

# NWS Holdings (659 HK)

## Results missed but worst is over

NWS reported weak FY19 results, with shareholders' profit -33% YoY, 10% lower than our forecast. Non-recurring items accounted for most of the weakness, and we expect core operating earnings to resume growth from FY20E onwards. A new progressive dividend policy and focus on core business bode well for valuation in the long run. We like NWS as a defensive yield play in the current interest rate down cycle.

- **Profits have bottomed.** FY19 AOP -10% YoY, mainly dragged by RMB depreciation, sell-down of BCIA (694 HK), non-cash MTM loss on interest rate swap contracts, and new management contracts in HKCEC. Net profit's drop was exacerbated by a one-off remeasurement gain of BCIA in FY18. We expect the Company's core business segments to post growth in AOP in FY20E. In addition, the pending acquisition of FTLife would lift AOP & net profit once completed.
- **New dividend policy gives higher visibility.** Up till 1HFY19, NWS had maintained a 50% payout on reported net profits, which were affected by one-off and non-operating items. From now on, the new dividend policy is to steadily increase or at least maintain the HKD value of ordinary DPS annually. We believe this would be well received by investors seeking stable income.
- **Focus on Core Business.** NWS has regrouped its business divisions into "Core Business", which consists of Roads, Aviation, Construction and FTLife Insurance (upon completion), and the rest into "Strategic Portfolio". Core Business contributed to 75% of AOP. This sends a clear signal to focus on business with sustainable long-term growth. Over time, we expect more acquisitions and investments in Core Business and disposals in Strategic Portfolio. We believe this would help narrow the stock's conglomerate discount in the long run.
- **Maintain BUY as a stable yield play.** We believe the worst is over, with earnings bottoming out, new growth driver in Insurance business, and a progressive dividend policy. We cut forecasts on earnings and NAV, and TP to HK\$15.50. Reiterate BUY.

### Earnings Summary

(YE 30 Jun)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	35,115	26,834	29,722	30,932	31,720
Attributable operating profit (HK\$ mn)	5,232	4,707	5,285	5,932	6,414
YoY growth (%)	8.1	(10.0)	12.3	12.2	8.1
Profit to shareholders (HK\$ mn)	6,069	4,043	3,790	4,298	4,814
EPS (HK\$)	1.56	1.04	0.97	1.10	1.23
YoY growth (%)	6.6	(33.4)	(6.3)	13.4	12.0
P/E (x)	7.5	11.3	12.1	10.6	9.5
P/B (x)	0.91	0.93	0.90	0.87	0.83
Yield (%)	6.7	4.9	5.2	5.5	5.7
ROE (%)	12.3	8.2	7.6	8.3	8.9
Net gearing (%)	7.0	0.0	net cash	net cash	net cash

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$15.50
(Previous TP	HK\$19.02)
Up/Downside	+32.3%
Current Price	HK\$11.72

### Conglomerate Sector

**Daniel So, CFA**  
 (852) 3900 0857  
 danielso@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	45,839
Avg 3 mths t/o (HK\$ mn)	34.18
52w High/Low (HK\$)	21.9 / 11.52
Total Issued Shares (mn)	3,911.1
Source: Bloomberg	

### Shareholding Structure

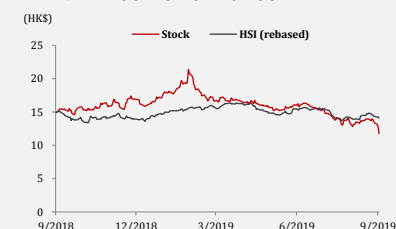
New World Development	60.86%
Chow Tai Fook (Holding)	2.49%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-4.8%	-5.1%
3-mth	-20.4%	-13.7%
6-mth	-23.3%	-15.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers**

### Related Reports:

1. NWS Holdings (659 HK) – Initiation: Adding growth to defensive business – 19 Jul 2019
2. NWS Holdings (659 HK) – Decent returns with diversified investments – 29 May 2019

## FY19 Results Review

Figure 1: FY19 results review

HK\$ mn	YE 30 Jun			CMBI		Remarks
	FY18A	FY19A	YoY	FY19E	Diff.	
Revenue	35,115	26,834	-24%	27,600	-3%	Disposal of Hip Seng Group caused the drop
Attributable Operating Profit (AOP)	5,232	4,707	-10%	4,929	-4%	Non-recurring factors such as RMB depreciation, disposal of BCIA (694 HK), MTM loss of int. rate swap
Profit attributable to shareholders	6,069	4,043	-33%	4,510	-10%	FY18 base was driven up by a one-off remeasurement gain of BCIA; Finance costs & income tax expense higher than our estimates
EPS (HKD)	1.56	1.04	-33%	1.16	-10%	
Full-year DPS (HKD)	0.58	0.58	0%	0.58	0%	Lower than street estimates, but new progressive dividend policy is good news

Source: Company data, CMBIS estimates

Figure 2: Attributable Operating Profit (AOP) by segment

HK\$ mn		YE 30 Jun			CMBI		Remarks
		FY18A	FY19A	YoY	FY19E	Diff.	
Core Business	Roads	1,947	1,806	-7%	1,909	-5%	If exclude RMB effect, would have +4% Disposal of BCIA; MTM loss on int. rate swap; Acquisition expenses of Sky Aviation
	Aviation	695	500	-28%	570	-12%	
	Construction	1,055	1,204	14%	1,130	7%	Satisfactory job progress
	<b>Sub-total</b>	<b>3,698</b>	<b>3,510</b>	<b>-5%</b>	<b>3,609</b>	<b>-3%</b>	Core business showed more resilience
Strategic Portfolio	Environment	494	629	27%	714	-12%	Boosted by one-off fair value gain, but coal power plants recovery less than our estimate
	Logistics	655	651	-1%	666	-2%	
	Facilities Management	(73)	(393)	438%	(273)	44%	HKCEC's new contract led to higher royalty & provision; Free Duty facing more pressure Bus business still struggling despite fare hike in Jan 2019; Ferry business steady
	Transport	158	(10)	-106%	87	-112%	
	Strategic Investments	301	322	7%	126	155%	
	<b>Sub-total</b>	<b>1,534</b>	<b>1,198</b>	<b>-22%</b>	<b>1,320</b>	<b>-9%</b>	
<b>Total AOP</b>		<b>5,232</b>	<b>4,707</b>	<b>-10%</b>	<b>4,928</b>	<b>-4%</b>	

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

HK\$ mn	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	29,722	30,932	31,720	30,075	31,209		-1%	-1%	
Attributable Operating Profit (AOP)	5,285	5,932	6,414	5,679	6,199		-7%	-4%	
Profit for the year	4,403	4,914	5,434	5,199	5,719		-15%	-14%	
Profit attributable to shareholders	3,790	4,298	4,814	4,572	5,088	N/A	-17%	-16%	N/A
EPS (HKD)	0.97	1.10	1.23	1.17	1.30		-17%	-15%	
Full-year DPS (HKD)	0.61	0.64	0.67	0.59	0.65		3%	-2%	

Source: Company data, CMBIS estimates

## Profits dropped due to non-recurring items...

FY19 annual results (year-end 30 Jun) missed our and street's estimates. Attributable Operating Profits (AOP) -10% YoY to HK\$4,707mn (4% lower than CMBI est.). Net profit to shareholders -33% YoY to HK\$4,043mn (10% / 17% lower than CMBI / street est.). Final DPS -37% YoY to HK\$0.29 (in line with CMBI est. / 19% lower than street est.).

FY19 results were negatively affected by a number of non-recurring factors, such as RMB depreciation, disposal of BCIA (694 HK), new management contracts in HKCEC, and an exceptionally high base in FY18 due to remeasurement gain in BCIA. While we had factored in these in our model, mark-to-market loss on interest rate swap contracts in Aviation segment, weakness in bus business and higher-than-expected finance costs & income tax expenses were the major reasons that earnings missed our estimates.

## Expected to rebound in FY20E

We revise down our FY20E / FY21E forecasts on AOP by 7% / 4%, EPS by 17% / 15%. In spite of this, AOP / profit for the year are expected to rebound by 3% / 12% YoY in FY20E. The sharper downward revision on EPS is mainly due to upward revision of finance costs & income tax expenses. FY20E EPS -6% YoY is due to perpetual capital securities dividends payment. We also introduce FY22E forecasts, which put **FY19-FY22E AOP / EPS CAGR at 10.9% / 6.0%**.

Note that we have NOT factored in the acquisition of FTLife as it is pending regulatory approval. Management expects it to be completed in 4Q19. For reference, FTLife's net profit HK\$1,228mn in 2018 is equivalent to 32% / 29% of NWS's FY20E / FY21E shareholders' profit. Assuming the acquisition is completed on 31 Dec 2019 and FTLife's profit stays same, and ignoring the incurred finance costs, consolidating FTLife would lift NWS's profit by roughly 16% / 29% in FY20E / FY21E. Acquisition price is HK\$21.4bn, with HK\$18.4bn not yet paid.

## Valuation

### Cut NAV & Target Price, still a BUY

We revised FY20E NAV/share from HK\$23.76 to HK\$19.39, due to lower earnings forecasts, lower peer valuations in certain business segments and higher net debt. The stock is trading at 40% discount to NAV. We maintain a 20% target discount to arrive at a **target price HK\$15.50. Including an estimated DPS HK\$0.59, potential return is 37.3%.**

Figure 4: NAV by sum-of-the-parts

	Valuation method	FY20E GAV (HK\$mn)	FY20E GAV per share (HK\$)	% of GAV	Remarks
<b>Roads</b>		<b>26,198</b>	<b>6.70</b>	<b>30</b>	
Subsidiaries	DCF: WACC 7.1%	15,909	4.07	19	
Associates & JVs	P/E: 10.2x	10,289	2.63	12	Slightly higher P/E than peers' average 9.7x because of lower debt ratio & higher growth potential by acquisition
<b>Aviation (Goshawk)</b>	P/E: 8x	<b>5,911</b>	<b>1.51</b>	<b>7</b>	<b>Peers' average forward P/E</b>
<b>Construction</b>		<b>9,037</b>	<b>2.31</b>	<b>11</b>	
Construction	P/E: 8.5x	8,156	2.09	9	Slightly higher P/E than peers on higher earning visibility
Wai Kee	Market value: HK\$4.45/sh	881	0.23	1	
<b>Environment</b>		<b>7,363</b>	<b>1.88</b>	<b>9</b>	
SUEZ NWS	P/E: 12.7x	3,683	0.94	4	Peers' average forward P/E
Derun Environment	Committed capital	2,072	0.53	2	
Power	P/E: 9.7x	1,608	0.41	2	Peers' average forward P/E
<b>Logistics</b>		<b>19,277</b>	<b>4.93</b>	<b>22</b>	
ATL Logistics Centre	Cap rate: 4.5%	17,039	4.36	20	Slightly higher cap rate than those of HK REITs' industrial and commercial properties (~3.0%-4.4%)
CUIRC	P/E: 12x	1,260	0.32	1	Based on our estimated AOP
Xiamen port	P/E: 10.2x	978	0.25	1	Average P/E of the two sold Tianjin ports
<b>Facilities Management</b>		<b>8,661</b>	<b>2.21</b>	<b>10</b>	
HKCEC & Free Duty	DCF: WACC 6.2%	6,661	1.70	8	
Gleneagles HK	Committed capital	2,000	0.51	2	
<b>Transport</b>	P/E: 8x	<b>132</b>	<b>0.03</b>	<b>0</b>	
<b>Strategic investments</b>	Book value	<b>9,360</b>	<b>2.39</b>	<b>11</b>	
Less Head office expense	P/E: 5x	(2,575)	(0.66)	-3	
Gross Asset Value (GAV)		85,939	21.97		
Less Net debt de facto		(10,089)	(2.58)		
<b>Net Asset Value (NAV)</b>		<b>75,851</b>	<b>19.39</b>		
Current discount to FY20E NAV	40%	Current share price	HK\$11.72		
<b>Target discount to FY20E NAV</b>	<b>20%</b>	<b>Target price</b>	<b>HK\$15.50</b>	<b>Estimated DPS</b>	<b>HK\$0.59</b>
				<b>Potential total return</b>	<b>37.3%</b>

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.