

8 August 2018

Hong Kong

EQUITIES

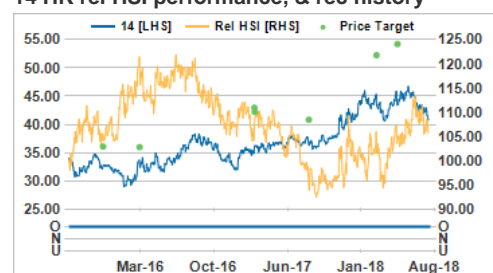
14 HK Outperform
Price (at 08:50, 07 Aug 2018 GMT) HK\$40.80

Valuation	HK\$	77.79
- DCF (WACC 4.6%, beta 0.5, ERP 6.0%, RFR 1.5%)		
12-month target	HK\$	54.23
Upside/Downside	%	+32.9
12-month TSR	%	+36.4
Volatility Index		Low
GICS sector		Real Estate
Market cap	HK\$m	42,689
Market cap	US\$m	5,439
Free float	%	58
30-day avg turnover	US\$m	3.4
Number shares on issue	m	1,046

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	3,548.0	3,716.4	3,870.3	3,952.9
EBIT	m	2,852.0	2,974.8	3,149.1	3,235.5
EBIT growth	%	-1.2	4.3	5.9	2.7
Reported profit	m	3,636.0	7,177.2	2,592.6	2,534.6
Adjusted profit	m	2,349.0	2,425.5	2,592.6	2,534.6
EPS rep	HK\$	3.48	6.86	2.48	2.42
EPS rep growth	%	199.6	97.4	-63.9	-2.2
EPS adj	HK\$	2.25	2.32	2.48	2.42
EPS adj growth	%	-0.5	3.2	6.9	-2.2
PER rep	x	11.7	5.9	16.5	16.8
PER adj	x	18.2	17.6	16.5	16.8
Total DPS	HK\$	1.37	1.40	1.43	1.46
Total DPS growth	%	1.5	2.2	2.1	2.1
Total div yield	%	3.4	3.4	3.5	3.6
ROA	%	3.5	3.5	3.5	3.6
ROE	%	3.4	3.3	3.4	3.3
EV/EBITDA	x	14.9	14.5	13.7	13.9
Net debt/equity	%	4.8	5.7	4.0	2.5
P/BV	x	0.6	0.6	0.6	0.6

14 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2018

(all figures in HKD unless noted)

Analysts

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Hysan Development Tactical 2H amidst rosy outlook

Key points

- ▶ The big picture is bright for Hysan's retail and office portfolio as tenants' sales growth exceeded 25% in 1H18, versus HK market at 13.4%.
- ▶ Strong turnover rent should be able to offset higher expenses ratio and vacating of ESPRIT prime shop at Leighton Centre.
- ▶ The company should achieve all-time high retail sales this year.

Event

- The big picture is bright for Hysan's retail and office portfolio, in our view, as tenants' sales growth exceeded 25%, versus HK overall at 13.4%. 2Q18 growth was surprisingly strong and similar to the momentum carried from 1Q18. This trend applies to all three assets: Hysan Place at 36%/38% in 1Q/1H; Lee Gardens at 30%/28% and Lee Theatre at 8%/6%. The sacrifice of positive retail reversion during down market in exchange for curating a vibrant, cohesive and diverse ambience bodes well for the traffic and retail sales in the medium term.
- Over 95% of Lee Garden Three (LG3) office are leased and 88% of retail have been committed, attracting some of the most reputable tenants. According to HKET, Goldman Sachs leased up five floors at ~HK\$60psf to move its back office from Central. We view the potential departure of KPMG vacating 80k sqf of Hysan Place (according to Mingtiadi) to Swire's South Island Place a good chance to increase rental and attract more exciting tenants from Central.

Impact

- However, management issued caution for 2H as the ESPRIT store in Leighton Centre will be closed in Q3. Vacancy (~HK\$2m/mth rental, according to HKET) and potential negative reversion for this 7k sqf space may be a small drag. The offsetting factor is strong turnover rent from the rest of the portfolio, which almost doubled from a year ago and may exceed HK\$100m for the full year. Leasing expenses of LG3 office and the opening costs of LG3 retail may compress margin in 2H18, which already declined from 89.5% to 88.3% and may further drop to 86% before recovering in 2019. This negative should be mitigated by higher top-line contribution from LG3.
- As a result, we stand by our 3.2% 2018 EPS growth forecast, despite 4.3% increase in 1H18, before reaching 6.9% growth in 2019. We project only HK\$0.03/share increase in dividend for the full year, of which HK\$0.01 already occurred in 1H. We are positive on the stock, but our 2018 EPS and DPS forecasts are 8% and 2% below consensus.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: HK\$54.23 based on a Sum of Parts methodology.
- Catalyst: finding new tenant for ESPRIT space.

Action and recommendation

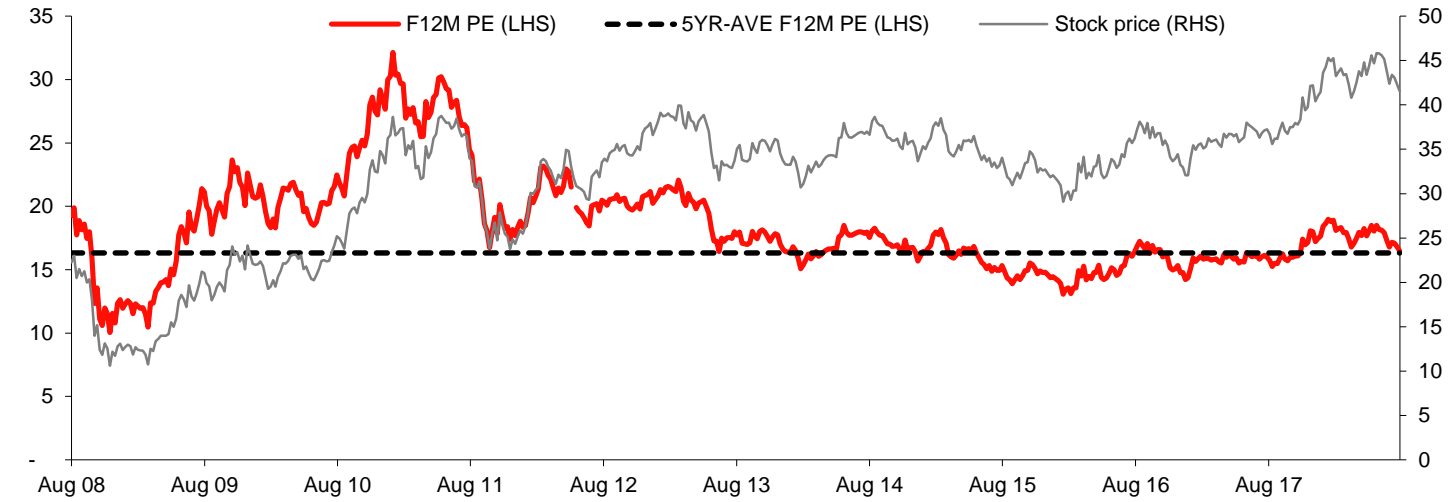
- Retail sales for Hysan in 2018 are likely to be all-time high and exceed the 2014 peak due to strong market recovery, yet trading at PB of 0.6x only.

Fig 1 Retail sales growth for each retail property

Company	Region	Property	1H15	CY15	1H16	CY16	1H17	CY17	1Q18	1H18
Swire Properties	Admiralty	Pacific Place	-12.7%	-11.8%	-17.0%	-12.8%	1.5%	7.2%	25.9%	
Swire Properties	Island East	Cityplaza Mall	10.9%	0.7%	-4.1%	-4.0%	-7.3%	-3.0%	7.7%	
Swire Properties	Tung Chung	Citygate Outlets	-5.3%	-10.0%	-13.0%	-8.0%	0.9%	0.2%	11.7%	
MAGIC	Kowloon	Festival Walk	1.7%	1.5%	-14.4%	-11.6%	-1.5%	1.7%	18.1%	
Wharf	TST	Harbour City	-7.1%	-12.1%	-14.7%	-9.9%	2.8%	9.1%	37.7%	36.1%
Wharf	CWB	Times Square	-9.6%	-12.8%	-15.7%	-11.0%	-4.3%	1.1%	23.3%	21.6%
Hysan	CWB	Hysan Place	-5.0%	-7.0%	-5.0%	-2.0%	6.0%	12.0%	36.0%	38.0%
Hysan	CWB	Lee Gardens Hub	-8.0%	-10.0%	-13.0%	-7.0%	2.0%	12.0%	30.0%	28.0%
Hysan	CWB	Lee Theatre hub	10.0%	4.0%	-5.0%	-5.0%	-2.0%	2.0%	8.0%	6.0%
Champion REIT	Kowloon	Langham Place	2.9%	1.8%	-6.4%	-4.9%	1.9%	5.3%		
Sogo	CWB	CWB Sogo	-1.4%	-4.5%	-9.5%	-6.7%	-1.5%	4.3%		
Hong Kong total retail sales			-1.6%	-3.7%	-10.5%	-8.1%	-0.6%	2.2%	14.3%	13.4%
Hong Kong 'Luxury'			-15.9%	-15.6%	-21.1%	-17.2%	0.8%	5.2%	21.7%	23.5%
HK 'Electronic and other durable goods'			11.6%	8.5%	-28.7%	-25.0%	-14.0%	-5.9%	21.0%	16.3%

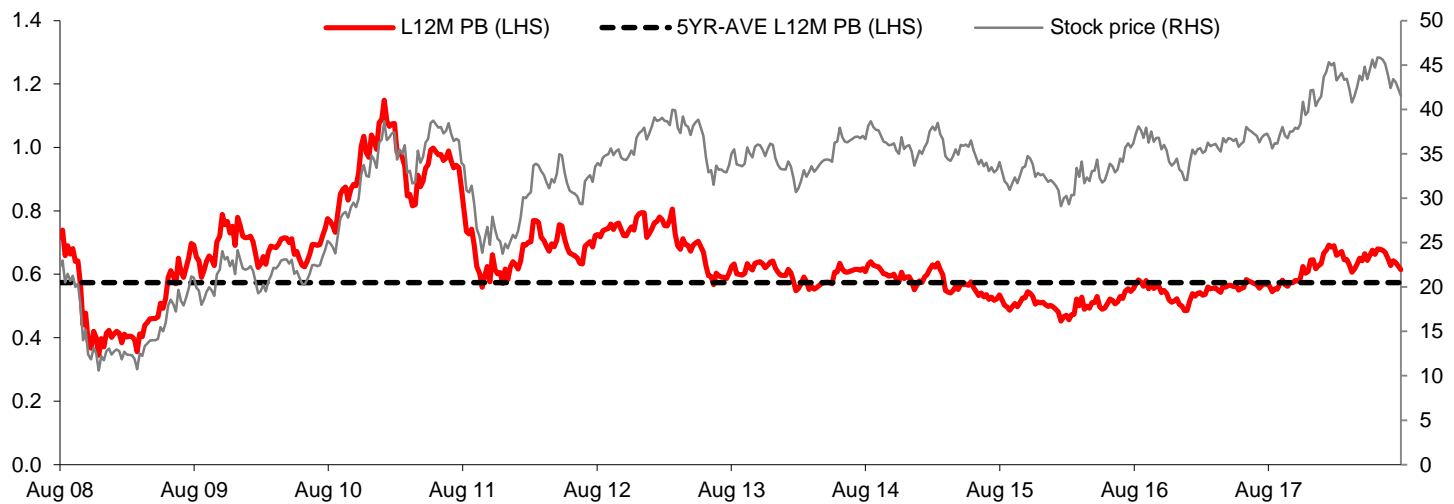
Source: Company data, HKSAR, Macquarie Research, August 2018

Fig 2 Consensus 12mth forward PER for HYSA Latest price=41.8*; PE=16.5 (5-yr average=16.3)



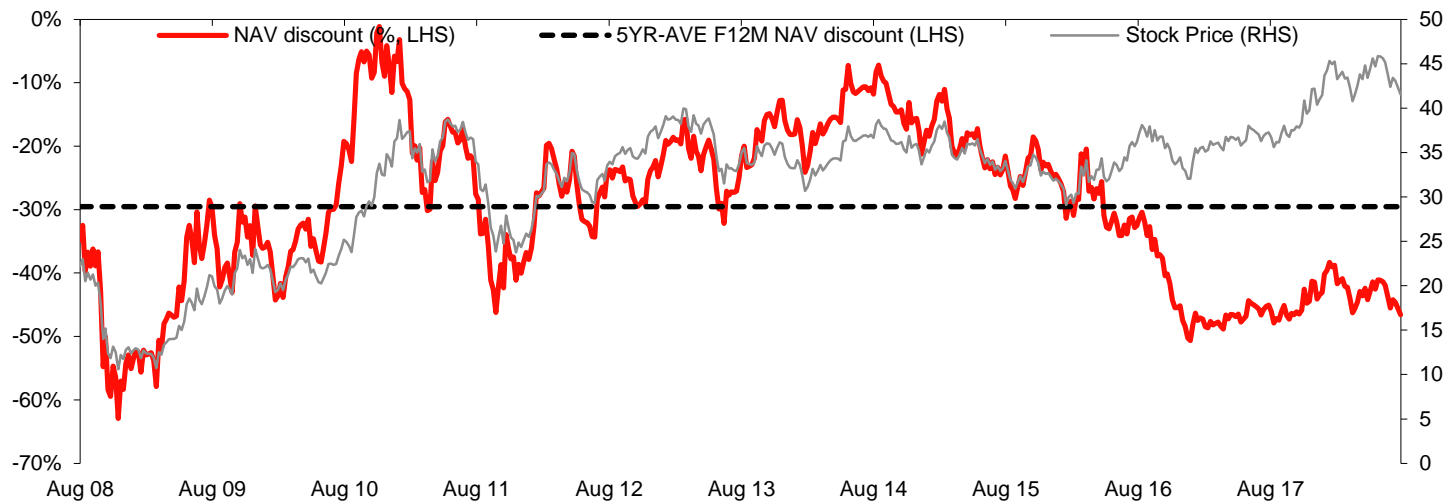
*priced as of 7 Aug 2018
Source: FactSet, Macquarie Research, August 2018

Fig 3 P/BV for HYSA: PB=0.6 (5-yr average=0.57)



Source: FactSet, Macquarie Research, August 2018

Fig 4 NAV discount for HYSA: NAV discount= -47% (5-yr average= -30%)



Source: FactSet, Macquarie Research, August 2018

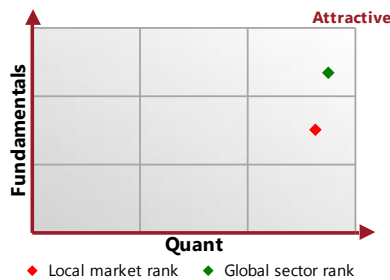
Macquarie Quant View

The quant model currently holds a strong positive view on Hysan Development. The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

85/1003

Global rank in Real Estate

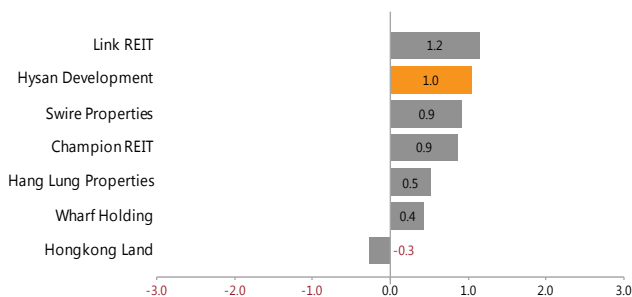
% of BUY recommendations	75% (9/12)
Number of Price Target downgrades	0
Number of Price Target upgrades	1



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model. Two rankings: Local market (Hong Kong) and Global sector (Real Estate)

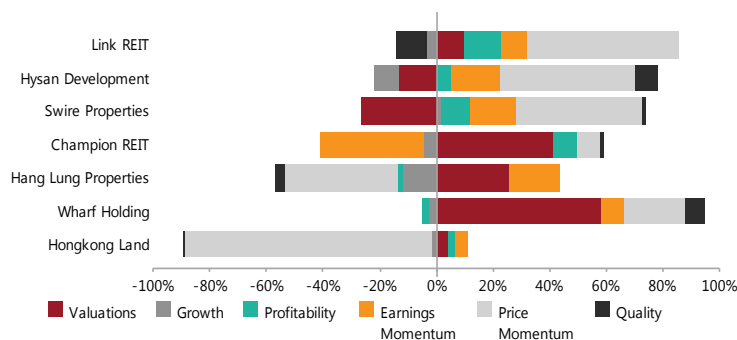
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



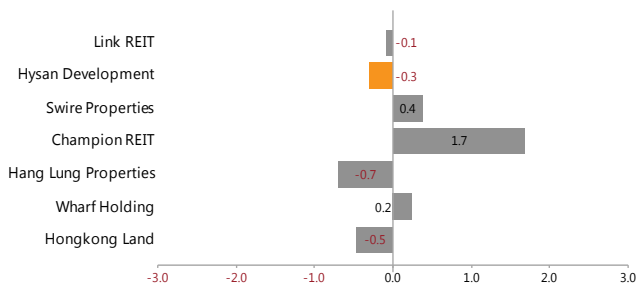
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



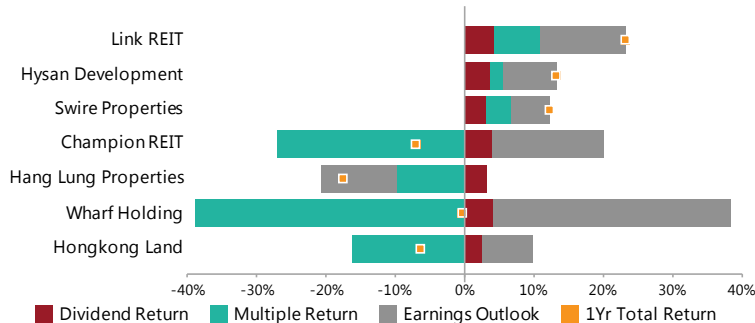
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



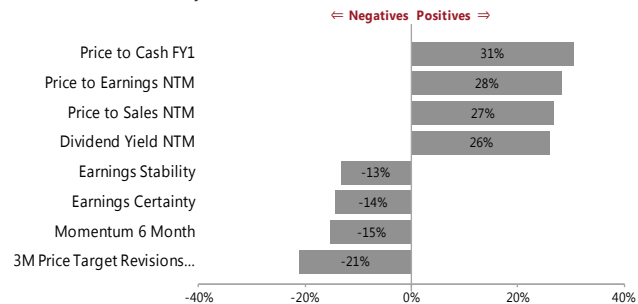
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



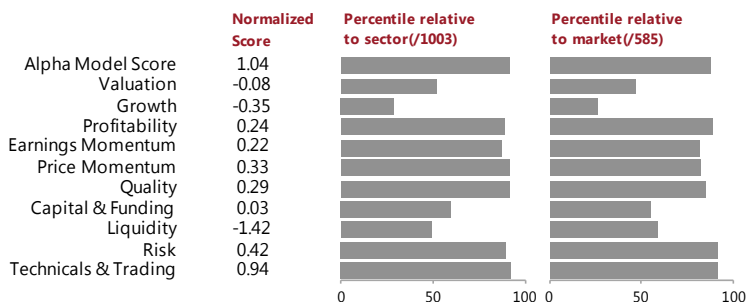
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Hysan Development (14 HK, Outperform, Target Price: HK\$54.23)

Interim Results		2H/17A	1H/18E	2H/18E	1H/19E	Profit & Loss		2017A	2018E	2019E	2020E
Net Property Income	m	1,757	1,858	1,858	1,935	Net Property Income	m	3,548	3,716	3,870	3,953
Development Income	m	0	0	0	0	Development Income	m	0	0	0	0
Other Revenue	m	0	0	0	0	Other Revenue	m	0	0	0	0
Total Revenue	m	1,757	1,858	1,858	1,935	Total Revenue	m	3,548	3,716	3,870	3,953
Management Fees	m	0	0	0	0	Management Fees	m	0	0	0	0
Other Expenses	m	0	0	0	0	Other Expenses	m	0	0	0	0
EBITDA	m	1,366	1,498	1,498	1,586	EBITDA	m	2,874	2,997	3,171	3,258
Dep & Amortisation	m	11	11	11	11	Dep & Amortisation	m	22	22	22	22
EBIT	m	1,355	1,487	1,487	1,575	EBIT	m	2,852	2,975	3,149	3,236
Net Interest Income	m	-83	-89	-89	-89	Net Interest Income	m	-158	-178	-178	-178
Associates	m	114	92	92	103	Associates	m	220	184	205	75
Exceptionals	m	1,889	0	0	0	Exceptionals	m	1,114	0	0	0
Other Pre-Tax Income	m	69	35	35	35	Other Pre-Tax Income	m	69	69	69	69
Pre-Tax Profit	m	3,344	1,525	1,525	1,623	Pre-Tax Profit	m	4,097	3,049	3,245	3,201
Tax Expense	m	-241	-236	-236	-251	Tax Expense	m	-484	-473	-502	-516
Net Profit	m	3,103	1,288	1,288	1,372	Net Profit	m	3,613	2,576	2,744	2,686
Minority Interests	m	-175	-75	-75	-75	Minority Interests	m	23	-151	-151	-151
Reported Earnings	m	2,928	3,589	3,589	1,296	Reported Earnings	m	3,636	7,177	2,593	2,535
Adjusted Earnings	m	1,122	1,213	1,213	1,296	Adjusted Earnings	m	2,349	2,426	2,593	2,535
EPS (rep)		2.80	3.43	3.43	1.24	EPS (rep)		3.48	6.86	2.48	2.42
EPS (adj)		1.07	1.16	1.16	1.24	EPS (adj)		2.25	2.32	2.48	2.42
EPS Growth yoy (adj)	%	-5.3	-1.2	8.1	6.9	EPS Growth (adj)	%	-0.5	3.2	6.9	-2.2
						PE (rep)	x	11.7	5.9	16.5	16.8
						PE (adj)	x	18.2	17.6	16.5	16.8
EBITDA Margins	%	77.7	80.6	80.6	81.9	Total DPS		1.37	1.40	1.43	1.46
EBIT Margins	%	77.1	80.0	80.0	81.4	Total Div Yield	%	3.4	3.4	3.5	3.6
Earnings Split	%	47.8	50.0	50.0	50.0	Basic Shares Outstanding	m	1,046	1,046	1,046	1,046
Revenue Growth	%	-1.0	3.8	5.8	4.1	Diluted Shares Outstanding	m	1,046	1,046	1,046	1,046
EBIT Growth	%	-6.5	-0.6	9.8	5.9						
Profit & Loss Ratios		2017A	2018E	2019E	2020E	Cashflow Analysis		2017A	2018E	2019E	2020E
Revenue Growth	%	0.4	4.7	4.1	2.1	EBITDA	m	2,874	2,997	3,171	3,258
EBITDA Growth	%	-1.2	4.3	5.8	2.7	Tax Paid	m	448	394	415	421
EBIT Growth	%	-1.2	4.3	5.9	2.7	Chg in Working Capital	m	-118	-365	-683	-700
EBITDA Margins	%	81.0	80.6	81.9	82.4	Net Interest Paid	m	-209	-241	-252	-264
EBIT Margins	%	80.4	80.0	81.4	81.9	Other	m	220	184	205	75
Net Profit Margins	%	66.2	65.3	67.0	64.1	Operating Cashflow	m	3,215	2,969	2,856	2,790
Payout Ratio	%	61.0	60.4	57.7	60.2	Acquisitions	m	-1,965	-2,020	-113	-111
EV/EBITDA	x	14.9	14.5	13.7	13.9	Capex	m	0	0	0	0
EV/EBIT	x	15.0	14.6	13.8	14.0	Asset Sales	m	208	-22	-22	-22
						Other	m	0	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-1,757	-2,042	-135	-133
ROE	%	3.4	3.3	3.4	3.3	Dividend (Ordinary)	m	-1,411	-1,433	-1,464	-1,496
ROA	%	3.5	3.5	3.5	3.6	Equity Raised	m	19	0	0	0
ROIC	%	3.4	3.3	3.2	3.3	Debt Movements	m	-108	300	300	300
Net Debt/Equity	%	4.8	5.7	4.0	2.5	Other	m	120	-413	0	0
Interest Cover	x	18.1	16.7	17.7	18.1	Financing Cashflow	m	-1,380	-1,546	-1,164	-1,196
Price/Book	x	0.6	0.6	0.6	0.6	Net Chg in Cash/Debt	m	78	-619	1,557	1,461
Book Value per Share		66.9	72.0	73.1	74.1	Free Cashflow	m	3,215	2,969	2,856	2,790
						Balance Sheet		2017A	2018E	2019E	2020E
						Cash	m	2,662	2,043	3,600	5,061
						Receivables	m	735	758	782	810
						Inventories	m	0	0	0	0
						Investments	m	72,470	79,129	79,129	79,129
						Fixed Assets	m	751	751	751	751
						Intangibles	m	0	0	0	0
						Other Assets	m	5,502	5,615	5,728	5,839
						Total Assets	m	82,120	88,295	89,990	91,590
						Payables	m	1,989	1,989	1,989	1,989
						Short Term Debt	m	150	150	150	150
						Long Term Debt	m	6,035	6,335	6,635	6,935
						Provisions	m	945	1,339	1,454	1,563
						Other Liabilities	m	0	0	0	0
						Total Liabilities	m	9,119	9,813	10,228	10,637
						Shareholders' Funds	m	69,953	75,284	76,413	77,452
						Minority Interests	m	3,048	3,199	3,350	3,501
						Total S/H Equity	m	73,001	78,483	79,762	80,952
						Total Liab & S/H Funds	m	82,120	88,295	89,990	91,590

All figures in HKD unless noted.

Source: Company data, Macquarie Research, August 2018

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Mazi Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

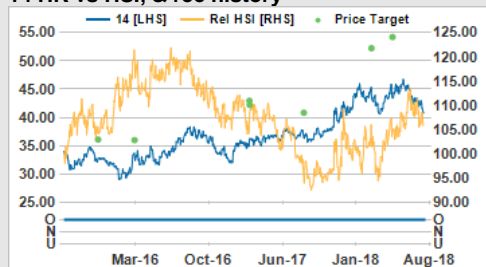
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.87%	61.26%	48.86%	47.54%	69.86%	46.61%	(for global coverage by Macquarie, 3.51% of stocks followed are investment banking clients)
Neutral	34.10%	27.25%	36.36%	46.72%	21.92%	43.22%	(for global coverage by Macquarie, 2.10% of stocks followed are investment banking clients)
Underperform	13.03%	11.49%	14.77%	5.74%	8.22%	10.17%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

14 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
 Source: FactSet, Macquarie Research, August 2018

12-month target price methodology

14 HK: HK\$54.23 based on a Sum of Parts methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
04-May-2018	14 HK	Outperform	HK\$54.23
01-Mar-2018	14 HK	Outperform	HK\$52.25
07-Aug-2017	14 HK	Outperform	HK\$40.84
23-Feb-2017	14 HK	Outperform	HK\$42.22
22-Feb-2017	14 HK	Outperform	HK\$42.96
09-Mar-2016	14 HK	Outperform	HK\$36.00
19-Nov-2015	14 HK	Outperform	HK\$36.10

Target price risk disclosures:

14 HK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification:

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The Analysts responsible for preparing this report receive compensation from Macquarie that is based upon various factors including Macquarie Group Ltd total revenues, a portion of which are generated by Macquarie Group's Investment Banking activities.

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