Kerry Properties (683 HK)

1H26: Branksome Crest Sale A Key Positive; Overall Development Momentum Intact

Highlights

- 1H26 UNP dropped 9.4% yoy, while margin of Hong Kong property sales rose 5.8ppt yoy and net gearing declined 2ppt hoh. DPS was maintained.
- Branksome Crest being converted to sale was a positive surprise, and will support both deleveraging (reducing net gearing by an estimated 5ppt) and earnings.
- Maintain BUY with an unchanged target price of HK$27.80.

1H26 Results

Year to 31 Dec (HK$m)	1H26	1H25	YoY	2H25	HoH
Combined revenue	6,671	9,954	-33.0%	15,061	-55.7%
Property sales	3,031	6,422	-52.8%	11,252	-73.1%
Property rental and others	2,570	2,502	2.7%	2,691	-4.5%
Hotel operations	1,070	1,030	3.9%	1,118	-4.3%
Revenue	5,557	8,059	-31.0%	11,509	-51.7%
Property sales	2,372	4,986	-52.4%	8,122	-70.8%
Property rental and others	2,360	2,280	3.5%	2,520	-6.3%
Hotel operations	825	793	4.0%	867	-4.8%
Underlying net profit (UNP)*	782	863	-9.4%	1,145	-31.7%
Fair value changes of investment properties	(47)	(251)	n/m	(819)	n/m
Profit attributable to shareholders	735	612	20.1%	326	125.5%
Underlying EPS	0.54	0.67	-9.4%	1.02	-31.7%
DPS	0.40	0.40	0.0%	0.95	n/m
Gross profit margin	42.6%	32.9%	+9.7ppt	26.1%	+16.4ppt
Taxation	(687)	(609)	+12.8%	(1,015)	-32.3%
Contracted Sales	6,872	16,186	-57.5%	18,498	-62.9%
Net Gearing Ratio	31.3%	38.4%	-7.1ppt	33.3%	-2.0ppt

** For underlying net profit, provision on property sales is included. Provision for 1H25/2H25/1H26 is HK$115m/HK$332m/HK$0m, respectively.*

Source: Kerry, UOB Kay Hian

Analysis

- **1H26: Improved property sales margin and solid deleveraging, DPS maintained.** Underlying net profit (UNP) was HK$782m (-9.4% yoy), which represents 43.2% of our full-year estimate. The yoy decline in UNP was mainly due to lower revenue recognition from the property sales segment (-52.8% yoy) and lower interest capitalisation. In 1H26, higher margin of property sales and a steady growth in rental income were key earning drivers. Net gearing ratio dropped by 2.0 ppt (vs 2H25) to 31.3% for 1H26, reflecting the solid deleveraging process, supported by the receipt of sales of luxury residential projects in Shanghai. 1H26 DPS was maintained at HK$0.40/share.

Key Financials

Year to 31 Dec (HK$m)	2024	2025	2026F	2027F	2028F
Net turnover	19,499	19,568	15,160	26,535	22,609
EBITDA	2,500	2,424	3,304	6,341	5,672
Operating profit	2,944	2,868	3,748	6,785	6,116
Net profit (rep./act.)	808	938	1,812	4,018	3,620
Net profit (adj.)	2,576	2,008	1,812	4,018	3,620
EPS (HK$)	177.3	138.2	124.7	276.5	249.1
PE (x)	11.2	14.3	15.9	7.2	7.9
P/B (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	33.9	35.0	25.6	13.4	14.9
Dividend yield (%)	6.8	6.8	6.8	6.8	6.8
Net margin (%)	4.1	4.8	12.0	15.1	16.0
Net debt/(cash) to equity (%)	47.0	41.3	39.2	36.2	33.4
Interest cover (x)	n.a.	11.2	5.9	12.6	12.6
ROE (%)	0.8	0.9	1.7	3.8	3.4
Consensus net profit (HK$m)	-	-	2,029.7	4,000.6	4,771.3
UOBKH/Consensus (x)	-	-	0.89	1.00	0.76

Source: Kerry Properties, 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$19.45
Target Price	HK$27.80
Upside	+42.9%

Stock Data

GICS sector	Real Estate
Bloomberg ticker:	683 HK
Shares issued (m):	1,451.3
Market Cap (HK$m):	28,706.8
Market cap (US$m):	3,662.9
3-mth avg t'over (US$m):	4.2

Price Performance (%)

52-week high/low: HK$26.10/HK$17.68

1mth	3mth	6mth	1yr	YTD
4.0	(14.9)	(22.1)	(4.7)	(2.5)

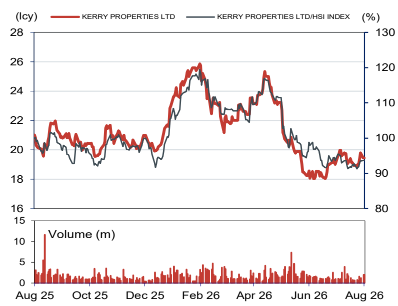
Major Shareholders (%)

Kerry Group	44.3

Balance Sheet Metrics

FY26 NAV/Share (HK$)	72.43
FY26 Net Debt/ Share (HK$)	28.39

Price Chart



Source: Bloomberg

Company Description

Kerry Properties is a Hong Kong-based property developer and investor with a portfolio of development properties, investment properties (office, retail and residential) and hotels across Hong Kong and Mainland China. It is a member of the Kuok Group.

- **Branksome Crest converting to sale a positive surprise.** Kerry Properties (Kerry) decided to convert Branksome Crest from leasing to sale, with launches expected in 4Q26. The project should be well received given the limited supply of ~20-year-old luxury homes in Mid-Levels. For the 62 units, with around 110,000 sf of saleable area and a conservative ASP assumption of HK$55,000 psf, we estimate a total sell-through value of over HK$6b. Following two years of refurbishment works, the carrying value of Branksome Crest is likely conservative and may not fully capture recent rental growth. Cautiously assuming a 25% gross margin and a three-year sell-through period, we estimate the disposal could reduce net gearing by around 5ppt by 2028 and lift net profit by 10-20% in 2026-28, helping to offset potential gearing pressure from higher investment spending while strengthening the earnings base.
- **In 1H26, solid deleveraging progress, improved Hong Kong development-property margins and resilient retail operations were key positives**. Looking forward: a) management guided for net gearing of around 30% by end-26 reductions in low-margin mass market products and the addition of Branksome Crest to its booking pipeline will help support margin; and c) retail tenant sales growth remained in double digits across both Mainland China and Hong Kong. The acquisition of the Yangsi retail-and-cultural project near Qiantan should further expand Kerry's retail portfolio, with a mid-to-high single-digit yield on cost targeted.

Gross profit margin by segment

Gross Profit Margin	--------- Combined --------			-- Company & its subsidiaries --			----- JV & associations ------		
	1H26	2H25	1H25	1H26	2H25	1H25	1H26	2H25	1H25
Property rental	67%	62%	71%	67%	61%	71%	63%	82%	71%
Mainland	65%	60%	70%	65%	58%	70%	62%	91%	70%
HK	73%	70%	77%	74%	71%	77%	65%	64%	75%
Property development	18%	18%	9%	22%	15%	15%	3%	27%	-13%
Mainland	31%	29%	-2%	31%	21%	-2%	17%	43%	n.a.
HK	15%	7%	9%	19%	10%	16%	3%	-4%	-13%
Hotel	32%	33%	33%	33%	34%	33%	31%	31%	33%
Mainland	33%	33%	33%	33%	34%	33%	33%	33%	33%
HK	n.a.	n.a.	33%	n.a.	n.a.	n.a.	n.a.	n.a.	33%
Total	39%	27%	27%	43%	26%	33%	21%	30%	2%

Source: Kerry Properties, UOB Kay Hian

- Other key takeaways from analyst briefing include: a) baseline DPS growth will be driven by recurring EBITDA growth; special dividends require significant windfall gains; b) management sees a sustained price recovery of Hong Kong homes will require stronger transaction volumes; c) mainland outbound-capital controls have softened sentiment. Ultra-luxury projects with diversified offshore funding, remain resilient and d) capital allocation will prioritise defensive Hong Kong residential development acquisitions.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of HK$27.80.** Our target price is derived from 60% NAV discount to estimated NAV of HK$69.40, and corresponds to a 4.9% dividend yield. The stock currently trades at a 6.8% 2026 yield.

Earnings Revision/Risk

- Maintain earnings forecast unchanged. We will revisit our forecasts once the pricing and profit visibility of Branksome Crest improves.

Share Price Catalyst

- Stronger-than-expected property sales.

Contracted sales of Kerry Properties

(HK$b)	1H26	1H25	YoY
Mainland	1.3	10.7	-88%
Mainland - excl. Jinling Residence	0.8	0.7	4%
Hong Kong	5.6	5.5	1%
Total	6.9	16.2	-58%

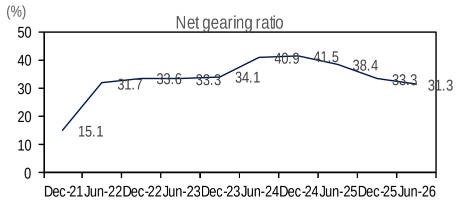
Source: UOB Kay Hian

Details of Hong Kong Sales

Project	Attribution %	Attri. Sales (HK$b)
LA MIRABELLE	25%	1.8
Mont Verra	100%	1.7
La Montagne	50%	1.6
HAVA	100%	0.2
La Marina	50%	0.1
FLORA	100%	0.0
Others	n.a.	0.0
Total	n.a.	5.6

Source: UOB Kay Hian

Net Gearing Ratio



Source: UOB Kay Hian

China IP Occupancy Rates (%)

	1H26	2H25
Property type		
Office	89%	90%
Retail	91%	92%
Apartment	95%	92%
Key properties		
Shanghai Jing An Kerry Centre	95%	95%
Shanghai Pudong Kerry Parkside	91%	96%
Beijing Kerry Centre	89%	87%
Hangzhou Kerry Centre	90%	92%

Source: Kerry Properties, UOB Kay Hian

Hong Kong IP Occupancy Rates (%)

	1H26	2H25
Property type		
Retail	94%	97%
Apartment	99%	99%
Office	83%	81%
Key properties		
MegaBox	94%	97%
Enterprise Square Five	81%	82%
Kerry Centre	90%	77%
Mid-Levels Portfolio	99%	100%

Source: Kerry Properties, UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Net turnover	19,568.0	15,160.0	26,535.1	22,609.0
EBITDA	2,424.0	3,304.4	6,340.8	5,672.1
Deprec. & amort.	(444.0)	(444.0)	(444.0)	(444.0)
EBIT	2,868.0	3,748.4	6,784.8	6,116.1
Total other non-operating income	(447.0)	0.0	(0.0)	(0.0)
Associate contributions	726.0	821.0	542.9	574.8
Net interest income/(expense)	(217.0)	(561.9)	(504.8)	(450.6)
Pre-tax profit	2,930.0	4,007.5	6,822.8	6,240.4
Tax	(1,624.0)	(1,274.6)	(1,884.0)	(1,699.7)
Minorities	(368.0)	(920.5)	(920.5)	(920.5)
Net profit	938.0	1,812.4	4,018.4	3,620.2
Net profit (adj.)	2,008.0	1,812.4	4,018.4	3,620.2

Balance Sheet

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Fixed assets	94,590.0	96,690.0	98,290.0	98,290.0
Other LT assets	57,920.0	58,151.0	58,103.9	58,678.6
Cash/ST investment	12,332.0	11,772.7	11,504.9	11,504.9
Other current assets	44,469.0	47,071.50	39,635.70	35,950.10
Total assets	209,311.0	213,685	207,534	204,424
ST debt	6,429.0	6,107.6	5,802.2	5,512.1
Other current liabilities	20,783.0	27,198.7	20,720.0	17,546.9
LT debt	49,341.0	46,874.0	44,530.3	42,303.7
Other LT liabilities	13,543.0	13,543.0	13,543.0	13,543.0
Shareholders' equity	105,272.0	105,122.6	107,179.1	108,837.5
Minority interest	13,919.0	14,839.5	15,759.9	16,680.4
Total liabilities & equity	209,287.0	213,685.2	207,534.5	204,423.5

Cash Flow

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Operating	13,742.0	7,121.0	5,773.2	6,045.3
Profit fo the year	2,930.0	4,007.5	6,822.8	6,240.4
Tax	(1,624.0)	(1,274.6)	(1,884.0)	(1,699.7)
Deprec. & amort.	(444.0)	(444.0)	(444.0)	(444.0)
Associates	(726.0)	(821.0)	(542.9)	(574.8)
Working capital changes	12,838.0	5,789.1	1,957.2	2,659.4
Non-cash items	568.0	0.0	0.0	0.0
Other operating cashflows	200.0	(136.0)	(136.0)	(136.0)
Investing	(6,048.0)	(2,930.0)	(1,430.0)	(930.0)
Capex (growth)	(2,949.0)	(4,100.0)	(2,600.0)	(2,100.0)
Proceeds from sale of assets	26,740.0	26,971.0	26,923.9	27,498.6
Others	(29,858.0)	(25,801.0)	(25,753.9)	(26,328.6)
Financing	(7,263.0)	(4,750.4)	(4,610.9)	(4,478.5)
Dividend payments	(1,959.0)	(1,961.9)	(1,961.9)	(1,961.9)
Proceeds from borrowings	53,398.0	0.0	0.0	0.0
Loan repayment	(58,513.0)	(2,788.5)	(2,649.1)	(2,516.6)
Others/interest paid	(189.0)	0.0	0.0	0.0
Net cash inflow (outflow)	431.0	(559.3)	(267.8)	636.9
Beginning cash & cash equivalent	10,961.0	12,332.0	11,772.7	11,504.9
Changes due to forex impact	470.0	0.0	0.0	0.0
Ending cash & cash equivalent	11,862.0	11,772.7	11,504.9	12,141.8

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	12.4	21.8	23.9	25.1
Pre-tax margin	15.0	26.4	25.7	27.6
Net margin	4.8	12.0	15.1	16.0
ROA	0.5	0.9	1.9	1.8
ROE	0.9	1.7	3.8	3.4
Growth				
Turnover	0.4	(22.5)	75.0	(14.8)
EBITDA	(3.0)	36.3	91.9	(10.5)
Pre-tax profit	13.5	36.8	70.3	(8.5)
Net profit	16.1	93.2	121.7	(9.9)
Net profit (adj.)	(22.0)	(9.7)	121.7	(9.9)
EPS	(22.0)	(9.7)	121.7	(9.9)
Leverage				
Debt to total capital	31.9	30.6	29.0	27.6
Debt to equity	53.0	50.4	47.0	43.9
Net debt/(cash) to equity	41.3	39.2	36.2	33.4
Interest cover (x)	11.2	5.9	12.6	12.6