Ports Module

Full Description

Module 4 of the Annex in Asset Recycling.

This module sets out sector-specific asset recycling guidelines for the ports sector, including sector-specific due diligence requirements, sample risk allocation matrix and sample terms of reference (TOR) for selection of transaction advisors. *Find more below, or visit the Guidelines for Implementing Asset Recycling Transactions section and Content Outline, or Download the Full Report.*

The Relevant Authority should undertake a due diligence study of the port asset that is considered for asset recycling. This should form part of the asset recycling transaction preparation process. The due diligence process for a port asset should include:

- Traffic Forecast and Demand Assessment
- Port Infrastructure and Capacity Development
- Financial Performance
- E&S and Climate Resilience Due Diligence

Due Diligence for Ports

The objectives of the due diligence process are:

- Review the condition of the ports (including the superstructure and the terminal equipment, as is the case);
- Review the service and performance standards provided under the current operations of the port;
- Review the legal arrangements by which the relevant authority is occupying and operating the port;
- Review the financial status of the port and its financial feasibility if the port is to be operated and managed by a private sector party;
- Determine measures that can be implemented to enhance value through the asset recycling transaction; these may include considerations such as capital investment in the port superstructure and terminal equipment; and
- Identification of key (environmental and social) E&S and climate risks to be taken into account in the selection process and risk allocation.

In the context of a port asset recycling transaction, the following additional due diligence activities should be undertaken

- Demand forecast; including consideration of any competing ports or future port developments;
- Assessment of the port infrastructure and future capacity development;
- Assessment of financial performance;
- Assessment of E&S risks and climate risks.

Traffic Forecast and Demand Assessment

The relevant authority should consider the following aspects when conducting traffic forecast and an assessment of demand for the port:

Historical analysis

- a macro-economic analysis of the port traffic trend, including historical trend of import and export in the region;
- historic container, cargo, port related services and other demands at the port; and
- impact of existing and foreseeable policy changes on the demand at the port, including the potential of upcoming new ports around the region.

Forecast

- project a baseline forecast for growth in container, cargo, port related services and other demands for the period under consideration. With respect to the operations of the terminal, forecasts should be made with respect to terminal handling charges (THCs) with respect to cargo movement/stevedoring services performed by the operator at the terminal. For container terminals, THCs cover the movement of a container between the ship's hold to the exit–entry gate via the container terminal yard;
- identify potential scenarios for both downside and upside growth;
- based on the port infrastructure development plan, assess potential for new types of cargo (for example, liquid / dry bulk, reefer container, etc) or different vessel sizes that the port will have the capacity to handle; and
- assess potential for business and development of other port related services, such as logistics, land rental and warehousing.

Port Infrastructure and Capacity Development

Undertake a preliminary assessment of the existing port infrastructure, propose a plan to improve capacity or ability to handle new types of cargo and vessels.

A gap analysis report, including an assessment of the port's condition, to determine the adequacy to provide required service levels should also be prepared. The gap analysis should cover:

- Assessment of the remaining useful life of the port;
- Potential replacement / overhaul / major maintenance required and the timing thereof;
- Overall performance against benchmark with reference to the current capacity; and
- Service specifications required to meet future needs.
- Based on the above findings and local/international benchmarks, provide a preliminary quantity estimate for the proposed upgrade as applicable including all required services, such as pre-design investigations, design, supervision, etc.

Financial Performance

Due diligence should be undertaken of the port's financial performance.

To this end, the due diligence process should review revenues derived from the port charges, and the operating expense; presenting historical and projected Earnings Before Interest, Tax and Depreciation/Amortisation (EBITDA). The elements are as follows:

Revenues

- Current structure of the relevant charges and the applicable fee adjustment mechanism/s:
    - Base charges detailing the prevailing port charges and historical revenue therefrom;
    - Base charges growth rate detailing prevailing escalation or indexation regime and an assessment as to whether adjustments have been adequate to cover historical inflation.
- Forecast of port revenues based on demand forecast and prevailing charging mechanisms.

Operating Expenses

- Review operations and maintenance expenses comprising staff and non-staff costs
- Review the total operating cost by benchmarking it against the median average of comparable (i.e. regional or local port assets)

Capital Expenditure

- Assess projected capital investment in expansions and asset renewal and detail any required expenditure plans (for improvement of service levels, technological upgrade, increasing capacity and procurement of terminal equipment) to meet expected growth in demand over the term of the concession.

E&S and Climate Resilience Due Diligence

E&S due diligence should be conducted to identify:

- gaps between applicable laws and lenders' requirements and ways to bridge them with the relevant timeline;
- key E&S risks, such as but not limited to: land acquisition and/or clearing, resettlement, impact on livelihood with attention to limitation in accessing the fishing group, terrestrial and aquatic habitat alteration and biodiversity, water quality, air emissions, waste management, hazardous materials, oil spills, noise and vibration (including underwater), legacy issues (if any); and
- applicable E&S permitting and studies to be developed and the risks allocation between the relevant authority and the private sector.

The Climate Resilience due diligence should include:

- assessment of GHG emissions baseline of the port;
- historical climate data and natural disaster events affecting the port;
- review of climate and natural disasters risks of the port asset (e.g. flood risk to ports, increased disruption to port operations; reduced navigability of rivers);
- assessment of the Disaster Risk Management plan or Emergency Preparedness and Response plan (if in place); and
- assessment of integration of climate resilience concepts in maintenances regimes and design specifications.

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The Guidelines have not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the Guidelines be reviewed and adapted for specific transactions To find more, visit the Guidelines to Implementing Asset Recycling Transactions Section Overview and Content Outline, or Download the Full Report.