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Financial/REITs Team

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▶ AT A GLANCE

Recommend	BUY	
Target price	KRW7,000	38.1%
Current price	KRW5,070	
Market cap	KRW996.53b/USD770.95m	
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 (%)	14.1	-27.2	-13.6
Vs Kospi (%pts)	10.7	-19.6	6.0

▶ KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	7,000	7,000	0.0%
2022E EPS	164	164	0.0%
2023E EPS	143	143	0.0%

▶ SAMSUNG vs THE STREET

No of estimates	2
Target price	7,150
Recommendation	4.0
BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1	

SK REIT (395400)

To be added to the FTSE EPRA Nareit Developed Asia Index

- SK REIT will be added to the FTSE EPRA Nareit Developed Asia Index (a highly regarded one). The news came on Dec 2, when FTSE Russell announced its quarterly review of the FTSE EPRA Nareit Global Real Estate Index Series.
- Historically, constituents have enjoyed the strongest buying pressure during the first month of their inclusion.
- Since a listed REIT secures funding (aimed at acquiring new assets) in the public market, share-price stability carries significant import.

WHAT'S THE STORY?

To be added to FTSE EPRA Nareit Developed Asia Index: SK REIT will be added to the FTSE EPRA Nareit Developed Asia Index, becoming only the fourth Korean REIT to be included. The news broke on Dec 2, when FTSE Russell announced its quarterly review of the FTSE EPRA Nareit Global Real Estate Index Series. As of end-November, the combined market cap of all 133 constituents of the EPRA Nareit Developed Asia Index stood at KRW642t (while the FTSE EPRA Nareit Global Real Estate had a market cap of KRW1,920t). SK REIT—the only new constituent in the Asia index—will be added to the index after US markets close on Dec 19. Many had expected the REIT to be included in the index during the 3Q review, but the firm fell lightly short of the listing requirements due to a share-price decline and because its rights offering was not considered.

Share-price performance in month after index addition: To be added to the index, a REIT needs to: 1) have a market cap of at least KRW600b; 2) be a corporate-type REIT; 3) meet earnings minimums; 4) publish audit reports in English; and 5) meet a liquidity requirement. Historically, new additions to the index have enjoyed strong buying pressure and a share-price rally in the month after inclusion. For instance, ESR Kendall Square REIT (added in 1Q) enjoyed a one-month share-price return of 9%, and Lotte REIT and JR Global REIT (added to the index in June and September, respectively) also performed well despite rises in market yields and refinancing burden. This all goes to show that new constituents to the highly regarded index enjoy strong buying pressure from passive funds that value quantitative indicators, especially in the month following their inclusion. These examples also provide evidence for why a REIT should seek to enlarge itself even in the face of many headwinds.

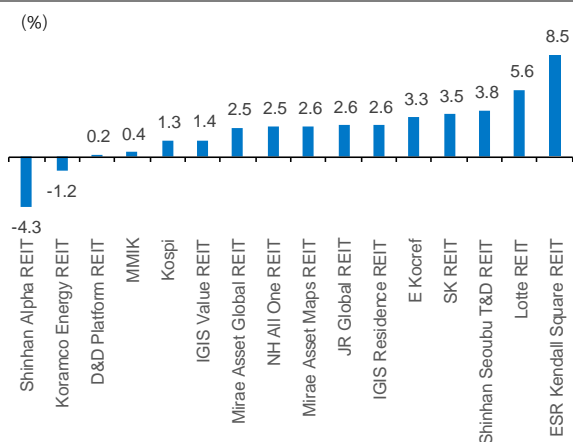
SUMMARY FINANCIAL DATA

	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	28.1	32.3	22.9
P/B (x)	1.2	0.9	0.9	1.0
P/FFO (x)	49.9	24.9	28.2	20.8
Dividend yield (%)	7.0	5.9	5.7	5.7

Source: Company data, Samsung Securities estimates

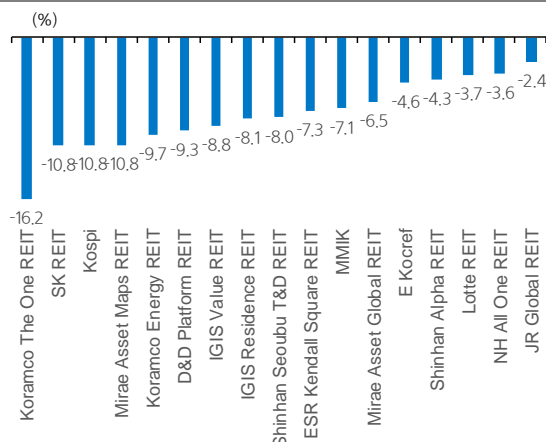
Share-price stability important for a listed REIT: The FTSE EPRA Nareit Developed Asia Index's average dividend yield stands at 4.54%, on par with that of Singaporean REITs (heavy constituents of the index). Meanwhile, during the pandemic, the REIT markets in Singapore and Japan have witnessed several M&As, with many newly created entities converting to diversified REITs (*ie*, ones with a variety of underlying assets). As of Oct 31, diversified REITs accounted for 59% of the Developed Asia Index's market cap. Since a listed REIT secures funding (aimed at acquiring new assets) from the public market, it is pivotal for a REIT to enhance shareholder value and boost its share price. In light of this, SK REIT's addition to the index should help it with liquidity and share-price stability

Chart 1. Share-price performances in month following addition of ESR Kendall Square to FTSE index (Mar 2022)



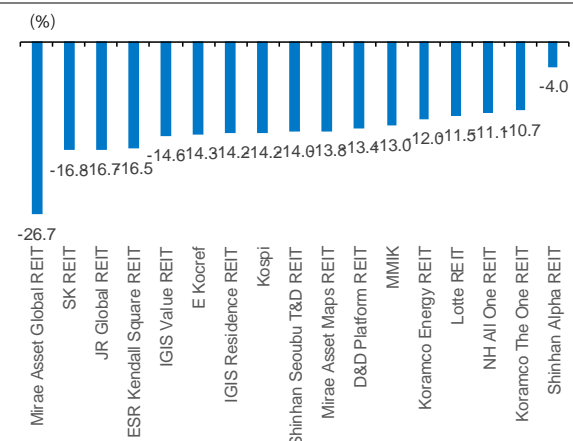
Source: Bloomberg, Samsung Securities

Chart 2. Share-price performances in month following addition of JR Global REIT to FTSE index (Sep 2022)



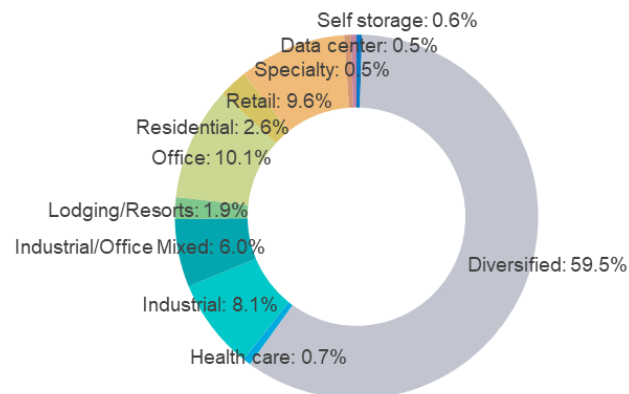
Source: Bloomberg, Samsung Securities

Chart 3. Share-price performances in month following addition of Lotte REIT to FTSE index (Jun 2022)



Source: Bloomberg, Samsung Securities

Chart 4. FTSE EPRA Nareit Developed Asia Index: Contribution to market cap, by REIT type



Note: As of October 31, 2022
Source: FTSE, Samsung Securities

Table 1. FTSE EPRA Nareit Global Real Estate Index: Index addition in 4Q review

Company	Region	Country	ICB subsector
SK REIT	Asia	Korea	Diversified

Source: FTSE, Samsung Securities

Table 2. FTSE EPRA Nareit Developed Asia Index: Top-10 constituents

(USDm)	Region	ICB subsector	Mkt cap	Weight (%)
Mitsui Fudosan	Japan	Diversified	17,409	5.44
Sun Hung Kai Props	Hong Kong	Diversified	15,276	4.77
Mitsubishi Estate	Japan	Diversified	14,167	4.42
Link Real Estate Investment Trust	Hong Kong	Diversified	12,453	3.89
Ck Asset Holdings	Hong Kong	Diversified	10,905	3.41
Scentre Group	Australia	Retail	9,616	3.00
Sekisui House	Japan	Diversified	9,398	2.93
Nippon Building Fund Inc	Japan	Office	6,777	2.12
CapitalLand Integrated Commercial trust	Singapore	Diversified	6,716	2.10
CapitalLand Ascendas REIT	Singapore	Industrial/Office mixed	6,308	1.97
Total			109,025	34.05

Note: As of Oct 31, 2022

Source: FTSE, 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

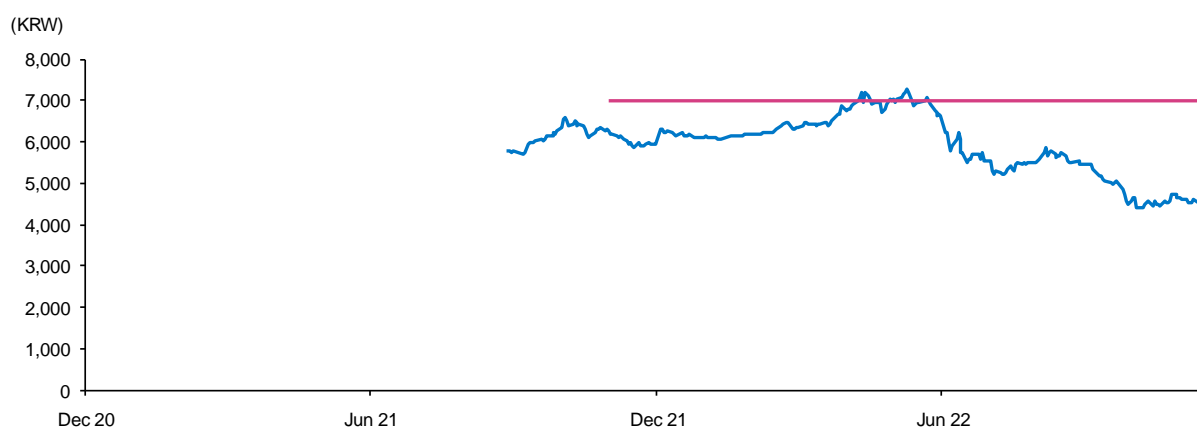
Year-end Dec 31 (KRWb)	2020	2021	2022E	2023E	2024E
Current assets	0	24	10	11	12
Cash & equivalents	0	12	10	11	12
Accounts receivable	0	0	0	0	0
Inventories	0	0	0	0	0
Other current assets	0	12	0	0	0
Fixed assets	0	1,860	2,535	2,510	2,485
Investment assets	0	0	2,535	2,510	2,485
Tangible assets	0	0	0	0	0
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	n/a	n/a	142.5	15.6	3.5
Operating profit	n/a	n/a	134.9	12.8	4.6
Net profit	n/a	n/a	114.4	(13.1)	41.0
Adjusted EPS**	n/a	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
NEUTRAL	Expected to outperform/underperform market by less than 5% within 12 months
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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