

New World Development (0017.HK)

1H18 above expectations; More happenings in China

Neutral

0017.HK | 12m Price Target: **HK\$11.75** | Price: **HK\$11.88** | Downside: **1.1%**

NWD reported better-than-expected underlying profit on accelerated China sales bookings. The 8% increase in interim DPS surprised to the upside, and management expects a further uptick upon full contributions from Victoria Dockside. China land banking was also a focus. After securing a new deal in Shenzhen, management expects to continue a relatively fast pace, with a c.HK\$20 bn capex budgeted. Raising 12-month PT to HK\$11.75 (from HK\$11.40). Maintain Neutral.

Results highlights

- 1H FY18 underlying profit was HK\$4.2 bn, vs. our HK\$3.7 bn in 1HFY17 (excluding one-offs), largely due to stronger-than-expected China development property (DP) sales, partly driven by faster-than-expected property sales bookings in China amid higher gross profit margins of 46%, up 10pp yoy. The higher sales resulted in China DP segment profit of HK\$4.0 bn, or 49% of the group's total.
- BVPS was up 7% hoh to HK\$20.33, partly helped by an HK\$7 bn positive revaluation in the HK office segment.
- Interim DPS surprised, rising 8% yoy to HK\$0.14. Management explained the increase was due to its plan to ramp up cash returns amid the phased completions of Victoria Dockside (only a partial contribution from the office segment during the period).

Hong Kong

- NWD achieved HK\$7.1 bn of contracted sales for the fiscal year to February, or 71% of the HK\$10 bn full-year target.
- The company's early adoption of HKFRS 15 did not lead to a significant difference in booked profit as guided by

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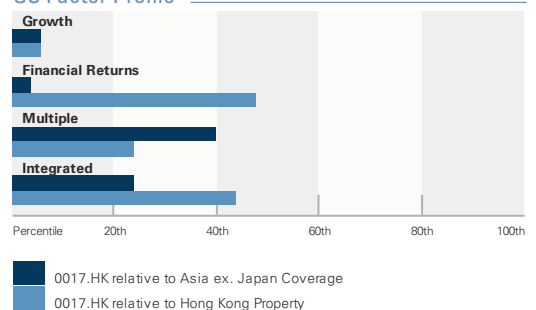
Key Data

Market cap: HK\$111.5bn / \$14.3bn
Enterprise value: HK\$227.4bn / \$29.1bn
3m ADTV: HK\$221.0mn / \$28.3mn
Hong Kong
Hong Kong Property
M&A Rank: 3

GS Forecast

	6/17	6/18E	6/19E	6/20E
Revenue (HK\$ mn) New	56,628.8	60,667.0	71,313.0	69,690.3
Revenue (HK\$ mn) Old	56,628.8	60,667.0	71,577.4	69,082.9
EBITDA (HK\$ mn)	11,911.4	13,042.9	14,946.2	14,350.4
EPS (HK\$) New	0.80	0.83	0.93	0.92
EPS (HK\$) Old	0.80	1.12	0.87	0.90
P/E (X)	11.7	14.2	12.8	12.9
P/B (X)	0.5	0.6	0.6	0.6
Dividend yield (%)	4.9	4.1	4.3	4.5
FCF yield (%)	(11.3)	(3.8)	4.5	3.8
	6/17	12/17	6/18E	--
EPS (HK\$)	0.35	1.13	(0.30)	--

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

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Neutral

New World Development (0017.HK)

Rating since May 5, 2016

Ratios & Valuation

	6/17	6/18E	6/19E	6/20E
P/E (X)	11.7	14.2	12.8	12.9
P/B (X)	0.5	0.6	0.6	0.6
FCF yield (%)	(11.3)	(3.8)	4.5	3.8
EV/EBITDA (X)	16.4	17.4	15.3	16.0
CROCI (%)	1.7	3.1	3.3	3.1
ROE (%)	4.2	4.4	4.9	4.8
Net debt/equity (%)	36.2	35.8	33.7	31.8
Interest cover (X)	4.6	9.2	11.6	7.2
Days inventory outst, sales	504.0	522.0	459.2	469.9
Receivable days	171.9	171.8	153.5	164.9
Days payable outstanding	422.5	445.0	365.0	374.3
DuPont ROE (%)	3.5	3.7	4.0	3.9
Turnover (X)	0.1	0.2	0.2	0.2
Leverage (X)	2.0	1.8	1.8	1.8

Growth & Margins (%)

	6/17	6/18E	6/19E	6/20E
Total revenue growth	(4.9)	7.1	17.5	(2.3)
EBITDA growth	1.4	9.5	14.6	(4.0)
EPS growth	(15.2)	3.9	10.9	(0.4)
DPS growth	4.5	5.8	5.0	5.0
EBIT margin	17.6	18.3	18.3	17.9
EBITDA margin	21.0	21.5	21.0	20.6
Net income margin	13.6	13.7	13.1	13.4

Price Performance



Source: FactSet. Price as of 27 Feb 2018 close.

Income Statement (HK\$ mn)

	6/17	6/18E	6/19E	6/20E
Total revenue	56,628.8	60,667.0	71,313.0	69,690.3
Cost of goods sold	(38,413.2)	(41,130.8)	(49,548.9)	(48,317.4)
SG&A	(6,304.2)	(6,493.3)	(6,818.0)	(7,022.5)
R&D	-	-	-	-
Other operating inc./exp.)	-	-	-	-
ESO expense	-	-	-	-
EBITDA	11,911.4	13,042.9	14,946.2	14,350.4
Depreciation & amortization	(1,952.5)	(1,930.3)	(1,918.8)	(1,906.6)
EBIT	9,958.9	11,112.6	13,027.4	12,443.7
Net interest inc./exp.)	(446.1)	(150.5)	(476.7)	(935.2)
Income/(loss) from associates	3,925.1	4,644.6	4,572.6	5,673.4
Pre-tax profit	15,230.3	15,964.2	17,123.2	17,182.0
Provision for taxes	(4,755.6)	(4,954.2)	(5,101.5)	(5,168.9)
Minority interest	(2,403.1)	(2,160.9)	(2,130.9)	(2,160.9)
Preferred dividends	(395.9)	(543.5)	(543.5)	(543.5)
Net inc. (pre-exceptionals)	7,675.7	8,305.6	9,347.4	9,308.8
Post-tax exceptionals	-	-	-	-
Net inc. (post-exceptionals)	7,675.7	8,305.6	9,347.4	9,308.8
EPS (basic, pre-exception) (HK\$)	0.80	0.83	0.93	0.92
EPS (diluted, pre-exception) (HK\$)	0.80	0.83	0.92	0.92
EPS (basic, post-exception) (HK\$)	0.80	0.83	0.93	0.92
EPS (diluted, post-exception) (HK\$)	0.80	0.83	0.92	0.92
EPS (diluted, excl. ESO) (HK\$)	--	--	--	--
DPS (HK\$)	0.46	0.49	0.51	0.54

Balance Sheet (HK\$ mn)

	6/17	6/18E	6/19E	6/20E
Cash & cash equivalents	67,106.5	28,090.4	30,688.0	41,833.4
Accounts receivable	27,864.4	29,257.6	30,720.5	32,256.5
Inventory	83,817.0	89,720.8	89,720.8	89,720.8
Other current assets	62.4	62.4	62.4	62.4
Total current assets	178,850.3	147,131.2	151,191.7	163,873.1
Net PP&E	168,409.2	167,435.7	169,725.4	171,866.8
Net intangibles	3,423.8	3,423.8	3,423.8	3,423.8
Total investments	83,019.5	82,532.6	82,021.5	81,355.5
Other long-term assets	3,353.5	3,353.5	3,353.5	3,353.5
Total assets	437,056.3	403,876.8	409,715.9	423,872.7
Accounts payable	50,735.2	49,552.5	49,552.5	49,552.5
Short-term debt	21,260.7	25,520.5	27,208.5	27,208.5
Other current liabilities	7,504.7	7,738.6	7,621.7	7,680.2
Total current liabilities	79,500.6	82,811.6	84,382.7	84,441.1
Long-term debt	125,895.3	83,664.8	81,976.8	90,372.6
Other long-term liabilities	10,715.9	10,715.9	10,715.9	10,715.9
Total long-term liabilities	136,611.2	94,380.7	92,692.7	101,088.5
Total liabilities	216,111.8	177,192.4	177,075.4	185,529.6
Preferred shares	9,451.8	9,451.8	9,451.8	9,451.8
Total common equity	186,091.2	189,126.8	192,408.5	195,406.8
Minority interest	25,401.5	28,105.8	30,780.2	33,484.5
Total liabilities & equity	437,056.3	403,876.8	409,715.9	423,872.7
Net debt, adjusted	89,501.3	90,546.7	87,949.1	85,199.5
Average capital employed	290,960.0	304,386.7	309,458.6	312,614.3
RNAV	229,290.0	263,813.7	263,436.4	-
BVPS (HK\$)	18.98	18.73	19.05	19.35

Cash Flow (HK\$ mn)

	6/17	6/18E	6/19E	6/20E
Net income	6,707.8	8,849.1	9,890.9	9,852.2
D&A add-back	1,952.5	1,930.3	1,918.8	1,906.6
Minority interest add-back	2,403.1	2,160.9	2,130.9	2,160.9
Net (inc)/dec working capital	(1,072.1)	(8,479.7)	(1,462.9)	(1,536.0)
Other operating cash flow	(6,835.0)	(4,410.7)	(4,689.5)	(5,614.9)
Cash flow from operations	3,156.3	49.9	7,788.1	6,768.8
Capital expenditures	(16,158.2)	(5,637.3)	(1,000.0)	(1,000.0)
Acquisitions	-	-	-	-
Divestitures	0.0	8,245.5	-	-
Others	4,073.1	1,566.5	1,875.2	3,291.3
Cash flow from investing	(12,085.1)	4,174.7	875.2	2,291.3
Dividends paid (common & pref)	(4,503.5)	(5,270.0)	(6,065.8)	(6,310.5)
Inc/(dec) in debt	12,037.9	(37,970.7)	-	8,395.8
Other financing cash flows	13,330.1	0.0	0.0	0.0
Cash flow from financing	20,864.5	(43,240.7)	(6,065.8)	2,085.3
Total cash flow	11,935.7	(39,016.1)	2,597.6	11,145.4
Free cash flow	(13,001.9)	(5,587.4)	6,788.1	5,768.8

Source: Company data, Goldman Sachs Research estimates.

management, and looking ahead, NWD has secured HK\$11+ bn of presold proceeds to be recognized in the next 18 months.

- In the medium term, with new and full contributions from Victoria Dockside (mid-CY19 full openings) and other China investment properties, management aims to raise rental contributions to 50% of attributable operating profit within the property segment (1H18: c.17%).

China

- Management expects an accelerated pace of completions in China, targeting 1.4 mn sqm GFA in FY18, up 11% yoy, while maintaining a gross profit margin of 40+% for the year. NWD achieved HK\$8.6 bn of contracted sales for the fiscal year to-date, c.54% of the full-year target.
- Of the c.1.8mn sq m GFA of non-core projects, NWD is focusing on monetizing the three projects in Beijing, Dalian and Tianjin.
- In January 2018, NWD signed a strategic cooperation agreement with the Shenzhen Lo Wu government to gain access to a c.840k sq m land parcel in the prime district for future urban renewal development; however, there was limited disclosure on the economics of the deal at the moment.
- NWD guides for an HK\$20 bn land banking capex target, including a portion of Shenzhen Lo Wu's outstanding costs.

We revise our underlying FY18/19/20E EPS by +3.5%/+5.9%/+2.8%, with a new 12-month NAV-based target price of HK\$11.75 (from HK\$11.40). Excluding certain one-off gains relating to asset disposals in FY18, our FY18E EPS revision is -25.2%. Maintain Neutral. Key risks: Better-than-expected China sales; abrupt change in government policies.

Exhibit 1: New World Development 1H18 results review

(HK\$m)	1H FY17	2H FY17	1H FY18	yoy%	HoH%	Remarks(1H18)
Attr. segment results	7,705	6,385	8,166	6.0%	27.9%	Segment contribution from core property businesses accounts for 69% of total
Property development	4,257	3,249	4,726	11.0%	45.5%	HK accounts for 15% of development profit in 1H FY18
- Hong Kong	1,601	676	729	-54.5%	7.8%	1HFY18 GP margin at 57% in HK;
- China	2,656	2,573	3,997	50.5%	55.3%	1HFY18 GP margin at 46% in China; China's FY18E GP expects to maintain above 40%
Property investment	913	858	945	3.5%	10.1%	Rental contributions from HK account for 68% of total
- Hong Kong	620	550	640	3.3%	16.4%	Continuous growth in premium office space in core business district
- China	293	308	305	3.9%	-1.2%	due to low vacancy, demand from China company, and no new supply
Hotels	(28)	(52)	15	-154.5%	-129.2%	HK hotel picked up due to positive growth in visitor arrivals
- HK & South East Asia	91	85	89	-2.3%	4.6%	
- China	(118)	(136)	(74)	-37.9%	-46.1%	
Service	817	448	427	-47.7%	-4.8%	The Free Duty business swung into a loss during the period under review as profit margins were further suppressed since the commencement of a new concession contract in 2017 while tourist spending remained sluggish.
Infrastructure	1,611	1,702	1,937	20.2%	13.8%	All businesses under infrastructure segment, particularly the roads and the aviation, registered an increase in profit contribution during the period under review.
Department stores	136	84	116	-14.2%	37.8%	As at Dec, 2017, NWDS operated and managed 38 stores in Mainland China with total GFA of over 1.5mn sqm, in 1HFY18 its same-store-sales +2.0% yoy vs. +0% yoy in 1HFY17
Others	0	95	0	NM	-100.0%	
Other gain/ loss	14	208	7,892	NM	NM	Incl. FX loss related to RMB devaluation
Change in fair value of inv. prop.	346	1,018	-	NM	-100.0%	Change in fair value of investment property
Net finance costs	(240)	(207)	(329)	37.5%	59.4%	Net-debt-to-total-equity at 32.7%, a decrease of 2.1pp from Jun 2017
Profit before tax	7,826	7,404	15,728	101.0%	112.4%	
Preferred dividend	(129)	(267)	(270)	n.a.	1.1%	To holders of perpetual securities
Taxation	(2,250)	(2,506)	(3,098)	37.7%	23.6%	
Minority	(1,111)	(1,292)	(1,091)	-1.8%	-15.6%	
Attributable profit	4,336	3,340	11,270	159.9%	237.4%	
Underlying profit	5,001	2,132	4,199	-16.0%	96.9%	Include HK\$1.3bn one-off gain related to NWSH's disposal incurred in 1HFY17
No. of shares (basic)	9,404	9,553	9,855	4.8%	3.2%	
Underlying EPS (HK\$/shr)	0.53	0.22	0.43	-19.9%	90.9%	
DPS (HK\$/shr)	0.13	0.33	0.14	7.7%	NM	Interim dividend +8%yoy to HK\$0.14
BVPS (HK\$/shr)	18.47	18.98	20.33	10.1%	7.1%	
(HK\$m)	1H FY17	2H FY17	1H FY18	yoy%	HoH%	
Underlying profit	5,001	2,132	4,199	-16.0%	96.9%	Include HK\$1.3bn one-off gain related to NWSH's disposal incurred in 1HFY17
DPS (HK\$/shr)	0.13	0.33	0.14	7.7%	-57.6%	

Source: Company data, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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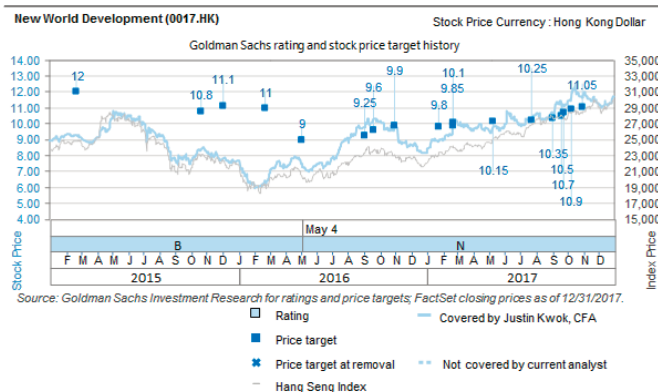
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Global	33%	54%	13%	63%	57%	52%

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