Company – Results
Greater China
Friday, 07 August 2026

Wharf Real Estate Investment Co (1997 HK)

1H26: Higher Payout Signals Confidence; Raise Target Price By 25% To HK$36.00

BUY (Maintained)

Share Price	HK$30.00
Target Price	HK$36.00
Upside	+20.0%
Previous TP	HK$28.80

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Highlights

- 1H26 underlying net profit rose 6.2% yoy to HK$3,311m, ahead of our forecast, as borrowing costs fell 26% yoy on a 3.5% effective rate.
- The board lifted the payout ratio from 65% to 90%, taking interim DPS up 42.4% to HK$0.94 — a step-change that signals management's confidence.
- We raise our DDM-derived target price by 25% to HK$36.00; maintain BUY.

1H26 Results

Year to 31 Dec (HK$m)	1H26	2H25	1H25	1H26 YoY	1H26 HoH
Revenue	6,340	6,408	6,407	-1.0%	-1.1%
- Investment properties	5,244	5,260	5,350	-2.0%	-0.3%
- Development properties (DP)	51	58	58	-12.1%	-12.1%
- Hotels	842	865	766	9.9%	-2.7%
- Investment and others	203	225	233	-12.9%	-9.8%
EBIT	72.6%	72.8%	73.1%	-0.5 ppt	-0.2 ppt
- Investment properties	84.2%	83.2%	84.6%	-0.5 ppt	1.0 ppt
- Development properties*	25.5%	-34.5%	-1.7%	27.2 ppt	60.0 ppt
- Hotels	10.8%	12.1%	6.1%	4.7 ppt	-1.3 ppt
- Investment and others	62.1%	107.1%	65.7%	-3.6 ppt	n/m
Profit attributable to shareholders	-176	-1,851	-2,406	-92.7%	-90.5%
Underlying net profit	3,311	3,337	3,119	6.2%	-0.8%
UNP from HK IP and hotels	3,178	3,083	3,083	3.1%	3.1%
DPS (HK$/share)	0.94	0.66	0.66	42.4%	42.4%
IP valuation (HK$b)	208.2	211.7	217.2	-4.2%	-1.7%
Net gearing ratio	15.9%	17.2%	17.6%	-1.7 ppt	-1.3 ppt

Source: Wharf REIC, UOB Kay Hian

Analysis

- **Results beat our expectations.** Wharf Real Estate Investment Co's (Wharf REIC) 1H26 underlying net profit reached HK$3,311m, up 6.2% yoy and ahead of our 0.7% yoy 2026 growth forecast. Although revenue fell 1.0% yoy to HK$6,340m, mainly due to a 12% yoy decline at Times Square; and operating margin contracted 0.5ppt yoy, the underlying net profit (UNP) still grew, supported by a 26% yoy reduction in finance costs driven by a lower effective borrowing rate of 3.5% (vs 4.4% in 1H25). Despite a 1.7% hoh decrease in IP valuation, net gearing dropped a further 1.3ppt hoh to 15.9%, thanks to an 8.7% reduction in net debt. The net gearing ratio is expected to reach around 11% following the completion of the Wheelock Place sale.

Key Financials

Year to 31 Dec (HK$m)	2024	2025	2026F	2027F	2028F
Net turnover	12,912	12,815	12,317	12,345	12,412
EBITDA	9,928	9,584	9,283	9,305	9,358
Operating profit	9,691	9,349	9,050	9,074	9,130
Net profit (rep./act.)	891	(4,257)	7,630	6,764	6,855
Net profit (adj.)	6,139	6,456	6,623	6,764	6,855
EPS (HK$)	202.2	212.6	218.2	222.8	225.8
PE (x)	14.8	14.1	13.8	13.5	13.3
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	12.0	12.4	12.8	12.8	12.7
Dividend yield (%)	4.1	4.4	6.2	6.3	6.4
Net margin (%)	6.9	(33.2)	62.0	54.8	55.2
Net debt/(cash) to equity (%)	18.2	17.6	12.7	11.9	11.1
Interest cover (x)	5.5	7.1	8.5	9.8	10.1
ROE (%)	0.5	(2.3)	4.2	3.7	3.7
Consensus net profit (HK$m)	-	-	6,571.1	6,676.7	6,863.0
UOBKH/Consensus (x)	-	-	1.01	1.01	1.00

**Gain from asset disposal is excluded from net profit (adj.)* *Source: Wharf REIC, Bloomberg, UOB Kay Hian*

Stock Data

GICS sector	Real Estate
Bloomberg ticker:	1997 HK
Shares issued (m):	3,036.2
Market Cap (HK$m):	91,086.8
Market cap (US$m):	11,612.3
3-mth avg t'over (US$m):	16.2

Price Performance (%)

52-week high/low: HK$34.82/HK$20.26

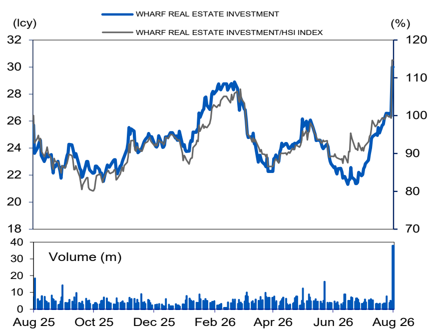
1mth	3mth	6mth	1yr	YTD
36.6	19.9	10.0	21.5	22.1

Major Shareholders	%
Wheelock & Co Ltd	49.0

Major Shareholders

FY26 NAV/Share (HK$)	60.51
FY26 Net Debt/ Share (HK$)	7.86

Price Chart



Source: Bloomberg

Company Description

Wharf REIC was spun off from Wharf Holdings in Nov 17 and currently holds a portfolio with six prime assets in Hong Kong, including flagship properties such as Harbour City and Times Square. Its portfolio focuses on HK retail and office.

- **Resilient Hong Kong IP portfolio poised for recovery.** Harbour City and Times Square delivered a mixed but resilient performance from their investment properties. Harbour City's revenue, including hotels, rose 1% yoy with operating profit broadly stable, supported by mid-teens tenant sales growth - well ahead of the 9.6% increase in Hong Kong retail sales - and a 3ppt yoy improvement in office occupancy, even as rental reversion remained negative. While Times Square's revenue declined 12% yoy, the mall still achieved single-digit positive tenant sales growth. Looking ahead, management is optimistic on Hong Kong's retail market in 2H26, and we expect Harbour City's retail rental reversion to turn positive in 2027.

Performance Of Major Investment Properties (IPs)

Harbour City	1H25	1H26	Remarks
Total (HK$ b)	4.6	4.6	Revenue +1% yoy; operating profit unchanged
Retail(HK$ b)	2.8	2.8	Occupancy 92% (flat hoh and -1ppt yoy); tenant sales +mid-teens yoy
Office(HK$ b)	1.2	1.2	Occupancy 93% (+2ppt hoh and +3 ppt yoy); rents pressured by new supply
Others(HK$ b)	0.6	0.6	
Times Square	1H25	1H26	Remarks
Total (HK$ b)	0.8	0.7	Revenue -12% yoy and operating profit -13% yoy
Retail (HK$ b)	0.5	0.4	Occupancy 95% (flat hoh and -1ppt yoy); tenant sales up single digit yoy
Office (HK$ b)	0.3	0.3	Occupancy 89% (-1ppt hoh and -1ppt yoy)

Source: Wharf REIC, UOB Kay Hian

- **Revision to dividend policy – higher payout signals confidence.** The board has raised the distribution ratio from 65% to 90% of recurrent core underlying net profit from Hong Kong investment properties and hotels starting from 2026. Management said that this higher payout neither alters its deleveraging strategy, which is expected to be further supported by the completion of Wheelock Plaza sale and potential disposal of Scott Square, nor constrains its capacity to pursue redevelopment opportunities, eg potential Marco Polo AEI. In our view, the move is underpinned by the historical low net gearing ratio, the stabilisation of the Hong Kong IP portfolio and the successful disposal of Wheelock Place. Most importantly, we believe the decision to increase the payout ratio reflects management's confidence in both the industry outlook and the company's own development trajectory.

Earnings Revision/Risk

- **Higher earnings and DPS forecasts.** We revised up our 2026/27/28 UNP estimates by 17.3%/2.7%/2.1% respectively, as we factor in: a) the gain from Wheelock Plaza disposal, and b) lower net debt forecast. Excluding gain from asset disposal, we raise 2026/27/28 underlying UNP estimate by 1.8%/2.7%/2.1% respectively. We raised our 2026/27/28 DPS forecasts by 40%/40%/39% respectively, as we factor in a higher dividend payout ratio of 90%.

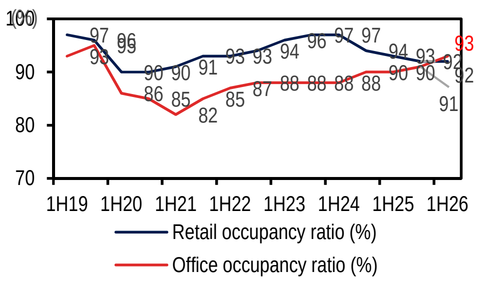
Valuation/Recommendation

- **Raise target price by 25% to HK$36.00; maintain BUY.** Applying the new DPS forecast, and lowering our terminal assumption from 3.3% to 2.8%, we raise our Dividend Discount Model (DDM) derived target price by 25% to HK$36.00. Our target price implies a 5.2% 2026 dividend yield. Wharf REIC is currently trading at a 6.2% dividend yield.

Share Price Catalyst

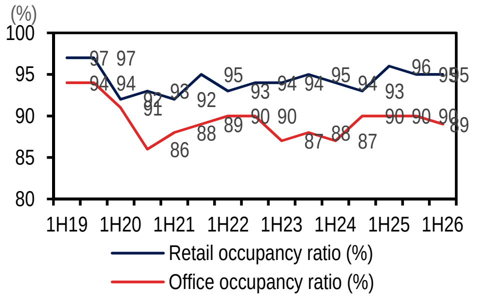
- Lower-than-expected HIBOR in 2H26.

Occupancy Ratio Of HC



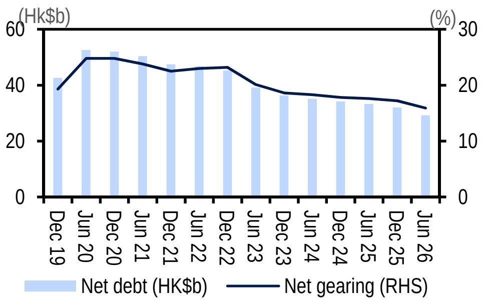
Source: Wharf REIC, UOB Kay Hian.

Occupancy Ratio Of TS



Source: Wharf REIC, UOB Kay Hian

Net Debt And Net Gearing Ratio Reached Historical Low Of HK$29.2b And 15.9% Respectively As Of Jun 26



Source: Wharf REIC, UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Net turnover	12,815.0	12,316.5	12,345.3	12,411.5
EBITDA	9,584.0	9,283.0	9,304.5	9,357.6
Deprec. & amort.	235.0	232.7	230.3	228.0
EBIT	9,349.0	9,050.3	9,074.2	9,129.6
Total other non-operating income	(10,938.0)	1,007.0	0.0	0.0
Associate contributions	(144.0)	(189.3)	(196.4)	(176.6)
Net interest income/(expense)	(1,359.0)	(1,093.8)	(949.0)	(922.3)
Pre-tax profit	(3,092.0)	8,774.1	7,928.7	8,030.8
Tax	(1,259.0)	(1,242.7)	(1,268.6)	(1,284.9)
Minorities	94.0	98.7	103.6	108.8
Net profit	(4,257.0)	7,630.1	6,763.7	6,854.7
Net profit (adj.)	6,456.0	6,623.1	6,763.7	6,854.7

**Gain from asset disposal is excluded from net profit (adj.)*

Balance Sheet

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Fixed assets	218,636.0	212,447.3	212,287.0	212,128.9
Other LT assets	7,394.0	7,204.7	7,008.2	6,954.2
Cash/ST investment	2,031.0	5,161.8	5,368.9	6,317.3
Other current assets	1,632.0	1,599.1	1,601.0	1,605.4
Total assets	229,693.0	226,412.8	226,265.2	227,005.8
ST debt	10,578.0	7,404.6	6,664.1	6,664.1
Other current liabilities	5,540.0	5,629.1	5,445.7	5,381.6
LT debt	23,433.0	21,089.7	20,667.9	20,254.5
Other LT liabilities	4,080.0	4,131.6	4,184.3	4,238.0
Shareholders' equity	181,705.0	183,702.2	184,743.8	185,799.4
Minority interest	4,357.0	4,455.7	4,559.3	4,668.2
Total liabilities & equity	229,693.0	226,412.8	226,265.2	227,005.8

Cash Flow

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Operating	6,768.0	6,804.7	7,117.0	7,192.3
Profit fo the year	(3,092.0)	8,774.1	7,928.7	8,030.8
Tax	(1,259.0)	(1,242.7)	(1,268.6)	(1,284.9)
Deprec. & amort.	235.0	232.7	230.3	228.0
Associates	144.0	189.3	196.4	176.6
Working capital changes	(198.0)	(111.2)	62.1	75.4
Non-cash items	10,588.0	0.0	0.0	0.0
Other operating cashflows	350.0	(1,037.5)	(32.0)	(33.6)
Investing	(61.0)	6,663.0	(70.0)	(70.0)
Capex (growth)	(111.0)	(70.0)	(70.0)	(70.0)
Proceeds from sale of assets	50.0	6,733.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(6,010.0)	(10,336.9)	(6,839.8)	(6,173.9)
Dividend payments	(3,836.0)	(4,820.2)	(5,677.5)	(5,760.6)
Proceeds from borrowings	18,858.0	(5,516.7)	(1,162.3)	(413.4)
Loan repayment	(21,032.0)	0.0	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	697.0	3,130.8	207.2	948.3
Beginning cash & cash equivalent	1,308.0	2,031.0	5,161.8	5,368.9
Changes due to forex impact	26.0	0.0	0.0	0.0
Ending cash & cash equivalent	2,031.0	5,161.8	5,368.9	6,317.3

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	74.8	75.4	75.4	75.4
Pre-tax margin	(24.1)	71.2	64.2	64.7
Net margin	(33.2)	62.0	54.8	55.2
ROA	(1.8)	3.3	3.0	3.0
ROE	(2.3)	4.2	3.7	3.7
Growth				
Turnover	(0.8)	(3.9)	0.2	0.5
EBITDA	(3.5)	(3.1)	0.2	0.6
Pre-tax profit	n.a.	n.a.	(9.6)	1.3
Net profit	n.a.	n.a.	(11.4)	1.3
Net profit (adj.)	5.2	2.6	2.1	1.3
EPS	5.2	2.6	2.1	1.3
Leverage				
Debt to total capital	15.5	13.2	12.6	12.4
Debt to equity	18.7	15.5	14.8	14.5
Net debt/(cash) to equity	17.6	12.7	11.9	11.1
Interest cover (x)	7.1	8.5	9.8	10.1

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