

## CMBI Credit Commentary

### NWDEVL: the in-line, positive surprises and disappointment of 1HFY25 results

#### Switching ideas within NWDEVL curve

NWD's dated bonds and perps moved 2-5pts and 3-13pts higher, respectively post 1HFY25 result announcement on last Friday. Since late Jan'25 its dated bonds and perps rebounded 20-37pts and 14-37pts, respectively. At current valuations, cash yield of its perps are not as attractive as we discussed on [27 Jan'25](#), especially for the FFL perps and 6.15 perp as their cash yield is lower than the YTM of some dated bonds. We change our recommendations on NWDEVL 4.8 perp and NWDEVL 6.15 perp to neutral from buy and recommend buy on NWDEVL 8.625 02/08/28 which offers the highest YTM and cash yield amongst NWD's dated bonds. Indeed, NWDEVL 8.625 02/08/28's cash yield is comparable to those of NWDEVL perps.

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**Table 1: Bond profiles of NWDEVL**

Security name	ISIN	Maturity/Next call date	Amt Out (USD mn)	Ask Px	Ask YTM/YTNC	Coupon	Cash yield
NWDEVL 6.25 PERP	XS1960476387	First Call on 7 Mar'24	1,300	35.2	379.0%	6.250%	17.8%
NWDEVL 6.15 PERP	XS2435611327	3/16/2025	345	70.4	557.6%	6.150%	8.7%
NWDEVL 4.8 PERP	XS2268392599	First Call on 9 Sep'23	700	32.0	2753.3%	4.800%	15.0%
NWDEVL 5.25 PERP	XS2132986741	3/22/2026	999	47.6	94.3%	5.250%	11.0%
NWDEVL 4.125 PERP	XS2348062899	3/10/2028	1,140	35.9	45.0%	4.125%	11.5%
NWDEVL 5.875 06/16/27	XS2488074662	6/16/2027	172	79.2	17.3%	5.875%	7.4%
NWDEVL 8.625 02/08/28	XS2873948702	2/8/2028	400	75.7	20.0%	8.625%	11.4%
NWDEVL 4.75 01/23/27	XS1549621586	1/23/2027	458	81.5	16.6%	4.750%	5.8%
NWDEVL 4.125 07/18/29	XS2028401086	7/18/2029	718	63.8	15.9%	4.125%	6.5%
NWDEVL 4.5 05/19/30	XS2175969125	5/19/2030	443	62.4	15.2%	4.500%	7.2%
NWDEVL 3.75 01/14/31	XS2282055081	1/14/2031	76	60.6	13.8%	3.750%	6.2%

Source: Bloomberg.

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### **Weak 1HFY25 dragged by non-cash impairment and valuation losses as expected**

NWD posted weaker 1HFY25 results, reflected the weaker HK property sales and significant non-cash impairment and valuation losses. In 1HFY25, its core operating profit declined 18% to HKD4.4bn and attributable net loss to shareholders was HKD6.6bn, narrowed from HKD7.4bn in 1HFY24. Nonetheless, the results should not be surprising given NWD's profit warning on 21 Feb'25.

Overall, the revenue in 1HFY25 dropped slightly by 2% yoy, lower revenue from construction was partly offset by higher revenue from property development. The projects delivered during the period including Mount Pavilia and the office in Lai Chi Kok in Hong Kong, as well as Hangzhou River Opus, Shenyang New World Garden and Guangzhou New Metropolis Mansion in the mainland China. Its gross profit and gross profit margin dropped 8% and 277bps yoy, respectively, from 1HFY24 owing to higher construction and development costs for ongoing projects. See Table 2.

NWD expects that the property market continues to recover in 2025. The pre-sales in State Pavilia was well received by the market in since the launch in Jan'25 with contract sales of HKD3.2bn. In 1HFY25, NWD's contract sales and NCD totaled HKD5.2bn, equivalent to 47% of its FY target of HKD11bn. Additionally, NWD achieved contract sales and NCD in China totaled RMB7.5bn. It has revised its FY25 contract sales and NCD target in China to RMB14bn from RMB11bn. NWD will continue its cost-cutting initiatives in both opex and capex. NWD lowered the FY25 capex guidance to below HKD13bn to HKD15bn and it incurred HKD4.9bn in 1HFY25, implying a maximum of HKD8.1bn to be spent in 2HFY25. We expect NWD to continue to fund its capex with its operating cash inflow in 2HFY25. We believe that the pressure for the impairment and valuation losses in the scale of 1HFY25 should be lessened in view of the stronger sales momentum lately.

### **Adj. net gearing below 80% and significant ST debt reduction are positive surprises**

In 1HFY25, NWD's net debt (excl perp) was HKD134.0bn, increased marginally from HKD133.5bn in Jun'24. That said, we were positively surprised by 22% or HKD9.6bn decrease in ST debts to HKD33.2bn. More importantly, with so much noise on its consent solicitation to relax the covenanted level of adj. net gearing to 100% from 80%, we estimate that its adj net gearing ratio as of Dec'24 was 77.4%, stayed within the original covenanted level. The 1HFY25 results considerably relieved our concerns of significant increase in net debts and adj. net gearing ratio to well over 80% as we discussed in [our comments on 24 Feb'25](#) post the profit warning. Furthermore, NWD managed to lower its funding cost to 4.7% in 1HFY25 from 4.9% in 1HFY24. As the funding cost of FY24 (ended Jun'24) was 5.0%, this implied that the 2HFY24 funding cost was higher than 5%, making the funding cost reduction in 1HFY25 was even more impressive in a relatively high interest environment and negative headlines surrounding NWD. These positive surprises reinforce our belief on the ongoing access to funding channels at manageable costs of NWD, as well as the Cheng family. These also reinforce our belief that NWD is not a default candidate in the medium term.

### **Lack of detailed updates on loan refinancing is a disappointment**

NWD mentioned that banks have been supportive in early refinancing but did not provide detailed updates as to the timetable, credit enhancement required, size of loan refinancing, etc. We originally expected that the company would at least be able to provide a timeline for closing the refinancing. This, in our view, reflects the early refinancing exercise is complicated given the involvement of 50+ banks. Nonetheless, taking cues from DBS CEO's "positive" comments on NWD during the earning call of DBS on 10 Feb'25, we see a good chance the early refinancing could be sorted out. As such, the refinancing pressure on NWD over the coming 1-2 years will notably alleviated although it could be at the expense of higher structural subordination risk for holders of USD bonds/perps if credit enhancement will be provided. As we discussed in [our comments on 27 Jan'25](#), we believe that banks, with the credit enhancement, will be more comfortable with their structural seniority and less concerned on whether maturities of USD bonds would have to be extended, and whether NWD will call and pay distributions of perps.

Table 2: NWD's financial highlights

HKDmn	1HFY24	1HFY25	Change
Contract sales in Hong Kong	143	5,222	3552%
Contract sales in Mainland China (RMBmn)	7,550	7,451	-1%
Revenue	17,066	16,789	-2%
-Property development	6,742	8,378	24%
-Property investment	2,674	2,559	-4%
-Construction	5,108	3,858	-24%
-Hotel operations	683	713	4%
-Others	1,859	1,281	-31%
Gross profit	7,257	6,675	-8%
Gross margin	42.5%	39.8%	-277bps
Core operating profit	5,358	4,416	-18%
Finance costs	2,522	2,533	-
Profit/(loss) before tax from continuing operations	1,543	(5,701)	-469%
Loss from discontinued operations	(7,315)	-	-
Net loss for the period	(5,772)	(5,701)	-1%
Attributable loss to the shareholders of the company	(7,374)	(6,633)	-10%
Capex	7,500	4,900	-35%
	<b>Jun'24</b>	<b>Dec'24</b>	<b>Change</b>
Cash and bank balances	27,400	21,418	-22%
ST debts	42,813	33,225	-22%
LT debts	118,139	122,242	3%
Total debts	160,952	155,468	-3%
Perpetual capital securities	36,281	35,443	-2%
Total debts (incl. perps)	197,233	190,911	-3%
Net debts	133,553	134,049	-
Net debts (incl perps)	169,833	169,492	-
Net gearing	59.4%	61.9%	249bps
Net gearing (incl perps)	90.0%	93.5%	349bps
Cash/ ST debts	0.6x	0.6x	-
Undrawn facilities from banks	18,300	12,000	-34%

Note: Net debts is calculated by total debts minus unrestricted cash and bank balances.

Source: Company fillings

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