



HD **Moody's: CLP Holdings' 1H 2014 results see modest improvement in overseas businesses**

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Moody's Investors Service says that the 1H 2014 results of CLP Holdings Limited (CLPH) are in line with expectations and have no immediate impact on its A2 issuer rating.

The rating outlook remains negative.

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"CLPH's **Hong Kong operations** continued to generate stable cash flow, while its overseas **operations** showed a modest turnaround attributed to cost reductions in Australia and improved **coal** supply in India," says Ivy Poon, a Moody's Analyst. "However, the Australia **operations** remain under pressure due to the challenging operating environment."

CLPH reported a drop of 9% in total revenue to HKD47.1 **billion**, mainly due to the lower top-line contribution from its Australia **operations**.

Nevertheless, its operating earnings, excluding non-recurring gains, rose 22% to HKD4.8 **billion**, supported by the stronger earnings from the **Hong Kong operations** -- after the full integration with Castle Peak Power **Company** Limited (CAPCO) and **Hong Kong** Pumped Storage Development **Company**, Limited (PSDC) -- and higher returns from its ongoing investments in electricity infrastructure.

Furthermore, the Australia **operations** reported improved earnings, driven by the improving cost structure since 2H 2013. However, the **operations** will remain under stress in the next 12 months due to sluggish demand, falling margins, and the removal of the country's carbon tax and associated transitional assistance.

The overall performance of the India **operations** showed some improvements; for example, the **coal** shortages at the Jhajjar plant were resolved. However, the improved performance at Jhajjar will continue to be partially offset by reduced earnings from the Paguthan plant due to weak demand from the offtaker.

"In addition, the **company's** leverage increased along with its total debt after CAPCO/PSDC acquisitions, but we expect the weakening in the credit metrics to be temporary, given the debt repayments scheduled in 2H 2014," says Poon.

Reported total debt rose to HKD75 **billion** from HKD56 **billion** in 2013, mainly because of the full consolidation of CAPCO.

Correspondingly, adjusted debt/ capitalization, including Moody's adjustments on the perpetual securities, increased to 47% from 42.5% at end-2013 and adjusted funds from operation (FFO) / debt fell to around 23% from 27.8% at end-2013.

However, CLPH has maintained higher-than-expected cash of HKD6.8 **billion** in view of the Group's debt repayments scheduled in 2H 2014. As a result, Moody's expects adjusted debt/capitalization will recover to below 45% and adjusted FFO/debt will hover at similar levels at end-2014.

The negative rating outlook continues, given the uncertainties related to its overseas **operations**, and especially the persistent pressure expected for its Australian **operations** over the next 12 months.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

CLP Holdings Limited, headquartered and listed in **Hong Kong**, operates its electric utility business through its wholly owned subsidiary, CLP Power **Hong Kong** Limited. The group also has a growing portfolio of electricity generation investments across Asia Pacific.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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