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Report 02.156

13 March 2002

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Report to the Policy and Finance Committee
from Greg Schollum, Chief Financial Officer

CentrePort: Half Year Report

1. Purpose

To receive the CentrePort half year report for the period 1 July 2001 – 31 December 2001 (refer **Attachment 1**).

2. Background

As Councillors are aware the direct governance responsibilities over Council's CentrePort investment rest with the directors of Port Investments Ltd (PIL).

PIL Directors considered the attached report from CentrePort on 12 March 2002 and the CentrePort results have been incorporated into the WRC group results (refer to report 02.157).

Each six months CentrePort Directors provide a briefing for PIL Directors (where Councillors are invited to attend). This briefing will be part of the CentrePort tour arranged for 20 March 2002.

3. Comment

3.1 Results for the six months to 31 December 2001

The Directors of CentrePort have reported that the company has performed creditably in a difficult environment.

The Net Profit after Tax attributable to shareholders of \$3.3 million is slightly behind the same period last year (\$3.4 million.)

Given that the second half of the year is normally stronger than the first half I expect the company to achieve, if not exceed, their SCI targets set for 2001/02.

The attached financial statements include a provision for dividend approximating 60% of YTD Net Profit after Tax. (the SCI provided for a dividend of 60% of net profit after tax).

3.2 **Forecast results to 30 June 2002**

CentrePort is forecasting a Net Profit after Tax slightly ahead of the SCI target of \$6.5 million.

3.3 **Financial position of CentrePort**

The Port Company's balance sheet remains strong with a debt:equity ratio of 33:67. The SCI allows debt to rise to a maximum of 50:50 which represents significantly further borrowing capacity.

While we would not wish to encourage CentrePort to gear up with too much debt (as this might affect Council's credit rating) clearly the Company has capacity to prudently take on more debt. This is important as there still looks to be capital expenditure requirements over the next 2-3 years (mainly associated with the pending arrival of larger container ships and with implementation of the company's property development plan).

3.4 **Future dividends – Next year's SCI**

CentrePort has indicated on more than one occasion recently that the company is getting uncomfortable with the 60% dividend percentage (given the rising level of debt). It is important that Councillors appreciate that the rising debt over the past 2-3 years is as a result of both the significant level of capital expenditure undertaken and the 60% dividend payout.

My advice to the PIL Directors has been that they should only consider decreasing the dividend percentage if, on balance, PIL can expect to receive at least the same absolute dollar amount of dividends. In other words, if the capital expenditure is required it should enhance the net profit expectations of the company which in turn should increase the SCI targets. (Therefore the increased profit x the reduced dividend percentage would result in the same dollar dividend). Also, PIL Directors have indicated that they would want assurance that the debt option/other funding options has been used first. (i.e. PIL would want CentrePort Directors to prove that a change in dividend percentage was required.)

This issue is likely to be mentioned again as part of the upcoming CentrePort briefing on 20 March 2002.

4. **Communications**

The CentrePort results are already in the public arena.

5. Recommendation

That the Committee recommends that the Council receives the report and notes its contents.

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: CentrePort – Half Year Report