

Analyst: Sabina Cheng

NEW WORLD DEVELOPMENT COMPANY LIMITED (新世界發展)

Sector	: Property Development	Chairman	: Dr. Cheng Yu Tung
HKSE Code	: 0017	Managing Director	: Dr. Cheng Kar Shun
Market Price	: HK\$16.12 (18/03/2008)		
HSI	: 21,384.61 (18/03/2008)		
Shares Issued	: 3,735.63 million		
Mkt. Cap.	: HK\$60,218.36 million		
52 weeks Hi/ Lo	: HK\$31.25/HK\$14.76		

SUMMARY OF THE INTERIM RESULTS FOR THE PERIOD ENDED 31ST DECEMBER 2007
Interim Results Highlights

	1H FY2008 <u>HK\$ million</u>	1H FY2007 <u>HK\$ million</u>	<u>y-o-y Change</u>
• Turnover	13,055.70	10,716.8	21.82%
• Fair value changes on investment properties	2,123.90	607.2	249.79%
• Operating profit before financing costs & income	6,008.20	1,491.10	302.94%
• Share of results of associates and jointly controlled entities	2,326.80	1,298.00	79.26%
• Net profit	5,644.80	1,362.70	314.24%
	<u>HK\$</u>	<u>HK\$</u>	
• EPS- Basic	1.52	0.37	310.81%
• DPS- Interim	0.18	0.15	20.00%

- New World Development (NWD) reported a net profit of HK\$5.64 billion for the 6 months ended 31st Dec 2007, up 314.24% y-o-y, driven by revaluation gains and proceeds from the spin-off of its mainland department store.
- Turnover jumped by 21.82% to HK\$13.05 billion as a result of significant rise in property sales (1H FY07: down 19.13% y-o-y to HK\$10.72 billion). Sales from its 2,470-unit Harbour Place and other projects reached HK\$1.12 billion. Income from property sales soared 455% from HK\$203 million a year earlier.
- As of 31st Dec 2007, consolidated gross debt of the Group amounted to HK\$21.42 billion, down 11.03% from HK\$24.08 billion as at 30th Jun 2007. As of 31st Dec 2007, NWD has net debt totalling HK\$14.376 billion while cash on hand stood at HK\$14.49 billion. Net gearing ratio stood at 24.4%, compared to 30.7% as of 30th June 2007.
- EPS was HK\$1.52 and an interim dividend of HK\$0.18 per share (up 20.00% year-on-year) was proposed, versus a year ago's HK\$0.15. Payout ratio fell to 11.84% from last year's 40.54%.

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**Business highlights**

Breakdown of turnover by activities (Including associated companies and jointly controlled entities; excluding other gains / (charges))

(HK\$ million)	1H FY2008	%	1H FY2007	%	y-o-y change
Property investment	743.9	18.5	594.9	26.4	25.05%
Property development	1,126.8	28.1	203.2	9.0	454.53%
Service	883.1	22.0	495.8	22.0	78.12%
Infrastructure	638.3	15.9	581.7	25.8	9.73%
Telecommunications	32.2	0.8	4.5	0.2	615.56%
Department stores	188.9	4.7	103.0	4.6	83.40%
Hotels	317.0	7.9	332.6	14.8	-4.69%
Others	85.1	2.1	(61.5)	(2.7)	NA
Total	4,015.3	100.0	2,254.2	100.0	78.13%

Property development

- The Group's share of property sales amounted to some HK\$1,709 million, up 146% year-on-year. Harbour Place in Hunghom was launched in Dec 2007 with overwhelming response. In the first half of FY2008, the contribution to the property sales mainly came from the sales of Harbour Place and inventory.
- After the disposal of 35-47 Tsing Yi Road, NWD currently has a land bank of 2.4 million sq. ft. GFA for immediate development. The Group also has a total of 20 million sq. ft. of agricultural land reserve pending conversion.

Property investment

- The Group's gross rental income in Hong Kong amounted to HK\$484 million, up 9% y-o-y. The Group's commercial portfolio has been benefited from the growing local economy and the rising tourist number. All key shopping malls under the Group's portfolio maintained over 90% average occupancy during the period under review.

Hotel

- The Group's hotels in Hong Kong, namely Grand Hyatt Hong Kong, Renaissance Harbour View Hotel and Renaissance Kowloon Hotel, recorded an average occupancy of 83% (In 1H FY2007: 85%) and a 14% (In 1H FY2007: 16%) growth in the room rate.

Infrastructure

- **Expressways:** Average daily traffic flow of Guangzhou City Northern Ring Road reported a 6% growth. Toll income of Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Section) increased 20% during the period under review as benefited by the strong economic development of the Pearl River Delta Region.
- **Energy:** Both combined electricity sales and average tariff of Zhujiang Power Plants increased by 3% during the period under review. However, its contribution dropped mainly because the soaring coal price drove up the combined fuel costs. The electricity sales of Macau Power grew satisfactorily to 27% on the booming economy in Macau.
- **Water:** Macau Water Plant reported a 9% increase in average daily water sales volume while both the Tanggu Water Plant and Chongqing Water Plant grew 8% y-o-y. Other new projects, such as Changshu Water Plant and Chongqing Tangjiatuo Waste Water Treatment Plant, started contributing during the period.

- **Ports:** Xiamen New World Xiangyu Terminals reported a 6% volume growth to 403,000 TEUs. Throughput of Tianjin Orient Container Terminals grew 5% to 577,000 TEUs after the conversion of the coal berth into container handling facility was completed in Feb 2007. Throughput of Tianjin Five Continents Int'l Container Terminal handled 1,029,000 TEUs during the period. NWS sold its interest in Xiamen Xinyuan Container Terminal and realized a gain during the same period.

Service

- The Hong Kong Convention and Exhibition Centre continued to achieve satisfactory result for the period with 696 events being held and serving over 3.3 million attendees. Benefited from the growth in the local economy and the China market, ATL Logistic Centre recorded a stable profit with an average occupancy of 98%. Taifook Securities and Tricor Holdings Limited both achieved excellent results. Citybus Limited and New World First Bus Services reported a significant drop in profits as surge in fuel price and salaries rise led to a heavy burden to the performance of the bus operation.

Outlook & Prospects

- **Local property development** Harbour Place project should continue to be the main contributor for development profit in the 2H FY2008. Meanwhile, NWD will launch 4 more projects that provide over 1,200 units. They are "42-44 Belcher's Street project" in Western District, the "Hanoi Road Redevelopment Project" in Tsim Sha Tsui, "Ma Tin Road project" in Yuen Long and "Block A of Wylie Court" in Homantin. Yet, according to news, only the sales of the units at Wylie Court in Homantin will be booked in the 2nd half of this financial year.
- **China properties** During the period, New World China Land (0917) (NWCL) completed two development projects with 148,034 sq.m. It also sold developed properties amounted to 283,098 sq.m. GFA with average gross margin and selling price at 33.5% and RMB 8,600 per sq.m. respectively. In addition, NWCL has registered good sales progress of new projects. Management expects that there will be stable growth in downtown area of coastal cities and strong growth in mid-Western China.
- **China department stores** In Jan 2008, the Group opened a new managed department store in Wuhan. With another Beijing store to be opened at the end of 2008, the Group will have a total of 33 department stores with its store network covering 18 major cities.
- **Infrastructure and service arm** The construction of 3 new terminals in Qingdao, Zhengzhou and Chongqing was commenced in Dec 2007 and is expected to be completed in late 2009. The next batch of 4 new terminals, namely, Wuhan, Xian, Dalian and Chengdu, is scheduled to start construction in mid 2008.
- **Valuation** The counter is currently trading at a 50% discount to its current NAV of HK\$30. With its fundamentals improving steadily, we recommend "accumulating" the counter on weakness.

Recommendation: Buy on Weakness

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