

KT

# Key takeaways from Korea Corporate call series; maintain Buy

Maintain Rating: BUY | PO: 45,000 KRW | Price: 39,400 KRW

## Reaffirmed our positive view on the share price

KT IR team participated in our BofA Korea Corporate call series on 22 Feb. The call reaffirmed our positive view on the shares, summarized by (1) improving shareholder returns with potential further buybacks related to non-operating revenues (yielding 5%+), (2) the top-line growth from its non-telco business including DC and AI services (non-telco to account for 57% of total revenue by 2025 vs. 51% in 2021), as well as (3) rising EBIT contribution from subsidiaries (+16% CAGR over '23-25).

## Improving shareholder returns; potential buybacks in L-T

During the call, the company reaffirmed improving shareholder returns over the next three years, following the shareholder policy of 50% payout ratio including cash dividends and share buybacks/cancellations (see [report](#)). Noteworthy is that KT is committed to consider extra shareholder returns in case of one-off profits from real estate sales or development projects. We believe KT is likely to consider additional share buybacks in 1H25, as KT achieved 100% pre-sales of apartments from its real estate business in Aug'23, of which revenue will reach c.W900bn and be recognized in Mar'25.

## DC: Overdemand to support ASP; +100MW by 2028

KT expects Korea data center market to remain in short supply in the medium-term, which supports KT Cloud's bargaining power and ASP level. KT commented that they expect improving OP margin for KT Cloud in the mid/long-term despite the recent increase in electricity prices and inflationary costs, as KT Cloud can carry over the cost hike impacts to the customers. We expect KT Cloud to record revenue growth of 18% CAGR over 2022-25E, with a plan to add +100MW capacity by 2028 from current 115MW, with Gasan DC (26MW) to be opened in 1Q25.

## AI: focus on B2B business; rerating catalyst in long-term

KT's AI business model is more focused on B2B customers, different from its peers launching B2C services, with its LLM providing different service plans to its corporate customers. The options ranging from a "basic" version (c.100mn parameters), to an "expert" version (c.200bn parameters), can offer customized services to its corporate customers. We believe the launch of AI services is one of their efforts to develop a platform for integrated services. While it is early to see earnings contribution from AI, we see the monetization of LLMs in earnest is likely to be another positive catalyst.

## Subsidiaries' EBIT contribution to increase

The company guides for c.W500bn of earnings contribution from subsidiaries in 2024 (+8% YoY), expanding from +4% YoY growth in 2023. While subsidiaries' OP in 2023 was slower than expectation (vs. prior guidance of +10% YoY) due to overhead costs from the business transformation at BC Card and Skylife, we expect subsidiaries' OP to grow at +16% CAGR over '23-25, with the top-line expansion at KT Cloud and KT Estate (+16%/17% CAGR over '23-25 excl. one-off gains) as well as more effective cost control.

26 February 2024

### Equity

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### Stock Data

Price (Common / ADR)	39,400 KRW / 14.55 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-42,400 KRW
Market Value (mn)	7,633 USD
Market Value (mn)	10,159,714 KRW
Shares Outstanding (mn)	257.9 / 515.7
Average Daily Value (mn)	24.93 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%

[KT: 4Q in line; stable earnings in 2024E; well positioned toward Corporate Value-up](#)

### Acronyms

DC = data center  
AI = artificial intelligence  
L-T = long-term  
ASP = average selling price  
MW = megawatt  
B2B = business-to-business  
LLM = large-language-model

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**Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 25 February 2024 03:30PM EST

## 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.

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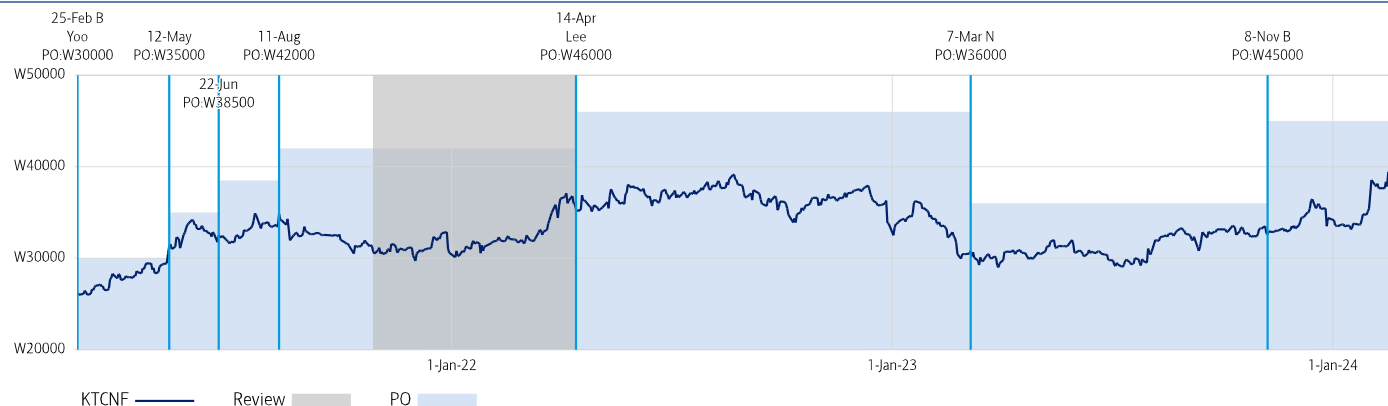
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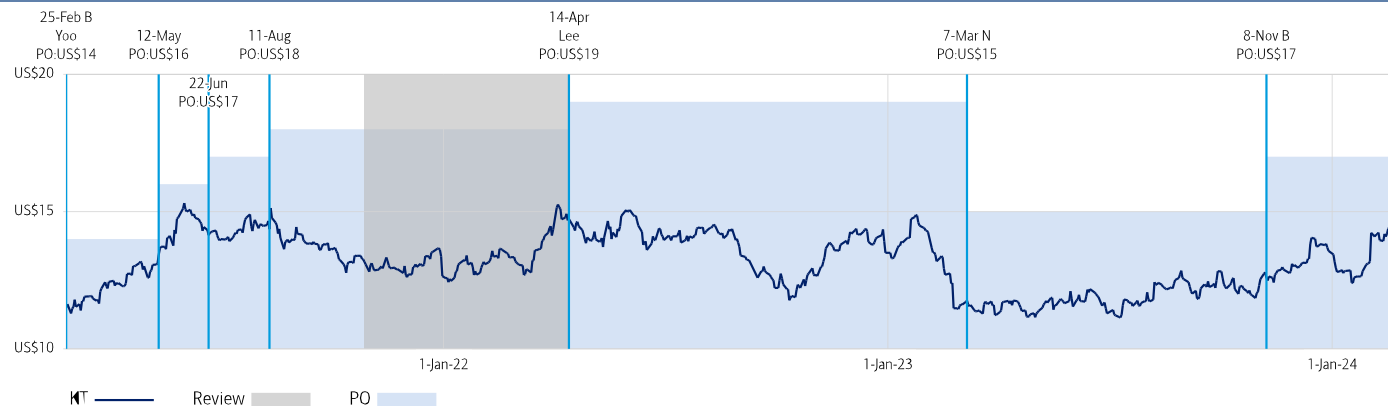
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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