CLP Holdings Limited Announces 2015 Interim Results

Financial Highlights

- Group operating earnings for the first half of 2015 amounted to HK$5,525 million, a 15.9% increase over the corresponding period in 2014.
- Total earnings decreased by 14.8% to HK$5,723 million due to the one-off net gain on CAPCO and PSDC acquisitions in May 2014; earnings per share decreased to HK$2.27 per share.
- Operating earnings from our electricity business in Hong Kong increased by 10.2% to HK$4,050 million.
- Consolidated revenue down by 15.1% to HK$39,985 million.
- Second interim dividend of HK$0.55 per share.

In the first six months of 2015, the Group’s operating earnings reached HK$5,525 million, a 16% increase over the corresponding period of last year. Total earnings were down by 15% to HK$5,723 million simply because a one-off gain from the acquisitions of Castle Peak Power Company Limited (CAPCO) and Hong Kong Pumped Storage Development Company, Limited (PSDC) was booked in 2014. Due to the positive results, we have increased the level of both first and second interim dividends from HK$0.54 per share a year ago to HK$0.55 per share this year.

During the period, rises in operating earnings were recorded across most regions. Operating earnings from our core business in Hong Kong grew by 10% to HK$4,050 million. Operating earnings from Mainland China were up 42% to HK$941 million. Performance of our India business continued to improve, resulting in an increase of 15% in operating earnings to HK$94 million. Operating earnings from Southeast Asia and Taiwan were also higher at HK$140 million, representing a 24% rise. In Australia, where the market conditions continued to remain challenging, operating results have improved but operating earnings in Hong Kong dollars decreased by 16% to HK$493 million, mainly reflective of the decline in the Australian dollar.

“In the first half of 2015, our business has performed well across the board. Our updated Group strategy – ‘Focus · Delivery · Growth’ – has made a good start and with the projects now under development, our renewable energy portfolio has reached close to 3,000MW in total,” said Richard Lancaster, Chief Executive Officer of CLP Holdings at the Group’s 2015 interim results announcement media briefing. “By following this strategy, our business will continue to grow and prosper – in Hong Kong and other markets. We will press on with our strategy to reinforce our status as a leading energy service provider in Asia Pacific. The future will bring challenges, but with the dedication and professional expertise of our staff and management team, I am confident that our business will scale new heights in the decades ahead.”

Hong Kong

Earnings from Hong Kong increased by 10.2% mainly due to the sharing of an additional 30% of CAPCO’s earnings for the full six-month period after completion of the CAPCO acquisition in May 2014 (HK$323 million) and increase in net return on higher average net fixed assets (HK$132 million), partly offset by the coupons on perpetual capital securities.
In the first half of the year, local sales of electricity increased by 1.5% over the same period last year. Residential sales recorded a decrease of 1.5% mainly due to a lower heating load in a warm first quarter. This was partially offset by a rise in cooling load in the second quarter. Sales to the Commercial, Infrastructure & Public Services and Manufacturing sectors recorded slight to moderate increases. Sales to the Mainland decreased by 34% over the same period last year due to a drop of electricity sales to Guangdong Power Grid Co., Ltd. Total electricity sales, local and Mainland included, rose slightly by 0.1%.

During the period, we invested HK$3.3 billion in generation, transmission and distribution networks as well as in customer services and supporting facilities. Some of the investments support the construction of major infrastructure projects in our service areas. We were able to maintain our supply reliability at above 99.999% despite the numerous thunderstorms in May and June.

Since we concluded the tariff arrangements for 2015 there has been a significant drop in fuel prices which, in concert with our continued efforts to manage our fuel costs carefully, has resulted in considerable savings in our fuel costs for the first half of 2015. We are passing on the benefit of these savings to our customers through a special fuel rebate totalling approximately HK$1.2 billion.

At the end of March, the Hong Kong Government launched a public consultation on the future development of the electricity market. The consultation paper recognised that the electricity supply in Hong Kong, which is governed by the Scheme of Control, has been able to achieve the four energy policy objectives of safety, reliability, reasonable tariffs and environmental protection. The Government has therefore proposed a continuation of the current contractual arrangement with some enhancements.

We submitted our views to the Government in June, in which we stressed that any new regulatory arrangements must maintain Hong Kong’s unique advantages. They include supply safety, reliability, environmental performance, reasonable tariffs and sufficient incentives to encourage continued investment. The current regulatory arrangement has provided the market with both stability and flexibility, two critical ingredients which have supported the world class performance in Hong Kong. We believe that any new regulatory arrangements should build on the existing framework and evolve along our three proposed guiding principles, namely Greener and Smarter Electricity, Enhanced Customer Experience and Effective Regulation, as laid out in our submission. We look forward to a constructive dialogue with the wider community and remain open to further refinements and improvements that the Government and community might suggest.

The consultation paper also presented the results of the 2014 public consultation on future fuel mix for electricity generation, concluding that the clear majority of respondents supported additional local power generation through the adoption of natural gas. Consequently, the Government has proposed a fuel mix for Hong Kong by 2020 of approximately 50% gas, 25% nuclear, and 25% coal and renewable energy. In response to those views, the Government recognises the need for additional gas-fired generation units in Hong Kong. CLP is conducting an environmental impact assessment study to build additional gas-fired generation units in order to meet the Government’s environmental targets. We aim to complete the study in the first half of 2016. The implementation of the project will take into account a host of factors including environmental requirements, electricity demand, technical feasibility, project economics and Government’s approval.

Mainland China

Earnings from Mainland China increased mainly due to higher contribution from our coal-fired projects in Shandong as a result of lower coal costs and the resumption of sharing of earnings from CSEC Guohua (HK$178 million) after the lapse of the Share Transfer Agreement at 31 December 2014. However, the positive impact was partly offset by lower earnings from Fangchenggang Power Station in Guangxi due to lower tariff and dispatch. Fangchenggang has signed a steam supply contract with a nearby factory which may allow it to increase generation hours once that factory enters into large scale production. Power demand is also expected to increase over time as Guangxi continues to grow. Fangchenggang II is progressing well.
Earnings from renewables improved as a result of the commissioning of new solar projects (Xicun and Sihong) and better performance from wind projects due to more wind resources, notwithstanding performance of Huaiji was affected by less rainfall and lower water level. Earnings from our nuclear business GNPJVC decreased due to a planned 10-year outage from March to May 2015.

In the first six months of 2015, CLP benefitted from the addition of two solar projects with a combined capacity of 135MW. These include Xicun Solar Power Station I, CLP’s first wholly-owned photovoltaic project in the Mainland and the first large-scale demonstration project of agriculture-and-solar integration in Yunnan, and Sihong Solar Power Station in Jiangsu commissioned in December 2014 and February 2015 respectively. Both plants are performing well and have met our expectations on both power generation and financial performance. In addition, performance of Jinchang Solar Power Station in Gansu has improved through its entry into an electricity sales scheme promoted by the local government, providing extra generation hours. Meanwhile, we received approval for Xicun Solar II in April 2015, and construction is now underway. We target to commission the 42MW plant by the end of this year.

Our coastal wind projects in Shandong are achieving returns that are consistent with our long-term expectations, but grid curtailment in northeastern China continues to hamper the performance of our assets in the region. On the wind project development front, we have commenced construction for Sandu I in Guizhou and Xundian I in Yunnan (with a combined generation capacity of approximately 150MW). We also plan to kick off construction of CLP Laizhou I and Laiwu II in Shandong in the second half of the year, adding about 100MW to our wind portfolio.

In the coming months, we will continue our strategy of selective investment in renewables and high-efficiency coal-fired power generation. In addition, we will closely monitor the development of market reform of the electricity sector in the Mainland and explore potential opportunities that may arise.

India

Higher earnings from India were mainly attributable to Paguthan Power Station as a result of higher incentive payments, lower operating and maintenance expenses, and reduced heat rate losses. However, these were offset by lower contributions from wind farms due to poor wind resources despite the commissioning of new wind projects.

Jhajjar Power Station has benefitted from improved coal supply in the first half of this year. However, due to routine maintenance planned for the low demand season and a forced outage arising from a technical fault, the station experienced a marginal reduction in availability to about 76%, which is below the 80% level required to fully recover the capacity charges. These issues have been resolved and performance of the plant has continued to strengthen. The plant is expected to achieve availability of 80% in the second half of 2015. In recent years, Paguthan has seen low utilisation due to the lack of affordably priced gas. In May 2015, with a new Government scheme to auction imported gas at subsidised prices, CLP India successfully secured gas for additional generation from June to September 2015. This is expected to increase Paguthan’s utilisation levels from less than 5% currently to approximately 13%.

Wind power generation during this period was lower than expected because of delay in the start of the high wind season and unusually gusty winds and sand storms which impacted generation from our projects in Rajasthan. Nevertheless, the early and partial commissioning of Tejuva Wind Farm in Rajasthan and Chandgarh Wind Farm in Madhya Pradesh helped reduce the impact of lower generation. Performance in the second half will depend on wind strength during the monsoon season which commenced recently. During the first six months, our operating wind capacity has increased 86MW to 817MW, with a further 264MW currently under development. We will continue to expand our wind portfolio to solidify CLP’s position as India’s largest wind power developer and evaluate opportunities for potential solar power projects.
Southeast Asia and Taiwan

Higher earnings from Southeast Asia and Taiwan were mainly due to higher earnings from Ho-Ping Power Station in Taiwan as a result of lower coal costs and reduced operating expenses. Ho-Ping operated reliably and safely in this period. Lopburi solar farm in Thailand, meanwhile, recorded good solar resources and maintained high plant availability.

In Vietnam, we continued the development of Vung Ang II and Vinh Tan III coal-fired projects. We are hopeful that negotiations with the Vietnamese Government on the Build-Operate-Transfer Contracts and Power Purchase Agreements (PPAs) of the two projects will reach a final stage to allow financing arrangements to proceed. This, in turn, will permit final investment decisions on the projects to be made.

Australia

Earnings from EnergyAustralia in Australian dollars were comparable with the corresponding period in 2014. Earnings in the first half of 2014 included compensation in relation to the carbon tax regime, which was repealed in July 2014. Taking into account there was no such compensation in the first half of 2015, earnings have in fact improved as a result of better retail gross margins brought by tariff uplifts for both mass market and Commercial and Industrial sectors and lower operating expenses.

During this period, EnergyAustralia refreshed its strategy in order to sharpen its focus on customers and to optimise its generation portfolio. The management team has been strengthened with professionals with extensive retail experience to ensure the company has the necessary expertise to execute on this strategy.

The performance of EnergyAustralia’s retail business has benefitted from initiatives undertaken in 2014 and the company is on track to reduce full-year retail business costs by A$100 million by 2016 compared to 2013. However, competition in the market increased towards the end of the six-month period. In response to this, EnergyAustralia launched a major new television advertising and brand promotion in June to support its customer-centric focus.

Amidst a challenging wholesale electricity market, EnergyAustralia has strengthened the profitability of its existing operations and remained focused on managing its asset portfolio. At Yallourn Power Station, EnergyAustralia completed a major maintenance programme safely, within budget and to schedule, resulting in a 2.7% improvement in generation efficiency at the plant’s second generating unit.

In April, EnergyAustralia completed the sale of its 25% equity interest in Waterloo Wind Farm in South Australia. It continues to operate the project and receives 50% of its generation through a long-term PPA. With three other long-term PPAs in place, EnergyAustralia is the largest offtaker for wind energy in New South Wales.

In June, EnergyAustralia initiated a competitive process aimed at gauging market interest in the company’s gas storage facility and processing plant at Iona in southern Victoria. This process is ongoing.

Standard & Poor's (S&P) revised EnergyAustralia's rating outlook to stable from negative and affirmed its BBB- credit rating in May, reflecting S&P's views of EnergyAustralia's stabilised operating performance.

Whilst changes to EnergyAustralia’s internal structure and systems have delivered improvements, it is still in the early stage of a turnaround and more work is needed to restore value to the business. Over the remainder of the year, the management team will focus on embedding the new corporate structure, improving customer service, lifting cost efficiency and enhancing productivity.
Climate Change

CLP has a long-term commitment to decarbonise our business in the context of an enabling regulatory environment and our investment strategy adopts a balanced approach where over time for every megawatt of conventional generation we build outside Hong Kong, we plan to support development of a megawatt of renewable energy. For long-term, capital intensive industries such as power generation, policy certainty and stronger international policy commitment are critical to support the transition to lower carbon power generation. We will monitor the outcome of the United Nations Climate Change Conference in Paris closely and hope that world leaders will reach some consensus in moving forward.

For more details, please refer to the full version of “Announcement of Interim Results from 1 January 2015 to 30 June 2015, Dividend Declaration and Closure of Books”.

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