

Big Changes May Be Coming to Korea

Despite the volatility in Asian markets following the conflict in the Middle East and the resulting oil price spike, Korea's benchmark KOSPI index finished 25 March 2026 at 5,642, having more than doubled over the past year. Notably, this level is substantially above the 5,000 target set by President Lee as part of his presidential campaign. Rather than being satisfied, President Lee and his government are working on further measures to fully address the ongoing "Korea discount". Having witnessed the transformative power of several of these measures in the Japanese market, Dalton is monitoring with excitement the potential opportunity in Korea, particularly for engagement focused managers.

Key Potential Reforms

President Lee recently held a capital markets roundtable, alongside the Financial Services Commission, highlighting a comprehensive push to reform and strengthen Korea's equity market. Key objectives and target reforms from the roundtable are as follows:

1. Build Trust in the Korean Market

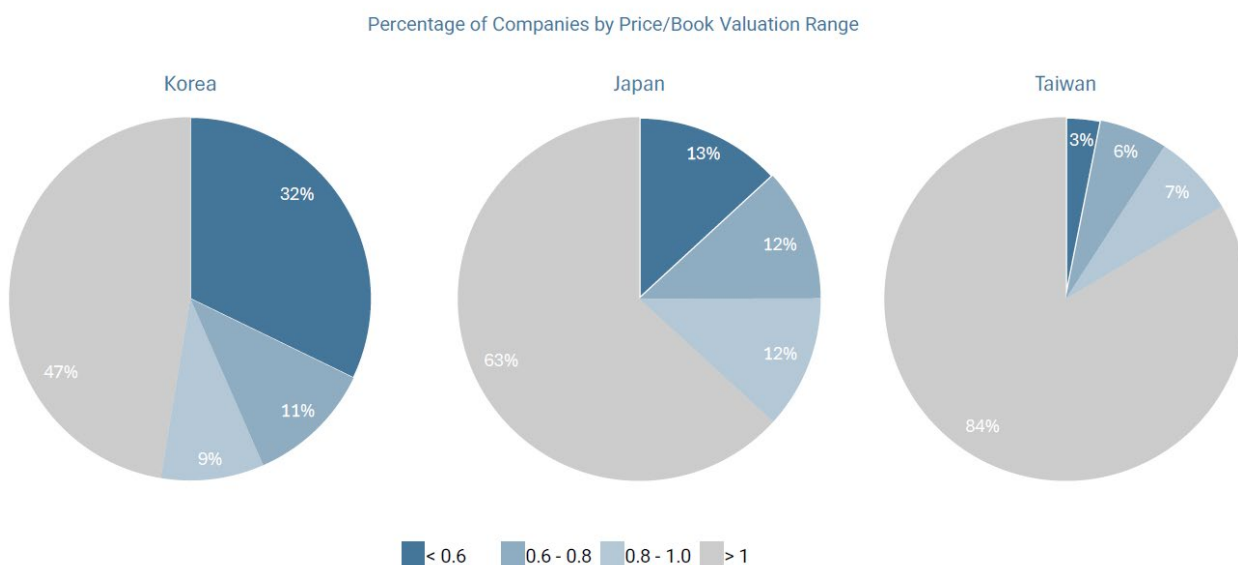
- Heavy scrutiny of the market and stock price manipulation
- Strict punishment for accounting and other types of fraud
- Delisting of underperforming/distressed companies which are prone to stock price manipulation
- **Mandatory disclosure of M&A proposals and stronger fiduciary responsibility of boards**

2. Increase Shareholder Protection

- Restrictions on duplicate (subsidiary) listings to protect minority shareholders
- Mandatory disclosure of revaluated land prices, etc. of the company
- **Prevention of low Price/Book (P/B)**
 - i. Application of fair value (vs market value) during M&A and mandatory 3rd party evaluation required,
 - ii. Disclose low P/B companies by sectors and leverage the cultural "naming & shaming" strategy,
 - iii. Enforcement of Stewardship Code (i.e. 3rd Party Monitoring, "name & shame", etc.).

Perhaps the reform that most caught the public attention in Japan was the Tokyo Stock Exchange's target of a minimum P/B – the so called "Price/Book = 1" initiative. Currently almost 1,500 stocks (over half of the market) in Korea trade below 1x P/B, with almost one third trading below 0.6x P/B (see the chart below). Clearly, sustained pressure to improve P/B valuations may influence valuation multiples in Korea.

Relative to Peers, Korea Has a High Percentage of Low P/B Companies



Source: Bloomberg, All companies domiciled in Korea, Japan and Taiwan with available P/B data

3. Innovate

- **KOSDAQ tiering** (premium, standard, restructuring) to **improve capital allocation** and incentivize company upgrades

The Tokyo Stock Exchange tiering process (into Prime, Standard and Growth), while not perfect, also caught the public imagination in terms of imposing minimum standards (market capitalization,

liquidity and governance) for Prime tier companies and the threat of “relegation” or delisting if standards are not met that may be considered as “shameful” by the investors.

4. Market Access

- Development of long-term investment products with tax benefits
- Efforts to improve market accessibility and attract foreign capital
- Pursue MSCI market reclassification to “developed”

Potential Market Support From Domestic Investors

Historically, Korean investors have been wary of investing in their local stock market, preferring instead to rely on the country’s real estate market or overseas (particularly the US) stock markets. Through the reforms discussed earlier and taxation changes discussed below, President Lee aims to refocus domestic investors on directing their investments into the local Korean stock market.

Currently, many Koreans have the bulk of their personal wealth tied up in real estate, which has led to a very expensive real estate market in Korea. High real estate prices have been blamed for the current low birth rate in Korea, as couples are unable to afford apartments and homes to start families in. President Lee believes that investors should redirect their capital from real estate and instead focus on more economically productive assets, such as public Korean companies. **To prove his point, President Lee has publicly announced his plans to sell his own private residence and invest the proceeds in the Korean stock market.** In order to dissuade investors from focusing on real estate, law makers have **increased or threatened to increase property-related taxes** including:

1. 19% increase in assessed land price tax for Seoul in 2026
2. Expiration of capital gains tax reduction for owners of multiple homes
3. A potential major increase in property taxes if real estate prices do not stabilize and speculation continues (Korea’s current property tax rates are only 0.15% to 0.3% while most developed countries have rates closer to 1% or higher – low property taxes have encouraged real estate speculation in Korea).

As well as trying to build trust in domestic equity markets through the aforementioned reforms, President Lee is also proposing **temporary tax incentives** that allow capital gains tax deductions when proceeds from overseas investments (for example, investments in the S&P 500) are reinvested into Korean equities, with the benefit gradually declining over time.

Conclusion

Dalton believes that the current policy proposals could represent a notable shift to an engagement-focused value investing in Korea. We have witnessed firsthand the transformative effects of the Japanese government's market reforms and believe the application of similar reforms in Korea may pave the way for more effective engagement with companies, which may positively influence market valuations. As President Lee put it, it is time to stop focusing on addressing the Korean discount and time to think about the Korean premium!

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