Sun Hung Kai Properties (16 HK)

FY26: DPS Up 4.3% yoy And Net Gearing Down To 10.7%; Further Market Recovery To Support Earnings In FY27

Highlights

- Underlying net profit rose 4.6% yoy to HK$22.85b, broadly in line with consensus. DPS grew 4.3% yoy, implying a payout of around 50%. Net gearing sharply declined to 10.7%.
- Management targets HK$33b property sales in Hong Kong in FY27, and stays positive on market recovery. With the retail portfolio outperforming the market and office income stabilising, management holds a cautiously optimistic outlook.
- Trim our FY27/28 forecasts by 1.6%/2.9% respectively. Maintain BUY, target price unchanged at HK$143.80.

FY26 Results

Year to 30 Jun (HK$m)	FY26	FY25	YoY	UOB KH	Actual vs est.
Revenue	94,194	79,721	+18.2%	84,760	+11.1%
Operating profit	25,144	26,078	-3.6%	29,513	-14.8%
Net finance cost	(1,910)	(2,485)	-23.1%	(2,315)	-17.5%
Attributable Net profit	21,426	19,277	+11.1%	n.a.	n.a.
Underlying profit	22,850	21,855	+4.6%	24,025	-4.9%
EPS (HK$)	7.89	7.54	+4.6%	8.29	-4.9%
DPS (HK$)	3.91	3.75	+4.3%	3.96	-1.4%
Payout ratio	49.6%	49.7%	-0.2ppt	47.8%	+1.8ppt
Profit by segment:					
HK DP	4,622	3,200	+44.4%	5,591	-17.3%
PRC DP	3,670	5,090	-27.9%	4,161	-11.8%
HK IP	12,820	12,956	-1.0%	12,853	-0.3%
PRC IP	5,167	4,864	+6.2%	4,947	+4.5%
Singapore IP	584	572	+2.1%	583	+0.1%
Hotel	728	615	+18.4%	662	+10.1%
Other businesses	4,572	4,891	-6.5%	4,752	-3.8%

Source: SHKP, UOB Kay Hia

Analysis

- **FY26: DPS up by 4.3% yoy; net gearing dropped to 10.7%.** Sun Hung Kai Properties' (SHKP) operating profit declined 3.6% yoy, as stable development profit and 1.0% yoy rental-profit growth — which accounted for 57.7% of segment profit — were more than offset by a 65.8% yoy fall in land-resumption gains. Underlying net profit (UNP) increased 4.6% yoy to HK$22.85b, broadly in line with consensus estimate of HK$23.3b, supported by a 23.1% yoy reduction in net finance costs and a 41.9% yoy increase in UNP from Dynasty Court sales. DPS rose 4.3% yoy to HK$3.91, implying a 49.6% payout ratio. The key positive was faster-than-expected deleveraging: net debt fell 27.5% yoy to HK$67.6b, while net gearing declined 4.4ppt yoy to 10.7%.

Key Financials

Year to 30 Jun (HK$m)	2025	2026	2027F	2028F	2029F
Net turnover	79,721	94,194	95,295	97,042	98,399
EBITDA	31,135	30,224	33,275	34,122	34,926
Operating profit	26,078	25,144	27,941	28,521	29,045
Net profit (rep./act.)	19,277	21,426	24,657	25,257	25,802
Net profit (adj.)	21,855	22,850	24,657	25,257	25,802
EPS (HK$)	754.2	788.5	850.9	871.6	890.4
PE (x)	15.5	14.8	13.7	13.4	13.1
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	12.9	13.3	12.1	11.8	11.5
Dividend yield (%)	3.2	3.4	3.6	3.7	3.8
Net margin (%)	24.2	22.7	25.9	26.0	26.2
Net debt/(cash) to equity (%)	15.1	10.7	9.1	6.4	3.9
Interest cover (x)	12.5	15.8	18.6	19.1	19.5
ROE (%)	3.1	3.4	3.9	3.9	3.9
Consensus net profit (HK$m)	-	-	24,436.2	25,434.9	29,371.5
UOBKH/Consensus (x)	-	-	1.01	0.99	0.88

Source: SHKP, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$116.70
Target Price	HK$143.80
Upside	+23.2%

Stock Data

GICS sector	Real Estate
Bloomberg ticker:	16 HK
Shares issued (m):	2,897.8
Market Cap (HK$m):	338,171.0
Market cap (US$m):	43,126.3
3-mth avg t'over (US$m):	80.8

Price Performance (%)

52-week high/low: HK$148.80/HK$90.20

1mth	3mth	6mth	1yr	YTD
0.3	1.3	(14.8)	19.7	23.2

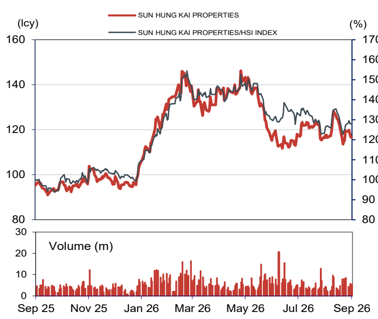
Major Shareholders (%)

HSBC Trustee (C.I.) Limited	46.11%

Balance Sheet Metrics

FY27 NAV/Share (HK$)	223.18
FY27 Net Debt/ Share (HK$)	20.26

Price Chart



Source: Bloomberg

Company Description

Sun Hung Kai Properties, through its subsidiaries, develops and invests in properties. The company also operates hotels, manages properties, car parking, and transportation infrastructure. In addition, Sun Hung Kai operates logistics business, construction.

- **SHKP targets HK$33b Hong Kong sales and HK$2.5b Mainland China sales for FY27.** In FY26, SHKP achieved HK$38b contracted sales, beating the target of HK$30b. Launches for FY27 will skew towards small- and mid-sized units (eg Tung Shing Lei, Sai Sha Phase 2c). For Mainland China, SHKP achieved Rmb2.2b (~HK$2.5b) of attributable contracted sales in FY26. Management is positive on the continuous solid trend in the Hong Kong property market and expects SHKP to benefit from a continuing flight to quality trend in Mainland China.
- **Hong Kong development margin rebounded in 2HFY26; we estimate further recovery in FY27.** Hong Kong development margin recovered during FY26, rising from 7.6% in 1HFY26 to 14.8% in 2HFY26, resulting in a combined full-year margin of 10.5%. The improvement was supported by profit recognition from Cullinan Harbour and SIERRA SEA Phase 2. The hoh decline in Mainland China property development margin was broadly in line with market expectation. Looking ahead, given the higher ASP secured on FY26 contracted sales, we expect Hong Kong development margin to improve further from the 2HFY26 level.

Segment Profit Margin By Business

Segment profit margin	Combined				Company & its subsidiaries			
	FY26	FY25	2HFY26	1HFY26	FY26	FY25	2HFY26	1HFY26
Property development – Hong Kong	10.5%	12.2%	14.8%	7.6%	10.5%	12.2%	14.8%	7.6%
Property development – Mainland	36.5%	60.5%	19.1%	48.9%	48.9%	62.1%	12.6%	59.7%
Property development	15.3%	24.0%	15.6%	15.1%	13.9%	23.6%	14.7%	13.5%
Property rental – Hong Kong	72.4%	73.9%	73.6%	71.2%	71.7%	73.2%	72.9%	70.4%
Property rental – Mainland	79.6%	78.8%	81.5%	77.5%	81.5%	80.3%	83.4%	79.4%
Property rental – Singapore	74.0%	75.6%	74.9%	73.1%	n.m.	n.m.	n.m.	n.m.
Property rental	74.3%	75.2%	75.7%	72.9%	74.2%	75.0%	75.7%	72.6%
Hotel operations	13.3%	11.7%	11.2%	15.4%	11.8%	11.0%	8.8%	14.7%
Telecommunications	11.3%	12.0%	11.7%	11.0%	11.3%	12.0%	11.7%	11.0%
Transport infrastructure and logistics	13.1%	19.3%	11.9%	14.3%	17.1%	26.8%	16.8%	17.4%
Data centre operations	52.1%	50.7%	53.6%	50.5%	52.1%	50.7%	53.6%	50.5%
Other businesses	14.8%	12.2%	15.1%	14.6%	14.6%	12.1%	14.7%	14.5%
Segment total	29.2%	35.7%	31.3%	27.4%	27.9%	34.8%	30.7%	25.7%

Source: Sun Hung Kai Properties, UOB Kay Hian

- **Retail outperformance and new office contributions supported recurring-income growth.** Hong Kong retail income was flat yoy, backed by positive tenant sales growth. Mainland China retail income grew 9.4% yoy, driven by an outperformance in tenant sales as compared with overall market (eg sales at Shanghai IFC achieved double-digit growth). We expect positive retail rental reversion in FY27. Hong Kong office rental income increased 0.4% yoy, thanks to new contributions. We expect leasing of new IPs and a further recovery of spot rent to support office income.
- **Low net gearing may support payout at the top end of the policy range.** Management reiterated the 40-50% payout policy and FY26 came in at 49.6% on underlying EPS. Given the low net gearing ratio, we expect the payout to stay at the higher end of the policy range.

Valuation/Recommendation

- **Maintain BUY with a target price of HK$143.80.** The target is a 27% discount to our NAV of HK$197.10 per share. We expect SHKP's earnings to steadily grow over the next three years, supporting DPS growth.

Earnings revision/risk.

- We lower our FY27/FY28 earnings forecasts by 1.6% and 2.9%, respectively.

Share Price Catalyst

- Stronger-than-expected property sales.

Project Launches In Next 10 Months

Project	Location	Stake (%)	Attri. res. GFA (sq ft)
Hong Kong			
Tung Shing Lei Ph.1A & 1B (Lot 1696 in DD 115)	Yuen Long	100	466,000
Lot 279 Ph.1, Fanling Sheung Shui Town	Kwu Tung	100	299,000
Sai Sha Residences Ph.2C	Sai Sha	100	299,000
STTL 651, Mei Tin Road	Tai Wai	100	194,000
STTL 623, Siu Lek Yuen	Sha Tin	100	157,000
Total			1,415,000

Source: SHKP, UOB Kay Hian

Net Gearing Ratio

Source: SHKP, UOB Kay Hian

Occupancy Ratio Of Major Investment Properties In Hong Kong

Assets	Jun-26	Sub-mkt*	vs sub-mkt
IFC	~100%	91%	~+9ppt
ICC	92%	93%	-1ppt
HK office portfolio	~90%		
HK retail portfolio	95%		

**JLL Grade A sub-market occupancy, UOB Kay Hian*
Source: SHKP

Profit & Loss

Year to 30 Jun (HK$m)	2025	2026F	2027F	2028F
Net turnover	94,194.0	95,295.3	97,041.6	98,399.1
EBITDA	30,224.0	33,274.7	34,121.6	34,925.6
Deprec. & amort.	5,080.0	5,334.0	5,600.7	5,880.7
EBIT	25,144.0	27,940.7	28,520.9	29,044.8
Total other non-operating income	(366.0)	(0.0)	0.0	(0.0)
Associate contributions	5,082.0	4,357.5	4,479.6	4,618.9
Net interest income/(expense)	(1,910.0)	(1,790.1)	(1,790.1)	(1,790.1)
Pre-tax profit	27,950.0	30,508.1	31,210.4	31,873.6
Tax	(5,948.0)	(5,230.1)	(5,346.1)	(5,450.9)
Minorities	(576.0)	(621.0)	(607.7)	(620.7)
Net profit	21,426.0	24,657.0	25,256.6	25,802.0
Net profit (adj.)	22,850.0	24,657.0	25,256.6	25,802.0

Balance Sheet

Year to 30 Jun (HK$m)	2025	2026F	2027F	2028F
Fixed assets	480,141.0	486,722.8	493,433.7	500,280.1
Other LT assets	115,990.0	118,218.9	120,496.0	122,822.6
Cash/ST investment	30,053.0	37,035.5	53,521.3	69,027.1
Other current assets	191,566.0	187,577.4	176,173.5	171,449.8
Total assets	817,750.0	829,554.6	843,624.5	863,579.6
ST debt	14,204.0	13,919.9	13,919.9	13,919.9
Other current liabilities	51,059.0	51,581.1	52,129.2	52,704.8
LT debt	83,464.0	81,794.7	81,794.7	81,794.7
Other LT liabilities	30,299.0	30,299.0	30,299.0	30,299.0
Shareholders' equity	633,936.0	646,564.3	659,465.3	677,118.9
Minority interest	4,788.0	5,395.7	6,016.3	7,742.3
Total liabilities & equity	817,750.0	829,554.6	843,624.5	863,579.6

Cash Flow

Year to 30 Jun (HK$m)	2025	2026F	2027F	2028F
Operating	46,498.0	41,819.8	41,472.5	41,183.2
Profit fo the year	27,950.0	30,508.1	31,210.4	31,873.6
Tax	(5,948.0)	(5,230.1)	(5,346.1)	(5,450.9)
Deprec. & amort.	5,080.0	5,334.0	5,600.7	5,880.7
Associates	(5,082.0)	(4,357.5)	(4,479.6)	(4,618.9)
Working capital changes	22,730.0	14,325.4	13,247.2	12,258.7
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	1,768.0	1,240.0	1,240.0	1,240.0
Investing	(18,094.0)	(11,960.5)	(12,358.5)	(12,776.4)
Capex (growth)	(17,853.0)	(11,915.8)	(12,311.6)	(12,727.2)
Investment	111,056.0	113,284.9	115,562.0	117,888.6
Others	(111,297.0)	(113,329.5)	(115,608.9)	(117,937.8)
Financing	(23,879.0)	(14,281.9)	(12,628.3)	(12,901.0)
Dividend payments	(11,330.0)	(12,328.5)	(12,628.3)	(12,901.0)
Proceeds from borrowings	(12,549.0)	(1,953.4)	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	4,525.0	15,577.5	16,485.7	15,505.8
Beginning cash & cash equivalent	16,933.0	21,458.0	37,035.5	53,521.3
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	21,458.0	37,035.5	53,521.3	69,027.1

Key Metric

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	32.1	34.9	35.2	35.5
Pre-tax margin	29.7	32.0	32.2	32.4
Net margin	22.7	25.9	26.0	26.2
ROA	2.6	3.0	3.0	3.0
ROE	3.4	3.9	3.9	3.9
Growth				
Turnover	18.2	1.2	1.8	1.4
EBITDA	(2.9)	10.1	2.5	2.4
Pre-tax profit	12.9	9.2	2.3	2.1
Net profit	11.1	15.1	2.4	2.2
Net profit (adj.)	4.6	7.9	2.4	2.2
EPS	4.6	7.9	2.4	2.2
Leverage				
Debt to total capital	13.3	12.8	12.6	12.3
Debt to equity	15.4	14.8	14.5	14.1
Net debt/(cash) to equity	10.7	9.1	6.4	3.9
Interest cover (x)	15.8	18.6	19.1	19.5