

Analyst: Paul Sham
HONGKONG ELECTRIC HOLDINGS LIMITED (香港電燈)

Sector	: Utilities	Chairman	: Mr. Canning Fok Kin-ning
HKSE Code	: 0006	Group Managing Director	: Mr. Tso Kai-sum
Market Price	: HK\$44.80 (06/03/2008)		
Shares Issued	: 2,134.3m		
Mkt. Cap.	: HK\$95,616.6m		
52 weeks Hi/ Lo	: HK\$46.80 / HK\$37.45		
HSI	: 23,342.73 (06/03/2008)		
Main Business	: Electricity generation		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	FY2007	FY2006	Change
	HK\$ million	HK\$ million	
Turnover	12,524	12,181	+2.8%
Operating profit	8,235	7,914	+4.1%
Share of results of associates	524	229	+128.8%
Profit attributable to shareholders	7,448	6,842	+8.9%
	HK\$	HK\$	
EPS	3.49	3.21	+8.7%
Final DPS	1.43	1.27	+12.6%
Interim DPS	0.58	0.58	
Total DPS	2.01	1.85	+8.6%

- Hongkong Electric's ("HKE") net profit was up 8.9% y-o-y to HK\$7,448m, above consensus estimates of HK\$6,824m to HK\$7,216m, mainly boosted by an unexpected HK\$300m one-off actuarial gain on retirement scheme and an increased contribution from overseas operations.
- Share of profits from associates increased substantially by 128.8% to HK\$524m on the inclusion of Northern Gas in the UK as an "associate" in 2007, from a "security for sale" in 2006.
- As of 31st Dec 2007, net debt was HK\$1,315m, compared with HK\$4,227m as of 31st Dec 2006. Net debt-to-equity ratio of HKE declined to 3% as of 31st Dec 2007, down from 10% as of 31st Dec 2006, due to a 8.1% decrease in overall external borrowings as well as a 16% increase in cash items.
- EPS for FY2007 was HK\$3.49. HKE proposed a final DPS of HK\$1.43, up 12.6% y-o-y and the full-year dividend payout ratio for FY2007 was maintained at 57.6%.

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Business Review

- Net profit breakdown by geographical segments:

	FY2007		FY2006		Change
Hong Kong	6,727	90.3%	6,173	90.2%	+9.0%
Overseas	632	8.5%	560	8.2%	+12.9%
Unallocated & other items	89	1.2%	109	1.6%	-18.3%
Attributable profit	7,448	100.0%	6,842	100.0%	+8.9%

- Net profit from **Hong Kong operations** increased by 9.0% in FY2007, benefited from increased local electricity sale volume (+1.1% y-o-y) and higher interest income (+97.7% y-o-y). Most importantly, the earnings were boosted by a HK\$300m one-off gain related to retirement benefit adjustments. In addition, it is the first time that HKE was able to earn its maximum permitted SOC return since FY2002.
- Earnings from **overseas investments** increased slightly by 7.8%, from HK\$669m to HK\$721m with 13% y-o-y growth from Australian businesses, partly due to the appreciation of Australian dollars.

Outlook & Prospect

- **Uncertainty removed despite lower SOC return** The new SOC agreement was announced in Jan 2008 and the new SOC return is now 9.99%, down from 13.5% -15.0% in the previous plan. Despite a lower return from HK operation is expected in near term, we believe the move is positive to HKE as it lifts the regulatory overhang and allows management to refocus on seeking business opportunities to grow its business.
- **Overseas investments are the key to grow** Under the new SOC agreement with lower permitted rate of return, HKE should have less incentive to invest in Hong Kong. With its HK\$12bn cash on hand, compared with CLP's HK\$2.8bn, HKE is indeed financially well-resourced for overseas expansion that has higher growth prospects than the matured Hong Kong electricity market. Currently, HKE has growing businesses in Australia, UK, Thailand and Canada and we expect its future growth would be continuously driven by foreign investments.
- **Fair valuation** Trading at 12.8x FY2007 P/E, the cheaper valuation of HKE than CLP's 13.3x P/E reflects its limited overseas exposure. However, being one of the top five Hang Seng Index stocks in terms of dividend yield (currently 4.5%), coupled with its cash rich financial position for acquisition growth, we believe HKE is a good defensive play with certain growth prospects amid the recent market correction. We maintain our "Hold" call.

Recommendation: *Hold*



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