COMPANY UPDATE

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SK Innovation (096770)

Ending of battery JV a positive long-term move

- SK On will end a JV with Ford (BlueOvalSK; 50% owned by Ford and 50% by SK On) and transition the plants owned by the JV to standalone corporate entities, SK Innovation disclosed on Dec 11.
- Under the terms of the agreement, Ford will walk away with the Kentucky Plant #1 (37 GWh) and the Kentucky Plant #2 (45 GWh), while SK On will take the Tennessee plant (45 GWh), thereby unwinding the JV structure.
- Considering changes in US EV policies, Ford's weak EV sales performance, and the deterioration in SK On's financials, this looks like a smart decision from a longer-term perspective. Moreover, near-term earnings impacts stemming from this reorganization are expected to be limited.

WHAT'S THE STORY?

SK On unwinding battery JVs: Following the dissolution of SK On's Chinese JV (via an equity swap on Nov 20), SK Innovation announced on Dec 11 that SK On will end its JV with Ford in the US. These actions can be interpreted as restructuring (from an asset-light perspective) after the exit by SK On's financial investors.

- **China plants—JV dissolved via equity swap:** On Nov 20, SK On executed an equity swap with EVE Energy, one of its China partners, which swap involved the Huizhou plant (capacity 10 GWh; SK On had a 49% stake, EVE Energy 51%) and Yancheng Plant 1 (capacity 30 GWh; SK On 70%, EVE Energy 30%). SK On gave up its 49% stake in the Huizhou plant for EVE Energy's 30% stake in Yancheng Plant 1 + CNY200m in cash (KRW41.2b). As a result, the Huizhou plant has been removed from the company's consolidated financials.

(Continued on the next page)

SUMMARY FINANCIAL DATA

	2024	2025E	2026E	2027E
Revenue (KRWb)	74,717	82,479	83,124	86,761
Operating profit (KRWb)	315	405	2,100	4,303
Net profit (adj) (KRWb)	-2,372	-1,254	715	2,433
EPS (adj) (KRW)	-21,236	-6,987	3,748	11,729
EPS (adj) growth (% y-y)	nm	nm	nm	213.0
EBITDA margin (%)	3.3	3.6	6.2	7.9
ROE (%)	-9.6	-4.5	2.5	7.5
P/E (adj) (x)	n/a	n/a	30.0	9.6
P/B (x)	0.7	0.7	0.7	0.7
EV/EBITDA (x)	25.6	21.9	12.7	9.3
Dividend yield (%)	1.8	0.9	0.9	2.7

Source: Company data, Samsung Securities estimates

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AT A GLANCE

BUY

Target price	KRW160,000	42.5%
Current price	KRW112,300	
Market cap	KRW19.0t/USD12.9b	
Shares (float)	169,052,788 (45.4%)	
52-week high/low	KRW139,200/KRW81,100	
Avg daily trading value (60-day)	KRW45.4b/ USD30.8m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
SK Innovation (%)	-8.2	19.2	-5.3
Vs Kospi (%pts)	-8.3	-15.7	-43.7

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	160,000	160,000	0.0%
2025E EPS	-6,987	-6,987	0.0%
2026E EPS	3,748	3,748	0.0%

SAMSUNG vs THE STREET

No of estimates	19
Target price	142,944
Recommendation	3.6

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

- **Ford JV dissolved through plant allocation:** On Dec 11, SK Innovation disclosed the dissolution of BlueOvalSK, the JV between SK On (50%) and Ford (50%). BlueOvalSK had planned to run Kentucky Plant #1 (37 GWh; operations began in 2025), Kentucky Plant #2 (45 GWh; 2028), and a Tennessee plant (45 GWh; 2026). Under the dissolution terms, Ford will own the Kentucky Plants #1 and #2, while SK On will own the Tennessee plant. No additional cash transactions are involved. Consequently, on a consolidated basis, SK On is expected to see decreases of KRW10t in assets and KRW 5.5t in liabilities.
- **Restructuring to cut consolidated capacity 28% and equity-adjusted capacity 7%:** On a consolidated basis, SK On's global battery capacity was set to reach 330 GWh over the longer term. However, due to the JV unwinds over November-December, we now believe the figure will come to 238 GWh (-28%). That said, on an equity-adjusted basis, the fall in capacity should amount to just 7% (from 232 GWh to 217 GWh). This difference reflects the increase in equity-adjusted capacity from its securing: 1) an additional stake in Yancheng Plant 1; and 2) full ownership of the Ford JV Tennessee plant. In other words, while the capacity reduction looks large on a consolidated basis, it is in fact mild on an equity-adjusted basis.

Upbeat towards longer-term strategic direction: For the Ford JV, concerns over low utilization had intensified even before the commercial ramp-up had begun, as the venture was reportedly seeking third-party customers ahead of its start-up (amid changes in US EV policies and Ford's weak EV sales). We believe that SK On's desire to restructure and improve its financials, following the exit of its financial investors, stands at the heart of the dissolution decision. The Kentucky Plant #1 began operating on a small scale in 3Q25, and the Tennessee plant should begin operations by end-2026, implying that near-term earnings improvement at SK On (on an attributable adjusted basis) should be limited. Nevertheless, given SK On's low global utilization—and the fact that utilization can improve meaningfully only if capacity is cut—we view this dissolution as a rational decision and a positive step from a longer-term perspective. Going forward, to normalize operations, additional actions may be required, including the dissolution of the JV at the China Plant #1, and further asset sales of European plants (a region where competition is set to intensify amid the rising penetration of Chinese players).

SK On: Changes in global battery capacity

(GWh)		Before restructuring			After restructuring		
	Start-up timing	Capacity	Equity stake	Attributable capacity*	Capacity	Equity stake	Attributable capacity*
Korea		**21.0**		**21.0**	**21.0**		**21.0**
Plant 1 + 2	2018	7.0	100%	7.0	7.0	100%	7.0
Plant 3	2026E	14.0	100%	14.0	14.0	100%	14.0
China		**77.5**		**60.5**	**67.5**		**63.7**
Changzhou Plant	2020	7.5	49%	3.7	7.5	49%	3.7
Huizhou Plant	2021	10.0	49%	4.9			
Yancheng Plant 1	2021	27.0	70%	18.9	27.0	100%	27.0
Yancheng Plant 2	2025	33.0	100%	33.0	33.0	100%	33.0
Europe		**47.5**		**47.5**	**47.5**		**47.5**
Hungary Plant 1	2020	7.5	100%	7.5	7.5	100%	7.5
Hungary Plant 2	2022	10.0	100%	10.0	10.0	100%	10.0
Hungary Plant 3	2024	30.0	100%	30.0	30.0	100%	30.0
US		**184.0**		**103.0**	**102.0**		**84.5**
Georgia Plant 1	2022	10.0	100%	10.0	10.0	100%	10.0
Georgia Plant 2	2022	12.0	100%	12.0	12.0	100%	12.0
Ford JV (BlueOvalSK) – Kentucky Plant 1	2025	37.0	50%	18.5			
Ford JV (BlueOvalSK) – Kentucky Plant 2	2028E	45.0	50%	22.5			
Ford JV (BlueOvalSK) – Tennessee Plant	2026E	45.0	50%	22.5	45.0	100%	45.0
Hyundai Motor Group JV (HSAGP Energy)	2026E	35.0	50%	17.5	35.0	50%	17.5
Global Total		**330.0**		**232.0**	**238.0**		**216.7**
Change (%)					-27.9		-6.6

Note: Production capacity is based on maximum potential capacity in the future.

* Attributable capacity calculated by applying SK On's equity stake to consolidated production capacity.

Source: Company data, Samsung Securities

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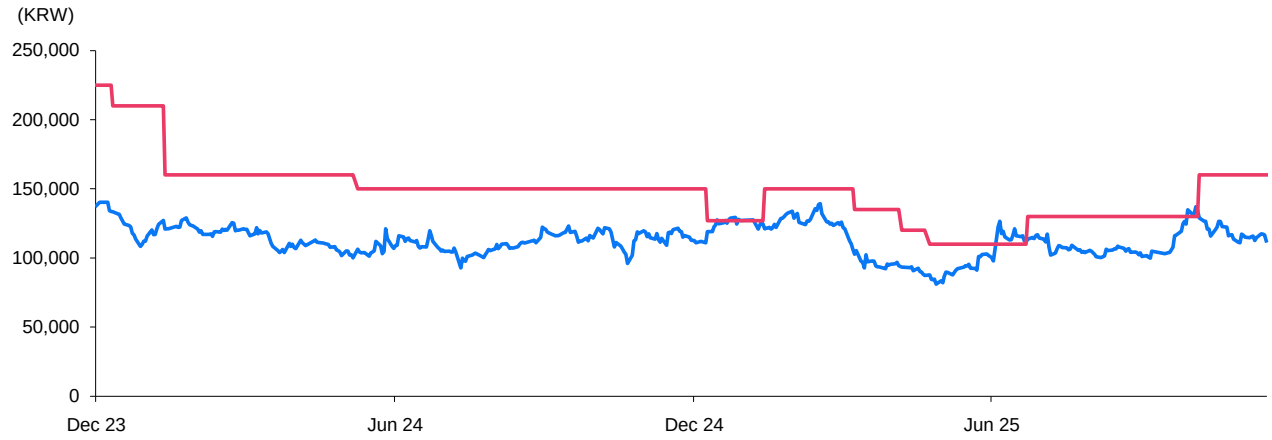

Rating changes over past two years (adjusted share prices)

Date	2023/9/22	2024/1/5	2/6	6/3	2025/1/3	2/7	4/3	5/2	5/19	7/18	10/31
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	225000	210000	160000	150000	127000	150000	135000	120000	110000	130000	160000
Gap* (average)	-38.46	-42.80	-28.30	-25.91	-1.18	-15.83	-28.78	-24.41	-8.33	-15.70	
(max or min)**	-30.89	-37.14	-19.44	-18.00	1.89	-7.20	-22.00	-22.08	15.00	5.38	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Industry

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* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

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