

NWS Holdings (659 HK)

Recovery on track post COVID-19

NWS's interim results for the six months ended 31 Dec 2020 (AOP +46% / EPS -60% YoY) were in line with the profit warning announced on 29 Jan. Core businesses' AOP +13%, thanks to recovery in Roads and full-period contribution by Insurance. We revised AOP estimates by +9%/-16% in FY21E/FY22E, and fine-tuned target price to HK\$13.70. Maintain BUY. NWS remains a good yield play with dividend yield at 6.6% and a progressive DPS.

- AOP +46% YoY, +172% HoH.** With the exception of Construction which had a slower profit recognition in the period, all business segments were either stable or recovering strongly. Insurance made a full-period contribution vs. 2-month in 1H FY20. Roads enjoyed rapid traffic recovery. Strategic Investments, boosted by revaluation gains due to improved market condition, contributed to three quarters of the increase in Group AOP. Sequentially, AOP rebounded by 172% HoH from a pandemic-hit low base.
- Net Profit -60% YoY due to non-operating, non-cash items** of HK\$1,874mn, including 1) remeasurement loss of HK\$1,330mn on reclassifying an investment to asset held-for-sale (we believe is Wai Kee in Construction segment); 2) provisions of HK\$416mn by Goshawk Aviation, and 3) remeasurement loss of HK\$128mn in disposing SUEZ NWS and Derun.
- Optimise business portfolio and recycle capital.** NWS has exited Environment and Transport segments through disposals, streamlining its number of business segments from 9 to 7 and lowering net gearing from 31% to 26%. The Group continues to seek to unlock values in non-core assets.
- Future growth plan focuses on Roads, Insurance, modern Logistics.** NWS had HK\$11bn cash on hand and HK\$18bn unutilised committed banking facilities. It targets to redeploy capital on acquiring Roads and modern Logistics assets (warehouse/cold chain/technology & VAS in China GBA and Southeast Asia), and growing FTLife with focus in GBA (will apply for PRC insurance license in near future).

Earnings Summary

(YE 30 Jun)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK\$ mn)	26,834	25,921	29,783	35,466	36,065
Attributable operating profit (HK\$ mn)	4,707	3,514	6,210	5,667	5,892
YoY growth (%)	(10.0)	(25.3)	76.7	(8.7)	4.0
Profit to shareholders (HK\$ mn)	4,043	253	4,502	5,154	5,160
EPS (HK\$)	1.04	0.06	1.15	1.32	1.32
YoY growth (%)	(33.5)	(93.8)	1,678	14.5	0.1
Consensus EPS (HK\$)	N/A	N/A	0.85	1.03	1.21
P/E (x)	8.5	135.5	7.6	6.7	6.6
P/B (x)	0.70	0.74	0.70	0.67	0.64
Yield (%)	6.6	6.6	6.7	7.0	7.2
ROE (%)	8.2	0.5	9.5	10.3	9.8
Net gearing (%)	0.0	30.9	9.3	4.0	0.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$13.70**
(Previous TP **HK\$13.12**)
Up/Downside **+56.2%**
Current Price **HK\$8.77**

Conglomerate Sector

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Stock Data

Mkt Cap (HK\$ mn)	34,301
Avg 3 mths t/o (HK\$ mn)	33.29
52w High/Low (HK\$)	9.93 / 5.77
Total Issued Shares (mn)	3,911.1

Source: Bloomberg

Shareholding Structure

New World Development	60.86%
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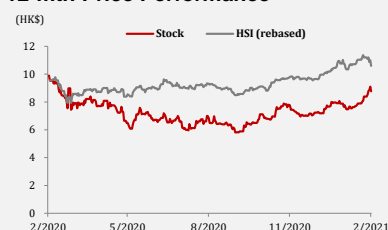
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.6%	16.3%
3-mth	13.0%	4.6%
6-mth	28.4%	12.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

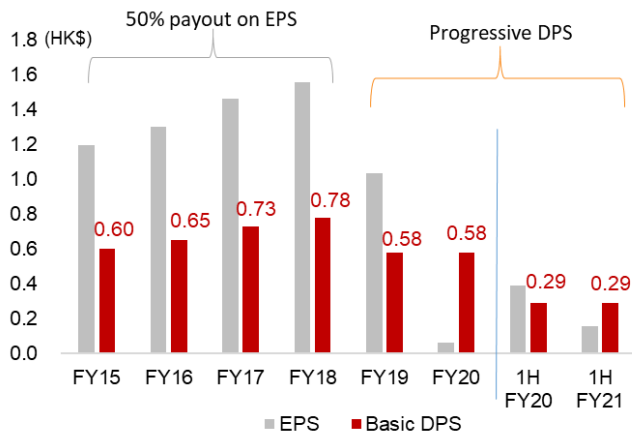
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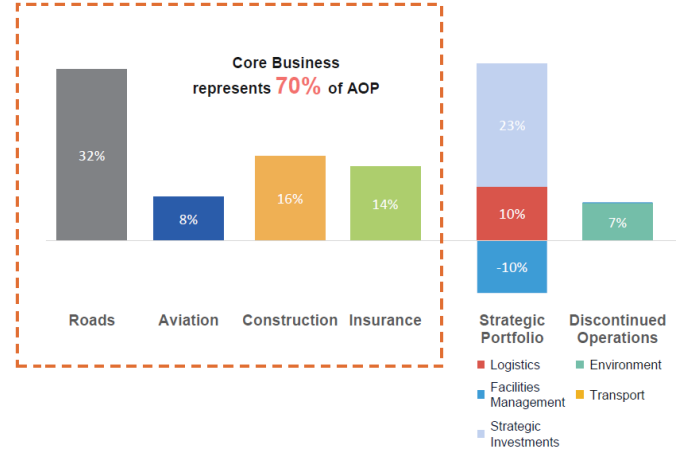
- **Maintain BUY, TP revised up to HK\$13.70.** We revised FY21E/FY22E AOP by +9%/-16% and EPS by +14%/+8%, mainly reflecting stronger recovery in Roads, bigger contribution from Strategic Investments and slower profit recognition in Construction. We fine-tuned target price to HK\$13.70, still based on 35% discount on FY21E NAV. After its share price has rebounded 52% from the trough in Sep 2020, valuations remain attractive, with trailing P/B at 0.69x, a pre-pandemic low. We believe NWS is a good yield play with a progressive DPS policy and dividend yield at 6.6% (close to pre-pandemic high).
- **Potential catalysts:** 1) HK-Mainland China border reopening post-COVID to boost FTLife and Facilities Management; 2) resumption of global travel after vaccine rollout would benefit Aviation; 3) further disposals of non-core assets; 4) acquisitions at attractive valuation; 5) China's protective policies (still in discussion) to compensate for Roads' toll-exemption in Feb-May 2020.

Figure 1: Progressive DPS despite fluctuating EPS



Source: Company data, CMBIS

Figure 2: Attributable Operating Profit by segment



Source: Company data, CMBIS

Figure 3: Price-to-Book at pre-pandemic low



Source: Company data, Bloomberg, CMBIS

Figure 4: Dividend Yield close to pre-pandemic peak



Source: Company data, Bloomberg, CMBIS

1H21 Results Review

Figure 5: 1H21 results review

Six months ended 31 Dec HK\$ mn	1H20	1H21	YoY %	CMBIS 1H21E	Diff. % Beat / (Miss)	Remarks
Revenue	13,216	14,233	8	15,521	(8)	
Attributable Operating Profit (AOP)	2,290	3,336	46	3,260	2	Driven by full-period contribution from Insurance, recovery in Roads, and strong revaluation gains in Strategic Investments
Profit attributable to shareholders	1,514	612	(60)	636	(4)	Dragged by HK\$1.9bn of non-operating impairments / provisions / remeasurement losses.
EPS (HKD)	0.39	0.16	(60)	0.16	(4)	
DPS (HKD)	0.29	0.29	-	0.29	-	Maintained progressive dividend policy

Source: Company data, CMBIS estimates

Figure 6: Attributable Operating Profit (AOP) by segment

Six months ended 31 Dec HK\$ mn	1H20	1H21	YoY % Fav / (Unfav)	CMBI 1H21E	Diff. % Beat / (Miss)	Remarks	
Core Business	Roads	950	1,061	12	946	12	Rapid traffic recovery (portfolio traffic volume +9%) after resumption of toll fee collection in May 2020. AOP would have +8% if exclude RMB appreciation
	Aviation	268	272	1	233	17	Stable AOP despite upheaval in the industry. Average collection rate from airline customers improved sequentially from 68% in 2Q 2020 to 82% in 4Q 2020
	Construction	670	527	(21)	551	(4)	Less profit recognition in the period. Some delay in tenders due to COVID
	Insurance	160	462	188	582	(21)	Full-period contribution from FTLife, vs. 2-month contribution in 1H FY20
	Sub-total	2,048	2,322	13	2,313	0	
Strategic Portfolio	Environment	233	244	5	296	(18)	Discontinued after announcing the disposals of SUEZ NWS and Derun in Jan 2021
	Logistics	339	336	(1)	359	(6)	Slight increase in occupancy rate and average rent in ATL Logistics Centre HK
	Facilities Mgmt.	(364)	(323)	11	(281)	(15)	Loss from Gleneagles Hospital narrowed
	Transport	(29)	5	117	(1)	590	Discontinued after selling bus business in Oct 2020
	Strategic Inv.	63	752	1,092	574	31	Upward revaluation as market recovered
Sub-total	242	1,014	319	947	7		
Total AOP	2,432	3,336	46	3,260	2		

Source: Company data, CMBIS estimates

Figure 7: Earnings revision

HK\$ mn	New		Old		Change (%)		vs. Consensus (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	29,783	35,466	35,252	37,953	(16)	(7)	(5)	4
Attributable Operating Profit (AOP)	6,210	5,667	5,685	6,742	9	(16)	N/A	N/A
-Core Business AOP	4,723	4,979	4,944	5,520	(4)	(10)	N/A	N/A
-Strategic Portfolio AOP	1,487	688	440	713	238	(4)	N/A	N/A
Profit for the year	5,118	5,774	4,545	5,391	13	7	N/A	N/A
Profit attributable to shareholders	4,502	5,154	3,933	4,773	14	8	36	30
EPS (HKD)	1.15	1.32	1.01	1.22	14	8	36	30

Source: Company data, Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 30 Jun (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	26,834	25,921	29,783	35,466	36,065
Roads	2,529	2,071	3,343	3,475	3,612
Aviation	162	-	-	-	-
Construction	16,211	12,454	16,236	17,883	16,714
Insurance	-	6,180	9,626	11,070	12,398
Facilities Management	4,152	1,907	579	3,038	3,342
Transport (Discontinued)	3,780	3,308	-	-	-
Cost of sales	(23,626)	(23,400)	(26,209)	(31,210)	(31,738)
Gross profit	3,208	2,521	3,574	4,256	4,328
Other income/gains	1,030	780	2,908	3,638	3,638
General and administrative	(1,583)	(2,341)	(2,411)	(2,531)	(2,607)
Operating profit	2,655	960	4,072	5,363	5,359
Finance costs	(452)	(996)	(1,079)	(1,079)	(1,079)
Associated companies	759	80	721	479	377
JV	1,949	1,241	2,153	2,082	2,194
Profit before income tax	4,911	1,285	5,866	6,845	6,850
Income tax expenses	(652)	(458)	(748)	(1,071)	(1,070)
Profit for the year	4,259	828	5,118	5,774	5,781
Perpetual capital securities	(187)	(582)	(582)	(582)	(582)
Non-controlling interests	(29)	8	(34)	(39)	(39)
Net profit to shareholders	4,043	253	4,502	5,154	5,160

Cash flow summary

YE 30 Jun (HK\$ mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Net cash from operations	3,043	1,431	5,416	6,162	6,184
Finance costs paid	(331)	(554)	(554)	(554)	(554)
Interest received	285	172	172	172	172
Hong Kong profits tax paid	(230)	(153)	(249)	(357)	(357)
PRC & overseas tax paid	(650)	(305)	(499)	(714)	(713)
Net cash from operating act	2,117	591	4,285	4,708	4,732
Dividends from associates	485	80	721	479	377
Dividends from JV	1,888	1,241	2,153	2,082	2,194
Capital expenditures	(648)	(577)	(577)	(577)	(577)
Other investing activities	(5,240)	(19,644)	8,296	(862)	(1,639)
Net cash from investing	(3,516)	(18,899)	10,593	1,123	355
Change in borrowings	(159)	15,886	(4,265)	(2,000)	(2,000)
Dividends paid	(2,927)	(2,268)	(2,268)	(2,347)	(2,425)
Other financing activities	12,957	1,928	(412)	(412)	(412)
Net cash from financing	9,871	15,546	(6,945)	(4,758)	(4,836)
Net change in cash	8,473	(2,762)	7,933	1,073	250
Cash at the beginning of year	6,643	15,045	13,222	21,155	22,228
Currency translation diff.	(70)	-	-	-	-
Cash at the end of year	15,045	13,222	21,155	22,228	22,479

Balance sheet

YE 30 Jun (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	56,580	110,226	105,660	109,198	108,533
Property, plant & equip.	5,413	4,882	1,215	5,311	5,200
Intangible concession right	10,061	14,084	14,122	13,556	12,989
Associated companies	14,552	13,354	7,540	7,659	7,782
Joint ventures	13,645	12,288	11,130	11,019	10,908
Other non-current assets	12,908	65,620	71,653	71,653	71,653
Current assets	29,486	39,714	49,803	52,530	54,533
Cash and bank balances	15,059	13,222	21,155	22,228	22,479
Trade & other receivables	13,993	16,208	16,579	17,573	18,628
Other current assets	434	10,284	12,069	12,728	13,426
Assets held for sale	-	112	7,208	6,512	6,512
Current liabilities	13,729	46,889	52,687	55,540	58,563
Borrowings	2,403	4,064	4,064	4,064	4,064
Trade & other payables	10,819	12,475	13,116	13,903	14,737
Other current liabilities	507	30,350	35,507	37,573	39,762
Non-current liabilities	15,089	45,706	50,647	50,905	46,833
Borrowings	12,666	26,892	22,627	20,627	18,627
Deferred tax liabilities	2,262	2,286	1,968	1,968	1,968
Other non-current liabilities	161	16,528	26,053	28,311	26,239
Shareholders' funds	49,046	46,367	48,804	51,262	53,648
Perpetual capital securities	8,040	10,529	10,529	10,529	10,529
Non-controlling interests	161	562	5	5	5
Total equity	57,247	57,458	59,338	61,796	64,182

Key ratios

YE 30 Jun	FY19A	FY20A	FY21E	FY22E	FY23E
AOP mix (%)					
Roads	38.4	25.8	34.4	39.6	40.1
Aviation	10.6	12.0	8.8	10.5	10.7
Construction	25.6	30.3	17.2	18.0	14.2
Insurance	0.0	21.4	15.6	19.7	21.2
Environment (Discontinued)	13.4	10.1	5.5	-	-
Logistics	13.8	17.9	11.4	12.8	12.6
Facilities Management	(8.4)	(22.0)	(10.0)	(3.8)	(1.8)
Transport (Discontinued)	(0.2)	(3.4)	0.1	-	-
Strategic Investments	6.8	7.9	16.9	3.2	3.1
P&L ratios (%)					
Operating margin	9.9	3.7	13.7	15.1	14.9
Net margin	15.1	1.0	15.1	14.5	14.3
Balance sheet ratios					
Current ratio (x)	2.15	0.85	0.95	0.95	0.93
Quick ratio (x)	2.12	0.84	0.94	0.94	0.93
Net debt / equity ratio (%)	0.0	30.9	9.3	4.0	0.3
Returns (%)					
ROE	8.2	0.5	9.5	10.3	9.8
ROA	4.9	0.2	2.9	3.1	3.1
Per share (HK\$)					
EPS	1.04	0.06	1.15	1.32	1.32
DPS	0.58	0.58	0.59	0.61	0.63
BVPS	12.57	11.86	12.5	13.1	13.7

Source: Company data, CMBIS estimates

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