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EAST ASIA SECURITIES COMPANY LIMITED
9/F, 10 Des Voeux Road Central, Hong Kong.
Dealing: 2308 8200 Research: 3608 8096 Facsimile: 3608 6132

HONG KONG RESEARCH
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Analyst: Carmen Wong

HUTCHISON WHAMPOA LIMITED (和記黃埔)

Sector	:	Conglomerates
HKSE Code	:	00013
Market Price	:	HK$107.30 (02/03/2015)
HSI	:	24,887.44 (02/03/2015)
Shares Issued	:	4,263.37 million
Market Cap.	:	HK$457,460 million
52-week Hi / Lo	:	HK$108.50 / HK$85.90

Chairman	:	Dr. LI Ka-shing
Deputy Chairman	:	Mr LI Tzar Kuoi, Victor

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2014

Final Results Highlights

	2014 HK$ millions	2013 HK$ millions	*y-o-y Changes*
• Turnover (including share of associates and jointly controlled entities)	421,472	412,933	*2.1%*
• Property revaluation after tax	25,100	32	*78337.5%*
• Profit on disposal of investments and others after tax	10,048	52	*19223.1%*
• **Profit before property revaluation and disposal of investments**	**32,008**	**31,028**	***3.2%***
• Interest and other finance costs	(8,050)	(8,391)	*(4.1%)*
• **Profit attributable to shareholders**	**67,156**	**31,112**	***115.9%***
	HK$	HK$	
• Earnings per share	15.75	7.30	*115.8%*
• Dividend per share – final	1.755	1.70	*3.2%*
• Dividend per share – full-year	2.415	2.30	*5.0%*
• Dividend per share – special	7.00	--	*N/A*

- Hutchison Whampoa ("HWL" or the "Group") reported a 115.9% year-on-year increase in profit attributable to shareholders for the year ended 31st December 2014. Stripping out the after-tax profits of investment property revaluation and disposal gain of investments, underlying profit attributable to shareholders grew 3.2% year-on-year in 2014, in-line with market expectations.

- Profits on disposal of investments and others of HK$10,048 million included the Group's share of the gain arising from the separate listing of its Hong Kong electricity business, Power Assets Holdings Limited ("Power Assets") in January 2014, which was partly offset by i) the provisions of HK$3,388 million relating to the restructuring of 3 Ireland on acquisition of O_2 Ireland; ii) an operating losses of HK$1,732 million for its 50% share of Vodafone Hutchison Australia ("VHA"); as well as iii) the impairment charge of HK$1,413 million on crude oil and natural gas assets of Husky Energy.

- Earnings per share jumped 115.8% year-on-year to HK$15.75, against HK$7.30 in 2013. Underlying earnings per share (excluding investment property revaluation gains and gains on disposal of investments) increased by 3.2% year-on-year to HK$7.51.

- As at 31st December 2014, the consolidated net debt was reduced from HK$121.04 billion a year ago to HK$106.41 billion. Net debt to net total capital ratio declined to 16.8%, compared with 20.0% at the end of 2013.

- HWL declared a final dividend of HK$1.755 per share, an increase of 3.2% year-on-year. Together with an interim dividend of HK$0.66 per share (1H13: HK$0.60 per share), full-year dividend amounted to HK$2.415 per share (2013: HK$2.30 per share). Payout ratio based on underlying earnings per share slightly improved from 31.6% in 2013 to 32.2% in 2014. In addition, the Group distributed special dividend of HK$7.00 per share, following its sales of 24.95% equity interest in A.S. Watson Holdings Limited to Temasek in April 2014.

- **Breakdown of turnover by business segments:**

HK$ million	2014	%	2013	%	y-o-y Change
Ports and related services	35,624	8.5%	34,119	8.3%	*4.4%*
Property and hotels	16,069	3.8%	24,264	5.9%	*(33.8%)*
Retail	157,397	37.3%	149,147	36.1%	*5.5%*
Cheung Kong Infrastructure	45,419	10.8%	42,460	10.3%	*7.0%*
Husky Energy	57,368	13.6%	59,481	14.4%	*(3.6%)*
Hutchison Telecommunications Hong Kong Holdings	16,296	3.9%	12,777	3.1%	*27.5%*
Hutchison Asia Telecommunications	5,757	1.4%	6,295	1.5%	*(8.5%)*
Finance and investments and others	21,919	5.2%	22,414	5.4%	*(2.2%)*
3 Group Europe	65,623	15.6%	61,976	15.0%	*5.9%*
Total	**421,472**	**100.0%**	**412,933**	**100.0%**	*2.1%*

- **Breakdown of EBITDA by business segments:**

HK$ million	2014	%	2013	%	y-o-y Change
Ports and related services	12,133	*12.3%*	11,447	*12.0%*	*6.0%*
Property and hotels	9,998	*10.1%*	13,995	*14.6%*	*(28.6%)*
Retail	15,549	*15.7%*	14,158	*14.8%*	*9.8%*
Cheung Kong Infrastructure	24,483	*24.8%*	22,841	*23.9%*	*7.2%*
Husky Energy	14,410	*14.6%*	14,779	*15.5%*	*(2.5%)*
Hutchison Telecommunications Hong Kong Holdings	2,780	*2.8%*	2,758	*2.9%*	*0.8%*
Hutchison Asia Telecommunications	(278)	*(0.3%)*	819	*0.9%*	*(133.9%)*
Finance and investments and others	4,200	*4.2%*	2,179	*2.3%*	*92.7%*
3 Group Europe	15,598	*15.8%*	12,671	*13.2%*	*23.1%*
Reconciliation item	0	*0.0%*	0	*0.0%*	*N/A*
Total EBITDA before the following:	98,873	*100.0%*	95,647	*100.0%*	*3.4%*
Profits on disposal of investments	22,791		1,889		*1106.5%*
Non-controlling interests' share of #HPH Trusts' EBITDA	644		634		*1.6%*
Total EBITDA	**122,308**		**98,170**		*24.6%*

(#): "HPH Trust" represents Hutchison Port Holdings Trust

- Revenue from **ports and related services** increased by 4.4% year-on-year to HK$35,624 million, as the total throughput rose 6% year-on-year to 82.9 million twenty-foot-equivalent units ("TUE"). EBITDA was up 6.0% against the same period last year, primarily due to the strong performances in the Europe and China segments and its tighter control over operating costs during the year.

- Rental income of the **property and hotels** division grew 6% year-on-year on positive rental reversions. Yet, revenue and EBITDA of the division tumbled by 33.8% and 28.6% year-on-year respectively, dragged by lower property development sales and deferrals in the completion of development projects in China to 2015. In 2014, HWL recorded contracted sales on attributable interest of approximately 3.6 million square feet (vs. 2013 contracted sales of 6.4 million square feet and 2014 contracted sales target of 10.4 million square feet) of developed projects, primarily in China. The significant decline was mainly dragged by slower property sales in Tier 1 and Tier 2 cities in China.

- The **retail** division reported a turnover increase of 5.5% and EBITDA growth of 9.8%, thanks to new store openings (+8.1% year-on-year to 11,435 stores) and steady comparable store sales growth (+2.3% year-on-year) in 2014 which offset a lower contribution from AS Watson following the reduced stake of the Group from 100% to 75.05% since April 2014. From geographical perspective, revenue from Asia (including China) and Europe grew 9% and 6% year-on-year respectively, but this was partly offset by sales decline of other retail businesses in Hong Kong (includeing PARKnSHOP, Fortress, Watsons Wine and manufacturing operations for water and beverage businesses in Hong Kong). In particular, health and beauty stores in China recorded a 17.2% year-on-year EBITDA growth in 2014 and delivered a decent same-store-sales growth of 3.9% in 2014 (versus 0.6% in 2013).

- **Cheung Kong Infrastructure ("CKI")** reported a 7.2% year-on-year EBITDA growth in 2014, driven by the full-year profit contribution from the businesses acquired in 2013 (including Enviro Waste Services Limited and AVRAfvalverwerking B.V.) as well as the accretive income from its new businesses acquired during 2014 (including Park'N Fly being acquired in July 2014 and Australian Gas Networks Limited being acquired in October 2014).

- HWL's associated company, **Husky Energy**, reported a 3.6% and 2.5% yearly decrease in revenue and EBITDA in 2014 respectively, dragged by a sharp decline in crude oil prices in 4Q14 which fully offset its better performances reported in the first half of 2014 and its higher production during the year. Average production in 2014 was 340,100 barrels of oil equivalent per day, an increase of 9.0% year-on-year.

- Revenue of **Hutchison Telecommunications Hong Kong ("HTHKH")** grew 27.5% year-on-year, while EBITDA edged up by merely 0.8% from a year earlier. The muted EBITDA growth was mainly attributable to the weak performance of its mobile segment amid keen price competition in 1H14. Total active mobile customers in Hong Kong and Macau amounted to 3.2 million as at 31st December 2014, a decrease of 15% year-on-year.

- Revenue of **Hutchison Asia Telecommunications ("HAT")** fell 8.5% year-on-year, with LBITDA of HK$278 million in 2014 (vs. EBITDA of HK$819 million in 2013), mainly dragged by the disappointing results of its Indonesia operation. Total number of active customers increased by 25% from a year ago to 54.5 million.

- **3 Group Europe** showed a solid EBITDA growth of 23.1% year-on-year, thanks to better performances in the UK (+31% year-on-year), Sweden (+17% year-on-year), Denmark (+3% year-on-year), Austria (+35% year-on-year) and Ireland (+700% year-on-year). The significant improved results in Austria and Ireland reflected the realization of post-merger cost synergies. Yet, average revenue per user ("ARPU") of 3 Group Europe slightly declined by 1.3% year-on-year to Eur 20.86 in 2014.

Outlook & Prospect

- **Telecommunications:** HWL announced that 3 UK had been in talk with Telefonica to acquire O_2 UK at consideration of HK$120 billion, which is expected to be completed by 1H16. Upon the consolidation, the combined entity will become the biggest mobile operation in the UK with 32 million customers. On the other hand, 3 Italia has also resumed talks with Vimpelcom for a merger with

Wind Telecom. The two potential mergers in the UK and Italy are expected to be positive catalysts for its telecommunication division.

- **Port**: The Group targets to add and commence operations at five new berths in 2015 including i) two additional new berths at Dammam, Saudi Arabia; ii) two additional new berths at Barcelona, Spain; and iii) an additional berth at Felixstowe in the UK. The sector may see a stable outlook in 2015, given continuing economic growth in the US which will partly offset by slower growth in Europe and China.

- **Retail**: In the light of the short payback period for its retail businesses in China and Europe (less than 10 months), HWL expects to accelerate its store opening plans from 854 stores (net) in 2014 to 1,000 stores (net) in 2015, bringing its total number of stores to more than 12,400 by the end of this year. Separately, although the IPO of AS Watson was shelved following the direct sale of 25% stake to Temasek in April 2014, market expected that AS Watson might be potentially listed in the next 12 to 24 months which serves as a positive catalyst for the Group.

- **Property**: Its property sector may continue to be under pressure, as HWL decided not to be the price leader to cut prices, in order to preserve its profit margin. Instead, the Group intends to hold the inventory for better selling prices.

- **Energy**: Amid the current challenging market conditions, Husky Energy will act prudently on capital management to maintain a strong balance sheet and liquidity. Operationally, there will be a few key projects underway including i) Sunrise Energy Project in Canada which is expected to begin production towards the end of 1Q15 and ii) heavy oil thermal development projects in Canada which will commence production in 2015 to 2016.

- **Infrastructure**: While growth of the division will continue to be driven by its organic growth, the Group will look for opportunities to expand its portfolio by acquiring businesses with strong recurrent returns. In January 2015, a CKI-led joint-venture with Cheung Kong entered into an agreement to acquire Eversholt Rail Group in the UK, a major rolling stock operating company in the UK.

- **Restructuring plan to be the major focus in the medium term**. Cheung Kong and HWL will undergo a restructuring plan, at which the former will cease to be the holding company of HWL. Instead, two new companies, namely CK Hutchison Holdings (the new conglomerate company taking over all non-property businesses) and Cheung Kong Property (focusing on the property businesses of both Cheung Kong and HWL) will be formed. The reorganization is expected to be completed by June 2015. The restructuring plan is seen to be beneficial to Cheung Kong and HWL, as the restructuring can eliminate the holding company discount as well as provide greater transparency and business coherence. Furthermore, as guided by Management, the combined per share dividend of CK Hutchison Holdings and Cheung Kong Property in 2015 is expected to be more than the total dividend per share paid by Cheung and HWL in 2014. Dividend payout ratio for 2016 will also be higher than that for 2015.

- **Valuation**: HWL is currently trading at an undemanding valuation of 14.2x 2015E P/E and 1.0x 2015E P/B, against its long-term average of 12.4x P/E and 0.9x P/B. We think its current valuation remains attractive in view of value accretion from the restructuring plan and inorganic growth through more overseas acquisitions. Key downside risks include i) unfavourable changes in regulations of the telecom industry in Europe; ii) weaker-than-expected property rentals or prices; iii) volatility in oil prices and iv) deterioration of trade flows for its port operation.

Recommendation: Buy

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