



## Company Report: CLP Holdings (00002 HK)

公司报告: 中电控股 (00002 HK)

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# Uncertainty In Australia, Hong Kong Stable, "Accumulate"

澳大利亚业务存在不确定性, 香港业务稳定, “收集”

- **The Australian Energy Regulator ("AER") formally began the process to set a default market offer ("DMO") price for retail electricity, which will likely lead to lower retail prices beginning July 1, 2019.** The average residential electricity price in Australia had risen 55.8% to AU\$ 29.6 cents/kWh from AU\$ 19.0 cents/kWh during the period 1H2007 to 1H2018. Increased regulatory uncertainty as a result of the scrapping of the NEG and establishment of the DMO will likely keep retail market competition high as wholesale prices are expected to decline, which could lead to downward pressure on CLP's Australia business results.
- **We revise 2018E-2020E shareholders' profit by (0.6%)/ (4.4%)/ (0.0%) to HK\$ 15,024 mn/ HK\$ 13,734 mn/ HK\$ 14,475 mn.** The downward revision primarily accounts for increased uncertainty surrounding CLP's Australia business. We expect downward pressure on the Company's margins to negatively impact earnings in Australia due to high competition in the retail energy market while wholesale prices gradually trend downwards, reducing earnings from the wholesale segment.
- **Lower TP to HK\$ 91.00 and maintain investment rating, "Accumulate".** The TP represents 15.3x/ 16.7x/ 15.9x 2018E-2020E PER and corresponds to 1.8x/ 1.7x/ 1.6x 2018E-2020E PBR. We have lowered our TP as we have priced in higher risk from CLP's Australia business but maintain our investment rating as we believe the Company remains an attractive defensive investment that offers predictable earnings and stable dividend growth.
- **澳大利亚能源监管机构("AER")正式开始设定零售电力的默认市场报价("DMO"),从2019年7月1日开始可能导致零售价格下降。**澳大利亚的平均住宅电价在2007年上半年至2018年上半年期间从19.0澳分/千瓦时上涨55.8%至29.6澳分/千瓦时。由于废弃《国家能源保障》和设定DMO将增加监管不确定性,零售能源市场竞争预期维持激烈,而批发电价预期将下降,这将对公司的澳大利亚业务产生下行压力。
- **修订2018年-2020年股东净利预测(0.6%)/(4.4%)/(0.0%)至150.24亿港元/137.34亿港元/144.75亿港元。**下调主要是因为公司的澳大利亚业务不确定性增加。由于零售能源市场竞争激烈,我们预计公司在澳大利亚的利润率下行压力将对盈利产生负面影响,而批发价格逐渐下降,从而减少批发业务的盈利。
- **下调目标价至91.00港元并维持投资评级“收集”。**目标价相当于15.3倍/16.7倍/15.9倍2018年-2020年市盈率,相当于1.8倍/1.7倍/1.6倍2018年-2020年市净率。我们下调目标价,因为我们认为公司澳大利亚业务的风险较高,但维持我们的投资评级,因为我们认为公司仍然是具有吸引力的防御性投资,可提供可预测的收益和稳定的股息增长。

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6-18m TP目标价:

**HK\$91.00**

Revised from 原目标价:

HK\$95.00

Share price 股价:

HK\$87.050

### 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 %	(1.0)	(4.4)	9.7
Rel. % to HS Index 相对恒指变动 %	(0.4)	5.2	21.7
Avg. Share price(HK\$) 平均股价(港元)	86.9	90.0	82.4

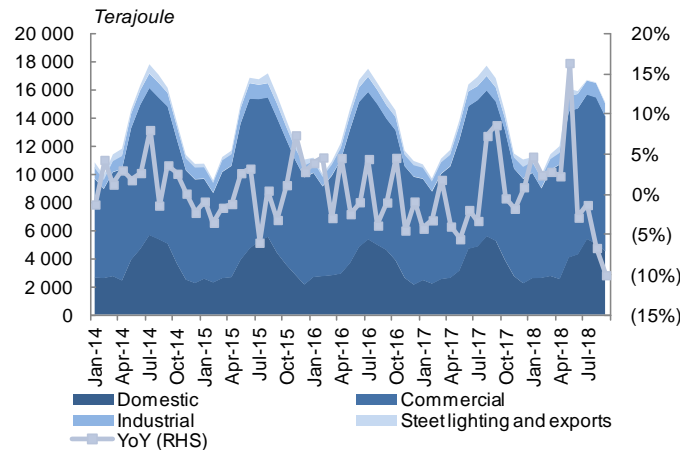
Source: Bloomberg, Guotai Junan International.

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	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2016A	79,434	12,711	5.030	(18.9)	17.3	41.866	2.1	2.800	3.2	13.3
2017A	92,073	14,249	5.640	12.1	15.4	48.094	1.8	2.910	3.3	13.8
2018F	97,038	15,024	5.947	5.4	14.6	51.026	1.7	3.016	3.5	13.4
2019F	99,310	13,734	5.436	(8.6)	16.0	53.336	1.6	3.134	3.6	11.5
2020F	102,627	14,475	5.730	5.4	15.2	55.834	1.6	3.232	3.7	11.5
Shares in issue (m) 总股数 (m)				2,526.0	Major shareholder 大股东			The Hon Sir Michael Kadoorie	19.0%	
Market cap. (HK\$ m) 市值 (HK\$ m)				219,888.3	Free float (%) 自由流通比率 (%)					72.0
3 month average vol. 3个月平均成交股数 ('000)				3,441.1	FY18 Net gearing (%) FY18 净负债/股东资金 (%)					51.0
52 Weeks high/low (HK\$) 52周高/低 (HK\$)				97.000 / 75.050	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)					99.1

Source: the Company, Guotai Junan International.

**Total electricity consumption in Hong Kong during M1-M9 2018 was basically flat YoY due to reduced exports to mainland China.** The Hong Kong Census and Statistics Department reported total electricity consumption during M1-M9 2018 was 125,332 TJ, basically flat YoY. Excluding electricity exported to mainland China, local power consumption during the period was 123,334 TJ, up 1.4% YoY, basically in line with our expectations. Residential and commercial use of electricity continued to account for the majority of power consumption in Hong Kong, representing 26.9% and 64.5% of total consumption during the same period. Over the next few years, we expect power consumption growth in Hong Kong to remain stable at around 1.0%.

**Figure-1: Hong Kong Electricity Consumption**

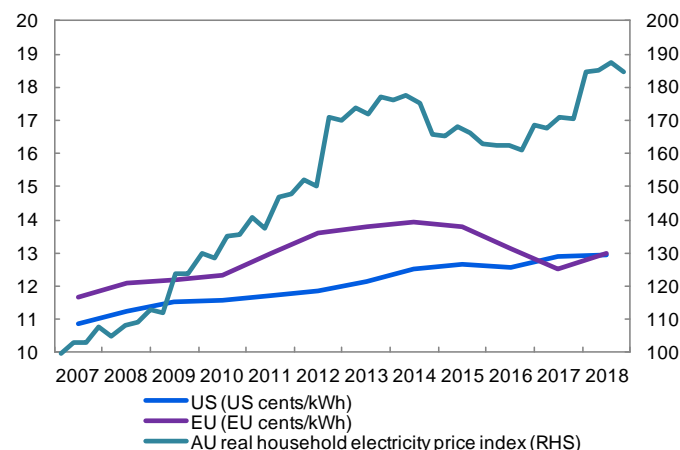


Source: HK Census and Statistics Department.

**The Australian Energy Regulator ("AER") formally began the process to set a default market offer ("DMO") price for retail electricity, which will likely lead to lower retail prices beginning July 1, 2019.** The AER published its position paper in response to the Australian government's decision to scrap the National Energy Guarantee ("NEG") and request for the AER to develop an electricity price cap as recommended by the Australian Competition and Consumer Commission ("ACCC") in its retail pricing report in June, 2018. A formal decision will be made on April 30, 2019. The AER has indicated that it would prefer to use a "top-down" approach to determine the DMO, whereby the DMO would be determined based on current market prices and future expected prices. The AER will also evaluate the DMO through a traditional "bottom-up" approach through cost-based analysis, but has expressed concerns about accessibility of accurate detailed cost information and limited time.

**Australian electricity prices have increased significantly faster than other developed nations over the past decade.** The ACCC reported that the average residential electricity price in Australia had risen 55.8% to AU\$ 29.6 cents/kWh from AU\$ 19.0 cents/kWh during the period 1H2007 to 1H2018. According to the Australian Energy Statistics, the real household electricity price index rose 82.7% over the same period. Average residential electricity prices in the U.S. and EU over the same period rose 19.0% and 11.4% to US\$ 12.9 cents/kWh (approx. AU\$ 13.7 cents/kWh) and EUR 13.0 cents/kWh (approx. AU\$ 20.4 cents/kWh), respectively.

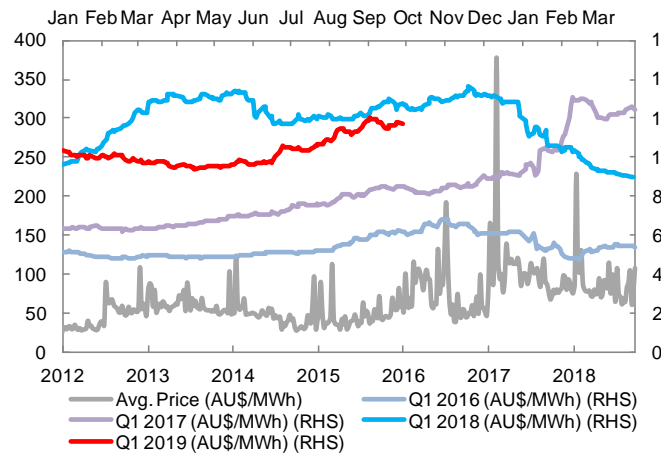
**Figure-2: Average Electricity Prices in Australia vs. U.S. and EU, 2007-2018**



Source: EIA, Eurostat, Australian Energy Statistics.

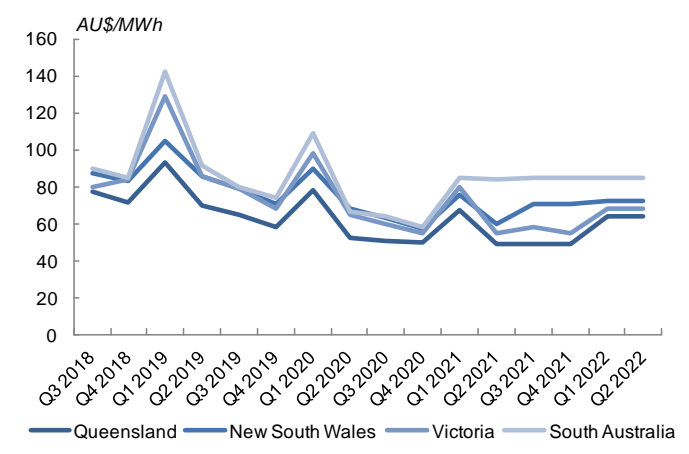
**High competition in retail electricity markets and gradually declining wholesale electricity prices amidst increased regulatory uncertainty could weigh on CLP's results in Australia over the next few years.** The Company said it expects competition in retail markets to remain high in 2H2018, recording a 3.3% YoY decline in total account numbers in 1H2018. Weighted average wholesale electricity spot prices during M1-M9 2018 declined 22.0% YoY to AU\$ 85/MWh as prices have declined from the spike as a result of the Hazelwood Power Station closure in March 2017 and new renewable power sources coming online. Forward contract prices for wholesale electricity suggest a gradual declining trend over the next few years, as average prices are expected to decline 19.9% from 4Q2018 to 4Q2021. Increased regulatory uncertainty as a result of scrapping of the NEG and establishment of the DMO will likely keep retail market competition high as wholesale prices are expected to decline, which could lead to downward pressure on CLP's Australian business results.

**Figure-3: Australia Electricity Average Spot Prices and Q1 Contract Prices**



Source: the Company, Guotai Junan International.

**Figure-4: Australia Electricity Quarterly Forward Base Contract Prices**



Source: the Company, Guotai Junan International.

**Earnings and Valuation**

**We revise 2018E-2020E shareholders' profit by (0.6%)/ (4.4%)/ (0.0%) to HK\$ 15,024 mn/ HK\$ 13,734 mn/ HK\$ 14,475 mn.** The revised estimates represent YoY growth of 5.4%, (8.6%), and 5.4%, respectively. We have adjusted downward our earnings forecasts primarily to account for increased uncertainty surrounding CLP's Australian business. We expect downward pressure on the Company's margins to negatively impact earnings in Australia due to intense competition in the retail energy market while wholesale prices gradually trend downwards, reducing earnings from the wholesale market.

**Table 1: Major Assumptions Revisions**

HKD million	New estimates			Previous estimates			Revision % change		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Revenue	97,038	99,310	102,627	95,546	99,317	103,647	1.6%	(0.0)%	(1.0)%
Operating profit	19,605	18,107	19,167	19,184	18,505	18,944	2.2%	(2.2)%	1.2%
Shareholders' profit	15,024	13,734	14,475	15,108	14,367	14,480	(0.6)%	(4.4)%	(0.0)%

Source: the Company, Guotai Junan International.

**Table 2: CLP's Operating Earnings\* Estimates**

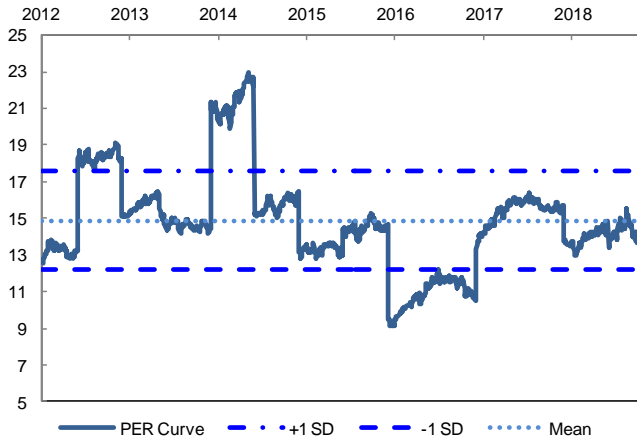
HKD million	2016	2017	2018E	2019E	2020E
Hong Kong SoC	8,758	8,863	8,683	7,674	7,996
India	469	647	668	830	1,123
Australia	1,849	2,739	3,725	2,652	2,630
China and Others	1,258	1,058	1,940	2,167	2,308
<b>Total</b>	<b>12,334</b>	<b>13,307</b>	<b>15,016</b>	<b>13,323</b>	<b>14,057</b>
% YoY change	7.1%	7.9%	12.8%	(11.3)%	5.5%

Source: the Company, Guotai Junan International.

\*Note: operating earnings is defined as shareholders' profit excluding items affecting comparability.

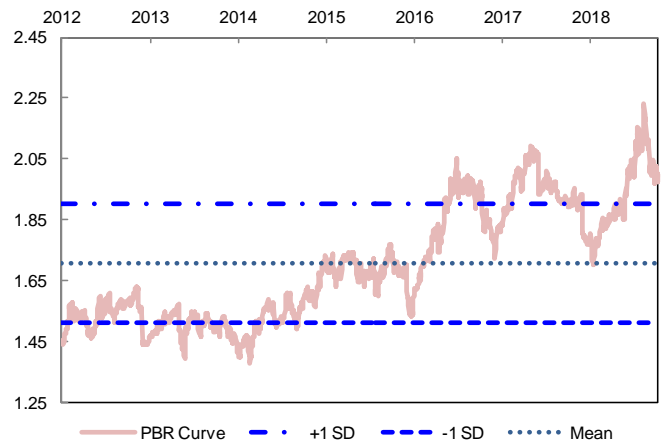
**Lower TP to HK\$ 91.00 and maintain investment rating, "Accumulate".** The TP represents 15.3x/ 16.7x/ 15.9x 2018E-2020E PER and corresponds to 1.8x/ 1.7x/ 1.6x 2018E-2020E PBR. CLP's 5-year historical average PER is 14.57x and PBR is 1.77x. We have lowered our TP as we have priced in higher risk from CLP's Australia business but maintain our investment rating as we believe the Company remains an attractive defensive investment that offers predictable earnings and stable dividends growth, especially considering current market conditions.

**Figure-5: CLP's PER Curve, 2012-2018**



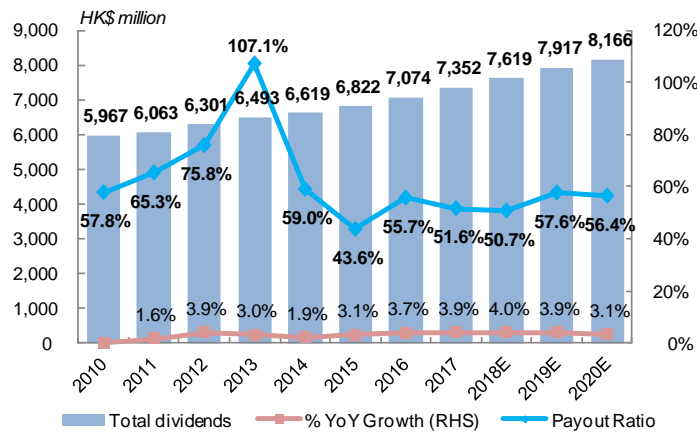
Source: Bloomberg, Guotai Junan International.

**Figure-6: CLP's PBR Curve, 2012-2018**



Source: Bloomberg, Guotai Junan International.

**Figure-7: CLP's Dividends and Payout Ratio, 2010-2020E**



Source: the Company, Guotai Junan International.

**Table 3: 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	87.05	15.4	15.1	16.9	16.4	2.0	1.9	1.8	1.7	12.9	3.5	10.4
Ck Infrastructure Holdings L	1038 HK	HKD	57.65	14.2	13.0	12.3	11.8	1.4	1.3	1.2	1.2	10.1	4.4	65.0
Power Assets Holdings Ltd	6 HK	HKD	52.65	13.5	14.3	14.3	14.0	1.2	1.4	1.3	1.3	8.7	5.3	90.7
Hk Electric Investments -Ss	2638 HK	HKD	7.46	19.7	19.5	25.6	25.2	1.3	1.3	1.3	1.4	6.8	5.4	13.2
Simple Average				15.7	15.5	17.3	16.8	1.5	1.5	1.4	1.4	9.6	4.6	44.8
Weighted Average				15.2	14.9	16.1	15.7	1.6	1.5	1.5	1.4	10.5	4.3	42.2
<b>International Peers</b>														
Nextera Energy Inc	NEE US	USD	85.58	19.6	18.0	17.2	16.3	1.4	1.4	1.4	1.3	7.9	4.3	12.4
Duke Energy Corp	DUK US	USD	176.56	15.4	22.8	21.1	19.6	2.9	2.5	2.3	2.2	11.8	2.5	13.2
Southern Co/The	SO US	USD	46.81	55.7	15.5	15.5	15.1	1.9	1.8	1.8	1.7	12.0	5.1	11.7
Dominion Energy Inc	D US	USD	72.25	15.3	17.7	17.0	16.3	2.7	2.2	2.1	2.1	13.7	4.6	12.7
American Electric Power	AEP US	USD	75.32	19.4	19.1	18.2	17.2	2.0	1.9	1.9	1.8	10.5	3.3	11.6
P G & E Corp	PCG US	USD	39.92	12.4	10.4	9.9	9.5	1.1	1.0	0.9	0.9	10.9	0.2	8.1
Edison International	EIX US	USD	61.00	35.3	14.8	13.5	12.5	1.7	1.6	1.5	1.4	11.1	4.0	8.8
Xcel Energy Inc	XEL US	USD	50.34	22.3	20.4	19.3	18.1	2.2	2.1	2.0	1.9	10.7	3.0	11.6
Ppl Corp	PPL US	USD	31.69	19.3	13.5	13.0	12.4	2.0	1.9	1.8	1.7	14.8	5.2	10.9
Allete Inc	ALE US	USD	76.85	22.7	22.8	21.2	19.5	1.9	1.8	1.8	1.7	8.2	2.9	12.1
Firstenergy Corp	FE US	USD	38.00	n.a.	15.2	15.0	14.9	4.3	2.7	2.4	2.3	23.4	3.8	9.8
Entergy Corp	ETR US	USD	85.56	37.4	12.4	14.3	15.0	1.9	1.8	1.7	1.7	13.2	4.2	10.7
Eversource Energy	ES US	USD	65.14	20.9	19.9	18.7	17.6	1.9	1.8	1.7	1.7	9.1	3.1	12.8
Ausnet Services	AST AU	AUD	1.72	24.0	21.2	25.6	24.5	1.7	1.7	1.6	1.6	8.0	5.5	11.3
Erm Power Ltd	EPW AU	AUD	1.71	n.a.	n.a.	14.1	7.8	0.7	1.7	1.8	1.5	(19.8)	5.4	163.3
Simple Average				24.6	17.4	16.9	15.8	2.0	1.9	1.8	1.7	9.7	3.8	21.4
Weighted Average				23.8	18.0	17.2	16.4	2.2	2.0	1.9	1.8	11.7	3.7	11.9

Source: Bloomberg, 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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