



(SKM)

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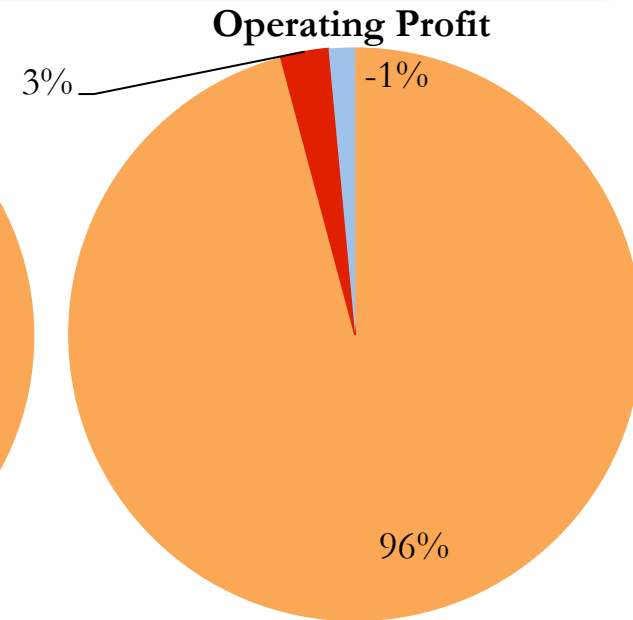
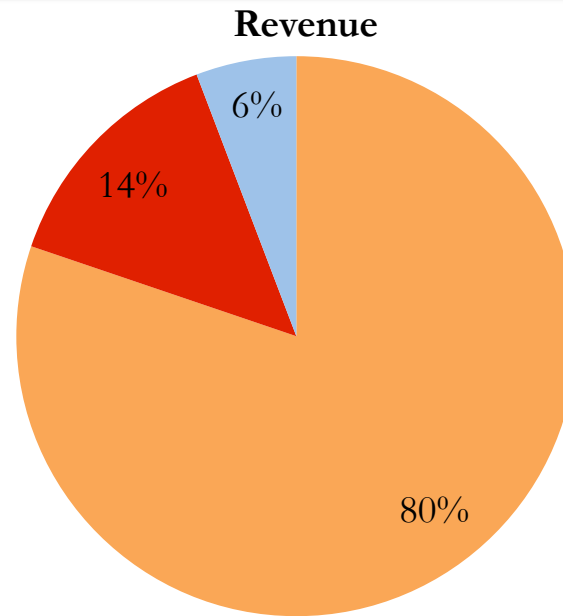
Outline

- Business and Industry Description
- Value Drivers
 - Regulation
 - Mobile consumption
- Optionality: International Properties
- Valuation



Business Overview

- SK Telecom is the largest mobile carrier in South Korea (50% market share)
- Operates wireless and fixed-line businesses exclusively in South Korea
- Manages media properties and other non-telecom related businesses international
- Owns own cell sites



Cellular Fixed-Line Other



Business Solutions



Broadband and Telephone

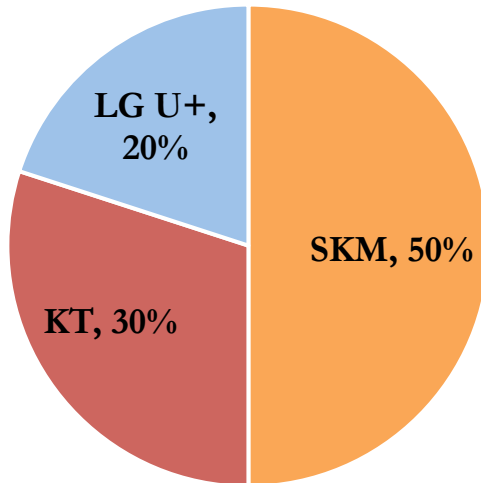


DRAM manufacturer

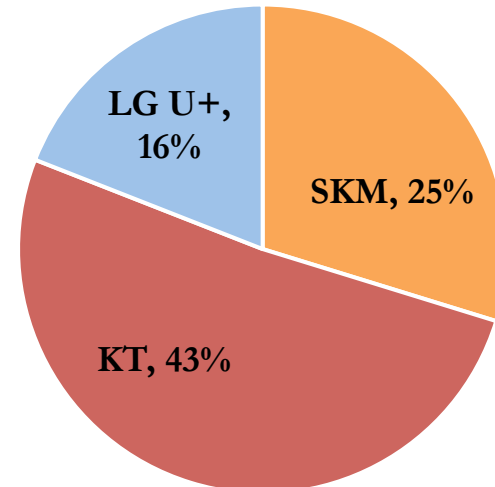


Market Shares

Mobile



Broadband Internet



SKM supplies the best cell phone coverage

SKM and KT operate on GSM technology (SIM cards) unlike LGU which uses CDMA

SKM was first in the world to offer LTE-Advanced network



BIG

S. Korea Telecom Industry

- “The Big Three”
 - SK Telecom (50% market share)
 - Korean Telecom (30%)
 - LG U+ Telecom (20%)
- Smartphones currently 73% penetrated, 98% among adults 18-24
- Cell phones 110% penetrated in S. Korea



Internet Users in South Korea Who Own a Smartphone, by Age and Gender, Feb 2013
% of respondents

	Female	Male	Total
18-24	98.5%	97.0%	97.7%
25-34	94.3%	96.0%	95.2%
35-44	85.6%	92.5%	89.0%
45-54	64.0%	70.0%	67.0%
55+	20.7%	30.5%	25.0%
Total	69.0%	77.3%	73.0%

Source: Google, "Our Mobile Planet" conducted by Ipsos MediaCT and TNS Infratest, May 2013

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www.eMarketer.com



Value Driver 1: Regulation

Mobile Plans in S. Korea

- OEMs hike handset prices by up to 10% for unlocked versions



- Virtual carrier monopoly on consumer purchases of OEM handsets



- Vast majority of handsets purchased with subsidies and locked into 24-month contracts

Unsubsidized



U.S.
\$900



S. Korea
\$970

Subsidized



U.S.
\$200

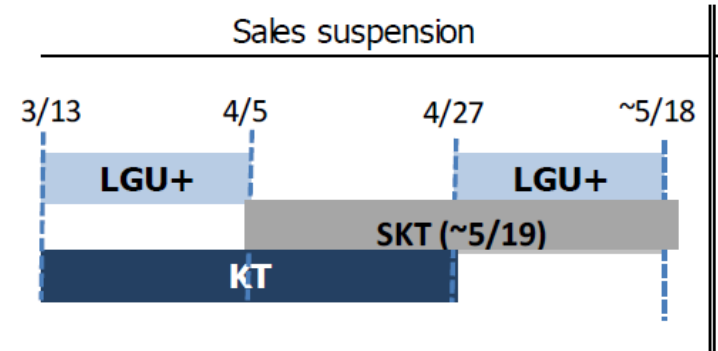


S. Korea
\$100

Sales Suspensions for Korea's Big 3

- Ban on “illegal subsidies” in 2012
 - Carriers can’t subsidize phones by more than 270,000won (\$250)
- Done to “stabilize the market” and protect the companies from “ruinous competition”
- SK, LG U+, KT all violated this law
 - Continued to offer subsidies 2x the legal limit
 - Korea Communications Commission (KCC) issued a staggered 45-day ban on all three telecom companies

Figure 1 Sales suspension schedule for three telcos



History of Regulation

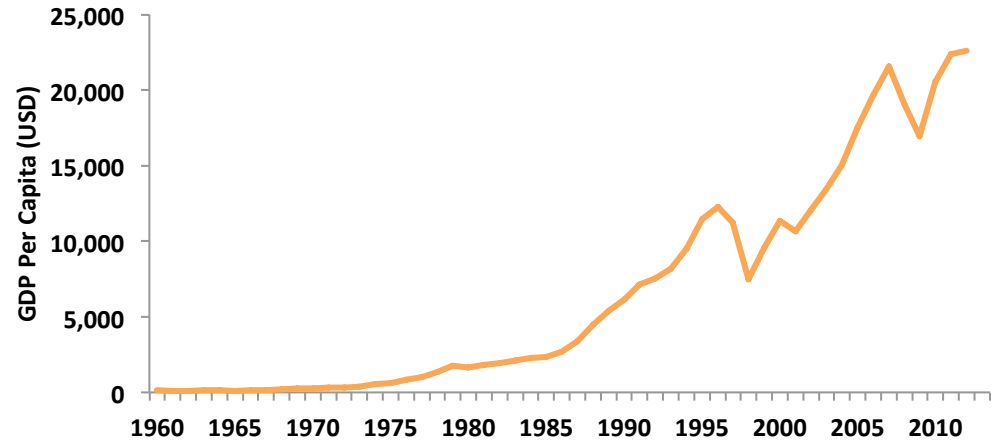
- “Chaebol” cooperated with government to modernize South Korea



- Strong ties between large Korean companies and the government



- Fundamentally different regulatory environment from the U.S.



“Embedded in the country’s bureaucracy is a Confucian-based culture that emphasizes family connections, regional ties, and friendships forged in school”*



Variant Perception on Regulation

Street Perception:

- Regulation is a negative force that will negatively affect profitability
- Even if regulation has a non-negative impact, handset sales will be negatively affected

Our Perception:

- Regulation in Korea is inherently different and serves to protect businesses from themselves

→ 10% accretion to EBIT from lower subsidy costs

- Wireless in Korea is structured in a way such that consumers cannot circumvent the current model

→ Sustained margins and subscriber base



Value Driver 2: Mobile Consumption

Street Perception: Market Saturation

Profit Margins are Dependent on the Number of Subscribers



Market Saturation will Slow Sales Growth

BIG's Perception

Increased Demand for Data

Significant runway remaining in LTE Penetration

Customers Switch to Unlimited LTE Data Plans

Switch to Premium Data Plans will Offset Decline in Subscriber Growth

Government Marketing Cap at 20% of Revenue

SKM has the Highest Revenue

It Can Spend the Most on Ad and Marketing

Operating Expenses will Level off as a % of Revenue

Mobile's Effect on Culture

Convenience of smartphones

- Virtual wallet with credit cards, ID's, etc.
- Significantly eases transactions

Growing necessity

- Some “virtual stores” require using a smartphone to buy groceries
- Attendance in class

Acceptance of smartphones

- More culturally accepted in Korea compared to social stigma in US
- Used for nearly every aspect of daily life



Mobile Payments & Media

Smart Phone Essential

- Koreans already rely on smart phones to scan & order products
- Tech-savvy culture enables increased adoption of mobile payment



Media

- SK Telecom owns:
 - ✓ Largest social media site
 - ✓ Leading messenger service
 - ✓ Online Shopping mall
 - ✓ App store and map service

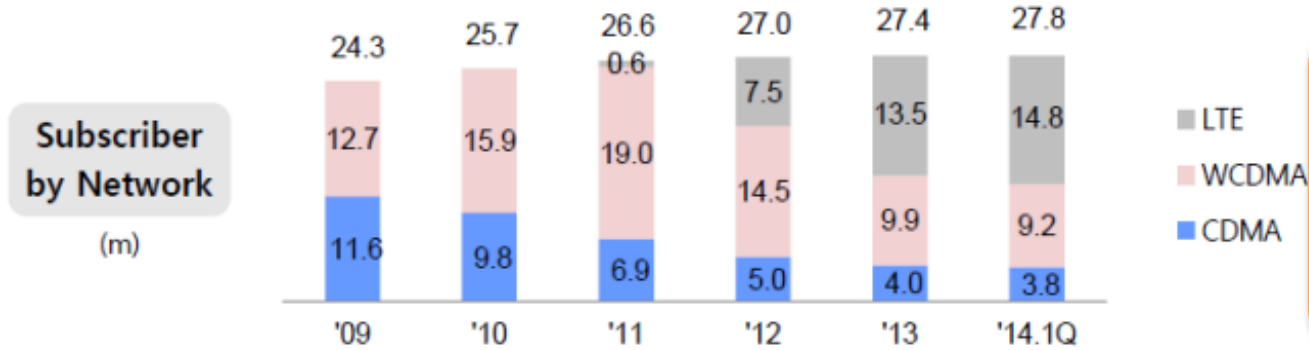
Smart Phones and Data Essential to everyday life.

South Koreans will continue to increase data usage going forward



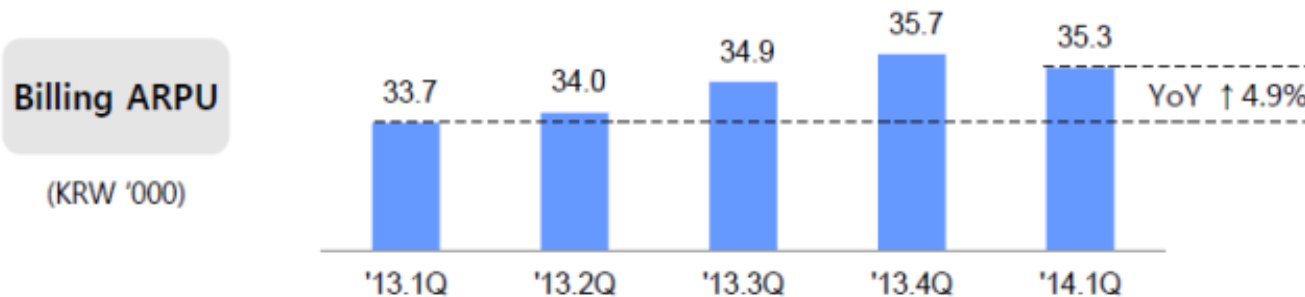
LTE Penetration and Pricing

LTE Penetration



- 53% LTE Penetration
- LTE Penetration growing rapidly

ARPU Growth Driven by LTE Conversion



- ARPU Grew 5.9% in 2013
- One-off decline in Q1 due to service disruption

Source: SK Telecom 2014 Q1 Report



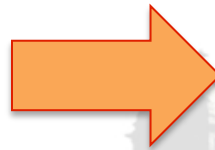
New Data Plans

Plan	Features*	Price/Month (KRW)
3G	Unlimited	54,000
4G LTE (Old)	Unlimited	57,000
LTE T&All 75	8GB; 2GB/day	61,250
LTE T&All 85	12GB; 2GB/day	65,000
LTE T&All 100	16GB; 2GB/day	76,000
No Contract LTE	Unlimited	80,000

New Plans are pricier and have data caps**

Increasing Usage

- Use of phones for media
- Mobile purchases
- More data-intensive applications



More demand for LTE services
Upgraded plans in long-run

* 2GB/day refers to data limit (per day) after exceeding the monthly limit

** Data severely throttled after surpassing both the monthly and daily limit



Growth in Revenue Per User

Blended Revenue Per Wireless User					
	<u>2014E</u>	<u>2015E</u>	<u>2016E</u>	<u>2017E</u>	<u>2018E</u>
Average Revenue Per User (KRW)	420,296	437,108	448,036	452,516	457,041
Average Revenue Per User Growth	4.5%	4.0%	2.5%	1.0%	1.0%

Short-run: LTE Penetration Growth

- Current LTE penetration: 53%
- LTE ARPU 32% higher than blended average
 - Increased LTE Penetration → higher revenue per user
- Blended Billing ARPU Grew 5.9% in 2013

Long-run: Price Increases and Upgrades

- Increased data usage driving upgraded plans
 - Switch to LTE – Advanced (and later 5G) allows for more data use
 - Some are replacing Wifi with LTE
 - Increasing use of smartphones in every day life
 - “Unlimited” plans have limited speed after 8GB-16GB caps
- Small price increases

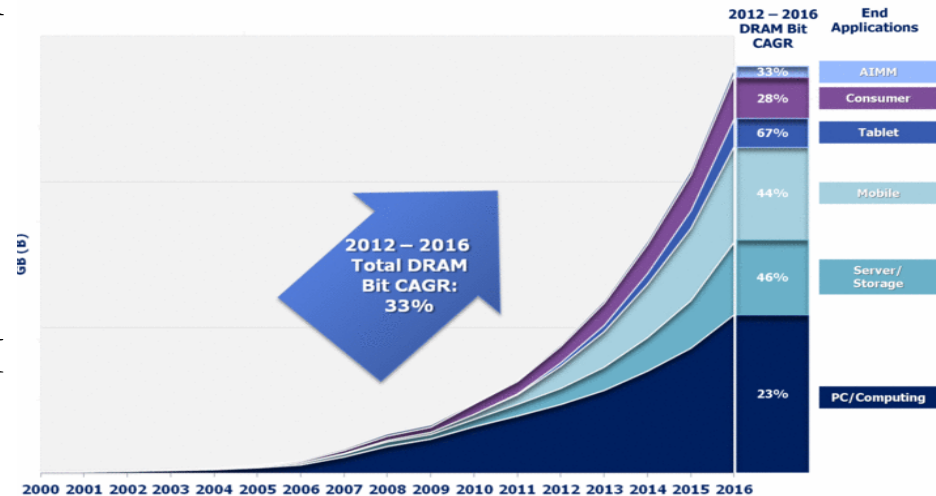


SK Hynix

SK Telecom has 21% equity stake in SK
SK Hynix contributes 40% of SKM
earnings

- World's largest manufacturer of memory chips, including DRAM
- Strong growth in demand for DRAM by 25-35% CAGR until 2018 by new mobile devices
- Expected 6-8% CAGR growth in revenues
- Operating leverage
- Expected 8% EPS growth

Shift to Mobility Driving DRAM Bit Growth



Source: www.sec.gov



Optionality: Foreign Subsidiary Expansion

- Turkey
 - Online market platform
- Indonesia
 - Online content distribution hub
- Malaysia
 - Packet One Networks-leading provider of broadband and 4G in Malaysia
- China
 - Shenzhen E-eye High Tech-GPS and telematics service provider
 - Magic Tech Network Co, TR Music Co., Ltd-online content provider
 - Tianlong-medical device manufacturer
 - China Railways-smart system city systems
- Foreign consulting and solutions



Comparable Companies

Fundamentals

Name	Market Cap (B)	Enterprise Value (B)	Gross Margin	Operating Margin	5 Yr Avg Sales Growth	ROA	ROIC	D/E	Dividend Yield
SKM	15.1	20	92%	11%	6.5%	4.6%	3.4%	0.45	4.2%
KT	8.4	18	65%	1%	4%	2.4%	1.4%	0.73	-
LG U	4.3	7	-	4%	19%	-0.6%	0.7%	0.82	1.2%
Verizon	195	302	63%	27%	4%	4.6%	12.5%	2.30	4.5%

Valuation

Name	P/S	P/E (TTM)	P/E (Forward)	P/FCF	EV/EBITDA
SKM	1.0	9.8	9.4	5.0	4.3
KT	0.4	-	6.1	32.1	4.2
LG U	0.4	16.8	13.6	108.2	4.7
Verizon	1.2	10.5	11.5	3.7	6.2

Valuation Summary

Company Summary			
Current Share Price (Won)	216,500	Yield	4.40%
P/E (2014/2015)	9.4/7.7	ROE	14.30%
P/B (2014/2015)	1.3/1.2	ROA	7.30%
EV/EBITDA (2014/2015)	4.8/4.5	Debt/Equity	37.50%

Enterprise Value	
Mkt Cap	17,723,684
Debt	6,278,814
Cash	(1,398,639)
EV	22,603,859

Base Case

Valuation Summary						
	2014	2015	2016	2017	2018	CAGR
P/E	9.4	9.4	9.4	9.4	9.4	
Share price	255,488	261,512	272,900	281,510	290,357	
Return	18%	21%	26%	30%	34%	7%
EV/EBITDA	4.8	4.8	4.8	4.8	4.8	
Share price	270,252	289,143	304,196	314,999	326,118	
Return	25%	34%	41%	45%	51%	4%
EV/(EBITDA - CapEx)	9.5	9.5	9.5	9.5	9.5	
Share price	264,831	297,079	322,940	340,258	358,065	
Return	22%	37%	49%	57%	65%	12%



BIG

Decision Tree

2014-2015 Decision Tree

Current Price	Likelihood	EV/EBITDA	Likelihood	Sub. Growth	ARPU Growth	Gain on Investments	Share Price	Return (annualized)
216,500	27%	5.3	5%	3.2%	6.0%	15.0%	351,457	42%
			10%	3.1%	5.5%	10.0%	347,336	40%
			40%	3.0%	5.0%	5.0%	343,245	39%
			30%	2.0%	4.5%	3.0%	333,062	36%
			15%	1.0%	4.0%	2.0%	323,091	33%
Expected Value	50%	4.8	13%	3.0%	5.0%	7.0%	299,706	26%
286,437.56			22%	2.5%	4.5%	5.0%	293,647	24%
			35%	2.0%	4.0%	2.0%	287,675	22%
			20%	1.0%	3.5%	0.0%	278,847	19%
			10%	0.0%	2.0%	-2.0%	264,642	15%
Return (annualized):	23%	4.4	15%	2.0%	2.0%	2.0%	244,670	9%
22%			30%	1.0%	1.0%	0.0%	234,369	6%
			40%	0.0%	-1.0%	-5.0%	219,470	1%
			10%	-1.0%	-2.0%	-10.0%	209,912	-2%
			5%	-2.0%	-3.0%	-15.0%	200,641	-5%

22% Expected Return + 4.4% Dividend Yield

Recommendation: Buy



Appendix

Income Statement

(million Won)	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Operating revenue and other income										
Revenue	14,512,300	15,518,637	15,803,174	16,141,409	16,602,054	17,584,654	18,598,723	19,386,460	20,208,712	21,067,020
Other revenue		80,525	49,631	201,844	74,954	76,453	77,982	79,542	81,133	82,755
Total Revenue	14,512,300	15,599,132	15,852,805	16,343,253	16,677,008	17,661,108	18,676,706	19,466,002	20,289,845	21,149,775
% Growth			1.6%	3.1%	2.0%	5.9%	5.8%	4.2%	4.2%	4.2%
Operating expense										
Labor cost	718,598	1,067,820	1,160,654	1,267,928	1,561,358	1,652,958	1,748,280	1,822,327	1,899,619	1,980,300
Commissions paid	5,140,173	5,598,044	5,560,147	5,949,542	5,498,695	5,539,166	5,579,617	5,815,938	6,062,614	6,320,106
Depreciation and amortization	2,593,474	2,155,815	2,286,566	2,421,128	2,661,623	2,813,545	2,975,796	3,101,834	3,233,394	3,370,723
Network interconnection	1,317,696	1,316,296	1,264,109	1,057,145	1,043,733	1,107,833	1,171,720	1,221,347	1,273,149	1,327,222
Leased line	434,280	437,830	474,018	468,785	448,833	474,786	502,166	523,434	545,635	568,810
Advertising	341,366	338,447	360,972	384,353	394,066	422,032	446,369	465,275	485,009	505,608
Rent	236,269	367,292	400,112	422,388	443,639	474,786	502,166	523,434	545,635	568,810
Cost of productions that have been resold	1,292,304	1,292,304	1,292,304	1,292,304	1,300,375	1,371,603	1,450,700	1,512,144	1,576,280	1,643,228
Other operating expenses	1,408,850	1,390,774	1,226,412	1,342,025	1,746,283	1,846,389	1,952,866	2,035,578	2,121,915	2,212,037
Total Operating Expense	12,190,706	13,313,251	13,690,076	14,605,598	15,098,605	15,703,096	16,329,679	17,021,312	17,743,249	18,496,844
Operating income from continuing operations	2,321,594	2,285,911	2,162,729	1,737,655	1,578,403	1,958,011	2,347,026	2,444,690	2,546,596	2,652,932
EBITDA	4,915,068	4,441,726	4,449,295	4,158,783	4,240,026	4,771,556	5,322,822	5,546,524	5,779,989	6,023,655
% Margin	33.9%	28.5%	28.1%	25.4%	25.4%	27.0%	28.5%	28.5%	28.5%	28.5%
Finance income		477,217	440,212	444,558	113,392	444,558	444,558	444,558	444,558	444,558
Finance costs		(441,623)	(343,771)	(638,285)	(571,203)	(571,203)	(571,203)	(571,203)	(571,203)	(571,203)
Gain (loss) related to investments in subsidiaries		(3,414)	(46,897)	(24,560)	706,509	720,639	735,052	749,753	764,748	780,043
Profit before income tax	1,405,752	2,318,091	2,212,273	1,519,368	1,827,101	2,552,005	2,877,451	2,988,256	3,103,566	3,223,574
Income tax expense	355,670	544,530	601,937	288,207	400,797	558,889	630,162	654,428	679,681	705,963
Profit from continuing operations	1,050,082	1,773,561	1,610,336	1,231,161	1,426,304	1,993,116	2,247,289	2,333,828	2,423,885	2,517,612
Profit (loss) from discontinued operations	5,524	(6,726)	(28,263)	(115,498)	183,245	-	-	-	-	-
Profit for the year	<u>1,055,606</u>	<u>1,766,835</u>	<u>1,582,073</u>	<u>1,115,663</u>	<u>1,609,549</u>	<u>1,993,116</u>	<u>2,247,289</u>	<u>2,333,828</u>	<u>2,423,885</u>	<u>2,517,612</u>
Earnings Per Share										
Basic Earnings Per Share	17,239	25,598	22,848	16,525	23,211	28,097	31,680	32,900	34,170	35,491

Balance Sheet

(Won in millions)

Dec. 31, 2013

Assets

Current Assets:

Cash and cash equivalents	1,398,639
Short-term financial instruments	311,474
Short-term investment securities	106,068
Accounts receivable - trade, net	2,257,316
Short-term loans, net	79,395
Accounts receivable - other, net	643,603
Prepaid expenses	108,909
Derivative financial assets	10
Inventories, net	177,120
Assets classified as held for sale	3,667
Advanced payments and other	37,214

Total Current Assets **5,123,415**

Non-Current Assets

Long-term financial instruments	8,142
Long-term investment securities	968,527
Investments in associates and joint ventures	5,325,297
Property and equipment, net	10,196,607
Investment property, net	15,811
Goodwill	1,733,261
Intangible assets, net	2,750,782
Long-term loans, net	57,442
Long-term prepaid expenses	32,008
Guarantee deposits	249,600
Long-term derivative financial assets	41,712
Deferred tax assets	26,322
Other non-current assets	47,589

Total Non-Current Assets **21,453,100**

Total assets **26,576,515**

Liabilities and Equity

Current Liabilities:

Short-term borrowings	260,000
Current portion of long-term debt	1,268,427
Accounts payable - trade	214,716
Accounts payable - other	1,864,024
Withholdings	728,936
Accrued expenses	988,193
Income tax payable	112,316
Unearned revenue	441,731
Derivative financial liabilities	21,171
Provisions	66,775
Advanced receipts and other	102,931
Liabilities classified as held for sale	-

Total current liabilities **6,069,220**

Non-Current Liabilities

Debentures, net ex. Current	4,905,579
Long-term borrowings, ex. Current	104,808
Long-term payables - other	838,585
Long-term unearned revenue	50,894
Finance lease liabilities	3,867
Defined benefit obligations	74,201
Long-term derivative financial liabilities	103,168
Long-term provisions	28,106
Deferred tax liabilities	168,825
Other non-current liabilities	62,705

Total Non-Current Liabilities **6,340,638**

Total Liabilities **12,409,958**

Equity

Share capital	44,639
Capital surplus (deficit)	(81,010)
Hybrid bonds	398,518
Retained earnings	13,102,495
Reserves	(12,270)
Equity attributable to owners	13,452,372

Non-controlling interests **714,185**

Total Equity **14,166,557**

Total Liabilities and Equity **26,576,515**

Enterprise Value

Mkt Cap	17,723,684
Debt	6,278,814
Cash	<u>(1,398,639)</u>
EV	22,603,859

Key Assumptions

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cellular Revenue:										
Wireless Services	10,734,400	10,634,500	10,447,605	10,591,489	11,001,100	11,501,650	12,024,975	12,572,111	13,144,143	13,742,201
Interconnection	1,158,000	1,168,700	1,090,874	860,250	845,000	885,627	925,923	968,053	1,012,099	1,058,149
% of Wireless Services		11.0%	10.4%	8.1%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
Digital Handset Sales	185,300	534,500	787,237	1,131,657	645,900	920,132	1,202,498	1,257,211	1,314,414	1,374,220
% of Wireless Services		5.0%	7.5%	10.7%	5.9%	8.0%	10.0%	10.0%	10.0%	10.0%
Other	13,900	582,700	750,551	635,508	823,500	862,624	901,873	942,908	985,811	1,030,665
% of Wireless Services		5.5%	7.2%	6.0%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Total Cellular Revenue	12,091,600	12,920,300	13,076,267	13,218,904	13,315,500	14,170,033	15,055,269	15,740,284	16,456,466	17,205,236
Subscribers (in 1's)										
Wireless:										
Subscribers	23,032,045	25,705,049	26,552,716	26,961,045	27,352,482	27,899,532	28,457,522	29,026,673	29,607,206	30,199,350
Subscribers Growth Rate	4.8%	5.9%	3.1%	1.8%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%
ARPU		413,712	393,467	392,844	402,198	412,252	422,559	433,123	443,951	455,050
ARPU Growth Rate			-4.9%	-0.2%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%
Operating expense										
Labor cost	718,598	1,067,820	1,160,654	1,267,928	1,561,358	1,652,958	1,748,280	1,822,327	1,899,619	1,980,300
% of Revenue		6.8%	7.3%	7.9%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%
Commissions paid	5,140,173	5,598,044	5,560,147	5,949,542	5,498,695	5,539,166	5,579,617	5,815,938	6,062,614	6,320,106
% of Revenue		35.9%	35.2%	36.9%	33.1%	31.5%	30.0%	30.0%	30.0%	30.0%
Finance income		477,217	440,212	444,558	113,392	444,558	444,558	444,558	444,558	444,558
Finance costs		(441,623)	(343,771)	(638,285)	(571,203)	(571,203)	(571,203)	(571,203)	(571,203)	(571,203)
Gain (loss) related to investments in subsidiaries		(3,414)	(46,897)	(24,560)	706,509	720,639	735,052	749,753	764,748	780,043
% Growth						2.00%	2.00%	2.00%	2.00%	2.00%
Profit from continuing operations	1,050,082	1,773,561	1,610,336	1,231,161	1,426,304	1,993,116	2,247,289	2,333,828	2,423,885	2,517,612
Profit (loss) from discontinued operations	5,524	(6,726)	(28,263)	(115,498)	183,245	-	-	-	-	-
Profit for the year	1,055,606	1,766,835	1,582,073	1,115,663	1,609,549	1,993,116	2,247,289	2,333,828	2,423,885	2,517,612
Earnings Per Share										
Basic Earnings Per Share	17,239	25,598	22,848	16,525	23,211	28,097	31,680	32,900	34,170	35,491

Verizon of Korea, but Cheaper

Verizon

- 11.2x P/E
- 5.11x EV/EBITDA
- 4.9 P/B
- Market share: 35%
- Premium carrier

SK Telecom

- 8.6x P/E
- 3.8x EV/EBITDA
- 1.2 P/B
- Market Share: 50%
- Premium carrier

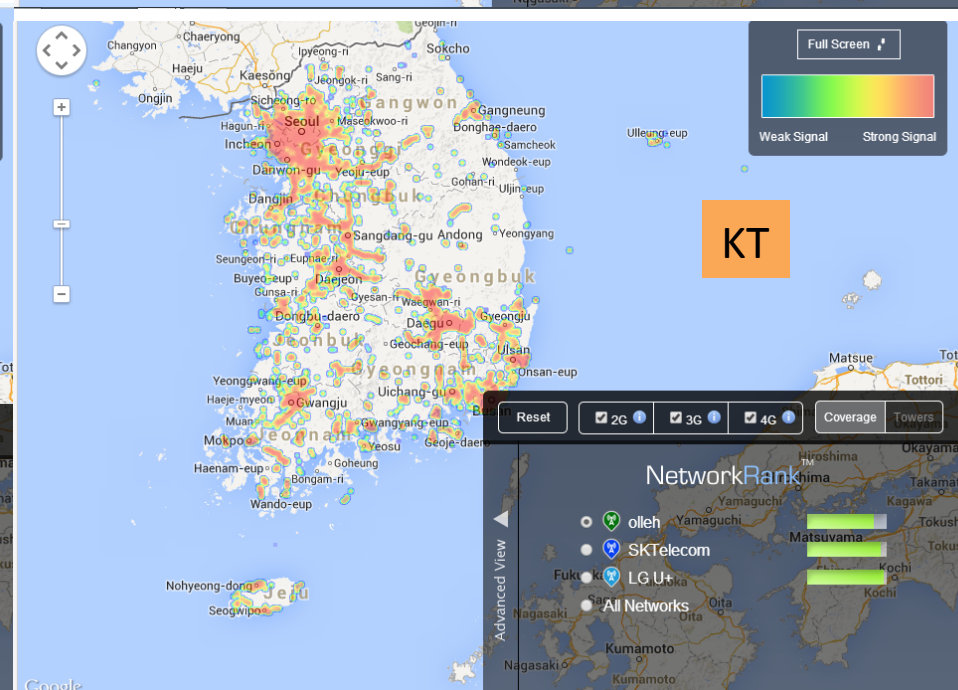
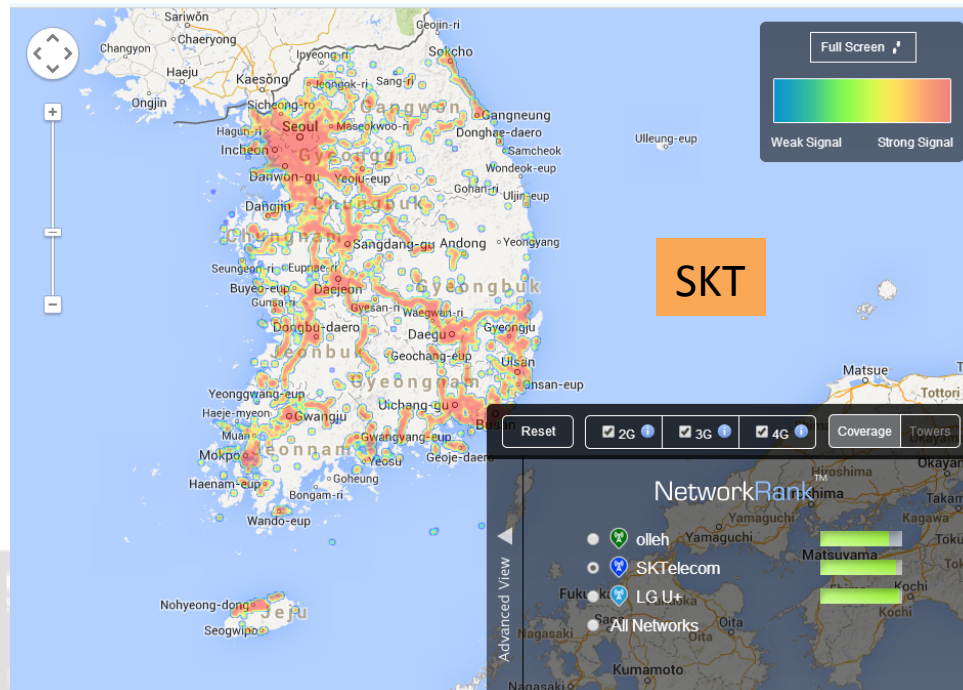
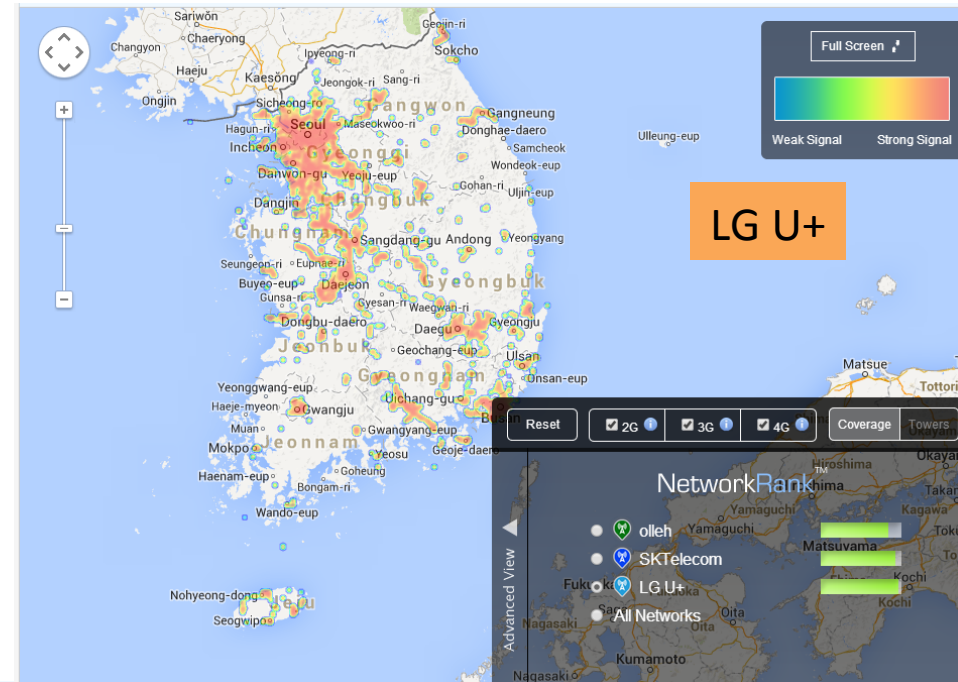
US

- Smartphone penetration: 65%
- Cellphone penetration: >100%

Korea

- Smartphone penetration: 80%
- Cellphone penetration: 110%

Coverage (2G, 3G, 4G)



Variant Perception: Market Saturation

- The market is saturated, the real competition is getting customers to leave their current provider.
 - This has been done by offering large subsidies, sometimes more than the actual phone costs.
- Government caps ad spending at 20% of revenue for all 3 providers.
 - As Korea's largest provider, SKM will be able to spend the most on advertising, resulting in market share gains
 - Operating expenses have been increasing as a % of revenue, but this will level off as SKM approaches the 20% mark.
- Expansion into media platforms and advertising platforms accretive to bottom line.
- T Ad (advertising platform) can provide more efficient advertising service by specifically targeting a desired audience based on the user information from the core business.

Old LTE Data Plans

Exhibit 13: SK Telecom 4G rates, December 2011

	LTE 34	LTE 42	LTE 52	LTE 62	LTE 72	LTE 85	LTE 100
Monthly rate	₩34,000/ \$30.71	₩42,000/ \$37.93	₩52,000/ \$46.96	₩62,000/ \$55.99	₩72,000/ \$65.02	₩85,000/ \$76.76	₩100,000/ \$90.31
Voice	120 min	180 min	250 min	350 min	450 min	650 min	1,050 min
SMS	200	200	250	350	450	650	1,050
Data	350MB	700 MB	1.2GB	3GB	5GB	7GB	10GB

Note: Customers subscribing to rate plan higher than LTE 52 can use mVoIP in the 180MB-750MB range

Sources: SK Telecom, Pyramid Research

Data Comparison



Source: [link](#)