Story of CKI’s 20-year Globalisation and Diversification Begins with Landmark Transaction in 1999

THE LANDMARK TRANSACTION IN 1999 THAT SET THE WHEELS IN MOTION

Today, as I was working on the Group Managing Director’s Report, my thoughts continually drifted back to a dinner that took place on 11th December, 2019 in the legendary wine cellar in The Tunnels of Penfolds Magill Estate in Adelaide to celebrate the anniversary of a landmark event that happened exactly 20 years ago.

I remember it vividly. It was 11th December, 1999. CKI and Hongkong Electric had just jointly signed an agreement with the State Government of South Australia for the privatisation of ETSA Utilities for a consideration of A$3.4 billion.

In the annals of CKI’s transactions over the years, this may appear to the casual observer as just another run-of-the-mill deal. Looking back through time, I realise that so many different moving parts (and an unexpected snow storm in Beijing, some 8,600 km away from Adelaide where the deal was taking shape) had to fall into the exact place for this deal to conclude the way it did. More importantly, this seemingly ordinary transaction had set the wheels of CKI’s growth engine in motion.

It was, in retrospect, the most significant and fate-changing transaction in CKI’s history.

At the time, the completion of the privatisation immediately altered the lives of ETSA’s 1,100-strong workforce. The move afforded the ETSA teams more upward mobility in terms of professional development as they transitioned from civil servants of a government utility to employees of a subsidiary of a global conglomerate. It’s interesting to note that around 40% of the original ETSA staff members are still with the company after 20 years.

The privatisation of ETSA represented the first major acquisition of CKI outside Hong Kong and Mainland China since its listing on the Hong Kong Stock Exchange in July 1996. The A$3.4 billion agreement kick-started CKI’s own globalisation and diversification strategic development, helping to launch an amazing growth story that now sees CKI as a leading global infrastructure player with a market capitalisation of around HK$150 billion as at 31st December, 2019.
HOW A SNOW STORM IN BEIJING IMPACTED THE OUTCOME OF A DEAL IN ADELAIDE

Prior to 1999, CKI was primarily focused on Greater China, with a solid portfolio of investments in the transportation and infrastructure related businesses.

In 1999, we ventured outside Mainland China and Hong Kong for the first time by taking part in a bid for a coal mine in Australia. We were unfamiliar with the nation’s business environment and our bid was not successful.

Looking back now, losing that coal mine bid turned out to be a blessing in disguise.

During the preparation stage, we established close contacts with the investment bank community in Australia. By happenstance, we were introduced to Envestra, one of the country’s largest gas distributors, listed on the Sydney Stock Exchange but headquartered in Adelaide, which coincidentally was in the process of carrying out a capital raising exercise. In July 1999, CKI subscribed to a 19.97% stake and became the co-largest shareholder of the company.

That was the first CKI investment outside Hong Kong and Mainland China. By any account, this relatively small investment (A$100 million) in a non-controlling stake (less than 20%) of a listed company would appear inconsequential in the larger scheme of things. However, little did we know at the time that this minor investment would set the stage for not only a much larger Australian investment, but more importantly, the globalisation and diversification of CKI.

The Envestra deal in July 1999 was remarkable in that it opened a window to a deeper understanding of the Australian markets, particularly in South Australia. Like an intricate row of dominoes perfectly set up, several months later we were made aware of the privatisation plans of ETSA, the sole electricity distributor in the State of South Australia.

ETSA was a much more significant deal (in the order of over A$3 billion) and attracted a lot of public attention. Many major investors expressed an interest, including domestic investors and those from US, Singapore and other countries.

With the memory of our failed bid for the coal mine still fresh, CKI performed its due diligence and decided to throw our hat in the ring.

CKI, together with our associated company Hongkong Electric, selected some key executives to form a bidding team with the assistance of external financial advisers and consultants. Amidst keen competition, the CKI consortium passed the first and second rounds, and made it through to the final stage with only two bidders remaining: the CKI consortium and another foreign investor.

In the final round, the negotiation came to a deadlock. The CKI consortium found it difficult to meet some of the Government’s requirements, and was not confident we could compete with the opposing overseas bidder.

Only a few months removed from the coal mine bid, perhaps the previous failure had cast a shadow on the current process. The CKI team felt disheartened and exited the negotiation in Adelaide, boarding an evening flight to Melbourne. The head of the bidding team took a connecting red-eye flight from Melbourne to Hong Kong and the rest of the team stayed in Melbourne for the night.
GROUP MANAGING DIRECTOR’S REPORT

As these events unfolded, I was held up in Beijing for business meetings. I wished I could get in touch with the bidding team to see if there were any last minute changes that might have salvaged the talks. When the meetings concluded and I tried calling them at around 5pm in Beijing, which was 8pm in Melbourne, they were already en route from Adelaide to Melbourne. Their flight was not scheduled to touch down in Melbourne until two hours later.

I was scheduled to take a 7pm flight from Beijing back to Hong Kong that would not land until 11pm local, or 2am in Melbourne. If I had boarded this flight as scheduled, I would have missed the opportunity to reach my team before the South Australian Government made its decision.

Sitting in the Beijing Airport lounge from 5 to 6pm, and not able to reach the bidding team, I had a wrenching feeling that all the efforts over the past two months were in vain. Perhaps CKI and Australia were just not a good fit.

At around 6:15pm, it was announced that the flight to Hong Kong would be delayed for two hours due to a snow storm affecting the Beijing Airport. Two extra hours to reach my team. There was a glimmer of hope.

Between 6pm and 8pm, I kept calling my colleagues from the airport lounge in Beijing to no avail. Just shortly after 8pm, I heard the boarding announcement for my flight. It was at that moment that I was finally able to reach one of the team members who was staying overnight in Melbourne. I could not reach the team leader as he was in mid-flight from Melbourne to Hong Kong.

By then it was 11pm in Melbourne. During the conversation, we discussed the different angles to approach the negotiation and I suggested that we communicate the message to the financial advisor of the South Australian Government through our own financial advisor. It took more than an hour to get the message through, as it was already past midnight in Australia. The message was a shot in the arm that energised both teams, and they invited us to return to the negotiation table in Adelaide as soon as possible.

The telephone calls going back and forth among our own team and the two financial advisors (on both sides) took place within a tight 3-hour window of opportunity that made all the difference between success and failure.

Our team members who had spent the night in Melbourne all caught a morning flight back to Adelaide. As for the team leader who had returned to Hong Kong, we had arranged for him to catch an immediate flight back to Adelaide.

On the following day, with all team members present, negotiations resumed. After some compromises made on both sides, on 11th December, 1999, the South Australian Government and CKI consortium reached an agreement, and the ETSA privatisation decision was announced.

As I reflect on the series of serendipitous events that took place that fateful year, the ETSA deal was nothing short of a miracle. Had there not been a snow storm in Beijing that caused a flight delay, we would have missed the window of opportunity to return to the negotiation table before the deadline. The South Australian Government would have likely awarded the deal to the other bidder, or canceled the privatisation exercise altogether, if a satisfactory agreement could not be reached. In either case, it would have been another failed attempt for CKI to gain a firm foothold in Australia within a span of 12 months. The course of our globalisation and diversification development over the subsequent two decades would have appeared very differently.

There may not have been divine intervention, but there is no question in my mind that the stars were aligned perfectly.
From that point on, Australia became an important component of CKI’s corporate DNA. As Group Managing Director, I began visiting Australia almost every month to not only oversee our growing portfolio of investments and operations, but also to seek new opportunities to be of service to the people of Australia.

THE BUILDING BLOCKS OF GLOBALISATION AND DIVERSIFICATION

The success of the South Australia deals in 1999 gave us tremendous encouragement and impetus to forge ahead with our globalisation programme.

In Australia, we acquired two of the five electricity distribution networks in the State of Victoria – Powercor in 2000 and CitiPower in 2002. In 2014, a CKI-led consortium privatised Envestra, our maiden investment in Australia back in 1999. In 2017, a CKI consortium privatised the DUET Group, one of the largest listed diversified utility companies in Australia. The addition of DUET strengthened CKI’s Australian portfolio with four additional energy companies: (i) United Energy in Victoria, (ii) Multinet Gas in Victoria, (iii) Dampier Bunbury Pipeline in Western Australia, and (iv) Energy Developments headquartered in Queensland. Today, CKI (together with other members of the CK Group) has become one of the largest foreign investors in Australia.

CKI built on our early success in Australia by extending our footprint to the UK in 2004. Since then, the Group has continued to expand in the UK to piece together a portfolio of quality infrastructure assets, including UK Power Networks, Northern Gas Networks, Wales & West Gas Networks, Seabank Power, Northumbrian Water and UK Rails. CKI has become one of the largest foreign investors in the UK today, providing essential services across the electricity, gas, water and transportation sectors.

Concurrently, CKI expanded its investment portfolio in 2013 to include quality assets in Continental Europe, including (i) Dutch Enviro Energy in the Netherlands, (ii) Portugal Renewable Energy in Portugal, and (iii) ista, headquartered in Germany.

Our foray into Canada began in 2007, where CKI now holds a stake in (i) Canadian Power, (ii) Park’N Fly, (iii) Canadian Midstream Assets, and (iv) Reliance Home Comfort.

And in 2008, CKI completed its first investment in New Zealand. Today, the Group owns and operates two businesses in the country: (i) Wellington Electricity, and (ii) EnviroNZ.

Since the acquisition of a 19.97% stake in Envestra and completing the ETSA privatisation in 1999, CKI has set a steady course for globalisation and diversification. With a series of acquisitions and expansion programmes over the past 20 years, CKI has become one of the leading global infrastructure players with diversified investments in electricity generation, transmission and distribution; gas transmission and distribution; oil pipelines; water and water services; waste management and energy from waste; household infrastructure; transportation; and infrastructure materials. CKI’s portfolio now spans across Hong Kong, Mainland China, the United Kingdom, Continental Europe, Australia, New Zealand and Canada.

By any measure, CKI’s achievements over the past 20 years has been phenomenal. The seminal transaction that kick-started our steady expansion was the extraordinary ETSA privatisation in 1999.
11th December, 1999. The memorable day when CKI reached an agreement with the Government of South Australia to privatise ETSA, paving the way for CKI’s subsequent globalisation and diversification development. To commemorate this special day, CKI invited all the key players from past and present to celebrate the 20th anniversary of this historic transaction in The Tunnels of Penfolds Magill Estate in Adelaide on 11th December, 2019.

The anniversary dinner was a great opportunity to bring everyone together for a big “family” reunion.

Reunited for a memorable evening. Key players and dignitaries involved in the ETSA deal gathered for a special reunion at the anniversary celebration event.

From left to right:
- Mr Edmond Ip, Deputy Chairman, CKI
- Mr Peter Tulloch, Chairman of SA Power Networks, Victoria Power Networks and Australian Gas Networks
- The Hon John Olsen, Former Premier of South Australia
- The Hon Sir Eric James Neal, Former Governor of South Australia
- His Excellency The Hon Hieu Van Le, Governor of South Australia
- Mr H L Kam, Group Managing Director, CKI
- Rear Admiral the Hon Kevin Scarce, Former Governor of South Australia
- The Hon Rob Lucas, Treasurer of South Australia
The Hon Rob Lucas, the current Treasurer of South Australia, with responsibilities for Finance, Industrial Relations and the Public Sector, also happened to be Treasurer of South Australia from 1997 to 2002, when the ETSA transaction took place. It was his signature on the agreement in 1999 that sealed the deal.

The three Governors, together with Mr H L Kam:
- Far left: The Hon Sir Eric James Neal, Former Governor of South Australia (1996-2001)
- Far right: Rear Admiral the Hon Kevin Scarce, Former Governor of South Australia (2007-2014)
- Second from left: His Excellency The Hon Hieu Van Le, Governor of South Australia (2014 till now)

The three CEOs, together with CKI key executives:
- Second from right: Mr Basil Scarsella, Former CEO, ETSA Utilities (1998-2005); Former CEO, Northern Gas Networks (2005-2010); CEO, UK Power Networks (2010 till now)
- Third from right: Mr Lew Owens, Independent Regulator during 1999; Former CEO, ETSA Utilities (2005-2010); Current Non-executive Director of Australian Gas Networks
- Third from left: Mr Rob Stobbe, CEO, SA Power Networks (2010 till now)

The first ETSA Utilities Board and management team after the privatisation in 1999.

Key executives and staff members at the time of the privatisation who continue to serve SA Power Networks or CKI group members to this day.
GROUP MANAGING DIRECTOR’S REPORT

Current CEOs of CKI Group Australian businesses with key CKI executives.

From left to right:
- Mr Ben Wilson, CEO, Australian Gas Infrastructure Group
- Mr Tim Rourke, CEO, Victoria Power Networks and United Energy
- Mr James Harman, CEO, Energy Developments
- Mr Rob Stobbe, CEO, SA Power Networks
- Mr Edmond Ip, Deputy Chairman, CKI
- Mr Basil Scarsella, CEO, UK Power Networks (former CEO of ETSA)
- Mr H L Kam, Group Managing Director, CKI
- Mr Charles Tsai, CEO, Power Assets (member of the ETSA privatisation bidding team)

SALUTING THE “AMALGAMATION OF INDIVIDUAL SUCCESSES”

The story of CKI’s development over the past 23 years is one that’s abound with serendipitous connections of people and events, all culminating in the CKI family that now stands before you.

First of all, I would like to thank the South Australian Government for selecting us for the ETSA project, and giving us the opportunity to serve the local community in ways great and small. This landmark transaction opened the door to a new world of investment opportunities in Australia and other overseas markets. In 2012, ETSA Utilities was renamed SA Power Networks to reflect our commitment to offer dedicated service to the South Australian community.

In many ways, the story of CKI is also a story of the “Amalgamation of Individual Successes”. From that fateful day in 1999 to the present, CKI attributes its success to the hard work and dedication of some 30,000 colleagues all over the globe, at all levels of operation and management, who have all contributed in no small part through their commitment to excellence. We take this opportunity to salute our colleagues and thank them for their loyal service.

At the time of listing in 1996, CKI’s vision was “to become a global infrastructure company – one that makes the world a better place through a variety of infrastructure investments and developments in different parts of the world”. Looking back at CKI’s development over the past 23 years since listing, I am truly proud to say that we have not only achieved our initial vision, but also exceeded our highest hopes. The coming years will be challenging but we are more committed than ever to ensure that when opportunity knocks, we are ready to make our own fate.

H L KAM
Group Managing Director
18th March, 2020