

New World Development

Solid Foundations to Ride out Near Term Challenges

We expect NWD to remain as an outperformer among the HK Property developers despite the near term macroeconomic challenges. New World China Land (NWCL) is taking an increasingly important role as the company's key growth driver with a 20% CAGR target, while 1HFY20 Dev Margins reached 60%. We believe NWD's valuations should re-rate to reflect such execution improvement. **Reiterate Buy.**

China business underappreciated by market, valuations should re-rate

We believe the recent pull-back in share price to valuations of 61% disc. to NAV and 5.2% div yield, offers investors an attractive entry point into NWD for its upcoming growth potential. Management maintained their RMB20bn China contracted sales target for FY20E and is set for a 20% medium term CAGR. We believe that such a growth target is all the more impressive when taking into account the 1HFY20 60% China Dev Margins (vs industry average ~25%). We expect the stock's valuations to re-rate to a narrower disc. to NAV to reflect such execution improvement. We reiterate our Buy rating with a TP of HK\$14.13/sh, based on a 45% target disc. to NAV.

1HFY20 results in-line despite challenges from HK social unrest

NWD achieved a 1HFY20 underlying net profit of HK\$3,929m (44% of FY20E), down 27% YoY, mainly due to lack of project completions in HK during 1HFY20 (Dev Prop revenues declined 60% YoY during the period). 1HFY20 rental revenues from Inv Prop grew 23% YoY, while segment rental profits still grew 13% YoY, despite the HK social unrest during the period. Net Margins improved to 12% (1HFY19: 11%) underpinned by a 6% YoY decline in SG&A as a result of successful cost saving measures.

China Property: A new lease of life under a new management structure

We expect to see an improvement in operational efficiency within New World China Land (NWCL) on the back of the recent internal organisational restructuring. In Feb 2020, Dr. Adrian Cheng has been appointed as Executive Chairman of NWCL, while Mr. Choy Hon-Ping and Ms. Echo Huang have been promoted to Vice Executive Chairman and CEO of NWCL, respectively. We believe these are important changes and lays the foundation to achieve management's 20% contracted sales CAGR target.

HK Property: All eyes on ~HK\$30bn Tai Wai Station Development

Tai Wai Station development project is the key sales driver of the year, with the project offering 3,090 units across 3 phases, with an expected GDV of ~HK\$30bn. Phase 1 is expected to be launched in 2Q20 and we estimate to achieve ~HK\$10bn of sales proceeds (~65% of our FY20E HK Property Sales). Despite the recent softening in the HK property market (CCI Index down 1.57% MoM), we expect the project to fetch an ASP of ~HK\$20,000/sqft. Other key sales drivers incl. the office project in Cheung Sha Wan and Mount Pavilia in Sai Kung, which recently (Feb 2020) achieved a record high ASP of HK\$43,012/sqft for the sale of a special unit.

Stock is currently trading at 61% Disc. to NAV and 11.3x FY20E P/E

NWD is currently trading at deeply discount valuations of 61% Disc. to NAV compared to its historical average of 55% Disc. to NAV. In terms of PE, the stock is trading at 11.3x FY20E P/E.

Stock code: 17.HK

Rating: Buy

Price target (HK\$)	14.13
Previous price target (HK\$)	14.13
Current price (HK\$, 28 Feb 2020)	10.02
Upside/downside %	41%
Market cap (HK\$ m)	102,476
Market cap (US\$ m)	13,148
Avg daily turnover (US\$ m)	19.04

Source: Bloomberg, AMTD Equity Research

Key forecasts

(HK m)	FY19	FY20e	FY21e	FY22e
Revenue	76,764	76,698	83,007	80,997
yoy %	26.5%	-0.1%	8.2%	-2.4%
Net profit	20,836	11,620	12,607	11,789
yoy %	-21.5%	-44.2%	8.5%	-6.5%
Adjusted NP	8,814	8,947	9,713	8,965
yoy %	10.5%	1.5%	8.6%	-7.7%
Gross margin	32.6%	32.0%	32.0%	33.0%
Net gearing	41%	37%	35%	39%
EPS	0.86	0.88	0.95	0.88
DPS	1.07	0.53	0.57	0.57
BPS	21.90	22.33	22.75	23.09

Source: Company data, AMTD Equity Research

Valuation

	FY19	FY20e	FY21e	FY22e
P/E	11.6	11.4	10.5	11.4
P/BV	0.5	0.4	0.4	0.4
Div. yield	10.6%	5.2%	5.7%	5.7%
ROE	8.3%	4.0%	4.2%	3.8%
ROA	3.7%	1.7%	1.8%	1.7%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: Financial Forecasts and key ratios

PnL, HK mn	FY18	FY19	FY20e	FY21e	FY22e	Balance Sheet, HK mn	FY18	FY19	FY20e	FY21e	FY22e
Revenue	60,689	76,764	76,698	83,007	80,997	Investment Properties	149,728	173,327	180,241	185,972	197,531
COGS	(40,125)	(51,742)	(52,154)	(56,445)	(54,268)	Interest in JV/Asso	73,844	50,866	53,409	54,744	56,113
Gross Profit	20,563	25,022	24,543	26,562	26,729	PP&E and Others	85,828	128,928	127,178	126,484	126,093
						Non-current assets	309,400	353,120	360,827	367,200	379,736
Selling and marketing exp	(1,084)	(2,161)	(1,472)	(1,943)	(1,288)	PUD & Held for Sale	79,472	57,276	57,661	56,604	60,470
General and admin exp	(8,142)	(6,299)	(7,491)	(8,159)	(9,907)	Deposits and prepayments	25,520	25,722	25,722	25,722	25,722
Share of results of JV & Asso	3,083	4,683	4,679	5,064	4,941	Cash & Cash Equivalents	63,456	63,732	73,449	78,362	64,111
Reval Gains from Inv Prop	15,367	8,180	-	-	-	Others	3,607	3,436	3,595	3,675	3,634
Others	4,271	460	121	121	121	Current assets	172,055	150,165	160,427	164,363	153,938
Finance costs	(704)	(756)	(965)	(965)	(965)	Contract Liabilities	65,059	48,753	60,368	65,335	62,815
Profit before tax	33,354	29,129	19,416	20,681	19,633	Bank and Other Borrowings	20,629	41,776	41,776	41,776	41,776
Income tax expense	(6,272)	(7,490)	(7,796)	(8,074)	(7,844)	Income Taxes Accrued/Payable	8,992	10,641	10,641	10,641	10,641
Other adjustment	(537)	(803)	-	-	-	Others	9	87	87	87	87
Net profit	26,545	20,836	11,620	12,607	11,789	Current liabilities	94,689	101,257	112,872	117,838	115,318
Shareholders' Profit	23,338	18,160	8,947	9,713	8,965	Bank and Other Borrowings	120,124	114,559	114,559	114,559	114,559
Minority Interest	3,207	2,676	2,674	2,894	2,824	Others	11,460	12,105	12,624	12,896	13,175
						Non-current liabilities	131,584	126,664	127,182	127,455	127,734
Shareholders' Core Net Profit	7,978	8,814	8,947	9,713	8,965	Capital and reserves	138,724	145,989	150,325	154,608	158,153
Dividends	4,449	10,895	5,368	5,828	5,828	Shareholders' equity	216,250	223,865	228,200	232,483	236,028
Special Dividends						Non-controlling interests & Perp	38,932	51,500	53,000	53,787	54,594
EPS - Basic (HKD)	2.33	1.78	0.88	0.95	0.88	Total equity	255,182	275,365	281,200	286,270	290,622
Core EPS - Basic (HKD)	0.80	0.86	0.88	0.95	0.88						
DPS - basic (HKD)	0.44	1.07	0.53	0.57	0.57						
BVPS	21.63	21.90	22.33	22.75	23.09						
Cash Flow Statement, HK mn	FY18	FY19	FY20e	FY21e	FY22e	Key Ratios, HK mn	FY18	FY19	FY20e	FY21e	FY22e
Profit before income tax	33,354	29,129	19,416	20,681	19,633	GP Margins	34%	33%	32%	32%	33%
Operating CF before Working Cap	9,473	11,835	11,429	12,319	11,532	Net Margins	38%	24%	12%	12%	11%
PUD	2,217	12,931	268	2,467	(6,615)	Core Attri Net Margins	13%	11%	12%	12%	11%
Deposits & Prepayments	2,345	(202)	-	-	-	ROE	12%	8%	4%	4%	4%
Trade & Other Payables	14,324	(16,306)	11,615	4,966	(2,520)	ROA	5%	4%	2%	2%	2%
Increase in contract liabilities	-	-	-	-	-	Net Debt / Total Equity	34%	41%	37%	35%	39%
Others	(1,260)	(18,551)	359	193	319	Net Debt / Shareholders' Equity	69%	79%	78%	76%	75%
Net Operating Cashflows	27,099	(10,294)	23,671	19,945	2,716	Total Assets / Total Equity	189%	183%	185%	186%	184%
						Total Assets / Shareholders' Equity	223%	225%	228%	229%	226%
Net Investing Cashflows	(35,282)	(7,035)	(10,843)	(10,388)	(12,354)	Asset Turnover (Contracted Sales)	9%	5%	5%	6%	9%
Bank & Other Borrowings	(6,367)	27,636	-	-	-						
Others	10,899	(10,031)	(3,111)	(4,643)	(4,613)						
Net Financing Cashflows	4,532	17,604	(3,111)	(4,643)	(4,613)						
Net Cash Flows	(3,650)	276	9,717	4,914	(14,251)						

Source: Company data, AMTD Equity Research Estimates

Note: Fiscal year ends 30 June

NWCL Reorganisation will Drive Sales Growth

We believe that New World China Land (NWCL) will be taking the center stage for growth over the next few years. Management has set a 20% medium term CAGR target, from this year's base of RMB20bn contracted sales. A 20% growth, coupled with a 60% GP Margins is impressive within the China Property universe and we believe market is yet to give recognition to this part of the business. The high GP Margins are mainly underpinned by the low land cost of urban redevelopment projects, especially ones in the Greater Bay Area.

Urban Redevelopment projects and Greater Bay Area projects, including Shenzhen Prince Bay project, Qianhai Project and Guangzhou Zengcheng project are all going to be key sales growth drivers. Projects in the Greater Bay Area contribute to 44% of the company's land bank, and these are also projects with higher ASP and sales value, in general.

Figure 2: Land Bank in Mainland China (as of 31 Dec 2019)

Region	Total GFA sqm '000	%		
Greater Bay Area	2,916	44%	GBA contributed 50% of contracted sales in 1HFY2020	
Central China	737	11%		
Eastern China	941	14%	GBA Landbank as of 31 Dec 2019	
Northern China	610	9%		· 1.4 mn sqm in GZ
North-eastern region	1,468	22%		· 0.9 mn sqm in FS
Total	6,673		· 0.6 mn sqm in SZ	

Source: Company data, AMTD Equity Research

Figure 3: Key Projects in GBA and Urban Redevelopment Project Pipeline

Key Projects in GBA						
New acquisition since 2016						
Period	Project	Key usage	GFA sqm '000	NWD%	Lanuch year	Initial completion
8.2016	Shenzhen Qianhai project	Office/Retail	176	30	FY2021	FY2021
12.2016	Shenzhen Prince Bay project-A	Retail	220	51	FY2020	FY2022
12.2016	Shenzhen Prince Bay project-B	Serviced apartment/Office/Retail	160	49		FY2022
10.2017	Guangzhou Zengcheng composite development project	Residential/Office/Retail/Hotel	284	100	NA	FY2022
11.2018	Guangzhou Panyu Haixi composite development project	Residential/Office/Retail	307	65	FY2023	FY2023
9.2019	Guangzhou Zengcheng project	Residential/Retail	324	100	FY2021	FY2024
	Total		1,471			
Urban Redevelopment Pipeline						
Already obtained villagers approval						
Period	Project					Target inclusion
2017Q2	Shenzhen Nanshan Xili project					FY2023
2018Q3	Guangzhou Liwan Shancun project					FY2024
2019Q2	Guangzhou Haizhu Nanji village project					FY2024
2019Q3	Guangzhou Zengcheng Tagang village project					FY2023
Strategic cooperation project with local government						
Period	Project					
2018Q1	Shenzhen Lo Wu Man Ka To Crossing Economic Belt					

Source: Company data, AMTD Equity Research

Streamlined Organisation Structure in New World China Land (NWCL)

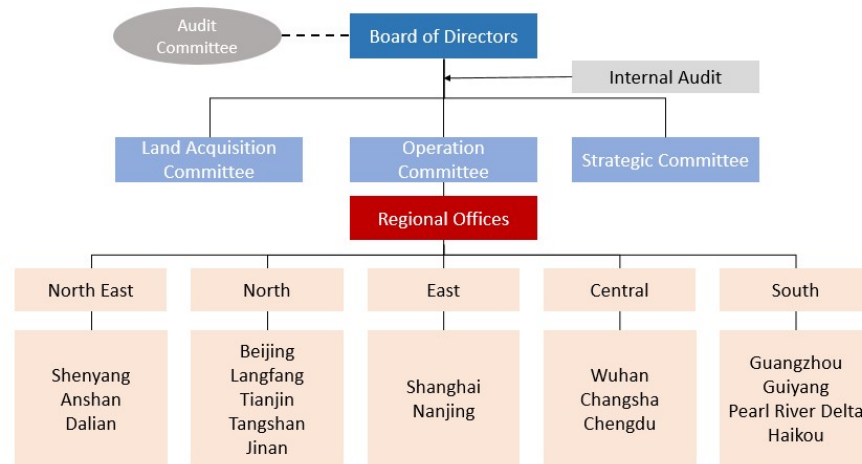
Management have stream-lined the organization structure within the group's China Property business, with a more centralized structure (Figure 4) compared to the business mainly driven by localized regional offices previously (Figure 5). We expect this will eliminate some operational efficiencies in between and accelerate the process between land acquisitions, contracted sales and construction completions. This will drive contracted sales and revenue growth as a result.

Figure 4: Organization Structure Reformation: From Regional management to More Centralized Control



Source: Company data, AMTD Equity Research
Appointments were made in Feb 2020

Figure 5: Old Organization Structure: Decentralised Management through Regional Offices



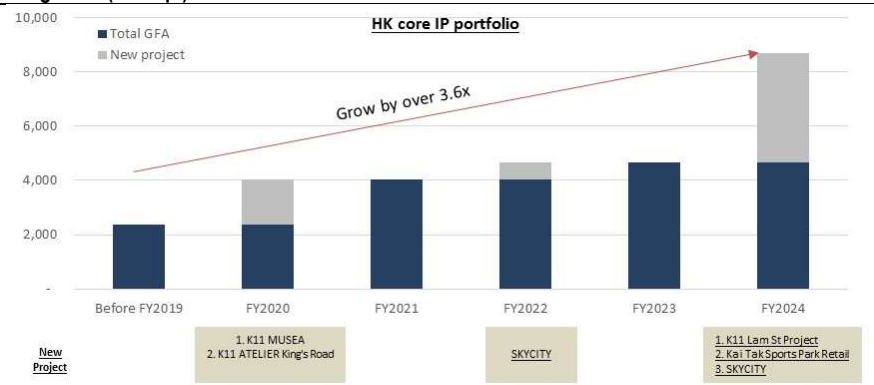
Source: Company data, AMTD Equity Research

A Growing Inv Prop Portfolio across HK/CH

The group will continue to build up its rental portfolio, with K11 as one of the key product lines. Management continues to maintain a long term target of 50/50 split between contribution from development properties and investment properties. This investment property portfolio will underpin the long term sustainability and profitability of the company as a whole, in our view.

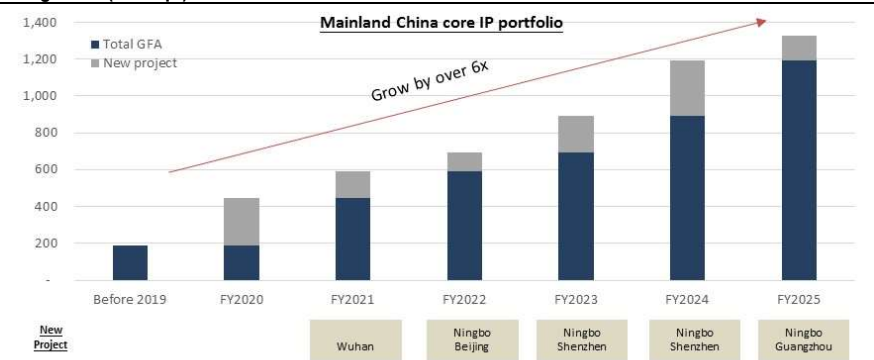
The group will meanwhile continue to dispose of the non-core assets and recycle the capital into the higher yielding, higher IRR projects. For example, the company has recently (Feb 2020) sold Telford Plaza and Popcorn II for a consideration of HK\$3bn. This will continue to be an ongoing process to optimize the investment return from its property portfolio.

Figure 6: Recurring rental income from Inv Properties forms the company's long term foundation for growth (000'sqft)



Source: Company data, AMTD Equity Research Estimates

Figure 7: Recurring rental income from Inv Properties forms the company's long term foundation for growth (000'sqft)



Source: Company data, AMTD Equity Research Estimates

1HFY20 Results

NWD achieved a 1HFY20 underlying net profit of HK\$3,929m, down 27% YoY, mainly due to lack of project completions in HK during 1HFY20 (Dev Prop revenues declined 60% YoY during the period). 2HFY20E development property revenues will continue to be underpinned by sales of inventory units and disposal of non-core assets.

1HFY20 rental revenues from Inv Prop grew 23% YoY, while segment rental profits grew 13% YoY, despite the HK social unrest during the period. HK Rental margins declined to 63% from 71% due to higher marketing expenses to mitigate the operational challenges from the HK Social Unrests.

Net Margins improved to 12% (1HFY19: 11%) underpinned by a 6% YoY decline in SG&A as a result of successful cost saving measures, which includes stream-lining the organization structure to improve operational efficiency.

Figure 8: 1HFY2020 Results in-line with our expectations, 44% of our Full Year Net Profit Achieved

1HFY20 Results	1HFY20	1HFY19	YoY	FY20E	% of Full Year
Total Revenue	32,464	49,267	-34.1%	76,698	42%
Cost of Goods Sold	(20,200)	(33,993)	-40.6%	(52,154)	39%
Gross Profit	12,265	15,274	-19.7%	24,543	50%
Other Income	96	70	36.5%	121	79%
Other gains, net	1,473	(116)	-1371.7%	-	-
Selling & Marketing Exp	(1,022)	(1,340)	-23.7%	(1,472)	69%
Exp of Dept Store	(695)	(1,029)	-32.4%	-	-
Admin & Other Exp	(3,310)	(2,981)	11.0%	(7,491)	44%
Overlay approach adjustments	(138)	-	NA	-	-
Fair value gains on IP	(2,269)	6,342	-135.8%	-	-
Operating Profit	6,399	16,220	-60.6%	15,702	41%
Financing Income	1,346	854	57.5%	1,716	78%
Financing Costs	(2,230)	(1,137)	96.2%	(2,681)	83%
Share of results of JV	911	946	-3.7%	3,667	25%
Share of results of Asso	333	708	-53.0%	1,012	33%
Profit before Tax	6,758	17,592	-61.6%	19,416	35%
Taxation	(3,663)	(4,084)	-10.3%	(7,796)	47%
Net Profit	3,095	13,508	-77.1%	11,620	27%
Shareholders' Profit	1,017	11,284	-91.0%	8,947	11%
Perpetual	801	271	195.4%	-	NA
Minority Interest	1,277	1,952	-34.6%	(2,674)	-48%
Underlying Net Profit	3,929	5,396	-27.2%	8,947	44%
Key Ratios					
GP Margins	38%	31%		32%	
Net Margins	12%	11%		12%	
Net Debt to Equity	42%	36%		37%	

Source: Company data, AMTD Equity Research Estimates

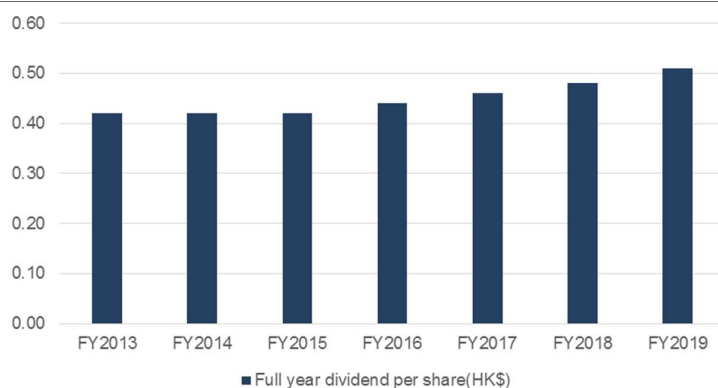
Figure 9: 1HFY2020 Segment Results (HK\$ mn)

Segment Results	Revenue			Results			Margin		
	1HFY20	1HFY19	YoY	1HFY20	1HFY19	YoY	1HFY20	1HFY19	Change
Property development	11,987	29,905	-60%	6,801	8,885	-23%	57%	30%	27%
Hong Kong & Singapore	3,667	21,007	-83%	1,777	5,735	-69%	48%	27%	21%
Mainland China	8,320	8,898	-6%	5,024	3,151	59%	60%	35%	25%
Property investment	2,189	1,786	23%	1,310	1,157	13%	60%	65%	-5%
Hong Kong	1,344	992	36%	848	705	20%	63%	71%	-8%
Mainland China	844	794	6%	462	452	2%	55%	57%	-2%
Roads	1,431	1,289	11%	1,122	1,097	2%	78%	85%	-7%
Aviation	-	162	-100%	267	219	22%	NA	135%	NA
Construction	8,186	8,950	-9%	662	602	10%	8%	7%	1%
Insurance	1,999	NA	NA	112	NA	NA	6%	NA	NA
Hotel operations	839	684	23%	(425)	(61)	603%	-51%	-9%	-42%
Strategic business*	5,835	6,491	-10%	(360)	439	-182%	-6%	7%	-13%
Total	32,464	49,267	-34%	9,490	12,339	-23%	29%	25%	4%

Source: Company data, AMTD Equity Research Estimates

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

Figure 10: Consistent Dividend Growth; FY2020 Interim DPS maintained HK\$0.14



Source: Company data, AMTD Equity Research

Valuation & Risks

Our target price is unchanged at HK\$14.13/sh, which is based on an unchanged 45% target disc. to NAV of HK\$25.7/sh. Our NAV is derived from a Sum-of-the-parts approach as per listed out in Figure 11 below.

Figure 11: NAV Valuation for NWD

Business	Valuation Methodology	Attri GFA (sq ft)	(HK\$/sq ft)	Fwd NAV (HK\$ mn)	HK\$/sh	%
Hong Kong Development property	DCF@8%	5,050,770	7,576	38,266	3.74	10.7%
Luxury residential		540,581	9,834	5,316	0.52	1.5%
Mass residential		3,460,659	7,530	26,060	2.55	7.3%
Others		1,049,530	6,566	6,891	0.67	1.9%
Hong Kong Investment property	Cap rate@4.75%-5%	9,599,881	13,240	127,102	12.44	35.6%
Luxury residential		503,828	20,247	10,201	1.00	2.9%
HK Retail		3,100,380	17,286	53,592	5.24	15.0%
HK Office		2,805,155	13,250	37,169	3.64	10.4%
HK Industrials & others		3,190,518	5,639	17,992	1.76	5.0%
CP	Various room values			8,148	0.80	2.3%
Hong Kong Hotels	Various room values			19,395	1.90	5.4%
Hong Kong Farmerland		16,995,000	1,500	25,493	2.49	7.1%

Business	Valuation Methodology	Attri GFA (sq m)	(RMB/sq m)	Fwd NAV (RMB mn)	Fwd NAV (HK\$ mn)		
China Development property	DCF@10%	6,107,397	9,221	56,318	64,733	6.33	18.1%
Southern		2,132,417	10,985	23,425	26,925	2.63	7.5%
Central		1,189,381	6,130	7,291	8,380	0.82	2.3%
Eastern		272,946	9,135	2,493	2,866	0.28	0.8%
Northern		549,158	23,152	12,714	14,614	1.43	4.1%
Northeastern		1,963,495	5,294	10,395	11,948	1.17	3.3%
China Investment property	Cap rate@6%-7%	1,012,392	37,769	38,237	43,951	4.30	12.3%
Luxury residential		49,293	13,637	672	773	0.08	0.2%
China Retail		662,636	41,431	27,454	31,556	3.09	8.8%
China Office		256,076	9,832	2,518	2,894	0.28	0.8%
CP	Various room values				8,728	0.85	2.4%
China Hotels	Various room values				13,225	1.29	3.7%

Business	Valuation Methodology	Attri No. of rooms/CP	Per room/CP (HK\$ mn)	Fwd NAV (RMB mn)	Fwd NAV (HK\$ mn)		
Hotels					33,391	3.27	9.3%
Hong Kong		2,836	6.84		19,395	1.90	5.4%
Mainland China		3,137	4.22		13,225	1.29	3.7%
Southeast Asia		665	1.16		771	0.08	0.2%
CP					16,877	1.65	4.7%
Hong Kong		4,232	1.93		8,148	0.80	2.3%
Mainland China		44,387	0.20		8,728	0.85	2.4%

Listed shares	Valuation Methodology	Shares (mn)	HK\$/share			
NWS (60.99%) (659 HK)	@60.99% mkt cap	2,380	9.50	22,612	2.21	6.3%
NWDS (74.99%) (825 HK)	@74.99% mkt cap	1,264	1.26	1,593	0.16	0.4%

Gross Asset Value (GAV)		357,142	34.94	100.0%
Net Cash / (debt)		(92,603)	(9.06)	
Associate debt		(1,900)	(0.19)	
Net Asset Value (NAV)		262,639	25.70	
NAV discount			45%	
Target price			14.13	41.1%
Current price			10.02	

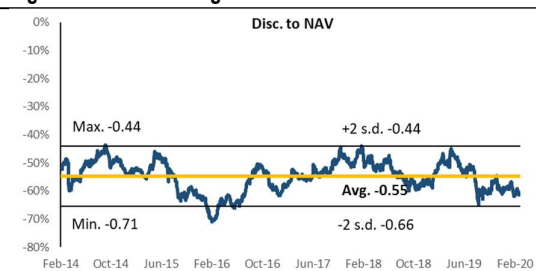
Source: AMTD Equity Research Estimates

Figure 12: Peers Valuation comparison

Date		28/2/2020		FY18 P/E FY19E P/E FY20E P/E			FY18 P/B FY19E P/B FY20E P/B			Div. yield
Equity		Share Price (HK\$)	Mkt cap (USD mn)							
HK Property Developers										
17 HK	NEW WORLD DEV*	10.02	13,148	12.6x	11.6x	11.4x	0.5x	0.5x	0.4x	4.8%
12 HK	HENDERSON LAND D	35.75	22,207	14.1x	10.8x	10.4x	0.6x	0.5x	0.5x	4.4%
16 HK	SHK PPT	110.80	41,196	9.7x	9.4x	9.6x	0.6x	0.5x	0.5x	4.0%
1113 HK	CK ASSET HOLDING	48.70	23,078	6.9x	6.1x	7.5x	0.6x	0.5x	0.5x	4.1%
83 HK	SINO LAND	10.60	9,465	13.7x	14.9x	7.4x	0.5x	0.5x	0.5x	9.0%
20 HK	WHEELOCK & CO	59.35	15,633	9.5x	7.6x	8.0x	0.5x	0.5x	0.4x	2.6%
4 HK	WHARF HLDG	16.44	6,432	7.2x	7.5x	7.3x	0.3x	0.4x	0.3x	4.4%
683 HK	KERRY PPT	22.15	4,139	6.4x	6.0x	6.6x	0.3x	0.3x	0.3x	5.9%
35 HK	FE CONSORT INTL*	3.40	1,039	5.8x	5.3x	5.0x	0.6x	0.6x	0.6x	6.6%
Total/Average			136,338	9.5x	8.8x	8.1x	0.5x	0.5x	0.5x	5.1%

Source: Bloomberg Estimates, *AMTD Equity Research Estimates
 Note: As of 28th Feb, 2020; *Div Yield is Trailing Dividend Yield

Figure 13: Stock trading at 61% Disc to NAV



Source: Bloomberg; AMTD Equity Research

Figure 14: Stock trading at Deeply Disc. 0.46x P/B ratio



Source: Bloomberg; AMTD Equity Research

Key Risks

Key risks for the stock includes (1) Mainland China property sales are lower than expectation; (2) Undervalue the effect of the epidemic; (3) Macroeconomic slowdown squeeze its rental margins and hence asset values.

IMPORTANT DISCLOSURES

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Stock Rating

Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
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Analyst Certification

We, Jacky Chan and Karen Huang, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

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