

Another massive cruise terminal in the making in Penang

PICTURES BY KANG SIEW LI/THE EDGE



A passenger liner berthing at Swettenham Pier Cruise Terminal

STORIES BY SANGEETHA AMARTHALINGAM AND KANG SIEW LI

It is exciting times for the cruise industry in Penang. The Penang Port Commission (PPC), which regulates Penang Port, is laying out a master plan for the redevelopment of the Swettenham Pier Cruise Terminal on the island city, which would require an investment of more than RM900 million over the next five years.

According to its chairman Datuk Tan Teik Cheng, now is a good time to redevelop the 114-year-old cruise terminal, located on the northeastern tip of George Town as the cruise industry in Penang is growing. Its inclusion on Unesco's list of world heritage cities in 2008 has fuelled the growth. The last time Swettenham Pier Cruise Terminal underwent a major refurbishment was reportedly in 2010.

Tan says the master plan is being finalised before it is presented to the commission's board of directors for approval. The PPC will then call for a request for proposal (RFP) by the end of 2017.

"It (redevelopment) needs to be done because the number of cruise ships and passengers has been growing. It is embarrassing to let them see our current facilities," he adds, noting that PPC has already received several RFPs from interested parties.

Tan says PPC will evaluate all submissions, although he believes that Penang players should be given the opportunity to participate in the redevelopment of the cruise terminal.

The proposed project will be divided into three phases. Phase 1 and 2 involve the extension of the berthing terminal while Phase 3 will see the consolidation of PPC and Penang Port Sdn Bhd (PPSB) offices, makeover of three Class Two heritage-listed unused godowns and the refurbishment of the Church Street Pier.

Tan says the RM900 million investment is only centred on the Phase 3 development.

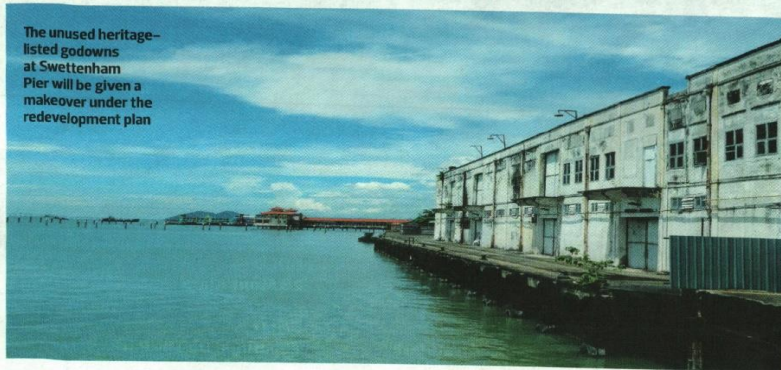
"The figure is only a rough estimate. The actual amount will be reviewed once the detailed master plan is announced," he adds.

It is understood that the PPC is taking a cautious



It (redevelopment) needs to be done because the number of cruise ships and passengers has been growing. It is embarrassing to let them see our current facilities. — Tan

The unused heritage-listed godowns at Swettenham Pier will be given a makeover under the redevelopment plan



stance on the Swettenham Pier Cruise Terminal's redevelopment amid concerns that it will be criticised by the public and the Penang government if it fails. The failure of the RM43 million Tanjung City Marina project next to the cruise terminal, funded by the federal government, has cast a shadow on PPC's efforts.

Tan says there are no plans to restore the marina, which has since sunk and been left abandoned since mid-2011 due to poor planning and failure to build a good breakwater.

"The marina cannot work anymore and we don't want to say what can be done about it, otherwise we would be criticised if it is not fulfilled. However, we have a programme to redevelop the godowns and the area surrounding the pier," Tan tells *The Edge* at his office in Penang.

Along with the construction of the marina in 2005, Church Street Pier was rebuilt and now houses several eateries.

According to PPC's Annual Report 2015, total arrivals of cruise ships and passenger ferries increased 4.9% to 2,308 in 2015, from 2,201 in 2014.

Penang has become a main focus for Western cruise liners that call not only during the winter but throughout the year. We estimate passengers spend about RM1,500 to RM2,000 each when they visit," Penang State Tourism Development and Culture Committee chairman Danny Law tells *The Edge* via text.

PPSB chief operating officer Sasedharan Vasudevan says the Swettenham Pier Cruise Terminal has been handling around one million passengers each year, and expects a 40% rise in passenger arrivals this year. PPC's Annual Report 2015 showed that the cruise terminal handled 1.16 million passengers in 2015.

Liners that call at the terminal come from cruise operators that include New York-listed Royal Caribbean Cruises Ltd, New York and London-listed Carnival Corp & plc, Luxembourg-based Star Clippers Ltd, TUI Cruises and Genting Hong Kong Ltd's Star Cruises.

Putting the right people to steer Penang Port

According to Sasedharan, PPSB is a natural choice to take part in the redevelopment of the Swettenham Pier Cruise Terminal, which it currently operates under a three-year lease with PPC.

Indeed, the company submitted its redevelopment plans for the entire Swettenham Pier Cruise Terminal to the PPC two years ago, estimated to cost about RM500 million.

More recently, on March 17, the port operating company announced that it will be upgrading the existing cruise terminal by extending the existing berths to 688m, from 400m currently, under a 60:40 joint venture with RCL.

PPSB has entered into a Heads of Agreement with RCL to upgrade and improve the Swettenham Pier Cruise Terminal at a cost of US\$35 million (RM140 million). RCL is expected to make 38 calls in Penang this year.

Meanwhile, Sasedharan says PPSB will seek to convert the lease of the Swettenham Pier Cruise Terminal from the PPC to a concession similar to that to operate Penang Port, failing which the JV with RCL will also not take off.

"[A concession] was part of our deal with RCL before we were to invest RM140 million (in the upgrade). It did not want to do it on a rented piece of land," explains Sasedharan.

"We are the private sector. Anyway, we are confident [of getting the concession] because RCL is on board. We wouldn't embark on the upgrade if we did not engage both the PPC and the state government. Both parties see the need and benefits from doing so. Let us have it and we will bring in the revenue," he adds.

Under the proposed JV, Sasedharan says 20% of the RM140 million cost will be via equity financing and the remaining 75% to 80% from borrowings.

PPSB and RCL's proposed project centres on Phase 1 and 2 and includes spaces for tour buses and accessibility for the aged and physically challenged throughout the terminal from ship to shore.

PPSB was taken over in January 2014 by Seaport Terminal (Johore) Sdn Bhd, which owns 51.76% of MMC Corp Bhd. MMC Corp is in the midst of buying the rest of PPSB from Seaport Terminal (Johore) for RM220 million, after completing the acquisition of a 49% stake recently.

Sasedharan says in the last 15 months, its commercial team has made trips to the US and Singapore to talk to cruise industry players.

He says with more cruise liners calling in Penang, it would be easier for cruise companies to package trips.

"That is why we are hoping Melaka Gateway Port's cruise terminal takes off. It will augment us very well as the calls could include Singapore, Melaka, and Penang. We [also] want more quality stuff like international transit passengers who spend an average of US\$150 per person.

"I don't see any other conduit in the state that can bring 4,000 high-spending tourists from Europe and the US."

The popular deals, he notes, are the "cruise to nowhere" trips jointly operated by Star Cruises and Singapore-based New Century Tours Corp Pte Ltd.

The cruises also bring 70,000 to 80,000 tranship passengers a year, and PPSB hopes to raise the number to 100,000 this year.

On Phase 3, Sasedharan says PPSB is prepared to submit its plan again when PPC calls for an RFP and is confident of being selected as it has a better relationship with PPC than the previous management. "We estimate the entire project would cost about RM500 million. We feel we are a better candidate as it complements the facility. We can bring in some international flavour to it."

"MMC Corp is keen on developing the waterfront development as well but that is in subsequent phases. It is a bit too early. The cruise business is new to us but we have the right partners," he adds.

On why he believes the Swettenham Pier Cruise Terminal will succeed unlike the failed Port Klang cruise terminal in Pulau Indah, Selangor, Sasedharan says the Swettenham Pier Cruise Terminal has the benefit of being located in George Town.

"We are located close to city centre as opposed to Pulau Indah, which is about 30 minutes from Kuala Lumpur," he adds.

"You got to have the right key to fit the right lock," Penang Port Sdn Bhd (PPSB) chief operating officer Sasedharan Vasudevan says, when describing the port operating company's successful turnaround after more than 20 years in the red.

Not much had been going right for PPSB, which operates Penang Port and the ferry service between Penang Island and Butterworth, until tycoon Tan Sri Syed Mokhtar Al-Bukhari — through his private investment vehicle Seaport Terminal (Johore) Sdn Bhd — took over the company from Ministry of Finance Inc in January 2014.

PPSB eked out a small profit in the financial year ended Dec 31, 2014 (FY2014), posting a pre-tax profit of RM235,499 as against a pre-tax loss of RM9.17 million in FY2013.

It achieved its second straight profitable year in FY2015, with a pre-tax profit of RM11.33 million.

According to Sasedharan, PPSB's pre-tax profit jumped to some RM47 million last year.

He points out that PPSB was able to grow its profit over the past three years even though the ferry operations continued to lose about RM20 million a year. The ferry service's traffic volume has been on a decline due to motorists preferring to use the Penang Bridge.

"Stripping out the losses from the ferry service, we made a pre-tax profit of some RM67 million in FY2016," Sasedharan says.

PPSB will be handing over the ferry service to Prasarana Malaysia Bhd, but it will continue to share losses in the operations for the next three years.

Sasedharan attributes the company's successful turnaround to giving it to the right people to run the business.

"We [MMC Corp Bhd] manage ports for a living. Apart from Penang Port, we manage four other ports. That explains why we made money in the first year [FY2014]," he tells *The Edge*.

Seaport Terminal (Johore) is now in the midst of hiving off the rest of its stake in PPSB to MMC Corp after completing the sale of a 49% stake in March. MMC Corp is 51.76% owned by Seaport Terminal (Johore).



Penang Port's North Butterworth Container Terminal

MMC Corp's stable of ports — Port of Tanjung Pelepas (PTP), Johor Port, Northport in Port Klang, Tanjung Bruas Port in Melaka and Penang Port — are now combining to transform PPSB from a tale of woe into a comeback story.

For starters, PPSB has laid out a five-year expansion plan that includes spending RM200 million in capital expenditure (capex) to purchase new equipment such as rubber-tyred-gantry cranes, rail mounted gantry cranes and ship-to-shore cranes.

"Starting this year, we will spend RM70 million of the total capex for the next three years to buy new equipment to support the growth of our container traffic," Sasedharan says.

He adds that the port aims to handle 4.6 million more containers to 1.503 million TEUs (20-foot equivalent units) this year from 1.437 million TEUs in 2016. Last year, Penang Port saw a 9.1% increase in container throughput from 1.32 million TEUs in 2015.

"The growth will be driven by a 4% growth in Malaysia's hinterland traffic, as well as an 8% to 9% growth in container traffic from southern Thailand," he says.

However, he expects flat growth in its general cargo throughput this year owing to lower demand for petrol, maize, palm oil, sugar and steel. Penang Port saw a 3% contraction in cargo volume to 9.7 million

tonnes last year compared to 2015.

Meanwhile, under the disposal agreement with MoF Inc, Seaport Terminal (Johore) was to undertake PPSB's social obligations, which include settling the port's debts of over RM1.2 billion and paying for the capital dredging cost (dredging of the seabed from 11.5m to 14.5m).

Sasedharan says PPSB will start paying off some of its RM1.2 billion debts this year after undertaking a clean-up operation of the company in the last three years, which includes reviewing PPSB's procurement contracts, enhancing its processes and restructuring its staff force.

He adds that the company will put on hold plans to dredge the channel as there is no need to accommodate bigger-size vessels for now.

"Last year, we asked all our major customers whether they are ready to bring in their big container ships to Penang and all of them said no. Today the big ships are calling at Port Klang and PTP."

"Global carriers are also forming shipping alliances, which means fewer port calls. As such, we see no point in undertaking dredging works until we have larger ships calling at the port," Sasedharan says.

"But we will keep our finger on the pulse of the industry. We will continue to ask our customers this question every year."

Expensive marina lesson

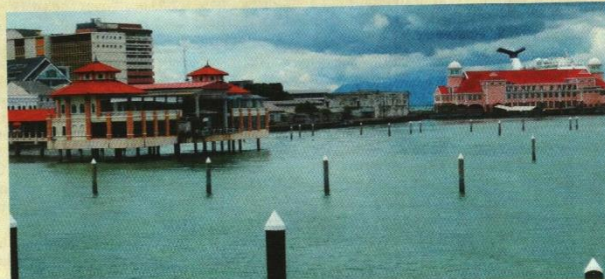
In 2005, the federal government spent RM43 million on a city marina, aptly named Tanjung City Marina, featuring 102 berths on a 1.6ha land located within the Swettenham Pier Cruise Terminal in George Town, Penang.

The marina, which was built to be of world-class standard, could accommodate about 140 luxury yachts and boats in the berths measuring between 11m and 50m long, with a maximum draft of up to 4m.

It was part of a RM210 million project to give a facelift to the island's waterfront complete with the redevelopment of the Church Street Pier, with facilities and services such as customs, immigration and port clearance, clubhouse, and restaurants.

However, it failed to attract yacht owners. Fast-forward 12 years and all that is left of the marina constructed when Penang Port Sdn Bhd (PPSB) was a Ministry of Finance Inc entity are half-sunken poles that used to hold the pontoons, sticking out like sore thumbs in the sea.

The marina, which used to host the Raja Muda Selangor International Regatta and the Darwin-Bali-Langkawi Yacht Rally from 2007 to 2009, was abandoned after falling into disuse, allegedly due to damage sustained in thunderstorms in 2009. This was blamed on design flaws such as the absence of a good floating breakwater.



The half-sunken poles that used to hold the pontoons at Tanjung City Marina

Penang Port Commission (PPC) made several attempts to revive it amid calls by the Penang government to allow it to take over the marina, but to no avail.

The RM43 million losses are now kept on PPC's books. PPC is trying to recoup the losses through its revenue from lease rental management income and licence of its assets such as Penang Port and the Swettenham Pier Cruise Terminal.

"The marina is gone and we don't have plans to revive it. We are still recouping the losses by renting out [parts of the cruise terminal at Church

Street Pier] to restaurant operators and getting concession revenue (from PPSB)," a PPC official tells *The Edge*.

He adds that since PPC is a government statutory body, it had to absorb the losses although the marina was operated by PPSB when it was built.

"We did not write it off. We are trying to recover the money because RM43 million is not a small amount," the official says.

PPC posted a 14.67% decline in revenue in 2015 to RM21.05 million compared with RM24.09 million in 2014.