

2023. 8. 2

Alternative Investment Team

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Team Leader

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW5,700	22.4%
Current price	KRW4,655	
Market cap	KRW914.96b/USD712.7m	
Shares (float)	196,554,079 (57.0%)	
52-week high/low	KRW5,870/KRW4,390	
Avg daily trading value (60-day)	KRW0.7b/USD0.6m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
SK REIT (%)	-8.9	-10.8	-14.1
Vs Kospi (%pts)	-12.4	-18.1	-21.0

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	5,700	7,000	-18.6%
2023E EPS	32	32	0.0%
2024E EPS	89	89	0.0%

▶ SAMSUNG vs THE STREET

No of estimates	2
Target price	6,500
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

SK REIT (395400)

Lower target in light of new plans

- SK REIT will: 1) incorporate SK Hynix's Icheon water treatment facility as a new underlying asset; and 2) conduct a KRW330b rights offering to pay off existing debts.
- Upon the completion of the rights offering and new asset incorporation, the REIT's LTV ratio should fall from 69% to 65%.
- The new asset incorporation should lend support to the REIT's dividend stability but reduce upside in terms of asset value.

WHAT'S THE STORY?

To incorporate SK Hynix's Icheon water treatment center as new underlying asset:

On Jul 31, SK REIT held a conference call to explain its planned: 1) incorporation of SK Hynix's water treatment facility as a new underlying asset; and 2) rights offering. The REIT plans to purchase SK Hynix's water treatment facility in Icheon (five buildings) for KRW1.12t. SK Hynix will be the main tenant. Given the projected rental period (10 years + 10 years) and rent (6.4% of the purchase price), the REIT should post a rental income of KRW71.7b *pa* from the facility. The size of rental fee hikes should be linked to CPI in Gyeonggi Province and be within a range of 2-5% *pa*. The REIT should finance the incorporation via borrowing (via secured loans) and issuing redeemable preferred shares and short-term bonds.

To conduct rights offering and return gas station disposal gains to shareholders:

The REIT has also decided to conduct a KRW330b rights offering (new shares to take up 37% of total shares outstanding). Following the inclusion of Jongno Tower in 2022, the REIT's LTV ratio jumped to 69%, and the impending purchase of the water treatment facility should drive the figure higher. The REIT intends to use the proceeds from the rights offering to: 1) pay back short-term bonds (KRW0.3t), thus lowering its LTV ratio to 59%; and 2) cut its average funding rate from 3.39% to 3.17%. Even including the water treatment facility (KRW1.12t), the LTV ratio would stand at just 65%. Meanwhile, the REIT plans to dispose of two gas stations (located in Busan and Changwon) for a total of KRW15.7b (for a return of 71%) and return the disposal gains to shareholders via special dividends in 3Q and 4Q. The REIT paid a DPS of KRW66 in 1Q and in 2Q, and should pay a DPS of KRW90 in both 3Q and 4Q.

(Continued on the next page)

SUMMARY FINANCIAL DATA

	2022	2023E	2024E	2025E
Revenue (KRWb)	90	122	198	205
Operating profit (KRWb)	70	93	161	168
Net profit (adj) (KRWb)	29	9	24	43
EPS (adj) (KRW)	167	32	89	158
EPS (adj) growth (% y-y)	72.0	-81.0	179.2	77.7
EBITDA margin (%)	92.0	17.6	18.6	27.0
ROE (%)	3.3	0.8	2.0	3.6
P/E (adj) (x)	33.0	146.6	52.5	29.5
P/B (x)	1.1	1.0	1.0	1.1
P/FFO (x)	22.8	58.6	34.1	22.7
Dividend yield (%)	5.0	6.7	5.7	5.7

Note: Disposal gains dispersed as a dividend of KRW15.7b reflected

Source: Company data, Samsung Securities estimates

New asset incorporation to boost dividend yield but dilute valuation premium: The incorporation of the water treatment facility should have the following positive impacts on the REIT—1) raising its asset value from KRW3.1t to KRW4.2t; 2) raising its cap rate by 70bps from 3.9% to 4.6% and raising its dividend yield for 2025 and 2026 by 10bps and 30bps, respectively, from the levels projected in 2023; and 3) improving its cash flow (eg, raising its EBITDA-to-finance cost ratio from 1.4x to 1.7x) and dividend stability. The incorporation, however, should also have some drawbacks. Due to the nature of the new asset (limited usage), the asset should have limited upside in terms of asset value—a factor that can dilute the REIT's valuation premium. Reflecting on the projected hike in the number of shares related to the rights offering, we lower our target price for the stock by 19% to KRW5,700. For the REIT to re-rate, it needs to prove that it has superior operational capabilities.

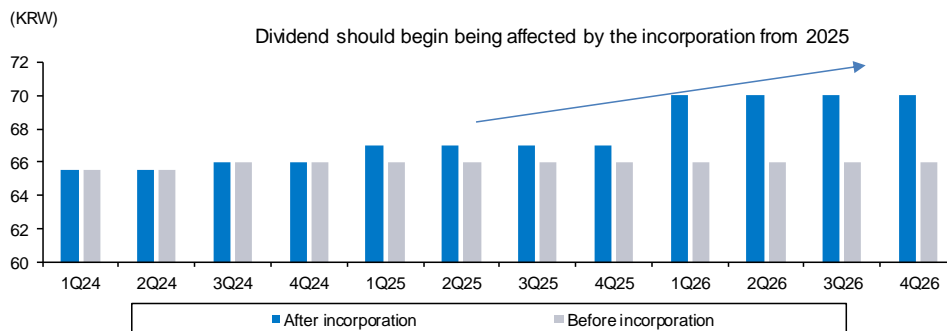
Table 1. SK REIT target price valuation

(KRWb)		Seorin Building	Gas station	U tower	Jongno Tower	Icheon water treatment facility	Total
NOI		41	32	21	19	63	176
Cap rate (%)	Purchase price	4.2	4.3	4.3	2.9	6.4	4.6
	Estimated price	3.2	3.9	3.5	3.2	6.4	4.1
Asset value (KRWb)	Purchase price	1,003	766	507	677	1,120	4,073
	Estimated price	1,305	836	620	610	1,120	4,491
Price per m ²	Purchase price	12.0		5.8	11.2		
	Estimated price	15.6		7.1	10.1		
Debt		592	450	304	296	1,050	2,693
Deposits		33	27	17	15	140	232
NAV							1,566
P/NAV (KRW)							5,700

Source: Samsung Securities

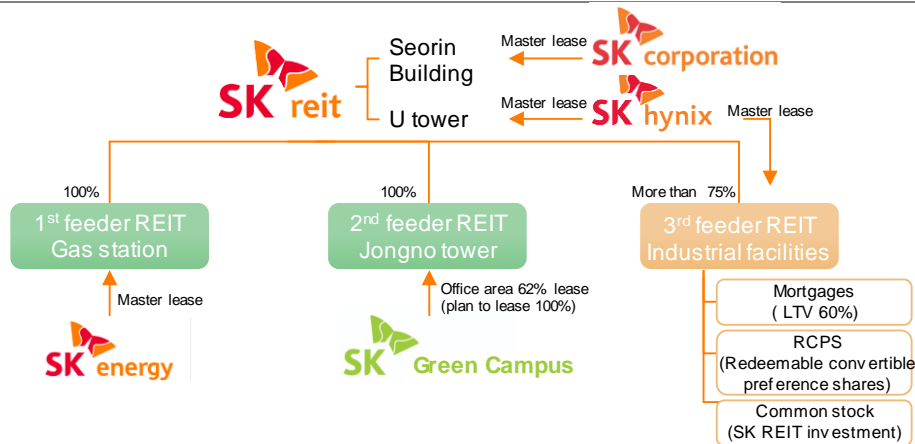
The REIT's dividend should begin being affected by the incorporation from 2025. We forecast the incorporation will boost the REIT's 2025 and 2026 dividend by 1.5% and 6.1%, respectively (vs our pre-incorporation estimates). Although the incorporation should make the REIT bigger and diversify its underlying assets, the REIT ultimately needs to prove its ability to raise the value of its asset portfolio—*ie*, it needs to go beyond simple asset securitization.

Chart 1. SK REIT dividend guidance



Source: Company data, Samsung Securities

Chart 2. Structure of SK REIT



Source: Company data

Income statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Sales	36	90	122	198	205
Cost of goods sold	0	0	0	0	0
Gross profit	36	90	122	198	205
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
SG&A expenses	7	20	29	37	38
Operating profit	29	70	93	161	168
Operating margin (%)	80.4	77.7	76.2	81.3	81.7
Non-operating gains (losses)	-14	-41	-84	-137	-125
Financial profit	0	1	1	0	0
Financial costs	14	42	85	137	125
Equity-method gains (losses)	0	0	0	0	0
Other	0	-0	0	0	0
Pre-tax profit	15	29	9	24	43
Taxes	0	0	0	0	0
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
Profit from continuing operations	15	29	9	24	43
Profit from discontinued operations	0	0	0	0	0
Net profit	15	29	9	24	43
Net margin (%)	42.2	32.0	7.0	12.1	20.8
Net profit (controlling interests)	15	29	9	24	43
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	19	83	21	37	55
EBITDA margin (%)	53.6	92.0	17.6	18.6	27.0
EPS (parent-based) (KRW)	97	167	32	89	158
EPS (consolidated) (KRW)	97	167	32	89	158
Adjusted EPS (KRW)*	97	167	32	89	158

Cash flow statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Cash flow from operations	82	48	55	59	53
Net profit	15	29	9	24	43
Non-cash profit and expenses	18	57	13	13	13
Depreciation	4	13	13	13	13
Amortization	0	0	0	0	0
Other	14	45	0	0	0
Changes in A/L from operating activities	61	2	34	22	-2
Cash flow from investments	-1,875	-1,227	1	0	0
Change in tangible assets	0	0	0	0	0
Change in financial assets	0	-35	0	0	0
Other	-1,875	-1,192	1	0	0
Cash flow from financing	1,805	1,203	904	-153	-141
Change in debt	0	1,008	664	0	0
Change in equity	0	204	330	0	0
Dividends	-8	-46	-55	-78	-71
Other	1,814	38	-35	-75	-70
Change in cash	12	25	-1	0	0
Cash at beginning of year	0	12	37	36	36
Cash at end of year	12	37	36	36	36
Gross cash flow	33	86	21	37	55
Free cash flow	82	48	55	59	53

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)	2021	2022	2023E	2024E	2025E
Current assets	24	81	73	73	73
Cash & equivalents	12	37	36	36	36
Accounts receivable	0	0	0	0	0
Inventories	0	0	0	0	0
Other current assets	12	44	37	37	37
Fixed assets	1,860	3,047	4,023	3,991	3,960
Investment assets	0	8	7	7	7
Tangible assets	0	0	0	0	0
Intangible assets	0	0	0	0	0
Other long-term assets	1,860	3,039	4,016	3,984	3,953
Total assets	1,884	3,127	4,096	4,064	4,033
Current liabilities	4	727	1,355	1,355	1,355
Accounts payable	0	0	0	0	0
Short-term debt	0	394	1,035	1,035	1,035
Other current liabilities	4	333	320	320	320
Long-term liabilities	1,104	1,432	1,489	1,511	1,509
Bonds & long-term debt	1,045	1,339	1,363	1,363	1,363
Other long-term liabilities	58	92	126	148	146
Total liabilities	1,108	2,159	2,844	2,866	2,864
Owners of parent equity	777	969	1,252	1,198	1,169
Capital stock	78	98	135	135	135
Capital surplus	687	870	1,163	1,163	1,163
Retained earnings	12	0	-46	-100	-129
Other	0	0	0	0	0
Non-controlling interests' equity	0	0	0	0	0
Total equity	777	969	1,252	1,198	1,169
Net debt	1,022	1,978	2,645	2,645	2,645

Financial ratios

Year-end Dec 31	2021	2022	2023E	2024E	2025E
Growth (%)					
Sales	nm	153.4	35.1	62.1	3.6
Operating profit	nm	144.8	32.5	72.9	4.1
Net profit	nm	92.2	-70.4	179.2	77.7
Adjusted EPS**	nm	72.0	-81.0	179.2	77.7
Per-share data (KRW)					
EPS (parent-based)	97	167	32	89	158
EPS (consolidated)	97	167	32	89	158
Adjusted EPS**	97	167	32	89	158
BVPS	5,010	4,929	4,635	4,436	4,329
DPS (common)	120	273	312	264	264
Valuations (x)					
P/E***	63.4	33.0	146.6	52.5	29.5
P/B***	1.2	1.1	1.0	1.0	1.1
P/FFO (x)	49.9	22.8	58.6	34.1	22.7
Ratios (%)					
ROE	1.9	3.3	0.8	2.0	3.6
ROA	0.8	1.2	0.2	0.6	1.1
ROIC	-937.6	-1,343.0	-2,514.7	-10,726.9	-5,584.7
Payout ratio	97.3	165.8	294.9	145.7	105.6
Dividend yield (common)	1.9	5.0	6.7	5.7	5.7
Net debt to equity	131.6	204.2	211.3	220.7	226.2
Interest coverage (x)	2.1	1.7	1.1	1.2	1.3

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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	2023/8/1
Recommendation	BUY	BUY	BUY
Target price (KRW)	7000	7000	5700
Gap* (average)	-15.14	-26.95	
(max or min)**	4.00	-20.86	

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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BUY	Expected to increase in value by 15% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 15% within 12 months
SELL	Expected to decrease in value by 15% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
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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 2023.06.30

BUY(79.9%)·HOLD(20.1%)·SELL(0%)

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