



SK Telecom (SKM)

Updated August 29th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	11.4%	Market Cap:	\$8.3 B
Fair Value Price:	\$23	5 Year Growth Estimate:	4.5%	Ex-Dividend Date¹:	09/29/2022
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.8%	Payment Date²:	11/26/2022
Dividend Yield:	6.8%	5 Year Price Target	\$28.7	Years of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

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 \$8.3 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 29th, SK Telecom conducted a 5-1 stock split to become more accessible to investors.

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.

SKM reported second quarter 2022 results on August 9th. On a consolidated basis, revenue increased 4.0% year-over-year with growth of SKT and subsidiaries including SKB. On a consolidated basis, revenue increased 4.0% year-over-year. Operating income rose 16.1% YoY as the business enjoyed improved profitability due to cost efficiencies. Consolidated net income was down nearly 68% compared to the prior year, as a result of discontinued businesses due to the horizontal spin-off in 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.60	\$2.34	\$2.66	\$2.07	\$2.23	\$3.59	\$4.45	\$1.10	\$2.04	\$2.93	\$2.09	\$2.60
DPS	\$0.93	\$0.99	\$0.96	\$0.96	\$0.98	\$1.04	\$1.00	\$0.97	\$1.00	\$2.67	\$1.42	\$1.50
Shares³	381.4	388.1	388.2	386.4	386.4	386.4	393.3	400.2	364.0	332.8	393.0	380.0

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 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 \$2.09 in operating income per share. This year's estimated earnings of \$2.09 is speculative, considering this is the first year after the company's massive restructuring. Currency

¹ Estimate

² Estimate

³ In millions (representing 9 shares per ADR)

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fluctuations can also affect estimates. The company now has a total 9.17 million Pay tv subscribers after 2022 2Q. 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	10.1	11.0
Avg. Yld.	5.9%	4.0%	3.5%	4.8%	4.7%	3.7%	3.9%	4.1%	4.4%	3.8%	6.8%	5.2%

SK Telecom’s average price-to-earnings ratio over the past ten years is 9.9. Today SKM’s valuation sits at 10.1 times our 2022 operating income per share estimate of \$2.09. Our fair value estimate of 11.0 times earnings would imply a valuation expansion of 1.8% annually.

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%	68%	57%

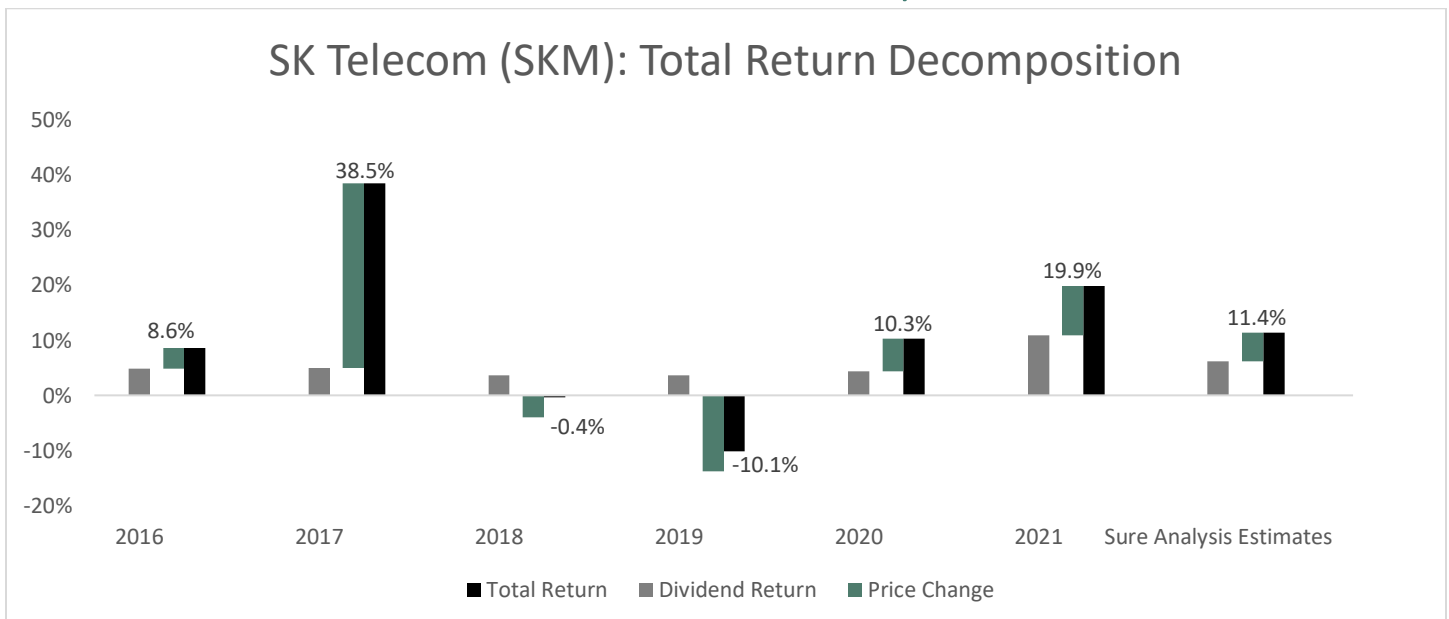
The payout ratio of the company has remained in safe territory for the past decade, and we see this as continuing as earnings outpace dividend growth. EBITDA margin has remained relatively steady in the last few years and today stands at 32.6% based on consolidated results. The debt to equity ratio also 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 11.4% in the coming years, including a 6.8% yield. SKM trades below our fair value estimate, and with total expected returns of 11.4%, we rate SKM a buy.

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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