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## Alternative Investment Team

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## ▶ AT A GLANCE

|                                  |                     |              |
|----------------------------------|---------------------|--------------|
| <b>Recommend</b>                 | <b>BUY</b>          |              |
| <b>Target price</b>              | <b>KRW5,500</b>     | <b>11.8%</b> |
| <b>Current price</b>             | <b>KRW4,920</b>     |              |
| Market cap                       | KRW1.3t/USD0.9b     |              |
| Shares (float)                   | 270,132,679 (67.6%) |              |
| 52-week high/low                 | KRW4,978/KRW3,750   |              |
| Avg daily trading value (60-day) | KRW2.2b/USD1.6m     |              |

## ▶ ONE-YEAR PERFORMANCE

|                    | 1M         | 6M          | 12M         |
|--------------------|------------|-------------|-------------|
| <b>SK REIT (%)</b> | <b>1.1</b> | <b>26.2</b> | <b>-1.2</b> |
| Vs Kospi (%pts)    | -2.5       | 11.4        | -9.2        |

## ▶ KEY CHANGES

| (KRW)        | New   | Old   | Diff |
|--------------|-------|-------|------|
| Recommend.   | BUY   | BUY   |      |
| Target price | 5,500 | 5,100 | 7.8% |
| 2024E EPS    | 87    | 87    | 0.0% |
| 2025E EPS    | 87    | 87    | 0.0% |

## ▶ SAMSUNG vs THE STREET

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

# SK REIT (395400)

## Refinances at 50bps below forecast; raising target price

- We raise our target price for SK REIT by 8% as we lift our estimate of the value of its four office buildings close to their appraisal value.
- So far this year, the REIT has refinanced KRW1.2t of loans at a weighted average interest rate 50bps below our forecast.
- SK REIT's shareholder value should rise, led by asset revaluation, the disposal of gas station assets, and share buybacks.

## WHAT'S THE STORY?

**Raising target price:** We raise our target price for SK REIT by 7.8% to KRW5,500, as we lift our estimate of the value of the REIT's four office assets to a level equivalent to 90% of their combined appraisal value (which effectively lowers the REIT's cap rate by 20bps). Two positives stand out. First, interest rate cuts are looking increasingly likely. Second, the weighted average interest rate on the KRW1.2t in loans the REIT has refinanced ytd is 4.0-4.5%, which is 50bps below our previous forecasts. This is a sign that the REIT's room to increase dividend payouts is rising. Another positive is that the resultant decline in interest costs, means the REIT's discount to NAV should ease.

**Refinances loans at interest rate 50bps below our forecast:** After issuing private-placement corporate bonds in February, the REIT issued KRW240b worth of public-placement corporate bonds in May at an interest rate of 3.9% (far lower than we forecast). Of the KRW240b in proceeds, the REIT spent KRW160b paying down debt that has SK Seorin Building as collateral (KRW600b in total loans; set to mature in Jul 2024). This lowered the LTV ratio for the building, allowing the REIT to refinance loans related to the property at 4.0-4.5% in July. So far this year, SK REIT has managed to refinance KRW1.2t worth of debt at a weighted average interest rate 50bps lower than our forecast. Accordingly, its annual interest costs should decline by KRW6.8b—and this figure stands to fall further when market yields head lower, as some 26% of its loans are subject to variable interest rates.

(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  | 56.7  | 56.3  | 47.4  |
| P/B (x)                  | 0.9   | 0.9   | 1.0   | 1.0   |
| P/FFO (x)                | 16.8  | 26.6  | 26.5  | 24.4  |
| Dividend yield (%)       | 7.9   | 5.4   | 5.4   | 5.7   |

Source: Company data, Samsung Securities estimates

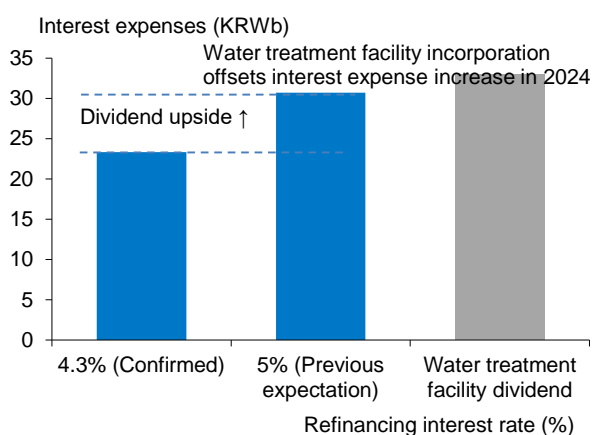
**Ample momentum; new attempts to enhance shareholder value:** The REIT's LTV ratio stands at 58.5% based on asset appraisal value but at 65% based on asset acquisition price. The problem is that its book value is based on acquisition price, as a listed REIT must pay dividends on asset revaluation gains. To resolve this problem, authorities are seeking regulatory improvement—*i.e.*, the exclusion of asset revaluation gains from dividend-payable profits. If the law is amended, regular revaluation of assets would likely benefit SK REIT ahead of other REITs, as: 1) its fiscal periods end every three months—meaning frequent revaluations; and 2) the jump in asset value for SK REIT in particular would be massive. A lower LTV ratio would be positive not only for the REIT's credit rating and funding rates, but also for its valuation. Other potential positives to watch out for in 2H are: 1) the gas station disposals that the REIT is planning this year; and 2) possible share buybacks. Regarding gains from gas station disposals, SK REIT's management is expected to set up an optimal cash flow strategy that maximizes dividend visibility and shareholder returns (rather than distributing disposal gains as one-off special dividend payouts).

Table 1. SK REIT: Target price calculation

|                                 |                 | Seorin Building | Gas stations | U Tower | Jongno Tower | Icheon water treatment facility | Total   |
|---------------------------------|-----------------|-----------------|--------------|---------|--------------|---------------------------------|---------|
| Floor space (m <sup>2</sup> )   |                 | 83,800          | 85,400       | 86,800  | 60,600       | 146,700                         | 463,300 |
| Cap rate                        | Purchase price  | 4.2%            | 4.3%         | 4.3%    | 2.9%         | 7.3%                            | 4.8%    |
|                                 | Appraisal price | 3.3%            | 3.6%         | 3.5%    | 3.1%         | 6.9%                            | 4.2%    |
|                                 | Estimated price | 3.8%            | 3.8%         | 4.0%    | 3.1%         | 6.5%                            | 4.4%    |
| Asset value (KRWb)              | Purchase price  | 1,003           | 766          | 507     | 677          | 1,120                           | 4,073   |
|                                 | Appraisal price | 1,292           | 909          | 611     | 670          | 1,183                           | 4,665   |
|                                 | Estimated price | 1,117           | 862          | 550     | 660          | 1,241                           | 4,430   |
| Price per m <sup>2</sup> (KRWm) | Purchase price  | 12.0            | 9.0          | 5.8     | 11.2         | 7.6                             | 8.8     |
|                                 | Estimated price | 15.4            | 10.6         | 7.0     | 11.1         | 8.1                             | 10.1    |
| (KRWb)                          | Debt            | 592             | 450          | 304     | 296          | 1,090                           | 2,726   |
|                                 | Deposits        | 33              | 27           | 17      | 15           | 140                             | 232     |
|                                 | NAV             | 492             | 385          | 229     | 349          | 11                              | 1,465   |
|                                 | P/NAV (KRW)     | 1,822           | 1,425        | 846     | 1,292        | 39                              | 5,500   |

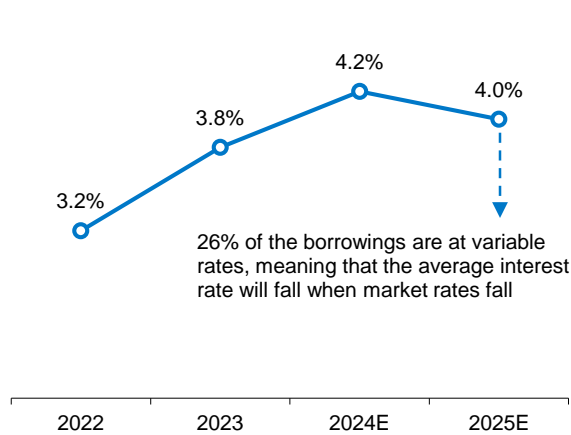
Source: Company data, Samsung Securities

Chart 1. Impact of refinancing on interest costs (estimates)



Source: Company data, Samsung Securities

Chart 2. SK REIT: Weighted average interest rate (estimates)



Source: Company data, Samsung Securities

Table 2. SK REIT: Debt

|                      | Asset                    | Amount (KRWb) | Interest rate (%) | Maturity | Details  |
|----------------------|--------------------------|---------------|-------------------|----------|--|
| Mortgages            | Seorin Building          | 441.8         | 4.370             | Jul 2027 | 2-year mortgage, CD (91-day) + 75bps                                 |
|                      | Gas stations             | 436.7         | 4.370             | Jul 2027 | 2-year mortgage, CD (91-day) + 75bps                                 |
|                      | U Tower                  | 120.0         | 4.770             | Jun 2025 | 3-year mortgage, CD (91-day) + 115bps                                |
|                      | U Tower                  | 184.4         | 4.440             | Jun 2025 | 3-year mortgage, fixed rate  |
|                      | Jongno Tower             | 244.8         | 4.670             | Oct 2025 | 2-year mortgage, CD (91-day) + 105bps                                |
|                      | Water treatment facility | 330.0         | 5.490             | Sep 2026 | 3-year mortgage, Financial bonds rated AAA + 115bps                  |
|                      | Water treatment facility | 340.3         | 5.020             | Sep 2026 | 3-year mortgage, CD (91-day) + 140bps                                |
| Convertible bonds #2 |                          | 109.0         | 4.000             | Dec 2025 | YTM 5.5%   |
|                      | #3                       | 23.1          | 3.500             | Mar 2026 | YTM 4.5%   |
| Short-term bond      |                          | 147.0         | 3.840             | Sep 2024 | 13th round   |
| Corporate bonds      | #3                       | 10.0          | 4.329             | Feb 2027 | Private bond   |
|                      | #2-1                     | 49.0          | 4.129             | Feb 2025 |  |
|                      | #2-2                     | 50.0          | 4.172             | Aug 2025 |  |
|                      | #4-1                     | 145.0         | 3.939             | May 2025 | 4-1, For repayment of portion of Seorin Building mortgages (KRW160b) |
|                      | #4-2                     | 95.0          | 3.999             | May 2026 | 4-2, For repayment of portion of short-term bond                     |
| Total                |                          | 2,726.1       |                   |          |  |

Note: CD (91-day) interest rate reference date is Jul 11, 2024

Source: Company data, Samsung Securities

**Income statement**

| Year-end Dec 31 (KRWb)                 | 2022       | 2023       | 2024E       | 2025E       | 2026E       |
|--|------------|------------|-------------|-------------|-------------|
| <b>Sales</b>                           | <b>90</b>  | <b>146</b> | <b>210</b>  | <b>218</b>  | <b>224</b>  |
| Cost of goods sold                     | 0          | 0          | 0           | 0           | 0           |
| <b>Gross profit</b>                    | <b>90</b>  | <b>146</b> | <b>210</b>  | <b>218</b>  | <b>224</b>  |
| Gross margin (%)                       | 100.0      | 100.0      | 100.0       | 100.0       | 100.0       |
| SG&A expenses                          | 20         | 45         | 50          | 52          | 53          |
| <b>Operating profit</b>                | <b>70</b>  | <b>100</b> | <b>160</b>  | <b>167</b>  | <b>171</b>  |
| Operating margin (%)                   | 77.7       | 68.9       | 76.2        | 76.4        | 76.3        |
| <b>Non-operating gains (losses)</b>    | <b>-41</b> | <b>-74</b> | <b>-137</b> | <b>-143</b> | <b>-143</b> |
| 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           |
| <b>Pre-tax profit</b>                  | <b>29</b>  | <b>26</b>  | <b>23</b>   | <b>24</b>   | <b>28</b>   |
| 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           |
| <b>Net profit</b>                      | <b>29</b>  | <b>26</b>  | <b>23</b>   | <b>24</b>   | <b>28</b>   |
| 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      |
|--|---------------|---------------|------------|------------|------------|
| <b>Cash flow from operations</b>         | <b>48</b>     | <b>47</b>     | <b>-29</b> | <b>53</b>  | <b>53</b>  |
| 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         |
| <b>Cash flow from investments</b>        | <b>-1,227</b> | <b>-1,126</b> | <b>-18</b> | <b>8</b>   | <b>9</b>   |
| 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          |
| <b>Cash flow from financing</b>          | <b>1,203</b>  | <b>1,125</b>  | <b>30</b>  | <b>-87</b> | <b>-90</b> |
| Change in debt                           | 1,008         | 664           | 0          | 0          | 0          |
| Change in equity                         | 204           | 283           | 103        | 9          | 10         |
| Dividends                                | -46           | -57           | -60        | -71        | -73        |
| 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         |
| <b>Gross cash flow</b>                   | <b>86</b>     | <b>164</b>    | <b>50</b>  | <b>50</b>  | <b>55</b>  |
| <b>Free cash flow</b>                    | <b>48</b>     | <b>47</b>     | <b>-29</b> | <b>53</b>  | <b>53</b>  |

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        |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Current assets</b>                    | <b>81</b>    | <b>112</b>   | <b>112</b>   | <b>112</b>   | <b>112</b>   |
| 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           |
| <b>Fixed assets</b>                      | <b>3,047</b> | <b>4,184</b> | <b>4,202</b> | <b>4,194</b> | <b>4,185</b> |
| 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        |
| <b>Total assets</b>                      | <b>3,127</b> | <b>4,296</b> | <b>4,314</b> | <b>4,306</b> | <b>4,297</b> |
| <b>Current liabilities</b>               | <b>727</b>   | <b>1,514</b> | <b>527</b>   | <b>546</b>   | <b>565</b>   |
| Accounts payable                         | 0            | 0            | 0            | 0            | 0            |
| Short-term debt                          | 394          | 0            | 0            | 0            | 0            |
| Other current liabilities                | 333          | 1,514        | 527          | 546          | 565          |
| <b>Long-term liabilities</b>             | <b>1,432</b> | <b>1,460</b> | <b>1,382</b> | <b>1,385</b> | <b>1,383</b> |
| Bonds & long-term debt                   | 1,339        | 1,233        | 1,233        | 1,233        | 1,233        |
| Other long-term liabilities              | 92           | 227          | 149          | 152          | 150          |
| <b>Total liabilities</b>                 | <b>2,159</b> | <b>2,974</b> | <b>1,909</b> | <b>1,931</b> | <b>1,948</b> |
| <b>Owners of parent equity</b>           | <b>969</b>   | <b>1,240</b> | <b>1,410</b> | <b>1,381</b> | <b>1,355</b> |
| Capital stock                            | 98           | 135          | 135          | 135          | 135          |
| Capital surplus                          | 870          | 1,116        | 1,219        | 1,229        | 1,238        |
| Retained earnings                        | 0            | -11          | -48          | -96          | -141         |
| Other                                    | 0            | 0            | 104          | 113          | 123          |
| <b>Non-controlling interests' equity</b> | <b>0</b>     | <b>81</b>    | <b>0</b>     | <b>0</b>     | <b>0</b>     |
| <b>Total equity</b>                      | <b>969</b>   | <b>1,321</b> | <b>1,410</b> | <b>1,381</b> | <b>1,355</b> |
| Net debt                                 | 1,978        | 2,616        | 1,451        | 1,451        | 1,451        |

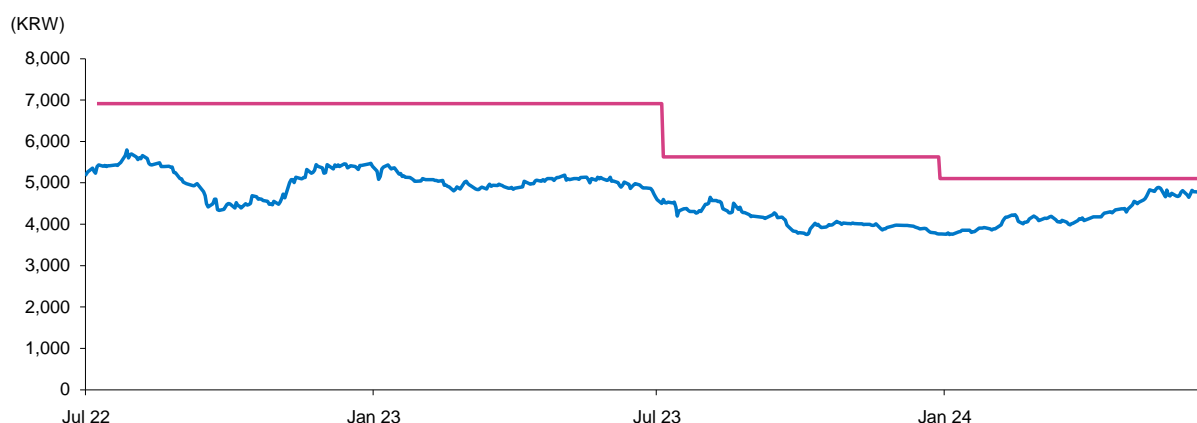
**Financial ratios**

| Year-end Dec 31             | 2022     | 2023   | 2024E  | 2025E | 2026E |
|-----------------------------|----------|--------|--------|-------|-------|
| <b>Growth (%)</b>           |          |        |        |       |       |
| 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  |
| <b>Per-share data (KRW)</b> |          |        |        |       |       |
| EPS (parent-based)          | 164      | 114    | 87     | 87    | 104   |
| EPS (consolidated)          | 164      | 120    | 87     | 87    | 104   |
| Adjusted EPS**              | 164      | 114    | 87     | 87    | 104   |
| BVPS                        | 4,929    | 4,678  | 5,219  | 5,111 | 5,015 |
| DPS (common)                | 268      | 314    | 264    | 264   | 280   |
| <b>Valuations (x)</b>       |          |        |        |       |       |
| P/E***                      | 33.2     | 34.9   | 56.7   | 56.3  | 47.4  |
| P/B***                      | 1.1      | 0.9    | 0.9    | 1.0   | 1.0   |
| P/FFO (x)                   | 23.0     | 16.8   | 26.6   | 26.5  | 24.4  |
| <b>Ratios (%)</b>           |          |        |        |       |       |
| 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  | 301.9 | 270.0 |
| Dividend yield (common)     | 4.9      | 7.9    | 5.4    | 5.4   | 5.7   |
| Net debt to equity          | 204.2    | 198.0  | 103.0  | 105.1 | 107.1 |
| Interest coverage (x)       | 1.7      | 1.1    | 1.2    | 1.2   | 1.2   |

### Compliance notice

- During the six months prior to 7/15 2024, Samsung Securities had participated as an underwriter in one or more securities issuances (rights offerings) by SK REIT.
- As of 7/15 2024, the covering analyst(s) did not own any shares, or debt instruments convertible into shares, of any company covered in this report.
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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 | 7/15 |
|---------------------------|------------|------------|----------|--------|-----------|------|
| <b>Recommendation</b>     | BUY        | BUY        | BUY      | BUY    | BUY       | BUY  |
| <b>Target price (KRW)</b> | 6914       | 6914       | 5630     | 5630   | 5100      | 5500 |
| <b>Gap* (average)</b>     | -15.14     | -26.95     | -21.24   | -28.81 | -16.44    |      |
| <b>(max or min)**</b>     | 4.00       | -20.86     | -17.41   | -19.98 | -4.12     |      |

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

### Samsung Securities uses the following investment ratings\*

#### Company

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

#### Industry

|                    |   |
|--------------------|---|
| <b>OVERWEIGHT</b>  | Expected to outperform market by 5% or more within 12 months                |
| <b>NEUTRAL</b>     | Expected to outperform/underperform market by less than 5% within 12 months |
| <b>UNDERWEIGHT</b> | Expected to underperform market by 5% or more within 12 months              |

\* 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 2024.06.30

BUY(80%)·HOLD(20%)·SELL(0%)

## Global Disclosures & Disclaimers

### General

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