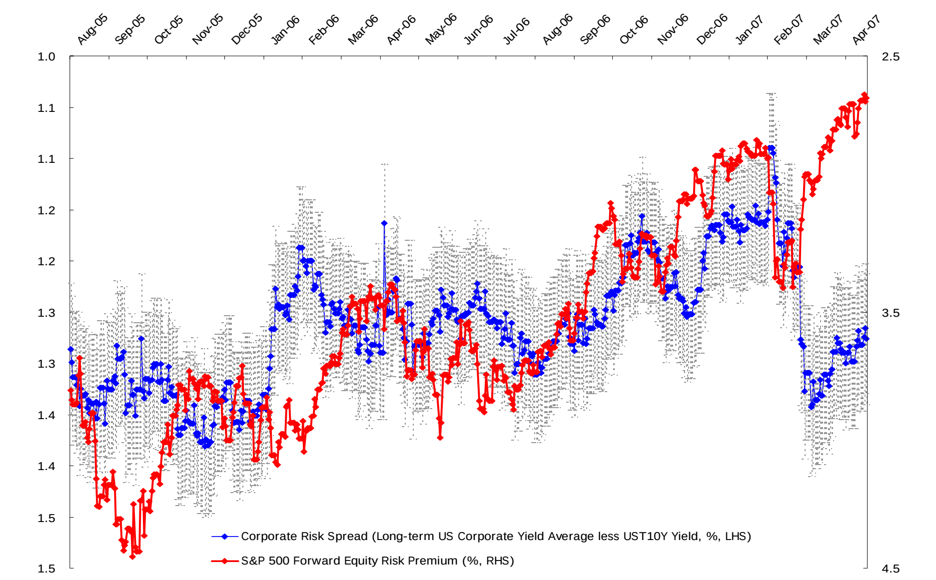
Korea / Tactical Strategy

L'Automate?

Should We 'Re-define' Global Liquidity or 'Re-visit' it?

'Uninsurable' corporate risks and equity market-implied risks are diverging in the US...



Source: Moody's Investors Service, Bloomberg, DWS

For the past three years, relatively low volatilities across an array of markets worldwide have led investors to prefer market directional strategies. Even within the complex of hedge funds, which are, in principle, supposed to be neutral to market direction, **many have had a basic directional bias** and have produced outstanding returns. Subsequently, I witnessed that most of the returns have been **influenced by 'beta'** while everyone, nonetheless, **claims to be a proponent of 'alpha'** in their bid for more funds.

I try to look on the bright side, even try to reconfigure the way I think, as I know I am not infallible in my thought process. But, I still can't get over a foul sense that leaves me at unease about the market. Tracing all the way back to the origin of this 'extended' banquet, we validate, without much confusion, that the US' policy to print more money since 2002 (which was only possible by the way of the dollar's status as the world's reserve currency) jump-started everything. Since the 4th quarter of 2005, we have witnessed the dominant effect of liquidity in the financial markets with the credit dimension markedly absent ex-post.

I have previously suggested a very narrow stock selection, along with higher exposure to high-grade bonds on the ground that the liquidity effect could be eased off slowly, but surely. My reference scenario of liquidity maxing out has yet to take place, but I am raising the level of my conviction that the time is near. In the US market, investors – **finally -** have begun to rush into equities in a 'risk-ignored' way since the end of March, 2007. This particular observation, as shown in the above chart, if and when combined with the easing off from liquidity effect, could possibly reset the thermostat in the equity markets worldwide, which appear to have gone into the state of l'automate.

While far from discussing a trend reversal, **I anticipate a possibly abrupt adjustment in terms of 'central' reference level of stock prices and expect the market to be on an even keel afterwards.** In the mean time, demand for the few select names will continue to intensify. I am adding Daelim Industrial Co (000210.KS) and Samsung Electronics (005930.KS) in place of Doosan Heavy (profit-take at/over W80,000) and Megastudy (profit-take at/over W180,000).

Tactical Strategy

May 10, 2007

Alfred Park
Head of Research
+82-2-768-4143
alfredpark@bestez.com
park_alfred@bloomberg.net

Focus List (Dec 7, 2006)

- √ SK Corp (003600.KS)
- √ Doosan Heavy (034020.KS)
- √ NHN (035420.KS)
- √ Hite Brewery (000140.KS)
- √ Megastudy (072870.KS)

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- √ Daelim Ind (000210.KS)
- √ SEC (005930.KS)

INVESTMENT THESIS

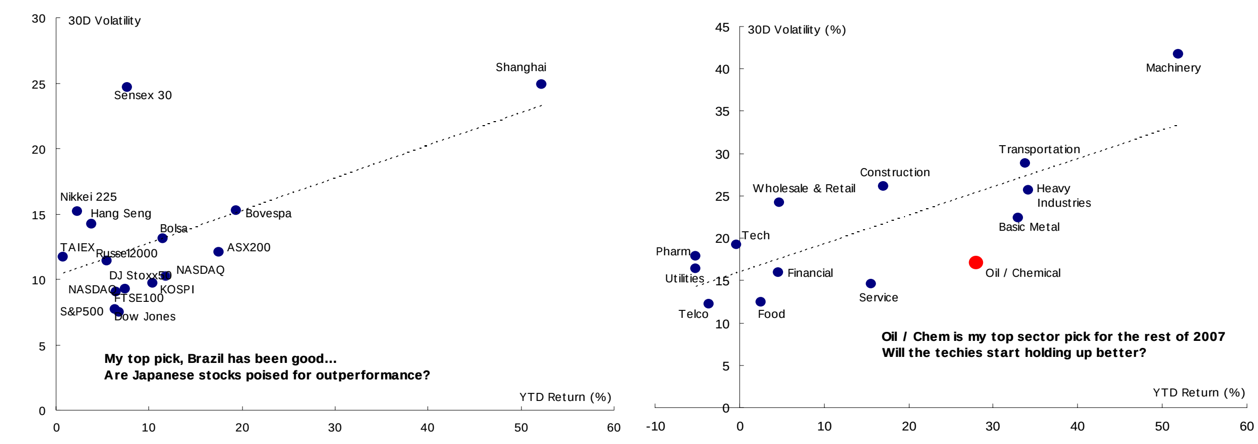
UNDERSTANDING THE ORIGIN AND PROVENANCE OF A THING

For the past three years, relatively low volatilities across an array of markets have led investors to prefer market directional strategies. **Even within the complex of hedge funds, which are, in principle, supposed to be neutral to market direction, many have had a basic directional bias** and have produced outstanding returns. Yet, literally everyone has a word 'alpha' somewhere – in the name of their fund or company, or in describing their investment strategy/philosophy.

This industry-wide 'love affair' with alpha, in fact, has brought about other implications having very little to do with alpha while the 'actual' alpha still remains illusory to many. Across the world, we have seen and heard of many large cap funds that replicate 70% of a specific index, parading 'alpha' as the nucleus of their investment process. Of all the strategies to choose, this is one of the least likely to generate sustainable excess returns as opposed to periodic patches of outperformance attributable to fortune. **Alpha is an outcome, not a process.**

It is not my objective to stir a controversy or raise a contest, but to humbly yield to the power - and the consequential (or inevitable) victory - of reasoning. **The chances are alpha is alpha when it stays illusory to most. More widely and actively the concept of alpha is marketed, promoted and exploited, faster the excess returns attributable to alpha are competed away and instead replaced by 'beta', 'sigma' and/or 'epsilon.'** The recent proliferation of 'alpha' – written everywhere in slogan and prospectus of every investment expert and institution - could be an indication of excess 'beta' or 'sigma' in the recesses of the market. We have seen such development way too much and often in precedents with Nifty-Fifty, Japanese stocks, New-Economy growth stocks, Bradys and emerging market debts, and so on. As confusing as it may sound, one's ability to identify a true alpha from a 'masqueraded' alpha and to act on a well structured thought or scheme creates an alpha in manifest. I am referring to alpha generated by the likes of Warren Buffet or James Simons as opposed to alpha that can be 'passively' generated by a company (or its management) that they may hold in their portfolio. This case in point would apply as well to private equities and industrial buyers that are on M&A binge.

YTD return and volatility of global equity markets and KOSPI sectors



Source: Bloomberg, DWS

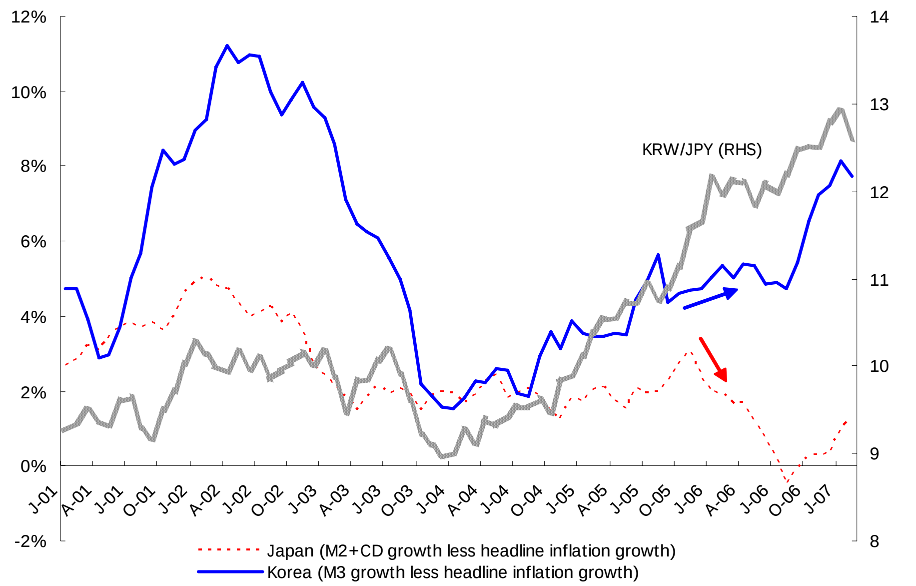
As Jim Rogers simply put it, trees do not grow to the sky. We all know that this trend and its magnitude will eventually slow, change, or even revert. **Is it the time now to start shifting away from beta influenced return strategies whereby alpha generation will be more acknowledged and accredited by investors?** We believe that the current behavior of the market calls for us to revisit the technical side of the market to be able to answer that question.

COMPONENTS OF 'VALUE' – WHERE AND HOW DO LIQUIDITY AND 'MISCALCULATED' ERRORS COME IN?

The price of a company share in the stock market is a traded value, which is essentially a weighted average of 'true' or 'intrinsic' value as market participants see fit within their subjective framework. For the simple fact that we will 'never' know the 'true' or 'intrinsic' value of any stocks at any given time while we, the people, have a strong tendency to be swayed by our primal emotions, namely fear, greed, and security (safety in 'numbers'), the market participants are inherently susceptible to miscalculations or errors. For this reason, while it is subject to debate, we advocate a 'market-oriented' stance, at least transitorily, thereby sparing as much of speculative components as possible for alpha generation though the long-term pattern subsuming short cycles are to be based on a clear thesis, often with directional bias.

The market price of a stock has to be explained by: (1) net assets that the company is 'utilizing'; plus (2) sum of future profits - net of capital costs (of investment capital employed) - to be generated over a finite life of capital. **Any residuals not appropriated by these two components are attributed to 'liquidity' or else they are simply comprised of 'erroneous' over- or undervaluation.** Since we have had a new disposition of global liquidity landscape, the dynamics of asset valuation – or rather 'pricing' of assets - at any given time have become more dynamic than ever. As a result, we are compelled to 'strip' out each component so that we can arrive at an educated guess as to what has been most responsible for the share price behavior and whether such influence is sustainable.

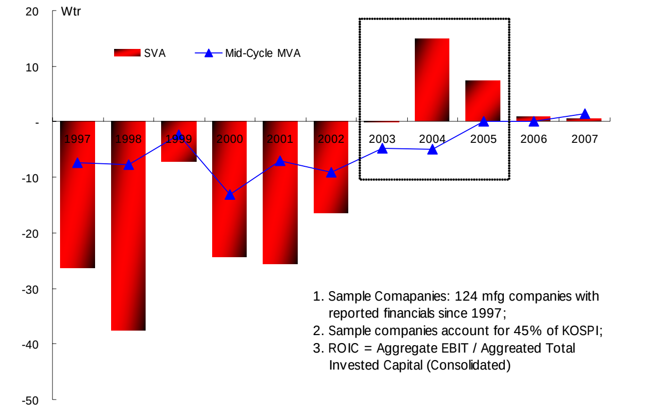
Liquidity effect has been prominent in Korea



Source: OECD, BoK

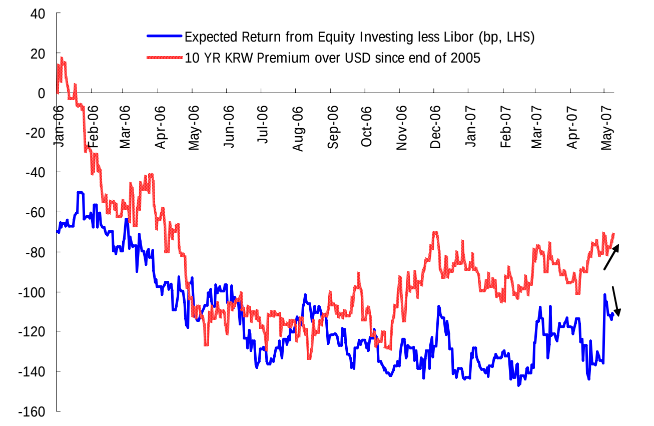
LIQUIDITY REVISITED

Korean companies are now generating shareholder value-added



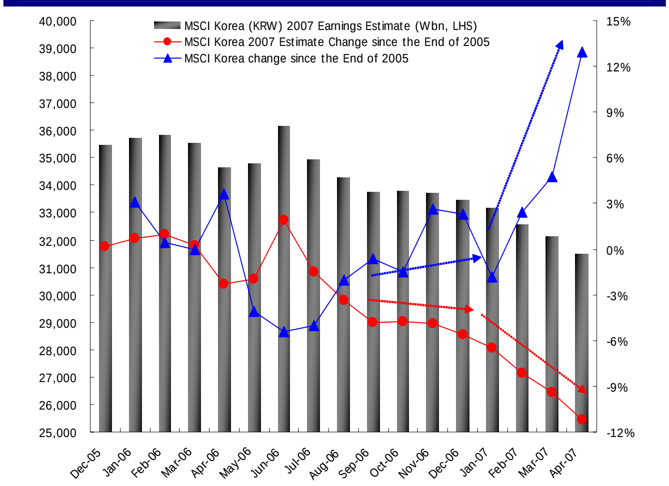
Source: DWS

KRW premium over USD nearing an end?



Source: DWS

Earnings estimates continue to be revised down…



Source: MSCI, Bloomberg

Assuming the closing price of 2006 was close to being 'fair', which we think is the case on a number of grounds, the current pricing of stocks seems to be in line with the fundamentals. Korean stocks, which were somewhat overpriced throughout the '90s and until 2002, began to take on the form of 'value creator' from 2003 and forth. In my opinion, this sudden reversal stemmed from **two catalysts that were beyond the cyclical spectrum**; China's new role in the world's open economy and capital retrenchment at company level in Korea. I may be half-hearted in applauding the triumph of Korea Inc for this very reason that **the turnaround had very little to do with 'core competency' in an offensive, innovative way.** China, for one, is breathing down on Korea's neck with its reverse engineering capabilities. **As a result, we will be somewhat reluctant to price in the future growth in today's value of shares.**

	End of 2006	09-May-07	Change (bp)
Risk Free Rate	4.70	4.62	- 7.80
Equity Risk Premium	3.11	2.95	- 15.81
Country Risk Premium	3.30	3.47	17.10
Long Term Real Growth	2.30	2.38	8.00

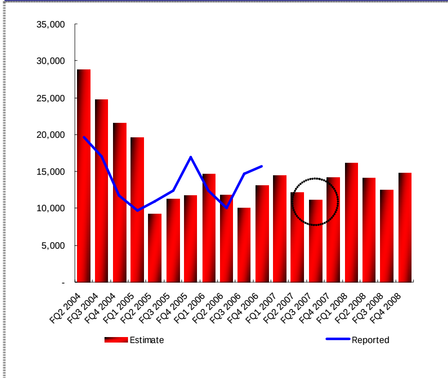
I believe it will serve us well to keep pace with the market from USD investor's perspective, due to increasing **integration of world capital markets.** The KOSPI200 closed 2006 with a trailing P/E of **11.3X** and the above figures representing changes in the surrogate variables for a simplified P/E model have it that the market should trade at **11.5X**, 2% higher than last year's close. Assuming economic corporate profits expand by 10%, the market's YTD return of 11.1% seems very 'fair.' However, I see two alarming signs.

First, the upward pressure on the multiple since last two years prior to 2007 is largely accounted by decreases in country risk premium, which is inherently more subjective than other variables. Yield stabilization **sheds a different dimension on asset valuation and its sustainability**, depending on what it stems from, either **credit improvement or 'working' of liquidity.** Incidentally, I believe that the latter is more relevant, evident in recent development in 2007.

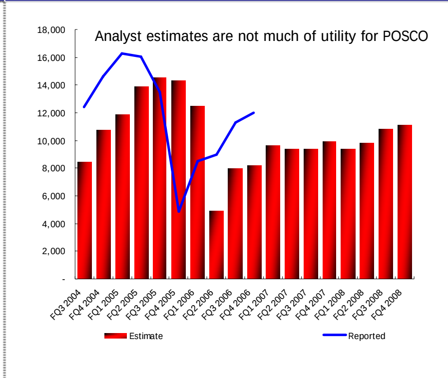
Second, the earnings estimate for 2007 continues on its downward tumble. The earnings consensus at the end of March was 9.4% and 4% off the estimate as of the end of 2005 and 2006 respectively. What troubles me is that, despite the downward revision, it is still forecast to be 10% higher than 2006 results. **Analysts tend to pare their estimates slowly and gradually and I don't think that the downward revision has hit the bottom.** Takeaway from the estimate for individual 'fat-tailers' on the following page is that the estimate may be still high for the banking, display, telco, and machinery sectors. Slowdown in 'heavy weight' sectors and the machinery sector, a darling of 2007 (up 52% YTD), will definitely cool off the heat, if confirmed.

Quarterly EPS Estimates for Bellwether Stocks (Source: Bloomberg, Companies)

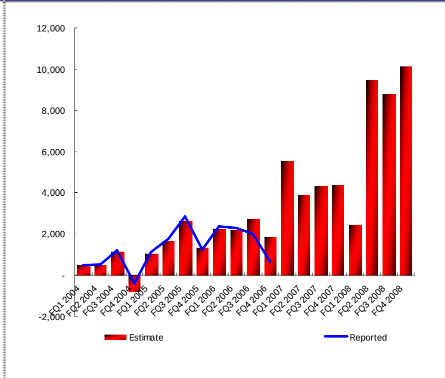
SEC: Execution risks remain 'till 3Q



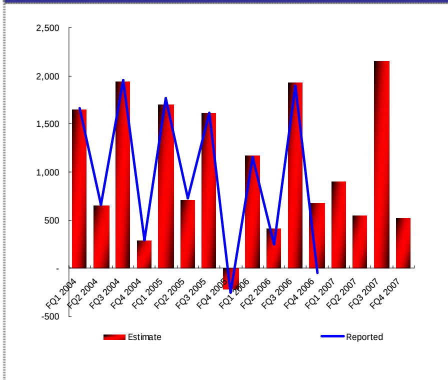
POSCO: Analysts 'follow' reported earnings



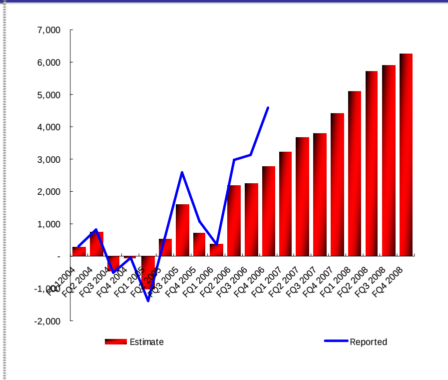
KB: Flattening yield curve favors banks…



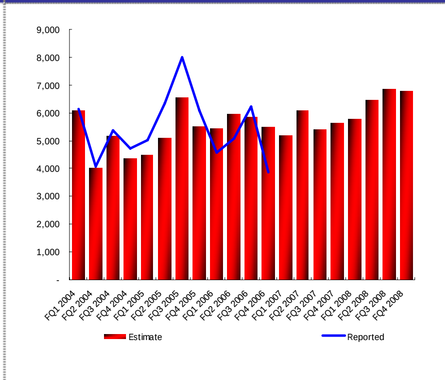
KEPCO: Bbbboring…



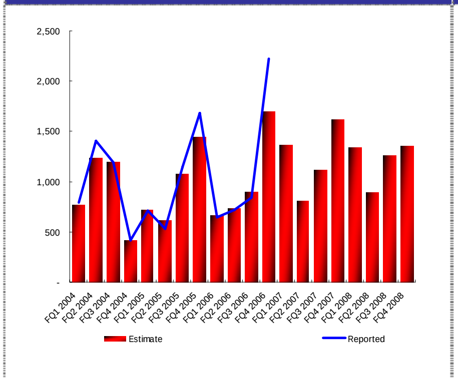
HH: Wow!..phaseout of single hull priced in?!



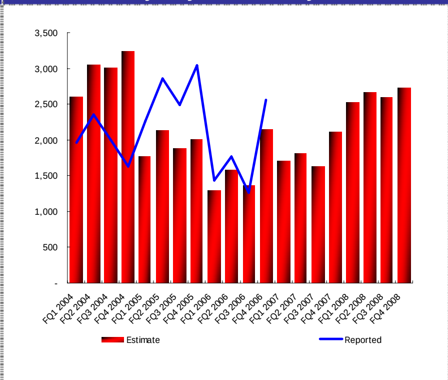
SKT: 7yrs of underperformance nearing end?



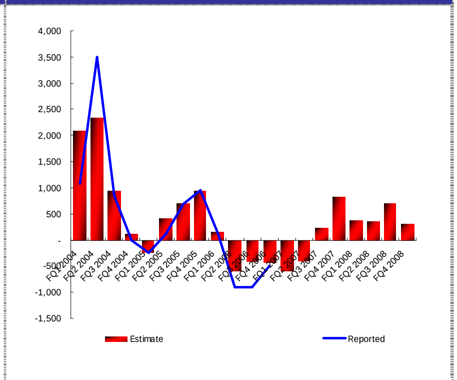
Hynix: Could be the joker for this year and 08?



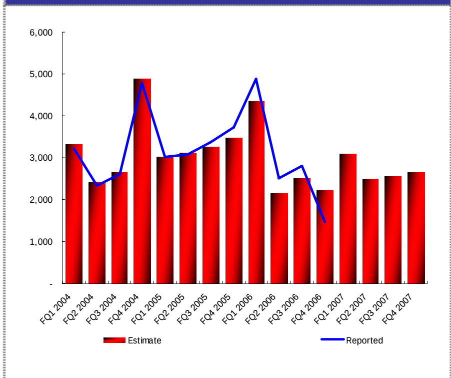
HMC: Recovery may be underway?…



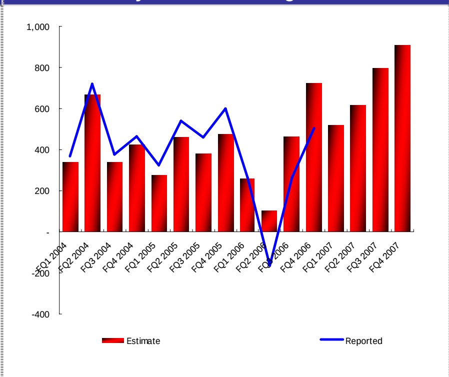
LPL: Next!!!



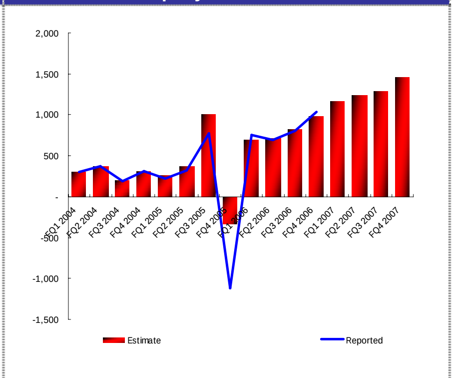
SK: Simply kosher for 'buy' for the cycle



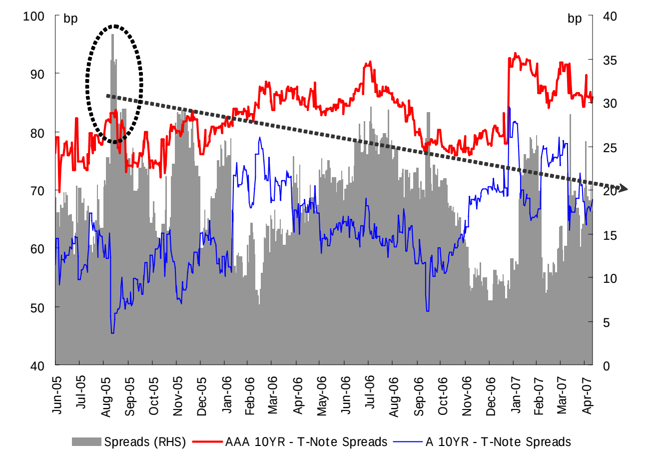
Doosan Heavy: MVP!. Let's begin 2 scale back!



NHN: Good company…Good stock!

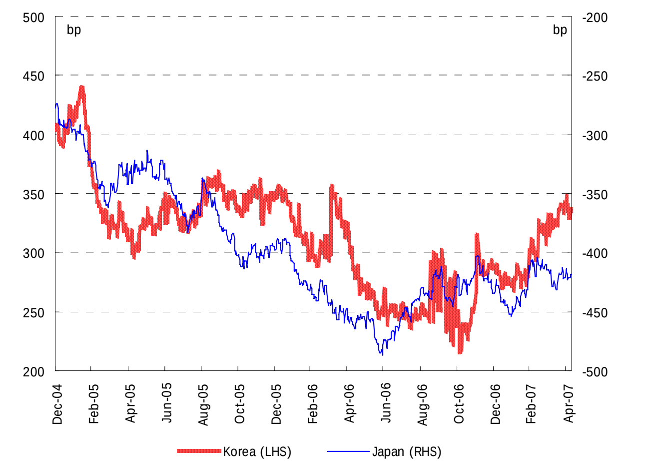


Swap and credit versus par US government spreads



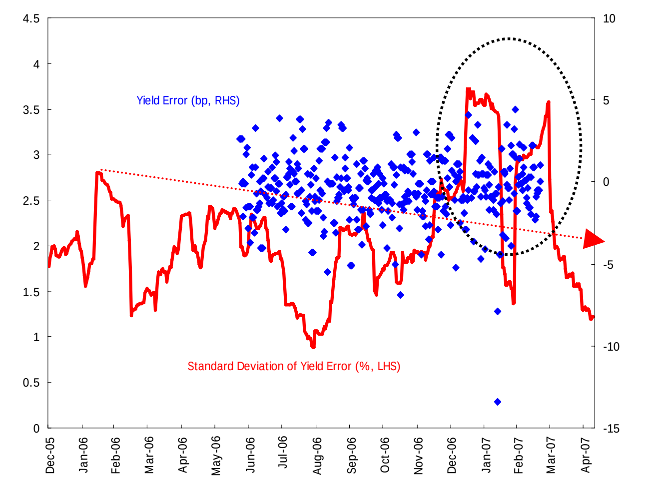
Source: Bloomberg

3YR corporate debenture BBB- versus 3YR T-Note spreads



Source: Bloomberg

Volatility of yield errors is seen rising in 2007?



Source: DWS

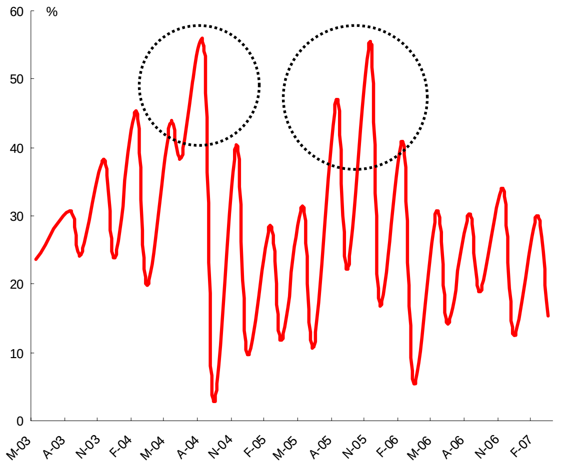
Since I am less sanguine of 'earnings execution' at a company-level in Korea, I am compelled, once again, to zoom in on the liquidity aspect. **We must keep in mind that the liquidity is not a mere sideshow of the recent development in terms of asset price inflation, but an integral component in a dynamic way.** As mentioned on page 4, I have reasons to believe that KRW yield stabilization had more to do with 'liquidity' than 'credit.' This case of liquidity expansion has been salient worldwide. Looking at the global liquidity, measured by USD bond market activities, **the credit dimension seems to be markedly absent since the forth quarter of 2005. Recent market events should be explained as a 'flight to liquidity.'** The same pattern is seen with the Bunds and Gilts.

A flight to liquidity concentrates demand on 'hot-run' treasuries with non-government spreads tending to back up similarly, irrespective of credit quality. This is precisely the case observed throughout 2006 and thus far in 2007, with the spreads between A and AAA having remained at less than 25bp. A 'flight to quality', in contrast, involves a steepening of the credit curve where default rates are expected to rise most on the weakest credits. Relationships among government yields themselves should be largely unaffected by a pure flight to quality.

What does all have to do with Korean securities? **The world capital markets have integrated very rapidly and all kinds of assets worldwide push and pull one another's pricing in a context of relative value under the no-arbitrage principle.** Looking at the spreads for 3 year bonds of Korean and Japanese companies with BBB- rating, the lowest of investment grades, to the US 3 year note yield, I suspect that the liquidity that's been dominant in pricing may just be changing. Korean bond yield spreads steepened last month and a half in a way that looks quite different from a pop that can be momentarily caused by bid/offer spreads.

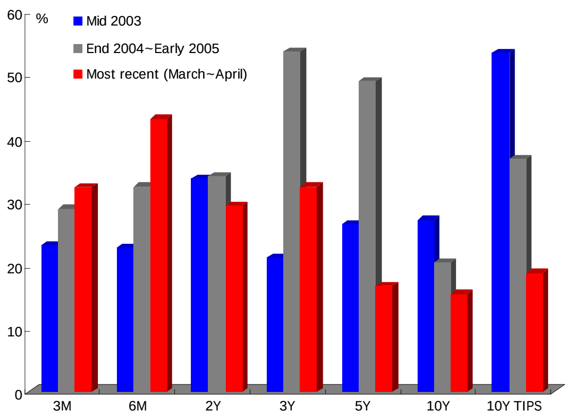
Among many logical ways to measure liquidity, I choose to take the standard deviation of the **'yield error'** of US treasuries as a proxy to gauge the global liquidity because the **US' policy to print more money since 2002 was largely responsible for the mortgage refinancing-led consumption in the US and subsequent steepening of the risk curve across the spectrum of investment assets worldwide.** I define the yield error as the difference between the theoretical yield and the actual yield of 'on-the-run' treasuries. **Stable volatility would logically equate to liquidity expansion in the financial market.** As shown in the left chart, the yield errors have been stable throughout 2006, supporting our aforementioned argument. Coming into 2007, however, what I have witnessed so far is the volatility of the yield errors being clocked at a notch higher. I would like to address to you a historical precedence, as well as logical premise, to question whether this is a 'premonition' to a new disposition of liquidity premia.

10YR T-Notes indirect bidders takedown



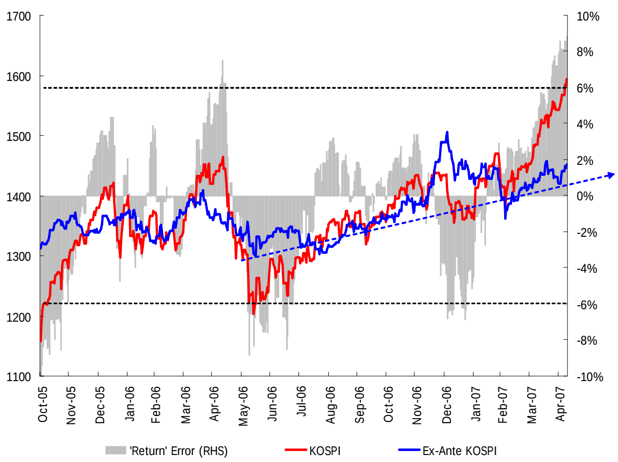
Source: US Treasury

…central banks have clearly shortened their bat…



Source: US Treasury, DWS

The KOSPI is getting pricier…



Source: DWS

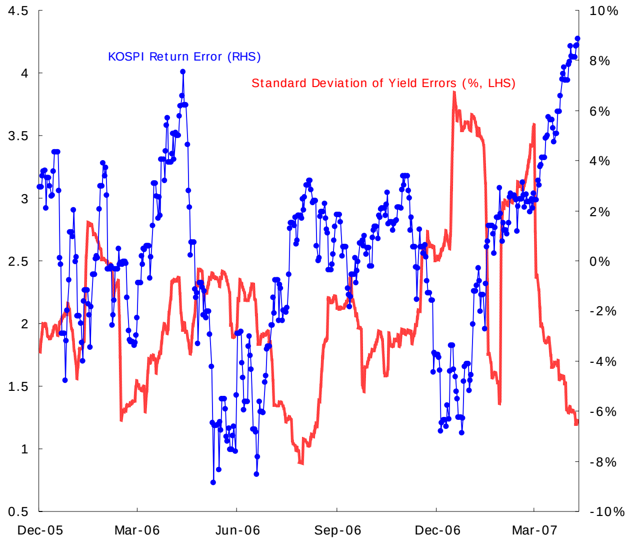
It is widely known that China, Japan, and Korea have been accomplices in the global liquidity makeover. The Asian reserves were the 'yeast' that swelled into the worldwide liquidity, having taken down chunks of treasuries at auction throughout 2004 and 2005. That the Asian central banks' heavy takedown of treasuries until the latter part of 2005 coincides with liquidity manifestation in the top chart on the preceding page is perfectly explained by the causal nexus between the two. **The interplay between liquidity injection and liquidity premia (with a time lag) in the financial market has been one of the most dominant themes in the market, whereby the earliest 'buy and hold' investors have earned the liquidity premium at no extra risk.** It's as good as it gets for the early birds with a deep pocket.

Bearing in mind the very origin of the current situation, the slowdown in the foreign central banks' subsidizing of the greenback is a noteworthy point in terms of establishing an investment strategy for the rest of 2007. Furthermore, because the price an investor should be willing to pay for liquidity depends on holding period and transaction cost, the indirect bidders' recent auction pattern may be hinting at an implication that can lead to a higher level of precaution if it persists. As shown in the left chart, **the indirect bidders have notably concentrated on the short-term bills as of late.**

Put all the pieces together, there certainly looms a higher possibility that liquidity effect may begin to lose its steam. Whether such development carries the sort of gravitational magnitude that's enough to pull down the market remains to be seen. The point of essence is that the current pricing of stocks, largely supported on the back of liquidity, has become visibly vulnerable to an extrinsic shock amid a dim outlook on corporate earnings. My take on this subject is that, even if you come out winning on a new position you take now, the unit of rewards appears to be well short of the unit of risk taken. **Right now, the investment objective must be oriented toward minimax, not maxmini.**

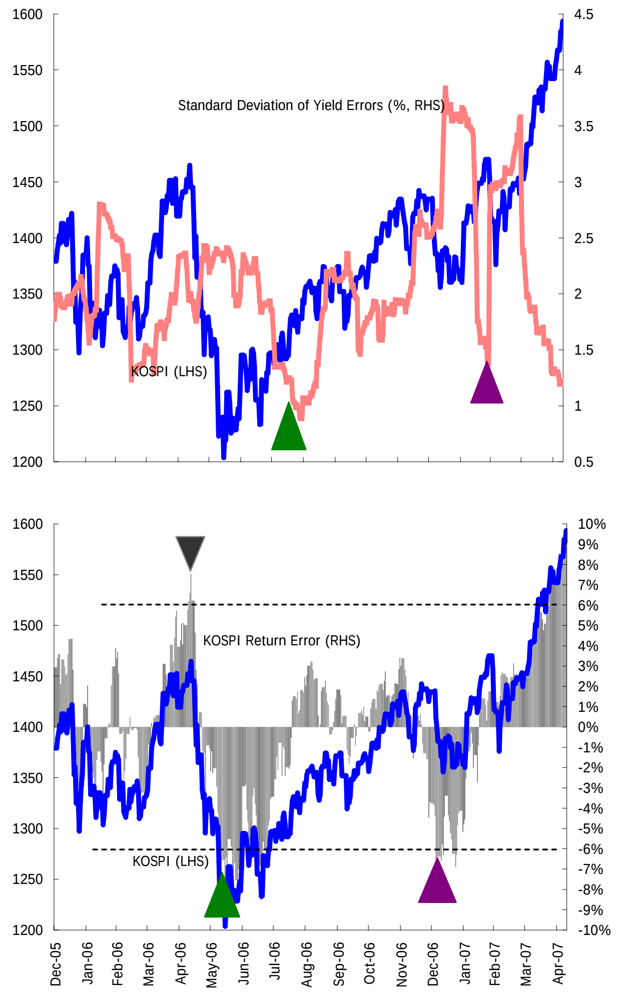
The left chart shows 'return error' measured, which is the difference between our ex-ante predicted value of the KOSPI and the value of the KOSPI ex-post. The underlying premise is that the corporate decision making and capital budgeting are influenced, if not governed, by the financial intermediaries' funding and lending activities, which are, in turn, anchored by policy measures by the central governments and policymaking bodies. I believe that the agents that spend, produce, save, or invest are conditioned, within their inherent limit, to respond to certain stimuli in certain ways. As the market steepens up on the efficiency curve, it's become extremely hard, if not impossible, to obtain much useful company-level information for a decisive 'alpha.' **Therefore we believe that an intuitive thinking-based forecast, coupled with 'market-oriented' overlay returns, is the most optimal alpha maximization strategy for a unit of risk taken.**

Liquidity 'at work'



Source: DWS

How these models fared since the end of 2005



Source: DWS

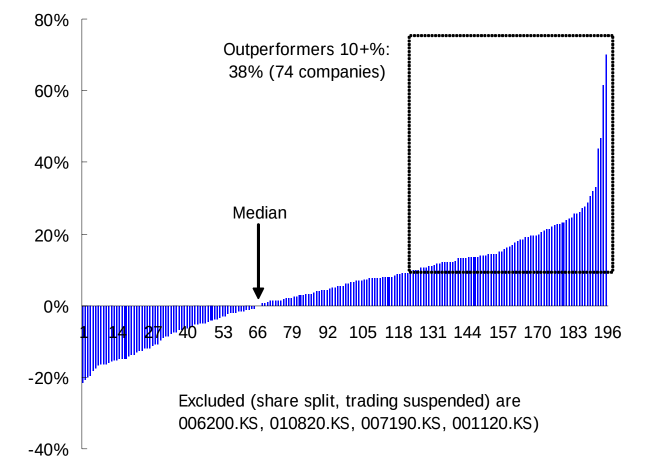
Charting the global liquidity premia proxy – as measured by the standard deviation of the yield error of US treasuries – and the 'return error' from our tactical model captures the inevitable relationship of the two. Falling volatility, which indicates swelling liquidity, - or the anticipation of such - allows (or rather pressures) the KOSPI to be 'justifiably' pricier.

In the same context that a flight to liquidity concentrates demand on 'hot-run' treasuries in the bond market, liquidity expansion, by convention, leads to a somewhat pervert trend toward indexation in the equity market, consequentially pushing financial investors to stocks whose characteristics may not be necessarily synonymous with best value. The process, in which liquidity premium earned at no extra risk trickle down to the smaller and less liquid stocks, brings about a de-facto leverage effect where the investors may casually ignore their need to be compensated for the extra liquidity risk they take. Furthermore, as liquidity rises, I witness a more active market-making (or de-facto market making) by securities firms and investors in which they run the risk of always being on the wrong side. If prices rise, the offer will be 'lifted', leaving them short, while if markets fall their bid will be 'hit', leaving them long. By making a price and hence being short volatility, a market-maker is in effect continuously writing short-dated options, giving the entering investors the right to buy and sell at fixed prices without being confident that they can get out of the position at the same level. **In the event of a significant market move, this can lead to a massive corrective adjustment – possibly to the extent of trend reversal though such possibility is currently remote, according to my reference scenario.**

In constructing a tracking or predictive model, the proprietor of a model should designate and assign a set of optimal 'parameters' that are fit to optimize the target for the unit of pre-determined risk allowance. As per the last chart on the preceding page, I allow a range of volatility of about +/- 6% to adjust for a dearth of normalized return expected – by security market line - and of equity market liquidity. The volatility allowance of anything else significantly lower or higher would essentially make it realistically difficult to implement the intended tactics in real-life trading.

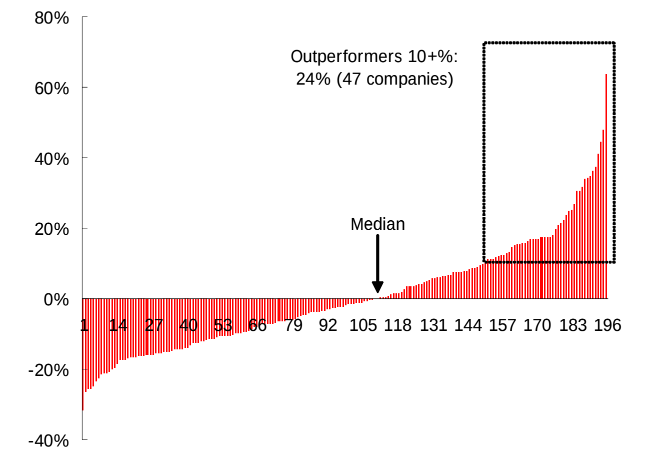
Since the end of 2005, we identified two 'strong buy' opportunities. Case of undervaluation in the second week of June, 2006 and in the first week of January, 2007, were respectively followed by incremental forces of liquidity expansion 'at work' in the ensuing (approximately) 2 months. These two instances are respectively marked by green and purple pointers in the left chart. Although we had an instance of a 'transitory' overvaluation case – marked by a black pointer - in the second week of May, 2006, it didn't have liquidity 'follow-through.' **Therefore, the ensuing result was that the correction turned out be inconsequential.**

The investors are becoming 'Darwinistic'…



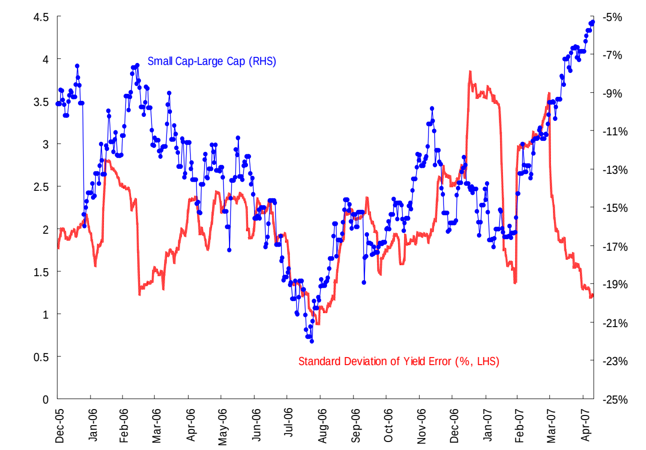
Source: DWS

…meaning stock selection will be more paramount to performance



Source: DWS

Time for select small caps to shine?



Source: DWS

Although we have yet to see liquidity contraction – as measured by volatility of yield errors – in development, our proprietary predictive model is giving off a signal that the KOSPI' may be fully valued with the return error surpassing the 6% level on April 23rd. **Although we need to confirm the liquidity contraction to pencil in the case of 'overdraft', we suggest that an investor stay away from adding new positions or market-making at this level.**

On page 6, we already mentioned that, coming into 2007, the volatility of the yield errors was being clocked at a notch higher. **The consequential result may have already started to be manifested at a company level through it is still not too obvious, thus possibly pre-emptive.**

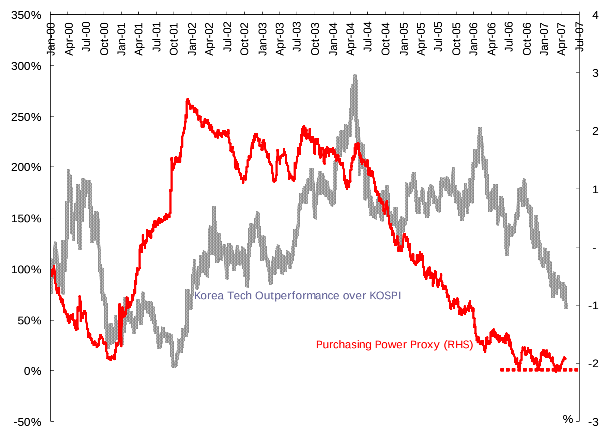
In my previous publication on investment strategy, <Comes 2007, Looms Sinister Twilight> dated December 7, 2006, I highlighted the following 4 points: (1) The KOSPI will not likely break through and stabilize around 1600 this year; (2) Corporate earnings will likely come short of meeting investors' expectations; (3) I remain underweight (or neutral at best) on Korea and its IT sector; and **(4) Dwindling corporate profits and liquidity will make investors increasingly 'Darwinistic' meaning stock selection will be, more than ever, paramount to performance.** Off this premise, I recommended five focus names of Doosan Heavy (034020.KS), SK Corporation (003600.KS), NHN (035420.KS), Megastudy (072870.KS), and Hite Brewery (000140.KS).

Our interim scorecard has it that we have been on track so far. While the verdict regarding (1) remains to be seen, investors' expectations for the corporate earnings growth have continually gotten sour (2); MSCI Korea is outperforming MSCI Emerging Asia and MSCI Emerging Asia Value, but only by 2~4% YTD while the KOSPI IT sector trails the KOSPI by -13.5% so far this year and (3); and we see a concentration of demand on a less number of select companies (4). Among them, I would like to highlight the share price polarization (4), which could be hinting at a company level that the liquidity situation may have already started to change.

Comparing share price performances of the 1st quarter this year and the last quarter of 2006, we observe a distinctively clear shift of the median point. While we had 38% of companies in the KOSPI200 outperform the index by 10% or more in the last quarter of 2006, the number of outperfomers dropped significantly to 24% of total in the first quarter of this year.

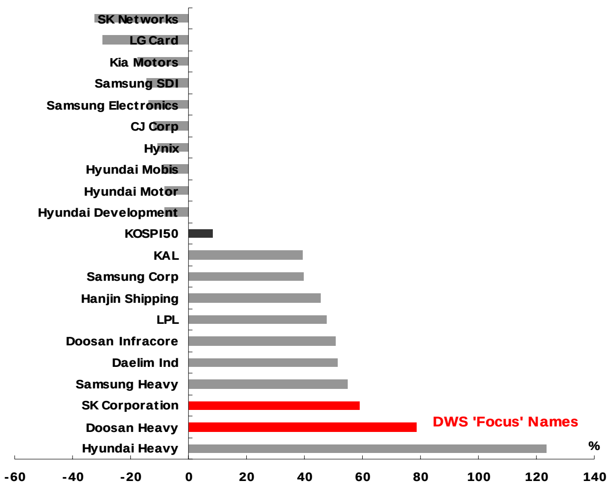
This case in point sheds a spotlight on smaller caps. The recent strength of smaller caps may indicate that the liquidity tightening may be underway. The continuing trend of downward earnings revisions, coupled with the bellwether IT stocks still months away from reaching the trough (chart on the next page), could turn the market into vacuous state if the liquidity contraction is confirmed.

Tech stocks are months away from hitting the trough



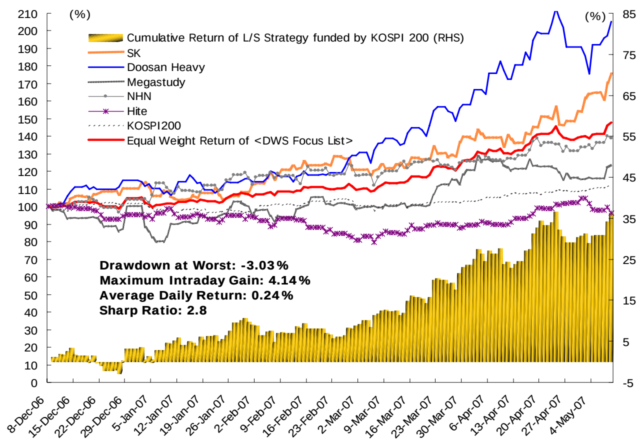
Source: DWS

YTD performance rank



Source: Bloomberg

Performance of 'DWS Focus List'



Source: DWS

Lackluster performances of IT shares have been more than offset by stellar performances of energy and China-related shares, which are standout beneficiaries of the 'reconfiguration' of global supply chain that we have emphasized for quite some time. While the market, seemingly, has grown accustomed to 'risk-ignored' rate of return, we faithfully stick to the primary market valuation, in which we focus on a given company's tangible assets and foreseeable MVA 'at price.'

My strategy at the end of 2006 paid off well so far this year. As of May 9, 2007, my 'stalwart' 'focus list' names of Doosan Heavy (034020.KS), SK Corporation (003600.KS), NHN (035420.KS), Megastudy (072870.KS), and Hite Brewery (000140.KS) outperformed, on an equal weight basis, the KOSPI200 by 36.3% since December 8, 2006 with only Hite Brewery marginally trailing the index. That the basket's volatility is only slightly higher than the market' despite significant excess returns generated, the basket of 'DWS Focus List' stands to have the sharp ratio of 2.8.

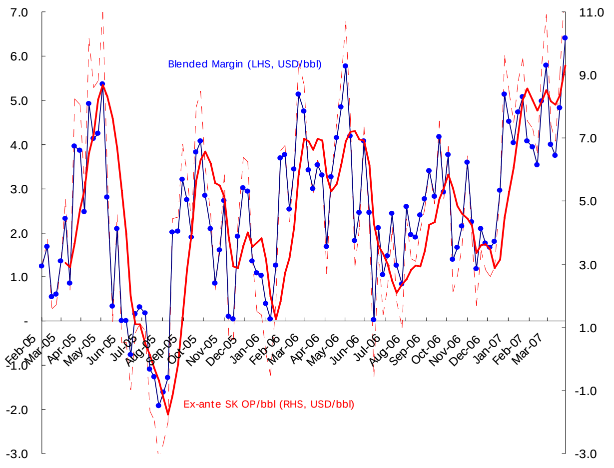
I believe that the 'narrowing' of winners will continue. Among my focus names, Megastudy (072870.KS) appears to be fairly valued with its multiple possibly coming under pressure with the presidential election in the offing. The lofty valuation is turning Doosan Heavy, MVP so far in 2007, into more of a concept stock, which can be vulnerable to negative news flow or earnings disappointment. Other than that, I am still very high on SK Corporation, NHN, and Hite Brewery for their humble valuations, which have yet to price in their due premium for earnings visibility over the market. Among the YTD leaders among the KOSPI 50, Hyundai Heavy (009540.KS), and Daelim Ind (000210.KS) still offer a good value, I believe.

We discussed the consequential liquidity channel through which, additional investment rents were appropriated to 'buy-and hold' investors whereby they had earned the liquidity premium at no extra risk. I suggest that they consider locking in some of the liquidity premium they acquired without having to pay for it as we expect that the volatility of liquidity premia may likely start to rise. **This would result in a number of outperformers likely continuing to decrease on a quarter-to-quarter basis whereby the quest for alpha will be the main theme for the next 6 months.**

I replace Doosan Heavy (034020.KS) and Megastudy (072870.KS) with Samsung Electronics (005930.KS) and Daelim Industrial Co (000210.KS) for the 'DWS Focus List.' Samsung Electronics is a play via which we look to benefit from wealth transfer effect that will trickle down to consumers in the Asia-Pacific region. At the same time, it adds a bit of a defensive color to the portfolio. Although Hyundai Heavy (009540.KS) appears to have a stronger momentum than previously anticipated (a better hybrid of Doosan Infracore and Daewoo Shipbuilding?), we find it hard to ignore the current multiple could be at the uppermost level, based on cyclically-adjusted earnings.

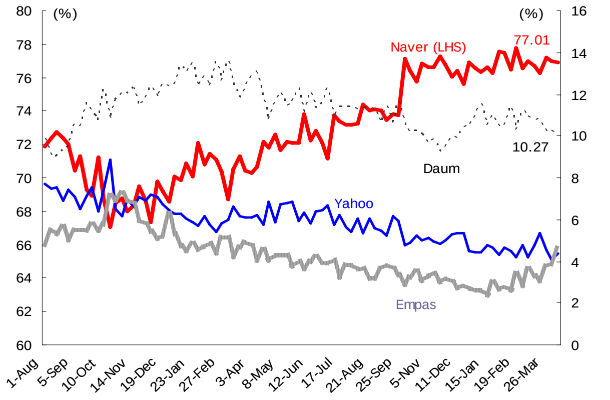
SHARE HIGHLIGHTS

SK will surprise the market on April 26…



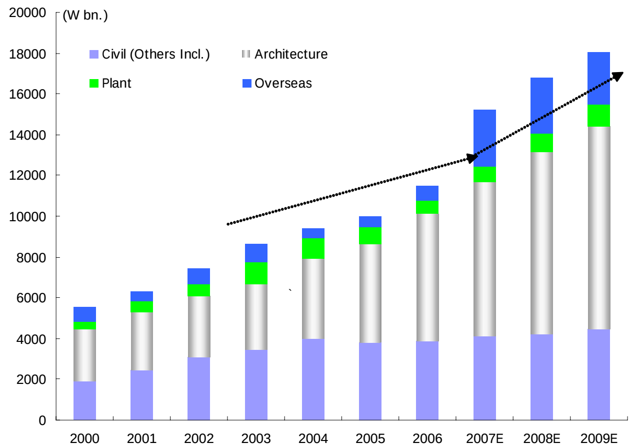
Source: SK, KNOC, DWS

Is NHN unifying the market?



Source: Company Data, DWS

Daelim's backorders will continue increasing for the next few years…



Source: Daelim Ind, DWS

SK Corporation (Analyst: Alfred Park) is my top pick among the large cap stocks for the rest of 2007. Rampant growth of China, which caused the jitters in the world equity markets, confirms that the country's insatiable appetite for energy will continue growing.

The fact that the industrial production grew by 18.3% and car production jumped by 32% in the 1st quarter may indicate that the upstream petroleum product prices will turn out to be more resilient than previously anticipated. China's hyper growth will also likely raise an issue on CO2 emissions and de-sulfurization, compliant with cleaner-fuel mandate. This environmental awareness and cost economics have favored oil as a primary source of energy over coal or natural gas for now. The mounting pressure on de-sulfurization will entice a segmental growth of low-sulfur diesel products, from which a middle distillate-intensive SK will benefit a great deal by maximizing its hydrotreating facilities.

Based on the current trend, SK can end up netting an operating income of more than $3/bbl from its petroleum division and will likely continue to surprise the market after robust earnings for the 1st quarter.

NHN (Analyst: Chang Kwean Kim) is a de-facto monopoly in the online search market. NHN's strategy to do away with 'deep linking' has fortified Naver's power to content providers. The positive cascade has put NHN's share in the search ad market at a whopping 77% while the distant second, Daum, continues to lose its market share. I actually believe that Korea is one market, in which Google would have trouble establishing itself against the formidable Naver.

Our analyst, C.K. believes that the company's diluted EPS can amount to the vicinity of W8,000 in 2008. The upcoming events including the presidential election and 2008 Beijing Olympics will also put the company at the center of investors' attention. As I see very little imminent risk, NHN is one of the rare growth names in the Korean universe.

Daelim Industrial Co (Analyst: Steve Chung), while lacking pizzazz to be the hottest stock in the construction industry, will likely turn out to be a more steadfast construction company that will benefit from the overseas construction boom. Specialized in plant construction for nearly 60 years, Daelim has an unparalleled track record in plant construction, and the company itself has a petrochemical business unit. Because of safety awareness and the expertise required in maintenance, the company is perceived to be a prime contractor for petrochemical plants.

The company already passed its 2007 target (W500bn) for overseas mandate, having contracted for nearly W1tr in the 1st quarter alone. The contracted amount can swell up to more than W2tr in a couple of years as the related contracts come on stream. I agree with Steve, our construction analyst, on the point that the multiple discount to its peers may be without warrant, given its high earnings visibility.

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DAEWOO SECURITIES INTERNATIONAL NETWORK

DAEWOO SECURITIES CO., LTD
150-716, 34-3, Youido-dong, Yongdungpo-ku, Seoul, Korea
Tel : (822) 768-4143 Fax : (822) 768-2126
Contact: Alfred Park alfredpark@bestez.com

Daewoo Securities (Europe) Ltd.
41st floor, Tower 42, 25 Old Broad Street,
London EC2N 1HQ, U.K.
Tel : 4420-7982-8000 Fax : 4420-7982-8040
Contact: Sean Kang sean.kang@dwse.com

Daewoo Securities (America) Inc.
600 Lexington Avenue, Suite 301New York,
NY 10022 U.S.A.
Tel : 1212-407-1000 Fax : 1212-407-1010
Contact: Jean-Louis Lee jlee@dwsusa.com

Daewoo Securities (Hong Kong) Ltd.
Suite 816-819, Jardine House,
1 Connaught Place, Central, H.K., China
Tel : 852-2845-6332 Fax : 852-2845-5374
Contact: H. J. Ahn hjahn@dws.com.hk

Tokyo Representative Office
Rm. 701 Build X, 2-1-11 Nihonbashikayaba-Cho,
Chuo-Ku, Tokyo, Japan
Tel : 813-5642-6070 Fax : 813-5642-6228
Contact: John Sejung Oh johnoh@bestez.com