

## Company Update

Reuters	POT.NZ
Bloomberg	POT NZ
Exchange	NZE
Ticker	POT

30 November 2011

Issued by:

Craig's Investment Partners Ltd

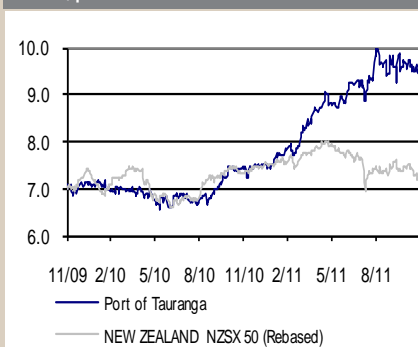
## Hold

Price at 29 Nov 2011	<b>9.53</b>
Price target - 12mth	<b>10.31</b>
52 week range (NZD)	<b>9.96 - 7.25</b>
NEW ZEALAND NZSX 50	<b>3,239</b>

## Key changes

Price target	9.91 to 10.31	<b>4.0%</b>
Sales (FYE)	210 to 209	<b>-0.7%</b>
EBIT margin (FYE)	41.9 to 41.9	<b>0.1%</b>
Net profit (FYE)	66.1 to 66.3	<b>0.2%</b>

## Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.8	-1.8	27.9
NEW ZEALAND NZSX 50			
	-2.6	-2.0	-0.9

## Stock data

Market cap (NZDm)	<b>1,277</b>
Market cap (USDm)	<b>972</b>
Shares outstanding (m)	<b>134.0</b>
Daily volume (USDm)	<b>0.17</b>
Free float	<b>100.00</b>

## Key indicators (FY1)

ROE (%)	<b>7.7</b>
ROA (%)	<b>8.8</b>
Net debt/equity (%)	<b>29.2</b>
Book value/share (NZD)	<b>5.38</b>
Price/book (x)	<b>1.8</b>
Net interest cover (x)	<b>7.7</b>
EBIT margin (%)	<b>41.9</b>

# Port of Tauranga

## Investor Day update

### Investor Day focuses on competitive advantages

POT reaffirmed AGM guidance for FY12 NPAT of cNZ\$64-67m (CIPe NZ\$66m) noting momentum had continued into 2Q12. The executive team presented a cohesive compelling strategic picture for the Port emphasising key competitive advantages; 1) extensive land-bank providing unrivalled growth capacity 2) operational efficiency (flexible and competitive labor force) 3) balance sheet strength to accommodate growth capex 4) vertical integration to optimize supply chain and position as a hub port. Revised TP NZ\$10.31, maintain Hold.

### Presentations illustrate depth and breadth of vertically integrated strategy

Highlights from the comprehensive update by the 5 strong executive team included; risks from excess shipping capacity that may lead to shipping line consolidation near term, POT's strategic positioning as a hub port as shipping lines increasingly utilize this strategy with larger ships, its trade imbalance wrt to Metroport rail (currently skewed to exports), RMA issues for channel dredging (4 year consent process nearing conclusion). Presentations from its associates (C3 and Northport) highlighted ongoing momentum in the log trade whilst Tapper Transport appears likely to achieve its max earn-out (cNZ\$4m assuming c+50% EBITDA growth) vindicating the April 2010 acquisition. The combination of MetroPort, Tapper, Metrobox/Pack are enabling POT to shorten customer supplier chains and offer competitive service levels and rates relative to Port of Auckland.

### Forecast revisions; EPS changes are immaterial (Fig 4)

Changes to key FY12 assumptions include log volume growth (from +4% to +10% reflecting the YTD run-rate of c+14%) and container volume growth (from +22.5% to 22%), the net effect is our estimates are largely unchanged. We retain our existing FY12-14 capex assumptions (Fig 1) following guidance released today.

### DCF and PE rel Target Price increased to NZ\$10.31 from NZ\$9.91

Our revised Target Price is weighted 50:50 based on 1) our DCF rolled 1 Yr fwd (NZ\$9.76) and 2) PE multiple of 20x (POT's historical average for the last decade) applied to FY13 (previously FY12) EPS which equates to NZ\$10.86. With the shares trading within 10% of our revised Target Price we maintain our Hold recommendation. Key risks are competitive pressure from rival Ports of Auckland, loss of key personnel, a stronger/weaker than expected economy and NZD strength/weakness.

## Forecasts and ratios

Year End Jun 30	2010A	2011A	<b>2012E</b>	2013E	2014E
Net Profit (NZDm)	50	58	<b>66</b>	73	78
EV/EBITDA (x)	13.9	12.9	<b>14.0</b>	12.9	12.1
Yield (net) (%)	4.2	4.1	<b>3.6</b>	3.9	4.2

Source: Craig's Investment Partners estimates, company data

1 Pre-exceptionals/extraordinaries

2 Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:30 November 2011

## Running the numbers

### Australasia

### New Zealand

### Emerging Companies

## Port of Tauranga

Reuters: POT.NZ

Bloomberg: POT NZ

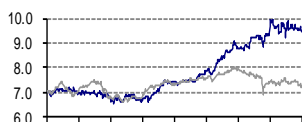
### Hold

Price (29 Nov 11)	NZD 9.53
Target price	NZD 10.31
52-week Range	NZD 7.25 - 9.96
Market Cap (m)	NZDm 1,277
	USDm 972

### Company Profile

POT is New Zealand's principal export port and the country's largest port by volume and land area. It has a natural log trade monopoly servicing central North Island forests which no other port has sufficient infrastructure, capacity or proximity to. POT's other major trade items include forest products, coal, petroleum, fertiliser and primary products (e.g. dairy and kiwifruit). POT also has a significant container operation incorporating an inland Metroport in South Auckland, connected by rail to POT. It has 50% interests in Northport (based at Marsden Point) and C3 (a joint venture with Asciano specialising in on-wharf logistics).

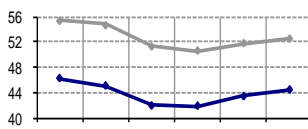
### Price Performance



Nov 09 Feb 10 May 10 Aug 10 Nov 10 Feb 11 May 11 Aug 11

— Port of Tauranga  
— NEW ZEALAND NZSX 50 (Rebased)

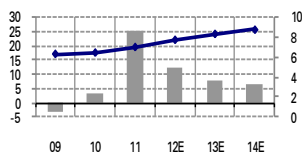
### Margin Trends



09 10 11 12E 13E 14E

— EBITDA Margin — EBIT Margin

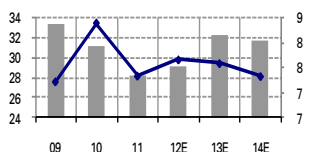
### Growth & Profitability



09 10 11 12E 13E 14E

— Sales growth (LHS) — ROE (RHS)

### Solvency



09 10 11 12E 13E 14E

— Net debt/equity (LHS) — Net interest cover (RHS)

Fiscal year end 30-Jun	2009	2010	2011	2012E	2013E	2014E
<b>Financial Summary</b>						
CIP EPS (NZD)	0.34	0.37	0.44	0.49	0.54	0.59
Reported EPS (NZD)	0.34	0.37	0.44	0.49	0.54	0.59
DPS (NZD)	0.27	0.29	0.31	0.34	0.37	0.40
BVPS (NZD)	4.80	4.99	5.22	5.38	5.55	5.74
<b>Valuation Metrics</b>						
Price/Sales (x)	5.7	6.2	5.5	6.1	5.7	5.3
P/E (CIP) (x)	18.2	18.3	17.5	19.3	17.5	16.3
P/E (Reported) (x)	18.2	18.3	17.5	19.3	17.5	16.3
P/BV (x)	1.3	1.3	1.7	1.8	1.7	1.7
FCF yield (%)	1.9	2.6	5.1	2.6	1.5	3.9
Dividend yield (%)	4.4	4.2	4.1	3.6	3.9	4.2
EV/Sales	7.2	7.6	6.6	7.1	6.7	6.4
EV/EBITDA	12.9	13.9	12.9	14.0	12.9	12.1
EV/EBIT	15.5	16.9	15.7	16.9	15.4	14.3
<b>Income Statement (NZDm)</b>						
Sales	144	148	185	209	224	239
EBITDA	80	81	95	106	116	126
EBIT	66	67	78	87	97	106
Pre-tax profit	57	59	67	76	85	92
<b>Net income</b>	<b>45</b>	<b>50</b>	<b>58</b>	<b>66</b>	<b>73</b>	<b>78</b>
<b>Cash Flow (NZDm)</b>						
<b>Cash flow from operations</b>	<b>55</b>	<b>34</b>	<b>62</b>	<b>73</b>	<b>80</b>	<b>85</b>
Net Capex	-39	-10	-10	-40	-60	-35
<b>Free cash flow</b>	<b>16</b>	<b>24</b>	<b>52</b>	<b>33</b>	<b>20</b>	<b>50</b>
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-34	-36	-40	-46	-50	-54
Net inc/(dec) in borrowings	8	1	-12	13	30	3
Other investing/financing cash flows	11	9	11	0	0	0
<b>Net cash flow</b>	<b>2</b>	<b>-22</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Change in working capital	6	-16	2	0	0	0
<b>Balance Sheet (NZDm)</b>						
Cash and cash equivalents	3	1	12	12	12	12
Property, plant & equipment	820	845	852	874	915	931
Goodwill	0	0	0	0	0	0
Other assets	87	110	126	137	149	162
<b>Total assets</b>	<b>911</b>	<b>956</b>	<b>990</b>	<b>1,024</b>	<b>1,077</b>	<b>1,105</b>
Debt	218	210	210	223	253	256
Other liabilities	50	78	80	80	80	80
<b>Total liabilities</b>	<b>268</b>	<b>288</b>	<b>290</b>	<b>303</b>	<b>333</b>	<b>336</b>
<b>Total shareholders' equity</b>	<b>643</b>	<b>668</b>	<b>700</b>	<b>721</b>	<b>744</b>	<b>769</b>
Net debt	214	209	198	210	240	243
<b>Key Company Metrics</b>						
Sales growth (%)	-3.5	3.1	25.2	12.5	7.5	6.6
CIP EPS growth (%)	19.2	10.9	16.6	13.4	9.9	7.8
Payout ratio (%)	80.1	77.6	71.1	68.8	68.1	68.3
EBITDA Margin (%)	55.4	54.7	51.3	50.6	51.8	52.5
EBIT Margin (%)	46.3	45.1	41.9	41.9	43.4	44.5
ROE (%)	6.3	6.4	7.0	7.7	8.3	8.7
Net debt/equity (%)	33.3	31.2	28.2	29.2	32.3	31.7
Net interest cover (x)	7.2	8.4	7.3	7.7	7.6	7.3
<b>DuPont Analysis</b>						
EBIT margin (%)	46.3	45.1	41.9	41.9	43.4	44.5
x Asset turnover (x)	0.2	0.2	0.2	0.2	0.2	0.2
x Financial cost ratio (x)	0.9	0.9	0.9	0.9	0.9	0.9
x Tax and other effects (x)	0.8	0.9	0.9	0.9	0.9	0.9
<b>= ROA (post tax) (%)</b>	<b>5.0</b>	<b>5.4</b>	<b>6.0</b>	<b>6.6</b>	<b>6.9</b>	<b>7.2</b>
x Financial leverage (x)	1.4	1.4	1.4	1.5	1.5	1.5
<b>= ROE (%)</b>	<b>7.0</b>	<b>7.6</b>	<b>8.7</b>	<b>9.6</b>	<b>10.3</b>	<b>10.9</b>
annual growth (%)	9.5	8.5	13.3	11.2	7.5	5.6
x NTA/share (avg) (x)	4.8	4.9	5.0	5.1	5.2	5.4
<b>= Reported EPS</b>	<b>0.34</b>	<b>0.37</b>	<b>0.44</b>	<b>0.49</b>	<b>0.54</b>	<b>0.59</b>
annual growth (%)	7.3	10.9	16.6	13.4	9.9	7.8

Source: Company data, Craigs Investment Partners estimates

## Port of Tauranga 2011 Investor Day

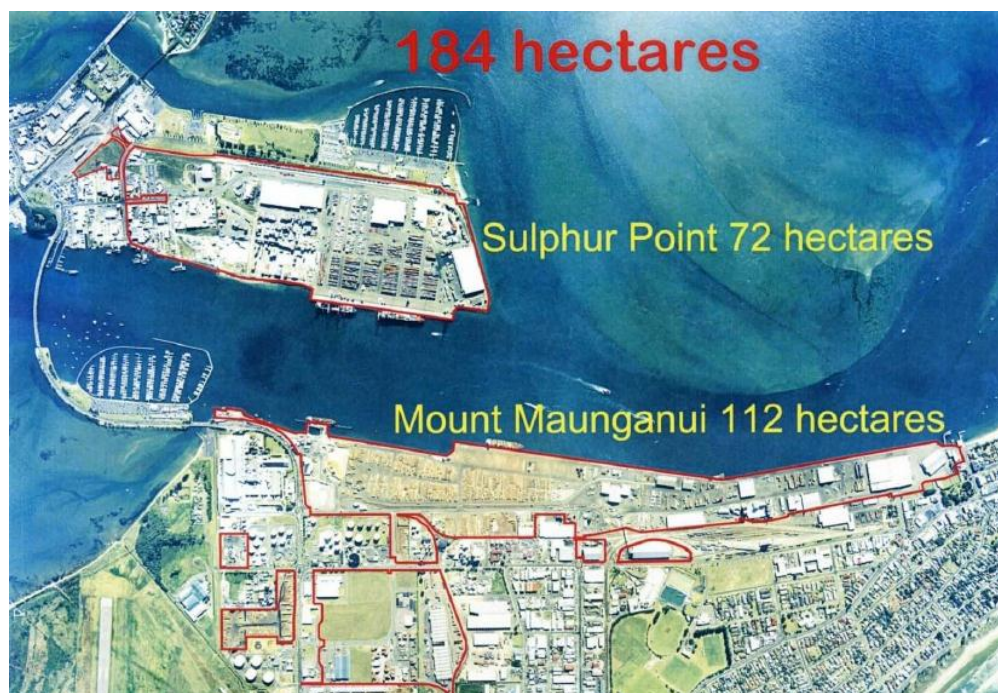
Figure 1: POT Indicative capex; committed and uncommitted

*POT outlined its expected capital commitments which are partly predicated on receiving consent for the initial dredging process (to c13.5m). Timing of spend remains uncertain but our estimates (unchanged) conservatively assume the majority of uncommitted spend occurs over FY12-14*

	2012F	2013F	2014F	Total
Maintenance capex	10	10	10	30
Sixth crane and straddle carriers	13	10		23
170m berth and terminal/reefer expansion	15	20		35
<b>Total Committed</b>	<b>38</b>	<b>40</b>	<b>10</b>	<b>88</b>
Dredging	0	15	15	30
Terminal expansion	0	0	5	5
Mount wharf replacement	0	10	10	20
Rail mounted gantry cranes - rail	0	4	4	8
<b>Total Uncommitted</b>	<b>0</b>	<b>29</b>	<b>34</b>	<b>63</b>
<b>Total</b>	<b>38</b>	<b>69</b>	<b>44</b>	<b>151</b>
<b>CIPE</b>	<b>40</b>	<b>60</b>	<b>35</b>	<b>135</b>

Source: Craigs Investment Partners

Figure 2: POT Strategic Land Holdings



Source: Company Investor Day presentation

Figure 3: POT Land utilization (utilized in RED, available in YELLOW)



Source: Company Investor Day presentation

Figure 4: Forecast revisions

**Forecast revisions reflect upgraded log volumes (from +4% to +10% for FY12) and downgraded container growth estimates (from +22.5% to +20%). These changes effectively cancel each other out**

	FY12			FY13			FY14		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Revenue	210.0	208.6	-0.7%	225.8	224.2	-0.7%	240.8	239.1	-0.7%
EBITDA	106.1	105.5	-0.5%	116.7	116.1	-0.5%	126.3	125.6	-0.5%
NPAT	66.1	66.3	0.2%	72.7	72.8	0.2%	78.4	78.5	0.1%
EPS	49.3	49.4	0.2%	54.2	54.3	0.2%	58.5	58.5	0.1%
DPS	33.5	33.5	0.0%	36.0	36.0	0.0%	40.0	40.0	0.0%
EBITDA margin	50.5%	50.6%		51.7%	51.8%		52.4%	52.5%	

Source: Craigs Investment Partners

Figure 5: POT financial summary

Key valuation metrics	FY10A	FY11A	FY12F	FY13F	FY14F
P/E (using normalised EPS)	25.7	22.0	19.4	17.7	16.4
P/E relative to NZSE50	1.71	1.57	1.54	1.40	1.30
EV/EBITDA	18.2	15.3	13.7	12.6	11.6
EV/EBIT	22.4	19.1	17.1	15.7	14.4
Dividend yield (net)	3.0%	3.2%	3.5%	3.9%	4.2%
Dividend yield (gross)	4.5%	4.8%	5.3%	5.8%	6.2%
Imputation	100.0%	100.0%	100.0%	100.0%	100.0%
Key ratios	FY10A	FY11A	FY12F	FY13F	FY14F
ROE (NPAT normalised/SHF)	5.2%	5.9%	6.5%	6.8%	7.1%
ROCE (EBIT/Avg debt + Avg SHF)	7.7%	8.8%	9.6%	10.2%	10.6%
Working capital/sales	-2.0%	2.9%	2.6%	2.4%	2.2%
Net interest cover (EBIT) (x)	8.4	7.3	7.7	7.6	7.3
Net debt/book equity	31.4%	30.0%	30.9%	33.9%	33.3%
NTA per share (aiats)	484.8	509.2	524.7	542.0	560.5
Optg cash flow per share (aiats)	25.2	46.1	54.3	59.4	63.7
Profit & loss (NZ\$m)	FY10A	FY11A	FY12F	FY13F	FY14F
Operating Revenue	148.1	185.4	208.6	224.2	239.1
Revenue growth	3.1%	25.2%	12.5%	7.5%	6.6%
<b>EBITDA</b>	<b>81.0</b>	<b>95.0</b>	<b>105.5</b>	<b>116.1</b>	<b>125.6</b>
EBITDA/sales	54.7%	51.3%	50.6%	51.8%	52.5%
Depn & amort expense	14.2	17.3	18.1	18.8	19.3
EBIT	66.8	77.7	87.4	97.3	106.3
Net interest expense	8.0	10.6	11.4	12.8	14.5
<b>NPBT</b>	<b>58.8</b>	<b>67.1</b>	<b>76.0</b>	<b>84.5</b>	<b>91.8</b>
Tax expense	16.9	19.5	21.3	23.7	25.7
Abnormals (A/T)	-1.6	0.0	0.0	0.0	0.0
Associates	8.2	10.8	11.5	11.9	12.4
<b>Reported NPAT</b>	<b>48.5</b>	<b>58.4</b>	<b>66.3</b>	<b>72.8</b>	<b>78.5</b>
<b>Normalised NPAT</b>	<b>50.1</b>	<b>58.4</b>	<b>66.3</b>	<b>72.8</b>	<b>78.5</b>
Wtd avg shares (m)	134	134	134	134	134
EPS (reported) (cps)	36.2	43.6	49.4	54.3	58.5
<b>EPS (normalised) (cps)</b>	<b>37.4</b>	<b>43.6</b>	<b>49.4</b>	<b>54.3</b>	<b>58.5</b>
EPS growth (normalised)	10.9%	16.6%	13.4%	9.9%	7.8%
DPS - ordinary (cps)	29.0	31.0	34.0	37.0	40.0
DPS/EPS (normalised)	77.6%	71.1%	68.8%	68.1%	68.3%
Key assumptions	FY10A	FY11A	FY12F	FY13F	FY14F
Container volume (000 TEUs)	511	591	709	748	789
Container volume growth	-6.4%	15.5%	20.0%	5.5%	5.5%
Log volumes (000 tonnes)	3,862	4,421	4,863	5,106	5,311
Other forestry volume (000 tonnes)	2,180	2,319	2,412	2,484	2,559
Other breakbulk volumes	654	297	348	455	562
Breakbulk revenue	30.2	32.3	35.7	38.4	41.0
Container Revenue	97.4	113.8	129.7	139.5	150.2
Transport operations revenue	4.5	21.5	24.2	26.6	27.6
Property revenue	16.0	17.8	19.0	19.7	20.4
<b>Total operating revenue</b>	<b>148.1</b>	<b>185.4</b>	<b>208.6</b>	<b>224.2</b>	<b>239.1</b>
Metroport rail costs	17.8	21.1	25.3	27.7	30.2
Other contracted services, Port ops	11.9	12.8	18.8	20.2	21.8
Contracted services for Transport operations	1.2	5.8	5.9	6.0	6.1
Labour	17.1	25.3	26.1	26.7	27.4
Direct Fuel & Power	4.7	6.4	6.6	6.7	6.8
PPE Maintenance	5.1	8.1	8.3	8.4	8.6
Other	7.8	10.9	12.1	12.3	12.6
<b>Total operating costs</b>	<b>67.1</b>	<b>90.3</b>	<b>103.0</b>	<b>108.1</b>	<b>113.5</b>
Key cash flow items (NZ\$m)	FY10A	FY11A	FY12F	FY13F	FY14F
Cash profit after tax	51.2	60.0	72.8	79.6	85.4
Working capital change	-15.8	1.8	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>33.8</b>	<b>61.8</b>	<b>72.8</b>	<b>79.6</b>	<b>85.4</b>
Capex	-9.8	-9.7	-40.0	-60.0	-35.0
<b>Free cash flow</b>	<b>23.9</b>	<b>52.0</b>	<b>32.8</b>	<b>19.6</b>	<b>50.4</b>
Other investing cash flows	-11.0	0.0	0.0	0.0	0.0
Dividends	-36.2	-40.2	-45.6	-49.6	-53.6
Other equity cash flows	0.0	0.0	0.0	0.0	0.0
<b>Surplus cash</b>	<b>-23.2</b>	<b>11.8</b>	<b>-12.7</b>	<b>-30.0</b>	<b>-3.2</b>
Key balance sheet items (NZ\$m)	FY10A	FY11A	FY12F	FY13F	FY14F
Net debt	210.1	209.8	222.6	252.5	255.7
Working capital	-3.0	5.4	5.4	5.4	5.4
Shareholders' funds	668.5	700.3	720.9	744.1	769.0
Net tangible assets	649.9	682.5	703.2	726.4	751.3
Total assets	956.3	990.5	1023.9	1077.0	1105.1

Source: Craigs Investment Partners

**Recommendation:** Hold  
**Share price:** NZ\$9.60  
**Mkt cap (\$m):** NZ\$1,287  
**Current DCF:** NZ\$9.16

12m target price summary	NZ\$ (cps)
DCF	9.16
DCF rolled 1yr fwd	9.76
Target PE Multiple (20x 1 yr fwd)	10.86
<b>Target price (average)</b>	<b>10.31</b>
12-month capital return	7.4%
Net dividend yield (FY12)	3.5%
<b>Total return</b>	<b>10.9%</b>

Historical average PE multiple (2000-2010) = 20x

	1H10A	2H10A	1H11A	2H11A
	67.1	81.0	92.8	92.6
	-9.1%	16.0%	38.4%	14.3%
	<b>38.1</b>	<b>42.9</b>	<b>47.4</b>	<b>47.7</b>
	56.8%	53.0%	51.0%	51.5%
	7.0	7.2	8.4	8.9
	31.1	35.7	38.9	38.8
	3.7	4.3	5.2	5.5
	<b>27.4</b>	<b>31.4</b>	<b>33.8</b>	<b>33.4</b>
	8.1	8.9	10.2	9.3
	0.0	0.0	0.0	0.0
	3.8	4.4	4.9	5.9
	<b>23.1</b>	<b>27.0</b>	<b>28.4</b>	<b>30.0</b>
	<b>23.1</b>	<b>27.0</b>	<b>28.4</b>	<b>30.0</b>
	134	134	134	134
	17.2	20.2	21.2	22.4
	<b>17.2</b>	<b>20.2</b>	<b>21.2</b>	<b>22.4</b>

DCF assumptions			
WACC	8.9%	RF rate	5.5%
Eq Beta	0.96	Term GR	2.0%
Eq RP	6.5%	Ke	10.2%

Valuation compcos (CIPE COB 29 Nov 11)			
		FY12	FY12
		EV/EBITDA	
<b>POT</b>		<b>13.7</b>	<b>19.4</b>
Asciano Group	Australia	7.5	17.7
COSCO Pacific	Asia	11.1	8.3
China Merchants	China	8.6	12.1
Hamburger Hafen (HHLA)		6.4	18.4
International Container (ICT)		9.7	20.1
Forth Ports		N/A	N/A
DP World		9.5	17.6
<b>Average (ex POT)</b>		<b>8.8</b>	<b>15.7</b>

Valuation compcos (CIPE COB 29 Nov 11)			
		FY13 EV/	FY13 PE
		EV/EBITDA	
<b>POT</b>		<b>12.6</b>	<b>17.7</b>
Asciano Group	Australia	6.9	13.9
COSCO Pacific	Asia	10.4	8.6
China Merchants	China	9.0	12.5
Hamburger Hafen (HHLA)		6.0	16.4
International Container (ICT)		9.3	16.7
Forth Ports		N/A	N/A
DP World		8.5	15.2
<b>Average (ex POT)</b>		<b>8.4</b>	<b>13.9</b>

Major shareholders at 19 August 2010		
	Shrs (m)	% Capital
Quayside Securities Ltd	73.7	55.0%

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