

**BEA securities**

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HONG KONG RESEARCH**4th October 2004**

Analyst: Stanley Lau

Main Board Listing - Research

中國電力國際發展有限公司

China Power International Development Limited [Stock Code: 2380]

Global Coordinator, Sole Bookrunner and Sponsor : Merrill Lynch Far East Limited

Joint Lead Managers : Merrill Lynch Far East Limited
China Merchants Securities (HK) Co. Ltd.

Sector : Utilities – Electricity

Business : Operator of power plants in the PRC

<p>Total share offer: <u>990,000,000</u> shares (30% of the enlarged share capital)</p> <p>Public Offer: 99,000,000 shares (10%)</p> <p>Placing: 891,000,000 shares (90%)</p> <p>Greenshoe: 135,000,000 shares</p>	<p><u>Business of China Power Int'l Development</u></p> <p>China Power International Development ("CPI") is the flagship company of CPI Group, one of the 5 national power generating groups in China. The principal business of CPI is to develop, construct, own, manage and operate large power plants in China.</p> <p>CPI operates power plants under commercial operation in the provinces of Anhui, Henan and Jiangsu. It holds 100% ownership interest in Pingwei Power Plant and Yaomeng Power Plant, and 50% ownership interest in Changshu Power Plant. The installed capacity attributable to its ownership interests is 3,010 MW.</p> <p>CPI has been entrusted on behalf of CPI Group and CPI Holdings to manage 6 power plants with a total installed capacity of 3,465 MW, that spread across mainland cities including Liaoning, Shanxi, Fujian, Jiangxi, Anhui and Jiangsu.</p> <p>CPI has a call option to acquire up to a 25% equity interest in Shanghai Power, which has a net installed capacity of 2,809 MW.</p> <p>CPI plans to build 3 additional power plants. These planned power plants, when completed, will attribute a total capacity of 3,468 MW to the company.</p>
<p>Price: HK\$2.10 – HK\$2.60 per share</p> <p>Market Cap.: HK\$6.3 billion – HK\$7.8 billion</p> <p>Forecast FY2004 P/E: 10.5x – 13.0x (fully-diluted)</p> <p>Adjusted NTA per share: HK\$1.78 – HK\$1.92</p> <p>Staffing: 6,661</p>	
<p>Book opens: 4th October 2004</p> <p>Book closes: 7th October 2004</p> <p>Receiving bank: Bank of China (HK) Limited</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 15th October 2004</p>	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

China Power Development Limited (CPDL)*

67%

**CPI Holding is the beneficial owner of all the issued shares in CPDL and, in turn, CPI Group is the beneficial owner of all the issued shares in CPI Holding.*

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,970 million.

(Assuming the over-allotment option is not exercised and an offer price of HK\$2.35 per share, being the midpoint of the stated range of HK\$2.10 and HK\$2.60 per share)

	HK\$ million
Investments in planned power plants	850
Future acquisitions and general corporate purposes	1,120

Financial Highlights

	6 months ended 30 th June 2004 RMB million	Year ended 31 st December 2003 RMB million	2002 RMB million	2001 RMB million
Turnover	1,664.9	2,915.4	2,581.6	2,434.6
Fuel costs	(815.4)	(1,315.6)	(1,189.8)	(1,044.2)
Operating profit	350.6	603.6	493.6	342.0
Net profit	369.9	605.2	526.0	405.6
EBITDA	628.1	1,120.7	1,015.4	968.1

Summary information on CPI's power plants

I. Power Plants under Commercial Operation

Plants	Locations	Fuel	Total Installed Capacity (MW)	CPI Ownership (%)	Attributable Capacity (MW)
Pingwei	Anhui	Coal	1,200	100	1,200
Yaomeng	Henan	Coal	1,210	100	1,210
Changshu	Jiangsu	Coal	1,200	50	600
Total			3,610		3,010

II. Power Company under Call Option

Plants	Locations	Fuel	Total Installed Capacity (MW)	CPI Ownership (%)	Attributable Capacity (MW)
Shanghai Power	Shanghai	Coal	2,809	25	702

III. Planned Power Plants

Plants	Locations	Total Installed Capacity (MW)	CPI Ownership (%)	Attributable Capacity (MW)	Estimated In-Service Date
Pingwei II	Anhui	1,200	100	1,200	2007/2008
Yaomeng II	Henan	1,200	100	1,200	2007/2008
Huanggang	Hubei	1,200	89	1,068	2008/2009
Total		3,600		3,468	

Supply and Demand for Power in the PRC

	Installed Capacity (MW)	Increase (%)	Electricity Generation (TWh)	Increase (%)	Utilisation Hours (Hours)
2003	391,000	9.7	1,908	15.3	4,880
2002	356,570	5.3	1,654	11.5	4,639
2001	338,612	6.0	1,484	8.4	4,382

Strengths/Opportunities

- ✓ The installed capacity of China's power plants is still insufficient to meet current and expected future demand for power. The tight supply and demand situation is expected to persist in the near term and benefit the industry.
- ✓ CPI is expected to benefit from its affiliation with CPI Group and CPI Holding. Its preferential rights and call option should enable it to take advantage of the PRC's growing power market and implement its development strategy.
- ✓ The power plants under its operations are advantageously located in more affluent regions in China (Anhui, Henan and Jiangsu provinces), which have rapid GDP growth and have a high demand for electricity. The strategic locations of these power plants reduce both the transportation cost of coal and its reliance on State-allocated transportation resources, thus increasing the reliability of the coal supply to its power plants.
- ✓ The valuation of CPI at 10.5x-13.0x 04E P/E is not demanding. This compares with 04E valuations of 14.5x for Huaneng Power (*stock code*: 0902), 13.2x for China Resources Power (*stock code*: 0836), 15.5x for Datang Power (*stock code*: 0991) and 13.0x for Huadian Power (*stock code*: 1071).

Weaknesses/Threats

- × The PRC government has reserved controls over on-grid tariff setting. The on-grid tariffs for its output are subject to regulation set by the relevant provincial government. Any future reductions in the tariffs, or inability to raise tariffs, might adversely affect its revenue.
- × CPI faces intense competition from existing and new power plants, which could reduce the average utilisation hours and limit growth opportunities. CPI competes with various players including power plants operated by large power companies and smaller local players, for opportunities to develop power plants and for resources (e.g. coal and investment capital) to develop and operate power plants.
- × Cost of coal has gone up substantially in the past years. While cost of coal accounts for 50% of the company's operating costs, any increases in coal prices or disruption in coal supply might increase the operation costs of its power plants if the company could not transfer the cost to the users.
- × CPI will require substantial amount of CAPEX investment over the next 5 years. Given that a large portion of CPI's future net cash flow from operations will go towards the cash investment requirements for the new plants, the company's debt and interest expenses are likely to rise in the years ahead.

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