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Bribery Probe May Halt Hyundai Motor's Drive to Top 5

By Heejin Koo

April 20 (Bloomberg) -- A bribery scandal hanging over Hyundai Motor Co. Chairman Chung Mong Koo and his son, Kia Motors Corp. President Chung Eui Sun, is hindering their plans to become one of the world's top five automakers by 2010.

As the younger Chung arrived at the Supreme Prosecutors' Office in Seoul today to answer questions about a slush fund for bribing government officials, shares of Hyundai Motor's logistics affiliate Glovis Co. plunged a second day. The Chung family yesterday agreed to donate 1 trillion won (\$1.1 billion) in Glovis shares to charity, as contrition for the probes.

"If the probe drags on, it may disrupt the normal course of Hyundai Motor's daily operations," said Lee Seung Jun, who plans to keep the carmaker's shares among \$310 million of assets he manages at CJ Asset Management Co. in Seoul.

At stake is the elder Chung's drive for Hyundai Motor and Kia to leapfrog Volkswagen AG and DaimlerChrysler AG, the world's fifth- and sixth-largest carmakers. Investigations have led to three arrests and travel bans on 10 executives, forcing Hyundai Motor and Kia to delay opening factories in the U.S. and the Czech Republic.

"I am deeply sorry to the public," Chung Eui Sun said this morning as he arrived to answer questions. Prosecutors, who put a travel ban on the Chungs and eight other executives, may summon Chung Mong Koo for questioning, said Chae Dong Wook, a spokesman of the prosecutors' office.

Even if the Chungs do get convicted and pay penalties, it's not going to hurt the share price," said Henry Seggerman, chief executive officer of New York-based International Investment Advisers, which owns Hyundai Motor shares among \$150 million of South Korean equities under management. "This is not perception, publicity or sentiment, it's simple fundamentals."

Hands-On Management

Chung Ju Yung, the late father of Chung Mong Koo, founded Hyundai Motor in 1967. In about four decades, the Chungs rose from poverty in the farming town of Tongchon in what's now North Korea to become South Korea's third-richest family, with estimated \$3.3 billion in wealth according to Forbes magazine.

Chung Mong Koo, the eldest of five sons, was bequeathed control of Hyundai Motor in 2000, directly holding 5.2 percent of the carmaker as of Sept. 30, 2005. Hyundai Steel, in which Chung Mong Koo owns 11.7 percent, holds 5.2 percent of Hyundai Motor.

Chung, 68, is closely involved in daily operations at the maker of Sonata sedans and Santa Fe sport-utility vehicles.

Chung's Style

Every Monday morning in Seoul, he inspects new models and scolds subordinates when he spots defects. He displays advice given in 1998 by J.D. Power III on quality improvement in his Seoul office, including an admonition that the carmaker wasn't listening enough to customers. His involvement extends to Alabama, where Hyundai Motor opened its \$1.1 billion assembly in May 2005. Chung is so concerned about blending into American life that he ordered Koreans assigned to the plant to eat hamburgers in the cafeteria, not seasoned Korean vegetables called kimchi.

The investigation "is beginning to take its toll," said Oles Gadacz, Hyundai Motor's director of global public relations in Seoul. "It slows the decision-making process and is perhaps dealing a winning blow for our global competitors."

Hyundai Motor shares have fallen 7.8 percent this year. The stock rose 1.7 percent to 89,700 won. Kia shares plunged as much as 22.8 percent this year to 20,500 won today. Glovis shares plunged as much as 21 percent in two days, losing almost 195 billion won in market value. The stock rose 0.1 percent to 35,500 won today.

Prosecutors' Questions

"It's not going to affect their day-to-day business," said Wendy Trevisani, who owns 1.32 million Hyundai Motor shares in the \$5 billion of international equities she helps manage at Thornburg Investment Management in Santa Fe, New Mexico. "It's not something that would override our investment thesis."

Prosecutors are investigating the granting of building permits for two blast furnaces at INI Steel Co., South Korea's second-largest steelmaker and a Hyundai Motor affiliate that was renamed Hyundai Steel Co. in March. Prosecutors said they are also investigating a permit for a Seoul office building and how the Chung family used Glovis to strengthen its hold on Hyundai Motor affiliates. "We are looking at Glovis' secret accounts to try and verify how funds may have been used, including possible ways in which the Chung family strengthened their ownership structure within the group," Chae said.

Investors should be concerned about 13.8 trillion won in debt spread through dozens of companies now controlled by Chung Mong Koo, not just 1.8 trillion won in debt at the motor company, says Kim Eun Jin, a Standard & Poor's analyst. Kim has a junk rating on the automaker's debt. Probes have led to the arrests of a lobbyist, the head of an accounting firm and the president of Glovis, Hyundai Motor's logistics affiliate.

Second Time

It's the second time in three years that Hyundai Motor was part of allegations of illegal payments to government officials. Vice chairman Kim Dong Jin, 56, was given a two-year suspended sentence in 2003 for pooling a slush fund to finance presidential candidates. He was pardoned by President Roh Moo-Hyun.

Kim, the second-highest ranking executive at Hyundai Motor, was questioned on April 18 about his role in the latest probes. He was detained last night for more questioning, said the prosecutors' spokesman Chae. The investigation ``is a distraction" of daily operations, said Hyundai Motor's spokesman Gadacz. ``We hope it can be concluded as speedily as possible."

Giving up Glovis

Chung and his son yesterday offered to give up their entire 60 percent stake in Glovis, donating 22.5 million shares valued at 1 trillion won to charity, according to a statement by Hyundai Motor Vice Chairman Lee Jeon Kap. If the probe ``ends up reducing the family's influence, it could ultimately benefit investors," said Seggerman of International Investment Advisers. ``If there's a perception that voting power has improved for shareholders, that's positive."

--With reporting by John Lippert in Detroit, Alan Ohnsman in Los Angeles, Kevin Cho in Seoul. Editors: Tang (bco/pac/pkc/est) Story illustration: Click {005380 KS <Equity> GP <GO>} to graph Hyundai Motor's share price. For a menu of legal functions, click {BLAW <GO>}.

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