

# ASEAN Port investment outlook till 2020

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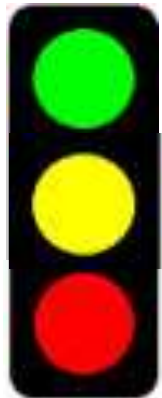
# About Us

Since its founding in 1970, Drewry has grown into one of the world's most respected international maritime research & advisory providers.



## Evaluation criteria: South East Asian container port

### Outlook till 2020



GOOD

FAIR

POOR



#### Container volume

- Strong growth or captive volume
- Competitive landscape
- Gateway or transshipment



#### Strong margins

- Tariff levels
- Sufficient operating margins



#### Investment access

- Does the country welcome foreign ownership?
- Are there investment opportunities?



#### Transaction price

- Price dependent on willing buyer, willing seller
- Future trends



# Drivers: Container volume growth

Growth drivers for container volumes growth remain largely unchanged.



## Organic

- Economic growth
- Income levels => Import
- Manufacturing => Export



## Substitution

- Containerization of general cargo
- Key driver historically for gateway laden containers



## Accidental

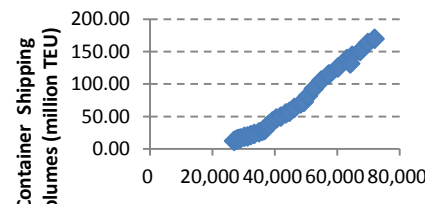
- Trade imbalances resulting in more/less import/exports



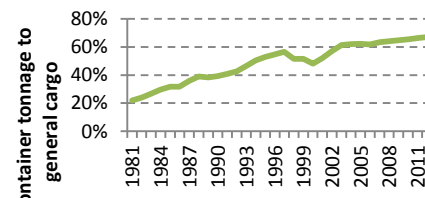
## Induced

- Vessel upsizing => Fewer port calls, selected hub ports

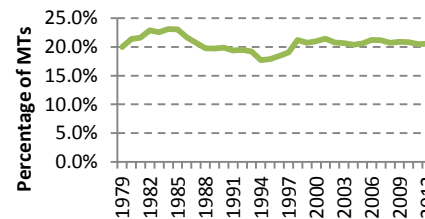
Container shipping volumes against world GDP



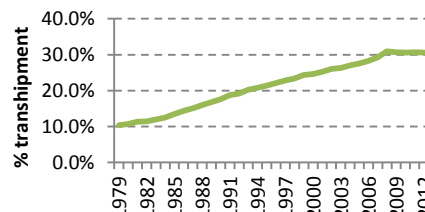
Container to total general cargo tonnage ratio



Percentage of MTs



Percentage Transhipment



Laden gateway

Laden gateway

Empty containers

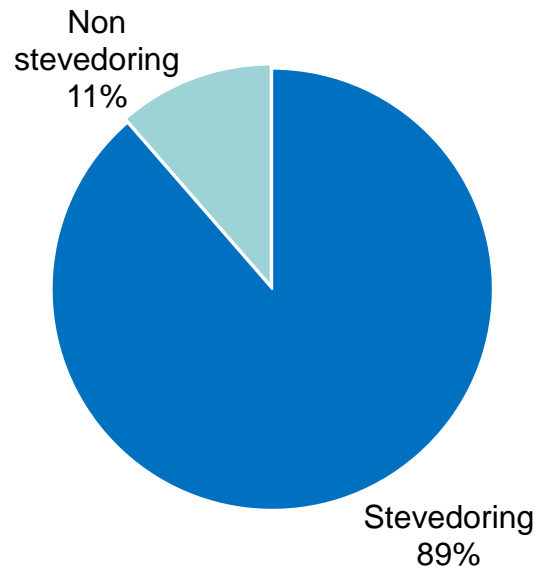
Transhipment

## Revenue sources: Container port

Stevedoring accounts for the bulk of terminal operator's revenue.

Gateway terminals generate higher unit revenues than empty and transhipment terminals.

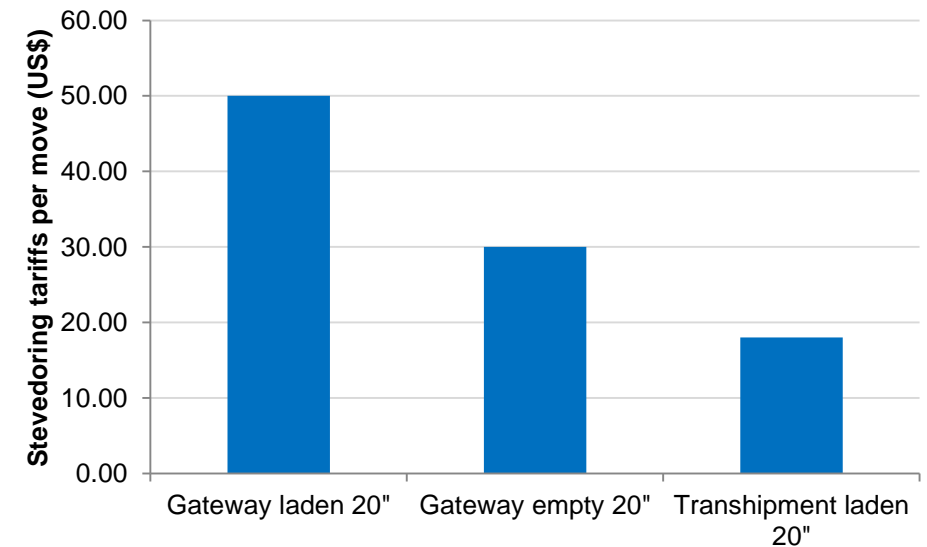
Typical SEA port operator revenue sources



### Revenue

89% of the typical SEA terminal operator's revenue is from stevedoring. Remainder from storage and other auxiliary services.

Typical SEA port tariff structure (per move US\$)



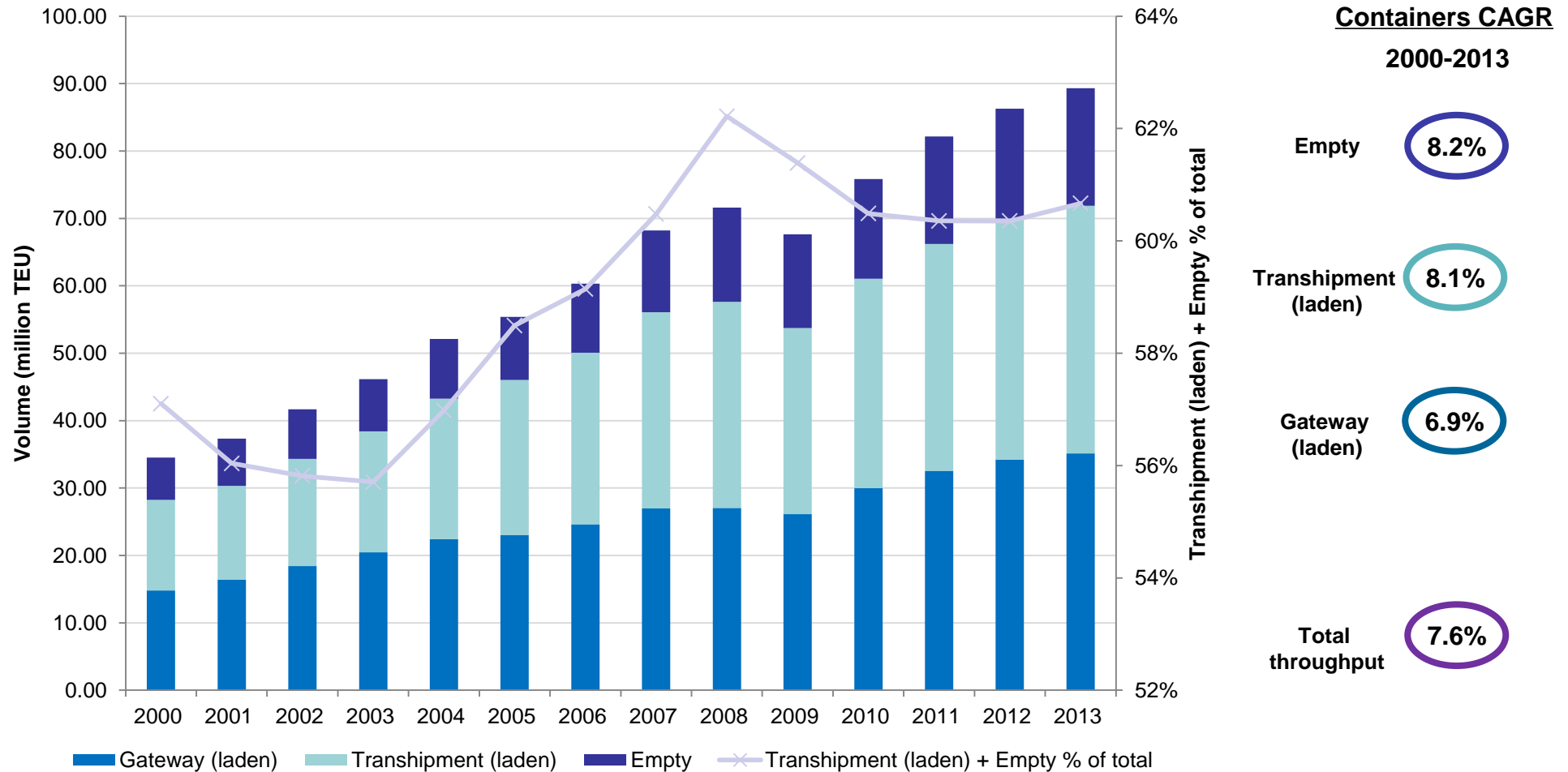
### Tariff

While incurring similar costs to perform, gateway laden tariffs are generally higher than empty and transhipment tariffs.

# Historical: South East Asia port container volume

SEA port volumes grew from 34.5 million TEU in 2000 to 89.3 million TEU in 2013, a 7.6% CAGR. 40 million TEU are transshipment laden. Transshipment and empty containers accounted for 61% of total throughput in 2013.

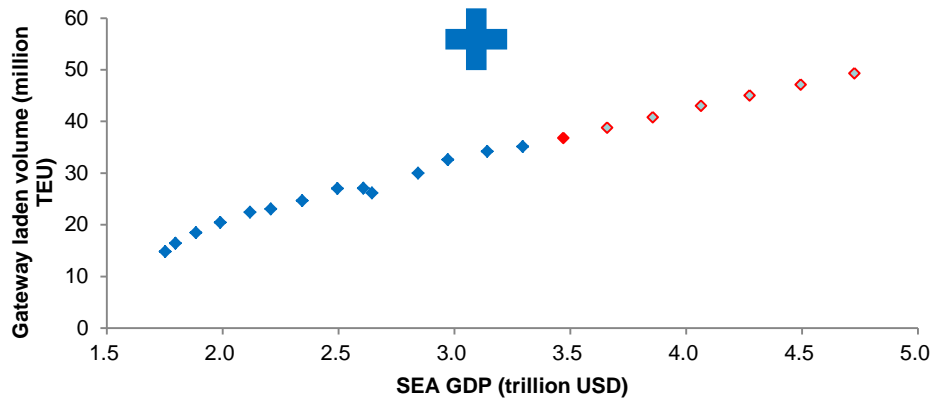
SEA container terminal throughput, 2000-2013 (million TEU)



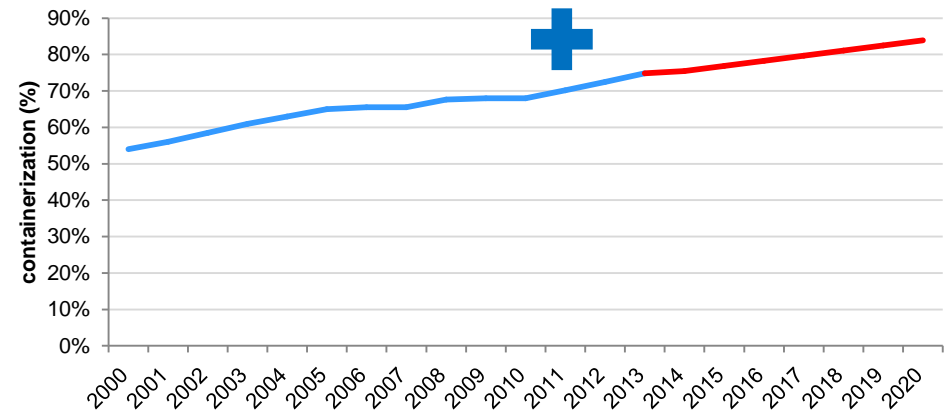
# Drivers: Container volume growth momentum and trends (2020)

Economy and containerization will be key growth drivers for the region.

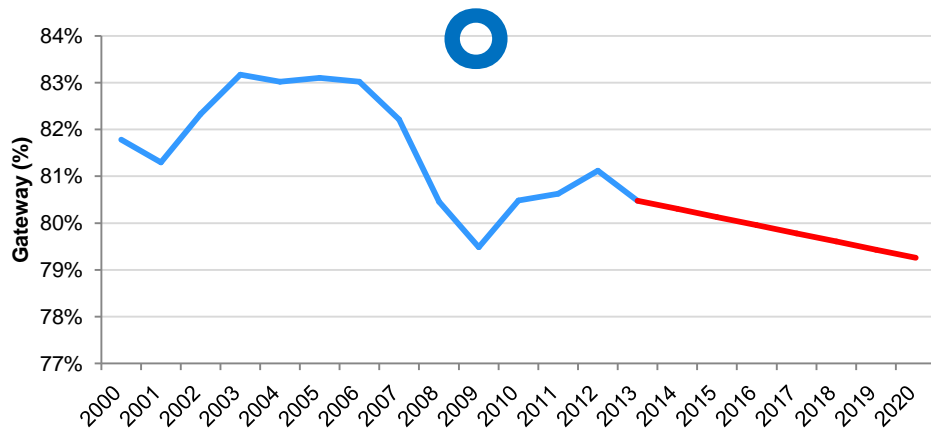
**Organic growth: Gateway (laden) growth continues to be driven by economic growth**



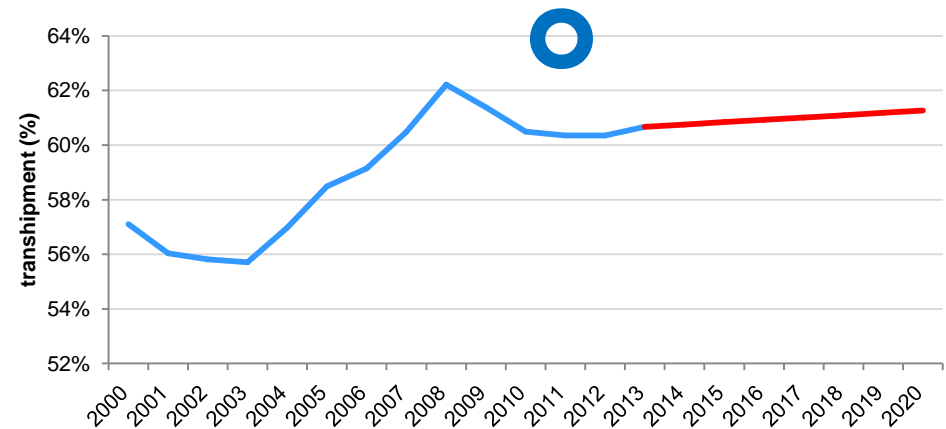
**Substitution growth: Containerization continues to drive gateway (laden) volume growth**



**Accidental growth: Empty volume growth to remain stable**



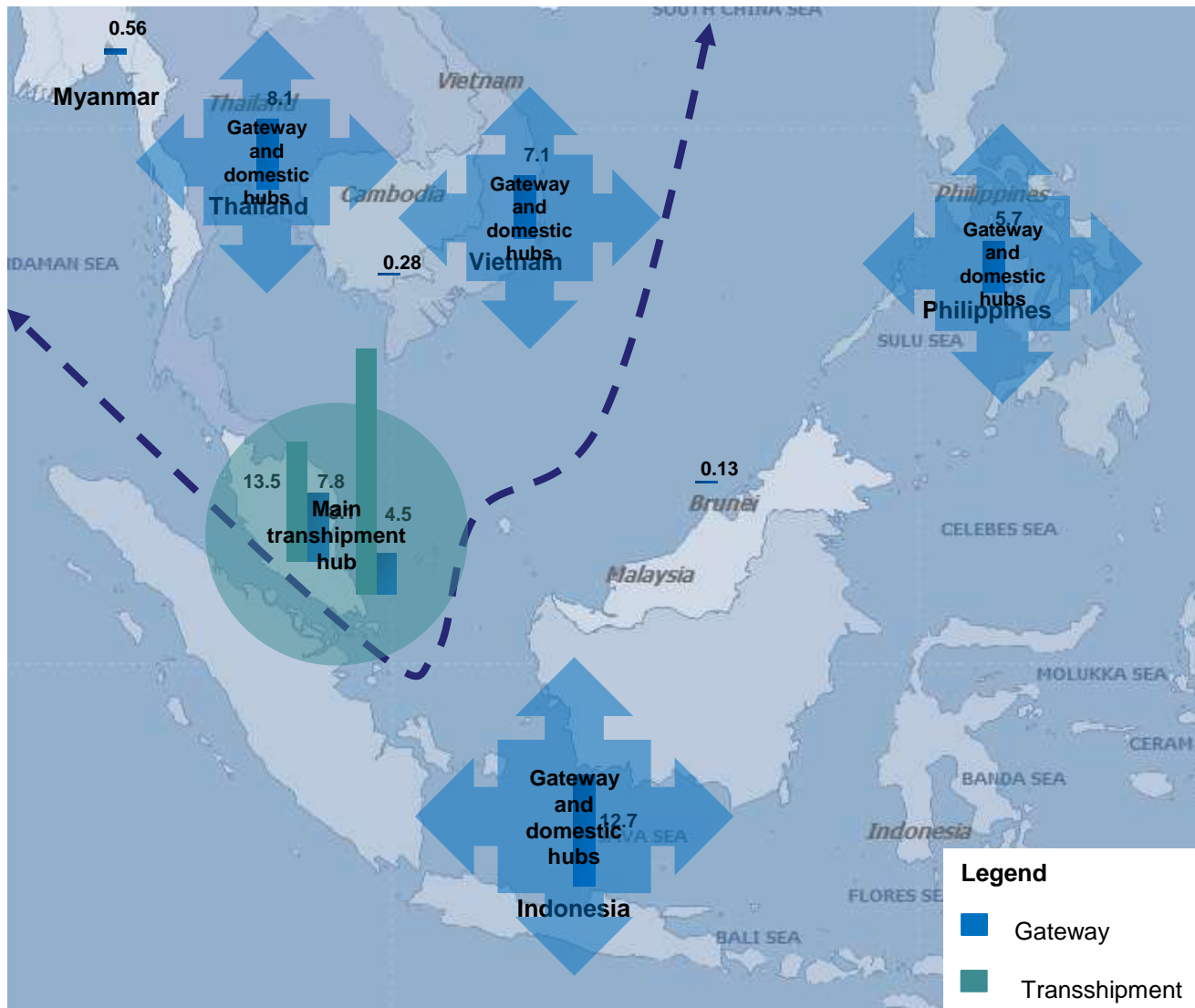
**Induced growth: Transshipment to remain stable as region already has high transshipment incidence**





## Outlook: South East Asia port container volume

International transshipment hubs located in Straits of Malacca along the Far East-Europe route. Indonesia, Thailand, Malaysia, Vietnam and Philippines combine for a huge 41.4 million TEU market.



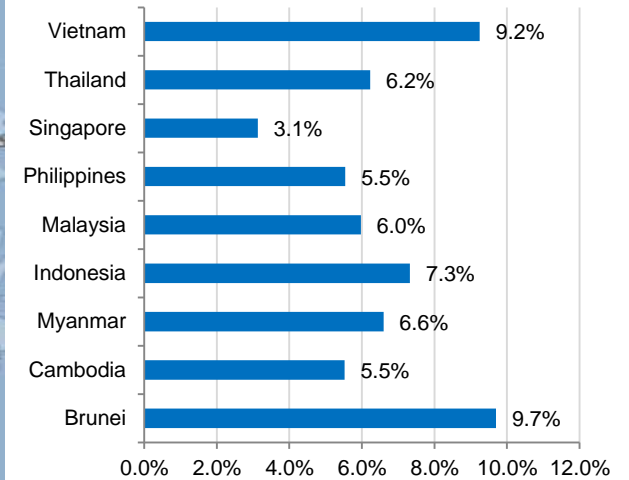
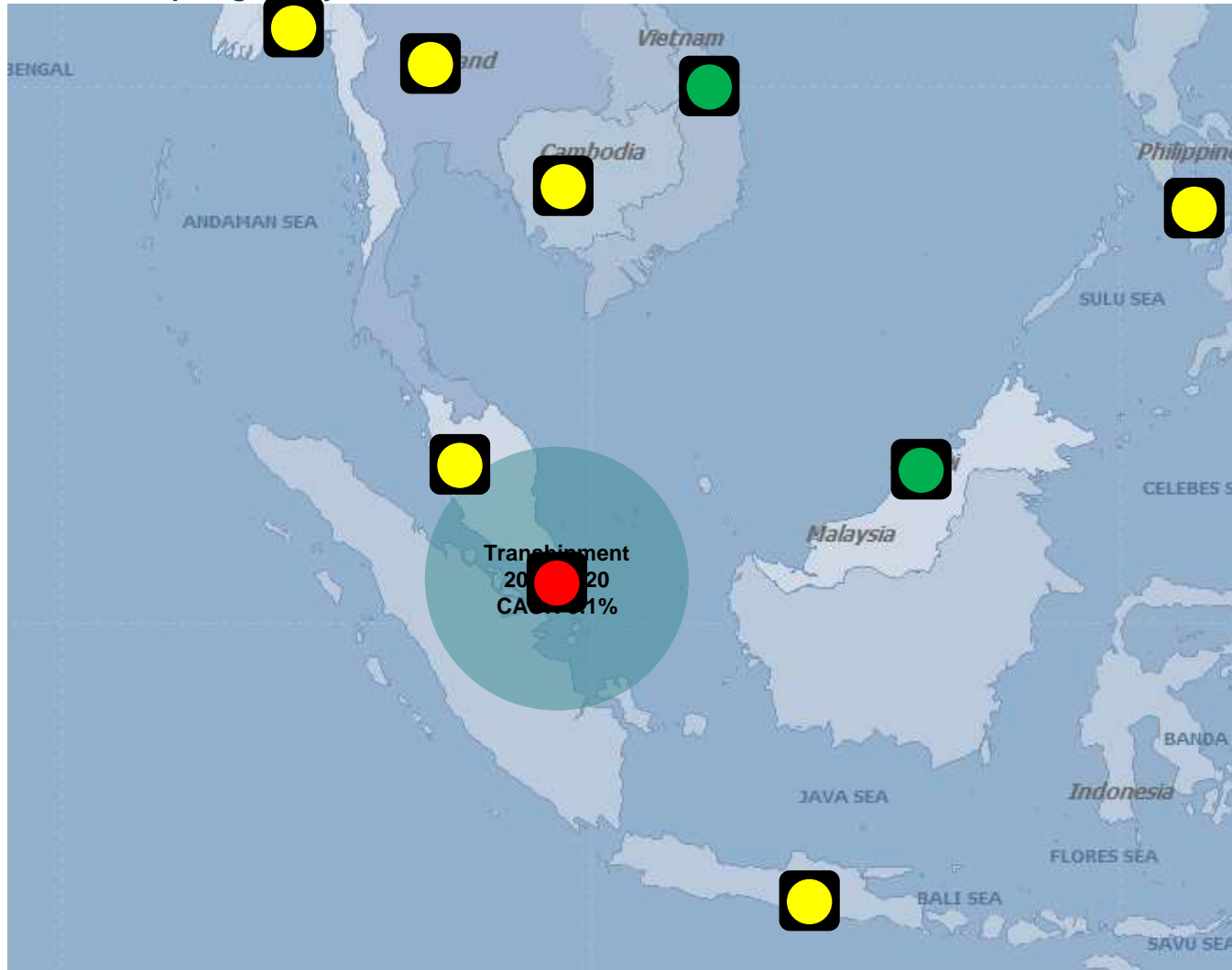
### Regional volume

- International transshipment hubs located along the Far East – Europe/Med trades. Transshipment hubs likely remain the same as ships upsize to 18,000 across the shipping lines.
- Main gateway ports of Indonesia, Malaysia, Vietnam, Philippines and Thailand with Indonesia being the largest.

# Outlook: South East Asia port container volume

Volume projections 2013-2020: Gateway: 6.6%, transshipment 5.1%.

Container port gateway volume outlook CAGR, 2013-2020\*



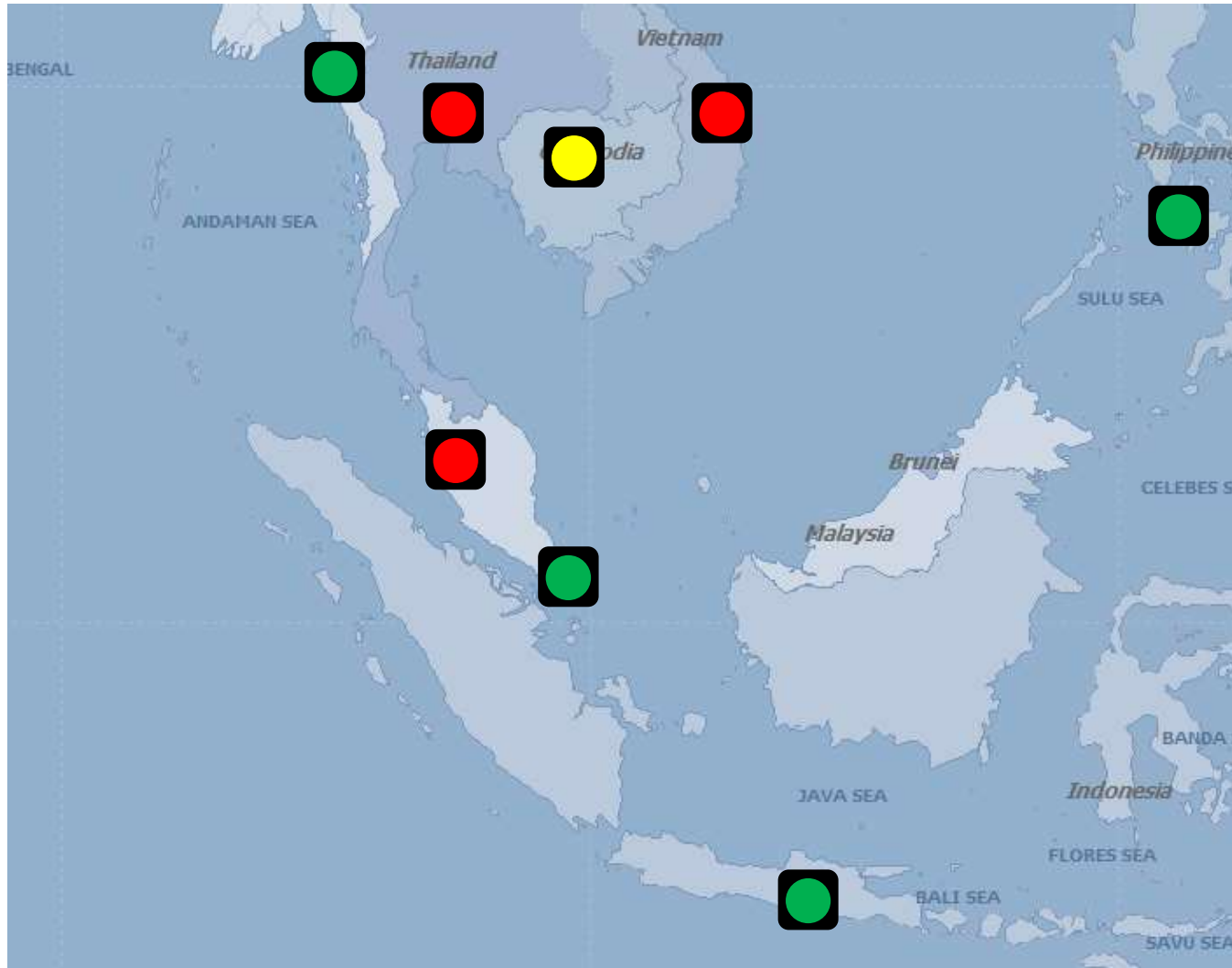
## Volume drivers

- **Manufacturing bases:** Thailand, Indonesia, Vietnam
- **Agricultural:** Malaysia, Philippines
- **Import dependent:** Singapore, Myanmar, Cambodia

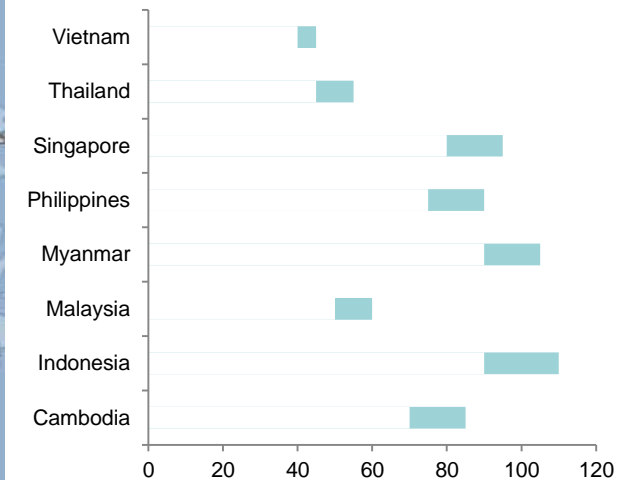
\* Drewry projections based on economic outlook

## Outlook: South East Asia port tariff

Gateway port tariffs in South East Asia range widely. Key factors include the tariff policy as well as the level of competition.



SEA container stevedore tariff gateway 20" (USD) \*



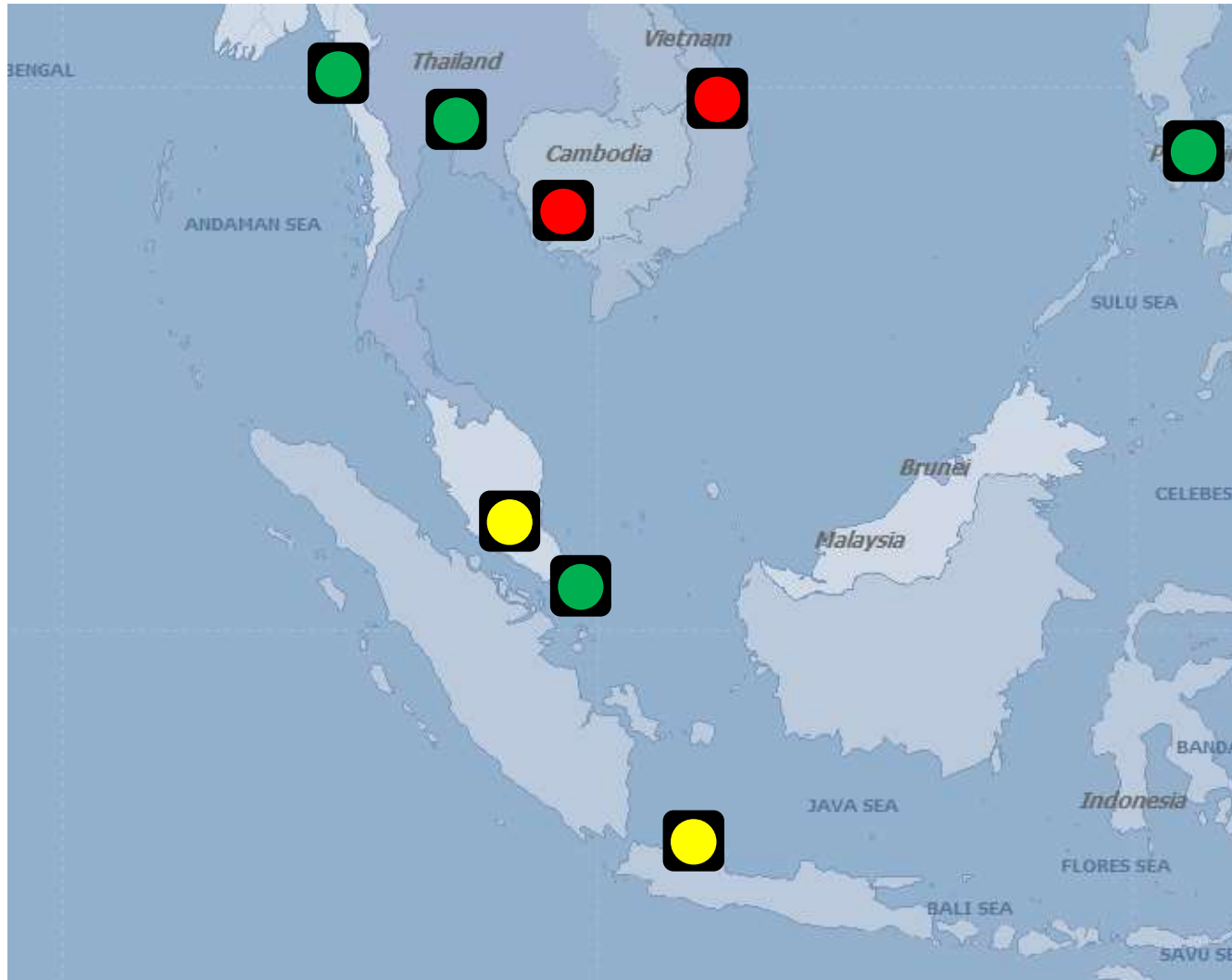
### Tariff drivers

- **Over competition:** Vietnam, Thailand
- **Tariff policy:** Philippines, Indonesia, Thailand
- **Limited competition:** Singapore, Myanmar

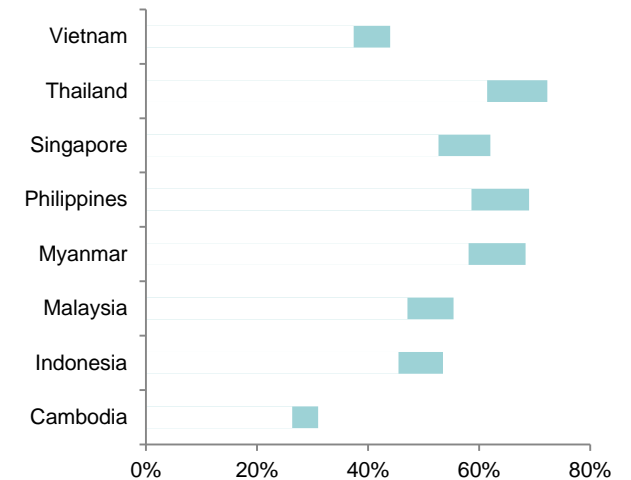
\* Drewry estimates from public tariff and shipping lines

## Outlook: South East Asia port EBITDA margins\*

South East Asia port EBITDA margins are generally positive (exclude concessions).



SEA container terminal operator EBITDA margin (%)



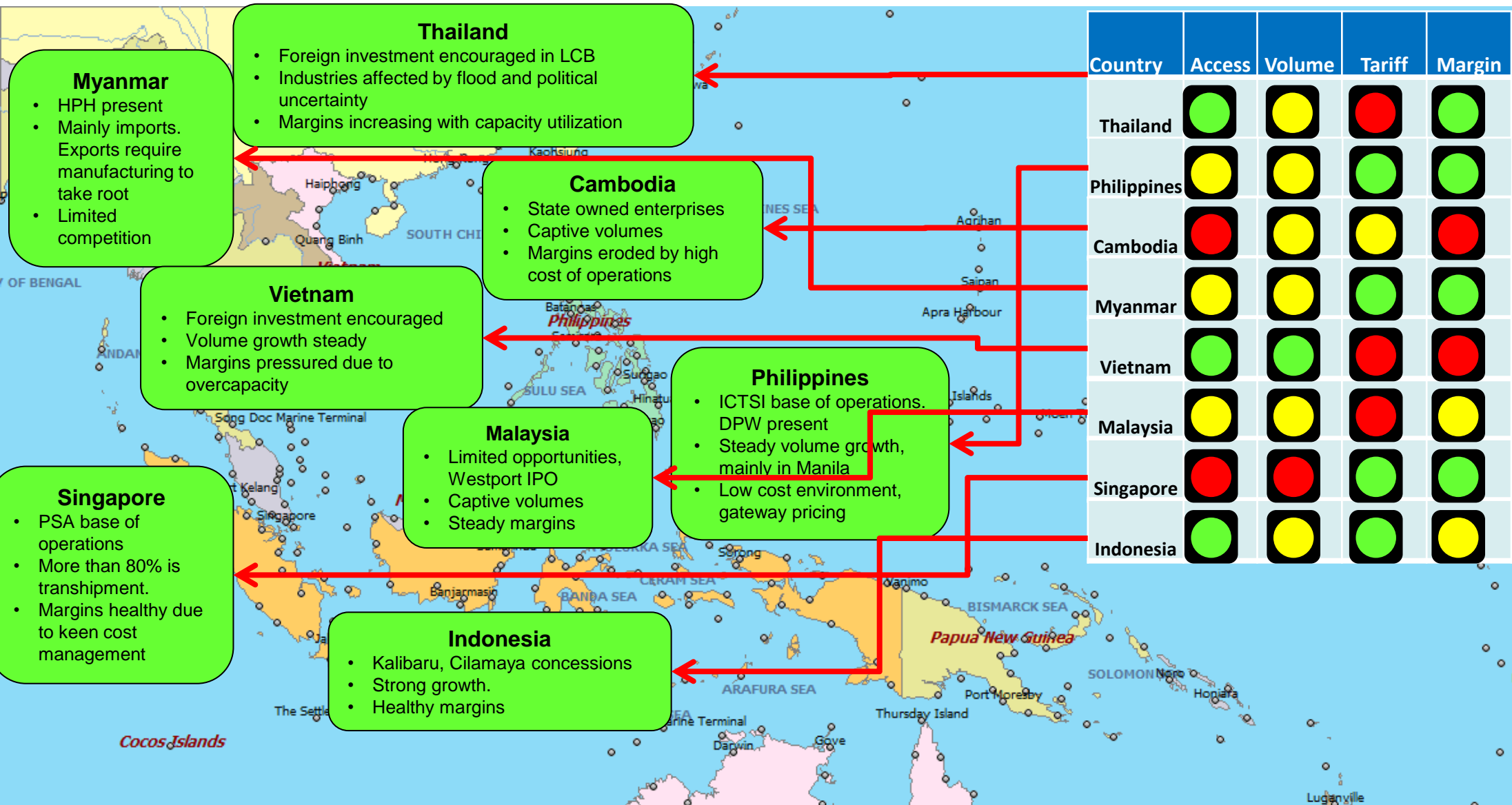
### Margin drivers

- **Limited competition:** Philippines, Singapore, Myanmar
- **Intense competition:** Vietnam
- **Improving capacity utilization:** Thailand
- **High cost of operations:** Cambodia

Margins are derived based on estimates of tariff, volume and operating expenses.  
Concession payments are not included

# Outlook: South East Asia container port investment

Country outlook is positive for Philippines, Myanmar and Indonesia. Viable investment opportunities can be found in the region.



**Myanmar**

- HPH present
- Mainly imports. Exports require manufacturing to take root
- Limited competition

**Thailand**

- Foreign investment encouraged in LCB
- Industries affected by flood and political uncertainty
- Margins increasing with capacity utilization

**Cambodia**

- State owned enterprises
- Captive volumes
- Margins eroded by high cost of operations

**Vietnam**

- Foreign investment encouraged
- Volume growth steady
- Margins pressured due to overcapacity

**Philippines**

- ICTSI base of operations. DPW present
- Steady volume growth, mainly in Manila
- Low cost environment, gateway pricing

**Malaysia**

- Limited opportunities, Westport IPO
- Captive volumes
- Steady margins

**Singapore**

- PSA base of operations
- More than 80% is transhipment.
- Margins healthy due to keen cost management

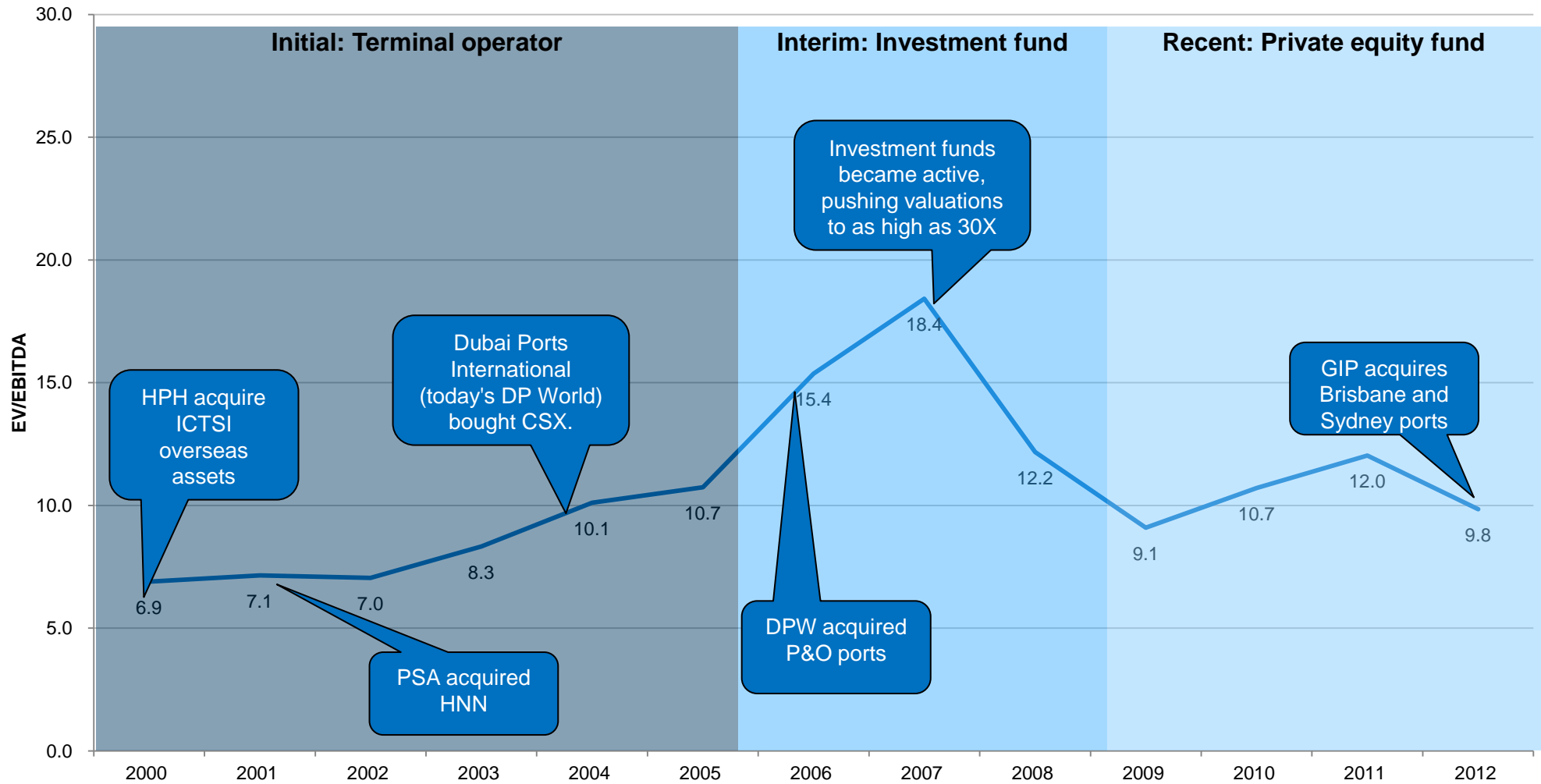
**Indonesia**

- Kalibaru, Cilamaya concessions
- Strong growth.
- Healthy margins



# Historical transaction: Container port EV/EBITDA

Port transactions rose to historical highs in 2007 to current 10-12X EV/EBITDA valuations. At each time phase, different investor classes were active in acquiring assets.



# Financial performance : Container maritime assets

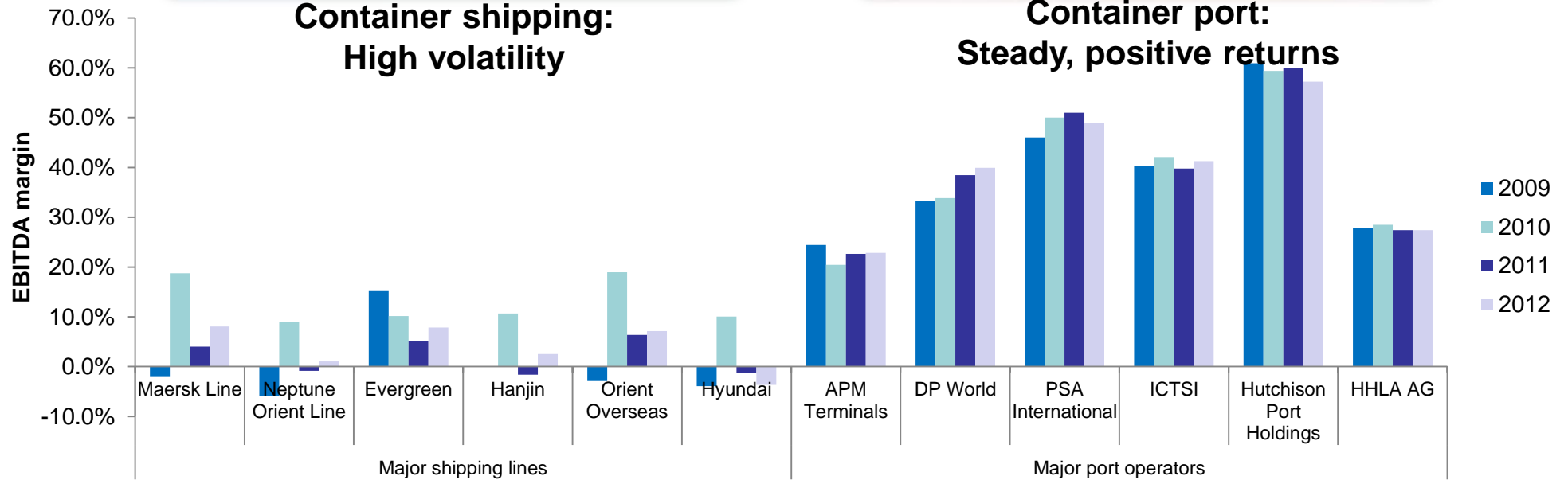
Ports are an attractive asset class for investors due to steady margins and returns.



**Container shipping:  
High volatility**



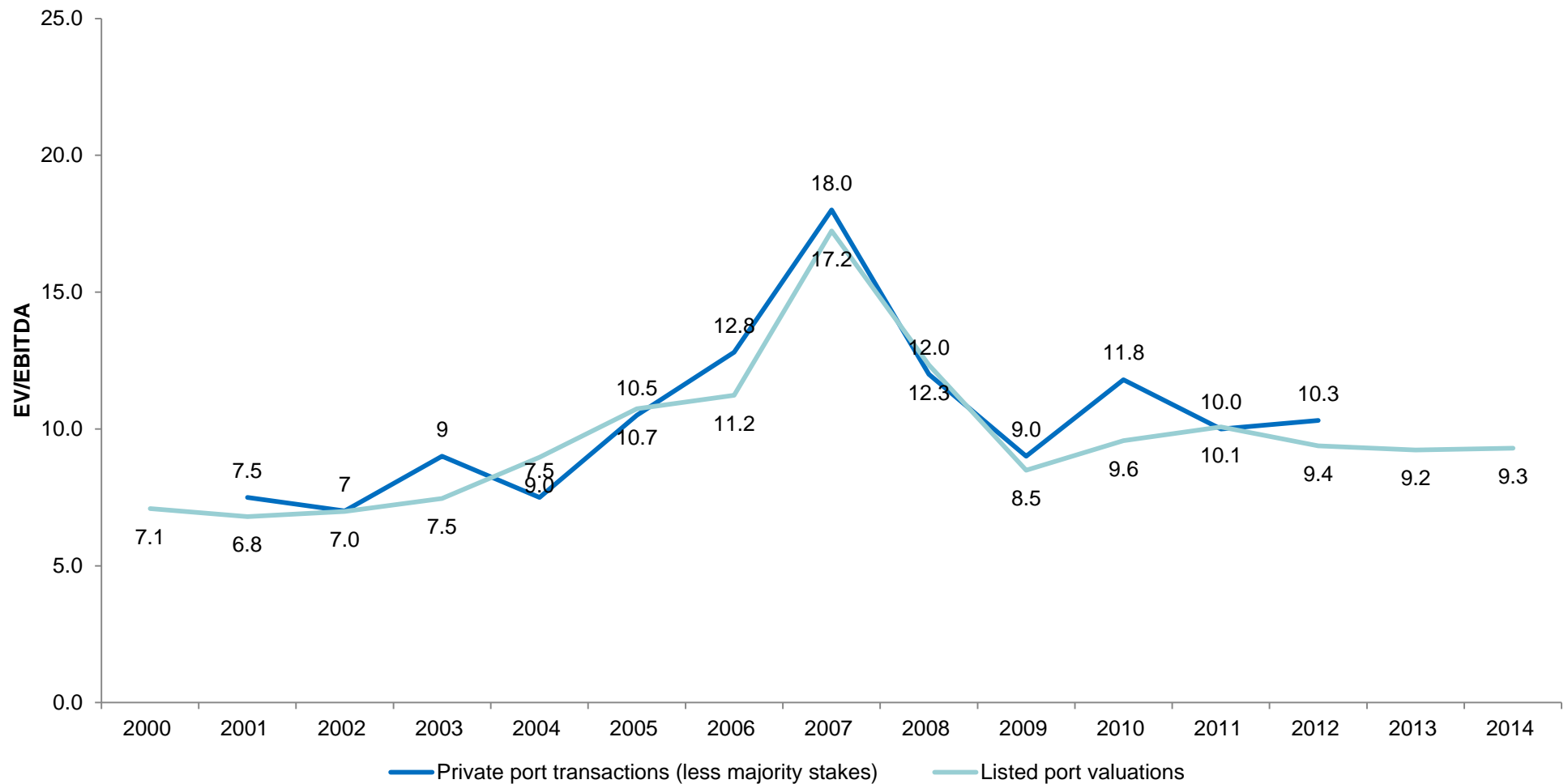
**Container port:  
Steady, positive returns**





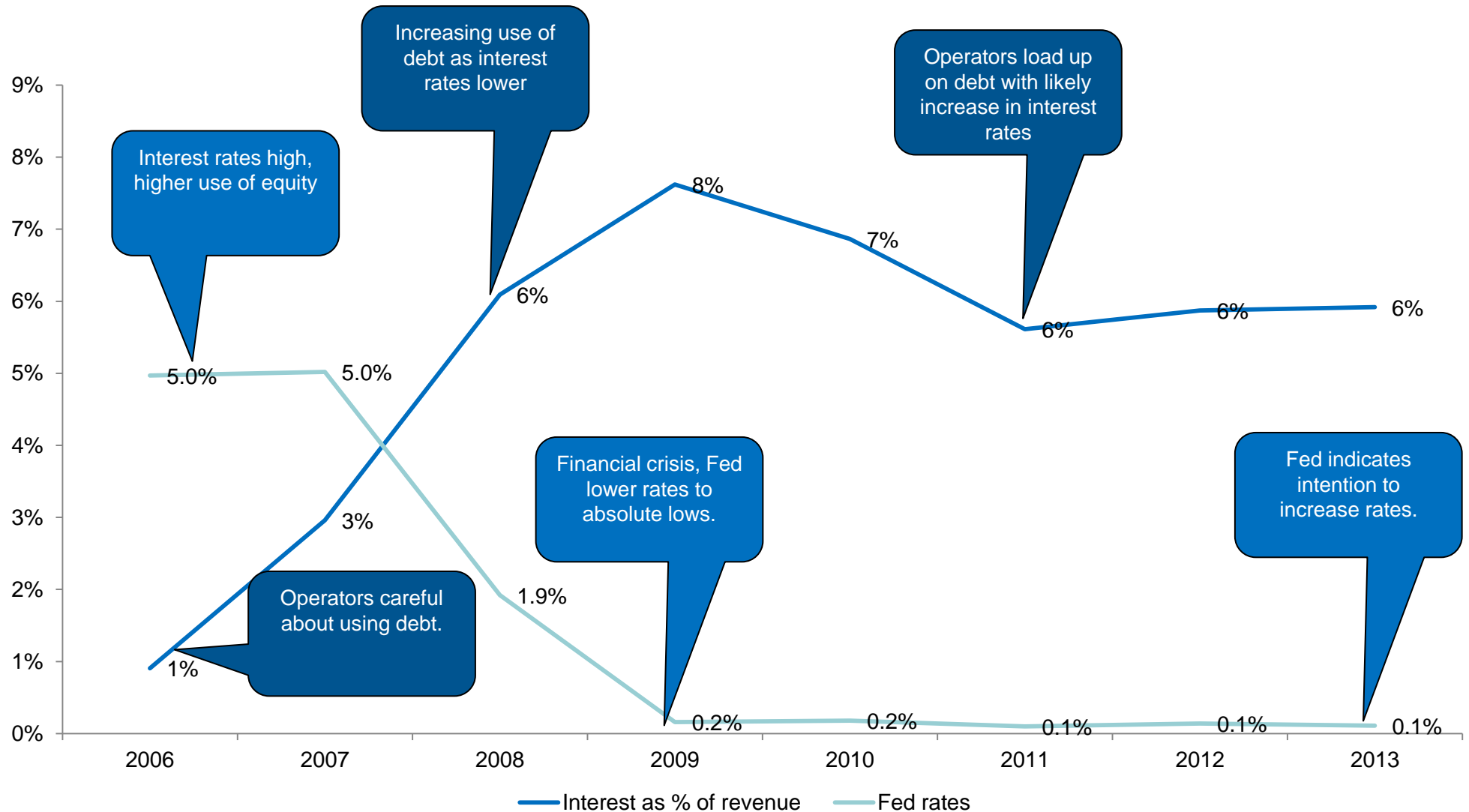
## Financial benchmarks: Port transaction

List port companies can be used as benchmarks for private transactions



## Outlook: Port investment

Increase in US interest rates would result in higher interest payments by terminal operators with US denominated debt. Investors would have to seek alternative sources of funding for future acquisitions.





## In conclusion



- ▶ US and European economies have recovered. Possible increase in interest rates would affect port valuations in near future



- ▶ Asean region economies in better shape and projected to grow strongly => Container trade growth likely to be centered in Asia.



- ▶ Opportunities for investing in Asian ports are limited but comes with the assurance of captive volumes. Margins remain a concern. Careful due diligence required.

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