



SK Telecom (SKM)

Updated December 12th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	10.7%	Market Cap:	\$8.2 B
Fair Value Price:	\$22	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	12/29/2023
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Payment Date¹:	05/06/2024
Dividend Yield:	6.6%	5 Year Price Target	\$28	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 \$8.2 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 had done for the last decade. Additionally, SK Telecom wants to pay 30% to 40% of EBITDA minus CAPEX on dividends.

SK Telecom reported third quarter 2023 results on November 8th, 2023. On a consolidated basis, revenue increased by 1.4% year-over-year and operating income rose 7.0% compared to the third quarter of 2022. Consolidated net income was up 26% compared to the prior year quarter, in part due to a 32.5% increase in data center business revenue and 38.7% increase in Cloud business revenue.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.34	\$2.66	\$2.07	\$2.23	\$3.59	\$4.45	\$1.10	\$2.04	\$2.93	\$3.27	\$2.08	\$2.65
DPS	\$0.99	\$0.96	\$0.96	\$0.98	\$1.04	\$1.00	\$0.97	\$1.00	\$2.67	\$1.80	\$1.40	\$1.47
Shares²	388.1	388.2	386.4	386.4	386.4	393.3	400.2	364.0	332.8	218.0	217.0	250.0

SK Telecom has seen its earnings-per-share contract by 1.8% annually in the past five years as a result of its strategic restructuring and its smaller remaining business. From 2019 through 2021, the combined businesses (Mobile & Fixed, Media, Enterprise, AIVERSE, and Connected Intelligence) which remained 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.

In 2023, SK Telecom is making an aggressive push into becoming an AI company, and will work with global AI companies on large language model (LLM) and AI technology and service. In April 2023, SK Telecom invested KRW 15 billion in Scatter Lab, which is known for its Lee Lu-da chatbot.

¹ Estimate

² In millions

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We estimate annual growth of 5.0% from an estimated \$2.08 in earnings per share. This year's estimated earnings of \$2.08 remains speculative, considering the company's massive restructuring is still fresh. Currency fluctuations between KRW and USD can also cause wild swings in results throughout the years. The company now has a total of 9.52 million Pay tv subscribers after Q3 2023. The enlarged scale of the business also allows for the production of original content.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.5	10.2	9.8	9.4	7.8	6	13.5	10.3	11.2	7.1	10.1	10.5
Avg. Yld.	4.0%	3.5%	4.8%	4.7%	3.7%	3.9%	4.1%	4.4%	3.8%	7.4%	6.6%	5.3%

SK Telecom's average price-to-earnings ratio over the past ten years is 9.6. Today SKM's valuation sits at 10.1 times our 2023 earnings per share estimate of \$2.08. Our fair value estimate of 10.5 times earnings implies the potential for a small valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	42%	36%	46%	44%	29%	22%	88%	49%	91%	55%	67%	55%

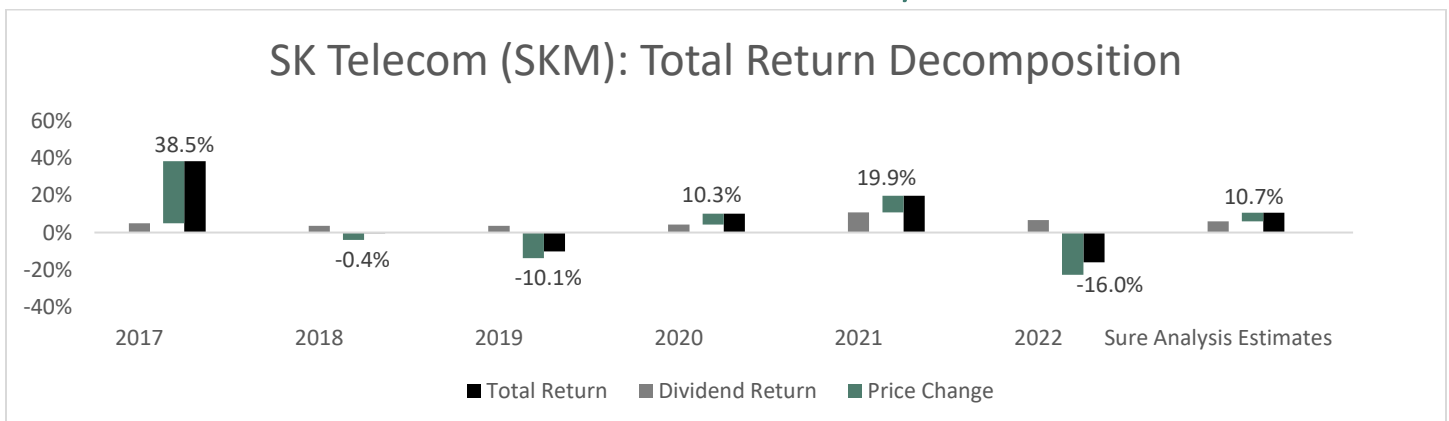
The payout ratio of the company has remained in safe territory for the past decade, and we see this as continuing as earnings outpace dividend growth. The EBITDA margin has remained relatively steady in the last few years and today stands at 32% based on consolidated results. While the company's debt to equity ratio has doubled following its restructuring towards the end of 2021, it still 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 is now even growing into the metaverse and artificial intelligence. We see total annual returns of 10.7% in the coming years, including a 6.6% yield. SKM trades with some margin of safety, and with total expected returns of 10.7%, we continue to rate SKM as a buy. However, to note, the company in its current form following its strategic restructuring, as well as KRW to USD currency fluctuations can make SK Telecom a volatile holding for American investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	15,128	16,283	15,134	14,710	15,500	15,309	15,223	15,709	14,632	13446
Gross Profit	12,583	13,365	12,217	11,967	12,754	12,665	12,778	13,454	12,687	11696
Gross Margin	83.2%	82.1%	80.7%	81.4%	82.3%	82.7%	83.9%	85.6%	86.7%	87.0%
D&A Exp.	2,578	2,744	2,644	2,641	2,873	2,980	3,450	3,517	7,535	6524
Operating Profit	1,836	1,740	1,534	1,363	1,316	1,131	1,001	1,177	3,595	2918
Operating Margin	12.1%	10.7%	10.1%	9.3%	8.5%	7.4%	6.6%	7.5%	1,238	1274
Net Profit	1,493	1,709	1,341	1,442	2,300	2,838	763	1,269	8.5%	9.5%
Net Margin	9.9%	10.5%	8.9%	9.8%	14.8%	18.5%	5.0%	8.1%	2,103	709
Free Cash Flow	398	511	1,034	962	880	941	445	1,800	14.4%	5.3%
Income Tax	365	431	459	375	660	766	258	318	1,505	1642

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	25,141	25,454	24,237	25,914	31,289	37,878	39,010	43,931	25,965	24796
Cash & Equivalents	1,323	760	652	1,246	1,364	1,347	1,097	1,256	733	1491
Accounts Receivable	2,135	2,179	1,988	1,855	1,990	1,796	1,925	2,007	1,607	1561
Inventories	168	244	232	215	255	258	141	157	172	132
Goodwill & Int. Ass.	4,242	4,010	3,573	4,727	5,150	7,556	6,745	7,147	4,992	4277
Total Liabilities	11,740	11,563	11,200	12,570	14,414	17,898	19,319	21,559	15,604	15169
Accounts Payable	203	251	237	333	329	341	378	342	160	71
Long-Term Debt	5,972	6,155	6,380	6,102	6,991	8,629	8,858	9,829	7,420	7368
Shareholder's Equity	12,726	13,216	12,933	13,224	16,700	20,089	19,806	21,773	9,727	8964
LTD/E Ratio	0.47	0.47	0.49	0.46	0.42	0.43	0.45	0.45	0.76	0.82

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.1%	6.8%	5.4%	5.8%	8.0%	8.2%	2.0%	3.1%	6.0%	2.8%
Return on Equity	12.6%	13.2%	10.3%	11.0%	15.4%	15.4%	3.8%	6.1%	13.4%	7.6%
ROIC	8.0%	8.7%	6.8%	7.4%	10.6%	10.8%	2.7%	4.2%	8.4%	4.1%
Shares Out.	633.0	639.0	645.0	636.0	636.0	647.0	659.0	659.0	332.8	392.99
Revenue/Share	39.36	41.95	38.65	38.07	40.12	39.62	38.61	39.43	37.32	34.21
FCF/Share	1.03	1.32	2.64	2.49	2.28	2.43	1.13	4.52	3.84	4.18

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

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