Proceedings of the 4th International Conference on Business and Policy Studies
DOI: 10.54254/2754-1169/172/2025.22173

The Financial Valuation of New World Development

Tongke Yu

The University of Western Australia, Perth, Australia
24268688@student.uwa.edu.au

Abstract: The real estate industry serves as a fundamental pillar of global economic growth and development, attracting substantial investments due to its interconnectedness with various industries. New World Development (NWD), a leading real estate developer in Hong Kong, is currently facing significant financial and operational challenges. These include high debt levels, declining cash flows, and macroeconomic uncertainties, all of which have raised concerns about the company's financial stability. This essay provides a detailed analysis of NWD's financial performance through key financial metrics, including liquidity ratios, solvency ratios, profitability ratios, and cash flow statements. Additionally, it examines external risks such as market volatility, interest rate fluctuations, and regulatory changes that may impact NWD's future growth. Through a comprehensive evaluation of these factors, this study assesses NWD's ability to navigate financial distress, maintain operational efficiency, and sustain long-term profitability. The findings aim to provide valuable insights for investors interested in the real estate sector, offering strategic recommendations on whether NWD remains a viable investment option amid current economic uncertainties.

Keywords: Financial Performance, Real Estate Investment, Market Volatility.

1. Introduction

The real estate industry is a vital economic growth and development pillar, widely influencing residential, commercial, and industrial activities. Rather than providing space, the industry also significantly influences a nation's economy from the perspective of GDP growth, employment, and wealth generation. In addition, the industry also reflects the interplay of demographic, technological, and macroeconomic factors. These importances allow governments, investors, and businesses to focus on it. Before the market volatility in 2023, the Hong Kong real estate industry had been the first preference for investors since issuers mostly consistently produced stable cash flow from their operations and successfully spent various ups and downs in the market in the past few years [1]. However, the importance of investment in the real estate industry should be reconsidered due to the volatility. Therefore, this article aims to examine the financial valuation of the New World Development (NWD), analyse the causes and effects of the volatility of the real estate industry, and summaries several suggestions to help enterprises to do investment decisions on NWD.

The New World Development Company Limited, known as NWD, was founded in 1970 and publicly listed in 1972 in Hong Kong [2]. The core operations revolve around real property, including development and investment, and also involve in hotels and other strategic businesses [2]. The Group's current investments in Mainland China extend across over 21 regions. As of June 30, 2024, NWD's total assets in Greater China, particularly in the Greater Bay Area, amounted to approximately

DOI: 10.54254/2754-1169/172/2025.22173

HK$445.2 billion [2]. However, the company experienced a heavy sell-off in 2023, which significantly influenced the credits of HK property, and has increased investors' concerns about investing in HK property. As a result, BBB has been spreads widened by about 42 basis points while unrated credits moved to 365 basis points Month-to-date [1].

This essay is based on the annual reports of NWD and aims to analyse changes of NWD's financial ratios to find the effect and causes of the changes in 2023 and see how NWD pulled through this crisis. The annual report provides a comprehensive overview of a company's performance over a specific financial year, from 1 July to June 30. It serves as a critical reference for the company, investors, and stakeholders, offering details of financial results, strategic initiatives, and future outlooks. The information in the annual report also enables creditors to evaluate the company's credit and decide whether to extend new loans or maintain existing credit arrangements.

This essay will do comprehensive research on NWD's financial situation from liquidity, solvency, profitability, risk assessment, and forecast analysis.

2. Financial Performance

2.1. Liquidity

Table 1: Liquidity ratios of New World Development (NWD) from 2022 to 2024

	2022	2023	2024	2024YOY
Current ratio	1.1180	0.9617	1.2560	30.60%
Quick ratio	1.1151	0.9590	1.2546	30.82%
Cash ratio	0.3315	0.2931	0.2762	-5.76%

The current ratio indicates a company's ability to cover its short-term liabilities with its short-term assets. The real estate industry is capital-intensive and debt-heavy, therefore, companies typically have a current ratio around or slightly above 1. In 2023, the market experienced a downturn, and NWD's current ratio dropped to 0.9617 from 1.1180, which shows a tight liquidity position. In the next financial year, the ratio increased from 0.9617 in 2023 to 1.2560 in 2024, indicating a 30.60% YoY growth. This shows a substantial recovery from 2023 where the ratio dipped below 1. This improvement suggests that NWD's short-term financial health has strengthened since it has more current assets to cover its current liabilities. Real estate companies often need a large working capital to manage construction projects, unsold inventory, and ongoing operational costs. A healthy current ratio indicates that the company has sufficient assets to meet its short-term debts.

The quick ratio is also used to measure liquidity, but it excludes less liquid current assets, such as inventory. The quick ratio of New World Development (NWD) shown in Table 1 reached its lowest point in 2023 at 0.9590, representing a significant decline from 1.1151 in the previous year. This indicates a reduction in the company's ability to cover its short-term liabilities with its most liquid assets. While in 2024, the ratio rose to 1.2546, representing a 30.82% YoY increase. This emphasizes that NWD strengthens its efficiency in cash management and receivables to meet immediate liabilities. For the real estate industry, inventory could account a large portion of current assets, including unsold properties or land. In a market downturn, the quick ratio a critical becomes crucial since inventory can weigh down liquidity. In 2024, New World Development (NWD) experienced a substantial reduction in inventory, decreasing from 497.4 million in 2023 to 139 million. This is caused by a strategy through sales of non-core assets for a total of HK$8 billion [2, 3]. Moreover, NWD experienced a 40% year-on-year decrease in property sales revenue, which reduced the inventory directly.

DOI: 10.54254/2754-1169/172/2025.22173

The cash ratio is also a liquidity indicator, focusing solely on cash and cash equivalents. The real estate industry usually requires significant cash to fund construction, purchase land, and repay loans. A high cash ratio indicates strong short-term liquidity but may also reflect inefficiency in cash utilization. For NWD, the cash ratio declined slightly from 0.2931 in 2023 to 0.2762 in 2024, reflecting a -5.76% YoY change. This drop suggests a reduction in cash reserves or cash equivalents relative to liabilities, possibly due to the company's debt management initiatives. These initiatives include arranging over HK$50 billion in loans and issuing US$400 million in 3.5-year bonds. Although these activities improve financial flexibility, they have also led to substantial cash outflows. While the ratio is still positive, the decline could raise several liquidity problems under adverse market conditions.

2.2. Solvency

Table 2: Solvency ratios of New World Development (NWD) from 2022 to 2024Q3

	2022	2023	2024	2024YOY
Total Debt ratio	0.4948	0.5645	0.5469	-3.11%
Interest turnover	231.3921	251.9459	174.4753	-30.75%
Long-term debt ratio	0.3213	0.2242	0.1780	-19.73%

The total debt ratio reflects the proportion of a company's assets financed through debt, therefore, a higher ratio indicates greater reliance on debt for financing. The total debt ratio increased from 0.4948 in 2022 to 0.5645 in 2023 (see Table 2), reflecting a higher reliance on debt financing during that period. This could result from the increase of total liability in 2023, however, since NWD's total revenue shows positive growth, the increase in total debt ratio may be due to funds for new projects or acquiring land. Therefore, the group decided to lower the leverage. In 2024, the total debt ratio slightly decreased to 0.5469, suggesting an improvement in asset base and debt repayments, reducing reliance on debt. However, NWD's revenue has significantly declined compared to the previous year, resulting in a loss of approximately HKD 20 billion. Additionally, the group's total liabilities have not decreased substantially from the prior year. Therefore, even though the total debt ratio has improved, this may not necessarily indicate an enhancement in the group's overall financial situation. On the contrary, the group's leverage ratio has inevitably deteriorated in this case. However, the group's total debt ratio is still acceptable in the real estate industry.

The most concerning change in 2024 is the significant decline in NWD’s interest turnover ratio, which fell from 251.9459 in 2023 to 174.4753 in 2024, showing a 30.75% decrease. This ratio measures the firm’s ability to cover interest expenses with operating income. Since NWD shows a slight reduction of interest expense from 292.1 in 2023 to 235 in 2024 while the EBIT significantly decreased to 41,001.7 million, the decline of the ratio suggests that NWD is experiencing lower profitability according to the data [2, 3]. The group shows a minute interest expense because real estate firms often capitalize interest expenses as part of project costs instead of expending them immediately. Moreover, there have been reports suggesting that, after encountering financial difficulty, the group is in talks to negotiate with banks to extend the maturity dates of certain bilateral loans [4]. Based on the data, changes in the group's interest expenses may be attributable to this. Although the group didn't unequivocally deny or confirm, such news has undoubtedly added concerns about the group's ability to service similar debt obligations.

The long-term debt ratio indicates the proportion of a company's total assets financed through long-term debt and its financial leverage. NWD shows the highest long-term debt in 2022 of 0.3213 then starts to decrease to 0.2242 in 2023 and keeps reducing to 0.1780 in 2024, representing a 19.73% decline from 2023. This reduction suggests that the group is either repaying long-term liabilities or shifting to short-term debt financing. According to the data, NWD’s long-term liability has steadily declined from 2022 to 2024. In contrast, its short-term liability increased from 50,269.60 million in 2022 to 52,178.80 million in 2023, then subsequently decreased to 42,112.10 million in 2024 [2, 3]. This trend suggests that in 2023, the company may have strategically shifted towards short-term financing. Excessive reliance on short-term financing could lead to liquidity risk since it will lower a company's ability to meet refinancing and market fluctuations, which may have been a factor contributing to NWD’s deteriorated financial situation in 2023. However, in the following year, it appeared to actively optimize its debt structure by lowering both long-term and short-term liabilities, reduced the long-term debt ratio and therefore the leverage and improved financial stability.

Overall, the changes in these three financial ratios indicate that following its financial crisis in 2023, NWD has been actively restructuring its debt portfolio to reduce leverage.

2.3. Profitability

Table 3: Profitability ratios of New World Development (NWD) from 2022 to 2024Q3

	2022	2023	2024	2024YOY
Net margin	86.40	90.74%	86.28%	-4.91%
Asset Turnover	0.1237	0.1368	0.0902	-34.09%
Return on Asset	10.69%	12.41%	07.78%	-37.33%
Return on Invested Capital	1.81%	0.53%	-4.37%	-923.28%

Net margin measures the profitability of each dollar in revenue translates into profit after accounting for all expenses. As Table 3 shown, NWD's net margin saw a slight increase to 90.74% in 2023 before declining to 86.28% in 2024, representing a 4.91 percentage point drop YOY [2, 3]. Despite high interest rates, this was largely attributable to NWD's capitalization policy, which expenses were capitalized as assets. However, this accounting method can't avoid the actual cash outflows incurred, which forces the net margin can't fully reflecting NWD's financial situations. Overall, NWD's profitability in 2023 improved marginally compared to the previous year, primarily driven by revenue growth and effective cost control. However, these favorable factors didn't persist into 2024. The company implemented substantial non-cash impairments and provisions, which leads to a 2.4 billion loss in US dollar, and therefore significantly weakened its profitability in 2024.

The asset turnover ratio is a measure on the efficiency of a firm to generate profit from its asset. NWD's asset turnover ratio increased from 0.1237 in 2022 to 0.1368 in 2023, but then fell sharply to 0.0902 in 2024, indicating a 34.09% year-over-year decline [2, 3]. This shows that NWD's capacity to generate revenue per unit of asset value has significantly weakened. Due to widespread capitalization methods in the industry, real estate companies generally have low asset turnover ratios. Additionally, they primarily hold high-value, long-term assets that generate revenue slowly over time rather than through frequent sales, which also contributes to a lower asset turnover ratio. However, in 2024, New World Development's asset turnover ratio has dropped below 0.1, significantly lower than the industry average, indicating a further decline in operational efficiency and underutilization of assets. Beyond New World Development's financial struggles, the overall real estate market is also facing a downturn. The Chinese and Hong Kong real estate markets are enduring their worst recession in history, and it is unlikely to end soon. Average prices of most properties have decreased by more than 40% compared to their peaks in 2018. These factors could result in fewer property transactions and lower asset valuations, thus decreasing the asset turnover ratio.

Return on Assets (ROA) measures the efficiently of a company to use its assets to generate revenue. The ROA increased to 12.41% in 2023 from 10.69% in 2022, then significantly dropped to 7.78% in 2024 [2, 3]. The lower the ROA, the lower the asset utilisation and profitability. This decline is the same as the reduction of asset turnover ratio, suggesting that NWD is generating lower returns from its asset base. This 37.33% reduction is mainly due to the reduction in both net income and average total asset. In 2024, NWD sold all its equity in the D·PARK mall in Tsuen Wan and the mall's parking spaces to Chinachem to earn HK$4.02 billion in cash to generate more cash inflow [5]. Moreover, as Hong Kong's real estate market remains in a downturn, declining property prices resulted in reduced revenue from asset sales. Additionally, unsold inventory may further strain cash flow problem and negatively impact asset efficiency.

The most alarming change is the dramatic decline in ROIC, which fell from 0.53% in 2023 to -4.37% in 2024, indicating a 923.28% YOY decline. ROIC is crucial for real estate companies since their projects require significant upfront capital and long payback periods. A negative ROIC implies that NWD's investments can't generate sufficient returns to cover the cost of capital, which raises concerns about long-term financial sustainability. The negative return on invested capital is mainly caused by the significant decrease of net operating profit after tax in 2024.From 2022 to 2023, NWD's net operating profit after tax had been gradually declining, eventually dropping to -HK$9,810.80 million in 2024 [2, 3]. This change occurs due to the weak market demand and declining property prices.

2.4. Cash Flow Analysis

Table 4: Consolidated Statement of Cash Flows of NWD in 2023 and 2024

	2024 HK$m	2023 HK$m
Cash flows from operating activities		
Net cash generated from operations	12,083.7	31,420.0
Hong Kong profits tax paid	(604.7)	(558.9)
Mainland China and overseas taxation paid	(3,541.7)	(5368.6)
Net cash from operating activities before net purchases of financial assets in relation to insurance business	7,937.3	25,492.5
Purchases of financial assets in relation to insurance business	(29,287.9)	(36,440.0)
Disposal of financial assets in relation to insurance business	21,688.1	21,916.7
Net purchase of financial assets in relation to insurance business	(7,599.8)	(14,523.3)

The consolidated statement of cash flows for NWD indicates a significant decline in operating cash flow in 2024 compared to 2023, highlighting potential liquidity challenges. Net cash generated from operations fell from HKD31,420 million in 2023 to HKD12,083.7 million in 2024, representing a 61.5% decrease. This sharp decline suggests reduced cash inflows from core business activities, primarily due to weaker property sales, rising operational costs, and a lower rental income. For tax payments, although the amount in Hong Kong is relatively lower, amounts in Mainland China and overseas remained substantial. Before considering net purchases of financial assets related to the insurance business, NWD's operating cash flow was at HKD7,937.3 million in 2024, down from HKD25,492.5 million in 2023, reflecting weaker underlying cash generation [3].

Purchases of financial assets for the insurance business declined from HKD36,440 million in 2023 to HKD29,287.9 million in 2024, this change suggests that NWD is changing its investment strategy and reducing capital allocation to financial assets in order to have more net cash. The disposal of financial assets remained stable, at HKD21,688.1 million in 2024 compared to HKD21,916.7 million in 2023, indicating the company continues monetising its financial assets at a similar pace [3].

The net purchase of financial assets related to the insurance business improved from a negative HKD14,523.3 million in 2023 to HKD7,599.8 million in 2024, implying that the company reduced its net cash outflows for these investments [3]. Despite this improvement, the group's ability to

DOI: 10.54254/2754-1169/172/2025.22173

generate strong free cash flow appears to be under pressure with the significant decline in operational cash flows, which means it is facing liquidity and financial sustainability risks.

3. Risk Assessment & Forecast

3.1. Risk

During the period 2022-2024, NWD encountered many difficulties and risks, including Chief Executive Officer (CEO) replacement, Yuan depreciation, and project delays.

The continuous depreciation of the yuan brings negative earning impact to real estate companies that contain sizable operations in mainland China, which includes NWD [6]. The yuan falls about 2% YOY compared to HKD in 2024, the most direct effect is that a weak Yuan will directly lower rental revenue growth [7]. The Group's overall selling amount of property contract in Mainland China is approximately RMB12.48 billion accounting for around 38.3% of the total revenue [8]. Although the Group's reliance on revenue from Mainland China appears relatively low in terms of proportion, the depreciation of Yuan will still impact the profitability of the sales, and reducing overall revenue. Moreover, Yuan depreciation will also lower the book value. After the company's financial statements are consolidated in Hong Kong dollars, the book value per share of the profits earned in Mainland China will depreciate, thereby reducing the total reported value of Mainland China earnings on the balance sheet. As the yuan depreciated by 1.2% in the second half of 2024, the book value per share of New World Development declined by 6.8% over the six months ending June 30. This decline may be attributed to the fact that 75% of the Group's K11 investment portfolio are on the Mainland China. Currently, as trade wars between China and the United States continue to escalate, the depreciation of the Yuan is likely to persist. This implies that the Group will face greater book value losses in Mainland China, while its profit in the region will be more struggle to offset losses incurred in Hong Kong.

In December 17, 2024, NWD experienced a sharp decline in its dollar bond prices, indicating growing market concerns over its financial stability. The completion of The Pavilia Farm III project in Tai Wai, Hong Kong, has been delayed by another year to March 2026, primarily due to adverse weather conditions and other related factors [9]. As a result, NWD will need to compensate buyers for mortgage interest at HSBC's prime rate of +2% until the project is completed, which is likely to lead to a profit hit. Moreover, the company has been focusing on selling non-core assets to raise funds in order to get the target of HK$13 billion by the end of the financial year 2025 [10]. However, the current financial strain may force the company to sell assets at a discount to their book values amid the ongoing RMB interest rate cuts, further weakening its profitability. In the case of increasing concerns over NWD's ability to service its debt, a broad selloff of its dollar bonds occurred. The 5.25% perpetual bond fell 1.7 points to 66.36, making its yield 16.31%, while the 8.625% 2028 bond dropped 1.7 points to 84.8, with its yield 14.9% [7]. In summary, project delays, rising financial pressure, asset sales at a discount, and lower profitability have collectively driven down bond prices and increased concerns over NWD's credit risk.

The biggest risk among NWD is undoubtedly the constant replacement of senior internal personnel. In 2024, NWD experienced a significant leadership transition as its CEO, Adrian Cheng, resigned after 17 years in the role. His position was initially succeeded by NWD's Chief Operating Officer, Ma Siu Cheung; however, Ma stepped down two months later, then appointed Echo Huang as the new CEO [5]. Throughout Cheng's tenure, NWD recorded its first annual loss in 20 years, but he also spearheaded numerous high-profile projects while navigating substantial macroeconomic challenges, including COVID-19, interest rate fluctuations, and changing consumer behavior [11, 12]. One of his most notable contributions was the establishment of the K11 brand. However, NWD has faced considerable difficulties since the onset of the pandemic. The K11 MUSEA shopping mall, which opened in 2019 and before the period of border closures caused by COVID-19, was launched amidst the political protests in Hong Kong. Another major development is K11 SKIES, a HK$20 billion shopping, which started its phased opening in 2023. Additionally, in 2021, the company faced a significant construction defect issue, which led to the demolition of two residential towers in Sha Tin, and therefore compensation to affected buyers occurred [13]. According to its 2024 financial disclosures, the company's gearing ratio rose to 55% [10]. The leadership transaction occurred shortly after NWD issued a profit warning on the Hong Kong Stock Exchange (HKEX) of a loss up to HK$20 billion for the fiscal year 2024 [8]. The company attributed this downturn to asset impairments, investment losses, and rising interest changes. This anticipated loss has prompted investors to change to a more cautious or even pessimistic stance towards the company. Furthermore, Cheng's resignation is considered highly unusual in Chinese family-owned businesses, further exacerbating negative public sentiment towards NWD [14]. Following a series of executive changes, the newly appointed CEO, Echo Huang, now faces many challenges in stabilising the company's financial position. The current critical issue is how to divest high-cost projects without incurring substantial losses, the task will be the key to reshaping the company's strategic direction in the coming months [11].

3.2. Forecast

In the future, to strengthen the group's project pipeline in mainland China, it may pursue greater collaboration with state-owned developers through the political connections of its newly appointed CEO, Echo Huang. Huang brings extensive experience from her previous role at Sun Hung Kai Properties, where she oversaw property development in southern China [14]. Her background may provide NWD with strategic advantages in navigating regulatory challenges and uncovering new business opportunities.

Moreover, NWD issued a $400 million bond due in 2028 recently, which carried a high 8,625% interest rate [7]. To reduce its financial commitments, it may need to sell additional assets to reduce its debt burden and borrowing costs. The company could explore partnerships with state-owned developers, such as CR Land and China Merchants Shekou. However, stabilizing earnings will take years for it since the group needs to wait for rental income from new projects to grow sufficiently. On the positive side, its strong project pipeline in the Greater Bay Area is expected to support home sales in the coming years [9]. However, the company might have to cut the price of new residential developments in Kai Tak to maintain sales volume, which may also lead to further financial losses.

In addition, NWD currently faces a funding gap of approximately HK$15 billion, but it could be fixed via viable solutions. The company aims to generate HK$13 billion in fiscal 2025 with an expanded asset-disposal plan, which is expected to cover the majority of the gap [15]. To address the remaining gap, NWD could utilise low-cost yuan-denominated loans. These financing options would help the company manage its liquidity challenges without significantly increasing borrowing costs.

4. Conclusion

To conclude, NWD is facing a series of financial and operational challenges with a background of continuous downturn of Hong Kong's real estate market and macroeconomic pressures. Data analysis indicates that after the period of financial distress, NWD has actively improved its structure of debt and asset portfolios to enhance its solvency and liquidity. However, the company's profitability and overall cash flow have deteriorated. These changes are primarily due to declining cash flows from operations, delays of projects, and rising debt servicing costs. In response to its worsening financial situation, NWD has actively restructured its leadership and sold its high-quality assets. However, the company's outlook remains uncertain at present. Although its current asset disposal strategy and partnerships may help it to ease liquidity pressures, these measures are unlikely to resolve the company's financial difficulties in the short term due to weakening earnings, project delays, Yuan depreciation, and the deteriorating real estate markets in Mainland China and Hong Kong. Therefore, investors should remain cautious when making investment decisions for both NWD and the real estate industry. To restore financial stability, the group must optimise capital allocation, accelerate asset sales, actively manage its leverage and major projects, and also balance its long-term and short-term debts.

References

[1] Asia Pacific Credit Research. Hong Kong Property: Still the pearl of the East [R]. 2023

[2] New World Development Company Limited. Annual Report 2022[R]. 2022.

[3] New World Development Company Limited. Annual Report 2023[R]. 2023.

[4] Glancy D, Kurtzman R J, Loewenstein L. Loan modifications and the commercial real estate market[J]. Journal of Real Estate Finance and Economics, 2022, 64(1): 89-112.

[5] Bloomberg Intelligence. New World Scion Adrian Cheng Steps Down as CEO After Loss [R]. 2024.

[6] Bloomberg Intelligence. New World Development Equity Research[R]. 2025.

[7] Zhuang S, Liu Y. Pathways for the internationalization of the Renminbi under Trump's trade protectionism[J]. Jou rnal of Business and Marketing, 2024, 1(6): 6..

[8] South China Morning Post. (2024, December 9). New World faces risk of mounting losses amid Hong Kong prope rty slump. South China Morning Post. https://www.scmp.com/business/article/3289811/new-world-faces-risk-mou nting-losses-amid-hong-kong-property-slump

[9] González P, Gonzalez V, Molenaar K R, Francisco O. Analysis of causes of delay and time performance in constru ction projects[J]. Journal of Engineering, Construction and Architectural Management, 2014, 9(3): 230-236.

[10] New World Development Company Limited. Annual Report 2024[R]. 2024.

[11] New World Development Company Limited. Annual Results Announcement 2023/2024[R]. 2024

[12] South China Morning Post. (2008, September 3). New World's K11 mall in TST redefines art shopping. South Chi na Morning Post. https://www.scmp.com/article/651198/new-worlds-k11-mall-tst-redefines-art-shopping

[13] Bloomberg Intelligence. New World's Possible CEO Change[R]. 2025.

[14] Bloomberg Intelligence. (2025). New World Development CEO's Way Forward[R].

[15] BondbloX. (2025, January 22). NWD's dollar bonds plummet on $15bn prized collateral offering; UBS halts marg in loans – sources. BondbloX. https://bondblox.com/news/nwds-dollar-bonds-plummet-on-15bn-prized-collateral-offering-ubs-halts-margin-loans-sources