



Rating  
**Hold**

Asia  
Hong Kong

Utilities  
Utilities

Company  
**CLP Holdings**

Reuters 0002.HK    Bloomberg 2 HK    Exchange HSI    Ticker 0002

Date  
26 February 2018

## Results

Price at 23 Feb 2018 (HKD)	77.45
Price target - 12mth (HKD)	80.00
52-week range (HKD)	85.30 - 75.35
HANG SENG INDEX	31,267

## Solid FY17 results but in-line dividend and unattractive yield; Hold

### Solid FY17 results but in-line dividend and unattractive yield

CLP reported solid FY17 results during lunch time on 26 Feb, beating consensus by 4% on Australia and India. CLP declared in-line FY17 dividend of HKD2.9/sh (up 4% yoy), indicating a payout ratio of 55% (based on recurring earnings) and a dividend yield of 3.7% in 2017. With a rising outlook for the US treasury yield and CLP trading at only 0.97 ppt above US 10-year treasury yield (lower than historical average of 1.71 ppt) on a 12-month forward basis, we believe CLP is fully valued. Maintain Hold.

### Solid FY17 earnings with surprises from Australia and India

Stripping out one-offs (HKD573m of reversal of tax provision and HKD369m of property revaluation), recurring profit was up 8% yoy to HKD13.3bn, 4% above consensus (6% above DBE). Major surprises were from Australia (+48% yoy) and India (+38% yoy). ACOI (Adjusted Current Operating Income) from the wholesales business in Australia in 2H17 rose by 145% HoH to HKD2.1bn (after stripping out the impacts from fair value changes), driven by high wholesale prices and high availability factor. Earnings from India were stronger than expected on better operating efficiency and higher utilization of Jhajjar, steady performance of Paguthan and lower interest cost. The company expects the availability of Jhajjar to exceed 80% by March 2018, recovering from an extended planned maintenance outage in 1H17. Hong Kong and HK-related business represented 66% of CLP's operating earnings in 2017, followed by Australia (20%) and Mainland China (9%). CLP incurred capex of HKD15.3bn in 2017 (up from 10.9bn in 2016) and free cashflow was HKD22.9bn in 2017 (flat compared to HKD22.5bn in 2016).

### Key takeaways from the briefing

Management mentioned that the Australia business has achieved its value restoration target: having its ROIC reaching its WACC for FY17. Management believes that there is further upside for the Australia business in 2018 compared to 2017, driven by Mount Piper. Long-term plan remains unchanged on the IPO of the Australia business, although there is no detailed timeline and the near-term focus is still on the value restoration.

Management plans to keep Mainland China and India to be CLP's major growth markets in the longer term. In India, CLP will continue to focus on transmission projects, and is open to distribution projects if the government allows private investment in the sector. The current power purchase agreement (PPA) for Paguthan will expire in December 2018. Management does not expect the PPA

### Valuation & Risks

Thomas Zhu, CFA

Research Analyst  
+852-2203 6235

Michael Tong, CFA

Research Analyst  
+852-2203 6167

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.2	-3.4	-1.0
HANG SENG INDEX	-5.1	5.2	29.7

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	11.5
Net debt/equity (%)	44.8
Book value/share (HKD)	43.08
Price/book (x)	1.8
Net interest cover (x)	9.1
Operating profit margin (%)	20.4

Source: Deutsche Bank



to be extended in its current form beyond 2018. CLP is exploring various options including the prospect of merchant sales.

Management refused to provide dividend guidance for 2018/19 but highlighted the company history of having sustainable and prudent dividend growth for most of the time.

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (HKDm)	80,700	79,434	84,596	85,617	86,903
EBITDA (HKDm)	22,485	23,614	24,257	24,104	22,670
Reported NPAT (HKDm)	15,670	12,711	12,277	12,960	11,849
Reported EPS FD(HKD)	6.202	5.031	4.859	5.130	4.690
DB EPS FD (HKD)	4.565	4.882	4.970	5.130	4.690
OLD DB EPS FD (HKD)					
% Change					
DB EPS growth (%)	14.6	6.9	1.8	3.2	-8.6
PER (x)	14.6	15.2	15.6	15.1	16.5
Price/BV (x)	1.7	1.7	1.8	1.7	1.7
EV/EBITDA (x)	9.3	9.8	9.8	9.6	10.2
DPS (net) (HKD)	2.700	2.770	2.920	3.030	3.030
Yield (net) (%)	4.1	3.7	3.8	3.9	3.9
ROE (%)	16.3	12.5	11.5	11.6	10.2

Source: Deutsche Bank estimates, company data



Model updated: 02 January 2018

## Running the numbers

Asia

Hong Kong

Utilities

## CLP Holdings

Reuters: 0002.HK

Bloomberg: 2 HK

## Hold

Price (23 Feb 18) HKD 77.45

Target Price HKD 80.00

52 Week range HKD 75.35 - 85.30

Market cap (m) HKDm 195,674  
USDm 25,011

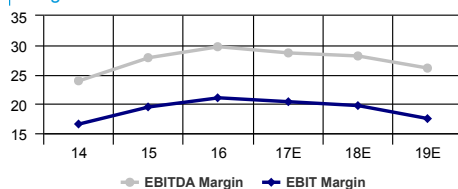
## Company Profile

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

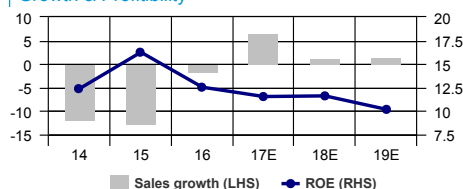
## Price Performance



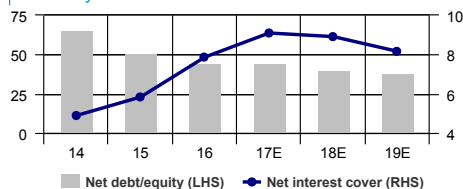
## Margin Trends



## Growth &amp; Profitability



## Solvency



Thomas Zhu, CFA

+852 2203 6235

thomas.zhu@db.com

Fiscal year end 31-Dec

2014

2015

2016

2017E

2018E

2019E

## Financial Summary

DB EPS (HKD)	3.98	4.56	4.88	4.97	5.13	4.69
Reported EPS (HKD)	4.44	6.20	5.03	4.86	5.13	4.69
DPS (HKD)	2.62	2.70	2.77	2.92	3.03	3.03
BVPS (HKD)	37.1	39.1	41.1	43.1	45.2	46.9
Weighted average shares (m)	2,526	2,526	2,526	2,526	2,526	2,526
Average market cap (HKDm)	159,680	168,089	187,032	195,674	195,674	195,674
Enterprise value (HKDm)	212,718	209,581	231,058	236,545	232,516	230,318

## Valuation Metrics

P/E (DB) (x)	15.9	14.6	15.2	15.6	15.1	16.5
P/E (Reported) (x)	14.2	10.7	14.7	15.9	15.1	16.5
P/BV (x)	1.81	1.68	1.73	1.80	1.71	1.65
FCF Yield (%)	nm	9.6	7.1	3.0	6.0	5.0
Dividend Yield (%)	4.1	4.1	3.7	3.8	3.9	3.9
EV/Sales (x)	2.3	2.6	2.9	2.8	2.7	2.7
EV/EBITDA (x)	9.6	9.3	9.8	9.8	9.6	10.2
EV/EBIT (x)	13.9	13.3	13.8	13.7	13.8	15.2

## Income Statement (HKDm)

Sales revenue	92,259	80,700	79,434	84,596	85,617	86,903
Gross profit	22,078	22,485	23,614	24,257	24,104	22,670
EBITDA	22,078	22,485	23,614	24,257	24,104	22,670
Depreciation	6,791	6,765	6,909	7,028	7,232	7,470
Amortisation	0	0	0	0	0	0
EBIT	15,287	15,720	16,705	17,229	16,872	15,199
Net interest income/(expense)	-3,128	-2,694	-2,122	-1,893	-1,892	-1,862
Associates/affiliates	2,358	2,530	1,815	1,364	2,153	2,305
Exceptionals/extraordinary	-392	4,789	267	-280	0	0
Other pre-tax income/(expense)	-921	0	-2	0	0	0
Profit before tax	13,204	20,345	16,663	16,421	17,133	15,643
Income tax expense	1,268	3,582	2,855	3,070	3,122	2,849
Minorities	563	846	850	991	968	861
Other post-tax income/(expense)	-152	-247	-247	-83	-83	-83
Net profit	11,221	15,670	12,711	12,277	12,960	11,849
DB adjustments (including dilution)	-1,159	-4,137	-377	280	0	0
DB Net profit	10,062	11,533	12,334	12,557	12,960	11,849

## Cash Flow (HKDm)

Cash flow from operations	20,018	18,405	23,498	21,422	21,417	19,829
Net Capex	-20,677	-2,335	-10,243	-15,573	-9,610	-10,052
Free cash flow	-659	16,070	13,255	5,849	11,807	9,777
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-6,569	-6,695	-6,973	-7,226	-7,529	-7,655
Net inc/(dec) in borrowings	7,893	-8,769	-4,189	-572	-1,399	-1,410
Other investing/financing cash flows	-11,026	10,646	-593	-5,442	133	416
Net cash flow	-10,361	11,252	1,500	-7,391	3,013	1,128
Change in working capital	1,353	-1,491	1,739	-628	-1,351	-1,850

## Balance Sheet (HKDm)

Cash and other liquid assets	4,393	3,799	4,667	1,471	3,127	2,725
Tangible fixed assets	133,829	133,343	135,633	138,762	140,380	142,195
Goodwill/intangible assets	31,129	28,257	27,653	27,653	27,653	0
Associates/investments	11,962	12,035	10,784	16,506	17,466	18,404
Other assets	33,350	26,530	27,241	28,117	28,346	58,283
Total assets	214,663	203,964	205,978	212,510	216,971	221,607
Interest bearing debt	67,435	55,483	51,646	51,074	49,675	48,264
Other liabilities	51,269	47,549	48,559	50,622	51,061	52,919
Total liabilities	118,704	103,032	100,205	101,696	100,735	101,184
Shareholders' equity	93,804	98,909	103,801	108,852	114,283	118,477
Minorities	2,155	2,023	1,972	1,962	1,953	1,947
Total shareholders' equity	95,959	100,932	105,773	110,814	116,236	120,424
Net debt	63,042	51,684	46,979	49,603	46,548	45,539

## Key Company Metrics

Sales growth (%)	-11.7	-12.5	-1.6	6.5	1.2	1.5
DB EPS growth (%)	8.1	14.6	6.9	1.8	3.2	-8.6
EBITDA Margin (%)	23.9	27.9	29.7	28.7	28.2	26.1
EBIT Margin (%)	16.6	19.5	21.0	20.4	19.7	17.5
Payout ratio (%)	59.0	43.5	55.1	60.1	59.1	64.6
ROE (%)	12.4	16.3	12.5	11.5	11.6	10.2
Capex/sales (%)	22.4	2.9	12.9	18.4	11.2	11.6
Capex/depreciation (x)	3.0	0.3	1.5	2.2	1.3	1.3
Net debt/equity (%)	65.7	51.2	44.4	44.8	40.0	37.8
Net interest cover (x)	4.9	5.8	7.9	9.1	8.9	8.2

Source: Company data, Deutsche Securities estimates



# Investment Thesis

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## Outlook

We have a Hold rating on CLP - we like CLP's defensive HK SoC business, but see pressure from the rising US bond yield outlook. CLP has the lowest exposure to foreign currency depreciation, with the majority of its earnings from HK. We expect CLP's core earnings to peak in 2018, with a CAGR of -2% in 2017-19, driven by full-year profit contribution from Yangjiang in 2018 and lower SoC returns in 2019. CLP's dividend yield spread over US 10-year treasury yield is in line with its historical average, which we think is fair in the current macro environment but may be insufficient if the US raises interest rates.

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## 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% (CoD 3.34%, CoE 6.13%, 0.70 beta and 2.70% risk free rate). We have adopted DCF for Mainland business supporting the HK (WACC of 6.0%) and India business (WACC of 11.0%), and multiple-based approaches (P/B, EV/EBITDA) for valuing the other businesses.

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## Risks

Key upside/downside risks: 1) higher-/lower-than-expected cost reduction and margins for the Australian business; 2) higher-/lower-than-expected earnings from CLP's Indian investments; 3) stronger-/weaker-than-expected renminbi, Indian rupee or Australian dollar; and 4) lower-/higher-than-expected bond yields.



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
CLP Holdings	0002.HK	77.45 (HKD) 23 Feb 2018	14, 15

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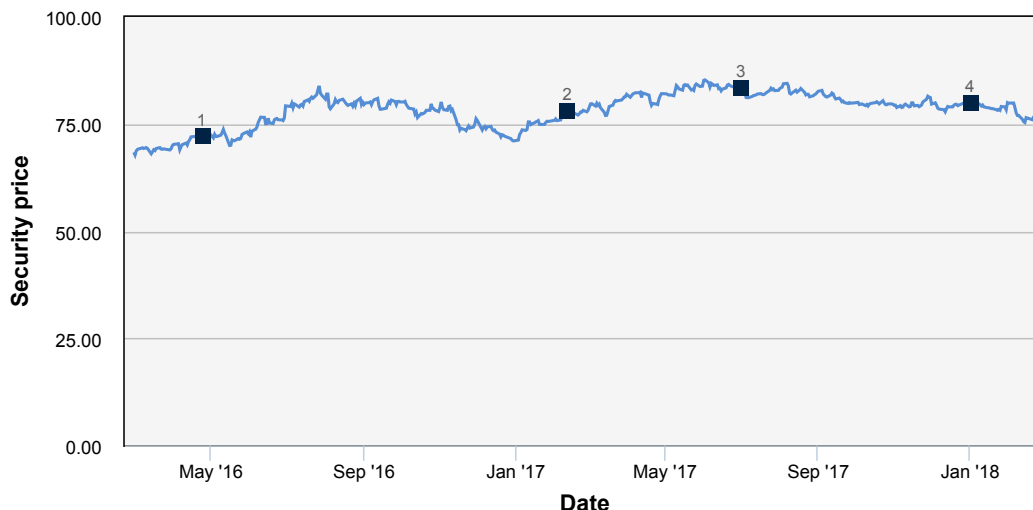
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Historical recommendations and target price. CLP Holdings (0002.HK)

(as of 02/23/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	04/25/2016	Hold, Target Price Change HKD 73,00 Mengyi Zhang	3.	07/02/2017	Hold, Target Price Change HKD 77,00 Thomas Zhu, CFA
2.	02/12/2017	Hold, Target Price Change HKD 74,00 Thomas Zhu, CFA	4.	01/02/2018	Hold, Target Price Change HKD 80,00 Thomas Zhu, CFA

Equity Rating Key

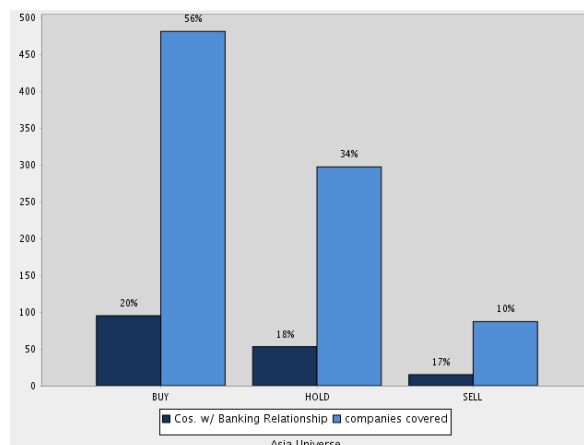
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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## David Folkerts-Landau

Group Chief Economist and Global Head of Research

Raj Hindocha  
Global Chief Operating Officer  
Research

Michael Spencer  
Head of APAC Research  
Global Head of Economics

Steve Pollard  
Head of Americas Research  
Global Head of Equity Research

Anthony Klarman  
Global Head of  
Debt Research

Paul Reynolds  
Head of EMEA  
Equity Research

Dave Clark  
Head of APAC  
Equity Research

Pam Finelli  
Global Head of  
Equity Derivatives Research

Andreas Neubauer  
Head of Research - Germany

Spyros Mesomeris  
Global Head of Quantitative  
and QIS Research

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### International Production Locations

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Mainzer Landstrasse 11-17  
60329 Frankfurt am Main  
Germany  
Tel: (49) 69 910 00

#### Deutsche Bank AG

Filiale Hongkong  
International Commerce Centre,  
1 Austin Road West, Kowloon,  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6770

#### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

#### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500

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