

2 October 2024



## Port of Tauranga Limited (POT)

The company will hold its Annual Shareholders Meeting at **1.00pm Friday 25 October 2024**.

The location is **Stadium Lounge, Mercury Baypark 81 Truman Lane, Mount Maunganui**.

You can also join the meeting [at this link](#).

### Company Overview

POT is the largest port company in New Zealand. As well as its main operations at Tauranga, the company owns:

- 100% of Quality Marshalling Ltd, a specialist cargo handling services company.
- 100% of Timaru Container Terminal.
- a 50% stake in Northport (with Marsden Maritime Holdings holding the other 50%).
- 50% in PortConnect an online cargo management system with Ports of Auckland.
- 50% in CODA, a freight logistics group.
- 50% of Prime Port Timaru.

Timaru Container Terminal also operates Metroport Christchurch, on land owned by Port of Tauranga.

The company has a partnership with KiwiRail in Metroport Auckland as well as a 50:50 joint venture with Tainui Holdings in a 30-hectare Ruakura Inland Port at Hamilton.

In October 2023 Fraser Whineray replaced Sir Rob McLeod as the Quayside Holdings appointee on the Board. In May 2024, Sir Rob rejoined the Board and Alastair Lawrence retired after serving 10 years.

### Current Strategy

The strategy is to focus on maintaining its core business at Tauranga whilst also expanding into new businesses that are reshaping the service delivery in New Zealand's port sector.

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**Key**

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

## Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	Excellent disclosure.
Director share ownership	G	Directors are not required to own shares.
CEO Remuneration	A	See below.
Director Independence	G	A majority of Directors are independent.
Board Composition	G	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid. See below.
Independent Advice for the Board and Risk Management	G	See below.

**CEO Remuneration:** POT gives a thorough summary of its remuneration governance, strategy, policies and framework in the Annual Report. Remuneration governance is carried out by the People and Remuneration Committee.

**Incentives:** The CEO is paid a base salary, a short-term incentive (STI) and a long-term incentive. The salary and STI are paid in cash and the LTI by way of Performance Share Rights.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets, and the level of achievement versus target for each component associated with any awards. This methodology is supported by the new [NZX Remuneration Reporting Template](#).

Port of Tauranga provides thorough disclosure of the measures, weightings, and the level of achievement vs target for individual components, for both STI and LTI.

The company's current CEO pay disclosures focus on the amounts paid/vested during FY24, creating a conflation between current year remuneration, STI earned in FY23 and LTI awarded in FY21. Pleasingly, we note the statement that *"There will be a change in Chief Executive Remuneration reporting for the next financial year. Reporting will show total remuneration earned in the financial year, rather than paid as currently shown."* NZSA believes this will help shareholders understand the remuneration actually earned in the current financial year.

Nonetheless, POT go on to describe the CEO's performance against STI and LTI metrics for the FY24 year.

The STI is targeted at 50% of the base salary (max 106%), with LTI targeted at 50% (max 110%). NZSA prefers a weighting towards LTI, to align incentives with the long-term interests of shareholders.

**Golden parachutes/handshakes:** In the interests of transparency, NZSA believes there should be explicit disclosure around the severance terms and notice periods associated with the CEO, including whether specific termination payments are offered. We note the company has removed a disclosure from FY23 relating to retention payments.

**Board Composition:** The Annual Report includes a collective skills matrix however NZSA prefers a skills matrix that attributes skill sets to individual Directors to demonstrate how they contribute to the governance of the company.

In September 2024, the company appointed Scott Campbell as part of the IoD’s Future Director programme designed to develop and mentor the next generation of Directors. NZSA expect NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

POT has a diversity target disclosed in the Corporate Governance Statement of “a minimum of 40% females and 40% males holding director, executive and manager level positions by 2025.” This is supported by NZSA and exceeds the proposed NZX amendments to the Corporate Governance Code.

**Director Tenure:** NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

Director appointment dates range from 2015 to 2024.

**Independent Advice for the Board & Risk Management:** NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

In both cases there are comprehensive disclosures in either the Annual Report or the Corporate Governance Statement. Port of Tauranga offers clear disclosure of strategic, climate-related, business, and financial risks, as well as the processes that support risk management.

The [Board Charter](#) notes that “A Director of POTL is entitled to seek independent professional advice at POTL’s expense with prior approval of the Chair and within specified limits.” We also note that the company secretary has unfettered access to the Board, although we are less clear as to whether this applies to other internal assurance staff. We note that the Board oversees the internal audit programme.

## Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure.
Audit rotation	A	See below.

**Audit Rotation:** The company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules. The appointment date of the Lead Audit Partner is disclosed, but not the appointment date of the Audit Firm, nor the Auditor-General’s policy on audit firm rotation in relation to Port of Tauranga.

NZSA notes that under the Public Audit Act 2001, the Auditor-General makes the decision on auditor appointments and audit rotation for Port of Tauranga.

### Environmental Sustainability

Port of Tauranga report in their 2024 Annual Report that they will release their inaugural climate-related disclosures report before the end of October. The summary of **2023's** assessment is shown below.

Note that due to the company's ongoing work, NZSA expects some improvement on this status when the anticipated climate disclosures are published.

Policy Theme	Assessment
Approach	A
Sustainability Governance	G
Strategy and Impacts	A
Risk and Opportunity	G
Metrics and Targets	A
Assurance	A

### Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No donations are made.

### Financial & Performance

Policy Theme	Assessment	Notes
Capital Management	G	See comments below
Takeover or Scheme	n/a	

Port of Tauranga's share price fell from \$5.82 to \$5.65 (as of 19<sup>th</sup> September 2024) over the last 12 months – a 3% decline. This compares unfavourably with the NZX 50 which rose by 11% in the same period. The capitalisation of POT is \$4b placing it 15<sup>th</sup> out of 124 companies on the NZX by size and makes it a large company.

Metric	2020	2021	2022	2023	2024	Change
Revenue	\$302.0m	\$338.3m	\$375.2m	\$420.9m	\$417m	-1%

Operating Profit	\$162.2m	\$177.1m	\$193m	\$210m	\$199m	-5%
NPAT	\$88.7m	\$102.4m	\$111.3m	\$117.1m	\$90.8m	-22%
EPS <sup>1</sup>	\$0.13	\$0.15	\$0.164	\$0.172	\$0.133	-22%
PE Ratio	56	46	40	33	42	
Capitalisation	\$5.0b	\$4.8b	\$4.5b	\$3.9b	\$3.9b	n/c
Current Ratio	0.20	0.23	0.39	0.36	0.27	-24%
Debt Equity	0.55	0.49	0.32	0.32	0.33	1%
Operating CF	\$117.1m	\$99.7m	\$145.2m	\$144.6m	\$135.8m	-6%
NTA Per Share <sup>1</sup>	\$1.73	\$2.02	\$3.01	\$3.10	\$3.18	2%
Dividend <sup>1</sup>	\$0.124	\$0.135	\$0.147	\$0.156	\$0.147	-6%

<sup>1</sup> per share figures based off actual shares at balance date (not weighted average)

Looking at the 5-year trend above some interesting observations are made. Forward looking sentiment has changed as revenues are increasing, NTA per share is on an upward trajectory, yet market capitalisation has fallen. This is also reflected in the falling P/E ratio.

FY24 was a difficult year for POT. Revenues fell 1% to \$417m, bucking their 4-year rising trend, and operating profit also fell 5% to \$199m – again, bucking the longer-term trend. We also note the company was impacted by a one-off tax adjustment of \$11.9m, related to the non-deductibility of depreciation on commercial buildings – accounting for approximately 40% of the NPAT decline.

Subsequently, NPAT fell 22% to \$90.8m. This provided EPS of \$0.133, and the company reduced its fully imputed dividends to \$0.147.

The company trades on a high PE of 42 and this may be due to a second half improvement in performance.

The company continues to have very low levels of debt with the debt-equity ratio at 0.33. POT also has a very low current ratio of 0.27 but this is a function of short-term borrowings of \$270m which will be rolled over when they fall due. The low level of overall debt will serve them well should they require capital investment.

Operating Cashflows are robust at \$135.8m.

An analyst's presentation was provided in conjunction with their annual results. Some forward-looking projections were provided not limited to:

- *Export commodity price pressure remains with some improvement expected in FY 2025.*
- *Domestic economy expected to remain subdued for first half of FY25.*
- *Expect to handle circa 1.2 million TEU.*
- *Log volume expected to be - circa 6M JAS FY25.*
- *Infrastructure investment remains a priority to improve resilience and capacity.*

Earnings guidance for FY 25 will be provided at the annual meeting in October.

Quayside Securities Limited, owned by Bay of Plenty Regional Council, is the largest shareholder with a 54.14% controlling stake.

## Resolutions

### 1. To re-elect Julia Hoare as an Independent Director.

Julia Hoare was appointed to the Board in August 2015 and Chair in August 2022. She has a wide range of commercial, financial, tax, regulatory and sustainability expertise developed from both her extensive governance roles and over the course of two decades as a partner with PricewaterhouseCoopers. Julia is a Director of Auckland International Airport Limited, Meridian Energy Limited, and Port of Tauranga Trustee Company Limited. She is also a Member of the Chapter Zero New Zealand Steering Committee.

We will vote undirected proxies **IN FAVOUR** of this resolution.

### 2. To re-elect Alison Andrew as an Independent Director

Alison Andrew was appointed to the Board in April 2018. She has held a number of senior executive roles across various industry sectors, most recently as Chief Executive of Transpower New Zealand and Global Head of Chemicals for Orica PLC. She has also been a Director for Genesis Energy. Prior to those roles, she held a number of senior roles at Fonterra Cooperative Group and across the Fletcher Challenge Group in Energy, Forests and Paper. Alison has an MBA from Warwick University and studied Engineering (Chemicals and Materials) at Auckland University.

We will vote undirected proxies **IN FAVOUR** of this resolution.

### 3. To elect Fraser Whineray as a Non-Independent Director.

Fraser Whineray was appointed to the Board in November 2023 and is therefore required to offer himself for election. He is an Independent Non-Executive Director of Waste Management NZ, Quayside and AgriZeroNZ. He was appointed Executive Chair of Jarden Group in July 2024. Fraser's experience includes CEO of Mercury and COO of Fonterra Co-operative, and in governance Tilt Renewables, Kotahi, and Opus International Consultants. Fraser studied chemical and process engineering at Canterbury University and received an MBA from the University of Cambridge, where he also holds the honorary appointment of Visiting Fellow.

We will vote undirected proxies **IN FAVOUR** of this resolution.

### 4. To elect Sir Robert McLeod as an Independent Director.

Sir Robert McLeod was appointed to the Board 1 July 2024 and is therefore required to offer himself for election. He was formerly a member of the Board in his capacity as Chair of Quayside Holdings. He was on the POTL Board from October 2017 to 31 October 2023 before being reappointed.

He is currently Chair at Nati Growth Limited (formerly Ngati Porou Holding Company) (including Nati Properties Limited) and Sanford Limited. He is also a Director of AZSTA NZ Limited, China Construction Bank (New Zealand) Limited, MSJS NZ Limited, Point 76 Limited, Point Guard Limited, Point Seventy Limited, Singita Holdings Limited, Singita Investments Limited, VCFA Limited and a number of privately-owned entities. Sir Robert has been a past Board Member at ANZ National Bank, Tainui Group Holdings, Sky City Entertainment Group and Telecom and he was Oceania (Australia, New Zealand, and Pacific Islands) CEO/Managing Partner for the international accounting practice of Ernst & Young and then New Zealand Chair until 2015. In 2019 Sir Robert was appointed Knight Companion of the NZ Order of Merit.

NZSA notes that Sir Robert was previously a non-independent director of POT by virtue of his association as the Chair of Quayside Holdings.

His proposal for re-election as an independent director reflects a belief by the remainder of the POT Board in the skills he is able to bring to POT in his own right. NZSA notes that:

- None of the factors described in section 2.4 of the NZX Corporate Governance Code apply to Sir Robert McLeod.
- He was an independent director of Quayside (ie, not affiliated with Quayside's local government owners).
- We are not aware of any other relationship that may compromise his independence

On this basis, we will vote undirected proxies **IN FAVOUR** of this resolution.

#### **5. That the Board is authorised to fix the auditor's remuneration for the coming year.**

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

#### **Proxies**

You can vote online or appoint a proxy at <https://investorcentre.linkgroup.nz/voting/POT>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **1.00pm Wednesday 23 October 2024**.

**Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.**



## The Team at NZSA