

20 September 2018

Hong Kong

## EQUITIES

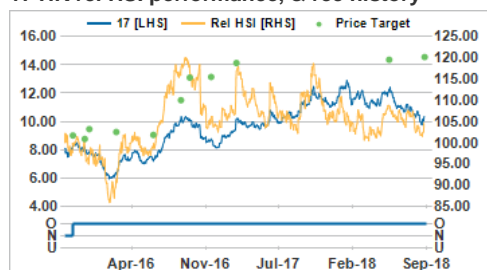
17 HK Outperform  
Price (at 13:00, 19 Sep 2018 GMT) HK\$10.36

Valuation	HK\$	20.73
- DCF (WACC 8.5%, beta 1.3, ERP 6.0%, RFR 1.5%)		
12-month target	HK\$	14.56
Upside/Downside	%	+40.5
12-month TSR	%	+45.4
Volatility Index		Low
GICS sector		Real Estate
Market cap	HK\$m	105,734
Market cap	US\$m	13,481
Free float	%	55
30-day avg turnover	US\$m	12.0
Number shares on issue	m	10,206

## Investment fundamentals

Year end 30 Jun		2017A	2018E	2019E	2020E
Revenue	m	56,629	64,999	70,658	67,697
EBIT	m	9,430	13,920	14,254	18,389
EBIT growth	%	6.0	47.6	2.4	29.0
Reported profit	m	8,072	37,681	39,629	40,507
Adjusted profit	m	7,133	7,681	9,629	10,507
EPS rep	HK\$	0.86	3.81	3.88	3.97
EPS rep growth	%	-10.8	345.2	1.9	2.2
EPS adj	HK\$	0.76	0.77	0.94	1.03
EPS adj growth	%	-0.7	2.0	22.0	9.1
PER rep	x	12.1	2.7	2.7	2.6
PER adj	x	13.7	13.4	11.0	10.1
Total DPS	HK\$	0.46	0.48	0.50	0.52
Total DPS growth	%	5.5	2.4	5.0	4.1
Total div yield	%	4.5	4.6	4.8	5.0
ROA	%	2.3	3.1	2.9	3.5
ROE	%	3.9	3.8	4.1	3.9
EV/EBITDA	x	12.0	10.5	8.7	7.5
Net debt/equity	%	36.2	31.5	33.2	27.6
P/BV	x	0.5	0.5	0.4	0.4

## 17 HK rel HSI performance, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, September 2018

(all figures in HKD unless noted)

## Analysts

Macquarie Capital Limited



**David Ng, CFA** +852 3922 1291  
david.ng@macquarie.com



**Nicholas Ting** +852 3922 1398  
nicholas.ting@macquarie.com

## New World Development (17 HK) Pop the champagne

## Key points

- ▶ The company will report FY18 after market close. We expect core profit of HK\$7.7bn, up 7.7% YoY.
- ▶ Property sales should be sustained in FY19 and we project 25% earnings growth for FY19 and 9% for FY20.
- ▶ K11 MUSEA and K11 ARTUS should open in 2019, boosting NAV.

## Event

- It is not official yet but, according to our calculation, FY18 should be a record-breaking year for New World, achieving attributable contracted sales in HK of HK\$23.5bn, surpassing the previous record set in FY14 of 20.6bn and far above management's original target of HK\$10bn. All projects should generate lucrative margin (Mount Pavilia at ~44%, Fleur Pavilia at ~48% and Park Villa at ~45%), according to our estimates. The company will report results today after market close and we expect management to set another conservative sales target of ~HK\$10bn for FY19 in HK and exceed it to reach HK\$14bn, in our view. We reiterate Outperform rating.

## Impact

- If FY18 is a banner year for HK property sales, the focus of FY19 should be on the opening of its latest 10-storey shopping mall, K11 MUSEA in 3Q19, and the opening of the adjoining serviced apartments called K11 ARTUS. They are part of the 3m sqft Victoria Dockside complex, of which its office component, K11 Atelier, had already opened with the latest spot breaking HK\$100 psf/month. We estimate office rental income of HK\$351m in FY19, followed by the opening of mall and serviced apartments contributing HK\$604m in FY20. At a 5% capitalization rate on its ramped-up net rental income in FY22, the entire complex would be valued at HK\$42bn, 40% of the company's current market capitalization. We assume conservative rental of HK\$100 psf/month for the mall, slightly higher than the level of neighbourhood shopping mall, and much lower than Harbour City at HK\$460 psf/month. There should be plenty of upside as the asset matures.

## Earnings and target price revision

- We lower FY18E earnings by 0.2% and FY19E by 1.7% due to the impact of the new accounting rule, which only allows property sales booking upon actual delivery rather than issuance of occupation permit (OP) or certificate of compliance (CC). We raise our FY20E by 25.1% thanks to strong sales and higher ASP achieved for HK projects, offset by slower launches in China due to cooling measures. However, FY20 could be a revival for China's contribution with the launch of Shekou and Qianhai projects, in which we estimate sales of Rmb10bn and gross margin over 42%. We raise our TP to HK\$14.56 (from HK\$14.37).

## Price catalyst

- 12-month price target: HK\$14.56 based on a Sum of Parts methodology.
- Catalyst: more pre-leasing progress of K11 MUSEA.

## Action and recommendation

- Stock is trading at 0.5 PB and 50% discount to NAV. Reiterate Outperform.

### What has changed?

- We have delayed the booking of Mount Pavilia based on management guidance and bottom-up analysis. Contracted sales done subsequent to February will be booked in FY 2019. We have also updated FY2018 contracted sales for HK, factoring in the remarkable sales progress of Fleur Pavilia.
- We have also adjusted the launch of several HK projects based on the latest news and management guidance. For China, we have continued to adopt a relatively conservative estimate for sales in FY2019, particularly in Tier 1 cities such as Guangzhou.
- We have revised our Victoria Dockside assumptions downwards to be more conservative. However, we believe the project has good potential upside in years to come, particularly its retail portion.

**Fig 1 Changes versus consensus (HK\$ million)**

	Price target HK\$	NAV HK\$	Revenue			Underlying Earnings*			DPS	
			2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E
Macq old	14.37	22.67	67,526	61,806	66,753	7,696	9,795	8,399	0.48	0.48
Macq new	14.56	20.73	64,999	70,658	67,697	7,681	9,629	10,507	0.48	0.50
Difference (%)	1.3%	-8.6%	-3.7%	14.3%	1.4%	-0.2%	-1.7%	25.1%	0.0%	4.2%
Consensus			61,614	71,215	67,336	7,809	9,082	9,843	0.48	0.49
Versus Consensus			5.5%	-0.8%	0.5%	-1.6%	6.0%	6.7%	0.0%	2.0%

\* Adjusted for revaluation gains of investment properties and net of deferred tax.

Source: Bloomberg, Company data, Macquarie Research, September 2018

## Company Analysis

### Valuation methodology

**Our end-2018 NAV estimate of HK\$20.73** includes HK\$8.12 of development properties for sale, HK\$18.61 of investment properties for lease and HK\$6.0 of net debt and other assets. Our target price of HK\$14.56 is at a 30% discount to our Dec 18 NAV.

**Our NAV estimate** is the sum of GAV (gross asset value, before deducting net debt and other working capital) of individual projects plus net cash, net working capital and other investments of the whole company. Non-real estate assets and investments are stated at the latest reported book value. GAV is the sum of all projects' free cash flows (FCF) over the next ten years, as shown in the table below. We assume all rental assets will be disposed of in 2027, and there is no terminal value.

**We assume property prices** in Hong Kong and China to be flat. The discount rate we use is based on a risk-free rate of 1.5%, an equity risk premium of 6% and a historical beta of 0.9. For projects with negative total free cash flows, especially investment properties, we keep a floor value at the costs already incurred and carried on the book.

**Our target price** is an adjusted version of NAV. For our target price calculation, we factor in only the next three years of FCF derived from a bottom-up project launch projection but followed by FCF based on top-down company-wide volume and price growth or decline assumptions in the remaining seven years, without considering individual project performance. The three stages of FCF are:

1) near-term (35% of total GAV), based on the current land bank without factoring in any new acquisitions from 2018-2020; 2) medium-term (48% of total GAV), based on continuous replenishment to keep the land bank size unchanged over 2021-23; and 3) long-term (17% of total GAV) based on a gradually depleting land bank after 2024 without acquisitions. Our target price values non-real estate assets using PE, PB or EV/EBITDA multiples. A subjective forward beta of 1.65 is used for our target price instead of historical beta of 0.90 for NAV to account for lower management execution risks and future market volatilities affecting the valuation of assets.

**NAV reflects the value of the land bank** and tends to be higher than reported book value (HK\$20.3/sh at Dec 2017). In our view, the latter does not give sufficient credit or discount to the company's market positioning, growth aspirations and execution track record. We believe our target price captures all the above aspects and it is heavily influenced by our judgment of management's quality, as reflected in our choice of beta and our medium-term assumptions for the company's overall volume, price and cost growth. A detailed valuation breakdown is shown in Figure 4.

Fig 2 Enterprise free cash flows

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	Beyond
NAV calculations	Near term		Medium term			Long term				
	35% of total DP FCFs, 42.1bn		48% of total DP FCFs, 58.6bn			17% of total DP FCFs, 20.7bn				
(HKD bn, fiscal year)										
Cash flows of development properties only (based on existing land bank, 100% cash collection, attributable basis unless specified)										
Contracted sales (gross)	53.7	36.6	43.6	44.0	46.2	42.3	19.5	21.8	16.7	15.7
Contracted sales (attributable)	38.5	23.6	35.2	39.2	37.7	35.0	15.8	19.8	16.0	13.5
Land purchase	-	-	0.0	-	-	-	-	-	-	-
Construction capex	8.6	7.3	8.0	6.9	6.5	4.1	3.2	2.9	2.6	2.5
SGA outflows	5.8	3.5	5.3	5.9	5.7	5.2	2.4	3.0	2.4	2.2
Taxes (VAT, LAT, Business & Profit taxes)	5.1	3.8	7.8	5.5	5.6	7.9	5.3	5.6	6.6	5.8
VAT	0.9	(0.1)	1.0	1.1	0.5	0.2	0.1	0.7	0.6	0.5
LAT	2.1	1.4	3.6	2.4	2.1	3.5	3.1	3.1	3.6	3.1
Business taxes	-	-	-	-	-	-	-	-	-	-
Profit taxes	2.1	2.4	3.2	2.0	3.0	4.2	2.1	1.9	2.4	2.1
DP free cash flows (cash and post sharing)	19.0	8.9	14.1	21.0	19.9	17.7	5.0	8.2	4.4	4.2
DP free cash flows	19.0	8.9	14.1	21.0	19.9	17.7	5.0	8.2	4.4	3.0
Cash flows of investment properties only (attributable)										
Rental income of operating assets	5.39	6.51	8.13	9.89	12.44	13.81	14.73	15.47	15.93	16.30
Operating expenses and taxes	3.31	3.79	4.58	5.38	6.83	7.34	7.62	7.88	8.07	8.23
Capex and AEI	8.71	9.57	8.72	9.03	7.94	5.39	2.60	1.11	0.22	0.00
IP free cash flows (post sharing)	(6.63)	(6.85)	(5.17)	(4.52)	(2.33)	1.08	4.51	6.49	7.63	8.07
Attributable free cash flows (including other businesses)										
Other businesses	0.0	-	-	0.0	-	(0.0)	-	-	-	(3.3)
Total free cash flows	12.4	2.1	8.9	16.4	17.6	18.8	9.5	14.7	12.1	8.9
Source: Macquarie Research, September 2018										

Source: Macquarie Research, September 2018

Fig 3 Target price derivation

	HK\$/share	
DCF for development properties	4.33	A / shares
GAV for investment properties	16.29	B / shares
Net debt	(7.77)	C / shares
Other assets	1.71	D / shares
<b>Target price</b>	<b>14.56</b>	<b>(A+B+C+D) / shares</b>
	HK\$ m	
	<b>210,439</b>	<b>A + B</b>
<b>Total development properties (DCF)</b>	<b>44,220</b>	<b>A</b>
Near term from 2014 to 2016	23,372	
Medium term from 2017 to 2019	(3,798)	
Long term beyond 2019	24,645	
<b>Total investment properties (NAV)</b>	<b>166,220</b>	<b>B</b>
Office	43,387	
Retail	75,855	
Hotel	16,907	
Residential	30,071	
Others	-	

Source: Macquarie Research, September 2018

Fig 4 NAV derivation

	HK\$/share	
<b>NAV/share</b>	<b>20.73</b>	<b>E / shares</b>
	HKD m	
<b>NAV</b>	<b>211,583</b>	<b>E = F + X + Y + Z</b>
<b>Total gross asset value</b>	<b>272,875</b>	<b>F = G + H</b>
Net debt	88,256	W
Extra debt	(8,946)	X
Net working capital	(10,447)	Y
Other investments	28,465	Z
<b>Total development properties</b>	<b>82,910</b>	<b>G</b>
Residential	66,729	
Others	16,181	
<b>Total investment properties</b>	<b>189,965</b>	<b>H</b>
Office	49,585	
Retail	86,692	
Hotel	19,322	
Residential	34,366	
Others	-	
<b>No. of outstanding shares (m)</b>	<b>10,206</b>	

Source: Macquarie Research, September 2018

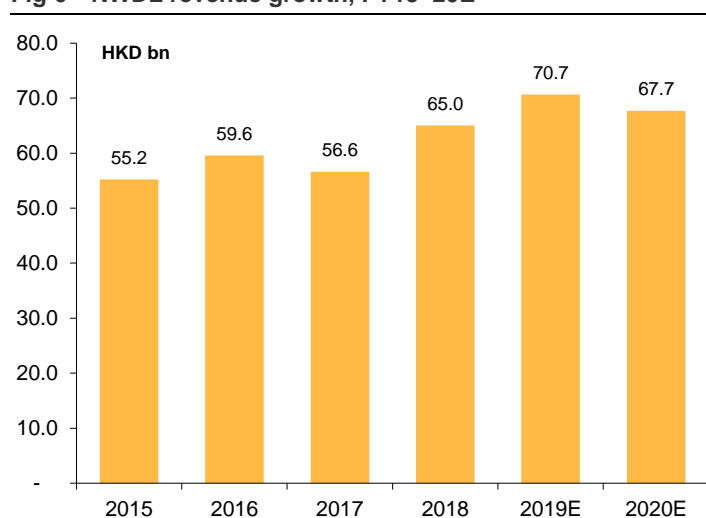
# Key assumptions and sensitivity analysis

**Fig 5 Key price and rental assumptions**

Residential price growth	China – Tier-one cities			China – Tier-two cities			Residential price growth	Hong Kong		
	2018E	2019E	Cap rate	2018E	2019E	Cap rate		2018E	2019E	Cap rate
Villas	0%	20%	4.0%	10%	10%	5.0%	Villas	5%	5%	
Luxury	0%	20%	4.0%	10%	10%	5.0%	Luxury	5%	5%	
Above average	0%	20%	5.0%	10%	10%	6.0%	Above average	10%	5%	
Mass market	0%	20%	5.0%	10%	10%	6.0%	Mass market	10%	10%	
Remote	0%	20%	6.0%	10%	10%	7.0%	Remote	5%	5%	
<b>Office rental growth</b>							<b>Office rental growth</b>			
Top Grade A	0%	0%	6.0%	0%	0%	9.0%	Central	5.0%	2.5%	3.0%
Grade A	0%	0%	8.0%	0%	0%	10.0%	WC/CWB	2.5%	2.5%	3.5%
Grade B	0%	0%	10.0%	0%	0%	11.0%	HKE	5.0%	5.0%	3.5%
							TST	0.0%	0.0%	4.0%
							KLE	-5.0%	-5.0%	5.0%
<b>Retail rental growth</b>							<b>Retail rental growth</b>			
Mall	0%	0%	4.5%	0%	0%	5.5%	Destination High end	0%	5.0%	4.0%
Street	0%	0%	4.5%	0%	0%	5.5%	Destination –Others	0%	5.0%	4.0%
Auxiliary	0%	0%	4.0%	0%	0%	5.0%	Neighbourhood High end	2.5%	5.0%	3.5%
<b>Hotel rental growth</b>										
5-star	0%	0%	8.0%	0%	0%	9.0%		0%	0%	6.0%
4-star	0%	0%	9.0%	0%	0%	10.0%		0%	0%	7.0%
3-star	0%	0%	10.0%	0%	0%	11.0%		0%	0%	8.0%

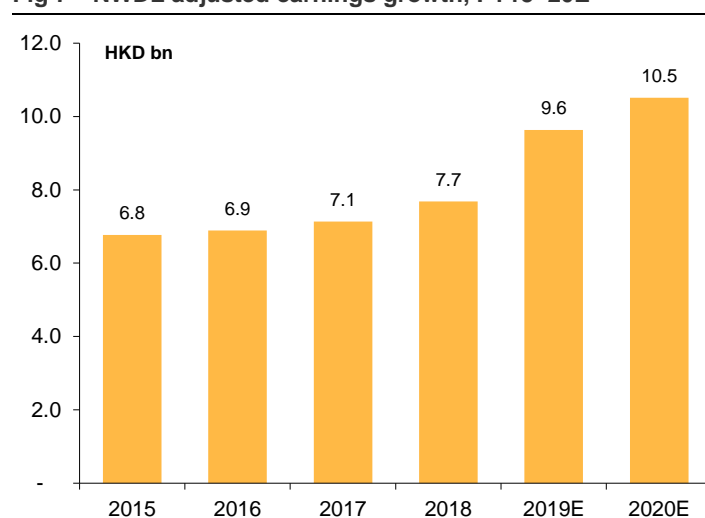
Source: Macquarie Research, September 2018

**Fig 6 NWDL revenue growth, FY15–20E**



Source: Company data, Macquarie Research, September 2018

**Fig 7 NWDL adjusted earnings growth, FY15–20E**



Source: Company data, Macquarie Research, September 2018

**Fig 8 Financial summary (HK\$ m)**

Summary	2016	2017	2018E	2019E	2020E
Revenue	59,570	56,629	64,999	70,658	67,697
Cost of sales	(41,048)	(38,413)	(42,173)	(45,297)	(39,702)
Gross profit	18,522	18,216	22,827	25,361	27,995
<b>Adjusted net profit</b>	<b>6,893</b>	<b>7,133</b>	<b>7,681</b>	<b>9,629</b>	<b>10,507</b>
Gross margin	31%	32%	35%	36%	41%
Underlying profit margin	12%	13%	12%	14%	16%
Financial stability					
Net gearing^	32%	44%	37%	38%	31%
Interest coverage	2.3	2.0	3.23	2.68	3.29
Associates/Net profit	54%	39%	26%	55%	42%
SGA/Revenue	6%	5%	14%	16%	14%
Tax/Pre-tax income	16%	40%	11%	9%	16%
Net operating cash flow	13,636	13,944	16,966	4,047	21,153
Net investing cash flow	(3,893)	(9,153)	(8,188)	(15,354)	(12,340)
Net financing cash flow	(12,068)	(8,837)	(3,761)	(4,767)	(2,954)

^Treating perpetual bonds as debts

Source: Bloomberg, Company data, Macquarie Research, September 2018

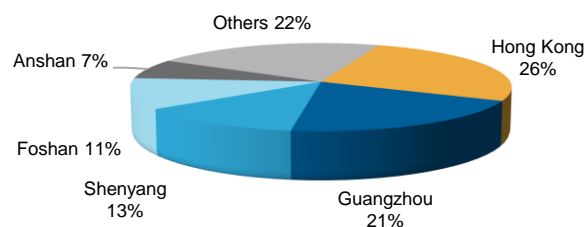
Fig 9 End-18E land bank breakdown by city

	000 sqm	% of total
Hong Kong	1,908	26%
Guangzhou	1,475	21%
Shenyang	927	13%
Foshan	820	11%
Anshan	520	7%
Others	1,595	22%
<b>Total</b>	<b>7,245</b>	<b>100%</b>

The company has projects spread over 16 cities. In terms of GFA, Hong Kong has the largest land bank, accounting for 26% of total GFA, followed by Guangzhou, Shenyang, Foshan and Anshan. Tier-one cities, including HK and Macau, contribute 52% of GFA while tier-two cities account for 17%.

Source: Company data, Macquarie Research, September 2018

Fig 10 End-18E land bank breakdown by city



Source: Company data, Macquarie Research, September 2018

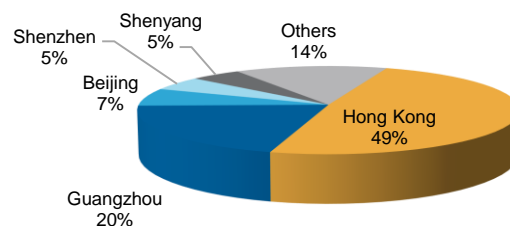
Fig 11 End-FY18E GAV breakdown by city

	HK\$ m	% of total
Hong Kong	42	49%
Guangzhou	17	20%
Beijing	6	7%
Shenzhen	4	5%
Shenyang	4	5%
Others	12	14%
<b>Total</b>	<b>85</b>	<b>100%</b>

We estimate end-18 GAV of Hong Kong accounts for 49% of the value, followed by Guangzhou, Beijing, Shenzhen and Shenyang. Tier-one cities, including HK and Macau, contribute 81% of GFA while tier-two cities account for 8%.

Source: Company data, Macquarie Research, September 2018

Fig 12 End-18E GAV breakdown by city



Source: Company data, Macquarie Research, September 2018

Fig 13 KERR property development exposure by city

	BJ	SH	GZ	Tier-1 cities SZ	HK	Philippines	Tier-2 cities	Tier-3 cities	Others	Total
Revenue - 2018F	9%	7%	14%	2%	31%	0%	22%	7%	8%	100%
Revenue - 2019F	2%	0%	5%	0%	78%	0%	6%	4%	4%	100%
Revenue - 2020F	3%	0%	26%	0%	20%	0%	31%	7%	13%	100%
GAV - 2018F	7%	0%	20%	5%	49%	0%	8%	6%	6%	100%
GAV - 2019F	7%	0%	22%	6%	46%	0%	8%	6%	5%	100%
GAV - 2020F	8%	0%	22%	4%	42%	0%	10%	6%	7%	100%

Source: Company data, Macquarie Research, September 2018

**Fig 14 Major gross contracted sales by development properties in coming years (HK\$m)**

Contracted Sales	2018F	2019F	2020F	2021F
Sai Kung Mount Pavilia	11,985	2,371	1,916	1,437
North Point Fleur Pavilia	10,063	4,736	0	0
Cheung Sha Wan Tonkin Street project	3,612	0	0	0
Guangzhou New World Car parks	3,307	0	3,575	3,575
Ningbo Ningbo New World	3,005	2,047	1,583	0
Ma On Shan Double Cove	2,000	2,800	0	0
Yuen Long Reach Summit	0	2,740	0	0
Kowloon City Sheung Heung Road URA project	0	2,514	0	0
Ho Man Tin 74 Waterloo Road	0	1,802	0	0
Mid-Levels Babington Hill	292	1,530	0	0
Sha Tin Tai Wai Station	0	0	13,840	18,453
Shenzhen Qianhai commercial complex	0	0	5,005	0
Shenzhen Shekou Free Trade Zone	0	0	4,705	5,691
Guangzhou Park Paradise	339	492	1,438	1,459
Wuhan Qiaokou Times New World	1,129	1,324	1,356	904
Shenyang New World Garden	1,000	838	1,331	2,392
Shenyang New World Center	0	0	1,345	1,921
Yangzhou Phoenix Waterside Land No.2	0	0	0	1,336
Guangzhou Covent Garden - Lake side	637	1,075	1,200	1,011
Kwun Tong Project B Tsun Yip Street 46	0	0	0	913
Cheung Sha Wan King Lam Street	0	0	0	0
Mid-Levels 4A-4P Seymour Road	0	0	0	0
Beijing Xin Yu Garden	0	0	0	0
Guangzhou Easter Transportation Hub in Zengcheng	0	0	0	0
Changsha La Ville New World	262	645	565	565
<b>Others</b>	16,045	11,678	5,766	4,294
<b>Total</b>	53,679	36,594	43,627	43,952

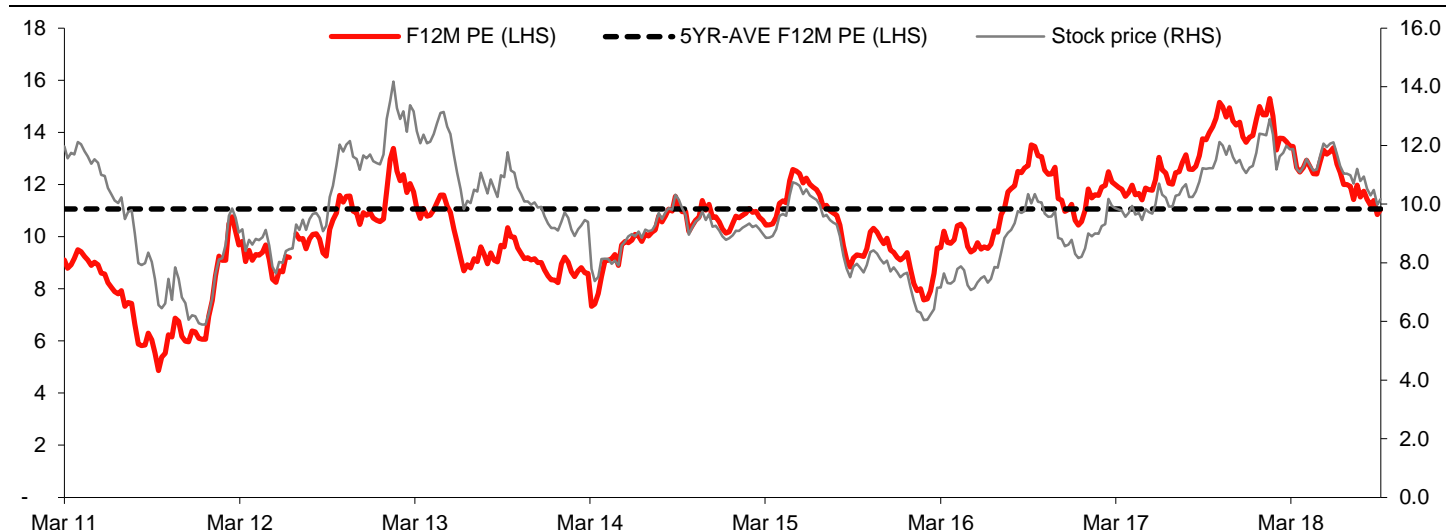
Source: Company data, Macquarie Research, September 2018

**Fig 15 Major development revenue contribution in coming years (HK\$m)**

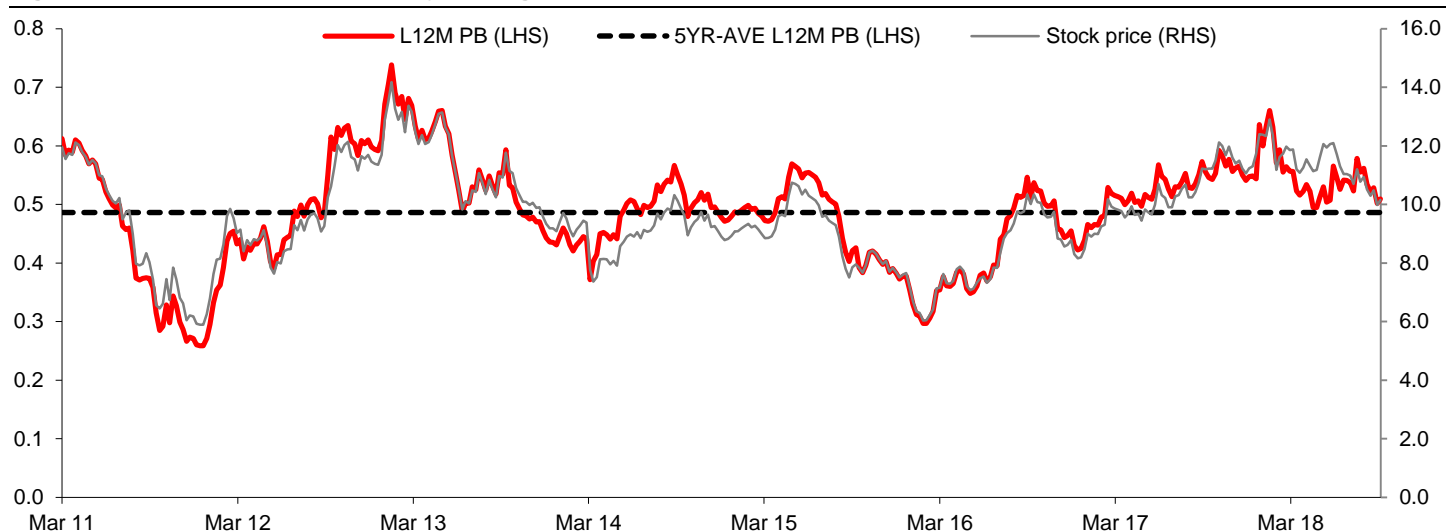
Revenue	2018F	2019F	2020F	2021F
Sai Kung Mount Pavilia	4,647	9,906	3,453	1,437
Cheung Sha Wan Tonkin Street project	3,612	0	0	0
Shenyang New World Garden	3,357	914	4,907	2,455
Guangzhou New World Car parks	3,220	0	3,476	3,476
Wuhan Qiaokou Times New World	2,909	666	1,978	1,257
Tsuen Wan The Pavilia Bay	0	10,115	0	0
Yuen Long Park Villa	0	2,052	0	0
Western Artisan House	3	1,921	5	5
Yau Tsim Mong The Masterpiece	778	1,458	0	0
Guangzhou Covent Garden - Lake side	909	1,037	1,158	975
Guangzhou Park Paradise	110	232	2,369	1,595
Langfang New World Garden	1,260	143	1,932	0
Kwun Tong Project A Tsun Yip Street 43-45	0	0	1,513	0
Shenyang New World Center	0	0	1,475	815
Changsha La Ville New World	737	418	1,376	546
Shenzhen Qianhai commercial complex	0	0	0	4,910
Kowloon City Sheung Heung Road URA project	0	0	0	2,514
Yangzhou Phoenix Waterside Land No.2	0	0	0	1,307
Foshan Canton First Estate	1,415	971	817	884
Beijing Li Zun Yuzhuang Project	2,842	675	714	654
Sha Tin Tai Wai Station	0	0	0	0
Ho Man Tin 74 Waterloo Road	0	0	0	0
Kwun Tong Project B Tsun Yip Street 46	0	0	0	0
Guangzhou Central Park-view	186	380	402	403
Anshan New World Garden Grandoise 2A	0	0	0	0
<b>Others</b>	5,355	4,246	4,226	1,229
<b>Total</b>	31,342	35,136	29,801	24,464

Source: Company data, Macquarie Research, September 2018

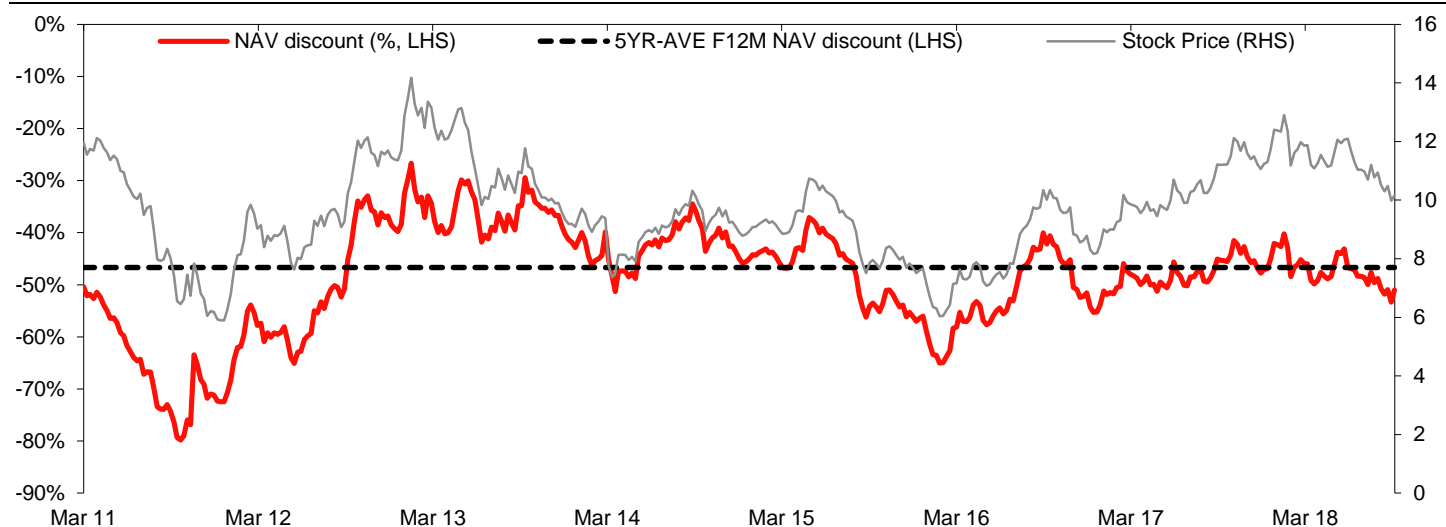


**Fig 16** Consensus 12mth forward PER for NWDL, Latest price=10.36 PE=11.0 (5-yr average=11.1);

Source: Factset, Macquarie Research, September 2018

**Fig 17** P/BV for NWDL PB=0.51 (5-yr average=0.49)

Source: Factset, Macquarie Research, September 2018

**Fig 18** 12-mth forward NAV for NWDL, NAV discount= 50% (5-yr average= 47%)

Source: Factset, Macquarie Research, September 2018

## Macquarie Quant View

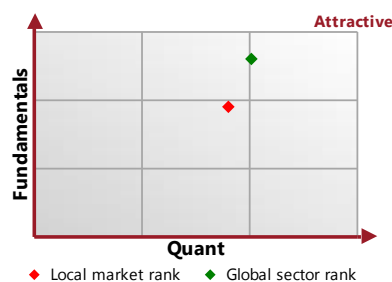
The Quant View page below has been derived from models that are developed and maintained by Sales and Trading personnel at Macquarie. The models are not a product of the Macquarie Research Department.

The quant model currently holds a marginally positive view on New World Development. The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Profitability, indicating this stock is not efficiently converting investments to earnings; proxied by ratios like ROE or ROA.

### 330/1002

Global rank in  
Real Estate

% of BUY recommendations 85% (11/13)  
Number of Price Target downgrades 0  
Number of Price Target upgrades 0

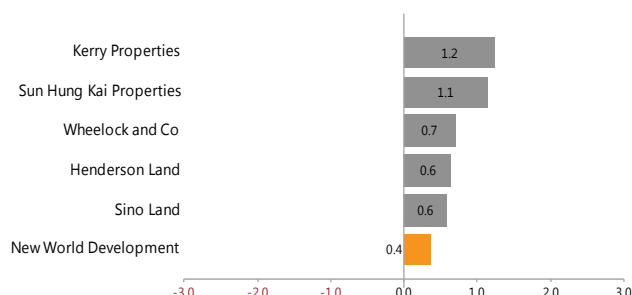


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Hong Kong) and Global sector (Real Estate)

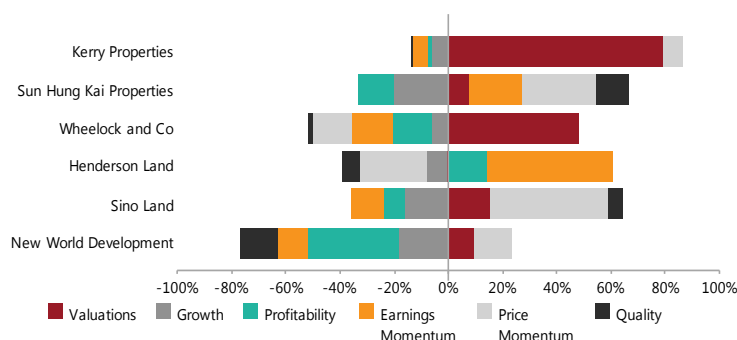
## Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



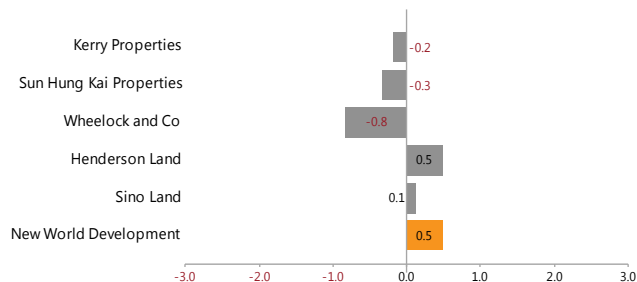
## Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



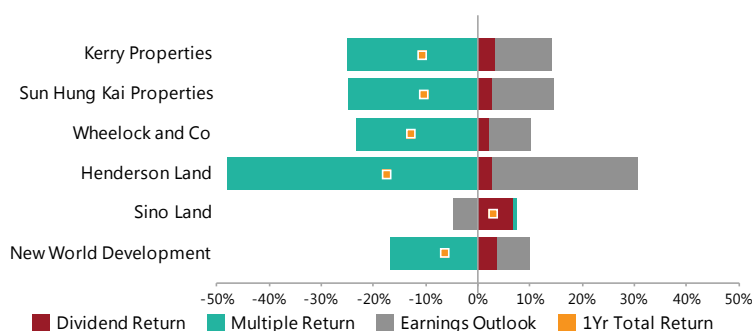
## Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



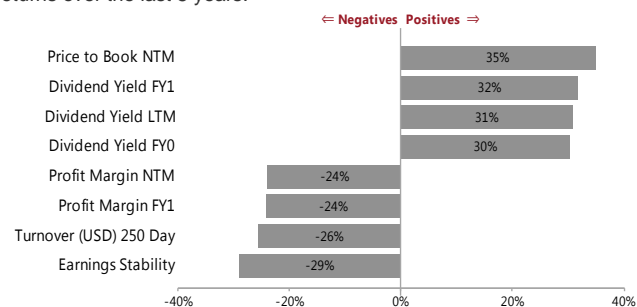
## Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



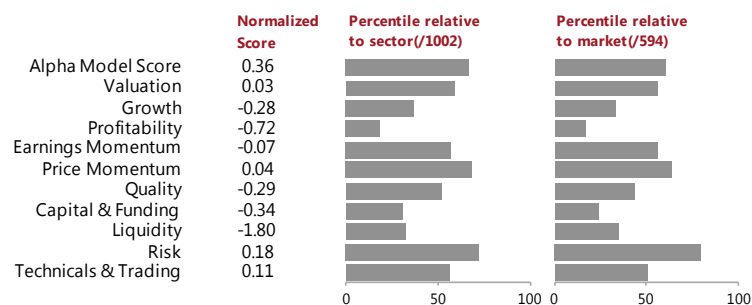
## What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



## How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group ([cpg@macquarie.com](mailto:cpg@macquarie.com))

**New World Development (17 HK, Outperform, Target Price: HK\$14.56)**

Interim Results					Profit & Loss						
		2H/17A	1H/18E	2H/18E	1H/19E		2017A	2018E	2019E	2020E	
Net Property Income	m	13,947	2,042	2,042	2,540	Net Property Income	m	24,389	4,084	5,081	6,659
Development Income	m	12,948	13,817	17,525	23,587	Development Income	m	25,968	31,342	35,136	29,801
Other Revenue	m	3,094	0	29,573	0	Other Revenue	m	6,272	29,573	30,441	31,237
<b>Total Revenue</b>	<b>m</b>	<b>29,989</b>	<b>15,859</b>	<b>49,140</b>	<b>26,128</b>	<b>Total Revenue</b>	<b>m</b>	<b>56,629</b>	<b>64,999</b>	<b>70,658</b>	<b>67,697</b>
Management Fees	m	0	0	0	0	Management Fees	m	0	0	0	0
Other Expenses	m	0	0	0	0	Other Expenses	m	0	0	0	0
<b>EBITDA</b>	<b>m</b>	<b>5,081</b>	<b>7,246</b>	<b>8,626</b>	<b>11,205</b>	<b>EBITDA</b>	<b>m</b>	<b>11,383</b>	<b>15,873</b>	<b>16,207</b>	<b>20,341</b>
Dep & Amortisation	m	1,007	976	976	976	Dep & Amortisation	m	1,953	1,953	1,953	1,953
<b>EBIT</b>	<b>m</b>	<b>4,075</b>	<b>6,270</b>	<b>7,650</b>	<b>10,229</b>	<b>EBIT</b>	<b>m</b>	<b>9,430</b>	<b>13,920</b>	<b>14,254</b>	<b>18,389</b>
Net Interest Income	m	-207	-375	-375	-1,125	Net Interest Income	m	-446	-750	-2,250	-2,550
Associates	m	2,454	-0	2,002	-1,762	Associates	m	3,925	2,002	5,278	4,451
Exceptionals	m	809	0	30,000	0	Exceptionals	m	1,792	30,000	30,000	30,000
Other Pre-Tax Income	m	274	0	0	0	Other Pre-Tax Income	m	529	0	0	0
<b>Pre-Tax Profit</b>	<b>m</b>	<b>7,404</b>	<b>5,895</b>	<b>39,277</b>	<b>7,341</b>	<b>Pre-Tax Profit</b>	<b>m</b>	<b>15,230</b>	<b>45,172</b>	<b>47,282</b>	<b>50,290</b>
Tax Expense	m	-2,506	-2,890	-2,007	-2,327	Tax Expense	m	-4,756	-4,897	-3,810	-7,109
<b>Net Profit</b>	<b>m</b>	<b>4,899</b>	<b>3,005</b>	<b>37,270</b>	<b>5,015</b>	<b>Net Profit</b>	<b>m</b>	<b>10,475</b>	<b>40,274</b>	<b>43,472</b>	<b>43,181</b>
Minority Interests	m	-1,292	-421	-2,172	-1,222	Minority Interests	m	-2,403	-2,594	-3,844	-2,674
<b>Reported Earnings</b>	<b>m</b>	<b>3,607</b>	<b>2,583</b>	<b>35,098</b>	<b>3,793</b>	<b>Reported Earnings</b>	<b>m</b>	<b>8,072</b>	<b>37,681</b>	<b>39,629</b>	<b>40,507</b>
<b>Adjusted Earnings</b>	<b>m</b>	<b>2,132</b>	<b>2,583</b>	<b>5,098</b>	<b>3,793</b>	<b>Adjusted Earnings</b>	<b>m</b>	<b>7,133</b>	<b>7,681</b>	<b>9,629</b>	<b>10,507</b>
EPS (rep)		0.38	0.27	3.49	0.37	EPS (rep)		0.86	3.81	3.88	3.97
EPS (adj)		0.23	0.27	0.51	0.37	EPS (adj)		0.76	0.77	0.94	1.03
EPS Growth yoy (adj)	%	-43.5	-50.1	125.1	39.9	EPS Growth (adj)	%	-0.7	2.0	22.0	9.1
						PE (rep)	x	12.1	2.7	2.7	2.6
						PE (adj)	x	13.7	13.4	11.0	10.1
EBITDA Margins	%	16.9	45.7	17.6	42.9	Total DPS		0.46	0.48	0.50	0.52
EBIT Margins	%	13.6	39.5	15.6	39.1	Total Div Yield	%	4.5	4.6	4.8	5.0
Earnings Split	%	29.9	33.6	66.4	39.4	Basic Shares Outstanding	m	9,815	10,206	10,206	10,206
Revenue Growth	%	16.3	-40.5	63.9	64.8	Diluted Shares Outstanding	m	9,427	9,885	10,206	10,206
EBIT Growth	%	15.5	17.1	87.8	63.1						
Profit & Loss Ratios					Cashflow Analysis						
		2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E	
Revenue Growth	%	-4.9	14.8	8.7	-4.2	<b>EBITDA</b>	<b>m</b>	<b>11,383</b>	<b>13,328</b>	<b>15,688</b>	<b>20,166</b>
EBITDA Growth	%	5.1	39.4	2.1	25.5	Tax Paid	m	3,938	-5,149	-3,204	-7,387
EBIT Growth	%	6.0	47.6	2.4	29.0	Chg in Working Capital	m	-11,752	9,537	-6,187	10,925
EBITDA Margins	%	20.1	24.4	22.9	30.0	Net Interest Paid	m	-3,546	-750	-2,250	-2,550
EBIT Margins	%	16.7	21.4	20.2	27.2	Other	m	3,925	0	0	0
Net Profit Margins	%	12.6	11.8	13.6	15.5	<b>Operating Cashflow</b>	<b>m</b>	<b>3,947</b>	<b>16,966</b>	<b>4,047</b>	<b>21,153</b>
Payout Ratio	%	61.3	61.5	53.0	50.5	Acquisitions	m	-15,832	-6,677	-13,776	-11,573
EV/EBITDA	x	12.0	10.5	8.7	7.5	Capex	m	0	0	0	0
EV/EBIT	x	13.7	11.7	9.6	8.2	Asset Sales	m	-8,216	-1,512	-1,578	-766
						Other	m	343	0	0	0
<b>Balance Sheet Ratios</b>						<b>Investing Cashflow</b>	<b>m</b>	<b>-23,705</b>	<b>-8,188</b>	<b>-15,354</b>	<b>-12,340</b>
ROE	%	3.9	3.8	4.1	3.9	Dividend (Ordinary)	m	-4,117	-4,504	-4,855	-5,100
ROA	%	2.3	3.1	2.9	3.5	Equity Raised	m	11,795	-0	-0	-0
ROIC	%	2.3	4.1	3.9	4.1	Debt Movements	m	12,188	0	0	0
Net Debt/Equity	%	36.2	31.5	33.2	27.6	Other	m	11,912	743	88	2,146
Interest Cover	x	21.1	18.6	6.3	7.2	<b>Financing Cashflow</b>	<b>m</b>	<b>31,778</b>	<b>-3,761</b>	<b>-4,767</b>	<b>-2,954</b>
Price/Book	x	0.5	0.5	0.4	0.4						
Book Value per Share		19.0	21.5	24.9	28.4	<b>Net Chg in Cash/Debt</b>	<b>m</b>	<b>12,021</b>	<b>5,017</b>	<b>-16,074</b>	<b>5,859</b>
						<b>Free Cashflow</b>	<b>m</b>	<b>3,947</b>	<b>16,966</b>	<b>4,047</b>	<b>21,153</b>
					Balance Sheet						
		2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E	
						Cash	m	67,107	66,901	50,827	56,686
						Receivables	m	26,929	32,139	34,937	33,473
						Inventories	m	84,127	79,562	69,668	67,123
						Investments	m	125,760	146,075	186,575	228,975
						Fixed Assets	m	31,564	50,604	52,181	52,948
						Intangibles	m	15,266	15,266	15,266	15,266
						Other Assets	m	86,305	84,628	87,299	86,750
						<b>Total Assets</b>	<b>m</b>	<b>437,056</b>	<b>475,175</b>	<b>496,753</b>	<b>541,221</b>
						Payables	m	52,160	56,136	44,569	46,277
						Short Term Debt	m	21,225	21,225	21,225	21,225
						Long Term Debt	m	125,895	125,895	125,895	125,895
						Provisions	m	16,832	17,055	15,339	20,546
						Other Liabilities	m	0	0	0	0
						<b>Total Liabilities</b>	<b>m</b>	<b>216,112</b>	<b>220,311</b>	<b>207,028</b>	<b>213,943</b>
						Shareholders' Funds	m	186,091	219,269	254,042	289,449
						Minority Interests	m	34,853	35,596	35,683	37,829
						<b>Total S/H Equity</b>	<b>m</b>	<b>220,945</b>	<b>254,864</b>	<b>289,726</b>	<b>327,278</b>
						<b>Total Liab &amp; S/H Funds</b>	<b>m</b>	<b>437,056</b>	<b>475,175</b>	<b>496,753</b>	<b>541,221</b>

All figures in HKD unless noted.

Source: Company data, Macquarie Research, September 2018

## Important disclosures:

## Recommendation definitions

## Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

## Macquarie – Asia/Europe

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Mazi Macquarie – South Africa

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Macquarie - Canada

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

## Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Asia/Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

## Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

## Recommendation proportions – For quarter ending 30 June 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.87%	61.26%	48.86%	47.54%	69.86%	46.61%	(for global coverage by Macquarie, 3.51% of stocks followed are investment banking clients)
Neutral	34.10%	27.25%	36.36%	46.72%	21.92%	43.22%	(for global coverage by Macquarie, 2.10% of stocks followed are investment banking clients)
Underperform	13.03%	11.49%	14.77%	5.74%	8.22%	10.17%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

## 17 HK vs HSI, &amp; rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, September 2018

## 12-month target price methodology

17 HK: HK\$14.56 based on a Sum of Parts methodology

## Company-specific disclosures:

**17 HK:** Macquarie Capital Limited makes a market in the securities of New World Development Co Ltd.

Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures).

Date	Stock Code (BVG code)	Recommendation	Target Price
04-Jun-2018	17 HK	Outperform	HK\$14.37
24-Feb-2017	17 HK	Outperform	HK\$14.14
09-Dec-2016	17 HK	Outperform	HK\$13.15
05-Oct-2016	17 HK	Outperform	HK\$13.10
08-Sep-2016	17 HK	Outperform	HK\$11.51
16-Jun-2016	17 HK	Outperform	HK\$9.05
24-Feb-2016	17 HK	Outperform	HK\$9.26
04-Dec-2015	17 HK	Outperform	HK\$9.46
20-Nov-2015	17 HK	Outperform	HK\$8.77
15-Oct-2015	17 HK	Outperform	HK\$9.01

## Target price risk disclosures:

**17 HK:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

## Analyst certification:

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## Head of Equity Research

Jake Lynch (Asia – Head)	(852) 3922 3583
Hiroyuki Sakaida (Japan – Head)	(813) 3512 6695
Conrad Werner (ASEAN – Head)	(65) 6601 0182

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Janet Lewis (China, Japan)	(813) 3512 7856
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Jayden Vantarakis (Indonesia)	(6221) 2598 8310
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Chalinee Congmuang (Thailand)	(662) 694 7993

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Bo Denworlak (Thailand)	(662) 694 7774

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Eric Zong (China, Hong Kong)	(852) 3922 4749
Kunio Sakaida (Japan)	(813) 3512 7873
James Hong (Korea)	(822) 3705 8661
Corinne Jian (Taiwan)	(8862) 2734 7522
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Anna Park (Asia)	(822) 3705 8669
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Richard Danusaputra (Indonesia)	(6221) 2598 8368
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Damian Thong (Asia, Japan)	(813) 3512 7877
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Chris Yu (Greater China)	(8621) 2412 9024
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Lynn Luo (Greater China)	(8862) 2734 7534
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Abhishek Bhandari (India)	(9122) 6720 4088
Farrah Aqlima (Malaysia)	(603) 2059 8987

## Telecoms

Allen Chang (Greater China)	(852) 3922 1136
Prem Jearajasingam (ASEAN)	(603) 2059 8989
Nathania Nurhalim (Indonesia)	(6221) 2598 8365
Kervin Sisayan (Philippines)	(632) 857 0893

## Utilities, Renewables

Hiroyuki Sakaida (Japan)	(813) 3512 6695
Patrick Dai (China)	(8621) 2412 9082
Inderjeetsingh Bhatia (India)	(9122) 6720 4087
Karisa Magpayo (Philippines)	(632) 857 0899

## Strategy, Country

Viktor Shvets (Asia, Global)	(852) 3922 3883
David Ng (China, Hong Kong)	(852) 3922 1291
Hiroyuki Sakaida (Japan)	(813) 3512 6695
Chan Hwang (Korea)	(822) 3705 8643
Jeffrey Ohlweiler (Taiwan)	(8862) 2734 7512
Inderjeetsingh Bhatia (India)	(9122) 6720 4087
Conrad Werner (ASEAN, Singapore)	(65) 6601 0182
Jayden Vantarakis (Indonesia)	(6221) 2598 8310
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Amelia Mehta (Asia)	(65) 6601 0211
Alan Chen (Asia)	(852) 3922 2019
Sandeep Bhatia (India)	(9122) 6720 4101
Tim Huang (Indonesia)	(6221) 2598 8303
Thomas Renz (Geneva)	(41 22) 818 7712
Tomohiro Takahashi (Japan)	(813) 3512 7823
John Jay Lee (Korea)	(822) 3705 9988
Nik Hadi (Malaysia)	(603) 2059 8888
Gino C Rojas (Philippines)	(632) 857 0861

## Regional Heads of Sales cont'd

Paul Colaco (San Francisco)	(1 415) 762 5003
Eric Lin (Taiwan)	(8862) 2734 7590
Angus Kent (Thailand)	(662) 694 7601
Mothlib Miah (UK/Europe)	(44 20) 3037 4893
Christina Lee (US)	(44 20) 3037 4873

## Sales Trading

Mark Weekes (Asia)	(852) 3922 2084
Stanley Dunda (Indonesia)	(6221) 515 1555

## Sales Trading cont'd

Suhaida Samsudin (Malaysia)	(603) 2059 8888
Michael Santos (Philippines)	(632) 857 0813
Chris Reale (New York)	(1 212) 231 2555
Marc Rosa (New York)	(1 212) 231 2555
Justin Morrison (Singapore)	(65) 6601 0288
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Mike Keen (UK/Europe)	(44 20) 3037 4905