COMPANY UPDATE

2025. 11. 11

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ESR KENDALL SQUARE REIT

(365550)

Corporate day: To add three assets in 2025

- ESR Kendall Square REIT's weighted-average interest rate on loans should fall 30bps y-y in 2025 after it refinances KRW420b of debt this year.
- Following a rights offering in 1H, the REIT has incorporated two new assets (a logistics center in Cheonan and a #9 logistics center in Icheon). The addition of one more asset this year should take its AUM to KRW3t.
- The REIT uses capital gains from periodic capital recycling to complement its dividend payouts, offsetting share dilution and any rises in interest rates.

WHAT'S THE STORY?

Interest rate: ESR Kendall Square REIT is seeking to refinance KRW420b of debt (29% of total borrowings). The new loans are expected to carry an interest rate of around CD rate +160bps, which is nominally 100bps higher than the previous level.

- **Weighted average interest rate to keep falling:** However, thanks to a projected decline in CD rates, the company's weighted-average funding cost is expected to fall 30bps y-y to 3.5% in 2025, and then gradually ease to 3.1% by 2027. Even during the 2024 rate hike cycle, the REIT limited the rise in its average interest rate to just 110bps.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW6,200	44.0%
Current price	**KRW4,305**	
Market cap	KRW1.1t/USD0.8b	
Shares (float)	242,932,160 (75.1%)	
52-week high/low	KRW5,012/KRW4,075	
Avg daily trading value (60-day)	KRW2.0b/ USD1.4m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
ESR KENDALL SQUARE REIT (%)	-4.2	-10.6	-8.0
Vs Kospi (%pts)	-15.1	-43.5	-42.1

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	6,200	6,200	0.0%
2025E EPS	152	152	0.0%
2026E EPS	159	159	0.0%

SAMSUNG vs THE STREET

No of estimates	1
Target price	6,200
Recommendation	4.0

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

SUMMARY FINANCIAL DATA

	2024	2025E	2026E	2027E
Revenue (KRWb)	113	114	118	121
Operating profit (KRWb)	55	58	61	64
Net profit (adj) (KRWb)	26	35	39	43
EPS (adj) (KRW)	121	152	159	173
EPS (adj) growth (% y-y)	-34.4	25.7	4.5	8.7
EBITDA margin (%)	77.0	74.4	75.2	75.0
ROE (%)	2.4	3.0	3.3	3.7
P/E (adj) (x)	39.4	28.3	27.1	24.9
P/B (x)	0.9	0.9	0.9	0.9
P/FFO (x)	17.9	15.9	16.0	15.2
Dividend yield (%)	5.7	6.4	6.5	6.5

Source: Company data, Samsung Securities estimates

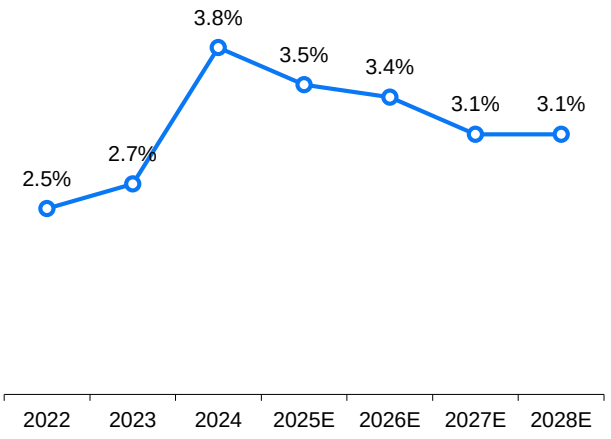
Growth strategy: The REIT, which completed a rights offering in 1H, has kept its asset quality solid with an LTV ratio of 51.9%. It recently completed incorporation of another asset (the Icheon #9 logistics center). This follows the incorporation of a center in Cheonan (with Coupang as a key tenant) earlier in the year. The REIT plans to add one more asset this year.

- **Logistics center cap rates trend down:** Cap rates for logistics centers in the Seoul Metropolitan Area fell to 5.5% in 1H, led by a decline in interest rates and the peaking of logistics center supply. Looking ahead, cap rates should fall further on additional rate cuts, and prices of healthy logistics centers should rebound.

Dividend strategy: Amid a prolonged recession in the logistics center market, ESR Kendall Square REIT's ability to incorporate, dispose of, and lease out assets has drawn keen attention. Above all, the REIT has Coupang—Korea's largest logistics center tenant—as its key tenant, occupying 54% of its logistics center floor space. Considering the high visibility of the logistics center supply cliff from 2025, the REIT's rental contract terms should improve notably over 2027-2028. As 18.4% of its floor space is subject to rental contract renewal in 2027 and 68.4% in 2028, the REIT's actual rental fees should rise.

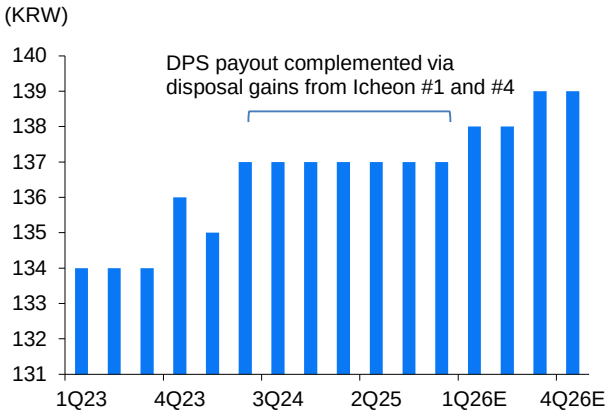
- **To keep DPS intact even after rights offering:** In the short-to-medium term, ESR Kendall Square REIT uses asset disposal gains (related to periodic capital recycling) to complement its dividend payout. Such gains allow it to keep its DPS uptrend intact even when interest rates rise or shares are diluted following a rights offering.

Weighted-average funding rate



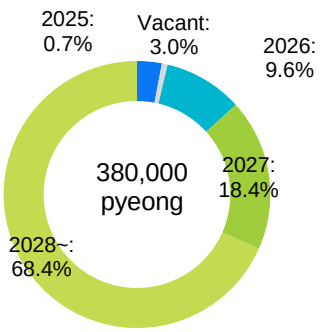
Source: Company data, Samsung Securities

DPS trends and forecasts



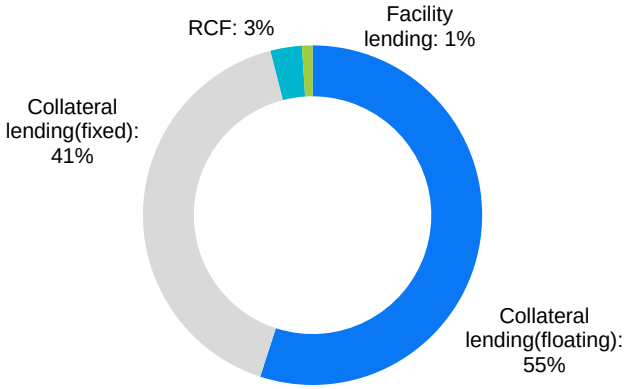
Source: Company data, Samsung Securities

Rental contract renewal year



Source: Company data, Samsung Securities

Debt structure



Source: Company data, Samsung Securities

Income statement

Year-end Nov 30 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**102**	**113**	**114**	**118**	**121**
Cost of goods sold	0	0	0	0	0
Gross profit	**102**	**113**	**114**	**118**	**121**
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
SG&A expenses	52	57	56	56	57
Operating profit	**50**	**55**	**58**	**61**	**64**
Operating margin (%)	49.1	49.1	50.7	52.2	52.7
Non-operating gains (losses)	**-10**	**-29**	**-23**	**-22**	**-21**
Financial profit	2	2	0	0	0
Financial costs	35	52	50	49	48
Equity-method gains (losses)	22	20	27	27	27
Other	0	0	0	0	0
Pre-tax profit	**40**	**26**	**35**	**39**	**43**
Taxes	0	0	0	0	0
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
Profit from continuing operations	40	26	0	0	0
Profit from discontinued operations	0	0	0	0	0
Net profit	**40**	**26**	**35**	**39**	**43**
Net margin (%)	38.9	23.2	30.4	33.3	35.2
Net profit (controlling interests)	40	26	35	39	43
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	79	87	85	88	91
EBITDA margin (%)	77.1	77.0	74.4	75.2	75.0
EPS (parent-based) (KRW)	185	121	152	159	173
EPS (consolidated) (KRW)	185	121	152	159	173
Adjusted EPS (KRW)*	185	121	152	159	173

Balance sheet

Year-end Nov 30 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**79**	**88**	**73**	**70**	**70**
Cash & equivalents	51	59	70	70	70
Accounts receivable	0	0	0	0	0
Inventories	0	0	0	0	0
Other current assets	29	29	3	0	0
Fixed assets	**2,265**	**2,438**	**2,454**	**2,428**	**2,402**
Investment assets	211	223	230	195	200
Tangible assets	0	0	0	0	0
Intangible assets	0	0	0	0	0
Other long-term assets	2,053	2,214	2,224	2,233	2,202
Total assets	**2,344**	**2,525**	**2,527**	**2,498**	**2,472**
Current liabilities	**270**	**53**	**-18**	**-18**	**-18**
Accounts payable	0	0	0	0	0
Short-term debt	0	21	0	0	0
Other current liabilities	270	31	-18	-18	-18
Long-term liabilities	**957**	**1,388**	**1,343**	**1,343**	**1,343**
Bonds & long-term debt	912	1,343	1,343	1,343	1,343
Other long-term liabilities	45	45	0	0	0
Total liabilities	**1,227**	**1,441**	**1,325**	**1,325**	**1,325**
Owners of parent equity	**1,117**	**1,085**	**1,202**	**1,173**	**1,147**
Capital stock	213	213	246	246	246
Capital surplus	900	900	1,018	1,018	1,018
Retained earnings	4	-29	-62	-91	-118
Other	0	-0	0	0	0
Non-controlling interests' equity	**0**	**0**	**0**	**0**	**0**
Total equity	**1,117**	**1,085**	**1,202**	**1,173**	**1,147**
Net debt	1,104	1,350	1,273	1,273	1,273

Cash flow statement

Year-end Nov 30 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**64**	**31**	**12**	**17**	**22**
Net profit	40	26	35	39	43
Non-cash profit and expenses	89	108	27	27	27
Depreciation	29	31	27	27	27
Amortization	0	0	0	0	0
Other	60	76	0	0	0
Changes in A/L from operating activities	-4	-9	0	0	0
Cash flow from investments	**-92**	**-185**	**-16**	**26**	**26**
Change in tangible assets	0	0	0	0	0
Change in financial assets	3	7	0	0	0
Other	-95	-193	-16	26	26
Cash flow from financing	**47**	**162**	**109**	**-48**	**-55**
Change in debt	105	249	0	0	0
Change in equity	0	0	151	0	0
Dividends	-58	-58	-68	-68	-69
Other	0	-29	26	20	14
Change in cash	20	8	104	-5	-7
Cash at beginning of year	31	51	59	70	70
Cash at end of year	51	59	70	70	70
Gross cash flow	**129**	**134**	**62**	**66**	**70**
Free cash flow	**64**	**31**	**12**	**17**	**22**

Financial ratios

Year-end Nov 30	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	7.0	10.1	1.1	3.1	2.9
Operating profit	8.5	10.1	4.4	6.1	3.9
Net profit	-7.2	-34.4	32.5	13.0	8.7
Adjusted EPS**	-8.9	-34.4	25.7	4.5	8.7
Per-share data (KRW)					
EPS (parent-based)	185	121	152	159	173
EPS (consolidated)	185	121	152	159	173
Adjusted EPS**	185	121	152	159	173
BVPS	5,174	5,025	4,886	4,767	4,659
DPS (common)	272	274	276	278	280
Valuations (x)					
P/E***	18.7	39.4	28.3	27.1	24.9
P/B***	0.7	0.9	0.9	0.9	0.9
P/FFO (x)	10.9	17.9	15.9	16.0	15.2
Ratios (%)					
ROE	3.5	2.4	3.0	3.3	3.7
ROA	1.7	1.1	1.4	1.6	1.7
ROIC	-2,014.8	4,354.2	536.0	317.5	357.8
Payout ratio	145.4	223.4	196.2	174.8	162.0
Dividend yield (common)	7.9	5.7	6.4	6.5	6.5
Net debt to equity	98.8	124.5	105.9	108.5	111.0
Interest coverage (x)	1.4	1.1	1.2	1.3	1.3

Note: *Excluding one-off items;
**Fully diluted, excluding one-off items;
***From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

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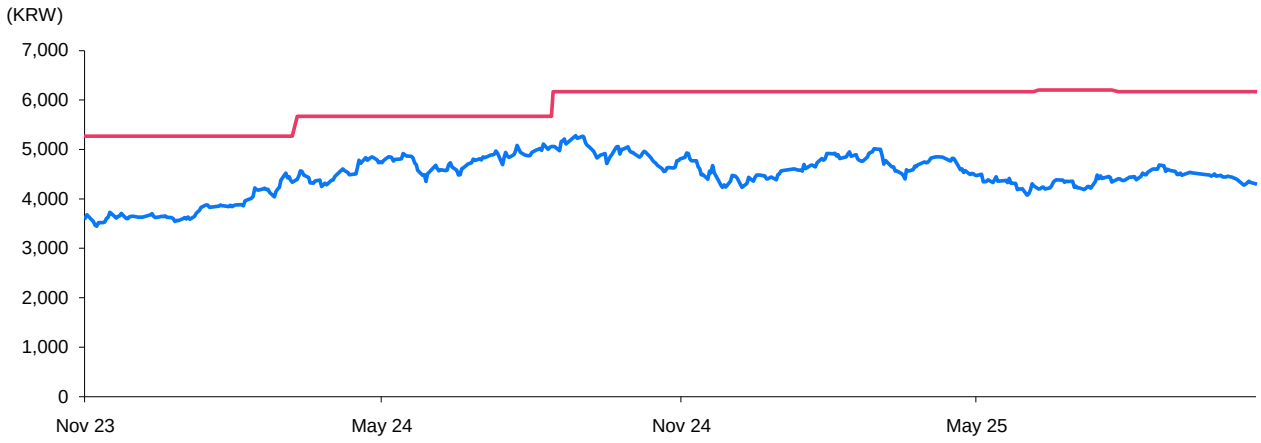

Rating changes over past two years (adjusted share prices)

Date	2022/11/21	2023/11/21	2024/4/1	9/5	2025/8/18	11/11
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	5271	5271	5668	6166	6166	6200
Gap* (average)	-26.32	-27.68	-16.94	-25.04	-27.47	
(max or min)**	-15.86	-14.25	-9.82	-14.36	-24.02	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Industry

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* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

Percentage of ratings in 12 months prior to 2025.09.30

BUY(83.5%)·HOLD(16.5%)·SELL(0%)

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