



**GNAM**

**Investment competition 2019-20**

**KOSPI : Shinhan Alpha REITs**

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# Introduction

This report consists of five parts. At the beginning, readers are introduced to the Korean economy followed by a deep analysis of Shinhan Alpha REITs; overview of the company, valuation analysis including governmental policy supports and potential net value increase, reasoning for investment, and finally some potential risks that may occur from investment. Additional discussions about peer REITs companies in the market are included.

## Korean Economy & REITs

The economy of South Korea is the fourth in Asia and eleventh in the world. Reviewing history, South Korea had a massive rise from one of the poorest countries in the world into a developed and high-income country. GNP per capital has increased from \$87 in 1962 to \$36,612 in 2018. However, South Korea experienced a negative inflation of minus 0.038% for the first time ever back in July 2019 and its central bank is set to cut its key rate to 1.25% after easing in July 2019 for the first time in three years. Thus, many are concerned that the Korean economy is sliding into an initial phase of deflation which brings in sluggish consumption and economic contraction.

The fear of Deflation is not the only element that drags down South Korea's stock market KOSPI's performance compare to other countries. Geopolitical factors such as the North Korean potential threat and South Korean Government's Policy inconsistencies are recognized as threats to foreign investors over the South Korean stock market, which is referred to as the 'Korea Discount'. Nevertheless, narrowing the focus to a certain industry, Public REITs in South Korea should be very attractive to investors. Public REITs market in Korea still has room to get its valuation higher as the market has just begun and is in yet early period compared to those in the U.S. and Japan, which have already saturated decades ago. Moreover, the South Korean Government's recent real estate policy plan announcement is solely targeted to stimulate the growth of Public REITs would be a catalyst to the drastic growth of the Korean Public REITs market.

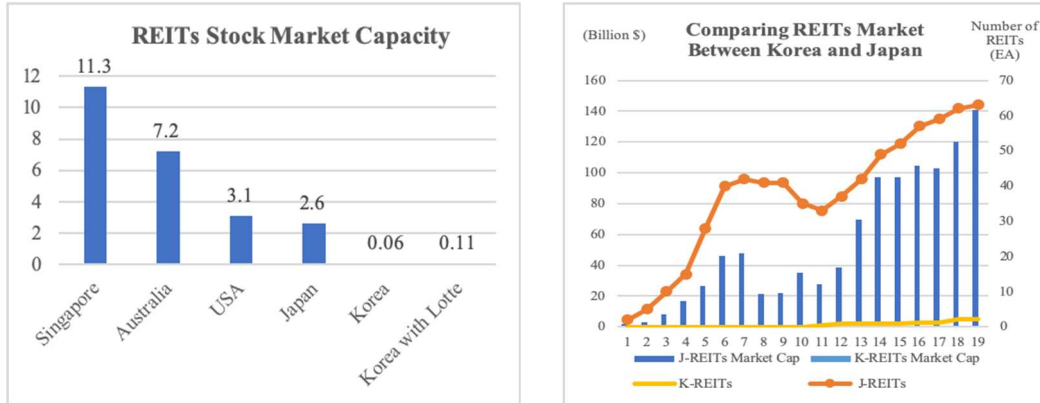
## Company Overview

In August 2018, Shinhan Alpha REITs was the fifth Public REITs stock listed in KOSPI. Shinhan Alpha REITs is derived from Shinhan Financial Group, which has performed a critical role in developing era in the Korean economy since 1963 and this background implicitly creates a significant reliability for Shinhan Alpha REITs. Shinhan Alpha REITs Real Estate Asset portfolio mainly consisted of those owned by Shinhan Financial Group, and strictly focused on functions 'for office use'. In detail, "Office Buildings" in the Asset Portfolio show a significantly lower vacancy rate of 2% (vs. avg. 14.5%), which directly leads to profitability. In summary, Shinhan Alpha REITs has all the elements that investors expect from Public REITs; Profitability, Stability, and Cashability. Thus, Shinhan Alpha REITs must be a perfect pick for investors who intend to create a KOSPI stock portfolio even under the fear of Deflation.

# Outlook

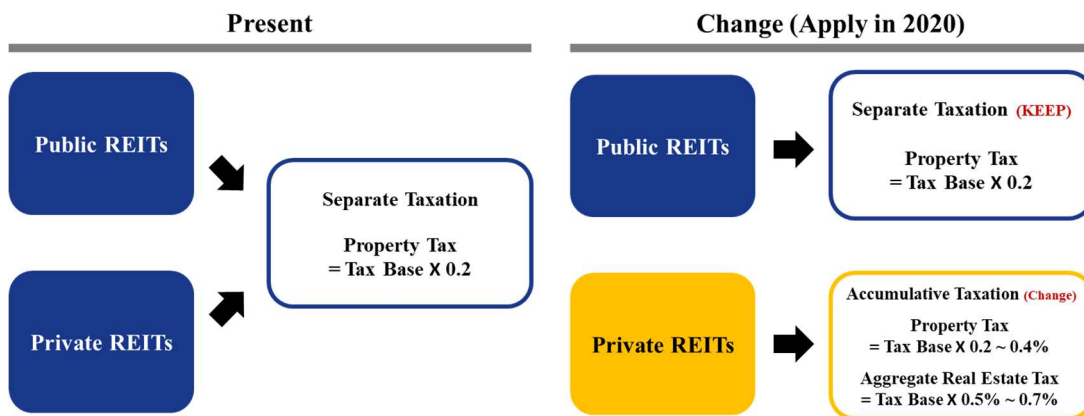
## 1. Public REITs Market Outlook

1) Korea Public REITs market has recently shown extreme growth



As of November 2019, only 5 public REITs are listed in Korea, including Shinhan Alpha REITs and EREITs KOCREF with a market cap of approximately 860 billion KRW. Recently, the Korean government has been emulating Japanese public REITs considering Japan’s similar demographic and industrial structures. Given that the market cap of Korean public REITs currently accounts for 0.06% of KOSPI whereas the market cap of Japanese public REITs accounts for 2.6% of NIKKEI, the Korean public REITs can be expected to grow upwards to 2% within the next 10 years.

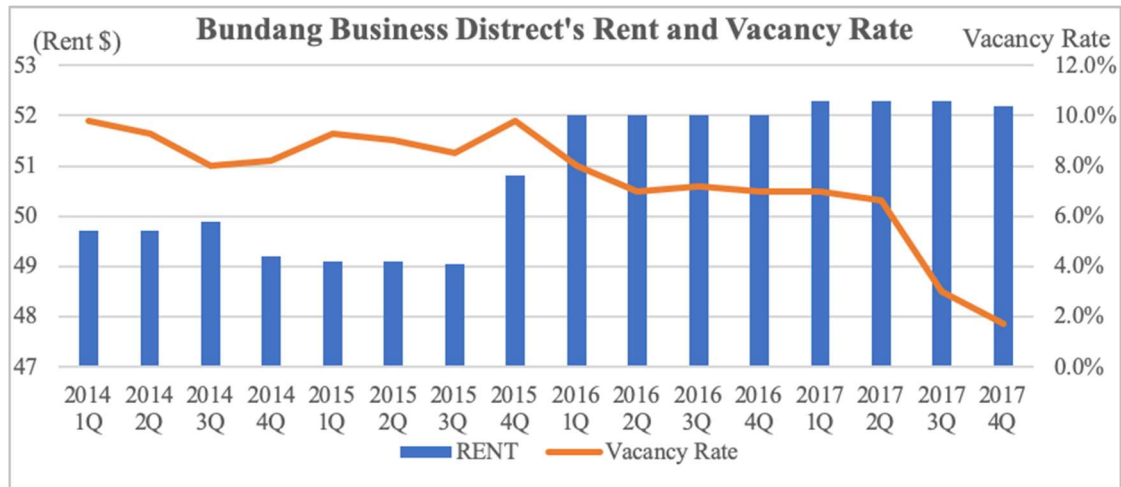
2) Governmental Policy Support expected to become a Catalyst for Growth



In September 2019, the Korean Government announced the ‘Real Estate Indirect Investment Acceleration’ Legislation Bill. Modeled after Japan’s Public REITs market, the Bill was developed to create detailed support policies for Korea’s Public REITs market. Under this new bill, market players will be incentivized with Taxation Benefits: Public REITs will apply Separate Taxation only on Property Taxation while Private REITs will apply a system of accumulative taxation through both Aggregate Real Estate Tax and Property tax. Furthermore, Separate Taxation will be applied on investors’ dividend profits, while corporate tax will be exempt if more than 90% of possible profits are allocated. In sum, receiving approximately 2% of tax saving, Public REITs will benefit from not only Tax Savings, but also from priority access to participate in Public Asset Developments. Overall, these special benefits will function as huge incentives to encourage market players to participate in the Public REITs market, resulting in massive growth of Public REITs market in Korea.

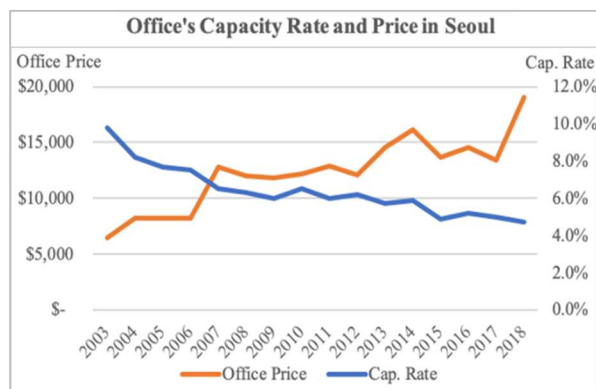
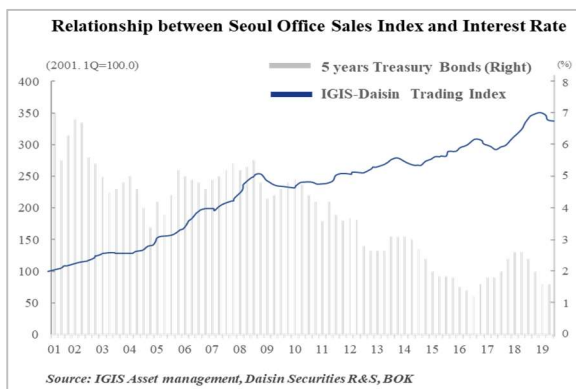
## 2. Company Outlook

### 1) FFO Potential



Shinhan Alpha REITs' Asset Portfolio consists of 3 mega office buildings located in major CBD (=Central Business District) areas inside and outside of Seoul, including Bundang, Yonsan-gu, Gangnam-gu. While rent levels in these 3 areas are consistently rising, the average vacancy rate has stayed under 2%. And with the majority of tenants being massive IT companies with set 10 year contracts, landlords have complete and competitive advantage. Furthermore, the annual rent rate is contractually set to hike up to 2.5%, no doubt increasing the FFO consistently and affecting the stock price of Shinhan Alpha REITs positively.

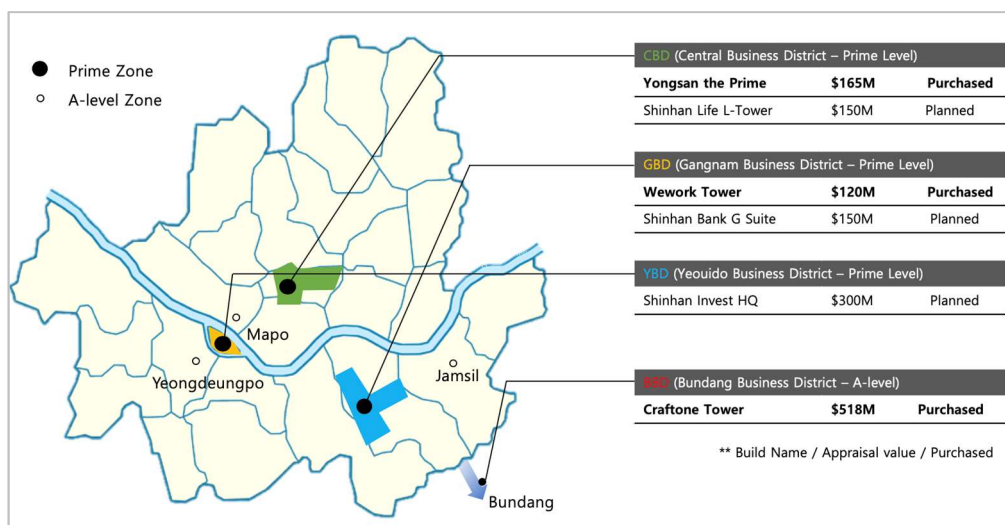
### 2) Net Asset Value Potential with Price Increase of Real Estate



Taking into account Korean economy's concern with deflation, there will no doubt be a cut in interest rates. This trend will likely lead the economy to a higher liquidity and lower lending burden, driving up office real estate prices. Office sales have risen 40.9 percent from 2010 to the first quarter of 2019, while the five-year KTB yield has fallen from 4.69 percent to 1.86 percent. Therefore, Shinhan Alpha REITs, which holds office buildings as its main portfolio, is expected to see an increase in its real estate market value (=NAV).

# Qualitative Valuation

## 1. Evolution into Growth-type REITs with new assets



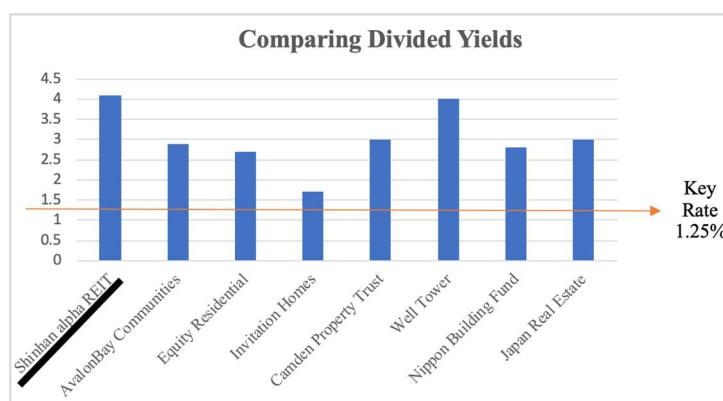
Shinhan Alpha REITs stands for growth-type REITs, and Shinhan Alpha AMC plans to incorporate assets worth 800 billion KRW in major CBD, Gangnam BD, and Youido BD within the next three years. This incorporation will transform Shinhan Alpha REITs into a growth-type REIT, attracting new investors and thus raising the FFO level in addition to generating additional revenue sources.

## 2. Expect to concentrate investment funds due to large size of public REITs

IPO Schedule		REITs Name	Market Cap. (M\$)	IPO Price (\$)	Current Price (\$)	Change (%)
Done	2011 Jul	A-REITs	2.4	5.5	6.48	18%
	2012 Jan	K-Top REITs	4.1	5.5	915	-83%
	2016 Sept	Modu Tour REITs	2.2	6.0	3,050	-49%
	2018 Jun	E-KOCREF	39.8	5.0	7,070	41%
	<b>2018 Aug</b>	<b>Shihan Alpha REITs</b>	<b>38.1</b>	<b>5.0</b>	<b>8,350</b>	<b>67%</b>
	2019 Oct	Lotte REITs	1,093.7	5.0	6,340	27%
Planned	In 2019	NH REITs	700 ↑	-	-	-
		Shinsegye REITs	700 ↑	-	-	-
		Igis Asset Management	-	-	-	-

The increase in the number of publicly listed stocks in Korea's public REITs market not only enables economies of scale for individual operators to operate REITs, but also raises awareness of Korea as an investment destination for individual investors.

### 3. Interest in high-dividend products in the low growth phase



Since Korea's public REITs are still in their early stages, dividends are likely to increase through higher rents and the inflow of new rental assets. In particular, Shinhan Alpha REITs has promised a high dividend yield of 6%, making them more attractive to investors than other domestic and overseas peers considering the average dividend yield of 5% in Korea and 4% in both Japan and US.

Taking into account the attractiveness of Shinhan Alpha REITs, the high dividend and growth-type REITs, and the rise of the Korean public REITs, valuation can be expected to rise slightly in the mid-term due to liquidity premium from new investors.

## Quantitative Valuation

Target share price of Shinhan Alpha REITs is calculated using Dividend Discount Model (DDM). DDM is based on the theory that its stock is worth the sum of all of its future dividend payments, discounted back to their present value. DDM which utilizes dividend growth rate is used because REITs is required to pay out dividends; 90% or more of net income available for dividends according to relevant law.

Weighted Average Cost of Capital (WACC) of 2.7% is used as a discount rate and growth rate of Funds From Operations (FFO) and dividend growth rate is 2.5% respectively. Our model is based on the conservative assumptions listed below.

#### <Forecasted revenue and operation profit>

(Bn KRW, %)	2018A	2019F	2020F	2021F	2022F
Revenue	7.0	43.2	45.8	48.6	53.1
Revenue YoY change	n/a	517%	6%	6%	9%
Operation Profit	-1.4	24.2	25.3	26.5	28.2
Operation profit YoY change	n/a	1829%	5%	5%	6%

<DDM Valuation of Shinhan Alpha REITs : Target share price: 11,855 KRW>

(Bn KRW, %)	2019F	2020F	2021F	2022F	2023F	2024F
*FFO(Bn)	16.5	16.9	17.3	17.8	18.2	18.7
No. of shares ('000)	47,630	47,630	47,630	47,630	47,630	47,630
FFO per share(KRW)	346	355	364	373	382	392
Dividend payout ratio as to FFO(%)	100%	100%	100%	100%	100%	100%
Dividend Per Share (KRW)	278	285	292	299	307	315
Discounted Dividend Per Share	278	277	277	276	276	275
Expected share price(KRW)						<b>11,855</b>

\*FFO is Funds From Operations generally used as a measure of cash available for dividend pay from REITs. FFO=Net Income+Depreciation expense-gain or loss on sales of real estate property

Few of the relevant assumptions/calculations involved in DDM Analysis		
Assumption/Calculation	Value	Reasons
Rf (Risk Free Rate)	1.56%	Based on KR 5year national bond
Rm (Market rate of return)	4.10%	Based on the ongoing rate of return
(Beta) – Company share price in comparison with the market	0.09	Assumption based on data from various financial stock market analysis
Re (Cost of Equity)	1.79%	$Re = Rf + \beta (Rm - Rf)$
Dividend Yield	3.37%	Based on 5-year forecasted data
Constant Dividend Growth Rate	2.5%	Based on growth rate of 5-year forecasted FFO
Rd (Cost of Debt)	3.27%	Rate a company pays on its debt
Corporate Tax Rate (t)	0%	Corporate Income Tax is exempted for REITs company when dividend is paid more than 90% out of net income available for dividends
WACC	2.70%	$WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$

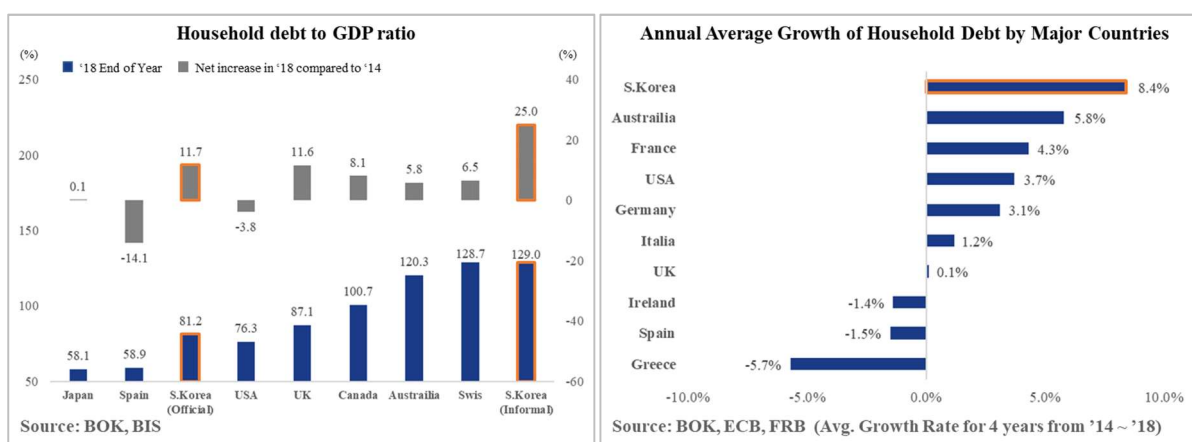
Considering a WACC of 2.7% and constant dividend growth rate of 2.5% the model provides a **target share price of 11,855 KRW**, upside return of 38.3%.



# Risks

As REITs is composed of real estate assets, the bubble in the Korean real estate market is a risk to be noted. Looking back at the 2008 subprime mortgage crisis, one way to judge the bubble in the real estate market is to look at household debt. This is because household debt is an important entity that determines the direction of the real estate market beyond simply bank insolvency.

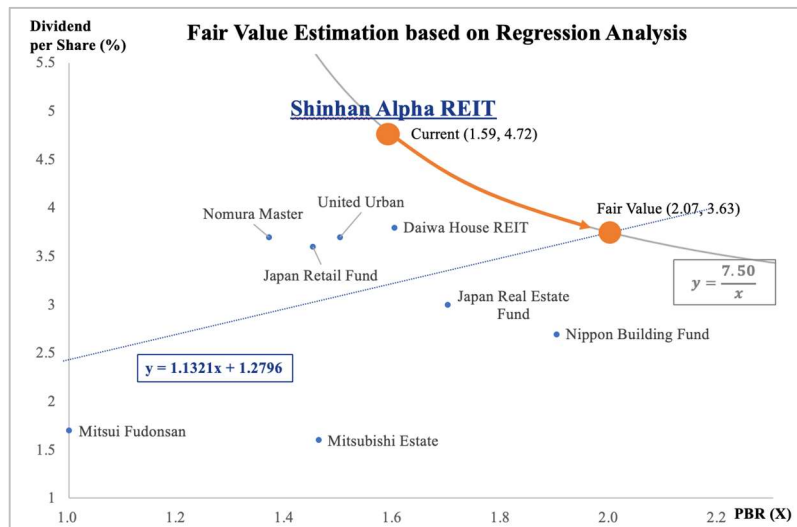
The government's current household debt statistics are based on the narrowest index of household credit definition (Graph 1, Official). If they use the same criteria as developed countries do, Korea's household debt is now significantly higher than the GDP (Graph 1, Informal). In addition, Korea's household debt is also growing rapidly, the highest level among OECD countries. (Graph 2)



Looking at the quality of household debt, the government announced that the share of long-term loans for mortgage loans for more than 10 years improved to 64.7% at the end of 2017, up from 46% in 2012. For this reason, foreign credit rating agencies such as S&P also positively evaluate Korea's household debt. However, this figure is also less than 20% when the statistic criteria includes all kinds of household debt. In addition, a comparison of the rate of increase in leased loans and the increase in apartment prices suggests that the likelihood of debt was used to invest in the housing market, which means the Korean real estate market might be in danger of a bubble.

Based on these reasons and with a conservative approach, Korea's household debt is at the most dangerous level among OECD countries in terms of size and growth. In addition, the high portion of debt is used for real estate investment, and the high portion of loans with short-term interest is very dangerous as well. In conclusion, Korea's household debt is at higher risk than the government's outward indicators, and the bubble in the real estate market is also in danger. This could pose a potential risk to the Korea's public REITs market.

# Peer Comparison



The derivation of Japan’s Public REITs market’s ‘Dividend per Share – PBR relationship’ using the Regression Analysis Methodology is seen below. Since the Korean government models Korea’s Public REITs market based on Japan’s Public REITs market that has matured a decade ago, Japan’s Public REITs market is the best point of reference to fully understand Shinhan Alpha REITs’ fair valuation system.

## [Regression Analysis]

① Dividend per Share =  $1.1321 \times \text{PBR} + 1.2796$

Under the supposition that Shinhan Alpha REITs’ fundamental capability always be consumed in marginal level, then Dividend per Share – PBR Combination with current fundamental capacity would move along the ‘Dividend per Share – PBR Indifference Curve’ as below.

## [Dividend per Share – PBR Indifference Curve] \*\*Induce Order be shown in the foot note

② Dividend per Share =  $7.50 \times \frac{1}{\text{PBR}}$

Thus, the point of intersection between ① Regression Analysis Line and ② Indifference Curve cross each other, forms Shinhan Alpha REITs’ Fair Value. And from these combinations, the price range between Fair Current Price and Value Range can be calculated as below.

Current Value Combination ( $P_0, P_0$ ) = (1.59, 4.72)

Fair Value Combination ( $P_{PBR}, P_{DIV/Share}$ ) = (2.07, 3.63)

Current Price =  $f(\text{PBR}, \text{Div}/\text{Share}) = f(1.59, 4.72) = 8,570 \text{ KRW}$

Fair Value Price =  $f(\text{PBR}, \text{Div}/\text{Share}) = f(2.07, 3.63) = 11,157 \text{ KRW}$

Current Price ~ Fair Value Price : 8,570 ~ 11,157 KRW (Upside 30.1%)

Fair Value Price calculated above 11,157 KRW has only 5.7% of difference from the Target Price of 11,855 KRW derived from DDM model in Quantitative Analysis.

## Conclusion

**We suggest BUY.** Based on our Company outlook, Peer Comparison, Qualitative and Quantitative (DDM analysis based on sustainable dividend growth model) analysis, we are convinced Shinhan Alpha REITs is seriously undervalued at this moment. We expect a **target price of 11,855 KRW.** This in an upside of 38.3% from the current share price of 8,570 KRW.

\*\* Inducing ‘Dividend per Share – PBR Combination’ indifference Curve.

$$\text{Dividend Yield} = \frac{\text{Dividend per Share}}{\text{Price}}$$

$$\text{PBR} = \frac{\text{Price}}{\text{Net Income per Share}}$$

$$\text{Price} = \text{PBR} \times \text{Net Income per Share}$$

If price is fixed, price equation would substitute to Dividend Yield equation. The equation will be as below.

$$\text{Dividend Yield} = \frac{\text{Dividend per Share}}{\text{PBR} \times \text{Net Income per Share}}$$

Then,  $\frac{\text{Dividend per Share}}{\text{Net Income per Share}}$  will be shown as slope.

$x$  stands for PBR and  $y$  shows Dividend Yield in the graph, so  $y = \frac{1}{x}(\text{slope})$

# EMART [139480:KS]



## [Overview]

E-mart is Korea's leading distribution company with 148 hypermarkets nationwide (M/S 26.2%). Started as a food material mart, the company has been focusing on warehouse type discount stores with Costco's business model since 2015.

## [Financial Analysis]

In 2019, revenue is estimated to be 19,092bn KRW from 17,049bn KRW last year (+12% YoY), while operating income fell from 470bn KRW to 230bn KRW(-51.1% YoY) due to higher expenses. In 2Q19, EBITDA shows a slight increase to 528bn KRW(+1.8% YoY), but overall profitability declined due to lower sales at discount stores, and temporary financial stability deteriorated due to expenses for acquisition of Good Food Holding. (Net debt -2.7% YoY)

## [Recent Development]

1) No.1 E-commerce Firm in Crisis: Coupang, which benchmarked Amazon's business model is currently the top online retail company backed by SoftBank Vision Fund's financial power. However, Coupang has seen deficits of 1 trillion KRW and needs to increase its capital with FSS's recommendation. This will be the biggest opportunity for E-Mart which has completed its e-commerce system.

2) Rebuilding Logistics Infrastructure to dominate E-commerce Market: E-Mart has improved the delivery efficiency and SKUs with the launch of its online platform SSG.com in 2017. Last year, it introduced an automated system and boosted its GPM by 1.5%. With slow growth of online-only platforms, E-Mart will generate profits in the online fresh food market thanks to its unique advantage of having both online and offline stores.

## [Valuation]

As online retail market is expected to grow 17% YoY, we suggest BUY and expect target price of 150,000 KRW, upside return of 32.15%.

## Recommendation

**BUY**

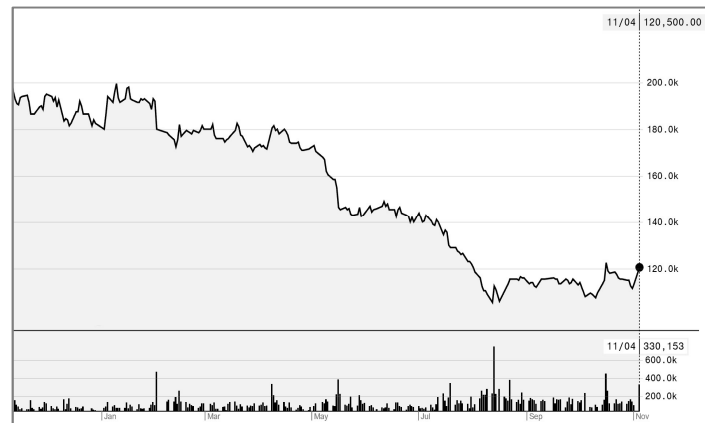
## Target Price

**150,000**

## Market Overview

<b>Bloomberg Code</b>	139480:KS	<b>Sector</b>	Consumer Staples
<b>Upside Return</b>	32.15%	<b>Present Price</b>	113,500
<b>MarketCap</b>	3.164T	<b>30 Day Avg Volume</b>	148,091
<b>52wk Price Range</b>	104,500 ~ 213,000	<b>52wk Beta</b>	0.88

Peers	P/E	P/B	EV / EBITDA
<b>Emart</b>	7.03	0.39	9.18
<b>Lotte Shopping</b>	N/A	0.30	8.56
<b>Shinsegye</b>	9.70	0.67	9.92
<b>BGF Retails</b>	20.12	5.93	11.3



(Bn KRW)	2018A	2019E	2020E
Revenue (bn KRW)	17,049	19,092	20,246
Operating Profit (bn KRW)	471	230	312
Net Income (bn KRW)	450	190	249
EPS (KRW)	15,668	6,805	9,015
EPS YoY Change(%)	-27.5%	-56.6%	32.5%
PER(X)	7.03	N/A	N/A
EV/EBITDA(X)	9.18	N/A	N/A
PBR(X)	0.39	N/A	N/A
ROE(%)	5.32	N/A	N/A
Dividend Yield(%)	1.76%	N/A	N/A

# KOLMAR [161890:KS]



## [Overview]

Kolmar Korea's main business is R&D and manufacturing of cosmetics and pharmaceuticals, and it generates revenues with general and functional cosmetics. It is the leading company in the cosmetics OEM/ODM industry.

## [Financial Analysis]

Revenue in 2019 will be increased to 1,587bn KRW from 1,358bn KRW last year (+16.9% YoY), and operating income will also be up to 137bn KRW from 90bn KRW (+52.1% YoY). In 2Q19, ROE has been increased to 16.3% from 14.7% in 2Q18, showing an improvement in profitability.

## [Recent Development]

1) Resolving boycotts: The domestic cosmetics business sales fell to 1,457bn KRW (-17.7%), and the domestic cosmetics industry slowed down. The company's high base effect and a boycott issued last August. The company's sales are expected to decline in the next quarter due to the impact on the company.

2) Growth recovery in China, US and Canada market: Some of the Beijing plant's shipments to the Wuxi plant, which was completed last year, have been mostly completed, and new customer orders are expected to increase 87.8% QoQ to 9.2bn KRW. As a result, China's combined sales should also turn to positive growth (+9.8% YoY). The US and Canada markets are also expected to maintain steady earnings with sales of 22.2bn KRW(+4.3% YoY).

## [Valuation]

Sales growth has deteriorated sharply due to multiple bad news reports, but the share price is expected to rebound on a gradual recovery by the end of the year. The target price is estimated at 64,250 KRW, with an upside return of 37.13%. **We suggest BUY.**

## Recommendation

**BUY**

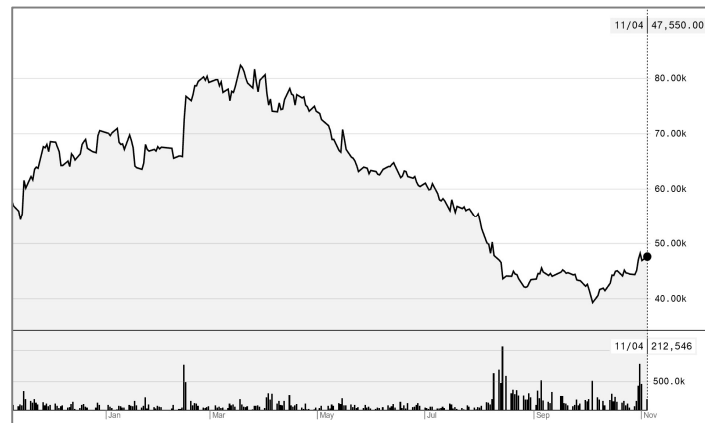
## Target Price

**64,250**

## Market Overview

<b>Bloomberg Code</b>	161890:KS	<b>Sector</b>	Consumer Staples
<b>Upside Return</b>	37.13%	<b>Present Price</b>	46,850
<b>Market Cap</b>	1.072T	<b>30 Day Avg Volume</b>	216,136
<b>52wk Price Range</b>	39,100 ~ 83,500	<b>52wk Beta</b>	0.92

Peers	P/E	P/B	EV / EBITDA
<b>Kolmar</b>	23.98	2.39	21.94
<b>Amore Pacific</b>	40.72	3.06	17.85
<b>LG Health Care</b>	32.65	6.22	15.65
<b>Cosmax</b>	24.00	2.95	22.58



(Bn KRW)	2018A	2019E	2020E
Revenue (bn KRW)	1,358	19,092	20,246
Operating Profit (bn KRW)	90	137	158
Net Income (bn KRW)	42	57	73
EPS (KRW)	1,921	2,520	3,144
EPS YoY Change(%)	-12.7%	31.2%	24.8%
PER(X)	23.98	N/A	N/A
EV/EBITDA(X)	21.94	N/A	N/A
PBR(X)	2.39	N/A	N/A
ROE(%)	11.38	N/A	N/A
Dividend Yield(%)	0.70%	N/A	N/A

# KSOE [009540:KS]

**KSOE** KOREA SHIPBUILDING & OFFSHORE ENGINEERING

## [Overview]

KSOE is an intermediate holding company of Hyundai Heavy Industries Group. Hyundai Heavy Industries, Hyundai Mipo Dockyard, and Hyundai Samho Heavy Industries, which are affiliated with KSOE, maintained global No.1 position for more than 40 years.

## [Financial Analysis]

At the end of 2018, KSOE maintained a robust balance sheet with cash and cash equivalent of 4,287bn KRW, and net asset value per share of 185.4. It is expected that revenue will increase to 14,853bn KRW in 2019 from 13,120bn KRW last year (+13.2% YoY), and operating income will be 1,081bn KRW from 357bn KRW (+203% YoY).

## [Recent Development]

1) Clear Earnings Momentum: As order backlogs are showing a turnaround, the company's allowance in construction contract ratio continues to fall from 6% (2Q18) to 0.7% (2Q19). In 4Q19, Korean shipbuilders have recently recorded high-quality orders for LNG-operated crude oil carriers, which are estimated at \$1.1bn, 15% higher than existing crude oil carriers' price of \$96M. Therefore, the overall profit level is expected to be high with no allowance.

2) Increasing demand for LNG carriers: IMO2020, a new regulation for a 0.5% global sulfur cap for marine fuels, is expected to drive up the LNG carrier market. LNG carriers can be a long-term alternative because they are free from scrubber problems. In addition, CO2 emission regulations in 2025 cannot be matched with scrubbers. Thus, continuous environmental regulations are the reason for choosing LNG carriers. With a unique competitive edge on LNG carriers, Korean shipbuilders won 73% of the world's LNG orders. As the market grows, KSOE will benefit greatly.

## [Valuation]

In terms of fundamentals, KSOE is expected to turn to surplus year-over-year in 2019 (+12.7% YoY) and sound order flow. **We suggest BUY** with the target price of 170,000 and an upside return of 36.5%.

## Recommendation

**BUY**

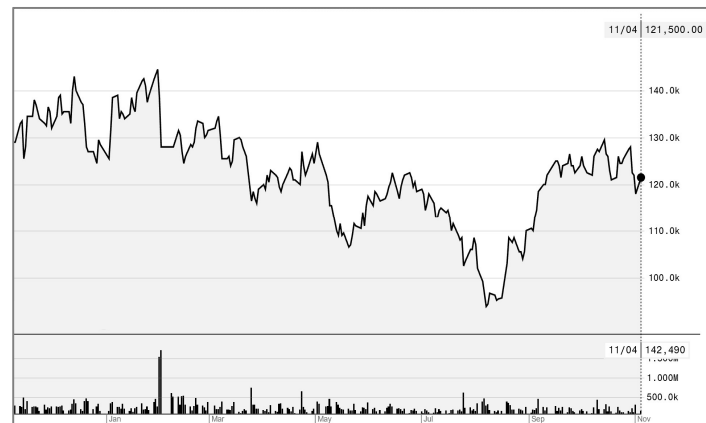
## Target Price

**170,000**

## Market Overview

<b>Bloomberg Code</b>	009540:KS	<b>Sector</b>	Shipbuilding/Transportation Equipment
<b>Upside Return</b>	36.5%	<b>Present Price</b>	118,000
<b>Market Cap</b>	8.351T	<b>30 Day Avg Volume</b>	177,976
<b>52wk Price Range</b>	93,800 ~ 146,000	<b>52wk Beta</b>	0.97

Peers	P/E	P/B	EV / EBITDA
<b>KSOE</b>	N/A	0.79	N/A
<b>Samsung Heavy Industry</b>	N/A	0.61	N/A
<b>DSME</b>	10.61	0.95	5.53



(Bn KRW)	2018A	2019E	2020E
Revenue (bn KRW)	13,112	14,853	16,757
Operating Profit (bn KRW)	-523	149	367
Net Income (bn KRW)	-489.1	247.6	286.1
EPS (KRW)	-7,855	2,934	3,406
EPS YoY Change(%)	-118%	-137%	16%
PER(X)	N/A	N/A	N/A
EV/EBITDA(X)	N/A	10.6	11.5
PBR(X)	0.76	0.72	N/A
ROE(%)	-4%	N/A	N/A
Dividend Yield(%)	N/A	N/A	N/A

# KT [030200:KS]



## [Overview]

KT provides telecommunications and media services such as landline, wireless, high-speed internet, and IPTV. Its market share is 80.7% for local calls, 31.7% for mobile phones, 40.9% for high-speed Internet, and 46.8% for IPTV.

## [Financial Analysis]

KT's sales in 2019 will grow up to 24,221bn KRW from 23,460bn KRW in 2018 (+3.2% YoY), however, its operating income will decrease to 1,166bn KRW from 1,262bn KRW (-7.6% YoY) due to higher SG&A expenses.

## [Recent Development]

1) Growth of 5G Subscribers: 5G service subscribers are growing faster than expected. As of end-August, KT's 5G subscribers accounted for 86.5mn, with 5G market share with 31%. KT's 5G subscribers at end-3Q are estimated at 1.09mn, up 670,000 from 420,000 at end-2Q.

2) Upward Trend in Wire/Wireless ARPU: With increase of 5G subscribers, the wireless ARPU has rebounded from 2Q19. In addition, 5G service is expected to stabilize as network coverage and indoor repeater investment will be completed to some extent. Moreover, IPTV sales are increasing every year with estimates of 2.2 trillion in 2019 (+13% YoY). Also the number of IPTV subscribers and ARPU are on the rise (+6%, +20% YoY respectively).

3) Share Prices Bottomed out due to High Dividend Attraction: KT has the highest dividend payout ratio among the three telecom companies. The company is expected to pay dividends of 1,100 KRW per share in February next year, and the dividend yield is estimated at more than 4%. Considering this, we believe KT stock has bottomed out.

## [Valuation]

**We suggest BUY** with the target price of 38,000 KRW. The target price was derived by applying EV/EBITDA of 2.6x. We forecast operating revenue of 23.99tr KRW(2.2% YoY) and operating profit of 1.96tr KRW(-5% YoY). The wireless business is expected to grow, reaching 6.89tr KRW (+1% YoY).

## Recommendation

**BUY**

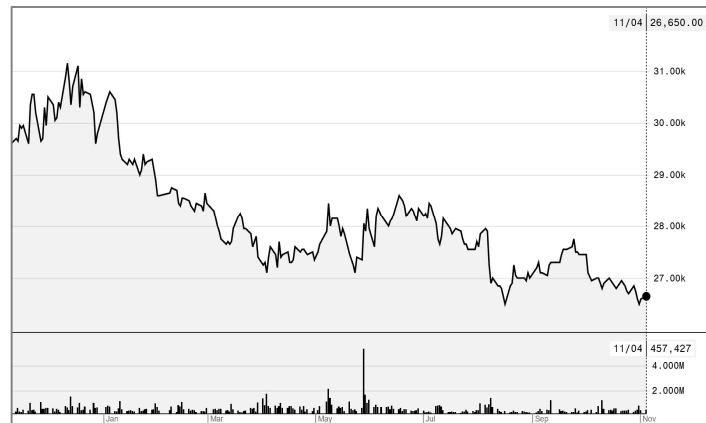
## Target Price

**38,000**

## Market Overview

<b>Bloomberg Code</b>	030200:KS	<b>Sector</b>	Telecommunications
<b>Upside Return</b>	42.9%	<b>Present Price</b>	26,600
<b>Market Cap</b>	6.946T	<b>30 Day Avg Volume</b>	452,118
<b>52wk Price Range</b>	26,500 ~ 31,250	<b>52wk Beta</b>	0.06

Peers	P/E	P/B	EV / EBITDA
<b>KT</b>	11.3	0.55	2.65
<b>SK Telecom</b>	6.96	0.89	6.44
<b>LG Uplus</b>	16.00	1.12	4.26



(Bn KRW)	2018A	2019E	2020E
Revenue (bn KRW)	23,460	24,221	24,888
Operating Profit (bn KRW)	1,262	1,166	1,296
Net Income (bn KRW)	689	665	781
EPS (KRW)	2,809	2,561	3,004
EPS YoY Change(%)	44%	-9%	17%
PER(X)	11.3	N/A	N/A
EV/EBITDA(X)	2.65	N/A	N/A
PBR(X)	0.55	0.52	N/A
ROE(%)	6%	N/A	N/A
Dividend Yield(%)	N/A	4.14%	N/A