ISSN: 2414-1895 DOI: 10.6919/ICJE.202009_6(9).0010

Resilience to Risks and Investment Analysis of Global Terminal Operators

Zirui Mao

School of Shanghai, Maritime University, Shanghai 200000, China.

Abstract

The global economic and trade market was complex and changeable in recent years. Although global terminal operators maintained sound business capabilities, their investments and acquisitions slowed down compared with the previous two years due to terminal business growth slowdown and continued increase in capital pressure. As a result, they were faced with increasing risks. This paper analyzes the risk and investment strategy of global terminal operators respectively and summarizes the changes in the development model of global terminal operators.

Keywords

Global terminal operators; Investment; Risk.

1. Introduction

Global port investment maintained a moderate growth trend, but at a slower pace.On the one hand, the global shipping market demand is relatively stable, the rapid growth of maritime trade has become a history, and large-scale new port is no less likely;On the other hand, the market share of major terminal operators in the world is relatively stable, the layout of globalization has formed a certain pattern, port renovation and expansion projects in node regions have started or entered the stage of operation, and the demand for new and invested ports is limited.In addition, in some areas there is a terminal structural surplus state, and bulk cargo demand volatility, affecting the port investment enthusiasm.For international terminal operators, future investment in ports will focus more on their growth potential and profitability.

2. Resilience to risks of global terminal operators

To cope with changes in the shipping market and industry landscape, global terminal operators are improving their resilience to risks and the capability of continuous operations primarily through improving capital structures, managing terminal asset ranges, and increasing asset investment in low-risk areas.

From a geographical perspective, investment risks in different regions of the world vary due to differences in economic development, political environment, and market conditions. Specifically, according to an investment-related risk assessment in various regions of the world conducted by the Organisation for Economic Co-operation and Development (OECD), North America has the lowest investment risk level, while Europe and Oceania also have relatively low investment risks. The investment risks of the Middle East and the Indian subcontinent and Latin America are higher, while Africa is the region with the highest investment risk. Emerging and mature economies in Asia are in the middle of the investment risk scale. As Drewry's risk indexes of global terminal operators' investment portfolios show, the resilience to risks of 21 global terminal operators is primarily related to their business distribution. Specifically, Bolloré Group recorded the highest risk index because its main businesses are located in West Africa. The four terminal operators of China Merchants Port, Hutchison Whampoa, DP World and AP Moller-Maersk also recorded high risk indexes due to

ISSN: 2414-1895
DOI: 10.6919/ICJE.202009_6(9).0010

business operations in Africa. PSA International enjoyed an improvement in risk status because of increased capacities in highly risky areas such as Dalian Port and Jawaharlal Nehru Port. Several other terminal operators such as Hyundai Group and Eurogate Group posted lower risk indexes in general because most of their terminals are located in low-risk areas. It is worth noting that the risk index of COSCO Shipping Ports followed a downward trend, primarily due to the addition of Orient Overseas (International) Limited's terminal in its investment portfolio and the increased investment in terminals in low-risk areas.

Table 1 Global Operators' Portfolio Risk Indexes in 2018

Operator	Risk index	Operator	Risk index	Operator	Risk index
K LINE	1.00	SSA Marine	2.22	DP World	2.92
HYUNDAI	1.15	SAAM Puertos	2.35	Hutchison Ports	2.97
EUROGATE	1.29	PSA	2.42	APMT	3.28
HHLA	1.68	Evergreen	2.50	CMA CGM	3.66
YANG MING	1.71	TIL	2.55	China Merchants Ports	3.84
NYK	1.98	China Cosco Shipping	2.57	ICTSI	4.69
MOL	2.19	Yildirim/Yilport	2.64	Bollore	6.29
				Average	2.66

3. Analysis on investment strategies of global terminal operators

The investment strategies of global terminal operators can be analyzed from two aspects: one is the terminal operator's preference for investment in emerging markets or mature markets; the other is the terminal operator's preference for investment methods in the initiation of new businesses or M&A of existing businesses.

From the investment market perspective, global terminal operators are more interested in investing in emerging market investments over in mature markets. Specifically, the ports in mature markets are primarily the global transit hub ports in Europe, North America and Australia. Although some transit hub ports are geographically located in mature markets, they are classified as emerging markets because their sources of cargoes are primarily from emerging markets. Currently, relatively active ports in emerging markets include China Merchants Port, Bollore, ICTSI and SAAM Puertos. Other global terminal operators such as DP World, PSA International, Hutchison Whampoa and COSCO Shipping Ports are also active players in emerging markets. However, most of AP Moller-Maersk's businesses are in Europe, Japan and North America, and the company has relatively limited engagement in emerging markets.

From the perspective of investment methods, most terminal operators choose new construction investment rather than acquiring investment. To balance investment portfolios and alleviate financial pressure, terminal operators are mostly cautious about asset expansion. When suitable investment opportunities emerge, terminal operators will turn to merger and acquisition expansion. In addition to investment in traditional terminal assets, terminal operators have also invested in expanding logistics supply chain services in recent years.

From investment liquidity, some terminal operators have made large-scale overseas investments in recent years, with less demand for investment cancellation or reinvestment. The investment liquidity of terminal operators is mainly affected by market conditions and their own current funds. In 2019, CMA CGM invested in CEVA and sold 10 terminal assets it held. Its purchase of CEVA Logistics coincided with its large-scale investment plans, including its largest container ship order, stretching its current funds and leaving CMA CGM debt ridden. The capital strain forced CMA CGM to be divested of its terminal assets to enhance liquidity.

ISSN: 2414-1895 DOI: 10.6919/ICJE.202009_6(9).0010

From preference of investment scope, some global terminal operators primarily make regional investments and are less involved in global investments outside the region. For example, the investment and development of Eurogate Group and HHLA are largely within the European region. This investment preference is often related to the terminal operator's home port development and its main routes. For example, China Merchants Group purchased 49.9% equity in Liaoning Port Group, the parent company of Dalian Port and Yingkou Port, through capital increase, to promote the integration of port resources in Liaoning. ICTSI acquired a 35% stake in its home port Manila North Harbour Port, Inc. (MNHPI) in 2017 to further improve home port operations.

4. Changes in the operation mode of terminal operators

Terminal operators' investment measures are closely related to their resilience to risks. Effective and reasonable investment of terminal operators can not only expand their market coverage and enhance their competitiveness in market, but also effectively respond to market risks through reasonable asset allocation. Therefore, in the current context of increasing market uncertainties, terminal operators are more cautious in investment decision-making and prefer terminals with greater development and profit potential, while reducing operational risks of terminals through cost control, cooperative operations and other means.

(1) From new construction investment to expansion and upgrading investment. As the global port infrastructure continues to improve, opportunities for investing in new port construction are decreasing. Terminal asset investment will change from new construction expansion to existing asset upgrading. Some ports have outdated or old infrastructure equipment among other problems, which greatly affects the efficiency of port operations. Therefore, terminal operators can start from upgrading and renovating old terminals and obtain rights of terminal operations through investing in renovation and expansion projects.

(2) From network layout to cost control. The investment focuses of terminal operators have shifted from project investment to cost control and to efficient use of their own assets, so as to reduce business risks.

(3) From individual investment to cooperative investment. As market uncertainties grow, international terminal operators should gradually introduce other terminal operators or investment groups, to exchange part of their terminal equity for high-quality terminal resources or cooperative investment in terminal projects with strong development potential.

(4) From port businesses to full industrial chain services. Current terminal operators are changing from the traditional internal growth mode to the innovative extended growth mode. Major terminal operators are also providing efficient and high-quality services to global customers by building port supply chain platforms to achieve multi-faceted development and profitability.

5. Conclusion

Despite the increase in the volume of world maritime trade, the development of the global maritime industry is not optimistic due to a series of factors such as geopolitical influence and global economic slowdown.Therefore, global terminal operators speed up terminal network layout to transform from short-term profit to long-term operation, and constantly extend and improve supply chain services. In addition, the continuous investment of large ships and the constant change of shipping alliances also lead to the intensified competition of global terminal operators for supply of goods. Global terminal operators seek development opportunities and achieve profit growth by constantly adjusting their assets and expanding service scope.

Acknowledgements

Natural Science Foundation.

ISSN: 2414-1895 DOI: 10.6919/ICJE.202009_6(9).0010

References

[1] L.H.Jiang, H.L.LI. Analysis on the development status and investment direction of international terminal operators. Transportation enterprise management, 2019, 34(3): 11-14.

[2] L.Y.Liu. Development status of major terminal operators in the world. Containerization,2016,27(10):5-7.

[3] B.B.Zhao, Ll. D Chen. Thinking on International Operation of Container Terminal Operators in China under new Situation [J]. Port Engineering Technology, 2015, 55(01): 87-90.

[4] G.Yang. Comparative analysis of investment, construction and operation modes of ports at home and abroad [J]. Transportation enterprise management, 2017, 32(04): 104-106.

[5] Shalini Kurapati,Heide Lukosch,Stephanie Eckerd,Alexander Verbraeck,Thomas Corsi. Relating planner task performance for container terminal operations to multi-tasking skills and personality type[J]. Transportation Research Part F: Psychology and Behaviour, 2017, 51.