Navigating Geopolitical Shifts

Strategies for Ports in an Uncertain World

AD Ports Group

مجموعة موانئ أبوظبي
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Top Takeaways

- AD Ports Group offers a case study for the port industry, thriving amid global uncertainty through strategic acquisitions, capital investment and service offering diversification.
- Fundamental to success is positioning your business to capitalize on the opportunities — such as new trade routes — that develop in response to challenges.
- Diversification fosters existing relationships and is crucial for developing new ones with international stakeholders as well as local economies supporting those ports.
- Looking beyond traditional terminal operations and toward collaborations — within offshore, industrial or other high-potential sectors — is vital to better serve customers and markets.
- Through enhanced inter- and intra-regional trade; forging new agreements with frontier and emerging markets; and collaborating with multilateral trade organizations, AD Ports Group aims to bring greater and more sustainable prosperity to myriad societies while delivering returns to its shareholders.

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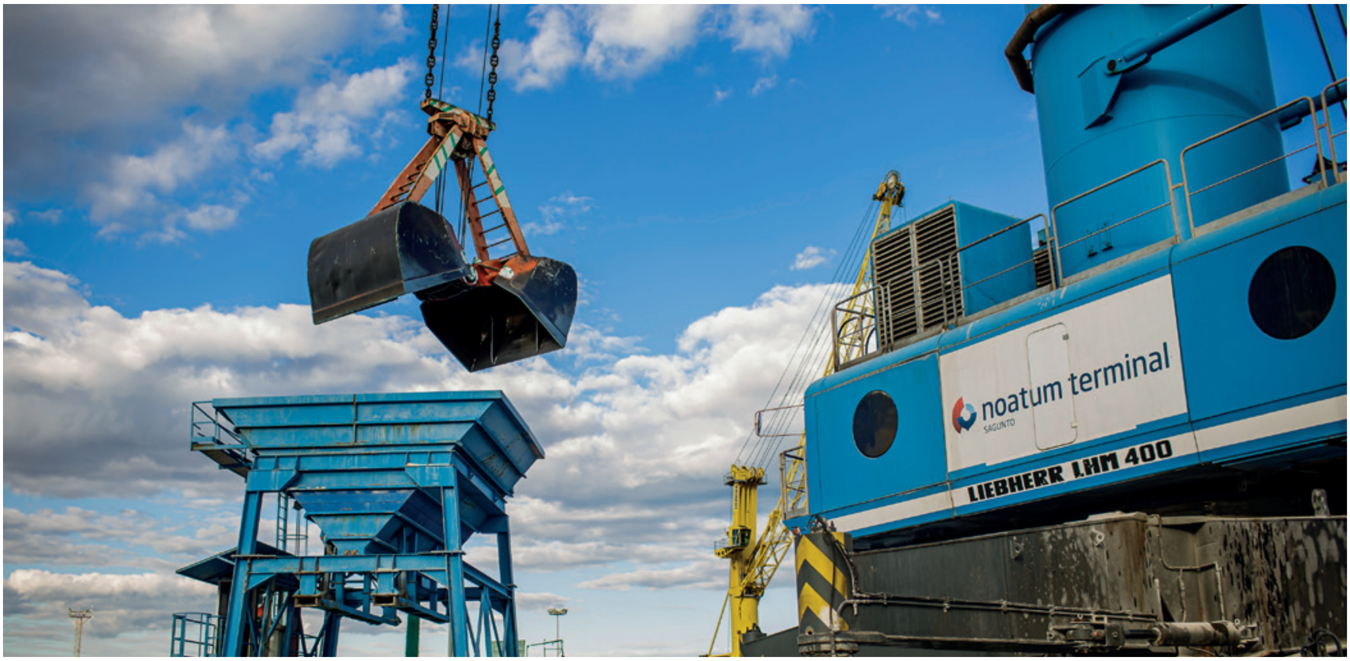

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The ports industry has long been adept at navigating the challenges geopolitical shifts pose to their operations. Yet, underappreciated supply chain vulnerabilities that the COVID-19 pandemic and recent conflicts have exposed are prompting multinationals to re-evaluate their strategies, prioritizing continuity of supply over cost savings and minimizing inventory build up.

Ports operators that provide a broader, deeper and more sophisticated range of services to their customers — moving beyond simply handling in-port cargo and containers — will thrive regardless of level of geopolitical stresses.

“Geopolitical aspects have been part of trade for many hundreds of years,” AD Ports Group’s Group Chief Strategy and Growth Officer Ross Thompson said.

“We’ve always lived in an environment where trade tariffs have been prevalent; where trade wars have been enacted; where parts of the world are in conflict; and where internal and external government policies change.

“That’s part of the operating environment our sector regularly finds itself navigating. [The question is] how do you best position your company, and how do you best position your assets to deal with those fluctuations and those changes?”

AD Ports Group offers a case study in thriving amid a tough, varied economic environment. The organization owns and operates 10 ports and terminals in the United Arab Emirates and two in Egypt, plus 15 terminals in Spain and additional terminals in Pakistan, Jordan and Republic of the Congo.

However, the company is far more than a port or terminal operator. Its activities are segmented into five key divisions — ports; economic cities & free zones; maritime & shipping; logistics; and digital.

Together, these provide end-to-end solutions for customers, while the triple-play strategy of AD Ports Group aims to accelerate its growth by:

- Expanding and diversifying the services its existing operations provide.
- Deploying 15 billion dirhams ($4.1 billion) in capital expenditure over the next five years.
- Pursuing further mergers and acquisitions (M&A) opportunities at home and abroad.

At the core of this three-pronged approach is a focus on diversification to mitigate risks, many of which are simply unknowable until they occur due to the volatile nature of international relations.

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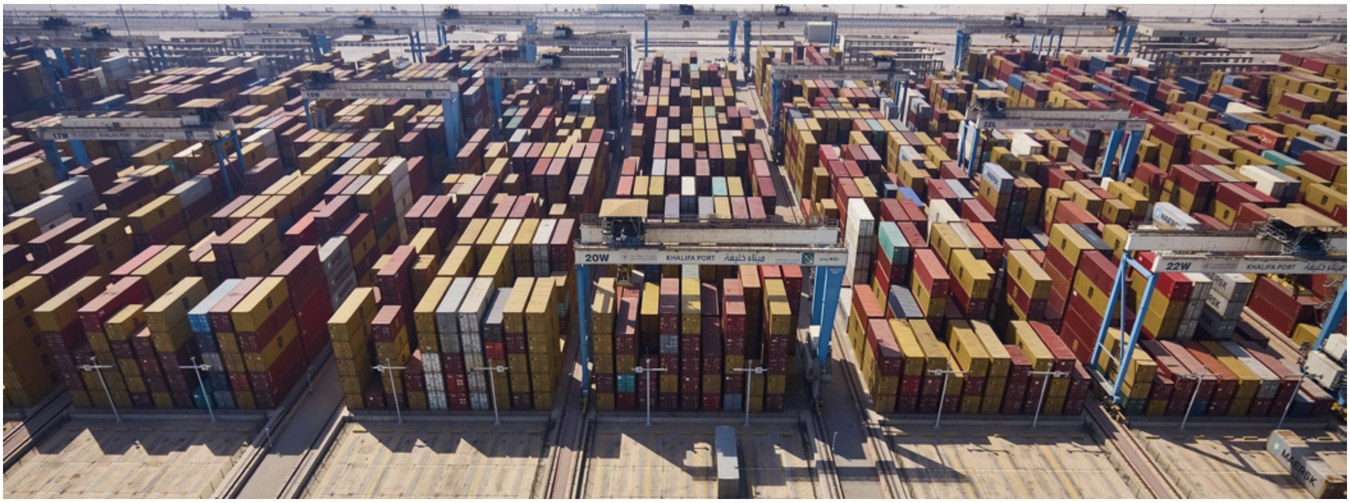
“You must always [seek] diversity in your business, particularly in ports — they must cover more than one trade route. It’s very difficult if you’re a niche operator that’s very dependent on certain trades and something comes along — whether it be geopolitical or operational — that disrupts that,” Thompson said.

“You should have a diverse number of trade routes, a diverse number of trading partners and multiple product sectors because often trade tariffs or geopolitical issues affect some trade flows and some products more than others.”

Operational diversity also often means that activities positively affected by geopolitical ructions can offset those negatively impacted by the same events.

“In our sector, the geopolitical landscape often creates opportunities rather than challenges … new trade routes will open up as trade finds a way around these issues,” Thompson said.



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“Trade and the flow of goods is like water — it always finds a way. What we have to do as an industry is position ourselves to affect those changes quickly.”

Smaller or emerging ports, in particular, should be adaptable to changing circumstances and invest in resilient infrastructure.

“If you look at COVID as a prime example [and] the challenges that we faced during the better part of 2020 and 2021, you saw a shift in the industry where container premiums were incredibly high across the entire region and globally as well,” said Julian Skyrme, vice president - commercial for the ports cluster at AD Ports Group. “You saw the movement and change from containers to general cargo, which was essential in delivering goods to the local economy.

“If you can diversify across the entire segment, ultimately that will foster robust relationships with, not only international stakeholders, but also the local economies [supporting] those ports. “In a world where geopolitical risks are inevitable, collaborations and strategic planning are key to navigating these challenges.”

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AD Ports Group has put these principles into practice, for instance, signing multiple agreements with Uzbekistan oil and gas company SEG to launch logistics and freight businesses in the Central Asian country and develop distribution hubs, including a food trading hub, for the surrounding region.

This collaboration aligns with the United Arab Emirates’ excellent relations with the Central Asia countries such as Kazakhstan and Turkmenistan, as well as the subcontinent country Pakistan, explained Farook Al Zeer, chairman of AD Ports Group’s logistics cluster.

“A challenge in these countries is logistics. Uzbekistan, for example, is a double-landlocked country — surrounded by five countries, it requires two international border crossings to reach the sea,” Al Zeer said.

“We are aiming — through the AD Ports Group resources and core service offerings in logistics and maritime — to create and improve existing corridors, because these countries have a lot of materials and commodities to import and export. It goes [back] to our goal of being a reliable logistics hub for the neighboring countries and the region.”

AD Ports Group will endeavor to develop similar agreements with companies in the likes of Pakistan, Kazakhstan and Turkmenistan to gain access to the Black Sea. The company has already inked a deal with the Red Sea Ports Authority to develop port projects along Egypt’s eastern coastline.

Additionally, AD Ports Group has introduced new shipping routes to meet untapped trade flows. The company has partnered with French logistics company CMA CGM

Group to launch a shipping service between Singapore; Colombo, Sri Lanka; and Chennai, India. Other new routes include a UAE-China service connecting Abu Dhabi's Khalifa Port with the Chinese ports of Shanghai, Qingdao and Ningbo.

Subsidiary SAFEEN Feeders recently began a container shipping service from the UAE to the Red Sea and will launch another route linking Pakistan's biggest port, Karachi, with the Middle East and East Africa. It has also signed a long-term deal with Invictus Investment to create SAFEEN Invictus, an international dry bulk shipping service. In September, the business celebrated the launch of a new roll-on, roll-off (ro/ro) service in Kuwait with the arrival of the SSF Ania at Shuwaikh Port. Accommodating 50 tonnes per trailer — double the amount capable via road — the ro/ro vessel can also carry cars, project cargo and high-and-heavy equipment. This end-to-end service directly connects the UAE to Kuwait and is designed to eliminate the need for long-haul

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road journeys. With truck driver support and accommodation prioritized, the service represents industry leadership in its integration of sustainability, employee wellbeing and transit efficiency.

In parallel with these moves, AD Ports Group has made a series of transformative acquisitions since the start of 2022, backed by its majority shareholder, Abu Dhabi sovereign fund ADQ.

"Our industry has always had a history of investing counter cyclically to the economy," Thompson said.

The acquisitions include a 70% stake in Egypt's International Associated Cargo Carrier (IACC), which owns Transmar International Shipping Co. and Transcargo International (TCI). The IACC purchase "represents a strategic move into the Red Sea region" and "aligns with our ambition to strengthen our feeder shipping business and improve connectivity in an economically crucial area of the world," Al Zeer explained.

In a transaction expected to be completed by the end of 2023, SAFEEN Feeders will integrate with Transmar and Dubai-based Global Feeder Shipping (GFS), a global container shipping company in which AD Ports Group will purchase an 80%, $800 million stake. This will make AD Ports Group the world's largest independent feeder company by number of vessels owned and operated.

Buying majority control of GFS will not only expand its fleet but also provide greater connectivity for its ports division and the wider AD Ports Group.

"The freight forwarder is often the one that will route the cargo and choose where it goes, and it does the shipping side. That's why we stepped into GFS, which is a huge, short-sea shipper in our core market," Skyrme said. "We can start to provide a network and a density of supply chains between assets that we own, and we can start routing cargo through our assets and be very accretive through AD Ports Group."

The business' most important acquisition to date has perhaps been Spain's Noatum, a global logistics platform operating in 26 countries, 16 terminals and 143 international offices across all major global markets. AD Ports Group paid 2.65 billion dirhams (US$722 million) for 100% of the company in June 2023. Noatum broadens the footprint of AD Ports Group, particularly in the Mediterranean, a critical region connecting Europe, Asia and Africa, thereby enhancing the company's capabilities to serve as a gateway for trade between the three continents.

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"That's one of the key value offerings for our customer base: the ability to look beyond the traditional terminal operations and towards collaborations, be they offshore, industrial or other sector based, as well as the other diversified partnerships," Thompson said.

"Noatum was a missing piece in our strategic portfolio, and particularly we saw that we could add value to Noatum by serving our current customers with their product offerings both at local regional and global scale."

"These acquisitions are vital to better serve customers and markets," Thompson said.

Unprecedented supply chain disruptions have forced global corporations to rethink just-in-time inventory practices, which have prevailed since Japan's multinationals pioneered the strategy in the 1970s. Companies now seek greater supply chain flexibility to increase robustness.

"You wanted to deliver to point A, but now you want to change that to point B; can your supply chains handle that and adapt very quickly?" Thompson asked. "Can you change and transit at low cost? In order to do that, you need to engage with companies like ourselves, which have the breadth of services and the network of geographic coverage."

To achieve this, "the first thing you need is complete, real-time visibility across the supply chain. If you don't have that, it's impossible to reroute goods, to build robust supply chain solutions," he continued.

AD Ports Group is asset-heavy in terms of its ports and asset-light in terms of its logistics services.

"Our strategic thinking underpinning these acquisitions is to seize opportunities in key regions, leverage synergies between our subsidiaries and position AD Ports Group as a global leader in the industries in which we operate," Al Zeer said.

At September's G20 meeting, United States President Joseph Biden announced the creation of an India–Middle East–Europe trade corridor spanning rail and shipping routes. India, Saudi Arabia, the UAE, as well as several European nations — including France, Germany and Italy — will participate, with support from the United States.

The corridor makes the purchase of Noatum and other agreements and acquisitions particularly timely.

"This new trade route is being developed with geopolitical stability in mind," Al Zeer

"Our goal is to support global trade, foster economic growth and contribute to the development of the regions we serve."

said. "We have a track record of strategically targeting emerging trade corridors, and this announcement adds another layer of possibilities."

It comes back to AD Ports Group's strategic imperative of reducing its dependency on long-established trade patterns by playing a leading role in nurturing new routes that emerge as part of the global South's growing importance in the world economy.

Through enhanced inter- and intra-regional trade, forging new agreements with frontier and emerging markets and collaborating with multilateral trade organizations, AD Ports Group aims to bring greater and more sustainable prosperity to myriad societies while delivering returns to its shareholders.

Market confidence in the ability of AD Ports Group to successfully execute its strategy is evidenced by the doubling of its share price (as of Oct. 6, 2023) since it completed a $1.1 billion initial public offering in February 2022.

"Diversifying trade routes enhances supply chain resilience, mitigating the risks associated with disruptions in any single route," Al Zeer said. "As a forward-looking global trade and logistics player, we recognize the importance of offering alternative routes to our customers, ensuring the uninterrupted flow of goods."

AD Ports Group's $4.1 billion, five-year capital expenditure program will focus on its three capital-intensive clusters, with 35% spent in maritime, 30% in economic cities & free zones, 30% in ports and 5% across logistics and digital. This funding will be strategically allocated to enhance infrastructure, expand services and strengthen presence in key markets.

"Our goal is to support global trade, foster economic growth and contribute to the development of the regions we serve," Al Zeer said.

About AD Ports Group

Established in 2006, AD Ports Group today serves as one of the world's premier facilitators of logistics, industry, and trade, as well as a bridge linking Abu Dhabi to the world. Operating several clusters covering Ports, Economic Cities & Free Zones, Maritime & Shipping, Logistics, and Digital, AD Ports Group's portfolio comprises over 30 ports and terminals, and more than 550 square kilometres of economic zones within KEZAD Group, the largest integrated trade, logistics, and industrial business grouping in the Middle East.

For more information, please visit adportsgroup.com

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