Hysan Development (14 HK)

1H26: Results In Line; Look For Further Deleveraging

Highlights

- 1H26 adjusted UNP rose 8.8% yoy, while net gearing fell 1.5ppt hoh.
- IP performance met expectations, with retail materially outperforming market. The office market remains overall challenging. Capital recycling supports deleveraging, despite a narrower accounting margin at Bamboo Grove.
- Maintain BUY with an unchanged target price of HK$20.74.

1H26 Results

Year to 31 Dec (HK$m)	1H26	1H25	yoy	2H25	hoh
Turnover	1,728	1,730	-0.1%	1,734	-0.3%
- Retail	874	862	1.4%	865	1.0%
- Office	754	750	0.5%	758	-0.5%
- Residential	100	118	-15.3%	111	-9.9%
Gross profit	1,426	1,426	0.0%	1,352	5.5%
Reported net profit	73	75	-2.7%	240	-69.6%
Reported Underlying net profit (UNP)	1,107	1,031	7.4%	1,479	-25.2%
Adjusted UNP (after perps distribution)	845	777	8.8%	1,208	-30.0%
Recurring UNP*	1,049	1,031	1.7%	887	18.3%
Adjusted recurring UNP	787	777	1.3%	616	27.8%
Underlying EPS (HK / share)	1.08	1.00	7.4%	1.44	-25.2%
DPS (HK / share)	0.27	0.27	0.0%	0.81	n/m
Gross profit (GP) margin	82.5%	82.4%	0.1ppt	78.0%	4.6ppt
- Retail	83.1%	83.9%	-0.8ppt	78.4%	4.7ppt
- Office	83.7%	82.7%	1.0ppt	81.0%	2.7ppt
- Residential	69.0%	70.3%	-1.3ppt	54.1%	14.9ppt
	Jun 26	Jun 25	yoy	Dec 25	hoh
Net gearing ratio	30.9%	32.9%	-2.0ppt	32.4%	-1.5ppt
Net gearing ratio (PC as debt)	49.4%	52.9%	-3.5ppt	51.4%	-2.0ppt

Note: Reported underlying net profit is arrived at by adding back a) fair value change of investment properties; b) items not generated from the core property investment business; and c) distribution to perpetual capital securities.
** For recurring UNP, profit from Bamboo grove sale is excluded.*

Analysis

- **1H26 adjusted UNP up 8.8% yoy, net gearing down 1.5ppt hoh.** Revenue edged down 0.1% yoy to HK$1,728m, 50.1% of our full-year estimate, as residential income fell 15.3% yoy on the sale of two Bamboo Grove blocks. Gross profit margin widened 0.1ppt yoy to 82.5%. While underlying net profit (UNP) increased 7.4% yoy to HK$1,107m, adjusted UNP (after distributions to perpetual capital securities holder) rose 8.8% yoy to HK$845m, 40.4% of our full-year estimate, supported by a HK$58m gain on the Bamboo Grove sales. Net gearing edged down 1.6ppt hoh to 31.1% and gearing including perpetual capital securities fell 2.0ppt hoh to 49.4% - the clear positive of the results; interim DPS held flat yoy at HK$0.27, in line with our expectation.

Key Financials

Year to 31 Dec (HK$m)	2024	2025	2026F	2027F	2028F
Net turnover	3,409	3,464	3,477	3,713	3,910
EBITDA	2,487	3,094	2,665	2,724	2,845
Operating profit	2,458	3,063	2,633	2,690	2,845
Net profit (rep./act.)	35	315	1,568	1,663	1,903
Net profit (adj.)*	1,538	1,985	1,568	1,663	1,903
EPS (HK$)	149.8	193.3	152.7	162.0	185.3
PE (x)	11.7	9.1	11.5	10.8	9.5
P/B (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	17.4	14.0	16.2	15.8	15.2
Dividend yield (%)	6.2	6.2	6.2	6.5	7.3
Net margin (%)	1.0	9.1	45.1	44.8	48.7
Net debt/(cash) to equity (%)	32.2	33.0	31.6	30.7	30.1
Interest cover (x)	8.8	7.8	7.0	7.2	8.3
ROE (%)	0.0	0.4	2.1	2.2	2.5
Consensus net profit (HK$m)	-	-	2,044.0	1,706.0	1,758.8
UOBKH/Consensus (x)	-	-	0.77	0.98	1.08

**For adjusted net profit, fair value change and distribution to perpetual capital securities holders are excluded.*
Source: Hysan, Bloomberg, UOB Kay Hian

Analyst(s)

Liu Jieqi
Jieqi.Liu@uobkh.com
+852 28261392

Damon Shen
Damonshen@uobkh.com
+86 21 54047225 ext.820

BUY (Maintained)

Share Price	HK$17.51
Target Price	HK$20.74
Upside	+18.5%

Stock Data

Sector	Real Estate
Bloomberg ticker	14 HK
Shares issued (m)	1,027.0
Market cap ({{Curr}}m)	17,982.9
Market cap (US$m)	2,291.7
3-mth avg daily t'over (US$m)	5.0

Price Performance (%)

52-week high/low				HK$23.16/HK$14.64
1mth	3mth	6mth	1yr	YTD
0.9	(11.3)	(22.7)	12.7	(7.4)

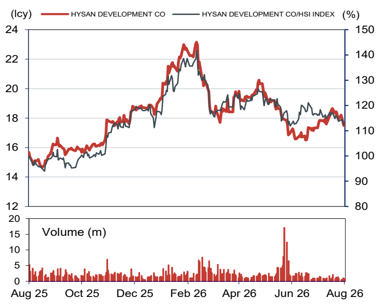
Major Shareholders (%)

LEE HYSAN COMPANY LTD	42.17

Balance Sheet Metrics

FY26 NAV/Share (HK$)	64.18
FY26 Net Debt/ Share (HK$)	23.14

Price Chart



Source: Bloomberg

Company Description

Hysan Development Company, through its subsidiaries, invests in real estate. The company's properties include commercial rental and luxury residential buildings in Hong Kong. The company also invests in treasuries.

- **Investment property (IP) performance in line; retail continued to outperform the market.** We see a few key highlights in Hysan Development's (Hysan) Hong Kong retail portfolio: a) tenant sales grew 17% yoy, outperforming overall Hong Kong retail sales across all categories; b) turnover rent rose 8.2% yoy to HK$66m; and c) base rent reversion is expected to be in the low-to-mid single digits range, with occupancy cost healthy in the mid-to-high teens. The office portfolio also showed signs of improvement, with Causeway Bay spot rents stabilising and the negative rental reversion narrowing to the mid-teens. That said, management continues to view the office market as challenging, even as Causeway Bay spot rents stabilise.
- **Lee Garden Eight nearing completion, but leasing progress yet to be disclosed.** Lee Garden Eight and the Lee Gardens connectivity project remain on schedule for completion in 2H26. Capital expenditure rose 58.7% yoy to HK$1,697m in 1H26, against HK$2,633m for 2025, and we expect capital expenditure to decline from 2027 onwards. Management said Lee Garden Eight continues to make good progress in securing strategic office and retail anchors, but has not disclosed its % of committed leasing. We look for the pace to pick up after completion in 4Q26.
- **Capital recycling supporting balance sheet, though accounting margin on Bamboo Grove has narrowed.** As at Jun 26, Hysan had collected HK$4.5b from sales at Bamboo Grove and VILLA LUCCA - HK$4.0b and HK$0.5b respectively - or 56% of its HK$8b five-year target, with a further HK$0.6b contracted for completion by end-26. The carrying value of the Bamboo Grove units held has been revalued up 44% since 2025, which supports the fall in gearing. At the same time, while ASP rose to HK$25,000/psf in 2026 from HK$22,500/psf in 2025, the much higher book value cut the accounting margin by 90% in 1H26 from 2H25. On balance, we see the cash inflow and lower gearing as more meaningful, and we expect capital recycling to continue to support deleveraging in 2027.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of HK$20.74.** We are slightly more conservative on our full-year dividend forecast, having previously assumed single-digit growth. However, the solid improvement in gearing (a continuous decline since it peaked at 32.9% as of Jun 25) enhances the group's overall resilience, and we therefore lower our targeted 2026 dividend yield to 5.2%, from 5.5%. Our target price is unchanged at HK$20.74 and implies a 68% discount to our 2026 NAV estimate of HK$64.18/share.

Earnings Revision/Risk

- **We revise down our 2026 earnings forecast to reflect a lower accounting margin on the Bamboo Grove sales.** Factoring in a more conservative accounting margin for Bamboo Grove, we revise our 2026/27/28 earnings forecasts by -25.0%/-1.9%/+2.3% respectively.

Share Price Catalyst

- Faster-than-expected interest rate cuts; stronger-than-expected recovery in Hong Kong retail sales.

Key Operational Data

	------------- Occupancy rate -------------					Rental reversion in 1H26
	Jun 26	Dec 25	Jun 25	Dec 24	Jun 24	
Retail - HK	96%	95%	94%	92%	95%	Positive
Office - HK	93%	94%	92%	90%	89%	Negative
Retail-SH	67%*	72%	64%	41%	N/A	N/A
Office – SH	83%	72%	68%	66%	34%	N/A
Residential - HK	90%	87%	70%	73%	68%	Positive

Note: As of Jun 26, 70% of Shanghai retail space is committed
Source: Hysan, UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Net turnover	3,464.0	3,476.6	3,713.3	3,909.7
EBITDA	3,093.6	2,664.9	2,724.2	2,845.0
Deprec. & amort.	30.6	32.2	33.8	0.0
EBIT	3,063.0	2,632.7	2,690.4	2,845.0
Total other non-operating income	(2,017.0)	(529.0)	(529.0)	(529.0)
Associate contributions	(581.0)	281.0	431.0	581.0
Net interest income/(expense)	(398.0)	(379.4)	(376.5)	(341.5)
Pre-tax profit	67.0	2,005.3	2,215.9	2,555.5
Tax	(296.0)	(326.0)	(377.1)	(428.0)
Minorities	544.0	(110.9)	(175.4)	(224.5)
Net profit	315.0	1,568.4	1,663.4	1,903.0
Net profit (adj.)	1,985.0	1,568.4	1,663.4	1,903.0

Balance Sheet

Year to 31 Dec (HK$m))	2025	2026F	2027F	2028F
Fixed assets	97,062.0	99,113.6	99,668.1	100,225.7
Other LT assets	12,157.0	12,349.4	12,551.0	12,752.8
Cash/ST investment	3,831.0	3,730.2	2,218.2	2,441.2
Other current assets	2,372.0	358.1	376.0	394.8
Total assets	115,422.0	115,551.2	114,813.2	115,814.5
ST debt	1,903.0	2,500.0	2,500.0	2,500.0
Other current liabilities	2,231.0	3,348.3	3,935.1	4,047.4
LT debt	26,621.0	25,000.0	23,000.0	23,000.0
Other LT liabilities	8,453.0	8,085.9	8,101.2	8,116.9
Shareholders' equity	74,860.0	75,196.5	75,751.0	76,489.6
Minority interest	1,354.0	1,420.6	1,525.8	1,660.5
Total liabilities & equity	115,422.0	115,551.2	114,813.2	115,814.5

Cash Flow

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Operating	2,288.0	2,372.8	2,534.8	2,793.9
Profit fo the year	67.0	2,005.3	2,215.9	2,555.5
Tax	(296.0)	(326.0)	(377.1)	(428.0)
Deprec. & amort.	30.6	32.2	33.8	0.0
Associates	581.0	(281.0)	(431.0)	(581.0)
Working capital changes	11.0	(48.7)	(50.0)	(51.4)
Non-cash items	907.0	0.0	0.0	0.0
Other operating cashflows	987.4	991.0	1,143.2	1,298.8
Investing	771.0	718.8	118.5	(385.0)
Capex (growth)	(16.0)	(32.3)	(32.5)	(36.0)
Proceeds from sale of assets	2,030.0	2,600.0	500.0	0.0
Others	(1,343.0)	(1,849.0)	(349.0)	(349.0)
Financing	(795.0)	(3,192.3)	(4,165.4)	(2,185.9)
Dividend payments	(1,109.0)	(1,108.9)	(1,108.9)	(1,164.4)
Proceeds from borrowings	6,462.0	(1,024.0)	(2,000.0)	0.0
Loan repayment	(10,367.0)	0.0	0.0	0.0
Others/interest paid	4,219.0	(1,059.4)	(1,056.5)	(1,021.5)
Net cash inflow (outflow)	2,264.0	(100.8)	(1,512.1)	223.0
Beginning cash & cash equivalent	1,564.0	3,831.0	3,730.2	2,218.2
Changes due to forex impact	3.0	0.0	0.0	0.0
Ending cash & cash equivalent	3,831.0	3,730.2	2,218.2	2,441.2

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	89.3	76.7	73.4	72.8
Pre-tax margin	1.9	57.7	59.7	65.4
Net margin	9.1	45.1	44.8	48.7
ROA	0.3	1.4	1.4	1.7
ROE	0.4	2.1	2.2	2.5
Growth				
Turnover	1.6	0.4	6.8	5.3
EBITDA	24.4	(13.9)	2.2	4.4
Pre-tax profit	(55.0)	2,892.9	10.5	15.3
Net profit	800.0	397.9	6.1	14.4
Net profit (adj.)	29.1	(21.0)	6.1	14.4
EPS	29.1	(21.0)	6.1	14.4
Leverage				
Debt to total capital	27.2	26.4	24.8	24.6
Debt to equity	38.1	36.6	33.7	33.3
Net debt/(cash) to equity	33.0	31.6	30.7	30.1
Interest cover (x)	7.8	7.0	7.2	8.3