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## Financial/REITs Team

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## ▶ AT A GLANCE

<b>Recommend</b>	<b>BUY</b>	
<b>Target price</b>	<b>KRW7,000</b>	<b>13.3%</b>
<b>Current price</b>	<b>KRW6,180</b>	
Market cap	KRW958.03b/USD811.61m	
Shares (float)	155,020,532 (50.0%)	
52-week high/low	KRW6,610/KRW5,700	
Avg daily trading value (60-day)	KRW18.1b/ USD15.3m	

## ▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
<b>SK REIT (%)</b>	<b>-2.5</b>	<b>0.0</b>	<b>0.0</b>
Vs Kospi (%pts)	-0.6	0.0	0.0

## ▶ SAMSUNG vs THE STREET

No of estimates	1
Target price	7,000
Recommendation	4.0

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

# SK REIT (395400)

## Pivotal to SK Group's financial story

- SK REIT is a group REIT having SK Seorin Building & SK Energy's 116 gas stations as underlying assets. It offers a quarterly dividend, the first Korean REIT to do so.
- The REIT can adequately hedge against inflation—rent at SK Seorin Building is linked to the previous year's CPI growth.
- SK Group owns KRW39t worth of property. The REIT should grow alongside the group via the incorporation of affiliate assets.

## WHAT'S THE STORY?

**A group REIT having SK Group's assets as underlying assets:** SK REIT has SK Group as a sponsor and is 50% owned by SK Inc. The REIT has two underlying assets (together worth KRW1.8t): 1) SK Seorin Building (KRW1t); and 2) SK Energy's 116 gas stations (KRW0.8t). In March, SK Group reorganized its business portfolio, centering it on four areas—*ie*, advanced materials, biotechnology, green, and digital—and declaring that it will make heavy investments in all four segments. To this end, the group set up SK REIT and put affiliates' non-securitized real-estate assets into the REIT as underlying assets—a way for the group to better utilize affiliates' real-estate properties and secure capital for investment. All told, SK REIT should become pivotal to the group's financial story. Of note: 1) SK Seorin Building is highly symbolic (as it is the group's headquarters) and is a safe asset (SK Group should remain a long-term tenant there; its location is excellent); and 2) SK Energy's 116 gas stations are valuable, as they can be turned into a hub for SK Group's new businesses (eg, EV charging stations) and as they can be converted (and used for different purposes).

**Extremely stable; inflation hedge:** As stated above, SK REIT is a group REIT that was set up by SK Group, a group with the nation's highest credit rating. The REIT's biggest strengths are its: 1) stable lease structure; and 2) cost-control ability. For instance, rent at Seorin Building is linked to the previous year's CPI growth, and rent at SK Energy's 116 gas stations is linked to CPI growth (from the 6th year).

*(Continued on the next page)*

## SUMMARY OF FINANCIAL DATA

	2020	2021E	2022E	2023E
Revenue (KRWb)	n/a	25	61	62
Operating profit (KRWb)	n/a	20	50	51
Net profit (adj) (KRWb)	n/a	11	35	37
EPS (adj) (KRW)	n/a	71	229	237
EPS (adj) growth (% y-y)	n/a	nm	221.1	3.7
EBITDA margin (%)	n/a	92.9	93.8	93.9
ROE (%)	n/a	1.4	4.6	4.8
P/E (adj) (x)	n/a	81.1	25.2	24.3
P/B (x)	n/a	1.2	1.2	1.2
EV/EBITDA (x)	n/a	64.2	26.7	26.0
Dividend yield (%)	n/a	6.0	4.7	4.9

Source: Company data, Samsung Securities estimates

Thus, the REIT should be able to weather this current inflationary period (where the CPI is growing by 3.5%) without cutting its dividend. It should offer an annualized dividend yield of 5.8% in 2021 and 4.3% in 2022. It distributes a quarterly dividend, a first among Korean REITs and a factor which bolsters its investment merit. The REIT also stands to see lower rates on its loans despite rising rates—it intends to carry out refinancing in the near future. Sponsor SK Inc's and affiliate SK Energy's credit ratings are AA+ and AA0, respectively, which should allow the REIT to take out loans (unsecured/secured) at lower rates than those taken out by other REITs. Other cost burdens are also low—all of its underlying assets have a triple net (NNN) lease agreement.

**To grow alongside SK Group; implications for other groups:** The REIT has secured a right of first refusal (ROFO) on the assets of SK Telecom (SK T-Tower), SK Hynix (SK U-Tower), SK Planet (SK Media-Tower), and the Pangyo headquarters of SKP. By adding these assets, the REIT intends to raise its asset value above KRW4t by 2024. Afterwards, it intends to focus on adding assets associated with the new economy (eg, data centers, green power generation facilities, and logistics centers). As the REIT should play a pivotal role in expanding the group's core operations (beyond asset securitization) and spurring growth at group affiliates, it should shed light on other groups' REIT plans. We set our NAV estimates for the two underlying assets at KRW681b (SK Seorin Building; by applying a cap rate of 3.1%, the figure applied to the office building sold at the highest price in 2H21 in Seoul) and KRW394b (116 gas stations; by calculating the PV of its future dividend inflows). Our target for the REIT stands at KRW7,000.

**Underlying assets: Rent linked to CPI; limited cost burden**

SK REIT has two underlying assets.

**1) SK Seorin Building:** The building is located in Seoul's Central Business District (CBD) and has been used as SK Group's headquarters since 1999. Its major tenant is SK Inc, a firm which has subleased the building to affiliates SK Innovation and SK E&S. Previously, the National Pension Service (NPS) owned the building via a fund, and when it put the building on the market in 2020, IGIS Asset Management offered the highest bid (ie, KRW12m per m<sup>2</sup>). SK Group, however, swooped in and exercised its right of first refusal, putting the asset into SK REIT as an underlying asset. The cap rate for the building (based on the purchase price) was likely 4% (excluding deposits). The building has a promising outlook for dividend payouts, as: 1) renovation was completed in 2019; 2) its rent is linked to the CPI; 3) it has a triple net lease structure (NNN; a lease agreement where the tenant or lessee promises to pay all of the expenses associated with the property); and 4) the tenant incurs capex.

**2) SK Energy's 116 gas stations:** The REIT's second underlying asset is the 116 gas stations owned by SK Energy nationwide (and their land and buildings on the property). SK Group runs a gas station operation via SK Networks and SK Energy. In 2019, SK Networks sold 200 gas stations to Koramco Energy REIT (a REIT set up by Koramco Asset Management) and developers/constructors. After buying and incorporating 187 gas stations (out of the 200), Koramco Energy REIT went public in Aug 2020. Likewise, SK REIT incorporated SK Energy's 116 gas stations as underlying asset.

A gas station has the following two strengths as an asset: 1) it incurs little capex burden as land takes up 95% of its asset value; and 2) it takes little time or cost to convert the land (for different usage). A gas station's asset value is tied to its appraisal value, and over the past five years, the value of properties in the areas around the locations of SK Energy's gas stations has risen at a CAGR of 4.8%. The 116 gas station assets also have a NNN lease agreement, thus carry no onerous property tax burden.

To better utilize the gas station assets, SK REIT intends to turn them into a hub (revolving around the group's new renewable energy operations—eg, EV charging stations and fuel-cell operations) or convert them (for other usage). Since such moves require group-wide cooperation, the REIT plans to carry out any project with a long time frame—eg, designate pilot assets in 2022, finish designs/win approval in 2023, and complete the project in 2025.

**Table 1. SK REIT: Assets**

	Seorin Building	Gas stations
Acquisition price (KRWb)	1,003	765.4
Rent/acquisition price*	3.9%	4.2%
Tenant	SK Inc	SK Energy
Lease maturity	5 years	10 years
Annual rent (KRWb)	39.2	32.1
Rent increase	CPI growth of previous year	(1st-5th year) fixed rate (6th year~) CPI growth of previous year
Security deposit	Monthly rental fee *10	
ROFO	Owned by tenants	
Fee structure	NNN	
Other	Tenant is in charge of capex	

Note: Security deposit included in acquisition price

Source: Company data, Samsung Securities

We set our target price for SK REIT at KRW7,000. First, to calculate our NAV estimate for SK Seorin Building, we apply a cap rate of 3.1%, as: 1) the average cap rate for office buildings in Seoul's main business districts is above 3%; 2) SK Group is highly likely to remain a permanent tenant in the building; and 3) the building has a high NOI growth outlook, with rent linked to CPI growth. Second, to arrive at our NPV estimate for the 116 gas station assets, we apply a dividend growth model (as the assets should offer stable dividends thanks to the master-lease contract with SK Energy). We put SK Seorin Building's and the 116 gas stations' NAV at KRW681b and KRW394b, respectively, arriving at a per-share NAV estimate for the firm at KRW7,000.

**Table 2. SK REIT: Target price estimate**

(KRWb)	Item	Seorin Building	Gas stations	Total
Earnings	Operating revenue	42	33	75
	Operating expenses	4	1	5
	NOI (2022E)	39	32	71
Site area (m <sup>2</sup> )		5,768		5,768
GFA (m <sup>2</sup> )		83,681		83,681
Cap rate	Acquisition price (after subtracting deposits)	4%	4.3%	4.1%
	Estimated value (implied)	3.1%	3.8%	3.3%
Asset value	Acquisition price	1,003	765	1,768
	Estimated value	1,305	871	2,176
Deduction	Debt	592	450	1,032
	Security deposit	33	27	60
NAV		681	394	1,074
NAV per share (KRW)		4,390	2,541	7,000

Source: Company data, Samsung Securities

### Top-line growth catalysts: Pivotal to SK Group's financial story

In March, SK Group realigned its business portfolio into four main areas—*ie*, advanced materials, biotechnology, green, and digital. The group said it will aggressively whittle out non-core operations to focus on these four segments. To that end, it said it will securitize the group's massive non-securitized properties to raise capital to invest in these four arenas, adding that SK REIT—backed by its expertise—will play a pivotal role in utilizing the assets and maximizing their value.

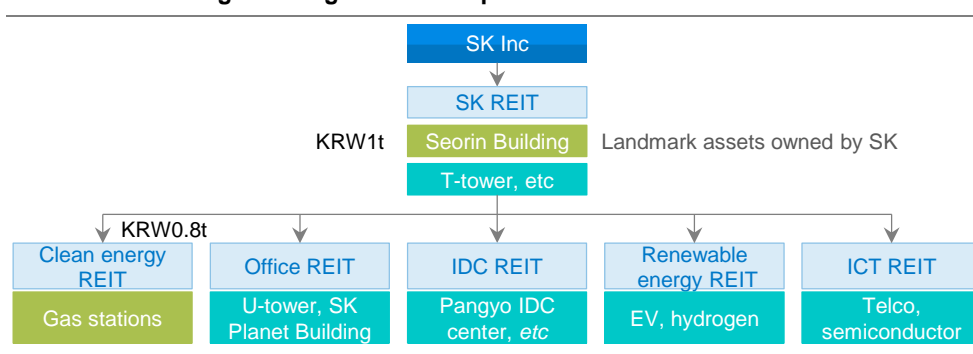
Soon after its IPO on Sep 14, SK REIT announced that it had secured a ROFO on the buildings of SK Telecom (SK T-Tower), SK Hynix (SK U-Tower), and SK Planet (SK Media-Tower). The three buildings are highly likely to be incorporated by the REIT in 2022 as they are located in Seoul's core CBD areas and as the three affiliates are in need of capital to invest in their respective new businesses.

SK Group owns KRW39t worth of property. The group intends for SK REIT (the group's REIT) to only hold underlying assets composed of group assets for the time being, and the group's large real-estate portfolio suggest that there will be strong growth at the REIT in the years ahead. The REIT is also expected to pursue a value-added strategy (one deemed hard to apply by a group REIT) by converting old economy assets (*eg*, gas stations) into ones fit for the new economy.

**Table 3. Assets owned by SK Group for which SK REIT owns ROFO**

	SK T-Tower	SK Media-Tower	SK U-Tower
Address	65, Eulji-ro, Jung-gu, Seoul	264, Pangyo-ro, Bundang-gu, Seongnam-si	9, Seongnam-daero 343beon-gil, Bundang-gu, Seongnam-si
GFA (m <sup>2</sup> )	91,667	49,592	86,651
Floor	B6/33F	B4/10F	B6/28F
Tenant	SK Telecom	SK Planet	SK Inc, SK Hynix
Location	Connected to Euljiro 1-Ga Station	Pangyo Techno Valley	Jeongja station (Bundang line)
Completion	2004	2013	2005
Detail		SKT acquired 60% of the building in 2019 (KRW77.8b)	In 2018, SK Inc sold it to SK Hynix then leased 50% of it (KRW308.5b)

Source: News, Samsung Securities

**Chart 1. SK REIT to grow alongside SK Group**

Source: Company data, Samsung Securities

**Table 4. SK Group affiliates: Assets**

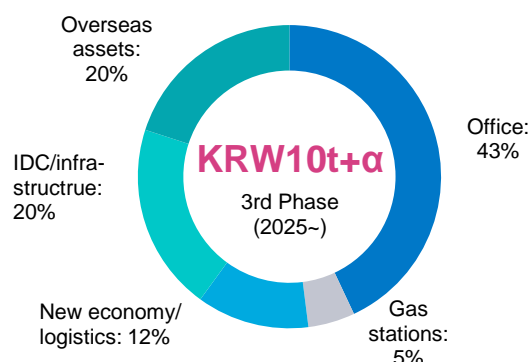
	Total assets	Cash/cash equivalents	As portion of total assets (%)	Land	Building/equipment	Investment	Total real estate	As portion of total assets (%)
SK Hynix	137.6	10.1	7.3	8.5	6.2	0.6	15.3	11.1
SK Telecom	71.2	3.0	4.2	1.0	8.8	0.2	10.0	14.1
SK Inc	38.5	2.9	7.6	4.1	2.2	0.1	6.4	16.7
SK Innovation	47.9	1.4	2.9	1.0	1.2	-	2.2	4.6
SK Materials	8.8	0.9	9.8	0.7	0.3	0.3	1.3	15.1
SK Discovery	5.4	0.4	7.9	0.4	0.5	0.0	0.9	16.5
SKC	5.6	0.1	2.4	0.4	0.3	-	0.7	11.6
SK Networks	2.1	0.1	4.1	0.2	0.4	0.0	0.6	29.9
SK Gas	4.5	0.1	2.7	0.4	0.2	-	0.6	13.1
SK D&D	2.0	0.1	5.2	0.1	0.4	-	0.6	27.2
SK Chemical	0.6	0.0	4.4	0.0	0.1	-	0.1	21.8
SK car rental	2.2	0.1	3.7	0.1	0.0	-	0.1	3.3
Incross	1.7	0.1	3.4	0.0	0.0	0.0	0.0	2.7
Dreamus company	0.1	0.0	31.8	0.0	0.0	-	0.0	13.7
Nano Entec	0.1	0.0	13	0.0	0.0	-	0.0	16.7
SM Core	0.2	0.0	14.8	0.0	0.0	-	0.0	0.7
SK Bioscience	0.5	0.1	11.9	0.0	-	-	0.0	0
SK Biopharm	0.2	0.1	56.4	-	-	-	-	0
Total	329.2	19.5	5.9	16.9	20.7	1.2	38.9	11.8

Source: DART, Samsung Securities

**Table 5. Value-added strategy for gas stations with affiliates**

Affiliate	Plan
SK Energy	Renewable energy - EV charging station/fuel cell, etc
SK Networks	Speed Mate (mobility business)
SK Innovation	Total service related to battery
T Map	One-stop mobility solution

Source: Company data, Samsung Securities

**Chart 2. SK REIT's estimated AUM, by sector**

Source: Company data, Samsung Securities

**Cost-control factors: To issue corporate bonds on favorable terms thanks to high credit rating**

To finance its planned incorporation of new assets in 2022, the REIT intends to issue bonds. Given the superb credit ratings of its sponsor (SK Group) and tenants (SK Inc and SK Energy), the REIT will likely obtain a high credit rating. When evaluating a REIT, key domestic credit rating firms consider three factors: 1) asset size; 2) tenant stability; and 3) financial soundness, such as LTV ratio.

The REIT has an asset value of KRW1.8t, but after adding three new assets in 2022 (together worth KRW0.5t-1.5t), the REIT will likely emerge as the nation's biggest. Given that credit rating firms offer an 'A' rating to a REIT with assets of at least KRW1t and an 'AA' rating to one with assets of at least KRW2t, SK REIT should get at least an 'A' rating in this category. We also believe that it has already passed the financial soundness requirement too, as it has an LTV ratio of 58% and it has a stable lease structure. The new bonds may have an interest rate more than 50bps lower than its existing secured loans—a differentiating factor from other REITs in this era of rising interest rates.

In conclusion, we believe the REIT has a: 1) good chance of expanding sales (as rent at its assets is linked to CPI and as its sponsor has a large real-estate portfolio); and 2) solid dividend growth outlook given its sponsor/tenants' high credit ratings and its superior funding capability.

**Table 6. SK REIT: Earnings and forecasts**

(KRWb)	2Q21	3Q21E	4Q21E	2021E	2022E	2023E	2024E	2024E
	FY1	FY2	FY3	FY2-4	FY 4-7	FY 8-11	FY 12-15	FY 13-16
Operating revenue	-	10.3	15.1	25.4	60.6	62.0	63.2	64.5
Rental income	-	10.3	10.3	20.5	41.1	42.5	43.8	45.1
Dividend income	-	0.0	4.9	4.9	19.5	19.5	19.4	19.4
Operating expenses	0.3	2.6	2.6	5.3	10.7	10.7	10.7	10.7
Depreciation expense	-	1.7	1.7	3.5	6.9	6.9	6.9	6.9
Operating profit	-0.3	7.6	15.5	20.1	49.9	51.3	52.5	53.8
Non-operating income	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.2
Non-operating expenses	-	5.5	3.6	9.1	14.5	14.5	14.6	14.6
Net profit	-0.3	2.2	8.9	11.0	35.4	36.8	38.0	39.4
Dividend	-	8.4	10.6	19.0	42.4	43.7	43.2	44.6
Dividend per share (KRW)	-	54	68	123	273	282	278	287

Source: Company data, Samsung Securities

## Income statement

Year-end Jun 30 (KRWb)	2019	2020	2021E	2022E	2023E
<b>Sales</b>	-	-	25	61	62
Cost of goods sold	-	-	0	0	0
<b>Gross profit</b>	-	-	25	61	62
Gross margin (%)	-	-	100.0	100.0	100.0
SG&A expenses	-	-	5	11	11
<b>Operating profit</b>	-	-	20	50	51
Operating margin (%)	-	-	79.3	82.4	82.7
<b>Non-operating gains (losses)</b>	-	-	-9	-14	-15
Financial profit	-	-	0	0	0
Financial costs	-	-	9	14	15
Equity-method gains (losses)	-	-	0	0	0
Other	-	-	0	0	0
<b>Pre-tax profit</b>	-	-	11	35	37
Taxes	-	-	0	0	0
Effective tax rate (%)	-	-	0.0	0.0	0.0
Profit from continuing operations	-	-	11	35	37
Profit from discontinued operations	-	-	0	0	0
<b>Net profit</b>	-	-	11	35	37
Net margin (%)	-	-	43.5	58.5	59.3
Net profit (controlling interests)	-	-	11	35	37
Net profit (non-controlling interests)	-	-	0	0	0
EBITDA	-	-	24	57	58
EBITDA margin (%)	-	-	92.9	93.8	93.9
EPS (parent-based) (KRW)	-	-	71	229	237
EPS (consolidated) (KRW)	-	-	71	229	237
Adjusted EPS (KRW)*	-	-	71	229	237

## Cash flow statement

Year-end Jun 30 (KRWb)	2019	2020	2021E	2022E	2023E
<b>Cash flow from operations</b>	-	-	14	42	44
Net profit	-	-	11	35	37
Non-cash profit and expenses	-	-	3	7	7
Depreciation	-	-	3	7	7
Amortization	-	-	0	0	0
Other	-	-	0	0	0
Changes in A/L from operating activities	-	-	0	0	0
<b>Cash flow from investments</b>	-	-	-1,391	0	0
Change in tangible assets	-	-	0	0	0
Change in financial assets	-	-	0	0	0
Other	-	-	-1,391	0	0
<b>Cash flow from financing</b>	-	-	1,376	-42	-44
Change in debt	-	-	857	0	0
Change in equity	-	-	775	0	0
Dividends	-	-	-19	-42	-44
Other	-	-	-237	0	0
Change in cash	-	-	12	-2	1
Cash at beginning of year	-	-	0	12	10
Cash at end of year	-	-	12	10	11
<b>Gross cash flow</b>	-	-	14	42	44
<b>Free cash flow</b>	-	-	14	42	44

Note: \* Excluding one-off items

\*\* Fully diluted, excluding one-off items

\*\*\* From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

## Balance sheet

Year-end Jun 30 (KRWb)	2019	2020	2021E	2022E	2023E
<b>Current assets</b>	-	-	12	10	11
Cash & equivalents	-	-	12	10	11
Accounts receivable	-	-	0	0	0
Inventories	-	-	0	0	0
Other current assets	-	-	0	0	0
<b>Fixed assets</b>	-	-	1,391	1,386	1,378
Investment assets	-	-	1,391	1,386	1,378
Tangible assets	-	-	0	0	0
Intangible assets	-	-	0	0	0
Other long-term assets	-	-	0	0	0
<b>Total assets</b>	-	-	1,403	1,396	1,389
<b>Current liabilities</b>	-	-	0	0	0
Accounts payable	-	-	0	0	0
Short-term debt	-	-	0	0	0
Other current liabilities	-	-	0	0	0
<b>Long-term liabilities</b>	-	-	631	631	631
Bonds & long-term debt	-	-	631	631	631
Other long-term liabilities	-	-	0	0	0
<b>Total liabilities</b>	-	-	631	631	631
<b>Owners of parent equity</b>	-	-	772	765	758
Capital stock	-	-	78	78	78
Capital surplus	-	-	687	687	687
Retained earnings	-	-	7	0	0
Other	-	-	0	0	0
<b>Non-controlling interests' equity</b>	-	-	0	0	0
<b>Total equity</b>	-	-	772	765	758
Net debt	-	-	619	621	620

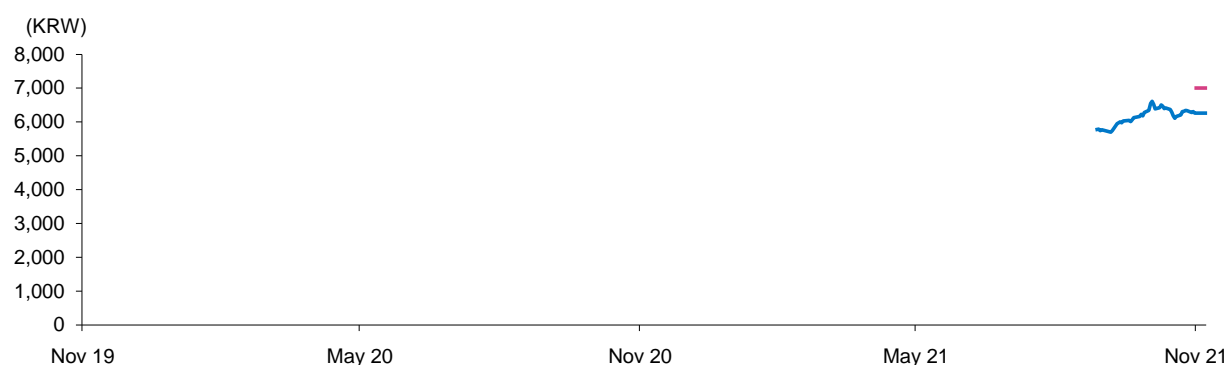
## Financial ratios

Year-end Jun 30	2019	2020	2021E	2022E	2023E
<b>Growth (%)</b>					
Sales	n/a	n/a	n/a	138.7	2.3
Operating profit	n/a	n/a	n/a	148.1	2.8
Net profit	n/a	n/a	n/a	221.1	3.7
Adjusted EPS**	n/a	n/a	n/a	221.1	3.7
<b>Per-share data (KRW)</b>					
EPS (parent-based)	n/a	n/a	71	229	237
EPS (consolidated)	n/a	n/a	71	229	237
Adjusted EPS**	n/a	n/a	71	229	237
BVPS	n/a	n/a	4,980	4,936	4,891
DPS (common)	n/a	n/a	123	273	282
<b>Valuations (x)</b>					
P/E***	n/a	n/a	81.1	25.2	24.3
P/B***	n/a	n/a	1.2	1.2	1.2
EV/EBITDA	n/a	n/a	64.2	26.7	26.0
<b>Ratios (%)</b>					
ROE	n/a	n/a	1.4	4.6	4.8
ROA	n/a	n/a	0.8	2.5	2.6
ROIC	n/a	n/a	n/a	n/a	n/a
Payout ratio	n/a	n/a	172.6	119.5	118.8
Dividend yield (common)	n/a	n/a	6.0	4.7	4.9
Net debt to equity	n/a	n/a	80.2	81.2	81.7
Interest coverage (x)	n/a	n/a	2.2	3.4	3.5

### Compliance notice

- During the one year prior to Nov 18, 2021, Samsung Securities had participated as an underwriter in an IPO for SK REIT.
- As of Nov 18, 2021, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
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### Target price changes in past two years



### Rating changes over past two years (adjusted share prices)

Date	2021/11/18
Recommendation	BUY
Target price (KRW)	7,000
Gap* (average)	
(max or min)**	

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

### Samsung Securities uses the following investment ratings.

Company	Industry
<b>BUY</b> Expected to increase in value by 10% or more within 12 months and is highly attractive within sector	<b>OVERWEIGHT</b> Expected to outperform market by 5% or more within 12 months
<b>HOLD</b> Expected to increase/decrease in value by less than 10% within 12 months	<b>NEUTRAL</b> Expected to outperform/underperform market by less than 5% within 12 months
<b>SELL</b> Expected to decrease in value by 10% or more within 12 months	<b>UNDERWEIGHT</b> Expected to underperform market by 5% or more within 12 months

### Percentage of ratings in 12 months prior to Sep 30, 2021

BUY (87.1%) | HOLD (12.9%) | SELL (0%)



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