

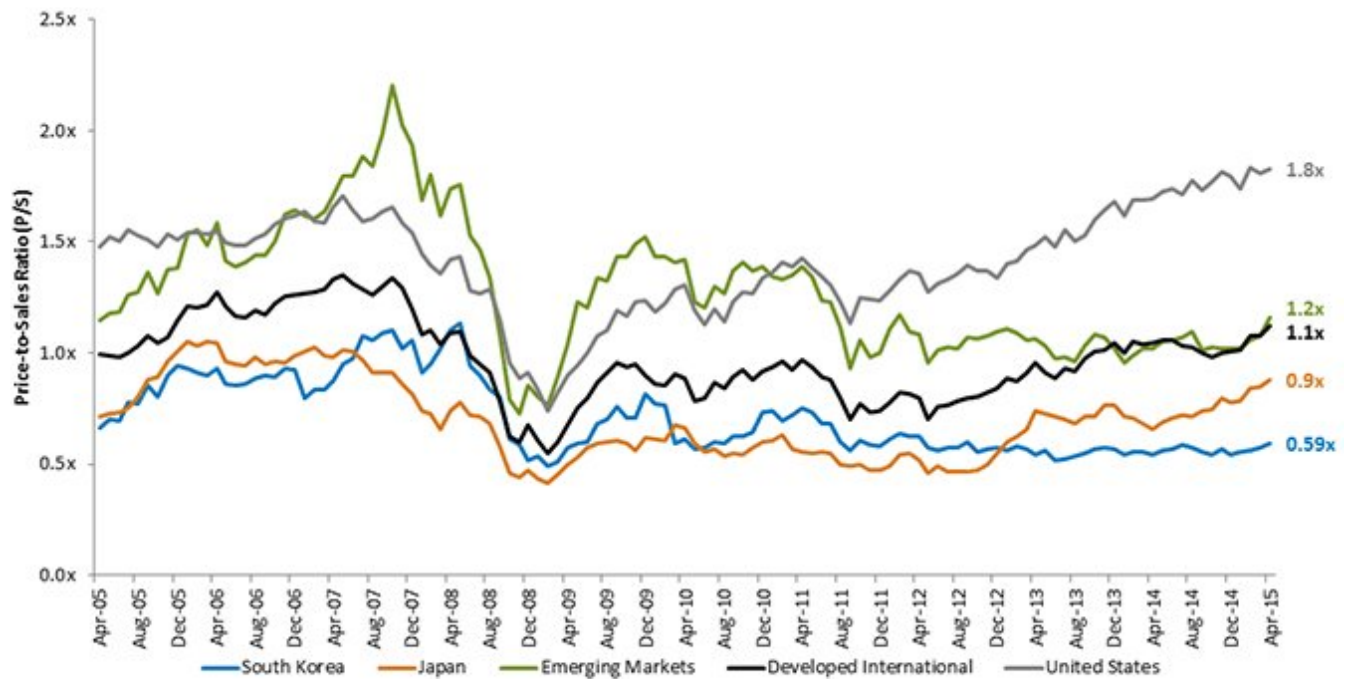
South Korea Valuations Close to 2009 Levels

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Recently I spoke with Jeff Weniger, Investment Strategist at BMO Global Asset Management, about his [thoughts on South Korea](#). Jeff believes that South Korea is attractively priced when looking at the [price-to-sales \(P/S\) ratio](#), which currently is close to the lows of 2009. He also believes a possible catalyst that could unlock this potential value is the central bank, which could be one of the next to embark on aggressive easing policy action. We also have been writing for the past year about the need for the South Korean central bank to do more on the monetary policy front to stop the appreciation of the won and support the country's export-heavy economy. **Currencies Matter** South Korea is heavily dependent on exports—which account for over 50% of its gross domestic product (GDP)—to drive its economic growth. Since the country is so heavily dependent on exports, I feel it has a lot to benefit or lose from currency weakness or strength, respectively. Important people in South Korea have also taken notice: • South Korean president Park Geun-hye recently stated, “Rival economies are accelerating their chase (to win against South Korea) amid the rapidly changing external environment, including the yen’s weakness.”¹ • Song In-chang, the Finance Ministry’s director general in charge of foreign exchange market policies, recently stated, “Korean companies face bigger difficulties this year than last. What’s different is that we have been paying attention to the won–yen rate since last year, whereas the won–dollar was our main focus before that.”² • The Bank of Korea also said its Market Policy Committee “will closely monitor external risk factors such as international oil prices and shifts in major countries’ monetary policies.”³ As a country’s currency becomes weaker, its exports become less expensive to foreigners, ultimately leading to increased sales. **Price-to-Sales (P/S) Ratio** South Korea is selling right in line with its median level of 2009 but has seen an approximate 20% expansion in the P/S ratio since its absolute 2009 low, the lowest expansion of any of the markets displayed below. Broad emerging markets witnessed the second lowest expansion in its P/S ratio, at 59%, while other markets all saw expansions over 100%. As a result of other markets becoming more expensive, South Korea is selling close to a 32% discount to Japan, a 67% discount to the United States, and a more than 46% discount to broad developed international and emerging markets. These current P/S discounts are all below the median discount over the past 10 years when comparing South Korea against each of the other markets. **Trailing 10 Year Price-to-Sales Ratio**



Sources: WisdomTree, Bloomberg, 4/30/05–4/30/15. South Korea, Japan, Emerging Markets, Developed International and United States are represented by the MSCI Korea, MSCI Japan, MSCI Emerging Markets, MSCI EAFE and S&P 500 indexes, respectively.

For definitions of indexes in the chart, please visit our [glossary](#). **Will Government Take Further Action?**

One of the most crucial questions when thinking about South Korea is whether the government will undertake more aggressive monetary policy actions to protect the country's global market share. Although difficult to know with certainty, I think more can be done, and ultimately the probability of the government doing more is higher than of it doing nothing. Therefore, given the relatively low starting valuation, coupled with the potential for the central bank to provide stimulus to the economy, we may be looking at an attractive combination for South Korean equities. For more research on South Korea, read our Market Insight [South Korea at a Crossroads](#). 1"South Korea says weak yen a challenge," Reuters, 10/23/14. 2"S. Korea Fires Warning Shot to Japan: We're Watching Yen-Won," Bloomberg, 5/3/15. 3Bank of Korea, Monetary Policy Decision, 3/12/15.

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