



Rating
Hold

Asia
Hong Kong

Utilities
Utilities

Company
Power Assets

Reuters 0006.HK Bloomberg 6 HK Exchange HSI Ticker 0006

Date
26 July 2018

Forecast Change

Price at 25 Jul 2018 (HKD)	57.20
Price target - 12mth (HKD)	59.30
52-week range (HKD)	78.75 - 54.10
HANG SENG INDEX	28,921

Lower-than-expected dividend for 1H18; Hold

Lower-than-expected dividend for 1H18

Power Asset reported 1H18 results after market close on 26 July with recurring earnings up 8% yoy. We believe the flat yoy interim dividend of HKD0.77/share is lower than market expectation. We fine-tune our earnings forecasts and but lower target price to HKD59.3 on lower value creation from potential acquisitions (as result of weaker balance sheet after special dividend distributions/acquisitions). With rising outlook for US treasury yield, we find PAH's yield spread of ~2ppt over US 10-year treasury yield not to be particularly attractive - maintain Hold.

Results key highlights

Reported earnings were HKD4,120m for 1H18, up 2% yoy while recurring earnings (excluding one-off gains of HKD10m for 1H18 and one-off gains of HKD213m for 1H17) were HKD4,110m, up 8% yoy. Management attributes the growth to the full-period effect of DUET for 1H18.

PAH was in net cash position of HKD3.4bn by Jun 2018 (vs. HKD18.2bn by Dec 2017), indicating net cash per share of HKD1.6 (vs. HKD8.5 by Dec 2017).

Positive surprises: Earnings from China reached HKD234m for 1H18, up 44% yoy and driven by higher electricity sales.

Negative surprises: Bank interest income for 1H18 was only HKD147m, down 54% yoy and driven by the lower cash balances after several special dividend distributions/acquisitions. Interim dividend was only HKD0.77/share, flat yoy.

Earnings/target price revisions

We fine-tune our earnings forecast as we 1) factor in DB's latest foreign exchange rate forecasts and 2) update HK Electric's SoC capex plan. We lower our target price to HKD59.3 due to 1) ex-dividend effect of the special dividend (HKD6.0/sh) paid in Apr 2018; 2) us assuming slower dividend growth: we now assume PAH's interim dividend to keep flat yoy while final dividend to increase by HKD0.035/sh every year; 3) less value creation from PAH's potential acquisition: our target price now incorporates only HKD8.3 (vs. previous: HKD9.0) from PAH's potential acquisition, as result of the company's weaker balance sheet after the special dividends and intensive M&A deals.

Valuation & Risks

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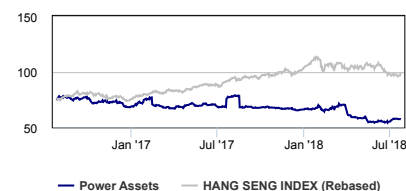
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Key changes

TP	64.90 to 59.30	↓	-8.6%
Sales (FYE)	1,387 to 1,513	↑	9.1%
Op prof margin (FYE)	45.9 to 85.5	↑	86.2%
Net profit (FYE)	8,005.3 to 8,131.2	↑	1.6%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.6	-1.2	-25.7
HANG SENG INDEX	-0.1	-4.6	7.7

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	9.0
Net debt/equity (%)	-5.4
Book value/share (HKD)	39.72
Price/book (x)	1.4
Net interest cover (x)	-
Operating profit margin (%)	85.5

Source: Deutsche Bank



Earnings breakdown

Figure 1: PAH 1H18 earnings breakdown

(HK\$ m)	1H17	2H17	1H18	2H18e	yoy	HoH	1H18/2018e
Hong Kong	335	780	328	807	-2%	-58%	29%
Australia	621	767	830	767	34%	8%	52%
UK	2,078	1,712	2,205	1,887	6%	29%	54%
Mainland China	163	206	234	215	44%	13%	52%
Other countries	356	232	397	257	12%	71%	61%
Others	471	598	126	78	-73%	-79%	62%
Total reported earnings	4,024	4,295	4,120	4,011	2%	-4%	51%
One offs	213	930	10	(10)	-95%	-99%	
Total recurring earnings	3,811	3,365	4,110	4,021	8%	22%	51%

Source: Company data, Deutsche Bank estimates

Earnings and target price revision

We fine tune our earnings forecast for 2018/19e driven by foreign exchange rate forecast change and update on HKE's SoC capex plan (higher than our previous estimate). Our earnings forecasts are broadly in line with market consensus. We lower our target price to HKD59.3 due to 1) ex-dividend effect of the special dividend (HKD6.0/sh) paid in Apr 2018; 2) us assuming slower dividend growth: we now assume PAH's interim dividend to keep flat yoy while final dividend to increase by HKD0.035/sh every year; 3) less value creation from PAH's potential acquisition: our target price now incorporates only HKD8.3 (vs. previous: HKD9.0) from PAH's potential acquisition, as result of the company's weaker balance sheet after the special dividends and intensive M&A deals.

Figure 2: Foreign exchange forecast change

Avg.	2018E			2019E			2020E		
	Before	Current	%chg.	Before	Current	%chg.	Before	Current	%chg.
AUD/HKD	5.77	6.02	4%	5.77	5.94	3%	NA	5.94	NA
GBP/HKD	10.25	10.79	5%	10.25	11.01	7%	NA	11.01	NA
NZD/HKD	5.34	5.39	1%	5.34	5.23	-2%	NA	5.23	NA
CAD/HKD	6.00	6.03	0%	6.00	5.83	-3%	NA	5.83	NA
EUR/HKD	9.31	9.38	1%	9.31	9.37	1%	NA	9.37	NA
HKD/JPY	14.83	13.75	-7%	14.83	13.06	-12%	NA	13.06	NA

Source: Deutsche Bank estimates

Figure 3: Earnings and target price revisions

PAH	2018E			2019E			2020E			Target Price HK\$		
	Before	Current	%chg.	Before	Current	%chg.	Before	Current	%chg.	Before	Current	%chg.
	8,005	8,131	2%	7,410	7,599	3%	NA	7,728	NA	64.9	59.3	-9%

Source: Company data, Deutsche Bank estimates

Figure 4: DB vs. Consensus

Company name	Ticker	2018E recurring earnings			2019E recurring earnings			2020E recurring earnings		
		DB	Consensus	DBe vs. consensus	DB	Consensus	DBe vs. consensus	DB	Consensus	DBe vs. consensus
PAH	0006.HK	8,131	7,915	3%	7,599	7,926	-4%	7,728	8,127	-5%

Source: Company data, Bloomberg Financial LLP, Deutsche Bank estimates





Model updated: 26 July 2018

Running the numbers

Asia

Hong Kong

Utilities

Power Assets

Reuters: 0006.HK

Bloomberg: 6 HK

Hold

Price (25 Jul 18) HKD 57.20

Target Price HKD 59.30

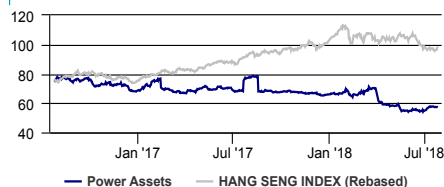
52 Week range HKD 54.10 - 78.75

Market cap (m) HKDm 122,080
 USDm 15,560

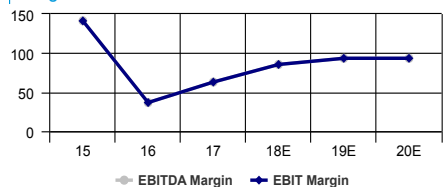
Company Profile

PAH's primary business is owning and operating a vertically-integrated electric utility serving 544,000 customers located on Hong Kong and Lamma islands. PAH owns 3,736MW (majority coal fired) capacity in Hong Kong. The HK operations of PAH are governed by the SoC which sets generous permitted returns based on fixed assets. Outside Hong Kong, PAH also holds investments in Australia, the UK, Canada, New Zealand,

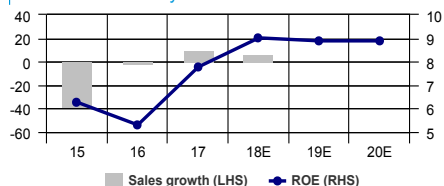
Price Performance



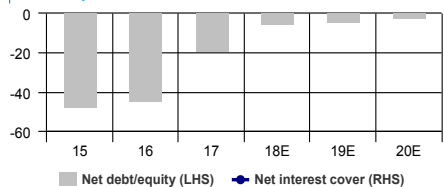
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (HKD)	3.91	3.38	3.37	3.81	3.56	3.62
Reported EPS (HKD)	3.62	3.01	3.90	3.81	3.56	3.62
DPS (HKD)	2.70	7.72	10.36	8.90	2.93	2.97
BVPS (HKD)	57.9	55.5	44.8	39.7	40.4	41.1
Weighted average shares (m)	2,134	2,134	2,134	2,134	2,134	2,134
Average market cap (HKDm)	158,082	158,035	148,481	122,080	122,080	122,080
Enterprise value (HKDm)	32,790	37,898	49,293	33,689	32,268	30,793

Valuation Metrics

P/E (DB) (x)	18.9	21.9	20.7	15.0	16.1	15.8
P/E (Reported) (x)	20.4	24.6	17.8	15.0	16.1	15.8
P/BV (x)	1.23	1.23	1.47	1.44	1.42	1.39
FCF Yield (%)	4.1	2.9	3.9	4.4	4.1	4.1
Dividend Yield (%)	3.6	10.4	14.9	15.6	5.1	5.2
EV/Sales (x)	25.1	29.4	34.7	22.3	21.4	20.4
EV/EBITDA (x)	17.7	80.1	55.1	26.1	22.9	21.8
EV/EBIT (x)	17.7	80.1	55.1	26.1	22.9	21.8

Income Statement (HKDm)

Sales revenue	1,308	1,288	1,420	1,513	1,511	1,511
Gross profit	1,308	1,288	1,420	1,513	1,511	1,511
EBITDA	1,849	473	894	1,293	1,411	1,411
Depreciation	2	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	1,847	473	894	1,293	1,411	1,411
Net interest income/(expense)	612	550	515	212	99	89
Associates/affiliates	6,747	6,401	6,154	6,728	6,346	6,484
Exceptionals/extraordinaries	-1,221	-771	1,148	200	17	17
Other pre-tax income/(expense)	-264	-248	-295	-281	-281	-282
Profit before tax	7,721	6,405	8,416	8,152	7,591	7,719
Income tax expense	-11	-12	97	21	-8	-10
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	7,732	6,417	8,319	8,131	7,599	7,728
DB adjustments (including dilution)	616	787	-1,131	0	0	0
DB Net profit	8,348	7,204	7,188	8,131	7,599	7,728

Cash Flow (HKDm)

Cash flow from operations	6,454	4,564	4,879	5,321	5,015	5,012
Net Capex	0	0	935	0	0	0
Free cash flow	6,454	4,564	5,814	5,321	5,015	5,012
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-5,741	-5,805	-32,632	-18,910	-6,179	-6,253
Net inc/(dec) in borrowings	0	0	-2,028	0	0	0
Other investing/financing cash flows	18,582	-49,686	38,192	0	0	0
Net cash flow	19,295	-50,927	9,346	-13,588	-1,164	-1,242
Change in working capital	-1,615	-1,244	-1,406	-1,273	-1,454	-1,454

Balance Sheet (HKDm)

Cash and other liquid assets	68,149	61,710	25,407	11,819	10,655	9,413
Tangible fixed assets	30	29	14	14	14	14
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	66,548	66,941	81,004	83,814	86,399	89,116
Other assets	631	1,097	576	576	576	576
Total assets	135,358	129,777	107,001	96,223	97,643	99,119
Interest bearing debt	9,405	8,514	7,223	7,242	7,242	7,242
Other liabilities	2,356	2,852	4,198	4,198	4,198	4,198
Total liabilities	11,761	11,366	11,421	11,440	11,440	11,440
Shareholders' equity	123,597	118,411	95,580	84,783	86,204	87,679
Minorities	0	0	0	0	0	0
Total shareholders' equity	123,597	118,411	95,580	84,783	86,204	87,679
Net debt	-58,744	-53,196	-18,184	-4,577	-3,413	-2,171

Key Company Metrics

Sales growth (%)	-38.6	-1.5	10.2	6.6	-0.1	0.0
DB EPS growth (%)	1.4	-13.7	-0.2	13.1	-6.5	1.7
EBITDA Margin (%)	141.4	36.7	63.0	85.5	93.4	93.4
EBIT Margin (%)	141.2	36.7	63.0	85.5	93.4	93.4
Payout ratio (%)	74.5	256.8	265.8	233.5	82.3	81.9
ROE (%)	6.3	5.3	7.8	9.0	8.9	8.9
Capex/sales (%)	0.0	0.0	0.0	0.0	0.0	0.0
Capex/depreciation (x)	0.0	nm	nm	nm	nm	nm
Net debt/equity (%)	-47.5	-44.9	-19.0	-5.4	-4.0	-2.5
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Power Assets	0006.HK	57.20 (HKD) 25 Jul 2018	NA

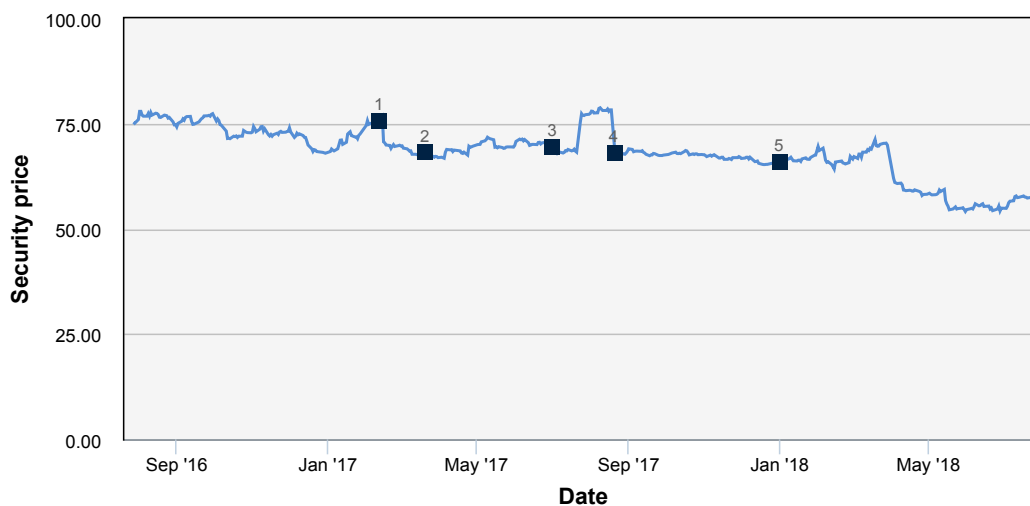
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Historical recommendations and target price. Power Assets (0006.HK)

(as of 07/25/2018)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1.	02/12/2017	Hold, Target Price Change HKD 71.60 Thomas Zhu, CFA	4.	08/21/2017	Hold, Target Price Change HKD 63.20 Jie Si**
2.	03/21/2017	Hold, Target Price Change HKD 66.60 Thomas Zhu, CFA	5.	01/02/2018	Hold, Target Price Change HKD 64.90 Thomas Zhu, CFA
3.	07/02/2017	Hold, Target Price Change HKD 70.70 Thomas Zhu, CFA			



Equity Rating Key

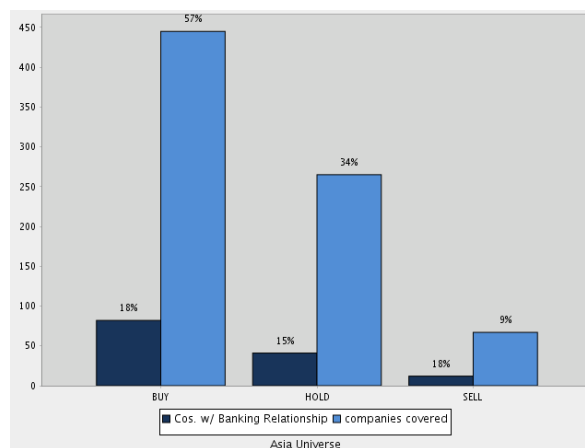
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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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Equity rating dispersion and banking relationships





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