



新創建 NWS

New World Group Member



Transaction Briefing

Disposal of Interests in Suez NWS Limited (“SNL”) and Chongqing Derun Environment Co., Ltd. (“Derun”)

NWS Crystallizes Value via Disposal of SNL & Derun

Transaction Summary

- On 11 January 2021 after trading hours, NWS announced the disposals of the majority of its assets within the Environment segment to its long term partner Suez, including its:
 - **Entire 42% interest in SNL** at a consideration of **HK\$4,173m** (“SNL disposal)
 - **Entire 12.55% interest in Derun held by Suyu** which is in turn held by NWS HKI at a consideration of **HK\$2,360m** (“Derun disposal”)
 - **Total consideration** of the 2 disposals amount to **HK\$6,533m**
- Total gross cash proceeds from the exit amount to **~HK\$7,445m**, from:
 - SNL disposal: **HK\$4,173m**
 - Suyu disposal: **HK\$2,360m**
 - Special dividend: **HK\$160m**
 - Repayment of shareholders’ loan from SNL: **HK\$752m**
- Completion of SNL disposal
 - Subject to HK government’s approval
 - If completion takes place after March 2021, SNL will declare an interim dividend no less than 55% payout ratio for CY2021, up to completion date, payable to NWS and Suez pro rata after completion
 - Completion of Derun disposal is subject to and will be on the same day as completion of SNL disposal
- After completion of the 2 disposals, NWS will no longer have any interest in SNL, Derun, Suyu and NWS HKI

Transaction Valuation

HK\$m	SNL	Suyu
Consideration	4,173	2,360
FY2020A AOP to NWS	232.7	147.8
Implied FY20A P/E	17.9x	16.0x
Industry average (<i>water operations</i>) ^{1,2}	2020E P/E	
HK listed	4.9x	
China listed	15.9x	
Average	11.2x	

Financial Impact to NWS

HK\$m		
Est. gain on disposal (before contingent liabilities & transaction cost)	140	
Est. impairment loss (after contingent liabilities & transaction cost)	0.1bn	
Gearing ratio	Jun 30, 2020	Illustrative pro forma
Net debt	17,734	10,289 ³
Equity	57,458	57,602 ³
Net debt / equity	30.9%	17.9%

Notes:

(1) Source from FactSet as of Dec 31, 2020

(2) HK listed water operation companies include Beijing Enterprises Water Group, China Water Affairs Group, and SIIIC Environment; China listed water operation companies include Jiangxi Hongcheng Waterworks, Beijing OriginWater Tech, Beijing Capital and Grandblue Environment

(3) Impact of the transactions: net debt to decrease by HK\$7,445 million; equity to increase by HK\$140 million (without adjustments for approximately HK\$0.1bn estimated impairment loss)

Transaction Rationale and Benefits

1 Crystalizes investment value of SNL & Derun for NWS shareholders

- Current value of investments in SNL and Derun are not fully recognized by the market: significant Holdco discount due to complex shareholding structure in SNL and Derun
- Exit multiples are materially higher than average HK and China listed peers

2 Opportunity to allocate resources to core competencies, invest in projects with higher growth prospects and synergistic to core segments

- NWS has been optimizing its business portfolio since 2018. Prior to the SNL & Derun disposals, ~HK\$9 billion has been recouped from the disposal of other assets in the past three financial years
- SNL and Derun are part of non-core strategic investments that NWS has a minority ownership and doesn't have meaningful management control
- Cash proceeds from the disposals will allow NWS to increase investments in core segments and capture investment opportunities ahead (e.g. investments in Roads and Logistics) and opportunities with growth potential, strong recurring income / cash flow and lucrative returns

3 Decreasing AOP contribution from Environment segment with uncertain growth potential ahead

- Environment segment AOP has been trending down over the past three years

(HK\$m)	FY2018	FY2019	FY2020
AOP from Environment segment ¹	431.5 ²	418.2 ³	354.8
<i>Change yoy</i>		<i>(3.1%)</i>	<i>(15.2%)</i>

- Future growth will be driven by acquisition of new projects with capital injection, which may be uncertain and expensive due to rising competition especially in mainland China market

Notes:

- (1) Excluding one-off fair value gain or impairment loss; AOP refers to attributable operating profit which represents the profit available for appropriation before corporation office and non-operating items; SNL and Derun are main contributors to AOP from Environment segment
 (2) Excluding one-off fair value gain of HK\$62.6m recognized from Chongqing Silian Optoelectronics Science & Technology Co., Ltd.
 (3) Excluding one-off fair value gain of HK\$232.5m as a result of change of accounting treatment of an investment under SNL and impairment loss of HK\$21.7m from Derun

Overview of SNL & Derun

SNL

- Engages in the provision of (1) water and wastewater treatment, (2) recycling and waste recovery, (3) treatment infrastructure services and (4) smart environmental solutions in Mainland China, Hong Kong, Macau and Taiwan
- Manages over 70 water and waste contracts in more than 30 cities in the PRC

Key financials

HK\$m	For the financial year ended 31 December	
	2018	2019
Profit before income tax	1,428	919
Profit after income tax	1,346	801
Profit attributable to SNL shareholders	1,273	661
Net asset value (including MI)		10,872

AOP to NWS

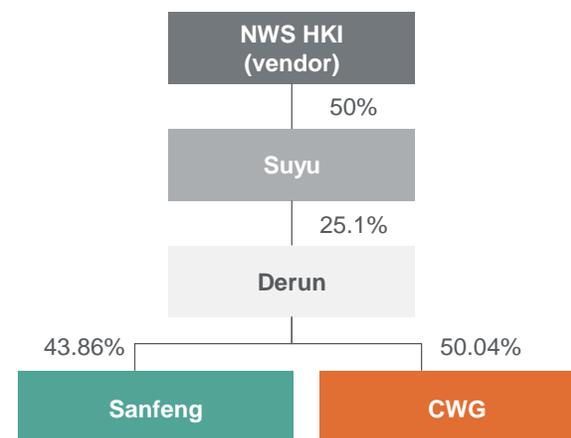
HK\$m	For the financial year ended 30 June	
	2019	2020
42% of SNL	298.3 ¹	232.7

Notes:

- Excluding one-off fair value gain of HK\$232.5m as a result of change of accounting treatment of an investment under SNL
- Excluding one-off impairment loss of HK\$21.7m from Derun
- As at 31 December 2020

Derun

Shareholding structure at announcement



AOP to NWS

HK\$m	For the financial year ended 30 June	
	2019	2020
12.55% of Derun	158.8 ²	147.8

Sanfeng

- Invests in waste incineration power generation projects and providing related equipment in the PRC
- Market cap: RMB 13.9bn³
- 2019 net profit: RMB 554m

CWG

- Engages in water supply and waste water treatment in Chongqing city and Sichuan province
- Market cap: RMB 24.6bn
- 2019 net profit: RMB 1,665m



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Thank You



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