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MONDAY, NOVEMBER 28, 2005

**INTERNATIONAL TRADER - ASIA**By **LESLIE P. NORTON****The Korea Rally Has Legs**[Emerging Markets](#)

FOR YEARS, KOREAN stocks have labored under the "Korea discount," reflecting fear that North Korea would launch a nuclear strike against the South and the reality that Corporate Korea treated minority shareholders shabbily.

No longer. As we have noted, Korea's **Samsung Electronics** (ticker: SSNLF.PK) and **Taiwan Semiconductor Manufacturing** (TSM), Asia's bellwether chip stocks, virtually trade at parity. Last week, Korean equities surged to a new high, and the benchmark Korea composite flirted with 1,000. Yun Lee, the strategist at Woori Investment & Securities in Seoul, figures that the historical discount to other Asian markets and to developed economies will narrow in three years, as tensions ease between North and South.

Many foreigners are wary of the Kospi's 45% rise, but even Warren Buffett is buying Korean stocks for his personal account. And Koreans at last are snapping up their own shares because of low interest rates and because government efforts to cool real-estate speculation are redirecting money to stocks. Pension funds are allocating more cash to equities. Individuals this year were allowed at last to open retirement accounts linked to stocks. And the Kospi's break this year above its longtime ceiling of 1,000 was a bullish signal to investors around the world.

The Korean market trades at 10 times earnings, above its average price-earnings ratio of 8.3 times since the 1998 financial crisis. To be sure, that's still below the 12 times multiple for the entire non-Japan Asia universe. Still, some analysts, including Citigroup's Seoul strategist Daniel Yoo, worry that the multiple could deflate. Korean earnings generally are expected to grow 15% next year, but Citi thinks they'll really rise by just 4.7%; meanwhile, Korea yields just 2.3%, versus 3.2% for the universe. Yoo argues that rosy assumptions will lead to disappointment, pushing down the Kospi at least 10%.

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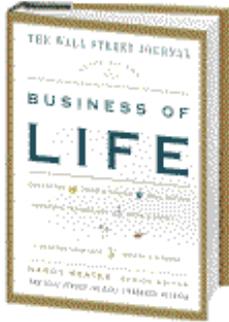
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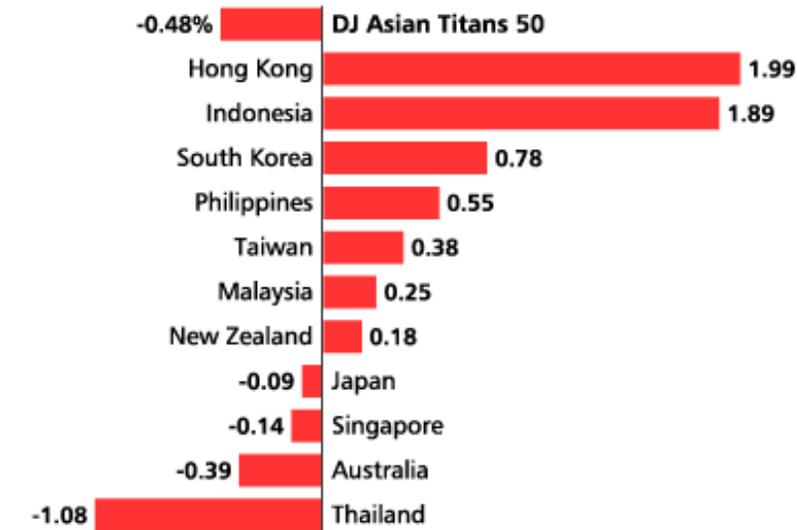
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The Markets

Weekly performance of Asian markets, ranked by percentage change.



Source: Dow Jones Indexes

Samsung Securities in New York. Shannon says foreigners were big buyers during the 1997-1998 financial crisis; locals sold because they faced redemptions. Today, Shannon claims, domestic institutions are net buyers.

"For the moment, major institutions don't take their market seriously, and look at it as a glorified casino," says Nicholas Bratt of Lazard Asset Management in New York, a longtime investor in Korea. But individual Koreans' new ability to invest in stocks suggests that's changing. "Do I think the discount is in the process of vanishing? Yes, I do."

With liquidity being reallocated to equities from bonds, the rally could continue. Yield-gap analysis indicates that stocks have room to grow. Woori Investment's Lee forecasts that the Kospi will jump to 1,480 in 2006, and as high as 2,880 by 2010, if Korea trades at 1.2 times stock-market cap to gross domestic product, a level he deems similar to that prevailing in the U.S. and Japan. He sees the Kosdaq hitting 850 next year; it was at 682 late last week.

"We've got a domestic-consumption rebound, exports in reaccelerating mode and very robust industrial-production statistics," says Henry Seggerman, whose Korea International Investment Fund has had nice returns. "There's another 150 points in the Kospi next year." Seggerman likes "extremely oversold" refiners, including **S-Oil** (SOOCF.PK) and **SK Corp.** (SKCXF.PK), and **Hyundai Motor** (HYMLF.PK), which at eight times earnings, trades at just 0.4 times its growth rate. "The most exciting story in worldwide auto is Hyundai," he says.

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Dan Heyler, Merrill Lynch's Hong Kong-based head of Asian chip research, thinks TSMC will again trade at a premium to Samsung, as it did until Samsung stormed higher this year, on gains in NAND flash sales. But soon, an Intel/Micron Technology venture will be making NAND (see "Tech Trader"), perhaps creating excess supply. "The NAND business will be more cyclical than foundry," TSMC's business, says Heyler. "There's upside to TSMC's multiple."

Korea traded at a premium to other Asian markets before 1995, and briefly, even in the 1998 recovery, rendering absurd the idea that foreigners caused the Korea discount, says Parker Shannon, head of sales at

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