

# New World Development (17 HK)

## Look at NWD from a mainland angle

On 19 Jan, NWD's CEO Mr. Adrian has provided a detailed business update and outlook. We suggest investors to analyze it from a mainland angle as its growth engine (recurring income of K11) has shifted to mainland with foreseeable leasing GFA growth towards 2026 (20% 2022-26 CAGR). Moreover, management is also determined to expand its DP business via multiple channels and accelerate its asset turnover. This could be positively reflected in a mid-to-long term as the future of mainland property may be the game of high-quality names like NWD.

- Why the mainland angle:** Mainly because **1)** mainland (development + IP) already contributed 61% of its FY21 operating profits. If we look at the overall OP level, the segments other than development and IP are offsetting each other. So the key drivers would be mainland and then followed by HK. **2)** Mainland is the growing engine for its K11's rental income as its leasing GFA may reach 2.5mn sq m by 2026 from current 1mn sq m. This is also the key to support its dividend. **3)** On the development side, NWD has a stable sales target of HK\$20bn but may see upside after its quick-win strategy.
- Fast growing of mainland's K11 leasing GFA at 20% CAGR in 2022-26:** Company expects to expand its current K11 GFA in mainland to 2.5mn sq m by 2026 from current 1mn sq m. This would include some key projects such as Qianhai and Prince Bay in Shenzhen and Hangzhou projects. This would provide a strong recurring income growth, which could start to cover its dividend starting from FY24E. The growing presence of K11 and its artistic highlights could further boost its branding premium for the rents growth.
- Now a consolidator in mainland's residential market via M&A and K11 complex projects:** Despite the headwinds, NWD has taken advantage of its financial position to adopt a proactive strategy on M&A to expand its land bank. In Dec 2021, it has acquired 3 fast-track urban renewal projects in Shenzhen/Guangzhou with total development area of 867k sq m (or >HK\$20bn sellable resources). With developers' liquidity crisis to continue, NWD may obtain more high-margin projects from M&A channel and this could boost its presence and sales outlook in the mid-to-long term. Another channel would be complex projects using its K11 brands. As of Jun 2021, it has a land bank of 5.6mn sq m, 90% in Tier 1-2 cities and 60% in GBA region.
- Further asset disposal to deleverage and ease dividend concern.** Company is committed to gradually lower its gearing to 40-43% level from 51% as of FY21. This would imply continuous non-core asset disposal in FY22E. NWD guided another HK\$8-10bn disposal following HK\$18bn in FY21.

### Earnings Summary

(YE 30 Jun)	FY19A	FY20A	FY21A
Revenue (HK\$ mn)	76,764	59,008	68,233
YoY growth (%)	26.5	(22.3)	15.3
Net income (HK\$ mn)	18,160	1,096	1,172
EPS (HK\$)	3.49	-0.05	0.37
YoY growth (%)	(23.9)	NA	NA
P/E (x)	NA	NA	NA
P/B (x)	NA	NA	NA
Yield (%)	6.71	6.77	6.98
ROE (%)	8.25	0.5	0.54
Net gearing (%)	48	56	51

Source: Company data

**NOT RATED**

Current Price

HK\$30.65

### Property Sector

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### Stock Data

Mkt Cap (HK\$ mn)	77,135
Avg 3 mths t/o (HK\$ mn)	95.65
52w High/Low (HK\$)	43.00/ 29.30
Total Issued Shares (mn)	2,517

Source: Bloomberg

### Shareholding Structure

Cheng Yu Tung Family	45.2%
BlackRock	5.3%
Free float	49.5%

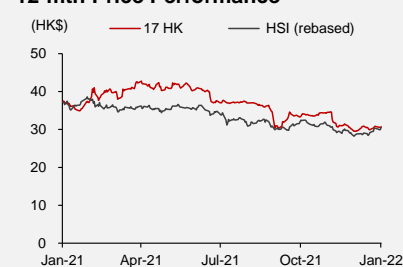
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	1.5%	-2.4%
3-mth	-8.3%	-1.9%
6-mth	-17.5%	-6.1%
12-mth	-17.7%	1.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: PwC

**Figure 1: K11 schedule**
**K11 completion schedule on track | 40 K11 projects by FY2026 with 2.9m sqm in portfolio**
**K11 Investment Properties**

Status	Site	Type	GFA <sup>1</sup> (sqm)	Status	Site	Type	GFA <sup>1</sup> (sqm)	
Current	Hong Kong	K11	34,000	FY2024	Hong Kong Kai Tak Sports Center	Retail	57,000	
	Hong Kong	D · PARK	60,000		Hong Kong 11 SKIES	Retail	277,000	
	Hong Kong Victoria Dockside	K11 MUSEA	104,000		Shenzhen (Prince Bay)	K11	98,000	
	Hong Kong Victoria Dockside	K11 ATELIER	40,000		Shenzhen (Prince Bay)	K11 ATELIER	25,000	
	Hong Kong Victoria Dockside	K11 ARTUS	36,000		Shenzhen (Prince Bay)	D · PARK	97,000	
	Hong Kong King's Road	K11 ATELIER	47,000		Shenzhen (Prince Bay)	Cultural Retail Space	9,000	
	Guangzhou (CTF) <sup>2</sup>	K11	70,000	FY2025	Guangzhou (Hanxi)	D · PARK	81,000	
	Guangzhou (CTF) <sup>2</sup>	K11 ATELIER	215,000		Hangzhou	K11 ATELIER	50,000	
	Wuhan (Guanggu)	K11 Select	51,000		Wuhan (CTF) <sup>2</sup>	K11	85,000	
	Shanghai	K11	38,000		Wuhan (CTF) <sup>2</sup>	K11 ATELIER	90,000	
	Shanghai	K11 ATELIER	81,000		Ningbo	Phase B: K11 + K11 ATELIER	146,000	
	Tianjin (CTF) <sup>2</sup>	K11 ATELIER	141,000		Beijing (K11) <sup>3</sup>	K11	52,000	
	Shenyang	K11	259,000	FY2026	Hangzhou	K11	98,000	
	Wuhan (Hankou 2)	K11	40,000		Hangzhou	K11 ARTUS	27,000	
	Wuhan (Hankou 1)	K11	43,000		Hangzhou	Art & Cultural Space	6,000	
	Wuhan (Hankou 1)	K11 ATELIER	51,000		Shanghai Middle Huaihai Road	K11	53,200	
	Tianjin (CTF) <sup>2</sup>	K11 Select	46,000		Shanghai Middle Huaihai Road	K11 ATELIER	39,500	
<b>Total (17 Projects)</b>			<b>1,356,000</b>	<b>TOTAL BY FY2026 (40 Projects)</b>			<b>2,925,700</b>	
FY2022	Hong Kong 11 SKIES	K11 ATELIER	51,000	Coming soon in FY2022	Phase A: K11 + K11 ATELIER	79,000		
	Ningbo	K11 ATELIER	9,000		Shenzhen (Qianhai) <sup>3</sup>	K11 ATELIER	100,000	
	Beijing <sup>3</sup>	K11 ATELIER	9,000		Shenzhen (Qianhai) <sup>3</sup>	Retail	27,000	
	Beijing <sup>3</sup>	K11 HACC	13,000					

1. Refers to accountable GFA including above and below ground, and excluding carpark areas  
 2. Asset owned by other party and managed by NWD  
 3. Asset owned in form of JV between NWD and other parties

Source: Company data, CMBIS

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