

2023. 9. 18

Alternative Investment Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW5,700	26.5%
Current price	KRW4,505	
Market cap	KRW885.48b/USD667.83m	
Shares (float)	266,754,489 (57.0%)	
52-week high/low	KRW5,472/KRW4,200	
Avg daily trading value (60-day)	KRW0.9b/USD0.7m	

▶ ONE-YEAR PERFORMANCE

	1M	6M	12M
SK REIT (%)	3.1	-9.0	-16.5
Vs Kospi (%pts)	1.9	-16.7	-22.9

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	5,700	5,700	0.0%
2023E EPS	99	99	0.0%
2024E EPS	89	89	0.0%

▶ SAMSUNG vs THE STREET

No of estimates	3
Target price	5,733
Recommendation	4.0

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

SK REIT (395400)

Management expresses determination to strengthen shareholder returns to ease burden related to rights offering

- Controversy lingers over the timing of SK REIT's incorporation of SK Hynix's water treatment facility as a new underlying asset and its intension. But equally noteworthy is that to ease the doubt, management has expressed strong determination to bolster its shareholder returns. The REIT should begin disposing of gas station assets in September and in December to return the entire gains to shareholders.
- The REIT's two moves—ie, incorporation of the asset (completed); and 2) issuance of a rights offering (underway)—should lower the REIT's LTV ratio to 64% and remove the risk of its dividend cut, the latter despite a hike in interest rate.

WHAT'S THE STORY?

Incorporation of water treatment facility and its impact: SK REIT on Sep 15 held an IR to talk over its moves of: 1) incorporating a water treatment facility (completed) as a new underlying asset; and 2) conducting a rights offering (worth KRW300b; underway). Specifically, it stressed that: 1) it has no plans of carrying out additional rights offerings; and 2) the incorporation of the new asset has removed the possibility of its dividend payouts falling on a hike in interest costs (we estimate that upon the incorporation, the REIT's portfolio's cap rate has been up from 3.9% to 4.6% and its DPS up by more than 20%). The REIT intends to recoup investments in the new asset, via: 1) re-sale of the asset to SK Hynix (securing rights of first offer [ROFO] for the asset); and 2) sale to a third party. Appraisal results show that the new asset has a useful life of 45 years, for which the REIT intends to apply a 40-year depreciation method (straight line).

Rights offering and its impacts: The two moves should prompt the REIT's borrowings to rise by KRW0.6t to KRW2.7t and its LTV ratio (based on appraisal value) to fall 4%pts to 65%. That its KRW340b short-term bonds are coming due in the near term remains burdensome, to which the firm said that it will handle the issue via: 1) issuance of preferred shares to its subsidiary, which actually incorporates the asset; or 2) issuance of new shares to a strategic partner (if there is any additional rights offering). Meanwhile, the rights offering should trigger SK Inc's (the REIT's largest shareholder) stake in the REIT to fall from 43% now to 32% (a short-term negative for the REIT), but should have the positive impact of raising the REIT's free floats (shortage of which has been a chronic negative for the REIT).

SUMMARY FINANCIAL DATA

(Continued on the next page)

	2022	2023E	2024E	2025E
Revenue (KRWb)	90	135	198	205
Operating profit (KRWb)	70	106	161	168
Net profit (adj) (KRWb)	29	21	24	38
EPS (adj) (KRW)	165	99	89	139
EPS (adj) growth (% y-y)	-20.5	-39.7	-10.8	56.8
EBITDA margin (%)	92.0	88.0	87.8	88.0
ROE (%)	3.3	1.9	1.9	2.9
P/E (adj) (x)	33.0	45.3	50.8	32.4
P/B (x)	1.1	0.9	1.0	1.0
P/FFO (x)	22.8	28.3	33.0	24.1
Dividend yield (%)	5.0	6.0	6.0	6.0

Source: Company data, Samsung Securities estimates

Recoupment of investments via asset sales and shareholder returns: Alongside the rights offering, the firm also disclosed its plans of strengthening its shareholder return—ie, it will sell gas station assets in Busan and Changwon and return the entire gains (equivalent to 13% of its purchase prices, respectively) to shareholders in September and December in the form of special dividends. Moreover, it should aggressively seek either disposal of or adding of value to its 114 gas station assets by end-2023. For the time being, the REIT should focus on an internal growth (ie, adding of value to existing assets), via AUM expansion (the REIT's focus over the past two years).

IR event—a venue reconfirming management determination to boost shareholder return: Following the two moves, shares in SK REIT have fallen. It is regrettable that controversy lingers over the timing and intension of the asset incorporation, but we note that management has expressed strong determination to bolster its shareholder returns on the occasion of the rights offering and the new asset incorporation. The incorporation of the new asset, an industrial facility having limited upside in value, should fall short of letting the REIT deserve a high valuation multiple, but should limit downward rigidity by offering a stable dividend outlook. Going forward, its share-price upside should depend on its ability to maximize its asset utilization.

Table 1. SK REIT borrowing status

Asset	Amount (KRWb)	Interest rate (%)	Date of maturity	Detail	
U Tower	Mortgages	120	4.90	Jun 2023	1-year mortgage and plans to extend June 2023, CD91+125 bps
U Tower	Mortgages	184	4.04	Jun 2023	3-year mortgage
Seorin Building	Mortgages	450	2.08	Jul 2023	3-year mortgage
Gas station	Mortgages	601	2.08	Jul 2023	3-year mortgage
	Unsecured bonds	96	5.06	Oct 2023	1-year bond, plans to repay by right offering
	Convertible bonds #2	109	4.00	Dec 2023	Issued for the purpose of refinancing convertible bond #1
	Convertible bonds #3	23	3.50	Mar 2023	
	Short-term bonds	100	4.36	Nov 2023	Plans to repay by right offering
	Short-term bonds	124	4.42	Dec 2023	Plans to repay by right offering
	Credit loan	30	6.53	Aug 2023	
Jongon Tower	Mortgages	245		Oct 2023	1-year mortgage
(Current)	Total	2,082			
After incorporation	Mortgages	670			Water treatment facility mortgages (LTV 60%)
	Short-term bonds	340			Maset REIT issues short-term bonds, and feeder REIT investing in common stock
(After right offering)	Total	2,792			

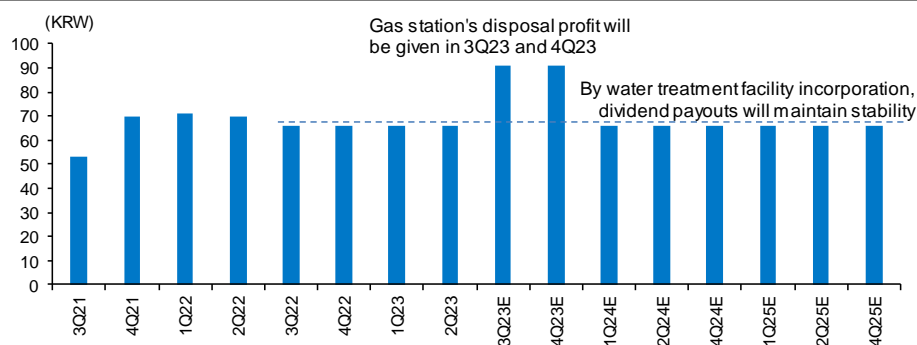
Source: Company data, Samsung Securities

Table 2. 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 (KRWm)	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

Chart 1. SK REIT dividend guidance



Source: Company data, Samsung Securities

Income statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Sales	36	90	135	198	205
Cost of goods sold	0	0	0	0	0
Gross profit	36	90	135	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	106	161	168
Operating margin (%)	80.4	77.7	78.5	81.3	81.7
Non-operating gains (losses)	-14	-41	-84	-137	-130
Financial profit	0	1	1	0	0
Financial costs	14	42	85	137	130
Equity-method gains (losses)	0	0	0	0	0
Other	0	0	0	0	0
Pre-tax profit	15	29	21	24	38
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	21	24	38
Profit from discontinued operations	0	0	0	0	0
Net profit	15	29	21	24	38
Net margin (%)	42.2	32.0	15.9	12.1	18.3
Net profit (controlling interests)	15	29	21	24	38
Net profit (non-controlling interests)	0	0	0	0	0
EBITDA	33	83	119	174	180
EBITDA margin (%)	91.8	92.0	88.0	87.8	88.0
EPS (parent-based) (KRW)	207	165	99	89	139
EPS (consolidated) (KRW)	207	165	99	89	139
Adjusted EPS (KRW)*	207	165	99	89	139

Cash flow statement

Year-end Dec 31 (KRWb)	2021	2022	2023E	2024E	2025E
Cash flow from operations	82	48	62	66	53
Net profit	15	29	21	24	38
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	28	29	3
Cash flow from investments	-1,875	-1,227	-1008	-18	-6
Change in tangible assets	0	0	0	0	0
Change in financial assets	0	-35	0	0	0
Other	-1,875	-1,192	-1008	-18	-6
Cash flow from financing	1,805	1,203	945	-48	-47
Change in debt	0	1,008	664	0	0
Change in equity	0	204	330	0	0
Dividends	-8	-46	-31	-35	-35
Other	1,814	38	-19	-13	-12
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	34	37	50
Free cash flow	82	48	62	66	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	4,047	4,065	4,071
Total assets	1,884	3,127	4,127	4,145	4,151
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	1,483	1,512	1,515
Bonds & long-term debt	1,045	1,339	1,363	1,363	1,363
Other long-term liabilities	58	92	120	149	152
Total liabilities	1,108	2,159	2,838	2,867	2,870
Owners of parent equity	777	969	1,289	1,278	1,281
Capital stock	78	98	135	135	135
Capital surplus	687	870	1,163	1,163	1,163
Retained earnings	12	0	-9	-20	-18
Other	0	0	0	0	0
Non-controlling interests' equity	0	0	0	0	0
Total equity	777	969	1,289	1,278	1,281
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	49.3	46.7	3.6
Operating profit	nm	144.8	50.8	51.9	4.1
Net profit	nm	92.2	-25.8	11.5	56.8
Adjusted EPS**	nm	-20.5	-39.7	-10.8	56.8
Per-share data (KRW)					
EPS (parent-based)	207	165	99	89	139
EPS (consolidated)	207	165	99	89	139
Adjusted EPS**	207	165	99	89	139
BVPS	4,947	4,867	4,774	4,732	4,741
DPS (common)	119	270	314	264	268
Valuations (x)					
P/E***	29.3	33.0	45.3	50.8	32.4
P/B***	1.2	1.1	0.9	1.0	1.0
P/FFO (x)	23.1	22.8	28.3	33.0	24.1
Ratios (%)					
ROE	1.9	3.3	1.9	1.9	2.9
ROA	0.8	1.2	0.6	0.6	0.9
ROIC	-937.6	-1,343.0	-2,861.9	3,218.1	3,350.8
Payout ratio	127.0	165.8	395.0	297.8	192.7
Dividend yield (common)	1.9	5.0	7.0	5.9	5.9
Net debt to equity	131.6	204.2	205.1	206.9	206.5
Interest coverage (x)	2.1	1.7	1.2	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	9/11
Recommendation	BUY	BUY	BUY	BUY
Target price (KRW)	6914	6914	5630	5630
Gap* (average)	-15.14	-26.95	-21.24	
(max or min)**	4.00	-20.86	-17.41	

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
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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