

Hong Kong

ADD (no change)

Consensus ratings*: Buy 12 Hold 1 Sell 0

Current price:	HK\$13.24
Target price:	HK\$14.90
Previous target:	HK\$18.60
Up/downside:	12.5%
CGSI / Consensus:	-17.9%
Reuters:	0014.HK
Bloomberg:	14 HK
Market cap:	US\$1,738m
	HK\$13,598m
Average daily turnover:	US\$1.95m
	HK\$15.27m
Current shares o/s:	1,027m
Free float:	45.0%

*Source: Bloomberg

Key changes in this note

► FY24F/25F EPS cut by 14%/15%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.2	-13.9	-46.2
Relative (%)	-10.7	-8.3	-28.2

Major shareholders	% held
Lee Hysan family	41.9
Silchester International Investors	8.1
First Eagle Investment Management	5.1

Analyst(s)



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Hysan Development

Dividend cut to conserve cash

- Hysan's FY23 underlying profit fell by 17% yoy, dragged down by a decline in total revenue, margin contraction, as well as higher interest expenses.
- Hysan cut its dividend to HK\$1.08 (-25% yoy) in a bid to conserve cash due to the uncertain operating environment and future investment opportunities.
- We expect retail revenue to recover gradually in FY24F. Meanwhile, we think its office portfolio would continue to see negative rental reversion in FY24F.
- We cut our TP as the NAV discount is widened by 5% pts. But we reiterate Add as Hysan is one of the key beneficiaries of recovery in HK retail sales.

FY23 underlying profit down 17% yoy, dividend cut by 25% yoy

Hysan Development's underlying profit for FY23 (after distribution of perpetual capital securities, PCS) fell by 17% yoy to HK\$1,390m, dragged by a 7% decline in total revenue, a 3%-pt margin contraction, as well as higher net interest expenses. It declared a full-year dividend of HK\$1.08 (-25% yoy), with an 80% underlying payout ratio. Management explained that the dividend cut (Hysan's first since 2002) was necessary to conserve cash to prepare for the uncertain operating environment and possible future investments.

Retail revenue should recover gradually

Retail rental revenue dropped 10% yoy in FY23, mainly due to ongoing asset enhancement initiatives (AEI) at c.10% of Hysan's retail areas in Hysan Place and Lee Garden One. Meanwhile, turnover rent rose by 45% yoy in FY23, thanks to retail sales growth among its luxury goods tenants, with occupancy falling slightly to 97% at end-FY23. Management guided for positive rental reversion in FY24F, driven by the renovated areas after AEI completion. Overall occupancy cost was at 15% in FY23, which provides room for Hysan to increase rents further, in our view.

Negative rental reversion and a slight drop in office occupancy

Revenue from office space declined by 7% yoy in FY23, with end-FY23 occupancy at 89% (-1% pt yoy). Rental reversion for its offices was negative in FY23. With an oversupply of office space in HK due to new completions in decentralised districts, we think rental reversion for Hysan's offices would stay in negative territory in FY24-25F (management said rent levels for leases expiring in 2024 are likely to be similar 2023's).

Reiterate Add with a lower TP of HK\$14.9

We reiterate Add on Hysan with a lower TP of HK\$14.9, based on a 70% discount to NAV of HK\$49.8 (discount widened by 5% pts to reflect longer-than-expected profit recovery and dividend cut). We still see Hysan as a key beneficiary of a recovery in HK retail sales, as its Lee Gardens and Hysan Place malls remain key shopping destinations for both Chinese visitors and HK locals. Potential catalysts are stronger-than-expected retail sales and rental reversions. Key downside risks include higher-than-expected vacancies for its HK office space, and lower-than-expected portfolio occupancies.

Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues (HK\$m)	3,460	3,210	3,285	3,300	3,357
Operating EBITDA (HK\$m)	(652)	(481)	2,347	2,355	2,399
Net Profit (HK\$m)	(707)	(430)	1,992	2,030	2,094
Core EPS (HK\$)	1.63	1.83	1.50	1.54	1.60
Core EPS Growth	(9.5%)	12.5%	(18.1%)	2.4%	4.1%
FD Core P/E (x)	8.13	7.22	8.81	8.60	8.27
DPS (HK\$)	1.44	1.08	1.08	1.11	1.15
Dividend Yield	10.9%	8.2%	8.2%	8.4%	8.7%
EV/EBITDA (x)	10.03	11.71	10.96	10.47	9.82
P/FCFE (x)	NA	6.59	NA	6.98	6.75
Net Gearing	22.2%	26.1%	25.7%	25.2%	24.7%
P/BV (x)	0.17	0.18	0.17	0.17	0.17
ROE	2.04%	2.39%	1.98%	2.01%	2.06%
% Change In Core EPS Estimates			(14.0%)	(14.5%)	
EPS/Consensus EPS (x)			1.03	0.96	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 1: Hysan's FY23 results summary

HK\$ m	FY22	FY23	yoy %	FY23F	var %
Revenue	3,460	3,210	(7.2)	3,305	(2.9)
Office	1,578	1,472	(6.7)	1,560	(5.7)
Retail	1,643	1,533	(6.7)	1,474	4.0
Residential	239	205	(14.2)	271	(24.2)
Property expenses	(567)	(621)	9.5	(522)	19.0
Gross profit	2,893	2,589	(10.5)	2,783	(7.0)
Office	1,349	1,214	(10.0)		
Retail	1,367	1,231	(9.9)		
Residential	177	144	(18.6)		
Admin expenses	(332)	(307)	(7.5)	(342)	(10.2)
Investment income	248	261	5.2	248	5.2
Finance cost	(423)	(478)	13.0	(492)	(2.9)
Share of profits from associates	222	233	5.0	296	(21.4)
Other income	0	0	0.0	0	0.0
Profit before tax	2,608	2,298	(11.9)	2,493	(7.8)
Tax	(342)	(295)	(13.7)	(337)	(12.4)
MI	242	596	146.3	(78)	(862.6)
Underlying profit (after PCS)	1,679	1,390	(17.2)	1,629	(14.7)
Underlying profit (before PCS)	2,129	1,832	(14.0)	2,078	(11.8)
Revaluation of IPs and other adjustments	(2,386)	(1,820)	n.a.		
Reported net profit	(707)	(430)	n.a.		
DPS (HK\$)	1.440	1.080	(25.0)	1.440	(25.0)
Segment gross profit margin (%)					
Overall	83.6%	80.7%	-3.0%	84.2%	-3.6%
Office	85.5%	82.5%	-3.0%		
Retail	83.2%	80.3%	-2.9%		
Residential	74.1%	70.2%	-3.8%		

SOURCE: CGSI RESEARCH ESTIMATES

Figure 2: NAV breakdown (end-2024F) and TP derivation

	HK\$ m	HK\$/share	% of GAV
HKIP	52,860	51.5	64%
Office	21,433	20.9	26%
Retail	26,313	25.6	32%
Luxury residential	4,283	4.2	5%
Car parks	831	0.8	1%
CNIP	10,243	10.0	12%
HKDP and other assets	19,719	19.2	24%
Gross asset value (GAV)	82,821	80.6	100%
Less: net debt & PCS	(31,689)	(30.9)	
Net asset value (NAV)	51,132	49.8	
Target discount		70%	
Target price (HK\$)		14.9	

SOURCE: CGSI RESEARCH ESTIMATES

Figure 3: Summary of TP changes

	Old	New	Chg %
NAV (HK\$)	53.2	49.8	-6%
Target discount	65%	70%	5%
Target price (HK\$)	18.6	14.9	-20%

SOURCE: CGS-CIMB RESEARCH ESTIMATES

Figure 4: Earnings revision


HK\$ m	2024F			2025F			2026F
	Old	New	% chg	Old	New	% chg	New
Core net profit	1,794	1,543	-14%	1,849	1,581	-15%	1,645
EPS (HK\$)	1.75	1.50	-14%	1.80	1.54	-15%	1.60
DPS (HK\$)	1.44	1.08	-25%	1.45	1.11	-24%	1.15

SOURCE: CGSI RESEARCH ESTIMATES

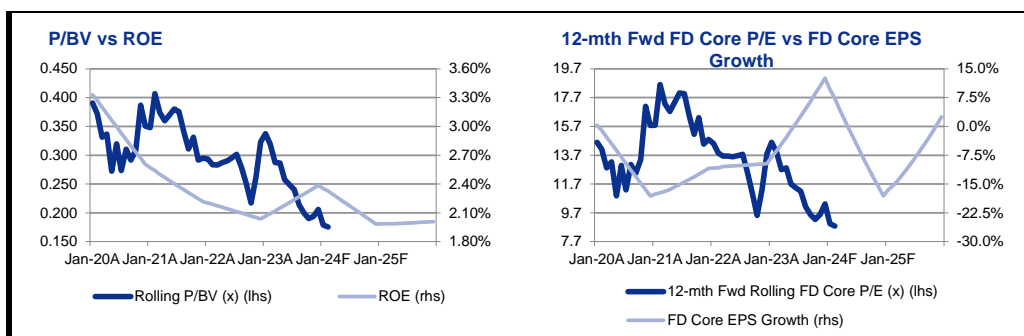
Figure 5: HK property valuation summary

Short Name	Ticker	CP (HK\$)	TP (HK\$)	Rating	Mkt cap (US\$ m)	NAV/sh (HK\$)	Disc. to NAV (%)	Upside (%)	P/E (x)				P/BV (x)			Div yield (%)			Net Gearing (%)			
									2022	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F
CK Asset	1113 HK	36.20	48.8	ADD	16,424	97.6	63	35	5.9	6.8	7.3	5.2	0.34	0.33	0.32	6.3	6.3	6.6	Net cash	Net cash	Net cash	
HLD	12 HK	22.05	25.1	ADD	13,648	45.6	52	14	11.1	10.6	10.0	9.9	0.32	0.32	0.32	8.2	8.2	8.2	40	40	37	
Kerry Prop	683 HK	13.24	15.6	ADD	2,457	51.9	74	18	4.3	6.5	6.5	5.3	0.18	0.17	0.17	10.2	10.2	10.2	38	43	40	
NWD	17 HK	9.92	13.7	ADD	3,192	45.7	78	38	5.3	14.1	12.5	7.5	0.13	0.14	0.14	7.7	23.7	8.7	50	48	48	
SHKP	16 HK	76.10	101.1	ADD	28,193	183.8	59	33	7.7	9.2	8.9	8.3	0.37	0.36	0.35	6.5	5.6	6.0	18	16	12	
Sino	83 HK	8.31	9.5	ADD	9,064	19.0	56	14	10.9	11.6	13.6	12.6	0.42	0.44	0.45	7.0	7.0	7.1	Net cash	Net cash	Net cash	
Wharf Holdings	4 HK	26.50	21.6	HOLD	10,354	48.0	45	(18)	267.3	21.1	18.5	16.8	0.54	0.51	0.50	1.5	1.6	1.8	11	10	6	
HLP	101 HK	8.68	12.6	ADD	4,993	27.9	69	45	9.3	9.4	8.2	8.0	0.29	0.29	0.28	9.0	9.0	9.0	32	33	30	
HKL*	HKL SP	3.33	3.6	HOLD	7,350	10.2	67	8	9.5	10.9	11.0	9.6	0.23	0.22	0.20	6.6	6.6	6.9	20	18	14	
Hysan	14 HK	13.24	14.9	ADD	1,738	49.8	73	13	8.1	7.2	8.8	8.6	0.18	0.17	0.17	8.2	8.2	8.4	26	26	25	
Swire Prop	1972 HK	15.92	18.0	HOLD	11,907	39.9	60	13	10.7	8.2	11.5	10.7	0.32	0.32	0.32	6.5	6.7	6.8	8	9	8	
Wharf REIC	1997 HK	26.80	30.3	ADD	10,403	60.5	56	13	13.2	13.1	11.9	11.1	0.42	0.42	0.41	4.9	5.4	5.7	19	18	17	
Champion REIT	2778 HK	1.70	1.84	REDUCE	1,298	5.02	66	8	7.8	9.1	10.2	10.2	0.22	0.22	0.21	9.9	8.7	8.7	29	27	25	
Link REIT	823 HK	38.40	51.5	ADD	12,630	68.8	44	34	14.3	6.4	14.9	14.3	0.52	0.51	0.51	7.1	6.8	7.0	26	26	25	
Midland	1200 HK	0.65	0.73	ADD	60	NA	NA	12	NA	NA	16.8	6.0	0.71	0.68	0.61	0.0	0.0	0.0	Net cash	Net cash	Net cash	
Developers								61	19	44.6	11.4	11.0	9.4	0.33	0.33	0.32	6.8	8.9	6.9	26	26	24
Landlords & REITs								62	19	10.4	9.2	10.9	10.4	0.31	0.31	0.30	7.5	7.3	7.5	23	22	21
Simple average (ex. Midland)								62	19	27.5	10.3	11.0	9.9	0.32	0.32	0.31	7.1	8.1	7.2	24	24	22

Share price data as of 22 February 2024; * HKL data stated in US\$
SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

		Refinitiv ESG Scores					
ESG in a nutshell		A- ESG Score	A+ ESG Controversies Score	A- ESG Combined Score	B+ ESG Environment Pillar Score	A- ESG Social Pillar Score	A- ESG Government Pillar Score
<p>We think Hysan has shown its commitment towards ESG by regularly reviewing its strategy and business operations, and continuing to support and align with the nine United Nations Sustainable Development Goals (SDGs). Hysan received an A rating in its MSCI ESG Ratings assessment.</p>							
Keep your eye on	Implications						
<p>We see no ESG issues for Hysan that we are concerned about.</p>	<p>N/A</p>						
ESG highlights	Implications						
<p>Hysan kick-started its renewable energy project and began installing solar panel systems across its portfolio, starting with the rooftop of Hysan Place. Also, Hysan has engaged over 50,000 stakeholders both locally and internationally through 18 major physical and virtual engagement events, as well as partnerships with non-governmental organisations.</p>	<p>Hysan has demonstrated its commitment towards ESG issues over the past few years. We believe further progress on ESG could support a further re-rating of its shares.</p>						
Trends	Implications						
<p>In the medium term, Hysan aims to: i) reduce 20% of purchased electricity by 2024F (base year: 2005), ii) reduce 20% of carbon intensity in its daily operations by 2024 (base year: 2005) iii) deliver a 30% increase in total number of training hours to employees (base year: 2020).</p>	<p>We have not applied any premium/discount for ESG in our fundamental valuations of Hysan. We believe Hysan would continually improve on the different areas of ESG, thereby attracting greater interest among ESG-focused investors.</p>						
		<small>SOURCES: CGSI RESEARCH, REFINITIV</small>					

BY THE NUMBERS



Profit & Loss

(HK\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	3,460	3,210	3,285	3,300	3,357
Gross Profit	2,893	2,589	2,663	2,681	2,735
Operating EBITDA	(652)	(481)	2,347	2,355	2,399
Depreciation And Amortisation	0	0	0	0	0
Operating EBIT	(652)	(481)	2,347	2,355	2,399
Financial Income/(Expense)	(423)	(478)	(516)	(497)	(479)
Pretax Income/(Loss) from Assoc.	222	233	273	285	295
Non-Operating Income/(Expense)	246	(5)	261	261	261
Profit Before Tax (pre-EI)	2,606	2,032	2,365	2,405	2,477
Exceptional Items					
Pre-tax Profit	(607)	(731)	2,365	2,405	2,477
Taxation	(342)	(295)	(299)	(303)	(312)
Exceptional Income - post-tax					
Profit After Tax	(949)	(1,026)	2,066	2,102	2,165
Minority Interests	242	596	(73)	(72)	(71)
Prof. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	(707)	(430)	1,992	2,030	2,094
Recurring Net Profit	1,679	1,884	1,543	1,581	1,645
Fully Diluted Recurring Net Profit	1,679	1,884	1,543	1,581	1,645

Cash Flow

(HK\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	(652)	(481)	2,347	2,355	2,399
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(9)	329	110	121	133
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	45	(250)	18	49	78
Other Operating Cashflow	3,207	2,781	17	(12)	(39)
Net Interest (Paid)/Received	(637)	(478)	(516)	(497)	(479)
Tax Paid	(196)	(295)	(299)	(303)	(312)
Cashflow From Operations	1,758	1,606	1,677	1,713	1,780
Capex	(3,081)	(21)	(23)	(25)	(28)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments	(3,057)	0	0	0	0
Other Investing Cashflow	(2,573)	261	261	261	261
Cash Flow From Investing	(8,711)	240	238	236	233
Debt Raised/(repaid)	5,117	217	(3,178)	0	0
Proceeds From Issue Of Shares	(162)	0	0	0	0
Shares Repurchased					
Dividends Paid	(2,051)	(2,040)	(1,670)	(1,672)	(1,699)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	2,904	(1,823)	(4,848)	(1,672)	(1,699)

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(HK\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	8,763	4,754	1,821	2,097	2,412
Properties Under Development					
Total Debtors	0	0	0	0	0
Inventories					
Total Other Current Assets	577	398	398	398	398
Total Current Assets	9,340	5,152	2,219	2,495	2,810
Fixed Assets	623	594	582	570	559
Total Investments	109,202	108,780	109,053	109,338	109,633
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	0	0	0	0	0
Total Non-current Assets	109,825	109,374	109,634	109,908	110,192
Short-term Debt	3,244	158	158	158	158
Current Portion of Long-Term Debt					
Total Creditors	1,026	1,097	1,207	1,327	1,460
Other Current Liabilities	633	552	552	552	552
Total Current Liabilities	4,903	1,807	1,917	2,037	2,170
Total Long-term Debt	24,033	25,406	22,228	22,228	22,228
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	6,818	7,622	7,622	7,622	7,622
Total Non-current Liabilities	30,851	33,028	29,850	29,850	29,850
Total Provisions	0	0	0	0	0
Total Liabilities	35,754	34,835	31,767	31,887	32,020
Shareholders' Equity	80,424	77,406	78,289	79,208	80,165
Minority Interests	2,987	2,285	1,797	1,308	817
Total Equity	83,411	79,691	80,086	80,516	80,982

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	(4.10%)	(7.23%)	2.35%	0.43%	1.74%
Operating EBITDA Growth	(9.7%)	(10.9%)	2.8%	0.4%	1.9%
Operating EBITDA Margin	74.0%	71.1%	71.4%	71.4%	71.5%
Net Cash Per Share (HK\$)	(18.03)	(20.26)	(20.02)	(19.76)	(19.45)
BVPS (HK\$)	78.31	75.37	76.23	77.13	78.06
Gross Interest Cover	6.05	4.77	4.55	4.74	5.01
Effective Tax Rate	0.0%	0.0%	12.6%	12.6%	12.6%
Net Dividend Payout Ratio	59.0%	47.5%	55.8%	56.1%	56.6%
Accounts Receivables Days	-	-	-	-	-
Inventory Days	-	-	-	-	-
Accounts Payables Days	594.2	623.9	677.3	747.7	817.1
ROIC (%)	(32013%)	(497%)	(357%)	(302%)	(263%)
ROCE (%)	2.59%	2.36%	2.51%	2.55%	2.58%
Return On Average Assets	2.27%	1.90%	2.28%	2.32%	2.35%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Gross rental income (HK\$ m)	3,460.0	3,210.0	3,285.4	3,299.7	3,357.2
Net rental income (HK\$ m)	2,893.0	2,589.0	2,663.0	2,681.2	2,734.6
Rental margin (%)	83.6%	80.7%	81.1%	81.3%	81.5%
DPS coverage by rental (%)	113.2%	125.3%	138.9%	138.9%	138.9%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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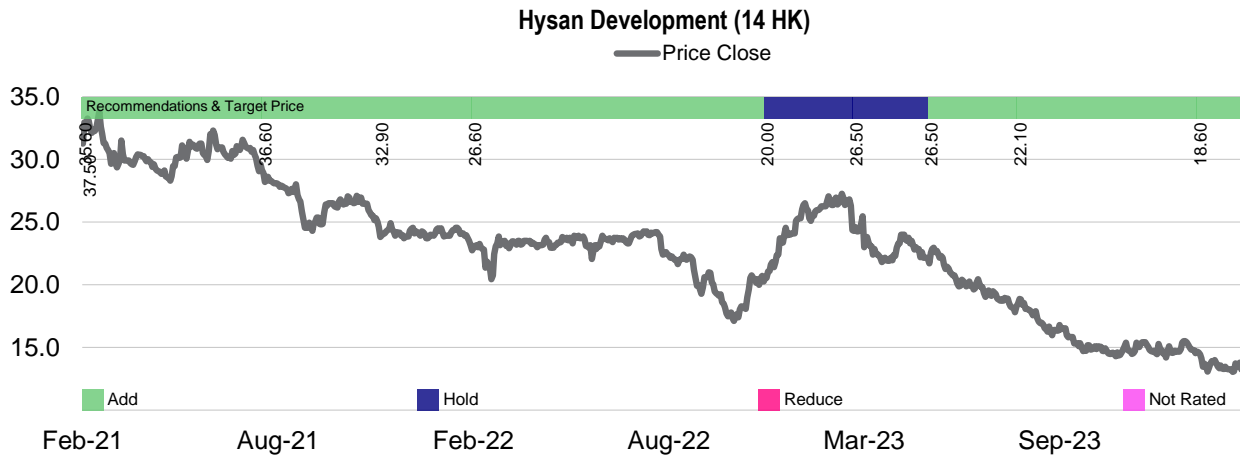
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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