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SECTOR REVIEW

MONTHLY MORNING MEETING MAR 2010. PRESENTED BY iFAST FINANCIAL PTE LTD ©

NORTH ASIA

SOUTH KOREA – 4.5 STARS (VERY ATTRACTIVE)

- Korean Won (KRW) appreciated against USD by 0.78% YTD as of 23 Feb 10
- Bank of Korea (BOK) held rate at 2.0%
- The Consumer Price Index (CPI) grew 3.1% y-o-y in Jan 10, slower than the market consensus of 3.2%
- Unemployment rate soared to a 10-year high of 4.8% throughout Nov 09 to Jan 10
- Exports rebounded strongly at 47.1% y-o-y in Jan 10, the fastest pace in 20 years. Imports increased by 26.7% y-o-y in Jan 10

MARKET OUTLOOK

South Korean seasonally adjusted unemployment rate soared to a 10-year high of 4.8% in January 2010 from a revised 3.6% in December 2009. It was the highest level since February 2000. In terms of the number, the unemployed rose 43.4% year-on-year to 1.2 million. The jump was caused by the suspension of government-arranged offer of temporary jobs for the first two months of 2010. Besides, government's action to curtail bank lending in the property sector also reduced the employment in the construction sector. South Korean government has announced its plan to create more than 250,000 new positions last month as compared to its previous target of 200,000. In addition, the government is planning to provide allowances and tax incentives for unemployed people hired by small companies. We believe that unemployment rate is a lagging indicator and the jump in the data does not mean a reversal of recovery momentum.

However, due to rising unemployment, the timing of the rate hike may be later than our earlier forecast (first half of 2010). The Bank of Korea (BoK) kept benchmark interest rate unchanged at 2% for a 12th straight months in February 2010. The bank hinted that they will not raise rate in the short term, but will adjust the monetary policy if they feel that the economic recovery is sustainable and external financial and economic conditions continue to improve.

On corporate front, the combined earnings of South Korean banks were 1.5 trillion won in 4Q 2009 as compared to a loss of 0.4 trillion won a year earlier. However, on quarterly basis, the earnings dropped 48% from 2.9 trillion won in the third quarter. Domestic banks' net interest margin shrank 0.33% year-on-year to 1.98% in 2009. Thus, interest income dropped 2.8% in the year. After aggressive bad loan write-offs, we believe the worst has passed for the banking sector. We expect to see earnings rebound and improvement in profitability in the sector.

According to the market consensus, as at 25 February 2010, the earnings growth in 2010 and 2011 is estimated to increase by 43.4% and 12.3% respectively. Estimated PE ratio for the market is at 10.1X and 9.0X for 2010 and 2011 respectively. As valuation for South Korea market is attractive compared with other countries, we maintain South Korea market to a very attractive rating of 4.5 stars.

**RECOMMENDED FUNDS:
LIONGLOBAL KOREA FUND**