

Hysan Development

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DBS Group Research . Equity

25 Jan 2024

BUY

Last Traded Price (24 Jan 2024): HK\$13.72 (HSI : 15,900)
Price Target 12-mth: HK\$17.70 (29% upside) (Prev HK\$22.80)

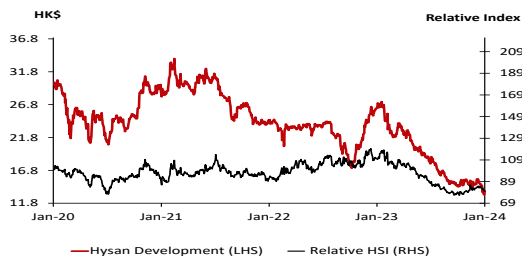
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What's New

- Rejuvenation works at Hysan Place and Lee Garden Hub close to completion
- Positive retail rental growth expected on renewals in FY24
- Office rental reversion to stay negative in FY24
- Maintain BUY despite lower TP of HK\$17.70

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2022A	2023F	2024F	2025F
Turnover	3,460	3,236	3,425	3,541
EBITDA	2,593	2,353	2,591	2,677
Pre-tax Profit	2,573	2,335	2,647	2,679
Underlying Profit	2,129	1,923	2,198	2,207
Underlying Profit Gth (%)	(8.6)	(9.7)	14.3	0.4
EPS (HK\$)	2.07	1.87	2.14	2.15
EPS Gth (%)	(7.9)	(9.4)	14.3	0.4
PE (X)	6.6	7.3	6.4	6.4
P/Cash Flow (X)	5.5	5.9	5.4	5.3
EV/EBITDA (X)	18.7	20.6	18.7	18.1
DPS (HK\$)	1.44	1.10	1.10	1.10
Div Yield (%)	10.5	8.0	8.0	8.0
Net Gearing (%)	28	31	32	34
ROE (%)	3.0	2.7	3.1	3.1
Est. NAV (HK\$):			64.7	63.2
Disc. to NAV (%)			(79)	(78)

Earnings Rev (%)		(3)	(6)	New
Consensus EPS (HK\$):		1.69	1.96	2.15
Other Broker Recs:		B:12	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Welcoming the new year with a new look

Investment Thesis

Dominant commercial landlord in Causeway Bay. Hysan Development is the largest commercial landlord in Causeway Bay. Hysan Place is a popular shopping landmark among locals and tourists while Lee Garden hub houses a cluster of renowned luxury brands. Given its proximity to the MTR station and synergy among the properties, its office portfolio is sought after by multinational firms from the finance, professional consultancy, and technology sectors.

Property enhancement works to bear fruit, favourable retail rental reversion to kick in. Rejuvenation work at Hysan Development's retail portfolio is near completion with the basement floors at Hysan Place reopened in Dec-23 and Lee Garden One scheduled to reopen 1Q24. Rental contribution from the renovated area, coupled with favourable retail reversionary growth, should underpin the rental income recovery. This is despite office income shortfall led by negative rental reversion and increased vacancy. In a longer run, the newly renovated Lee Garden hub should gain market share within the precinct, pointing to higher long-term rental value.

Current low valuation to lend share price support. While investors' concerns over potentially lower dividend could be a share overhang, the current low valuation should cushion any significant downside risk. Portfolio rejuvenation should consolidate the company's position as a leading retail landlord in Causeway Bay and hence warrant higher long-term valuations.

BUY despite lower TP of HK\$17.70. The stock is trading at 79% discount to our current assessed NAV, >2SD below its 10-year average of 54%. Our target price is derived by assigning a target discount of 72% to our Dec-24 NAV estimate.

Key Risks to Our View:

Any derailment in retail market recovery would impact leasing demand for retail space. Any deterioration in leasing demand for office in Causeway Bay could also drag Hysan Development's earnings and share price performance. Any prolonged interest rate hike could lead to cap rate expansion and adversely affect its valuation.

At A Glance

Issued Capital (m shrs)	1,027
Mkt Cap (HKm/US\$m)	14,090 / 1,802
Major Shareholders (%)	
Lee Hysan Company Ltd	42.2
Silchester International Investors, L.L.P.	8.1
First Eagle Investment Management, L.L.C.	5.1
Free Float (%)	44.6
3m Avg. Daily Val. (US\$m)	2.00
GICS Industry: Real Estate / Real Estate Management & Development	

Hysan Development

WHAT'S NEW

Portfolio rejuvenation comes close to an end

The basement floors (B1&2) at Hysan Place have reopened for business in mid Dec-23 following an extensive renovation. Previously occupied by T-Galleria and Market Place, the newly renovated area is subdivided into small units which are largely committed by F&B and light refreshment shops. Elsewhere, enhancement work at Lee Garden One is close to completion. The enhanced area should house high-yielding international luxury brands upon scheduled reopening in 1Q24. This should further reinforce Lee Garden hub's leading position as high-end shopping destination for affluent customers, tourists and locals alike.

Retail occupancy currently stands firm at c.98%. Tenant sales at Hysan Development's retail portfolio continued to gain momentum in 2H23, primarily led by robust sales from luxury and cosmetics tenants. Excluding area under renovation, overall tenants' sales has recovered to c.85% of pre-COVID level. This should underpin positive reversionary growth upon the renewal of leases expiring in 2024, which accounts for c.31% of total retail area.

Leasing sentiment remained subdued as multinational firms put expansion plans on hold amid global macro uncertainties. Most leasing transactions were driven by small-sized tenants particularly from fintech start-ups or healthcare companies. Hysan Development's office portfolio occupancy has softened slightly from Jun-23's 89%. Overall, office reversionary growth should stay negative in FY23.

In FY24, about 20% of office area is scheduled for roll over, with expiring rent marginally higher than that of FY23. In view of the prevailing market sentiment, we expect negative rental reversion to persist.

Occupancy at Bamboo Grove in Wan Chai remained at around 60% amid intense market competition. Lower rents are recorded upon lease renewals and new lettings, thus dragging near-term residential income.

Since Jul-23, Hysan Development has sold 22 units at Villa Lucca in Tai Po, a 60/40 JV with HKR International, for an aggregate amount of HK\$538m or c.HK\$16,800psf on average. Since its initial launch in Aug-22, 44 units have been sold for HK\$1.08bn or c.HK\$17,400psf on average. This represented c.17% of a total 262 units.

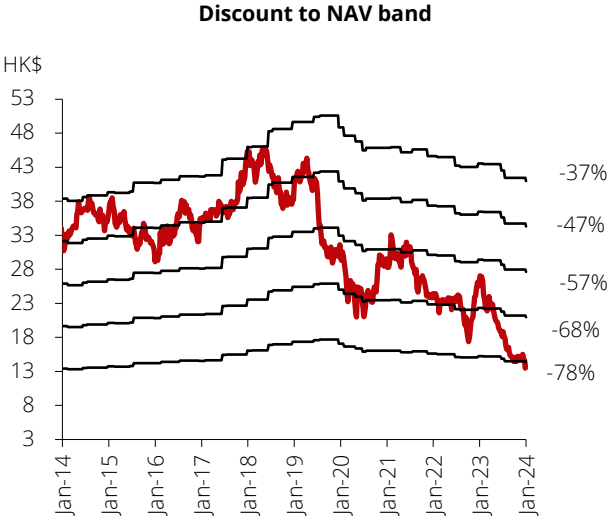
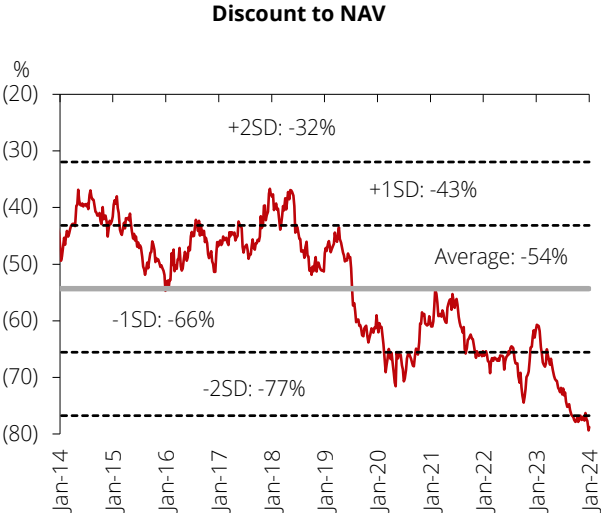
In the past six months, share price of Hysan Development has fallen by 23%, underperforming the broad market by 8%. Meanwhile, the stock is trading at 79% discount to our current assessed NAV, >2SD below its 10-year average of 54%. While investors' concerns over potential dividend cut could pose an overhang to the stock, the current low valuation should limit any further downside risk. Fresh contribution from the renovated area should underpin retail rental income recovery with positive reversionary growth to further add momentum. This should more than offset office income shortfall from office portfolio, pointing to gradual rental earnings improvement in the near term. Rejuvenation at the Lee Garden Hub should solidify its position as a leading retail property play within the precinct. Maintain BUY, despite lower TP of HK\$17.70. This is premised on a target discount of 72% to our Dec-24 NAV estimate.

Company Background

Hysan Development is a leading commercial landlord with most of its portfolio in Causeway Bay. The company's completed investment property portfolio covers c.4.5m sf of gross floor area (GFA). Hysan Development derives most of its rental income from the retail and office segments with the remaining portion from residential apartments. Key properties include Hysan Place, Lee Theater Plaza, Leighton Centre, Lee Gardens One to Lee Gardens Six, One Hysan Avenue, and Bamboo Grove. In 2021, the company teamed up with Chinachem to secure the Caroline Hill Road commercial site which provides GFA of 1.08msf upon project completion.

Hysan Development

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

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Key Assumptions (%)

	2024F	2025F
Office rental - HK	(5)	0
Retail rental (Shopping centre) - HK	5	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (HK\$ m)					
Property rental income	3,608	3,460	3,236	3,425	3,541
Total	3,608	3,460	3,236	3,425	3,541

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	3,608	3,460	3,236	3,425	3,541
EBITDA	2,864	2,593	2,353	2,591	2,677
Depr / Amort	(29)	(32)	(32)	(32)	(32)
EBIT	2,835	2,561	2,321	2,559	2,645
Associates Inc	283	211	294	378	355
Interest (Exp)/Inc	(314)	(199)	(280)	(290)	(320)
Exceptionals	0	0	0	0	0
Pre-tax Profit	2,804	2,573	2,335	2,647	2,679
Tax	(358)	(342)	(304)	(341)	(365)
Minority Interest	(116)	(102)	(108)	(108)	(107)
Holder of Perpetual Securities	(459)	(450)	(442)	(442)	(442)
Net Profit	1,871	1,679	1,481	1,756	1,765
Underlying Profit	2,330	2,129	1,923	2,198	2,207
Sales Gth (%)	(3)	(4)	(6)	6	3
Net Profit Gth (%)	(11)	(10)	(12)	19	1
EBITDA Margins (%)	79	75	73	76	76
EBIT Margin (%)	79	74	72	75	75
Tax Rate (%)	13	13	13	13	14

Source: DBS HK

Hysan Development

Balance Sheet (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	95,579	97,410	98,825	101,019	104,329
Long-term Investments	843	992	992	992	992
Other LT Assets	3,624	2,860	2,860	2,860	2,860
Deferred Tax Asset	90	96	96	96	96
Associates/JVs	7,736	9,459	10,031	9,889	10,243
Bank Balance/Cash & Liquid	8,404	7,771	6,346	6,484	6,479
ST Investments	171	15	15	15	15
Debtors	887	562	547	532	542
Other Non Cash Current	39	0	0	0	0
Total Assets	117,373	119,165	119,712	121,887	125,556
ST Debt	531	3,244	250	2,750	1,586
Creditors	820	1,026	1,046	1,066	1,066
Other Current Liab	586	633	633	633	633
LT Debt	18,126	24,033	27,527	26,527	29,691
Deferred Tax Liabilities	1,091	1,171	1,171	1,171	1,171
Other LT Liabilities	8,334	5,647	5,647	5,647	5,647
Perpetual Securities	10,657	10,224	10,224	10,224	10,224
Minority Interests	3,358	2,987	3,015	3,044	3,124
Shareholder's Equity	73,870	70,200	70,198	70,825	72,414
Total Cap. & Liab.	117,373	119,165	119,712	121,887	125,556
Share Capital (m)	1,034	1,027	1,027	1,027	1,027
Net Cash/(Debt)	(10,253)	(19,506)	(21,431)	(22,793)	(24,798)
Working Capital	7,564	3,445	4,979	2,582	3,751
Net Gearing (%)	14	28	31	32	34

Source: DBS HK

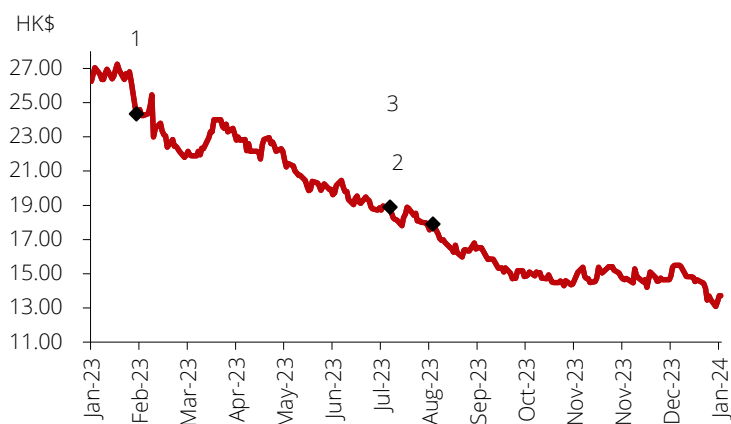
Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
EBIT	2,835	2,561	2,321	2,559	2,645
Tax Paid	(369)	(196)	(304)	(341)	(365)
Depr/Amort	29	32	32	32	32
Chg in Wkg.Cap	(27)	(9)	35	35	(10)
Other Non-Cash	8	7	0	0	0
Operating CF	2,476	2,395	2,084	2,285	2,301
Net Capex	(22,334)	(3,081)	(807)	(1,567)	(1,767)
Investments	(1,236)	(439)	0	0	0
Associates & JVs	(237)	(2,017)	(279)	521	0
Others	8,760	(3,079)	200	200	110
Investing CF	(15,047)	(8,616)	(885)	(846)	(1,657)
Net Chg in Debt	(401)	9,211	500	1,500	2,000
New Capital	(146)	(162)	0	0	0
Dividend	(1,618)	(1,593)	(1,562)	(1,209)	(1,208)
Other Financing CF	6,885	(5,284)	(1,562)	(1,592)	(1,442)
Financing CF	4,720	2,172	(2,624)	(1,301)	(650)
Chg in Cash	(7,851)	(4,049)	(1,425)	138	(5)

Source: DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	20-Feb-23	HK\$26.30	HK\$31.05	Buy
2:	17-Jul-23	HK\$18.90	HK\$26.70	Buy
3:	11-Aug-23	HK\$17.78	HK\$22.80	Buy

Source: DBS HK

Analyst: Jeff Yau

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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