Room to grow?

In his autobiography, John Adams, the nation’s second president, reminisced: “I had heard my father say that he never knew a piece of land (to) run away or break.” A string of recent marine terminal deals reminds us of the transportation industry’s deep appreciation of the value of land.

Consider the past three months. AIG Global purchased the U.S. portions of DP World for an estimated $1 billion. Orient Overseas International Ltd. sold four of its terminals to the Ontario Teachers’ Pension Plan for $2.4 billion, and Macquarie Infrastructure Partners acquired control of Halterm Ltd. for $173 million. Infrastructure Partners acquired Colonet for $1 billion. Orient Overseas International purchased DP World for an estimated $173 million.

These sales are estimated to be 20 to 30 times EBITDA (earnings before interest, taxes, depreciation and amortization), a common multiple for measuring the premium on transactions. Not only are the EBITDA multiples considered stratospheric, but the assets acquired were often trivial. In most cases, the purchaser only obtained concession rights to the terminal — not the underlying asset itself — and for a limited time.

These transactions are especially noteworthy because of the investment environment in which they occur. Traditionally, two types of investors participated in such transactions: financial investors supplied capital, and strategic investors supplied business expertise (from an existing market presence).

Financial investors seek to sell the acquired business for more than they paid for it. As long as the acquisition does not pose a drain from “negative” cash flow, current income is secondary to the gain when the investors sell their stake. This “exit strategy” is achieved either by an initial public offering or by a private sale to another acquirer.

Strategic investors are interested in the “fit” of the acquisition into their existing portfolio of businesses. Because they are not contemplating the need to sell the new addition, they have a longer-term, or “strategic,” timeframe that provides “accretive earnings.” (The future earnings-per-share of the merged enterprise is higher than before the acquisition.)

The mandate for North American marine terminal deals seems to be driven by Southern California. Although Los Angeles and Long Beach handle more than 40 percent of all U.S. containerized imports, the ports’ continued domination is questionable. Los Angeles-Long Beach achieved prominence by making available to steamship lines a seemingly never-ending supply of land achieved primarily through reclamation and unconstrained growth.

But today’s political environment is not an advantageous one for Southern California’s ports. The transportation industry faces opponents to port expansion citing respiratory ailments, “zones of death” in areas adjacent to ports and major transportation arteries. Legacy facilities will probably increase in value as supply remains constant while demand continues to grow.

Intermodal ports are developing in Mexico and Canada. In the U.S., there is an increasing awareness that while intermodal transportation is of national significance, there is little economic benefit from containers “just passing through.”

Meanwhile, Mexico’s Lazaro Cardenas is expanding its terminal infrastructure, and Canada’s Prince Rupert is adding container facilities to handle anticipated growth. Other ports (e.g., Manzanillo) are trying to overcome past problems to profit from this opportunity. Even Punta Colonet — an envisioned project so expensive it doesn’t even have a price tag — is under consideration.

U.S. marine terminal transactions are representative of similar acquisitions occurring worldwide. The financial community seems to be betting on a crisis arising from a critical shortage of infrastructure. This is not limited to marine terminals; infrastructure investors are looking for deals involving airports, logistics centers and even public highways.

Not only is there an immediate shortage, but the lead time to introduce new capacity is long enough that the problem cannot be expected to be short-term. International trade is growing at more than 10 percent, and while capacity may increase through incremental expansion and improved productivity, there is not enough capacity to support continued growth.

The transportation world may soon be divided into the “haves” and the “have-nots” with respect to capacity to handle or expand. Capacity decisions made in the immediate future may determine success for years to come. The stakes are great — and the time available to complete infrastructure development is short. Prices could still increase.

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