



# SK Telecom (SKM)

Updated November 15<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$30	<b>5 Year CAGR Estimate:</b>	7.3%	<b>Market Cap:</b>	\$19.5 B
<b>Fair Value Price:</b>	\$30	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	12/30/2021
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.3%	<b>Payment Date<sup>2</sup>:</b>	04/28/2021
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$38	<b>Years of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	N/A

## Overview & Current Events

SK Telecom is the largest wireless telecom operator in Korea by revenue and number of subscribers. It was founded in 1984 as Korea Mobile Telecommunications and became SK Telecom in 1997. The company is a part of the SK Group, which owns 27% of the company and is one of the largest conglomerates in South Korea. The company trades on the NYSE under the ticker SKM as well as the Korea Exchange (XKR). SK Telecom has a market capitalization of \$19.5 billion. SKM reported third quarter results on November 10<sup>th</sup>. On a consolidated basis, revenues increased 5.0% year-over-year. The majority of revenue gains percentwise are coming from new businesses (media, security, and commerce) and not the telecom portion of the company. Revenue gains were seen in all businesses. In fact, SK Telecom's subsidiaries generated 33% of SK Telecom's revenues in the quarter. Operating income increased by 12% compared to the same prior year period. Net income grew by 88% primarily due to increased equity method gains from SK Hynix, their semiconductor business. As a result, EPS grew by 88% compared to 3Q 2020.

In the quarter, the company completed the corporate restructuring to increase shareholder value and accelerate growth, through a horizontal spin-off by splitting SK Telecom into two separate companies. SK Telecom has become the AI & Digital Infra Company, and they have created a spin-off company which owns the semiconductor and New ICT assets, known as SK Square. On November 29<sup>th</sup>, SK Telecom and SK Square plan to conduct a 5-1 stock split to become more accessible to investors.

Thanks to their customer value innovation program and stable market competition, their churn rate was 0.8% for the quarter, down from 0.9% last year. The company ranked 1<sup>st</sup> place in the nation customer satisfaction index for 23 consecutive years.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$2.20	\$1.60	\$2.34	\$2.66	\$2.07	\$2.23	\$3.59	\$4.45	\$1.10	\$2.04	<b>\$11.00</b>	<b>\$3.19</b>
<b>DPS</b>	\$0.92	\$0.93	\$0.99	\$0.96	\$0.96	\$0.98	\$1.04	\$1.00	\$0.97	\$1.00	<b>\$1.00</b>	<b>\$1.00</b>
<b>Shares<sup>3</sup></b>	656.0	628.0	633.0	639.0	645.0	636.0	636.0	647.0	659.0	659.0	<b>641.0</b>	<b>650.0</b>

SK Telecom has compounded their earnings by -0.3% in the past five years as the result of a disappointing 2020. Prior to 2019 results, earnings growth compounded at double digits the past five years, and near double digits in the past ten. We expect the company will be able to maintain their longer-term growth trend as they are participating in so many tech initiatives, including one of the first 5G networks. We estimate annual growth of 5% from an estimated \$2.50 in operating income per share. This year's estimated earnings of \$11.00 is inflated due to the semiconductor business' outperformance this year. SK Telecom expects growth in a variety of segments: Mobile, Media/Games, Security and Commerce. The company is targeting key life segments such as sports, games, K-pop, culture and education through media and games, and will use 5G to better these initiatives. They also expect to provide VR and AR contents for online

<sup>1</sup> Estimate based on last year's date

<sup>2</sup> Estimate based on last year's date

<sup>3</sup> In millions (representing 9 shares per ADR)

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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games which is extremely popular in Korea, as well as provide their own VR games. Additionally, Comcast and SKM have formed a strategic partnership to establish a global eSports company. The merger with Tbroad has formed a media platform standing at 8.9 million subscribers, which will allow for business scaling large enough to produce original content. The security business expects growth driven by SK ICT family synergies, expansion of the subscriber base with comprehensive offering from cyber security to safety control as well as the consolidation of SK infosec.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	6.2	9.9	10.5	10.2	9.8	9.4	7.8	6	13.5	10.3	12.2	12.0
Avg. Yld.	6.8%	5.9%	4.0%	3.5%	4.8%	4.7%	3.7%	3.9%	4.1%	4.4%	3.3%	2.6%

SK Telecom's average price-to-earnings ratio over the past ten years is 9.4. Today SKM's valuation sits at 12.2 times our 2021 operating income per share estimate of \$2.50. We're opting to utilize operating income now since the outlier earnings outperformance of the semiconductor business is expected to significantly rally the EPS due to equity method income. Our fair value estimate of 12.0 times earnings would imply a minor valuation contraction of 0.3% annually.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	42%	58%	42%	36%	46%	44%	29%	22%	88%	49%	40%	31%

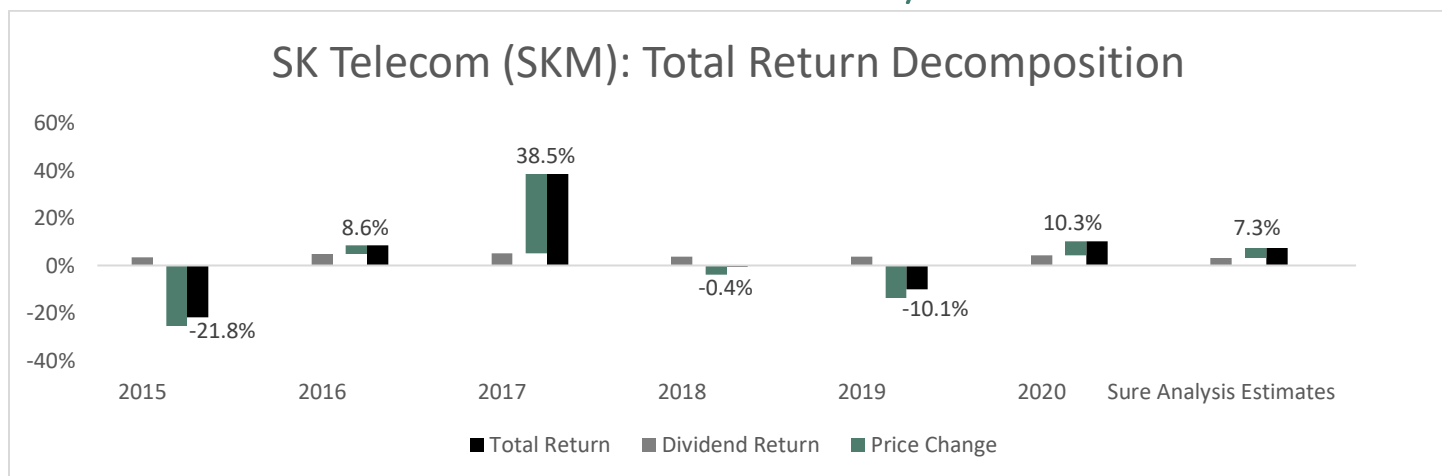
The payout ratio of the company has remained in safe territory for the past decade and we see this as continuing as earnings outpace dividend growth. EBITDA margin has remained relatively steady in the last few years and today stands at 40% based on consolidated results. The debt to equity ratio also shows the company as being solvent.

SK Telecom's competitive advantage is in its leadership position in South Korea with nearly 50 percent of the market share, as well as its position in the SK Group and its global partnerships which should allow it to expand products overseas. It is not immune to recession but telecommunications companies like SK Telecom tend to hold up very well, and we think this will remain the case.

## Final Thoughts & Recommendation

SK Telecom is the largest Korean telecom company and has business in a large variety of tech. We see total annual returns of 7.3% in the coming years, including a 3.3% yield. SKM trades at our fair value estimate, and with total expected returns of 7.3%, we rate SKM a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	14,252	14,296	15,128	16,283	15,134	14,710	15,500	15,309	15,223	15,709
Gross Profit	11,821	11,800	12,583	13,365	12,217	11,967	12,754	12,665	12,778	13,454
Gross Margin	82.9%	82.5%	83.2%	82.1%	80.7%	81.4%	82.3%	82.7%	83.9%	85.6%
D&A Exp.	62	2,314	2,578	2,744	2,644	2,641	2,873	2,980	3,450	3,517
Operating Profit	2,144	1,587	1,836	1,740	1,534	1,363	1,316	1,131	1,001	1,177
Operating Margin	15.0%	11.1%	12.1%	10.7%	10.1%	9.3%	8.5%	7.4%	6.6%	7.5%
Net Profit	1,455	1,020	1,493	1,709	1,341	1,442	2,300	2,838	763	1,269
Net Margin	10.2%	7.1%	9.9%	10.5%	8.9%	9.8%	14.8%	18.5%	5.0%	8.1%
Free Cash Flow	2,478	407	398	511	1,034	962	880	941	445	1,800
Income Tax	543	255	365	431	459	375	660	766	258	318

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	21,052	23,625	25,141	25,454	24,237	25,914	31,289	37,878	39,010	43,931
Cash & Equivalents	1,426	849	1,323	760	652	1,246	1,364	1,347	1,097	1,256
Accounts Receivable	1,575	1,804	2,135	2,179	1,988	1,855	1,990	1,796	1,925	2,007
Inventories	190	224	168	244	232	215	255	258	141	157
Goodwill & Int. Ass.	4,100	4,093	4,242	4,010	3,573	4,727	5,150	7,556	6,745	7,147
Total Liabilities	10,051	11,760	11,740	11,563	11,200	12,570	14,414	17,898	19,319	21,559
Accounts Payable	169	234	203	251	237	333	329	341	378	342
Long-Term Debt	5,112	6,151	5,972	6,155	6,380	6,102	6,991	8,629	8,858	9,829
Shareholder's Equity	10,076	10,942	12,726	13,216	12,933	13,224	16,700	20,089	19,806	21,773
D/E Ratio	0.51	0.56	0.47	0.47	0.49	0.46	0.42	0.43	0.45	0.45

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.1%	4.6%	6.1%	6.8%	5.4%	5.8%	8.0%	8.2%	2.0%	3.1%
Return on Equity	14.5%	9.7%	12.6%	13.2%	10.3%	11.0%	15.4%	15.4%	3.8%	6.1%
ROIC	9.0%	6.0%	8.0%	8.7%	6.8%	7.4%	10.6%	10.8%	2.7%	4.2%
Shares Out.	656.0	628.0	633.0	639.0	645.0	636.0	636.0	647.0	659.0	659.0
Revenue/Share	35.79	37.49	39.36	41.95	38.65	38.07	40.12	39.62	38.61	39.43
FCF/Share	6.22	1.07	1.03	1.32	2.64	2.49	2.28	2.43	1.13	4.52

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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