Sun Hung Kai & Co. (86 HK)

1H26: Solid Credit Business And Continued Progress In Alternative Solutions

Analyst(s)

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Highlights

- 1H26 attributable net profit fell 22.4% yoy to HK$688m (41% of our full-year estimate) due to a high base for its investment management segment in 1H25 with a sizeable one-off IPO gain, but partially offset by the solid performance of the credit business and continued progress in alternative solutions.
- SHK & Co. demonstrates disciplined asset allocation and deal-sourcing strength amid market volatilities. While still at an early stage, its growing strategic partnerships are expected to further unlock cross-segment synergies and flywheel benefits.
- Maintain BUY and target price of HK$6.40 based on 0.53x 2026F P/B.

Figure 1: 1H26 Results

Year to 31 Dec (HK$m)	1H26	1H25	yoy
Total income	2,494.6	2,799.9	-10.9%
Consumer Finance	1,705.7	1,609.9	6.0%
Mortgage Loans	62.2	99.8	-37.7%
Investment Management	533.0	1,148.7	-53.6%
Alternative Solutions	23.5	17.2	36.6%
Group Management and Support	170.2	-75.7	-324.8%
PBT	975.1	1,087.4	-10.3%
Consumer Finance	565.2	374.6	50.9%
Mortgage Loans	26.0	10.8	140.7%
Investment Management	402.9	1,006.6	-60.0%
Alternative Solutions	-0.9	-5.0	-82.0%
Group Management and Support	-18.1	-299.6	-94.0%
Attributable net profit	687.9	887.0	-22.4%

Source: SHK & Co., UOB Kay Hian

Analysis

- **1H26 results.** Sun Hung Kai & Co.'s (SHK & Co.) 1H26 total income fell 10.9% yoy to HK$2,495m (44% of our full-year estimate), mainly due to lower net investment income. Attributable net profit declined 22.4% yoy to HK$688m (41% of our full-year estimate) due to a high base for the investment management in 1H25, but partly offset by the solid performance of the credit business.

Key Financials

Year to 31 Dec (HK$m)	2024	2025	2026F	2027F	2028F
Total Income	4,262	5,474	5,523	5,761	6,078
Pre-tax profit	861	2,010	2,101	2,303	2,452
Net profit (rep./act.)	378	1,593	1,607	1,762	1,876
Net profit (adj.)	463	1,686	1,607	1,762	1,876
EPS (cent)	19.3	81.4	82.4	90.3	96.1
DPS (cent)	26.0	27.0	27.0	27.0	27.0
PE (x)	12.8	4.9	5.0	4.6	4.3
P/B (x)	0.23	0.35	0.34	0.33	0.31
Dividend yield (%)	10.6	6.8	6.6	6.6	6.6
Net margin (%)	8.9	29.1	29.1	30.6	30.9
Net debt/(cash) to equity (%)	31.2	25.8	25.5	23.8	22.0
ROE (%)	1.8	7.3	7.0	7.3	7.4
Consensus net profit	-		1,672.0	1,830.0	1,932.0
UOBKH/Consensus (x)	-		0.96	0.96	0.97

Source: SHK & Co., Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	HK$4.12
Target Price	HK$6.40
Upside	55.3%

Stock Data

Sector	Consumer Finance
Bloomberg ticker	86 HK
Shares issued (m)	1,964
Market cap (HK$m)	8,091
Market cap (US$m)	1,037
3-mth avg daily t'over (US$m)	0.2

Price Performance (%)

52-week high/low: HK$4.50-HK$3.70

1mth	3mth	6mth	1yr	YTD
0.1	(2.0)	(7.1)	(4.3)	2.4

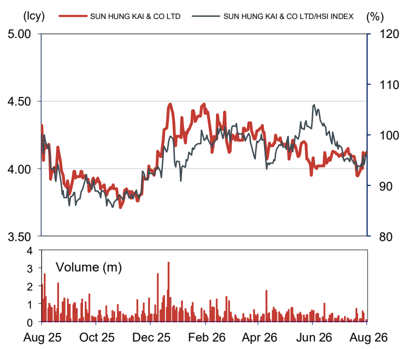
Major Shareholders (%)

Lee and Lee Trust	73.51

Balance Sheet Metrics

FY26 NAV/Share (HK$)	13.08
FY26 Net Debt/Share (HK$)	2.95

Price Chart



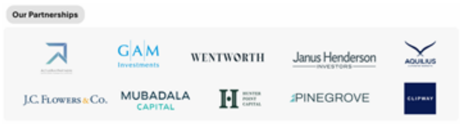
Source: Bloomberg

Company Description

Sun Hung Kai & Co. operates as a principal-led alternative investment platform. The Hong Kong-based company invests across a wide range of alternative asset classes including hedge funds, private equity, private credit, and various real assets, consistently generating solid long-term risk-adjusted returns.

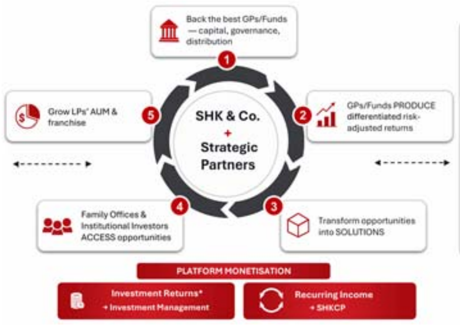
- **Enhancing shareholder value through dividends and share repurchases.** Interim DPS grew 8.3% yoy to 13 HK cents in 1H26 (12 HK cents in 1H25). In addition, the company repurchased 2.8m shares in 1H26, demonstrating its commitment to disciplined capital management and delivering shareholder value.
- **Resilient investment management results demonstrate disciplined asset allocation and deal-sourcing strength.** Pre-tax profit from investment management decreased 60.0% yoy to HK$403m in 1H26, mainly due to the absence of a sizeable liquidity event, compared with an exceptionally strong 1H25 that included a one-off IPO gain. The private equity portfolio (57.4% of total investment assets) remained a key earnings contributor in 1H26, generating a HK$128m pre-tax profit and a 2.1% ROA in 1H26. The portfolio's long-term track record remained strong, with 15.8% net IRR and 0.87x DPI since inception, reflecting SHK & Co.'s disciplined, research-driven investment approach.
- Investment profit was driven evenly across private equity, special situations and structured credit, and hedge funds, whereas the public portfolio registered a slight loss amid market volatilities and sector rotation in 2Q26. In 1H26, SHK & Co. increased exposure to special situations and structured credits (11.2% of assets) that provide downside protection with meaningful upside. New investments in 1H26 focused on secondaries, special situations and buyout strategies (JC Flowers, Aquilius, Clipway, Hunter Point, the Janus Henderson take-private).
- **Alternative solutions gaining traction.** SHK Capital Partners (SHKCP) leverages strategic partnerships with leading global alternative and private market general partners (GP) to access privileged risk-adjusted returns. For instance, new investments and partnerships in 1H26 such as Aquilius and Clipway provide SHK & Co. with valuable insights to secondary-market pricing and valuations as well as privileged deal access.
- SHKCP's total assets under management (AUM) grew at a 50.4% CAGR in 2H24-1H26 to US$3,723m as of end-Jun 26 (up 17.7% hoh) while fee income grew at a 11.3% CAGR in 1H24-1H26 to HK$21m (up 24.7% yoy). Loss before tax narrowed by 82.0% yoy to HK$1m in 1H26. Notably, about HK$681m of investment management gains since 2021 have been associated with AUM originating from partners within the alternative solutions platform, which demonstrates the strategic partnerships are generating value beyond fee income alone, showing early evidence of the flywheel effect and cross-segment synergies of the partnership model.
- **Solid credit business performance.** Pre-tax profit from consumer finance grew 50.7% yoy to HK$565m in 1H26, supported by: a) a growing gross loan balance (up 4.6% hoh), and b) a lower charge-off ratio (down 0.3ppt yoy to 6.6%), thanks to disciplined credit underwriting and robust credit scoring system. In addition, the SIM credit card (launched in 2023) started to generate profit and contributed to revenue growth while tapping the younger demographics. In addition, pre-tax profit from the mortgage and service business grew 140.7% yoy to HK$26m, driven by: a) a significant reduction in impairment charges, and b) an 81.3% yoy growth in loan servicing income to HK$3m, supported by an expanded servicing portfolio (up 40.7% hoh). We see the expansion of the mortgage servicing business broadening Sun Hung Kai Credit's revenue base through capital-light recurring income.
- **2H26 outlook.** Management expects the macro backdrop to remain dynamic in 2H26. The company will continue to focus on disciplined capital allocation and proactive risk management, as well as enhancing collaboration and cross-segment synergies across investment management, alternative solutions and credit businesses. We believe its strategic partnerships are still at an early stage, and expect new GP investments and co-developed solutions to unlock flywheel and network effects for generating investment returns, recurring income and proprietary investment opportunities across its alternative investment ecosystem.

Figure 2: Strategic Partnerships



Source: SHK & Co.

Figure 3: Partnership Model



Source: SHK & Co.

Figure 4: Alternative Solutions-Growing AUM and Fee Income

Source: SHK & Co.

Earnings Revision/Risk

- We trim our 2026-28 revenue forecasts by 3%/3%/2% respectively to factor in the high base of investment management in 1H25 and cut net profit forecasts by 4%/4%/3% respectively to reflect reduced net investment gains amid market volatilities.

Valuation/Recommendation

- Maintain BUY and target price of HK$6.40 based on 0.53x 2026F P/B.

Share Price Catalyst

- Announcement of new strategic partnerships.

Figure 5: Earnings Forecast By Segment

(HK$m)	---------------------- New ----------------------			---------------------- Old ----------------------		
	2026F	2027F	2028F	2026F	2027F	2028F
Total income	5,522.7	5,761.4	6,078.3	5,684	5,931	6,226
Consumer Finance	3,415.7	3,548.4	3,686.3	3,415.7	3,548.4	3,686.3
Mortgage Loans	129.1	132.9	136.8	129.1	132.9	136.8
Investment Management	1,890.4	1,975.5	1,994.6	2,007.4	2,075.4	2,182.6
Alternative Solutions	171.0	213.7	260.1	171.0	213.7	260.1
Group Management and Support	(39.5)	(39.8)	(39.9)	(39.5)	(39.8)	(39.9)
Pre-tax contributions	2,101.0	2,303.0	2,452.4	2,186	2,393	2,525
Consumer Finance	1,041	1,081	1,123	1,041	1,081	1,123
Mortgage Loans	44	46	48	3	3	3
Investment Management	1,619	1,688	1,826	1,746	1,814	1,921
Alternative Solutions	72	106	143	111	164	210
Group Management and Support	(676)	(618)	(687)	(715)	(669)	(731)

Source: SHK & Co., UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Total income	5,474	5,523	5,761	6,078
Operating expenses	(1,486)	(1,499)	(1,564)	(1,650)
Net impairment losses on financial assets	(1,090)	(915)	(951)	(988)
EBIT	2,672	2,881	3,019	3,213
Finance costs	(662)	(840)	(776)	(820)
Associate contributions	73	60	60	60
Pre-tax profit	2,010	2,101	2,303	2,452
Tax	(195)	(210)	(230)	(245)
Profit after tax	1,815	1,891	2,073	2,207
Minorities	(222)	(284)	(311)	(331)
Net profit	1,593	1,607	1,762	1,876
Net profit (adj.)	1,686	1,607	1,762	1,876

Balance Sheet

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Fixed assets	1,265	1,064	859	649
Other LT assets	20,665	21,786	22,919	24,164
Cash/ST investment	4,465	4,478	5,599	6,741
Other current assets	12,314	12,867	13,325	13,802
Total assets	38,709	40,196	42,702	45,355
ST debt	5,709	6,356	7,023	7,704
Other current liabilities	4,245	1,480	1,480	1,480
LT debt	2,444	2,736	3,029	3,321
Other LT liabilities	779	2,729	2,729	2,729
Shareholders' equity	22,338	23,418	24,653	26,002
Minority interest	3,194	3,477	3,788	4,119
Total liabilities & equity	38,709	40,196	42,702	45,355

Cash Flow

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Operating	2,137	709	869	876
Pre-tax profit	2,010	2,101	2,303	2,452
Tax	(195)	(210)	(230)	(245)
Depreciation/amortization	162	144	98	83
Working capital changes	226	(631)	(477)	(495)
Non-cash items	509	(98)	(180)	(230)
Interest paid	(575)	(597)	(644)	(689)
Investing	(359)	(49)	(49)	(49)
Capex (growth)	(49)	(49)	(49)	(49)
Others	(309)	-	-	-
Financing	(1,693)	(646)	301	315
Dividend payments	(511)	(528)	(527)	(527)
Repayment of notes/ paper	(100)	(3,008)	(132)	(132)
Proceeds from borrowings	5,312	6,000	6,000	6,000
Others/interest paid	(6,394)	(3,111)	(5,040)	(5,027)
Net cash inflow (outflow)	85	13	1,121	1,142
Beginning cash & cash equivalent	4,327	4,465	4,478	5,599
Changes due to forex impact	52	-	-	-
Ending cash & cash equivalent	4,465	4,478	5,599	6,741

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Pre-tax margin	36.7	38.0	40.0	40.3
Net margin	29.1	29.1	30.6	30.9
ROE	7.3	7.0	7.3	7.4
ROA	4.8	4.8	5.0	5.0
Growth				
Total income	28.4	0.9	4.3	5.5
Pre-tax profit	133.4	4.5	9.6	6.5
Net profit	321.8	0.9	9.6	6.5
EPS	321.8	1.1	9.6	6.5
Leverage				
Debt to total capital	27.7	27.2	27.9	28.5
Debt to equity	48.1	46.6	48.4	49.7
Net debt/(cash) to equity	25.8	25.3	23.6	21.8