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<b>Subject</b>	The 2022-23 WACC for the Port of Melbourne with and without country filter
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## 1. Introduction

The purpose of this memo is to set out the impact of including a country filter when identifying the comparator sample for estimating beta and gearing for the Port Of Melbourne (PoM). The country filter excludes firms with country of risk outside the FTSE Developed and Advanced emerging countries.<sup>1</sup> Table 1 below shows our 2022-23 estimates (data up to 31 March 2022) and the WACC with the country filter.

The point estimate in our previous report was 8.99%. Applying a country filter reduces it to 8.81% because the gearing reduces from 20% to 10% even though the asset beta is unchanged at 0.72.

Table 1: Port of Melbourne WACC with and without the country filter

Parameter	2021-22 TCS	HoustonKemp 2022-23	HoustonKemp 2022-23 with country filter
Return on debt (including debt raising costs)	4.90%	4.78%	4.78%
Return on equity	8.24%	8.54%	7.87%
- risk free rate	1.70%	2.57%	2.57%
- MRP	6.54%	6.63%	6.63%
- equity beta	1.0	0.90	0.80
- asset beta	0.7	0.72	0.72
Gearing	30%	20%	10%
Tax rate	30%	30%	30%
Gamma	0.5	0.50	0.50
- utilisation rate	0.625	0.625	0.625
- distribution rate	0.8	0.80	0.80
<b>Pre-tax nominal WACC</b>	<b>8.23%</b>	<b>8.99%</b>	<b>8.81%</b>

Our WACC of 8.81% with the country filter is comparable to the ESC's in its 2022 interim commentary (ie, ESC reported a WACC of 8.82% with country filter with the same asset beta and gearing).<sup>2</sup> Given this similarity in our WACC, asset beta and gearing estimates, it is likely that the ESC is not applying CEPA's country filter approach that, in our opinion, incorrectly focuses on the firm's country of listing rather than country of risk.<sup>3</sup>

<sup>1</sup> FTSE, *FTSE equity country classification September 2021*, Annual announcement, 30 September 2021, p 4.

<sup>2</sup> ESC, *Interim commentary – Port of Melbourne Tariff Compliance Statement 2022–23*, 20 December 2022, pp 12-13.

<sup>3</sup> Noting that CEPA's country of listing filter results in a larger sample of firms compared to our country of risk filter, due to a number of mainland Chinese ports being listed in Hong Kong (a FTSE developed country). CEPA, *Port of Melbourne five-year review – WACC*, Final report, 17 December 2021, pp 54-57.