



FUND LAUNCHED

**2005**

FUNDS UNDER  
MANAGEMENT

**£542.7**  
MILLION

NET ASSET VALUE  
PER SHARE

**425.4%**  
SINCE INCEPTION\*



# Korea Internet Neutral Exchange Inc. – a transformative year ahead

February 2024

Korea Internet Neutral Exchange Inc. ("KINX"), a key digital infra holding of Utilico Emerging Markets Trust plc, is a leading provider of neutral internet infrastructure services in South Korea. It operates Korea's leading internet exchange as well as number of interconnection data centres. It has doubled revenues and net profits since 2018.

A new 10MW data centre, currently under construction and due to open to clients in the second half of 2024, should drive continued strong revenue and profit growth in the coming years.

UEM has been following KINX for over a decade and it has been part of UEM's portfolio for the last five years. UEM now holds over 5% of the company, which has a market cap of £300m and it is now one of UEM's top 10 holdings.



UEM's Deputy Portfolio Manager, Jacqueline Broers and Senior Analyst, Mark Lebbell at KINX's headquarters in Seoul, November 2023 (Source: ICM)

A November 2023 meeting and visit to the new data centre site reaffirmed our high conviction rating on the stock.

KINX was initially set up in June 2000 by a consortium of Korean internet service providers to solve interconnection problems in the country through the creation of an internet exchange, independent of the major telecommunications companies, to efficiently transfer data traffic between operators. Today, KOSDAQ listed KINX remains the only neutral internet exchange in Korea and hosts a range of clients including domestic and international telecommunications companies, leading global cloud computing providers, large corporations, and government agencies. Major international customers connected to KINX's internet exchange include Amazon, Google, Microsoft, Apple, Oracle, Alibaba, Tencent, Huawei, Samsung, LG and SK Group. A full list can be found at <https://www.peeringdb.com/ix/52>

Whilst the internet exchange forms a unique and core part of KINX's business proposition, it currently contributes less than 12% of the company's revenues. The vast majority of KINX's revenues today are derived from related internet data centre and network connectivity services.<sup>1</sup>

Internet data centre services were responsible for around 69% of company revenues in Q3 2023.<sup>1</sup> The company rents rack space for servers to clients within five co-location data centres in the Seoul metropolitan area. However, substantially more revenues are derived from the interconnection links between the servers within the data centres – directly linking their clients' systems to their customers' and service providers' networks in a cost effective, secure and low-latency way. Their diverse range of customers and the high level of interconnections is a key differentiator and forms a strong barrier to entry to competitors.

A very rapidly growing area for KINX is Cloud Connect. This made up 13.6% of the company's revenues in Q3 2023. Cloud Connect allows corporate and government customers to connect directly to one or more cloud providers.<sup>1</sup>

KINX offers direct connections to nine cloud providers<sup>2</sup> (Amazon AWS, Microsoft Azure, Google, IBM, Tencent, Oracle, Naver, NHN and its own KINX IXCloud). Revenues from its own cloud services are modest, making up just 1.3% of company revenues in Q3 2023.<sup>1</sup>

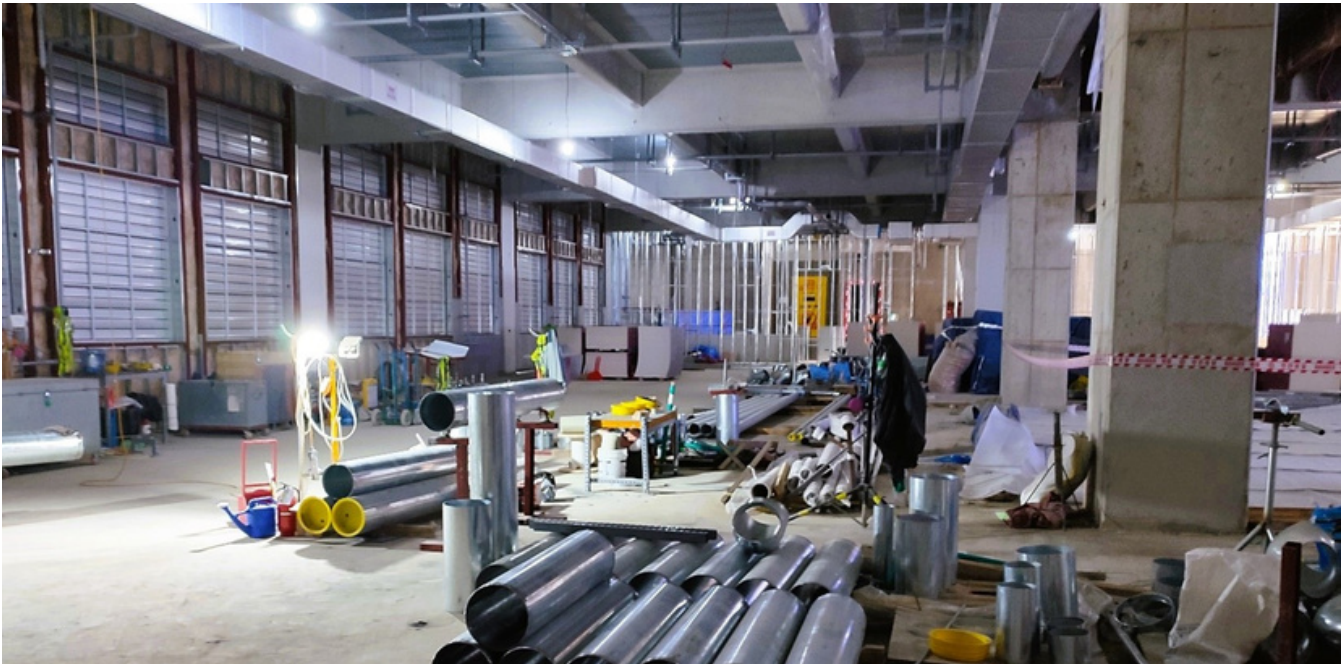
KINX's flagship Dogok data centre is located centrally in the Gangnam district of Seoul and it has additionally leased capacity on a long-term wholesale basis at four third-party data centres in more suburban locations within the Seoul metropolitan area.

The company is currently constructing a new data centre with 10MW of compute capacity at Gwacheon, around 10km south from the centre of Seoul. KINX will own the building and a share of the freehold of the campus it is situated upon, alongside Gabia, its largest shareholder.



External view of KINX's Gwacheon Data Centre under construction, November 2023 (Source: ICM)

We visited the data centre site in November 2023, where the internal fit-out of the ventilation, cooling, electrical and cable ducting infrastructure had recently commenced. It is expected that the fit-out will complete in Q2 2024, with the first customers moving in during Q3 2024.

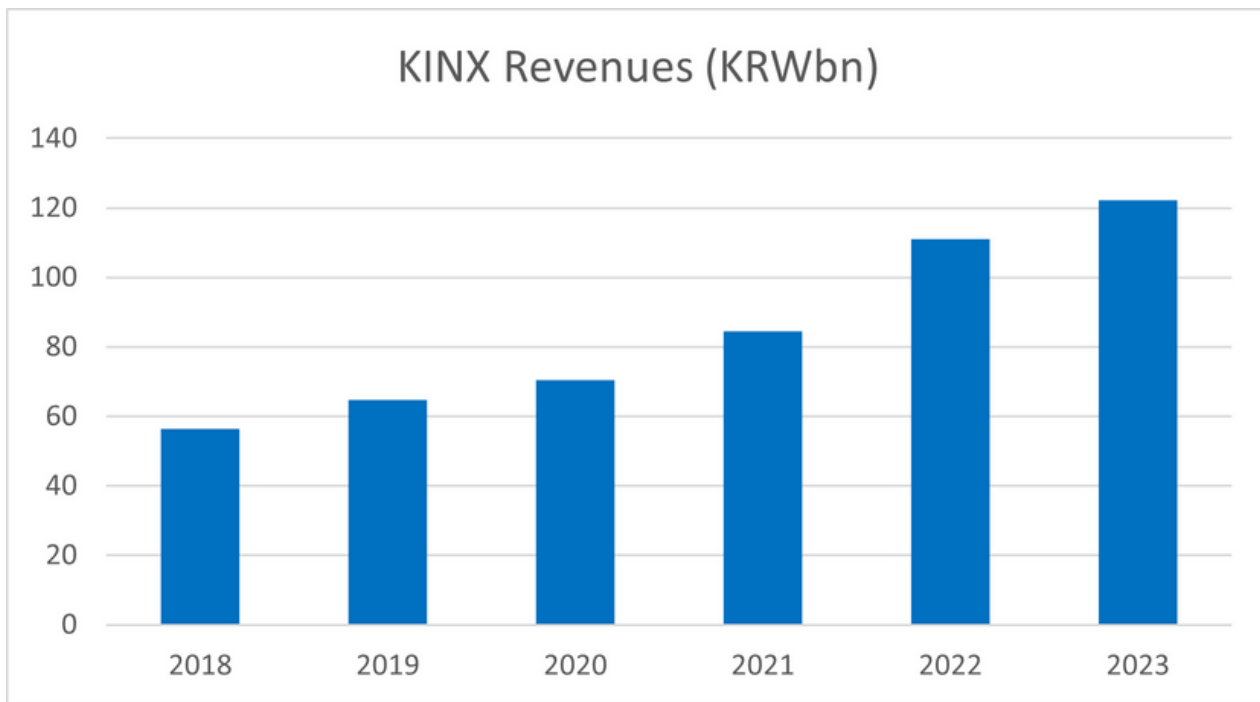


Internal fit-out worksite in one of the data halls at KINX's Gwacheon data centre, November 2023 (Source: ICM)

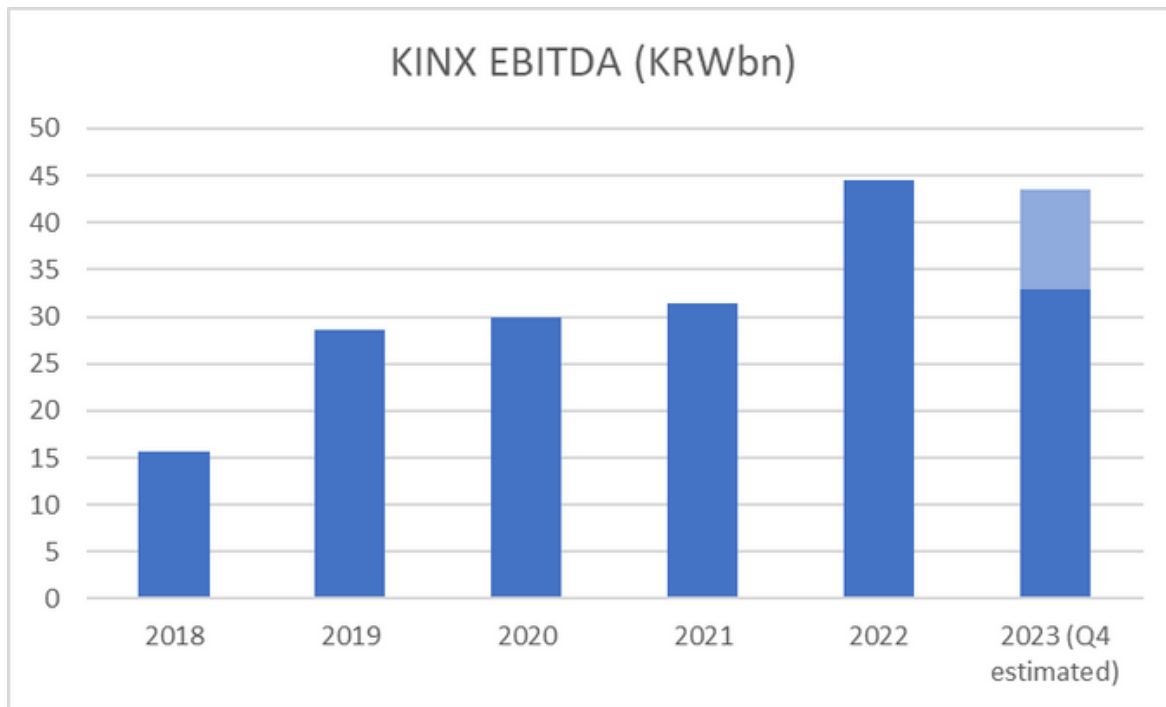
After meeting with a number of telecoms, technology and infrastructure companies in Korea, it was very clear that there is currently very strong demand for data centre capacity in the country, driven in part by corporates migrating core databases from their own servers into cloud-based systems. Whilst this demand is clearly spurring plans for many parties to investigate building new data centre capacity in Seoul, securing planning permits, sufficient power capacity and construction is a typically a 3-5 year process. With a lack of capacity coming online in the near future, KINX should be very strongly positioned when negotiating contracts with potential customers for its new data centre.

KINX has reported strong growth in recent years. Revenues and net profit in the first half of 2023 exceeded those reported for the full year in 2018.<sup>1</sup> Whilst we might not see a significant contribution from the new data centre in 2024's figures, it should contribute very strongly to growth in 2025 and 2026.

The company is funding the construction costs of the new data centre primarily from cash reserves.<sup>1</sup>



Source: KINX annual and quarterly financial disclosures (2018-Q3 2023), ICM forecasts for Q4 2023



Source: KINX annual and quarterly financial disclosures (2018-Q3 2023), ICM forecasts for Q4 2023

In our opinion, KINX remains attractively priced despite its share price rising by 82.6% in 2023. Based on its price at the end of December 2023, the company is trading on an EV/EBITDA of 10.3x and a P/E of 20.7x, which is substantially below valuations of similarly positioned international peers. As one would expect from a growth focused company, dividend yield is low at 0.6%.

We remain excited about KINX’s potential for continued value appreciation within UEM’s portfolio.

**Mark Lebbell**

6 February, 2024

Source Data: ICM Limited

[1] KINX Investor Relations Book, Q3 2023 [https://company.kinx.net/wp-content/uploads/2023/11/KINX\\_IR-Book\\_231007\\_EN.pdf](https://company.kinx.net/wp-content/uploads/2023/11/KINX_IR-Book_231007_EN.pdf)

[2] <https://www.kinx.net/service/cloudhub/?lang=en>

\*Total return is calculated based on undiluted Net Asset Value, plus dividends reinvested and adjusted for the exercise of warrants and subscription shares

**Risk Warning**

The information presented on this document is solely for information purposes and is not intended to be, and should not be construed as, an offer or recommendation to deal in Utilico Emerging Markets Trust plc ("UEM"). Investments in UEM are subject to investment risks, and the value of investments and the income derived from them may fall as well as rise and investors may not get back the principal amount invested. Past performance is not indicative of future performance. Investors should read the prospectus along with the supplement(s) and seek relevant professional advice before making any investment decision. The information presented has been obtained from sources believed to be reliable, but no representation or warranty is given or may be implied that they are accurate or complete. UEM is managed by ICM Limited and ICM Investment Management Limited. The Investment Managers reserve the right to make any amendments to the information at any time, without notice. Issued by ICM Investment Management Limited (registered in England: 08421482), which is authorised and regulated by the Financial Conduct Authority (FRN: 630094). The information in the title banner is as at 31 January, 2024 and approved by ICM Limited.

**Utilico Emerging Markets Trust plc | Registered Office**

The Cottage, Ridge Court, The Ridge, Epsom Surrey, KT18 7EP, United Kingdom

Company registration number: 11102129

[www.uemtrust.co.uk](http://www.uemtrust.co.uk)

**Subscribe to our newsletter on [uemtrust.co.uk](http://uemtrust.co.uk)**

