



# SK Telecom (SKM)

Updated March 11<sup>th</sup>, 2022 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$26	<b>5 Year CAGR Estimate:</b>	7.5%	<b>Market Cap:</b>	\$10 B
<b>Fair Value Price:</b>	\$24	<b>5 Year Growth Estimate:</b>	4.5%	<b>Ex-Dividend Date<sup>1</sup>:</b>	03/31/2021
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.3%	<b>Payment Date<sup>2</sup>:</b>	04/15/2021
<b>Dividend Yield:</b>	5.4%	<b>5 Year Price Target</b>	\$29.91	<b>Years of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<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 about one third 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 \$10 billion.

In the second half of 2021, the company completed a corporate restructuring through a horizontal spin-off by splitting SK Telecom into two separate companies. SK Telecom remains the AI & Digital Infrastructure 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 conducted a 5-1 stock split to become more accessible to investors.

SKM reported full year 2021 results on February 9<sup>th</sup>. On a consolidated basis, revenue increased 4.1% year-over-year for the full 2021 year compared to the 2020 year, due to an increased share of customers in 5G, and growth of IPTV and broadband subscribers. Operating income rose 11.1% YoY as the businesses enjoyed revenue and earnings growth and increased cost efficiency as annual capital expenditures were lower than the prior year. Consolidated net income was 61.2% higher than 2020 due to the impact of equity method income gains, which we anticipate smoothing out in the future after the corporation spun off its semiconductor and ICT assets as SK Square.

The company announced a 65% year-over-year increase to the second half of 2021's dividend per share in its local KRW currency, to 1,660 KRW per share.

The company has also updated its dividend policy to pay quarterly going forward, rather than semiannually, which it has done for the last decade. Additionally, SK Telecom wants to pay 30% to 40% of EBITDA minus CAPEX on dividends.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.60	\$2.34	\$2.66	\$2.07	\$2.23	\$3.59	\$4.45	\$1.10	\$2.04	\$2.93	<b>\$2.00</b>	<b>\$2.49</b>
<b>DPS</b>	\$0.93	\$0.99	\$0.96	\$0.96	\$0.98	\$1.04	\$1.00	\$0.97	\$1.00	\$2.67	<b>\$1.38</b>	<b>\$1.38</b>
<b>Shares<sup>3</sup></b>	381.4	388.1	388.2	386.4	386.4	386.4	393.3	400.2	364.0	332.8	<b>332.8</b>	<b>325.0</b>

SK Telecom has compounded their earnings by 5.6% in the past five years as the result of strong investments and a strategic restructuring. Since 2019, the combined businesses (Mobile & Fixed, Media, Enterprise, AIVERSE, and Connected Intelligence) remaining in the post-spin-off SK Telecom grew revenue by 4.2%. We expect the company will be able to maintain such growth through the continued increase in 5G subscribers and Pay tv subscribers. The AIVERSE will be SK Telecom's subscription metaverse and artificial intelligence business. While mobile and fixed-line communications

<sup>1</sup> Estimate

<sup>2</sup> Estimate

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

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remain the solid and steady portion of the conglomerate, its Media, Enterprise and AIVERSE businesses are expected to generate higher growth as they take up only a small portion of the company's total revenue.

We estimate annual growth of 4.5% from an estimated \$2.00 in operating income per share. This year's estimated earnings of \$2.00 is extremely speculative, considering this is the first year after the company's massive restructuring. Currency fluctuations can also wildly affect estimates. Tbroad, their media platform, now has a total 9.0 million subscribers after 2021 4Q. The enlarged scale of the business also allows for the production of original content.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	9.9	10.5	10.2	9.8	9.4	7.8	6.0	13.5	10.3	11.2	12.8	12.0
Avg. Yld.	5.9%	4.0%	3.5%	4.8%	4.7%	3.7%	3.9%	4.1%	4.4%	3.8%	5.4%	4.6%

SK Telecom's average price-to-earnings ratio over the past ten years is 9.9. Today SKM's valuation sits at 12.8 times our 2022 operating income per share estimate of \$2.00. Our fair value estimate of 12.0 times earnings would imply a valuation contraction of 1.3% annually. The new, leaner business could result in a miniscule valuation premium compared to the company's historic levels.

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

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	58%	42%	36%	46%	44%	29%	22%	88%	49%	91%	69%	55%

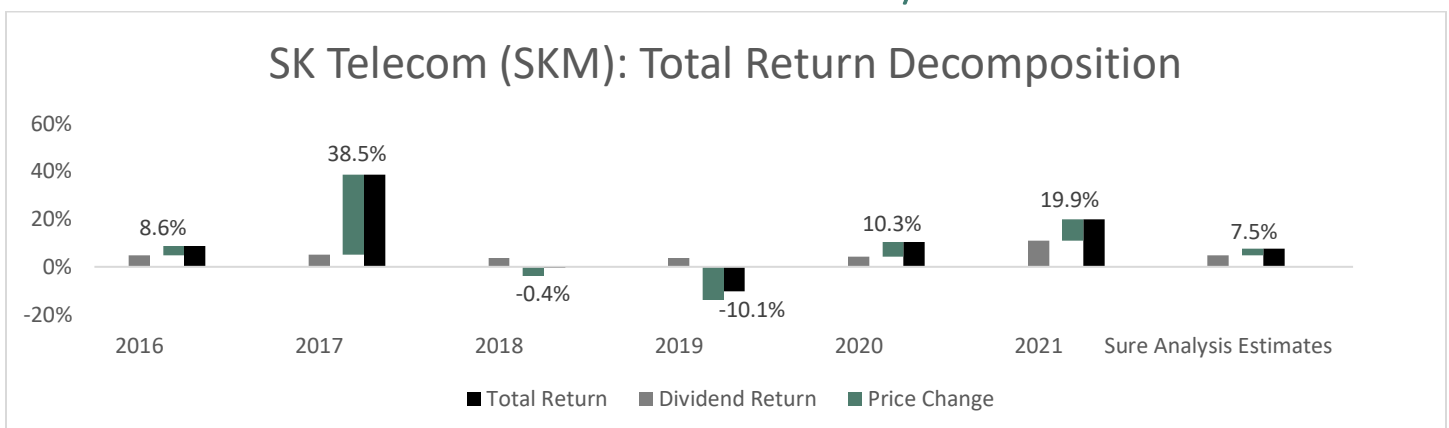
The payout ratio of the company has remained in safe territory for the past decade, and we see this as continuing as earnings outpace dividend growth. EBITDA margin has remained relatively steady in the last few years and today stands at 30.2% based on consolidated results. The debt to equity ratio also 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 now is even growing into the metaverse. We see total annual returns of 7.5% in the coming years, including a 5.4% yield. SKM trades just above our fair value estimate, and with total expected returns of 7.5%, we rate SKM a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	14,296	15,128	16,283	15,134	14,710	15,500	15,309	15,223	15,709	14,632
Gross Profit	11,800	12,583	13,365	12,217	11,967	12,754	12,665	12,778	13,454	12,687
Gross Margin	82.5%	83.2%	82.1%	80.7%	81.4%	82.3%	82.7%	83.9%	85.6%	86.7%
D&A Exp.	2,314	2,578	2,744	2,644	2,641	2,873	2,980	3,450	3,517	7,535
Operating Profit	1,587	1,836	1,740	1,534	1,363	1,316	1,131	1,001	1,177	3,595
Operating Margin	11.1%	12.1%	10.7%	10.1%	9.3%	8.5%	7.4%	6.6%	7.5%	1,238
Net Profit	1,020	1,493	1,709	1,341	1,442	2,300	2,838	763	1,269	8.5%
Net Margin	7.1%	9.9%	10.5%	8.9%	9.8%	14.8%	18.5%	5.0%	8.1%	2,103
Free Cash Flow	407	398	511	1,034	962	880	941	445	1,800	14.4%
Income Tax	255	365	431	459	375	660	766	258	318	1,505

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	23,625	25,141	25,454	24,237	25,914	31,289	37,878	39,010	43,931	25,965
Cash & Equivalents	849	1,323	760	652	1,246	1,364	1,347	1,097	1,256	733
Accounts Receivable	1,804	2,135	2,179	1,988	1,855	1,990	1,796	1,925	2,007	1,607
Inventories	224	168	244	232	215	255	258	141	157	172
Goodwill & Int. Ass.	4,093	4,242	4,010	3,573	4,727	5,150	7,556	6,745	7,147	4,992
Total Liabilities	11,760	11,740	11,563	11,200	12,570	14,414	17,898	19,319	21,559	15,604
Accounts Payable	234	203	251	237	333	329	341	378	342	160
Long-Term Debt	6,151	5,972	6,155	6,380	6,102	6,991	8,629	8,858	9,829	7,420
Shareholder's Equity	10,942	12,726	13,216	12,933	13,224	16,700	20,089	19,806	21,773	9,727
LTD/E Ratio	0.56	0.47	0.47	0.49	0.46	0.42	0.43	0.45	0.45	0.76

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.6%	6.1%	6.8%	5.4%	5.8%	8.0%	8.2%	2.0%	3.1%	6.0%
Return on Equity	9.7%	12.6%	13.2%	10.3%	11.0%	15.4%	15.4%	3.8%	6.1%	13.4%
ROIC	6.0%	8.0%	8.7%	6.8%	7.4%	10.6%	10.8%	2.7%	4.2%	8.4%
Shares Out.	628.0	633.0	639.0	645.0	636.0	636.0	647.0	659.0	659.0	332.8
Revenue/Share	37.49	39.36	41.95	38.65	38.07	40.12	39.62	38.61	39.43	37.32
FCF/Share	1.07	1.03	1.32	2.64	2.49	2.28	2.43	1.13	4.52	3.84

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

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