

NWS Holdings (659 HK)

Toll road income resumed

China's Ministry of Transport will restore tolls for all toll roads nationwide from 6 May, after scrapping tolls from 17 Feb during the epidemic prevention and control period. The toll resumption came later than our base case assumption, and we accordingly revised FY20E AOP / EPS / NAV by -24% / -45% / -6.3%. Maintain BUY, with TP cut to HK\$12.18.

- Overhang removed, but no protective policies yet.** While the toll resumption removed a major policy overhang, there has been no update on any "protective policies" which was mentioned in MoT's 15 Feb announcement. ("relevant ancillary protective measures to protect the rights of toll roads users, creditors, investors and operators" / "将另行研究出台相关配套保障政策，统筹维护收费公路使用者、债权人、投资者和经营者的合法权益").
- Roads segment AOP to drop 82% YoY.** We had previously assumed in our base case that the toll suspension would last until late-Mar, and that impact on Roads segment / Group's AOP would be -54% / -17%. Now that tolls will be restored only from 6 May is close to our worst case assumption. Our new estimate of FY20E Roads' AOP is -81% YoY (old forecast -45%) to HK\$346mn, or 11% of Group's AOP.
- Roads traffic gradually recovering.** According to MoT, number of passengers travelled by road -73% YoY in Mar (vs. -12% in Jan, -89% in Feb), while freight traffic volume by road -29% in Mar (vs. -34% in Jan, -51% in Feb).
- Potential catalysts:** 1) China's protective policies to compensate for Roads' toll exemption; 2) spinoff (e.g. aviation); 3) disposals of non-core assets such as Transport; 4) acquisitions at attractive valuation.
- Maintain BUY, TP cut to HK\$12.18.** We revised FY20E AOP / EPS / NAV by -24% / -45% / -6.3%, having also considered widening losses in Transport and Facilities Management segments. TP is cut from HK\$13.00 to HK\$12.18, based on 25% discount to FY20E NAV. FY21E AOP / EPS are trimmed by only 1.9% / 1.6%, as we expect business to gradually return to normal once the COVID-19 is under control. We expect DPS would be kept stable under the new dividend policy, as cashflow would remain healthy despite decrease in earnings. It remains an attractive yield play with 7.2% dividend yield.

Earnings Summary

(YE 30 Jun)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	35,115	26,834	32,493	38,288	39,776
Attributable operating profit (HK\$ mn)	5,232	4,707	3,078	6,253	7,027
YoY growth (%)	8.1	(10.0)	(34.6)	103.1	12.4
Profit to shareholders (HK\$ mn)	6,069	4,043	1,574	4,940	5,803
EPS (HK\$)	1.56	1.04	0.40	1.26	1.48
YoY growth (%)	6.6	(33.5)	(61.2)	213.9	17.5
P/E (x)	5.2	7.8	20.1	6.4	5.4
P/B (x)	0.63	0.64	0.66	0.63	0.59
Yield (%)	9.7	7.2	7.2	7.5	7.9
ROE (%)	12.3	8.2	3.3	10.1	11.1
Net gearing (%)	7.0	0.0	31.7	27.2	21.8

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$12.18
(Previous TP)	HK\$13.00
Up/Downside	+50.7%
Current Price	HK\$8.08

Conglomerate Sector

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Stock Data

Mkt Cap (HK\$ mn)	31,062
Avg 3 mths t/o (HK\$ mn)	32.43
52w High/Low (HK\$)	16.78 / 7.31
Total Issued Shares (mn)	3,911.1

Source: Bloomberg

Shareholding Structure

New World Development	60.86%
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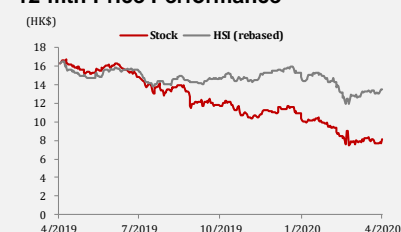
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.0%	-2.8%
3-mth	-22.2%	-14.2%
6-mth	-31.3%	-25.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports:

- NWS Holdings (659 HK) – Recovery delayed by virus outbreak – 2 Mar 2020
- NWS Holdings (659 HK) – Impact of Toll Fee Exemption – 18 Feb 2020
- NWS Holdings (659 HK) – Road to recovery – takeaways from tour – 21 Jan 2020
- NWS Holdings (659 HK) – FTLife acquisition to drive earnings recovery – 5 Nov 2019
- NWS Holdings (659 HK) – Results missed but worst is over – 26 Sep 2019

Financial Summary

Income statement

YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	35,115	26,834	32,493	38,288	39,776
Roads	2,624	2,529	1,499	2,637	2,723
Construction	23,260	16,211	19,190	20,568	21,535
Aviation	161	162	-	-	-
Insurance	-	-	5,043	7,565	7,716
Facilities Management	5,571	4,152	3,267	3,593	3,773
Transport	3,499	3,780	3,493	3,925	4,028
Cost of sales	(31,332)	(23,791)	(29,391)	(32,626)	(33,811)
Gross profit	3,783	3,043	3,102	5,663	5,965
Other income/gains	2,809	1,030	500	500	500
General and administrative	(1,466)	(1,418)	(1,931)	(2,201)	(2,215)
Operating profit	5,126	2,655	1,671	3,961	4,250
Finance costs	(348)	(452)	(828)	(858)	(763)
Associated companies	756	759	494	1,062	1,326
JV	1,331	1,949	1,322	2,084	2,350
Profit before income tax	6,866	4,911	2,660	6,250	7,163
Income tax expenses	(745)	(652)	(490)	(690)	(736)
Profit for the year	6,121	4,259	2,170	5,560	6,428
Perpetual capital securities	-	(187)	(582)	(582)	(582)
Non-controlling interests	(52)	(29)	(15)	(37)	(43)
Net profit to shareholders	6,069	4,043	1,574	4,940	5,803

Cash flow summary

YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating profit	5,126	2,655	1,671	3,961	4,250
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	3,532	4,790	5,109
Dividends from associates	542	485	494	1,062	1,326
Dividends from JV	1,845	1,888	1,322	2,084	2,350
Capital expenditures	(536)	(648)	(577)	(577)	(577)
Other investing activities	(344)	(5,240)	(22,217)	(1,639)	(1,639)
Net cash from investing	1,507	(3,516)	(20,977)	931	1,461
Change in borrowings	444	(159)	12,939	(2,000)	(2,000)
Dividends paid	(5,570)	(2,927)	(2,268)	(2,325)	(2,441)
Other financing activities	12	12,957	1,915	(425)	(425)
Net cash from financing	(5,115)	9,871	12,586	(4,750)	(4,867)
Net change in cash	821	8,473	(5,732)	(102)	585
Cash at the beginning of year	6,437	6,643	15,045	9,314	9,211
Currency translation diff.	39	(70)	-	-	-
Cash at the end of year	7,297	15,045	9,314	9,211	9,796

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	37,482	38,900	41,097
Cash and bank balances	6,657	15,059	9,314	9,211	9,796
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	43,851	40,196	36,675
Borrowings	9,140	12,666	24,643	22,643	20,643
Deferred tax liabilities	-	2,262	2,462	2,462	2,462
Other non-current liabilities	2,490	161	2,033	2,043	2,053
Shareholders' funds	49,950	49,046	47,746	50,425	53,847
Perpetual capital securities	-	8,040	10,529	10,529	10,529
Non-controlling interests	174	161	690	721	762
Total equity	50,124	57,247	58,964	61,675	65,137

Key ratios

YE 30 Jun	FY18A	FY19A	FY20E	FY21E	FY22E
AOP mix (%)					
Roads	37.2	38.4	11.2	33.1	31.9
Construction	20.2	25.6	45.3	24.6	24.0
Aviation	13.3	10.6	18.4	9.5	10.3
Insurance	-	-	24.6	18.2	18.2
Environment	9.4	13.4	13.8	7.4	6.9
Logistics	12.5	13.8	20.8	10.5	9.6
Facilities Management	(1.4)	(8.4)	(26.6)	(4.8)	(2.7)
Transport	3.0	(0.2)	(10.6)	(0.5)	(0.1)
Strategic Investments	5.8	6.8	3.1	2.0	1.8
P&L ratios (%)					
Operating margin	14.6	9.9	5.1	10.3	10.7
Net margin	17.3	15.1	4.8	12.9	14.6
Balance sheet ratios					
Current ratio (x)	1.48	2.15	0.80	0.78	0.78
Quick ratio (x)	1.45	2.12	0.79	0.78	0.78
Net debt / equity ratio (%)	7.0	0.0	31.7	27.2	21.8
Returns (%)					
ROE	12.3	8.2	3.3	10.1	11.1
ROA	7.9	4.9	1.3	3.3	3.8
Per share (HK\$)					
EPS	1.56	1.04	0.40	1.26	1.48
DPS	0.78	0.58	0.58	0.61	0.64
BVPS	12.8	12.6	12.2	12.9	13.8

Source: Company data, CMBIS estimates

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