

SK Hynix (000660 KS)

FUNDAMENTAL VIEW ¹

As of 05 Dec 2024

- We maintain our O/P recommendation on SK Hynix (Baa2/BBB/BBB) post its strong set of 3Q24 results, with robust topline growth and continued improvement in gross/EBITDA margins, as well as higher FOCF and better debt metrics. We expect SK Hynix's leverage to continue trending lower over the next 12 months on resilient topline growth, robust EBITDA margin, strong FOCF, and lower debt; in addition, we expect the company to maintain its technology and production leadership in HBM products, and see reduced US chip sanction risk. We see room for an additional 10-20 bp of spread tightening against Micron and US BBB tech. In particular, we like its 27,28,29 for the higher spread pick up against US BBB Tech and Micron, and its 2033 bond for extending duration.

RISKS & CATALYSTS

As of 05 Dec 2024

- The memory sector is subjected to significant boom/bust cycles, leading to volatility in its revenue and EBITDA margin. During an upcycle, memory vendors typically expand capacity to meet strong end-demand from PC, smartphones, and servers; however, the long-lead time for new plants could result in an oversupply when end-demand is tapering off.
- Capex intensity (as % of revenues) and R&D costs are elevated even in downcycles for SK Hynix, as it needs to maintain technological leadership and fast evolving product requirements from customers.
- SK Hynix has large production and revenue exposure to China; rising US-China tension and restrictive US chip exports to China could destabilize the long-term prospect of its China production and weigh on its \$ bonds. Though, in Oct-23 SK Hynix was designated as a "Validated End User" by the US government, which gave it an indefinite waiver for importing US chip gears to their Chinese plants.

CREDIT QUALITY SCORE (CQS)²

As of 11 Feb 2025

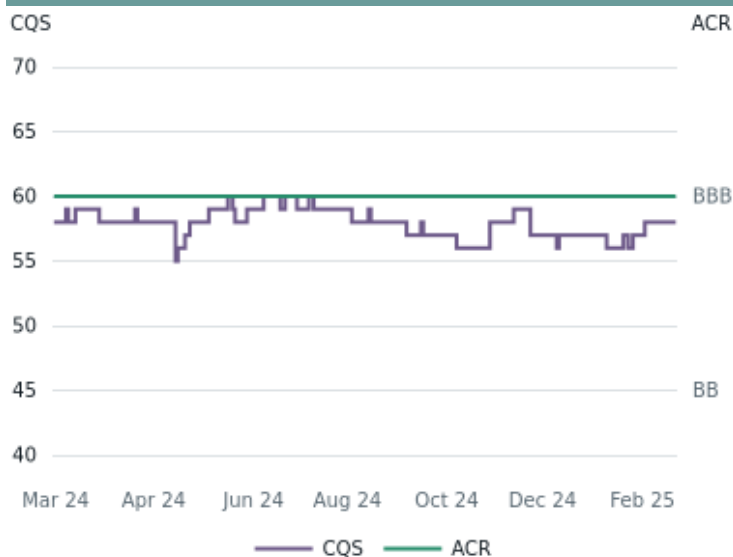
CURRENT CQS

58

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 05 Dec 2024

KRW BN	FY20	FY21	FY22	FY23	LTM 3Q24
Debt to Book Cap	19.9%	23.5%	28.1%	37.8%	27.3%
Net Debt to Book Cap	12.8%	13.3%	21.2%	27.7%	15.5%
Debt/Total Equity	24.8%	30.8%	39.2%	60.7%	37.6%
Debt/Total Assets	18.1%	19.9%	23.9%	32.4%	22.7%
Gross Leverage	0.9x	0.8x	1.2x	5.8x	0.9x
Net Leverage	0.6x	0.5x	0.9x	4.3x	0.5x
Interest Coverage	57.3x	87.3x	38.7x	3.8x	19.0x
EBITDA Margin	45.5%	52.8%	46.2%	17.1%	48.5%

BUSINESS DESCRIPTION

As of 05 Dec 2024

- SK Hynix is one of the world's largest memory semiconductor companies. As an Integrated Device Manufacturer (IDM), it engages in the design, manufacturing and sale of advanced memory semiconductors. It derives two-thirds of its 9M24 revenues from the sale of DRAM (dynamic random-access memory), 31% from NAND Flash, and the remaining 3% from CMOS Image Sensors and foundry services. The company's products are essential to a wide range of electronic devices, including PCs, servers, graphic cards, and mobile devices.
- SK Hynix holds the second largest global market share (2Q24: 34.5%) in DRAM and NAND Flash (1Q24: 22.2%).
- SK Hynix is a member of SK Group, South Korea's second largest conglomerate by asset, and is 20.1%-owned by SK Square.
- The company has manufacturing facilities located in (1) South Korea — Icheon (DRAM, NAND), and Cheongju (NAND); and (2) China — Wuxi (DRAM), Dalian (NAND); and packaging & testing facilities in Chongqing, China.
- SK Hynix had a market capitalization of KRW 126.9 tn as of 5 December 2024.

GLOSSARY

- The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.
 - The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.
 - The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.
 - The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.
- Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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