

# Port valuations and the credit crisis

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# Table of contents

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SECTION 1	<b>Recent trends in infrastructure sector</b>	3
SECTION 2	<b>Ports sector update</b>	6
SECTION 3	<b>Ports valuation discussion</b>	10
SECTION 4	<b>Current divestments</b>	17

# Executive summary

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- 1 Infrastructure asset valuations are credit reliant**
  - ◆ Scarcity and competition for quality assets remain key drivers of transaction values, however...
  - ◆ Lenders display diminished appetite and increased focus on refinancing risk
  - ◆ All lending tends to be on a club basis, meaning not enough credit to support multiple bidders
- 2 Port performance affected by falling volumes**
  - ◆ An expanding world economy, intensifying globalisation and China accession to the WTO in 2001 drove port volume growth to over 10% a year in 2005-2007
  - ◆ As economies have shrunk, demand for manufactured goods (and bulk commodities) has slumped, with UBS expecting global container growth of 1% at best in 2009.
- 3 Prices & valuations have been likewise affected**
  - ◆ This has affected port earnings and stock price performances, with more leveraged ports losing up to 70% of their value over the past 12 months
  - ◆ Earnings multiples have also been compressed with average prospective EV/EBITDA for the ports sector having fallen close to 16 turns from its peak of almost 28x.
- 4 Private market transaction multiples directly reflect absence of debt**
  - ◆ Private port sales values have been even more closely correlated with the availability of financing than public markets; the highest absolute values and multiples paid have been supported by record leverage multiples
  - ◆ Only one transaction of scale has been completed in the last 18 months
- 5 Assets bought at peak now returning to the market**
  - ◆ Opportunities, however, are beginning to return
  - ◆ In many cases these are assets over-leveraged at acquisition during the liquidity boom
  - ◆ Successful sales will require vendors to recalibrate price expectations to the realities of the current returns environment

## SECTION 1

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### Recent trends in infrastructure sector

# Market conditions for infrastructure

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The infrastructure sector fundamentals remain strong ...

... underpinned by stable, long term, non cyclical cash flows

Valuations have fallen more in the listed equity market than in the private market, largely due to generally negative market sentiment

In the mid/long-term, we expect the market to become more discerning, differentiating more between assets

- 1 Investors' interest in the asset class is still strong due to stable, long term and countercyclical nature of cash flows
- 2 Large amounts of equity capital allocated to the infrastructure sector remains uninvested (but the pool has reduced)
- 3 Scarcity of quality assets and competition still key features of the sector
- 4 Recently, valuations have started to come down (higher IRRs and/or less aggressive business plan/refinancing assumptions), but not as dramatically as other sectors
- 5 Key challenge for the infrastructure market is the return of the credit providers
  - ◆ Banks, who have provided the majority of credit in the last two years, are still focused on survival and balance sheet repair
  - ◆ Some key participants have collapsed, the monoline model seems broken and the debt capital markets remain difficult
  - ◆ It is difficult to involve enough credit providers in transactions to support multiple bidders (particularly on an exclusive basis), which makes it more difficult for vendors to run competitive auctions and limits visibility on financing strategy until late in the process
  - ◆ However, once credit markets have stabilised, we believe the infrastructure sector will be one of the first sectors where we will see activity
  - ◆ We are also anticipating a change in approach by sponsors who may, for example, be more focused on refinancing risk

# Recent trends in infrastructure credit markets

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**The current tightening of bank liquidity is driving a sharp increase in pricing and tighter banking covenants...**

**...investors are favouring M&A transactions that do not trigger debt repayment on change of control or where there is vendor financing**

- 1 Capacity across most financing options is currently constrained**
  - ◆ Fewer banks in a position to lend
  - ◆ Reduced credit capacity
  - ◆ Less appetite for trees
  - ◆ Bank bridges to bonds and capital markets issuance impacted by monoline downgrades and appetite for securitisation
- 2 Banks unable to rely on syndication, so buy and hold only with reduced quantum**
  - ◆ Deals are being done as “club” deals with multiple banks
- 3 Tightening liquidity driving a sharp increase in pricing and tighter covenants**
  - ◆ Higher margins (though LIBOR has fallen)
  - ◆ Monitoring the health of the project or company through tighter banking covenants including cover ratios
  - ◆ More extensive construction covenants such as bonding
  - ◆ Reserving and cash sweeps in event of underperformance
  - ◆ Shorter term tenors than in recent markets
  - ◆ Hedging to mitigate interest rate risk
  - ◆ Ability to refinance in capital markets
  - ◆ Margin step-ups to force early refinancings

## SECTION 2

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### Ports sector update

# Key trends in the port sector

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Valuations of port assets have – until recently - benefited from strong underlying growth and demand for infrastructure assets by investors

However, current economic conditions are not only impacting growth prospects but also weighing on valuations

- 1 The port sector value had been re-rated in recent years**
  - ◆ This had been driven by an accelerating demand for port facilities due to a number of factors ...
    - 90% share of sea transport in world trade
    - increasing ship sizes, especially in container trade
    - ever increasing globalisation
  - ◆ ... combined with investor demand for infrastructure assets ...
  - ◆ ... and scarce supply of attractive assets
- 2 Growth seems to have reversed universally in line with current economic conditions, having a consequent impact on value**
  - ◆ Some assets may not achieve the growth rates that were assumed at acquisition, which may lead to the need for financial restructuring
  - ◆ Declining growth rates may impact container ports more than bulk terminals, due to the more international nature of the former and the dynamics of transshipment traffic
- 3 As debt financing availability has decreased, equity investors are competing less aggressively for infrastructure assets, which has pushed down valuations recently**
  - ◆ However, equity returns (in the private market) have not de-rated in line with the credit markets
- 4 The ports asset class is diverse**
  - ◆ Significant structural differences across geographies (infrastructure vs. operations, concession length)
  - ◆ Each asset needs to be evaluated individually (competitive position, type of volumes, land, etc)

# Key trends in container transportation

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**With the onset of global recession, trade conditions witnessed sharp deterioration in 2008, resulting in similar trends in volumes and freight rates**

**Current container shipping downturn may be more severe than the previous downturns in 2001-02 or 1997-98**

- 1 Freight rates have fallen to below cash costs on several trade routes and charter rates have collapsed across all container vessel sizes
- 2 Excess supply is expected to peak in 2009 at an unprecedented level and containership supply adjustments are in rapid progress among operators
- 3 Demand in key east-west routes such as Transpacific and Asia-Europe are expected to suffer in 2009 while a modest recovery is expected in 2010
  - Intra-Asia has been the out-performing trade with some pockets of demand resilience, however it too is weakening
- 4 Poor demand/supply conditions led to a drop in new orders while benefits from vessel order cancellations, delivery delays or scrapping are expected to be limited
- 5 In the current environment, there is a lot of uncertainty on the current steel value of vessels while both newbuild and second-hand vessel prices have fallen across all container vessel sizes to the extent visibility is available
- 6 According to a number of container operators, industry consolidation is likely, with the top 20 players to condense towards 10. Some distressed operators may be about to exit, while for family-owned businesses the time might have come to potentially cash-out

# Container transportation forecast

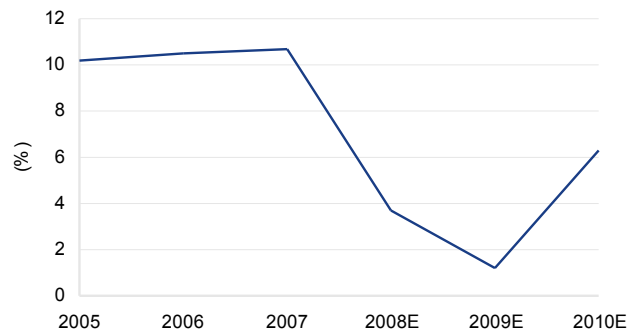
With the onset of global recession, trade conditions have witnessed sharp deterioration in 2008...

...and the growth of global trade volume is expected to further slow in 2009

## Commentary

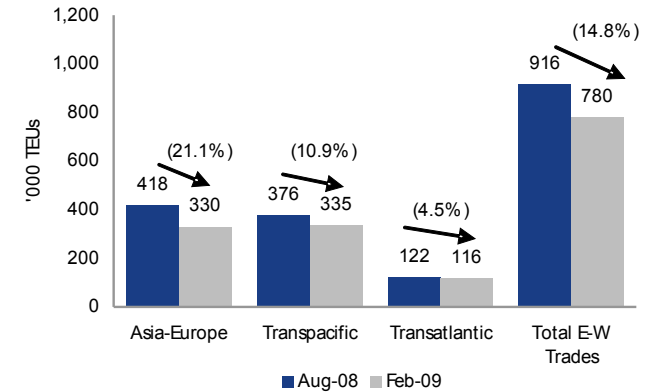
- ◆ The container shipping industry has been enjoying strong growth over the last decade
- ◆ However, UBS projects growth in the volume of world container trade (as measured in TEU) to slow to c1% in 2009, although rebounding in 2010
- ◆ For last six months, the total capacity offered on the three main east-west routes has dropped by c.15%
- ◆ Global trading is changing direction
  - US imports fell significantly in 2008 and there has been a rapid slowdown in European volumes
  - However, Intra-Asia trading volume remains relatively strong

## Global container trade volume forecasts



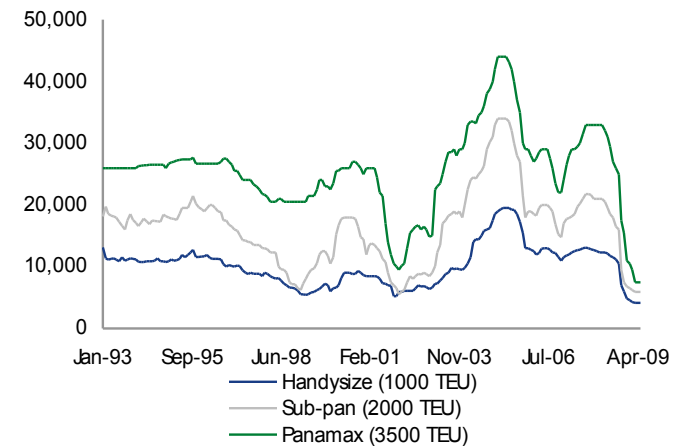
Source: UBS estimates

## Capacity being pulled out of the trade



Source: AXS-Alphaliner

## Container 1-yr charter rates (US\$/day)



Source: Clarksons

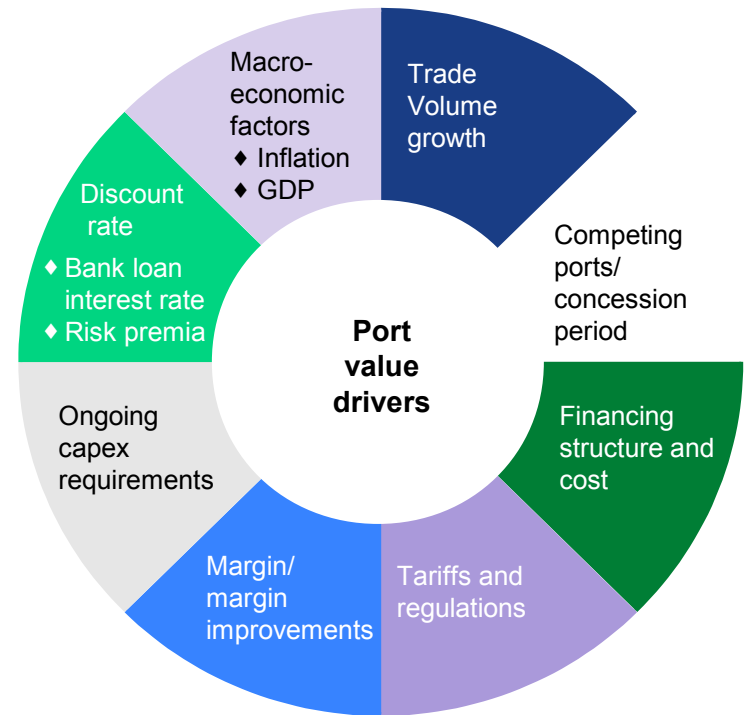
## SECTION 3

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### Ports valuation discussion

# Key drivers of valuation

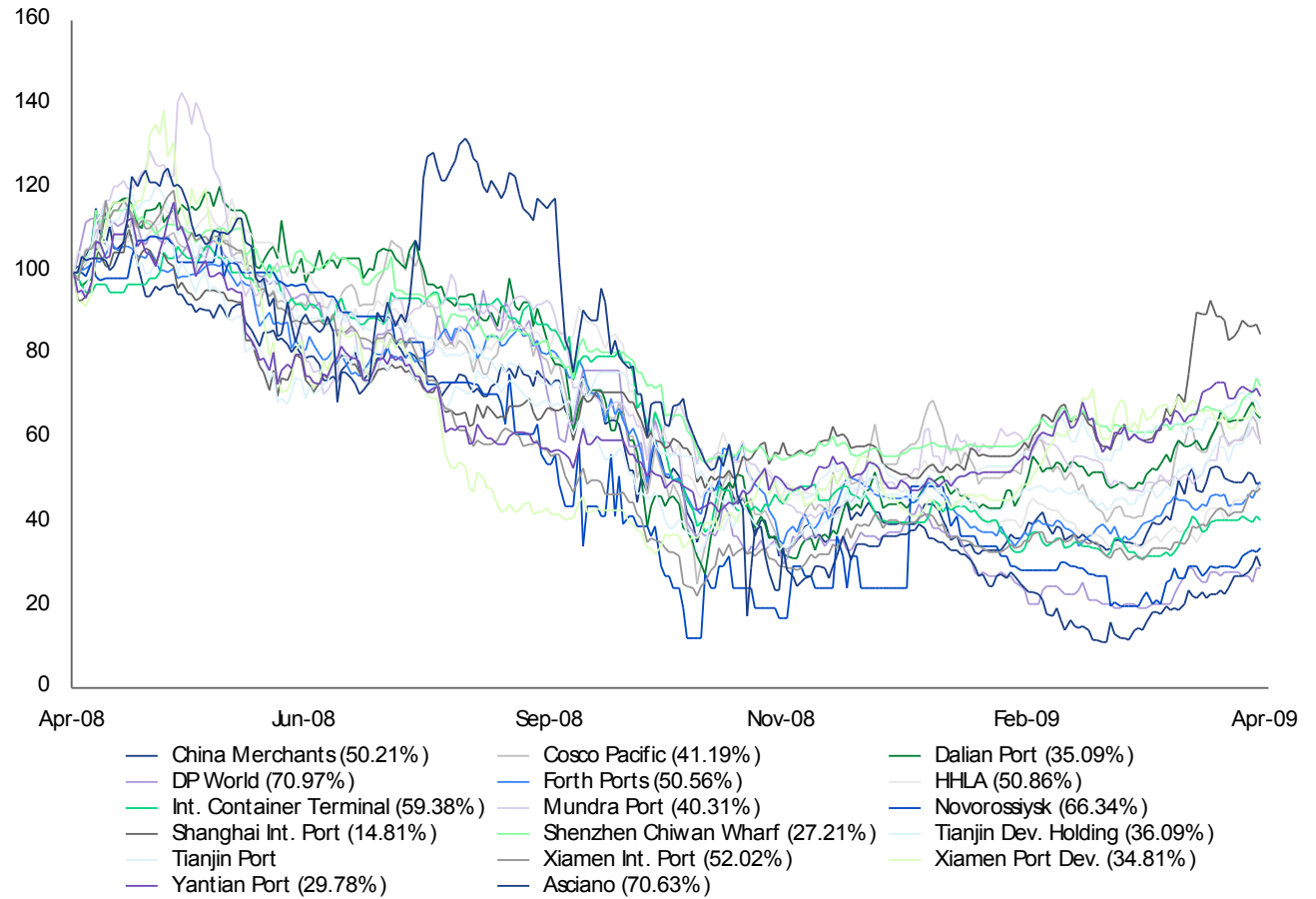
- ◆ Potential bidders will focus on a combination of commercial and financial factors. Higher valuations are generally supported by:
  1. Revenue growth
  2. Financing structure and cost
- ◆ It is important to provide as much information as possible for investors to make robust long-term forecasts
- ◆ It is also important to have an acceptable regulatory environment. To the extent that investors are faced with an unclear or ambiguous regulatory regime or one that does not allow them to predict future situations with some certainty, they will base their assessment of value upon more conservative valuation assumptions
- ◆ Concession length and terms – duration enhances value so the longer the better
- ◆ Brownfields vs. greenfields – investors typically prize operators more highly than developers because of their lower risk



# Stock price performance

Port stock prices have fallen in all geographic regions over the past year

Last 12 months stock price



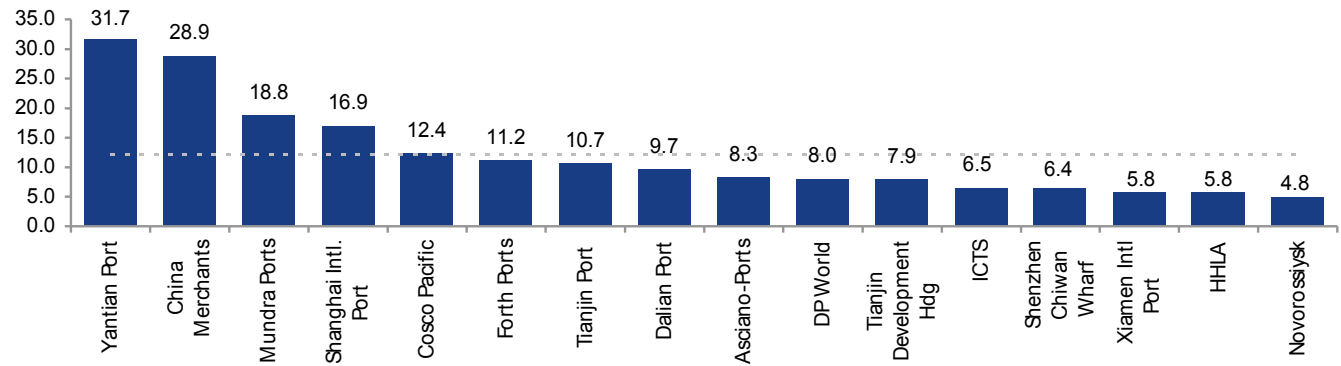
Source: FactSet as of 17 April 2009

# Trading multiples

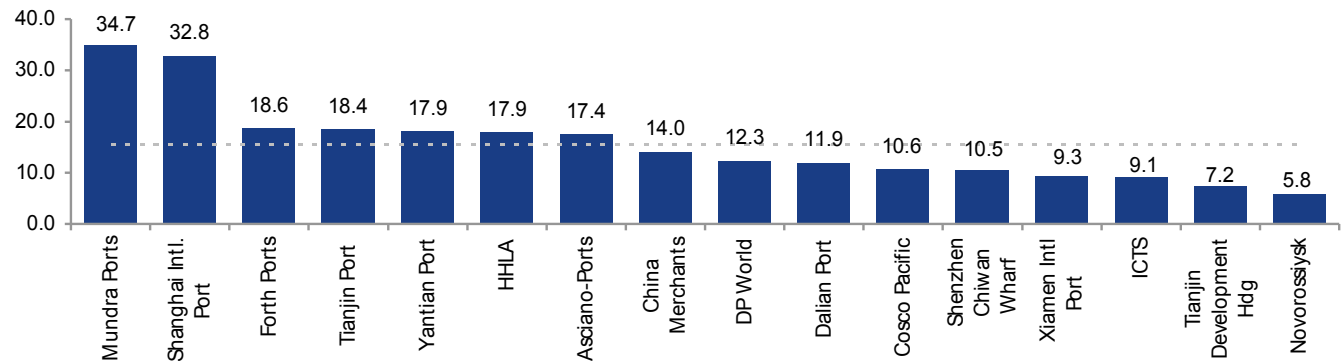
Average 2009E EV/EBITDA of global comparable companies is 12.1x

Average 2009E PE for global comparable companies is 15.5x

2009E EV/EBITDA



2009E PE

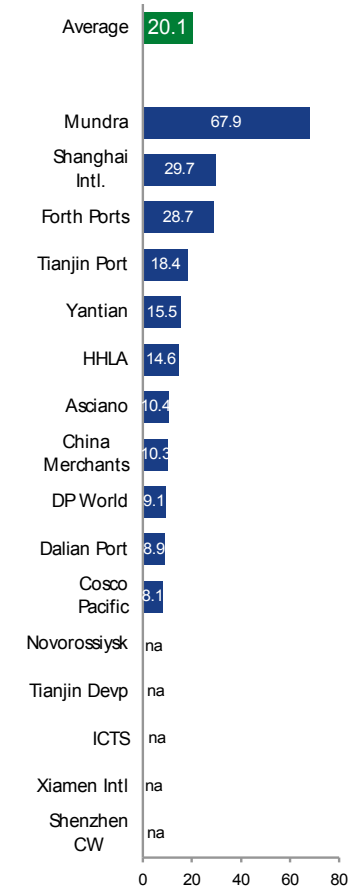


Source: Company reports, FactSet IBES (as of 17 April 2009 closing)

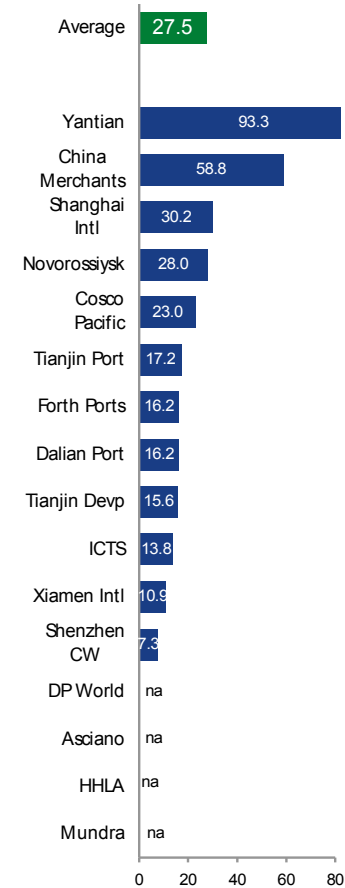
# Global ports— trading multiples for last two years

## 1 year forwarding EV/EBITDA multiples

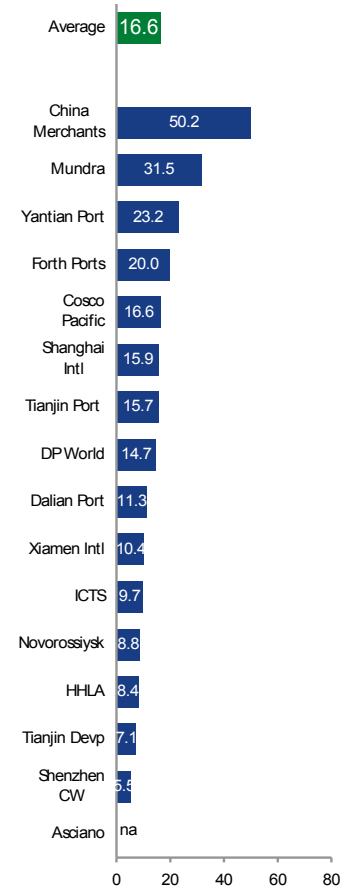
30-Apr-07



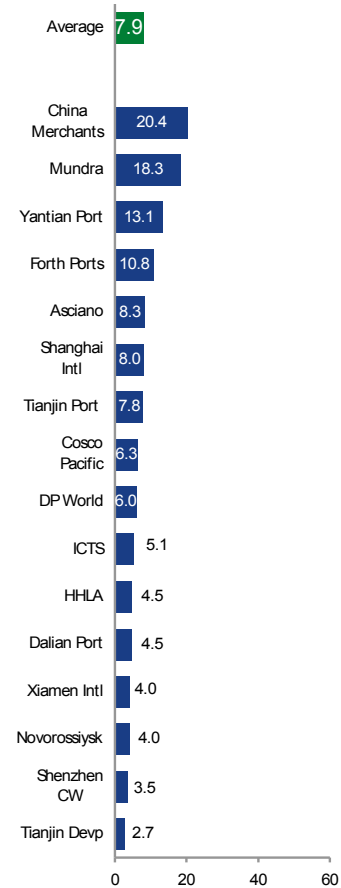
31-Oct-07



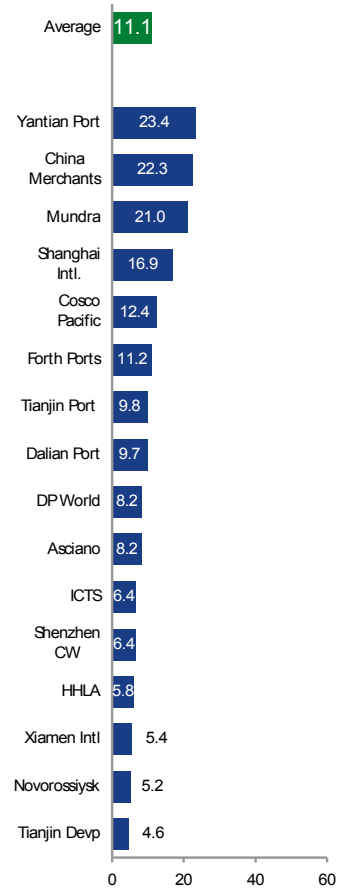
30-Apr-08



31-Oct-08



17-Apr-09

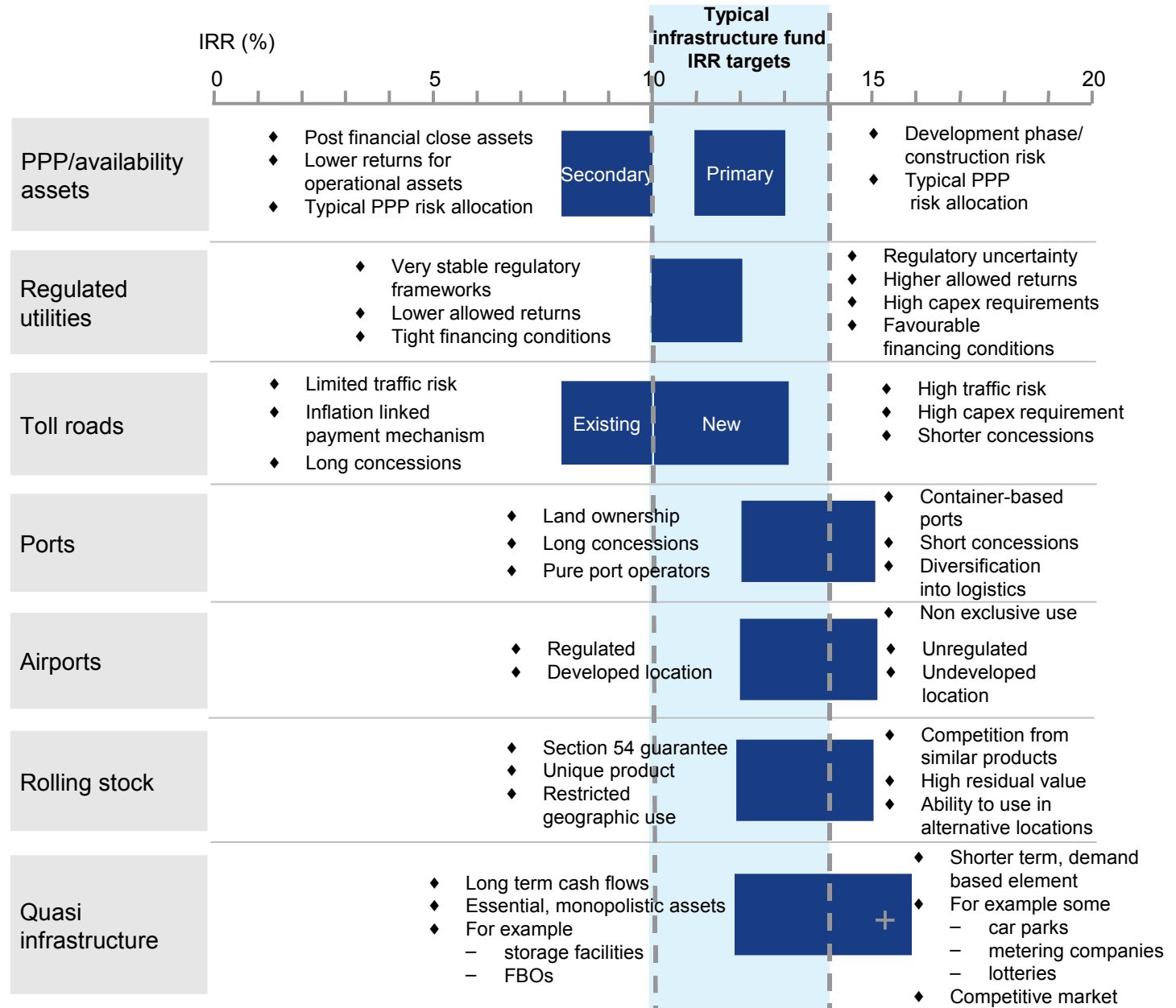


Source: FactSet IBES

# Return expectations

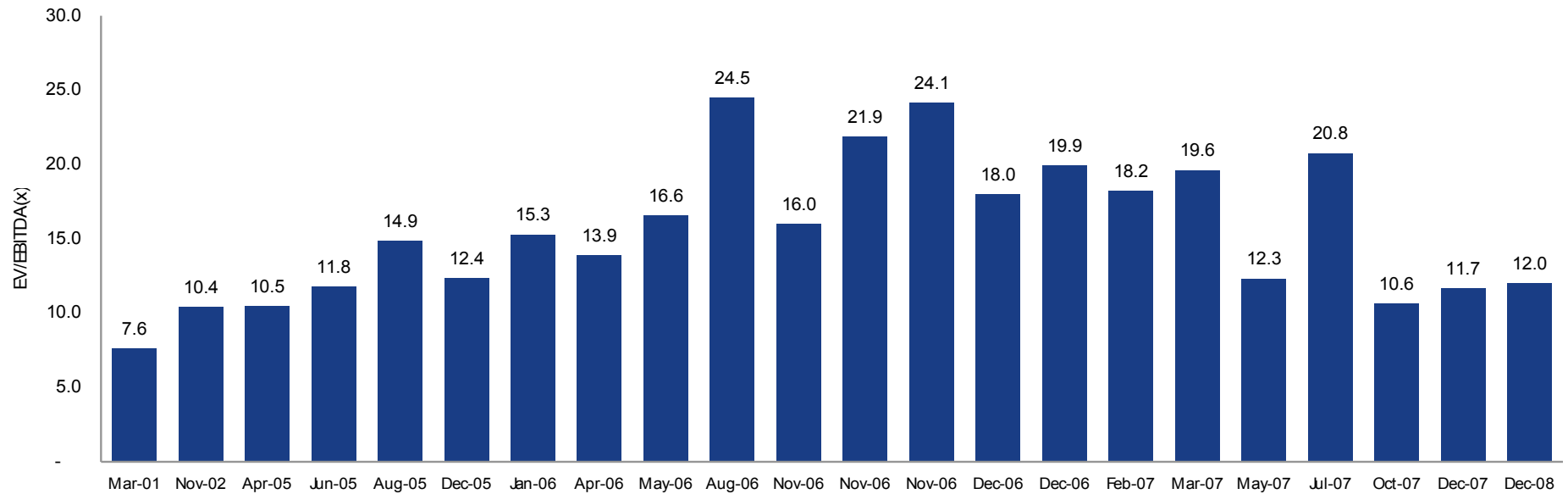
Not all infrastructure assets are the same. Within asset classes the expected returns vary depending on the individual characteristics of the asset

It is important that investors understand the assets which underlie the returns targets set by infrastructure funds



# Precedent port transactions

The headiest multiples have generally been accompanied by the most liberal portions of debt



<b>Net debt/ EBITDA</b>	na	(1.2)	1.1	2.7	3.2	6.7	2.5	1.1	2.8	5.2	na	na	15.8	na	10.4	na	14.3	6.4	11.3	na	na	7.2
<b>Acquirer</b>	PSA	Peel	Auckland Regional Hldgs	Peel Ports	Toll Holding	BBI	DP World	PSA	Goldman Sachs consortium	Montauban	Rreef	Macquarie	Ontario Teacher Pension	AIG	AIG	Morgan Stanley	RREEF	BBI	Goldman Sachs	BBI	BBI	BBEIF, Antin Infrastructure Partners
<b>Target</b>	Hesse Noord Natie	Clydeport	Ports of Auckland	Mersey Docks & Harbour	Patrick	PD Ports	P&O Ports	Hutchison (Ports business)	AB Ports	Simon group	Peel Ports	Halifax Container Terminal	OOIL (Terminal Division)	P&O North American ports	DP World (POPNA)	Montreal Gateway	Maher Terminal	Tarragona Port Services	Carrix	Rauma & Botnia	Westerlund, SR, ICS	Euroports
<b>Implied EV 100% (m)</b>	€638	£165	NZ\$949	£996	A\$7,391	£564	£4,802	Hk\$185,000	£3,357	£121	£1,600	C\$173	US\$2,410	US\$1,300	US\$1,560	US\$477	US\$2,113	A\$220	US\$4,491	A\$144	A\$617	£948

Source: Press releases, Annual reports, Thomson Financial

## SECTION 4

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### Current divestments

## Current divestment processes

	 <b>Asciano</b>	 <b>Seagirt Marine Terminals</b>	 <b>Euroports</b>	 <b>DRAGADOS SPL</b> <small>SERVICIOS PORTUARIOS y LOGISTICOS</small> <b>Dragados SPL</b>
<b>Assets</b>	Port & rail businesses	Port terminals	Port terminals	Port and logistics business
<b>Acquirer/ Owner</b>	Spun-off from Toll Holdings	The Maryland Port Administration	Babcock & Brown	ACS Group
<b>Date</b>	Jun-2007	Opened in 1990	Since Jul-2006 <sup>1</sup>	Mar-2003
<b>Valuation (EV)</b>	A\$11,035m	N.A.	N.A. <sup>1</sup>	N.A. <sup>2</sup>
<b>Sales process commenced</b>	Mar-2008	Apr-2009	Oct-2008	Dec-2008
<b>Indicative pricing expectations</b>	A\$6,268 <sup>3</sup>	N.A.	EV/EBITDA 12x on sales of 29.7% in Dec-2008	US\$1.9bn
<b>Remarks</b>		Offering a long-term concession and lease	29.7% sale has a co-shareholding agreement	Received 4 bids in Jan and currently on hold

Source: Newsrun, Company information

Note:

1. Acquired a series of assets from 2006 to 2007
2. ACS Group merged with Dragados Group
3. Based on UBS research estimates

# Asciano

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## Opportunity to acquire Australia's key ports and rail assets

- ◆ Asciano has acknowledged it has an unsustainable capital structure
  - c.90% market gearing with A\$2.25bn of debt to be refinanced in May FY10
- ◆ On 16 March 2009, Asciano significantly extended the scope of a previously announced monetisation process to include:
  - the sale of up to 100% of either its coal or container ports business
  - the sale of its other assets and businesses
  - transactions that would result in a change of control of the group
- ◆ Notwithstanding a relatively robust half year result for Asciano, near-term earnings risk remains to the downside. However, the long term prospects for its port and rail assets remain strong
  - significant leverage to the Australian economy, which is predicted to recover more quickly than its OECD peers (consensus predicted FY10 GDP growth for Australia is 2.0% versus 0.7% for the EU and 1.8% for the US)
- ◆ Expanded monetisation process has presented two potential transaction opportunities
  - consortium acquisition of entire company
  - acquisition of either Patrick (Asciano's port business) or Pacific National (Asciano's rail business)
- ◆ Transaction structure likely to be influenced by debt considerations and will require bank consent
  - **1** consortium acquisition of entire company likely to be structured to retain the existing bank lender group, but at higher margins and with a debt paydown of up to A\$1.0bn
  - **2** new debt facilities will be required for a 100% acquisition of one of Asciano's business units

# Port of Baltimore – Seagirt Marine Terminal

## Transaction Overview

- ◆ The Maryland Port Administration (“MPA”) is offering the long-term concession and lease to develop and operate Seagirt Marine Terminal
- ◆ Concession is expected to be in excess of 30 years and comprise both upfront and ongoing payments by the operator
- ◆ The project will include the \$80mm expansion of Berth IV to accommodate New Panamax vessels expected to hold 10,000 TEUs and be in excess of 1,200 ft

## Asset Overview

- ◆ Seagirt is the largest terminal at the Port of Baltimore, opened in 1990
- ◆ Current capacity of 1.0mm TEUs (three berths, seven cranes) expected to increase to 1.5mm TEUs (four berths, eleven cranes) after expansion project
  - 2008 volume was c. 500,000 TEUs
- ◆ Currently operated by Ports America; stevedoring services provided by Ceres and Ports America
- ◆ Current customers include Evergreen, CSAV, CMA and Mediterranean Shipping Company
- ◆ Channel depth of 50ft, quayside depth of 45ft, 200 acres of yard
- ◆ Located less than two miles from I-95 and other key highways
- ◆ On-dock rail via CSX and near-dock rail via Norfolk Southern

## Financial Overview

(\$'000)	2008	2007	2006
Maryland International Terminals, Inc. <sup>1</sup>	\$41,635	\$39,961	\$39,124
Maryland Port Administration	15,788	15,133	14,387
<b>Total operating revenues</b>	<b>57,423</b>	<b>55,094</b>	<b>53,511</b>
Maryland International Terminals, Inc.	40,697	38,728	37,453
Maryland Port Administration	7,017	6,362	5,930
<b>Total operating expenses, excl. rent</b>	<b>47,714</b>	<b>45,090</b>	<b>43,383</b>
Operating income before rent	9,709	10,004	10,128
Terminal rent	8,601	8,039	7,753
<b>Operating income</b>	<b>1,108</b>	<b>1,965</b>	<b>2,375</b>

## Expected Bidding Timeline

MPA Issues RFQ	April 15, 2009
Facilities Tour	May 4, 2009
Deadline for Questions	May 7, 2009
SOQs Due	May 18, 2009
Short-list Selection	June 8, 2009
Offers Due	September 4, 2009
Final Negotiations	September / October 2009
Required Approvals	November / December 2009
Financial Closing	First Quarter 2010

Note:

- <sup>1</sup> Maryland International Terminals Inc. is a subsidiary of MPA and operates the facilities on behalf of the MPA

# BBI European ports overview

## Commentary

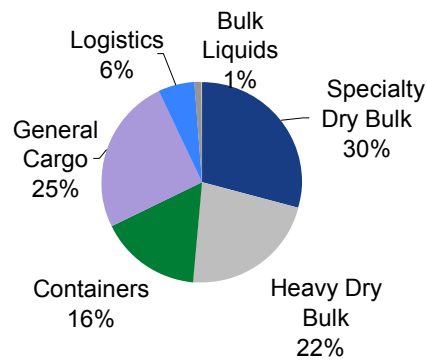
- ◆ BBI Euroports is one of the largest port operators in continental Europe and handles over 70 million tons of various commodities with a strong focus on bulk and general cargo
- ◆ Port operations are found in 16 locations across continental Europe
- ◆ Key statistics of BBI Euroports as follows:
  - 708,000 TEUs container volume, and bulk and general cargo 54.6 million tonnes for FY 08
  - 31 kilometres of quays
  - 485 hectares of port land

## Financials

(Euro mil)	1H FY08	2H FY08	FY08 Total	1H FY09
Revenue	194.3	305.9	500.2	295.1
EBITDA	23.5	39.9	63.4	41.2
% margin	12.1%	13.0%	12.7%	14.0%
EBIT	7.5	4.0	11.5	5.6
% margin	3.9%	1.3%	2.3%	1.9%
Net interest expense	(9.8)	(13.2)	(23.0)	(22.8)
EBT and other income/expense	(2.3)	(9.2)	(11.5)	(17.2)

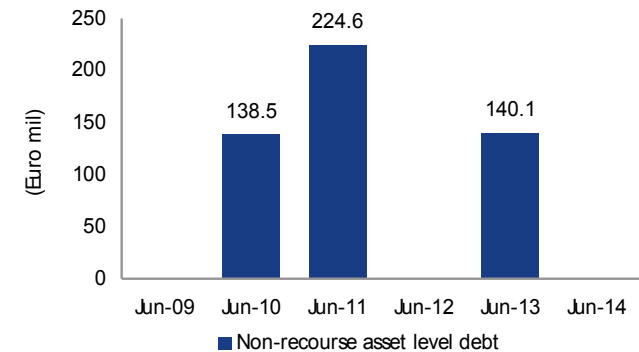
Source: Company report  
 Note: Fiscal year ended as of Jun. 30<sup>th</sup>

## EBITDA contribution



Source: Company report  
 Note: For the calendar year 2007

## Debt maturity profile



Source: Company report (As of 31<sup>st</sup> Dec. 08)

# Drağados SPL – Investment highlights

## Market leadership

- ◆ DSPL is the No 1 container terminal operator in Spain
- ◆ Across its entire terminal asset portfolio, DSPL's terminals are either the sole or the leading operator in their respective ports, enjoying excellent relationships with the local port authorities and other stakeholders

## Attractive port locations

- ◆ DSPL's Spanish assets, including container terminals in Valencia, Bilbao, Malaga and Las Palmas, are attractively situated at either key European gateway or Mediterranean transshipment locations, benefiting from significant growth potential and limited competition from surrounding ports
- ◆ Outside Spain, DSPL has made selective investments in Asian and Latin American markets, gaining exposure to the long term growth potential of the leading emerging markets

## High growth assets with strong cash flow generation

- ◆ DSPL's consolidated throughput TEU volumes have grown at a CAGR of 18.6% from 2003 to 2007
- ◆ In the medium to long term, DSPL's revenues are forecast to continue their strong growth based on favourable industry dynamics and realisation of development opportunities within the business. In addition, DSPL has further scope to improve profitability through improvements in IT, productivity and utilisation rates
- ◆ Port services require almost no capex, leading to a high EBITDA to cash flow ratio

## Diversified platform and integrated business model

- ◆ DSPL's operation of bulk cargo terminals, of which the key examples include Valencia, Sagunto and Santander in Spain, provides the business with a diversified platform as activities generated by bulk are typically based on long term contracts agreed with customers in order to serve the local markets
- ◆ Furthermore, its market leading presence in port agency services enables DSPL to benefit from an integrated approach with its terminals operations, a combination that affords DSPL added stability and increases its resilience in challenging market conditions
- ◆ DSPL's in-built capability to leverage and sell across its extensive platform affords it a natural advantage in creating value-add from its wide range of service offerings

## Future development pipeline

- ◆ DSPL has a strong pipeline of future terminal investment opportunities both within its current portfolio and new projects under evaluation. The most recent development is the award of the concession to construct build and operate the Indira Container Terminal in Mumbai
- ◆ For an anticipated total investment of €166 million, the new terminal is expected to have capacity to handle up to 1.5 million TEU per annum. DSPL's concession to operate the terminal will last until 2037

## Experienced and committed management

- ◆ DSPL's management comprises a strong team both at the corporate level and at the terminal or business specific level, with excellent track record in operating and developing the business, consistently winning new concessions and maintaining longstanding relations with customers and other stakeholders

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