

Securities

News Comment
February 21, 2014

Daewoo Securities Co., Ltd.

[Securities/Insurance]

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Kiwoom Securities

(039490 KS/Buy)

Woori Asset Management acquisition signals return to low-risk business model

- Kiwoom acquires Woori Asset Management for W75.5bn (W10bn premium)
- In our view, the deal is a good way to leverage the company's excess capital
- Acquisition signals a move away from previous ventures (savings bank and ELS) and back to a low-risk business model
- Maintain Buy and TP of W80,000; Our top pick in securities

Kiwoom announces acquisition of Woori Asset Management

Yesterday, Kiwoom Securities announced that it had reached a deal to acquire a 100% stake in Woori Asset Management for W75.5bn (W10bn premium to Woori's equity capital of W64.5bn).

The purchase price was lower than previously expected. We think the acquisition premium is reasonable and reflects the sluggish industry conditions.

The deal will be finalized once the Financial Services Commission (FSC) approves Kiwoom's eligibility as a majority shareholder, a process that usually takes five to six weeks.

A good way to leverage excess capital

The acquisition price is equivalent to 8% of Kiwoom's equity capital. Currently, the brokerage firm's excess capital stands at 20%, more than enough to cover margin loans.

With margin lending unlikely to rise sharply for the time being, we believe the company was exploring ways to leverage its surplus capital that would be as profitable as margin lending (with equally low risks).

Given that Woori Asset Management has W23tr in assets under management (W8.7tr in fixed income, W7.6tr in money markets, and W2tr in equities), we do not expect any major fluctuations in the asset manager's operating revenue.

If Kiwoom follows up with cost cutting measures and higher operational efficiency, we expect ROE to improve.

Acquisition signals return to low-risk business model

In our view, firms that can steadily expand capital while managing risks are the best investments among financial stocks. Indeed, securities exchanges and asset managers based on such profit models enjoy high valuation premiums.

Kiwoom's traditional profit model also fits this profile. Due to its lack of customer asset management operations, the firm is not vulnerable to market risks and interest rate risks. Its lending services are also nearly risk-free, and credit regulations remove any risks related to excessive leverage. Furthermore, Kiwoom's online platform insulates the firm from the typical operational issues that face most financials, such as conflicts of interest with customers and financial incidents.

In the past several years, however, the firm had started to veer away from its traditional business model, acquiring a savings bank and trading equity-linked securities (ELS) on its own account. Such ventures exposed the company to financial losses as well as earnings volatility.

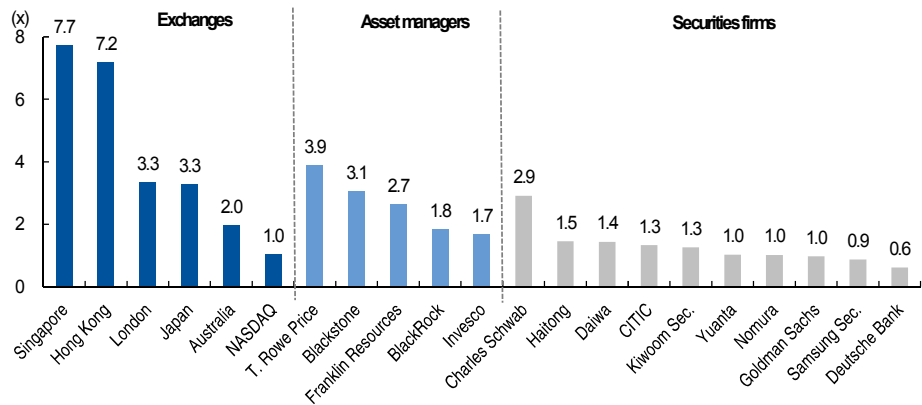
After several missteps, the latest acquisition suggests that Kiwoom is returning to its low-risk profit model. Theoretically, the asset management business involves some of the lowest costs in the financial industry but generates some of the strongest leverage effects during market upturns. Therefore, although the market is crowded, we believe a high valuation premium will be called for once economies of scale are achieved.

In 2014, we believe Kiwoom can capitalize on several opportunities to enhance profitability with limited risk, such as: 1) stock lending services, 2) diversification into asset management, and 3) the potential extension of trading hours.

In our view, it is still too early to reflect these positives in our earnings estimates. However, if they materialize, this would mark a major turning point in the firm's profits and share performance.

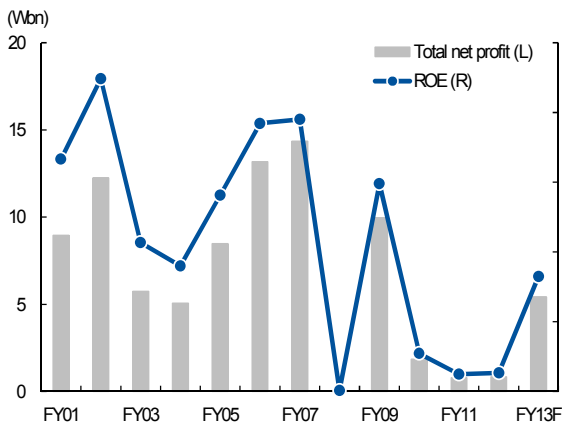
We retain our Buy rating and target price of W80,000 and continue to recommend the stock as one of our top picks in the sector. (For more details, see our January 28th report "New opportunities for higher profitability").

Figure 1. Valuation levels are differentiated by extent of risk exposure: Exchanges → asset managers → securities firms



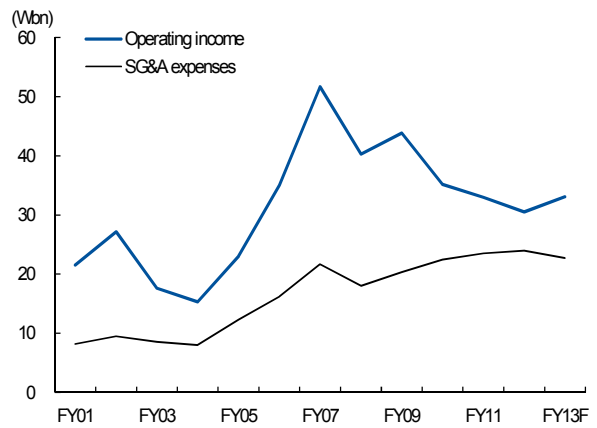
Source: KDB Daewoo Securities Research

Figure 2. Woori Asset Management: Net profit & ROE trends



Notes: FY13F net profit represents an annualized figure
Source: FSS, KDB Daewoo Securities Research

Figure 3. Woori Asset Management: Operating income & SG&A trends



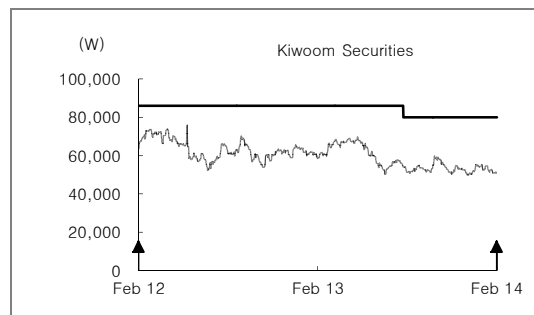
Notes: FY13F operating income represents an annualized figure
Source: FSS, KDB Daewoo Securities Research

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Kiwoom Securities (039490)	08/15/2013	Buy	80,000
	02/22/2012	Buy	86,000
	02/20/2012	Buy	79,000



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Daewoo Securities, we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

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