

CREDIT OPINION

13 October 2022

Update



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RATINGS

Korea Land and Housing Corporation

Domicile	Korea
Long Term Rating	Aa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Korea Land and Housing Corporation

Update following rating affirmation with a stable outlook and upgrade of BCA to ba2 from ba3

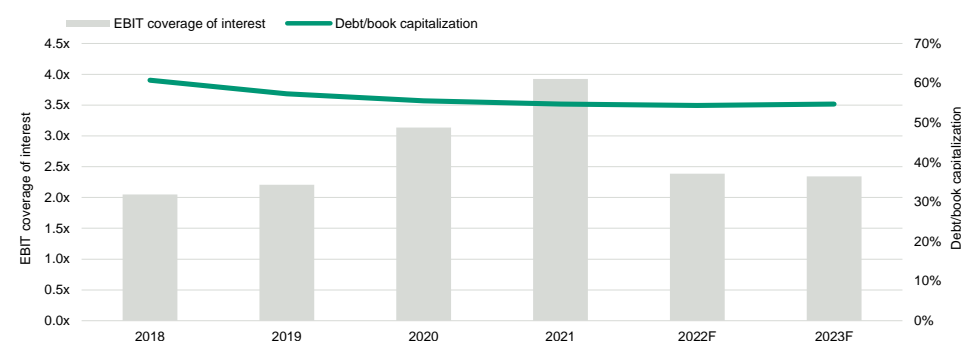
Summary

[Korea Land and Housing Corporation's](#) (KLHC) Aa2 ratings primarily reflect our assessment of a very high likelihood of support from and the company's very high dependence on the [Government of Korea](#) (Aa2 stable), based on its strategic policy roles in Korea and the government's low tolerance for reputational and contagion risks, which could arise in a default scenario. The very high likelihood of the government providing timely support, if and when needed, indicates that KLHC's credit quality will remain closely linked with that of the government, despite its moderate Baseline Credit Assessment (BCA) of ba2. Our support assumption is also underpinned by the government's strong ability to provide support, reflected in the Aa2 sovereign rating.

KLHC's ba2 BCA primarily reflects the company's leading position in Korea's land development and housing industries, continued strong access to debt markets and high financial leverage.

Exhibit 1

KLHC's key credit metrics are likely to weaken in 2022-23 from a strong base in 2021



All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. The ratios are fully adjusted for capitalized interest expenses and interest expenses charged on the cost of goods sold (COGS).

Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Credit strengths

- » Central public role in executing Korea's land- and housing-related policies
- » Very high likelihood of government support in case of need, underpinned by its strategic importance to the economy, close oversight and high reputational risk

Credit challenges

- » High financial leverage

Rating outlook

KLHC's stable outlook is in line with that on Korea's sovereign rating and reflects our expectation that the company's strategic importance to and the strong support from the government, if and when needed, will remain intact at least over the next two to three years.

Factors that could lead to an upgrade

An upgrade of Korea's sovereign rating could trigger an upgrade of KLHC's ratings.

Factors that could lead to a downgrade

A downgrade of Korea's sovereign rating will result in a downgrade of KLHC's ratings. In addition, we would review KLHC's ratings in the event of any significant adverse changes in the company's relationship with the government and its policy roles.

Key indicators

Exhibit 2

Korea Land and Housing Corporation

	12/31/2019	12/31/2020	12/31/2021	12/31/2022F	12/31/2023F
Total revenue (KRW trillions)	20.5	24.4	27.3	20.0	21.8
EBIT coverage of interest	2.2x	3.1x	3.9x	2.4x	2.3x
Debt/EBITDA	10.6x	9.1x	8.6x	12.8x	13.1x
Debt/book capitalization	57.3%	55.6%	54.7%	54.3%	54.7%

All figures and ratios are calculated using our estimates and standard adjustments. Periods are financial year end unless indicated. Forecasts (F) are our opinion and do not represent the views of the issuer. The ratios are fully adjusted for capitalized interest expenses and interest expenses charged to the cost of goods sold (COGS).

Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts

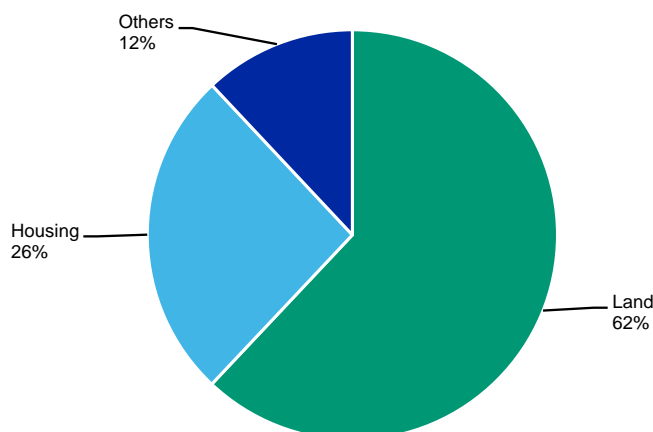
Profile

Korea Land and Housing Corporation (KLHC) is 100% owned, directly and indirectly, by the Korean government. As of 30 June 2022, the Ministry of Land, Infrastructure and Transport was KLHC's largest shareholder with a 60.6% stake, followed by the Ministry of Economy and Finance with a 29.0% share, [Korea Development Bank](#) (Aa2 stable) with an 8.7% share and [The Export-Import Bank of Korea](#) (Aa2 stable) with a 1.7% share.

KLHC was established in October 2009 from a merger between Korea Land Corporation and Korea National Housing Corporation. Pursuant to the KLHC Act, KLHC is responsible for the implementation of land- and housing-related policies. The company's key business functions include the construction and supply of affordable housing; the development and supply of residential land, and development of towns and cities; the development and supply of industrial complexes; and the management of a land bank.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Exhibit 3
KLHC's revenue breakdown (H1 2022)



Source: Company

Detailed credit considerations

Distinct, important public role in the land and housing sectors

Land development

As the primary execution arm of the government's land policies, KLHC faces limited competition from the private sector and local governments. Consequently, the company has a dominant position in Korea in terms of transaction volume for developed land and supply of residential land for public housing. For instance, between 2017 and 2021, KLHC supplied 78% of the total residential sites in the country by volume. Land development has been the core revenue and cash flow contributor for KLHC, accounting for about 49% of its revenue and a large proportion of its gross profit in 2021.

As the leading developer in Korea, KLHC manages various projects, such as innovative cities and new towns. The large number of projects in the company's pipeline suggests that its business scale in the Korean real estate market will remain substantial over at least the next two to three years. Additionally, because KLHC has exclusive rights to develop industrial land, it is the largest company in this sector.

A certain proportion of the residential land supplied by KLHC is at less than construction cost, with the remainder sold at market prices to obtain funds for reinvestment. Such a pricing strategy reflects KLHC's not-for-profit business model, in line with its policy to increase the supply of low-priced housing. Nonetheless, the high profitability — compared with that of other not-for-profit business models — of land sold at market prices has allowed the company to remain profitable.

Housing business

KLHC plays a key role in supplying rental housing in Korea. Between 2017 and 2021, the aggregate rental housing supplied by the company represented about 55% of the total rental housing units in the country, with the remainder supplied by local governments and the private sector. In addition, as the largest domestic supplier of residential property in Korea, the company provided 10% of the country's total housing supply in 2021 by number of units.

KLHC's residential business is primarily aimed at providing affordable housing to low-income households and at stabilizing residential property prices by ensuring a large supply of homes. Of the residential properties the company supplied to the market in 2021, 50% comprised rental homes and 50% were available for sale.

KLHC's rental rates are set 17%-70% below market prices, depending on the type of rental housing. Moreover, the rental periods are very long (30 years or longer for some properties); and for some rental housing properties, it is uncertain whether they can be sold at the end of the rental period. Therefore, the company's rental housing business is economically nonviable for non-government-related issuers (non-GRIs) to undertake.

Very high likelihood of government bailout, if and when needed

KLHC's Aa2 ratings primarily reflect our assessment of a very high likelihood of extraordinary support from the Korean government under our Joint Default Analysis for GRIs, resulting in an uplift from the ba2 BCA. Our support assessment is based on the following:

- » **Strategic importance** - KLHC's primary businesses are highly important to the government and the economy because continued land development and public housing supply are considered one of top priorities for the government. As a result, a failure in these activities would lead to significant political embarrassment.
- » **Ownership** - KLHC is 100% owned, directly and indirectly, by the government. Its Founding Act stipulates that the government must maintain a full ownership in the company.
- » **Oversight** - KLHC is subject to various regulations and tight government supervision, reflecting its public status as a government-owned entity. In accordance with the Act on the Management of Public Institutions, KLHC is obliged to report its budget, operating objectives, business plans and performance to the Ministry of Land, Infrastructure and Transport. Like for other Korean GRIs, the Ministry of Economy and Finance reviews the company's business performance annually, while the Board of Audit and Inspection audits its business and financial results. The government also exerts control by appointing KLHC's president, non-standing directors and auditors.
- » **Reputational risk** - In our view, the government has a low tolerance for reputational and contagion risks that could result from a default of KLHC, as the latter is viewed as one of the key GRIs in Korea and considering the significant impact of its default on the financial market.
- » **History of support** - KLHC receives significant and regular capital injections and subsidies from the government. In 2021, the company received a total of KRW3.65 trillion through the government's capital injections. KLHC also benefits from large-scale funding through the issuance of bonds for land compensation and through the National Housing and Urban Fund. The fund is managed by the government and represented about 53% of KLHC's reported total debt as of 30 June 2022.
- » **Ability to support** - The government's strong ability to render support to KLHC is indicated by the former's Aa2 rating.

Our assumption of very high dependence indicates that KLHC's credit quality is closely correlated with that of the government, given the close operational and financial links between the company and the government.

The application of the JDA approach yields an indicated rating range of A3-Aa2. The actual rating of Aa2 is at the highest end of the range, reflecting KLHC's 100% government ownership, its very important policy roles, the government's low tolerance for reputational risks in the event of a default, high government supervision and low privatization risk. This outcome is also consistent with that for other core Korean GRIs, such as [Korea Electric Power Corporation](#) (Aa2 stable) and [Korea Expressway Corporation](#) (Aa2 stable).

Exhibit 4

KLHC's sensitivity to changes in its BCA, sovereign support and rating

	BCA	Support	Sovereign Rating	Rating Range (JDA)
Current	ba2	Very High	Aa2	A3-Aa2
Lower BCA	ba3	Very High	Aa2	Baa1-Aa2
Higher BCA	ba1	Very High	Aa2	A2-Aa2
Lower Support	ba2	High	Aa2	Baa3-Baa1
Higher Support	ba2	NA	Aa2	NA
Downgrade of Sovereign Rating	ba2	Very High	Aa3	Baa1-Aa3

Source: Moody's Investors Service

Capital structure is likely to remain largely steady in 2022-23

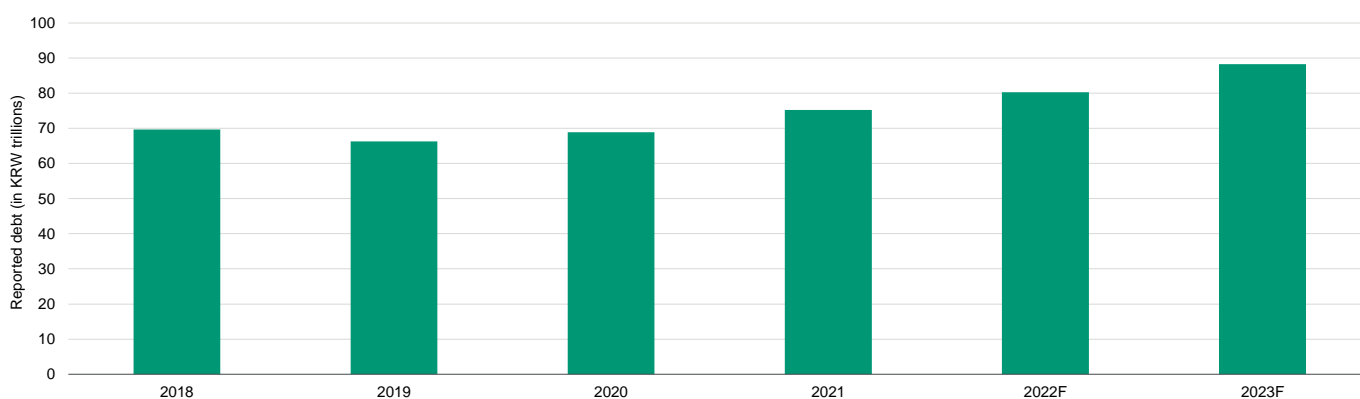
We expect KLHC's reported debt to increase moderately in 2022-23 from around KRW75 trillion as of year-end 2021, mainly because of growing investments in the housing business for the expansion of public projects. The company's earnings will also be lower during

the same period, given the very high base in 2021. However, KLHC's adjusted debt/capitalization should remain largely steady over the next one to two years relative to the year-end 2021 level because the increase in its equity base will largely offset higher debt.

KLHC's adjusted debt/capitalization improved to around 55% as of year-end 2021 from around 61% as of year-end 2018, mainly because of an increase in its equity base, supported by ongoing profit generation and equity injections from the government. This level of capital structure is consistent with a BCA of ba2, given its strong business profile.

Exhibit 5

Reported debt is likely to increase in 2022-23



Sources: Company, Moody's Financial Metrics™ and Moody's Investors Service forecasts

KLHC's reported operating income decreased to around KRW1.5 trillion in the first half of 2022 from around KRW3.3 trillion in H1 2021, mainly because of a very high base of earnings from its housing sale in 2021.

KLHC's reported debt increased to about KRW80 trillion as of 30 June 2022 from about KRW75 trillion as of year-end 2021.

Nevertheless, the company's adjusted debt/capitalization remained largely stable during the same period because sizable net income and equity injections from the government offset higher debt.

ESG considerations

KLHC has a track record of carrying very high debt levels during the period of its inception in 2009 because the company was established through the merger of Korea Land Corporation and Korea National Housing Corporation; both of which had very high debt levels. The company also undertook large development projects after its inception, which further increased its debt until 2013. These developments had increased concerns over its liquidity and solvency.

Since 2010, the government has taken several measures to address these issues, such as the establishment of loss protection terms for public policy businesses and the conversion of the National Housing and Urban Fund's borrowings into subordinated debt. KLHC also reduced its reported debt by around KRW39 trillion during 2014-19. These measures testify the Korean government's tight supervision and its strong willingness to support KLHC.

In 2021, there were internal control issues regarding alleged inappropriate use of internal information to acquire properties by some KLHC employees. Following a series of investigation, there were some restructuring measures at KLHC, such as reshuffling of high-ranking officials and the consolidation of certain business units. Although KLHC has taken countermeasures to improve its internal control, this incident raises concerns over the company's compliance and reporting under our ESG classification.

Liquidity analysis

KLHC's liquidity is inadequate, mainly because of its sizable investments and large refinancing needs. As of 30 June 2022, we estimate that the company's maturing debt and projected capital spending over the next 12-18 months were larger than its liquidity holdings of KRW9.5 trillion. However, the refinancing risk is mitigated by the company's strong access to the domestic and international debt markets because of its status as a quasi-sovereign entity, and the government's funding support through capital injections and loans.

The government has the financial capability and a strong willingness to prevent KLHC from defaulting. Therefore, we expect timely support from the government, if needed.

Methodology and scorecard

Industry methodology

KLHC's scorecard-indicated outcome is Ba1, based on our [Homebuilding and Property Development Industry](#) rating methodology, published in January 2018, and based on our forward-looking view for 2022-23, which is one notch higher than the company's BCA. The difference is mainly because of KLHC's weak financial leverage.

Exhibit 6

Rating factors

Korea Land and Housing Corporation

Homebuilding And Property Development Industry Scorecard [1][2]	Current FY 12/31/2021		Moody's 2022-23 Forward View [3]	
	Measure	Score	Measure	Score
Factor 1 : Scale (15%)				
a) Revenue (\$ Billion)	\$23.9	A	\$15.7-\$18.2	A
Factor 2 : Business Profile (25%)				
a) Business Profile	Baa	Baa	Baa	Baa
Factor 3 : Profitability and Efficiency (10%)				
a) Cost Structure (Pre-Impairment Gross Margin)	30.1%	Baa	27.7%-28.3%	Ba-Baa
Factor 4 : Leverage and Coverage (30%)				
a) EBIT Coverage of Interest	3.9x	Ba	2.3x-2.4x	B
b) HB and PD Debt to Total Capitalization	54.7%	B	54.3%-54.7%	B
Factor 5 : Financial Policy (20%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba1		Ba1
b) Baseline Credit Assessment		ba2		ba2

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 31 December 2021; based on KLHC's consolidated financials. [3] This represents our forward-looking view.

Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Ratings

Exhibit 7

Category	Moody's Rating
KOREA LAND AND HOUSING CORPORATION	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2

Source: Moody's Investors Service

Appendix

Exhibit 8

Peer comparison

Rating / outlook BCA	Korea Land and Housing Corp.			Korea Railroad Corp.			Korea Water Resources Corp.		
	Aa2 stable			Aa2 stable			Aa2 stable		
	ba2			b2			baa3		
	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-19	FYE Dec-20	FYE Dec-21
(in \$ Millions)									
Revenue	17,622	20,736	23,910	5,495	4,208	5,040	2,551	3,184	3,507
EBITDA	5,415	6,495	7,731	446	(558)	(270)	890	1,012	1,044
Total Assets	152,635	170,567	169,632	19,595	23,268	21,147	19,114	20,958	19,616
Total Debt	57,747	63,910	63,717	10,965	12,327	11,669	10,146	10,315	8,843
FFO Interest Coverage	3.9x	5.2x	6.1x	4.7x	-1.2x	-0.7x	3.6x	4.8x	5.9x
FFO/debt	4.1%	5.3%	6.0%	10.6%	-5.3%	-4.1%	9.2%	12.0%	13.3%
RCF/debt	3.5%	4.7%	5.1%	10.6%	-5.3%	-4.2%	9.2%	12.0%	13.3%
Debt/capitalization	57.3%	55.6%	54.7%	62.7%	59.5%	62.5%	58.9%	55.6%	51.8%

All figures and ratios are calculated using our estimates and standard adjustments. Periods are financial year end unless indicated. KLHC's EBITDA incorporates full adjustments for capitalized interest expenses and interest expenses charged on the COGS.

Source: Moody's Financial Metrics™

Exhibit 9

Moody's-adjusted debt breakdown

Korea Land and Housing Corporation

(in KRW Billions)	FYE Dec-19	FYE Dec-20	FYE Dec-21
As Reported Debt	66,292	68,875	75,251
Pensions	489	550	492
Operating Leases	-	-	-
Moody's-Adjusted Debt	66,781	69,425	75,743

All figures and ratios are calculated using our estimates and standard adjustments. Periods are financial year end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted EBITDA breakdown
 Korea Land and Housing Corporation

(in KRW Billions)	FYE Dec-19	FYE Dec-20	FYE Dec-21
As Reported EBITDA	4,180	5,759	7,030
Pensions	54	11	31
Operating Leases	-	-	-
Non-Standard Adjustments	2,079	1,894	1,786
Moody's-Adjusted EBITDA	6,313	7,665	8,847

All figures and ratios are calculated using our estimates and standard adjustments. Periods are financial year end unless indicated. Figures incorporate full adjustments for capitalized interest expenses and interest expenses charged on the COGS.

Source: Moody's Financial Metrics™

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