Hongkong Land

Takeaways from company call – HK office rental reversion may turn neutral in 2027

Overweight

HKLD.SI, HKL SP
Price (26 Jun 26):$7.10
Price Target (Dec-26):$10.70

Mainland China/Hong Kong Property & Conglomerates

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We attended the company update call of HKL. Key takeaways: (1) **HK office** rental reversion may turn neutral in FY27; (2) **Singapore's operations** are trending well although 1H26 rental income may drop Y/Y due to disposal of MBFC; (3) **near-term priority** is to grow the SG portfolio; (4) **FY26 underlying profit** is expected to be up ~10% Y/Y; (5) **dividend**: HKL plans to rebalance the interim/final DPS split, but there is no change in full-year DPS guidance. Overall, the call reinforces our view that HKL's core operations are on track with earnings growth finally being revived this year. Stay Overweight.

1) Hong Kong Office

- **1H26 office revenue:** Likely still a Y/Y decline due to negative rental reversion over the past few years.
- **Significant narrowing in negative rental reversion:** Improving from negative 15-20% in prior years to negative 5% this year (supported by >5% growth in office spot rents in Central YTD, according to JLL).
- **2027 will be the inflection point:** Management expects rental reversion to turn neutral in 2027 & onwards. Most 2026 renewals have already been addressed. However, at this point management is not yet ready to guide "positive" reversion yet.
- **No impact from ODI restrictions yet:** Amid concerns about tightening of controls on capital outflow/ODI in Mainland China, management says they have not seen any impact on leasing activities yet. They characterize the situation as fluid and will monitor for 2H26. So far they see no evidence of tenants delaying decisions/occupation needs.
- **No plans to redevelop Jardine House:** HKL is exploring various value creation opportunities across the portfolio; redevelopment is one of the options, but there are other ways to boost rental income too.

2) Hong Kong Luxury Retail

- **Higher retail contribution from Landmark expected in 1H26:** Supported by positive rental reversions & new flagship stores (new maisons/concept stores have been strong).
- **Notable acceleration in Bespoke VIP program:** Watches & jewelry has outperformed.
- **"Tomorrow's Central" is on track:** Expecting a meaningful uplift after completion.

3) Singapore

- **Revenue will drop in 1H26 due to disposal:** While operational data is trending well (rental reversion remains positive), 1H26 revenue will be lower Y/Y due to the disposal of MBFC Tower 3, partially offset by management fees

See page 5 for analyst certification and important disclosures, including non-US analyst disc

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& REIT dividends. However, management expects the net impact to still be down Y/Y.

4) Capital recycling

- **Reiterate the US$4bn target by end-2027:** So far US$3.6bn has been recycled.
- **No change in the ultimate US$6bn cap:** Working on various selective disposals (e.g. residential / inventories)
- **Near-term strategy:** Focus on growing the Singapore platform; looking at opportunities, but do not expect an announcement in the near term.

5) Fund management / SCPREF

- **Disclosure approach at interim results:** Expected to be broadly similar to FY25.
- **SCPREF performance will be aggregated into the Singapore performance in totality:** Fund investment income + management fees + Suntec REIT distributions.
- **Management fee breakdown:** Management does not intend to break down the management fees in the interim results, but may refine the disclosure format over time (aiming FY26).
- **Potential acquisition of Marina One:** Management said HKL is not in any exclusive arrangement and they have no further comment, other than acknowledging that the property is formally up for sale (JPM comment: according to our Singapore REIT analysts Mervin Song & Terence Khi, if the S$5.7bn deal materializes, the implied price is about S$2,822psf, ~11% below the S$3,180 psf paid for Asia Square 2; they estimate a 3.9-4.5% reversionary yield for Marina One (based on S$12-13.50 psf rents) – for more please see the report by Mervin & Terence).
- **LPs are turning more cautious** in recent months due to the geopolitical backdrop, though HKL's objective is to attract additional LPs as the fund size grows.
- **C-REIT:** Some properties in Mainland China may potentially be put into a C-REIT or a private fund. However, this is not expected to materialize in the near term (perhaps 2027 or beyond).

6) Equity investment in Suntec REIT

- **HKL does not intend to be a long-term holder:** Management expects to recycle out at some point; for now, it provides a good source of Singapore-based income (for a recap of the investment, please see our earlier report).

7) Underlying profit

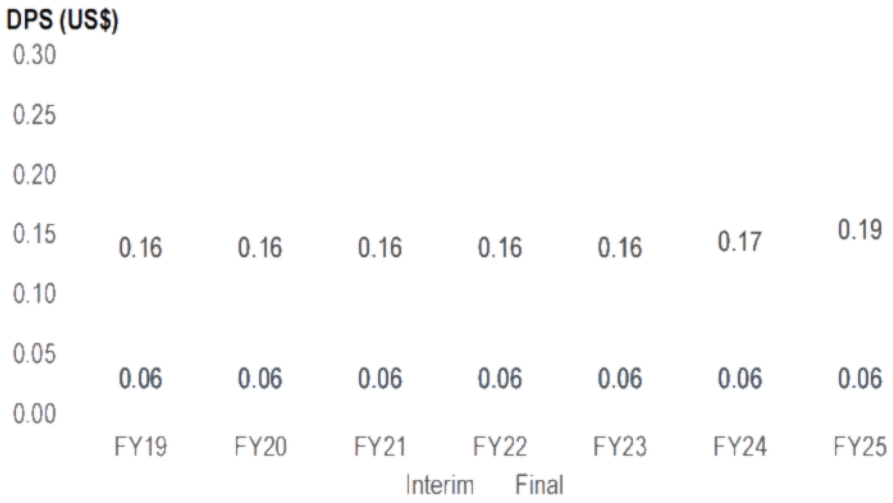
- **Expect ~10% Y/Y growth in restated underlying profit (1H26 & FY26):** Since FY25, net profit has been newly defined to exclude the build-to-sell business (now classified as non-trading). Using the new definition, the 1H25 underlying profit would be US$230 million, and for 1H26 & FY26, HKL expects ~10% Y/Y growth, mostly driven by savings in financing costs.
- **No significant inventory write-down is expected for 1H26.**

8) Dividend

- **No change in dividend policy: Mid-single-digit % growth p.a.**
- **Rebalancing the interim/final DPS split**: Interim DPS has stayed flat historically, but HKL is considering rebalancing the split between interim & final dividend (note: in the past 7 years, interim DPS accounts for 24-27% of full-year DPS - Figure 1).

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Figure 1: Hongkong Land - Interim & Final DPS split



Source: Company data.

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Investment Thesis, Valuation and Risks

Hongkong Land *(Overweight: Price Target: $10.70)*

Investment Thesis

We believe HKL offers a scarcity value of: (1) high long-term dividend certainty as it is the only company within the HK property space that is committed to a mid-single-digit growth in DPS until 2035; (2) a committed buyback program; and (3) ambitious senior management with compensation aligned with share price performance. Further proof of value-accretive capital recycling and execution of fund management should drive a further rerating.

Valuation

Our Dec-26 PT of US$10.70 is based on a 20% discount to our NAV estimate (implying 0.75x P/B), which is the highest among HK-focused landlords as we factor in HKL's strong eagerness to enhance shareholder return and good track record in capital recycling.

		Forward NAV			
		Dec-26			
Project	Type	HK$MM	US$MM	% of GAV	US$/sh
Hong Kong property investment					
Central office	Office	108,138	13,830	43.6%	6.43
The Landmark	Retail	43,254	5,532	17.4%	2.57
The Landmark Mandarin Oriental	Hotel	4,290	549	1.7%	0.25
HK investment properties total		**155,681**	**19,910**	**62.7%**	**9.25**
Hong Kong total		**157,563**	**20,150**	**63.5%**	**9.36**
Mainland China property development					
Chongqing	Lux Res	3,399	435	1.4%	0.20
Wuhan	Lux Res	682	87	0.3%	0.04
Chengdu	Lux Res	0	0	0.0%	0.00
Others	Lux Res	38	5	0.0%	0.00
Mainland China development properties		**4,119**	**527**	**1.7%**	**0.24**
Mainland China investment properties					
West Bund, Central & The Ring	Mixed	**51,740**	**6,617**	**20.8%**	**3.08**
Mainland China total		**55,859**	**7,144**	**22.5%**	**3.32**
Macau properties					
One Central	Retail	1,756	225	0.7%	0.10
One Central	Hotel	488	62	0.2%	0.03
Macau total		**2,244**	**287**	**0.9%**	**0.13**
Singapore properties					
Commercial			3,200	10.1%	1.49
SG total			**3,200**	**10.1%**	**1.49**
Overseas properties					
Vietnam & Cambodia	IP	1,130	144	0.5%	0.07
Indonesia	IP	3,269	418	1.3%	0.19
DP		2,346	300	0.9%	0.14
Overseas total		**6,745**	**863**	**2.7%**	**0.40**
Fund management (Fee Income)					
Singapore private RE fund (SCPREF)	Multiple	834	107	0.3%	0.05
		834	**107**	**0.3%**	**0.05**
Gross asset value		**223,244**	**31,750**	**100.0%**	**15**
Net debt		(23,278)	(2,977)		(1.38)
Net asset value		**199,966**	**28,773**		**13.37**

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Key upside risks: (1) a stronger-than-expected recovery in the Hong Kong office market; (2) a special dividend; and (3) more value-accretive capital recycling. Key downside risks: (1) worse-than-expected deterioration in the Hong Kong office market; and (2) value-dilutive capital recycling.