

KOSPI checkup | 5 November 2018

After the October sell-off

Macro & Investment Strategy Team

Eric Lee, strategist, kyoungmin.lee@daishin.com

Cho Seung-bin, quant strategist, seungbin.cho@daishin.com

Kim Young-il, global strategist, youngil.kim@daishin.com

Kong Dong-rak, fixed income strategist, dongrak.kong@daishin.com



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[Summary] After the October sell-off

The October sell-off was more severe than can be justified by an economic down-cycle.

- Since 1990: Bubble burst/Economic recession (-50~60%) vs. Economic cycle (-20~25%)
- By end-October, emerging market equities and KOSPI shed about 20% off this year's peak.
- Risk of global recession or China-led financial crisis breaking out in 1H19 is slim.
- Financial risk indicators (such as financial condition index and CDS spread) are stable when compared with those during the previous financial crises.

Current equity market risks will persist in 1Q18, although their impact will gradually weaken

- ① Slowing global economy: Negative outlook to prompt governments to better respond to headwinds
- ② China's debt buildup: Chinese corporate bonds to regain stability in 2Q19 as Beijing's efforts to rein in risks (reduced reserve requirement ratios) kick in
- ③ Eurozone: Uncertainties related to Italy's budget and the Brexit negotiations to linger through end of year
- ④ Corporate earnings: Earnings momentum to slow through 1Q19; major countries to see their corporate earnings grow by more than 10% in 2019

With risks already priced in, valuations will likely return to normal

- With the October sell-off, the KOSPI has reflected the downward revisions of earnings forecasts expected through 1H19. (The fair level for the index is 1965p, assuming zero NP for 2018 and 2019.)
- Year-end shopping season, US fiscal stimulus, China's National People's Congress will help support the KOSPI towards the end of this year.
- Investment strategy: Increase exposure to undervalued sectors such as semiconductors, chemicals, and securities.

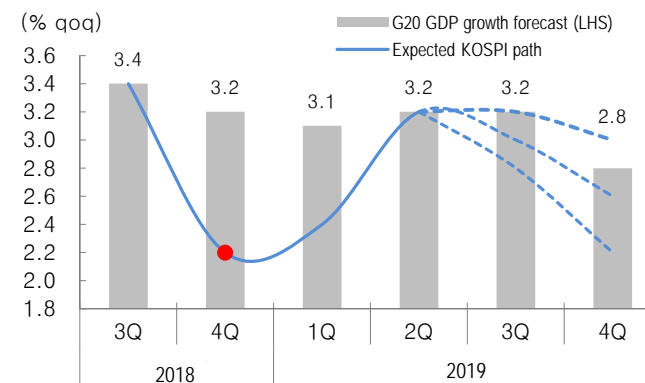
KOSPI target: 2,300p

KOSPI valuation based on RIM	2018E NP growth (%)		
	0	5	10
-5	1,830	1,968	2,106
0	1,965	2,110	2,255
5	2,100	2,251	2,403
10	2,235	2,393	2,551

Source: WiseFn, Daishin Securities Research Center

Note: This is based on the assumption that NP will be flat in 2018 and 2019, same as the KOSPI derived by discounting the current market consensus for 2018 and 2019 NP at 14.8% and 20.0%, respectively.

Expected paths to KOSPI normalization

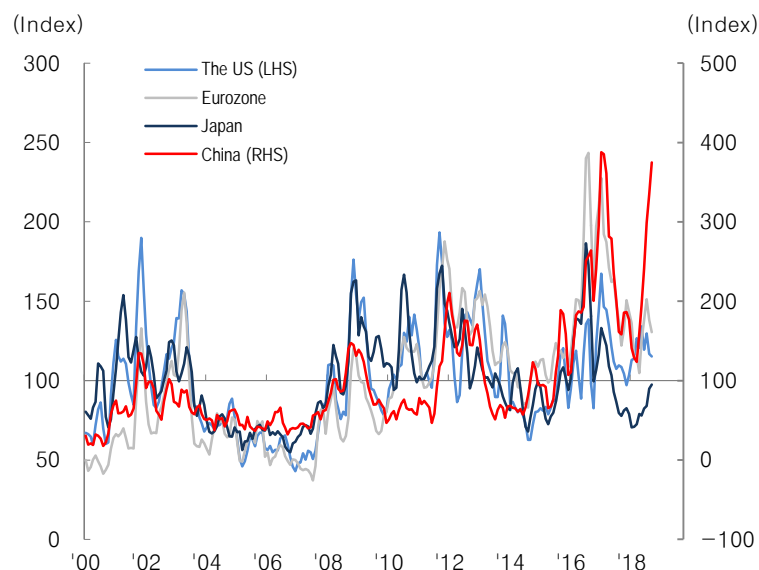


Source: Bloomberg, Daishin Securities Research Center

[October shock] Struggling with uncertainties in 2018

- Global uncertainties have increased since the beginning of this year, fuelled by rising interest rates, a strengthening dollar, US-China trade tensions and instability in emerging markets.
- In October, potential interest rate hikes, political risks in Europe and China's corporate debt buildup as well as rising concerns over the US economy and corporate earnings slowing down depressed the sentiment further.
- With all of this already priced in, we expect an upturn in the near future once the market passes its peak in 4Q18 and 1Q19.

Economic/Policy uncertainty index



Source: EPU, Daishin Securities Research Center

Note: Three-month moving average; average since 2000 = 100

Major risk factors and peaking period

	Major risks	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
The US	GDP growth			○	○	○	●
	Corporate earnings growth		○	●	○	○	●
Europe	Political/Policy risks	○	●	●	○	○	○
	Corporate earnings growth	○	○	○	○	●	●
China	GDP growth	●	○	○	●	●	●
	Currency weakness	○	○	●	●	●	●
	Corporate debt	○	○	●	○	●	●
Emerging markets	Fund outflows	○	●	○	○	●	●
	Global trade	○	●	●	○	●	●

Source: Daishin Securities Research Center

Note: ○ No change ● Increasing ● At peak

[October shock] A look back at recent stock market shocks

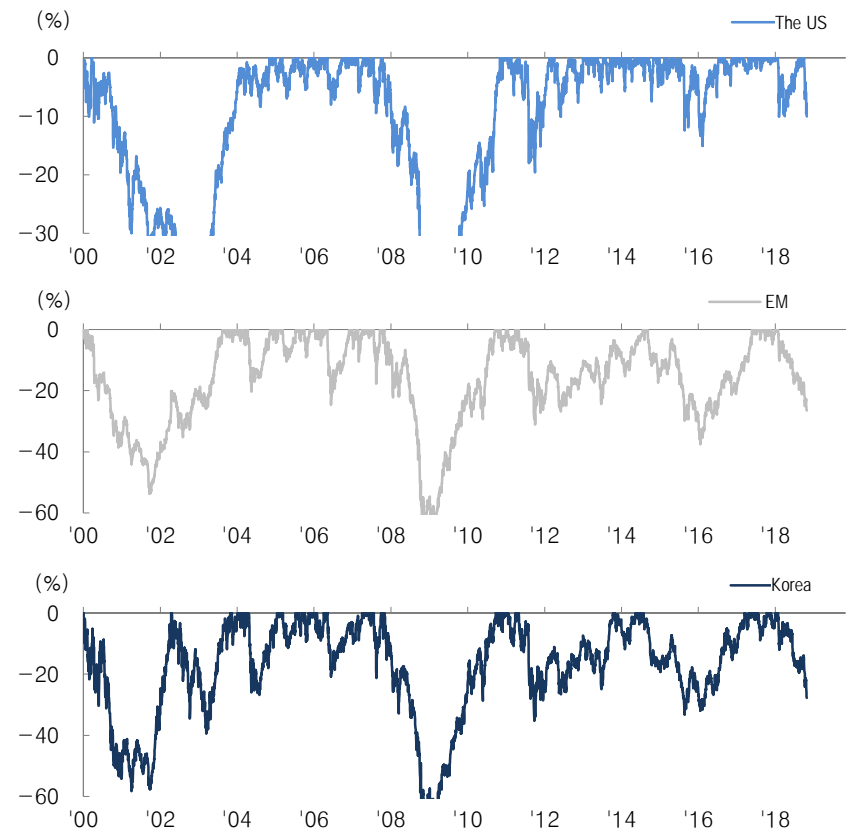
- Bubble burst, economic recession (-50~60% from peak) vs. cyclical downturn (-20~25% from peak)
- If the October sell-off is a normal, anticipated down-cycle, it appears EM/KOSPI stock markets have reached their respective lows.

Maximum drawdown from 2-year high

	Region	Stock market collapse		Cyclical downturn		End-Oct
		2002	2008	2011	2015	2018
Dollar	The US	-48.5	-56.4	-19.6	-15.1	-10.0
	Europe	-44.9	-64.5	-31.5	-29.3	-18.6
	Japan	-56.6	-53.1	-25.6	-24.1	-18.3
	EM	-53.7	-66.1	-31.1	-37.5	-26.6
	Korea	-58.3	-71.9	-35.3	-33.3	-27.8
Local currency	World	-46.0	-55.8	-20.6	-19.1	-10.8
	Europe	-51.8	-56.6	-25.4	-24.6	-11.5
	Japan	-48.2	-62.1	-30.6	-29.9	-16.3
	EM	-45.6	-58.9	-24.0	-26.6	-20.9
	Korea	-50.8	-53.6	-27.5	-22.0	-22.7

Source: Bloomberg, Daishin Securities Research Center / Note: Based on MSCI indexes.

Maximum drawdown from 2-year high in major markets

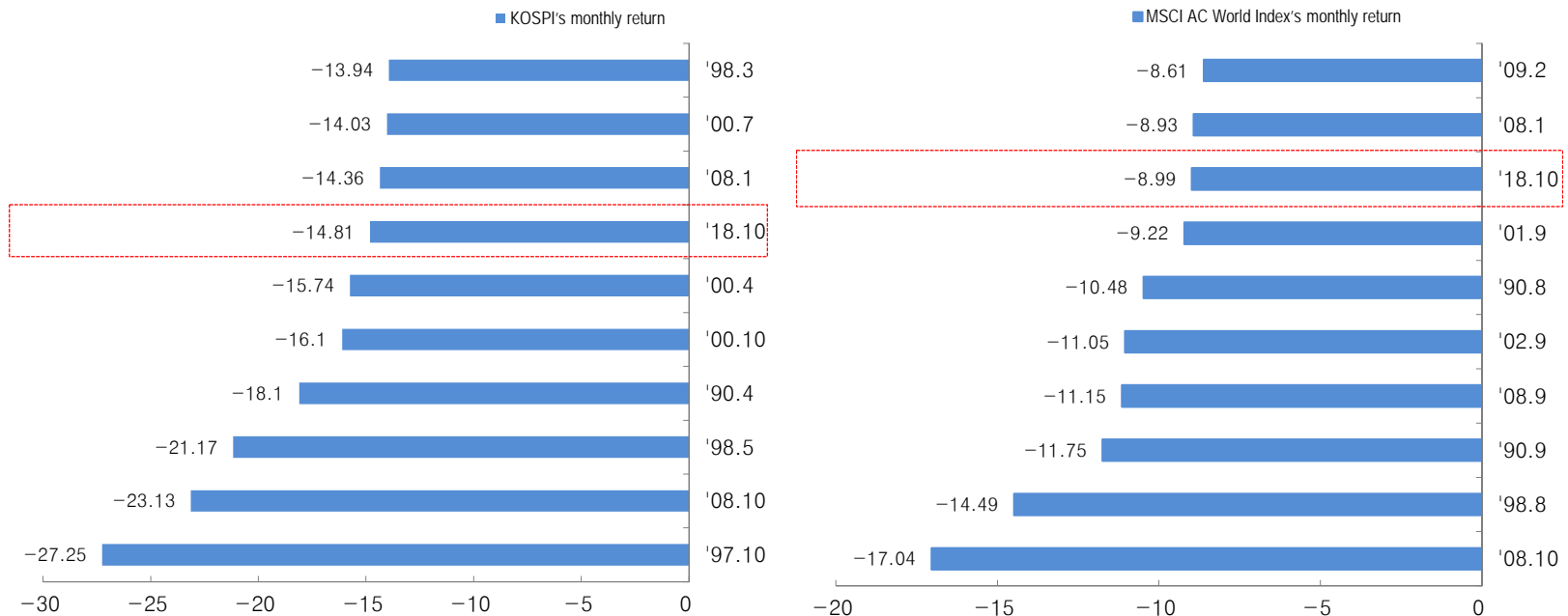


Source: Bloomberg, Daishin Securities Research Center / Note: Based on MSCI indexes.

[October shock] Ongoing market fears reflected in the market

- The current investor sentiment, similar to that last seen when the bubble burst or the financial crisis hit economies around the world, is reflected in the global stock markets, including the KOSPI.

October rout, one of the biggest sell-off since 1990 for global stock markets (8th) and KOSPI (7th)



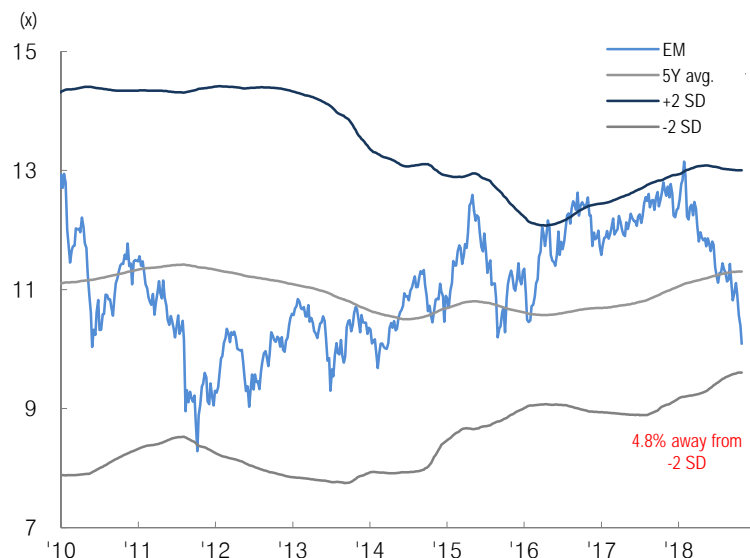
Source: WiseFn, MSCI, Bloomberg, Daishin Securities Research Center

Note: Based on local MSCI indexes

[October shock] Emerging market equities now offer extremely compelling valuations

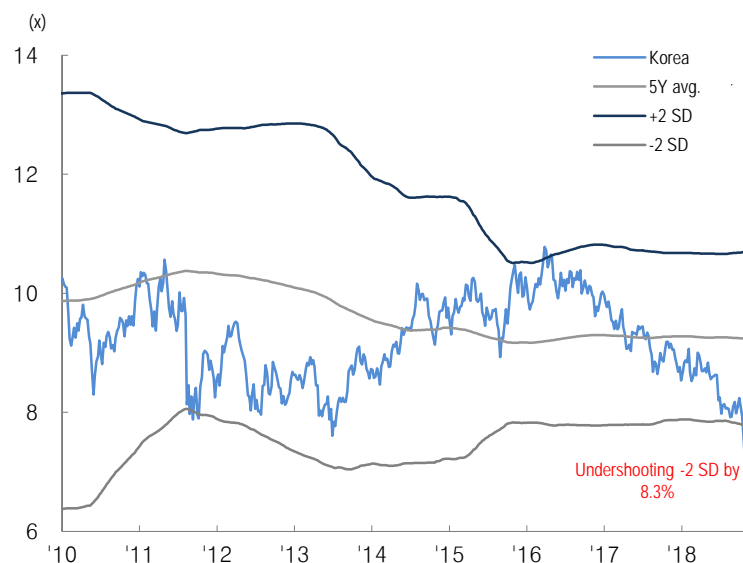
- Following the October sell-off, emerging market equities are trading at a 12-month forward P/E of 10x (based on MSCI indexes), the lowest since 2014. At nearly two standard deviations below the 5-year average, the valuations are getting attractive for emerging markets.
- Korea's 12MF P/E stands at 7.2x (based on MSCI indexes), at its lowest level since 2005, and more than two standard deviations below the 5-year average (8.3% lower), suggesting that the Korean stock market is undershooting the target.

12MF P/E band of EM equities: Undervalued



Source: I/B/E/S, Thomson Reuters, Daishin Securities Research Center
Note: Based on MSCI EMG

12MF P/E band of Korean equities: Undershooting

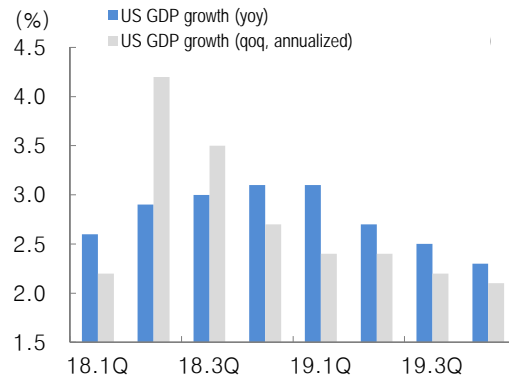


Source: I/B/E/S, Thomson Reuters, Daishin Securities Research Center
Note: Based on MSCI Korea

[October shock] Is another recession on the horizon?

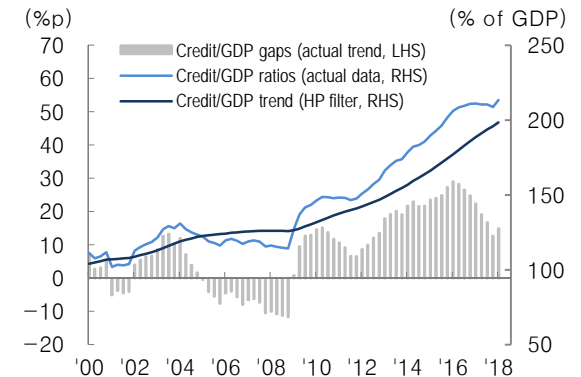
- Reasons behind the October shock
 - Concerns over US economic slowing
 - China debt risk
 - Signs of prolonged trade war impacting corporate earnings
 - Magnitude of US monetary tightening, level of bond yields
- Two types of bear markets
 - 1) Bubble burst, economic recession
 - : Stocks fall more than 50% off peak
 - 2) Cyclical downturn
 - : Stocks fall 20-25% off peak
- The pressing question is whether such factors will lead to a bubble burst or an economic recession in the near term, as it will impact the trajectory of the market and investment strategies.
- We view the October sell-off as a cyclical downturn, likely an overreaction as signs of the US economy reaching a turning point began to emerge.

US growth forecast to peak out



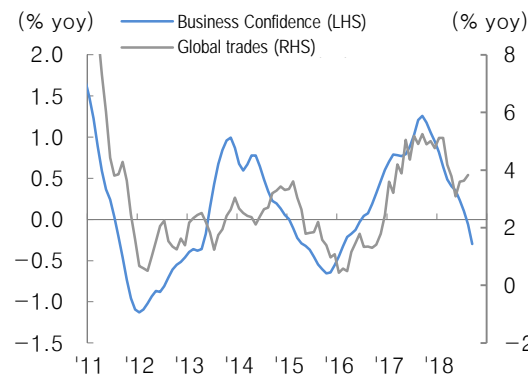
Source: Bloomberg, Daishin Securities Research Center

China's private debts



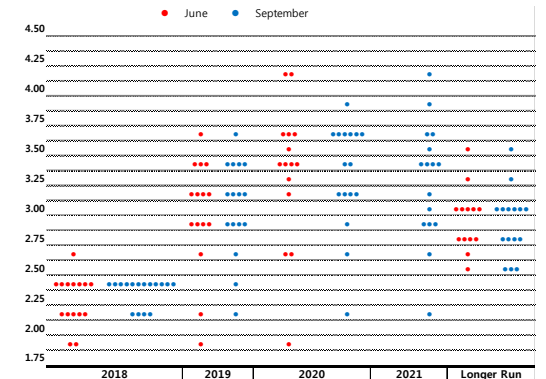
Source: BIS, Daishin Securities Research Center

Global trade slows; business confidence slips



Source: OECD, CPB, Daishin Securities Research Center

Dot plot still indicates three hikes in 2019

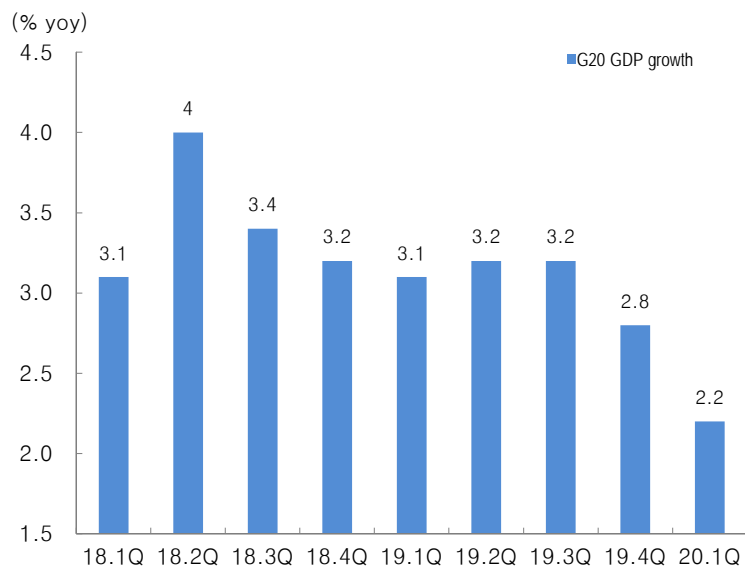


Source: FRB, Daishin Securities Research Center

[Not a crisis] Flat GDP growth, a positive signal for equities

- While growth is heading south, we shouldn't read too much into the broad downward trend.
- GDP growth for G20 economies is forecast to remain at the 3% level until 3Q19.
- As long as the US GDP growth exceeds 2% in 2019, which still is on its long run growth trend, the stock market will be relatively unaffected.

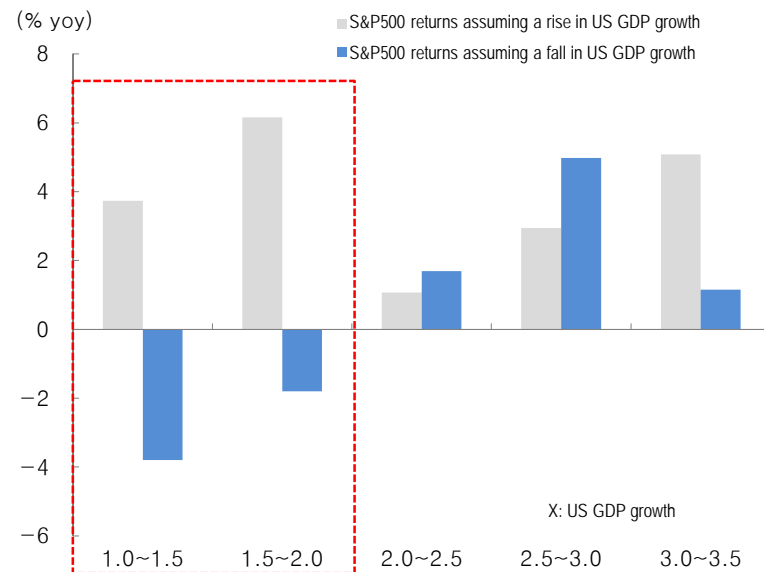
Too early to predict future GDP slowdown



Source: Bloomberg, Daishin Securities Research Center

Note: Figures for 3Q18 and onward are based on Bloomberg's estimates

US GDP growth and its impact on stock market

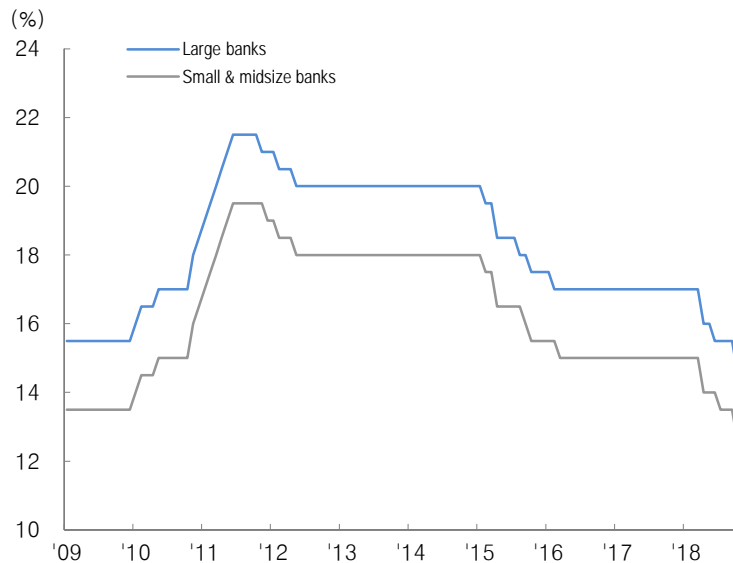


Source: Bloomberg, Daishin Securities Research Center

[Not a crisis] China's debt situation already under control

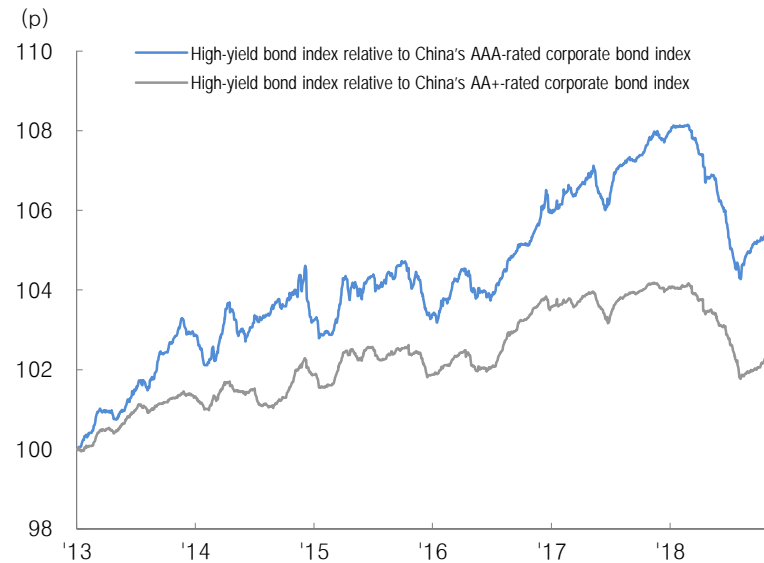
- Considering that China's debt pile is a major risk for emerging market equities, the country's rising debt level has stoked investor anxiety.
- This has pushed Beijing to step in and cleanup the country's debt situation, boosting liquidity and cutting reserve requirement ratio in an effort to stabilize financial markets.

Reserve requirement ratios of banks



Source: People's Bank of China, Bloomberg, Daishin Securities Research Center

Chinese corporate bonds to regain stability as government measures kick in

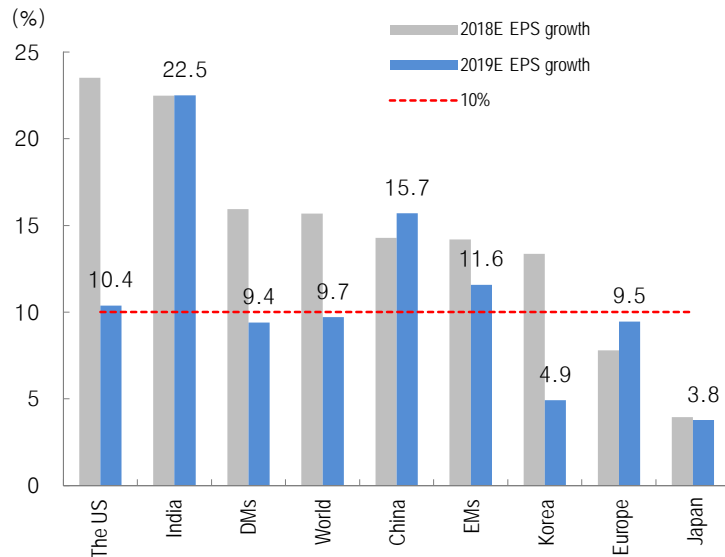


Source: Bloomberg, Daishin Securities Research Center

[Not a crisis] Deteriorating corporate earnings already priced in

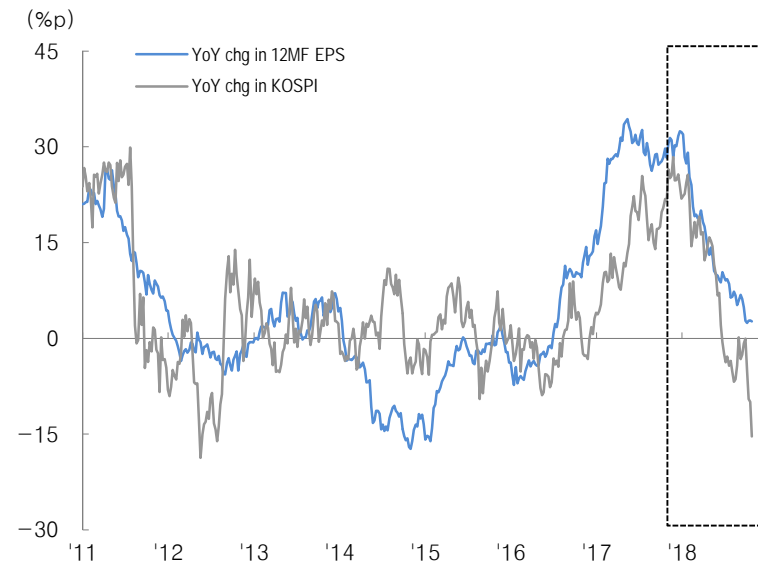
- Worries about a prolonged trade war between the US and China are fuelling uncertainty about corporate earnings, inevitably leading investors to lower their expectations. In 2019, corporate earnings will lose some of its momentum in major countries, but growth rate will remain above the market's consensus estimate of 10%.
- Current stock market valuations already reflect much of this concern. In Korea, the market seems to be oversold relative to the possibility of earnings deterioration.
- Global stock markets have entered an area where stock prices are undervalued relative to earnings.

Global corporate earnings growth: 2018 vs. 2019



Source: I/B/E/S, Thomson Reuters, Daishin Securities Research Center
Note: Based on MSCI indexes

KOSPI market drifts into undervaluation territory

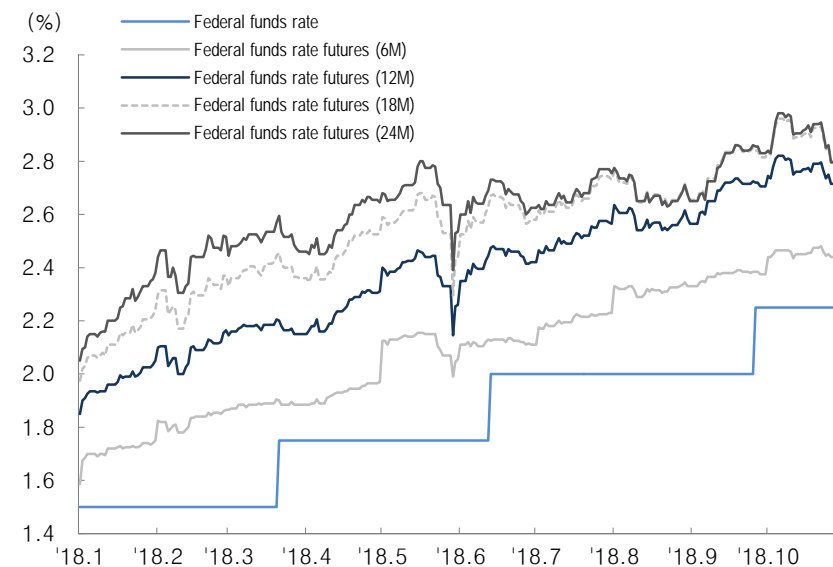


Source: WiseFn, Daishin Securities Research Center

[Not a crisis] Fed tightening pace unlikely to speed up

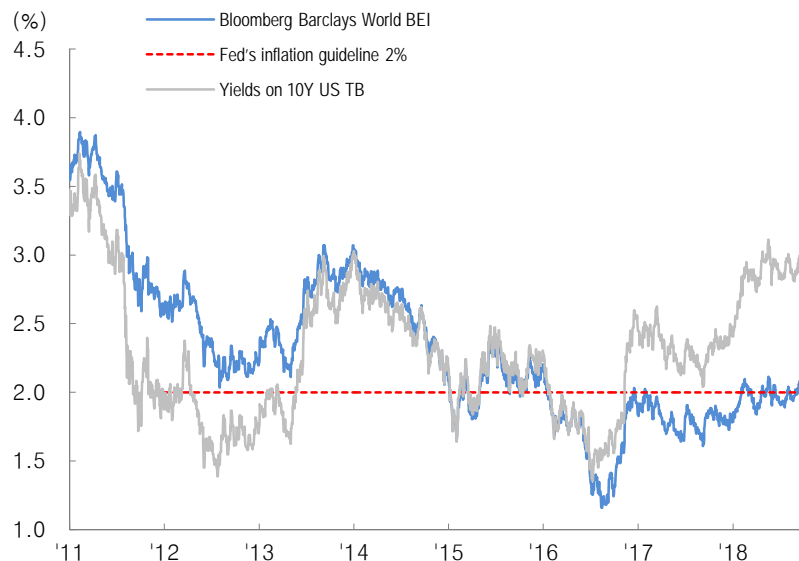
- The October sell-off was triggered by a surge in bond yields amid mounting concerns about the US monetary tightening. However, it appears unlikely that the Fed will quicken the pace of planned tightening before signs of significant economic growth and inflationary pressure emerge.
- The Fed has maintained the country's potential GDP growth projection at 1.8%. The expected global inflation rate is above 2%, but this is still relatively low.
- The Fed's interest rate hike cycle is expected to end in 1H19.
- In fact, the October sell-off has somewhat eased market concerns over the Fed's potential drastic rate hikes.

Stock market will stabilize only if concerns over US monetary policy ease



Source: Bloomberg, Daishin Securities Research Center

Inflationary risks look limited

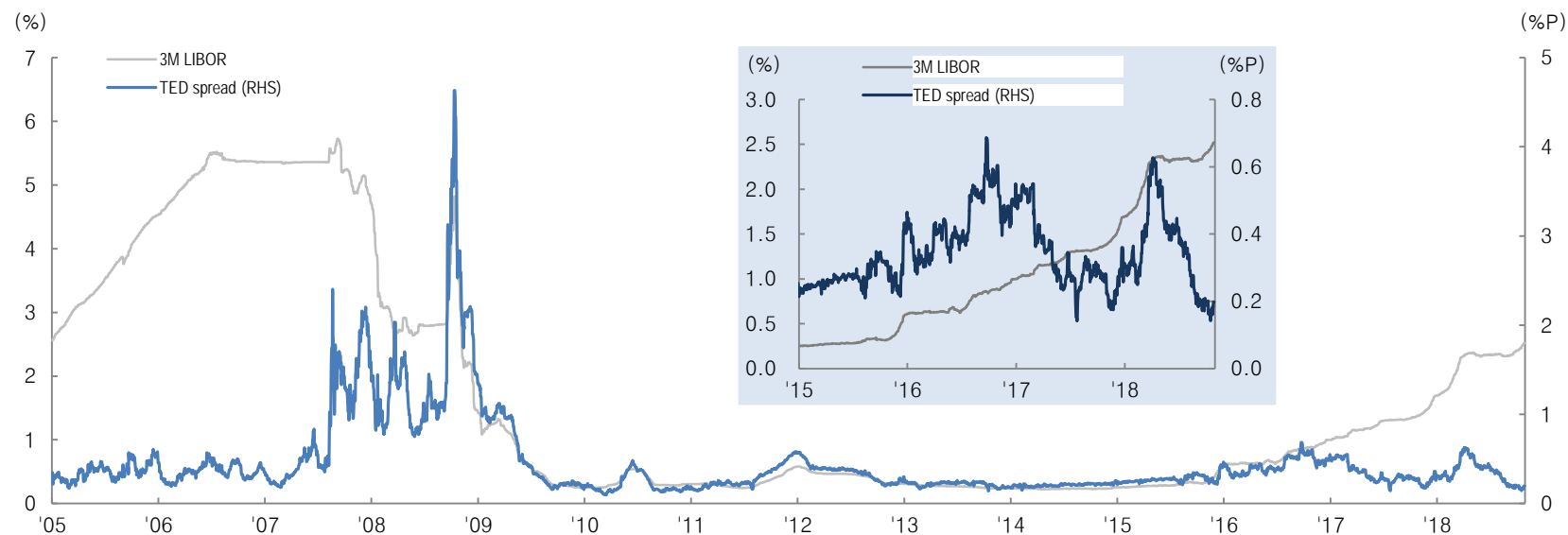


Source: central banks, Barclays, Daishin Securities Research Center

[Not a crisis] Global liquidity conditions not bad

- LIBOR has been rising steady, led by the Fed's interest rate hikes.
- In contrast, TED spread has fallen to its lowest level.
- This indicates that the liquidity risks in the financial markets are still low.

TED spread of 3M LIBOR (based on the US dollar): Stable funding conditions in the global money market



Source: Bloomberg, Daishin Securities Research Center

[Not a crisis] CDS spreads remain broadly stable

- The probability of default, a major risk in the global financial system, is at a low level.
- CDS of major financial institutions in the US, Europe, and Japan moderately increased as of late, but are still within the stable range.

CDS of major financial institutions in the US, Europe, and Japan

(bps)

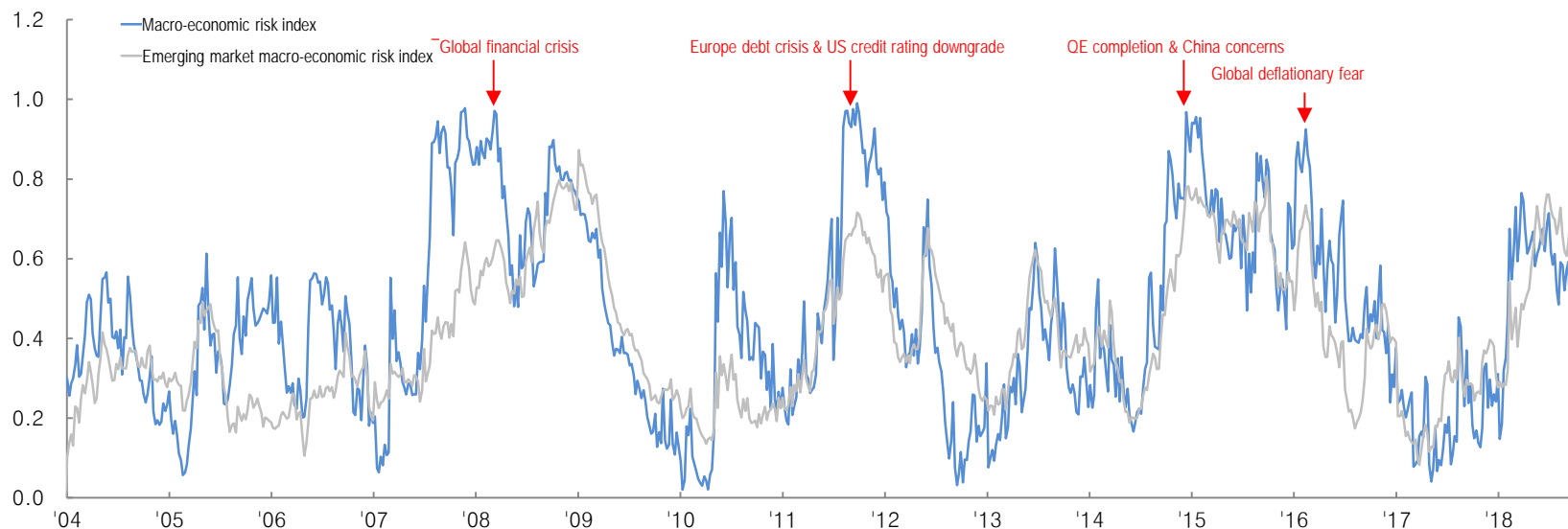
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Jul 2018	Aug 2018	Sep 2018	Oct 24	Oct 31
The US	JP Morgan	121	50	86	147	91	67	64	73	64	38	40	42	40	51	52
	BAML	121	102	181	412	132	78	67	72	76	38	48	50	45	55	56
	Wells Fargo	119	91	106	144	81	40	48	53	55	41	47	49	44	51	52
	Citi	193	173	149	285	132	71	75	82	76	40	50	52	51	62	62
	Goldman Sachs	31	31	99	99	99	99	99	99	99	99	99	99	99	99	99
	Avg	117	89	124	217	107	71	71	76	74	51	57	58	56	64	64
Europe	HSBC	102	58	85	142	75	64	44	71	69	20	33	36	37	37	37
	BNP Paribas	72	60	113	258	136	81	69	70	85	23	42	47	44	53	54
	Credit Agricole	80	78	165	264	157	101	70	69	74	20	33	42	41	47	47
	Deutsche Bank	131	76	105	193	94	83	79	96	166	73	136	147	127	147	153
	Santander	168	70	90	180	92	105	93	135	117	39	45	52	51	53	53
	Barclays	164	86	121	197	130	91	50	61	82	42	60	65	69	71	72
	Societe General	106	77	159	339	171	99	94	70	84	23	43	49	45	55	57
	Avg	117	72	120	225	122	89	71	82	97	34	56	62	59	66	68
Japan	MUFJ	130	73	65	162	86	58	68	80	50	50	53	52	51	51	51
	SMBC	113	76	66	182	95	60	71	85	55	52	56	55	53	53	53
	Avg	122	75	66	172	90	59	69	82	52	51	55	53	52	52	52

Source: Bloomberg, Daishin Securities Research Center

[Not a crisis] Risk metrics suggest it's not a financial crisis

- The macroeconomic risk indexes have stayed below 0.8 for both global and emerging markets, lower than what we've observed during past financial crises, economic recessions, and system risk outbreaks.

Global macro-economic risk index lower than the level seen in past economic downturns

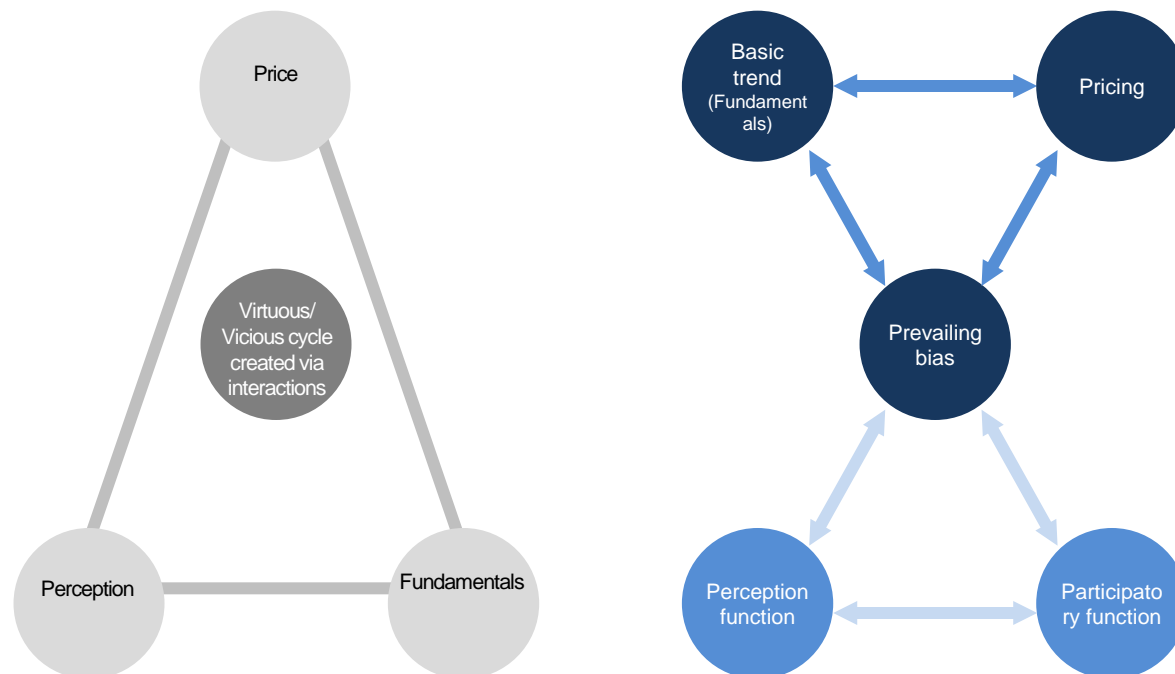


Source: CITI, Bloomberg, Daishin Securities Research Center

[Not a crisis] Betting on a shift in investor sentiment

- But then, why is the KOSPI still volatile despite it undershooting expectations?
According to George Soros' theory of reflexivity, dampened investor sentiment impacts the balance between supply-and-demand and price, creating a vicious cycle.
- A shift in investor sentiment, sparked by changes expected to take place in 4Q18 or 1Q19, might weaken or even break this vicious cycle.

George Soros' Theory of Reflexivity



Source: George Soros' book *The New Paradigm for Financial Markets*, Daishin Securities Research Center

[Positive catalysts ahead] Year-end shopping season

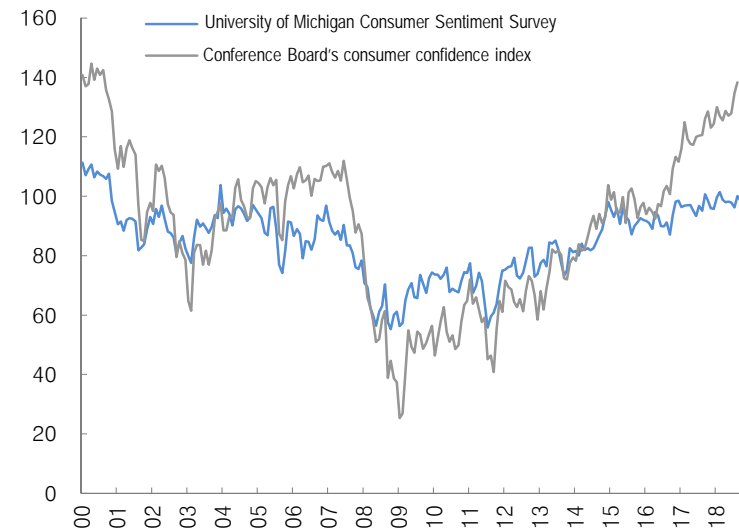
- Consumers will start opening up their wallets as the year-end shopping season kicks off with China's Singles' Day on November 11, followed by Black Friday, Christmas and then Boxing Day.
- In China, consumer sentiment might get a further boost from the country's recovering real-estate market and Beijing's measures aimed at boosting consumption (e.g., lower consumption tax and tariffs on imported goods).
- US consumer confidence is at the highest level in 18 years thanks to the Trump administration's tax cuts that put extra dollars in shoppers' pockets.

China's consumer spending pattern by month



Source: National Bureau of Statistics of China, Bloomberg, Daishin Securities Research Center

US consumer sentiment index

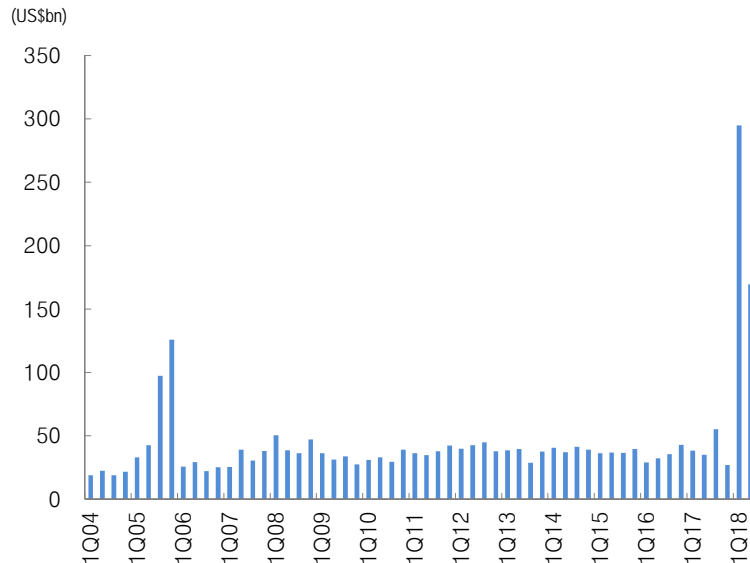


Source: University of Michigan, Conference Board, Bloomberg, Daishin Securities Research Center

[Positive catalysts ahead] Stepped-up share buyback among US firms

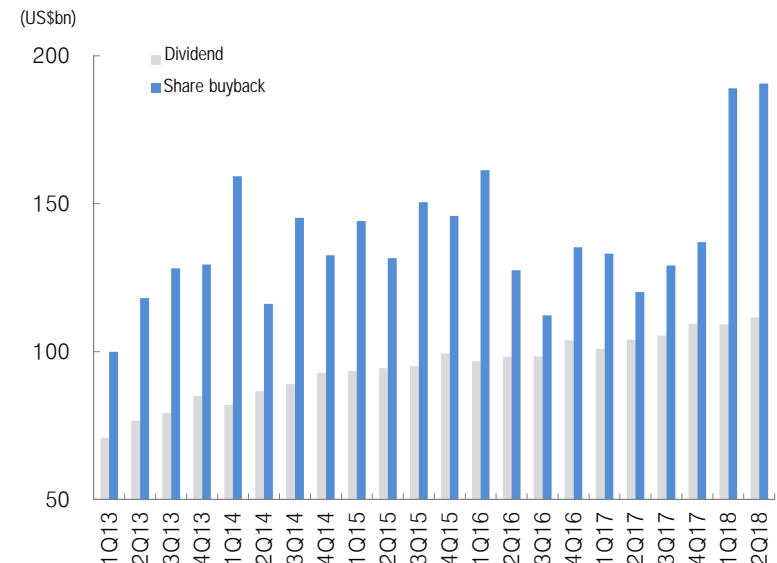
- Thanks to tax cuts, US firms are increasingly bringing overseas profits back home, adding to the country's dividend and withdrawal accounts a combined \$294.9bn in Q1 and \$169.5bn in Q2, compared to the quarterly average of \$3.6bn since 2006.)
- In those same periods, the amount of share buybacks by companies in the S&P 500 index expanded 42% and 58.7%, respectively, year-over-year. (In the first half, they spent a total of \$379.7bn to repurchase their own shares, up by \$126.4bn from a year-prior period.) The pace will likely accelerate further after the third-quarter reporting season.

US dividend and withdrawal account



Source: Bloomberg, Daishin Securities Research Center

Estimated amount of US share buybacks



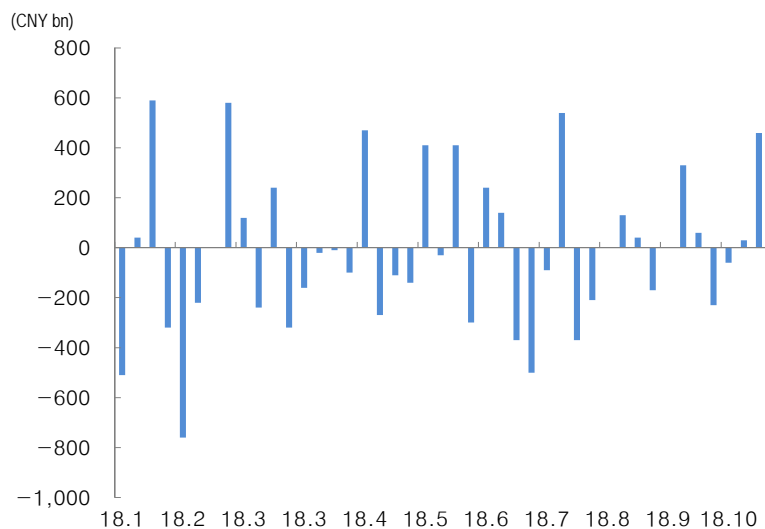
Source: S&P Dow Jones Indices, Daishin Securities Research Center

[Positive catalysts ahead] China's market-boosting measures

- To help prop up its economy against increasing external headwinds, China's central bank stepped in late October and injected CNY460bn into its financial system, its biggest money-market operation since July. Historically, such a move led to a rally in the benchmark Shanghai Composite Index.
- Beijing also eased rules to allow occupational pension funds to invest in equities, the country's latest effort aimed at revitalizing the stock market. The move came on the heels of its September decision to lift the ban on the funds' access to the country's CNY22.32tn WMP (wealth-management product) market.

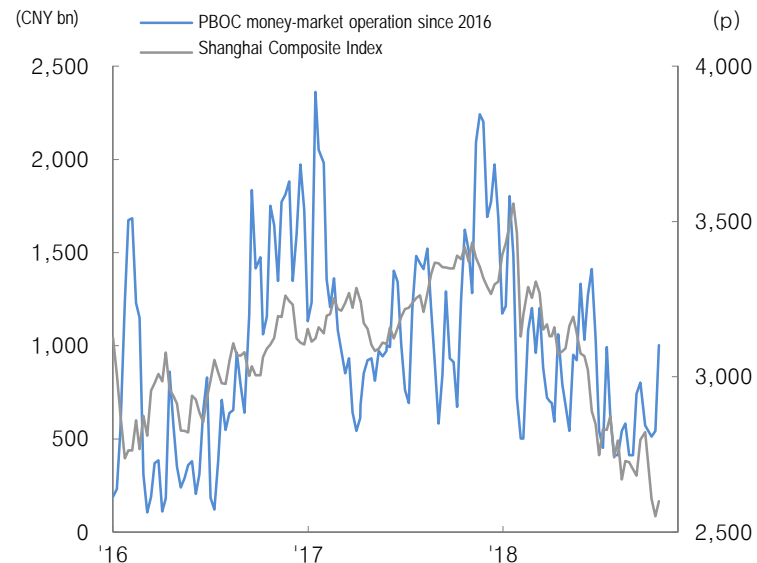
* WMPs mostly invest in real-estate project financing and corporate bonds.

PBOC's money market operation



Source: People's Bank of China, Bloomberg, Daishin Securities Research Center

Extra liquidity to help jolt the China's stock market



Source: People's Banks of China, Bloomberg, Daishin Securities Research Center

[Positive catalysts ahead] US infrastructure projects and China's accommodative policy

- The Trump administration's initiative to ease regulation on financial markets and boost infrastructure spending will likely gain momentum after the midterm elections.
- Having acknowledged the downside risk to its economy, Beijing will likely lay out powerful fiscal measures during its annual congressional meeting set for December.

US Infrastructure initiative

	Budget	Share	Note
Federal funds	USD100bn	50%	Provide infrastructure project grants to public entities
Rural infrastructure	USD50bn	25%	Provide fund to each State's Governor via a formula distribution
Transformative projects	USD20bn	10%	Provide funding and technical assistance for innovative projects
Infrastructure credit programs	USD20bn	10%	Expand on the existing funding program
Federal capital revolving fund	USD10bn	5%	Finance purchases of Federally-owned civilian real property

Source: White House, Daishin Securities Research Center

Beijing's stance on its economy

	April	July
Political path	<ul style="list-style-type: none"> ▪ Prepare for high-quality growth ▪ Aggressive fiscal, neutral monetary policies 	<ul style="list-style-type: none"> ▪ Focus on structural improvements ▪ Aggressive fiscal, prudent monetary policies
Assessment	<ul style="list-style-type: none"> ▪ Economy on stable footing with key metrics within reasonable ranges ▪ Deep-seated structural problems persist ▪ Enhanced economic cycle 	<ul style="list-style-type: none"> ▪ Economy on stable footing with key metrics within reasonable ranges ▪ Markets opened up further
Future directions	<ul style="list-style-type: none"> ▪ Aggressive fiscal, neutral monetary policies ▪ Continue with restructuring efforts and boost domestic consumption 	<ul style="list-style-type: none"> ▪ Keep the economy and society in order ▪ Pursue high-quality growth ▪ Create policy synergies

Source: China Communist Party, Daishin Securities Research Center

[KOSPI outlook] The index to hold above 1,950 through year's end

- Our residual income model suggests that 1,960 will be the fair level for the KOSPI, even assuming zero NP growth for 2018 and 2019.

On the valuation side, the index is in oversold territory. Even if its valuation follows other emerging markets lower (by an additional 5%), the index still won't likely fall below 1,925.

- For the remainder of the year, we project the index' lower range to be between 1,920 and 1,960.

Profit growth outlook vs. KOSPI's fair levels

KOSPI's fair levels		2018E NP growth (%)				
		-10	-5	0	5	10
2019E NP growth (%)	-10	1,433	1,564	1,695	1,826	1,958
	-5	1,554	1,692	1,830	1,968	2,106
	0	1,676	1,820	1,965	2,110	2,255
	5	1,797	1,949	2,100	2,251	2,403
	10	1,919	2,077	2,235	2,393	2,551

Source: WiseFn, Daishin Securities Research Center

Note 1: Under the residual income model (RIM), we add the current shareholders' equity to the residual income based on the earnings forecast for the next ten years before adding the result to the residual income after the forecasting period to derive the value of shareholders' stakes.

Note 2: The required rate of return (i.e., cost of equity) is the rate of return expected by the shareholders who take risks. It is derived by the capital asset price model: Cost of equity = Risk-free interest rate + Beta * Market risk premium.

Note 3: The zero NP growth for 2018 and 2019 reflects cuts in the market's consensus forecast by 14.8% and 20% for each of those years.

Note 4: The yield on five-year government bonds was used as the proxy for the risk-free interest rate. (Our estimates: 2.4% for 2018 and 2.6% for 2019)

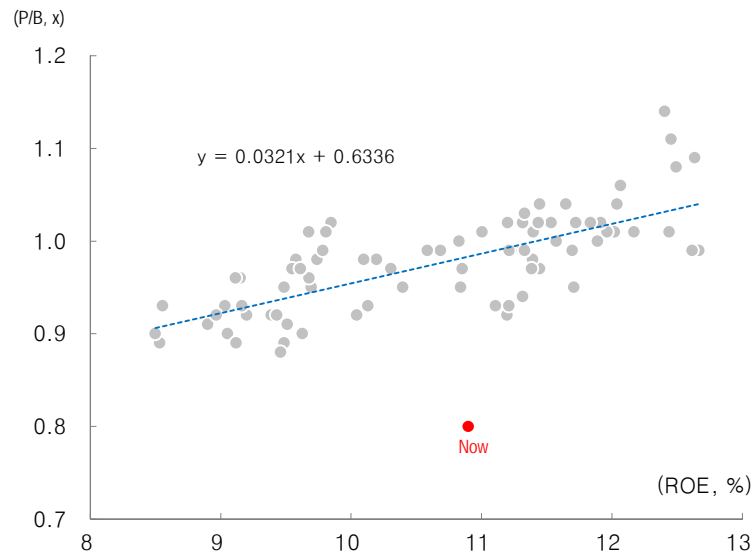
Note 5: 2020 NP growth is estimated at 8% for 2020 and 5% for 2021 and 2022.

Note 6: The terminal growth was assumed to be zero.

[KOSPI outlook] 2,000 mark a buy point for KOSPI

- The KOSPI is trading at a P/B of 0.8x, 18.7% lower than the fair 12-month forward multiple of 0.98x.
- The index is also undervalued relative to its earnings performance. (The gap between KOSPI's growth and one-year forward EPS growth has expanded to 18%p.)
- Once that gap narrows and the valuation bounces back to its fair level, the index could gain as much as 18% to 2,340 (with its bottom at 1,985).
- Should the market's faith on the KOSPI's profit recovers (assuming a 7% profit growth for 2019), the KOSPI's fair level will be 2,310, according to our residual income model.
- Overly punished by weak investor confidence, the index is more likely to bounce back than to fall further.

KOSPI trading at a discount



Source: WiseFn, Daishin Securities Research Center

Undervalued relative to earnings

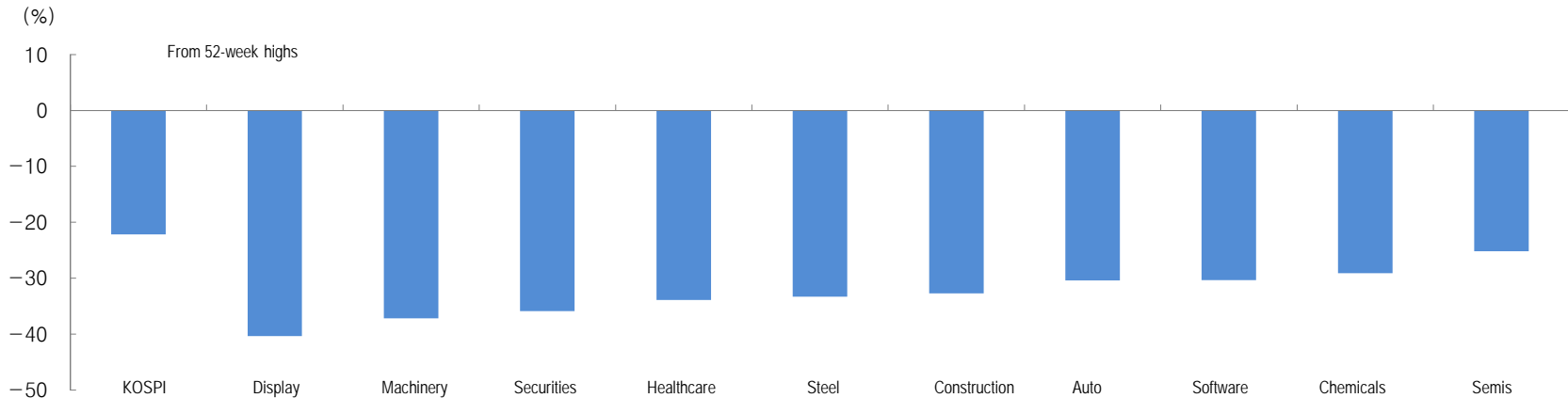


Source: WiseFn, Daishin Securities Research Center

[Investing strategy] Focus on oversold, value plays

- Once KOSPI starts to regain momentum, oversold stocks, especially those that are undervalued relative to their fundamentals, will attract investor attention.
- Sectors under our watch:
 - 1) Those that fell from their 52-week highs at a more rapid pace than the KOSPI
 - 2) Those whose P/Bs (based on final earnings results) hover below the since-2006 average by more than 25%
 - 3) Those whose 2017 ROEs hover above the 2006-17 median figures by more than 20%
 - 4) Those whose cumulative ROEs in the past four quarters (through Q2) are higher than figures for all of 2017
 - 5) Those whose P/Bs relative to peers in advanced/emerging markets hover below the since-2016 average by more than 20%

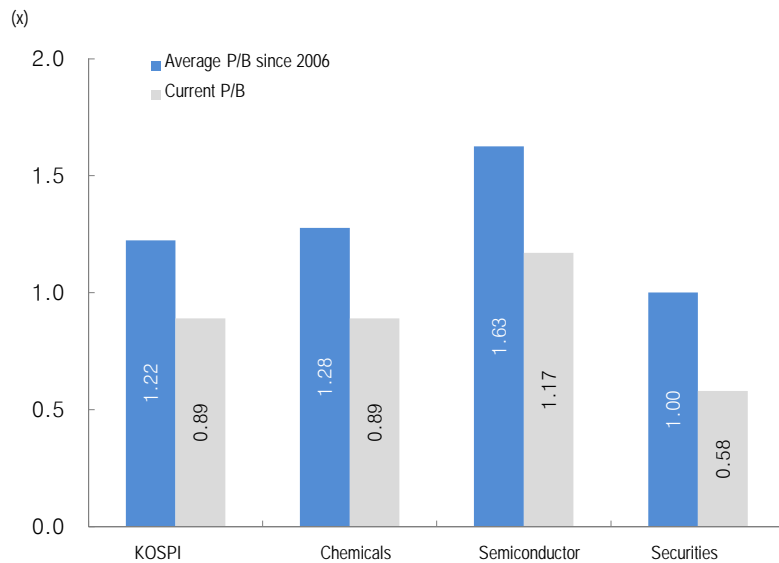
Sectors with undervaluation merit



[Investing strategy] Overweight semiconductor, chemicals and securities

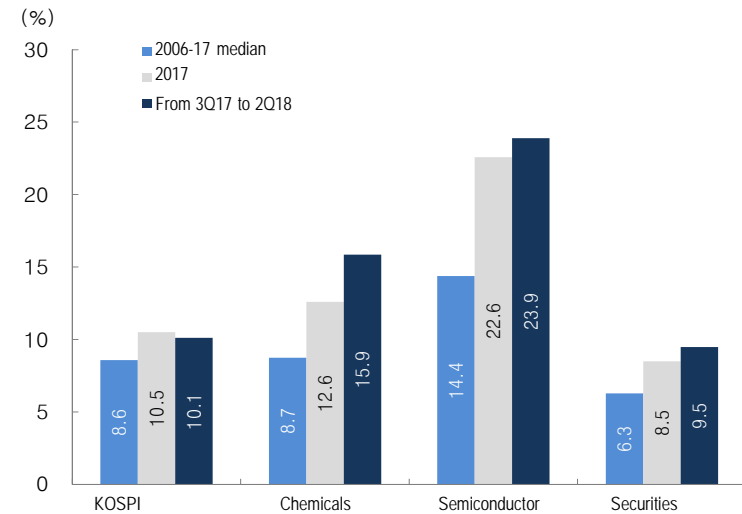
- Chemicals, semiconductor and securities will lead a rebound the KOSPI (both in terms of price and valuation).
- Securities P/B is at its lowest since 2006 and its ROE is improving.
Chemicals and semiconductor stocks are trading at P/Bs 30% lower than the average since 2016. Their ROEs have jumped as much as 50%.
- Their undervaluation merits will be highlighted as the KOSPI regains health.

Valuation appealing



Source: WiseFn, Daishin Securities Research Center

ROE improving notably



Source: WiseFn, Daishin Securities Research Center

[Investing strategy] Nine oversold stocks under our watch

- On our watch list are those:

- 1) that are off by more than 25% from their 52-week highs;
- 2) whose P/Bs (based on final earnings results) hover below the since-2006 average by more than 20%;
- 3) whose 2017 ROEs hover above the 2006-17 median figures by more than 20%; and
- 4) whose cumulative ROEs in the past four quarters (through)Q2 are higher than figures for all of 2017.

코드	Company	ROE(%)				PBR		
		06-17 median	2017	3Q17-2Q18	2018	Since-2016 average (A)	Now (B)	B/A
A006260	LS	7.3	11.5	19.7	17.3	1.09	0.47	-56.9
A042670	Doosan Infracore	3.0	8.1	12.0	18.4	1.93	0.92	-52.3
A001040	CJ	6.8	12.1	15.9	13.6	1.28	0.73	-43.0
A000660	SK Hynix	17.5	36.8	40.1	39.7	1.79	1.16	-35.2
A011780	Kumho Petrochemical	8.1	12.3	21.1	23.7	1.61	1.07	-33.6
A006650	Korea Petrochemical	11.8	15.5	20.9	18.6	0.82	0.60	-26.6
A005940	NH Investment & Securities	5.7	7.4	8.3	8.9	1.01	0.75	-25.5
A005930	Samsung Electronics	15.4	21.0	21.8	21.2	1.64	1.23	-25.0
A071050	Korea Investment Holdings	9.7	14.1	15.3	15.0	1.11	0.86	-22.9

Source: WiseFn, Daishin Securities Research Center

Note: Compiled from our Oct. 20 Daishin View report

[Investing strategy] Stocks at near rock-bottom prices

Code	Company	TP (W) (CP)	Investment case
A079160	CJ CGV	88,000 (40,150)	<ul style="list-style-type: none"> - The stock has been hit too hard by concerns over potential currency fluctuations following the Turkish lira's collapse. - We believe the stock will regain momentum, given the robust performance of the cinema business and the planned IPO of the Vietnam operation in November.
A001040	CJ	170,000 (111,000)	<ul style="list-style-type: none"> - CJ Cheiljedang, a food affiliate that makes up more than 30% of CJ's net asset value, is about to close an M&A deal with a US food company, which will help lift uncertainty surrounding the deal and bolster the company's growth outlook. - Entertainment arm CJ E&M plans to unload its stakes in CJ HelloVision and Studio Dragon to strategic investors. Proceeds will be used for business investment. - The stock doesn't look particularly expensive, with a discount rate (relative to NAV) at a historical low.
A086280	Hyundai Glovis	170,000 (108,000)	<ul style="list-style-type: none"> - The stock tumbled recently due to the delayed governance/business overhauls and sluggish earnings of car makers. Now the company is trading at just 7-8x P/E (based on 2018-19E earnings). - Despite a slowdown in the finished car market, auto parts makers such as Hyundai Glovis are extending their growth streak.
A080160	Mode Tour	35,000 (23,550)	<ul style="list-style-type: none"> - Demand will recover as headwinds ease. - Its core business is on a path to structural growth. - Subsidiaries' earnings are trending upward. - November booking rates are expected to show improvements. The stock is trading at 2019 P/E of 16x.
A095700	Genexin	89,000 (71,100)	<ul style="list-style-type: none"> - The company has a strong R&D pipeline -- cancer immunotherapy candidate GX-I7, growth hormone deficiency treatment GX-H9, HPV DNA vaccine Papitrol-188, etc. - The recent stock pullback simply mirrors a decline in Nectar Therapeutics that was hit by an analyst report that claimed the biotech firm's investigational immunotherapy NKTR-214 has zero value. However, Genexin's GX-I7, a T-cell amplifier based on immune protein interleukin-7, is different from NKTR-214 that harnesses interleukin-2 protein. Those two drugs also use different long-acting technologies.
A071840	Lotte Hi Mart	86,000 (59,300)	<ul style="list-style-type: none"> - DPS is estimated at W2,500 with a 4% yield (based on current price). - Earnings will improve at an accelerated pace starting from 4Q18.
A097950	CJ CheilJedang	400,000 (333,000)	<ul style="list-style-type: none"> - Profit will improve on the back of increased shipments of amino acid products and a recovery in the bio industry. - We also like the company's M&A efforts to broaden its footprint in the processed food market.
A020000	Handsome	44,000 (36,500)	<ul style="list-style-type: none"> - Trading only at 10 times the 2018E earnings, the stock is undervalued. - Profit will likely improve in 2019 as the company's brand-overhaul efforts start to pay off.

Source: Daishin Securities Research Center

Note: From the top, stocks that suffered sharp declines from their 52-week highs

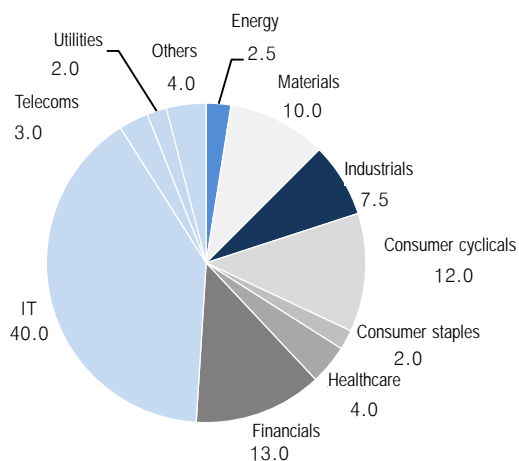
Compiled from our Daishin's View report issued on October 29

[November MP] Add oversold, value stocks

Stocks with stable earnings have been added to hedge against volatility

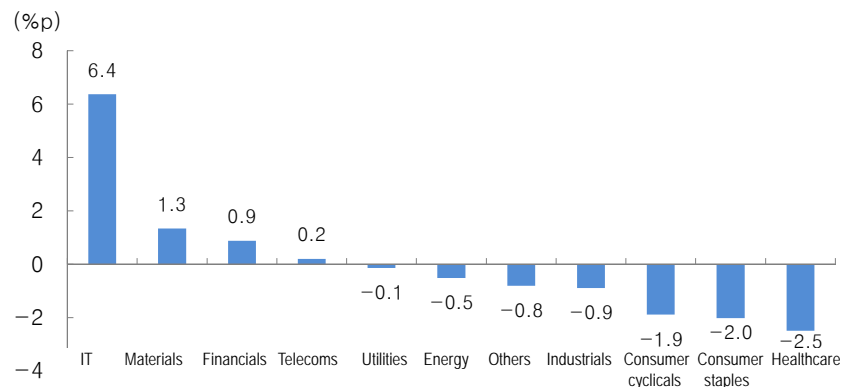
- Our November model portfolio is built around value stocks that suffered excessive declines, namely chemicals, semiconductor and securities. Those stocks, which sport higher ROEs and yet trade at lower P/Bs than in the past, will make for good valuation bets once the KOSPI starts to rebound.
- Taking into account the heightened concerns over weaker corporate profits and slowing global economic recovery, we also added or increased our exposure to good earnings plays, those that posted consensus-beating earnings in Q3 or had their Q4 consensus estimates revised up.
- New additions: Korea Petrochemical, Kumho Petrochemical, DSME, Kia Motors, LG Household and Health Care, Mode Tour, CJ CGV, CJ CheilJedang, Korea Investment Holdings, NCSoft, and KT

November model portfolio



Source: WiseFn, Daishin Securities Research Center

Market weighting vs. MP weighting



Source: WiseFn, Daishin Securities Research Center

November MP

Sector	Code	Company	Share price	Market weighting (%)	MP weighting (%)	Rel. to market (%p)	Prior month (%)	MoM (%p)	Return (%) 1M	3M	Compared to previous month
Energy				3.0	2.5	-0.5	2.5	0.0	-5.0	3.8	
	A010950	S-Oil	124,000	1.1	2.5		2.5	0.0	-9.5	5.5	
Materials				8.7	10.0	1.3	7.5	2.5	-13.4	-18.0	Increased
	A051910	LG Chem	347,000	1.9	2.5		1.5	1.0	-5.1	-7.5	
	A006650	Korea Petrochemicals	156,000	0.1	1.5		0.0	Newly added	-15.4	-37.5	
	A011780	Kumho Petrochemicals	86,100	0.2	2.0		0.0	Newly added	-12.6	-23.8	
	A010130	Korea Zinc	379,000	0.5	1.5		2.0	-0.5	-13.1	-8.1	
	A005490	POSCO	258,000	1.7	2.5		0.0	Newly added	-12.4	-21.9	
Industrials				8.4	7.5	-0.9	8.5	-1.0	-18.5	-10.4	Reduced
	A006360	GS E&C	41,750	0.3	2.0		2.5	-0.5	-20.2	-7.8	
	A241560	Doosan Bobcat	35,200	0.3	2.5		2.5	0.0	-12.9	5.9	
	A042660	DSME	29,250	0.2	1.5		0.0	Newly added	-15.6	11.0	
	A000120	CJ Korea Express	158,500	0.3	1.5		1.5	0.0	0.3	5.0	
Consumer cyclicals				13.9	12.0	-1.9	15.0	-3.0	-18.6	-16.2	Reduced
	A000270	Kia Motors	28,400	0.9	3.5		0.0	Newly added	-19.1	-10.4	
	A081660	Fila Korea	42,050	0.2	1.5		1.5	0.0	-6.3	32.6	
	A051900	LG H&H	1,044,000	1.2	1.5		0.0	Newly added	-18.2	-13.7	
	A080160	Mode Tour	23,500	0.0	1.0		0.0	Newly added	-6.6	-6.7	
	A036420	J Contentree	4,550	0.0	1.5		2.0	-0.5	-30.1	-22.9	
	A079160	CJ CGV	40,350	0.1	1.5		0.0	Newly added	-22.3	-32.9	
	A004170	Shinsegae	258,500	0.2	1.5		1.5	0.0	-28.7	-22.1	
Consumer staples				4.0	2.0	-2.0	3.0	-1.0	-8.9	-14.0	Reduced
	A097950	CJCheiljedang	324,000	0.4	2.0		0.0	Newly added	-2.8	-4.1	
Health care				6.5	4.0	-2.5	7.5	-3.5	-26.8	-14.6	Reduced
	A207940	Samsung Biologics	387,500	2.0	2.0		2.5	-0.5	-27.4	3.9	
	A128940	Hanmi Pharm.	389,500	0.3	2.0		3.0	-1.0	-22.1	-8.2	

November MP

Sector	Code	Company	Share price	Market weighting (%)	MP weighting (%)	Rel. to market (%p)	Prior month (%)	MoM (%p)	Return (%)		Compared to previous month
Financials				12.1	13.0	0.9	12.0	1.0	-9.5	-7.5	Increased
	A105560	KB Financial	47,400	1.5	4.0		4.0	0.0	-12.5	-11.6	
	A086790	Hana Financial Holdings	38,300	0.9	3.0		3.0	0.0	-14.0	-14.7	
	A005940	NH Investment & Securities	12,150	0.3	2.0		1.5	0.5	-15.0	-6.5	
	A071050	Korean Investment Holdings	59,300	0.3	2.0		0.0	Newly added	-22.1	-16.9	
	A005830	DB Insurance	71,800	0.4	2.0		2.0	0.0	-1.4	11.3	
IT				33.6	40.0	6.4	35.5	4.5	-9.9	-11.3	Increased
	A036570	NCSOft	429,500	0.7	2.0		0.0	Newly added	-2.9	11.4	
	A042000	Café 24	110,500	0.1	1.5		1.5	0.0	-26.1	-30.9	
	A009150	SEMCO	118,000	0.7	3.0		2.5	0.5	-15.1	-23.1	
	A011070	LG Innotek	124,000	0.2	2.0		2.0	0.0	-5.0	-23.9	
	A005930	Samsung Electronics	42,400	20.7	22.0		20.0	2.0	-8.7	-8.3	
	A000660	SK Hynix	68,200	3.8	4.5		3.0	1.5	-6.7	-21.0	
	A066570	LG Electronics	63,300	0.8	1.5		1.0	0.5	-10.8	-15.4	
	A006400	Samsung SDI	235,500	1.2	2.5		2.5	0.0	-8.9	2.8	
	A046890	Seoul Semiconductor	20,450	0.1	1.0		1.0	0.0	-0.2	13.6	
Telecoms				2.8	3.0	0.2	3.0	0.0	-7.1	4.3	
	A030200	KT	28,600	0.6	3.0		0.0	Newly added	-5.1	0.4	
Utilities				2.1	2.0	-0.1	2.0	0.0	-9.7	-16.7	
	A015760	KEPCO	27,100	1.3	2.0		2.0	0.0	-7.7	-18.6	
Holding firms				4.8	4.0	-0.8	3.5	0.5	-12.5	-7.4	Increased
	A028260	Samsung C&T	108,500	1.6	2.0		2.0	0.0	-16.2	-12.1	
	A180640	Hanjin KAL	19,300	0.1	2.0		1.5	0.5	-14.2	4.9	
Total				100.0	100.0						

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