

NWS Holdings (659 HK)

FTLife acquisition to drive earnings recovery

NWS Holdings announced that its acquisition of FTLife Insurance was completed on 1 Nov 2019. Consolidating FTLife into NWS's financial statements would, by our estimates, lift NWS's EPS in FY20E / FY21E by 14% / 25%, which would represent 7% / 24% YoY growth respectively.

- Acquisition completed, in line with guidance.** NWS's acquisition of FTLife Insurance was completed on 1 Nov 2019. Upon completion, FTLife became an indirect wholly-owned subsidiary of NWS, and since then the financial statements of FTLife are consolidated into NWS. NWS entered into an agreement on 27 Dec 2018 to acquire FTLife. NWS's management has stated for a number of times that they expected the acquisition would complete by 4Q19. Although well expected, the completion removes any overhang and should provide some re-rating momentum for NWS.
- Immediately lift NWS's earnings.** NWS would consolidate FTLife's earnings for 8 months in FY20E (year end June), and for full year thereafter. FTLife's net income was HK\$1,228mn in 2018, equivalent to 32% of our old forecast of NWS's FY20E shareholders' profit. After taking higher finance costs into account, we estimate that FTLife would lift NWS's EPS in FY20E / FY21E by 14% / 25%.
- Gearing still healthy, can support progressive dividend.** We estimate that NWS's net gearing rose from zero to 31% post-acquisition, still under management's target of <35%. Given the Company's strong-cash-flow businesses, we believe it can deliver its progressive dividend policy announced in Sep 2019.
- Other potential catalysts:** NWS is placing more emphasis on its Core Businesses (roads, aircraft leasing, construction and insurance). Any acquisition in these core businesses to drive earnings growth or disposal of non-core businesses (Strategic Portfolio) would probably help its valuation.
- Maintain BUY as earnings bottom out.** Having reported a 33% drop in net profits in FY19, NWS's earnings recovery will be given a strong boost by FTLife. We slightly adjusted NAV forecast, and TP to HK\$15.4 based on 20% discount to FY20E NAV. Reiterate BUY.

Earnings Summary

(YE 30 Jun)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	35,115	26,834	34,766	38,610	39,514
Attributable operating profit (HK\$ mn)	5,232	4,707	6,152	7,339	7,929
YoY growth (%)	8.1	(10.0)	30.7	19.3	8.0
Profit to shareholders (HK\$ mn)	6,069	4,043	4,329	5,383	6,056
EPS (HK\$)	1.56	1.04	1.11	1.38	1.55
YoY growth (%)	6.6	(33.4)	7.1	24.4	12.5
P/E (x)	7.8	11.7	10.9	8.8	7.8
P/B (x)	0.94	0.96	0.92	0.87	0.81
Yield (%)	6.5	4.8	5.0	5.3	5.6
ROE (%)	12.3	8.2	8.6	10.2	10.8
Net gearing (%)	7.0	0.0	31.0	27.0	21.6

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$15.40
(Previous TP)	HK\$15.50
Up/Downside	+25.8%
Current Price	HK\$12.24

Conglomerate Sector

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Stock Data

Mkt Cap (HK\$ mn)	47,872
Avg 3 mths t/o (HK\$ mn)	35.01
52w High/Low (HK\$)	21.9 / 11.5
Total Issued Shares (mn)	3,911.1

Source: Bloomberg

Shareholding Structure

New World Development	60.86%
Chow Tai Fook (Holding)	2.49%

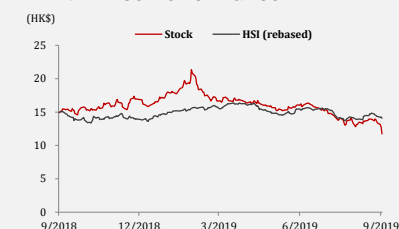
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.2%	-3.5%
3-mth	-15.9%	-16.4%
6-mth	-27.7%	-19.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

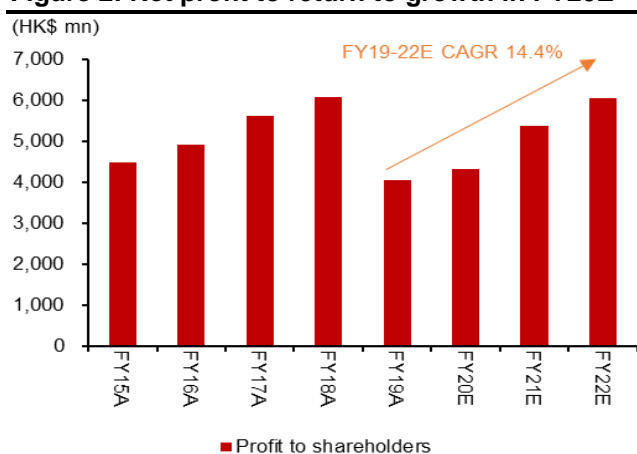
Related Reports:

- NWS Holdings (659 HK) – Results missed but worst is over – 26 Sep 2019
- NWS Holdings (659 HK) – Initiation: Adding growth to defensive business – 19 Jul 2019
- NWS Holdings (659 HK) – Decent returns with diversified investments – 29 May 2019

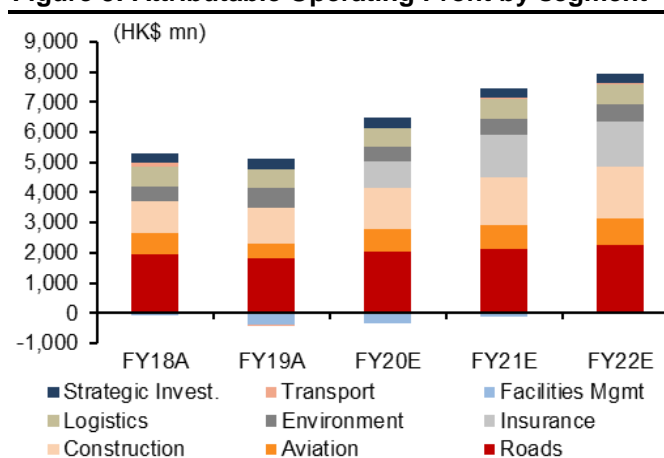
Figure 1: Earnings revision (consolidating FTLife)

HK\$ mn	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	34,766	38,610	39,514	29,722	30,932	31,720	17%	25%	25%
Attributable Operating Profit (AOP)	6,152	7,339	7,929	5,285	5,932	6,414	16%	24%	24%
Profit for the year	4,943	6,005	6,683	4,403	4,914	5,434	12%	22%	23%
Profit attributable to shareholders	4,329	5,383	6,056	3,790	4,298	4,814	14%	25%	26%
EPS (HKD)	1.11	1.38	1.55	0.97	1.10	1.23	14%	25%	26%
Full-year DPS (HKD)	0.61	0.64	0.67	0.61	0.64	0.67	0%	0%	0%

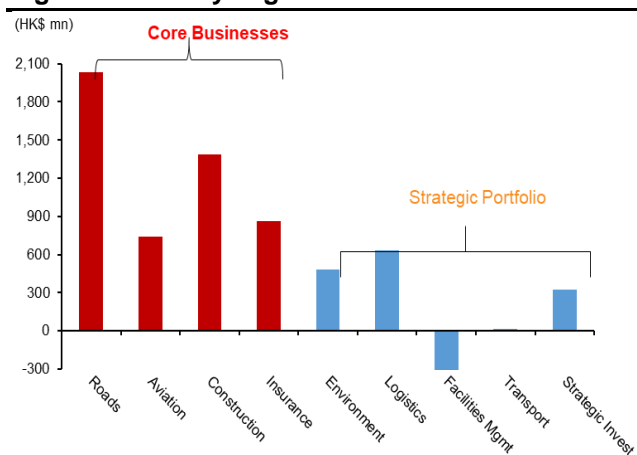
Source: Company data, CMBIS estimates

Figure 2: Net profit to return to growth in FY20E

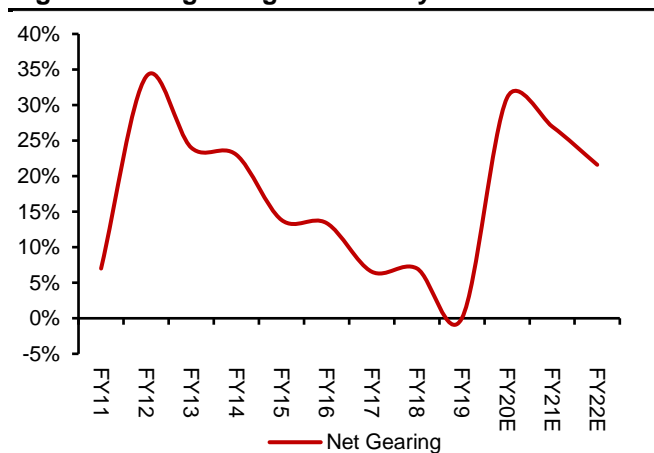
Source: Company data, CMBIS estimates

Figure 3: Attributable Operating Profit by segment

Source: Company data, CMBIS estimates

Figure 4: AOP by segment in FY20E

Source: Company data, CMBIS estimates

Figure 5: Net gearing still healthy

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	35,115	26,834	34,766	38,610	39,514	Operating profit	5,126	2,655	3,392	4,098	4,289
Roads	2,624	2,529	2,626	2,726	2,816	Adjustments					
Aviation	161	162	-	-	-	Depreciation & amortization	1,487	1,482	1,437	1,475	1,514
Facilities Management	5,571	4,152	4,152	4,318	4,447	Other non-cash items	(2,530)	(923)	(500)	(500)	(500)
Construction	26,760	16,211	19,190	20,116	20,709	Working capital changes					
Insurance	-	-	5,043	7,678	7,794	Inventories	22	33	-	-	-
Cost of sales	(31,332)	(23,791)	(29,943)	(32,811)	(33,510)	Trade & other receivables	(787)	360	(5,757)	(2,006)	(471)
Gross profit	3,783	3,043	4,823	5,800	6,004	Trade & other payables	859	(551)	3,466	1,307	319
Other income/gains	2,809	1,030	500	500	500	Other items	983	(13)	(13)	(13)	(13)
General and administrative	(1,466)	(1,418)	(1,931)	(2,201)	(2,215)	Net cash from operations	5,159	3,043	2,026	4,362	5,137
Operating profit	5,126	2,655	3,392	4,098	4,289	Dividends from associates	542	485	753	983	1,207
Finance costs	(348)	(452)	(911)	(858)	(763)	Dividends from JV	1,845	1,888	2,330	2,492	2,703
Associated companies	756	759	753	983	1,207	Capital expenditures	(536)	(648)	(577)	(577)	(577)
JV	1,331	1,949	2,330	2,492	2,703	Other investing activities	(344)	(5,240)	(22,217)	(1,639)	(1,639)
Profit before income tax	6,866	4,911	5,563	6,715	7,436	Net cash from investing	1,507	(3,516)	(19,711)	1,259	1,695
Income tax expenses	(745)	(652)	(620)	(710)	(754)	Change in borrowings	444	(159)	13,083	(2,000)	(2,000)
Profit for the year	6,121	4,259	4,943	6,005	6,683	Dividends paid	(5,570)	(2,927)	(2,325)	(2,441)	(2,563)
Perpetual capital securities	-	(187)	(582)	(582)	(582)	Other financing activities	12	12,957	1,915	(425)	(425)
Non-controlling interests	(52)	(29)	(33)	(40)	(45)	Net cash from financing	(5,115)	9,871	12,672	(4,867)	(4,989)
Net profit to shareholders	6,069	4,043	4,329	5,383	6,056	Net change in cash	821	8,473	(6,015)	(338)	707
						Cash at the beginning of year	6,437	6,643	15,045	9,030	8,692
						Currency translation diff.	39	(70)	-	-	-
						Cash at the end of year	7,297	15,045	9,030	8,692	9,399

Balance sheet						Key ratios					
YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 30 Jun	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	55,507	56,580	118,928	120,152	121,511	AOP mix (%)					
Property, plant & equip.	5,370	5,413	5,418	5,384	5,311	Roads	37.2	38.4	33.1	29.3	28.6
Intangible concession right	11,492	10,061	14,689	14,122	13,556	Aviation	13.3	10.6	12.0	10.6	11.1
Associated companies	13,763	14,552	16,008	17,608	19,369	Construction	20.2	25.6	22.5	21.4	21.3
Joint ventures	15,008	13,645	13,509	13,374	13,240	Insurance	0.0	0.0	14.1	19.2	19.1
Other non-current assets	9,874	12,908	69,305	69,664	70,035	Environment	9.4	13.4	7.9	7.3	7.0
						Logistics	12.5	13.8	10.3	8.9	8.4
Current assets	19,267	29,485	29,952	31,620	32,798	Facilities Management	(1.4)	(8.4)	(5.3)	(1.6)	(0.2)
Cash and bank balances	6,657	15,059	9,030	8,692	9,399	Transport	3.0	(0.2)	0.3	0.7	0.5
Trade & other receivables	12,149	13,998	19,754	21,760	22,231	Strategic Investments	5.8	6.8	5.2	4.4	4.1
Other current assets	462	429	1,168	1,168	1,168						
Assets held-for-sale adj.	151	-	-	-	-	P&L ratios (%)					
						Operating margin	14.6	9.9	9.8	10.6	10.9
Current liabilities	12,995	13,729	20,557	21,864	22,183	Net margin	17.3	15.1	12.5	13.9	15.3
Borrowings	1,035	2,403	4,403	4,403	4,403						
Trade & other payables	11,384	10,843	14,309	15,616	15,935	Balance sheet ratios					
Other current liabilities	576	483	1,845	1,845	1,845	Current ratio (x)	1.48	2.15	1.46	1.45	1.48
						Quick ratio (x)	1.45	2.12	1.44	1.43	1.46
Non-current liabilities	11,807	15,089	66,642	65,187	63,811	Net debt / equity ratio (%)	7.0	0.0	31.0	27.0	21.6
Borrowings	9,140	12,666	23,749	21,749	19,749						
Debt securities	-	2,262	2,262	2,262	2,262	Returns (%)					
Other non-current liabilities	2,490	161	40,631	41,176	41,800	ROE	12.3	8.2	8.6	10.2	10.8
						ROA	7.9	4.9	3.7	3.6	4.0
Shareholders' funds	49,950	49,046	51,391	54,422	58,007	Per share (HK\$)					
Perpetual capital securities	-	8,040	10,117	10,117	10,117	EPS	1.56	1.04	1.11	1.38	1.55
Non-controlling interests	174	161	173	182	192	DPS	0.78	0.58	0.61	0.64	0.67
Total equity	50,124	57,247	61,681	64,720	68,316	BVPS	12.8	12.6	13.2	13.9	14.9

Source: Company data, CMBIS estimates

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