

Holding Companies

Stocks look set for rebound on easing uncertainties

Holding company stocks look set for rebound on easing policy uncertainties

Holding company stocks rallied following last year's presidential elections, as they were viewed as the biggest beneficiaries of the ownership restructuring theme prompted by the introduction of the stewardship code and promotion of minority shareholder rights. This year, however, holding company stocks have come under pressure, reversing all of their gains since the beginning of the year (versus -6.3% for the stock market as a whole), and in some cases losing more than the decline in the value of their listed subsidiary stakes, with discounts reaching historic levels.

In our view, the steep undervaluation of holding company stocks is due to uncertainties surrounding policy changes affecting holding companies. We think such uncertainties will dissipate in 2H18, when revisions to the Monopoly Regulation and Fair Trade Act (MRFTA), which governs overall regulations regarding holding companies, will likely be finalized. In fact, we think most of the uncertainties have already been addressed, after the key agendas discussed by the special committee for the MRFTA overhaul were disclosed in early July. Indeed, many holding company stocks have begun showing signs of a rebound.

FTC's policy stance revealed in special committee's seven key agendas

Korea's Fair Trade Commission (FTC) has stated that the amendments should be aimed at preventing controlling families from seeking personal gains and expanding their power through illicit means. To this end, the special committee reviewed the following seven proposals:

- ① Revision of the designation of conglomerates: Change the criteria for determining groups subject to cross-shareholding restrictions to 0.5% of GDP
- ② Disclosure regarding overseas affiliates: Require the disclosure of equity ownership and circular shareholdings in overseas affiliates
- ③ Broader applicability of related-party transaction regulations: Unify the ownership threshold to 20% in both listed and non-listed affiliates and apply the regulations to their subsidiaries (over 50% stake)
- ④ Circular shareholding regulations: Regarding existing circular shareholdings, restrict voting rights of companies that have completed the relevant circular shareholding
- ⑤ Holding company scheme: Raise the minimum ownership in first-tier/second-tier subsidiaries by 10%p and require disclosure of holding companies' intercompany transactions
- ⑥ Regulations on financial/insurance firms: Limit voting interests of financial/insurance firms to 5% combined
- ⑦ Regulations on company-sponsored foundations: Apply the same voting right restrictions as those on financial/insurance firms to company-sponsored foundations belonging to conglomerates

The FTC plans to finalize the revisions at a special committee general meeting in July, announce its official stance in early August, and submit the bill to the National Assembly after mid-August.

Stronger disclosure rules mean holding companies could continue to collect brand royalties

With regard to the ongoing MRFTA reform, we believe the biggest concern weighing on holding companies has been the potential adoption of regulations on their non-dividend income (mainly brand royalties). In our view, uncertainty over whether the FTC's push to tighten restrictions on related-party transactions would extend to holding companies' brand royalties has been the main cause for the weakness of holding company stocks.

While the final bill has yet to be confirmed, the special committee's latest discussions suggest regulators' focus will be on enhancing transparency by strengthening disclosures of intercompany transactions. As such, we believe brand royalties will continue to serve as a major source of income for holding companies.

Among the potential revisions regarding holding companies, we believe the proposed increase in the minimum ownership in first-tier/second-tier subsidiaries is also worth noting. Discussions are underway at the special committee to raise the minimum equity ownership in first-tier/second-tier subsidiaries to 30% for listed companies (from 20% currently) and 50% for unlisted companies (from 40% currently). However, it has not yet been decided whether such a rule should be applied only to newly established holding companies or existing ones, as well. The FTC also appears to be considering incentivizing holding companies to voluntarily maintain high equity ownerships by improving tax rules (regarding exclusions from gross income).

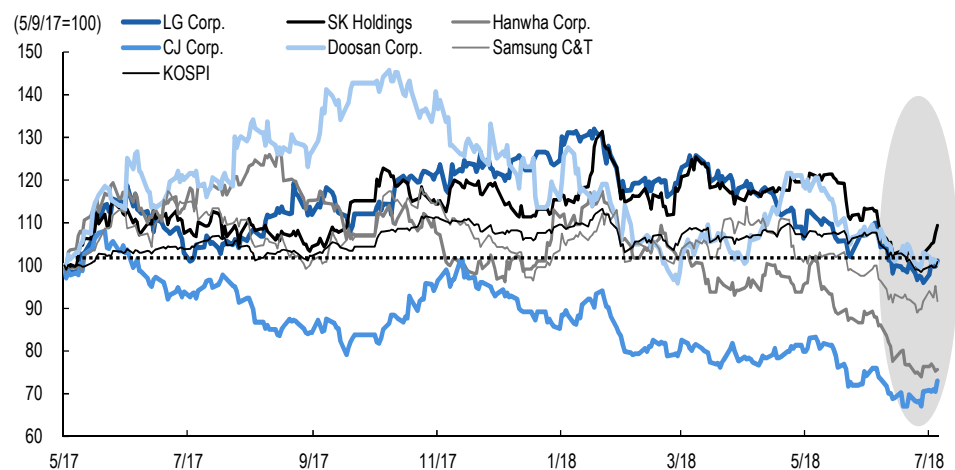
I. Holding company stocks greatly undervalued

Holding company stocks look set for rebound on easing policy uncertainties

Holding company stocks rallied following last year's presidential election, as they were viewed as the largest beneficiaries of the ownership restructuring theme prompted by the introduction of the stewardship code and the promotion of minority shareholder rights. This year, however, holding company stocks have come under pressure, reversing all of their gains since the beginning of the year, and in some cases losing more than the decline in the value of their listed subsidiary stakes, with discounts reaching historic levels.

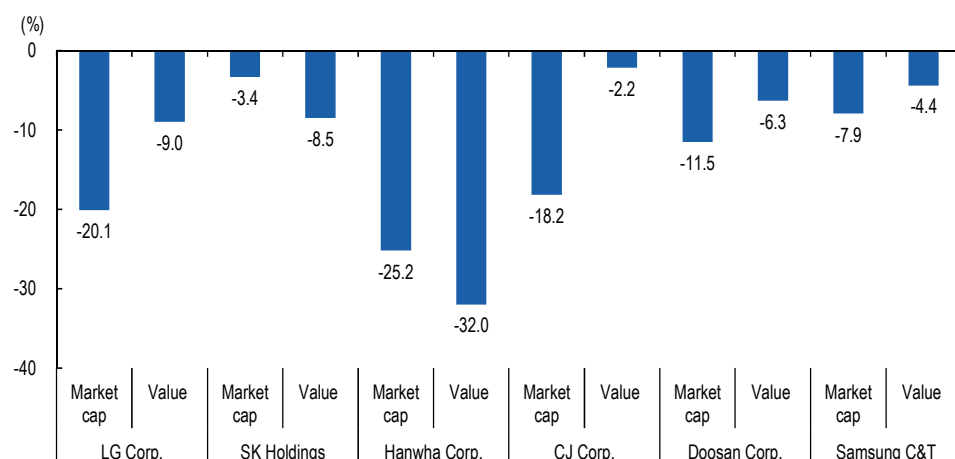
In our view, the steep undervaluation of holding company stocks is due to uncertainties surrounding policy changes affecting holding companies. We think such uncertainties will dissipate in 2H18, when revisions to the Monopoly Regulation and Fair Trade Act (MRFTA), which governs overall regulations regarding holding companies, will likely be finalized. In fact, we think most of the uncertainties have already been addressed, after the key agendas discussed by the special committee for the MRFTA overhaul were disclosed in early July. Indeed, many holding company stocks have begun showing signs of a rebound.

Figure 1. Relative share performance of major holding company stocks following 2017 presidential election



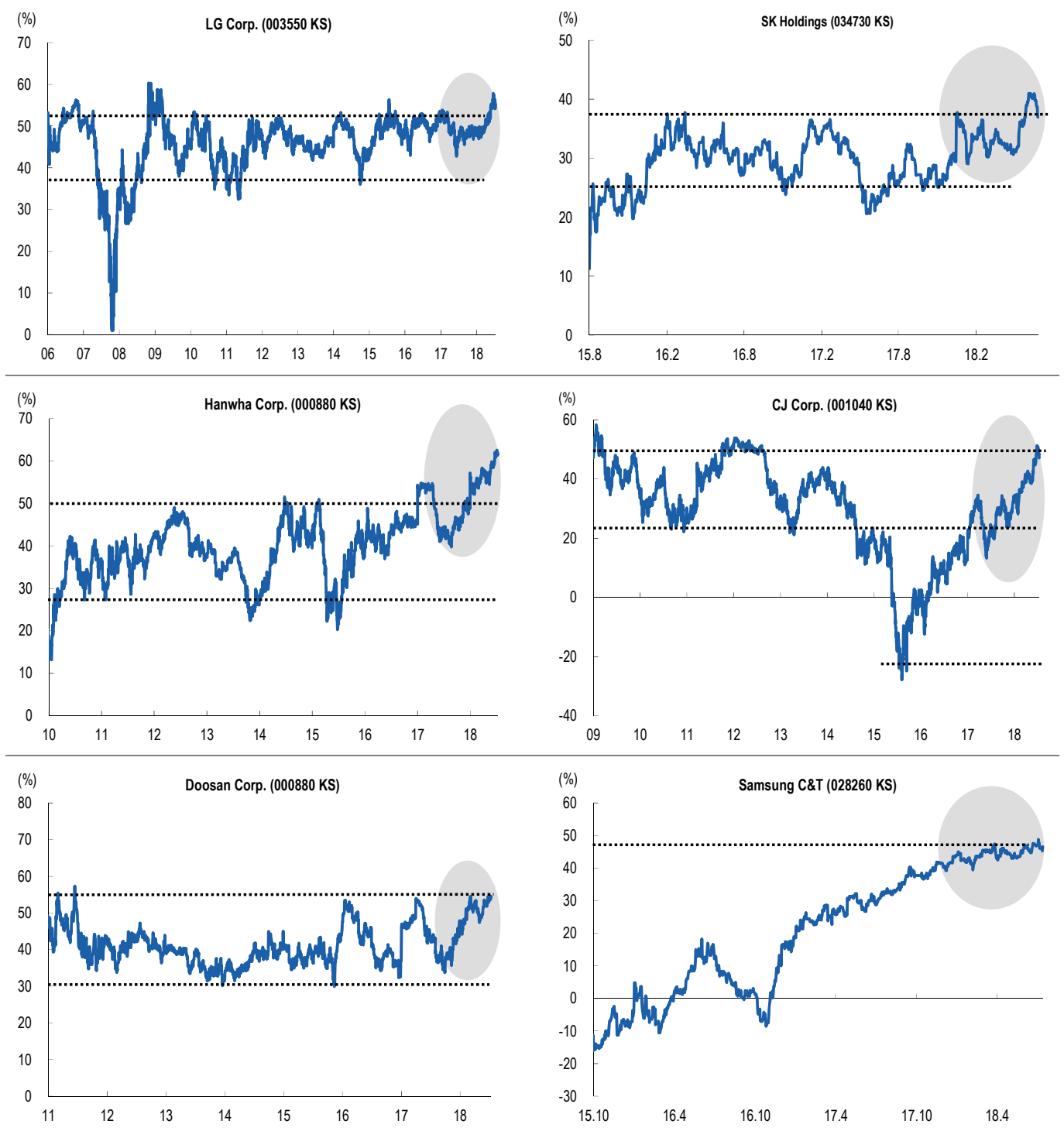
Source: Mirae Asset Daewoo Research

Figure 2. YTD share performance of major holding companies



Note: Based on the July 13 2018 closing price
Source: Mirae Asset Daewoo Research

Figure 3. Major holding companies' discount rate to NAV stands at the upper end of historical range → Markedly undervalued



Source: Mirae Asset Daewoo Research

II. Review of FTC's policy stance changes

1. FTC's work plans for 2018

The FTC's recently-announced 2018 work plans can be summed up as: 1) preventing controlling families from seeking personal gains and expanding their power through illicit means; and 2) inducing them to voluntarily improve their corporate structure. The move by the FTC is also confirmed in President Moon Jae-in's key campaign pledges and five-year plans for the administration of state affairs.

Table 1. FTC's key work plans for 2018

Key agendas	Action agendas	Notes
Preventing controlling families from abusing power	1. Preventing controlling families from seeking personal gains and unfair trading practices between affiliates 1) Stricter enforcement of laws aimed at preventing controlling families from seeking personal gains (e.g., regulations on related-party transactions) - Continuous investigation in cases of illegal ownership succession and related-party transactions 2) Reform aimed at minimizing the regulatory loophole	(June 25 2018) Announced its analysis of the changes in unfair trading practices between affiliates resulting from its adoption of regulations aimed at preventing controlling families from seeking personal gains
	2. Preventing controlling families from amassing control via illegal means 1) Preventing controlling families from expanding control via public-service, circular shareholdings and financial affiliates 2) Investigation into holding companies' profit structure and implementation of measures to improve the existing system	(June 29 2018) Announced its study of the current status of foundations sponsored by large conglomerates (July 3 2018) Unveiled its analysis of holding companies' profit structure and investments
	3. Encouraging conglomerates to improve their corporate structure via tighter market surveillance measures and a positive campaign 1) Reinforcing market surveillance measures (e.g., unveiling of the current status of conglomerates and tighter scrutiny of companies' public announcements) 2) Encouraging conglomerates to voluntarily improve their ownership structure and unfair management practices 3) Revisions to the designation of conglomerates	Conglomerates are required to disclose information on their equity ownership (every August), related-party transactions (September), holding-company (November), and corporate structure (December). FTC chairman had meetings with leaders of Korea's four biggest conglomerates (June 2017), five major conglomerates (November 2017), and 10 major conglomerates (May 2018) . (April 30 2018) Revisions to designation of conglomerates

Source: FTC, Mirae Asset Daewoo Research

Figure 4. President Moon's key campaign pledges related to economic democratization policies

No.	Economic democratization policies	President Moon Jae-in's key campaign pledges
1		Investors to be allowed to file multiple derivative suits and inspect accounting records
2		Introduction of electronic voting and written ballot systems
3		Introduction of either a cumulative voting system or separate election of audit committee members
4	Prevention of illegal ownership succession, drastic reform of family-run conglomerates,	Stricter holding company requirements (higher subsidiary ownership threshold and lower debt ratio threshold)
5		Prevention of controlling families' use of company-sponsored foundations to strengthen their control
6		Gradual unwinding of existing circular shareholdings
7		Tighter regulations on related-party transactions and unfair trading practices between affiliates
8		Separation of non-banking financial firms from chaebol groups; limitations on voting rights of financial affiliates
9	Establishment of sound market principles	Efforts to strengthen the voting rights of public pension and fund services (and pursue relevant corporate governance improvements)
10		Efforts to enhance stewardship efforts by institutional investors (Stewardship Code)

Source: Mirae Asset Daewoo Research

Figure 5. Moon administration's economic democratization policies (based on five-year plan)

No.	Goal	Plans
1	Preventing controlling families from abusing power	<ul style="list-style-type: none"> ▶ Introduction of multiple derivative suits and electronic voting; adoption of either a cumulative voting system or separate election of audit committee members (-2018) ▶ Stricter enforcement of laws governing economic crimes and more rigorous pardon review process
2	Preventing controlling families from amassing control via illegal means	<ul style="list-style-type: none"> ▶ Stronger legal requirements for holding companies (2017-18) ▶ Ban on the allotment of new subsidiary shares (post-spin-off) based on treasury stock ▶ Introduction of measures to gradually unwind existing circular shareholdings ▶ Disclosure of investments in domestic subsidiaries via overseas subsidiaries
3	Preventing controlling families from seeking personal gains	<ul style="list-style-type: none"> ▶ Expansion of the scope of regulations on controlling families' pursuit of private interests via illegal means (-2018) ▶ Continuous monitoring of controlling families' pursuit of private interests via illegal means
4	Stricter separation of financial and non-financial capital	<ul style="list-style-type: none"> ▶ Tighter regulations on voting rights of financial/insurance affiliates (-2018)

Source: Mirae Asset Daewoo Research

2. FTC's policy stance revealed in special committee's seven key agendas

The Fair Trade Commission (FTC) has stated that the amendments should be aimed at: 1) increasing the predictability of its policy aimed at easing the concentration of economic power; and 2) preventing controlling families from seeking personal gains and expanding their power through illicit means. To this end, the special committee reviewed the following seven proposals:

- ① Revisions to the designation of conglomerates: Change the criteria for determining groups subject to cross-shareholding restrictions to 0.5% of GDP
- ② Disclosure regarding overseas affiliates: Require the disclosure of equity ownership and circular shareholdings in overseas affiliates
- ③ Broader applicability of related-party transaction regulations: Unify the ownership threshold to 20% in both listed and non-listed affiliates and apply the regulations to their subsidiaries (over 50% stake)
- ④ Circular shareholding regulations: Regarding existing circular shareholdings, restrict the voting rights of companies that have completed the relevant circular shareholding
- ⑤ Holding company scheme: Raise the minimum ownership in first-tier/second-tier subsidiaries by 10%p and require the disclosure of holding companies' intercompany transactions
- ⑥ Regulations on financial/insurance firms: Limit the voting interests of financial/insurance firms to 5% combined
- ⑦ Regulations on company-sponsored foundations: Apply the same voting right restrictions as those on financial/insurance firms to company-sponsored foundations belonging to conglomerates

The FTC plans to finalize the revisions at a special committee general meeting in July, announce its official stance in early August, and submit the bill to the National Assembly after the National Assembly reconvenes in mid-August.

Table 2. Seven agendas discussed by special committee for MRFTA overhaul

	Agenda	Current	Results from discussions by Special Committee
1	Revisions to the designation of conglomerates	The criteria for determining groups subject to cross-shareholding restrictions has thus far been constantly changing according to overall economic conditions; such frequent revisions to the criteria have incurred sizable costs and diminished conglomerates' ability to predict the criteria.	Change the criteria for determining groups subject to cross-shareholding restrictions to 0.5% of GDP (the amendment will enter into force when 0.5% of Korea's total GDP reaches W10tr).
2	Disclosure regarding overseas affiliates	Under the current system, gaining accurate information on overseas affiliates is difficult, which heightens the possibility of conglomerates expanding their control through illicit means (e.g., round-trip investment using overseas affiliates).	Conglomerates will be encouraged to voluntarily improve their ownership structure by disclosing information on their overseas subsidiaries; they will be advised to disclose information about their overseas affiliates' equity ownership structure and investment in other domestic/overseas affiliates (circular shareholdings)
3	Broader applicability of related-party transaction regulations	Conglomerates subject to related-party transaction regulations are found to have increased the percentage of related-party transactions.	The ownership threshold will be unified to 20% in both listed and non-listed affiliates and the regulations will be applied to their subsidiaries (over 50% stake)
4	Revisions to circular shareholding regulations	Conglomerates are required to unwind their existing circular shareholdings, which have allowed controlling shareholders to expand their control (relative to their actual ownership)	Regarding existing circular shareholdings, voting rights will be restricted only for those companies that have completed the relevant circular shareholding
5	Regulations on financial/insurance firms	Neither financial nor insurance companies belonging to an enterprise group shall exercise its voting rights in stocks of domestic affiliated companies, under its acquisition or ownership. However, this provision does not apply to some cases involving listed companies, which could also allow controlling families to expand their control.	Limit voting interests of financial/insurance firms to 5% combined
6	Regulations on company-sponsored foundations	Under the current regulation, controlling families can still use company-sponsored foundations to strengthen their control and/or as a means of illegal ownership succession; with regard to equity/property transactions with affiliates, sufficient internal control and market surveillance measures have yet to be in place	Apply the same voting right restrictions as those on financial/insurance firms to company-sponsored foundations belonging to conglomerates
7	Revisions to the holding company regulations	The holding company scheme has also allowed controlling families to strengthen their control and seek personal gains; under the holding company structure, controlling families have generated excessive non-dividend earnings through transactions with their first- and second-tier subsidiaries	1) Upward revisions to minimum equity ownership of first- and second-tier subsidiaries: Either ① or ② should be adopted. ① The new rules would first be applied to newly-established holding companies (including first- and second-tier subsidiaries to be newly incorporated by the existing holding companies) ② The new rules will apply to all holding companies, albeit with a sufficient grace period 2) The required debt ratio threshold would either be tightened to 100% (from 200%) or remain unchanged 3) Two first-tier subsidiaries would be banned from owning and/or controlling the same second-tier subsidiary 4) Tighter internal control measures would ban controlling families from seeking personal gains

Source: FTC, Mirae Asset Daewoo Research

III. Major MRFTA revisions under discussion

1. Broader applicability of related-party transaction regulations

	Details
Current	Subsidiaries or affiliates in which a controlling shareholder owns, individually or together with family members, no less than 30% of issued shares (20% for unlisted subsidiaries or affiliates)
Proposed revisions	① The ownership threshold will be unified to 20% in both listed and non-listed affiliates; and ② The regulation will be applied to their subsidiaries (over 50% stake)

The existing related-party transaction regulations are in compliance with Article 23-2 of MRFTA (Prohibition on Undue Support Practices to Specially Related Persons).

Under the current MRFTA regulations, related-party transactions refer to the activities in which conglomerates (with total asset value of over ₩5tr) make unfair transactions with subsidiaries or affiliates in which a specially-related person owns, individually or together with family members, no less than 30% of issued shares (20% for unlisted subsidiaries or affiliates), and generate unfair profits (including profits derived from deals with substantially favorable conditions) for specially-related persons.

Companies that are found to have engaged in unfair practices are subject to corrective actions, fines or criminal punishments (up to three years in prison or ₩200mn fine). Fines can be levied on beneficiary companies, while penalties can be imposed on specially-related persons, in case where they either make instructions on the transactions or engage in them.

Meanwhile, by reviewing changes in conglomerates' related-party transactions since the launch of the regulation, the FTC found that a number of conglomerates (subject to the regulation) had continued to engage in related-party transactions by circumventing the regulation via stake divestments, listing, or split-off. Against this backdrop, the special committee for the MRFTA overhaul proposed following revisions to related-party transaction regulations.

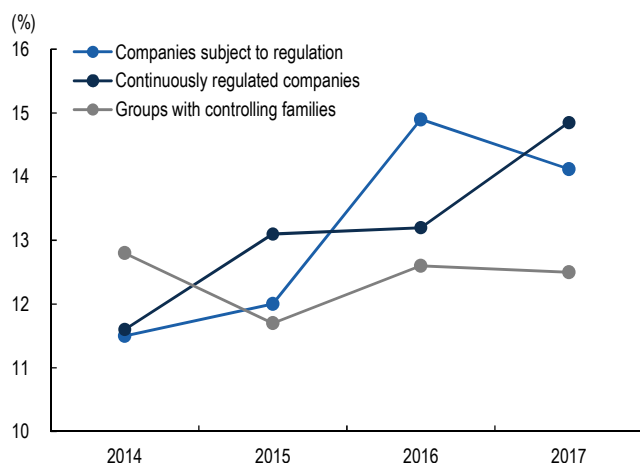
*Special committee-proposed revisions

Broader applicability of related-party transaction regulations: Unify the ownership threshold to 20% (regardless of listing status) for all subsidiaries

Application of the regulation to their subsidiaries (over 50% stake)

Given that similar revision bills have so far been proposed by a number of lawmakers, we expect related-party transaction regulations to be somewhat tightened going forward.

Figure 6. Uptrend in percentage of related-party transactions at conglomerates



Source: FTC, Mirae Asset Daewoo Research

Figure 7. Proposed revisions to related-party transaction regulations

Lawmaker	Date	Details
Kim Dong-cheol (Bareun Mirae)	Jun. 7, 2016	① Lower the ownership threshold to 10% regardless of listing status
Je Yoon-kyung (Minjoo)	Jul. 13, 2016	① Lower the ownership threshold (30% → 20% for listed subsidiaries) ② Inclusion of indirect stakes (in determining controlling ownership)
Chae Yi-bai (Bareun Mirae)	Aug. 5, 2016	① Lower the ownership threshold (30% → 20% for listed subsidiaries) ② Inclusion of indirect stakes (in determining controlling ownership) ③ Toughen criteria for exemptions ④ Deletion/revision of some provisions
Lee Eun-ju (Bareun Mirae)	Nov. 30, 2016	① Lower the ownership threshold (30% → 20% for listed subsidiaries) ② Inclusion of indirect stakes

Source: FTC, Mirae Asset Daewoo Research

At present, 203 companies affiliated to 46 conglomerates - including Samsung, Hyundai Motor Group (HMG), and SK - are subject to related-party transaction regulations. Under the special committee-proposed revision, however, the number of group affiliates subject to the regulation should more than double to 441 (one → seven for Samsung, four → eight for HMG, two → 10 for SK).

Table 3. Conglomerates subject to related-party transaction regulations

(%)

	Group	Related-party transaction regulation applied (Listed 30%, Unlisted 20%) ¹⁾	Controlling family stake of 20~30%		Stake exceeds 50%	
			Subsidiary (stake) ¹⁾	Related-party transactions (%)	Subsidiary(stake) ²⁾	Related-party transactions (%)
1	Samsung	Samsung C&T (31.4%)	Samsung Life (20.8%)	3.1	Samoo Architects & Engineers (100%) Seoul Lake Side (100%) Natural 9 (51.0%) Samsung Welstory (100%) Cheil Fashion Retail (100%)	59.9 0 8.4 38.4 100
2	Hyundai	Seoul PMC (73.0%) Seolim Development (100%) Hyundai Materials (100%) Hyundai Commercial (50.0%)	Innocean (30.0%) Hyundai Glovis (30.0%)	57.1 20.7	Seolim Environment Technology (75.4%) Hyundai Advanced Materials (100%)	0 1.8
3	SK	SK (30.9%) SK Discovery (44.5%)	SK D&D (24.0%)	2.3	SK Biotek (100%) SK Siltron (51.0%) SK E&S (90.0%) SK Infosec (100%) SK Forest (100%) SK Plasma (60.0%) SK Shipping (57.2%)	9.5 0 0 67.9 59.6 0 34.1
4	LG	LG (32.5%) Ji Heung (100%)			ServeOne (100%) LG MDI (100%) LG Sports (100%) LG CNS (85.0%)	74.3 98.8 43.0 57.8
7	GS	Boheun Development (100%) Samyang International (92.5%) Sam Joung Development (87.5%) Seungsan Group (100%) Oksan Distribution (46.2%) Winasset (90.2%) GS (45.5%) GS ITM (80.6%) Chemtech International (77.0%) Procure (100%) Kyungwon Construction (23.0%) Samyang Tongsang (51.5%) Central Motors (84.9%) GS Neotek (100%)	GS E&C (27.0%)	6.3	GS Global (50.7%) GS Retail (65.8%) GS Sports (100%) GS E&R (89.9%) GS Energy (100%) GS EPS (70.0%)	11.1 0.2 56.2 0.8 2.4 0
8	Hanwha	H Solution (100%)	Hanwha Corp. (43.7%)	9.0	Hanwha Energy (100%) Dream Plus Asia (100%) Hanwha S&C (55.4%)	34.9 0 75.0
10	Hyundai Heavy	YooBong (44.5%) Hyundai Heavy Industries Holdings (30.9%)			Hyundai Global Service (100%) Hyundai Oilbank (91.1%)	21.7 18.1
11	Shinsegae	Gwangju Shinsegae (52.1%)	Shinsegae (28.1%) Shinsegae Int'l (22.2%) Emart (28.1%)	10.6 14.4 2.2		
13	Doosan	Doosan Corp. (45.1%)			Neoplux (96.8%) Doosan Bears (100%) Oricom (63.4%) Doosan Mecatec (100%) Doota Mall (100%) DLI (100%)	46.8 33.9 22.2 0 39.2 99.7
14	Hanjin	Jungseok Enterprise (28.7%)	Hanjin KAL (25.6%)	54.9		
15	CJ	CJ (42.2%) CJ Olive Networks (44.1%) Timewise Investment (51.0%)			CJ Powercast (100%) CJ Foodville (96.0%) SG Safety Corporation (100%)	22.2 3.3 31.9

Notes: 1) Controlling family stake, 2) Parent company stake; Source: FTC, Mirae Asset Daewoo Research

2. Potential revisions to holding company regulations

	Details
Current	Minimum ownership in first-tier/second-tier subsidiaries: 20% for listed firms and 40% for non-listed firms Required debt ratio threshold of 200%
Potential revisions	① Strengthen disclosures of intercompany transaction ② Ban joint control of second-tier subsidiary ③ Raise the minimum equity ownership to 30% in listed subsidiaries and 50% in unlisted subsidiaries ④ Tighten the required debt ratio threshold to 100% ⑤ Incentivize holding companies to voluntarily maintain high equity ownerships by improving tax rules (regarding exclusions from gross income)

The FTC believes the current holding company scheme has been leading to only limited improvements in corporate governance, while allowing controlling families to enjoy personal gains and expand their power through illicit means. In particular, holding companies, in which controlling families hold massive stakes, are receiving excessive non-dividend income (43.5% of their total income; dividend income accounts for 40.3%) via related-party transactions with first-tier/second-tier subsidiaries, and focusing on increasing second-tier/third-tier subsidiaries, rather than first-tier subsidiaries.

As such, to prevent controlling families from seeking personal gains and expanding their power excessively, the special committee for the MRFTA overhaul reviewed the following proposals regarding the minimum equity ownership in first-tier/second-tier subsidiaries, the debt ratio requirement, disclosure, and a ban on joint control of second-tier subsidiary:

The special committee agreed on banning two first-tier subsidiaries from controlling the same second-tier subsidiary, as the joint control goes against the purpose of the holding company scheme. The committee also agreed on tightening regulations on disclosure of holding companies' intercompany transactions, due to the need to prevent controlling families from seeking personal gains via non-dividend income. As such, we believe these two proposals will likely be included in a revised MRFTA.

As for a hike in the minimum equity ownership in first-tier/second-tier subsidiaries, the committee reached a consensus, but additional discussions will likely be needed, as it has not yet been decided whether such a rule should be applied only to newly established holding companies, or also to existing ones (with a grace period).

For the debt ratio requirement, the committee agreed on keeping the current ratio intact. Even if this rule is tightened, its impact would be limited, as most holding companies display a debt ratio of less than 100%.

With several bills on the MRFTA overhaul (similar to the special committee's reviews) having been proposed in the National Assembly, we expect holding company requirements to tighten significantly going forward.

Figure 8. Changes in holding company requirements

	Initial	Current	Likely revisions
Joint control of second-tier subsidiaries	Allowed	Allowed	Not allowed
Minimum ownership in first/second-tier subsidiaries	30% for listed firms and 50% for unlisted firms	20% for listed firms and 40% for unlisted firms	30% for listed firms and 50% for unlisted firms
Debt ratio requirement	100%	200%	200% or 100%
Business relations with second-tier subsidiaries.	Required	Not required	Not required

Source: FTC, Mirae Asset Daewoo Research

Figure 9. Lawmakers' proposals on tightening holding company requirements

Lawmaker	Date	Details
Park Chan-dae (DPK)	Sep. 2, 2016	① Tighten debt ratio from 200% to 100% ② Raise minimum ownership in subsidiaries to 30% for listed firms and 50% for unlisted firms ③ Require business relations with second-tier subsidiaries ④ Ban joint control of second-tier subsidiaries
Chae Yi-bai (Bareun Mirae)	Oct. 21, 2016	① Tighten debt ratio from 200% to 100% ② Raise minimum ownership in subsidiaries to 30% for listed firms and 50% for unlisted firms ③ Require business relations with second-tier subsidiaries ④ Ban joint control of second-tier subsidiaries ⑤ Change holding ratio criteria (subsidiaries → affiliates) ⑥ Change holding ratio calculation method (book value → fair value)
Park Yong-jin (DPK)	Jun. 23, 2017	① Tighten debt ratio from 200% to 100% ② Raise minimum ownership in subsidiaries to 30% for listed firms and 50% for unlisted firms ③ Require business relations with second-tier subsidiaries

Source: FTC, Mirae Asset Daewoo Research

1) Stronger disclosure rules on intercompany transactions

To prevent controlling families from seeking personal gains via non-dividend income at holding companies, the FTC appears to have decided to tighten disclosures of intercompany transactions, thus addressing uncertainty over whether the FTC's push to tighten restrictions on related-party transactions would extend to holding companies' brand royalties. As such, we believe brand royalties will continue to serve as a major source of income for holding companies.

A typical holding company derives income mainly from the following: 1) dividends; 2) brand royalties; 3) property rental; and 4) other income. In particular, brand royalties and rental income are reflected in holding company valuation (based on the present value of their future cash flows).

① **Dividends:** The MRFTA states that a holding company is a corporation that exists for the purpose of controlling another company by owning shares. Currently, dividends paid by subsidiaries account for the lion's share of holding companies' income.

② **Brand royalties:** Generally, a holding company manages all aspects related to brands and collects brand royalties from their subsidiaries for compensation for the direct use of a brand and for the services performed to enhance its value. Brand royalties are agreed upon in a contract between the holding company and subsidiary, or in articles of incorporation. Royalty rates vary widely by company, but they are typically charged as a percentage of revenue. Under the MRFTA, assisting a related party or another company by providing a company asset without receiving compensation is deemed an unfair practice.

③ **Rental income:** Rental income comes from property owned by holding companies. By its nature, rental income includes rent from non-affiliates.

④ **Other income:** Holding companies also generate advisory service commissions from subsidiaries, as well as gains on the sale of subsidiaries.

Table 4. Related-party transactions

	Holding Company	Group	Listed/ Unlisted	Controlling family stake (%)			Related-party transaction regulation applied ?	% of total revenue					Related-party transaction (%)
				Identical person	Relatives	Total		Dividend income (%)	Non-dividend income		Other income (%)		
									(%)	Details			
1	SK	SK	Listed	23.2	7.4	30.6	○	20.0	6.8	Real estate rental income + brand royalty	73.2	49.3	
2	LG	LG	Listed	11.1	20.8	31.9	○	44.0	55.0	Real estate rental income + brand royalty	1.0	95.9	
3	GS	GS	Listed	4.7	36.2	40.9	○	74.0	25.0	Real estate rental income + brand royalty	1.0	67.7	
4	Hanjin KAL	Hanjin	Listed	17.7	7.6	25.3	×	41.0	58.5	Real estate rental income + brand royalty	0.5	93.5	
5	CJ	CJ	Listed	39.1	0.2	39.2	○	21.0	62.7	Real estate rental income + brand royalty	16.3	95.1	
6	Booyoung	Booyoung	Unlisted	93.8	1.6	95.4	○	0.0	64.0	Real estate rental income + brand royalty	36.0	46.7	
7	LS	LS	Listed	2.8	23.1	25.8	×	69.0	21.0	Real estate rental income + brand royalty	10.0	86.9	
8	Jeil Holdings	Harim	Listed	29.7	4.0	33.7	○	82.0	14.4	Real estate rental income + brand royalty	3.6	99.8	
9	Kolon	Kolon	Listed	43.5	1.9	45.4	○	19.0	74.7	Real estate rental income + brand royalty	6.3	94.9	
10	Hankook Tire Worldwide	Hankook Tire	Listed	23.6	50.3	73.9	○	15.0	84.7	Real estate rental income + brand royalty + consulting fee	0.3	96.9	
11	Dongwon Enterprise	Dongwon	Unlisted	24.5	70.1	94.6	○	30.0	22.0	Real estate rental income + brand royalty + consulting fee	48.0	88.5	
12	Halla Holdings	Halla	Listed	23.6	0.0	23.6	×	4.0	3.7	Real estate rental income + brand royalty	92.3	28.2	
13	SeAH Holdings	SeAH	Listed	12.7	67.3	80.0	○	76.0	23.0	Real estate rental income + brand royalty + consulting fee	1.0	70.3	
14	AmorePacific	AmorePacific	Listed	51.2	2.8	54.0	○	69.0	31.0	Real estate rental income + brand royalty + consulting fee	0.0	93.9	
15	Celltrion Holdings	Celltrion	Unlisted	95.5	0.6	96.1	○	0.0	100.0	Real estate rental income	0.0	13.9	
16	HHIC Holdings	Hanjin Heavy Industries	Listed	46.5	2.8	49.3	○	56.0	43.0	Real estate rental income + brand royalty	1.0	58.0	
17	Hitejinro Holdings	Hitejinro	Listed	28.9	0.1	29.0	×	88.0	11.7	Brand royalty	0.3	100.0	
18	Hansol Holdings	Hansol	Listed	5.5	9.5	15.1	×	21.0	78.8	Brand royalty + consulting fee	0.2	92.5	
Average								40.8	43.3			55.4	

Note: As of 2017

Source: FTC, Mirae Asset Daewoo Research

2) Minimum ownership in subsidiaries: 20% → 30% for listed firms and 40% → 50% for non-listed firms

A hike in the minimum ownership in first-tier/second-tier subsidiaries would weigh on not only business groups that are pursuing holding company conversions, but also already-established holding companies, in maintaining the holding company structure or seeking M&As.

In particular, SK Group would have to acquire additional shares in its subsidiary SK Telecom (current stake: 25.2%) and its second-tier subsidiary SK Hynix (current stake: 20.1%), which would likely cost around W7.5tr. In the process, the group could also move to buy back/cancel shares of SK Telecom and SK Hynix and restructure its business portfolio via company splits, M&As, and the sale of its non-core affiliates.

Table 5. Additional stake required in the event of minimum ownership hike (20% → 30%)

Holding company	First-tier/second-tier subsidiaries	Current stake	Additional stake required	Holding company	First-tier/second-tier subsidiaries	Current stake	Additional stake required
1 SK	SK Telecom	25.2%	4.8%	7 Hansol Holdings	Hansol HomeDeco	23.3%	6.7%
2 SK	SK Hynix	20.1%	9.9%	8 Hansol Holdings	Hansol Logistics	21.8%	8.2%
3 Celltrion Holdings	Celltrion	20.1%	9.9%	9 Hansol Holdings	Hansol Technics	20.0%	10.0%
4 Kolon	Kolon Life Science	20.4%	9.6%	10 Chongkundang Holdings	Chong Kun Dang Pharmaceutical	21.2%	8.8%
5 Korea Kolmar Holdings	Korea Kolmar	23.2%	6.8%	11 JW Holdings	JW Shinyak	25.8%	4.2%
6 Dong-A Socio Holdings	DONG-A ST	22.3%	7.7%	12 Hanjin KAL	Hanjin	22.2%	7.8%

Source: DART, Mirae Asset Daewoo Research

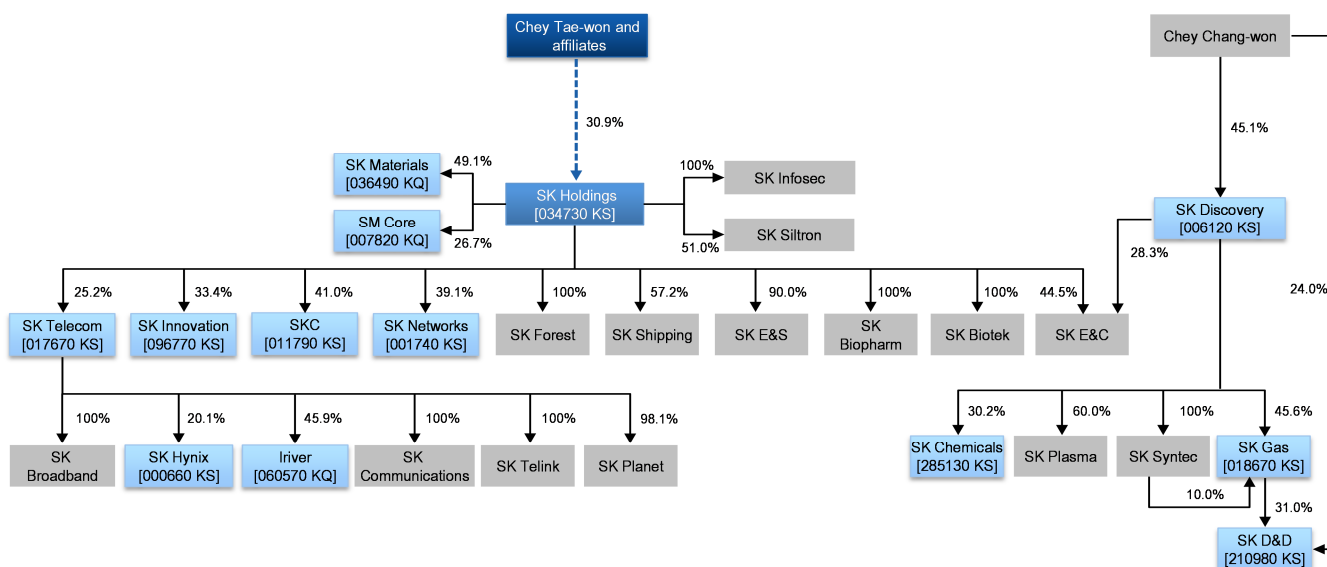
Table 6. SK Group: Additional stake required in the event of a minimum ownership hike

(Wbn)

	Invested company			If the revision bill is passed		Treasury shares of invested company		Shares outside of holding company	
	First-tier/second-tier subsidiaries	# of shares	Stake	Additional stake required	Value	# of shares	Stake	Stake	Value
SK	SK Telecom	20,363,452	25.2%	4.8%	919	10,136,551	12.6%	0.0%	0
	SK E&C	15,698,853	44.5%	5.5%	76	1,325,000	3.8%	1.8%	25
SK Telecom	SK Hynix	146,100,000	20.1%	9.9%	6,436	22,000,570	3.0%	6.9%	4,486
SK Innovation	Daehan Oil Pipeline	9,223,552	41.0%	9.0%	42	0	0.0%	9.0%	42
SKC	SK Bioland	4,190,841	27.9%	2.1%	6	0	0.0%	2.1%	6

Note: Based on July 13th closing price
Source: DART, Mirae Asset Daewoo Research

Figure 10. SK Group's governance



Source: DART, Mirae Asset Daewoo Research

Of note, FTC Chairman Kim Sang-jo also appears to be considering incentivizing holding companies to voluntarily maintain high equity ownerships in subsidiaries by improving tax rules (regarding exclusions from gross income), rather than making it mandatory for holding companies to raise ownerships via MRFTA revisions.

Holding companies enjoy tax benefits for dividend income from their subsidiaries, as a certain proportion of the dividend income (higher than the proportion for non-holding companies) is excluded from their gross income under the second clause of Article 18 of the Corporate Income Tax Law. If a holding company owns 20-40% stake in a listed subsidiary, 80% of the tax on dividend income would be exempted, and if it holds more than 40%, 100% of the tax would be exempted. For unlisted subsidiaries, if a holding company owns 40-80% stake, 80% of the tax would be exempted, and if it holds more than 80%, 100% of the tax would be exempted.

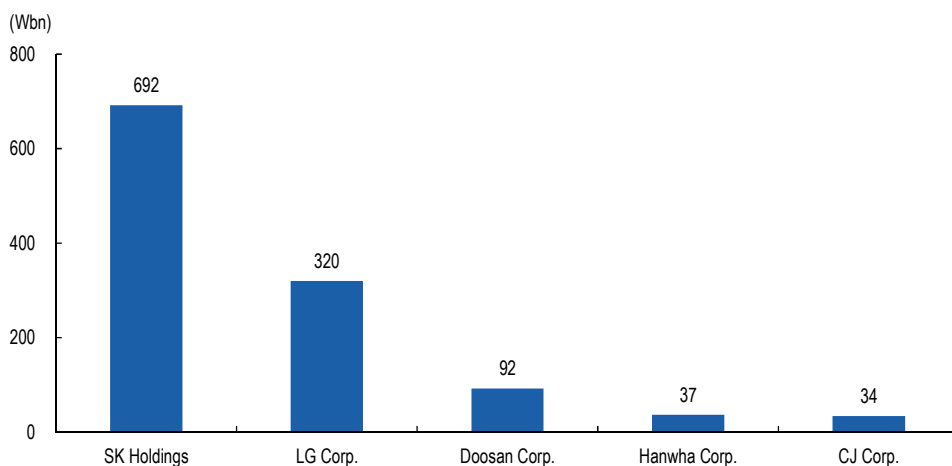
Currently, even holding companies with relatively low subsidiary ownerships are enjoying generous tax benefits. As such, FTC Chairman intends to incentivize holding companies to voluntarily increase ownership levels by increasing the number of tax brackets. We believe an increase in the minimum ownership in subsidiaries is also worth noting in the FTC's MRFTA overhaul to be finalized in July.

Table 7. Exclusions from gross income: Holding companies vs. non-holding companies

Non-holding companies (3 rd clause of Article 18 of the Corporate Income Tax Law)			Holding companies (2 nd clause of Article 18 of the Corporate Income Tax Law)		
Stake		Exclusion from gross income	Stake		Exclusion from gross income
Listed	Unlisted		Listed	Unlisted	
100%	100%	100%	Over 40%	Over 80%	100%
Over 30%	Over 50%	50%	20-40%	40-80%	80%
Over 30%	Over 50%	30%			

Source: Mirae Asset Daewoo Research

Figure 11. Major holding companies' annual dividend income



Note: As of 2017,
Source: Mirae Asset Daewoo Research

3. Circular shareholding regulations

	Details
Current	Ban the formation of new circular shareholdings and strengthening of existing ones
Potential revisions	Regarding existing circular shareholdings, restrict voting rights of companies that have completed the relevant circular shareholding

Large corporate groups are banned from forming new circular shareholdings or strengthening existing ones. A violation of the rule could result in: 1) penalties (up to 10% of the share purchase price); 2) restrictions on the exercise of voting rights (for every stock used to establish or strengthen circular ownership following the date on which an order of disposal was issued); or 3) criminal prosecution (up to three years in prison, or up to W200mn in fines).

Currently, six business groups have 41 circular shareholdings (10 of which are held by four business groups subject to cross shareholding restriction). Of note, there has been criticism that these existing circular shareholdings help controlling shareholders maintain their excessive dominance in group affiliates and reduce the transparency of governance, raising the need to untie them. As such, the special committee for the MRFTA overhaul discussed whether to regulate existing circular shareholdings, and if so, how to regulate them (untying, voting right restrictions, etc.).

The committee agreed on the need for regulation, as: 1) regulatory costs would be limited, due to the massive unwinding of circular shareholdings that have been completed so far; and 2) regulatory benefits would be high, in light of new business groups that could become subject to cross shareholding restriction. Regarding regulatory methods, the committee believes that the restriction of voting rights would be more appropriate than the mandatory sale of stakes, as it is more in line with the principle of minimum infringement of freedom, while minimizing potential controversy over retroactive legislation. For voting right restrictions, they agreed on only restricting the voting rights of companies that have completed the relevant circular shareholding.

In addition, revisions to the MRFTA were proposed in September 2016 requiring conglomerates to untie existing circular shareholdings within a certain period of time (three years); the revised bill is now pending in the National Assembly. The lawmakers who proposed the revisions argue that banning the formation of new circular shareholders while allowing existing loops is unfair, and see the revisions as a way to further improve the transparency of corporate governance and ease the concentration of economic privilege.

Table 8. Number of circular shareholdings of major groups

Year	Samsung	Hyundai Motor	Lotte	Hyundai Heavy Industries	NH	Daelim	Hyundai	Young Poong	SM	Hyundai Development	Total
2017	7	4	67	2	2	1	3	7	185	4	282
2018	4	4	0	1	0	0	0	1	27	4	41

Note: As of April 2018; Source: FTC, Mirae Asset Daewoo Research

Table 9. Proposed revisions to MRFTA to require conglomerates to untie existing circular shareholdings

	Present (July 2014 until now)	Proposed revisions
Monopoly Regulation and Fair Trade Act	<p>► Article 9-2-2 No company belonging to an enterprise group subject to limitations on mutual investment shall make an affiliated investment that 1) forms circular equity investment or 2) strengthens existing circular shareholdings.</p> <p>A violation of the rule could result in: 1) penalties (within 10/100 of the share purchase price), 2) restrictions on the exercise of voting rights (for every stock used to establish or strengthen circular ownership following the date on which an order of disposal was issued), or 3) criminal prosecution (up to three years in prison or up to W200mn in fines)</p>	<p>► Creation of Article 9-3-1 A company belonging to an enterprise group subject to limitations on mutual investment shall unwind the circular shareholdings formed before July 24, 2014 within three years.</p> <p>► Creation of Article 9-3-2 A company belonging to an enterprise group that became subject to limitations on mutual investment after July 24, 2014 shall unwind the circular shareholdings within three years.</p> <p>► Based on Article 9-2-2 and 9-2-3 A company that fails to untie existing circular shareholdings within three years shall be subject to the same regulations as the ones applied for the violation of a ban on the formation of new circular shareholdings.</p>

Source: Bill Information, Mirae Asset Daewoo Research

1) Samsung Group: Four remaining circular shareholdings to be unwound smoothly

The sale of Samsung SDI's 2.1% stake (4.04mn shares) in Samsung C&T in April removed a major regulatory overhang related to new circular shareholdings. As a result, the number of circular shareholdings remaining across the Samsung Group decreased from seven to four (three stem from SEMCO's stake in Samsung C&T; one stems from Samsung Life's stake in Samsung C&T via Samsung F&M).

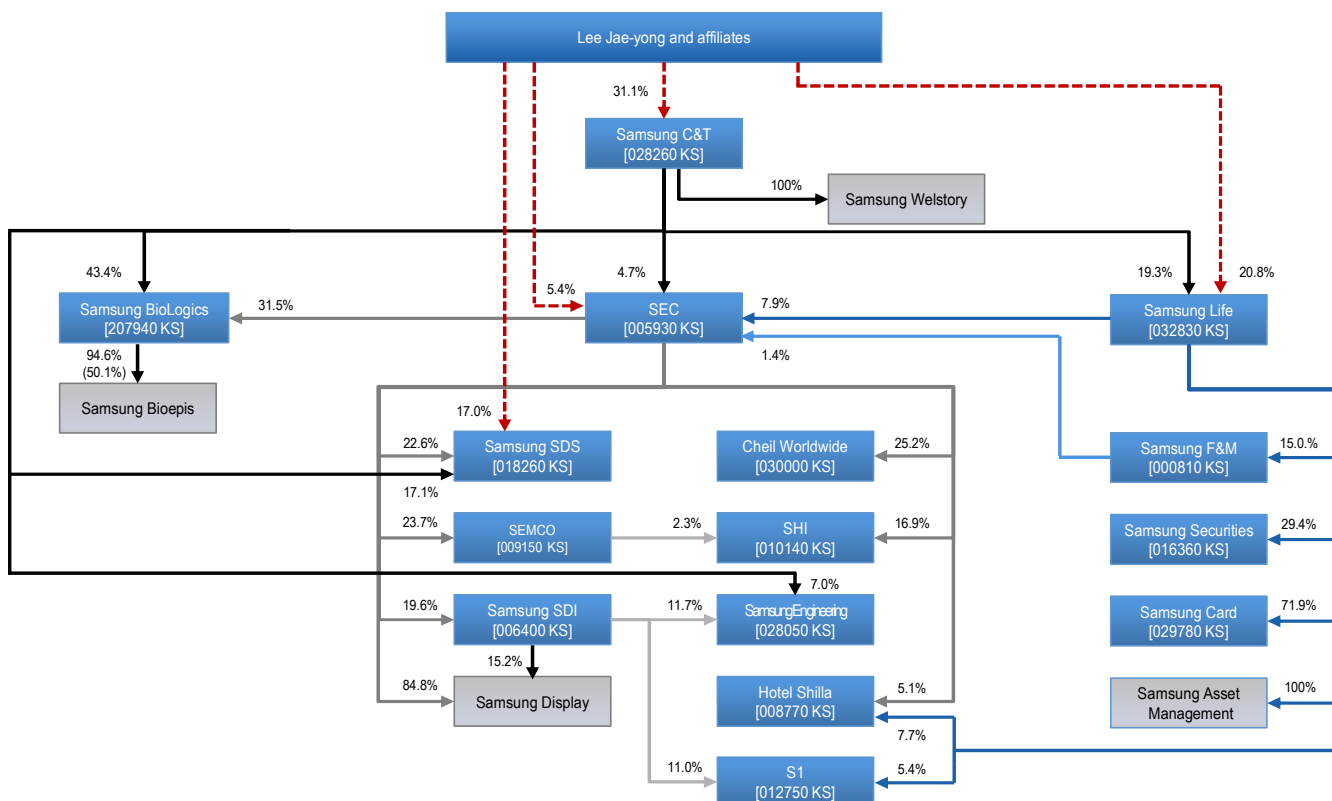
The MRFTA allows corporate groups to maintain existing circular shareholdings. However, Samsung Group made it clear that it would actively unwind its remaining circular shareholdings. If the group intends to untie the most loosely-linked circular shareholding loop, SEMCO and Samsung F&M are likely to sell their respective 2.6% and 1.4% stakes in Samsung C&T, which are the smallest within the remaining circular shareholding ties. In pursuing the unwinding, the group is expected to make efforts to not undermine shareholder value of Samsung C&T.

Table 10. Samsung Group's circular shareholdings

No.	Affiliate 1	Affiliate 2	Affiliate 3	Affiliate 4	Affiliate 5	Affiliate 6	Notes
1	Samsung C&T → 4.2%	SEC →	SEMCO →	Samsung C&T			
2	Samsung C&T → 19.3%	Samsung Life →	SEC →	SEMCO →	Samsung C&T		SEMCO → Samsung C&T
3	Samsung C&T → 19.3%	Samsung Life →	Samsung F&M →	SEC →	SEMCO →	Samsung C&T	
4	Samsung C&T → 19.3%	Samsung Life →	Samsung F&M →	Samsung C&T			Samsung F&M → Samsung C&T

Source: FTC, Mirae Asset Daewoo Research

Figure 12. Samsung Group's ownership structure



Source: DART, Mirae Asset Daewoo Research

2) HMG: Unwinding of four cross shareholdings to be difficult without ownership restructuring

HMG has four circular shareholdings, and the key one for maintaining control over the group is bound by Kia's stake in Hyundai Mobis (Hyundai Mobis→HMC→Kia Motors→Hyundai Mobis). If the MRFTA is revised to require conglomerates to unwind existing circular shareholdings, Kia's 16.9% stake in Hyundai Mobis (valued at about W3.7tr) would present a challenge to HMG; selling the shares to outsiders is not an option, given that they are critical to the controlling family's group ownership, but it would also be difficult for group affiliates or the controlling family to buy the shares directly, given the ban on new circular investments and the sheer cost of the purchase.

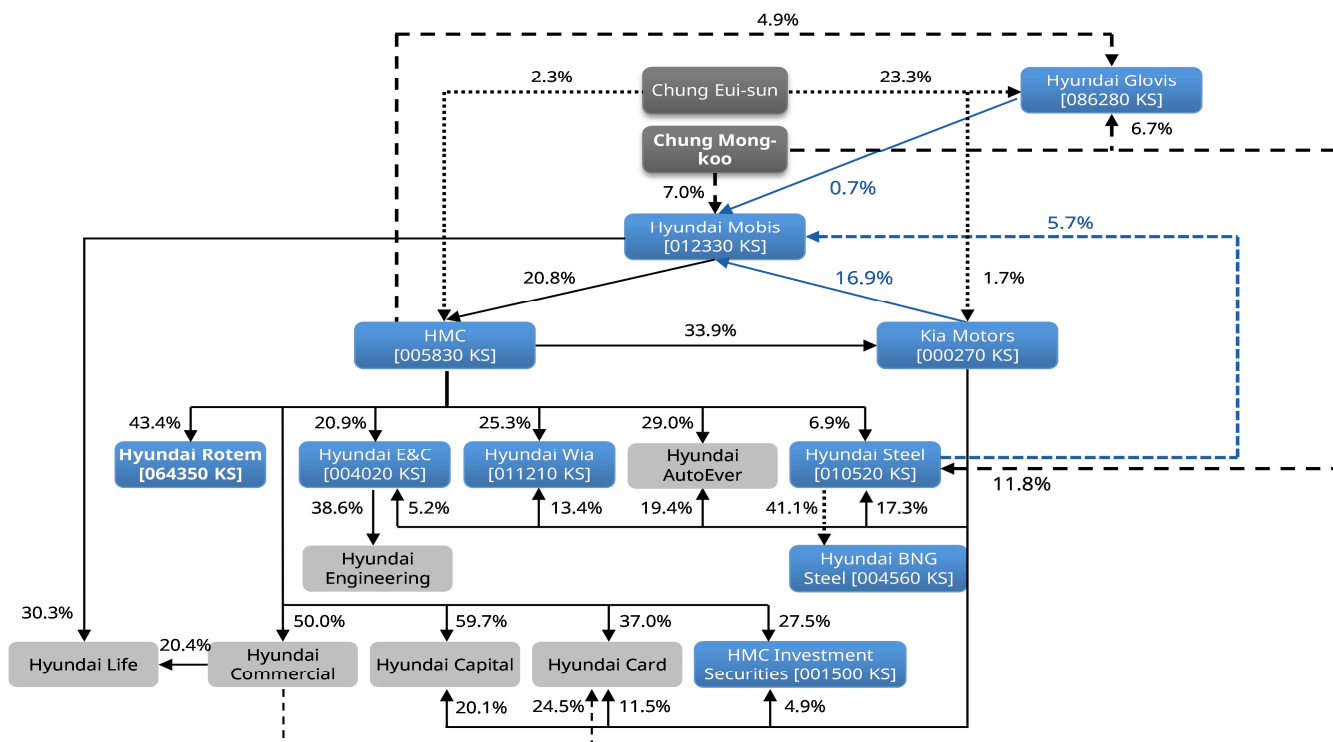
In an effort to reduce cross-shareholding ties and improve ownership structure, HMG decided to spin off Hyundai Mobis' module and after-service (A/S) businesses and merge them with Hyundai Glovis in end-March. However, the group scrapped the plan in May and decided to bring forward a new proposal, as the uncertainty surrounding approval by Hyundai Mobis' shareholders had grown. Domestic and foreign proxy advisers had all recommended voting against the deal, arguing that: 1) it undervalued Hyundai Mobis' spun-off units, making the merger ratio unfavorable to Mobis shareholders; and that 2) the merger lacked justification.

Table 11. HMG's circular shareholdings

No.	Affiliate 1	Affiliate 2	Affiliate 3	Affiliate 4	Affiliate 5
1	Hyundai Mobis → 20.8%	Hyundai Motors → 33.9%	Kia Motors → 16.9%	Hyundai Mobis	
2	Hyundai Mobis → 20.8%	Hyundai Motors → 4.9%	Hyundai Glovis → 0.7%	Hyundai Mobis	
3	Hyundai Mobis → 20.8%	Hyundai Motors → 11.2%	Hyundai Steel → 5.7%	Hyundai Mobis	
4	Hyundai Mobis → 20.8%	Hyundai Motors → 33.9%	Kia Motors → 19.6%	Hyundai Steel → 5.7%	Hyundai Mobis

Source: Mirae Asset Daewoo Research

Figure 13. HMG's ownership structure



Source: DART, Mirae Asset Daewoo Research

We believe that HMG will resume its push for restructuring as soon as it can. We think the group will keep the broader outline of the original proposal, as it has already shared its medium/long-term business goals, vision, and shareholder-return policies with the market based on that plan. Considering the direction of HMG's ownership reform, the logic behind proxy advisers' opposition, and the need to overcome the long-short trade dynamics, we believe the group will renew its restructuring and attempt to restore trust with shareholders and the market by taking the following three steps:

Step 1: Spin off Hyundai Mobis into a controlling company (surviving) and a module and A/S company (newly established), and list them separately.

► This would allow the market to evaluate the split ratio set by the company and price the entities accordingly, ensuring fairness in subsequent transactions.

Step 2: Major shareholders swap their shares in Hyundai Glovis (30%) and spun-off Mobis (7%) with surviving Mobis shares (16.9%) held by Kia. In this case, major shareholders would need to separately raise funds to pay for the shortfall and capital gains taxes. They could also acquire the surviving Mobis shares (6.3%) owned by Hyundai Steel and Hyundai Glovis.

► This would address issues regarding circular shareholding and related-party transactions. Conducting a share swap prior to the merger of spun-off Mobis and Hyundai Glovis would remove any controversy surrounding the interests of major shareholders. That said, this would be a costlier plan for major shareholders than the original proposal.

Step 3: Kia gains a 23.8% stake in spun-off Mobis and a 30% stake in Glovis. HMG secures shareholder approval to seek a merger between spun-off Mobis and Glovis.

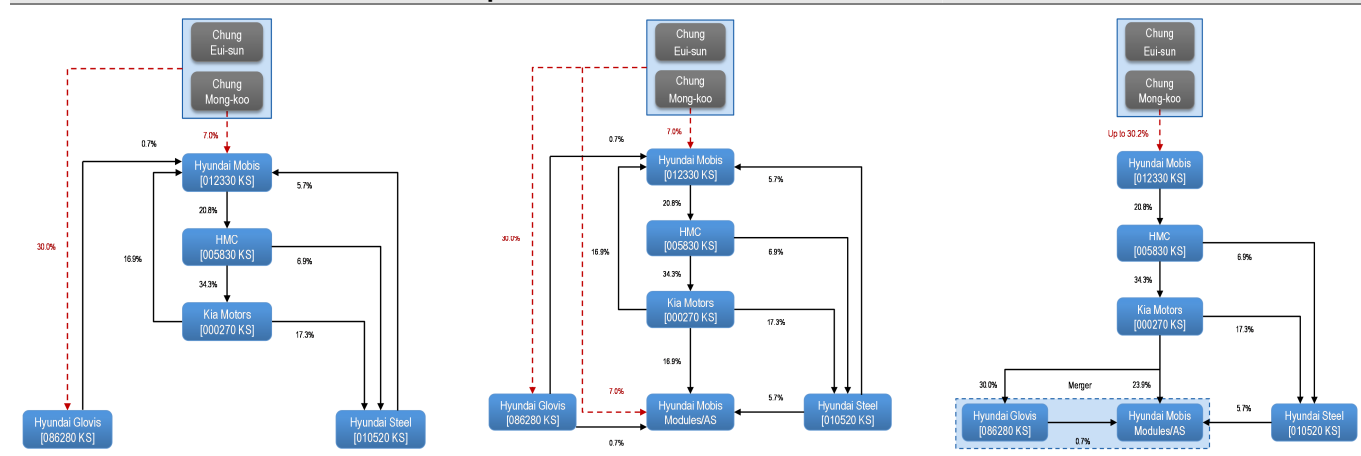
► This would enable the group to push forward with the merger without it being tied to the interests of major shareholders, limiting the possibility of controversy arising over the merger ratio. For Kia and its shareholders, an increase in enterprise value due to the merger would justify the swap of surviving Mobis shares.

Table 12. Expected changes in ownership after Hyundai Mobis' spinoff (Wbn)

Shareholders	Pre-spinoff			Post-spinoff						
	Hyundai Mobis			Hyundai Mobis module and A/S businesses (spin-off entity)			Hyundai Mobis (surviving entity)			
	# of shares	Stake	Market cap (1)	# of shares	Stake	Appraised value (2)	# of shares	Stake	Appraised value (1)-(2)	Notes
Chung Mong-koo	6,778,966	7.0%	1,461	1,426,766	7.0%	627	5,352,200	7.0%	834	
Chung Eui-sun	0	0.0%	0	0	0.0%	0	0	0.0%	0	
Kia Motors	16,427,074	16.9%	3,540	3,457,398	16.9%	1,520	12,969,676	16.9%	2,020	Share swap with biggest shareholders
Hyundai Steel	5,504,846	5.7%	1,186	1,158,602	5.7%	509	4,346,244	5.7%	677	
Hyundai Glovis	656,293	0.7%	141	138,130	0.7%	61	518,163	0.7%	81	
Hyundai Mobis	2,643,195	2.7%	570	556,312	2.7%	245	2,086,883	2.7%	325	
Total shares issued	97,343,863	100.0%	20,978	20,487,914	100.0%	9,007	76,855,949	100.0%	11,970	

Notes: Based on July 13th closing prices; Source: DART, Mirae Asset Daewoo Research

Figure 14. HMG ownership structure Step 1: Re-listing of Hyundai Mobis after spin-off Step 2&3: Merger after share swap



Source: Mirae Asset Daewoo Research

4. Stronger control on voting rights of financial/insurance firms and company-sponsored foundations

Current	Details
Current	For important matters requiring shareholder approval, the financial/insurance subsidiaries of large corporate groups can exercise voting rights of up to 15% (including shares held by affiliated parties) of total shares issued in domestic group affiliates.
Revision	Limit voting interests of financial/insurance firms to a combined 5%, which is also applied for foundations under the umbrella of corporate groups subject to cross-shareholding regulations.

Article 11 of the MRFTA bans a financial or insurance company belonging to a conglomerate from exercising voting rights in domestic affiliates. However, the rule makes an exception for important matters requiring shareholder approval, in which case financial firms can exercise voting rights of up to 15% (including shares held by affiliated parties) of total shares issued. As for a listed subsidiary, important matters include: 1) a designation or dismissal of executives; 2) revisions to corporate bylaws; and 3) the subsidiary's merger into or transfer to a group affiliate.

The FTC special committee recognized the likelihood that such exceptions could be used to maintain or strengthen controlling families' grip on corporate groups. After discussions, the committee largely agreed to limit the combined voting interests of financial/insurance firms to 5%, in addition to the current 15% limit on the combined voting rights of financial/insurance firms and affiliated parties. Meanwhile, there are mixed opinions on the exception regarding the exercise of voting rights on the merger into or transfer to group affiliates. Some members argued that the exception should be removed to prevent the likelihood of utilization by controlling interests. However, other members insisted that the exception is necessary for companies to defend their managerial control against a hostile M&A. The FTC will continue to deliberate on the issue going forward.

After investigating 165 foundations belonging to large corporate groups, the FTC found out that they are highly likely to be used for controlling families' strengthening of control or ownership succession. Accordingly, it decided to apply the same voting right restrictions as those on financial/insurance firms to company-sponsored foundations (public interest corporations defined in the Inheritance Tax and Gift Tax Act). Thus, the exercise of voting rights by company-sponsored foundations in group affiliates will be banned, while the exercise of up to 5% (rights of all group foundations combined) or up to 15% (including shares held by affiliated parties) will be allowed for exceptional cases.

Table 13. MRFTA: Limitation of voting rights of financial companies

	Details
Article 11: Limitation of voting rights of financial companies or insurance Companies	<p>Neither financial nor insurance companies which belong to an enterprise group subject to the limitations on mutual investment shall exercise its voting rights in stocks of domestic affiliated companies, under its acquisition or ownership, provided that the same shall not apply to cases falling under the following subparagraphs:</p> <ol style="list-style-type: none"> 1) Where the acquisition or ownership of stocks of the company is in order to carry on the financial business or insurance business; 2) Where the acquisition or ownership of stocks of the company is obtained by approval pursuant to the Insurance Business Act in order to ensure the efficient operation and management of the insurance assets; 3) Where the general meeting of stockholders of a relevant domestic affiliated company (limited to the listed corporation) passes a resolution for matters falling under the following items. In such cases, the number of voting stocks from among stocks of the said affiliated company shall not exceed 15/100 of the gross number of stocks issued by the said affiliated company, including the number of stocks to be exercised 916 Ministry of Government Legislation by the persons other than those as stipulated by Presidential Decree, from among the specially-related persons with the said affiliated company: <ol style="list-style-type: none"> (a) Appointment or dismissal of officers; (b) Alteration of the Articles of incorporation; (c) Merger of the said affiliated company with another company, or transfer of the whole or part of business to another company

Source: Mirae Asset Daewoo Research

At present, Samsung Group holds a 19.4% stake in SEC. Within the 9.3% SEC stake owned by Samsung Life and Samsung F&M, 5.5% exceeds the 15% voting share limit (accounting for shares owned by the controlling family and affiliated parties) and therefore do not hold any voting power. Even if restrictions on the voting rights of financial/insurance subsidiaries and foundations in domestic group affiliates are strengthened, the impact on Samsung Group's voting rights in SEC should be limited. In other words, Samsung Group will be able to maintain its 15% voting rights in SEC although the combined voting rights of financial and insurance subsidiaries and those of group foundations are both limited to 5%.

Samsung Life's position as the largest shareholder of SEC within the group is unsustainable, given the regulations regarding the separation of financial and non-financial activities and tighter international accounting standards on insurers. In particular, currently-proposed revisions to the Insurance Business Act, which mandate the mark-to-market valuation of equity holdings, would require Samsung Life to sell its SEC shares in excess of 3% of its total assets (currently 6.4%) within a grace period (seven years proposed by a lawmaker Lee Jong-geol; five plus two years by a lawmaker Park Yong-jin). Meanwhile, the Financial Services Commission (FSC) has called for a gradual, voluntary correction before the bill is approved.

Against this backdrop, we believe that Samsung Life will communicate to the market on how it plans to deal with its SEC shares. For the SEC stake (up to 5.5%) already subject to the voting control restrictions under the MRFTA, we think it is likely that the insurer would consider selling the shares on the market, as it has in the latest sale.

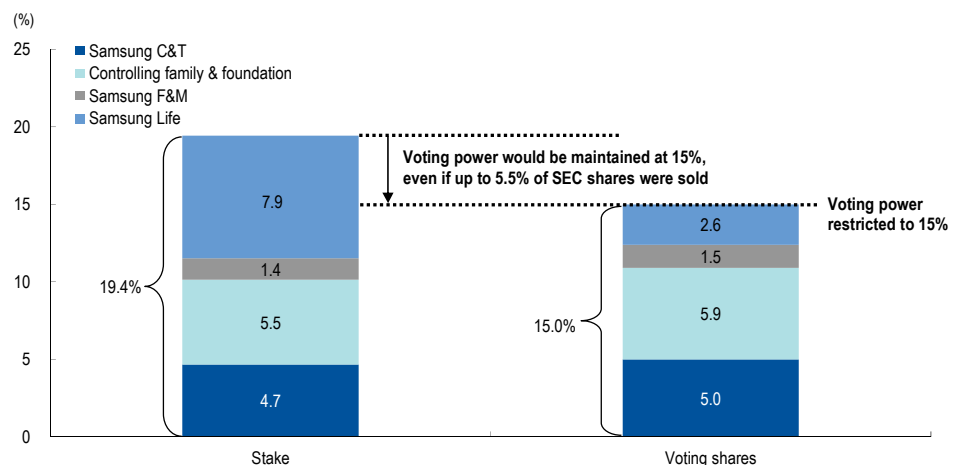
Table 14. Actual voting rights in SEC

(Shares, %)

	Common shares		Voting interest	Actual voting rights (based on MRFTA)	Limitation on voting rights
	Shares	Stake			
Financial affiliates (1)	596,959,200	9.3	10.0	4.1	-5.9
Samsung Life	508,157,148	7.9	8.5	2.6	-5.9
Samsung F&M	88,802,052	1.4	1.5	1.5	0.0
Other affiliates (2)	650,629,950	10.1	10.9	10.9	0.0
Samsung C&T	298,818,100	4.7	5.0	5.0	0.0
Lee Kun-hee	249,273,200	3.9	4.2	4.2	0.0
Hong Ra-hee	54,153,600	0.8	0.9	0.9	0.0
Lee Jae-yong	42,020,150	0.7	0.7	0.7	0.0
Samsung Welfare Foundation	4,484,150	0.1	0.1	0.1	0.0
Samsung Foundation of Culture	1,880,750	0.0	0.0	0.0	0.0
(1) + (2)	1,247,589,150	19.4	20.9	15.0	-5.9

Source: DART, Mirae Asset Daewoo Research

Figure 15. Even if Samsung Life unloads its SEC shares (up to 5.5%), the group's voting interest in SEC would remain unchanged



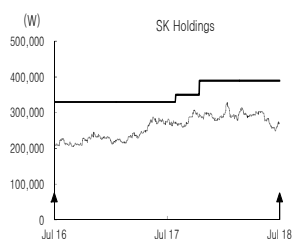
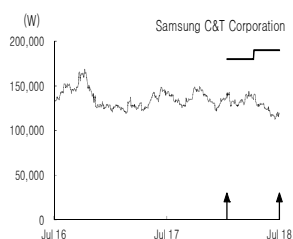
Source: Mirae Asset Daewoo Research

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price	Company (Code)	Date	Rating	Target Price
Samsung C&T Corporation(028260)	04/26/2018	Buy	190,000		08/15/2017	Buy	350,000
	01/29/2018	Buy	180,000		08/30/2016	After 1yr	
SK Holdings(034730)	10/31/2017	Buy	390,000		08/30/2015	Buy	330,000



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 Mirae Asset Daewoo Co., Ltd., 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.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	73.40%	14.78%	11.82%	0.00%
Investment Banking Services	77.42%	9.68%	12.90%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2018)

Disclosures

As of the publication date, Mirae Asset Daewoo Co., Ltd. has acted as a liquidity provider for equity-linked warrants backed by shares of Hyundai Glovis, Hyundai Mobis, SK Holdings, Samsung C&T Corporation as an underlying asset, and other than this, Mirae Asset Daewoo has no other special interests in the covered companies.

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