

THE  
INVESTOR

# DECODED X

**July 28, 2017**

## A TALK TO REMEMBER



It was a talk to remember.

President Moon Jae-in on July 27 held an after-hours “[beer party](#)” for his pals in the corporate sector to give it a shot at being a protector of business interests.

Leaders from Korea’s 15 top companies in terms of assets including LG, Hyundai Motor, POSCO and SK joined for discussions with a side of hand-crafted beer. The meeting is a two-day affair that ends today.

The tycoons reportedly poured their hearts out to the president, a man who has vowed to clean up the conglomerates if it’s the last thing he does.

Read on for this week’s **DECODED X**.



## SUPER RICH TAXES

The government and political parties are working together to pass the so-called “superrich” taxes in the September National Assembly.

The move will involve creating a new bracket comprising of companies with annual income exceeding 200 billion won (US\$ 179.25 million) to slap on a 25 percent tax to bring in extra revenues of up to 10.8 trillion won over the next five years. The money is to be used for propping up smaller businesses.

The corporate sector is none too happy, and neither is the opposition conservative Liberty Korea Party led by previous presidential hopeful Hong Joon-pyo.

In possibly a tit-for-tat move, Liberty Korea Party is now suggesting cutting tobacco prices. This is the party that had backed nearly doubling prices under former President Park Geun-hye.

While the public would welcome such a cut, it could also put President Moon Jae-in in a tight spot. He was the one who pledged to cut cigarette taxes when he was the presidential candidate, but he also needs a LOT of tax revenues to accomplish all the welfare projects he is pushing for.

## SUCCESS COMES WITH A PRICE

LG Display has never been so powerful. Granted, market capitalization is not so high – it’s at 31<sup>st</sup> place as of July 28 – but the firm has never been in so much demand.

More so since Japanese display makers have announced an end to ties with Korean TV makers, causing LG Display become one of the few remaining display makers to count on.

The era of OLED displays is another reason why it’s doing so well. It’s going to invest 15 trillion won (US\$13.4 billion) into this area by 2020, and that’s a hefty amount considering its reserves.

But one thing that still plagues it is its suppliers. Or rather, the attention they get from the media.

After it announced the latest investment plan on July 25, there have been various rumors and reports on its potential clients which are bound to include Apple. And after a slight delay in investment plans for plastic OLED that was assumed to be caused by [global of suppliers like Apple](#), LG Display CEO [Han Sang-beom](#) had to come out and assure the media that



there was no foul play, and they can't say who the suppliers are.

However, the media will continue to be interested because these stories as a rule read very, very well.

## "HEET," NOT BURN



It looks like the age of heated cigarettes is really dawning in Korea.

IQOS, the tobacco heating system created by Phillip Morris for no less than 3 trillion won, is expanding here. Initially, they sold at C&U convenience stores, but more such as Seven Eleven are jumping on the bandwagon.

IQOS is made up of a sleek little electronic device that charges another stick-like device for heating up specially designed cigarettes called "HEETS." Remember how Philip Morris is promising a smoke-less future, or at least a healthier alternative to smoking?

Philip Morris harmful chemicals have been drastically reduced in HEETS, but the actual health benefits still have to be proven. In Korea, [the Ministry of Food and Drug Safety will begin an examination in August.](#)

Mimicking Apple's efforts to create an iconic image, IQOS operates smoking lounges that are very chic, furnished with leather couches and sleek coffee tables where white jars collect discarded HEETS.



Right now, IQOS is the only runner in the race in Korea, but competition is coming up with [BAT's Glo to soon join](#).

KT&G also may jump in, but so far, we have not yet seen the evidence. KT&G is the No.1 cigarette maker in Korea, and it's a risk to diverge from traditional cigarettes that are still selling so well, and pour in some serious money to develop next generation products.

## **STARTUP LOVE AFFAIR**

Each time a new government is in power, the policies they are pushing for becomes the next thing that all ministries need to push for.

This time, it's start-ups. Start-ups have actually been in the limelight for a while now, but this year, it's really going viral.

There are currently rumors that some of the major – most costly – events designed by the [Ministry of Science and ICT](#) have been turned into some sort of start-up promotional event. Also, this year's theme is "festival." That's keeping in tune with the new government's policy, which is to keep things light and communicative, we guess. And also to attract people who aren't interested in seeing stilted, rigid events where some high-profile person makes a keynote and everyone has to listen.

## **THE BLIND RESUME**

Keeping with the theme of removing rigidity and discrimination, the government is calling on ministries to stop making job hunters post pictures on their resume.

When you send a cover letter in the US, it's rare that you post your picture. But in Korea, it's automatically assumed that photos will be included in a resume.

It's funny why this is considered mandatory when so many times, the pictures usually are about 100 times better looking than the actual person. We're sorry, but that's a given.

Now, this is not a light matter because local photo studios are taking issue, saying the move would kill them off. This would not go all that well with President Moon Jae-in's vision of protecting the mom-and-pop stores.

## **A KILLER REVIEW**



Hong Kong-based brokerage Credit Lyonnais Securities Asia is getting flak for its “ruthless” investment reports.

LG Electronics, NCSOFT have all suffered after sell reports, and on July 26, Samsung SDS stocks fell 8.95 percent on a report claiming the stock is overpriced. The right target price, according to CLSA, is 100,000 won.

Officials at Samsung SDS, which is considered to be one of the core companies involved in the [handover of power to Samsung heir Lee Jay-yong](#), say that it’s a shame that prices keep getting affected by brokerage reports or power transition issues, and not the firm’s core competence.

## MAY THE BEST CHIMMELIER WIN



[Chimmelier](#) is the latest marketing strategy from Woowa Brothers, the people behind the fantastically popular Baedal Minjok, a delivery app that registered sales of nearly 90 billion won (US\$80.63 million) in 2016.

Want to guess what a chimmelier is? It’s a cross between chicken and sommelier. So a person who knows his or her chicken very well. The Woowa Brothers actually hosted a test where they selected people who passed to become anointed as chimmeliers. It wasn’t free, but the test fee was just 5,000 won, which is pretty cheap.

Now, this is not just funny or cool, but it’s really a kind-hearted marketing move because it’s also aimed at trying to help out the mom-and-pop chicken restaurants. Of course, we should mention that about one third of monthly orders through Baedal Minjok are for chicken.



Woowa Brothers has managed to attract much capital from both home and overseas. IMM Investment and Stonebridge Capital were some of the names, and these reportedly have sold their stakes to investors like Altos Ventures, GreenSpring Ventures and Duke Management Company.

## BIOSIMILARS, ANYONE?

Samsung BioLogics is still hungry.

As one of the top two Korean bio-pharmaceutical companies, you would expect the firm to have clients lined up.

And yes, clients are lined up, but the company needs more. It says because it's still a newcomer – it's only six years old while Celltrion is 15, it has to network and find more clients.

Another thing it's pursuing is to get global recognition. That means to take part in international awards. They don't always make it, but they figured out that winning awards is one of the fastest ways to meet people and get recognized.

Samsung BioLogics is a contract manufacturer of biologic drugs that [went public](#) on Nov.10. As of July 28, it has a market cap of 17.96 trillion won, and is at 16<sup>th</sup> place on the KOSPI.

## DECODED X

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