

# NWS Holdings (659 HK)

## More disposals, more focus on Core business

NWS announced on 12 Jan 2021 that it has agreed to dispose of major assets in Environment segment for HK\$6,533mn. We believe the deals are positive to NWS because 1) Environment's AOP has been declining in FY18-20; 2) exit valuation is much higher than market average, and is NAV-accretive; 3) free up capital to redeploy in Core segments and other higher-growth opportunities; 4) streamlining business should help narrow the discount of holding company. Maintain BUY, fine-tuned NAV forecasts and TP to HK\$13.12.

- **Exiting a non-core business at good valuation.** NWS has agreed to sell its entire equity interests in SUEZ NWS and Chongqing Derun, which are the two major parts of the Group's Environment segment, to its long-term partner SUEZ. The considerations implied 17.9x and 16.0x FY20A P/E on SUEZ NWS and Derun respectively, which are higher than industry average. We believe the deals are NAV-accretive, as we estimate the combined FY21E NAV of the two businesses to be HK\$4,800mn only.
- **In line with strategy to focus on Core and higher-growth businesses.** The disposals are in line with NWS's strategy of optimizing its business portfolio, putting more focus on Core segments (Roads, Insurance, Aviation, Construction), while exiting non-core businesses when opportunities arise. The Group has disposed of bus business in HK, ports in Tianjin, BCIA (694 HK) and reduced stakes in New First Ferry in recent years.
- **Free up capital for new investments (e.g. toll roads).** We estimate that, after disposals, NWS's FY21E net debt-to-equity ratio would drop from 24% to 12%, much lower than the 30% cap guided by the management, while cash on hand would increase from HK\$14.8bn to HK\$22.0bn.
- **Maintain BUY, TP at HK\$13.12.** We adjusted FY21E / 22E EPS forecasts by -6.0% / -9.8%, taking away contributions from the disposed assets, while conservatively assuming no investment from the proceeds. Fine-tuned TP from HK\$12.78 to HK\$13.12, still based on 35% discount to FY21E NAV. After a 35% rebound in share price since our last report in Oct 2020, valuation is still very attractive, with 0.67x trailing P/B (pre-pandemic low), 7.3% dividend yield (close to pre-pandemic peak), and 60% discount to FY21E NAV.

### Earnings Summary

(YE 30 Jun)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK\$ mn)	26,834	25,921	35,335	38,051	40,926
Attributable operating profit (HK\$ mn)	4,707	3,514	5,384	6,233	6,848
YoY growth (%)	(10.0)	(25.3)	53.2	15.8	9.9
Profit to shareholders (HK\$ mn)	4,043	253	3,696	4,306	4,955
EPS (HK\$)	1.04	0.06	0.95	1.10	1.27
YoY growth (%)	(33.5)	(93.8)	1,359.8	16.5	15.1
Consensus adjusted EPS (HK\$)	N/A	N/A	0.90	1.11	1.30
P/E (x)	7.7	124	8.5	7.3	6.3
P/B (x)	0.64	0.67	0.66	0.64	0.61
Yield (%)	7.3	7.3	7.5	7.8	8.5
ROE (%)	8.2	0.5	7.9	8.9	9.9
Net gearing (%)	0.0	30.9	11.9	9.3	6.0

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$13.12**  
 (Previous TP **HK\$12.78**)  
 Up/Downside **+64%**  
 Current Price **HK\$8.00**

### Conglomerate Sector

**Daniel So, CFA**  
 (852) 3900 0857  
 danielso@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	31,289
Avg 3 mths t/o (HK\$ mn)	39.45
52w High/Low (HK\$)	12.00 / 5.77
Total Issued Shares (mn)	3,911.1

Source: Bloomberg

### Shareholding Structure

New World Development	60.86%
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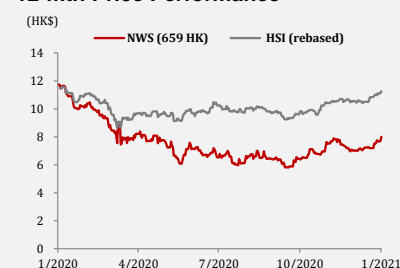
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	8.5%	2.8%
3-mth	19.1%	3.0%
6-mth	17.5%	8.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PricewaterhouseCoopers

### Related Reports:

1. NWS Holdings (659 HK) – Too cheap to ignore – 5 Oct 2020
2. NWS Holdings (659 HK) – Selling loss-making bus business is a relief – 24 Aug 2020
3. NWS Holdings (659 HK) – Profit warning no surprise – 22 Jun 2020
4. NWS Holdings (659 HK) – Toll road income resumed – 29 Apr 2020
5. NWS Holdings (659 HK) – Recovery delayed by virus outbreak – 2 Mar 2020

- **Potential catalysts:** Further disposal of non-core assets; spinoffs (e.g. aviation); acquisitions (e.g. toll roads) at attractive valuation; China's protective policies (still in discussion) to compensate for Roads' toll-exemption in Feb-May 2020; HK-China border reopening and travel restriction lifting which would drive growth in FTLife.

**Figure 1: Earnings revision after factoring in the disposals of SUEZ NWS & Derun**

HK\$ mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	35,335	38,051	40,926	35,252	37,953	40,774	-	-	-
Attributable Operating Profit (AOP)	5,384	6,233	6,848	5,685	6,742	7,358	(5.3)	(7.5)	(6.9)
Profit for the year	4,307	4,921	5,574	4,545	5,391	6,024	(5.2)	(8.7)	(7.5)
Profit attributable to shareholders	3,696	4,306	4,955	3,933	4,773	5,402	(6.0)	(9.8)	(8.3)
EPS (HKD)	0.95	1.10	1.27	1.01	1.22	1.38	(6.0)	(9.8)	(8.3)
Full-year DPS (HKD)	0.60	0.62	0.68	0.60	0.62	0.68	-	-	-

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: Valuation of Environment asset disposals**

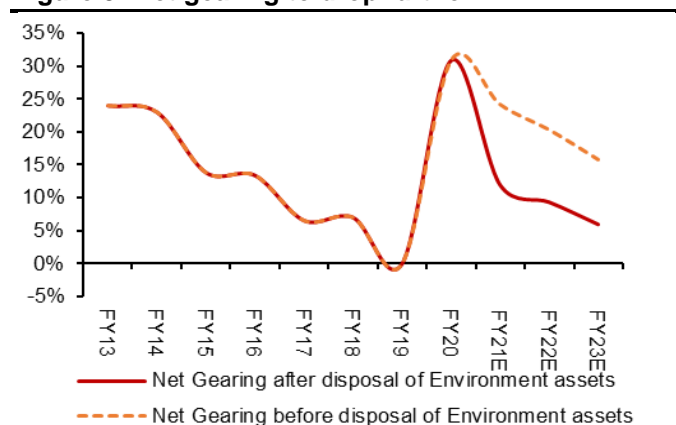
HK\$m	SUEZ NWS	Derun
Consideration	4,173	147.8
Implied FY20A P/E	17.9x	16.0x

Industry average (water) as of 31 Dec 2020	2020E P/E
HK listed	4.9x
China listed	15.9x
<b>Average</b>	<b>11.2x</b>

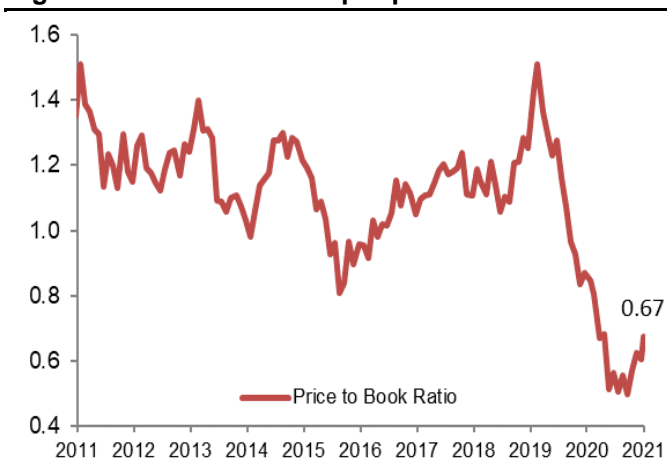
Source: Company data, CMBIS

**Figure 3: Net gearing to drop further**



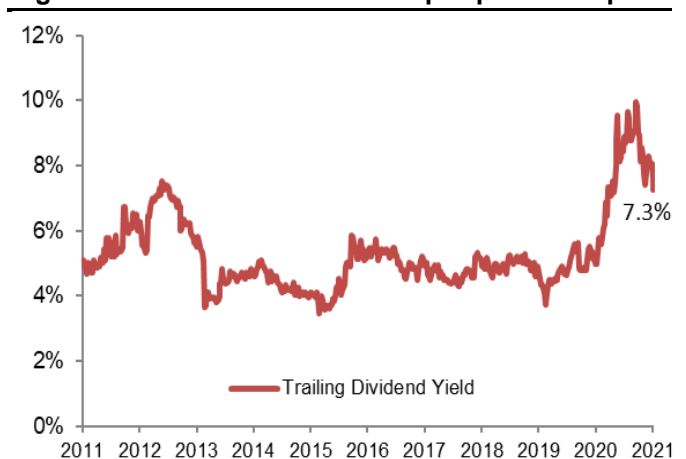
Source: Company data, CMBIS estimates

**Figure 4: Price-to-Book at pre-pandemic low**



Source: Company data, Bloomberg, CMBIS

**Figure 5: Dividend Yield close to pre-pandemic peak**



Source: Company data, Bloomberg, CMBIS

## Financial Summary

### Income statement

YE 30 Jun (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>26,834</b>	<b>25,921</b>	<b>35,335</b>	<b>38,051</b>	<b>40,926</b>
Roads	2,529	2,071	2,647	2,744	2,845
Aviation	162	-	-	-	-
Construction	16,211	12,454	18,883	19,477	20,412
Insurance	-	6,180	11,124	12,793	14,328
Facilities Management	4,152	1,907	1,717	3,038	3,342
Transport	3,780	3,308	965	-	-
Cost of sales	(23,626)	(23,400)	(30,596)	(32,757)	(35,022)
<b>Gross profit</b>	<b>3,208</b>	<b>2,521</b>	<b>4,740</b>	<b>5,295</b>	<b>5,904</b>
Other income/gains	1,030	780	1,340	1,300	1,300
General and administrative	(1,583)	(2,341)	(2,411)	(2,483)	(2,558)
<b>Operating profit</b>	<b>2,655</b>	<b>960</b>	<b>3,669</b>	<b>4,112</b>	<b>4,647</b>
Finance costs	(452)	(996)	(1,079)	(1,079)	(1,079)
Associated companies	759	80	514	586	648
JV	1,949	1,241	1,851	2,060	2,251
<b>Profit before income tax</b>	<b>4,911</b>	<b>1,285</b>	<b>4,954</b>	<b>5,679</b>	<b>6,466</b>
Income tax expenses	(652)	(458)	(647)	(758)	(892)
<b>Profit for the year</b>	<b>4,259</b>	<b>828</b>	<b>4,307</b>	<b>4,921</b>	<b>5,574</b>
Perpetual capital securities	(187)	(582)	(582)	(582)	(582)
Non-controlling interests	(29)	8	(29)	(33)	(37)
<b>Net profit to shareholders</b>	<b>4,043</b>	<b>253</b>	<b>3,696</b>	<b>4,306</b>	<b>4,955</b>

### Cash flow summary

YE 30 Jun (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net cash from operations	3,043	1,431	4,413	4,881	5,441
Finance costs paid	(331)	(554)	(554)	(554)	(554)
Interest received	285	172	172	172	172
Hong Kong profits tax paid	(230)	(153)	(216)	(253)	(297)
PRC & overseas tax paid	(650)	(305)	(432)	(505)	(595)
<b>Net cash from operating act</b>	<b>2,117</b>	<b>591</b>	<b>3,383</b>	<b>3,740</b>	<b>4,166</b>
Dividends from associates	485	80	514	586	648
Dividends from JV	1,888	1,241	1,851	2,060	2,251
Capital expenditures	(648)	(577)	(577)	(577)	(577)
Other investing activities	(5,240)	(19,644)	8,296	(1,639)	(1,639)
<b>Net cash from investing</b>	<b>(3,516)</b>	<b>(18,899)</b>	<b>10,084</b>	<b>431</b>	<b>683</b>
Change in borrowings	(159)	15,886	(2,000)	(2,000)	(2,000)
Dividends paid	(2,927)	(2,268)	(2,308)	(2,386)	(2,542)
Other financing activities	12,957	1,928	(412)	(412)	(412)
<b>Net cash from financing</b>	<b>9,871</b>	<b>15,546</b>	<b>(4,719)</b>	<b>(4,797)</b>	<b>(4,954)</b>
Net change in cash	8,473	(2,762)	8,748	(626)	(104)
Cash at the beginning of year	6,643	15,045	13,222	21,970	21,344
Currency translation diff.	(70)	-	-	-	-
<b>Cash at the end of year</b>	<b>15,045</b>	<b>13,222</b>	<b>21,970</b>	<b>21,344</b>	<b>21,240</b>

### Balance sheet

YE 30 Jun (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>56,580</b>	<b>110,226</b>	<b>106,395</b>	<b>105,514</b>	<b>104,636</b>
Property, plant & equip.	5,413	4,882	5,384	5,311	5,200
Intangible concession right	10,061	14,084	14,122	13,556	12,989
Associated companies	14,552	13,354	9,731	9,899	10,107
Joint ventures	13,645	12,288	10,582	10,476	10,371
Other non-current assets	12,908	65,620	66,577	66,273	65,969
<b>Current assets</b>	<b>29,486</b>	<b>39,714</b>	<b>49,977</b>	<b>50,958</b>	<b>52,556</b>
Cash and bank balances	15,059	13,222	21,970	21,344	21,240
Trade & other receivables	13,993	16,208	17,180	18,211	19,303
Other current assets	434	10,284	10,827	11,403	12,013
<b>Assets held for sale</b>	<b>-</b>	<b>112</b>	<b>112</b>	<b>112</b>	<b>112</b>
<b>Current liabilities</b>	<b>13,729</b>	<b>46,889</b>	<b>49,407</b>	<b>52,077</b>	<b>54,906</b>
Borrowings	2,403	4,064	4,064	4,064	4,064
Trade & other payables	10,819	12,475	13,224	14,017	14,858
Other current liabilities	507	30,350	32,120	33,996	35,984
<b>Non-current liabilities</b>	<b>15,089</b>	<b>45,706</b>	<b>48,590</b>	<b>44,455</b>	<b>40,282</b>
Borrowings	12,666	26,892	24,892	22,892	20,892
Deferred tax liabilities	2,262	2,286	2,286	2,286	2,286
Other non-current liabilities	161	16,528	21,412	19,277	17,105
<b>Shareholders' funds</b>	<b>49,046</b>	<b>46,367</b>	<b>47,387</b>	<b>48,937</b>	<b>50,979</b>
Perpetual capital securities	8,040	10,529	10,529	10,529	10,529
Non-controlling interests	161	562	572	588	608
<b>Total equity</b>	<b>57,247</b>	<b>57,458</b>	<b>58,488</b>	<b>60,053</b>	<b>62,116</b>

### Key ratios

YE 30 Jun	FY19A	FY20A	FY21E	FY22E	FY23E
<b>AOP mix (%)</b>					
Roads	38.4	25.8	35.1	31.9	30.6
Aviation	10.6	12.0	8.7	10.9	11.5
Construction	25.6	30.3	22.9	20.9	20.1
Insurance	0.0	21.4	25.1	24.9	25.4
Environment	13.4	10.1	4.1	0.4	0.4
Logistics	13.8	17.9	12.0	10.6	9.9
Facilities Management	(8.4)	(22.0)	(13.1)	(4.4)	(2.3)
Transport	(0.2)	(3.4)	(0.0)	0.4	0.4
Strategic Investments	6.8	7.9	5.1	4.4	4.0
<b>P&amp;L ratios (%)</b>					
Operating margin	9.9	3.7	10.4	10.8	11.4
Net margin	15.1	1.0	10.5	11.3	12.1
<b>Balance sheet ratios</b>					
Current ratio (x)	2.15	0.85	1.01	0.98	0.96
Quick ratio (x)	2.12	0.84	1.00	0.97	0.95
Net debt / equity ratio (%)	0.0	30.9	11.9	9.3	6.0
<b>Returns (%)</b>					
ROE	8.2	0.5	7.9	8.9	9.9
ROA	4.9	0.2	2.4	2.8	3.2
<b>Per share (HK\$)</b>					
EPS	1.04	0.06	0.95	1.10	1.27
DPS	0.58	0.58	0.60	0.62	0.68
BVPS	12.5	11.8	12.1	12.5	13.0

Source: Company data, CMBIS estimates

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**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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