Chief Executive Officer's Statement

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Chief Executive Officer

2021 marked a year of strong performance for Global Ports in a second successive year of volatility for the sector. Once again, we faced unpredictable trading conditions brought about by supply chain disruptions, container shortages, and the ongoing repercussions of COVID-19. However, we successfully leveraged our market leadership position to improve our market share in both basins of presence and deliver strong financial results across all our target metrics. At the same time, we made progress on our strategic objectives, achieving our long-term deleveraging target, which is a significant milestone, and streamlining the business to focus on our core container operations. Throughout this time, our people responded with agility and enormous commitment to help deliver this solid set of results, for which I thank them.

If 2020 was dominated by the pandemic, then 2021 was the year when its after-effects really hit home for the global economy. COVID-19 caused considerable disruption to world trade in 2021, a system designed and built on the concept of efficient rather than resilient global supply chains, stretching them to the limit as economies reopened and demand spiked. The accompanying shift from 'just in time' to 'just in case' logistics, put even greater strain on global supply chains and transport logistics. This phenomenon caused widespread issues for the maritime ports industry, characterised by serious port congestion; high container dwell times; shipping shortages; empty container shortages; record high freight rates; and record container volumes at various gateway terminals around the world. The combination of these unique supply and demand dynamics created trade imbalances in many parts of the global economy.

Despite these difficulties, the container market in Russia performed very strongly in 2021, benefitting from continued export growth which was matched by strong increase in imports. Global Ports, as the owner of the leading portfolio of premium ports, was a major beneficiary of the demand trends in the economy.

Our Markets

International maritime container trade rose by 6.5% in 2021, the highest level since 2009, reflecting the exceptional market conditions of last year. Global demand gathered pace as the year progressed but the supply of ships and containers remained highly constrained leading to a significant increase in container freight rates. As a result, the shipping industry experienced exceptionally strong trading and profitability thanks to strong volumes and freight rates, which in turn boosted the performance of container port operators.

The Russian marine container market enjoyed very strong momentum throughout 2021, delivering growth across all key segments. As a result, the container market achieved record container throughput volumes of 5.4 million TEUs, a year-on-year increase of 7.1%. Demand continued to be very resilient and underpinned by growth in world trade and global GDP, capacity overall utilisation rates climbed above 80%. Full container imports climbed above pre-COVID levels, rising 11% year-on-year. Structural growth in export cargoes maintained its positive trajectory of recent years. However, that growth was constrained to 4% due to the global shortage of empty containers. The other salient feature was the geographical shift in markets, with growth mainly concentrated in the Far Eastern and Southern basins, as high freight rates focused container traffic on those basins with the fastest container import and export supply chains and the shortest sea legs.

Our operating performance

Against this volatile backdrop, Global Ports not only protected its position as the leading player in the country but improved its market share in all its basins of presence, as the investments made into our ports and wider logistics services continued to attract strong backing from customers. Put another way, we were able to capture market share by virtue of owning the right assets in the right locations and by being quick to adapt our terminals to meet our customer's needs. In total, our Consolidated Marine Container Throughput increased by 2.8% to 1.58 million TEU in 2021. Container throughput at VSC our Far Eastern basin terminal improved by 14.8% year-on-year, ahead of the market, while throughput volumes in the Baltic Basin centred on St. Petersburg declined by 2.3% year-on-year, less than the overall market fall of 3.7% in this sub-market.

Our performance in the bulk cargo segment was inevitably impacted by our decision in the third quarter to cease coal handling at VSC, in order to concentrate on the Group's core strategic container business and reduce the negative impact of our operations on the surrounding environment. As a result, the Group's Consolidated Marine Bulk Throughput declined by 14.6% to 4.3 million tonnes in 2021. Our Ro-Ro and vehicle handling operations demonstrated very strong performance in 2021; the Group's car-handling volumes rose by 27.8%, an impressive turnaround after the difficulties of 2020 when volumes fell by 20% as a result of the pandemic. Heavy Ro-Ro also recorded a strong double-digit improvement in unit volumes.

The pandemic has exposed the vulnerabilities of existing global supply chains, a fact that became painfully evident in 2021. What recent events have emphasised is that supply chains need to become more resilient, responsive and agile. Strategically, we were arguably ahead of others in this respect, having steadfastly reconfigured our own business in recent times to make it more resilient, customer-focused, and agile.

We continued to take steps to sharpen our operational efficiency in 2021, investing in our container terminal portfolio and optimising our asset base. Our strategic decision to stop coal-handling at VSC and convert the terminal into a dedicated container handling facility, was in line with our drive to focus on our core competencies, support our clients, be more agile, and become a more sustainable business. We also continued to upgrade our ports and invest in digitalisation and in automation, for example installing a new terminal operating system at VSC that increased our cargo handling efficiency. We also focused on our customers and continued to improve our value proposition and invest in our employees and processes to deliver it.

Financial results

Our financial results were very solid, as we grew revenues strongly, delivered high levels of profitability, maximised free cash generation, controlled costs, and met our long-term deleveraging targets.

Consolidated revenue increased by 30.8% to USD 502.8 million, while like-for-like revenue grew by 17.1% as a 25% increase in container revenue more than offset a 5.2% decline in non-container revenue caused by the end of coal handling at VSC. As a result, the Group enjoyed very strong profitability over the period, benefitting from growing volumes and solid pricing. Adjusted EBITDA increased by 17.4% to USD 246.2 million, and like-for-like Adjusted EBITDA Margin was slightly ahead of the prior year at 65.4% up from 65.2%. As well as high margins, one other feature of our business is its ability to produce consistently strong cash flows. In 2021, the business delivered over USD 129.1 million of Free Cash Flow, up by almost 47% on 2020, as strong markets and lower financing costs together drove cash generation.

Strategically the most important financial metric is related not to our P&L but to our balance sheet. For the last seven years, the Group's principal financial objective has been to reduce indebtedness and deleverage. We finally met our long-term target Net Debt to Adjusted EBITDA of 2.0x in 2021, reporting Net Debt of USD 491 million. Throughout this deleveraging period, we kept focused on strict financial discipline and, as a result, we have now reached an important inflection point. Our efforts have been noted by the credit markets, and two of the three ratings agencies that cover us, upgraded the Group's credit rating in 2021. Our strengthened capital base gives the business greater strategic flexibility and offers the prospect of a resumption of dividend payments to shareholders should the Board decide the timing is right on a more predictable environment with greater visibility.

Outlook

Over the past few years, we have successfully restructured our business and reconfigured our asset base around our core expertise of container handling so that we have the right infrastructure, in the right locations, serving the right customers and end markets.

The outlook for 2022 is clouded with uncertainty because of heightened geopolitical tension, which has reduced market visibility, and rendered forward looking comments particularly uncertain. However, our business has proved successful under different market conditions and we will continue to work hard for our stakeholders and focus on delivering in these challenging conditions.