Public-Private Partnerships in the Port Sector: The case of Stock Listing of Operating Port Entities

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TRF, 46th Annual Forum
SCOPE

- TYPOLOGY OF PORT ENTITIES
- FORMS OF PUBLIC-PRIVATE PARTNERSHIPS IN THE PORT SECTOR
- PRE-LISTING CHALLENGES
- POST-LISTING CHALLENGES
- FUTURE OF STOCK LISTED PORT OPERATING ENTITIES
TYPOLOGY OF PORT ENTITIES - 1

- LANDLORD PORTS
- TOOL PORTS
- OPERATING PORTS
The Landlord Port

The Port Authority:

- Owns the basic infrastructure, land, access and protection works
- Leases land to port operators, normally through long-term concession
- Retains all regulatory functions

The most widespread model worldwide
The Tool Port

The Port Authority:

- Owns the infrastructure, the superstructure and heavy equipment
- Rents the above to operators
- Retains all regulatory functions
The Operating (Service) Port

The Port Authority:
- Owns and operate every port asset
- Provides all commercial services (nautical-technical and cargo handling) to vessels and cargo
- Fulfills all regulatory functions
The role of Port Authority:

- The policy making and planning function
- The land developer and landlord function
- The regulatory, supervisory and monitoring function
- The promotion function
- The commercial function
When the Port Authority combines the commercial function an external Regulator has to be formed.

In most privatization schemes the Port Authority is limited to developer, planner, regulator functions.
FORMS OF PUBLIC-PRIVATE PARTNERSHIPS
IN THE PORT SECTOR - 1

- **LANDLORD PORT**
  Concession Contracts with various types of operating entities (BOT, BOOT, BOO ), investments normally in superstructure & equipment

- **TOOL PORTS**
  Medium duration lease contracts associated with equipment investment, management contracts

- **OPERATING PORTS**
  Outright sell or Stock listing
Port Authorities have financial stake in port operation activities
(e.g., Rotterdam Port Authority in ECT until recently, or Rotterdam Port Authority with PSA in VLISSINGEN Container Terminal)

Port Authorities have financial stake in hinterland terminals
(Rotterdam Port Authority owns a stake at CSKD-Intrans operating rail terminals in Czech Republic and Slovakia)
Port Authorities have expanded the scope of their activities in Global Port Operations
(the case of PSA Corp.)

Port Authorities of Operating Type have partially or totally privatized through IPOs
(UK, New Zealand, Greece)
WHY OPERATING PORT ENTITIES ARE STOCK LISTED?

- INTEGRATE HANDLING ACTIVITIES - THE MOST PROFITABLE PART OF PORT ACTIVITIES
- FORMALLY TO RAISE MONEY TO FUND INVESTMENTS
- IN PRACTICE GOVERNMENTS SEEK TO REDUCE THEIR FISCAL DEFICIT
- TO BE EXPOSED TO MARKET CONDITIONS
PRE-LISTING CHALLENGES - 1

- CORPORATIZE THE ENTITY TO BE LISTED
- ENSURE PROPER RESTRUCTURING OF THE NEWLY FORMED ENTITY
- ENSURE PROPER LONG TERM PROPERTY OR USE RIGHTS FOR THE OPERATING ENTITY
PRE-LISTING CHALLENGES - 2

- SEEK PROFIT MAXIMIZATION FOR THE PRE-LISTING PERIOD – AVOID TO CONTINUE SERVICE PROVISION IN LOSS MAKING ACTIVITIES

- MAKE THE RELATION BETWEEN PROFIT AND VALUE OF ASSETS ATTRACTIVE
PRE-LISTING CHALLENGES - 3

- HANDLE PROPERLY THE MATTER OF VALUATION

(UK EXHIBITS A NEGATIVE PARADIGM OF EXTREMELY UNDERVALUED PORT PROPERTY DURING OUTRIGHT SALE OF PREVIOUS TRUST PORT PROPERTY)
PRE-LISTING CHALLENGES - 4

THE “VALUE TRIANGLE”

- P/BV (price/book value)
  OWNERS INTEREST TO MAXIMIZE

- P/E (price/earnings)
  LEAD UNDERWRITER’S INTEREST TO MINIMIZE

- E (earnings)
  MANAGER’S RESPONSIBILITY TO MAXIMIZE
PRE-LISTING CHALLENGES - 5

- Provided that valuation is fair (P/B) maximization minimizes opposition to process
- Minimization of (P/E) makes IPO more attractive and potential for success (oversubscription) is more likely to happen (hard underwriters particularly interested)
- E maximization make attractive (P/E) ratios more easily attainable and leads to P and (P/BV) maximization more likely to happen
THE PROCESS OF ACQUIRING PROPERTY OR USE RIGHTS FOR A PORT OPERATING COMPANY

- Landowner (State or other)
  - Direct outright sale to operating company
  - Long term lease
    - Direct lease to operating company
    - Formation of special purpose vehicle
    - Lease to operating company
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POST-LISTING CHALLENGES / MANAGEMENT-SHAREHOLDERS -1

- PROFIT MAXIMIZATION
- ACTIVITY EXPANSION IN SCALE & VOLUME – BUSINESS DIVERSIFICATION
- ONGOING COMPANY RESTRUCTURING
- CREATE THE PROPER CORPORATE GOVERNANCE SCHEME
POST-LISTING CHALLENGES / MANAGEMENT-SHAREHOLDERS -2

- AVOID GETTING INVOLVED IN LOSS MAKING ACTIVITIES ASSOCIATED WITH REGULATORY FUNCTIONS
- NEGOTIATE WITH GOVERNMENT OR SPECIAL PURPOSE VEHICLE COMPANY LONG TERM RETURN INVESTMENTS IN RELATION WITH DURATION OF PROPERTY USE
POST-LISTING CHALLENGES / STATE - 1

- IF INVOLVED IN SHAREHOLDING CAPITAL TO DISTINGUISH BETWEEN SHAREHOLDING & REGULATORY FUNCTIONS
- IF MAJORITY OF SHAREHOLDING CAPITAL FALLS WITH THE PRIVATE SECTOR TAKE MEASURES TO RETAIN REGULATORY FUNCTIONS
POST-LISTING CHALLENGES / STATE - 2

- AVOID THE CREATION OF A PROFIT MAXIMIZING PRIVATE MONOPOLY

- CREATE A NATIONAL OR REGIONAL REGULATORY BODY TO ENSURE THAT MARKET FUNCTIONS PROPERLY & ALSO ENSURE THAT REGULATORY FUNCTIONS ARE RETAINED BY THE STATE (eg MPA and PSA in Singapore)
THE FUTURE OF STOCK LISTED PORT OPERATING ENTITIES - 1

- THE EMERGENCE OF GLOBAL PORT OPERATORS AND THE CONFINED ROLE OF PORT AUTHORITIES
- GLOBALIZATION & CONCENTRATION IN LINER SHIPPING PUSHES PORT AUTHORITIES TO LANDLORD ROLE
- STOCK LISTED PORT COMPANIES IN GENERAL PROFITABLE BUSINESSES-ATTRACT INTEREST OF INSTITUTIONAL INVESTORS
THE FUTURE OF STOCK LISTED PORT OPERATING ENTITIES - 2

- IN GENERAL VULNERABLE TO STATE DECISION MAKING
- SEEK TO AUGMENT THEIR NON CORE PORT ACTIVITIES TO MAXIMIZE PROFIT (eg. Real estate)