

JPM-pp1

Asia Pacific Equity Research

27 February 2015

New World Development (17 HK)

Overweight

Price: HK\$9.29

26 Feb 2015

Price Target: HK\$11.40

PT End Date: 31 Dec 2015

FY15 interim results better than expectations

New World Development (“NWD”) reported FY15 interim earnings of HK\$4,408 mn, up 5% Y/Y, higher than our expectation of HK\$3,979 mn. The variance mainly came from higher-than-expected property sales and lower-than-expected interest cost. Interim DPS maintained flat at HK\$0.12.

- FY15 interim underlying earnings up 5% Y/Y:** Despite the challenging operating environment for its subsidiaries New World China Land (Not Covered, 917 HK) and New World Department Store (Not Rated, 825 HK), NWD reported 5% growth in FY15 interim earnings, where the contribution of HK property sales (The Austin and Grand Austin at associate level) and disposal gain of Macau Power was sufficient to cover the decline in China property and department store business. New World China Land reported core profit drop of 61.6% in FY15 interim results whereas New World Department Store reported profit drop of 41.1%.
- Contracted sales exceeding target:** HK contracted sales of HK\$13.4 bn were achieved in 1HFY15, already exceeding the full year target of HK\$12 bn. There are a few projects in the pipeline for potential launch, including Skypark in Mongkok, The Parkhill in Yuen Long and The Clearwater Bay in Sai Kung and Des Voeux Road West project. We will look for guidance on whether there will be any revision of the full year target, which will be an indication of the company’s view on the residential market.
- Gearing level slightly edged down:** As at 31 December 2014, net debt to equity ratio stood at 26.1%, a slightly decrease from 27.3% as at 30 June 2014. Total investment properties value went up 7% Y/Y to HK\$83 bn. There is some debt headroom for NWD to look for sites in HK for both residential and commercial properties development.

Table 1: FY15 interim results summary

HK\$ in millions, year-end 30 June	1HFY14	1HFY15	Y/Y chg
Turnover	27,180	26,986	-1%
Rental	804	744	-8%
Property sales	4,966	3,227	-35%
Service	447	470	5%
Infrastructure	636	581	-9%
Department stores	378	230	-39%
Hotel operation	276	189	-32%
Others	97	(64)	nm
Attributable operating profit	7,604	5,376	-29%
Other gains	1,284	426	nm
Unallocated corporate expenses	(499)	(602)	21%
Net interest charges	(492)	(392)	-20%
Associates and JCEs	1,759	2,547	45%
Profit Before Taxation	9,655	7,354	-24%
Taxation	(3,037)	(1,859)	-39%
Minority Interests	(2,411)	(1,087)	-55%
Core net profit	4,208	4,408	5%
Core EPS (HK\$)	0.63	0.51	-19%
DPS (HK\$)	0.12	0.12	0%

Source: Company reports and J.P. Morgan estimates.

Investment Thesis

Supported by the good sales of The Pavilia Hill, we expect the company will once again manage to achieve FY15 sales target soon which is at the early stage of the financial year like in FY14. On the other hand, NWD has made good process in acquiring land bank in urban locations, including two old building redevelopment projects in Western District and the sizeable Tai Wai Station project. The land bank quality is being enhanced and diversified with these acquisitions. Together with the New World Centre redevelopment as the longer-term driver, we maintain our positive view on the stock.

Valuation

Our Dec-15 price target of HK\$11.40 is based on a 57% discount to its property stub value (1 SD below long-term average) and 15% holding discount for listed assets.



Source: J.P. Morgan estimates

Risks to Rating and Price Target

Downside risks include lower-than-expected selling prices for projects in HK, lower-than-expected contracted sales in China, delay in completion of New World Centre redevelopment, construction cost rise and a sharp interest rate rise.

Property

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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
10-Oct-06	N	13.46	13.00
28-Jan-07	OW	16.62	13.00
31-Jan-07	OW	17.06	19.00
19-Mar-07	OW	16.90	20.00
28-Jun-07	OW	19.82	23.00
11-Oct-07	OW	22.90	25.30
07-Nov-07	OW	27.20	30.00
18-Mar-08	OW	16.12	22.00
15-Oct-08	OW	7.95	11.00
17-Nov-08	OW	6.80	8.50
18-Mar-09	OW	7.06	9.00
26-May-09	OW	14.52	16.60
10-Aug-09	OW	16.88	22.85
02-Dec-09	OW	16.30	19.80
16-Aug-10	OW	13.90	15.50
07-Oct-10	OW	16.82	19.10
01-Mar-11	OW	13.82	18.50
26-Jun-11	N	11.68	11.90
30-Sep-11	N	7.56	11.00
07-Oct-11	N	7.06	10.50
01-Nov-11	N	7.81	8.60
16-Feb-12	OW	9.65	12.50
27-Sep-12	OW	11.56	13.60
17-Jan-13	OW	14.14	15.70
28-Feb-13	OW	13.76	17.00
10-Jun-13	NR	11.52	--
22-Jul-13	OW	11.08	14.20
26-Nov-13	N	10.56	11.10
16-Mar-14	N	8.27	7.00
04-Jun-14	OW	8.98	11.00
25-Sep-14	OW	9.77	11.20
30-Oct-14	OW	9.63	11.40

<http://gps-app.amer.jpmchase.net:6080/server/console/chart?shareClassId=502014&shareClassServerId=4&chartDesignation=1&actionType=C>

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