4. TRANSWASTE CANTERBURY LTD – DRAFT STATEMENT OF INTENT

General Manager responsible:	General Manager City Environment, DDI 941-8608
Officer responsible:	Peter Langbein
Author:	Peter Langbein

PURPOSE OF REPORT

1. The purpose of this report is to review and comment on the draft Statement of Intent ('SoI') for the years ending June 2010 to 2012 provided by Transwaste Canterbury Ltd ('TCL').

2. The letter from Gill Cox (Chairperson) dated 26 February 2009 should be read in conjunction with this review (**Attachment 2**). It should be noted that per **c)** on the letter, the Board decided last week not to pursue a share repurchase at this stage, and that the figures in the current draft reflect this. Gill and Steve Watson will talk to the meeting on 20 April regarding the figures likely to be in the final SoI, once likely tonnage and CPI figures have been determined.

COMMENTS ON THE STATEMENT OF INTENT

3. There have been no material changes to the Objectives and Performance Targets in section 5 of the SoI except for the Financial Performance Targets noted below.

4. The Summary of Significant Accounting Policies (section 7) is materially unchanged from last year's SoI.

5. The following table compares the current projections with those contained in last year's SoI:

Financial Performance ($'000s)	**2009/10**	**2010/11**	**2011/12**
Current Forecast:			
Revenue	30,896	33,447	35,347
EBIT	10,828	12,777	14,177
Average Return on Invested Capital since 1999	9%	10%	11%
Shareholders' Funds to Total Assets	36%	37%	38%
Last Year's Forecast:			
Revenue	30,495	31,706	
EBIT	11,675	12,435	
Average Return on Invested Capital since 1999	10%	11%	
Shareholders' Funds to Total Assets	36%	36%	

6. Forecast revenue has increased by 1.3% and 5.5% for the next two periods, with the forecast EBIT showing a decline of 7.3% for 2010, and an increase of 2.7% for 2011.

7. The 2010 forecast revenue suggests a 23% increase in core total revenue over the two years from June 2008 ($25.2m) which may be ambitious in light of the six months to December 2008 showing a 3.9% growth, and also in light of the current implementation by the Christchurch City Council of the three bin system. The EBIT increase over the two years from June 2008 ($9.0) is 21% (2.2% growth for the latest six month period).

8. The forecast equity ratio (shareholders funds to total assets) of 36% to 38% represents a relatively high level of debt (total liabilities at December 2008 was $44m, with interest bearing loans at $35m), which is due to the 100% dividend policy.

9. The forecast capex over the next few years is significantly lower than for recent years. This coupled with $5m of net proceeds expected on the settlement of the sale of Tiromoana Station means that the forecast levels of the Westpac loan are $29m at June 2009, $26m at 2010, $23m at 2011, and $21m at 2012 – this assumes the settlement will be in June 2009, and not July.

10. The forecast RoI shows a return on investment since inception of 9% to 2010 and 10% to 2011, compared with last year's SoI forecasting these years at 10% and 11% respectively. In simple terms this is the cumulative NPAT expressed as a return on the cumulative investment. This is not a measure of the dividend stream. However over time, if the 100% dividend policy continues, this measure will equate to the total dividends as a return on the total investment.

11. The following table compares forecast dividends with last year's SoI:

Indicative Dividends ($'000s)	**2009/10**	**2010/11**	**2011/12**
Current Forecast:			
Total Dividend (100%)	**4,228**	**7,518**	**8,574**
All Councils share (50%)	2,114	3,759	4,287
Last Year's Forecast:			
Total Dividend (100%)	**4,780**	**7,515**	
All Councils share (50%)	2,390	3,757	

12. The forecast dividend for 2010 has reduced by 11.5%, while the same for 2011 has held steady.

13. By taking the forecast EBIT for each year per the previous table, and applying interest at 8.6% on the Westpac facility levels as above, and tax at 30%, the approximate NPAT available for the 100% dividend policy would be $6.0m @ 70% = $4.2m for 2010, $7.56m for 2011, and $8.66m for 2012, which is in line with the indicative dividends shown above. However as previously mentioned, the forecasted EBITs may be ambitious. The 2011 and 2012 years will have actual tax paid, therefore the dividends will have actual imputation credits available, hence they are not reduced here by the 30% applied to the 2010 dividend.

14. Paragraph 3.3 refers to the contracting out of the landfill and transport operations to Canterbury Waste Services Ltd ('CWS'). The ability of TCL to monitor and control these contracts, and ensure the level of return to CWS is not excessive is a critical element in TCL's ability to protect the interests of its shareholders. We are advised that CWS's reports are independently audited by appropriately qualified people as well as receiving detailed review by the TCL Board and advisers, and that the relationship is working well.

STAFF RECOMMENDATION

It is recommended that the Committee approve the draft Transwaste Canterbury Ltd Statement of Intent.