

Timaru District Holdings Limited

Statement of Intent

2021/22

1 Preamble

Timaru District Holdings Limited (TDHL) is a council-controlled organisation as defined by Section 6 of the Local Government Act 2002.

This Statement of Intent sets out the overall intentions and objectives for TDHL for the period 1 July 2021 to 30 June 2022 and the two succeeding financial years.

TDHL was incorporated on 29 October 1997 as a 100% owned subsidiary of the Timaru District Council with the intent to manage the commercial assets and investments of Timaru District Council. The initial cornerstone assets were the shareholding in PrimePort Timaru Limited and Alpine Energy Limited which TDHL purchased off Timaru District Council.

These remain key investments for TDHL forming intergenerational assets held in the interest of ensuring value add infrastructure is provided to the community. Alpine Energy owns and manages infrastructure to provide secure reliable electricity supply in South Canterbury. PrimePort owns and operates the port, cargo and marine services and facilities supporting and enabling the growth of our local economy through its connection to world markets.

TDHL owns an industrial and commercial property portfolio which is directly and actively managed. The purpose of this portfolio is to provide a commercial return and support the capacity of the Port. In addition, TDHL owns a smaller portfolio of property aimed at supporting wider economic development and meeting the strategic priorities of the shareholder.

TDHL's intention is to be profitable, to enable reinvestment in the business, deliver a return on investment to Council, and repay debt.

Since its inception the company has consistently paid a dividend to its Shareholder while also minimising debt levels.

2 Operating Environment

The prevalent operating environment for 2021/22 includes:

- a. COVID-19 – navigating the adverse economic, commercial and social impacts of COVID-19.

In relation to COVID-19, TDHL will continue to monitor the implications of COVID-19 on its commercial activities. TDHL’s own programme of work continues and through this TDHL contributes to local economic activity, with a significant portion of its expenditure spent within the district.

- b. TDHL strategic review – with the new Board structure in place, working to refine the strategic direction and new framework for engagement with Council.

3 Objectives of The Company

Pursuant to Section 59 of the Local Government Act 2002, as a Council Controlled Organisation, the principal objectives of TDHL are to:

- a. Achieve the objectives of its shareholder, both commercial and non-commercial, as specified in the statement of intent; and
- b. Be a good employer; and
- c. Exhibit a sense of social, environmental and cultural responsibility by having regard to the interests of the community in which it operates and by endeavoring to accommodate or encourage these when able to do so; and
- d. Conduct its affairs in accordance with sound business practice.

4 Purpose and Mission Statement

The purpose of TDHL is to hold and manage the commercial assets and investments of Timaru District Council.

It seeks to be a successful and growing business increasing the value of the Company and its return to its shareholder, while taking into account the strategic priorities of the shareholder.

5 General objectives are: -

- a. To maximise the value of the subsidiary and associate and joint venture trading companies to the Council, as the shareholder in TDHL.
- b. To ensure insofar as it is reasonably and lawfully able, that the Statements of Intent of each of TDHL's subsidiaries and associates reflects the policies and objectives of the Council and TDHL in the area of activity or operation of that subsidiary or associate.
- c. To monitor the activities of the companies, comprising the group, to ensure that the respective Statements of Intent are adhered to.
- d. To keep the TDC informed of matters of substance affecting the group.
- e. To obtain a commercial return and build long term strategic value from the port property portfolio, but to have regard to the broader port economy including working in conjunction with PrimePort to ensure operations contribute to the port business as far as practicable.
- f. To evaluate and consider development options from time to time.
- g. To undertake asset purchases, partner with external parties, or assist future developments that, taking into account the strategic priorities of the shareholder, contribute to the economic development of the district.
- h. To maintain current best practices of risk management including health and safety.
- i. To ensure activities around TDHL's property portfolio mitigate risk to the Company and its Shareholders.

6 Specific Objectives and performance targets for 2021/22 are:

Objective	Performance Target
To engage with Council to ensure TDHL contributes to Council's Strategic Framework	Hold at least one strategic update workshop with Council in late 2021 to present Council any refreshed strategic direction which may include a revised Sol
Work with Council to articulate the principles that define the strategic priorities of the shareholder	Develop an investment framework that defines the criteria and balances the "and" principles of: financial return and shareholders strategic priorities and feasibly achievable by TDHL
Effectively and prudently manage TDHL's property assets, obtaining a satisfactory return on investment on commercial properties Property held for non-financial reasons shall achieve good community outcomes over the medium term	To achieve a return on investment of 7% or greater on the leasable port property portfolio held for investment purposes Continue with business-as-usual approach acknowledging there will be some optimisation on the fringes of the portfolio Annual review of property held for non-financial reasons
To continue debt reduction and shareholder distributions subject to no major investments being undertaken and available cashflow	The current intention is to maintain \$3m of reserves, provide a dividend to Timaru District Council as indicated below, with any remaining surplus to be used for debt reduction The above is subject to the solvency test and no new major investments being undertaken

Additional financial performance targets are included below.

7 Nature and Scope Of Activities To Be Undertaken

TDHL's business is that of an investor for the benefit of the district and to provide a commercial return to the Council. Its investment portfolio includes:

- a. Shareholding in local companies providing significant economic and community benefits; specifically Alpine Energy Ltd – 47.5% shareholding, PrimePort Timaru Ltd – 50.0% shareholding.

Activities to be undertaken regarding TDHL's investment in Alpine Energy and PrimePort, in addition to the above objectives, include:

- Acting as a diligent, constructive and inquiring Shareholder
 - Commenting on their statement of intent.
- b. Property investments providing portfolio of investment properties including:
 - Properties located in the vicinity of PrimePort Timaru that are targeted for leasing to port related operations to achieve an overall set rate of return; and
 - Other properties such as the "Showgrounds" site on State Highway 1 and Stafford Street South.
 - c. Activities to be undertaken regarding TDHL's property investments, in addition to the above objectives, include:
 - Ensuring appropriate leases are in place and lessees are compliant with the terms of those leases,
 - Having appropriate insurance in place,
 - Having appropriate asset management plans in place that comply with TDHL's obligations as a Lessor under the Health and Safety at Work Act.

TDHL, may undertake development of properties that, taking into account the strategic priorities of the shareholder, will benefit the district or the company.

No surprises: TDHL will use its reasonable endeavours to operate on a no surprises basis, particularly on matters where there is political, financial or other risk.

8 Governance

The TDHL Board meets monthly and receives regular reporting in relation to its financials and property portfolio.

TDHL monitors the performance of associate companies Alpine Energy Ltd, and PrimePort Timaru Ltd through:

- monitoring each company's compliance with their Statement of Intent (as per 2.6 above);
- regular monthly reporting on performance and against budget;
- regular reports on the property portfolio; and

- the AGM between each company and shareholders, as well as additional shareholder and Board to Board meetings on an as needed basis.

Board succession and development planning for the TDHL Board (in conjunction with Council) and its associate companies (where TDHL has a right to appoint directors) will be managed on an ongoing basis.

9 Ratio of Consolidated Shareholders' Funds To Total Assets

This ratio shows the proportion of total assets financed by shareholders funds. TDHL will ensure that the ratio of Shareholders Funds to Total Assets remains above 25.00%.

For the purposes of this ratio shareholders' funds are defined as the paid-up capital plus any tax paid profits earned and less any dividends distributed to shareholders. They include undistributed profits, which have been accumulated to equity.

Total assets are defined as the sum of all current, fixed and investment assets of the group.

10 Statement of Accounting Policies

TDHL is registered under the Companies Act 1993. The Company's accounting policies comply with the legal requirements of the Companies Act 1993.

The financial statements are prepared in accordance with the Financial Reporting Act 1993, section 69 of the Local Government Act 2002 and generally accepted accounting practices.

Details of the current accounting policies and their application are available in the most recent annual report.

11 Performance Targets (Parent)

The performance targets are based on the financial forecasts and the associated assumptions.

For the 2021/22 year, TDHL expects to have a gross income of \$2.6m excluding valuations and share of associate surpluses and to pay an ordinary dividend of \$1m. The dividend is forecast to remain at \$1m for subsequent years.

Performance Targets

	2019/2020	2020/21	2021/22	2022/23	2023/24
	Actuals	Projected	Budget	Budget	Budget
EBITDA (excluding revaluations)	\$ 7,333,820	\$ 4,369,054	\$ 3,115,300	\$ 3,361,060	\$ 2,517,085
Net Profit After Tax to S/H funds (ROE)	5.0%	2.9%	2%	2%	1.5%
Net tangible assets per share	\$ 3.96	\$ 4.02	\$ 4.07	\$ 4.13	\$ 4.16
Earnings per fully paid share	\$ 0.20	\$ 0.12	\$ 0.08	\$ 0.10	\$ 0.07
Dividends per fully paid share	\$ 0.09	\$ 0.06	\$ 0.03	\$ 0.03	\$ 0.03
Shareholder funds to total assets	78%	82%	83%	84%	85%

12 Financial Forecasts

The financial forecasts are based on estimated revenue flows and estimated capital structures. The forecasts are based on the current operating environment and are subject to no major investments being undertaken.

Summary

Gross Profit from Property	\$ 2,029,758	\$ 2,115,138	\$ 2,209,104	\$ 2,279,288	\$ 2,433,300
Other Revenue	\$ 5,599,576	\$ 1,800,566	\$ 1,548,280	\$ 1,548,280	\$ 606,000
Total Gross Profit	\$ 7,629,334	\$ 4,840,691	\$ 3,619,444	\$ 3,876,896	\$ 3,041,273
Expenses	\$ 295,514	\$ 471,637	\$ 504,144	\$ 515,836	\$ 524,188
Interest	\$ 1,250,027	\$ 780,176	\$ 495,649	\$ 408,567	\$ 396,900
Net Profit excluding Revaluations and Share of Associate Surplus	\$ 6,083,793	\$ 3,588,878	\$ 2,619,651	\$ 2,952,493	\$ 2,120,185

Total Equity	\$ 122,695,970	\$ 124,610,572	\$ 126,230,224	\$ 128,055,051	\$ 129,090,728
Current Assets					
Bank	\$ 2,667,648	\$ 3,406,883	\$ 3,515,203	\$ 4,408,555	\$ 5,330,980
Other Current Assets	\$ 2,006,717	\$ 178,025	\$ 181,926	\$ 186,022	\$ 190,323
Total Current Assets	\$ 4,674,365	\$ 3,584,908	\$ 3,697,129	\$ 4,594,577	\$ 5,521,303
Current Liabilities	\$ 1,284,781	\$ 1,251,788	\$ 1,244,357	\$ 1,251,045	\$ 1,267,485
Working Capital	\$ 3,389,584	\$ 2,333,120	\$ 2,452,772	\$ 3,343,532	\$ 4,253,818
Total Non-Current Assets	\$ 152,886,999	\$ 147,958,065	\$ 147,958,065	\$ 147,392,132	\$ 147,017,523
Total Non-Current Liabilities	\$ 33,580,613	\$ 25,680,613	\$ 24,180,613	\$ 22,680,613	\$ 22,180,613
Net Assets	\$ 122,695,970	\$ 124,610,572	\$ 126,230,224	\$ 128,055,051	\$ 129,090,728

13 Financial Projections

It is forecast that term debt within the company be repaid in each of the years. External debt will continue to be repaid over the three-year period of this SOI. This is assuming that alternative investment opportunities necessitating funds are not required.

The Board has a policy of retaining \$3 million in cash reserves. Funds in excess of this will be prioritised for shareholder dividends and debt repayment as per the company's objectives. This has been incorporated into the forecasts.

14 Reporting To Shareholder

The following information will be available to the Council based on an annual balance date of 30 June.

Information	Quarterly	Half Yearly	Annually	
	Within 2 months of the end of quarter	Within 2 months of the first six months	(unaudited) within 2 months of the end of financial year	(audited) within 3 months of the end of financial year
Statement of Revenue and Expense Statement of Comprehensive Revenue and Expense disclosing actual revenue and expenditure including a comparison of actual against budget	✓	✓	✓	✓
Statement of Changes in Equity	✓	✓	✓	✓
Statement of Financial Position	✓	✓	✓	✓
Cashflow Statement	✓	✓	✓	✓
Commentary A commentary on the results for the quarter, together with a report on the outlook for the following quarter with reference to any significant factors that are likely to effect performance, including an estimated forecast of the financial results for the year based on that outlook	✓	✓	✓	✓
Notice of dividends Notice of and the reasons for any material changes to the dividend payments	✓	✓	✓	✓
Directors report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend				✓
Auditors report On the above statements and the measurement of performance in relation to objectives				✓
Statement of Intent (Draft)				1 March
Statement of Intent (Final)				30 June

15 Periodic workshops

Strategic or targeted workshops will be offered to Council as needed to improve Council's understanding of TDHL's business to workshop matters of mutual interest or concern, and to discuss TDHL's performance and direction. Workshops are intended to be held three times a year in addition to the AGM.

16 Dividend Policy

The company will distribute a dividend of no more than 100% of the tax paid profit.

It is the intention of TDHL to pay out interim dividends as cashflows allow.

Dividends are to be disclosed along with the dividend payout policies, where applicable.

Where there are material changes to the dividend payments notice of this and the reasons for it should be disclosed in its reporting to Council.

17 Procedures For Acquisition Of Other Interests

The company will only purchase an interest in another business or invest in the shares of another company or organisation on the basis set out in its constitution.

18 Activities For Which Compensation Is Sought From Any Local Authority

It is not anticipated that the Company will seek compensation from any local authority otherwise than in the context of normal commercial contractual relationships.

19 Estimate Of Commercial Value Of The Shareholders investment

The commercial value of the shareholders' investment in Timaru District Holdings Limited is considered by the directors to be no less than the shareholders' funds of the company as shown in the Statement of Financial Position. This will be considered annually when the Statement of Intent is completed.

The shares held in Alpine Energy Limited were independently valued between \$92.4 and \$99.7 million as at 31 March 2020 whereas the cost and recorded value of these shares is \$68 million. A review of this valuation, along with a valuation of PrimePort Timaru Limited, will be undertaken periodically.

The shares held in PrimePort Timaru Limited are recorded at fair value. No independent valuation has been completed at this time.

The investment properties portfolio is revalued annually, at 30 June 2020 the portfolio had a valuation of \$47.48 million.

20 Capital expenditure and asset management intentions:

TDHL will update Timaru District Council on its capital expenditure and asset management intentions as part of its periodic reporting and workshops.

21 Other

Land: Activities on TDHL's land will have appropriate consents and leases in place, and TDHL will use all reasonable endeavours to ensure lessees comply with their leases and consent conditions.