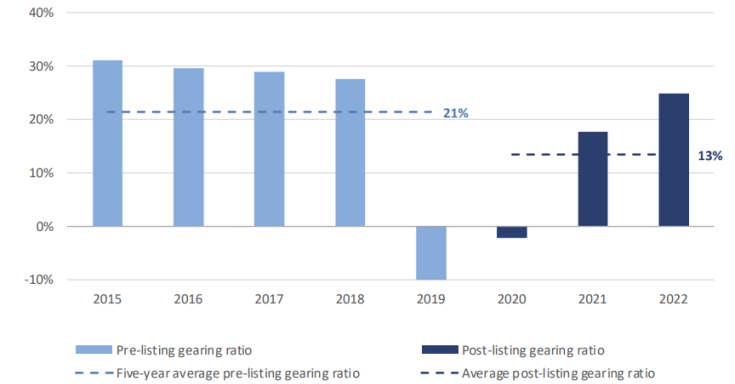
- Napier Port listed on the NZX in 2019, listing 45% of shares
- Prior to listing, Napier Port was wholly owned by Hawkes Bay Regional Council

Napier Port Listing, 2015-2022

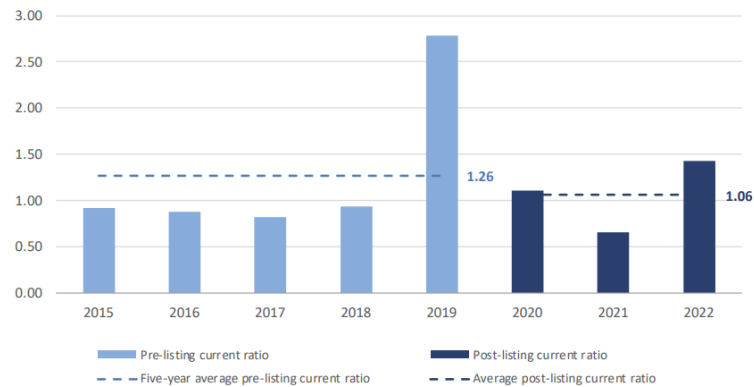
Return on equity (before and after listing), %



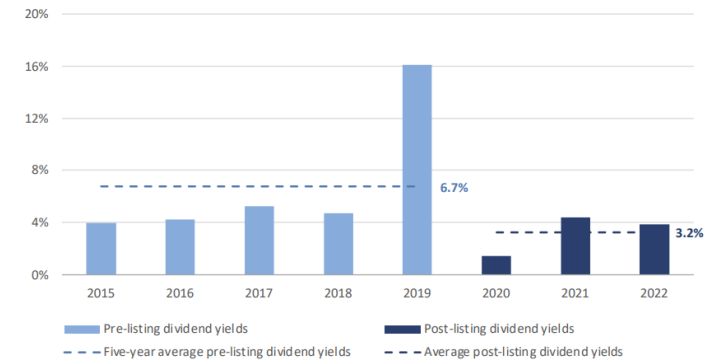
Gearing ratio (before and after listing), %



Current ratio (before and after listing)



Dividend yield (before and after listing), %



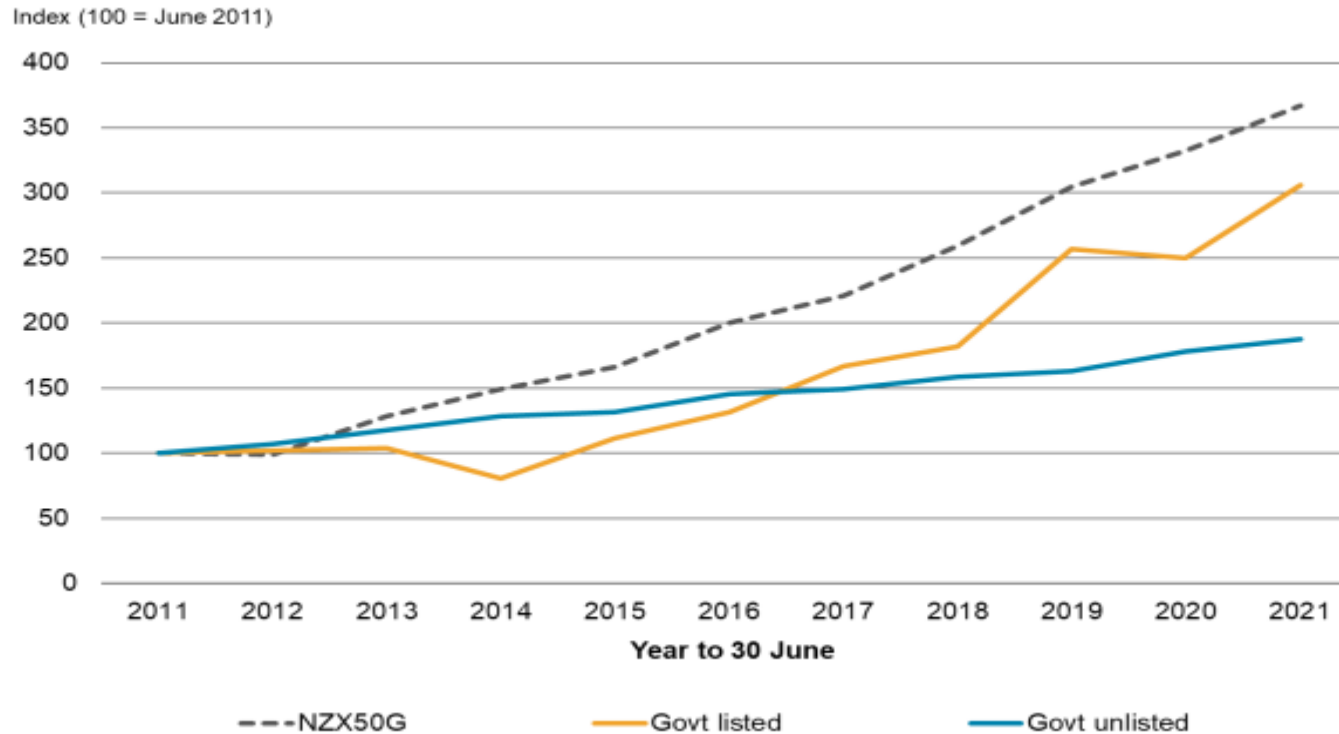
Port Ownership Changes: Summary

- Ports of Auckland had a clear deterioration in profitability, solvency and liquidity post-delisting
- Lyttelton Port's profitability decreased but its current ratio increased and its gearing ratio decreased
- Napier Port an example of profitability not always increasing immediately post-listing
- Findings generally consistent with the wider literature

The Wider Picture 1: NZ MOMs and SOEs

The relative performance of NZ's MoMs and SOEs shows a similar story:

Total shareholder returns: NZ government-owned business vs NZX50G



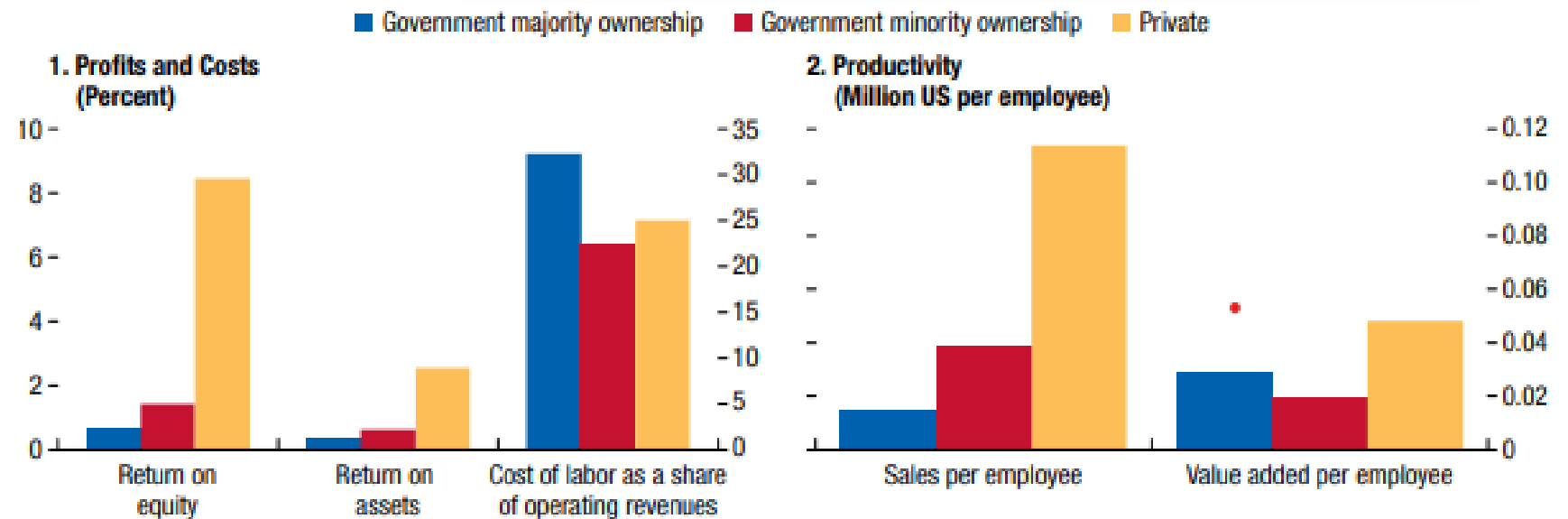
Average TSR, 2011-21

NZX 50	14% p.a.
MOMs	12% p.a.
SOEs	6% p.a.

Source: NZ Treasury, 2022 Investment Statement

The Wider Picture 2: IMF's Analysis

IMF compared the financial performance of SOEs' with that of private firms using data for about 1 million individual firms across 109 countries



Source: IMF Fiscal Monitor, April 2020

Why is the Financial Performance of Private Companies Typically Better?

- Private owners put greater emphasis on profits and efficiency
- SOEs tend to have mixed objectives
- Public sector tends to be risk averse
- Monitoring of listed companies is easier – share price
- Private investors and analysts have a greater incentive to monitor listed enterprises

Conclusions

- The different analyses provide similar results:
 - TDB's ports study
 - NZ Treasury's SOE/MoM analysis
 - IMF's cross-country analysis
- On average and over time, privately-owned firms tend to have better financial performance than government-owned businesses
- Why do governments still own commercial businesses?
- Where to for NZ?



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