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HUTCHISON WHAMPOA LIMITED (和記黃埔)

Sector	: Conglomerates	Chairman	: Dr. LI Ka-shing
HKSE Code	: 0013	Managing Director	: Canning FOK Kin-ning
Market Price	: HK\$73.70 (27/03/2008)		
HSI	: 22,664.221 (27/03/2008)		
Shares Issued	: 4,263.370 million		
Market Cap.	: HK\$314,210.40 million		
52-week Hi / Lo	: HK\$99.80 / HK\$68.35		

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

	FY2007 HK\$ million	FY2006 HK\$ million	Change
• Turnover (including share of associates and jointly controlled entities)	308,775	267,664	15.36%
• Change in fair value of investment properties	1,988	2,843	-30.07%
• Profit on disposal of investments (including share of associates and jointly controlled entities)	24,638	23,290	5.79%
• Earnings before interest and taxation (EBIT)	64,260	50,887	26.28%
• Interest and other finance costs	(19,054)	(16,601)	14.78%
• Profit attributable to shareholders	30,600	20,030	52.77%
• EPS (HK\$)	7.18	4.70	52.77%
• Final DPS (HK\$)	1.22	1.22	Unchanged
• Total DPS (HK\$)	1.73	1.73	Unchanged

- Hutchison Whampoa (“HWL”) reported a 52.77% y-o-y rise in net profit to HK\$30.6 billion for the year ended 31st Dec 2007, thanks to an extraordinary gain from property revaluation and asset disposals. The results were better than consensus estimates.
- HWL booked an exceptional gain of HK\$26.6 billion - of which HK\$1.99 billion came from property revaluation - and a combined asset disposal gain of HK\$24.6 billion. The sale of the Indian mobile business owned by Hutchison Telecommunications International (2332) early last year delivered the main one-off gain of HK\$35.8 billion.
- Turnover (including share of associates and jointly controlled entities) increased 15.36% y-o-y to HK\$308.775 billion, as both the Group’s established businesses and the “3 Group” recorded healthy growth and improved results in 2007.
- As of 31st Dec 2007, the consolidated net debt of the Group was HK\$129.842 billion (31st Dec 2006: HK\$152.638 billion), while cash resources totalled HK\$111.307 billion (31st Dec 2006: HK\$64.151 billion). The net debt-to-net total capital ratio was 26% (31st Dec 2006: 33%).
- EPS was HK\$7.18 (FY2006: HK\$4.70). A final DPS of HK\$1.22 was declared, bringing the full-year DPS to HK\$1.73 per share, same as in FY2006. Payout ratio was 24.09% (FY2006: 36.81%).

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- **Breakdown of turnover by business segments:**

	FY2007		FY2006		Change
	HK\$ million	%	HK\$ million	%	
Ports and related services	37,891	12.27	33,041	12.34	14.68%
Property and hotels	9,551	3.09	10,717	4.00	-10.88%
Retail	110,007	35.63	99,149	37.04	10.95%
Cheung Kong Infrastructure	17,251	5.59	14,822	5.54	16.39%
Husky Energy	39,781	12.88	29,981	11.20	32.69%
Finance, investments and others	13,606	4.41	12,614	4.71	7.86%
Hutchison Telecommunications International	20,779	6.73	16,672	6.23	24.63%
Sub-total (established businesses)	248,866	80.60	216,996	81.07	14.69%
Telecommunications – 3 Group	59,909	19.40	50,668	18.93	18.24%
Total	308,775	100.00	267,664	100.00	15.36%

- **Breakdown of EBIT/(LBIT) by business segments:**

	FY2007		FY2006		Change
	HK\$ million	%	HK\$ million	%	
Ports and related services	12,849	23.12%	11,395	26.02%	12.76%
Property and hotels	4,060	7.31%	5,667	12.94%	-28.36%
Retail	3,711	6.68%	2,720	6.21%	36.43%
Cheung Kong Infrastructure	7,353	13.23%	6,136	14.01%	19.83%
Husky Energy	10,523	18.94%	8,305	18.97%	26.71%
Finance, investments and others	13,851	24.93%	6,920	15.80%	100.16%
Hutchison Telecommunications International	3,218	5.79%	2,648	6.05%	21.53%
Sub-total (established businesses)	55,565	100.00%	43,791	100.00%	26.89%
Telecommunications - 3 Group	(17,938)		(19,996)		-10.29%
Change in fair value of investment prop	1,995		3,802		-47.53%
Profit on disposal of investments & others	24,638		23,290		5.79%
Total	64,260		50,887		26.28%

- Revenue from **ports and related services** grew 14.68% y-o-y to HK\$37.891 billion, thanks to robust global trade. The combined container throughput increased 12% y-o-y to 66.3 million TEUs, with particularly strong growth at ports in Panama ports container terminal in Panama and Laemchabang ports in Thailand. EBIT of the segment rose by 12.76% y-o-y to HK\$12.849 billion, accounting for 23.12% of total profit contribution from the HWL's established businesses.
- Revenue from the **property and hotels** division dropped 10.88% y-o-y to HK\$9.551 billion, while EBIT fell by 28.36% y-o-y to HK\$4.06 billion. Gross rental income was buoyant at HK\$3.029 billion, up 8% y-o-y, attributable to increased rental income from investment properties in Hong Kong, reflecting continued strong demand for office premises. Development profits for the year, arose mainly from the sale of residential units of Shanghai Regency Park. These profits were 43% less than last year mainly due to lower sales activities from the development projects in the Mainland as the completion and sale of a number of projects has been deferred. The Group's hotel operations reported EBIT 12% better than last year, primarily due to increased demand in Hong Kong.
- The **retail** division reported a turnover growth of 10.95% y-o-y to HK\$9.551 billion on full-year, mainly due to growth of certain health and beauty operations, including Rossmann in Germany and Poland as well as Kruidvat in the Benelux countries; the full year contribution from the business in the Ukraine, which was acquired in Nov 2007; and increased sales reported by the European luxury perfumeries and cosmetics division. EBIT of the segment improved and jumped by 36.43% y-o-y to HK\$3.711 billion, following a management restructuring, the retail division focused in 2007 on integration and streamlining of its operations, and on reducing excess inventory levels.

- **Cheung Kong Infrastructure (CKI)** contributed 5.59% and 13.23% respectively to the HWL's turnover and EBIT. Total turnover and EBIT rose to HK\$17.251 billion and HK\$7.353 billion, representing, 16.39% and 19.83% y-o-y, respectively. CKI acquired and subsequently privatised TransAlta Power for a total cost of around HK\$4.85 billion. In Dec 2007, CKI acquired a 4.75% interest in Southern Water Group in UK.
- HWL's associated company-**Husky Energy** reported an 18% y-o-y surge in FY2007 net profit to C\$3.214 billion on turnover of C\$15.518 billion, driven by higher crude oil prices. Husky contributed 12.88% and 18.94% respectively to the HWL's turnover and EBIT.
- EBIT from **Finance and investments** totalled HK\$13.85 billion, up 100.16% y-o-y. HWL, along with its parent Cheung Kong sold down some H shares including China Cosco (1919) and China Southern Airlines (1055) late last year before the market correction. This segment constituted 24.93% of total EBIT contribution from the HWL's established businesses.
- Its 2G telecom business **Hutchison Telecom Int'l (HTIL)** contributed 6.73% and 5.79% respectively to the HWL's turnover and established-businesses EBIT. HTIL's FY07 turnover was HK\$20.779 billion, a 24.63% y-o-y increase. HWL announced in Jun 2007 that it had increased its shareholding in HTIL from some 49.75% to over 50%. In Jan 2008, HWL purchased additional shares and further increased its holding in HTIL to 59.33%
- **3 Group** reported an 18.24% increase in turnover to HK\$59.909 billion on successful strategy of acquiring quality customers and improving churn. The Group's registered 3G customer base increased 20% to 17.6 million customers. ARPU was €41.74 for FY07, a 9% decline from €45.63 for 2006. Unit average customer acquisition costs (CAC) dropped to €170 from €250 in FY06. Average monthly customer churn rate improved to 2.6% from 2.9% in FY06. Overall, Loss before interest and tax (LBIT) from the 3 Group improved 10% to in FY07, to HK\$17,938 million.

Outlook & Prospect

- **3G** Given its larger customer base and strict cost controls, HWL's 3G business narrowed its losses to HK\$17.94 billion from HK\$20 billion a year earlier. EBITDA was HK\$1.19 billion after deducting customer acquisition costs, compared with a loss of HK\$7.4 billion a year ago, which is a positive sign. Nevertheless, HWL's 3G operation is still suffering from the burden of heavy depreciation and amortisation expenses of about HK\$30 billion every year.
- **Energy** Husky announced a JV with BP to create an upstream oil sands business. The plan will proceed in 3 phases and 1st phase targets 60 million bbls/day of bitumen production by 2012. Such JV helps mitigate risks and costs. In the downstream segment, HWL has now completed its integration of the Lima refinery effective 1 Feb, 2008. Also, following the completion of ethanol plants at Lloydminster and Manitoba, Husky is the largest producer of ethanol in Western Canada.
- **Port** Owing to robust demand, performance of the ports has been maintained since the beginning of this year. Therefore, management expects that last year's double-digit growth could be continued. European ports also benefited from foreign exchange gains. HWL will continue to explore opportunities to invest or expand in high growth ports in Thailand and Bahamas.
- **Property** HWL has 100 million sq. ft. attributable land bank in China at relatively low costs. HWL would further expand its land bank in China and expects that EBIT from property and hotel should double in 2008, driven by PRC property sales.
- **Valuation** Hutchison is currently trading around its ex-3G EV NAV of HK\$74.6 and 31% discount to its all-in NAV. FY2007 results suggest less pressure to sell 3G business and thus could accumulate the counter on weakness.

Recommendation: Accumulate on weakness



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