Business Standard - 20 November,2014

BREAKINGVIEWS

REUTERS

Dual voltage

Hong Kong tycoons diverge in power plays

Hong Kong's tycoons are diverging in their power plays. The Kadoorie family's CLP Holdings is buying local electricity assets from US oil major Exxon Mobil for $1.8 billion. That's a contrast to rival billionaire Li Ka-shing, who is reducing his exposure.

CLP already handles electricity distribution in one half of Hong Kong. Now it's raising its 40 per cent stake in Castle Peak Power, which owns three of the territory's five power stations, to 70 per cent. The $1.5 billion deal values the business at around 13 times 2012 earnings — a discount to CLP's own multiple. At the same time, CLP will spend a further $259 million to buy the 51 per cent of a hydro-electric power storage company that it doesn't already own.

BY UNA GALANI

Exxon Mobil's exit from Hong Kong power operations after a near 50-year presence is the latest shake-up in the ownership of the territory's electricity duopoly. Li is preparing to spin off a majority stake in HK Electric, which he has controlled since the mid-1980s, in an IPO that bankers say could raise $5 billion. The proceeds will be used by Power Assets, the holding company for Li's energy investments, to fund further acquisitions abroad where regulation is less rigid and asset prices remain depressed.

It makes sense for Li to look overseas. Hong Kong utilities are currently allowed to earn a lucrative 9.9 per cent annual return on their net fixed assets. But that figure is expected to be lowered to seven per cent when the current regulatory framework is reset in 2018, according to CLSA. The prospect of higher global interest rates further dulls the picture. Besides, Li's power business already generates more than half its earnings from overseas.

Yet, while Li may think he can do better elsewhere, the Kadoorie family — which still owns 33 per cent of CLP — has struggled to build a strong international business. Its attempts at diversification in Australia and India face severe headwinds, and the company still generates 91 per cent of its operating earnings from Hong Kong. Facing difficult currents far from home, it makes sense for CLP to own a bigger chunk of the bits that are working well.