

CLP Holdings: Transcript of Analysts Briefing on conditional agreement to acquire a 17% stake in Yangjiang Nuclear

OPERATOR:

Good morning, good afternoon and good evening everyone. Welcome to today's conference call. Mr Peeters, please begin the call. I'll be standing by for the question and answer session.

GEERT PEETERS:

Good evening ladies and gentlemen, and welcome to this conference call of CLP regarding our latest transaction. My name is Geert Peeters; I am the Chief Financial Officer of the company. I have with me Mr CC Tang, Senior Director Nuclear Operations. Between the two of us, we will brief you on this transaction and address some of your questions.

So as I said, this is our conference call regarding the announcement by CLP that our company has entered into an agreement to acquire a 17 per cent interest in the 6,516 MW Yangjiang nuclear facility in Guangdong Province in China, 220 kilometres southwest of Hong Kong.

The acquisition is entirely aligned with our long term "Focus • Delivery • Growth" strategy as the acquisition of an interest in Yangjiang increases our footprint in one of our key markets. This is in line with and builds on our core capabilities, and delivers to our shareholders a value creating investment in non-carbon emitting generation, thus helping us towards our goals of reducing the emissions intensity of our generation portfolio.

On Focus - the acquisition will provide the ability to grow into the dynamic economic and major load centres of Guangdong Province with a big demand of about 100 GW, which has the largest GDP in China and is hub to the new economy there. The investment also reflects our confidence in the role of nuclear power in the decarbonisation of China's electricity industry.

We will again be partnering with CGN with whom we started building the first large-scale commercial nuclear power plant in China at Daya Bay in 1985. There has been a long and fruitful connection between our two companies, and we look forward to further capitalise on this valuable and valued relationship.

On Delivery - the acquisition provides us with an opportunity to leverage our strong in-house nuclear power capacity capabilities and experience over the long term. The Yangjiang plant is of a similar but more advanced technology than the Daya Bay

Nuclear Power Station, which we have co-owned for over three decades, and builds on the excellent safety and operational record of that facility.

It is a safe, reliable and economically sound Generation II nuclear facility. The project has largely been derisked with Units 1, 2 and 3 become operational in 2014, 2015 and 2016 respectively. Units 4, 5 and 6 are scheduled to come online in 2017, 2018 and 2019 respectively.

Last but not least, on Growth - the transaction will be earnings accretive to CLP from our first day of ownership, and will be accounted for using equity method. It will be financed from existing internal resources supplemented with third party debt, which will be backed by strong cash flows from the already existing China activities.

I will now provide and discuss in some more details the transaction itself. The purchase consideration for the acquisition is RMB5.0 billion or HK\$5.6 billion at today's exchange rate, plus additional audited completion adjustments as will be appropriate at the time of final closing.

Taking into account the initial purchase consideration, the mentioned adjustments on completion and the future equity contributions required to co-fund the construction in progress, the total investment is expected to amount to RMB7.0 billion or HK\$7.8 billion by the date of full commissioning of the entire complex of six units.

In terms of operational and financial performance, as the plant is already producing revenues from three units and although the periods do not coincide exactly, you may notice that the earnings from the period year-to-date of the complex were RMB1.654 billion, as disclosed in information posted on the CBEX by seller CGN.

You will also note that the load factor to date was approximately 75 per cent for the period year-to-date September 2016, taking into account the impact of plant outages for Units 1 and 2 and the COD date of Unit 3 on 1 January. All this information is available and has been made available publicly by seller CGN.

The transaction is expected to be earnings accretive from completion on, with further earnings growth as the remaining three units will become operational. On a total cost basis, taking into account the elements of transaction and a share of the non-recourse, that namely 17 per cent of the project non-recourse, the

transaction total cost adds up to US\$2.2 billion/MW. This compares very favourably with new build cost metrics for nuclear generation observed around the world.

The acquisition will be financed from existing internal resources and approximately RMB5.4 billion third party debt. The resulting net debt of the Group in aggregate is still expected to remain within the boundaries of our existing credit ratings.

We plan to pay down the third party debt utilising the strong cash dividend flow that we have been enjoying from our existing interests in Mainland China; this of course supplemented with the cash flows from the Yangjiang asset itself in due time. As a point of reference, the total investment of this transaction is about equal to the total amount of dividends our company received from our China operations over a period of the last six years.

The completion of the transaction is targeted to be achieved in the first half of 2017. Completion is, as customary, conditional on the regulatory final approvals and on other standard conditions precedent such as approvals from certain lenders and consent from other shareholders in the entity.

From a governance perspective, with the investment comes the right to name one board member on a board of seven members, as well as the right to second one Deputy General Manager to the entity.

I would now be happy to take any questions.

OPERATOR:

Thank you. The question and answer session will now begin. If anyone wishes to ask a question, please press “*1” on your telephone keypad. Our first question comes from Rajesh from CLSA Hong Kong. Please go ahead.

RAJESH (CLSA):

Hi Geert, CC. Congratulations on concluding this deal. One question is that given there is a reduction in utilisation of nuclear power and thermal power in general in China, is there a scope in the future, maybe five to seven years down the line, to get power to Hong Kong; because Hong Kong has to meet its environmental targets, and already Hong Kong is buying power from Daya Bay? Subject to approvals from the government, is this something which is possible in the long run?

GEERT PEETERS:

Thank you for the question, Rajesh. I will first address the perspective of load. This asset sits key in the Guangdong system, which as I said has reached a new record on its peak of 100 GW. As we look forward and with the nuclear plants existing and those under construction in the province, we can see that by about 2020, nuclear would be about 20 per cent max of the capacity in that system.

That system then has also about 40 percentage of coal and about 30 percentage of imports. So we are confident that the dispatch fundamentals and the utilisation fundamentals of Guangdong are different and way more favourable than in other places in the PRC and thus also than on average. So that first, on your question about output.

I would hence not link the output prospects with the question if or not there will be power or more power wield into Hong Kong into the future, and if that power is going to be of nuclear origin. You will recall that with civil society through the Environmental Bureau, there has been agreement reached on a new fuel mix target, which for 2020 aims mainly at replacing coal as half of the primary fuel towards gas as 50 per cent of the primary fuel.

Now from here, we will see what the government and civil society prepares for beyond 2020. The government is working on new targets within the context of COP 21; and it has hence not excluded, and we've always made it clear that we see nuclear as an important part of the fuel mix. But of course, this would still be subject of approval and dialogue with civil society and with the government; and also of course still to be tested on technical grounds on the point of reliability, as we know is always the case.

RAJESH (CLSA):

That is very clear, thanks. My second and last question is the earnings of around 1.65 billion for the first eight months in 2016, is it fair to assume that there are no major exceptional items and one can take that as a representation of operational performance in the first eight months?

GEERT PEETERS:

So I wish my answer could be simply "yes" to that, Rajesh, but it is not. So first, as you know, we do not give specific earnings guidance for the company; nor do we do it for specific assets. Now, we of course want to help you assess the merits of this investment. Fortunately, there is some public information available about this asset,

but it is rear-view; and you have heard in my caveats the plants have had outages for reload, so it is a little difficult to just extrapolate generically from there.

That being said, we've of course done our analysis. As I said, we feel very comfortable about the fundamentals of the dispatch. The cost economics of these assets, which is proven, which CGN will have about 20 of the same under its fleet, and this has all the operational synergies that one can expect from such economies of scale, are very promising. The tariff of 43 fens in the system, we think, is an appropriate one remunerating properly an investment in that type of assets in that region.

Then if you add it all up, our equity interest will amount to more than 1,000 MW. So indeed, this will be significant in earnings and visible in earnings contribution in a year or two-three when all the plants will be on line for CLP, as it translates into basically CLP buying the economic equivalent of one full nuclear power plant. But you will have to do your own homework and build in your own assumptions on how to extrapolate the publicly available information.

RAJESH (CLSA):

Yes, thank you.

GEERT PEETERS:

With pleasure.

OPERATOR:

Thank you. Our next question comes from Simon Powell from UBS Hong Kong. Please go ahead.

SIMON (UBS):

Good evening, thanks. Just to reiterate what Rajesh said, well done with the deal and getting this transaction done. We know you wanted to acquire more nuclear in China for some time. It's a long way off, but just help us a little bit, just talk a little bit about remediation. When this plant reaches the end of its useful life in 40 or more years time, can you talk about any potential liability you might have.

I ask this question only in relation to when CGN was IPO'd, investors were questioning whether the amount in the tariff that was for remediation was going to be sufficient. How have you thought about this as a management team, and how does it compare potentially with remediation liabilities that you might face with relation to Daya Bay? I know it's a very very long way off, and for a lot of investors they may not care, but some will.

GEERT PEETERS:

So as you say, it's long way off. It's probably even more long away off than what you said because one looks at 30 years initial investment. But those plants of those generation around the world, as you know, some are running 40-50 years and they're being licensed for up to 60 years, which is an important positive thing because it also means that you have more economic buffer and more economic time to accrue for provisions, and also just physical time to plan for the final solution of the used fuel rods.

As I'm sure you and your shareholders or customers have gone through when looking at the IPO of CGN as you said, as you know in China, the regulatory system is that all nuclear operators contribute to a fund, and that that fund is managed by the government. The government has signed off to the collective responsibility of providing for installations that will deal with the final treatment of the used fuel rods.

We've been comfortable with that with our initial investment in Daya Bay, and we feel comfortable that the system will work through over time as planned. There's not much more actually that we can add to that as of now.

SIMON (UBS):

Okay, that's fine. Thank you.

GEERT PEETERS:

My colleague may have a little more than what I just said.

CC TANG:

Just a more general observation. Right now, there are about 400-odd nuclear reactors operating in the world. Most of them are of PWR type of technology. I have to say the Yangjiang units are the newest, the youngest of all those operating reactors.

You know, in 40-60 years time, you would have expected all the existing reactors would have gone through the decommissioning process; and the experience feedback and the new technology developed over the course of time, I believe, will contribute to a significant reduction in the work and the costs involved in the final decommissioning of the Yangjiang units. So we are comfortable with the provision CGN Power has been making, similar to what we have made at Daya Bay.

SIMON (UBS):

Okay, thank you very much. It's clear.

GEERT PEETERS:

Other questions?

OPERATOR:

Thank you. Just want to remind everyone, if you wish to ask a question, please press "*1" on your telephone keypad.

GEERT PEETERS:

No more questions?

OPERATOR:

Sorry gentlemen, we have a follow-up question from Rajesh from CLSA Hong Kong. Please go ahead.

RAJESH (CLSA):

As there are no other questions, I take this opportunity to ask one more. What would be the estimated interest cost for the debt you are taking for this project?

GEERT PEETERS:

Okay. Of course, it depends on -- there is existing project finance in place, so that is one thing aside. With respect to the debt that we would contract ourselves newly, we intend to have a mix between bank facilities and eventually bonds as this is a very long-term investment. This will be an opportunity for CLP to look with match funding in RMB, and basically come out with Panda bonds. You know yourself whether about the maturities and the spreads on those, so you could come up with an assumption there.

I would think that out of the 5.4 billion-ish, we may let's say take a billion, make the maths easy for you, on two-three years bank bridge financing that we will repay, as I said, with healthy dividend stream that we already have. Then a longer term tranche of may be 10-12 years, depending on how the market will be when we will come out in the market for the Panda bonds. Depending on where the yield curve is on that, you can plug in a number.

RAJESH (CLSA):

Okay, thanks.

GEERT PEETERS:

Hope that's helpful.

RAJESH (CLSA):

Yes, thanks.

OPERATOR:

Thank you. Just want to remind again, if you wish to ask a question, please press "*1" on your telephone keypad.

GEERT PEETERS:

Looks like there're no more questions, so I will then close by thanking you all for your interest, reminding you that our investor relations team will have put on the website the slides corresponding to my presentation here with some other additional backup information for you. Of course, as always, my colleagues are available to answer your questions if you should still have some after studying the material.

ANGUS GUTHRIE:

If I could just supplement that, sorry, it's Angus Guthrie here from the investors relations side of things. There is obviously the announcement up on the Hong Kong Exchange, which I hope you have all had a chance to access as well. I hope you all received and I anticipate you received the email notifying of this call with a link to that presentation Geert has referred to.

Certainly, myself and the team will be available for further questions for a little while this evening and certainly through the next few days. So, thank you very much for your attendance. If there are no further questions, I'll call an end.

GEERT PEETERS:

Thank you. Bye all.

OPERATOR:

Thank you. The conference call has been concluded. Thank you for your participation.

(End of Teleconference)