



# Innovative PPP Models for Successful Ports Investments

ASEAN Ports & Shipping

26 February 2020





# Agenda

## Introduction to MTBS

Problem identification

Value drivers for PPP projects

Lessons learnt

Q&A

# Introduction to Maritime & Transport Business Solutions (MTBS)

Three focus areas, all specialised in the port sector

The logo for Port Finance International is contained within a white circle with a grey border. It features the text "Port Finance International" in a bold, black, sans-serif font, centered between two horizontal lines. Below this, the text "an MTBS company" is written in a smaller, black, sans-serif font.

**Port Finance  
International**

an MTBS company

**Training & Summits**

The MTBS logo is contained within a white circle with a blue border. It features the text "mtbs" in a blue, lowercase, sans-serif font, centered below a semi-circle of grey dots of varying sizes.

**mtbs**

**Financial & Strategy**

The MTBS M&A logo is contained within a white circle with a grey border. It features the text "mtbs" in a blue, lowercase, sans-serif font, centered below a semi-circle of grey dots of varying sizes. Below "mtbs", the text "M&A" is written in a smaller, grey, sans-serif font.

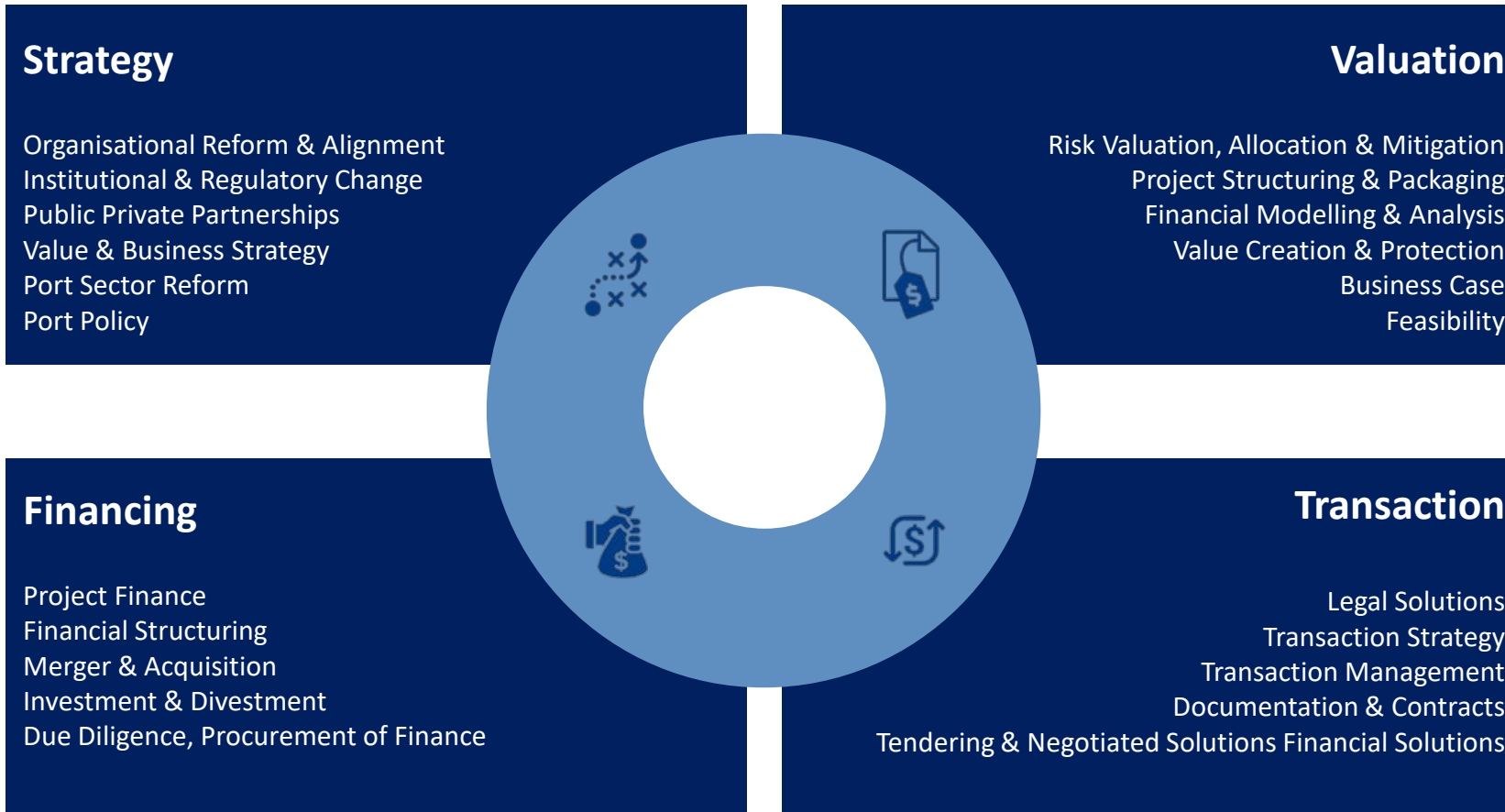
**mtbs**

M&A

**Mergers & Acquisitions**

# Core MTBS concepts

Unlocking value in the maritime & transport industry



# MTBS client base

A selection of our worldwide and diverse clients

Authorities	GTOs	Industrials	Governments	IFIs	Banks & Equity	
						
						
						
						
						
						
						
						
						
						

# MTBS global and regional experience

Specialised in port PPP projects



Significant portfolio size

50 port projects per year

Diversified portfolio background

Broad client base

Strong home market

International focus

Well-known port transaction advisor

Entrepreneurial business solutions

400 projects successfully completed



# MTBS M&A track record

The market leader in port transactions globally



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# Quick Regional Port Scan

There are many recent and ongoing developments taking place in the region. A selection is presented below:

1 February 2020, the Malay Transport Minister started a feasibility study on **Port Klang's** upcoming third port

2 January 2020, HPH confirmed full completion of all phases of **Laem Chabang Terminal D** by 2023, reaching a capacity of 3.5 M TEU

3 In November 2019, Pelindo I teamed up with Dutch and Chinese investors to develop **Kuala Tanjung Phase 1**



4 In 2018, the construction of Pontianak Port, **Kijing Terminal**, started and will be operated by the Indonesian Port Corporations (IPC)



5 November 2018, ICTSI proposes to the PPA to invest over USD 95M in the development of the **ports of Iloilo and Dumangas**

6 In Gresik, near **Surabaya**, DP World and Maspion develop a USD 1.2 B port facility

7 In 2018, Pelindo III announced the investments to develop **Tanjung Emas Semarang**

8 In 2020, the extension of **CT2 of PT New Priok Container Terminal** is expected to be brought to the market



# PPP Challenges

The failure of PPP projects are caused by poor risk allocation, improper requirement, criteria and procedures



**According to the World Bank Group: “project cancellation rates vary greatly among sectors – for instance, deals in transport (5.1%) and water (5.7%) have a much higher cancellation rate than those in the energy sector (2%)”.**

# Challenges of port PPP projects

A selection of delayed or cancelled port PPP projects globally

**Large greenfield projects appear to face numerous difficulties resulting in unsuccessful closings**

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## ECT Colombo

Tender cancellation



## Lamu Port

Significant delays during construction process



## Durban Dig-Out Port

Project shelved until further notice



# Port PPP project: Laem Chabang Phase III

Highlighting a recently unsuccessful port PPP project in Thailand

## Facts

- Port Authority Thailand
- DBOM Project
- Plots F1 and F2
- 35-year concession duration
- Transaction:
  - Invitation to Tender: November 2018
  - **32** bid envelopes sold
  - **1** qualified bidder in a 2-month period for document submission
- Current status: unknown/court case





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# What determines value?

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

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

1 Free Cash Flows 

2 Growth 

3 Risk 

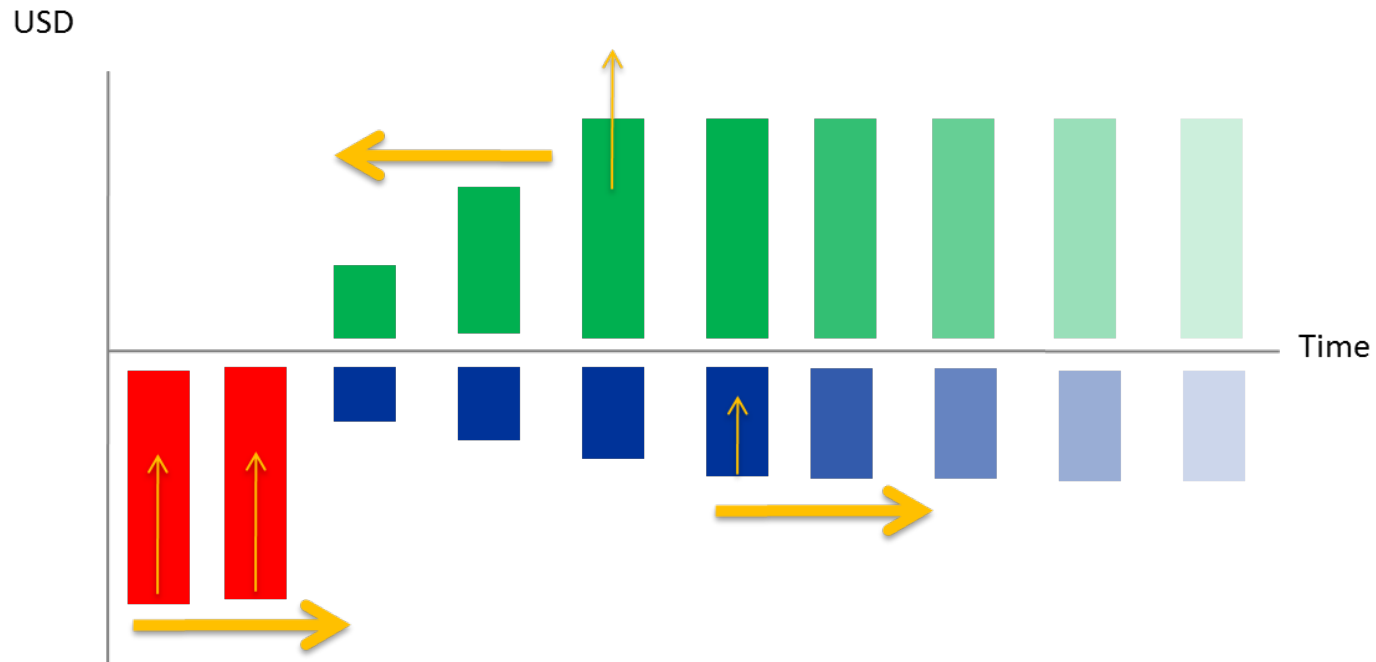
The diagram illustrates the components of the NPV formula. The numerator  $FCF_{t,g}$  is linked to '1 Free Cash Flows' and '2 Growth'. The denominator  $(1+i)^t$  is linked to '3 Risk'. Each factor is accompanied by a representative icon: a bar chart for cash flows, an upward-sloping line for growth, and a fluctuating line for risk.

# Value maximisation

## 1 Free cash flow management

### Value maximisation is used to maximise starting cash flows

- To limit the total investment costs for the first phase(s)
- To limit the total construction period for the first phase(s): to ensure earliest revenue generation

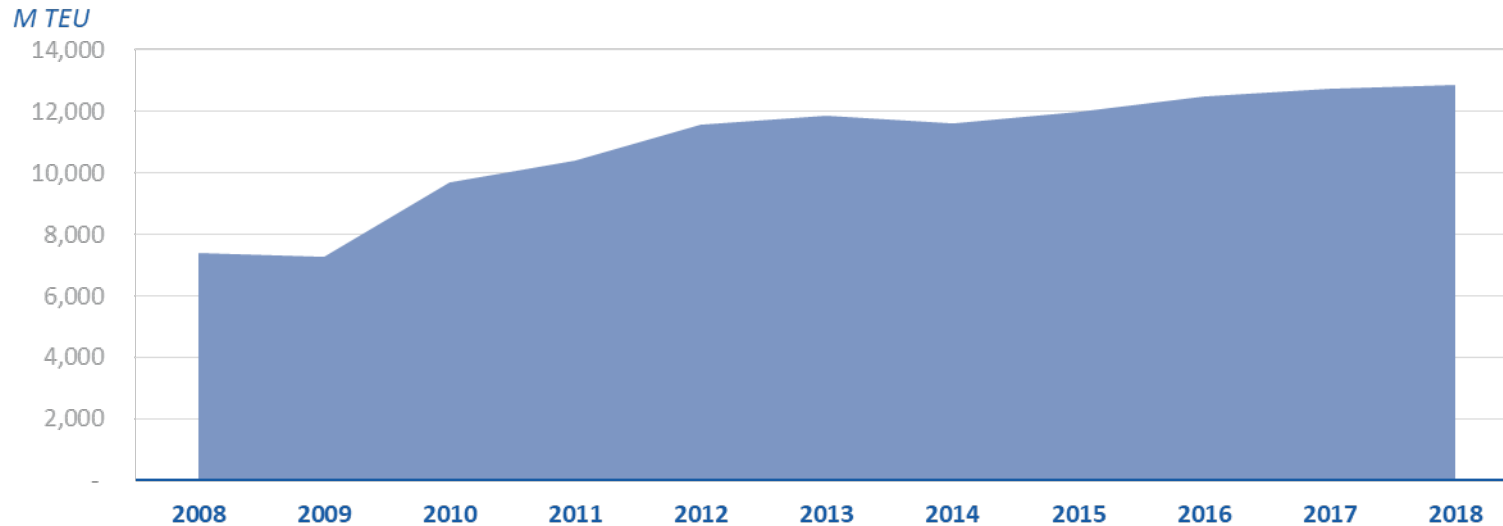


PPP implementation can assist with the optimisation of free cash flows, by ensuring that the party responsible for construction has sufficient incentives to minimise costs.

# Value maximisation

## 2 Market growth

The number of containers handled in Indonesia in the last decade (see graph below) still foresee growth potential considering the 270 M inhabitants living in the country



Source: United Nations Conference on Trade and Development

- In order to facilitate for growth, it is important that **sufficient capacity** is present
- Private terminal operators, with their capital, operational excellence and global experience, are able to facilitate growth
- Also, Indonesia has the ability to unlock efficiency considering the current quality of port infrastructure

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.



# Value maximisation

3 Risk management: 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

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Construction & 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.



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# Lessons learnt: evolution of port PPP structures

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

2000

## Landlord model

Investments:

- Public: regulation, infrastructure
- Private: superstructure, equipment, labour

→ Balanced allocation of risk

Examples:

- Rotterdam, Netherlands
- Singapore
- Antwerp, Belgium
- New York, USA
- Tanger-Med, Morocco

2010

## BOT model

Investments:

- Public: potentially regulation
- Private: all investments

→ 100% private

Examples:

- Monrovia, Liberia
- Mersin, Turkey,
- London Gateway, UK

2020

Examples:

- No port projects
- Maputo Access Channel, Mozambique

## DBFM model

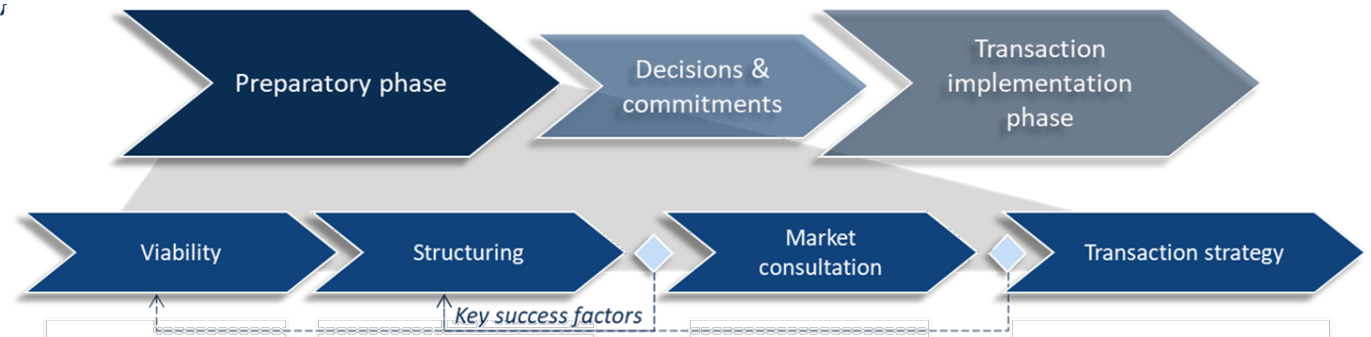
- Base infrastructure investment through contract
- Port authority bears market risk, life cycle optimisation

# Lessons learnt: importance of PPP & transaction advisory

De-risking strategies drive down cash flow volatility & cost of capital

## Transaction management is crucial for good implementation of the PPP structure

- **PPP Structuring: balancing risks between public and private sector and business case driven**
  - Focus on financing, bankability
- **PPP Procurement Processes**
  - Professional and realistic transactions: timeframes, consultations, documentation, evaluation
  - Business case driven
  - Process embedded in legislation
  - Non-contestable outcomes
- **PPP Contract: valuable, enforceable & bankable**
  - Tenor
  - Step-in
  - Clear termination compensation regime and guarantees
  - Handback conditions
  - Capacity management (national port masterplanning)



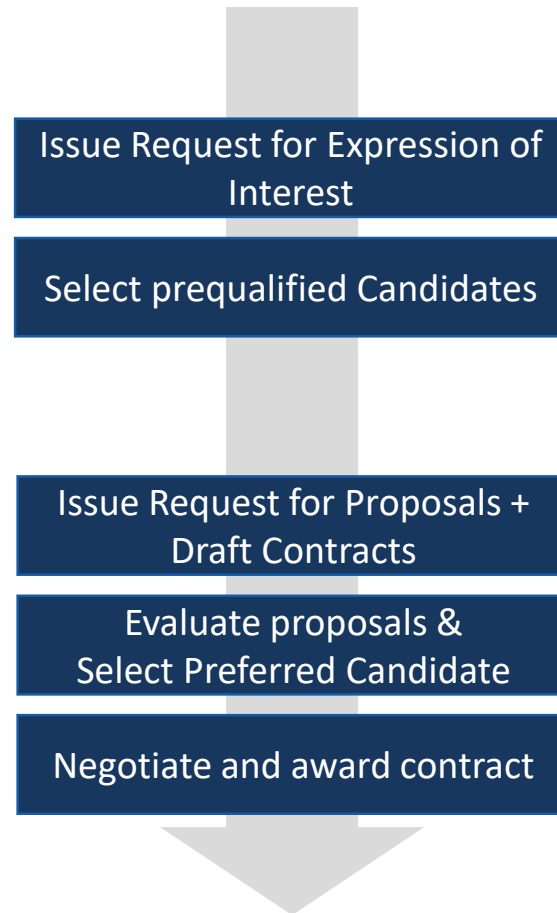
# Lessons learnt: advancement of procedures in transactions

De-risking through competitive dialogue procedure

## Open procedure



## Restricted procedure



## Competitive dialogue procedure



# Recommendations for a successful tender procedure

Based on numerous experiences of tender processes worldwide

- ✓ **National port master plan**
- ✓ **Transaction to be carried out by fully authorized concessioning port authority**
- ✓ **Competitive dialogue procedure creates most value: early involvement of bidders**
- ✓ **Tender should be business case driven. Focus on long term value rather than closing the deal. Focus on Bankability**
- ✓ **Feasible business case for both the port authority and terminal operator translated into valuable concession contract**
- ✓ **Concession contract: valuable, enforceable and bankable**
- ✓ **Transaction preparation phase is crucial:**
  - ✓ Transaction structuring: valuation, risk allocations and value engineering, documentation
  - ✓ Transaction management: first time right and commit to timelines



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# Thank you

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# Contact details

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# Anaklia: DBFMOT

International practices

**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: DBFMOT

## International practices

### Evaluation

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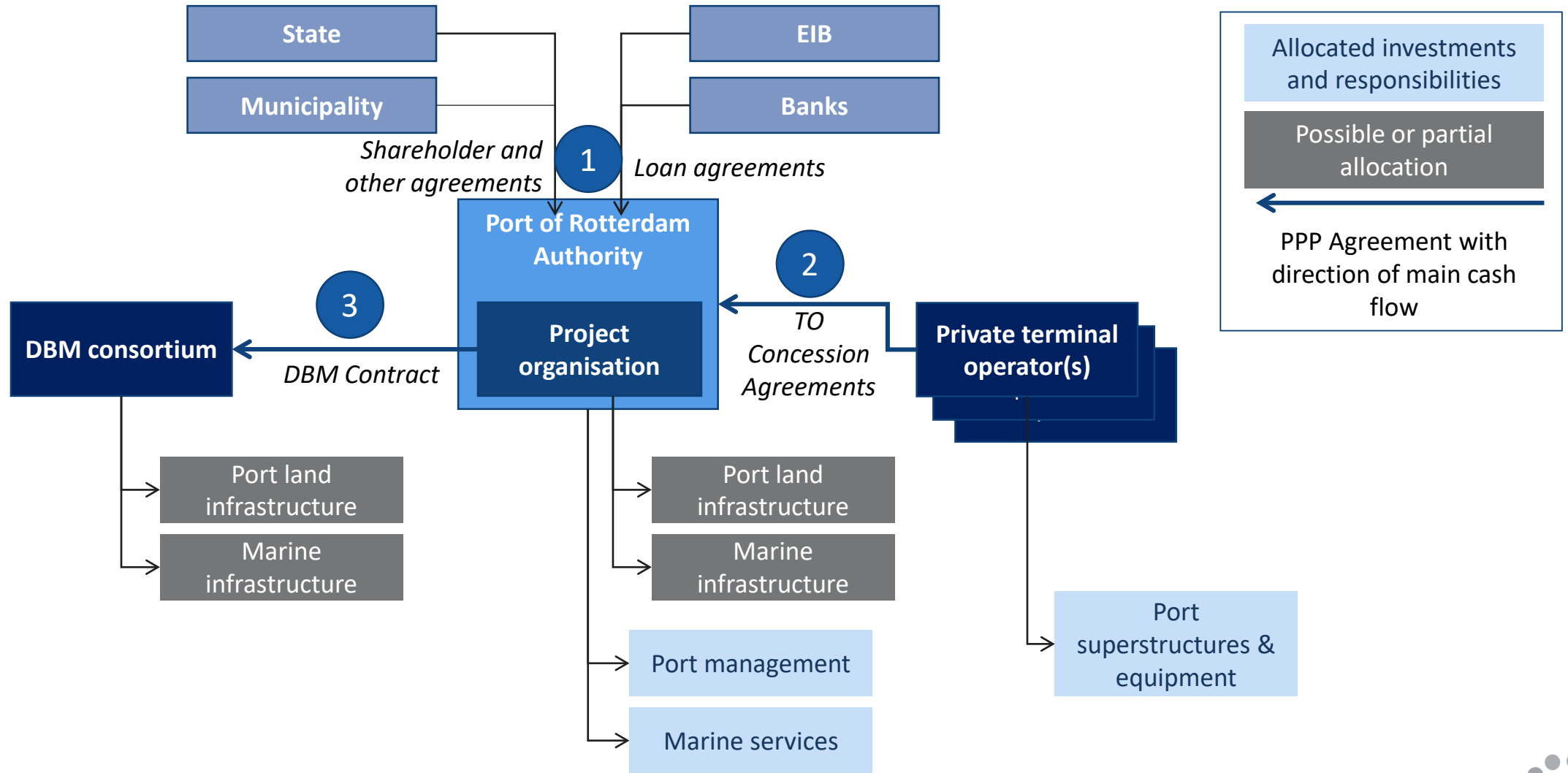
- **Advantages:**
  - Optimal asset management
  - Easier to budget
- **Disadvantages:**
  - Higher costs
  - Strategic asset to private sector

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



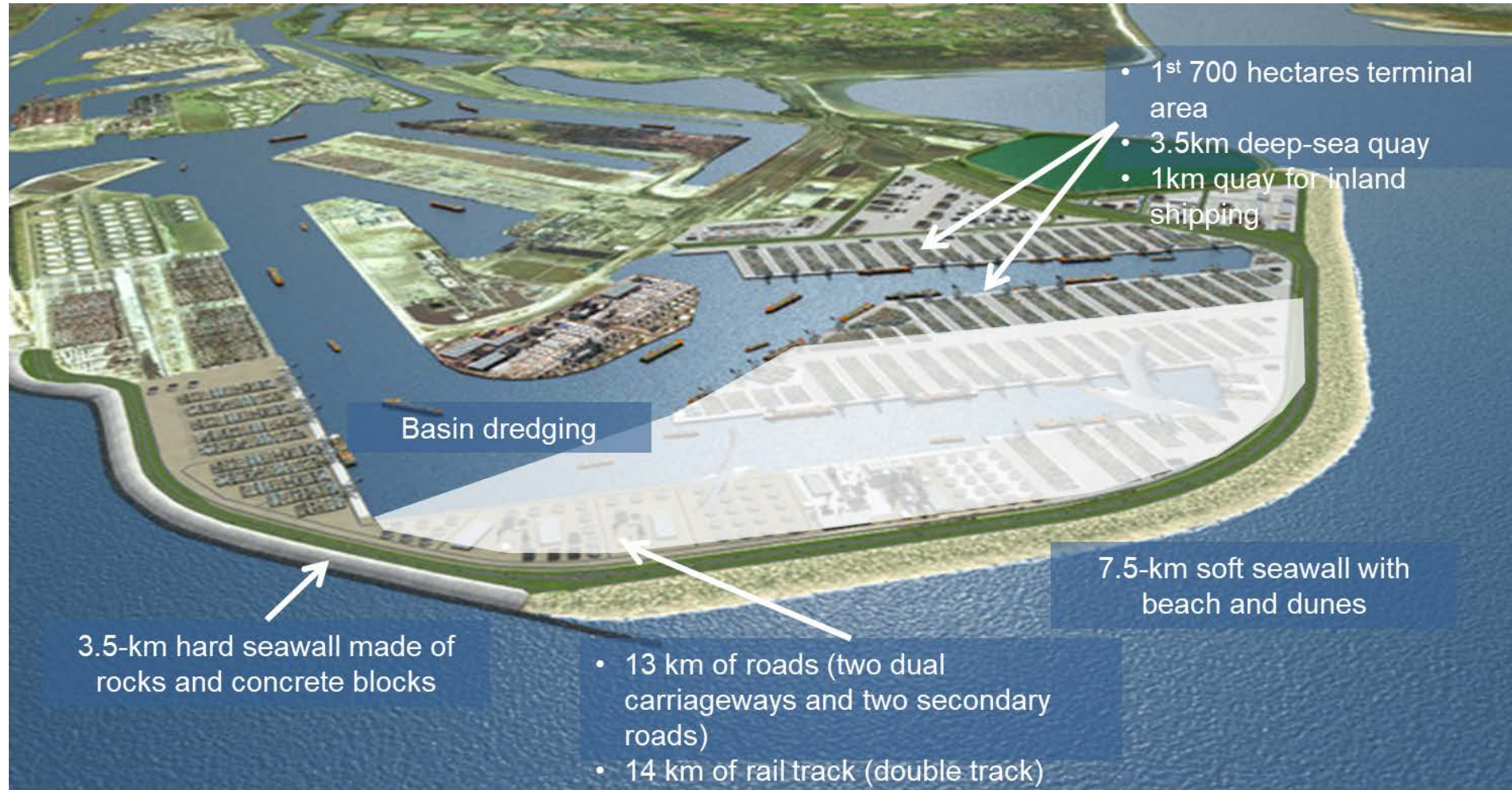
# Rotterdam MV2: DBM

International practices



# Rotterdam MV2: DBM

International practices



# Maputo: PDMC

International practices

## Evaluation

- **Brownfield port**
- **Maputo Port Development Company**
- **Master concession of 30 years**
- **Shareholders**
  - Private: Portus Indico (51%)
    - Grindrod (48.5%)
    - DP World (48.5%)
    - SARL (3%)
  - Public: CFM (49%)

The private sector participation in a PDMC-like port PPP model resulted in strong operational performance



# Maputo: PDMC

## International practices

