

NWS Holdings (659 HK)

Waiting for multiple catalysts

NWS's annual results for the year ended 30 Jun 2021 (AOP +49% / net profit +353% YoY) were in line with the positive profit alert announced on 20 Jul. Core businesses' AOP +34% YoY, thanks to strong recovery in Roads and full-year contribution by Insurance. We lowered FY22E AOP/NAV by 6%/5%, and revised TP to HK\$11.48 having applied a larger discount to NAV. Valuations remain attractive, with 8.1% dividend yield. Maintain BUY. We identify some potential catalysts which might drive a re-rating.

- Recovery across business segments.** All businesses, except Construction, recorded YoY improvements in Attributable Operating Profit (AOP). Excluding discontinued businesses (Environment & Transport), net profit to shareholders +121% YoY.
- Final DPS +3% under progressive dividend policy.** Since FY19, NWS adopted a progressive dividend policy, keeping DPS steady in FY20 despite a slump in EPS. FY21 final DPS +3% to HK\$0.30, bringing full-year DPS to HK\$0.59 (HK\$0.58 in FY20).
- Maintain BUY, TP revised down to HK\$11.48.** We revised FY22E/FY23E AOP by -6%/-1%, EPS by -25%/-16%, and FY22E NAV by -5%, mainly accounting for the prolonged impact from COVID. We lowered our target price to HK\$11.48, based on a 45% discount on FY22E NAV (previously 35% discount on FY21E NAV), to factor in the overall derating of HK/China market. Valuations remain attractive, with trailing P/B at 0.59x, 2 s.d. below 10-year average, and dividend yield at 8.1%, 2 s.d. above 10-year average. NWS's progressive DPS policy makes it a stable yield play with high dividend visibility.
- Potential catalysts to drive re-rating.** While valuations are very attractive, we acknowledge that some catalysts are needed to drive valuations upward. These might include: 1) Acquisitions at attractive valuation to drive earnings growth, potentially in toll roads & modern logistics businesses; 2) HK-Mainland China border reopening to boost FTLife and Facilities Management; 3) resumption of global travel after vaccine rollout would benefit Aviation; 4) China's protective policies (still in discussion) to compensate for Roads' toll-exemption in Feb-May 2020; 5) further disposals of non-core assets.

Earnings Summary

(YE 30 Jun)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (HK\$ mn)	22,612	28,197	32,380	36,180	38,853
Attributable operating profit (HK\$ mn)	3,514	5,226	5,081	5,656	6,208
YoY growth (%)	(25.3)	48.7	(2.8)	11.3	9.8
Profit to shareholders from continuing operations (HK\$ mn)	537	1,190	3,692	4,209	4,654
EPS (HK\$)	0.14	0.30	0.94	1.08	1.19
YoY growth (%)	(86.8)	121	210	14.0	10.6
Consensus EPS (HK\$)	N/A	N/A	0.95	1.15	N/A
P/E (x)	53.0	23.9	7.7	6.8	6.1
P/B (x)	0.61	0.59	0.54	0.50	0.46
Yield (%)	8.0	8.1	8.4	8.7	8.9
ROE (%)	1.1	2.5	7.4	7.7	7.8
Net gearing (%)	30.9	24.9	12.1	9.2	(2.5)

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$11.48
(Previous TP	HK\$13.70)
Up/Downside	+57.9%
Current Price	HK\$7.27

Conglomerate Sector

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

Stock Data

Mkt Cap (HK\$ mn)	28,434
Avg 3 mths t/o (HK\$ mn)	13.75
52w High/Low (HK\$)	9.55 / 6.03
Total Issued Shares (mn)	3,911.1

Source: Bloomberg

Shareholding Structure

New World Development	60.86%
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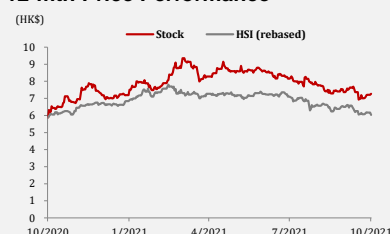
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.4%	6.3%
3-mth	-10.9%	4.9%
6-mth	-12.2%	5.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports:

- NWS Holdings (659 HK) – Recovery on track post COVID-19 – 1 Mar 2021
- NWS Holdings (659 HK) – More disposals, more focus on Core business – 13 Jan 2021
- NWS Holdings (659 HK) – Too cheap to ignore – 5 Oct 2020
- 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

FY21 Results Review

Figure 1: FY21 results review

Year ended 30 Jun HK\$ mn	FY20	FY21	YoY %	CMBIS FY21E	Diff. % Beat / (Miss)	Remarks
Revenue	25,921	28,197	9	15,521	(8)	
Attributable Operating Profit (AOP)	3,514	5,226	49	5,610	(7)	Recovery in Roads & full-period contribution of FTLife
Profit attributable to shareholders	253	1,147	353	1,185	(3)	Strong recovery from exceptionally low base, but partly offset by non-operating provisions and remeasurement losses
EPS (HK\$)	0.06	0.29	383	0.30	(3)	
DPS (HK\$)	0.58	0.59	2	0.59	-	Maintained progressive dividend policy, raising DPS for the first time since FY18

Source: Company data, CMBIS estimates

Figure 2: Attributable Operating Profit (AOP) by segment

Year ended 30 Jun HK\$ mn	FY20	FY21	YoY % Fav / (Unfav)	CMBI FY21E	Diff. % Beat / (Miss)	Remarks	
Core Business	Roads	907	1,808	99	2,137	(15)	Rapid recovery, but interrupted by mini-outbreaks of COVID in some provinces
	Aviation	422	496	18	546	(9)	Collection rate and rental deferrals improved, as lessees benefited from vaccination rollouts, travel bubbles and gradual resumption of domestic flights
	Construction	1,066	949	(11)	862	10	Drop in AOP mainly due to associated co. Wai Kee's reclassification to AFS assets
	Insurance	750	972	29	948	3	Full-year contribution from FTLife, vs. 8-month contribution in FY20
	Sub-total	3,146	4,224	34	4,493	(6)	
Strategic Portfolio	<i>Continuing Operations</i>						
	Logistics	628	663	6	692	(4)	Steady contribution by ATL Logistics Centre
	Facilities Mgmt.	(772)	(649)	16	(633)	(3)	Gleneagles Hospital HK achieved EBITDA breakeven since May 2021
	Strategic Invest.	277	739	167	802	(8)	Upward revaluation as market recovered
	<i>Discontinued Operations</i>						
	Environment	355	244	(31)	252	(3)	Discontinued after announcing the disposals of SUEZ NWS and Derun in Jan 2021
	Transport	(119)	5	104	5	2	Discontinued after selling bus business in Oct 2020
Sub-total	369	1,002	172	1,117	10		
Total AOP	3,514	5,226	49	5,610	(7)		

Source: Company data, CMBIS estimates

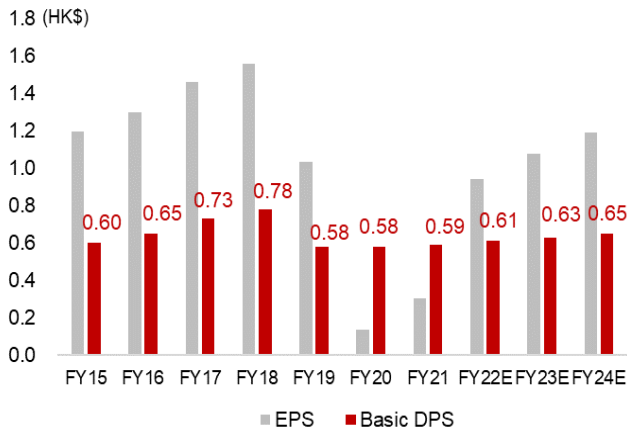
Figure 3: Earnings revision

HK\$ mn	New		Old		Change (%)		vs. Consensus (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	32,380	36,180	35,466	36,065	(9)	0	4	7
Attributable Operating Profit (AOP)	5,081	5,656	5,430	5,710	(6)	(1)	N/A	N/A
-Core Business AOP	4,708	5,020	4,893	5,048	(4)	(1)	N/A	N/A
-Strategic Portfolio AOP	374	636	537	662	(30)	(4)	N/A	N/A
Profit attributable to shareholders	3,692	4,209	4,945	5,009	(25)	(16)	6	3
EPS (HK\$)	0.94	1.08	1.26	1.28	(25)	(16)	(1)	(6)

Source: Company data, Bloomberg, CMBIS estimates

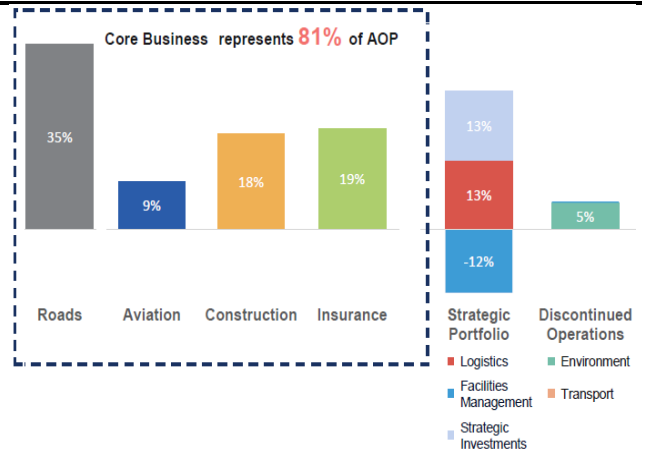
Focus Charts

Figure 4: Progressive DPS despite fluctuating EPS



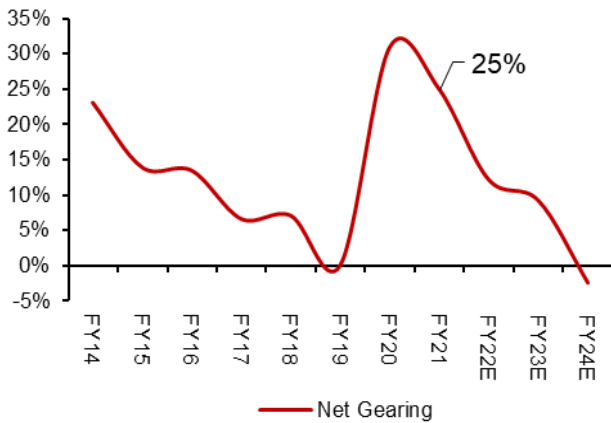
Source: Company data, CMBIS

Figure 5: Attributable Operating Profit by segment



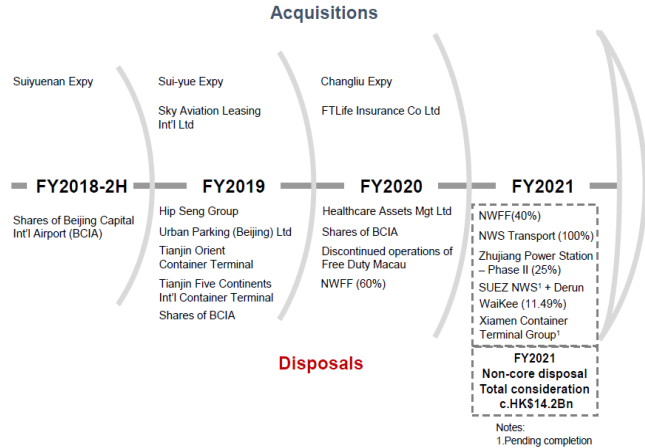
Source: Company data, CMBIS

Figure 6: Net gearing remains healthy



Source: Company data, CMBIS

Figure 7: Capital recycling & streamlining business



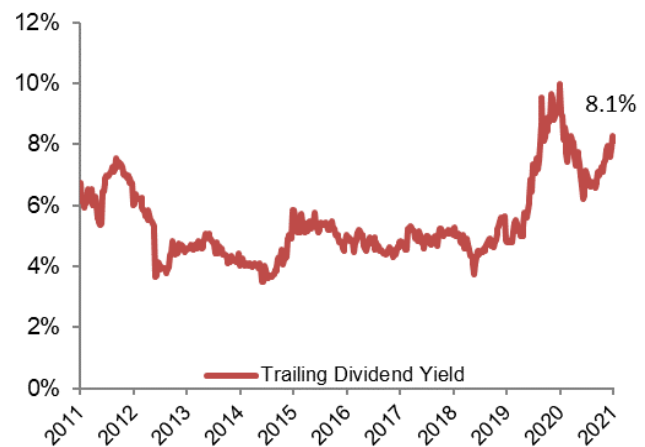
Source: Company data, CMBIS

Figure 8: Price-to-Book 2 s.d. below 10-yr average



Source: Company data, Bloomberg, CMBIS

Figure 9: Dividend Yield 2 s.d. above 10-yr average



Source: Company data, Bloomberg, CMBIS

Financial Summary

Income statement

YE 30 Jun (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	22,612	28,197	32,380	36,180	38,853
Roads	2,071	3,033	3,475	3,612	3,755
Construction	12,454	15,114	16,817	16,817	16,817
Insurance	6,180	9,642	11,088	12,751	14,281
Facilities Management	1,907	409	1,000	3,000	4,000
Transport (Discontinued)	3,308	-	-	-	-
Cost of sales	(19,762)	(24,406)	(28,170)	(31,477)	(33,802)
Gross profit	2,850	3,791	4,209	4,703	5,051
Other income/gains	1,002	2,027	2,088	2,150	2,215
General & admin expenses	(2,146)	(4,050)	(2,863)	(2,949)	(3,037)
Operating profit	1,707	1,768	3,434	3,905	4,228
Finance costs	(967)	(839)	(839)	(839)	(839)
Associated companies	(133)	266	261	308	359
JV	1,093	1,281	2,067	2,184	2,335
Profit before income tax	1,700	2,476	4,924	5,558	6,084
Income tax expenses	(590)	(691)	(649)	(767)	(847)
Profit from cont. operations	1,111	1,785	4,275	4,792	5,237
Perpetual capital securities	(582)	(583)	(583)	(583)	(583)
Non-controlling interests	8	(11)	-	-	-
Net profit to shareholders	537	1,190	3,692	4,209	4,654

Cash flow summary

YE 30 Jun (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net cash from operations	4,356	2,288	3,055	3,499	4,001
Finance costs paid	(857)	(857)	(857)	(857)	(857)
Interest received	1,436	1,436	1,436	1,436	1,436
Hong Kong profits tax paid	(333)	(230)	(216)	(256)	(282)
PRC & overseas tax paid	(498)	(461)	(433)	(511)	(565)
Other operating activities	(4,333)	(6,516)	(1,000)	(1,000)	(1,000)
Net cash from operating act	(229)	(4,339)	1,985	2,311	2,732
Dividends from associates	346	266	261	308	359
Dividends from JV	1,657	1,281	2,067	2,184	2,335
Capital expenditures	(5,962)	3,500	(498)	(392)	5,595
Other investing activities	(9,429)	5,336	6,082	63	63
Net cash from investing	(13,389)	10,383	7,912	2,163	8,352
Change in borrowings	11,887	(5,608)	(2,000)	(2,000)	(2,000)
Dividends paid	(2,268)	(2,268)	(2,347)	(2,425)	(2,503)
Other financing activities	2,441	(730)	(618)	(618)	(618)
Net cash from financing	12,059	(8,606)	(4,965)	(5,043)	(5,121)
Net change in cash	(1,558)	(2,563)	4,932	(569)	5,963
Cash at the beginning of year	15,045	13,368	10,805	15,737	15,168
Currency translation diff.	(120)	-	-	-	-
Cash at the end of year	13,368	10,805	15,737	15,168	21,131

Balance sheet

YE 30 Jun (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	110,226	106,132	109,424	112,795	116,380
Property, plant & equip.	4,882	1,186	1,186	1,186	1,186
Intangible concession right	14,084	14,356	13,600	13,359	13,117
Associated companies	13,354	5,674	5,686	5,772	5,862
Joint ventures	12,288	10,806	10,806	10,806	10,806
Other non-current assets	65,620	74,111	78,146	81,672	85,410
Current assets	39,714	40,116	46,746	47,977	55,849
Cash and bank balances	13,222	10,805	15,737	15,168	21,131
Trade & other receivables	16,208	15,162	16,072	17,036	18,058
Other current assets	10,284	14,149	14,937	15,773	16,659
Assets held for sale	112	6,325	-	-	-
Current liabilities	46,889	49,355	51,463	53,697	56,066
Borrowings	4,064	2,119	2,119	2,119	2,119
Trade & other payables	12,475	11,333	11,333	11,333	11,333
Other current liabilities	30,350	35,904	38,012	40,246	42,614
Non-current liabilities	45,706	44,764	41,707	39,637	43,920
Borrowings	26,892	23,229	21,229	19,229	17,229
Deferred tax liabilities	2,286	1,925	1,925	1,925	1,925
Other non-current liabilities	16,528	19,609	18,552	18,482	24,766
Shareholders' funds	46,367	47,913	52,459	56,896	61,699
Perpetual capital securities	10,529	10,529	10,529	10,529	10,529
Non-controlling interests	562	12	13	14	15
Total equity	57,458	58,454	63,000	67,438	72,243

Key ratios

YE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
AOP mix (%)					
Roads	25.8	34.6	42.5	40.2	38.6
Aviation	12.0	9.5	11.6	11.0	11.0
Construction	30.3	18.1	16.5	14.9	13.5
Insurance	21.4	18.6	22.0	22.7	23.2
Logistics	17.9	12.7	11.4	10.5	9.8
Facilities Management	(22.0)	(12.4)	(9.1)	(4.1)	(0.9)
Strategic Investments	7.9	14.1	5.1	4.9	4.7
Environment (Discontinued)	10.1	4.7	0.0	0.0	0.0
Transport (Discontinued)	(3.4)	0.1	0.0	0.0	0.0
P&L ratios (%)					
Operating margin	7.5	6.3	10.6	10.8	10.9
Net margin	2.4	4.2	11.4	11.6	12.0
Balance sheet ratios					
Current ratio (x)	0.85	0.81	0.91	0.89	1.00
Quick ratio (x)	0.84	0.81	0.90	0.89	0.99
Net debt / equity ratio (%)	30.9	24.9	12.1	9.2	-2.5
Returns (%)					
ROE	1.1	2.5	7.4	7.7	7.8
ROA	0.5	0.8	2.4	2.7	2.8
Per share (HK\$)					
EPS	0.14	0.30	0.94	1.08	1.19
DPS	0.58	0.59	0.61	0.63	0.65
BVPS	11.9	12.3	13.4	14.5	15.8

Source: Company data, CMBIS estimates

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CMB International Securities Limited

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

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