

# **INTERNATIONAL INVESTMENT ADVISERS**

**Korean Economy and Stock Market  
March 14, 2006**

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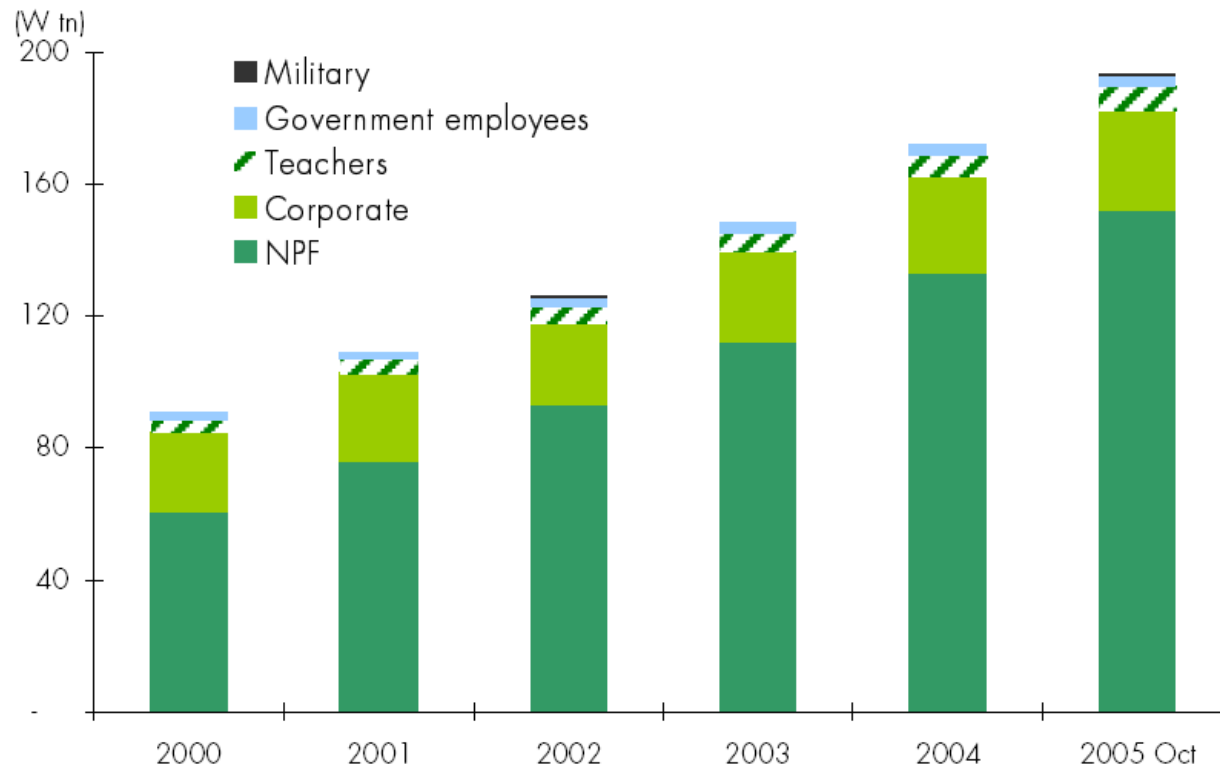
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**DOMESTIC INVESTMENT IS SURGING**

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Figure 11: Pension funds continue to increase



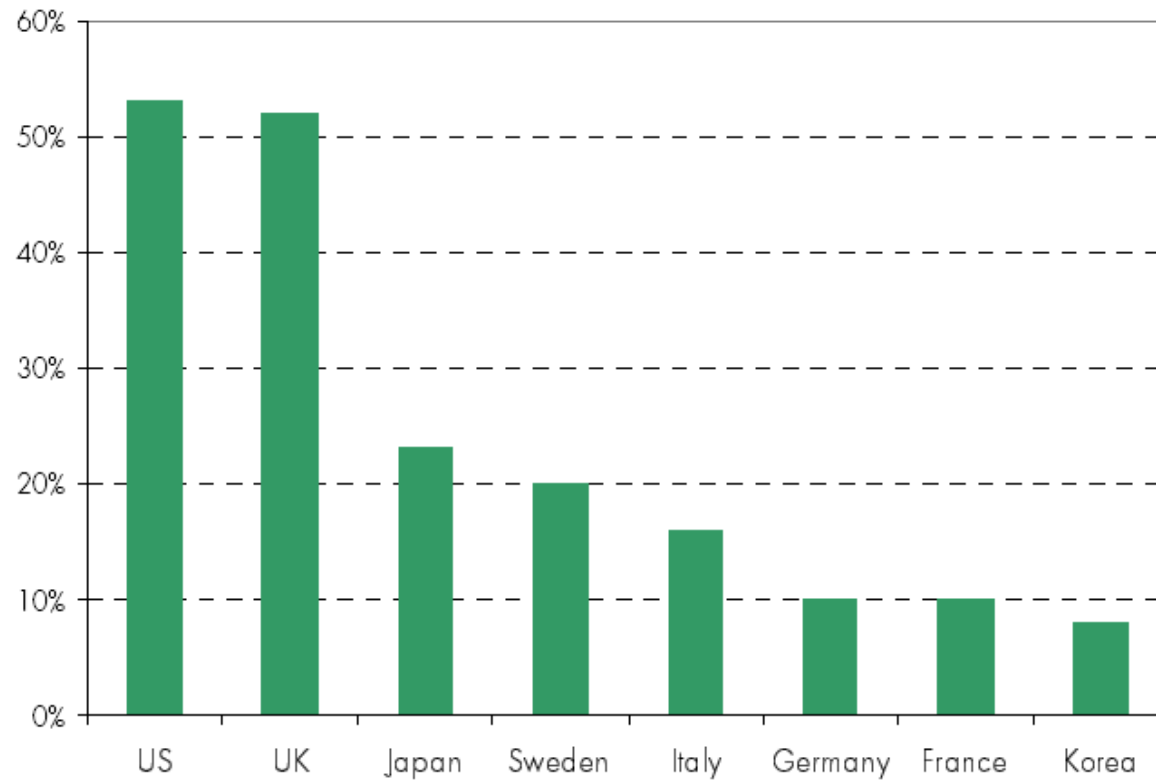
Source: NPF, Lehman Brothers estimates

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**Assets build in pension funds year after year.**

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Figure 14: Equity as a % of total pension funds

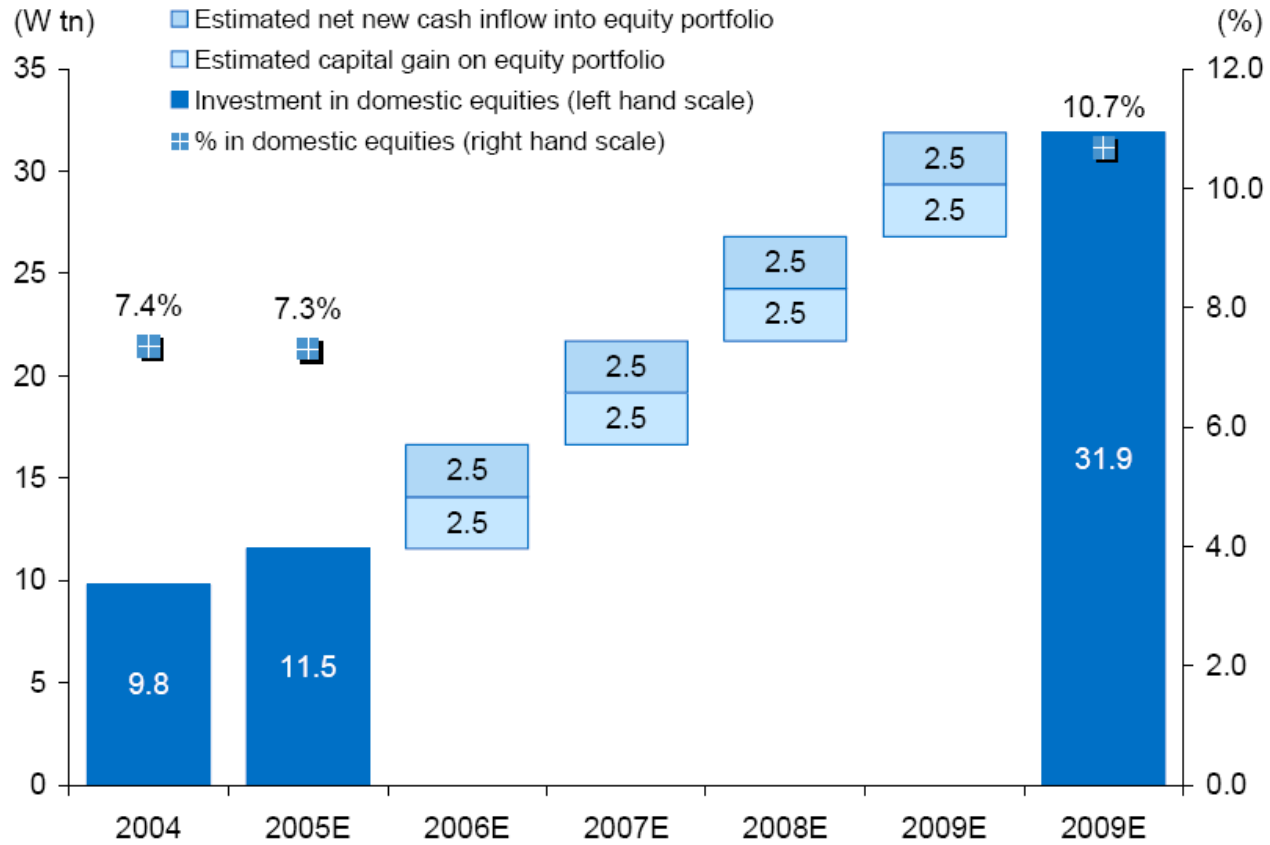


*Source: OECD, Lehman Brothers estimates*

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**Korean pension funds still drastically underexposed to equities.**

**Exhibit 33: NPC's equity assets are estimated to almost triple by 2009**  
 NPC equity allocation target and estimated equity assets under management

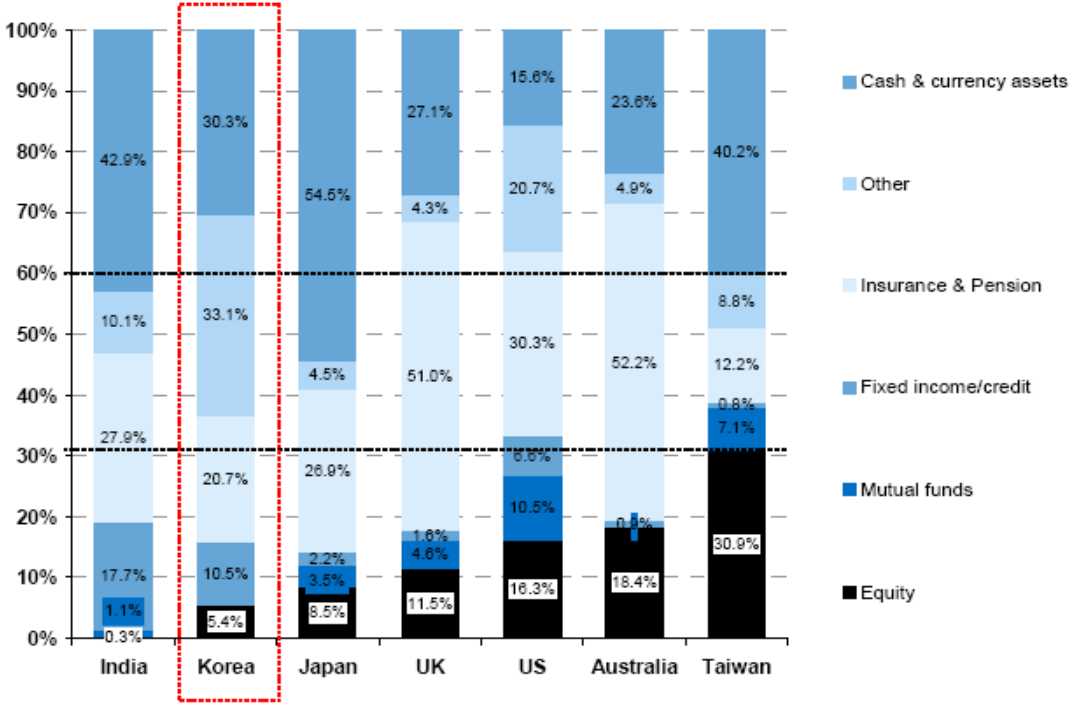


Source: National Pension Corporation, Goldman Sachs Research.

**National Pension Corp. to boost equity allocation for the rest of this decade.**

**Exhibit 11: Korean households have low equity holdings relative to other countries**

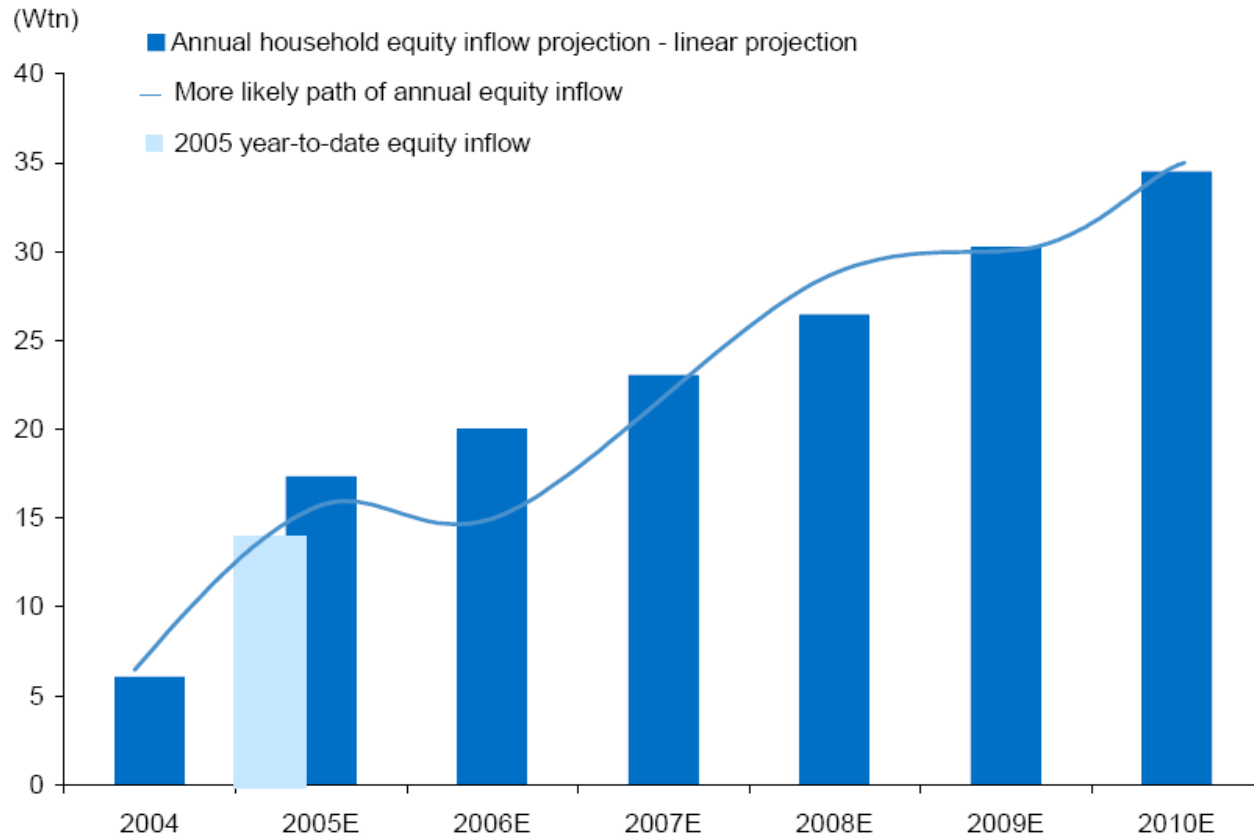
Comparison of household financial balance sheets



Source: CEIC, BoJ, RBI, BoK, RBA, CBoC, BoE, Goldman Sachs Strategy Research.

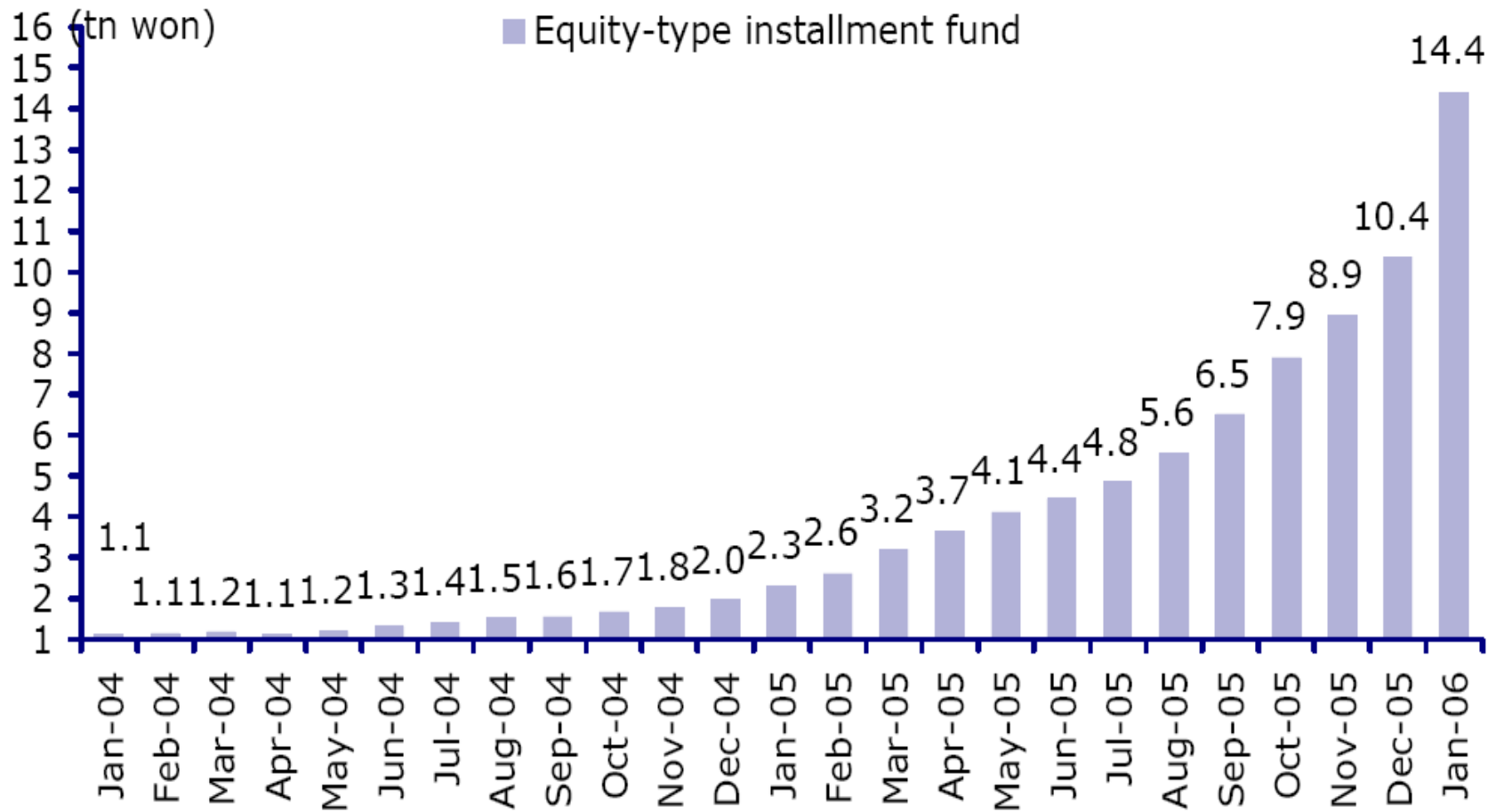
Households have relatively little exposure to equities.

**Exhibit 27: Equity inflow likely to accelerate with KOSPI's rerating**  
Annual household equity allocation projection

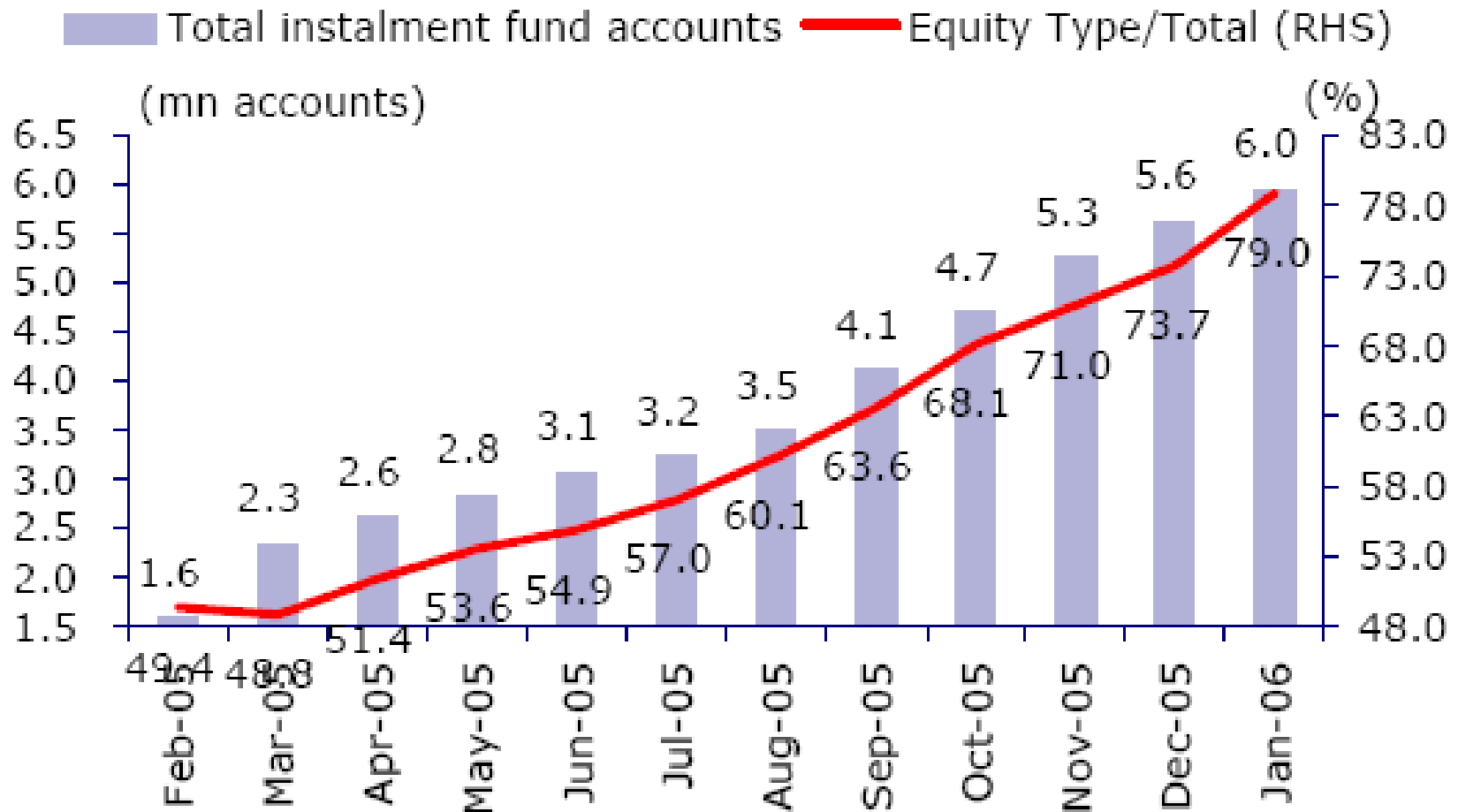


Source: Bank of Korea, Asset Management Association of Korea, Goldman Sachs Research estimates.

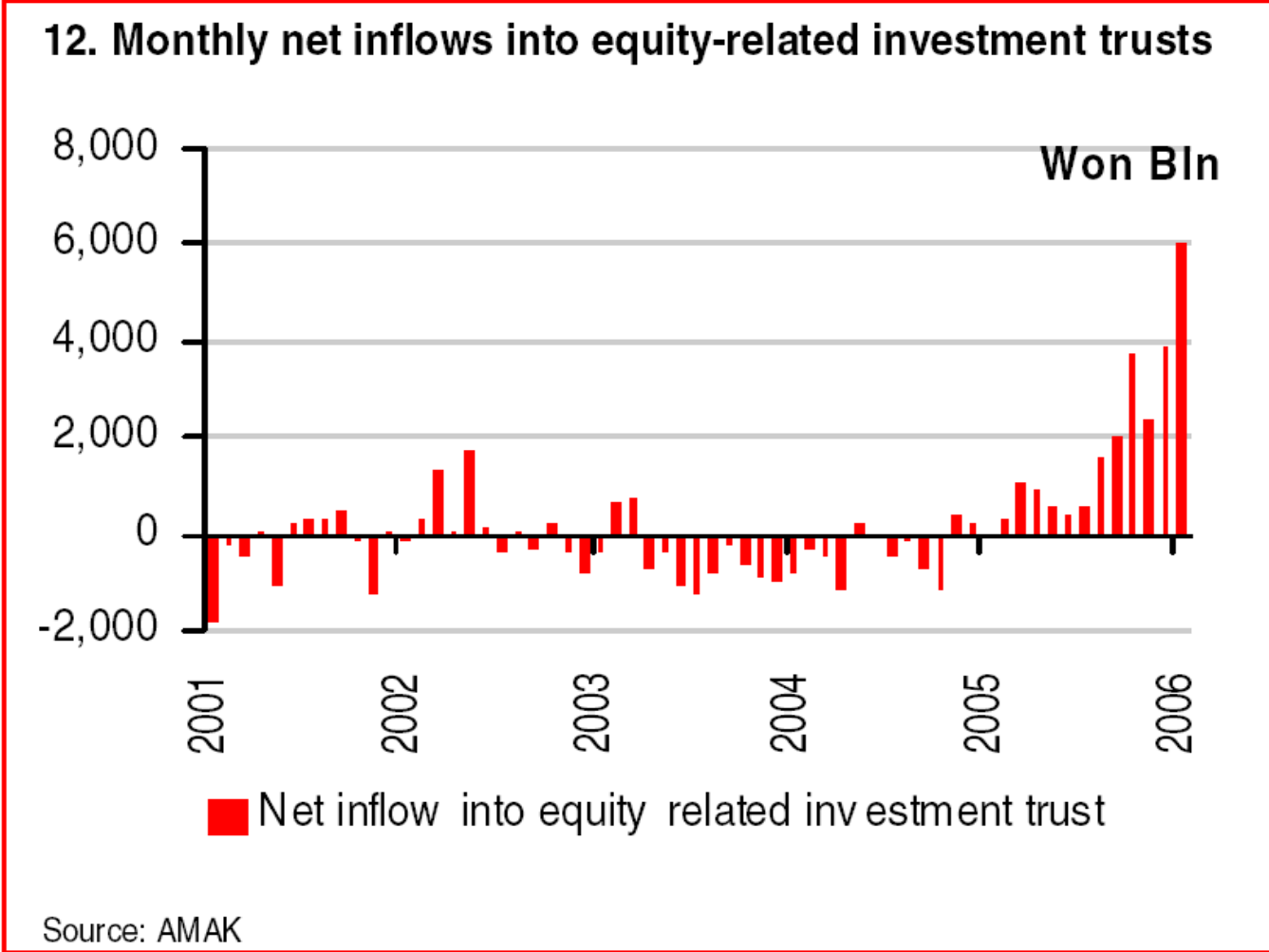
**Households will increase exposure to equities.**



From zero to \$14 billion in little more than a year.

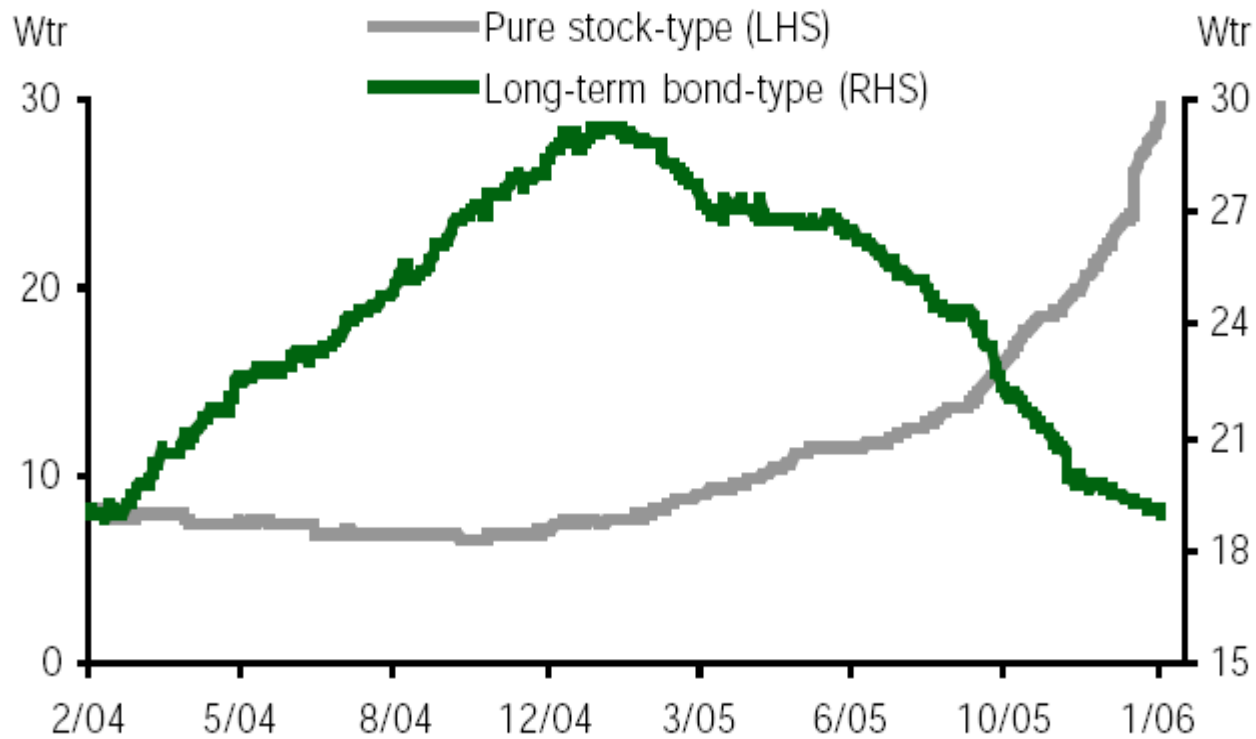


Equity now dominates installment fund business.



Traditional investment trust equity business is growing dramatically

**Fig 11: Changes in the balance of BCs**

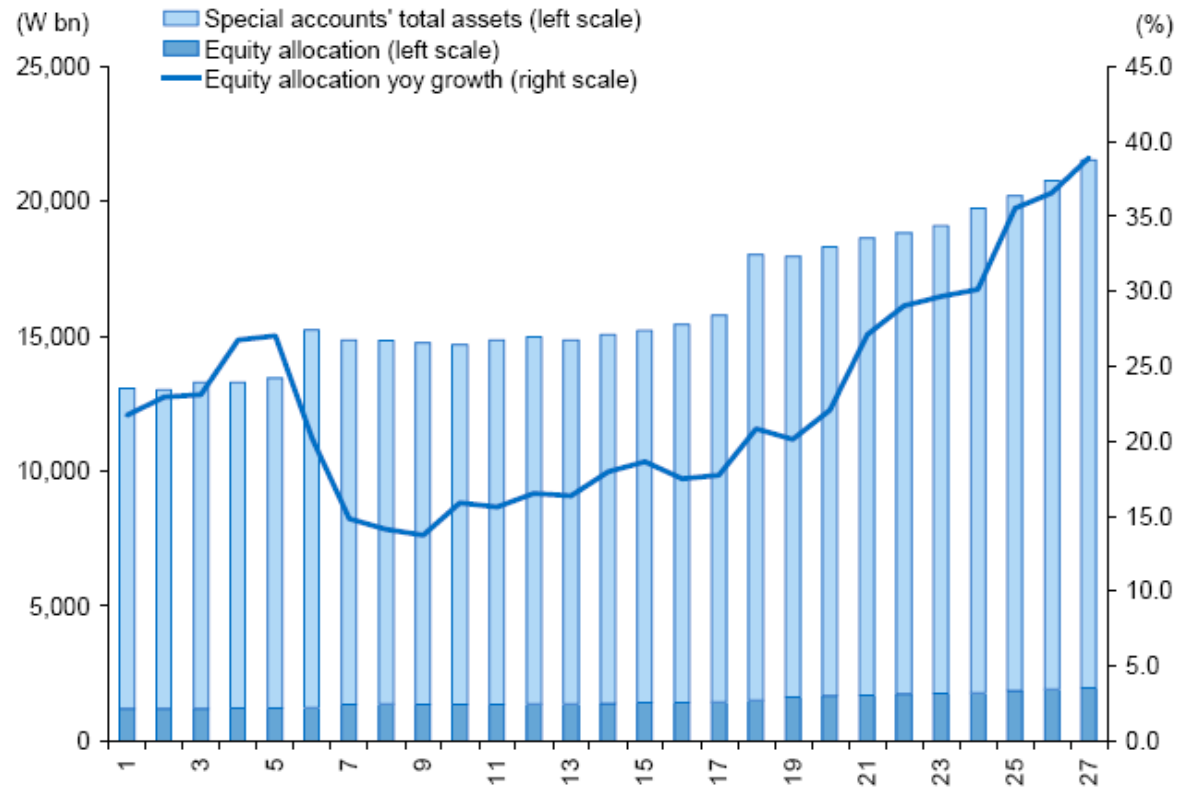


Source: Hyundai Securities, Asset Management Association of Korea

**Complete reversal of fixed-income preference at investment trust companies.**

## Exhibit 35: Variable life policies are driving special account growth and equity investment

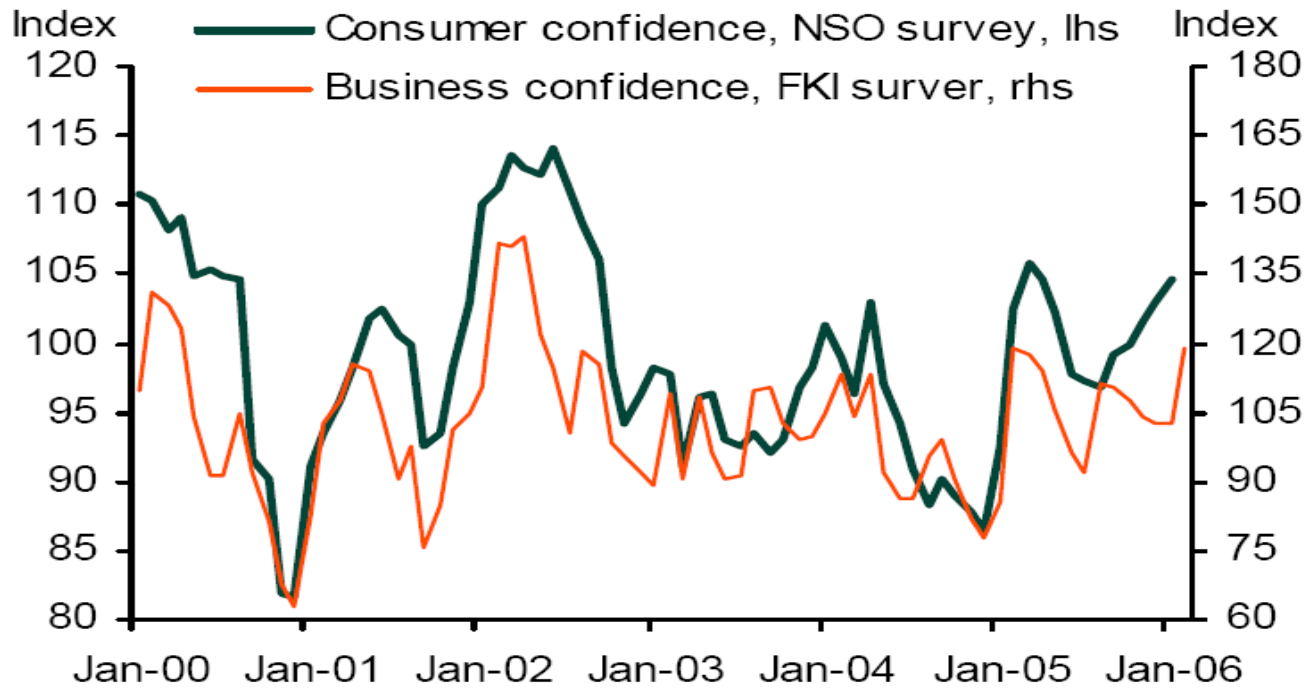
Life insurers' special accounts total assets and yoy growth



Life insurance companies increasing allocation to equities.

**DOMESTIC ECONOMY DRIVING  
INDUSTRIAL PRODUCTION**

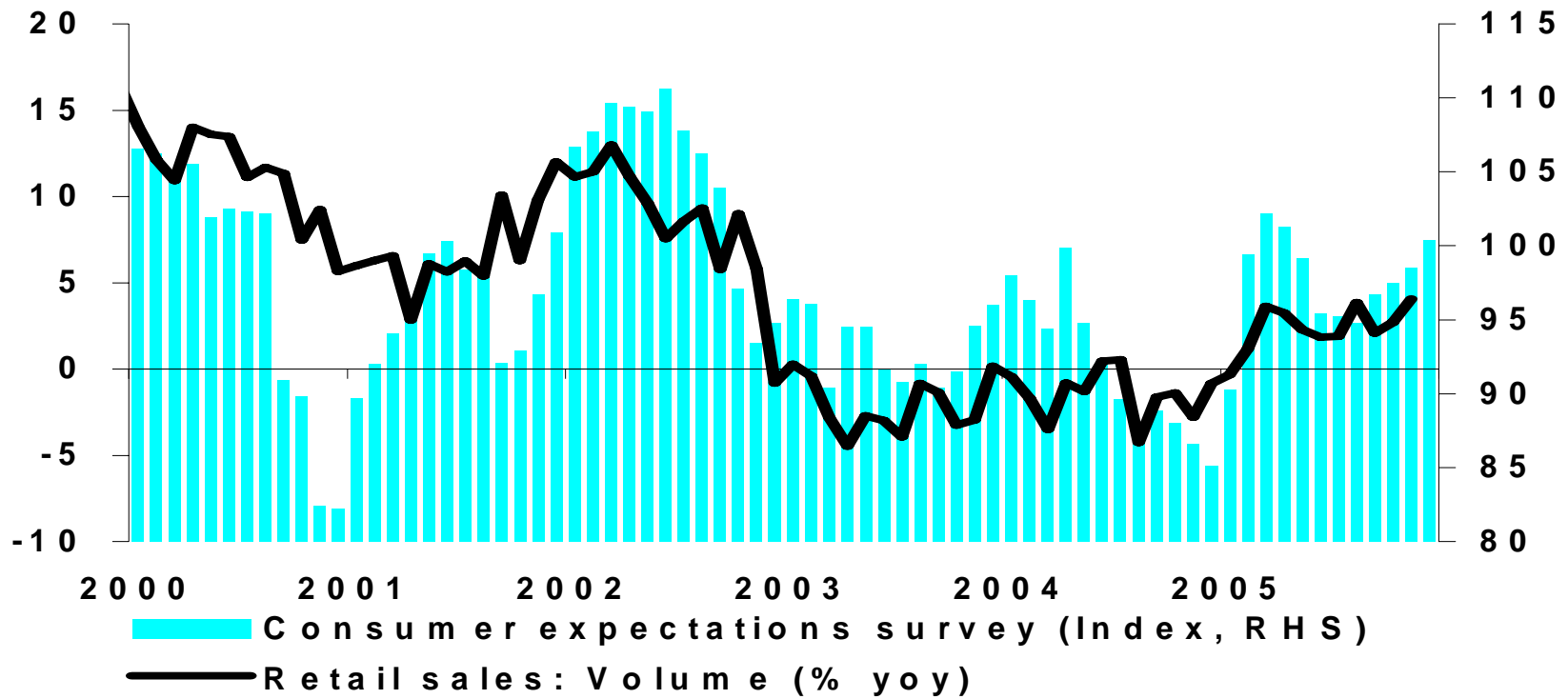
**Figure 3. South Korea's business and consumer confidence indexes**



Source: CEIC and Lehman Brothers Global Economics.

Rising business and consumer confidence.

Figure 1: Optimism is returning to the Korea economy, primarily in private consumption



Source National Statistical Office, CEIC, CSFB

Optimism is returning to the Korea economy, primarily in private consumption.

D KOIPIYOY <Index> Korea Industrial Production SA YoY Index GPC

Mid Line KOIPIYOY Index 1/3

Range 2/28/05 - 1/31/06 Period Monthly  
Upper Chart: 1 Mid Line Moving Averages No News

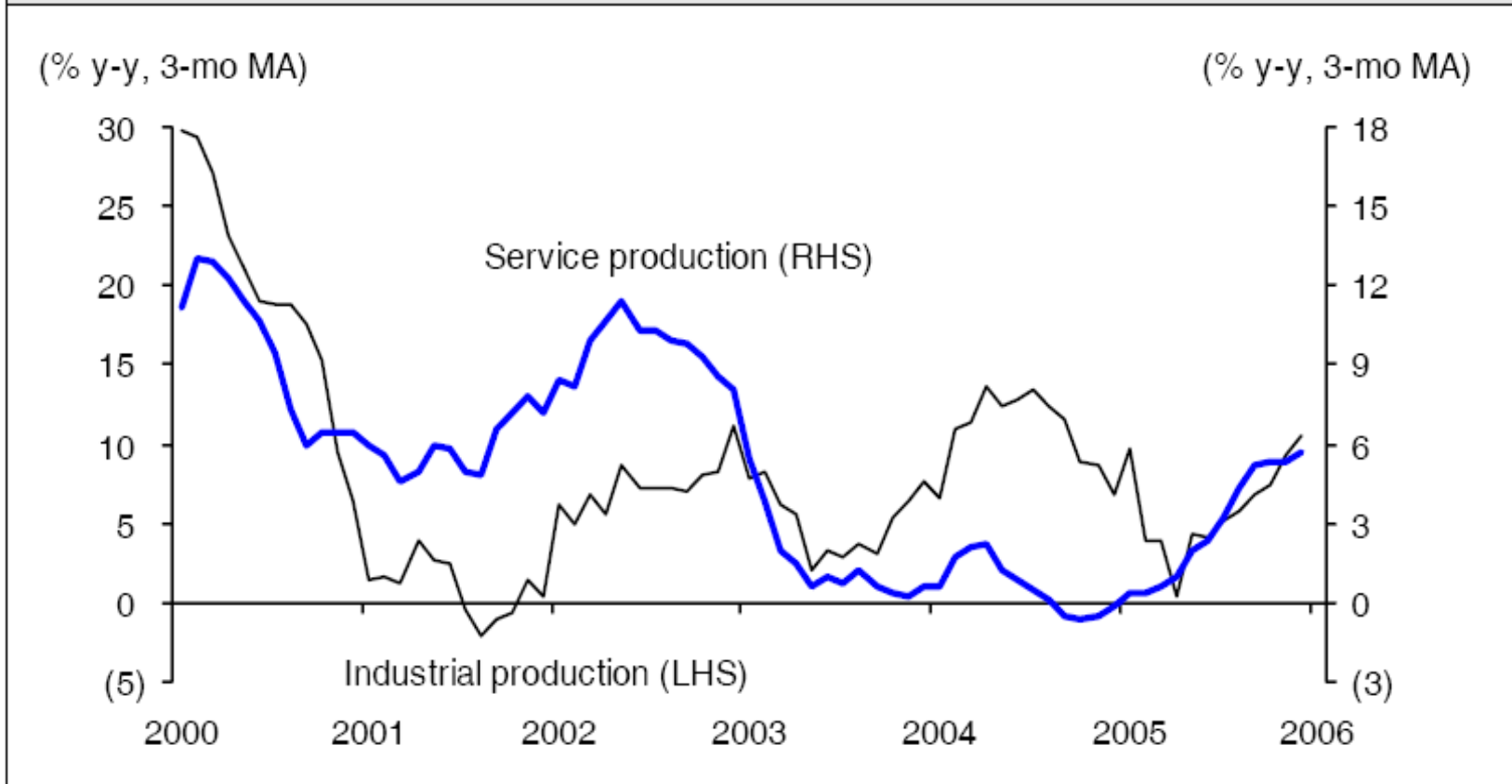


Close/Mid	
Last	12.8
High 01/31/06	12.8
Average	6.4
Low 02/28/05	0.3

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410  
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.  
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One year of accelerating growth for Industrial Production.

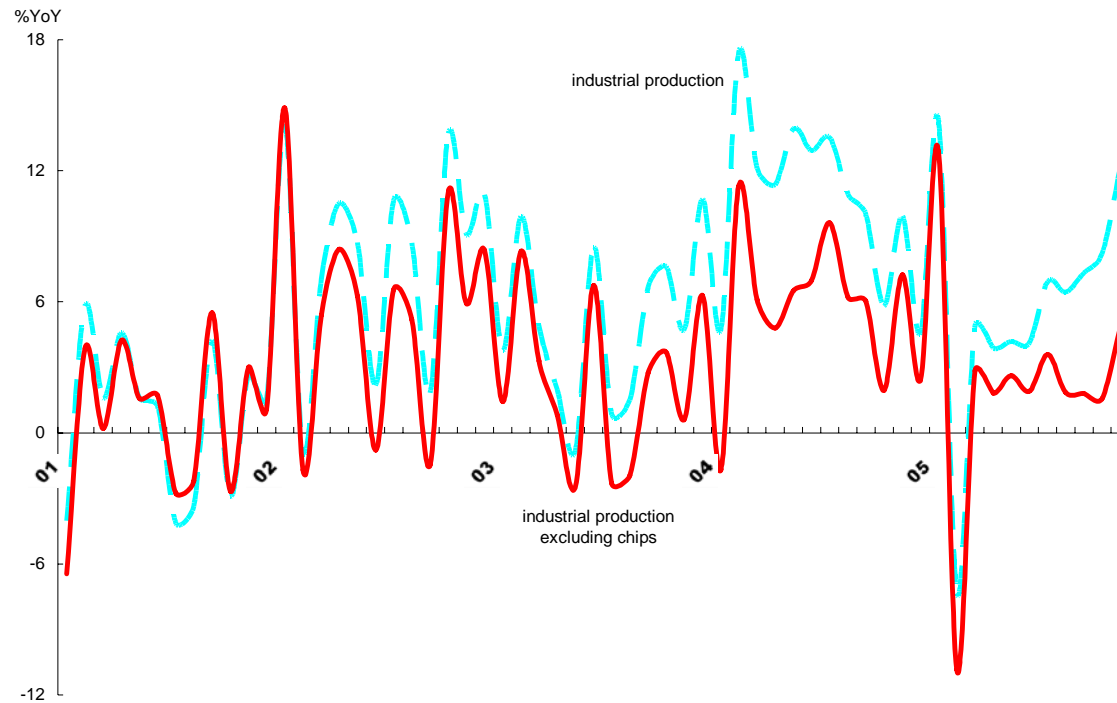
**Chart 12. Service production vs industrial production (growth comparison)**



Source: NSO

**Parallel growth in service and industrial production.**

# Surging chip output boosts industrial production

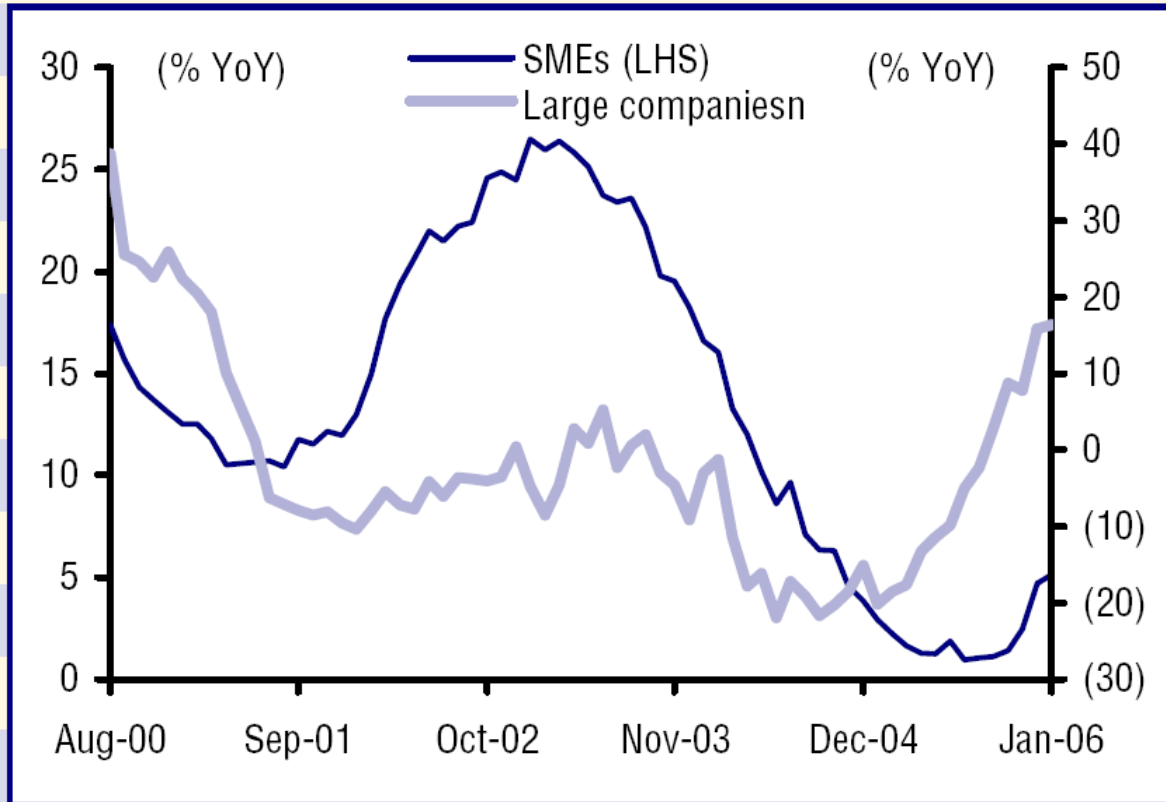


Source: National Statistics Office

IT production is key in this picture.

# MORE CREDIT - YES, PLEASE!

## Corporate credit growth by type



Source: CEIC



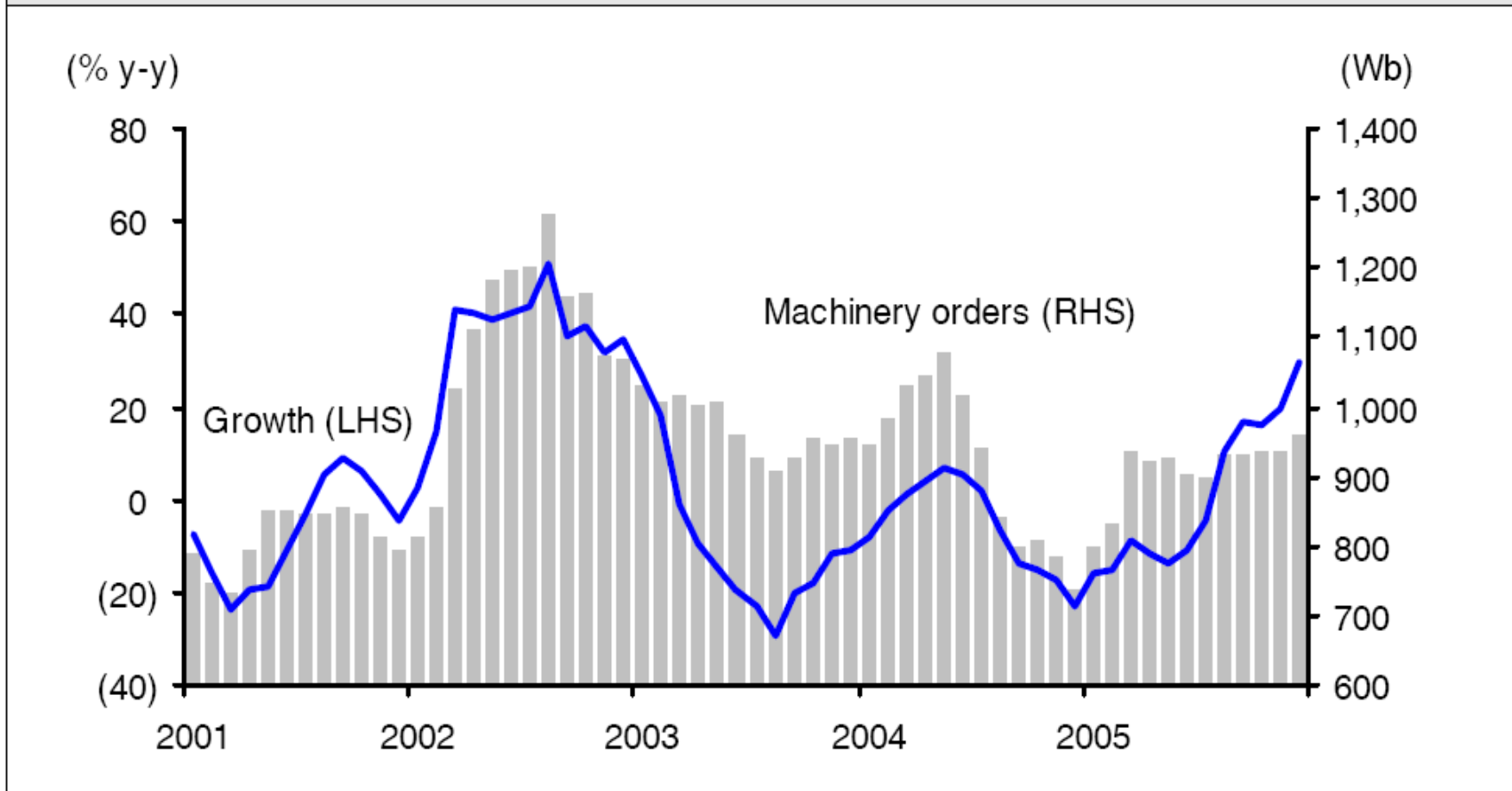
Lenders are providing corporates with liquidity for capex.



Source: CEIC, BOK, and Lehman Brothers.

Capex rising to highest growth rate in four years.

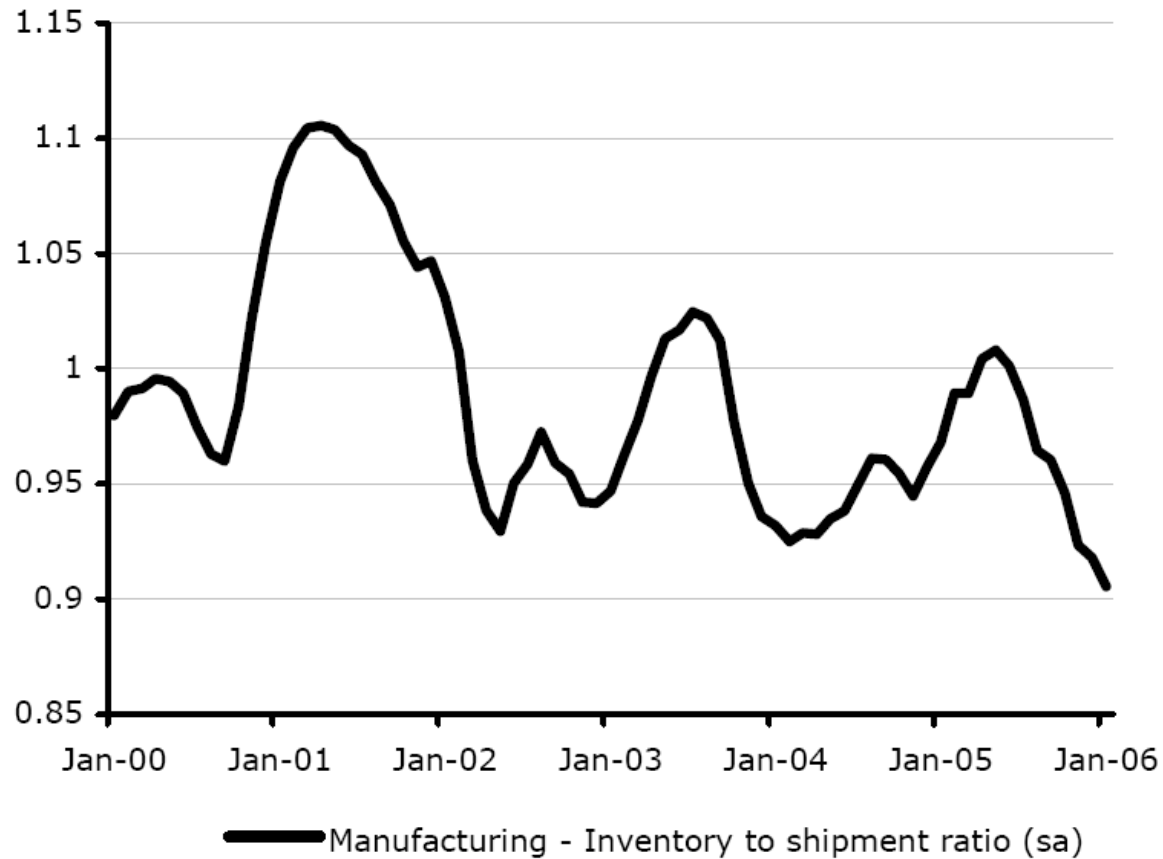
**Chart 5. Domestic private non-manufacturing machinery orders (3-mo MA)**



Source: NSO

**Good growth in machinery orders.**

**Chart 3 : Inventory-to-shipment ratio**



Source: ABN AMRO, CEIC

Extraordinarily low inventories build pent-up demand for economic expansion.

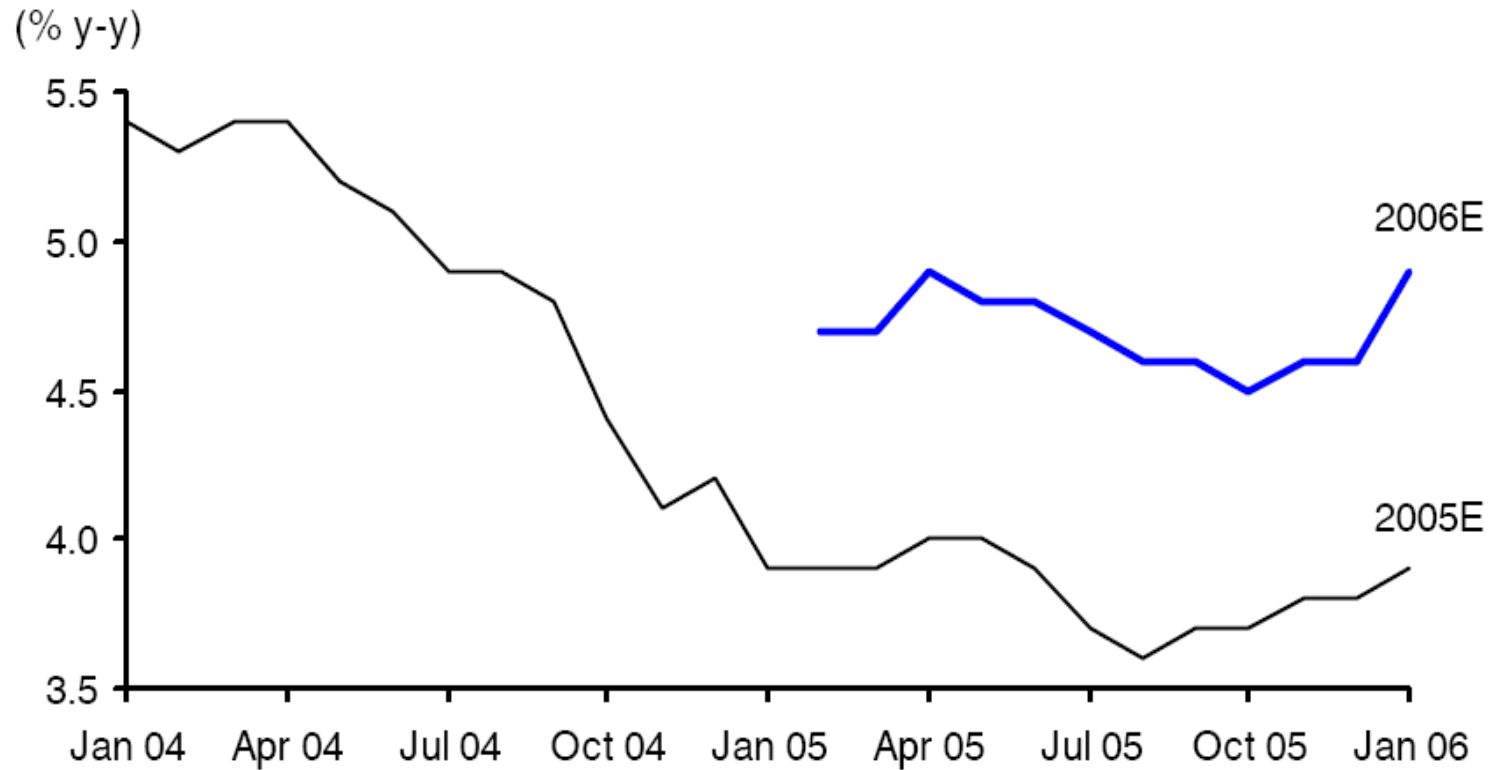
**Chart 4 : Korean capacity utilisation ratios**



Source: ABN AMRO, CEIC

**Across-the-board improvements in capacity utilization**

Chart 2. Korean GDP growth consensus

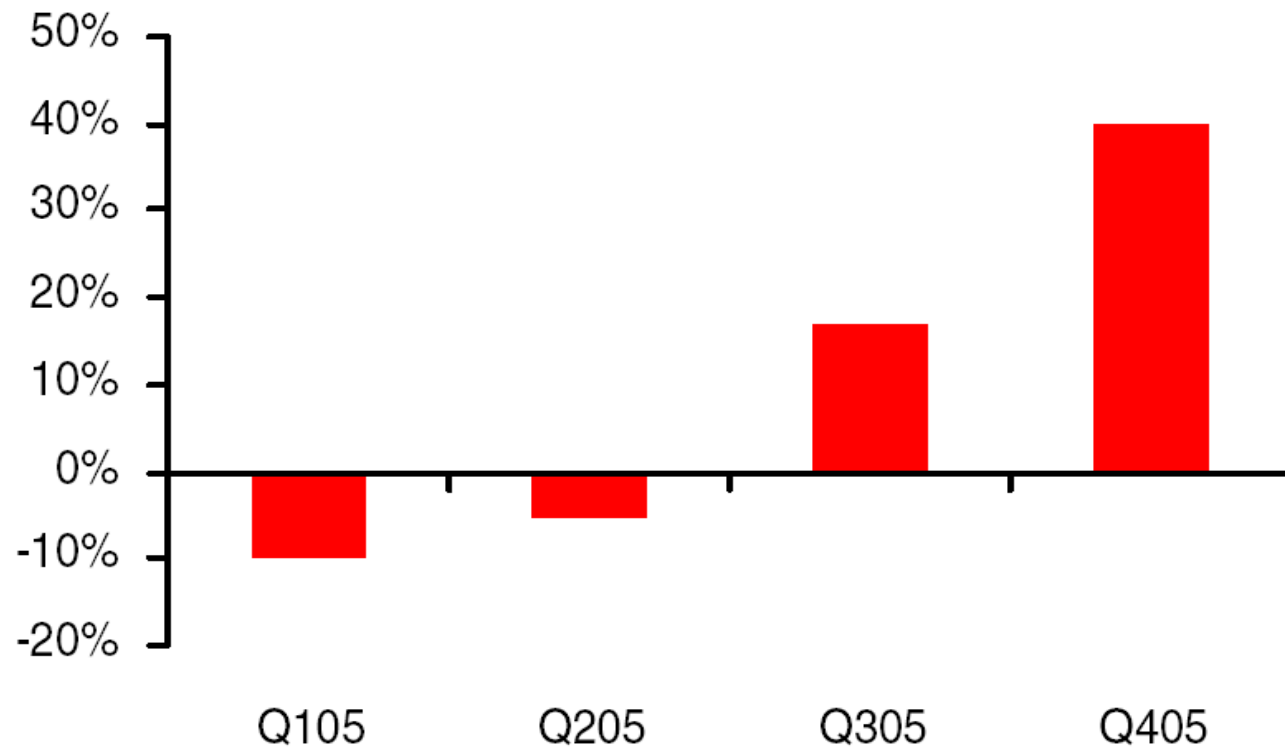


Source: Consensus Economics

Very recent jump in GDP forecasts for this year.

**STEADILY IMPROVING PROFITS  
FOR LISTED COMPANIES**

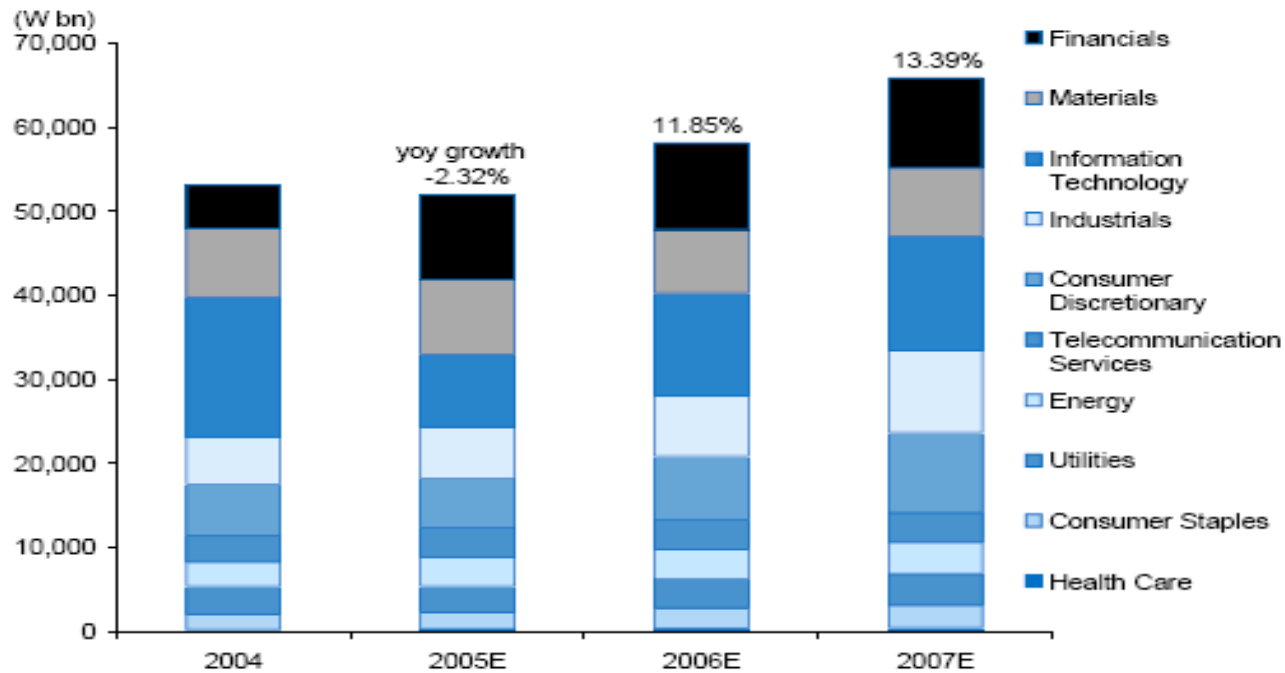
### 10. MSCI Korea y-o-y net profit growth by quarter



Source: HSBC, Bloomberg (Q4 based on results from 76% of universe)

Excellent trend in blue-chip EPS growth.

**Exhibit 8: 2006E net Profits expected to grow 12% yoy**  
**Breakdown of net profit by sector and % yoy**



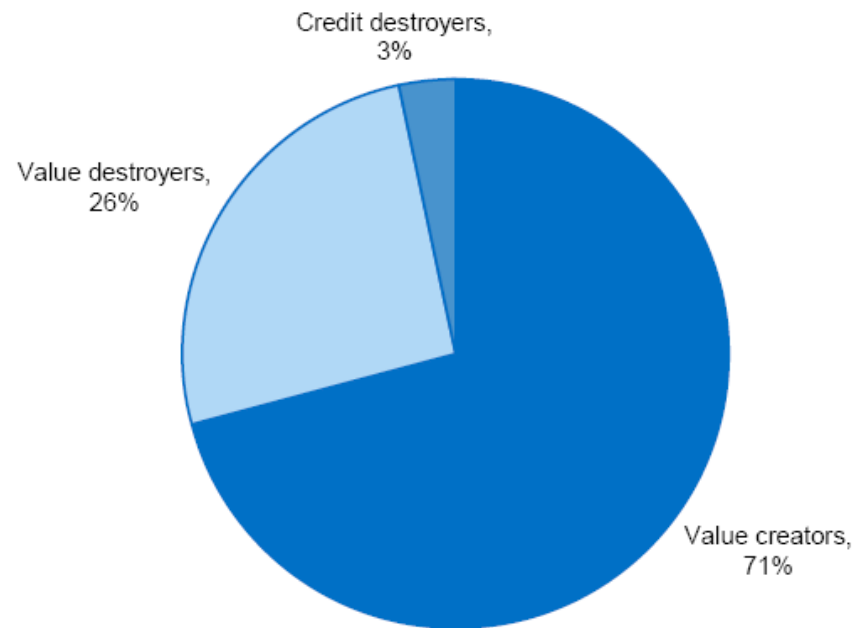
*Source: QuantiWise, I/B/E/S, MSCI, Goldman Sachs Research.*

Solid EPS growth expected both this year and next.

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**Exhibit 21: Value creators dominate as a share of market cap (end-2004)**

Breakdown by market capitalization

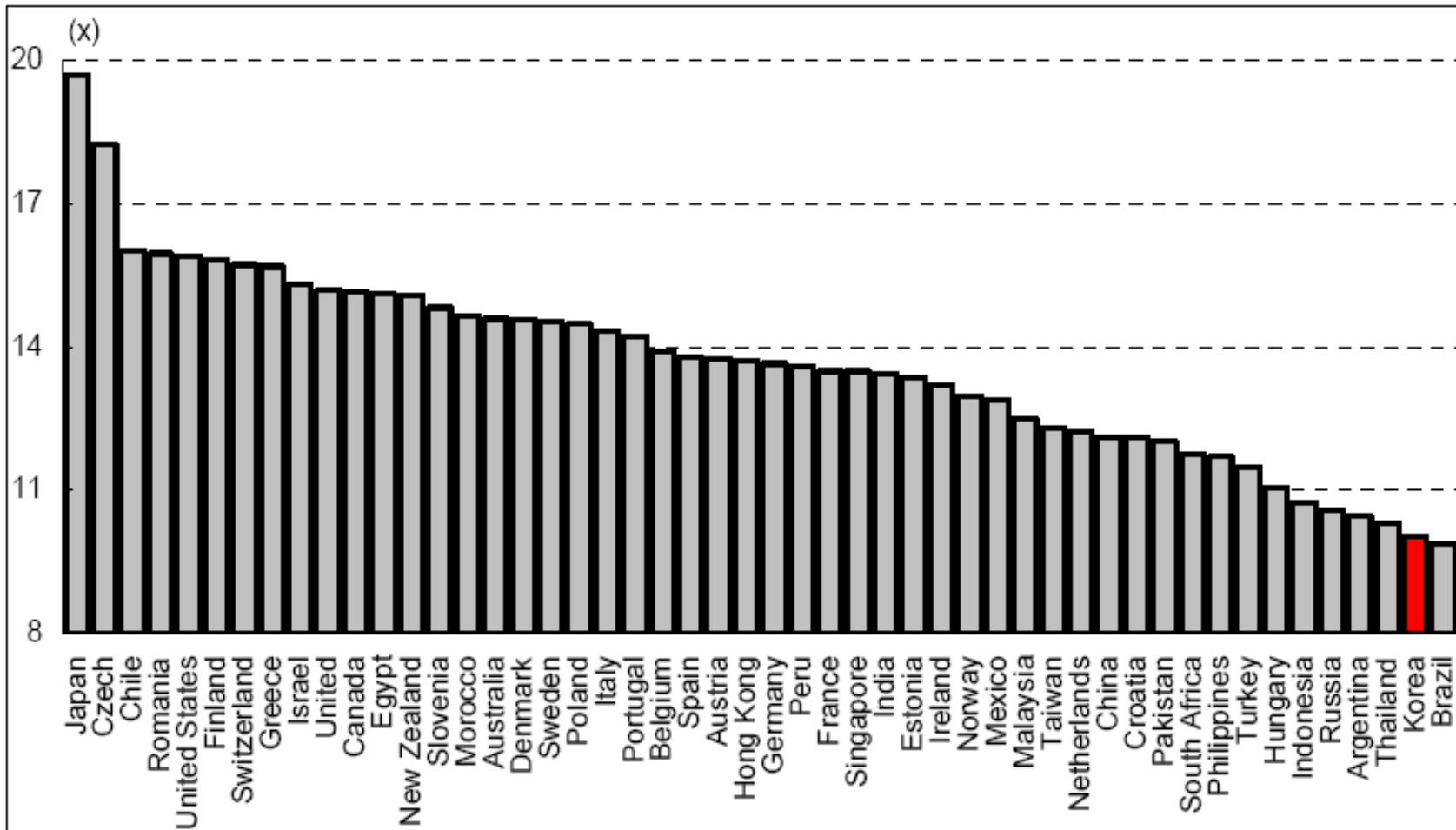


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*Source: QuantiWise, Goldman Sachs Research.*

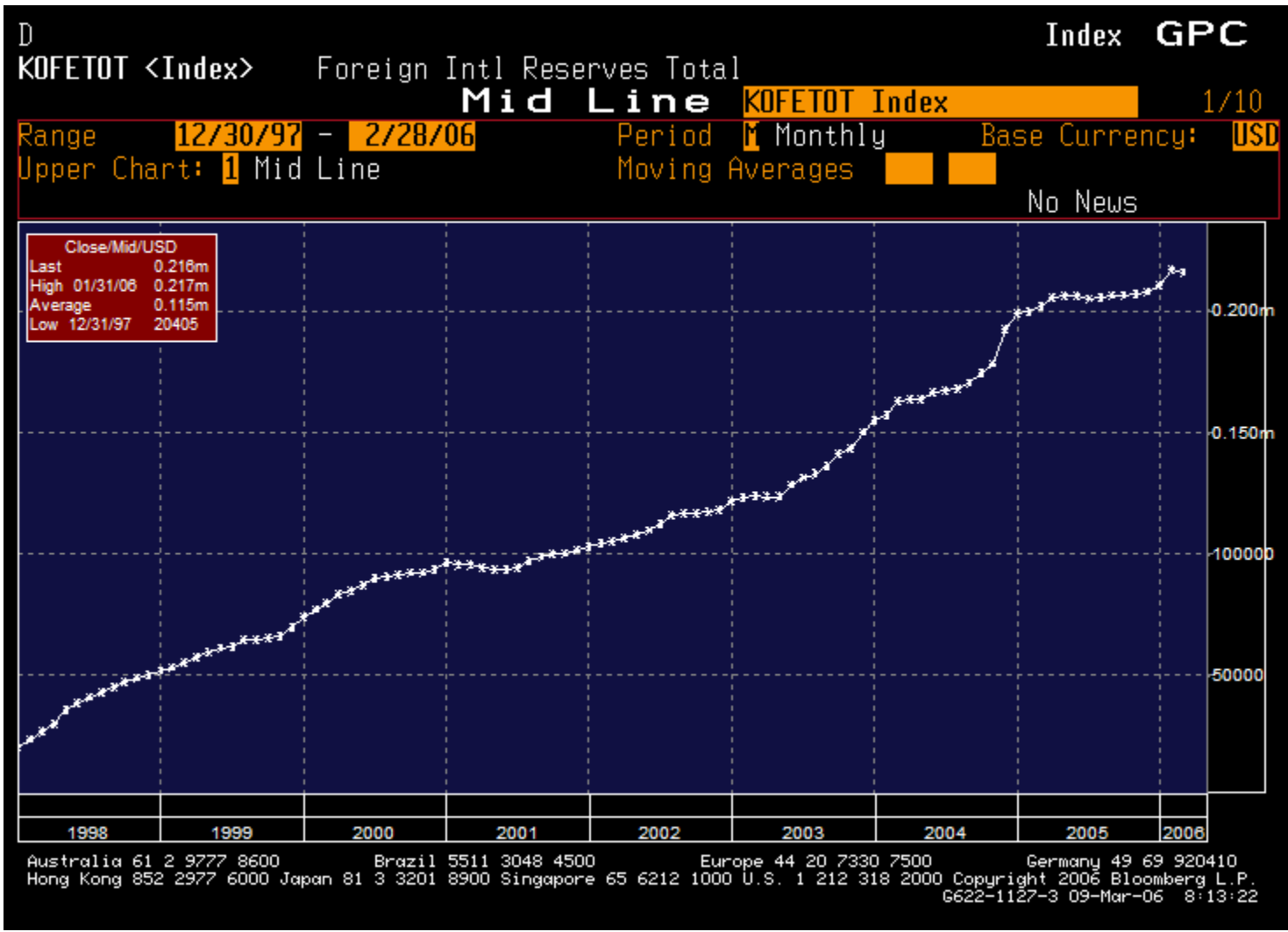
**Korea's history of value destruction is over.**

**Korean stock market still undervalued compared with other major stock markets**



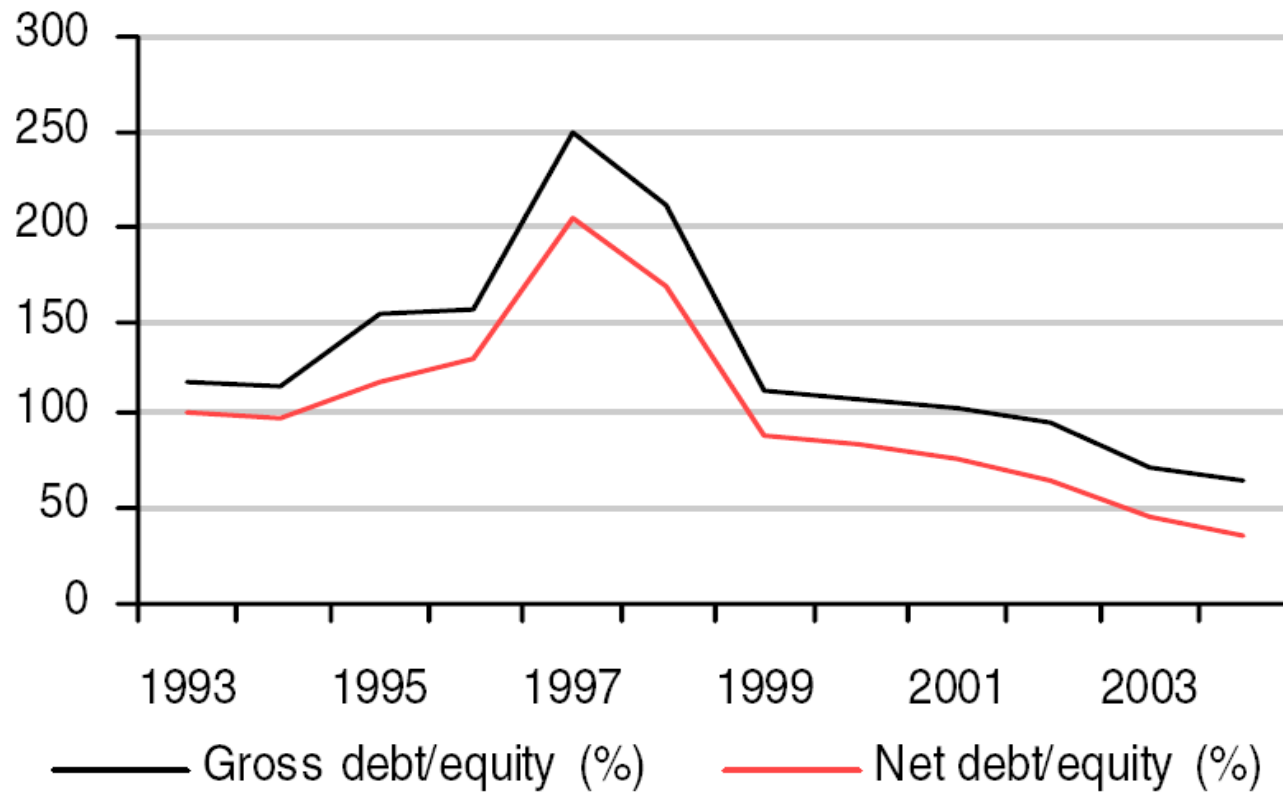
Market has risen, but EPS is rising just as fast – so Korea remains extremely cheap.

**BALANCE SHEETS ARE SOLID**



Fourth highest foreign reserves in the world.

### 23. Leverage of MSCI Korea companies

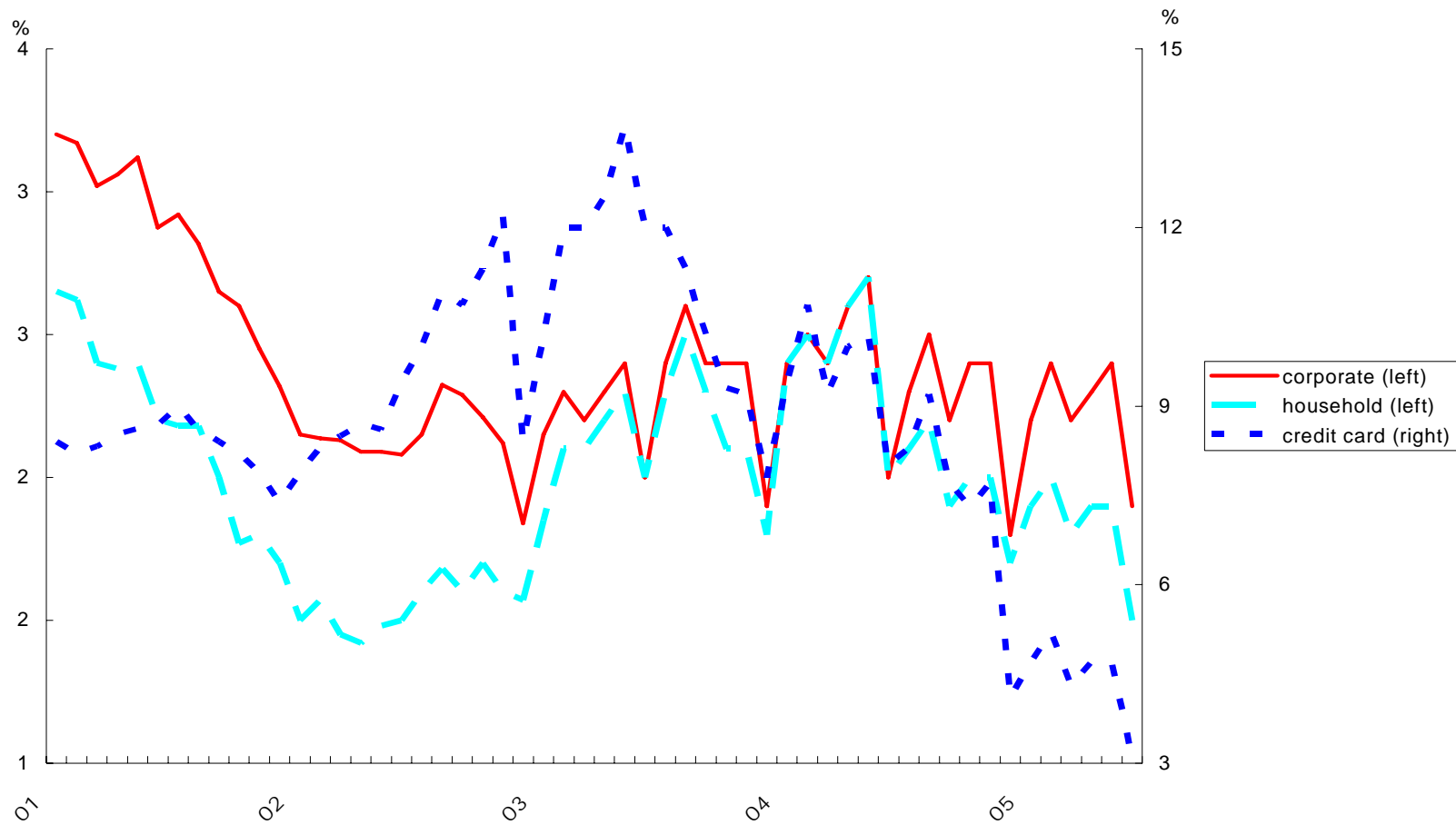


Source: HSBC

Year after year, corporate balance sheets are improving.

# Consumer delinquency rates remain low

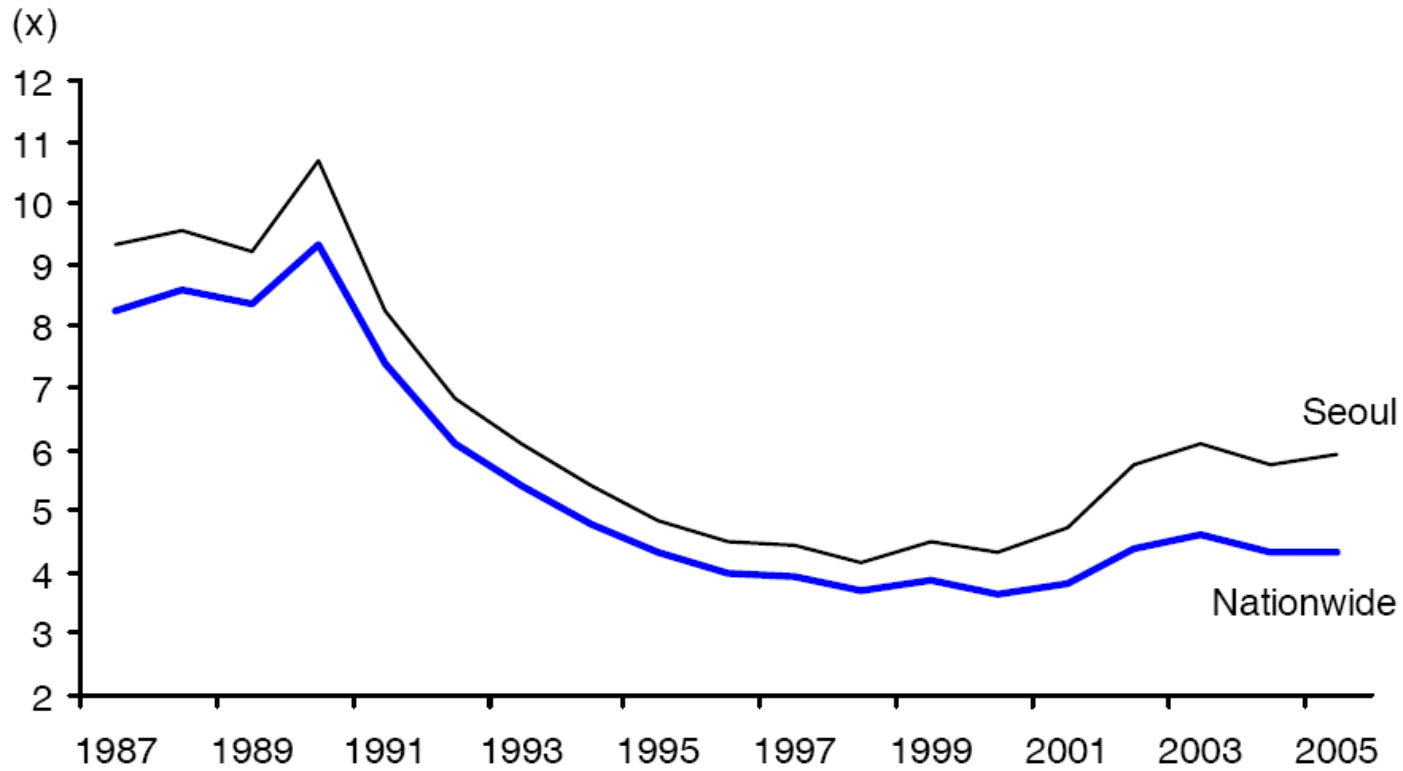
Overall bank delinquencies are falling



Sources: Bank of Korea, Bloomberg

Consumer delinquency rates remain low

Chart 28. Price-to-income ratio (PIR) for apartments



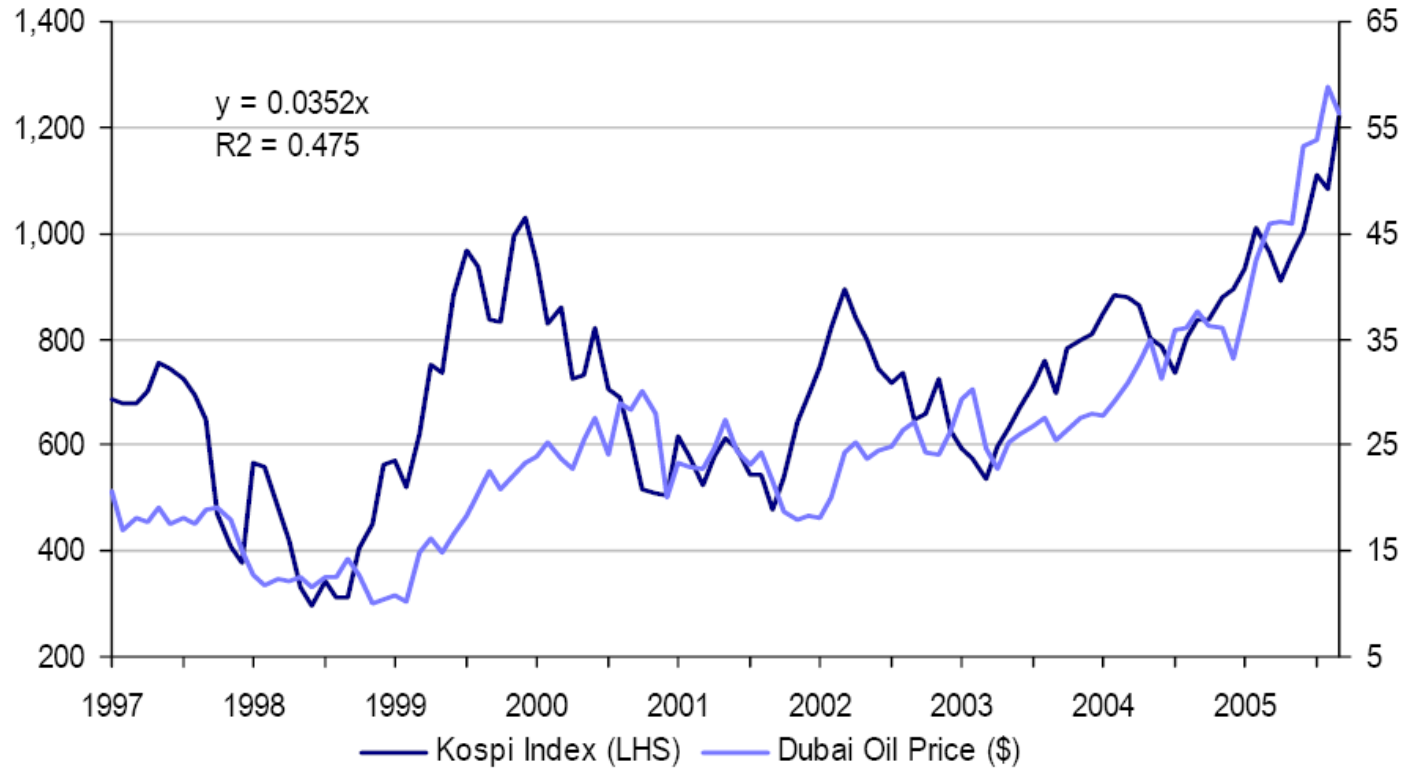
Note: Based on Kookmin Bank's apartment price index and Korea Housing Finance Corporation's PIR estimates

Source: KB, KHFC, NSO, Samsung Securities estimates

**Housing prices have little effect relative to household income.**

# **MARKET DRIVERS**

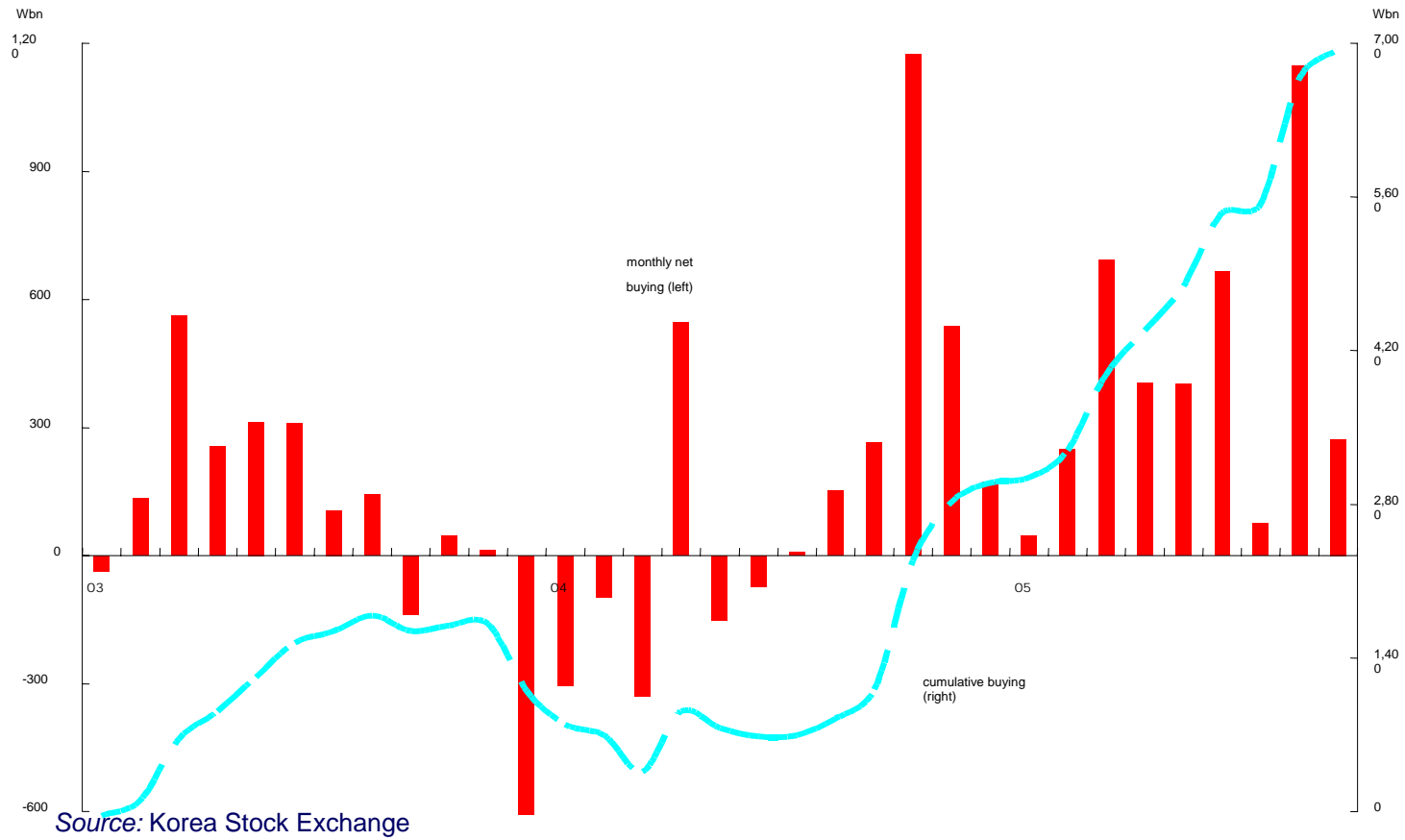
## Kospi vs. oil price



Source: KSE, Bloomberg

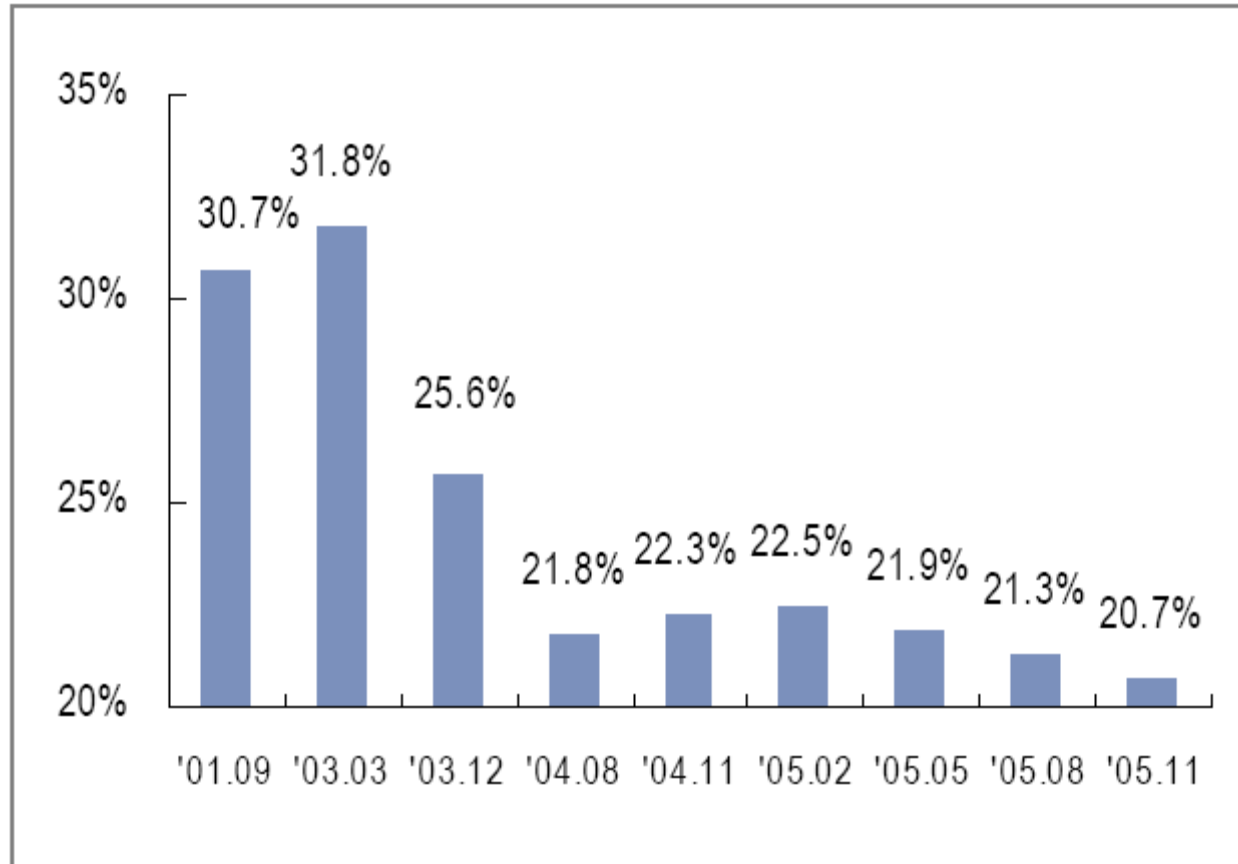
If anything, rising oil prices drive KOSPI up.

# Corporate buybacks explode



Foreign corporate raiders are driving panic buybacks.

## Free float rate for top 30 market cap stocks



Source: Woori I&S Research Center

**Stock scarcity creates strong support levels for blue chips.**