

KT

4Q in line; stable earnings in 2024E; well positioned toward Corporate Value-up

Reiterate Rating: BUY | PO: 45,000 KRW | Price: 37,650 KRW

4Q OP in line; NPAT decline on goodwill impairment losses

KT posted a 4Q operating profit of W266bn (+75% YoY, -17% QoQ), in line with our/consensus estimates. KT Cloud/KT Estate sustained YoY growth of 15%/48% in 4Q, while KT had one-off losses of c.W50bn on a change in the amortization period from two years to one year for sourcing media content. Meanwhile, KT posted a 4Q net loss of W42bn (versus a W243bn profit in 4Q22), recognizing impairment losses (c.W100bn) incurred on goodwill of subsidiaries (KT Epsilon, HCN). KT announced DPS of W1,960 (flat YoY) with share buyback/cancellation of W27.1bn, accounting for 50% payout ratio.

Expect higher earnings growth in 2024 versus peers

During the call, the CFO guided for consolidated revenue of W27tn (+2.3% YoY) in 2024, expecting moderate mobile revenue growth while focusing on five growth businesses (AICC, IoT, Smart Mobility, Smart Space, and Energy Biz), which grew at a 16% CAGR over 2020-23. We expect KT to post higher earnings growth, with OP rising 10% YoY in 2024 versus SKT's/LGU's 4%/2%, backed by more exposure to the non-telco portfolio, including revenue of KT Cloud (+18% YoY) and KT Estate (+26%) versus mobile (+2%).

Well positioned to benefit from corporate value-ups

We believe that KT is well positioned to benefit from the government's plans to launch a corporate value-up program, given its low P/B ratio at 0.56x (2024E) and potential value unlocking by subsidiary restructuring. The higher earnings growth profile (EBITDA CAGR of 5% over 2022-25E versus peers' 2%) and rising dividend income from its subsidiaries (W110bn in 2023, 22% of KT's dividend payout) should be key resources for improvement in shareholder returns, in our view.

Reiterate Buy and PO of W45,000; 6% dividend yield

We reiterate Buy rating and our W45,000 (US\$17.31 ADR) PO, backed by 1) the ongoing effective cost control in telco; 2) higher top-line growth in non-telco, mainly from KT cloud with rising AI demand and resilient earnings at KT Estate; 2) attractive shareholder returns (6% yield, sustainable share buyback program). Catalysts: 1) easing regulatory risks after elections in April 2024 and (2) potential upside in shareholder returns.

Estimates (Dec) (W)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	1,185,658	1,287,574	945,169	1,243,101	1,494,441
EPS	4,968	5,236	3,762	5,052	6,082
EPS Change (YoY)	72.8%	5.4%	-28.1%	34.3%	20.4%
Dividend / Share	1,910	1,960	1,960	2,040	2,120
Free Cash Flow / Share	8,659	639.25	8,399	8,969	9,148
ADR EPS (US\$)	2.17	2.03	1.42	1.90	2.29
ADR Dividend / Share (US\$)	0.834	0.759	0.738	0.768	0.798
Valuation (Dec)					
P/E	7.58x	7.19x	10.01x	7.45x	6.19x
Dividend Yield	5.07%	5.21%	5.21%	5.42%	5.63%
EV / EBITDA*	3.59x	3.54x	3.51x	3.31x	3.09x
Free Cash Flow Yield*	21.29%	1.62%	21.74%	22.73%	23.15%

* For full definitions of *IQmethod*SM measures, see page 9.

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Refer to important disclosures on page 10 to 13. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

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Timestamp: 12 February 2024 03:30PM EST

13 February 2024

Equity

Key Changes

(W)	Previous	Current
2023E EBITDA (m)	5,460,784.1	5,446,392.9
2024E EBITDA (m)	5,798,437.3	5,766,573.1
2025E EBITDA (m)	6,203,841.4	6,185,514.7

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Stock Data

Price (Common / ADR)	37,650 KRW / 13.93 USD
Price Objective	45,000 KRW / 17.31 USD
Date Established	8-Nov-2023/8-Nov-2023
Investment Opinion	A-1-7 / B-1-7
52-Week Range	28,850 KRW-39,100 KRW
Market Value (mn)	7,309 USD
Market Value (mn)	9,708,458 KRW
Shares Outstanding (mn)	257.9 / 515.7
Average Daily Value (mn)	20.81 USD
Free Float	60.7%
BoFA Ticker / Exchange	KTCNF / KSC
BoFA Ticker / Exchange	KT / NYS
Bloomberg / Reuters	030200 KS / 030200.KS
ROE (2023E)	5.7%
Net Dbt to Eqty (Dec-2022A)	41.2%

AI: artificial intelligence

ARPU: average revenue per user

c.: circa

DPS: dividend per share

k: thousand

LGU: LG Uplus

MNO: mobile network operator

NPAT: net profit after tax

OP: operating profit

PO: price objective

SKT: SK Telecom

iQprofileSM KT

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(W Millions)					
Sales	24,898,005	25,650,011	26,387,039	26,954,316	28,010,697
Gross Profit	24,898,005	25,650,011	26,387,039	26,954,316	28,010,697
Sell General & Admin Expense	(7,809,114)	(8,323,948)	(8,294,855)	(8,584,920)	(8,832,647)
Operating Profit	1,671,824	1,690,088	1,649,846	1,807,906	2,206,053
Net Interest & Other Income	190,526	221,264	(282,406)	(39,926)	(120,050)
Associates	116,061	(17,285)	(43,398)	20,000	20,000
Pretax Income	1,978,411	1,894,067	1,324,042	1,787,979	2,106,003
Tax (expense) / Benefit	(519,016)	(506,404)	(335,340)	(464,875)	(547,561)
Net Income (Adjusted)	1,185,658	1,287,574	945,169	1,243,101	1,494,441
Average Fully Diluted Shares Outstanding	239	246	251	246	246

Key Cash Flow Statement Data

Net Income	1,356,878	1,262,498	896,093	1,243,101	1,484,441
Depreciation & Amortization	3,647,354	3,710,666	3,796,547	3,958,668	3,979,462
Change in Working Capital	31,654	(1,799,767)	161,845	(72,928)	(73,463)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	525,948	423,668	534,604	330,004	84,001
Cash Flow from Operations	5,561,834	3,597,065	5,389,089	5,458,845	5,474,441
Capital Expenditure	(3,495,021)	(3,439,857)	(3,278,903)	(3,251,943)	(3,226,715)
(Acquisition) / Disposal of Investments	(755,576)	(1,696,016)	(433,976)	0	0
Other Cash Inflow / (Outflow)	(886,877)	297,230	(610,936)	(485,079)	(602,757)
Cash Flow from Investing	(5,137,474)	(4,838,643)	(4,323,815)	(3,737,022)	(3,829,471)
Shares Issue / (Repurchase)	193,626	0	300,086	0	0
Cost of Dividends Paid	(350,334)	(476,800)	(526,808)	(729,384)	(502,683)
Cash Flow from Financing	(41,282)	669,331	(318,544)	(682,012)	(455,312)
Free Cash Flow	2,066,813	157,208	2,110,186	2,206,902	2,247,726
Net Debt	5,437,347	7,583,520	7,148,837	6,156,398	5,014,112
Change in Net Debt	515,426	1,961,851	(650,995)	(992,439)	(1,142,286)

Key Balance Sheet Data

Property, Plant & Equipment	14,464,886	14,772,179	14,617,458	14,739,941	14,816,402
Other Non-Current Assets	10,836,105	13,526,970	13,370,172	13,669,746	12,976,234
Trade Receivables	5,087,490	6,098,072	7,970,015	8,178,280	8,537,170
Cash & Equivalents	3,019,592	2,449,062	3,194,734	4,234,545	5,424,202
Other Current Assets	3,751,268	4,134,398	4,484,584	4,589,295	4,750,888
Total Assets	37,159,341	40,980,681	43,636,963	45,411,808	46,504,897
Long-Term Debt	6,728,496	8,205,540	7,962,318	7,962,318	7,962,318
Other Non-Current Liabilities	3,791,252	3,661,150	3,737,927	4,431,630	3,964,569
Short-Term Debt	1,728,443	1,827,042	2,381,254	2,428,625	2,475,996
Other Current Liabilities	8,343,989	8,872,226	11,165,980	11,406,030	11,853,050
Total Liabilities	20,592,180	22,565,958	25,247,479	26,228,603	26,255,934
Total Equity	16,567,161	18,414,723	18,389,484	19,183,205	20,248,963
Total Equity & Liabilities	37,159,341	40,980,681	43,636,963	45,411,808	46,504,897

iQmethodSM - Bus Performance*

Return On Capital Employed	5.2%	4.7%	4.4%	4.7%	5.4%
Return On Equity	8.2%	8.2%	5.7%	7.4%	8.5%
Operating Margin	6.7%	6.6%	6.3%	6.7%	7.9%
EBITDA Margin	21.4%	21.1%	20.6%	21.4%	22.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	4.7x	2.8x	5.7x	4.4x	3.7x
Asset Replacement Ratio	1.1x	1.1x	1.0x	1.0x	1.0x
Tax Rate (Reported)	26.2%	26.7%	25.3%	26.0%	26.0%
Net Debt-to-Equity Ratio	32.8%	41.2%	38.9%	32.1%	24.8%
Interest Cover	6.3x	5.8x	4.7x	5.0x	6.1x

Key Metrics

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Telecom Services-CLECs

Company Description

KT is an integrated telecommunication service provider in Korea. It is an incumbent in PSTN service, but now operates mobile and fixed-line business. KT also controls various subsidiaries in other businesses such as real estate, security service, credit cards, commerce, satellite TV, media representative ads, education, music streaming, etc. KT controls a 31% market share in mobile, 41% in broadband, 44% in IPTV, and 100% in satellite TV, and 81% in telephony market in Korea

Investment Rationale

We rate KT Buy based on (1) strong initiatives in non-telco areas with higher earnings visibility with a new CEO, (2) ongoing earnings improvement in MNO, and (3) attractive shareholder-return policy. Catalysts include any positive announcement of medium/long-term strategies by the new CEO, faster-than-expected earnings growth from AI business, and easing regulatory risks.

Stock Data

Shares / ADR	0.50
Price to Book Value	0.6x

4Q23 results at a glance

Exhibit 1: KT – 4Q23 earnings results

KT posted a 4Q operating profit of W266bn (+75% YoY, -17% QoQ), in line with our/consensus estimate

(W bn)	4Q22	3Q23	4Q23P	YoY%	QoQ %	Consensus	Diff (%)	BofAe	Diff (%)
Net sales	6,583	6,697	6,698	1.8%	0.0%	6,735	-0.5%	6,804	-1.5%
Operating profit	151	322	266	75.5%	-17.5%	273	-2.8%	274	-3.1%
Pre-tax profit	273	350	-12	N/A	N/A	290	N/A	290	N/A
Net profit	243	288	-42	N/A	N/A	216	N/A	213	N/A
% margin to net sales									
Operating margin	2.3%	4.8%	4.0%			4.1%		4.0%	
Pre-tax margin	4.2%	5.2%	-0.2%			4.3%		4.3%	
Net profit	3.7%	4.3%	-0.6%			3.2%		3.1%	

Source: Company data, Bloomberg, BofA Global Research. Diff = difference

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Exhibit 2: KT – 4Q23 earnings results by division

KT's subsidiaries recorded revenue growth of +3.1% YoY/+7.6% QoQ in 4Q23

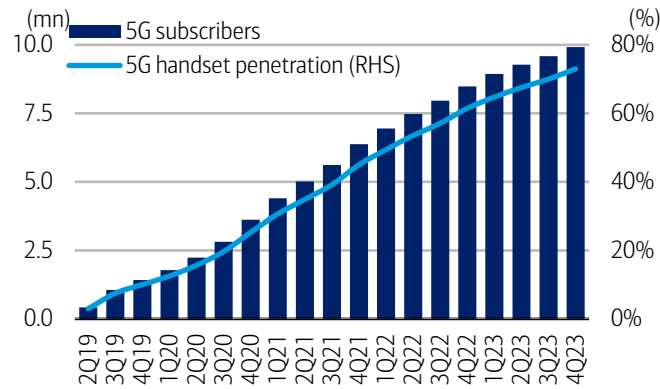
(W bn)	4Q22	3Q23	4Q23P	YoY%	QoQ %
Net sales	6,583	6,697	6,698	1.8%	0.0%
KT	4,573	4,673	4,592	0.4%	-1.7%
Service revenue	3,923	4,020	3,941	0.5%	-2.0%
Wireless	1,685	1,708	1,732	2.8%	1.4%
Fixed Line	1,311	1,330	1,311	0.0%	-1.4%
Broadband	605	619	620	2.5%	0.1%
Media	510	524	508	-0.4%	-3.2%
Home Telephony	196	186	183	-6.6%	-1.6%
B2B Service	835	904	813	-2.7%	-10.0%
Handset	650	653	651	0.2%	-0.3%
Subsidiary	3,486	3,341	3,595	3.1%	7.6%
BC card	1,018	996	1,027	0.9%	3.1%
Skylife	271	261	262	-3.3%	0.7%
Contents subsidiaries	183	191	195	6.4%	1.8%
KT Cloud	158	194	182	15.0%	-6.0%
KT Estate	131	142	194	48.2%	36.3%
Other subsidiaries	1,724	1,558	1,735	0.6%	11.4%
Operating Expenses	6,432	6,376	6,433	0.0%	0.9%
Operating profit	151	322	266	75.5%	-17.5%
KT (parent)	111	193	196	76.8%	1.5%
Subsidiaries	40	128	69	71.9%	-46.0%
% margin to net sales					
Operating margin	2.3%	4.8%	4.0%		
KT (parent)	2.4%	4.1%	4.3%		
Subsidiaries	1.2%	3.8%	1.9%		

Source: Company data

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Exhibit 3: 5G subscriber trend

5G subscribers reached 9.9mn (+0.3mn) in 4Q23

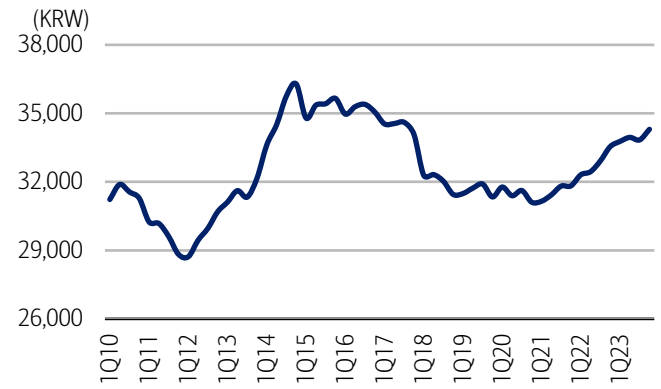


Source: Company data

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Exhibit 4: KT – MNO ARPU trend

MNO ARPU reached W34,302 in 4Q23 (+2.3% YoY, +1.4% QoQ)

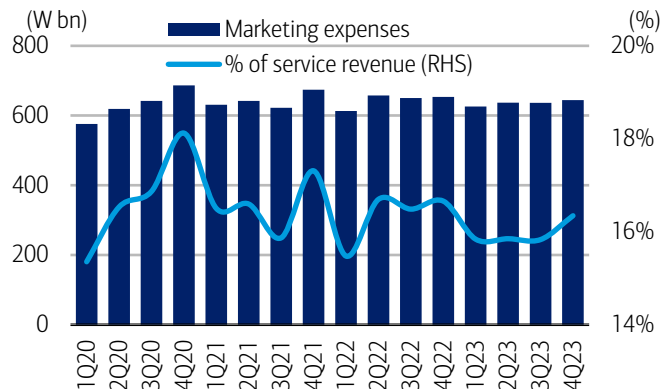


Source: Company data

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Exhibit 5: KT (parent) marketing expenses trend

Marketing costs declined by 1.4% YoY to W644bn in 4Q23 (16.3% of service revenue, -0.3% YoY)

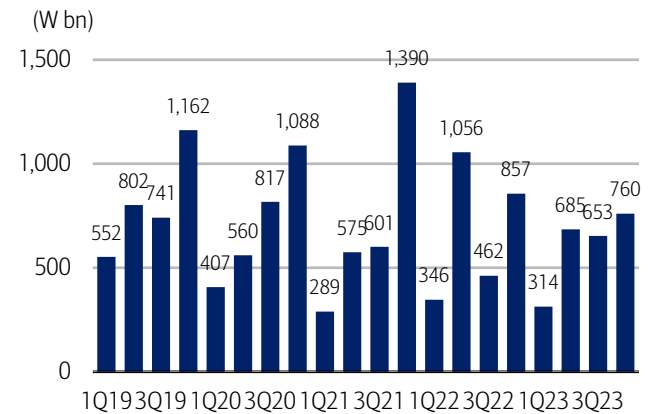


Source: Company data

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Exhibit 6: KT (parent) capex trend

KT (parent) spent W760bn capex in 4Q23; 2023 capex declined by 11% YoY

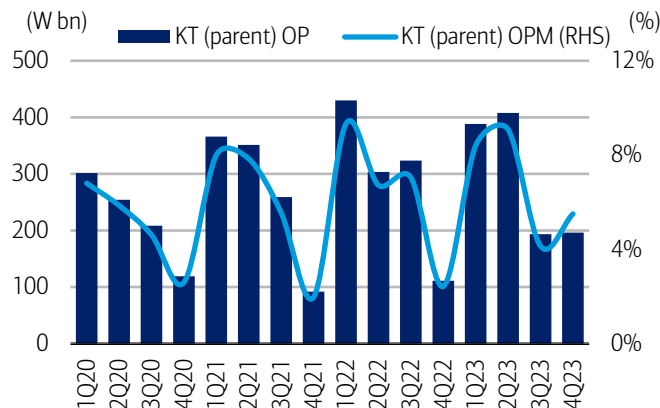


Source: Company data

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Exhibit 7: KT (parent) operating profit trend

KT (parent) OP grew by 76.8% YoY in 4Q23

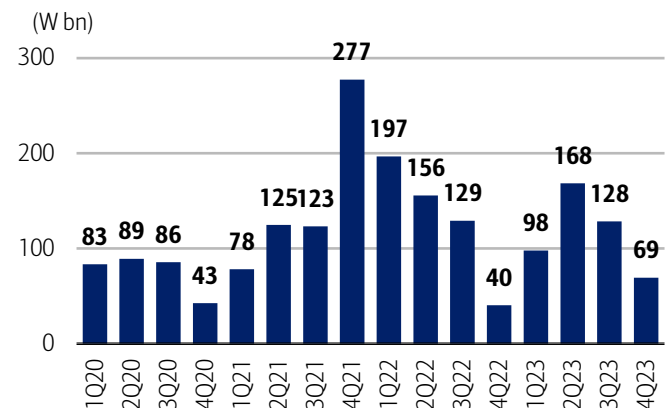


Source: Company data

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Exhibit 8: KT subsidiaries' OP contribution trend

KT subsidiaries' OP contribution reached W69bn in 4Q23



Source: Company data

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Financials

Exhibit 9: KT – Consolidated income statement

We expect KT to report consolidated OP of ₩1.81tn (+10% YoY) in 2024E

	1Q23	2Q23	3Q23	4Q23P	1Q24E	2Q24E	3Q24E	4Q24E	2021	2022	2023P	2024E	2025E
Net sales	6,444	6,548	6,697	6,698	6,584	6,702	6,747	6,921	24,898	25,650	26,387	26,954	28,011
- YoY growth	2.6%	3.7%	3.4%	1.8%	2.2%	2.4%	0.7%	3.3%	4.1%	3.0%	2.9%	2.1%	3.9%
KT (parent)	4,619	4,488	4,673	4,592	4,701	4,620	4,651	4,581	18,388	18,289	18,372	18,554	18,613
Service revenue	3,953	4,019	4,020	3,941	4,018	4,088	4,082	3,984	15,504	15,767	15,933	16,173	16,280
Wireless	1,707	1,722	1,708	1,732	1,750	1,768	1,753	1,752	6,555	6,713	6,870	7,023	7,064
Fixed Line	1,309	1,321	1,330	1,311	1,314	1,326	1,328	1,318	5,142	5,220	5,271	5,285	5,290
Broadband	608	612	619	620	619	625	633	633	2,318	2,393	2,460	2,510	2,554
Media	507	518	524	508	516	525	522	515	1,939	2,011	2,057	2,079	2,091
Home Telephony	194	190	186	183	178	176	172	170	885	816	754	696	645
B2B Service	852	891	904	813	874	915	928	834	3,117	3,394	3,461	3,550	3,626
Handset	666	469	653	651	683	532	569	597	2,883	2,522	2,439	2,381	2,334
Subsidiaries	3,038	3,299	3,341	3,595	3,194	3,417	3,439	3,718	11,101	12,646	13,274	13,768	14,975
BC Card	953	1,049	996	1,027	972	1,070	1,016	1,047	3,580	3,896	4,025	4,106	4,188
Skylife	255	261	261	262	250	256	255	257	763	1,034	1,039	1,018	998
Contents subsidiaries	143	159	191	195	176	178	215	219	430	650	687	788	888
KT Cloud	149	154	194	182	186	192	209	209		432	678	797	919
KT Estate	113	145	142	194	169	174	171	233	577	488	595	747	1,607
Other subsidiaries	1,426	1,530	1,558	1,735	1,440	1,546	1,573	1,753	5,751	6,146	6,250	6,312	6,375
Operating Expenses	5,958	5,971	6,376	6,433	6,060	6,150	6,337	6,600	23,226	23,960	24,737	25,146	25,805
- % of sales	92.5%	91.2%	95.2%	96.0%	92.0%	91.7%	93.9%	95.4%	93.3%	93.4%	93.7%	93.3%	92.1%
- YoY growth	5.4%	2.0%	5.8%	0.0%	1.7%	3.0%	-0.6%	2.6%	2.2%	3.2%	3.2%	1.7%	2.6%
Operating Profit	486	576	322	266	524	553	410	321	1,672	1,690	1,650	1,808	2,206
- % of sales	7.5%	8.8%	4.8%	4.0%	8.0%	8.3%	6.1%	4.6%	6.7%	6.6%	6.3%	6.7%	7.9%
- YoY growth	-22.4%	25.5%	-28.9%	75.5%	7.8%	-4.0%	27.2%	20.9%	41.2%	1.1%	-2.4%	9.6%	22.0%
EBITDA	1,415	1,505	1,260	1,279	1,500	1,521	1,381	1,290	5,279	5,346	5,460	5,691	6,110
- % of sales	22.0%	23.0%	18.8%	19.1%	22.8%	22.7%	20.5%	18.6%	21.2%	20.8%	20.7%	21.1%	21.8%
- YoY growth	-6.8%	8.5%	-7.3%	18.4%	5.9%	1.0%	9.6%	0.8%	9.6%	1.3%	2.1%	4.2%	7.4%
Pre-tax profit	438	548	350	-12	499	551	418	320	1,978	1,894	1,324	1,788	2,106
- % of sales	6.8%	8.4%	5.2%	-0.2%	7.6%	8.2%	6.2%	4.6%	7.9%	7.4%	5.0%	6.6%	7.5%
- YoY growth	-31.9%	1.6%	-20.2%	N/A	13.9%	0.6%	19.3%	N/A	102.9%	-4.3%	-30.1%	35.0%	17.8%
Tax	128	116	62	30	130	143	109	83	519	506	335	465	548
Tax rate (%)	29.2%	21.1%	17.7%	-247.5%	26.0%	26.0%	26.0%	26.0%	26.2%	26.7%	25.3%	26.0%	26.0%
Net profit	310	432	288	-42	369	408	309	237	1,459	1,388	989	1,323	1,568
- % of sales	4.8%	6.6%	4.3%	-0.6%	5.6%	6.1%	4.6%	3.4%	5.9%	5.4%	3.7%	4.9%	5.6%
- YoY growth	-32.0%	19.0%	-11.6%	N/A	19.2%	-5.7%	7.3%	N/A	107.5%	-4.9%	-28.7%	33.8%	18.5%
Net profit (excl. minority)	297	395	264	-39	347	376	288	232	1,357	1,262	916	1,243	1,494
- % of sales	4.6%	6.0%	3.9%	-0.6%	5.3%	5.6%	4.3%	3.4%	5.4%	4.9%	3.5%	4.6%	5.3%
- YoY growth	-27.6%	26.0%	-11.2%	N/A	17.0%	-4.7%	9.0%	N/A	106.2%	-7.0%	-27.4%	35.7%	20.2%

Source: Company data, BofA Global Research estimates

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Limited impacts from the potential abolition of MDDIA

Government to abolish MDDIA; limited impact on competitive landscape/earnings

According to local news, the government plans to abolish the Mobile Device Distribution Improvement Act (MDDIA), which prohibits MNOs from offering excessive subsidies to customers since its implementation in 2014. Our initial thought is that the MDDIA's potential removal would have a limited impact on Korean telcos' competitive landscape and marketing costs. With a highly saturated handset market (110% handset penetration, 68% 5G penetration as of end-November 2023), it has become more effective for telcos to focus on customer retention rate rather than market share (M/S) gain (see our 23 January 2024 [report](#)).

LGU raised handset subsidies for Galaxy S24 series but still see less impact

Over the past week, Korea telcos raised handset subsidies for the Galaxy S24 series by W200k+. Despite the increase in subsidies, which implies a potential rise in marketing costs, we believe that it should have limited impacts on telcos' competitive landscape and earnings, given that it is still more affordable for customers to choose "a 25% discount for mobile plans" instead of "handset subsidies". As a result, we believe that customers would still choose to get discounts on mobile plans, which are already priced in ARPU and mobile revenues, instead of receiving higher subsidies.

Exhibit 10: Comparison of subsidy versus 25% tariff discount (Galaxy S24 256GB)

Despite a recent increase in handset subsidies, we believe that customers would choose a 25% tariff discount option when purchasing mobile devices

SK Telecom										
Mobile price plans	5GX Platinum		5GX Prime Plus		5GX Prime		5G Regular Plus		5G Slim	
Options	Subsidy	Tariff discount	Subsidy	Tariff discount	Subsidy	Tariff discount	Subsidy	Tariff discount	Subsidy	Tariff discount
Handset price	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000
Official subsidy	(489,000)	-	(403,000)	-	(370,000)	-	(336,000)	-	(268,000)	-
Additional subsidy from retailer (15%)	(73,350)	-	(60,450)	-	(55,500)	-	(50,400)	-	(40,200)	-
Total handset payable	592,650	1,155,000	691,550	1,155,000	729,500	1,155,000	768,600	1,155,000	846,800	1,155,000
Monthly payment for handset	24,694	48,125	28,815	48,125	30,396	48,125	32,025	48,125	35,283	48,125
Monthly tariff prices	125,000	125,000	99,000	99,000	89,000	89,000	79,000	79,000	55,000	55,000
25% discount	-	(31,250)	-	(24,750)	-	(22,250)	-	(19,750)	-	(13,750)
Adjusted monthly unlimited pricing	125,000	93,750	99,000	74,250	89,000	66,750	79,000	59,250	55,000	41,250
Total actual monthly payment	149,694	141,875	127,815	122,375	119,396	114,875	111,025	107,375	90,283	89,375
Premium/discount of tariff discounts		-5.2%		-4.3%		-3.8%		-3.3%		-1.0%
KT										
Mobile price plans	5G Choice Premium		5G Special		5G Basic		5G Simple 110GB		5G Slim 14GB	
Options	Subsidy	Tariff discount	Subsidy	Tariff discount	Subsidy	Tariff discount	Subsidy	Tariff discount	Subsidy	Tariff discount
Handset price	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000
Official subsidy	(480,000)	-	(420,000)	-	(350,000)	-	(300,000)	-	(215,000)	-
Additional subsidy from retailer (15%)	(72,000)	-	(63,000)	-	(52,500)	-	(45,000)	-	(32,250)	-
Total handset payable	603,000	1,155,000	672,000	1,155,000	752,500	1,155,000	810,000	1,155,000	907,750	1,155,000
Monthly payment for handset	25,125	48,125	28,000	48,125	31,354	48,125	33,750	48,125	37,823	48,125
Monthly tariff prices	130,000	130,000	100,000	100,000	80,000	80,000	69,000	69,000	55,000	55,000
25% discount	-	(32,500)	-	(25,000)	-	(20,000)	-	(17,250)	-	(13,750)
Adjusted monthly unlimited pricing	130,000	97,500	100,000	75,000	80,000	60,000	69,000	51,750	55,000	41,250
Total actual monthly payment	155,125	145,625	128,000	123,125	111,354	108,125	102,750	99,875	92,823	89,375
Premium/discount of tariff discounts		-6.1%		-3.8%		-2.9%		-2.8%		-3.7%
LG Uplus										
Mobile price plans	5G Signature		5G Premier Regular		5G Premier Essential		5G Standard		5G Light+	
Options	Subsidy	Tariff discount	Subsidy	Tariff discount	Subsidy	Tariff discount	Subsidy	Tariff discount	Subsidy	Tariff discount
Handset price	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000	1,155,000
Official subsidy	(450,000)	-	(391,000)	-	(350,000)	-	(309,000)	-	(227,000)	-
Additional subsidy from retailer (15%)	(67,500)	-	(58,650)	-	(52,500)	-	(46,350)	-	(34,050)	-
Total handset payable	637,500	1,155,000	705,350	1,155,000	752,500	1,155,000	799,650	1,155,000	893,950	1,155,000
Monthly payment for handset	26,563	48,125	29,390	48,125	31,354	48,125	33,319	48,125	37,248	48,125
Monthly tariff prices	130,000	130,000	95,000	95,000	85,000	85,000	75,000	75,000	55,000	55,000
25% discount	-	(32,500)	-	(23,750)	-	(21,250)	-	(18,750)	-	(13,750)
Adjusted monthly unlimited pricing	130,000	97,500	95,000	71,250	85,000	63,750	75,000	56,250	55,000	41,250
Total actual monthly payment	156,563	145,625	124,390	119,375	116,354	111,875	108,319	104,375	92,248	89,375
Premium/discount of tariff discounts		-7.0%		-4.0%		-3.8%		-3.6%		-3.1%

Source: Company data, BofA Global Research

BofA GLOBAL RESEARCH

New mobile carrier with 28GHz spectrum

Stage X became the fourth mobile carrier in Korea with 28GHz spectrum

According to press reports by MSIT (Ministry of Science and ICT), Stage X, the consortium established by Stage Five (MVNO player, Kakao affiliate), Shinhan Securities and Intellian Technologies, became Korea's fourth mobile carrier after securing the bid for 28 gigahertz (GHz) spectrum. It was due to the government's efforts to enhance competition between Korea telcos by introducing a new player to the market. Stage X won the 28GHz band with the bid of W430.1bn (US\$322mn), around two times higher than three telcos' bid for 28GHz of W207bn each in 2018. The starting price for the bid was W74.2bn, and the final price was originally expected to be about W100bn.

Heavy financial burden without key applications for 28GHz spectrum

After securing the bid for 28GHz spectrum, Stage X has to pay the initial costs of W43bn (10% of total payment) in the next three months and the remaining over the next five years. The company is also required to deploy 6,000 28GHz base stations in the first three years, which we believe will cost c.W300bn. Based on local news (*Chosun*), Stage X is reported to be able to secure W800bn from its investors. The problem is that there is still a limited number of applications for utilizing 28GHz spectrum. Given that 28GHz spectrum has a narrower coverage area than 3.5GHz, the applications are limited – for example, Wi-Fi in subways, baseball or soccer stadiums, and private 5G networks by large companies. We think that the bid for 28GHz could lead to heavy financial burden over Stage X, without generating meaningful profits.

Near-term impacts on competitive landscape seem to be limited

We believe that the introduction of a new mobile carrier would have a limited impact on the near-term competitive landscape and earnings, given that Stage X is likely to be focusing on business-to-business (B2B) businesses (Wi-Fi in subways, stadiums, and private 5G networks) with 28GHz. In the longer term, we are cautious on the potential for intensifying competition, in case (1) Stage X develops profitable applications for 28GHz, (2) offers an innovative platform-based MNO products, or (3) participates in the 6G network spectrum auction expected after 2028E.

Price objective basis & risk

KT (KTCNF / KT)

Our 12-month PO of W45,000 (US\$17.31 for ADR) is based on a sum-of-the-parts (SOTP) analysis - discounted cash flow (DCF) analysis for KT's parent company and reflects values of its diverse subsidiaries through SOTP. Underpinning the DCF assumption is a 7.7% weighted-average cost of capital (WACC), 0% perpetuity growth rate given market saturation in telecommunication business.

Upside risks are (1) higher-than-expected growth in non-telco businesses and (2) attractive shareholder returns, including long-term plans for share buybacks.

Downside risks are (1) further regulatory measures, (2) slower-than-expected ARPU growth, (3) higher-than-expected marketing expenses, and (4) increased competitor activity in IDC/cloud sector.

Analyst Certification

I, Sun Jung Lee, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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APR - Telecommunications Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Advanced Info	AVIZF	ADVANC TB	Thititthep Nophaket
	CelcomDigi	DIGBF	CDB MK	Sukriti Bansal
	Converge ICT	XLERF	CNVRG PM	Jonathan Gabriel Madrid
	Digital Telecommunications Infra Fund	TTCFF	DIF TB	Thititthep Nophaket
	Far EasTone	FEOTF	4904 TT	Brooksley Kang
	GDS Holdings	GDS	GDS US	Daley Li, CFA
	GDS Holdings	XMJFF	9698 HK	Daley Li, CFA
	Indus Towers	XYAF	INDUSTOW IN	Sachin Salgaonkar
	INTUCH	XIHTF	INTUCH TB	Thititthep Nophaket
	Jasmine Broadband Internet Infra Fund	XJBIF	JASIF TB	Chotipat Leksakul
	KT	KTCNF	030200 KS	Sun Jung Lee
	KT	KT	KT US	Sun Jung Lee
	NextDC Limited	NXDCF	NXT AU	Ware Kuo
	PLDT	PHTCF	TEL PM	Jonathan Gabriel Madrid
	PLDT -A	PHI	PHI US	Jonathan Gabriel Madrid
	Singtel	SNGNF	ST SP	Sukriti Bansal
	SK Telecom	SKMTF	017670 KS	Sun Jung Lee
	SK Telecom	SKM	SKM US	Sun Jung Lee
	Taiwan Mobile	TWMBF	3045 TT	Brooksley Kang
	Telstra Group	TTRAF	TLS AU	Ware Kuo
	Telstra Group-A	TLGPY	TLGPY US	Ware Kuo
	TPG Telecom	TPGTF	TPG AU	Ware Kuo
	XL Axiata	PTXAF	EXCL IJ	Sukriti Bansal

APR - Telecommunications Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL	Bharti Airtel	BHTIF	BHARTI IN	Sachin Salgaonkar
	Chunghwa Telecom	CHWAF	2412 TT	Brooksley Kang
	Chunghwa Telecom	CHT	CHT US	Brooksley Kang
	LG Uplus	LTCLF	032640 KS	Sun Jung Lee
	Megaport Ltd	MGPPF	MP1 AU	Ware Kuo
	PT Telkom	TLKMF	TLKM IJ	Sukriti Bansal
	PT Telkom	TLK	TLK US	Sukriti Bansal
	Spark New Zealand Ltd	NZTCF	SPK NZ	Ware Kuo
	Spark New Zealand Ltd.-SP ADR	SPKKY	SPKKY US	Ware Kuo
	True Corporation	XTPCF	TRUE TB	Thititthep Nophaket
UNDERPERFORM	VNET Group	VNET	VNET US	Daley Li, CFA
	Axiata	AXXTF	AXIATA MK	Sukriti Bansal
	Vodafone Idea	IDEAF	IDEA IN	Sachin Salgaonkar
RVW	TM	MYTEF	T MK	Sachin Salgaonkar

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

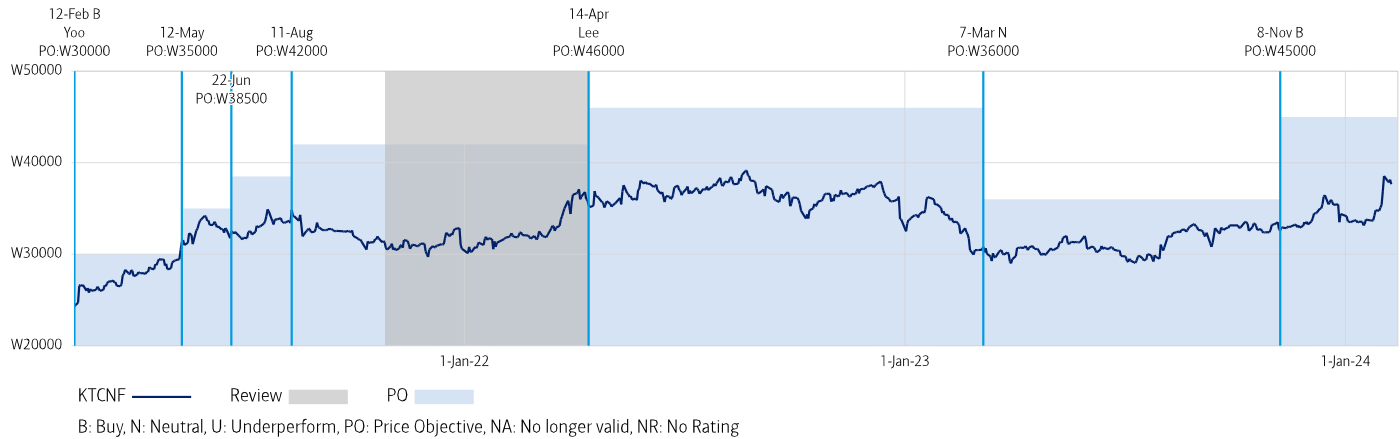
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Important Disclosures

KT (KTCNF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

KT (KT) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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