



M3 STAR RATINGS REVIEW

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

SOUTH KOREA (4.5 STARS – VERY ATTRACTIVE)

1. The earnings growth in 2010 and 2011 is estimated to increase by 52.2% and 8.8%. The estimated PE for 2010 and 2011 are 10.2X and 9.4X respectively (as at 29 Jun 10). Hence, we maintain the Korean market an very attractive rating of 4.5 stars.
2. South Korean economy expanded 2.1% in the 1Q 10, faster than the previous estimate of 1.8% growth. The better-than-anticipated GDP growth was underpinned by exports, investment and consumption.
3. The Bank of Korea (BoK) has already raised the country's GDP growth in 2010 to 5.2% in Apr 10 from a Dec 09 forecast of 4.6%. The Korean government is even more bullish and revised upward its growth outlook for 2010 to 5.8% in Jun 10 from its earlier forecast of 5%.
4. The Bank of Korea (BOK) held its benchmark interest rate at record low of 2% in the 1Q 10. The better-than-expected industrial production and export figures will put some pressure on the central banks' decision to raise interest rate. However, Vice Finance Minister Yim Jong Yong said the economy is not stable enough to warrant higher rates.
5. Seasonally adjusted unemployment rate fell to 3.2% in May 10 from 3.7% in Apr 10. It was the lowest level since Jul 08.
6. Export, which accounted for over 60% of Korean GDP, increased 40.5% y-o-y in May 10, the seventh consecutive months of increase. The government expects exports to rise 13.2% in 2010 and trade surplus rise to 20 billion won.
7. On 13 Jun 2010, the Korean government announced a new FX regulation called "macro-prudential measures" to ease the volatility of capital flows. As its name implies, the measure (which will be implemented in July) will help to reduce the volatility of capital flow and tighten rules on foreign exchange transactions.
8. According to the International Monetary Fund (IMF), Korea's fiscal balance is expected to become one of the healthiest among advanced economies in the coming years. The country's debt-to-GDP ratio will stand at 26.2% in 2015, the third lowest among the 28 industrialised economies.
9. Increasing tensions on the Korean peninsula together with worsening sovereign debt crisis in Europe resulted in a massive capital outflow and selling by foreign investors. In the 2Q 10, KRW fell 8% against USD. KRW depreciated against USD by 5.8% YTD as at 29 Jun 10.
10. Over the next three years, we believe Korean economy will expand steadily. We also expect a strong rebound in corporate earnings in 2010 to 2011. Therefore, we maintain the Korean market an very attractive rating of 4.5 stars.