FINANCING OF CRUISE FACILITIES

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issues

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American Association of Port Authorities

Financing improvements

- For ports, usually the most difficult hurdle to overcome
- The industry is full of misperceptions
- In many cases ports relate to use financing models that work for cargo or other development – not the same
  - Allocation of costs
  - Allocation of risks
- Most ports have limited financial resources
- Many Caribbean and Latin American ports do not have total control of excess revenues

Both scenarios offer challenges

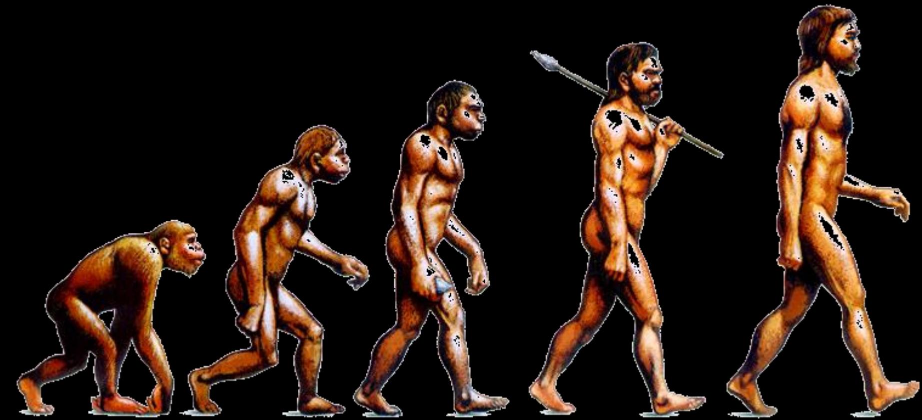
- Start-up ports
  - Lack of certainty
  - High start-up costs
  - Low volumes
  - Slow ramp up to profitability
- Legacy ports
  - Incremental increases
  - Rare that legacy ports have huge jumps in traffic
  - Usually large incremental costs
  - Fixing an old terminal could be as expensive as a new one

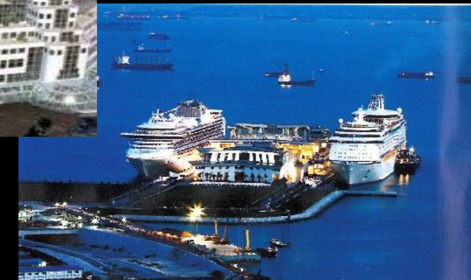
Process

- Customer driven
  - Listen to cruise line needs
  - Usually short-term
  - Low rate structure
- Financially driven
  - Available resources
  - Financing test
- Both of these tend to favor short-term thinking without a strategic vision
- Tend to create even bigger problems down the road

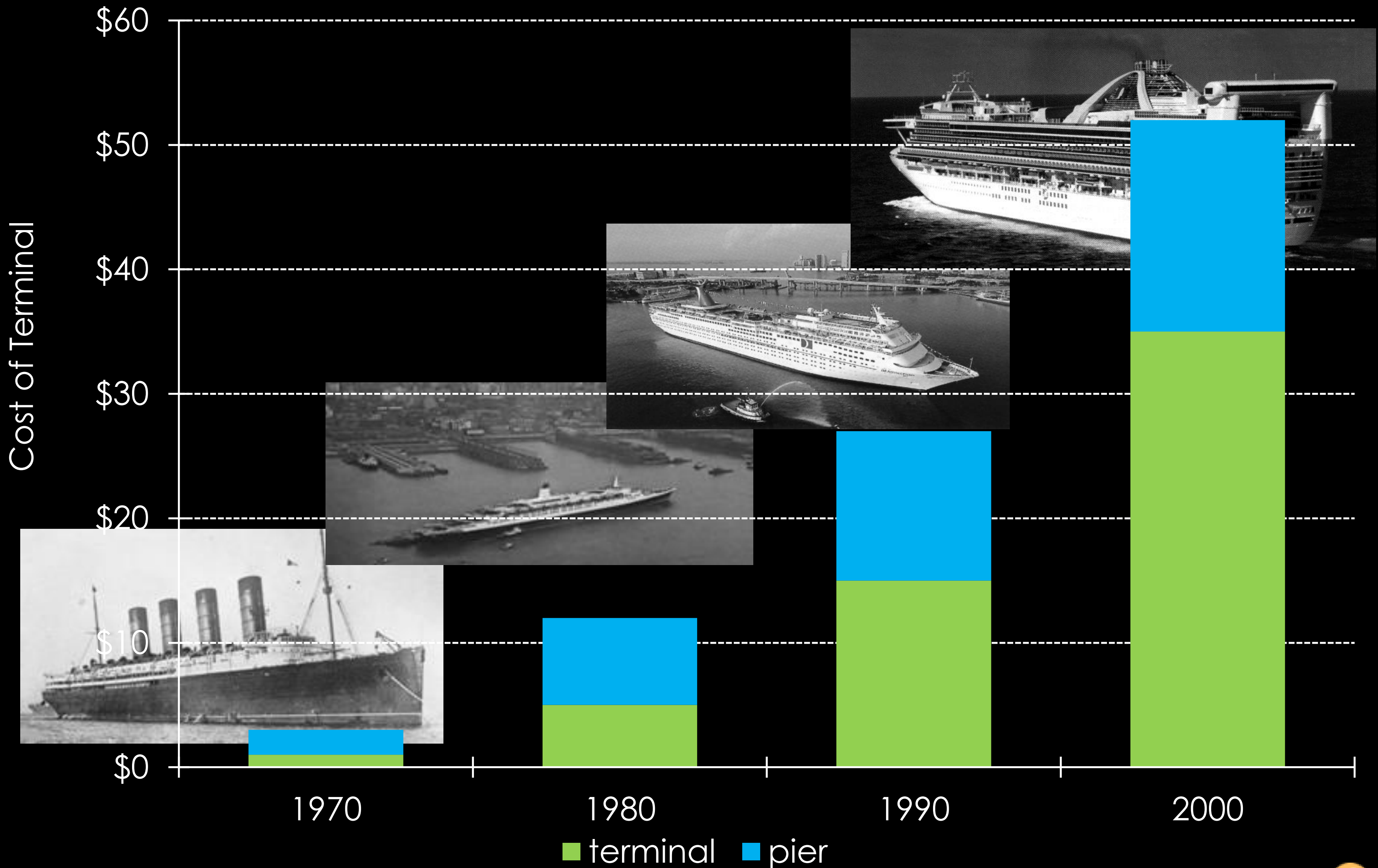
costs

The evolution of the cruise terminal





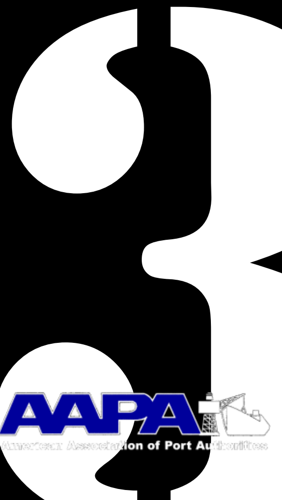
Development costs



What is driving the costs?

- Inflation
- Size
- Parking
- Equipment
- Security
- Two level operations
- Multiple gangways
- Elevators, escalators

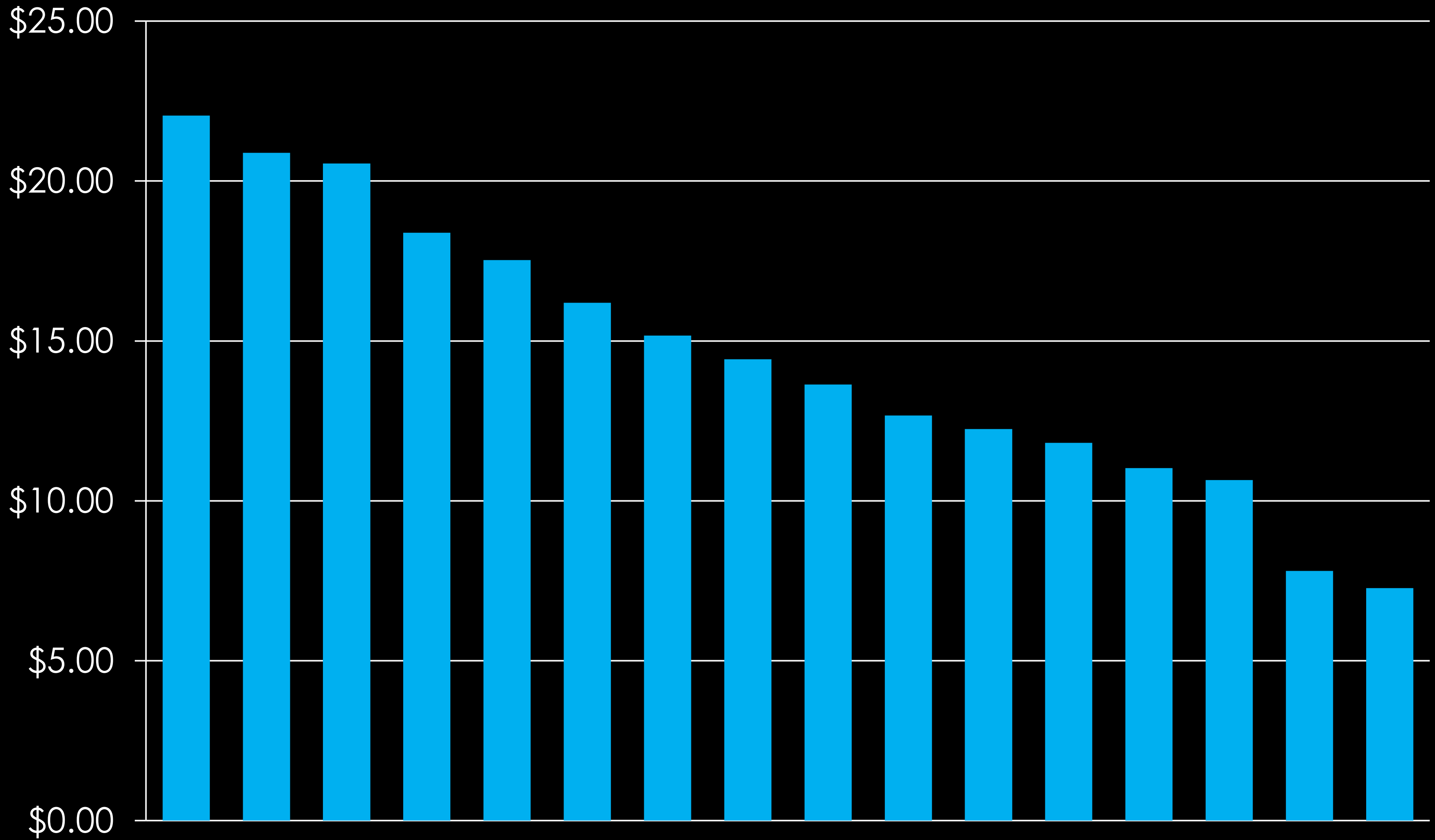
income



Realities

- Lines do not want tariff increases
- Lines have supported increases in strategic locations
- Lines have relocated due to cost differential
- Ports have used costs as a differentiator
- Ports have not used visitor industry funds to support investments

Marine gross income per passenger (major US home ports)



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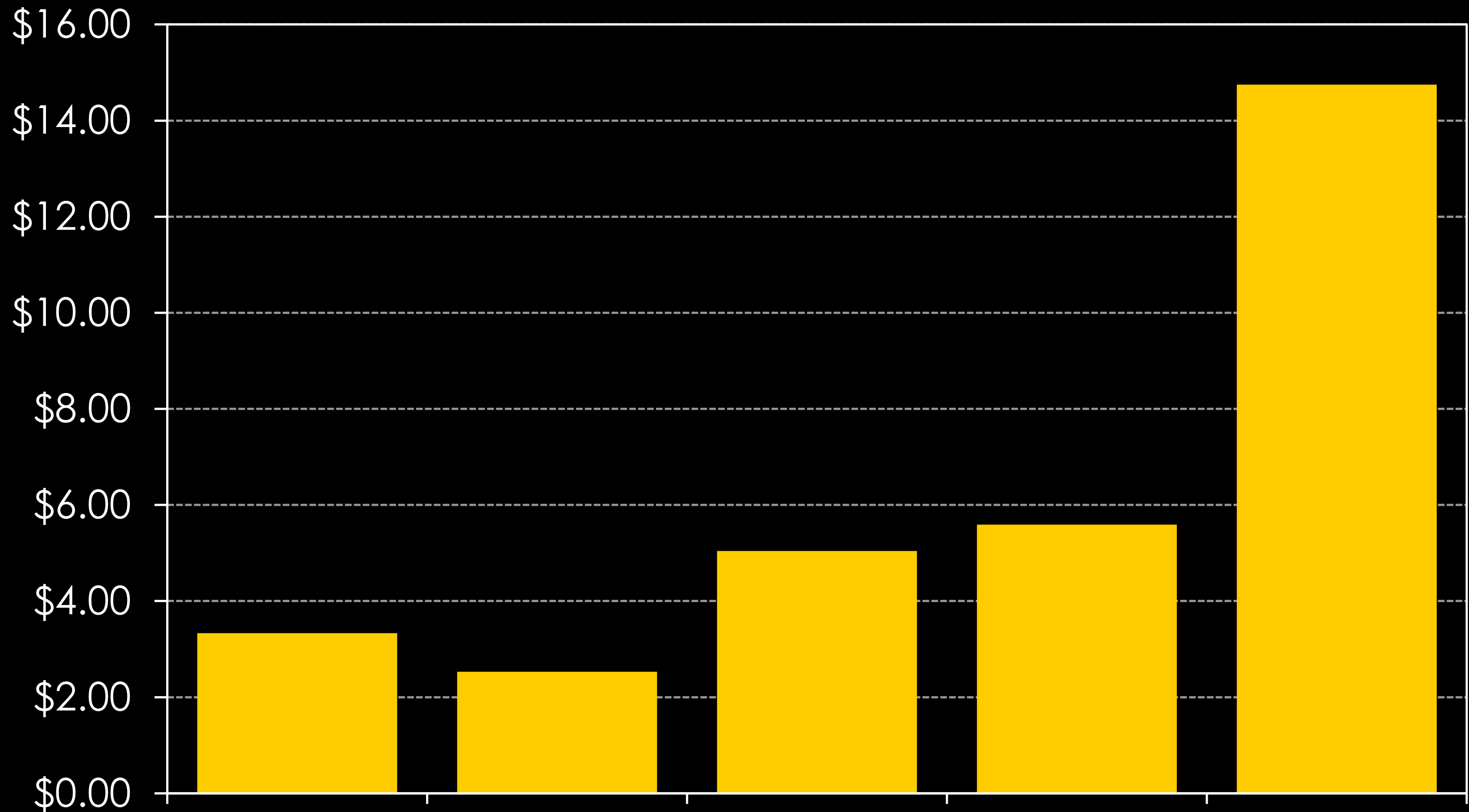
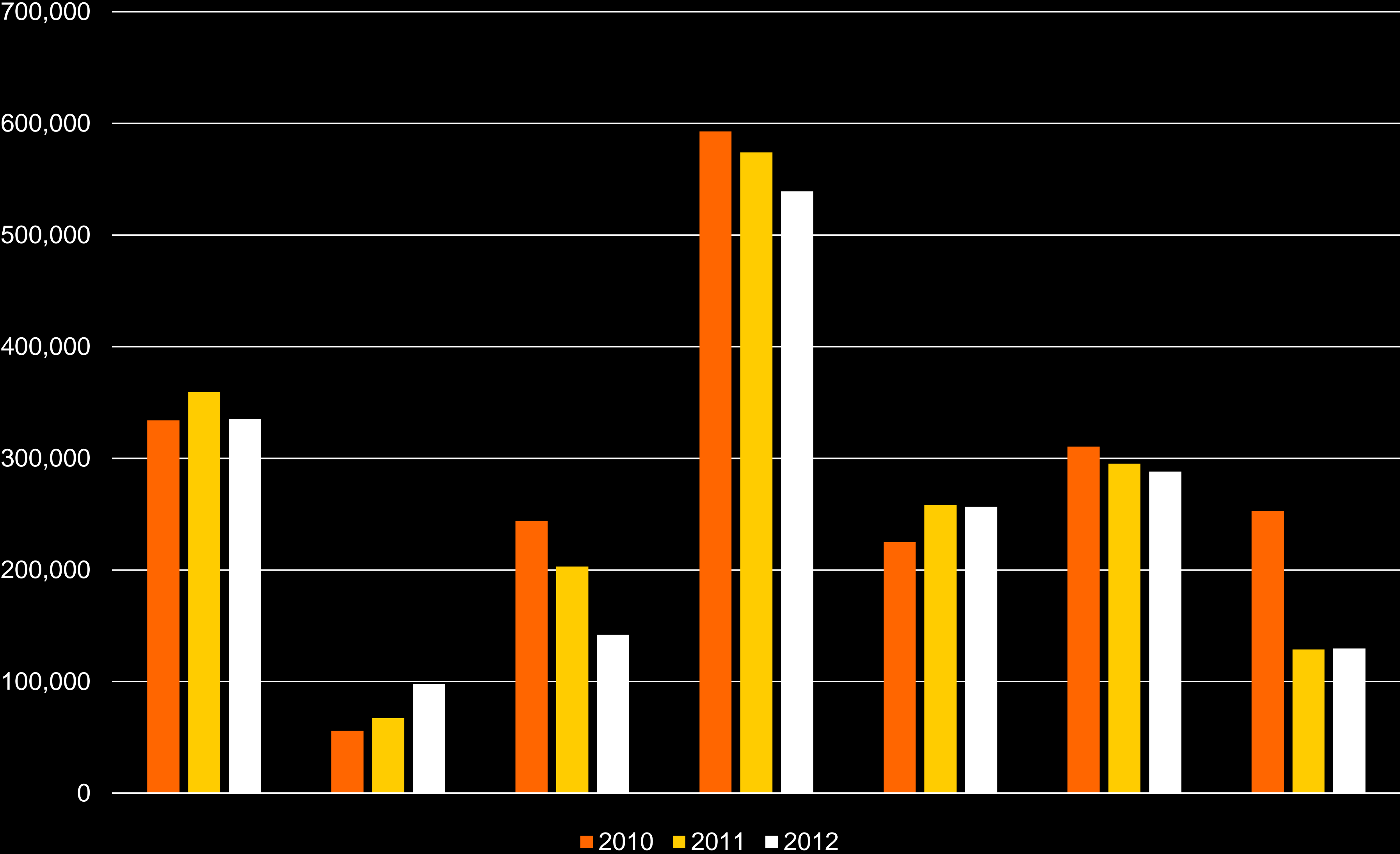
Metric – gross expenses per passenger (US$)



Averages

- Revenues
  - On average the total per passenger charge in the US is $14.52
  - This varies widely by region
    - West coast is lowest at $9.01
    - North Atlantic is highest at +$19.00
    - Legacy ports average at $15.51
- Costs
  - Operating costs of a terminal varies highly between $3.00 per passenger to over $12.00 per passenger
  - Ports with average operations can operate with a 50:50 ratio of costs to revenues
  - Very sensitive to volumes and historic labor arrangements
- Net revenues
  - This combination of revenue and costs create a wide disparity between ports as to their financial performance

Metric- average passengers per terminal



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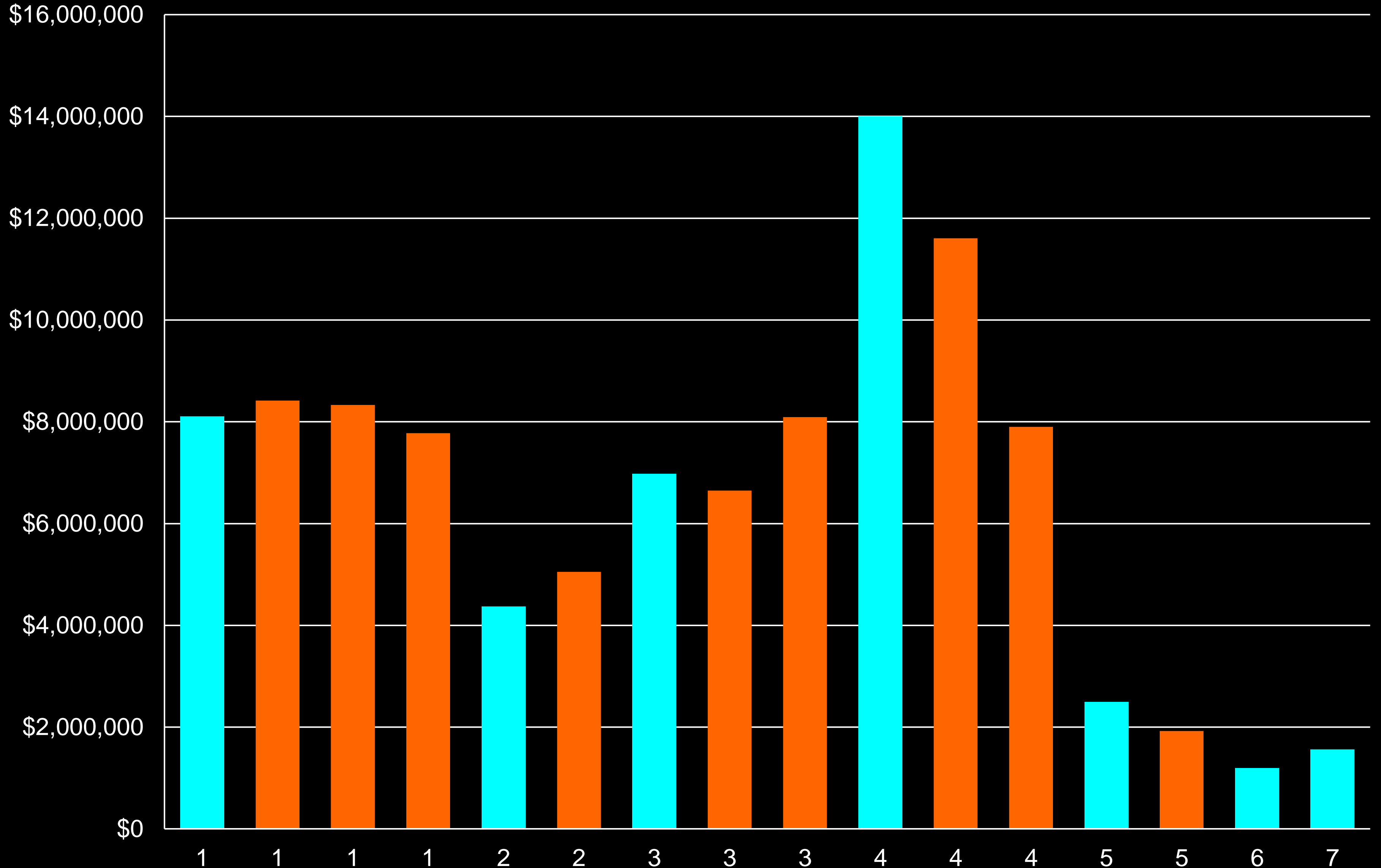
Gross revenues per terminal



financing

How do you fund it?

Who bears the risk?

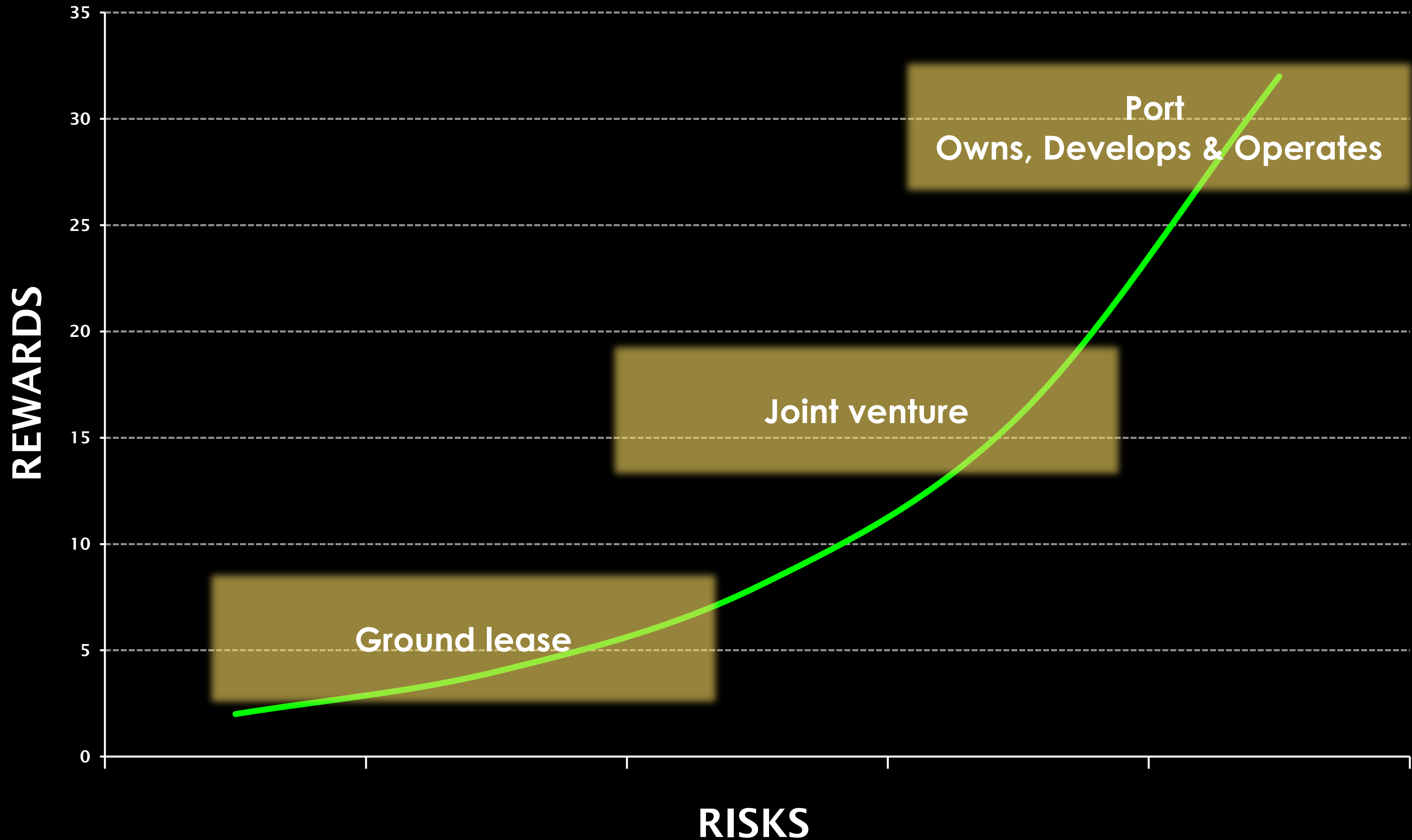
Investments

- Does it make sense?
  - Revenues support operations and return
- How do you mitigate risk of the investment?
- How do you stay competitive?
- How do cruise lines participate?
  - Direct investment
  - Underlying guarantees?

Back of the envelope analysis

- $30 m per terminal a port needs to net about $2.5 m per year
- To net about $2.5 m per year the port needs to gross about $5.0 m per year
- With 300,000 passengers / berth, the port needs to collect about $17 per passenger

Development options



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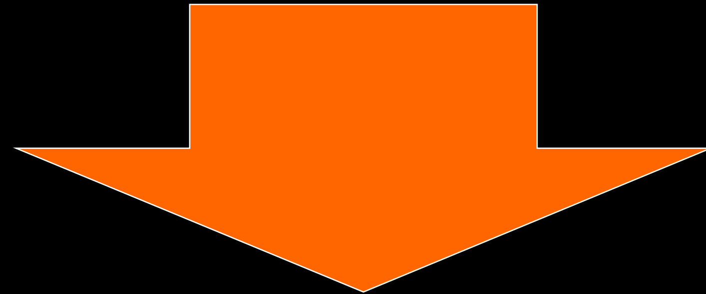
Sourcing the funds

- Who has access to capital?
- Who can source the capital with the best terms?
  - Port
  - Cruise line
  - Operator
  - Private investor



- Who will take the risk?
  - Cruise line guarantees
  - Sovereign guarantees
  - Public Bonds guarantees

Realities

- Most ports do not have the funds
- Most ports do not have independent access to capital markets
- Most ports do not have the financial strength to finance

- Private investors are MORE risk adverse than public entities

Risk

- Public sector
- Debt holders
- Cruise lines
- Private sector
- Public-private partnership

HOW DO YOU JUSTIFY THE INVESTMENT?

Evolution of cruise line involvement

Agreements (PBA's) – Port perspective

- Used to support "investment" decisions
- Used to mitigate risk or assist with financing
- Used to obtain other funding
- Ties up the flexibility of the port
- Might result in discounting

Agreements – Lines perspective

- Guarantee preferential berths
- Control or reduce tariffs
- Obtain a competitive edge

Financing schemes

REVENUE BONDS

- Marketable based on project revenues
- Coverage of 1.3 to 1.5 depending on credit worthiness of issuer
- With or without agreements

THIRD PARTY FINANCE

- More expensive money
- Will usually look for long term agreements (i.e. leases)
- Will look for ROI

NON RECOURSE PROJECT FINANCING

- Hard to obtain
- Coverage of 1.8 to 2.0
- No need for agreements

5 typical scenario

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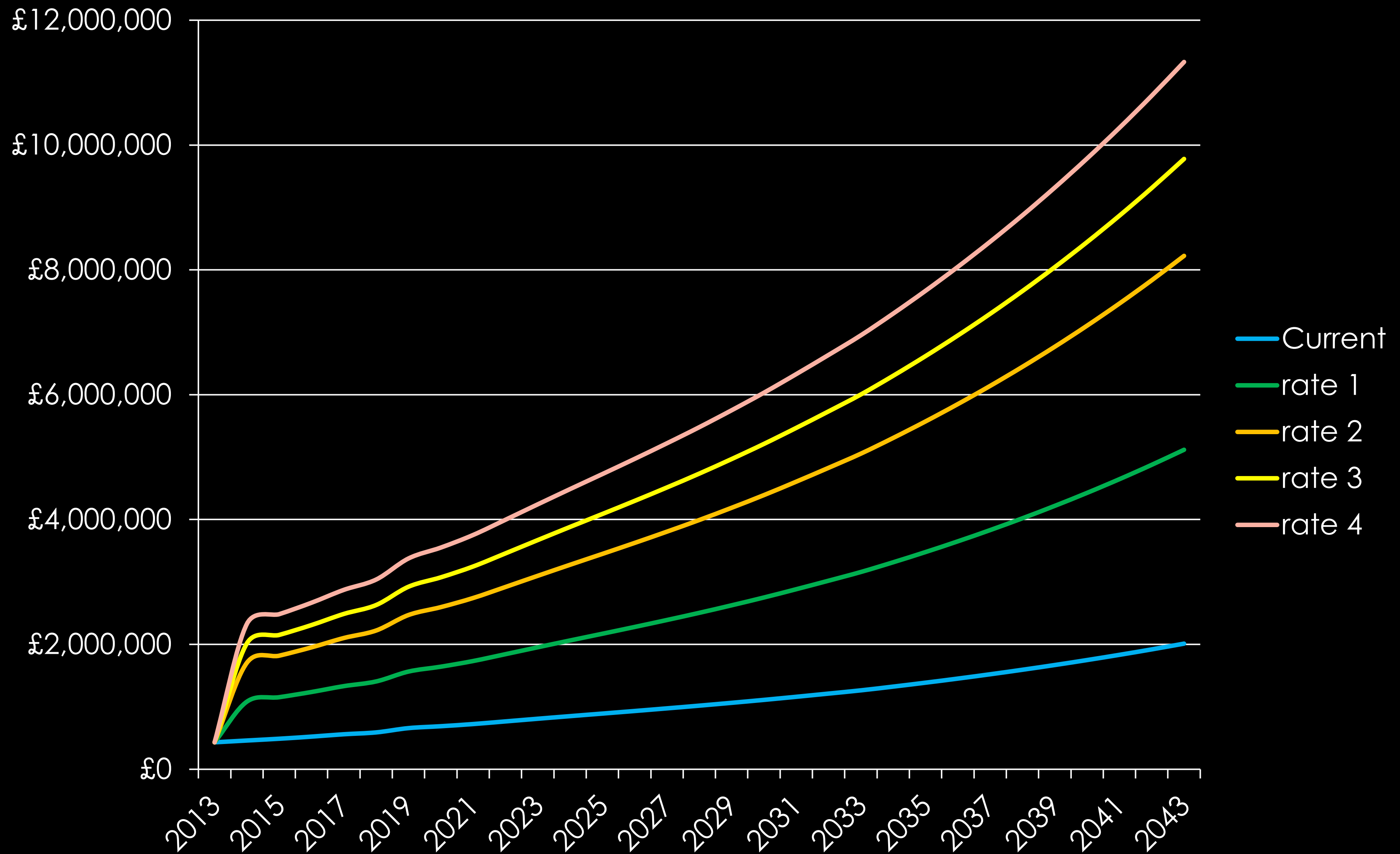
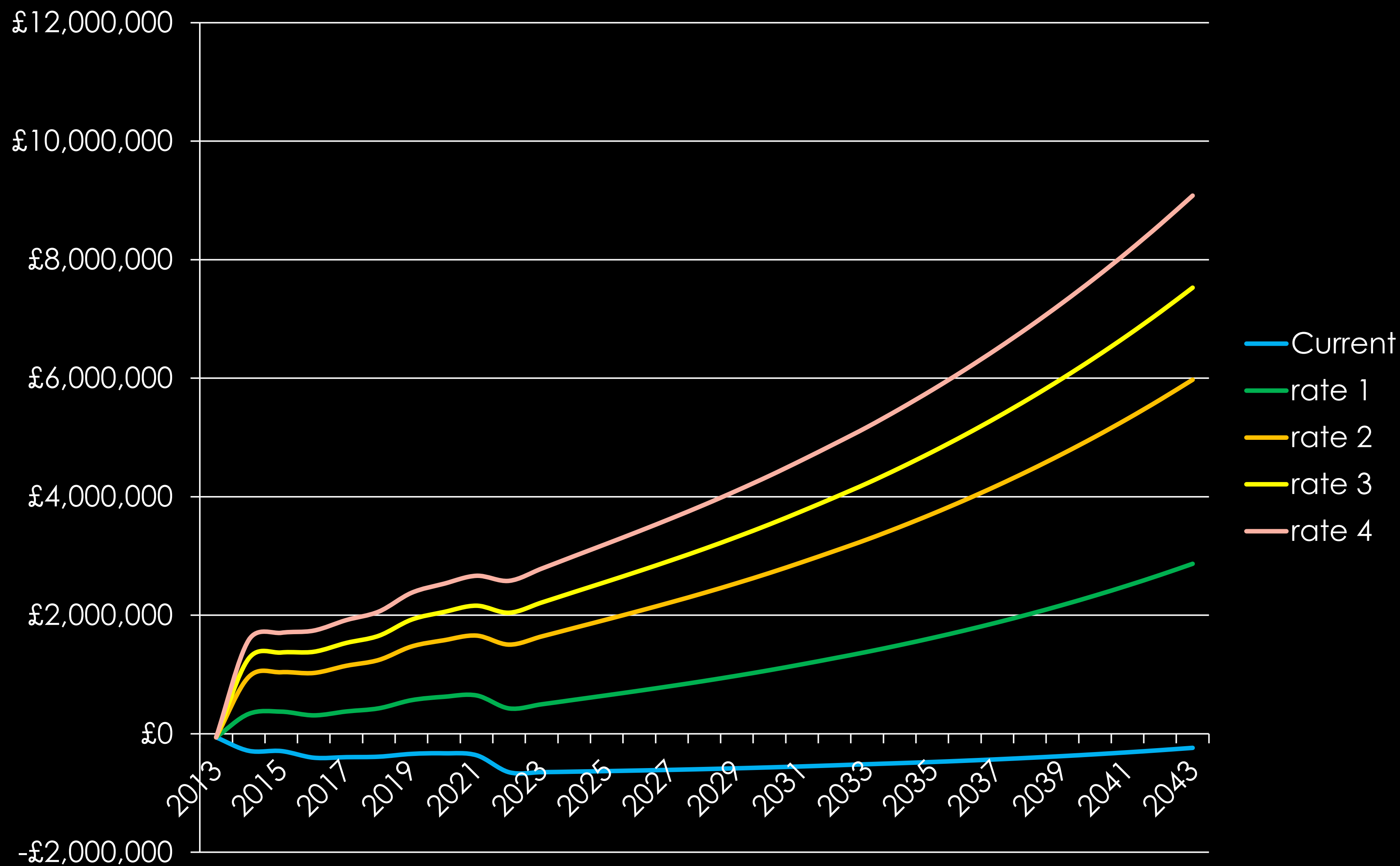
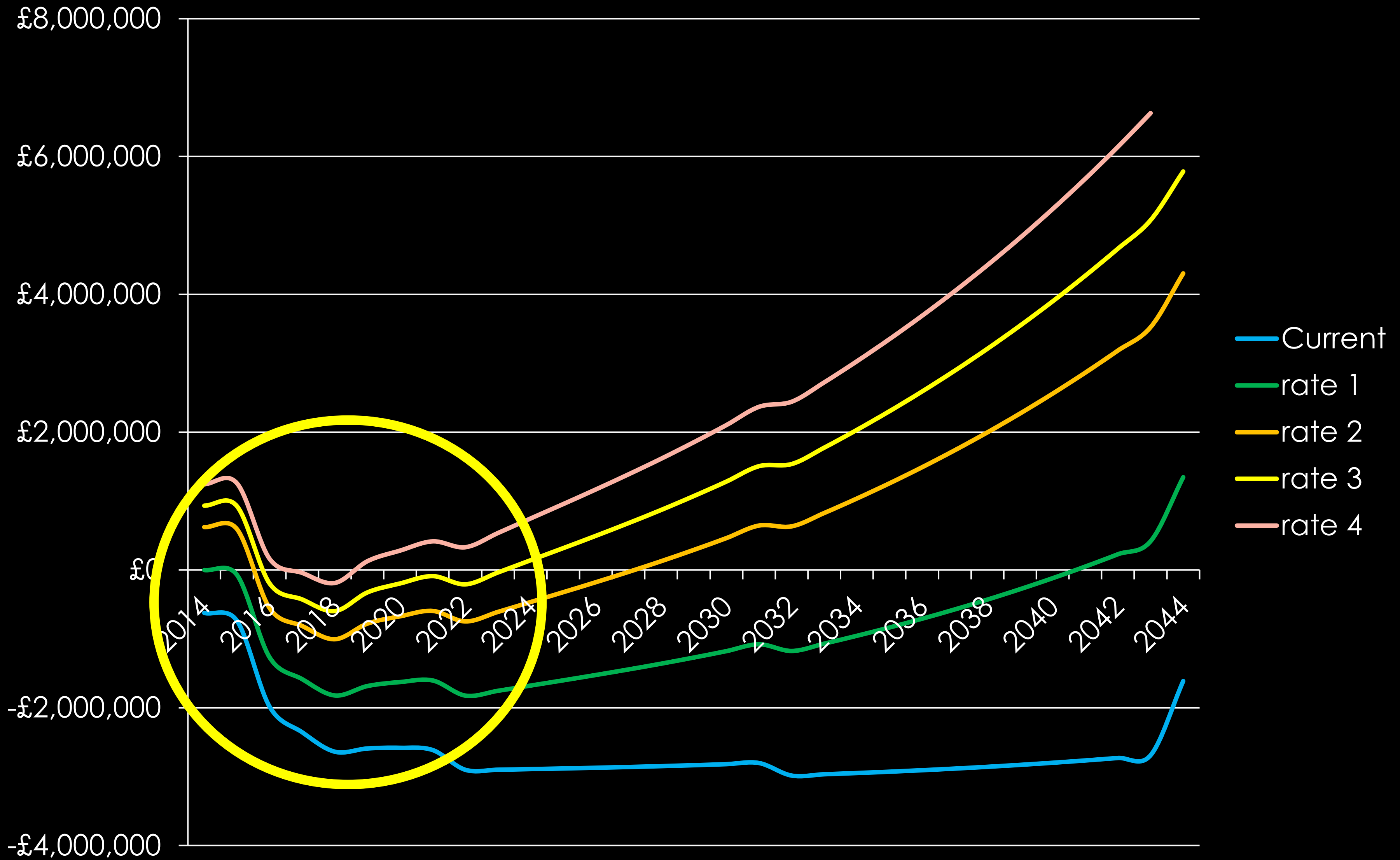
Gross annual revenues from cruise operations



Net annual revenues from cruise operations (without investment)



Net annual revenues from cruise operations (with investment)



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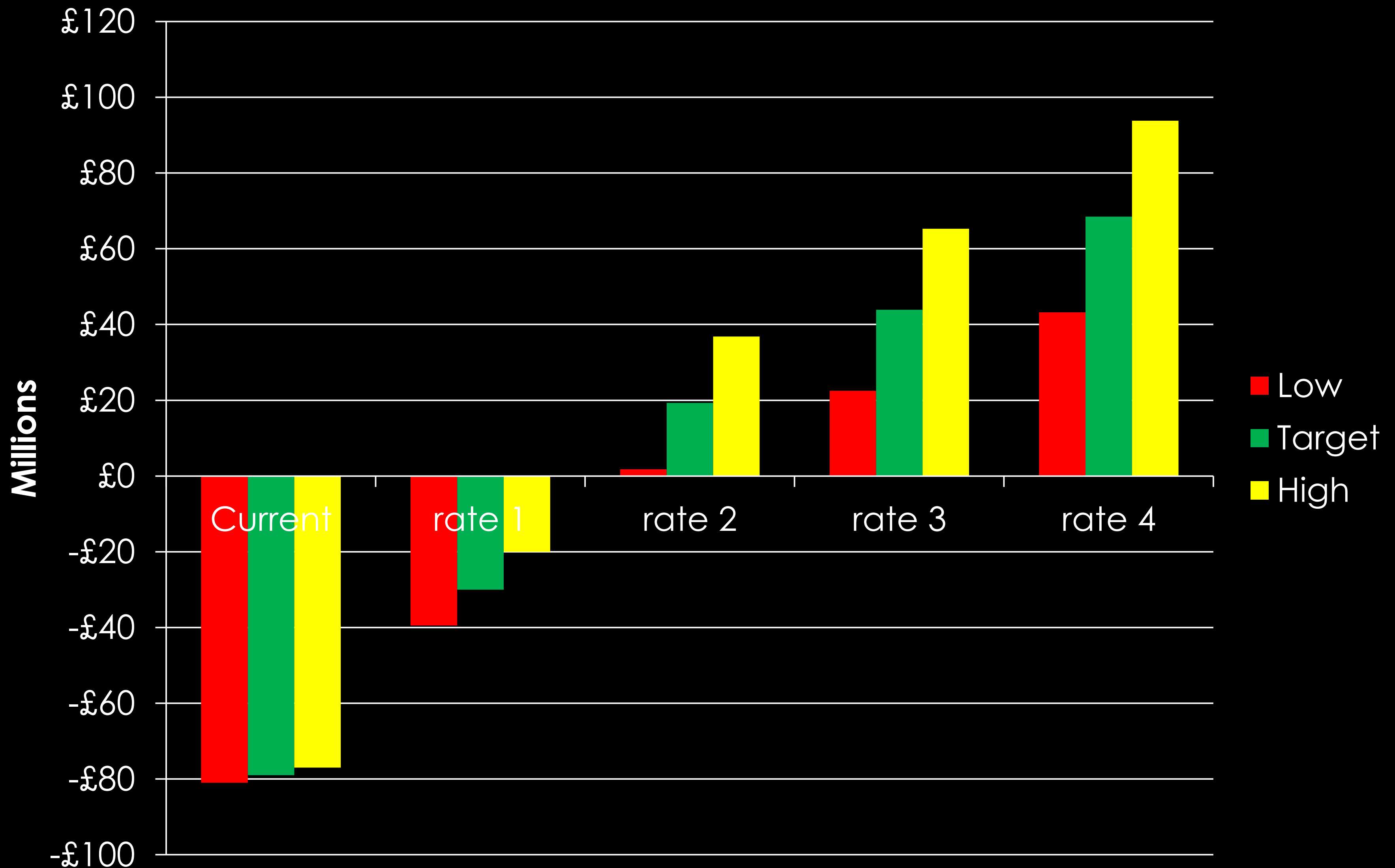
30 year EBITAD – Sensitivity to volumes and tariffs



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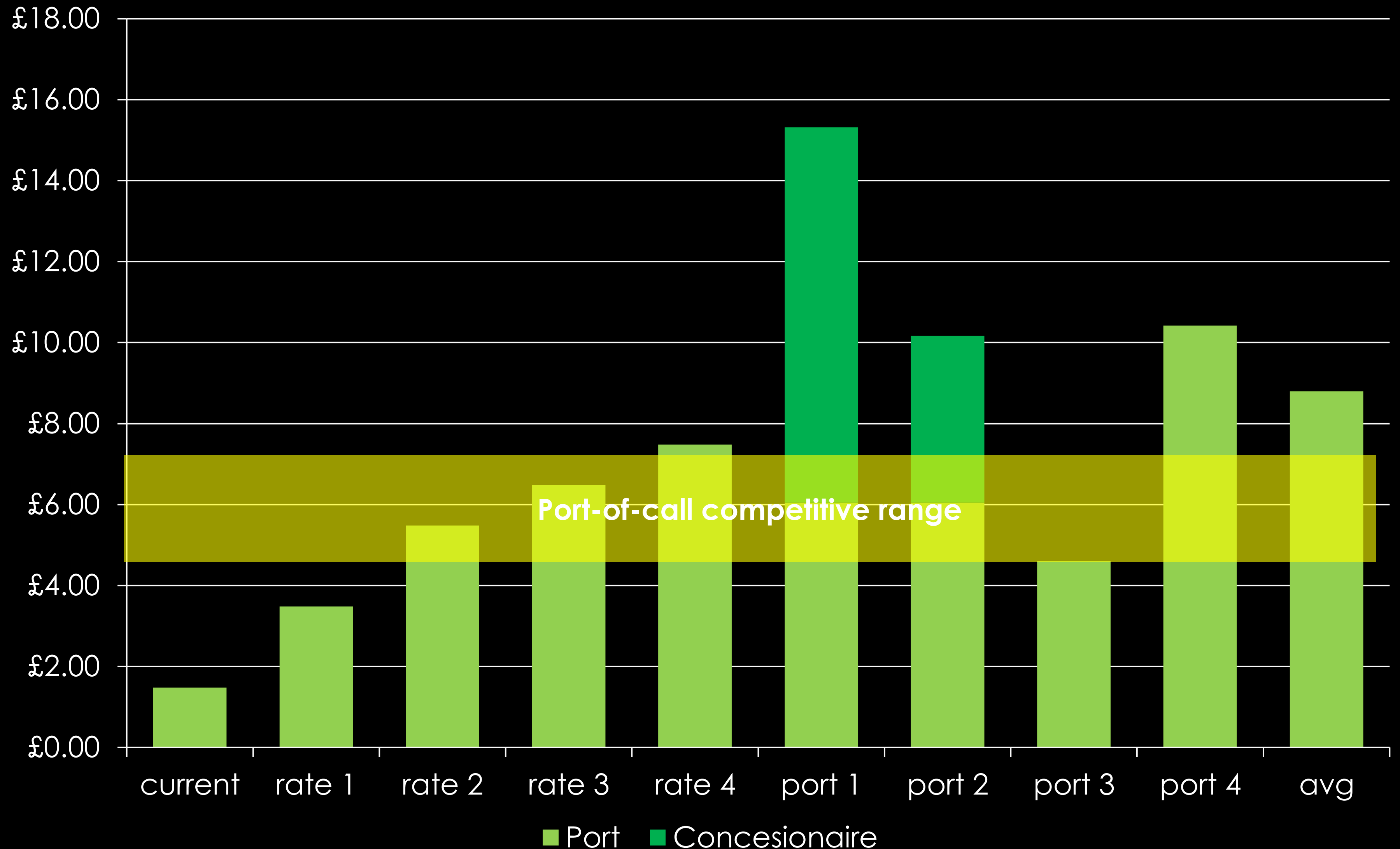
Competitive tariff environment – cost per passenger



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IRR – risk assessment (this is for reference only)

Traffic / Tariffs		Levels of anticipated traffic		
		Low	Target	High
Levels of tariff	Current	**NA**	**NA**	**NA**
	Rate 1	**-6.6%**	**-4.2%**	**-2.3%**
	Rate 2	**1.1%**	**3.3%**	**5.3%**
	Rate 3	**3.8%**	**6.1%**	**8.3%**
	Rate 4	**6.1%**	**8.7%**	**11.1%**

6 overseas models

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Newest terminals in the newest markets

Collectively close to US$900 million

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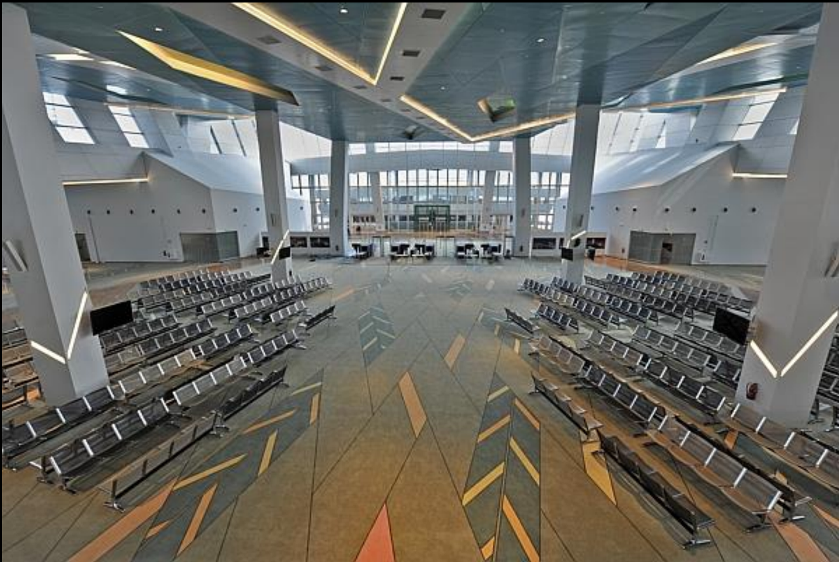
Singapore



In Asia

- A different model
- The Tourism organizations are paying for the capital structure without an expectation of return
  - Similar to how Convention Centres, stadiums and arenas are financed in the Americas
- In turn these same agencies are:
  - Privatizing operations
  - Measure performance KPI's
  - Heavily weighed to passenger and cruise line satisfaction

In Europe

- Ports treat cruise terminals as they treat container terminals
  - Ports invest in berth and harbor
  - Third party invest in uplands
- Multiple parties can have concessions in the same port

Conclusions

- Understand revenue and cost structure
- Base your planning on sound financial underpinning
  - Lines drive tariffs competitively
  - Trying to build purely on rate increases is very difficult
  - Diverting rates to non-cruise investments makes the project difficult to finance
  - It is not – "whatever it costs" – the lines will pay
- Different solutions and issues
  - Start-ups with low volumes
  - Legacy ports with obsolete infrastructure
- Perform an affordability test at the start
- Plan for the future – get it right from the on-set
- Flexibility

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