Hyundai to Hynix Top Asia Buying as HSBC Bullish: Korea Markets
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By Sharon Cho and Weiyi Lim

Aug. 28 (Bloomberg) -- South Korean stocks have gone from Asia's most-hated equities to the favorites of international investors after valuations fell to a six-year low versus global shares and exports rebounded.

Foreign money managers bought a net $1.04 billion of South Korean equities this month, the most among 10 Asian markets tracked by Bloomberg, following $7.2 billion of withdrawals this year through July. The nation's stocks trade at the same value as companies' net assets, versus 1.9 times for the MSCI All-Country World Index, the biggest discount since 2007. The benchmark Kospi index rose 5.9 percent from an 11-month low on June 25 through yesterday, paring its 2013 loss to 5.6 percent.

Hyundai Motor Co. and Kia Motors Corp., the nation's top carmakers, and SK Hynix Inc., the world's No. 2 computer-memory chipmaker, are attracting money as exports fuel the fastest economic growth in two years. Fund managers who help oversee $1.1 trillion at HSBC Global Asset Management, Aberdeen Asset Management, ABN Amro Private Banking and Edmond de Rothschild Asset Management all say they are bullish.

"We are turning more positive on the country overall on the extremely cheap valuation," said David Gaud, a Hong Kong-based senior money manager at Rothschild, which oversees about $157 billion. Korean shares may return 20 percent in the next six months, he said. "The global cycle overall should improve and Korea should be an interesting proxy."

'Very Rare'

The last time South Korean stocks were this inexpensive compared with global equities was January 2007, when the Kospi jumped 42 percent in six months and outperformed the MSCI All-Country index by 36 percentage points, monthly data compiled by Bloomberg show. The benchmark gauge for South Korea's $1.1 trillion market trades at an 18 percent discount versus its average price-to-book ratio of 1.2 during the past decade.

"It's very rare" for valuations to fall this low, said Bill Maldonado, the Asia-Pacific chief investment officer in Hong Kong for HSBC Global Asset Management, which oversees about $413 billion. "You've got a great opportunity there."

The Kospi index dropped less than 0.1 percent to 1,884.52 today, while the MSCI Asia Pacific Index declined 1.6 percent. Hyundai and Kia shares both gained at least 1.1 percent. Overseas money managers bought about $109 million of local equities today.

Foreign investors have added money to South Korean shares this month as they sold a combined $5.8 billion of stocks in nine other Asian markets tracked by Bloomberg. Thailand recorded $1.1 billion of outflows as data showed the economy contracted in the second quarter.

Stimulus Concern

South Korean exports increased 2.6 percent in July from a year earlier, following a 1 percent decline in the previous month, government figures show. Asia's fifth-largest economy grew 1.1 percent in the second quarter from the first three months, the fastest pace since 2011.

"It makes sense to buy Korea, especially companies that are export-oriented," said Daphne Roth, the Singapore-based head of Asian equity research at ABN Amro Private Banking, which oversees about $207 billion.

The economy may be vulnerable to a withdrawal of stimulus, said Lee Moo Kwang, a Singapore-based money manager at Truston Asset Management, which oversees about $9.5 billion.

The central bank has kept its benchmark interest rate at 2.5 percent, the lowest level since 2010, for the past three months. President Park Geun Hye's government obtained a 17.3 trillion won ($15.5 billion) extra budget in May.

Bond Risk

The U.S. Federal Reserve will begin paring its $85 billion of monthly bond purchases by next month, according to 65 percent of economists surveyed by Bloomberg from Aug. 9-13.

"We haven't bought Korean stocks recently," Lee said. "If we can find proof that the general economy can improve without further government stimulus, it will be a good signal to enter."

South Korea's bond risk is rising as household debt climbs to a record, growth in China slows and a weaker yen makes exporters less competitive versus Japanese rivals. The cost of insuring government debt from non-payment rose to a two-month high of 93 basis points on Aug. 21 and was at 84 basis points on Aug. 26, according to CMA prices.

The government's 10-year bond yield has climbed 49 basis points this year to 3.67 percent. While the won dropped 4.7 percent to 1,116.28 per dollar, it is up 7.4 percent against the yen.

Earnings Surprises

As the currency stabilizes and sales to the U.S. improve, profits will probably climb 16 percent this year and 15 percent in 2014, according to Chanik Park, the head of Korea equity research at Barclays Plc in Seoul. That compares with gains of 5.3 percent and 10.6 percent in the U.S. Standard & Poor's 500 Index, according to analyst estimates compiled by Bloomberg.

The "global growth environment is improving," said Bhaskar Laxminarayan, the chief investment officer at the Asian banking unit of Pictet & Cie., which oversees about $411 billion. "Korea stands out as the Asian country outside of Japan to have created significant global brands."

More than 60 percent of 163 companies tracked by LIG Investment & Securities Co. beat analysts' estimates for operating earnings in the second quarter, passing the 50 percent mark for the first time in 13 quarters, the brokerage wrote in an Aug. 21 report.

"We see above-average return potential in Korea, driven by earnings growth" and higher valuations, Richard Titherington, the chief investment officer for emerging markets equities at JPMorgan Asset Management, which oversees about $1.5 trillion, said in an e-mail interview.

Relative Value

Shares of Hyundai Motor, which gets about 57 percent of its sales outside South Korea, attracted a net 260 billion won of foreign purchases this month, the most among 762 stocks in the Kospi index tracked by Bloomberg.

The Seoul-based company is valued at 1.04 times net assets after shares climbed 8.9 percent this year. Kia Motors, which had 225 billion won of net buying, has a price-to-book ratio of 1.4 after increasing 13 percent. That compares with multiples of 1.8 for General Motors Co. and 3.4 for Ford Motor Co.

South Korean automakers are "very cheap compared to global peers," said Oh Sung Sik, the chief investment officer for Korean equities at Franklin Templeton Investments in Seoul.

SK Hynix lured 180 billion won of inflows, the data show. The Gyeonggi-based chipmaker, whose second-quarter profit topped analyst estimates, is valued at 6.2 times projected earnings for the next 12 months, versus an average of 12 times during the past three years, Bloomberg data show.

Samsung Electronics Co., the maker of smartphones and TVs that has the biggest weighting in the Kospi Index, attracted 148 billion won. The Suwon-based company's multiple reached a record low of 5.7 times earnings in July and was 6.2 yesterday, even after profits jumped 50 percent in the second quarter. The stock has dropped 14 percent this year.

"We have been adding Samsung Electronics," said Yoojeong

Oh, a money manager at Aberdeen Asset Management, which had about $318 billion under management as of June 30. “We felt it had been unfairly penalized.”

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