

Korea Land and Housing Corp.

November 20, 2023

Credit Highlights

Overview

Key strengths	Key risks
Almost certain likelihood of receiving government support in the event of financial distress.	High leverage, with growing debt over the next two years.
Sole government-owned entity responsible for the supply of land and low-cost public housing in Korea.	Increasing capital expenditure (capex) for new policy-driven development projects and public housing supply.
Only non-financial government-controlled enterprise in Korea that is statutorily entitled to receive loss compensation from the government.	Exposure to the cyclical domestic property market.

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Korea Land and Housing Corp. (KLHC) is almost certain to receive extraordinary government support in the event of financial distress. The company plays a critical role as the sole government-owned entity responsible for ensuring a stable supply of development land and public housing. The government's full ownership of KLHC, strong financial support, and tight supervision underscore the company's integral link with the government. As a result, we equalize the rating on KLHC with the sovereign credit rating on Korea (AA/Stable/A-1+).

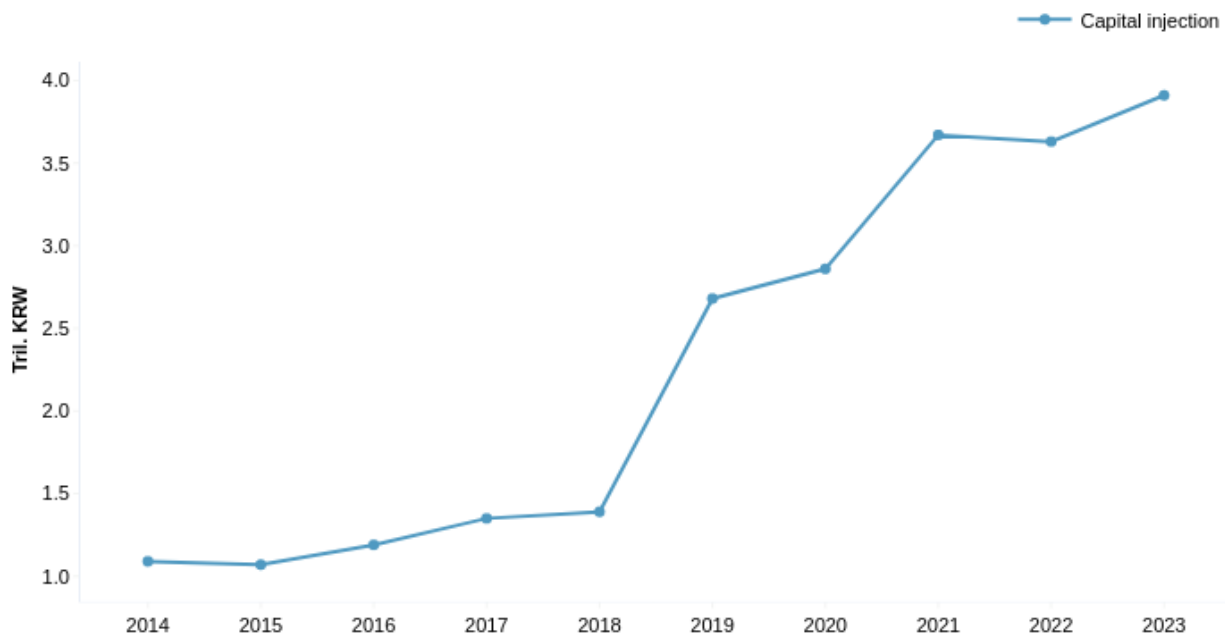
We view KLHC as a non-severable arm of the government, based on its critical policy function. KLHC also aims to decentralize the population through planning and development. We believe that such support is not subject to transition risk. The government has a track record of sizable capital injections into KLHC. We do not assign a stand-alone credit profile to KLHC because it is not a major rating driver, considering the almost-certain likelihood of government support.

The government's track record of capital injections into KLHC underscore its commitment to the company. Given that KLHC's primary objective is public policy, it is entitled to and receives various financial and other nonfinancial subsidies from the government, including capital contributions, low-cost public funding through the National Housing and Urban Fund (NHUF), and loss compensation for certain eligible projects. A strong record of capital injections has enabled KLHC to carry out its role of developing and supplying land and public housing, and shows the government's support for KLHC.

Korea Land and Housing Corp.

For example, the government injected Korean won (KRW) 3.6 trillion in 2022 and KRW3.7 trillion in 2021. These represent sizable increases from KRW1 trillion per year in 2014-2018. The larger amounts were necessary to support the supply of public housing and new city projects mandated by the government. The capital contributions are designed to cover 30%-40% of the costs borne by KLHC for public housing for young people, newlyweds, the elderly, and low-income households. It also grows KLHC's capacity to issue bonds because it has an issuance limit that is fivefold its equity.

Capital injection trend from the government



Tril--Trillion. KRW--Korean won. Source: Company data

KLHC will likely continue to play a critical role in providing affordable public housing. The company is the largest property developer in Korea with a dominant national market share in developing land and providing rental housing. It has also undertaken many government-mandated development projects, such as Administrative city and Innovative cities. These projects are executed by the Korean government to relocate administrative bodies and public entities outside the Seoul metropolitan area.

We believe the Korean government will continue to focus on increasing housing supply in order to keep the property market stable in the medium to long run. Although the private sector may play a bigger role than it did under the previous administration, KLHC will likely continue to be the sole entity to execute the government's large-scale nationwide development mandates and supply various types of public housing for sale and rental.

KLHC's financial performance is subject to the conditions of the Korean property market. The company depends on land and housing sales to offset weak profitability from the public housing-related businesses, which are loss-making. A weak Korean property market since the second half of 2022 caused a material decline in the company's EBITDA to KRW3.2 trillion in 2022 from KRW6.9 trillion in 2021. Sales of expired public housing in the first and second new

Korea Land and Housing Corp.

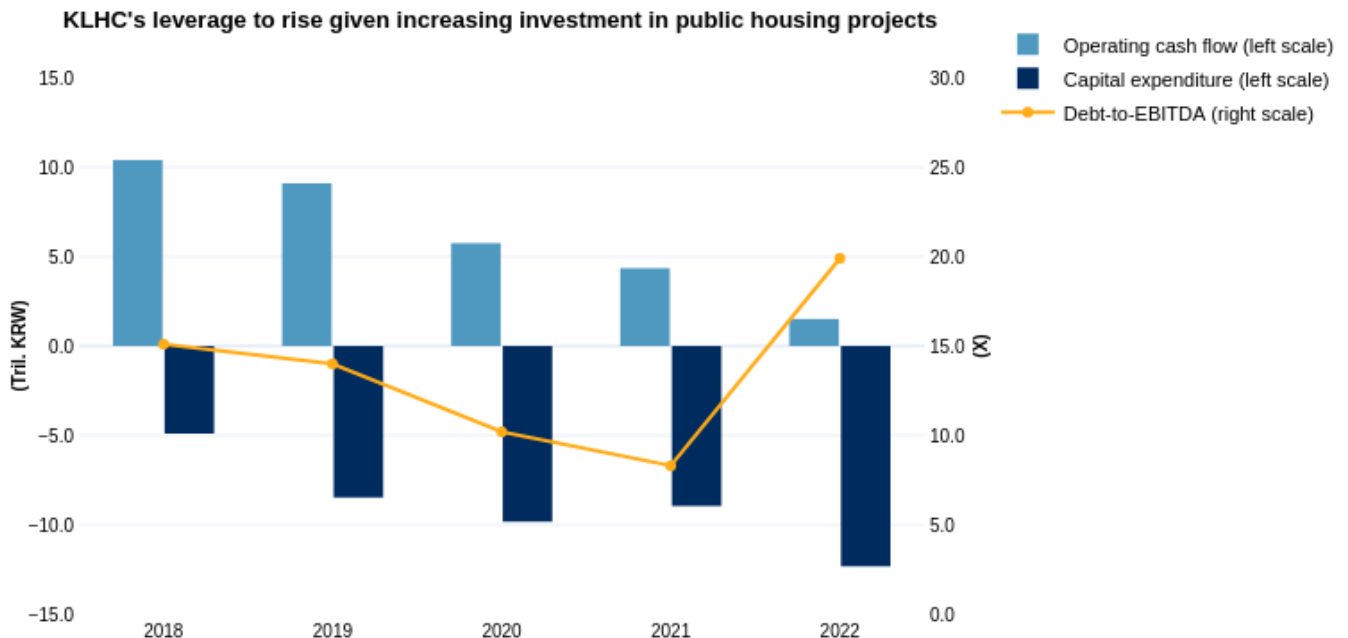
town areas were mostly done in 2020-2021. This had caused profit to soar due to housing sales over the period.

KLHC's operating performance is likely to be weak and volatile in 2023, considering an operating loss recorded in the first half of this year. The loss was mainly due to persisting sluggishness of property prices in Korea and the declining contribution of high-profit housing sales, which will limit the company's earnings improvement over the next 12 months. We expect operating losses in public rental housing to persist due to increased maintenance and repair costs for the aged rental housing units and the government's plans to continue to expand public rental units for low-income households.

KLHC's heavy debt and increasing capex from large property development projects, including public housing, will continue to constrain its financial position. We believe the company will find it difficult to fund its investments internally. This is because its operating cash flow will likely decrease, owing to weak operating performance.

Large capex plans related to the third new town projects will result in negative discretionary cash flow. This is despite sizable capital injections from the government. KLHC will likely rely on external debt to cover the shortfall, which will pressure leverage.

Still, KLHC is likely to substantially benefit from the third new town projects in the longer term. This is considering the good location of the projects (adjacent to Seoul). Also, we believe the company will continue to benefit from its status as a major government entity. It continues to receive ongoing government subsidies and financial assistance, including low-cost subordinated loans from the NHUF. The fund offers such loans with long maturities, low interest rates, and favorable repayment terms (amortization from Year 30). Of note, NHUF loans accounted around 54% of KLHC's total debt as of end-June 2023.



Tril--Trillion. KRW--Korean won. Source: S&P Global Ratings.

Outlook

The stable outlook on KLHC reflects our outlook on the sovereign credit rating on Korea. We equalize our rating on KLHC with that on the sovereign. This reflects our expectation of an almost-certain likelihood of extraordinary support from the government to the company during any financial distress.

Downside scenario

We could lower our ratings on KLHC if we downgrade Korea. A weakening of KLHC's role as the policy arm of or its link with the government could also put pressure on the ratings.

Upside scenario

We could raise the ratings on KLHC if we upgrade Korea.

Company Description

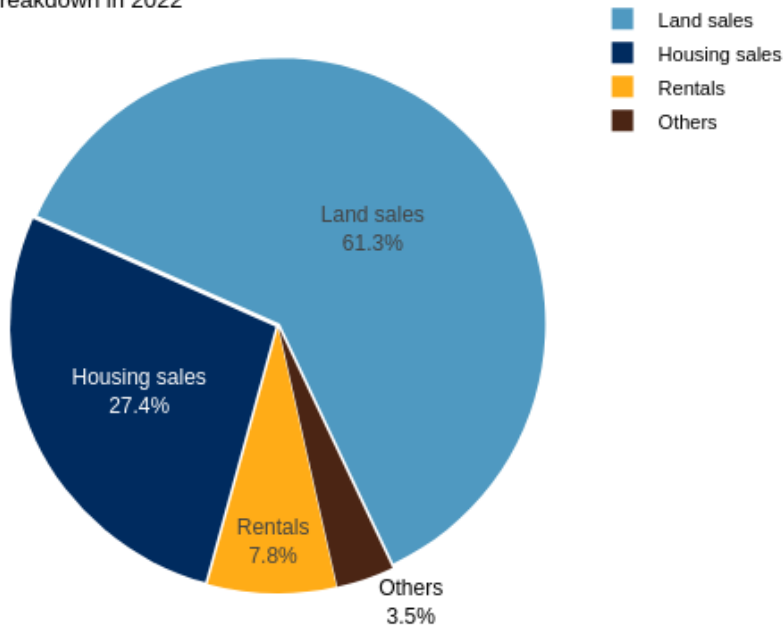
KLHC was established in 2009 through the consolidation of two government entities: Korea National Housing Corp. and Korea Land Corp. The company plays the policy role of providing development land and affordable public housing. It is the largest property developer in Korea.

KLHC operates in three main business segments: land, public housing, and public rental housing. The land segment mainly covers the sale of land for industrial and residential complexes. It accounted for about 61% of revenue in 2022. The public housing segment (27% of revenue) develops, constructs, and sells housing units, including the sale of expired public rental houses. Public rental housing (8% of revenue) is the segment that constructs, purchases, rents, sells, and operates rental housing units for low-income households and individuals.

KLHC is fully owned by the Korean government (88%) and government-related entities (Korea Development Bank, 10% and The Export-Import Bank of Korea, 2%). The company is governed under the Korea Land and Housing Corporation Act.

KLHC derives more than half of its revenue from land sales

Revenue breakdown in 2022



Source: Company data.

Financial Risk

Financial Summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2020a	2021a	2022a
Display currency (bil.)	KRW	KRW	KRW
Revenues	24,434	27,346	19,626
EBITDA	5,556	6,925	3,192
Funds from operations (FFO)	2,657	4,238	1,373
Interest expense	1,385	1,255	1,260
Cash interest paid	1,831	1,260	1,253
Operating cash flow (OCF)	5,758	4,339	1,511
Capital expenditures	9,827	8,946	12,337

Financial Summary

Free operating cash flow (FOCF)	(4,070)	(4,607)	(10,826)
Discretionary cash flow (DCF)	(4,522)	(5,273)	(11,664)
Cash and short-term investments	3,692	9,258	7,389
Gross available cash	3,692	9,258	7,389
Debt	56,918	57,399	63,593
Common equity	55,541	62,762	67,032

Adjusted ratios

EBITDA margin (%)	22.7	25.3	16.3
Return on capital (%)	4.1	5.0	1.7
EBITDA interest coverage (x)	4.0	5.5	2.5
FFO cash interest coverage (x)	2.5	4.4	2.1
Debt/EBITDA (x)	10.2	8.3	19.9
FFO/debt (%)	4.7	7.4	2.2
OCF/debt (%)	10.1	7.6	2.4
FOCF/debt (%)	(7.2)	(8.0)	(17.0)
DCF/debt (%)	(7.9)	(9.2)	(18.3)

Reconciliation Of Korea Land and Housing Corp. Reported Amounts With S&P Global Adjusted Amounts (Bil. KRW)

Financial year	Shareholder		Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
	Debt	Equity								
Dec-31-2022										
Company reported amounts	70,636	67,023	19,626	3,169	1,813	146	3,192	1,513	838	12,339
Cash taxes paid	-	-	-	-	-	-	(565)	-	-	-
Cash interest paid	-	-	-	-	-	-	(1,253)	-	-	-
Lease liabilities	33	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/deferred compensation	312	-	-	16	16	15	-	-	-	-
Accessible cash and liquid investments	(7,389)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	1,099	-	-	-	-
Capitalized development costs	-	-	-	(2)	6	-	-	(2)	-	(2)
Dividends from equity investments	-	-	-	9	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	307	-	-	-	-	-
Noncontrolling/minority interest	-	8	-	-	-	-	-	-	-	-
Total adjustments	(7,043)	8	-	23	329	1,114	(1,818)	(2)	-	(2)

Reconciliation Of Korea Land and Housing Corp. Reported Amounts With S&P Global Adjusted Amounts (Bil. KRW)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	63,593	67,032	19,626	3,192	2,141	1,260	1,373	1,511	838	12,337

Environmental, Social, And Governance

KLHC is exposed to social risks. This is given the company's role in land development, urban regeneration, as well as housing market stabilization as a government-owned entity.

KLHC is responsible for and promotes social cohesion due to its role as a provider of affordable public housing for low and medium-income families, the young generation, and other disadvantaged communities. For example, the company provides rental apartments to these communities at 30%-90% of market rent, depending on the needs and income bracket of the target communities.

In April 2023, the slab roof of the underground parking lot of one of the KLHC's public housing apartment being constructed in Incheon collapsed, but there were no casualties. A subsequent investigation revealed that the parking lot structure had missing steel reinforcement bars (rebars), and the concrete of the parking lot structure lacked the requisite strength to support itself. Further investigation revealed that of the 102 public housing apartment complexes that utilized the flat-plate slab system, and 20 apartment complexes had missing rebars. KLHC announced plans to complete remedial work on such affected public housing apartments and establish a special task force to review its contractor selection and evaluation process, including whether any favoritism was given to companies which had hired former senior employees of the company. We expect that the government will announce measures to address this issue. KLHC is currently assessing the legal and financial liabilities from owners and tenants of affected public housing apartments.

With the land speculation cases caused by a few employees back in 2021, these cases were due to the company's weak internal controls, in our view. While it is difficult to gauge the impact for KLHC at the current stage, misconduct by KLHC's employees or third parties engaged by the company could adversely affect the company's reputation, business, results of operations and financial conditions.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June. 30, 2023, KLHC's capital structure consisted of KRW74 trillion of unsecured debt at the parent level, and minimal debt (KRW25 billion) at the subsidiary level.

Analytical conclusions

Korea Land and Housing Corp.

We rate KLHC's debt 'AA,' the same as the long-term issuer credit rating. This is because no significant elements of subordination risk are present in the company's capital structure, given a priority debt ratio of close to 0%.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Research update: Korea Land & Housing Corp. 'AA' Ratings Affirmed; SACP Revised Up On Lower Public Housing Rental Risks; Outlook Stable, Aug. 25, 2022

Ratings Detail (as of November 20, 2023)*

Korea Land and Housing Corp.

Issuer Credit Rating AA/Stable/--

Issuer Credit Ratings History

08-Aug-2016	<i>Foreign Currency</i>	AA/Stable/--
16-Sep-2015		AA-/Stable/--

Korea Land and Housing Corp.

Ratings Detail (as of November 20, 2023)*

21-Sep-2014		A+/Positive/--
08-Aug-2016	Local Currency	AA/Stable/--
17-Sep-2012		AA-/Stable/--
01-Oct-2009		A+/Stable/--

Related Entities

Export-Import Bank of Korea

Issuer Credit Rating		
Foreign Currency		AA/Stable/A-1+
Local Currency		--/--/A-1+
Commercial Paper		
Foreign Currency		A-1+
Short-Term Debt		A-1+

Korea Development Bank

Issuer Credit Rating		
Foreign Currency		AA/Stable/A-1+
Local Currency		--/--/A-1+
Certificate Of Deposit		
Foreign Currency		A-1+
Commercial Paper		
Foreign Currency		A-1+

Korea Development Bank (Singapore Branch)

Senior Unsecured		AA
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Korea Housing Finance Corp.

Issuer Credit Rating		AA/Stable/A-1+
Senior Unsecured		AA

Korea Mine Rehabilitation and Mineral Resources Corp.

Issuer Credit Rating		A/Stable/--
Senior Unsecured		A

Korea National Oil Corp.

Issuer Credit Rating		AA/Stable/--
Senior Unsecured		AA

Korea (the Republic of)

Issuer Credit Rating		AA/Stable/A-1+
Transfer & Convertibility Assessment		AAA
Senior Unsecured		AA

NH Investment & Securities Co. Ltd.

Issuer Credit Rating		A-/Stable/A-2
Senior Unsecured		A-

NongHyup Bank

Issuer Credit Rating		A+/Stable/A-1
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Ratings Detail (as of November 20, 2023)*

Commercial Paper

Foreign Currency

A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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