



**Key Data**

Share price (HK\$)	47.20
52Wk H/L(HK\$)	50.0 /40.35
Issued shares (mn)	2,496
Market cap (HK\$m)	117,804
30-day avg vol (HK\$m)	216
Major shareholder (%):	
HIHL	76.4

Source: Company, Bloomberg, ABCI Securities

**Profit composition in 1H12 (%)**

Power Assets	30.6
United Kingdom portfolio	49.7
Australia portfolio	10.6
China portfolio	4.4
Canada & New Zealand portfolio	1.5
Others	3.2

Source: Company

**Share performance (%)**

	Absolute	Relative*
1-mth	0.2	(3.0)
3-mth	3.5	4.3
6-mth	8.3	13.4

Source: Bloomberg

\*Relative to Hang Seng Index

**1 year price performance**



Source: Bloomberg

**Analyst**

Name: Francis Chu  
Tel: (852) 2147 8313  
Email: [francischu@abci.com.hk](mailto:francischu@abci.com.hk)

**CKI Holdings (1038 HK) – Unrated  
Utilities Industry**

**Defensive with M&A opportunities**

We visited CKI this week and discussed its latest M&A and future M&A strategy. Its successful post-M&A experience will lower execution risk in new M&A. Low gearing rate allows the group to look at new targets. We believe inorganic growth is one of major growth drivers of the group in coming years.

**Wales & West Utilities acquisition.** CKI announced that the consortium of CKI, Power Assets (6 HK), Cheung Kong (1 HK) and Li Ka Shing Foundation had agreed to acquire Wales & West Utilities (WWU), a gas distribution company in the UK on July 25. The four parties would take up 30%, 30%, 30% and 10% equity interest in WWU respectively. Total cash consideration is GBP645mn and the consortium would assume another GBP1,312mn net debt, adding up to an enterprise value of GBP1,957mn.

**Earnings accretion of 3%.** We think the 9% premium to its Regulated Asset Value (RAV) of GBP1.8bn is reasonable. According to management, an IRR of over 10% with potential upside from better asset efficiency, regulatory reset, debt restructuring and inflation provide good return. We estimate the EPS would enhance 3% in FY13 and the net debt to equity ratio would increase to 11% from 7% after acquisition and placement of 50m shares at \$46.15 on July 26.

**Successful post-M&A experience in UK.** Northumbrian Water, whose acquisition was completed in October 2011, contributed \$538mn in 1H12. UK Power Networks contributed \$1,751mn, an increase of 21%YoY. It was resulted from the implementation of cost improvement programs, upward revenue adjustments led by higher inflation, and a reduction in corporate tax rate. Profit contribution from the UK businesses increased by 45% to \$2,721mn.

**Risk factors:** Deflation, political risk, M&A risk, unfavourable regulatory reset.

**Forecast and Valuation**

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Revenue (mn)</b>	<b>2,814</b>	<b>3,493</b>	<b>3,800</b>	<b>3,996</b>	<b>3,610</b>
Chg (% YoY)	28.8	24.1	8.8	5.2	(9.7)
<b>Gross Profit (mn)</b>	-	-	<b>2,550</b>	<b>2,482</b>	<b>2,253</b>
Chg (% YoY)	-	-	-	(2.7)	(9.2)
<b>Net Income (mn)</b>	<b>5,028</b>	<b>7,745</b>	<b>9,119</b>	<b>9,728</b>	<b>9,922</b>
Chg (% YoY)	(9.7)	54.0	17.7	6.7	2.0
<b>EPS (HK\$)</b>	<b>2.23</b>	<b>3.31</b>	<b>3.84</b>	<b>4.07</b>	<b>4.15</b>
Chg (% YoY)	(9.7)	51.6	13.6	6.0	2.0
<b>PE (x)</b>	-	<b>14.3</b>	<b>12.3</b>	<b>11.6</b>	<b>11.4</b>
<b>PB (x)</b>	-	<b>2.1</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>
<b>Yield (%)</b>	-	<b>3.2</b>	<b>3.7</b>	<b>3.9</b>	<b>4.1</b>
<b>ROAA (%)</b>	<b>8.7</b>	<b>11.0</b>	<b>11.7</b>	<b>11.6</b>	<b>11.5</b>
<b>ROAE (%)</b>	<b>11.4</b>	<b>15.9</b>	<b>15.5</b>	<b>15.1</b>	<b>14.3</b>
<b>Net debt/total equity (%)</b>	<b>5.7</b>	<b>14.3</b>	<b>11.1</b>	<b>9.5</b>	<b>8.2</b>

Source: Company, Bloomberg, ABCI Securities estimates



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**Office address: ABC Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2868 2183**