

# New World China Land (917.HK)

## Steady Operation, yet with a Lack of Sufficient Catalyst

4 March 2015

HONG KONG | PROPERTY | COMPANY UPDATE

### Summary

- Recently, New World China Land released its result of the first half (H1) financial year of 14/15 (up to December 31, 2014); the total income dropped 26.8% yoy to 8.7 billion HKD, and the profit applicable to shareholders dropped 55.4% yoy to HKD1.52 billion. The gross margin, compared to the same period's 50.9% in 2013, dropped by 10.5 ppts to 40.4%, yet still higher than the industry's average level.
- New World China Land recorded the real estate contracts' sales volume up to RMB7.23 billion, which dropped 22.4% yoy; saleable area of real estate up to 500 thousand square meters, which was mainly influenced by weak market sentiment and dropped 22.7% yoy. In the 2014/2015 financial year, the company's sales objective is 12.5 billion, 58% of which has been reported by the end of H1. We believe that lowered sales objective and relatively better sales completion rate reflect the company management's cautious expectation toward the real estate's prospect; the management is oriented in creating good products, improving asset operation efficiency, and thus stabilizing balance sheet.
- New World China Land's liability scale has been continuously rising. Up to the end of last year, the company's total liability had risen to 47.8 billion HKD from 39.4 billion at the end of June, increasing by 8.4 billion; the book cash assets increased from 17.4 billion to 20.5 billion; the scale of net debt kept growing to 27.2 billion, and the proportion of net debt increased from 36% to 43%. In general, New World China Land's financial leverage is going up, yet still lower than the industry's average level. As far as we're concerned, the company's financing and debt paying are running steadily and the balance sheet is stabilized, making it possess enough financial resources to deal with the current industrial dilemmas and operational strategy adjustments.
- Currently, 78% of the land reservation possessed by New World China Land is concentrated in first-and-second-tier cities. Although the company stays cautious toward its prospect, first- and second-tier cities' quality residential property and commercial real estate will be the major developments of the company. In our opinion, New World China Land's profit-oriented sales strategy does not possess enough competitiveness in the current market, and the gross margin which is higher than the industry's average may be challenged, yet the strategy of balance development and stabilized balance sheet can effectively reduce operational risks. We believe that New World China Land's current price lacks sufficient attraction, which we rate it as "Neutral"; the target price of 12 months is HKD5, equivalent to 10 times of the 2015/2016 prospective price-earnings ratio.

### NEUTRAL (Update)

Closing Price: HKD 5.09

Target Price: HKD 5.00 (-1.7%)

O/S SHARES (MN) :	8,686
MARKET CAP (HKD MN) :	44,210
Ent. Value (HKD MN) :	72,252
52 - WK HI/LO (HKD) :	6.80/4.10

### SHARE HOLDING PATTERN, %

PROMOTERS :	65.88
NON PROMOTER CORP. HOLDINGS :	5.72
PUBLIC & OTHERS :	28.4

### PRICE



Source: Phillip Capital Research

### KEY FINANCIALS

HKD Mn	FY13	FY14	FY15E	FY16E
Revenue	16,154	22,379	20,020	23,591
Net Profit	4,616	4,638	4,377	5,060
EPS	0.530	0.540	0.504	0.583
P/E (X)	5.64	8.52	9.92	8.58
BVPS	6.27	6.65	7.03	7.31
P/B (X)	0.48	0.69	0.71	0.68
DPS	0.070	0.070	0.060	0.080
Div. Yield	2.34%	1.52%	1.20%	1.60%

Source: Phillip Capital Research Est.

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## Financials

FYE Mar	FY2011	FY2012	FY2013	FY2014	2015E	2016E
<b>Valuation Ratios</b>						
P/E (X), adj.	5.45	7.50	5.64	8.52	9.92	8.58
P/B (X)	0.40	0.56	0.48	0.69	0.71	0.68
Dividend Yield (%)	2.52%	2.22%	2.34%	1.52%	1.20%	1.60%
<b>Per share data (HKD)</b>						
EPS, reported	0.510	0.420	0.530	0.540	0.504	0.583
EPS, adj.	0.510	0.420	0.530	0.540	0.504	0.583
DPS	0.070	0.070	0.070	0.070	0.060	0.080
BVPS	6.96	5.64	6.27	6.65	7.03	7.31
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	n.a.	-7.59%	28.94%	38.54%	-10.54%	17.84%
EBIT	n.a.	21.36%	22.37%	19.94%	-13.28%	14.07%
Net Income, adj.	n.a.	1.82%	49.82%	0.48%	-5.63%	15.60%
<b>Margins</b>						
Gross profit margin	31.39%	45.04%	41.83%	41.48%	39.85%	39.50%
EBIT margin	37.35%	48.63%	48.95%	39.43%	38.22%	37.00%
Net profit margin	22.32%	24.59%	28.57%	20.72%	21.86%	21.45%
<b>Key Ratios</b>						
ROE (%)	7.62%	6.81%	8.95%	8.28%	7.17%	7.97%
ROA (%)	4.07%	3.47%	4.27%	3.89%	3.51%	3.86%
Net Debt/(Cash)	10,264	15,120	17,665	22,071	28,051	30,562
Net Gearing (X)	net cash	48.1%	16.2%	36.0%	44.0%	43.0%
<b>Income Statement (HKD mn)</b>						
Revenue	13,557	12,528	16,154	22,379	20,020	23,591
Cost of sales	(9,301)	(6,887)	(9,395)	(13,097)	(12,042)	(14,273)
Gross profit	4,256	5,642	6,758	9,282	7,978	9,318
EBIT	4,954	6,012	7,357	8,824	7,652	8,729
EBT	5,064	6,092	7,907	8,944	7,720	9,018
Tax	(1,917)	(2,813)	(3,052)	(4,145)	(3,088)	(3,607)
Tax rate	37.86%	46.18%	38.60%	46.34%	40.00%	40.00%
Profit for the year	3,146	3,280	4,855	4,799	4,632	5,411
Minority interests	120	199	239	161	255	351
Net profit	3,026	3,081	4,616	4,638	4,377	5,060

Source: New World China Land and Phillip Securities

### PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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