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Financial/REITs Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW7,000	35.4%
Current price	KRW5,170	
Market cap	KRW1.0t/USD0.8b	
Shares (float)	196,554,079 (57.0%)	
52-week high/low	KRW7,280/KRW4,390	
Avg daily trading value (60-day)	KRW1.4b/USD1.1m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
SK REIT (%)	9.0	-25.2	-13.1
Vs Kospi (%pts)	14.0	-18.2	10.2

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	7,000	7,000	0.0%
2022E EPS	204	204	0.0%
2023E EPS	200	200	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)

Boosts AUM; now seeking to enhance shareholder value

- SK REIT has more assets under management than any other Korean REIT, which has helped it to enhance shareholder returns. Looking ahead, it is likely to focus more on adding value to existing assets.
- Its incorporation of Jongno Tower should result in its DPS dipping y-y in 2023, but the decline should be limited to 3.3% given its sizable retained earnings.
- We expect the REIT to: 1) aggressively pursue a value-adding strategy for its underlying assets: 116 gas stations; and 2) seek to boost shareholder returns via asset rebalancing.

WHAT'S THE STORY?

AUM enlargement and more options for shareholder return: SK REIT is Korea's largest REIT by AUM (KRW3.1t; up 72% from KRW1.8t in 2021). Its underlying assets are three office buildings and 116 gas stations. The rise in AUM is positive in that it: 1) provides risk diversification; 2) lowers funding costs; and 3) creates more opportunities to add new assets. Armed with more means of enhancing shareholder returns, the firm intends to: 1) incorporate assets that either have the potential to be developed or offer added value—not assets that are simply large; and 2) pursue a value-adding strategy for its existing assets. SK Group set up SK REIT for two reasons: 1) to improve capital allocation efficiency by securitizing the group's idled assets and investing the proceeds in new growth engines; and 2) to share real-estate value with its shareholders as part of the group's ESG policy.

Dividend stability: The REIT's three office buildings (SK Seorin Building, SK U-Tower, and Jongno Tower) boast low cost volatility and high dividend stability thanks to a CPI-linked rental fee system and a triple net lease (NNN) structure. Due to the incorporation of Jongno Tower this year, the firm's dividend payout may dip in 2023, but given its cash holding of KRW40b, we estimate the decline in DPS will be limited to 3.3% y-y. After deciding to add Jongno Tower in April, SK REIT initially sought low-cost funding (by issuing CBs and unsecured corporate bonds). In the end, however, it managed to secure the needed funding at a weighted average interest rate of 4.8% as the funding market all but froze in June.

(Continued on the next page)

SUMMARY FINANCIAL DATA

	2021	2022E	2023E	2024E
Revenue (KRWb)	36	86	100	104
Operating profit (KRWb)	29	67	76	80
Net profit (adj) (KRWb)	15	32	28	40
EPS (adj) (KRW)	97	164	143	201
EPS (adj) growth (% y-y)	n/a	69.1	(13.1)	41.0
EBITDA margin (%)	91.8	82.6	80.1	80.7
ROE (%)	1.9	3.7	2.9	4.2
P/E (adj) (x)	63.4	28.2	32.5	23.0
P/B (x)	1.2	0.9	1.0	1.0
P/FFO (x)	49.9	24.6	27.9	20.5
Dividend yield (%)	7.6	5.9	5.7	5.7

Source: Company data, Samsung Securities estimates

The REIT should suffer a negative margin in the near term, but it intends to boost its cap rate (which is currently as low as 2.6-2.9%) by: 1) rationalizing rental fees, which are currently more than 20% below the market value due to factors such as a four-month rent-free period; and 2) running an outdoor advertising billboard campaign and renovating its retail premises (scheduled for 2025).

To overhaul gas station portfolio: First, SK REIT pursued a post-IPO AUM enlargement strategy. Now it should shift in earnest to a value-adding strategy for its 116 gas stations. So far, it has taken a passive approach to this (eg, installing photovoltaic panels at gas stations), but the firm recently said it would adopt a more active shareholder returns policy—as other gas station REITs have—by disposing of low-margin gas stations, paying out disposal gains in the form of special dividends, and purchasing high-margin gas stations. Meanwhile, during a regular reconstitution of the FTSE EPRA Nareit Index in December, SK REIT is highly likely to be added considering its free float and market cap. One precondition it has already met is that its share price close at—or above—KRW4,320 on Nov 21.

Table 1. SK REIT: Valuation

(KRWb)	Seorin Building	Gas station	U tower	Jongno Tower	Total
NOI	41	32	21	19	113
Total floor area (pyeong)	25,358	-	26,258	18,332	51,616
Cap rate (forecast) (%)	3.2	3.9	3.4	3.0	3.4
Appraisal value	1,003	766	507	677	2,953
Asset value	1,305	836	637	645	3,423
Debt	592	450	304	626	1,963
Deposits	33	27	17	15	92
NAV (KRWb)	681	359	315	4	1,358
NAV per share (KRW)	3,462	1,825	1,604	19	7,000

Source: Samsung Securities

Table 2. FTSE EPRA Nareit index inclusion requirements

Requirements	SK REIT
English business report	Once a year Requirement satisfied
Liquidity constraints	Free float of at least 5% Free float exceeds 57% of shares outstanding (other 43% is held by affiliates)
Market Cap	After excluding illiquid shares, market cap must be at least 0.1% of the FTSE EPRA Nareit Developed Asian Index = USD338m (as of Sep 30) USD365m (as of Oct 18) (if excluding 43% stake held by affiliates)
EBITDA	At least 75% must be real estate-related income More than 99.7% is real estate-related income

Source: FTSE, SK REIT

Table 3. SK REIT: Results and forecasts

(KRWb)	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E	2021	2022E	2023E	2024E	2025E	2026E
Operating revenue	-	17.1	18.6	18.7	18.7	24.2	25.0	35.7	86.5	100.0	103.5	106.1	108.7
Operating expenses	0.3	2.1	3.4	3.7	3.7	5.8	6.0	7.0	19.1	24.0	24.0	22.9	22.9
Operating profit	-0.3	15.0	15.2	15.0	15.0	18.4	19.0	28.7	67.4	76.0	79.5	83.2	85.8
Other non-operating income	0.0	0.1	0.0	0.0	0.0	0.0	0.0	4.5	0.0	0.0	0.0	9.0	9.1
Other non-operating expenses	-	9.1	6.4	6.0	6.0	11.1	12.0	18.1	35.2	48.0	40.0	56.0	56.0
Net profit	-0.3	6.0	8.8	9.0	9.0	7.3	7.0	15.1	32.3	28.0	39.5	36.2	38.9
Dividend payout	-	8.2	10.9	11.0	10.9	13.0	13.0	19.1	53.7	51.9	51.5	54.5	57.2
DPS	-	53	70	71	70	66	66	120	273	264	262	277	291

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Sales	0	36	86	100	104
Cost of goods sold	0	0	0	0	0
Gross profit	0	36	86	100	104
Gross margin (%)	n/a	100.0	100.0	100.0	100.0
SG&A expenses	0	7	19	24	24
Operating profit	0	29	67	76	80
Operating margin (%)	n/a	80.4	77.9	76.0	76.8
Non-operating gains (losses)	0	(14)	(35)	(48)	(40)
Financial profit	0	0	0	0	0
Financial costs	0	14	35	48	40
Equity-method gains (losses)	0	0	0	0	0
Other	0	0	0	0	0
Pre-tax profit	0	15	32	28	40
Taxes	0	0	0	0	0
Effective tax rate (%)	n/a	0.0	0.0	0.0	0.0
Profit from continuing operations	0	15	32	28	40
Profit from discontinued operations	0	0	0	0	0
Net profit	0	15	32	28	40
Net margin (%)	n/a	42.2	37.3	28.0	38.2
Net profit (controlling interests)	0	15	32	28	40
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	0	33	71	80	84
EBITDA margin (%)	n/a	91.8	82.6	80.1	80.7
EPS (parent-based) (KRW)	0	97	164	143	201
EPS (consolidated) (KRW)	0	97	164	143	201
Adjusted EPS (KRW)*	0	97	164	143	201

Cash flow statement

Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Cash flow from operations	0	82	(22)	32	44
Net profit	0	15	32	28	40
Non-cash profit and expenses	0	18	4	4	4
Depreciation	0	4	4	4	4
Amortization	0	0	0	0	0
Other	0	14	0	0	0
Changes in A/L from operating activities	0	61	(58)	0	0
Cash flow from investments	0	(1,875)	(2,535)	25	25
Change in tangible assets	0	0	0	0	0
Change in financial assets	0	n/a	0	0	0
Other	0	n/a	(2,535)	25	25
Cash flow from financing	0	1,805	656	(100)	(105)
Change in debt	0	n/a	519	1	(13)
Change in equity	0	n/a	210	0	0
Dividends	0	(8)	(38)	(53)	(52)
Other	0	n/a	(35)	(48)	(40)
Change in cash	0	12	(2)	1	0
Cash at beginning of year	0	0	12	10	11
Cash at end of year	0	12	10	11	12
Gross cash flow	0	33	36	32	44
Free cash flow	0	82	(22)	32	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 Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Current assets	0	24	10	11	12
Cash & equivalents	0	12	10	11	12
Accounts receivable	0	0	0	0	0
Inventories	0	0	0	0	0
Other current assets	0	12	0	0	0
Fixed assets	0	1,860	2,535	2,510	2,485
Investment assets	0	0	2,535	2,510	2,485
Tangible assets	0	0	0	0	0
Intangible assets	0	0	0	0	0
Other long-term assets	0	1,860	0	0	0
Total assets	0	1,884	2,545	2,521	2,497
Current liabilities	0	4	623	636	637
Accounts payable	0	0	0	0	0
Short-term debt	0	0	623	636	637
Other current liabilities	0	4	0	0	0
Long-term liabilities	0	1,104	941	929	915
Bonds & long-term debt	0	1,045	941	929	915
Other long-term liabilities	0	58	0	0	0
Total liabilities	0	1,108	1,564	1,565	1,552
Owners of parent equity	0	777	981	957	944
Capital stock	0	78	99	99	99
Capital surplus	0	687	876	876	876
Retained earnings	0	12	6	(18)	(31)
Other	0	0	0	(0)	(0)
Non-controlling interests' equity	0	0	0	0	0
Total equity	0	777	981	957	944
Net debt	0	1,022	1,554	1,554	1,540

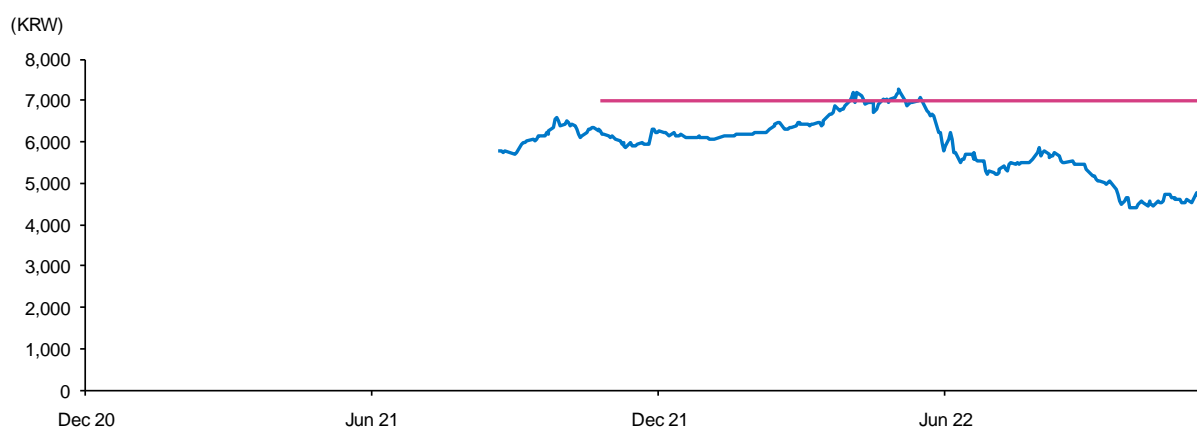
Financial ratios

Year-end Dec 31	2020	2021	2022E	2023E	2024E
Growth (%)					
Sales	nm	n/a	142.5	15.6	3.5
Operating profit	nm	n/a	134.9	12.8	4.6
Net profit	nm	n/a	114.4	(13.1)	41.0
Adjusted EPS**	nm	n/a	69.1	(13.1)	41.0
Per-share data (KRW)					
EPS (parent-based)	n/a	97	164	143	201
EPS (consolidated)	n/a	97	164	143	201
Adjusted EPS**	n/a	97	164	143	201
BVPS	n/a	5,010	4,993	4,867	4,805
DPS (common)	0	120	273	264	262
Valuations (x)					
P/E***	n/a	63.4	28.1	32.3	22.9
P/B***	n/a	1.2	0.9	0.9	1.0
P/FFO (x)	n/a	49.9	24.9	28.2	20.8
Ratios (%)					
ROE	n/a	1.9	3.7	2.9	4.2
ROA	n/a	0.8	1.5	1.1	1.6
ROIC	n/a	(937.6)	(4,405.3)	n/a	n/a
Payout ratio	n/a	127.0	166.3	185.1	130.3
Dividend yield (common)	n/a	1.9	5.9	5.7	5.7
Net debt to equity	n/a	131.6	158.4	162.4	163.1
Interest coverage (x)	n/a	2.1	1.9	1.6	2.0

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Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2021/11/18	2022/11/18
Recommendation	BUY	BUY
Target price (KRW)	7000	7000
Gap* (average)	-15.14	
(max or min)**	4.00	

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

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
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UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to 2022.09.30

BUY(84%)-HOLD(16%)-SELL(0%)

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