

2024. 4. 12

Alternative Investment Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW5,100	25.9%
Current price	KRW4,050	
Market cap	KRW1.1t/USD0.8b	
Shares (float)	270,132,679 (67.6%)	
52-week high/low	KRW5,185/KRW3,750	
Avg daily trading value (60-day)	KRW2.2b/USD1.6m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
SK REIT (%)	-4.1	-5.3	-17.8
Vs Kospi (%pts)	-5.8	-14.3	-22.7

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	5,100	5,100	0.0%
2024E EPS	87	87	0.0%
2025E EPS	87	87	0.0%

▶ SAMSUNG vs THE STREET

No of estimates	2
Target price	5,300
Recommendation	4.0

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

SK REIT (395400)

Corporate day takeaways: Puts shareholder returns at forefront

- SK REIT announced two a shareholder return policy with two key provisions: 1) the disposal of two gas stations and distribution of gains to shareholders; and 2) share buybacks.
- We see dividend upside for the REIT given that it should be able to: 1) refinance a loan due to mature in July at a lower interest rate than it previously assumed; and 2) raise rental fees at underlying asset Jongno Tower in September.
- SK REIT's shares pulled back following the incorporation of a water treatment facility in Sep 2023—though we find the correction to be excessive. Now is the time to focus on the positive effects of the REIT's improving fundamentals.

WHAT'S THE STORY?

Announces two-pronged shareholder return policy: At Samsung Securities' K-REITs corporate day event (Apr 8-9), SK REIT announced a shareholder return policy with two key provisions.

First, the REIT plans to dispose of two gas stations and distribute the disposal gains to shareholders. Neither the timing of the disposals nor the size of the disposal gains is yet known, but management forecast that the dividend payments related to the disposal will be larger than the 2023 levels: last year, the REIT disposed of two gas stations and paid disposal gain-related DPS of KRW25 in 3Q23 and again in 4Q23. It plans to use the recovered principal to pay down debt.

Second, the REIT plans to address what it views as undervaluation by buying back shares (after closely monitoring market conditions and related regulations). To finance the buyback, it may tap into its parent-based cash holdings of KRW29.5b. Well aware of investor fatigue over frequent rights offerings, management made it clear the company will not conduct a rights offering in 2024.

(Continued on the next page)

SUMMARY FINANCIAL DATA

	2023	2024E	2025E	2026E
Revenue (KRWb)	146	210	218	224
Operating profit (KRWb)	100	160	167	171
Net profit (adj) (KRWb)	26	23	24	28
EPS (adj) (KRW)	114	87	87	104
EPS (adj) growth (% y-y)	-30.5	-23.8	0.8	18.6
EBITDA margin (%)	87.0	88.8	88.5	88.2
ROE (%)	2.2	1.8	1.7	2.0
P/E (adj) (x)	34.9	46.8	46.4	39.2
P/B (x)	0.9	0.8	0.8	0.8
P/FFO (x)	16.8	21.9	21.9	20.1
Dividend yield (%)	7.9	6.5	6.7	6.9

Source: Company data, Samsung Securities estimates

Two sources of dividend upside: SK REIT is targeting a 2024 DPS of KRW66, but we now expect it to pay more than this for two reasons.

First, we believe the REIT it should be able to refinance a KRW1t loan that is due to mature in July (related to underlying asset the SK Seorin Building) at a lower interest rate than it previously assumed. Backed by its successful issuance of corporate bonds at an interest rate of 4.2% in February, the REIT intends to refinance the KRW1t loan with a mix of unsecured corporate bonds (worth more than KRW100b; to capitalize on the interest-rate merit of unsecured corporate bonds) and secured loans (to stabilize its borrowing structure). Management originally assumed the refinancing rate would be 5%, but given how secured loan lending rates recently plunged to 4.5-4.9%, the REIT should achieve a refinancing rate much lower than 5%. Moreover, upon the refinancing, the variable-rate portion of its loans should hit 73%, which means a rapid fall in market interest rates would translate into a jump in earnings. Specifically, we estimate that a 10bp decline in the CD rate would boost SK REIT's DPS by 3%.

Second, the REIT is expected to raise rental fees at underlying asset the Jongno Tower. In September, the REIT should renew rental contracts for 18% of the underlying asset (based on floor space) and should see a 38% hike in net occupancy cost (NOC; based on the renewals). As the REIT continue to raise rents Jongno Tower through 2027, it should see an average NOC hike of 21% *pa* for the asset.

Valuation discount to dissipate in 2024: SK REIT remains a top pick. First, we are encouraged that it managed to issue corporate bonds at a low rate in February. Second, also in February, the underwriter of an earlier rights offering finally sold the last of the unsubscribed shares. There is still some controversy over the REIT's incorporation of a water treatment facility as an underlying asset in Sep 2023, but now, focus should be given to the positive effects of the REIT's improving fundamentals—namely: 1) a credit rating upgrade; 2) the successful issuance of corporate bonds at a low rate; and 3) a jump in equity trading volume. At a time when market interest rates are declining (like now), a REIT with a *chaebol* as a sponsor stands to gain thanks to its edges in funding and incorporation of high-quality assets.

Table 1. SK REIT: Asset status

(KRWb)	Seorin Building	Gas stations	U Tower	Jongno Tower	5 water treatment facilities
Location	Seorin-dong, Jongno-gu	114 nationwide	Jeongja-dong, Bundang-gu	Jongno, Jongno-gu	Bubal-eup, Icheon-si, Gyeonggi-do
Land area (m ²)	5,800	170,900	10,000	5,000	46,100
Total floor area (m ²)	83,800	85,400	86,800	60,600	147,500
Purchase date	Jul 2021	Jul 2021	Jun 2022	Oct 2022	Sep 2023
Purchase price	1,003	766	507	622	1,120
Appraised value	1,292	909	611	570	1,183
Stake (%)	100	100		100	
Major tenant	SK Corporation	SK Energy	SK Hynix	SK Green Campus, etc	SK Hynix
Lease period	· 5 years (Jun 30, 2021-Jun 29, 2026) · 5-year extension possible if requested by tenant	· 10 years (Jun 30, 2021-Jun 29, 2031) · 5-year extension possible if requested by tenant	· 5 years (Jun 30, 2022-Jun 29, 2027) · 5-year extension possible if requested by tenant	· Office WALE*: 3.1 years	· 10 years (Nov 25, 2023-Nov 24, 2033) · 10-year extension possible if requested by tenant
Rental yield (2023)	4.17% (rent KRW41.8b pa)	4.2% (rent KRW32.2b pa)	4.31% (rent KRW21.8b pa)	Annual rent: KRW22b (face value) Annual administration costs: KRW8.5b	6.4% (rent KRW71.7b pa)
Rent increase rate	· Linked to Seoul CPI (min 1.5%) *Jul 2023: 4.5% hike	· During 5 years: Fixed rent · After the 5th year: Linked to national CPI (min 1%)	· Linked to Gyeonggi-do CPI (max 5%) *Jul 2023: 5% hike	· Management cost: 3% rise pa	· Linked to Gyeonggi-do CPI (max 5%)

Note: *Weighted average lease term

Source: Company data

Table 2. SK REIT: Borrowings

	Asset	Amount (KRWb)	Date of maturity	Interest rate (%)
Mortgages	Seorin Building	602	Jul 2024	2.08
	Gas stations	437	Jul 2024	2.08
	U Tower	120	Jun 2025	CD (91-day) + 115bps
	U Tower	184	Jun 2025	4.44
	Jongno Tower	245	Jun 2025	CD (91-day) + 105bps
	Water treatment facility	330	Sep 2025	AAA-rated financial bonds +115bps
	Water treatment facility	340	Sep 2025	CD (91-day) + 140bps
Corporate bonds	#2-1	49	Feb 2025	4.13
	#2-2	50	Aug 2025	4.17
	#3	10	Feb 2027	4.33
Convertible bonds	#2	109	Dec 2025	4.00
	#3	23	Mar 2026	3.50
Short-term bonds		227	Jun 2024	4.05
Total		2,726		

Source: Company data

Income statement

Year-end Dec 31 (KRWb)	2022	2023	2024E	2025E	2026E
Sales	90	146	210	218	224
Cost of goods sold	0	0	0	0	0
Gross profit	90	146	210	218	224
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
SG&A expenses	20	45	50	52	53
Operating profit	70	100	160	167	171
Operating margin (%)	77.7	68.9	76.2	76.4	76.3
Non-operating gains (losses)	-41	-74	-137	-143	-143
Financial profit	1	2	0	0	0
Financial costs	42	91	137	143	143
Equity-method gains (losses)	0	0	0	0	0
Other	-0	15	0	0	0
Pre-tax profit	29	26	23	24	28
Taxes	0	0	0	0	0
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
Profit from continuing operations	29	26	23	24	28
Profit from discontinued operations	0	0	0	0	0
Net profit	29	26	23	24	28
Net margin (%)	32.0	17.8	11.1	10.8	12.5
Net profit (controlling interests)	29	25	23	24	28
Net profit (non-controlling interests)	0	1	0	0	0
EBITDA	83	127	187	193	198
EBITDA margin (%)	92.0	87.0	88.8	88.5	88.2
EPS (parent-based) (KRW)	164	114	87	87	104
EPS (consolidated) (KRW)	164	120	87	87	104
Adjusted EPS (KRW)*	164	114	87	87	104

Cash flow statement

Year-end Dec 31 (KRWb)	2022	2023	2024E	2025E	2026E
Cash flow from operations	48	47	-29	53	53
Net profit	29	26	23	24	28
Non-cash profit and expenses	57	139	27	27	27
Depreciation	13	27	27	27	27
Amortization	0	0	0	0	0
Other	45	112	0	0	0
Changes in A/L from operating activities	2	0	-78	3	-2
Cash flow from investments	-1,227	-1,126	-18	8	9
Change in tangible assets	0	0	0	0	0
Change in financial assets	-35	20	0	0	0
Other	-1,192	-1,146	-18	8	9
Cash flow from financing	1,203	1,125	30	-88	-91
Change in debt	1,008	664	0	0	0
Change in equity	204	283	103	9	10
Dividends	-46	-57	-60	-72	-74
Other	38	235	-13	-25	-26
Change in cash	25	46	0	0	0
Cash at beginning of year	12	37	83	83	83
Cash at end of year	37	83	83	83	83
Gross cash flow	86	164	50	50	55
Free cash flow	48	47	-29	53	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)	2022	2023	2024E	2025E	2026E
Current assets	81	112	112	112	112
Cash & equivalents	37	83	83	83	83
Accounts receivable	0	0	0	0	0
Inventories	0	0	0	0	0
Other current assets	44	29	29	29	29
Fixed assets	3,047	4,184	4,202	4,194	4,185
Investment assets	8	8	8	8	8
Tangible assets	0	0	0	0	0
Intangible assets	0	0	0	0	0
Other long-term assets	3,039	4,176	4,194	4,186	4,177
Total assets	3,127	4,296	4,314	4,306	4,297
Current liabilities	727	1,514	527	546	565
Accounts payable	0	0	0	0	0
Short-term debt	394	0	0	0	0
Other current liabilities	333	1,514	527	546	565
Long-term liabilities	1,432	1,460	1,382	1,385	1,383
Bonds & long-term debt	1,339	1,233	1,233	1,233	1,233
Other long-term liabilities	92	227	149	152	150
Total liabilities	2,159	2,974	1,909	1,931	1,948
Owners of parent equity	969	1,240	1,410	1,380	1,353
Capital stock	98	135	135	135	135
Capital surplus	870	1,116	1,219	1,229	1,238
Retained earnings	0	-11	-48	-97	-143
Other	0	0	104	113	123
Non-controlling interests' equity	0	81	0	0	0
Total equity	969	1,321	1,410	1,380	1,353
Net debt	1,978	2,616	1,451	1,451	1,451

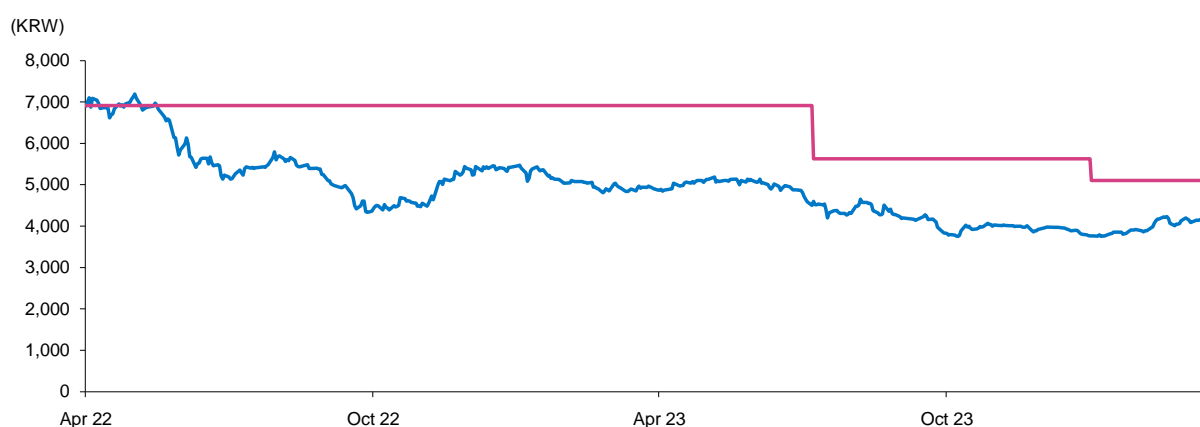
Financial ratios

Year-end Dec 31	2022	2023	2024E	2025E	2026E
Growth (%)					
Sales	153.4	61.4	44.2	3.7	2.7
Operating profit	144.8	43.0	59.7	3.9	2.6
Net profit	92.2	-10.2	-9.8	0.8	18.6
Adjusted EPS**	-5.1	-30.5	-23.8	0.8	18.6
Per-share data (KRW)					
EPS (parent-based)	164	114	87	87	104
EPS (consolidated)	164	120	87	87	104
Adjusted EPS**	164	114	87	87	104
BVPS	4,837	4,591	5,219	5,108	5,009
DPS (common)	268	314	264	270	280
Valuations (x)					
P/E***	33.2	34.9	46.8	46.4	39.2
P/B***	1.1	0.9	0.8	0.8	0.8
P/FFO (x)	23.0	16.8	21.9	21.9	20.1
Ratios (%)					
ROE	3.3	2.2	1.8	1.7	2.0
ROA	1.2	0.7	0.5	0.5	0.7
ROIC	-1,343.0	-762.4	-148.9	-80.9	-76.0
Payout ratio	165.8	277.0	304.2	308.8	270.0
Dividend yield (common)	4.9	7.9	6.5	6.7	6.9
Net debt to equity	204.2	198.0	103.0	105.2	107.3
Interest coverage (x)	1.7	1.1	1.2	1.2	1.2

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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	9/11	2024/1/25
Recommendation	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	6914	6914	5630	5630	5100
Gap* (average)	-15.14	-26.95	-21.24	-28.81	
(max or min)**	4.00	-20.86	-17.41	-19.98	

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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Percentage of ratings in 12 months prior to 2024.03.31

BUY(77.6%)·HOLD(22.4%)·SELL(0%)

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