Deutsche Bank
Markets Research

Rating
Hold

Asia
Hong Kong

Utilities
Utilities

Company
CLP Holdings

Reuters	Bloomberg	Exchange	Ticker
0002.HK	2 HK	HKG	0002
ADR Ticker	ISIN		
CLPHY	US18946Q1013		

Date
27 February 2015

Coverage Change

Price at 26 Feb 2015 (HKD)	69.30
Price target - 12mth (HKD)	65.00
52-week range (HKD)	69.50 - 56.30
HANG SENG INDEX	24,778

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Maintaining Hold for near-term overhang

Too early to turn positive; maintaining Hold
We maintain Hold on CLP. We are yet to turn positive on the stock, despite recent underperformance versus peers. Even through earnings from Australia and India have recovered from the lows, we believe there is still a long way to go for these businesses to earn reasonable returns. In the near term, we expect share price overhang from uncertainty over the regulatory regime in Hong Kong, potential US rate hikes, and challenges in Australian business in 2015. This report marks the transfer of coverage from Michael Tong to Yuxiao Peng.

2014 results in line; recovery in Australia and India, but challenges remain
Excluding one-offs items, the FY14 recurring net profit was up 8% yoy to HK$10.1bn, driven by increased stakes in CAPCO from May 2014 and higher earnings from India and Australia. We expect core earnings CAGR of 6% in 2015-17 for CLP, but its Australian business could remain a drag in 2015 with the removal of carbon compensation and potential impairment charge if the oversupply in wholesale market persists. Even with potential cost savings after the integration of retail billing system, we estimate a ROE of c.3% from Australia. We also expect a suboptimal ROE of c.7% from India.

Uncertainty on post-2018 return in Hong Kong could weigh on share price
CLP has the largest exposure to Hong Kong's power market among peers, which contributes over 70% to its earnings and valuation. The Hong Kong government is running on a tight schedule to decide future fuel mix in 1H15 and start consultation on future electricity market framework. We assume an extension of the current Scheme of Control (SoC) agreement until 2023 and a cut in allowed return from 9.99% to 8% after that. But if the government decides not to extend the SoC by end-2015, it would add to the uncertainty.

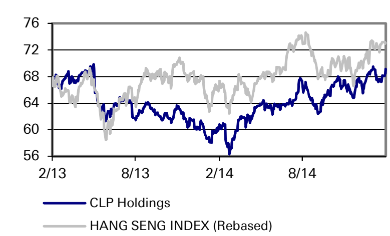
SOTP-based target price of HK$65.0; Hold
With a historical low dividend yield of 3.9%, we believe potential US rate hikes could be an overhang to CLP's share price. Key upside/downside risks include higher-/lower-than-expected margins for CLP's Australian business; lower-/higher-than-expected bond yield; and regulatory development.

Key changes

Price target	59.50 to 65.00	↑	9.2%
Sales (FYE)	104,918 to 90,836	↓	-13.4%
Op prof margin (FYE)	14.0 to 16.8	↑	20.0%
Net profit (FYE)	10,982.9 to 10,670.1	↓	-2.8%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.4	2.7	15.3
HANG SENG INDEX	-0.5	2.8	10.4

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (HKDm)	104,530	92,259	90,836	90,857	93,972
EBITDA (HKDm)	22,036	22,925	22,090	23,646	24,734
Reported NPAT (HKDm)	6,060	11,221	10,670	11,322	11,837
Reported EPS FD(HKD)	2.399	4.441	4.223	4.481	4.685
DB EPS FD (HKD)	3.684	3.983	4.223	4.481	4.685
DB EPS growth (%)	-5.6	8.1	6.0	6.1	4.5
PER (x)	17.5	15.9	16.4	15.5	14.8
Price/BV (x)	1.8	1.9	1.9	1.8	1.7
EV/EBITDA (x)	8.4	9.5	10.7	10.3	9.8
DPS (net) (HKD)	2.570	2.620	2.700	2.790	3.045
Yield (net) (%)	4.0	4.1	3.9	4.0	4.4
ROE (%)	6.8	12.8	11.9	12.0	12.0

Source: Deutsche Bank estimates, company data

Model updated:26 February 2015

Running the numbers

Asia

Hong Kong

Utilities

CLP Holdings

Reuters: 0002.HK   Bloomberg: 2 HK

Hold

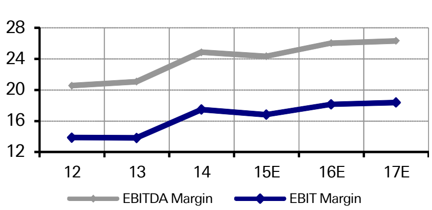
Price (26 Feb 15)	HKD 69.30
Target Price	HKD 65.00
52 Week range	HKD 56.30 - 69.50
Market Cap (m)	HKDm 175,083
	USDm 22,575

Company Profile

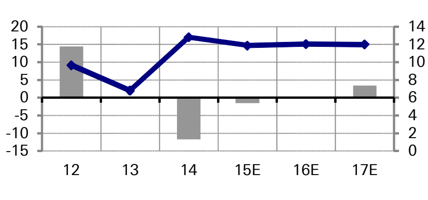
CLP Holdings distributes electricity to 2.1m customers located in Hong Kong (Kowloon and the New Territories) through its wholly-owned network. The HK-based generators supplying CLP's network (6,908MW) are owned 30/70 by China Southern Grid and CLP. CLP also imports power from generators in Guangdong (in which it has an equity stake). HK-based returns are governed by the SoC which allows a generous return on fixed assets. Besides HK, CLP also owns stakes in gencos located in mainland China, Taiwan, India, Thailand and Australia.

Price Performance

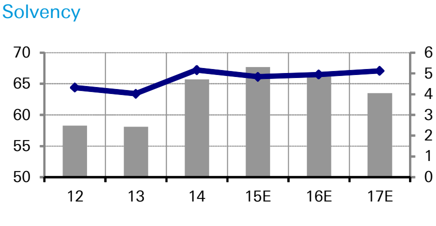
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (HKD)	3.90	3.68	3.98	4.22	4.48	4.69
Reported EPS (HKD)	3.45	2.40	4.44	4.22	4.48	4.69
DPS (HKD)	2.49	2.57	2.62	2.70	2.79	3.05
BVPS (HKD)	36.1	34.6	34.8	36.4	38.1	40.0
Weighted average shares (m)	2,410	2,526	2,526	2,526	2,526	2,526
Average market cap (HKDm)	158,113	163,073	159,680	175,083	175,083	175,083
Enterprise value (HKDm)	184,920	186,122	218,509	237,001	244,211	243,066
Valuation Metrics						
P/E (DB) (x)	16.8	17.5	15.9	16.4	15.5	14.8
P/E (Reported) (x)	19.0	26.9	14.2	16.4	15.5	14.8
P/BV (x)	1.80	1.77	1.93	1.90	1.82	1.73
FCF Yield (%)	6.0	4.9	nm	2.0	3.7	4.8
Dividend Yield (%)	3.8	4.0	4.1	3.9	4.0	4.4
EV/Sales (x)	1.8	1.8	2.4	2.6	2.7	2.6
EV/EBITDA (x)	8.6	8.4	9.5	10.7	10.3	9.8
EV/EBIT (x)	12.7	12.9	13.5	15.5	14.8	14.1
Income Statement (HKDm)						
Sales revenue	104,861	104,530	92,259	90,836	90,857	93,972
Gross profit	21,551	22,036	22,925	22,090	23,646	24,734
EBITDA	21,551	22,036	22,925	22,090	23,646	24,734
Depreciation	7,021	7,592	6,791	6,814	7,165	7,461
Amortisation	0	0	0	0	0	0
EBIT	14,530	14,444	16,134	15,276	16,481	17,273
Net interest income(expense)	-3,366	-3,596	-3,128	-3,160	-3,331	-3,375
Associates/affiliates	2,984	3,283	2,358	2,189	2,217	2,222
Exceptionals/extraordinaries	-1,429	-5,538	-1,239	0	0	0
Other pre-tax income/(expense)	-2,735	-2,753	-921	0	0	0
Profit before tax	9,984	5,840	13,204	14,305	15,368	16,121
Income tax expense	1,692	-232	1,268	2,401	2,786	3,002
Minorities	-20	12	563	988	1,014	1,036
Other post-tax income/(expense)	0	0	-152	-246	-246	-246
Net profit	8,312	6,060	11,221	10,670	11,322	11,837
DB adjustments (including dilution)	1,094	3,247	-1,159	0	0	0
DB Net profit	9,406	9,307	10,062	10,670	11,322	11,837
Cash Flow (HKDm)						
Cash flow from operations	19,857	17,911	10,596	16,729	17,687	19,034
Net Capex	-10,400	-9,872	-15,676	-13,247	-11,243	-10,625
Free cash flow	9,457	8,039	-5,080	3,482	6,444	8,409
Equity raised/(bought back)	7,556	0	0	0	0	0
Dividends paid	-6,135	-6,497	-6,569	-6,770	-6,973	-6,973
Net inc/(dec) in borrowings	584	-6,789	6,568	4,456	2,788	-30
Other investing/financing cash flows	-1,640	-1,476	663	117	102	28
Net cash flow	9,822	-6,723	-4,417	1,284	2,361	1,434
Change in working capital	*2,887*	*-238*	*-8,922*	*-2,131*	*-2,365*	*-1,898*
Balance Sheet (HKDm)						
Cash and other liquid assets	13,026	5,233	4,393	4,312	5,296	5,404
Tangible fixed assets	134,329	128,682	133,829	140,497	144,822	148,239
Goodwill/intangible assets	28,479	23,847	31,129	31,129	31,129	0
Associates/investments	21,053	21,615	11,962	12,786	13,626	14,521
Other assets	31,869	32,308	33,350	33,035	33,889	67,453
Total assets	228,756	211,685	214,663	221,758	228,762	235,617
Interest bearing debt	66,198	56,051	67,435	71,891	74,679	74,649
Other liabilities	71,357	68,153	51,269	50,023	49,906	51,943
Total liabilities	137,555	124,204	118,704	121,914	124,585	126,592
Shareholders' equity	91,127	87,361	88,013	91,913	96,262	101,125
Minorities	74	120	7,946	7,931	7,915	7,899
Total shareholders' equity	91,201	87,481	95,959	99,844	104,177	109,024
Net debt	*53,172*	*50,818*	*63,042*	*67,579*	*69,383*	*69,245*
Key Company Metrics						
Sales growth (%)	14.4	-0.3	-11.7	-1.5	0.0	3.4
DB EPS growth (%)	-8.9	-5.6	8.1	6.0	6.1	4.5
EBITDA Margin (%)	20.6	21.1	24.8	24.3	26.0	26.3
EBIT Margin (%)	13.9	13.8	17.5	16.8	18.1	18.4
Payout ratio (%)	72.3	107.1	59.0	63.9	62.3	65.0
ROE (%)	9.6	6.8	12.8	11.9	12.0	12.0
Capex/sales (%)	9.9	9.4	17.0	14.6	12.4	11.3
Capex/depreciation (x)	1.5	1.3	2.3	1.9	1.6	1.4
Net debt/equity (%)	58.3	58.1	65.7	67.7	66.6	63.5
Net interest cover (x)	4.3	4.0	5.2	4.8	4.9	5.1

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

We maintain Hold rating on CLP. We expect stable core earnings growth of c.6% in 2015-17 with increased stake in CAPCO from May 2014, growth from China and recovery in its India business. However, we are yet to turn positive on the stock, due to share price overhang in the near term, from US rate hikes possibly starting around mid-year, ongoing challenges in the Australian market and relatively larger exposure to the headwinds of the Hong Kong regulatory regime compared to peers.

We expect CLP's Australian business to remain challenging in 2015 as the removal of carbon compensation from July 2014 will reduce earnings in 1H15 and there could be impairment charges on the generation assets if the oversupply in the wholesale market is sustained. Even with cost savings and customer number gains in 2016 after successful integration of the billing system this year, we estimate ROE of only c.3% from Australia. We also estimate suboptimal ROE of 7% from India without major improvement in tariff affordability and fuel supply issues in the Indian power market.

2015 will be a key year for CLP's power business in Hong Kong as the government will decide on the future fuel mix in 1H15 and start consultation on the future power market framework after that. By the end of 2015, the government will need to decide whether to extend the existing SoC agreement by another five years from 2018 to 2023. If it decides not to extend, the negotiation of post-2018 arrangement could start straight away in 2016. We assume that the allowed return will fall to 8% from 9.99% after 2023. Although such a return cut may not be a complete surprise to the market, the uncertainty could still weigh on the share price, given CLP's relatively large earnings exposure to Hong Kong (over 70%) among peers.

Valuation

We base our valuation of CLP on a sum-of-the-parts analysis. For the core HK SoC business, we use the DCF method given its predictable cash flows at a WACC of 4.6%. We have adopted DCF and multiple-based approaches in valuing the non-SoC businesses. The stock is trading at c.4% dividend yield, the low end of its historical average. Potential US rate hikes as early as mid-this year could be a share price overhang for CLP.

Risks

Key upside/downside risks: 1) higher-/lower-than-expected cost reduction and margins for the Australian business; 2) positive/disappointing regulatory development including better-/lower-than-expected SoC return beyond 2018; 3) higher-/lower-than-expected earnings from CLP's Indian investments; 4) stronger-/weaker-than-expected renminbi, Indian rupee or Australian dollar; and 5) lower-/higher-than-expected bond yields.

Valuation

Target price derivation

We derive our target price from a sum-of-the-parts (SOTP) valuation. For the Hong Kong SoC business, we use the DCF method, given its predictable cash flows (WACC of 4.6% using cost of equity of 6.1%, post-tax cost of debt of 3.3%, and debt to capital ratio of 55%). We assume that the allowed return under SoC will be cut from 9.99% to 8% after 2023. We estimate that every 1ppt cut in post-2023 return assumptions would change our target price by c.10%. We have a combination of DCF and multiple-based approaches for the non-SoC business.

Figure 1: Sum-of-the-parts valuation for CLP

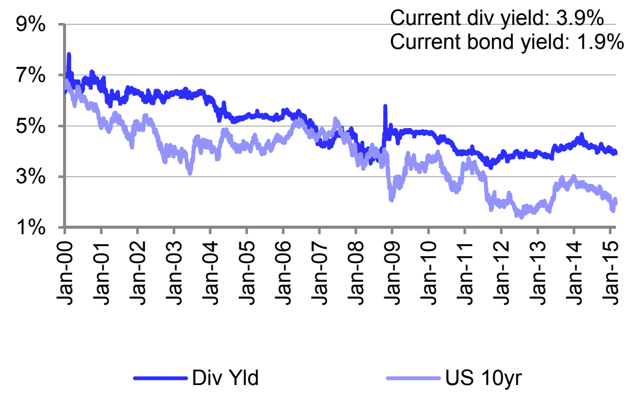
Sum-of-parts: end-2015 valuation			
(HK$ mil, except noted otherwise)	**CLP EV**	**% of EV**	**Methodology**
Hong Kong, SoC	192,101	71.9%	DCF-based using WACC of 4.6%
Mainland business supporting HK	10,642	4.0%	DCF-based using WACC of 6.0%
Other mainland China business	17,586	6.6%	Based on multiple approaches for individual assets
India	16,087	6.0%	DCF-based using WACC of 11.0%
Australia	28,541	10.7%	Based on 10.0x FY15 EBITDA
Southeast Asia & Taiwan	2,240	0.8%	This is an equity valuation (for CLP's 50% stake)
Total enterprise value	**267,196**	100%	
Debt and other			
Total debt	(77,873)		
Deferred tax	(10,790)		
Customer deposits	(4,653)		
Perpetual securities	(5,791)		
Minority interest	(5,136)		
Cash	4,312		
Unallocated overhead	(3,000)		
Equity value	**164,265**		
HK$ per share	**65.0**		**Set as our target price**

Source: Deutsche Bank estimates

Valuation multiples and comps

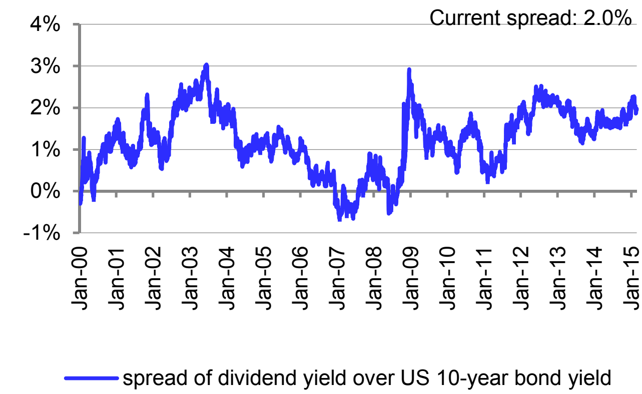
We think CLP is fully valued, at c.16.4x 2015PE, above its historical average of c.14x, and a 1.8x 2015E P/BV vs. 12% ROE. It is also trading at c.3.9% dividend yield, the low end of its historical average. We see share price overhang from potential rate hikes in the US as early as June. CLP's dividend yield spread over the 10-year US government bond yield has widened over the past couple of years to nearly 2ppt (vs. historical average of 1.5ppt); we think this is because of higher risk from its Australian and Indian business leading to relatively higher volatility in the price return.

Figure 2: 1-year forward dividend yield vs. 10-year US government bond yield



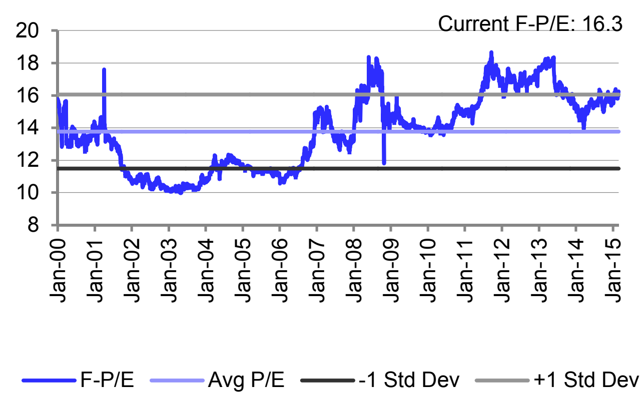
Source: Bloomberg Finance LP , Deutsche Bank, Company data

Figure 3: Spread of 1-year forward dividend yield vs. 10-year government bond



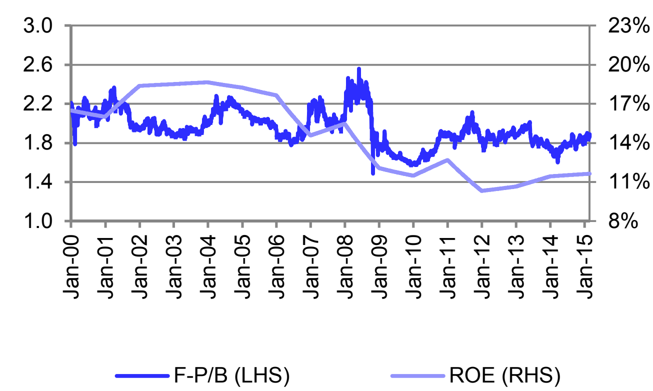
Source: Bloomberg Finance LP , Deutsche Bank, Company data

Figure 4: 1-year forward PE



Source: Bloomberg Finance LP , Deutsche Bank, Company data

Figure 5: 1-year forward PB vs. ROE



Source: Bloomberg Finance LP , Deutsche Bank, Company data

Figure 6: Valuation comps

Share price as of February 26, 2015								Performance		Valuations											
				Price	% to	Mkt. Cap.	EPS CAGR	Absolute	Relative	P/E		P/BV		Net det/Total capital		RoE		Dividend yield		FCF yield	
Company	Ticker	Price	Rating	target	target	US$m	2014-16E	3m	3m	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E	15E	16E
CLP	2 HK	HKD69.3	Hold	HKD65.00	(6%)	22,575	6%	3%	(7%)	16.4	15.5	1.9	1.8	40.4	40.0	11.9	12.0	3.9	4.0	2.0	3.7
PAH	6 HK	HKD79.7	Hold	HKD77.00	(3%)	21,933	(2%)	7%	(3%)	20.9	21.9	1.3	1.3	(72.0)	(71.3)	6.5	6.1	3.4	3.4	3.8	3.7
PAH adjusted for cash										14.9	15.7	1.7	1.6			11.2	10.3				
CKI	1038 HK	HKD66.5	Hold	HKD67.00	1%	20,919	(3%)	15%	4%	17.3	17.8	1.6	1.5	8.6	7.8	9.9	8.8	3.2	3.3	0.2	4.0
CKI adjusted for PAH's cash										15.4	15.8	1.8	1.7			11.6	10.7				
				Average				8%	(2%)	17.0x	17.3x	1.6x	1.6x	(7.7)	(7.8)	10.2	9.6	3.5	3.6	2.0	3.8
				Median				7%	(3%)	16.4x	15.8x	1.7x	1.6x	8.6	7.8	11.2	10.3	3.4	3.4	2.0	3.7

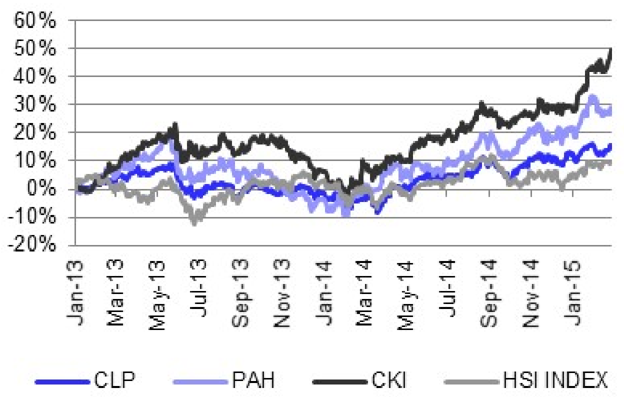
All estimates are DB estimates and all stock data is from Bloomberg Finance LP
*RoE is on a recurring basis

Source: Deutsche Bank estimates, Bloomberg Finance LP

Potential US rate hikes a risk

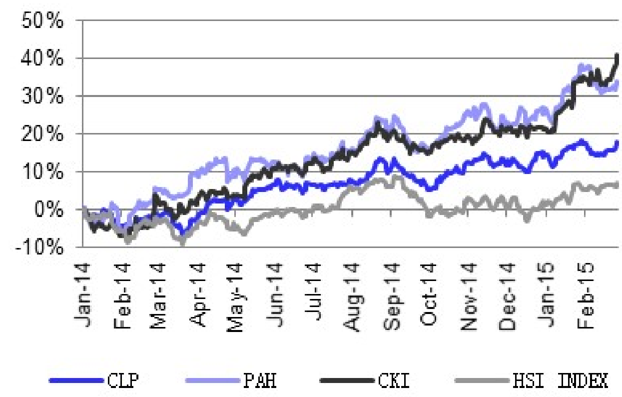
CLP's has delivered total return of 18% and outperformed the Hang Seng Index by 11ppt since the beginning of 2014 (although it underperformed peers) (Figure 8). This was driven by: 1) recovery in Australian and Indian business for CLP from the 2013 trough; and 2) lower bond yield (10-year US government bond yield from c.3% at the beginning of 2014 to c.2% now).

Figure 7: Total return since the beginning of 2013



Source: Bloomberg Finance LP

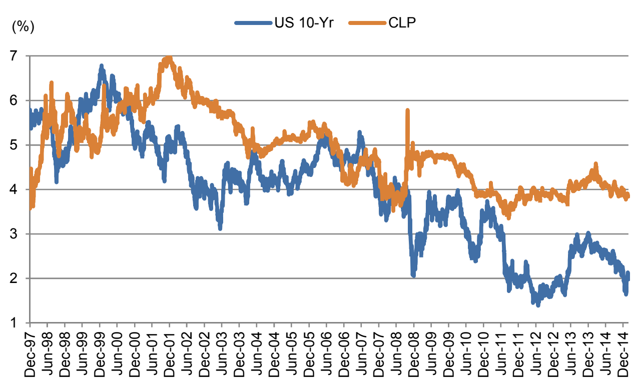
Figure 8: Total return since the beginning of 2014



Source: Bloomberg Finance LP

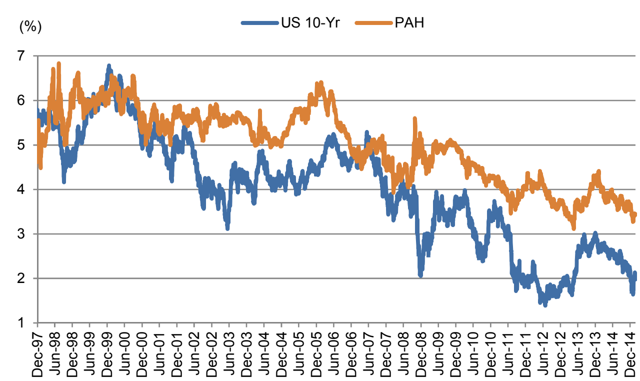
The Hong Kong utilities sector is relatively sensitive to bond yield movements, as investors focus on its dividend yield. A correlation can be seen if we compare the dividend yield of the HK utilities with the US 10-year government bond yield (see figures below).

Figure 9: US 10-year government bond yield vs. forward dividend yield of CLP



Source: Bloomberg Finance LP, Deutsche Bank

Figure 10: US 10-year government bond yield vs. forward dividend yield of PAH



Source: Bloomberg Finance LP, Deutsche Bank

The yield advantage in 2014, which helped the share price performance, will not be repeated in 2015, as our US economics team expects US 10-year government bond yields to rise to c.2.7% by end-15 (vs. c.2.1% currently). The team currently expects rate hikes in the US to commence around mid-year. This will add pressure to the HK utilities sector in general, with dividend yields now at historical lows of below 4%.

However, prospects for Fed policy will be driven by the data. The risks are skewed toward a later lift-off in light of the softness of consumer price inflation data, according to our US economics team. Any negative impact from US rate hikes could also be partly alleviated to some extent by rate cuts in other major economies, especially Europe, and a prolonged low interest rate environment globally.

HK: 2015 a key year for regulatory development

We think it is unlikely to see major changes in the Hong Kong power market regulatory framework after 2018, but there could be downside to the allowed return of 9.99%. We assume a return cut from 9.99% to 8% after 2023.

A return cut may not be a complete surprise to the market, as interest rate has declined since 2007 and the regulatory resets in overseas market all point to a lower allowed return. The Hong Kong government also raised return cut as a proposal in the interim review of SoC in 2013. However, increased media report and ongoing discussions about post-2018 returns in 2015 could still be an overhang on share price performance.

Among the three stocks we cover, CLP has the largest exposure to regulatory risk in Hong Kong, followed by PAH and CKI. Every 1ppt lower SoC return post 2023 from our base case of 8% could imply valuation downside of c.10% for CLP, c.3% for PAH, and c.1 % for CKI, all else equal.

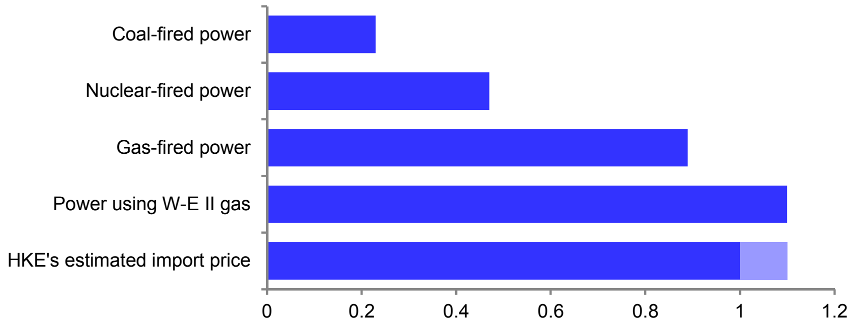
Pending decision on future fuel mix

The consultation on power generation fuel mix was closed by the Environmental Bureau on 18 June 2014 and the result is likely to be released in 1H15. We see a higher possibility that the government will adopt the option to build more gas-fired power plants locally (Option 2).

We believe the option to import more electricity via purchase from China Southern Grid (CSG) (Option 1) could raise concerns on supply reliability at this stage given the lower reliability of the power supply in China. Also, Option 1 fails to achieve the purpose of fuel mix change in reducing carbon emissions in the first place, as the newly imported electricity will most likely come from coal.

In addition, the imported price for power under Option 1 may not be cheaper than local gas-fired power using the most expensive gas from West-to-East II (W-E II) pipeline. According to HKE's estimate, the import electricity price alone could be HK$1-1.1/kWh excluding additional costs for wheeling, load management, transmission loss and load backup, with reference to Macau's import price of c.HK$0.8/kWh plus infrastructure cost of c.HK$0.3/kWh. This compares to a current energy cost from gas-fired power of HK$0.9/kWh for CLP (at an average gas cost of US$14.7/mmbtu in 2014) and our estimated HK$1.1/kWh if based on W-E II gas price of c.US$18/mmbtu (Figure 11). If oil price remains low and CLP can negotiate lower gas price, then gas-fired power could be less expensive.

Figure 11: Unit energy cost comparison



Note: Power using W-E II gas is Deutsche Banks' estimate based on gas cost of US$18/mmbtu
Source: Deutsche Bank estimates, company data

The implications for capex from power companies is not yet clear and how the capex would be split between CLP and HKEI is also unknown at this stage.

The government said that the capex spent on the cross-border transmission infrastructure (Option 1) could be similar to the capex spent on new gas-fired power generation units (Option 2). However, HKE disagrees. HKE provided a very rough capex estimate for Option 1 at HK$30bn, or US$3.8bn, taking into consideration the cost of submarine cables of 50-100km from Guangdong to Hong Kong, the cost of land and the EPC cost of other infrastructure (the actual cost will depend on the routing of transmission lines and use of overhead or submarine lines). This compares to Option 2, where we estimate four new gas-fired units with total capacity of c.1.4GW may be needed, with a total capex of c.US$1.5bn (Figure 12).

Figure 12: Generation mix and gas-fired capacity needed under both options

(bn kWh)	2013	mix %	Option 1, 2023E	mix %	Option 2, 2023E	mix %
Hong Kong						
Nuclear	9.76	21%	11.17	22%	11.17	22%
Purchase from CSG	-	0%	15.30	30%	-	0%
Gas	9.59	20%	20.40	40%	30.59	60%
Coal (& RE)	27.73	59%	4.13	8%	9.22	18%
Total	**47.08**	**100%**	**50.99**	**100%**	**50.99**	**100%**
CLP						
Nuclear	9.76	28%	11.17	29%	11.17	29%
Purchase from CSG	-	0%	9.74	26%	-	0%
Gas	5.68	16%	13.47	35%	20.12	53%
Coal (& RE)	19.41	56%	3.82	10%	6.91	18%
Total	**34.85**	**100%**	**38.20**	**100%**	**38.20**	**100%**
Gas-fired utilisation rate	26%		62%		75%	
Gas-fired capacity (MW)	2,500		2,500		3,062	
HKE						
Nuclear	0	0%	-	0%	-	0%
Purchase from CSG	0	0%	5.56	43%	-	0%
Gas	3.91	32%	6.93	54%	10.47	82%
Coal (& RE)	8.32	68%	0.30	2%	2.31	18%
Total	**12.23**	**100%**	**12.79**	**100%**	**12.79**	**100%**
Gas-fired utilisation rate	66%		77%		75%	
Gas-fired capacity (MW)	680		1,030		1,594	

Source: Company data, Deutsche Bank estimates

Regulatory regime: major change unlikely, but return cut

We expect the government to launch an official consultation on the existing electricity market regulatory framework following its decision on fuel mix in 1H15.

We do not expect a radical change in the regulatory framework for Hong Kong's power market, such as market liberalization in generation or retail competition. HK is too small and geographically constrained to introduce competition in generation. Furthermore, any liberalization of the retail markets would likely benefit large industrial and commercial users at the cost of small retail consumers with less bargaining power. CLP and HKE have both delivered high reliability and reasonably low tariffs compared to other major metropolitans under the current regime.

Decision on whether to extend current SoC agreement by end-2015

Before end-2015, the Hong Kong government will decide whether to extend the existing SoC agreement on the same terms for a further five years. Currently, we factor in a 9.99% return on average SoC net fixed assets till 2023, assuming the Hong Kong government will exercise its option to further extend the SoC agreement to 2019-2023.

However, the government may choose not to extend the SoC agreement and head into negotiations with power companies straight away in 2016 on post-2018 arrangement. Stranded cost (costs incurred which have not already been recovered as a result of a regulation change) would apply if the HK government introduces significant changes to the electricity market structure after 2018. It is also possible that a further new 10-15-year SoC arrangement can be agreed and in place after 2018, subject to negotiation.

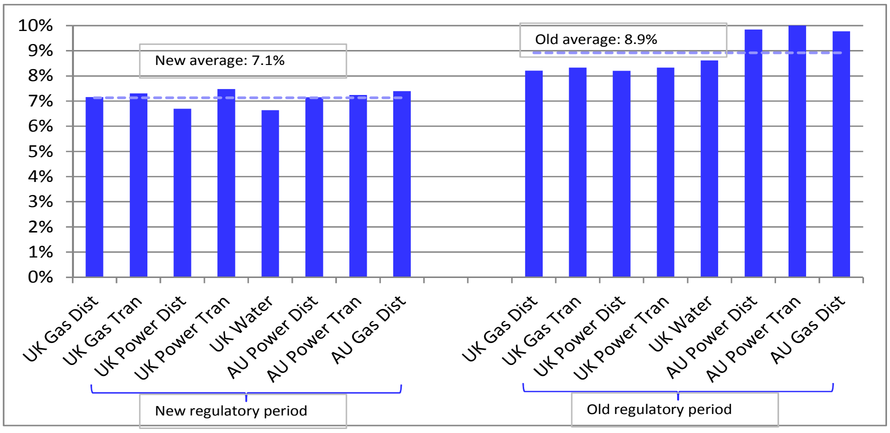
Assuming a lower WACC of 8% after 2023

We believe a continuation of the current SoC framework is a highly likely scenario. However, we assume a lower allowed return by c.2ppt from 9.99% currently to 8% for HK's power utilities after 2023. We think a lower return is justified by a lower cost of borrowing. We also believe an increasingly difficult political environment in Hong Kong, and rising net tariff from higher gas usage at higher fuel costs could eventually lead to pressure on basic tariffs.

We have taken into consideration allowed returns in UK and Australia after the regulatory resets in recent years. We make adjustment to these numbers to calculate a nominal before tax allowed WACC (the closest comparable to HK's allowed return on average net fixed assets). The average allowed WACC in nominal terms has been lowered by 1.8ppt from 8.9% to 7.1% (Figure 13), mainly as a result of lower cost of debt, coupled with a lower cost of equity.

We think our 8% assumption is reasonable, slightly higher than the c.7% average new allowed return overseas. We think this is justified given HKE and CLP also bears inflation risk, as the allowed return in Hong Kong is not linked to inflation.

Figure 13: Allowed return for UK and Australia, new vs. old regulatory period



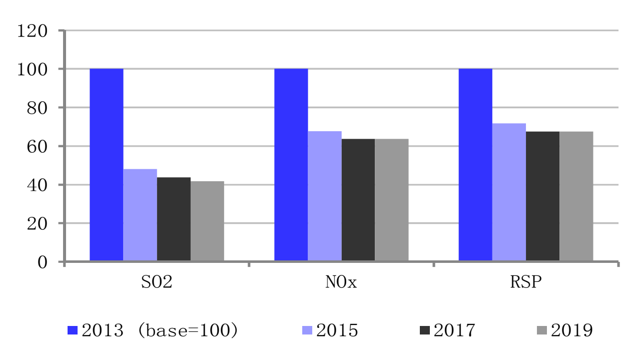
Note: We use draft determination to show new allowed return for power distribution and transmission networks in Australia.
Source: Deutsche Bank, Ofgem, Ofwat, AER

More pressure on CLP from impact of emission cap

The emission control requirements under the Air Pollution Control Ordinance have set caps on SO2, NO2 and RSP (respirable suspended particulates) from the power industry, which imply reductions in SO2 emissions by 15% in 2015, 29% in 2017 and 37% in 2019, from the 2013 level.

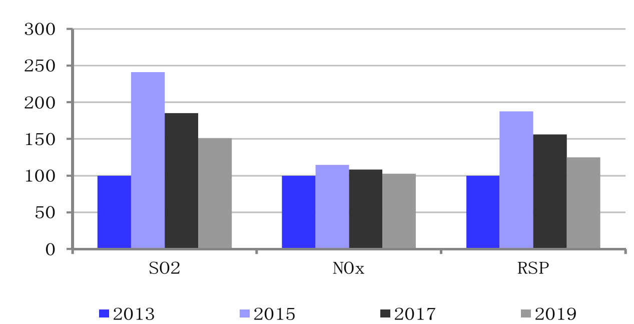
Pressure from the emission cap is greater for CLP than for HKE. We estimate that to meet the emission caps set for 2015, 2017 and 2019, CLP will have to lift its gas-fired power mix from c.16% in 2013 to c.36% in 2015, c.38% in 2017 and c.46% in 2019. We have already factored in temporarily higher nuclear power imports from Daya Bay in Q414-2018 as CLP announced, which helps lower the gas mix by about 3ppt. In contrast, HKE's actual emissions in 2013 already complied with the emission cap even for 2019; hence, we do not expect any lift in gas mix from c.32% currently.

Figure 14: Future emission cap for CLP vs. 2013



Source: Company data, Environment Bureau

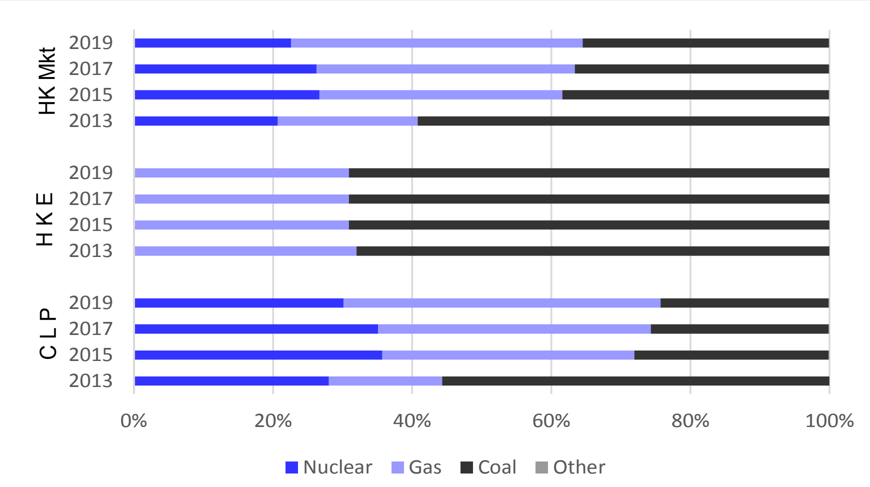
Figure 15: Future emission cap for HKE vs. 2013



Source: Company data, Environment Bureau

Combining CLP and HKE, we expect the proportion of natural gas in Hong Kong's overall generation mix (including nuclear imports) will need to be raised from c.20% in 2013 to c.35% by 2015, c.37% by 2017 and c.41% by 2019. This can be met by existing units with gas-fired utilization of CLP increasing to 77% by 2019 from 26% in 2013 and that of HKE maintained at the current level of c.65%.

Figure 16: Generation mix, 2013 actual and estimates for future years to meet emission cap



Source: Deutsche Bank estimates, company data

A higher mix from gas-fired power has put pressure on CLP to raise tariffs. The gas cost for CLP is also rising with the depletion of Yacheng gas field (a cheaper price of c.US$6/mmbtu) and increased sourcing of gas from the W-E II pipeline at higher prices (c.US$18/mmbtu). The pressure on HKE is small. HKE expects its net tariff in 2014-2018 to remain unchanged. We expect the gap between CLP and HKE to narrow in the next few years. However, if global oil price remains low or if China cut city gate gas price for W-E II, it is possible that CLP can negotiate a lower gas cost, which could alleviate the pressure on rising fuel cost.

We continue to expect a full pass-through of the higher fuel cost, although there could be a short-term squeeze in working capital via the fuel clause account. We estimate a draw down from the fuel clause account (as liabilities) by c.HK$2.0bn in 2015.

Figure 17: Fuel mix and fuel cost for CLP

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Power Generation (TWh)	35.5	35.3	34.8	35.6	35.5	35.7	36.0	36.4
Generation mix								
- Nuclear	30%	32%	28%	29%	36%	36%	35%	35%
- Coal	49%	49%	56%	56%	28%	28%	26%	26%
- Gas	18%	18%	16%	14%	35%	36%	38%	39%
- Other	4%	1%	0%	0%	0%	0%	0%	0%
Unit fuel cost								
- Coal (HK$/GJ)	31.7	29.4	25.3	24.0	24.0	24.0	24.0	24.0
- Gas (HK$/GJ)	46.1	57.2	91.8	112.8	116.2	122.0	130.6	134.5
- Gas (US$/mmbtu)	6.0	7.4	11.9	14.7	15.1	15.9	17.0	17.5
Total fuel cost (HK$ m)	8,784	10,061	9,645	10,324	14,484	15,286	17,076	17,874

Source: Company data ;Deutsche Bank estimates

Figure 18: Net tariff forecasts, HKE vs. CLP

	2012	2013	2014E	2015E	2016E	2017E	2018E
For HKE							
Net tariff (HK$/kWh)	**1.309**	**1.349**	**1.349**	**1.308**	**1.262**	**1.273**	**1.280**
yoy		**3%**	**0%**	**-3%**	**-4%**	**1%**	**1%**
- Basic tariff	0.939	0.947	1.018	1.026	1.010	1.004	1.004
yoy		1%	7%	1%	-2%	-1%	0%
- Fuel Clause Adjustment	0.370	0.402	0.331	0.323	0.279	0.279	0.279
yoy		9%	-18%	-2%	-13%	0%	0%
- Special rebates	0.000	0.000	0.000	-0.041	-0.028	-0.010	-0.004
yoy		NA	NA	NA	-32%	-63%	-63%
Tariff Stabilisation Fund (HK$ m)	425	36	630	704	700	701	705
Fuel clause account liability/(assets) (HK$ m)	-820	-1	564	1,032	1,032	1,032	1,032
For CLP							
Net tariff (HK$/kWh)	**0.987**	**1.049**	**1.108**	**1.142**	**1.184**	**1.240**	**1.310**
yoy		**6%**	**6%**	**3%**	**4%**	**5%**	**6%**
- Basic tariff	0.842	0.842	0.884	0.872	0.884	0.890	0.890
yoy		-	5%	-1%	1%	1%	0%
- Fuel Clause Adjustment	0.178	0.224	0.224	0.270	0.300	0.350	0.420
yoy		26%	0%	21%	11%	17%	20%
Tariff Stabilisation Fund (HK$ m)	712	19	1,121	921	787	690	532
Fuel clause account liability/(assets) (HK$ m)	-337	1,464	2,966	901	-850	-2,594	-2,598

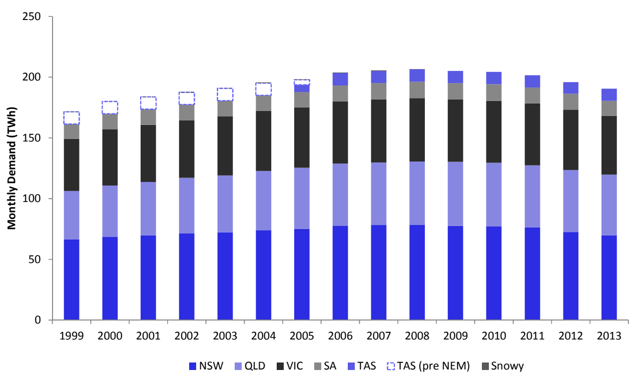
Source: Company data Deutsche Bank estimates

Australia: still tough

Australia wholesale: in the right direction, but slowly

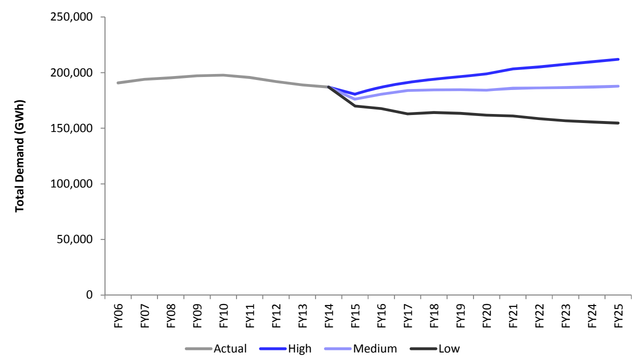
The Australian power utilities business has gone through a tough period, with falling power demand due to lower manufacturing activity, solar PV uptake, energy efficiency measures by retail consumers, the now abolished carbon tax and mild weather conditions. Australian's market operator AEMO now forecasts broadly flat electricity demand.

Figure 19: NEM electricity demand by state



Source: AEMO, Deutsche Bank Australian Utilities Research

Figure 20: NEM electricity demand forecasts



Source: AEMO, Deutsche Bank Australian Utilities Research

The weak demand resulted in oversupply and fragile wholesale prices (ex-carbon). But the situation is improving. Wholesale prices have risen in recent months in the face of flat demand (although still low compared to historical average), supported by supply-side discipline. Our Australian utilities team counts seven power stations that have been either closed, mothballed or decommissioned recently, equating to c.2.7GW or c.5% of total NEM capacity. The team has also identified a further 4.5GW of capacity at risk of closure, which is towards the end of its useful life and is higher on the cost curve.

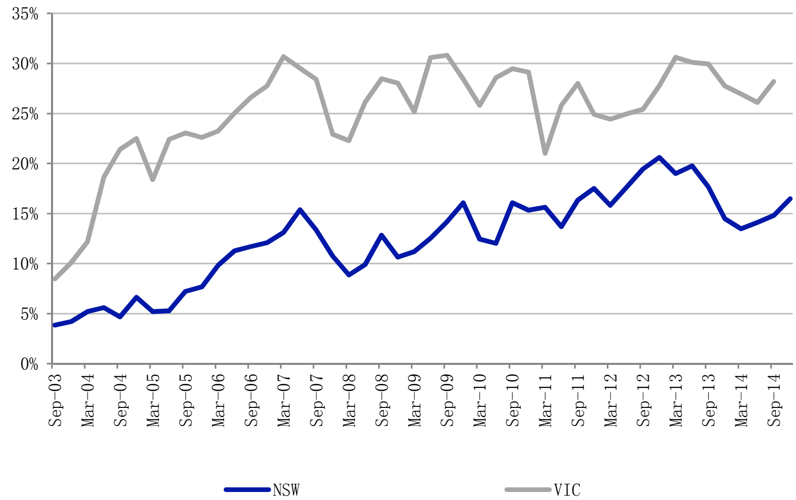
However, the restoration of a power supply and demand balance will be a gradual process, as the ability of suppliers to react quickly to falling demand is constrained. The start-up of grid-powered LNG projects in QLD will drive demand (and price) increases in that state in 2015 (possibly with a flow on effect to NSW and beyond), but CLP has no generation assets in QLD.

Australia retail: improvement pending billing system integration

The worst is over for the energy retail business in Australia, but the operating environment remains challenging with competition still intense and the pricing discounts continuing to weigh on a soft market.

The NSW Government removed the regulation of retail electricity prices as from 1 July 2014, meaning that retail prices can be set by a competitive market, rather than by a regulator. This allows larger tariff hikes and higher margin for retailers, but also coupled with increased competition and, potentially, a higher market churn rate.

Figure 21: Quarterly annualized churn rate for Victoria and NSW



Source: AEMO, Deutsche Bank

Apart from industry issues, a recovery in CLP's retail business also depends on the successful integration of its retail billing system. CLP launched a new retail billing system (C1) in September 2012 to streamline a number of legacy customer service systems previously employed and to improve customer service. However, the C1 system incurred implementation problems, which resulted in extra costs in the past couple of years. CLP experienced 2.3% yoy and 0.5% yoy declines in electricity and gas retail customer numbers, respectively, in 2014 (especially in 1H14 pending stabilization and integration of the C1 system and due to strong competition).

CLP has been focusing on stabilizing its C1 system and has made good progress. Recently, CLP successfully transitioned over to C1 1.2m customers accounts acquired in NSW in 2011; these accounts had previously been serviced by Ausgrid. Once CLP successfully completes the integration program, we expect the company to focus on winning new customers and gaining market share. CLP aims to reduce total retail cost to serve by A$100m from the 2013 level in 2016 after the C1 integration completes. We assume about A$30m of such cost saving will show up in 2015.

CLP's Australian strategy

Management said at the result announcement that its key focus in Australia is on restoring value to existing assets, and is unlikely to go after new investment there. It will continue to focus on cost saving in the challenging market.

Regarding the media report by Australian Financial Review (AFR) on 11 February 2015 claiming CLP is considering a break-up of its EnergyAustralia business: management commented that it views Australia as CLP's long-term business and adopts an integrated business model owning both generation and retail businesses. The company has brought on board a new management team in EnergyAustralia and is evaluating its strategy there. The company keeps all options open, such as the closure of Wallerawang Power Station in NSW in Nov 2014. The company is also looking at opportunities to sell down some of its interest in Waterloo wind farm.

We think a potential split of the NSW and VIC retail businesses, as mentioned by AFR, is unlikely and does not make sense, because this would mean losing the economies of scale from serving more customers on the same billing system, reducing the cost per customer.

FY 14 results review and earnings forecasts

CLP announced its FY14 results at midday on 26 February. Reported net profit was up 85% yoy, to HK$11.2bn. Stripping out one-offs (mainly the HK$1.9bn net gain on the CAPCO and PSDC acquisitions in Hong Kong, HK$1.5bn Narrabri coal seam gas impairment loss and HK$0.5bn tax credit gain in Australia), recurring earnings were up 8% yoy to HK$10.1bn. The earnings growth was mainly due to increased stake in CAPCO, and improved profitability at its Indian and Australian operations, partly offset by lower contributions from Mainland China.

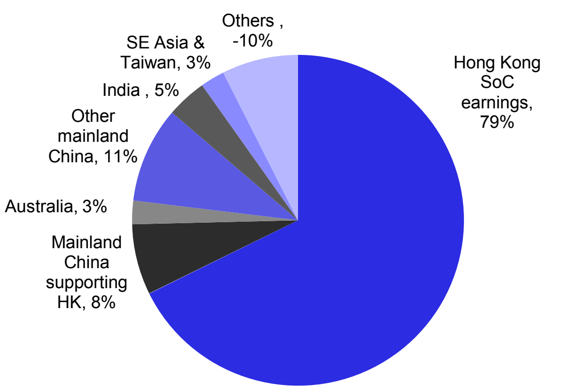
We expect stable core earnings growth of c.6% in 2015-17 with increased stake in CAPCO from May 2014, growth from China and recovery in its India business. For Australia, in particular, we expect earnings to drop in 2015, with removal of carbon compensation from July 2014 negatively affecting earnings in 1H15. This should be followed by an earnings rebound in 2016, with full cost savings of A$100m after integrating the billing system in Australia. Our earnings forecasts also allow for further depreciation of AUD of 14% in 2015.

Figure 22: Recurring earnings breakdown by country

	2013	2014	2015E	2016E	2017E
Hong Kong	7,074	7,782	8,487	8,733	8,926
yoy		10%	9%	3%	2%
Mainland China	2,131	1,579	2,040	2,079	2,182
yoy		-26%	29%	2%	5%
India	184	270	490	585	678
yoy		47%	82%	19%	16%
SE Asia & Taiwan	241	297	297	297	297
yoy		23%	0%	0%	0%
Australia	126	756	287	631	847
yoy		500%	-62%	119%	34%
Unallocated expenses	(449)	(622)	(932)	(1,004)	(1,094)
Total recurring earnings	**9,307**	**10,062**	**10,670**	**11,322**	**11,837**
yoy		8%	6%	6%	5%
One off items	(3,247)	1,159	-	-	-
Total reported earnings	**6,060**	**11,221**	**10,670**	**11,322**	**11,837**
yoy		85%	-5%	6%	5%

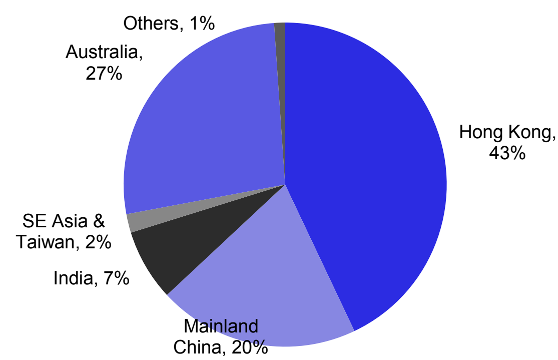
Source: Deutsche Bank estimates, Company data

Figure 23: Earnings mix by region (2015E)



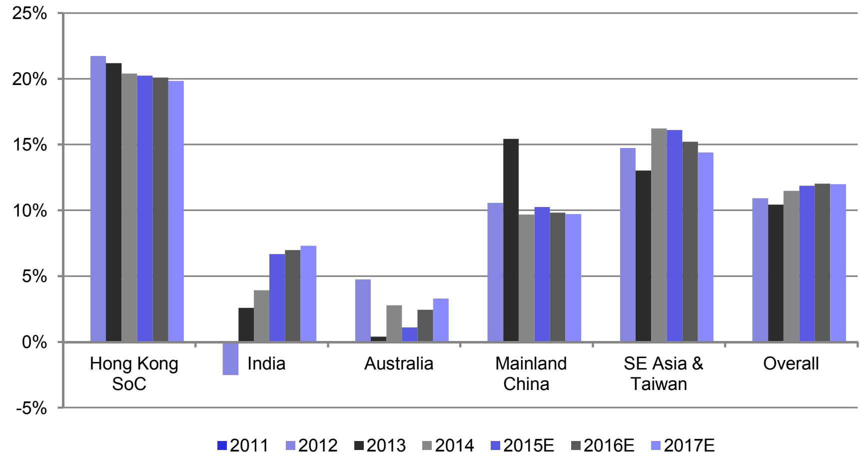
Source: Deutsche Bank estimates

Figure 24: Net assets mix by region (end-2014)



Source: Company data

Figure 25: ROE by country



Note: ROE for each country is calculated by using segment recurring net profits by average segmental net assets
Source: Deutsche Bank estimates, Company data

Hong Kong

Earnings from Hong Kong were up 10% yoy, to HK$7.8bn in 2014. Growth was driven mainly by the c.7.5 months' contribution from the 30% higher stake in CAPCO (completed on 12 May 2014) and a higher net fixed assets balance (permitted return is 9.99% of average net fixed assets). Capex in FY14 was HK$7.8bn (HK$5.6bn from CLP Power and HK$2.2bn from CAPCO).

- Electricity sales volume in Hong Kong was up 3.6% yoy, to 32,925GWh, driven mainly by a higher heating and dehumidifying load in 1Q14 and a greater cooling load in summer.
- Peak demand also increased, by 3.9% yoy, to 7,030MW (vs. the previous peak demand record of 6,769MW in 2012), which translates into a generation reserve margin of 26.4%.

We expect higher earnings from Hong Kong in 2015, with increased stakes in CAPCO and continuous capex under SoC. With HK$34bn capex approved in the 2014-18 development plan, we expect an organic earnings increase of 2-3% for SoC earnings (including 100% of CAPCO, in which CLP now owns 70% stake, and 100% of CLP Power Hong Kong).

Australia

Recurring earnings contributions from the Australia business recovered from the trough of HK$126m in 2013 to HK$756m in 2014. The increase was driven largely by lower depreciation (reduced asset base after impairment in 2013), lower finance costs and lower operating expenses (market expenses and cost savings from Wallerawang closure), partially offset by lower customer accounts and the impact of removal of carbon tax compensations.

We expect operating earnings to decline in 1H15 in Australia, mainly due to the repeal of the carbon tax. The Australian government has repealed the carbon tax, effective 1 July 2014. The repeal of carbon tax is fundamentally positive for CLP as its generation fleet has a higher-than-market-average carbon intensity and should be more profitable in the absence of a price on carbon longer term. However, this will have a negative impact on near-term earnings as the carbon permits to support carbon payments for 2014-16 will no longer occur (indeed, the loss of support payments should exceed the generation earnings increase). We expect the removal of carbon compensation to have a net negative impact on EBITDA of c.HK$550m in 1H15.

Company management warned at the result announcement that the carry value of generation assets may be at risk if the oversupply in the wholesale market is sustained. We think this implies that impairment charge is possible in this case. We have not factored in any one-off impairment charge in our forecasts.

We have factored in cost savings of A$30m and A$100m from a successful transition to the new C1 retail billing system in 2015 and 2016, respectively. The company's management is guiding for cost savings of c.A$100m p.a. in 2016 after the billing system is fully implemented during 2015. Such cost savings should be driven by the elimination of the relatively high-cost Transitional Service Agreement (TSA) associated with the previous acquisition in NSW, reduction of bad debt and economies of scale/synergies.

Figure 26: Recurring earnings forecasts for CLP's Australian business

Australia recurring earnings (HK$ m)	
2013 earnings	**126**
Removal of carbon compensation	(385)
Lower D&A following impairment in Dec 2013	463
Lower financing costs from refinancing	410
Other cost savings of retail and wholesale business	204
AUD depreciation and others	(62)
2014 earnings	**756**
Removal of carbon compensation	(385)
Cost saving from C1 integration	84
AUD depreciation and others	(168)
2015E earnings	**287**
Cost saving from C1 integration	239
Improvement from customer gain	104
2016E earnings	**631**

Source: Company data, Deutsche Bank estimates

India

The India business contributed earnings of HK$270m in FY14, up 47% yoy, mainly driven by improving performance from the Jhajjar project (average availability at 80% in FY14, the minimum level required for the full payment of capacity charges, vs. 63% in FY13). The earnings increase was offset partly by lower earnings from the Paguthan gas-fired power project after the renegotiation of the PPA in November 2013.

Although the Indian Government has taken steps to improve domestic coal supply, management expects it may take another 2-3 years before Jhajjar can rely on domestic coal supply for generation. In the near term, CLP will continue to secure more coal supplies through import. Currently, CLP is in discussion with Government to increase the proportion of imported coal from 35% to 50%.

For the Paguthan gas-fired power plant, the India Government has raised the gas price and will revise the price based on international indices every six months in future, management anticipates this will help enhance gas availability.

CLP also intends to construct a coal-fired power plant at Paguthan's existing site. CLP has signed a Memorandum of Understanding with the Government of Gujarat in this regard. However, a final investment decision will only be made after it obtains all environmental approvals and puts in place commercial contracts relating to offtake and fuel supply.

We forecast operating earnings to increase in 2015-16, driven by wind power capacity expansion and debt pay down.

China

Recurring earnings from power business in mainland China were down 26% yoy to HK$1,579m. This is because the Fangchenggang coal-fired power plant recorded a 48% earnings decline, due to the expiration of income tax credits, on-grid tariff reduction and lower utilization rate (due to good water flow for hydropower) in 2014.

In addition, Shenmu and Guohua have been classified as other current assets instead of joint ventures. Although the disposal agreement lapsed recently, CLP still cannot book attributable earnings from them in 2014 from an accounting perspective. CLP is still looking at opportunities to divest the JVs. But before a concrete deal emerges, we expect CLP to "reacquire" these assets as joint ventures, which can help earnings growth from China in 2015.

These are offset partly by 29% yoy higher earnings from the Daya Bay nuclear project, driven by better operational performance under the revised commercial terms after renewal of JV contracts in May 2014. However, Daya Bay enjoyed a full VAT refund for all of its power sales to Guangdong Grid, which accounts for 20-30% of its generation. This preferential treatment expired at end-2014, and there is a risk that CGN may not receive an extension (we assume a 50% rebate from 2015). In addition, Daya Bay enjoys a three-year preferential tax rate of 15% as a high-tech enterprise. This rate was renewed in 2014 but might fail to be renewed upon its next expiration in 2017. We assume standard tax rate of 25% from 2017 onward following our forecasts for CGN.

Earnings growth from 2016 onward should be mainly driven by the addition of renewable capacity and the expansion of 2x660MW coal-fired units at Fangchenggang, which were approved in May 2014 and are scheduled to commission around mid-2016. However, we expect Fangchenggang II to face utilization rate risk when commissioned, based on our provincial demand-supply analysis for Guangxi province.

In 2015/16/17, we estimate that the total installed capacity in Guangxi will increase by 10.2%/12.1%/4.5%, contributed mainly by thermal and nuclear power plants. In our view, compared with power demand growth of 6.0% p.a., the excessive capacity growth will result in significant oversupply in 2016-17, while the high hydro generation mix (47% in 11M14) will increase the volatility in thermal utilization. See our F.I.T.T. report *"Nuclear Power Generation in China – risk reality check"* published on 7 January 2015.

Southeast Asia and Taiwan

Recurring earnings from Southeast Asia and Taiwan were up 23% yoy, to HK$297m, due to the absence of the penalty imposed on Ho-Ping in 2013, and better generation output from the solar farm project in Thailand.

We expect stable earnings in Southeast Asia and Taiwan. CLP is still negotiating key contracts with the Vietnam government for the 1,320MW Vung Ang II project and the 1,800MW Vinh Tan III project. No investment decision has been made yet. However, we think CLP may not invest in both projects and may choose to sell the development rights to third parties.

Deutsche Bank vs. consensus

Our earnings and DPS forecasts for 2015-16 are largely in line with consensus.

Figure 27: Deutsche Bank versus consensus

	Reported net profits		Recurring net profits		Recurring EPS (HK$)		DPS (HK$)	
HK$ m	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
DB	10,670	11,322	10,670	11,322	4.22	4.48	2.70	2.79
Consensus	11,044	11,628	11,016	11,496	4.34	4.51	2.70	2.74
Diff vs. consensus	-3%	-3%	-3%	-2%	-3%	-1%	0%	2%

Source: Deutsche Bank estimates, Bloomberg Finance LP

Figure 28: CLP income statement summary

Summary P&L (HK$m)	2012	2013	2014	2015E	2016E	2017E
Revenue	**104,861**	**104,530**	**92,259**	**90,836**	**90,857**	**93,972**
HK, mainly from SoC	33,897	34,192	35,634	40,610	41,943	44,181
Power outside HK	70,964	70,338	56,625	50,226	48,915	49,791
Operating Expenses	**(83,310)**	**(82,494)**	**(69,334)**	**(68,746)**	**(67,211)**	**(69,238)**
HK SoC	(19,651)	(19,321)	(19,474)	(24,421)	(25,307)	(27,195)
Power outside HK	(63,153)	(62,741)	(49,664)	(44,120)	(41,693)	(41,825)
Unallocated expenses	(506)	(432)	(196)	(205)	(212)	(218)
EBITDA	**21,551**	**22,036**	**22,925**	**22,090**	**23,646**	**24,734**
Depreciation	(7,021)	(7,592)	(6,791)	(6,814)	(7,165)	(7,461)
Net Interest	(3,366)	(3,596)	(3,128)	(3,160)	(3,331)	(3,375)
Share of Assoc & JC	2,984	3,283	2,358	2,189	2,217	2,222
Lease payment	(2,735)	(2,753)	(921)	-	-	-
One-off items, pre-tax	(1,429)	(5,538)	(1,239)	-	-	-
Profit Before Tax	**9,984**	**5,840**	**13,204**	**14,305**	**15,368**	**16,121**
Tax	(1,692)	232	(1,268)	(2,401)	(2,786)	(3,002)
PAT	**8,292**	**6,072**	**11,936**	**11,904**	**12,582**	**13,118**
minority interest	20	(12)	(563)	(988)	(1,014)	(1,036)
Perpetual capital securities	0	0	(152)	(246)	(246)	(246)
Net Profit	**8,312**	**6,060**	**11,221**	**10,670**	**11,322**	**11,837**
Recurring earnings	**9,406**	**9,307**	**10,062**	**10,670**	**11,322**	**11,837**
YoY	-9%	-1%	8%	6%	6%	5%
Ratios						
Issued shares (m)	2,526	2,526	2,526	2,526	2,526	2,526
Weighted average shares (m)	2,410	2,526	2,526	2,526	2,526	2,526
EPS (HK$/share)	3.45	2.40	4.44	4.22	4.48	4.69
Recurring EPS (HK$/share)	**3.90**	**3.68**	**3.98**	**4.22**	**4.48**	**4.69**
YoY	-9%	-6%	8%	6%	6%	5%
DPS (HK$/share)	2.49	2.57	2.62	2.70	2.79	3.05
YoY	-1%	3%	2%	3%	3%	9%
Div. Payout on recurring earnings	64%	70%	66%	64%	62%	65%

Source: Deutsche Bank estimates, company data

Figure 29: CLP balance sheet and cash flow statement

Balance Sheet (HK$ m)	2012	2013	2014	2015E	2016E	2017E
Long Term Assets	**191,603**	**184,966**	**189,138**	**196,629**	**202,644**	**208,702**
Fixed Assets	134,329	128,682	133,829	140,497	144,822	148,239
Goodwill	28,479	23,847	31,129	31,129	31,129	31,129
Investment in JC & Assoc.	21,053	21,615	11,962	12,786	13,626	14,521
Fuel Clause Account	337	0	0	0	850	2,594
Other	7,405	10,822	12,218	12,218	12,218	12,218
Current Assets	**37,153**	**26,719**	**25,525**	**25,129**	**26,117**	**26,915**
Cash	13,026	5,233	4,393	4,312	5,296	5,404
Inventory	1,667	1,482	3,618	3,562	3,563	3,685
Receivables	20,543	18,950	16,805	16,546	16,550	17,117
Other including derivatives	1,917	1,054	709	709	709	709
Current Liabilities	**37,448**	**35,132**	**37,408**	**36,261**	**34,915**	**34,767**
Customer Deposits	4,420	4,506	4,653	4,653	4,653	4,653
Short Term Debt (and current portion LT)	6,895	7,118	9,636	8,672	7,805	7,025
Taxation Payable	233	141	790	790	790	790
Trade and Other Payables	21,732	19,325	21,619	21,436	20,957	21,589
Derivatives	4,168	4,042	710	710	710	710
Long Term Liabilities	**100,107**	**89,072**	**81,296**	**85,653**	**89,669**	**91,826**
LT Loans & Other Borrowings	59,303	48,933	57,799	63,219	66,874	67,624
Deferred Tax	8,370	8,548	13,418	14,618	16,011	17,512
Tariff Stabilisation Fund	712	19	1,121	921	787	690
Rate Reduction Reserve	8	9	10	13	15	17
Fuel Clause Account	0	1,464	2,966	901	0	0
Obligation under finance lease and others	31,714	30,099	5,982	5,982	5,982	5,982
Minority Interest	**74**	**120**	**2,155**	**2,140**	**2,124**	**2,108**
Perpetual Capital Securities	0	0	5,791	5,791	5,791	5,791
Shareholders' equity	**91,127**	**87,361**	**88,013**	**91,913**	**96,262**	**101,125**
Balance Sheet Ratios						
BVPS (HK$ per share)	37.8	34.6	37.1	38.7	40.4	42.3
Total Debt	66,198	56,051	67,435	71,891	74,679	74,649
Net Debt	53,172	50,818	63,042	67,579	69,383	69,245
Net Debt to total capital, incl. MI and perpetual	37%	37%	40%	40%	40%	39%
Net debt / Equity, incl. MI and perpetual	58%	58%	66%	68%	67%	64%

Cashflow Statement (HK$ m)	2012	2013	2014	2015E	2016E	2017E
EBITDA	**21,551**	**22,036**	**22,925**	**22,090**	**23,646**	**24,734**
Adjustments	3,012	(2,039)	(11,444)	132	(483)	(58)
Less SoC rebates	(125)	1,801	2,522	(2,263)	(1,882)	(1,840)
Less lease payment	(2,735)	(2,753)	(921)	0	0	0
Tax paid	(804)	(982)	(549)	(1,200)	(1,393)	(1,501)
Net interest paid	(3,312)	(2,890)	(3,364)	(3,395)	(3,578)	(3,627)
Cashflow from Operations	**17,587**	**15,173**	**9,169**	**15,363**	**16,310**	**17,708**
Investing Cashflow	**(8,130)**	**(7,134)**	**(14,249)**	**(11,881)**	**(9,865)**	**(9,299)**
Capex (net of disposals)	(8,792)	(8,204)	(10,671)	(13,247)	(11,243)	(10,625)
Investment in JC / assoc / purchase	(479)	569	(13,510)	0	0	0
Purchase of Investments / Securities	0	21	0	0	0	0
Dividends received (inc. property proceeds)	2,270	2,738	1,427	1,366	1,377	1,327
Other	(1,129)	(2,258)	8,506	0	0	0
Financing Cashflow	**(297)**	**(15,832)**	**4,240**	**(3,564)**	**(5,460)**	**(8,301)**
Net Proceeds from borrowing	584	(6,789)	6,568	4,456	2,788	(30)
Share issuance/(repurchase)	7,556	0	0	0	0	0
Divs Paid	(6,135)	(6,497)	(6,569)	(6,770)	(6,973)	(6,973)
Divs paid to Perpetual Securities' holder	0	0	(152)	(246)	(246)	(246)
Repayment of obligation under finance lease	(2,302)	(2,546)	0	0	0	0
Others	0	0	4,392	(1,003)	(1,029)	(1,052)
Net Cashflow	**9,160**	**(7,793)**	**(840)**	**(81)**	**984**	**108**

Note: Cash flow statement in 2014 is our estimates pending disclosure from annual report.
Source: Deutsche Bank estimates, company data

Appendix 1

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Additional information available upon request

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Company	Ticker	Recent price*	Disclosure
CLP Holdings	0002.HK	69.30 (HKD) 26 Feb 15	14,17

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Data is sourced from Deutsche Bank and subject companies.

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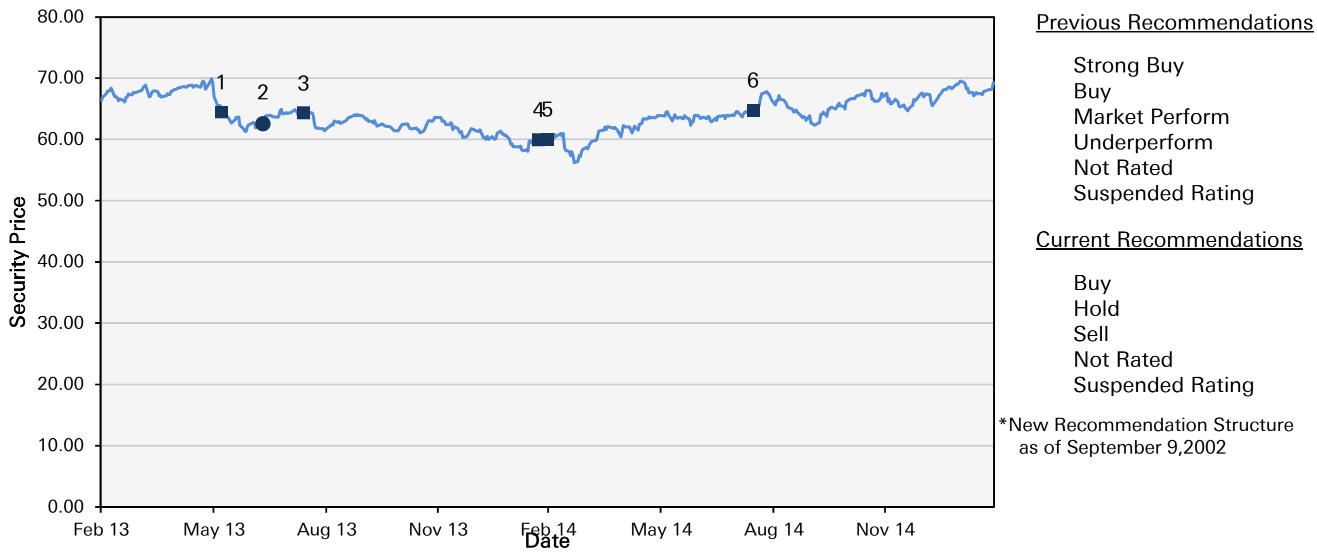
Historical recommendations and target price: CLP Holdings (0002.HK)

(as of 2/26/2015)



1.	06/06/2013:	Buy, Target Price Change HKD70.00	4.	20/02/2014:	Hold, Target Price Change HKD58.10
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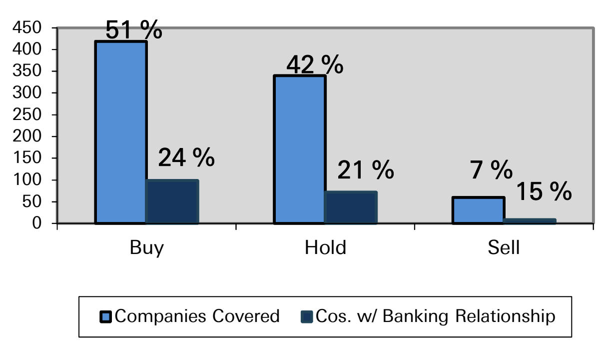
Equity rating dispersion and banking relationships



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