Value creation through tailored Port PPP structures

6th Black Sea Port and Shipping Conference, Batumi May 2017

maritime & transport business solutions

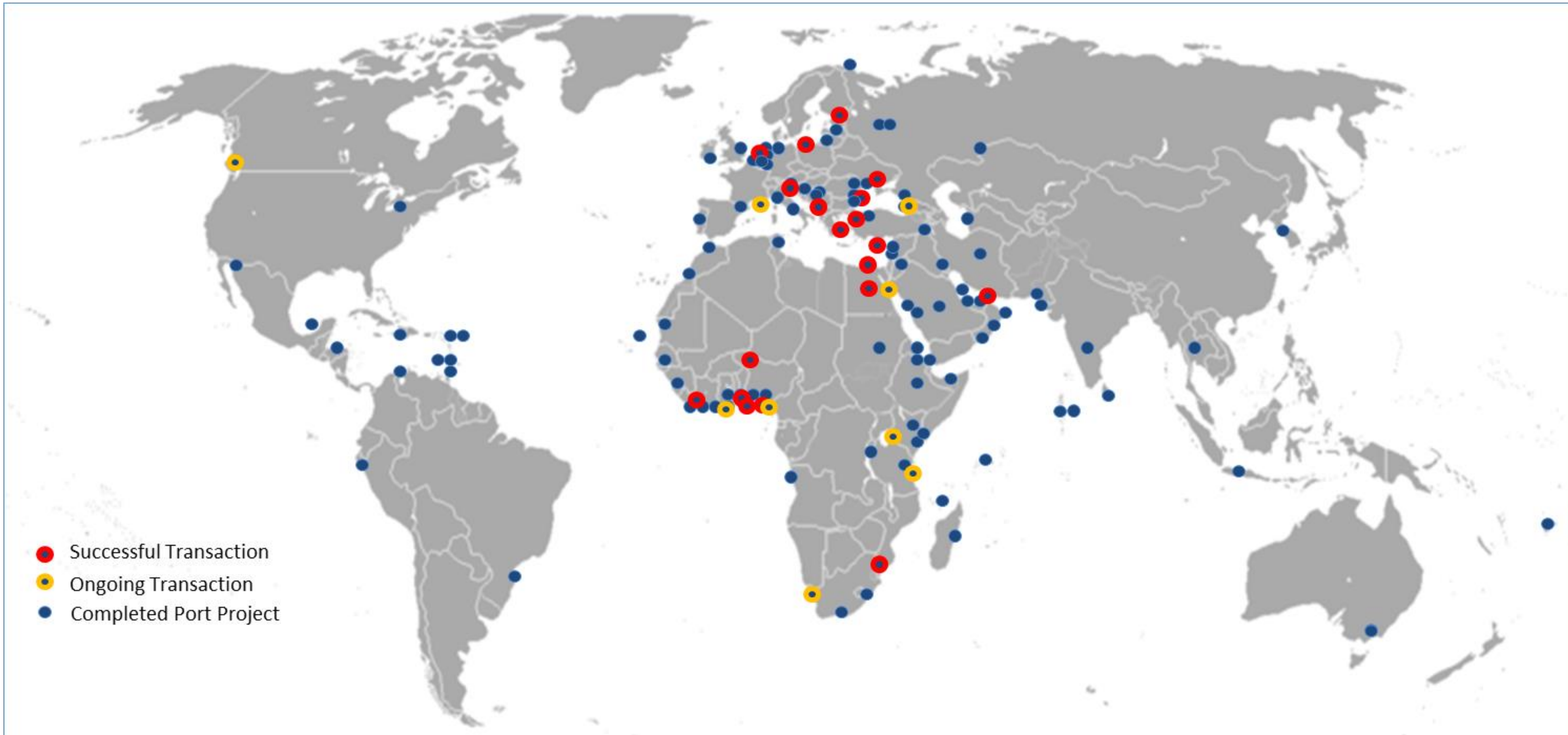
Agenda

- Introduction to MTBS
- Value Drivers for Port Projects
- Port PPP Structures
- PPP Risk Management

MTBS: Maritime & Transport Business Solutions

Leading Port Transaction Advisor in EMEA

- Financial & Strategic Advisory from Rotterdam, The Netherlands
- Specialised in Port PPPs: Preparation & Execution
- Global Project Portfolio: EMEA Core Market



Maritime & Transport Business Solutions

Clients, Projects & Characteristics

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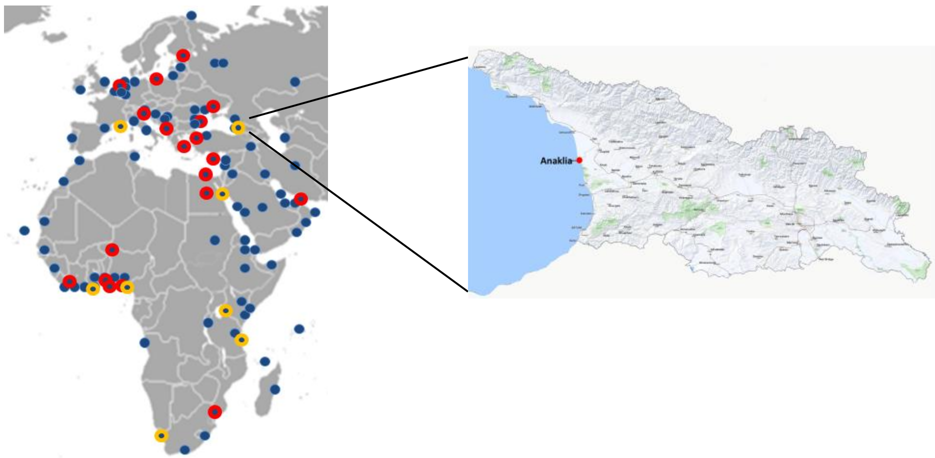
MTBS's Focus on EMEA



MTBS's characteristics

- Global Leader in Port Business Advisory
- Long track record of closed 4P
- International Sector Focus

MTBS's Clients in the Port & Infrastructure Sector

- APM Terminals – Lifting Global Trade
- Ghana Ports and Harbours Authority
- African Development Bank
- DCT.GDANSK.SA – Deepwater Container Terminal Gdansk
- Karachi Port Trust – Gateway to Pakistan
- Ecobank – The Pan African Bank
- Global Ports Holding
- Kenya Ports Authority
- European Bank for Reconstruction and Development
- HHLA
- Luka Koper – Port of Koper
- European Investment Bank
- International Container Terminal Services, Inc.
- Port of Melbourne Corporation
- Hellenic Republic Asset Development Fund
- Navigation Maritime Bulgare – Varna – 1892
- Port of Rotterdam
- IFC
- Rosmorport
- Transnet
- Standard Bank
- UCL Holding – Universal Cargo Logistics Holding B.V.
- Port Metro Vancouver
- The World Bank
- محطة بوابة البحر الأحمر – Red Sea Gateway Terminal
- ميناء الملك عبدالله – King Abdullah Port
- Port of Sohar
- العربي anb
- DP World
- شركة أبوظبي للموانئ – Abu Dhabi Ports Company
- Government of Abu Dhabi
- ZonesCorp

Agenda

Introduction to MTBS

Value Drivers for Port Projects

Port PPP Structures

PPP Risk Management

What determines value?

Three main factors: starting free cash flows, growth and risk

$$NPV(i,N) = \sum_{t=0}^{N} \frac{FCF_{t,g}}{(1+i)^t}$$

Free Cash Flows

Growth

Risk

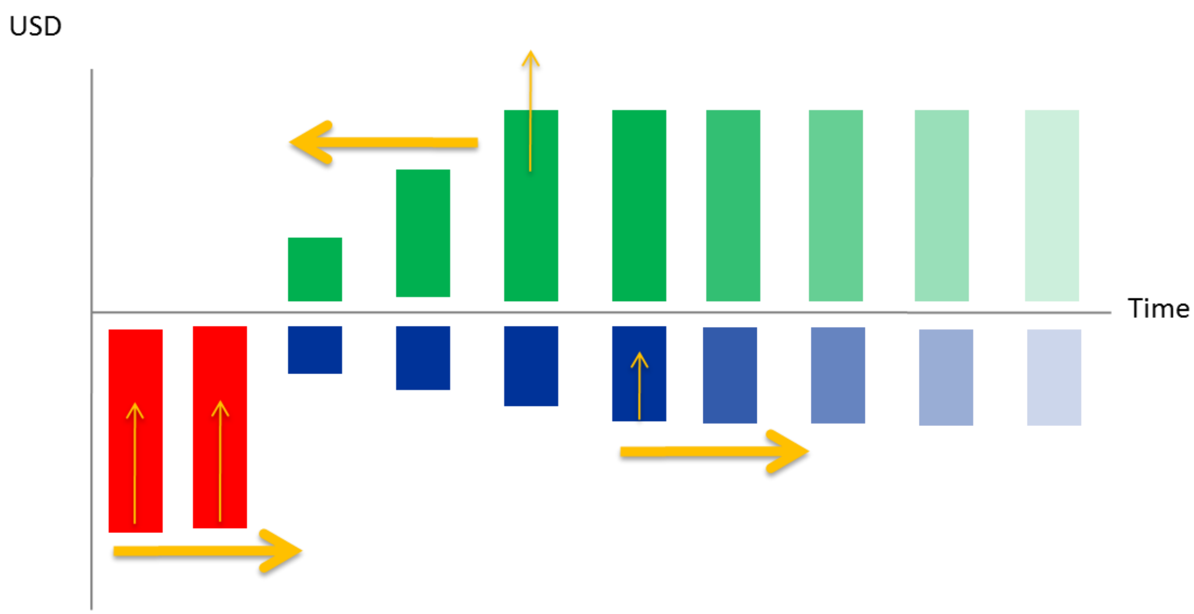
Free Cash Flow Management

Focus on value maximization

Value maximization is used to maximize starting cash flows:

- Limit total investment costs for phase 1;
- Limit the total construction period for phase 1: ensure earliest revenue generation.

PPP implementation can assist with the optimization of free cash flows, by ensuring that the party responsible for construction has sufficient incentive to minimize costs.



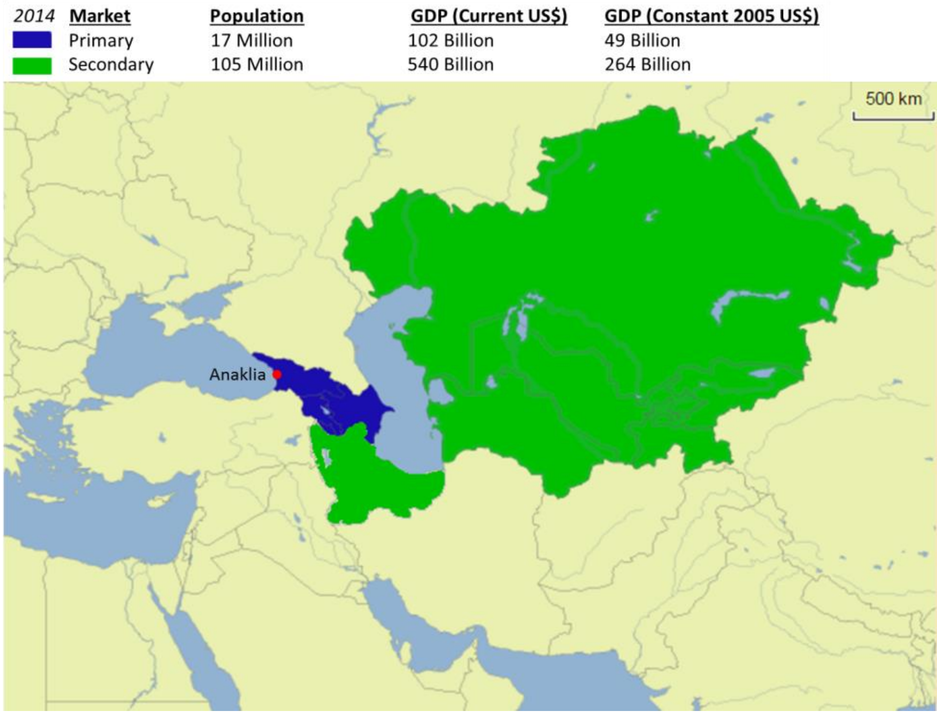
Growth of the Project

Focus on the right market

Greenfield Projects need to be built on a solid market potential:

- Without growth potential, construction of new facilities is hard to justify;
- Growth creates opportunities and ensures incentives for competition on service level and price level.

A correctly designed PPP structure can maximise the effect of growth opportunities, by allocating the market risk to the party that handles this risk best.



Risk of the Project

Focus on allocating the risk to the party that is best capable to handle the risk

The following risks are most significant for a Port Development Project:

- Contruction and Development Risks
- Market Risks
- Operational Risks
- Funding Risks

PPP contracts are used to allocate risks to the Grantor and Concessionaire. PPP contracts are therefore the main tool to manage the risk of the Project.

Agenda

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Port PPP Structures

Two main historical reasons for using PPPs in the Port sector

Why Port PPP Implementation?

Risk management

- Private parties are better positioned to handle risks (e.g. market risks, operational risks, construction risks)

Reduce burden on public budgets

- Affordability issues of Developing Economies are often one of the main reasons for insufficient infrastructure supply

These two main arguments result in a tendency to shift a large degree of risks and investments to the private side

Port PPP Structures

Wide range of options available: ports have evolved from traditional public ports to fully private ports

Port management model	Private participation	Regulation	Infra-structure	Super-structure	Equipment	Labour	Nautical services
Public service port[1)]	Zero	Public	Public	Public	Public	Public	Public
Tool port[1)]	Very low	Public	Public	Public	Public	Private	Public or private
Landlord + Public-private terminal	Medium	Public	Public	Public Private JV	Public Private JV	Public Private JV	Public or private
Landlord port[1)]	Medium	Public	Public	Private	Private	Private	Public or private
DBFM in Landlord port[2)]	High	Public	Public & Private[2)]	Private	Private	Private	Public or private
PDMC	Very high	Public	Public-Private JV	Private	Private	Private	Private
Private port[1)]	Maximum	Public or private	Private	Private	Private	Private	Private

Port PPP Structures

Best practice example now implemented in Georgia

Anaklia Development Consortium (ADC) responsible for almost all aspects of the Anaklia Port Development

- Design of the Port
- Funding of the Investments
- Construction Management
- Implementation of Sub-Concession Agreements
- Operations at the berth
- Operations of the Marine Services
- Management of the Port

Anaklia Port is a showcase for bext practice implementation of a fully private port, with a balanced PPP contract that provides the right incentives to the Concessionaire.

Agenda

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PPP Risk Management

Three critical issues to ensure Value Optimisation of the Project

Three critical issues need to be addressed, in order to ensure **Value Optimization** of the project:

1. **No one-size-fits-all:**
   - Each PPP Contract is a unique arrangement, tailored to the risk management capabilities of the Grantor and the Concessionaire

2. **Risk-adjusted returns:**
   - Focus on returns, without adjustment for risks, leads to sub-optimal PPP contract design

3. **Assess market interest in an early stage:**
   - Requirements of potential co-investors should be assessed prior to the start of a transaction

PPP Risk Management

No one-size-fits-all: PPPs need to be tailored to the capabilities of the Grantor and the potential Concessionaires

Local factors need to be taken into account for PPP Structuring:

- What are the capabilities of the Concession Grantor?
- What is the budget of the Concession Grantor?
- What is the perception of Market and Country Risk?
- What funding options are available to the Concessionaire?
- What are the requirements of local stakeholders?

Local factors have a strong effect on the optimal PPP structure: a PPP structure that works in Georgia could be impractical in other countries

PPP Risk Management

Change in Risk Profile must lead to a change in target return

Risk-Adjusted returns are often wrongly **neglected:**

1. **Grantors push away risks:**
   - Concession Grantors are often interested to allocate a share of the risk to the concessionaire
2. **While maintaining the same return requirement:**
   - Concession Grantors expect a similar return for a Project with lower overall risk

- **Risk allocation** is the **primary determinant** for the **required return** of a Project
- **A shift** in the risk allocation of the PPP contract **should always lead** to a **shift** in the distribution of **returns** of a Project.

PPP Risk Management

Assess Market Interest in an early stage to determine growth opportunities and implementation challenges

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Market Consultations provide helpful insights:

- What do Investors think of demand potential?
- Anticipated operational configuration / capacity requirement?
- Anticipated risk allocation and upfront investment?
- What is the Investors' overall risk perception of the Project?

Early assessment of the Investors' views allows for a timely inclusion of relevant factors in the PPP Contract

PPP Risk Management

PPP Implementation affects all three main risk drivers

$$NPV(i,N) = \sum_{t=0}^{N} \frac{\boxed{FCF_{t}}\boxed{{}_{,g}}}{\boxed{(1+i)^{t}}}$$

Free Cash Flows

Growth

Risk

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