

NWS Holdings (659 HK)

Too cheap to ignore

NWS announced annual results for the year ended 30 Jun 2020. While EPS slumped by 94% and missed due to impairments, Attributable Operating Profit (AOP) dropped by only 25% and beat our forecasts by 8% thanks to Roads' recovery. We have no doubt that the worst is over and both EPS and AOP have hit rock bottom. Maintain BUY, fine-tuned NAV forecasts and TP to HK\$12.78.

- Earnings missed due to impairments.** NWS's FY20 profit attributable to shareholders slumped by 94% to HK\$253mn, lower than our street-low estimate HK\$907mn, primarily due to HK\$1,709mn of impairment losses and provisions on various business segments. AOP was HK\$3,514mn, 8% higher than our estimate, as Roads' recovery exceeds expectations.
- Roads' recovery well on track.** After the PRC toll-exemption policy between 17 Feb and 5 May 2020, NWS's Roads business has been recovering strongly, with its overall traffic volume +3% YoY in Jun (incl. one newly acquired road), and toll fee income almost reached the same level as Dec 2019. Negotiations with the PRC government on "protective measures" to compensate for toll-exemption policy are still underway. We believe the more likely measures would be extension of concession period, which would not help short-term profits but lift segment NAV.
- Insurance contributed to 21% of AOP in just eight months.** NWS completed the acquisition of FTLife on 1 Nov 2019, and in just eight months FTLife contributed HK\$750mn to the AOP. Despite the fact that business from Mainland Chinese visitors was severely hit by the pandemic-induced border closure, FTLife's Annual Premium Equivalent in 1H 2020 decreased by 12% YoY only, outperforming the HK industry's 44% slump. We believe FTLife will maintain superior growth thanks to its strategy to capture the GBA market and synergies with other business segments (e.g. Gleneagles Hospital).
- Earnings hit rock bottom.** The COVID-19 is still seriously affecting Facilities Management and Aviation segments, but with a strong recovery in Roads, full-year contribution from FTLife, and relatively stable Construction and Logistics businesses, we expect NWS's AOP and EPS to rebound strongly in FY21. We forecast that AOP will grow by 28% CAGR from FY20-23.

Earnings Summary

(YE 30 Jun)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK\$ mn)	26,834	25,921	35,252	37,953	40,774
Attributable operating profit (HK\$ mn)	4,707	3,514	5,685	6,742	7,358
YoY growth (%)	(10.0)	(25.3)	61.8	18.6	9.1
Profit to shareholders (HK\$ mn)	4,043	253	3,933	4,773	5,402
EPS (HK\$)	1.04	0.06	1.01	1.22	1.38
YoY growth (%)	(33.5)	(93.8)	1,453	21.3	13.2
Consensus adjusted EPS (HK\$)	N/A	0.58	1.11	1.28	N/A
P/E (x)	5.7	91.0	5.9	4.8	4.3
P/B (x)	0.47	0.50	0.48	0.46	0.44
Yield (%)	9.8	9.8	10.2	10.5	11.5
ROE (%)	8.2	0.5	8.4	9.8	10.6
Net gearing (%)	0.0	30.9	29.7	25.7	21.0

Source: Company, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$12.78**
 (Previous TP **HK\$12.90**)
 Up/Downside **+117%**
 Current Price **HK\$5.89**

Conglomerate Sector

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Stock Data

Mkt Cap (HK\$ mn)	23,037
Avg 3 mths t/o (HK\$ mn)	60.15
52w High/Low (HK\$)	12.56 / 5.77
Total Issued Shares (mn)	3,911.1

Source: Bloomberg

Shareholding Structure

New World Development	60.86%
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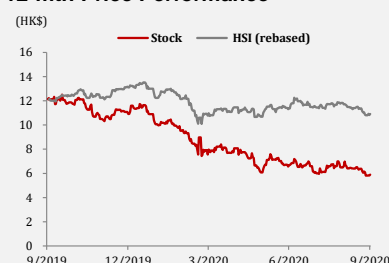
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.2%	-1.7%
3-mth	-12.0%	-8.3%
6-mth	-22.0%	-22.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports:

- NWS Holdings (659 HK) – Selling loss-making bus business is a relief – 24 Aug 2020
- 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
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- **Delivering progressive dividend, current yield ~10%.** NWS adopted a “progressive DPS” policy since a year ago. Despite a slump in EPS, NWS maintained FY20 full-year DPS at HK\$0.58. With earnings recovery in sight, net gearing kept at healthy levels (31% vs. 30% in Dec 2019), and ample cash on hand (HK\$3.4/share), we believe NWS can comfortably raise its DPS from FY21 onwards. Current yield at record-high 9.8% (vs.10-year average 5.2%).
- **Maintain BUY, TP fine-tuned to HK\$12.78.** We adjusted FY21E / 22E EPS forecasts by -17% / -15%, mainly reflecting prolonged impact by COVID-19 and slower project recognition in Construction. AOP is slightly revised down by 6% / 2%. We fine-tuned our TP from HK\$12.90 to HK\$12.78, still based on 35% discount to FY21E NAV. The stock is trading at distressed levels, 0.50x trailing P/B which is 3 s.d. below 10-year average, and 70% discount to our NAV forecast.
- **Potential catalysts:** Further disposal of non-core assets; spinoffs (e.g. aviation); acquisitions (e.g. toll roads) at attractive valuation; China’s protective policies (still in discussion) to compensate for Roads’ toll-exemption in Feb-May 2020; HK-China border reopening and travel restriction lifting which would drive recovery in Free Duty and growth in FTLife.

FY20 Results Review

Figure 1: FY20 results review

Year ended 30 Jun HK\$ mn	FY19	FY20	YoY %	CMBI FY20E	Diff. % Beat / (Miss)	Remarks
Revenue	26,834	25,921	(3)	33,025	(22)	Miss in Constructions due to slower project recognitions
Attributable Operating Profit (AOP)	4,707	3,514	(25)	3,246	8	
Profit attributable to shareholders	4,043	253	(94)	907	(72)	Impairment losses on Aviation, Free Duty, Bus, etc. led to HK\$1,631mn non-operating losses
EPS (HKD)	1.04	0.06	(94)	0.23	(74)	
Full-year DPS (HKD)	0.58	0.58	-	0.58	-	

Source: Company data, CMBIS estimates

Figure 2: Attributable Operating Profit (AOP) by segment

Year ended 30 Jun HK\$ mn	FY19	FY20	YoY % Fav / (Unfav)	CMBI FY20E	Diff. % Beat / (Miss)	Remarks	
Core Business	Roads	1,806	907	(50)	550	65	Strong traffic recovery since toll fee resumption (Jun traffic +3% YoY, income almost reached level as Dec 2019)
	Aviation	500	422	(16)	553	(24)	Would have +8% if excl. dividend income from BCIA in FY19 and the reduced aircraft trading gains in FY20
	Construction	1,204	1,066	(11)	1,394	(24)	Less recognitions of projects vs. FY19
	Insurance	N/A	750	N/A	757	(1)	Contributed to 25% of total AOP in only 8 months since acquisition
	Sub-total	3,510	3,146	(10)	3,254	(3)	
Strategic Portfolio	Environment	629	355	(44)	425	(16)	Less industrial & commercial activities in Greater China due to COVID-19
	Logistics	651	628	(4)	641	(2)	Steady contribution by ATL Logistics Cent.
	Facilities Mgmt.	(393)	(772)	(96)	(820)	6	HKCEC: No. of events held -57% YoY
	Transport	(10)	(119)	(1,076)	(349)	66	Bus fare hike partly offset patronage drop
	Strategic Inv.	322	277	(14)	95	192	
Sub-total	1,198	369	(69)	(9)	4,380		
Total AOP	4,707	3,514	(25)	3,246	8		

Source: Company data, CMBIS estimates

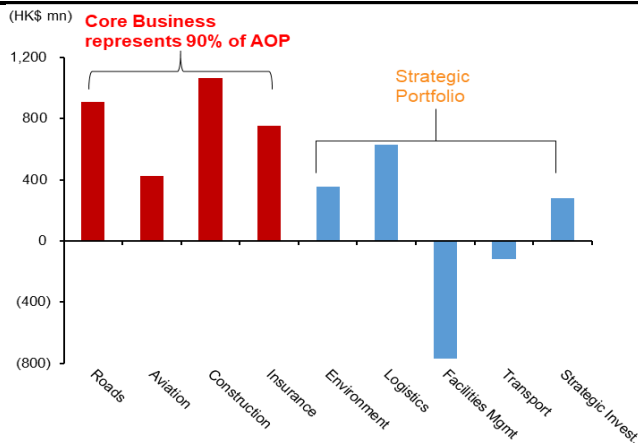
Figure 3: Earnings revision

HK\$ mn	New		Old		Change (%)		vs. Consensus (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	35,252	37,953	34,799	35,461	1	7	7	10
Attributable Operating Profit (AOP)	5,685	6,742	6,038	6,893	(6)	(2)	N/A	N/A
-Core Business AOP	4,979	5,554	5,202	5,690	(4)	(2)	N/A	N/A
-Strategic Portfolio AOP	706	1,188	836	1,202	(16)	(1)	N/A	N/A
Profit for the year	4,545	5,391	5,352	6,264	(15)	(14)	N/A	N/A
Profit attributable to shareholders	3,933	4,773	4,734	5,640	(17)	(15)	(8)	(5)
EPS (HKD)	1.01	1.22	1.21	1.44	(17)	(15)	(9)	(4)
Full-year DPS (HKD)	0.60	0.62	0.60	0.64	-	(3)	(2)	(4)

Source: Company data, Bloomberg, CMBIS estimates

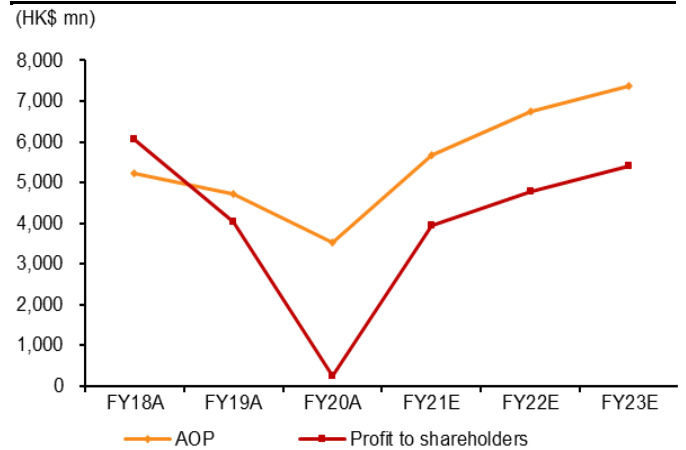
Focus Charts

Figure 4: FY20 segment Attributable Operating Profit



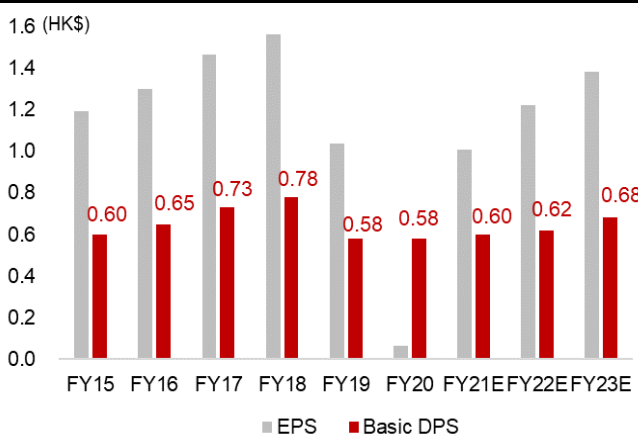
Source: Company data, CMBIS

Figure 5: AOP & Net Profit have hit rock bottom



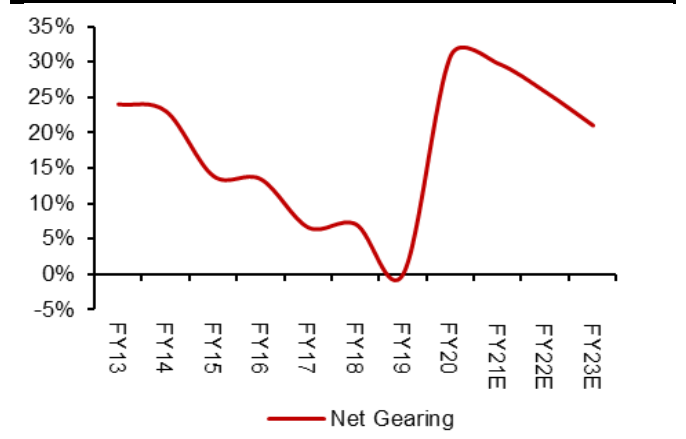
Source: Company data, CMBIS estimates

Figure 6: Progressive DPS despite fluctuating EPS



Source: Company data, CMBIS estimates

Figure 7: Net gearing to remain healthy



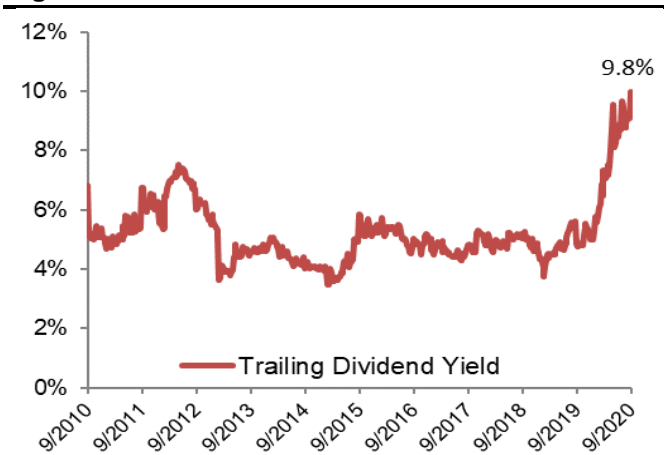
Source: Company data, CMBIS

Figure 8: Price to Book at 3 s.d. below average



Source: Company data, Bloomberg, CMBIS

Figure 9: Dividend Yield close to 10%



Source: Company data, Bloomberg, CMBIS

Financial Summary

Income statement

YE 30 Jun (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	26,834	25,921	35,252	37,953	40,774
Roads	2,529	2,071	2,563	2,645	2,693
Aviation	162	-	-	-	-
Construction	16,211	12,454	18,883	19,477	20,412
Insurance	-	6,180	11,124	12,793	14,328
Facilities Management	4,152	1,907	1,717	3,038	3,342
Transport	3,780	3,308	965	-	-
Cost of sales	(23,626)	(23,400)	(30,596)	(32,757)	(35,022)
Gross profit	3,208	2,521	4,656	5,196	5,753
Other income/gains	1,030	780	1,300	1,300	1,300
General and administrative	(1,583)	(2,341)	(2,411)	(2,483)	(2,558)
Operating profit	2,655	960	3,546	4,013	4,495
Finance costs	(452)	(996)	(1,079)	(1,079)	(1,079)
Associated companies	759	80	773	978	1,059
JV	1,949	1,241	1,922	2,213	2,404
Profit before income tax	4,911	1,285	5,162	6,124	6,878
Income tax expenses	(652)	(458)	(617)	(733)	(854)
Profit for the year	4,259	828	4,545	5,391	6,024
Perpetual capital securities	(187)	(582)	(582)	(582)	(582)
Non-controlling interests	(29)	8	(31)	(36)	(40)
Net profit to shareholders	4,043	253	3,933	4,773	5,402

Cash flow summary

YE 30 Jun (HK\$ mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Net cash from operations	3,043	1,431	4,290	4,782	5,289
Finance costs paid	(331)	(554)	(554)	(554)	(554)
Interest received	285	172	172	172	172
Hong Kong profits tax paid	(230)	(153)	(206)	(244)	(285)
PRC & overseas tax paid	(650)	(305)	(411)	(489)	(569)
Net cash from operating act	2,117	591	3,291	3,666	4,052
Dividends from associates	485	80	773	978	1,059
Dividends from JV	1,888	1,241	1,922	2,213	2,404
Capital expenditures	(648)	(577)	(577)	(577)	(577)
Other investing activities	(5,240)	(19,644)	851	(1,639)	(1,639)
Net cash from investing	(3,516)	(18,899)	2,970	975	1,247
Change in borrowings	(159)	15,886	(2,000)	(2,000)	(2,000)
Dividends paid	(2,927)	(2,268)	(2,308)	(2,386)	(2,542)
Other financing activities	12,957	1,928	(412)	(412)	(412)
Net cash from financing	9,871	15,546	(4,719)	(4,797)	(4,954)
Net change in cash	8,473	(2,762)	1,542	(156)	346
Cash at the beginning of year	6,643	15,045	13,222	14,764	14,607
Currency translation diff.	(70)	-	-	-	-
Cash at the end of year	15,045	13,222	14,764	14,607	14,953

Balance sheet

YE 30 Jun (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	56,580	110,226	112,936	113,340	113,854
Property, plant & equip.	5,413	4,882	5,384	5,311	5,200
Intangible concession right	10,061	14,084	14,122	13,556	12,989
Associated companies	14,552	13,354	14,689	16,158	17,774
Joint ventures	13,645	12,288	12,165	12,043	11,923
Other non-current assets	12,908	65,620	66,577	66,273	65,969
Current assets	29,486	39,714	39,492	40,942	42,991
Cash and bank balances	15,059	13,222	11,485	11,329	11,674
Trade & other receivables	13,993	16,208	17,180	18,211	19,303
Other current assets	434	10,284	10,827	11,403	12,013
Assets held for sale	-	112	112	112	112
Current liabilities	13,729	46,889	49,407	52,077	54,906
Borrowings	2,403	4,064	4,064	4,064	4,064
Trade & other payables	10,819	12,475	13,224	14,017	14,858
Other current liabilities	507	30,350	32,120	33,996	35,984
Non-current liabilities	15,089	45,706	44,407	41,557	38,777
Borrowings	12,666	26,892	24,892	22,892	20,892
Deferred tax liabilities	2,262	2,286	2,286	2,286	2,286
Other non-current liabilities	161	16,528	17,230	16,379	15,599
Shareholders' funds	49,046	46,367	47,623	49,638	52,126
Perpetual capital securities	8,040	10,529	10,529	10,529	10,529
Non-controlling interests	161	562	575	595	619
Total equity	57,247	57,458	58,726	60,761	63,274

Key ratios

YE 30 Jun	FY19A	FY20A	FY21E	FY22E	FY23E
AOP mix (%)					
Roads	38.4	25.8	33.9	30.0	28.7
Aviation	10.6	12.0	8.2	10.1	10.7
Construction	25.6	30.3	21.7	19.3	18.7
Insurance	0.0	21.4	23.8	23.0	23.6
Environment	13.4	10.1	8.6	7.4	7.0
Logistics	13.8	17.9	11.4	9.8	9.2
Facilities Management	(8.4)	(22.0)	(12.4)	(4.1)	(2.1)
Transport	(0.2)	(3.4)	(0.0)	0.4	0.3
Strategic Investments	6.8	7.9	4.9	4.1	3.8
P&L ratios (%)					
Operating margin	9.9	3.7	10.1	10.6	11.0
Net margin	15.1	1.0	11.2	12.6	13.2
Balance sheet ratios					
Current ratio (x)	2.15	0.85	0.87	0.85	0.84
Quick ratio (x)	2.12	0.84	0.86	0.84	0.84
Net debt / equity ratio (%)	0.0	30.9	24.2	20.3	15.8
Returns (%)					
ROE	8.2	0.5	8.4	9.8	10.6
ROA	4.9	0.2	2.6	3.0	3.4
Per share (HK\$)					
EPS	1.04	0.06	1.01	1.22	1.38
DPS	0.58	0.58	0.60	0.62	0.68
BVPS	12.5	11.8	12.1	12.6	13.3

Source: Company data, CMBIS estimates

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