Citigroup Buys South Korean Bank for $2.7 Billion

By REUTERS

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SEOUL (Reuters) - In the largest ever foreign investment in South Korea, Citigroup Inc said on Monday it would buy KorAm Bank for $2.7 billion to extend its push into emerging markets.

The world's largest financial services company beat out Standard Chartered Plc to buy South Korea's sixth-largest bank from a consortium led by U.S. private equity firm Carlyle Group and J.P. Morgan, which more than doubled its money on its investment.

New York-based Citigroup has not followed U.S. rivals such as Bank of America and J.P. Morgan in bulking up on consumer bank acquisitions in its domestic market. Instead, it said it's looking for growth in Asia's developing markets after already buying banks in Mexico and Poland.

``It's a large under-served market from our point of view. The Korean financial services market is only opening now," Deryck Maughan, chief executive of Citigroup International, told Reuters.

``There are a whole series of markets...that are now opening to foreign direct investment. What we have accomplished in Mexico with Banamex or Poland with Handlowy, we feel we can accomplish in a number of Asian countries."

Citigroup has been the most active U.S. bank in Asia, recently launching a credit card in China after taking a stake in a lender there. It has targeted Hong Kong, Singapore, India, Japan and Taiwan as growth markets and its Asian consumer banking has eclipsed that of U.S. rivals such as Bank of America.

Foreign banks can buy South Korea's banks cheaply as share prices have suffered in the fallout from a mountain of unpaid credit card debt.

Lone Star, a U.S. equity firm, bought a controlling stake in Korea Exchange Bank for $1.2 billion last year, until then the largest foreign takeover in Asia's fourth-biggest economy.

IMMEDIATE EARNINGS BOOST

The acquisition is likely to help Koram compete with rivals such as the country's largest lender, Kookmin Bank, and Shinhan Financial Group, analysts said.
Citigroup, which started in South Korea in 1967, expects the transaction to add to 2004 earnings. The bank earned a record $17.9 billion last year, mostly on its domestic consumer lending.

Citigroup's overseas profits rose 18 percent to $4.9 billion in 2003, or 27.5 percent of total earnings. The bank's Asia-ex Japan operations brought in $1.8 billion, up 14 percent.

Citigroup will buy the U.S. consortium's 36.6 percent KorAm stake and tender for the remaining shares at 15,500 won per share in cash, totaling 3.18 trillion won ($2.7 billion). The consortium got a return of 2.3 times its original KorAm investment of $430 million in 2000.

The price represented a 6.7 percent premium over the average closing price of KorAm's stock for the last 30 trading days, but was slightly below Friday's close of 15,800 won.

KorAm shares fell 5.1 percent to close at 15,000 won in a flat market. The shares have risen 43 percent in the last six months, beating a 19 percent gain in the main index.

``I think the price offered is appropriate, but the shares are under pressure as they had been driven higher on expectations that the deal would be announced soon," said Oh Sung-min, a fund manager at Seoul Investment Trust and Management.

RIVAL SEEN SELLING

Citigroup will also seek to buy Standard Chartered's 9.8 percent stake in KorAm. ``We would be hopeful they would submit their shares as part of the tender," said Citigroup's Maughan.

Officials at Standard Chartered declined to comment.

``I would imagine somewhere along the line they would probably have to sell that stake out," said Anthony Lok, an analyst at BOC International in Hong Kong. ``It doesn't really change their strategy," he said, noting Standard Chartered could look at another takeover candidate in Korea.

The banks will start the tender as soon as they get regulatory approvals and expected to close the deal in the second quarter. Labour unions said they would oppose the deal, following similar opposition to Shinhan's 3.4 trillion won takeover of Chohung Bank last year.

KorAm has assets of 43 trillion won, 222 domestic branches, more than six million customers, 3.3 million card accounts, and a market share of 7.6 percent based on revenue. Citigroup Korea has local assets of 10.4 trillion won, revenues of 355 billion won and 12 consumer branches with 799 staff.
KorAm swung to a 12.9 billion won net loss in the quarter ended December, hit by higher provisioning against credit card loans and its exposure to ailing LG Card Co.