



# SK Telecom (SKM)

Updated March 17<sup>th</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$22	<b>5 Year CAGR Estimate:</b>	10.7%	<b>Market Cap:</b>	\$8.5 B
<b>Fair Value Price:</b>	\$23	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	03/29/2024
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.9%	<b>Payment Date<sup>1</sup>:</b>	05/17/2024
<b>Dividend Yield:</b>	6.3%	<b>5 Year Price Target</b>	\$29	<b>Years of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$8.5 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. Then on November 29<sup>th</sup>, 2021, 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. SK Telecom plans to pay 30% to 40% of EBITDA minus CAPEX on dividends.

SK Telecom reported fourth quarter 2023 results on February 5<sup>th</sup>, 2024. On a consolidated basis, revenue increased by 3.0% year-over-year and operating income rose 16.7% compared to the fourth quarter of 2022. Consolidated net income declined by 16.2% compared to the prior year quarter. For the full year, SKM's net income rose 21% and basic earnings-per-share increased 20% in KRW.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.66	\$2.07	\$2.23	\$3.59	\$4.45	\$1.10	\$2.04	\$2.93	\$3.27	\$3.82	<b>\$2.20</b>	<b>\$2.81</b>
<b>DPS</b>	\$0.96	\$0.96	\$0.98	\$1.04	\$1.00	\$0.97	\$1.00	\$2.67	\$2.64	\$2.73	<b>\$1.39</b>	<b>\$1.46</b>
<b>Shares<sup>2</sup></b>	388.2	386.4	386.4	386.4	393.3	400.2	364.0	332.8	218.0	220.8	<b>222.0</b>	<b>250.0</b>

SK Telecom has seen its earnings-per-share decline by -3% annually in the past five years as a result of its strategic restructuring and its smaller remaining business, but its EPS has grown by 4% annually in the last decade. 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%. SKM will likely grow at a slightly stronger rate in the next five years through the continued increase in 5G subscribers and IPTV subscribers, growth in data center and cloud sales, as well as its new AI products.

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 make up only a small portion of the company's total revenue.

<sup>1</sup> Estimate

<sup>2</sup> In millions

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In 2023, SK Telecom made an aggressive push into becoming an AI company, working 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.

We estimate annual growth of 5.0% from an estimated \$2.20 in earnings per share. Currency fluctuations between KRW and USD can also cause wild swings in results throughout the years. The company now has a total of 9.55 million Pay tv subscribers after Q4 2023. The enlarged scale of the business also allows for the production of original content.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	10.2	9.8	9.4	7.8	6.0	13.5	10.3	11.2	7.1	5.4	<b>10.0</b>	<b>10.5</b>
Avg. Yld.	3.5%	4.8%	4.7%	3.7%	3.9%	4.1%	4.4%	3.8%	7.4%	6.8%	<b>6.3%</b>	<b>5.0%</b>

SK Telecom's average price-to-earnings ratio over the past ten years is 9.1. Today SKM's valuation sits at 10.0 times our 2024 earnings per share estimate of \$2.20. Our fair value estimate of 10.5 times earnings implies the potential for a small valuation tailwind.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	36%	46%	44%	29%	22%	88%	49%	91%	81%	71%	<b>63%</b>	<b>52%</b>

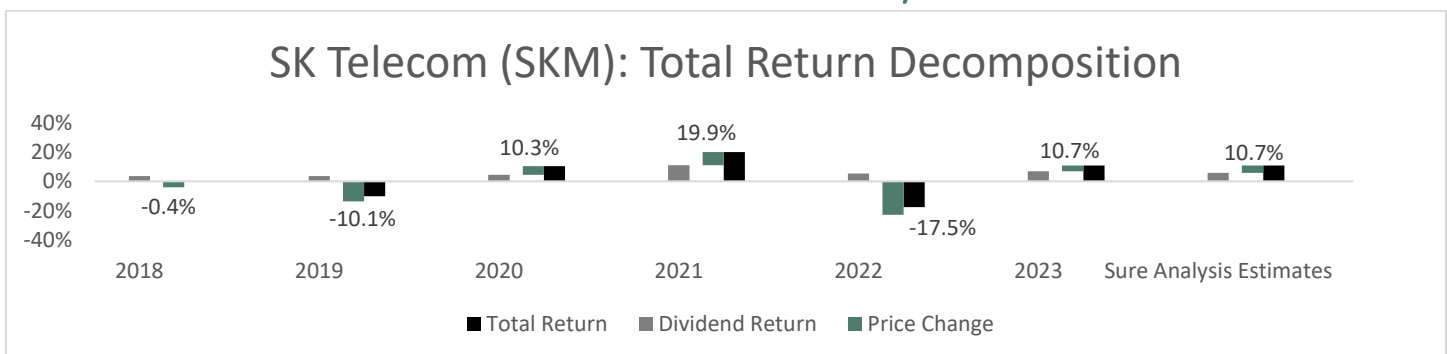
The payout ratio of the company has remained covered for the past decade, and we expect this to continue as earnings outpace dividend growth. The EBITDA margin has remained relatively steady in the last few years and was 31.3% in 2023 based on consolidated results. The company's net debt has improved considerably, declining from \$7.2 billion in 2022 to \$4.4 billion in 2023.

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 6.3% yield. SKM trades with minimal margin of safety, but with total expected returns above 10%, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	16,283	15,134	14,710	15,500	15,309	15,223	15,709	14,632	13446	13480
<b>Gross Profit</b>	13,365	12,217	11,967	12,754	12,665	12,778	13,454	12,687	11696	11780
<b>Gross Margin</b>	82.1%	80.7%	81.4%	82.3%	82.7%	83.9%	85.6%	86.7%	87.0%	87.4%
<b>D&amp;A Exp.</b>	2,744	2,644	2,641	2,873	2,980	3,450	3,517	7,535	6524	
<b>Operating Profit</b>	1,740	1,534	1,363	1,316	1,131	1,001	1,177	3,595	2918	1342
<b>Operating Margin</b>	10.7%	10.1%	9.3%	8.5%	7.4%	6.6%	7.5%	8.5%	9.5%	10.0%
<b>Net Profit</b>	1,709	1,341	1,442	2,300	2,838	763	1,269	2,103	709	837
<b>Net Margin</b>	10.5%	8.9%	9.8%	14.8%	18.5%	5.0%	8.1%	14.4%	5.3%	6.2%
<b>Free Cash Flow</b>	511	1,034	962	880	941	445	1,800	1,505	1642	1428
<b>Income Tax</b>	431	459	375	660	766	258	318			262

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	25,454	24,237	25,914	31,289	37,878	39,010	43,931	25,965	24796	23370
<b>Cash &amp; Equivalents</b>	760	652	1,246	1,364	1,347	1,097	1,256	733	1491	1129
<b>Accounts Receivable</b>	2,179	1,988	1,855	1,990	1,796	1,925	2,007	1,607	1561	1535
<b>Inventories</b>	244	232	215	255	258	141	157	172	132	140
<b>Goodwill &amp; Int. Ass.</b>	4,010	3,573	4,727	5,150	7,556	6,745	7,147	4,992	4277	3830
<b>Total Liabilities</b>	11,563	11,200	12,570	14,414	17,898	19,319	21,559	15,604	15169	13880
<b>Accounts Payable</b>	251	237	333	329	341	378	342	160	71	109
<b>Long-Term Debt</b>	6,155	6,380	6,102	6,991	8,629	8,858	9,829	7,420	7368	7018
<b>Shareholder's Equity</b>	13,216	12,933	13,224	16,700	20,089	19,806	21,773	9,727	8964	8838
<b>LTD/E Ratio</b>	0.47	0.49	0.46	0.42	0.43	0.45	0.45	0.76	0.82	0.79

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	6.8%	5.4%	5.8%	8.0%	8.2%	2.0%	3.1%	6.0%	2.8%	3.5%
<b>Return on Equity</b>	13.2%	10.3%	11.0%	15.4%	15.4%	3.8%	6.1%	13.4%	7.6%	8.8%
<b>ROIC</b>	8.7%	6.8%	7.4%	10.6%	10.8%	2.7%	4.2%	8.4%	4.1%	5.0%
<b>Shares Out.</b>	639.0	645.0	636.0	636.0	647.0	659.0	659.0	332.8	392.99	398.07
<b>Revenue/Share</b>	41.95	38.65	38.07	40.12	39.62	38.61	39.43	37.32	34.21	33.85
<b>FCF/Share</b>	1.32	2.64	2.49	2.28	2.43	1.13	4.52	3.84	4.18	3.59

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

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