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HONG KONG RESEARCH

Analyst: Anita Hwang **12th October, 2007**

NEW WORLD DEVELOPMENT COMPANY LIMITED (新世界發展)

Sector	:	Property Development
HKSE Code	:	0017
Market Price	:	HK$22.90 (11/10/2007)
HSI	:	29,133.02 (11/10/2007)
Shares Issued	:	3,712.9 million
Mkt. Cap.	:	HK$85,026 million
52 weeks Hi/ Lo	:	HK$23.00 / HK$13.08

Chairman	:	Dr. Cheng Yu Tung
Managing Director	:	Dr. Cheng Kar Shun

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 30TH JUNE 2007

Final Results Highlights

	FY2007 HK$ million	FY2006 HK$ million	*y-o-y Change*
• Turnover	23,284.5	23,910.2	*-2.6%*
• Attributable operating profit	5,424.1	4,936.5	*9.9%*
• Other (charge)/ gains	1,651.1	(1,763.9)	*NA*
• Share of results of associates	1,325.8	656.8	*101.9%*
• Share of results of jointly controlled entities	1,664.1	1,636.2	*1.7%*
• Fair value changes on investment properties	1,263.9	1,462.9	*-13.6%*
• Profit before tax	6,670.0	3,505.7	*90.3%*
• **Profit attributable to shareholders**	**4,312.9**	**1,059.8**	*307.0%*
	HK$	HK$	
• EPS- Basic	1.17	0.30	*290.0%*
• DPS- final	0.25	0.20	*25.0%*
• DPS- full year	0.40	0.33	*21.2%*

- New World Development (NWD) reported a net profit of HK$4.32 billion for the fiscal year ended 30th June 2007, up 307% y-o-y. The sharp increase in net profit included a HK$1.59 billion write-back of provision for PrediWave Companies litigation. Excluding the write-back, recurring net profit was at HK$1.64 billion, or about a y-o-y drop of 7.3%, which was largely in-line with consensus estimates.

- Turnover dropped 2.6% y-o-y to HK$23.28 billion as a result of lower property sales (down 74% y-o-y to HK$1.542 billion) neutralizing increase in rental income in Hong Kong (up 5.6% y-o-y to HK$1.08 billion). All divisions, except for property development, showed strong improvement with decent y-o-y growth in operating profit.

- Finance cost went up 5.23% y-o-y to HK$1.17 billion. As of 30th June 2007, total debt amounted to HK$39.478 billion, up 74.7% from HK$22.6 billion as at 30th June 2006. Net debt was at HK$24.08 billion while cash and cash equivalents on hand totalled HK$15.4 billion. Net gearing ratio of the Group increased to 30.7% (30th June 2006: 21.6%) following its acquisition of Taifook on 8th June 2007 which had net debt of HK$6.51 billion as at 30 June 2007.

- EPS was HK$1.17 and a final dividend of HK$0.25 per share (2006:HK$0.2 per share) was declared (HK$0.01 in cash and HK$0.24 scrip dividend with cash option) making up the full-year dividend of HK$0.40 per share, up 21.2% y-o-y (2006: HK$0.33 per share).

Business highlights

Breakdown of operating profit by activities (Including associated companies and jointly controlled entities)

	Fiscal year ended 30th June				
	FY06/07 (HK$ million)	%	FY05/06 (HK$ million)	%	*y-o-y change*
Property development	588.0	10.8%	1,513.9	30.7%	*-61.2%*
Property investment	1,475.7	27.2%	1,206.5	24.4%	*22.3%*
Infrastructure	1,117.1	20.6%	1,086.7	22.0%	*2.8%*
Service	1,166.3	21.5%	741.4	15.0%	*57.3%*
Hotel Operations	675.5	12.5%	425.5	8.6%	58.8%
Department stores	247.0	4.6%	107.4	2.2%	130.0%
Telecommunications	420.1	7.7%	(75.2)	-1.5%	NA
Other	(265.6)	-4.9%	(69.7)	-1.4%	281.1%
Total	5,424.1	100%	4,936.5	100%	9.9%

Property development

- NWD's share of Hong Kong property sales amounted to approximately HK$1.542 billion, down 74% y-o-y. The property sales were mainly contributed by inventory sales from Deep Bay Grove, The Merton, The Grandiose and South Hillcrest. Two projects were launched, namely the Deep Bay Grove and Prince Ritz.

Property investment

- NWD's gross rental income in Hong Kong amounted to HK$1,079.4 million, up 5.6% y-o-y. The increase was mainly driven by stable and positive rental reversions and significant improvement in pedestrian flow in many shopping malls. Occupancy rate at New World Centre Shopping Mall reached 92% while New World Tower, Pearl City, Telford Plaza and the Edge recorded occupancy rate of close to 100%.

Infrastructure

- **Expressways**: average daily traffic flow of Guangzhou City Northern Ring Road reported an 11% growth. Toll income of Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Section) soared by 28% during the year as benefited by the strong economic development of the Pearl River Delta Region. The combined average daily traffic flow of Shenzhen-Huizhou Roadway and Expressway increased by 13% y-o-y.
- **Energy**: The performance of Zhujiang Power Plant was adversely impacted by more electricity imported from the Western Provinces. The increase in average tariff of 5% from the coal-link tariff adjustments helped neutralizing some of the decline.
- **Water**: Macau Water Plant reported a 10% increase in average daily water sales volume while the Chongqing Water Plant and Shanghai SCIP Water Treatment Plants had an impressive growth of 19% and 47% respectively in water sales volume.
- **Ports**: Tianjin Five Continents International Container Terminal Co., Ltd., handled 1,988,000 TEUs during the period and produced positive contribution. Xiangyu Terminals reported an 8% volume growth of 794,000 TEUs during the year.

Service

- The Hong Kong Convention and Exhibition Centre (HKCEC) recorded satisfactory result. ATL Logistic Centre recorded an average occupancy of 98%. NWD increased the shareholding in Taifook Securities to benefit from the buoyant stock market.

Hotel

- NWD's Hotel in Hong Kong, namely Grand Hyatt Hong Kong, Renaissance Harbour View Hotel and Renaissance Kowloon Hotel, recorded an average occupancy of 83% and a 15% growth in the room rate.

Department stores

- Profit attributable to shareholders was HK$302.8 million, up 92% y-o-y. Excluding the HK$58 million exceptional gain from disposal, the growth was 55% y-o-y. Operating margin (excluding exceptional gain) was 30.1% (FY2006: 22.9%).
- 7 new stores were opened in FY2007. NWD currently operates 29 stores in 15 cities on the Mainland and in Hong Kong with a total GFA of 867,180 sq. m. New World Department Stores has been listed on the Hong Kong Stock Exchange since 12 July 2007.

Telecommunications

- New World Telecommunications Ltd. reported a loss due to intense competition in the fixed-line telecommunications market.
- NWD won the PrediWave litigation in December 2006 and a provision of approximately HK$1.59 billion has been written back. Management expected a total of HK$2 billion could be recovered; hence another HK$400 million could be coming in the next fiscal year.

Outlook & Prospects

- ***Local land bank*** NWD now has a land bank of 4.0 million sq. ft GFA for development and 20 million sq. ft agricultural land reserve pending conversion. 7 million sq. ft of agricultural land are under negotiation with government on conversion.
- ***Local property development projects*** A total of 3,600 flats (5 projects) are planned to be launched, namely namely Hunghom Peninsula, the Hanoi Road Redevelopment Project in Tsim Sha Tsui, Belcher's Street Project in Western District, Ma Tin Road Project in Yuen Long and 6-10 Black's Link in Mid-Levels. Hung Hom Peninsula project, with 419,376 sq. ft. attributable GFA, will be launched soon. Meanwhile, The Prince Ritz project in Kowloon City launched last month is now about 40% sold.

  The Atrium Link expansion at HKCEC commenced in August 2006 and is expected to be completed in 2009. The expansion will increase HKCEC's available space by 19,400 sq. m to 83,400 sq. m.

  Grand Hyatt Hong Kong and Renaissance Harbour View Hotel expansion will begin next year adding another 230,000 sq. ft. No land premium is required to be paid.
- ***China properties*** During the year, New World China Land (0917) (NWCL) sold properties amounting to 653,949 sq. m. GFA and generated RMB5.2 billion gross sales proceeds. The total inventory as at the end of FY07 went down to 331,000 sq. m. GFA. Management targeted completion of about 1 million sq. m. in FY08. NWCL holds landbank totalling 26.4 million sq. m. GFA, which is one of the largest among the Chinese property developers.
- ***Discount to NAV is fair*** The counter is currently trading at a 21% discount to FY08E NAV of HK$29 (average historical discount is 30%). While the long-term growth will come from NWCL, the near-term catalyst would be from the Hanoi Road and Hung Hom Peninsula projects to be launched in the next few months.

Recommendation: Hold

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