



Korea as indirect China play

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China has been focused upon as an exciting destination with attractive growth potential - especially when considering the urbanization story and consumption from the large population. On the other hand, Korea has been viewed less so, it's image of being a saturated market is perceived as offering little growth potential.

However, I would like to remind you that Korea is actually a leveraged market to China's growth. There are more specific stock names in this theme (some notable names are mentioned later in this article), but to begin with, total export data suggests that Korea as a whole could be considered an indirect China play (exports include final product, but also intermediate goods to be reprocessed in China which will in turn be re-exported to other destinations). In addition, from China's import perspective, Korea is placed as the second largest country of origin with the first being Japan.

Given that many Korean companies (including major corporates like Samsung Electronics and Hyundai Motor) have China manufacturing subsidiaries, Korea's exposure to the China market is, in fact, bigger than what one may first think.

I believe that it is the right time to look at the Korean market again from this angle.

Laid out below are more details on Korea's exports and China's imports, and some brief explanations on individual companies' exposure to the China market.

Trading partner

Korea's 2009 (full year) exports were down 13.9% to \$363.5bn from \$422.0bn in 2008.

A decline in exports to China was less, down 5.1% in 2009, and China has remained the biggest export market for Korea accounting for 23.9% of total exports in 2009, rising from 21.7% in 2008. EU took up 12.8% followed by ASEAN 11.3%, US 10.4% and Japan 6.0%.

Korea Export by major region

USD mn	2002	2003	2004	2005	2006	2007	2008	2009
Total	162,471	193,817	253,845	284,419	325,465	371,489	422,007	363,534
China	23,754	35,110	49,763	61,915	69,459	81,985	91,389	86,703
US	32,780	34,219	42,849	41,343	43,184	45,766	46,377	37,650
EU	21,694	24,887	37,830	43,659	48,450	55,982	58,375	46,608
Japan	15,143	17,276	21,701	24,027	26,534	26,370	28,252	21,771
ASEAN	18,400	20,253	24,024	27,432	32,066	38,749	49,283	40,979
Portion								
China	14.6%	18.1%	19.6%	21.8%	21.3%	22.1%	21.7%	23.9%
US	20.2%	17.7%	16.9%	14.5%	13.3%	12.3%	11.0%	10.4%
EU	13.4%	12.8%	14.9%	15.4%	14.9%	15.1%	13.8%	12.8%
Japan	9.3%	8.9%	8.5%	8.4%	8.2%	7.1%	6.7%	6.0%
ASEAN	11.3%	10.4%	9.5%	9.6%	9.9%	10.4%	11.7%	11.3%

FOB based, Source: Ministry of Knowledge Economy (MKE) and Korea International Trade Association (kita.net)

More specifically, Korea's 13 main export products are detailed below (The Ministry of Knowledge Economy summarises monthly data for these 13 products in their press release).

Korea Export by 13 main products

USD mn	Korea Exports			To China		China portion		
	2008	2009	YoY	2008	2009	2008	2009	
Ships	43,157	45,128	4.6%	1,684	1,536	3.9%	3.4%	
Semiconductor	32,793	31,042	-5.3%	8,729	9,189	26.6%	29.6%	No1
Wireless telecom equipment	35,713	30,986	-13.2%	6,484	6,212	18.2%	20.0%	
Petrochemicals	32,124	27,466	-14.5%	14,908	14,144	46.4%	51.5%	No1
General machinery	37,298	26,850	-28.0%	10,652	6,959	28.6%	25.9%	No1
Auto	35,032	25,411	-27.5%	954	886	2.7%	3.5%	
LCD Device	18,245	23,431	28.4%	6,819	12,707	37.4%	54.2%	No1
Steel product	29,865	23,029	-22.9%	4,406	4,518	14.8%	19.6%	No1
Oil product	37,573	22,965	-38.9%	8,517	4,657	22.7%	20.3%	No1
Auto parts	13,950	11,710	-16.1%	1,945	2,662	13.9%	22.7%	No1
Textiles	13,317	11,634	-12.6%	2,623	2,278	19.7%	19.6%	No1
Home appliance	12,896	10,058	-22.0%	2,081	1,320	16.1%	13.1%	
Computer	10,697	8,013	-25.1%	4,148	2,482	38.8%	31.0%	No1

Source: MKE and Korea International Trade Association (kita.net)

China has been the number one destination for most major products, especially for LCD devices and petrochemicals. For 2009 in particular, China's IT subsidy plan for rural areas has helped support a significant increase in Korea's LCD device exports. As you can see below, LG Display has a large market share within local LCD TV set makers. Also for petrochemical, China's overall stimulus package boosted the demand (China's supply coming in but still not at full self sufficiency rates), so Korean petrochemical benefited and was also helped by KRW weakness and close location to China.

China imports by main region

USD mn	2002	2003	2004	2005	2006	2007	2008	2009
Total	295,303	413,095	560,813	660,222	791,797	956,261	1,131,844	1,003,893
EU	38,552	53,120	69,179	73,549	90,352	111,041	132,886	127,897
US	27,228	33,883	44,653	48,735	59,223	69,861	81,498	77,461
Japan	53,489	74,204	94,192	100,468	115,811	133,903	150,808	130,928
ASEAN	31,193	47,350	62,955	75,017	89,538	108,381	117,012	106,322
Korea	28,581	43,161	62,166	76,874	89,818	104,045	112,175	102,501
Taiwan	38,082	49,364	64,760	74,655	87,141	100,986	103,330	85,707
Portion								
EU	13.1%	12.9%	12.3%	11.1%	11.4%	11.6%	11.7%	12.7%
US	9.2%	8.2%	8.0%	7.4%	7.5%	7.3%	7.2%	7.7%
Japan	18.1%	18.0%	16.8%	15.2%	14.6%	14.0%	13.3%	13.0%
ASEAN	10.6%	11.5%	11.2%	11.4%	11.3%	11.3%	10.3%	10.6%
Korea	9.7%	10.4%	11.1%	11.6%	11.3%	10.9%	9.9%	10.2%
Taiwan	12.9%	11.9%	11.5%	11.3%	11.0%	10.6%	9.1%	8.5%

CIF Based, Source: CEIC, BoAML



Looking at China import data, Korea is the fourth biggest region and the second biggest partner as a single country, accounting for 10.2% in 2009. The Korean portion has been relatively stable. Japan remains in the number one position, though falling.

(Korea export to China and Korea numbers within China import are different and I believe the reason is that export is booked in FOB terms, while import in CIF terms).

Corporate exposure

Some notable companies are presented below.

IT

Samsung Electronics (SEC) – One of the world's biggest electronics companies which also has a significant position in China. 16% of 2008 consolidated revenues came from China. From the market data available, SEC's LCD TV market share in China was 4.5% in 3Q09 (LCD TV market share source: Display Search, CLSA), the number 7 position following the top 6 local makers. Handset market share in China was 18.5% as at 3Q09 (handset market share source: Strategy Analytics, CLSA), the second largest following Nokia's 37.4%.

LG Display – c. 55% of LG Display's consolidated revenues are generated from TV panels and within this 55%, 15% is from the China market. The China LCD TV market is dominated by local set makers and LG display's market share within major local TV players is relatively high. LG Display has nearly 40% market share (source: Mirae Asset Securities) in Skyworth, the number 1 set maker with a 19.4% market share in 3Q09. For other local set makers like Hisense (15.7% market share, number 3), Konka (11.8% market share, number 4), Changhong (10.2% market share, number 5), LG Display is said to have above mid teens market share. LG Electronics, one of the largest customers of LG Display, also has a 3.9% market share in the LCD TV market in China. The company has two module plants in China and plans to build an 8G plant (joint venture) in Ghangzhou, targeting the mass production from 2H2012. Given the growth of the LCD TV market in China (+119% YoY and +48% QoQ in 3Q09) and its exposure to top market share gainers, LG Display's exposure is likely to rise.

Consumer

Orion (confectionary) – manufacturing facilities in Beijing, Shanghai and Guangzhou. China local sales for the first 9 months of 2009 were W315bn, 36% of Orion's total confectionary sales. The revenue from China is expected to be more than W400bn in 2009. c.30% CAGR is expected in the China market by 2012.

Amorepacific (cosmetics) – Two brands, Mamonde and Laneige are currently sold in China. Mamonde is manufactured in China and Laneige is exported from Korea. A premium brand, Sulwhasoo is to be launched in 2H2010, exported from Korea. China sales are likely to exceed W100bn in 2009, and the company targets 20% of total company sales (W3.7tr) from China by 2015.

CJO Shopping (home shopping) – CJOS has exposure to China through a 30% owned subsidiary, Dongbang CJ, a joint venture with Shanghai Media Group. The subsidiary shows successful penetration in China's home shopping market. Its broadcasting hours have risen and coverage includes Shanghai, Shandong, Nanjing and Hangzhou. 24 hour broadcasting is likely in Shanghai from the current 15 hours of broadcasting. So there should be more gains in 2010. Dongbang CJ booked W302bn gross sales for the first 9 months of 2009 vs. W1.2tr of gross sales in Korea.

Auto

Hyundai Motor Company (HMC) – The company sold 3.3mn cars globally in 2009, of which 18% was sold in China (598K cars, +78% YoY). Though strong sales volume was partially driven by a subsidy for small cars (below 1.6litres), HMC is gaining a market share in the China market, expecting to be c. 7% for 2009 vs. 5.5% in 2008. HMC has two plants in Beijing as a 50: 50 joint venture structure with full capacity of 600K cars. The market is expecting HMC to build the third plant (possibly 300K cars) in Beijing.

Kia Motor under the Hyundai Motor Group also has a manufacturing facility in China, with production capacity of c. 280K in 2009 (max capacity of 430K). A total of 1.65mn cars were sold globally in 2009 with China sales volume accounting for 15% (241K, +70% YoY). Market share is estimated to be c. 3% in 2009.

HMC and KIA together will target more than 1mn sales in China in 2010.

Hankook Tire – China accounts for 14.9% of total 2008 consolidated revenues (replacement market of 10.3% and OE of 4.6%). Hankook Tire has two plants in China with capacity of 27.7mn units, 36% of the company's total production capacity (77.1mn units). Local sales from China's capacity is c. 65% in units and a little higher in value terms. The number 1 in market share (c.14% in 2008) in the China passenger car (replacement) market.

Looking beyond the surface

The Korean market may look less exciting on the surface from a growth point of view, but it is actually growing much more than it seems. With significant exposure to a growing market (China), I believe that Korea deserves a second thought.