

Wait until fund flow improves

Bidding time; Reinstating with a Neutral

We reinstate coverage on Mirae Asset Securities (MAS) with a Neutral rating and PO of W86,000, equating to 1.9x the average book value of FY09E/10E. We expect MAS to move sideways until fund flow, especially equity-type fund flow, shows clear signs of recovery.

Most leveraged to fund flow

MAS's revenue structure is highly geared to the wealth management business, which makes up over one-third of its net operating revenues. Almost 90% of this business is related to fund sales and equity-type funds account for 70% of the fund sales balance (industry average: 27%). In addition, its brokerage business is indirectly affected by fund flow as over 45% of commissions come from institutional investors, including Mirae Asset Group's asset management affiliates.

Fund flow expected to remain stagnant

We think there can be only limited growth in fund sales, especially equity-type fund sales, given the big disappointment at fund performance and the lingering risk of redemption of equity-type funds. Following a sharp rebound in the global equity market, the net asset value of equity-type funds has grown by 27% from end-March 2009 to end-July 2009, but equity-type fund sales balance is still on the retreat, damping further earnings recovery in MAS's WM business.

Upside and downside risks

Risks are (1) earlier-than-expected recovery in equity-type fund flow on the upside and (2) larger-than-expected impact from fund mobility, which will likely become effective in 4Q09, on the downside.

Estimates (Mar)

(W)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - bn)	267.62	126.13	177.16	208.82	250.32
EPS	6,949	3,159	4,229	4,985	5,975
EPS Change (YoY)	64.5%	-54.5%	33.9%	17.9%	19.9%
Dividend / Share	1,000	250.00	500.00	750.00	1,000
Pre-exceptional EPS	6,949	3,159	4,229	4,985	5,975
Pre-exceptional EPS Change (YoY)	64.5%	-54.5%	33.9%	17.9%	19.9%
Book Value / Share	39,777	41,517	43,313	47,561	52,554

Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	10.9x	23.9x	17.9x	15.1x	12.6x
Dividend Yield	1.32%	0.331%	0.662%	0.993%	1.32%
Pre-exceptional PE	10.86x	23.90x	17.85x	15.15x	12.64x
Price / Book	1.99x	1.91x	1.74x	1.59x	1.44x
RoE / PB	10.56x	4.07x	5.85x	6.91x	8.31x
Price / Pre-Provision Profit	7.86x	15.71x	12.67x	11.16x	9.37x

Bank of America Merrill Lynch

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Stock Data

Price	W75,500
Price Objective	W86,000
Date Established	20-Aug-2009
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	W44,286-W104,286
Mrkt Val / Shares Out (mn)	US\$2,537 / 41.9
Average Daily Volume	380,216
ML Symbol / Exchange	XYPZF / KSC
Bloomberg / Reuters	037620 KS / 037620.KS
ROE (2010E)	10.2%
Total Dbt to Cap (Mar-2009A)	0%
Est. 5-Yr EPS / DPS Growth	15.0% / 15.0%
Free Float	60.2%



20 August 2009

iQprofileSM Mirae Asset Securities Co Lt

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
(W Billions)					
Net Interest Income	87.92	124.74	127.94	162.77	196.61
Net Fee Income	493	349	392	418	464
Securities Gains / (Losses)	63.58	6.45	37.27	37.27	37.27
Other Income	42.06	1.92	13.58	10.40	9.51
Total Non-Interest Income	598.33	357.80	442.91	465.26	511.15
Total Operating Income	686.25	482.54	570.84	628.03	707.76
Operating Expenses	(316.22)	(290.65)	(321.21)	(344.50)	(370.30)
Pre-Provision Profit	370.03	191.89	249.63	283.53	337.46
Provisions Expense	NA	NA	NA	NA	NA
Operating Profit	370.03	191.89	249.63	283.53	337.46
Non-Operating Income	2.19	(17.85)	(8.93)	(8.03)	(7.23)
Pre-Tax Income	372.22	174.03	240.70	275.49	330.23
Net Income to Comm S/Hold.	267.62	126.13	177.16	208.82	250.32
Adjusted Net Income (Operating)	267.62	126.13	177.16	208.82	250.32

Key Balance Sheet Data

Total Assets	6,871	6,607	7,632	8,711	9,720
Average Interest Earning Assets	NA	NA	NA	NA	NA
Weighted Risk Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	814	442	531	584	642
Total Customer Deposits	769	894	805	845	887
Tier 1 Capital	NA	NA	NA	NA	NA
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	1,588	1,658	1,814	1,992	2,202

Key Metrics

Net Interest Margin	NA	NA	NA	NA	NA
Tier 1 Ratio	NA	NA	NA	NA	NA
Effective Tax Rate	28.1%	27.5%	26.4%	24.2%	24.2%
Loan / Assets Ratio	11.9%	6.7%	7.0%	6.7%	6.6%
Loan / Deposit Ratio	105.9%	49.5%	65.9%	69.1%	72.4%
Oper Leverage (Inc Growth - Cost Growth)	24.4%	-21.6%	7.8%	2.8%	5.2%
Gearing (Assets / Equity)	4.3%	4.0%	4.2%	4.4%	4.4%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
Tangible Common Equity / WRAs	NA	NA	NA	NA	NA
Revenue Growth	107.5%	-29.7%	18.3%	10.0%	12.7%
Operating Expense Growth	83.2%	-8.1%	10.5%	7.3%	7.5%
Provisions Expense Growth	NA	NA	NA	NA	NA
Operating Revenue / Average Assets	0%	0%	0%	0%	0%
Operating Expenses / Average Assets	0%	0%	0%	0%	0%
Pre-Provision ROA	NA	NA	NA	NA	NA
ROA	NA	NA	NA	NA	NA
Pre-Provision ROE	NA	NA	NA	NA	NA
ROE	21.0%	7.8%	10.2%	11.0%	11.9%
RoTE	NA	NA	NA	NA	NA
RoWRAs	NA	NA	NA	NA	NA
Dividend Payout Ratio	14.9%	7.8%	11.6%	14.8%	16.4%
Efficiency Ratio (Cost / Income Ratio)	50.8%	61.0%	60.2%	58.3%	55.2%
Total Non-Interest Inc / Operating Inc	87%	74%	78%	74%	72%
Market-Related Revenue / Total Revenues	9.3%	1.3%	6.5%	5.9%	5.3%
Provisioning Burden as % of PPP	0%	0%	0%	0%	0%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	0%	0%	0%	0%	0%
Provisions Expense / Average Loans	NA	NA	NA	NA	NA

Other Metrics

Income / Employee	297.98	222.37	257.14	276.67	305.07
(Operating Expenses) / Employee	(137.31)	(133.94)	(144.69)	(151.76)	(159.61)
Pre-Provision Profit / Employee	160.67	88.43	112.45	124.90	145.46
Net Profit / Employee	116.20	58.12	79.80	91.99	107.90

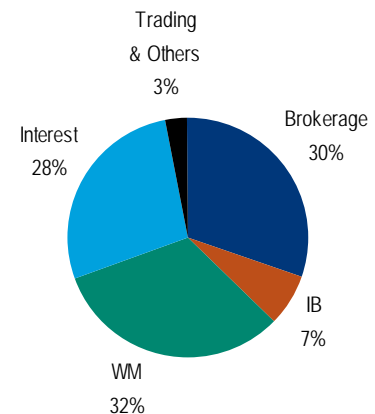
Company Description

Founded in 2000, Mirae Asset Securities (MAS) has been dominant in fund sales, especially in equity-type funds, thanks to Mirae Asset Group's strong brand value. Buoyed by the group's support and a relatively low commission rate for retail investors (2.9bp), MAS grew its brokerage market share to 9.2% in FY08 in terms of trading value, coming in second after Kiwoom Securities. Mirae Asset Capital is the largest shareholder with a 37% stake.

Investment Thesis

Mirae Asset Securities' revenue structure is mostly leveraged to fund flow as (1) wealth management business, directly affected by fund flow, makes up over one-third of its net operating revenues and (2) brokerage business is also indirectly affected by fund flow given over 45% of commissions come from institutional investors. We think there can be only limited growth in fund sales, given the big disappointment at fund performance and the lingering risk of redemption of equity-type funds.

Chart 1: MAS: Breakdown of net operating revenues (FY09E)



Source: Banc of America Securities - Merrill Lynch estimates

Stock Data

Price to Book Value 1.7x

Bull & bear case

	Bull case	Bear case	BAS-ML view
Equity-type fund flow	<ul style="list-style-type: none"> ■ Earlier-than-expected recovery in equity-type fund flow prompts domestic institutions to turn to aggressive net buying and lead a rally in the market. ■ This would substantially improve MAS's bottom-line earnings via expanded brokerage market share and fund-related fee income. 	<ul style="list-style-type: none"> ■ Delayed recovery in equity-type fund flow causes domestic institutions to remain cautious about the equity market and hinder a market rally. ■ This would check further improvement in MAS's bottom-line earnings as fund-related fee income and brokerage market share will be adversely affected. 	<ul style="list-style-type: none"> ■ We believe it will take time to restore investors' confidence in indirect investments, especially equity-type funds, due to the disappointing performance over the past one year or so. As a result, we expect limited growth in equity-type fund flow.
Fund mobility	<ul style="list-style-type: none"> ■ Once fund mobility is launched in 4Q09, people actively transfer their fund accounts to the sellers that offer the best consulting services, such as MAS. 	<ul style="list-style-type: none"> ■ Given smaller fund sellers' deep discount on fund distribution fees after the launch of fund mobility in 4Q09, people actively transfer their fund accounts to the sellers that offer lower fees. 	<ul style="list-style-type: none"> ■ We are a little skeptical about fund mobility as it will likely require fund investors to visit both their existing and new fund sellers for transactions, and do some troublesome paperwork. ■ At the end of the day, we believe Korean fund investors are still more sensitive to prices, ie, fund fees, than to the quality of consulting service.
Market turnover	<ul style="list-style-type: none"> ■ With a big rally and over 250% turnover ratio throughout the rest of the year, average daily market turnover exceeds W9tn in FY09E. 	<ul style="list-style-type: none"> ■ With a larger-than-expected correction and sharply falling participation of retail investors, average daily market turnover falls below W7tn in FY09E. 	<ul style="list-style-type: none"> ■ We forecast average daily market turnover of W8.1tn in FY09E, assuming that average market cap grows 5% from the current W900tn level and annualized turnover ratio stays at 200% level.
Brokerage commission rate	<ul style="list-style-type: none"> ■ MAS's average brokerage commission rate rises slightly thanks to increasing share of institutional investors. 	<ul style="list-style-type: none"> ■ MAS's average brokerage commission rate continues to fall substantially in the wake of fierce competition, especially from online discount brokerage service. 	<ul style="list-style-type: none"> ■ Given that MAS has kept commission rate intact despite industry-wide rate cuts last year, we expect its average brokerage commission rate will remain unchanged in FY09E and onwards.
Interest rate movement	<ul style="list-style-type: none"> ■ With market rates remaining low or rising gradually, money continues to flow into the brokerage market, including CMA accounts, and brokers do not face a substantial amount of valuation losses. 	<ul style="list-style-type: none"> ■ With a sudden rise in market rates, brokers inevitably record a substantial amount of valuation losses in spite of their efforts to hedge interest rate risk. 	<ul style="list-style-type: none"> ■ Brokers are actively trying to hedge interest rate risk via sale of KTB futures or interest rate swap (IRS). ■ We do not anticipate a sharp increase in market rates, and thus we do not expect brokers, including MAS, to record substantial valuation losses in FY09E and FY10E.

Source: Banc of America Securities - Merrill Lynch Research

Wait until fund flow improves

We reinstate coverage on Mirae Asset Securities (MAS) with a Neutral rating and price objective of W86,000. Our PO is derived using a target multiple of 1.9x based on the average book value of FY09E/10E (W45,437). We expect MAS to move sideways until fund flow, especially equity-type fund flow, shows clear signs of recovery.

Most leveraged to fund flow

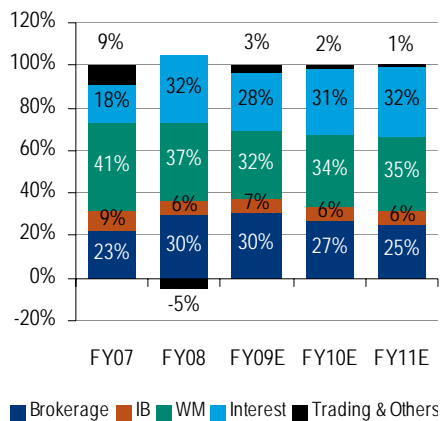
Wealth management business directly affected by fund flow

MAS is traditionally a wealth management-focused broker with wealth management commissions explaining 37% of net operating revenues in FY08. After peaking at 41%, the share of wealth management commissions has fallen in tandem with weakening fund flow, though the business continues to constitute the largest share of net operating revenue. It must be noted that almost 90% of MAS's wealth management business is related to fund sales since it is not active in structured securities, such as ELS and ELW, unlike its peers such as Daewoo Securities and Woori Investment & Securities.

Brokerage business indirectly affected by fund flow

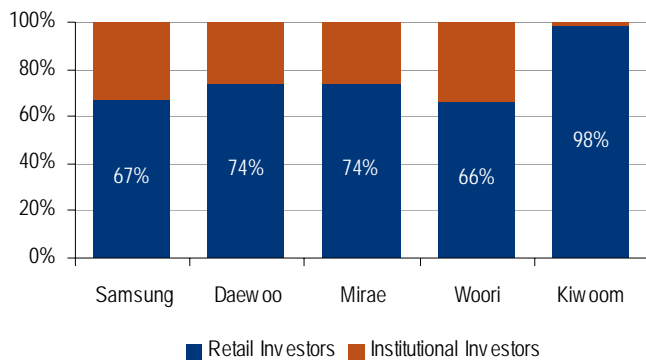
Compared to its peers, MAS generates a higher share of brokerage commission from institutional investors, over 45% in FY08, through its asset management affiliates. Mirae Asset Group's asset management affiliates place a large portion of its equity trades, roughly 30-35% of total trades, on MAS and they account for about half of MAS's brokerage commissions from institutional investors. In a sense, the company's brokerage business is also dependent on equity-type fund flow. If equity-type fund flow gets stronger, MAS's asset management affiliates will likely have more equity trades and this will in turn boost its own brokerage business.

Chart 2: MAS: Breakdown of net operating revenues



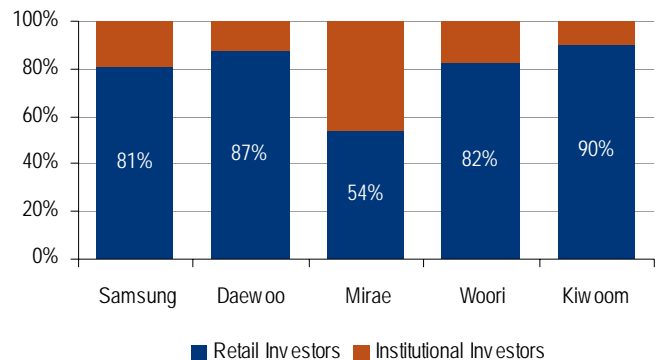
Source: Banc of America Securities - Merrill Lynch estimates, Company

Chart 3: 5 brokers: Breakdown of trading value (FY08) – Retail vs institutional



Source: Banc of America Securities - Merrill Lynch Research, Companies

Chart 4: 5 brokers: Breakdown of brokerage commissions (FY08) – Retail vs institutional



Source: Banc of America Securities - Merrill Lynch Research, Companies

Fund flow expected to remain stagnant

Time needed to restore retail investors' confidence

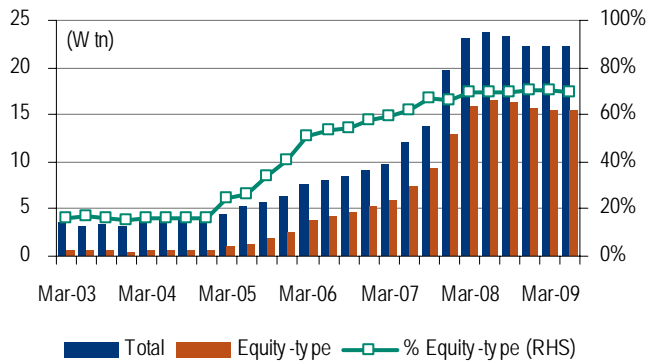
With the big disappointment at fund performance for the past one year or so and the lingering risk of redemption of equity-type funds, we expect limited growth in fund sales, especially equity-type fund sales. In July, in fact, we saw W1,143bn of net fund outflow from equity-type funds (W963bn from domestic funds and W179bn from overseas funds, excluding ETFs) after a strong rally in the global equity market.

If this bull market lasts longer than market expectations, retail investors' sentiment toward equity-type funds may well improve. But we think their risk appetite has been severely curtailed after the global equity market collapsed last year, and any large-scale inflow to equity-type funds is unlikely for the time being.

MAS leans too heavily toward equity-type funds

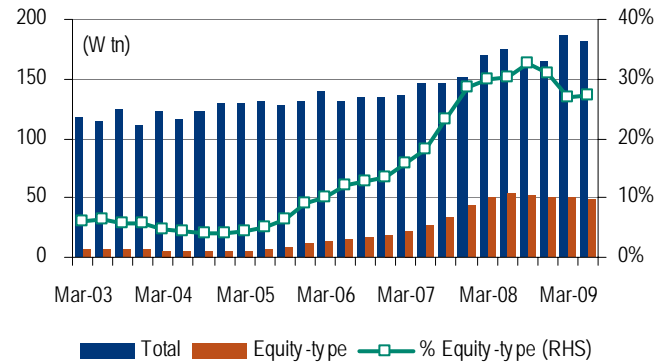
As illustrated in Charts 5 and 6 below, equity-type funds accounted for 70% of MAS's fund sales balance as of end-June 2009, but just 27% of the brokerage industry's total fund sales balance. As equity-type funds command a higher commission (over 100bp) than bond-type funds for the sales channel, combining management and distribution fees, MAS featured a much higher fund commission rate than its peers, which led to higher profitability. Given that management fees are levied on the basis of the fund's NAV, a big chunk of equity-type funds resulted in steep fluctuations of MAS's fund-related commission income. Indeed, the company was hit the hardest by the global equity market meltdown and slowdown in equity-type fund flow in FY08.

Chart 5: MAS: Fund sales balance



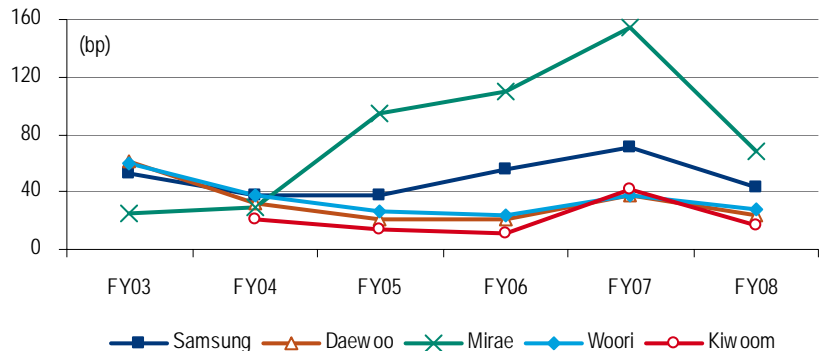
Source: Banc of America Securities - Merrill Lynch Research, AMAK

Chart 6: Brokerage industry: Fund sales balance



Source: Banc of America Securities - Merrill Lynch Research, AMAK

Chart 7: 5 brokers: Fund commission rate*



*Fund commission rate is calculated by dividing total fund-related commission income by average fund sales balance. Therefore, NAV change is reflected in fund commission rate.

Source: Banc of America Securities - Merrill Lynch Research, Companies

NAV trending up but fund flow recovery equally important

Following the sharp rebound in the global equity market, the NAV of the industry's total equity-type funds has increased by 27% from end-March 2009 to end-July 2009 and this is definitely positive for MAS as it translates to higher management fee income. However, equity-type fund sales balance is still on the decline as fund redemptions outpace new fund inflow, damping further earnings recovery in MAS's wealth management business.

Positive impact from removal of 50% cap to be diluted

Given that the 50% cap on equity trades from affiliate asset managers was lifted earlier this year, MAS management expects Mirae Asset Group's asset management affiliates to place roughly 50% of their equity trades on MAS, up from 30-35% previously. This regulatory change augurs well for MAS, but we fear weak equity-type fund flow will dilute the positive impact by limiting the total equity trades of its affiliate asset managers.

Why not an Underperform?

Though MAS has the lowest ROE in our brokerage coverage in the foreseeable future, we reinstate coverage with a Neutral rating, instead of an Underperform rating, because we believe the company's long-term competitiveness is intact. We contend that the wealth management business is where brokers could find future growth and therefore should focus on, despite it being depressed for now. Brokerage business is currently the key to brokers' share price momentum and earnings, but there is a limit to revenue generation in this business and we do not think it can continue to drive brokers' earnings over the long term.

In this respect, MAS is arguably the best positioned, thanks to the strong brand power of Mirae Asset Group's asset managers, which we believe cannot be fully ignored even in this brokerage business-driven market.

Valuation

Applying price-to-book methodology

We believe price-to-book is an appropriate valuation for brokers given the inherent unpredictability in their bottom-line earnings caused by high volatility in brokerage revenues and trading gains/losses. As we are also using price-to-book valuation for banks and insurers, the other major financials in Korea, we have compared the profitability and earnings growth of banks, insurers and brokers to derive our base-case valuation multiple for brokers.

Brokers more profitable than banks, less than insurers

As shown in Tables 1 and 2 in the following page, brokers stand between banks and insurers in terms of profitability, like ROE and ROA. Brokers' ROE fell in half, from 16.8% in FY07 to 8.4% in FY08, largely due to a plunge in market turnover, shrinking wealth management business and some trading losses. In FY09E, however, we expect a sharp rebound in brokers' ROE to double-digit figure on the back of overall turnaround in the global equity market with increasing market turnover. In contrast, we assume banks' ROE to deteriorate further to mid-single digit. Compared to insurers, brokers still generate inferior profitability in terms of both ROE and ROA, but we note that they are fast improving their profitability to narrow the gap with insurers.

Table 1: Financials: ROE comparison

	FY07	FY08	FY09E	FY10E	FY11E
Banks	17.1%	9.6%	6.8%	8.7%	9.5%
Insurers	17.8%	14.3%	15.5%	15.8%	16.5%
Brokers	16.8%	8.4%	11.8%	12.7%	13.8%

Note: Financial year-end for banks is December and for insurers and brokers, March.
Source: Banc of America Securities - Merrill Lynch estimates, Companies

Table 2: Financials: ROA comparison

	FY07	FY08	FY09E	FY10E	FY11E
Banks	1.2%	0.6%	0.4%	0.5%	0.5%
Insurers	2.8%	2.2%	2.3%	2.4%	2.5%
Brokers	3.4%	1.6%	2.1%	2.2%	2.3%

Note: Financial year-end for banks is December and for insurers and brokers, March.
Source: Banc of America Securities - Merrill Lynch estimates, Companies

Brokers' floor P/BV valuation multiple set at 1.5x

We have set the floor P/BV valuation multiple for brokers at 1.5x, higher than banks' 0.9x and insurers' 1.2x. Given that brokers' ROE will be lower than insurers' in the foreseeable future, it might appear demanding to apply a 25% premium to brokers over insurers. However, we believe it is reasonable to assign a higher 1.5x P/BV to brokers as the base-case multiple because brokers stand to post higher earnings growth, and the brokerage industry cycle is bottoming out while non-life insurance industry cycle is waning. With increasing share of net interest income, we believe brokers' earnings stability has also improved, albeit still inferior to the insurers'.

Table 3: Financials: Earnings growth comparison

	FY07	FY08	FY09E	FY10E	FY11E
Banks	12.6%	-40.3%	-27.5%	36.5%	16.8%
Insurers	85.9%	-10.4%	20.0%	14.4%	17.9%
Brokers	34.6%	-43.9%	49.1%	18.5%	19.6%

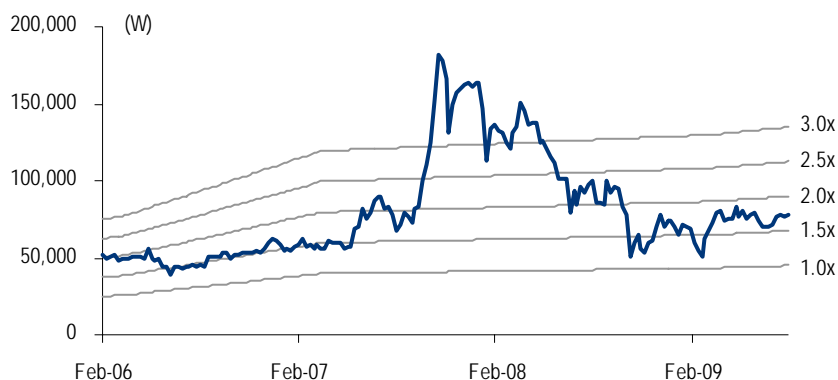
Note: Financial year-end for banks is December and for insurers and brokers, March.
Source: Banc of America Securities - Merrill Lynch estimates, Companies

For further explanation on the criteria of valuation premium and discount, please see our industry note, "Back to basics: Brokerage business is key", dated 20 August 2009.

Applying a 25% premium to derive 1.9x P/BV

On top of the base-case 1.5x P/BV multiple, we have applied a 25% premium to derive our target P/BV of 1.9x for MAS, considering its profitability, earnings growth and long-term business prospects. Given that we are already in the middle of 2QFY09, we have used the average book value of FY09E/10E (W45,437) to arrive at our fair value of W86,000. MAS currently trades at 1.7x FY09E book value and 17.9x FY09E earnings and our PO offers 14% upside potential from the current share price.

Chart 8: MAS: 1-year forward P/BV bands



Source: Banc of America Securities - Merrill Lynch estimates, Company

Table 4: 5 brokers: Valuation comparison

		Samsung	Daewoo	Mirae	Woori	Kiwoom
BAS-ML Ticker		SZZZF	DWONF	XYPZF	WOOIF	KWOOF
Share Price* (W)		75,100	21,900	75,500	17,950	52,000
Market Cap (US\$ mn)		4,026	3,339	2,537	1,908	812
BAS-ML Rating		Neutral	Buy	Neutral	Underperform	Buy
P/E	FY07	13.5x	12.6x	10.8x	7.8x	9.0x
	FY08	21.1x	24.7x	23.7x	13.9x	16.4x
	FY09E	18.1x	12.5x	17.9x	10.5x	12.2x
	FY10E	14.9x	10.9x	15.1x	8.9x	9.8x
P/B	FY07	2.2x	1.8x	1.9x	1.1x	2.4x
	FY08	2.1x	1.8x	1.8x	1.1x	2.2x
	FY09E	1.9x	1.6x	1.7x	1.1x	1.9x
	FY10E	1.8x	1.4x	1.6x	1.0x	1.7x
ROE	FY07	17.0%	14.8%	21.0%	14.3%	34.8%
	FY08	9.8%	7.3%	7.8%	7.6%	13.5%
	FY09E	11.1%	13.6%	10.2%	10.6%	17.1%
	FY10E	12.3%	14.0%	11.0%	11.8%	18.3%
ROA	FY07	4.1%	3.2%	5.0%	2.3%	7.5%
	FY08	2.2%	1.4%	1.9%	1.1%	3.6%
	FY09E	2.2%	2.4%	2.5%	1.4%	4.3%
	FY10E	2.4%	2.4%	2.6%	1.4%	4.6%

*As of close of 19 August 2009.

Source: Banc of America Securities - Merrill Lynch estimates, Companies

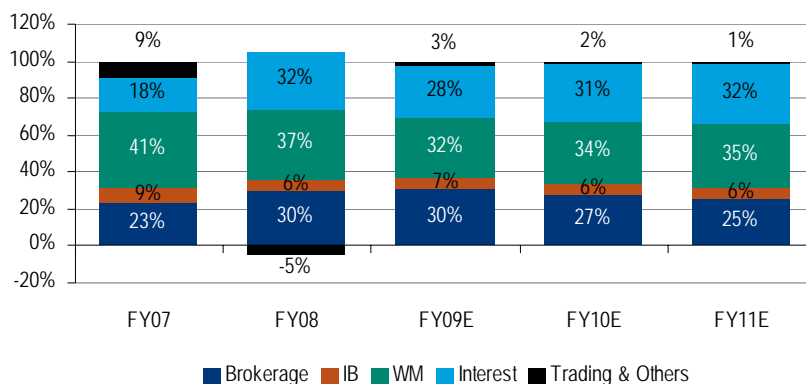
Risks

- Upside risk – earlier-than-expected recovery in equity-type fund flow:**
 Given that MAS's earnings are most leveraged to wealth management commissions, especially from equity-type fund sales, an earlier-than-expected recovery in equity-type fund flow could substantially improve the company's bottom-line earnings and strengthen its share price momentum. In addition, the company's brokerage market share is expected to expand on increasing contributions from its asset management affiliates.
- Downside risk – larger-than-expected impact from fund mobility:** MAS generates the biggest share of net operating revenues from wealth management business, mostly fund sales. If Korean fund investors react to lower prices, ie, lower fund distribution fees, more sensitively than our current expectation, this will have a negative impact on MAS's fund-related fee income. Based on FY09E estimates, wealth management business accounts for 32% of the company's net operating revenues.

Financials

We expect MAS to record net profit of W177bn in FY09E, up 40% YoY, mainly due to (1) higher brokerage commission income from stronger market turnover and (2) turnaround in trading income. Since we expect limited growth in fund sales, especially equity-type funds, in the near term, we project the share of wealth management business will remain at 32-35% level for the next three years. We forecast the company's ROE to steadily improve to 10.2% in FY09E and 11.0% in FY10E, but to remain the lowest among the five Korean brokers in our coverage.

Chart 9: MAS: Breakdown of net operating revenues



Source: Banc of America Securities - Merrill Lynch estimates, Company

Market assumptions

Assume daily market turnover of W8.1tn for FY09E

We have assumed average daily market turnover of W8.1tn for FY09E and W7.9tn FY10E. For the first 4 months of FY09, average daily market turnover topped W9.1tn, but we estimate it will reach W7.5tn in the remaining eight months based on the following two assumptions: (1) average market cap grows by 5% from the current W900tn level and (2) annualized turnover ratio stays at 200% level. For FY10E, we have assumed another 5% YoY growth in the average market cap and the same turnover ratio of 200%, which led us to arrive at average daily market turnover of W7.9tn, slightly lower than FY09E figure due to the high base effect in April and May 2009.

Limited growth expected in fund sales for the time being

For wealth management, we have conservatively forecast 3% YoY growth in fund sales balance in FY09E and 5% YoY growth in FY10E and FY11E, respectively. As the stellar growth in total funds has been largely led by equity-type funds in the past, we do not expect this to be replicated for the balance of total funds in the near term. The growth of total NAV will likely exceed that of fund sales balance given the recovery of global equity market, but we have factored in NAV growth in each company's average commission rate assumptions. Separately, we have assumed roughly 10% YoY growth in ELS issuance given that the ELS market is clearly on the mend.

Company-specific assumptions

Brokerage

We expect MAS's brokerage market share, in terms of trading value, to fall from its peak of 9.2% in FY08 to 8.7% in FY09E as its price competitiveness weakens amid aggressive cuts in online brokerage commissions by its peers during FY08. However, we expect the company will be able to sustain 8.7% market share given that the 50% cap on equity trades from its affiliate asset managers was removed earlier this year. We have not assumed additional fall in commission rate in FY09E and onwards as the company has no intentions to cut its brokerage commission rate. We forecast total brokerage commissions to grow by 19% YoY in FY09E but fall by 2% YoY in FY10E.

Table 5: MAS: Sensitivity analysis of EPS to daily market turnover and brokerage M/S

		Average daily market turnover (W tn)				
		7.1	7.6	8.1	8.6	9.1
Brokerage	7.7%	-13.4%	-10.1%	-6.9%	-3.6%	-0.3%
	8.2%	-10.4%	-6.9%	-3.4%	0.1%	3.5%
M/S	8.7%	-7.4%	-3.7%	0.0%	3.7%	7.4%
	9.2%	-4.4%	-0.5%	3.4%	7.3%	11.2%
	9.7%	-1.4%	2.7%	6.9%	11.0%	15.1%

Source: Banc of America Securities - Merrill Lynch estimates

Wealth management

We have assumed that MAS will just maintain last year's market share in fund sales, 5.9%, in FY09E due to waning popularity of equity-type funds caused by poor performance, but increase its market share to 6.2% in FY10E on gradually improving equity-type fund market and Mirae Asset Group's strong brand awareness. The company's average commission rate is expected to rise in FY09E and onward assuming that equity-type fund NAV grows on the back of global equity market recovery. We forecast total wealth management commissions to grow by 3% YoY in FY09E and 15% YoY in FY10E.

Interest income

We forecast net interest income to increase by a mere 3% YoY in FY09E considering last year's surge in other interest income, but to grow by 23% YoY in FY10E on account of rising bond holdings, partly helped by steady growth in CMA accounts. We believe this trend will provide a solid source of interest income for MAS.

Trading gains

Given MAS's track record of relatively stable trading gains, we assume that it will achieve total trading gains of W37bn in FY09E and onward. This is the average of its net trading gains in FY04-06. We have excluded FY07 and FY08 figures because of the roller-coaster-like global equity market and interest rate movement then. As we do not anticipate a sharp increase in market rates, we do not think brokers, including MAS, will record a substantial amount of valuation losses in FY09E and FY10E.

SG&A

We have assumed SG&A to increase by 11% YoY in FY09E and 7% YoY in FY10E each, largely driven by labor cost increases. With a turnaround in domestic equity market, we expect its labor costs to increase by 13% YoY in FY09E and 7% YoY in FY10E.

In our model, trading gains refer to gains/losses on valuation and disposal of securities, as well as gains/losses on transaction of derivatives.

Table 6: MAS: Income statement

(W bn)	FY07	FY08	FY09E	FY10E	FY11E
Net Operating Revenues	686	483	571	628	708
Net Commission Income	493	349	392	418	464
- Brokerage	155	143	173	170	179
- IB	65	30	39	41	43
- Wealth Management	279	180	184	212	249
- Others	(6)	(4)	(4)	(5)	(6)
Net Interest Income	126	153	157	193	230
Net Trading Gains and Others	68	(20)	21	18	14
SG&A	316	291	321	345	370
Operating Profit	370	192	250	284	337
Non-operating Income/(Expense)	2	(18)	(9)	(8)	(7)
Pre-tax Profit	372	174	241	275	330
Taxes	105	48	64	67	80
Net Profit	268	126	177	209	250

Source: Banc of America Securities - Merrill Lynch estimates, Company

Table 7: MAS: Balance sheet

(W bn)	FY07	FY08	FY09E	FY10E	FY11E
Cash and Deposits	991	1,201	1,158	1,216	1,277
Securities	4,667	4,602	5,541	6,488	7,355
Bonds	3,626	3,139	4,054	4,858	5,583
Stocks	361	739	763	861	961
Beneficiary Certificates	208	246	302	346	388
Structured Securities	472	350	333	316	300
Others	0	127	89	106	122
Loans	814	442	531	584	642
Others	398	362	402	423	446
Total Assets	6,871	6,607	7,632	8,711	9,720
Deposit Liability	769	894	805	845	887
Liability from Borrowings	4,162	3,787	4,572	5,368	6,111
Repurchase Agreement	2,976	2,669	3,336	4,003	4,604
Structured Securities Sold	931	944	1,038	1,142	1,256
Others	255	175	198	222	251
Derivative Liability	0	0	0	0	0
Others	352	268	441	506	520
Total Liabilities	5,284	4,949	5,817	6,719	7,519
Paid-in Capital	200	200	209	209	209
Capital Surplus	863	859	849	849	849
Retained Earnings	520	607	763	941	1,150
Capital Adjustment	4	(7)	(7)	(7)	(7)
Total Shareholders' Equity	1,588	1,658	1,814	1,992	2,202
Total Liabilities and Shareholders' Equity	6,871	6,607	7,632	8,711	9,720

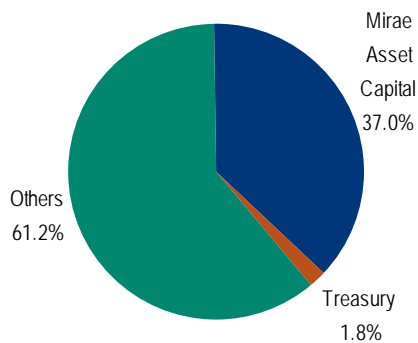
Source: Banc of America Securities - Merrill Lynch estimates, Company

Table 8: MAS: Key ratios

	FY07	FY08	FY09E	FY10E	FY11E
% YoY					
Net Operating Revenues	108%	-30%	18%	10%	13%
Net Commission Income	110%	-29%	12%	7%	11%
Net Interest Income	107%	22%	3%	23%	19%
Net Trading Gains and Others	95%	-129%	-209%	-18%	-23%
Net Profit	131%	-53%	40%	18%	20%
Total Assets	75%	-4%	16%	14%	12%
Total Shareholders' Equity	66%	4%	9%	10%	10%
NOR Breakdown					
Net Commission Income	72%	72%	69%	66%	66%
- Brokerage	23%	30%	30%	27%	25%
- IB	9%	6%	7%	6%	6%
- Wealth Management	41%	37%	32%	34%	35%
- Others	-1%	-1%	-1%	-1%	-1%
Net Interest Income	18%	32%	28%	31%	32%
Net Trading Gains and Others	10%	-4%	4%	3%	2%
Profitability					
ROE	21.0%	7.8%	10.2%	11.0%	11.9%
ROA	5.0%	1.9%	2.5%	2.6%	2.7%
Per Share Data (W)					
EPS	6,949	3,159	4,229	4,985	5,975
BVPS	39,777	41,517	43,313	47,561	52,554
DPS	1,000	250	500	750	1,000

Source: Banc of America Securities - Merrill Lynch estimates, Company

Chart 10: MAS: Shareholding structure*



*As of 30 June 2009.

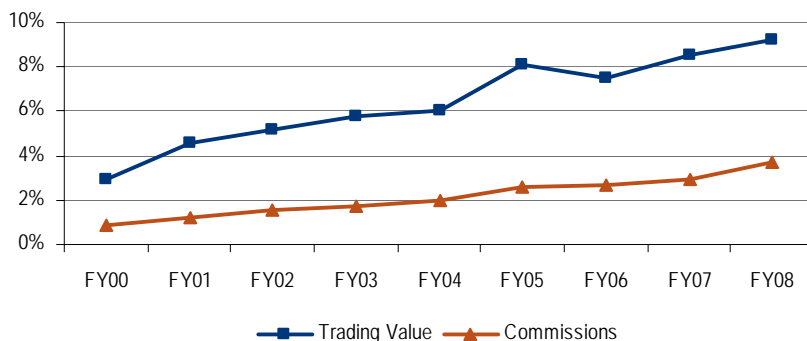
Source: Banc of America Securities - Merrill Lynch Research, Company

Company description

Mirae Asset Securities (MAS) was founded in 2000 to be the main distribution channel for Mirae Asset Group's affiliates. Thanks to the group's strong brand value as Korea's top asset manager, MAS has been dominant in fund sales, especially in equity-type funds, with a 5.9% market share in total funds and 11.4% market share in equity-type funds in terms of fund sales balance as of March 2009.

Buoyed by the group's support and a relatively low commission rate for retail investors (2.9bp), MAS grew its brokerage market share to 9.2% in FY08 in terms of trading value, coming in second after Kiwoom Securities. With the removal of the affiliates' ordering cap, from 50% previously, in February 2009, the company expects another boost to its brokerage business, but stagnant fund flow in the domestic equity market appears to be weakening its positive momentum. Aside from its wealth management business, which accounted for 37% of total net operating revenues in FY08, MAS's brokerage business (30% of total net operating revenues) is also dependent on domestic equity-type fund flows.

Chart 11: MAS: Brokerage market share based on trading value and commissions



Source: Banc of America Securities - Merrill Lynch Research, FSS

Price objective basis & risk

Daewoo Securities Co. Ltd. (DWONF)

Our price objective of W30,000 is derived using a target multiple of 2.1x on the average book value of FY09E/10E (W14,349). On top of the base-case 1.5x P/BV multiple for Korean brokers, we have applied a 40% premium to derive our target P/BV of 2.1x for DWS, considering its profitability, earnings growth and long-term business prospects. Risks are (1) a substantial fall in market turnover and (2) earlier-than-expected recovery in equity-type fund flow.

Kiwoom Securities (KWOOF)

Our price objective of W70,000 is derived using a target multiple of 2.4x on the average book value of FY09E/10E (W28,987). On top of the base-case 1.5x P/BV multiple for Korean brokers, we have applied a 60% premium to derive our target P/BV of 2.4x for KWS, considering its profitability, earnings growth and long-term business prospects. Risks are (1) a substantial fall in market turnover and (2) earlier-than-expected recovery in equity-type fund flow.

Samsung Securities Co., Ltd. (SZZZF)

Our price objective of W86,000 is derived using a target multiple of 2.1x on the average book value of FY09E/10E (W40,785). On top of the base-case 1.5x P/BV multiple for Korean brokers, we have applied a 40% premium to derive our target P/BV of 2.1x for SSS, considering its profitability, earnings growth and long-term business prospects. Risks are (1) greater money move to CMA on the upside and (2) further weakening presence in domestic business on the downside.

Mirae Asset Securities Co Ltd (XYPZF)

Our price objective of W86,000 is derived using a target multiple of 1.9x on the average book value of FY09E/10E (W45,437). On top of the base-case 1.5x P/BV multiple for Korean brokers, we have applied a 25% premium to derive our target P/BV of 1.9x for MAS, considering its profitability, earnings growth and long-term business prospects. Risks are (1) earlier-than-expected recovery in equity-type fund flow on the upside and (2) larger-than-expected impact from fund mobility, which will likely become effective in 4Q09, on the downside.

Woori Investment Securities Co. Ltd. (WOOIF)

Our price objective of W19,000 is derived using a target multiple of 1.1x on the average book value of FY09E/10E (W17,071). On top of the base-case 1.5x P/BV multiple for Korean brokers, we have applied a 25% discount to derive our target P/BV of 1.1x for WIS, considering its profitability, earnings growth and long-term business prospects. Risks are (1) unexpected market share gains in brokerage, (2) potential re-rating on stable earnings profile on the upside, and (3) weakening presence in investment banking business on the downside.

Analyst Certification

I, Karen Cho, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

Korea imposes a capital gains tax on non-resident investors in Korean securities of the lesser of 27.5% of the gain or 11% of the sales proceeds unless the investor is either (1) resident in a country which has a double tax treaty with Korea that exempts the investor's capital gains from Korean tax or (2) the shares sold are sold through the Korea Stock exchange or KOSDAQ exchange and the seller (including related parties) has not owned 25% or more of the shares of the company at any time during the year of sale plus the 5 calendar years preceding the year of sale. Investors should seek their own tax advice.

Merrill Lynch International Incorporated Seoul Branch is acting as a liquidity provider for an equity linked warrant of the underlying common stock of the company and is holding 9094290 of warrants as of 08/19/2009: Daewoo Sec

Merrill Lynch International Incorporated Seoul Branch is acting as a liquidity provider for an equity linked warrant of the underlying common stock of the company and is holding 12855950 of warrants as of 08/19/2009: Mirae Asset Sec

Merrill Lynch International Incorporated Seoul Branch is acting as a liquidity provider for an equity linked warrant of the underlying common stock of the company and is holding 18374510 of warrants as of 08/19/2009: Samsung Secs.

Merrill Lynch International Incorporated Seoul Branch is acting as a liquidity provider for an equity linked warrant of the underlying common stock of the company and is holding 3223000 of warrants as of 08/19/2009: Woori Inv & Sec

Korea - Financials Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Daegu Bank	DGGPF	005270 KS	Bryan Song
	Daewoo Securities Co. Ltd.	DWONF	006800 KS	Karen Cho, CFA
	Dongbu Insurance	DGBUF	005830 KS	Karen Cho, CFA
	KB Financial Group	KB	KB US	Bryan Song
	KB Financial Group	XKBGF	105560 KS	Bryan Song
	Kiwoom Securities	KWOOF	039490 KS	Karen Cho, CFA
	LIG Insurance	LUCIF	002550 KS	Karen Cho, CFA
	Samsung Card Co	SMSNF	029780 KS	Bryan Song
	Samsung F&M	SZVZF	000810 KS	Karen Cho, CFA
	Shinhan Fin	SFLGF	055550 KS	Bryan Song
	Shinhan Fin	SHG	SHG US	Bryan Song
NEUTRAL				
	Hana Financial	HNFGF	086790 KS	Bryan Song
	Hyundai Marine	HYMRF	001450 KS	Karen Cho, CFA
	Mirae Asset Securities Co Ltd	XYPZF	037620 KS	Karen Cho, CFA
	Pusan Bank	BOPSF	005280 KS	Bryan Song
	Samsung Securities Co., Ltd.	SZZZF	016360 KS	Karen Cho, CFA
UNDERPERFORM				
	Industl Bk Korea	IBOKF	024110 KS	Bryan Song
	Korea Exchnng Bnk	KOOQF	004940 KS	Bryan Song
	Meritz Insurance	ORFMF	000060 KS	Karen Cho, CFA
	Woori	WF	WF US	Bryan Song
	Woori	WOOXF	053000 KS	Bryan Song
	Woori Investment Securities Co. Ltd.	WOOIF	005940 KS	Karen Cho, CFA

***iQmethod*SM Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

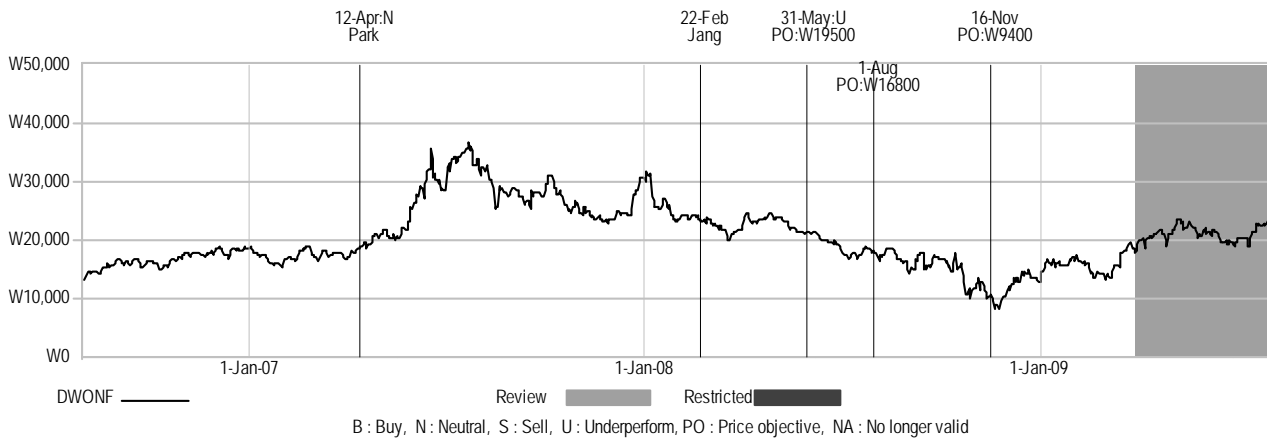
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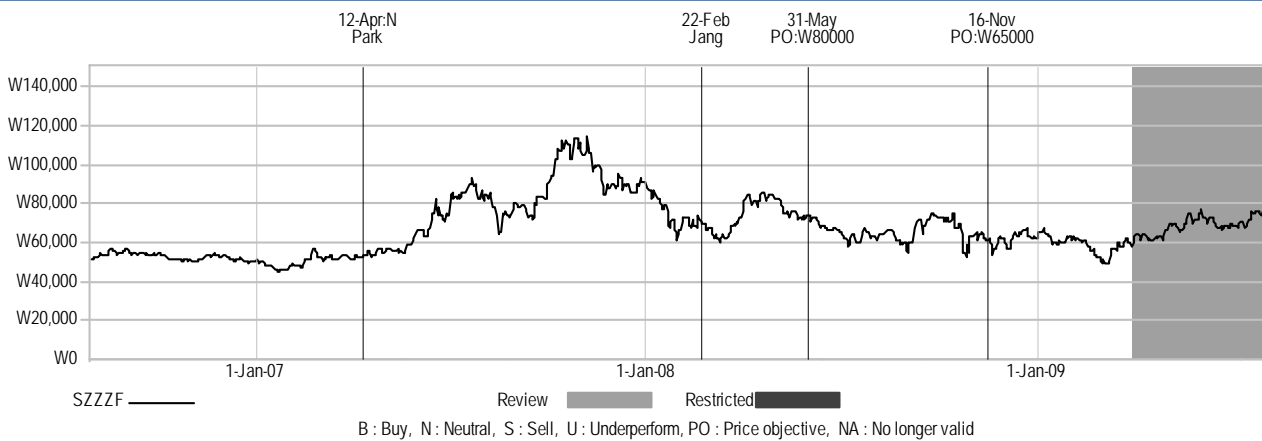
Important Disclosures

DWONF Price Chart



"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of July 31, 2009 or such later date as indicated. BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of July 31, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

SZZZF Price Chart



"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of July 31, 2009 or such later date as indicated. BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of July 31, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

20 August 2009

WOOIF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of July 31, 2009 or such later date as indicated. BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of July 31, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

XYPZF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of July 31, 2009 or such later date as indicated. BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of July 31, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

Investment Rating Distribution: Financial Services Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	126	45.82%	Buy	65	52.85%
Neutral	76	27.64%	Neutral	37	52.11%
Sell	73	26.55%	Sell	29	41.43%

Investment Rating Distribution: Global Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1303	40.83%	Buy	602	51.10%
Neutral	807	25.29%	Neutral	362	51.49%
Sell	1081	33.88%	Sell	394	39.96%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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