

New World Development

Initiation of Coverage

A GBA conglomerate dedicated to craftsmanship and unparalleled living experience

Initiate with Buy rating, PT of HK\$15.10; A Greater Bay Area (GBA) conglomerate with high growth visibility

Listed in Hong Kong since 1972, New World Development (NWD) is now becoming a conglomerate with businesses in property, infrastructure, services, hotel, department stores, and insurance. NWD has created a series of products and living concepts with forward-looking ideas and tastes, which reflects its dedication to craftsmanship and provides an unparalleled array of exclusive experience to its customers under the ecosystem of The Artisanal Movement living sphere. Our thesis is based on NWD's unique business strategy, improving operations, strong execution capability and healthy balance sheet. We find the stock's current valuation at 54% discount to NAV, 0.58x FY19E P/BV and a dividend yield of 4.1% is very attractive.

Recurring income expansion driven by Victoria Dockside and SKYCITY

NWD is strategically focusing in Greater Bay Area (GBA). The flagship commercial complex Victoria Dockside located in core area of TST will boost current HK recurring income in coming two to three years. We expect that revenue from HK investment property will grow to HK\$3.4bn by FY21, up 85.1% compared to FY18. In the long run, NWD has strategically obtained the tender for SKYCITY project, which is located in the core of Greater Bay Area, adding another 3.77mn sq ft of GFA into its current HK investment property portfolio. The project is expected to contribute revenue in FY23.

High earnings visibility in FY19

Thanks to strong launches of several projects, NWD has achieved HK\$24.7bn attributable contracted sales in FY18, up 58.3% YoY from FY17 and suppressing its target of HK\$10.0bn. Given the strong momentum, we estimate that NWD has unbooked attributable sales at HK\$27.2bn as of Dec 2018 and 90% of NWD's property development profit has been locked in, indicating a high earnings visibility for FY19. We expect NWD's underlying EPS will grow by a CAGR of 7.8% between FY18 and FY21E. By FY21, NWD's underlying profit will reach HK\$10.0bn.

Low funding cost with declining net gearing

NWD's net gearing was at 34% as of end-FY18, down 6.5pps from end-FY17. NWD has total interest-bearing debt of HK\$150.20bn, including HK\$9.45bn perpetuals as of end-FY18. Thanks to its large proportion of bank loans, NWD's average funding cost was 3.38% in FY18. As construction work of Victoria Dockside will be completed this year and rental income will expand steadily from now on, we estimate that the boost to cash inflow will further decrease net gearing to 33% by FY21 while keeping dividend payout ratio at around 60%.

Valuation and risks

Our price target of HK\$15.10 is based on a 45% target discount to its estimated NAV, which is derived from our estimated value of its property assets plus market prices for listed subsidiaries and deducting debt. Risks include delays in project completions, rising land price, and macro headwinds.

Stock code: 17.HK

Rating: Buy

Price target (HK\$)	15.10
Current price (HK\$)	12.62
Upside/downside %	20%
Market cap (HK\$ m)	128,853
Market cap (US\$ m)	16,419
Avg daily turnover over 1 yr (HK\$ m)	137.7

Source: Bloomberg, AMTD estimates

Key forecasts

(HK\$ m)	FY18	FY19e	FY20e	FY21e
Net profit	7,978	8,776	8,796	9,987
yoy %	12%	10%	0%	14%
Revenue	60,689	73,662	75,721	81,803
yoy %	7%	21%	3%	8%
EBITDA	13,821	16,889	17,086	18,541
Net gearing	34%	35%	35%	33%
EPS	0.78	0.86	0.86	0.98
BPS	21.17	21.60	22.02	22.45
DPS	0.48	0.52	0.52	0.59

Source: Company data, AMTD estimates

Valuation

(HK\$ m)	FY18	FY19e	FY20e	FY21e
P/E	16.1	14.7	14.6	12.9
P/BV	0.60	0.58	0.57	0.56
Div yield	3.8%	4.1%	4.1%	4.7%
ROE	11.6%	4.0%	4.0%	4.4%
ROA	5.1%	1.8%	1.8%	2.0%

Source: Bloomberg, AMTD estimates

Share price performance (HK\$)



Source: Bloomberg

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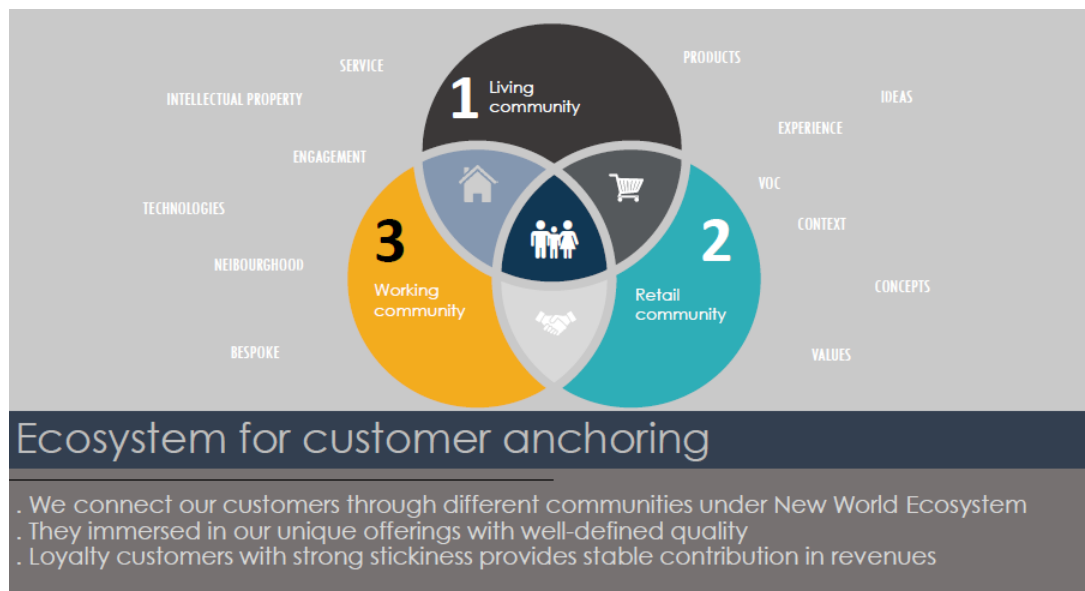
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Executive summary

Becoming a conglomerate with unique ecosystem

Successful acquisition of FTLife Insurance at the end of last year makes New World Development more like a conglomerate now. Compared to other developers and landlords in Hong Kong, NWD has well balanced revenue mix with income from property, infrastructure, services, hotel, department stores, and insurance. More specifically, based on its diversified business nature, NWD has actively promoted the concept of New World Ecosystem to build up its unique brand premium. The Ecosystem includes: 1) living community; 2) retail community; 3) working community. NWD connects its customers through different communities and provides them unique offerings with well-defined quality and generates stable revenues from those loyalty customers with strong stickiness.

Figure 1: New World Ecosystem

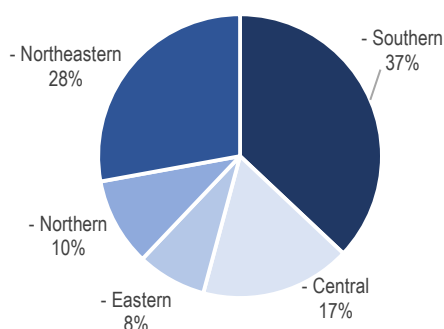


Source: Company data

Abundant landbank in Greater Bay Area to sustain future growth

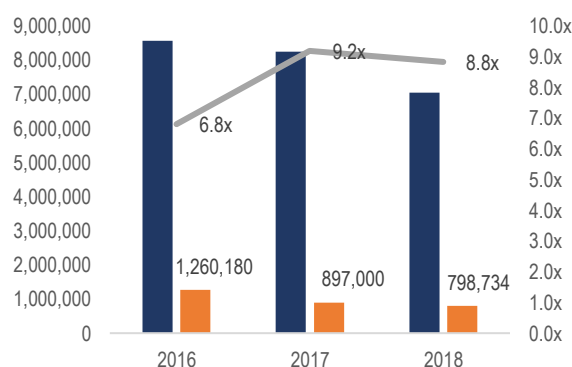
NWD has abundant landbank reserves. In mainland China, as at 30 June 2018, NWD had a landbank excluding carpark with a total GFA of approximately 7.05mn sq m, of which 2.61mn sq m (or 37%) is located in Greater Bay Area. The total landbank is 8~9 times its annual contracted sales in terms of GFA. On the other hand, because NWD built most of its landbank in early years, the average land cost is quite low, which will help it to maintain decent margin of property development business in mainland China. In Hong Kong, apart from current land reserve, NWD still has a large amount of farmland, most of which is located in the west district of Yuen Long. The open of Hong Kong-Zhuhai-Macao Bridge, the iconic project of Greater Bay Area, will bring great growth opportunities in this district.

Figure 2: FY18 Mainland China total landbank (excl. carpark) GFA breakdown by region



Source: Company data

Figure 3: Mainland China total landbank (excl. carpark) (sq m) (LHS) to contracted sales (sq m) ratio (RHS)



Source: Company data

High earnings visibility in FY19 and reasonably EPS growth from FY19-21

Thanks to strong launches of several projects, NWD has achieved HK\$24.7bn attributable contracted sales in FY18, up 58.3% YoY from HK\$15.6bn in FY17 and suppressing its target of HK\$10.0bn. Given the strong momentum, we estimate that NWD has unbooked attributable sales amounting to HK\$27.2bn as of the end of Dec 2018 and 90% of NWD's property development profit has been locked in, indicating high earnings visibility for FY19. We project underlying profit to increase by a CAGR of 7.8% between FY18 and FY21 and will reach HK\$10.0bn by FY21.

New IP projects kicking in to boost recurring income

The remaining projects at Victoria Dockside will be a nearly 80~90% boost to current HK recurring income in coming two to three years. We expect that revenue from HK investment property will grow to HK\$3.4bn in FY21, up 85.1% compared to FY18. In the long run, NWD has strategically replenished landbank in west district of Hong Kong, where the construction of a third runway at Hong Kong International Airport and the open of Hong Kong-Zhuhai-Macao Bridge will drive the potential growth. In March 2018, NWD awarded the tender for developing sites A2&A3 of the SKYCITY project, which is located just near the airport and add another 3.77mn sq ft of GFA into NWD's current HK investment property portfolio. The project is expected to contribute revenue in FY23.

Initiate with Buy; PT of HK\$15.10 based on 45% discount to NAV

We initiate coverage of New World Development with a Buy rating. Our PT of HK\$15.10 is based on 45% target discount to its estimated NAV, which is two standard deviations narrower than the 5-year average. In the long run we have a bullish outlook on NWD, because: 1) its improving operation since 2012, including privatising NWCL and sell-off non-performing assets; 2) great growth potential brought by Greater Bay Area focus. In the meanwhile, we find the stock's current valuation (0.58x FY19E P/BV) is below its sector average of 0.61x and its dividend yield of 4.1% is very attractive as well.

Valuation

We prefer to use NAV

There are three common valuation methods for HK/China property companies – P/E ratio, discount to NAV, and P/BV ratio. In our view, NAV discount would be more suitable for NWD because it has built large investment properties with significant rental income exposure. Investment properties are mostly valued on a cap rate per yield basis so as to gauge the capital value of those assets. Above all, we prefer to use NAV.

NWD's NAV is derived from our estimated value of its property assets plus market prices for listed subsidiaries, including NWS Holdings (659 HK) and New World Department Store China (825 HK), and deducts debt.

For property development business, we use DCF methodology, applying current ASPs, land prices, construction costs, and our estimation of project completion to derive cash flow estimates for the next four years. We then discount the cash flow at a WACC of 8% and 10% for HK and mainland China, respectively.

For property investment business, we apply gross cap rates of 4.75% and 5.75% for HK office and HK retail revenues, respectively. This is similar to ten-year average cap rates. For mainland China, we use gross cap rates of 6.50% and 9.00% for Tier-1 cities and other cities, respectively.

We value NWD at HK\$15.10 (20% upside); share price at 54% discount to NAV

Our price target of HK\$15.10 is based on a 45% target discount to its estimated NAV, which is two standard deviations narrower than the 5-year average. Our long term outlook on NWD remains bullish, as: 1) its improving operation since 2012, including privatising NWCL and sell-off non-performing assets; 2) great growth potential brought by Greater Bay Area focus.

On the other hand, the stock is now trading at lower P/BV than the sector average. SHKP, HLD and Sino Land are trading at higher P/BV at 0.66x-0.69x but with similar ROE. We think the market may value NWD's at a deeper conglomerate discount. Given its not-very-demanding comparable valuation, we believe NWD still has a lot of upside.

Figure 4: NWD – 5-year NAV chart



Source: Bloomberg, Priced as of 18th February 2019; AMTD Equity Research estimates

Figure 5: NWD – NAV estimates

Business	Valuation Methodology	Attri GFA (sq ft)	(HK\$/sq ft)	Fwd NAV (HK\$ mn)	HK\$/sh	% of GAV
Hong Kong Development property	DCF@8%	5,050,770	7,576	38,266	3.75	10.5%
Luxury residential		540,581	9,834	5,316	0.52	1.5%
Mass residential		3,460,659	7,530	26,060	2.55	7.2%
Others		1,049,530	6,566	6,891	0.67	1.9%
Hong Kong Investment property	Cap rate@4.75%-5.75%	9,599,881	10,822	103,885	10.17	28.5%
Luxury residential		503,828	19,094	9,620	0.94	2.6%
HK Retail		3,100,380	13,070	40,521	3.97	11.1%
HK Office		2,805,155	11,287	31,661	3.10	8.7%
HK Industrials & others		3,190,518	4,561	14,551	1.43	4.0%
CP	Various CP values			7,531	0.74	2.1%
Hong Kong Hotels	Various room values			17,356	1.70	4.8%
Hong Kong Farmland		16,995,000	1,101	18,711	1.83	5.1%
		Attri GFA (sq m)	(RMB/sq m)	Fwd NAV (HK\$ mn)	HK\$/sh	% of GAV
China Development property	DCF@10%	6,107,397	12,105	84,980	8.32	23.3%
Southern		2,132,417	14,396	35,285	3.46	9.7%
Central		1,189,381	7,059	9,651	0.95	2.7%
Eastern		272,946	13,268	4,162	0.41	1.1%
Northern		549,158	27,462	17,334	1.70	4.8%
Northeastern		1,963,495	8,218	18,547	1.82	5.1%
China Investment property	Cap rate@6.50%-9.00%	1,012,392	37,388	43,508	4.26	12.0%
Luxury residential		49,293	13,625	772	0.08	0.2%
China Retail		662,636	40,964	31,200	3.06	8.6%
China Office		256,076	9,580	2,820	0.28	0.8%
CP	Various CP values			8,716	0.85	2.4%
China Hotels	Various room values			8,200	0.80	2.3%
		No. of rooms/CPs	(HK\$ mn)/room CP	Fwd NAV (HK\$ mn)	HK\$/sh	% of GAV
Hotels				26,313	2.58	7.2%
Hong Kong		2,836	6.12	17,356	1.70	4.8%
Mainland China		3,137	2.61	8,200	0.80	2.3%
Southeast Asia		665	1.14	756	0.07	0.2%
CP				16,247	1.59	4.5%
Hong Kong		4,232	1.78	7,531	0.74	2.1%
Mainland China		44,387	0.20	8,716	0.85	2.4%
Listed shares	Valuation Methodology	Shares (mn)	HK\$/share	Fwd NAV (HK\$ mn)	HK\$/sh	% of GAV
NWS (60.99%) (659 HK)	@60.99% mkt cap	2,380	19.40	46,177	4.52	12.7%
NWDS (74.99%) (825 HK)	@74.99% mkt cap	1,264	1.75	2,213	0.22	0.6%
Gross Asset Value (GAV)				364,053	35.66	100.0%
Net Cash / (debt)				(81,511)	(7.98)	
Associate debt				(1,900)	(0.19)	
Net Asset Value (NAV)				280,642	27.49	

Source: Bloomberg, Priced as of 18th February; AMTD Equity Research estimates

Risks analysis

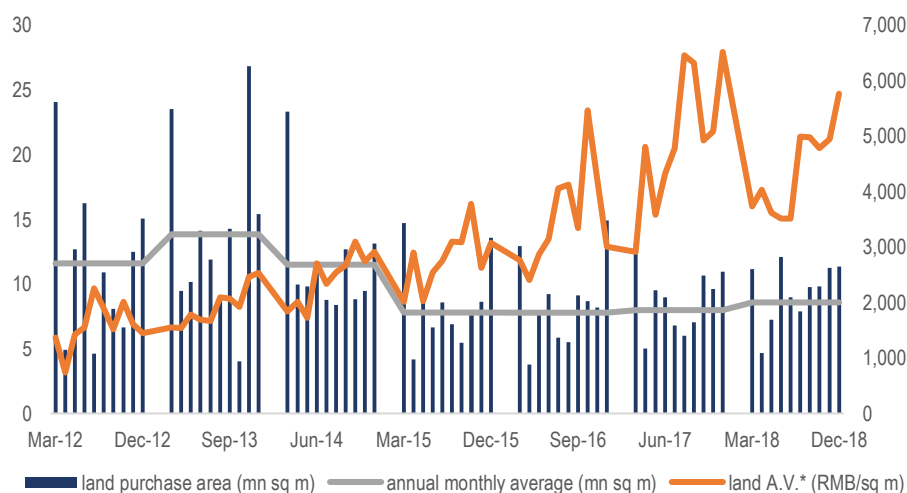
Delays in project completions

In property investment, delays in project completions will dent the revenue growth and put pressure on cash flow. In property development, delays in project completions will extend transaction period, and subsequently affect contracted sales and revenue booking. As a result, slow turnover of development properties may lead to unrealized NAV. Our price target of HK\$15.10 is based on a 45% target discount to its estimated NAV. If there's higher risk of unrealized NAV, we may get lower target price by applying higher NAV discount. We estimate that every 5% increase in NAV discount could lower the target price by 9%.

Rising land price

NWD could face intense competition for landbank due to the rising land price, which could adversely affect the margins of its property business. In mainland China, the average land price (A.V.) of major 40 cities has almost tripled to over RMB6,000/sq m since 2013. In Hong Kong, we can see the land purchase area slumped in 2017 and 2018 while the total land premium keeps rising. In 2018, the average residential land price (A.V.) in Kowloon and New Territories has reached to HK\$17,951/sq ft and HK\$6,893/sq ft, respectively. Soaring land price and intensifying competition could dent property development margins. NWD has to be able to acquire land at reasonable costs to sustain margins and strong NAV growth.

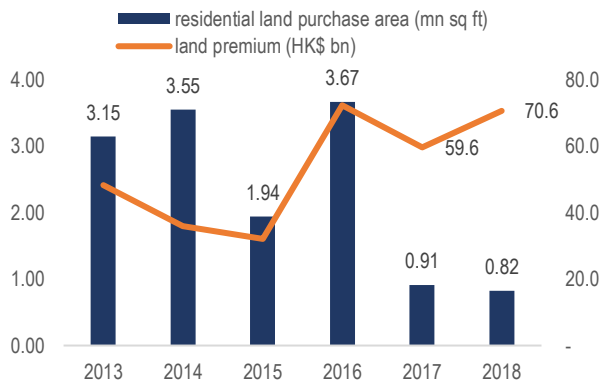
Figure 6: Mainland China 40 major cities monthly land purchase site area (LHS) and average land A.V.* (RHS)



*Note: assuming plot ratio of 2.0x

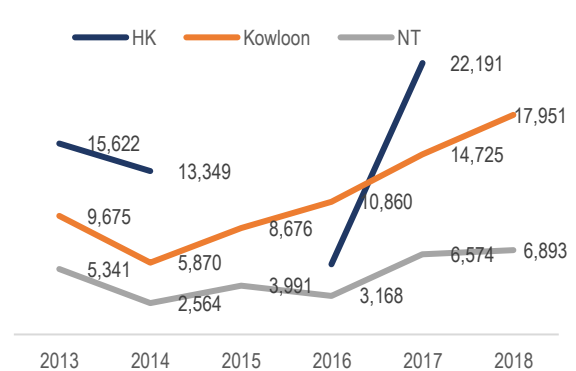
Source: Wind, AMTD Equity Research estimates

Figure 7: HK residential land purchase area (LHS) and total residential land premium (RHS)



Source: Planning Department

Figure 8: HK residential land A.V.* (HK\$/sq ft) by district



*Note: assuming plot ratio of 6.0x, 4.0x, 1.8x, 0.8x for R1, R2, R3, R4 site
Source: Planning Department, AMTD Equity Research estimates

Macro headwinds

Debt crisis and intensifying trade wars could further slowdown China’s economy, which will affect the housing demand and weaken the purchasing power of home buyers and could result in downside potential to our current forecasts. In the meanwhile, after phenomenal rally during 2017-2018 in mainland China and Hong Kong, property market may lose steam in the near future. We estimate that every 10% decline in China contracted sales ASP could lower our estimated NAV by 3.9%. For Hong Kong, every 10% decline in contracted sales ASP could result 2.4% decrease in our estimated NAV.

Low interest rate environment may end

In September 2018, major banks in Hong Kong raised their benchmark lending rates, or prime rates, for the first time in 12 years. As a result, most of banks in Hong Kong revised down the property valuation, which may affect mortgage loan issuing and increase lending costs. A low interest rate and ample liquidity environment may end. Although we have factored in interest rate hikes in our discount rate of valuation, the reverse of low interest rate environment could damage sentiment and demand of the property market.

Strategy

Established in 1970 and headquartered in Hong Kong, New World Development Company Limited (“NWD”) has been listed on the Hong Kong Stock Exchange (17 HK) since 1972. NWD and its subsidiaries are principally engaged in different businesses, including property development and investment, construction, services, infrastructure, hotel and department stores, and insurance. NWS Holdings Limited (“NWS”, 659 HK), infrastructure and service arm of NWD, and New World Department Store China Limited (“NWDS”, 825 HK), retail arm of NWD, are also publicly listed in Hong Kong. Starting from 2012, NWD has carried out a series of reforms, which have achieved various improvements in the company.

In Hong Kong:

- Actively promote the New World Ecosystem and enhance brand value
- Accelerate property sales, recorded contracted sales of up to HK\$24.7bn in FY18
- Proactively manage and optimize business and asset portfolios through sales of non-core asset such as telecommunications and non-core investment properties
- Joint built up hotel platform with Abu Dhabi Investment Authority to unlock the hidden value of hotel assets
- Launched of the Redevelopment of Tsim Sha Tsui New World Centre to enhance cash inflows from future rental income

In mainland China:

- Optimize management – successfully privatized New World China Real Estate, appointed new management team and optimized management strategy
- Enhance assets – optimize the regional layout and property project mix, focus on high value-added cities, and high-end product lines
- Accelerate property sales – Increase new starts and completions
- Focus on strategy – focus on the development of the Greater Bay Area

Figure 9: SKYCITY has the potential to cover the “1-hour travel” area in the Greater Bay Area



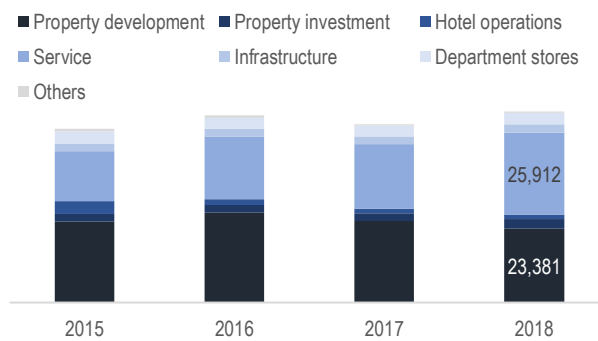
Source: Company data

Business by segment

In FY18, NWD's total revenue grew 7.2% YoY to HK\$60.7bn, which was mainly driven by property development and service segments, and those two segments accounted for 38.5% and 42.7% of total revenue, respectively. Segments results were up 20.2% to HK\$11.3bn in FY18. The largest two contributors, property development and property investment represented 80.8% and 14.4% of total segments profit, respectively. NWD's attributable profit and underlying profit amounted to HK\$23.4bn and HK\$8.0bn, increased by 204.1% and 11.8%, respectively. The deduction was mainly due to changes in fair value of investment properties.

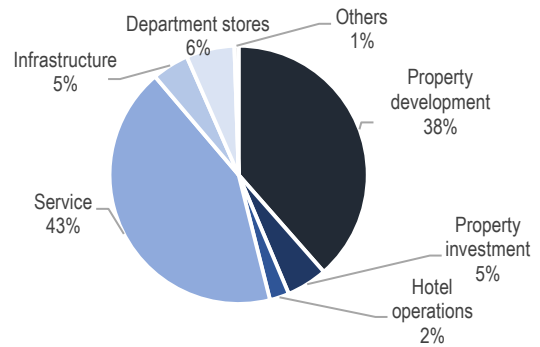
NWD's blended gross profit margin increased by 1.7pps to 33.9% in FY18. It was partially attributable to the increase in gross profit margin of the residential development projects booked. On the other hand, improving operating efficiency and declining expenses helped NWD maintain the EBIT margin at around 18%. The underlying profit margin increased to 13.1% in FY18.

Figure 10: Revenue breakdown by segment (HK\$ mn)



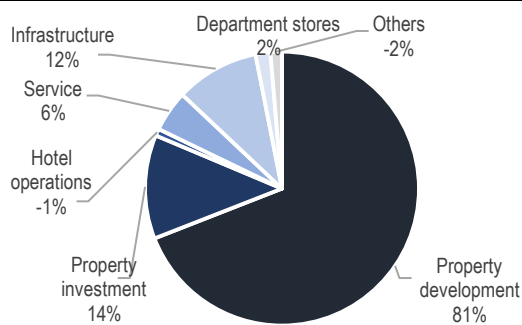
Source: Company data

Figure 11: FY18 revenue mix



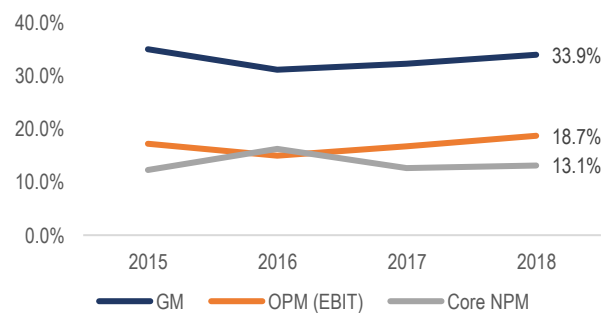
Source: Company data

Figure 12: FY18 EBIT mix



Source: Company data

Figure 13: Gross margin, EBIT margin and underlying profit margin



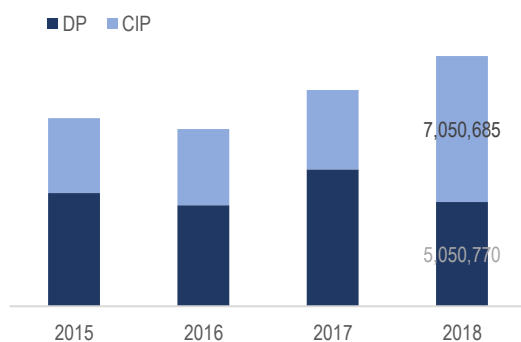
Source: Company data

Hong Kong property development & property investment

HK Landbank – diversified landbank with abundant farmland reserves

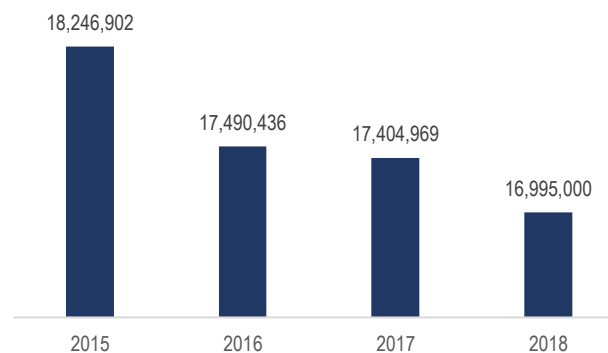
Insufficient land supply in Hong Kong leads to imbalance in supply and demand, which pushes high the land price. NWD adopts consistent policy to resort to diversified channels for the replenishment of its landbank in Hong Kong. Apart from teaming with other developers to bid public tenders, NWD has been actively undertaking old building acquisitions and farmland conversions, with a view to securing a stable supply of land resources for future development.

Figure 14: HK total attributable landbank GFA breakdown by type (sq ft)



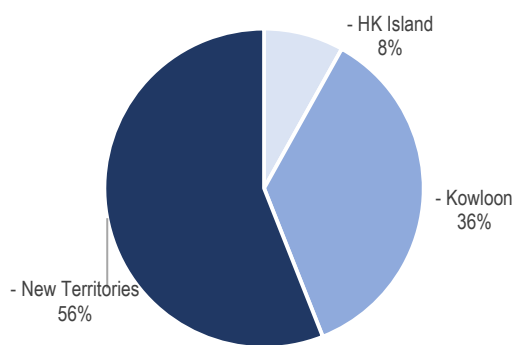
Source: Company data

Figure 15: HK attributable farmland site area (sq ft)



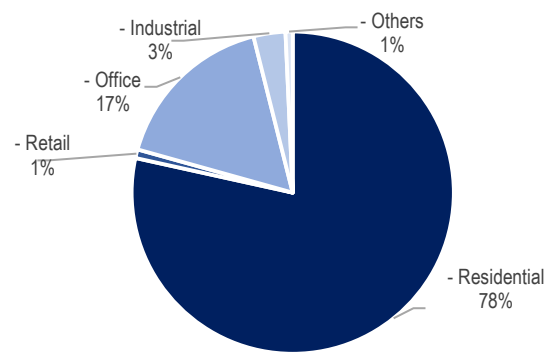
Source: Company data

Figure 16: FY18 HK total attributable landbank (DP+CIP) GFA breakdown by district



Source: Company data

Figure 17: FY18 HK attributable DP landbank GFA breakdown by type



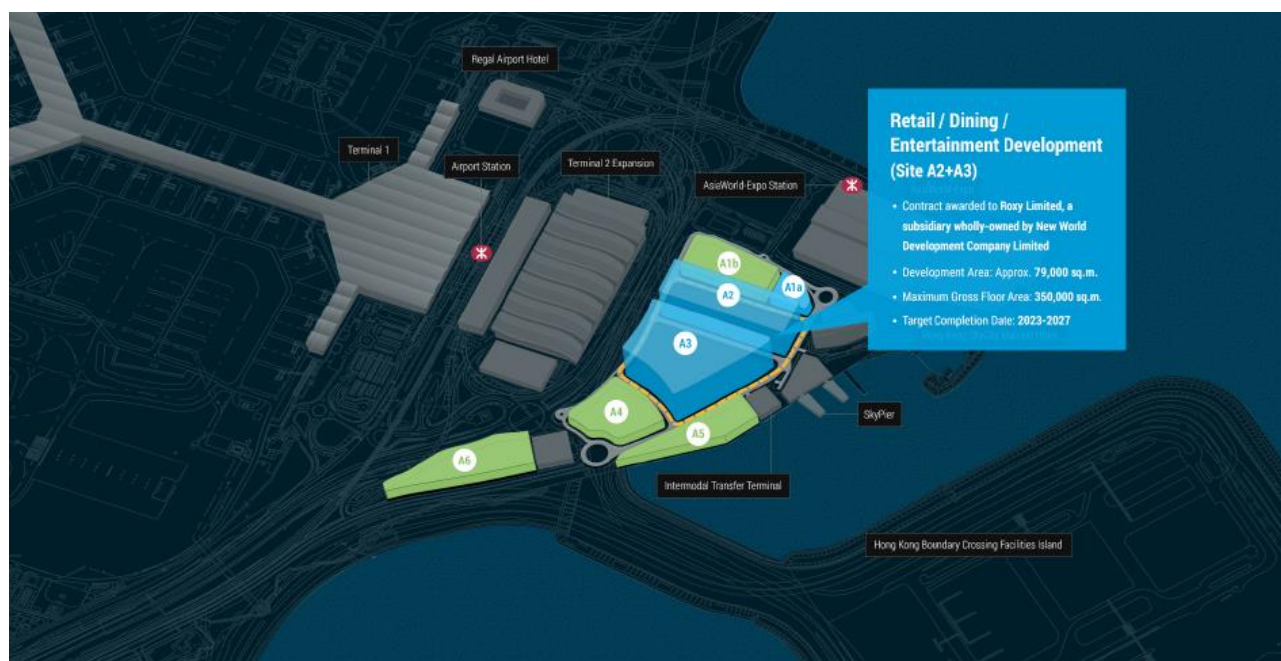
Source: Company data

In the meanwhile, to balance the risks from over-heated residential property market, NWD also looks for opportunity in commercial property market. As the availability of Grade A office space remained tight and vacancy rates was low, NWD acquired Wing Hong Street project with a GFA of approximately 0.37mn sq ft in Cheung Sha Wan, Kowloon in August 2017. Together with the winning bids for King Lam Street project and Cheung Shun Street project, both located in Cheung Sha Wan, NWD currently has three Grade A office projects under development with a total GFA of 1.9mn sq ft. The three office projects are expected to be launched in 2021.

In investment property, NWD strategically replenished landbank in west district of Hong Kong as the construction of a third runway at Hong Kong International Airport and the open of Hong Kong-Zhuhai-Macao Bridge will drive the growth of this district. In March 2018, NWD awarded the tender for developing sites A2&A3 of the SKYCITY project, which is

located just near the airport. The SKYCITY will add another 3.77mn sq ft of GFA into NWD's current HK investment property portfolio, of which 2.10mn sq ft would be for retail use, 0.57mn sq ft would be for entertainment and office, and the remaining 1.10mn sq ft would be for the public and carpark use. The project is to be completed in two phases by 2023 and 2027 respectively.

Figure 18: SKYCITY



Source: <https://www.skycityhongkong.com>

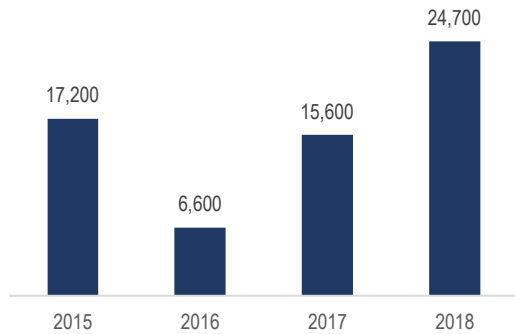
By the end of June 2018, NWD had a landbank in Hong Kong with an attributable total GFA of approximately 12.10mn sq ft, of which approximately 5.05mn sq ft was for property development and approximately 7.05mn sq ft was for property investment. In property development landbank, approximately 3.96mn sq ft was for residential use. Meanwhile, NWD had farmland in New Territories with an attributable total site area of approximately 17mn sq ft pending for land use conversion.

HK Property development

In FY18, NWD recorded strong contracted sales of HK\$24.7bn in Hong Kong, far surpassing its HK\$10.0bn sales target and FY2017 contracted sales of HK\$15.6bn. The main drivers were the residential projects including Mount Pavilia in Clear Water Bay, Artisan House in Sai Ying Pun, Fleur Pavilia in North Point, The Parkville in Tuen Mun, Park Hillcrest and Park Villa in Yuen Long, The Pavilia Bay in Tsuen Wan, The Masterpiece in Tsim Sha Tsui and the Double Cove series in Ma On Shan.

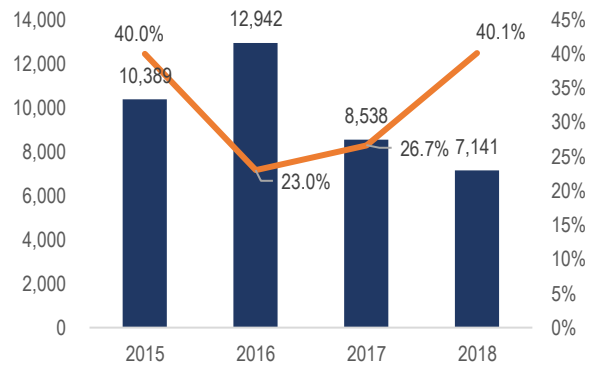
On P&L, including joint development projects, NWD Hong Kong property development reported HK\$7.14bn and HK\$2.86bn of revenue and segment results in FY18, respectively. The Hong Kong property development segment margin were up by 13.4pps to 40.1% in FY18. The main contributors were the residential projects including Mount Pavilia in Clear Water Bay, The Masterpiece in Tsim Sha Tsui, The Pavilia Hill in North Point, Park Villa in Yuen Long and the Double Cove series in Ma On Shan.

Figure 19: Hong Kong attributable contracted sales (HK\$ mn)



Source: Company data

Figure 20: HK DP revenue (HK\$ mn) (LHS) and segment margin (RHS)



Source: Company data

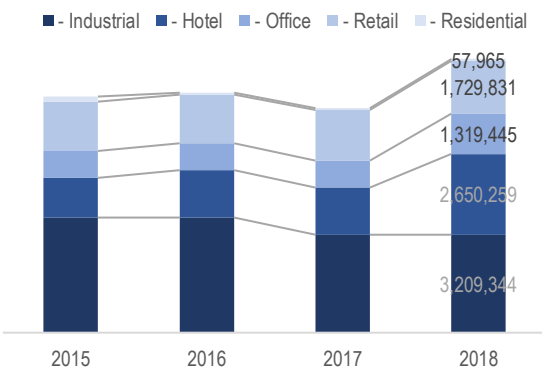
HK Property investment

Driven by the continuous growth of tourist arrivals, the retail sector of Hong Kong saw the recovery in 2017 after more than three years of adjustment. In the meanwhile, the demand for premium office spaces in core commercial districts was very strong. While supply fell short of demand, office rental rates rose by 4.6% in the first half of 2018 on average.

NWD increased the investment in retail, hotel and office. New openings and rising rents helped to grow rental income by 16.5% YoY to HK\$1.84bn in FY18. During last year, K11 Atelier, the Grade A offices in Victoria Dockside, was completed and became available for use and it has attained over 70% occupancy. However, segment profit of Hong Kong property investment declined from 74.2% in FY17 to 63.2% in FY18, which could be attributable to the opening expenses at Victoria Dockside, in our view. The remaining part of Victoria Dockside will be completed in FY19 and will start to contribute rental income.

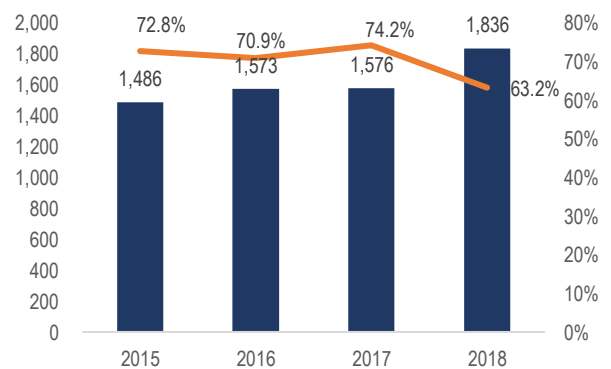
By the end of June 2018, NWD had been operating 21 investment properties in Hong Kong with an attributable total GFA of approximately 8.97mn sq ft, of which approximately 2.65mn sq ft was for hotel, approximately 1.73mn sq ft was for retail and approximately 1.32mn sq ft was for office.

Figure 21: HK completed IP projects GFA (sq ft) breakdown by type



Source: Company data

Figure 22: HK IP rental income (HK\$ mn) (LHS) and segment margin (RHS)



Source: Company data

Figure 23: Victoria Dockside



GFA breakdown	,000 sq ft	Usage	Opening
K11 ATELIER	435	Office	2017 Q4
Rosewood Hong Kong Rosewood Residence	1,106	Hotel Serviced apartment	2019 Q1
K11 MUSEA*	1,156	Retail	2019 Q3
K11 ARTUS	380	Serviced apartment	2019 Q3
Total	3,077		

*The portion of 12 Salisbury Road are included
**Over 1,000 carparks available



K11 MUSEA

- Offer world-class experience in retail, art, culture, entertainment and dining
- extensive selection of international brands, many of which are pop-up stores and flagship stores that are setting their first presence in Hong Kong
- Total 10-storey
- Current pre-leasing rate over 50%
- Will be unveiled in the third quarter of 2019

K11 ATELIER

- Commenced operations in 2017 4Q
- Occupancy rate is over 70%
- Rental rate achieved regional high



Source: Company data

China property development& investment property

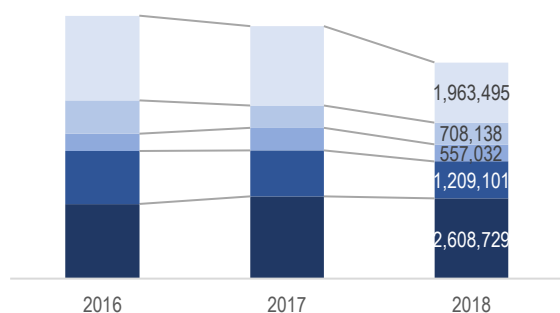
Mainland China Landbank – low cost landbank and Great Bay Area focus

NWD is prudent in land acquisition, especially in Northeast and Central region, however, it continues to strategically invest in key economic circles, such as Bohai Economic Rim in North China and Greater Bay Area in south China, and major cities to develop iconic projects with great potential. Since the completion of the privatisation of NWCL in August 2016, NWD has successfully acquired permissible GFA of more than 800,000 sq m in the Greater Bay Area.

By the end of June 2018, NWD had a landbank in Mainland China excluding carpark with a total GFA of approximately 7.05mn sq m, of which 4.33mn sq m (or 61.5%) was for residential use and 2.68mn sq m (or 37.0%) was located in Greater Bay Area. The current total landbank is nearly 8–9 times its annual contracted sales in terms of GFA. On the other hand, because NWD built most of its landbank in early years, the average land cost is quite low, which will help it to maintain decent margin of property development in mainland China.

Figure 24: Mainland China total landbank (excl. carpark) GFA breakdown by region (sq m)

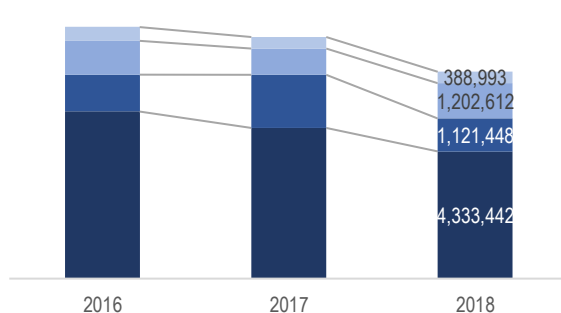
■ - Southern ■ - Central ■ - Eastern ■ - Northern ■ - Northeastern



Source: Company data

Figure 25: Mainland China total landbank (excl. carpark) GFA breakdown by type (sq m)

■ - Residential ■ - Commercial ■ - Office ■ - Hotel



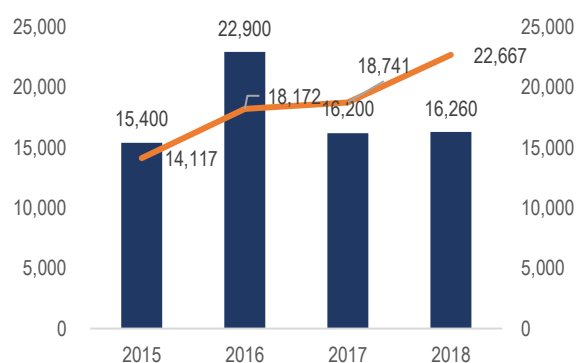
Source: Company data

Mainland China Property development

In FY18, property development contracted sales in Mainland China amounted to 798,734 sq m in GFA and RMB16.26bn in gross sales proceeds, meeting its sales target of RMB16bn. Residential contracted ASP was up 20.9% to RMB22,667/sq m. Southern region being the largest contributor, accounted for 26.0%, followed by Central region and Eastern region, accounting for 24.4% and 18.4%, respectively. The completion amounted to 1.07mn sq m, 66.1% of which was residential in key cities including Guangzhou, Foshan, Wuhan and Shenyang. It is expected to increase slightly by 8% to 1.16mn sq m in FY19, which will provide abundant saleable resources for next year.

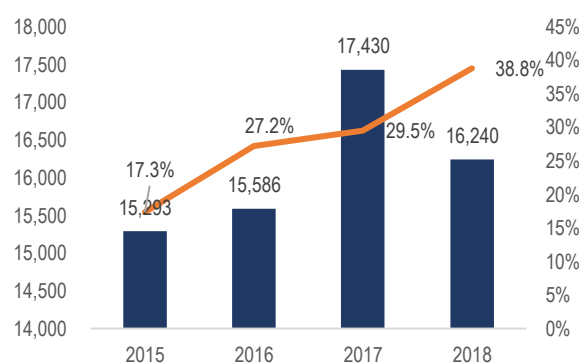
Including joint development projects, NWD's mainland China property development business reported HK\$16.24bn and HK\$6.30bn of revenue and segment results in FY18, respectively. The segment margin was up by 9.3pps to 38.8% in FY2018. The main contributors were the residential projects from Southern China, including Guangzhou Covent Garden, Guangzhou Foshan Canton First Estate, Shenzhen New World Signature Hill.

Figure 26: Mainland China contracted sales (RMB mn) (LHS) vs residential ASP (RMB/ sq m) (RHS)



Source: Company data

Figure 27: Mainland China DP revenue (RMB mn) (LHS) and segment margin (RHS)

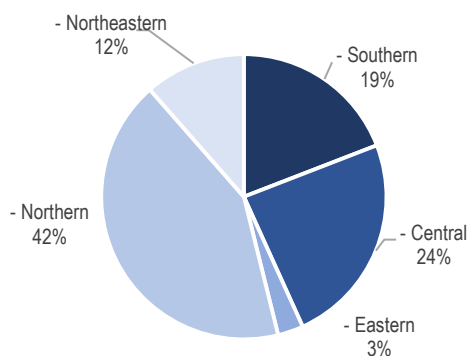


Source: Company data

Mainland China Property investment

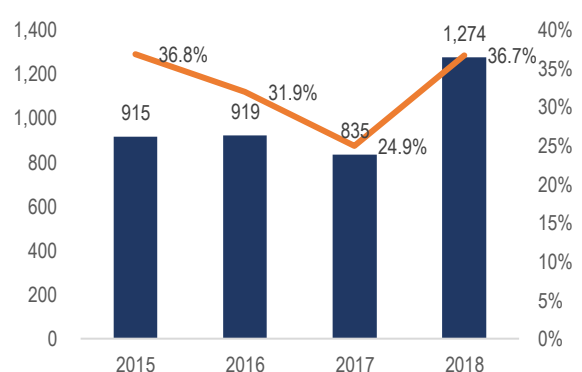
NWD property investment business in Mainland China is quite stable. By the end of Jun 2018, NWD had been operating 47 investment property projects with a total GFA of 1.44mn sq m, of which nearly 42% was located in Northern China, such as Beijing, and 24% was located in Wuhan, central China. In FY2018, NWD recorded a total rental income of HK\$1.27bn in Mainland China, up 52.6% YoY, with segment margin improved by 11.8pps to 36.7%. The growth was mainly due to: 1) the commencement in operations of Wuhan Guanggu K11; and 2) NWD has optimised its internal structure and individual projects have been converted from joint ventures to subsidiaries after the completion of the privatisation of NWCL.

Figure 28: FY18 Mainland China completed IP GFA breakdown by region



Source: Company data

Figure 29: Mainland China rental income (HK\$ mn) (LHS) and segment margin (RHS)



Source: Company data

Hotel operations

By the end of June 2018, NWD had a total of 15 hotel properties in Hong Kong, Mainland China and Southeast Asia, providing over 6,000 guest rooms. In FY18, NWD recorded HK\$1.48bn revenue from hotel business, of which HK\$608.8mn was from Hong Kong, HK\$606.8mn was from Mainland China, and HK\$263.4mn was from South East Asia. However, the hotel segment reported HK\$76.5mn loss, which was mainly due to poor performance in Mainland China.

On 27 October 2017, NWD disposed of the entire interest in Ramada Property Ltd., whose assets comprise of New World Shanghai Hotel and Pentahotel Shanghai, to unlock value of its low-yielding assets at fair market value. Hotel operation in Hong Kong and Southeast Asia is quite healthy with segment margin over 12% in FY18. NWD's premium hotel projects in Hong Kong primarily serve business travelers and most of its hotels achieved an average occupancy rate of 80%-90%, or even higher. New Rosewood Hong Kong with 413 guest rooms and 186 luxury accommodations for longer stays is scheduled to open in the first quarter of 2019, which will increase NWD's recurring income.

Figure 30: Hotel list

Name of hotels	Total no. of rooms As at 30 Jun 2018
Hong Kong	
Renaissance Harbour View Hotel	861
Grand Hyatt Hong Kong	542
Hyatt Regency Hong Kong, Sha Tin	562
Hyatt Regency Hong Kong, Tsim Sha Tsui	381
Novotel Citygate Hong Kong	440
Pentahotel Hong Kong, Kowloon	695
Subtotal	3,481
Mainland China	
Pentahotel Beijing	307
New World Shunde Hotel	370
New World Wuhan Hotel	327
New World Beijing Hotel	309
Rosewood Beijing	283
Subtotal	1,596
Southeast Asia	
New World Makati Hotel, The Philippines	584
New World Saigon Hotel, Vietnam	533
Renaissance Riverside Hotel Saigon, Vietnam	336
Rosewood Phuket, Thailand	71
Subtotal	1,524
Grand total	6,601
To be opened in FY2019	
Rosewood Hong Kong	599

Source: Company data

Infrastructure & Services

In FY18, infrastructure division revenue and segment profit grew by 16.8% YoY to HK\$2.81bn and by 12.2% to HK\$1.31bn, respectively. Specially, operating profit of road segment rose by 10% after discounting the exchange rate effect; operating profit of environment and logistic increased by 26% and 2%, respectively; aviation segment attained double-digit growth from the steadfast expansion of Goshawk Aviation Limited. In FY18, infrastructure division reported segment margin of 46.5%, accounting for 11.5% of total operating profit.

Service revenue rose by 26.1% YoY to HK\$25.9bn in FY18, however, the segment operating profit declined 16.7% YoY to HK\$645mn. Healthy growth of construction business was offset by the loss of The Free Duty business and GHK Hospital. Service division reported segment margin of 2.5% in FY18.

On 28 Dec 2018, the government awarded contract for the design, construction and operation of the Kai Tak Sports Park to the JV of NWD (75%)/NWS (25%). The Kai Tak

Sports Park, occupying 28 hectares of land, is the Government's most important investment in sports infrastructure in recent decades. The construction works will commence in the first quarter of 2019 and are scheduled for completion in 2023. The government will fund the construction cost of HK\$30bn, while NWD/NWS JV is required to cover all operating costs and pay the government 3% of the gross income plus a lump sum of HK\$1.72bn during the operation period.

Figure 31: Kai Tak Sports Park



Source: Company data

Department stores

In FY18, New World Department Store China Limited (“NWDS”) reported total segment revenue of HK\$3.67bn with same-store sales growth of 0.8%. The commission income from concessionaire sales accounted for 44.0% of the total revenue and proceeds from direct sales and rental income accounted for 34.6% and 21.3% of the total revenue respectively. By region, the Northern China region contributed the most to the segment revenue, amounting to 48.0% of total, followed by the Eastern China region and the Central Western China region, which accounted for 32.5% and 19.5% of the total revenue respectively. The department stores division reported segment margin of 2.1% in FY18. By the end of June 2018, NWDS operated and managed a total of 35 stores and two shopping malls in Mainland China with total GFA of over 1.46mn sq m.

FTLife Insurance

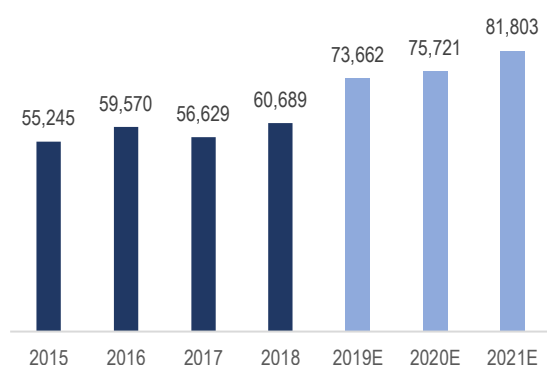
A wholly-owned subsidiary of NWD’s 61%-owned NWS Holdings (659 HK) acquired entire issued share capital of FTLife for HK\$21.5 billion (US\$2.75 billion) in cash in December 2018. The deal is one of the top five insurance M&As ever in Hong Kong. The acquisition price was fair at 1.43x P/B, in our view, given that the HK-listed China insurers are now trading at an average of 1.45x. In September 2018, FTLife Insurance announced a 47% increase in after-tax profit for the first half of 2018. According to a statement by the insurer, its sales in annual premium equivalent (APE) rose 99% year-on-year, with new business value more than doubling. In 2017, FTLife was the 12th-largest individual life insurer in Hong Kong by premiums and had a 1.4% market share. It has about 2,800 financial consultants and staff.

Financial forecast

P&L – expect reasonably EPS growth with stable margins

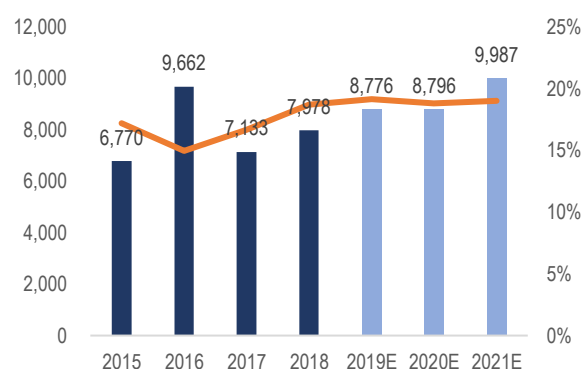
We project NWD's revenue and underlying profit to increase by a CAGR of 10.5% and 7.8% between FY18 and FY21E, respectively. Underlying profit growth in the same period will, however, be slower than the topline growth, due to operating expense of its newly launched Victoria Dockside, in our view. By FY21, we estimate NWD's revenue will grow to HK\$81.8bn, operating margin will increase to 19.0%, and underlying profit will reach HK\$10.0bn.

Figure 32: Total revenue forecast (HK\$ mn)



Source: Company data, AMTD Equity Research estimates

Figure 33: Underlying profit (HK\$ mn) (LHS) and Operating margin (RHS) forecast



Source: Company data, AMTD Equity Research estimates

Our earnings forecast is based on the following drivers:

1) Hong Kong DP: FY19 profits locked in with strong FY18 contracted sales

Thanks to strong launches of several projects, such as Mount Pavilia and Fleur Pavilia, NWD has achieved HK\$24.7bn attributable contracted sales in FY18, up 58.3% YoY from HK\$15.6bn in FY17 and suppressing its target of HK\$10bn. Given the strong momentum, we estimate that NWD has unbooked attributable sales amounting to HK\$27.2bn as of the end of Dec 2018. Furthermore, Hong Kong property development margin rose by 13pps to 40.1% in FY18 and we estimate 90% of NWD's property development profit has been locked in, indicating high earnings visibility for FY19.

Figure 34: Key projects to be booked

Project	Total no. of units	No. of units sold as at Dec 2018	Total contracted sales (HK\$ bn)	Stake	Attri. contracted sales (HK\$ bn)
The Pavilia Bay	983	978	10.5	63%	6.6
Fleur Pavilia	611	487	11.5	40%	4.6
Mount Pavilia	680	600	15.0	80%	12.0
Artisan House	250	248	2.2	100%	2.2
The Parkville	100	100	0.9	100%	0.9
Park Hillcrest	123	123	0.9	100%	0.9
Total	2,747	2,536	40.5		27.2

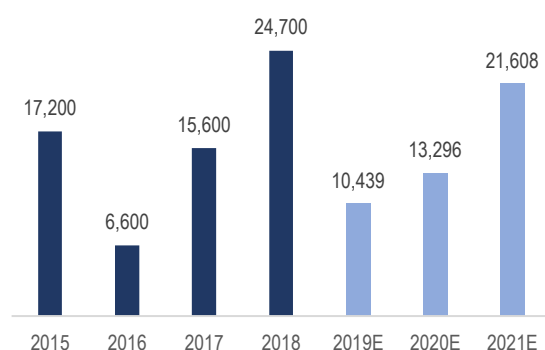
Source: Company data, AMTD Equity Research estimates

NWD set same sales target of HK\$10bn in FY19 as it in FY18, which is easy to achieve in our view, because NWD has abundant saleable resources and it plans to launch over 1,700 residential units in FY19 (incl. around 400 units from unsold inventory). "Reach Summit" (504 units, 21% stake), jointly developed with Henderson Land, was launched the first batch of 152 units in Nov 2018, and two other projects in Ho Man Tin (240 units, 51% stake), Ma Tau Kok (294 units, 100% stake), and farmland-conversion project of "Lung Tin Tsuen Phase 3" (100% stake) are expected to be launched after CNY 2019. Large residential project in Tai Wai Station (2,900 units, 100% stake) and two office projects in Cheung Sha Wan (100% stake) will contribute contracted sales in FY20 and FY21.

2) Mainland China DP: Low land cost sustains margins of property development

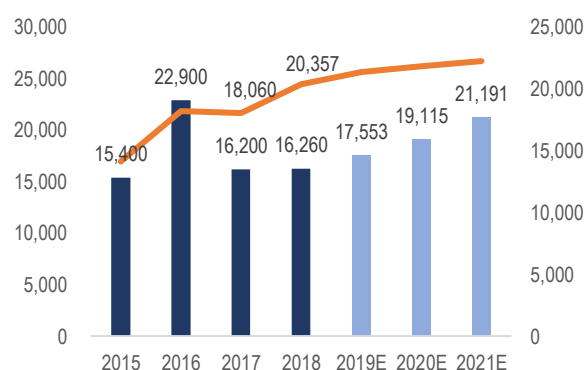
NWD built most of its landbank in early years in mainland China, the average land cost is quite low. Although contracted sales growth was flat in FY18, profits growth was driven by increasing ASP. In FY18, overall and residential contracted ASP rose 12.7% YoY/20.9% YoY to RMB20,357/sq m/RMB22,667/sq m, respectively, which lifted the segment margin to 38.8%, up 9.3pps YoY. Contracted sales from Guangzhou and Shenyang are expected to be booked in FY19 with respectable margins. For FY19, the contracted sales target was set at RMB16bn, the same as that of FY18. Projects in Guangzhou, Foshan, Ningbo, and Shenyang will contribute most of the contracted sales. The first phase of project of Shenzhen Prince Bay in Great Bay Area is expected to be launched in second quarter of CY20.

Figure 35: Hong Kong attributable contracted sales forecast (HK\$ mn)



Source: Company data, AMTD Equity Research estimates

Figure 36: Mainland China contracted sales (RMB mn) (LHS) and overall ASP (RMB/ sq m) (RHS) forecast

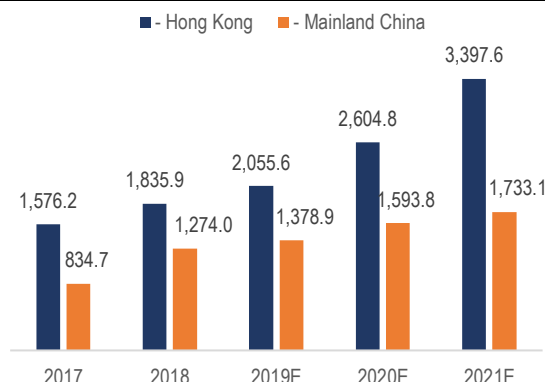


Source: Company data, AMTD Equity Research estimates

3) IP: Recurring income growth driven by Victoria Dockside in the near term

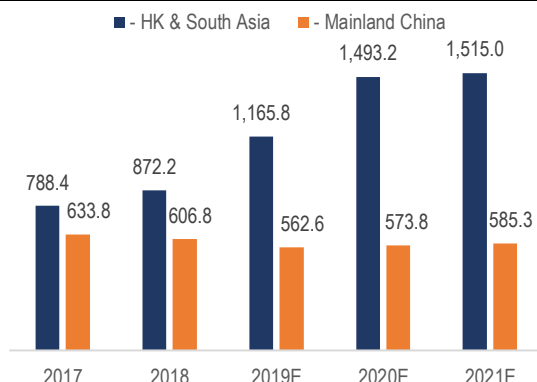
The remaining projects at Victoria Dockside will be a nearly 80~90% boost to current HK recurring income in coming two to three years. We expect that revenue from HK investment property will grow to HK\$3.4bn in FY21, up 85.1% compared to FY18. Passing rent for the retail mall (K11 MUSEA) could be HK\$110-130/sq ft. NWD expects to achieve over 70% commitment rate before its opening in 3Q19. In the same time, the service apartment (K11 ARTUS) is expected to open in 3Q19 as well. Rosewood Hong Kong providing 599 rooms will be scheduled to open in March 2019 and will add another HK\$500mn recurring income to NWD's hotel business by FY20.

Figure 37: Investment property revenue forecast (HK\$ mn)



Source: Company data, AMTD Equity Research estimates

Figure 38: Hotel revenue forecast (HK\$ mn)



Source: Company data, AMTD Equity Research estimates

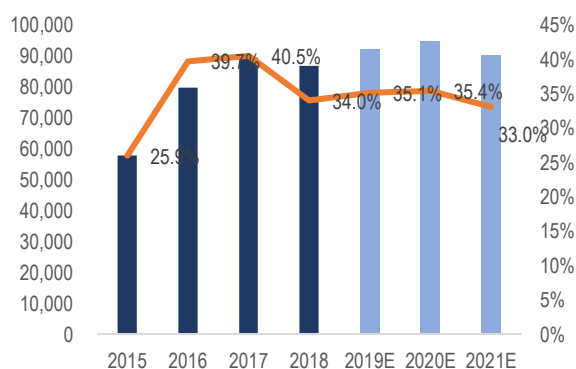
Balance sheet – low funding cost with declining net gearing

NWD’s net gearing, defined as net debt (incl. perpetuals) over total equity, was at 34% as of end-FY18, down 6.5pps from end-FY17. NWD has total interest-bearing debt of HK\$150.20bn, including HK\$9.45bn perpetuals as of end-FY18, with net debt at HK\$86.75bn. As construction work of Victoria Dockside will be completed this year and rental income will increase steadily from now on, we estimate that improving cash inflow will decrease net gearing to 33.% by FY21.

For the debt structure, thanks to its large proportion of bank loans, NWD’s average funding cost was at 3.38% in FY18, which was down 22bps compared to FY17. In terms of maturity, 54% of its debt (excl. perpetuals) is due next 3 to 5 years, and 71% of its debt (excl. perpetuals) is denominated in HKD.

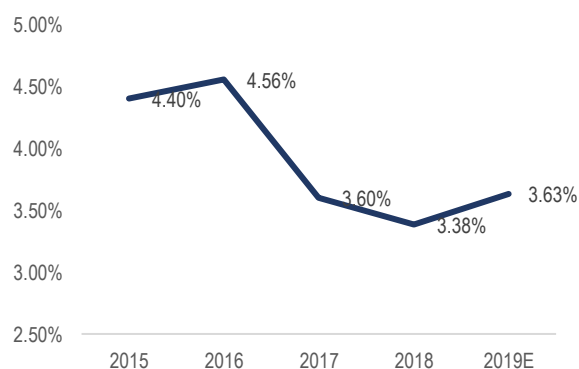
In Dec 2018, New World China (“NWC”), the China property arm of NWD, successfully issued US\$310mn green bond with a coupon rate of 4.75% and a 5-year maturity due 2023. NWC intends to use the proceeds from the green bond to finance two eligible green projects in the Greater Bay Area. Along with the weakening headwind of interest rate hike, we believe NWD is able to keep the average funding cost below 4%.

Figure 39: Net debt (HK\$ mn) (LHS) and net gearing trend (RHS)



Source: Company data, AMTD Equity Research estimates

Figure 40: Average funding cost



Source: Company data, AMTD Equity Research estimates

Cash flow – healthy cash flow and high dividend payout ratio

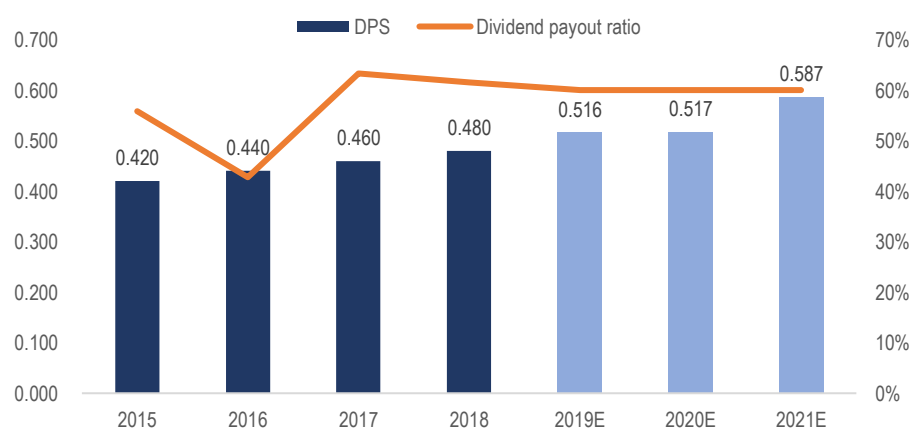
Given its abundant land reserves and prudent land acquisition strategy, NWD has been always running on positive operating cash flow. With strong contracted sales last year and assuming a cash collection rate of 70%, cash inflow from contract sales may reach HK\$35.3bn in FY19. On the other hand, we project total cash outflow amounts to HK\$39.7bn in FY19, with major outflow items being land premium at HK\$5.0bn, SG&A at around HK\$9.3bn, and construction capex at HK\$10.0bn, of which HK\$4b.0n is for remaining projects at Victoria Dockside. For cash inflow, NWD will likely meet or even beat the contract sales target of HK\$10bn and RMB16bn in Hong Kong and mainland China, respectively. Given its healthy cash flow, NWD can maintain its high dividend payout ratio at around 60%, in our view.

Figure 41: operating cash flow forecast

Items	HK\$ bn
Cash inflow from property sales	35.3
Cash inflow from property investment	3.4
Dividend from NWS	1.5
Total cash inflow	40.2
Land premium	(5.0)
Construction CAPEX & others	(10.0)
SG&A	(9.3)
Interest cost	(5.5)
Taxation	(4.7)
Dividend payout	(5.2)
Total cash outflow	(39.7)
Net cash inflow	0.6

Source: Company data, AMTD Equity Research estimates

Figure 42: DPS (HK\$/sh) (LHS) and dividend payout ratio (based on underlying EPS) (RHS)



Source: Company data, AMTD Equity Research estimates

Figure 43: NWD income statement

P&L (HK\$ mn)							YoY growth %				
	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY17	FY18	FY19E	FY20E	FY21E
Property development	28,528	25,968	23,381	34,982	34,973	39,098	-9%	-10%	50%	0%	12%
Property investment	2,492	2,411	3,110	3,434	4,199	5,131	-3%	29%	10%	22%	22%
Hotel operations	1,762	1,422	1,479	1,728	2,067	2,100	-19%	4%	17%	20%	2%
Service	19,904	20,556	25,912	26,559	27,356	28,177	3%	26%	2%	3%	3%
Infrastructure	2,444	2,411	2,815	2,885	2,972	3,061	-1%	17%	2%	3%	3%
Department stores	3,550	3,389	3,671	3,744	3,819	3,896	-5%	8%	2%	2%	2%
Others	890	473	322	328	335	341	-47%	-32%	2%	2%	2%
Total Revenue	59,570	56,629	60,689	73,662	75,721	81,803	-5%	7%	21%	3%	8%
Cost of Goods Sold	(41,048)	(38,413)	(40,125)	(50,237)	(51,869)	(56,281)	-6%	4%	25%	3%	9%
Gross Profit	18,522	18,216	20,563	23,424	23,852	25,523	-2%	13%	14%	2%	7%
Property development	7,215	7,420	9,164	12,828	12,095	13,230	3%	24%	40%	-6%	9%
Property investment	1,408	1,378	1,628	1,805	2,231	2,784	-2%	18%	11%	24%	25%
Hotel operations	(117)	(52)	(109)	(2)	34	34	-55%	110%	-98%	-1658%	-1%
Service	976	775	646	662	681	702	-21%	-17%	2%	3%	3%
Infrastructure	1,093	1,167	1,309	1,342	1,382	1,424	7%	12%	2%	3%	3%
Department stores	205	220	233	238	242	247	7%	6%	2%	2%	2%
Others	343	226	(179)	33	33	34	-34%	-180%	-118%	2%	2%
EBIT	8,898	9,430	11,338	14,084	14,230	15,534	6%	20%	24%	1%	9%
Total Financial Costs	(1,936)	(2,152)	(2,180)	(2,318)	(2,344)	(2,344)	11%	1%	6%	1%	0%
Profit before taxes	18,707	15,230	33,354	17,120	17,344	18,957	-19%	119%	-49%	1%	9%
Income Tax Expense	(6,424)	(4,756)	(6,272)	(4,662)	(4,762)	(4,880)	-26%	32%	-26%	2%	2%
Profit after tax	12,283	10,079	26,545	12,459	12,582	14,077	-18%	163%	-53%	1%	12%
Minority Interest	(3,617)	(2,403)	(3,207)	(3,683)	(3,786)	(4,090)	-34%	33%	15%	3%	8%
Net Income	8,666	7,676	23,338	8,776	8,796	9,987	-11%	204%	-62%	0%	14%
Exceptional	(996)	542	15,361	0	0	0					
Underlying profit	9,662	7,133	7,978	8,776	8,796	9,987	-26%	12%	10%	0%	14%
Underlying EPS	1.06	0.75	0.80	0.86	0.86	0.98	-29%	7%	10%	0%	14%
DPS	0.44	0.46	0.48	0.52	0.52	0.59	5%	4%	7%	0%	14%
Dividend payout ratio	42%	62%	60%	60%	60%	60%					
Gross margin	31.1%	32.2%	33.9%	31.8%	31.5%	31.2%					
EBIT margin	14.9%	16.7%	18.7%	19.1%	18.8%	19.0%					
Underlying profit margin	16.2%	12.6%	13.1%	11.9%	11.6%	12.2%					
ROE	4.8%	4.2%	11.6%	4.0%	4.0%	4.4%					
ROA	2.2%	1.9%	5.1%	1.8%	1.8%	2.0%					

Source: Company data, AMTD Equity Research estimates

Figure 44: NWD balance sheet

Balance sheet (HK\$ mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Cash At Bank	54,965	66,986	63,388	61,607	58,854	63,409
Debtors Deposits And Prepayments	25,481	27,864	25,520	25,520	25,520	25,520
Property Held For Sales (Short-Term)	21,163	34,531	42,301	44,416	46,637	47,803
Property Under Development - Current	50,755	48,530	37,171	36,883	36,159	35,571
Inventories	666	756	832	930	960	1,042
Current assets	155,055	178,850	169,299	169,443	168,217	173,431
Property Plant & Equipment - Net	23,873	30,808	29,940	28,497	27,237	25,817
Real Estate Investments	86,597	105,760	149,728	151,246	159,508	164,904
Prepaid Lease Payments	1,932	1,715	1,064	1,064	1,064	1,064
Total Intangible Assets - Net	15,609	15,266	15,186	14,205	13,225	12,245
Equity Investments In Associates/Affiliates	19,057	26,402	24,708	25,944	27,241	28,603
Investments In Joint Controlled Entities	50,353	49,317	49,136	51,593	54,172	55,527
Property Under Development - Noncurrent	18,557	18,284	19,656	19,504	19,121	18,810
Non-current assets	233,171	258,075	309,400	312,035	321,551	326,952
Total assets	388,226	436,926	478,699	481,478	489,767	500,383
Short-Term Borrowings	3,262	6,367	8,778	8,778	8,778	8,778
Current Portion of Long-Term Debt	16,828	14,858	11,852	11,852	11,852	11,852
Accounts Payable and Accrued Expenses	38,191	50,735	65,059	58,149	60,038	65,145
Current liabilities	66,439	79,501	94,681	87,771	89,659	94,766
Long Term Debt	114,842	125,895	120,124	122,557	122,557	122,557
Other Noncurrent Liabilities	601	757	807	807	807	807
Derivative Liabilities (Long-Term)	794	631	366	366	366	366
Deferred Income Taxes (Liabilities)	8,453	9,327	10,288	10,802	11,342	11,626
Non-current liabilities	124,691	136,611	131,584	134,531	135,072	135,355
Total Share Capital	69,600	73,234	77,526	77,526	77,526	77,526
Retained Earnings (Accumulated Deficit)	101,297	104,697	123,586	127,096	130,615	134,610
Accumulated Other Comprehensive Income	8,677	8,161	15,138	15,895	16,690	17,107
Attributable shareholders' equity	179,573	186,091	216,250	220,517	224,830	229,242
Preferred Stock	0	9,452	9,452	10,452	10,452	10,452
Minority/Non-Controlling Interests	21,322	25,402	29,480	30,954	32,502	33,314
Total Shareholders' Equity	200,895	220,945	255,182	261,923	267,784	273,009

Source: Company data, AMTD Equity Research estimates

Figure 45: NWD cash flow

Cash flow (HK\$ mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Loss/Profit	8,666	7,676	23,338	8,776	8,796	9,987
Depreciation	(3,442)	200	522	1,825	1,876	2,026
Amortization of Intangibles	950	917	980	980	980	980
Revaluation/Impairment Invest Property	(307)	(1,364)	(15,367)	0	0	0
Change of OWC	5,141	2,609	17,626	(8,169)	1,285	5,042
Operating cash flow	11,008	10,038	27,099	3,412	12,938	18,036
CapEx	54	(7,135)	345	(381)	(616)	(607)
Real Estate Investments	5,335	(17,800)	(28,600)	(1,519)	(8,262)	(5,396)
Equity Investments In Associates/Affiliates	(1,325)	(7,345)	1,694	(1,235)	(1,297)	(1,362)
Investments In Joint Controlled Entities	(901)	1,036	182	(2,457)	(2,580)	(1,354)
Investing cash flow	(2,948)	(22,663)	(35,282)	(5,592)	(12,755)	(8,719)
Proceeds from ST debt	(13,428)	1,135	(596)	0	0	0
Proceeds from LT debt	31,204	20,505	(5,772)	3,433	0	0
Dividend paid	(5,797)	(4,276)	(4,449)	(5,265)	(5,278)	(5,992)
Share issuance / (repurchases)	2,888	3,634	4,292	0	0	0
Minority	(22,118)	4,080	4,079	1,474	1,548	813
Change of reserves	(5,102)	(516)	6,977	757	795	417
Financing cash flow	(12,353)	24,561	4,532	399	(2,935)	(4,762)
Net cash flow	(4,294)	11,936	(3,650)	(1,781)	(2,753)	4,555

Source: Company data, AMTD Equity Research estimates

Figure 46: NWD valuation comparison

Ticker	Company	Price		Mkt Cap (bn)	P/E		EPS		P/B		BPS		Div. yield	ROE	Net gearing		
		HK\$	USD		FY 18E	FY 19E	FY 17	FY 18E	FY 19E	FY 18E	FY 19E	FY 17			FY 18E	FY 19E	FY 17
17 HK	NWD ¹⁾	12.62	16.4	13.5x	13.4x	2.34	0.94	0.94	0.59x	0.57x	21.17	21.24	22.20	3.8%	11.60	36%	30%
12 HK	HLD	44.90	25.2	16.1x	12.6x	4.45	2.79	3.57	0.66x	0.65x	66.60	68.42	69.37	3.5%	10.93	18%	22%
16 HK	SHKP ¹⁾	133.50	49.3	11.8x	11.1x	10.49	11.35	12.00	0.69x	0.66x	186.09	193.47	201.84	3.5%	9.63	7%	12%
1113 HK	CK	65.10	30.6	9.4x	8.9x	5.44	6.94	7.34	0.75x	0.73x	78.85	86.28	89.25	2.6%	10.73	6%	2%
1972 HK	Swire P	30.75	22.9	20.4x	21.4x	1.34	1.51	1.44	0.68x	0.66x	44.00	45.09	46.56	2.5%	14.07	14%	11%
83 HK	Sino L ¹⁾	14.58	12.6	18.4x	17.9x	1.72	0.79	0.81	0.66x	0.65x	21.14	22.06	22.47	3.6%	10.45	Net	Net
20 HK	Wheelock	52.40	13.7	8.4x	7.4x	5.88	6.27	7.12	0.44x	0.41x	118.78	120.20	128.21	2.7%	9.00	15%	25%
101 HK	HLP	18.40	10.5	17.1x	19.3x	1.23	1.07	0.95	0.60x	0.59x	30.27	30.88	30.97	4.1%	6.18	5%	8%
4 HK	Wharf	24.80	9.6	10.7x	9.9x	2.35	2.31	2.50	0.52x	0.50x	46.75	47.90	49.46	6.4%	9.54	Net	20%
683 HK	Kerry	33.35	6.2	9.6x	9.0x	4.61	3.47	3.70	0.50x	0.48x	65.22	66.95	69.67	4.0%	10.44	24%	17%
14 HK	Hysan	41.80	5.6	17.1x	16.1x	2.25	2.45	2.60	0.60x	0.59x	66.89	69.17	70.66	3.3%	5.29	5%	5%
35 HK	FEC ²⁾	3.61	1.1	5.6x	5.5x	0.69	0.65	0.66	0.59x	0.55x	5.64	6.15	6.53	6.1%	13.19	72%	n.a.
Mean				13.2x	12.7x				0.61x	0.59x				3.8%	10.09	20%	15%
Median				12.6x	11.8x				0.60x	0.59x				3.6%	10.44	14%	14%

Note: 1) financial year ends 30 Jun; 2) financial year ends 31 Mar;

Source: Bloomberg, Priced as of 18th February, AMTD Equity Research estimates

1HFY19 earnings preview

We forecast in 1HFY19 NWD's revenue increase by 25.0% YoY to HK\$34.9bn and underlying profit reach HK\$4.0bn, accounting for 47.8% and 45.7% of our full year forecast of FY19, respectively. The revenue growth will be driven by strong contracted sales in FY18 and we expect lower operating margin due to expenses from the launches of projects at Victoria Dockside.

Figure 47: 1HFY19 earnings preview

P&L (HK\$ mn)	1HFY17	2HFY17	1HFY18	2HFY18	1HFY19E	2HFY19E	YoY growth %	
							1HFY18	1HFY19E
Property development	13,020	12,948	9,894	13,487	17,587	17,395	-24%	78%
Property investment	1,184	1,227	1,344	1,766	1,614	1,820	14%	20%
Hotel operations	755	668	755	724	806	922	0%	7%
Service	8,503	12,053	12,480	13,432	11,952	14,608	47%	-4%
Infrastructure	1,256	1,154	1,353	1,462	1,298	1,587	8%	-4%
Department stores	1,720	1,669	1,773	1,898	1,498	2,247	3%	-16%
Others	201	271	337	(16)	164	164	67%	-51%
Total Revenue	26,639	29,989	27,935	32,753	34,919	38,743	5%	25%
Cost of Goods Sold	(17,156)	(21,257)	(17,749)	(22,376)	(23,570)	(26,667)	3%	33%
Gross Profit	9,483	8,733	10,186	10,377	11,349	12,076	7%	11%
EBIT	5,356	4,075	5,799	5,538	6,667	7,417	8%	15%
Total Financial Costs	(1,096)	(1,056)	(1,008)	(1,172)	(1,159)	(1,159)	-8%	15%
Profit before taxes	7,826	7,404	15,728	17,625	8,031	9,090	101%	-49%
Income Tax Expense	(2,250)	(2,506)	(3,098)	(3,175)	(2,238)	(2,424)	38%	-28%
Profit after tax	5,447	4,632	12,361	14,184	5,793	6,666	127%	-53%
Minority Interest	(1,111)	(1,292)	(1,091)	(2,115)	(1,842)	(1,842)	-2%	69%
Net Income	4,336	3,340	11,270	12,068	3,952	4,824	160%	-65%
Exceptional	(666)	1,208	7,071	8,290	0	0		
Underlying profit	5,001	2,132	4,199	3,779	3,952	4,824	-16%	-6%
Underlying EPS	0.532	0.223	0.426	0.378	0.395	0.482	-20%	-7%
DPS	0.130	0.310	0.140	0.340	0.140	0.376	8%	0%
Dividend payout ratio	24%	139%	33%	90%	35%	78%		

Source: Company data, AMTD Equity Research estimates

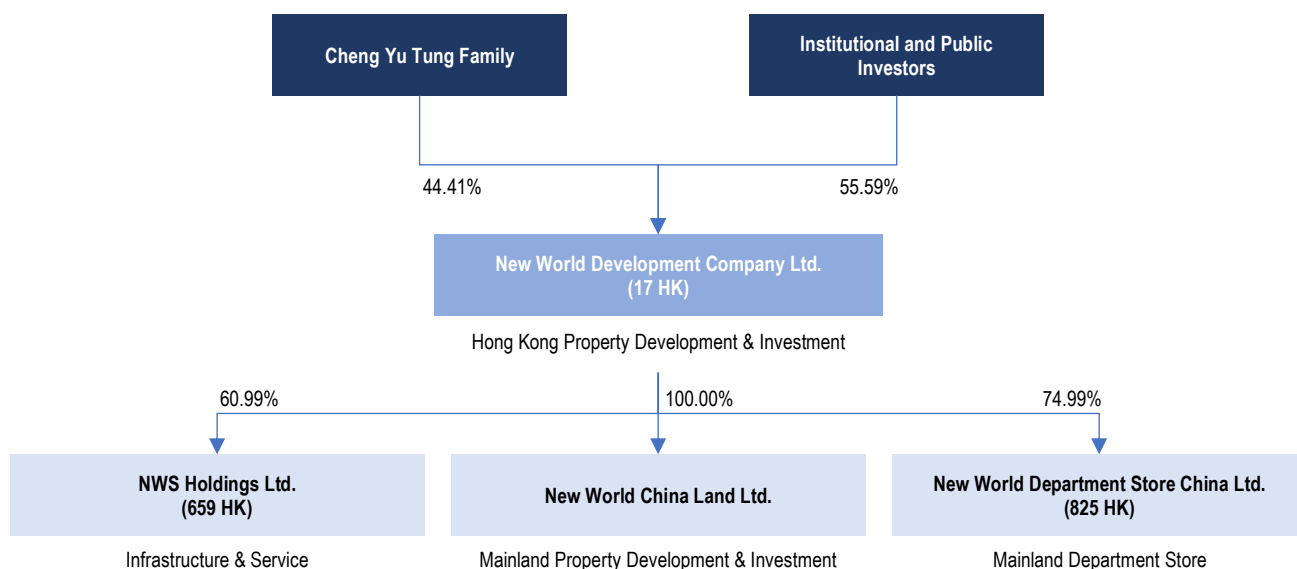
Appendix

Company background

Established in 1970 and headquartered in Hong Kong, New World Development Company Limited (“NWD”) has been listed on the Hong Kong Stock Exchange (17 HK) since 1972. It is one of the constituent stocks of the Hong Kong Hang Seng Index and has established its premium brand in Hong Kong, Mainland China and Southeast Asia.

NWD and its subsidiaries are principally engaged in different businesses, including property development and investment, construction, provision of services, infrastructure, hotel and department store operations, telecommunications, media, technology and other strategic businesses. NWS Holdings Limited (“NWSH”, HK Stock Code: 0659) and New World Department Store China Limited (“NWDS”, HK Stock Code: 0825) are also publicly listed in Hong Kong.

Figure 48: NWD shareholding structure as of end Jun 2018



Source: Company data

Corporate milestones

- 2018**
 - Official opening of K11 Atelier, the first phase of Victoria Dockside, and the first K11-branded Grade A office building
 - New World Development wins a 25-year contract of Kai Tak Sports with the objective to promote future sport development in Hong Kong
- 2017**
 - New World Development announces the building plan of “Victoria Dockside” – a 3-million-square-foot art and design district on the promenade of Hong Kong’s iconic harbourfront
- 2016**
 - Successful bidding of a prime land parcel in Qianhai, Shenzhen at RMB 4.2bn by New World Development and Chow Tai Fook Enterprises, striving to build the second commercial project of the Group in Qianhai
- 2015**
 - NWS Holdings expands into commercial aircraft leasing by acquiring 40% interest in Goshawk Aviation Limited
- 2014**
 - New World Development wins tender for property development project atop Tai Wai Station
- 2013**
 - NWS Holdings Limited acquires equity shares in Beijing Capital International Airport to become its second largest shareholder
 - New World Development and Vanke Property (Hong Kong) win the West Rail Tsuen Wan West Station TW6 Property Development
- 2012**
 - NWS Holdings completes acquisition of 95% of Hangzhou Ring Road in Hangzhou City of Zhejiang Province
- 2011**
 - With NWS Holdings as the major shareholder, Newton Resources Ltd (Stock Code: 1231) is listed on the Main Board of The Stock Exchange of Hong Kong Limited
- 2010**
 - The world’s first K11 Design Store has its grand opening in the K11 Art Mall in Hong Kong
- 2009**
 - The HKCEC has completed its HK\$1.4 billion (US\$180 million) expansion, bringing the centre’s exhibition space 893,080sq ft and total rentable space for events and activities to over 989,920sq ft
- 2007**
 - New World Department Store China Limited (Hong Kong stock code: 0825) is listed on HKSE
- 2003**
 - NWCL is awarded the 2003 China Top 50 Real Estate Corporation
- 1999**
 - New World China Land Limited (“NWCL”) (Hong Kong stock code: 917) is formed to consolidate all of NWD’s property projects in Mainland China, and is listed on HKSE in July
- 1995**
 - New World Infrastructure Limited (“NWI”) (Hong Kong stock code: 301) is formed to consolidate all of NWD’s infrastructure projects in Hong Kong and Mainland China. NWI is listed on HKSE in October
- 1994**
 - An American Depository Receipt Programme is established, enabling NWD’s shares to be traded in the New York Stock Exchange’s Over The Counter market
- 1992**
 - New World Development (China) is set up
- 1984**
 - NWD signs an agreement with the Hong Kong Trade Development Council to develop and manage the Hong Kong Convention & Exhibition Centre (“HKCEC”) at the Wanchai waterfront
- 1972**
 - NWD (Stock Code: 017.HK) is listed on the Hong Kong Stock Exchange, raising over HK\$193 million
- 1970**
 - New World Development Company Limited is established to venture into property development. Dr Ho Sin Hang is elected Chairman of the Company, while Dr Cheng Yu Tung is appointed Director and General Manager. Chow Tai Fook Enterprises Limited is the Company’s largest shareholder

Board of directors and management team profile

Figure 49: Board of directors and management team profile

Name	Position	Age	Experience
Dr. Cheng Kar-Shun, Henry	Chairman and Managing Director	71	Dr. Cheng is a member of the Remuneration Committee and the chairman of the Nomination Committee and Executive Committee of the Board of Directors of the Company. Dr. Cheng is the chairman and executive director of NWS Holdings Limited and Chow Tai Fook Jewellery Group Limited, the chairman and nonexecutive director of New World Department Store China Limited and FSE Services Group Limited, the vice-chairman and nonexecutive director of i-CABLE Communications Limited, and a non-executive director of SJM Holdings Limited, all of them are listed public companies in Hong Kong. He is the chairman and managing director of New World China Land Limited.
Mr. Doo Wai-Hoi, William	Vice-chairman and Non-executive Director	74	Mr. Doo is also a non-executive director of Lifestyle International Holdings Limited upon redesignation from executive director on 11 June 2015 and an independent nonexecutive director of Shanghai Industrial Urban Development Group Limited. Mr. Doo is also a director of certain subsidiaries of the Group. He is the chairman and director of Fungsheng Prosperity Holdings Limited. Mr. Doo is a Justice of the Peace appointed by the Government of the Hong Kong Special Administrative Region. He is also the Honorary Consul General of the Kingdom of Morocco in Hong Kong and Macau, and a Governor of the Canadian Chamber of Commerce in Hong Kong.
Dr. Cheng Chi-Kong, Adrian	Executive Vice-chairman and General Manager	38	Dr. Cheng worked in a major international bank prior to joining the Group in September 2006 and has substantial experience in corporate finance. Dr. Cheng holds a Bachelor of Arts Degree (cum laude) from Harvard University, and was conferred the Honorary Doctorate of Humanities by the Savannah College of Art and Design. He is the vice-chairman of All-China Youth Federation, a member of the Tianjin Municipal Committee of The Chinese People's Political Consultative Conference, the chairman of China Young Leaders Foundation, the honorary chairman of K11 Art Foundation and a member of Board of the West Kowloon Cultural District Authority.
Mr. Cheng Kar-Shing, Peter	Non-Executive Director	66	Mr. Cheng is also an independent nonexecutive director of King Fook Holdings Limited, a listed public company in Hong Kong. He is an executive director of New World China Land Limited. Also, he is a director of Cheng Yu Tung Family (Holdings) Limited, Cheng Yu Tung Family (Holdings II) Limited, Chow Tai Fook Capital Limited, Chow Tai Fook (Holding) Limited and Chow Tai Fook Enterprises Limited. Mr. Cheng is a director of New World Hotels (Holdings) Limited, NWS Service Management Limited and certain subsidiaries of the Group. Mr. Cheng is committed to community services and is serving as the chairman of Chow Tai Fook Charity Foundation, the chairman of Chow Tai Fook Medical Foundation Limited, the chairman of The Welfare Fund Limited, the vice-chairman of Hong Kong Economic Exchange and a director of Green Council. He is the University Assembly member of University of Macau. He is on the Panel of Arbitrators of South China International Economic and Trade Arbitration Commission/Shenzhen Court of International Arbitration and an Arbitrator of Huizhou Arbitration Commission as well as a Member of Society of Construction Law Hong Kong.
Mr. Cheng Chi-Heng	Executive Director	40	Mr. Cheng acts as director of certain subsidiaries of the Group. Mr. Cheng is an executive director of Chow Tai Fook Jewellery Group Limited. Mr. Cheng is a director of Chow Tai Fook (Holding) Limited and Chow Tai Fook Enterprises Limited, both are substantial shareholders of the Company. Mr. Cheng worked in Yu Ming Investment Management Limited from 1999 to 2000 as a corporate finance executive. He obtained his Bachelor of Arts Degree majoring in Economics from the University of Western Ontario, Canada in 1999.
Ms. Cheng Chi-Man, Sonia	Executive Director	37	Ms. Cheng currently oversees the hotel division and the project management division of the Group. She is an executive director of New World China Land Limited, and a director of certain subsidiaries of the Group. Before joining the Group in 2008, Ms. Cheng worked in a major international investment bank and a global US private equity firm specialising in real estate investments. Ms. Cheng holds a Bachelor of Arts Degree with a concentration in Applied Mathematics from Harvard University. Ms. Cheng is the chief executive officer of Rosewood Hotel Group, chairman of the advisory committee of the School of Hotel and Tourism Management at The Chinese University of Hong Kong and member of the advisory committee of the School of Hotel & Tourism Management Industry at The Hong Kong Polytechnic University. She is a member of the Y. Elites Association, the Young Presidents' Organization and the Hong Kong United Youth Association, and a non-official member of the Family Council and the Advisory Committee on Gifted Education.

Source: Company data

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Overweight	Industry sector expected to outperform the market over the next 12 months
Neutral	Industry sector expected to perform in-line with the market over the next 12 months
Underweight	Industry sector expected to underperform the market over the next 12 months

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
Sell	Stock with potential loss of over 20% over the next 12 months

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We, Brian Li, Michelle Li, 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 were, are 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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