

Korea Gas Corp. (036460 KS)

FUNDAMENTAL VIEW ¹

As of 18 Jun 2024

- KORGAS is Korea's sole integrated gas utility company and a quasi-sovereign credit in Korea with an effective monopoly over the exploration & production (E&P), procurement, storage & production, transmission and wholesale distribution of natural gas.
- Its credit profile is underpinned by its dominant market position in Korea's natural gas and hydrogen utility market, and the strong support from the Korean government. This partly mitigates its delayed and incomplete pass-through of gas procurement costs when natural gas price surges, such as in FY22.
- We expect its credit profile to improve in FY24 supported by lower natural gas procurement costs and higher gas tariffs, which would partially mitigate concerns over its larger capex planned for FY24 and FY25.

RISKS & CATALYSTS

As of 18 Jun 2024

- Key risks to KORGAS' standalone credit profile include: (1) Significant depreciation of the KRW against the \$; (2) Delayed and/or smaller-than-expected retail tariffs hikes; and (3) higher-than-expected capex and investments related to Korea's green transition.
- However, we do not foresee these risks to materially impair KORGAS' ability to access funding, credit rating and overall credit profile as we expect KORGAS to remain as the sole integrated gas utility company and continue to receive extremely strong financial support from the Korean government.

CREDIT QUALITY SCORE (CQS)²

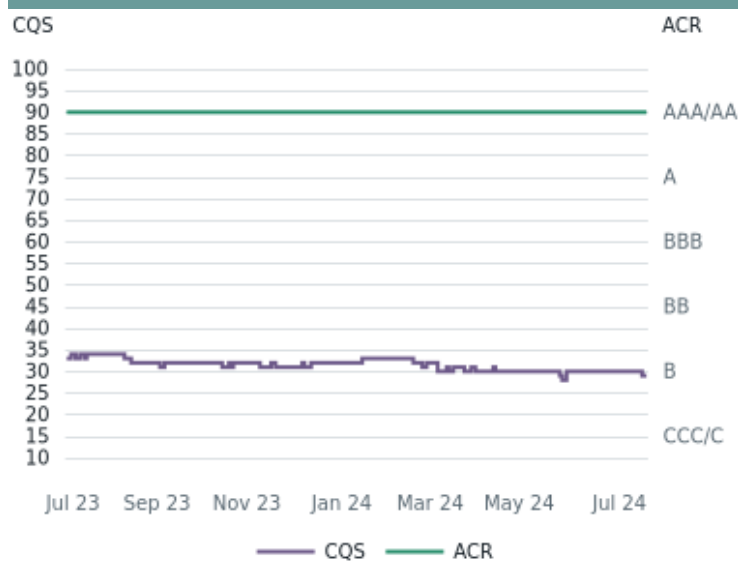
As of 04 Jul 2024

CURRENT CQS

29

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

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

KEY METRICS

As of 18 Jun 2024

KRW BN	FY19	FY20	FY21	FY22	FY23
Debt to Book Cap	76.6%	75.7%	75.8%	81.3%	80.7%
Net Debt to Book Cap	75.6%	74.6%	74.2%	79.8%	79.1%
Debt/Equity	327.2%	312.4%	313.3%	434.4%	418.0%
Gross Leverage	8.2x	9.4x	9.1x	9.9x	11.6x
Net Leverage	8.1x	9.3x	8.9x	9.7x	11.4x
Interest Coverage	3.9x	3.4x	4.8x	5.1x	2.2x
EBITDA Margin	13.0%	12.3%	11.4%	8.8%	8.0%

BUSINESS DESCRIPTION

As of 19 Jun 2024

- KORGAS is 54.6% directly/indirectly owned by the Korean Government (Central Government 26.2%, KEPCO 20.5%, Local Government 7.9%). It is Korea's sole integrated gas utility company with an effective monopoly over the exploration & production (E&P), procurement, storage & production, transmission and wholesale distribution of natural gas. It is crucial to Korea's green transition plan to increase LNG generation by 56% by 2036 from 2022. In addition, KORGAS was licensed as Korea's sole hydrogen distribution agency in 2020.
- KORGAS is one of the largest LNG importer in the world and sells imported natural gas to domestic companies in South Korea. As of YE23, KORGAS operates 77 storage tanks at 5 LNG terminals in Incheon, Pyeong Taek, Tong Yeong, Sam Cheok and Jeju. It has 5,178 km of pipeline network nationwide, and is looking to construction additional 440 km by 2026.
- The Korea natural gas industry is divided into wholesale and retail segments. KORGAS is the only wholesaler in Korea, and the regional city gas companies are in charge of supplying natural gas to retail consumers through regional retail pipelines. KORGAS sold 47% of its gas sales to domestic LNG-fired power generation companies (gencos), including the genco subsidiaries of KEPCO and independent power producers (IPPs), and the remaining 53% to city gas companies and heating companies in FY23.

GLOSSARY

¹ 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.

² 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.

³ 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.

⁴ 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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