

China / Hong Kong Company Update

ESR Cayman Ltd

Bloomberg: 1821 HK Equity | Reuters: 1821.HK

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DBS Group Research . Equity

5 Feb 2024

BUY

Last Traded Price (2 Feb 2024): HK\$9.89 (HSI : 15,534)
Price Target 12-mth: HK\$19.63 (99% upside) (Prev HK\$19.53)

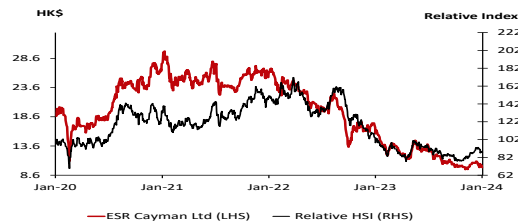
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What's New

- Re-rating catalysts may surface in 2H24 with a clearer US interest rate roadmap and sale completion of delayed non-core assets
- FY23E results may be impacted by ongoing headwinds from the current high interest rate environment and China's softer macro performance
- Trimmed FY23-25F earnings by 15-29% to reflect adjusted interest costs and development margin assumptions
- Maintain BUY with HK\$19.63 TP

Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2022A	2023F	2024F	2025F
Turnover	821	835	887	942
EBITDA	794	988	1,051	1,102
Pre-tax Profit	815	700	792	845
Net Profit	574	482	553	594
Core Profit	655	412	503	574
Core Profit Gth (%)	73.5	(37.0)	22.0	14.0
Core EPS (US\$)	0.15	0.09	0.11	0.13
Core EPS (HK\$)	1.15	0.72	0.88	1.01
Core EPS Gth (%)	19.0	(37.0)	22.0	14.0
Core PE (X)	8.6	13.7	11.2	9.8
P/Cash Flow (X)	71.2	14.3	23.7	22.4
EV/EBITDA (X)	13.2	10.2	9.3	8.7
DPS (HK\$)	0.25	0.25	0.25	0.25
Div Yield (%)	2.5	2.5	2.5	2.5
Net Gearing (%)	54.1	46.6	41.3	36.2
ROE (%)	7.2	5.7	6.1	6.2
Book Value (HK\$)	16.04	16.89	17.86	18.90
P/Book Value (X)	0.6	0.6	0.6	0.5
EPS Rev (%)		(29)	(20)	(15)
Consensus EPS (US\$)		0.13	0.14	0.16
Other Broker Recs:		B:12	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Nearing the end of the dark tunnel

Investment Thesis

Unique proxy to capture vibrant development of new economy in APAC. ESR Cayman is one of APAC's largest new economy-focused real estate investment managers. Following the acquisition of ARA Asset Management, ESR's fund AUM has surged to US\$147bn as of Jun-23 and is the largest APAC focused real asset manager. Alongside its non-core asset divestments and portfolio rebalancing, ESR currently has 86% exposure to the region, mainly Greater China (21%), Japan (20%), Australia/New Zealand (16%), Southeast Asia (8%) and South Korea (9%).

Re-rating catalysts may resurface in 2H24. Fund AUM is expected to progressively regain its growth momentum in 2H24 as the trajectory of US interest rates become clearer. The pace of non-core asset divestments may also pick up as its announced deals last year materialize throughout 2024 and the anticipated listing of its C-REITs platform. Concerns over ESR's relatively high gearing and financing costs could then be partially allayed with its plan to utilize its potential divestment proceeds to repay c.US\$1bn high-cost debt (currently at >8%) in 2H24. This would improve its gearing ratio and lower its interest costs (optimally <5%). These should help to support to its share price and valuation performance.

Digesting headwinds from higher interest rates and China's softening. Even with a potentially improving interest rate roadmap, the elevated interest rate levels are likely to exert greater pressure on ESR's earnings in form of financing costs. Meanwhile, cap rate expansions are still ongoing in South Korea and Australia, whilst assets in China continue to face headwinds given the country's weak macro backdrop. These will likely moderate the fair value gains, and with the delayed non-core asset divestments, will likely weigh on ESR's near-term earnings outlook. We have accordingly revised down our FY23-25F earnings by 15-29%.

Maintain BUY with revised HK\$19.63 TP. We rolled over our sum-of-parts (SOP) valuation to FY24, with revised HK\$19.63 deriving from 1x P/B valuation of its balance sheet assets, unchanged 12x forward EV/EBITDA multiple for fund management and 8x forward PE for the development business. The stock is now trading at 9.3 FY24F EV/EBITDA, which is at a 52% discount to global peers, and nearly 2 SD below its historical mean of 18x.

Key Risks

Slower and smaller than expected US interest rate cuts; inability to raise and deploy funds from capital partners; slower than expected non-core asset divestment progress

At A Glance

Issued Capital (m shrs)	4,422
Mkt Cap (HKm/US\$m)	43,734 / 5,592
Major Shareholders (%)	
Warburg Pincus LLC	13.9
OMERS Administration Corporation	10.7
Redwood Investment Co., Ltd.	10.5
Laurels Capital Investments Ltd.	7.3
Lim (Hwee Chiang)	5.4
Free Float (%)	52.2
3m Avg. Daily Val. (US\$m)	6.68
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates

ESR Cayman Ltd

Company Background

ESR Cayman Limited (ESR) is the largest modern logistics real estate owners/operators by GFA and by asset value in APAC. The company was listed in November 2019, and continued its pipeline expansion via joint ventures with GIC, APG, CPP investments, Manulife and PGGM. After the acquisition of ARA Asset Management in January 2022, ESR is now one of the largest real estate asset management platform with a combined AUM of US\$147bn through various funds and listed REITs. As an enlarged Group, new economy represents c.61% of its AUM, followed by listed REITs (15%), alternatives and others (24%).

ESR Cayman Ltd

Segmental Breakdown (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (US\$ m)					
Investment	117	97	85	90	92
Fund management	244	713	345	372	404
Development	44	11	0	0	0
Others	0	0	404	425	446
Total	404	821	835	887	942

Source: Company, DBS HK

Income Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	404	821	835	887	942
Cost of Goods Sold	(54)	(29)	(33)	(44)	(57)
Gross Profit	350	792	802	842	885
Other Opg (Exp)/Inc	(146)	(193)	187	208	216
Operating Profit	205	599	988	1,051	1,102
Associates Inc	168	227	0	0	0
Net Interest (Exp)/Inc	(158)	(206)	(288)	(258)	(257)
Exceptional Gain/(Loss)	274	195	0	0	0
Pre-tax Profit	489	815	700	792	845
Tax	(106)	(184)	(161)	(182)	(194)
Minority Interest	(33)	(57)	(57)	(57)	(57)
Net Profit	349	574	482	553	594
Core Profit	377	655	412	503	574
Sales Gth (%)	4.1	103.0	1.7	6.1	6.2
Net Profit Gth (%)	22.0	64.3	(16.0)	14.7	7.3
Core Profit Gth (%)	45.1	73.5	(37.0)	22.0	14.0
Gross Mgn (%)	86.7	96.4	96.0	95.0	94.0
Core Profit Margin (%)	93.3	79.7	49.4	56.8	60.9
Tax Rate	21.7	22.6	23.0	23.0	23.0

Source: Company, DBS HK

ESR Cayman Ltd

Balance Sheet (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	34	44	6	44	44
Invt in Assocs & JVs	1,331	2,956	2,956	2,956	2,956
Other LT Assets	6,052	10,189	10,619	10,985	11,387
Cash & ST Invt	1,638	1,807	2,209	2,453	2,712
Other Current Assets	282	1,203	891	797	731
Total Assets	9,338	16,199	16,682	17,235	17,829
ST Debt	1,313	290	290	290	290
Creditors	236	403	403	403	403
Other Current Liab	33	386	386	386	386
LT Debt	2,935	5,206	5,206	5,206	5,206
Other LT Liabilities	407	773	773	773	773
Minority Interests	255	326	326	326	326
Shareholder's Equity	4,159	8,815	9,297	9,850	10,444
Total Capital	9,338	16,199	16,682	17,235	17,829
Share Capital (m)	3,056	4,457	4,457	4,457	4,457
Net Cash/(Debt)	(2,610)	(3,690)	(3,287)	(3,043)	(2,785)
Working Capital	13	414	102	8	(59)
Net Gearing (%)	72.0	54.1	46.6	41.3	36.2

Source: Company, DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Profit Before Tax	489	815	700	792	845
Assoc. & JV Inc/(loss)	(168)	(227)	0	0	0
Tax Paid	(25)	(109)	(161)	(182)	(194)
Depr/Amort	0	0	0	0	0
Chg in Wkg.Cap.	(44)	(149)	236	58	28
Other Non-Cash	(177)	(252)	(382)	(431)	(428)
Operating CF	75	79	394	238	251
Net chg in inv.	(989)	(1,039)	0	0	0
Assoc, MI, Invsmt	(169)	868	9	6	7
Investing CF	(1,159)	(171)	9	6	7
Net Chg in Debt	1,192	888	0	0	0
New Capital	0	0	0	0	0
Dividend	0	0	0	0	0
Other Financing CF	65	(483)	0	0	0
Financing CF	1,257	405	0	0	0
Chg in Cash	113	183	402	244	258
Chg in Net Cash	(830)	(1,080)	402	244	258

Source: Company, DBS HK

ESR Cayman Ltd

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	6-Mar-23	HK\$13.86	HK\$25.00	Buy
2:	25-Aug-23	HK\$11.84	HK\$19.53	Buy

Source: DBS HK

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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