

# Financials

## Value accretion on pension plans

We see retirement pensions as the new growth engine for financial companies for the next 20 years; we estimate reserves of W154trn by 2020 and we see strong long-term value accretion potential. Banks look best placed to benefit, then brokers and insurers. Buy SFG, IBK, Mirae, KIH, Samsung FM and LIG Ins.

### Key recommendations & forecasts

	Reuters	Year end	Recom	Price	Target price	EPS 1fcst	PE 1fcst
Shinhan Finl <sup>1</sup>	055550.KS	Dec 2010	Buy	W43150	W47500	4,179	10.3
IBK <sup>1</sup>	024110.KS	Dec 2010	Buy	W13800	W18600	2,184	6.3
Samsung F&M Ins	000810.KS	Mar 2010	Buy	W190000	W234000	12,568	15.1
LIG Insurance	002550.KS	Mar 2010	Buy	W22400	W30000	2,544	8.8
Mirae Asset <sup>1</sup>	037620.KS	Mar 2010	Buy	W59300	W81000	4,395	13.5
Korea Invt <sup>1</sup>	071050.KS	Mar 2010	Buy	W32700	W40000	3,887	8.4

1. Normalised EPS - Post-goodwill amortisation and pre-exceptional items  
 Source: Company data, RBS forecasts

### Sector performance

	(1M)	(3M)	(12M)
Absolute	11.1	-31.2	145.7
Absolute (%)	2.3	-6.0	42.4
Rel market (%)	-1.8	-5.9	3.5

Korea Composite: 1681.01  
 Korea SE Fin Svcs: 488.81  
 Source: Bloomberg

### New growth engine ignited, with 2020 pension reserves estimated at W154trn

Regulatory support, an ageing population and changing social needs are key catalysts we see driving growth in retirement pension reserves over the next 20 years. We forecast retirement pension reserves will soar to W154trn in 2020, from W14trn in 2009, which seems sufficient to create significant changes in cash flow and investment behaviour and, eventually, to improve the capital market. This may strengthen the net financial asset position at households and improve the loan-to-deposit ratios at banks (down 8.6ppt by 2020F).

### Strong value-accretion potential, although losses may continue in 2010-11

We believe initial set-up costs, a lack of scale and excessive competition will leave those in the pensions business making losses in 2010-11. Brokers are the most aggressive, offering guaranteed high-return pension plans. In the long term, however, we foresee significant value accretion from the pensions business, likely benefiting banks most, followed by brokers and insurers.

### Banks look the best positioned to benefit

The retirement pensions market is already crowded and competition seems overheated. Nonetheless, we foresee no losers. We foresee industry consolidation by 2015. We also expect market-share concentration among top 15 players to reach 95% in 2020. We believe banks (and bank-led financial holding companies) are best positioned to dominate in the retirement pension market in Korea, followed by brokers and insurers.

### Looking too long-term; but optimism may appear much earlier

The retirement pension theme looks too long-term to play now, but we expect to see more tangible evidence to justify our optimism. We expect significant money shift to pension plans and more regulatory support sequentially, which should be compelling enough to get traction from long-term investors. Potential major beneficiaries in terms of Korea's retirement pension plays that we see include our preferred Buy picks: Shinhan Financial Group (SFG), Industrial Bank of Korea (IBK), Samsung Fire & Marine, LIG Insurance, Mirae Asset Securities (Mirae) and Korea Investment Holdings (KIH).

### Analysts

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Important disclosures can be found in the Disclosures Appendix.

## Mirae Asset Securities: Most aggressive

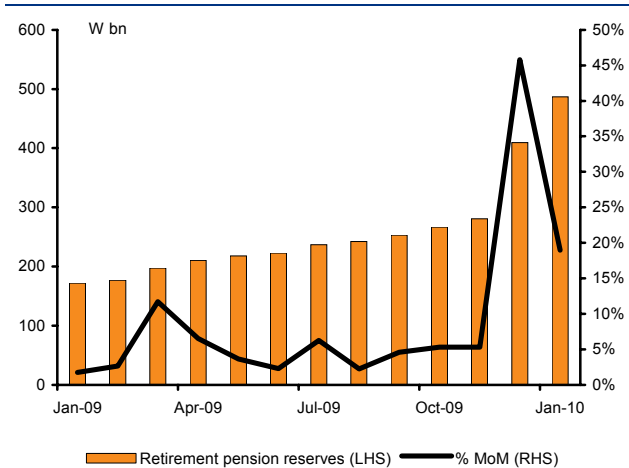
**Market position.** Mirae Asset Securities (Mirae) is the largest retirement pension player among the brokerage companies, with total pension reserves of W487bn (3.5% market share) as of January 2010, equivalent to 27% of shareholders' equity vs the average of 12% for its major brokerage peers. This implies that Mirae has the highest leverage within the retirement pension plan business. Its market share has risen with its higher gearing to DC plans. Mirae Asset Life, an affiliate of Mirae, had 1.7% market share as of January 2010.

**Strengths.** Mirae's key competitive advantages are: 1) proven high returns on investment assets like for the other brokers; 2) strong brand recognition of Mirae Asset Investment Management, Mirae's affiliate and Korea's largest equity fund manager; 3) well-trained and experienced employees; and 4) its risk-taking flexibility.

**Weaknesses.** No conglomerate connection implies limited captive demand potential. The limited scope of its financial services and its risk-taking image are other weak points relative to competitors, particularly the banks and insurers.

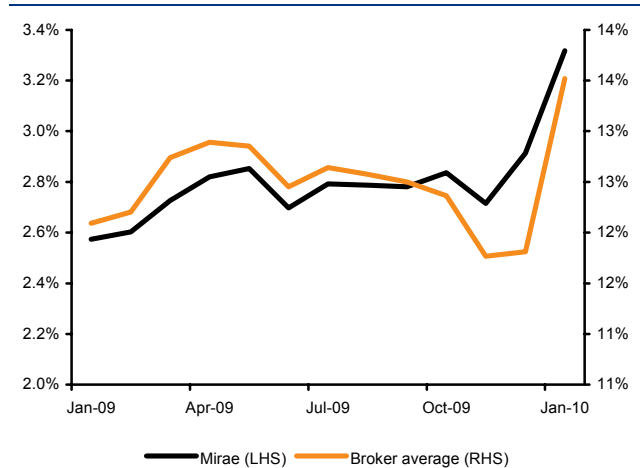
**Risks.** Competition over market share has significantly increased with the introduction of service charge discounts and guaranteed high investment returns. The potential earnings contribution from the retirement pension plan services business could be seriously hit in an equity market downturn.

**Chart 121 : Retirement pension reserves**



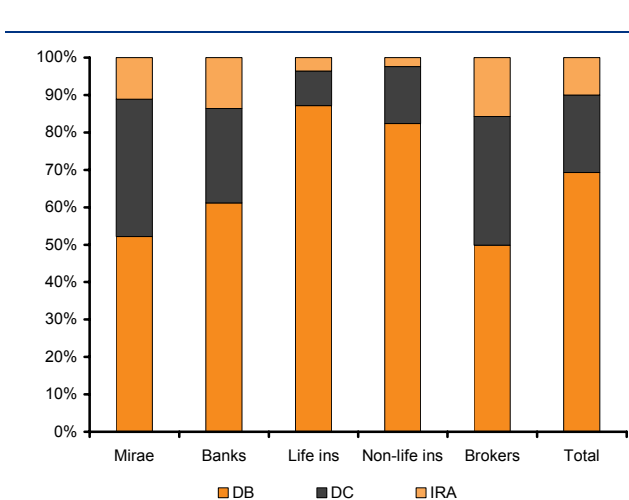
Source: Ministry of Labour

**Chart 122 : Market share**



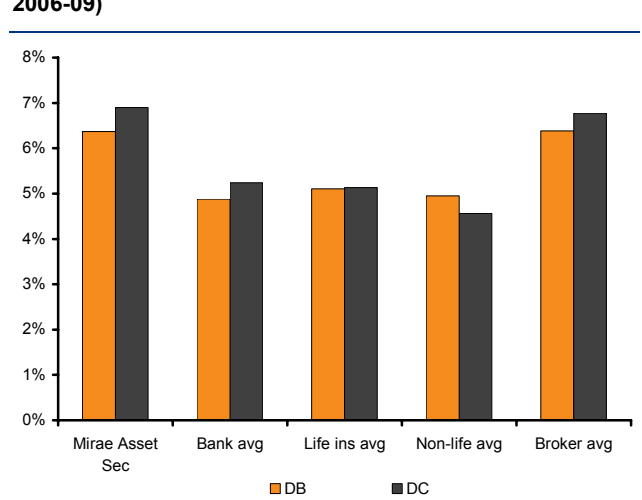
Source: Ministry of Labour

**Chart 123 : Pension plan mix, 2009**



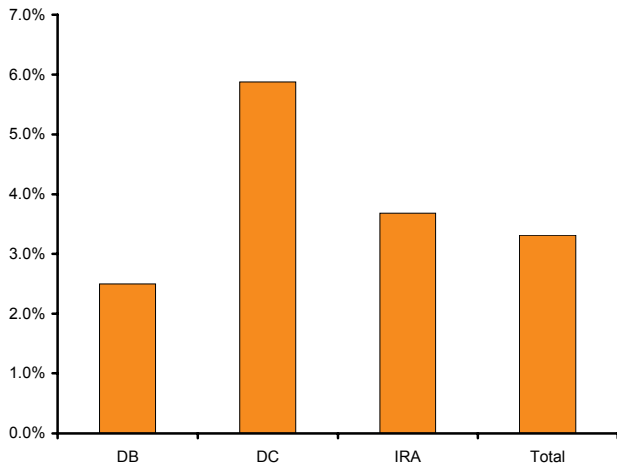
Source: FSS

**Chart 124 : Return on pension asset (annualised return, 2006-09)**



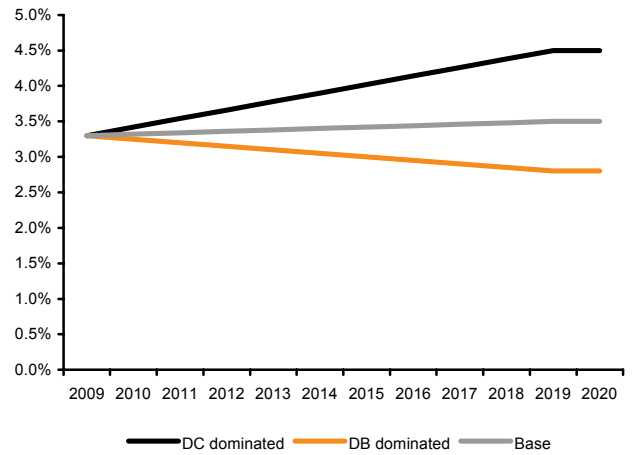
Source: FSS

**Chart 125 : Market share by plan type, 2009**



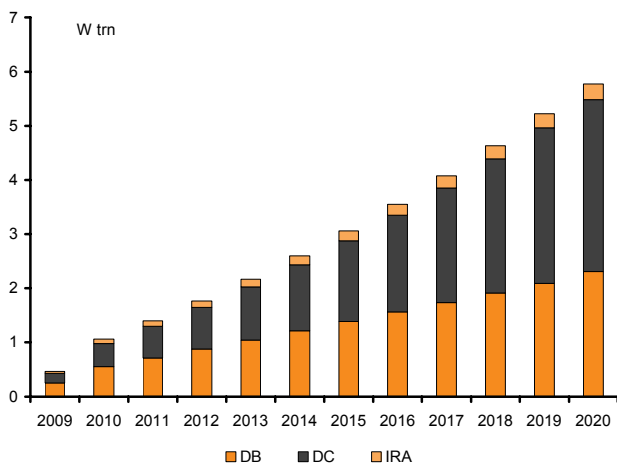
Source: Ministry of Labour

**Chart 126 : Market share forecast by scenario**



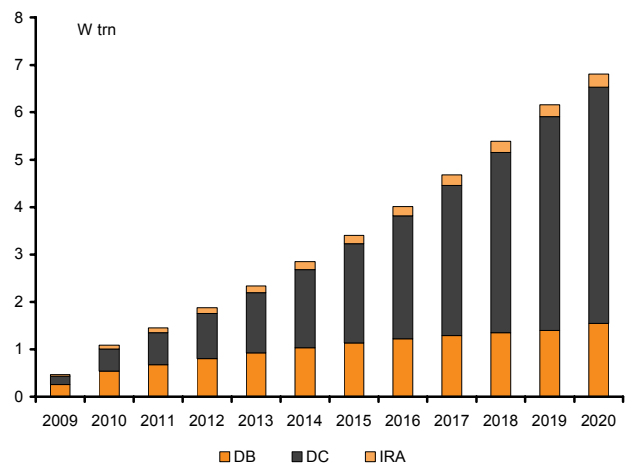
Source: Ministry of Labour

**Chart 127 : Pension plan mix forecast – base**



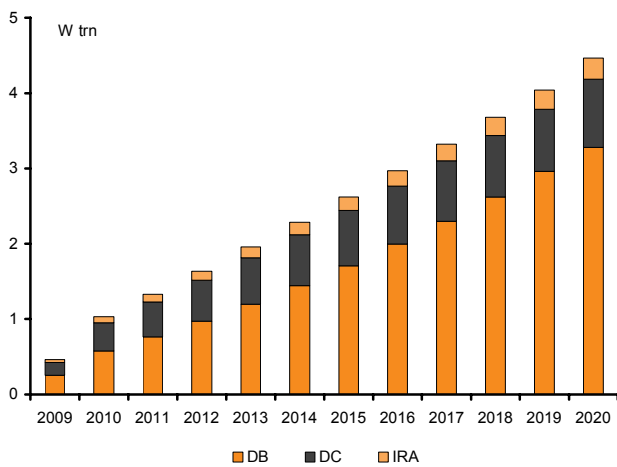
Source: FSS, RBS forecasts

**Chart 128 : Pension plan mix forecast – DC dominated**



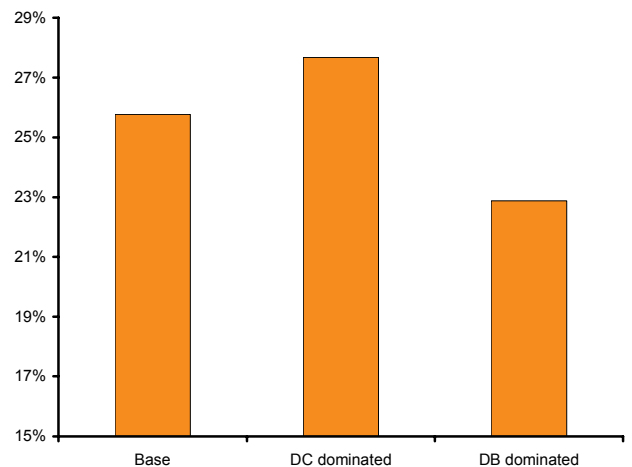
Source: FSS, RBS forecasts

**Chart 129 : Pension plan mix forecast – DB dominated**



Source: FSS, RBS forecasts

**Chart 130 : Pension reserve forecast (% CAGR), 2010-20**



Source: RBS forecasts