In 2011, even as the world grappled with a cloud of economic uncertainty, Hutchison Whampoa was able to further strengthen its balance sheet, complete a major infrastructure acquisition and continue its exploration of merger and acquisition opportunities. This multinational conglomerate has now entered its “fat cow” years, as all major operations are cash flow positive and the company is making an all-time high in recurring profit. The 3 telecommunications business has achieved critical mass and management sees the company entering into a growth period.

The consistent growth in recurring earnings per share over the past four years has been promising, along with a growth in overall earnings and an increase in dividends. These facts and figures are only part of the company’s success story, however. It has been through the careful strategizational nurturing of individual operations, the diligent and prudent management of finances and the hard work of Hutchison’s quarter of a million employees in 53 countries, that our six core business units are poised for sustained growth.

For the Group’s telecommunications division, 2011 was indeed the dawning of a new era. The Hutchison Whampoa Group has been in the telecommunications business since the 1980s, and in 2003 HWL launched 3G mobile telephony which pioneered mobile data telephony and fundamentally changed the way people communicate. Under the brand name 3, Hutchison rolled out 3G mobile data networks in Hong Kong, Austria, Australia, Denmark, Ireland, Italy, Macau, Sweden and the UK.

Building the networks from scratch was a challenge for the division, but the bigger obstacle was morphing consumer behaviour from merely using mobile phones to talk, to using them for a myriad of other activities. Initially, mobile data telephony was thought of as a video conferencing gimmick, but today people have a hard time putting down their smartphones, using them for email, socialising with friends through social media channels, communicating via instant messaging, surfing the Internet, playing interactive games and countless other activities made possible by high-speed mobile data networks. By December 2011, 3 Group’s customers were using 19,621 terabytes per month, or the equivalent of 35 trillion tweets or over 4.1 billion songs.

These higher-value smartphone and mobile broadband access users, in combination with streamlined business practices, led to a notable increase in revenue in 2011. Hutchison Telecommunications Hong Kong Holdings and 3 Group reported a 36 and 16 per cent increase, respectively. They each also boast over 2.7 and 28.88 million 3G customers, respectively.

As mobile data networks migrate to Long Term Evolution (LTE) to handle the increased data usage by customers, 3’s networks are already poised for the development when the world’s handsets and other portable devices are ready.
Ports and Related Services

Ports are a foundation stone in Hutchison Whampoa’s history. The Hongkong and Whampoa Dock Company was established in 1866 and provided ship construction and repair services for over 100 years before diversifying into cargo and container handling operations in 1969. The company began its international foray in the 1980s with the acquisition of the Port of Felixstowe, but it was not until the late 1990s and early 2000s that the ports division began pursuing aggressive international acquisitions. Today, Hutchison operates 52 ports in 26 countries in Asia, the Middle East, Africa and the Americas.

Despite the cloud of economic uncertainty that has spooked some financial markets and dented consumer confidence in some countries, the ports division has continued to grow modestly. The group’s total container throughput, measured in twenty-foot equivalent units (TEUs) has risen every year for the past two decades, save for a slight downturn in 2009.

In light of this moderate growth, two new deep-water berths were opened in 2011 in the Port of Felixstowe, the UK’s largest container port, alongside the acquisition of operating rights to four berths in Ajman Port in the United Arab Emirates.

In 2012, the ports division will open six new berths, including three in Barcelona, Spain, set to become some of the most modern semi-automated facilities in the world, serving Southern Europe in addition to Spain. The remaining three will be opened in Huizhou, China and Westports, Malaysia. In 2013, nine more berths are scheduled to come into operation.
A shift in consumer behaviour away from high-end luxury products over the last several years has posed a challenge for Hutchison’s retail units, particularly in Europe. In spite of these uncertain economic conditions, however, Hutchison’s European colleagues were able to adapt to the changing needs of their consumers and rework their inventory management strategies, allowing the retail division in Europe to maintain steady sales volumes and operating margin growth. In addition, smart loyalty and reward programmes have been notably effective in sustaining sales volumes.

In total, the A S Watson Group now has over 10,000 retail stores worldwide, compared to only 75 stores when it became a wholly owned subsidiary of Hutchison Whampoa in 1981. The company grew slowly into Asia and Mainland China in the 1980s and early 1990s and then into Europe in the late 1990s and early 2000s with the acquisitions of Savers, Superdrug, Rossmann, Drogas, Kruidvat, Cosmo Shop, the Merchant Retail Group, Spektr, Marionnaud and DC.

In the years following these acquisitions, management worked diligently to improve operating efficiencies, reduce inventory surplus, centralise purchasing and develop own-brand products. These efforts helped turn these acquisitions – some of which were loss-making ventures – into profitable businesses. Today, A S Watson stores serve approximately 26 million people each week.

Going forward, Asia and China, in particular, will be key areas for strong growth potential. Watsons China grew from 410 stores in 2008 to over 1,000 stores in 2011. Currently, Watsons China is opening one new store nearly every day, with each store in China seeing an average sales growth of 7.8 per cent over 2011 figures.

As a whole, total revenue for the retail division grew 17 per cent to HK$143.6 billion between 2010 and 2011.
Property and hotels

“Location, location, location” has long been the adage of the world’s property gurus. For Hutchison, it seems that the prime location is Mainland China, where most (97 per cent) of the Group’s properties are located. In 2012, Hutchison expects to complete 13.8 million square feet in gross floor area of residential and commercial properties in Hong Kong, Singapore and 13 Mainland Chinese cities.

This property growth is largely driven by the rising middle class in China seeking to own their own homes. There is also an increase in the number of businesses looking to expand their presence in the region, requiring additional commercial space.

The hotel division also had a remarkable year overall. As fears of the swine flu (H1N1 virus) continued to dissipate as the year went on, tourism and associated hotel bookings across the hotels’ portfolio of 9,370 rooms in 12 hotels increased noticeably. An increase in the number of Mainland Chinese tourists visiting Hong Kong was a key factor in the increased revenue in Hong Kong, leading to frequent fully booked periods with good rates for many of Hong Kong’s hotels.
Energy

The Group’s energy division, principally located in Canada, comprises mainly a 33.90 per cent interest in Husky Energy, Inc (Husky), one of Canada’s largest integrated energy and energy-related companies. Hutchison and Mr Li Ka-shing acquired Husky in 1987, when the company was hobbled by debt. The acquisition did face much scepticism as to the profitability of the investment. However, Husky’s earnings in recent years have not only proven the soundness of the investment, but have also contributed significantly to the Group’s portfolio.

Husky’s 2011 revenues were up 37 per cent over 2010. This advancement was driven by strong production growth, higher realised crude oil prices and stronger refinery margins. An average of 312,500 barrels of oil equivalent per day (BOEs per day) was produced, compared to an average of 287,100 BOEs per day in 2010, an 8.12 per cent increase.

Two large upcoming projects for Husky are its 49 per cent share in the Liwan Deep Water Natural Gas development in the South China Sea, set to begin pumping by 2013-2014 and its 50 per cent share of the Sunrise Energy Project in Alberta, Canada, projected to produce approximately 60,000 BOEs per day in 2014.

These two projects, along with its strong capital-raising capabilities, will be important growth drivers for the division in coming years.
Overall Group Performance

While each of the Group’s core business faced different obstacles and challenges over the past several years, each was able to weather the storm, emerging financially and operationally stronger. Despite market uncertainties, Hutchison has increased dividend payments for the second year in a row, driving shareholder’s recurring earnings per share to a new high.

Overall, as the Group settles into 2012, it will continue to invest in increased productivity and cost efficiency, as well as in selective expansion of its global footprint.

Infrastructure

The Group’s infrastructure division, Cheung Kong Infrastructure (CKI) made headlines with a handful of major acquisitions over the past few years and achieved the highest profit in the company’s history in 2011. CKI acquired Northumbrian Water, which operates water and sewerage businesses in England and Wales, in October 2011. It also acquired Electricité de France (EDF) United Kingdom’s electricity networks, which was renamed UK Power Networks Holdings Limited, the UK’s largest electricity distributor covering London, South East England and the East of England in 2010. These acquisitions provided substantive positive profit contributions, resulting in a very significant increase in CKI’s reported revenue, a growth of 67 per cent.

CKI, listed in Hong Kong in 1996, is now a leading player in the global infrastructure arena with businesses in Hong Kong, the UK, Mainland China, Australia, New Zealand and Canada.

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