



Rating
Hold

Asia
Hong Kong
Property

Company
New World Dev

Reuters 0017.HK	Bloomberg 17 HK	Exchange HSI	Ticker 0017
ADR Ticker NDVLY	ISIN US6492743058		

Date
27 February 2018

Results

Price at 26 Feb 2018 (HKD)	11.96
Price target - 12mth (HKD)	12.00
52-week range (HKD)	12.90 - 9.45
HANG SENG INDEX	31,499

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1H18 results beat but lack of near-term catalyst; maintaining Hold

Maintaining Hold as valuation close to our assessed fair value

In our view, while 1H18 results beat our expectation and interim dividend increased, we see a lack of near-term positive catalysts in the Hong Kong property sector in light of the rate hike cycle ahead on top of rising new supply. Nevertheless, absolute valuation is not stretched by trading at a 41% discount to NAV (versus historical discount to NAV at 49%). We are maintaining our Hold rating on NWD as we see the current share price close to its fair value.

1H18 underlying profit up 14.5% YoY to HK\$4,199m, beating our expectation
NWD reported 1H18 underlying profit of HK\$4,199m, implying a 16% YoY decline from HK\$5,001m in 1H17. However, after stripping out the one-off disposal gain of HK\$1,334m in 1H17, underlying profit rose 14.5% YoY, beating our expectation for HK\$3,019m on better-than-expected margins (actual gross margin of 36.5% versus our expectation of 33.4%). An interim dividend of HK\$0.14/share was declared (up from HK\$0.13/share in 1H17).

Development margins improved despite revenue decline on less bookings
While development sales revenue declined markedly, development margins improved significantly. In particular, operating profit margin for the property development arm rose 15 percentage points to 47% (32% in 1H17), and Hong Kong margins stood at 57% (28% in 1H17) and 46% in China (35%). However, operating margins for investment properties contracted to 70% (77% in 1H17).

Hong Kong landbank increased 4.6% to 10.66m sf in past six months
As of end-17, NWD had total attributable landbank of 10.66m sf (of which 4.8m sf was residential), implying 4.6% growth in the past six months. In terms of geographic split, 56% of the landbank was located in Kowloon, 26% in Shatin and Sai Kung. The company successfully converted a plot of farmland in Yuen Long in Aug-17, amounting to 121,100 sf in total GFA. As of end-17, NWD had approximately 16.98m sf of attributable farmland reserve, of which 68% was located in Yuen Long (down slightly from 17.4m sf as of mid-17).

Completes 51% of Hong Kong contracted sales target in 1H18
In 1H18, NWD achieved contracted sales of HK\$5.1bn (51% of the HK\$10bn sales target and implied a 8% YoY growth), mainly contributed by the Mount Pavilia project in Clear Water Bay, Artisan House project in Sai Ying Pun, The Parkville in Tuen Mun, Park Hillcrest in Yuen Long and The Pavilia Bay in Tsuen Wan. As of mid-Feb 2018, attributable contracted sales in Hong Kong surpassed HK\$7bn.

Target price of HK\$12 is based on sum-of-the-parts approach

Our target price is based on the sum-of-the-parts approach, which implies a 2018 PE of 17x. We believe that applying a 5-7x PE to HK property development and a 34% target discount to our estimated value on the respective investment property portfolio is appropriate in an ex-growth market. Risks: A softening/stronger outlook in the Hong Kong economy, which could lead to lower/stronger housing demand. Adverse or favorable changes to Government policies and interest rate trends.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-7.3	4.0	17.5
HANG SENG INDEX	-5.0	5.5	31.4

Source: Deutsche Bank



Figure 1: Summary of interim 2017/18 results (HK\$m)

For year ended Dec 31	1H17A	1H18A	YoY %	Remarks
Property sales	13,020	9,894	(24%)	- HK sales -77% YoY; China sales +16% YoY
Property rental	1,184	1,344	14%	- HK rental +14% YoY; China rental +13% YoY%
Hotel operation	755	755	0%	
Service	8,503	12,480	47%	- Boosted by growth in construction business
Infrastructure operations	1,256	1,353	8%	- Boosted by growth in roads business in mainland China, contribution from ATL Logistics Centre and aviation business
Department store operations	1,720	1,773	3%	
Other businesses	201	337	67%	
Revenue	26,639	27,935	5%	
Cost of sales	(17,156)	(17,749)	3%	
Gross Profit	9,483	10,186	7%	
Net interest expense	1,096	1,008	(8%)	
Interest income	857	678	(21%)	
Selling and marketing costs	(785)	(442)	(44%)	
Administrative expenses	(3,343)	(3,945)	18%	
Revaluation gains	346	7,168	nm	- Boosted by K11 Atelier office tower at Victoria Dockside (commencement in calendar 4Q17, with current occupancy rate at over 70%)
Other adjustments	893	1,187	33%	- Boosted by HK\$287m net exchange gain
Profit from operations	6,355	13,824	118%	
Associates	1,471	1,904	29%	
Pre-tax profit	7,826	15,728	101%	
Taxation	(2,250)	(3,098)	38%	
Post-tax profit before MI	5,576	12,631	127%	
Perpetual capital securities holders	(129)	(270)	108%	- Reflecting interest costs for the whole period over 1H18 (vs. ~3 months in 1H17)
Minority interests	(1,111)	(1,091)	(2%)	
Net attributable profit	4,336	11,270	160%	
Adjustment for non-recurring items	666	(7,071)	nm	
Core net profit	5,001	4,199	(16%)	- Underlying profit ahead of DB estimate of HK\$3,019m on better-than-expected margins and lower finance expenses
Fully diluted Core EPS (HK\$)	0.53	0.43	(20%)	
Interim DPS (HK\$)	0.13	0.14	8%	- Interim dividend raised by 8% or HK\$0.01/share

Source: Deutsche Bank, company data



Figure 2: Balance sheet (HK\$m)

As of	30-Jun-2017	31-Dec-2017
Non-current assets	175,771	202,960
Investment properties	105,760	133,548
Properties for development	19,999	19,279
Property and equipment	30,808	29,216
Other assets	19,204	20,918
Associates	75,719	78,557
Other investments	6,585	7,809
 Current assets	 178,981	 178,811
Properties for sale	48,530	46,124
Inventories	34,531	34,246
Other inventories	756	733
Debtors & deposits/receivables/others	28,178	32,276
Bank balances & cash	66,986	65,432
 Current liabilities	 (79,501)	 (89,840)
Borrowings	21,225	19,614
Creditors, deposits & accruals/others	50,735	61,610
Taxation	7,505	8,616
Derivative financial instruments	36	0
 Total assets less current liabilities	 357,556	 378,297
 Non-current liabilities	 127,284	 129,074
Long term borrowings	125,895	127,130
Others	1,389	1,944
Deferred income tax	9,327	9,347
 Issued share capital	 73,234	 76,161
Reserves	112,858	128,812
Shareholders' funds	186,091	204,972
Perpetual capital securities	9,452	9,453
Minority interests	25,402	25,450
 Total capital employed	 357,556	 378,297

Source: Deutsche Bank, company data



Model updated: 27 February 2018

Running the numbers

Asia

Hong Kong

Property

New World Dev

Reuters: 0017.HK

Bloomberg: 17 HK

Hold

Price (26 Feb 18) HKD 11.96

Target Price HKD 12.00

52 Week range HKD 9.45 - 12.90

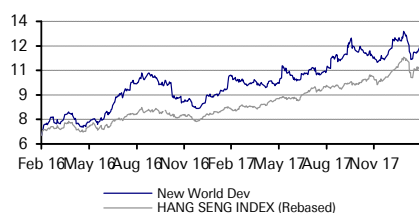
Market Cap (m) HKDm 117,390

USDm 15,005

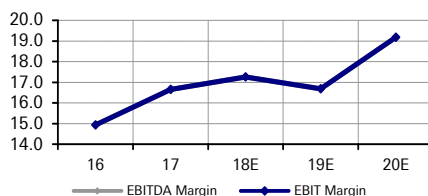
Company Profile

New World Development Company Limited, through its subsidiaries, develops and invests in property, operates hotels and restaurants, and provides construction and engineering services. The company also operates infrastructure businesses and provides telecommunications services.

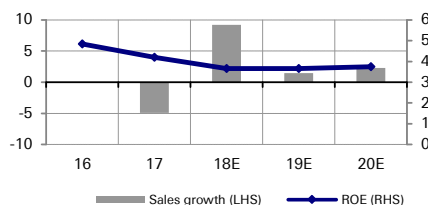
Price Performance



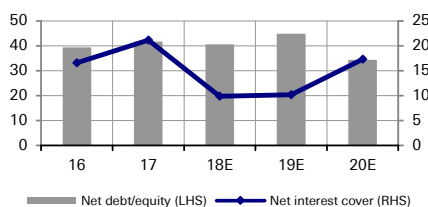
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 30-Jun

Financial Summary

	2016	2017	2018E	2019E	2020E
DB EPS (HKD)	0.75	0.75	0.70	0.71	0.73
Reported EPS (HKD)	0.95	0.80	0.70	0.71	0.73
DPS (HKD)	0.44	0.46	0.47	0.47	0.47
BVPS (HKD)	19.1	19.0	19.2	19.4	19.7
Weighted average shares (m)	9,146	9,553	9,815	9,815	9,815
Average market cap (HKDm)	70,611	90,056	117,390	117,390	117,390
Enterprise value (HKDm)	99,721	127,966	154,475	164,662	143,650

Valuation Metrics

P/E (DB) (x)	10.2	12.6	17.2	17.0	16.3
P/E (Reported) (x)	8.1	11.7	17.2	17.0	16.3
P/BV (x)	0.41	0.52	0.62	0.62	0.61
FCF Yield (%)	nm	nm	0.4	nm	19.0
Dividend Yield (%)	5.7	4.9	3.9	3.9	3.9
EV/Sales (x)	1.7	2.3	2.5	2.6	2.2
EV/EBITDA (x)	11.2	13.6	14.5	15.7	11.7
EV/EBIT (x)	11.2	13.6	14.5	15.7	11.7

Income Statement (HKDm)

Sales revenue	59,570	56,629	61,832	62,739	64,172
Gross profit	18,522	18,216	20,131	20,258	21,355
EBITDA	8,898	9,430	10,671	10,470	12,306
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	8,898	9,430	10,671	10,470	12,306
Net interest income/(expense)	-537	-446	-1,080	-1,025	-712
Associates/affiliates	2,661	3,925	3,690	3,997	3,678
Exceptionals/extraordinary	7,685	2,321	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	18,707	15,230	13,282	13,442	15,273
Income tax expense	6,424	4,756	4,077	4,774	5,309
Minorities	3,617	2,799	2,363	1,743	2,776
Other post-tax income/(expense)	0	0	0	0	0
Net profit	8,666	7,676	6,842	6,925	7,188
DB adjustments (including dilution)	-1,774	-542	0	0	0
DB Net profit	6,893	7,133	6,842	6,925	7,188

Cash Flow (HKDm)

Cash flow from operations	2,352	-1,758	1,474	-9,829	23,216
Net Capex	-4,084	-12,541	-989	-669	-877
Free cash flow	-1,732	-14,300	485	-10,498	22,339
Equity raised/(bought back)	4	208	0	0	0
Dividends paid	-1,882	-1,485	-4,613	-4,613	-4,613
Net inc/(dec) in borrowings	20,384	11,122	19,047	-13,725	-5,658
Other investing/financing cash flows	-21,161	16,475	4,622	4,069	3,487
Net cash flow	-4,387	12,021	19,541	-24,767	15,555
Change in working capital	1,344	-3,007	2,059	-7,249	21,236

Balance Sheet (HKDm)

Cash and other liquid assets	54,965	66,986	86,527	61,760	77,315
Tangible fixed assets	23,873	30,808	30,808	30,808	30,808
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	71,210	75,719	78,413	81,011	83,586
Other assets	242,061	263,543	268,892	279,805	271,385
Total assets	392,109	437,056	464,640	453,383	463,094
Interest bearing debt	133,963	155,214	174,261	160,536	154,878
Other liabilities	57,250	70,350	74,294	72,709	82,726
Total liabilities	191,213	225,564	248,555	233,244	237,604
Shareholders' equity	179,573	186,091	188,321	190,632	193,207
Minorities	21,322	25,402	27,764	29,507	32,283
Total shareholders' equity	200,895	211,493	216,085	220,139	225,490
Net debt	78,998	88,228	87,734	98,776	77,563

Key Company Metrics

Sales growth (%)	nm	-4.9	9.2	1.5	2.3
DB EPS growth (%)	na	-0.9	-6.6	1.2	3.8
EBITDA Margin (%)	14.9	16.7	17.3	16.7	19.2
EBIT Margin (%)	14.9	16.7	17.3	16.7	19.2
Payout ratio (%)	46.4	57.3	67.4	66.6	64.2
ROE (%)	4.8	4.2	3.7	3.7	3.7
Capex/sales (%)	15.1	30.8	1.6	1.1	1.4
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	39.3	41.7	40.6	44.9	34.4
Net interest cover (x)	16.6	21.1	9.9	10.2	17.3

Source: Company data, Deutsche Bank estimates

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
New World Dev	0017.HK	11.96 (HKD) 26 Feb 18	14,15

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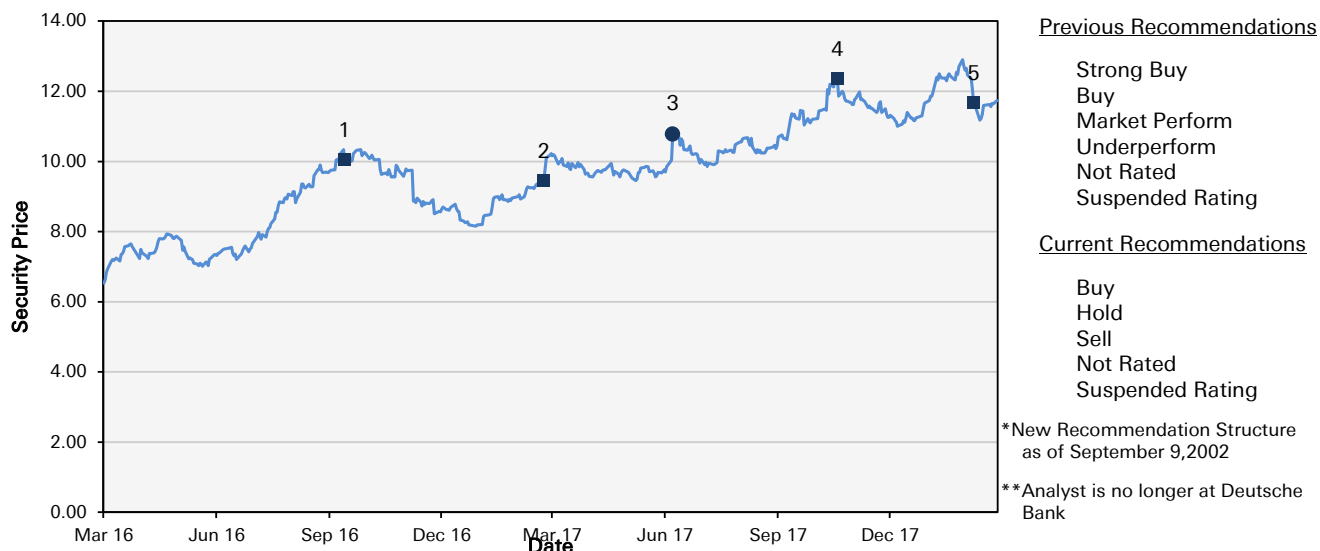
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Historical recommendations and target price: New World Dev (0017.HK) (as of 2/26/2018)



1.	13/09/2016:	Buy, Target Price Change HKD10.90 Jason Ching	4.	19/10/2017:	Hold, Target Price Change HKD11.00 Jason Ching
2.	22/02/2017:	Buy, Target Price Change HKD11.10 Jason Ching	5.	07/02/2018:	Hold, Target Price Change HKD12.00 Jason Ching
3.	07/06/2017:	Downgrade to Hold, HKD11.10 Jason Ching			

Equity rating key

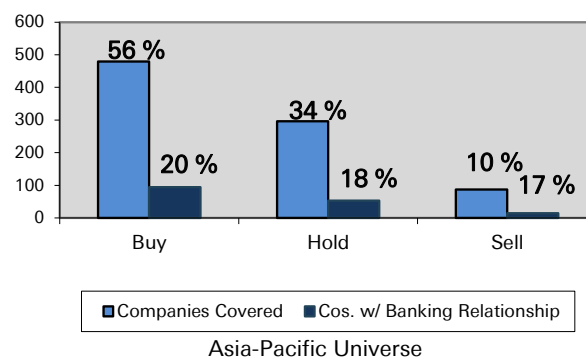
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





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