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HD *S&P Takes CLP Holdings Off Watch Neg; Afrms 'A-' Rtg; Otlk Neg

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13 May 2014 06:35 ET Press Release: S&P Takes CLP Holdings Off Watch Neg; Afrms 'A-' Rtg; Otlk Neg

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The following is a press release from
Standard & Poor's:

-- CLP Holdings' primarily debt-funded acquisitions of additional interests in generation assets in Hong Kong will weaken the company's financial strength over the next two years, in our opinion.

-- However, we expect CLP Holdings' sound and stable regulated businesses in Hong Kong to underpin its credit profile.

-- We are affirming our 'A-/A-2' corporate credit ratings on CLP Holdings. We are also affirming our 'cnA-1' short-term Greater China regional scale rating on the company. At the same time, we are lowering our long-term Greater China regional scale rating on the Hong-Kong based utility to 'cnAA-' from 'cnAA' in line with the negative outlook. We are removing all the ratings from CreditWatch, where they were placed with negative implications on Nov. 19, 2013.

-- The negative outlook reflects our view of the limited headroom in CLP Holdings' financial risk profile in 2014-2015, which could further deteriorate if the company's portfolio rationalization strategy does not generate cash flows in a manner as timely as we expect.

HONG KONG (Standard & Poor's) May 13, 2014--Standard & Poor's Ratings Services said today that it had affirmed its 'A-' long-term corporate credit rating on Hong Kong-based utility CLP Holdings Ltd. The outlook is negative. We also affirmed our 'A-2' short-term issuer credit rating and 'cnA-1' short-term Greater China regional scale rating on the company. In line with the negative outlook, we lowered our long-term Greater China regional scale rating on CLP Holdings to 'cnAA-' from 'cnAA'. We removed all ratings from CreditWatch, where they were placed with negative implications on Nov. 19, 2013.

"We affirmed the rating mainly because we expect CLP Holdings' sound and stable regulated businesses in Hong Kong to underpin its financial performance over the next two years," said Standard & Poor's credit analyst Gloria Lu. "This is even though the completion of CLP Holdings' acquisitions of generation assets in Hong Kong will substantially increase its leverage."

CLP Holdings, through its 100% subsidiary CLP Power Hong Kong Ltd. completed the Hong Kong dollar (HK$) 14 billion acquisition of additional interests in Castle Peak Power Co. Ltd. (CAPCO) and Hong Kong Pumped Storage Development Co. Ltd. (PSDC) on May 12, 2014.

We expect CLP Holdings to have limited financial headroom for the rating in 2014-2015. The acquisitions of CAPCO and PSDC will increase the company's total debt by about HK$12 billion in 2014 (after factoring in the portion of the acquisition funded by the perpetual securities which Standard & Poor's regards as having "intermediate" equity content). CLP Holdings may take on additional debt of HK$4 billion by the end of 2015 to fund its planned capital expenditure.

The operating environment for CLP group's businesses outside Hong Kong, particularly in Australia, remains tough. We expect weak electricity demand, depressed wholesale prices, and a policy change to repeal carbon compensation to subdue the company's financial performance in 2014-2015. CLP group will benefit from a renewal of its development plan with the Hong Kong government for another five years, in our view. The approved capital expenditure plan until September 2018 will ensure predictable returns and cash flow growth in the group's enlarged assets. In other markets, the group should benefit from a more steady performance of the power generation business due to weak coal prices in China (Fangchenggang) and improving coal supply in India (Jhajjar).

We expect CLP Holdings' portfolio rationalization strategy to generate cash flows to help the group to reduce its leverage within the next two years. We assume that the company will execute the strategy on time and in line with our expectation.

"The negative outlook reflects our view of the limited headroom in CLP Holdings' financial risk profile in 2014-2015," said Ms. Lu. We believe the company's financial risk profile could further deteriorate if its portfolio rationalization strategy is not executed in a manner as timely as we expect.

The continued weak performance of CLP Holdings' Australian business and increased working capital for funding higher fuel costs could also drag the company's financial performance. We expect CLP Holdings' performance to improve from 2016 onwards. But this hinges on a meaningful and sustainable recovery of the company's Australia and India businesses, where uncertainties surround the likelihood of the structural improvements materializing as expected.

We could lower the rating on CLP Holdings if the recovery of the group's Australia and India businesses as well as the sale of non-core assets take longer than we expect. A downgrade trigger could be the ratio of FFO to debt

of less than 23% by the end of 2016. We could also lower the rating if CLP Holdings makes any unanticipated material debt-funded acquisitions or investments.

We could revise the outlook on CLP Holdings to stable if the **company** executes
its asset divestment plan smoothly and improves the performance of its Australia and India businesses more than we anticipate. We would also expect

the **company** to implement a disciplined capital expenditure and investment plan
to improve its leverage. An indication of such an improvement would be a ratio
of FFO to debt at a sustainable 25% or higher.

RELATED CRITERIA AND RESEARCH

Related Criteria
-- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
-- Corporate Methodology, Nov. 19, 2013
-- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
-- General Criteria: Country Risk Assessment Methodology And Assumptions,
Nov. 19, 2013
-- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
-- Group Rating Methodology, Nov. 19, 2013
-- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
-- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
-- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

-- Use of CreditWatch And Outlook, Sept. 14, 2009
-- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
-- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research
-- CLP Power **Hong Kong** Ltd.'s Proposed Perpetual Securities Assigned 'BBB+' And 'cnAA-' Ratings, April 28, 2014
-- Research Update: CLP Holdings And CLP Power Ratings Remain On CreditWatch Negative, Feb. 19, 2014
-- Research Update: CLP Holdings Ltd. And CLP Power **Hong Kong** Ltd. Ratings Placed On CreditWatch Negative On Proposed **Acquisition**, Nov. 19, 2013

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