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MUTUAL FUNDS

Korean Banking Equities
Have More Room to Grow

By **KAREN RICHARDSON**
Staff Reporter of THE WALL STREET JOURNAL
August 22, 2002

Korean bank stocks have staged several dizzying ascents in price during the past 12 months, but some Asian fund managers say there still are more ups than downs ahead on this emerging-market roller-coaster ride.

Consolidation in the Korean bank industry may be losing some of its freshness, and the consumer-spending frenzy that has fueled stunning profit growth might be slowing, but fund managers say Korean banks still are undervalued among their regional peers.

Korean financial stocks hit highs in March and April, and while they have fallen back during the past few months, they continue to drift in and out of smaller rallies. Among the biggest banks, **Kookmin Bank** nearly doubled during the past year, while **Shinhan Financial Group Co.** and **Hana Bank** are up about 80% and 29%, respectively, from a year ago. "We still think there's a lot to go for" in the sector, said Devan Kaloo, fund manager at Aberdeen Asset Management Asia in Singapore. "When you stack the reasons up with valuations, it's exceedingly attractive."

Like so many of his peers, Mr. Kaloo is betting big on Korea. He owns 1.7 million shares in Kookmin Bank, the country's biggest. That is just 0.005% of the company, but valued at roughly \$7.8 million, it is a hefty chunk of Aberdeen's Asian portfolio. Of Aberdeen's Pacific Equity Fund alone, which has 28.5 million Singapore dollars (\$16.3 million) under management, Kookmin accounts for 5% of the holdings.

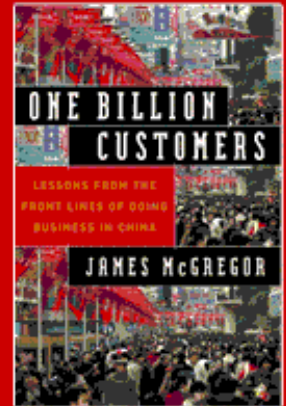
Mr. Kaloo said the consolidation story is by now a well-worn tale, though it was highlighted again this week as the Korean government came one step closer to selling a controlling stake of its 100% interest in Seoulbank to private and foreign-backed Hana Bank. The story is compelling when coupled with the more transparent and lucrative lending Korean banks have been practicing in their new incarnations as profitable entities. "Banks are making more profitable lending in their shift from corporate to consumer loans, of which there's still underpenetration in Korea," he said.

The fact that more foreign institutional and strategic investors are getting in on the merger-and-acquisition action is popular among Asian fund managers, who are beginning to see light at the end of the tunnel after years of lamenting the narrowness of the shareholder base in

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Korean banks. "Any kind of outside partner [taking stakes] from 3% to 99%, whether Korean private enterprise or foreign, serves to shut down zombie loans, and is a good thing," said Henry Seggerman, chief executive of New York-based International Investment Advisors, referring to Korean banks' former practice of lending massive amounts of money to chaebols, Korea's unprofitable conglomerates. "The reality is that any outside witness, no matter how small, to lending policy will impede this kind of value destruction."

Foreign investors hold about 47% of Hana; [Allianz AG Holding](#), the German insurer, itself owns 11.8%. Washington venture-capital firm Carlyle Group has a controlling stake in KorAm Bank, while U.S. buyout specialist Newbridge Capital Ltd. has control of Korea First Bank.

"Large foreign investors are voting with their feet," said Kes Visuvalingam, director of Asian ex-China equities at First State Investments in Singapore.

Few fund managers seem to be heeding the cautious words of a minority of analysts, who warn of possibly more interest-rate increases this year amid concerns that Korean bonds are overvalued. Higher rates would depress bank earnings, while some Korean shoppers might be more encouraged to save their cash in the bank than keep borrowing and spending. Another cause for jitters has been a sharp fall in the stock market since mid-April. The benchmark stock index, the Kospi, has fallen more than 20% since its record high April 18.

"The credit cycle is well-advanced in the country, and we would expect some slowing in the rate of growth of private-sector credit from here," said brokerage firm CLSA Emerging Markets in its latest research report. Korea is still a top pick of the firm's analysts, however. "The good news is that Korean consumers remain relatively unindebted" compared with developed-world benchmarks, the report said.

Valuations also indicate it isn't too late to buy, said Mr. Visuvalingam of First State. Close to 10% of First State's nearly \$2 billion Asian portfolio is invested in Korean banks, mainly in Kookmin, Shinhan and Hana Bank. Kookmin is one of First State's top 10 holdings in its regional portfolio.

According to First State, the three big banks trade at between one and two times book value, with average sustainable return on equity of 15%. "For those kinds of sustainable ROEs elsewhere in the region, banks are trading above two times book," Mr. Visuvalingam said, citing Hong Kong banks [HSBC Holdings PLC](#) and [Standard Chartered PLC](#) as examples.

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