

# New World Development (17 HK)

## A new world in GBA

NWD announced its interim results for six months ended Dec 2019 (1HFY20) last Friday. Revenue and net profit tumbled by 34% to HK\$32.5bn and 91% to HK\$1.0bn in 1HFY20, respectively. Because of lack of new property completion in HK, underlying profit fell 27% to HK\$3.9bn in the period.

- **Interim core profit dropped 27%.** Revenue and net profit tumbled by 34% to HK\$32.5bn and 91% to HK\$1.0bn in 1HFY20, respectively. Lack of new property completion in HK, HK\$2.2bn loss in investment properties (IP) fair value change (valuer concerned rental outlook in HK) and higher tax rate (higher LAT due to 25ppts increase in China properties gross margin) were the major reasons of profit decline. Excluding IP loss and other non-cash items, underlying profit fell 27% to HK\$3.9bn in the period.
- **HK landbank: 9.1mn sq ft.** During the period, attributable contracted sales in HK amounted to HK\$3bn. Tai Wai Station project will provide more than 3,000 residential units for sales in 2020-21, of which 2,200 units in Phase 1 and 2 are launched this year. About HK\$15-20bn annual attributable contracted sales is targeted next 2-3 years. As at end-19, HK\$7.9bn of property sales in HK and Singapore are locked-up. K11 MUSEA in Tsim Sha Tsui and K11 ATELIER King's Road commenced operation in 2H19. These two IP provided more than 1.5mn sq ft of rental area that accelerated rental income growth in the near term. Lastly, NWD strives to convert 16.6mn sq ft agricultural landbank to residential/ commercial usage for long term development.
- **Mainland China landbank: 6.7mn sq m.** In 1HFY20, attributable contracted sales in Mainland China amounted to RMB11.6bn, achieving 58% of RMB20bn FY20 sales target. As at end-19, RMB5.2bn of property sales in Mainland China are locked-up. In 1HFY20, NWD obtained two projects in Zengcheng and Hangzhou of 0.77mn sq m aggregative GFA in total consideration of RMB13.2bn. Furthermore, NWD actively participated 4-5 old village redevelopment projects in Guangzhou and Shenzhen. The Company focuses on the opportunities in Greater Bay Area, where accounted for 50% of its Mainland China landbank.
- **Disposed assets to create better return.** In 1HFY20, NWD including NWS (659 HK, BUY) disposed various non-core assets with more than HK\$3bn. In Feb 2020, NWD announced to dispose its interests in Telford Plaza II and PopCorn 2 to MTR (66 HK, NR) for HK\$3bn. About HK\$15bn of non-core assets will considered to dispose next 2 years to switch other better return assets.

### Earnings Summary

(YE 30 Jun)	FY17A	FY18A	FY19A
Revenue (HK\$ mn)	56,629	60,689	76,764
YoY growth (%)	(4.9)	7.2	26.5
Net income (HK\$ mn)	7,676	23,338	18,160
EPS (HK\$)	0.80	2.34	1.78
YoY growth (%)	(15.8)	192.5	(23.9)
P/E (x)	12.5	4.3	5.6
P/B (x)	0.5	0.5	0.5
Yield (%)	4.6	4.8	5.1
ROE (%)	4.1	10.8	8.1
Net gearing (%)	34.8	29.3	32.1

Source: Company data

**NOT RATED**

Current Price

HK\$10.02

### Property Sector

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### Stock Data

Mkt Cap (HK\$ mn)	102,476
Avg 3 mths t/o (HK\$ mn)	146
52w High/Low (HK\$)	13.88/8.9
Total Issued Shares (mn)	10,227
Source: Bloomberg	

### Shareholding Structure

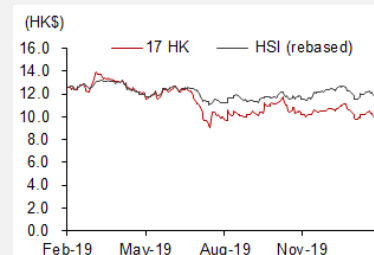
Cheng Yu Tung Family	44.35%
Free float	55.65%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-4.4%	-0.2%
3-mth	-3.6%	-3.0%
6-mth	2.4%	-1.8%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: PWC

**Figure 1: Interim results**

	1HFY2020 (HK\$ mn)	1HFY2019 (HK\$ mn)	YoY change (%)
Revenue	32,464	49,267	-34.1%
Cost of sales	(20,200)	(33,993)	-40.6%
Gross profit	12,265	15,274	-19.7%
Other income & gains	1,568	(46)	N.A.
Selling expenses	(1,022)	(1,340)	-23.7%
Expenses of department store's operation	(695)	(1,029)	-32.4%
Admin & other operating expenses	(3,310)	(2,981)	11.0%
Overlay approach adjustments on financial assets	(138)	0	N.A.
Operating profit	8,668	9,879	-12.3%
Net financing expenses	(884)	(282)	213.3%
Share of results of JCE	1,244	1,654	-24.8%
Changes in fair value of IP	(2,269)	6,342	N.A.
Pre-tax profit	6,758	17,592	-61.6%
Taxation	(3,663)	(4,084)	-10.3%
Profit after tax	3,095	13,508	-77.1%
Minority interests	(1,277)	(1,952)	-34.6%
Perpetual securities	(801)	(271)	195.4%
Net profit	1,017	11,284	-91.0%
Underlying profit	3,929	5,383	-27.0%
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Gross margin	37.8%	31.0%	+6.8ppts
Operating margin	26.7%	20.1%	+6.6ppts
Effective tax rate	54.2%	23.2%	+31.0ppts
Net margin	3.1%	22.9%	-19.8ppts
Core margin	12.1%	10.9%	+1.2ppts

Source: Company data, CMBIS

**Figure 2: Segment performance**

	1HFY2020		1HFY2019		1HFY2020 YOY change	
(HK\$ mn)	Revenue	Segment results*	Revenue	Segment results*	Revenue	Segment results*
Property development	11,986.6	6,800.9	29,905.3	8,885.1	-59.9%	-23.5%
HK & Singapore	3,666.9	1,777.0	21,007.3	5,734.6	-82.5%	-69.0%
Mainland China	8,319.7	5,023.9	8,898.0	3,150.5	-6.5%	59.5%
Property investment	2,188.5	1,310.3	1,786.1	1,157.3	22.5%	13.2%
HK	1,344.4	848.0	992.1	705.4	35.5%	20.2%
Mainland China	844.1	462.3	794.0	451.9	6.3%	2.3%
Roads	1,430.8	1,122.3	1,288.5	1,097.1	11.0%	2.3%
Aviation	0.0	266.8	161.6	218.6	-100.0%	22.0%
Construction	8,186.4	662.2	8,950.4	602.4	-8.5%	9.9%
Insurance	1,998.6	112.0	N.A.	N.A.	N.A.	N.A.
Hotel operations	838.7	(425.2)	684.3	(60.5)	22.6%	N.A.
Strategic business**	5,834.8	(359.8)	6,490.9	438.6	-10.1%	N.A.
Total	32,464.4	9,489.5	49,267.1	12,338.6	-34.1%	-23.1%

Source: Company data, CMBIS

\*Include share of results of joint ventures and associated companies, but exclude changes in fair value of investment properties

\*\*Strategic business includes department stores, environment, logistics, facilities management, transport and other businesses, etc.

**Figure 3: Landbank in HK**

	Property development	IP & others	
	Total attributable GFA	Total attributable GFA	Total attributable GFA
Landbank by district	(sq ft)	(sq ft)	(sq ft)
HK Island	165,300	0	165,300
Kowloon	1,842,500	1,099,000	2,941,500
New Territories	2,207,400	3,767,400	5,974,800
Total	4,215,200	4,866,400	9,081,600

Source: Company data, CMBIS

**Figure 4: HK properties sales plan**

HK contracted sales	FY20	FY21	FY22	FY23	FY24
ATRIUM HOUSE					
EIGHT KWAI FONG					
FLEUR PAVILIA					
MOUNT PAVILIA					
Tai Wai Station project					
Cheung Shun Street office					
King Lam Street office					
Wing Hong Street office					
Kai Tak Project					

Source: Company data, CMBIS

**Figure 5: Landbank in China**

Region	Total GFA (excluding carpark) (sq m)	Total GFA for residential (sq m)
Southern region	2,916,400	1,907,600
Central region	736,600	288,300
Easter region	941,300	288,300
Northern region	610,200	254,500
North-eastern region	1,468,400	772,200
Total	6,672,900	3,510,900

Source: Company data, CMBIS

**Figure 6: Mainland China properties sales plan**

Mainland China contracted sales	FY20	FY21	FY22	FY23	FY24
Shenzhen Prince Bay Project					
Foshan Canton First Estate					
Guangzhou Central Park-view					
Guangzhou Covent Garden					
Guangzhou Park Paradise					
Guangzhou Zengcheng Projects					
Guangzhou Panyu Project					
Guangzhou NW Oriental Garden					
Shenzhen Qianhai Project					

Source: Company data, CMBIS

**Figure 7: Non-core assets disposal in FY20**

Disposal in 1HFY20		Total consideration
Changsha La Ville New World	NWCL	RMB2.2bn
Shares of Beijing Capital Int'l Airport	NWS	HK\$0.8bn
Disposal of various projects	NWS	HK\$0.1bn
Disposal in 2HFY20 as at Feb 2020		Total consideration
50% interest in Telford Plaza II	NWD	HK\$3.0bn
30% interest in PopCom 2	NWD	

Source: Company data, CMBIS

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