



## Company Report: CLP Holdings (00002 HK)

公司报告: 中电控股 (00002 HK)

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# Stable Earnings Outlook, Initiate With "Accumulate"

稳定的盈利前景，首次覆盖为“收集”

- **CLP Holdings' (the "Group" or "CLP") primary business in Hong Kong is robust with stable earnings predictability.** The Group's Hong Kong earnings growth was at a CAGR of 1.8% during 2008-2017. CLP's earnings stability is due to 15-year SoC agreements, in which the newest policy will run until 2033. We expect CLP's overall performance to remain stable, underpinned by strength in its Hong Kong business.
- **Growth markets in India and mainland China, as well as renewed quality in CLP's Australian assets, could open avenues for growth.** During 2016-2025, IEA estimates in electricity demand to grow at a CAGR of 6.1% and 3.1% in India and China, respectively. Improvements to CLP's Australian business are ahead of schedule; we expect higher earnings contribution over our forecast period.
- **Global energy policies are shifting away from coal-fired power toward cleaner burning natural gas and renewable-based sources.** 51.4% of CLP's generation (equity and CPA) capacity is coal-fired. New capacity additions will most likely come from gas-fired and renewable sources as coal-fired generation continues to fall out of favor.
- **We initiate our coverage with a TP of HK\$86.00 and investment rating "Accumulate".** The TP represents 13.8x/14.5x/13.9x 2018E-2020E PER and corresponds to 1.7x/1.6x/1.5x 2018E-2020E PBR. Reliable yields, earnings growth potential, and a relatively attractive valuation make CLP a good defensive play.
- **中电控股（“CLP”或“公司”）的主要香港业务稳健，盈利预测稳定。**公司于2008年至2017年的香港盈利按1.8%的年复合增长率增长。公司香港盈利的稳定性是由于其15年的长期政策SoC协议，而新的协议将延续至2033年。我们预计由于其香港业务的实力，整体业务表现将保持稳定。
- **印度和中国大陆的市场以及公司的澳大利亚资产质量的提升都可能为公司的业绩增长的途径。**在2016至2025年间，国际能源署预计印度和中国的电力需求复合增长率分别为6.1%和3.1%。公司对澳大利亚业务的改善提前实现，我们预计在预测期内澳大利亚板块对公司的收益贡献会提高。
- **全球能源政策正在从火电转向更清洁的气电和可再生能源。**公司51.4%的权益装机容量是火电。由于火电继续失宠，我们预期新增产能可能来自天然气和可再生能源。
- **首次覆盖并给予“收集”投资评级以及目标价86.00港元。**目标价相当于13.8倍/14.5倍/13.9倍2018年至2020年市盈率，相当于1.7倍/1.6倍/1.5倍2018至2020年市净率。稳定的收益率，盈利增长潜力以及比较吸引的估值使得公司成为好的防御性投资选择。

Rating:

**Accumulate**

Initial

评级:

收集 (首次覆盖)

6-18m TP目标价:

**HK\$86.00**

Share price 股价:

HK\$80.950

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	1.4	6.5	(3.9)
Rel. % to HSI Index 相对恒指变动 %	(1.2)	6.5	(26.7)
Avg. share price (HK\$) 平均股价 (港元)	81.3	79.7	79.2

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(HKD m)	(HKD m)	(HKD)	(Δ %)	(x)	(HKD)	(x)	(HKD)	(%)	(%)
2016A	79,434	12,711	5.030	(18.9)	16.1	41.866	1.9	2.800	3.5	13.3
2017A	92,073	14,249	5.640	12.1	14.4	48.094	1.7	2.910	3.6	13.8
2018F	95,248	15,703	6.216	10.2	13.0	51.634	1.6	3.056	3.8	13.9
2019F	98,130	15,029	5.949	(4.3)	13.6	54.728	1.5	3.178	3.9	12.5
2020F	100,533	15,597	6.173	3.8	13.1	57.914	1.4	3.318	4.1	12.2
Shares in issue (m) 总股数 (m)				2,526.5	Major shareholder 大股东			The Hon Sir Michael Kadoorie	19.03%	
Market cap. (HK\$ m) 市值 (HK\$ m)				204,516.2	Free float (%) 自由流通比率 (%)					71.4
3 month average vol. 3 个月平均成交股数 ('000)				2,776.8	FY18 Net gearing (%) FY18 净负债/股东资金 (%)					48.0
52 Weeks high/low (HK\$) 52 周高/低				85.500/75.050	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)					101.5

Source: the Company, Guotai Junan International.

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## Industry Overview

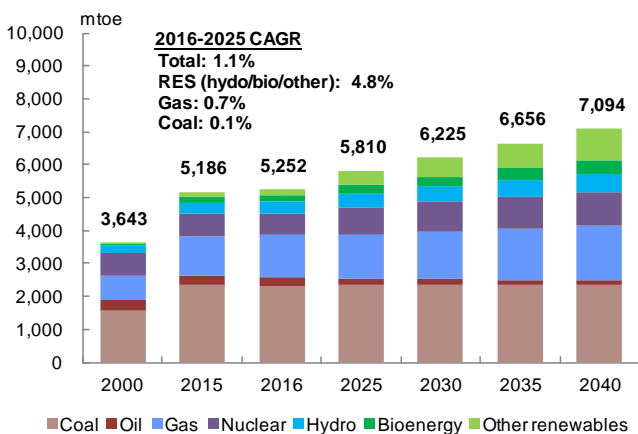
**Global GDP is estimated to grow 3.9%/3.9%/3.8% in 2018/2019/2020, respectively.** According to the International Monetary Fund's (IMF) latest World Economic Outlook (April 2018), Global GDP in 2017 grew 3.8%, up 0.6 pts from 2016. The growth forecasts remain largely unchanged from the IMF's estimates in January. Asian countries are expected to grow most over the next few years, with China and India expected to lead the pack. Overall economic conditions are optimistic, with synchronized growth momentum in emerging economies and advanced nations expected to continue in the near term.

## International Electricity Markets

**The Asia-Pacific region overwhelmingly contributes the most to estimated electricity demand growth, accounting for 1,305 TWh or 69.5% of total demand growth during 2016-2025.** During 2000-2016, global electricity consumption grew at a CAGR of 3.1%, from 13,199 TWh to 21,375 TWh. From 2016-2025, the International Energy Agency ("IEA") expects global electricity demand to increase at a CAGR of 2.1%, rising to 25,861 TWh by 2025. Developing economies in Asia Pacific are expected to drive growth in electricity demand, with India and Southeast Asia to grow at CAGRs of 6.1% and 4.2% over the same period, respectively. China's electricity demand is forecast to grow at a CAGR of 3.1% over the same period.

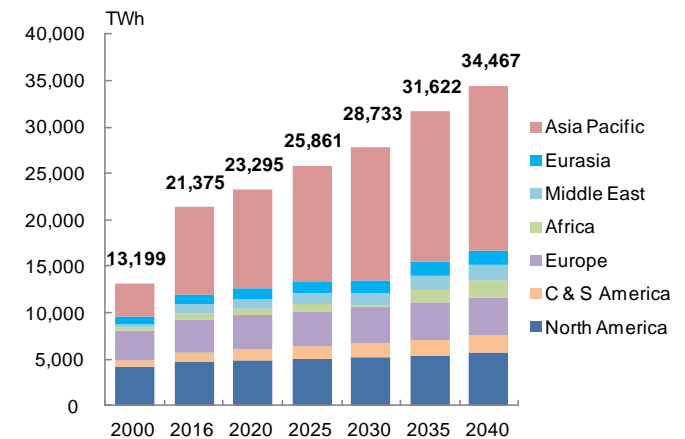
**Energy demand growth for power generation is expected to be dominated by RES.** According to IEA's World Energy Outlook 2017, under its New Policies Scenario ("NPS"), from 2016-2025, total demand, RES demand, gas demand, and coal energy demand growth for power generation is expected to grow at CAGRs of 1.1%, 4.8%, 0.7%, and 0.1%, respectively. In line with energy demand, total power generation is estimated to grow at a CAGR of 2.0% over the same period, with power generation by RES, gas and coal expected to grow at CAGRs of 5.0%, 1.6%, and 0.5%, respectively. RES is expected to account for 378 mtoe or 67.7% of overall growth in energy demand for power generation over the same period. Demand for Nuclear and gas energy is expected to account for 158 mtoe and 83 mtoe of energy demand growth, respectively, representing 28.3% and 14.9% of overall growth over the same period. RES power generation is expected to overtake that of coal before 2030, and is the only source of power generation that is expected to overtake coal over the forecast period by 2040.

**Figure-1: Primary Energy Demand for Power Generation by Fuel, 2000-2040, NPS**



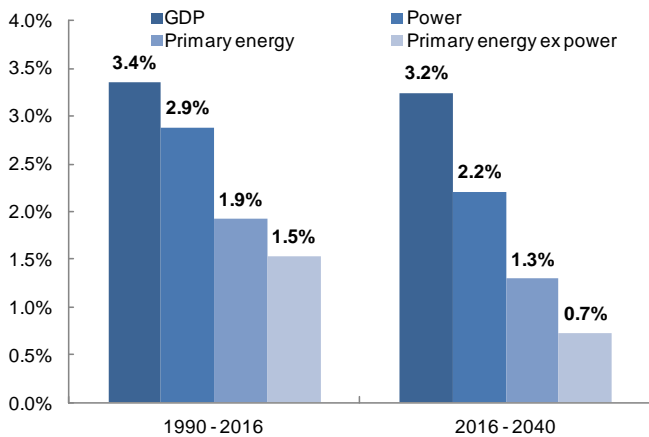
Source: IEA World Energy Outlook 2017.

**Figure-2: Electricity Demand by Region, 2000-2040, NPS**



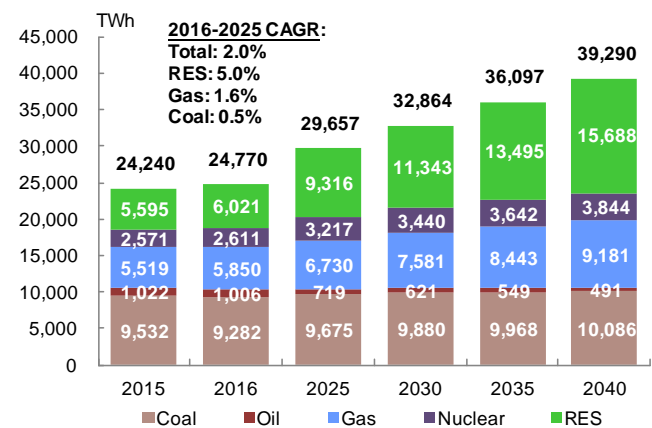
Source: IEA World Energy Outlook 2017.

Figure-3: Annual Growth of GDP, Power, and Primary Energy, 1990-2016 & 2016-2040



Source: BP Energy Outlook 2018.

Figure-4: Total Power Generation by Fuel, 2015-2040, NPS



Source: IEA World Energy Outlook 2017.

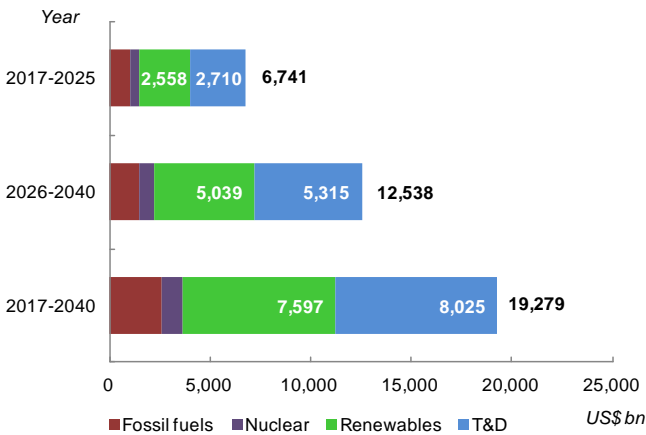
The relationship between GDP growth and electricity demand is expected to weaken due to efficiency gains and a transition of economic configuration in emerging economies. While electricity demand is expected to grow steadily over the forecast period, efficiency gains at the end-use stage of electricity demand are expected to weaken the relationship between GDP growth and power demand through 2040. Additionally, transition of emerging economies from industry-focused towards more service-oriented economies is expected to drive the decoupling of economic growth and electricity generation as well.

### Electricity Investment

Global electricity investment in 2016 dropped slightly by less than 1% to US\$ 718 bn as increased spending in distribution networks offset a decrease in power generation investment. New RES capacity investment remained the largest area of spending at USD 297 billion, down 3% YoY. Due to declines in unit costs and technology improvements in solar PV and wind, capacity additions and expected output are 50% and 35% higher despite RES dollar investment being down 3% from five years ago. Final investment decisions (“FID”) for new coal-fired plants dropped significantly, declining 20 GW from a year ago to 40 GW, mostly due to continued decline in investment in China, although investment in India grew.

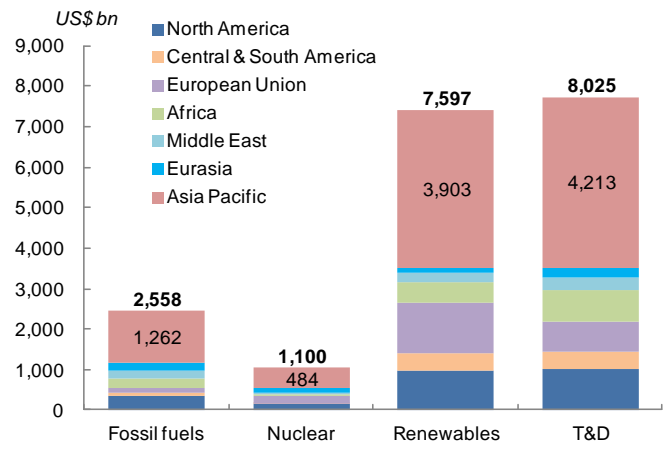
RES and transmission and distribution (“T&D”) future investments are expected to account for 39.4% and 41.6% of total power sector investment to 2040, equivalent to US\$ 7,597 bn and US\$ 8,025 bn over a 23 year period, respectively. IEA’s average annualized power sector investment projections for 2017-2040 represent US\$ 111 bn, US\$ 48 bn, US\$ 330 bn, US\$ 349 bn for fossil fuels, nuclear, RES, and T&D, respectively. China and India will account for the largest portions of investment, approximately US\$ 4,467 bn and US\$ 2,336 bn, or 23.2% and 12.1% of total projected investment by 2040. RES investment is expected to rise even as unit cost for solar PV continues to fall, which we expect to accelerate the capacity buildup for RES as long as grid integration is sufficient; hence, significant portions of the even larger estimates for T&D investment will be targeted to improve the current curtailment and overall utilization issues of RES power generation. Fossil fuel investment will be primarily focused on increasing gas-fired power generation, with certain emerging countries and countries with a lack of stable and cheap source of natural gas, such as India, expected to build up coal-fired capacity over the forecast period.

**Figure-5: Cumulative Investments in the Global Power Sector by Type, 2017-2040**



Source: IEA World Energy Outlook 2017.

**Figure-6: Cumulative Investments in the Power Sector by Region and Type, 2017-2040**



Source: IEA World Energy Outlook 2017.

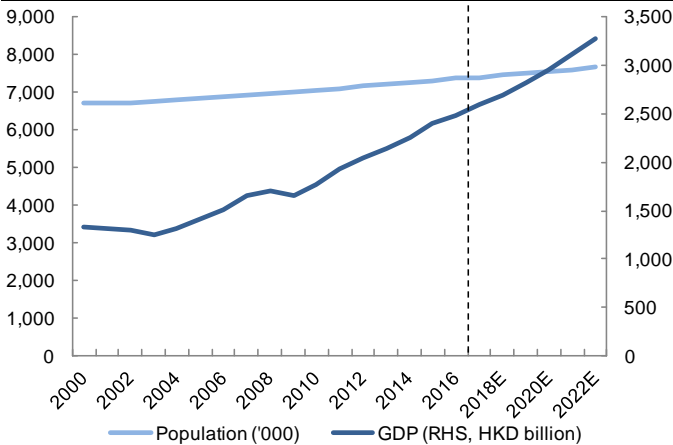
**Public policy will continue to drive electricity supply investment.** In 2016, 94% of global power generation investment was made by companies operating under fully regulated revenue schemes. In China, 21% or approximately USD 145 billion of total investment in the global electricity sector in 2016 was generated, where public policy continues to be the driving force. In July 2017, China's National Energy Administration ("NEA") issued the "13<sup>th</sup> Five-Year Plan Implementation Guidance" for RES, which aims to add a cumulative 110.4GW and 86.5GW of wind and solar capacity from 2017-2020, respectively. This would mean a 65.4% increase from China's total wind power generation capacity of 168.7GW in 2016 and a 111.8% increase in solar PV capacity from 77.4GW in 2016; which also represents the 4-year CAGR for China's wind and solar PV capacity of 13.4% and 20.6%, respectively. In Hong Kong, the government has entered into long-term contracts with the two utilities companies that allow for a fixed return on average net fixed assets, which impacts the level of investment to be expected. In Australia, the electricity market is regulated by the Australian Energy Regulator ("AER") in accordance to the "National Electricity Rules", and the COAG Energy Council issues the 15-year "National Energy Productivity Plan", which provides guidance for new energy investment.

### Hong Kong Electricity Market

**The IMF estimates Hong Kong's GDP to grow at a 5-year CAGR of 3.1% from 2018-2023; electricity consumption is likely to remain flat.** Population growth is estimated by the Census and Statistics Department of Hong Kong ("C&SD") to remain near historical rates, growing at a CAGR of 0.6% from 2017-2023, similar to the historical CAGR of 0.6% for 2000-2017. Despite some population growth, electricity consumption has remained nearly flat, with a CAGR of 0.1% during 2005-2017. This is primarily due to a lack of energy intensive industries and the majority of demand from commercial use, where 64.0% of total electricity in 2017 was consumed. Over the forecast period 2017-2023, we expect electricity consumption to remain flat due to efficiency gains; however, a transition towards a more gas-fired generation is underway in Hong Kong, which adds a degree of uncertainty as the possibility of rising electricity prices in Hong Kong could increase.

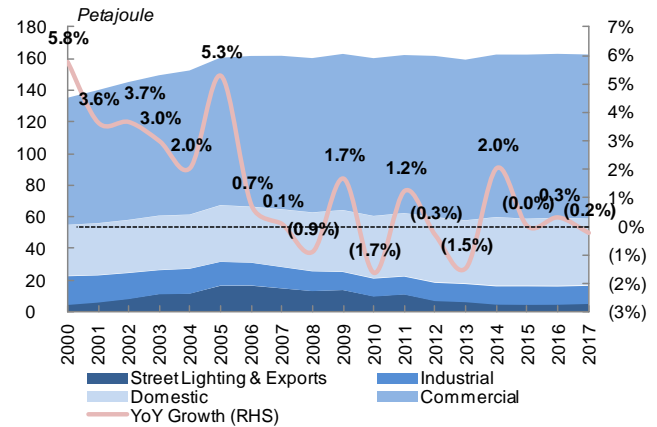
**Hong Kong's "Climate Action Plan 2030+", published by the Environment Bureau, aims to achieve a reduction in energy intensity of 65%-70% from 2005 levels by 2030.** In accordance with the Paris Agreement, the Environment Bureau plans to reduce coal use in the fuel mix for electricity generation from 48% in 2015 to 25% by 2020. Hong Kong has limited opportunity for RES generation so natural gas will become the dominant component of Hong Kong's power generation mix over the next 10 years as coal is phased out. The C&SD estimates electricity generated using natural gas to rise from 15.7 TWh in 2017 to 30.0 TWh in 2026, representing a CAGR of 7.5%.

Figure-7: Hong Kong GDP and Population, 2000-2022E



Source: IMF, C&SD.

Figure-8: Hong Kong Annual Electricity Consumption and YoY Growth, 2000-2016

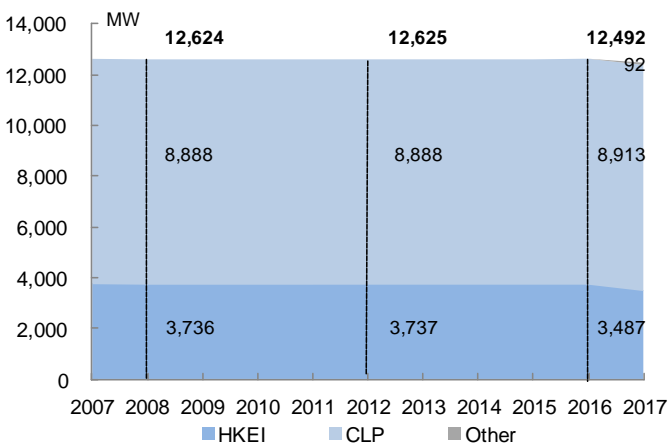


Source: C&SD.

In 2017, Hong Kong's maximum installed power generation capacity was 12,492 MW. Hong Kong's power generation capacity has remained practically unchanged over the past decade. Hong Kong's primary power stations, CLP's Black Point, CLP's Castle Peak, and Hong Kong Electric's Lamma Island Power Station were all originally commissioned in the late 1980s and 1990s, which, apart from minor modifications, have since remained largely unchanged.

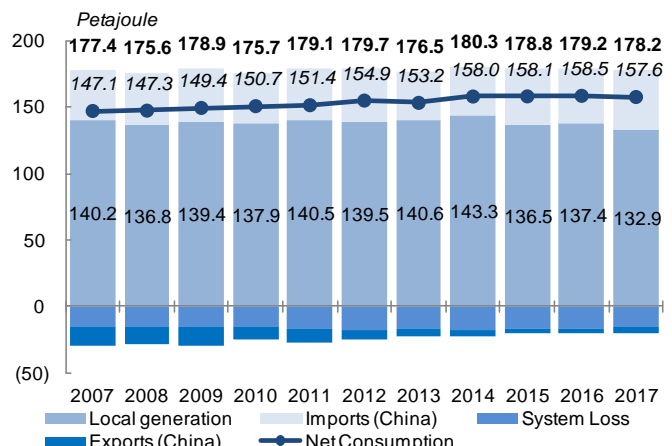
Hong Kong is likely to import approximately 25% of its electricity from Nuclear power plants in China through the medium term. Hong Kong's total electricity generation (before system loss and exports) was 178.2 PJ in 2017, nearly flat over a 10-year period. Consistent with the "Climate Action Plan 2030+", 2017 imports of nuclear electricity from China were 43.5 PJ, up 8.2% YoY, and represents 25.4% of total electricity generation. From 2007-2017, nuclear electricity imported from China averaged 22.2% of total electricity generation. The Environment Bureau expects Chinese nuclear electricity imports to account for approximately 25% of total electricity generated through the medium term, citing that its import agreement expires in 2034.

Figure-9: Maximum Installed Generating Capacity, 2007-2017



Source: C&SD, the Companies.

Figure-10: Hong Kong Electricity Production Breakdown, 2007-2017



Source: C&SD.



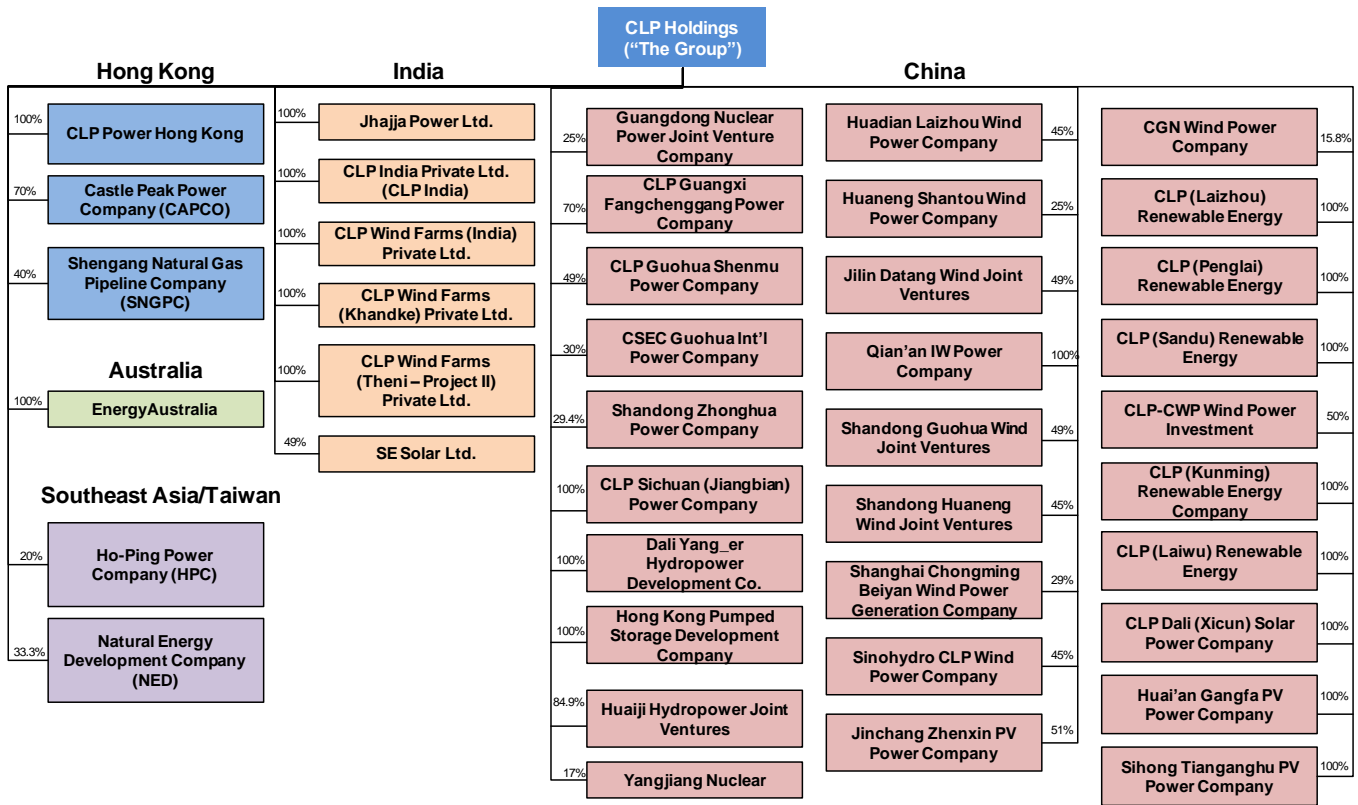
## Company Overview

CLP was originally founded in 1901 as China Light & Power Company Syndicate by Shewan Tomes and Co. and the Kadoorie family. CLP is one of two major electric utilities providers operating in Hong Kong, the other being Hong Kong Electric Company (02638 HK). Since its founding, CLP has acquired a significant number of assets throughout Asia Pacific, including China, India, Australia, Taiwan, and Thailand. The Hon. Sir Michael Kadoorie is the largest single shareholder as of December 31<sup>st</sup>, 2017 with approximately 19.0% of the issued share capital of CLP.

## Business Overview

CLP's revenue for 2017 was HK\$ 92,073 mn, a 15.9% increase YoY; operating earnings increased 7.9% YoY to HK\$ 13,307 mn; shareholders' profit increased 12.1% YoY to HK\$ 14,249 mn. CLP's business varies across regions; it is a vertically-integrated regulated business in Hong Kong, an Independent Power Producer ("IPP") in mainland China, India, Southeast Asia, and Taiwan, and a competitor in wholesale and retail energy markets in Australia.

Figure-11: CLP Holdings Corporate Structure



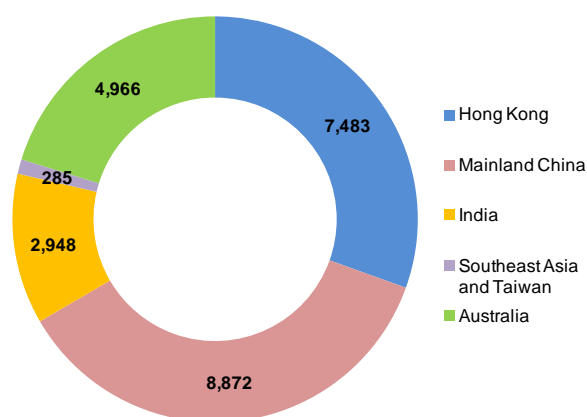
Source: the Group, Guotai Junan International.

As at December 31<sup>st</sup>, 2017, CLP had generation capacity on an equity basis, including capacity purchase arrangements ("CPA") of 24,554MW. Approximately 12,634MW or 51.5% of CLP's power generation assets are coal-fired, mostly due to its Castle Peak Power Station in Hong Kong and coal-fired power plants in China. CLP's proportion of coal-fired capacity to other types of power generation is expected to decrease as CLP adds more RES, gas-fired, and nuclear power capacity. CLP is building a new 550MW gas-fired unit at its Black Point Power Station in Hong Kong, which is planned to be commissioned before 2020. CLP also acquired a 17% stake in Yangjiang Nuclear Power Station in 2017, which added approximately 1,108MW to capacity. Additionally, CLP has a number of wind and solar projects under construction in China and India that will further add to the portion of RES capacity.

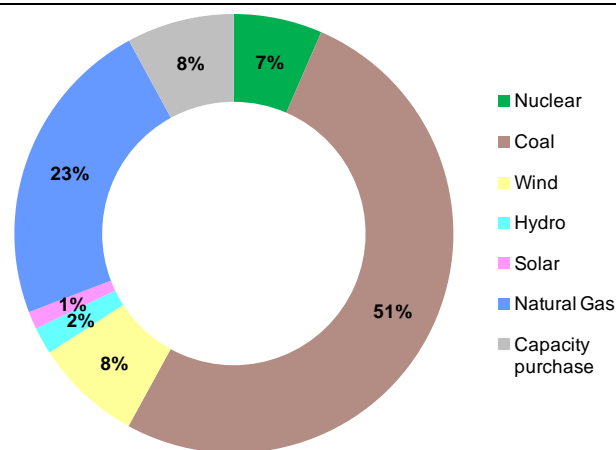
**Table 1: CLP's Generation (Equity and CPA) Capacity by Type and Region (MW)**

Type	Hong Kong	China	India	Australia	SE Asia/TW	Total
Nuclear	0	1,600	0	0	0	1,600
Coal	4,108	4,062	1,320	2,880	264	12,634
Wind	0	984	924	33	0	1,941
Hydro	0	490	0	0	0	490
Solar	0	250	49	0	21	320
Natural Gas	3,375		655	1,592	0	5,622
Capacity purchase / other	0	1,486	0	461	0	1,947
<b>Total</b>	<b>7,483</b>	<b>8,872</b>	<b>2,948</b>	<b>4,966</b>	<b>285</b>	<b>24,554</b>

Source: the Group. As at December 31<sup>st</sup>, 2017.

**Figure-12: CLP's Generation (Equity and CPA) Capacity as at December 31<sup>st</sup>, 2017**


Source: The Group, Guotai Junan International.

**Figure-13: CLP Generation Portfolio by Type as at December 31<sup>st</sup>, 2017**


Source: the Group, Guotai Junan International.

## Hong Kong

**CLP's Hong Kong business is regulated by the Scheme of Control Agreement ("SoC") issued by the Government of Hong Kong SAR.** The current agreement signed on January 7<sup>th</sup>, 2008 will expire on September 30<sup>th</sup>, 2018, and on October 1<sup>st</sup>, 2018, the newly signed SoC will come into effect, which will run for 15 years and expire in 2033. The current SoC allows for a 9.99% ROA with a higher 11% ROA on RES assets. The new SoC agreement will allow for an 8% ROA which will have a negative impact on earnings for CLP's Hong Kong segment. For 2017, CLP's operating earnings from its Hong Kong business rose 1.2% YoY to HK\$ 8,863 million, representing 66.6% of CLP's total earnings for the period.

## China

**CLP has identified China as a medium to long-term growth market due to optimistic prospects for development of RES capacity.** In 2017, CLP's earnings from its mainland China business declined 18.6% YoY to HK\$ 1,238 mn, representing 8.68% of CLP's total earnings for the year. The decline was due to high coal prices amidst an oversupplied coal-fired generation market which led to an 89.5% YoY decline in earnings from Chinese thermal generation for CLP. Earnings contribution from RES and nuclear somewhat offset the poor thermal performance however, increasing YoY by 9.2% and 5.8%, respectively. China is undergoing a major shift in its electricity generation structure and all signs are pointing towards continued decline in coal-fired generation capacity as expansion continues for RES capacity.

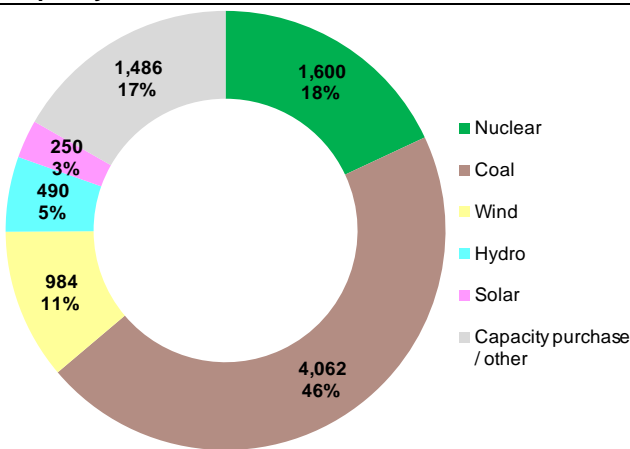
**The Groups' mainland China assets are diversified, mostly consisting of coal-fired plants, whose industry remains in overcapacity and is subject to downside policy risk due to China's energy policy reform.** The Group is interested in 4,062 MW of coal-fired power capacity in mainland China, which is 45.8% of the Group's generation (equity and CPA) capacity of 8,872 MW in China and 16.5% of the Group's total generation (equity and CPA) capacity. Utilization of coal-fired power plants has remained low as the market struggles with overcapacity and high fuel costs; the weighted average utilization rate of coal-fired plants in China in 2016 and 2017 amounted to 47.2% and 47.5%, respectively. A 9.7% YoY increase in electricity sent out (13,463



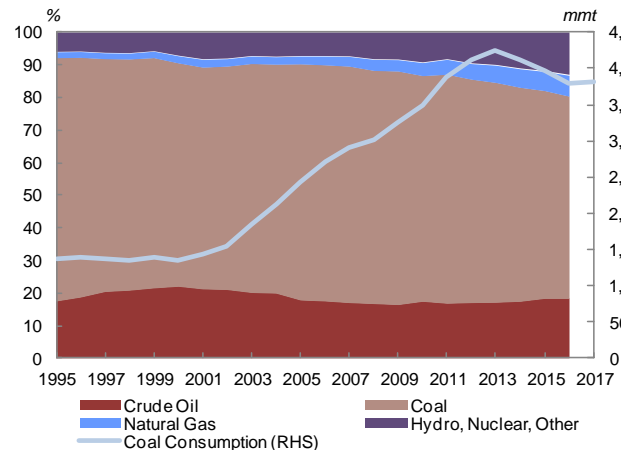
GWh) in 2017 could not offset the large increase in coal prices, which led to a significant drop in earnings for the year. China's consumption of coal remains a key factor that affects whether it will be able to achieve the reductions in carbon intensity targets (60%-65% below 2005 levels) and CO2 emissions targets (peak by 2030 at the latest) as outlined in the Paris Agreement.

**China's coal consumption is expected to decline as its energy policy shifts towards increasing RES capacity.** China's total coal consumption peaked in 2013 at 4,244.3 mmt, and has since declined for three consecutive years to reach 3,790 mmt in 2016, which represents an average decline of 3.7% p.a. Coal consumption in 2017 was nearly flat, increasing 0.4% YoY to 3,805.2 mmt. According to the "13<sup>th</sup> Five-Year Power Sector Development Plan" issued by the National Development and Reform Commission ("NDRC"), China plans to reduce its coal consumption to 58% of its total energy consumption by 2020; in 2016 and 2017, coal consumption was 62.0% and 60.4% of total energy consumption. To accomplish this, the NDRC has set a target for natural gas to account for 10.0% of total energy consumption (2016: 6.4%) and increase capacity and utilization while reducing curtailment rates of RES power generation.

**Figure-14: CLP's Mainland China Generation (Equity and CPA) Capacity** **Figure-15: China's Total Energy Consumption Breakdown by Percent and Total Coal Consumption, 1991-2017**



Source: the Group, Guotai Junan International.



Source: National Bureau of Statistics of China.

**India**

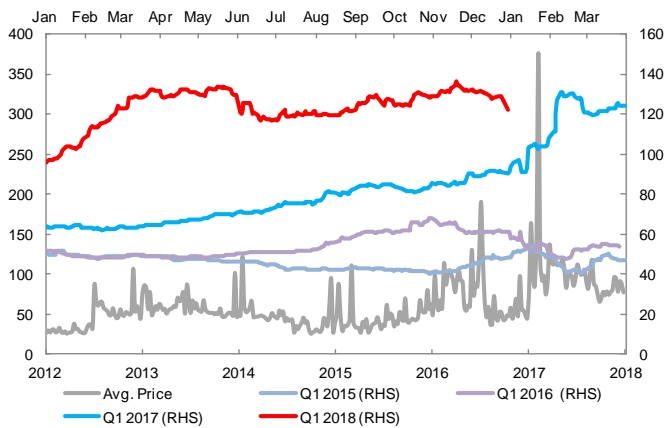
**CLP has generation (equity and CPA) capacity of 2,948MW in India and represents approximately 2.0% of India's private-sector power capacity and 0.9% of India's total power capacity as at January 31<sup>st</sup>, 2018.** As at March 31<sup>st</sup>, 2018, the Central Electricity Authority of the Ministry of Power of India reported total installed power capacity of 344.0GW, with 155.5GW private-sector power capacity, which is approximately 45.2% of India's total power capacity. The 5-year CAGR (2012-2017) of India's power capacity is 10.8%, higher than the 5-year CAGR of India's GDP of 7.1%. CLP has identified India as a medium to long-term growth market for the Group, citing opportunities for RES development. Growth in RES capacity was in step with growth of India's overall electricity sector, growing at at a 5-year CAGR (2012-2017) of 10.0% and representing 33.4% of total power capacity, however, utilization remains low. During the period between April 2017 – March 2018, of the 1,201.5 TWh total power generated, RES only accounted for 13.7% or 164.9 TWh of total power generation, which was also up 2.5% YoY. For 2017, CLP's earnings in India increased 38.0% YoY to HK\$ 647 million, and represented 4.5% of CLP's total earnings during the same period.

**Australia**

**CLP's Australian business recovered faster than expected as high electricity prices boosted its wholesale electricity business.** CLP's Australian business, represented by EnergyAustralia ("EA"), operating in the wholesale and retail energy markets in Australia, recorded earnings of HK\$ 2,738 mn in 2017, a 48.1% increase YoY and represents 19.2% of CLP's total earnings. Higher wholesale electricity prices accounted for the majority of earnings improvement. As an integrated firm that both buys and sells electricity as a generator and retailer, price fluctuations of electricity tend to have offsetting impacts to EA's revenue and operating cost, with strength in one sector sometimes offsetting weakness in the other. However, EA's progress in improving

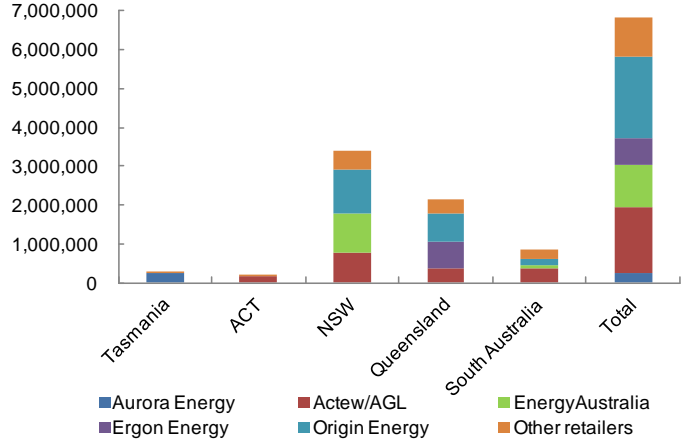
its retail operations helped maintain a positive earnings impact in 2017 despite higher electricity costs. Of the three major electricity retailers operating in Australia who collectively serve 71.6% of total customers, EA reported the lowest earnings behind AGL and Origin Energy. Finally, EA is currently being sued for AU\$ 967 million by Lochard Energy regarding the AU\$ 1.78 billion sale of the Iona Gas Plant in 2015, regarding which CLP repeatedly iterated that a material outflow of funds for the Group is unlikely.

**Figure-16: Wholesale Electricity Spot Prices and Forward Q1 Contract Prices (AU\$/kWh)**



Source: Australian Energy Regulator.

**Figure-17: Number of Electricity Customers as at March 31<sup>st</sup>, 2017**



Source: Australian Energy Regulator.

The Australian Government on October 17<sup>th</sup>, 2017 released the National Energy Guarantee ("NEG") proposal as the new energy policy scheme for Australia's National Electricity Market ("NEM") for 2020-2030. The scheme would serve as a replacement to the current Renewable Energy Target ("RET"), which set a 33,000 GWh RES generation target for 2020. The NEG will be implemented under a two-guarantee system: 1) retailers of electricity will be required to hold a certain amount of flexible or dispatchable electricity generation to guarantee reliability of electricity under a projected peak load; and 2) the retailers will then need to fulfill their load requirements at a certain emissions level set by the Commonwealth Government. The COAG Energy Council expects the scheme to lower electricity bills by AU\$ 100-115 p.a. from 2020-2030 and expects wholesale prices to decline 20%-25% p.a. over the same period. Full details of the NEG have not been released yet, however, the implications of the NEG will shift the status quo of the NEM and new investment in RES generation will be impacted.

### Southeast Asia/Taiwan

Overall operations remained stable, however, CLP's earnings in Southeast Asia/Taiwan were impacted by higher coal prices. 2017 earnings was HK\$ 160 million, a 41.6% decrease YoY due to high coal prices. CLP is currently negotiating financing details of Vung Ang II and Vinh Tan III coal-fired power stations in Vietnam, with nameplate capacities of 1,200 MW and 1,980 MW, respectively. Both projects have been in negotiation for over 8 years however, with Vung Ang II expected to be fully commissioned by 2022 and Vinh Tan III to be completed by 2023.

## Financial Analysis

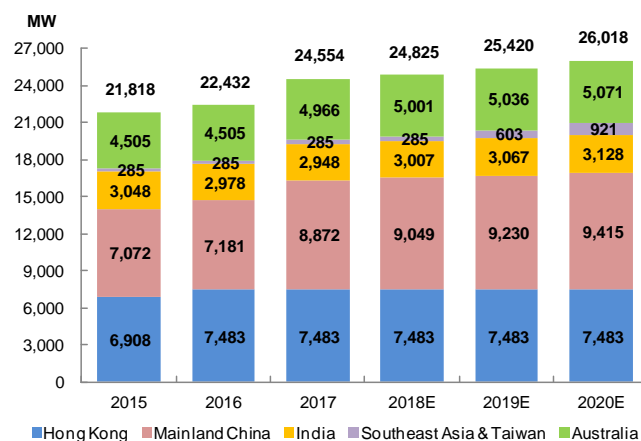
### Revenue Overview

CLP derives its revenue from: 1) sales of electricity, 2) sales of gas, and 3) other minor revenue items. CLP operates in Hong Kong as its primary market and also owns assets in mainland China, Australia, India, and Southeast Asia/Taiwan. CLP's revenue peaked in 2012 at HK\$ 104,861 mn, and was HK\$ 92,073 mn in 2017.

### Sales Analysis and Forecast

CLP's generation (equity and CPA) capacity has remained relatively flat over the past five years, but will likely rise as the Group adds new RES capacity in China and India; we forecast CLP's generation (equity and CPA) capacity 3-year CAGR for 2016-2020E at 1.9%. We expect the Group's generation (equity and CPA) capacity in 2020E to reach 26,018 MW from 24,554 MW in 2017. CLP added 1,108 MW to its generation (equity and CPA) capacity in 2017 from its 17% equity purchase of Yangjiang Nuclear Power Station, which will cost HK\$ 5.9 billion with a total investment not exceeding HK\$ 8.3 billion, according to the Group's filings. Additionally, we expect RES energy expansion policy to drive investment in new capacity in China and India. Finally, any potential contributions from Vung Ang II and Vinh Tan III projects in Vietnam will most likely be realized after 2020, as financing concerns remain and the earliest commissioning date is set at 2022.

Figure-18: CLP Generating (equity and CPA) Capacity by Region, 2015-2020E



Source: the Group, Guotai Junan International.

For the period 2017-2020E, we estimate CLP's capacities for RES (wind/hydro/solar) generation (equity and CPA) to grow at a CAGR of 8.1% from 3,646 MW to 4,607 MW. We think that high coal prices, energy and energy policy reform, and overcapacity are driving factors that will shift new capacity away from coal-fired plants. China announced on July 19<sup>th</sup>, 2017 that it plans to add 196.9GW of wind and solar PV capacity during the period 2017-2020. India's Central Electricity Authority estimates 65.3GW-115.3GW of RES capacity over the same period. As CLP already has a foothold in China and India, and considering the Group's industry expertise in identifying high quality assets that can efficiently produce and sell electricity, we predominantly expect growth in RES capacity over the forecast period.

Table 2: CLP's Generation (equity and CPA) Capacity by Type, 2017-2020E

Type	2017	2018E	2019E	2020E
Nuclear	1,600	1,600	1,600	1,600
Coal	12,629	12,629	12,629	12,629
Wind	2,236	2,415	2,608	2,817
Hydro	1,090	1,090	1,090	1,140
Solar	320	430	540	650
Natural Gas	5,622	5,622	5,622	5,922
Capacity purchase / other	1,057	1,039	1,330	1,261
<b>Total</b>	<b>24,554</b>	<b>24,825</b>	<b>25,420</b>	<b>26,018</b>

Source: the Group.

See the last page for disclaimer

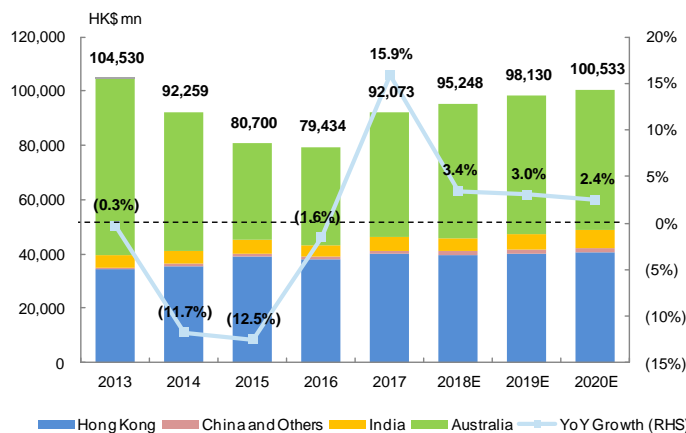
**Trends in average tariffs charged by CLP differ by region and are sensitive to changes in energy policy and fuel cost.** Our calculations of CLP’s Australian business’ average tariff dropped from a high of HK\$ 2.61/kWh in 2013 to a low of HK\$ 1.80/kWh in 2016 and then recovered to HK\$ 2.25/kWh in 2017. The relatively large fluctuations in tariff prices are due to volatile electricity prices arising from energy policy uncertainty in Australia. The opposite is true in Hong Kong, where the average tariff of electricity sales rose from HK\$ 0.99/kWh in 2013 to HK\$ 1.35/kWh in 2017, representing a 3-year CAGR of 3.5%. The relative stability in Hong Kong’s electricity sector is attributable to the long-term SoC agreements which provide mechanisms such as permitted return and tariff control levers.

**Utilization of CLP’s power generation assets varied across region and power generation type.** In Hong Kong, utilization of its local CAPCO generation capacity in 2017 decreased slightly to 45.1%, down 2.0 ppts from 2016, mainly due to decreased residential demand throughout the year. CLP’s overall wind power assets reduced output curtailment, with the weighted average utilization rate in 2017 at 23.0%, up 0.7 ppts YoY. China’s coal-fired power plants’ utilization remained flat YoY. Lack of affordable LNG imports in India kept the gas-fired Paguthan Power Plant utilization low in 2017 at only 6.7%; coal-fired Jhajjar Power Station utilization increased to 50.4%, up 23.1 ppts YoY as the power plant improved its supply of coal in quantity and quality. In Australia, approximate doubling of gas-fired generation from 9.9% to 19.6% offset declines in coal-fired and wind generation due to coal supply, and weather and system constraints.

**Utilization rates are estimated to follow the trends in their respective power generation types.** Hong Kong’s gas-fired utilization should increase gradually through 2020 upon completion of a 550MW capacity expansion at Black Point Power Station and a LNG terminal as coal-fired generation is reduced, in line with the Hong Kong government’s target. We expect CLP’s weighted average utilization rate of its coal-fired plants to remain low at around 50% as the global energy landscape shifts away from coal-fired generation. RES weighted average utilization will continue to improve as curtailment is reduced and grid integration improves. While gas-fired generation in India is likely to remain weak due to supply constraints, gas-fired generation in Australia is expected to be an important source of flexible power generation.

**We estimate revenue to grow at a 3-year CAGR of 3.0% to reach HK\$ 100,533 mn through 2020E.** We expect modest growth to be underpinned by stable growth in CLP’s main Hong Kong electricity business as well as growth in India and China. We estimate CLP’s Hong Kong revenue to grow from HK\$ 39,965 mn to HK\$ 40,723 mn, or a 3-year CAGR of 0.6%. We expect revenue from India to grow from HK\$ 4,887 mn to HK\$ 6,710 mn, or a 3-year CAGR of 11.1%. Despite uncertainty in Australia’s energy sector, EA’s value restoration project is ahead of schedule and we expect revenue to grow at a 3-year CAGR of 4.1% from HK\$ 45,895 mn to HK\$ 51,735 mn.

**Figure-19: CLP’s Revenue by Region, 2013-2020E**



Source: the Group, Guotai Junan International.

## Expenses

Operating expense is forecast to grow at a 3-year CAGR of 3.8% in 2017-2020E, from HK\$ 73,375 mn in 2017 to HK\$ 82,165 mn in 2020E. Operating expenses in 2017 rose 17.8% YoY, mostly due to higher fuel and operating costs in Australia. Purchases of electricity, gas, and distribution services together with fuel costs accounted for an average 81.8% of total expenses during 2013-2017; for 2018E-2020E, we expect an average 84.6% of total expenses to account from the segment. Regionally, during 2013-2017, operating expenses in Australia accounted for an average 59.7% of total expenses due to its retail business where it buys electricity and gas from wholesale markets; we expect the proportion to drop slightly to 58.5% by 2020E.

**Table 3: CLP's Operating Expenses by Type and Region, 2013-2020E**

HK\$ million	2013	2014	2015	2016	2017	2018E	2019E	2020E
by type:								
Purchases of electricity, gas and distribution services	(49,040)	(40,234)	(31,280)	(31,743)	(38,121)	(40,999)	(42,411)	(43,413)
Operating lease and lease service payments	(12,963)	(3,607)	0	0	0	0	0	0
Staff expenses	(3,017)	(3,980)	(3,649)	(3,892)	(4,195)	(4,340)	(4,471)	(4,580)
Fuel and other operating expenses	(23,763)	(24,777)	(25,886)	(19,744)	(23,691)	(24,587)	(25,502)	(26,090)
Depreciation and amortisation	(7,592)	(6,791)	(6,765)	(6,909)	(7,368)	(7,597)	(7,854)	(8,081)
Total	(96,375)	(79,389)	(67,580)	(62,288)	(73,375)	(77,522)	(80,238)	(82,165)
by region:								
Hong Kong	(23,733)	(23,663)	(26,586)	(24,723)	(26,673)	(27,374)	(27,856)	(28,247)
Australia	(67,908)	(50,828)	(35,981)	(33,562)	(41,814)	(45,357)	(47,139)	(48,082)
India	(3,681)	(3,454)	(3,675)	(2,425)	(3,376)	(3,475)	(4,013)	(4,635)
Mainland China and others	(1,053)	(1,444)	(1,338)	(1,578)	(1,512)	(1,317)	(1,230)	(1,201)
Total	(96,375)	(79,389)	(67,580)	(62,288)	(73,375)	(77,522)	(80,238)	(82,165)

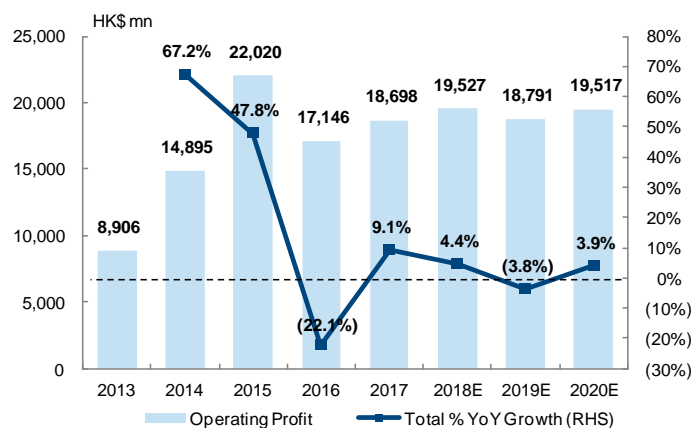
Source: the Group, Guotai Junan International.

## Operating Profit Analysis

Operating profit is forecast to increase at a 3-year CAGR of 1.4% to HK\$ 19,517 mn through 2020E. CLP's operating profit was HK\$ 18,698 mn in 2017, up 9.1% YoY due primarily to the large jump in revenue. We estimate operating profit margin to remain largely flat as revenue rise is expected to be in line with expenses.

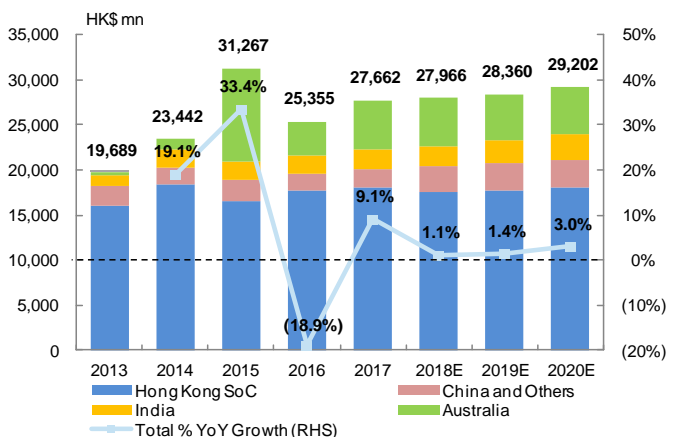
CLP's EBITDAF is forecast to increase at a 3-Yr CAGR of 1.8% to HK\$ 29,202 mn through 2020E. EBITDAF is calculated according to the Group's definition of earnings before interest, taxes, D&A, and fair value adjustments, but includes profit from JV/A. EBITDAF in 2017 was HK\$ 27,662 mn, which was a 9.1% increase YoY primarily due to strong performance in Australia. We expect future growth to be driven by earnings improvement in mainland China and India. The spike in EBITDAF for Australia in 2015 was a one-off gain due to the AU\$ 1.78 billion sale of its Iona Gas Plant. We expect margins to remain relatively flat.

**Figure-20: CLP's Operating Profit, 2013-2020E**



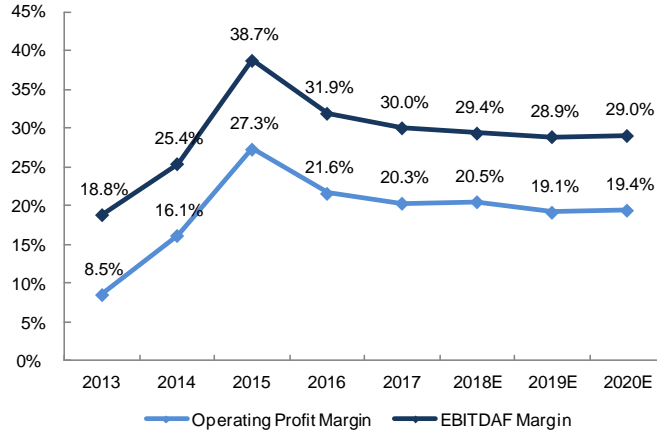
Source: the Group, Guotai Junan International.

**Figure-21: CLP's EBITDAF by region, 2013-2020E**



Source: the Group, Guotai Junan International.

Figure-22: CLP's Operating Profit Margin and EBITDAF Margin, 2013-2020E



Source: the Group, Guotai Junan International.

### Income Tax

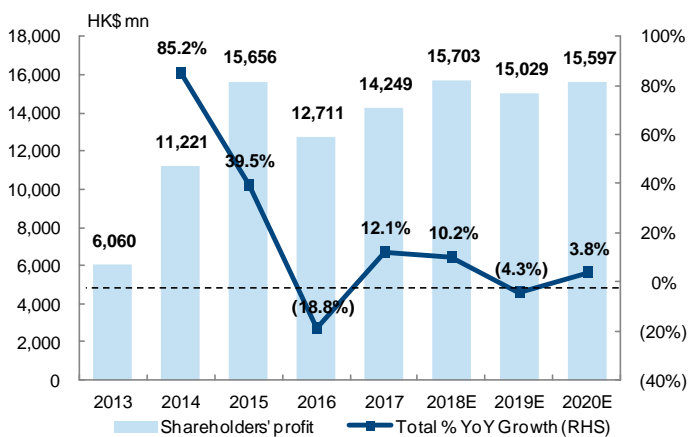
The effective tax rate ("ETR") of the Group is expected to increase slightly over the next three years, we estimate an ETR of 16.1% in 2020E. The Group's ETR averaged 12.6% during 2007-2017, and was 17.1% and 15.3% in 2016 and 2017, respectively. The Group levied a 16.5% tax rate for its Hong Kong SoC profits, where it pays the majority of its taxes. We expect the Group's income tax to increase from HK\$ 2,780 mn in 2017 to HK\$ 3,169 mn in 2020E, representing a 3-year CAGR of 4.5%.

### Shareholders' Profit

CLP's shareholders' profit is forecast to increase at a 3-year CAGR of 3.1% to reach HK\$ 15,597 mn in 2020E. Shareholders' profit was HK\$ 14,249 mn in 2017, up 12.1% YoY. We expect shareholders' profit growth for the Group to fluctuate over our forecast period as we expect electricity sales from Yangjiang Nuclear to provide an initial increase in 2018E, which is later expected to decrease in 2019E due to the implementation of a lower permitted return rate of 8% from the new SoC agreement.

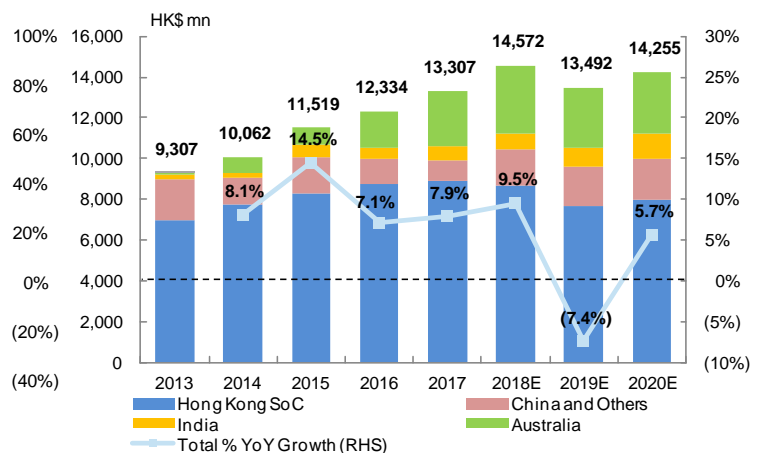
CLP's operating earnings is forecast to increase at a 3-year CAGR of 2.3% to reach HK\$ 14,255 mn in 2020E. The Group's operating earnings is defined as shareholders' profit minus items affecting comparability, which include unusual or infrequent events, property valuation fluctuations, and natural disasters. CLP's operating earnings in 2017 was HK\$ 13,307 mn. We expect an immediate drop in earnings in 2019E due to the lower permitted return rate of 8% upon the new SoC agreement coming into effect on October 2018. The dip in operating earnings we expect to be one-off, where profit excess of the permitted return is transferred to the tariff stabilization fund to mitigate the effects to consumers of future tariff hikes, after which we expect operating earnings to resume stable growth.

Figure-23: CLP's Shareholders' Profit, 2013-2020E



Source: the Group, Guotai Junan International.

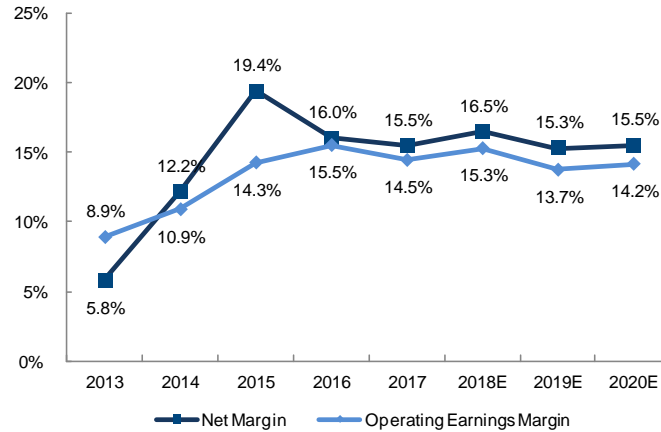
Figure-24: CLP's Operating Earnings by region, 2013-2020E



Source: the Group, Guotai Junan International.



Figure-25: CLP's Operating Earnings Margin and Net Margin, 2013-2020E



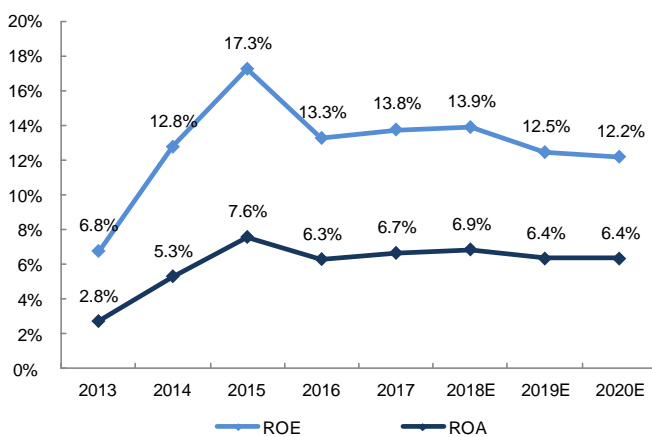
Source: the Group, Guotai Junan International.

### Liquidity, Leverage, ROA, and ROE Analysis

We estimate ROE to be 13.9%, 12.5%, and 12.2% in 2018E/2019E/2020E, respectively. We expect ROE to edge downwards over our forecast period mostly due to the negative impact to shareholders' profit once the new SoC agreement comes into effect. We estimate ROA to remain nearly flat, at 6.9%, 6.4%, and 6.4% in 2018E/2019E/2020E, respectively.

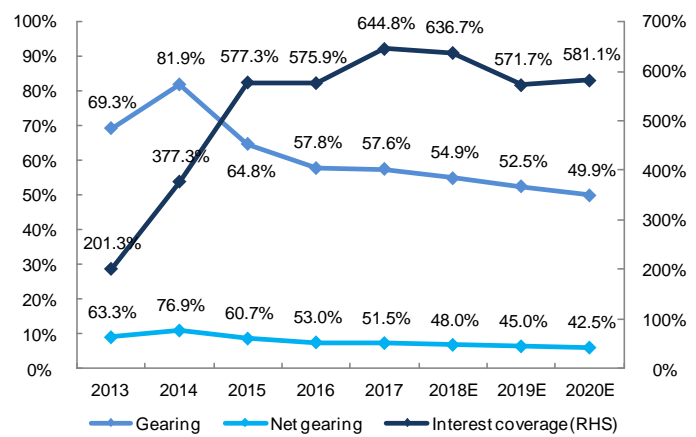
CLP's total gearing ratio is forecast to decline from 57.6% in 2017 to 49.9% by 2020E. We expect the total gearing ratio for CLP to trend downwards towards lower levels as debts from its Australian business are paid off. Net gearing is estimated to fall slightly faster than total gearing, from 51.5% in 2017 to 42.5% by 2020E, mostly due to our expectation for the Group to increase its repayment of debt while realizing positive cash flow. The interest coverage in 2018E-2020E is forecast to be 636.7%, 571.7%, and 581.1%, respectively, as we expect interest rates to rise slightly faster than growth in earnings over the forecast period.

Figure-26: CLP's ROE and ROA, 2013-2020E



Source: the Group, Guotai Junan International.

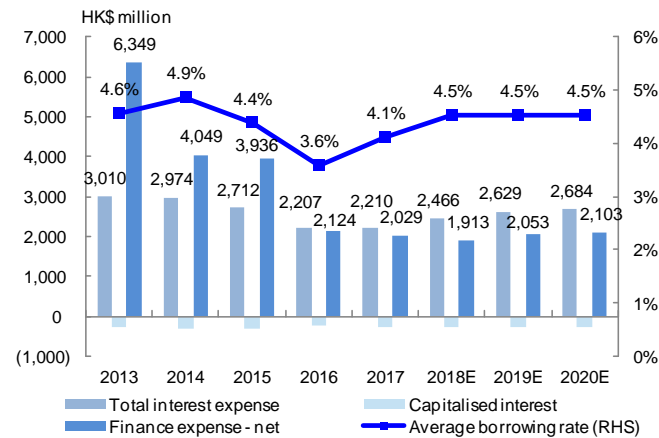
Figure-27: CLP's Total Gearing and Interest Coverage, 2013-2020E



Source: the Group, Guotai Junan International.

We forecast CLP's borrowing costs to rise alongside further hikes in interest rates. The U.S. Federal Funds Rate is likely to gradually climb throughout our forecast period, leading to increased borrowing costs for CLP. However, we expect CLP's average debt to decrease, offsetting increases in interest expense due to rates. So while interest expenses are expected to rise 21.7% over the forecast period, net finance expense is estimated to rise 1.3% as increases in finance income from CLP's interest bearing assets reduce the Group's overall finance expense.

**Figure-28: CLP's Finance and Interest Expenses, 2013-2019E**



Source: the Group, Guotai Junan International.

## 1Q2018 Review

**Sales of electricity in Hong Kong and mainland China during Jan.-Mar. 2018 increased 3.5% and 29.9% YoY to 6,737 GWh and 226 GWh, respectively.** Cold and humid weather in 1Q2018 contributed to the increase in electricity demand in Hong Kong and mainland China from a year ago. In Hong Kong, the combined cycle unit at Black Point Power Station and efforts to secure a stable supply of LNG and FSRU vessel were announced to be proceeding smoothly. CLP India commissioned its Veltoor solar plant during the quarter and coal-fired plant Jhajjar reached record utilization of 76%. Full year 2016 and 2017 utilization of Jhajjar amounted to 27.3% and 50.4%, respectively. CLP's Australia business remained in flux, with competitive pressure weighing on retail market performance offset by strong financial performance of EnergyAustralia's power generation assets.

**The Group announced the 1<sup>st</sup> interim dividend of HK\$ 0.61/share (1Q2017: HK\$ 0.59/share), up 3.4% YoY.** Our forecast for CLP's payout ratio in 2018E/2019E/2020E is 49.2%/53.4%/53.7%. The Group's 2017 payout ratio was 51.6%, the 2018E expected decrease is primarily due to higher earnings contribution from the Group's Yangjiang acquisition. The subsequent increase in 2019E and 2020E is due to lower expected earnings from the implementation of the new SoC agreement in Hong Kong.

## MAJOR RISKS

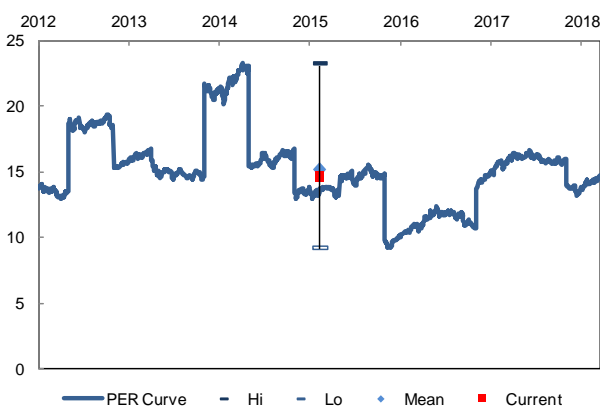
**We believe the major risks which could negatively affect the Group's operating performance are:**

- (1) **China's energy reform** – Continued low utilization of coal-fired plants amidst overcapacity and the transition of China's energy structure towards increasing RES could continue to apply downward earnings pressure on CLP's coal-fired generation assets in the mainland.
- (2) **Price risk** – Persistently high coal prices, volatility in natural gas prices, and unstable natural gas supply for gas-fired plants could increase the Group's operating costs and reduce utilization.
- (3) **Hong Kong operating risk** – The majority of the Group's earnings are generated from Hong Kong where its business is regulated by the Hong Kong government. Under such regulatory environment where the Group's electricity tariffs could be influenced by the government, the Group is exposed to operating risks such as the possibility of tariff freezes, which would negatively impact the Group's earnings.
- (4) **Australia energy policy risk** – Uncertainty on the future of Australia's energy market could prevent CLP's Australian business from realizing sustainable earnings contribution in the future.

## Valuation

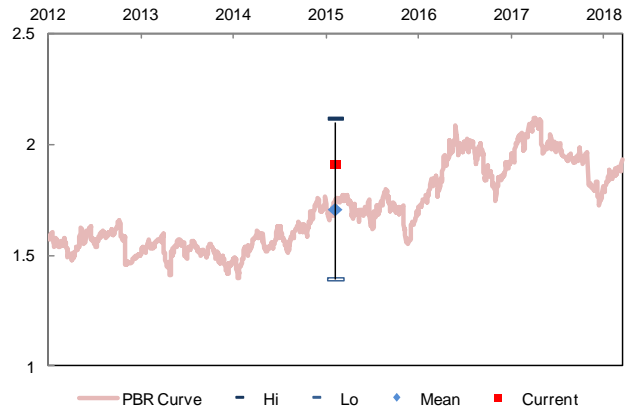
We initiate our coverage with a TP of HK\$86.00 and investment rating "Accumulate". The TP represents 13.8x/14.5x/13.9x 2018E-2020E PER and corresponds to 1.7x/1.6x/1.5x 2018E-2020E PBR. The Group's 5-year historical average PER is 14.9x and PBR is 1.7x. The Group's 2018E PER of 14.4x is cheaper than the weighted average PER of its Hong Kong listed peers, which is at 17.2x. We expect CLP to maintain a payout ratio near or above 50%, our forecast for the Group's payout ratio for 2018E-2020E amounts to 49.2%/53.4%/53.7%. While the U.S. 10-year treasury yield has recently jumped to hover near 3%, which somewhat dilutes the attractiveness of a utilities stock, we think CLP's shares will remain an attractive alternative to bonds, offering stable returns in the form of dividends and also exposure to equity markets. Investors may buy CLP as a defensive investment that is relatively cheap compared to its peers, with a stable earnings outlook anchored by its operational strength in the Hong Kong electricity market and supplemented by its diverse international asset holdings.

Figure-29: CLP's PER Curve, 2012-2018



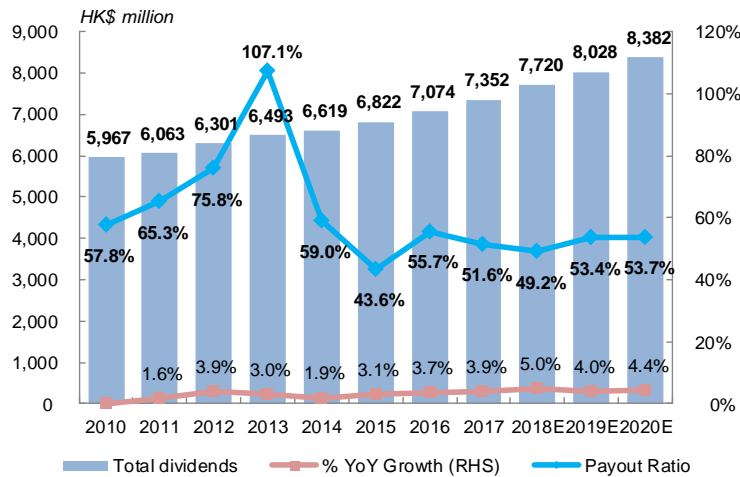
Source: Bloomberg, Guotai Junan International.

Figure-30: CLP's PBR Curve, 2012-2018



Source: Bloomberg, Guotai Junan International.

Figure-31: CLP's Dividends and Payout Ratio, 2010-2020E



Source: the Group, Guotai Junan International.

Table 4: Peers Comparison

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	EV/EBITDA
				17A	18F	19F	20F	17A	18F	19F	20F	18F	18F	18F
<b>HK-Listed Peers</b>														
Clp Holdings Ltd	2 HK	HKD	80.95	14.4	14.7	16.5	16.1	1.9	1.8	1.7	1.6	12.4	3.7	10.1
Ck Infrastructure Holdings L	1038 HK	HKD	60.50	14.9	13.1	12.5	12.0	1.5	1.3	1.3	1.2	10.4	4.2	51.0
Guangdong Investment Ltd	270 HK	HKD	12.84	14.6	17.1	16.2	14.8	2.1	2.0	2.0	1.8	12.1	4.3	12.1
Power Assets Holdings Ltd	6 HK	HKD	55.35	14.2	15.1	15.2	14.8	1.2	1.3	1.3	1.4	8.3	5.1	113.8
Hk Electric Investments -Ss	2638 HK	HKD	7.27	19.2	19.1	26.3	27.5	1.3	1.3	1.3	1.3	6.8	5.5	12.6
Simple Average				15.4	15.8	17.3	17.0	1.6	1.5	1.5	1.5	10.0	4.6	39.9
Weighted Average				15.0	15.1	16.2	15.8	1.6	1.6	1.5	1.5	10.5	4.4	40.4

**International Peers**

Company	Country	Currency	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Nextera Energy Inc	NEE US	USD	76.93	17.6	16.3	15.6	14.8	1.3	1.3	1.2	1.2	7.9	4.7	11.6
Duke Energy Corp	DUK US	USD	158.85	13.8	20.5	19.0	17.9	2.7	2.3	2.1	2.0	12.2	2.8	12.1
Southern Co/The	SO US	USD	44.21	52.6	15.3	14.6	14.1	1.8	1.7	1.6	1.5	11.4	5.4	11.2
American Electric Power	AEP US	USD	66.81	17.2	17.2	16.3	15.4	1.8	1.7	1.7	1.6	10.2	3.8	10.7
P G & E Corp	PCG US	USD	42.95	13.4	11.2	10.7	10.4	1.2	1.0	0.9	0.9	9.8	4.2	6.6
Edison International	EIX US	USD	61.55	35.6	15.1	13.6	12.7	1.7	1.6	1.5	1.4	10.7	3.9	8.5
Xcel Energy Inc	XEL US	USD	44.55	19.7	18.4	17.2	16.3	2.0	1.9	1.8	1.7	10.6	3.4	10.7
Ppl Corp	PPL US	USD	27.23	16.6	11.8	11.2	10.7	1.8	1.6	1.5	1.4	14.2	6.0	10.2
Allele Inc	ALE US	USD	75.00	22.1	22.0	20.4	18.6	1.9	1.8	1.7	1.6	7.9	3.0	12.5
Firstenergy Corp	FE US	USD	33.63	n.a.	13.8	13.6	13.7	3.8	2.4	2.2	2.1	23.7	4.3	9.0
Entergy Corp	ETR US	USD	77.55	33.9	12.8	13.3	13.9	1.8	1.7	1.6	1.6	13.9	4.7	9.3
Eversource Energy	ES US	USD	57.39	18.5	17.7	16.6	15.7	1.6	1.6	1.5	1.5	9.1	3.5	11.9
Ausnet Services	AST AU	AUD	1.69	23.6	20.9	25.1	24.4	1.6	1.7	1.5	1.5	8.0	2.8	11.3
Erm Power Ltd	EPW AU	AUD	1.73	n.a.	38.4	20.1	9.4	0.7	0.9	0.9	0.8	2.1	4.0	5.1
Simple Average				23.7	17.9	16.2	14.9	1.8	1.6	1.6	1.5	10.8	4.0	10.1
Weighted Average				23.2	16.6	15.7	15.0	1.9	1.7	1.6	1.6	11.3	4.1	10.7

Source: Bloomberg, Guotai Junan International.

**Our DCF valuation suggests a valuation of HK\$ 256 bn, equivalent to HK\$ 101.5 per share.** The Group's free cash flows were projected through the end of 2033, when the new SoC agreement expires, after which we applied a 1.5% growth rate to the terminal value. Our TP of HK\$ 86.0 represents a 15.2% discount from our DCF valuation. The table below outlines our key assumptions and provides a sensitivity analysis to the weighted average cost of capital and perpetual growth rate.

**Table 5: DCF Valuation Table for CLP**

WACC Calculation		DCF Calculation		g=1.5%					
Risk-free rate	2.2%	PV of FCF and terminal value (2018E-2033E)		308					
Market risk premium	9.3%	Net (Debt)/Cash		(52)					
Beta	0.590	<b>NAV (HK\$ bn)</b>		<b>256</b>					
Cost of equity	7.7%	<b>NAV per share (HK\$)</b>		<b>101.5</b>					
Interest rate	4.2%	TP (HK\$)		86.00					
Effective Tax rate	15.0%	TP % discount to NAV		15.2%					
Cost of debt	3.6%								
Equity ratio	77.9%								
Debt ratio	22.1%								
WACC	6.8%								
Terminal growth rate	1.5%								
		<b>Sensitivity Analysis for NAV (HK\$ bn)</b>		<b>Perpetual growth rate (%)</b>					
				0.5%	1.0%	1.5%	2.0%	2.5%	
			5.3%	327	351	381	421	474	
			5.8%	289	307	329	358	394	
			6.3%	258	272	289	309	336	
			6.8%	232	243	<b>256</b>	271	291	
			7.3%	210	218	229	241	255	
			7.8%	191	198	206	215	227	
			8.3%	174	180	186	194	203	

Source: Guotai Junan International.

**Financial Statements**

Income Statement						Balance Sheet					
	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	79,434	92,073	95,248	98,130	100,533	Fixed assets	130,189	137,207	142,218	147,140	151,979
Purchases of electricity, gas and distribution services	(31,743)	(38,121)	(40,224)	(41,441)	(42,456)	Leasehold land and land use rights	5,444	5,345	5,260	5,179	5,102
Staff expenses	(3,892)	(4,195)	(4,340)	(4,471)	(4,580)	Investment property	3,788	1,186	4,603	4,864	5,125
Fuel and other operating expenses	(19,744)	(23,691)	(23,812)	(24,533)	(25,133)	Goodwill and other intangible assets	27,653	29,087	28,867	28,636	28,417
Depreciation and amortisation	(6,909)	(7,368)	(7,597)	(7,854)	(8,081)	Interests in JV/A	10,784	18,464	19,803	21,132	22,433
Other income - net	0	0	252	(1,041)	(766)	Finance lease receivables	713	620	804	767	741
Operating Profit	17,146	18,698	19,527	18,791	19,517	Deferred tax assets	981	929	910	892	874
Finance costs - net	(2,124)	(2,029)	(1,913)	(2,053)	(2,103)	Derivative financial instruments	1,519	956	1,184	1,303	1,433
Share of results, net of income tax:						Available-for-sale investments	1,528	349	2,050	2,254	2,480
JV	737	508	606	597	586	Other non-current assets	181	298	295	292	289
Associates	904	950	1,572	1,675	1,711	Total Non-current Assets	182,780	194,441	205,994	212,459	218,873
Profit Before Tax	16,663	18,127	19,792	19,009	19,711	Cash & Cash Equivalents	4,467	6,529	8,014	9,339	9,792
Income Tax	(2,855)	(2,780)	(3,024)	(3,037)	(3,169)	Inventory – stores and fuel	2,565	3,050	3,218	3,316	3,397
Profit After Tax	13,808	15,347	16,768	15,973	16,542	Trade and other receivables	13,799	15,427	14,942	15,297	15,560
Non-controlling Interest	(1,097)	(1,098)	(1,065)	(944)	(946)	Finance lease receivables	51	148	141	134	127
Shareholders' Profit / Loss	12,711	14,249	15,703	15,029	15,597	Derivative financial instruments	692	1,137	1,194	1,254	1,316
Basic EPS	5.030	5.640	6.216	5.949	6.173	Restricted cash	200	347	316	290	277
						Other current assets	1,424	7,072	1,741	3,278	4,302
						Total Current Assets	23,198	33,710	29,566	32,907	34,770
						Total Assets	205,978	228,151	235,560	245,367	253,643
						Customers' deposits	4,999	5,221	5,265	5,353	5,416
						Fuel clause account	0	2,212	0	0	0
						Trade and other payables	19,921	18,978	19,864	20,048	19,845
						Bank loans and other borrowings	10,651	8,472	9,150	9,882	10,672
						Other current liabilities	1,769	1,551	1,618	1,621	1,658
						Total Current Liabilities	37,340	36,434	35,896	36,904	37,591
						Bank loans and other borrowings	40,995	48,869	49,678	49,892	49,454
						Deferred tax liabilities	13,819	14,275	13,990	13,710	13,436
						Derivative financial instruments	1,580	1,640	1,558	1,480	1,406
						SoC reserve accounts	860	977	725	1,765	1,989
						Asset decommissioning liabilities	916	2,987	1,503	1,608	1,753
						Other non-current liabilities	4,695	1,462	1,760	1,741	1,698
						Total Non-current Liabilities	62,865	70,210	69,213	70,196	69,735
						Total Liabilities	100,205	106,644	105,109	107,100	107,326
						Share capital	23,243	23,243	23,243	23,243	23,243
						Others	74,767	85,454	93,582	100,703	108,057
						Total Shareholders' Equity	98,010	108,697	116,825	123,946	131,300
						Minority Interest	7,763	12,810	13,626	14,320	15,017
						Total Equity	105,773	121,507	130,451	138,267	146,317
						Financial Ratios					
							2016A	2017A	2018F	2019F	2020F
						ROE (%)	13.3	13.8	13.9	12.5	12.2
						ROA (%)	6.3	6.7	6.9	6.4	6.4
						Current ratio (x)	0.6	0.9	0.8	0.9	0.9
						Interest coverage (x)	5.8	6.4	6.4	5.7	5.8
						Net gearing (%)	53.0	51.5	48.0	45.0	42.5
						EV/EBITDA (x)	6.6	6.2	6.0	5.9	5.8
						Dividend payout ratio (%)	55.7	51.6	49.2	53.4	53.7

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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