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HONG KONG RESEARCH
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CLP HOLDINGS LIMITED (中電控股)

Sector	: Utilities	Chairman	: The Hon. Sir Michael Kadoorie
HKSE Code	: 0002		
Market Price	: HK$66.85 (12/08/2008)	CEO	: Mr. Andrew Brandler
Shares Issued	: 2,408.2m		
Mkt. Cap.	: HK$160,991.2m	Group Executive Director & CFO	: Mr. Tse Pak Wing Peter
52 weeks Hi/ Lo	: HK$70.50 / HK$48.50		
HSI	: 21,675.67 (12/08/2008)		
Main Business	: Electricity generation		

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2008

Interim Results Highlights

	1H2008 HK$ million	1H2007 HK$ million	*Change*
• Consolidated revenue	27,534	24,672	*+11.6%*
• Earnings before one-off item	5,254	4,984	*+5.4%*
• One-off items	356	1,146	*-68.9%*
• **Profit attributable to shareholders**	**5,610**	**6,130**	***-8.5%***
• Basic EPS	2.33	2.55	*-8.6%*
• Interim DPS	1.04	1.04	*+0.0%*
• Consolidated revenue	27,534	24,672	*+11.6%*

- CLP Holdings reported an 8.5% y-o-y decline in net profit to HK$5,610m in 1H08, mainly due to the absence of a one-off gain of HK$1,030m from the sale of Ho-Ping Power Plant in Taiwan in the previous year.

- Excluding all the one-off items (1H07: HK$1,146m in total; 1H08: 356m in total), earnings grew 5.4% y-o-y to HK$5,254m. SOC earnings increased by 7.6% with increased capex, while the non-Hong Kong business recorded a decline, attributable to various negative impacts in individual market.

- For 1H08, basic EPS was HK$2.33. Total DPS for 1H08 amounted to HK$1.04, representing a payout ratio of 44.6% (1H07: 40.8%).

- As of 30th June 2008, the Group's cash and cash equivalent totalled HK$2,265m (31/12/2007: HK$2,779m). Total borrowing increased to HK$31,847m as of 30 June 2008, compared to HK$28,360m as of 31 Dec 2007. The Group's net debt to equity ratio rose to 43.4% from 40.0%.

Business Review

- Earnings breakdown by business segments:

(HK$ million)	1H2008	1H2007	Change
Hong Kong	4,040	3,756	*+7.6%*
Sales from Hong Kong to Mainland	42	61	*-31.1%*
Mainland investment supporting HK business	492	399	*+23.3%*
China	34	62	*-45.2%*
Australia	31	484	*-93.6%*
India	263	175	*+50.3%*
OneEnergy, Southeast Asia & Taiwan	75	266	*-71.8%*
Earnings from energy activities	***4,977***	***5,203***	***-4.3%***
Tax adjustments*	454	4	
Unallocated net finance costs	(1)	(54)	
Unallocated Group expenses	(176)	(169)	
Earnings before one-off item	***5,254***	***4,984***	***+5.4%***
Gain on injection of Ho-Ping into One Energy		1,030	
Sale of interest in SEAGas, Australia,	423		
Coal mine subsidence in Australia	(67)		
Outsourcing costs of TRUenergy		(249)	
Deferred tax write-back for TIPS		365	
Profit attributable to shareholders	**5,610**	**6,130**	***-8.5%***

* Write-back of deferred tax provision resulting from lower profits tax rate in Hong Kong

- Earnings from **Hong Kong** SOC operations increased 7.6% y-o-y to HK$4,040m in 1H08 on expansion of its SOC asset base. Local power demand growth remained sluggish. With the unusual weather conditions in 1H08 and customers' increasing energy saving consciousness, the company recorded a 1.5% decline in demand in 1H08. In addition, the power exports to Guangdong also recorded a significant decline of 18.9%, mainly due to the increased power supply to Guangdong from other provinces.

- In **Australia**, TRUenergy saw its earnings before exceptional items down 93.6% to HK$31m in the first half, due to a HK$160m unrealized valuation loss of electricity trading contracts in 1H08, against HK$367m gain in 1H07. Despite Australia business was an under-performer for CLP in 1H08, on the positive side, TRUenergy's operating profit surged 100% y-o-y, benefiting from higher retail prices and sale volume (number of retail customer was up 7% y-o-y to 1.28m in 1H08).

- Earnings from **China**, another disappointing market for CLP, plunged 45.2% y-o-y to HK$31m in 1H08, as rising coal prices and the delay in coal price linked tariff adjustment eroded the earrings from the Chinese mainland power projects. It is expected that net profit margin of most Chinese power plants would likely remain thin, as Chinese government is reluctant to propose any tariff hike in order to control the inflation.

- Earnings from GPEC in **India** surged by 50.3% y-o-y to HK$263m in 1H08, mainly due to the foreign exchange compensation under the power purchase agreement as a result of the depreciation of Indian Rupee since 2007 year end. However, the company recorded only flat growth in operating earnings, implying a slowing growth in this market. The only good news is that CLP successfully won the bid in a 1,320MW coal-fired power project in Haryana, which is targeted to commission Phase 1 by 2011, and Phase 2 by 2012.

- Earnings from **Southeast Asia and OneEnergy** plunged 71.8% y-o-y to HK$75m in 1H08, mainly attributable to: 1) the decline in earnings contribution at Ho Ping in Taiwan after the disposal of stakes and 2) less profit from EGCO in Thailand, in which 1H07 profit was inflated from accounting adjustments related to lease and forex transactions.

Outlook & Prospect

- ***Lower SOC return expected*** Hong Kong remains CLP's key profit source, accounting for 81% of the company's core earnings in 1H08, higher than the 72% in 1H07. However, management hinted that electricity tariffs might be reduced within two months, coinciding with the new regulatory regime (to 9.9% from a previous maximum of 15%) that comes into effect on 1st October 2008. Moreover, electricity demand growth for Hong Kong is expected to remain at low-single digit p.a. given the city’s mature economy and increasing energy conservation awareness. Therefore, the growth prospect of HK market remains gloomy in the foreseeable future.

- ***LNG (Liquefied Natural Gas) project as the only short-term catalyst*** Management updated that CLP has submitted its capex plan covering the period from 1st Oct 2008 to 31st Dec 2013 for government approval, including the proposed HK$8bn LNG terminal on Soko Island. The new facility will have an annual capacity of 2.6 million tonnes and supply LNG for CLP’s gas-fired generators at Black Point Power station. As a result, CLP could increase the net fixed-asset growth, boosting the SOC return in the coming years.

- ***Unexciting overseas operations*** CLP delivered disappointing 1H08 results in China (due to higher coal costs), Australia (due to mark-to-market loss) and Southeast Asia (due to accounting adjustments in Thailand and reduced stake in Taiwan). India was the only overseas market with y-o-y profit rise in 1H08, boosted by foreign exchange gain.

- ***Defensive but over-valued*** CLP has been the pillar of stability during this turbulent year, reflected in its share-price upswing of 25.5% YTD vs a 22.2% drop in the HSI. However, the out-performance lowered its dividend yield to only 3.78%, slightly reducing its defensiveness. CLP’s higher net-asset-growth potential coupled with greater overseas prospects make it better placed to mitigate a reduction in SOC returns, when compared with HK Electric. However, trading at 16.0X FY08E P/E and 2.53 FY08E P/B, the shares of CLP should have priced in the positive catalysts such as its LNG terminal and relative defensiveness. Therefore, we believe CLP is currently “over-valued”.

Recommendation: *Over-valued*

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