

NWS Holdings (659 HK)

Road to recovery – takeaways from tour

We joined a guided tour at Guangzhou City Northern Ring Road, NWS's top toll road in terms of traffic flow, to see its smart toll booths and control centre. We expect Roads to remain NWS's top business segment (32% of Attributable Operating Profit in FY20E), and there could be further acquisition opportunities in this core business.

- **Smart toll booths help enhance efficiency.** Guangzhou Northern Ring Road began implementing integrated smart toll booths in Jul 2017. Such smart booths allow shifting between manual/auto toll collection modes, self-served function and serve as unmanned booths in certain time slots. They collect information of passing vehicles for big data analysis to help enhance operating efficiency in the long run.
- **Further acquisition of roads is possible.** While we do not expect NWS to make significant capital outlay in near future after splashing out HK\$21.5bn last year to fully acquire FTLife, there could be more acquisition of toll roads at attractive price (possibly in Hunan & Hubei provinces) given the tight credit condition in Mainland China. Besides, the Management believes that some SOEs would prefer to sell a stake of their toll roads to offshore investors so as to enjoy certain policy exemptions.
- **Other potential catalysts:** 1) Spin-offs: we believe NWS's aviation (aircraft leasing) and environment (SUEZ NWS) segments have potential of spin-off, and the former may be more likely given the current sector valuations. 2) Disposal of non-core businesses such as transport, facilities management and strategic investments.
- **Expect interim AOP to rebound.** NWS is expected to announce 1H FY20E results in late Feb. We forecast Attributable Operating Profit to rebound by 10% (1H FY19 decreased by 9%), with growth mainly from aviation and construction, and insurance contributing two months of profit.
- **Maintain BUY as a yield play.** NWS announced in Sep 2019 to adopt a progressive dividend policy, i.e. annual DPS not less than the previous year. FY20E dividend yield is 5.3%. We maintain BUY rating and TP at HK\$15.4, based on 20% discount to FY20E NAV.

Earnings Summary

(YE 30 Jun)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	35,115	26,834	34,833	38,678	39,742
Attributable operating profit (HK\$ mn)	5,232	4,707	5,856	7,097	7,763
YoY growth (%)	8.1	(10.0)	24.4	21.2	9.4
Profit to shareholders (HK\$ mn)	6,069	4,043	4,322	5,394	6,113
EPS (HK\$)	1.56	1.04	1.11	1.38	1.56
YoY growth (%)	6.6	(33.4)	6.6	24.8	13.3
P/E (x)	7.4	11.2	10.5	8.4	7.4
P/B (x)	0.90	0.92	0.88	0.83	0.78
Yield (%)	6.7	5.0	5.3	5.5	5.8
ROE (%)	12.3	8.2	8.6	10.2	10.9
Net gearing (%)	7.0	0.0	31.0	26.9	21.5

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$15.40
(Previous TP)	HK\$15.40)
Up/Downside	+33.2%
Current Price	HK\$11.56

Conglomerate Sector

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Stock Data

Mkt Cap (HK\$ mn)	45,213
Avg 3 mths t/o (HK\$ mn)	33.31
52w High/Low (HK\$)	21.9 / 10.24
Total Issued Shares (mn)	3,911.1
Source: Bloomberg	

Shareholding Structure

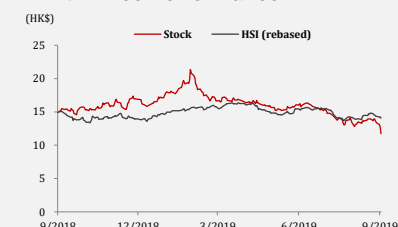
New World Development	60.86%
Chow Tai Fook (Holding)	2.49%
Source: HKEX	

Share Performance

	Absolute	Relative
1-mth	2.7%	-0.6%
3-mth	-4.3%	-11.2%
6-mth	-25.0%	-25.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports:

1. NWS Holdings (659 HK) – FTLife acquisition to drive earnings recovery – 5 Nov 2019
2. NWS Holdings (659 HK) – Results missed but worst is over – 26 Sep 2019
3. NWS Holdings (659 HK) – Initiation: Adding growth to defensive business – 19 Jul 2019

Figure 1: Guangzhou City Northern Ring Road



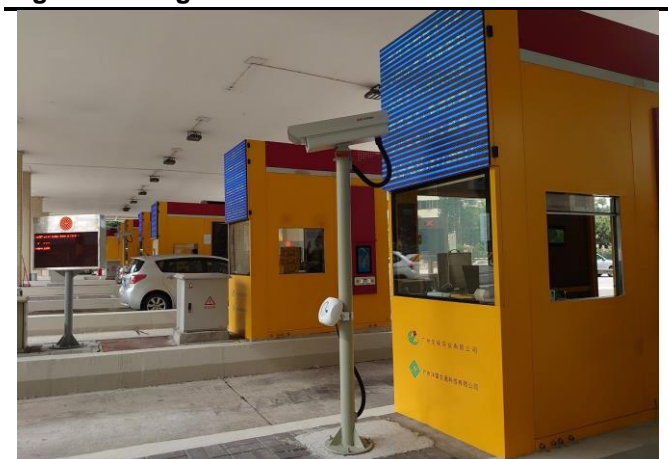
Source: CMBIS

Figure 2: Control centre of GZ Northern Ring Road



Source: CMBIS

Figure 3: Integrated smart toll booths



Source: CMBIS

Figure 4: Self-served payment system at toll booth



Source: CMBIS

Figure 5: Interior of a smart toll booth

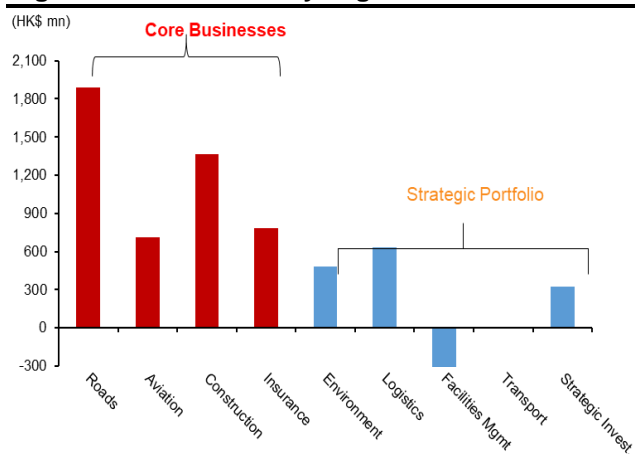


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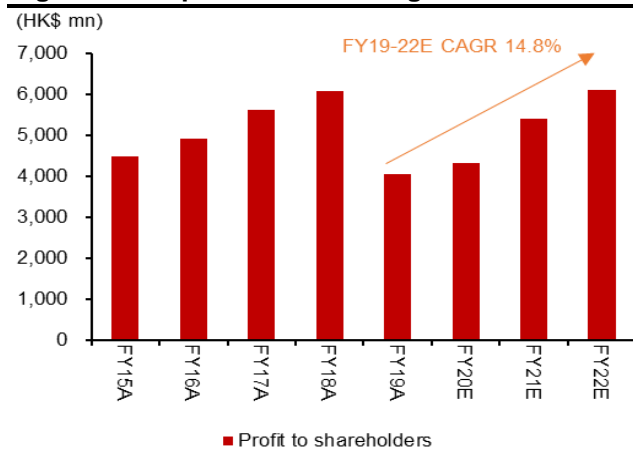
Figure 6: High-tech enterprise certification awarded to GZ Northern Ring Road Co.



Source: CMBIS

Figure 7: NWS's AOP by segment in FY20E

Source: Company data, CMBIS estimates

Figure 8: Net profit to return to growth in FY20E

Source: Company data, CMBIS estimates

Figure 9: NAV by sum-of-the-parts

	Valuation method	FY20E GAV (HK\$mn)	FY20E GAV per share (HK\$)	% of GAV
Roads		26,063	6.66	25%
Subsidiaries	DCF: WACC 7.1%	15,720	4.02	15%
Associates & JVs	P/E: 10.2x	10,344	2.64	10%
Aviation (Goshawk)	P/E: 9x	6,415	1.64	6%
Construction		9,132	2.33	9%
Construction	P/E: 8.5x	8,156	2.09	8%
Wai Kee	Market value: HK\$4.93/sh	976	0.25	1%
Insurance	P/EV: 1.34x	22,083	5.65	21%
Environment		7,305	1.87	7%
SUEZ NWS	P/E: 12.5x	3,625	0.93	3%
Derun Environment	Committed capital	2,072	0.53	2%
Power	P/E: 9.7x	1,608	0.41	2%
Logistics		19,277	4.93	18%
ATL Logistics Centre	Cap rate: 4.5%	17,039	4.36	16%
CUIRC	P/E: 12x	1,260	0.32	1%
Xiamen port	P/E: 10.2x	978	0.25	1%
Facilities Management		8,661	2.21	8%
HKCEC & Free Duty	DCF: WACC 6.2%	6,661	1.70	6%
Gleneagles HK	Committed capital	2,000	0.51	2%
Transport	P/E: 8x	-22	-0.01	0%
Strategic investments	Book value	9,360	2.39	9%
Less Head office expense	P/E: 5x	(3,750)	(0.96)	-4%
Gross Asset Value (GAV)		104,524	26.72	
Less Net debt de facto		(29,247)	(7.48)	
Net Asset Value (NAV)		75,276	19.25	
Current discount to FY20E NAV	40%	Current share price	HK\$11.56	
Target discount to FY20E NAV	20%	Target price	HK\$15.40	

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	35,115	26,834	34,833	38,678	39,742
Roads	2,624	2,529	2,545	2,641	2,728
Aviation	161	162	-	-	-
Facilities Management	5,571	4,152	4,152	4,318	4,447
Construction	26,760	16,211	19,190	20,116	20,709
Insurance	-	-	5,043	7,603	7,755
Cost of sales	(31,332)	(23,791)	(30,002)	(32,938)	(33,747)
Gross profit	3,783	3,043	4,830	5,740	5,996
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	3,400	4,039	4,280
Finance costs	(348)	(452)	(911)	(858)	(763)
Associated companies	756	759	769	1,024	1,264
JV	1,331	1,949	2,293	2,515	2,707
Profit before income tax	6,866	4,911	5,550	6,720	7,489
Income tax expenses	(745)	(652)	(613)	(703)	(749)
Profit for the year	6,121	4,259	4,937	6,016	6,740
Perpetual capital securities	-	(187)	(582)	(582)	(582)
Non-controlling interests	(52)	(29)	(33)	(40)	(45)
Net profit to shareholders	6,069	4,043	4,322	5,394	6,113

Cash flow summary

YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating profit	5,126	2,655	3,400	4,039	4,280
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	-	-	-
Trade & other receivables	(787)	360	(5,792)	(2,006)	(555)
Trade & other payables	859	(551)	3,494	1,338	369
Other items	983	(13)	(13)	(13)	(13)
Net cash from operations	5,159	3,043	2,032	4,339	5,101
Dividends from associates	542	485	769	1,024	1,264
Dividends from JV	1,845	1,888	2,293	2,515	2,707
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)	(19,731)	1,323	1,756
Change in borrowings	444	(159)	13,083	(2,000)	(2,000)
Dividends paid	(5,570)	(2,927)	(2,325)	(2,441)	(2,563)
Other financing activities	12	12,957	1,915	(425)	(425)
Net cash from financing	(5,115)	9,871	12,672	(4,867)	(4,989)
Net change in cash	821	8,473	(6,024)	(290)	737
Cash at the beginning of year	6,437	6,643	15,045	9,022	8,732
Currency translation diff.	39	(70)	-	-	-
Cash at the end of year	7,297	15,045	9,022	8,732	9,468

Balance sheet

YE 30 Jun (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	55,507	56,580	119,113	120,331	121,685
Property, plant & equip.	5,370	5,413	5,418	5,384	5,311
Intangible concession right	11,492	10,061	14,689	14,122	13,556
Associated companies	13,763	14,552	16,008	17,608	19,369
Joint ventures	15,008	13,645	13,509	13,374	13,240
Other non-current assets	9,874	12,908	69,489	69,843	70,209
Current assets	19,267	29,485	29,978	31,694	32,986
Cash and bank balances	6,657	15,059	9,022	8,732	9,468
Trade & other receivables	12,149	13,998	19,789	21,795	22,350
Other current assets	462	429	1,168	1,168	1,168
Assets held-for-sale adj.	151	-	-	-	-
Current liabilities	12,995	13,729	20,584	21,922	22,291
Borrowings	1,035	2,403	4,403	4,403	4,403
Trade & other payables	11,384	10,843	14,336	15,674	16,043
Other current liabilities	576	483	1,845	1,845	1,845
Non-current liabilities	11,807	15,089	66,833	65,378	64,003
Borrowings	9,140	12,666	23,749	21,749	19,749
Debt securities	-	2,262	2,262	2,262	2,262
Other non-current liabilities	2,490	161	40,822	41,367	41,992
Shareholders' funds	49,950	49,046	51,384	54,426	58,069
Perpetual capital securities	-	8,040	10,117	10,117	10,117
Non-controlling interests	174	161	173	182	192
Total equity	50,124	57,247	61,674	64,725	68,378

Key ratios

YE 30 Jun	FY18A	FY19A	FY20E	FY21E	FY22E
AOP mix (%)					
Roads	37.2	38.4	32.2	29.3	28.6
Aviation	13.3	10.6	12.2	11.0	11.1
Construction	20.2	25.6	23.4	21.4	21.2
Insurance	-	-	13.3	18.5	18.8
Environment	9.4	13.4	8.3	7.5	7.1
Logistics	12.5	13.8	10.8	9.2	8.6
Facilities Management	(1.4)	(8.4)	(5.6)	(1.7)	(0.2)
Transport	3.0	(0.2)	0.0	0.3	0.6
Strategic Investments	5.8	6.8	5.5	4.5	4.1
P&L ratios (%)					
Operating margin	14.6	9.9	9.8	10.4	10.8
Net margin	17.3	15.1	12.4	13.9	15.4
Balance sheet ratios					
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
Net debt / equity ratio (%)	7.0	0.0	31.0	26.9	21.5
Returns (%)					
ROE	12.3	8.2	8.6	10.2	10.9
ROA	7.9	4.9	3.7	3.6	4.0
Per share (HK\$)					
EPS	1.56	1.04	1.11	1.38	1.56
DPS	0.78	0.58	0.61	0.64	0.67
BVPS	12.8	12.6	13.1	13.9	14.8

Source: Company data, CMBIS estimates

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