

CREDIT OPINION

18 December 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 to credit analysis: Government's financial support mitigates increasing debt

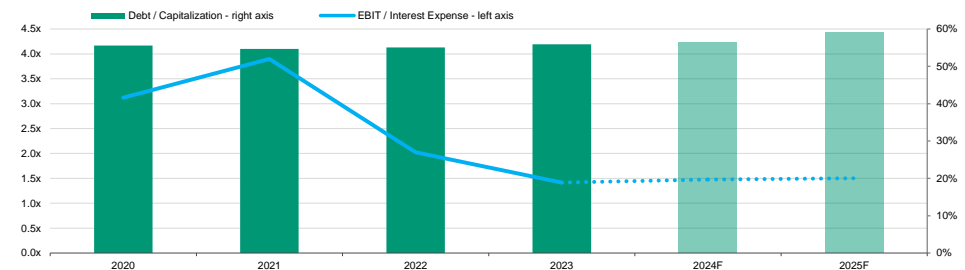
Summary

[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 sectors. The company's weak financial metrics are mitigated by the Korean government's recurring capital injections and the provision of subordinated loans from the National Housing and Urban Fund (NHUF), as well as the company's strong access to debt markets.

Exhibit 1
KLHC's financial metrics will likely remain largely consistent with its ba2 BCA



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 Ratings forecasts

Credit strengths

- » Leading position in Korea's land development and housing sectors, given the mandated 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
- » Recurring financial support from the government

Credit challenges

- » Financial metrics will remain weak because of continued debt growth.

Rating outlook

The stable outlook on KLHC's rating is in line with the stable outlook on the Korean government's 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.

We could upgrade KLHC's BCA to ba1 or above if its Moody's-adjusted debt/capitalization remains below 50%-52%.

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.

We could downgrade KLHC's BCA to ba3 or below if its Moody's-adjusted debt/capitalization remains above 60%.

Key indicators

Exhibit 2

Korea Land and Housing Corporation

	12/31/2020	12/31/2021	12/31/2022	12/31/2023	LTM1H2024	12/31/2024F	12/31/2025F
Revenue (KRW trillion)	24.4	27.3	19.6	13.9	18.1	17.3	17.7
EBIT/ Interest Expense	3.1x	3.9x	2.0x	1.4x	1.9x	1.5x	1.5x
Debt / EBITDA	9.1x	8.6x	15.4x	19.6x	15.3x	19.0x	19.6x
Debt / Book Capitalization	55.6%	54.7%	55.0%	55.9%	55.0%	56.3%	58.9%

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 Ratings forecasts

Profile

Korea Land and Housing Corporation (KLHC) is 100% owned, directly and indirectly, by the Korean government. As of 30 June 2024, the Ministry of Land, Infrastructure and Transport was KLHC's largest shareholder with a 65.4% stake, followed by the Ministry of Economy and Finance with 19.0%, [Korea Development Bank](#) (Aa2 stable) with 10.5% and [The Export-Import Bank of Korea](#) (Aa2 stable) with 5.1%.

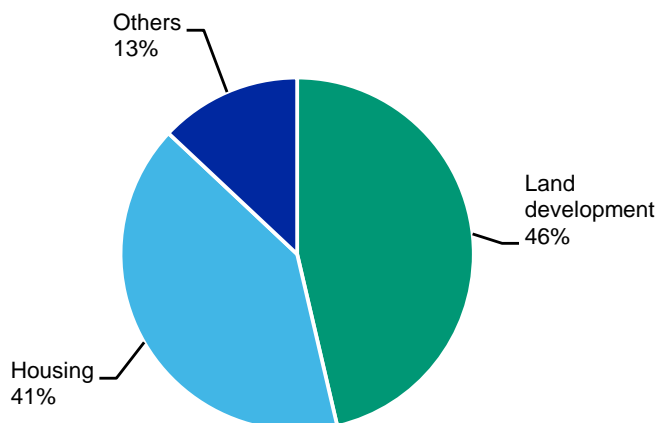
KLHC was established in October 2009 through a merger between Korea Land Corporation and Korea National Housing Corporation. Pursuant to the KLHC Act, KLHC is responsible for the implementation of land- and housing-related policies. The company's key

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's.com> for the most updated credit rating action information and rating history.

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 management of a land bank.

Exhibit 3

KLHC's revenue breakdown (H1 2024)



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 2019 and 2023, KLHC supplied 72% of the total residential sites in the country by volume. Land development remains the core revenue and cash flow contributor for KLHC, accounting for about 47% of its revenue and a large proportion of its gross profit in 2023.

As the leading developer in Korea, KLHC manages various projects across Korea, such as new cities and new residential and business towns. The company's major 20 projects under development span around 227 km² across Korea. The size and number of projects suggest 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 2019 and 2023, the aggregate rental housing supplied by the company represented about 52% 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 7% of the country's total housing supply by number of units over 2019-23.

KLHC's residential business is primarily aimed at providing affordable housing to low-income households and stabilizing residential property prices by ensuring a large supply of homes. Of the residential properties the company supplied to the market in 2023, 53% comprised rental homes and 47% 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 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 one of the 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. As 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** - The government has a low tolerance for reputational and contagion risks that could result from a default of KLHC because the latter is considered one of the key GRIs in Korea and its default will have a significant impact on the financial market.
- » **History of support** - KLHC receives significant and regular capital injections and subsidies from the government. The company received an equity injection of around KRW3.5 trillion from the Korean government in 2024, up from KRW2.8 trillion in 2023. KLHC also continues to borrow from the NHUF at favorable terms — including long maturity and low interest rates. The fund is managed by the government and represented about 50% of KLHC's reported total debt as of 30 June 2024.
- » **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 Ratings

Weak financial metrics are mitigated by the government's recurring financial support

We expect KLHC's debt/capitalization to weaken to about 59% over the next one to two years from 56% in 2023-24, mainly because of growing debt (see Exhibit 5). KLHC's EBIT/interest is likely to remain weak at around 1.5x over the same period.

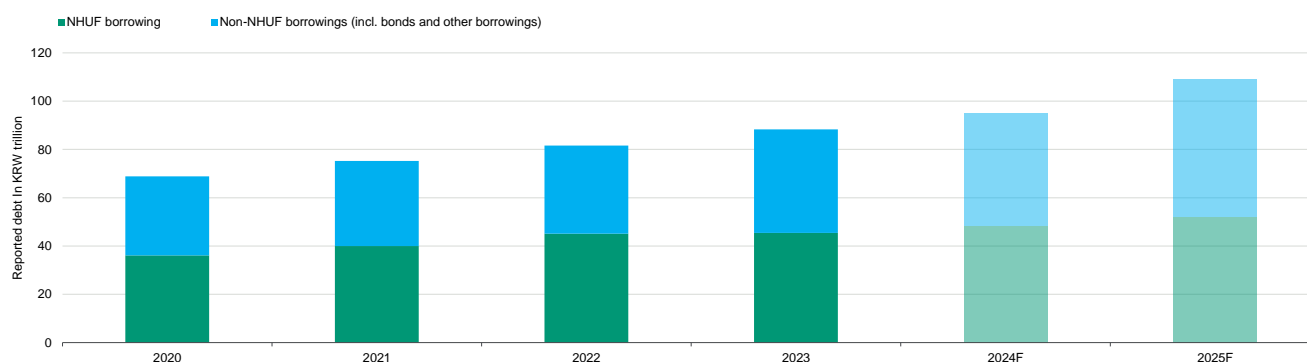
We expect KLHC's reported debt to grow to about KRW110 trillion by the end of 2025 from KRW89 trillion as of 31 December 2023, mainly because the company will expand investments to develop land for new residential areas, construct new public housing and increase the lease of public housing, per the Korean government's plan.

These ratios are weak for the ba2 BCA, but this weakness is mitigated by continued financial support from the government in the form of equity injections and the provision of subordinated loans from the NHUF.

In our view, the borrowings from NHUF have certain equity-like features, such as the subordinated status against its senior obligations and long-dated maturity, although we treat these borrowings as 100% debt.

In addition, we expect KLHC's earnings to increase from 2026, mainly because of the commencement of pre-sales of houses around Seoul and profit recognition from land sales under the phase 3 new city development project, which started land developments from 2019-20.

Exhibit 5

KLHC's debt will continue to increase

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

In the first half of 2024, KLHC recorded a reported operating profit of KRW557 billion, a turnaround from an operating loss of KRW316 billion in the same period last year, as the property market in Korea rebounded (see Exhibit 3). However, the operating profit in H1 2024 was lower than the profit of KRW1.5 trillion recorded in 2022.

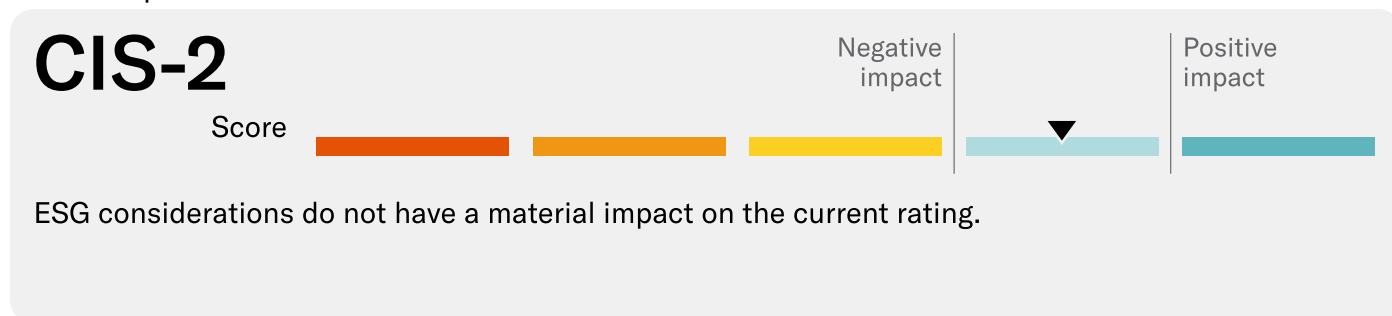
KLHC's reported debt remained steady at KRW88.6 trillion as of 30 June 2024, which was similar to KRW88.3 trillion as of December 2023. KLHC's equity base increased to KRW72.9 trillion from KRW70 trillion during the same period, because of the government's

equity injection, along with the company's profit generation. KLHC's Moody's-adjusted debt/capitalization also remained at 55% as of 30 June 2024, similar to 55%-56% in 2022-23.

ESG considerations

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

Exhibit 6
ESG credit impact score



Source: Moody's Ratings

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 Ratings

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 2024, the company's maturing debt and projected capital spending over the next 12-18 months were larger than its liquidity holdings of KRW7.2 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

The application of our Homebuilding and Property Development rating methodology yields a scorecard-indicated outcome of Ba3 based on our projected financials for 2024-25, which is one notch lower than the company's BCA. The difference mainly reflects the government's recurring capital injections, which are not fully captured in the key financial metrics, and certain equity-like characteristics of its borrowings from the NHUF, as well as its strong access to debt markets.

Exhibit 8

Rating factors

Korea Land and Housing Corporation

Homebuilding And Property Development Industry Scorecard [1][2]	Current FY 12/31/2023		Moody's 2024-25 Forward View [3]	
	Measure	Score	Measure	Score
Factor 1 : Scale (10%)				
a) Revenue (\$ Billion)	\$10.6	Baa	\$12.7-\$13.1	Baa
Factor 2 : Business Profile (30%)				
a) Market Position and Diversification	Baa	Baa	Baa	Baa
b) Business Strategy	Baa	Baa	Baa	Baa
c) Market Conditions	Ba	Ba	Ba	Ba
Factor 3 : Profitability and Efficiency (10%)				
a) Gross Margin	18.7%	B	18.9%-21.0%	B
Factor 4 : Leverage and Coverage (30%)				
a) EBIT / Interest Expense	1.4x	B	1.5x	B
b) Debt / Book Capitalization	55.9%	B	56.3%-59.0%	B
c) Debt / EBITDA	19.6x	Ca	19.0x-19.7x	Ca
Factor 5 : Financial Policy (20%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba3		Ba3
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 Ratings forecasts

Ratings

Exhibit 9

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

Source: Moody's Ratings

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-21	FYE Dec-22	FYE Dec-23	FYE Dec-21	FYE Dec-22	FYE Dec-23	FYE Dec-21	FYE Dec-22	FYE Dec-23
Revenue	23,910	15,253	10,635	1,792	3,057	2,502	3,507	3,699	3,501
EBITDA	7,692	4,132	3,479	902	2,084	1,554	1,044	1,105	813
Total Assets	169,632	168,959	173,039	15,487	14,471	14,154	19,616	18,280	17,775
Total Debt	63,717	64,915	68,943	12,782	12,257	11,973	8,843	7,319	6,839
FFO Interest Coverage	3.3x	2.2x	2.1x	2.2x	4.3x	3.3x	5.9x	7.6x	5.6x
FFO / Debt	6.0%	2.7%	2.7%	3.3%	9.6%	7.2%	13.3%	19.4%	14.2%
RCF / Debt	5.1%	1.7%	2.3%	3.3%	8.8%	7.0%	13.3%	19.4%	13.4%
Debt / Book Capitalization	54.7%	55.0%	55.9%	107.5%	106.2%	104.0%	51.8%	46.4%	43.8%

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 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	FYE Dec-23
As Reported Debt	68,875	75,251	81,649	88,336
Pensions	550	492	435	456
Moody's-Adjusted Debt	69,425	75,743	82,085	88,792

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	FYE Dec-23
As Reported EBITDA	5,759	7,030	3,506	2,572
Pensions	11	31	23	21
Non-Standard Adjustments	1,862	1,736	1,787	1,948
Moody's-Adjusted EBITDA	7,633	8,797	5,316	4,541

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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