

NWS Holdings (659 HK)

Selling loss-making bus business is a relief

NWS announced on 21 Aug after trading hours to sell Citybus and New World First Bus (NWFB) for a total amount of HK\$3,200mn. The Group's bus business turned from profit to loss in FY19, and we expect it to keep making loss in FY20E-22E. We see disposal of this non-core, loss-making business as another positive move to optimise the Group's business portfolio. This deal is positive to earnings, NAV and net gearing, in our view. Maintain BUY, raise TP to HK\$12.90.

- Disposing bus business for a total of HK\$3,200mn.** NWS will sell NWS Transport Services Ltd, whose principal subsidiaries include Citybus and NWFB, to Templewater Bravo Holdings Ltd, a JV formed by Templewater Bravo Holdings Ltd, Hans Energy (554 HK) and Ascendal Group Ltd, holding 90.8%, 8.6% and 0.6% respectively. The consideration for the disposal is HK\$3,200m payable in cash, of which HK\$2,490mn payable at completion of the transaction, and the remaining HK\$710mn payable by three instalments on the third, fifth and sixth anniversary of the completion date, conditional upon the fulfilment of certain medium-term business milestones of the franchised bus business.
- Streamlined business portfolio to focus on sustainable growth.** With the disposal of bus after selling 60% stake in New World First Ferry in May 2020, NWS has almost exited the entire transport business (with a remaining market value of ~HK\$155mn in Ferry). This is in line with the Group's focus on sustainable growth in core businesses in Roads, Construction, Aviation and Insurance.
- Cutting loss for FY21E-22E.** Citybus & NWFB recorded a combined net loss of HK\$48mn in FY19, and we estimate that they will record combined losses of HK\$69mn / HK\$42mn in FY21E / FY22E. The disposal, therefore, is expected to lift the Group's profits to shareholders by ~1%.
- Impairment loss of HK\$0.7bn in FY20.** NWS has recognised an impairment loss of approximately HK\$0.7bn in the Group's consolidated financial statements FY20 (YE Jun), in expectation of this disposal. While this would worsen the reported earnings drop in FY20E, it has no negative impact on cashflows and there would be no more material impairment loss in FY21E.

Earnings Summary

(YE 30 Jun)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	35,115	26,834	32,435	34,799	35,461
Attributable operating profit (HK\$ mn)	5,232	4,707	3,042	6,038	6,893
YoY growth (%)	8.1	(10.0)	(35.4)	98.5	14.2
Profit to shareholders (HK\$ mn)	6,069	4,043	780	4,734	5,640
EPS (HK\$)	1.56	1.04	0.20	1.21	1.44
YoY growth (%)	6.6	(33.5)	(80.7)	506.7	19.1
Consensus adjusted EPS (HK\$)	N/A	N/A	0.82	1.14	1.30
P/E (x)	4.2	6.4	33.1	5.5	4.6
P/B (x)	0.51	0.53	0.55	0.52	0.49
Yield (%)	11.8	8.8	8.8	9.1	9.7
ROE (%)	12.3	8.2	1.6	9.8	11.0
Net gearing (%)	7.0	0.0	33.1	24.9	19.8

Source: Company, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$12.90
(Previous TP)	HK\$12.02)
Up/Downside	+95.5%
Current Price	HK\$6.60

Conglomerate Sector

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Stock Data

Mkt Cap (HK\$ mn)	25,814
Avg 3 mths t/o (HK\$ mn)	38.35
52w High/Low (HK\$)	14.08 / 5.95
Total Issued Shares (mn)	3,911.1
Source: Bloomberg	

Shareholding Structure

New World Development	60.86%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-3.4%	-1.4%
3-mth	-9.2%	-12.2%
6-mth	-33.7%	-27.9%

Source: Bloomberg

12-mth Price Performance



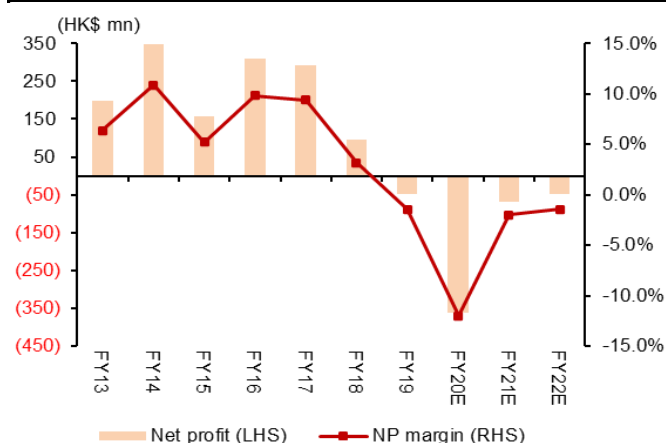
Source: Bloomberg

Auditor: PricewaterhouseCoopers

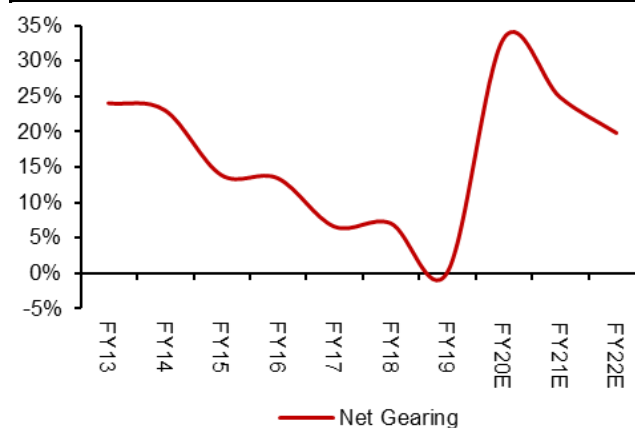
Related Reports:

- NWS Holdings (659 HK) – Profit warning no surprise – 22 Jun 2020
- NWS Holdings (659 HK) – Toll road income resumed – 29 Apr 2020
- NWS Holdings (659 HK) – Recovery delayed by virus outbreak – 2 Mar 2020
- NWS Holdings (659 HK) – Impact of Toll Fee Exemption – 18 Feb 2020

- Net gearing lowered; progressive dividend sustainable.** We estimate the disposal of bus business would lower the Group's FY21E net gearing from 27.4% to 24.9%, comfortably below management's target 30%. A healthier balance sheet should make its dividend policy of progressive DPS sustainable.
- Maintain BUY, TP raised to HK\$12.90.** We adjusted FY20E / 21E / 22E EPS forecasts by -50% / +1% / +1% to reflect the impairment loss and lower operating loss from the disposal of bus business. The stock is trading at 5.5X FY21E P/E, 9.1% FY21E dividend yield and 67% discount to FY21E NAV. We raised our TP from HK\$12.02 to HK\$12.90, based on 35% discount to FY21E NAV (previously 25% discount to FY20E NAV). A wider discount to NAV is applied to reflect the prolonged impact by the COVID-19 and low valuations of conglomerates in general.
- Potential catalysts:** Further disposal of non-core assets; spinoffs (e.g. aviation); acquisitions (e.g. toll roads) at attractive valuation; China's protective policies to compensate for Roads' toll exemption in Feb-May 2020.

Figure 1: Profit / loss of Citybus & NWFB combined


Source: Company, CMBIS estimates

Figure 2: Net gearing of NWS


Source: Company, CMBIS estimates

Financial Summary

Income statement

YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	35,115	26,834	32,493	34,799	35,461
Roads	2,624	2,529	1,499	2,508	2,591
Construction	23,260	16,211	19,190	20,568	21,535
Aviation	161	162	-	-	-
Insurance	-	-	5,043	7,414	7,562
Facilities Management	5,571	4,152	3,267	3,593	3,773
Transport	3,499	3,780	3,436	716	-
Cost of sales	(31,332)	(23,791)	(29,391)	(29,221)	(29,614)
Gross profit	3,783	3,043	3,044	5,579	5,847
Other income/gains	2,809	1,030	(228)	500	500
General and administrative	(1,466)	(1,418)	(1,931)	(2,201)	(2,215)
Operating profit	5,126	2,655	885	3,878	4,132
Finance costs	(348)	(452)	(828)	(858)	(763)
Associated companies	756	759	494	987	1,290
JV	1,331	1,949	1,309	2,033	2,330
Profit before income tax	6,866	4,911	1,861	6,040	6,989
Income tax expenses	(745)	(652)	(490)	(688)	(725)
Profit for the year	6,121	4,259	1,371	5,352	6,264
Perpetual capital securities	-	(187)	(582)	(582)	(582)
Non-controlling interests	(52)	(29)	(9)	(36)	(42)
Net profit to shareholders	6,069	4,043	780	4,734	5,640

Cash flow summary

YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating profit	5,126	2,655	885	3,878	4,132
Adjustments					
Depreciation & amortization	1,487	1,482	1,443	1,481	1,520
Other non-cash items	(2,530)	(923)	(500)	(500)	(500)
Working capital changes					
Inventories	22	33	107	-	-
Trade & other receivables	(787)	360	(1,570)	(934)	(990)
Trade & other payables	859	(551)	2,394	794	842
Other items	983	(13)	(13)	(13)	(13)
Net cash from operations	5,159	3,043	2,746	4,706	4,991
Dividends from associates	542	485	494	987	1,290
Dividends from JV	1,845	1,888	1,309	2,033	2,330
Capital expenditures	(536)	(648)	(577)	(577)	(577)
Other investing activities	(344)	(5,240)	(21,984)	851	(1,639)
Net cash from investing	1,507	(3,516)	(20,757)	3,295	1,405
Change in borrowings	444	(159)	12,939	(2,000)	(2,000)
Dividends paid	(5,570)	(2,927)	(2,268)	(2,308)	(2,425)
Other financing activities	12	12,957	1,915	(425)	(425)
Net cash from financing	(5,115)	9,871	12,586	(4,733)	(4,850)
Net change in cash	821	8,473	(6,298)	2,197	438
Cash at the beginning of year	6,437	6,643	15,045	8,748	10,945
Currency translation diff.	39	(70)	-	-	-
Cash at the end of year	7,297	15,045	8,748	10,945	11,382

Balance sheet

YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	55,507	56,580	112,442	112,652	113,125
Property, plant & equip.	5,370	5,413	5,577	5,384	5,311
Intangible concession right	11,492	10,061	14,689	14,122	13,556
Associated companies	13,763	14,552	14,088	15,497	17,046
Joint ventures	15,008	13,645	13,530	13,395	13,261
Other non-current assets	9,874	12,908	64,559	64,255	63,951
Current assets	19,267	29,485	36,915	40,633	42,683
Cash and bank balances	6,657	15,059	8,748	10,945	11,382
Trade & other receivables	12,149	13,998	15,567	16,501	17,491
Other current assets	462	429	12,601	13,187	13,809
Assets held-for-sale adj.	151	-	-	-	-
Current liabilities	12,995	13,729	47,108	49,681	52,409
Borrowings	1,035	2,403	3,366	3,366	3,366
Trade & other payables	11,384	10,843	13,236	14,031	14,872
Other current liabilities	576	483	30,506	32,285	34,171
Non-current liabilities	11,807	15,089	44,084	42,919	39,398
Borrowings	9,140	12,666	24,643	22,643	20,643
Deferred tax liabilities	2,490	2,262	2,462	2,462	2,462
Other non-current liabilities	177	161	16,979	17,814	16,293
Shareholders' funds	49,950	49,046	46,947	49,437	52,713
Perpetual capital securities	-	8,040	10,529	10,529	10,529
Non-controlling interests	174	161	690	719	759
Total equity	50,124	57,247	58,165	60,685	64,001

Key ratios

YE 30 Jun	FY18A	FY19A	FY20E	FY21E	FY22E
AOP mix (%)					
Roads	37.2	38.4	11.4	32.8	30.9
Construction	20.2	25.6	45.8	25.6	24.6
Aviation	13.3	10.6	18.2	9.2	10.5
Insurance	-	-	24.9	18.4	16.5
Environment	9.4	13.4	14.0	7.7	7.0
Logistics	12.5	13.8	21.1	10.9	9.8
Facilities Management	(1.4)	(8.4)	(27.0)	(6.6)	(1.2)
Transport	3.0	(0.2)	(11.5)	(0.2)	0.0
Strategic Investments	5.8	6.8	3.1	2.1	1.8
P&L ratios (%)					
Operating margin	14.6	9.9	2.7	11.1	11.7
Net margin	17.3	15.1	2.4	13.6	15.9
Balance sheet ratios					
Current ratio (x)	1.48	2.15	0.78	0.82	0.81
Quick ratio (x)	1.45	2.12	0.78	0.81	0.81
Net debt / equity ratio (%)	7.0	0.0	33.1	24.8	19.7
Returns (%)					
ROE	12.3	8.2	1.6	9.8	11.0
ROA	7.9	4.9	0.7	3.1	3.6
Per share (HK\$)					
EPS	1.56	1.04	0.20	1.21	1.44
DPS	0.78	0.58	0.58	0.60	0.64
BVPS	12.8	12.6	12.0	12.6	13.5

Source: Company data, CMBIS estimates

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