



**Key Data**

Share price (HK\$)	11.84
52Wk H/L(HK\$)	13.46 / 10
Issued shares (mn)	3,592.1
Market cap (HK\$m)	42,530
30-day avg vol (HK\$m)	24.2
Major shareholder (%):	
NWD	60.7

Source: Company, Bloomberg, ABCI Securities

**Attributable Operating profit composition in FY12 (%)**

Roads	28.8
Facilities Management	28.1
Strategic Investments	13.2
Water	8.5
Construction & Transport	7.9
Ports & Logistics	7.2
Energy	6.2

Source: Company

**Share performance (%)**

	Absolute	Relative*
1-mth	(3.7)	(6.4)
3-mth	0.9	(8.5)
6-mth	0.7	(2.4)

Source: Bloomberg

\*Relative to Hang Seng Index

**1 year price performance**



Source: Bloomberg

**Analyst**

Name: Francis Chu  
Tel: (852) 2147 8313  
Email: [francischu@abci.com.hk](mailto:francischu@abci.com.hk)

**NWS Holdings (659 HK) – Unrated Industrial Conglomerates**

**Company Visit Note**

**We visited NWS Holdings (“NWS”) and focused on its organic growth, inorganic growth and its dividend policy. Its gearing ratio of 32% allows the group to look at attractive targets. We believe its dividend payout of over 50% will be sustainable.**

**Its duty free retail outlets at China-HK land border terminals will benefit from booming short-haul visitors from the Mainland.** Management envisaged renewed concessions at its land border crossing terminals would capture the growth of visitors from Mainland China. However, the group lost the concession to run duty free retail outlets in the HK Airport.

**Sourcing attractive deals on toll projects in the PRC.** NWS is seeking acquisition opportunities on toll road projects in the PRC with attractive valuation and IRR over 10%.

**Inorganic growth from HK/foreign utilities.** NWS is also considering to HK and/or foreign utilities projects under its strong financial position. Besides, we believe there would be no significant spin-off or disposal within one year.

**Maintain dividend payout of over 50% of net profit.** They are confident in maintaining high dividend policy of distributing at least 50% of net profit.

**Risk factors:** Policies risk, M&A risk.

**Results and Valuation**

FY ended Jun 30	FY08A	FY09A	FY10A	FY11A	FY12A
<b>Revenue (HK\$m)</b>	<b>18,890</b>	<b>17,251</b>	<b>12,089</b>	<b>9,561</b>	<b>14,954</b>
Chg (% YoY)	25.5	(8.7)	(29.9)	(20.9)	56.4
<b>Gross Profit (HK\$m)</b>	<b>2,370</b>	<b>1,844</b>	<b>1,977</b>	<b>1,659</b>	<b>3,078</b>
Chg (% YoY)	82.8	(22.2)	7.3	(16.1)	85.6
<b>Net Income (HK\$m)</b>	<b>3,837</b>	<b>2,529</b>	<b>4,012</b>	<b>4,627</b>	<b>5,251</b>
Chg (% YoY)	91.3	(34.1)	58.6	15.3	13.5
<b>EPS (HK\$)</b>	<b>1.27</b>	<b>0.82</b>	<b>1.28</b>	<b>1.40</b>	<b>1.53</b>
Chg (% YoY)	88.1	(35.3)	56.1	9.4	9.3
<b>PE (x)</b>	-	-	-	-	7.7
<b>PB (x)</b>	-	-	-	-	1.2
<b>Yield (%)</b>	-	-	-	-	6.3
<b>ROA (%)</b>	9.3	5.8	9.8	11.3	9.9
<b>ROE (%)</b>	20.0	11.4	16.3	16.2	15.7
<b>Net debt/total equity (%)</b>	19.3	14.6	Net Cash	6.7	31.9

Source: Company, Bloomberg, ABCI Securities estimates



**During our visit, we focused on the following four issues to discuss with the Executive Director of NWS, Mr William Doo Jr:**

**(1)**

**Mr Doo:**

Under Facilities Management division, renewed concessions at all land border crossing terminals will capture growth of visitors from Mainland China. The Duty Free concession for the retail outlets strategically located in custom borders, namely Lo Wu, Hung Hom and Lok Ma Chau have been extended to 2017. Despite the concession loss on HK Airport, he expects that strong visitor growth in Lok Ma Chau station and high double digit growth in ticket size should support earnings growth in FY13.

**We:**

Regarding its business segment of Facilities Management, it comprises mainly the Hong Kong Convention and Exhibition Centre (“HKCEC”) and Free Duty (operation company of its duty free retail outlets). Its Free Duty accounted for 68% of total facilities management AOP which in turn accounting for 28.8% of total AOP. In addition, AOP of facilities management increased by 35%YoY to HK\$1,184mn. According to the Hong Kong Tourism Board, the visitor arrivals from Mainland China in August 2012 increased 27.9%YoY. The cumulative visitor arrivals from Mainland China for 8M12 was up 23.4%YoY. We estimated 17.4%YoY growth in the AOP of facilities management in FY13. It is mainly due to 10% traveler growth and 30% average ticket size growth in Lok Ma Chau outlet.

**(2)**

**Mr Doo:**

Under Roads division, full year contribution from Hangzhou Ring Road from FY2013 can offset impact from recent adverse toll road policies, the group is looking for acquisition opportunities with attractive valuation.

**We:**

The Roads division contributed 28.8% of total AOP in FY12. Moreover, excluding the extra profit recognition of Tangjin Expressway, core AOP of the road division surged 45%YoY to HK\$1,086mn in FY12, owing to the contribution from the newly-acquired Hangzhou Ring Road. We agree that based on its strong historical track record in the PRC, the group is able to source attractive deals under tight monetary environment in the PRC.

**(3)**

**Mr Doo:**

M&A potential in foreign utilities project based on its strong financial position.

**We:**

With its net gearing of 30%, the group has room to gear up to do M&A. The group lacks expertise in running foreign utility projects but the group does not mind to team up with strategic partners to do foreign M&A.

**(4)**

**Mr Doo:**

Dividend payout ratio of at least 50% is expected to sustain.

**We:**

Its FY12 net profit increased by 13%YoY to HK\$5,251.1mn. Its dividend payout was HK\$2,636.8mn. It implies a payout ratio of 50.2%. We estimated that 31.6% of its FY12 net profit was due to spin off of its Newton Resources which is non-cash in nature. Thus, we found the future payout ratio over 50% very likely.



**Attributable Operating Profit (“AOP”) by segment**

AOP (HK\$ mn)	FY11	FY12	YoY
Roads	1,135	1,210	6.6%
Facilities Management	877	1,184	35.0%
Strategic Investments	833	556	-33.2%
Water	298	359	20.7%
Construction & Transport	279	334	19.7%
Ports & Logistics	282	301	6.9%
Energy	352	262	-25.6%
<b>Total AOP</b>	<b>4,056</b>	<b>4,208</b>	<b>3.7%</b>
<b>AOP Composition</b>			
Roads	28.0%	28.8%	
Facilities Management	21.6%	28.1%	
Strategic Investments	20.5%	13.2%	
Water	7.3%	8.5%	
Construction & Transport	6.9%	7.9%	
Ports & Logistics	6.9%	7.2%	
Energy	8.7%	6.2%	
<b>Total AOP (%)</b>	<b>100.0%</b>	<b>100.0%</b>	

Source: Company; ABCI Securities

**P&L of NWS**

FY ended June 30 (HK\$mn)	2011	2012	YoY
<b>Total Revenue</b>	9,561	14,954	56.4%
Cost of sales	(7,902)	(11,876)	50.3%
Gross profit	1,659	3,078	85.6%
Gain on deemed disposal of interest in a subsidiary	0	1,843	-
Other income/gains (net)	1,715	572	-66.7%
General and administrative expenses	(717)	(655)	-8.7%
Operating profit	2,657	4,838	82.1%
Finance costs	(104)	(580)	456.2%
Share of results of Associated companies	620	557	-10.2%
Share of results of Jointly controlled entities	1,923	1,238	-35.6%
Profit before tax	5,096	6,053	18.8%
Tax	(440)	(625)	41.9%
Profit for the year	4,656	5,428	16.6%
Non-controlling interests	(29)	(177)	512.8%
Profit attributable to shareholders of the Company	4,627	5,251	13.5%
Dividends	2,345	2,637	12.4%
EPS (HK\$)	1.40	1.53	

Source: Company; ABCI Securities

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2868 2183**