

# SK Hynix (000660 KS)

## FUNDAMENTAL VIEW <sup>1</sup>

As of 04 Jun 2025

We maintain our Market perform on SK Hynix. topline growth and EBITDA margin were ahead of expectations, FOCF expanded and net debt metrics were stable to 4Q24. We expect SK Hynix's debt metrics to marginally improve over the next 12 months, on resilient topline growth, higher YoY EBITDA margins, strong FOCF and lower net/total debt. SK Hynix remains tighter than Asia BBB corporate, which has likely priced in its improving credit outlook, but we see limited room for further spread compression given the increased headline risk relating to US tariffs/sanctions, and potential downside risk from AI overcapacity. For investors looking for exposure into SK Hynix, we prefer its 6.5% 2033 bond for duration extension, high coupon carry and a 10 bp spread pick up against Asia BBB corporate.

## RISKS & CATALYSTS

As of 04 Jun 2025

- 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.
- SK Hynix may be vulnerable to US tariff risk; the company derived 73% of 1Q25 revenues from the US.

## CREDIT QUALITY SCORE (CQS)<sup>2</sup>

As of 04 Jun 2025

### CURRENT CQS

56

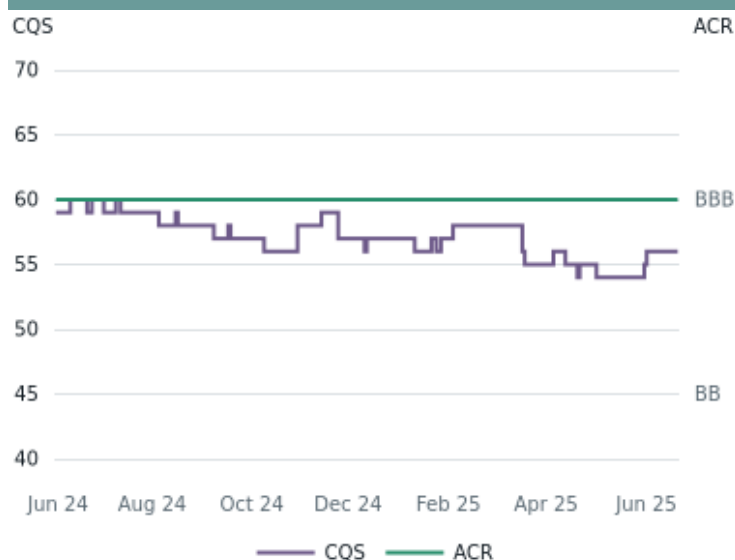
### CQS OUTLOOK <sup>3</sup>

NEGATIVE

STABLE

POSITIVE

### HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)<sup>4</sup> VS CQS



## KEY METRICS

As of 04 Jun 2025

| KRW BN               | FY21  | FY22  | FY23  | FY24  | LTM 1Q25 |
|----------------------|-------|-------|-------|-------|----------|
| Debt to Book Cap     | 23.5% | 28.1% | 37.8% | 25.6% | 24.2%    |
| Net Debt to Book Cap | 13.3% | 21.2% | 27.7% | 11.6% | 11.1%    |
| Debt/Total Equity    | 30.8% | 39.2% | 60.7% | 34.4% | 31.9%    |
| Debt/Total Assets    | 19.9% | 23.9% | 32.4% | 21.2% | 21.0%    |
| Gross Leverage       | 0.8x  | 1.2x  | 5.8x  | 0.7x  | 0.6x     |
| Net Leverage         | 0.5x  | 0.9x  | 4.3x  | 0.3x  | 0.3x     |
| Interest Coverage    | 87.3x | 38.7x | 3.8x  | 26.5x | 33.7x    |
| EBITDA Margin        | 52.8% | 46.2% | 17.1% | 53.8% | 56.6%    |

Limited disclosures in preliminary earnings release.

## BUSINESS DESCRIPTION

As of 04 Jun 2025

- 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 80% of 1Q25 revenues from the sale of DRAM (dynamic random-access memory), 18% from NAND Flash, and the remaining 2% 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 largest global market share (1Q25: 36%) in DRAM and second largest in NAND Flash (4Q24: 20.5%).
- 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 158.3 tn as of 4 June 2025.

## GLOSSARY

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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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