Korea Stock Rally Shows A Different Picture

Kospi Soars While Samsung, Hyundai Drag, As Economy Gets New Drivers

By EVAN RAMSTAD
June 19, 2007

SEOUL, South Korea -- For years, investors in the South Korean stock market looked at shares of its biggest companies, such as Samsung Electronics and Hyundai Motor, to get a feel for the whole.

- **The News:** South Korea's stock market is soaring, but in a twist, shares of Samsung Electronics are going in the opposite direction.
- **Background:** Korean companies used to find growth in such areas as selling electronics to the U.S.; now demand is more for old-school products like steel to China.
- **Bubble Watch:** The key Kospi index surged over the 1800 level yesterday and is up 26% for the year so far. Small investors are borrowing more to invest.

Samsung has long been the biggest stock and accounted for almost a quarter of the market capitalization of the Korean stock market in 2004.

But this year things are different. The benchmark Korean stock index, called the Kospi, is up 26% so far after the latest rally yesterday, and some analysts are so optimistic that they are forecasting 50% growth for the entire year.

Meanwhile, Samsung's shares are down 4%, hurt by price and profit pressure in its chip business and slow recoveries from downturns in other key businesses like cellphones. It now represents about 8% of the Korean market.

COMPANIES

Dow Jones, Reuters

Imperial Chemical Industries PLC ADS (ICI)

PRICE	43.20
CHANGE	0.35
	6/15

Akzo Nobel N.V. ADS (AKZOY)

PRICE	81.86
CHANGE	0.70
	1:09p.m.

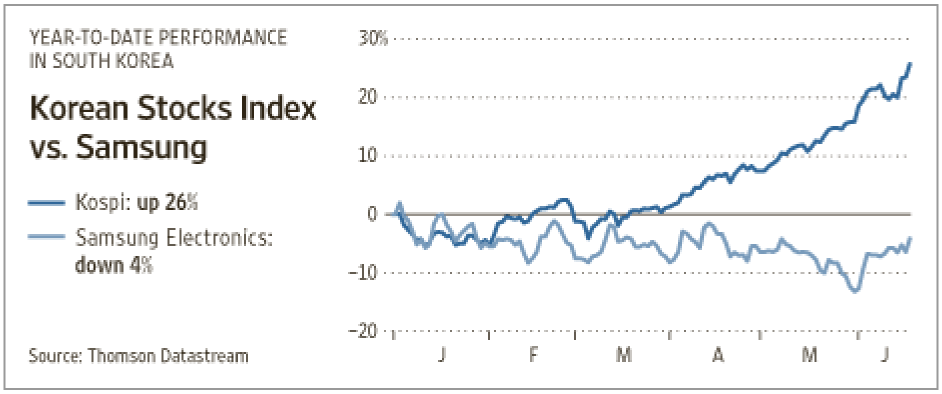
* At Market Close

Yesterday, the Kospi index vaulted over the 1800 milestone, closing up 1.95%, or 34.62 points, at a record 1806.88. The Kospi spent just 11 trading sessions in the 1700s. (Analysts are watching for signs of overheating; for example, small investors are buying heavily using borrowed money.)

The divergence of Samsung and the overall Korean market stems from broad structural changes in the country. The biggest is a change in where Korean companies are finding growth. It is no longer just the U.S. and Europe, markets where Samsung, Hyundai and other big exporters have long focused on. Instead, it is in places like China, central Asia and the Middle East.

Korea's biggest profit gainers now are old-guard industries like steel, construction and shipbuilding, all of which are doing huge business in the emerging markets.

The broader trend is that global economic growth is less tied to the U.S., a phenomenon that has been called "decoupling." And Korean companies, particularly manufacturers, are threading their way through the competitive pressures created by larger neighbors Japan and China.



"Tech and auto used to be the driver of Korean exports and the driver of the stock market," says Terence Lim, economist for Goldman Sachs in Seoul. "But the global economy has become more balanced." In particular, he says, emerging economies that Korea is benefiting from tend to spend a lot more on Old Economy products such as steel and ships.

While the Kospi has swung wildly in the past, the Korean market is much larger now with total value nearing $1 trillion, making its current rise more noteworthy.

In the past year and a half, an analysis by Samsung Securities found, the market value of companies in industrials, materials and nonbanking finance sectors has doubled, while the tech sector fell 16% and auto sector 27%.

Shaped by the decoupling trend, first-quarter corporate results in Korea were better than expected, and many stock analysts spent late April and May revising upward their earnings forecasts for the year.

In addition to strong exports -- and signs that capital spending and consumer confidence are picking up -- Korean stocks are benefiting from new players in the market: Korean individual investors. While foreign investors had long been the dominant players in this market, many Korean consumers are dabbling in stocks for the first time following the arrival of equity-based retirement accounts two years ago.

"It's a structural change and a key driver right now," says Namuh Rhee, managing director at Merrill Lynch in Seoul. "The stock market gives better returns than property and bank deposits," where Koreans have traditionally kept most of their money.

Many of these consumers are buying shares that haven't been as well known to foreign investors, such as utilities, food and beverage companies. Their rising market value is a key ingredient in the doubling of the overall Korean market cap -- and another reason Samsung's influence in the market has diminished.

The trend is most clear in mutual-fund investment, where individuals now account for 48% of monthly purchases, up from 33% in 2004. The amount of money in stock-focused mutual funds in Korea now exceeds $55 billion, up from $9 billion in 2004, according to Morgan Stanley.

As a result of the growing base of domestic investors, the Korean market has turned less volatile. Between 1994 and 2005, the Kospi swung wildly three times, losing nearly 75% of its value in one dramatic plunge.

"We haven't had to fasten our seat belts and put on our crash helmets as frequently in the last two years as we did in the 13 years that proceeded," says Henry Seggerman, president of International Investment Advisers, a New York-based hedge fund that focuses on Korea.

To be sure, some analysts are watching out for warning signs that the Korean market won't be able to sustain its rise. One indicator that is drawing a lot of interest is the level of credit use by consumers in the stock market. The credit line for brokerages to Korean consumers for investments has grown to $6 billion now, up from $1 billion early this year, says Chanik Park, analyst at Morgan Stanley in Seoul.

"This is a potential source of volatility in the market," he says, noting that such credit usually must be repaid within three to six months.

However, the bulls are targeting the Kospi to surge past the 1900 level over the next six months. Samsung Securities earlier this month lifted its year-end target to 1950 and Hyundai Securities put its target at 1980.

"It isn't a bubble," says Rhoo Yong-seok, strategist at Hyundai Securities. "We expect the Kospi to rise until the end of 2008."

Other Asia Markets Hit Records; London Eases

As the Korea market was hitting highs, records were also set in Hong Kong, Singapore and the Philippines, led by a surge in Chinese shares listed in Hong Kong.

Japanese markets also rose, buoyed by a softer yen, which makes exports more competitive, and lower bond yields, which make stocks more attractive.

In Europe, stocks traded lower despite another wave of takeover moves.

In HONG KONG, the Hang Seng Index gained 2.7% to 21582.89. The 41-stock China Enterprises Index surged 3.7% to 11866.71.

In SHANGHAI, investors were emboldened by the absence of rate-increase measures over the weekend to combat inflation. The Shanghai Composite Index, which tracks both yuan-denominated Class A and foreign-currency Class B shares, ended up 2.9% at 4253.34.

In TOKYO, the Nikkei Stock Average of 225 companies climbed 1%, or 178.03 points, to 18149.52, its highest level in four months. If it moves above its late-February high of 18215.35 it would be at a seven-year high.

In LONDON, shares of Imperial Chemical Industries soared 16% after spurning a takeover approach from Akzo Nobel -- not enough to propel the FTSE index forward after three days of gains. The index slipped 0.4%, or 28.90 points, to 6703.50.

In AMSTERDAM, shares of Akzo Nobel dropped 1% on concerns it may increase its offer for the producer of Dulux paints, but other European chemicals companies advanced.

--Lina Yoon contributed to this article.

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