

Deals

Paul Singer Unnerves Korea's Billionaires Whether He Wins or Loses

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- ▶ Elliott Management founder loses proxy vote over auto group
- ▶ His activist campaigns have already shaken up Korea Inc.



Paul Singer Photographer: Patrick T. Fallon/Bloomberg

For decades, South Korea's most powerful tycoons ran their companies with little regard for minority shareholders. Then came Paul Singer.

The hedge fund titan's activist campaigns -- first at Samsung Group in 2015 and then at Hyundai Motor Group -- have trained a spotlight on the corporate governance failures and complex ownership structures that saddle South Korean stocks with some of the world's lowest valuations. His calls for change have put the country's biggest conglomerates on the defensive, triggered a wave of homegrown activism and turned shareholder returns into a national talking point.

Which explains why the loss suffered by Singer’s Elliott Management Corp. Friday in its proxy battle over Hyundai Motor Co. is unlikely to derail the nascent shift toward more accountability at the business groups that dominate Asia’s fourth-largest economy. As more investors mimic Singer’s activist approach, the nation’s family-run conglomerates, locally known as chaebol, are increasingly engaging with minority shareholders and acceding to some of their demands.

“Elliott and activist funds are changing the behavior of controlling shareholders and making them walk on eggshells,” said Chae Yi-bai, a South Korean lawmaker who has worked at a non-profit shareholder activist organization.

Activist investors have publicly targeted at least five tightly controlled conglomerates since Singer took aim at Samsung four years ago, jolting a corporate sector that was producing returns on equity about a third lower than emerging-market peers. Three of the campaigns have resulted in at least partial changes, according to data compiled by Bloomberg.

Including non-chaebol companies, activists targeted 12 South Korean businesses last year, up from none in 2013, according to figures from Activist Insight, a London-based research firm. The number of Asia campaigns tripled over the same period to 111, about 40 percent of which involved companies in Japan -- a country also known for complex ownership structures and weak corporate governance.

In South Korea, even companies that haven’t faced pressure from activists are now adopting investor-friendly measures to avoid becoming targets, according to Yoon Tae-Ho, an analyst at Korea Investment & Securities. Businesses in the benchmark Kospi index paid out 23 percent of their net income in dividends last year, the most since 2007.

South Korea’s Activist Wave

Year	Activist	Target	Key Results, Responses
2015-2016	Elliott	Samsung C&T, Samsung Electronics	Samsung group narrowly defeated Elliott in C&T proxy fight Elec vowed to use 50% of free cash flow on shareholder returns, increase dividends by 30% in 2016
2018-2019	Elliott	Hyundai Motor, Hyundai Mobis, Kia Motors	Group canceled \$8.8 billion merger plan in 2018 Motor to raise ROE to 9% by 2022, Mobis to spend 2.6 trillion won on shareholder returns over 3 years

2018	Platform Partners	Macquarie Korea Infrastructure Fund	•	Manager cut fees but fended off threat of being replaced
2019	KCGI, NPS	Hanjin Kal, Korean Air	•	Hanjin to raise dividend payout ratio to 50%, sell a property in Seoul <ul style="list-style-type: none"> • Korean Air to reduce debt ratio to 395% by 2023 vs 699% in 2018
2019	NPS	Namyang Dairy	•	Refused to set up dividend committee
2019	NPS	Hyundai Greenfood	•	More than doubled 2018 dividend
2019	Dalton	Hyundai Home Shopping	•	Preparing plans to boost returns

While Singer isn't wholly responsible for the changes (and has had mixed results with his own activist campaigns), it's hard to overstate the 74-year-old billionaire's influence.

His 2015 opposition to Samsung Group's succession-related restructuring touched off a series of events that resulted in a brief jail term for the electronics giant's billionaire heir apparent for influence-peddling, protests by hundreds of thousands of people in Seoul, and the downfall and imprisonment of the country's president, Park Geun-hye.

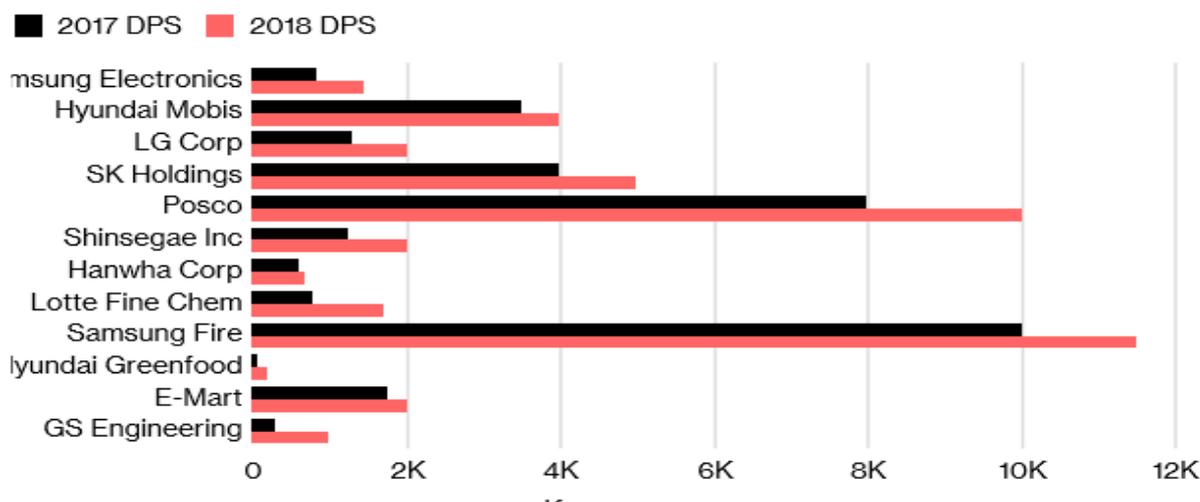
Park's successor, Moon Jae-in, made chaebol reform a central plank of his election campaign. Under his watch, the state-run National Pension Service -- which oversees more than \$560 billion and was a key player in the Samsung scandal -- has reshuffled its management and adopted a stewardship code designed to improve corporate governance. Several of the country's other big investors have followed suit.

The changes are pushing Korea Inc. in the right direction, said Heo Pil-seok, chief executive officer at Midas International Asset Management in Seoul.

"Some companies are trying to sound out investors about plans before announcements," a rarity only a few years ago, he said. "They are weighing potential market reactions more than before."

Not So Stingy

South Korean conglomerates paid higher dividends for 2018



Source: Bloomberg

Note: Dividends are for common stocks

Chaebol critics say meaningful reform may prove elusive. Proposed rule changes that would make it harder for founding families to exert control have been stuck in South Korea's National Assembly since November 2018, while some observers worry that Moon is taking pressure off conglomerates as he seeks their help to revive a lackluster economy.

In one sign of investor skepticism, the longtime valuation discount on South Korean shares has gotten bigger in recent months. The KOSPI's price-to-book ratio is now about 45 percent lower than that of the MSCI Emerging Markets Index, the widest gap since 2004.

The battle over Hyundai suggests chaebol bosses aren't keen for any dramatic changes. While Singer succeeded last year in blocking an \$8.8 billion merger of Hyundai units that he argued would shortchange shareholders, the activist's latest demands for \$6 billion in one-time dividends and board shake-ups at Hyundai Motor and Hyundai Mobis Co. were rejected by shareholders Friday.

Following the vote, Elliott said it's encouraged by the support for change from independent shareholders, adding "we are confident that the future holds further improvements at Hyundai."

The group continues to make progressive changes to its business with a "strong commitment" to maximizing shareholder value, Hyundai said in a statement Thursday.

Singer's latest setback at the automaking group is unlikely to stop him from pushing for changes. The activist investor will probably maintain pressure on Hyundai's billionaire heir apparent, Euisun Chung, as he prepares to restructure the group this year as part of a once-in-a-generation leadership transition, said Park Ju-gun, president of corporate research firm CEOScore.

"This is just a prelude," Park said.

— *With assistance by Scott Deveau*