



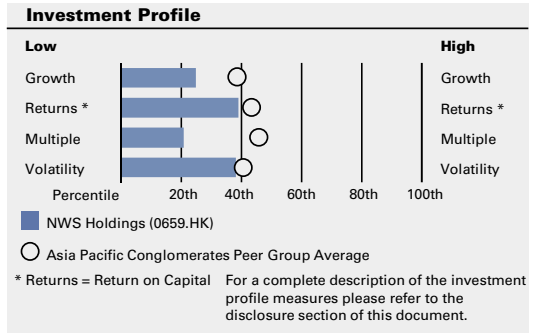
ACTION
Removed from Asia Pacific Sell List
NWS Holdings (0659.HK)

Equity Research

Upgrade to Neutral post underperformance; fairly valued

What happened

We upgrade NWS from Sell to Neutral as the stock has breached our 12-month target price following recent underperformance (-11% ytd, vs. +4% for MSCI HK). Since we added NWS to the Asia Pacific Sell list on Jan 4, 2013, the stock price has declined 7% vs. +13% for MSCI Hong Kong. We attribute the underperformance to: (1) muted earnings growth in FY14-1HFY15; (2) 25% yoy DPS cut in 1HFY15 despite lower net gearing; (3) expectation of potential hike in US treasury rate making NWS' 4.1%/4.6% nominal dividend yield in FY15E/16E less attractive. At current valuations, we think NWS' risk reward profile looks fair.



Current view

We think earnings should resume growth starting 2HFY15 without the negative impact from "Occupy Central" and water tariff cuts in its Chongqing projects. We estimate the newly acquired aircraft leasing business, Goshawk Aviation, will start to contribute profit in Feb 2015 (i.e., 5 months in 2HFY15), boosting NWS' 2015E/16E profit by 2%/6%. We forecast 7% and 15% yoy earnings growth in 2HFY15 and FY16.

At 16% net debt to equity (including the acquisition of Goshawk) vs. NWS' target of 40%, the company still has HK\$10.8bn room for future M&A. Management also do not rule out the possibility of a special dividend if they cannot identify accretive acquisitions.

Valuation

Our 12-month target price is unchanged at HK\$13.1, based on a 10% discount to 2015E NAV of HK\$14.6. The stock is now trading at 11.4x 12m forward P/E and implies 2.5% 12m forward dividend yield spread vs. US treasury rate, in line with historical averages of 11.6x and 2.7%. We think EV/GCI of 0.94x now fairly reflects NWS' cash return profile (Exhibit 3).

Key risks

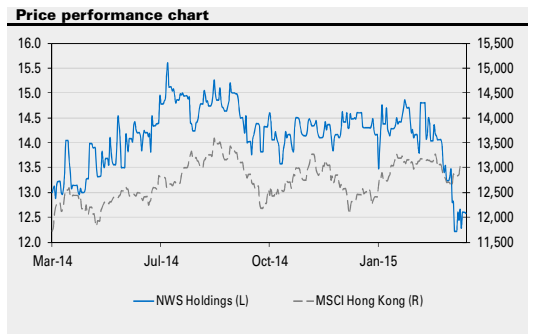
Upside – sizeable value accretive acquisitions. Downside – persistent cost pressure across all businesses.

INVESTMENT LIST MEMBERSHIP

Neutral

| Key data | Current |
|--------------------------------|--------------------|
| Price (HK\$) | 12.58 |
| 12 month price target (HK\$) | 13.10 |
| Market cap (HK\$ mn / US\$ mn) | 42,605.4 / 5,494.7 |
| Foreign ownership (%) | -- |

| | 6/14 | 6/15E | 6/16E | 6/17E |
|---------------------------|-------|-------|-------|-------|
| EPS (HK\$) | 0.99 | 1.00 | 1.15 | 1.27 |
| EPS growth (%) | (0.1) | 1.5 | 15.2 | 9.9 |
| EPS (diluted) (HK\$) | 1.17 | 1.03 | 1.15 | 1.27 |
| EPS (basic pre-ex) (HK\$) | 0.99 | 1.00 | 1.15 | 1.27 |
| P/E (X) | 12.5 | 12.6 | 10.9 | 9.9 |
| P/B (X) | 1.1 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA (X) | 15.9 | 16.8 | 14.2 | 12.7 |
| Dividend yield (%) | 4.7 | 4.1 | 4.6 | 5.0 |
| ROE (%) | 10.5 | 8.9 | 9.5 | 9.8 |
| CROCI (%) | 12.5 | 8.5 | 9.5 | 10.0 |



| Share price performance (%) | 3 month | 6 month | 12 month |
|-----------------------------|---------|---------|----------|
| Absolute | (12.0) | (9.0) | (3.2) |
| Rel. to MSCI Hong Kong | (16.2) | (12.2) | (13.8) |

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/30/2015 close.

Coverage View: Neutral

Janet Lu
 +852-2978-1642 janet.lu@gs.com Goldman Sachs (Asia) L.L.C.
Simon Cheung, CFA
 +852-2978-6102 simon.cheung@gs.com Goldman Sachs (Asia) L.L.C.
Alex Ye
 +852-2978-6666 alex.ye@gs.com Goldman Sachs (Asia) L.L.C.

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NWS Holdings: Summary Financials

| Profit model (HK\$ mn) | 6/14 | 6/15E | 6/16E | 6/17E | Balance sheet (HK\$ mn) | 6/14 | 6/15E | 6/16E | 6/17E |
|---|------------------|------------------|------------------|------------------|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Total revenue | 21,443.0 | 23,997.7 | 25,587.6 | 27,374.9 | Cash & equivalents | 7,814.6 | 4,752.9 | 2,530.8 | 4,086.8 |
| Cost of goods sold | (17,896.4) | (20,726.9) | (21,850.0) | (23,432.8) | Accounts receivable | 8,244.3 | 8,666.5 | 9,109.8 | 9,575.3 |
| SG&A | 0.0 | 0.0 | 0.0 | 0.0 | Inventory | 329.6 | 339.5 | 349.7 | 360.2 |
| R&D | 0.0 | 0.0 | 0.0 | 0.0 | Other current assets | 30.1 | 30.1 | 30.1 | 30.1 |
| Other operating profit/(expense) | 0.0 | 0.0 | 0.0 | 0.0 | Total current assets | 16,418.6 | 13,789.0 | 12,020.4 | 14,052.4 |
| EBITDA | 3,546.6 | 3,270.7 | 3,737.6 | 3,942.1 | Net PP&E | 552.7 | 671.0 | 797.5 | 934.5 |
| Depreciation & amortization | (907.3) | (912.0) | (915.5) | (917.3) | Net intangibles | 16,152.1 | 15,356.4 | 14,560.7 | 13,765.0 |
| EBIT | 2,639.3 | 2,358.8 | 2,822.1 | 3,024.8 | Total investments | 33,753.3 | 33,607.3 | 34,889.1 | 35,130.6 |
| Interest income | 223.4 | 219.6 | 137.3 | 70.6 | Other long-term assets | 4,677.4 | 4,859.6 | 5,050.9 | 5,251.8 |
| Interest expense | (694.1) | (644.9) | (484.2) | (356.5) | Total assets | 71,554.1 | 68,283.2 | 67,318.6 | 69,134.2 |
| Income/(loss) from uncons. subs. | 2,134.6 | 2,253.0 | 2,613.3 | 2,848.2 | Accounts payable | 7,644.0 | 7,873.3 | 8,109.5 | 8,352.8 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | Short-term debt | 5,513.5 | 5,513.5 | 3,513.5 | 2,513.5 |
| Pretax profits | 4,303.2 | 4,186.6 | 5,088.4 | 5,587.0 | Other current liabilities | 358.9 | 928.9 | 998.2 | 1,061.3 |
| Income tax | (605.3) | (385.1) | (715.8) | (785.9) | Total current liabilities | 13,516.4 | 14,315.8 | 12,621.2 | 11,927.6 |
| Minorities | (57.6) | (60.5) | (63.5) | (66.7) | Long-term debt | 12,154.0 | 6,154.0 | 4,154.0 | 3,654.0 |
| Net income pre-preferred dividends | 3,640.3 | 3,740.9 | 4,309.2 | 4,734.5 | Other long-term liabilities | 2,840.3 | 2,840.3 | 2,840.3 | 2,840.3 |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 | Total long-term liabilities | 14,994.3 | 8,994.3 | 6,994.3 | 6,494.3 |
| Net income (pre-exceptionals) | 3,640.3 | 3,740.9 | 4,309.2 | 4,734.5 | Total liabilities | 28,510.7 | 23,310.1 | 19,615.5 | 18,421.9 |
| Post-tax exceptionals | 684.6 | 101.3 | 0.0 | 0.0 | Preferred shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income | 4,324.9 | 3,842.2 | 4,309.2 | 4,734.5 | Total common equity | 42,216.4 | 44,137.6 | 46,862.3 | 49,868.8 |
| EPS (basic, pre-exception) (HK\$) | 0.99 | 1.00 | 1.15 | 1.27 | Minority interest | 827.0 | 835.6 | 840.8 | 843.5 |
| EPS (basic, post-exception) (HK\$) | 1.17 | 1.03 | 1.15 | 1.27 | Total liabilities & equity | 71,554.1 | 68,283.2 | 67,318.6 | 69,134.2 |
| EPS (diluted, post-exception) (HK\$) | 1.17 | 1.03 | 1.15 | 1.27 | BVPS (HK\$) | 11.42 | 11.80 | 12.52 | 13.33 |
| DPS (HK\$) | 0.58 | 0.51 | 0.58 | 0.63 | | | | | |
| Dividend payout ratio (%) | 49.6 | 50.0 | 50.0 | 50.0 | | | | | |
| Free cash flow yield (%) | 13.4 | 8.5 | 9.9 | 10.9 | | | | | |
| | | | | | | | | | |
| Growth & margins (%) | 6/14 | 6/15E | 6/16E | 6/17E | Ratios | 6/14 | 6/15E | 6/16E | 6/17E |
| Sales growth | 32.0 | 11.9 | 6.6 | 7.0 | CROCI (%) | 12.5 | 8.5 | 9.5 | 10.0 |
| EBITDA growth | 0.7 | (7.8) | 14.3 | 5.5 | ROE (%) | 10.5 | 8.9 | 9.5 | 9.8 |
| EBIT growth | (1.1) | (10.6) | 19.6 | 7.2 | ROA (%) | 6.2 | 5.5 | 6.4 | 6.9 |
| Net income growth | 7.9 | (11.2) | 12.2 | 9.9 | ROACE (%) | 7.9 | 8.0 | 8.9 | 9.6 |
| EPS growth | 5.7 | (12.3) | 12.2 | 9.9 | Inventory days | 7.1 | 5.9 | 5.8 | 5.5 |
| Gross margin | 16.5 | 13.6 | 14.6 | 14.4 | Receivables days | 116.7 | 128.6 | 126.8 | 124.6 |
| EBITDA margin | 16.5 | 13.6 | 14.6 | 14.4 | Payable days | 128.7 | 136.6 | 133.5 | 128.2 |
| EBIT margin | 12.3 | 9.8 | 11.0 | 11.0 | Net debt/equity (%) | 22.9 | 15.4 | 10.8 | 4.1 |
| | | | | | Interest cover - EBIT (X) | 5.6 | 5.5 | 8.1 | 10.6 |
| | | | | | | | | | |
| Cash flow statement (HK\$ mn) | 6/14 | 6/15E | 6/16E | 6/17E | Valuation | 6/14 | 6/15E | 6/16E | 6/17E |
| Net income pre-preferred dividends | 3,640.3 | 3,740.9 | 4,309.2 | 4,734.5 | P/E (analyst) (X) | 12.5 | 12.6 | 10.9 | 9.9 |
| D&A add-back | 907.3 | 912.0 | 915.5 | 917.3 | P/B (X) | 1.1 | 1.1 | 1.0 | 0.9 |
| Minorities interests add-back | 57.6 | 60.5 | 63.5 | 66.7 | EV/EBITDA (X) | 15.9 | 16.8 | 14.2 | 12.7 |
| Net (inc)/dec working capital | (41.2) | 0.0 | 0.0 | 0.0 | EV/GCI (X) | 1.0 | 0.9 | 0.9 | 0.8 |
| Other operating cash flow | 1,863.4 | (418.8) | (280.4) | (255.4) | Dividend yield (%) | 4.7 | 4.1 | 4.6 | 5.0 |
| Cash flow from operations | 6,427.4 | 4,294.5 | 5,007.9 | 5,463.1 | | | | | |
| Capital expenditures | (223.4) | (234.6) | (246.3) | (258.6) | | | | | |
| Acquisitions | (5,308.7) | (1,750.5) | (1,000.0) | 0.0 | | | | | |
| Divestitures | 875.6 | 2,281.3 | 0.0 | 0.0 | | | | | |
| Others | (207.7) | (249.6) | (410.1) | (419.7) | | | | | |
| Cash flow from investments | (4,864.2) | 46.7 | (1,656.4) | (678.3) | | | | | |
| Dividends paid (common & pref) | (1,577.9) | (1,403.0) | (1,573.5) | (1,728.8) | | | | | |
| Inc/(dec) in debt | (40.3) | (6,000.0) | (4,000.0) | (1,500.0) | | | | | |
| Common stock issuance (repurchase) | 0.0 | 0.1 | 0.0 | 0.0 | | | | | |
| Other financing cash flows | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Cash flow from financing | (1,618.2) | (7,402.9) | (5,573.5) | (3,228.8) | | | | | |
| Total cash flow | (55.0) | (3,061.7) | (2,222.1) | 1,556.0 | | | | | |

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Analyst Contributors

Janet Lu

janet.lu@gs.com

Simon Cheung, CFA

simon.cheung@gs.com

Alex Ye

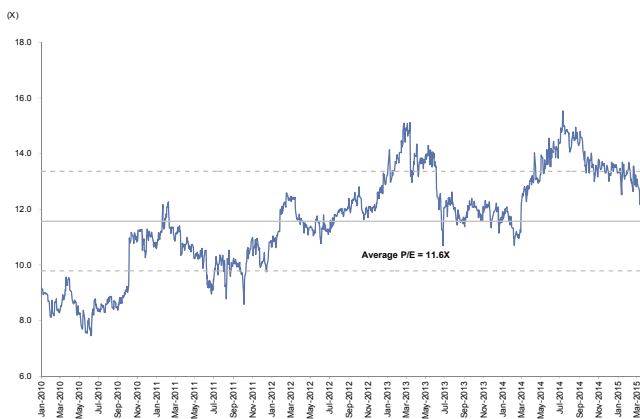
alex.ye@gs.com

Exhibit 1: We forecast 7% and 15% yoy core earnings growth in 2HFY15E and FY16E
NWS' earnings breakdown

| NWS Holdings' results summary (HK\$ mn) | 1H14 | 2H14 | 1H15 | 2H15E | 2014 | 2015E | 2016E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total Attributable operating profit | | | | | | | |
| Ports & Logistics | 230 | 331 | 373 | 432 | 562 | 804 | 1,062 |
| Road & Bridges | 673 | 454 | 677 | 507 | 1,127 | 1,183 | 1,257 |
| Energy & Water | 412 | 328 | 316 | 282 | 740 | 599 | 640 |
| Energy | 191 | 193 | 94 | 97 | 384 | 191 | 195 |
| Water | 221 | 134 | 223 | 185 | 356 | 408 | 445 |
| Facilities Management | 499 | 411 | 454 | 417 | 911 | 870 | 953 |
| Contracting & Transport | 278 | 327 | 308 | 279 | 605 | 587 | 620 |
| Contracting | 153 | 279 | 233 | 224 | 433 | 457 | 480 |
| Transport | 125 | 48 | 75 | 54 | 173 | 129 | 140 |
| Strategic Investments & Financial services | 227 | 208 | 127 | 333 | 435 | 460 | 493 |
| Total | 2,320 | 2,059 | 2,255 | 2,249 | 4,379 | 4,503 | 5,026 |
| Head-office and non-operating income/expenses | | | | | | | |
| Corporate interest income | 73 | 41 | 76 | 36 | 113 | 111 | 70 |
| Corporate finance costs | (289) | (273) | (257) | (265) | (562) | (522) | (392) |
| Corporate expense and others | (180) | (110) | (171) | (181) | (290) | (352) | (394) |
| Core net profit to NWS' shareholders | 1,924 | 1,716 | 1,903 | 1,838 | 3,640 | 3,741 | 4,309 |
| YoY% | 3% | 1% | -1% | 7% | 2% | 3% | 15% |
| Exceptional items | | | | | | | |
| Gain on disposal of interest | 594 | 79 | 1,550 | - | 673 | 1,550 | - |
| Asset impairment gain (loss) | - | (72) | (1,600) | - | (72) | (1,600) | - |
| Revaluation gain of investment properties | 56 | 56 | 148 | - | 111 | 148 | - |
| Forex gain / (loss) | 30 | (58) | 3 | - | (28) | 3 | - |
| Net profit to NWS' shareholders | 2,605 | 1,720 | 2,004 | 1,838 | 4,325 | 3,842 | 4,309 |
| YoY% | 24% | -10% | -23% | 7% | 8% | -11% | 12% |

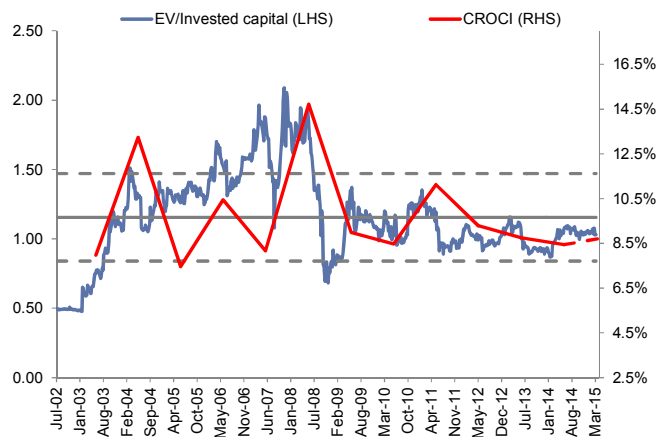
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 2: NWS now trades at 11.4x 12m forward P/E, in line with historical average of 11.6x
NWS historical P/E chart



Source: Datastream, Goldman Sachs Global Investment Research.

Exhibit 3: We think NWS' EV/GCI of 0.94x now fairly reflects its cash return profile
NWS EV/GCI vs. CROCI



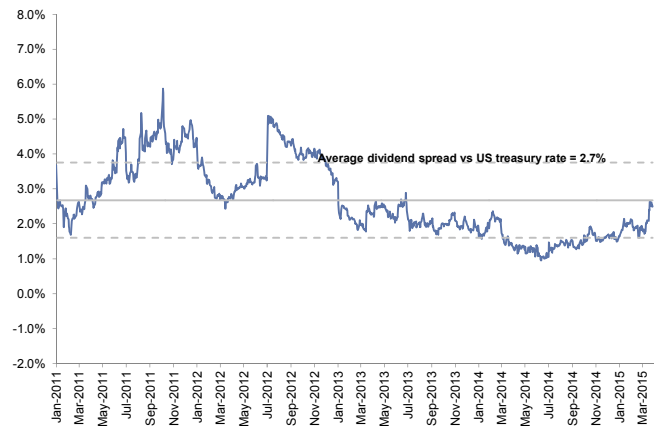
Source: Datastream, Goldman Sachs Global Investment Research.

Exhibit 4: NWS provides 4.4% 12-month forward dividend yield ...
NWS historical nominal dividend yield



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 5: ...or 2.5% spread vs. US treasury rate
NWS historical dividend yield spread vs. US treasury rate



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 6: Our 12-month target price is unchanged at HK\$13.1, based on a 10% discount to its NAV of HK\$14.6
NWS NAV breakdown

| | Attributable stake (%) | Valuation methodology | 2014E (HK\$mn) | per share (HK\$) | EV (%) | 2015E (HK\$mn) | per share (HK\$) | EV (%) | Assumptions |
|--|------------------------|-----------------------|----------------|------------------|-------------|----------------|------------------|-------------|-----------------------------------|
| Tollroad | Various | DCF @ 9% COE | 11,360 | 3.07 | 18% | 11,199 | 2.99 | 17% | Implies 9.5x 2015E P/E |
| Water | Various | Price-to-earnings | 7,114 | 1.93 | 11% | 8,155 | 2.18 | 13% | 20.0x 15 P/E, in line with peers |
| Power plants | Various | Price-to-earnings | 3,138 | 0.85 | 5% | 1,593 | 0.43 | 2% | 10.0x 15 P/E, in line with peers |
| Ports and logistics | | | | | | | | | |
| Ports | Various | DCF @ 9% COE | 1,326 | 0.36 | 2% | 1,328 | 0.35 | 2% | Implies 11.3x 2015E P/E |
| Logistics | Various | Price-to-earnings | 7,189 | 1.95 | 11% | 7,765 | 2.07 | 12% | 18.0x 15 P/E, in line with peers |
| Beijing Capital International Airport (694.HK) | 10.30% | Market value | 3,399 | 0.92 | 5% | 3,399 | 0.91 | 5% | Current market price |
| Goshawk Aviation | 40.00% | | - | - | 0% | 2,394 | 0.64 | 4% | Acquisition cost US\$222mn |
| Sub-total | | | 11,915 | 3.22 | 19% | 14,885 | 3.98 | 23% | |
| Facilities management | | | | | | | | | |
| HK Convention and Exhibition Centre | 100% | Price-to-earnings | 5,914 | 1.60 | 9% | 6,319 | 1.69 | 10% | 16.0x 2015E P/E |
| Free Duty | 100% | Price-to-earnings | 7,575 | 2.05 | 12% | 6,589 | 1.76 | 10% | 14.0x 15E P/E, in line with peers |
| Gleneagles Hong Kong Hospital | 40% | DCF @ 9% COE | 1,387 | 0.38 | 2% | 1,512 | 0.40 | 2% | |
| Sub-total | | | 14,876 | 4.03 | 23% | 14,421 | 3.85 | 22% | |
| Contracting & Transport | Various | Book value | 4,459 | 1.21 | 7% | 4,682 | 1.25 | 7% | 1.1x P/B, in line with peers |
| Strategic investments | | | | | | | | | |
| Newton Resources (1231.HK) | 48% | Market value | 1,651 | 0.45 | 3% | 1,651 | 0.44 | 3% | Current market price |
| Haitong International Securities (665.HK) | 6.90% | Market value | 820 | 0.22 | 1% | 820 | 0.22 | 1% | Current market price |
| Others | Various | Book value | 8,245 | 2.23 | 13% | 7,020 | 1.88 | 11% | 1.0x book value |
| Sub-total | | | 10,716 | 2.90 | 17% | 9,491 | 2.54 | 15% | |
| Total enterprise value | | | 63,577 | 17.20 | 100% | 64,426 | 17.22 | 100% | |
| Holdco net debt | | | (10,328) | (2.79) | | (9,797) | (2.62) | | |
| Total net asset value (NAV) | | | 53,249 | 14.41 | | 54,629 | 14.60 | | |
| Share price as of | 27-Mar-2015 | | | 12.60 | | | 12.60 | | |
| Premium / (discount) to NAV (%) | | | | -13% | | | -14% | | |

Source: Company data, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

I, Janet Lu, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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Janet Lu: Asia Pacific Conglomerates. Simon Cheung, CFA: Asia Pacific Conglomerates.

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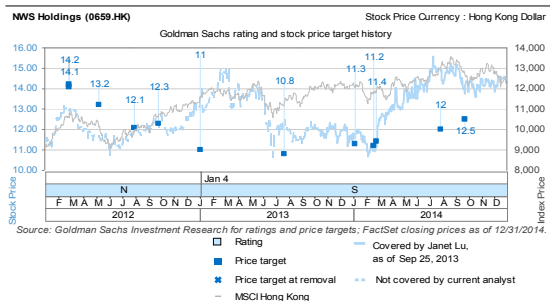
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|--------|---------------------|------|------|----------------------------------|------|------|
| | Buy | Hold | Sell | Buy | Hold | Sell |
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