

# **INTERNATIONAL INVESTMENT ADVISERS**

**Korean Stock Market and Economy  
September 6, 2005**

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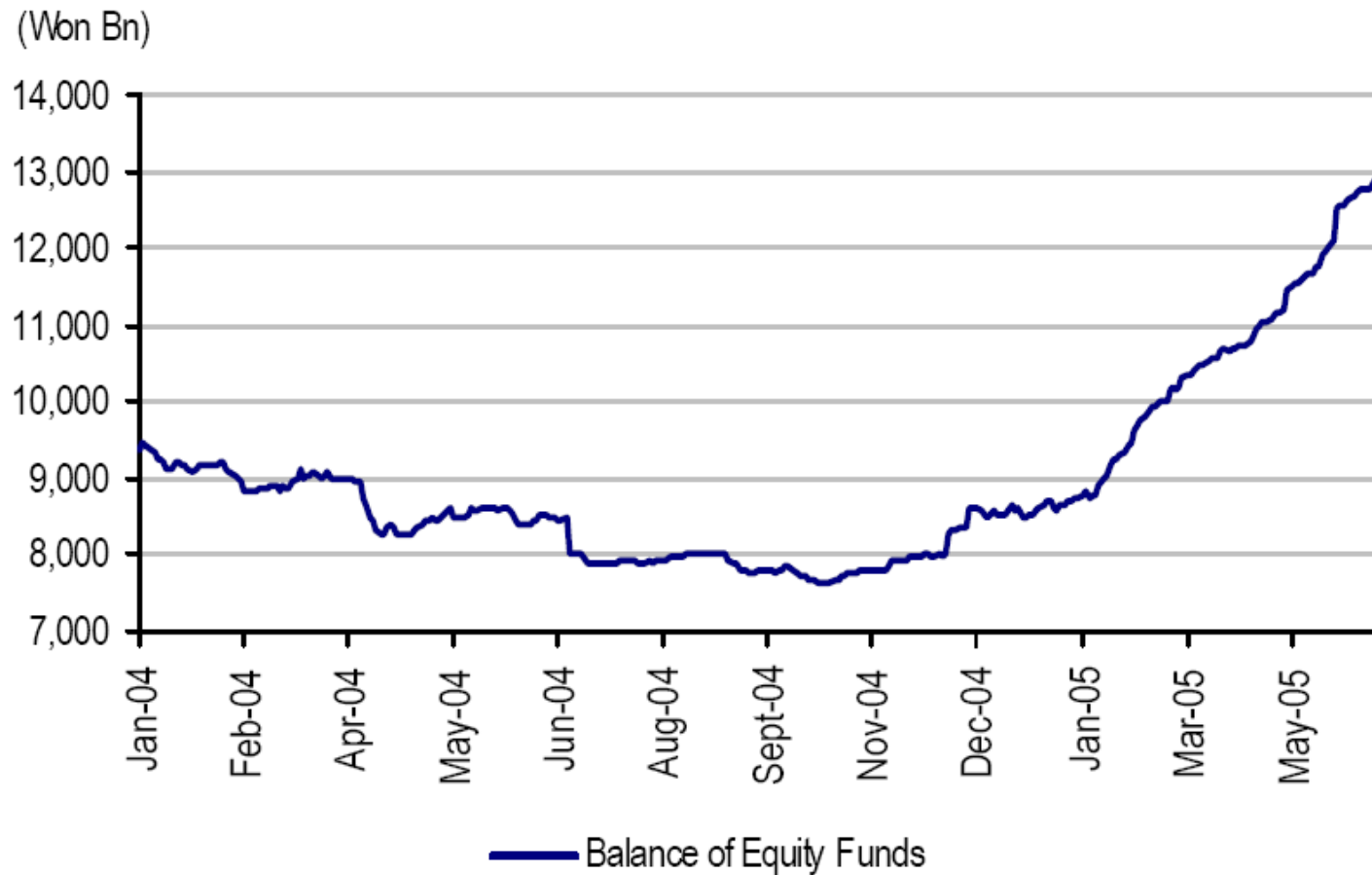
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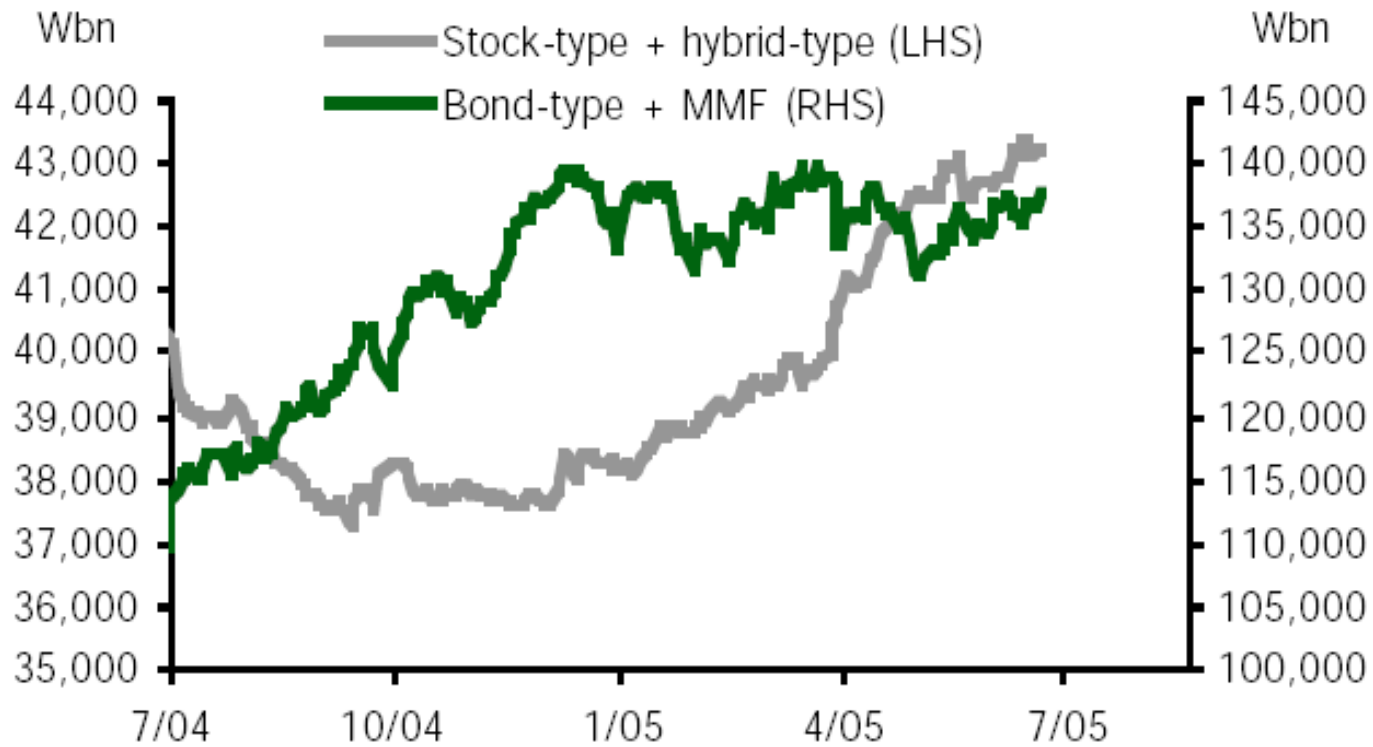
## NEW TREND IN DOMESTIC BUYING

## Chart 6: Balance of equity fund



Traditional equity funds have leapt five trillion won in a matter of months

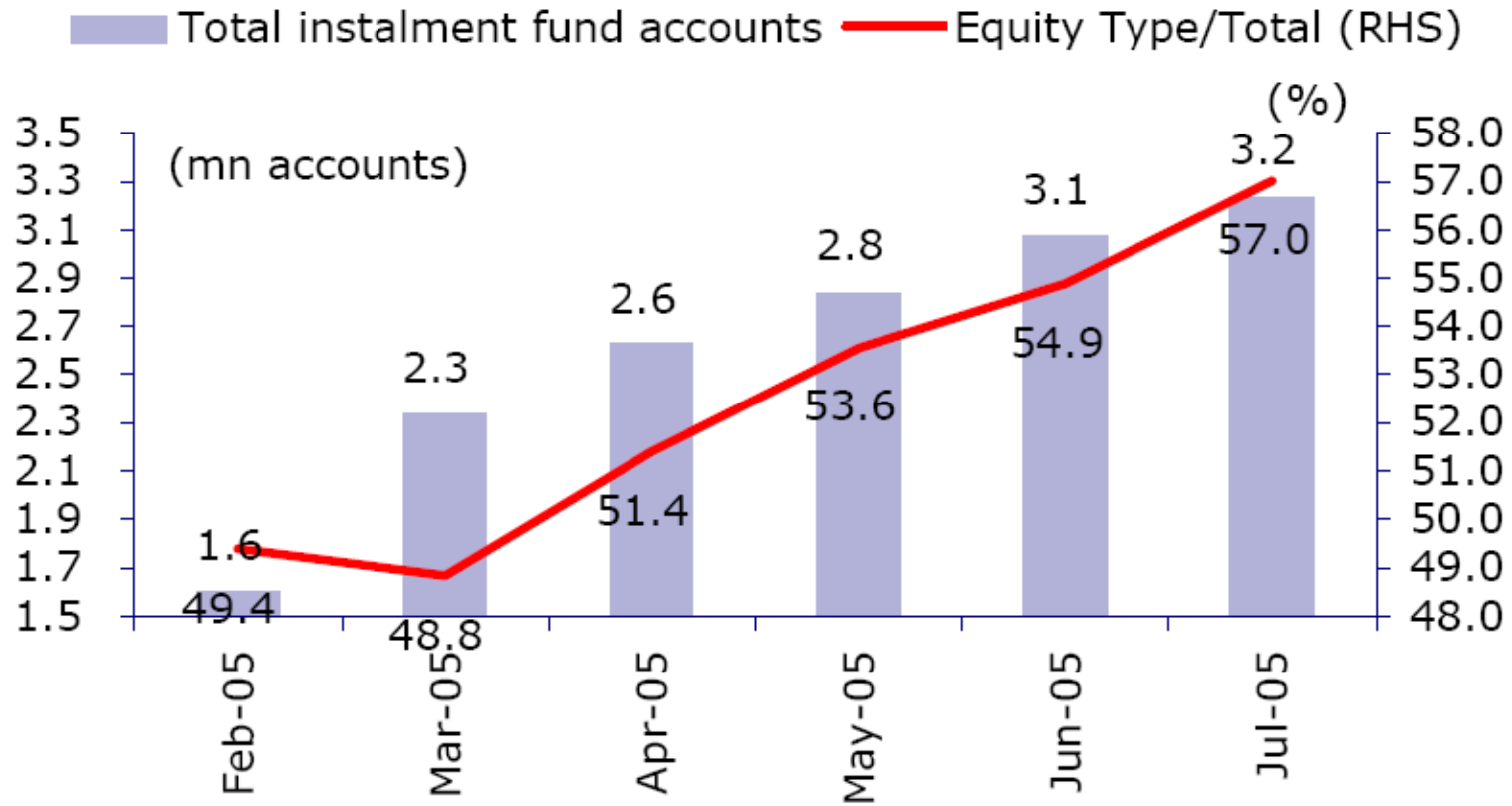
**Fig 2: From safety to high returns: Changes in the deposits**



Source: Asset Management Association of Korea

**A shift from bond funds to equity funds.**

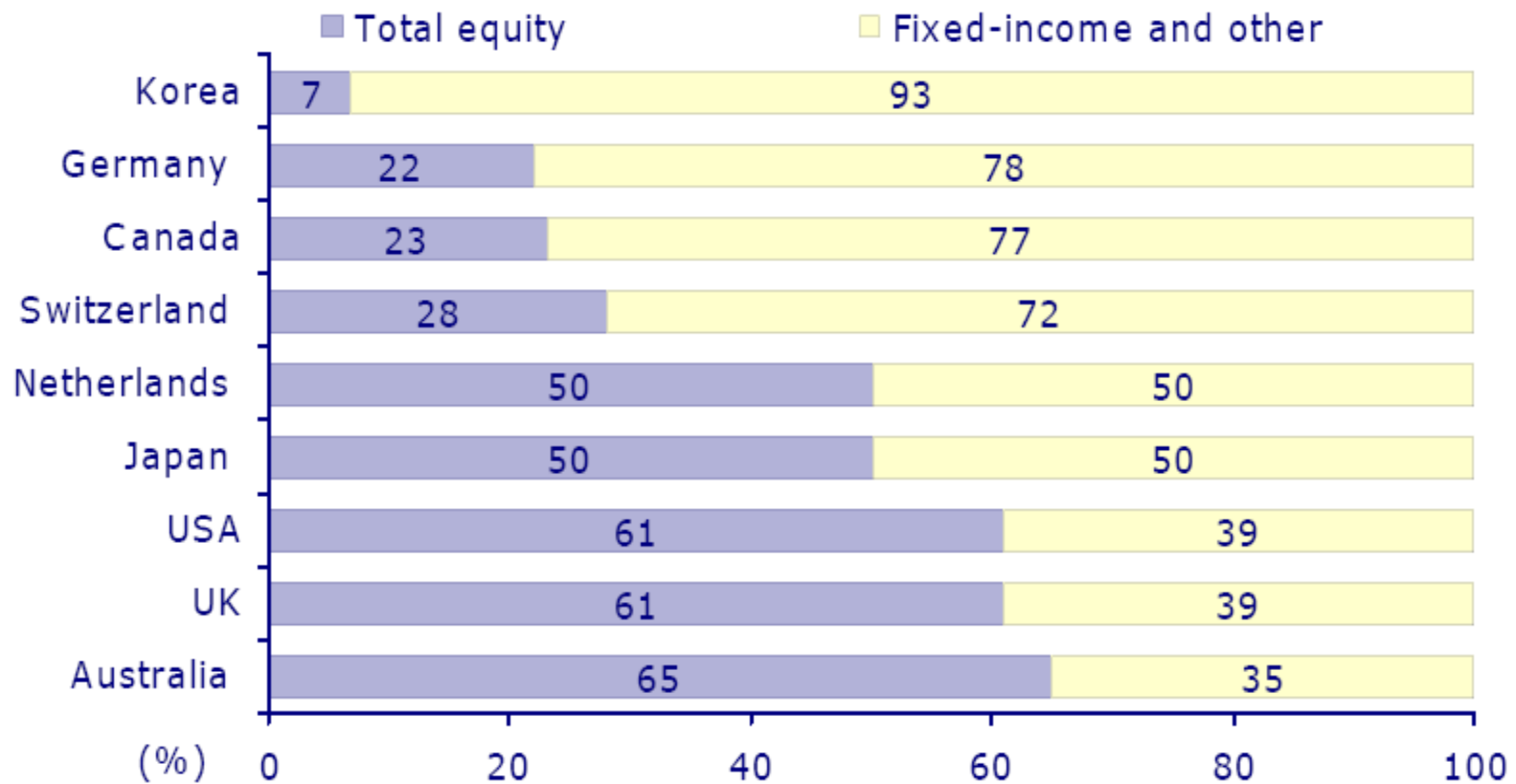
## More people signing up to equity-type instalment funds



Equity funds are more popular than bond funds.

Figure 6

**Global retirement assets**

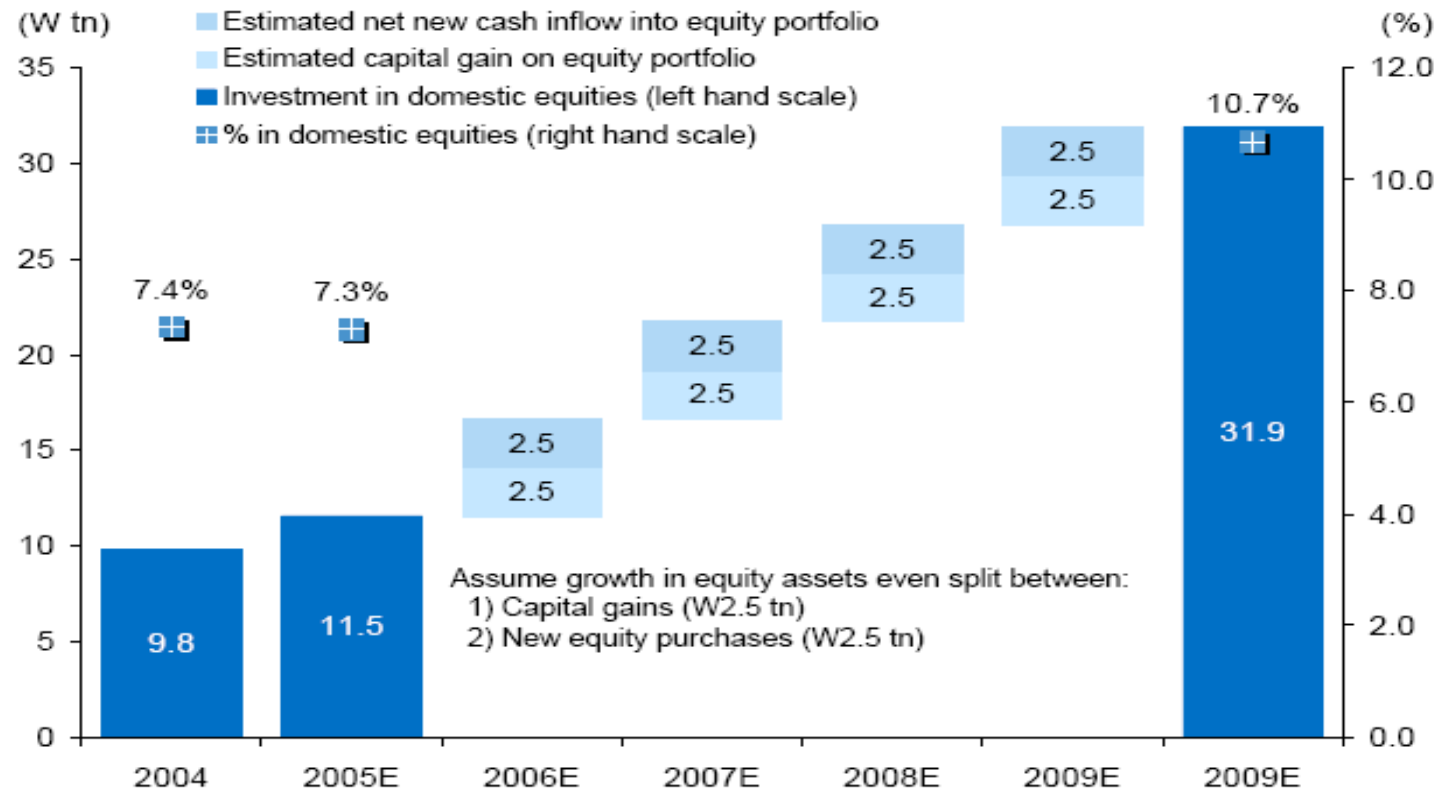


Source: CLSA Asia-Pacific Markets

**Korean pension money is severely underexposed to equities.**

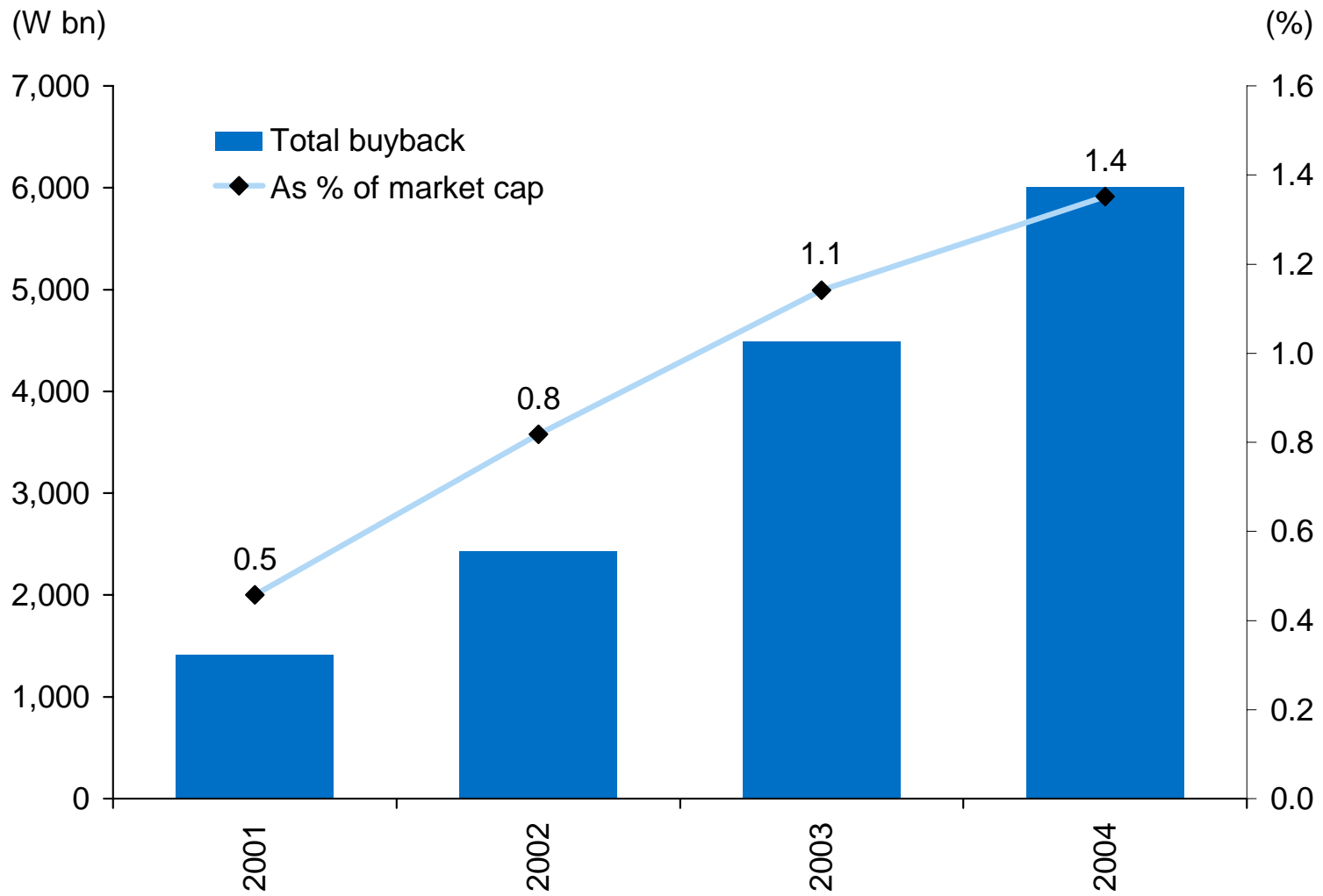
**Exhibit 72: NPC equity assets estimated to almost triple by 2009**

NPC equity allocation target and estimated equity assets under management



Source: NPC, Goldman Sachs Research.

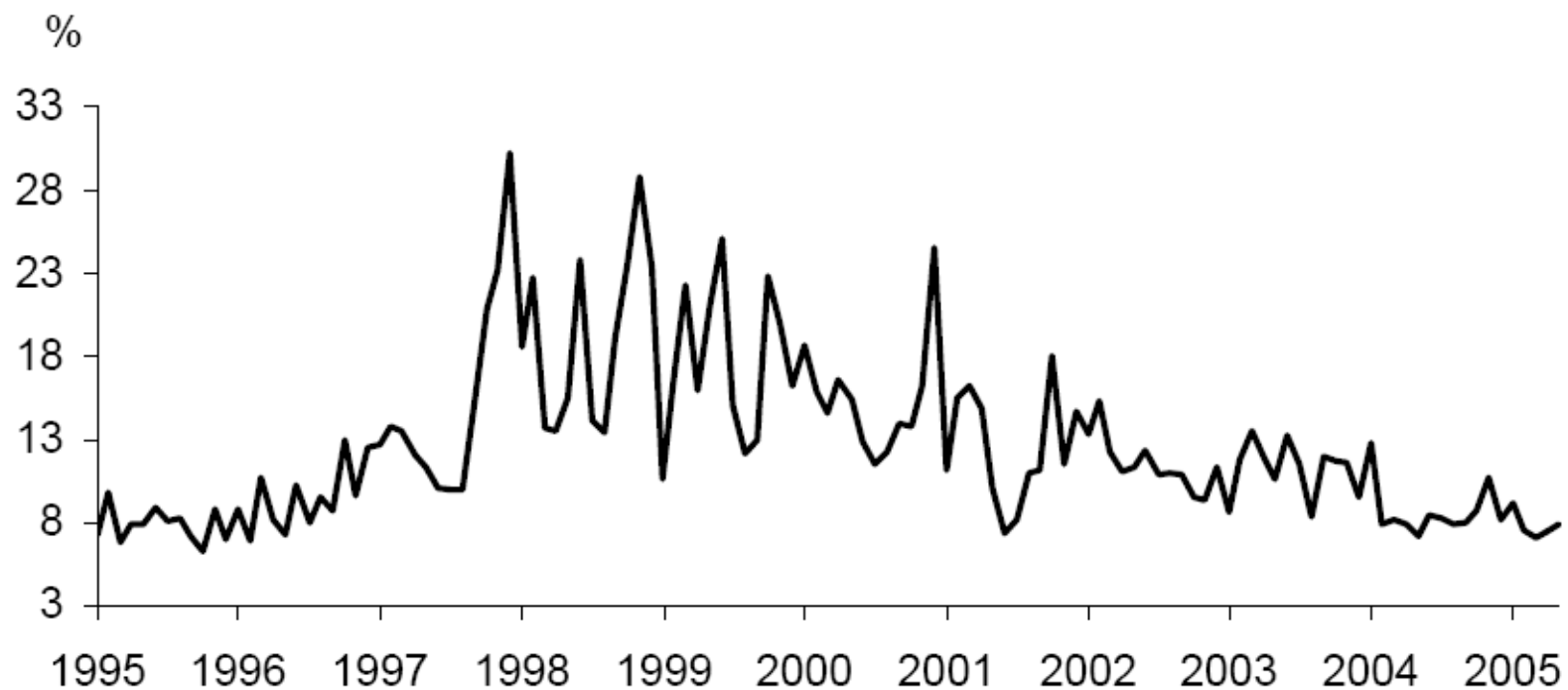
National Pension Corporation will continually increase equity exposure.



**Sovereign struggle led to panic buybacks.**

## Fig 16 Korean cross sectional volatility

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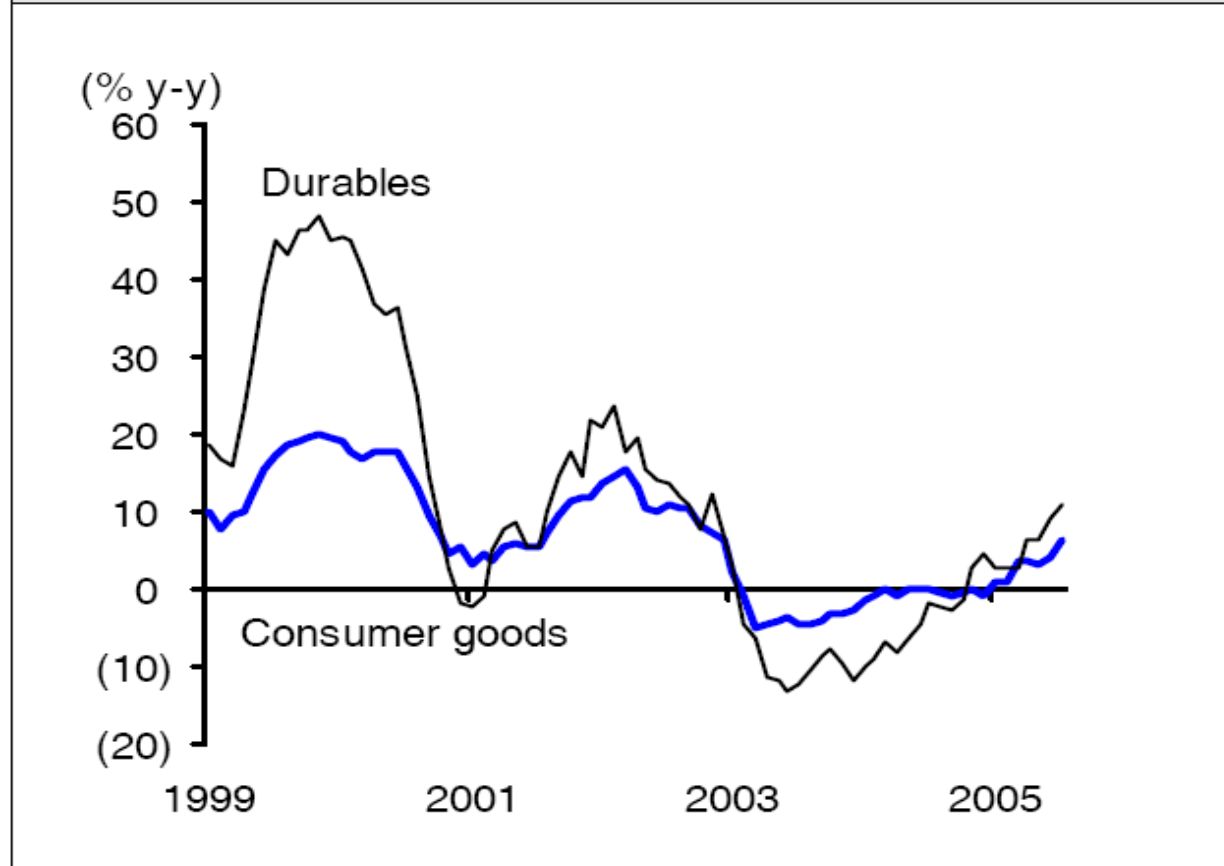
Source: Macquarie Research, August 2005

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Volatility has been falling steadily for years

RECENT ECONOMIC PICKUP

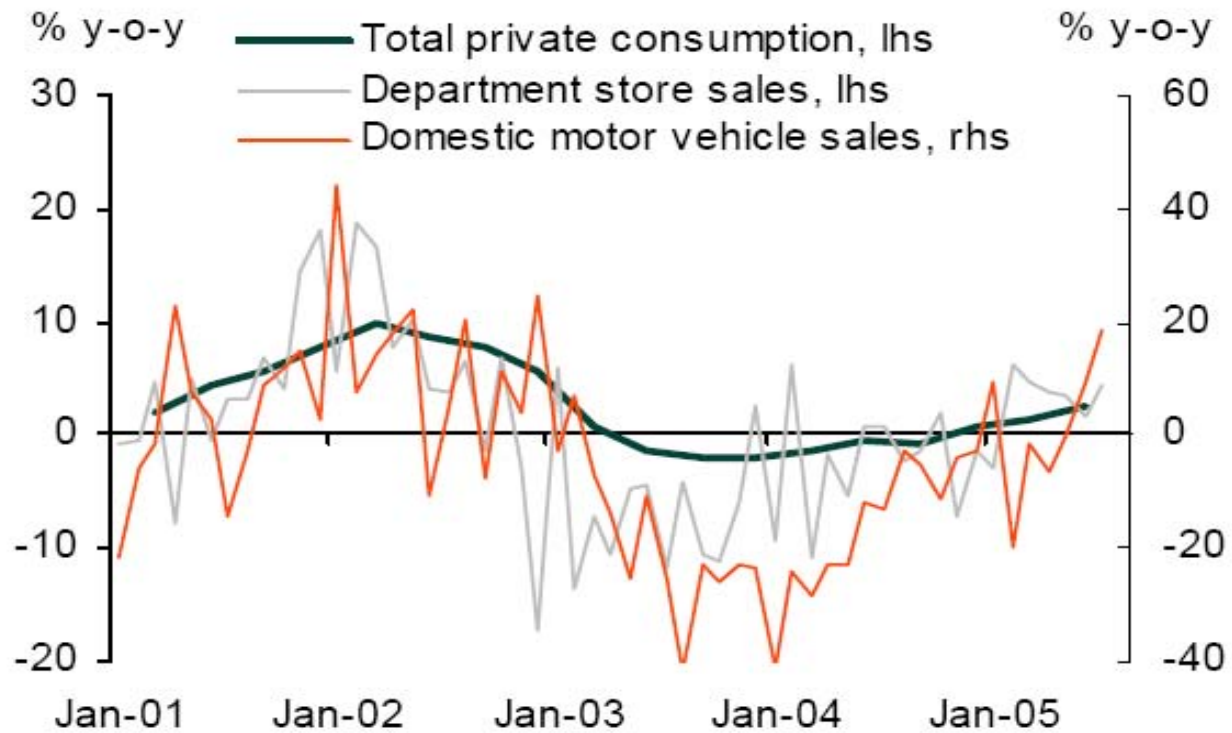
**Chart 5. Growth in sales of consumer goods**



Source: NSO

Steady uptrend in sales of consumer goods.

**Figure 1. South Korea's indicators of consumption**



*Source: CEIC and Lehman Brothers.*

Auto and department store sales have picked up

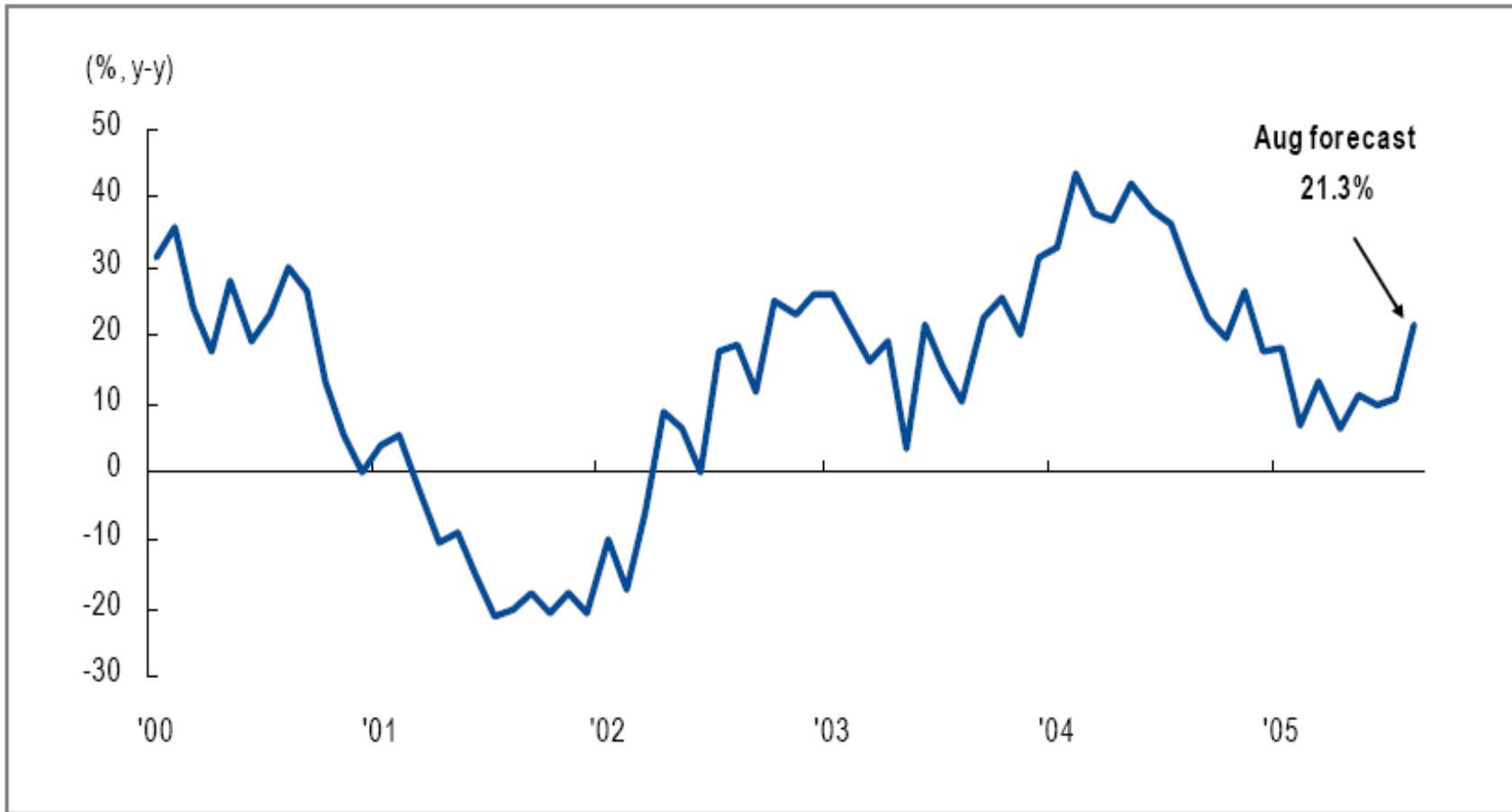
**Fig 4 Construction orders vs jobs in construction sector**



Source: NSO, July 2005

**Bullish construction outlook.**

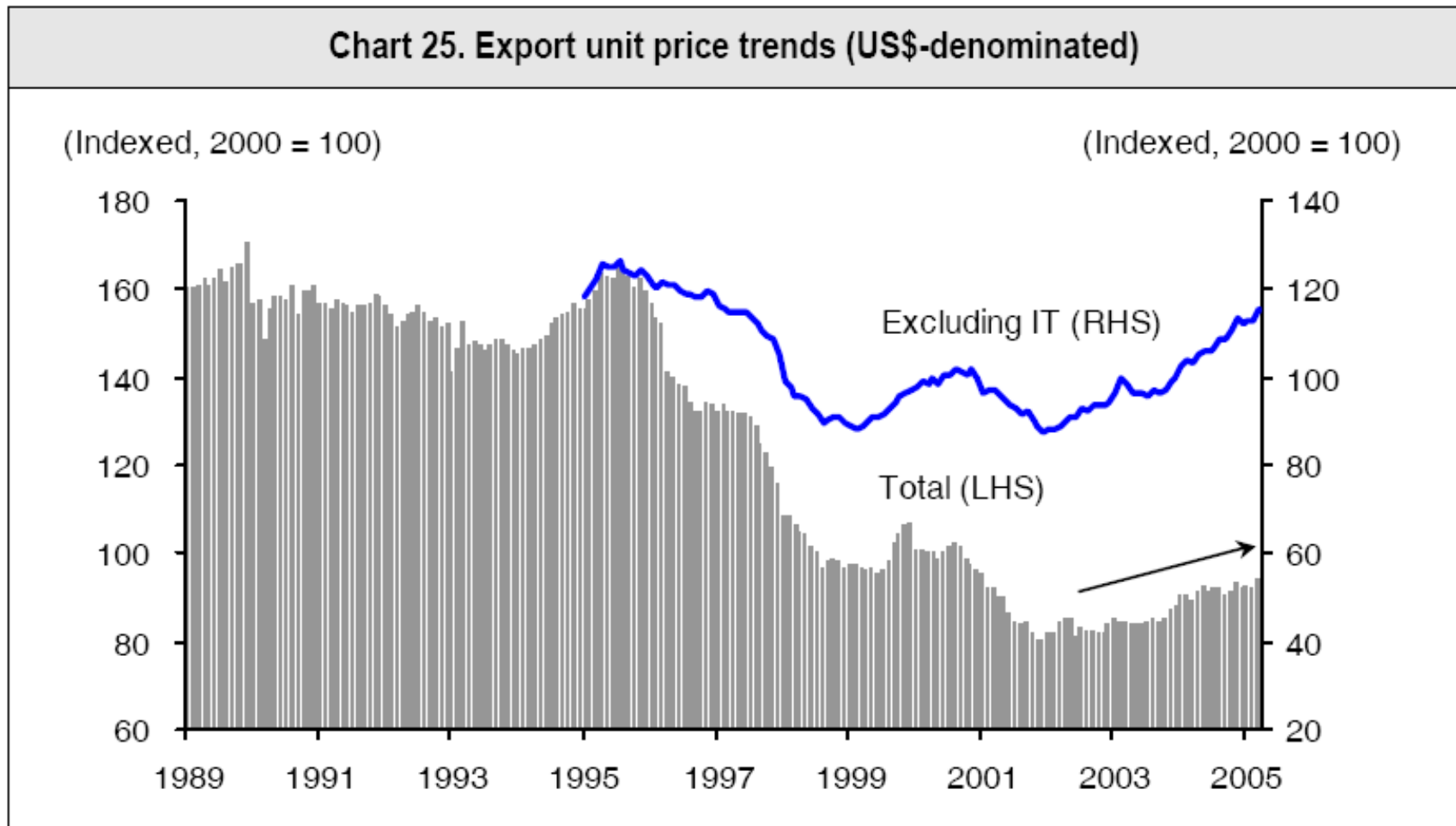
### Export growth (August forecast included)



Source: Korea Customs Service

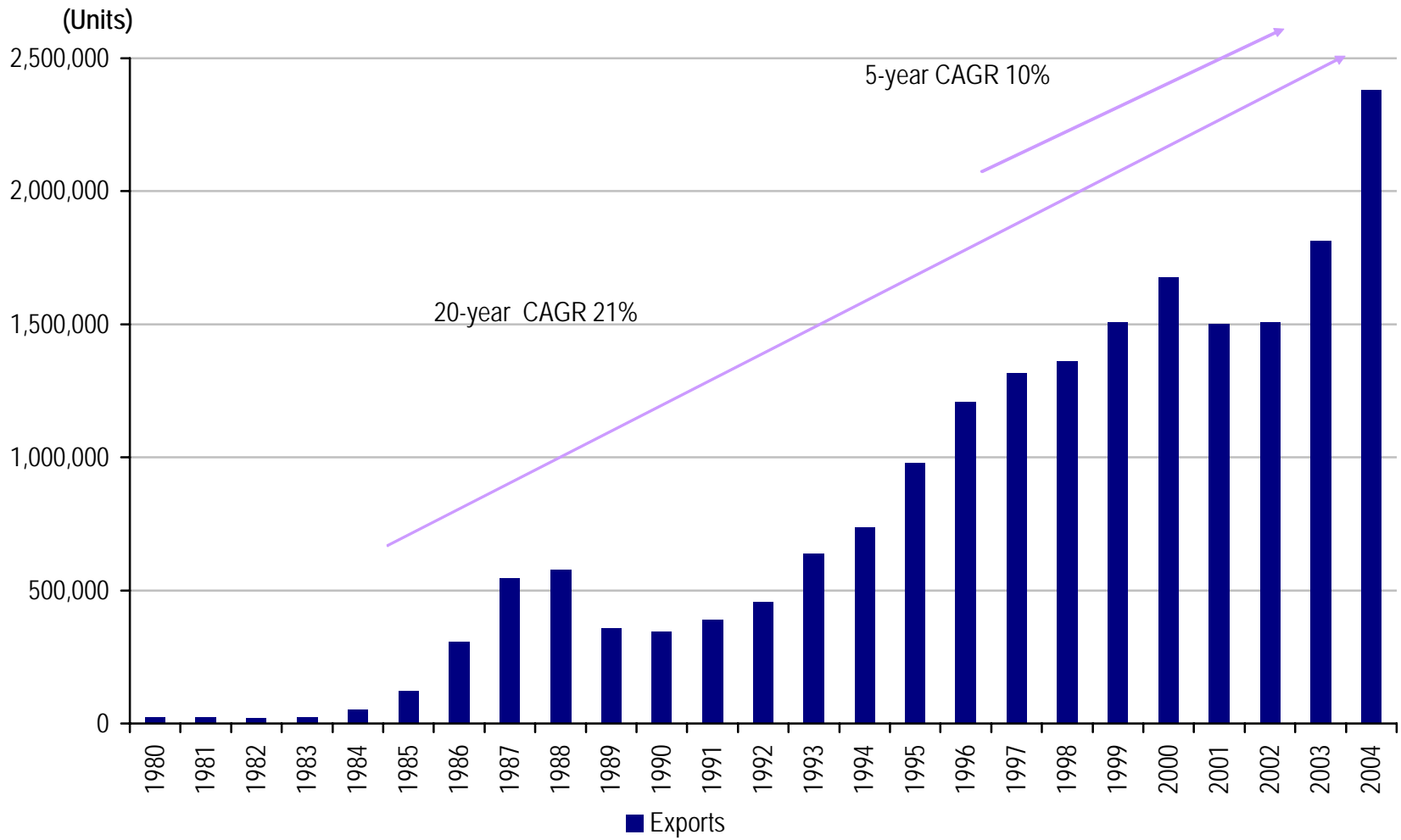
Resumption of export growth.

**Chart 25. Export unit price trends (US\$-denominated)**



Source: BOK

Steady improvement in export unit price trends.



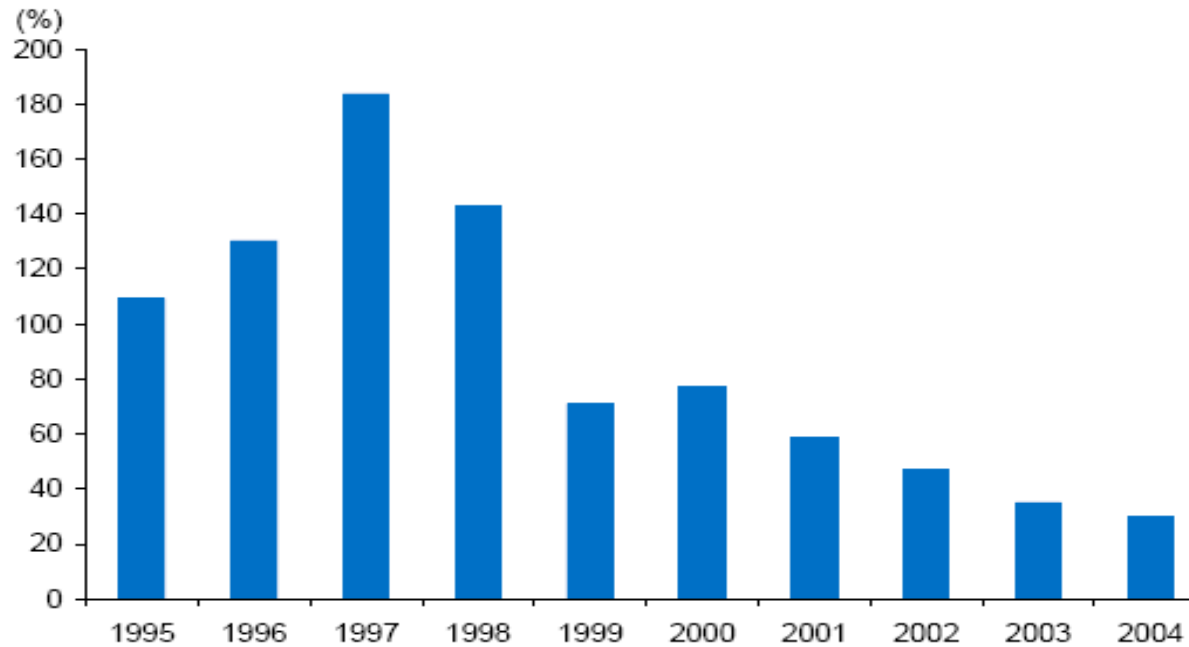
**Extraordinary long-term growth in auto exports.**

CONTINUING IMPROVEMENT IN DEBT



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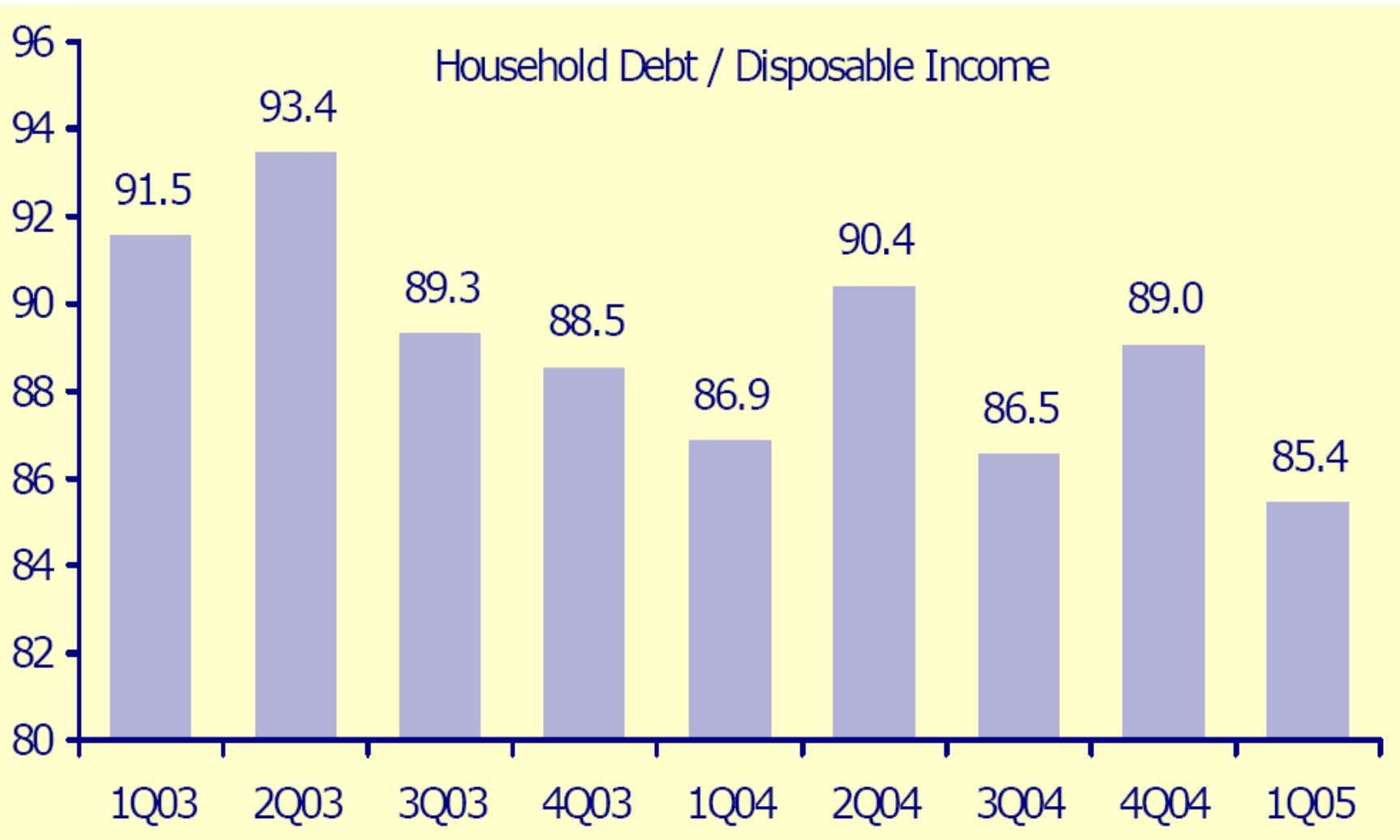
**Exhibit 52: Korea has de-gearred**  
Net debt to equity of KSE and KOSDAQ-listed  
manufacturing companies



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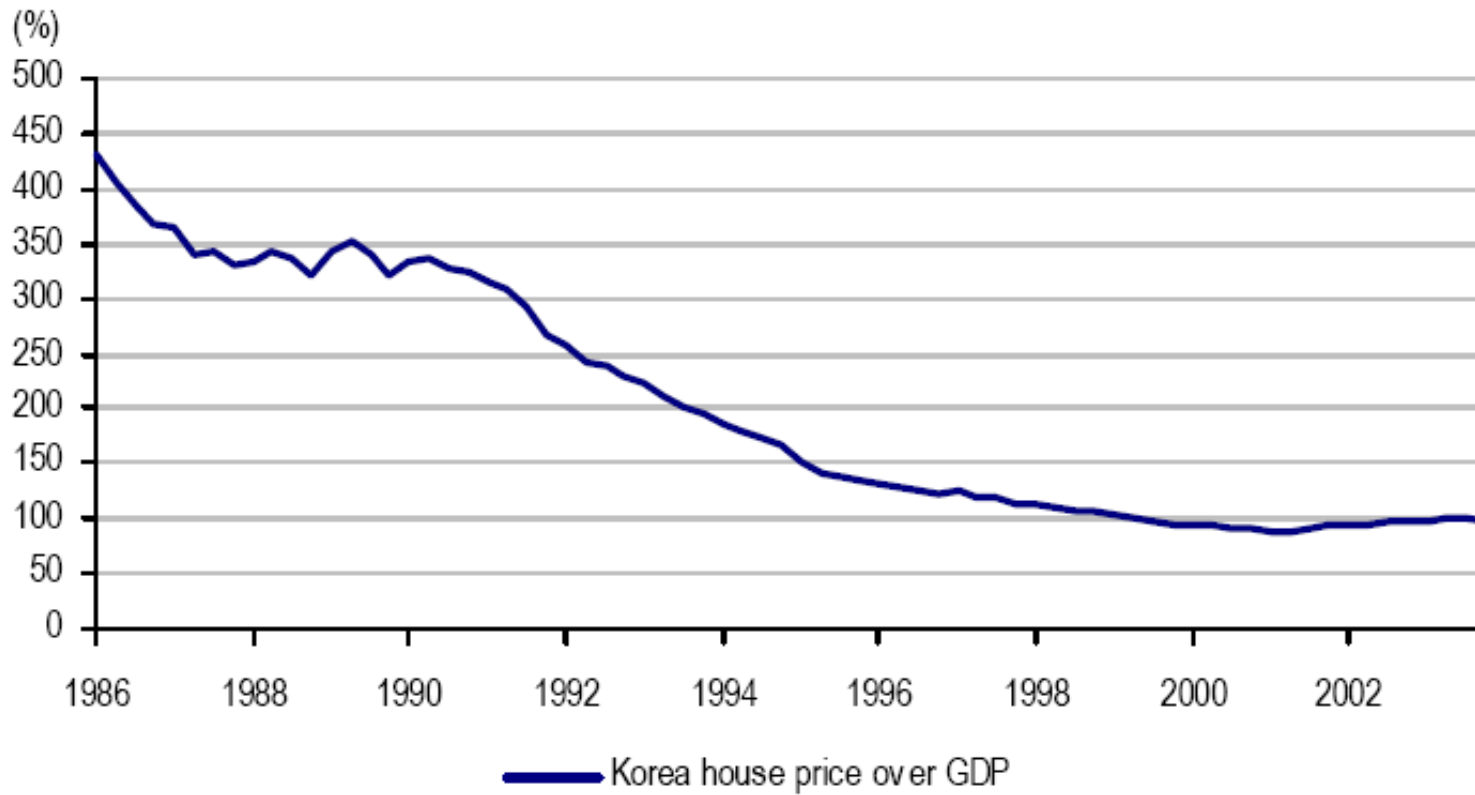
*Source: CHECK, Quantwise, Goldman Sachs Research..*

**There have been massive balance sheet improvements since the crisis.**



Encouraging improvement in household debt situation.

Chart 3: Housing prices over nominal GDP

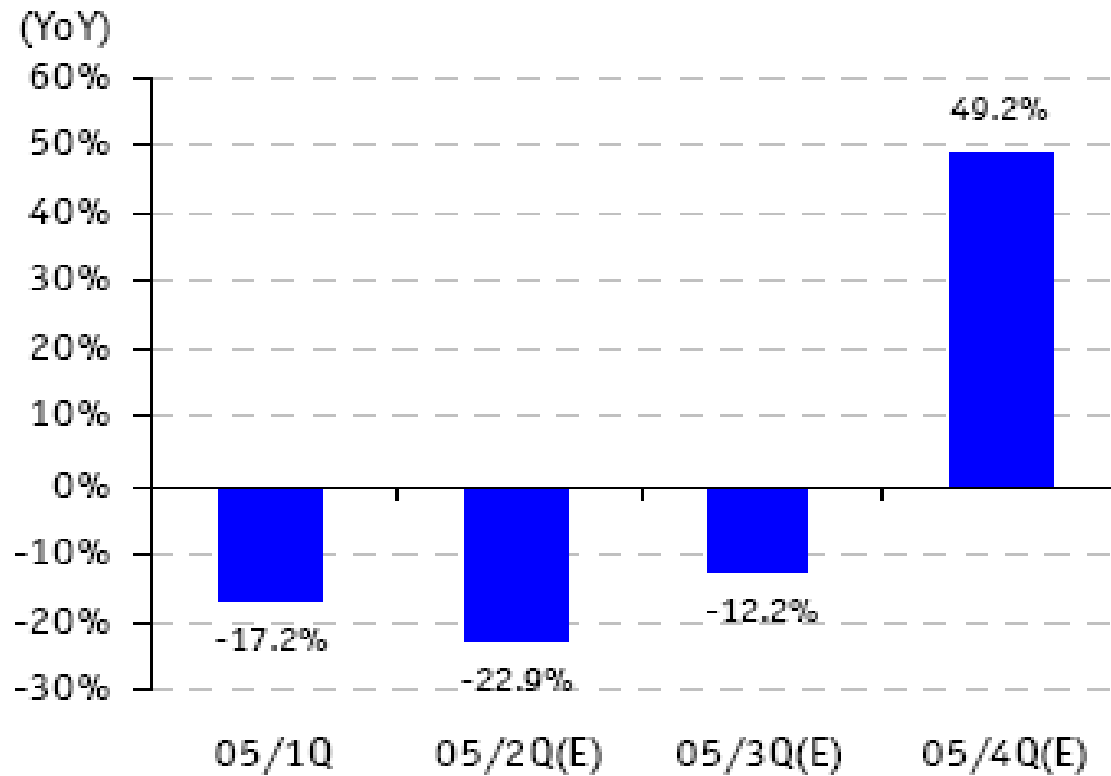


Source: MOCT, BOK

“Housing bubble” is a fiction.

## IMPROVEMENTS IN CORPORATE BOTTOM LINE

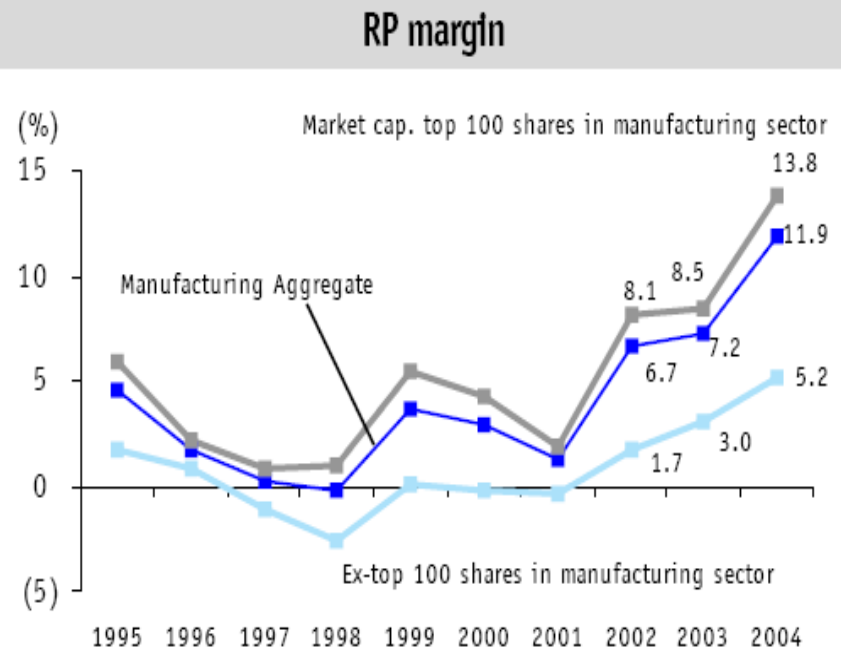
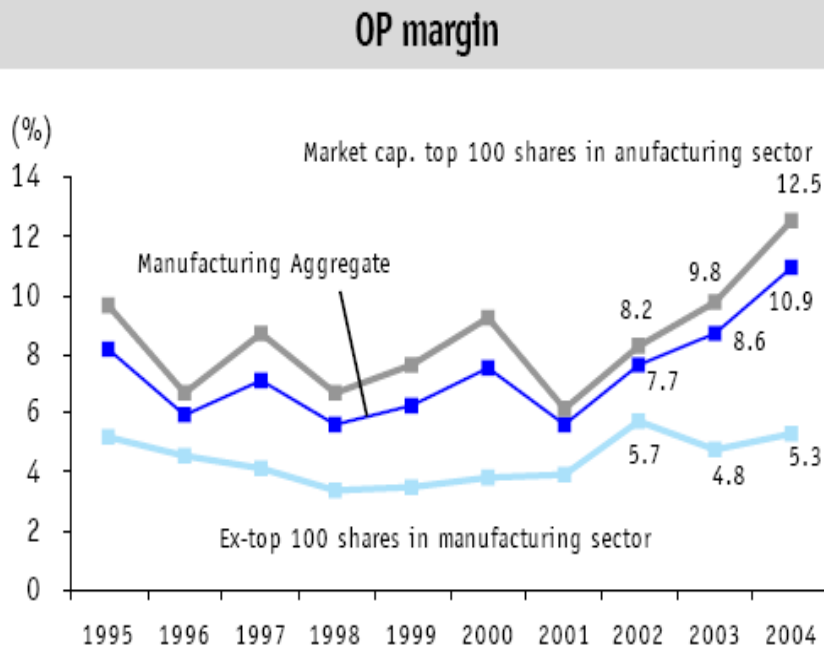
## OP growth trends in GMSH universe



Source: Fnguide, GMSHS

A sharp turnaround in OP growth.

## Margin trend of manufacturing sector listed in Korea Stock Exchange

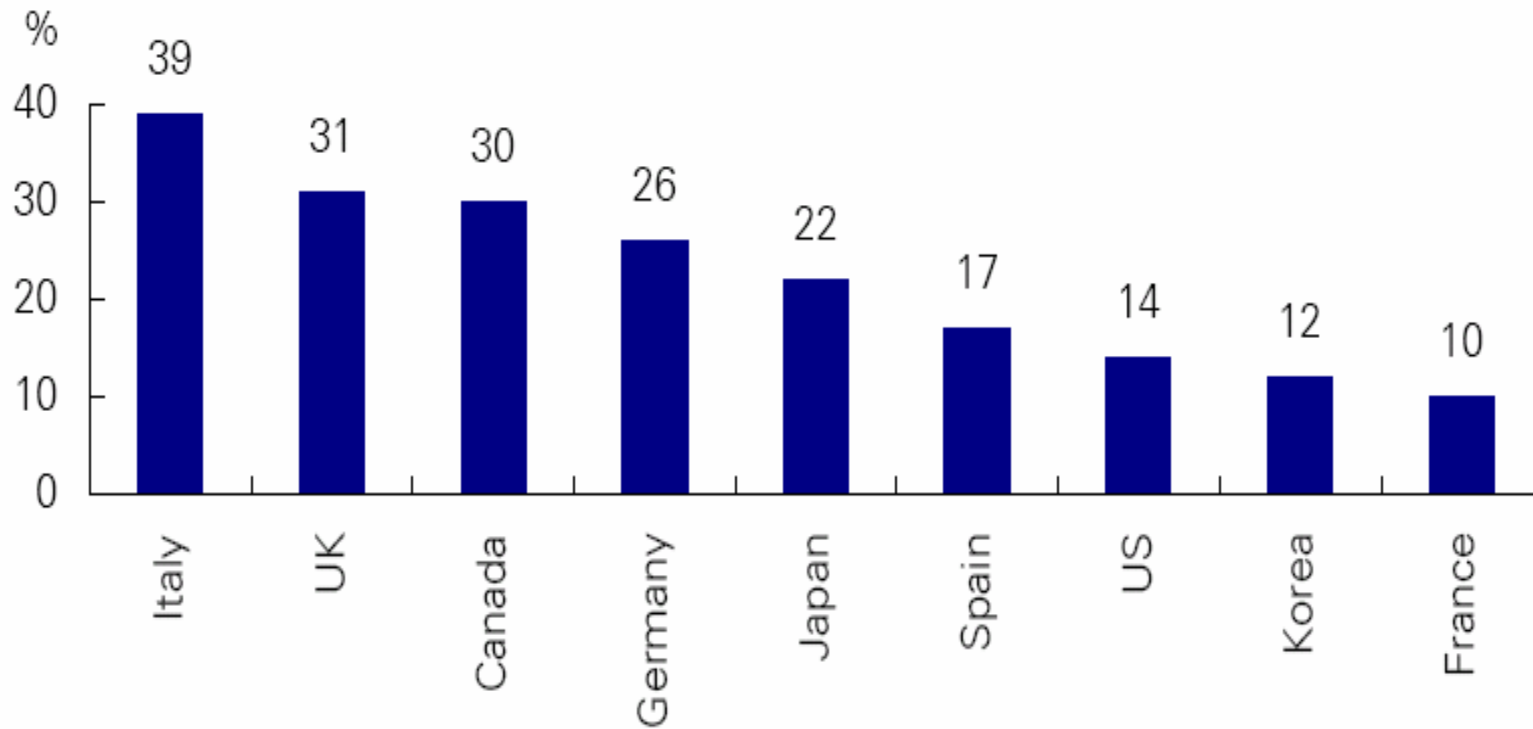


Source: Wise-Fn, GMSH

Note: Market cap rankings are in manufacturing sector. Based on 3Q04 financial statements

**Manufacturers continue improving profit margins long-term.**

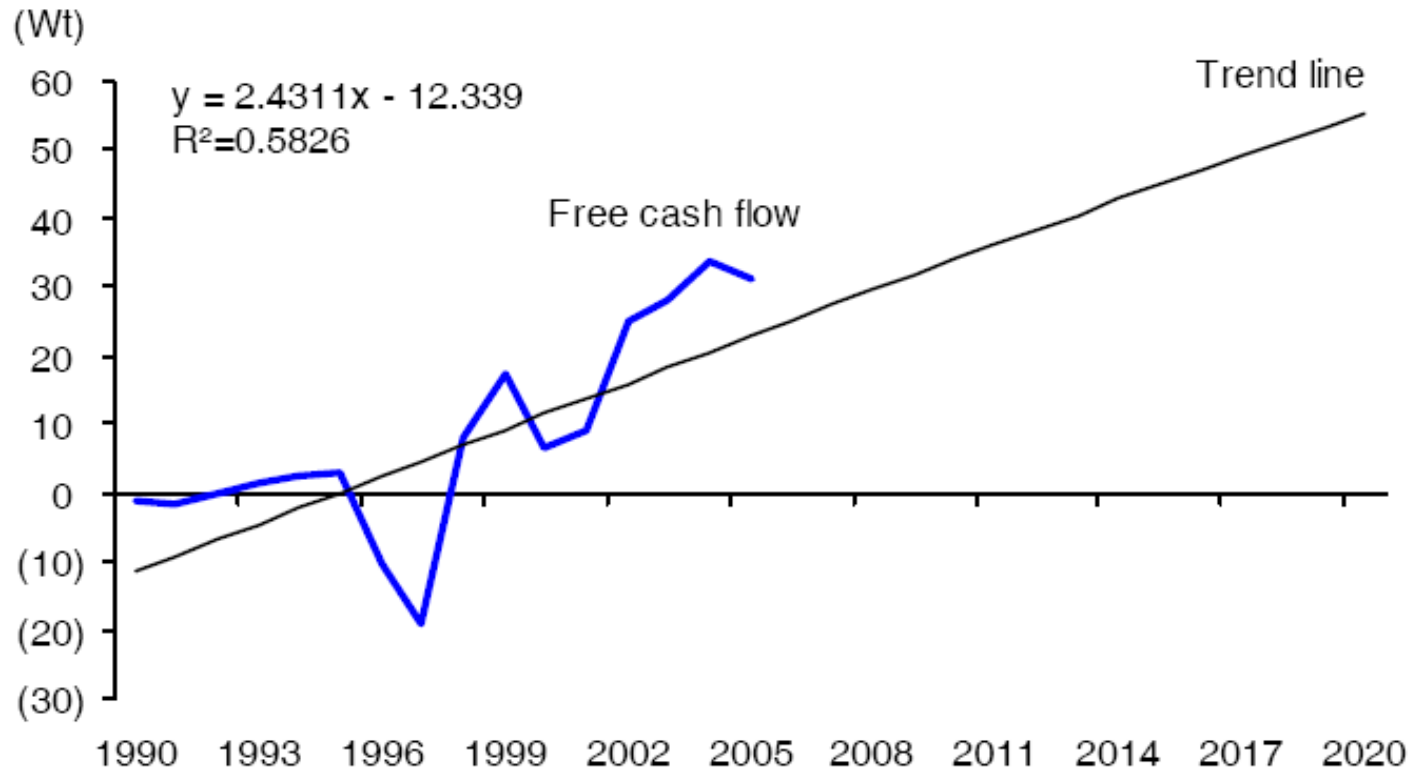
**Figure 7: Unionisation is very low in Korea**



*Numbers as of 2000  
Source: Organisation for Economic Co-operation and Development*

Union militancy may be in the headlines, but rate of unionization is relatively low.

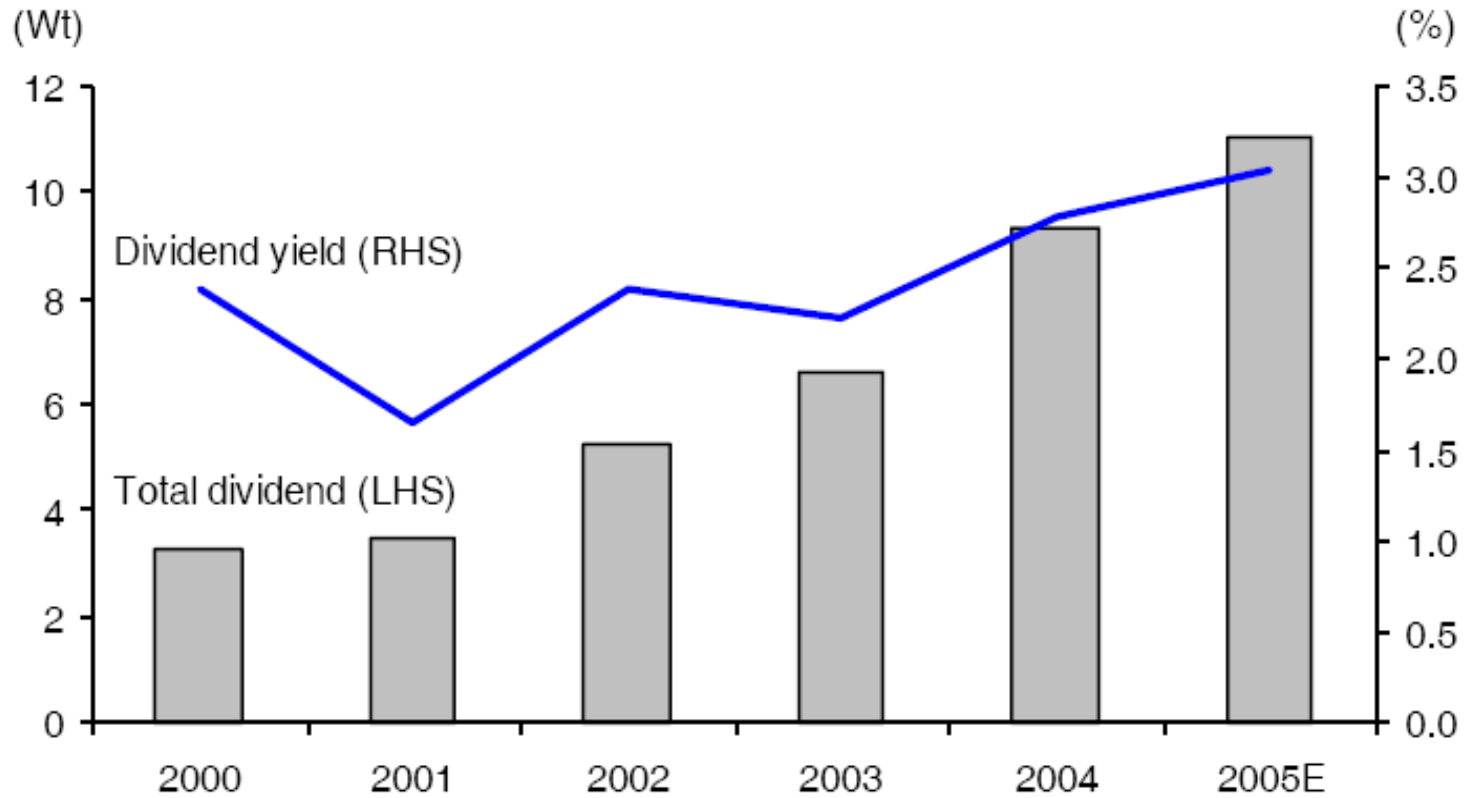
Chart 8. Free cash flow trend



Source: KRX, Samsung Securities estimates

Long-term uptrend in corporate free cash-flow.

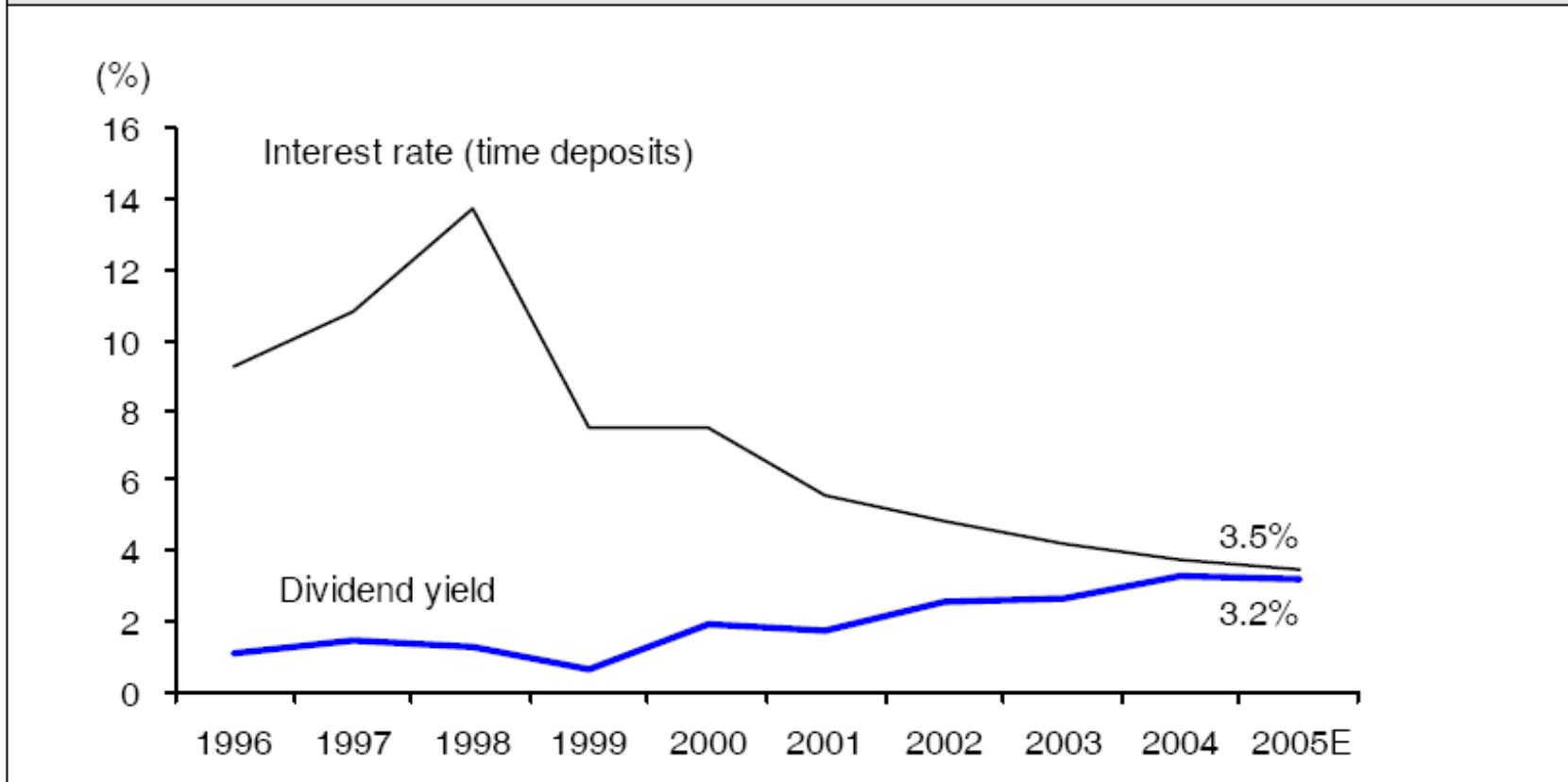
Chart 12. Dividend yield



Source: Samsung Securities estimates

**Korean companies are finally paying decent dividends.**

Chart 3. Dividend yields vs interest rates

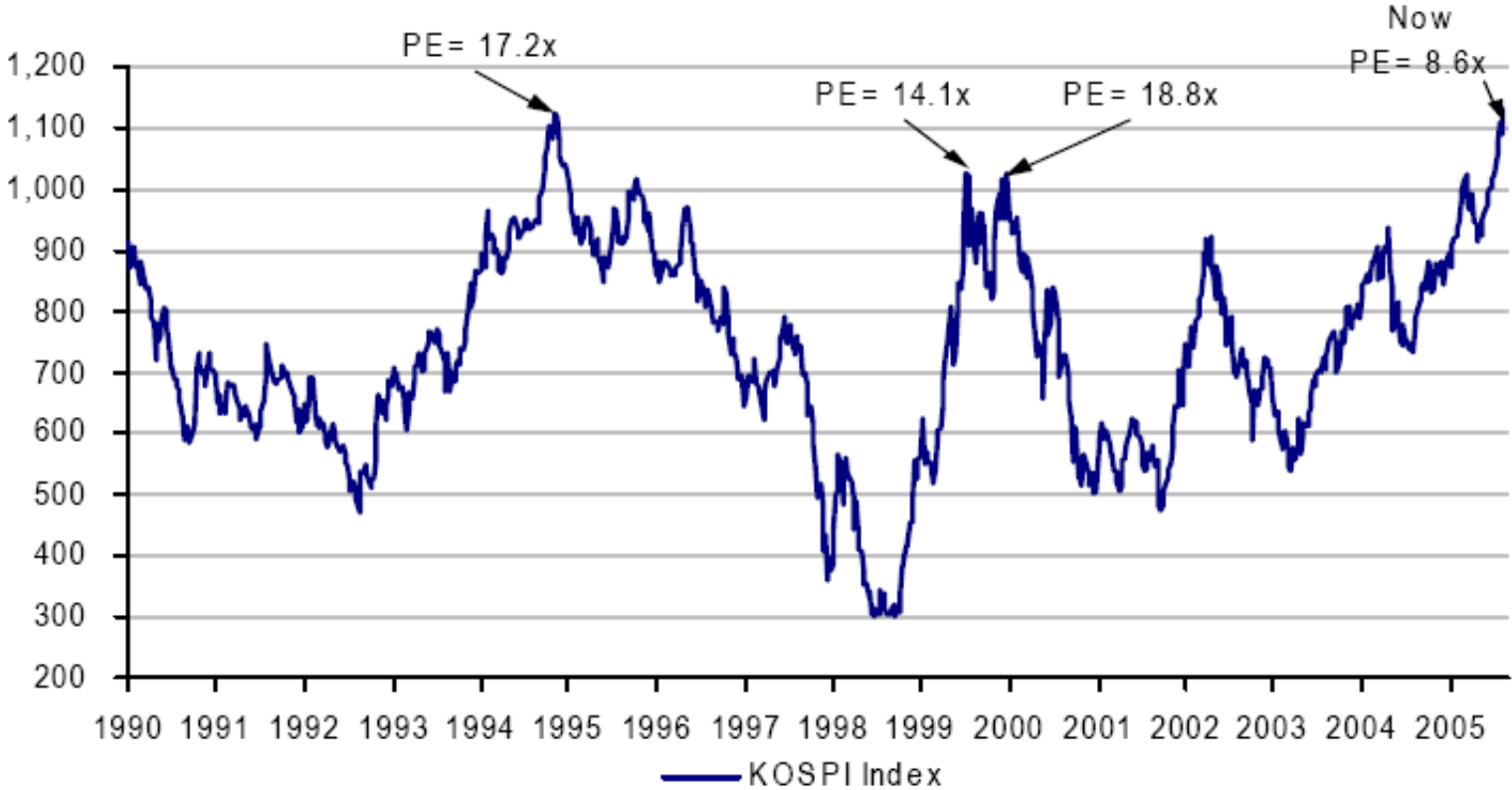


Note: \* Top 100 companies in Samsung Universe Source: BOK, Samsung Securities

**A new culture of dividend yields makes equities as attractive as bank deposits.**

## ATTRACTIVE STOCK MARKET VALUATIONS

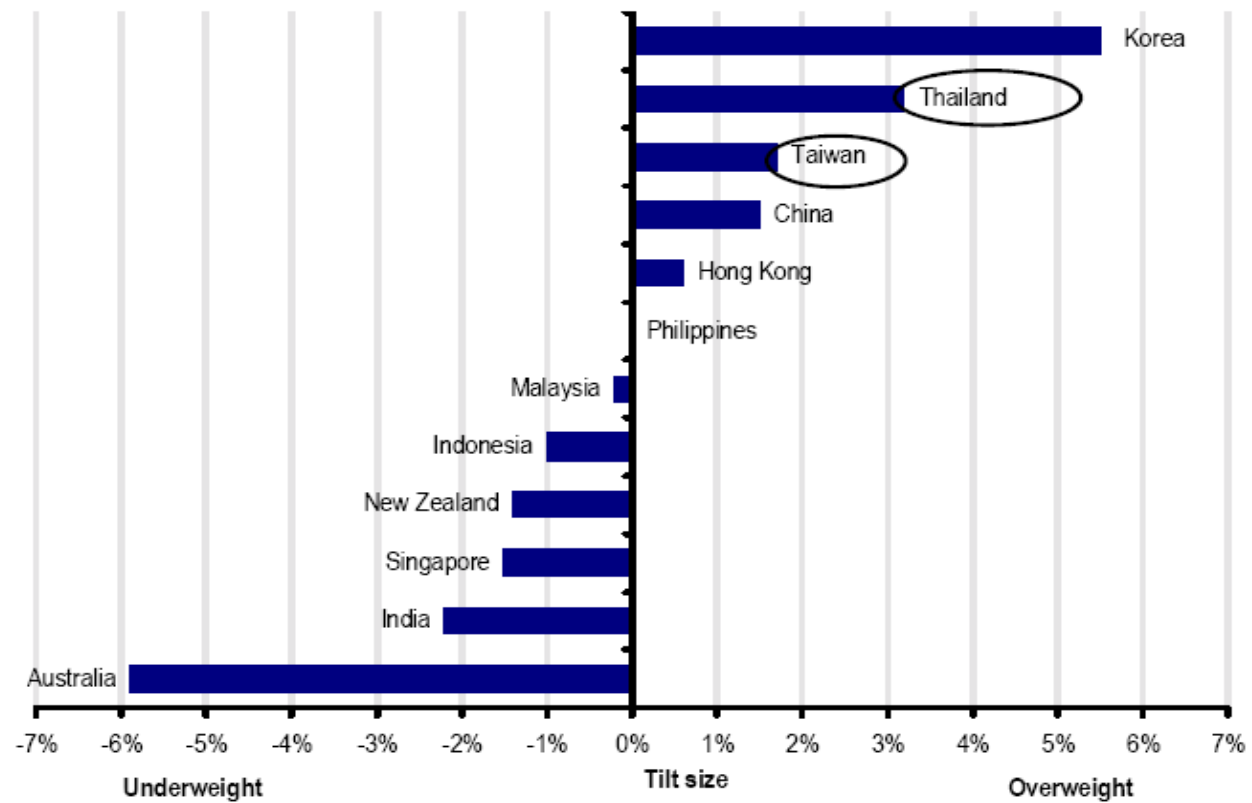
Chart 1: Kospi near all-time high, but current PE is well below historical peaks



Source: Bloomberg

Despite surge in market, current market PE is well below 10x.

## UBS Country tilts



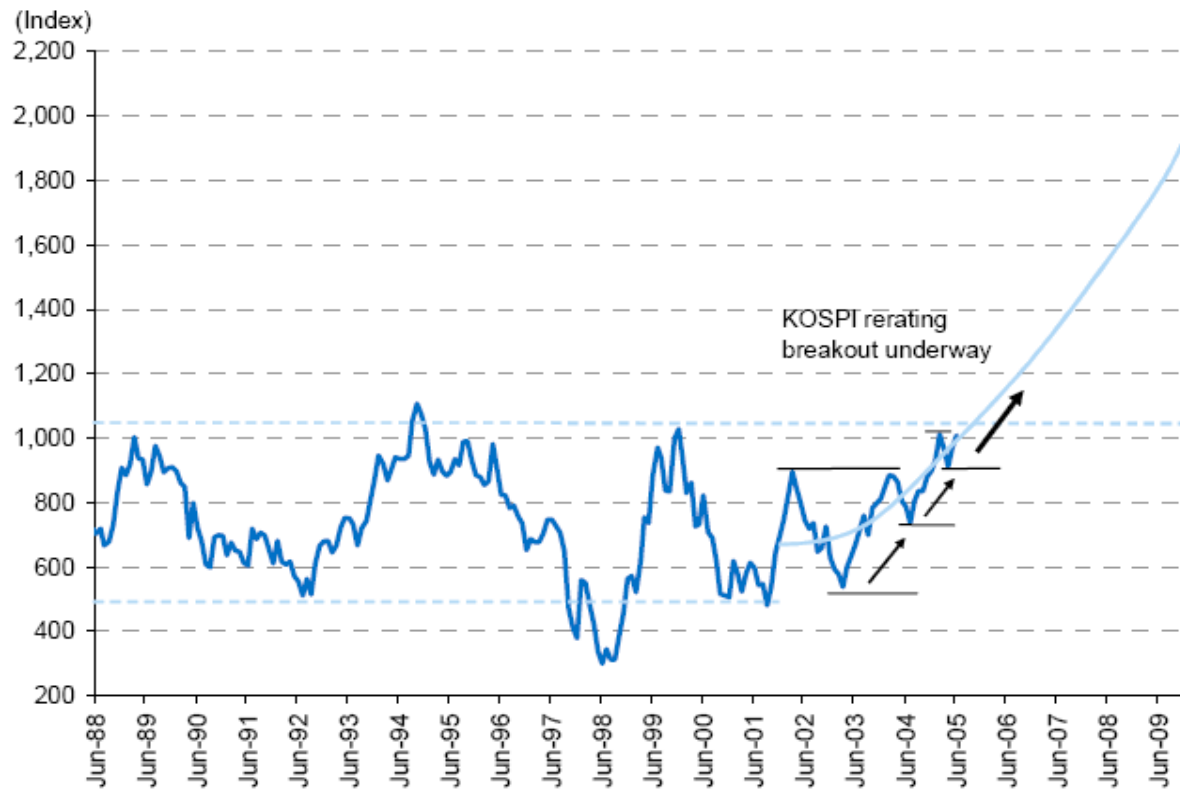
Source: MSCI, UBS estimates

**UBS gives Korea its biggest overweight.**

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## Exhibit 7: KOSPI rerating breakout under way

### KOSPI

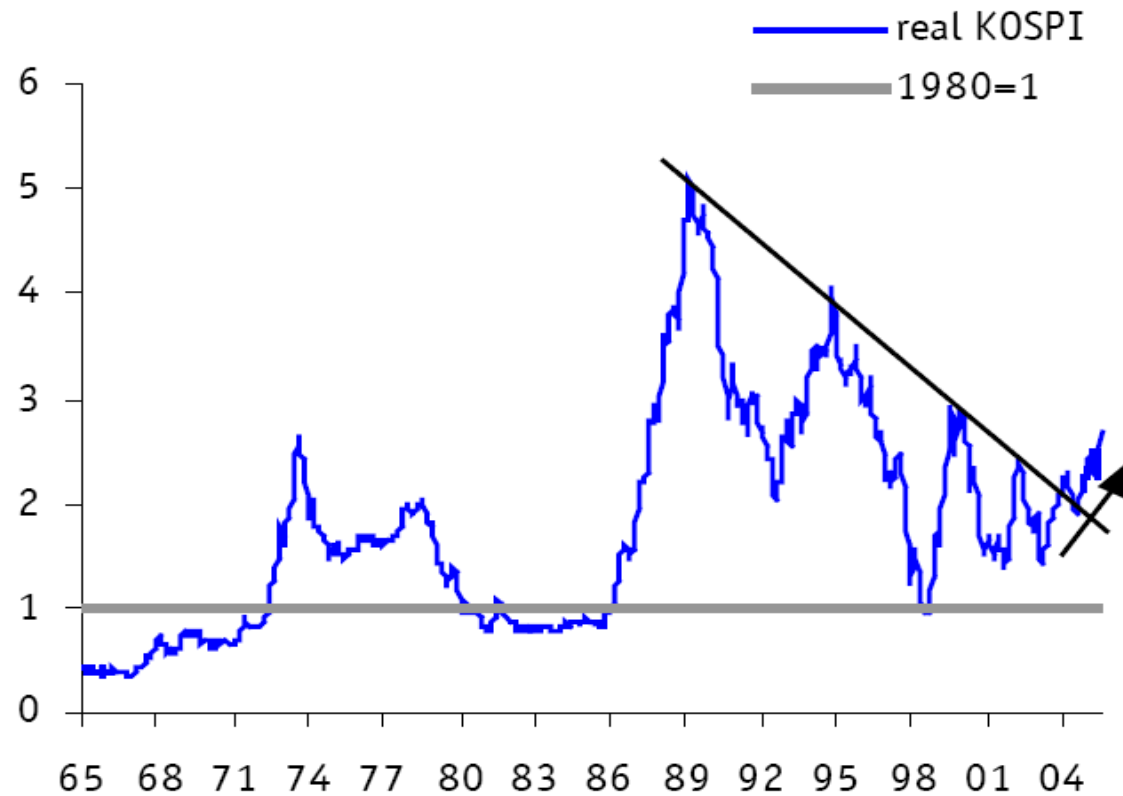


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Source: Datastream, Goldman Sachs Strategy Research.

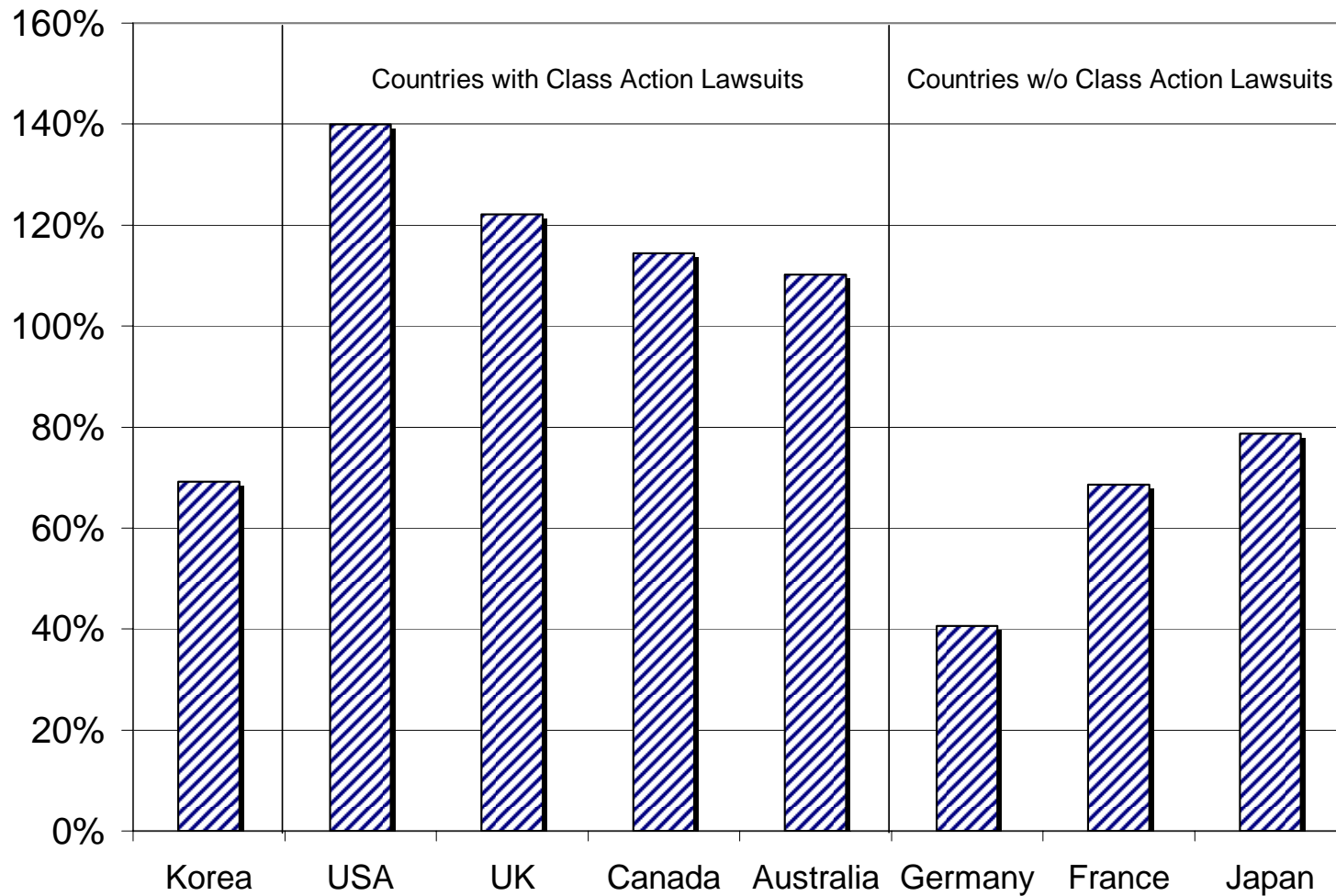
Technical model suggests rerating breakout.

## Real KOSPI breaking long-term resistance level



Source: NSO, KRX, GMSHS

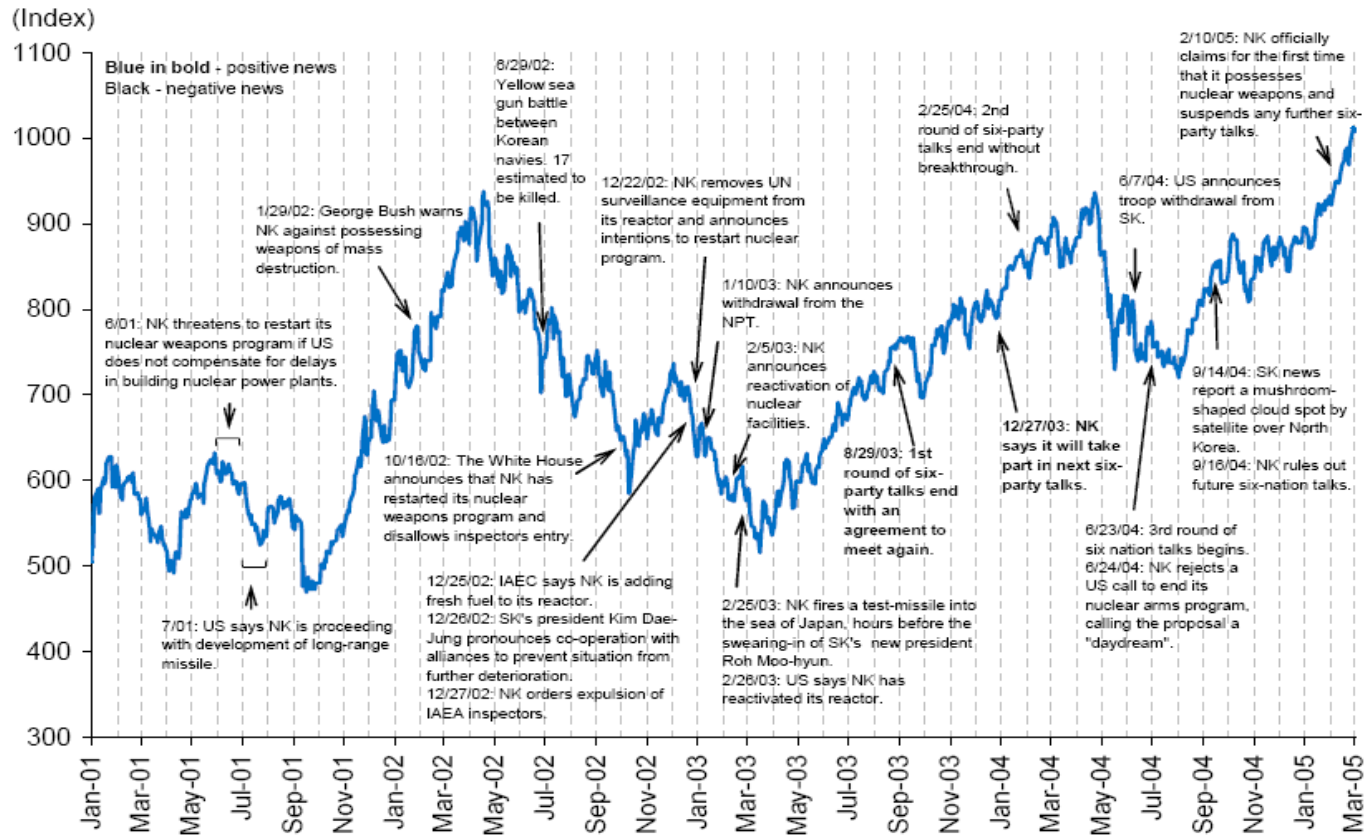
Real KOSPI is still far below historical high.



**Countries with Class Action Lawsuits have a higher market cap-to-GDP.**

**Exhibit 47: North Korean news flow does not appear to have a sustained impact on South Korea's equity market performance**

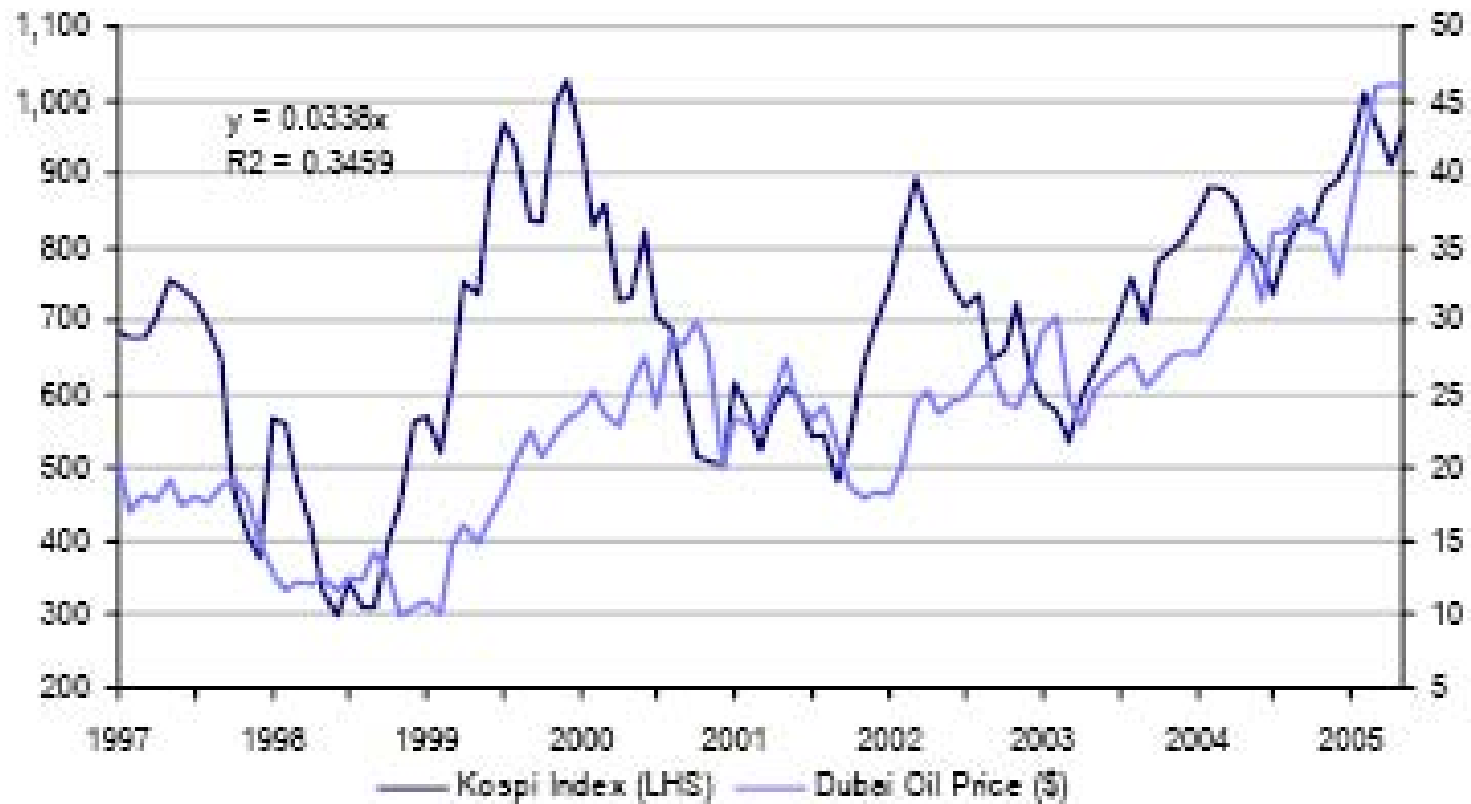
KOSPI index, 2001-2005



Source: Datastream, Goldman Sachs Research.

**North Korean tensions don't seem to hurt South Korea's stock market.**

## Kospi vs. oil price



Source: KSE, Bloomberg

Rising oil prices do not hurt Korean stock market.