Global networks in the container terminal operating industry

Part 1: How global are global terminal operators?

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The nature and history of global terminal operators

Global terminal operators are defined as companies involved in international port terminal operations with a view of establishing globe-spanning network services. They account for a growing separation between the role assumed by port authorities and terminal operations.

The container terminal operating industry has witnessed an internationalization process during recent decades, which took place in three consecutive waves. The first wave included companies such as HPH, P&O Ports and SSA who expanded their operations in new markets, thereby benefiting from the port privatization schemes in many regions across the world.

As soon as the strategies of the pioneers proved to be successful, a second wave of companies started seeking expansion internationally (e.g. PSA, CSX World Terminals and Eurogate).

A third wave of terminal operators emerged when major container carriers entered the terminal industry in an effort to support their core business. This led to three groups of global terminal operators: pure stevedores who manage terminals as profit centers, integrated carriers who manage terminals mainly as costs centers, and a group of hybrid terminal operators consisting of shipping lines involved in the stevedoring business and handling both own cargo and third-party traffic to make profit.

Not all operators started their international expansion from their respective home markets. For example, Hanjin started the international expansion of its terminal network out of foreign ports due to institutional impediments for investments in South Korea.

In more recent years financial holdings, ranging from investment banks, retirement funds to sovereign wealth funds, were attracted to the port terminal sector as an asset class and for revenue generation potential. The majority has an indirect management approach; acquiring an asset stake and leaving the existing operator take care of the operations. Others will manage the terminal assets directly through a parent company, such as DP World.

World rankings

Table 1 and Figure 1 provide an overview of the top ten global terminal operators classified by volume and by hectares of terminals they control. The equity TEU measure adjusts throughput to reflect the share of individual terminal operating companies held by the global operators.

The top twelve terminal operators control an increasing share of the world’s total container handlings: 64.6% in terms of total throughput handled in 2009 compared to 41.5% in 2001. The sample of terminal operators classified by Figure 1 accounts for 441 terminals worldwide totaling close to 23,000 hectares (230 square kilometers).
Terminal control is allocated to the firm that has the largest equity stake. The results of Figure 1 should thus be treated with caution as various terminals have various levels of equity stakes, and in many cases two major terminal operators have stakes in the same terminal. Terminals where terminal operators have a stevedoring contract are also included.

In the recent financial/economic crisis early entrants like PSA and HPH have performed better than late entrants who have had to pay premiums to be in the game (e.g. DP World). The changed economic situation means that terminal operators have adopted a more cautious assessment of future prospects.

No new global container terminal operators of any size emerged in recent years. However, there are a number of highly active smaller players in the market, building international portfolios. These include Shanghai International Port Group (SIPG), Macquarie, ICTSI, KGL and RREEF. China Merchants Port Holdings recently launched its internationalization through deals in Vietnam (May 2010) and Sri Lanka (Sept 2010). It is a sizeable player with 43.9 million TEU in 2009, and would rank fifth in the Drewry league.

Consolidation in the terminal operating industry

Mergers and acquisitions have significantly affected the rankings. The year 2001 stands out as the year of hostile takeovers, with three landmark deals: HPH-ECT, PSA-HNN and HPH buying ICTSI’s International Business Division.

The years 2005 to 2007 saw an extraordinary level of merger and acquisition activity in the terminal operator industry against a backdrop of increasing container terminal capacity shortages. A front-runner in the latest consolidation wave was DP World, through the acquisition of the terminal portfolios of CSX World Terminals (2005) and P&O Ports (2006).

Apart from DP World’s acquisitions, another major deal was PSA’s acquisition of a 20% stake in Hutchison Port Holdings’ global terminal portfolio, following its earlier purchase of strategic shareholdings in a number of other Hong Kong operations in 2005.

Evidence underlines that the consolidation process that has taken place rapidly in recent years may have reached limits. From one side, most of the global terminal assets are already part of the portfolio of global terminal operators, and from the other diminishing returns are likely to play in view of growing competition and questionable future growth opportunities.

Given the fact that there are no large companies or terminal assets left to acquire nowadays, it can be expected that the top four players (PSA, APM Terminals, HPH and DP World) will maintain their lead over the other operators for quite a number of years to come. Spurred by the sudden excess supply of port capacity, as well as lower profitability levels enjoyed by terminal operators, M&A activity in the container handling sector is likely to slow down significantly in the years to come.

Further consolidation may also be restricted by institutional factors, particularly the policies of national and supranational competition authorities that closely monitor the risks of having dominant actors in regional container markets. For example, in Europe, EU competition law has already affected HPH’s expansion within North Europe (i.e. when HPH took over ECT in Rotterdam). Another example relates to the acquisition of the American assets of P&O Ports in 2006. The acquiring firm, DP World, was constrained to sell these assets to Ports America, which is controlled by the financial interests of AIG/Highstar Capital.

Of key interest in any M&A activity will be the valuation of port and terminal assets. In the peak period of demand growth and interest in acquiring terminals during 2005-2007, port companies were being valued (and paid for) at EBITDA multiples

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<th>Operator</th>
<th>TEU (m)</th>
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*Figures include all terminals in which 10% plus shareholdings were held. Figures do not include operations at common-user terminals.

Source: Based on data from Drewry Shipping Consultants (2006, 2010)
in excess of 20 times. With the crash in demand and the credit crunch, this exceptional situation has ended, at least for the time being. Anecdotal evidence suggests that multiples of around eight to twelve times EBITDA are the new benchmark, but there has yet to be any major M&A deal going through to verify these new levels in the market.

Drivers of internationalization
Terminal growth involves replicating a business model and providing capital for infrastructure improvements. Global investors base their investment strategy on exhaustive analyses of profitability, operational efficiency, growth potential and the level of indigenous cargo.

Port regions with poor prospects in terms of throughput growth gain less interest from potential investors, certainly when inter-port or intra-port competition is high. Transshipment terminals represent a riskier investment (higher vulnerability), since volumes are more footloose and much more subject to pricing strategies of rival transshipment hubs than in the case of gateway cargo. Regions with a high concentration in port volumes in a few ports or with terminal capacity constraints are much more prone to the direct involvement of shipping lines, as these actors are urged to secure capacity.

Investment possibilities obviously also depend on the degree of private operator participation in the regional container market. Not all regions around the world show the same timeline in opening up local container markets to private operators. For example, South America and Eastern Europe have started to walk the path of port privatization a more than decade later than many port regions in Europe and North America.

Even within the same region, large differences might exist at the level of port governance and institutional arrangements. For instance, the late arrival of international terminal operators in France was the combined result of the peculiar status of container crane operators in French ports (prior to the recent port reform), the captive nature of much of the French cargo, and the shelter strategies of local terminal operators.

Another factor that might lead to regional differences in the internationalization of port terminal operations is the potential increase in the valuation of the terminal asset. This factor is strongly related to the demand and supply profile in the region, as terminal assets are typically valued higher when located in markets with a high growth potential and high terminal capacity utilization.

Making the difference
Global terminal operators wishing to operate in a foreign port services market would have to possess some competencies that would offset the advantages held by incumbent firms. These are to be found in the area of firm size and the realization of economies of scale and scope, market power and marketing skills, technological expertise or access to cheaper sources of finance.

Global terminal operators often have central purchasing departments at their headquarters involved in making large contracts with the suppliers of terminal equipment such as gantry cranes or terminal tractors. Similar arrangements are made for the purchase and maintenance of terminal planning software, which in some cases is developed in-house. The output of research and development units stationed at various locations across the world is typically shared among the terminals of the whole network, through knowledge sharing configurations based on IT-platforms and intensive workshops. Also, the creation of extensive networks makes it possible to spread investment risks.

How ‘global’ are global terminal operators?
Assessing the transnational nature of terminal operators can be done over several dimensions. The first is an overview of the geographic coverage of a sample of major global operators in terms of how much terminal real estate is controlled and where.
Figure 2 underlines that the assets controlled by terminal operators, from local companies operating in a single port to multinational holdings, are servicing every single market of significance, with a particular concentration among the world’s major commercial gateways. The majority of terminals also clearly correspond to the underlying structure of global shipping networks. Therefore, the geographical coverage of global terminal operators is a near perfect representation of global long distance trade.

A second way to look at the transnational nature of container terminal operators is to assess the regional orientation of each holding. Global container terminal operators show varying degrees of involvement in the main cargo handling markets around the world.

Figure 3 reveals a substantial geographical diversity of terminal assets among two groups: the four major holdings, and the smaller terminal operators. DP World and APM Terminals have the most diversified portfolio of terminals in terms of geographical spread and can thus be considered the most ‘global’ of the global terminal operators.

However, a level of regional orientation is already evident at this level. APM Terminals does not have a presence in Australia, while DP World has only a very small presence in North America (CenTerm in Vancouver). PSA has no direct presence in North America, but has Latin American assets, as well as HPH.

Both HPH and PSA seem to prefer the control of large terminal facilities since terminal operations is the core of their
activities. They were actively involved in the development of large export-oriented port facilities in Pacific Asia. APM Terminals tends to have comparatively smaller terminals, underlining a strategy leaning more on global market coverage to support its sister shipping company Maersk Line. DP World has also a small hectare portfolio comparatively to its sizable number of terminals in which it has the largest equity; its largest terminals are in its home base in the United Arab Emirates. This underlines an aggressive growth strategy aimed at acquiring existing terminal assets, many of which in lower volume markets having a strong growth potential (e.g. the Mediterranean, South Asia and the Middle East).

The strong global character of the largest operators is a bit in contrast with the regional orientation of smaller holding companies. Two in particular, Ports America and Eurogate, are strictly regional operators. Others are embarking into a substantial transnational strategy, mostly by securing concessions at smaller terminals.

Figure 5 provides more detail on the involvement of the four largest global terminal operators in some of the main port regions around the world. The four main operators are well represented in the Pearl River Delta (about 52 million TEU throughput in 2009), the Malacca Strait ports (39 million TEU), and the Rhine-Scheldt Delta (20 million TEU). However, other major port regions in North America and East Asia are dominated by other terminal operator groups, which are mainly shipping lines or partnerships between shipping lines and local terminal operators. This is particularly visible in the San Pedro Bay where Asian shipping lines (APL, NYK, MOL, Evergreen, Yang Ming, K-Line, HMM, Hanjin) have been able to secure terminal assets in the 1980s and 1990s when there was still the possibility to do so.

Part two of this series on ‘Global Networks in the Container Terminal Operating Industry’ will focus on strategic issues and the future direction of these terminal networks. Part two will be published in the next issue of Port Technology International.

**ABOUT THE AUTHORS**

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