On 25 February 2019, GPH announced that the government of the Bahamas has awarded Nassau Cruise Port Ltd – a consortium comprising GPH, the Bahamian Investment Fund, and the Yes Foundation – the cruise port tender for a 25-year concession for the Prince George Wharf and related areas, at Nassau cruise port.

GLOBAL PORTS HOLDING

poised to double its cruise business in five years

BY KARI REINIKAINEN

Istanbul-based Global Ports Holding (GPH) hopes to live up to its name and deliver on a strategy that calls for turning the company into a global brand. It aims to double its size in the next five years.

With a portfolio of 15 ports, GPH is the world's largest cruise port operator. Its network reaches from the Caribbean to western Europe, the breadth of the Mediterranean, as well as an outpost in the Far East. The company appears to be the only known global cruise port management specialist. In the rapidly expanding ocean cruise business, its presence is increasingly felt as it continues to win concessions.

Prominence in expansion

GPH's success is due at least in part to its understanding of its position in the field of cruise port business. "We believe the cruise port industry is where airports were thirty years ago, with most cruise ports throughout the world still managed by governments or local authorities," said Emre Sayın, CEO of GPH (inset). "And while there are a few other private cruise port operators, they tend to only operate one or maybe two ports, as opposed to our global network."

Since 2004, the company has been engaged in a succession of acquisitions and concession-wins. In 2013 it gained prominence in the cruise world by acquiring Creuers, which secured its presence in three of the world's most prestigious cruise ports: Barcelona, Malaga, and Singapore Marina Bay Cruise Centre. Since then, it has added Lisbon, Valletta, Venice, Havana, Antigua, Nassau, and others to its portfolio.

In a very short time, GPH has already reached a peerless position in the field of global cruise port management. Although currently it still derives the bulk of its income from cargo operations, there has been a strong rising trend in cruise revenues and a falling one in cargo revenues. Already in 2017 the company derived 32.2 per cent of its EBITDA of $80.5 million from cruise operations. This development has urged its management to focus more on the cruise business.

"With the acquisition of new cruise ports, the weight of the cargo segment has been reduced," Sayın told us. "This trend will be

On 12 September 2018, GPH plc announced that it had signed a 20-year concession agreement between its wholly owned operating subsidiary Zadar International Port Operations d.o.o. and the Port Authority of Zadar for the operating rights of the Gazenica cruise port in Zadar, Croatia.

accelerated due to the good performance of our cruise ports and the acquisitions of new ones." As a consequence, the share of GPH's cargo operations in income terms is set to decrease in the near future.

As it expands, the company also gains other advantages. Sayın noted that economies of scale were already working in favour of GPH. "We bring to each port we operate the experience and know-how that can only come from operating such a sizable network of ports," he told *CruiseTimes*. "We have a proven and dynamic management team, a deep understanding of the cruise industry, a wealth of experience in operating cruise ports, and strong relationships across the cruise industry. Our global operating procedures bring global best practices to each member port, something that is hard to achieve as a singular cruise port."

Three-stage strategy

GPH has outlined a three-stage strategy to further propel and consolidate its position as a global leader in its specialised field.

The first stage, which is now completed, comprised a focus on the Mediterranean region, where the company has built a portfolio of ports that made it a pan-European brand. Yield enhancement was the principal financial aim at this point.

Secondly, having already gained a foothold in the Caribbean, the very heart of the cruise industry, the company has an ambitious aim to expand its presence in the region, and is making rapid progress towards this goal. Having secured Havana already, on 1 February, following an earlier Memorandum of Understanding, GPH announced that it had signed a 30-year concession agreement with the government of Antigua and Barbuda for cruise operations in Antigua on an exclusive basis. In late February, the company announced that Nassau Cruise Port Ltd, the consortium in which it holds a 49 per cent stake, had won a 25-year concession for the Prince George Wharf and related areas of Nassau cruise port. This was another major coup for GPH. It has already embarked upon expanding the wharf from six to eight berths and constructing a new terminal building. Brand awareness is being built, while the strategy focuses on expansion through disciplined acquisitions.

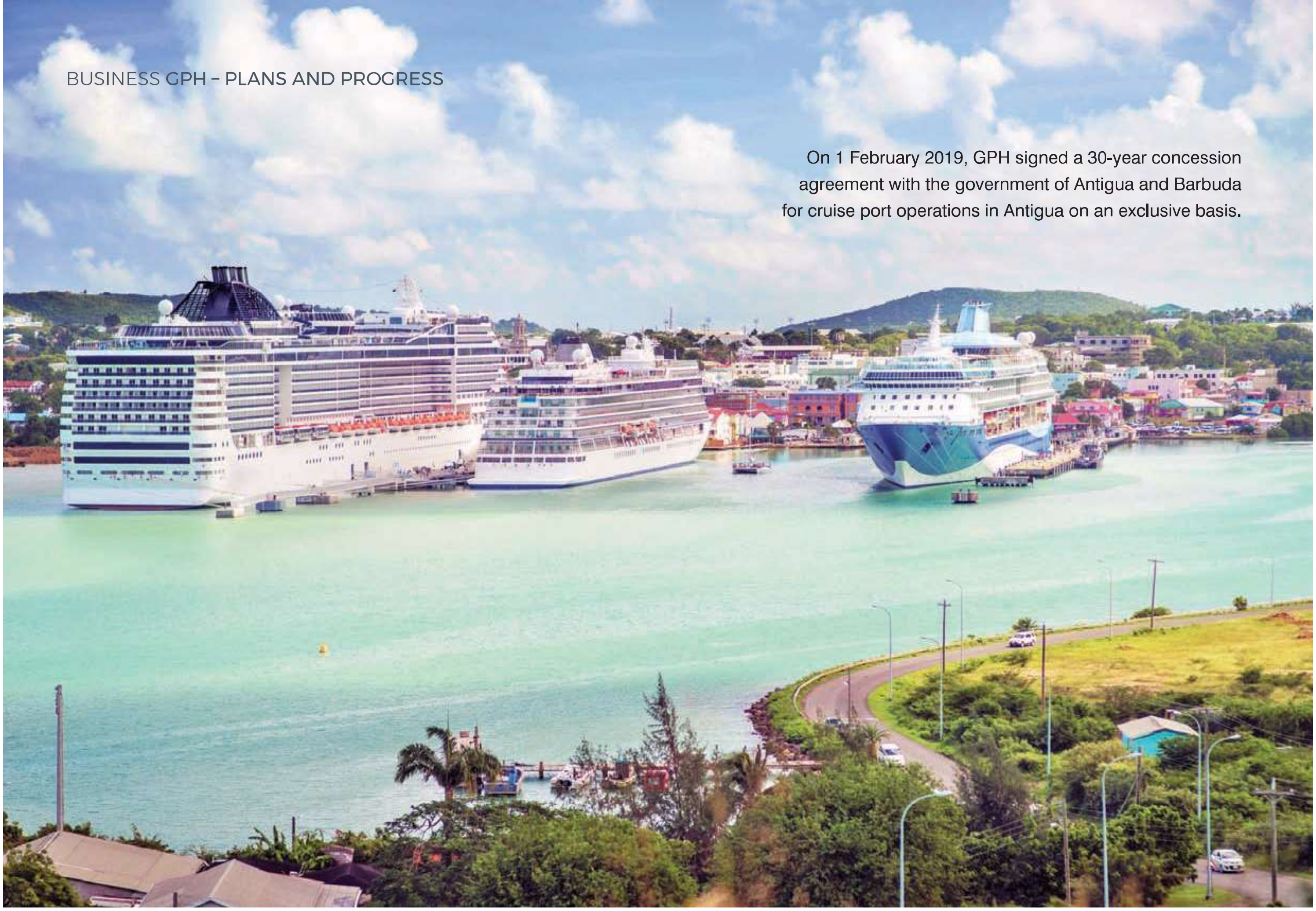
Thirdly, GPH's future vision is to turn itself into a truly global operator that has a network of ports around the world. In a presentation to investors in September 2018, the management said that delivery of high cash-flow conversion and branded best practices were the aims of this stage.

The strategies are working. In the last three years, the number of cruise passengers at the ports under its management grew significantly, with those ports in which it had an interest growing faster than the ones consolidated in the group. "Our business model allows us to optimise the potential of a cruise port and the destination," said Sayın.

Need for specialisation

As the cruise industry is poised to grow significantly in the years to come, port facilities have become something of a bottleneck, as their development often spans longer than the time it takes to build ships. To overcome this, some cruise shipping companies have built their own terminals or taken out port concessions in order to ensure they have the facilities they require in certain key locations. Sayın understands why this is happening, but notes that GPH's mission is to help cruise lines so that they would not need to take such a step.

"The management of cruise ports is not the core business of the cruise lines," said Sayın. "They do it because there is a need of investment and no local authority does it, or because they need to secure a slot in that port. If there is a company like GPH willing to invest and give the right service to cruise lines, they will not need to invest."



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GPH feels that there is now a real market for specialised cruise port operators. As the industry and regulations grow in both size and complexity day by day, ports may find themselves struggling to manage aspects of cruise business on their own. "Some years ago, when the cruise traffic was not significant in many regions, it made sense for port authorities to manage cruise operations," said Sayın. "But nowadays, with higher traffic and more competition between ports, it makes sense that they award concessions to professional operators."

However, GPH also acknowledges the need for flexibility and cooperation among industry partners in this endeavour. "We think that there is room for all of us," said Sayın. "In fact, GPH is operating some of its ports with cruise lines; in other cases, with local companies; and there are cases in which GPH is the only shareholder. We are open to all formulas, depending on the port and destination."

Rationale of focuses

Being the home turf of the company, it is not surprising that the Mediterranean makes an appearance in its growth plans. "For the past fourteen years," Sayın told us, "GPH operations have been focused on the Mediterranean, where we have a twenty-four per cent market share with thirteen cruise ports. In the Mediterranean, our portfolio includes ports ranging from major cruise hubs such as Barcelona and Venice to high-traffic core ports such as Valletta and Cagliari. It would be fair to say that our ports in the Mediterranean constitute an important network already. However, we continue looking for new opportunities in the Mediterranean as well."

Looking at the various aspects of the business in each port, Sayın said that there were three different pillars that they considered as ancillary services: ship and port services, including additional security, water supply, and storage; terminal and retail revenues, including duty-free, shops, and rentals; and destination services, which they offer from Guest Information Centers (GIC).

"We have introduced GIC in all our ports as a touch point and a service point to guests, especially independent guests, to improve their experience in the ports and the destination," said Sayın. "We have received positive feedback on this from all stakeholders, especially from passengers. At the GIC we provide port and destination information, offer services such as transportation and connectivity, and collect feedback."

Although GPH's network of ports in the Mediterranean means it has reached a strategic objective there, it also means concentration of risk in this geographical area. Growing the business beyond the Mediterranean is therefore important for the company from a risk management point of view.

GPH's next focus is the Caribbean – not surprisingly, given that it represents nearly 55 per cent of the global market. "We are currently looking into various projects in the Caribbean region, the cradle of the cruise industry," said Sayın. "We believe we could add a lot of value to Caribbean ports with our proven cruise port operator model and our willingness to invest in infrastructure. Anything that is new raises eyebrows, and this was the case when we started in Europe, but now people see that our model works well. And with our ports continuing to grow and winning awards, we expect to see more governments approaching us to partner with them on cruise ports."

Several other regions are also on GPH's radar. "Being the operator of the main cruise port in south-east Asia, Singapore, we need to create itineraries," Sayın pointed out. "We know that there is a lack of infrastructure in that area, so GPH can be a valuable partner to develop the cruise industry there. We think the GPH model is interesting for many regions around the world: to name but a few, the Caribbean, certain regions in the Americas, south-east Asia, the Mediterranean, and the Middle East."

On 18 November 2018, GPH carried its Global Run event to one of its most recent portfolio additions: La Habana Cruise Port. Over 6,000 athletes from 51 countries participated.

Of major cruise destinations, GPH currently has no foothold in Northern Europe. Due to short seasons and because there is no lack of infrastructure, it is not one of its priority focuses. “However, if there is interest in our know-how in marketing or operations, we would of course pay attention,” said Sayın.

Challenging prospects

GPH has mapped out a plan for its near-term future. “We have a clear vision for where we want to be in the next five years,” said Sayın. “We will become truly global, not just a regional operator, with new acquisitions in multiple regions. We plan to double our current portfolio and number of passengers. We aim to become a preferred partner to governments and the cruise lines and contribute to the improvement of the overall passenger experience.”

While GPH has its eyes firmly on the goals, it is also mindful of the challenges ahead. To realise its dreams, it needs to invest. This is where it may face its first major obstacles. The company’s share price has had a rough ride since it went public in 2017. On 29 January, shares in the company traded at £36.35, which is 47.8 percent below its listing price. In the same period, the benchmark FTSE100 index of leading shares – of which GPH is not a constituent – has fallen just 8.85 per cent.

Being headquartered in Istanbul, GPH is perceived to be more exposed to the hazards of geopolitics, which might cause its potential investors and partners to at least hesitate. Political turmoil in Turkey that impacted both cargo and passenger volumes in the eastern Mediterranean in general and Turkey in particular haunted the company.

The question of GPH’s ability to reach its target of doubling its portfolio and volumes in the cruise port sector turns attention to its balance sheet. In the first half of 2018, its assets totalled $725.1 million and its liabilities $493.4 million. A year earlier, the figures stood at $751.6 million and $486.9 million, respectively. Total equity in the company decreased from $264.7 million to $231.7 million in the year to 30 June 2018. Borrowing to finance investment at a cargo port in Turkey accounted for most of the development.

The company, in its unrelenting effort to expand globally in the cruise market, also depends heavily on its ability to secure financing to fund the operations of new concessions. The recent agreement in Antigua, for example, is still subject to a number of conditions being met: one of them is the need to find suitable finance. GPH is in talks with several local and international banks on this issue.

To lessen the burden, the management may have to ask themselves two questions in the future. Firstly, what are the synergies, if any, between the cargo handling business on the one hand and cruise operations on the other? Owned cargo ports require investment in facilities, which can be regarded as a commitment that could reduce GPH’s ability to invest in growing its cruise portfolio.

Secondly, would it serve the company well if it were to focus solely on cruise business? It would make it an asset-light business model, thus providing it with a way to rapid growth, as it does not put the balance sheet under pressure. After all, its net financing costs rose to $11.3 million in the first six months of 2018, from $10.9 million in the same period a year earlier, which affected the bottom line directly.

Final analysis

In the final analysis, GPH’s growth target may sound ambitious, but given the rapid expansion of the cruise industry, a rising tide lifts all ships. Volumes in its existing ports are likely to grow in tandem with the industry. Growing the portfolio will largely depend on the ability of GPH management to convince counterparts that teaming up with GPH would offer a premium in the development of volumes, revenues, or both, compared to continuing independent operations.