

Korea Land and Housing Corp.

September 1, 2024

Credit Highlights

Overview

Key strengths	Key risks
Almost-certain likelihood of receiving government support in the event of financial distress.	High leverage, with growing debts 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 ongoing public housing supply.
Only non-financial government-controlled enterprise in Korea that is statutorily entitled to receive loss compensation from the government.	Weak operating profitability and exposure to the cyclical domestic property market.

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Korea Land and Housing Corp. (KLHC) will almost certainly receive extraordinary government support in the event of financial distress, in our view.

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 targets urban decentralization 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.

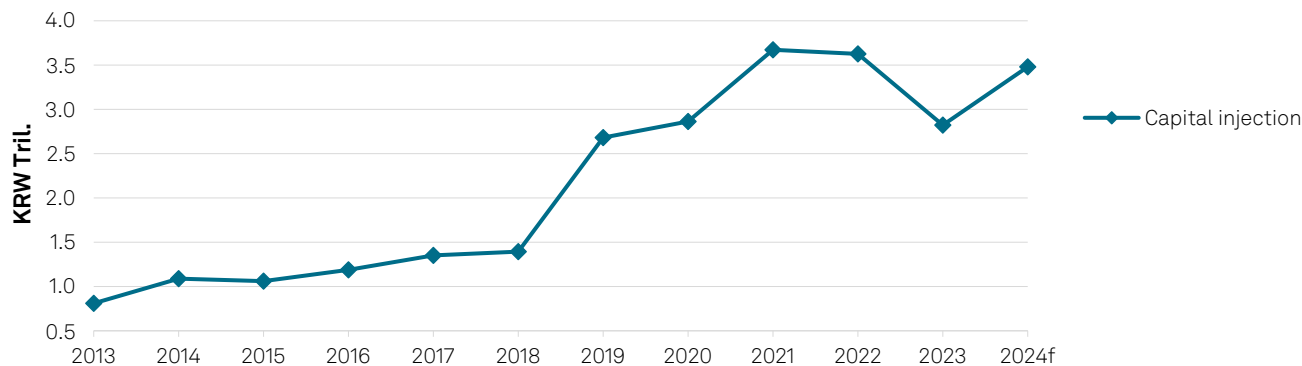
The government's track record of capital injections into KLHC underscores its commitment to the company.

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 and long-term 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 across Korea.

Korea Land and Housing Corp.

For example, the government injected Korean won (KRW) 2.8 trillion in 2023 and KRW3.6 trillion in 2022. These represent sizable increases from around 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 from the government remains high



Tril.--Trillion. KRW--Korean won. Sources: Company disclosures, S&P Global Ratings.

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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 operating performances are highly affected by the conditions of Korean property market.

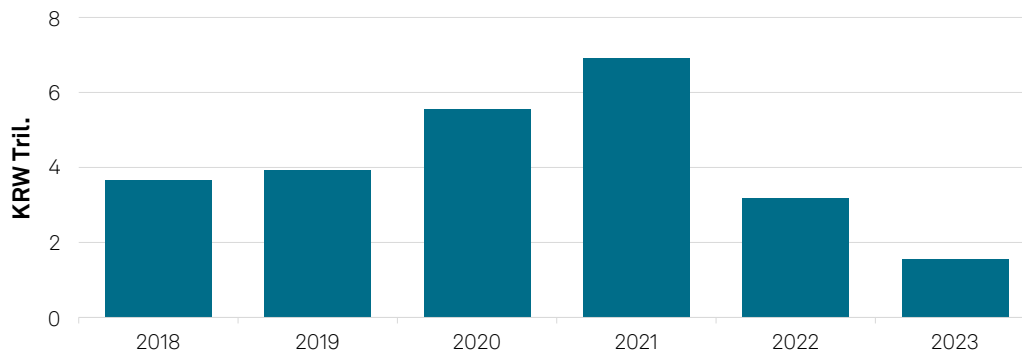
As the core profit contributor, high-margin land and housing sales have helped offset weak profitability from the public housing-related businesses, which are loss-making. A sluggish Korean property market since the second half of 2022 has continued to weigh on company's core business through lower sales and margins, and reduced its EBITDA to KRW1.6 trillion in 2023. This compares with EBITDA of KRW3.2 trillion in 2022, KRW6.9 trillion in 2021, when sales of expired public housing in the first and second new town areas were mostly completed.

We forecast KLHC's operating performance will gradually bottom out in 2024, considering Korea's housing prices have been recovering since December 2023. Delayed land sales payment amid real estate headwinds are likely to be resolved gradually and high-margin housing sales

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should rise modestly, in our view. However, we don't expect a significant earnings recovery for 2024 because the land bank sales related to the third new town will only contribute to the company's earnings over 2026-2027. 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 EBITDA has significantly declined in the past two years due to sluggish property market



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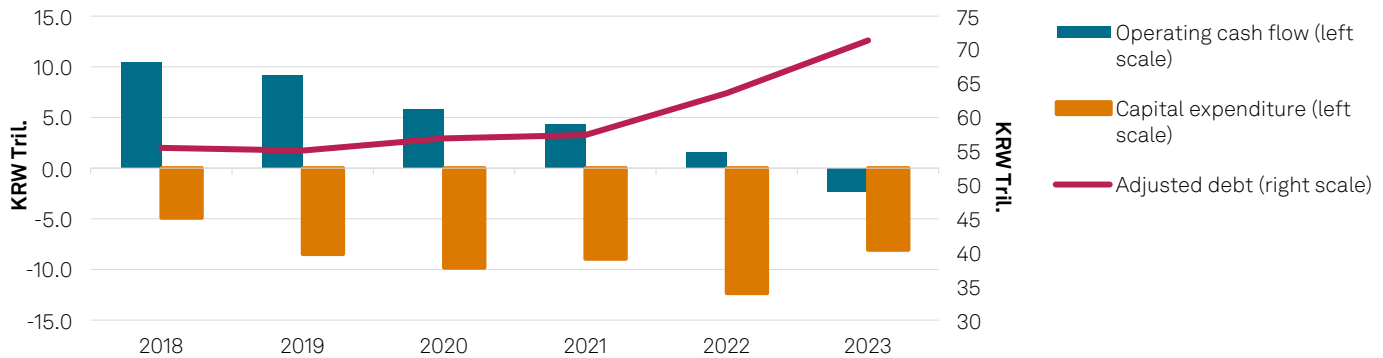
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KLHC's financial position could remain constrained due to heavy debt coupled with high capex for large property development projects, including public housing.

We believe the company will have difficulty funding investments internally given its weaker operating cash generation than in the past. Capex should stay elevated in the next two years for the third new town project and will likely 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 could further pressure the leverage metrics.

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 capitalize on 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 50% of KLHC's total debt as of end-June 2024.

KLHC's leverage to rise given increasing investments in public housing projects



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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

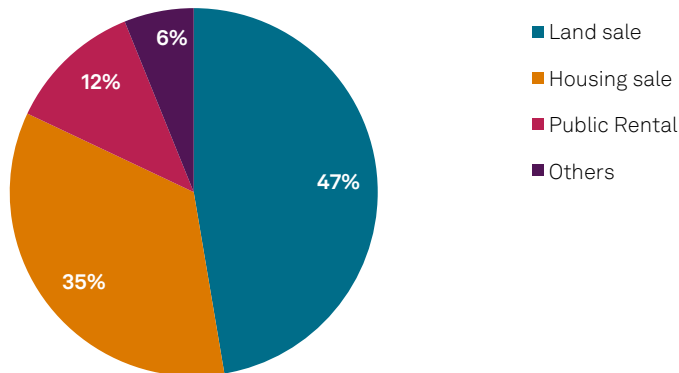
KLHC was established in 2009 through the consolidation of two government entities: Korea National Housing Corp. and Korea Land Corp. The company plays the policy role of providing development land and affordable public housing. It is the largest property developer in Korea.

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 47% of revenue in 2023. The public housing segment (35% of revenue) develops, constructs, and sells housing units, including the sale of expired public rental houses. Public rental housing (12% 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, 9% and The Export-Import Bank of Korea, 3%). The company is governed under the Korea Land and Housing Corporation Act.

Land sale is the largest revenue contributor of KLHC

Revenue breakdown in 2023



Sources: Company disclosures, S&P Global Ratings.

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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, 20 apartment complexes had missing rebars.

KLHC announced plans to complete remedial work on such affected public housing apartments (which would be done by GS Engineering & Construction Corp.) and the company reviewed its contractor selection and evaluation process, as favoritism was given to companies which had hired former senior employees of the company.

A few employees caused land speculation cases back in 2021, and these cases were due to the company's weak internal controls, in our view. While the financial impact for KLHC would be limited to several billion Korean won, 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 Dec. 31, 2023, KLHC's capital structure consisted of KRW88.3 trillion of unsecured debt at the parent level, and minimal debt (KRW25 billion) at the subsidiary level.

Analytical conclusions

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

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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
- 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

- Korea Land and Housing Corp., Nov. 20, 2023
- 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 September 01, 2024)*

Korea Land and Housing Corp.

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Ratings Detail (as of September 01, 2024)*

Issuer Credit Rating	AA/Stable/--
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Issuer Credit Ratings History

08-Aug-2016	<i>Foreign Currency</i>	AA/Stable/--
16-Sep-2015		AA-/Stable/--
21-Sep-2014		A+/Positive/--
08-Aug-2016	<i>Local Currency</i>	AA/Stable/--
17-Sep-2012		AA-/Stable/--
01-Oct-2009		A+/Stable/--

Related Entities

Export-Import Bank of Korea

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

Korea Credit Guarantee Fund

Issuer Credit Rating	AA/Stable/A-1+
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Korea Development Bank

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

Korea Development Bank (Hong Kong Branch)

Short-Term Debt	A-1+
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Korea Development Bank (New York Branch)

Senior Unsecured	AA
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Korea Development Bank (Singapore Branch)

Senior Unsecured	AA
Short-Term Debt	A-1+

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/--
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Korea Land and Housing Corp.

Ratings Detail (as of September 01, 2024)*

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
Commercial Paper	
<i>Foreign Currency</i>	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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