FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH

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Transport Trends
Looking Beyond COVID; Recovery Priced In

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The recovery phase of the COVID-19 pandemic is well underway and likely to play out over a number of years for sector participants, yet share prices for those most impacted are already discounting best case outcomes. Sentiment is winning over fundamentals, particularly for aviation exposed stocks, and is likely to continue to do so while reopening newsflow remains positive. At an industry segment level air travel remains a domestic only story in most of the world, though this is likely to change over the next six months as vaccination programmes and government cooperation (i.e. a Tasman bubble) allow for an easing of border restrictions. In the meantime airline balance sheets are being stretched globally, despite favourable airfreight pricing and demand. Sea freight lanes have been beset by congestion and rate increases, though robust consumer demand translates to a robust volume backdrop. However, access to empty containers (and agricultural workers) may constrain New Zealanders key export season. The boom in domestic parcel freight will begin to slow from May 2021 as it begins to cycle the post-lockdown boom from last year, yet secular growth should continue given the positive outlook for ecommerce.

Sector preferences

We retain a preference for parcel and freight operators Freightways (FRE; OUTPERFORM) and Mainfreight (MFT; OUTPERFORM).

FRE has justifiably re-rated over the past six months yet at ~20x one year forward PE it still trades at a material discount to the domestic market. We believe it is now a higher quality business (enhanced competitive positioning, better growth potential, improved M&A track record, and lower exposure to sunset industries) than it has been historically, and therefore deserves a higher multiple. FY21 is proving to be a break-out year in FRE's history, with a number of drivers contributing to a step change in earnings.

MFT is a high quality growth story with an enviable track record and a significant opportunity to expand its presence further in global freight/logistics markets given its proven competitive advantage. Trading at ~33x one year forward PE, ahead of its key global freight peers and now broadly on par with the domestic market, share price upside is reliant on earnings growth, in our opinion. With its global peers recently reporting strong trading conditions, MFT is unlikely to disappoint when it reports FY21 results on 26 May 2021.

Figure 1. Valuation summary as at 19 March 2021 (NZ$)

			Share	Target	Gross yld	PE		EV/EBITDA	
Company	Code	Rating	price	price	FY21	FY21	FY22	FY21	FY22
Air New Zealand	AIR	NEUTRAL	1.84	1.60	0.0%	n/a	n/a	9.0x	5.2x
Freightways	FRE	OUTPERFORM	10.78	11.00	4.8%	21.9x	19.8x	10.4x	9.8x
Mainfreight	MFT	OUTPERFORM	66.75	70.00	1.5%	37.6x	33.3x	15.1x	14.1x
Auckland Airport	AIA	NEUTRAL	7.57	6.70	0.0%	n/a	141.5x	78.6x	42.9x
Napier Port	NPH	NEUTRAL	3.43	3.45	2.8%	36.3x	31.6x	17.4x	15.2x
Port of Tauranga	POT	UNDERPERFORM	7.47	6.00	2.5%	51.6x	47.9x	32.6x	30.0x

Source: Refinitiv, Forsyth Barr analysis

Key trends

In each edition of Transport Trends we provide the latest available transport sector statistics and industry data, extracting key trends that continue to shape the growth outlook and competitive backdrop.

Airports and airlines

- *Domestic pax recovery*: Domestic air travel has recovered from the initial COVID-19 demand and travel restrictions induced shock. However, volumes remain below pre COVID-19 levels. Despite robust domestic demand, a full recovery is unlikely until international borders re-open, given a significant portion has historically been transits/international tourists.
- *Airfreight resurgence*: Air freight rates remain elevated on pre COVID-19 levels. This is a function of (1) airfreight supply continuing to be constrained due to a lack of passenger aircraft belly space, and (2) ongoing shipping industry congestion and the need for time-sensitive deliveries increasing demand. AIR is operating an average of ~55 flights per week as part of the second phase of the Government's subsidy scheme. The current agreement ends on 30 April 2021, but we expect this to be extended further until wide-scale passenger travel resumes.
- *Fuel prices*: Jet fuel prices have been rising since late 2020, and are now nearing pre COVID-19 levels. This increase is due to the recovery in Brent Crude oil prices, which have recovered following a sharp decline at the onset of COVID-19 and related global lockdowns. However, the crack spread remains very low relative to historic levels; we expect the crack spread to expand when jet fuel demand recovers with passenger air travel.

Road and rail

- *Domestic heavy vehicle traffic*: Heavy vehicle traffic volumes have fallen lower again following the sharp recovery post the initial Alert Level 4 lockdown. NZTA data shows that heavy vehicle traffic was down -4% on average over the past three months, against the prior year. This decline will be exaggerated by the significant decline in tourist buses through peak summer.
- *Ecommerce*: NZ Post data shows that 2020 ecommerce spending was up +25% on the prior year with ~+305,000 new online shoppers. COVID-19 restrictions have accelerated the shift to online retail, with a step change in consumer behaviour. This trend is supportive of business-to-consumer (B2C) parcel volume growth.
- *US freight accelerating*: The recent strong reporting season for global freight and logistics players (refer to our report *Mainfreight: Q4 Peer Read-through — Industry Delivering Growth*, date 5 March 2021) is consistent with the resurgence in a number of key US freight industry indices.
- *Fuel prices*: Domestic road fuel costs have ticked up in 1Q21 following the sharp decline in early 2020. The recovery in Brent Crude oil prices (partially offset by a stronger NZD) will continue to put upward pressure on fuel prices. This will have an impact on domestic freight costs as operators pass this through to customers.

Ports and shipping

- *Shipping industry congestion*: Supply chains continue to face significant congestion due to a number of factors, including (1) vessel delays, as ships wait to dock at ports in both New Zealand and globally as a result of worker shortages and other disruptions, and (2) container availability, as de-synchronised trade flows have created uneven distribution of containers at ports. In New Zealand this congestion has been exacerbated by Ports of Auckland's (POAL) delays. Industry congestion has caused shipping rates to increase materially, which is generally passed on to consumers.
- *Containers*: Total New Zealand container volumes fell -7% in 2020 reflecting (1) the impact of COVID-19 on demand, and (2) supply chain congestion with longer transit times. The availability of empty containers and seasonal labour supply for horticulture exports could be a challenge for the export volumes through 2021.
- *Log exports*: Log export volumes have improved in recent months. A-grade log export prices have risen +39% from March 2020 to February 2021, following Chinese port closures causing prices and volumes for log exports to decline at the onset of COVID-19. Given the rising prices for export logs and strong Chinese demand for logs, we expect volume growth to continue. The wall of wood is supportive of an increase in log export volumes over the next ~10 years.
- *Port productivity*: Port productivity has declined for the majority of New Zealand ports. Ship rates have declined due to ship delays arising from both international and domestic congestion, and crane rates have fallen as on port congestion issues and lack of trained staff for some ports has impacted the work rate.

Operating statistics and industry data

Airports and airlines

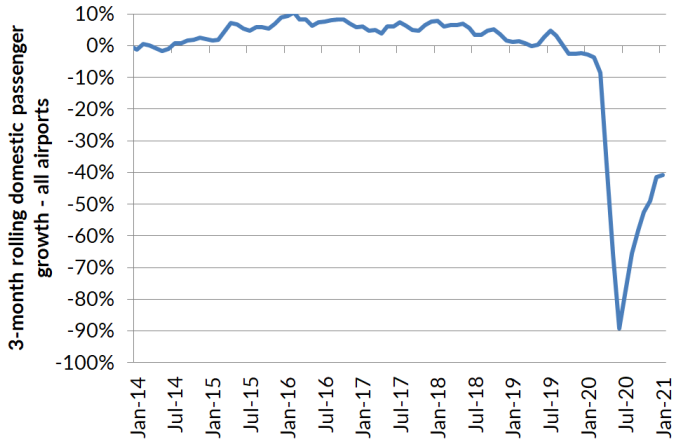
Data in this section is relevant to listed companies including Auckland Airport (AIA), Infratil (IFT) and Air New Zealand (AIR). Statistics principally reflect passenger movements but also cover seat capacity changes and other key airline specific data.

Airports

Domestic passenger movements within New Zealand

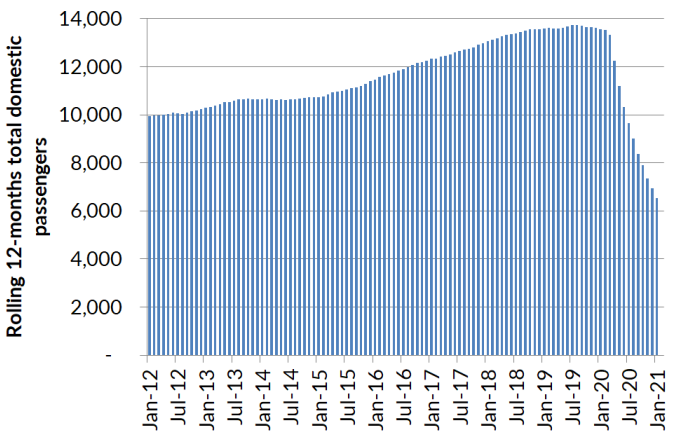
Monthly domestic passenger data for all NZ airports is not publicly available. While Air NZ provides monthly statistics, Jetstar has historically provided six-monthly summaries (at financial result time). As a result, we have built our own domestic passenger series using available airport and airline data. We show the assumed number of passengers in Figure 3.

Figure 2. Total domestic passenger growth



Source: Company reports, Forsyth Barr analysis

Figure 3. Total domestic passengers ('000)

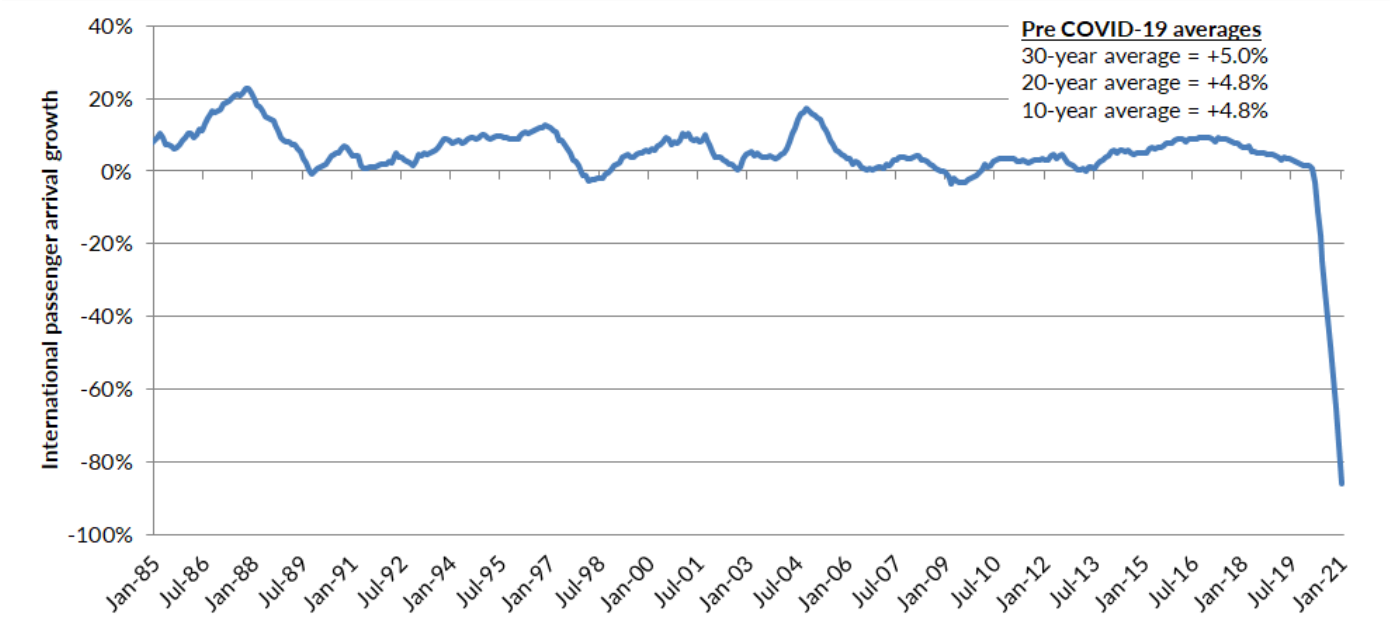


Source: Company reports, Forsyth Barr analysis

International passenger movements into New Zealand

In Figure 4 we show total international passenger arrivals across all New Zealand international airports (including Auckland, Christchurch, Wellington, Queenstown and Dunedin). Average annual international passenger growth for the past 30-years (pre COVID-19) amounts to +5%.

Figure 4. Total international pax arrivals across all New Zealand airports (12 months rolling)

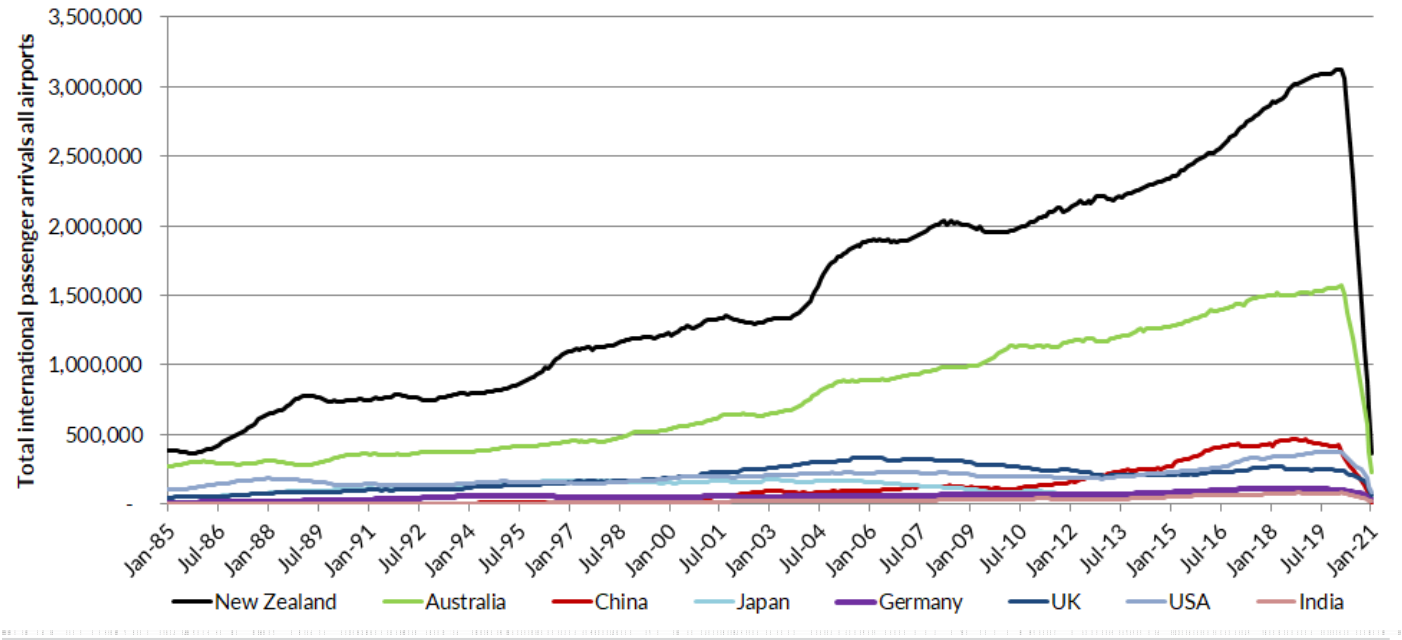


Source: Stats NZ, Forsyth Barr analysis

The origin of International passenger arrivals

New Zealanders travelling overseas account for the largest proportion of international travellers. Australians represent the next biggest segment of the market. China has risen rapidly in recent years overtaking more traditional visitor countries.

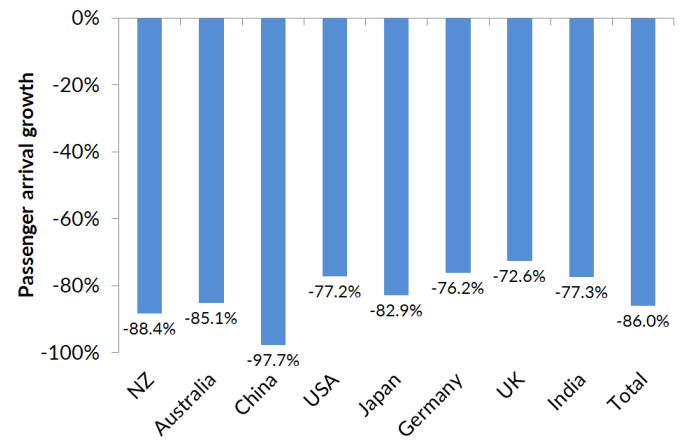
Figure 5. International passengers country of residence (12 months rolling)



Source: Statistics NZ, Forsyth Barr analysis

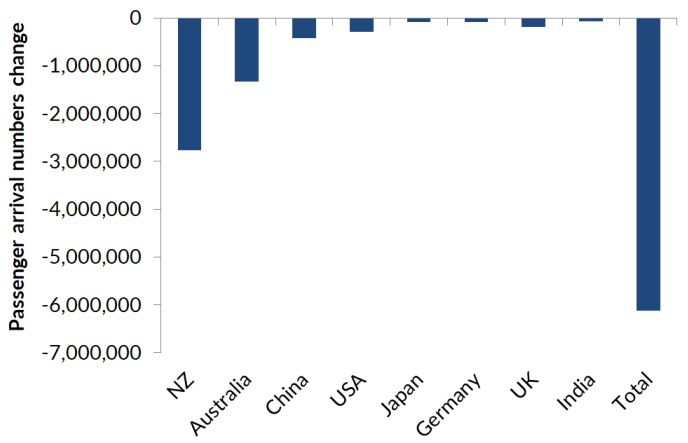
The year-on-year change in both percentage and absolute numbers for Figure 5 are shown in Figure 6 and Figure 7 respectively. Overall growth is being driven by a combination of nationalities but remains heavily reliant on more New Zealanders travelling offshore.

Figure 6. International arrivals growth (12m to Jan 2021)



Source: Statistics NZ, Forsyth Barr analysis

Figure 7. International arrivals change (12m to Jan 2021)



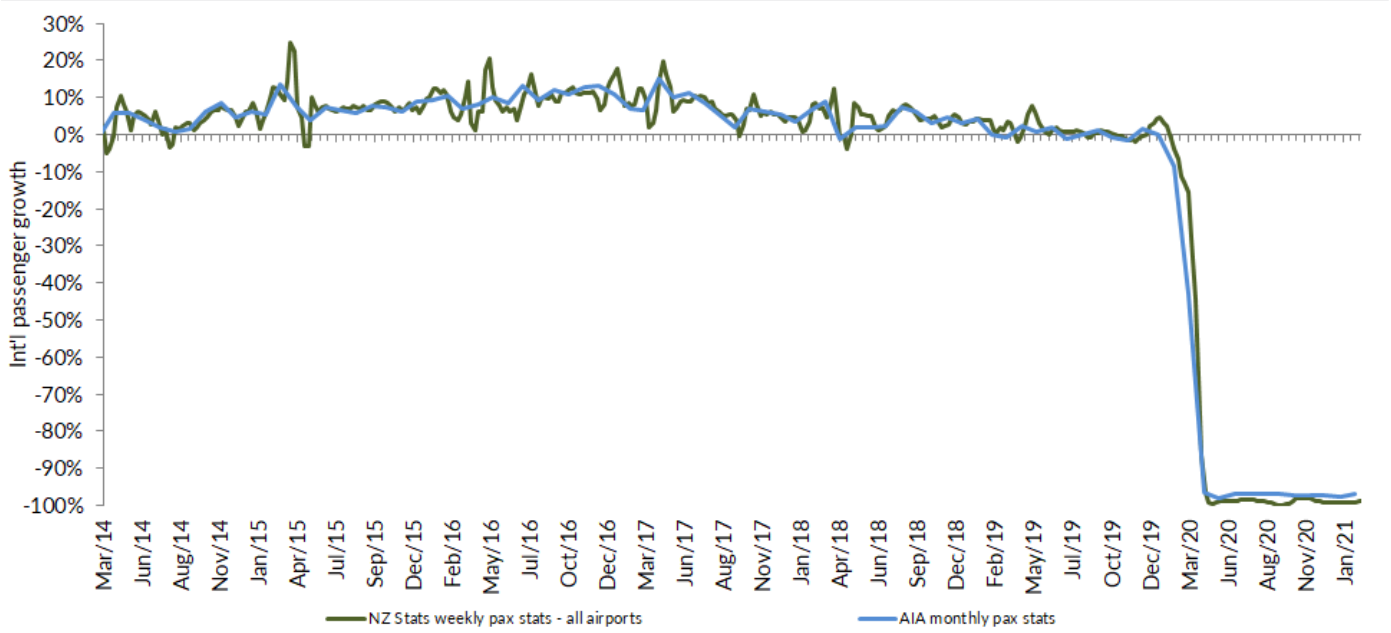
Source: Statistics NZ, Forsyth Barr analysis

Auckland Airport (AIA)

Pax data

NZ Statistics provides weekly international pax data based on New Zealand resident departures and overseas resident arrivals. While the data is for all New Zealand airports, AIA's historic ~75% share of international pax means the data offers a good forward proxy of upcoming monthly releases, at least when borders reopen.

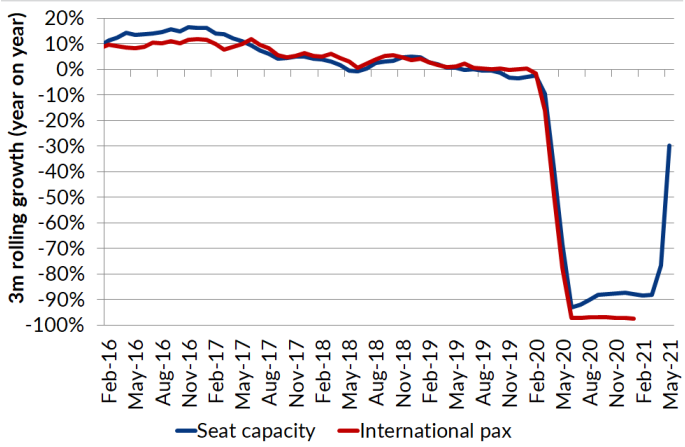
Figure 8. AIA's international pax growth follows all airports pax data



Source: Statistics NZ, Forsyth Barr analysis

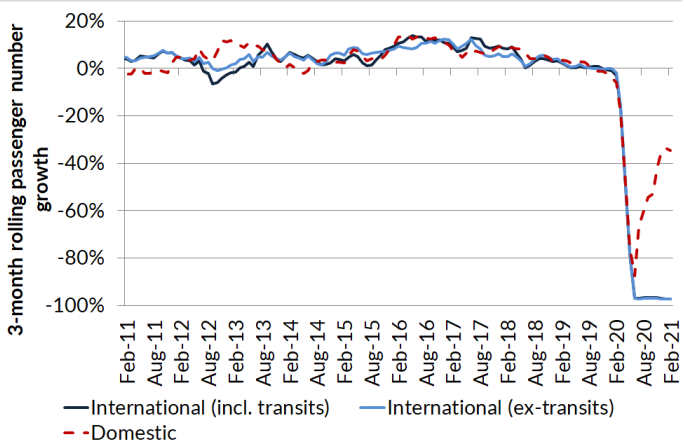
AIA's international pax growth is ordinarily a function of seat capacity and underlying demand. However, in light of the aircraft utilisation switch to cargo during COVID-19 (helped by the government sponsored scheme) pax have materially lagged capacity (Figure 9). The robust recovery in domestic services since the initial national lockdown (March 2020-May 2020) is shown in Figure 10.

Figure 9. AIA international capacity vs passengers



Source: OAG, NZ Stats, Forsyth Barr analysis

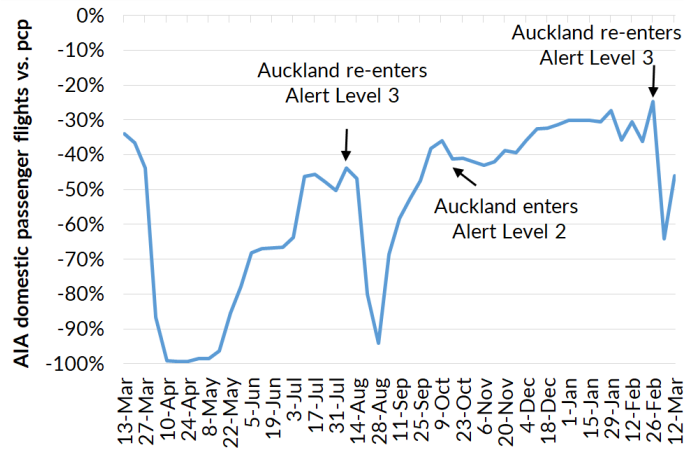
Figure 10. Auckland Airport passenger number growth



Source: Company reports, Forsyth Barr analysis

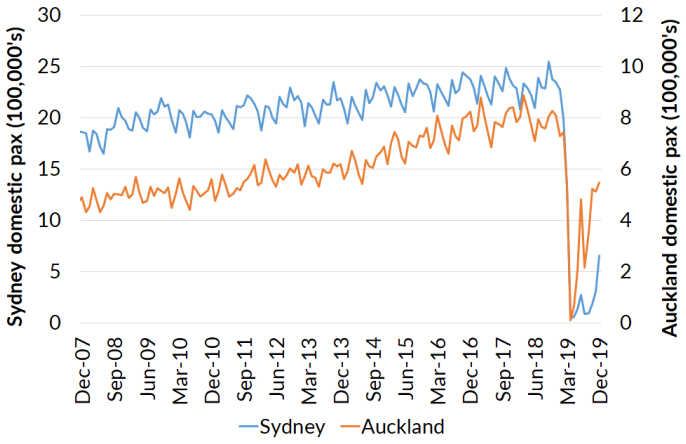
AIA experienced an initial sharp decline in domestic passenger travel as a result of government COVID-19 restrictions. We show AIA's domestic recovery trend since the onset of COVID-19 in Figure 11, as well as a comparison of AIA and Sydney Airports historic growth and recovery in Figure 12.

Figure 11. Weekly AIA domestic flight arrivals



Source: Flightaware, Forsyth Barr analysis

Figure 12. AIA vs. Sydney Airport domestic passenger



Source: Australian Government, AIA, Forsyth Barr analysis

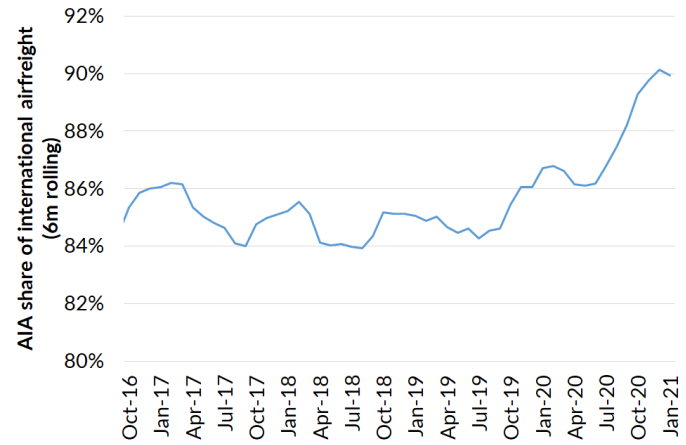
Cargo data

AIA enjoyed a ~85% share of New Zealand's international air cargo pre COVID-19, higher than its international pax share reflective of its greater connectivity than other airports. While its total international cargo volume declined through COVID-19, its share has increased given reduced competition.

Figure 13. AIA international air cargo volume growth

Source: Company reports, Forsyth Barr analysis

Figure 14. AIA share of total international air cargo

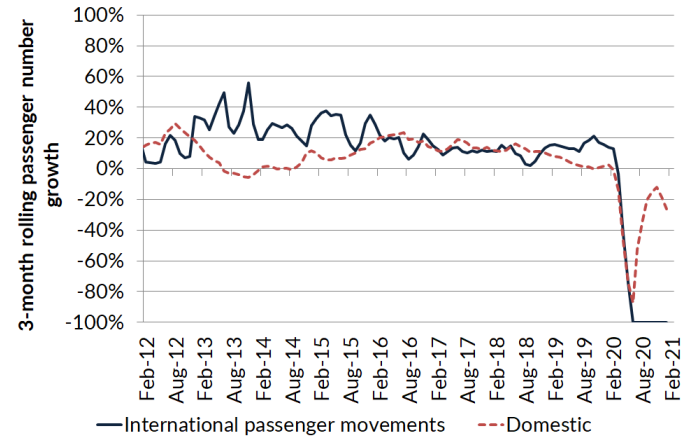


Source: Stats NZ, Forsyth Barr analysis

Queenstown Airport (24.99% AIA owned)

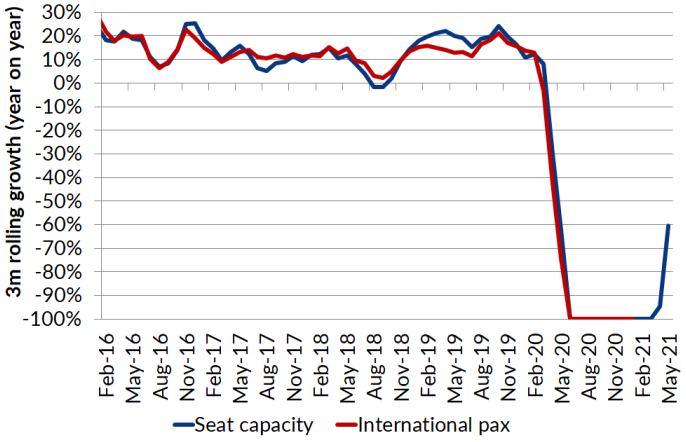
AIA acquired a 24.99% stake in Queenstown Airport in July 2010. Queenstown is the fourth busiest airport in New Zealand and is a key entry point for Australian visitors during the ski season. We show passenger growth trends in Figure 15.

Figure 15. Queenstown Airport passenger number growth



Source: Company reports, Forsyth Barr analysis

Figure 16. Queenstown international capacity vs passengers

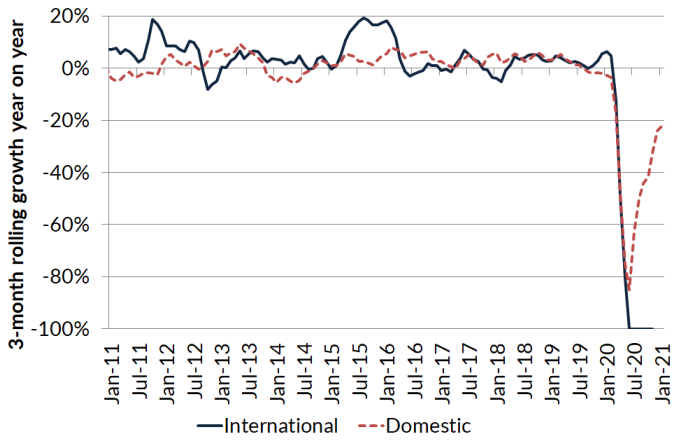


Source: Forsyth Barr analysis

Wellington Airport

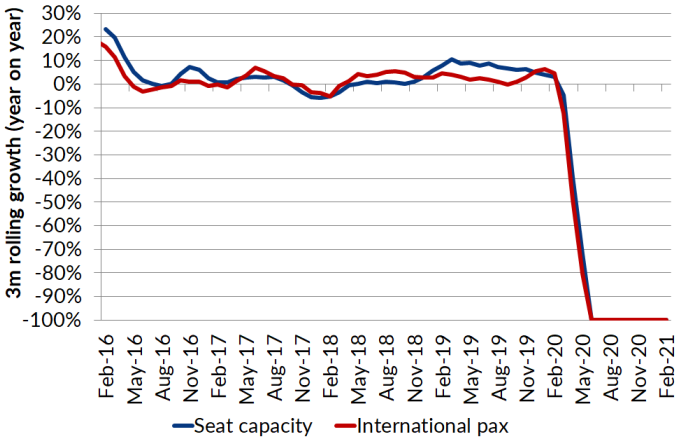
Wellington Airport is owned by Infratil (66%) and Wellington City Council (34%). It is the third busiest airport in New Zealand. Domestic passengers account for ~87% of all passengers. The relatively short length of the runway (~2.1km) limits the use of the airport for larger planes on long-haul services. We show recent passenger growth trends in Figure 17.

Figure 17. Wellington Airport passenger number growth



Source: Company reports, Forsyth Barr analysis

Figure 18. WIAL international capacity vs passengers

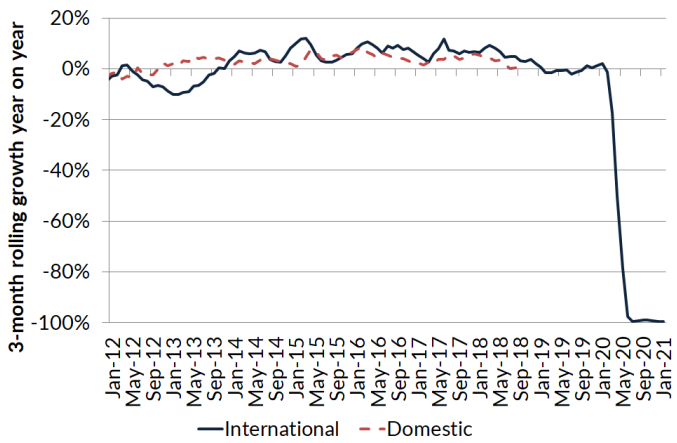


Source: OAG, Company reports, Forsyth Barr analysis

Christchurch Airport

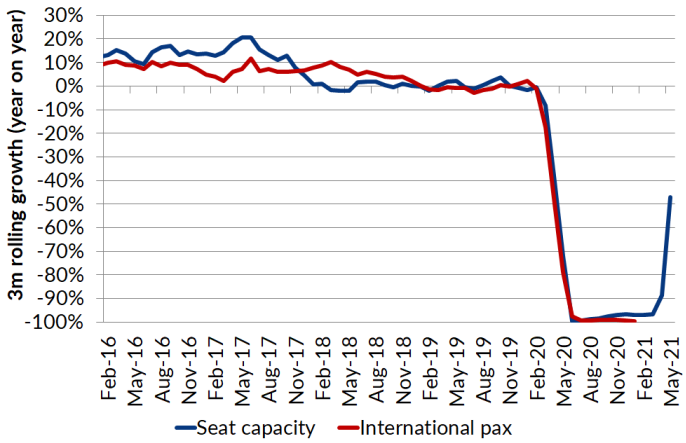
Christchurch Airport is 75% owned by the Christchurch City Council and 25% owned by the New Zealand Government. Since the 2010/2011 earthquakes Christchurch has lost share of international passengers to Auckland but experienced growth from late 2013. Christchurch Airport has not reported domestic passenger numbers since late 2018.

Figure 19. Christchurch Airport passenger number growth



Source: Company reports, Forsyth Barr analysis

Figure 20. CIAL international capacity vs passengers



Source: OAG, NZ Stats, Forsyth Barr analysis

Airlines

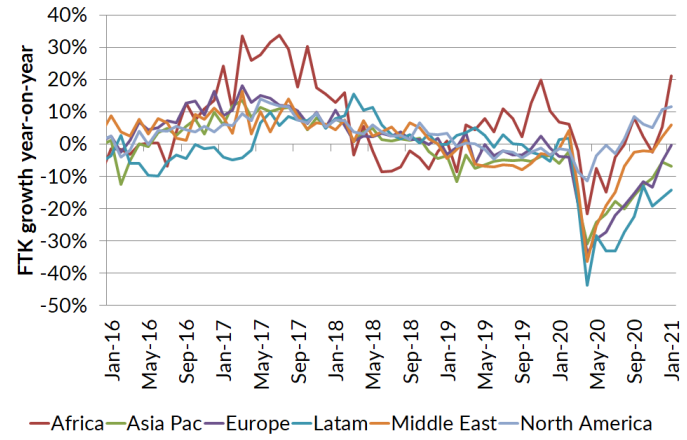
IATA global air freight data

IATA releases air freight tonne kilometres (FTKs) travelled monthly for all regions globally. FTK is a measure of the size of an airline's freight business and is calculated as freight tonnage multiplied by distance travelled.

IATA global air passenger data

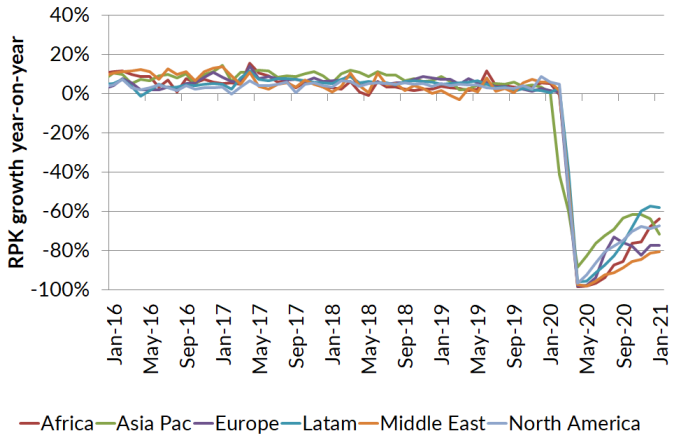
In Figure 21 we show IATA data for airline sector growth in revenue passenger km (RPK) across all regions. RPK is a measure of the passenger volume flown by airlines. It is calculated by multiplying the number of passengers flown by distance travelled.

Figure 21. Freight tonne kilometre (FTK) growth by region



Source: IATA, Forsyth Barr analysis

Figure 22. Revenue passenger km (RPK) growth by region



Source: IATA, Forsyth Barr analysis

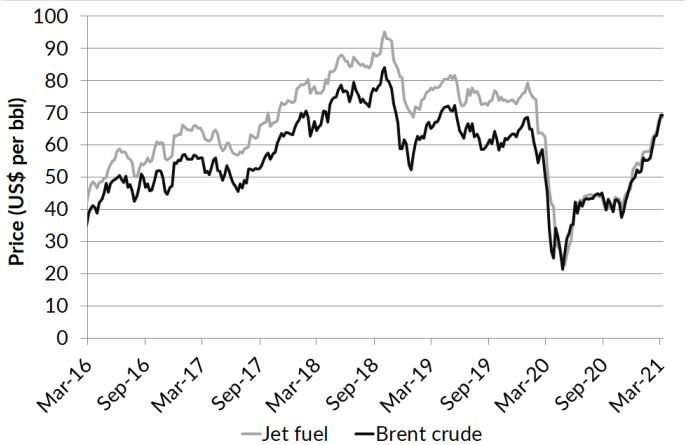
Jet fuel prices

Jet fuel is the largest single operating cost for airlines. Jet fuel prices have fallen significantly over the past two years as shown in Figure 23 but are now materially off these lows. The price of jet fuel acquired in New Zealand is likely to rise and close the gap to import parity prices over the near-term.

Brent and crack spread

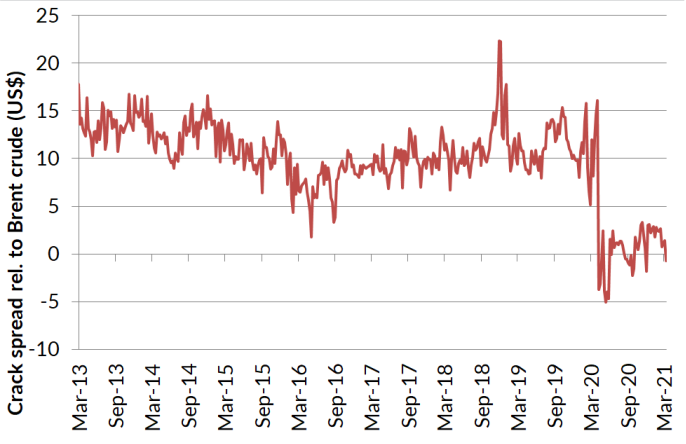
Jet fuel prices are a function of crude prices and the crack spread (the cost of converting crude oil into jet fuel). Airlines also incur 'into plane' (supply chain) fuel related expenses. In Figure 24 we show the history of the crack spread relative to the Brent crude price.

Figure 23. Jet fuel price (spot)



Source: Bloomberg, Forsyth Barr analysis

Figure 24. Crack spread relative to Brent crude price



Source: Bloomberg, Forsyth Barr analysis

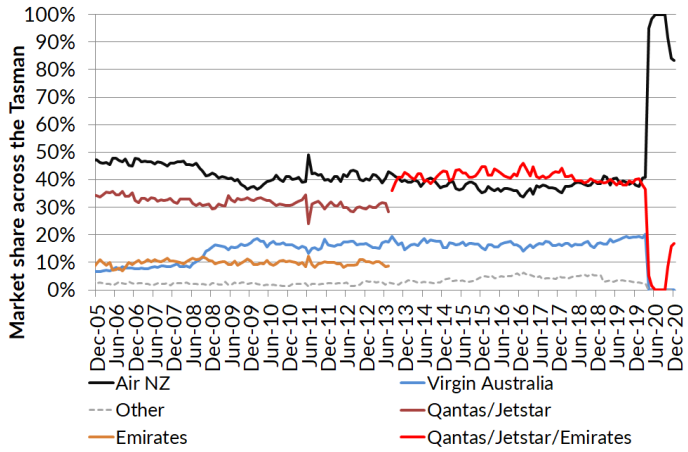
Trans-Tasman market share

In Figure 25 we show the historical market share development of trans-Tasman services. Air New Zealand currently has a ~100% market share due to New Zealand Government sponsored cargo flights across the Tasman. The Air New Zealand and Virgin Australia JV ended in late October 2018.

Tasman load factors

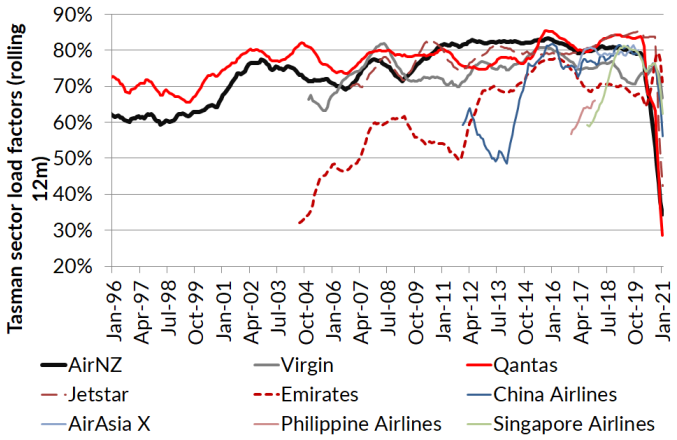
In Figure 26 we show trans-Tasman load factors by airline. Air New Zealand and Qantas enjoy the highest load factors, while fifth freedom carrier (the right to fly between two foreign countries on a flight originating or ending in one's own country) Emirates, the lowest.

Figure 25. Trans-Tasman market share



Source: BITRE, Forsyth Barr analysis

Figure 26. Trans-Tasman load factors (12-m rolling)



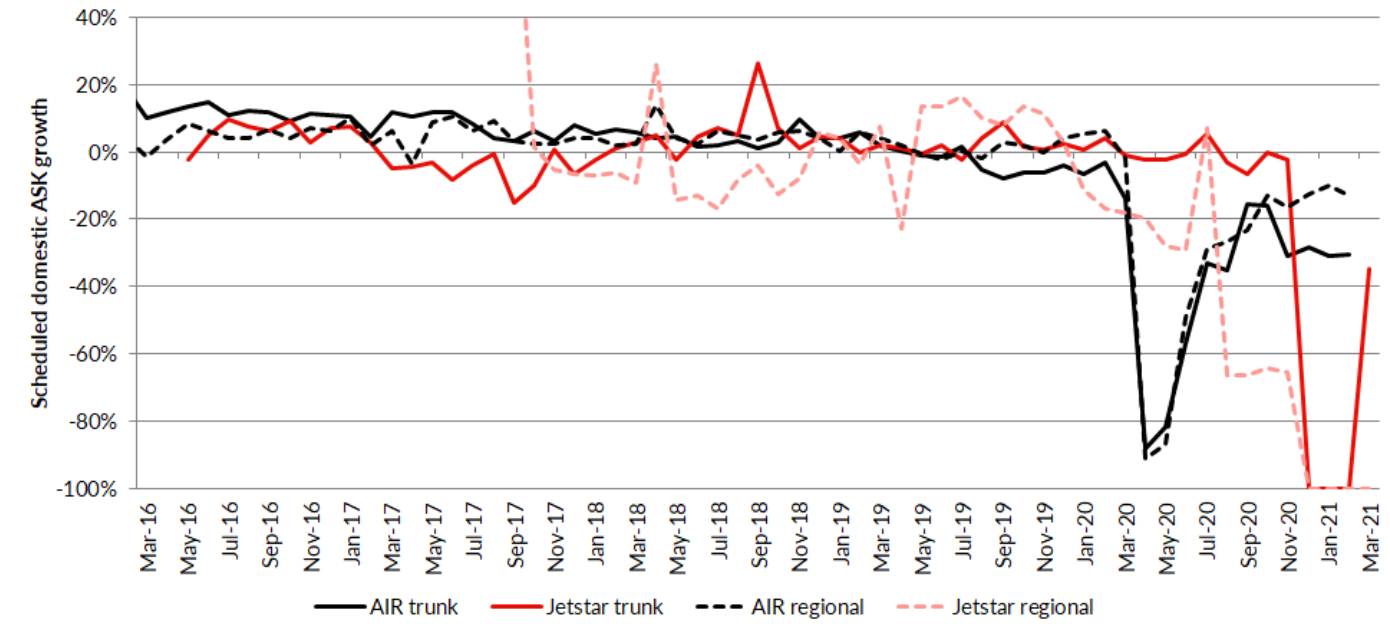
Source: BITRE, Forsyth Barr analysis

Domestic airline capacity outlook

Airline schedule data from OAG provides a picture of the capacity outlook. This is subject to change as airlines constantly amend their schedule to meet demand trends and capacity issues. The data is broadly consistent with capacity guidance issued by key airlines. In light of COVID-19 very little reliance can be placed on the forward schedules for the foreseeable future.

In Figure 27 we show the scheduled domestic capacity growth across both trunk (Wellington, Christchurch, and Auckland) and regional airports for Air New Zealand and Jetstar.

Figure 27. Scheduled domestic capacity growth

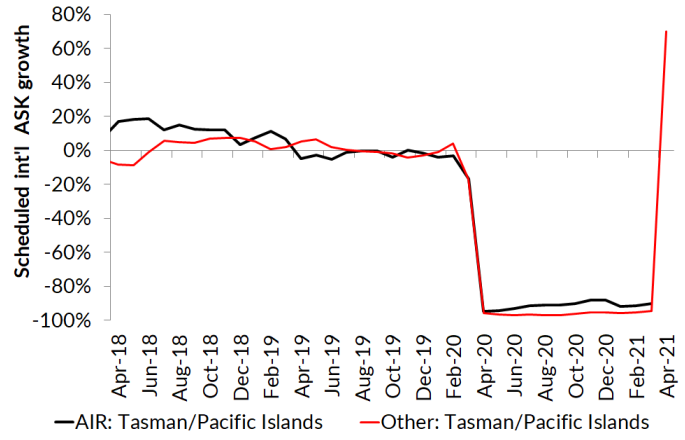


Source: OAG, Forsyth Barr analysis

International airline capacity growth

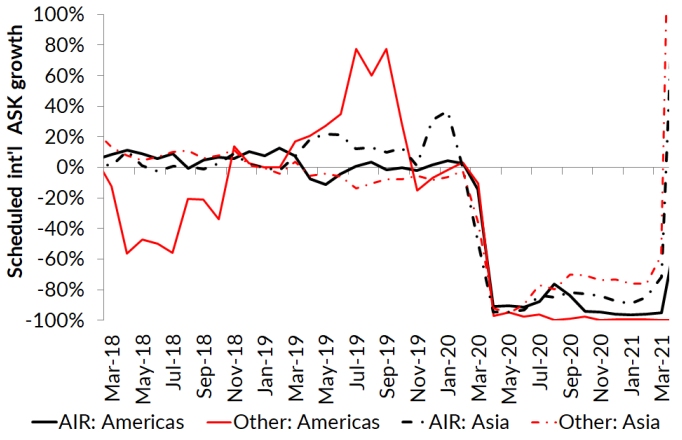
In Figure 28 and Figure 29 we show the scheduled international capacity growth across AIR's international regions.

Figure 28. Scheduled Tasman & Pacific Island capacity growth



Source: OAG, Forsyth Barr analysis

Figure 29. Scheduled long-haul capacity growth



Source: OAG, Forsyth Barr analysis

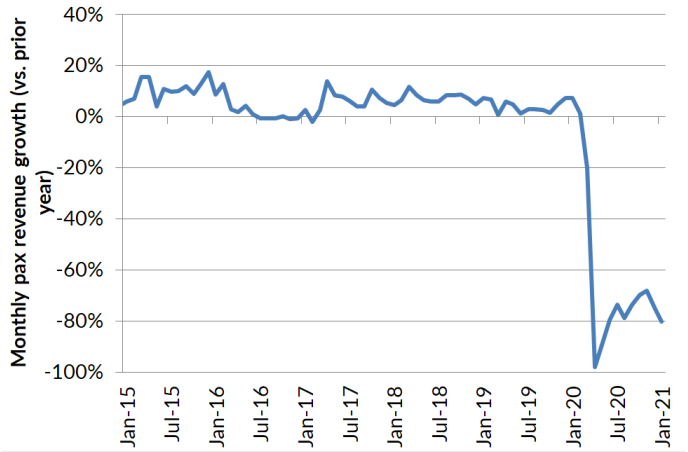
Air New Zealand (AIR)

AIR publishes monthly operating statistics covering passenger numbers, Revenue Passenger Kilometres, load factors, and yields.

Revenue growth

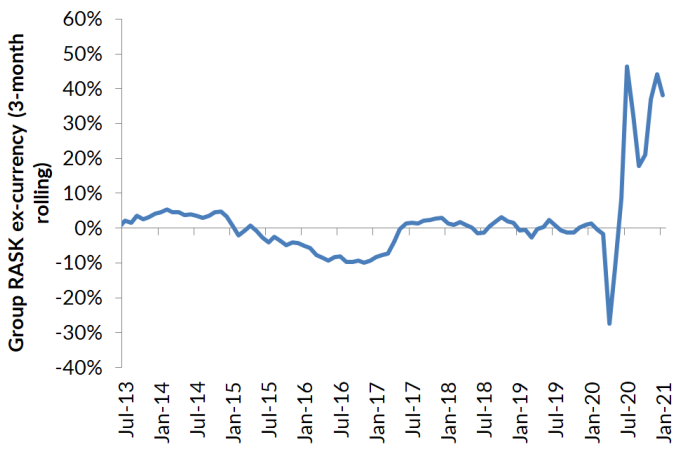
We calculate AIR's monthly passenger revenue growth from its operating statistics releases as shown in Figure 30.

Figure 30. AIR's monthly pax revenue growth



Source: Company data, Forsyth Barr analysis

Figure 31. AIR's RASK growth (constant currency)



Source: Company data, Forsyth Barr analysis

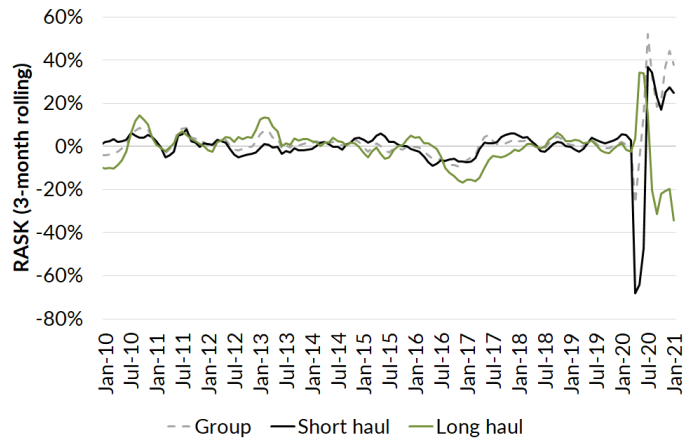
Operating statistics

RASK reflects the amount of revenue generated per ASK (available seat kilometre). Changes in RASK reflect various drivers of demand and supply.

Long haul and short haul RASK growth are subject to different drivers. Long haul RASKs tend to be more indirectly impacted by oil prices, given the higher proportion of jet fuel burnt on long haul services compared to short haul. In light of COVID-19 capacity and demand issues recent RASK trends have been volatile.

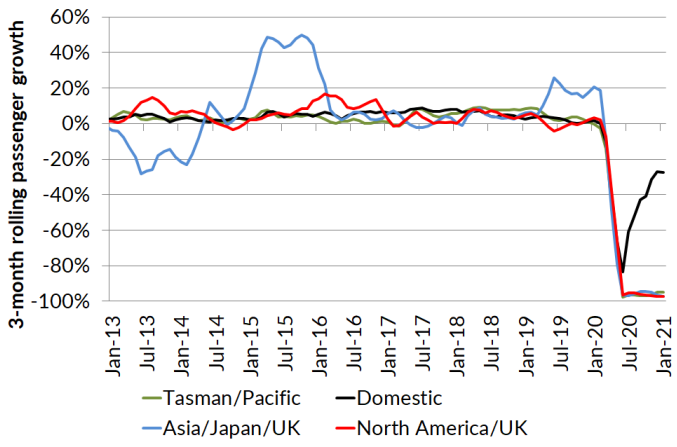
We show in Figure 33 growth in passenger numbers by region for AIR.

Figure 32. AIR's long haul and short haul RASK growth (NZD)



Source: Company reports, Forsyth Barr analysis

Figure 33. AIR's passenger growth (3-month rolling)

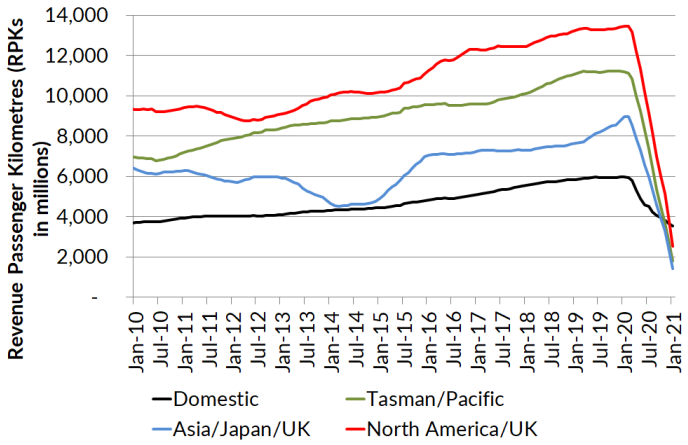


Source: Company reports, Forsyth Barr analysis

Revenue Passenger Kilometres (RPK) is a key measure of output for airlines. In Figure 34 we show the rolling annual RPK for AIR across each of its regions.

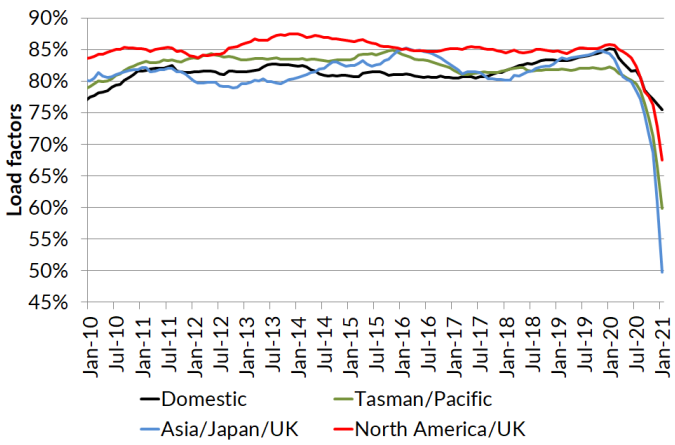
Load factors are a key measure of capacity utilisation. An airline's load factors equates to its RPK divided by its ASK (Available Seat Kilometres). Load factors at AIR have declined as a result of COVID-19 as shown in Figure 35, as international services are predominantly used for cargo.

Figure 34. AIR's Revenue Passenger Kilometre (RPK)



Source: Company data, Forsyth Barr analysis

Figure 35. AIR's 12-month rolling load factors by region



Source: Company data, Forsyth Barr analysis

Road and rail

Road and rail data is most relevant to freight and courier related operators including Mainfreight (MFT), Freightways (FRE) and TIL Logistics (TLL). It may also be relevant to the ports in light of the competitive dynamics between road, rail and coastal shipping.

Road

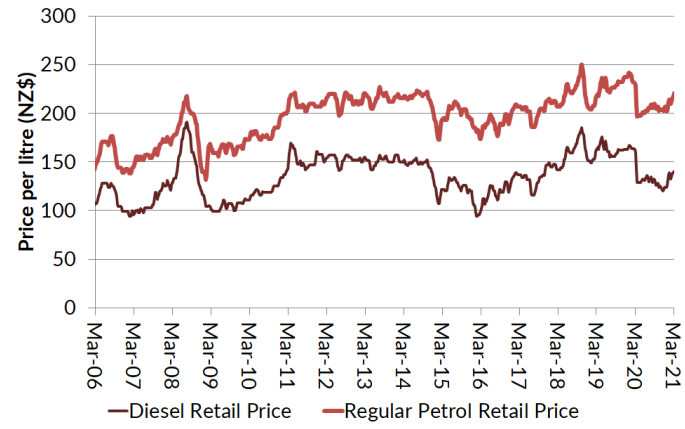
New Zealand retail fuel prices

Fuel price changes are typically passed on to customers via owner-operator models in NZ. Fuel prices may dictate the relative competitiveness of different transport modes.

New Zealand courier fuel surcharges

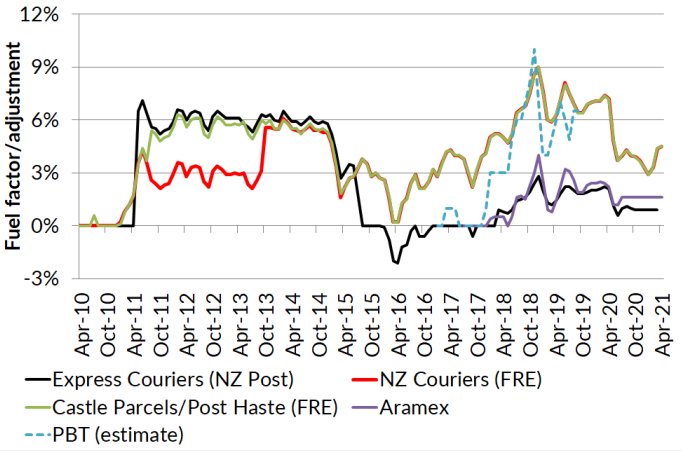
The major courier companies in New Zealand (Freightways and Express Couriers) both charge fuel surcharges on top of their base prices. PBT and Fastway have followed suit in recent years.

Figure 36. New Zealand retail transport fuel costs



Source: MBIE, Forsyth Barr analysis

Figure 37. Courier company fuel adjustment levies



Source: Company websites, Forsyth Barr analysis

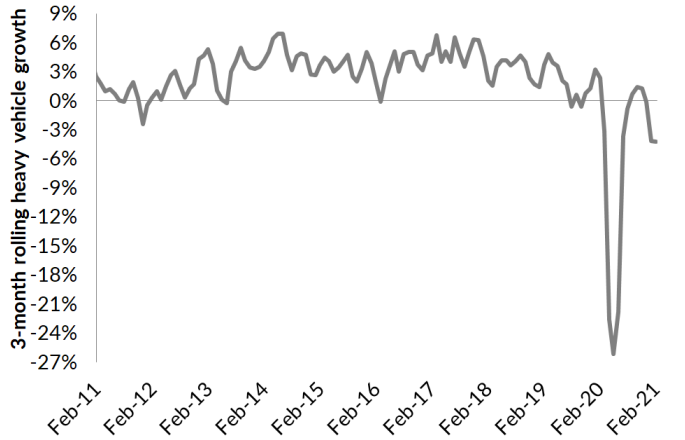
New Zealand heavy vehicle usage statistics

The NZTA publishes monthly data from ~120 traffic counting sites throughout New Zealand along main state highways. Heavy vehicles are those categorised as >3,500kg. State Highways account for 10% of roads in NZ but represent 65% of heavy goods traffic.

New Zealand diesel consumption

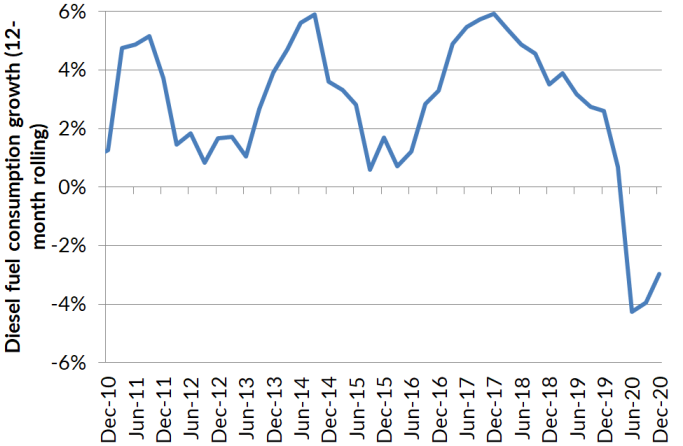
MBIE publishes quarterly fuel consumption data by fuel type as measured by million barrels. Heavy vehicles are predominantly diesel powered and therefore can be used as a reasonable proxy for total heavy vehicle traffic growth.

Figure 38. Heavy vehicle growth on state highways



Source: NZTA, Forsyth Barr analysis

Figure 39. Quarterly diesel consumption growth



Source: MBIE, Forsyth Barr analysis

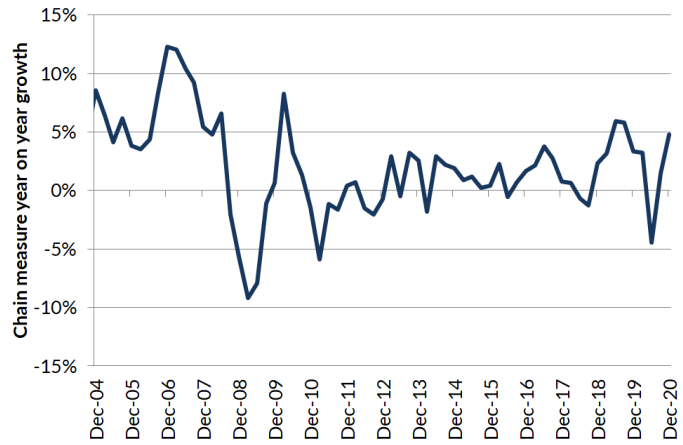
Australia road transport volumes

Timely data on the Australian freight transport industry is limited. In Figure 40 we show the growth profile of the road transport contribution to national accounts on a quarterly basis.

North American freight volumes

The Transportation Services Index (TSI), created by the U.S. Department of Transportation (DOT), Bureau of Transportation Statistics, measures the movement of freight. The index combines data on freight traffic that has been weighted to yield a monthly measure of transportation services output.

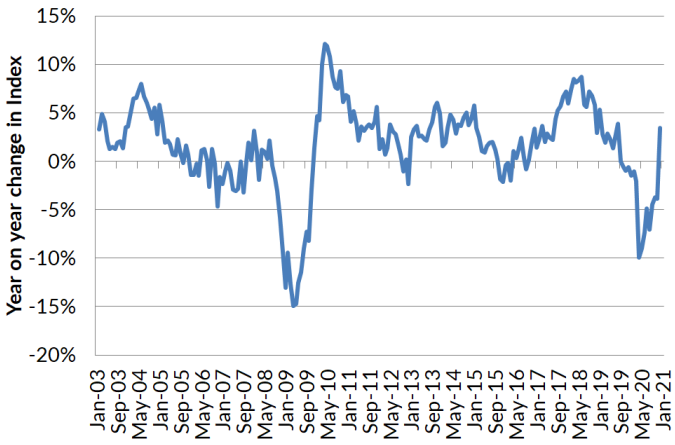
Figure 40. Transport, postal and warehousing national account*



Source: ABS, Forsyth Barr analysis

*Road transport component

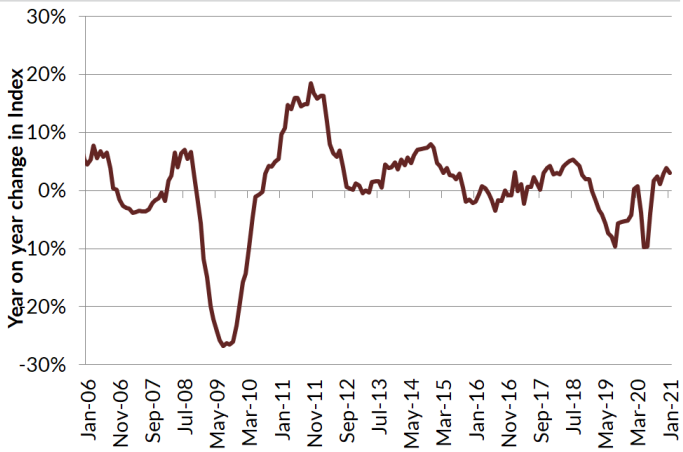
Figure 41. Transportation Services Index



Source: US Dept of Transport, Forsyth Barr analysis

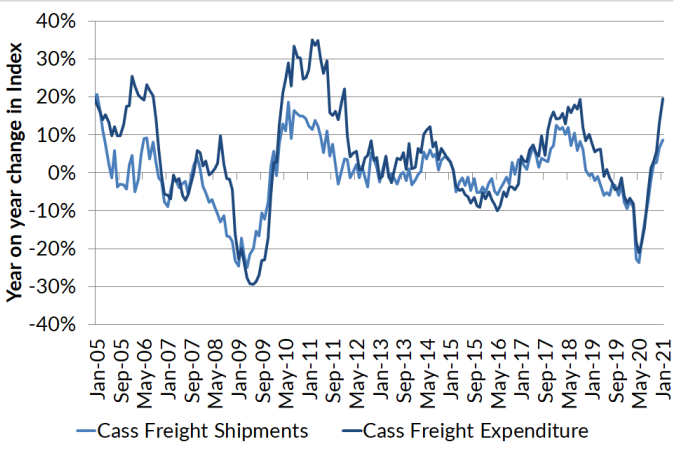
The American Trucking Association (ATA) provides a LTL (less than truckload) tonnage index which encompasses almost 70% of LTL tonnage carried by all modes of US freight transportation, including manufactured and retail goods.

Figure 42. ATA LTL truck tonnage index



Source: Bloomberg, ATA, Forsythyth Barr analysis

Figure 43. Cass freight indices



Source: Cass, Forsyth Barr analysis

The Cass Freight Index is a measure of North American freight volumes. The Index includes all domestic freight modes and is derived from US$22bn of freight transactions processed by Cass annually on behalf of large shippers. These companies represent a broad sampling of industries including consumer packaged goods, food, automotive, chemical, OEM, retail and heavy equipment.

Rail

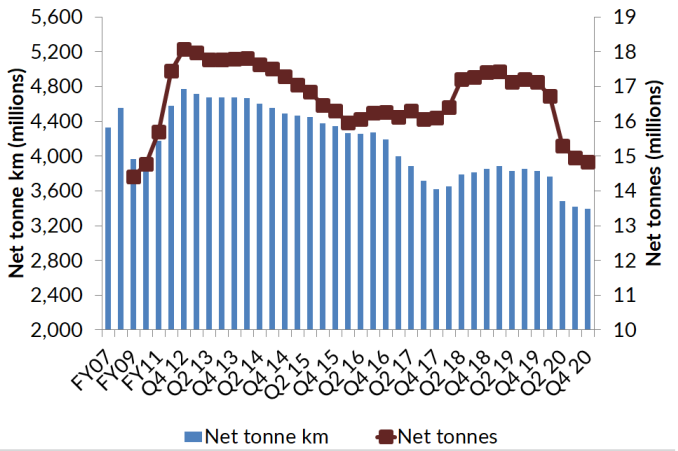
New Zealand rail volume

KiwiRail is state owned. It owns 3,500 kms of track, ~200 mainland locomotives and ~4,600 freight wagons. It operates around 900 freight trains each week and also owns/leases and operates the three Interislander ferries. The company provides data to the Ministry of Transports quarterly FIGS report. Rail competes with road and coastal shipping in transporting containers throughout New Zealand.

New Zealand rail volume by commodity

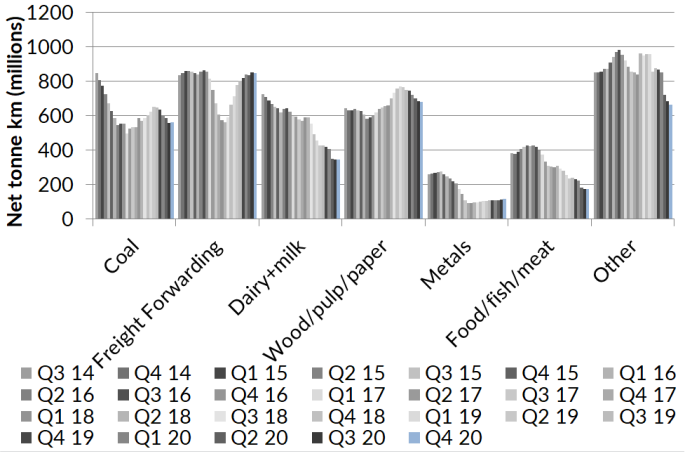
Coal, dairy, and wood products are the three largest commodities transported by rail in New Zealand. Refer to Figure 45.

Figure 44. KiwiRail volume (12-month rolling recent quarters)



Source: Ministry of Transport, Forsyth Barr analysis

Figure 45. 12-month rolling KiwiRail volume by commodity



Source: Ministry of Transport, Forsyth Barr analysis

Ports and shipping

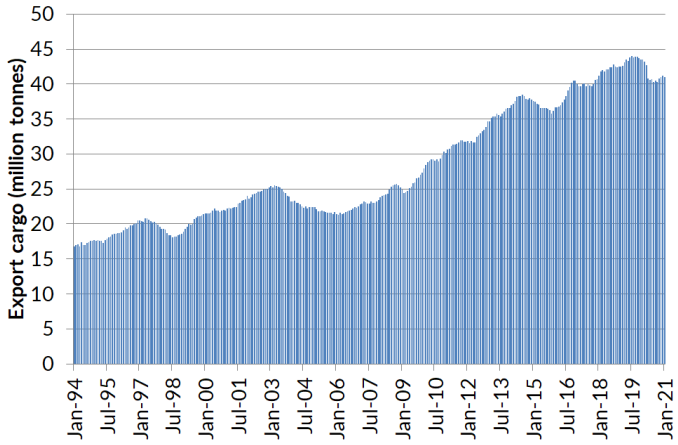
Data in this section is principally relevant to Port of Tauranga (POT) and Napier Port (NPH). It will also be relevant to other port stocks including Marsden Maritime Holdings (MMH) and Southport (SPN).

Ports

Total cargo volumes

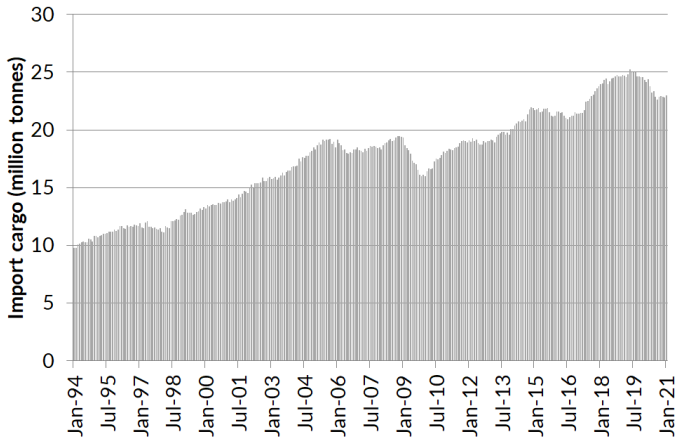
Statistics NZ provides monthly cargo data for all New Zealand seaports. We summarise the aggregated export and import data in Figure 46 and Figure 47 respectively. Over the past 25 years exports have grown at a CAGR of +3.2%, compared to imports at +2.9%.

Figure 46. Export cargo volumes (12-months rolling)



Source: Statistics NZ, Forsyth Barr analysis
Note: Data reflects 12-month rolling aggregates

Figure 47. Import cargo volumes (12-months rolling)

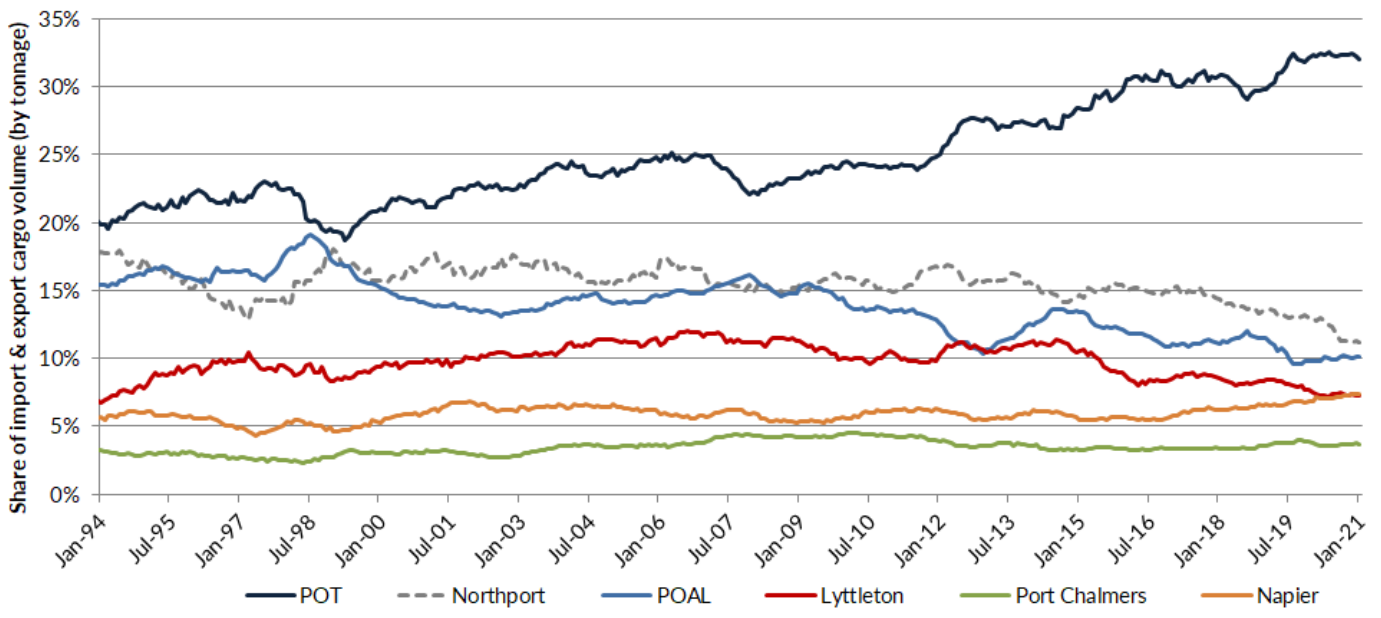


Source: Statistics NZ, Forsyth Barr analysis
Note: Data reflects 12-month rolling aggregates

Share of total cargo volume by port

Port of Tauranga is the largest port in New Zealand. We highlight its share of the leading ports in Figure 48. Imports and exports by port are defined by Statistics NZ as the initial port of entry and the final port of loading respectively.

Figure 48. Import and export cargo share (by weight) of leading ports

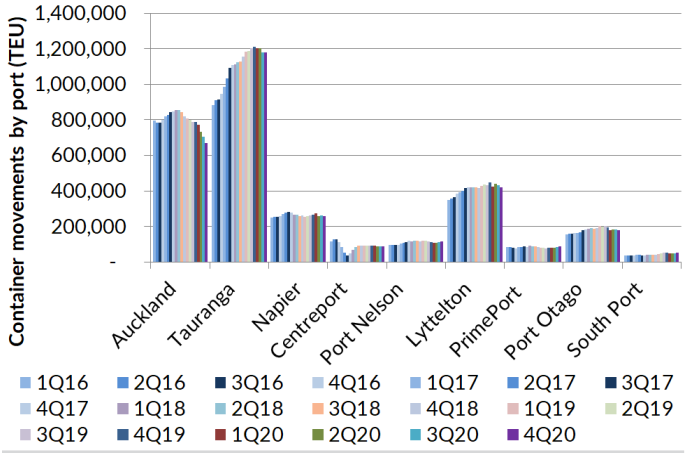


Source: Statistics NZ, Forsyth Barr analysis

Container volumes by port

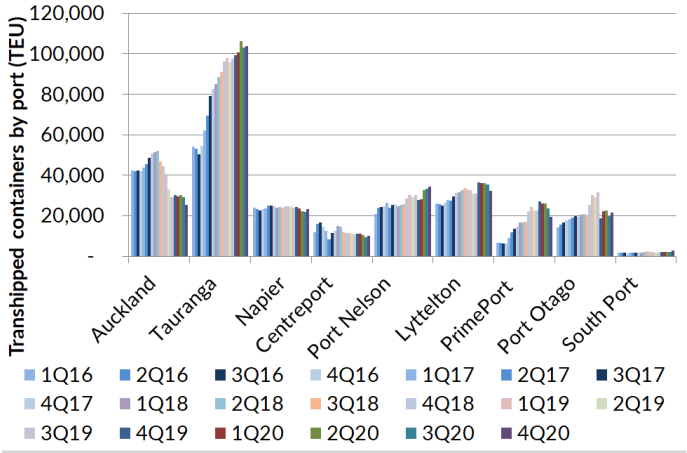
Quarterly container traffic data is available from the Ministry of Transport (MoT). This data is provided to the MoT by each container port. Tauranga is the largest export port for containers, whereas Auckland handles the most import containers.

Figure 49. Rolling 12-month container volumes by port (TEUs)



Source: Ministry of Transport, Forsyth Barr analysis

Figure 50. Rolling 12-month transhipments by port (TEUs)



Source: Ministry of Transport, Forsyth Barr analysis

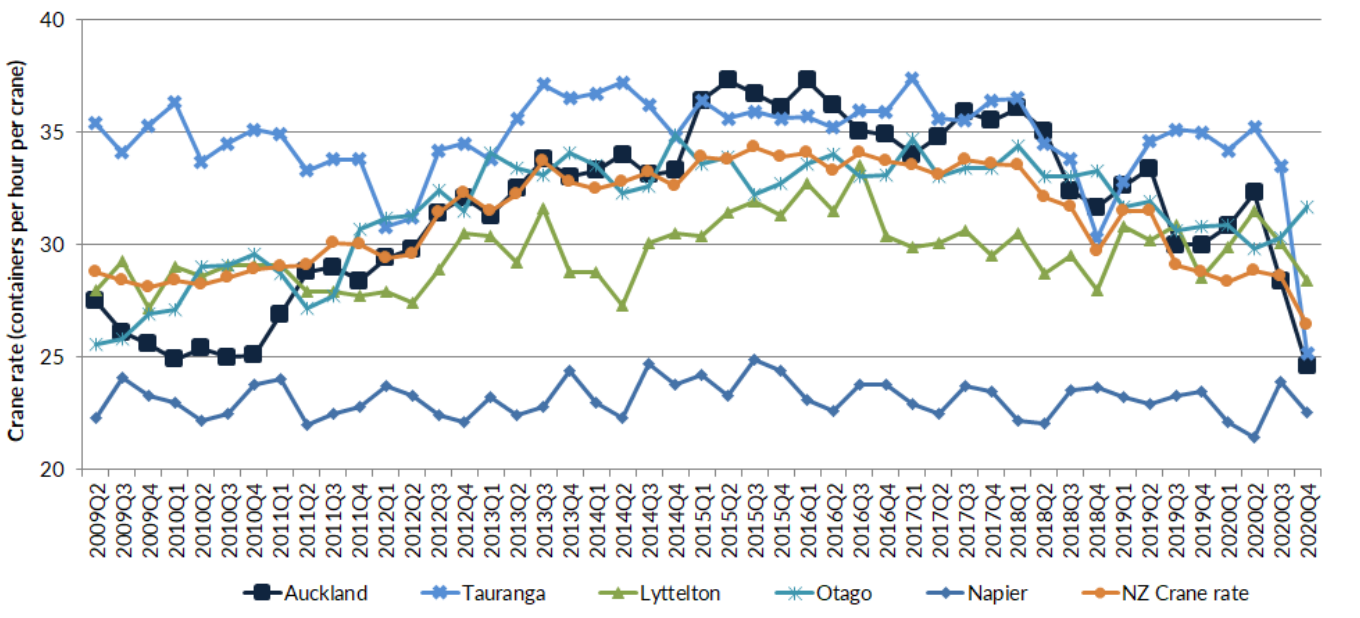
Container transhipments by port

The gradual structural industry shift to a hub and spoke network of ports in New Zealand will drive increased numbers of transhipped containers. Export transhipments reflect containers that are loaded onto a ship at one port, shipped to another port, discharged and then exported via a second ship. Import transhipments reflect containers that are imported and discharged at one port, then loaded onto another ship and shipped to a second port in New Zealand. Tauranga handles the largest number of export transhipments. Auckland handles the highest number of import transhipments.

Container port productivity

The Ministry of Transport compiles port productivity data in its quarterly produced Freight Information Gathering System (FIGS) and Port Productivity Study. In Figure 51 we show the crane rates of the four biggest container ports in New Zealand together with the national average. The crane rate is the best measure of internal efficiency at each port. It measures the number of containers handled as an average per hour for one crane.

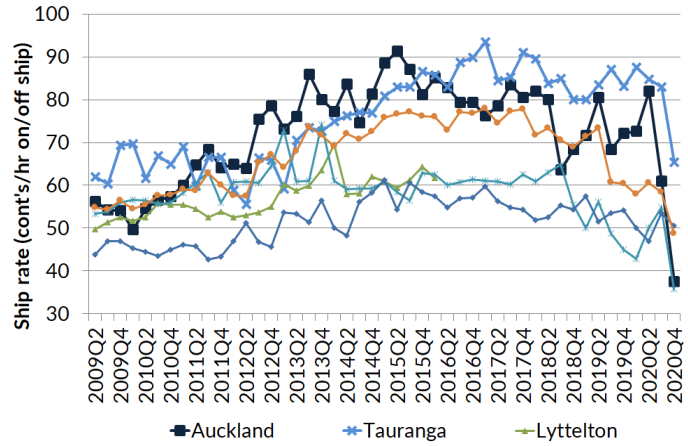
Figure 51. Crane rate



Source: Ministry of Transport, Forsyth Barr analysis

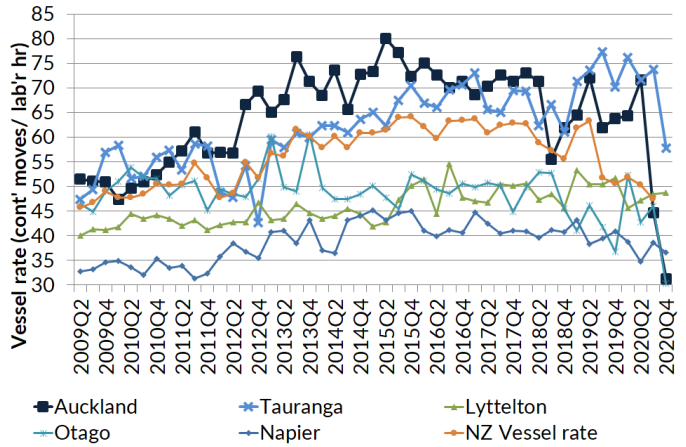
Other measures of port productivity include the ship rate and the vessel rate. These measures reflect the number of containers moved on and off a container ship in (1) an hour (ship rate Figure 52), and (2) an hour of labour (vessel rate Figure 53). The ship rate is the most important measure of port productivity for shipping lines.

Figure 52. Ship rate



Source: Ministry of Transport, Forsyth Barr analysis

Figure 53. Vessel rate



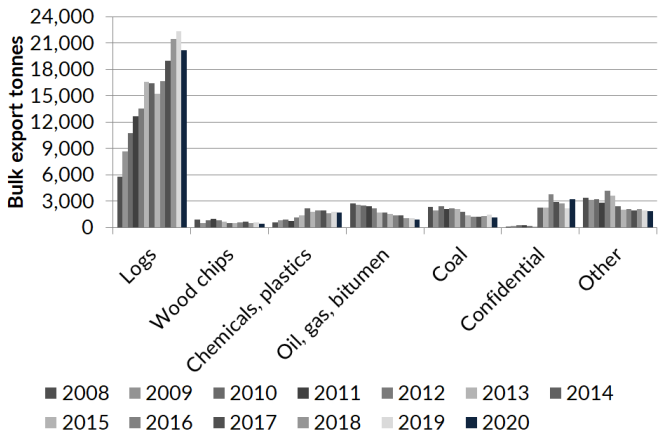
Source: Ministry of Transport, Forsyth Barr analysis

Key exported commodities

New Zealand exports more cargo than it imports. Dairy, meat and other foodstuffs generate the most export value. In contrast export volumes are dominated by wood, and mined commodities (minerals, coal and fuel).

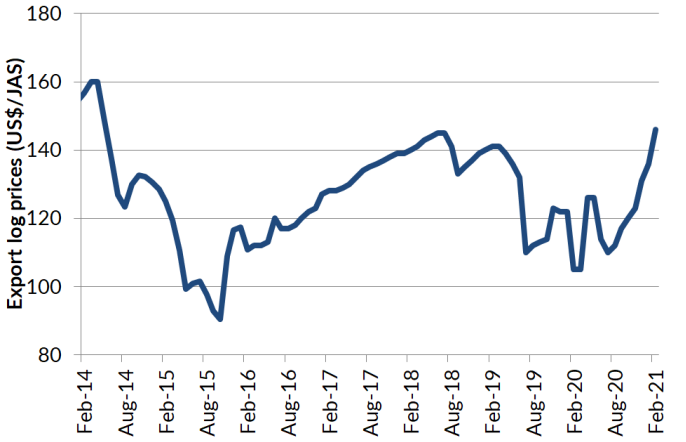
Wood exports are dominated by logs. The industry also exports processed timber, pulp and paper, and wood chips.

Figure 54. Bulk sea export commodities



Source: Ministry of Transport, Forsyth Barr analysis

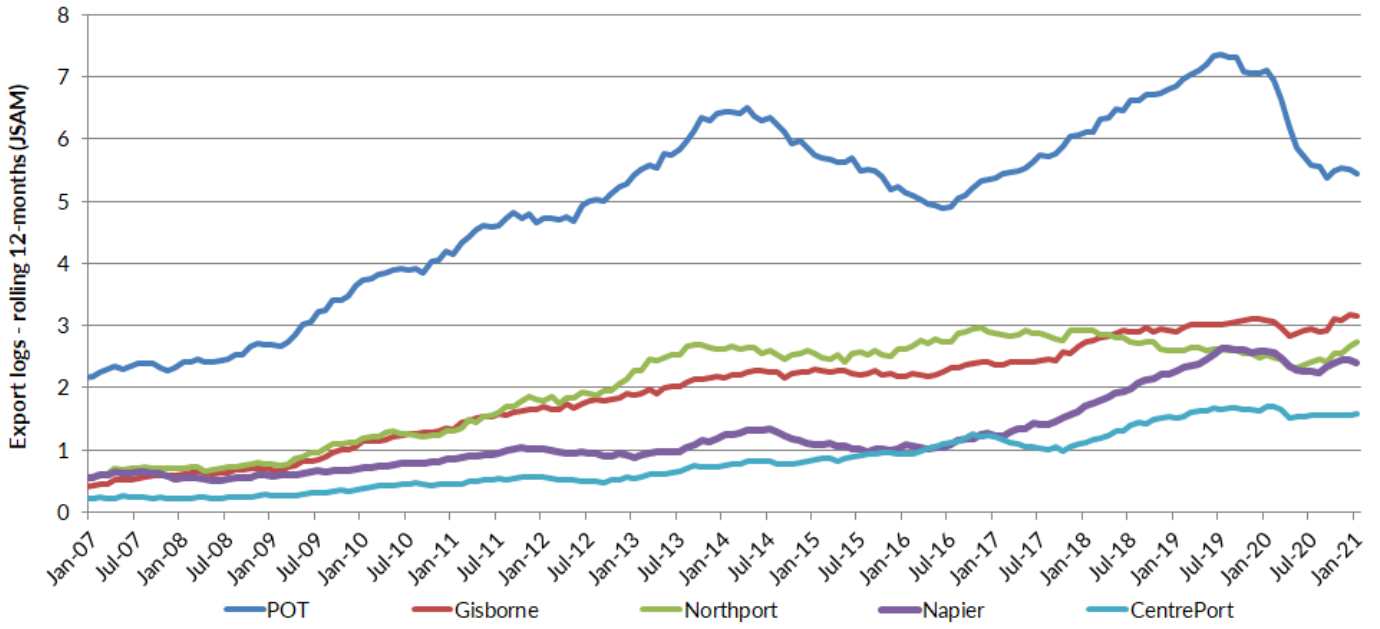
Figure 55. Export log prices (A-grade)



Source: NZX Agrifax, Forsyth Barr analysis

POT (~27% share) is the largest export port for logs in New Zealand followed by Port of Gisborne (~16% share) and Northport (~14% share).

Figure 56. Log exports at leading ports



Source: Statistics NZ, Forsyth Barr analysis

Port of Tauranga (POT)

We supplement the data already provided for POT with container services, container movement and log export statistics.

Regular container services

In Figure 57 we summarise regular weekly or fortnightly services at POT providing direct access to Australia, Asia and the Americas. As a result of COVID-19 some of these services have been suspended or operate a reduced frequency.

Figure 57. Regular container services currently stopping at POT

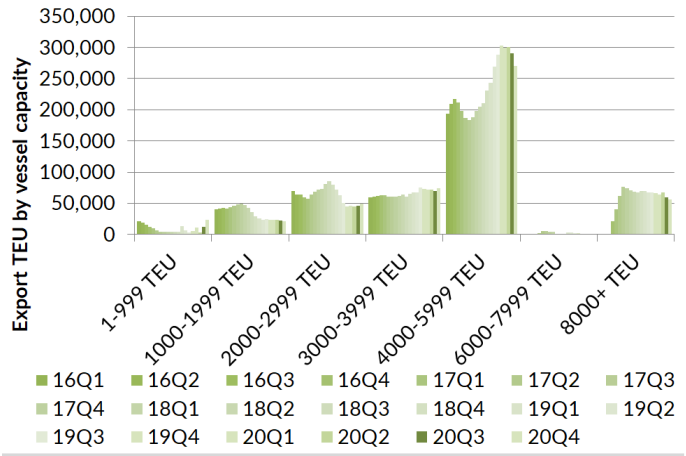
Shipping line	Service	POT code	POT service	Frequency	From	To
Pacifica	CFD	CFD	Domestic	Weekly	Domestic	Domestic
CMA-CGM/PIL/ OOCL/COSCO	China New Zealand Service	AANZ	Export	Weekly	Lyttleton/Wellington/Napier	Hong Kong
Maersk	AC3	AC3	Export	Weekly	South America	Hong Kong
Hamburg-Sud	ANZL (Asia)	ANZL	Export	Weekly	Lyttleton/Napier	Tokyo
MSC	Capricorn	MSC	Export	Weekly	Bluff/Port Chalmers/Lyttelton/Nelson/ Tauranga	Tanjung Pelepas
PIL/CMA-CGM	New Zealand Service	NZS	Export	Weekly	Lyttleton/Wellington/Napier	Brisbane/Port Kelang
Hamburg Sud	OC1/Trident	OAES	Export	Weekly	Australia/Chalmers/Napier	Auckland/Panama
ANL	TTZ	TTAZ	Export	Weekly	Lyttelton/Nelson/Wellington	Sydney
Maersk	AC1	AC1	Import	Weekly	Hong Kong	South America
NPL	Fiji Feeder	NEP	Import	Weekly	Fiji	Auckland
Maersk	Southern Star	SSTR	Import	Weekly	Singapore/Brisbane	Lyttelton/Chalmers/Tanjung Pelepas
MSC	New Kiwi Express	KEX	Import/Export	Weekly	Australia/Auckland	Australia
CMA-CGM	Panama Direct Line	PAD	Import/Export	Weekly	Melbourne	Panama
Hapag Lloyd	US West Coast Australasia Loop 2	WAN	Import/Export	Fortnightly	Oakland	Sydney
Hapag Lloyd	US West Coast Australasia Loop 1	WAS	Import/Export	Weekly	Sydney	[Pappeete]/Oakland

Source: POT, Forsyth Barr analysis

Container ship calls at POT

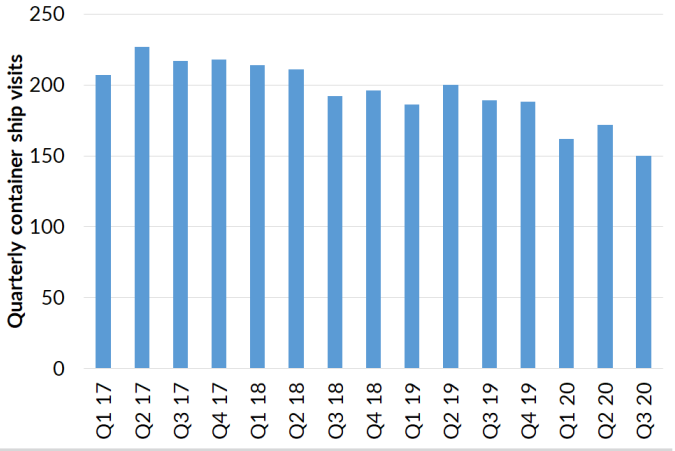
Cargo aggregation at POT was significantly enhanced following the Kotahi deal in 2014 and is critical to the success of its hub port strategy. POT's hub port strategy has led to bigger ships, which means reduced frequency.

Figure 58. 12m-rolling export TEU by vessel capacity



Source: Ministry of Transport, Forsyth Barr analysis

Figure 59. POT overseas container ship visits

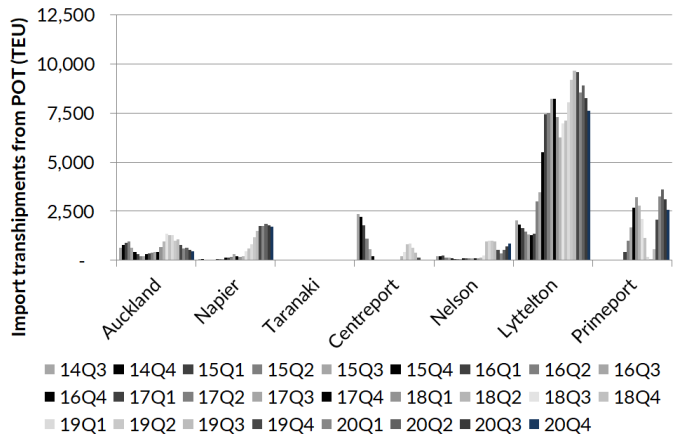


Source: Ministry of Transport, Forsyth Barr analysis

Transhipments at POT

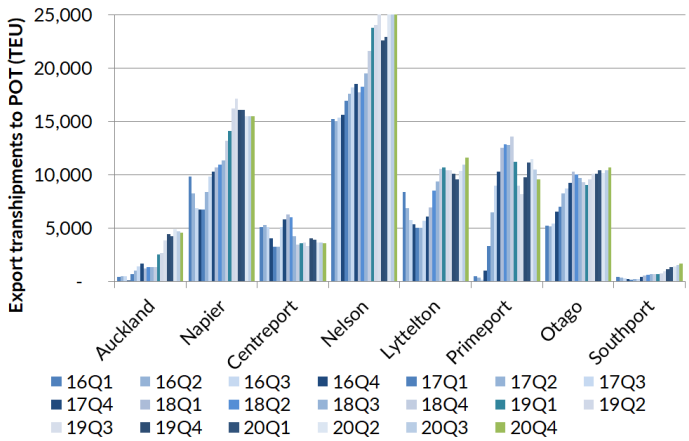
POT operates a hub and spoke model with transhipments a key driver of growth. Further shipping industry consolidation will likely lead to rationalisation of shipping services, which we expect will increase transhipments. Lyttelton (imports) and Nelson (exports) are the largest spoke ports for POT.

Figure 60. 12m-rolling import transhipments from POT



Source: Ministry of Transport, Forsyth Barr analysis

Figure 61. 12m-rolling export transhipments to POT

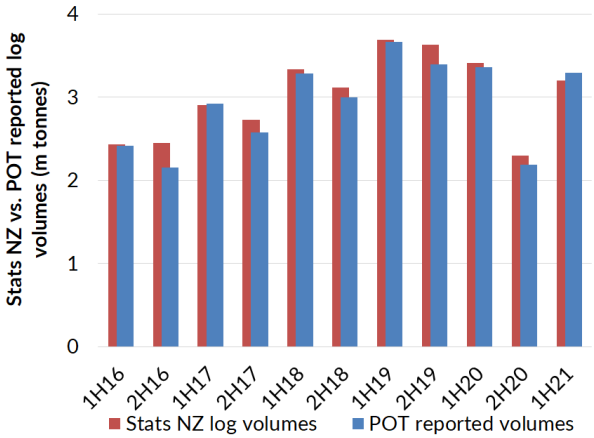


Source: Ministry of Transport, Forsyth Barr analysis

Log exports at POT

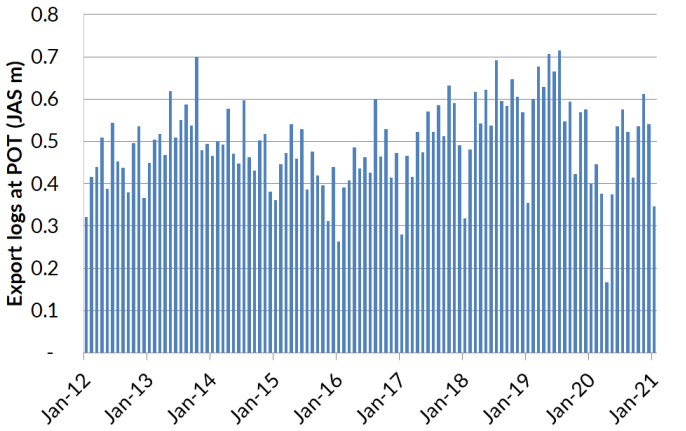
In Figure 63 we show monthly log export volumes through POT using data supplied by NZ Statistics. This data is consistent with the volumes reported by POT in its financial releases. It, therefore, provides a timely and accurate assessment of near term movements in its log export revenues.

Figure 62. Stats NZ volumes vs. POT reported volumes



Source: Stats NZ, Company reports, Forsyth Barr analysis

Figure 63. Log exports at POT



Source: Statistics NZ, Forsyth Barr analysis

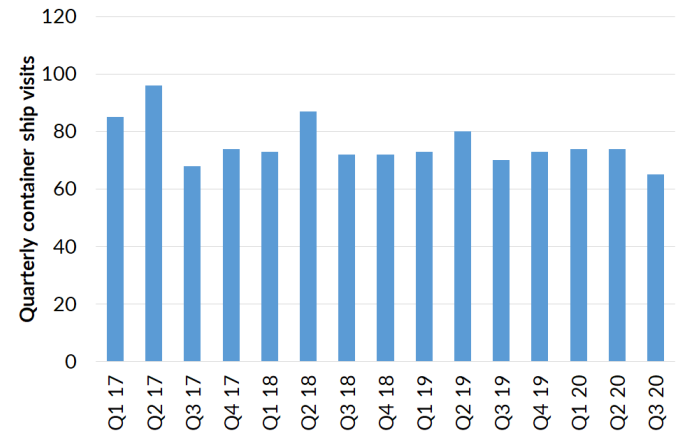
Napier Port (NPH)

We supplement the data already provided for NPH earlier with ship visits, container services/movements and log export statistics.

Ship visits

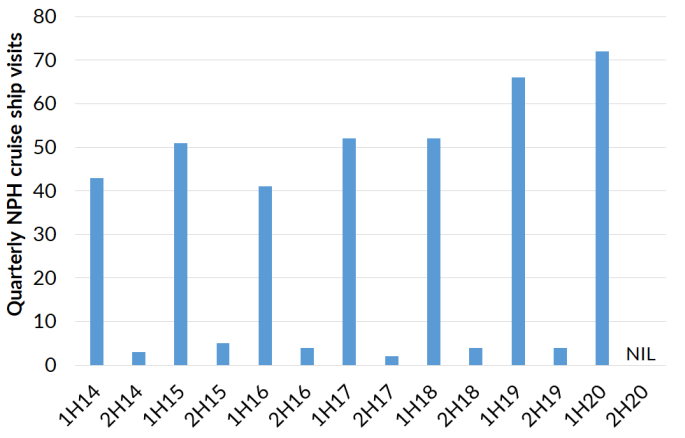
NPH's container ship visits have been flat for the past three years, however 3Q20 saw a decline as a result of shipping industry congestion. NPH has seen an increase in cruise ship visits over the past five years. 2H20 saw no visits as a result of border restrictions.

Figure 64. NPH container ship visits



Source: Ministry of Transport, Forsyth Barr analysis

Figure 65. NPH cruise ship visits



Source: Ministry of Transport, Forsyth Barr analysis

Regular container services

We summarise in Figure 66 the regular weekly or fortnightly services that stop at NPH providing direct access to and from Australia, Asia and the Americas.

Figure 66. Weekly container shipping services currently visiting NPH

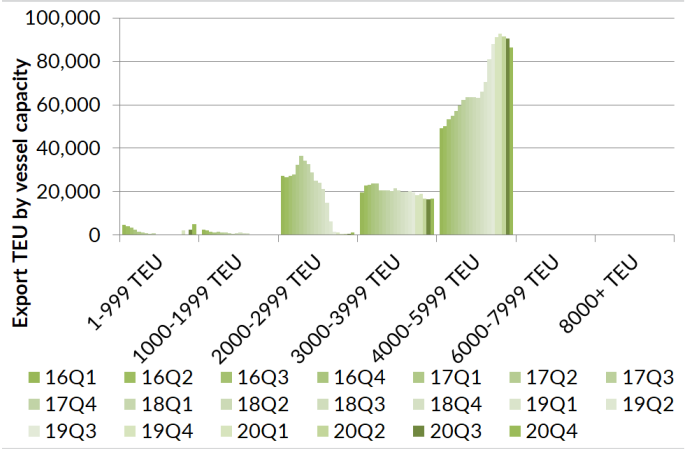
Shipping line	Service	Frequency	Origin/Destination	From	To
MSC	Capricorn	Weekly	Australia/South East Asia	South Port, Otago, Lyttelton	Tauranga, Auckland, Brisbane
CMA-CGM/PIL	NZ Service/KIX	Weekly	South East Asia	Brisbane, Auckland, Lyttleton, CentrePort	Tauranga, Brisbane
CMA-CGM	ANZEX	Weekly	North Asia	Brisbane, Auckland, Otago, Lyttleton	Tauranga
Maersk	OC1/Trident	Weekly	East Coast North America	Auckland, Sydney, Melbourne, Chalmers	Tauranga, Auckland
Maersk	Southern Star	Weekly	South East Asia	Brisbane, Sydney, Tauranga	Lyttelton, Otago
COSCO	Japan Conference	Weekly	Japan/Korea/China	Lyttleton	Tauranga

Source: Forsyth Barr analysis

Container movements at NPH

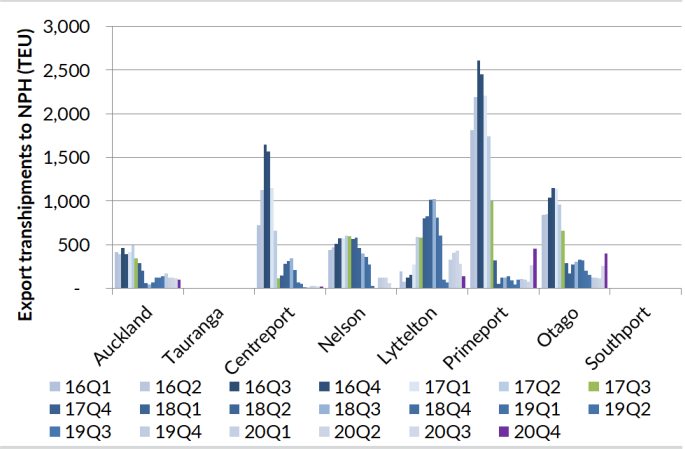
NPH's exports are now really only departing the port on vessels that have capacity of 3,000 TEU or more.

Figure 67. 12m-rolling export TEU by vessel capacity



Source: Ministry of Transport, Forsyth Barr analysis

Figure 68. 12m-rolling export transhipments to NPH

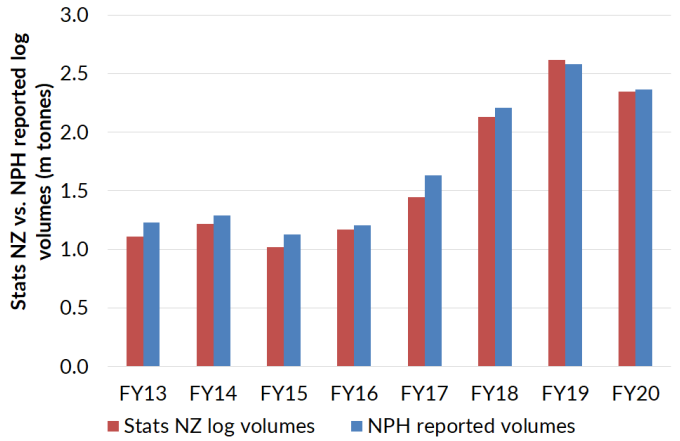


Source: Ministry of Transport, Forsyth Barr analysis

Log exports at NPH

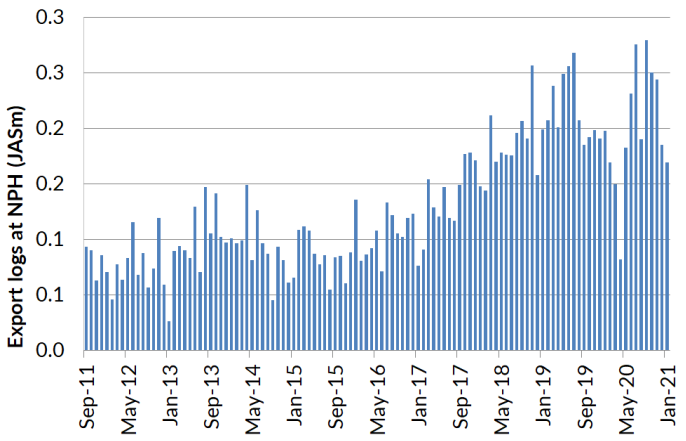
In Figure 70 we show monthly log export volumes through NPH using Stats NZ data. This data is on average -6% lower than that reported by NPH in its financial releases, we show this comparison in Figure 69.

Figure 69. Stats NZ volumes vs. NPH reported volumes



Source: Stats NZ, Company reports, Forsyth Barr analysis

Figure 70. Log exports at NPH



Source: Statistics NZ, Forsyth Barr analysis

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