1 August 2016

CLP Holdings Limited Announces Steady Growth in 2016 Interim Results

In the first six months of 2016, the Group’s operating earnings were HK$6,149 million, an increase of 11.3% compared with the corresponding period in 2015. This reflected growth in both our core business in Hong Kong and our overseas operations. The Group’s total earnings for the first half of 2016 were HK$6,125 million, a rise of 7.0% from the same period of last year. These positive results have enabled us to raise the level of both our first and second interim dividends from HK$0.55 per share a year ago to HK$0.57 per share in 2016.

In Hong Kong our local electricity business continued to grow steadily, resulting in a 5.5% increase in operating earnings to HK$4,276 million. Our overseas businesses increased by 23.5% in aggregate to HK$2,057 million. In Mainland China, operating earnings were down by 11% to HK$841 million due to a combination of lower regulated tariffs, increasing supply in the market from the addition of new generation capacity together with the impact of higher rainfall on hydro-electric facilities, and slower economic growth in Guangxi affecting demand for electricity. Operating earnings from Southeast Asia and Taiwan also dropped slightly to HK$119 million. Meanwhile, operating earnings from our businesses in Australia and India improved significantly from HK$493 million to HK$897 million and from HK$92 million to HK$200 million respectively.

“We are very pleased that following the execution of our “Focus ∙ Delivery ∙ Growth” strategy last year, we continued to deliver a solid performance. This has been a strong half year where the benefits of operating a diverse portfolio in the Asia Pacific region have been demonstrated. We have delivered stable earnings from the base business and are confident that we will continue to achieve steady growth as economies in the region transition to cleaner energy sources,” said Richard Lancaster, Chief Executive Officer of CLP Holdings.

Hong Kong

Earnings from Hong Kong increased by 5.5% mainly due to higher average net fixed assets and favourable fair value movement on forward foreign exchange contracts used to hedge the perpetual capital securities.

Local sales of electricity were up by 0.6% over the same period last year. Sales to Mainland China increased by 26.8% over the same period last year, due to earlier purchase of electricity by Guangdong Power Grid Co., Ltd. this year. Total electricity sales during the period, including local sales and sales to the Mainland, rose by 1.2%.
We have already begun discussions with the government on the post-2018 Scheme of Control Agreement. We will continue to work constructively with the government to reach a new agreement that will enable us to continue to build on our excellent services for the benefits of our customers, our shareholders and the community at large.

In the first six months of the year, we continued our efforts in transitioning to low-carbon power generation and further strengthening energy security. To support the Hong Kong Government’s policy of increasing the share of gas in the fuel mix to around 50% by 2020, we submitted a Development Plan to the government in December 2015 for the construction of additional gas-fired generation capacity at Black Point Power Station. That was followed by an environmental impact assessment study report in February 2016. The government subsequently approved the report, which was made available for public inspection, and issued the Environmental Permit in June. We target to commission the new gas-fired generation unit before 2020, subject to satisfactory project economics and the government’s approval.

Our natural-gas supply through the Second West-East Gas Pipeline to Hong Kong, which had been suspended temporarily because of a landslide in Shenzhen in December 2015, resumed on 29 February 2016. The incident underscores the importance and urgency for Hong Kong to strengthen its energy security. Taking that into account, CLP continues to pursue new sources of gas supply. We have moved forward with our proposal to build an offshore liquefied natural gas terminal in Hong Kong that will allow CLP and other natural-gas users to access international LNG supplies and secure the most competitive sources of gas. A detailed environmental impact assessment study is currently underway to examine the impact of the project on the environment and marine ecology during the construction and operation of the terminal. CLP will develop measures, as needed, to minimise the environmental impact of the project based on the outcome of the assessment study. We will closely communicate with the relevant government departments and stakeholders to better understand their views on the proposed project.

Looking ahead, we are committed to maintaining our supply reliability, environmental and safety performance, and excellent services for our customers. We will continue to invest in new energy efficiency initiatives, advanced and innovative technology, as well as other conservation efforts in order to build a smarter and greener Hong Kong.

Mainland China

Earnings from Mainland China decreased mainly due to lower contributions from our coal-fired projects. Despite lower coal prices, the reduction in tariff and lower dispatch from Fangchenggang and CSEC Guohua (mainly due to lower demand) explained the decrease. On the other hand, earnings from renewables increased resulting from more rainfall at Huaiji and the commissioning of Xicun Solar II and Xundian Wind in November 2015 and January 2016 respectively. Earnings from GNPJVC increased as a result of more units generated in the first half of 2016.

In the first six months of this year, our hydro projects reported strong overall performance. Generation from our solar facilities in China increased by 29% compared with the first six months of last year, reflecting the completion of Xicun II (42MW) solar project in Yunnan province in the second half of 2015. Generation of our wind projects also increased year on year.

During the period, our coal-fired projects continued to benefit from low coal prices. However, they were also affected by lower average utilisation hours and a reduction of on-grid benchmark tariff. Performance of the Fangchenggang coal-fired power station was affected by economic slowdown, new capacity and high hydro generation in the Guangxi Zhuang Autonomous Region. Under the recent power-sector reform policies in Guangxi, power generation companies are permitted to sell electricity directly to large electricity users through direct sales agreements, and we signed a number of agreements with large local electricity users in the first half of the year. This allows efficient coal-fired power generators to partly mitigate the decrease in generation hours. Meanwhile, construction of Fangchenggang II, which uses clean ultra-supercritical technology, is on schedule, and completion is expected in the second half of 2016.
In the near term, we expect that the transition to cleaner and more efficient sources of energy, reform of the power sector, and implementation of China’s Belt and Road initiative will bring new opportunities to power producers such as CLP. However, it is likely that the performance of our coal-fired projects will come under further pressure as the energy transition continues. We will continue to participate in various direct sales schemes to increase generation hours of our projects. We will also continue to expand our non-carbon energy portfolio as a key focus for our business in China.

India

Higher earnings from India were mainly attributable to Jhajjar as a result of higher capacity charges and lower interest expenses and refinancing charges. Earnings from wind projects were also higher due to the commissioning of Tejuva and Chandigarh wind farms. Paguthan’s performance remained stable.

In June, CLP made its first investment in solar energy in India through our partnership with Suzlon Group to develop a 100MW solar farm in the southern state of Telangana. CLP owns a 49% interest in the project, with an option to acquire the remaining 51%. The project is expected to start operation by mid-2017. This consolidated CLP’s position as one of the largest renewable energy producers in India with operational and committed capacity of about 1,100MW in wind and solar energy.

Wind power generation was higher during the first six months compared with a year earlier due to additional capacity coming into operation. Recently, we have also been seeing better wind resources because of the arrival of the monsoon season.

Our conventional projects reported good performance in the first half of the year. Availability of our coal-fired power station in Jhajjar was at well above the 80% contractual target level. In Paguthan, availability of our gas-fired power plant stood at more than 91% during the first half. Utilisation reached about 15% in the six-month period as a result of the availability of subsidised gas from the federal government’s imported gas auction in the first quarter and higher demand in April. Nevertheless, the government cancelled the auction of subsidised imported gas in March 2016 due to a lack of competition. While we anticipate Paguthan’s generation level to fall in the coming months, this should not affect its financial performance, which is based on plant availability.

India has announced an ambitious goal of installing 100GW of solar power capacity and 60GW of wind capacity by 2022. Renewable sector projects such as these present numerous opportunities for CLP. We will remain focused and selective when investing in new projects, underlining our commitment to disciplined growth of renewable energy as we contribute to the global efforts of tackling climate change. In addition, we will continue to explore investment opportunities in the transmission sector.

Southeast Asia and Taiwan

Lower earnings from Southeast Asia and Taiwan were mainly due to lower earnings from Ho-Ping as a result of less generation from longer planned outage and lower tariff, despite lower coal costs. The Lopburi solar farm in Thailand continued to achieve stable earnings because of high availability and efficiency.

In Vietnam, substantial progress has been made on finalising contracts with the Vietnamese government for two new coal-fired development projects, Vung Ang II and Vinh Tan III. We expect to make our final investment decisions depending on the outcome of negotiations and progress on financing.

Australia

Earnings from EnergyAustralia rose despite a 5.1% decrease in the Australian dollar exchange rate during the period. The increase in earnings was mainly due to more generation from Yallourn, Mount Piper and Ecogen, lower finance costs after repaying most of its borrowings in December 2015 and lower depreciation and amortisation. The increase, however, was partially offset by lower electricity retail margin, as well as additional gas storage expenses and no external storage revenue after the sale of Iona Gas Plant in December 2015.
Our generation and wholesale portfolio delivered a strong performance in the first half of 2016, driven by the reliable availability of generation units during periods of high pricing. Conditions in wholesale energy markets have been more favourable this year, compared with 2015. Demand for centralised electricity has stabilised, ending a six-year downward trend.

Factors contributing to a firmer market can be broken into both long-term and short-term influences. Short-term factors that have buoyed prices include hot summer weather in the first quarter in Queensland and New South Wales, the six-month outage of the Basslink cable from Victoria to Tasmania, and ongoing planned and unplanned maintenance across the National Electricity Market. In terms of systemic changes, we have seen increased demand from liquefied natural gas operations in Queensland, the reduction in supply following the closure of Alinta Energy’s Northern and Playford power stations in South Australia, and the rising cost of gas that has seen gas-fired generation offering power at higher prices. In response to the changing market, AGL Energy announced in June that it would postpone its planned mothballing of four units at its gas-fired Torrens Island power station in South Australia.

While near-term trading conditions are more favourable than the previous comparison period, long-term challenges remain for the generation sector. Oversupply remains a potential driver of reduced prices and returns, particularly as large volumes of renewables enter the market in response to the Australian government’s Renewable Energy Target and emerging state-based policies. A price on carbon is likely to return in some form, with the impact on the sector highly dependent on what action is taken.

EnergyAustralia has continued to build on the progress it made in 2015 towards restoring value to the business by focusing on improving customer service, operating more efficiently and reducing costs. In the second half of 2016, EnergyAustralia will continue to invest in the transformation of the business, put priority on customer service and efficiency, and manage its generation position.

For more details, please refer to the full version of “Announcement of Interim Results from 1 January 2016 to 30 June 2016, Dividend Declaration and Closure of Books”.

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