

COUPANG'S NYSE LISTING OPENS THE DOOR TO A NEW ERA FOR KOREAN COMPANIES

Op Ed by Dr Rory Knight



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Dr Rory Knight, is Chairman of Oxford Metrica and the investment committee at the John Templeton Foundation. He was formerly Dean of Templeton, Oxford University's business college. Prior to that Dr Knight was the vize-direktor at the Schweizerische Nationalbank (SNB) the Swiss central bank.

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The recent news of the listing of Coupang on the New York Stock Exchange (NYSE) is an exciting development for Korean listed companies. It is a recognition of a Korean unicorn which will have a positive effect on many similar Korean companies. This event is far more significant than just another listing. It is the first listing in the US markets by a Korean listed company since Gravity listed some sixteen years ago. In that period of inactivity the world has endured the Great Financial Crisis, the world pandemic and yet the longest bull run in living memory. Clearly, Korean listed companies did not take advantage of the markets' decade-long rally by listing in the largest

capital market in the world. Korea is a noticeable outlier among the world's major economies in that it has almost no presence in the US stock-markets. There are 2,396 American Depositary Receipts (ADRs) traded in the United States of which only 10 are Korean from a population of 2,356 listed Korean securities - whichever metric one uses Korean companies are almost absent and easily the least represented. Figure 2 illustrates the dramatic under representation of Korea in the ADR market. The number of ADRs from each of the top ten markets outside of North America are presented in order of market capitalisation. Korea is ranked last with 10 ADRs. It is a little worse when one looks at all stock-markets where Korea ranks at 34th place with Colombia. Figure 2 reports an ADR ranking adjusted for market

capitalisation where Korea is second from last in both the top 10 rankings and all country rankings. The metric reported is the number of ADRs per trillion dollars of market capitalisation, Korea scores a 5 - only India has a lower score although it has a larger number of programmes. The top 10 markets have an average of 50 ADRs per trillion dollar of market capitalisation which would mean a tenfold growth in Korean ADRs - even if Korea moved up one place in the rankings it would have a four-fold increase to 40 ADR programmes. It is therefore reasonable to expect a significant growth in new Korean ADRs. Coupang signals that the conditions are auspicious. The KOSPI index was the strongest performing stock-market in the world in 2020 - Korea is attracting much attention from overseas investors

TABLE 1: Korea ADRs currently traded in the US
SOURCE: BNY Mellon

ADR ISSUER	CAPITAL RAISED	ADR VENUE	RATIO ADR:ORD	INDUSTRY	First listed
POSCO	Y	NYSE	4:1	Indust.Metals&Mining	1994
KEP	N	NYSE	2:1	Electricity	1994
SK Telecom	Y	NYSE	9:1	Mobile Telecom.	1996
KT	Y	NYSE	2:1	Fixed Line Telecom.	1999
KB	N	NYSE	1:1	Banks	2001
Shinhan	N	NYSE	1:2	Banks	2003
Woori	N	NYSE	1:3	Banks	2003
Webzen	Y	OTC (Ex NASDAQ)	10:3	Leisure Goods	2003
LG Display	Y	NYSE	2:1	Tech.Hardware&Equip	2004
Gravity	Y	NASDAQ	1:1	Leisure Goods	2005

which is a significant opportunity for many Korean companies to consider establishing a trading facility in the US.

Korean ADR programmes

Eight of the ten initially listed on the NYSE and two on NASDAQ, Webzen subsequently delisted from NASDAQ and is currently traded on the OTC market. Notice on Table 1 that listing an ADR on an exchange does not require a simultaneous IPO to raise capital. Listed ADRs come in two forms, Level 1 & Level 2; the former raises capital and the later does not. Listed ADRs are required to conform to the disclosure requirements and other regulations set out by the United States Securities and Exchange Commission (SEC). A third option is the so-called Level 3 an unlisted ADR which trades on the US OTC markets. A Korean example is Webzen which started out as a Level 1 on Nasdaq subsequently delisting and the ADRs are now traded as a level 3 on the OTC. Level 3 ADRs do not have to comply with the SEC regulations and are subject to less onerous reporting requirements. This alternative seems

well suited for smaller to mid-sized Korean companies who would merely need to maintain an English language website with all their usual financial disclosures. Thus without any increased reporting burden they would gain access to the US markets. An ADR is a US-domiciled security representing a package of shares listed on a foreign market, traded in US \$ on a US market. Thus US investors have access to a foreign stock presented as a US security traded in dollars during US trading hours as an alternative to trading the underlying stock in the foreign exchange. Once an ADR has been created there are two venues to trade the share and arbitrage forces will keep the prices in the two markets in equilibrium. The translation of one price to the other requires two adjustments. Firstly for the ratio of ADRs to ordinary shares; for example POSCO's ADR price has to be multiplied by 4 since 1 ADR represents 1/4 of a POSCO share in Seoul. Secondly, an adjustment is made for the exchange rate to compare the prices in Won terms. Over time the two series will generate the same return adjusted for the change in exchange rates. Many empirical studies provide evidence on the efficiency of markets keeping stock

prices and ADR prices in equilibrium through arbitrage.

The 5 benefits for a Korean ADR

The 2,396 companies that have established ADR programmes have been motivated to respond to the strong demand from US investors that evidently exists. Obviously, US investors are able to buy Korean stocks directly, however the ADR provides a much more convenient and efficient medium. Korean companies would derive the following five key benefits:

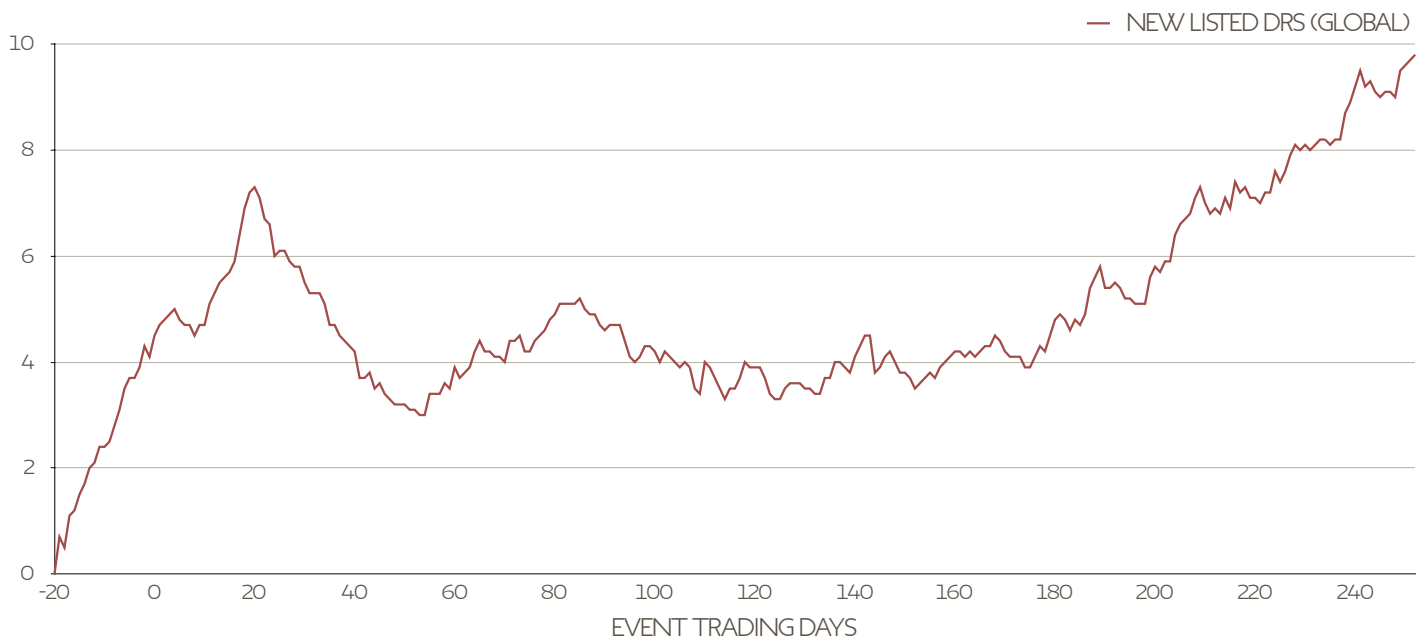
1. Improved demand for stocks

ADRs enjoy a platform and stand out from the crowd in attracting US investors. The market venue provides an opportunity for more effective investor relations.

2. Increase in value

Empirical research has shown that in aggregate the establishment of an ADR programme creates a significant increase in value. Figure 1 reports the impact of the establishment of an ADR programme for the universe of ADRs. The study isolates the effect of the

FIGURE 1: Increase in value after ADR launch
SOURCE: Oxford Metrica



ADR listing by controlling for market wide factors, timing, risk and currency effects over three decades. The result may be interpreted as the permanent improvement in value of 10% over the long term. This reflects a significant reduction in the firm's cost of capital.

3. Increase in liquidity

Although an ADR involves taking a number of shares to another venue, the net effect is to considerably increase the volume of trading in the home market. The research reports the increase in trading on average for all DRs as measured by the Trading Volume Multiplier metric which is the multiple of the previous year's average daily trading volume in ordinary (local) shares. The universe of listed ADRs have enjoyed an increase in trading volume of 35% on average.

4. Improved brand profile

Any Korean company that is involved in international business will benefit from the increased profile and reputation with the attendant

increase in brand awareness. If on the other hand the Korean firm is domestic based it becomes even more attractive to foreign investors as a diversifier of risk.

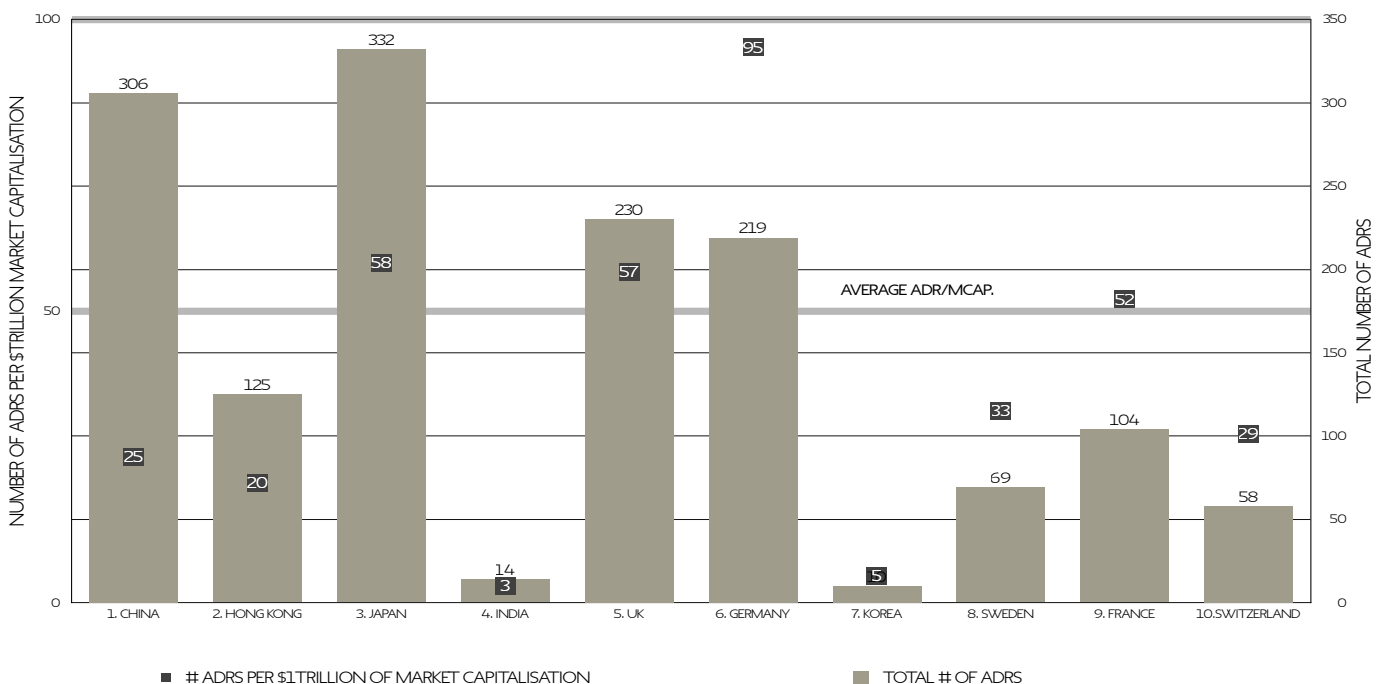
5. Increased reputation

Above all there is likely to be a powerful quality signalling effect for the early adopters such as Coupang which has already generated world-wide publicity.

Conclusion

The US capital market may not be suitable for all Korean companies; however many mid-sized companies in Korea would benefit. The experience of the few companies currently listed is not relevant, because their experience is so out of date and because they were chiefly larger companies. The experience of the many companies around the world that have benefitted in the last decade is more relevant. Coupang is blazing a new path for a new generation of Korean companies to venture onto the world stage.

FIGURE 2: ADRs in top 10 markets outside US
SOURCE: BNY Mellon & Oxford Metrica



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