

## CREDIT OPINION

2 January 2024

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 H1 2023 results - Decline in earnings as a result of weak property market

### Summary

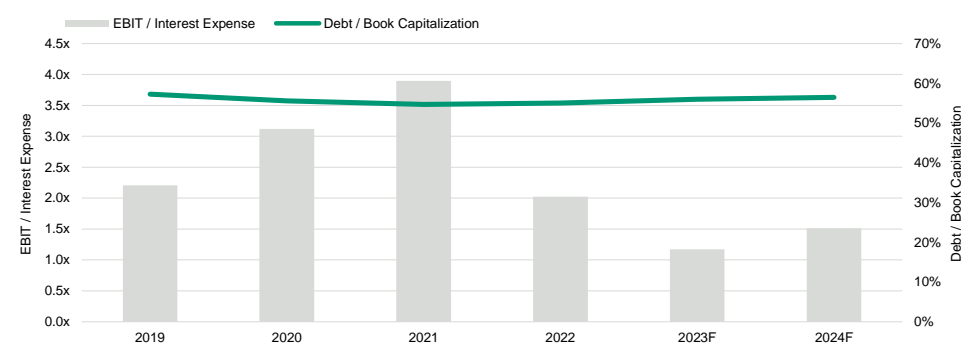
[Korea Land and Housing Corporation's](#) (KLHC) Aa2 ratings primarily reflect our assessment that KLHC's credit quality is closely linked with that of the [Government of Korea](#) (Aa2 stable) because of the very high likelihood of extraordinary support from the government. This assessment is based on the company's strategic policy roles in Korea and the government's low tolerance for reputational and contagion risks that could result from a default at KLHC. Our support assumption is also underpinned by the government's strong ability to provide support, reflected in the Aa2 sovereign rating.

KLHC's very high dependence on the Korean government is based on our assessment that KLHC's credit quality is highly correlated with that of the government because of the close operational and financial links between the company and the government.

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 remain weak over 2023-24



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 the Korean government's stable outlook, 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	12/31/2022	12/31/2023F	12/31/2024F
Revenue (KRW trillion)	20.5	24.4	27.3	19.6	13.0	16.0
EBIT/ Interest Expense	2.2x	3.1x	3.9x	2.0x	1.2x	1.5x
Debt / EBITDA	10.6x	9.1x	8.6x	15.4x	22.5x	18.9x
Debt / Book Capitalization	57.3%	55.6%	54.7%	55.0%	56.0%	56.4%

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

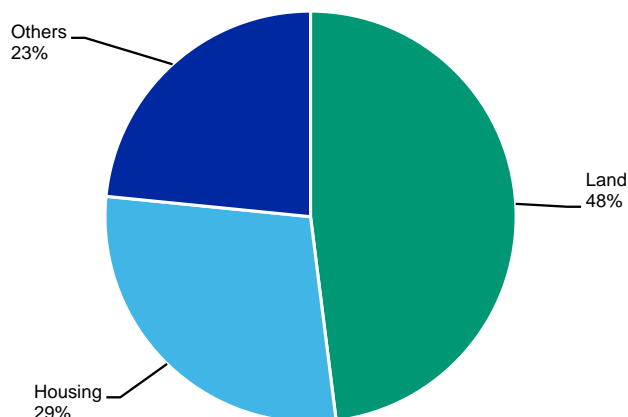
## Profile

Korea Land and Housing Corporation (KLHC) is 100% owned, directly and indirectly, by the Korean government. As of 30 June 2023, the Ministry of Land, Infrastructure and Transport was KLHC's largest shareholder with a 63.2% stake, followed by the Ministry of Economy and Finance with 24.5%, [Korea Development Bank](#) (Aa2 stable) with 9.0% and [The Export-Import Bank of Korea](#) (Aa2 stable) with 3.3%.

KLHC was established in October 2009 through 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 2023)**

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 the transaction volume of developed land and supply of residential land for public housing. For instance, between 2018 and 2022, 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 61% of its revenue and a large proportion of its gross profit in 2022.

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 offered below construction cost, while the remainder is sold at market prices to obtain funds for reinvestment. This 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 2018 and 2022, the aggregate rental housing supplied by the company represented about 51% of the total rental housing units in the country, with the remainder supplied by local governments and the private sector. In addition, as one of the largest domestic suppliers of residential property in Korea, the company provided 12% of the country's total housing supply by number of units over 2018-22.

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 2022, 42% comprised rental homes and 58% were available for sale.

KLHC's rental rates are typically set 10%-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 it is uncertain whether some rental housing properties 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.

In December 2023, the government announced a plan to allow private-sector companies to independently develop public housing, which is currently dominated by KLHC, aimed at improving the quality of public housing through increased competition. We believe that this plan will not have any significant impact on KLHC's operations at least over the next one to two years, although the long-term effect on the housing business remains to be seen.

#### 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 (JDA) 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 and the Ministry of Economy and Finance. 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 because the latter is viewed as one of the key GRIs in Korea and taking into account 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 2022, the company received a total of KRW3.6 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 55% of KLHC's reported total debt as of year-end 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**

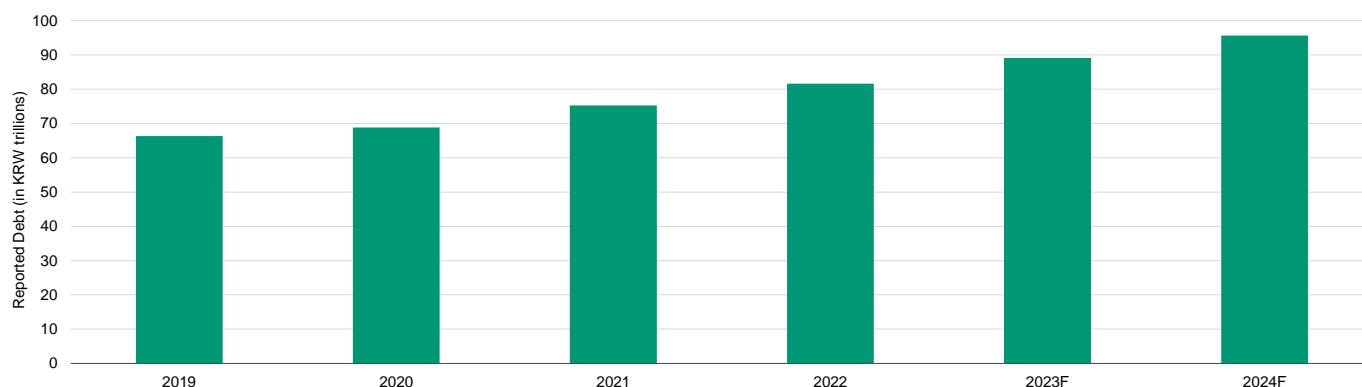
	BCA	Support	Sovereign Rating	Rating Range (JDA)
Current	ba2	Very High	Aa2	A3-Aa2
Lower BCA	ba3	Very High	Aa2	Baa1-Aa2
Higher BCA	ba1	Very High	Aa2	A2-Aa2
Lower Support	ba2	High	Aa2	Baa3-Baa1
Higher Support	ba2	NA	Aa2	NA
Downgrade of Sovereign Rating	ba2	Very High	Aa3	Baa1-Aa3

Source: Moody's Investors Service

**Capital structure will remain largely steady over 2023-24, despite weaker earnings**

We expect KLHC's reported debt to continue to increase over 2023-24 from around KRW82 trillion as of year-end 2022, mainly because of growing investments in the public housing and land development projects. We also expect earnings to be below historical averages over 2023-24 because of the weak property market in Korea. However, KLHC's adjusted debt/capitalization should remain largely steady over the same period because the increase in its equity base will partly offset higher debt.

Exhibit 5

**Reported debt is likely to continue to increase in over 2023-24**

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

In the first half of 2023, KLHC recorded an operating loss of around KRW316 billion, a significant decrease from the operating income of around KRW1.5 trillion in H1 2022, mainly because of a decline in revenue as a result of the weakness in the property market in Korea. Revenue decreased to KRW5.3 trillion from KRW9.1 trillion over the same period.

KLHC's reported debt increased to about KRW85.4 trillion as of 30 June 2023 from about KRW81.6 trillion as of year-end 2022. Nevertheless, the company's adjusted debt/capitalization remained largely stable compared with around 55% as of year-end 2022 because equity injections from the government largely offset the increase in debt and weak earnings. This level of capital structure is consistent with a BCA of ba2 because of its strong business profile.

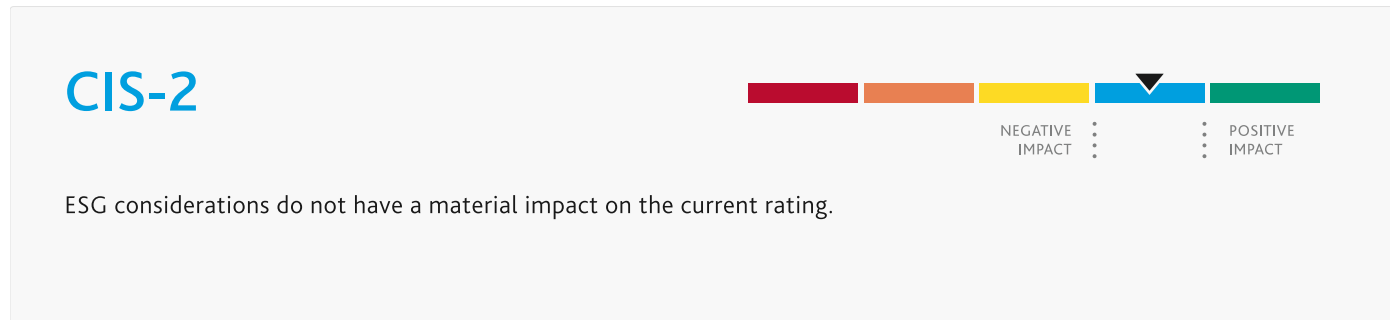
KLHC's adjusted debt/capitalization improved to 55% as of year-end 2022 from around 61% as of year-end 2018, mainly because of an increase in its equity base, supported by ongoing profit generation and equity injections from the government.

## ESG considerations

### Korea Land and Housing Corporation's ESG credit impact score is CIS-2

Exhibit 6

#### ESG credit impact score

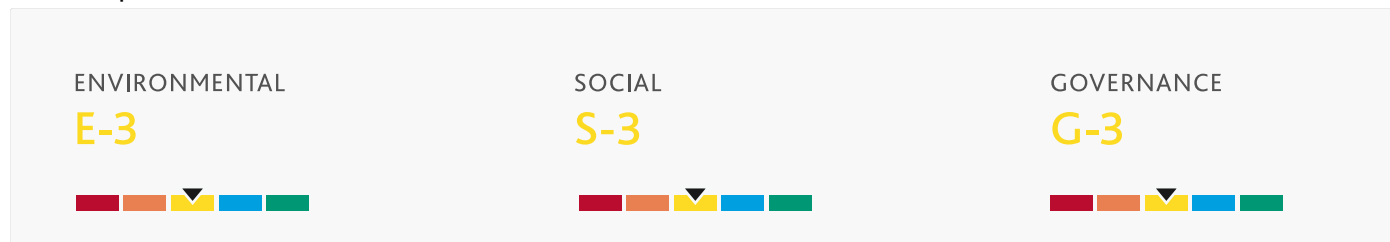


Source: Moody's Investors Service

Korea Land and Housing Corporation's (KLHC) **CIS-2** indicates that ESG considerations are not material to the rating. This reflects the high level of support from the Government of Korea, if and when needed, which offsets the company's exposure to environmental, social and governance risks.

Exhibit 7

#### ESG issuer profile scores



Source: Moody's Investors Service

#### Environmental

KLHC's **E-3** reflects its exposure to physical climate and natural capital risks, which are inherent in the homebuilding and property development industry. The need to exploit land resources exposes the company to natural capital risks. Given KLHC's land development and rental housing businesses in Korea, the company is also exposed to physical climate risk.

#### Social

KLHC's **S-3** mainly reflects its exposure to social sub-factors other than health and safety. Although the company's primary role is to provide public services with limited competition with the private sector, it is still exposed to risks associated with demographic changes, societal trends, customer relations and responsible production.

#### Governance

KLHC's **G-3** reflects risks pertaining to financial strategy and risk management, and management credibility and track record. The company has a history of maintaining high financial leverage, despite a reduction in debt following its peak in 2013. KLHC is also required to make substantial upfront investments given its role in supplying rental housing and land. The company also faces risks associated with compliance and reporting, as reflected in the internal control issues in 2021. However, these risks are mitigated by the Korean government's tight supervision and the company's aim to improve internal controls and maintain a sound capital structure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Liquidity analysis

KLHC's liquidity is inadequate, mainly because of its sizable investments and large refinancing needs. As of 30 June 2023, 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 KRW5.5 trillion.

Nevertheless, we believe that the refinancing risk for KLHC is low, given 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.

## Methodology and scorecard

### Industry methodology

KLHC's scorecard-indicated outcome is Ba3-Ba2, based on our [Homebuilding and Property Development](#) rating methodology, published in October 2022, and our forward-looking view for 2023-24, which is largely consistent with the company's BCA.

Exhibit 8

### Rating factors

#### Korea Land and Housing Corporation

	Current FY 12/31/2022		Moody's 2023-24 Forward View [3]	
Homebuilding And Property Development Industry Scorecard [1][2]	Measure	Score	Measure	Score
<b>Factor 1 : Scale (10%)</b>				
a) Revenue (\$ Billion)	\$15.3	Baa	\$10.0-\$12.5	Baa
<b>Factor 2 : Business Profile (30%)</b>				
a) Market Position and Diversification	Baa	Baa	Baa	Baa
b) Business Strategy	Baa	Baa	Baa	Baa
c) Market Conditions	Ba	Ba	Ba	Ba
<b>Factor 3 : Profitability and Efficiency (10%)</b>				
a) Gross Margin	28.3%	Ba	32.6%-33.9%	Ba
<b>Factor 4 : Leverage and Coverage (30%)</b>				
a) EBIT / Interest Expense	2.0x	B	1.2x-1.5x	B
b) Debt / Book Capitalization	55.0%	B	56%-56.4%	B
c) Debt / EBITDA	15.4x	Ca	18.9x-22.5x	Ca
<b>Factor 5 : Financial Policy (20%)</b>				
a) Financial Policy	Ba	Ba	Ba	Ba
<b>Rating:</b>				
a) Scorecard-Indicated Outcome		Ba2		Ba3-Ba2
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 2022; 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 9

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

Source: Moody's Investors Service

## Appendix

Exhibit 10

### Peer comparison

	Korea Land and Housing Corp.			Korea National Oil Corp.			Korea Water Resources Corp.		
Rating / outlook	Aa2 stable			Aa2 stable			Aa2 stable		
BCA	ba2			b1			baa3		
(in \$ Millions)	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-20	FYE Dec-21	FYE Dec-22
Revenue	20,736	23,910	15,253	1,639	1,792	2,829	3,184	3,507	3,699
EBITDA	6,477	7,692	4,132	716	902	1,920	1,012	1,044	1,105
Total Assets	170,567	169,632	168,959	16,113	15,487	14,471	20,958	19,616	18,244
Total Debt	63,910	63,717	64,915	13,515	12,782	12,257	10,315	8,843	7,259
FFO Interest Coverage	2.8x	3.3x	2.2x	1.2x	2.2x	4.5x	4.8x	5.9x	7.7x
FFO / Debt	5.3%	6.0%	2.7%	0.6%	3.3%	10.3%	12.0%	13.3%	19.6%
RCF / Debt	4.7%	5.1%	1.7%	0.3%	3.3%	9.6%	12.0%	13.3%	19.6%
Debt / Book Capitalization	55.6%	54.7%	55.0%	105.5%	107.5%	106.2%	55.6%	51.8%	46.2%

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 COGS.

Source: Moody's Financial Metrics™

Exhibit 11

### Moody's-adjusted debt breakdown

#### Korea Land and Housing Corporation

(in KRW Billions)	FYE Dec-20	FYE Dec-21	FYE Dec-22
<b>As Reported Debt</b>	<b>68,875</b>	<b>75,251</b>	<b>81,649</b>
Pensions	550	492	435
<b>Moody's-Adjusted Debt</b>	<b>69,425</b>	<b>75,743</b>	<b>82,085</b>

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 12

### Moody's-adjusted EBITDA breakdown

#### Korea Land and Housing Corporation

(in KRW Billions)	FYE Dec-20	FYE Dec-21	FYE Dec-22
<b>As Reported EBITDA</b>	<b>5,759</b>	<b>7,030</b>	<b>3,506</b>
Pensions	11	31	23
Non-Standard Adjustments	1,862	1,736	1,787
<b>Moody's-Adjusted EBITDA</b>	<b>7,633</b>	<b>8,797</b>	<b>5,316</b>

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 COGS.

Source: Moody's Financial Metrics™

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