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HONG KONG RESEARCH

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NEW WORLD DEVELOPMENT COMPANY LIMITED (新世界發展)

Sector	:	Property Development
HKSE Code	:	00017
Market Price	:	HK$9.12 (04/03/2015)
HSI	:	24,465.38 (04/03/2015)
Shares Issued	:	8,893.42 million
Mkt. Cap.	:	HK$81,108 million
52 weeks Hi/ Lo	:	HK$10.48 /HK$7.154

Chairman and Executive Director	:	Dr. Cheng Kar-Shun, Henry
Executive Vice-Chairman	:	Dr. Cheng Chi-Kong, Adrian

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST DECEMBER 2014

Interim Results Highlights

	1HFY15 HK$ million	1HFY14 HK$ million	*y-o-y Change*
• Turnover	26,986	27,180	*(0.7%)*
• Changes in fair value of investment properties	1,811	440	*311.5%*
• Operating profit	7,011	8,829	*(20.6%)*
• Share of results of associates and jointly controlled entities	2,547	1,759	*44.8%*
• **Profit attributable to shareholders**	**5,855**	**4,529**	***29.3%***
• **Underlying profit**	**4,408**	**4,208**	***4.8%***
	HK$	HK$	
• Earnings per share - Basic	0.68	0.68	*Unchanged*
• Dividend per share - Interim	0.12	0.12	*Unchanged*

- **Net profit** of New World Development ("NWD" or the "Group") surged by 29.3% year-on-year to HK$5.86 billion for the six months ended 31st December 2014, thanks to a substantial increase in the fair value change of investment properties (+311.5% year-on-year). Stripping out the revaluation gain of investment properties and other gains, underlying profit would have increased by 4.8% to HK$4.41 billion from a year ago. The results beat consensus estimates on lower-than-expected land appreciation tax in China.
- **Turnover** marginally edged down by 0.7% year-on-year to HK$26.99 billion, as the strong growth in services revenue (+28.6% year-on-year) was offset by weaker property sales (-15.4% year-on-year) in 1HFY15.
- As at 31st December 2014, the Group's consolidated net debt amounted to HK$54.33 billion (as at 30th June 2014: HK$54.74 billion). **Net debt to equity ratio** was 26.1%, down 1.2 percentage points compared to that as of 30th June 2014.

- Despite a slight increase in profitability, **earnings per share** stayed flat at HK$0.68 per share due to earnings dilutions upon its rights issue in March 2014. NWD proposed an interim dividend of HK$0.12 per share, same as that for 1HFY14. Payout ratio was 17.7% (1HFY14: 17.7%).
- At the end of 2014, NWD has a **landbank** with total attributable gross floor area (GFA) of 9.3 million square feet (at the end of June 2014: 7.6 million square feet) for development in Hong Kong, in addition to 18.3 million square feet of agricultural land reserve pending conversion.

Business highlights

Breakdown of turnover by activities

HK$ million	**1HFY15**	**%**	**1HFY14**	**%**	***y-o-y Change***
Property development	11,861	44.0%	14,027	51.6%	*(15.4%)*
Rental income	1,199	4.4%	1,190	4.4%	*0.7%*
Services	8,089	30.0%	6,288	23.1%	*28.6%*
Infrastructure operations	1,324	4.9%	1,264	4.7%	*4.8%*
Hotel operations	2,042	7.6%	1,874	6.9%	*8.9%*
Department stores operations	2,007	7.4%	2,031	7.5%	*(1.2%)*
Others	464	1.7%	505	1.9%	*(8.0%)*
Total	**26,986**	**100.0%**	**27,180**	**100.0%**	*(0.7%)*

Property development

- In 1HFY15, the Group achieved attributable contracted sales of HK$13.4 billion (+14.5% year-on-year) in Hong Kong, surpassing its full-year target of HK$12 billion. 1,814 units were sold during the period (versus 2,234 units in 1HFY14), primarily attributable to the projects including i) The Reach in Yuen Long, ii) Park Signature in Yuen Long, iii) Double Cove Starview Prime in Ma On Shan, iv) The Pavilia Hill in North Point as well as v) Grand Austin in West Kowloon.
- In China, net profit of New World China Land Limited ("NWCL") plunged by 55.4% year-on-year mainly due to a decrease in GFA completions (-45.2% year-on-year) as well as a decline in gross profit margin (-10.5 percentage points year-on-year). Contracted sales for 1HFY15 fell 22.4% from a year earlier to RMB7,231 million, representing 57.8% of its annual sales target of RMB12.5 billion.

Rental

- Hong Kong gross rental income declined modestly by 4.1% year-on-year to HK$723.2 million in 1HFY15. The slower rental income growth was primarily attributable to the renovation works at SOGO Tsim Sha Tsui and Discovery Park Shopping Centre in Tsuen Wan. Excluding the negative effect of these two projects, the Group's gross rental income would have increased by 3% from a year ago.
- Rental income of NWCL rose 13.1% year-on-year, driven by an increase in contributions from Shanghai Hong Kong New World Tower resulted from improved occupancy rate as well as Wuhan New World International Trade Tower on higher average rental rate upon renewal of tenancy contract.

Hotel operations

- Revenue from its hotel segment marked stable growth of 8.9% year-on-year. Occupancy rates of its four major hotel projects in Hong Kong, namely i) Grand Hyatt Hong Kong, ii) Renaissance Harbour View Hotel, iii) Hyatt Regency Hong Kong, Tsim Sha Tsui and iv) Hyatt Regency Hong Kong, Shatin stood at 60.0%, 80.4%, 91.4% and 89.9% respectively (as at 30th June 2014: 61%, 77%, 89% and 84% respectively). The low occupancy rate of Grand Hyatt Hong Kong was mainly due to its large-scale renovation work during the period.

Services

- The services segment posted a decent revenue growth 28.6% year-on-year to HK$8,089 million in 1HFY15, boosted by strong contribution from its construction business on improved gross profit margin. As at 31st December 2014, its order book of construction projects amounted to HK$60.5 billion, an increase of 32.6% year-on-year.

Department stores

- Revenue derived from department stores operation slightly declined by 1.2% year-on-year to HK$2,007 million, with the same-store sales of New World Department Store China ("NWDS") down 9.5% year-on-year. Commission income from concessionaire sales remained its major income contributor, accounting for 63.7% of the total revenue. Proceeds from direct sales, rental income and management fees accounted for 18.4%, 15.7% and 2.2% of its total revenue respectively. Geographically, Northern China contributed the most of its revenue, accounting for 50.1% of its total during the period.

Outlook & Prospects

- ***Ample new launches in the pipeline in Hong Kong***. NWD has abundant saleable resources in Hong Kong, including over 2,100 units from new project launches and 889 units from its existing inventory (as at 15th February 2015). Major upcoming new launches will include i) Skypark in Mong Kong, ii) The Parkhill in Yuen Long, iii) The Clearwater Bay in Sai Kung and iv) Des Vouex Road West project in Western district.

- ***China property development to be supported by the recent loosening.*** Despite sluggish property sales in China in 1HFY15, NWD expected its annual sales target would be achievable by end of FY2015 amid the recent monetary easing in China and relaxation of policies. Nonetheless, its gross margin may continue to be under pressure, due to price cuts to boost sales volume.

- ***Update on the asset enhancement of investment properties.*** The construction progress of the New World Centre redevelopment project in Tsim Sha Tsui has been on track, which will be scheduled for completion in 2H17 with rental contribution started to be kicked in late 2017 to early 2018. Separately, the first 3 phases of the renovation works at Discovery Park Shopping Centre in Tsuen Wan were completed, while the final phase is expected to be completed by 2015.

- ***Gearing expected to go up due to high CAPEX for China.*** Management expected net gearing to edge up to around 30% by mid of 2015, driven by higher capital expenditure (CAPEX) for China. The Group planned FY2015 CAPEX budget of around HK$18 billion to HK$19 billion in Hong Kong, of which HK$5 billion to HK$6 billion and HK$7 billion is attributable to the New World Centre redevelopment as well as land acquisitions respectively. For China, CAPEX will reach around HK$20 billion mainly for the development of investment properties.

- ***Valuation***: NWD shares are trading at 58.6% discount to FY2015E NAV, which is attractive compared to its historical average of 48% NAV discount. In the light of i) its active property launches in Hong Kong; ii) expected recovery of China property sales; and iii) its relatively higher dividend yield of 4.8% among local developers (peers' average of 3.4%), we recommend "Outperform" on NWD. Key risks include earlier-than-expected interest rate hike and additional government's tightening measures in Hong Kong and China.

Recommendation: Outperform

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