

NEW WORLD DEVELOPMENT

HONG KONG / REAL ESTATE

17 HK

BUY

TARGET PRICE	HKD9.10
UP/DOWNSIDE	+42.2%
CLOSE	HKD6.40

HOW WE DIFFER FROM CONSENSUS		MARKET RECS	
TARGET PRICE (%)	1.1	POSITIVE	9
EPS 2016 (%)	(3.6)	NEUTRAL	4
EPS 2017 (%)	(33.2)	NEGATIVE	0

Attractive DPS

■ FX causes y-y drop in underlying profit

New World Development (NWD) recorded 25% revenue growth y-y to HKD33.8b in 1HFY16. Underlying profit was HKD3.3b compared with HKD4.4b in 1HFY15; however, if stripping out the impact of currency exchange, the underlying profit would have been HKD4.3b, largely in line with our expectation.

■ Strong property sales pipeline in 2H16

Contracted sales in 1HFY16 were HKD2.8b, compared with HKD13.4b in 1HFY15. We expect stronger contracted sales in 2H on the back of a project pipeline that includes Mount Pavilia (680 units) in Sai Kung, and Tsuen Wan West (983 units). We estimate total saleable resources in the rest of calendar 2016 could reach HKD24b.

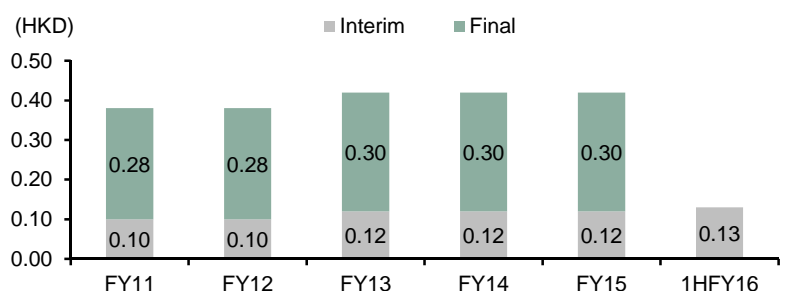
■ Healthy growth in rental income in HK

Gross rental income from HK investment properties jumped 8% y-y to HKD780m in 1HFY16, supported by satisfactory occupancy and rental rates. The New World Centre redevelopment project in TST is progressing on schedule (expected completion in 2017).

■ DPS hike; BUY with a TP of HKD9.10

Interim DPS was raised to HKD0.13/share, up 8% y-y. We rate the stock BUY with a TP of HKD9.10 (35% NAV discount). We believe progress on the proposed general offer for NWCL (917 HK, NR) could be a catalyst.

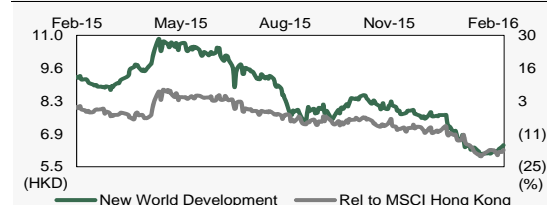
Dividend per share



Sources: New World Development; BNP Paribas

KEY STOCK DATA

YE Jun (HKD m)	2015A	2016E	2017E	2018E
Revenue	55,245	59,990	62,003	56,746
Rec. net profit	6,770	6,516	4,852	5,478
Recurring EPS (HKD)	0.77	0.72	0.54	0.61
EPS growth (%)	(12.8)	(5.9)	(25.5)	12.9
Recurring P/E (x)	8.3	8.8	11.9	10.5
Dividend yield (%)	6.5	6.6	6.6	6.6
EV/EBITDA (x)	5.8	12.0	13.5	12.6
Price/book (x)	0.3	0.3	0.3	0.3
Net debt/Equity (%)	25.9	22.6	17.6	17.2
ROE (%)	4.0	3.6	2.6	2.9



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	0.8	(20.0)	(30.9)
Relative to country (%)	(3.1)	(10.6)	(18.0)
Mkt cap (USD m)	7,409		
3m avg daily turnover (USD m)	16.4		
Free float (%)	58		
Major shareholder	Cheng Yu Tung Family (42%)		
12m high/low (HKD)	10.84/5.95		
3m historic vol. (%)	24.4		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	8,997		

Sources: FactSet estimates; BNP Paribas estimates



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EXHIBIT 1: Summary of interim results

	1HFY16	1HFY15	Growth	Remark
	(HKD m)	(HKD m)	(y-y %)	
Revenue				
Property sales	17,821	11,861	50.2	Contracted sales from projects including The Pavilia Hill, The Parkhill etc, were booked in 1HFY16
Property rental	1,256	1,199	4.7	Gross rental income in HK rose 8% y-y to HKD780m due to satisfactory occupancy
Hotel	1,075	2,042	(47.4)	
Department stores	1,893	2,007	(5.7)	
Services	9,991	8,089	23.5	Including construction business, event management, management and transportation
Infrastructure	1,252	1,324	(5.4)	
Others	491	464	5.7	
Total	33,778	26,986	25.2	
Operating profit				
Property sales	4,155	3,227	28.8	Operating margin drops to 23% from 27%
Property rental	775	744	4.2	Operating margin maintained at 62%
Hotel	(11)	189	(105.9)	Operating margin drops to negative from 9%
Department stores	156	230	(32.3)	
Services	511	470	8.7	
Infrastructure	531	581	(8.6)	
Others	(45)	(64)	(30.1)	
Total	6,071	5,376	12.9	
Underlying profit	3,281	4,408	(25.6)	If stripping out the impact from the currency exchange, the underlying profit should be HKD4.3b, largely in line with our expectation.
Earnings per share (HKD)	0.36	0.51	(28.3)	
Interim DPS (HKD)	0.13	0.12	8.3	Payout ratio increases to 36% from 24%
Net debt to total equity ratio (%)	31.4	24.1 (end-1H14)	7.3pt (h-h)	
Book value per share (HKD)	19.31	19.89 (end-1H14)	(0.58) (h-h)	

Sources: New World Development; BNP Paribas

Exhibit 2: Upcoming new launches

Name	Location	Source of land	No. of units
BOHEMIAN HOUSE (臻璈)	Western District	Old building acquisition	191
MOUNT PAVILIA (傲瀾)	Clear Water Bay	Farmland conversion	680
FLUER PAVILIA	North Point	Old building acquisition	611
TSUEN WAN WEST (TW6) Project	Tsuen Wan	MTRC tender	983
Sai Yuen Lane Project	Western District	Old building acquisition	250
Double Cove Summit (迎海·御峰)	Ma On Shan	Farmland conversion	176
Park Villa (柏巒)	Yuen Long	Farmland conversion	51
New launches		A	2,942
Inventory of completed project – NWD as at 14 Feb 2016		B	47
Inventory of completed project – JV as at 14 Feb 2016		C	126
Total units available		A+B+C	3,115

Sources: New World Development; BNP Paribas

Financial Statements

New World Development

Profit and Loss (HKD m) Year Ending Jun	2014A	2015A	2016E	2017E	2018E
Revenue	56,501	55,245	59,990	62,003	56,746
Cost of sales ex depreciation	(40,112)	(42,210)	(45,556)	(49,330)	(43,387)
Gross profit ex depreciation	16,389	13,035	14,434	12,673	13,360
Other operating income	0	0	0	0	0
Operating costs	(1,031)	(1,192)	(1,252)	(1,314)	(1,380)
Operating EBITDA	15,358	11,843	13,182	11,359	11,980
Depreciation	(2,273)	(2,314)	(1,568)	(1,604)	(1,642)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	13,085	9,529	11,614	9,755	10,338
Net financing costs	(844)	(492)	(1,326)	(1,779)	(1,606)
Associates	3,097	3,657	4,143	3,881	4,177
Recurring non operating income	5,410	18,934	4,143	3,881	4,177
Non recurring items	1,426	3,166	0	0	0
Profit before tax	19,076	31,137	14,430	11,857	12,909
Tax	(5,738)	(4,264)	(4,921)	(4,111)	(4,578)
Profit after tax	13,338	26,872	9,509	7,746	8,331
Minority interests	(3,612)	(7,760)	(2,993)	(2,893)	(2,853)
Preferred dividends	0	0	0	0	0
Other items	(1,793)	(9,177)	0	0	0
Reported net profit	7,932	9,936	6,516	4,852	5,478
Non recurring items & goodwill (net)	(1,426)	(3,166)	0	0	0
Recurring net profit	6,507	6,770	6,516	4,852	5,478
Per share (HKD)					
Recurring EPS *	0.88	0.77	0.72	0.54	0.61
Reported EPS	1.12	1.13	0.72	0.54	0.61
DPS	0.39	0.42	0.42	0.42	0.42
Growth					
Revenue (%)	20.8	(2.2)	8.6	3.4	(8.5)
Operating EBITDA (%)	20.9	(22.9)	11.3	(13.8)	5.5
Operating EBIT (%)	20.9	(27.2)	21.9	(16.0)	6.0
Recurring EPS (%)	(3.8)	(12.8)	(5.9)	(25.5)	12.9
Reported EPS (%)	(46.5)	1.2	(35.9)	(25.5)	12.9
Operating performance					
Gross margin inc depreciation (%)	25.0	19.4	21.4	17.9	20.6
Operating EBITDA margin (%)	27.2	21.4	22.0	18.3	21.1
Operating EBIT margin (%)	23.2	17.2	19.4	15.7	18.2
Net margin (%)	11.5	12.3	10.9	7.8	9.7
Effective tax rate (%)	30.1	13.7	34.1	34.7	35.5
Dividend payout on recurring profit (%)	44.1	54.4	58.0	77.9	69.0
Interest cover (x)	21.9	57.9	11.9	7.7	9.0
Inventory days	600.7	640.8	645.3	583.1	634.9
Debtor days	143.7	147.0	110.2	89.8	95.5
Creditor days	292.1	310.9	345.2	351.0	390.0
Operating ROIC (%)	5.7	3.8	4.5	3.7	3.9
ROIC (%)	5.3	7.6	4.0	3.4	3.6
ROE (%)	4.4	4.0	3.6	2.6	2.9
ROA (%)	3.1	3.9	2.6	2.2	2.3
*Pre exceptional pre-goodwill and fully diluted					
Revenue By Division (HKD m)					
Property Rental Revenue	2,348	2,402	2,523	2,676	5,177
Property Sales Revenue	29,329	25,682	32,588	33,712	25,197
Others Revenue	24,824	27,162	24,880	25,615	26,373

Sources: New World Development; BNP Paribas estimates

FINANCIAL STATEMENTS

New World Development

Cash Flow (HKD m) Year Ending Jun	2014A	2015A	2016E	2017E	2018E
Recurring net profit	6,507	6,770	6,516	4,852	5,478
Depreciation	2,273	2,314	1,568	1,604	1,642
Associates & minorities	3,909	3,911	2,486	2,329	2,506
Other non-cash items	6,429	2,896	5,098	4,903	4,860
Recurring cash flow	19,118	15,891	15,668	13,687	14,486
Change in working capital	(11,896)	(2,134)	464	8,680	(6,837)
Capex - maintenance	0	0	0	0	0
Capex - new investment	(6,052)	(8,572)	(5,881)	(6,201)	(2,343)
Free cash flow to equity	1,169	5,185	10,250	16,167	5,306
Net acquisitions & disposals	(2,090)	2,969	0	0	0
Dividends paid	(1,886)	(5,427)	(3,779)	(3,779)	(3,779)
Non recurring cash flows	655	3,341	0	0	0
Net cash flow	(2,152)	6,067	6,472	12,388	1,528
Equity finance	13,119	148	0	0	0
Debt finance	10,902	(8,399)	(1,442)	(1,902)	(1,640)
Movement in cash	21,869	(2,184)	5,029	10,486	(112)

Per share (HKD)					
Recurring cash flow per share	2.69	1.81	1.74	1.52	1.61
FCF to equity per share	0.16	0.59	1.14	1.80	0.59

Balance Sheet (HKD m) Year Ending Jun	2014A	2015A	2016E	2017E	2018E
Working capital assets	92,845	99,920	97,438	90,729	89,967
Working capital liabilities	(37,721)	(47,485)	(47,501)	(51,043)	(45,184)
Net working capital	55,124	52,435	49,937	39,686	44,783
Tangible fixed assets	123,293	141,057	147,761	153,139	154,573
Operating invested capital	178,416	193,492	197,698	192,825	199,356
Goodwill	0	0	0	0	0
Other intangible assets	20,247	17,662	17,662	17,662	17,662
Investments	68,160	75,021	75,994	76,906	77,888
Other assets	2,860	4,806	4,806	4,806	4,806
Invested capital	269,683	290,981	296,160	292,199	299,712
Cash & equivalents	(61,823)	(59,465)	(64,495)	(74,980)	(74,868)
Short term debt	32,349	33,518	33,518	33,518	33,518
Long term debt *	88,230	83,638	83,638	83,638	83,638
Net debt	58,756	57,691	52,662	42,176	42,289
Deferred tax	9,012	9,288	9,288	9,288	9,288
Other liabilities	1,639	1,643	1,643	1,643	1,643
Total equity	159,808	178,919	186,134	189,766	194,313
Minority interests	40,468	43,439	46,432	49,326	52,179
Invested capital	269,683	290,981	296,160	292,199	299,712

* includes convertibles and preferred stock which is being treated as debt

Per share (HKD)					
Book value per share	18.45	19.89	20.69	21.09	21.60
Tangible book value per share	16.11	17.92	18.73	19.13	19.63

Financial strength					
Net debt/equity (%)	29.3	25.9	22.6	17.6	17.2
Net debt/total assets (%)	15.9	14.5	12.9	10.1	10.1
Current ratio (x)	2.2	2.0	2.0	2.0	2.1
CF interest cover (x)	9.6	29.0	13.2	13.6	5.8

Valuation	2014A	2015A	2016E	2017E	2018E
Recurring P/E (x) *	7.2	8.3	8.8	11.9	10.5
Recurring P/E @ target price (x) *	10.3	11.8	12.6	16.9	14.9
Reported P/E (x)	5.7	5.7	8.8	11.9	10.5
Dividend yield (%)	6.1	6.5	6.6	6.6	6.6
P/CF (x)	2.4	3.5	3.7	4.2	4.0
P/FCF (x)	38.9	10.9	5.6	3.6	10.9
Price/book (x)	0.3	0.3	0.3	0.3	0.3
Price/tangible book (x)	0.4	0.4	0.3	0.3	0.3
EV/EBITDA (x) **	8.5	5.8	12.0	13.5	12.6
EV/EBITDA @ target price (x) **	9.6	6.7	13.8	15.6	14.6
EV/invested capital (x)	0.6	0.5	0.5	0.5	0.5

* Pre exceptional & pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non operating income

Sources: New World Development; BNP Paribas estimates

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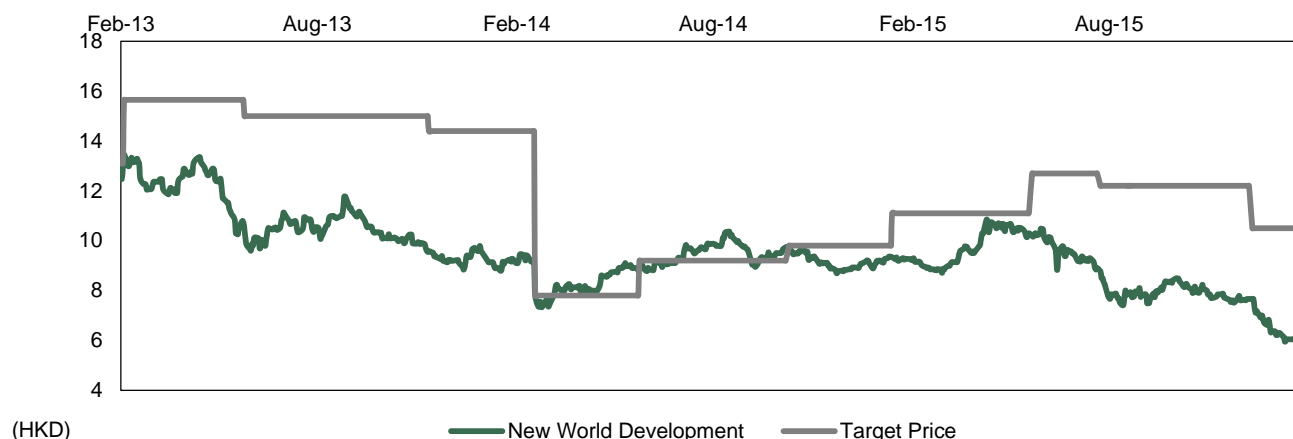
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New World Development (17 HK)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
23-Feb-13	Buy	13.10	14-Mar-14	Hold	7.80	15-Jun-15	Buy	12.70
28-Feb-13	Buy	15.65	18-Jun-14	Hold	9.20	17-Aug-15	Buy	12.20
19-Jun-13	Buy	15.00	03-Nov-14	Hold	9.80	04-Jan-16	Buy	10.50
06-Dec-13	Buy	14.40	06-Feb-15	Buy	11.10	17-Feb-16	Buy	9.10

Wee Liat Lee started covering this stock from 19 Sep 2012

Price and TP are in local currency

Valuation and risks: Key downside risk to our NAV-based TP is faster-than-expected US interest rate hike that affects housing demand in Hong Kong.

Sources: FactSet; BNP Paribas

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